



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Planning, Monitoring and Evaluation

11 November 2021

Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

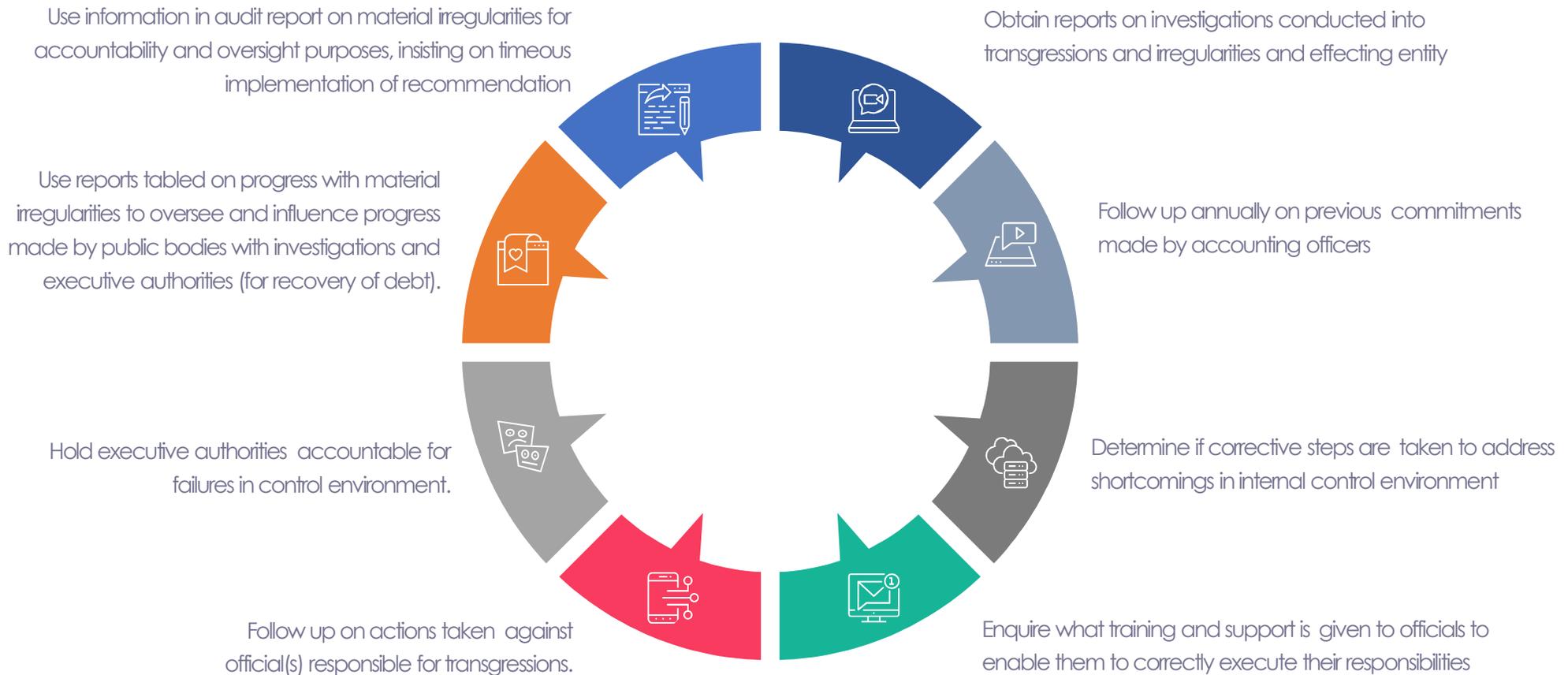
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight





AUDITOR-GENERAL
SOUTH AFRICA

FOCUS

AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of 3 auditees**, unless indicated otherwise.

				
<h3>Unqualified opinion with no findings (clean audit)</h3>	<h3>Financially unqualified opinion with findings</h3>	<h3>Qualified opinion</h3>	<h3>Adverse opinion</h3>	<h3>Disclaimed opinion</h3>
<p>Auditee:</p> <ul style="list-style-type: none"> produced credible and reliable financial statements that are free of material misstatements reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP) complied with key legislation in conducting their day-to-day operations to achieve their mandate 	<p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> align performance reports to the predetermined objectives they committed to in APPs set clear performance indicators and targets to measure their performance against their predetermined objectives report reliably on whether they achieved their performance targets determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance 	<p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published. 	<p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements 	<p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:

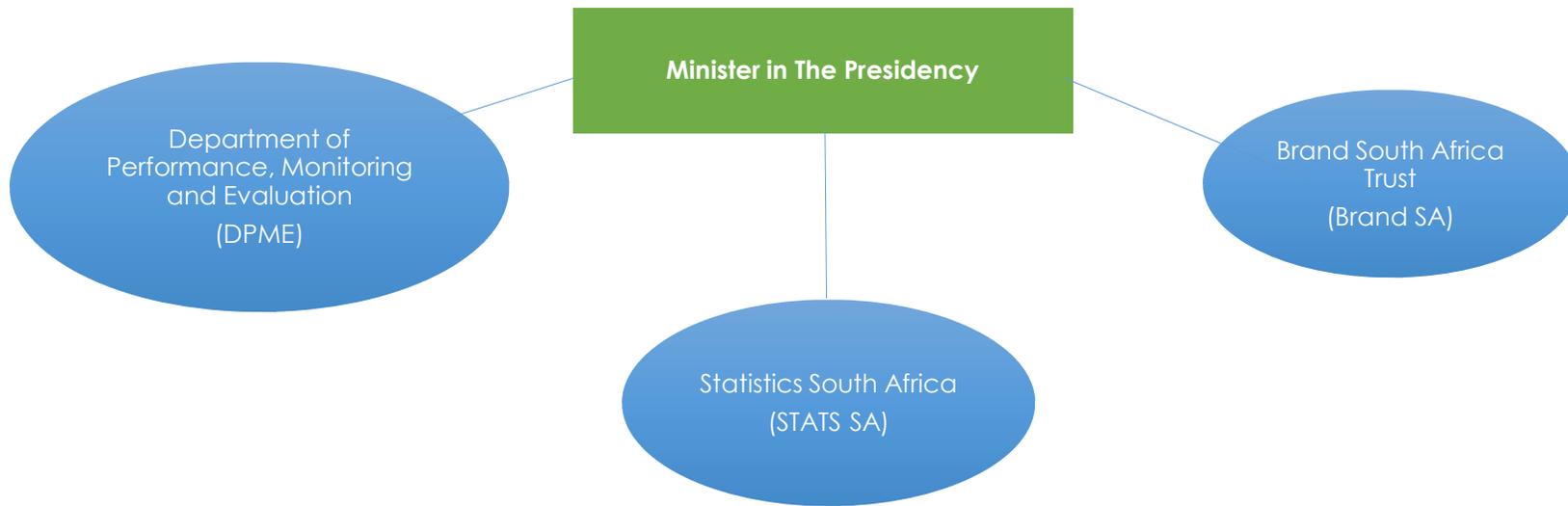
-  Improved
-  Unchanged
-  Regressed



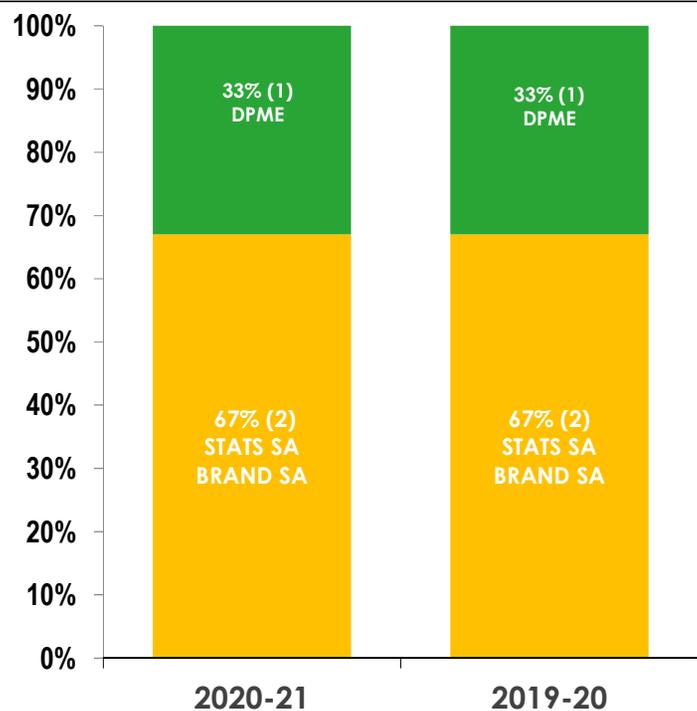
AUDITOR-GENERAL
SOUTH AFRICA

Portfolio outcome

Planning, Monitoring and Evaluation



Audit outcomes of the portfolio over 2 years



Movement	
▲	0
▼	0
▶	3

Outstanding audits
0

- DPME** management, leadership and oversight committees were able to provide assurance throughout the financial year and demonstrated commitment to the external audit process, despite environmental disruptions as a result of Covid-19. Senior management and the accounting officer performed their functions in line with legislative requirements and continued to strengthen the internal controls of the department.
- Brand SA** Material misstatements were identified in the annual financial statements submitted for audit purposes relating to disclosure notes and items in the statement of financial position. These were subsequently corrected, resulting in non-compliance with section 55(1) of the PFMA.
- STATS SA** Similar to 2019-20, STATS SA did not adhere to local content and production requirements when procuring goods. An action plan to address the audit findings was compiled, however the plan was ineffective in timeously addressing the reported control deficiencies.

Audit outcomes are depicted as follows:

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



AUDITOR-GENERAL
SOUTH AFRICA

Quality of financial and performance reporting

First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

2019-20

100% (3)

100% (0)

67% (2)

67% (2)

33% (1)

33% (1)

Root cause analysis

- **DPME** and **STATS SA** is commended for submitting financial statements that **did not contain any material misstatements**. This was achieved through sound financial management controls, which includes appropriate daily and monthly controls, proper record keeping, accurate in-year reporting and monitoring as well as appropriate review processes of the final financial statements.
- **Brand SA Material misstatements** in disclosure notes and items on the statement of financial position were **identified and corrected through the audit process**. Positions in senior management had been vacant for over 12 months and were filled by acting incumbents, leaving gaps in the structure and overburdening officials. Resultantly, adequate reviews of the financial statements and its underlying supporting documents were compromised.

Recommendations

- **DPME** and **STATS SA** should continue maintaining and enhancing the key preventative controls in place to sustain credible financial reporting.
- **Brand SA**
 - Critical key positions should be filled to ensure that roles, responsibilities and internal controls are not compromised.
 - Management should prepare regular, accurate and complete in-year financial reports that are supported and evidenced by reliable information. This will enable credible end-year reporting.
 - Review processes of the financial statements must be enhanced to ensure that they are free from misstatements.
 - It is recommended that internal audit reviews the annual financial statements prior to submission for audit purposes.

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors

Performance report adjusted for material misstatements in usefulness

Reliable reporting of achievements (All auditees)

Usefulness of performance indicators and targets (All auditees)

Movement



2020-21

2019-20

33% (1 - STATS SA)

33% (1 - DPME)

67% (2)

67% (2)

3

3

3

3

Root cause analysis

- **STATS SA** submitted a credible annual performance report (APR), an improvement from the prior year due to effective implementation of audit recommendations.
- **DPME** had planned indicators that were valid for quarter one - prior to the amendment of the initial annual performance plan (APP) - that were not initially reported in the APR due to non-adherence to the performance reporting framework. This oversight was subsequently corrected.
- **Brand SA** initially presented an indicator in their APR that was inconsistent with the approved APP. This was amended to align prior to audit finalisation. Similar to financial reporting the review of the APR was compromised by capacity shortages.

Recommendations

- Good practices such as detailed/rigorous evidence validation processes and detailed reviews of the quarterly and annual performance report should be maintained.
- DPME and Brand SA to adhere to framework and guidance issued on predetermined objectives and ensure that the approved planned indicators are consistently reported on in the APR. Extra care should be taken if there are any approved in-year changes to the APP.

Portfolio overview of performance

DPME

The department achieved 81% of its performance targets, however the 19% not achieved related to critical matters such as: Public service capability and District Development Model monitoring reports; Guidelines for the development of sector plans; the finalisation of the Integrated Planning Framework Bill; Support of 1 high risk SOE; SOEs Governance and Performance Report & SOEs Oversight and Monitoring Framework. Covid-19 challenges and reprioritisation as well as budget cuts were cited as the reasons for non-achievement.

STATS SA

The department has managed to achieve 99.1% and 94.1% of the planned targets on its key programmes, *Economic statistics and Population and Social statistics*, respectively.

One of the biggest projects that was negatively impacted by Covid-19 is the census project. The department had planned to perform the census 2021 pilot by March 2021. Unfortunately that could not be completed under the 2020-21 year under audit. The main census was also planned to be carried out in October 2021, falling under the 2021-21 financial year. Both projects had to be postponed to a future date of 02 February 2022. This has affected programme 3, output indicator: *Number of evaluation reports for census 2021 pilot compiled*. The target under the indicator is not achieved.

Brand SA

The entity achieved 23 out of 27 targets (85%) on its core programmes of *Brand, Marketing and reputation management and Stakeholder relations*. The four targets partially/not achieved was as a result of limitations and reprioritisations due to Covid-19. These included the following: 13 vs. 15 internal analysis pieces on the national brand produced; 3 vs. 4 constitutional awareness campaigns conducted; a Nation Brand Forum /SACF could not be held & 3 vs. 4 stakeholder impact surveys conducted.



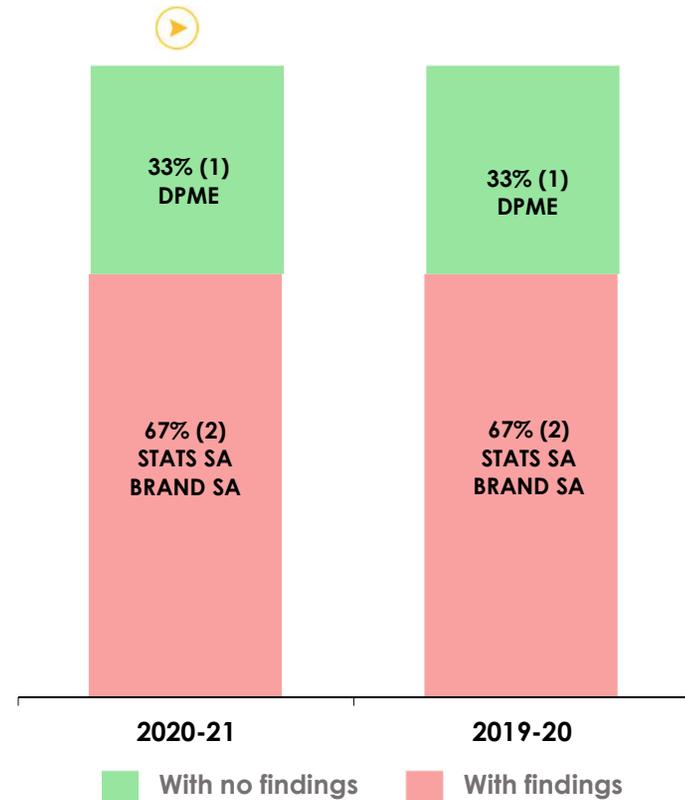
AUDITOR-GENERAL
SOUTH AFRICA

Compliance with legislation

Third focus area: compliance with legislation

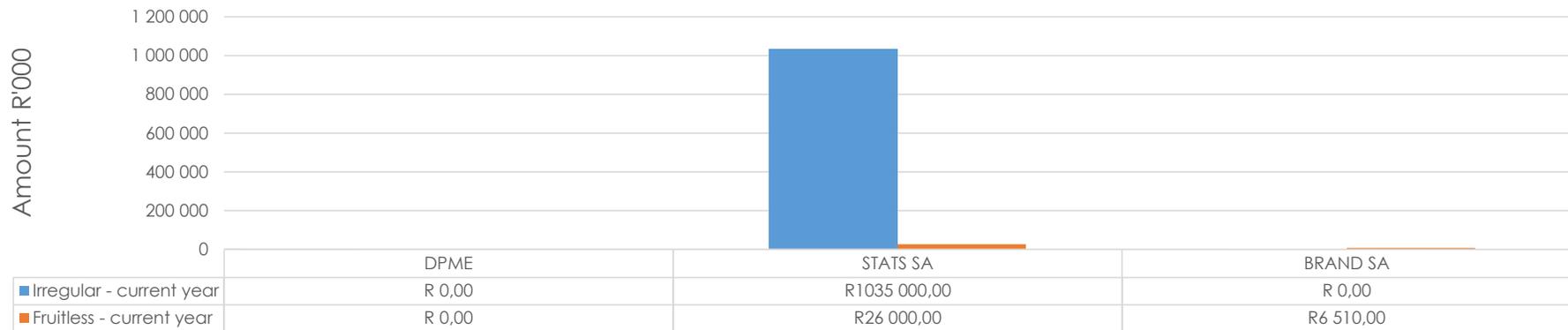
- The outcomes in terms of compliance with legislation remain unchanged.
- **DPME** is commended for maintaining a sound internal control environment that prevented non-compliance with key laws and regulations.
- **BRAND SA** submitted financial statements that contained material misstatements which had to be corrected through the audit process, thus contravening S55(1) of the PFMA. The entity is however commended for an improved outcome in the areas of procurement & contract management and consequence management as previously reported material non-compliance in these areas did not recur.
- Non-compliance that was identified at **STATS SA** pertained to procurement and contract management bid documentation for the procurement of commodities designated for local production and content that did not stipulate the minimum threshold for local production and content. The department did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.

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 – R1 million.
- R1 million (100% of total) was incurred by STATS SA.
- Irregular expenditure identified relates to non-compliance to SCM prescripts.

Fruitless and wasteful expenditure

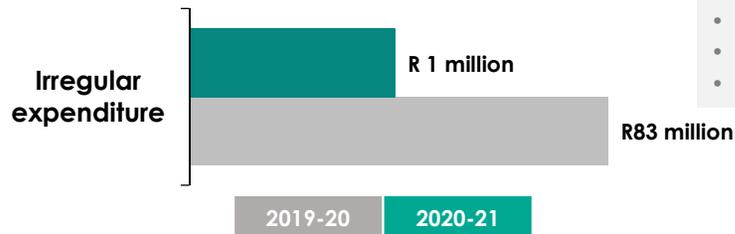
- Total fruitless and wasteful expenditure identified – R33 thousand.
- R26 thousand (79% of total) was incurred by STATS SA, due to interest charged and late cancellation fees.
- The remaining R7 thousand at Brand SA relates to booking Services cancelled.

Irregular expenditure over 2 years

Definition

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

Irregular expenditure incurred by entities in portfolio

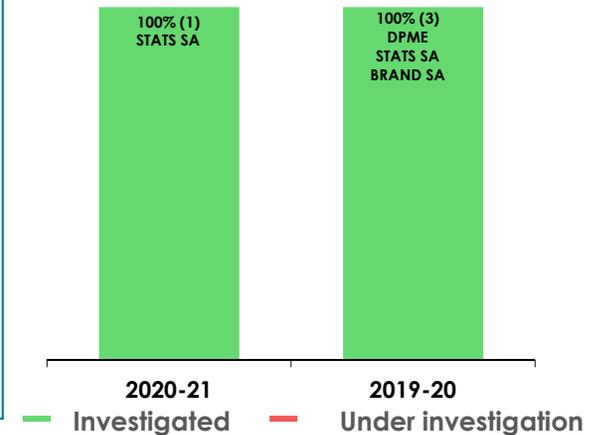


- R1 million – non-compliance in 2020-21
- R83 million – non-compliance in 2019-20
- Irregular expenditure has reduced by 99% compared to prior year

Nature of irregular expenditure

- The irregular expenditure was incurred at **STATS SA** as a result of non-compliance with supply chain managements regulations pertaining to local content procurement.
- In 2019-20 the department incurred irregular expenditure largely due to Stats SA continuing participating in an expired transversal contract awarded by the Department of Transport to Phakisa Fleet Solutions (Proprietary) Limited which had been extended several times.
- In 2020-21 the department incurred irregular expenditure due to non-compliance that related to instances where bid documentation for procurement of commodities designated for local production and content, were not stipulated in the request for quotations.

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

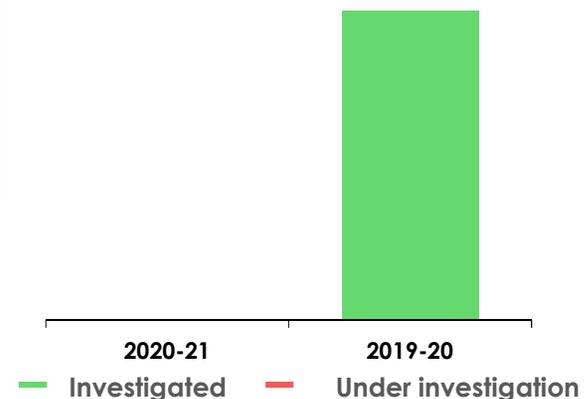
Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

- No unauthorised expenditure was identified in the portfolio in the current financial year.
- The unauthorised expenditure incurred in 2019-20 was due to the overspending on compensation of employees (COE) (STATS SA).

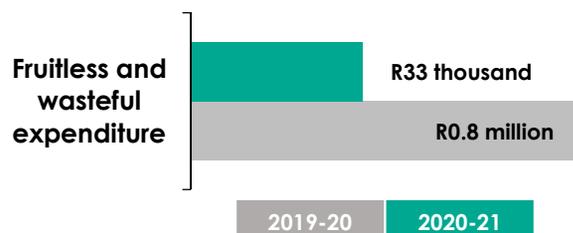
Previous year unauthorised expenditure reported for investigation (STATS SA)



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

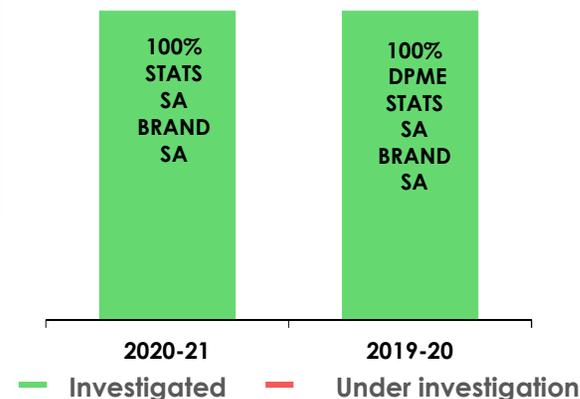


- R33 thousand – non-compliance in 2020-21 financial year
- R0,8 million – non-compliance in 2019-20 financial year
- Current year – STATS SA contributed to 79% of total fruitless and wasteful expenditure

Nature of fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure in the portfolio amounts to R33 thousand, down from the reported prior year value of R0.8 million.
- R26 thousand (79% of total) was incurred by STATS SA, due to interest charged and late cancellation fees.
- The remaining R7 thousand at Brand SA relates to booking Services cancelled.

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.

There were no non-compliance findings raised relating to the lack of investigations or evidence to support such investigations.

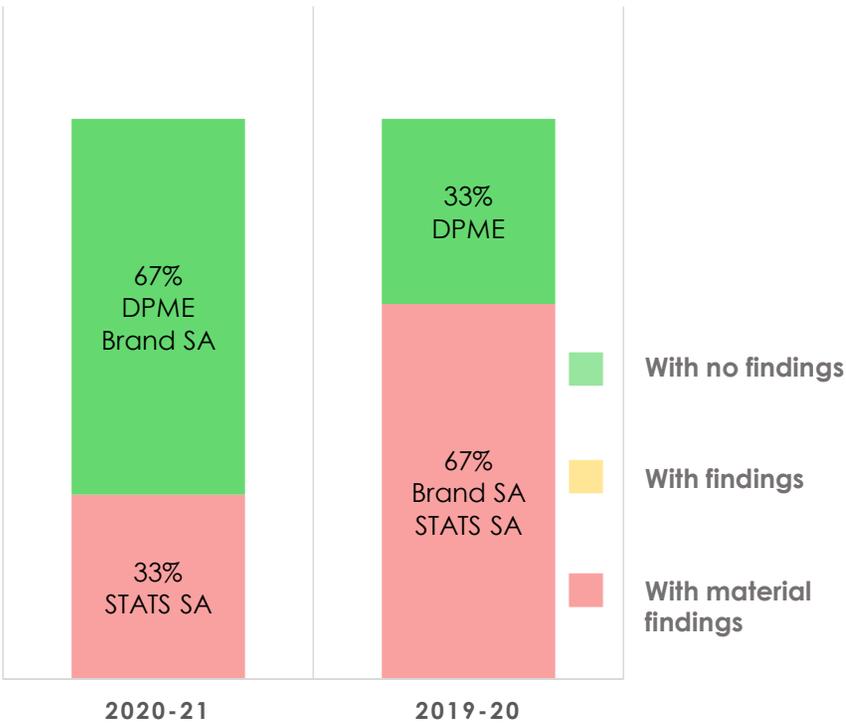
Recommendations

Management should continue to investigate all the occurrence of irregular, fruitless and wasteful expenditure when identified.

Oversight authorities should continue to hold management accountable on all reported irregular, fruitless and wasteful expenditure that was identified.

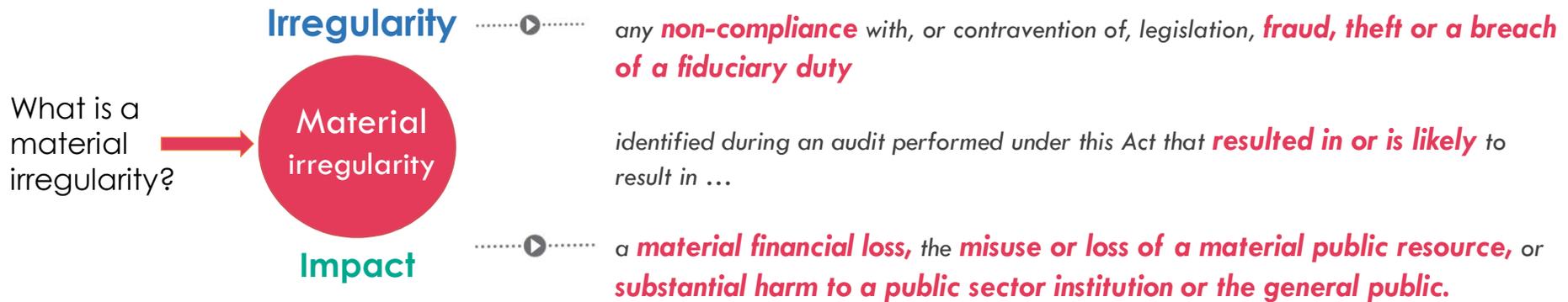
Supply chain management

Overall improvement in SCM compliance
All SCM findings should be investigated



Findings on supply chain management	Recommendation
Local content requirement not specified on request for quotation documents at Statistics South Africa.	STATS SA to ensure that they implement their commitment that SCM will always ensure that the local content requirements are stipulated in all future procurements of designated commodities.

At the center of the PAA amendments – material irregularity



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

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

Selection criteria

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, none of the auditees in this portfolio were selected for implementation.**



AUDITOR-GENERAL
SOUTH AFRICA

Portfolio snapshot

Portfolio snapshot 2020-21



Clean audits: 1
(2019 - 20: 1)

type of material

irregularity



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



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



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



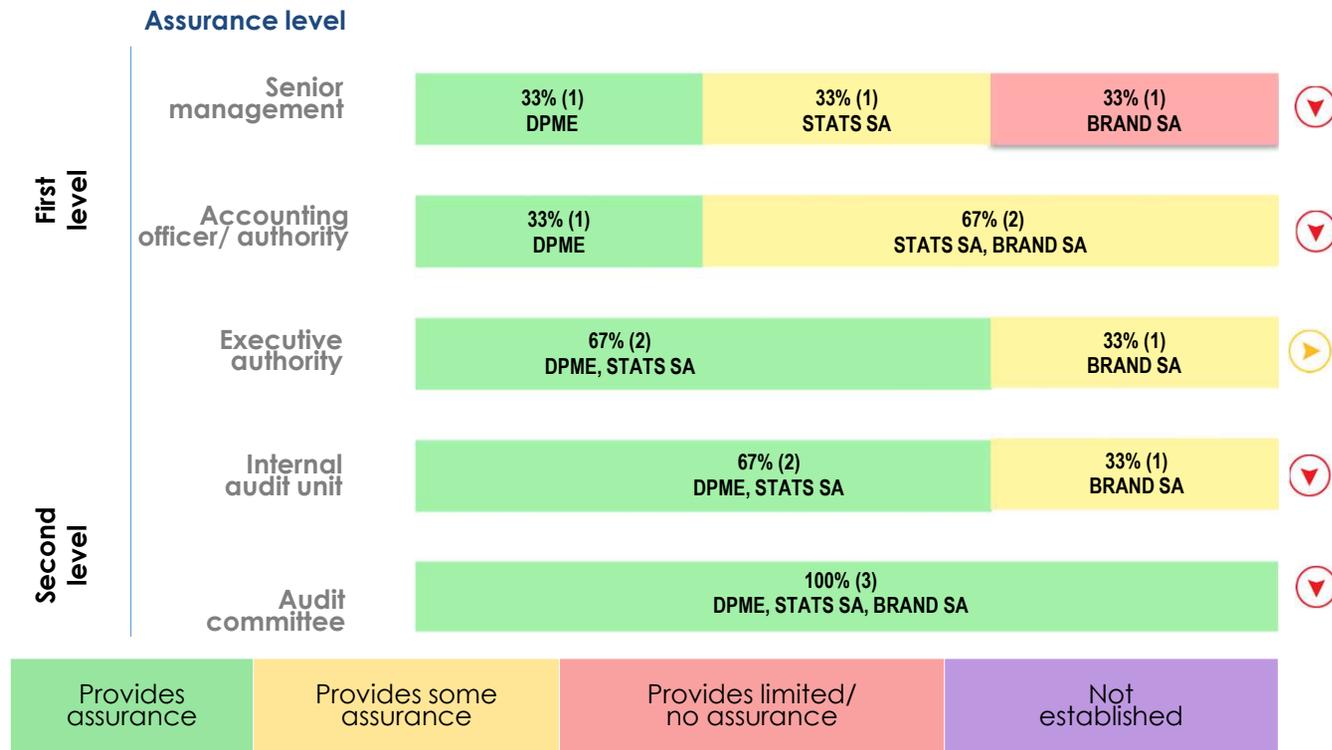
Irregular expenditure: R1 m
(2019-20: R83 m)



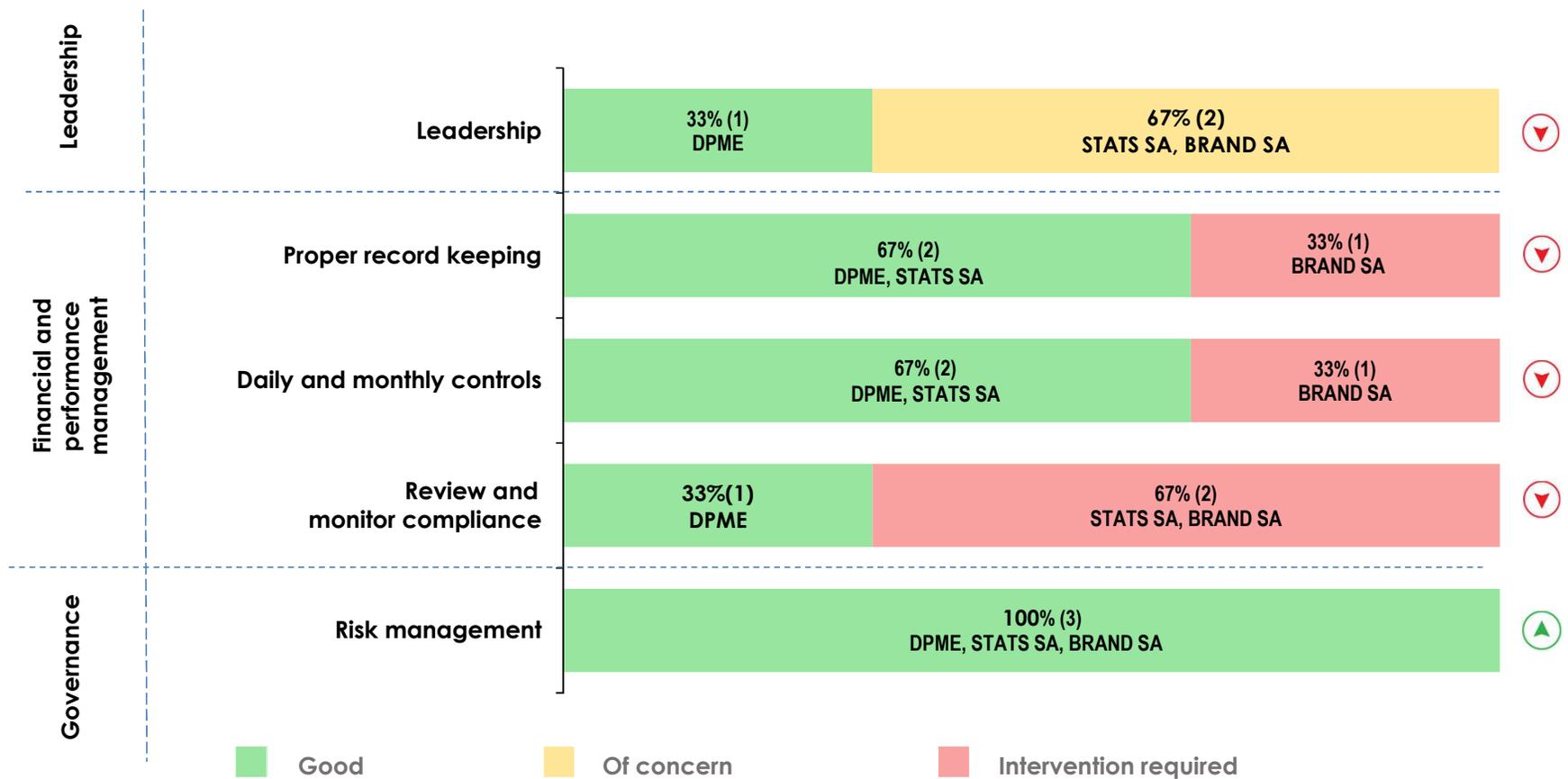
AUDITOR-GENERAL
SOUTH AFRICA

Governance and internal controls

Assurance provided



Status of internal control



Summary of 3 key root causes



Slow response in improving key controls and addressing risk areas, such as ineffective action plan on compliance monitoring, as the prior year material non-compliance was identified and reported again. (STATS SA)



Lack of human resources due to moratorium on the filling of critical vacancies that was in place during 2020-21. (Brand SA)



Management did not implement adequate review and monitoring controls over preparation of financial statements. (Brand SA)



AUDITOR-GENERAL
SOUTH AFRICA

Recommendations

Recommendations for entity and departments within the portfolio



Fill key executive positions and other critical posts with skilled and experienced personnel at BRAND SA.



STATS SA & Brand SA to develop and implement effective action plans to address audit findings, not limited to findings that affected the audit report.



STATS SA to ensure that they implement their commitment that SCM will always ensure that the local content requirements are stipulated in all future procurement of designated commodities.

Brand SA to enhance review processes to ensure that the financial statements are free from material misstatements. To involve internal audit

Recommendations to the portfolio committee

- The committee should pursue the matter regarding the moratorium currently in place at Brand SA that is preventing them from filling vacancies, pending a potential merger with SA Tourism. Should critical posts not be filled it is unlikely that an improvement in audit outcomes could be realised.
- For STATS SA & Brand SA the committee should request the accounting officer/authority to provide quarterly feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.

THANK YOU

AUDITING TO
BUILD PUBLIC CONFIDENCE



www.agsa.co.za



[Auditor General of South Africa](#)



[@AuditorGen_SA](#)



[Auditor-General of South Africa](#)