



AUDITOR-GENERAL  
SOUTH AFRICA

## AGSA BRIEFING TO THE PORTFOLIO COMMITTEE

# Portfolio Committee on Social Development

20 April 2022

# Our mission and vision

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## OUR MISSION

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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

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

# Mandate for the AGSA and portfolio committees

## AGSA mandate

### Constitution section 188

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

### PAA section 20(2)

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

### Section 5(1B)

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

## Portfolio committees

### National Assembly Rule 227

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

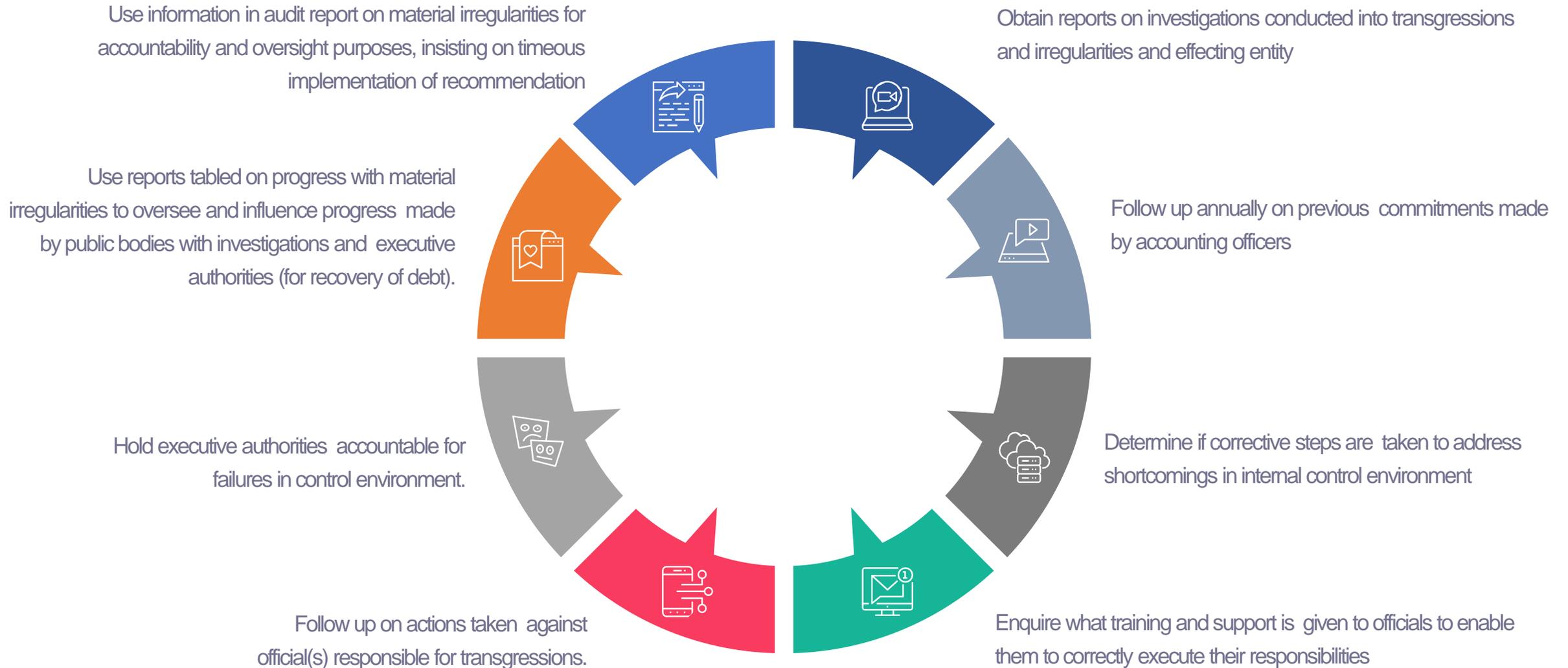
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly.
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation.
- Consult and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

## Role of the AGSA in the reporting process

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



# What we understand as the role of oversight



# *A culture of accountability to improve the lived experiences of citizens*

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- The general report for the 2020-21 audit outcomes of national and provincial government was tabled in December 2021, the theme of this report was centered on a call to all role players to accelerate improvements in accountability.
- The overall outcomes reflected “incremental improvement” in the national and provincial government audits, with an increase in the number of clean audits. However, the report also recorded low levels of accountability among accounting officers and accounting authorities. The AGSA has emphasized in the past that a culture of consequence management should be enforced.
- There is slow progress in the implementation of the audit action plans and lack of consequence management, which negatively affected the lived experiences of citizens.
- Sustainable improvements will only be achievable when all role-players do what they need to do. To ensure sound financial management that will enhance the lives of citizens, there needs to be firm commitments from political leadership, followed by decisive action from the administration.
- The improvements we seek 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, which includes various role-players who all need to play their part effectively to enable a culture of accountability in sustainable and meaningful ways.



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# Review of the 2022- 23 APP

# Objectives of annual performance plan review

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- The Interim review provides an early warning for previously identified concerns about measurability of indicators and targets. Focus is on programmes directly linked to the department's/entities' mandate.
- The review does not include performing detailed procedures where underlying systems and supporting documentation are inspected to give assurance on verifiability of indicators and targets.
- The review focused on whether targets and indicators are specific, measurable and time bound, as per Framework for Managing Programme Performance Information (FMPPI) and Revised Framework for Strategic Plans and Annual Performance Plans (R-FSAPP) requirements.
  - Specific: nature and required level of performance can be clearly identified.
  - Measurable: required performance can be measured
  - Time-bound: time period or deadline for delivery is specific
  - Relevant: required performance is linked to achievement of a goal

# Annual performance plan review

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- Applicable targets reviewed were those under Medium-Term Expenditure Framework (MTEF) period 2022-23 – 2024-25
- The review was conducted for the Department of Social Development (DSD), South African Social Security Agency (SASSA) and National Development Agency (NDA).
- We reviewed the final draft of 2022-23 annual performance plans (APP's) as follows :
  - DSD - programme 4 – welfare services policy development and implementation support
  - SASSA - Programme 2 – benefits administration and support
  - NDA - Programme 1: Governance and Administration and Programme 2: CSO Development
- We identified some errors during our APP review on all three entities, we communicated these errors with management. Management agreed to the findings and subsequently corrected all the errors in the updated APP.



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# 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 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)

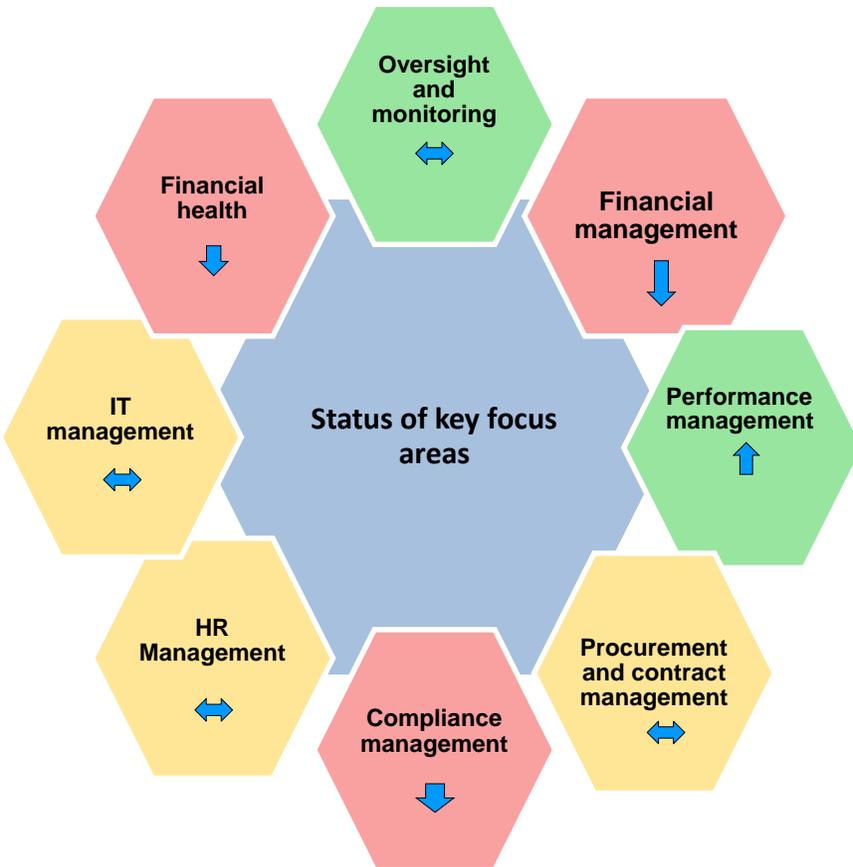
Legend:

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

Movement is assessed as follows:

↑	Improved
↔	Unchanged
↓	Regressed

# Status of records review – Department of Social Development as at 31 December 2021

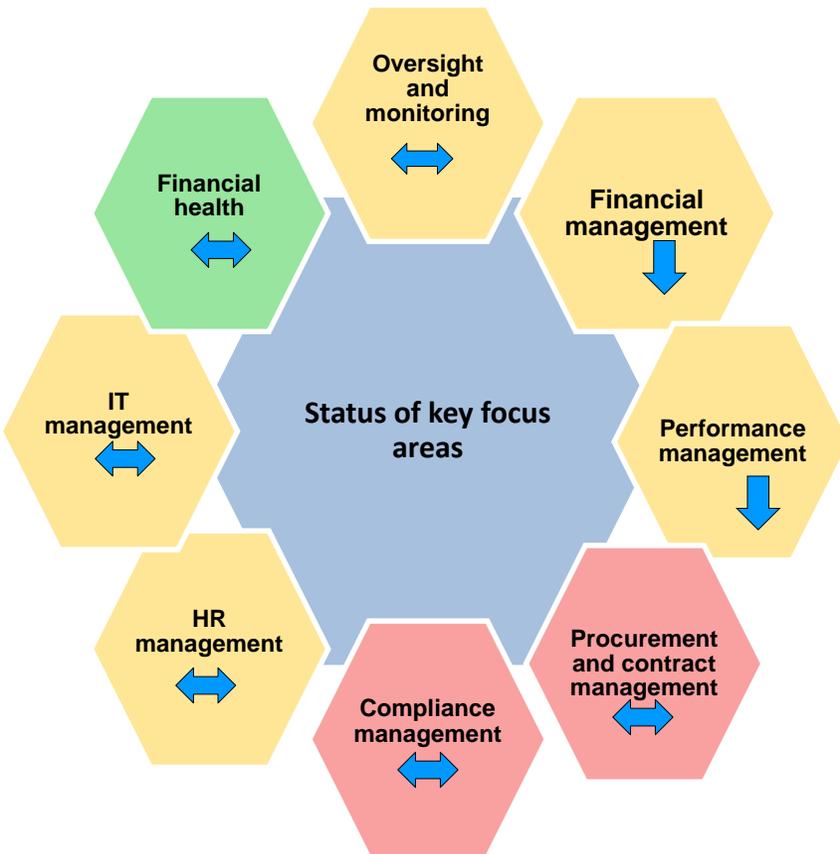


Focus area	Insights
<b>Financial management</b>	<ul style="list-style-type: none"> <li>Applicants receiving additional R350 unemployment social relief of distress (SRD) grant could be ineligible, leading to overpayments, which could result in increase in debtor’s balance.</li> <li>Some payments for SRD grants (food parcels, vouchers, uniforms, etc.) were not done in terms of policies &amp; procedures, resulting in ineligible beneficiaries receiving grant.</li> <li>Valuation of grants debtors and debtors’ impairment remains a risk as amounts not recoverable are not properly written off or impaired.</li> <li>The asset register that was provided by management does not agree to the interim financial statements for the period ended 30 September 2021. This may indicate that the asset register is not updated on a regular basis and the necessary reconciliations are not being done timely.</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>DSD Guideline for performance monitoring and reporting last updated and approved in March 2012, thus key updates of Treasury Regulations and DPME Regulations may be missing.</li> </ul>
<b>Procurement and contract management</b>	<ul style="list-style-type: none"> <li>Forty-four (44) bids, which were planned to be awarded in the period ending 31 December 2021, were not awarded as per the procurement plan. However, the evaluation of the bids was still in progress. This may indicate that the department's progress in executing its mandate may be slower than expected. this may be as a result in failure to contract timeously and may result in deviations, incurrence of irregular expenditure, and failure to achieve set targets.</li> </ul>

# Status of records review – Department of Social Development as at 31 December 2021 (cont.)

Focus area	Insights
<b>Compliance management</b>	<ul style="list-style-type: none"> <li>The inability to finalise investigations in a timely manner has resulted in a failure to implement consequence management against those who were responsible for incurring irregular expenditure and fruitless and wasteful expenditure.</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>There are vacancies in key posts, including that of the director-general.</li> </ul>
<b>IT Management</b>	<ul style="list-style-type: none"> <li>IT security and user management findings were reported in the 2020/21 audit. The findings included a number of key weaknesses in the firewall that was recently implemented and has not yet been fully tested to ascertain its effectiveness. Given the current environment, in which online communication is used, weakness in security management may leave the department vulnerable to cybercrime.</li> </ul>
<b>Financial Health</b>	<ul style="list-style-type: none"> <li>Department show a net asset position mainly due to the high grant debtors outstanding. As all these funds are not recoverable and if majority is written off or impaired it will result in the department being in a net liability position.</li> <li>The department should monitor the systems and policies of grants payments as administered by SASSA to minimise grant debtors balance.</li> </ul>

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



Focus area	Insights
<b>Financial management</b>	<ul style="list-style-type: none"> <li>The preventative controls over recognition and classification of assets are not effective. We noted some assets that were incorrectly recognised as work in progress as well as deficiencies in the asset management system that does not take into account the exact period the asset was placed/ brought in use in allocating the depreciation of the capital assets.</li> <li>Long outstanding debtors for a period of 2-3 years, which is an indication that debtor accounts are not followed-up regularly in line with the debt management and collection policy of the Agency.</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>We reviewed Q1 and Q2 performance reports and noted that at end of Q2, the entity had not achieved desired quarterly performance for two consecutive quarters. Annual performance targets may thus not be achieved, which could impact service delivery.</li> <li>In addition inconsistencies between the 2021-22 Annual Performance Plan and the first and second quarter performance reports for the number of social grant applications approved indicator that may result in misstatements to the performance reported in the annual performance report.</li> </ul>
<b>Compliance</b>	<p>There is slow progress in finalising cases under investigation, which impacts on consequence management. Some of these cases date back to 2011 – Irregular expenditure and 2013 – fruitless and wasteful expenditure cases. The inability to finalise investigations has resulted in a failure to implement consequence management against those who were responsible for incurring irregular expenditure and fruitless and wasteful expenditure.</p>

## Status of records review – SASSA (cont.)

Focus area	Insights
<b>Procurement and contract management</b>	<ul style="list-style-type: none"> <li>As per the status of the implementation of the procurement/demand management plan, only 25% of the 136 planned bids were awarded as at 31/12/2021 while 68% was still in progress and 4% not yet started.</li> <li>83 contracts had expired as at 30/09/2021 with no replacements contracts through the normal procurement process or deviation process. This may result in undue deviations from normal procurement process and to the incurrence of irregular expenditure if extensions are not obtained from National Treasury timeously or if the conditions attached to the National Treasury approval of deviations are not complied with.</li> </ul>
<b>Human resources</b>	<ul style="list-style-type: none"> <li>Vacancies in senior management positions, including Chief Operations Officer, General Managers, Senior Managers and District Managers.</li> <li>As per the Labour Relations report for the period April 2021 to November 2021, two suspensions of Senior Managers were noted which put a strain in human resources which may compromise segregation of duties and lead to poor worker morale.</li> <li>Appointment of officials without valid qualifications may result to material irregularities, which may be reported in the audit report.</li> </ul>
<b>IT management</b>	<ul style="list-style-type: none"> <li>IT security, IT service continuity and user management findings were reported in the 2020/21 audit. The findings included the internal control weaknesses relating to the Disaster Recovery Plan (DRP) which did not include the SRD 350 grant management system and failure of SOCPEN to validate if grant applicants have any source of income as well as the amount of income being earned by the applicants to ensure that beneficiaries do not receive grants that are higher than what they qualify for.</li> </ul>
<b>Oversight and monitoring</b>	<ul style="list-style-type: none"> <li>Only 49% of the planned initiatives have been implemented as at 30 October 2021. This creates a risk that those findings may reoccur in the current financial year if the necessary preventative controls are not implemented.</li> </ul>

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

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- No Status of records review was performed at NDA.
- The term of the previous board for the NDA ended on 30 June 2021 and the vacancy has not been filled, the current acting CEO has been appointed to be the interim accounting authority. This structure is not in compliance with the requirements of section 5 of the National Development Agency Act as the act requires the board to consist of 11 members.



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# Material Irregularity

# Why the expanded mandate?

## To strengthen accountability mechanisms in public sector

### Accounting officers (AO)

AO 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 AO so they can **timeously take appropriate steps in terms of legislation**
- **give space to AO 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 provided to assist oversight and monitoring roles

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

# 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 accounting officer/authority does not appropriately deal 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 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 is 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 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 accounting officer was notified, but that are still **in process**
- **Progress made in resolving material irregularities** reported in previous audit report

# Legal obligations of accounting officer to address irregularity

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

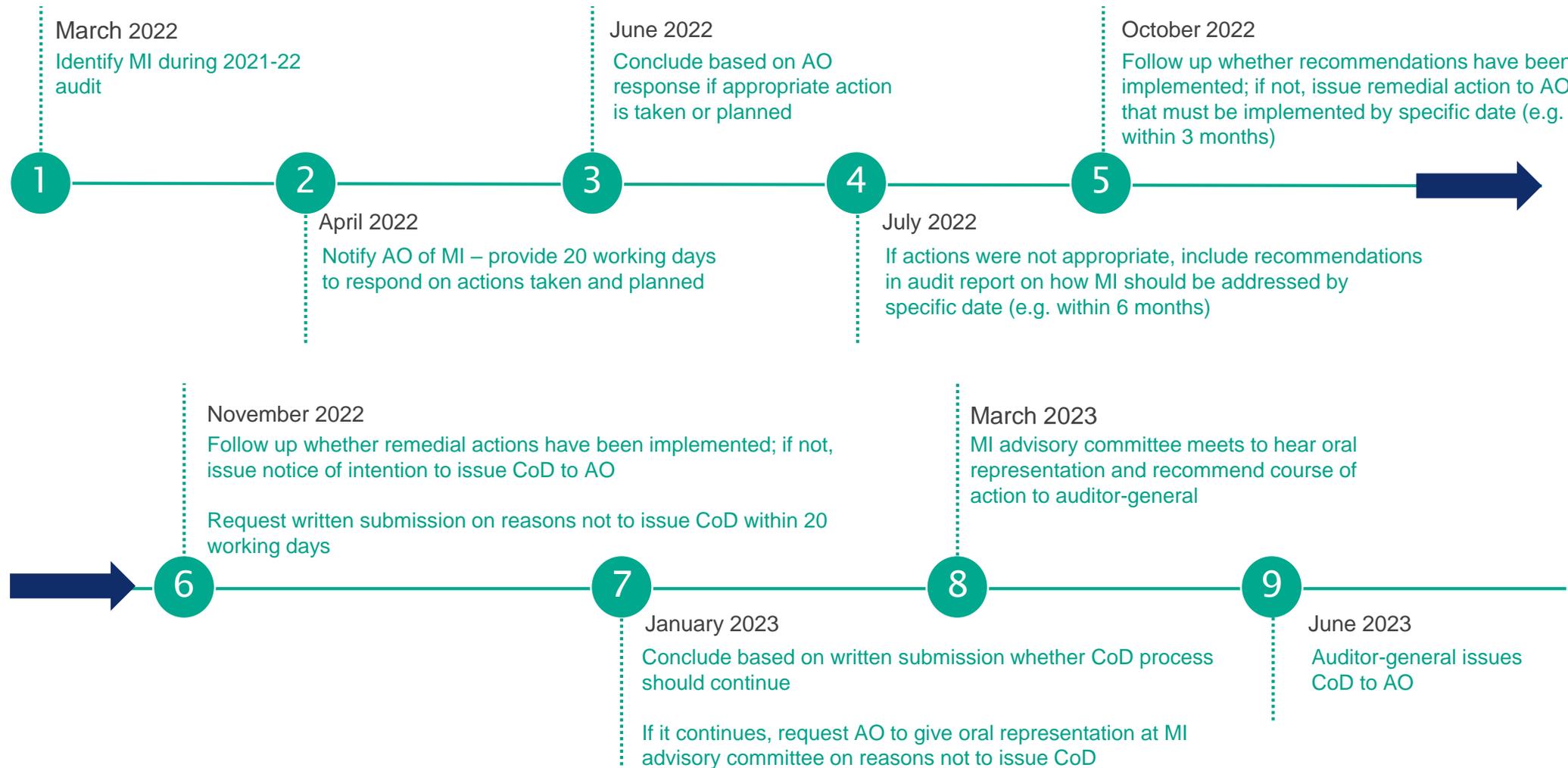
## **If applicable**

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 reoccurrence</p> <p><b>AGSA...</b> follows up in next audit if actions were implemented and if outcomes were reasonable; if not, 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 reoccurrence</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*)



**Recommendation  
included in audit  
report**

## AO and AGSA

**AO**... implements recommendations by date stipulated in audit report and improves controls to prevent reoccurrence

**AGSA**... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable; if not, issues remedial action

## Executive and oversight

**Executive**... monitors progress and supports AO in implementing recommendations and improving controls

**Oversight**... monitors progress and calls AO to account for actions taken and outcomes

# Status of previously reported material irregularities



## Status of MIs reported

### Description

#### Payment of social assistance fees for services not rendered

In April 2018, Sassa made a payment for social assistance fees to a service provider in relation to grant payments to beneficiaries. The service provider was not entitled to the fees since Sassa had directly made the related grant payments to the beneficiaries' bank accounts on its own. The payment for services not rendered to Sassa resulted in non-compliance with section 50(1)(a) and (b) of the PFMA as the accounting authority did not act in the best interests of Sassa. The non-compliance also resulted in a material financial loss of R74 million for Sassa. This amount is still disclosed as part of the closing balance of fruitless and wasteful expenditure as indicated in note 30 to the 2020-21 annual financial statements of Sassa.

### Status:

- Adequate steps are being taken by the accounting authority to address the MI. An investigation is being conducted to determine if any current and former staff can be held liable.
- The recovery process can only be completed once the liquidation process of the entity that received the payment is finalised.

# Status of previously reported material irregularities- (cont.)



## Status of MIs reported

### Description

#### R350 grant payments made to ineligible applicants

- Payments were made to ineligible individuals due to inadequate internal controls to perform validations and prevent payments being made to persons that were not entitled to the SRD R350 grant. This resulted in non-compliance with section 51(1)(a)(i) of the PFMA as the entity did not maintain effective, efficient and transparent systems of financial and risk management and related internal controls. The non-compliance is likely to result in a material financial loss for Sassa.

### Status:

- MI is still in progress, further work is being done on the R350 grants based on disagreement from the accounting authority in their submission in response to the MI.

# Status of previously reported material irregularities- (cont.)



## Status of MIs reported

### Description

#### Overpayment of R316 million to a service provider

- During 2014, Sassa made a payment of R316 million to a service provider that was appointed to administer grant payments at the time. The payment was made as part of a variation to the service level agreement with the service provider. However, this variation was concluded contrary to Sassa's supply chain management policy in that no prior approval from the bid adjudication committee had been sought or given. The variation was not necessary since the additional services were covered by the existing service level agreement with the service provider. This meant that the service provider was not entitled to the additional payment from Sassa.
- The payment for services not rendered resulted in non-compliance with section 51(1)(c) of the PFMA and a financial loss of R316 million to Sassa.

### Status:

- Adequate steps are being taken by the accounting authority to address the MI. An investigation is being conducted to determine if any current and former staff can be held liable.
- The recovery process can only be completed once the liquidation process of the entity that received the payment is finalised.

## Material Irregularity – Actions by Portfolio Committee

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- 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.



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# Recommendations

# Recommendations to ensure improvement in audit outcomes

## The following must be addressed within the portfolio:

### What remains which still requires attention:

Follow-up on the Material Irregularities and ensure that they are all addressed and relevant actions taken against all implicated officials.

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

Ensure that all the key audit issues reported in the status of records review under the key focus areas are timeously addressed.

## Accounting officers/authorities within the portfolio

- Ensure adequate and effective implementation of preventative controls.
- Develop and timely implement effective action plans to address audit findings and key deficiencies, especially on SCM.
- Implement adequate review and monitor controls regarding performance and consequence management.
- Implement a proper record management system to maintain information that supports the reported financial and performance information



## 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.
- **Monitor** and follow up on the progress of receiving databases on a regular basis to do the monthly validations against other databases to reduce the risks of payment to ineligible applicants.
- Follow up on **appointment of the NDA board** in terms of the NDA Act.

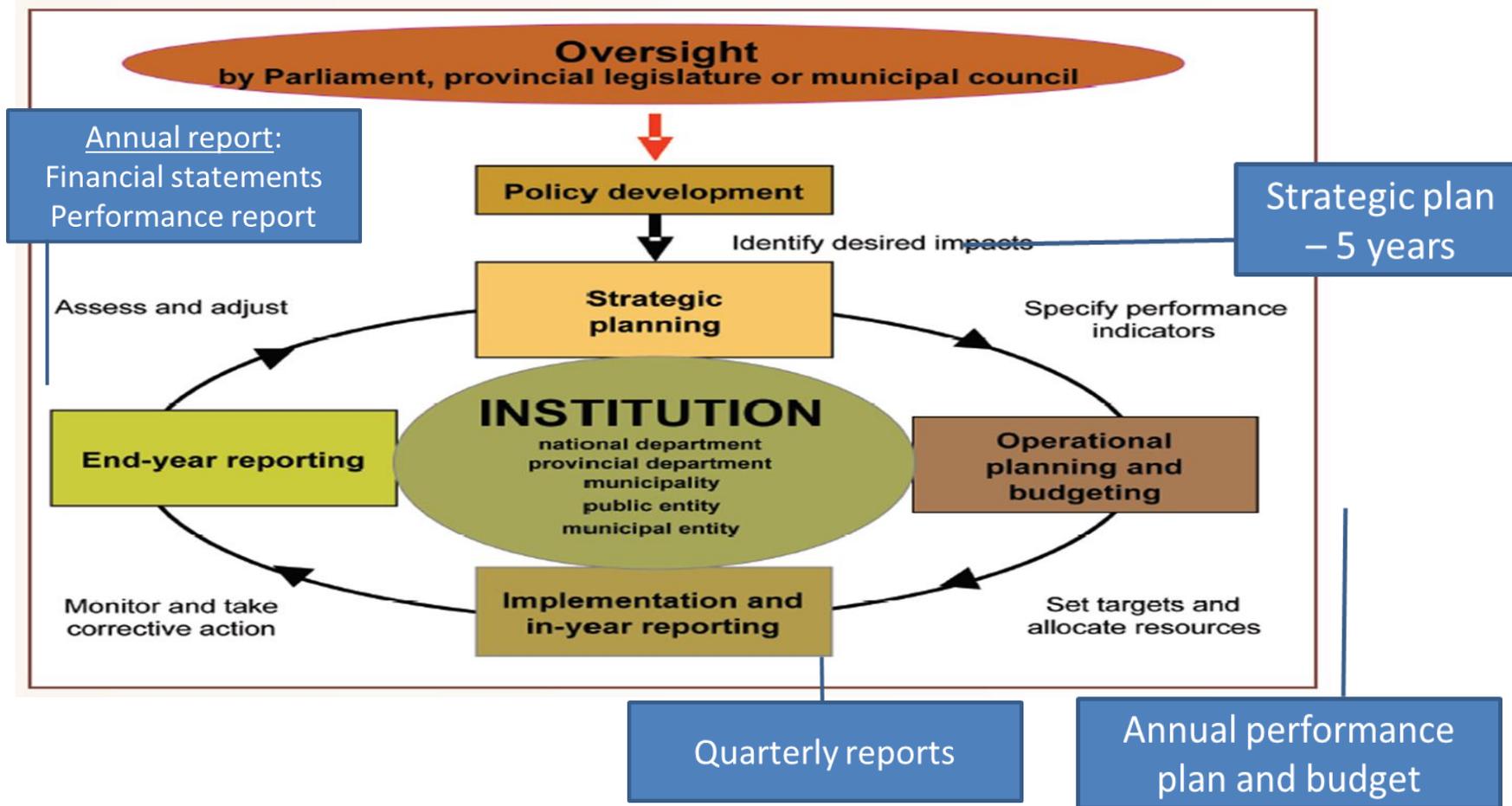


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# Capacity Building – Audit of Performance Information



# The planning, budgeting and reporting cycle of government



Portfolio Committee to be involved in this process

# Audit criteria derived from the framework

Usefulness of reported performance information	
<b>Consistency</b>	Performance indicators and targets are consistent between planning and reporting documents.
<b>Measurability</b>	Performance indicators are well defined and verifiable, and targets are specific, measureable and time bound.
<b>Relevance</b>	Performance indicators relate logically and directly to an aspect of the entity's mandate and the realisation of strategic goals and objectives.
	From the entity's mandate, applicable legislation and strategic goals and objectives, all performance indicators are included in the approved plan.
<b>Presentation and disclosure</b>	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, measuring, preparing and presenting of actual performance achievement is valid, accurate and complete.	

# Current performance information reporting approach

## Management report



The audit opinion is expressed in the management report, on 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 does 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

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- 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 budget.



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# Preventative Control Guides



# Preventative controls

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## 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 AA that weaknesses are being effectively addressed.

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