



Briefing to Portfolio Committee on Trade, Industry and Competition

PFMA
2019-20

10 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

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 nine auditees**, unless indicated otherwise.

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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Department of Trade and Industry - DTI
NGB
Economic Development Department - EDD
Companies and Intellectual Property Commission - CIPC
National Lotteries Commission - NLC
International Trade Administration Commission - ITAC
South African Bureau of Standards - SABS
Competition Commission - CC
National Credit Regulator - NCR
Competition Tribunal – C
National Regulator for Compulsory Specifications - NRCS

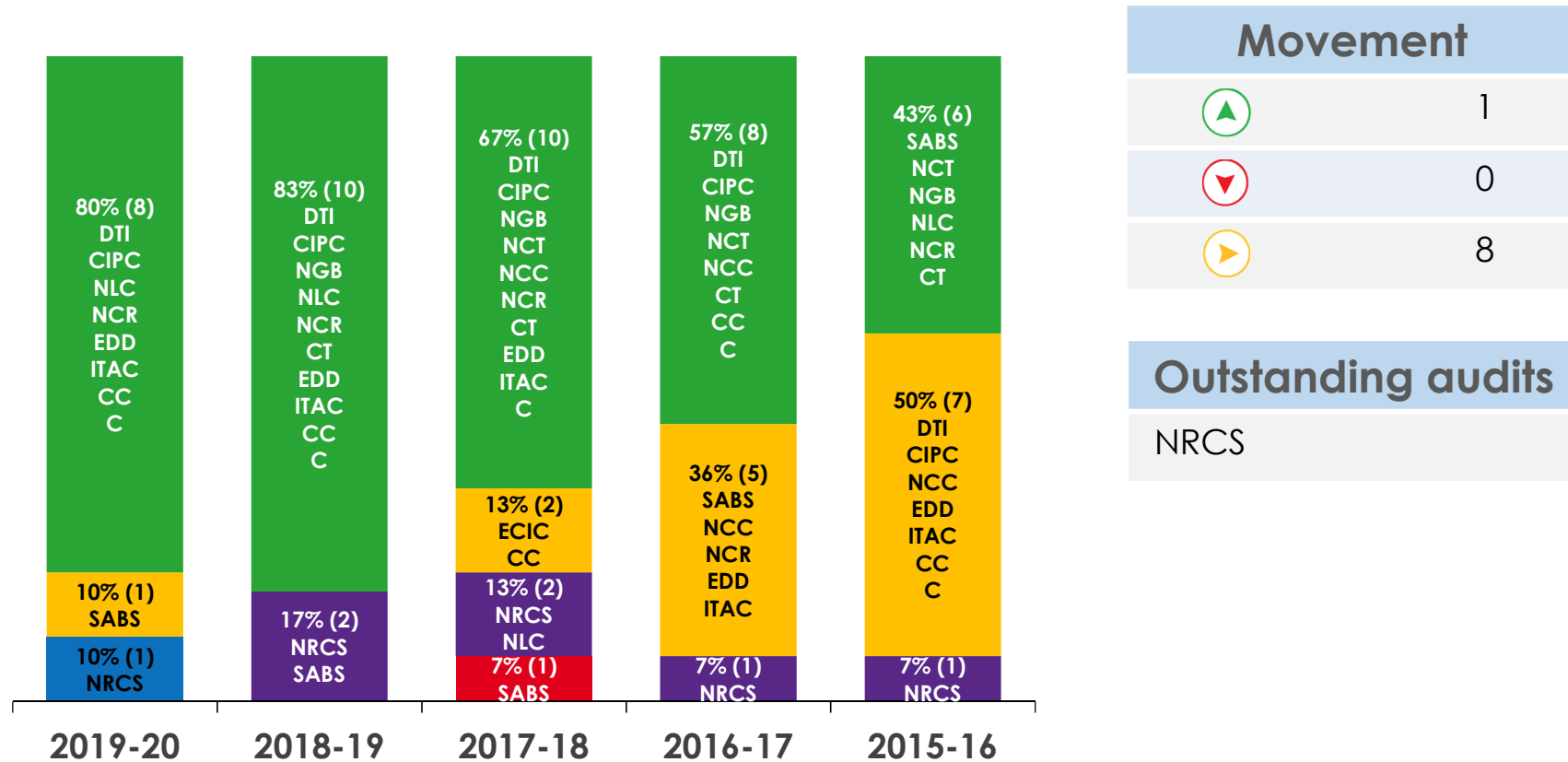
National Gambling Board -
Companies Tribunal - CT



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Audit outcomes of portfolio over five years



- The number of clean audits in the portfolio is an indication of effective leadership which set the correct tone at the top, and provided sufficient oversight support.
- There was an improvement in the quality of financial statements submitted for audit at SABS. All material misstatements which were identified during the audit were corrected by management, resulting in an unqualified with findings audit opinion.



Key reflections on the audit outcomes of the portfolio

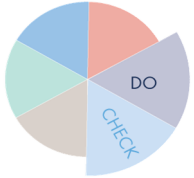
SABS

- ❑ The audit outcomes have improved from qualified with findings to unqualified with findings on compliance.
- ❑ Corrective actions to address prior year's qualification areas relating to property, plant and equipment, investment property, subscription revenue and irregular expenditure were implemented.
- ❑ There were still material misstatements identified due to amounts disclosed in the financial statements not agreeing to the supporting schedules and IFRS non-adherence, but the magnitude of these misstatements reduced.
- ❑ Management implemented controls (detect) over the procurement processes to address the internal control deficiencies that led to irregular expenditure being incurred in the prior year. The process led to increased irregular expenditure balance.

NLC

- ❑ The NLC and NLDTF's audit opinions have remained clean. The current audit outcomes was sustained as result of the work performed by the entity that they received a financially unqualified audit outcome.
- ❑ There is a significant risk on the grant allocations processes. Mainly on allegations of conflict of interest with a Senior Official at the NLC and beneficiaries. There have been a number of media articles which had to be taken into account during the risk assessment process, and throughout the audit. There are also two ongoing investigations on the alleged conflict of interest of the COO in the grant process.
- ❑ Findings have been raised on compliance with the National Lotteries Act and Regulations. These have been reported in the Management Report.





Credible financial reporting



Financial statements

Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2019-20

2018-19

	2019-20	2018-19
Submission of financial statements by legislated date	9	12
Financial statements submitted without errors	8	10
Quality of final submission after audit	9	10

- SABS achieved unqualified opinions only because they corrected all misstatements identified during the audit
- Eight auditees submitted financial statements with no material misstatements. This is due to effective leadership which set the correct tone at the top, and provided sufficient oversight support.
- The reason for a decrease in the number of auditees from the previous year is due to the office opting not to audit two entities (NGB and CT) and one (NRCS) audit which is still outstanding.





Credible performance reporting



Performance report

	Movement	2019-20	2018-19
Performance report submitted without errors	▶	6	9
Quality of final submission after audit	▲	9	11

CIPC, NLC and C had no material findings only because they corrected all misstatements identified during the audit

Reliable reporting of achievements	▲	9	11
Usefulness of performance indicators and targets	▶	9	12

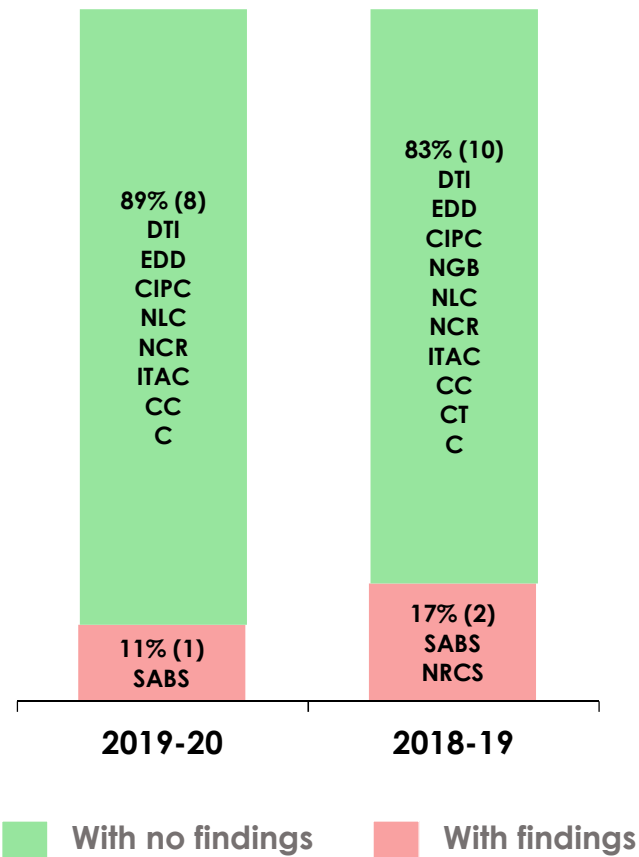
The reason for a decrease in the number of auditees from the previous year is due to the office opting not to audit two entities (NGB and CT) and one (NRCS) audit which is still outstanding.





Disregard for compliance with legislation

Findings on compliance with key legislation



Non-compliance areas (SABS)

- Financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework.
- The shareholders' compact did not include the mandated key performance measures and/ or indicators, as agreed between the accounting authority and the executive authority.





Definition of **preventative controls**

Preventative controls are measures designed and ***implemented by management*** to ***avoid*** threats to the objectives of the entity materialising.



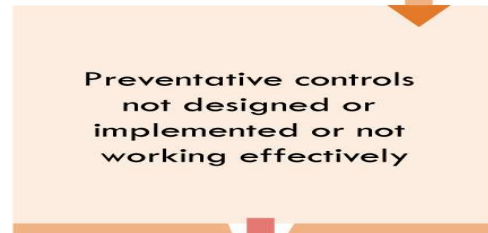
Preventative controls



Typical auditee business processes



Preventative controls



Material irregularity and poor audit outcomes



FUNDAMENTALS OF STRONG PREVENTATIVE CONTROLS

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

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

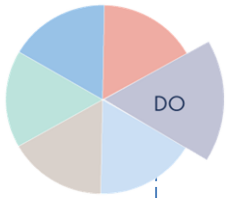
Comprehensive policies and procedures that empowers the employees to perform their day to day duties with ease

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

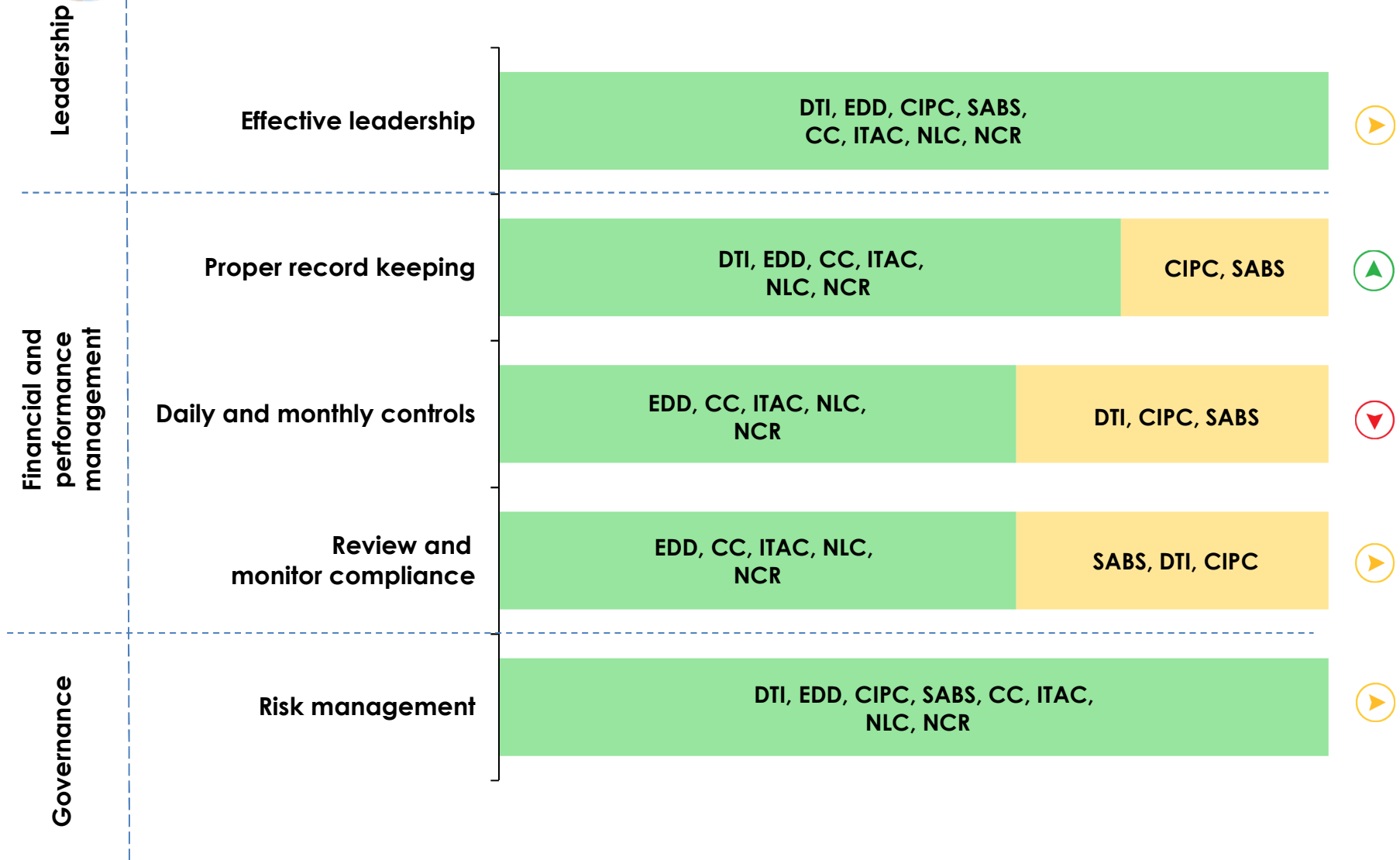
Regular risk assessment accompanied with **response** measures that are monitored on a regular basis

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.





Status of internal control



Good

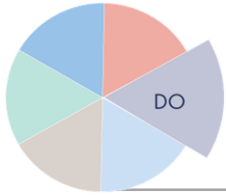


Of concern



Intervention required

17



Key drivers of internal control

SABS

- ❑ Material misstatements were identified due to inadequate controls on preparation of accurate financial statements that agree to supporting schedules.
 - ❑ Inadequate controls over the review and monitoring of compliance with key legislation such as Practice Note 4 of 2009-10, Framework for Managing Programme Performance Information and supply chain management legislation.
 - ❑ Compliance with certain accounting standards (e.g. IFRS 9, IAS 16, IAS 20, IAS 7) was not adequately reviewed and monitored
-





Assurance provided

		Assurance		
First level	Senior management	EDD, ITAC, NLC, NCR	DTI, CIPC, CC, SABS	▲
	Accounting officer/authority	DTI, EDD, CC, ITAC, NLC, NCR, SABS	CIPC	▲
	Executive authority	DTI, EDD, CIPC, CC, ITAC, NLC, NCR	SABS	▶
Second level	Internal audit unit	DTI, EDD, CIPC, ITAC, NLC, NCR	SABS, CC	▼
	Audit committee	DTI, EDD, ITAC, NLC, NCR, SABS, CIPC	CC	▶

There was no active internal audit function at CC for the year under review after a failed SCM process to appoint a service provider. Therefore, no reliance could have been placed on the internal function during the year.

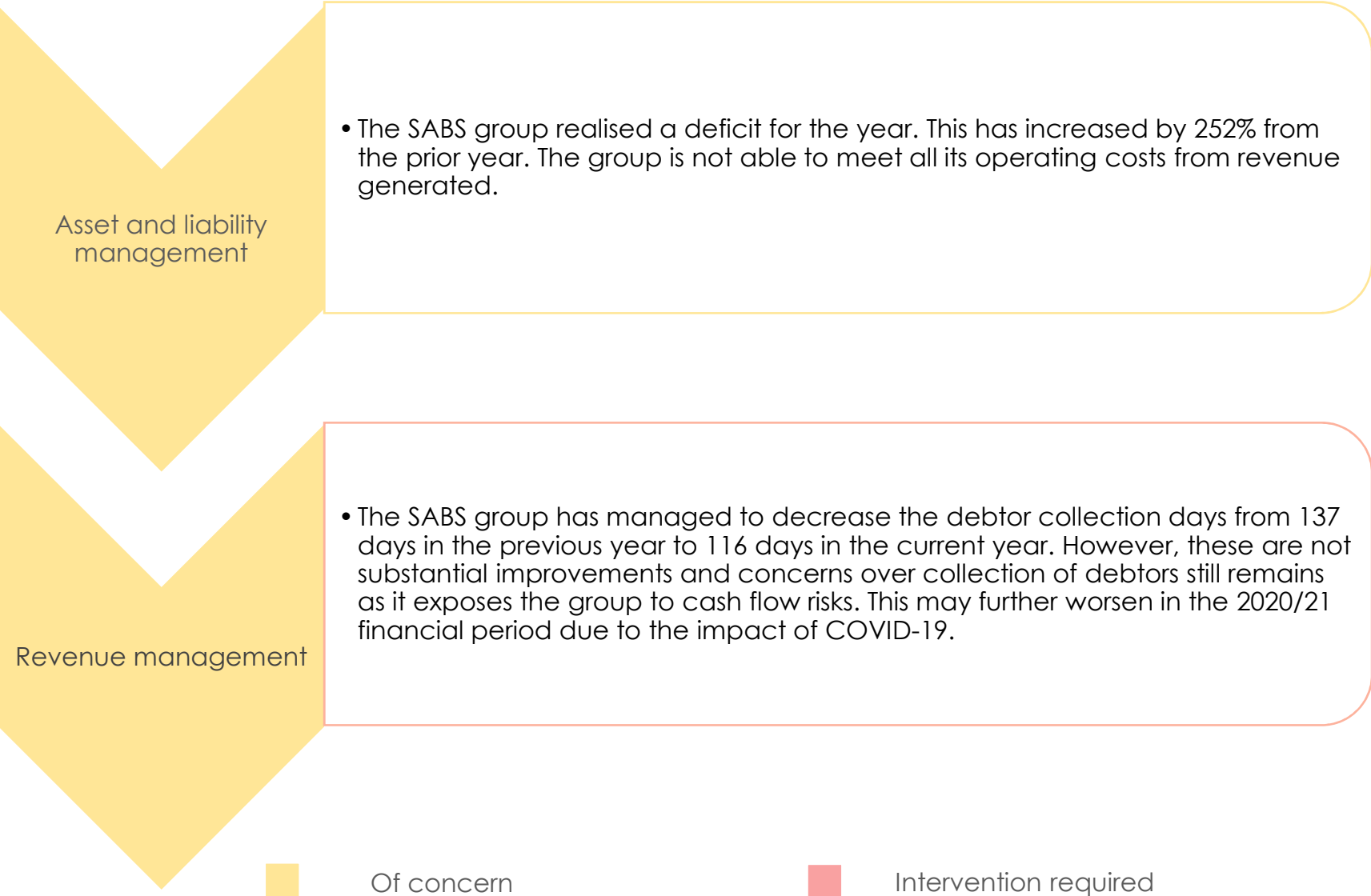


Financial health and financial management



Financial health

No material uncertainty exists as **100%** of auditees in the portfolio can continue to operate in future.

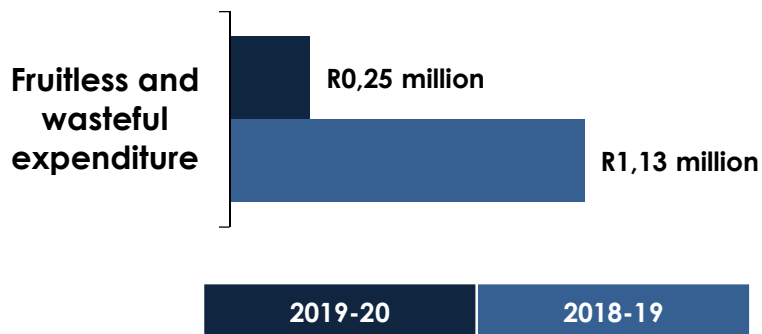


Fruitless and wasteful expenditure increased over 2 years

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

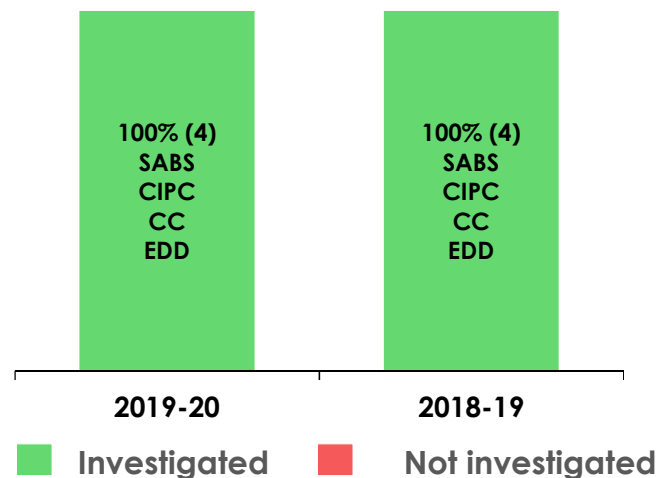


- R240 000 represents non-compliance in 2019-20 at CC
- R10 177 represent non-compliance in 2019-20 at ITAC
- R3 615 represent non-compliance in 2019-20 at NCR

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 interest charged by SARS on outstanding debts (R122 082), travel related incidents (R74 474) and traffic fines (R43 560) at CC.
- At ITAC, all fruitless and wasteful expenditure (R10 177) relates to instances of missed flights by employees on official trips
- At NCR, the fruitless and wasteful expenditure (R3 615) was caused by interest charged and penalties.

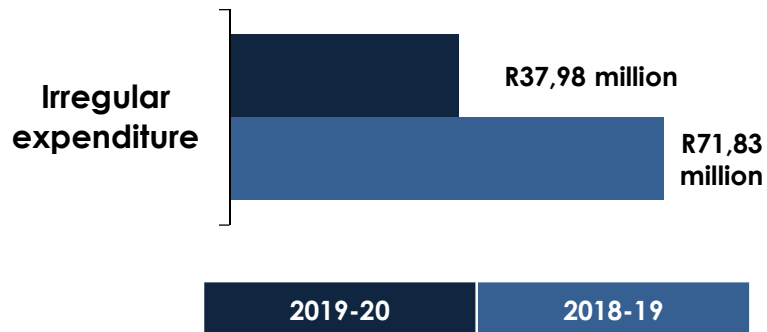


Irregular expenditure decreased over 2 years

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

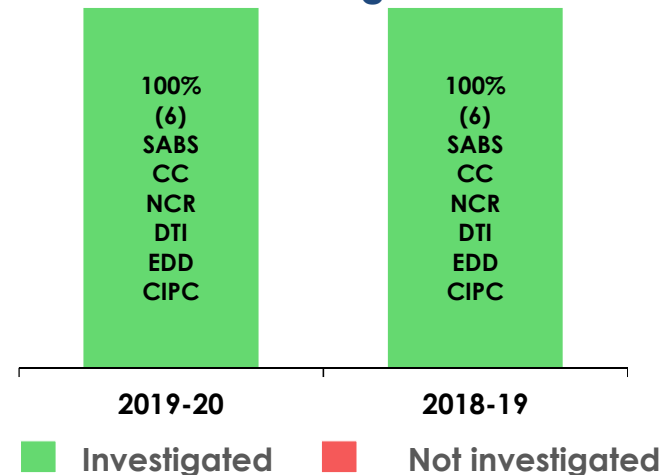


- R29,93 million represents non-compliance in 2019-20
- R8,05 million is prior year irregular expenditure identified in the current year.

Nature of the irregular expenditure

- At SABS, the irregular expenditure was caused by non-compliance with procurement process requirements (R6 727 000) and non-compliance with legislation on contracts (11 050 000)
- At CC (19 785 000), ITAC (R74 912) and CIPC (R340 000), the irregular expenditure was caused by non-compliance with the procurement process requirements.

Previous year irregular expenditure reported for investigation



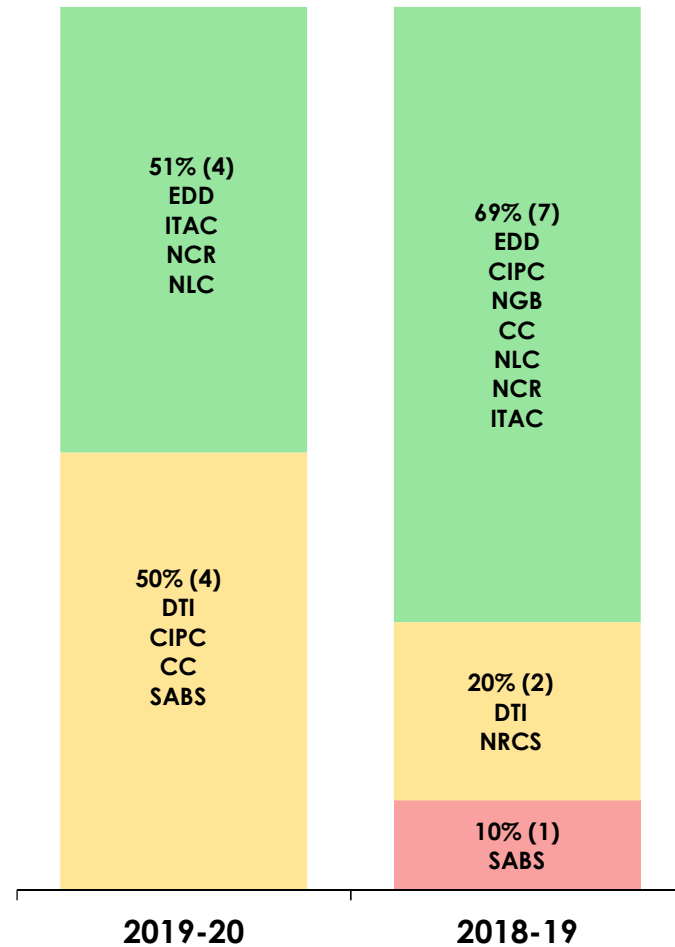
Supply chain management

- ▼ **Regression in SCM compliance**
 (2019-20: 4 with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- Uncompetitive and unfair procurement processes at **4 of auditees (DTI, CIPC, CC, SABS)**



With no findings



With findings



With material findings 24

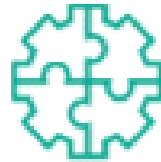
Portfolio snapshot (2019-20)



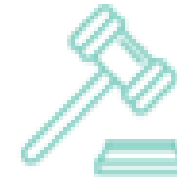
Clean audits: 8
(2018-19: 10)



Financially unqualified financial statements: 9
(2018-19: 10)



No findings on performance reports: 9
(2018-19: 11)



No findings on compliance with legislation: 8
(2018-19: 10)

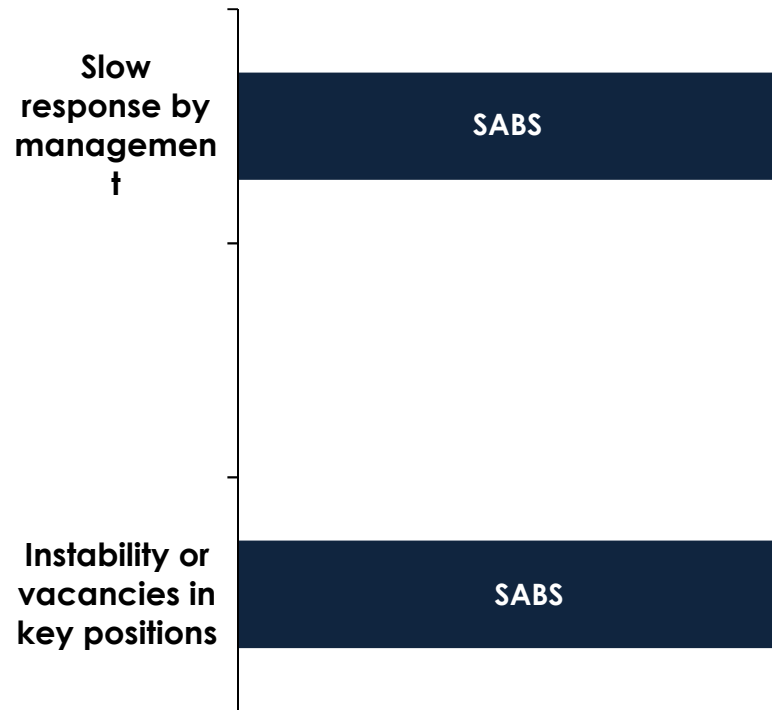


Irregular expenditure: R37,98m
(2018-19: R71,83m)



The reason for a decrease in the number of auditees from the previous year is due to the office opting not to audit two entities (NGB and CT) and one (NRCS) audit which is still outstanding.

Root causes



Management (accounting officers/ authorities and senior management) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.



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 and its entities

- Key vacancies in the Board of Directors and CEO at SABS should be filled.
- Management should track action plans and ensure timely implementation, to prevent recurrence of findings (SABS).
- Finalise the investigation on grant allocation at NLC and share the report with the AGSA.
- Strengthen oversight on the grant allocation process at NLC.

To the portfolio committee

- Request accounting officers/authorities and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of SABS.
- Request feedback on the progress of appointing the Board of Directors and CEO at SABS.
- Request the department to share the result investigation report on grant allocation at NLC.



Overall message

- The number of clean audits in the portfolio is an indication of effective leadership which set the correct tone at the top, and provided sufficient oversight support.
- There was also an improvement in the quality of financial statements submitted for audit at SABS. Corrective actions to address prior year's qualification areas were implemented and succeeded in addressing these areas.
- Management at SABS implemented controls over the procurement processes to address the internal control deficiencies that led to irregular expenditure being incurred in the prior year.



Thank you



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