



**PFMA** 2016-17



# Budgetary review and recommendations report

Audit outcomes for the Public Service and Administration portfolio

10 October 2017



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*

# 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).









**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

*"Plan-Do-Check-Act Cycle", also the Deming cycle , courtesy of the International Organization for Standardization*





**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

1

# The AGSA's Public Audit Act Promise and Focus



Our annual audits examine 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



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



# The AGSA expresses the following different audit opinions:

## Unqualified opinion with no findings (clean audit)



- Auditee:
- Credible and reliable financial statements that are free of material misstatements
  - Useful and reliable performance as measured against predetermined objectives
  - complied with key legislation

## Financially unqualified opinion with findings



- Auditee:
- Credible and reliable financial statements that are free of material misstatements
  - Did not produce useful and reliable performance as measured against predetermined objectives
  - Did not comply with key legislation

## Qualified opinion



- Auditee:
- had material misstatements on specific areas in their financial statements, which could not be corrected before the finalisation of the audit report.

## 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



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## The 2016-17 audit outcomes and key messages









# CONTENTS

- Audit outcomes for PSA portfolio
- Audit outcomes
  - Financial audit
  - Conclusion on AOPO
  - Compliance
  - Root causes
  - Status of internal controls
  - Unauthorised, irregular, fruitless and wasteful over three years
  - Assurance providers
- Status of key commitments by Minister








# The percentages in this presentation are calculated based on the completed audits of 5 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

Movement over a period is depicted as follows:

-  Improved
-  Unchanged
-  slight improvement
-  slight regression
-  Regressed

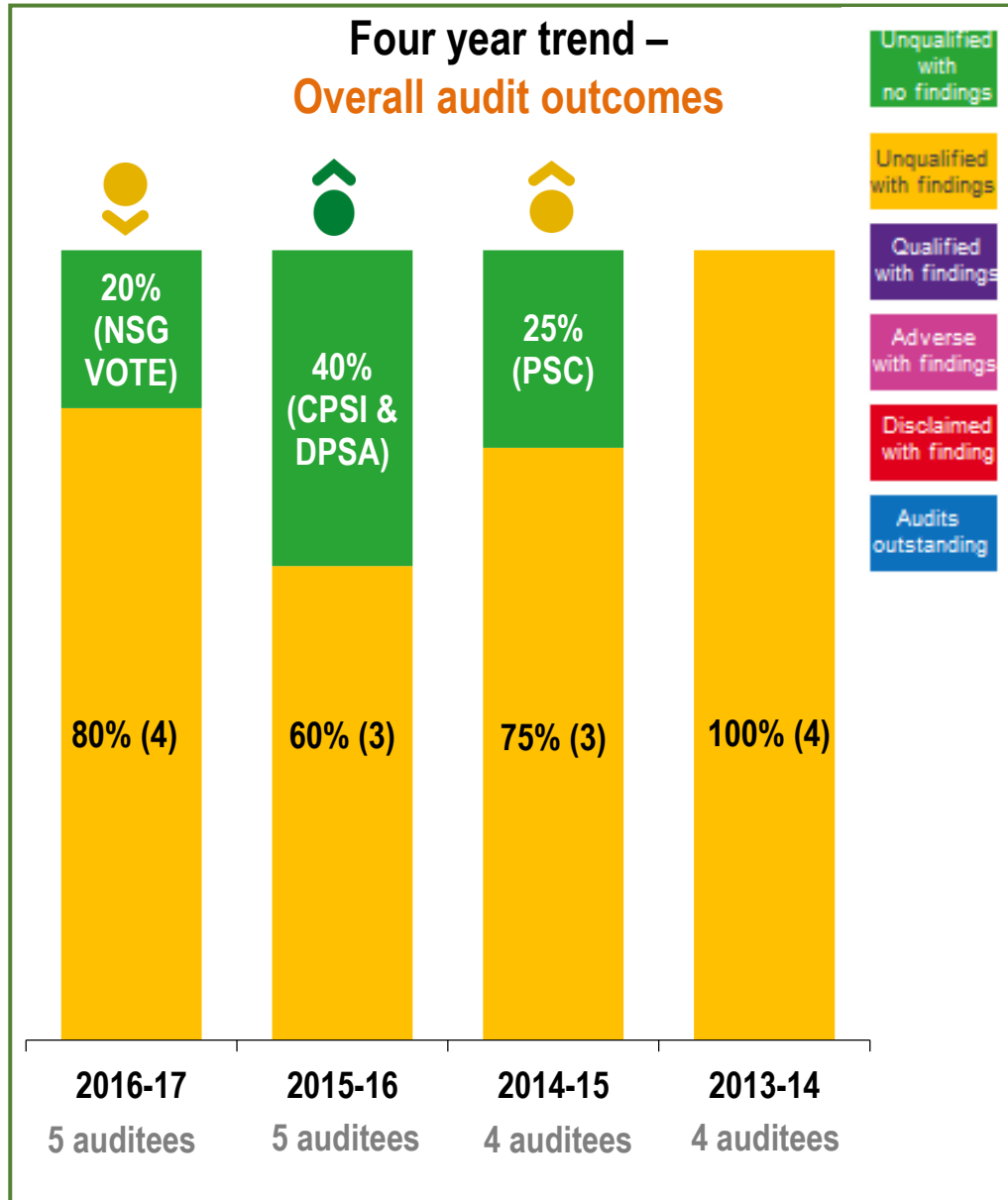




# Audits considered for the 16/17 audit outcomes

- The following audits are included in this audit outcomes discussion:
  - Department of Public Service and Administration (DPSA)
  - National School of Government (NSG VOTE)
  - National School of Government Training Trading Account (NSG TTA)
  - Centre for Public Service Innovation (CPSI)
  - Public Service Commission (PSC)

# Regression in overall audit outcomes over four years



1

To improve the **overall audit outcomes**, financial statements processes.....

- The graphic depicts a situation whereby improved audit outcomes are not being sustained from one year to the next.
- Management must implement pro-active measures to provide comfort that internal control processes are constantly being assessed to ensure that these are still relevant.

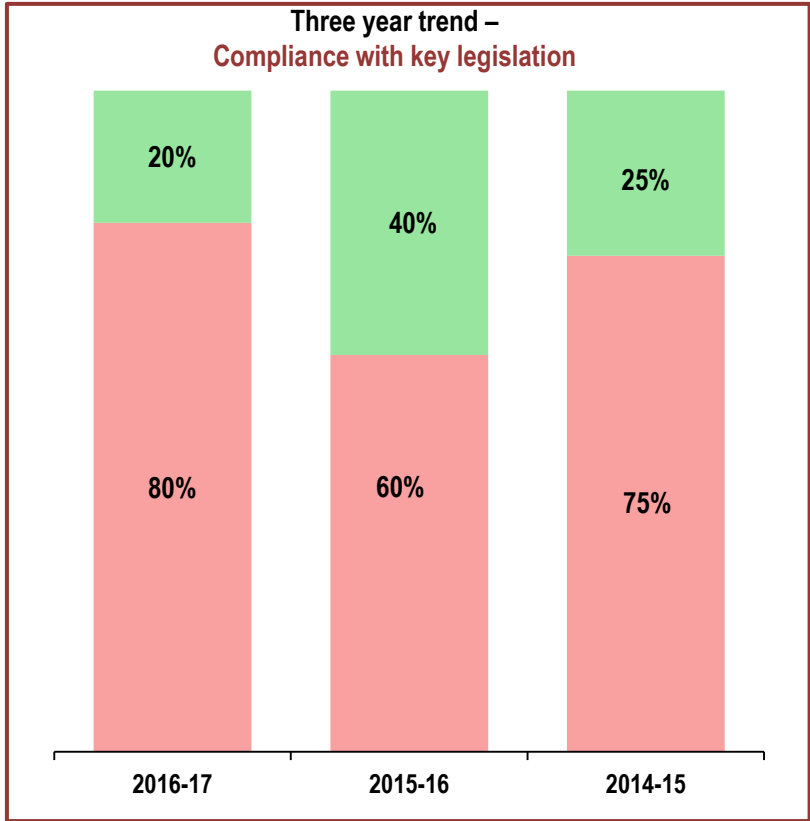


**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

• 2013/14 & 14/15 – CPSI's audit outcomes are not shown separately from the DPSA.

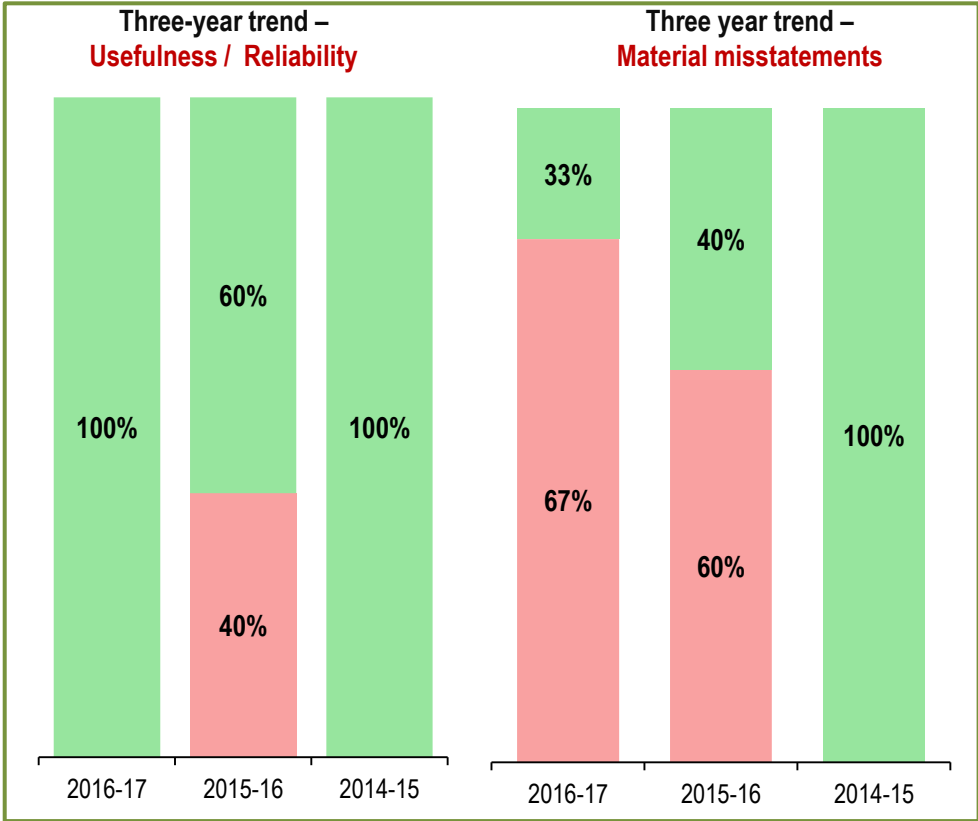
**PFMA**  
2016-17

# Regression in audit outcomes in the current year



2 ..... compliance with key legislation and....

- Compliance with legislation in the portfolio reveals an unsustainable trend.
- The slight improvement in the previous financial year was not maintained by the DPSA and CPSI in the current financial year as both entities had material non-compliance matters.
- The PSC and NSG TTA have been stagnant in this area in the past 2 years.





3 ..... performance reporting must be improved by....

- Management of the NSG (Vote and TTA) implemented recommendations made with the result that the consistency matter identified in the previous financial year was addressed. There is a declining trend in that the annual performance reports submitted for audit are increasingly requiring material corrections through the audit process. Only the CPSI has defied this trend.
- Improved oversight is required over the performance management information preparation and reporting process.





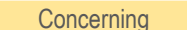


# Movement table (2016-17 over 2015-16)

<div>Movement </div> <div>Audit outcome </div>	<div>1</div> <div>Improved</div>	<div>2</div> <div>Unchanged</div>	<div>2</div> <div>Regressed</div>	<div>0</div> <div>New auditee</div>	<div>0 + 0</div> <div>Outstanding audits</div>
Unqualified with no findings = 1	NSG VOTE				
Unqualified with findings = 4		NSG TTA PSC	DPSA CPSI		
Qualified with findings = 0					
Adverse with findings = 0					
Disclaimed with findings = 0					



# Status of internal control

Status of key controls					
	DPSA	CPSI	NSG VOTE	NSG TTA	PSC
<b>LEADERSHIP</b>	↑	→	→	→	→
- Effective leadership	Good	Good	Good	Good	Good
- Oversight responsibility	Good	Good	Good	Good	Good
- Effective HR management	Good	Good	Good	Good	Good
- Policies and procedures	Good	Good	Good	Good	Good
- Audit Action plans	Good	Good	Good	Good	Good
- ICT governance	Concerning	Good	Good	Good	Good
<b>FINANCIAL AND PERFORMANCE MANAGEMENT</b>	→	→	↑	↓	↓
- Proper record keeping	Good	Good	Good	Good	Concerning
- Daily and monthly controls	Good	Good	Good	Good	Good
- Regular, accurate & complete financial and performance reports	Good	Good	Concerning	Concerning	Concerning
- Review and monitor compliance	Good	Good	Good	Good	Good
- Design and Implement IT controls	Concerning	Good	Concerning	Concerning	Good
<b>GOVERNANCE</b>	↑	→	→	→	↓
- Risk management	Good	Good	Good	Good	Good
- Internal Audit	Good	Good	Good	Good	Concerning
- Audit committee	Good	Good	Good	Good	Good
 Improved  Stagnant  Regressed  Good  Concerning					

...the key role players providing attention to the **key controls** ...



Key controls in the following areas need to be strengthened:

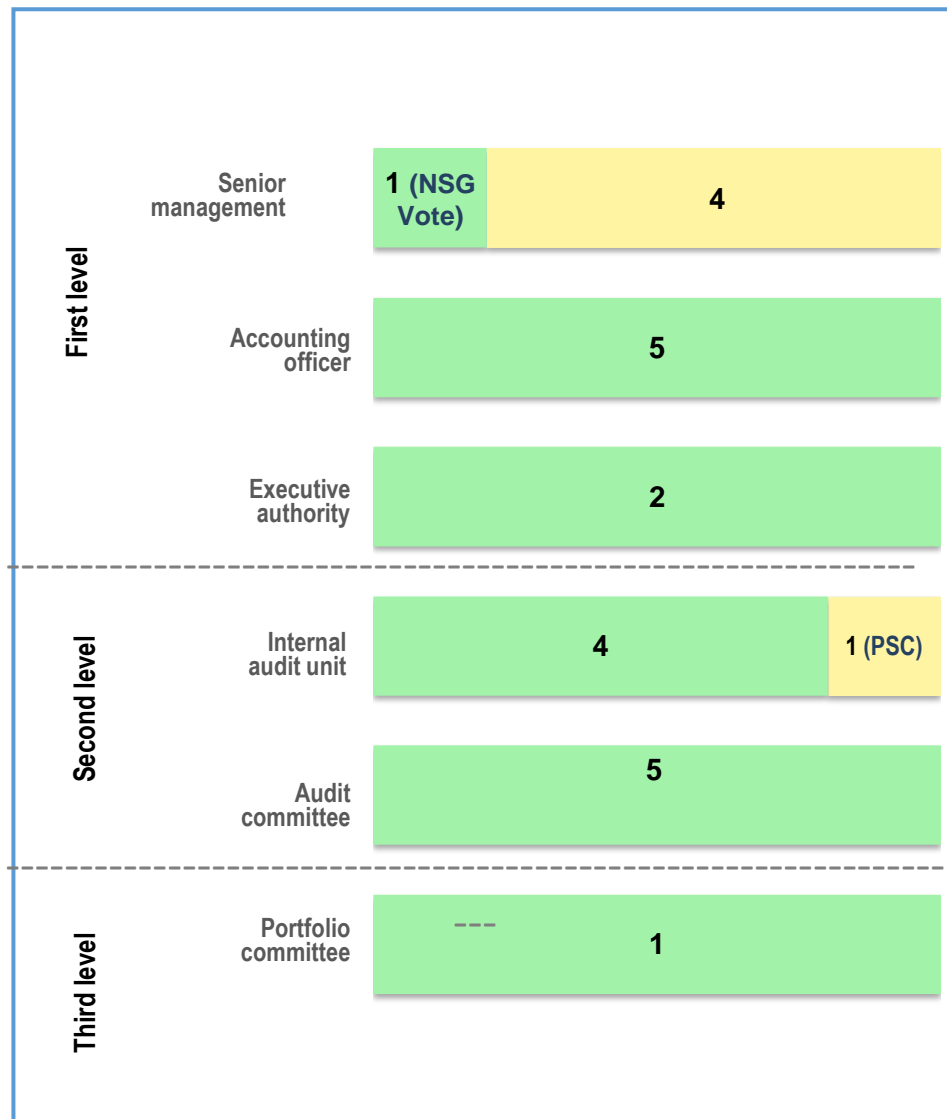
Leadership and Financial and performance management

Monitoring activities that focus on the entities' response to changes in key legislation is required to ensure that policies and procedures are aligned to the legislative requirements, this is particularly important in the SCM environment. (DPSA, CPSI, PSC,)

The financial statements (PSC, NSG TTA) and annual performance report (DPSA, NSG, NSG TTA, PSC) contained misstatements. Findings on information systems technology were identified at the DPSA, NSG and NSG TTA.

# Assurance providers

## Assurance providers per level



... as part of their role in **combined assurance**

2

- Senior management at DPSA, NSG TTA, PSC and CPSI should take immediate action to address specific recommendations in order to improve the audit outcomes in the portfolio.
- The audit committee and the minister and executive authority of the PSC have provided assurance in terms of oversight .
- The internal audit function is mature in most entities. At the PSC, the internal audit function can be more effective in terms of the financial information preparation processes and in SCM processes.

Improved
 Stagnant
 Regressed

Provides assurance

Provides some assurance

3

## Performance management linked to programmes tested



# DPSA Quality of APP and analysis of expenditure per programme

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	% Spending
Programme 1- Administration	Not audited	Not audited	-	227 978	98.8%
Programme 2- Policy Development, Research and Analysis	Not audited	Not audited	-	30 417	95.8%
Programme 3- Labour Relations and Human Resource management	No material findings	No material findings	X	73 003	90.5%
Programme 4- Government Chief Information Officer	No material findings	No material findings	X	17 356	91.7%
Programme 5-Service Delivery Support	No material findings	No material findings	X	157 164	98.6%
Programme 6 – Governance and Public Administration	No material findings	No material findings	X	273 928	99.2%
<b>Totals</b>				<b>779 846</b>	<b>97.9%</b>





# NSG Vote and TTA Quality of APP and analysis of expenditure per programme

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	% Spending
Programme 1- Administration	Not audited	Not audited	-	88 590	99%
Programme 2- Public Sector Organisational and Staff Development	No material finding	No material findings	X	211 191	92.3%

*NB. Programme 2 is not included in the annual appropriation, it consists of self-funding from the revenue generated by the Trading Account (the amount included in the table above excludes transfer payments – refer to Statement of Comparison between budget and actuals in the TTA's annual financial statements.*



# CPSI Quality of APP and analysis of expenditure per programme

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	% Spending
Programme 1- Administration	Not audited	Not audited	-	18 279	98%
Programme 2- Public Sector Innovation	No material finding	No material findings	-	13 815	97.7%
Totals				32 094	97.9%



# PSC Quality of APP and analysis of expenditure per programme

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	% Spending
Programme 1- Administration	Not audited	Not audited	-	106 179	100%
Programme 2- Leadership and management practices	No material finding	No material findings	X	37 504	99.8%
Programme 3- Monitoring and evaluation	No material finding	No material findings	-	34 349	99.7%
Programme 4- Integrity and anti-corruption	No material finding	No material findings	X	51 201	100%
<b>Totals</b>				<b>229 233</b>	<b>99.9%</b>

Kindly refer to page xxx of the annual report for the detail of where management has reported on the their achievement of the above targets for each programme as included in the Annual Performance Report.



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## Compliance with laws and regulations



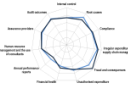


# Conclusion on compliance with laws and regulations

Entity	Non-compliance
<b>DPSA</b>	<p><b>Expenditure management</b> Effective steps were not taken to prevent irregular expenditure amounting to R3 361 455 as disclosed in note 24 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.</p> <p><b>Procurement and contract management</b> Certain goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.</p>
<b>NSG TTA</b>	<p><b>Annual financial statements, performance and annual report</b> The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1) (a) and (b) of the Public Finance Management Act. Material misstatements for commitments, cash and cash equivalents, payables from exchange transactions and revenue from exchange transactions identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.</p>
<b>CPSI</b>	<p><b>Procurement and contract management</b> Contracts were extended or modified without the approval of a properly delegated official as required by Treasury Regulation 8.1 and 8.2. / section 44 of the PFMA.</p>
<b>PSC</b>	<p><b>Procurement and contract management</b> In some instances bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1). In some instances commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1).</p>



# Unauthorised expenditure over three years



*Nature*

No unauthorised expenditure was incurred by the auditees in the portfolio over the last 3 financial years.

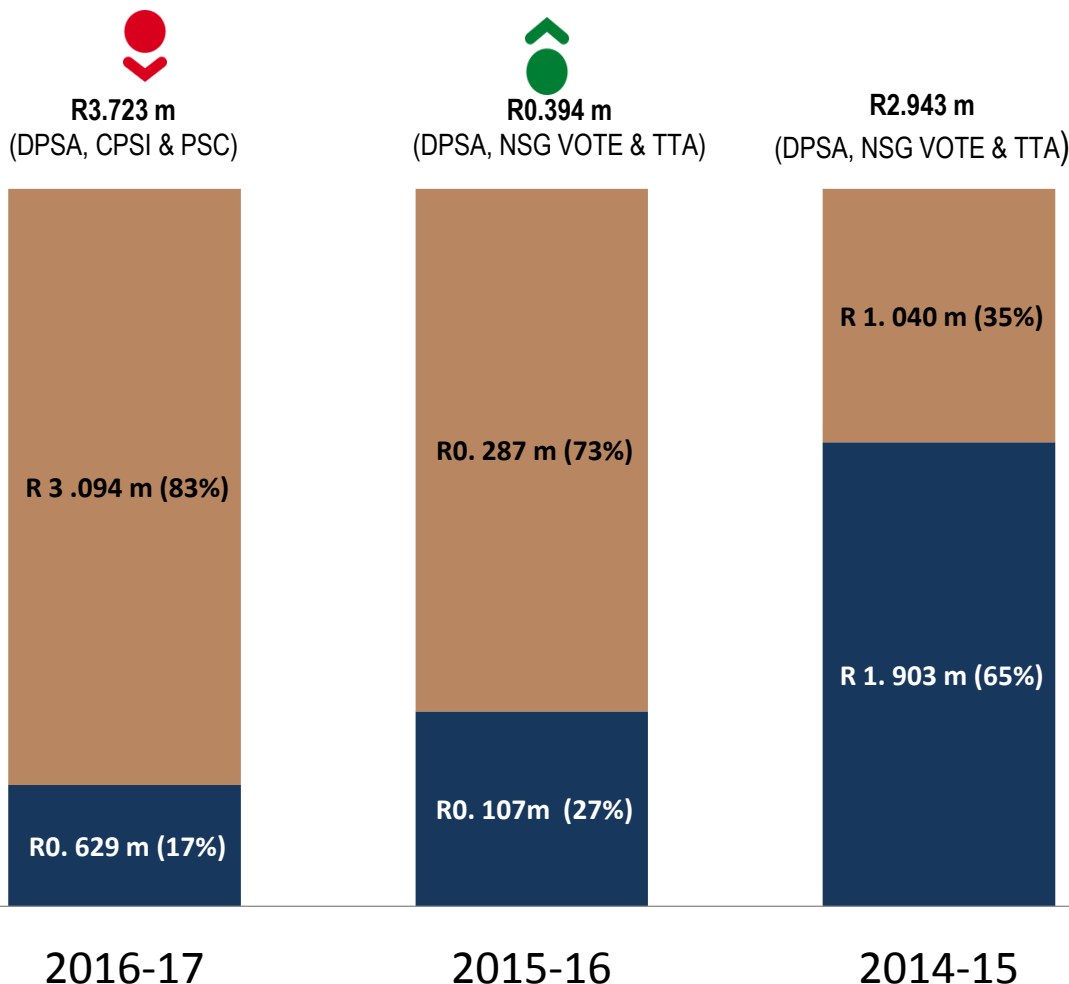
With no UE =

100%

# Irregular expenditure over three years

With no IE =

40%



## Nature

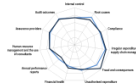
- 82% of occurrences caused by **non-compliance with SCM legislation**
- **Main areas of non-compliance** within SCM that caused irregular expenditure:
  - Procurement without competitive bidding or quotation process (74%)
  - Non-compliance with procurement process requirements (22%)
  - Non-compliance with legislation on contract management (3%)
  - Other – non SCM related (1%)

## Highest contributors

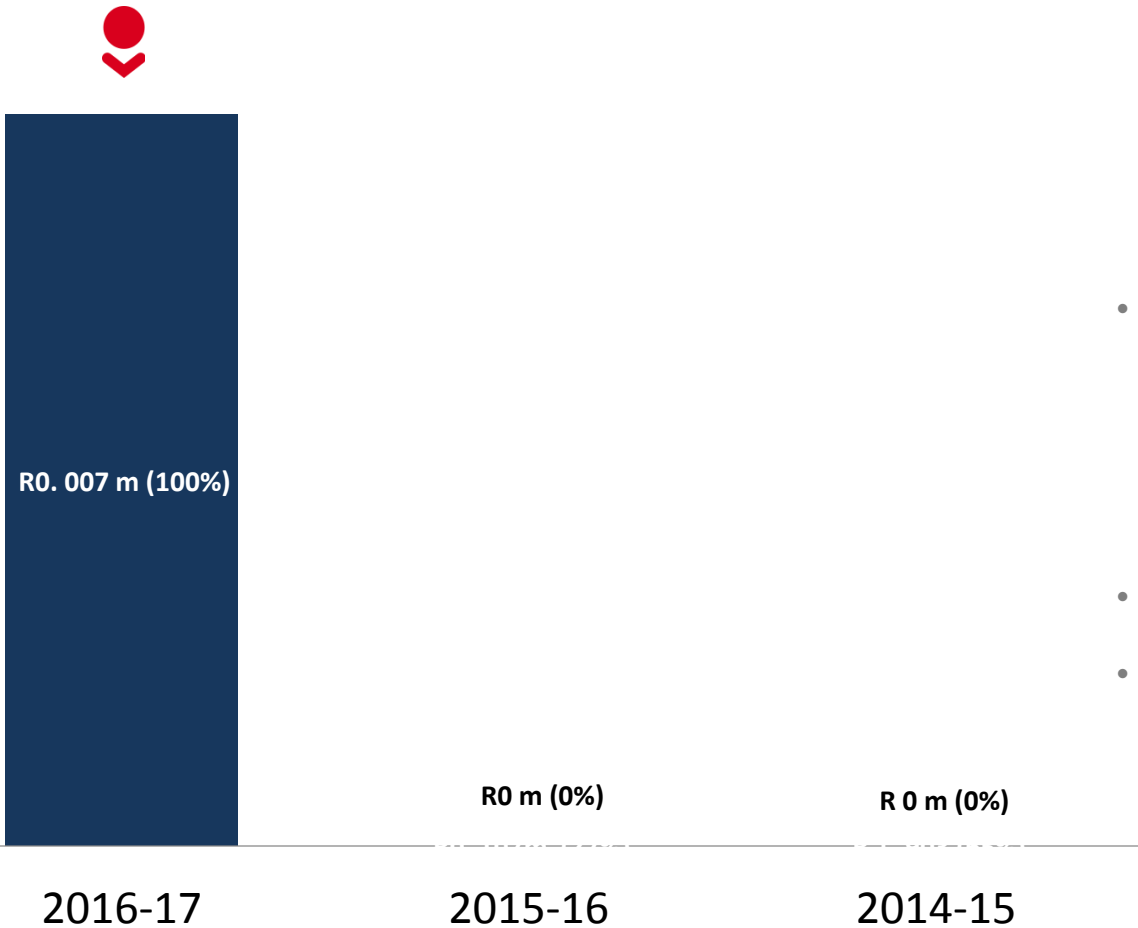
- **DPSA** – R3.361 million (2015-16: R0.107 million)

Identified by auditees
  Identified during audit

# Fruitless and wasteful expenditure over three years



With no FWE = **80%**



### Highest contributors

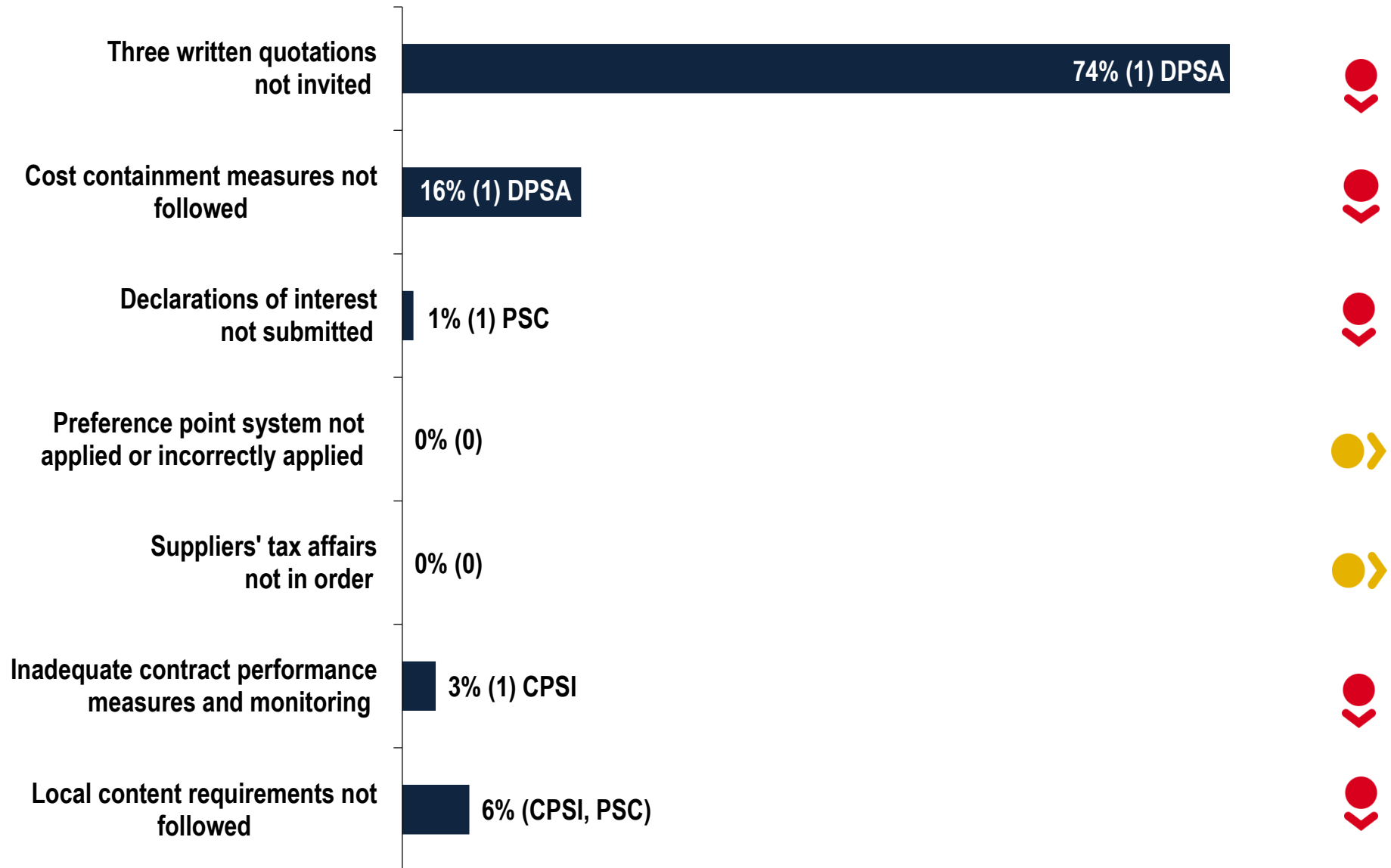
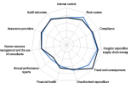
- **DPSA**  
R0.007 million (2015-16: R0 million)

### Nature

- Interest charged on late payments
- Cancellation of hotel bookings

 Identified by auditees  Identified during audit

# Most common findings on supply chain management



# Recommendations for improving SCM findings



- SCM practitioners to ensure that **policies and procedures** are updated and aligned **to legislation**.



- Submit **regular reports** to management and governance structures on compliance with key legislation



- **Corrective or disciplinary** action for misconduct



- Focus on **preventing irregular expenditure and non-compliance** – this should be a key performance measure in senior officials' contracts



# Fraud and consequence management

- None of the auditees in the PSA portfolio had findings on non-compliance with legislation on consequence management.



Investigated



Not investigated





5

**Top three root causes, follow up  
on commitments and proposed  
recommendations**



# Root causes

Best practices =

20%

Slow response  
to improving  
key controls and  
addressing risk areas

80% (4)



Inadequate  
consequences for  
poor performance  
and transgressions

Instability or vacancies  
in key positions

- Management (accounting officers and senior management), the political leadership (executive authorities) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.
- The following is required:
  - PSC, NSG TTA
    - Address the slow response by management
    - Monitoring of action plans and key controls on a regular basis.
    - Basic financial disciplines and monthly processing and reconciling of transactions.
  - DPSA, CPSI
    - Ensure that there is monitoring of compliance with key legislative changes in order to be able to respond to these in a pro-active manner.



# Root causes

# Status of key commitments by Minister

PFMA  
2016-17

1

The following **root causes** must be addressed ...

## Root causes

Slow response by management - the non-compliance matters can be addressed through improved oversight that ensures policies and procedures are aligned to key legislation



2

... by honouring the following **commitments** made by the executive authority...

Commitments will be obtained in the planned engagements with the executive authority.



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# Proposed recommendations for implementation by Portfolio Committee

- PC must request management to provide feedback on the implementation and progress of the action plans to address the audit outcomes for the PSA portfolio during quarterly reporting and monitor the progress of actions implemented.
- A list of action taken against transgressors must be provided quarterly to PC for follow up for all irregular and fruitless and wasteful expenditure incurred in relation to the PSA portfolio
- The PC should monitor implementation of commitments by accounting officers and Executive Authority



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## AGSA audit methodology improvements



# AGSA audit methodology improvements

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 & 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



# AGSA audit methodology improvements (cont.)



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



Numerous local and international discussions

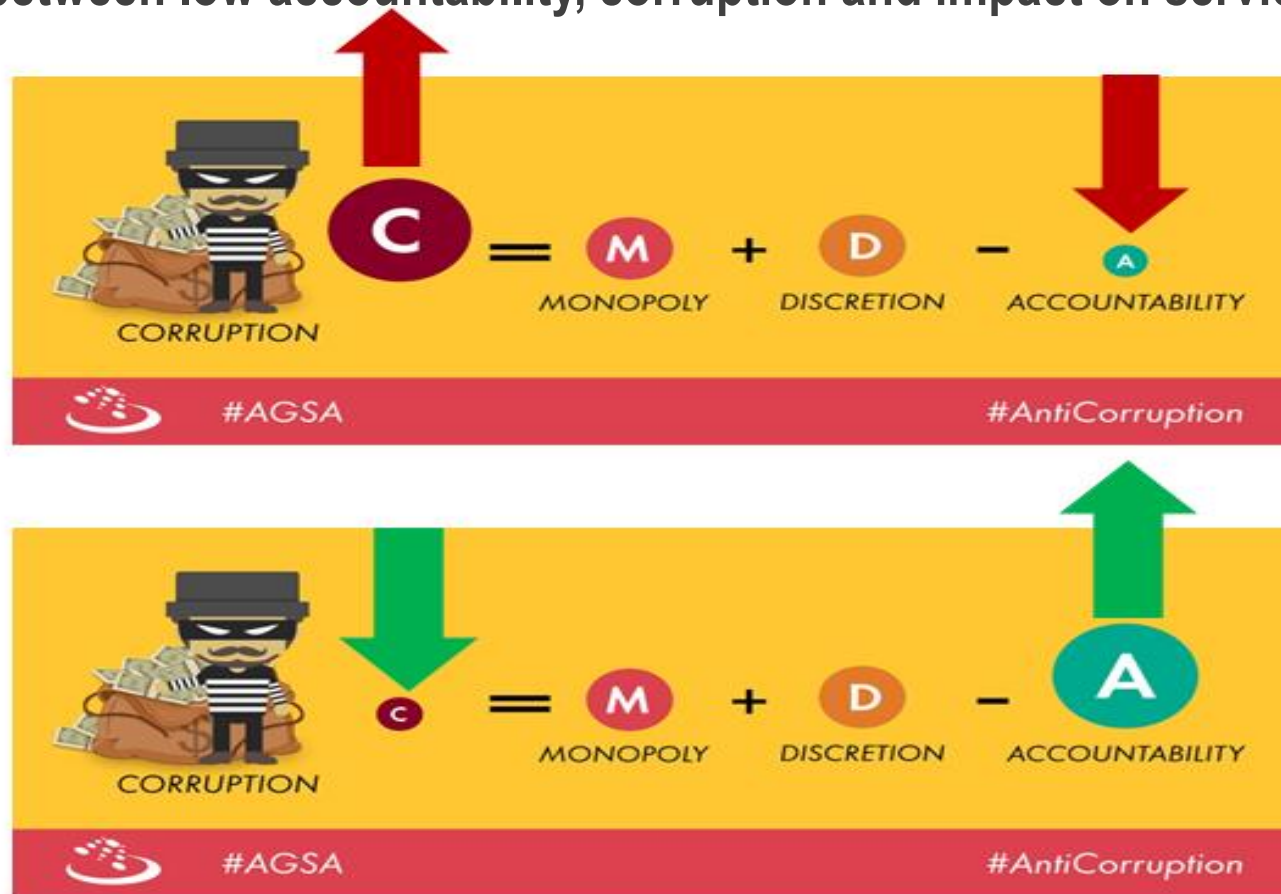


Thousands of hours of testing

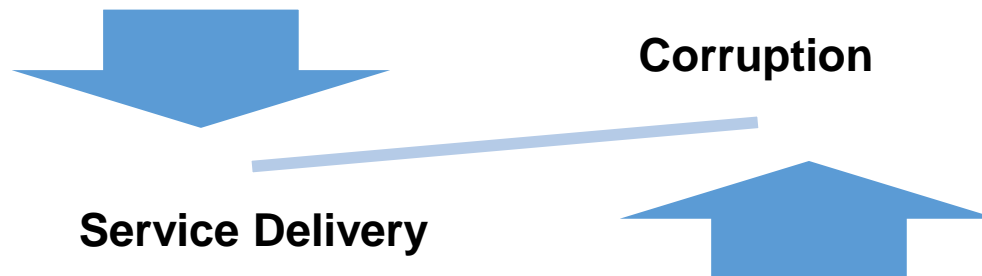
The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.



# Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



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