



AUDITOR - GENERAL  
SOUTH AFRICA

Status of records review, material irregularity, audit of performance information and preventative controls

## **Portfolio Committee on Sport, Arts and Culture**

19 April 2022

# Our mission and vision

---



## OUR MISSION

---

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



## OUR VISION

---

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

# Mandate for the AGSA and portfolio committees

## AGSA mandate

### Constitution section 188

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

### PAA section 20(2)

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

### Section 5(1B)

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

## Portfolio committees

### National Assembly Rule 227

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

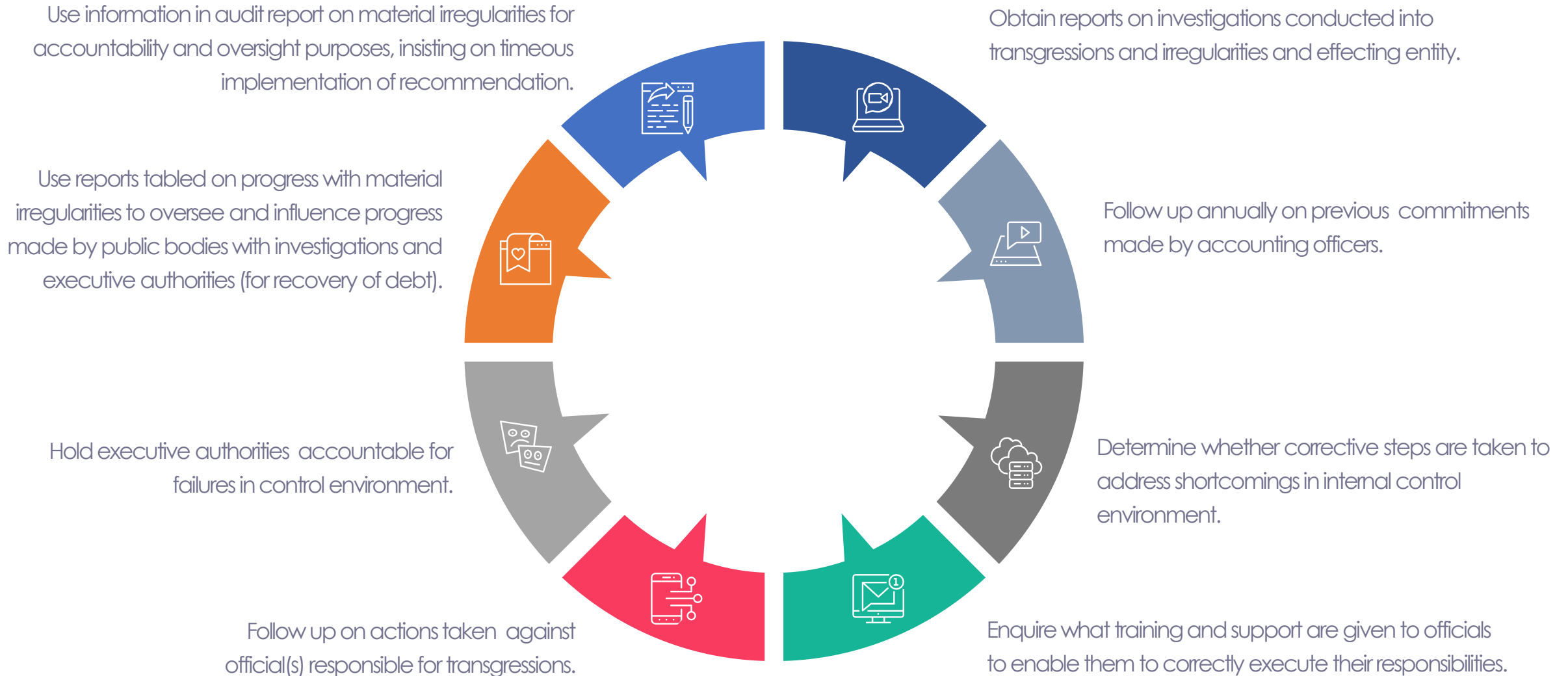
- Deal with bills and other matters which fall within their portfolio, as referred to in the Constitution, legislation or rules, or by resolution of the Assembly.
- Maintain oversight of the exercise within their portfolios of national executive authority, including implementation of legislation.
- Consult and liaise with any executive organ of state or constitutional institution.
- Monitor, investigate, inquire 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.

## Role of the AGSA in the reporting process

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



# What we understand as the role of oversight



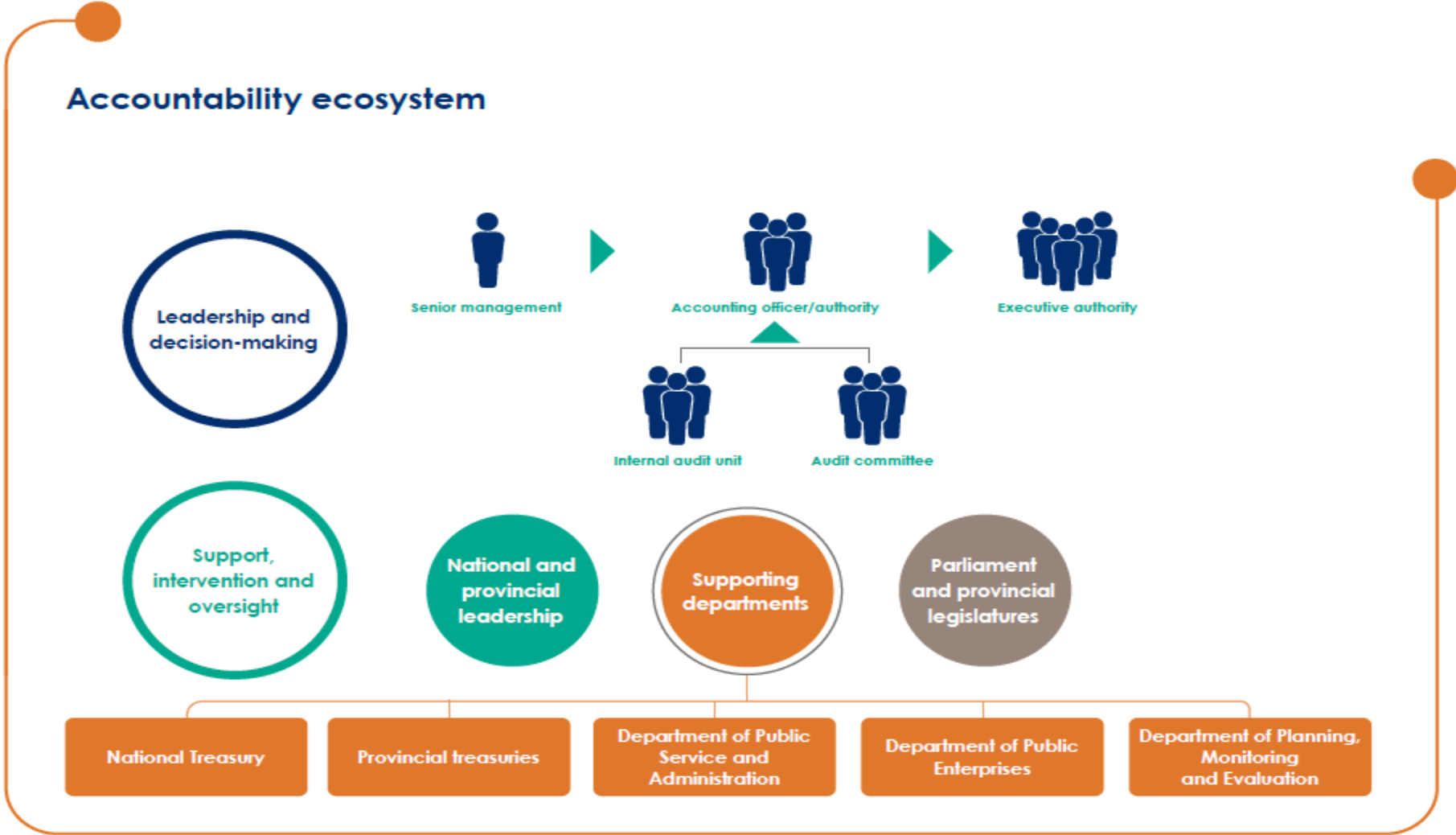


AUDITOR-GENERAL  
SOUTH AFRICA

# Accountability Ecosystem



# Accountability Ecosystem



## Accountability ecosystem (Continued)

---

- Accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and /or insist on public sector accountability.
- A more active and engaged accountability ecosystem would add a much needed the effort of shifting public sector culture and would also alleviate the over reliance on AGSA to assume responsibility for improving audit outcomes and enforcing consequences.
- Given the nature of AGSA mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.
- Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if role players of the broader accountability ecosystem fulfil their respective responsibilities and mandates in a coordinated, consistent and effective manner.
- Failure by any part of the ecosystem to effectively play its role, particularly due to the unique role that each stakeholder has to play in the ecosystem, has a detrimental impact on the effectiveness of the ecosystem as a whole.
- The improvement in sound financial management to enhance the lives of citizens do not only reside within the domain and responsibility of the accounting officer or authority and the auditors. They depend on the entire accountability ecosystem in order to enable a culture of accountability in sustainable and meaningful ways.





AUDITOR-GENERAL  
SOUTH AFRICA

# Status of records review



# Status of records review objectives and format

Identify key areas of concern that may derail progress in preparation of financial and performance reports and compliance with relevant legislation, and may result in regression in audit outcome

Provide our assessment of status of key focus areas that we reviewed

Assess progress made in implementing action plans / follow through on commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

## Status of records review (SoRR)



Follow-up procedures



Analysis of financial and non-financial information  
(internal and external reports/documents and discussions with management)

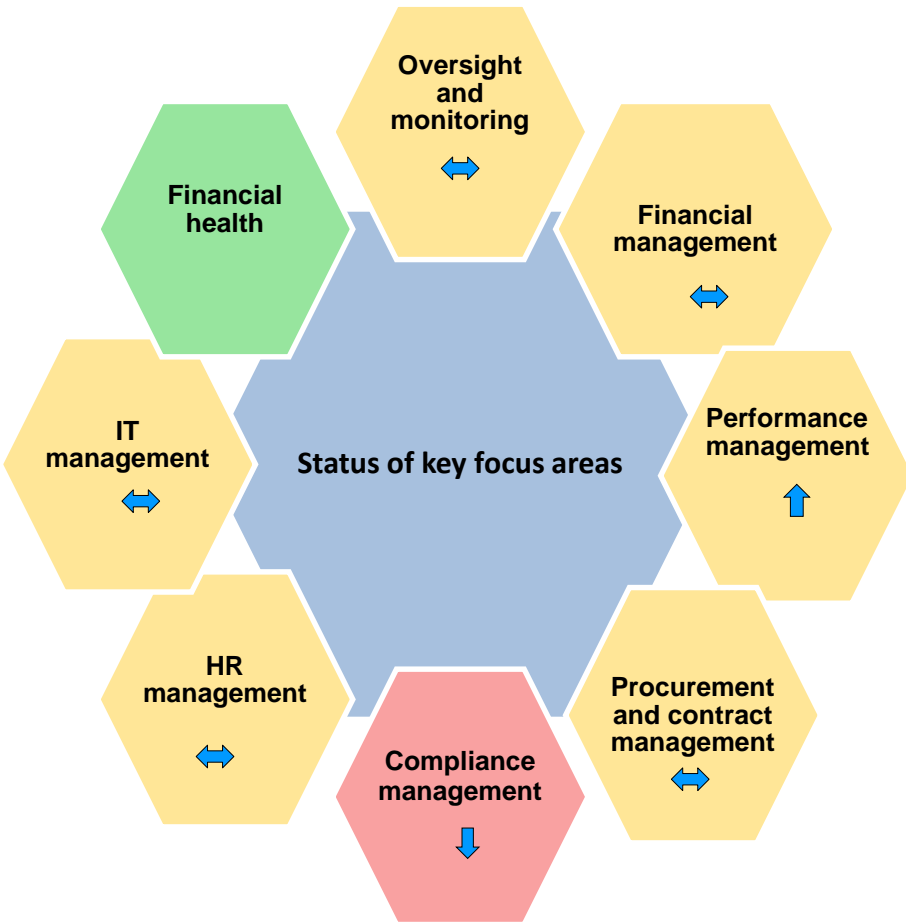
Legend:

Good	Basics are in place as no concerns were identified
Concerning	Concerns identified
Intervention required	Level of concerns identified indicates that accounting officer needs to urgently intervene to prevent audit failure

Movement is assessed as follows:

↑	Improved
↔	Unchanged
↓	Regressed

# Status of records review – DSAC as at 31 December 2021



Focus area	Insights
<b>Financial management</b>	<ul style="list-style-type: none"> <li>• During the review, we inspected the action plans developed by management in order to address findings raised in the prior year management report. We noted that although actions with set implementation dates were developed for all findings raised, there were some outstanding actions relating to asset management, completeness of contract register, and supporting schedules for contingent liabilities and payables not recognised.</li> <li>• We noted that the department did not finalise the outstanding payments for the covid-19 relief fund by 15 December 2021 as previously committed. Management indicated that they planned to finalise the process by the end of the current financial year, i.e. 31 March 2022. The delays were mainly due to outstanding compliance documents from beneficiaries and bank rejections. The department should expedite the process to ensure that all beneficiaries are paid before the new cut-off date.</li> </ul>
<b>Procurement and contract management</b>	<ul style="list-style-type: none"> <li>• We noted that some Information communication technology (ICT) contracts came to an end during this financial year and that none of these services were included in the current procurement plan. Management should have a structured contract management process for evaluating contracts that are expiring in order to ensure that those relating to continuing services are provided for in the procurement plan.</li> </ul>

# Status of records review – DSAC as at 31 December 2021 continued

Focus area	Insights
<p><b>Procurement and contract management (continued)</b></p>	<ul style="list-style-type: none"> <li>• In our previous reports, we highlighted internal control deficiencies regarding delays and inadequate monitoring of the Sarah Baartman legacy project. We also noted several delays with regard to the Enyokeni legacy project due to poor administration.</li> <li>• Management should implement stringent project monitoring and contract management measures to avoid unnecessary escalation costs for all legacy projects, and to mitigate the risk of continuous delays in completing projects in order to avoid losses.</li> <li>• Irregular expenditure relating to the current year increased significantly from R3,7 million to R9,2 million. This amount excludes the irregular expenditure of R19,3 million due to non-compliance with the Division of Revenue Act, which was disclosed as irregular expenditure under assessment in the prior year. The accounting officer must take effective and appropriate steps to prevent irregular expenditure.</li> </ul>
<p><b>Compliance management</b></p>	<ul style="list-style-type: none"> <li>• We inspected the management action plan for the finding raised in 2020-21 relating to long-standing allegations of financial misconduct by officials which were not investigated in the prior year. We noted that management was still conducting a process to appoint a panel of forensic service providers by 31 January 2022 to commence investigation into these matters. At the date of this report, management had not yet finalised the procurement process and further indicated that the appointment of the panel of forensic service providers to be undertaken by 15 May 2022. Management should speed up this process to avoid a repeat compliance finding in the audit report.</li> </ul>

# Status of records review – DSAC as at 31 December 2021 continued

• Focus area	• Insights
<p><b>Compliance management (continued)</b></p>	<ul style="list-style-type: none"> <li>• We assessed the overall progress made to investigate irregular expenditure and fruitless and wasteful expenditure reported in the prior years, and noted with concern that the investigations relating to these irregularities have not been concluded. The inability to finalise investigations has resulted in a failure to timeously implement consequence management against those who were responsible for incurring irregular, fruitless and wasteful expenditure.</li> <li>• Based on the review of the interim financial statements, we noted significant amounts relating to payables not recognised that were outstanding for more than 30 days. This could lead to the department incurring interest, resulting in fruitless and wasteful expenditure and consequently non-compliance with legislation. The department may also be in breach of the Treasury Regulations since payments are not being made within 30 days.</li> </ul>
<p><b>Human resources</b></p>	<ul style="list-style-type: none"> <li>• The human resource plan has not been prepared and implemented in the current year, this was also reported in the prior year. This might result in non-compliance with regulation 26(1) of the Public Service Regulations.</li> <li>• Vacancies in key positions listed below are concerning as this may lead to the department not being able to meet its financial and performance reporting objectives at year-end:             <ul style="list-style-type: none"> <li>&gt; Director: Internal Audit</li> <li>&gt; Director: Management Accounting</li> <li>&gt; Director: Internal Control and Compliance (vacant for more than 12 months)</li> </ul> </li> </ul>

# Status of records review – Portfolio Entities as at 31 December 2021 continued

Key audit matters	Insights
<b>National Library of South Africa</b>	<ul style="list-style-type: none"> <li>Management is still in the process of addressing the qualification on existence, completeness and valuation of heritage assets. The process will be finalised in June 2022. Management needs to fast-track the process to ensure completion by at least May 2022. The current planned date is after the date of submission of the financial statements; therefore, there is a risk that the entity will be qualified again on heritage assets.</li> </ul>
<b>Boxing of South Africa</b>	<ul style="list-style-type: none"> <li>The forensic investigation in relation to the supply chain management irregularities was completed in January 2022 and a report presented to the audit and risk committee and the board. The board is currently in the process of implementing the recommendations regarding those who were implicated. The CFO was suspended during February and the acting CEO resigned in October 2021, resulting in continued instability in leadership.</li> </ul>
<b>Die Afrikaanse Taal Museum</b>	<ul style="list-style-type: none"> <li>Management is still in the process of addressing the qualification as a new management expert (valuation service provider) has been appointed. If this matter is not addressed and resolved by 31 March 2022, it could result in a repeat qualification.</li> </ul>
<b>Robben Island Museum</b>	<ul style="list-style-type: none"> <li>We had previously reported that the audit of Robben Island Museum was outstanding; it was subsequently finalised on 10 November 2022. National Treasury pronounced on 15 October 2021 that the procurement process followed when purchasing a boat during 2019-20 financial year was irregular. The irregular expenditure was then disclosed in the financial statements, which resolved the disputed prior year qualification. An investigation must be conducted to identify those responsible for the irregular expenditure, after which consequence management must be implemented.</li> </ul>



AUDITOR-GENERAL  
SOUTH AFRICA

# Material irregularity

# Why the expanded mandate?

## To strengthen accountability mechanisms in public sector

### Accounting officers (AOs)

AOs have a legal obligation to prevent all irregularities and take action when they occur.

We:

- **identify irregularities that could have significant impact** on auditees' finances, resources and delivery
- notify AOs so they can **timeously take appropriate steps in terms of legislation**
- **give space to AOs to take actions required** to deal with material irregularities before using our additional powers

### Oversight and executive authorities

**Oversight and monitoring roles** remain unchanged.

By reporting material irregularities, **most material matters** are highlighted and information is provided to assist oversight and monitoring roles.

**Success is:** swift action by AO/AA to resolve material irregularities and prevent recurrence



# Implementation of material irregularity process

## Material irregularity

means any **non-compliance** with, or **contravention** of, legislation or any **fraud, theft** or **breach of fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted, 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 the accounting officer/authority does not deal appropriately with material irregularities, our expanded mandate allows us to:



**refer material irregularities** to relevant public bodies for further investigation.

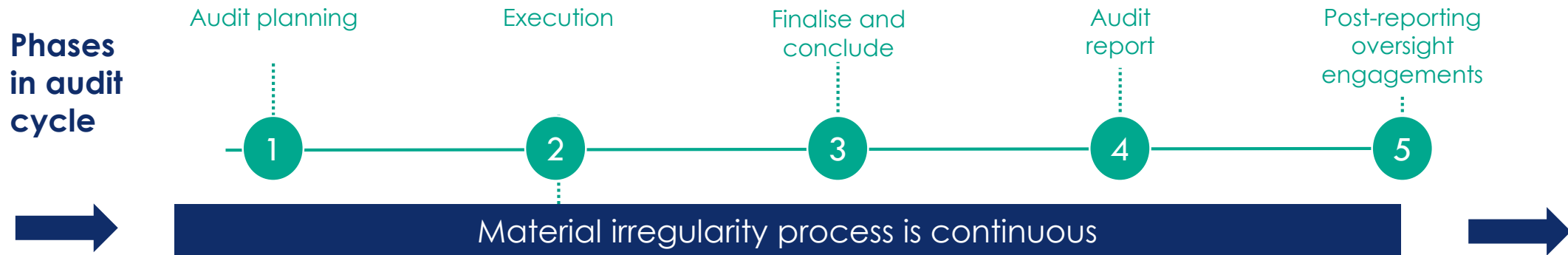


**recommend actions** to resolve material irregularities in audit report;  
**take binding remedial action** for failure to implement recommendations.



**issue a certificate of debt** for failure to implement remedial action if financial loss was involved.

# Identifying and reporting on material irregularities



Potential material irregularity can be **identified during any phase of audit**.

Confirmation, notification, response and follow-up represent a continuous process – **not bound to specific audit cycle**.

When audit report is signed, we **report confirmed material irregularities** based on status at that date:

- **New material irregularities** identified and actions that the accounting officer is taking to address these – or we include recommendations or information on referral (as applicable)
- Whether there are other material irregularities of which the accounting officer was notified, but are still **in process**
- **Progress made in resolving material irregularities** reported in previous audit report

# Legal obligations of accounting officer to address irregularity

---

If the accounting officer is made aware of irregularity (non-compliance, fraud, theft or breach of fiduciary duty), the **PFMA, Treasury Regulations and instruction notes typically prescribe** that following steps be taken:

1. Perform preliminary investigation to determine facts and collect information on what caused transgression, who is responsible, and whether financial loss was (or will be) suffered.

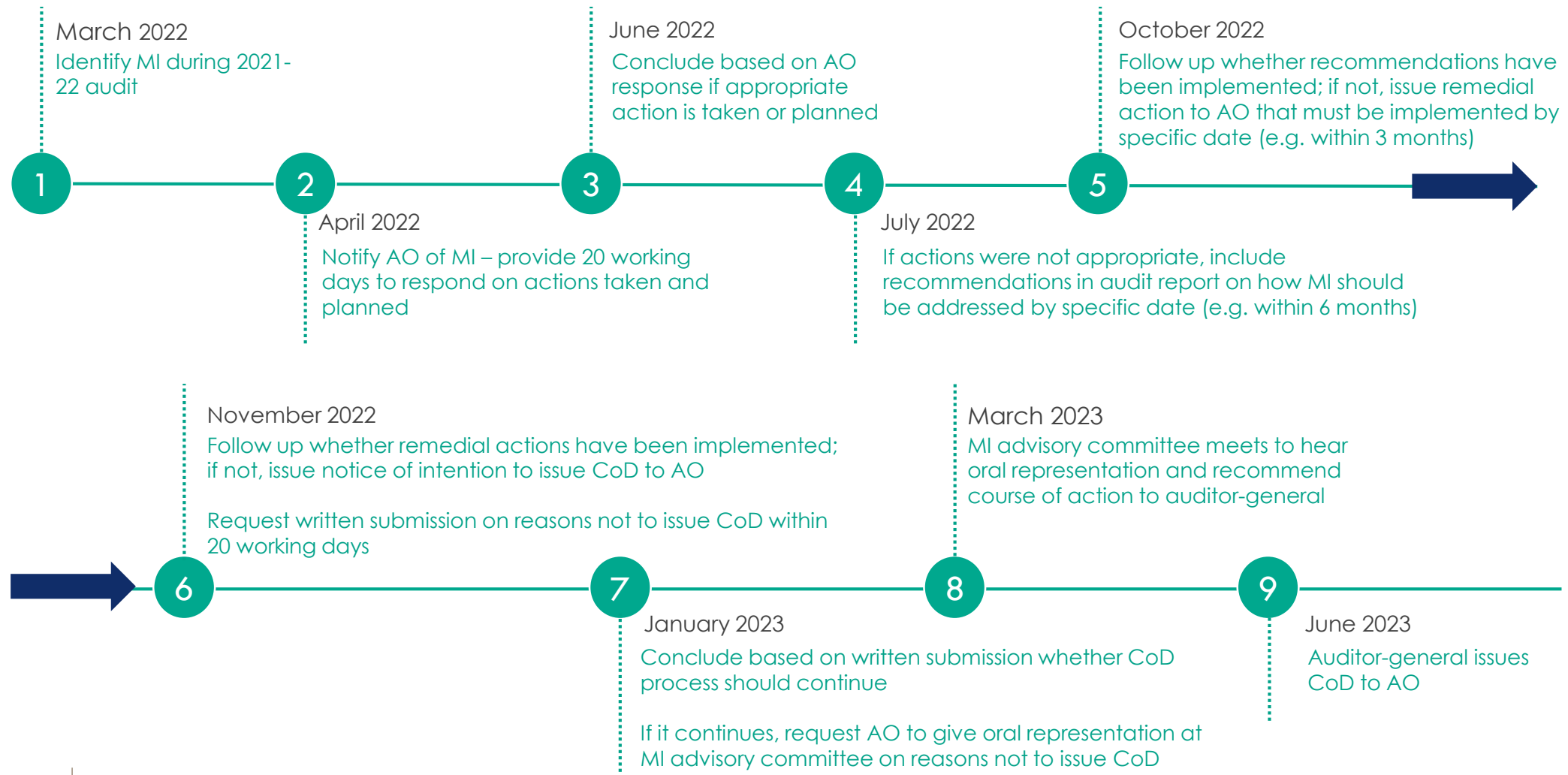
## **If applicable**

2. Prevent any losses or further losses
3. Institute formal investigation if there are indications of fraud, corruption or other criminal conduct; if confirmed, take further action (e.g. report matter to police)
4. Recover any financial losses from external party
5. Take steps against responsible officials (which can include financial misconduct investigation)
6. Recover any financial losses from responsible officials.



**Auditee's policies and procedures typically describe how these steps should be taken and timing thereof**

**Same steps should be taken if accounting officer is notified of material irregularity**


# Process from identifying material irregularity that caused material financial loss to issuing certificate of debt – example



# Identified material irregularities – next steps and responsibilities

	AO and AGSA	Executive and oversight
 <p><b>AO/AA is dealing with MI</b></p>	<p><b>AO...</b> implements committed actions to address MI and improves controls to prevent recurrence</p> <p><b>AGSA...</b> follows up in next audit to determine whether actions were implemented and whether outcomes were reasonable; if not, it can result in referral or recommendation in audit report</p>	<p><b>Executive...</b> monitors progress and supports AO in addressing MI and improving controls</p> <p><b>Oversight...</b> monitors progress and calls AO to account for actions taken and outcomes</p>
 <p><b>MI is referred to public body</b></p>	<p><b>AO...</b> cooperates with public body and implements any remedial actions/recommendations made; improves controls to prevent recurrence</p> <p><b>AGSA...</b> provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/recommendations</p>	<p><b>Executive...</b> supports public body investigation and AO in improving controls; if responsible for public body, monitors progress with investigation</p> <p><b>Oversight...</b> monitors progress with investigation and calls public body to account for undue delays in investigation</p>

# Identified material irregularities – next steps and responsibilities *(continued)*

	AO and AGSA	Executive and oversight
 <p><b>Recommendation included in audit report</b></p>	<p><b>AO...</b> implements recommendations by date stipulated in audit report and improves controls to prevent recurrence</p> <p><b>AGSA...</b> follows up by stipulated date to determine whether recommendations were implemented and whether outcomes were reasonable; if not, issues remedial action</p>	<p><b>Executive...</b> monitors progress and supports AO in implementing recommendations and improving controls</p> <p><b>Oversight...</b> monitors progress and calls AO to account for actions taken and outcomes</p>

## Material Irregularity – Actions by Portfolio Committee

---

- To detect, prevent abuse, arbitrary behaviour or illegal and unconstitutional conduct on the part of the government and public entities. At the core of this function is the protection of the rights and liberties of the citizens. The Portfolio committee must follow up on the progress on resolving the MI and action taken is ensuring losses do not continue.
- To hold the department and its entities to account in respect of how the taxpayers' money is used. It detects waste within the machinery of government and public agencies. Thus it can improve efficiency, economy and effectiveness of government operations.
- Determine what action or consequence have been taken against those responsible for the MI.



AUDITOR-GENERAL  
SOUTH AFRICA

# Recommendations





# Recommendations to ensure improvement in audit outcomes

## The following must be addressed within the portfolio

What remains which still requires attention:

Appointment of key officials for stability and improvement in the overall control environment.

What must be done/ actions to effectively journey towards of better audit outcomes:

Instil a culture of consequence management through the department implementing consequence management for all transgressions swiftly, especially with regard to irregular and fruitless and wasteful expenditure.

## Accounting officers/authorities within the portfolio

- Ensure adequate and effective implementation of preventative controls.
- Develop and implement effective action plans to address audit findings, specifically relating to SCM.
- Implement adequate review and monitor controls regarding financial, performance and consequence management.



## Monitoring by the Portfolio Committee

- **Filling of vacancies** to ensure stability of leadership
- **Provide oversight** on the implementation of action plans to address the audit findings.
- **A culture of consequence management** should be enforced in the portfolio.

## Commitments made by the portfolio committee in November 2021

- Monitor progress on the implementation of action plans to address findings reported in the audit reports
- Monitor implementation of consequence management in relation to irregular, fruitless and wasteful expenditure and all other allegations under investigation.

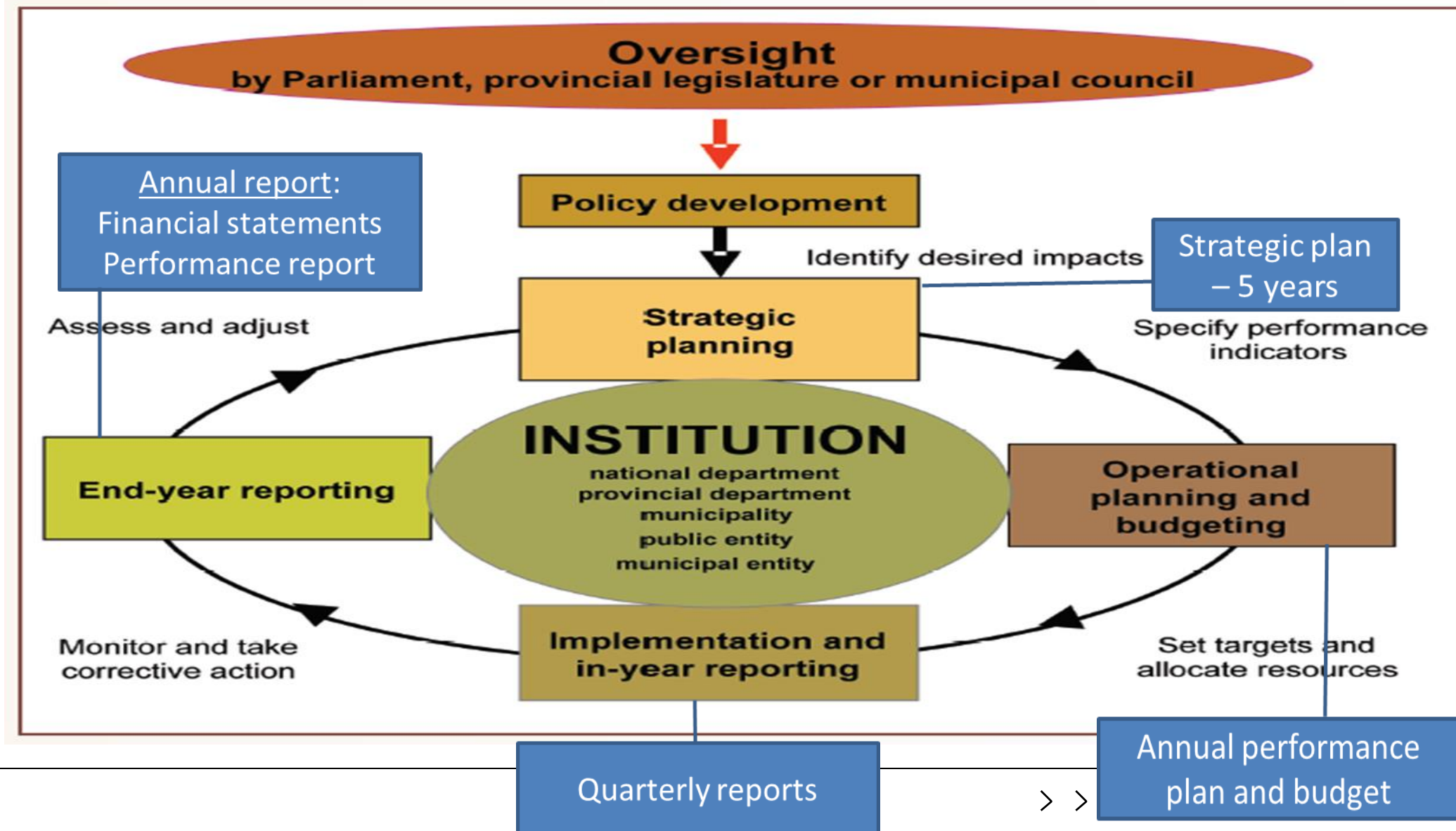


AUDITOR-GENERAL  
SOUTH AFRICA

# Capacity building – Audit of performance information



# The planning, budgeting and reporting cycle of government



# Audit criteria derived from PMRF

## Usefulness of reported performance information

### Consistency

Performance indicators and targets are consistent between planning and reporting documents.

### Measurability

Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.

### Relevance

Performance indicators relate logically and directly to an aspect of the entity's mandate and the realisation of strategic goals and objectives.

Based on the entity's mandate, applicable legislation and strategic goals and objectives, all performance indicators are included in the approved plan.

### Presentation and disclosure

Performance information in the annual performance report is presented and disclosed in accordance with applicable legislation, frameworks, circulars and guidance.

## Reliability of reported performance information

Recording, measurement, preparation and presentation of actual performance achievement are valid, accurate and complete.



# What do auditors test when auditing measurability?

## Measurability of indicators

- Test whether indicators are:
  - **well defined** (Does the indicator have a clear definition and is there a technical indicator description for the indicator? )
  - **verifiable** (Is it possible to verify the processes and systems that produce the indicator?)

## Measurability of targets

- Test whether targets are:
  - **specific** (Are the nature and required level of performance clearly identified?)
  - **measurable** (Can the required performance be measured?)
  - **Time bound** (Is the time period / deadline for delivery specified?)



# Current AoPO reporting approach

## Management report



The audit opinion is expressed in the management report, and the **usefulness** and **reliability** of the reported performance **for each selected subject matter** and material misstatements are reported per indicator.

## Auditor's report



The audit opinion is not included in the auditor's report. **Only material findings** that form the basis for the opinion expressed in the management report are included in auditor's report.

### Note:

- The auditor's report will still contain the opinion on the financial statements and findings on performance information
- Audit outcomes do not necessarily indicate adequate service delivery
- Performance by implementing agents on key programmes must be tracked to ensure that service delivery is taking place.



# Roles and responsibilities

FMPPI (chapter 5): Effective management of performance information requires a clear understanding of different responsibilities as well as the structures and systems involved in managing performance

<b>Ministers/MECs</b>	<b>Accounting officer or head of an institution (assisted by chief information officer)</b>	<b>Line managers</b>	<b>Other officials</b>
To ensure that institutions under their control set up appropriate performance information systems	Accountable for establishing and maintaining the systems to manage performance information	Accountable for establishing and maintaining the performance information processes and systems within their areas of responsibility	Responsible for capturing, collating and checking performance data relating to their activities



## Role of the Portfolio Committee in the performance information process

---

- Involvement in the performance information process during planning before the APP is finalised. Ensure that key indicators and targets are linked to the mandate.
- Examination of the usefulness and reliability of performance information and to ensure that policies announced by government and authorised by Parliament are actually delivered. This function includes monitoring of the achievement of goals set by legislation and the government's own programmes.
- Review of critical performance management activities on a quarterly basis and action being taken by management on targets not achieved per planned indicators and impact it has on service delivery as per its mandate.
- May monitor, investigate, enquire into and make recommendations into any financial or performance measure, e.g. the committee should request a briefing from the department and its entities on the achievement of its targets against the budgeted.





AUDITOR-GENERAL  
SOUTH AFRICA

# Preventative control guides

# Preventative controls

---

## PREVENTATIVE CONTROL GUIDES

AGSA developed preventative control guides to assist and empower accounting authorities and accounting officers, and also to assist other oversight functions to ask relevant questions during their oversight role. Objectives were as follows:

- to create general awareness regarding roles and legislative obligations
- to enable accounting authorities and other oversight to effectively address assurance needs of oversight structures
- to enable oversight structures to diagnose weaknesses in preventative mechanisms and focus oversight efforts on obtaining assurance from executive authority and AO that weaknesses are being effectively addressed.

# THANK YOU

AUDITING TO  
**BUILD PUBLIC CONFIDENCE**



[www.agsa.co.za](http://www.agsa.co.za)



**Auditor General of South Africa**



**@AuditorGen\_SA**



**Auditor-General of South Africa**