



AUDITOR - GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Environment, Forestry and Fisheries

16 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 recognized 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; and
 - 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; and
 - 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 amongst other things perform the following functions:

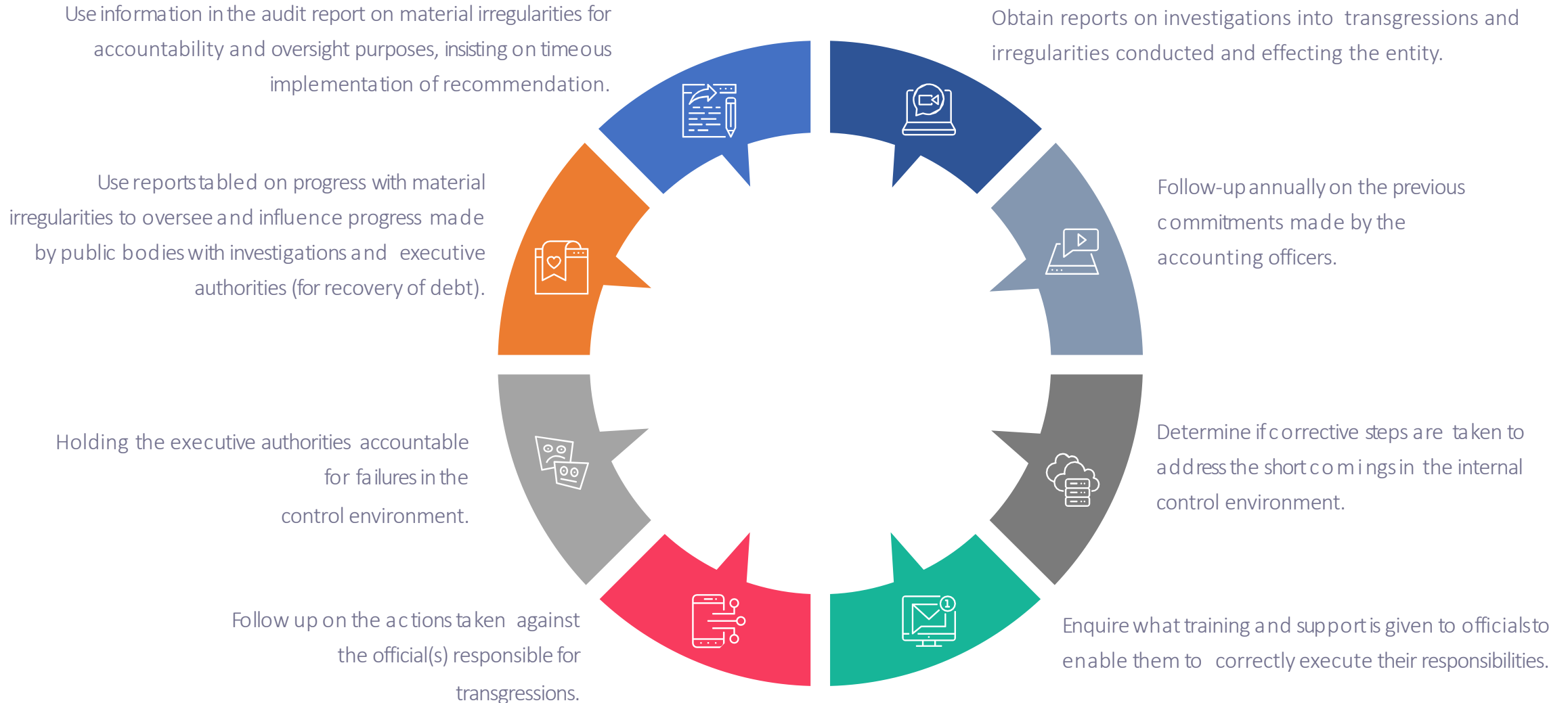
- Deal with bills and other matters falling within its portfolio as are referred to it in terms of the constitution, legislation, rules or by resolution of the Assembly.
- Also maintain oversight of its portfolio of national executive authority, including the implementation of legislation.
- May monitor,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





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Focus



Audit outcomes

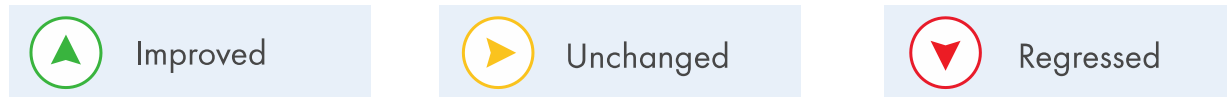
Important to note

The percentages in this presentation are calculated based on the **completed audits of 6 auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:



Movement over the previous year is depicted as follows:



THE AG'S ANNUAL AUDITS EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND ABSENCE OF SIGNIFICANT MISSTATEMENTS IN FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL LAWS AND REGULATIONS GOVERNING FINANCIAL MATTERS

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

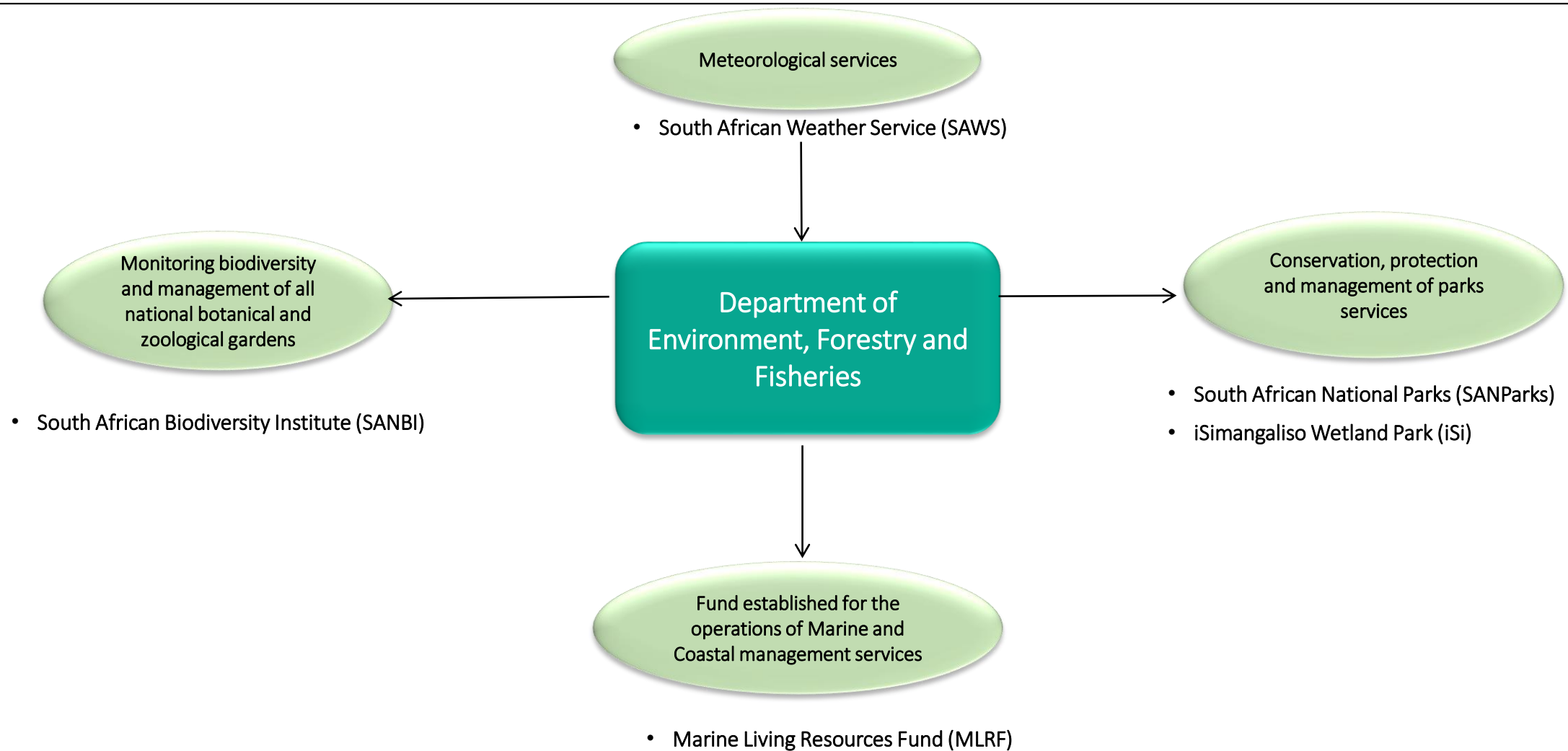


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Portfolio outcome

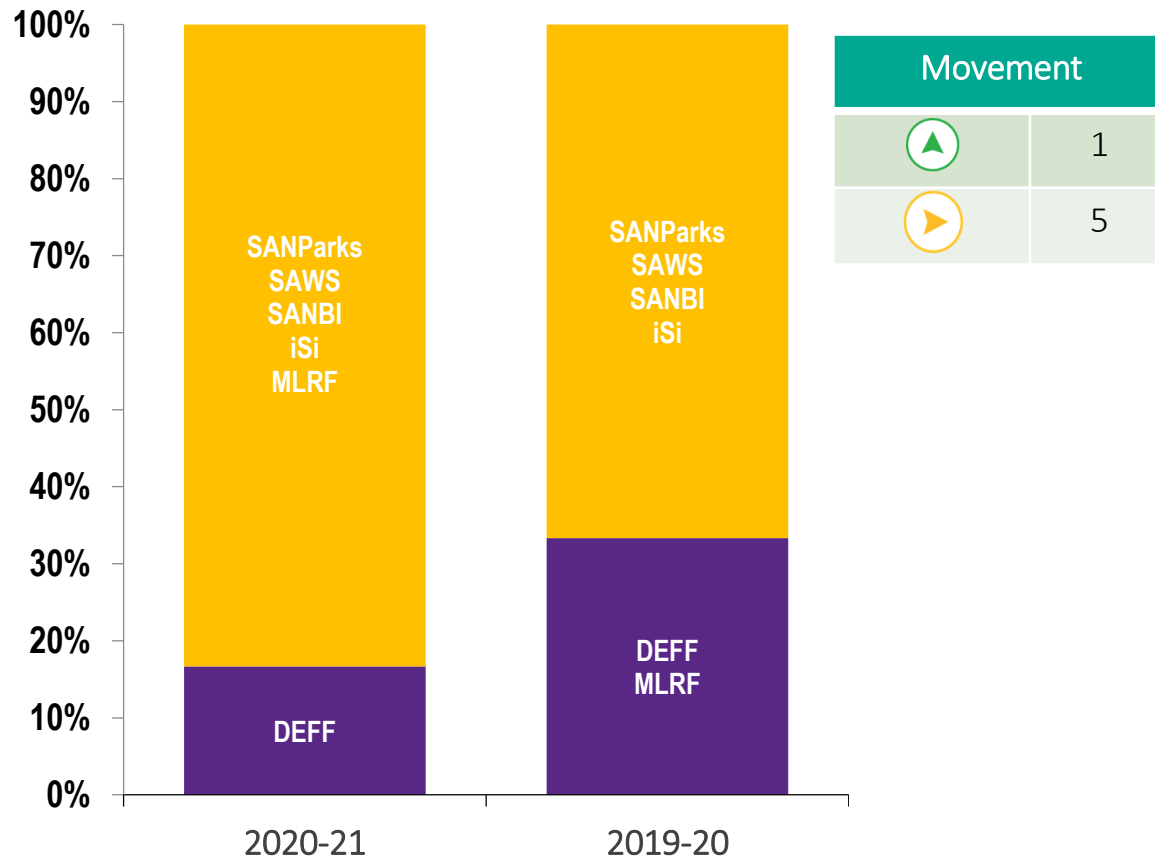


Environment, Forestry and Fisheries auditees



Audit outcomes of the Environment, Forestry and Fisheries portfolio over two years

The objective of this document is to brief the Environment, Forestry and Fisheries portfolio committee on the audit outcomes of the Environment, Forestry and Fisheries Portfolio for the period ended 31 March 2021. In this presentation we highlight recommendations in order to improve audit outcomes for the portfolio.



The overall audit outcomes in the portfolio remained unchanged when compared with the prior year, with the exception of Marine Living Resources Fund which improved from a qualified to an unqualified audit outcome.

- **DEFF**- The department remained unchanged with a qualified audit opinion with findings on the annual performance report and compliance with legislation.
- **SANBI**- The entity remained unchanged with an unqualified audit opinion with findings on the annual performance report and compliance with legislation.
- **SANParks, SAWS and iSi**- The entities remained unchanged with unqualified audit opinions with findings on compliance with legislation.
- **MLRF**- The entity improved from a qualified audit opinion in the prior year to an unqualified audit opinion, with findings on compliance with legislation in the current year.

Audit outcomes are indicated as follows

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

Portfolio overall message continued....

- The action plan prepared by DEFF management to address the prior year misstatements was only finalised and implemented late in the year due to the late submission of the AFS and late conclusion of the audit. Therefore, irregular expenditure and the immovable tangible capital asset qualifications received attention very late in the year, and consequentially no interim audit was performed to allow for early risk identification. The reaffirmation of controls implemented to resolve previous year's qualifications were not always effectively accentuated.
- Irregular expenditure was identified at SANParks and SAWS on critical contracts for service delivery relating to IT systems as poor supply chain management practices were applied.
- Some pockets of improvements were noticed as some areas of qualifications were resolved due to more active and better functioning from the internal audit departments.
- Material misstatements identified in the annual financial statements could have been avoided had the department submitted financial statements in time for review to internal audit which would have allowed for a critical and detailed analytical review process to be conducted and significant matters be identified, potentially saving the submitted financial statements from material misstatements .
- IT security and business continuity mechanisms were found lacking in several of the entities and require immediate attention to avoid unnecessary exposure to catastrophic risks and potential loss of data and information.

Key root causes in the internal control environment

- Submitted financial statements contained material errors and misstatements that could have been avoided had a detailed and analytical review been performed prior to submission.
- Inadequate assessment of the performance indicators and related targets against the SMART criteria.
- Preventative controls to detect potential non-compliance with laws and regulations were not always in place resulting in multiple instances of non-compliance especially in the SCM environment.
- Several critical shortcomings relating to IT security and continuity processes were reported during the audit and very little improvements were recorded from prior year findings.

Recommendations:

- Meticulousness and timely implementation of the audit action plans are key to ensure that errors in reported information do not re-occur and internal control deficiencies are addressed.
- Preventative and detective internal controls are required across all to ensure adherence to SCM laws and regulations. Staff need to better understand the requirements of the laws and regulations to ensure that there are adequate planning and procedural execution within procurement cycles.
- Ensure that there is an adequately resourced and working internal audit and risk function that identifies internal control deficiencies and recommends corrective actions timeously at all entities in the portfolio with a dire focus on submitting quality financial and performance reports.



Detail analysis of the 3 x focus areas:
Credible financial reporting
Credible performance reporting
Compliance with legislation



First focus area: Credible financial reporting



Financial statements

Submission of financial statements by legislated date PY (DEFF)



100% (6)

2019-20

83% (5)

Financial statements submitted without errors



17% (1)

17% (1)

C/Y – (SAWS) – PY (SANParks)

Quality of final submission after audit



83% (5)

67% (4)

C/Y (SAWS, SANParks, SANBI, iSi, MLRF)
P/Y (SAWS, SANParks, SANBI, iSi)

Quality of submitted financials statements

- 17% (1) auditee submitted financial statements that did not contain material misstatements and we wish to commend the entity (SAWS).
- 83% (5) of the auditees (DEFF, SANParks, SANBI, Isi, MLRF) submitted financial statements that contained material misstatements.
- **Management of these departmental entities subsequently corrected the errors, which resulted in them receiving unqualified audit opinions.** The department was however unable to correct all the identified material misstatements which resulted in a qualified audit opinion.
- The misstatements mainly affected disclosure notes. The department had qualifications in the areas of Irregular expenditure, Public Private Partnership, Capital commitments and Capital work-in-progress.

Root cause analysis

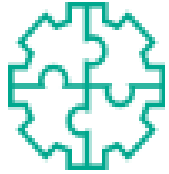
- Material misstatements on the Annual Financial Statements was due to **inadequate reviews by management prior to submission for audit.** Majority of the material misstatements identified for the portfolio was on expenditure and disclosure notes.
- **Slow progress in addressing internal control deficiencies** identified by internal and external auditors.
- **Some of the findings raised are recurring** and this is despite discussions held with the auditees on the implementation of preventive control measures.

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 / authorities** 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

Performance report submitted without errors

CY- (SAWS) PY- (MLRF)

Movement



2020-21

2019-20

17% (1)

17% (1)

Performance report adjusted for material misstatements to improve reliability

CY (SANParks, MLRF, iSi)

PY (SANParks, MLRF)



50% (3)

33% (2)

Usefulness of performance indicators and targets

CY (DEFF, SANBI)

PY (DEFF, SANBI, SAWS, iSi)



33% (2)

67% (4)

Quality of performance reporting

- In the current year there has been **no improvement in the quality of submitted performance information** for audit in the portfolio.
- DEFF remained unchanged with findings on the usefulness and reliability of reported performance information. This was **due lack of inadequate monitoring and reporting of useful and reliable performance information**.
- SANBI remained unchanged with findings on the usefulness of reported performance information. **This was due to targets not being specific**.
- SANParks and MLRF had no findings reported on the reliability and usefulness of performance information. The quality of performance reported remained the same as the prior year
- SAWS and Isi had no findings reported on the reliability and usefulness, which is an improvement in comparison with the prior year.

Root cause analysis

- Information in the annual performance report is not supported by valid and accurate evidence.
- Management did not adequately implement review and monitoring controls to ensure reliable reporting of achievements and usefulness of performance indicators and targets.

Recommendations

- Auditees need to **design performance indicators** which are well defined and adhere to the SMART criteria.
- We recommend that **standard operating procedure/policies should be designed** which contain processes to record information and store supporting evidence for measuring the planned indicators.
- Management should **develop an action plan to address findings raised** and monitor its implementation on a regular basis.
- **Effective monitoring and oversight by the audit committee** is also critical.





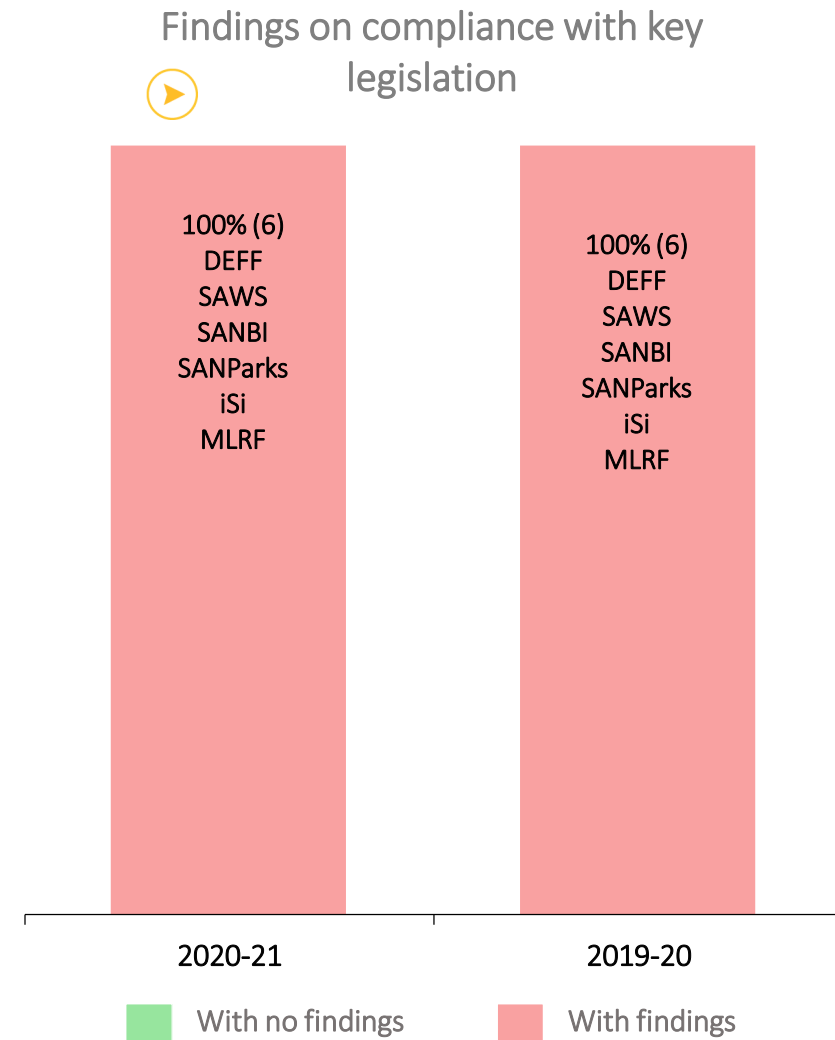
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Compliance with legislation

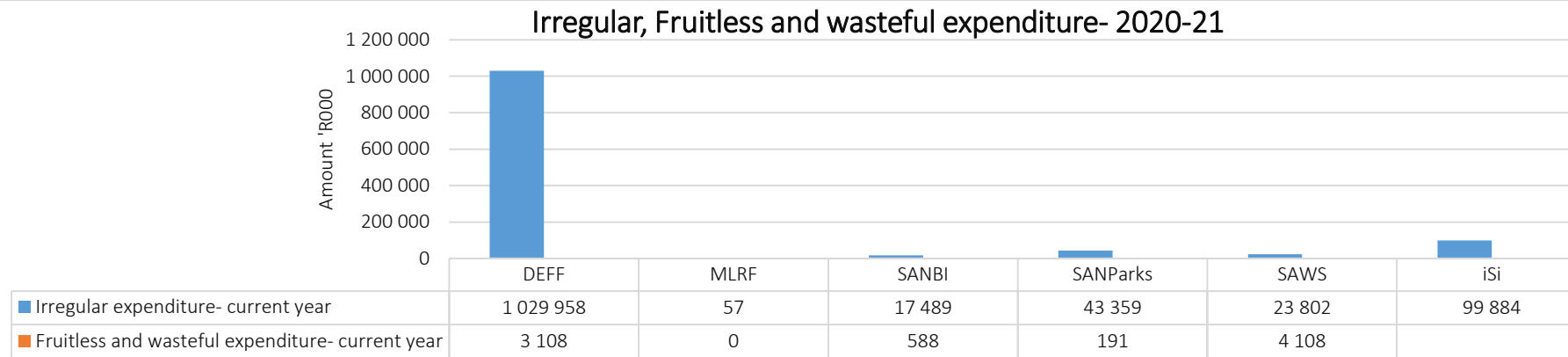


Third focus area: Compliance with legislation

- In the current year there has been **no improvement in the compliance with legislation.**
- Five (5) out of the six (6) auditees have received an unqualified audit opinion with findings on compliance. **Auditees in the portfolio continue to struggle with compliance with legislation.**
- The non-compliance identified is similar to those reported in the prior year. These auditees (**DEFF, SANBI, iSi, MLRF**) 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 (3) sections, i.e. **expenditure management, procurement & contract management** and **consequence management.**



Irregular, fruitless and wasteful expenditure



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure that was identified in the current year amounted to R1,2 billion.
- R1,03 billion of this irregular expenditure was incurred at the department (which is 85% of the total irregular expenditure), majority of which is due to the departments' incorrect application of the objective assessment against predetermined functionality criteria

Fruitless and wasteful expenditure

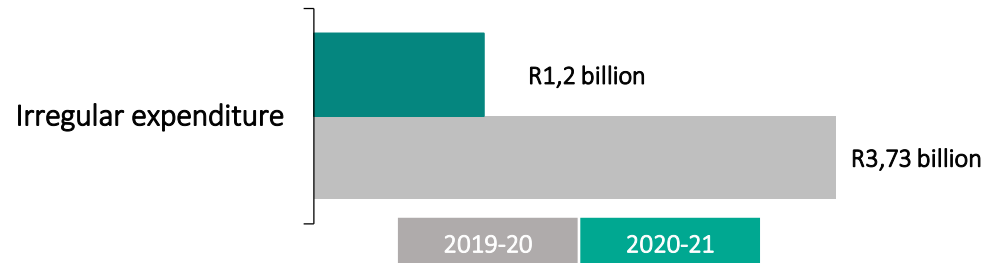
- Total fruitless and wasteful expenditure that was identified in the current year amounted to R8 million.
- R4,11 million (51%) of this fruitless and wasteful expenditure was incurred by SAWS as result of payment of a cancelled contract module, penalties and interest on late payments.
- R3,11 million (39%) of this fruitless and wasteful expenditure was incurred by the department as a result of overpayment to suppliers and funds allocated to implementing agents not spent in accordance with the approved memorandum of understanding.

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



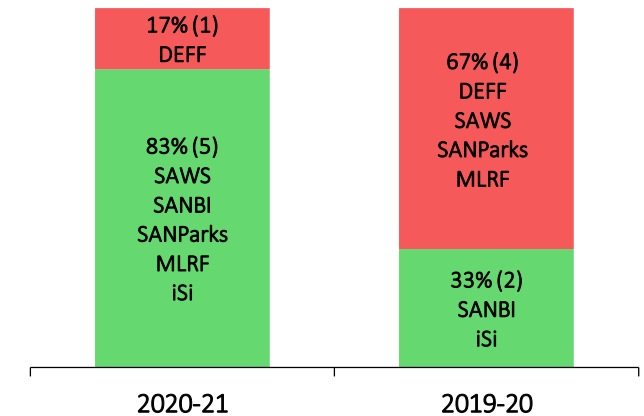
- R1,2 billion represents non-compliance in 2020-21.
- R3,73 billion represents non-compliance in 2019-20. This represents 88% of the opening balance of the department that was restated and carried forward from prior years.
- Irregular expenditure has reduced by 67% when compared to the prior year.
- The internal controls to identify, record and report IE were not adequately designed and implemented which resulted in a repeat qualification on the completeness of IE reported by the department.

Nature of the irregular expenditure

The highest contributors to irregular expenditure in the portfolio:

- Objectivity criteria not applied as prescribed by the Preferential Procurement Policy Framework Act (PPFA)
- Procurement of services not in line with Service Level Agreements
- Procurement without following competitive bidding or quotation process

Previous year irregular expenditure reported for investigation



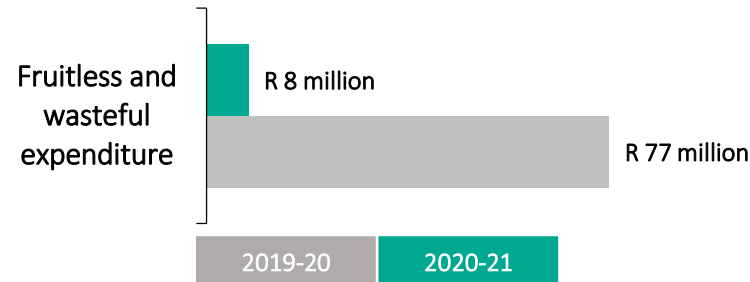
Investigated Under investigation

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

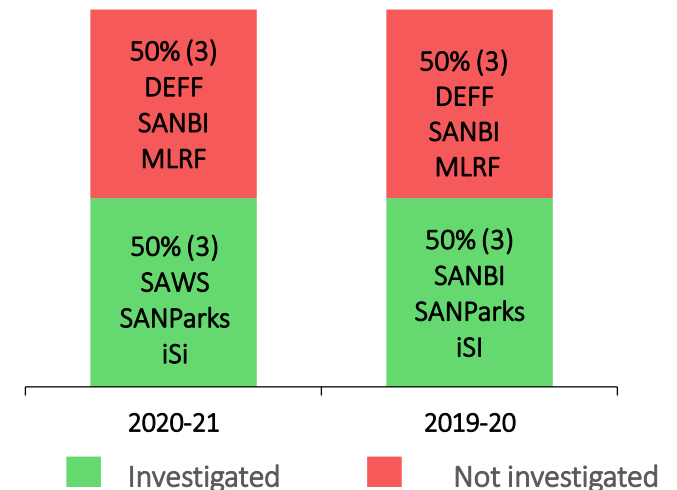


- R8 million represents non-compliance in the 2020-21 financial year.
- R77 million represents non-compliance in 2019-20 financial year.
- In the previous financial year, DEFF contributed to 99% of the total fruitless and wasteful expenditure.
- In the current year, SAWS contributed to 51% of the total fruitless and wasteful .

Nature of the fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure that was identified in the current year amounts to R8 million and has reduced significantly from the reported prior year value of R77 million.
- The majority of the opening balance for the department of the fruitless and wasteful expenditure is carried forward from the prior years relating to funds allocated to implementing agents not spent in accordance with the approved memorandum of understanding.
- In the current year, most of the fruitless and wasteful expenditure was incurred by SAWS, DEFF and SANBI due to penalties and interest on late payments, overpayment of suppliers.

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 auditees:

- DEFF
- SANBI

Although some investigations on the irregular expenditure balances have been initiated the majority of the irregular expenditure balances still need their investigations to start or to be concluded so that the necessary disciplinary actions can be taken against staff who have caused irregular, fruitless and wasteful expenditure.

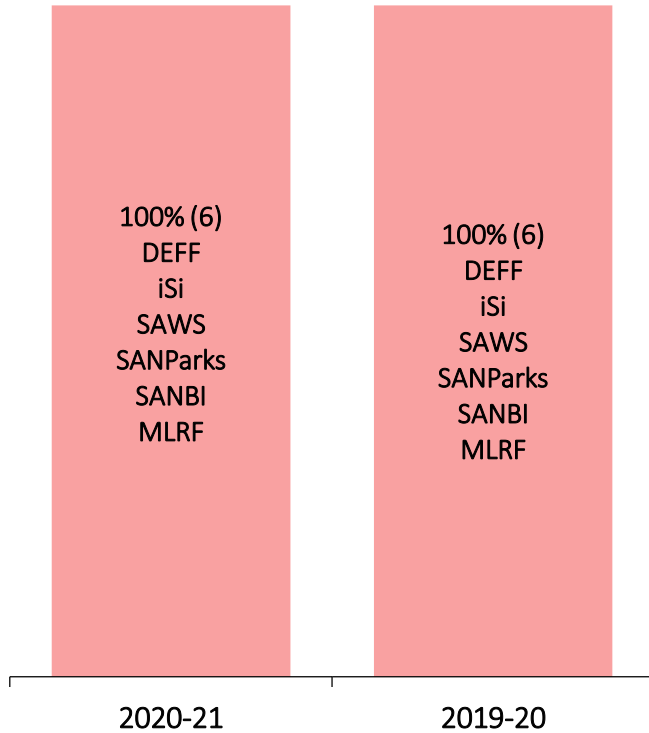
Therefore we found that there is inadequate disciplinary actions taken against staff who have caused irregular, fruitless and wasteful expenditure.

Recommendations

- There must be **timely investigations** of the reported irregular expenditure and disciplinary actions 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 plan** to address the repeat findings.
- **Internal audit and audit committee must monitor** implementation of **action plan**.

Supply chain management

Overall regression in SCM compliance
 All SCM findings should be investigated



- With no findings
- With findings
- With material findings

Most common findings on supply chain management

No effective and appropriate steps taken to prevent irregular expenditure and/or fruitless and wasteful expenditure at 6 auditees. (DEFF, SAWS, SANBI, MLRF, SANParks, iSi)

Quotation/bid award not approved at the appropriate level (DEFF, SANBI, MLRF, SANParks)

Prequalification criteria not met /Preference point system not applied or incorrectly applied. (DEFF and iSi)

Recommendations

- The accounting officers/ authorities should ensure **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.

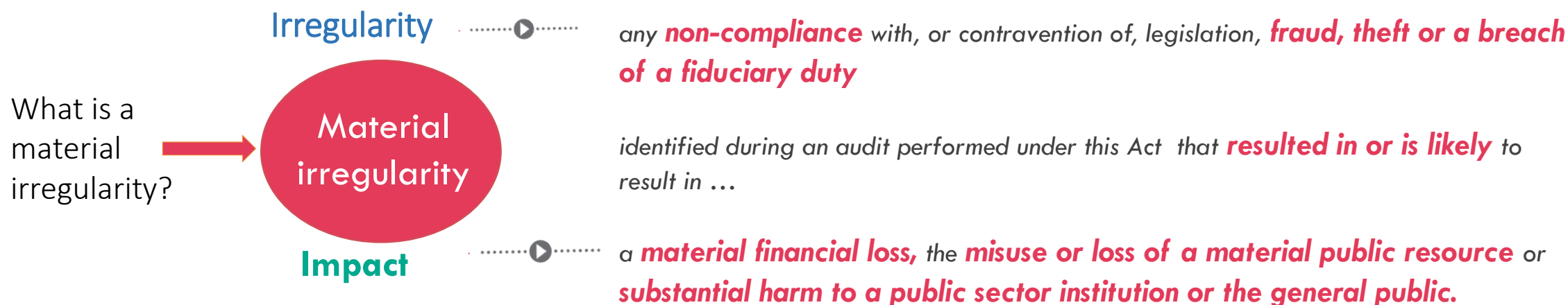


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Material Irregularities



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

Selection criteria

Type of material irregularity

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 financial year, no auditees were phased in for the MI implementation in the Environment, Forestry and Fisheries portfolio.



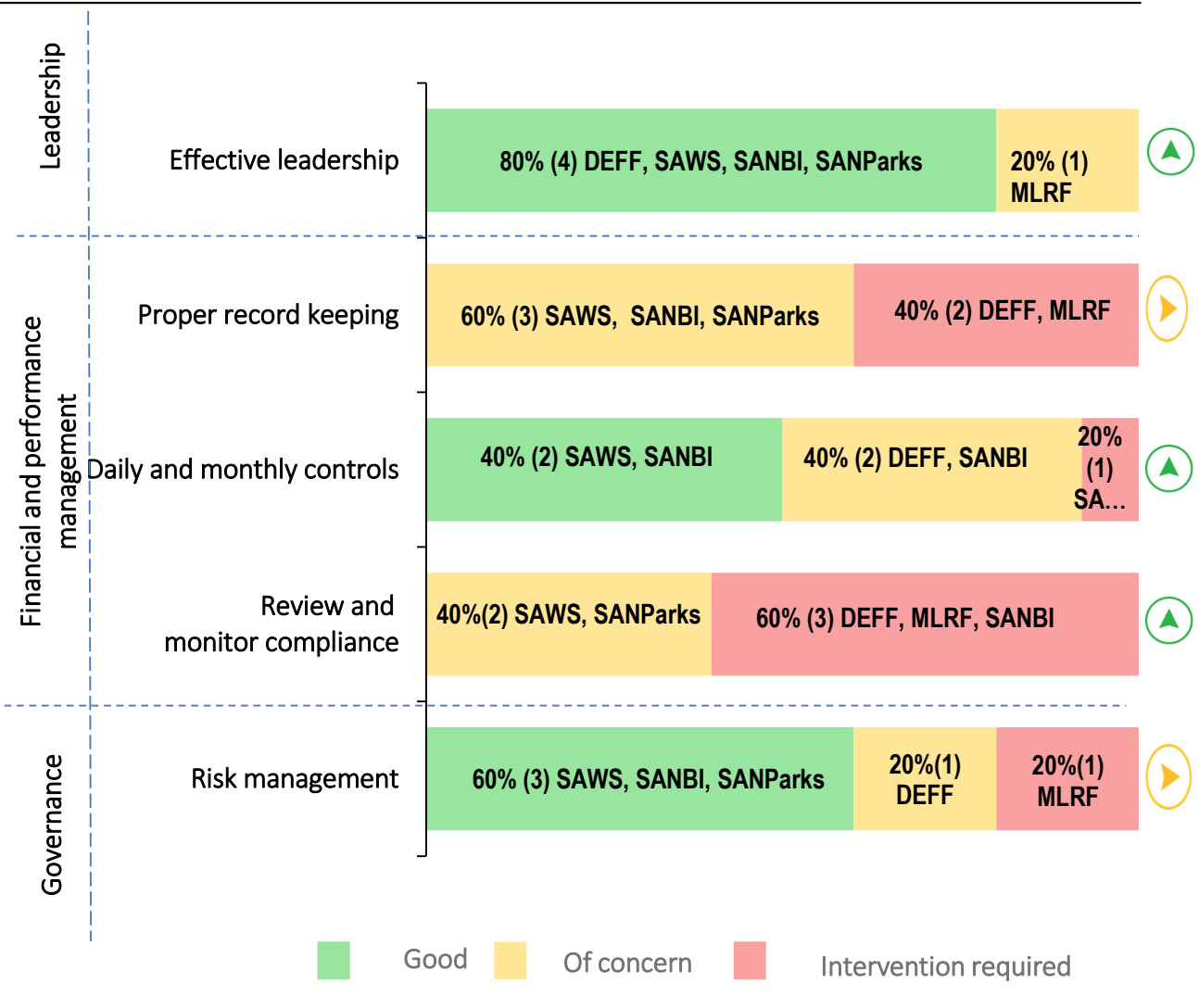
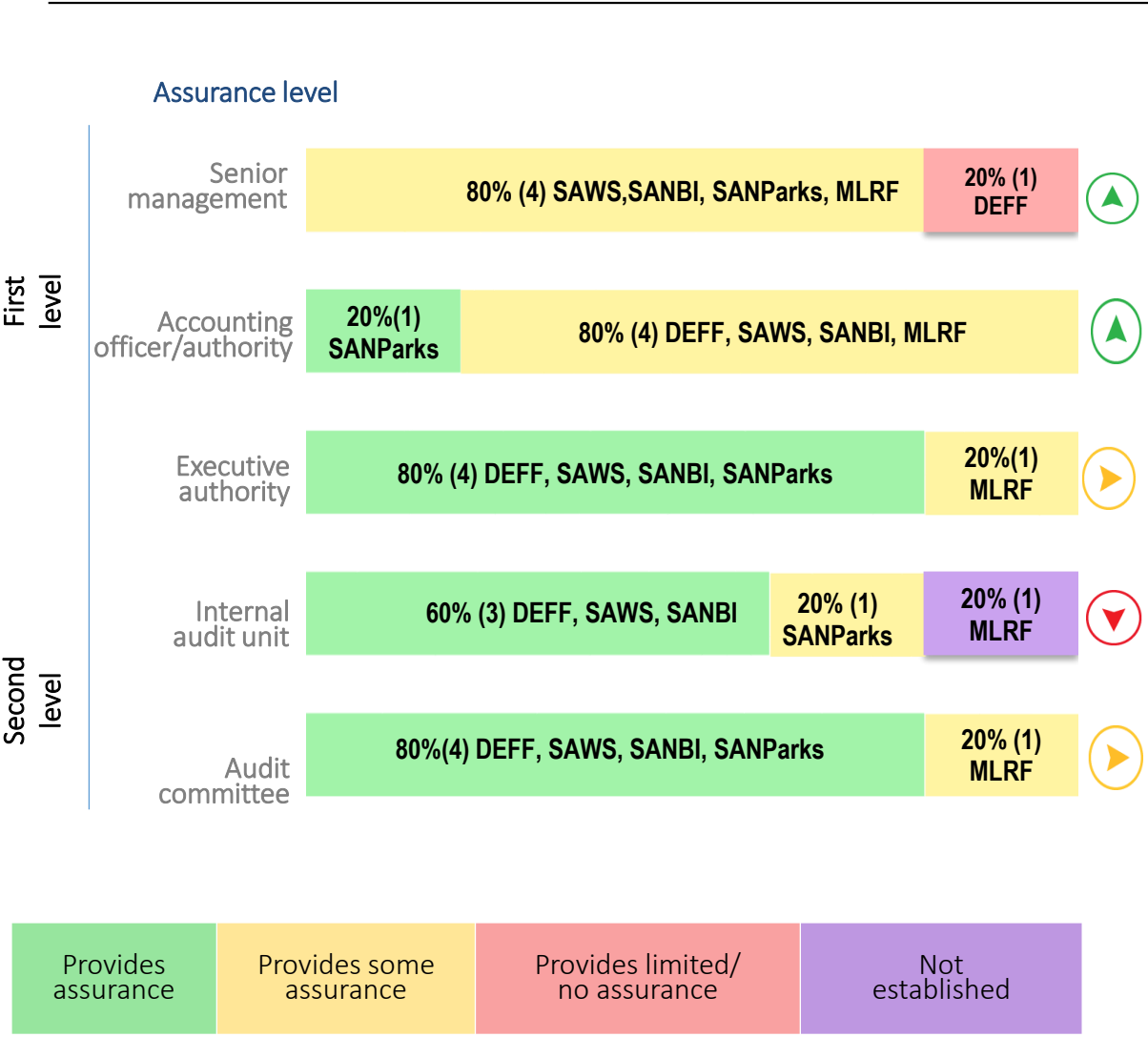
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Governance and internal controls



Assurance provided

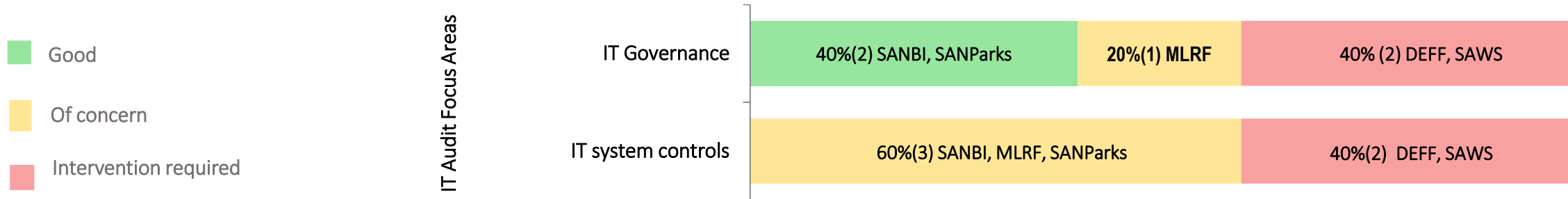
Status of internal controls



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

Status of Information Technology (IT) environment

- **IT governance** is there to ensure that the effective and efficient use of IT to enable entities to achieve its mandate. This is done by specifying the decision rights and accountability framework to encourage desirable behavior in using IT.
- **IT system controls** are there to ensure that the information technology (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.



Areas	Root cause	Recommendations
IT governance	The ICT Framework and ICT strategic committee terms of reference had not been approved at DEFF and SAWS in the 2020/21 financial year.	<ul style="list-style-type: none"> • Management should present a shorter cycle for the documents to be approved, based on the RACI principle of committees responsible and accountable for the approval, and Committees who are consulted and informed. • Consideration should also be taken to use technology and tools to fast-track the process of approvals, e.g., virtual meetings, or round-robin approvals through emails using voting buttons with comments.
IT system control	IT controls pertaining to security management, program change management, IT service continuity, user access management and physical and environmental controls were not effectively designed and implemented across the portfolio, such as backup firewall not being periodically tested to ensure it remained functional.	<ul style="list-style-type: none"> • Management should ensure timely design and implementation of IT systems controls to avoid unnecessary exposure to catastrophic risks and potential loss of data and information.



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Portfolio snapshot



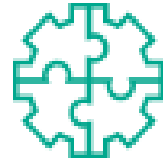
Portfolio snapshot 2020-21



Clean audits: 0
(2019-20: 0)



Financially unqualified
financial statements: 5
(2019-20: 5)



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



No findings on compliance with
legislation: 0
(2019-20: 0)



Irregular expenditure:
R1,2 billion
(2019-20: R3,7b)



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Recommendations



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

The following must be addressed:



By the Accounting Officer / Accounting Authorities

And those actions be monitored by the PC

What remains which still requires attention:

DEFF – Audit action plan needs to be implemented as early as possible to ensure that key audit areas get addressed as early as possible.

DEFF & Entities – Internal controls on compliance monitoring are not adequately implemented despite the controls being designed.

DEFF & SANBI– Inadequate reviews to confirm the annual performance plans and reports comply are useful and comply with SMART criteria.

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

DEFF, SANParks, Isi, SANBI, MLRF – Reporting process for financial statements not providing accurate, complete and reliable set of financial statements

DEFF & SANBI – Slow progress towards disciplinary actions taken against staff who have caused irregular, fruitless and wasteful expenditure



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



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

DEFF & Entities – Improve and ensure adequate review of compliance checklist by TCWG

DEFF & Entities – Strengthen reviews of financial and performance reports, implement proper record keeping controls, strengthen IT controls

DEFF & Entities – Prioritise initiation and completion of investigations against staff who have caused irregular, fruitless and wasteful expenditure therefore ensuring effective consequence management

Meticulousness and timely implementation of the audit action plans are key to ensure that errors in reported information do not re-occur and internal control deficiencies are addressed

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

Preventative and detective internal controls are required across all entities to ensure adherence to SCM laws and regulations. Staff need to better understand the requirements of the laws and regulations to ensure that there are adequate planning and procedural execution within procurement cycles.



Follow up on action plans implemented for proper record keeping and daily reconciliations to ensure complete and accurate reporting.

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

The PC should monitor the implementation of action plans against regressive audit outcomes, especially those relating to non-compliance , to address the areas of key concern and internal control deficiencies identified during the audits. This should keep management accountable and empower the accounting authorities\officer to implement consequence management stipulations

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