



AUDITOR - GENERAL
SOUTH AFRICA

Capacity Building Programme - Parliament of the Republic of South Africa

September 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.





AGSA mandate

Mandate of the AGSA

Chapter 9 of the Constitution

○ Section 188:

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

Public Audit Act No. 25, 2004

○ Section 20:

AGSA must prepare an audit report containing an opinion/conclusion on the:

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

○ Section 5:

- Discretionary audits (including special audits, investigations and performance audits)



Delivering on our mandate to audit and report



- **Audit** – financial statements, performance reporting, compliance with legislation and additional value adding work
- **Report** findings to accounting officers and authorities with recommendations (management report)
- **Report** audit opinions and material findings to legislature and council (audit report)
- Generate **commitment** from all key stakeholders to address root causes of poor outcomes

Work of the AGSA



What we do!

Provide assurance that the AFS are free from material misstatements

Report on the 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

Audit process

RISK ASSESSMENT

What do auditors do?

Why do they do it?

Agree terms of engagement

Terms of the engagement are communicated and agreed to ensure a clear understanding of responsibilities of the parties, the objectives of the audit, access to information and the reports to be provided.

Plan the audit

An understanding of the auditee is obtained for risk assessment purposes and an audit plan is prepared.

Perform risk assessment procedures

A risk assessment is performed to determine the number and type of procedures to perform.

RISK RESPONSE

What do auditors do?

Why do they do it?

Perform procedures in terms of risk assessment

Procedures are performed to obtain evidence that the financial statements and annual performance report do not contain material misstatements and that key legislation has been complied with.

REPORTING

What do auditors do?

Why do they do it?

Prepare management report (not published)

The report is only provided to the management of the auditee and the executive authority at the end of the audit. It details the findings from procedures performed, identifies the root causes of these findings and makes recommendations for improvement.

Prepare audit report (published)

The report is published in the auditee's annual report, it informs those responsible for oversight, the public and others of material misstatements in the financial statements, material findings on the usefulness and reliability of the performance report, material non-compliance with key legislation in specific focus areas, and the deficiencies in internal control that were identified during the audit.



Different outcomes to an audit

We can express one of the following audit opinions:



Clean audit outcome

The financial statements are free of material misstatements and there are no material findings on reporting on performance objectives or non-compliance with legislation.



Financially unqualified opinion with findings

The financial statements are free of material misstatements, but material findings have been raised on either the reporting on predetermined objectives or non-compliance with legislation, or both these aspects.



Financially qualified opinion with findings

The financial statements contain material misstatements of specific amounts and disclosures, or there is insufficient evidence for us to conclude that it is not materially misstated.

The auditee will also have material findings on predetermined objectives or non-compliance with legislation, or both these aspects.



Adverse opinion with findings

The financial statements contain so many material misstatements that we disagree with almost all the amounts and disclosures in the financial statements.



Disclaimed opinion with findings

The auditee provided us with insufficient evidence for most of the amounts and disclosures in the financial statements. We are therefore unable to conclude or express an opinion on the financial statements.

Auditees with **adverse** and **disclaimed** opinions are typically also:

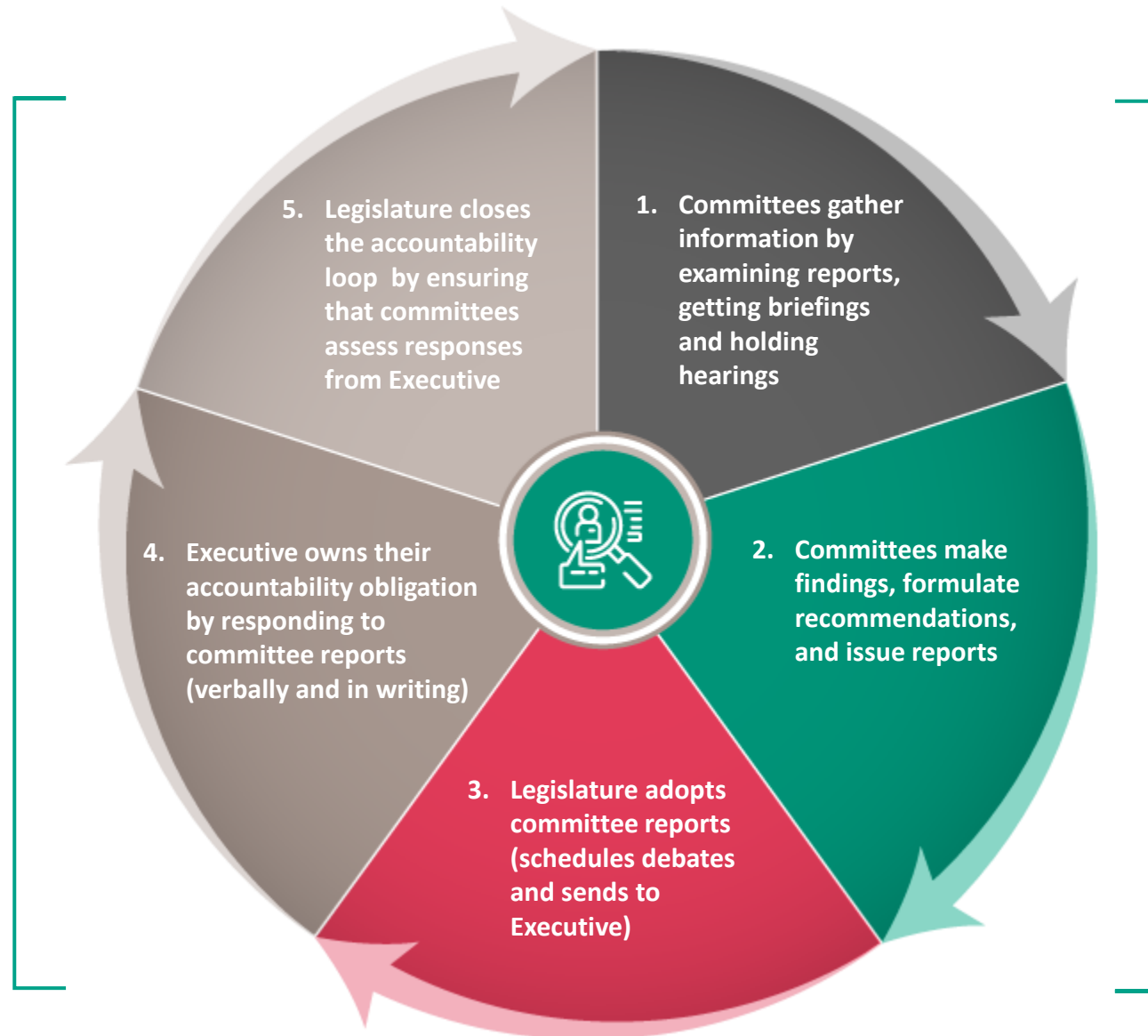
- unable to provide sufficient supporting documentation for the achievements they report in their performance reports
- not complying with key legislation.

AGSA's work as it relates to that of Parliament

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

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

Speakers' support and advocate consequence management



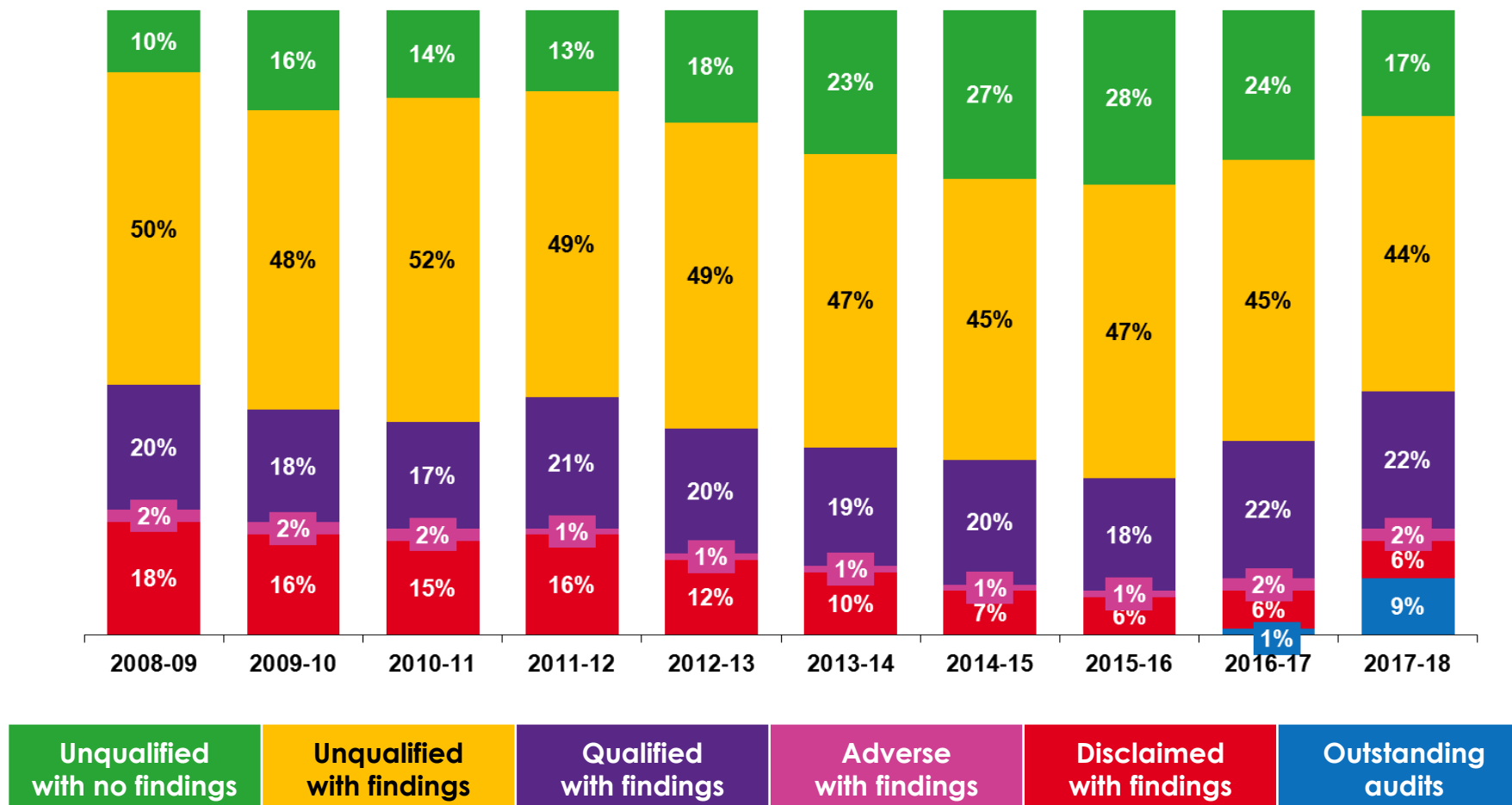
AGSA shares insights on root cause of audit outcomes and recommendations on corrective actions needed for improvement and; sustainable outcomes through briefings to the committees



Audit outcome trends

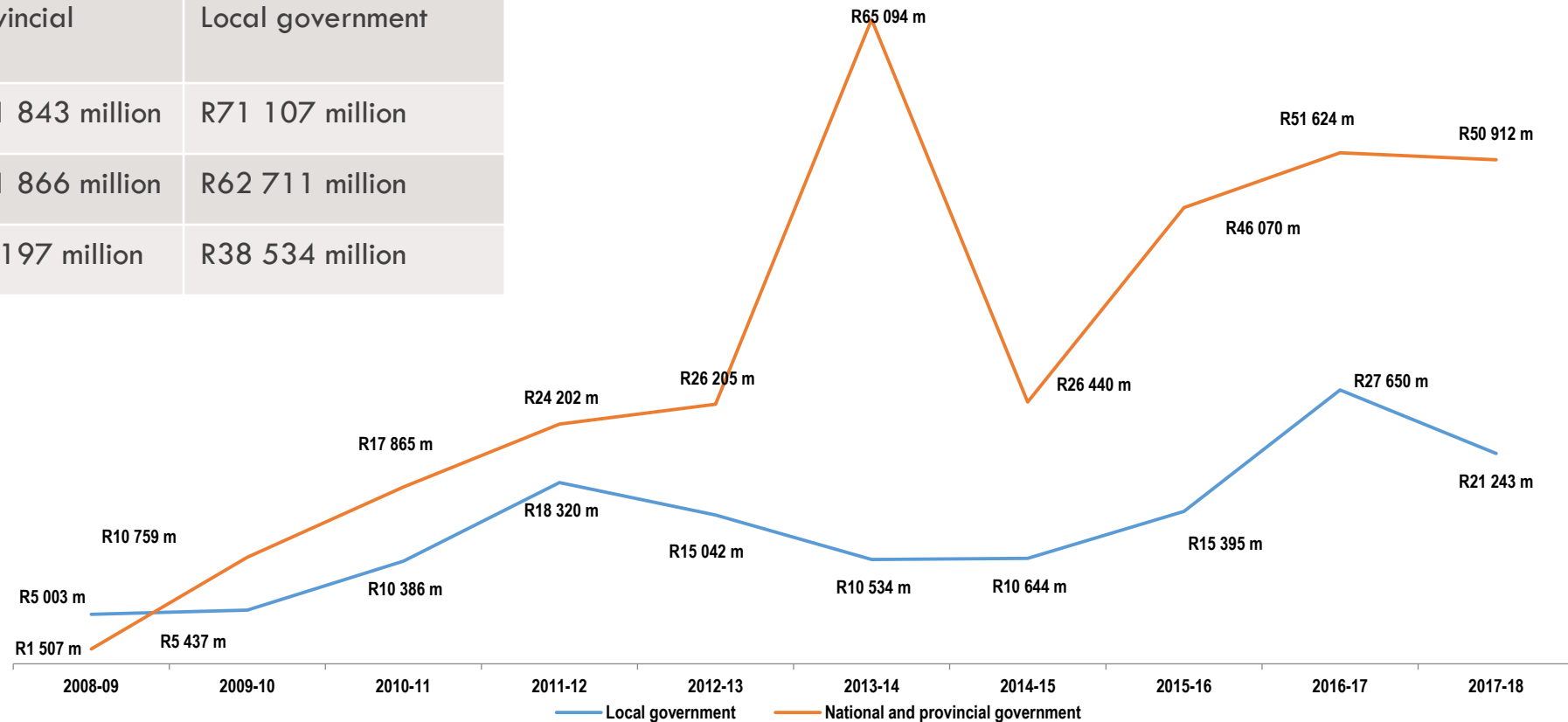
Trends over the past 10 years

Audit outcomes over the past 10 years - national, provincial and local government



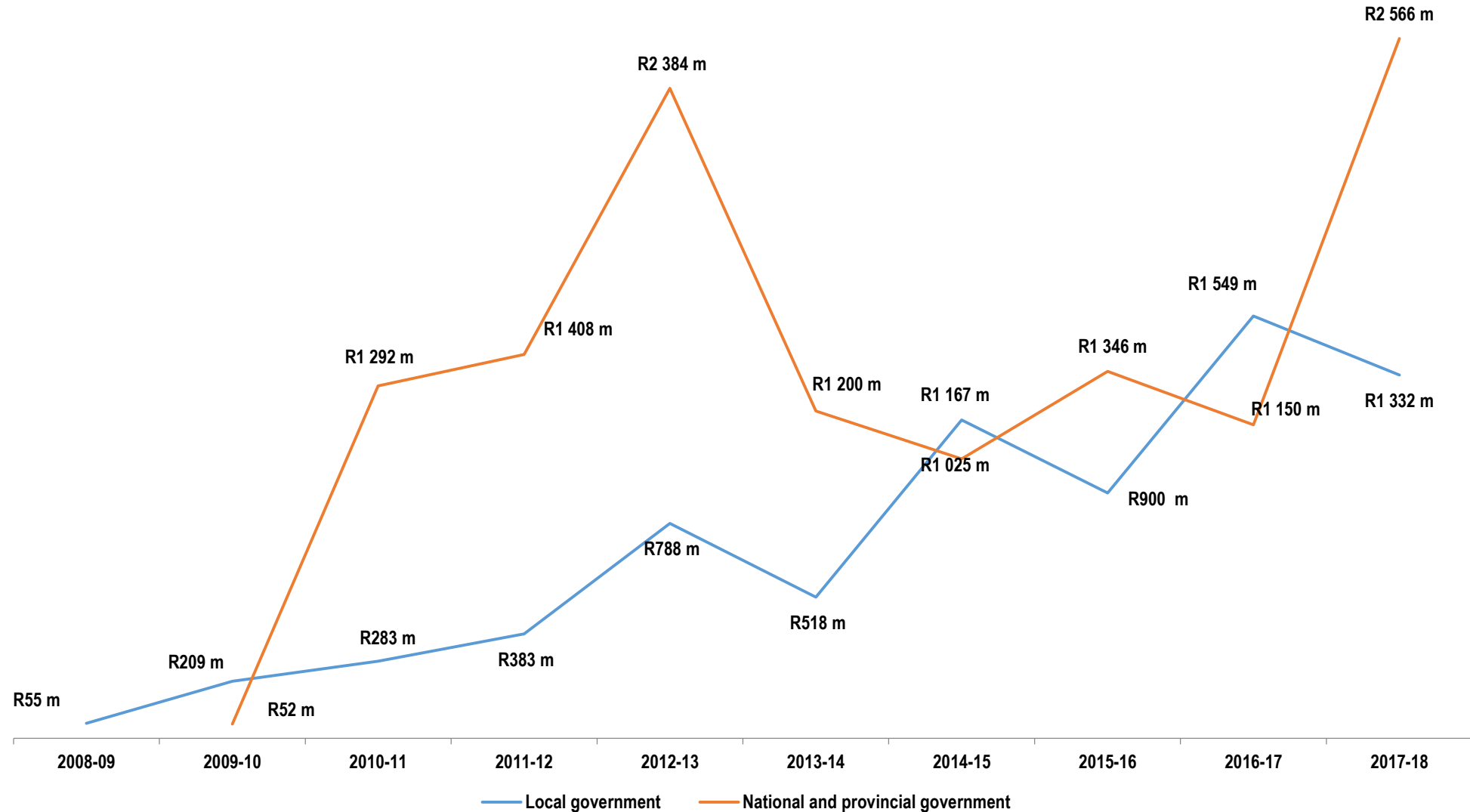
History of irregular expenditure

| 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 | R95 197 million | R38 534 million |

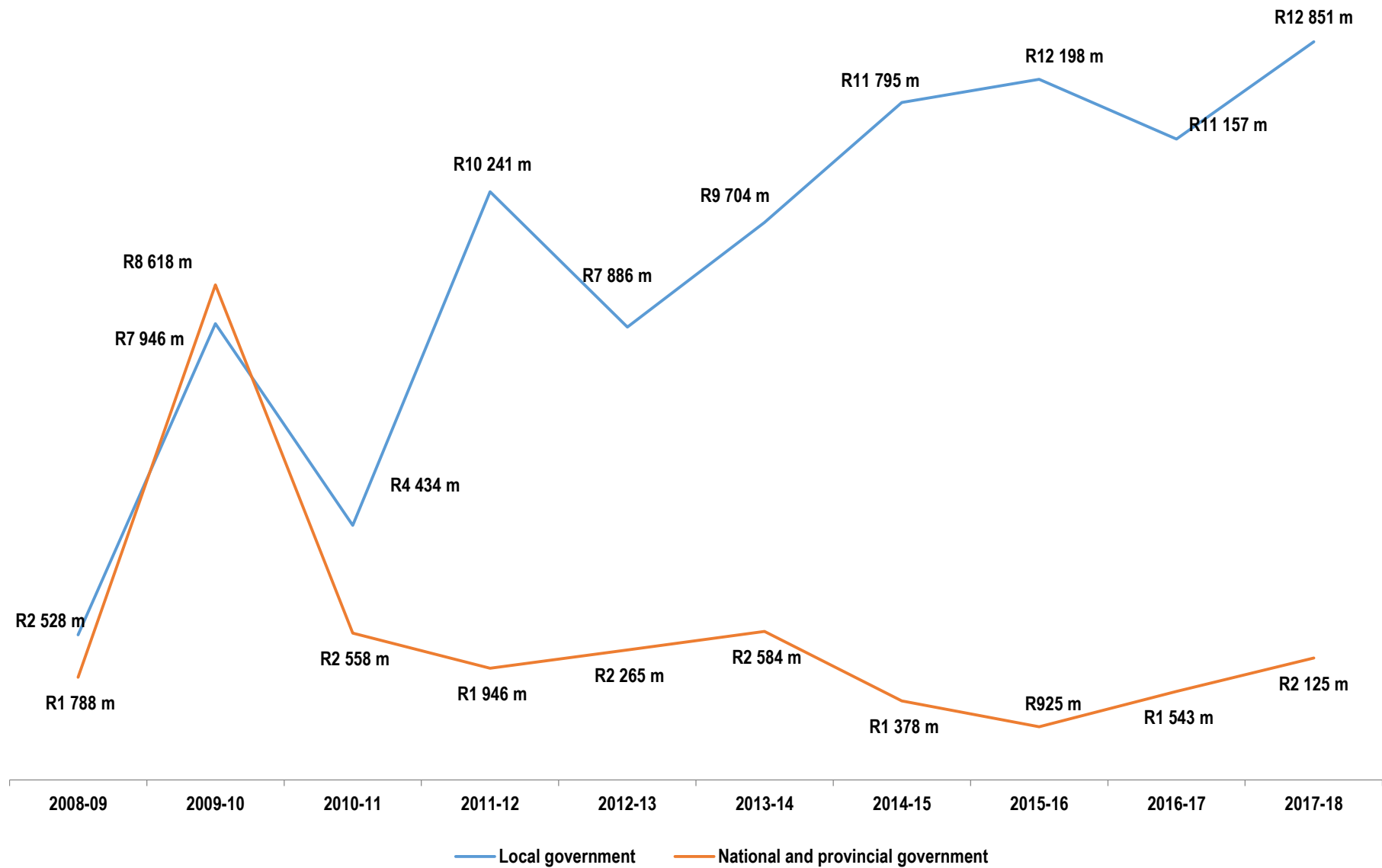


The annual irregular expenditure and the balances as shown is not complete as the disclosure of irregular expenditure is often qualified on completeness thereof – e.g. 74 auditees were qualified in 2017-18

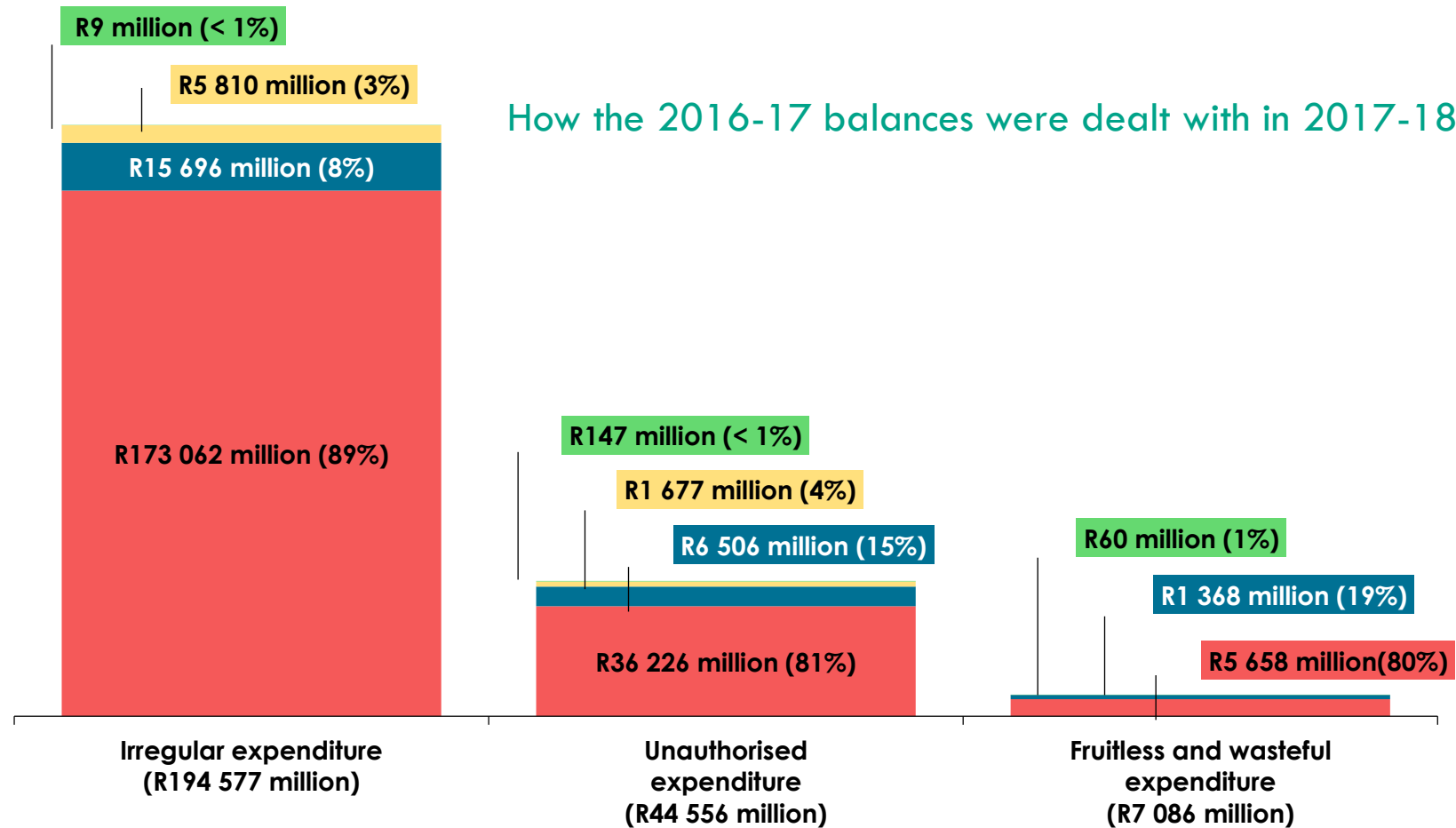
History of fruitless and wasteful expenditure



History of unauthorised expenditure



Dealing with unauthorised, irregular and fruitless wasteful expenditure



Money recovered or Transferred to debtors Condoned or authorised Written off Not dealt with



Root causes of continued poor outcomes



Slow or no response
to recommendations

- **Blatant disregard** for **controls, compliance** with legislation and AGSA **recommendations**



Instability/
vacancies /
competencies

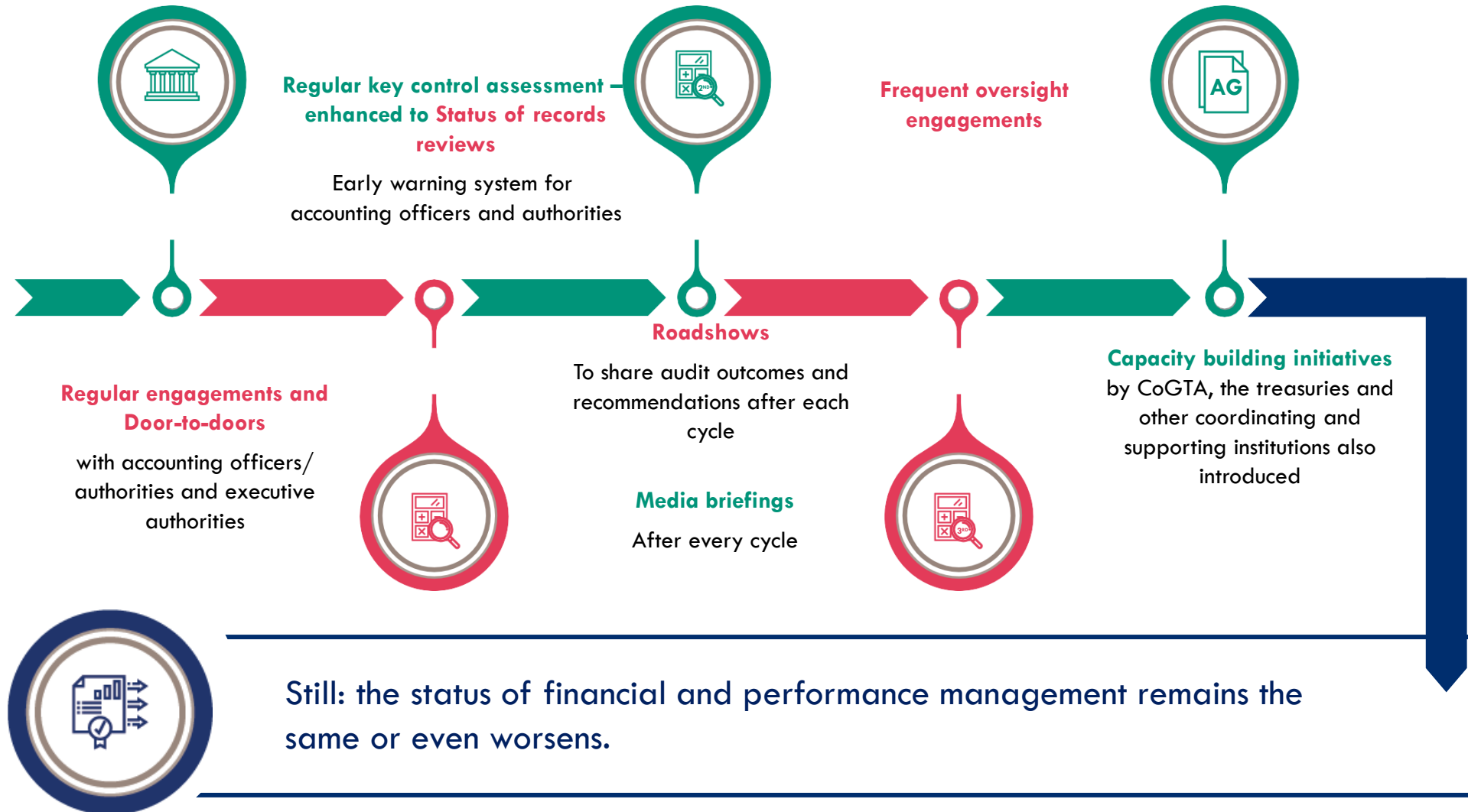
- Continued **capacity gap** in administration
- **Vacancies and instability** slow down systematic and disciplined improvements



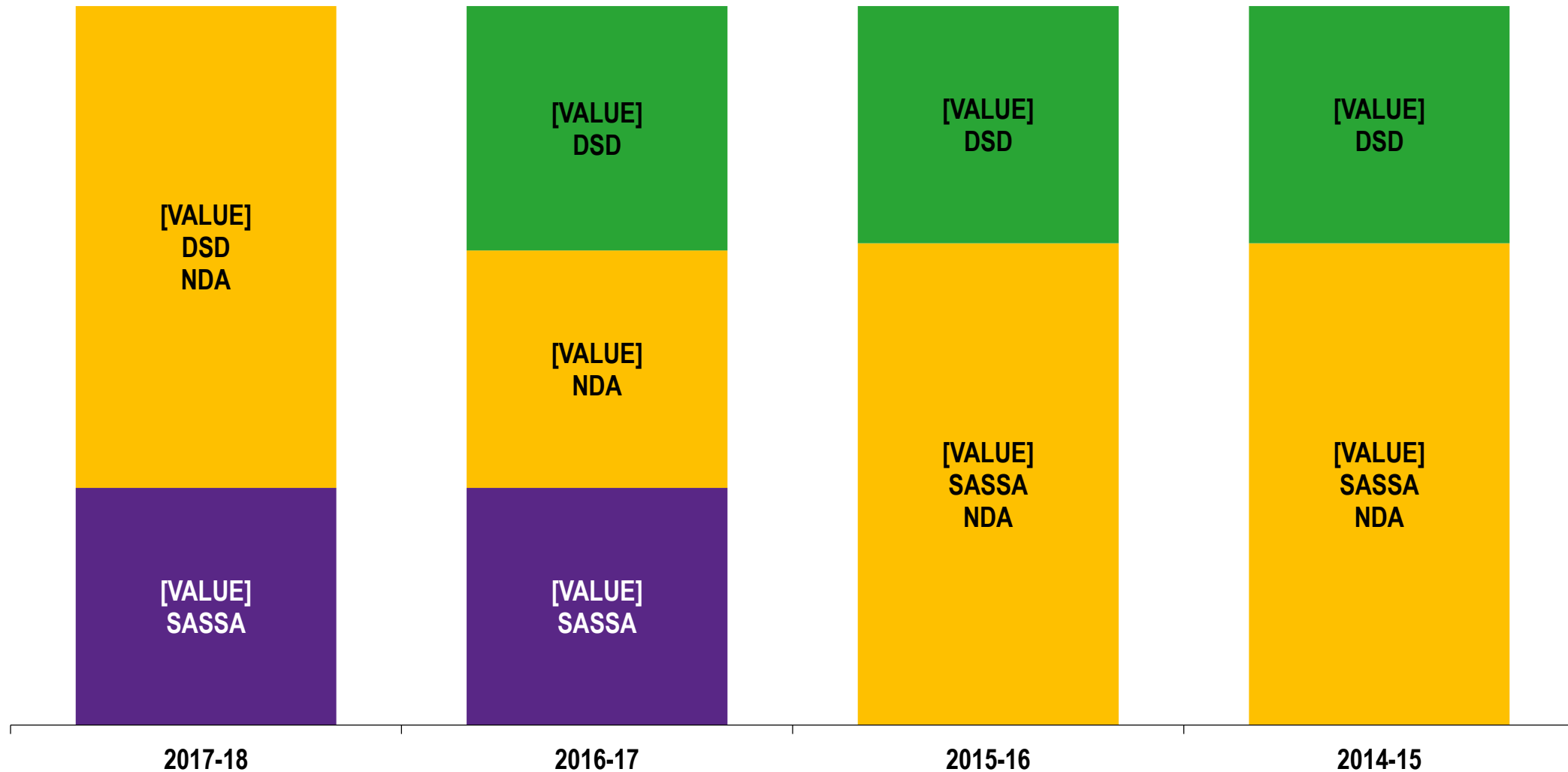
Inadequate
consequences

- **Unethical behaviour** in administration and by political leaders
- Leadership's inaction / inconsistent action to addressing persistent transgression creates culture of '**no consequences**'

Additional efforts were introduced



Audit outcomes of the portfolio over four years



Prior year audit matters for the portfolio

Department of Social Development (DSD)

Audit outcome

- The DSD received an unqualified opinion with findings on compliance with legislation.
- Non-compliance was reported with regards to procurement and contract management processes not adhered to relating to local content and production.

Root causes

- Management did not review and monitor compliance with applicable legislation.
There was no head of the SCM unit that could provide the appropriate oversight on compliance matters and training thereon or make changes to aged SCM policies.

Key recommendations

- Management should prepare an action plan to address audit recommendations; the implementation of the plan should be timeously and properly monitored.
- Investigations into transgressions against legislation should be conducted and steps should be taken against transgressors within specific timelines.
- Vacancies in critical positions should be filled.



Prior year audit matters for the portfolio-cont.

South African Social Security Agency (SASSA)

Audit outcome

- The financial statements submitted for audit were not adequately reviewed resulting in a qualified audit opinion relating to material misstatements being identified during the audit process on the completeness and accuracy of the irregular expenditure.
- Compliance with laws and regulations was not continuously monitored, resulting in non-compliance with procurement processes, consequence management, and irregular expenditure not prevented.
- Reported achievements on performance information were not found to be reliable.

Root cause

- Non-compliance with the implemented controls within the supply chain management by the SCM staff stemming from lack of training and Instability or vacancies in key positions, resulted in the various finding that were identified.

Key recommendations

- Senior management should prepare action plans; these must be reviewed and monitored on a regular basis to timely address internal control deficiencies that led to audit findings reported.



Prior year audit matters for the portfolio- cont.

National Development Agency (NDA)

Audit outcome

- The NDA received an unqualified opinion with findings on compliance with legislation and performance information.
- Non-compliance was reported with regards to procurement and contract management processes not adhered to, disciplinary steps were not taken against some staff who had permitted fruitless expenditure, procedures for effective performance monitoring were not established, material adjustments were made after submission to avoid a qualified opinion and effective steps to prevent irregular expenditure were not taken.
- Reported achievements on performance information were not found to be reliable.

Root causes

- Slow response by senior management in addressing audit recommendations.
- Lack of consequence management.
- Lack of appropriate systems to compile reliable performance information.
- Inadequate review and monitoring over compliance with legislation.



Prior year audit matters for the portfolio-cont.

National Development Agency (NDA) - continued

Key recommendations

- Management should prepare an action plan to address audit recommendations; the implementation of the plan should be timeously and properly monitored.
- Investigations into transgressions of legislation should be conducted and steps should be taken against transgressors.
- Vacancies in critical posts should be filled.





PAA amendments – the key expansion to our mandate

Key expansion of our mandate



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

What is a material irregularity?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty**

Material
irregularity

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

Impact



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.**

Examples of material irregularities

Irregularity

Impact



Non-compliance with the SCM legislation requiring a competitive bidding process.



A material financial loss due to goods being priced at above market value.



Suspected bribery of an official to approve the payment for services not received.



A material financial loss due to no value being received for the money paid.



A board of a public entity not exercising their duty of utmost care in investing the funds of the entity.



A material loss in the value of the public entities investments.



A repeat disclaimer audit opinion.



Substantial harm to the auditee as oversight and accountability are significantly weakened.






Neglect in maintaining the infrastructure for sanitation.





Substantial harm to the community as a result of contamination of the water sources.

Material irregularity vs irregular expenditure

| What is the | Irregular Expenditure | Material Irregularity |
|---|--|---|
|  Definition | <p>Expenditure incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.</p> | <p>Non-compliance with, or contravention of, legislation, fraud, theft or a breach of fiduciary duty identified during an audit 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.</p> |
|  Difference: Irregularity | <p>The irregularity is only non-compliance with legislation when incurring expenditure.</p> | <p>The irregularity is any non-compliance (not limited to expenditure) as well as fraud, theft or a breach of fiduciary duty.</p> |
|  Difference: Impact | <p>The impact is not specified, as the PFMA requires the accounting officer or authority to determine the impact.</p> <p>There can be irregular expenditure that did not result in any losses, misuse or harm.</p> | <p>The irregularity must have resulted in or there must be indicators that it is likely to result in a material financial loss/ misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.</p> |



Material irregularity vs irregular expenditure (continued)

| What is the | Irregular Expenditure | Material Irregularity |
|--|---|---|
|  Difference: Value | <p>The value is the expenditure to date.</p> | <p>A material irregularity does not necessarily have a value.</p> |
|  Example | <p>A lack of competitive bidding process for the awarding of a contract of Rm20.</p> <p>The irregular expenditure is all the payments made on the contract to date (e.g. Rm10).</p> | <p>A lack of competitive bidding process for the awarding of a contract of Rm20 resulting in a material financial loss as the same service could have been delivered at a lower price (e.g. Rm18).</p> <p>The financial loss is Rm2 (what was lost and what can still be lost).</p> |



Legal obligations of an AO/AA to address an irregularity

If an AO/ AA is made aware of an irregularity (non-compliance, fraud, theft or a breach of fiduciary duty) the **PFMA, treasury regulations and instructions notes typically prescribe** the following steps to be taken:

1. Perform a preliminary investigation to determine the facts and collect information on what caused the transgression, who is responsible and whether a financial loss was suffered (or will be).

If applicable

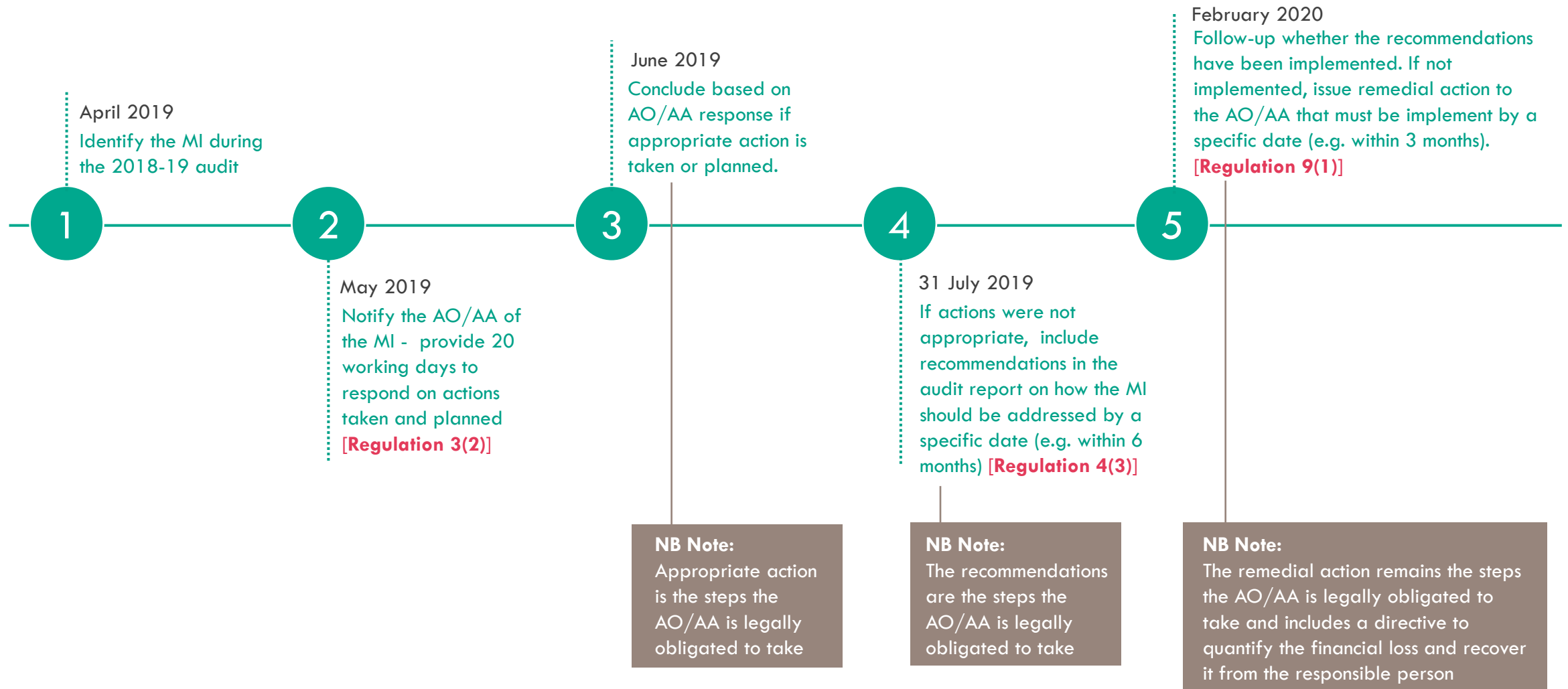
2. Prevent any losses or further losses
3. Institute a formal investigation if there are indications of fraud, corruption or other criminal conduct. If confirmed take further action e.g. report the matter to the SAPS
4. Recover any financial losses from an external party
5. Take steps against the responsible official (which can include a financial misconduct investigation)
6. Recover any financial losses from the responsible officials

The policies and procedures of an auditee typically describes how these steps should be taken and the timing thereof.

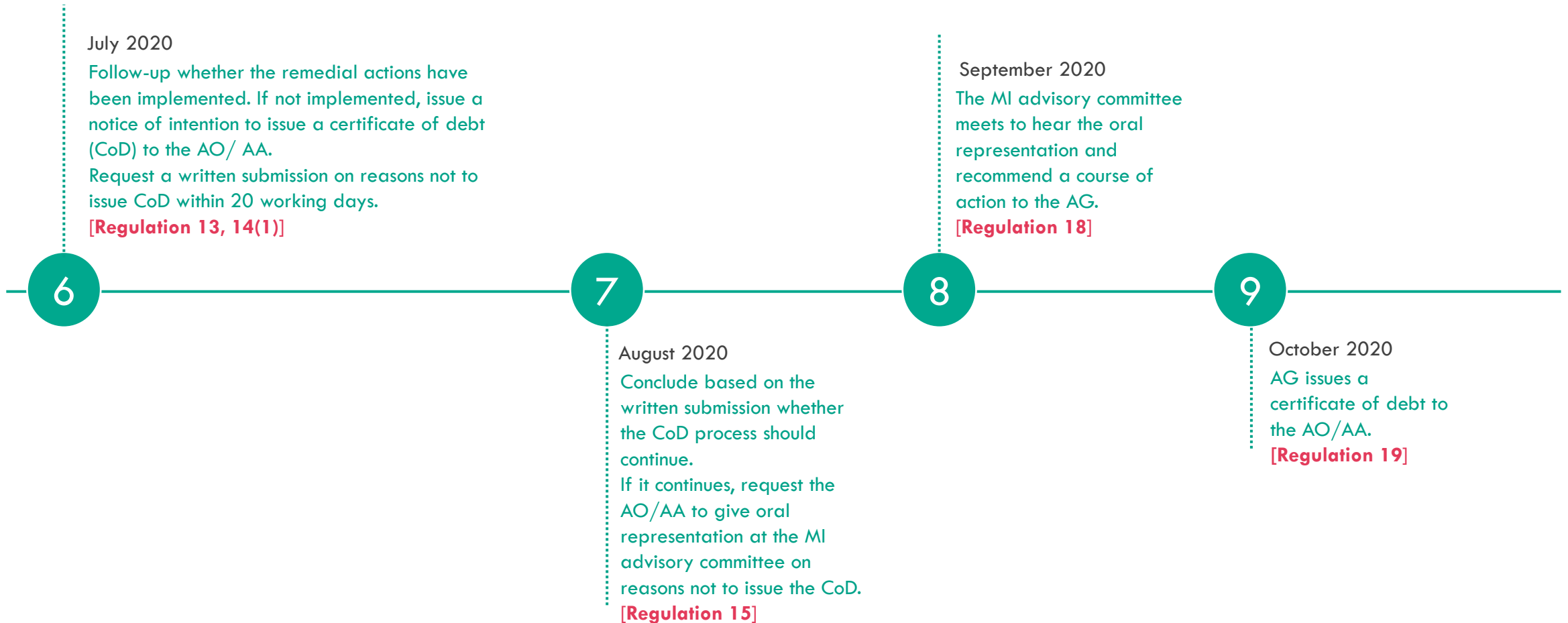
The same steps should be taken if an AO/AA is notified of a material irregularity



Example - MI Process for an irregularity that caused a material financial loss (remedial route)



Example - MI Process for an irregularity that caused a material financial loss (remedial route) (continued)



Implementation of expanded mandate



- The AG has a sole discretion to determine the nature, frequency and scope of audits [section 13(1) of the PAA]
- The AG **may** refer material irregularities to public bodies for investigation [section 5(1A) of the PAA]
- The AG **may** make recommendations in the audit report regarding any matter, including material irregularities [section 20(4) of the PAA]
- The AG consulted SCoAG on the notion of a phased implementation of the material irregularity process

Implementation of expanded mandate (continued)



Commencement date 1 April 2019

To allow for establishing capacity and processes, a **phased-in 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
3. Auditees which are not part of the phase in will be dealt with in terms of the NOCLAR requirements

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.



Implementation of expanded mandate (continued)



The phasing-in of the implementation of the amendments allowed us to:

Responsibly align the organisational resources with the demand placed on us by the PAA

- Develop understanding of the required additional resources to implement the powers
- Reassess the audit methodology and the audit process to accommodate the additional work
- Develop the requisite content and capacitate the audit teams via extensive training
- Develop tools and system to facilitate the remedial action and referral processes
- Build adequate support capacity
- Ensure that we are able to fund the additional effort
- Develop adequate materiality threshold to ensure value for audit fees
- Enhance the relevant internal processes to ensure adequate accountability reporting.

Ensure that our external partners are on adequately prepared

- Establish relationships with the identified public bodies

Due to the lack of accountability in the public sector it resulted in the acceleration of the PAA amendments in less than a year which was unprecedented given the various legal steps to pass a legislation. This meant that AGSA had to assess and take cautious steps in order to ensure that the it had adequate capacity to carry out the new mandate in a responsible manner.



Implementation of expanded mandate (continued)



The phasing-in of the implementation of the amendments allowed us to:

Create the required level of awareness of the Act and the Regulations in the external environment

- Extensive engagement with constitutional stakeholders
 - accounting officers, accounting authorities, executive authorities and audit committees
 - oversight – deferred to accommodate the election and post-election processes
- Non-constitutional stakeholders
 - Media
 - Professional bodies
 - Civil society
 - Audit firms

Due to the lack of accountability in the public sector it resulted in the acceleration of the PAA amendments in less than a year which was unprecedented given the various legal steps to pass a legislation. This meant that AGSA had to assess and take cautious steps in order to ensure that it had adequate capacity to carry out the new mandate in a responsible manner.



Implementation of expanded mandate

(Phase in Auditees)

PFMA LIST

1. Department of Cooperative Governance
2. Passenger Rail Agency of SA
3. Department of Defence
4. Department of Correctional Services
5. Department of Water and Sanitation
6. Water Trading Entity
7. SAA Technical
8. Department of Basic Education
9. Department of Education(EC)
10. Department of Health(NC)
11. Department of Health(KZN)
12. Department of Human Settlements(FS)
13. Gauteng Department of Health
14. Department of Health(MP)
15. Community Safety and Transport Management(NW)
16. Department of Education(LP)

MFMA LIST

1. Nelson Mandela Bay(EC) Metropolitan Municipality
2. Matjhabeng Local Municipality(FS)
3. City of Tshwane Metropolitan Municipality(GP)
4. Ethekwini Metropolitan Municipality(KZN)
5. Mogalakwena Municipality(LP)
6. Dr JS Moroka Municipality(MP)
7. Ga-Segonayana Local Municipality(NC)
8. Ngaka Modiri Molema District Municipality(NW)
9. City of Cape Town Metropolitan Municipality(WC)





Oversight and Monitoring

Oversight initiatives



Implemented by oversight

Held issue based oversight
(UIFW)

Undertook oversight visits to SOEs

Held follow up hearings to address audit findings

Advocated for Ministerial Accountability for poor governance

Resuscitated the coordination of Anti-Corruption Agencies

Various legislatures implemented sections 100 and 139
of the Constitution (administration)



Oversight gaps

Oversight in-year monitoring to prevent a reactive approach

Oversight prioritisation not based on the audit outcomes /
internal control failures

Limited Committee resolutions and debate reports in the House
in order to maximise impact

Opportunity to improve the tracking mechanism for all
oversight activities held



Role of oversight and executive authority

Executive authority

- Insist on credible and frequent **reporting** on state of financial and performance management
- Use reports to **monitor, direct and support accountability**
- **Set the tone** for accountability and consequence management by investigating and dealing with any allegations of financial misconduct and irregularities by accounting officers and authorities
- **Share any knowledge** on possible material irregularities
- Monitor the **implementation of the recommendations** on material irregularities
- **Support referral and remedial processes**, including recovery of debt, if required.
- If responsible for **public body – monitor progress of investigations**

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)



Effective oversight in preventing and tracking material irregularities

Oversight and monitoring

| Material Irregularities | Financial management | Performance management | Procurement and contract management | Compliance management | Information technology management | Human resource management | Oversight report |
|---|--|--|---|--|--|---------------------------------------|-------------------------|
| Progress report on the material irregularities reported | Financial statements (Interim and final) | Strategic and annual plans | Contracts, register, Major Project register and tracking reports Supply chain management report including the procurement plans. | Reports on compliance reports. | Information technology governance and management reports | Human resource management information | Risk management reports |
| Investigation Reports | Financial health analysis reports | Annual and quarterly performance reports | | Budget reports | | Use of consultants information | Internal audit reports |
| Disciplinary cases reports | | | | Consequences reports | | | Audit committee reports |
| Progress reports on matters referred to the Public Bodies | | | | UIFW reports | | | |
| Recovery reports on financial loss suffered | | | | Management Revenue and expenditure reports | | | |
| | | | | Grant management reports (compliance) | | | |

Measures of success



Robust financial and performance management systems

- Sound financial management systems
- Successful implementation of the audit recommendations
- Reduction in irregular and fruitless and wasteful expenditure



Oversight and accountability

- Accurate and empowering financial and performance reporting
- An appreciation of the role of applying consequences for transgressions and poor performance
- Improved accountability leading to limited referrals for investigation and certificates of debt issued



Commitment and ethical behaviour

- Visible commitment by all players in the public service to contribute towards the financial health of the country and an improved social reality for our people
- Demonstrated ethical behaviour and professionalism in the public sector as cementing characteristics of a capable state.

Thank you



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