



BUDGETARY REVIEW AND RECOMMENDATIONS REPORT | PFMA 2018-19

Briefing to portfolio committee on justice and correctional services on the Department of Correctional Services



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

Audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Outstanding audits



Improved



Unchanged

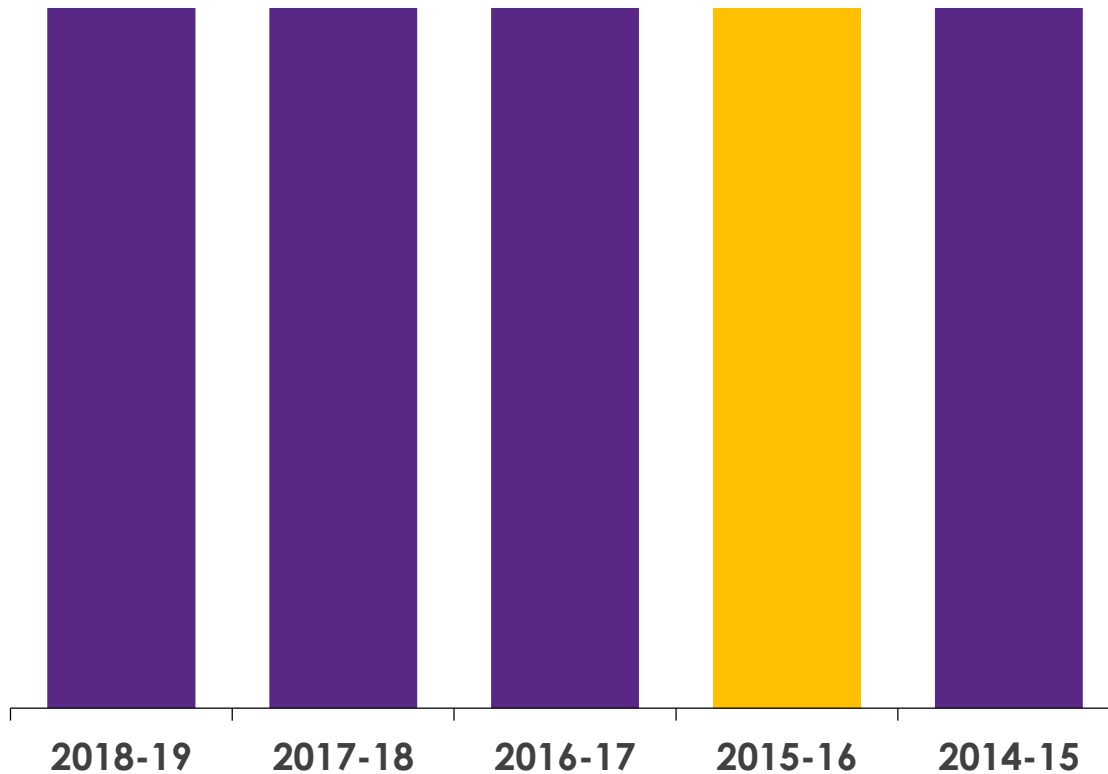


Regressed

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Audit outcomes of the Department of Correctional Services (DCS) over five years



- The audit opinion for 2018-19 was qualified on commitments and irregular expenditure. Commitments were also a qualification area in 2017-18.
- Annual financial statements preparation remains a concerns as material adjustments had to be effected to the annual financial statements submitted for audit purposes.



Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)



2018-19

Yes

2017-18

Yes

Financial statements submitted without errors



No

No

Quality of final submission after audit



No

No

Qualification areas

- Commitments:

The department did not maintain accurate and complete records of the contractual information used to determine commitments.

- Irregular expenditure:

Completeness of irregular expenditure. The department did not have an adequate system for identifying all irregular expenditure.





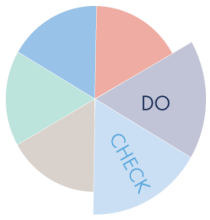
Credible performance reporting



Performance report

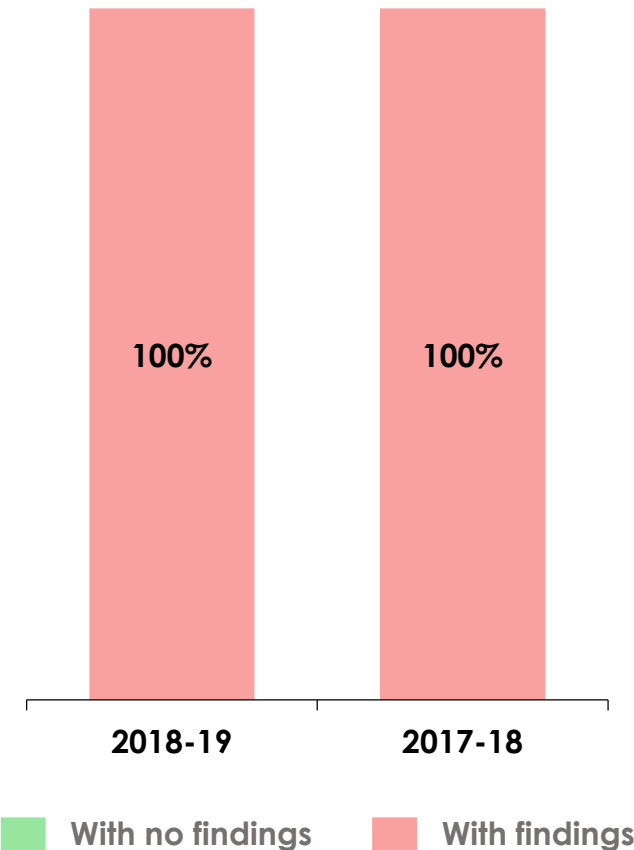
| | Movement | 2018-19 | 2017-18 |
|--|----------|---------|---------|
| Performance report submitted without errors | ▶ | No | No |
| Quality of final submission after audit | ▶ | No | No |
| Reliable reporting of achievements | ▶ | No | No |
| Usefulness of performance indicators and targets | ▶ | No | No |





Disregard for compliance with legislation

Findings on compliance with key legislation



Top five non-compliance areas

- Management of procurement and contracts
- Quality of financial statements
- Prevention of unauthorised, irregular and fruitless and wasteful expenditure
- Implementation of a system to monitor progress with the annual performance plan and performance management
- Consequence management - Against officials who had incurred irregular or fruitless and wasteful expenditure



Status of internal control



Leadership

Oversight responsibility

Audit action plans

Proper record keeping

Daily and monthly controls

Review and monitor compliance

Audit Committee

Risk management

Financial and performance management

Governance

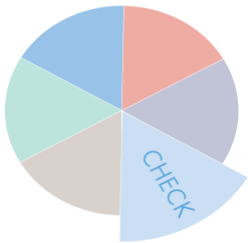


 Good

 Of concern

 Intervention required

13



Assurance provided

Assurance

First level

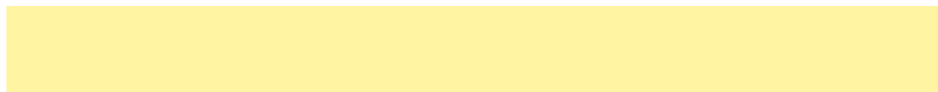
Senior management



Accounting officer



Executive authority



Second level

Internal audit unit



Audit committee



Financial health and financial management



Financial health

Revenue management

- Collection of debt – inability to collect monies owed and the resultant impairment of receivables due to the amount owed being irrecoverable.

Asset and liability management

- Accrual adjusted deficit for the year – this may also correlate to an overspending of the auditee's operating expenditure budget. Measures must be implemented to address this situation to ensure sustainable service delivery and financial viability.
- Current liabilities exceeding current assets indicating liquidity issues, which means that they may not be able to pay their creditors as payments become due.

Cash management

- Negative cash balance – possible cash flow constraints resulting in a higher risk in the event of financial setbacks, and the ability of the auditee to meet its obligations to provide basic services and its financial commitments will be compromised.



Of concern



Intervention required

Unauthorised expenditure

Definition

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

Unauthorised expenditure incurred by entities in portfolio

**Unauthorised
expenditure**

**The department did not incur any
unauthorised expenditure during the
2018-19 and 2017-18 financial years**

2018-19

2017-18

Nature of unauthorised expenditure

An amount of R121 000 unauthorised expenditure originating in 2015-16 is awaiting approval by Parliament.

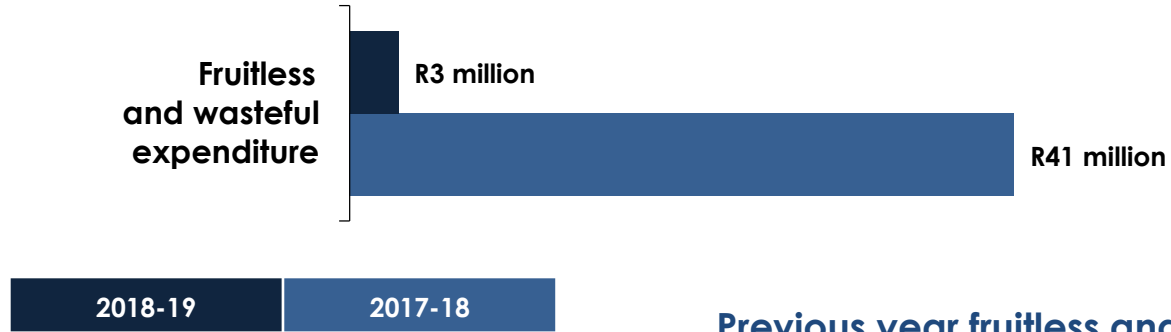


Fruitless and wasteful expenditure decrease over two years

Definition

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

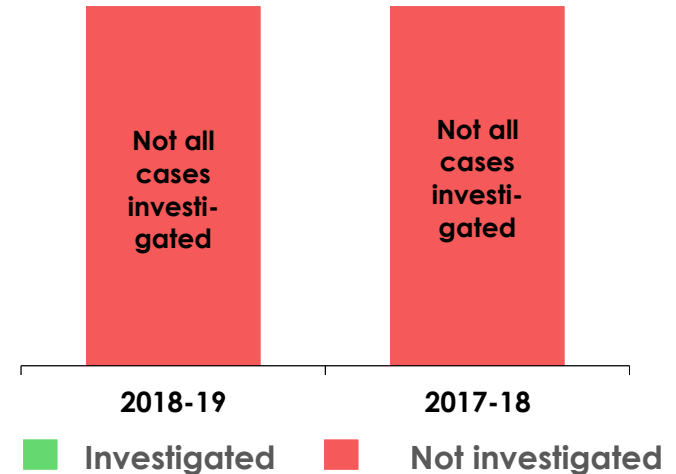
Fruitless and wasteful expenditure incurred by the Department of Correctional Services



Nature of the fruitless and wasteful expenditure

- Fruitless and wasteful expenditure was incurred as a result of interest paid relating to court orders and arbitration awards.*

Previous year fruitless and wasteful expenditure reported for investigation

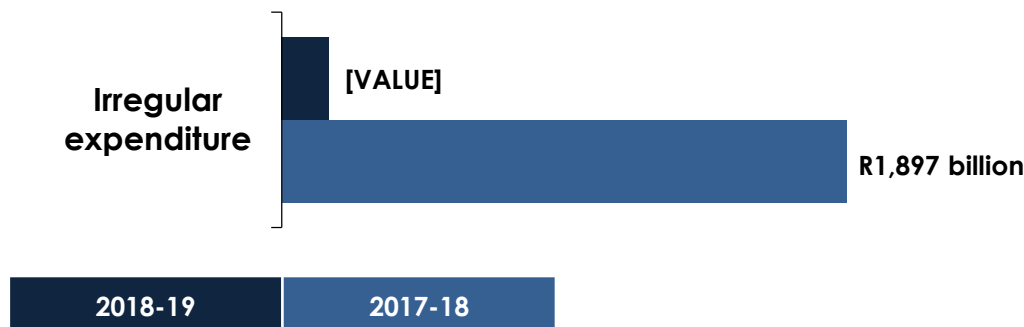


Irregular expenditure expenditure decrease over two years

Definition

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

Irregular expenditure incurred by the DCS

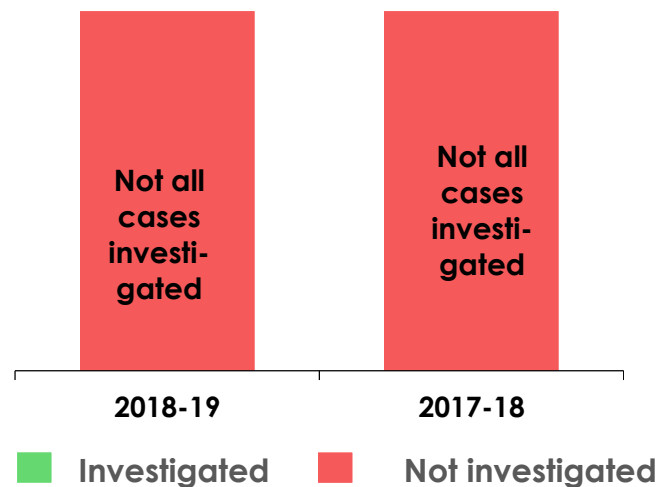


The current year amount is not complete due to the qualification on completeness of irregular expenditure.

Nature of irregular expenditure

- *Competitive bidding process not followed*
- *Non-compliance with SITA Act*
- *Three price quotations not obtained*
- *Contract variation in excess of 20%*
- *Splitting of orders*

Previous year irregular expenditure reported for investigation





Fraud and lack of consequences

Allegations of financial and/or fraud and SCM misconduct



- 2017-18 – no fraud-related cases were identified in the department.
- 2018-19 – 36 possible fraudulent cases were identified by the department, these cases are in the process of being investigated.

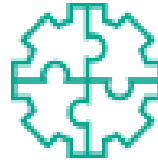
Portfolio snapshot (2018-19)



Clean audits: 0%
(2017-18: 0%)



Financially unqualified financial statements: 0%
(2017-18: 0%)



No findings on performance reports: 0%
(2017-18: 0%)



No findings on compliance with legislation: 0%
(2017-18: 0%)



Irregular expenditure: R159 million
(2017-18: R1,879 billion)

Root causes

Slow or no response to improving key controls and addressing risk areas



The accounting officer and senior management do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

Inadequate consequences for poor performance and transgressions



If officials who deliberately or negligently ignore their duties and contravene legislation are **not held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.

Instability or vacancies in key positions



The **instability** and **prolonged vacancies in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.

Recommendations

To department

- Design and implement an action plan to resolve audit findings.
- Management should follow up on progress with implementation of the action plan.
- Fill key vacant positions.
- Implement consequence management for incurring fruitless and wasteful expenditure and irregular expenditure and other cases of financial misconduct.

To the portfolio committee

- Provide oversight into the implementation of action plans to address audit matters.
- Monitor implementation of consequence management.



Key expansion of our mandate



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.**



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

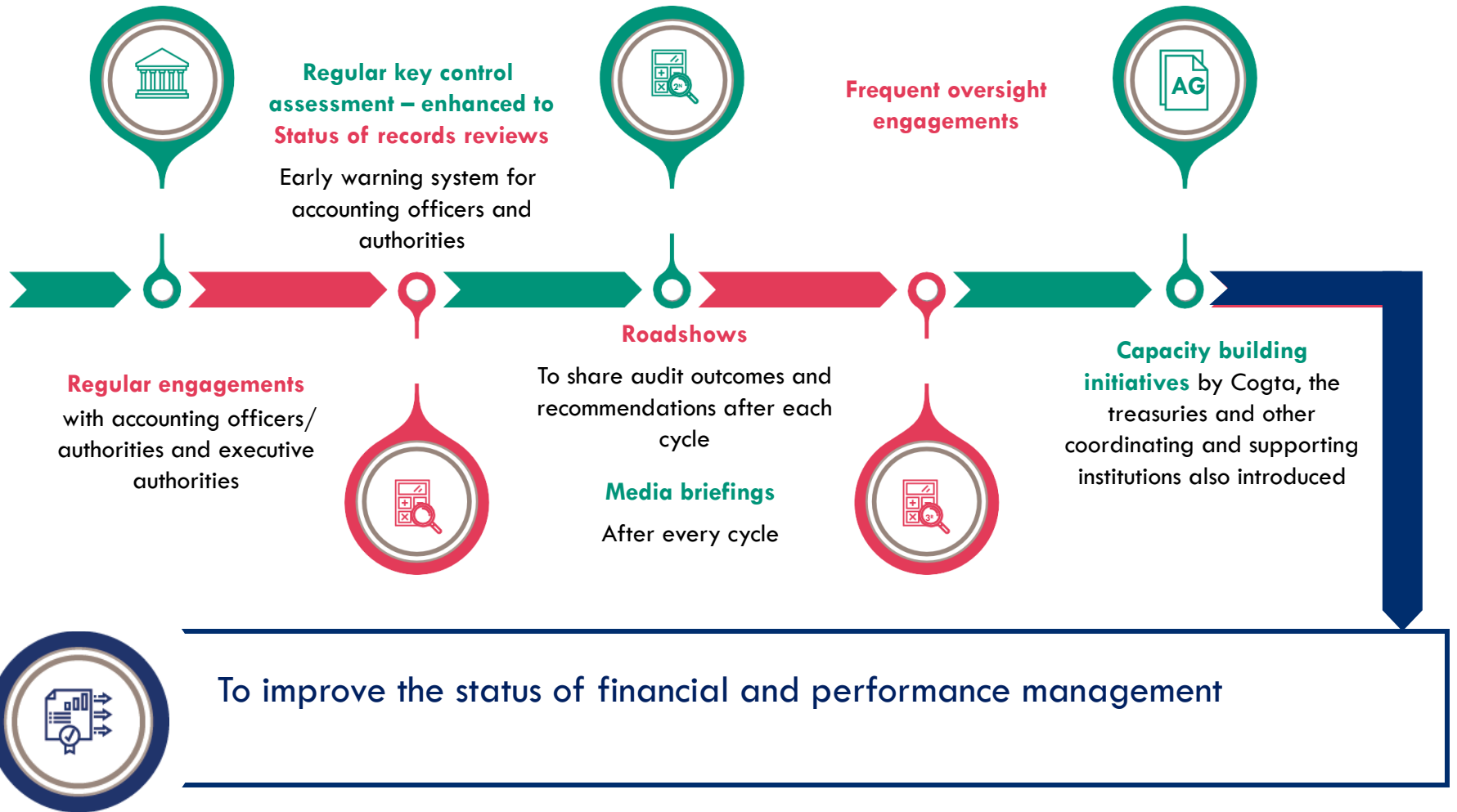


Material irregularity identified

Material irregularity identified at department in the portfolio

- *No material irregularities were identified at the department*

Additional efforts were introduced



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