



Briefing to Portfolio Committee on Public Enterprises

PFMA
2019-20

04 November 2020



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

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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 audit of 1 auditee (DPE)**

Audit outcomes are indicated as follows:

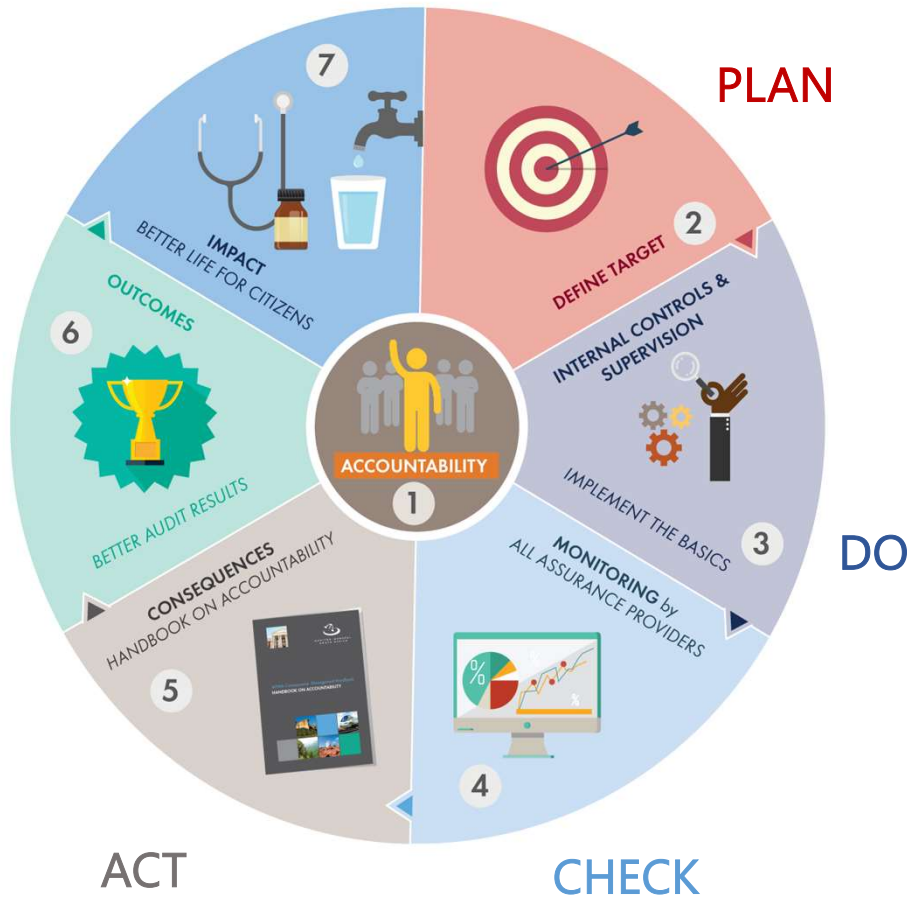
 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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Movement over the previous year is depicted as follows:

 Improved	 Unchanged	 Regressed
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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

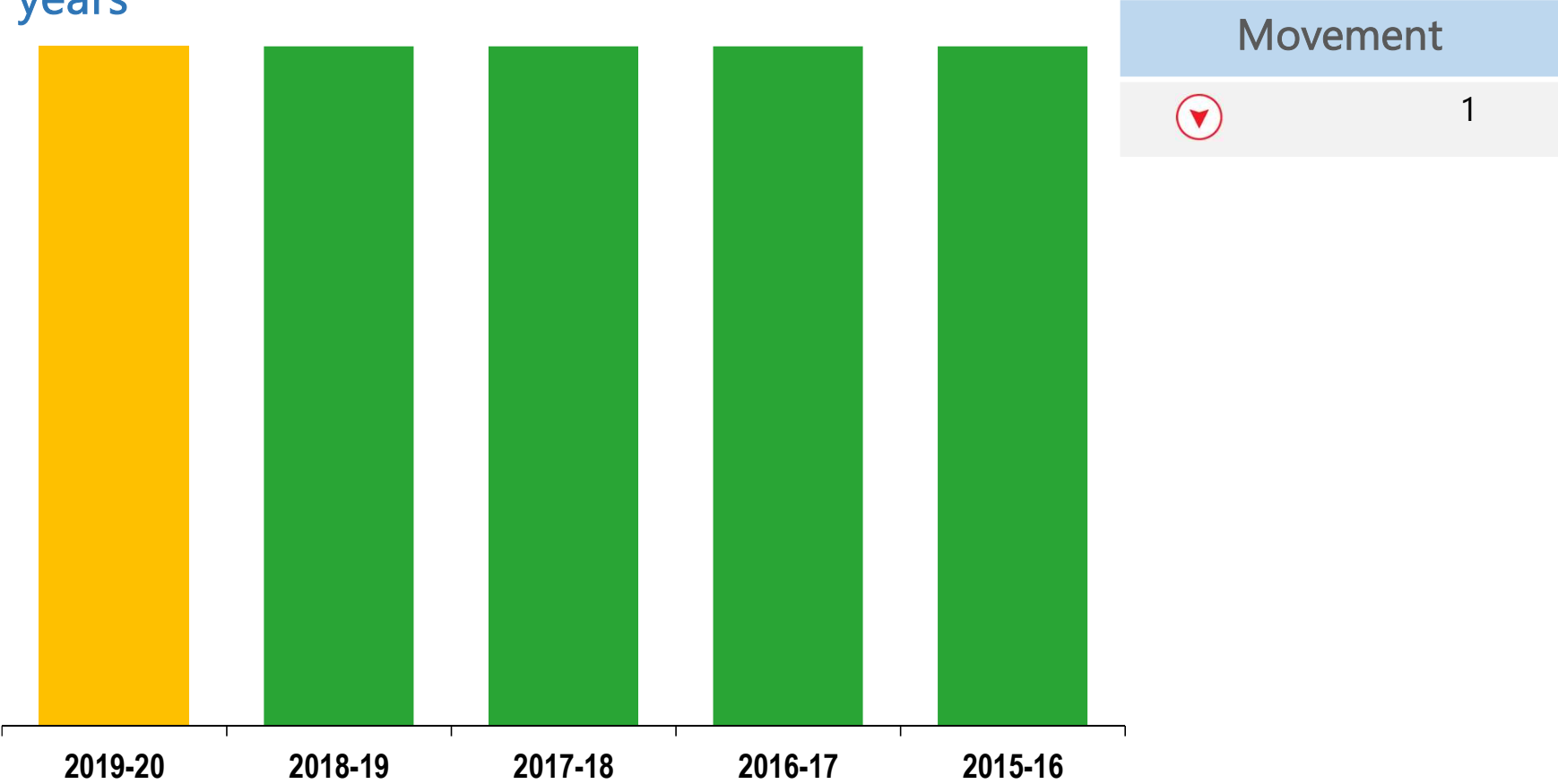


PFMA prescribes obligations of accounting officers and authorities to:

- establish and implement internal controls to prevent and detect irregularities, losses and financial misconduct and effectively deal with any breaches
- plan and budget for delivery
- use resources in an effective, efficient and transparent manner
- report and account on regular basis



Audit outcomes of the department of public enterprises over five years



DPE regressed due to material misstatements identified on financial statements submitted for audit.





Credible financial reporting



Financial statements

	Movement	2019-20	2018-19
Submission of financial statements by legislated date		1	1
Financial statements submitted without errors		0	1
Quality of final submission after audit (DPE)		1	1

DPE achieved unqualified opinion only because all material misstatements identified during the audit were corrected

Areas of material misstatement in AFS subsequently corrected by management

- Related parties – relationships and transactions between DPE and SoEs not adequately disclosed
- Impairment of investments
- Contingent liabilities





Credible performance reporting



Performance report

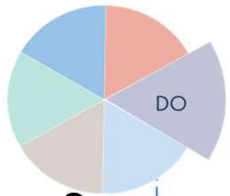
	Movement	2019-20	2018-19
Performance report submitted without errors	▶	0	0
Quality of final submission after audit (DPE)	▶	1	1

Areas of material misstatement in APR subsequently corrected by management

Reliable reporting of achievements	▼	1	0
Usefulness of performance indicators and targets	▲	0	1



Status of internal control



Leadership

Financial and performance management

Governance

Effective leadership

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Proper record keeping

Daily and monthly controls

Review and monitor compliance

Risk management

DPE

DPE

DPE

DPE

DPE

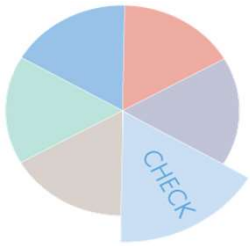
DPE



■ Good

■ Of concern

■ Intervention required



Assurance provided

		Assurance	
First level	Senior management	DPE	▶
	Accounting officer	DPE	▲
	Executive authority	DPE	▲
Second level	Internal audit unit	DPE	▼
	Audit committee	DPE	▶

Reflections

The assurance levels of internal audit regressed and senior management remained unchanged due to the misstatements identified during the audit process in both the financial statements and reporting on performance information.



Financial health and financial management



Financial health

DPE is a going concern. Concerning areas are highlighted below:



- Accrual adjusted deficit for the year - DPE realised an accrual adjusted deficit for the year and this was mainly due to the impairment of investments relating to the SOCs that are experiencing financial difficulties
- Accrual adjusted net current liability position was realised – If DPE was on accrual basis of accounting its net current liabilities would have exceeded its net current assets



Of concern



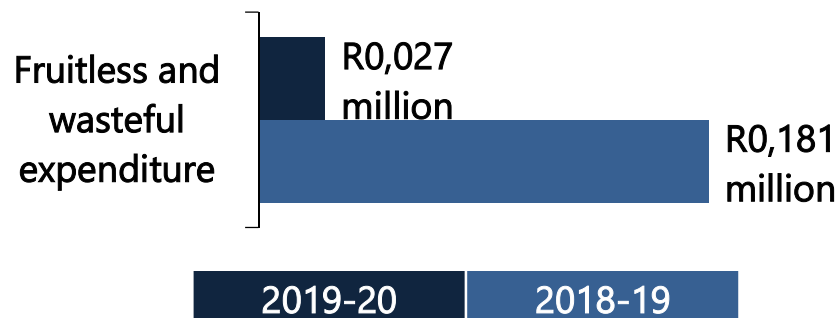
Intervention required

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

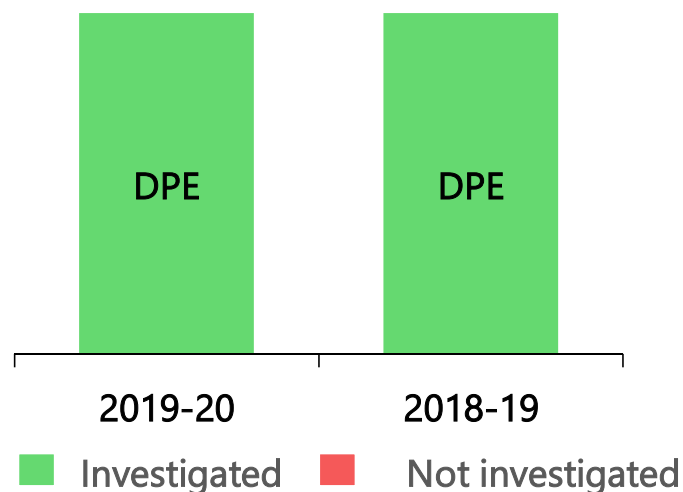


R0,027 million represents non-compliance in 2019-20

Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by no shows and cancellation fees*
- The opening balance as at 1 April 2018 was R712 835*

Previous year fruitless and wasteful expenditure reported for investigation

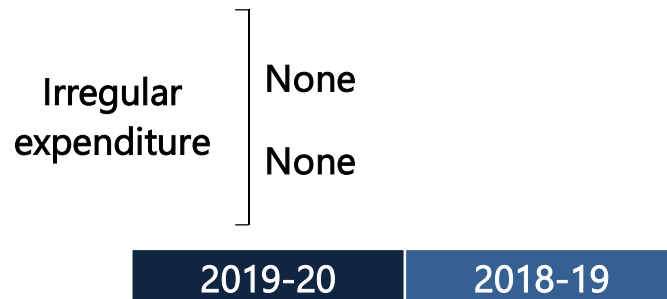


Irregular expenditure decreased over 2 years

Definition

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

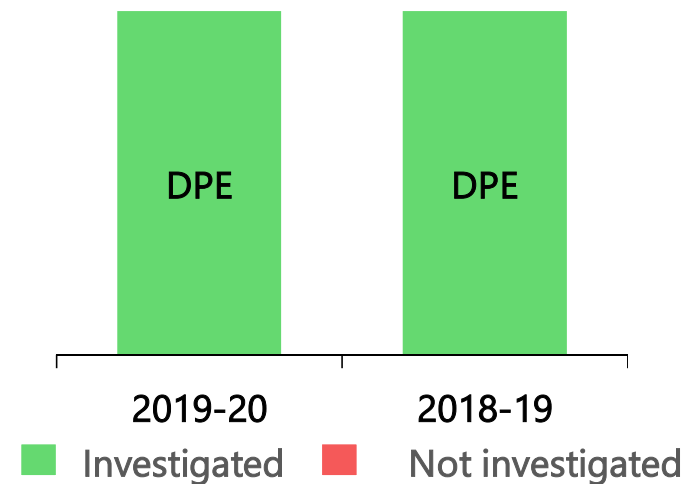
Irregular expenditure incurred by DPE



Nature of the irregular expenditure

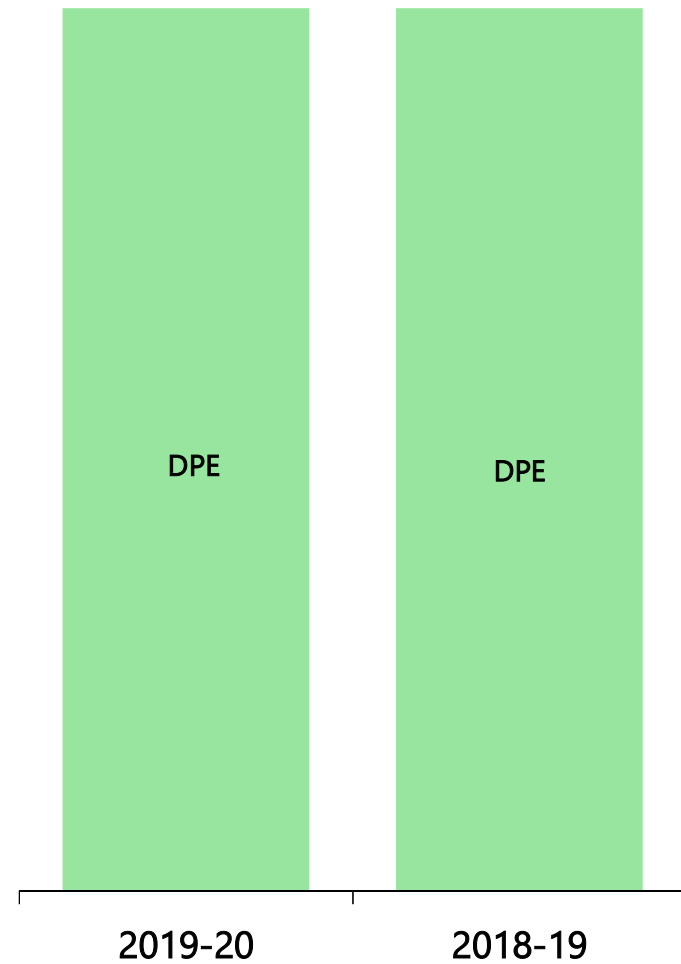
- *There was no non-compliance resulting in irregular expenditure identified for the 2019-20 financial year.*
- *The opening balance as at 1 April 2018 was R821 000 and this amount was condoned in the current financial year 2019/20*

Previous year irregular expenditure reported for investigation



Supply chain management

No material non-compliance reported on SCM



With no findings



With findings



With material findings

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Additional efforts were introduced to improve the status of financial and performance management





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

Reflections

As part of our commitment to continually assist the department, we performed a high level risk assessment process for the period 01 April 2019 to 31 December 2019.

- The department addressed areas of concern raised during the status of record review engagement.
- Action plans to address prior year audit finding were also implemented.
- The identified misstatements on the financial statements and performance information mainly relate to internal controls around the year end reviews processes which were not within the scope of the status of records review.



Root causes

DPE



Controls implemented by management (senior management) for the review of the annual financial statements and the reported performance information were not adequate as material misstatements were identified in the annual financial statements and the reported performance information.



Recommendations

To the department

- The review of the final annual financial statements should include a review of classes of transactions, account balances and disclosures made in the financial statements against the requirements of the modified cash standard to ensure that the financial statements comply with the requirements of the modified cash standard.

To the portfolio committee

- The PC should request accounting officer and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcome of the department.



Overall message

- The department is commended for submitting financial statements at the legislative deadline despite the worldwide pandemic of Covid-19, and obtaining an unqualified audit opinion.
- The department is advised to focus on year end processes and ensure that processes are adequate to be able to detect errors in disclosure items that are not part of monthly reporting and reconciliation.



Thank you



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