AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report (BRRR)

Standing Committee on Finance (SCoF)

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.

Mandate for AGSA and Portfolio Committees

AGSA mandate

Constitution section 188
AGSA must audit and report on the 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)
- The auditor-general has the power to:
  - take appropriate remedial action
  - issue a certificate of debt, as prescribed, where an accounting officer/ authority has failed to comply with remedial action.

Portfolio committees

Rule 227 of the National Assembly rules
Portfolio committees may, among other things, perform the following functions:
- Deal with bills and other matters falling within its portfolio as are referred to it in terms of the constitution, legislation, rules or by resolution of the National Assembly.
- Maintain oversight of its portfolio of national executive authority, including the implementation of legislation.
- May consult and liaise with any executive organ of state or constitutional institution.
- May 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.
- May consult and liaise with any executive organ of the state or constitutional institution.

Role of AGSA in 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 the entities taking into consideration the objective of the committee to produce a *budgetary review and recommendations report* (BRRR).

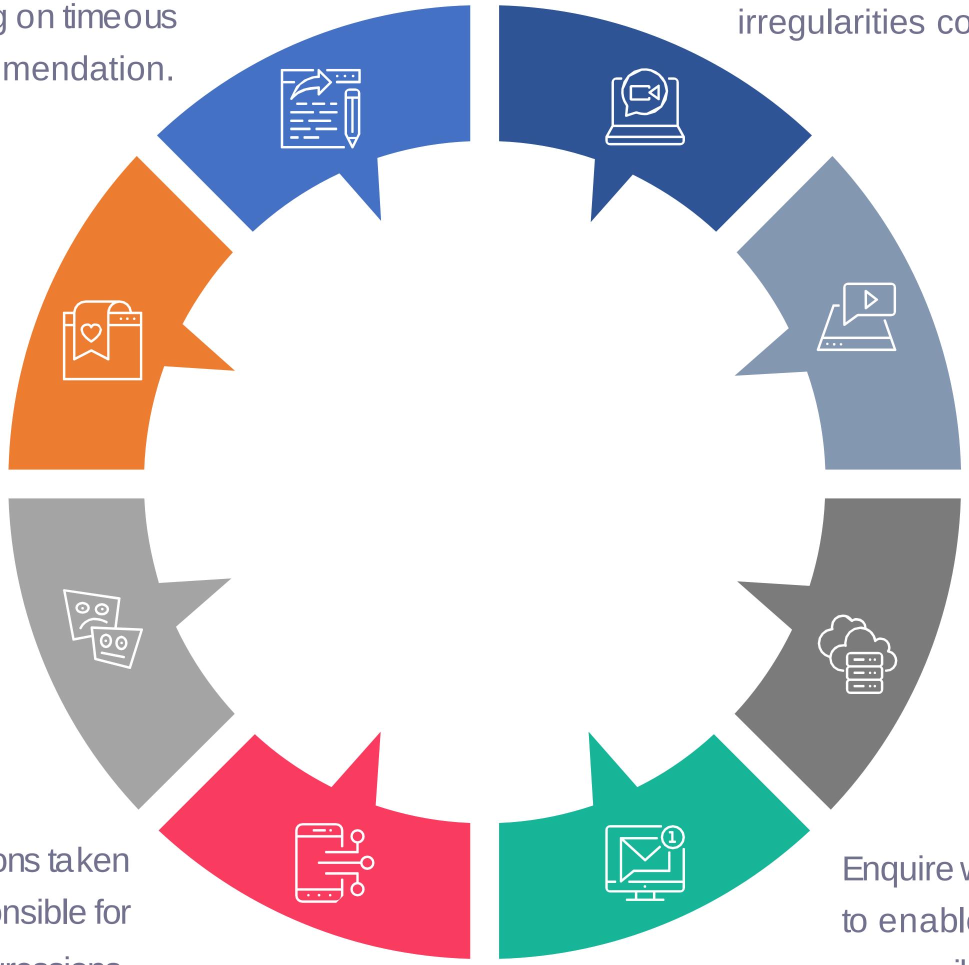
What we understand as the role of oversight

Use information in the audit report on material irregularities for accountability and oversight purposes, insisting on timeous implementation of recommendation.

Use reports tabled on progress with material irregularities to oversee and influence progress made by public bodies with investigations and executive authorities (for recovery of debt).

Hold the executive authorities accountable for failures in the control environment.

Follow up on the actions taken against the official(s) responsible for transgressions.



Obtain reports on investigations into transgressions and irregularities conducted and effecting the entity.

Follow up annually on the previous commitments made by the accounting officers.

Determine if corrective steps are taken to address the shortcomings in the internal control environment.

Enquire what training and support are given to officials to enable them to correctly execute their responsibilities.

Focus

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Audit outcomes

Objective

The objective of this document is to brief the standing committee on finance on the audit outcomes of the finance portfolio for the period ended 31 March 2021. This presentation includes the outcomes of the National Treasury and all the entities falling under the finance portfolio. The presentation covers 16 audits, 15 of which have been completed and one audit that has been outstanding at the date of this presentation. In this presentation we highlight audit outcomes, root causes and recommendations in order to improve audit outcomes for the portfolio.

Important to note

The percentages in this presentation are calculated based on the **completed audits of 15 auditees**, unless indicated otherwise.

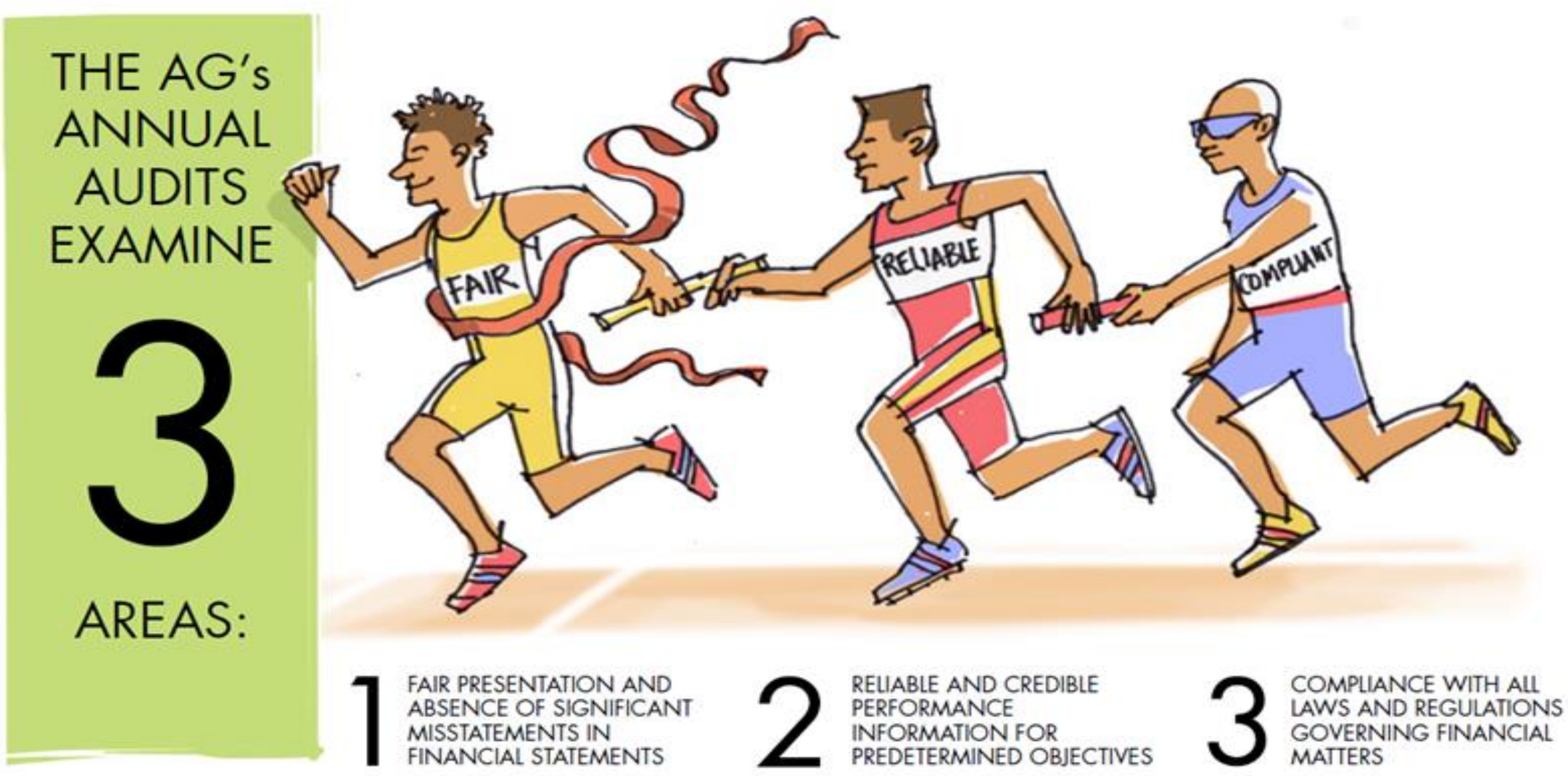
Audit outcomes are indicated as follows:

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

Movement over the previous year is depicted as follows:

- Improved
- Unchanged
- Regressed

Annual audit focus area



AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of 15 auditees**, unless indicated otherwise.

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

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

Portfolio outcome

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Finance portfolio auditees

National Treasury (NT)

Regulatory agencies & constitutional entities

- Accounting Standards Board (ASB)*
- Co-operative Banks Development Agency (CBDA)**
- FAIS Ombud
- Financial and Fiscal Commission (FFC)
- Financial Intelligence Centre (FIC)
- Financial Sector Conduct Authority (FSCA)
- Independent Regulatory Board for Auditors (IRBA)
- Pension Funds Adjudicator (PFA)

Government Component

- Government Technical and Advisory Centre (GTAC)
- Government Pension and Administration Agency (GPAA)

Development banks

- Land and Agricultural Development Bank of South Africa (LB)***
- Development Bank of Southern Africa (DBSA)

Insurance and investments

- SASRIA*
- Public Investment Corporation (PIC)
- Land Bank Insurance SOC Limited (LBIC)
- Land Bank Life Insurance SOC Limited (LBLIC)

Revenue entity

- South African Revenue Services (SARS)

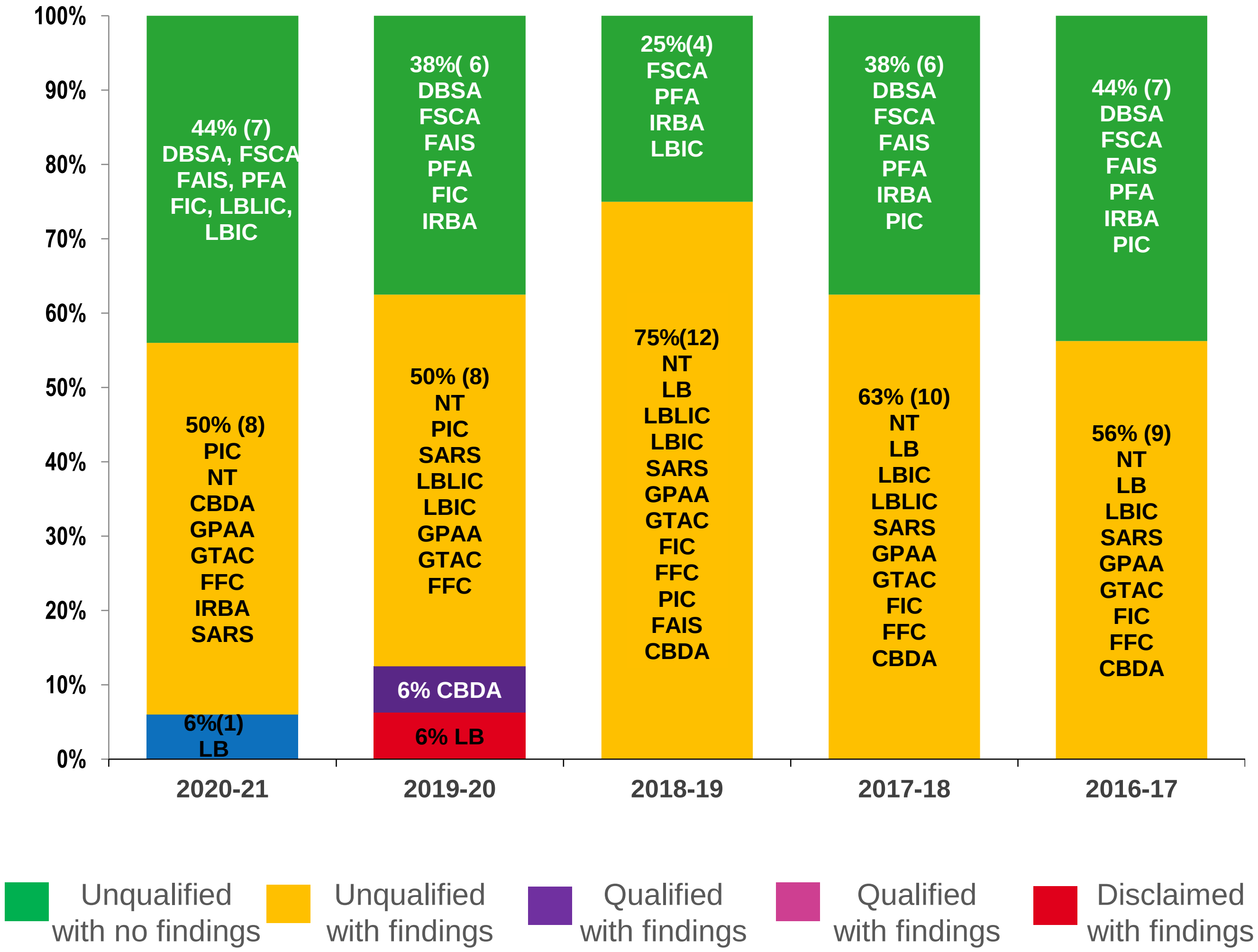
Group including its subsidiary Interfront

*Section 4(3) entities are not included in the audit outcomes

**CBDA is classified as a small auditee based on the size and nature of the business.

***LB audit has not been finalised and therefore has not been included in the detailed analysis

Audit outcomes of the finance portfolio over five years



Movement	
▲	3
▼	1
►	11

Outstanding audits
1 Land Bank

- The overall outcomes have slightly improved when compared to the prior year. The number of entities with audit outcomes of financially unqualified with NO findings on performance reporting and compliance with legislation has increased from the prior year. The LBLIC and the LBIC improved their audit outcomes from unqualified with findings in the prior year to clean audits in the current year, while IRBA regressed from a clean audit outcome in the prior year to an unqualified audit with compliance findings.
- The audit outcome of the CBDA improved from qualified to unqualified with findings as they have addressed material findings on goods and services.
- The Land Bank audit, which was a disclaimer in the prior year, remains outstanding.
- The remaining portfolio still has findings around the compliance with legislation and, in some instances, there are entities that have findings in respect of quality of financial and performance reporting.
- With the exception of the DBSA, the larger entities in the portfolio (NT, PIC, SARS) have been unable to achieve clean outcomes.

Portfolio overall message

The overall audit outcomes in the portfolio have slightly improved when compared to the prior year. The portfolio has **seven audits (DBSA, FSCA, FAIS, PFA, LBIC, LBLIC and FIC) that have achieved an unqualified audit opinion with no findings (clean), representing 44% of the audits in the portfolio.** This is a slight improvement from the six (38%) clean audits achieved in the prior year. Of concern is IRBA, which has regressed from a clean opinion to unqualified with findings on compliance with legislation. We commend the accounting authorities, management and the executive authority for the audits that achieved and continue to maintain clean audit outcomes.

The entities that managed to maintain their clean audit outcomes have a strong leadership culture, financial and performance management, and effective governance. These entities have effective governance structures that ensure that actions are taken to address audit findings and are supported by adequately resourced officials. The remaining entities within the portfolio should look at the good practices implemented by these entities to improve outcomes. As these entities have been able to achieve clean audit outcomes, it is important to ensure that this also translates into service delivery to the citizens. Going forward, the focus on these entities should be to ensure that they do not only achieve clean audit outcomes, but also ensure effective and efficient delivery of services.

Although the audit of the Land Bank is still outstanding, we are seeing that the majority of the entities in the portfolio, especially the big ones, are still struggling to achieve clean audit outcomes. **Eight auditees (NT, PIC, CBDA , GPAA, GTAC, FFC, IRBA and SARS), which represents 50% of the auditees in the portfolio, received a financially unqualified audit opinion with findings**.

These auditees continue to struggle with compliance with legislation. The prevalent instances of non-compliance are in the areas of expenditure management (all eight auditees), supply chain management and consequence management (GPAA, GTAC, FFC) and material misstatements identified in the financial statements submitted for auditing (NT, PIC, CBDA).

Portfolio overall message (continued)

These challenges are similar to those reported in the prior year and may be indicative of ineffective audit action plans and inadequate consequence management in some entities in the portfolio. In the current year, there has been a slight improvement in the portfolio in the quality of the performance information submitted for auditing; however, the GTAC and the CBDA had material findings on the usefulness and reliability of reported performance information.

We will further unpack the outcomes of the portfolio and the drivers of these outcomes in six themes, i.e. governance/ instability, expenditure management, consequence management, quality of submitted financial statements and annual performance reports, information technology and financial health.

Governance and stability

The portfolio is stable as most of the auditees have fully constituted boards/accounting authorities and key positions at executive level are filled. We note the appointment of the commissioner at the FSCA, FAIS Ombud and the PFA, as well as the appointment of the IRBA board that was done after the current financial year end. These appointments will ensure the continued stability in the portfolio. The interim board at the PIC has made considerable inroads in restoring the entity, ensuring that there is stability at an oversight level and also in implementing the recommendations of the Mpati commission. There has been an improvement in the control environment of the PIC over the past two financial years. We commend the Minister of Finance for appointing a permanent board at PIC in November this year.

The accounting officer positions at the GTAC and the GPAA are still vacant and filled with acting employees.

The portfolio also has auditees that still have key vacancies at executive level.

At the NT, we noted that a number of vacancies have been filled but the positions of accountant-general, chief procurement officer and DDG: Budget office are still vacant and the chief investment officer (CIO) at PIC has also not yet been appointed. Furthermore, the position of chief executive officer at IRBA is vacant and filled in an acting capacity.

Portfolio overall message (continued)

Governance and stability continued

To ensure continuity of stability and certainty, we recommend that the appointment of accounting officers at the GTAC and the GPAA as well as the key vacancies at NT, PIC and IRBA are done.

Expenditure management

There was a decrease in the incurrence of irregular and fruitless and wasteful expenditure in the finance portfolio over the past two years. Although there have been notable improvements in the levels of irregular expenditure in the portfolio, we remain concerned that the levels of irregular expenditure remain high in the portfolio at R179 million (2020: R365 million). The NT, the GTAC and the GPAA remain the biggest contributors to irregular expenditure. The PIC, SARS, NT, GPAA, GTAC, FFC, IRBA and the CBDA have material non-compliance findings on expenditure management, which was primarily driven by irregular expenditure incurred from non-compliance with procurement prescripts. Although, in most instances, the entities were able to detect non-compliance with procurement prescripts and the related irregular expenditure, the preventive controls that have been implemented by management were not adequate to prevent non-compliance and the incurring of irregular expenditure. Therefore, we recommend that preventative controls be strengthened to ensure compliance with applicable legislations and prevention of irregular expenditure.

The NT is the biggest contributor of fruitless and wasteful expenditure relating to the payment of maintenance and technical support for the IFMS, which has still not been implemented. As indicated, the accounting officer should take steps to prevent further fruitless and wasteful expenditure and should ensure that procurement delays and proper project management concerns over the IFMS project are addressed and the solution implemented. It is critical that urgent action plans are put in place to ensure that the identified deficiencies in oversight, procurement delays and project management are resolved.

If the root causes leading to non-compliance with legislation are not addressed, the department and its entities run the risk of continuing to incur irregular, and fruitless and wasteful expenditure, which could lead to material irregularities in terms of the PAA.

Portfolio overall message (continued)

Material irregularities

In the current cycle, two auditees in the portfolio (NT and DBSA) were selected for the implementation of the material irregularity definition in terms of the PAA. We have not identified and reported any material irregularity for the DBSA for the 2020-21 audit.

For the NT, we have identified a material irregularity relating to the payment of maintenance and technical support for the IFMS.

A formal material irregularity notification was issued to the accounting officer, as required by material irregularity regulation 3(2). The accounting officer responded to the notification and we are in the process of evaluating these responses. The IFMS contract was extended for another five years until 2026, which exposes the NT to further possible non-compliance risks should the recommendations we made on this project not be implemented.

Consequence management

Overall, the portfolio has effective consequence management processes in place to investigate and follow up on irregular expenditure. Consequence management action was undertaken at some of the entities within the portfolio during the year under review by conducting investigations and, where appropriate, taking further disciplinary actions on those responsible for the non-compliant expenditure incurred. Consequently, the 2020-21 irregular expenditure has reduced by 53% from R365 million to R179 million, and most of this expenditure was detected by the auditees' internal controls.

However, consequence management remains a challenge at FFC, GPAA and GTAC as material non-compliance findings were raised relating to the lack of investigation or evidence to support such investigations. We recommend that there must be timely investigations of the reported irregular expenditure and, where appropriate, disciplinary actions against those found to be responsible for such expenditure.

Portfolio overall message (continued)

Consequence management (continued)

Failure to implement consequence management encourages a culture where the disregard for legislation, policies and procedures thrives in any organisation. The accounting officers/accounting authorities need to ensure that their current action plans are enhanced to address the repeat findings in compliance with legislation.

The action plan must be monitored by the internal audit function and the audit committees should play an oversight role in the implementation and monitoring of the action plan.

We further urge these entities to implement the necessary interventions that will ensure that there is a change of tone from the top in resolving and preventing irregular expenditure.

Quality of submitted financial statements

Overall, the majority of auditees in the portfolio submitted financial statement that did not contain material misstatements. However, three of the auditees (NT, CBDA and PIC) submitted financial statements that contained material misstatements that were identified during the audit process. These misstatements were not prevented or detected by the auditee’s system of internal control and constituted material non-compliance with section 40/55 of the Public Finance Management Act. These material misstatements mainly affected disclosure notes and this was mainly due to inadequate review of financial statements.

The controls implemented for the review of the financial statements before submitting them for auditing, as well as the developed action plans, were not adequate to prevent material misstatements identified in financial statements submitted for auditing for these entities. Of concern are that these findings have been reported for at least the past three years and, therefore, we urge management to develop action plans that address the root cause, augment existing capacity, use internal audit to perform a more detailed audit of the financial statements, enhance the review process and, where appropriate, implement consequence management by holding officials accountable for these outcomes in order to ensure improvement going forward. Similar observations have been made at the CBDA and the GTAC in relation to the material findings identified on the audit of performance information.

Portfolio overall message (continued)

Quality of performance reporting

In the current year, there has been an improvement in the quality of performance information submitted for auditing in the portfolio. NT and GPAA improved the quality of performance reporting during the year and had no material findings reported on the reliability and usefulness of the reported performance information. This was due to a implementation of the action plans to address the prior year performance information control deficiencies.

GTAC and CBDA had material findings on the usefulness and reliability of reported performance information. This was due to inadequate monitoring and reporting of useful and reliable performance information. The managements of these entities are urged to implement effective action plans to address these findings, as they are repeat findings.

Financial health

As an oversight department of the entities in the finance portfolio, NT provides financial guarantees to its entities to enable them to obtain funding in order to fulfill their mandates. By 31 March 2021, NT had issued total guarantees of R21 billion. The guarantees to public entities within the finance portfolio hold potential risks to operating performance and continued service delivery due to the potential negative impact on the department's ability to fund planned operations, activities, programmes and projects, as funds may need to be diverted away from operating and service delivery objectives in order to fund the guarantees.

NT plays an enabling role in the economic recovery plan of the country and to ensure that departments and public sector entities deliver on their mandates and key imperatives of the economic recovery plan. The department needs to ensure that there is adequate oversight over government spending and that the continued government debt is capped to the extent possible that there are adequate funds available to stimulate the South African economy, which has been severely impacted by the covid-19 pandemic. The public sector in general continues to struggle to improve their audit outcomes and we urge the department to continue to find ways to support the public sector to ensure that they achieve clean administration and focus on achieving the strategic objectives linked to their mandates, thus enabling service delivery to the ordinary citizens.

Portfolio overall message (continued)

Financial health (continued)

The Land Bank has been experiencing liquidity and funding challenges which resulted in a default on their debt. As it stands, the Land Bank has not yet finalised the liability solution to address the liquidity challenges. This posed significant uncertainty regarding the going concern of the bank in the prior year audit. Therefore, we recommend that the oversight and monitoring be strengthened to ensure that the turnaround strategies are implemented and the liability solution is finalised in order to mitigate the related financial and economic risks associated with the bank.

Sasria faces liquidity and solvency risks due to the July 2021 riots in KZN and parts of Gauteng. We noted the announcement by the minister to support Sasria in dealing with the claims that may arise from this riots. However, we recommend continuous engagement with Sasria to address this risk and ensure that liquidity and solvency risks are mitigated.

Portfolio overall message (continued)

Key root causes in the internal control environment

- Inadequate controls to prevent the non-compliance with procurement legislation.
- The accounting officer/authority did not implement adequate review and monitoring controls over the preparation of the financial statements.
- The accounting officer/authority was not effective in developing and monitoring the implementation of action plans.

Recommendations:

To the accounting officers/authorities

- We recommend that the accounting officers/ authorities strengthen preventative controls to ensure compliance with legislation.
- Accounting officers/authorities must continue to do their work through audit committees to ensure management implements and enhances processes of review of the financial statements.
- Effective monitoring and oversight by the audit committee to ensure that errors in the financial statements are prevented and there is compliance with legislation.
- The developed actions plans must be thoroughly reviewed by the accounting officers/authorities to ensure that they address the root cause.
- Monitor performance and consequence management, especially around supply chain management.
- Implement disciplined financial reporting structures based on solid accounting knowledge.

Portfolio overall message (continued)

Recommendations (continued):

To the accounting officers/authorities (continued)

- The internal audit function, together with the audit committee, must review the audit action plan to ensure that root causes are properly identified and the plan is adequate to address findings reported.
- Executive management positions should be filled with appropriately skilled and experienced personnel.
  - At the National Treasury, the positions of accountant-general, chief procurement officer, deputy director General (DDG): budget office and chief audit executive are vacant
  - The accounting officer positions at the GPAA and the GTAC are vacant
  - The position of chief investment officer at the PIC is vacant
  - The position of chief executive officer at IRBA is vacant
- Address the procurement delays and governance matters raised on the IFMS project.

To the Standing Committee on Finance (Scof):

- Monitoring and regular follow up with the executive authority and the accounting officer/authority on:
  - progress on audit action plans put in place by the department and entities to improve audit outcomes
  - monitor the vacancies to ensure stability of leadership
  - monitor consequence management and governance matters on IFMS project
  - follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management.

Quality of financial and performance reporting

Quality of financial and performance reporting

Quality of submitted financial statements

- 80% (12) auditees submitted financial statements that did not contain material misstatements and we wish to commend these entities **(DBSA, FSCA, FAIS, PFA, FIC, GPAA, GTAC, IRBA, SARS, LBIC, LBLIC and FFC).**
- Three of the auditees **(NT, CBDA and PIC)** submitted financial statements that contained material misstatements.
- These misstatements mainly affected disclosure notes. Differences were identified in the commitment disclosure and commitments register, which resulted in an overstatement of commitment disclosure.
- This is due to inadequate review of financial statements by the management. Accounting officers/authorities should work through the management to enhance review processes over the financial statements. The internal audit functions should enhance their review of the financial statements and the audit committee should ensure adequate oversight over the review process.

Quality of performance reporting

- In the current year, there has been an improvement in the quality of submitted performance information for audit in the portfolio.
- **The GTAC and the CBDA** had findings on usefulness and reliability of reported performance information due to inadequate monitoring and reporting of useful and reliable performance information. However, these entities were able to achieve most of the strategic objectives linked to their mandates.
- **The NT and the GPAA** improved the quality of performance reporting during the year and had no findings reported on the reliability and usefulness.
- This was due to the implementation of the action plans to address the prior year performance information control deficiencies.

First focus area: Credible financial reporting

Financial statements	Movement	2020-21	2019-20
Submission of financial statements by legislated date**	➤	100% (15)	100% (14)
Financial statements submitted without errors	▲	80% (12)	71% (10)
Quality of final submission after audit	▲	20% (3)	29% (4)

Root cause analysis

- Material misstatements to disclosure notes were due to inadequate review of financial statements by the accounting officer/authority.
- The findings raised are recurring despite discussions held with the auditees on the implementation of preventive control measures.

** The LBIC and the LBLIC AFS had not been received by 31 May and management and the board requested late submission extension from the NT due to the late finalisation of the technical liabilities valuation, which resulted in the financial statements being submitted for auditing on 31 July 2021.

Recommendations

- Accounting officers/authorities must continue to do their work through audit committees to ensure management implement and enhance processes of review of the financial statements.
- Internal audit should scope in the review of the disclosure notes of the financial statements.
- The developed actions plans must be thoroughly reviewed by the accounting officer to ensure that they address the root cause.
- Effective monitoring and oversight by the audit committee is also critical to ensure that these repeat findings are prevented in the next financial year.

Second focus area: Credible performance reporting

Performance report	Movement	2020-21	2019-20
Performance report submitted without errors	▲	87% (13)	64% (9)
Performance report adjusted for material misstatements to improve reliability	▲	0% (0)	15% (2)
Reliable reporting of achievements **(CBDA and GTAC)**	▲	2	3
Usefulness of performance indicators and targets **(CBDA and GTAC)**	▲	2	3

Root cause analysis

- Recurring challenges were identified with performance reports of the CBDA and the GTAC that the indicators needed to be revised, due to the lack of preventative controls implemented on performance reporting.
- 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.
- The source information and supporting evidence for measuring the planned indicator were not clearly defined.

Recommendations

- The auditee need to design performance indicators that are well defined and adhere to the SMART criteria.
- We recommend that standard operating procedure/policies be designed that contain processes to record information and store supporting evidence for measuring. The planned indicator was not clearly defined.
- Management should develop an action plan to address findings raised. We further recommend that the internal audit function to monitor the action plan be developed by management.
- Effective monitoring and oversight by the audit committee is also critical.

Compliance with legislation

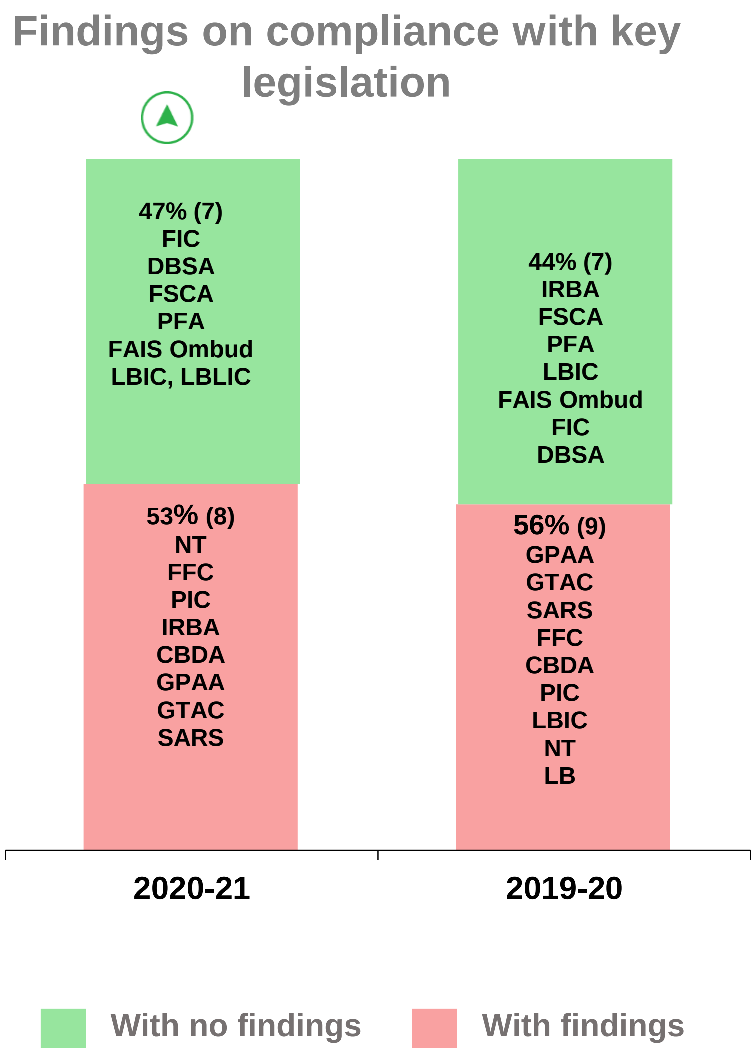
Third focus area: Compliance with legislation

- In the current year, the number of auditees with findings in the area of compliance with legislation remained relatively unchanged and the nature of findings remains similar to those reported in the prior year.

- Eight (8) out of the fifteen (15) auditees received an unqualified audit opinion with findings on compliance. Auditees continue to struggle with compliance with legislation.

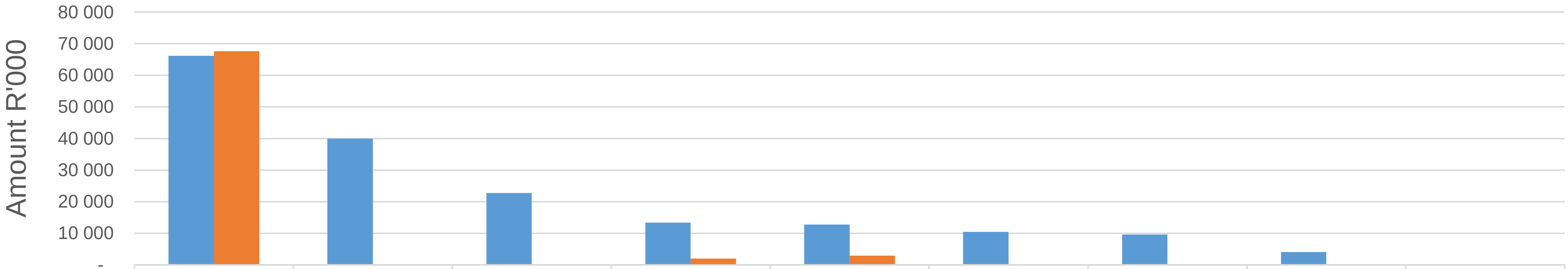
- The non-compliance identified is similar to those reported in the prior year. These auditees **(NT, FFC, PIC, IRBA, CBDA, GPAA, GTAC, SARS)** did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.

- We will further unpack the challenges of compliance in three sections, i.e. **expenditure management**, **procurement and contract management** and **consequence management.**



Irregular, unauthorised, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 20/21



	NT	GTAC	GPAA	SARS	FFC	IRBA	PIC	FAIS	Other
Irregular- current year	66 175	39 971	22 732	13 373	12 778	10 431	9 606	4 038	76
Fruitless- current year	67 614	-	-	2 027	2 911	-	-	-	-

Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure identified – R179 million.
- R66 million was incurred at the **National Treasury** (which is 37% of the total irregular expenditure).
- The other irregular expenditure relates to:
    - failure to follow a competitive process
    - incorrect evaluation of bids.

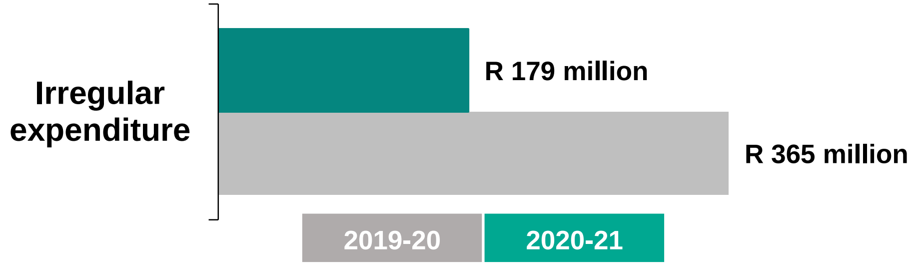
Fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure identified – R73 million.
- R67,8 million (93%) of this amount was incurred by the **National Treasury** and mainly relates to the IFMS project.

Irregular expenditure over two years

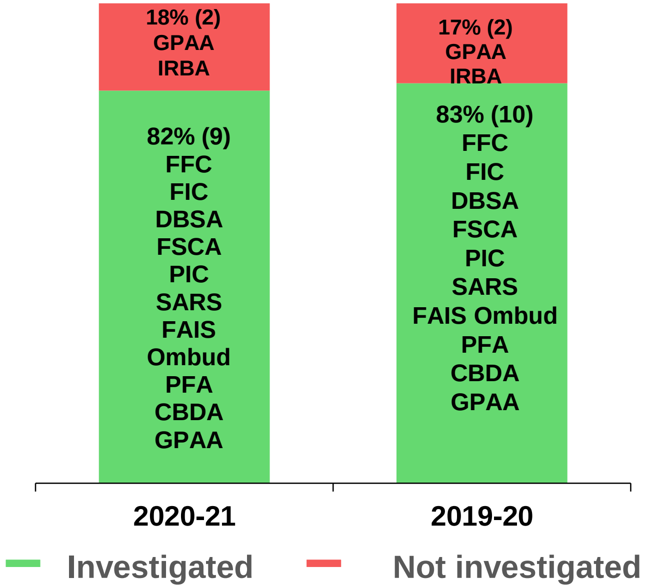
Definition	*Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed*

Irregular expenditure incurred by entities in portfolio



- *R179 million represents non-compliance in 2020-21.*
- *R365 million represents non-compliance in 2019-20.*
- *Irregular expenditure was 53% lower than the prior year.*

Previous year irregular expenditure reported for investigation



Nature of the irregular expenditure

The highest contributors to irregular expenditure in the portfolio:

- **National Treasury** inadequate contract management and review processes to ensure that expenditure remains within contract values and that contract variations are appropriately approved (R66 million).
- The accounting authority did not implement adequate review controls over the evaluation and awarding as the bid price included does not agree with the bidder's pricing schedule (R22 million) at **GPAA**.
- **FFC** *management did not implement controls to prevent non-compliance with SCM transcripts and Treasury Regulations. Some of the quotations were accepted from prospective suppliers who did not submit SCM bidding document 4 (SBD4) declaration and tax compliance certificates (R10 million).*

Unauthorised expenditure over two years

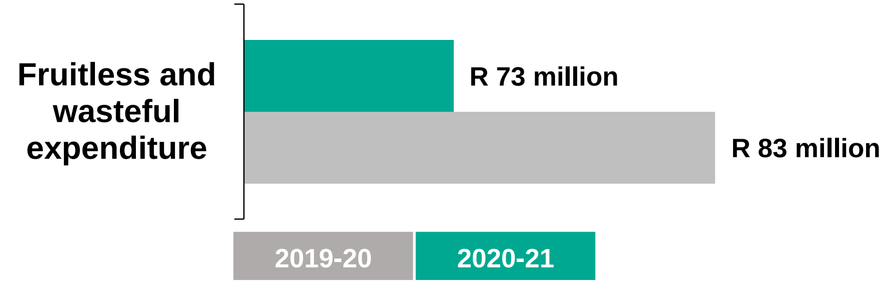
Definition	Unauthorised expenditure means the overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote, or in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure incurred by entities in portfolio
No unauthorised expenditure was incurred over the past two years.

Fruitless and wasteful expenditure 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

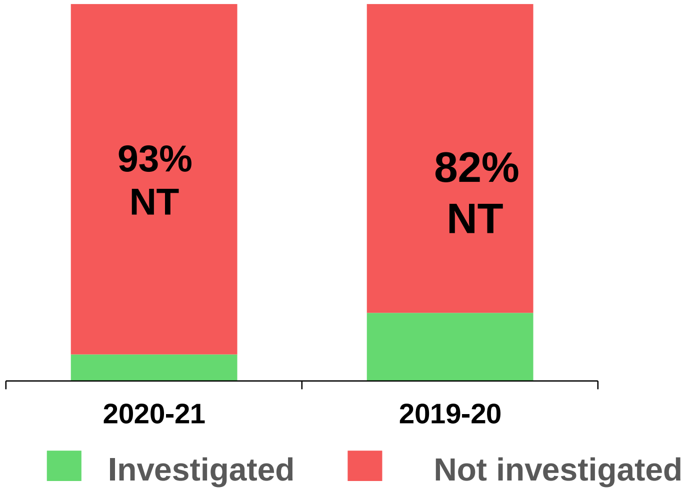


- *R73 million represents non-compliance in the 2020-21 financial year.*
- *R83 million represents non-compliance in 2019-20 financial year.*
- *In the previous financial year, the NT contributed 91% of the total fruitless and wasteful expenditure.*
- *In the current year, the audit of the NT contributed 96% of the total fruitless and wasteful .*

Nature of the fruitless and wasteful expenditure

- The total fruitless and wasteful expenditure identified amounted to R73 million and was lower than the reported prior year value of R83 million.
- R67,8 million (93%) of the fruitless and wasteful expenditure relates to the National Treasury and mainly to support and maintenance licences that were not used for the IFMS project. This resulted in a material irregularity.
- The accounting officer did not implement adequate oversight and monitoring to ensure the timely implementation of the IFMS due to action plans to address governance and project management deficiencies not being implemented in a timely manner.

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 following entities:

- **Financial and Fiscal Commission**
- **Government Pensions Administration Agency**
- **Government Technical Advisory Centre**

Non-compliance findings were raised relating to the lack of investigation or evidence to support such investigations.

Inadequate disciplinary actions are taken against staff who caused irregular, fruitless and wasteful expenditure.

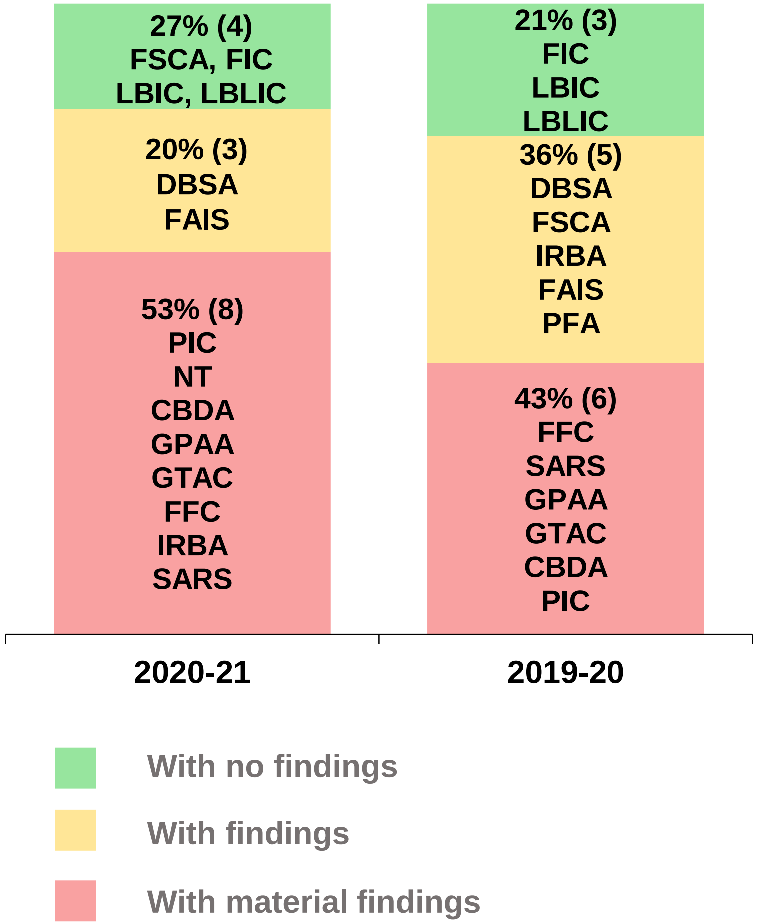
Recommendations

- Timely investigations of the reported irregular expenditure must be taken and disciplinary actions must be taken against those found responsible for such expenditure.
- Accounting officers/authorities need to ensure that disciplinary actions are taken against staff that transgressed procurement regulations.
- The accounting officers/authorities need to enhance action plans to address the repeat findings.
- The internal audit unit and the audit committee must monitor the implementation of the action plan.

Supply chain management

Overall regression in SCM compliance

All SCM findings should be investigated



Most common findings on supply chain management	Recommendations
No effective and appropriate steps taken to prevent irregular expenditure and/or fruitless and wasteful expenditure at eight auditees **(NT, PIC, SARS, FFC, CBDA, GPAA, GTAC and IRBA).**	• The accounting officers/ authorities should ensure that procurement delays and proper project management are addressed. • Preventative controls should be strengthened to ensure no irregular/fruitless and wasteful expenditure is not incurred. • SCM training to ensure understanding and application of the legislation.
No competitive and fair procurement practices at three auditees **(GPAA, GTAC and FFC).**	

At the center of the PAA amendments – Material irregularity

What is a material irregularity?

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 this Act that ***resulted in or is likely*** *to result in …*

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.***

To allow for establishing capacity and processes, a **phased-in approach** for identifying material irregularities will be followed 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 with the definition stated above.

The material irregularity 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 the **government priorities. For the 2021 year, the DBSA and the NT were selected for MI implementation in the finance portfolio.**

Implementation of expanded mandate in 2020-21

Status of material irregularities in progress: National Treasury

Based on the findings reported in the prior years on the IFMS project, a material irregularity (MI) notification was issued to the accounting officer on 13 May 2021. This MI related to contraventions of section 38(1)(c)(ii), section 38(1)(b) and section 45(b) of the PFMA relating to fruitless and wasteful expenditure since the 2016-17 financial year.

The MI was due to expenditure incurred for the payment of technical support and maintenance for the software licences that were not in use.

The accounting officer submitted a response to the MI notification issued and our evaluation of the response is in progress.

Recommendations:

- Adequate in-year monitoring of the MI and consider whether the executive authority took the appropriate action.

AUDITOR-GENERAL
SOUTH AFRICA

Portfolio snapshot

Portfolio snapshot 2020-21

Clean audits: 7
(2019 - 20: 6)

Financially unqualified financial statements: 15
(2019-20: 14)

No findings on performance reports: 2
(2019-20: 3)

No findings on compliance with legislation: 8
(2019-20: 9)

Irregular expenditure: R179m
(2019-20: R365m)

Governance and internal controls

Assurance provided (excluding small auditee)

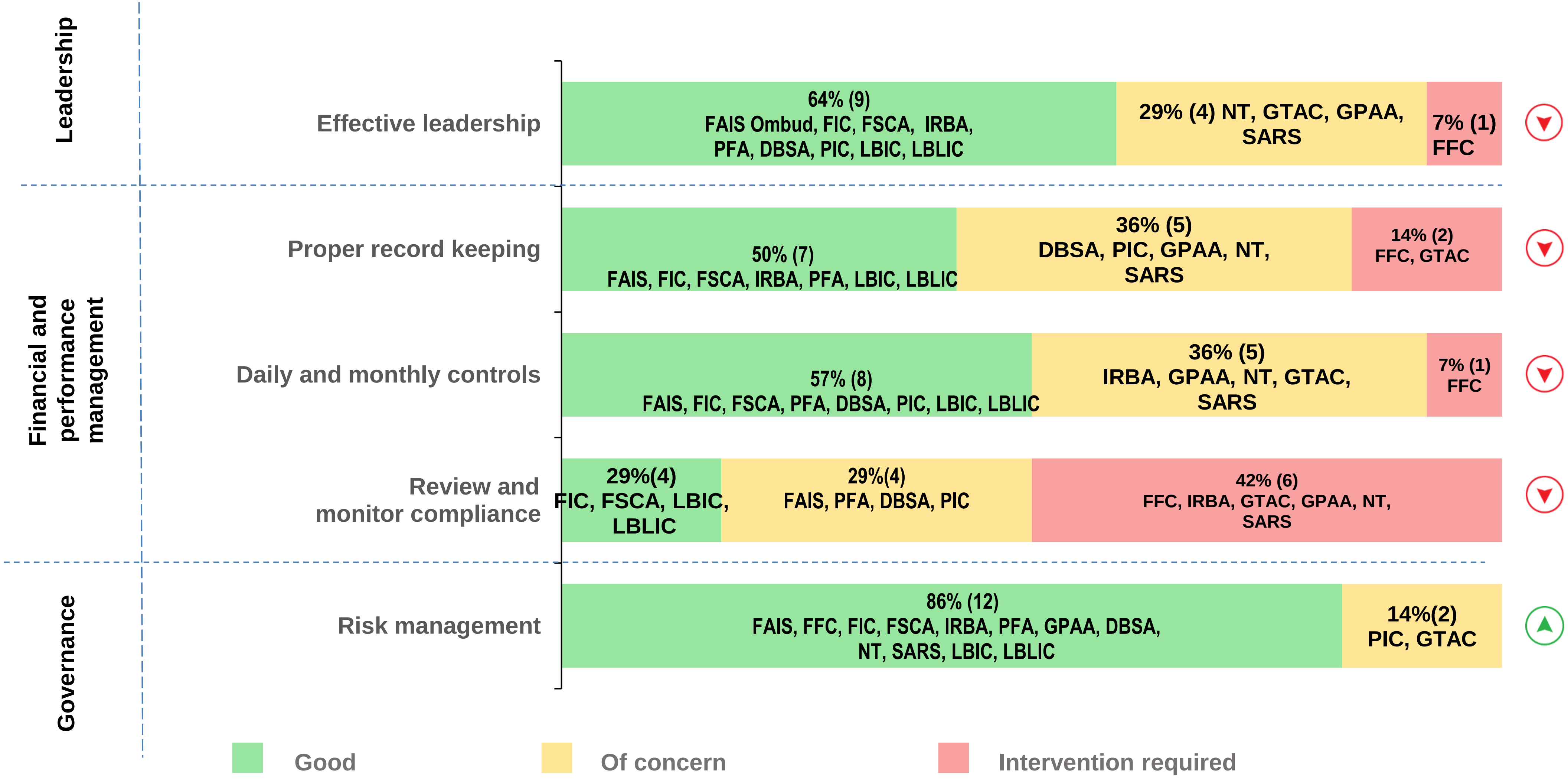
Assurance level

		Provides assurance	Provides some assurance
First level	Senior management	36% (5) FIC, FAIS, PFA, LBIC, LBLIC	64% (9) FSCA, IRBA, DBSA, PIC, GTAC, GPAA, FFC, NT,SARS
First level	Accounting officer/authority	64%(9) FIC, FSCA, FAIS, PFA, DBSA, PIC, SARS, LBLIC,LBIC	36% (5) NT, FFC, GTAC, GPAA, IRBA
First level	Executive authority	64% (9) FAIS, FFC, FIC, FSCA, PFA, DBSA, LBLIC, LBIC,FSCA	64%(5) GTAC, PIC, GPAA, IRBA. NT,SARS
Second level	Internal audit unit	79% (11) FAIS, FFC, FIC ,FSCA, PFA, LBLIC, LBIC, DBSA, PIC, IRBA, SARS	21%(3) NT, GTAC, GPAA
Second level	Audit committee	93% (13) FAIS, FFC, FIC, FSCA, PFA, DBSA, PIC, GPAA, NT, SARS, GTAC, LBLIC, LBIC	7% (1) IRBA

Provides assurance	Provides some assurance	Provides limited/ no assurance	Not established

**CBDA is a small auditee. The assessment of assurance providers is not performed for small auditees*

Status of internal control



** CBDA is not included in the assessment of internal controls is not performed for small auditees.*

Summary of the three key root causes

Inadequate controls were put in place by management to prevent non-compliance with procurement legislation.

The accounting officer/authority did not implement adequate review and monitoring controls over the preparation of the financial statements.

The accounting officer/authority was not effective in developing and monitoring the implementation of action plans.

Recommendations

Recommendations for entities within finance portfolio

Filling of key executive positions with skilled and experienced personnel.

Develop and implement effective action plans to address audit findings.

Monitor performance and consequence management.

Address the procurement delays and governance matters raised on the IFMS project.

Recommendations to the Standing Committee on Finance

Monitoring and regular follow-up with the executive authority and the accounting officer/authority on:

- progress with audit action plans put in place by the department and entities to improve audit outcomes
- monitor the vacancies to ensure stability of leadership
- monitor the consequence management and governance matters on the IFMS project
- follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management.

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

Annexure slides

AUDITOR-GENERAL
SOUTH AFRICA

Overall message: National Treasury

- The overall audit outcomes of the National Treasury remained unchanged over the last three years, as unqualified with findings on compliance with legislation. In the current year, management addressed findings relating to performance information and some findings related to compliance with legislation. However, the quality of financial statements submitted for auditing and compliance with legislation is still an area of concern.
- We noted that management and the accounting officer implemented some action plans that resulted in the improvement of the control environment. These improvement areas relate to a reduction of audit findings in the procurement processes and improvements to the quality of performance information submitted for auditing.
- However, the implemented controls were not adequate to ensure compliance with procurement prescripts and to prevent irregular (R66 million) and fruitless (R67 million) expenditure. The main cause of this expenditure was inadequate contract management processes as well as inadequate oversight and monitoring of the implementation of approved project plans for the IFMS.
- Based on the findings reported in the prior years on the IFMS project, an MI notification was issued to the accounting officer on 13 May 2021. This MI relates to contravention of section 38(1)(c)(ii), section 38(1)(b) and section 45(b) of the PFMA in relation to fruitless and wasteful expenditure since the 2016-17 financial year. Our finding is that the NT has incurred expenditure for the payment of technical support and maintenance for the software licences that were not in use.
- The accounting officer submitted a response to the MI and final evaluation of the response is in progress.
- The department made progress with filling vacant positions that were reported in the prior year. However, the positions of accountant-general, chief procurement officer, deputy director-general (DDG): budget office and chief audit executive are still vacant.
- The internal audit function also has a number of vacant management positions, which may affect the overall capacity and effectiveness of the internal audit unit.

Overall message: Public Investment Corporation

- The overall audit outcome of the PIC in 2020-21 remained unchanged as unqualified with findings on compliance with applicable legislation when compared to the prior year.
- However, the AGSA acknowledges the improvement in the control environment of the PIC over the past two financial years. The improvement was mainly as a result of, firstly, effective leadership based on a culture of honesty, ethical business practices and good governance, secondly, exercising oversight responsibility regarding financial and performance reporting, compliance and related internal controls and, finally, developing and monitoring the implementation of the Mpati recommendations and audit action plans to address internal control deficiencies.
- In the prior year, the financial statements that were submitted for auditing did not have material misstatements. However, in the current year, we noted a regression in the quality of the submitted financial statements, as material misstatements relating to commitments were identified during the audit process and were subsequently corrected by management.
- Over the three-year period, we did not raise any material finding relating to the audit of predetermined objectives. Therefore, we commend the board and management for continuing to prepare an annual performance report that is useful and reliable.
- During our testing of assets under management, we identified significant internal control deficiencies relating to identification and monitoring of politically exposed persons (PEPs). We noted instances where management did not ensure that an enhanced due diligence is performed on the identified PEPs as required by applicable PEP policy. This is due to misalignment between the PEP policy and the FICA Risk Management and Compliance Programme (guideline). The PEP policy requires EDD to be performed for all PEPs identified, whereas the guideline requires EDD to be performed when PEPs are identified as high risk. We noted progress made in developing the collateral management system (including collateral register) and enhancement in the pre-investment due diligence processes.

Overall message: Development Bank of Southern Africa

- The overall audit outcome of the DBSA was financially unqualified with no material findings on compliance with legislation and predetermined objectives, which was an improvement from the prior year.
- The DBSA has adequate and effective internal controls in place and has strong governance and oversight over credit risk management, and assets and liability management. The DBSA maintains effective credit policies and standards that include a rigorous review and approval of credit and monitoring of credit risk after lending. The DBSA's financial instruments are monitored against the risk appetite statement of the DBSA.
- The general risk profile of DBSA loans is concentrated and introduces volatility in expected credit losses. The uncertainty of the covid-19 pandemic, together with the ailing economy, resulted in the expected credit loss allowance on development loans increasing to 12% in the current financial year from 10.56% in the prior year.
- As a result, the gross development loan book has decreased by 2%, which is indicative of the increase credit risk on the loan book profile. However, the DBSA's balance sheet has shown some resilience and the DBSA has maintained a positive net asset position that increased by 4% year on year.
- Through our independent assessment of the DBSA's going concern position, we have identified that the DBSA has a strong liquidity position and will be able to finance its operations and fulfil its legislative mandate. Despite the increase in expected credit losses, the financial viability of the DBSA appears to be good. The DBSA has a positive operating cash flow and has no history of operating losses; it is also financially viable.

Overall message: South African Revenue Services (SARS)

- The overall audit outcome of South African Revenue Service (Sars) has remained unchanged as unqualified with findings on compliance with legislation from the prior year.
- The non-compliance with legislation that was identified in the current year related to expenditure management where management did not adhere to procurement and contract management-related prescripts, resulting in failure to prevent irregular expenditure and the uneconomic use of resources.
- The number of non-compliance with legislation paragraphs in the audit report remained unchanged from the prior year. Management enhanced the controls in place to prevent repeat fruitless and wasteful expenditure. However, we encourage management to continue to enhance the controls in this area to ensure that the material finding raised in the current year relating to the economic use of resources is addressed.
- Compliance with legislation remains an area of concern when compared to the prior year as we have identified material non-compliance findings relating to expenditure management. This was due to management not implementing adequate controls to prevent non-compliance with legislation relating to procurement and contract management. Sars was unable to implement adequate measures in a timely manner to prevent the re-occurrence of irregular expenditure. The non-compliance with supply chain management (SCM) prescripts included services being provided to Sars without a valid contract, improper contract management and inadequate understanding of procurement legislation.
- We further identified that there was uneconomic use of resources contrary to section 57(b) of the PFMA. This was as a result of the acquisition of an Epoxy, for the New Pier warehouse that expired before it was used. The cause of this non-compliance was inadequate project management in place to ensure that construction material is acquired as and when needed at the required quantities, to avoid wastage and expenditure being incurred in vain. It should be noted that management correctly disclosed this transaction as fruitless and wasteful expenditure in the submitted financial statements
- There were various challenges relating to the usefulness and reliability of the annual performance report that were resolved through extensive engagements with management, which resulted in significant delays in finalising the audit of performance information. As SARS continues the process of refining its strategy, we recommend management to consider putting in place policies and standard operating procedures (SOPs) to support performance information. This will result in a clearly defined and consistent process of collating, processing and reporting on the performance information for identified indicators and targets which will ultimately assist SARS in realizing its strategic objectives.

Overall message: Government Pensions Administration Agency (GPAA)

- The audit outcome of the GPAA remained unchanged from the previous financial year as unqualified with findings on compliance.
- An improvement was noted in the quality of the annual performance report submitted for auditing and the underlying internal controls during the preparation of the annual performance report.
- Material non-compliance relating to procurement and contract management, expenditure management and consequence management remains a concern at the GPAA.
- Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R22 732 000. The majority of the irregular expenditure was due to contraventions of procurement prescripts.
- The GPAA continues to struggle with the execution of disciplinary actions against misconduct identified. Disciplinary actions are not finalised timeously and/or actions are not taken against officials that are transgressing SCM prescripts.
- A number of key management positions are still vacant. The uncertainty in key management positions is reflected by the number of executives and senior managers acting in positions for a period exceeding the allowed 12 months. This is a recurring challenge.

Outstanding audits: Land and Agricultural Development Bank of South Africa (Land Bank)

- In the prior year, the Land Bank received a disclaimer of opinion in the areas of going concern and on the credibility of the loan book. Management and the board developed and implemented a remedial action plan to address the material findings identified in the prior year. The implementation of the remedial plan took longer than expected, resulting in the bank being unable to submit financial statements for audit purposes by the legislated deadline of 31 May. The financial statements of the Land Bank were only submitted for auditing on 31 July 2021. The bank has still not finalised the liability solution to address the going concern challenges it is facing.
- The audit is still in progress and is anticipated to be finalised by early December given the challenges being experienced in the audit process. This is due to the increase in audit scope in the current year due to the restatement of the opening balance of the preceding two financial years.

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