



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Women, Youth and Persons with disabilities

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:

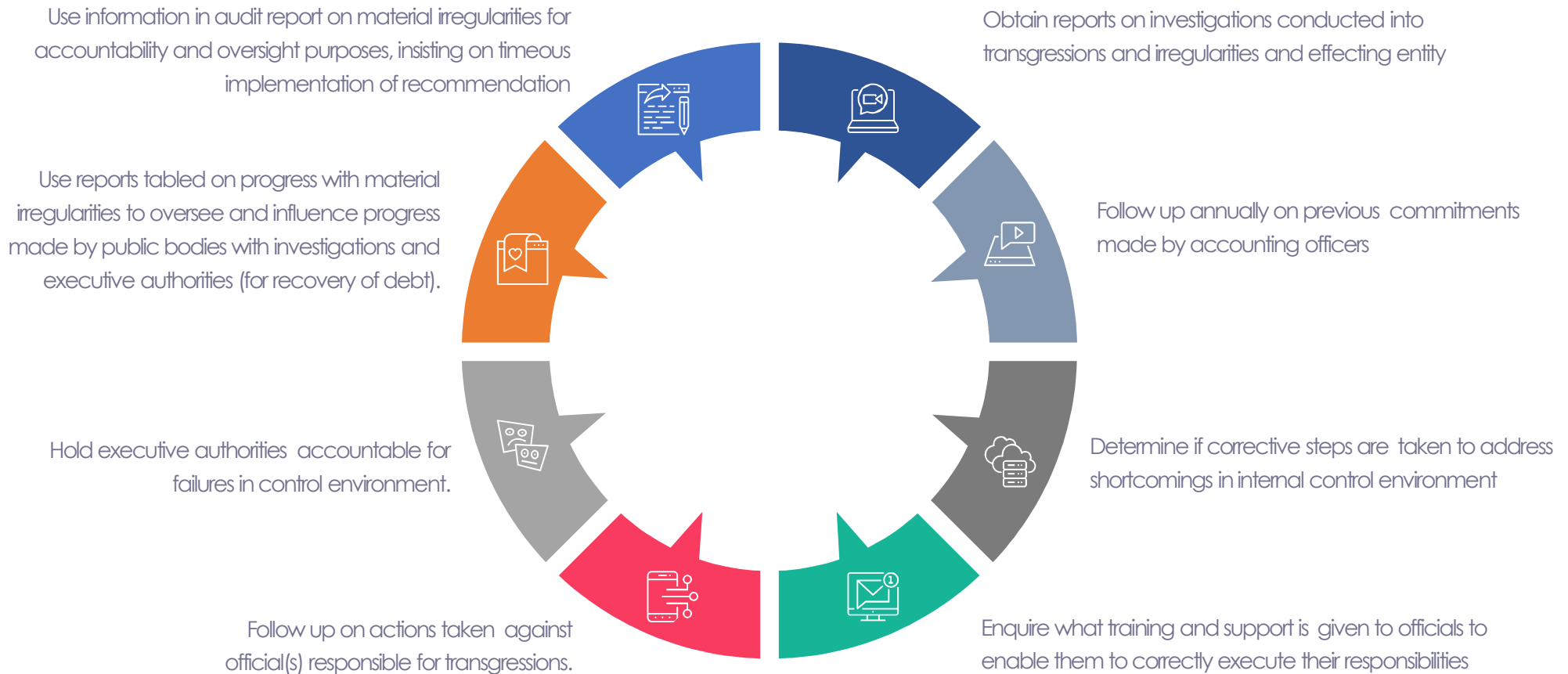
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and 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 3 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



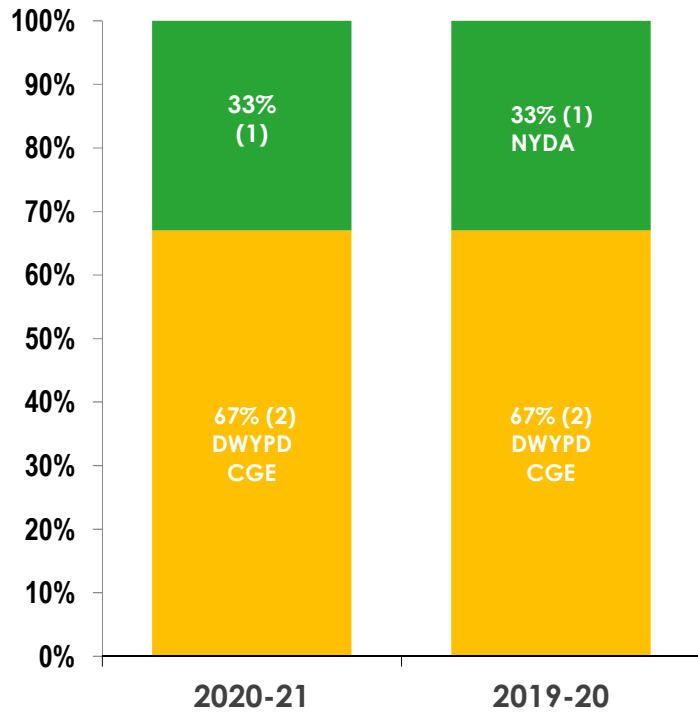
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Portfolio outcome

Women, Youth and Persons with Disabilities portfolio auditees



Audit outcomes of the women, youth and persons with disabilities portfolio over 2 years



Movement	
▲	0
▼	0
▶	3

Outstanding audits
None

- The overall outcomes in the portfolio have remained stagnant when compared to the prior year, with 1 audit clean and 2 with unqualified with findings.
- The **NYDA** has remained clean because of their continued commitment to good governance and strong internal control environment. While the **DWYPD** and **CGE** have remained unqualified with findings. There has also been an improvement in governance at the **DWYPD** since the appointment of the DG.

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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Portfolio overall message (cont.)

Key root causes in internal control environment

- Management **(DWYPD)** did not ensure that investigations into unauthorized and irregular expenditure were conducted timeously. There were delays in concluding the investigations, and struggles with obtaining information for irregular expenditure incurred in prior years.
- Management **(CGE)** did not implement adequate review and monitoring controls over preparation of financial statements, as management did not ensure that strict adherence to internal policies and procedures was followed by all stakeholders. Material misstatements were noted in the disclosure notes.

Recommendations:

- Accounting officers/ authorities should ensure that all irregular and unauthorized expenditure is investigated, and that disciplinary steps are taken against everyone (if any) who is found to be responsible to create a culture of accountability.
- Accounting officers/authorities must continue to ensure that management implements and enhances review processes for financial statements, to prevent errors in the financial statements.



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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

100% (3)

100% (3)

67% (2)

67% (2)

100% (3)

100% (3)

Root cause analysis

- Material misstatements to disclosure notes was due to inadequate review of financial statements by the accounting officer **(CGE)**.
- The findings raised are new findings. It has been noted that management tends to focus on only what has been raised by the auditors, and findings emerge in new areas.

Recommendations

- Accounting officers/ authorities must continue to do their work through audit committees to ensure management implements and enhances review processes for the financial statements
- Internal audit should scope in the review of the disclosure notes of the financial statements at **CGE**
- Accounting officers/ authorities must thoroughly review the developed actions plans to ensure they address the root cause at **CGE**
- Effective monitoring and oversight by the audit committee is critical to ensure that repeat findings are prevented in the next financial year

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
Performance report submitted without errors	0% (0)	0% (0)
Performance report adjusted for material misstatements to improve reliability	100% (3)	100% (3)
Reliable reporting of achievements	3	3
Usefulness of performance indicators and targets	3	2

Root cause analysis

- Proper controls were not in place to ensure accurate performance reporting. This was due to a shortage of staff in the department (**DWYPD**), and changes that were brought about by the revised Framework for Strategic Plans and Annual Performance Plans (**DWYPD and NYDA**). For the **CGE**, there was inaccurate reporting of two achievements.

Recommendations

- Controls to be put in place to ensure that achievements are properly reviewed against supporting documentation, and that the APR is prepared in line with the APP, and according to the framework (**DWYPD and NYDA**).
- The accounting officer (**DWYPD**) should ensure that more skilled staff are appointed in the division responsible for performance information.

Only one programme was selected for the audit of pre-determined objective for the department and entities due to the reduced scope approach, therefore not all programmes were audited.



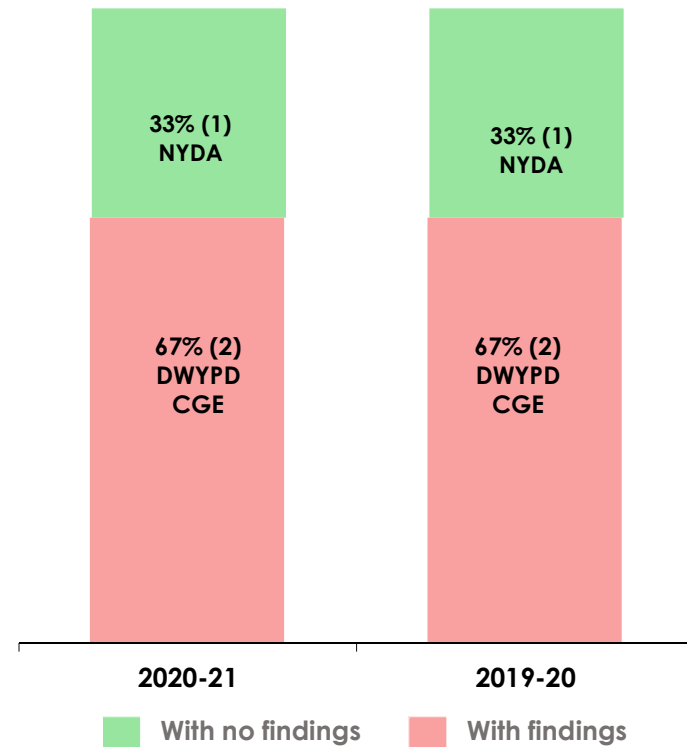
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Compliance with legislation

Third focus area: Compliance with legislation

- In the current year there has been a stagnation in the compliance with legislation
- Two out of three auditees received an unqualified audit opinion with findings on compliance; auditees continue to struggle with the compliance with legislation
- The **consequence management** non-compliance identified at the **DWYPD** is the same as that reported in the prior year, although there has been improvement in the investigations, and some were only reported to DG after year-end.
- For **CGE**, submission of annual financial statements was raised as a compliance issue, which was not raised in the previous financial year

Findings on compliance with key 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



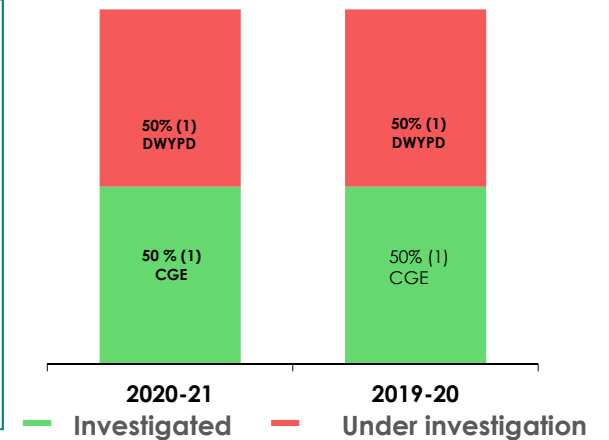
- R4,5 million – non-compliance in 2020-21
- R3 million – non-compliance in 2019-20
- Irregular expenditure has increased by 40% compared to prior year

Nature of irregular expenditure

Highest contributors to irregular expenditure in the portfolio:

- Part time commissioners who did not submit timesheets regularly, and were paid as retainers at CGE
- Procurement processes not followed at CGE
- DWYPD relates to a contract that was identified as irregular in previous year, but last payments were made December 2020

Previous year irregular expenditure reported for investigation

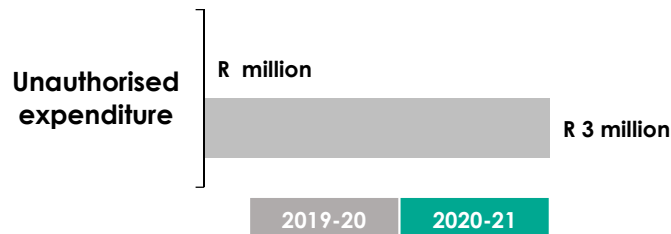


Unauthorised expenditure over 2 years

Definition

Overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, in accordance with the purpose of the main division

Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

Highest contributors to unauthorised expenditure in the portfolio:

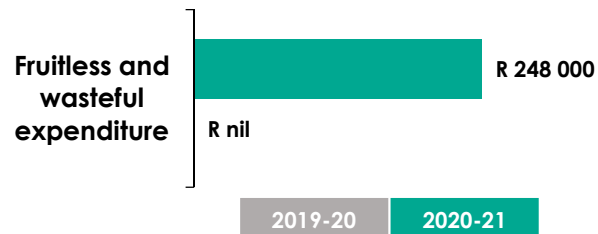
- R3,2 million was overspend in the ministers office in 2019-20 due to new positions being created in Ministry as a result of the NMOG process. The overspending was only reported to National Treasury after the end of the 2020/21 financial year due to lack of resource capacity to perform all the investigations .

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



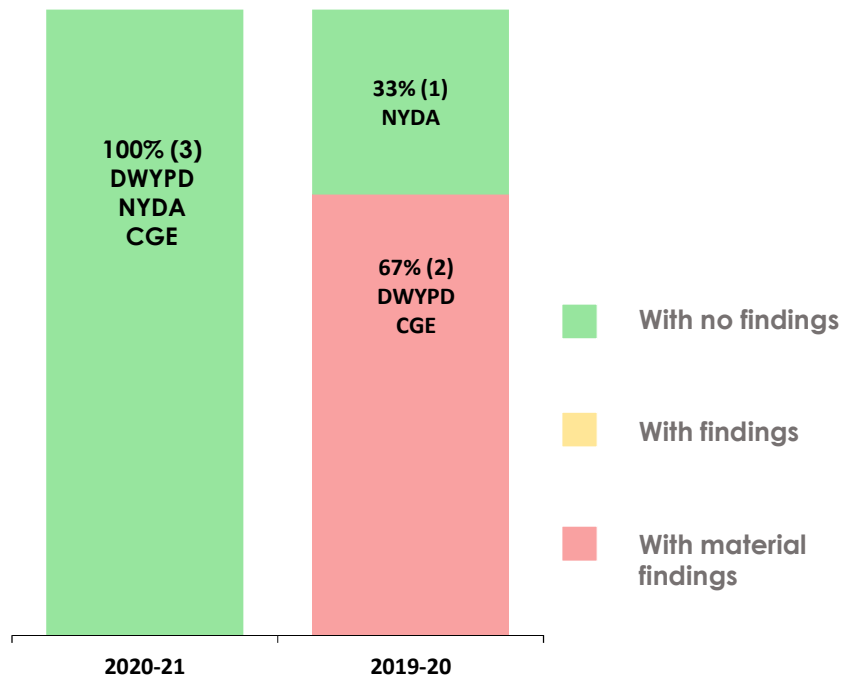
- R248 000 – incurred by CGE in 2020-21 financial year
- Rnil – non-compliance in 2019-20 financial year

Nature of fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure incurred amounts to R248 000, and was incurred in the current financial year.
- The amount was incurred by CGE, relating to payments made for rental of WAN services after the end of the lease period, and the services were not received

Supply chain management

Overall improvement in SCM compliance
All SCM findings should be investigated



Most common findings on supply chain management

None in the current year as there were no material SCM related findings reported

Management put action plans regarding checklists and appointing skilled staff into place and made sure to monitor the implementation thereof. This has resulted in the improvement

Recommendations

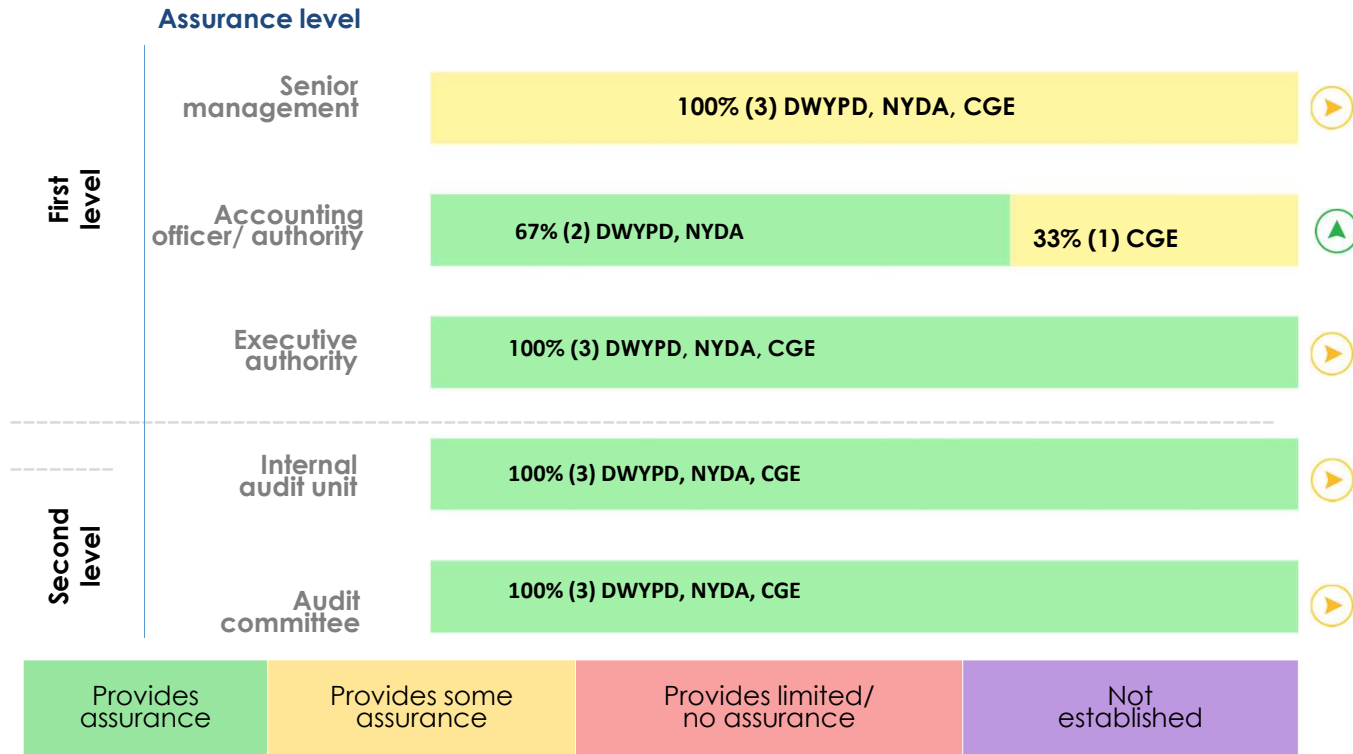
- Accounting officers/ authorities to maintain the controls that have been put in place, so as to maintain the status of no SCM findings.



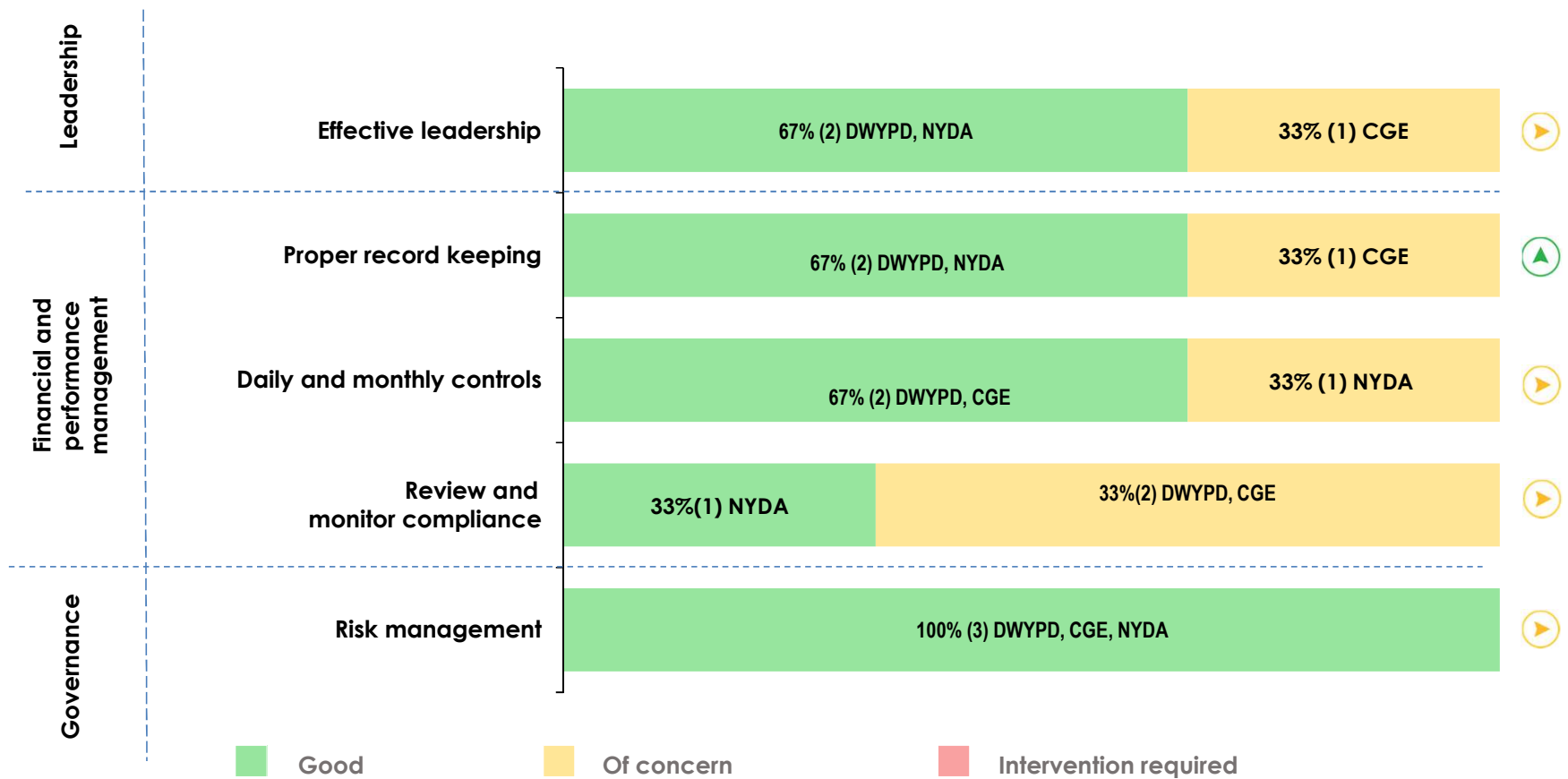
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Governance and internal controls

Assurance provided

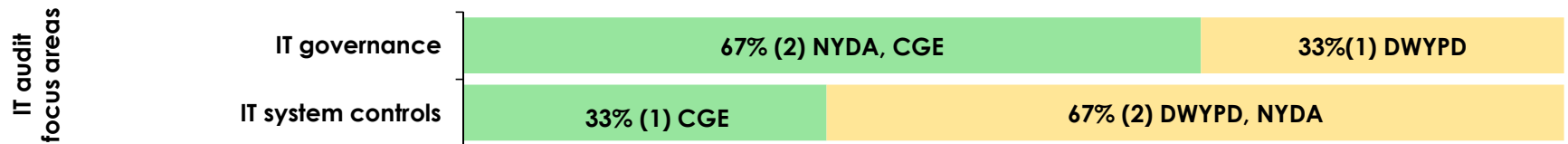


Status of internal control



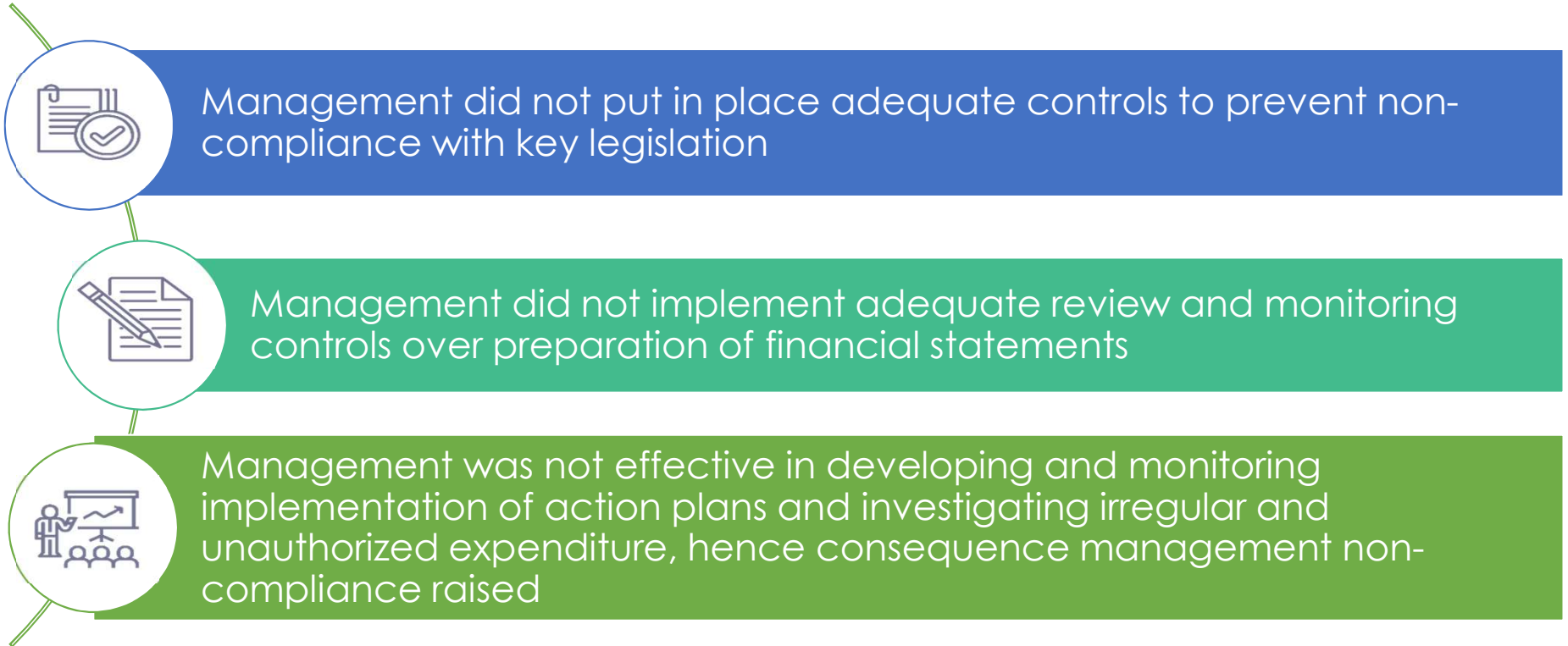
Status of information technology (IT) environment

- **IT governance** – is 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** – is 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



Good	Of concern	Intervention required
Areas	Root cause	Recommendations
IT governance	Management did not ensure the effective and efficient use of IT systems procured to enable the organization to achieve its goals. (DWYPD)	Management should enforce patch management policy and procedures and monitor for compliance (DWYPD)
IT system control	IT controls pertaining to security management, user access management and IT service continuity were not effectively designed and implemented. (DWYPD) . System limitation as Great Plains does not have the functionality to log user access changes performed on the system. The weakness on the VIP leave application was due to inadequate configuration on the system that were not in line with the leave policy. (NYDA)	Audit recommendations should be implemented as a matter of urgency most of the issues identified have remained unresolved for a significant period of time. (DWYPD) Management should address limitations in the system Management should, therefore, ensure that the system is configured in accordance with the Leave Policy. (NYDA)

Summary of 3 key root causes





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Recommendations

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 both entities
- monitor consequence management
- follow up with CGE and DWYPD on irregular, fruitless and wasteful expenditure incurred to ensure there is consequence management
- Audit recommendations on IT matters should be implemented as a matter of urgency most of the issues identified have remained unresolved for a significant period of time

The **culture** of **consequence management** should be enforced in the portfolio.

Key commitments

Commitments	Progress
<p>DWYPD</p> <ul style="list-style-type: none"> - The Department to address particular matters relating to repeat findings, in particular consequence management and slow progress of investigations - Control deficiencies in financial, performance and compliance related matters will be addressed through detailed actions plans 	<p>DWYPD</p> <ul style="list-style-type: none"> - Progress has been made with regards to investigations into irregular expenditure incurred. However at year, not all IE and unauthorized expenditure had been investigated. - There has been a notable improvement in the internal control environment, due to action plans being implemented and monitored rigorously
<p>CGE</p> <ul style="list-style-type: none"> - The CGE should develop an audit action plan that relates to the recommendations made by the AGSA - The CGE should strengthen its internal governance processes. 	<p>CGE</p> <ul style="list-style-type: none"> - Minimal progress in implementation, as audit action plans and recommendations were not taken seriously to allow improvement in monitoring compliance with laws and regulations - No progress has been made as evidenced by nature of internal control deficiencies noted in the environment
<p>NYDA</p> <ul style="list-style-type: none"> - The NYDA should develop an audit action plan that relates to the recommendations made by the AGSA 	<p>NYDA</p> <ul style="list-style-type: none"> - The NYDA developed and monitored the implementation of action plans to address internal control deficiencies

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