



AUDITOR-GENERAL
SOUTH AFRICA

DEPARTMENT OF COOPERATIVE GOVERNANCE 2018-19 Audit Outcomes

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19 February 2020

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



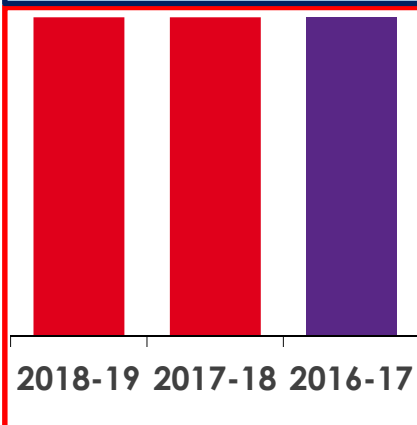
Auditee:

- 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**



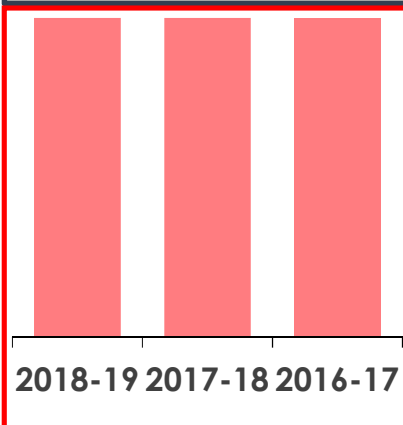
Overall audit outcomes

Financial audit outcomes



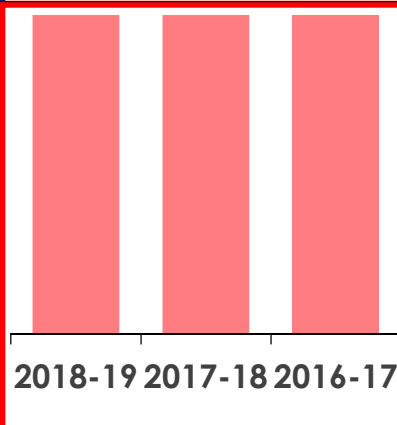
■ Qualified with findings
■ Disclaimer with findings

Compliance audit findings



■ Compliance findings

Performance information findings



■ PDO findings

PAA implementation outcomes: reported material irregularities

- ☐ **Six material irregularities** identified and reported.
 - CWP payments to **“ghost” participants**
 - **Unsubstantiated payments** to implementing agents.
 - Payments to the **wrong entity**
- ☐ **Reasonable corrective action** proposed by the accounting officer.
- ☐ No re-issue but the **new accounting officer** to be afforded an opportunity to implement agreed corrective actions.
- ☐ **Status** to be determined by **end Feb 2020**

Poor audit outcomes are due to the following, among other causes:

- **Previous action plans** did not address the **root causes** of the issues raised and **slow progress** towards implementation.
- Lack of adequate **record keeping, internal control processes** and **supervision** and **monitoring** across the department.
- CWP leadership instability evidenced in poor **oversight** and **weak monitoring** of payments to agents and participants.
- Some of the errors in the AFS are indicative of **lack of attention or requisite expertise** within the finance department.
- **No indication of corrective actions** taken to address substandard performance and to deal with lack of progress.
- Lack of consequences seems to be the **cause for lack of sense of urgency** in implementing recommendations.
- Poor record keeping resulting in **accurate and complete information to support achievements** not submitted.



Summary of key issues in the AFS and Compliance

Credibility of AFS



Financial statements

- Financial statements were not submitted within the legislated date.
- The submitted set contained basic accounting errors.
- Quality of final submission after audit still contained misstatements.



Qualification areas:

- Goods and services: Payments to CWP project management and participants not supported
- Moveable tangible capital assets: Could not verify assets on the floor as well as the confirm the inclusion of assets in the register
- Prepayment and advances: No supporting evidence to support the balance disclosed
- Accruals and payables not recognized: Evidence to support the accruals not submitted as well as adequate systems to maintain records of accounts payable
- Irregular expenditure: Prior period adjustment to irregular expenditure not supported

Overall compliance findings

Annual financial statements, performance and annual reports

- Financial statements were not submitted for auditing within two months after the end of financial year.
- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records.

Expenditure management

- Effective internal controls were not in place for approval and processing of payments.
- Payments were not made within 30 days or an agreed period after receipt of an invoice.

Consequence management

- Disciplinary steps were not taken against the officials who had incurred or permitted irregular expenditure

Supply chain management

SCM compliance 2018-19: 100% decrease in material SCM findings due to departure

Most common findings on supply chain management

- Deviations not properly supported.
- Local content requirements not met.
- Payment made for goods not delivered.
- Proper procurement processes not followed.

DCoG received a departure from National Treasury. This will in effect **exempt all SCM non-compliance identified** relating to the CWP programme in the audited financial year 2018-19.

The irregular expenditure **balance has not been updated** to reflect the departure as some CWP irregular was included in the year end balance and still has to be removed as the departure was received from National Treasury **October 2019**.

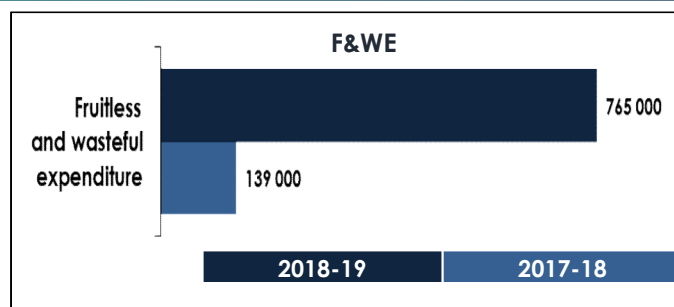
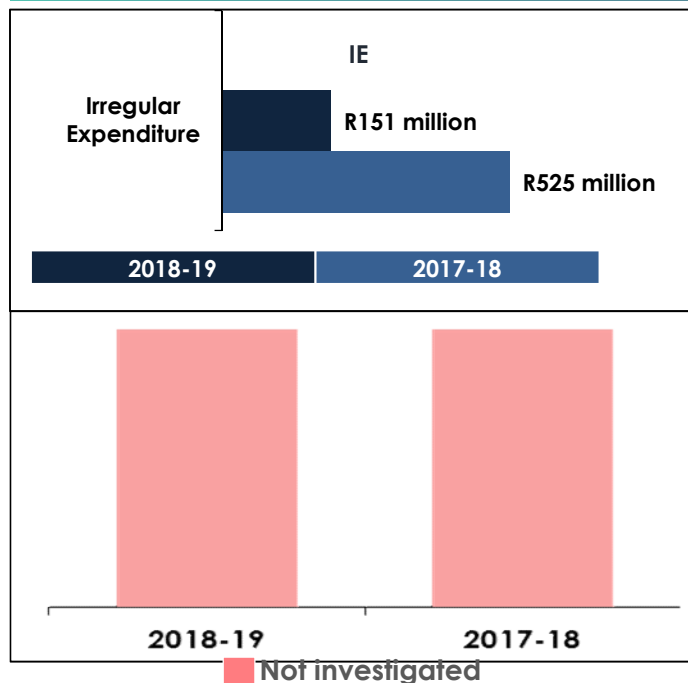


Summary of key issues in the performance information audit

Programme	Budget spent	Achievement of programme	Unauthorised, irregular and fruitless and wasteful expenditure	Material misstatements corrected	Comments
Regional and urban development and Legislative support (Programme 2)	99.9%	50%	None identified	No	The supporting evidence provided did not agree to the reported achievement.
Institutional development (Programme 3)	96.8%	100%	None identified	No	Sufficient audit evidence for the reported achievements in the annual performance report was not available. This was due to a lack of indicator descriptions in the performance plan that support the indicator outcomes required, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported.
Community work programme (Programme 6)	86.4%	67%	None identified	No	

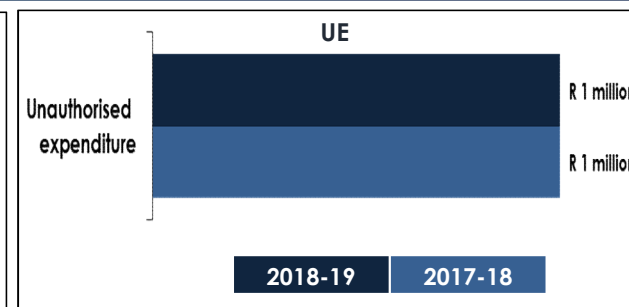


Irregular, unauthorised, fruitless and wasteful expenditure



F&WE: (Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money)

- Relates to **non-attendance of training by the CWP participants**. The increase is due to **last year's F&WE** identified & included in the 18-19
- Not investigated** by end of 2018-19.



UE: (Expenditure not in accordance with the budget vote/ overspending of budget or programme)

- UE of R1,123 million relates disputes and claims on ranking of kingships. It is not yet resolved but it has been **referred to National Treasury** and Parliament.

IE: (Expenditure incurred in contravention of key legislation i.e. goods maybe received but prescribed processes not followed)

- The majority of the IE incurred **related to CWP** and **payments made on expired contracts**. In the current financial year, 100% of the IE incurred was as a result of the **contravention of SCM legislation**. Irregular expenditure has decreased due to the departure granted by National Treasury relating to the CWP payments by implementing agents.
- There is **lack of discipline to ensure compliance** which led to an increase irregular expenditure. Recommendations from forensic investigations conducted in the past years were not implemented timeously. Total **IE balance is R2,556 bn**. Of the total balance, **R753mil** relating to the appointment IA was **regularized** by NT leaving a balance of **R1,803 bn not dealt with**.



Preventative controls

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Preventative controls



Typical auditee business processes



Supply chain management



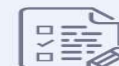
Contract management



Payments



Employee processes and payroll



Assets and liabilities management



Revenue management



Preventative controls



Built on **strong control** environment with assurance provided by:

Senior management

Accounting officer/
authority

Internal audit unit and audit committee

Preventative controls not designed or implemented or not working effectively

Material irregularity and poor audit outcomes

Consequences

Financial loss

Costly investigation

Disciplinary processes

Litigation



Fundamentals of strong preventative controls

1. Leadership that inspires a **culture of ethical behaviour and commitment** to good governance

2. **Adequate and sufficiently skills officials** who instill confidence toward effective and consistently functioning of internal controls

3. **Comprehensive policies and procedures** that empowers the employees to perform their day to day duties with ease

4. **Mechanisms for officials to report any pressure or influence** directed towards them not to act in line with the set policies and procedures

5. **Regular risk assessment** accompanied with **response** measures that are monitored on a regular basis

6. **Combined assurance model** where all assurance providers; i.e. Senior management, internal audit function and audit committee are working toward the same goal to strengthen controls through monitoring and oversight.



Example: DCoG preventative controls

Example: **Unsupported pre-payments** due to the following instances:

- **Pre-payments made to implementing agents** not supported by evidence in the annual financial statements

Planning

- **Inadequate planning** to address the needs of the CWP programme prior to signing the contract with NPO's.
- Lack or **poor planning** to meet requirements of legislation when appointing NPOs

Capacity and skills

- The CWP programme is not **sufficiently capacitated** to achieve the required administration in terms of accounting for implementing agents transactions.

Effective standardized processes

- **Lack of policies and procedures** to empower the employees to effectively administer the CWP programme
- Currently there **are no automated systems** in place to adequately manage and monitor the 11 appointed implementing agents

Oversight

- Pre-payments were raised as a material non compliance in the 2018/19 audit, however, senior management **did not adequately address this in the action plans** to ensure that preventative controls be put in place to clear the pre-payment at year end in the financial statements.
- The **audit committee** has tried to influence the action plan and internal audit plan and provides input to management .
- **Disclaimed pre-payments** made to implementing agents as no supporting documentation has been received to support the pre payment disclosed in the financial statements.



Closing the gaps on preventative controls

Example: **Unsupported pre-payments** due to the following instances:

- **Pre-payments made to implementing agents** not supported by evidence in the annual financial statements

Planning

- There should be **proper planning for the procurement process** when appointing the implementing agents to **prevent non-compliance** when contracting than will result in irregular expenditure

Capacity and skills

- The **people** employed should be **empowered with the necessary means i.e. resources, effective policies and procedures, systems** to enable them to **effectively manage and monitor the CWP programme**.

Effective standardized processes

- Senior management should **develop policies and procedures** to empower the employees to effectively manage and monitor the CWP programme,
- The entity should make **use of the automated systems** in place to **adequately manage and monitor the implementing agents**

- **Senior management** should ensure that **action plans incorporate all issues where non compliance is likely to arise** in order to prevent non compliances. Furthermore, senior management should **perform reviews and quality checks** to enhance preventative controls around pre-payments.
- It is the **audit committee's** role to **influence a comprehensive audit action plan and internal audit plan** to enhance operating effectiveness of internal controls
- Qualification areas in the **audit report** should be **prioritised and addressed by senior management** to ensure that qualification areas are adequately address to prevent repeat.

Oversight



Implementation of the PAA

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Feedback on PAA implementation – phase 1

28 MIs identified from 12 completed audits

R2,81 billion financial loss

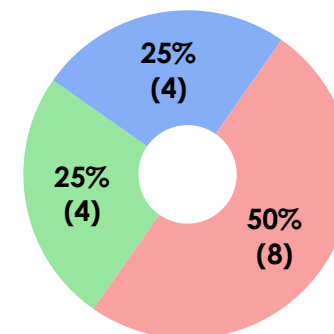
(**R2,51 billion** known and **R0,3 billion** estimated)

Addressing the material irregularities

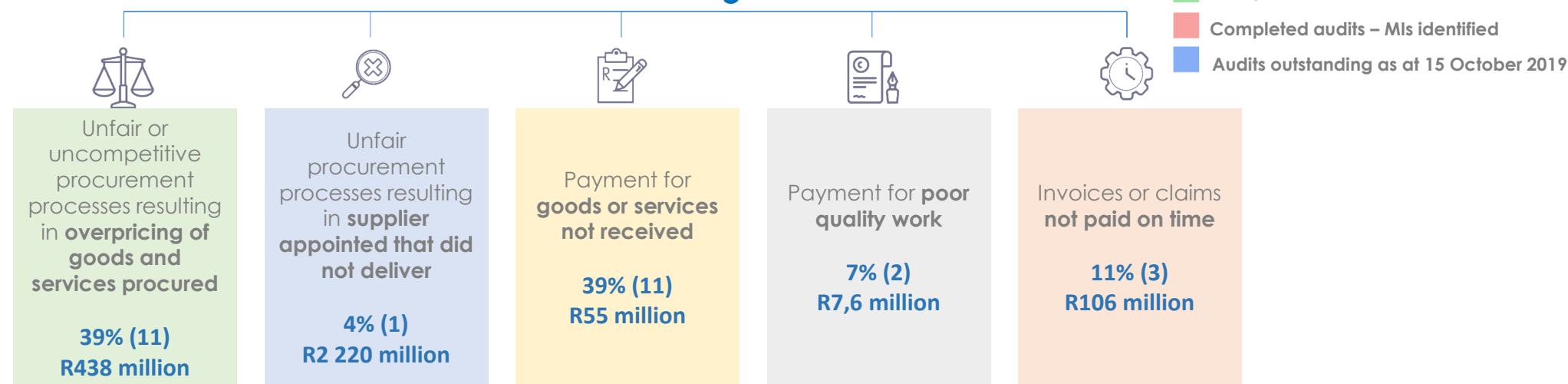
25 (89%) – Accounting officer or authority is taking appropriate action

2 (7%) – Recommendations included in audit report

1 (4%) – Material irregularity referred to a public body



Nature of material irregularities



Summary of material irregularities issued to DCoG

1. Payment made to the wrong entity

Material irregularity

The Department made a **Municipal Infrastructure Grant payment** total of **R183 450 000.00** to a supplier **on the central payment system with a similar** name instead of Greater Sekhukune District Municipality.

The department is **likely to incur a material financial loss of R104 047 163** as the amount was still not recovered at year end, as disclosed in note 13 of the financial statements.

Commitment:

The accounting officer committed to strengthening controls to prevent similar incidents in the future and has **reported the matter to the Special Commercial Crimes Unit (Hawks) and the Special investigations Unit (SIU) for further investigation.** A case number was received from the Hawks on 28 January 2020. Furthermore, the **department's Internal Audit Unit is also investigating the matter** to determine the disciplinary steps required

2. Payments to deceased participants

Material irregularity

Payments were made in 2018-19 through the CWP to **deceased participants**, as effective internal controls were not in place for the approval and processing of payments, as required by treasury regulations 8.1.1.

Commitment:

An **investigation** will be conducted to assess the exact magnitude of the loss that resulted from payments to deceased participants and **recover the financial losses from implementing agents.** The department will also institute the **disciplinary steps** against the relevant officials where applicable.

3. Payments to government employees

Material irregularity

Payments were made in 2018-19 through the CWP to **non-qualifying government employees** who were further paid by the relevant department where they are employed, as effective internal controls were not in place for the approval and processing of payments, as required by treasury regulations 8.1.1.

Commitment:

An **investigation** will be conducted to assess the exact magnitude of the loss that resulted from payments to Persal participants and **recover the financial losses from implementing agents.** The department will also institute the **disciplinary steps** against the relevant officials where applicable.



Summary of material irregularities issued to DCoG

4. Utilization of advance payments

Material irregularity

The department made quarterly advance payments to implementing agents on the CWP **without the required evidence** that previous advance payments were spent correctly resulting in **payments being made for goods and services that were not received at the CWP sites**, as effective internal controls were not in place for the approval and processing of payments as required by treasury regulations 8.1.1.

Commitment:

A detailed **workshop with all NPO's** was conducted highlighting the weaknesses in internal controls identified during the process of clearing the suspense account. **Checklist will be developed** to ensure that information is checked and reconciled immediately when the NPO's make their submissions. Any amount that **cannot be substantiated by the NPO will be recovered** from the respective NPO's next payable Project management fee tranche.

5. Prior year project mgt fees

Material irregularity

The department made project management payments to the implementing agents for the CWP whose contract started on 1 April 2014 and ended on 31 March 2018 with **inadequate evidence to justify such payments** since inception of the contract and resulting in payments for **services not received**, as effective internal controls were not in place for the approval and processing of payments as required by treasury regulations 8.1.1.

Commitment:

An **investigation** will be conducted to assess the exact magnitude of the loss that resulted from payments for project management fees for the current year and the **loss will be assessed and recouped** from the relevant parties after conclusion of the investigation and the department over the contract period and recover the financial losses from implementing agents. The department will also **institute the disciplinary steps** against the relevant officials were applicable.

6. Current year project mgt fees

Material irregularity

The department made a project management payment to the implementing agents for the CWP whose contract started in 1 April 2018 and will end in March 2021 with **inadequate evidence to justify such payments** and resulted in **payments for services not received**, as effective internal controls were not in place for the approval and processing of payments as required by treasury regulations 8.1.1.

Commitment:

An **investigation** will be conducted to assess the exact magnitude of the loss that resulted from payments for project management for the contract entered into between the implementing agents and the department over the contract period and **recover the financial losses from implementing agents**. The department should also institute the **disciplinary steps** against the relevant officials were applicable.



Summary of recommendations



Recommendations to DCoG leadership for PC considerations

Administrative leadership should prepare an audit action plan that focuses on processes and internal controls that will enable the department to have easy access to the supporting documentation/evidence. The internal audit unit should regularly review the achievement of action plans and report shortcomings

Management should pay special attention to record keeping, internal control disciplines including supervision and monitoring. In addition, executives leadership should stabilize CWP unit and ensure monitoring of payments to agents and participants

Prepare quarterly financial statements with complete supporting schedules and quarterly performance reports and submit to internal audit for review.



Overall oversight considerations

Oversight to strengthen in-year monitoring to prevent a reactive approach

Oversight to prioritise oversight over internal control failures

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

Opportunity to improve the tracking mechanism for all oversight activities held



Specific to DCoG oversight considerations

Request management to provide **feedback on the implementation and progress** of the action plans to address poor audit outcomes during quarterly reporting

Request management to provide **timely feedback on progress made against status of record review assessment**

Request feedback on the implementation of MI specific corrective action as committed by the accounting officer.



PAA implementation – phase 2

Irregularity



Material
irregularity

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 ...

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.



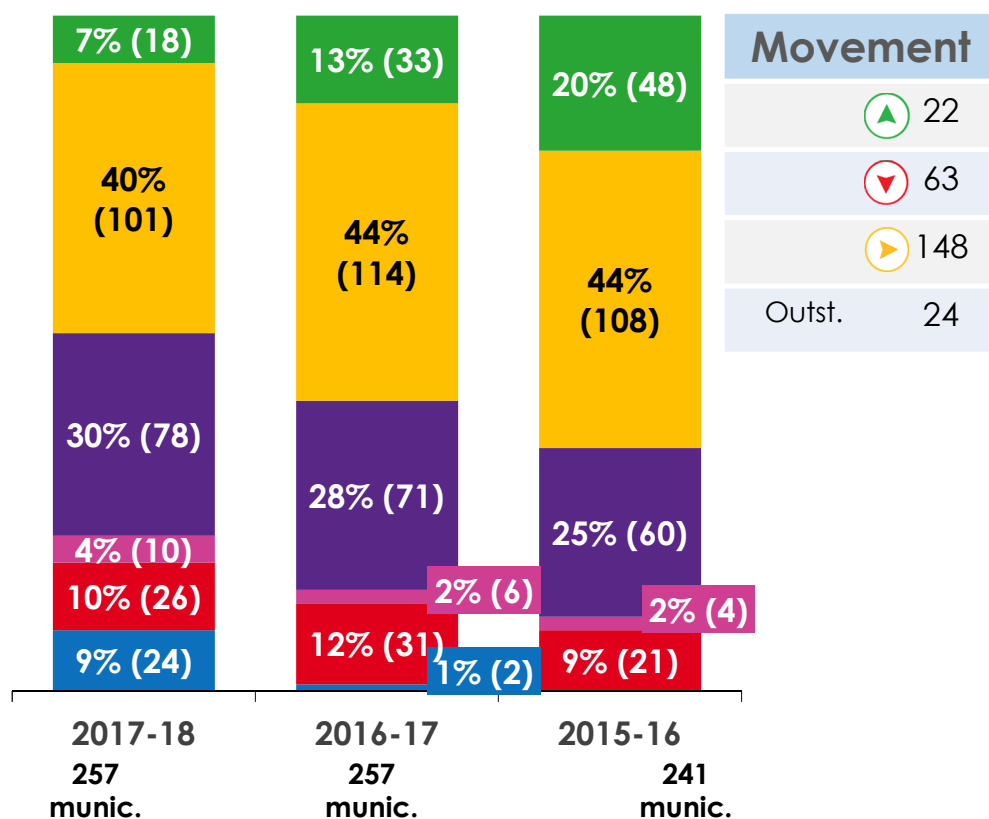
Consolidated MFMA 2017-18 audit outcomes

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Audit outcomes continue to regress

Overall audit outcomes over three years



Root causes of continued poor outcomes



Inadequate/no response to improving key controls and addressing risk areas

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



Instability/vacancies / competencies

- 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

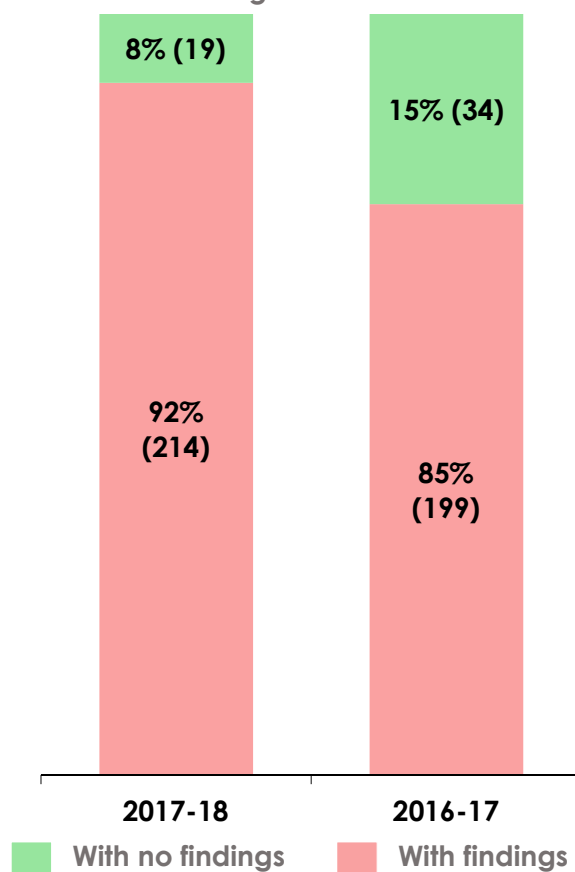
- Senior management improved in filling key vacant posts but **CWP** still has a vacancy relating to the Deputy Director-General

- Leadership's inaction / inconsistent action to addressing persistent transgression creates culture of **'no consequences'**

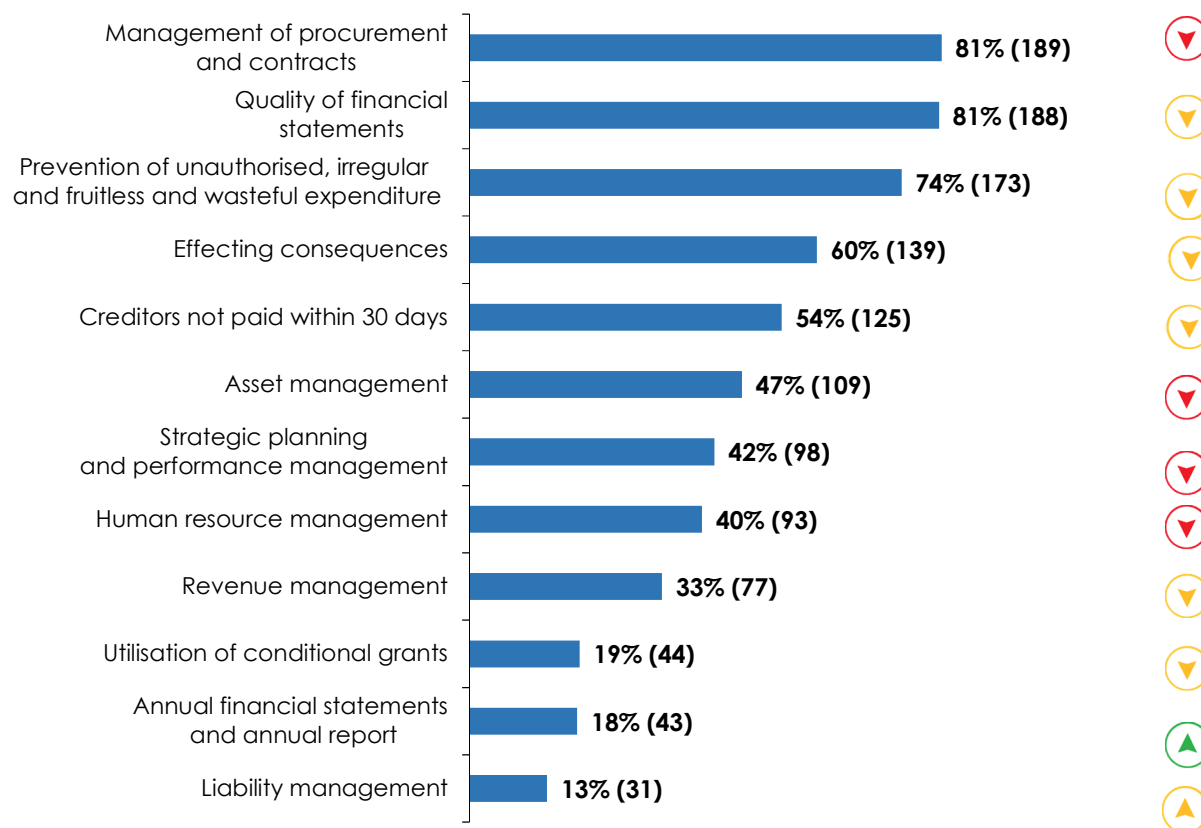


Disregard for compliance with legislation continues

Findings on compliance with key legislation










Most common non-compliance areas






Indicators of deteriorating accountability



Slight regression in quality of published performance reports

	TARGET	MOVEMENT	2017-18	2016-17	
					
	Preparation of performance reports		97% (227)	98% (228)	58 municipalities (24%) had no material findings only because they corrected all misstatements identified during the audit
	Quality of performance reports submitted for auditing		11% (24)	10% (23)	
	Quality of published performance reports		35% (82)	38% (88)	

FINDINGS ON PERFORMANCE REPORTS

	MOVEMENT	2017-18	2016-17
Performance indicators and targets not useful		55% (120)	51% (109)
Achievement reported not reliable		53% (116)	52% (112)
No underlying records or planning documents		3% (7)	6% (14)

MOST COMMON USEFULNESS FINDINGS

55% Not consistent

43% Not well defined

33% Not verifiable

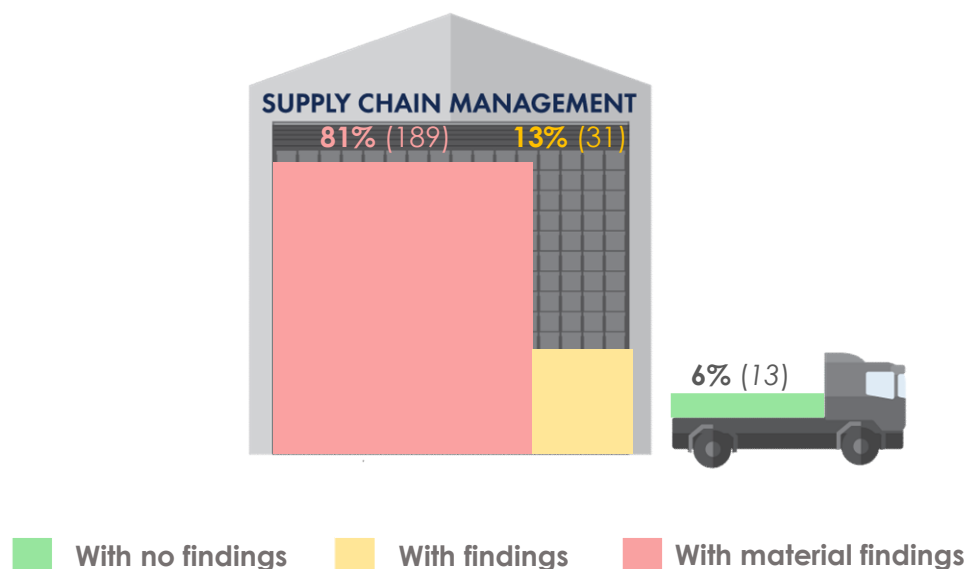
25% Not measurable



Non-compliance with supply chain management legislation

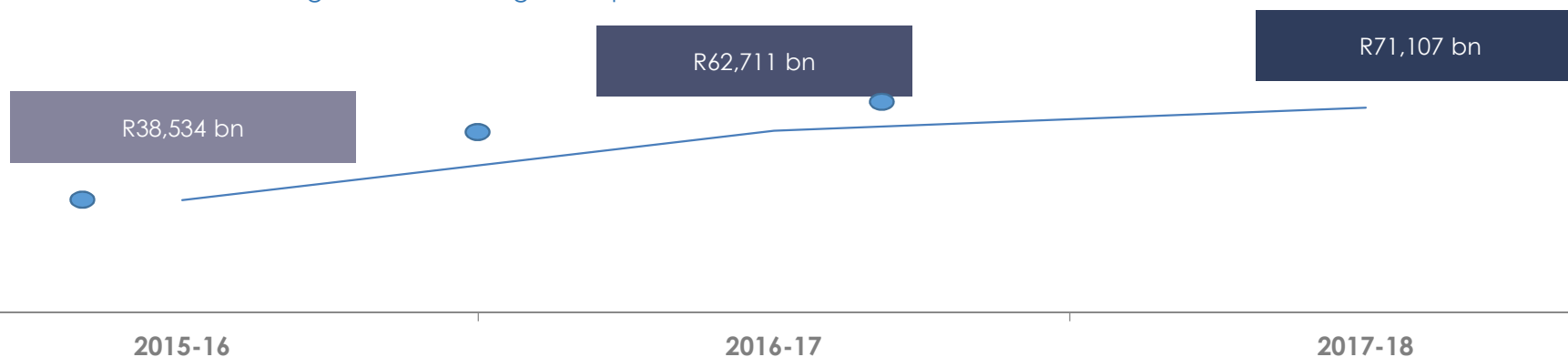
Regression in SCM compliance

- Not able to audit procurement of **R1 216 million** due to **missing or incomplete information**
- **Uncompetitive and unfair procurement processes at 88% of municipalities**
- **False declarations of interest made by 824 suppliers**
- **R79 million** in awards to employees and councillors



Growing balance of Irregular expenditure not dealt with

Closing balance of irregular expenditure



Irregular expenditure of previous years is not properly dealt with through investigation, and followed by **condonement, recovery** or **write-off** of the expenditure

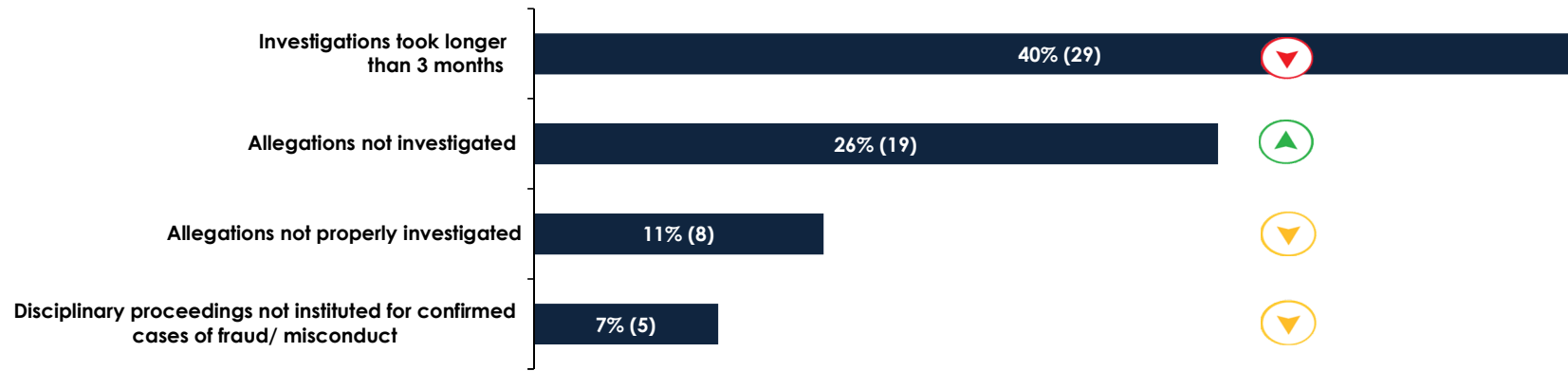
Top 5 contributors to the accumulated irregular expenditure (constitutes 32% of R71,107 billion) which also did not **investigate all instances** of the previous year's irregular expenditure were:

- Nelson Mandela Bay Metro (EC) – R12,379 billion
- OR Tambo District (EC) – R3,151 billion
- City of Matlosana (NW) – R2,748 billion
- City of Johannesburg Metro (GP) – R2,724 billion
- Mogalekwena (LP) – R1,718 billion

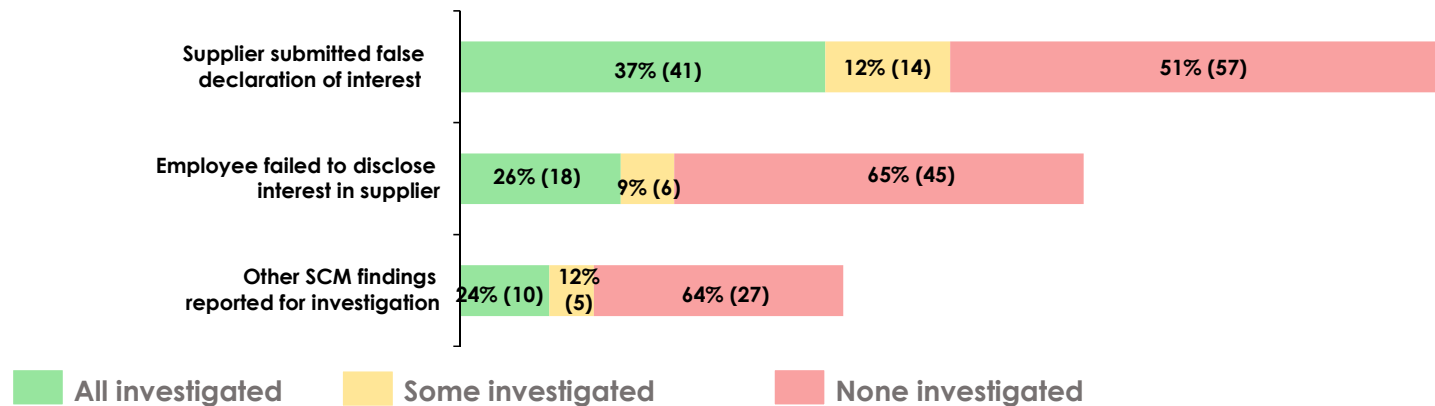


Inadequate investigations are being performed

Inadequate follow-up of allegations of financial and supply chain management misconduct and fraud



Follow-up by municipalities of supply chain management findings we reported for investigation in the previous year

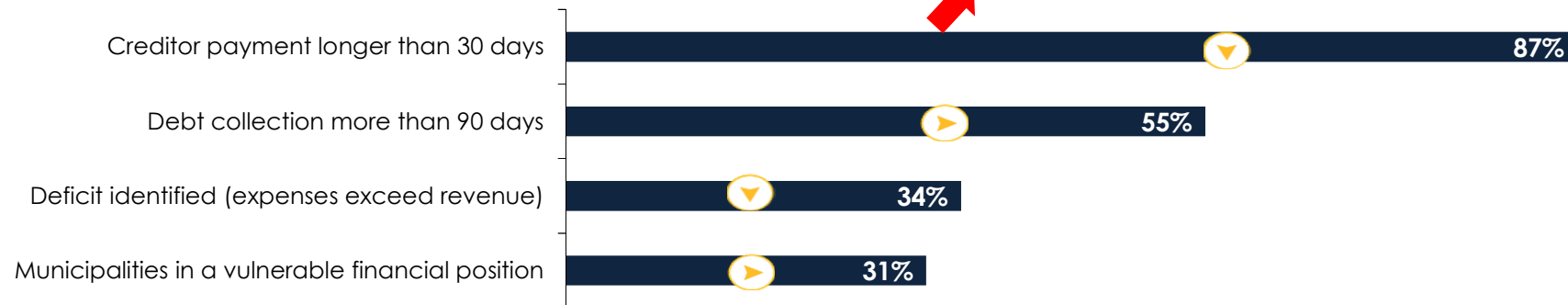


Declining financial health and losses

53257
58768
260935

What the numbers say

The average payment period was **174 days** – affecting the sustainability of suppliers



- **Unauthorised expenditure** increased from **R11 157 million** to **R12 851 million**; R7 004 million of **R12 851 million** was as a result of **non-cash items**; **Nearly 100%** of unauthorised expenditure was as a result of overspending
- **Fruitless and wasteful expenditure** decreased slightly from **R1 549 million** to **R1 332 million**



THE END

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