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Audit outcomes  
Briefing to Portfolio Committee on Mineral  
Resources and Energy

03 November 2020

**PFMA**  
2019-20



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 2019-20 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 eight auditees**, unless indicated otherwise.

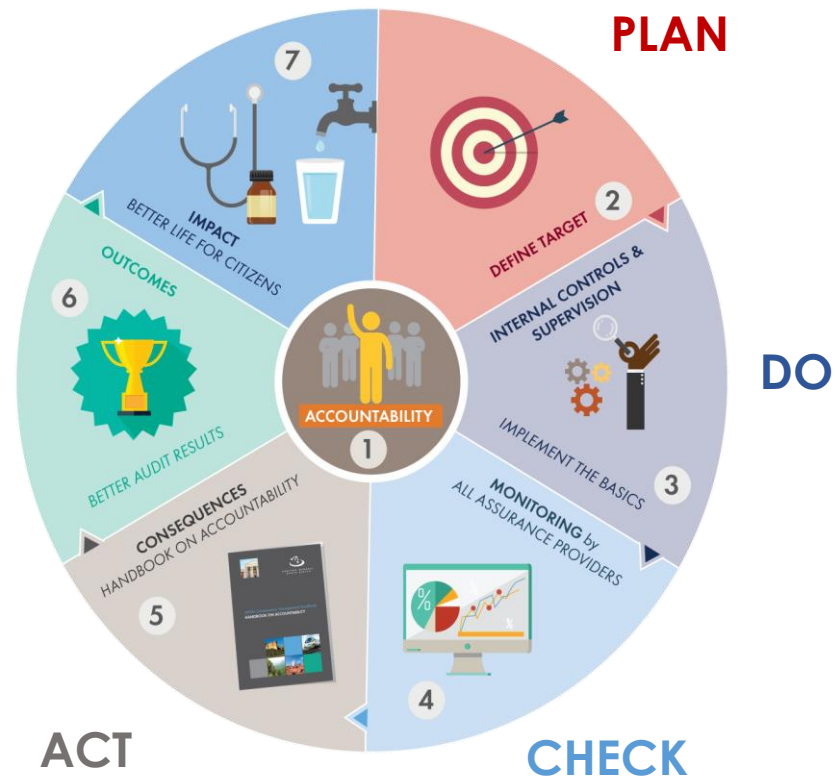
## Audit outcomes are indicated as follows:



## Movement over the previous year is depicted as follows:



# Tone and control culture



**Act now on accountability**

Constitution requires from public administration:

- High standard of **professional ethics**
- Promotion of **efficient, economic and effective use of resources**
- **Accountability**
- Fostering of **transparency**



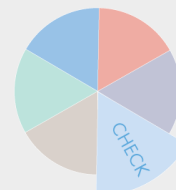
PFMA prescribes obligations of accounting officers and authorities to:



- **plan and budget** for delivery
- use resources in an **effective, efficient and transparent** manner



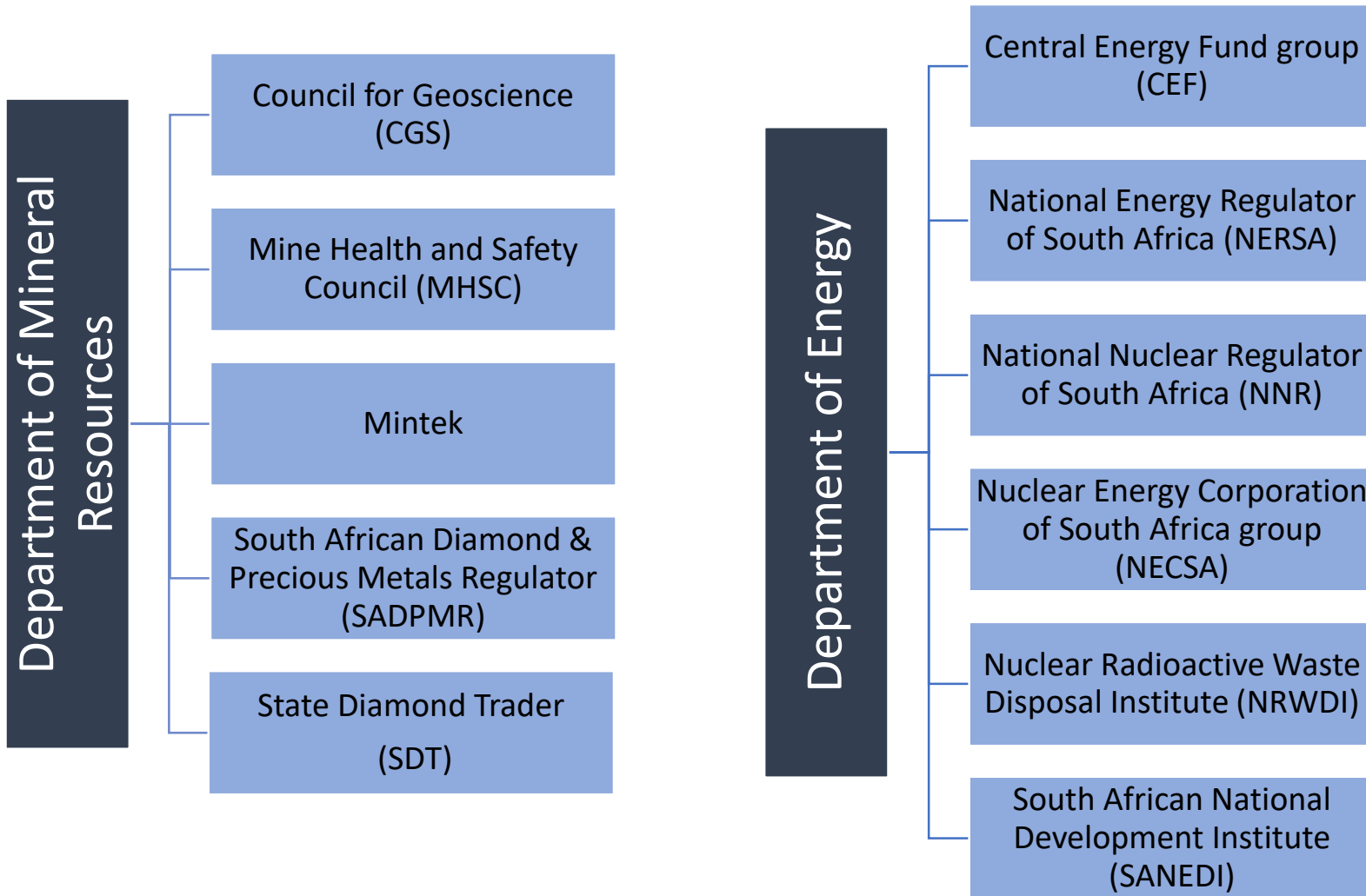
- establish and implement **internal controls to prevent and detect** irregularities, losses and financial misconduct **and effectively deal with any breaches**



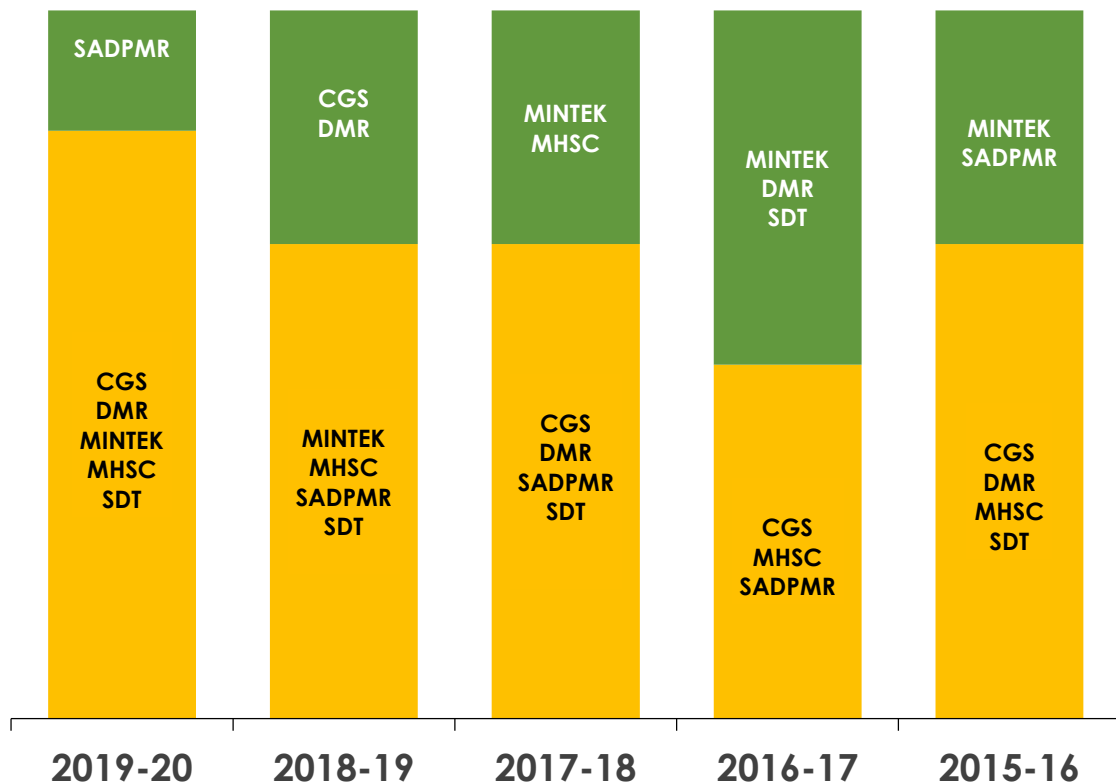
- **report and account** on regular basis



# Minerals and Energy Portfolio



# Audit outcomes of portfolio over five years (Mineral Resources)

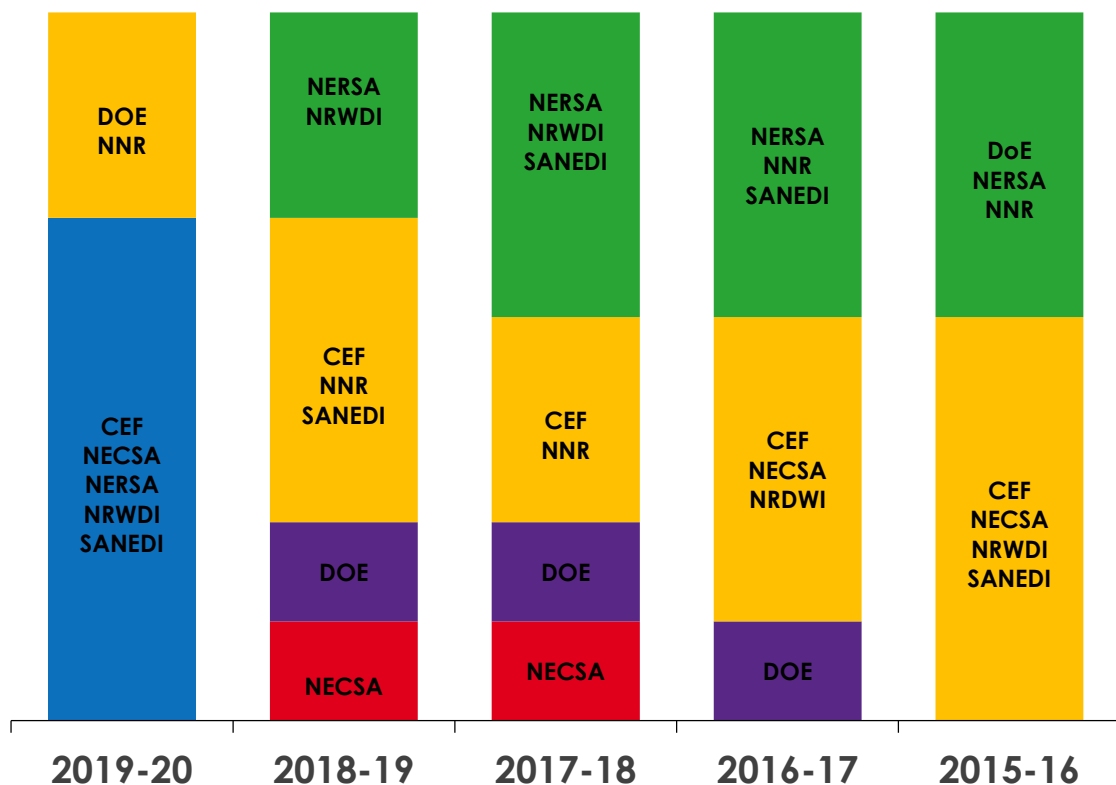


Movement	
▲	1
▼	2
▶	3
Outstanding audits	0

Outstanding audits	
None	

- We commend **SADPMR** on the improved audit outcomes and obtaining clean audits.
- **DMR and CGS** regressed due to non compliance with key legislation.
- **MHSC, MINTEK and SDT** audit outcomes remained constant when compared to prior year.
- Material non-compliance with legislation was identified at **DMR, CGS, MINTEK, MHSC and SDT**.

# Audit outcomes of portfolio over five years (Energy)



Movement	
▲	1
▼	0
▶	1
Outstanding audits	5

Outstanding audits	
CEF group; NECSA group; NERSA; NRWDI and SANEDI	

- We commend **DOE** on the improved audit outcome. The audit outcome improved due to the department disclosing the irregular expenditure.
- Material non-compliance with key legislation was identified at **DOE**.
- The audit opinion for **NNR** remained the same as the prior year due to their still being material non compliance reported.
- There was a material finding on AOPO relating to the usefulness of an indicator for the programme selected for audit.



# Credible financial reporting



## Financial statements

### Movement

2019-20

2018-19

Submission of financial statements by legislated date



8

8

Financial statements submitted without errors  
(**NNR and SADPMR**)



2

4

Quality of financial submission after audit (**CGS; DOE; DMR; MINTEK; MHSC and SDT**)



6

3

Modified audit opinion on the annual financial statement (**DOE**)



0

1

*6 auditees achieved unqualified opinions only because they corrected all material misstatements identified during the audit*



# Credible performance reporting



## Performance report

Performance report submitted without errors  
(**MINTEK and SADPMR**)

Quality of final submission after audit (**CGS; DOE, MHSC and DMR**)

**3** had no material findings only because they corrected all misstatements identified during the audit (CGS; DOE and DMR)

Reliable reporting of achievements (**SDT**)

Usefulness of performance indicators and targets  
(**NNR**)

### Movement



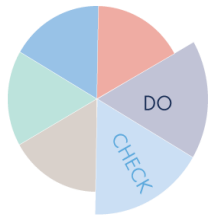
2019-20

2018-19

2	2
4	3

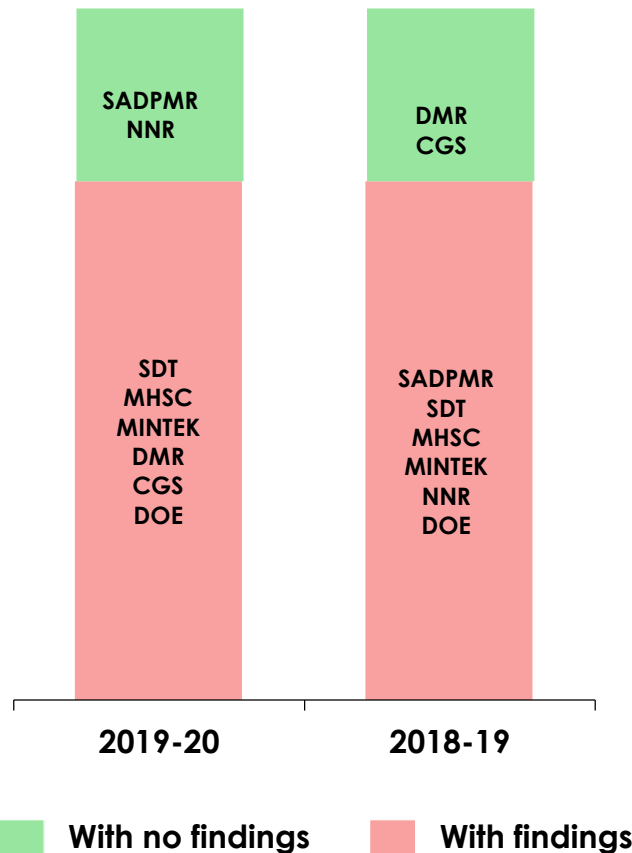






# Disregard for compliance with legislation

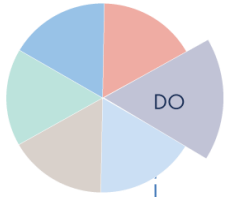
## Findings on compliance with key legislation



## Top five non-compliance areas

- Quality of financial statements (**MINTEK; SDT; DMR; CGS; MHSC and DOE**)
- Procurement and Contract Management (**DMR; MHSC and SDT**)
- Prevention of irregular, fruitless and wasteful expenditure (**MHSC and DOE**)
- Consequence Management (**SDT and DOE**)
- Strategic planning and performance management (**DMR**)

# Status of internal control



Leadership

Effective leadership

CGS DMR MINTEK NNR  
SADPMR DOE

SDT



Financial and  
performance  
management

Proper record keeping

CGS DOE MINTEK SADPMR

NNR SDT  
DMR



Daily and monthly controls

CGS DOE MINTEK SADPMR

DMR  
SDT NNR



Review and  
monitor compliance

CGS  
DOE DMR MINTEK  
NNR SADPMR SDT



Governance

Risk management

CGS DOE  
DMR MINTEK NNR  
SADPMR

SDT



Good



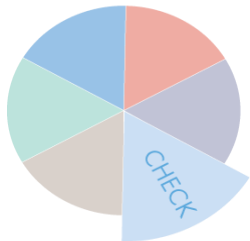
Of concern



Intervention required

15





# Assurance provided

## Assurance

First level	Senior management	SDT MINTEK CGS DMR DOE SADPMR NNR	▼
	Accounting officer/authority	CGS NNR      DMR DOE SDT SADPMR      MINTEK	▼
	Executive authority	DOE      DMR	▼
Second level	Internal audit unit	CGS DOE DMR NNR      SDT SADPMR MINTEK	▲
	Audit committee	CGS DOE NNR      DMR SADPMR SDT      MINTEK	▼

## Reflections

The audit outcome improved due to the department disclosing the irregular expenditure.

Provides assurance	Provides some assurance	Provides limited/ no assurance	Not established
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# Financial health and financial management



# Financial health

## Revenue management

- The balance of accrued departmental revenue and the debtors' impairment provision as a percentage of accrued departmental revenue is high and has increased from the prior year for **DMR**. This is an indication that the department is experiencing challenges in the collection of outstanding amounts due to it, which exposes it to cash flow risk. Management should review the department's credit control policy, the effectiveness of its collections policy to ensure prompt payment and the quality of its cash flow and revenue management. Management should enhance its remedial actions to improve the revenue management of the department, particularly focusing on the debtors-collection period. The debtor's collection period has decreased compared to prior year but this was not due to improved collection but increased impairment.
- **DoE** should be more rigorous in terms of the collection efforts regarding accrued departmental revenue to ensure that what gets recognised during the year is collected as soon as possible. Further any opening balances should also be followed up more rigorously to ensure that payments are received timeously.

## Expenditure management

- The expenditure management of the **DMR** has regressed as the creditors payment period has increased compared to prior year.



Of concern



Intervention required

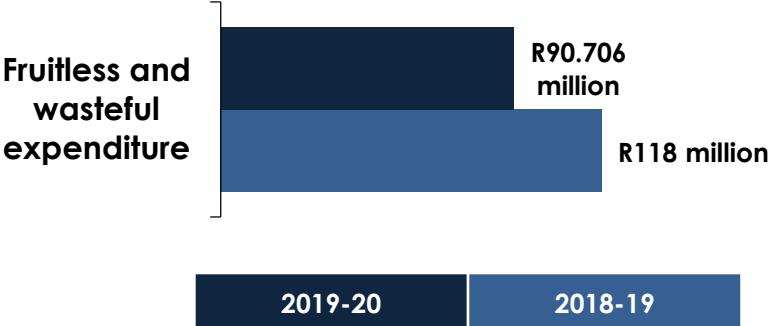


# Fruitless and wasteful expenditure decreased over 2 years

## Definition

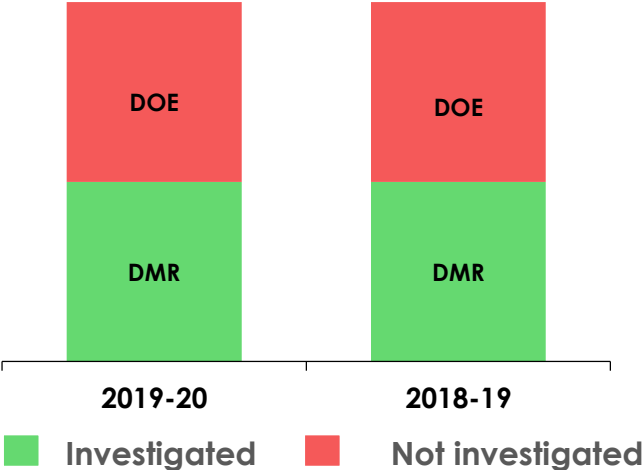
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money.

## Fruitless and wasteful expenditure incurred by entities in portfolio



- R90.254 million represents non-compliance in 2019-20
- R0.452 million is expenditure relating to prior years

## Previous year fruitless and wasteful expenditure reported for investigation



## Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by storage costs for geyser units to various suppliers by **DOE** (R90.118 million).
- The remainder of fruitless and wasteful expenditure relates to travel expenses not approved; travel expenditure for flights missed by staff and incurred for late renewal of system licence fees.

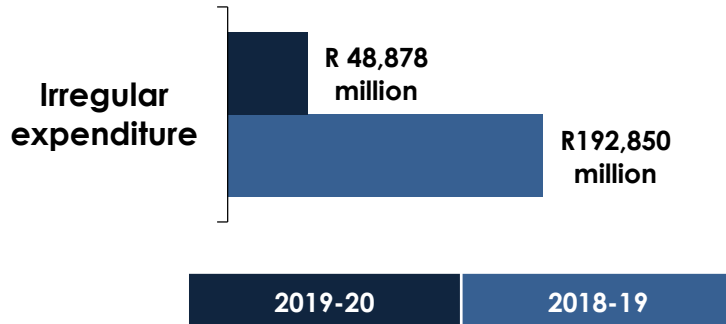


# Irregular expenditure decreased over 2 years

## Definition

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

## Irregular expenditure incurred by entities in portfolio



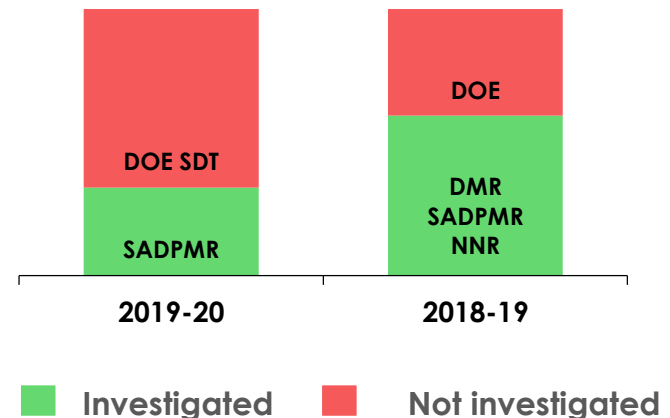
- R48,878 million represents non-compliance in 2019-20

\* Irregular expenditure for the prior year was restated due to correction of prior period error at DOE and subsequent disclosure of Irregular expenditure of R162,450 million.

## Nature of the irregular expenditure

- Majority of the irregular expenditure for the current year relates to Procurement without proper competitive bidding process at **MHSC** (R34,481million)
- Procurement relating to non compliance with legislation on contracts at **DOE** (R8,550 million)
- Payments made whereby the proper process not followed in terms of lease contracts in the prior years at **DMR** (R3,311 million)
- The remainder of irregular expenditure relates to procurement for service provider whose tax matters were not in order and procurement without competitive bidding or quotation process

## Previous year irregular expenditure reported for investigation



# Supply chain management

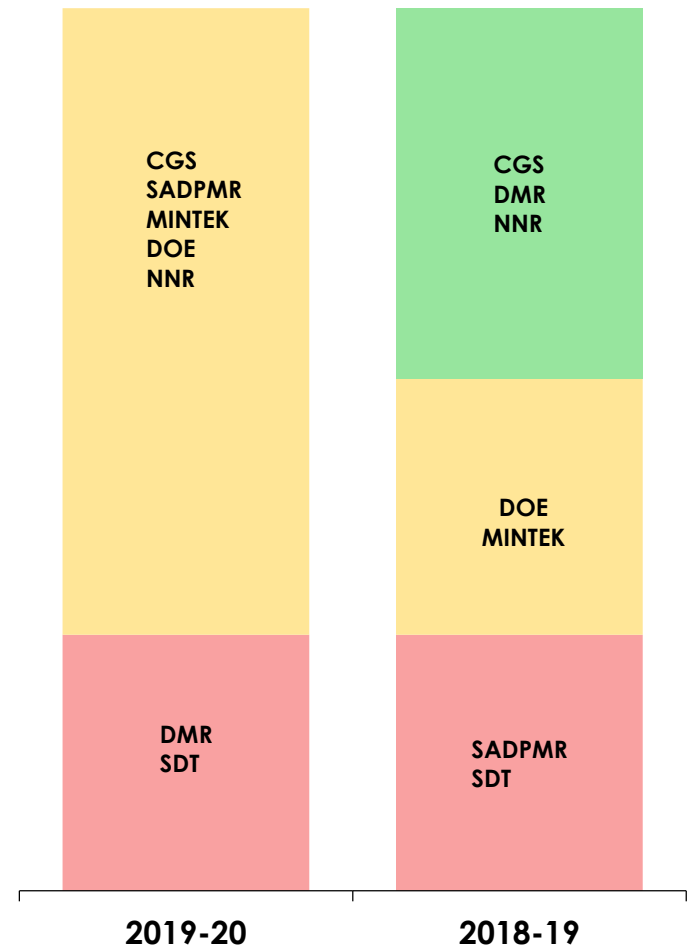


## Regression in SCM compliance (2019-20: 0 with no findings)

All SCM findings should be investigated

### Findings on supply chain management

- Contracts awarded to suppliers whose tax matters had not been declared to be in order **(DMR)**
- Goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive **(SDT, NNR and MINTEK)**
- Payment in excess of original quotation **(CGS)**



With no findings



With findings



With material findings 21

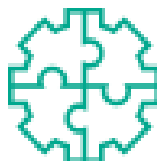
# Portfolio snapshot (2019-20)



**Clean audits: 1**  
(2018-19: 2)



**Financially  
unqualified financial  
statements: 8**  
(2018-19: 7)



**No findings on performance  
reports: 2**  
(2018-19: 2)

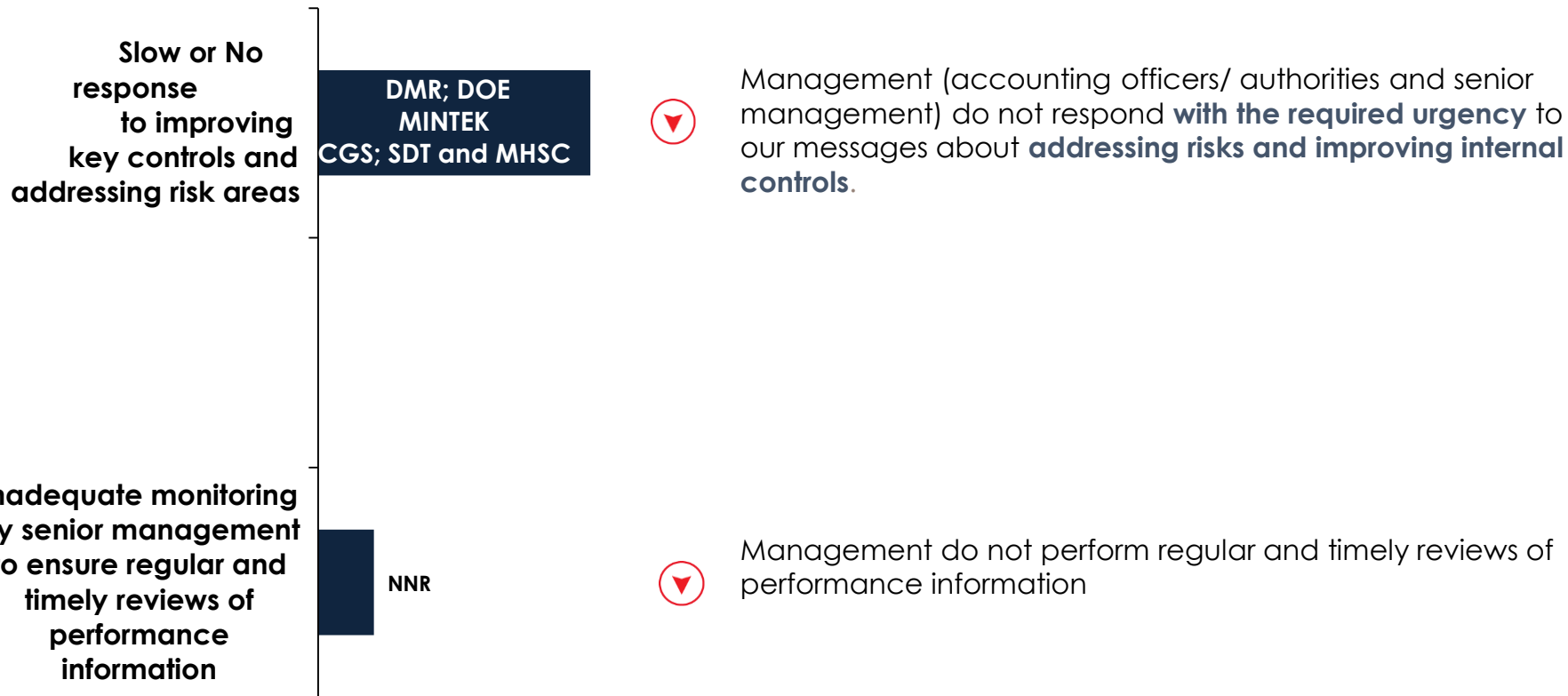


**No findings on compliance  
with legislation: 1**  
(2018-19: 2)



**Irregular expenditure:  
R48,8m**  
(2018-19: R192,8m)

# Root causes







## Status of records review

### Objectives

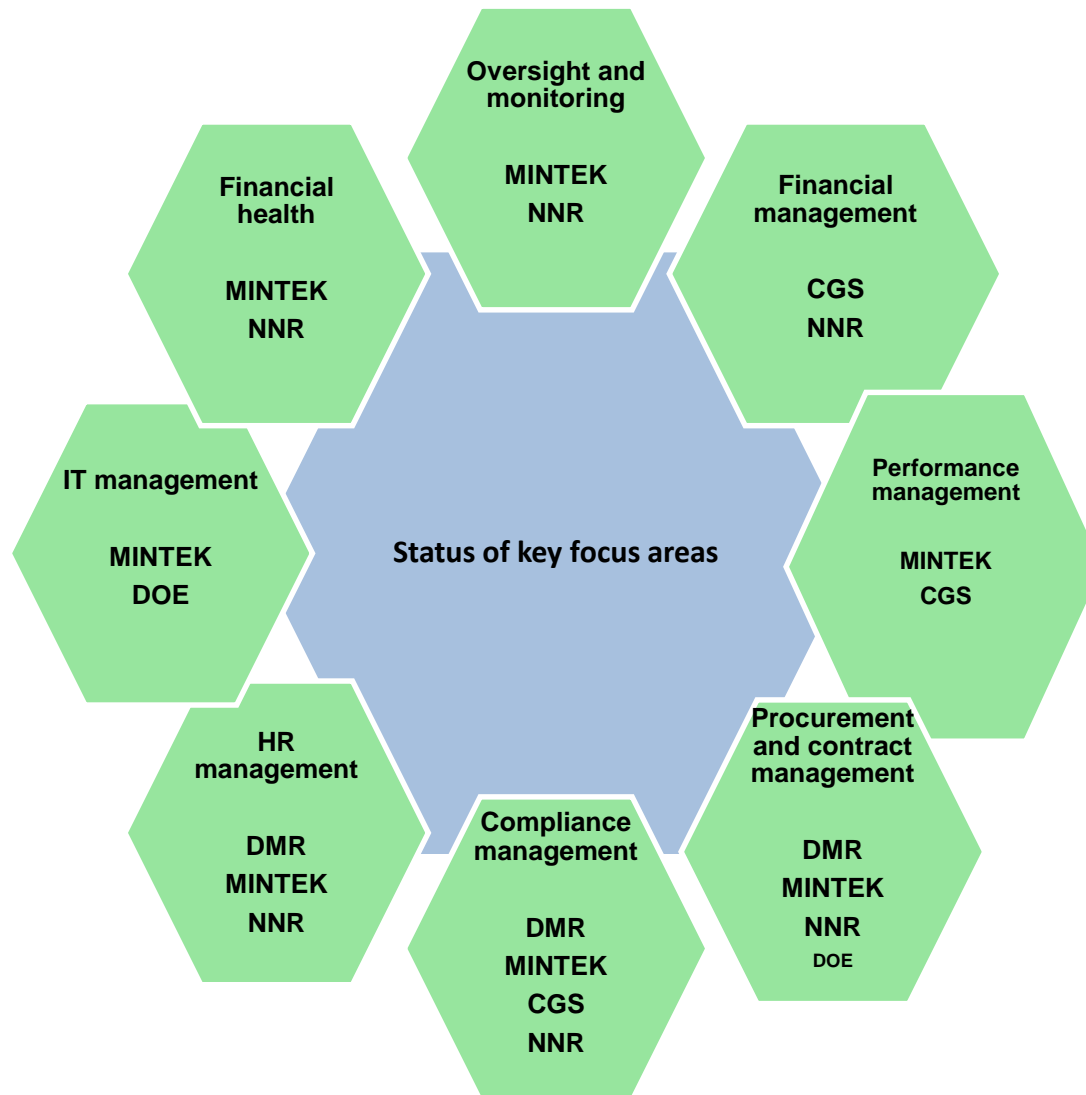
Identify **key areas of concern** that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, and consequential regression in audit outcome

Provide our assessment of the **status of key focus areas** that we reviewed

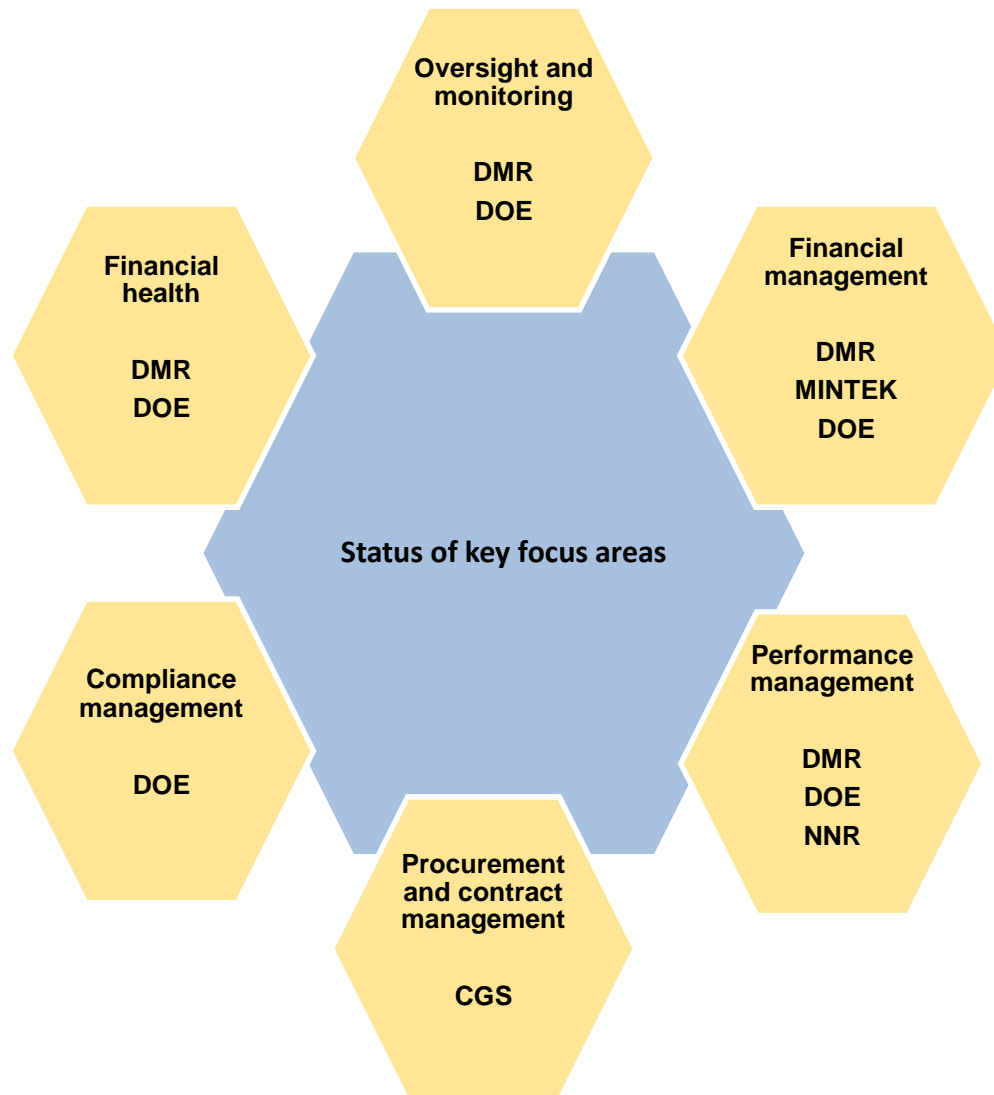
Assess **progress made in implementing action plans/follow** through with commitments made in previous engagements

Identify **matters that add value** in putting measures and action plans in place well in advance to mitigate risks

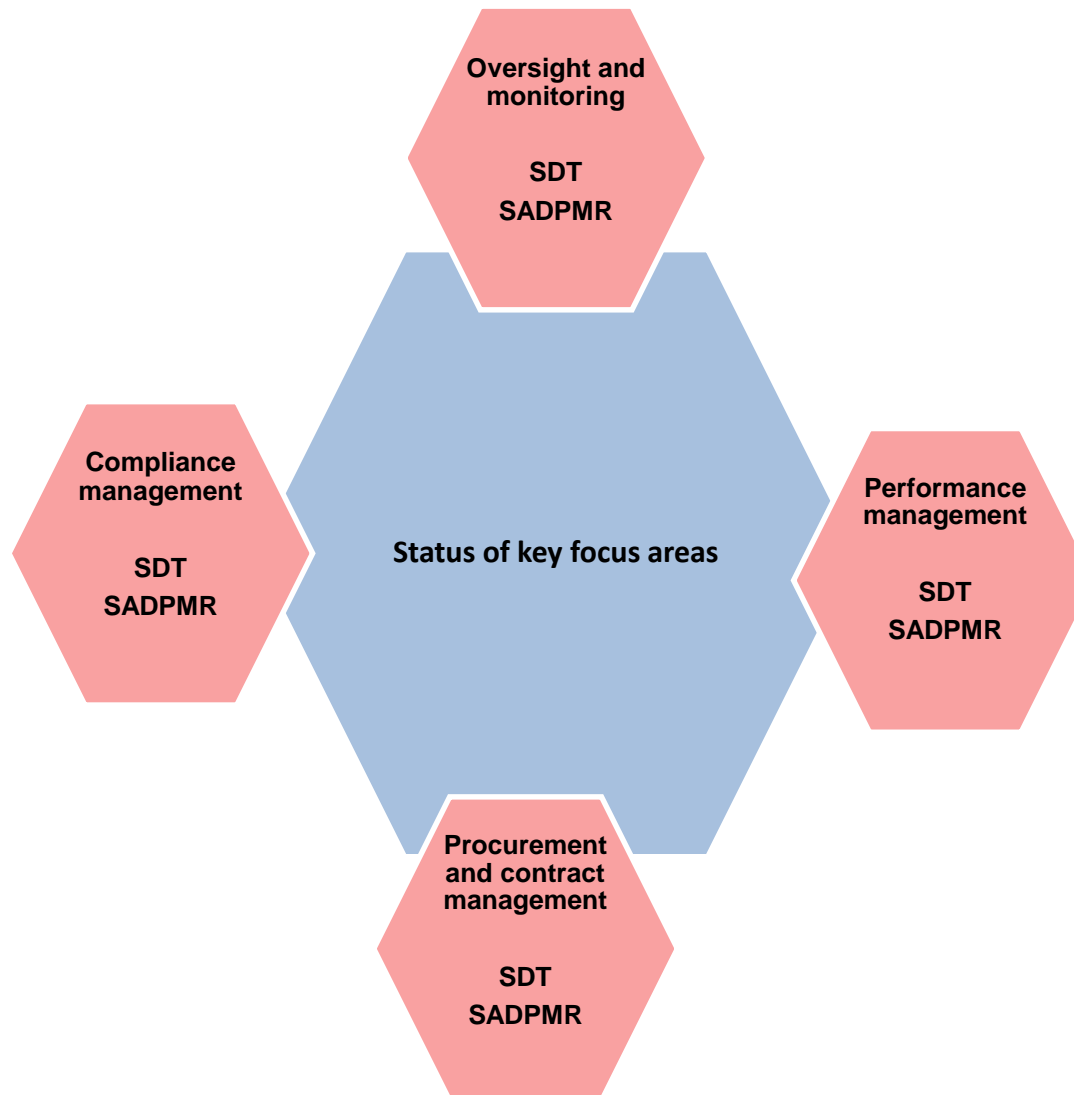
# Status of records reviews



# Status of records reviews



# Status of records reviews





## Status of records review

### Reflections

- During the financial year a status of records reviews engagement was performed for DMR; MINTEK; CGS; SDT; SADPMR; NNR and DOE .During these interactions matters were raised for the attention of the entity in the respective disciplines. Where matters raised for attention where not addressed or appropriate attention given to those areas before year end , it has resulted in findings relating to either the financial statements , compliance or predetermined objectives.



# Recommendations

## **To department and its entities**

- There should be the required urgency by management in responding to our messages about addressing risks identified and improving internal controls that will improve the audit outcomes .
- There should be regular and timely reviews of performance information by senior management to ensure that valid ,accurate and complete reporting is done to minimise reporting errors.

## **To the portfolio committee**

- The accounting officers/authorities and the Minister should provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.

## Overall message

- We commend SADPMR on obtaining clean audits.
- There is a continuing struggle to prepare and submit quality financial statements and performance reports throughout the portfolio.
- Non-compliance with key legislation remains a challenge especially in SCM, which has led to irregular expenditure and fruitless and wasteful expenditure being incurred.
- Non-compliance relating to material adjustments made to the annual financial statements remains a concern and management should implement the necessary controls and checks in place to ensure that annual financial statements prepared are of a good quality.
- The audit process is not finalized for a number of entities within the portfolio.



# Thank you



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