



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Police portfolio

10 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 an 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:

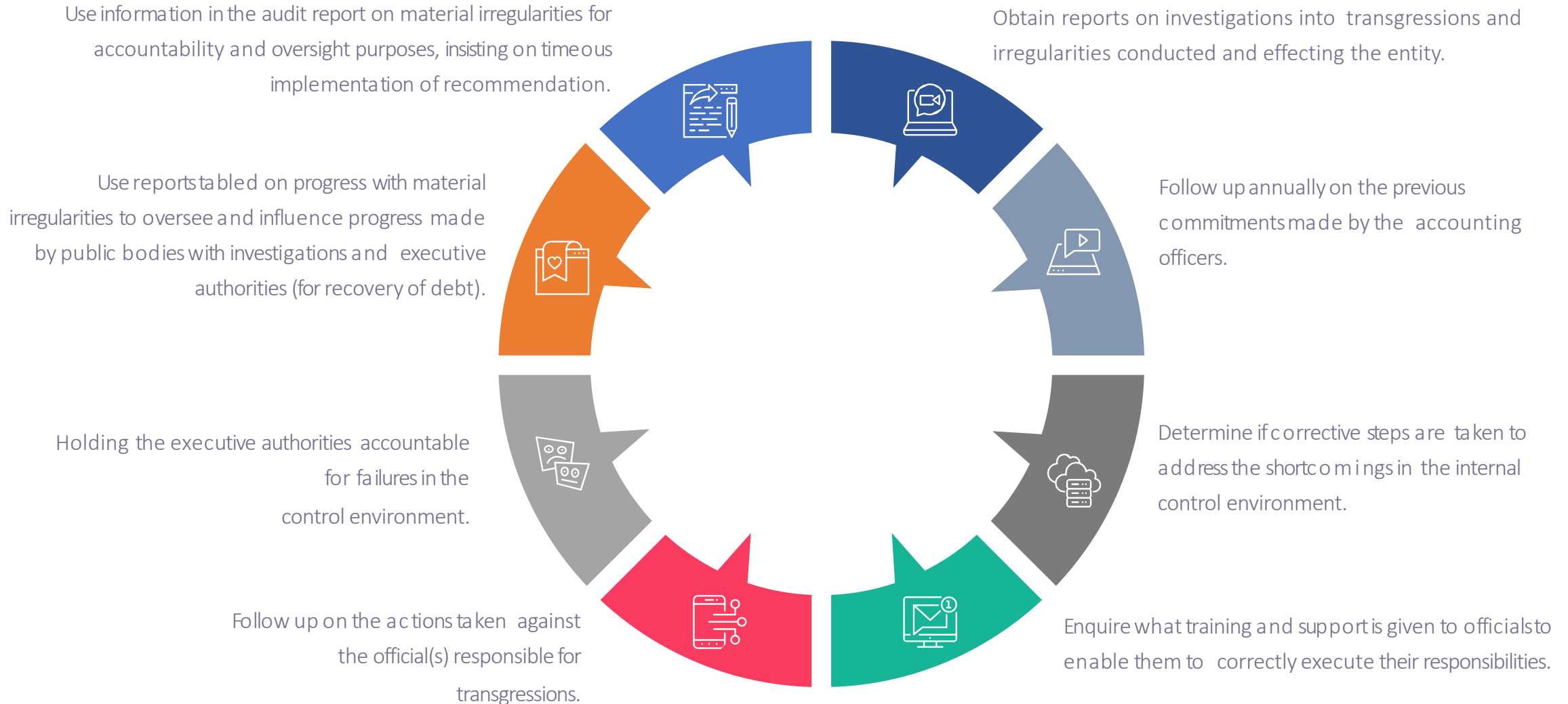
- Deal with bills and other matters falling within its portfolio as are referred to it in terms of the constitution, legislation, rules or by resolution of the National Assembly.
- Also maintain oversight of its portfolio of national executive authority, including the implementation of legislation.
- 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)*.



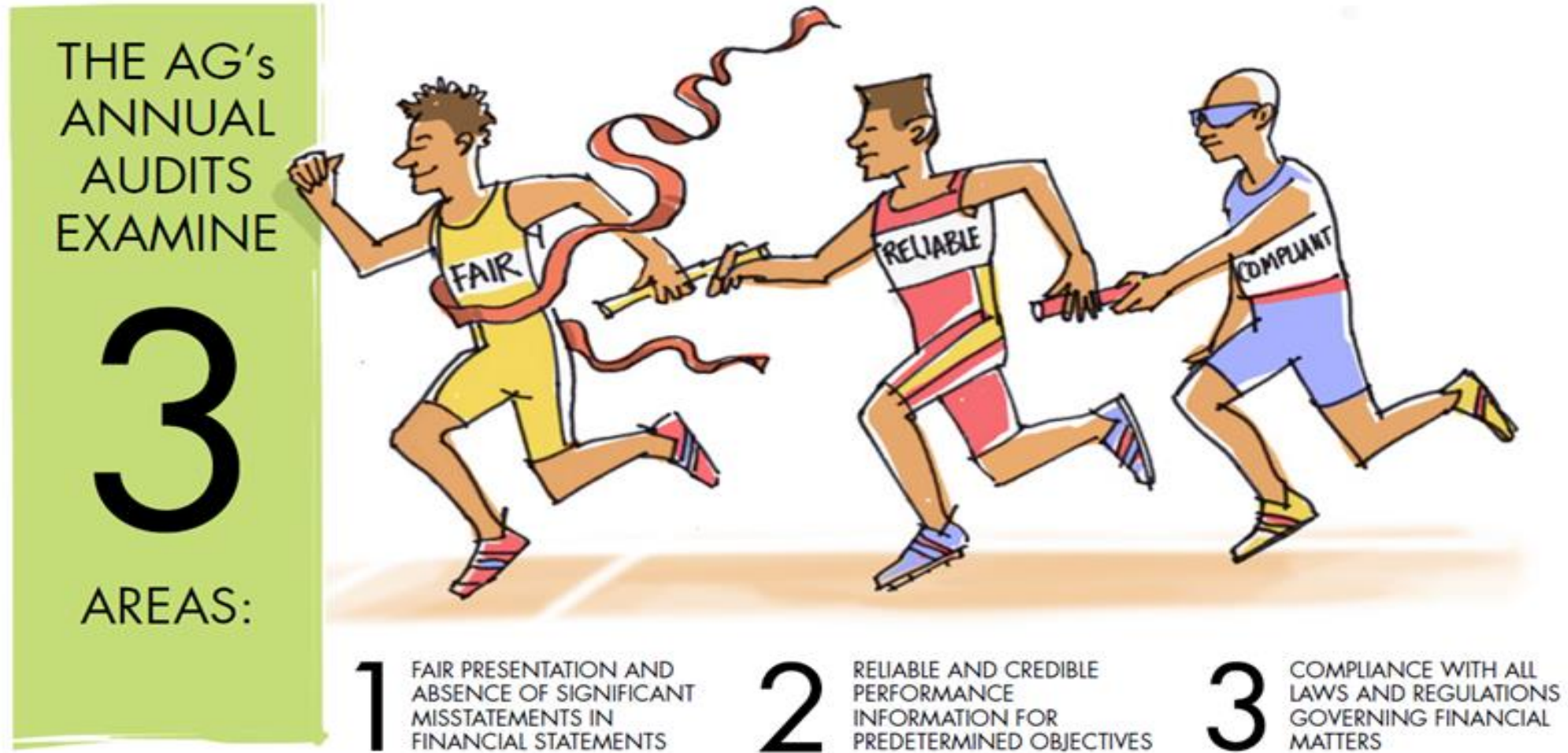
What we understand as the role of oversight





AUDITOR-GENERAL
SOUTH AFRICA

Focus



The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (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:

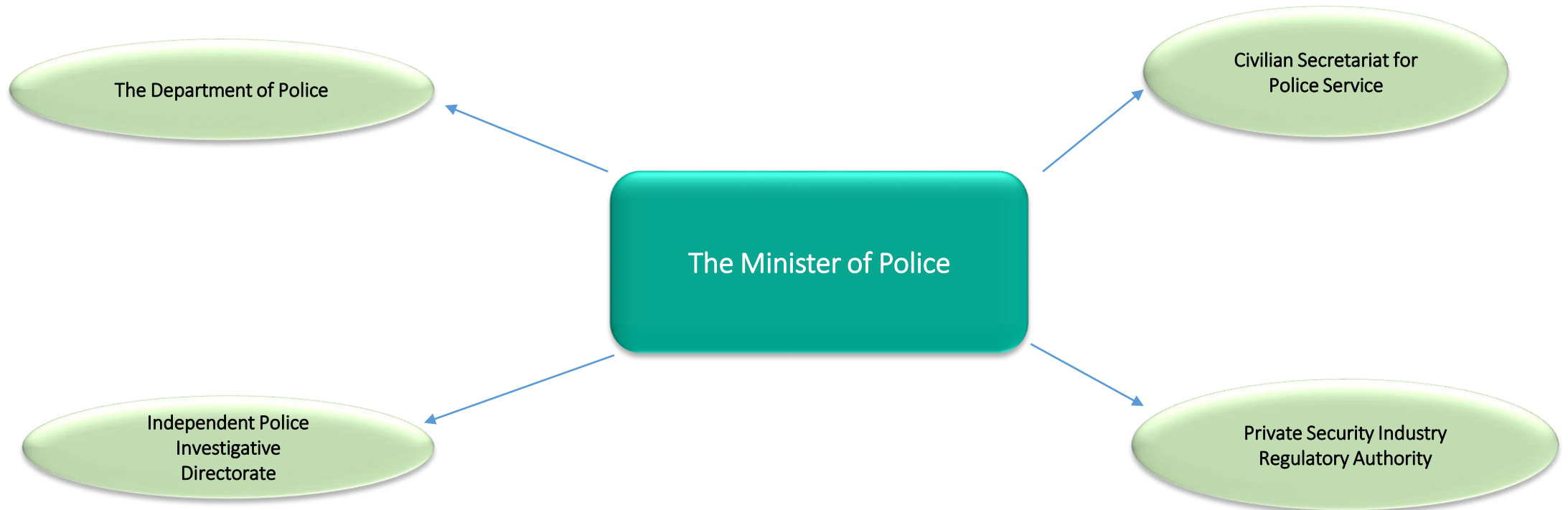
- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements



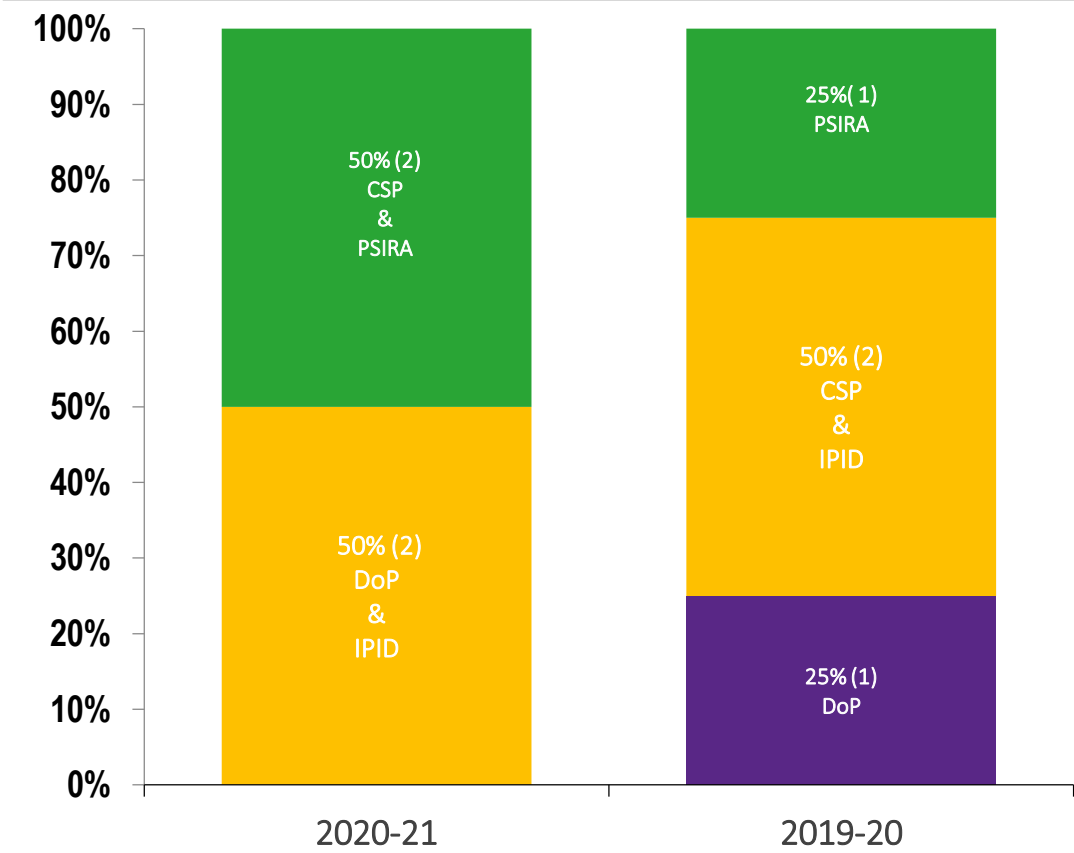
AUDITOR-GENERAL
SOUTH AFRICA

Portfolio outcome

Police portfolio auditees



Audit outcomes of the police portfolio over two years



Audit outcomes are indicated as follows

Qualified with no findings

with

Unqualified with findings

Qualified with findings

| Movement | |
|----------|---|
| | 2 |
| | 0 |
| | 2 |

- Portfolio overall message
- The overall outcomes in the portfolio **improved** over the three-year period, with 50% of the audits obtaining unqualified opinions with material findings and the other 50% achieving clean audits (unqualified opinions with no material findings).
 - DoP** addressed the qualification area from the prior year on network assets and achieved a financially unqualified audit opinion. *This may be attributed to the strong financial reporting background of the CFO who has been in the post for two years.*
 - DoP**, however, continues to have material findings on compliance with legislation and in respect of performance information.
 - The audit outcome of **CSP** improved from unqualified with findings to a clean audit as they have addressed material findings on compliance, thereby increasing the number of auditees with audit outcomes that are financially unqualified with *NO findings on performance information and compliance with legislation.*
 - PSIRA** – *We commend the entity for maintaining a clean audit from the prior year.*

Portfolio overall message continued....

Key root causes in the internal control environment

- Management did not implement adequate review and monitoring controls over the preparation of performance information.
- Management was not effective in developing and monitoring the implementation of action plans.

Recommendations:

We recommend that the accounting officers should strengthen preventative controls to identify non-compliance.

- Accounting officers must continue to do their work through audit committees to ensure that management implements and enhances processes of review performance information.
- Effective monitoring and oversight by the audit committee to ensure that errors in performance information are dealt with effectively.
- The developed actions plans must be thoroughly reviewed by the accounting officers to ensure that they address the root cause.



AUDITOR-GENERAL
SOUTH AFRICA

Detail analysis of the three focus areas:

Credible financial reporting
Credible performance reporting
Compliance with legislation

Quality of financial and performance reporting

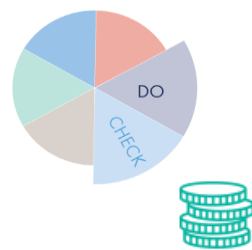
Quality of submitted financial statements

- All the auditees submitted financial statements that did not contain material misstatements and we wish to commend these auditees.

Quality of performance reporting

- **DoP & IPID** had findings on usefulness and reliability of reported performance information. This was due to inadequate monitoring and reporting of useful and reliable performance information.
- **CSP & PSIRA** had no findings reported on the reliability and usefulness of performance information.

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% (4) | 100% (4) |
| | 100% (4) | 75% (3) |
| | 100% (4) | 75% (3) |

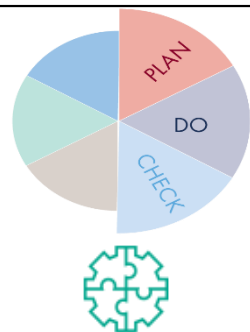
Root cause analysis

- We commend **DoP** for achieving an unqualified audit opinion, as it required buy-in from top leadership to first acknowledge the gaps in the valuation of network assets and effectively respond to them by listening to the audit advice provided, developing an action plan that addressed the real root causes and diligently implementing it.
- **DoP** – Internal controls and compliance monitoring are not consistently implemented despite the controls being designed.

Recommendation

- The accounting officers and management should maintain effective and adequate reviews to maintain the quality of the financial statements submitted for audit.
- Vacancies in key positions at **IPID** should be filled.





Second focus area: credible performance reporting



Performance report

- Performance report submitted without errors
- Performance report adjusted for material misstatements to improve reliability (DoP)
- Reliable reporting of achievements (PSIRA and CSP)
- Usefulness of performance indicators and targets

Movement

| | 2020-21 | 2019-20 |
|---|---------|---------|
|  | 50% (2) | 75% (3) |
|  | 25% (1) | 0% (0) |
|  | 2 | 3 |
|  | 4 | 4 |

Root cause analysis

- DoP – Consequence measures are not appropriate and not always implemented at the appropriate level.
- DoP – Internal controls are not consistently implemented despite these controls being designed.
- IPID – Inadequate reviews to confirm completeness of supporting documentation uploaded on the system to support reported information. (record keeping).

Recommendation


- We recommend that standard operating procedure/policies should be designed to contain processes to record information and store supporting evidence for measuring the planned indicator.
- Management should develop an action plan to address findings raised, we further recommend that the internal audit function to monitor the action plan that will be developed by management.

Portfolio performance reporting – lack of progress to address prior year root causes concerning – not progressing on Aopo

Internal controls were ineffective to ensure accurate and complete capturing of the following indicators (DoP) and inadequate reviews to confirm completeness of supporting documentation uploaded on the system to support reported information. (IPID)


| Key indicator with material findings (DoP) | Nature |
|---|---------------------------|
| Percentage reduction in the number of contact crimes | Disagreement |
| Percentage reduction in the number of contact crimes at the top 30 high crime weight stations | Disagreement |
| Percentage reduction in the number of contact crimes against women (18 years and above) | Disagreement |
| Percentage reduction in the number of contact crimes against children (18 years and below) | Disagreement |
| Number of stolen, lost and illegal firearms recovered | Disagreement |
| Number of identifiable stolen/lost SAPS firearms recovered | Disagreement & Limitation |
| Number of stolen/robbed vehicles recovered | Disagreement & Limitation |
| Percentage of identified illegal liquor outlets closed | Limitation |

Main driver at (DoP):
Consequence measures were not appropriate and at the correct level to prevent repeat findings reported firearms recovered and reported contact crime



| Key indicators with material findings (IPID) | Nature |
|--|---------------------------|
| Number of investigations of discharge of an official firearm by a police officer that are decision ready | Limitation |
| Number of investigations of rape by a police officer that are decision ready per year | Limitation |
| Number of investigations of corruption that are decision ready per year | Limitation |
| Number of investigations of deaths as a result of police action cases that are decision ready per year | Disagreement & Limitation |

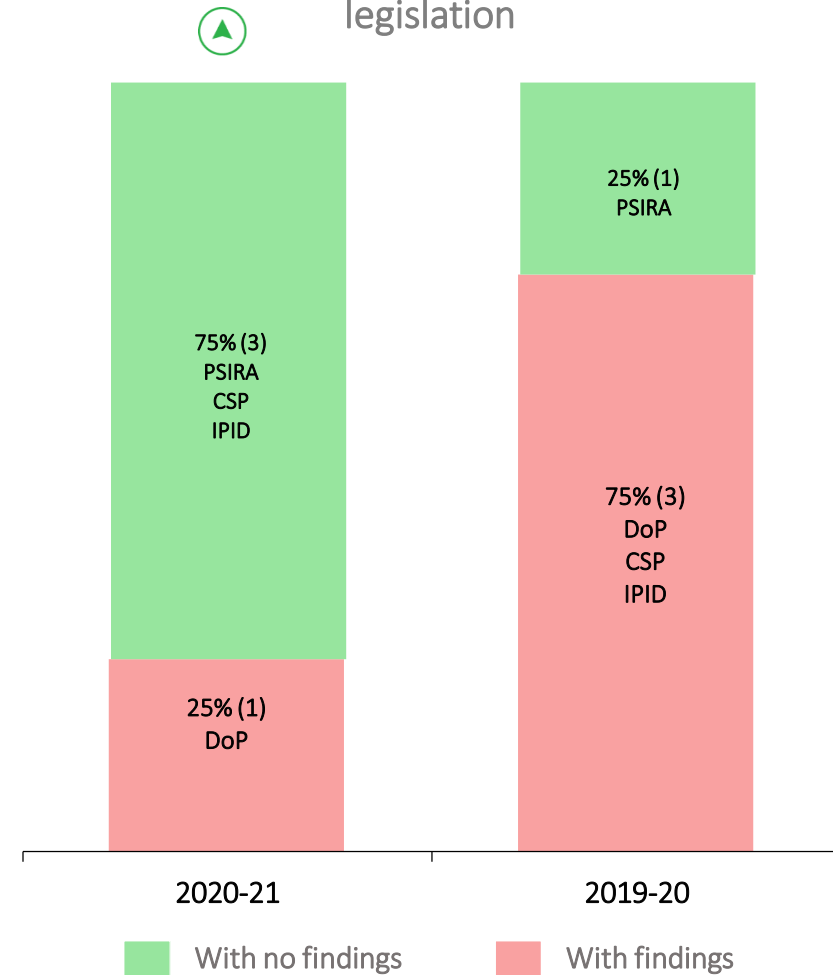
Main driver at (IPID):
System does not support the collection, collation and timely capturing of supporting evidence requiring significant manual intervention.



Third focus area – compliance with legislation

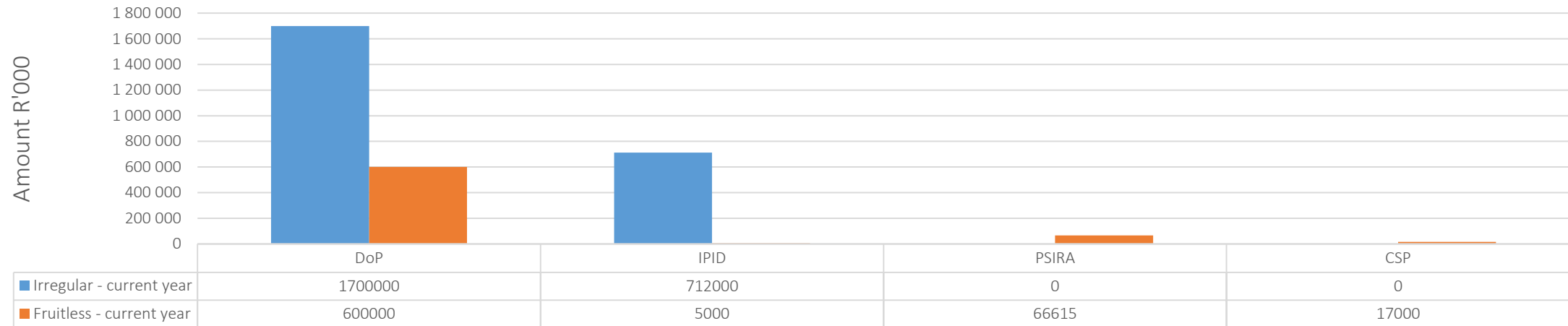
- In the current year, there has been an improvement in the compliance with legislation.
- One (DoP) out of the four auditees has received an unqualified audit opinion with **findings on compliance**.
- The non-compliance identified is similar to those reported in the prior year. The DoP did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.
- We will further unpack the challenges of compliance in **procurement and contract management**.

Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 2020-21



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure identified – R2,4 million.
- R1,7 million (70% of total) was incurred by the Department of Police
- Other irregular expenditure relates to:
 - failure to follow a competitive process
 - incorrect evaluation of bids

Fruitless and wasteful expenditure

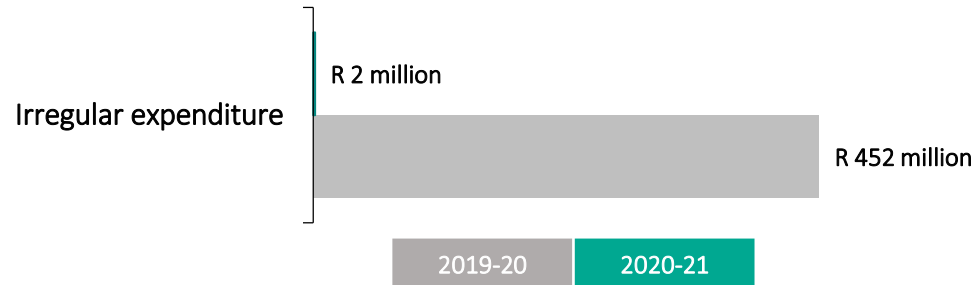
- Total fruitless and wasteful expenditure identified – R0,6 million.
- R0,6 million (87% of total) was incurred by the Department of Police

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

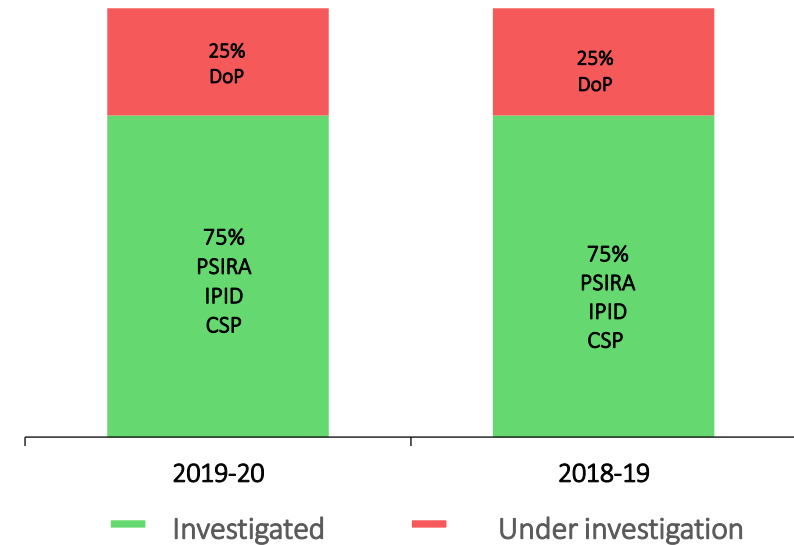


- R1,7 million represents non-compliance identified in 2020-21, some relating to prior year.
- **R3,5 billion of DoP irregular expenditure is still under investigation and not included in the R1,7 million reported**
- The decrease in irregular expenditure resulted from other irregular expenditure DoP identified during the audit. Being included under assessment.

Nature of the irregular expenditure

- **DoP** – majority results from non-compliance with PPPFA requirements, local content and contractual requirements not met.
- **IPID** – majority results from employees appointments that did not follow proper processes,
- **DoP** – a high number of irregular expenditure cases are still under assessment

Previous year irregular expenditure reported for investigation



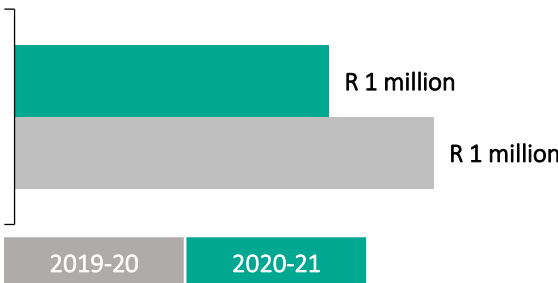
Fruitless and wasteful expenditure over 2 years

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

Fruitless and
wasteful
expenditure

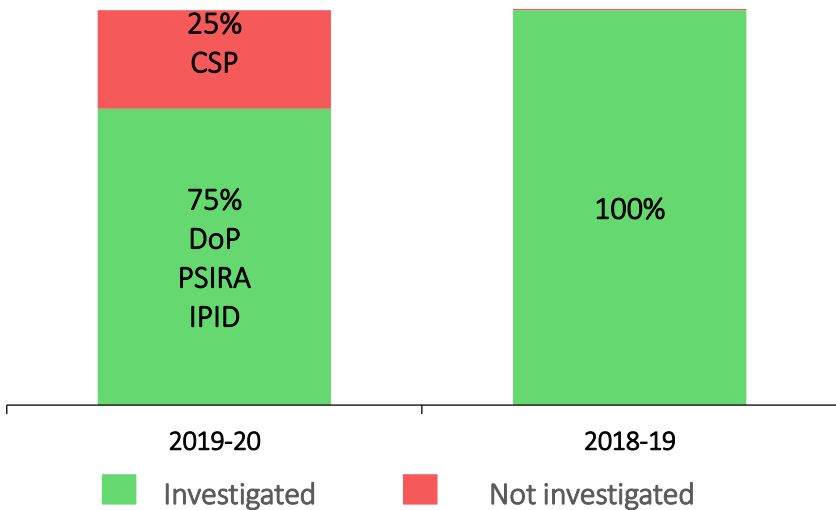


- R614 000 in fruitless and wasteful expenditure was incurred in the current year.
- R526 000 in fruitless and wasteful expenditure relates to DoP
- R36 000 has been written off

Root cause analysis

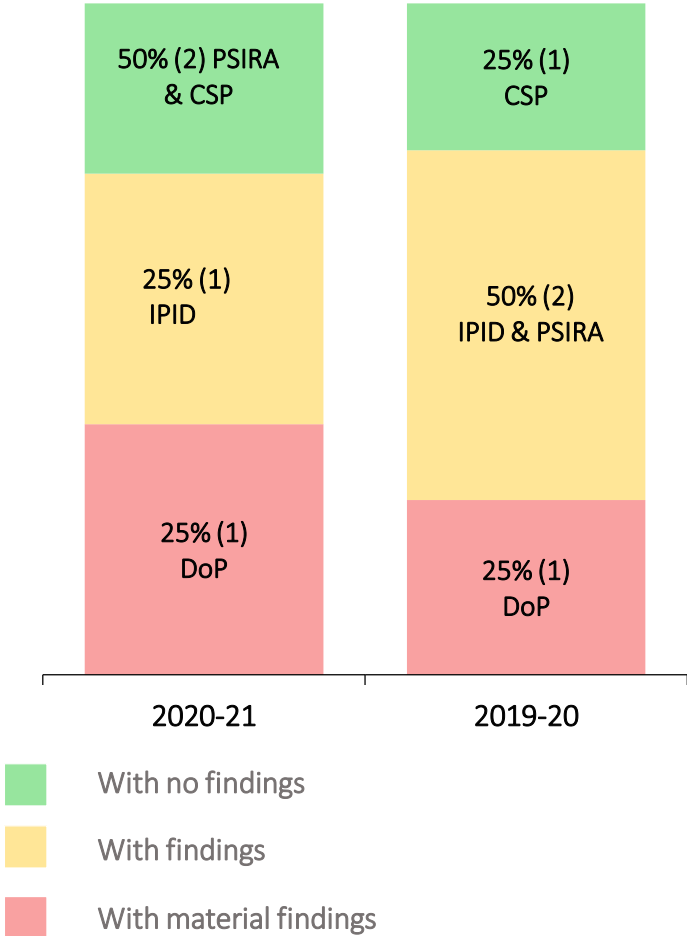
- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by cancellation of accommodation and incorrect payments being made to suppliers by DoP
- CSP – R27 000 fruitless resulted from traffic fines, no-shows and teammate licence fees.
- PSIRA – R66 000 fruitless and wasteful expenditure resulted from penalties and salary payments that were not stopped.
- DoP – the majority of the investigated cases was for interest, penalties and accommodation that was not used.

Previous year fruitless and wasteful expenditure reported for investigation



Supply chain management


Overall regression in SCM compliance
 All SCM findings should be investigated



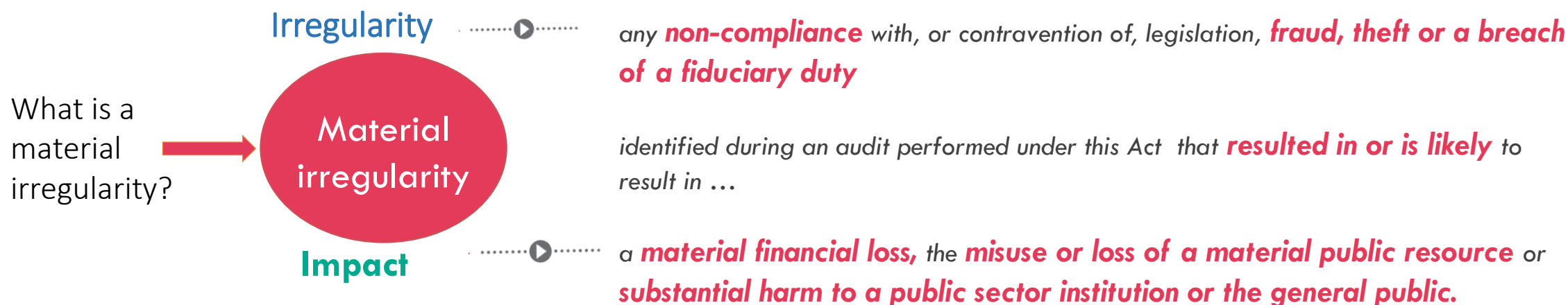
| Most common findings on supply chain management | Recommendations |
|---|---|
| Contractual requirements were not met (DoP) Non-compliance with PPPFA requirements (DoP) No financial and/or procurement authority obtained (DoP) | We recommend that preventative controls be strengthened to ensure compliance with applicable legislation and prevention of irregular expenditure and/or fruitless and wasteful expenditure. SCM training should also be rolled out to ensure there is consistent understanding and application of the legislation. Consequence management should be implemented where there are repeat instances of non-compliance with the prescripts. |
| Irregular appointments (IPID) | |



AUDITOR-GENERAL
SOUTH AFRICA

Material irregularities

At the center of the PAA amendments – Material irregularity



To allow for establishing capacity and processes, a **phased-in approach** for identifying material irregularities will be followed in 20-21 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.

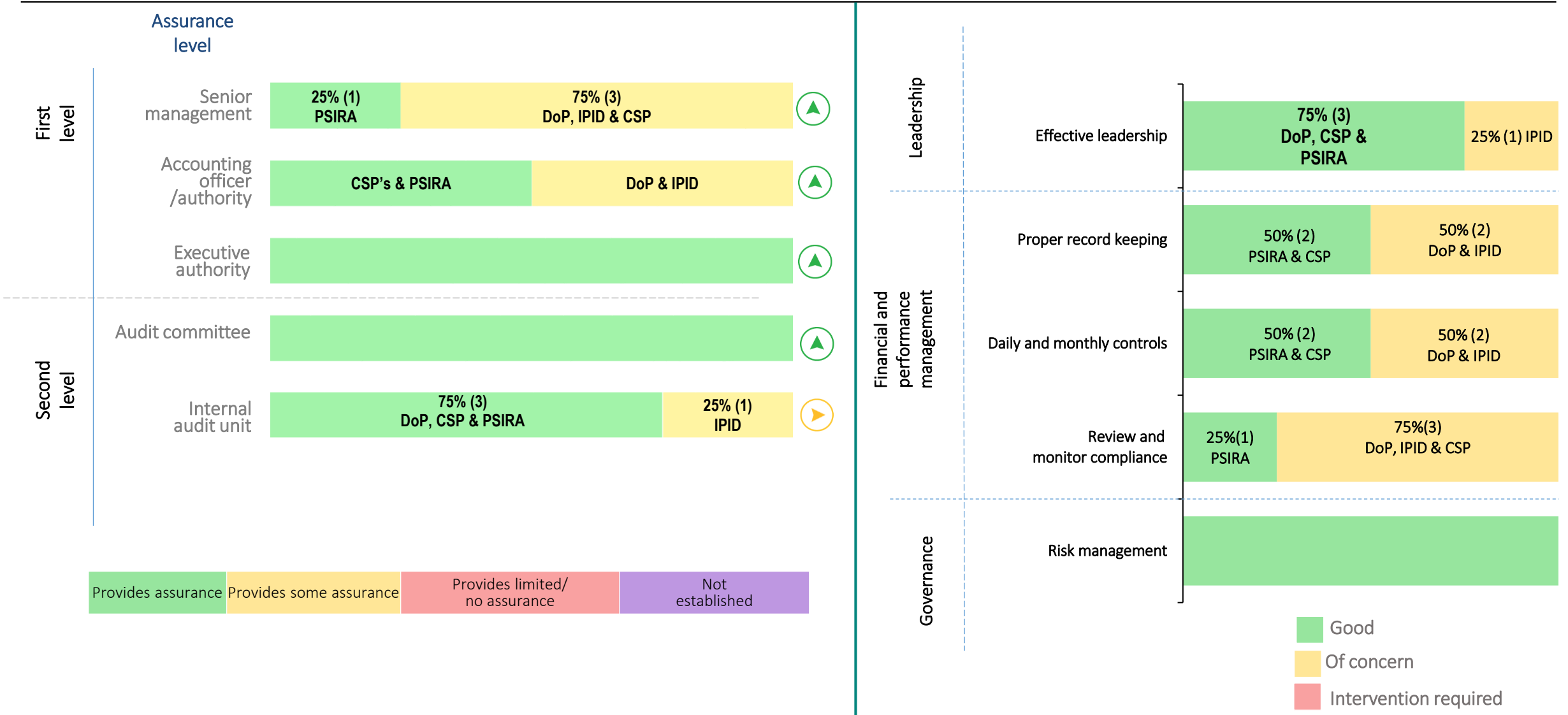
The material irregularity process is implemented at selected auditees audited by the AGSA that represent a **significant portion of the expenditure budget** and the irregular expenditure of national, provincial and local government, including state owned entities. The selection is also focused on auditees that are key contributors to the **government priorities**. For the 2021 year, DoP and CSP were selected for MI implementation in the police portfolio.



AUDITOR-GENERAL
SOUTH AFRICA

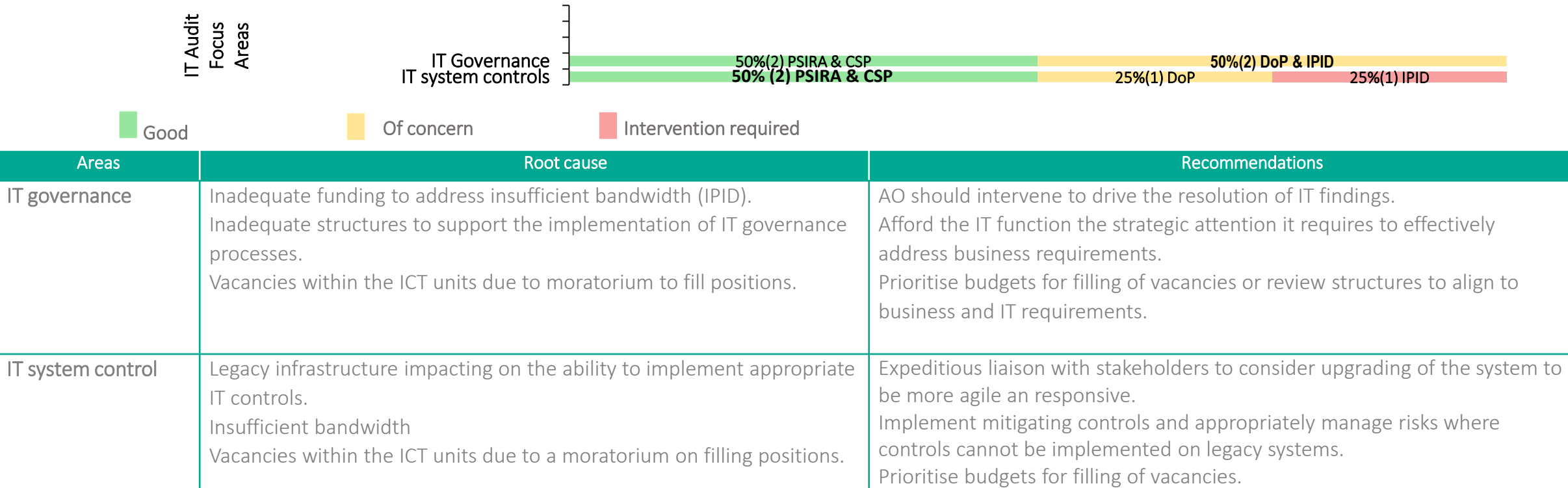
Governance and internal controls

Assurance provided



Status of information technology (IT) environment

- **IT governance** is there to ensure that the effective and efficient use of IT enables entities to achieve its mandate by specifying the decision rights and accountability framework to encourage desirable behavior in using IT.
- **IT system controls** are there to ensure that the IT used by entity operates as intended to achieve its mandate.
- The effectiveness of the two areas will assist in ensuring that the entities are not vulnerable to cyberattacks and business continuity concern.





AUDITOR-GENERAL
SOUTH AFRICA

Portfolio snapshot

Portfolio snapshot (2020-21)



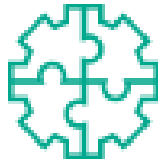
Clean audits: 2
(2019 - 20: 1)

type of material
irregularity



Financially unqualified
financial statements: 4
(2019-20: 3)

audits



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



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



Irregular expenditure:
R2m
(2019-20: R452m)

Recommendations for the Police portfolio to deal with continue implementing proper internal controls to leverage the trajectory of the improvement in audit outcomes

The following must be addressed:

Best practices to be maintained

CSP – Found that oversight reviews reporting process and compliance regularly

PSIRA – Found first level assurance providers improving proper record keeping controls over daily processing and always reviewing these process to improve where needed.

Encouraging change of tone of leadership.

What remains that still requires attention:

DoP – Action plan is not implemented consistently across all police stations and lack of consequence management.

DoP – Internal controls and compliance monitoring are not consistently implemented despite the controls being designed. Aopo

DoP – Operational systems used for reporting in the environment are not appropriate as they lack functions to make corrections and provide accurate time-based reports. (Change management required to see value in change)

IPID – Inadequate reviews to confirm completeness of supporting documentation uploaded on the system to support reported information. (record keeping)

What must be done/ actioned to continue trajectory of improvements:

DoP – Address ineffective action plan and making this a standard item for monitoring in audit committee meetings , adequate consequence management on Aopo and compliance

DoP – Consequence measures should be implemented at the appropriate level

DoP – Improve and ensure adequate review of compliance checklist by TCWG

IPID – Strengthen reviews of financial and performance reports, implement proper record keeping controls, strengthen IT controls and follow up on approval of unauthorised expenditure



By the accounting officer / accounting authorities

Strengthen controls relating to proper record keeping and diligently maintain reconciliations required to support reported performance information.

Perform and finalise investigations to enable complete reporting and consequence management.

Improve and monitor internal controls relating to procurement and contract management processes.

Fill key vacancies – CFO at IPID.

And those actions be monitored by the PC

Follow up on action plans implemented for proper record keeping and reconciliations for all quarterly reports, which will effectively feed into the performance reports.

Monitor the consequence management processes to ensure investigations are finalised and perpetrators are held accountable.

Follow up with management on action plans implemented to ensure compliance with regulations relating to procurement, contract management and performance information (implement preventative controls) - DoP



Our social media platforms



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa