AUDITOR-GENERAL
SOUTH AFRICA

Capacity Building Programme –
Portfolio Committee on Sports, Arts and Culture

20 August 2019

AGSA mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

Mandate of the AGSA

Chapter 9 of the Constitution

- Section 188:

AGSA must audit and report on, accounts, financial statement and financial management of government institutions.

Public Audit Act no. 25, 2004

- Section 20:

AGSA must prepare audit report containing opinion/ conclusion on:

- ❑ Fair presentation of the financial statements
- ❑ Compliance with applicable legislation
- ❑ Reported performance against predetermined objectives

Also includes as per section 5:

- ❑ Discretionary audits (including sector audits, investigations and performance audits)

Work of the AGSA

What we do!	What don't we do!
Provides assurance that AFS are free from material misstatements	Guarantee completeness and accuracy of ALL the information
Report on usefulness and reliability of the information in the APR	Provide assurance that service delivery has been achieved
Report on material non-compliance with relevant key legislation	Provide assurance that all applicable laws and regulations has been complied with
Identify key internal control deficiencies that should be addressed	Identification of fraud

Types of audits we conduct

Mandatory audits – *Regularity audits*

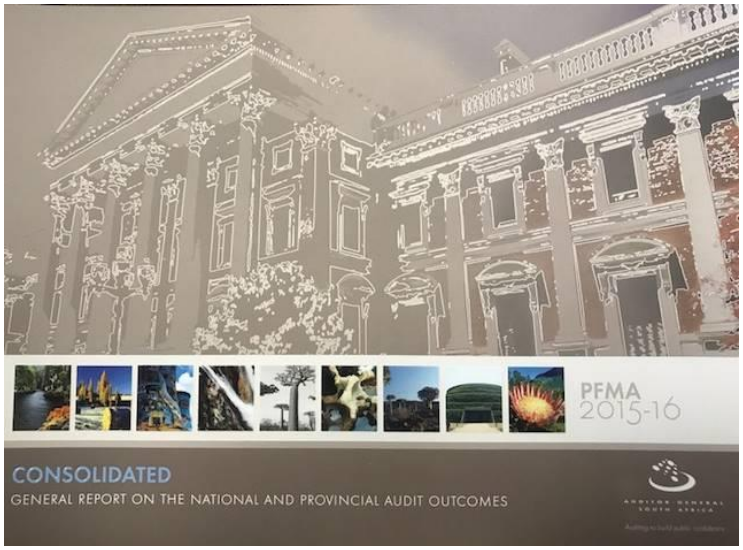
- Annual Financial Statements
- Compliance with laws & regulations
- Audit of Predetermined Objectives

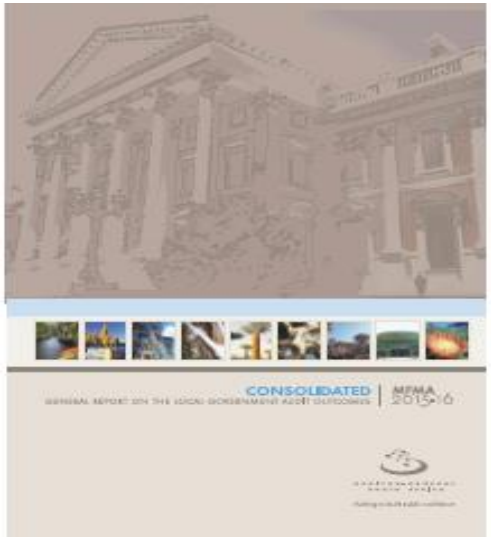
Discretionary audits – *Investigations*

- Report on factual findings
- Allegations, financial misconduct

Special audits

- Report on factual findings
- Performance audits





Types of audit opinions

DIFFERENT OUTCOMES TO AN AUDIT

EACH ENTITY SUBMITS FINANCIAL STATEMENTS EVERY YEAR, WHICH THE AG AUDITS.

A CLEAN AUDIT

EVERYTHING DONE THE WAY IT SHOULD BE.

UNQUALIFIED AUDIT WITH FINDINGS

NOT BAD, BUT COULD COMPROMISE ACCOUNTABILITY, IF NOT ALREADY DOING SO.

QUALIFIED AUDIT

DID NOT MANAGE AND ACCOUNT FOR FINANCES TO ACHIEVE BEST RESULTS.

ADVERSE AUDIT

LOTS OF PROBLEMS EVERYWHERE, AND NOTHING DONE ACCORDING TO CORRECT RULES AND PROCEDURES.

DISCLAIMER

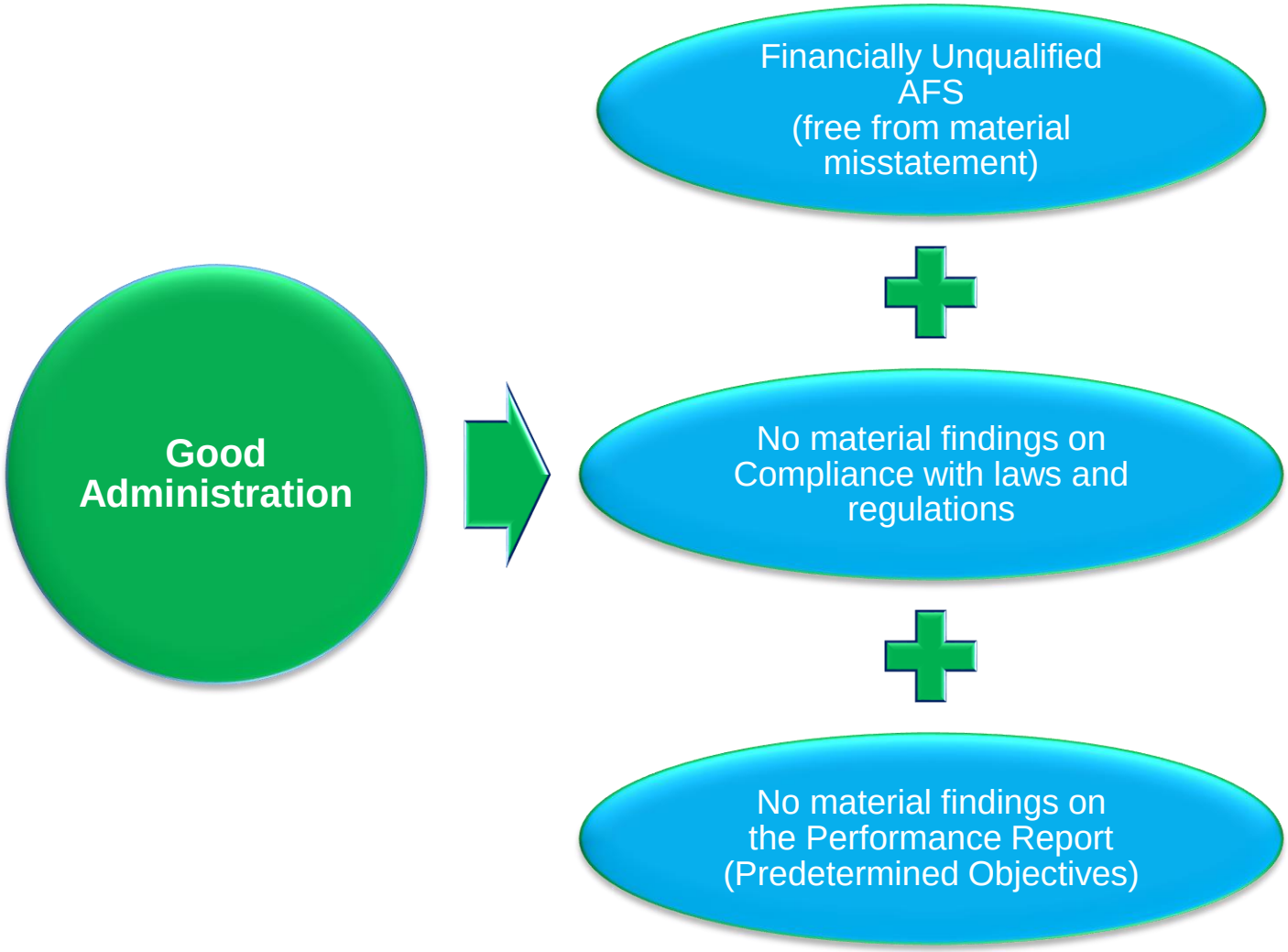
THINGS WERE SO BAD, THEY COULDN'T EVEN PRODUCE RELIABLE EVIDENCE TO SUPPORT FINANCIAL STATEMENTS.

Interpreting audit opinions

Audit opinions
four (4) **Financial** audit opinions

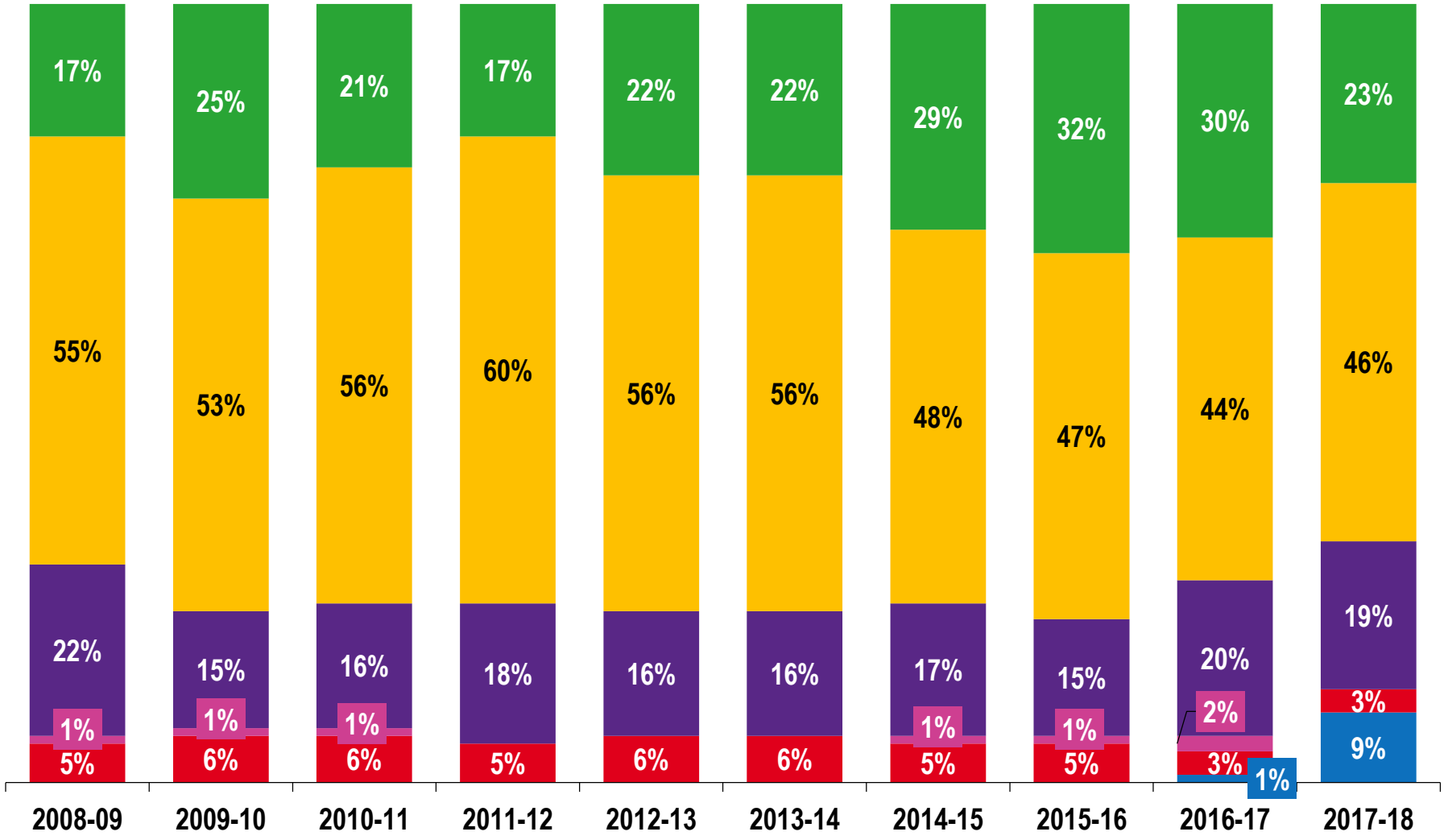
Unqualified	**financial statements give a true and fair view** (or are presented fairly, in all material respects) in accordance with the applicable **financial reporting framework**.
Qualified	**departures from financial reporting framework**, or limitation on scope which is **not so material and pervasive** (unqualified opinion cannot be expressed)
Disclaimer	**limitation on scope is so material and pervasive** the auditor has **NOT** been able to obtain **sufficient appropriate audit evidence** to form an opinion (unable to express opinion)
Adverse	**disagreement** with management **regarding departures from the financial reporting framework, is so material and pervasive to AFS** (qualification of the report is not adequate to disclose the misleading or incomplete nature of the AFS**)**

Understanding a clean audit

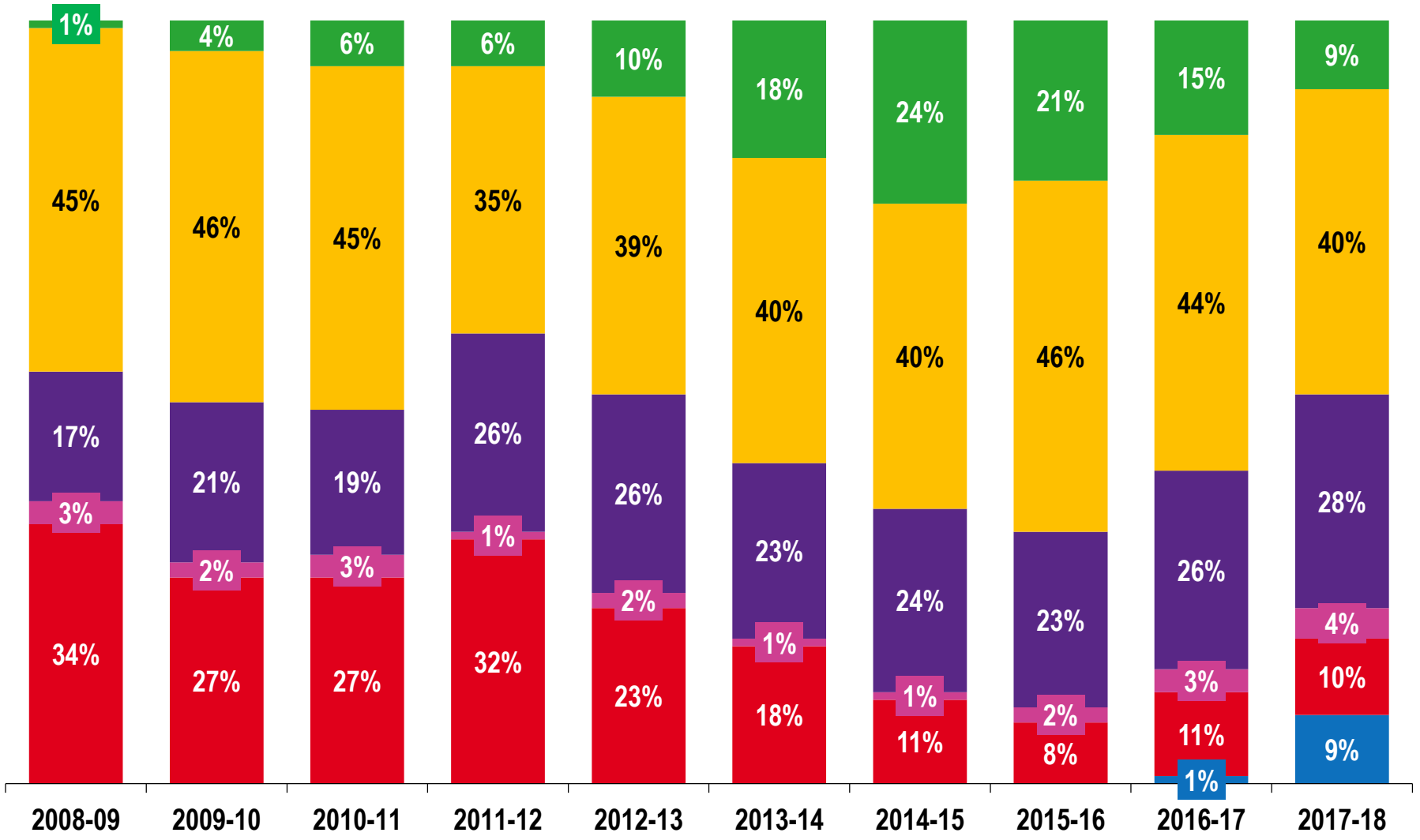


Clean audits creates a solid foundation for service delivery and value for money to the benefit if the citizens of South Africa

Audit outcomes over the past 10 years – national and provincial government

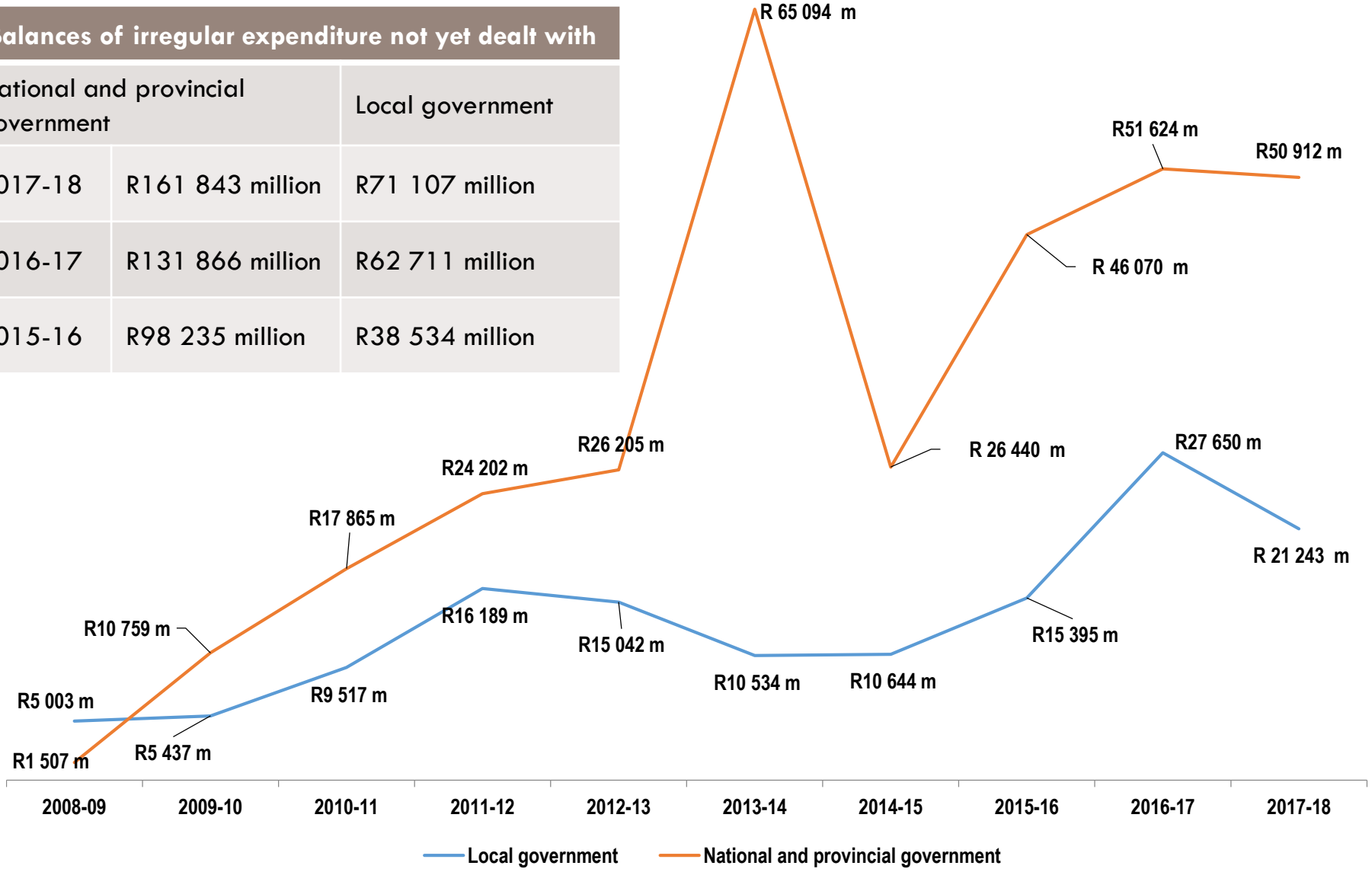


Audit outcomes over the past 10 years – local government



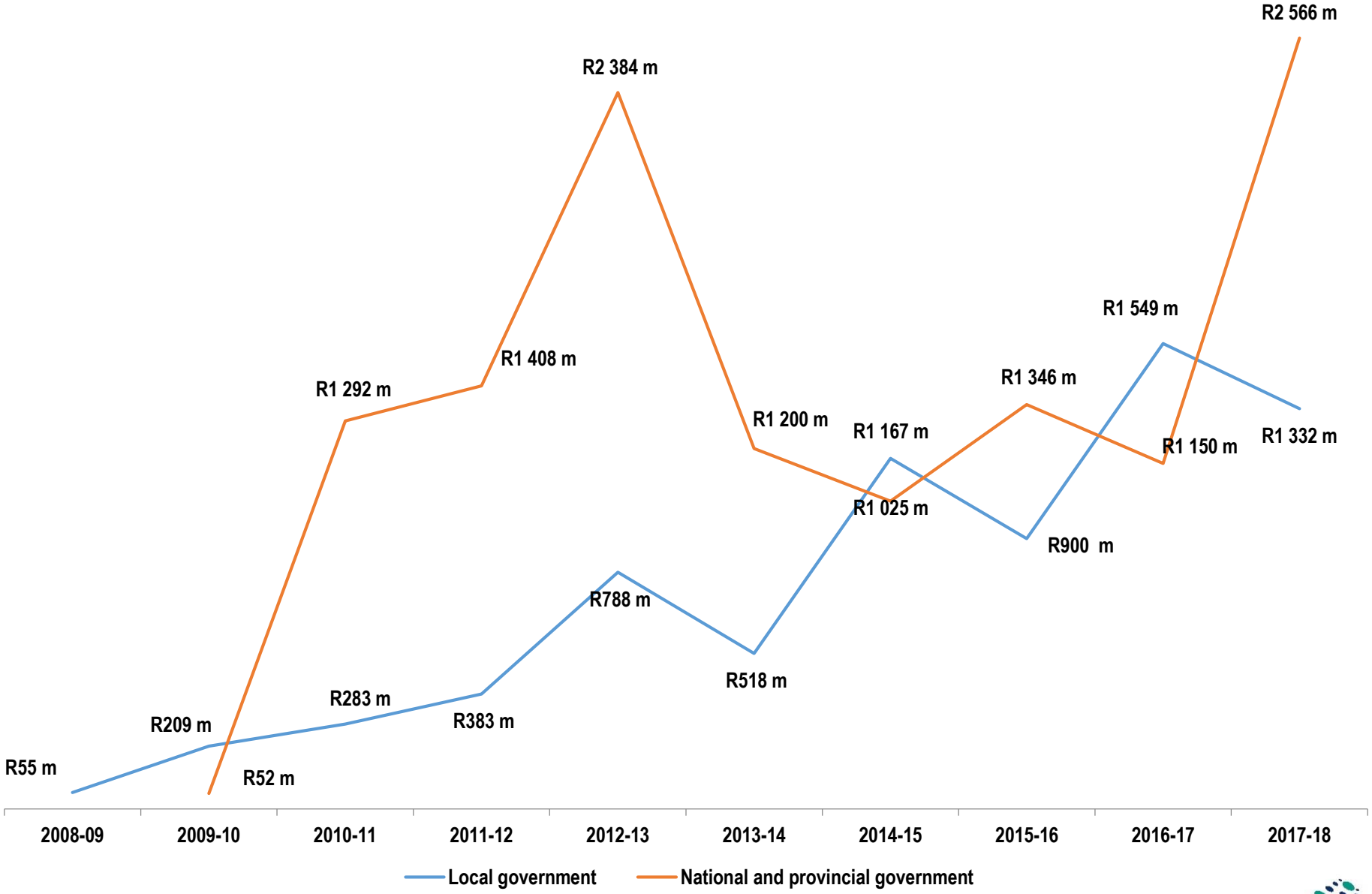
History of irregular expenditure

Balances of irregular expenditure not yet dealt with		
National and provincial government		Local government
2017-18	R161 843 million	R71 107 million
2016-17	R131 866 million	R62 711 million
2015-16	R98 235 million	R38 534 million

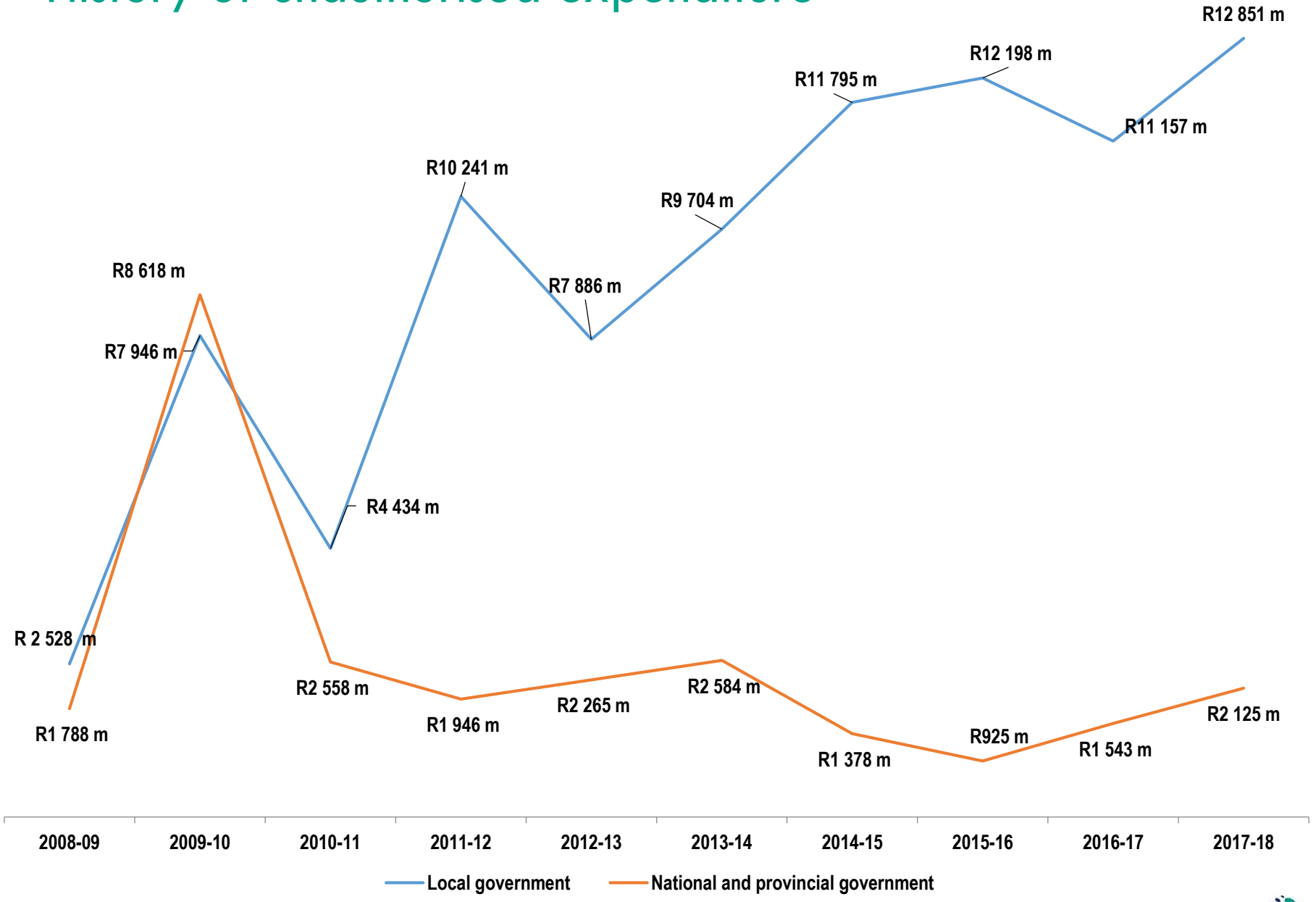


The annual irregular expenditure and the balances as shown is not complete as the disclosure of irregular expenditure is often qualified on completeness thereof – e.g. 89 auditees were qualified in 2017-18

History of fruitless and wasteful expenditure

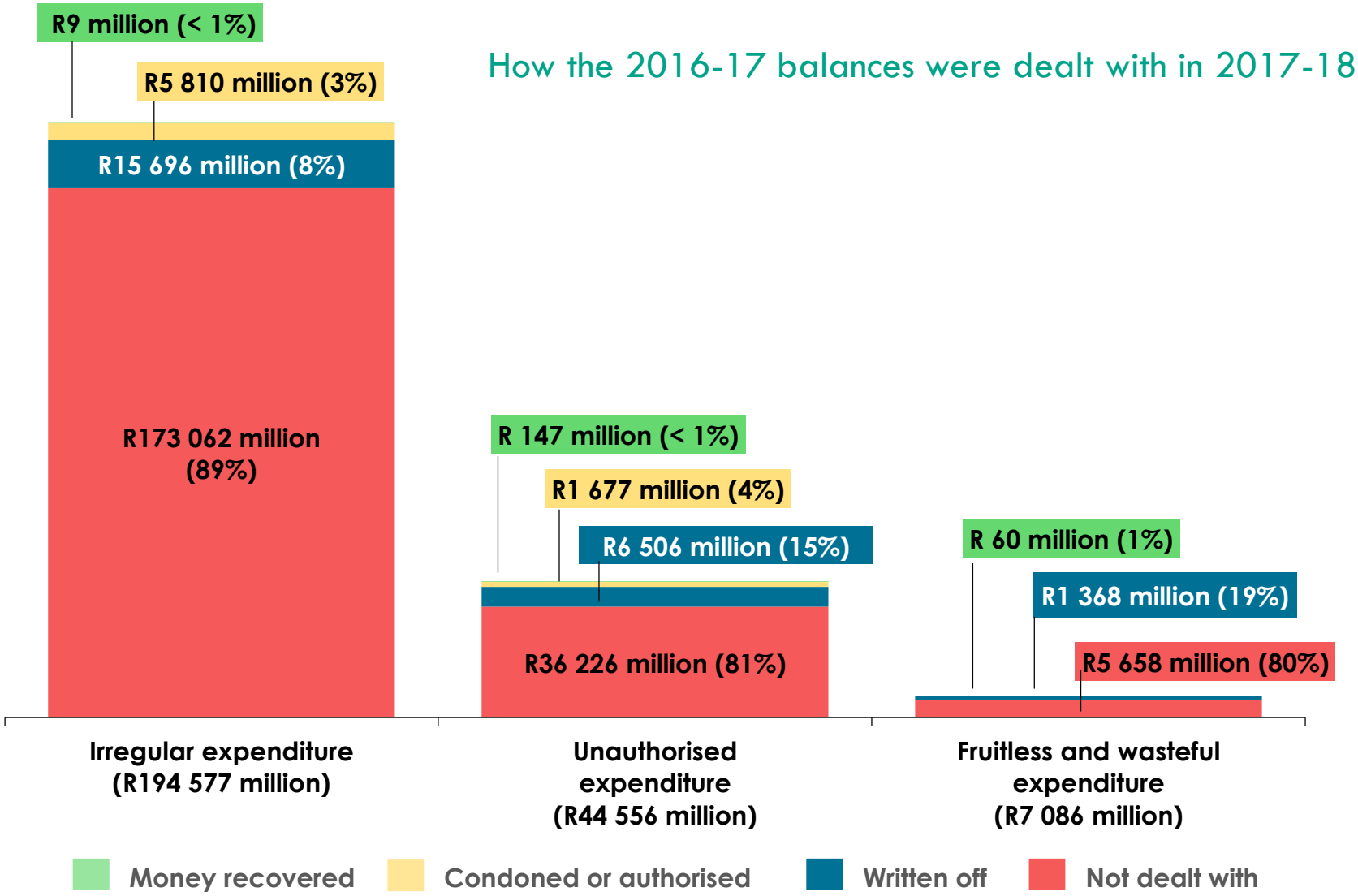


History of unauthorised expenditure



Dealing with unauthorised, irregular and fruitless and wasteful expenditure

How the 2016-17 balances were dealt with in 2017-18



Root causes of continued poor outcomes

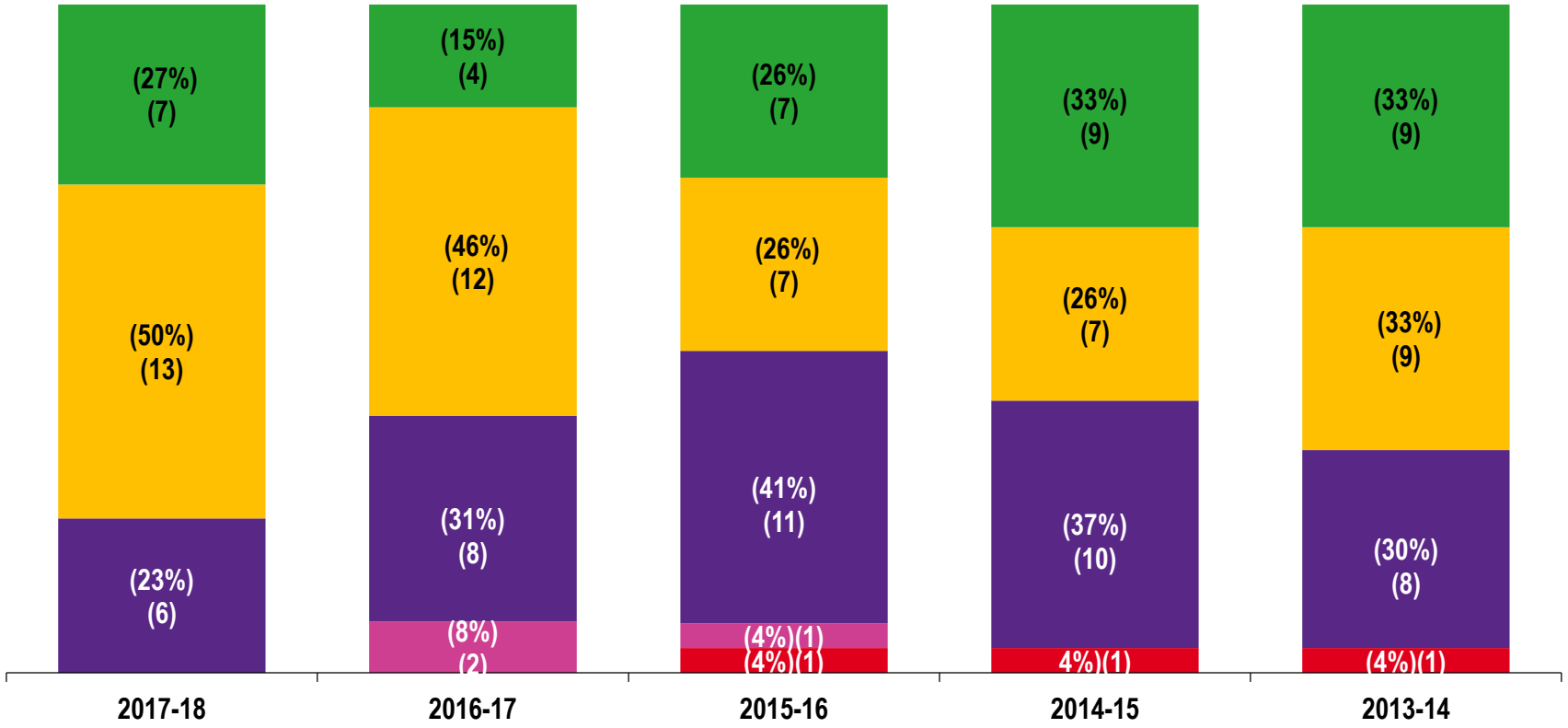
Slow or no response to recommendations

Instability/ vacancies / competencies

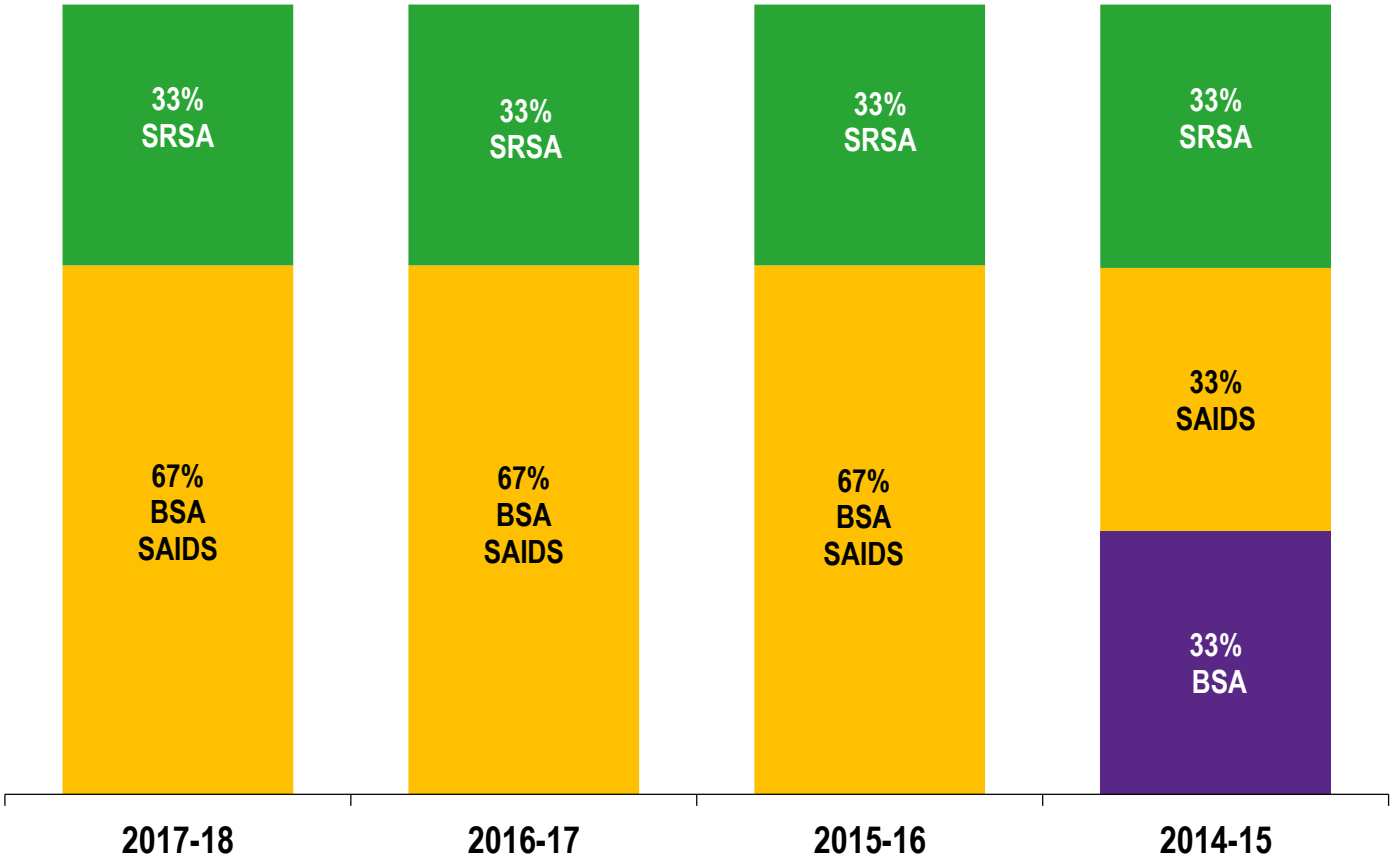
Inadequate consequences

- **Blatant disregard** for **controls, compliance** with legislation and AGSA **recommendations**
- Continued **capacity gap** in administration
- **Vacancies and instability** slow down systematic and disciplined improvements
- **Unethical behaviour** in administration and by political leaders
- Leadership's inaction / inconsistent action to addressing persistent transgression creates culture of **'no consequences'**

Audit outcomes for Arts and Culture – 5 years



Audit outcomes for Sports – 4 years

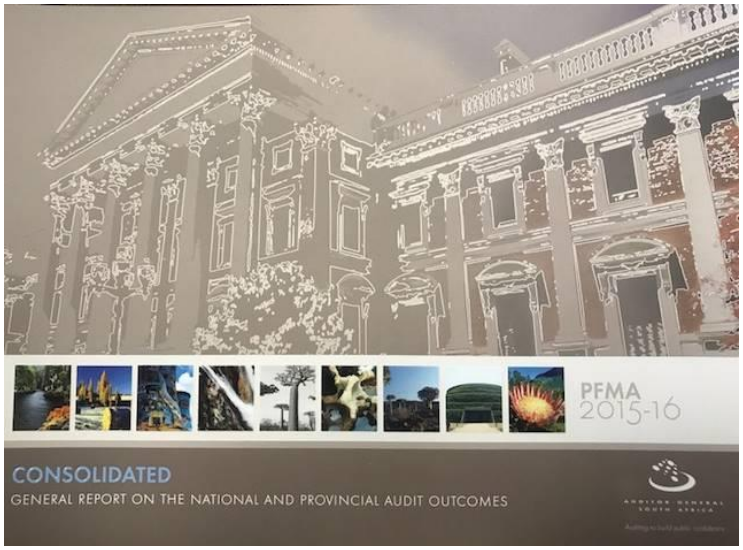


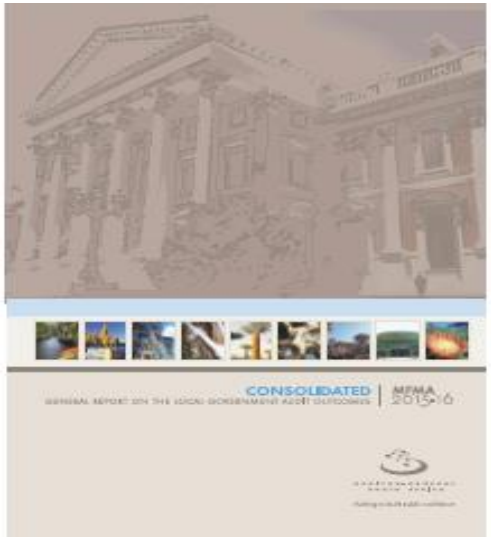
Regularity audits

Completed 952 regularity audits

Issued 1 consolidated Public Finance Management Act (PFMA) General Report (GR) with summaries for each province

Issued 1 consolidated Municipal Finance Management Act (MFMA) GR with summaries for each province and included an assessment of the implementation of initiatives linked to the Medium Term Strategic Framework (MTSF)





AGSA contribution to oversight

Engaging accounting officers in conversations that are insightful, relevant and have an impact

Status of records review = Pro-active follow up procedures + Financial and non-financial information (internal and external reports/documents and discussions with senior managers)

Key control engagements / status of records review – objectives

- Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and consequential regression in audit outcome
- Provide our assessment of the status of key focus areas that we reviewed
- Assess progress made in implementing action plans/ follow through with commitments made in previous engagements
- Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Feedback linked to Focus Areas

Portfolio committee assess AGSA findings and recommendations

Portfolio committee invites executive to a hearing to respond to AGSA findings

Portfolio committee develops and submit resolutions to the House

AGSA contribution to oversight

AGSA briefings with oversight bodies

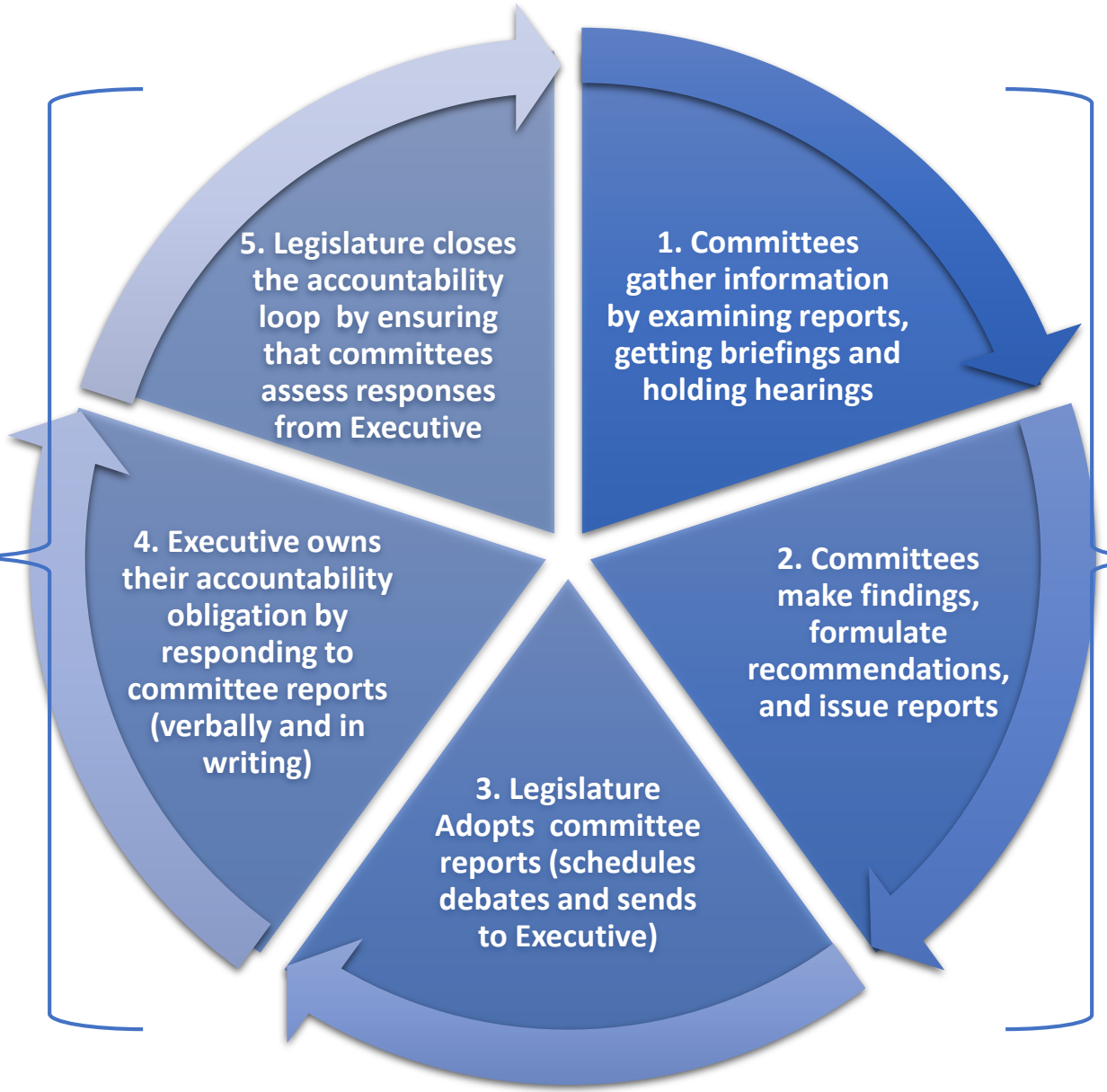
- ❑ Annual performance plans- Assessing the implimentability of annual targets.
- ❑ Sharing audit outcomes annually (Speakers, MECs, Ministers, legislatures)
- ❑ Update on progress of current year audits. Sharing of audit risks and status of record review after six months
- ❑ Attend and provide briefings (clarity) during public hearings and oversight visits
- ❑ Road shows after each audit cycle (PFMA and MFMA)
- ❑ Sharing performance audit outcomes when its due

Role of MP's and MPL's

Speakers' Forum supports the adoption of committee resolution by the legislatures

Through Speakers offices; creates a tracking structure between the committees, executive authority

Speakers supports and advocate consequence management



AGSA shares insights on root cause of audit outcomes and recommendations on corrective actions needed for improvement and; sustainable outcomes through briefings to the committees

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PAA amendments –
the key expansion to our mandate

What is a material irregularity?

Definition from the Amendment Act

"Material irregularity" means any ***non-compliance*** *with, or contravention of, legislation,* ***fraud, theft or a breach of a fiduciary duty …***

identified during an audit performed under this Act that resulted in or is likely to result in …

a ***material financial loss****, the* ***misuse or loss of a material public resource*** *or* ***substantial harm to a public sector institution or the general public.***

Accounting officers and authorities have a legal obligation to prevent all irregularities and take action if it occurred. The AGSA's focus is only on material irregularities.

Introducing the concept of material irregularities

Refer material irregularities to relevant public bodies for further investigations

Take binding remedial action for failure to implement the AG's recommendations for material irregularities

Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

A focus on material irregularities..

- Sharpen the risk orientation of the audit and increase the focus on critical areas that attract public interest
- Differentiate between irregularities that are tolerable (but still pose a risk and must be addressed) and those that needs specific and urgent attention as it exposes the public sector to financial loss and misuse of resources and the public to significant harm
- Create greater awareness of the irregularities that expose the public purse to financial vulnerability and loss and how accounting officers and authorities are addressing it in line with their legislative responsibilities

Implementation of expanded mandate

Commencement date *agreed with the president is 1 April 2019 (to be proclaimed)*

To allow for establishing capacity and processes, a **phased approach** for implementation was agreed with SCoAG on the basis of:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

2018-19 implementation

Type of material irregularity

Type of material irregularity = Material non-compliance (which would be reported in the audit report) that resulted in (or is likely to result in) a material financial loss

Selection of auditees

Selection criteria

- Latest audit outcome not clean or unqualified with findings – except if there was a material finding on prevention or follow-up of irregular expenditure
- High irregular expenditure over the last three years
- Sufficient coverage across spheres of government and provinces.

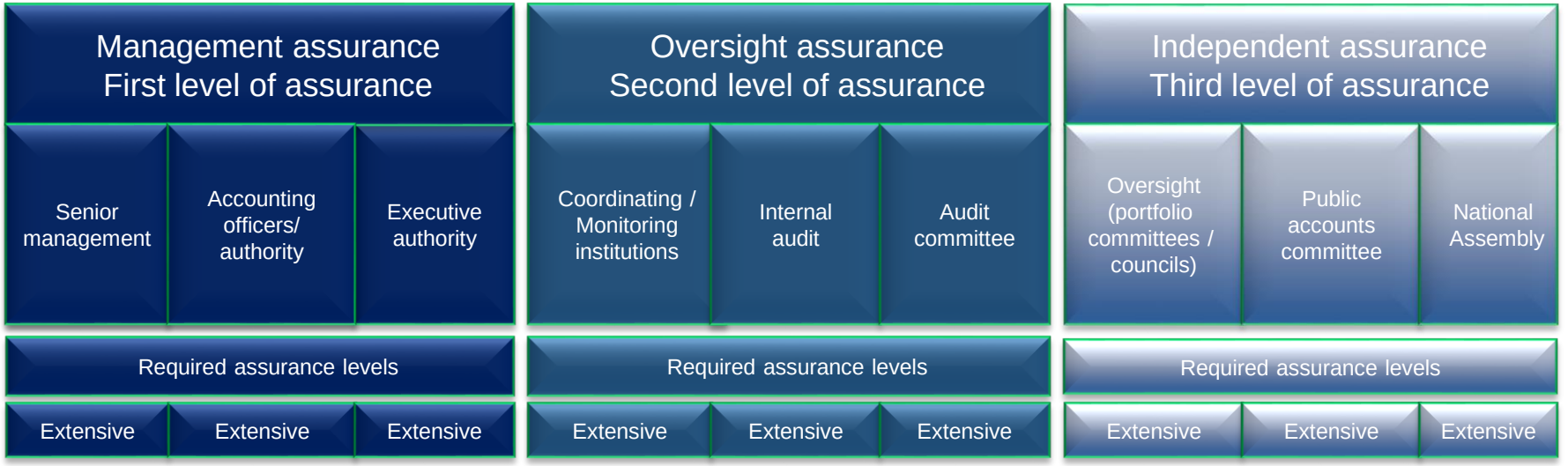
Role of oversight

Oversight structure

- Use information in the **audit report on material irregularities** for accountability and oversight purposes, insisting on timeous implementation of recommendation

- Use reports tabled on **progress with material irregularities** to oversee and influence progress made by public bodies with investigations and executive authorities (for recovery of debt)

Combined assurance model



Management's assurance role

- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officers/ authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** – monitor the progress of performance and enforce accountability and consequences

Oversight's assurance role

- **National Treasury/ DPSA** – monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Role of independent assurance

- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific oversight on a regular basis on any report which it may deem necessary
- **National Assembly** – provide independent oversight on the reliability, accuracy and credibility of National and provincial government financial and performance reporting.

Combined assurance assessment criteria for portfolio committees

The assessment criteria that the AG is using to evaluate portfolio committees (PC) is based on the legislative requirements and best practice. These include, among others the oversight model of the South African legislative sector, National Treasury Guideline for legislative oversight through annual reports, Rules of the National Assembly 9th edition*.

The following criteria is used to evaluate the assurance provided by the portfolio committee:

- Invitation of the entities (including the department) to present the Annual Performance Plan to review and engage the entities,
- Discuss the portfolio budget (vote) for the department and its entities and report to the national assembly,
- Review of the department's quarterly performance information reports as submitted by the department,
- When reviewing quarterly reports, the PC should ascertain whether unforeseeable circumstances have impeded a department's work, whether there was a problem of inadequate planning or if the department is failing to deliver for other reasons,
- The PC should review the quality of performance information in the annual report and take into account the issues highlighted by the AG audit report or any other information that came to its attention,
- The PC should hold public hearing as part of the oversight process,

*The assessment criteria used is not including all oversight responsibilities of portfolio committees but only those relevant to the mandate of AG.

Combined assurance assessment criteria for portfolio committees(cont.)

- During the review of the annual report the PC should focus on investigating the circumstances that led to under or over expenditure of the entity's budget and the impact thereof on service delivery,
- The PC should follow up on progress made by the portfolio to address poor audit outcomes in relation to performance information and other service delivery matters - from audit reports, performance audit reports, sectors reports and general reports (where these have been reviewed),
- The PC should raise questions regarding the portfolio's performance in light of comments or recommendations that the committee made in its previous oversight report and/or in respect of resolutions taken by the House (National Assembly),
- Honouring of commitments made to AG to improve audit outcomes in the portfolio.
- The portfolio committee is the third level of assurance as indicated in slide number 28 above and as AG we assess all the assurance providers,
- Effective assurance providers will ensure that there is proper oversight, accountability and governance in the public sector thereby building public confidence,
- The mandate of the AG will also be realised if all assurance providers are effective,

Thank you

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