



AUDITOR - GENERAL  
SOUTH AFRICA

# Capacity Building Programme – Parliament of the Republic of South Africa

PC DTI - August 2019



Audit



Report



For  
Accountability

## 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!

Provides assurance that AFS are free from material misstatements

Report on usefulness and reliability of the information in the APR

Report on material non-compliance with relevant key legislation

Identify key internal control deficiencies that should be addressed

## What don't we do!

Guarantee completeness and accuracy of ALL the information

Provide assurance that service delivery has been achieved

Provide assurance that all applicable laws and regulations has been complied with

Identification of fraud



# Types of audits we conduct

## Mandatory audits – *Regularity audits*

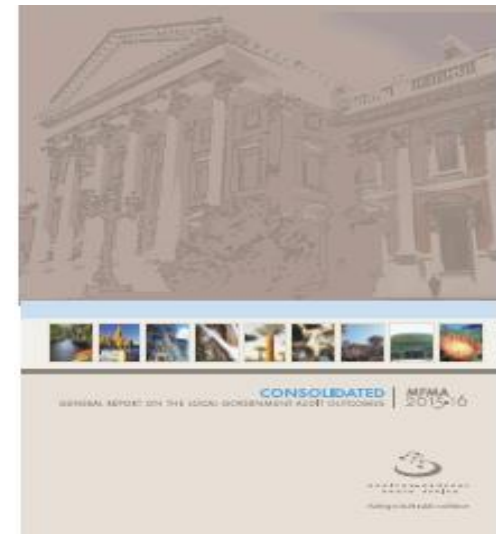
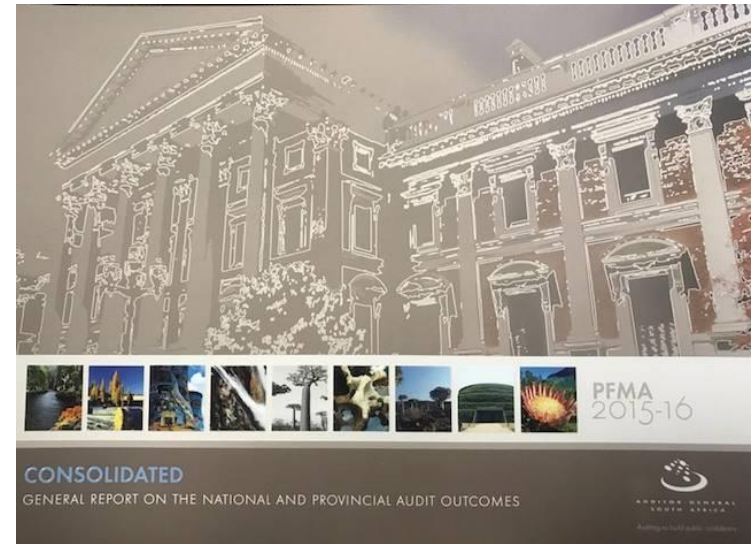
- Annual Financial Statements
- Compliance with laws & regulations
- Audit of Predetermined Objectives

## 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

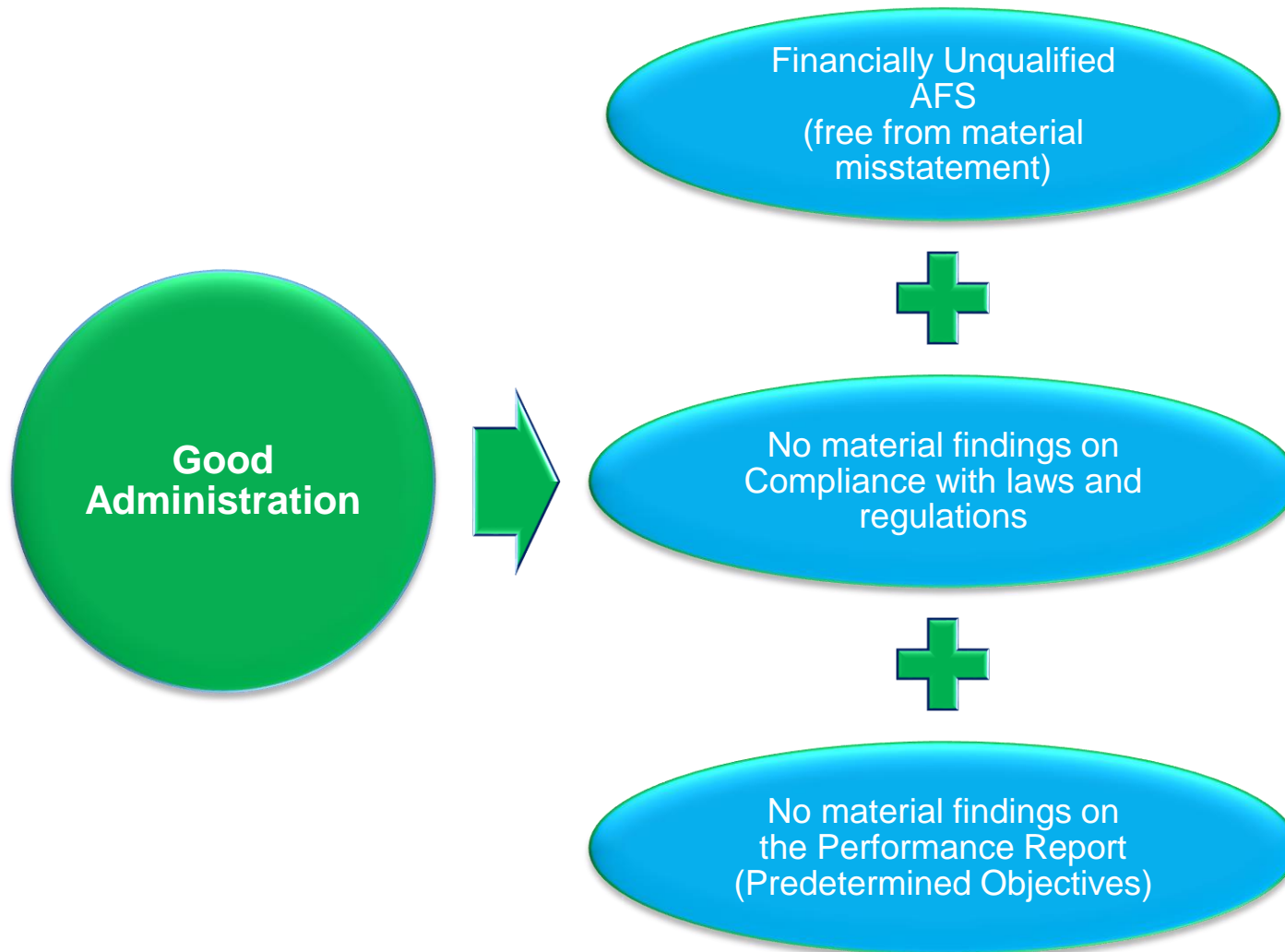
limitation on scope is so material and pervasive the auditor has **NOT** been able to obtain sufficient appropriate audit evidence to form an opinion (unable to express opinion)

### 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)



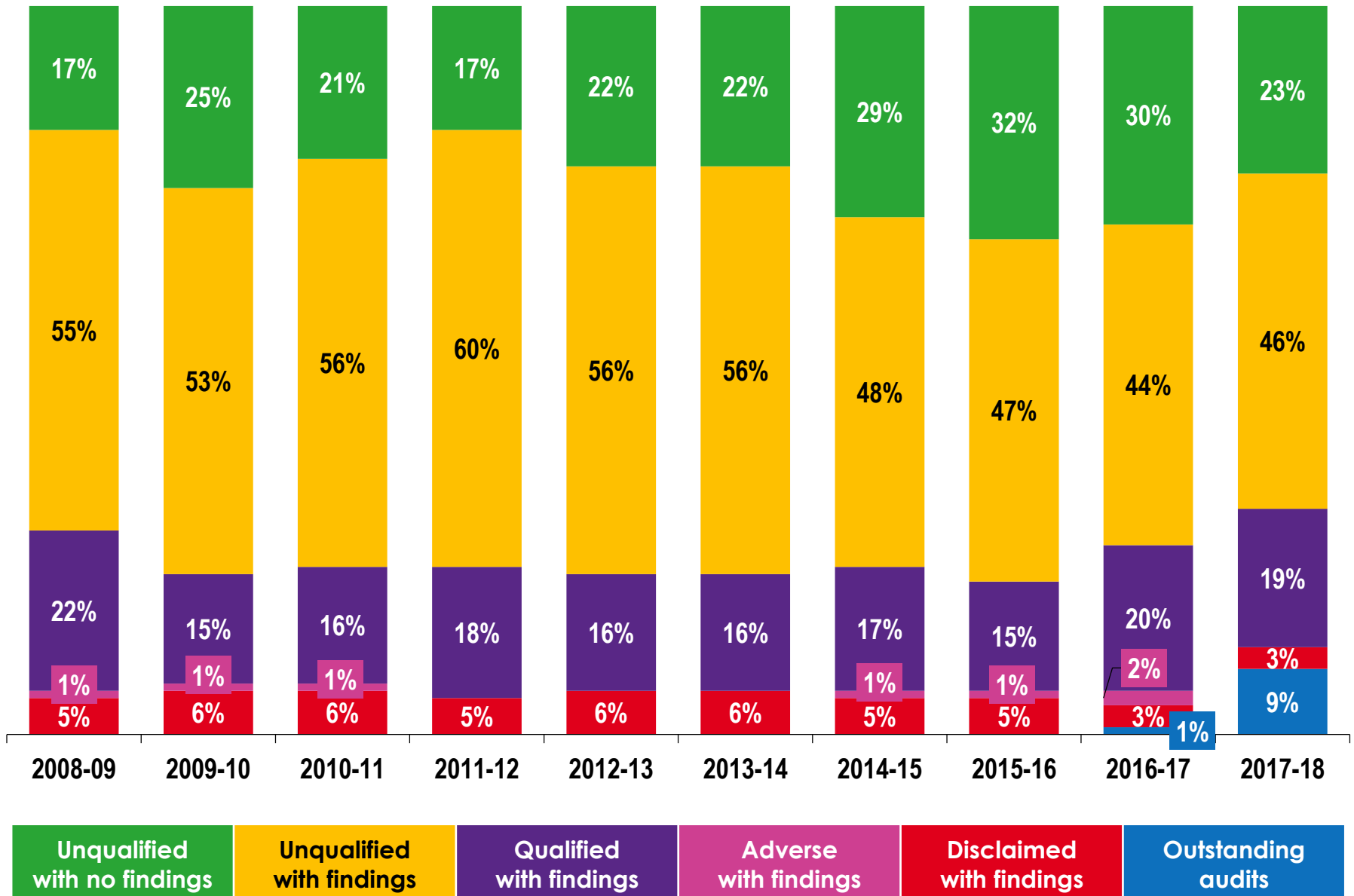
# Understanding a clean audit



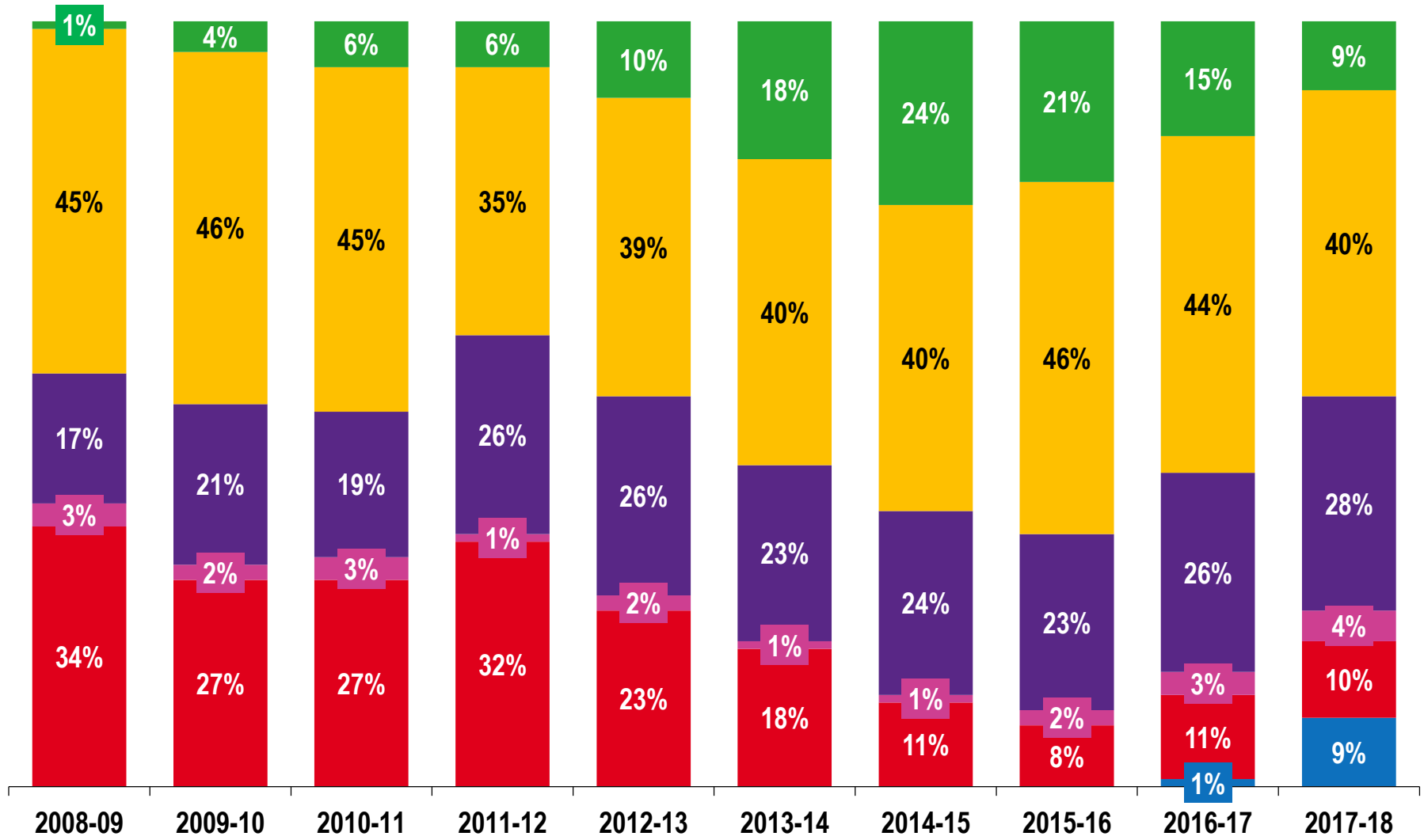
**Clean audits creates a solid foundation for service delivery and value for money to the benefit if the citizens of South Africa**



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



# Audit outcomes over the past 10 years – local government



# History of irregular expenditure

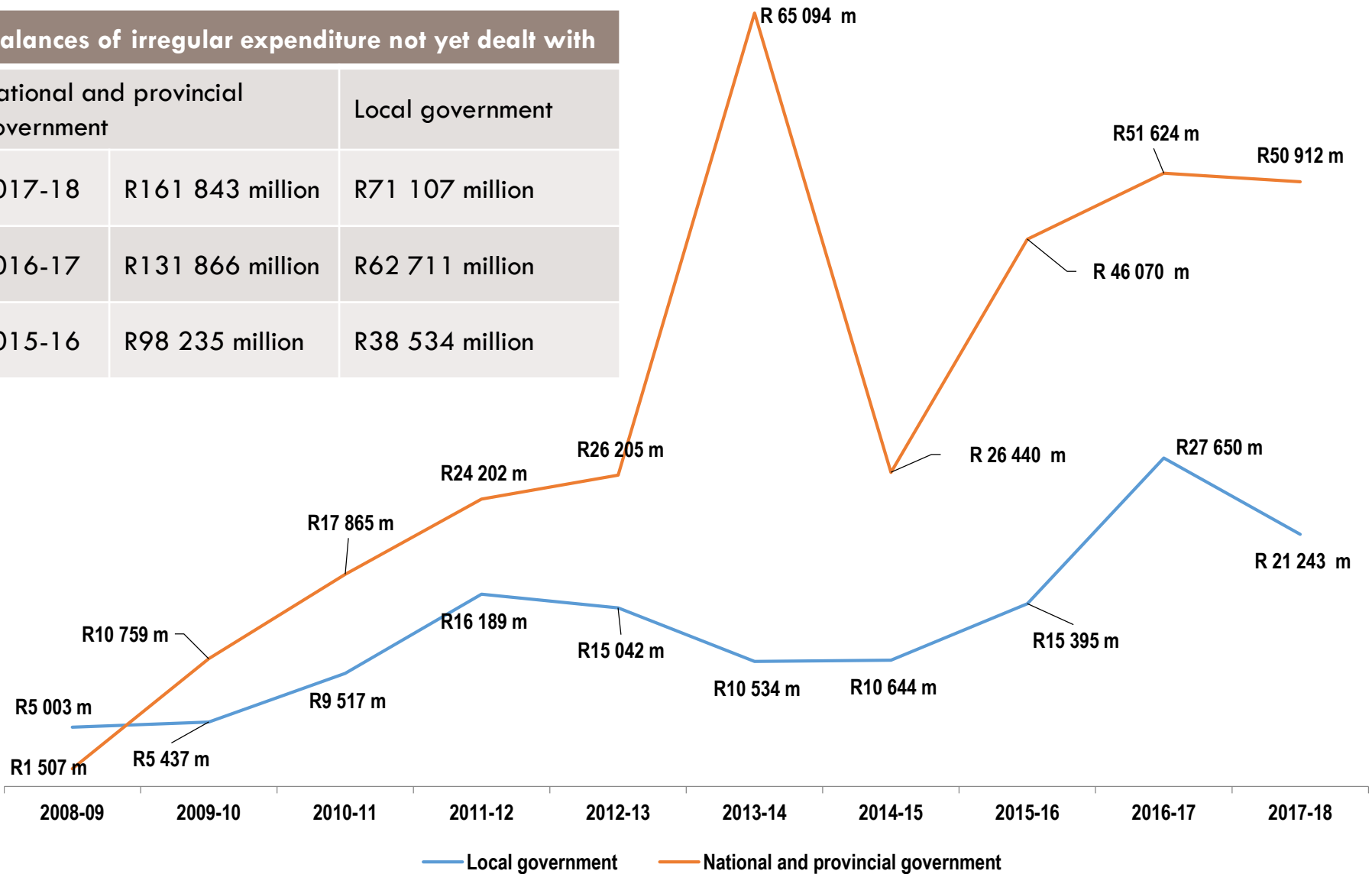
## Balances of irregular expenditure not yet dealt with

|  | National and provincial government | Local government |
|--|------------------------------------|------------------|
|--|------------------------------------|------------------|

|         |                  |                 |
|---------|------------------|-----------------|
| 2017-18 | R161 843 million | R71 107 million |
|---------|------------------|-----------------|

|         |                  |                 |
|---------|------------------|-----------------|
| 2016-17 | R131 866 million | R62 711 million |
|---------|------------------|-----------------|

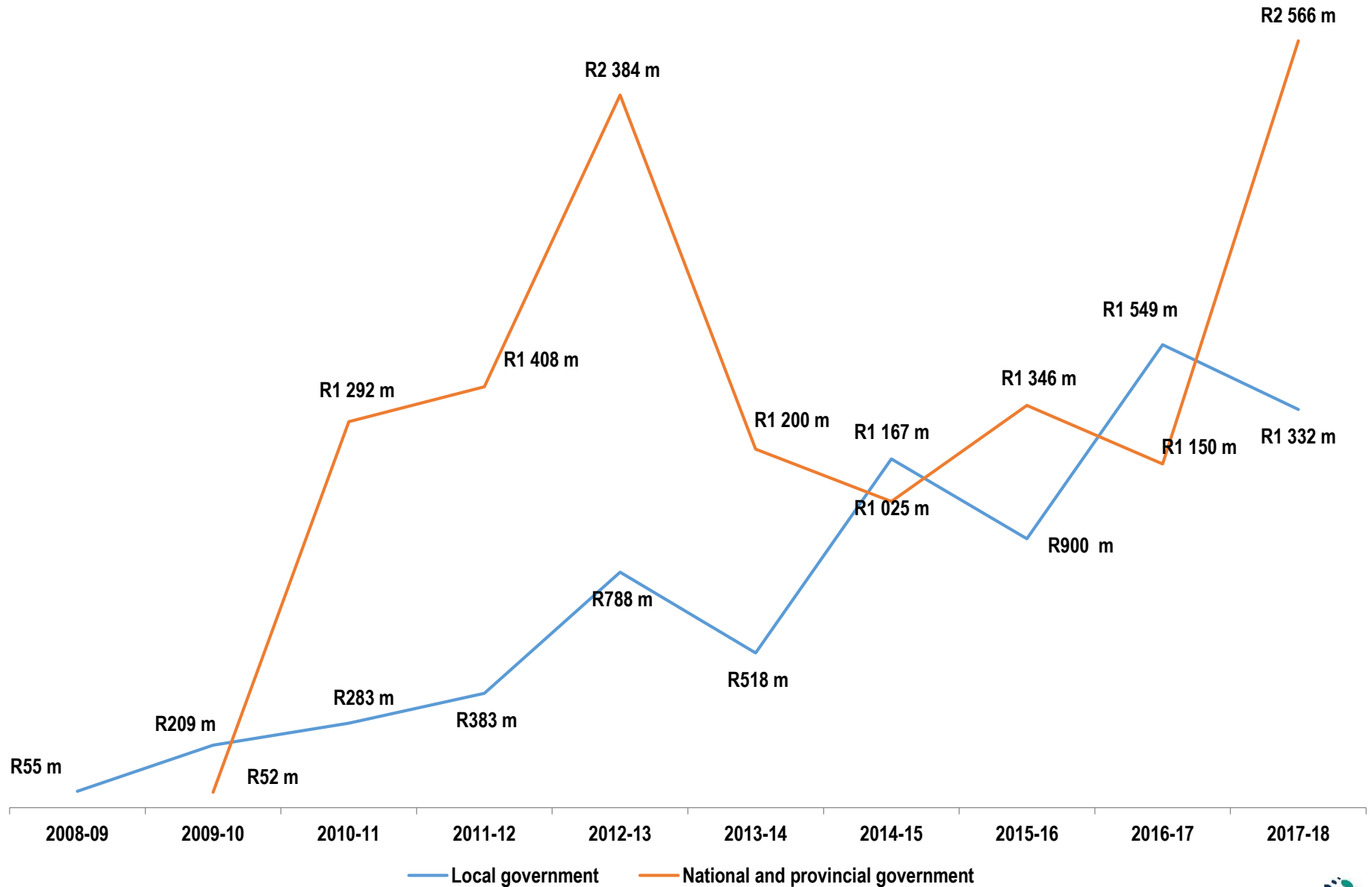
|         |                 |                 |
|---------|-----------------|-----------------|
| 2015-16 | R98 235 million | R38 534 million |
|---------|-----------------|-----------------|



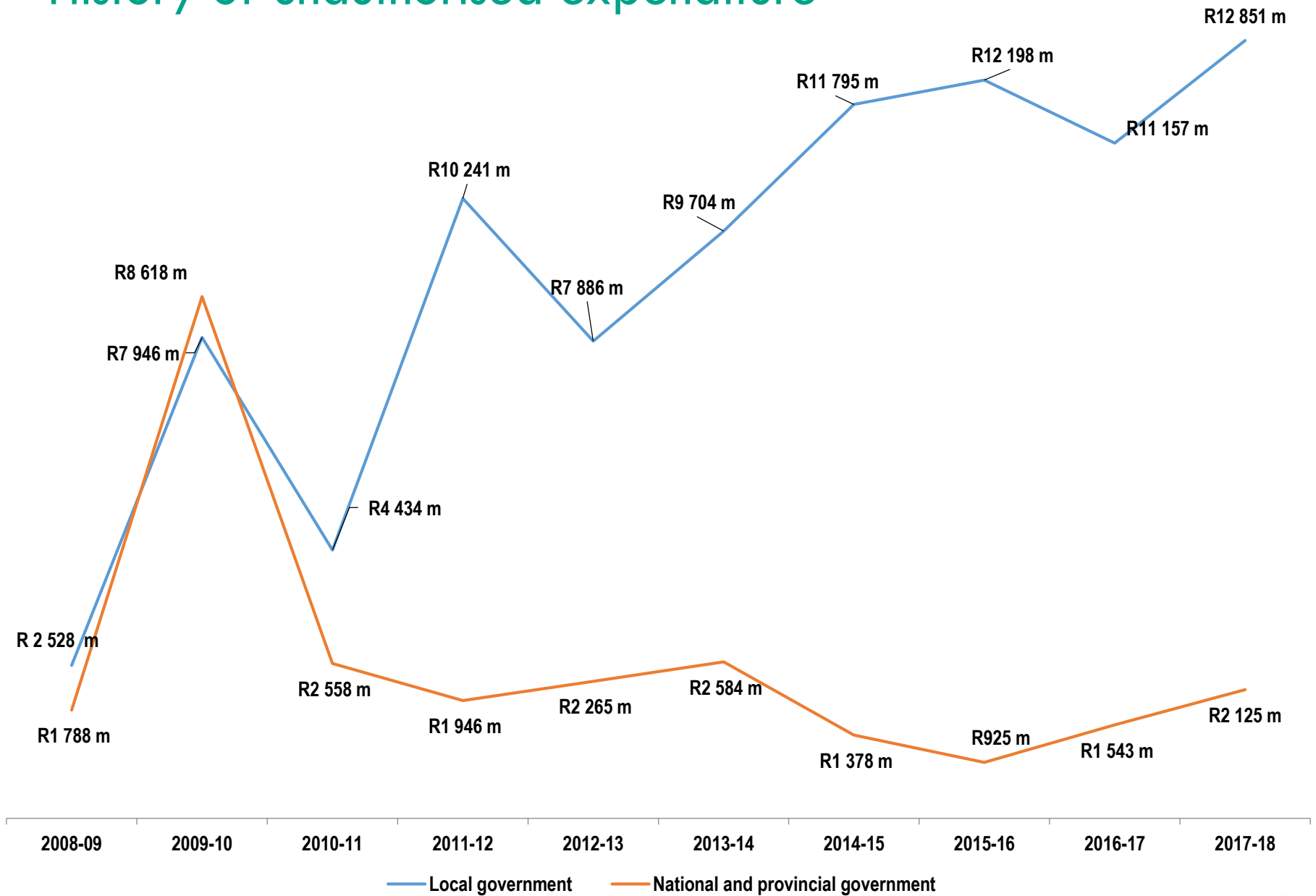
The annual irregular expenditure and the balances as shown is not complete as the disclosure of irregular expenditure is often qualified on completeness thereof – e.g. 89 auditees were qualified in 2017-18



# History of fruitless and wasteful expenditure

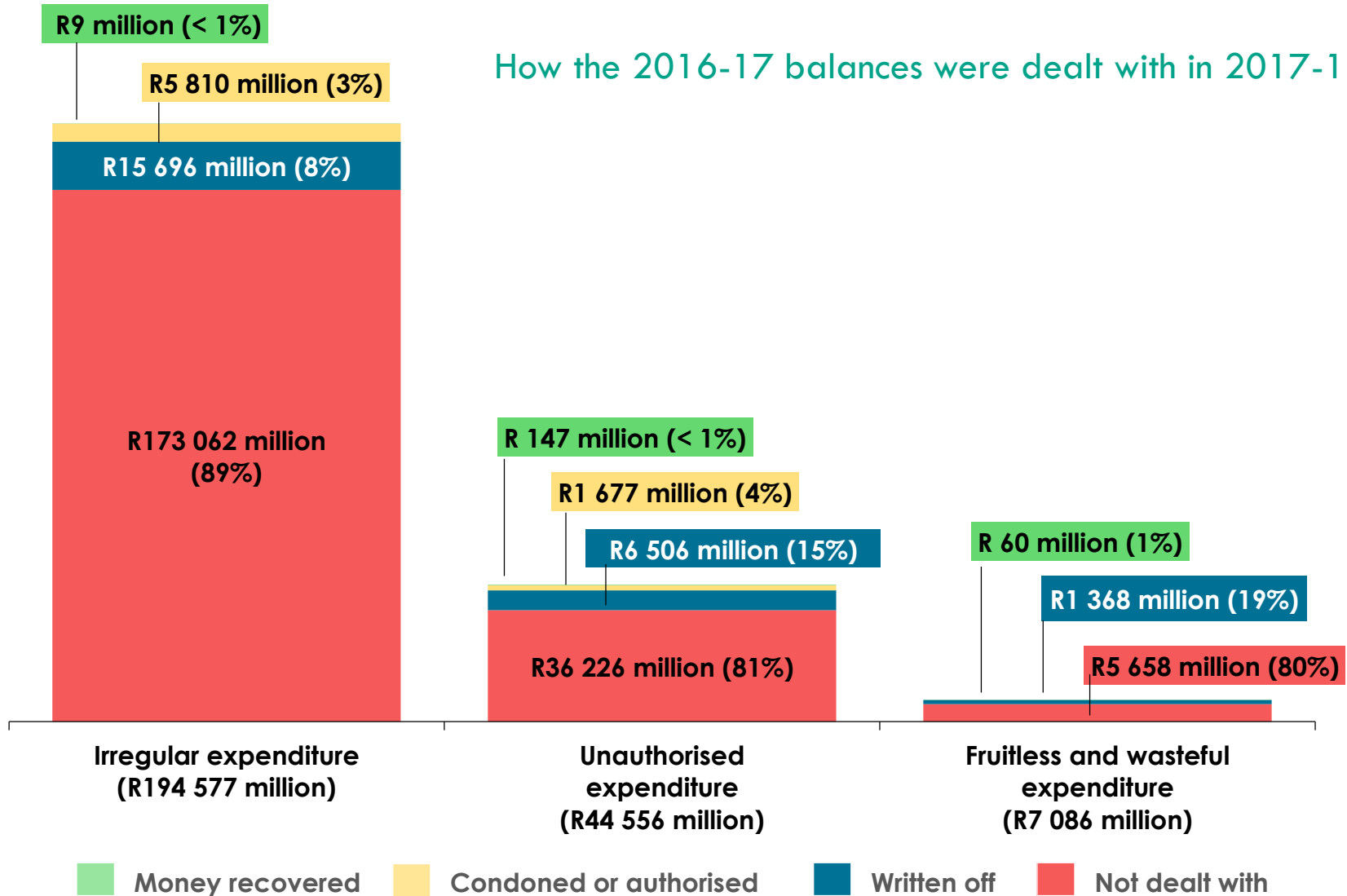


# History of unauthorised expenditure



# 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**

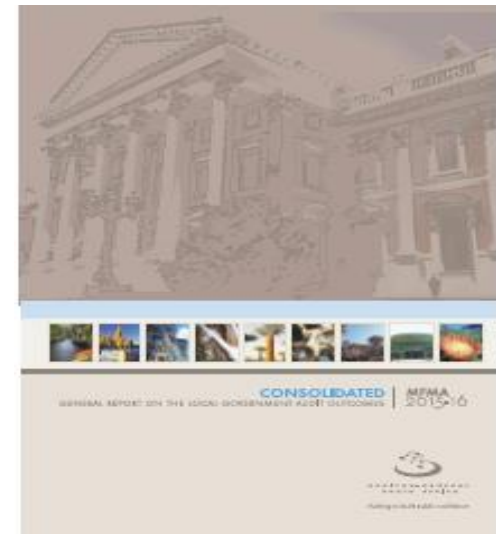
- **Blatant disregard** for **controls, compliance** with legislation and AGSA **recommendations**
- Continued **capacity gap** in administration
- **Vacancies and instability** slow down systematic and disciplined improvements
- **Unethical behaviour** in administration and by political leaders
- Leadership's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

# 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



Oversight

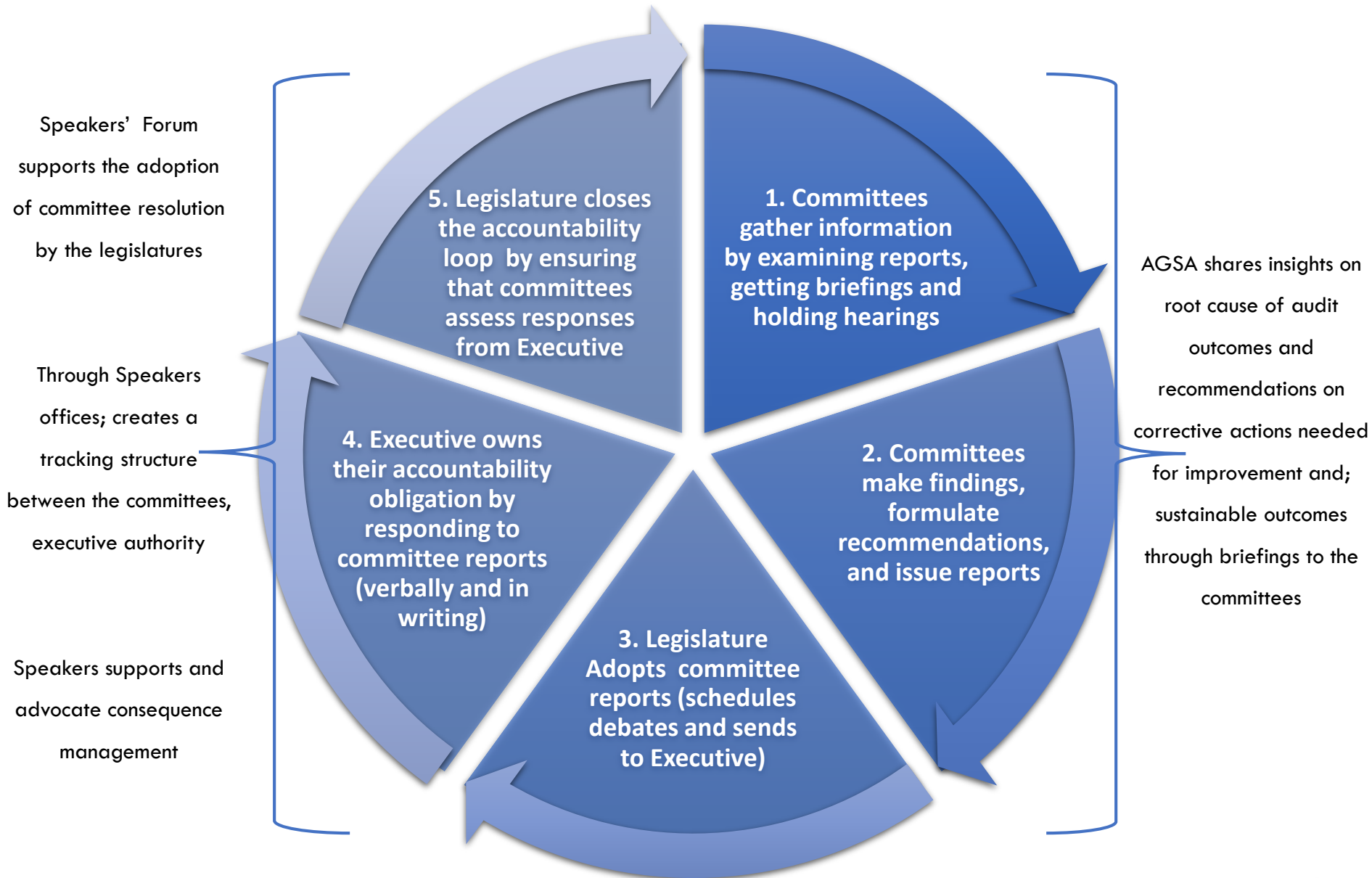


Executive authority

## 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





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# PAA amendments – the key expansion to our mandate

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# What is a material irregularity?

## Definition from the Amendment Act

irregularity



material

*“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)



# Thank you



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