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Briefing to Portfolio Committee on Cooperative  
Governance and Traditional Affairs

**PFMA**  
2019-20

*1 December 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 6 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 Cooperative Governance - DCoG  
Department of Traditional Affairs - DTA  
South African Local Government Association - SALGA  
Municipal Infrastructure Support Agent - MISA  
Municipal Demarcation Board - MDB  
Commission for the Promotion and Protection of Rights of Cultural, Religious and Linguistic Communities – CRL rights commission

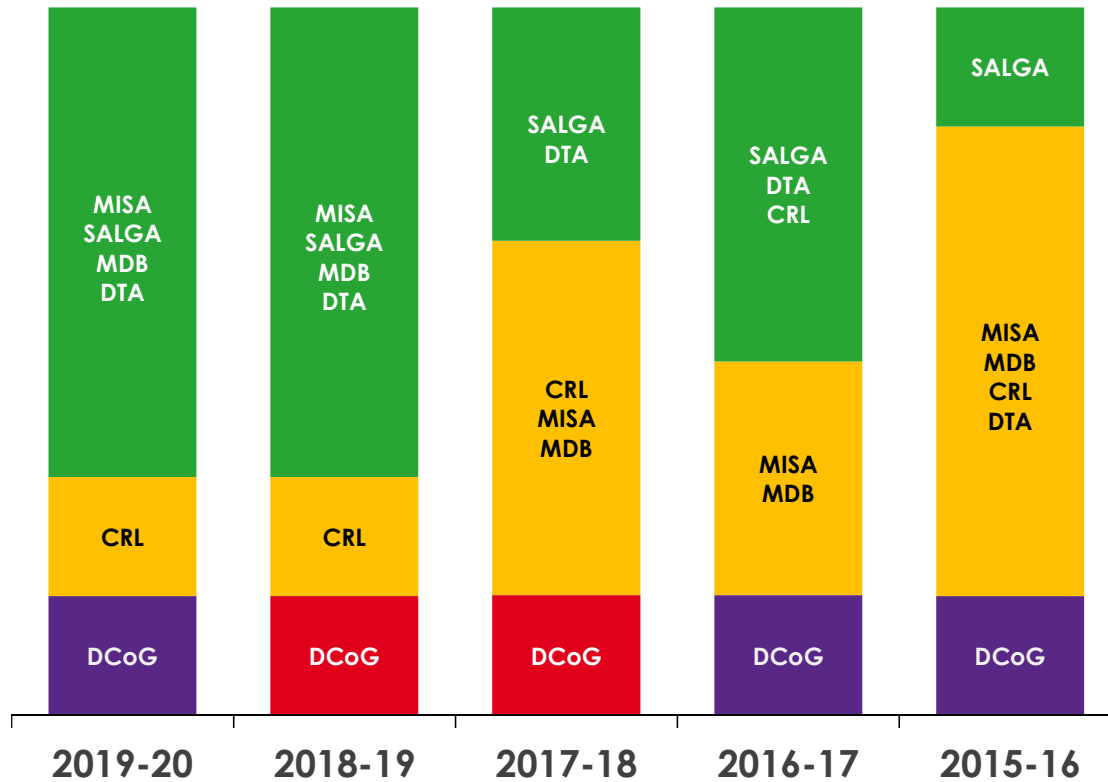


# ACCOUNTABILITY = PLAN + DO + CHECK + ACT





# Audit outcomes of portfolio over five years (Cooperative Governance and Traditional Affairs)



Movement	
▲	1
▼	0
▶	5
Outstanding audits	0
Outstanding audits	
None	

- Overall audit outcomes for the **COGTA Portfolio improved** slightly with DCOG moving from a disclaimer to qualified audit opinion in the current year.
- The overall driver is the commitment by management **to engage the auditors and implement auditors recommendations. Management response to limitations** and the **implementation of actions plan initiatives** also assisted in maintaining and improving the audit outcomes.
- The result of the rest of the auditees remained the same as last year with all clean audits except for CRL, which remain unqualified with findings.



# Key reflections on the audit outcomes of DCoG and CRL

## DCoG

- ❑ **Corrective actions** to address prior year's qualification areas relating to accruals & payables not recognised and irregular expenditure were implemented.
- ❑ There were **no material findings on performance** information in the current year. Covid-19 implications could have had a positive contribution.
- ❑ **Material misstatements** identified due to amounts disclosed in the financial statements not agreeing to the supporting schedules and MCS non-adherence, but the magnitude of these misstatements reduced.
- ❑ Inadequate review and monitoring processes by leadership and management led to **material non-compliance** with laws and regulations
- ❑ Last year, National Treasury approved a **departure** for the department pertaining to CWP to comply with SCM processes until 31 March 2021.
- ❑ If the departure comes to an end without any traction on corrective measures, the department will most likely revert back to **incurring irregular expenditure**.
- ❑ The **CWP leadership instability** contributed to inadequate controls over effective oversight and monitoring of payments to implementing agents. However, the department has filled the position of DDG and has appointed a finance head within CWP.
- ❑ The impact of the appointments will be evident in the next financial year as the appointment happened late in the audited financial year

## CRL

- ❑ Slow implementation of post audit action plans added to repeat findings being identified and non compliance reoccurring.





# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date

Financial statements submitted without errors (**DTA, SALGA, MISA and MDB**)

Quality of final submission after audit (**DTA, SALGA, MISA, MDB and CRL**)

### Movement



2019-20

2018-19

	6	5
	4	4
	5	5

*DCoG obtained a qualified audit opinion as they have uncorrected material misstatements.*

*CRL achieved unqualified audit opinion only because they corrected all misstatements identified during the audit.*

*Four 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.*

### Top three qualification areas for DCoG

- Goods and services (Payments to CWP project management and CWP participants)
- Moveable tangible capital assets
- Prepayment and advances





# Credible performance reporting



## Performance report

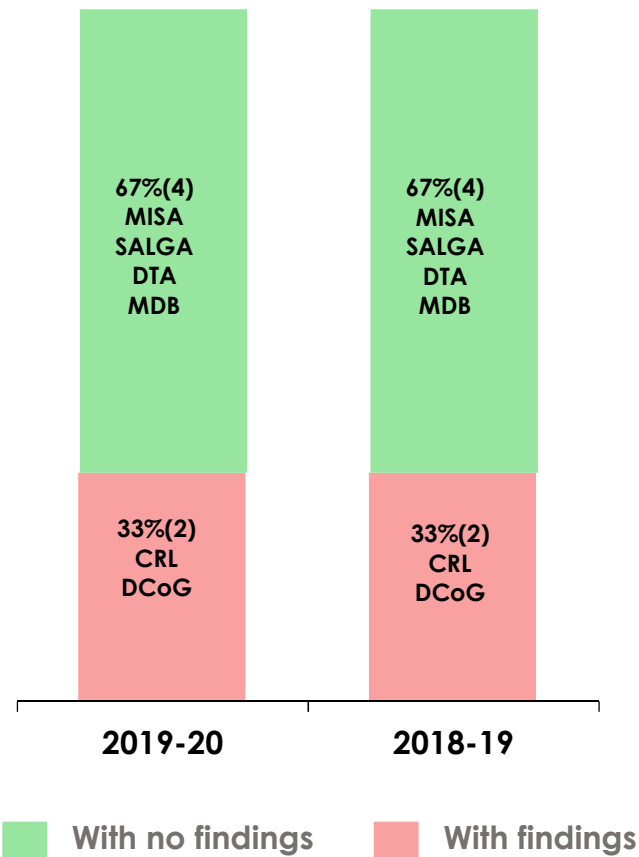
	Movement	2019-20	2018-19
Performance report submitted without errors ( <b>MDB, SALGA, MISA</b> )	▲	3	2
Quality of final submission after audit ( <b>MISA, SALGA, MDB, CRL, DTA, DCoG</b> )	▲	6	5
<p><i>DCoG, DTA and CRL had no material findings only because they corrected all misstatements identified during the audit</i></p>			
Reliable reporting of achievements	▲	6	5
Usefulness of performance indicators and targets ( <b>MISA, SALGA, MDB, CRL, DTA and DCoG</b> )	▲	6	5





# Disregard for compliance with legislation

## Findings on compliance with key legislation



## Top five non-compliance areas

- Quality of financial statements (**DCoG, CRL**)
- Management of procurement and contracts (**DCoG, CRL**)
- Prevention of irregular, fruitless and wasteful expenditure (**DCoG**)
- Consequence Management (**DCoG**)
- Expenditure management (**DCoG**)





## 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



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 STONG PREVENTATIVE CONTROLS

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

- There should be a **plan or procurement plan** to address the needs of the **user department** **prior to signing a the CWP Implementing agents contract.**

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

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

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

Senior management should **develop procedures** to empower the employees to effectively manage and monitor the CWP programme

**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

Senior management should ensure that **action plans incorporate all issues where non compliance is likely to arise** in order to prevent non compliances

**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.

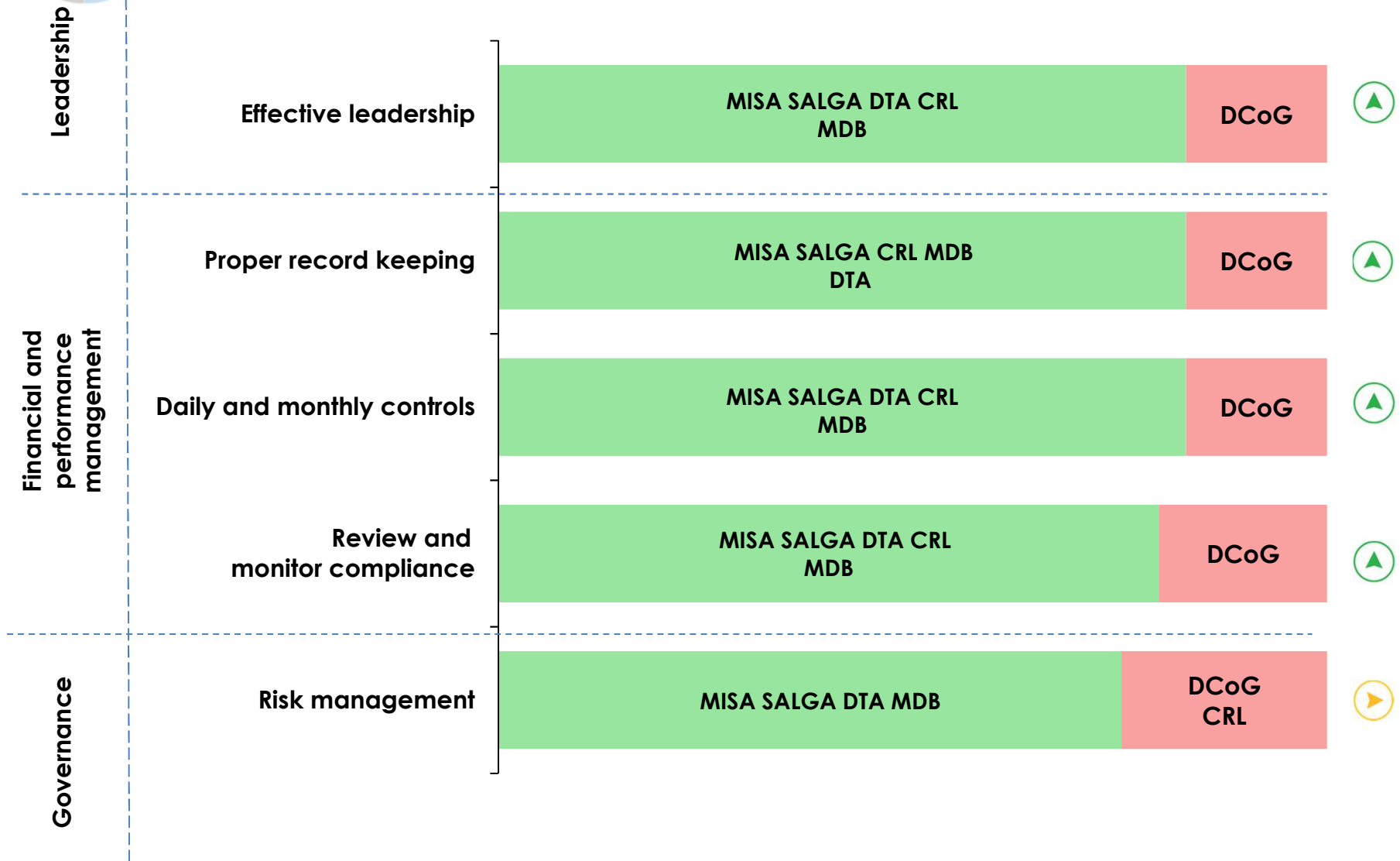
It is the **audit committee's** role to **influence a comprehensive audit action plan and internal audit plan** to enhance operating effectiveness of internal controls



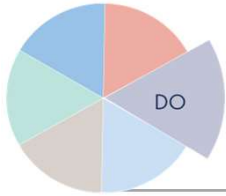




# Status of internal control



■ Good     
 ■ Of concern     
 ■ Intervention required     
 17



## Key drivers of internal control

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DCoG

- ❑ 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 supply chain management legislation.
  - ❑ Previous action plans adequately designed but the implementation was slow with limited progress towards addressing the key issues that affect audit outcomes.
  - ❑ Lack of adequate record keeping, internal control processes and supervision and monitoring across the department.
- 





# Assurance provided

		Assurance			
First level	Senior management	MISA SALGA MDB	CRL DTA	DCoG	▲
	Accounting officer/authority	MISA SALGA MDB	CRL DTA	DCoG	▲
	Executive authority	MISA SALGA MDB DTA CRL		DCoG	▲
Second level	Internal audit unit	MISA SALGA MDB DTA CRL DCoG			▲
	Audit committee	MISA SALGA MDB DTA CRL DCoG			▲



# Financial health and financial management



# Financial health

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



- The debtor's collection period has improved compared to prior years however; the debtor's impairment provision as a percentage of accounts receivable has further increased in the current year illustrating the continued and increasing financial constraints faced by municipalities in settling their accounts with **SALGA**.



- **SALGA, CRL, DTA, MDB** and **DCoG** maintained a net asset position which indicates that the entities and departments are able to pay off their liabilities and other obligations as they fall due.
- **MISA** realised a deficit in the current year indicating that the operations are funded by other means. Total expenditure for the year amounted to R401 million, resulting in a deficit in the statement of financial performance of R54 million. The inclusion of retained funds amounting to R83 million resulted in an overall surplus of R29 million for the financial year.



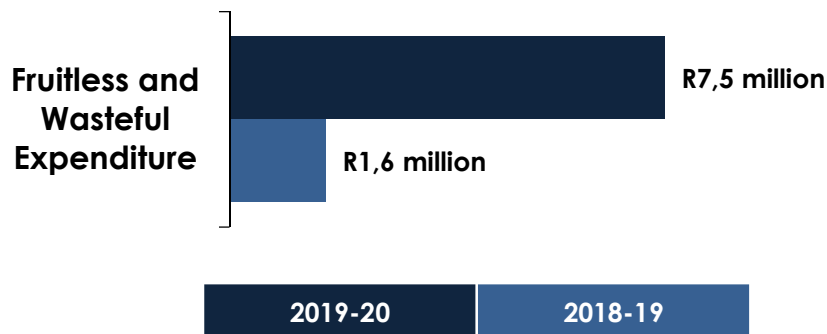
- The creditor's payment period improved for **DTA, SALGA, MDB** and **DCoG** compared to the prior year indicating that the entities and departments have continued to implement effective controls which ensure prompt payment .
- The creditor payment period increased compared to the prior year for **MISA** and **CRL**

# 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

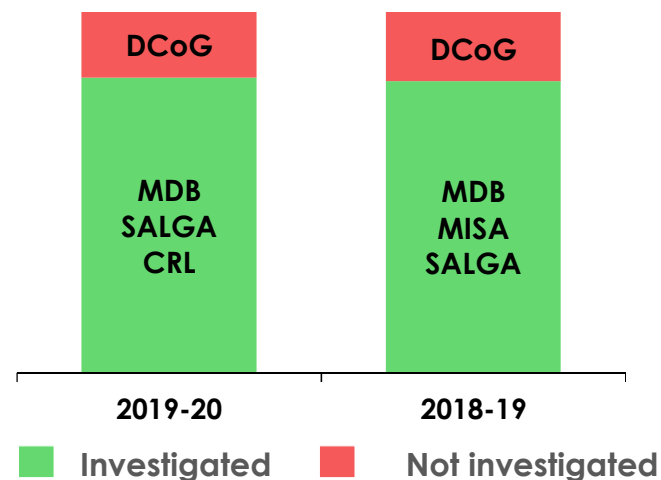


• No major instances of non-compliance in 2019-20

## 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 employees employed by the state and paid under the CWP programme as participants within **DCoG** (7 million).

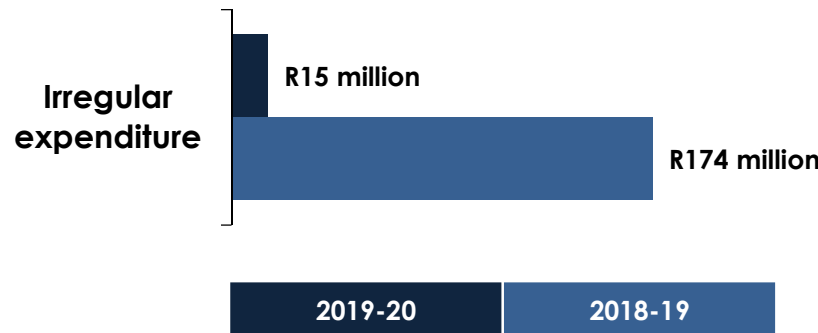


# Irregular expenditure decreased over 2 years

## 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

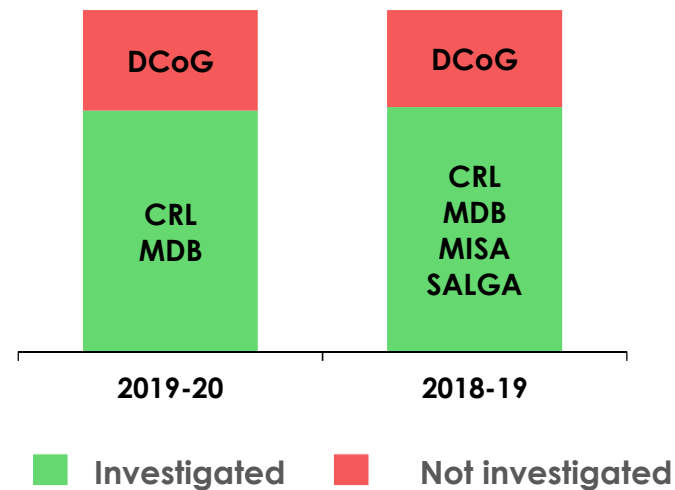


- R15 million represents non-compliance in 2019-20
- \* Irregular expenditure reported in the current year for **DCoG** is considerably lower due to the departure granted on the procurement process when appointing the NPO's for the CWP contract by National Treasury.

## Nature of the irregular expenditure

- Payments made on expired contracts by **DCoG** (11,8 million).
- Non-compliance with procurement process requirements **CRL** (R1m) and **MDB** (R2m).

## Previous year irregular expenditure reported for investigation



# Supply chain management

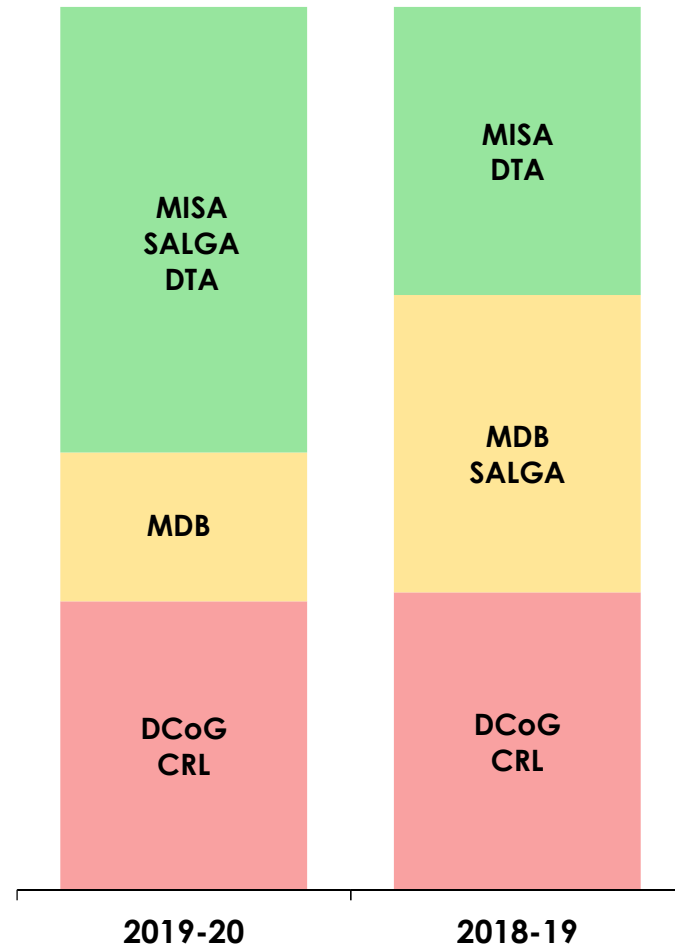


Improvement in SCM compliance  
(2019-20: 3 with no findings)

All SCM findings should be investigated

## Most common findings on supply chain management

- Non submission of declaration on whether they are employed by the state or connected to any person employed by the state **1 auditee (DCoG)**
- Contact awarded on points not calculated in terms of PPPFA **1 auditee (CRL)**
- Publish the details of the winning bidder **1 auditee (MDB)**
- Non compliance with SCM in general **1 auditee (DCoG)**



With no findings



With findings



With material findings 24



# Portfolio snapshot (2018-19)



**Clean audits: 4**  
(2018-19: 4)



**Financially unqualified financial statements: 1**  
(2018-19: 1)



**No findings on performance reports: 3**  
(2018-19: 2)



**No findings on compliance with legislation: 4**  
(2018-19: 4)



**Irregular expenditure: R15m**  
(2018-19: R174m)

# Root causes



# Recommendations

## To departments and its entities:

- **Continue to implement action plans** to address the shortcomings raised during the audit of DCoG and CRL.
- The internal audit unit should **regularly review the achievements against the action plans** and report shortcomings to the audit committee and the accounting officer for DCoG and CRL.
- DCoG must **prepare quarterly financial statements with complete supporting schedules** and quarterly performance reports and submit to internal audit for review.
- Strengthen **monitoring of controls** over CWP at DCoG.

## To portfolio committee:

- Request accounting officers and the minister to provide feedback on the implementation and progress of the action plans to ensure improvement in audit outcomes of DCoG and CRL.
- Request feedback on the implementation of MI specific corrective action as committed by the DCoG accounting officer.



# Summary of material irregularities issued to DCoG

1. Payment made to the wrong entity	2. Payments to deceased participants	3. Payments to government employees
<p><b>Material irregularity</b>  <i>The Department made a <b>Municipal Infrastructure Grant</b> payment total of <b>R183 450 000.00</b> to a supplier <b>on the central payment system with a similar</b> name instead of Greater Sekhukune District Municipality.</i></p> <p><i>The department is <b>likely to incur a material financial loss of R104 047 163</b> as the amount was still not recovered at year end, as disclosed in note 13 of the financial statements.</i></p>	<p><b>Material irregularity</b>  <i>Payments were made in 2018-19 through the CWP to <b>deceased participants</b>, as effective internal controls were not in place for the approval and processing of payments, as required by treasury regulations 8.1.1.</i></p>	<p><b>Material irregularity</b>  <i>Payments were made in 2018-19 through the CWP to <b>non-qualifying government employees</b> 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.</i></p>
<p><b>Commitment:</b>  <i>The accounting officer committed to strengthening controls to prevent similar incidents in the future and has <b>reported the matter to the Special Commercial Crimes Unit</b> (Hawks) and the <b>Special Investigations Unit</b> (SIU) <b>for further investigation</b>. A case number was received from the Hawks on 28 January 2020.</i></p> <p><i>Summons were issued through the State Attorney against all parties Greater Sekhukhune, their lawyers and all partners in the firm, the banks where money was deposited and organisations where money was paid. The matter is still in court.</i></p> <p><i>The disciplinary hearings were conducted for affected staff members.</i></p>	<p><b>Commitment:</b>  <i>An <b>investigation</b> is still in progress to assess the exact magnitude of the loss that resulted from payments to deceased participants and <b>recover the financial losses from implementing agents</b>. Upon completion of the investigation the department will also institute the <b>disciplinary steps</b> against the relevant officials where applicable.</i></p> <p><i>So far, it was determined that some of the participants were captured on the CWP MIS with the incorrect ID numbers and some were indeed deceased.</i></p>	<p><b>Commitment:</b>  <i>An <b>investigation</b> is still in progress to assess the exact magnitude of the loss that resulted from payments to deceased participants and <b>recover the financial losses from implementing agents</b>. Upon completion of the investigation the department will also institute the <b>disciplinary steps</b> against the relevant officials where applicable.</i></p> <p><i>So far, it was determined that some of the participants were captured on the CWP MIS are no longer working for state or were employed by the state on short-term contract basis.</i></p>



# Summary of material irregularities issued to DCoG

4. Utilization of advance payments	5. Prior year project mgt fees	6. Current year project mgt fees
<p><b>Material irregularity</b>                      The department made quarterly advance payments to implementing agents on the CWP <b>without the required evidence</b> that previous advance payments were spent correctly resulting in <b>payments being made for goods and services that were not received at the CWP sites</b>, as effective internal controls were not in place for the approval and processing of payments as required by treasury regulations 8.1.1.</p>	<p><b>Material irregularity</b>                      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 <b>inadequate evidence to justify such payments</b> since inception of the contract and resulting in payments for <b>services not received</b>, as effective internal controls were not in place for the approval and processing of payments as required by treasury regulations 8.1.1.</p>	<p><b>Material irregularity</b>                      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 <b>inadequate evidence to justify such payments</b> and resulted in <b>payments for services not received</b>, as effective internal controls were not in place for the approval and processing of payments as required by treasury regulations 8.1.1.</p>
<p><b>Commitment:</b>                      A detailed <b>workshop with all NPO's</b> was conducted highlighting the weaknesses in internal controls identified during the process of clearing the suspense account. <b>Checklist was developed</b> to ensure that information is checked and reconciled immediately when the NPO's make their submissions.</p> <p>The department is in the process of recovering amounts that <b>cannot be substantiated by the NPOs</b>.</p>	<p><b>Commitment:</b>                      An <b>investigation</b> is in progress to assess the exact magnitude of the loss that resulted from payments for project management fees for the prior year and the <b>loss will be assessed and recouped</b> 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 <b>institute the disciplinary steps</b> against the relevant officials were applicable.</p>	<p><b>Commitment:</b>                      An <b>investigation</b> is in progress 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 <b>recover the financial losses from implementing agents</b>. The department should also institute the <b>disciplinary steps</b> against the relevant officials were applicable.</p>



# Thank you



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