

2020-21

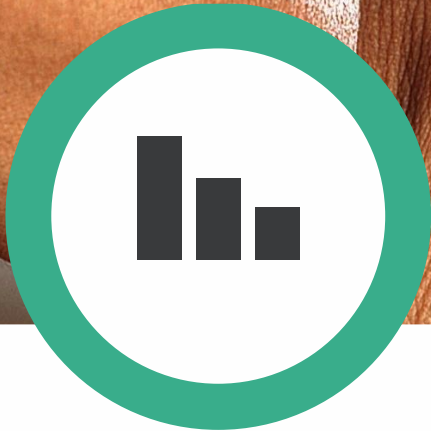
P F M A

NATIONAL AND PROVINCIAL GOVERNMENT AUDIT OUTCOMES



A U D I T O R - G E N E R A L
S O U T H A F R I C A

REPUTATION PROMISE



The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

MISSION





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

VISION



OUR MESSAGE FROM PREVIOUS GENERAL REPORT



 There are signs of improvement at some auditees, but we cannot yet see the progressive and sustainable improvements required to prevent accountability failures and deal with them appropriately and consistently. We also do not see the fundamentals being strengthened to enable strong financial management disciplines at all auditees. 



NATIONAL AND PROVINCIAL GOVERNMENT AUDIT OUTCOMES



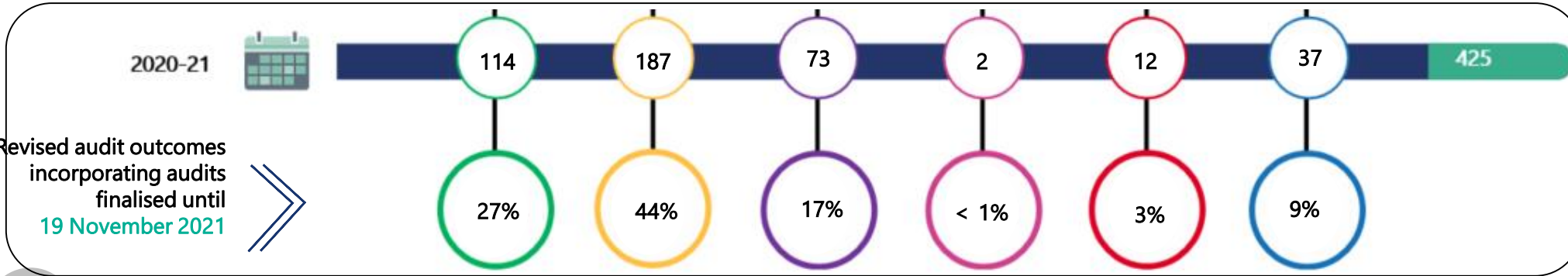
AUDITOR-GENERAL
SOUTH AFRICA

FURTHER IMPROVEMENT IN AUDIT OUTCOMES



MOVEMENTS FROM PREVIOUS YEAR:
50 ↑ 29 ↓

FROM FIRST YEAR OF ADMINISTRATION:
85 ↑ 37 ↓



MOVEMENTS FROM PREVIOUS YEAR:
52 ↑ 31 ↓

FROM FIRST YEAR OF ADMINISTRATION:
86 ↑ 40 ↓

OUTSTANDING AUDITS AS AT 19 NOVEMBER 2021



Main reasons for delay

- Financial statements outstanding – 17
- Delays by auditee – 12
- Financial statements submitted late – 5
- Delays in audits – 3

What would movements be if the anticipated audit outcomes of 20 auditees for which financial statements have been received are included

From previous year



From first year of administration



OUTSTANDING AUDITS AND DISCLAIMERS

Audits of **37** auditees outstanding as at 19 November 2021 – Main reasons for delay

Financial statements outstanding – 17

Public entities: SAA group (4), SA Express, Denel group (6), CCOD, Government Printing Works, North West Transport Investments, Atteridgeville Bus Services, North West Star, Coastal TVET College

Financial statements submitted late – 5

Public entities: Compensation Fund, IDT, The Petroleum Oil and Gas Corporation, UIF, Prasa

Delays by auditee – 12

Departments: WC: Agriculture, Community Safety, Provincial Treasury
Public entities: SAPO, Land Bank, TCTA, Water Trading Entity, RAF, SITA, Ingonyama Trust, National Lotteries Commission, National Lottery Distribution Trust Fund

Delays in audits – 3

Public entities: Postbank, South African Maritime Safety Authority, Autopax

Disclaimer audits (all public entities)

Repeat disclaimers

SOE: NECSA, Pelchem

TVETs: Central Johannesburg, South West Gauteng, Tshwane North, Taletso

Provincial: FS Development Corporation, GP Housing Fund, NW Development Corporation, GL Resorts, Golden Leopard Resorts

National: National Skills Fund



Outstanding
(6)

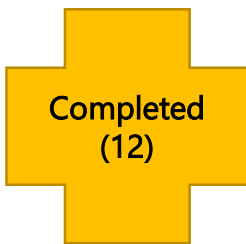
Repeat disclaimers

SOE: IDT, SAPO

National: Compensation Fund, Prasa, Autopax

New disclaimers

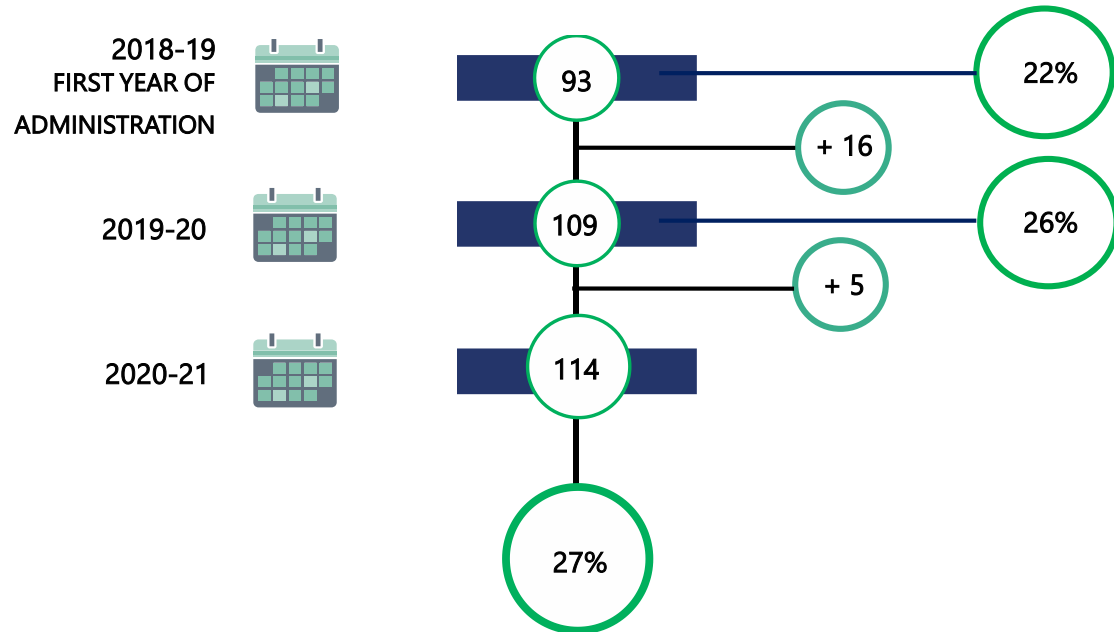
SOE: The Petroleum Oil and Gas Corporation



Completed
(12)

FURTHER IMPROVEMENT IN CLEAN AUDIT OUTCOMES

Reporting of audit outcomes: 19 November 2021



CLEAN AUDIT:



28

Improved to clean



86

Sustained clean audit status

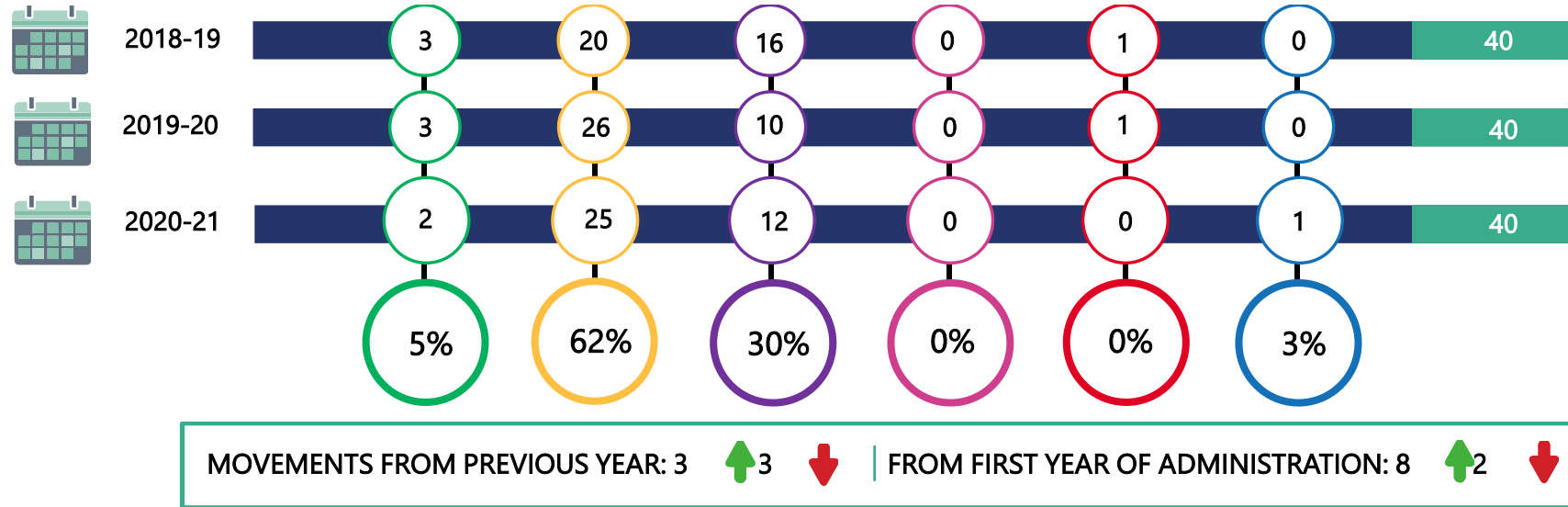


18

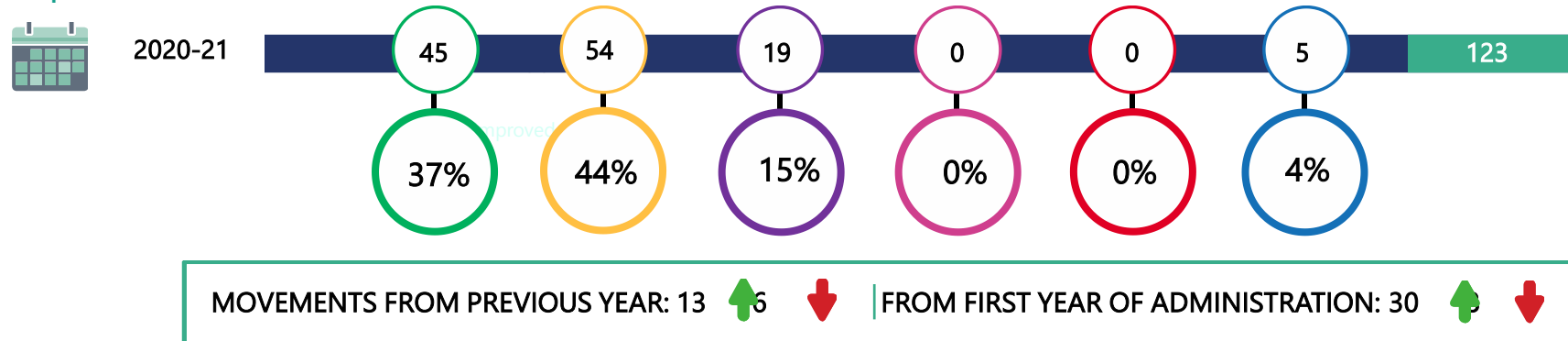
Lost clean audit status

OUTCOMES OF KEY SERVICE DELIVERY DEPARTMENTS LAG BEHIND OTHER DEPARTMENTS

Key service delivery departments (Health, education, public works, human settlements)

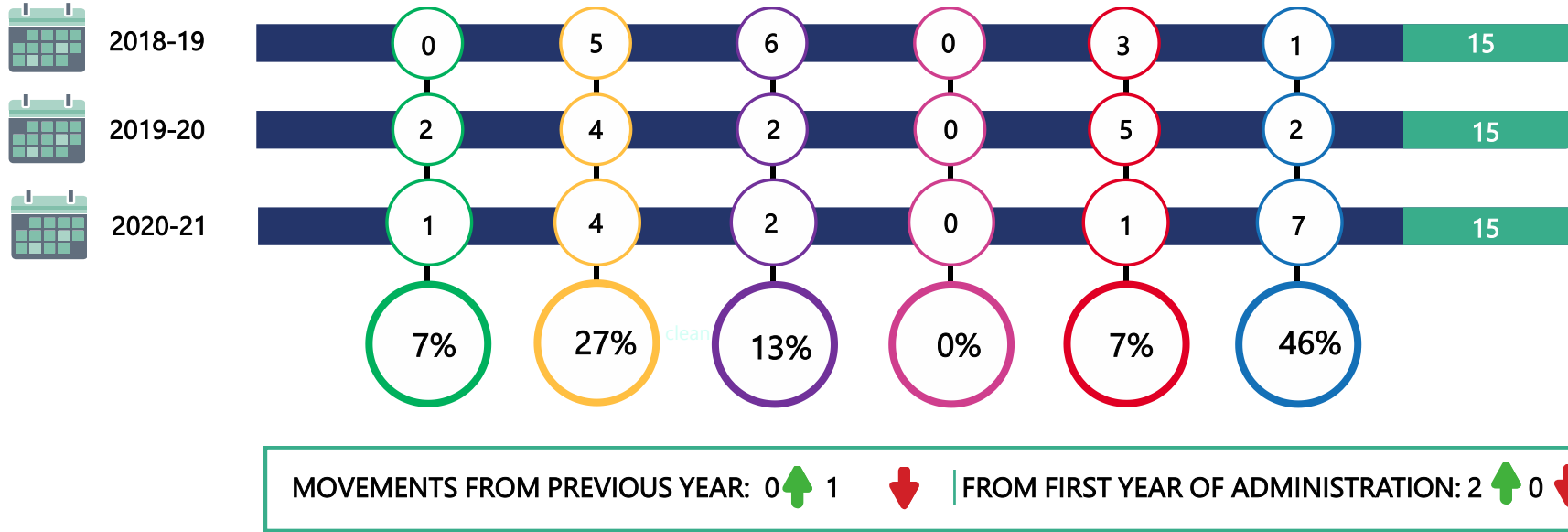


Departments – other

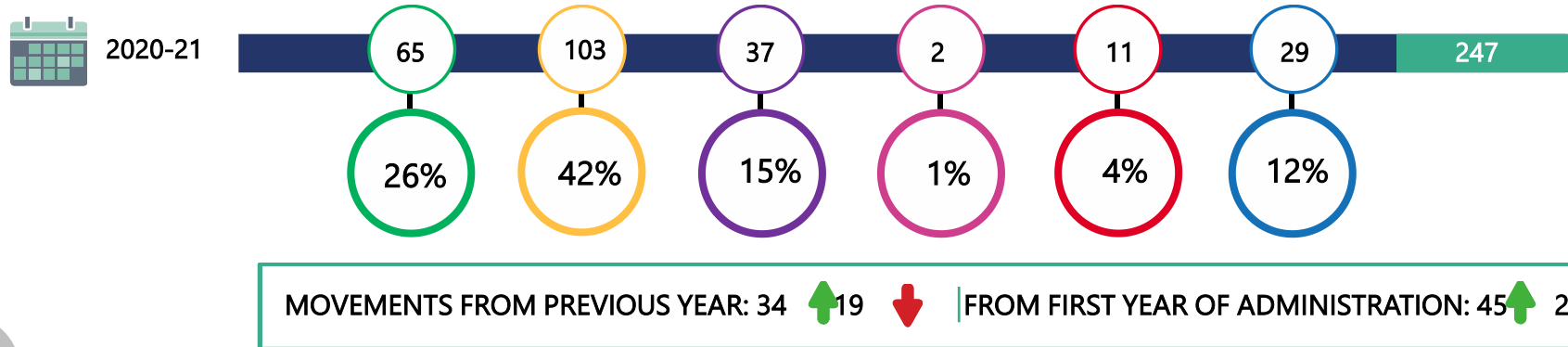


STATE-OWNED ENTERPRISES (SOEs) AND OTHER PUBLIC ENTITIES

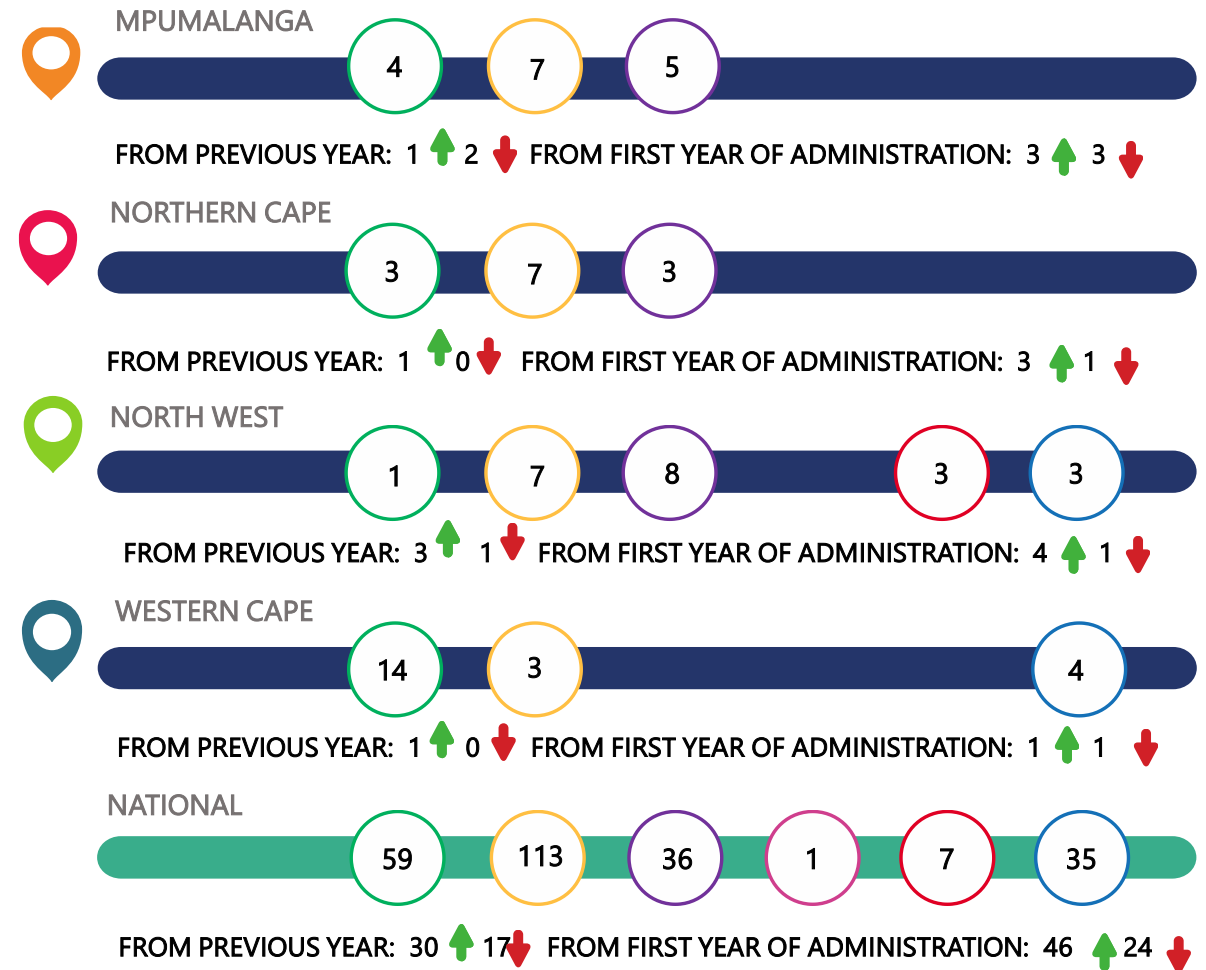
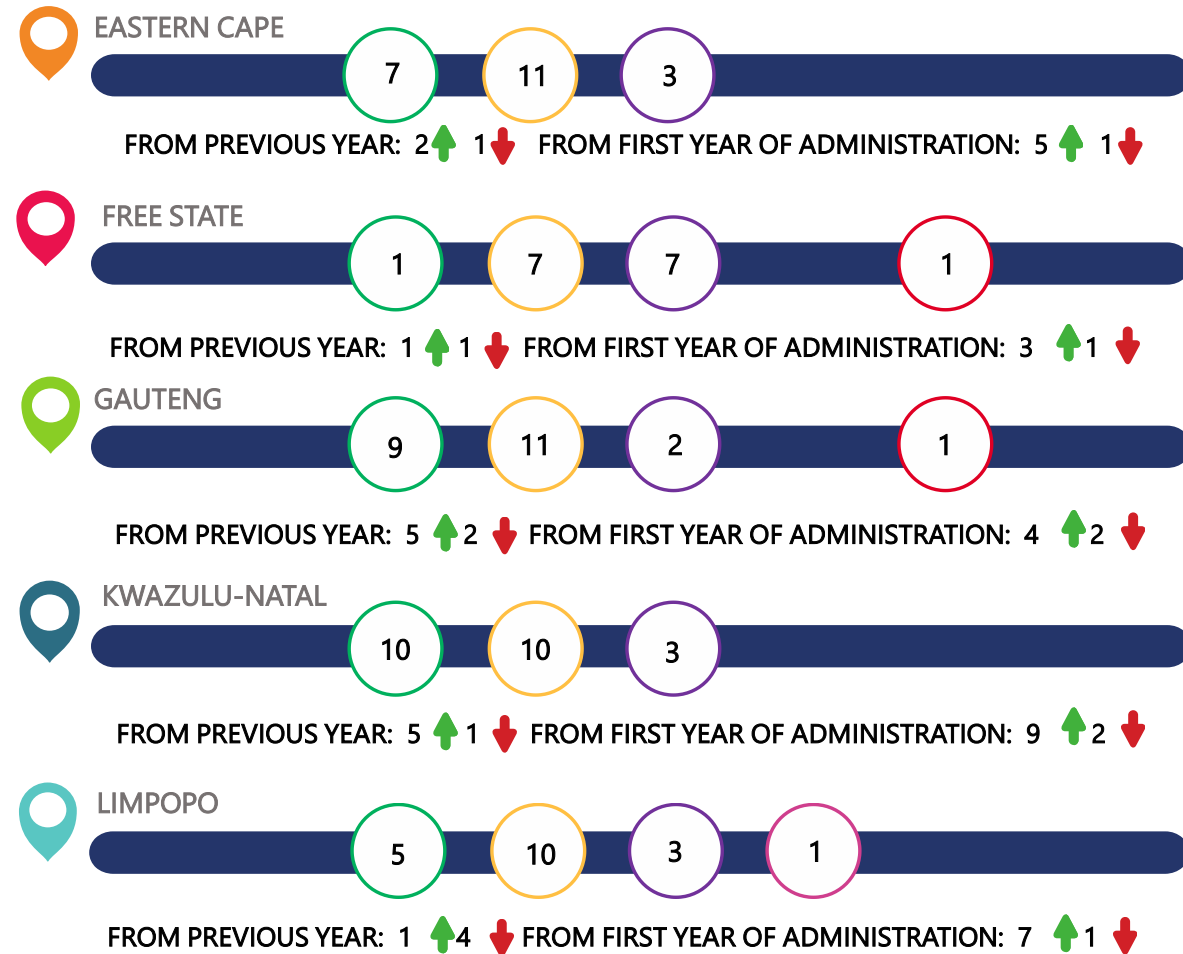
SOEs



Public entities – other



NATIONAL AND PROVINCIAL OUTCOMES – UPWARD TREND



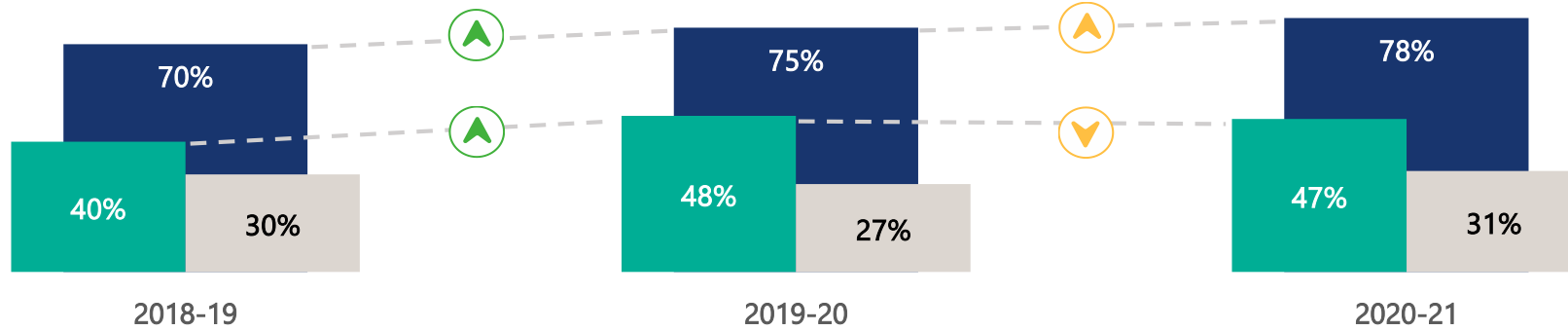
● Unqualified with no findings (clean audit)
 ● Unqualified with findings
 ● Qualified with findings

● Adverse with findings
 ● Disclaimed with findings
 ● Outstanding audits

FINANCIAL STATEMENTS

Timely submission and quality of financial statements	Movement from previous year	2020-21	2019-20	Movement over 3 years	2018-19
Submission of financial statements by legislated date (all auditees)	▲	90%	89%	▼	93%

Credibility of financial statements



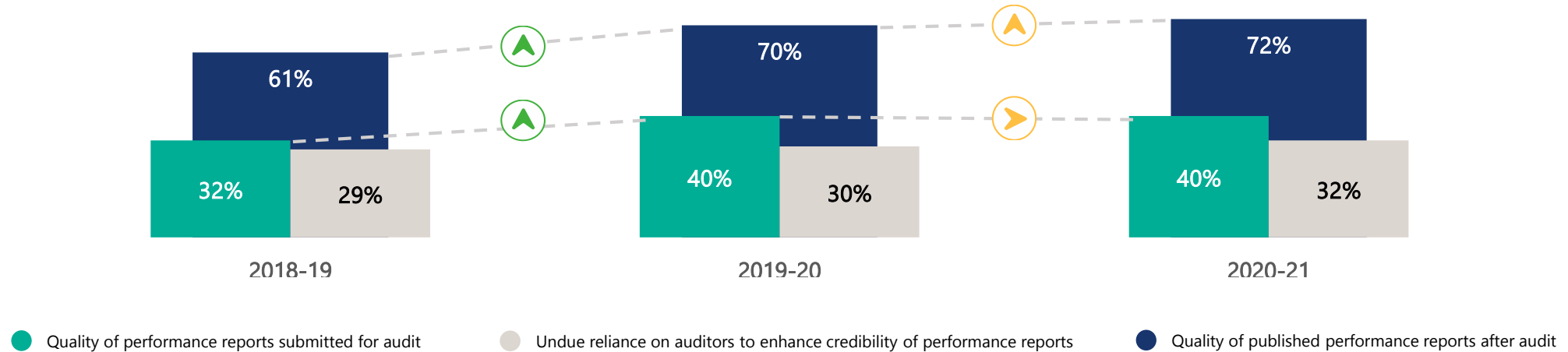
● Quality of financial statements before audit
 ● Undue reliance on auditors to enhance credibility of financial statements
 ● Quality of published financial statements after audit

PERFORMANCE REPORTING

A performance report accounts for achievement of performance promises made by an auditee in their plans



Credibility of performance reports



Findings on performance reports	Movement from previous year	2020-21	2019-20	Movement over 3 years	2018-19
Achievement reported not reliable	⬆️	23%	24%	⬆️	31%
Performance indicators and targets not useful	⬆️	15%	19%	⬆️	20%

NON-COMPLIANCE IMPROVING BUT REMAINS HIGH



Movement from previous year



Movement from first year of administration

Non-compliance results in irregular expenditure and material irregularities. However, the tide is slowly turning on non-compliance as slightly fewer auditees continue to incur non-compliance

● No material findings ● Material findings

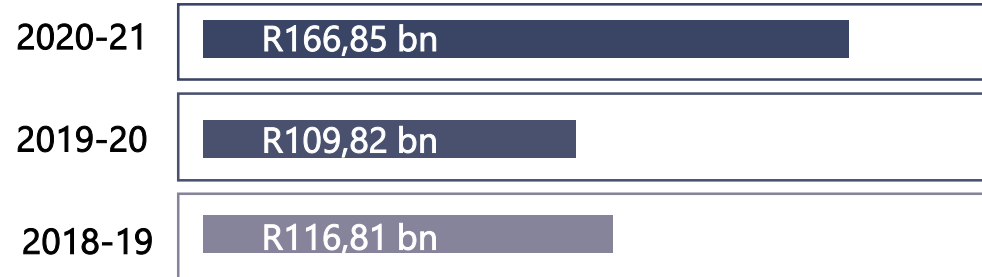
Most common areas of non-compliance	Movement from previous year	2020-21	2019-20	Movement over 3 years	2018-19
Procurement and contract management	↑	31%	37%	↑	42%
Quality of financial statements	↓	53%	51%	↑	59%
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	↑	36%	41%	↑	43%
Effecting consequences	↓	28%	26%	↓	25%

ANNUAL IRREGULAR EXPENDITURE

R166,85 billion

Incurred by 286 auditees

(including R4,62 billion from outstanding audits)



Key reason for increase

National Student Financial Aid Scheme increased from R0,52 bn to R77,49 bn – irregular expenditure is not SCM related



Irregular expenditure is not complete

- Qualification/ still investigating to determine full amount = 88 auditees (23%) (2019-20: 112 (30%))
- Limitations in auditing procurement = R2,14 billion



FINANCIAL HEALTH STATUS



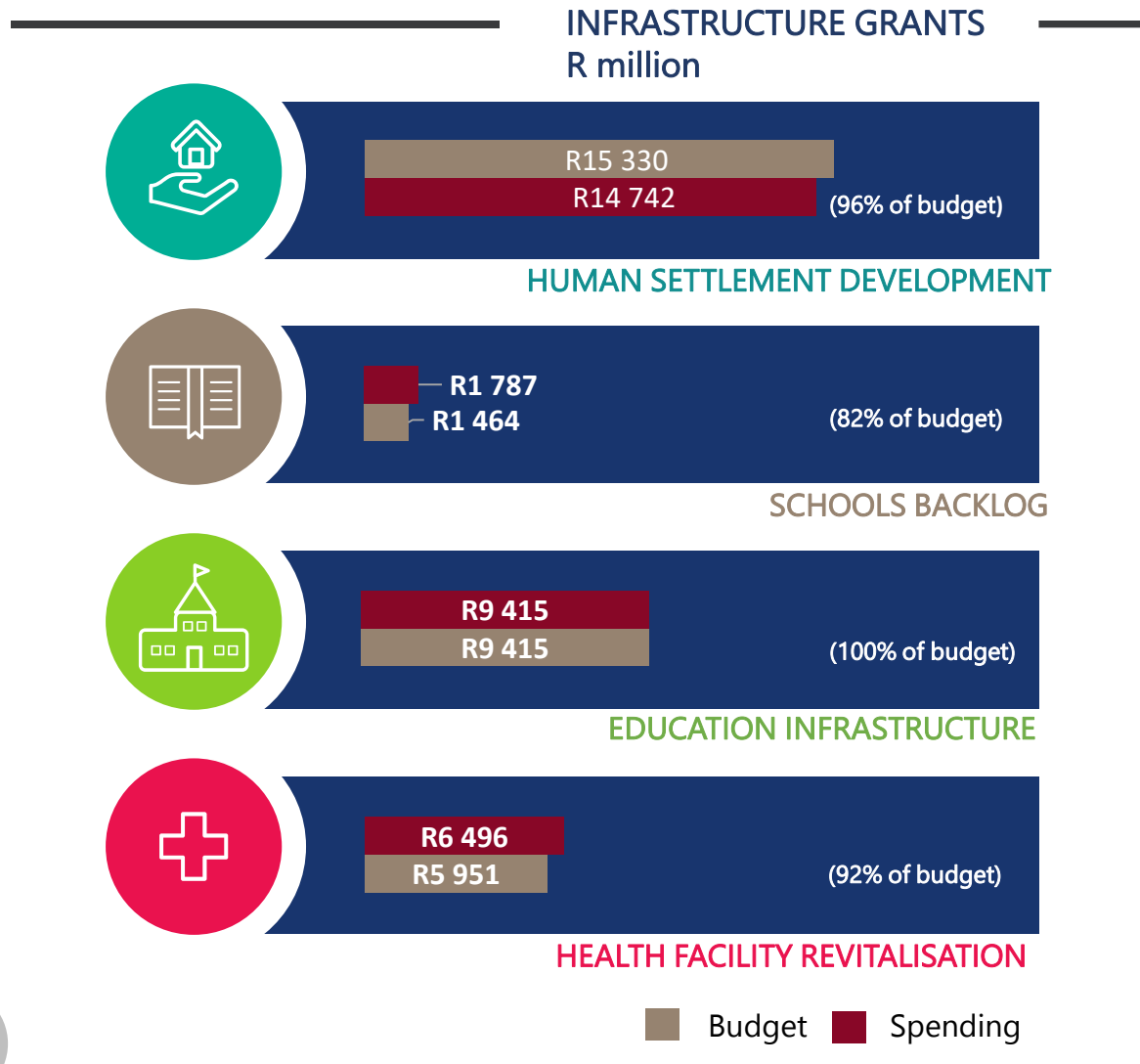


KEY SERVICE DELIVERY DEPARTMENTS



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INFRASTRUCTURE PROJECTS IN HEALTH, EDUCATION AND HUMAN SETTLEMENTS SECTORS



Project deficiencies left unattended

- Inadequate needs assessment and project planning
- Ineffective monitoring of project milestones and contractors/ implementing agents
- Underperformance by contractors without consequences
- Contractors not paid on time
- Failure in intergovernmental coordination and collaboration



What we found again

- Delayed completion of projects
- Increased project cost and financial losses
- Quality defects
- Completed infrastructure not commissioned or not utilised



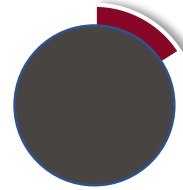
The impact remains

- Continued shortage of housing, good school infrastructure and access to health facilities
- Poor quality infrastructure - shorter useful life and expose public to harm
- Money wasted - could have been spent on other infrastructure priorities



KEY CONCERNS IN PUBLIC WORKS SECTOR

Main budget allocations
(R million)



R5 992
(16%)

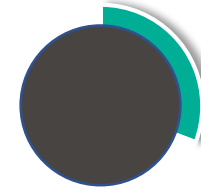
Facility management

Occupation of unfit buildings owned by

- PMTE 1 826
- Provinces 51

Caused by:

- Insufficient maintenance budget
- User departments do not prioritise maintenance
- Properties not safeguarded – subject to vandalism



R13 961
(36%)

Leases

Prevalence of month-to-month leases

- PMTE 728
- Provinces 364

Caused by:

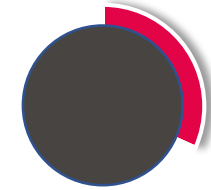
- Contract renewals not planned or managed
- Lease data and payments poorly managed

Excessive use of leases by PMTE while building unused

- 2 346 buildings leased
- 1 239 buildings unoccupied

Caused by:

- Existing properties unfit for occupation
- User department needs not met by available buildings



R14 979
(39%)

Infrastructure

Infrastructure projects significantly delayed

- PMTE 120
- Provinces 71

Caused by:

- Project managers not held accountable
- SCM disputes delays commencement
- Budget depleted by payments not made in line with contract

Impact

- Endangerment of officials, pupils and patients
- Expensive leases and payments / upkeep of unoccupied buildings reduces funds available for projects and maintenance

OUR MESSAGE

Accelerate accountability improvements to serve the public good

1

Enforce **performance measures** for executive authorities, accounting officers and accounting authorities that will enable a change in behaviour and ensure accountability in the ecosystem

2

Decisive **coordination, monitoring and corrective action** on inter-governmental systems and processes must be effected without delay

3

Sustainable solutions are required to prevent accountability failures and investment is required in adequate systems that are properly integrated and fully utilised within the full spectrum of government

4

Lead by example and ensure that **consequences for accountability failures** are effected swiftly, bravely and consistently

Actively contribute to building a capable and developmental state that encourages a high-adherence to ethics throughout society and a government that is accountable to its people





THE AGSA'S EXPANDED MANDATE JOURNEY

National, Provincial and Local
Governments



AUDITOR - GENERAL
SOUTH AFRICA

WHY WERE OUR POWERS EXTENDED AND WHAT DOES IT MEAN



We have long reported on pervasive mismanagement/ leakage of public funds without consequences and our audit recommendations not receiving the required attention, with little or no improvement noted in the status quo, leading to our relevance being questioned

Public outcry for increased accountability and transparency, saw calls from parliamentary oversight structures, civil society, organised labour, media and the public at large for the AG to be empowered to hold accounting officers entrusted with public funds accountable for their actions

Material irregularity

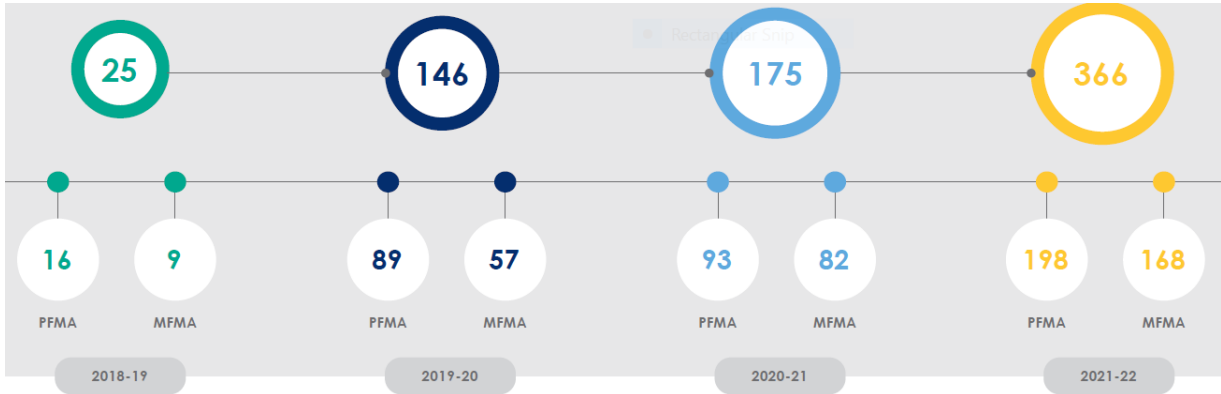
means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.

If AO/AA does not appropriately deal with MIs, our expanded mandate allows us to:

- 1 Refer material irregularities to relevant public bodies for further investigation
- 2 Recommend actions to resolve material irregularities in audit report
- 3 Take binding remedial action for failure to implement recommendations
- 3 Issue certificate of debt for failure to implement remedial action if financial loss was involved

OUR IMPLEMENTATION JOURNEY

Incremental increase of auditees



Phased in the MI definition

YEAR 1

any **non-compliance** with, or **contravention** of, legislation, identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss.**

YEAR 2

any **non-compliance** with, or **contravention** of, legislation, **fraud, theft or a breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss.**

YEAR 3

any **non-compliance** with, or **contravention** of, legislation, **fraud, theft or a breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss**, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public (full definition).

Audit challenges

MI process continuous throughout the year

Additional work to assess responses, consider impact and secure evidence

Additional administrative burden to track MIs



Resource challenges

Increase in resources (positions and tools)

Significant effort to train all staff

National Treasury provided financial support for last 2 years



Process challenges

Process from notification to fully assessing AO/AA response takes long

Engagements with public bodies still haphazard

Reporting on MIs only done in general reports

Deeper understanding of auditee is required



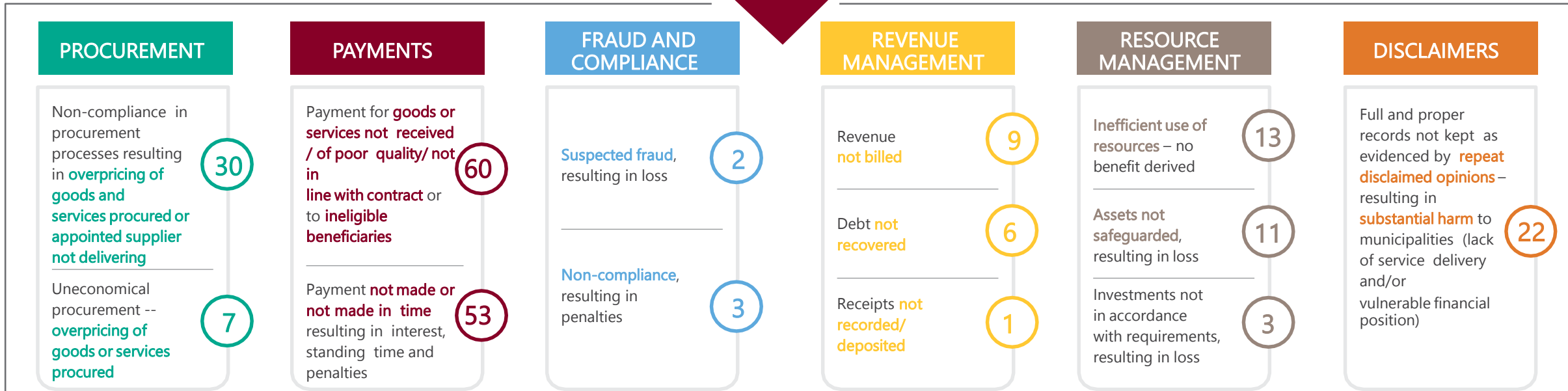


WHAT DID WE FIND

237
MIs

were brought to the attention of the AO/AA, of which 17 were closed/resolved in the period

220 MIs remain unresolved



These matters are –

- Not limited to one area
- Not new or complex
- As a result of weak internal controls not detected
- Predominantly in the SCM sphere which we expected
- These matters impact the lives of citizens.

Impact achieved with MI process

- **Financial losses recovered** or in process of recovery
- **Internal controls improved** to prevent recurrence
- **Responsible officials identified and disciplinary processes completed** or in process
- **Fraud/criminal investigations** instituted
- **Supplier contracts cancelled**

Stumbling blocks to resolving MIs

- **Completion of investigations** to identify responsible officials and quantify losses
- **Disciplinary processes** against officials found responsible
- **Instability at AO/AA level**
- **Completion of investigations by Special Investigating Unit and Hawks**
- Recoveries by **Office of the State Attorney**
- **Suppliers liquidated**
- **Intergovernmental processes** incl. administration interventions



WHERE ARE WE NOW



15 October 2021

A number of responses by the AO/AA is still being assessed. The results of those we completed are as follows:

69%

AO/AA is **taking appropriate action** to address the MI

10%

AO/AA has **resolved the MI**

However there are few AO/AA that did not act as they should

Consequently, we did not hesitate to take further action

12%

resulted in recommendations in the audit report as the AO/AA took little or no action to address the MI

- Defence
- DCoG
- Public Works
- Msunduzi (KZN)
- JB Marks (NW)
- Mahikeng (NW)
- **Ngaka Modiri Molema (NW) - 6**

4%

our recommendations were not implemented resulting in remedial action issued

- **Defence**
- Prasa
- Human Settlements (FS) - 2

4%

we referred the matter to public bodies for further investigation

- Health (NC)
- Defence
- **SA Post Office**
- Matjhabeng (FS)

1%

was a unique matter where both a recommendation was issued and the matter was referred to a public body for investigation

- **Free State Development Cooperation**

HOW SUCCESS WILL LOOK

1

Better
accountability

2

Protection of
resources

3

Enhancement of the
performance of
public institutions

4

Enhancement of the
integrity of public
institutions

5

Strengthens public
institutions that are
here to serve citizens

CALL TO ACTION

Timing of oversight processes is critical in ensuring prevention of losses or harm as well as timely recoveries



Oversight is therefore encouraged

- Engage the AO/AA and the executive authorities on these MIs
- Use the information in the audit reports to obtain insights about the nature and circumstances that led to the MI
- Monitor corrective action taken by regularly engaging the AO/AA on implementation of planned actions/ recommendations or where remedial action has been taken



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