



AUDITOR - GENERAL  
SOUTH AFRICA

# **Budgetary Review and Recommendations Report**

## **Portfolio Committee on Social Development**

10 November 2021

# Our mission and vision

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## OUR MISSION

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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

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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:

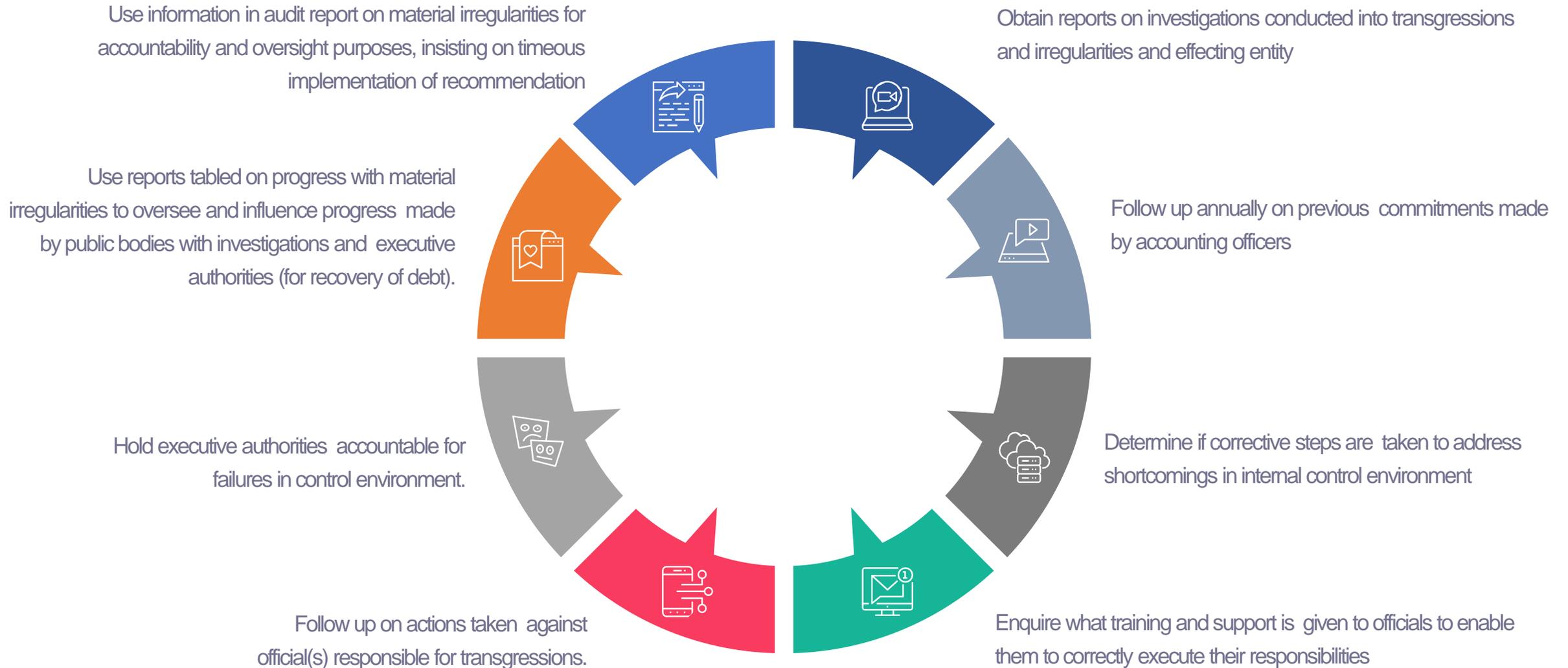
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and 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 7 auditees**, unless indicated otherwise.

 <p><b>Unqualified opinion with no findings (clean audit)</b></p> <p>Auditee:</p> <ul style="list-style-type: none"> <li>produced credible and reliable financial statements that are free of material misstatements</li> <li>reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)</li> <li>complied with key legislation in conducting their day-to-day operations to achieve their mandate</li> </ul>	 <p><b>Financially unqualified opinion with findings</b></p> <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"> <li>align performance reports to the predetermined objectives they committed to in APPs</li> <li>set clear performance indicators and targets to measure their performance against their predetermined objectives</li> <li>report reliably on whether they achieved their performance targets</li> <li>determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance</li> </ul>	 <p><b>Qualified opinion</b></p> <p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements</li> <li>had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.</li> </ul>	 <p><b>Adverse opinion</b></p> <p>Auditee:</p> <ul style="list-style-type: none"> <li>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</li> </ul>	 <p><b>Disclaimed opinion</b></p> <p>Auditee:</p> <ul style="list-style-type: none"> <li>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</li> </ul>
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**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:**

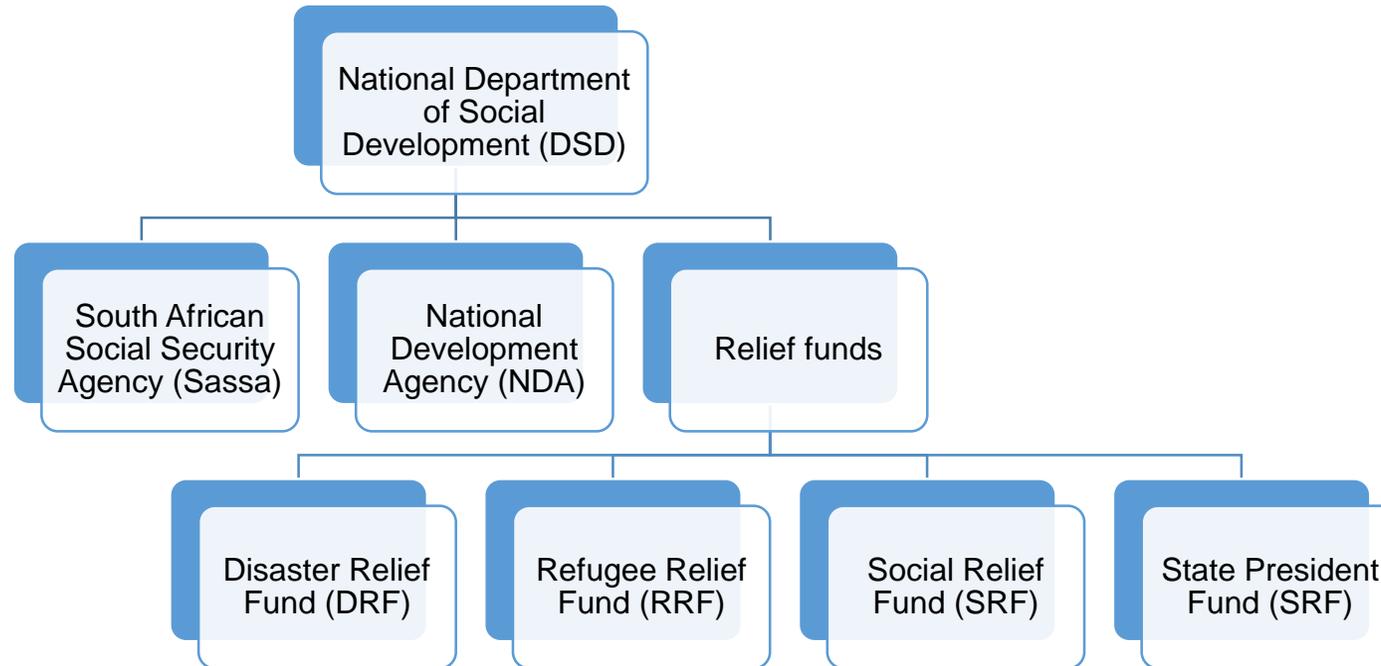
-  Improved
-  Unchanged
-  Regressed



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# Portfolio outcome

# Social development portfolio



Included in the social development portfolio is the national Department of Social Development, two schedule 3A public entities (SASSA & NDA), and four relief funds established in terms of the Fund Raising Act.

\* Note that AoPO is not applicable to four small funds and does not form part of the evaluation on AOPO throughout the slides.

# Portfolio overall message

We commend management and the accounting officer of the department and four funds that continue to maintain clean audit outcomes. These outcomes are attributed to the following;

- Oversight of adequate preventative controls and sound governance structures.
- Timely implementation of preventative controls.
- Monitoring compliance with legislation.

These entities have **effective governance structures** that ensure that actions are taken to address audit findings.

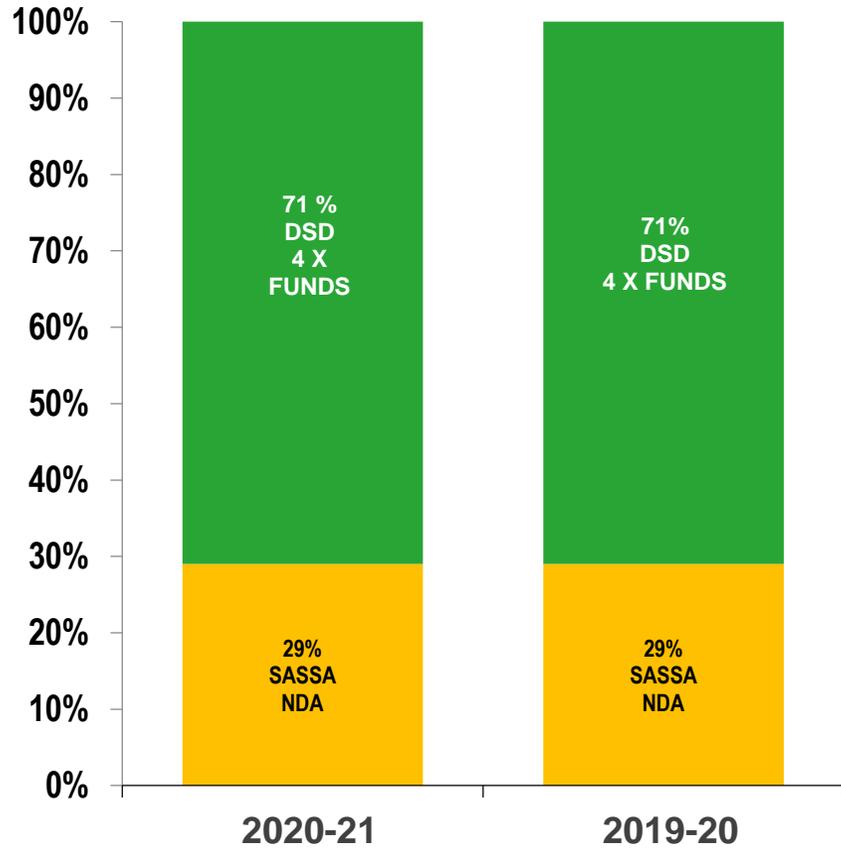
As these entities have been able to achieve clean audit outcomes, it is important that they focus on ensuring that this also translates into service delivery to citizens.

The remaining entities (**Sassa and NDA**) within the portfolio with findings on compliance with legislation and/or predetermined objectives should look at the good practices implemented by these entities, such as:

- A leadership culture that is committed to take action to address any findings identified, supported by adequately resourced and skilled staff.
- Continuously implementing and monitoring internal controls over financial and performance reporting.
- Monitoring the implementation of action plans to address findings and their the root causes.
- Preparing regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Putting measures in place to prevent irregular expenditure and non-compliance with legislation.

The portfolio committee should maintain the in-year monitoring processes to ensure that the good practices as indicated above are implemented and maintained by the department and all entities in the portfolio.

# Audit outcomes of the social development portfolio over 2 years



Movement	
▲	0
▼	0
▶	7

- The overall outcomes in the portfolio have remained consistent when compared to the prior year with most of the auditees receiving unqualified opinions without findings, including the department and the four relief funds.
- The two entities in the portfolio, Sassa and NDA, have been unable to achieve clean audit outcomes. Sassa had findings on compliance with legislation and on performance reporting. The NDA had findings on compliance with legislation relating to expenditure management.

Audit outcomes are depicted as follows:





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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

## Movement



2020-21

2019-20

100% (7)

100% (7)

100% (7)

100% (7)

## Best practices

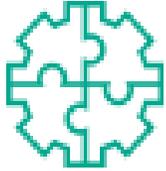
The department, entities and four funds submitted financial statements that did not contain material misstatements.

### The following best practices should be maintained:

- Proper record management system to maintain information that supports the reported financial and performance information.
- Preparing regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Continuously implementing and monitoring internal controls over financial reporting.
- Adequate reviews by the internal audit function of controls surrounding financial reporting.
- Detailed reviews by the audit committee of the financial statements before submission for auditing.

# Second focus area: credible performance reporting

## Performance report



- Performance report submitted without errors (**NDA**)
- Performance report adjusted for material misstatements to improve reliability (**DSD and SASSA**)
- Reliable reporting of achievements (**SASSA**)
- Usefulness of performance indicators and targets

## Movement



## 2020-21

## 2019-20

2020-21	2019-20
33% (1)	67% (2)
67% (2)	33% (1)
33% (1)	33% (1)
33% (1)	33% (1)

## Root cause analysis

**SASSA** programme 2 – benefit administration and support: The indicator for social grant applications approved materially differed from the supporting evidence provided and we could not confirm the accuracy of the reported achievement for that indicator. This was due to inadequate monitoring and reporting controls to ensure that valid, accurate and complete performance information was reported as records were omitted whilst extracting the business intelligence reports from the Socpen system.

**DSD**: The performance information outcome remained unchanged from the prior year. However, findings were identified relating to an indicator (number of provinces consulted on the draft policy on the provision of psychosocial services) that was materially adjusted after submission of the annual performance report, resulting in no material findings being reported in the audit report.

## Recommendations

- Performance indicators should be designed that are well defined and adhere to the SMART criteria.
- Standard operating procedures/policies should be designed, which contain processes to record information and store supporting evidence for measuring the planned indicator.
- Management should develop an action plan to address the findings raised, and the internal audit function should monitor this action plan.
- Effective monitoring and oversight by the audit committee is also critical.



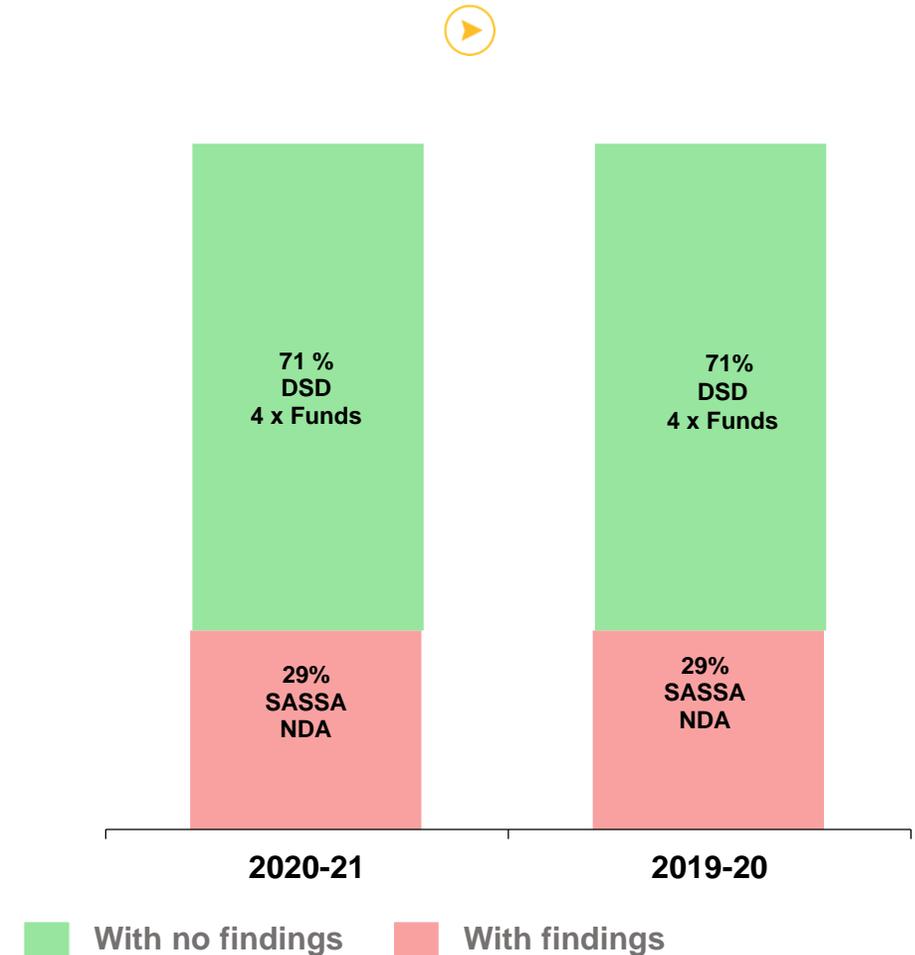
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# Compliance with legislation

# Third focus area: compliance with legislation

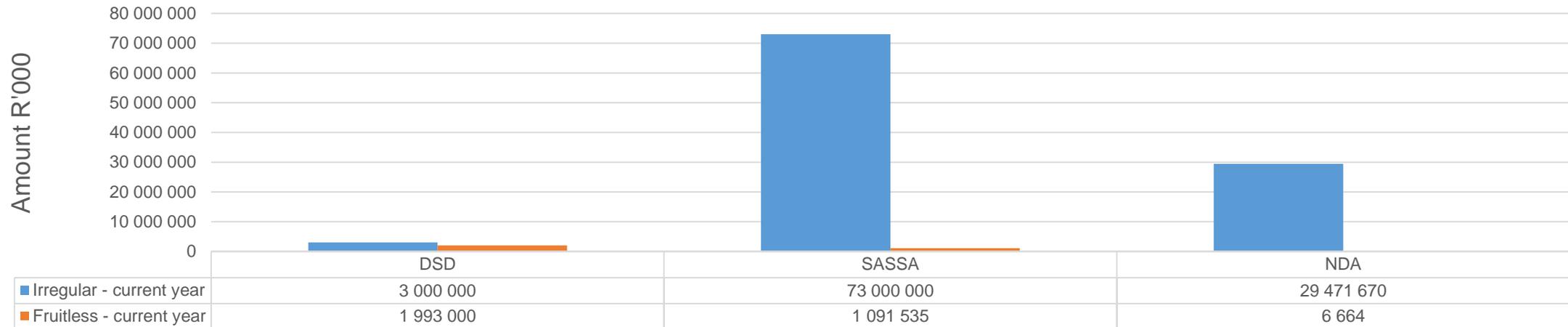
- Two of the seven auditees received an unqualified audit opinion with findings on compliance; these two auditees (**Sassa and NDA**) continue to struggle with compliance with legislation.
- Sassa and NDA had a finding on expenditure management in relation to the accounting authority not taking effective steps to prevent irregular expenditure. These auditees did not implement effective action plans to address significant internal control deficiencies relating to 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**.

## 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 – R105 million, of which R73 million (69% of total) was incurred by Sassa.
- The nature of the irregular expenditure is as follows:
  - Failure to follow a competitive process (Sassa).
  - Most resulted from expired lease contracts still in use and cleaning and sanitation contracts not following tender processes (Sassa).
  - NDA - R29 million: Payment of stipends to volunteers without the approval of a delegated official.
  - DSD - R3 million: Failure to follow a competitive process.

#### Fruitless and wasteful expenditure

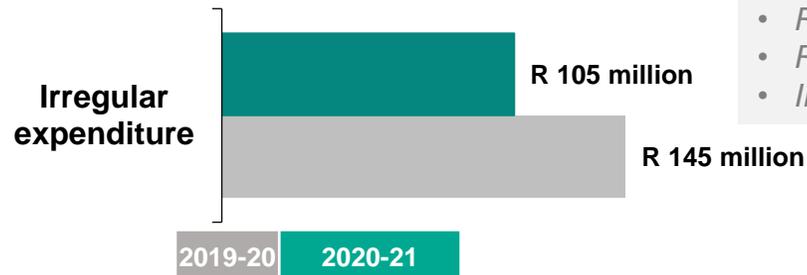
- Total fruitless and wasteful expenditure identified – R3 million.
- DSD - R1,9 million: Car damages and no shows (accommodation/flights/car hire), undelivered goods, unused assets.
- SASSA - R1 million: Penalties and no show at hotels.

# 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

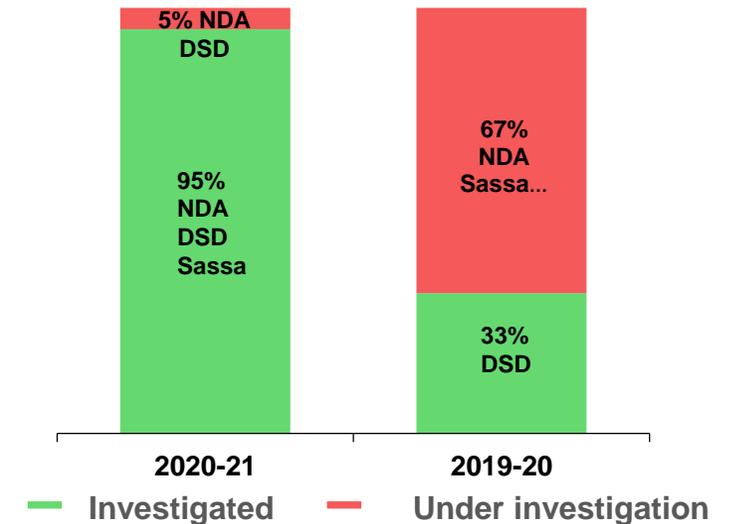


- R105 million – non-compliance in 2020-21
- R145 million – non-compliance in 2019-20
- Irregular expenditure decreased by 27% compared to prior year

## Root causes

- Lack of adequate review, monitoring and implementation of SCM policies and of compliance with relevant legislation to avoid irregular expenditure. (DSD, Sassa and NDA)

## Previous year irregular expenditure reported for investigation

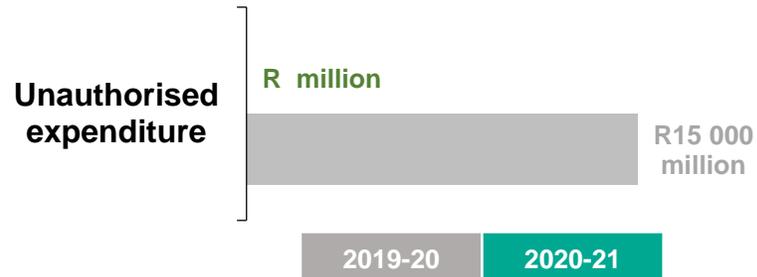


# Unauthorised expenditure over 2 years

## 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

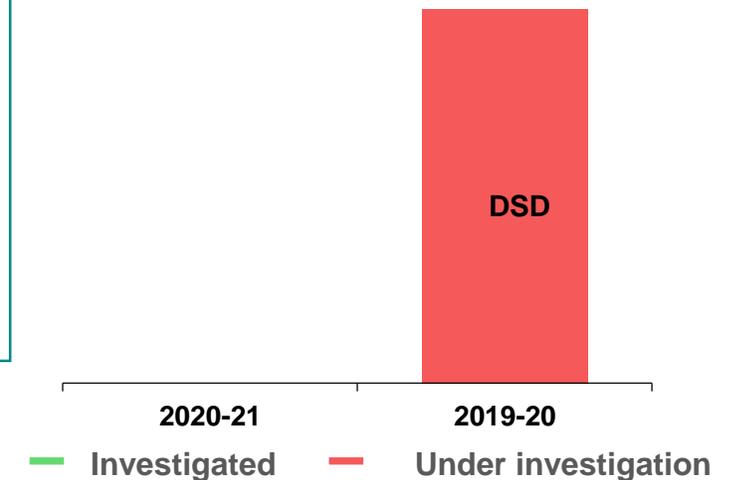


## Nature of unauthorised expenditure

In 2019-20, R15 billion in unauthorised expenditure was incurred as a result of the overspending of the vote in relation to lockdown measures implemented as a result of the covid-19 pandemic, as the department paid registered beneficiaries their April 2020 social grant in March 2020. This payment was made in the 2019-20 financial year and therefore exceeded the available budget allocated to DSD for 2019-20. The department therefore did not pay the April 2020 social grant in the new financial year (April 2020).

This unauthorised expenditure still needs to be regularised by the standing committee on public accounts.

## Previous year unauthorised expenditure reported for investigation



# Fruitless and wasteful expenditure over 2 years

## Definition

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

## Fruitless and wasteful expenditure incurred by entities in portfolio

Fruitless and wasteful expenditure

R 3 million



R 321 million

2019-20

2020-21

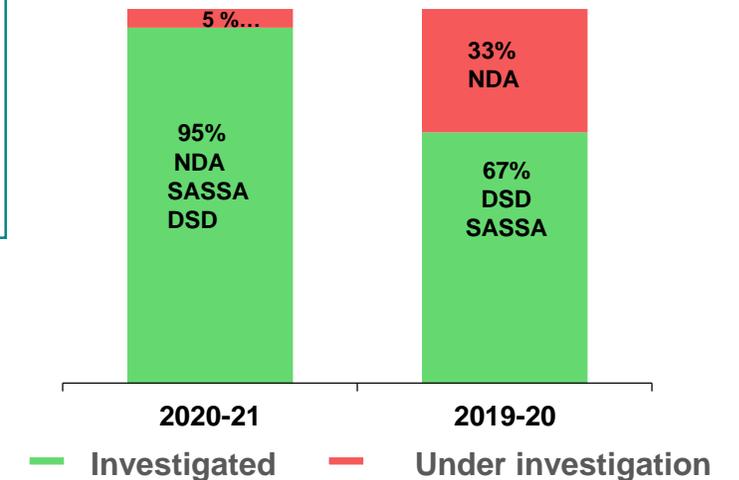
- R3 million – non-compliance in 2020-21 financial year
- R321 million – non-compliance in 2019-20 financial year
- The decrease from prior year is because of an amount of R316 million that had been transferred from fruitless and wasteful expenditure to receivables to be recovered from previous service provider (Sassa)

## Nature of fruitless and wasteful expenditure

The common causes of fruitless and wasteful expenditure are as follows:

- DSD - R 1,9 million: Car damages and no shows (accommodation/flights/car hire), undelivered goods, unused assets.
- Sassa - R 1 million: Penalties and no show at hotels.

## Previous year fruitless and wasteful expenditure reported for investigation



# Compliance with legislation



## Consequence management

- Overall, the portfolio has processes in place to investigate and follow up on irregular expenditure and fruitless and wasteful expenditure.
- The area of concern is the timely finalisation of the investigations to allow for consequence management to be implemented. (DSD, SASSA and NDA)

## Recommendations

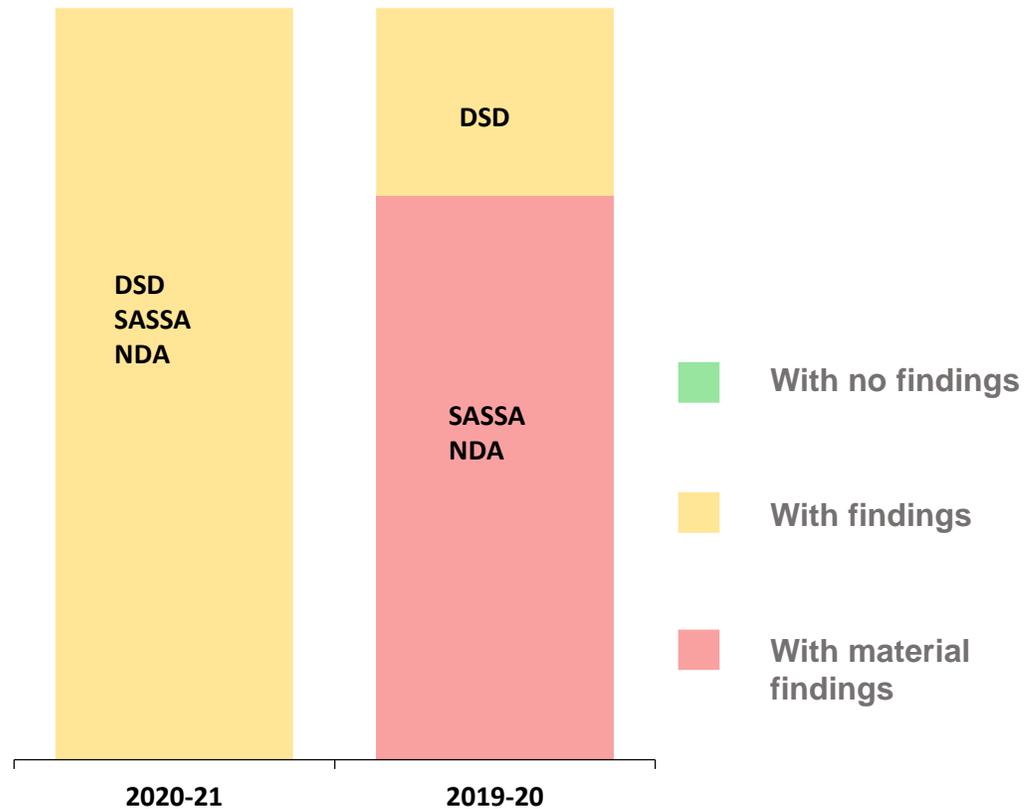
- Timely completion of investigations so that appropriate actions can be taken to prevent the occurrence of irregular and fruitless and wasteful expenditure.

# Supply chain management (SCM)



## SCM compliance unchanged

All SCM findings should be investigated



## Most common SCM findings

### Material findings

No material non-compliance on SCM at any of the portfolio auditees.

### Other findings (not material)

Service providers submitted more than one bid in relation to one project. **(Sassa)**

Shortened advertisement period not approved by an appropriately delegated official. **(Sassa)**

Award of quotation not approved by an appropriately delegated official. **(Sassa)**

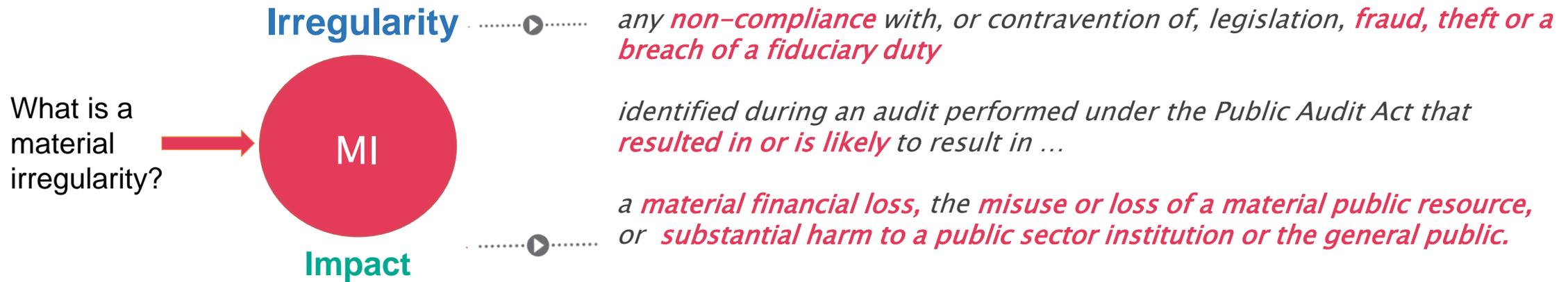
Uncompetitive and unfair procurement practices. **(DSD, Sassa and NDA)**

Inadequate contract management. **(DSD)**

## Recommendations

- Accounting officers/authorities should ensure procurement delays and inadequate project management are addressed.
- Preventative controls should be strengthened to ensure no irregular or fruitless and wasteful expenditure is incurred.
- SCM training should be provided to ensure understanding and application of legislation.

# At the center of the PAA amendments – material irregularity (MI)



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

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

## Type of material irregularity

### Selection criteria

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

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

# Implementation of expanded mandate in 2020-21



## Status of MIs in progress

### **SOUTH AFRICAN SOCIAL SECURITY AGENCY**

#### **Payment of social assistance fees for services not rendered**

- In April 2018, Sassa made a payment for social assistance fees to a service provider in relation to grant payments to beneficiaries. The service provider was not entitled to the fees since Sassa had directly made the related grant payments to the beneficiaries' bank accounts on its own. The payment for services not rendered to Sassa resulted in non-compliance with section 50(1)(a) and (b) of the PFMA as the accounting authority did not act in the best interests of Sassa. The non-compliance also resulted in a material financial loss of R74 million for Sassa. This amount is still disclosed as part of the closing balance of fruitless and wasteful expenditure as indicated in note 30 to the 2020-21 annual financial statements of Sassa.
- The MI notification was issued to the accounting authority on 24 August 2021. On 1 October 2021, the accounting authority responded to the notification. The AGSA is still in the process of evaluating the response.

#### **Recommendation**

- The accounting authority should implement adequate steps to address the material irregularity.
- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.

# Implementation of expanded mandate in 2020-21



## Status of MIs in progress

### **SOUTH AFRICAN SOCIAL SECURITY AGENCY**

#### **R350 grant payments made to ineligible applicants**

- Payments were made to ineligible individuals due to inadequate internal controls to perform validations and prevent payments being made to persons that were not entitled to the SRD R350 grant. This resulted in non-compliance with section 51(1)(a)(i) of the PFMA as the entity did not maintain effective, efficient and transparent systems of financial and risk management and related internal controls. The non-compliance is likely to result in a material financial loss for Sassa.
- The MI notification was issued to the accounting authority on 4 October 2021 and we are awaiting the response.

### **Recommendation**

- The accounting authority should implement adequate preventative controls to prevent any further losses and recover payments made to ineligible individuals.
- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.

# Implementation of expanded mandate in 2020-21



## Status of MIs in progress

### **SOUTH AFRICAN SOCIAL SECURITY AGENCY**

#### **Overpayment of R316 million to a service provider**

- During 2014, Sassa made a payment of R316 million to a service provider that was appointed to administer grant payments at the time. The payment was made as part of a variation to the service level agreement with the service provider. However, this variation was concluded contrary to Sassa's supply chain management policy in that no prior approval from the bid adjudication committee had been sought or given. The variation was not necessary since the additional services were covered by the existing service level agreement with the service provider. This meant that the service provider was not entitled to the additional payment from Sassa.
- The payment for services not rendered resulted in non-compliance with section 51(1)(c) of the PFMA and a financial loss of R316 million to Sassa.
- The MI notification was issued to the accounting authority on 4 October 2021 and we are awaiting the response.

### **Recommendation**

- The accounting authority should implement adequate steps to address the material irregularity.
- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.



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# Portfolio snapshot



# Portfolio snapshot 2020-21



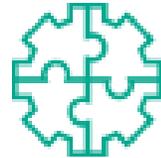
**Clean audits: 5**  
(2019 - 20: 5)



type of material  
irregularity



**Financially unqualified  
financial statements: 7**  
(2019-20: 7)



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



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



**Irregular expenditure: R105m**  
(2019-20: R145m)

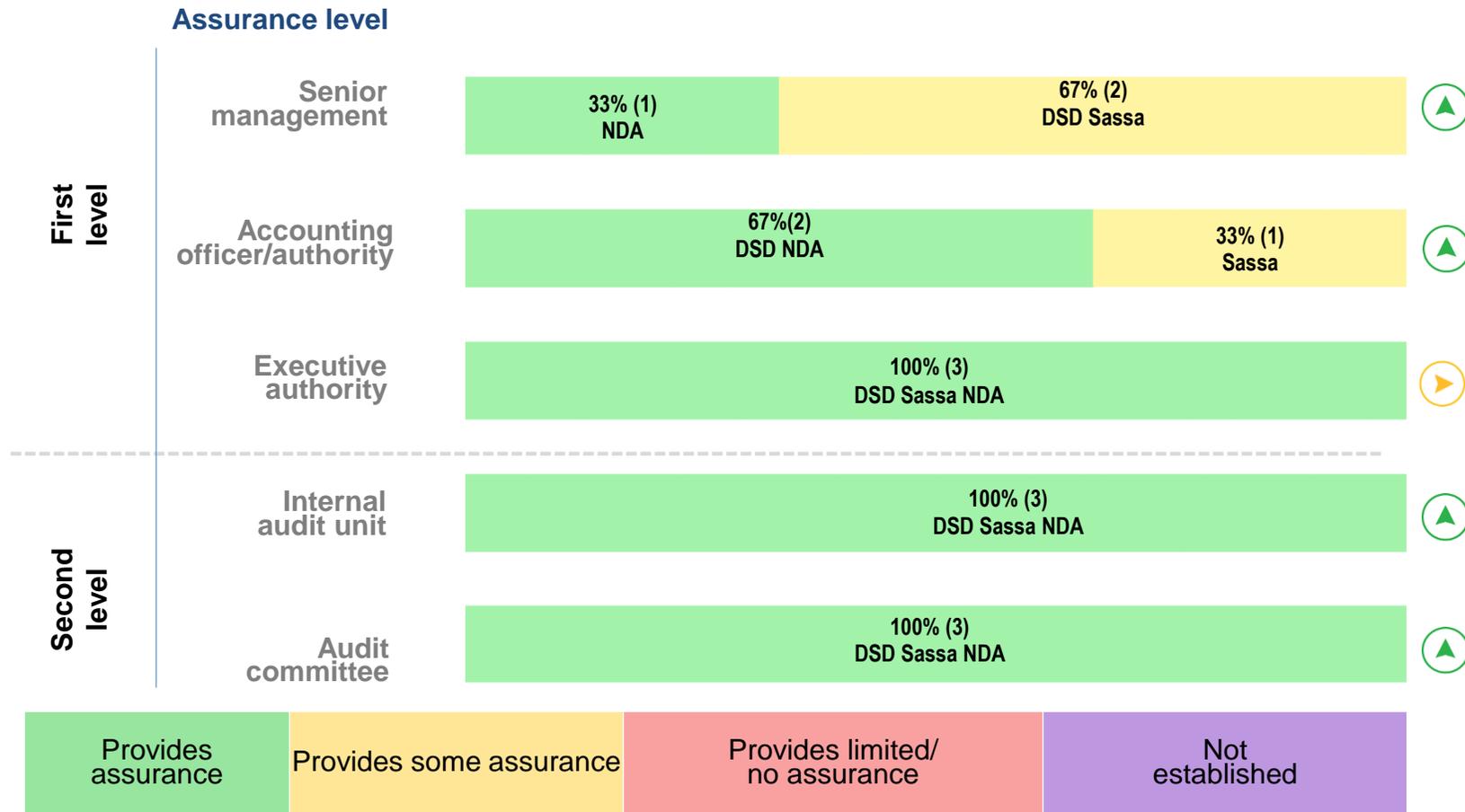


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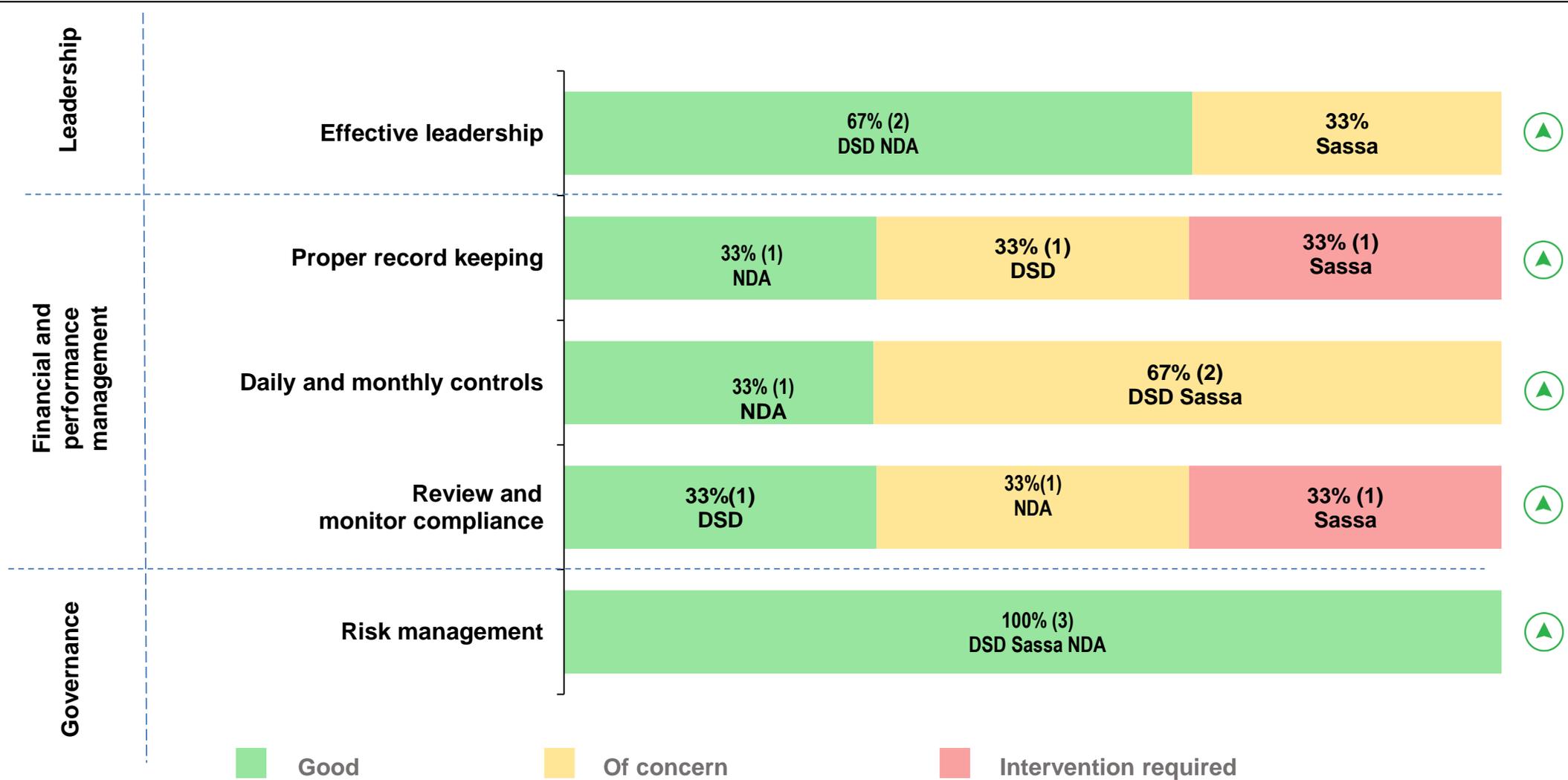
# Governance and internal controls



# Assurance provided



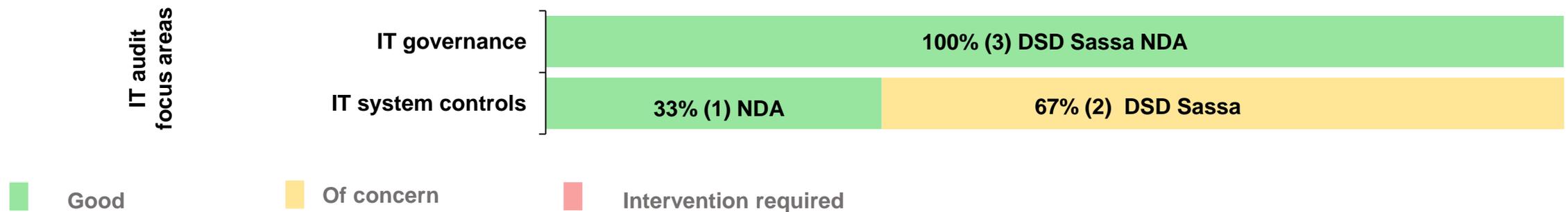
# Status of internal control



\* The funds are not included in assessment of internal control, which is not performed for dormant and small auditees.

# Status of information technology (IT) environment

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



Areas	Root cause	Recommendations
IT governance	None	IT governance was found to be adequately designed and implemented at the department.
IT system control	There were inadequate security management, user account management, change management and IT service continuity processes, due to covid-19 restrictions making it difficult for the department to coordinate all the business functions. Sassa did not have disaster recovery infrastructure for SRD applications. IT management thought SRD was a temporary application for a national emergency, therefore a disaster recovery instance was not created.	ICT management should ensure that adequate controls are implemented around security management, user account management, change management and IT service continuity processes. This should include updating policies and ensuring that controls are monitored by designated personnel.

# Summary of key root causes



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



Management did not implement adequate review and monitoring controls over preparation of performance reporting and consequence management



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



Management was not effective in filling of key positions



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# Progress on the special report



# Progress on the special report



## Purpose of initiative

Payment of new social relief grant and top-up grants as well as distribution of food parcels to support households most vulnerable to the impact of the pandemic.

## Overall conclusion

Sassa should be more proactive in obtaining access to accurate databases on a timely basis from as many sources as possible to do verifications, thus ensuring that payments are only made to eligible applicants. All payments to ineligible recipients must be recovered and individuals should be prosecuted.

## Progress

The top-up grants and distribution of food parcels have been completed.

The special relief of distress grant of R350 was paid until April 2021 and then re-introduced from August 2021 until March 2022.

# Progress on the special report

## Key observations as reported in SR2

### Special relief of distress grant

- Sassa made payments of social relief of distress grants to individuals who received income from other sources and some who were not in distress. By 31 August 2020, a potential 67 770 beneficiaries, which represent 0,32% of the approved applications, had been identified. This number included 32 642 individuals that were previously identified in the first report.
- We flagged beneficiaries who were directors of companies that have government contracts for investigation.
- On information technology systems we found that developers had been granted excessive access on the SRD system that allowed them to perform operational functions and payment job scheduling. They also had unrestricted access to the SRD database.

### Top-up grants

- The top-up grant was paid for from May 2020 until October 2021. Manual tasks were subsequently automated and controls improved which prevented the recurrence of the over- and underpayments made in May 2020.

### Distribution of food parcels by Sassa

Inadequate planning, record keeping and guidelines resulted in inconsistencies in delivery of food parcels, including people receiving food parcels multiple times, grant recipients also receiving food parcels, and approved beneficiaries not receiving the parcels. The lack of documentation and reconciliations also exposed the scheme to the risk of abuse.

## Follow-up in current year

- Processes will be put in place to recover payments made to individuals that were paid the grant but were not entitled to it.
- Sassa communicated with other government entities to recover payments made to government employees that were not entitled to the grant. The process to stop and or recover grant payments made to directors of companies, is still in progress
- The entity has not finalised the improvement of network security controls for the grant system.
- The reconciliation of the manual applications to that of social pension system (Socpen) was not fully completed

# Progress on the special report



## New observations and findings

### *Special relief of distress grant (SRD R350 grant)*

- We continue to identify payments made to possible ineligible applicants from October 2020 to March 2021 as these applicants are potentially also receiving income from other sources. By 31 March 2021, 727 084 potential ineligible applicants were paid the grant, which represents 1,33% of all the approved applications. The total amount of potential ineligible applicants paid is R254,48 million.

### *Distribution of food parcels by Sassa*

- The reconciliation of the manual applications to that of social pension system (Socpen) was not fully completed during our review and anomalies were identified.
- The anomalies were in relation to a lack of adequate records to support reconciliations in some cases, food parcels distributed not agreeing to Socpen (5,8% variance), 526 beneficiaries that received more than two food parcels and 1526 beneficiaries that received a food parcel and a grant (grant beneficiaries were not entitled to the food parcels).

## Preventative controls and recommendations

### *Special relief of distress grant (SRD R350 grant)*

- Sassa should obtain the most recent and updated data from Home Affairs, UIF, NSFAS, Sars and other government institutions to strengthen the controls and prevent payments to invalid beneficiaries.
- Processes should be put in place to recover payments to individuals that were not entitled to the grant funding.

### *Distribution of food parcels by Sassa*

- Finalise the reconciliation of food parcels distributed per the manual registers to those on Socpen.



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# Recommendations

# Recommendations for entities within the social development portfolio



Ensure adequate and effective implementation of preventative controls



Develop and implement effective action plans to address audit findings, specifically relating to SCM



Implement adequate review and monitor controls regarding performance and consequence management



Implement a proper record management system to maintain information that supports the reported financial and performance information

# Recommendations / Commitments to the portfolio committee

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

- **Filling of vacancies** to ensure stability of leadership
- **Provide oversight** on the implementation of action plans to address the audit findings.

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

# THANK YOU

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