



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Cooperative Governance and Traditional Affairs

9 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



Role of AGSA

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).



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Portfolio outcome

Portfolio snapshot 2020-21



Clean audits: 5
(2019 - 20: 4)

type of irregularity



Financially unqualified financial statements: 5
(2019-20: 5)



No findings on performance reports: 6
(2019-20: 6)

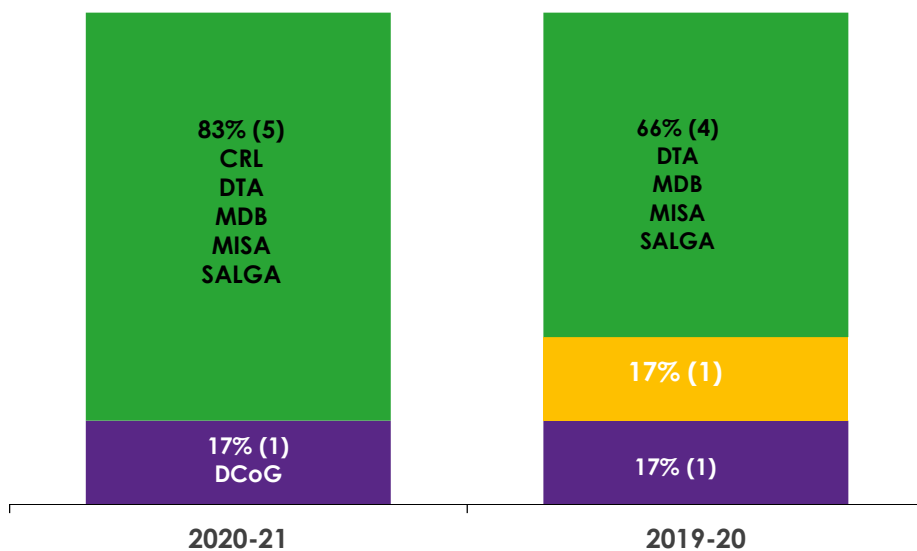


No findings on compliance with legislation: 5
(2019-20: 4)



Irregular expenditure: R2 026b
(2019-20: R73m)

Audit outcomes of portfolio over two years

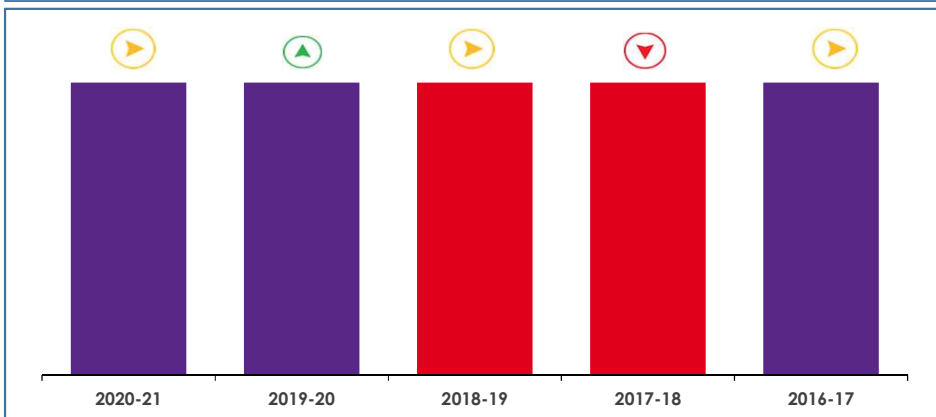


Movement	
▲	1
▼	0
▶	5
Outstanding audits	0

■ Unqualified with no findings
 ■ Unqualified with findings
 ■ Qualified with findings
 ■ Adverse with findings
 ■ Disclaimed with findings
 ■ Outstanding audits

Department of Cooperative Governance

5 year overall audit outcomes



The audit outcome is attributable to management's inability to implement proper record keeping controls in a timely manner.

Irregular and Fruitless and wasteful expenditure

Expenditure	Movement (recovery/-restatement/write-offs)	2020-21		2019-20	
		Amount incurred R	Closing balance R	Amount incurred R	Closing balance R
Unauthorised expenditure	*R0	*R0	*R1,123 million	*R0	*R1,123 million
Irregular	*R0	*R2,024 billion	*R3,355 billion	*R69,702 million	*R1,330 billion
Fruitless & wasteful	*R128 thousand	*R5,092 million	*R14,668 million	*R8,443 million	*R9,704 million

Financial statements

Financial statements qualification areas	20-21	19-20	18-19	17-18	16-17
Property, plant and equipment	Yes	Yes	Yes	Yes	No
Prepayments and advances	No	Yes	Yes	No	No
Goods and services	Yes	Yes	Yes	Yes	Yes
Payables and accruals	No	No	Yes	Yes	Yes
Irregular expenditure	No	No	No	Yes	No

Performance information

PREDETERMINED OBJECTIVES	20-21	19-20	18-19	17-18	16-17
Programme 3 – Institutional Development	Yellow play button icon	Green upward arrow icon	Yellow play button icon	Yellow play button icon	Yellow play button icon

Compliance

SUBJECT MATTER	20-21	19-20	18-19	17-18	16-17
Annual financial statements	Yes	Yes	Yes	Yes	Yes
Expenditure management	Yes	Yes	Yes	Yes	Yes
Asset management	Yes	No	No	No	No
Consequence management	Yes	Yes	Yes	Yes	Yes
Procurement and contract management	Yes	Yes	No	Yes	Yes
Transfers and subsidies	No	No	No	No	Yes

Material Irregularities

Material Irregularities	Status
Payments to non-qualifying government employees on the CWP	Audit report recommendations
Transfer payment to incorrect recipient of Municipal Infrastructure Grant (MIG)- 183 450 000,00	AO Action in progress
Payment of services not received – Deceased participants on CWP	AO Action in progress
Prepayment for goods and services that were not received at CWP site	AO Action in progress
Project management fees paid to implementing agents for services not received	AO Action in progress
Project management fees paid to implementing agents for services not received - 2018	MI closed



Implementation of expanded mandate in 2020-21



Recommendations included in the 2020-21 Audit report

The auditors assessed that appropriate action is not being taken by the AO relating to the Payments to non qualifying (PERSAL) government employees on CWP resulting in the recommendation as listed below:

- **The financial loss** relating to non qualifying participants should be appropriately and accurately **quantified**.
- Appropriate action should be taken to **recover** the financial loss suffered by the department.
- **Criminal acts** should be reported to the South African police service.
- Implement appropriate and proactive **internal controls** that prevent payments to non qualifying government employees .
- **Report government employees** that are confirmed to have unduly benefitted from CWP project to their respective employees and DPSA.
- Effective and appropriate **disciplinary steps** should be taken against officials that the investigation found to be responsible.

Portfolio insights

Key root causes

- **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.
- Management did not effectively develop, monitor and implement **action plans**.
- **Slow response** by management to address material findings listed on the action plan.
- **Lack of consequence** management for non-adherence to laws and regulations, poor performance and transgressions.
- **Lack of appropriate record keeping** to substantiate the transactions and balances reported in the annual financial statements.
- **Breakdown in key internal controls** such as physical verification of CWP assets, preparing & maintaining a credible CWP asset register.

Recommendations:

- The Accounting officer should thoroughly review and developed an action plan to ensure they address the root causes. These should be carefully monitored to ensure successful implementation.
- Monitoring controls over CWP at DCoG must be strengthened.
- Accounting officer should strengthen preventative controls to identify non-compliance.
- Prepare quarterly financial statements with complete supporting schedules and submit to internal audit for review.
- The minister should request the accounting officers to provide feedback on the implementation and progress of the action plans to ensure improvement in audit outcomes.
- The minister should request feedback on the implementation of MI specific corrective action as committed by the DCoG accounting officer.

Focus areas: credible financial reporting and performance report

Financial statements

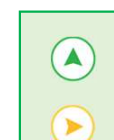


Submission of financial statements by legislated date

Financial statements submitted without errors (2020-21: **DTA, MISA, SALGA, MDB, CRL** / 2019-20: **DTA, MISA, SALGA, MDB**)

Quality of final submission after audit

Movement



2020-21

2019-20

100% (6)

100% (6)

83% (5)

67% (4)

83% (5)

83% (5)

Five (83%) auditees (**DTA, MISA, SALGA, MDB and CRL**) submitted financial statements that did not contain material misstatements and we wish to commend these entities.

Performance report



Performance report submitted without errors (2020-21: **DTA, MISA, MDB** / 2019-20: **MISA, SALGA, MDB**)

Performance report adjusted for material misstatements to improve reliability (2020-21: **DCoG, SALGA, CRL** / 2019-20: **DCoG, DTA, CRL**)

Reliable reporting of achievements

Usefulness of performance indicators and targets

Movement



2020-21

2019-20

50% (3)

50% (3)

50% (3)

50% (3)

100% (6)

100% (6)

100% (6)

100% (6)

The number of auditees submitting quality performance information for auditing in the portfolio remained the same at 50% with DTA improvement and SALGA regressing.



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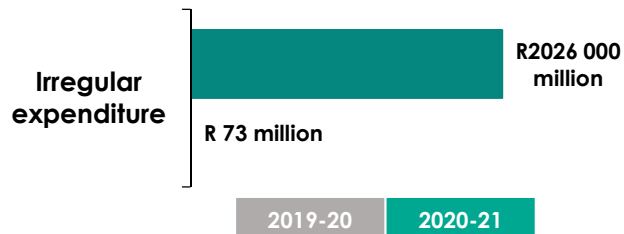
Compliance with legislation

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



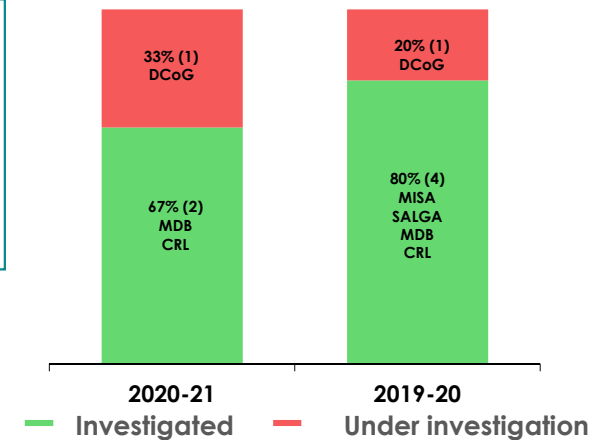
- R675 million – non-compliance in 2020-21
- R1 351 billion – non-compliance in 2019-20 (The non-compliance occurred in 2018/19 and identified in 2020/21 when the High Court judgement ruled that the procurement process followed in the appointment of NPOs for implementation the Community Works Programme was unconstitutional and therefore, invalid.)
- Irregular expenditure has increased by 2 670% compared to prior year

Nature of irregular expenditure

Highest contributors to irregular expenditure in the portfolio:

- Accounting officer did not implement controls to prevent non compliance with the SCM prescripts and the Treasury Regulation for the appointment of the CWP NPO's (R669 million).
- Accounting officer did not implement controls to prevent non compliance with SCM prescripts as there were payments made to an expired contract for (R6 million)

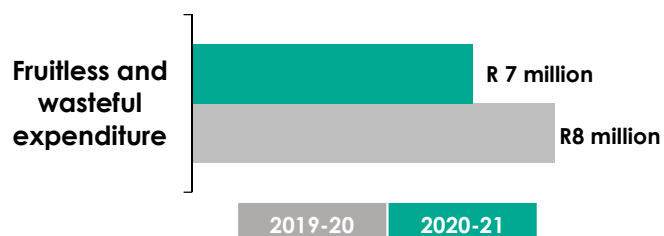
Previous year irregular expenditure reported for investigation



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

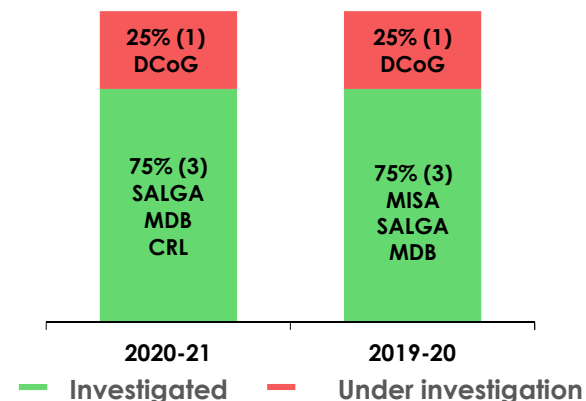


- R5,6 million – non-compliance in 2020-21 financial year
- R0,9 million – non-compliance in 2019-20 financial year
- Previous year – DCoG contributed to 99,7% of total fruitless and wasteful expenditure
- Current year – DCoG contributed to 78% of total fruitless and wasteful expenditure

Nature of fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure identified amounts to R6,5 million, down from the reported prior year value of R8,4 million.
- R5,1 million (78%) of the fruitless and wasteful expenditure relates to DCoG, mainly for CWP wage payments made to participants with PERSAL numbers or deceased participants. This has resulted in a material irregularity.
- Accounting officer did not implement adequate oversight and monitoring to ensure action plans are effective to address deficiencies in the CWP.

Previous year fruitless and wasteful expenditure reported for investigation



Compliance with legislation



Consequence management

Overall, the portfolio has effective consequence management processes in place to investigate and follow up on irregular expenditure.

Consequence management remains a challenge at the:

- **Department of Cooperative Governance**

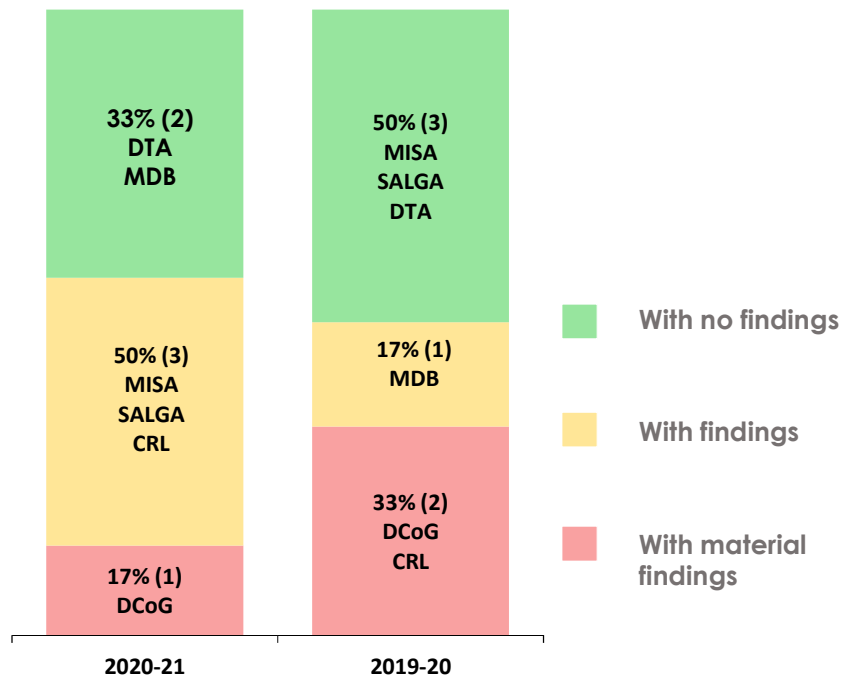
There were non-compliance findings raised relating to the lack of evidence to support that disciplinary steps were taken against staff who have caused irregular, fruitless and wasteful expenditure.

Recommendations

- There must be timely investigations of reported irregular expenditure and disciplinary actions taken against those found responsible for such expenditure.
- The Accounting officer must ensure that disciplinary actions are taken against staff that transgressed procurement regulations.
- Evidence of the above must be maintained.
- Accounting officer must enhance action plans to address repeat findings.

Supply chain management

Overall slight regression in SCM compliance
All SCM findings should be investigated



Most common findings on supply chain management

Bids adjudicated by bid adjudication committees not composed in line with policy **(DCoG: R41m)**
Covid 19 PPE procured at excess prices **DCoG: R0,4m)**
Covid 19 PPE did not comply with local content requirements **(DCoG: R1,7m)**

Preference points/B-BBEE points incorrectly calculated into PPPFA/PPR. **(DCoG: R11,1m, CRL: R4,7m, MISA: R0,7m)**

Reasons for deviation not reasonable/justifiable **(SALGA: R0,3m)**

Recommendations

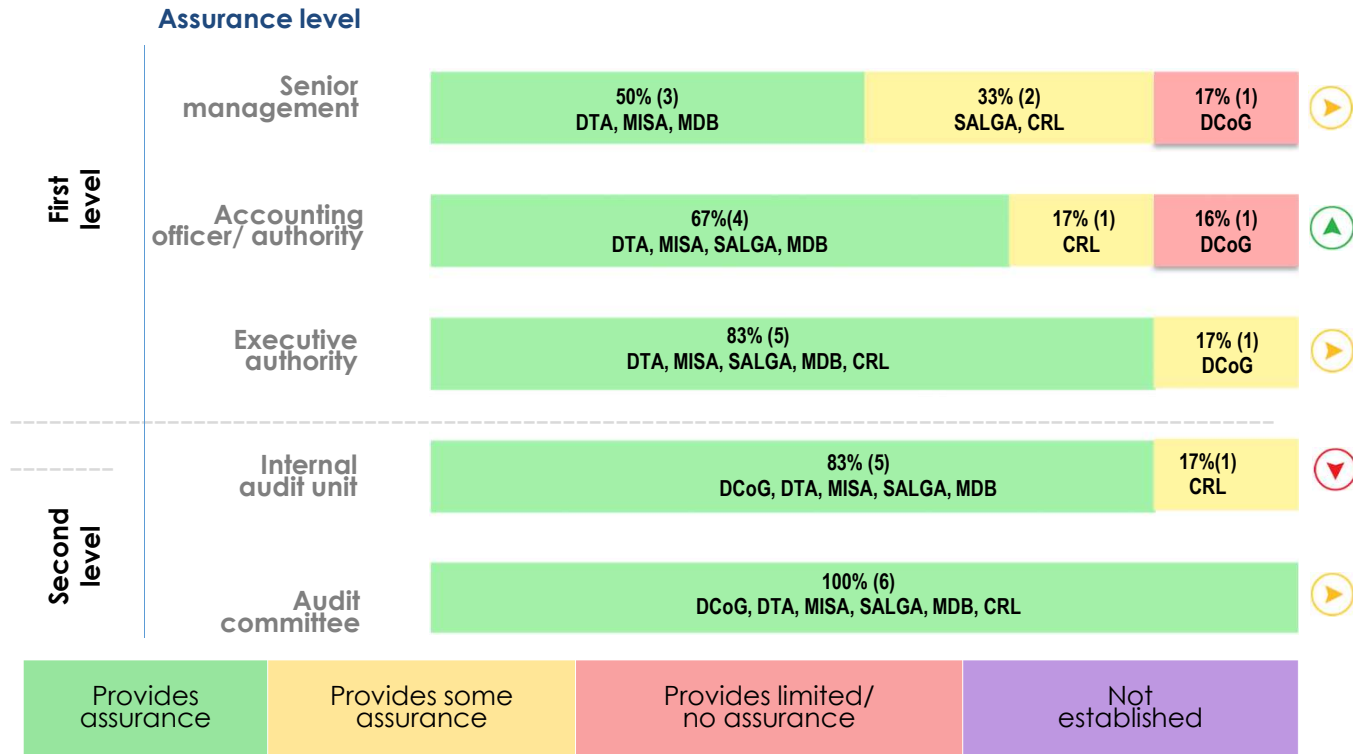
- Accounting officer should enhance action plans to align to the implementation of preventative instead of detective controls.
- Preventative controls should be strengthened to support a compliant environment.
- SCM training to ensure understanding and application of legislation.



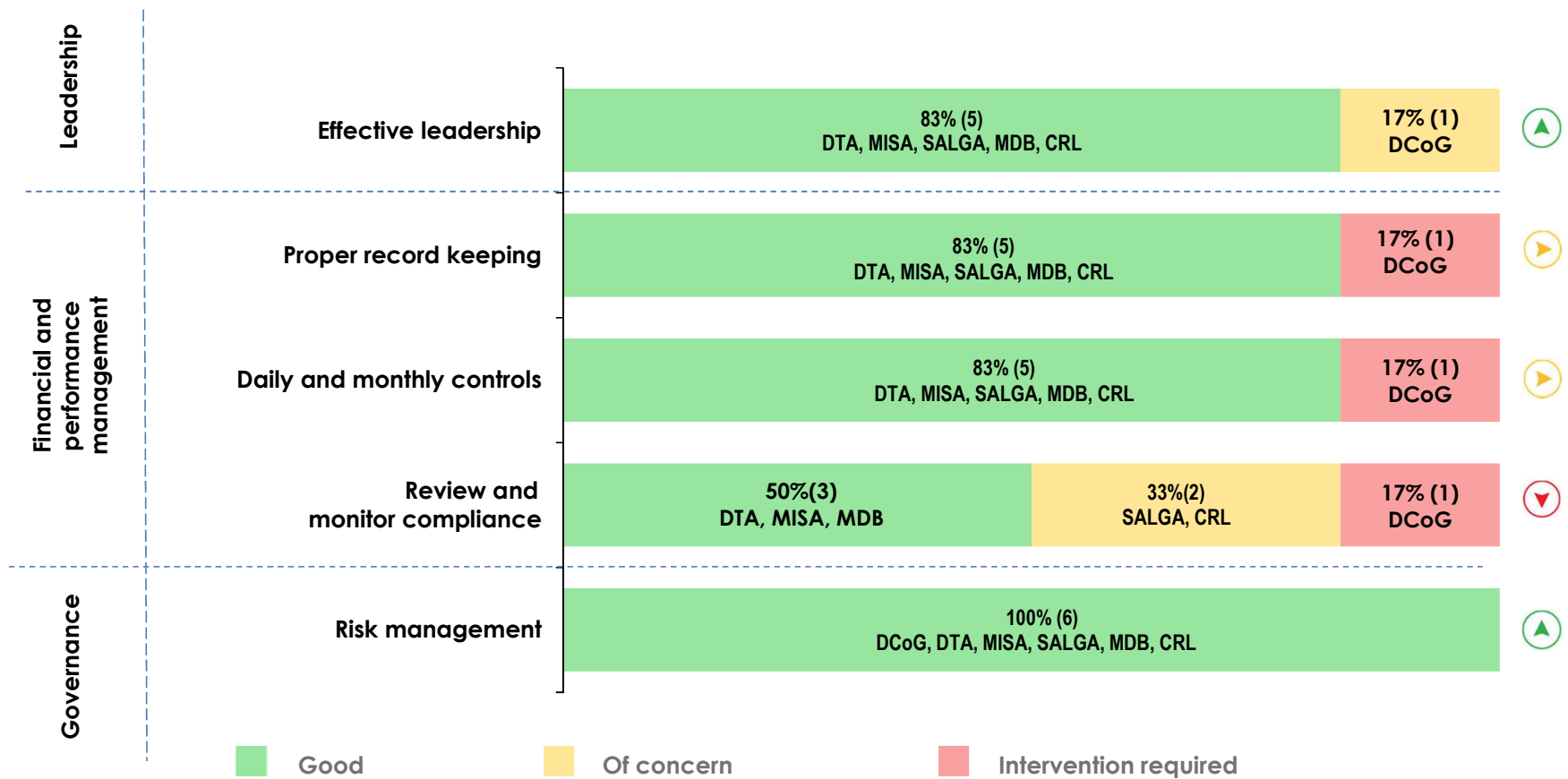
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Governance and internal controls

Assurance provided

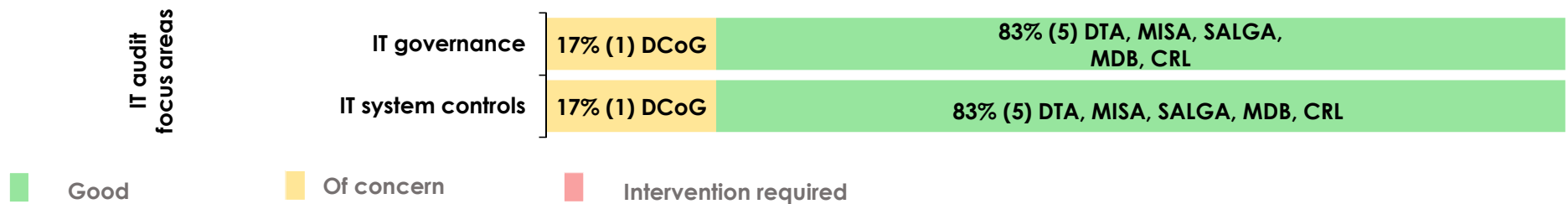


Status of internal control



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



Areas	Root cause	Recommendations
IT governance	Inadequate patch management on CSD website could be attributed to non-compliance with patch management policy	Management should enforce patch management policy and procedures and monitor for compliance
IT system control	Missing security updates/patches could be attributed to non-compliance with established patch management procedures	Management should ensure it tests and applies relevant patches for outdated hosts

Summary of 3 key root causes and recommendations

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

- Management should obtain extensive understanding of the root causes, design specific actions to address the root causes and subject them to rigorous interrogation and review. Strictly monitor implementation to prevent, identify and resolve identified deficiencies.

Slow response by management to address material matters in the action plan as evidenced by the number of repeat findings.

- The department should conduct workshops and educate staff on the importance of sound control environment & compliance with laws and regulations, regularly provide trainings specifically designed to improve the areas of non-performance and consistently implement consequence management policies.

Management did not implement adequate review and monitoring of key controls to ensure a sound control environment

- There needs to be a system overhaul, change of culture and attitude towards design, implementation and monitoring of internal controls. Consider implementation of zero tolerance of non-compliance and consistently implement consequence management policies.

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