

## **BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE STANDING COMMITTEE ON FINANCE, DATED 30 NOVEMBER 2021**

The Standing Committee on Finance (SCOF/ the Committee), having considered the performance report and audited financial statements of the National Treasury (NT) and the South African Revenue Service (SARS) for the 2020/21 financial year, reports as follows:

### **1. INTRODUCTION**

- 1.1. On 17 November, the Deputy Minister of Finance, Dr David Masondo, the Director-General of National Treasury, Mr Dondo Mogajane, and senior staff of the National Treasury (NT) appeared virtually before the Standing Committee of Finance to present NT's 2020/21 annual report, with audited financial statements. The Commissioner of the South African Revenue Service (SARS), Mr. Edward Kieswetter, presented the SARS annual report for 2020/21 on 09 November.
- 1.2. On the same day, the Committee received a briefing from the Office of the Auditor General of South Africa (AGSA) on the audit outcomes of the finance portfolio.

### **2. OVERVIEW BY THE MINISTRY AND NATIONAL TREASURY**

- 2.1. Dr Masondo stated that the 2020/21 financial year had been extremely challenging for the National Treasury. He said that however despite these hardships caused by economic conditions and a difficult operating environment, NT continued to deliver on its ambitious plans. He explained that NT had tried its best to carry out its challenging, wide-ranging and multi-disciplinary mandate of ensuring the prudent management of public resources and the development of pro-growth economic policies.
- 2.2. Dr Masondo explained that during the COVID-19 pandemic, NT had not only supported livelihoods and the public health response, but had also attended to the national Economic Reconstruction and Recovery Plan, supported vital economic reforms, and advanced economic transformation. He said that measures implemented by NT included realigning the composition of spending away from consumption towards investment, and efforts to lower the cost of doing business in South Africa through Operation Vulindlela.
- 2.3. He stated that NT's overall audit outcomes had remained the same in 2020/21 – it had received an unqualified audit with findings. He said that NT had achieved 88.3 per cent of its performance targets and 90 per cent of its annual expenditure. He said that the Director-General and NT team should be commended on this "outstanding" performance, and Treasury was committed to addressing areas of weakness.
- 2.4. The Director-General (DG), Mr. Dondo Mogajane, added that NT had received an unqualified audit opinion; explaining that there had been no material findings in relation to NT's performance reporting, and improvements had been noted in supply chain management, ICT, risk management, and the audit committee. He said that the following areas needed improvement: annual financial statements which contained material misstatements; fruitless and wasteful expenditure of R67 million; and irregular expenditure of R300 million
- 2.5. Mr Mogajane explained that the fruitless and wasteful expenditure had been incurred primarily for technical support maintenance of software licenses for the Integrated Financial Management System (IFMS). He said that this finding had been expected as this issue has been a matter of contestation between the Office of the AGSA (AGSA) and NT for some years now. He explained that NT had provided a detailed response to the material irregularity (MI) notice, and it would continue to engage with AGSA on this issue. He explained that NT has obtained legal advice and would take AGSA's MI finding through the objection process. He also explained that this matter predated his term as DG, but he agrees with the approach his predecessor had taken.
- 2.6. Mr Mogajane also provided an update on the consequence management processes undertaken in respect of the cases of irregular expenditure. He added that NT took consequence management action on all such cases, but sometimes the process – especially the investigations – took some time. He said he believed that NT had to ensure that it follows due process and applies the *audi alteram partem* (hear the other side) principle.
- 2.7. Mr. Mogajane further responded on issues raised by the Committee on the 9 November meeting on the IFMS. He explained that there had been progress on the implementation of the IFMS project although it has not been as rapid as he would like. He said that there had been delays in the procurement processes for the IFMS. He said that the bid for phase 2B of the project had been cancelled, because the proposed price far exceeded the budgeted amount and NT wanted to ensure value for money. He explained further that the bid for a panel of system implementers

for the national roll-out, under phase 3, had also been cancelled, at the recommendation of the bid adjudication committee. He said that NT was taking special care because it did not want to err in implementing the IFMS project.

- 2.8. He also explained that there had been progress on the project's governance issues. He explained that the Department of Telecommunications and Postal Services (DTPS) and the Department of Public Service and Administration (DPSA) had joined the governance structure, which meant that the State Information Technology Agency (SITA), under DTPS, was now participating in the project's operational structures. He said that he was the Chairperson of the steering committee of this project, explaining that it met on a regular basis, and he thought the improvements in governance would lead to progress in many areas, including the procurement challenges.
- 2.9. The DG further explained NT's reasons for contesting AGSA's finding of fruitless and wasteful expenditure on the license technical support for the IFMS. He explained that it would have been irresponsible for NT not to renew the technical support for the IFMS, because NT would incur penalties when it needed to implement the project at a later stage.
- 2.10. He explained that NT was fully cooperating with all IFMS-related investigations that are being conducted by the Public Protector, the Special Investigating Unit (SIU), the Hawks, and by the Zondo Commission. He said that NT had conducted its own forensic investigation. He said that disciplinary action had been recommended in respect of four officials. He clarified that no NT official had been implicated in any corruption so far. He said that NT expected the SIU investigation to be finalised around the end of November and it would follow the recommendations. He said that the IFMS processes had been long, tedious, and difficult, but it was an important project and NT intended to go ahead with its implementation.
- 2.11. The DG then provided an overview of the audit action plan monitoring framework, including the action plan steering committee, the internal audit unit, and additional controls that had been implemented. He said that in 2020/21, NT had achieved a year-on-year reduction of repeat audit findings. As of September 2021, 19 (49 per cent) of the 39 audit findings had been resolved, and a further 13 (33 per cent) were in progress.
- 2.12. On human resources, he explained that 902 out of 1 078 funded posts were filled at NT, which was a vacancy rate of 16.3%. He said that only 49 of the 176 vacancies were senior management positions. He explained that recruitment for 41 of those was currently underway. He said that one reason for the high vacancy rate was due to adjustments on compensation costs, which NT was implementing like all other departments. He said that there had also been delays in advertising vacancies, due to directives issued by DPSA in 2020 which had amended the normal process.
- 2.13. Mr Mogajane said that NT was providing technical support to the Minister in his oversight over other public entities that report to him. He also briefly outlined the performance of some of those entities in 2020/21, explaining that the Land Bank had not submitted its annual report.
- 2.14. He said that the 2020-2025 NT's Strategic Plan had been updated to reposition the National Treasury towards service delivery. Among issues that the revised plan was focusing on was to prioritise, modernise and automate the country's procurement system. He said that NT was reviewing the public input on the Draft Public Procurement Bill and engaging stakeholders. He added that NT had released an interactive Covid-19 procurement dashboard on its website which shows the commodities purchased, the quantities and prices of items.

### **3. STRATEGIC GOALS FOR 2019/20: NATIONAL TREASURY**

- 3.1. NT is responsible for managing the country's finances and draws its mandate from Chapter 2 of the Public Finance Management Act, as well as Chapter 13 of the Constitution. The overall legal mandate of NT is based on section 216 (1) of the Constitution which requires it to ensure transparency, accountability and sound financial controls in the management of the country's finances and the Public Finance Management Act (1999).

### **4. OVERVIEW OF NATIONAL TREASURY'S PERFORMANCE**

- 4.1. In 2020/21, NT achieved 53 (88.3 per cent) of its 60 annual performance targets and spent 98 per cent (R34.1 billion) of its appropriated budget (R34.5 billion). Twelve of its 12 business units achieved 100 percent of their targets. The under-expenditure of the main appropriation budget was therefore R445.9 million (1.3%). The bulk of the underspending was in goods and services (R175.6 million) and transfers and subsidises (R165.4 million). The reasons for underspending was as a result of delays in the IFMS project and lower-than-expected post-retirement medical benefits.

- 4.2. Those that did not achieve their targets were: Intergovernmental Relations (achieved six of seven targets); Jobs Fund (achieved six of seven targets); Office of the Chief Procurement Officer (achieved three of five targets); and Office of the Accountant General (achieved four of seven targets).
- 4.3. Some targets were only partially achieved. These were under Programme 3 - Public Finance and Budget Management where 36 infrastructure plans assessment reports had to be produced but only 35 were; and R5.78 billion in cumulative grant funding had to be disbursed but only R5.69 billion).
- 4.4. In Programme 5, Financial Accounting and Supply Chain Management Systems: 95 governance reports had to be produced, but only 48 were; 28 public finance management capacity development programmes progress reports were to be produced but only 18 were; a strategic sourcing opportunities plan had to be implemented, but 59% of it was; and four quarterly compliance reports had to be produced but only one was.
- 4.5. Programme 1: Administration was allocated R529.3 million and only spent 93.8 per cent of it. Four targets were set for this Programme in 2020/21 and all of them were achieved. NT tabled one revision to the re-tabled Annual Performance Plan (APP) in July. The revision was a reduction in the percentage spend of training and development budget due to the impact of the COVID-19 nation-wide lockdown. The Department submitted that employees were unable to attend training courses during this period as service providers were still transitioning to virtual platforms.
- 4.6. Programme 2: Economic Policy, Tax, Financial Regulation and Research was allocated the smallest budget of all the programmes of the Department, with expenditure amounting to R124.7 million for the 2020/21 financial year. This amounted to 87.9 per cent of the R141.9 million budget appropriated for the year. There were no changes to this Programme in the APP tabled in July. The programme met all its five planned targets (100 per cent).
- 4.7. Programme 3: Public Finance and Budget Management was able to achieve 83 per cent of its 18 planned targets. It missed targets which reported on grant funding. 96.2 per cent from an appropriate budget of R2.8 billion was spent.
- 4.8. Programme 4: Assets and Liabilities met all its 13 targets. It was allocated R3.0 billion and spent 99.8% of it.
- 4.9. Programme 5: Financial Accounting and Supply Chain Management was the worst performing with several audit findings related to the IFMS project. It only achieved 83.5 per cent of the total spend. It was allocated R834 million for the financial year. According to a report presented to the Committee by the Office of the AGSA, the auditors have identified a material irregularity relating to the payment of maintenance and technical support for the IFMS. A formal material irregularity notification was issued to the accounting officer, as required by material irregularity regulation 3(2). The accounting officer responded to the notification and the Office of the AGSA is in the process of evaluating these responses. The IFMS contract was extended for another five years until 2026, which exposes the NT to further possible non-compliance risks should the Office of the AGSA's recommendations made on this project not be implemented.
- 4.10. Programme 6: International Financial Relations received a total allocation of R6.7 billion from the appropriated budget. The Programme spent 99.8% of the appropriated allocation. It achieved all the targets set.
- 4.11. Programme 7: Civil and Military Pension Fund and other Benefits The total allocation for this programme amounted to R5.2 billion. The programme spent 97.6% of the appropriated allocation. They set 3 indicators and achieved all the targets. The remainder of the programmes are transfers to other entities.
5. **STRATEGIC GOALS OF THE SOUTH AFRICAN REVENUE SERVICE: 2019/20**
  - 5.1. SARS's mandate is to contribute to the economic and social development of the country by collecting all taxes, duties and levies due in order to fund the South African government's public service programmes and priorities.
  - 5.2. Its objective is the efficient and effective collection of revenue and control over the import, export, manufacture, movement, storage or use of certain goods.
  - 5.3. SARS's strategic objectives seek to: provide clarity and certainty for taxpayers and traders regarding their obligations; make it easy for taxpayers and traders to comply with their obligations; detect taxpayers and traders who do not comply and make non-compliance hard and costly; develop a high-performing, diverse, agile, engaged and evolved workforce; increase and expand the use of data within a comprehensive knowledge management framework to ensure integrity, derive insight and improve outcomes; modernise its systems to provide digital streamlined online

services; demonstrate effective resource stewardship to ensure efficiency and effectiveness in the delivery of quality outcomes and performance excellence; work with and through stakeholders to improve the tax ecosystem; and build public trust and confidence in the tax administration system.

## **6. OVERVIEW OF THE SOUTH AFRICAN REVENUE SERVICE PERFORMANCE**

6.1. SARS constitutes Programme 9: Revenue Administration, in the NT's strategic and annual performance plans. It received a transfers of R10.2 billion from NT in the 2020/21 financial year.

6.2. SARS's annual report for 2020/21 showed that:

- 6.2.1. Gross revenue amounted to R1 550.3 billion, offset by R300 billion of refunds resulting in a net full year revenue collections R1 249.71 billion. A surplus of R37.50 billion was recorded against the Revised Estimate (RE) (R1 212.2 billion).
- 6.2.2. Personal Income Tax (PIT), Value Added Tax (VAT) and Company Income Tax (CIT) contributed 82 per cent of the total revenues raised, each contributing 39.1, 26.5 and 16.4 per cent respectively.
- 6.2.3. PIT full year collections continued to show signs of strain versus the Prior Year (PY) following high unemployment levels. This is despite PAYE growth recovering from a contraction of -16.0% in June 2020 to -0.02% in March 2021. The required annual growth to reach the RE was -6.7%. The current improvement in the growth is likely to be temporary as payments are boosted by PAYE on retrenchment packages. However, as retrenched employees are removed from the employment base, it is expected that monthly PAYE payments will shrink in the near future.
- 6.2.4. CIT collections yielded a positive variance of R12.2 billion against the RE. This follows the exceptional performance during the significant collection months of February and March 2021. The stellar performance was on the back of a recent quarterly GDP growth of 6.3% in Q3-2020, following an upward revision of 67.3% in Q3-2020 due to the lag effect and the easing of the lockdown restrictions, with the government allowing more economic activity to resume.
- 6.2.5. Domestic VAT collections amounted to R392.9 billion, this was R6.4 billion (1.6%) below PY collections of R399.3 billion. The contraction was mainly as a result of significant contractions in April 2020 (-R1.4 billion, -4.3%), May 2020 (-R9.2 billion, -27.9%) and June 2020 (-R4.1 billion, -13.2%). May 2020 collections pertained to the April 2020 tax period, the first full month of the National lockdown, when the country was placed on level 5 restrictions. However, March 2021 collections were strong, reflecting an above inflation growth of R2.8 billion (8.4%) following a much welcomed recovery from the earlier lockdown levels.
- 6.2.6. Customs collections for the full 2020/21 financial year amounted to R213.9 billion, reflecting a year-on-year (Y/Y) decline of R22.4 billion (9.5%), despite exceeding the RE by R14.0 billion (7.0%). This surplus against RE was underpinned by a record 13th deferment statement total of R15.3 billion, which resulted in March 2021 exceeding the RE by a significant R10.3 billion (44.2%), as well as becoming the fourth month in the last five months of 2020/21 to register a positive Y/Y growth rate (15.7%). Each of the first seven months of 2020/21 registered negative Y/Y growth rates in Customs collections, at an average of -21.8%.
- 6.2.7. Specific Excise collections started to improve as declaration values reflected signs of recovery. The ban on the sales of alcohol resulted in weakening production and deferred payments. Specific Excise revenue for March 2021 were higher by R6.1 billion than the expected RE. Deferred payments for beer to the amount of R1.4 billion that were approved to be paid in April 2021, were paid earlier in March 2021.
- 6.2.8. Full year Fuel Levy collections improved as all COVID-19 relief deferment payments were paid in full. Diesel refunds (included in Fuel Levy) were lower compared to the PY. VAT refunds for 2020/21 amounted to R228.2 billion, contracting against the PY by R4.3 billion (1.9%). However, payouts exceeded the 2020/21 RE by R8.0 billion (3.6%). Seven of the 12 months recorded a contraction against the PY, this included months where the country was under hard lockdown restrictions.

## **7. REPORT OF THE AUDITOR-GENERAL SOUTH AFRICA ON NATIONAL TREASURY AND ENTITIES REPORTING TO THE MINISTER OF FINANCE**

7.1. The Office of the Auditor-General of South Africa (AGSA) audits 16 of the entities that report to the Minister of Finance. These include the regulatory agencies, development banks, state-owned insurance and investment companies, government agencies, National Treasury and SARS. The regulatory agencies audited are the: Accounting Standards Board (ASB), Co-operative Banks

Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre, Financial Sector Conduct Authority, Independent Regulatory Board for Auditors (IRBA), Pension Funds Adjudicator (PFA). The SARB and the Prudential Authority are audited by private auditors. The Development Banks audited are the Land and Agricultural Development Bank of South Africa (LB) and the Development Bank of Southern Africa (DBSA). The audited government agencies are the Government Technical and Advisory Centre (GTAC) and the Government Pension and Administration Agency. The insurance and investment companies are the Public Investment Corporation, Land Bank Insurance SOC and the Land Bank Life Insurance SOC Limited (LBLIC). The latter two are subsidiaries of the Land Bank. SASRIA is currently not audited by the AGSA but by private auditing firms.

- 7.2. AGSA noted that the overall audit outcomes in the portfolio have slightly improved when compared to the prior year. The portfolio has seven audits (DBSA, FSCA, FAIS, PFA, LBIC, LBLIC and FIC) that have achieved an unqualified audit opinion with no findings (clean), representing 44% of the audits in the portfolio. This is a slight improvement from the six (38%) clean audits achieved in the prior year. Of concern is IRBA, which has regressed from a clean opinion to unqualified with findings on compliance with legislation.
- 7.3. AGSA reported that the entities that managed to maintain clean audit outcomes have a strong leadership culture, financial and performance management, and effective governance. These entities have effective governance structures that ensure that actions are taken to address audit findings and are supported by adequately resourced officials.
- 7.4. AGSA reported that although the audit of the Land Bank is still outstanding, they are seeing that the majority of the entities in the portfolio, especially the big ones, still struggling to achieve clean audit outcomes.
- 7.5. AGSA reported that eight auditees (NT, PIC, CBDA, GPAA, GTAC, FFC, IRBA and SARS), which represent 50% of the auditees in the portfolio, received an unqualified audit opinion with findings. It said that these auditees continued to struggle on compliance with legislation. The prevalent instances of non-compliance were in the area of expenditure management (all eight auditees), supply chain management and consequence management (GPAA, GTAC and FFC) and material misstatements identified in the financial statements submitted for auditing (NT, PIC and CBDA). AGSA explained to the Committee that these challenges are similar to those reported in the prior year and may be indicative of ineffective audit action plans and inadequate consequence management in some entities in the portfolio.
- 7.6. AGSA further reported that in the year under review, there had been a slight improvement in the portfolio when it came to the quality of the performance information submitted for auditing. It pointed out that the GTAC and the CBDA had material findings on the usefulness and reliability of reported performance information.
- 7.7. AGSA said that on governance and stability, the portfolio was stable as most of the auditees have fully constituted boards/accounting authorities and key positions at executive level are filled. It further noted the appointments of the Commissioner at the FSCA, FAIS Ombud and the PFA, as well as the appointment of the IRBA board and said it believes that these appointments will ensure the continued stability in the portfolio.
- 7.8. AGSA stated that the interim board at the PIC had made considerable inroads in turning the PIC around and ensuring that there was stability at an oversight level and also in implementing the recommendations of the Mpati Commission. It also noted that there had been an improvement in the control environment of the PIC over the past two financial years.
- 7.9. On expenditure management, AGSA reported that there was a decrease in the amounts of irregular and fruitless and wasteful expenditure incurred by the finance portfolio over the past two years. It explained that although there have been notable improvements, the levels of irregular expenditure remained high in the portfolio at R179 million (R365million in 2019/20), with NT, GTAC and GPAA being the biggest contributors.
- 7.10. AGSA said that the PIC, SARS, NT, GPAA, GTAC, FFC, IRBA and CBDA had material non-compliance findings on expenditure management, which was primarily driven by irregular expenditure incurred from non-compliance with procurement prescripts. It said that although, in most instances, the entities were able to detect non-compliance with procurement prescripts and the related irregular expenditure, the preventive controls that have been implemented by management were not adequate to prevent non-compliance and the incurring of irregular expenditure.
- 7.11. AGSA reported that NT was the biggest contributor to fruitless and wasteful expenditure relating to the payment of maintenance and technical support for the IFMS, which has still not

been implemented. AGSA said that the accounting officer should take steps to prevent further fruitless and wasteful expenditure and should ensure that procurement delays and proper project management concerns over the IFMS project are addressed and the solutions implemented.

- 7.12.** AGSA recommended that urgent audit action plans be put in place to ensure that the identified deficiencies in oversight, procurement delays and project management are resolved. If the root causes leading to non-compliance with legislation are not addressed, the department and its entities run the risk of incur irregular, and fruitless and wasteful expenditure, which could lead to material irregularity findings in terms of the Public Audit Act (PAA).
- 7.13.** AGSA explained that it had identified and reported a material irregularity to the DG of NT in relation to the payment of maintenance and technical support for the IFMS. It said that a formal notification was issued to the accounting officer, as required by material irregularity regulation 3 (2) of the PAA. It confirmed that the accounting officer had responded to the notification and AGSA was in the process of evaluating the response. AGSA said that it was concerned that the IFMS contract was extended for another five years until 2026, as this exposed NT to further possible non-compliance risks.
- 7.14.** AGSA stated that effective consequence management processes were in place to investigate and follow up on irregular expenditure. It also said that consequence management action was undertaken at some of the entities within the portfolio during the year under review by conducting investigations and, where appropriate, taking further disciplinary actions on those responsible for the non-compliance expenditure incurred. Consequently, the 2020-21 irregular expenditure has reduced by 53% from R365 million to R179 million, and most of this expenditure was detected by the auditees' internal controls, AGSA said. However, consequence management remains a challenge at FFC, GPAA and GTAC as material non-compliance findings were raised relating to the lack of investigation or evidence to support such investigations, AGSA added.
- 7.15.** On the quality of submitted financial statements, AGSA stated that the majority of auditees in the portfolio submitted financial statements that did not contain material misstatements. However, three of the auditees (NT, CBDA and PIC) submitted financial statements that contained material misstatements that were identified during the audit process. It said that these misstatements were not prevented or detected by the auditee's system of internal control and constituted material non-compliance with sections 40 and 55 of the Public Finance Management Act. It explained further that these material misstatements mainly affected disclosure notes and this was mainly due to inadequate review of financial statements. AGSA stated that these material misstatements findings have been reported for at least the past three years and urged that management of the auditees concerned should develop audit action plans that: address the root causes; augment existing capacity; use internal audit units to perform more detailed audits of financial statements; enhance the review process and; where appropriate, implement consequence management by holding officials accountable for these outcomes in order to ensure improvement going forward.
- 7.16.** AGSA stated that there had been an improvement on the quality of performance reporting in the year under review. It said that NT and GPAA had improved and had no material findings reported on the reliability and usefulness of the reported performance information. It acknowledged that this was due to the implementation of the audit action plans to address the prior year performance information control deficiencies. It said that GTAC and CBDA had material findings in this regard due to the inadequate monitoring and reporting of useful and reliable performance information. AGSA urged the management of these entities to implement effective audit action plans to address these repeat findings.
- 7.17.** On financial health, AGSA stated that as of end of March 2021, NT had issued total guarantees of R21 billion to public entities within the finance portfolio. It warned that these guarantees hold potential risks to operating performance and continued service delivery due to the potential negative impact on NT's ability to fund planned operations, activities, programmes and projects, as funds may need to be diverted away from operating and service delivery objectives in order to fund the guarantees. It explained that NT plays an enabling role in the economic recovery plan of the country and to ensure that other Departments and public sector entities deliver on their mandates and key imperatives of the economic recovery plan.
- 7.18.** It advised that NT needs to ensure that there is adequate oversight over government spending and that the continued government debt is capped to the extent possible and that there are adequate funds available to stimulate the South African economy, which has been severely impacted by the Covid-19 pandemic. It further explained that the public sector, in general, continues to struggle to improve their audit outcomes and it urges NT to continue to find ways to support the public sector to ensure that they achieve clean administration and focus on achieving

the strategic objectives linked to their mandates, thus enabling service delivery to the ordinary citizens.

- 7.19.** AGSA stated that the Land Bank has been experiencing liquidity and funding challenges which resulted in a default on its debt. It explained that the Land Bank has not yet finalised the liability solution to address the liquidity challenges and this posed significant uncertainty regarding its going concern status. AGSA recommended that the oversight and monitoring be strengthened to ensure that the turnaround strategies of the Land Bank are implemented and the liability solution is finalised in order to mitigate the related financial and economic risks associated with the Land Bank.
- 7.20.** AGSA reported that SASRIA faces liquidity and solvency risks due to the July 2021 riots in KZN and parts of Gauteng. The AGSA said that it notes the announcement by the Minister of Finance that SASRIA will be supported in dealing with the claims that may arise from these riots. It recommended continuous engagements between the Minister and SASRIA to address these risks and ensure that they are mitigated.

## **8. COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**

### **GENERAL OBSERVATIONS**

- 8.1.** The Committee notes that there were some improvements in the number of unqualified audits across the finance portfolio in 2020/21. Seven auditees (DBSA, FSCA, FAIS, PFA, LBIC, LBLIC and FIC) achieved an unqualified audit opinion with no findings (clean), representing 44% of the auditees in the finance portfolio, which was a slight improvement from the six (38%) clean audits achieved in 2019/20. The Committee commends the accounting authorities, management and executive authorities that achieved and those that continued to maintain clean audits. The Committee further notes that entities that managed to maintain their clean audit outcomes, as reported by AGSA, have a strong leadership culture, financial and performance management, and effective governance. The Committee agrees with the AGSA that going forward, the focus on these entities should be to ensure that they do not only achieve clean audit outcomes, but also ensure effective and efficient service delivery.
- 8.2.** The Committee notes with concern that eight auditees (NT, PIC, CBDA, GPAA, GTAC, FFC, IRBA and SARS), representing 50% of the auditees in the finance portfolio, received an unqualified audit opinion with findings. The Committee notes further that the basis of these findings emanate from these entities' failures to comply with legislation in the areas of expenditure management (all eight auditees), supply chain management and consequence management (GPAA, GTAC and FFC) and material misstatements identified in the financial statements submitted for auditing (NT, PIC and CBDA). What concerns the Committee the most is that these are mostly repeat findings, indicating ineffective audit action plans and lack of consequence management. As recommended in the Committee's 2020 BRRR, the Committee urges the Minister of Finance to intervene and to ensure that the audit action plans that are developed in response to AGSA's findings are effective and are implemented across the finance portfolio. The Committee will request a briefing specifically focussing on the implementation of these plans in the next quarter.
- 8.3.** The Committee is disappointed that IRBA regressed from a clean audit which it had maintained for some consecutive years. The Committee however welcomes the appointment of the new Board of IRBA and urges the Minister and the new Board to ensure the filling of vacancies at executive/senior management.
- 8.4.** The Committee is very much concerned with the dire situation at the Land Bank, especially since it failed to table its annual report for 2020/21 as its audit is still outstanding. The Committee notes that the situation at the Land Bank has deteriorated after it defaulted on its debt about 2 years ago. We note further that the Land Bank has not yet finalised the liability solution to address the liquidity challenges and that this poses significant uncertainty regarding its going concern status. The Committee urges the Minister of Finance to heighten his oversight and monitoring over the Land Bank in order to ensure that related financial and economic risks associated with it are mitigated. The Committee will do an oversight visit to the Land Bank in the next quarter in order to get a detailed presentation on the challenges it faces, together with its insurance companies.
- 8.5.** The Committee notes the appointments of the Commissioner at the FSCA, FAIS Ombud and the PFA, as well as the appointment of the IRBA Board, as stated above, and believes that these appointments will ensure the continued stability in the portfolio. The Committee urges the Minister of Finance to heighten his oversight in ensuring that the appointment of accounting officers at

GTAC and GPAA, as well as key senior management positions at NT and the PIC are expedited in order to ensure stability and certainty in these entities.

- 8.6. The Committee welcomes the appointment of the new Board at the PIC chaired by the Deputy Minister of Finance, Dr David Masedo. The Committee further notes that the outgoing interim Board, according to the AGSA, had made considerable inroads in turning the PIC around and ensuring that there is stability at an oversight level and also in implementing the recommendations of the Mpati Commission. The Committee further commends the improvement in the control environment of the PIC over the past two financial years.
- 8.7. The Committee notes that there was a decrease in the amounts of irregular and fruitless and wasteful expenditure incurred by the finance portfolio over the past two years. The Committee however remains concerned that levels of irregular expenditure remain high in the portfolio at R179 million (R365 million in 2019/20), with NT, GTAC and GPAA being the biggest contributors. The Committee further notes that the PIC, SARS, NT, GPAA, GTAC, FFC, IRBA and CBDA had material non-compliance findings on expenditure management, which was primarily driven by irregular expenditure incurred from non-compliance with procurement prescripts. The Committee has repeatedly stated that entities in the finance portfolio should lead by example as this portfolio is the custodian of the public purse. The Committee recommends that preventative controls be strengthened to ensure compliance with applicable legislation.
- 8.8. The Committee notes that NT was the biggest contributor to fruitless and wasteful expenditure as a result of payments of maintenance and technical support for the IFMS project, which AGSA said has still not been implemented. The Committee further notes that as a result of the IFMS project, AGSA has made a formal material irregularity notification to the DG of NT in terms of Regulation 3(2) of the PAA. The Committee is therefore concerned that after R300 million fruitless and wasteful expenditure on this project since 2016, the IFMS contract has been extended by another five years to 2026.
- 8.9. The Committee urges the Minister and the accounting officer to ensure that steps are taken to prevent further fruitless and wasteful expenditure on this project. They should also ensure that procurement delays and proper project management concerns over the IFMS project are addressed and the solutions implemented. The Committee will also conduct an oversight visit to NT in order to get a full briefing on all matters pertaining to this project.
- 8.10. The Committee notes that SASRIA faces liquidity and solvency risks due to the July 2021 riots in KZN and parts of Gauteng. The Committee welcomes the support provided to SASRIA in the 2021 Medium Term Budget Policy Statement in order to settle claims that may arise as a result of these riots.
- 8.11. As stated in the Committee's 2021 revised fiscal framework report, the Committee notes that the Financial Action Task Force's Mutual Evaluation Report found gaps in the implementation of South Africa's anti-money laundering and terrorist financing measures. The Committee requires a briefing on this report by the NT and the Financial Intelligence Centre, particularly on steps that will be taken to close those loopholes.
- 8.12. The Committee notes increasing complaints regarding poor service from the Government Pensions Administration Agency (GPAA). The Committee requires a report on service levels and steps to be taken to improve performance.

## **NATIONAL TREASURY AND SARS**

- 8.13. The Committee notes that NT achieved 88.3 (83 per cent in 2019/20) of its performance targets and spent 98 per cent (97 per cent in 2019/20) of its budget in the 2020/21 financial year, underspending its budget of R34.5 billion by R444 million. The Committee commends these achievements given the difficult economic and operational environment wrought by COVID-19 and the lockdowns, where NT played one of the central roles in the Government's responses through fiscal policy by providing relief to mitigate the impact of the pandemic on households and businesses.
- 8.14. The Committee notes that: Programme 1: Administration; Programme 2: Economic Policy, Tax, Financial Regulation and Research; Programme 4: Assets and Liabilities; Programme 6: International Financial Relations; and Project 7: Civil and Military Pension and Other Benefits achieved all their planned performance targets. It also notes that Programme 5: Financial Accounting and Supply Chain Management and Programme 3: Public Finance and Budget Management only achieved 83.5 per cent of their performance targets.



- 8.15. The Committee notes that NT had some challenges in achieving a clean audit outcome, an outcome which has not changed for some years now. It had an irregular expenditure of R66 million as it did not follow a proper tender process and had not properly approved expenditure. NT, according to AGSA, had an inadequate contracts management and review processes to ensure that expenditure remained within contract values and that contract variations were appropriately approved.
- 8.16. The Committee notes further that NT incurred fruitless and wasteful expenditure of R67 million (over R300 million since 2016) as it made payments for which no services were received on technical support and maintenance for the IFMS.
- 8.17. As per 8.9 above, the Committee is concerned about these recurring findings and notes the issuing of the material irregularity against the DG of National Treasury and expects NT to update it regularly (quarterly) on the developments of this process as it poses a risk of further fruitless and wasteful expenditure, with the IFMS contract having been renewed for a further 5 years. The Committee expects to be briefed on consequence management once the investigations on the IFMS by the Special Investigations Units, the Hawks, the Public Protector and the Zondo Commission have been finalised.
- 8.18. The Committee expects better audit outcomes from NT as the custodian of good governance, financial management and proper internal controls across government. The Committee believes that it would be difficult to propagate these across government, if NT fails to comply with prescripts. The Committee requires NT to submit written update reports to the Committee on the implementation of audit action plans every end of quarter for distribution to members.
- 8.19. The Committee acknowledges the impressive achievements of SARS under very difficult circumstances. The Committee notes that SARS collected R37.5 billion more than the revised estimate in the year under review. The Committee further notes that this performance has enabled Government to extend the Special COVID-19 Social Relief of Distress grant, which reaches about 9,5 million beneficiaries, provide much welcome relief to the poorest individuals and households in the country until March 2022.
- 8.20. The Committee notes that while SARS did not achieve a clean audit opinion, there has been some considerable improvement in tackling fruitless and wasteful expenditure and irregular expenditure at SARS. The Committee notes specifically that while irregular expenditure reported in 2018/19 was R356 million, it dropped to R23.6 million in 2019/20 and to R13 million in 2020/21. It also notes that of the R13 million reported in the previous year, only R4.2 million was recorded as a new transaction. On the other hand, fruitless expenditure has dropped to R11 million, where only R2 million of it was recorded as a new transaction. The Committee expects SARS achieve a clean audit in the current financial year.
- 8.21. The Committee notes that SARS still has a large funding deficit of about R9 billion over 3 years. The Committee notes some assurance from the Deputy Minister of Finance that budgetary processes were being undertaken in order to close this deficit. The Committee recommends that the Minister of Finance considers favourably SARS's additional financial requirements as this could assist in rebuilding its capacity to serve taxpayers and collect more revenue.
- 8.22. While noting that some goods seized by SARS from the illicit economy are often harmful and need to be destroyed in order prevent harm, enforce the rule of law and protect jobs, the Committee believes that research needs to be conducted by National Treasury and SARS, working with other relevant state agencies, on how some of the seized non-harmful items could be salvaged and donated to qualifying Non-Government Organisations for distribution to the poor and needy.
- 8.23. The Committee notes that many submissions on the 2021 Tax Bills in response to the increase in excise duty on tobacco also focussed on fighting the illicit tobacco industry. The Committee notes that SARS has decided to abandon the implementation of the 'track and trace' project. The Committee would like to be briefed in more detail on the implementation of measures to fight the illicit economy by NT and SARS.
- 8.24. The Committee notes with concern that SARS has a very high debt book at R276 billion and recommends that it pays a particular attention to its debt management.
- 8.25. The Committee wishes to thank all those who participated in its processes in compiling this report.

Having considered the annual reports with audited financial statements of 2020/21 financial year for the National Treasury and the South African Revenue Service, the Committee asks the National Assembly to adopt this 2021 Budgetary Review and Recommendations Report.

The Democratic Alliance (DA) reserve its position on the report.

Report to be considered.