

BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | PFMA
2018-19

Briefing to Portfolio Committee on Sport and
Recreation: South Africa



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

The Auditor-General of South Africa (AGSA) 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.



Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



The 2018-19 audit outcomes



Our annual audit examines three areas

THE AG'S
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

Important to note

The percentages in this presentation are calculated based on the **completed audits of three auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:



Movement over the previous year is depicted as follows:



Improved



Unchanged



Regressed

Abbreviations used for the portfolio:

SRSA - Sport and Recreation South Africa

BSA - Boxing South Africa

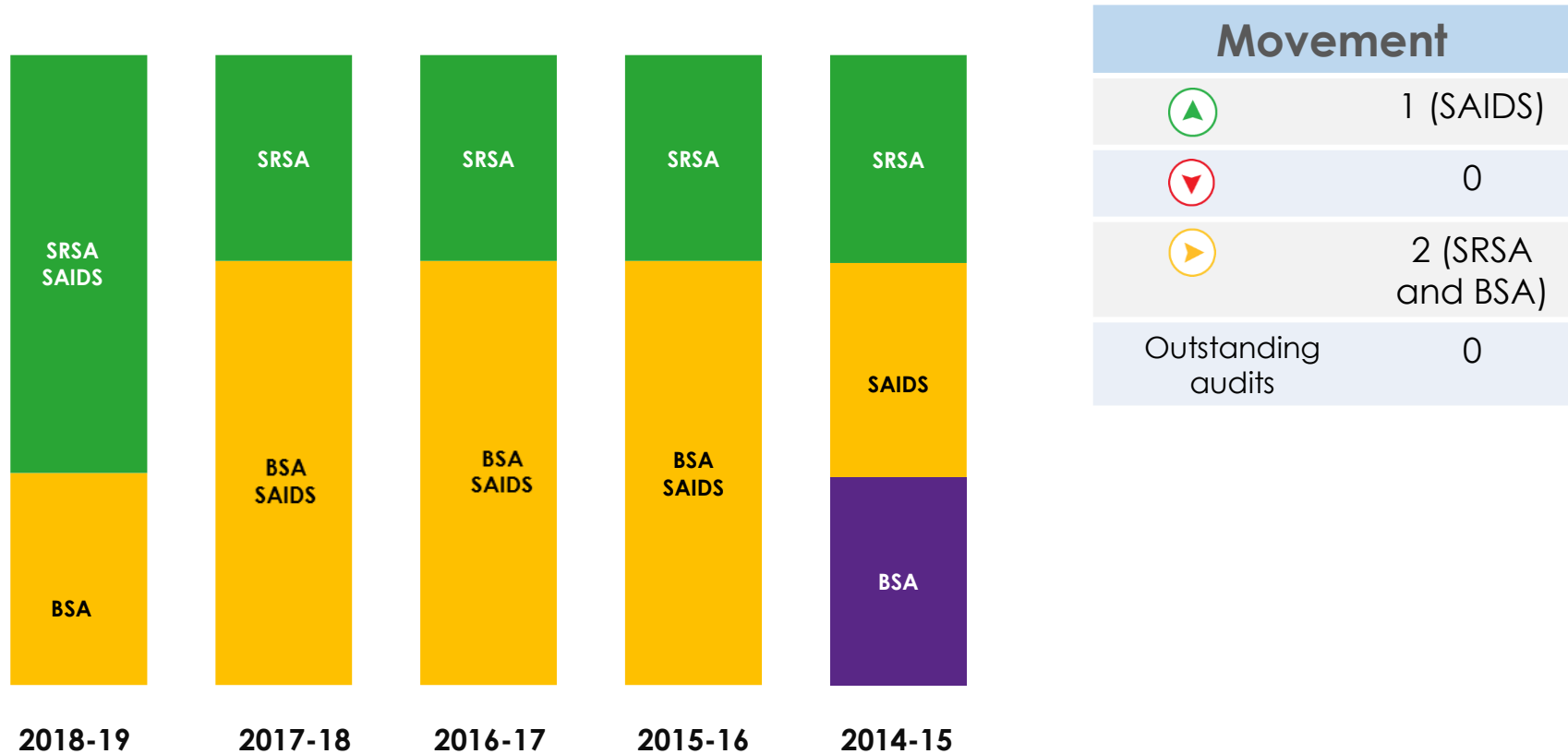
SAIDS - South African institute for Drug-free Sport



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Audit outcomes of portfolio over five years



Movement	
▲	1 (SAIDS)
▼	0
▶	2 (SRSA and BSA)
Outstanding audits	0

Overall Movement:

Overall the Sport portfolio has improved the audit outcomes in comparison with the previous years:

- SAIDS achieved a clean audit outcome for the first time, after addressing compliance matters reported previously.
- The department is commended for retaining its clean audit outcome for the past five years
- BSA remains with an unqualified opinion with findings on performance information due to measurability of indicators as well as compliance with some legislation.





Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

Financial statements submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

100%

100%

67%

67%

100%

100%

BSA achieved an unqualified opinion because they corrected all misstatements identified during the audit.





Credible performance reporting



Performance report

Performance report submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

	67%		33%
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	67%		67%
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SRSA and SAIDS had no material findings identified during the current year audit. **BSA** could not correct some of the material findings raised.

Material findings reported in BSA

Accurate reporting of achievements

33%

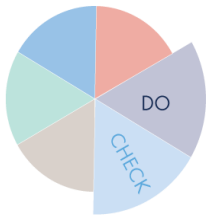
33%

Measurability of performance indicators and targets

33%

33%





Disregard for compliance with legislation

Findings on compliance with key legislation

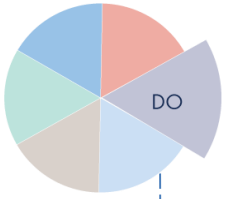


Non-compliance areas reported in BSA

- Quality of financial statements - material misstatements corrected
- Procurement management- procurement information not provided and declarations not submitted by bidders
- Revenue management- Measures implemented to collect debt could not be substantiated
- Consequence management- documents with regards to investigations for irregular and fruitless expenditure not provided nor evidence of disciplinary steps taken



Status of internal control



Leadership

HR Management

SRSA



Financial and performance management

Processing and reconciling controls

SRSA



Regular reporting

SRSA



Governance

Risk management

SRSA

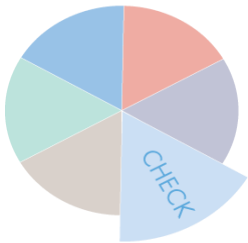


Good

Of concern

Intervention required

13



Assurance provided

Assurance

First level

Senior management	SRSA	▶
Accounting officer	SRSA	▶
Executive authority	SRSA	▶

Second level

Internal audit unit	SRSA	▲
Audit committee	SRSA	▶



Financial health and financial management



Financial health

SRSA and **SAIDS** had favourable financial health assessments. **BSA** financial health overall requires intervention due to the following:

Revenue management

- Collection of debt – inability to collect monies owed for tournaments sanctioned and the resultant impairment of receivables due to amount owed being irrecoverable remains a challenge for the entity.
- Interventions to collect from promoters have not yielded positive results.

Asset and liability management

- BSA attained a surplus for the year of R89 775 which is positive however
- Current liabilities exceed current assets indicating liquidity risks, which means that the BSA may not be able to pay its creditors as payments become due.
- Net liability position - highlights a possible risk that the BSA cannot continue its operations at the desired levels, which may lead to an interruption or breakdown on delivering on its mandate.

Cash management

- Negative cash flows – the annual grant from the department to BSA and a sponsorship receipt not sufficient to cover operational expenditure. Measures must be implemented to address this situation to ensure delivery on the mandate and financial viability.
- Cash balance – mainly consists of the deposits and the investment to cover boxer's injuries, which are not available for use in operations. Continued withdrawals from the investments in the current year is a major indicator of the entity's financial viability challenges.



Of concern



Intervention required

No unauthorised expenditure in the past 2 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

Nature of prior years' unauthorised expenditure

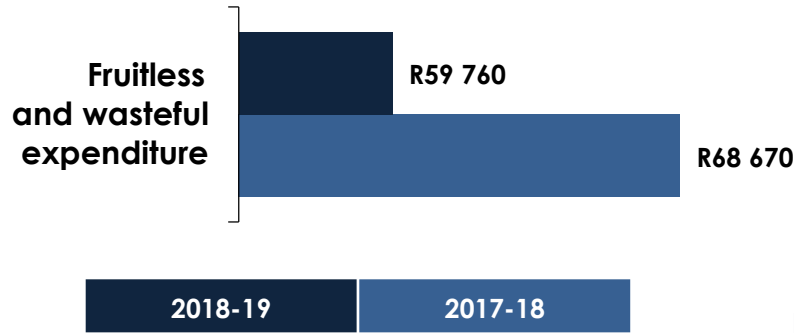
- Unauthorised expenditure of R705 000 relates to a payment made for a conference held during 2007-08 and 2008-09 which resulted in overspending of the budget due to unforeseen circumstances. This unauthorised expenditure is still awaiting Parliamentary approval.*

Fruitless and wasteful expenditure decrease over 2 years

Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

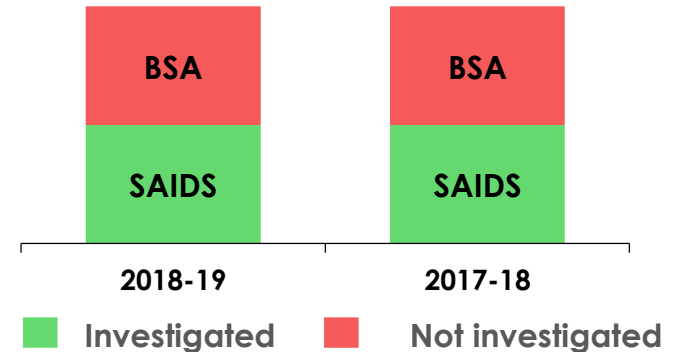
Fruitless and wasteful expenditure incurred by entities in portfolio



Previous year fruitless and wasteful expenditure reported for investigation

Nature of the fruitless and wasteful expenditure

- BSA: R39 760 was due to Interest charged on overdue account for office rental and continued payment on a rental equipment paid for but not used. Payment was subsequently stopped.
- SAIDS: R20 000 was due to interest and penalties paid on late PAYE submissions.

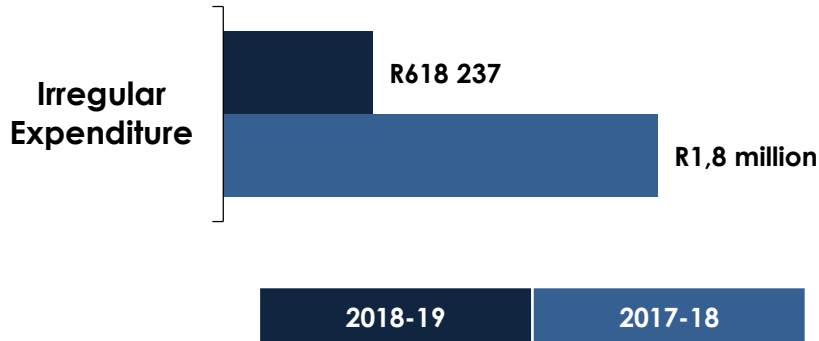


Irregular expenditure decrease over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

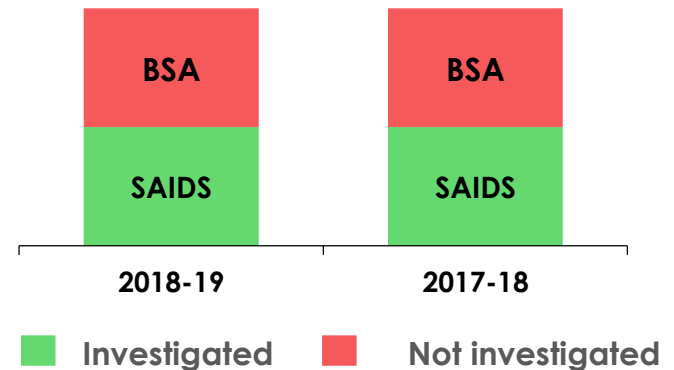
Irregular expenditure incurred by entities in portfolio



Nature of irregular expenditure

- SAIDS: R85 000 for overspending on the Internal audit contract
- BSA: R533 237 as a result of non compliance with supply chain management regulations.

Previous year irregular expenditure reported for investigation



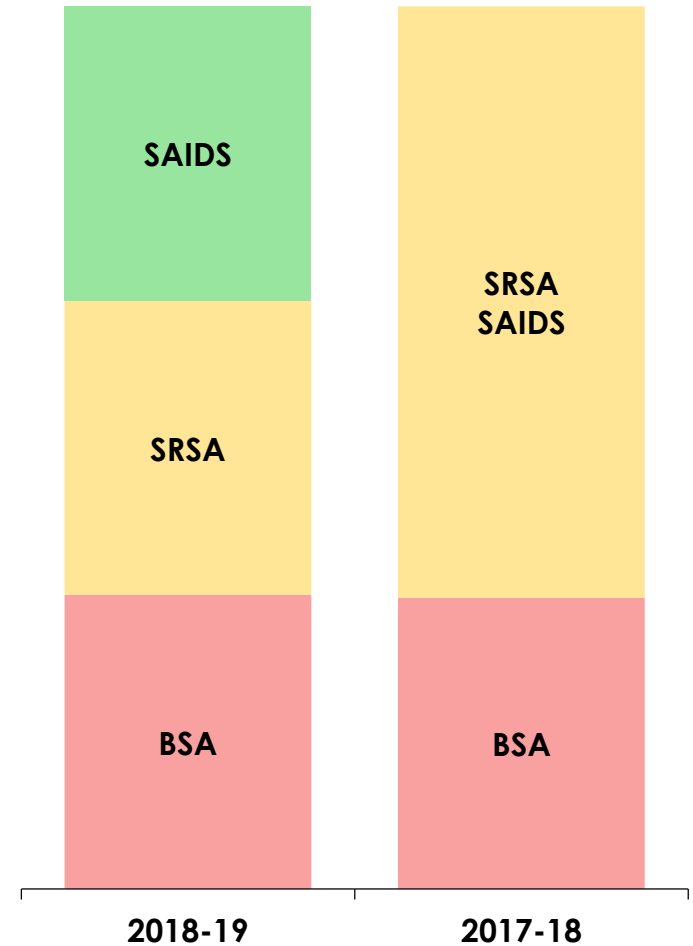
Supply chain management

▲ Improvement in SCM compliance

All SCM findings should be investigated

Most common findings on supply chain management

- **Declaration of interests** not submitted. (BSA)
- **Employees doing business** with other organs of state. (SRSA)
- **Uncompetitive and unfair procurement** processes at one auditee. (BSA)



With no findings



With findings

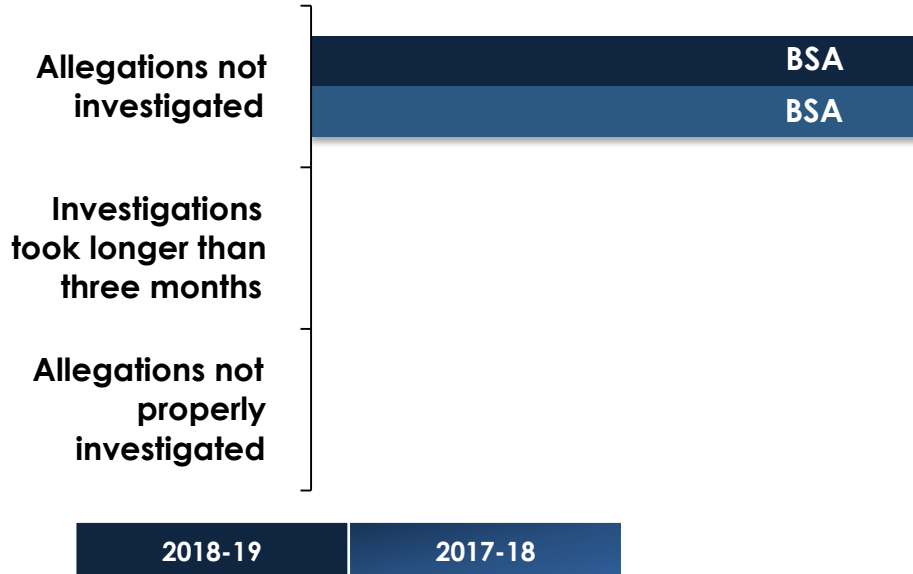


With material findings 20



Lack of consequences

Allegations of financial and/or fraud and SCM misconduct (3 auditees)



- BSA: Compliance with legislation on consequence management could not be confirmed due to proper and complete records that were not maintained as evidence to support investigations into irregular and fruitless expenditure.*



Root causes

Slow response to improving key controls and addressing risk areas

BSA



Management (accounting authority and senior management), do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.



Recommendations

To department and its entities

- The audit action plans for the department and its entities should be implemented and monitored to ensure continued audit outcomes improvement in the portfolio.
- BSA to ensure that the revised 2019-20 APP is implemented and accurate reporting of targets is timely monitored.
- Consequence management should be implemented by BSA. Investigations into irregular and fruitless expenditure should be performed and proper records be kept and appropriate actions be taken. Also ensure that declarations of interest are requested with bids and that a fair and competitive process of procurement is followed.

To the portfolio committee

- The portfolio committee (PC) should request management to provide feedback on the implementation and progress of the audit action plans to ensure further improvement in the audit outcomes of the portfolio.
- The PC should monitor implementation of consequence management.



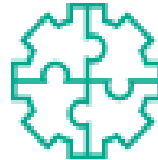
Portfolio snapshot (2018-19)



Clean audits: 67%
(2017-18: 33%)
(SRSA)



Financially unqualified financial statements: 100%
(2017-18: 100%)



No findings on performance reports: 67% (SRSA and SAIDS)
(2017-18: 33%) (SAIDS)



No findings on compliance with legislation: 67% (SRSA and SAIDS)
(2017-18: 33%) (SRSA)



Irregular expenditure: R618 237 (BSA and SAIDS)
(2017-18: R1.8m) (BSA and SAIDS)

Key expansion of our mandate



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

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

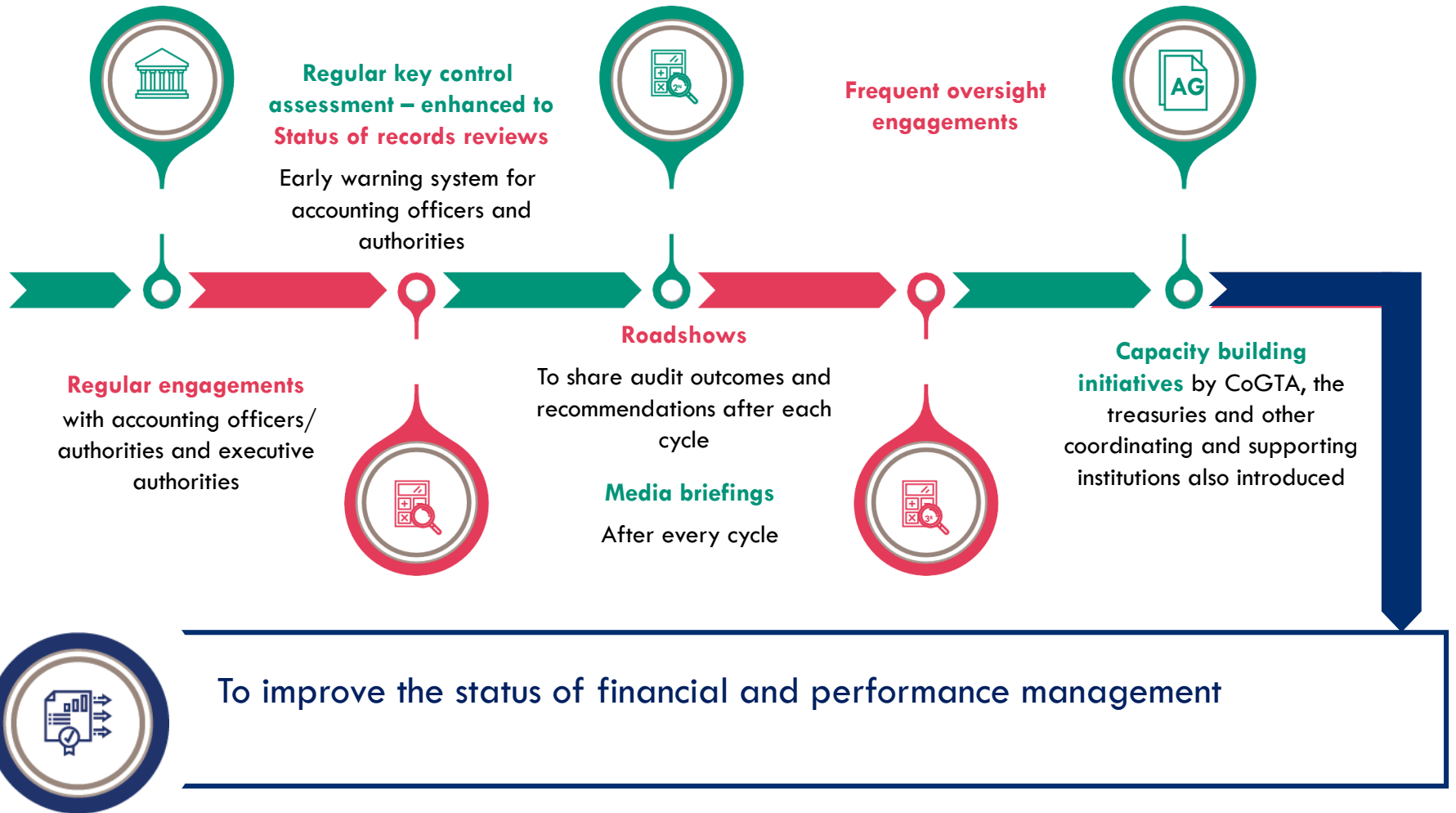
identified during an audit performed under this Act that **resulted in or is likely** to result in ...

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.**

Additional efforts were introduced



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