



AUDITOR - GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Mineral Resources and Energy

09 November 2021

Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

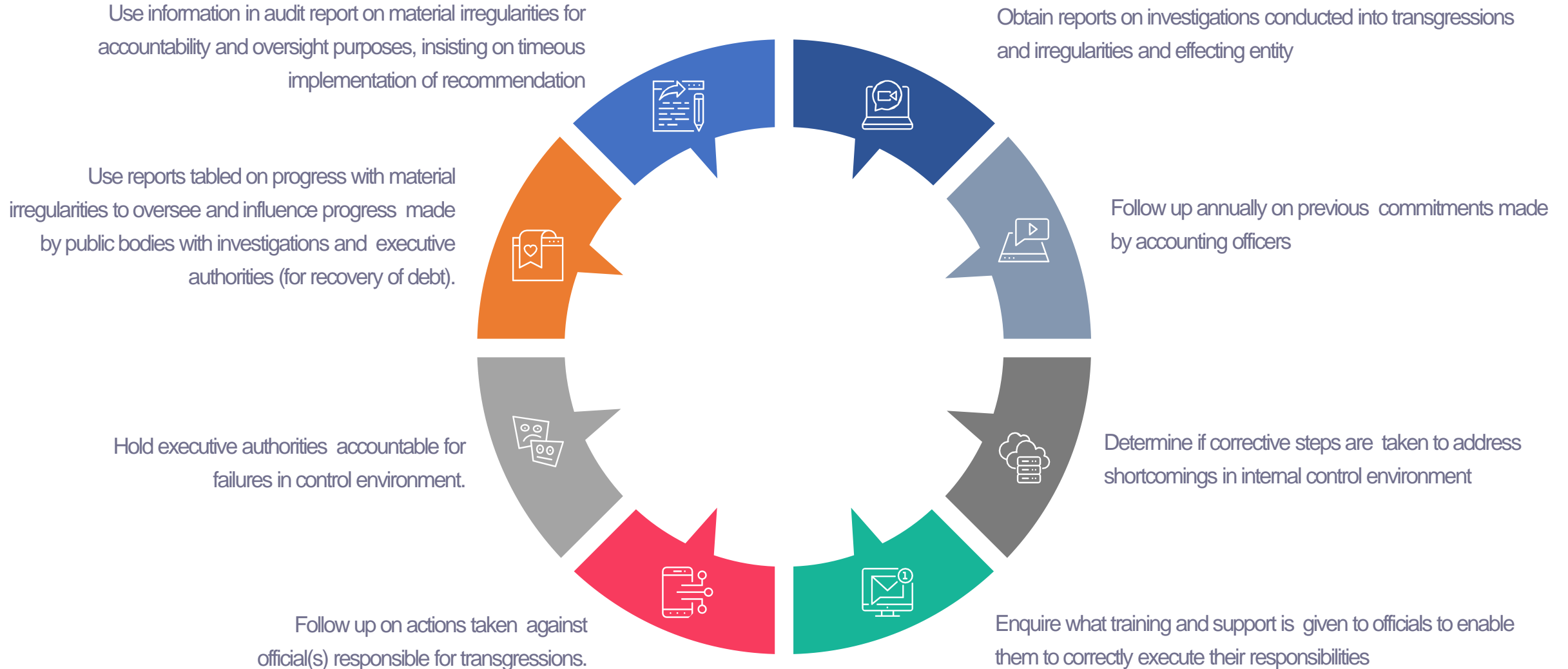
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight










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Focus



AGSA audit outcomes




NB: Percentages in this presentation are calculated based on **completed audits of 11 auditees**, unless indicated otherwise.

| Unqualified opinion with no findings (clean audit) | Financially unqualified opinion with findings | Qualified opinion | Adverse opinion | Disclaimed opinion |
|--|--|--|--|--|
|  |  |  |  |  |
| <p>Auditee:</p> <ul style="list-style-type: none"> 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 | <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> 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 | <p>Auditee:</p> <ul style="list-style-type: none"> 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. | <p>Auditee:</p> <ul style="list-style-type: none"> 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 | <p>Auditee:</p> <ul style="list-style-type: none"> 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 |

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:

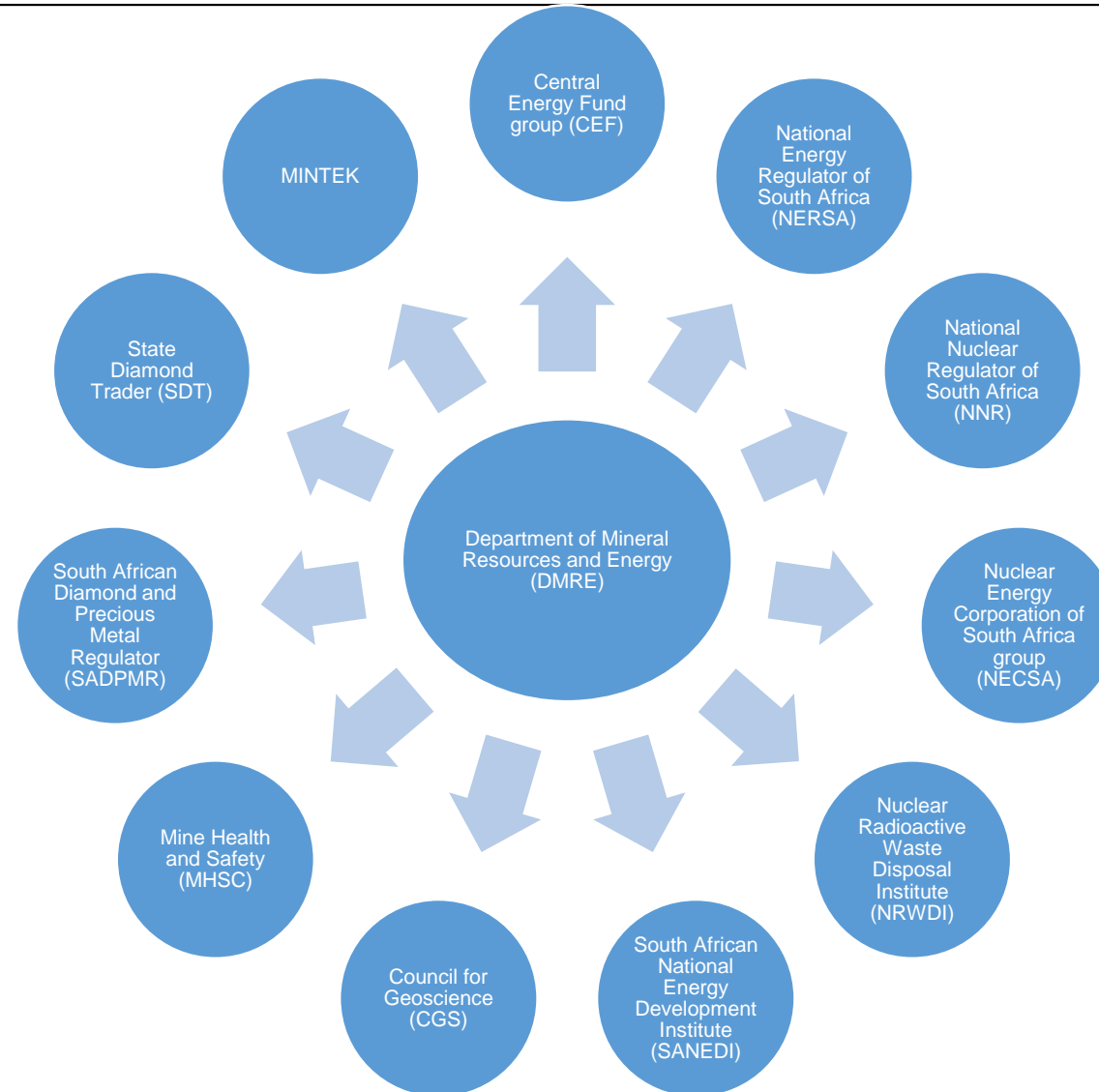
-  Improved
-  Unchanged
-  Regressed



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Portfolio outcome

Mineral Resources and Energy portfolio auditees



Portfolio overall message

The overall outcomes in the portfolio have remained unchanged when compared to the prior year, with most auditees receiving unqualified audit opinions with findings on compliance with key legislation.

One auditee (**NRWDI**), representing 8% of the audits in the portfolio, have achieved an unqualified audit opinion with no findings (clean). This has remained unchanged compared to the prior year.

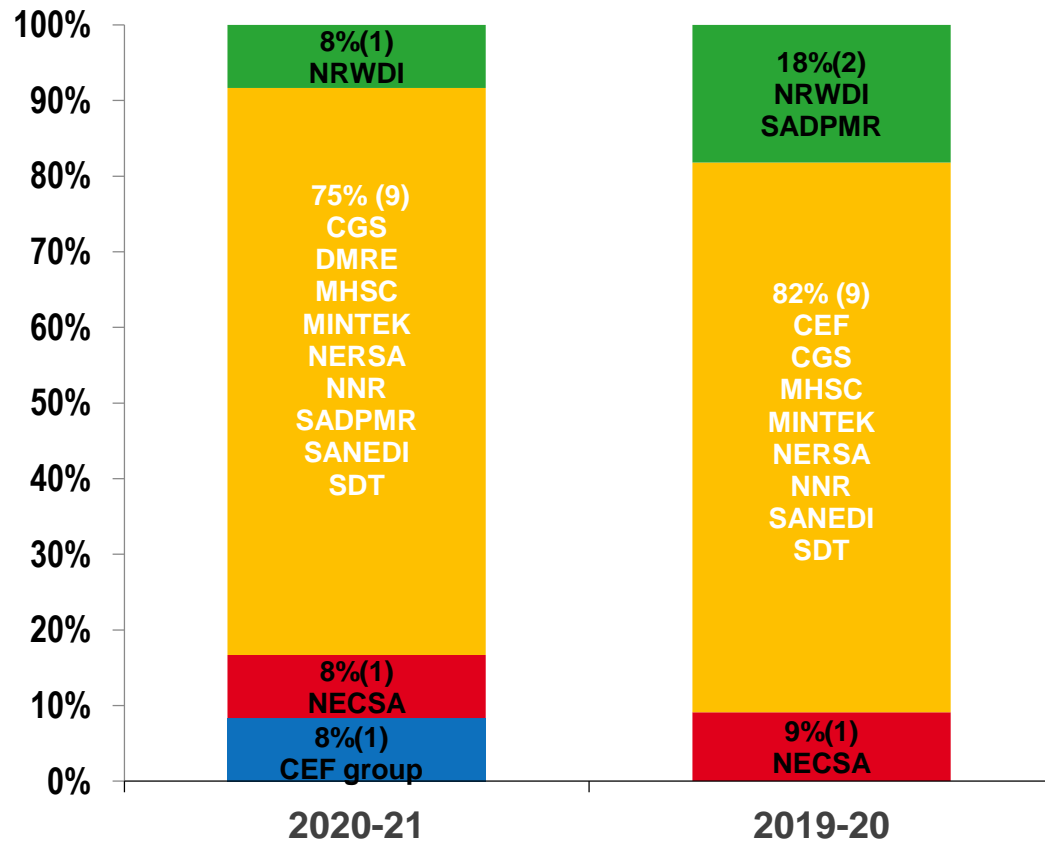
Nine auditees (**CGS, DMRE, MHSC, MINTEK, NERSA, NNR, SADPMR, SANEDI and SDT**), representing 75% of the portfolio, received financially unqualified audit opinions with findings on compliance with legislation. **NECSA's** audit outcome has remained unchanged as it has received a disclaimer audit opinion with findings.

The prevalent instances of non-compliance are in the areas of expenditure management, supply chain management, consequence management and material misstatements identified in the financial statements submitted for auditing.

In most instances, findings raised are reoccurring, indicating that audit action plans and a culture of accountability are not exercised effectively. Governance structures and leadership should ensure that actions are taken to address internal control deficiencies.

CEF group's audit is not yet finalized due to the late submission of financial statements for consolidation by PetroSA on 30 July 2021. The group's draft financial statements were submitted on 30 September 2021. PetroSA is a significant subsidiary of the CEF group. One of PetroSA's significant risks is the entity's going concern risk. In the current audit cycle, the going concern risk significantly increased which required an appropriate audit response.

Audit outcomes of the minerals resources and energy portfolio over 2 years



| Movement | |
|----------|---|
| ▲ | 0 |
| ▼ | 1 |
| ▶ | 9 |

| Outstanding audits |
|----------------------|
| 1 (CEF Group Audits) |

Audit outcomes are depicted as follows:

- Unqualified with no findings
- Unqualified with findings
- Unqualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits



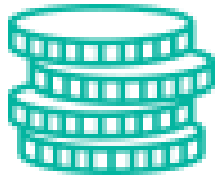
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Quality of financial and performance reporting



First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

2019-20

91% (10)

62% (8)

27% (3)

25% (2)

91% (10)

91% (10)

Analysis

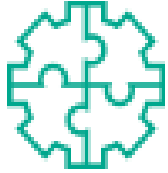
27% (3) auditees submitted financial statements without errors: **(NRWDI, SDT and SANEDI)**.

70% (7) auditees **(DMRE, NERSA, MHSC, MINTEK, NNR, SADPMR and CGS)** submitted financial statements that contained material misstatements, mainly due to inadequate reviews. **NECSA's** audit come remained unchanged as a disclaimer.

The findings raised are recurring and this is despite discussions held with the auditees on the implementation of preventive control measures.

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors

Performance report adjusted for material misstatements to improve reliability

Reliable reporting of achievements

Usefulness of performance indicators and targets

Movement



2020-21

2019-20

| | |
|---------|---------|
| 27% (3) | 25% (3) |
| 73% (8) | 75% (9) |
| 11 | 10 |
| 8 | 9 |

Analysis

- **CGS, MINTEK and NRWDI** submitted performance reports without material errors
- We were unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. This was due to a **lack of measurement** definitions and processes.
- Material findings were identified at (**DMRE, NERSA, NNR, MHSC and SANEDI**) and they were subsequently corrected. Material findings were also identified on (**NECSA, SADPMR and SDT**) and only some were corrected.
- The source information and supporting evidence for measuring the planned indicator was not clearly defined.

Recommendations

- Auditees need to design performance indicators that are well defined and adhere to the SMART criteria
- Standard operating procedure/policies should be designed such it that contain processes to record information and store supporting evidence for measuring whether the planned indicator was clearly defined



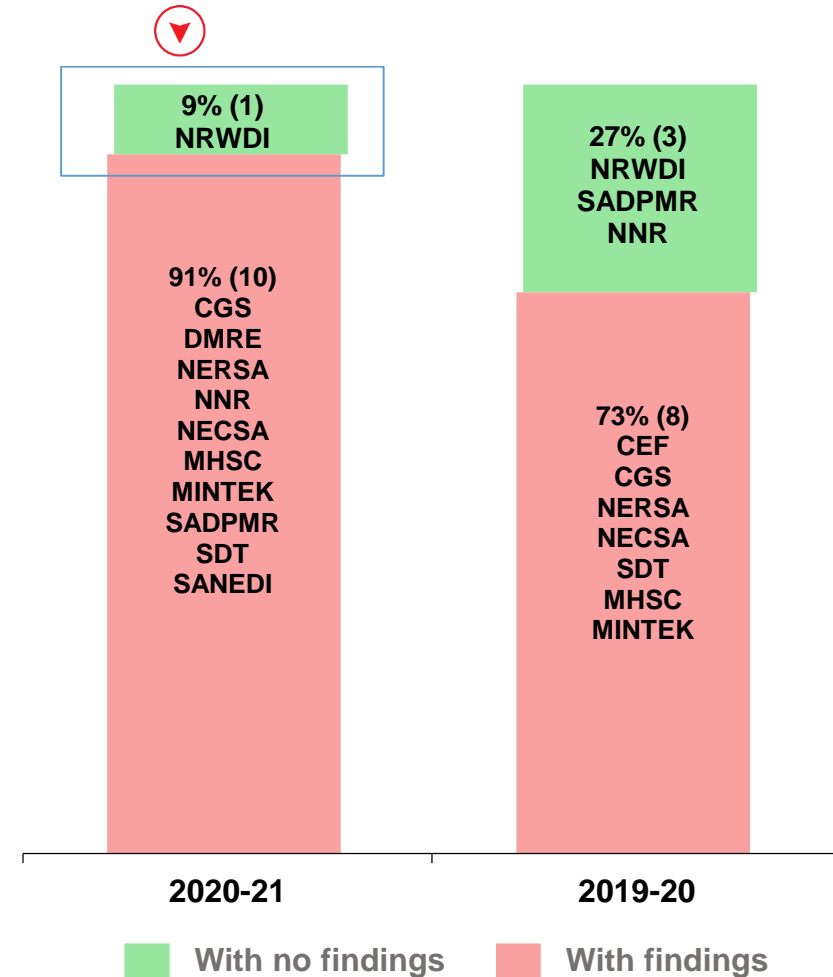
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Compliance with legislation

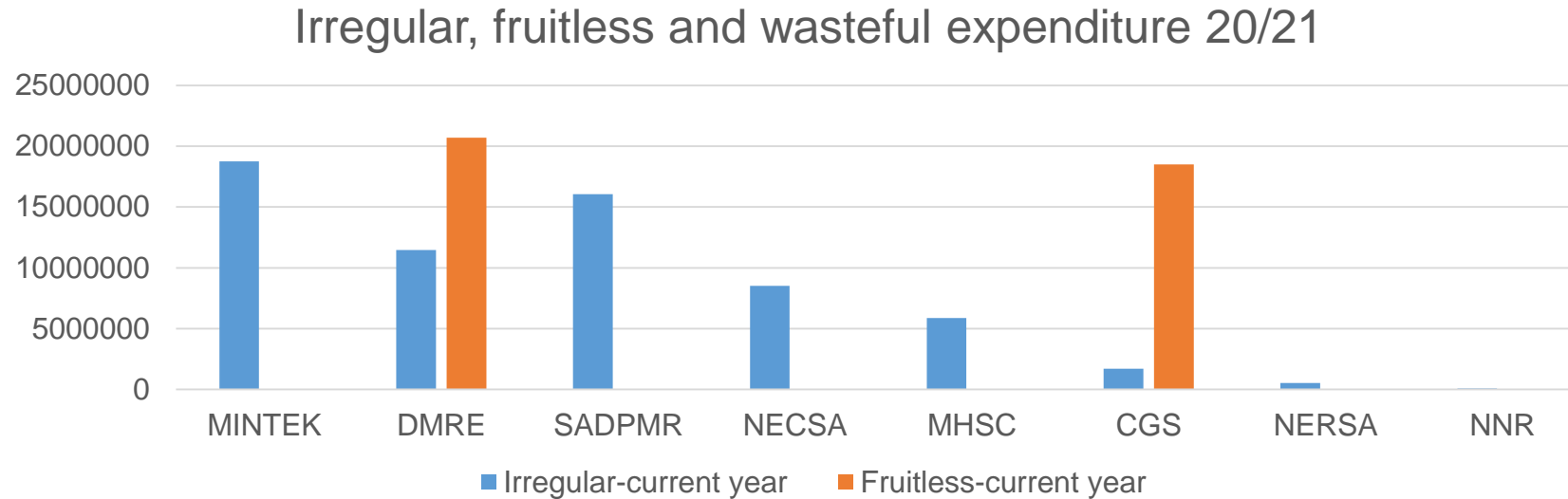
Third focus area: compliance with legislation

- The areas of material non-compliance reported are:
- Material misstatements identified in financial statements submitted for auditing: **(DMRE, NERSA, SADPMR, MHSC, MINTEK, CGS and NECSA)**
- Uncompetitive and unfair procurement processes: **(SANEDI, MHSC, NECSA, SADPMR)**
- Inadequate consequence management: **(DMRE, MHSC, MINTEK, NECSA and SDT)**
- Ineffective steps to prevent irregular expenditure: **(MHSC, MINTEK, NECSA and SADPMR)**
- Ineffective steps to prevent fruitless and wasteful expenditure: **(DMRE and CGS)**
- Effective and appropriate steps not taken to collect all revenue: **(DMRE, MHSC and NECSA)**
- Payments not made within 30 days: **(DMRE)**
- Interest not charged on debts: **(DMRE)**
- Evidence that the resources were used economically not provided: **(NECSA)**

Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure



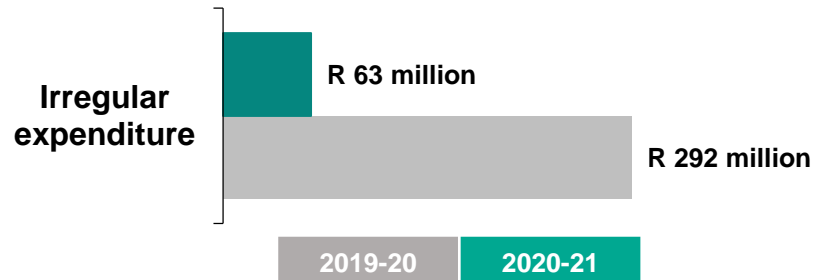
- DMRE and CGS incurred both irregular, fruitless and wasteful expenditure

Irregular expenditure 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

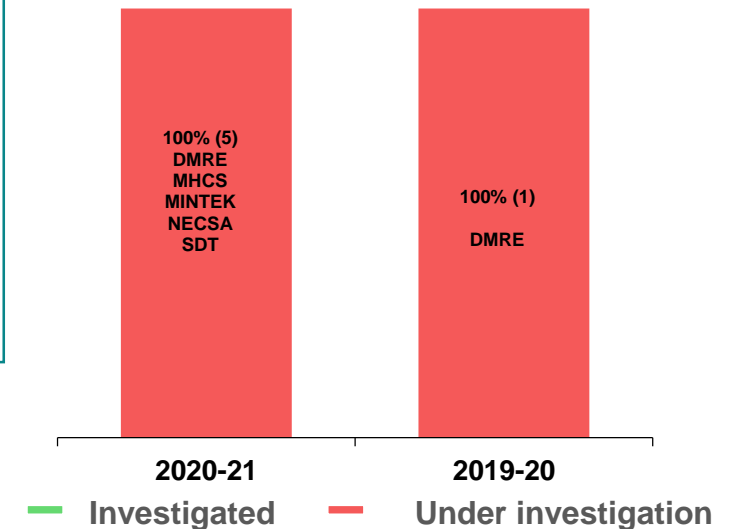


Irregular expenditure has decreased by 78% compared to prior year

Nature of irregular expenditure

- R18,7 million (30%) was incurred by MINTEK. R16 million (25%) was incurred by SADPMR and R11,5 million (18%) was incurred by DMRE.
- Irregular expenditure relates to:
 - failure to follow a competitive procurement process and prescripts
 - contracts extended or modified without appropriate approvals

Previous year irregular expenditure reported for investigation

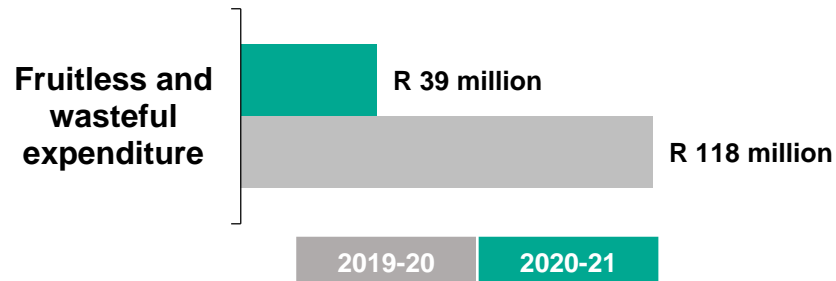


Fruitless and wasteful expenditure over 2 years

Definition

Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – no value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio

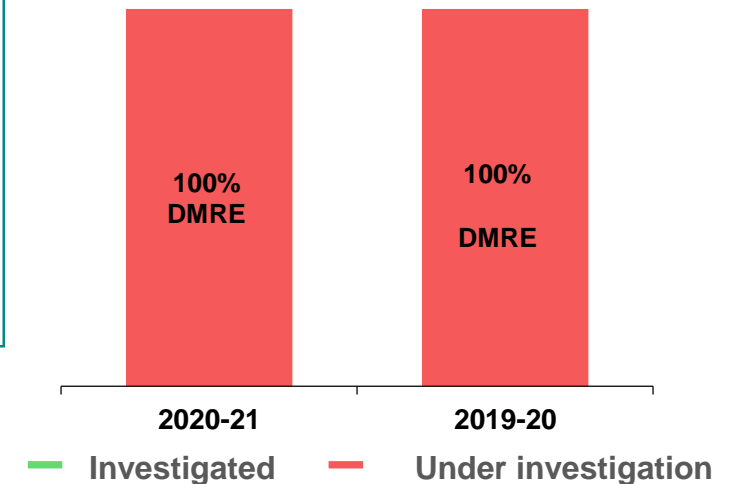


Fruitless and wasteful expenditure has decreased by 67% compared to prior year

Nature of fruitless and wasteful expenditure

- R20,7 million (53%) of the fruitless and wasteful expenditure relates to DMRE, mainly for storage costs for geyser units to various suppliers.
- R18,5 million (46%) of the fruitless and wasteful expenditure relates to CGS for adequate contract management processes that were not put in place
- Less than 1% is from SADPMR, MINTEK and NECSA combined

Previous year fruitless and wasteful expenditure reported for investigation



Compliance with legislation



Consequence management

Consequence management remains a challenge at **DMRE, MHSC, MINTEK, NECSA and SDT**.

There were non-compliance findings raised relating to the lack of investigation or evidence to support such investigations (**DMRE, NECSA, MHSC and SDT**).

Investigation were not performed by independent person rather by management who could have committed the non compliance (**MINTEK**).

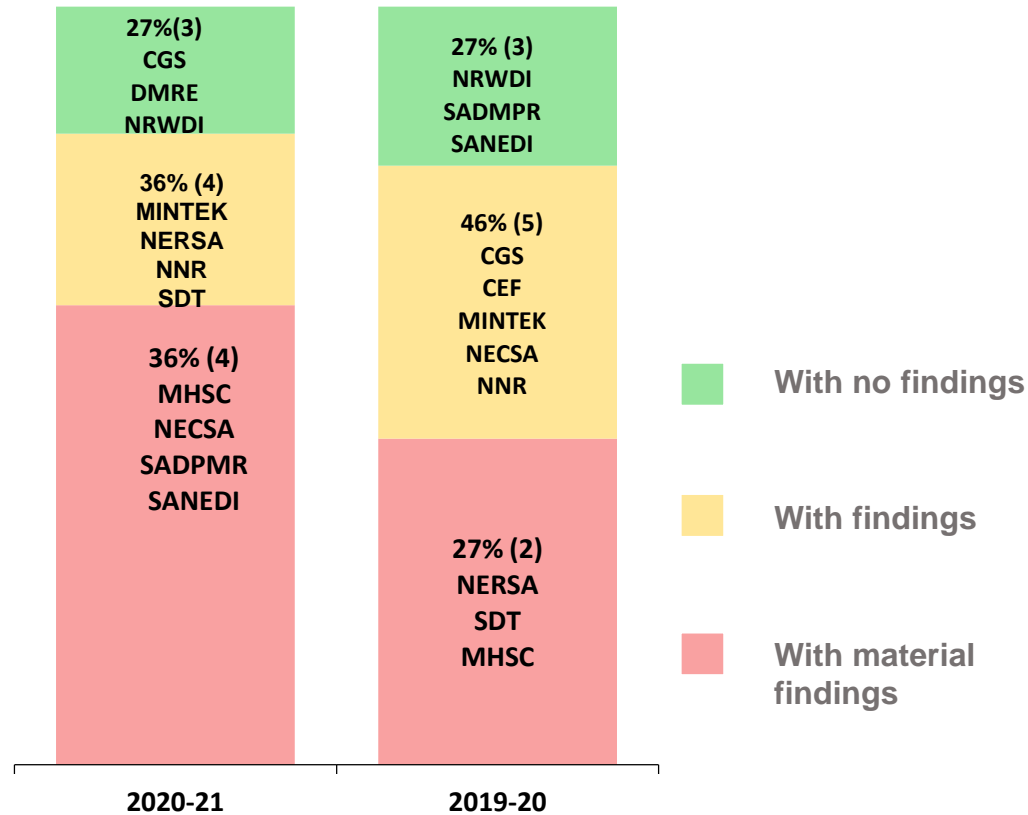
Adequate disciplinary actions are not taken against staff who have caused unauthorized and irregular, fruitless and wasteful expenditure.

Recommendations

- There must be timely investigations of reported irregular, fruitless and wasteful expenditure and disciplinary actions taken against those found responsible for such expenditure.
- Accounting officers/ authorities must ensure that disciplinary actions are taken against staff that transgressed procurement regulations.

Supply chain management

Overall regression in SCM compliance
All SCM findings should be investigated



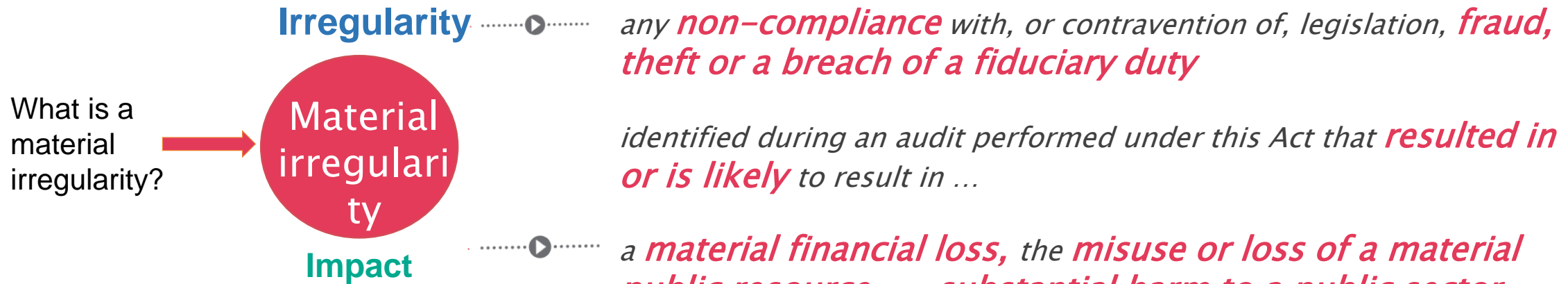
Most common findings on supply chain management

- Procurement process that was not fair, equitable, transparent and competitive. **(MINTEK, NECSA, SADPMR, MHSC, SANEDI, SDT)**
- Bids were not adjudicated by a properly constituted bid adjudication committee. **(NECSA)**
- Contracts were amended or extended without approval by a delegated official. **(SADPMR and MHSC)**
- Awards were made to suppliers that did not submit the declaration of interest of whether they were employed by the state or connected to any person employed by the state. **(NERSA)**
- COVID 19 regulations were not followed. **(MHSC and NERSA)**

Recommendations

- SCM training to ensure understanding and application of legislation
- All SCM findings must be investigated

At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we will follow a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Type of material irregularity

Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent a **significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. For 2021, there was no auditee selected for MI implementation in the mineral resources and energy portfolio.



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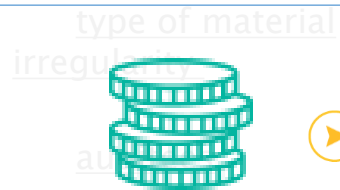
Portfolio snapshot



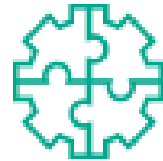
Portfolio snapshot 2020-21



Clean audits: 1
(2019 - 20: 2)



**Financially unqualified
financial statements: 9**
(2019-20: 9)
Disclaimer of opinion: 1
(2019-10:1)



**No findings on performance
reports: 3**
(2019-20: 3)



**No findings on compliance
with legislation: 1**
(2019-20: 3)



**Irregular expenditure:
R63m**
(2019-20: R292m)

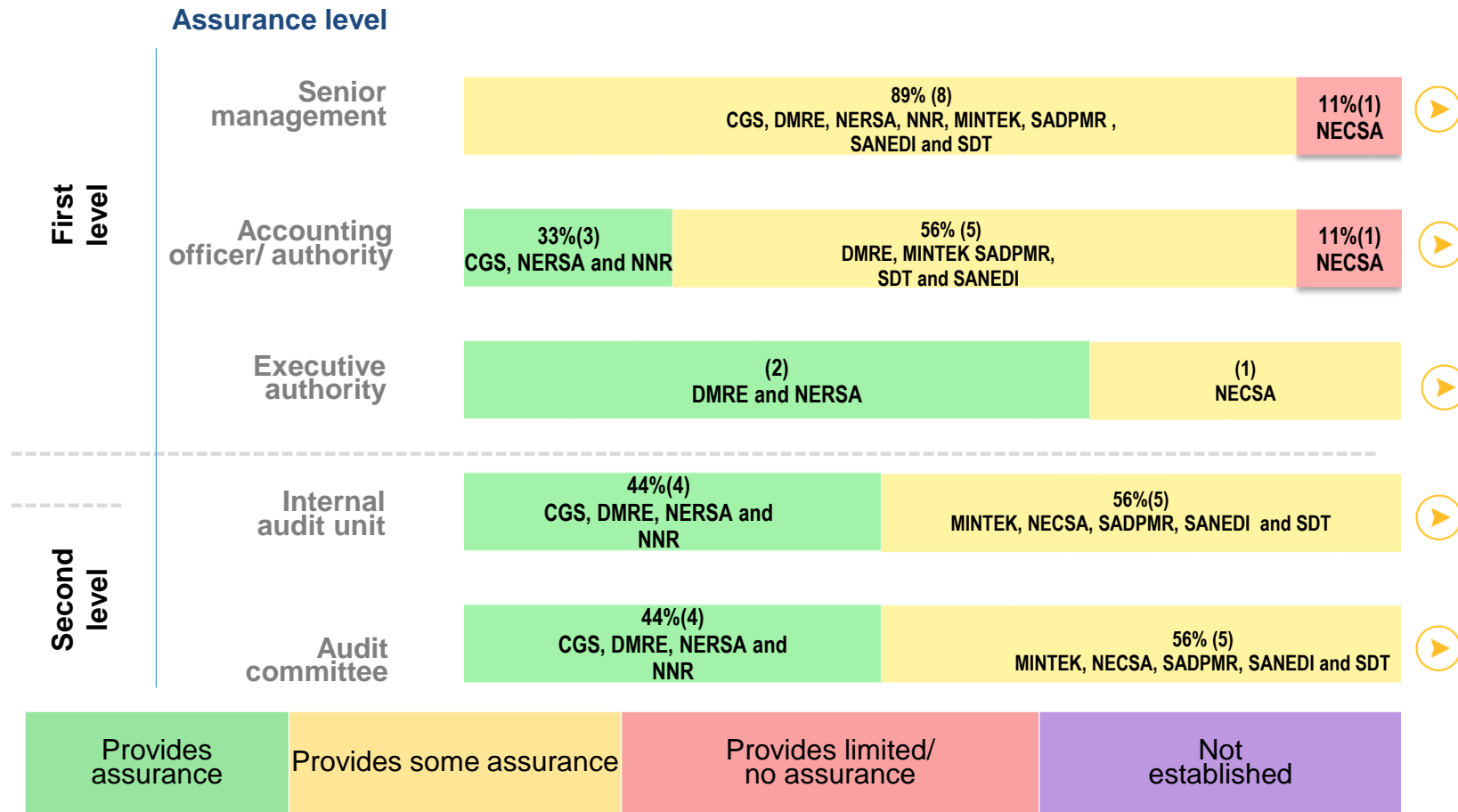


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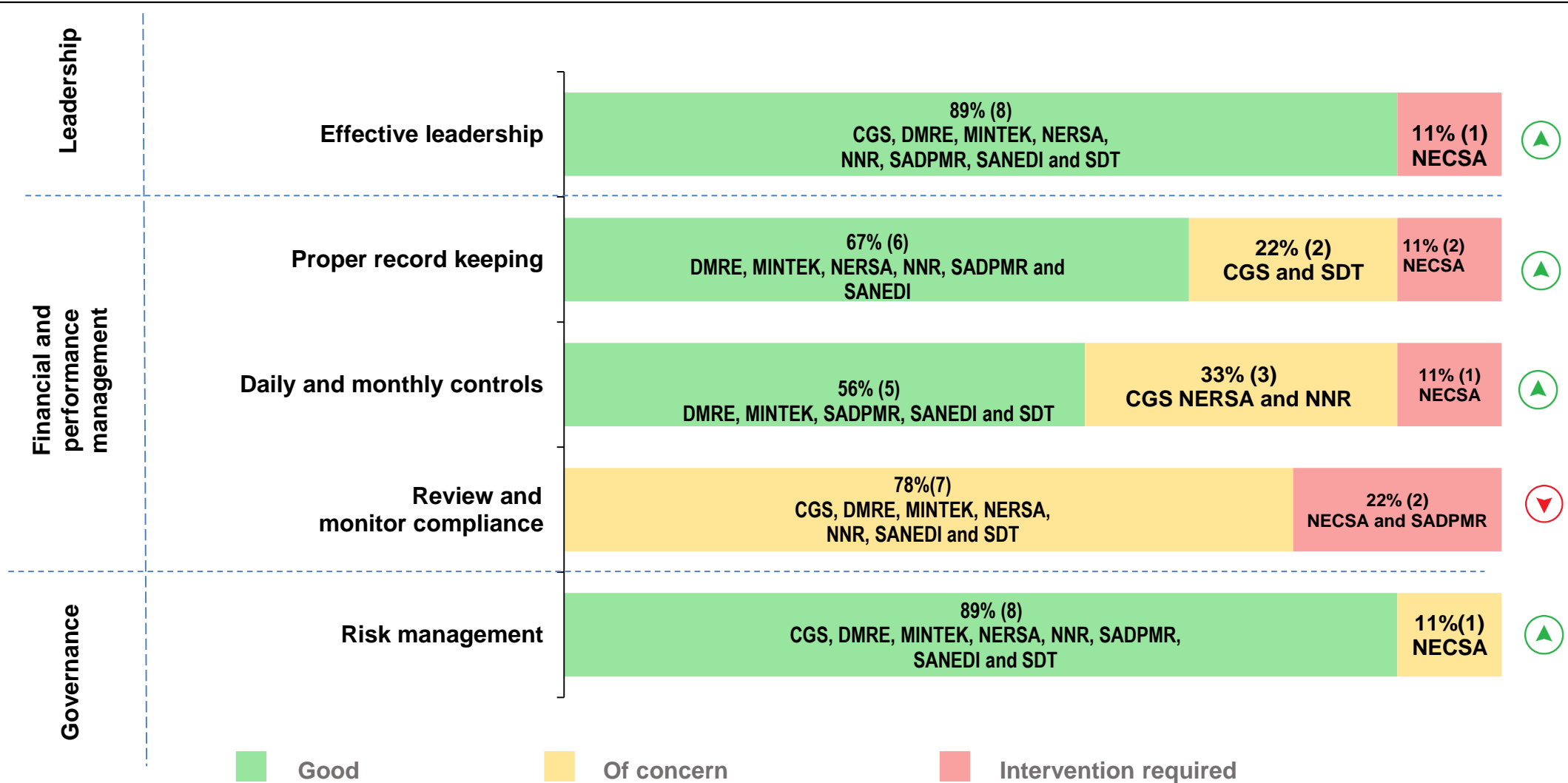
Governance and internal controls



Assurance provided



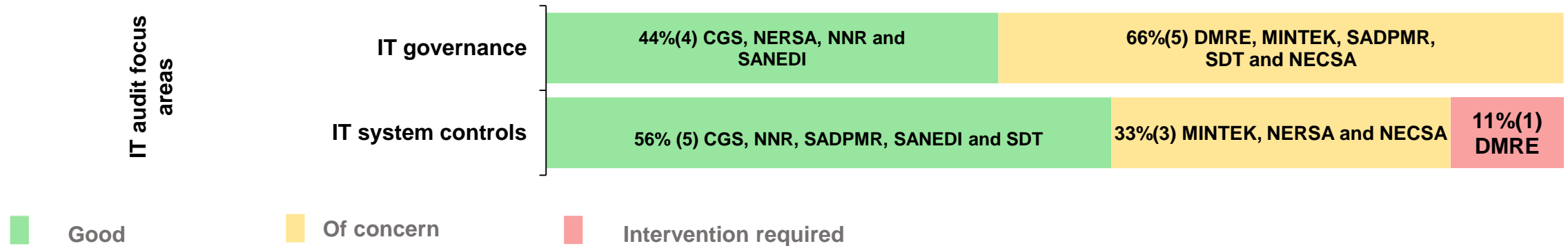
Status of internal control



* MHSC and NRWDI are not included in assessment of internal controls, which is not performed for small auditees.

Status of information technology (IT) environment

- **IT governance** – there to ensure IT is effectively and efficiently used to enable entity to achieve its mandate by specifying decision rights and accountability framework to encourage desirable behavior in using IT
- **IT system controls** – there to ensure entity’s IT operates as intended to achieve its mandate
- Effective IT governance and system controls will help ensure entities are not vulnerable to cyberattacks and business continuity concerns



Summary of 3 key root causes



Management did not put in place adequate controls to prevent non-compliance with procurement legislation



Management did not implement adequate review and monitoring controls over preparation of financial statements



Management was not effective in developing and monitoring implementation of action plans



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Recommendations

Recommendations for entities within the mineral resources and energy portfolio



Accounting officers/ authorities should strengthen preventative controls to identify non-compliance



Accounting officers/ authorities must thoroughly review developed action plans to ensure they address root cause



Accounting officers/authorities must continue to do their work through audit committees to ensure management implements and enhances review processes for AFS



Monitor performance and consequence management

Recommendations to the portfolio committee

Monitor and regularly follow up with the executive authority and accounting officer/ authority on:

- progress on audit action plans put in place by the department and entities
- follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management

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