



Briefing to portfolio committee on justice and correctional services on the Department of Correctional Services

PFMA
2019-20

Nov 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 department.



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
- 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 annual performance plans
- 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**, unless indicated otherwise.

Audit outcomes are indicated as follows:



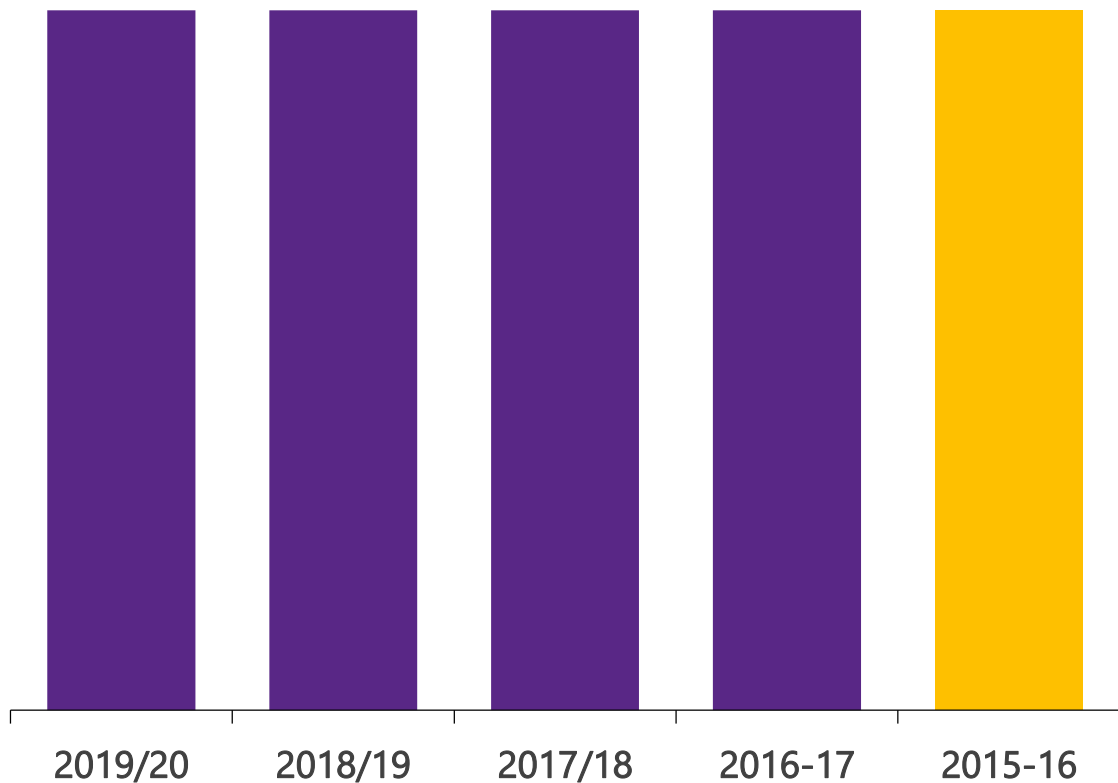
Movement from the previous year is depicted as follows:



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Audit outcomes of the Department of Correctional Services (DCS) over five years



- The audit opinion for remains qualified and the basis for the audit opinion is the completeness of irregular expenditure, the department was qualified on a similar issue in the prior year.
- The department also has findings reported on reliability and usefulness of performance information and compliance with key legislation.



Credible financial reporting



Financial statements

	Movement	2019-20	2018-19
Submission of financial statements by legislated date		Yes	Yes
Quality of initial submission for auditing		No	No
Quality of final submission after auditing		No	No

A blue arrow points from the 'No' in the 2019-20 column for 'Quality of final submission after auditing' to a solid blue horizontal bar below the table.

The department was qualified on the following:

- Irregular expenditure:

The department did not have an adequate system for identifying and disclosing all irregular expenditure incurred, as a result we could not confirm completeness of irregular expenditure disclosed in the financial statements.



Credible performance reporting

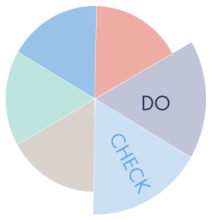


Performance report

	Movement	2019-20	2018-19
Performance report submitted without errors	▶	No	No
Quality of final submission after audit	▶	No	No
Reliable reporting of achievements	▶	No	No
Usefulness of performance indicators and targets	▶	No	No

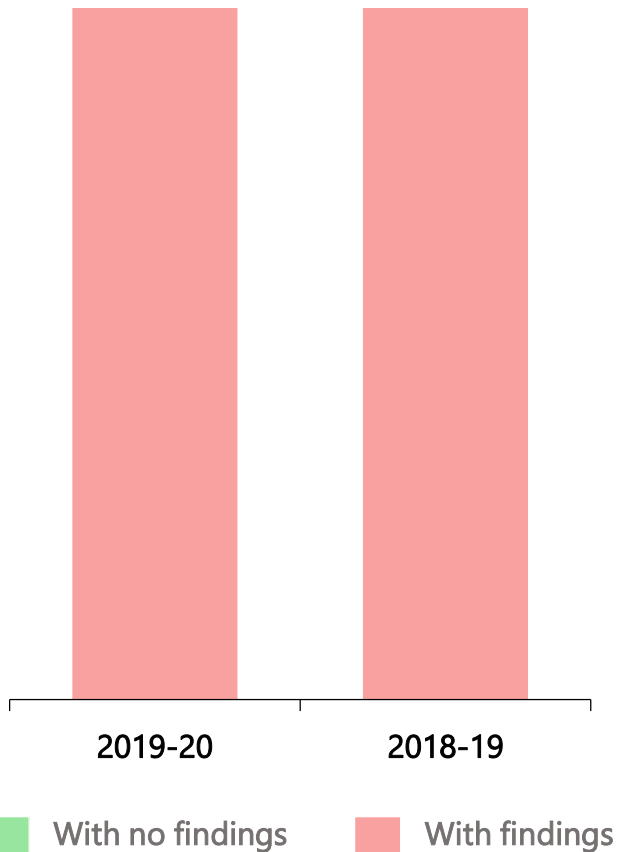
The submitted annual performance report had errors. Material findings were identified during the audit that were not corrected and these were reported in the audit report.





Performance report findings

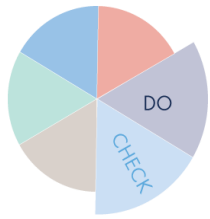
Findings on programme 2: Incarceration



Material audit findings

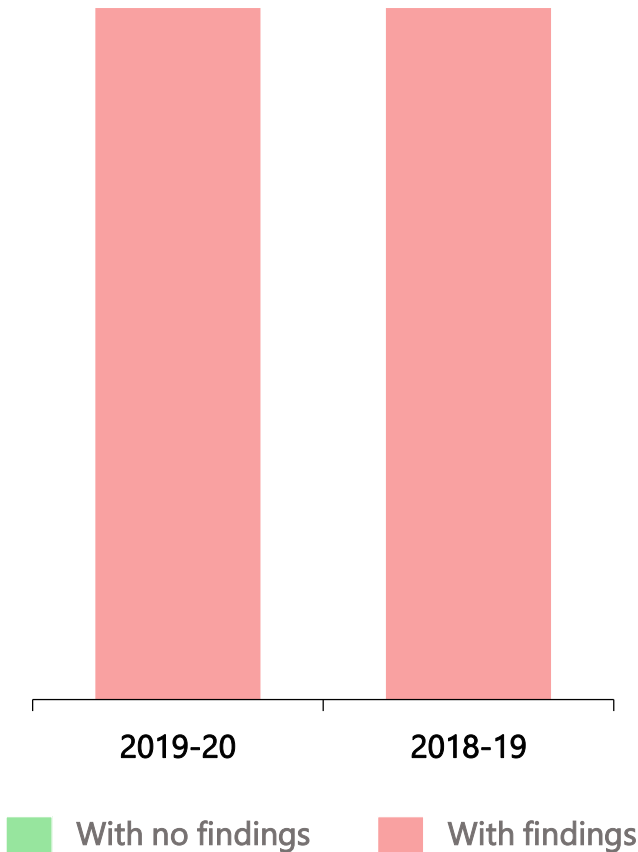
Material findings in respect of two indicators and targets were noted:

- **Percentage of overcrowding in correctional centres and remand detention facilities in excess of approved capacity-** Lack of accurate and complete records to support the reported achievement (approved bed spaces capacity).
- **Number of new bed spaces created by upgrading of facilities annually** -The reported achievement was not consistent with the planned target.
- Planned to create 183 additional bed space on phase III of Standerton project, but reported an achievement of 779 additional bed space on phase I to phase III created over several years and not just the current year.



Disregard for compliance with legislation

Findings on compliance with key legislation

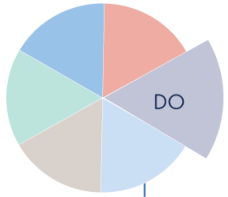


Top five non-compliance areas

- Management of procurement and contracts
- Prevention of irregular expenditure
- Non - Implementation of a system to monitor progress with the annual performance plan and performance management
- Consequence management - We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure



Status of internal control



Leadership

Oversight responsibility

Audit action plans

Proper record keeping

Daily and monthly controls

Review and monitor compliance

Audit Committee

Risk management

Financial and performance management

Governance



Good



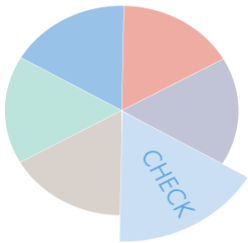
Of concern



Intervention required

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Assurance provided

Assurance

First
level

Senior
management



Accounting
officer



Executive
authority



Second
level

Internal
audit unit



Audit
committee



Provides
assurance

Provides some
assurance

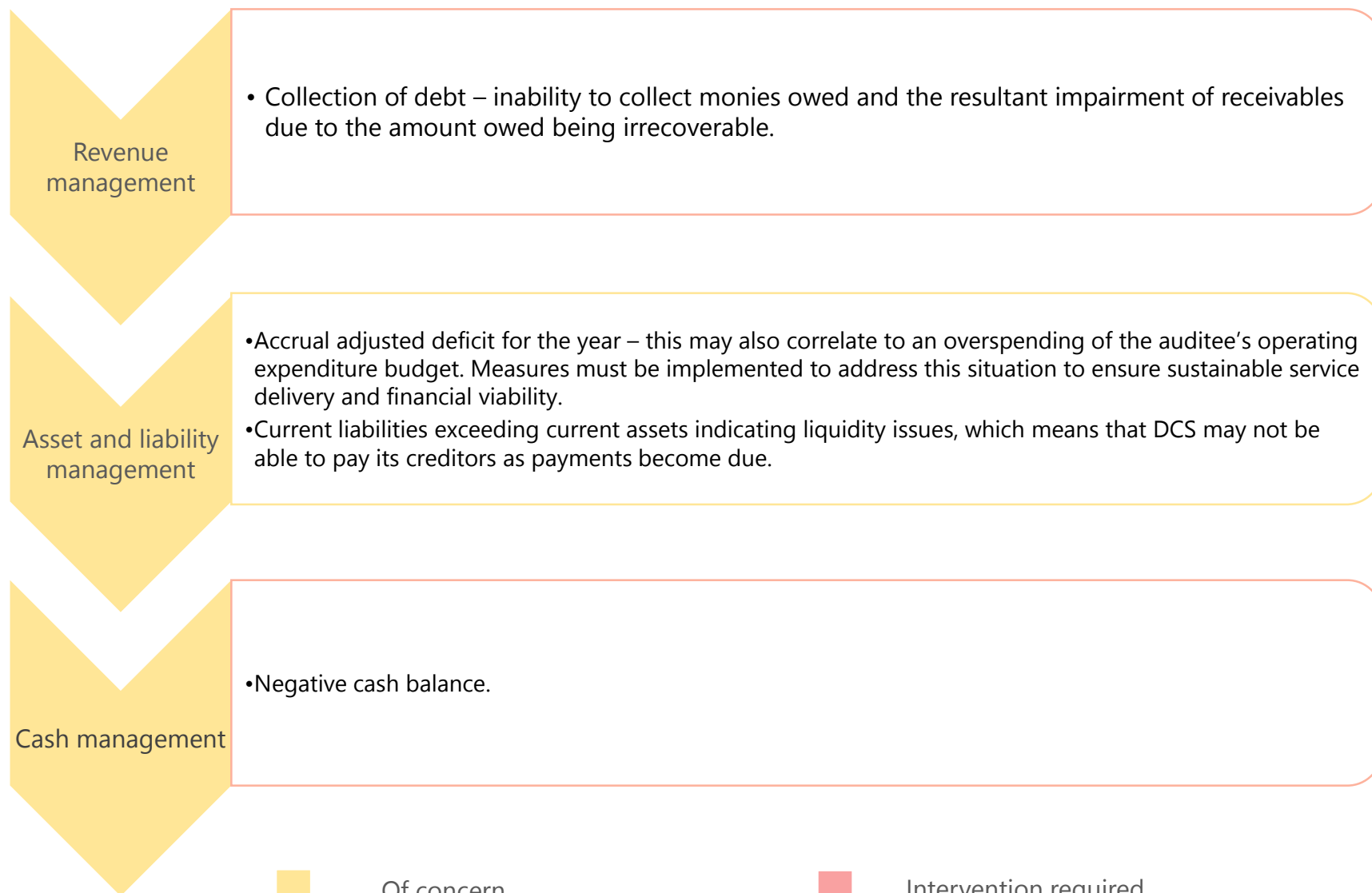
Provides limited/
no assurance

Not
established

Financial health and financial management



Financial health

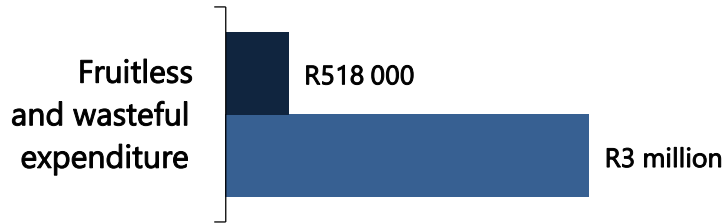


Fruitless and wasteful expenditure decreased over two years

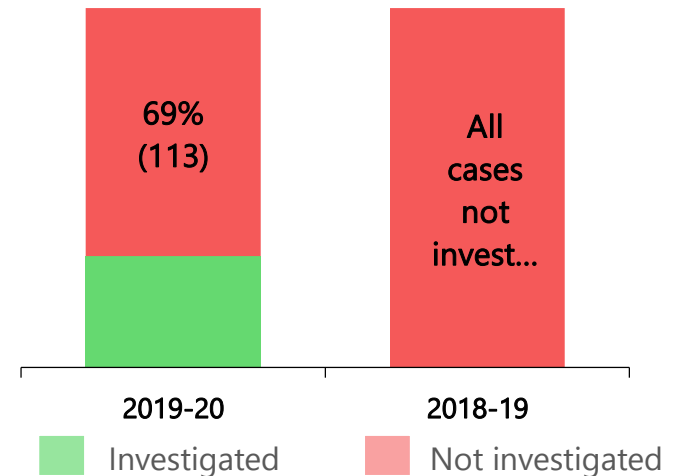
Definition

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 the department



Previous year fruitless and wasteful expenditure reported for investigation



Nature of fruitless and wasteful expenditure

- Fruitless and wasteful expenditure was incurred as a result of interest paid relating to late payments and travel cancellations.*

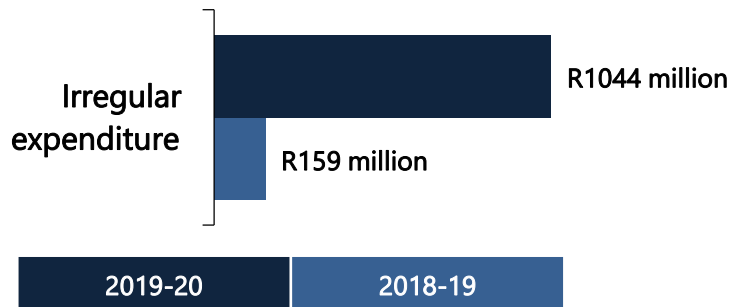


Irregular expenditure increase over two years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed procurement processes not followed

Irregular expenditure incurred by the department



Nature of irregular expenditure

- *Splitting of orders – the amount of R1 billion disclosed relates to this category, 50% of this amount relates to cases identified in the current year relating to prior year (2018/19)*
- *Competitive bidding process not followed**
- *Non-compliance with SITA Act**
- *Three price quotations not obtained**
- *Contract variation in excess of 20%**

** These categories of irregular expenditure were not disclosed as irregular expenditure in the financial statements*

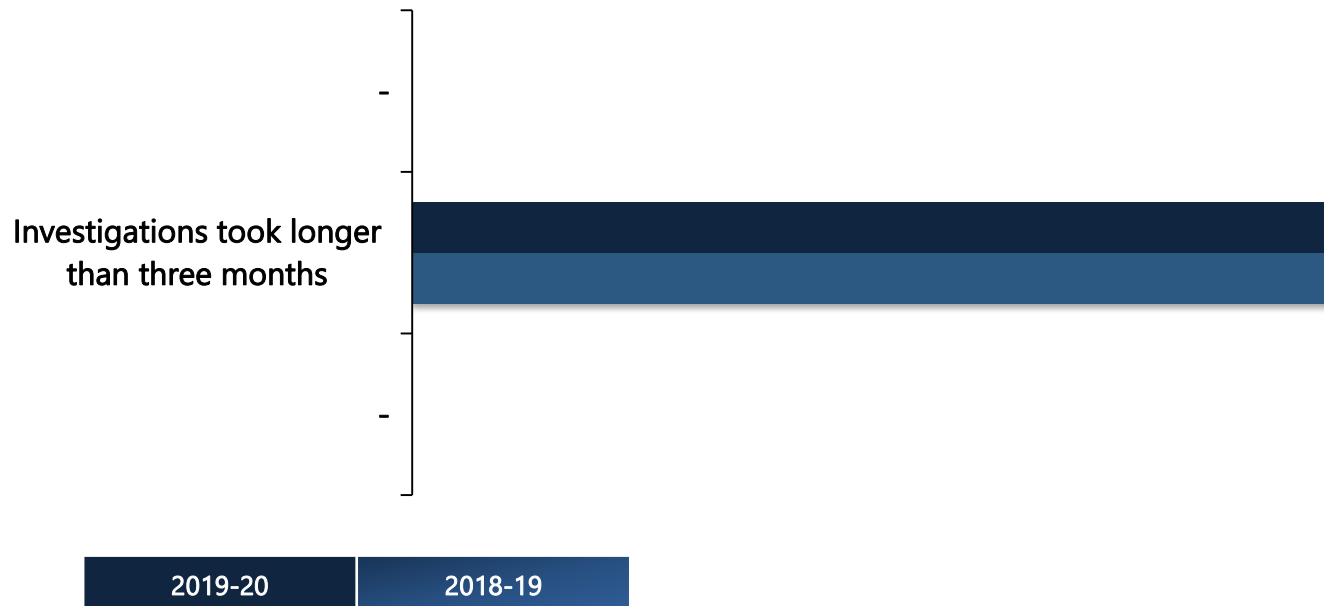
Previous year irregular expenditure reported for investigation





Fraud and lack of consequences

Allegations of financial and/or fraud and SCM misconduct



- 2018-19 – 36 possible fraudulent cases were identified by the department and are being investigated
- 2019-20 – 10 possible fraudulent cases were identified by the department, these cases are in the process of being investigated.

Key expansion of our mandate



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

What is a material irregularity?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud**, **theft** or **a breach of a fiduciary duty**

identified during an audit performed under the PAA that **resulted in or is likely** to result in ...

Material
irregularity

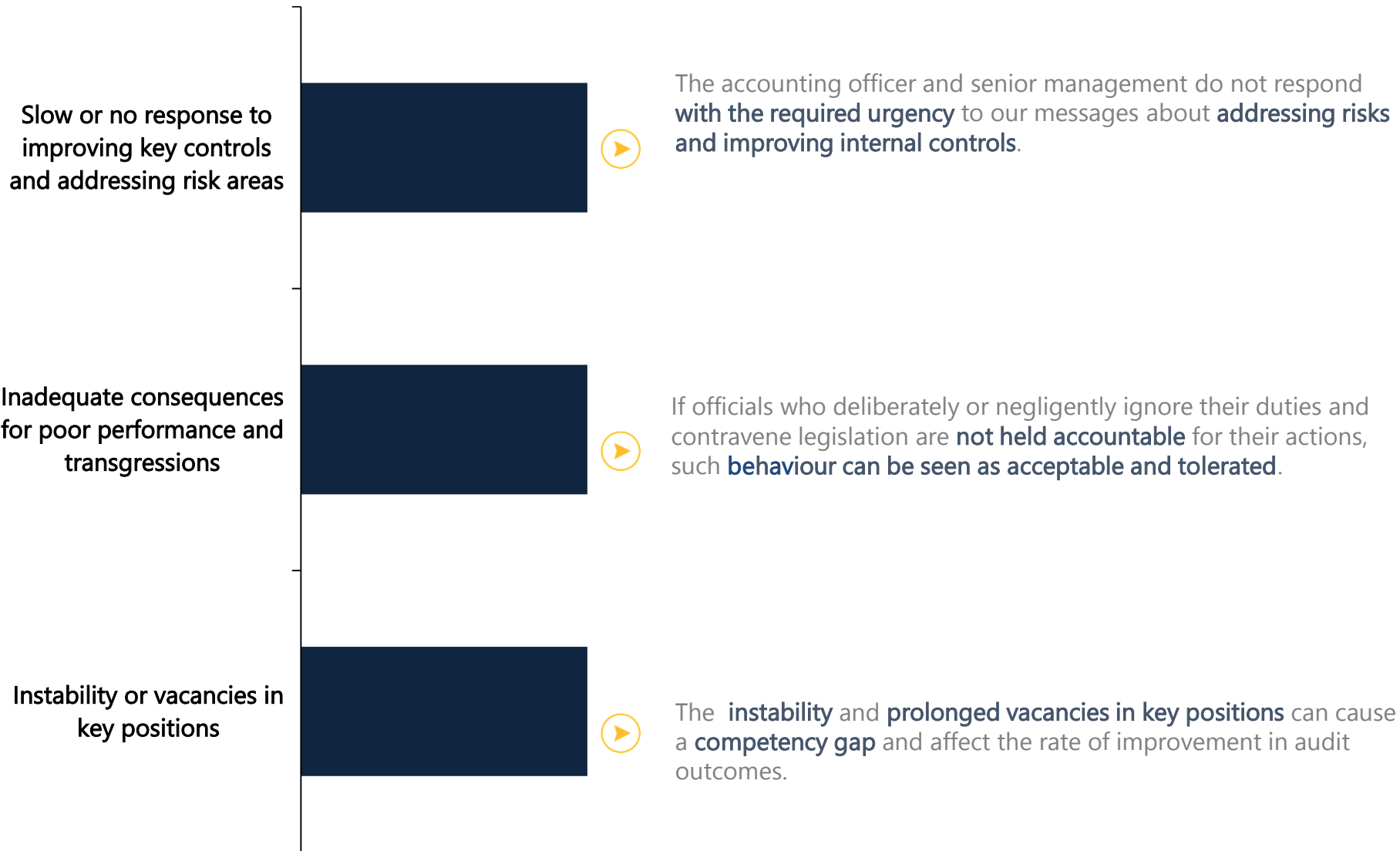
Impact



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**



Root causes



Recommendations to the Accounting Officer

To Accounting Officer

- Design and implement an action plan to resolve audit findings.
- Management should follow up on progress with implementation of the action plan.
- Fill key vacant positions.
- Implement consequence management for incurring irregular expenditure and other cases of financial misconduct.

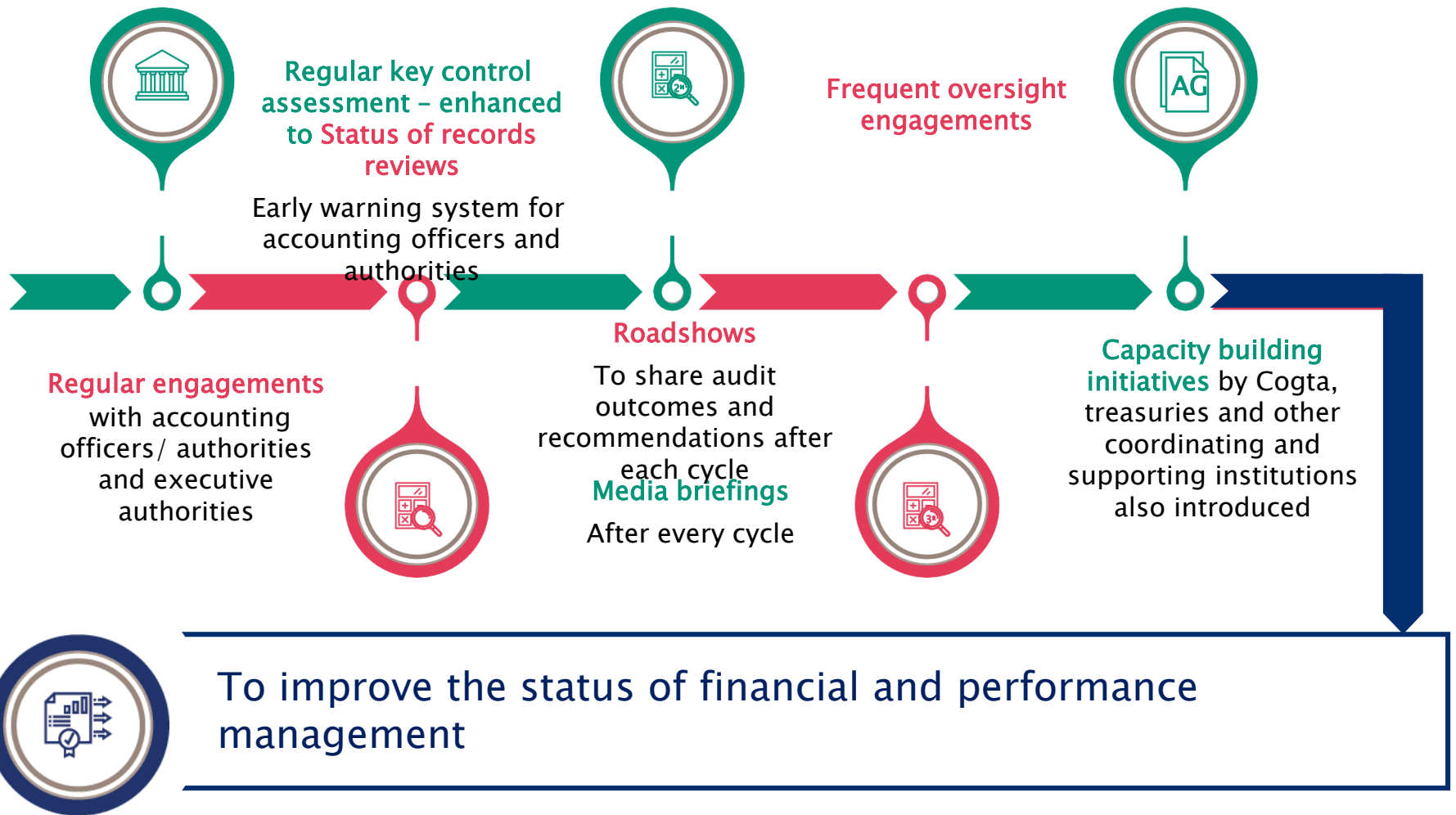
Recommendations to the Portfolio Committee

To the portfolio committee

- Provide oversight into the implementation of action plans to address audit matters.
- Monitor implementation of consequence management.



Additional efforts were introduced



Preventative controls





Typical business processes of the institution



Supply chain management



Contract management



Payments



Employee processes and payroll



Asset and liability 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 irregularities and poor audit outcomes

Consequences

Financial loss

Costly investigation

Disciplinary processes

Litigation

Why these guides

- Enable **oversight structures to assess whether the most important preventive controls are implemented** by institutions to address their main areas of risks. This will assist oversight structures to diagnose weaknesses in preventative mechanisms and focus their oversight efforts on obtaining assurance from the executive authority and the accounting officer or authority that those weaknesses are being effectively addressed in accordance with their legislated obligations.
- Enable the accounting officer or authority and the executive authority to effectively **address the assurance needs of oversight structures** pertaining to preventative controls.
- Create **general awareness of the role of the accounting officer or authority** and their legislated obligations towards good financial and performance management in their institutions.



Importance of preventative controls

GUIDE 1

Tone and control culture

GUIDE 2

Institutionalised internal controls

GUIDE 3

Procurement of goods and services

GUIDE 4

Preparation of financial statements

GUIDE 5

Asset management

GUIDE 6

What is included in the guides for each control



Controls accounting officers and authorities should implement



Questions oversight structures and executive authorities could ask to obtain assurance



Why it is important



Applicable legislation



[Learn more about this control here](#)

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