

# HEARING BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS (SCOPA)

*SCOPA REVIEW OF 2020-2021 FINANCIAL STATEMENTS, DEVIATIONS, EXPANSIONS,  
IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE REPORTS OF THE RAF*



**Road  
Accident  
Fund**

# Outline

1. Background - Mandate of the entity
2. Change in Accounting Policy
3. Dispute with the AGSA
4. Audit Report for the 2020/21 Financial Year
5. Legal Proceedings
6. Irregular, Fruitless and Wasteful Expenditure

# **BACKGROUND - MANDATE OF THE ENTITY**

## CORPORATE AND STATUTORY FORM

- Road Accident Fund Act, 1996 (Act No. 56 of 1996) & RAF Amendment Act, 2005 (Act No. 19 of 2005).
- National Public Entity (Schedule 3A of the PFMA).
- Constitutional Court Rulings and legal precedents have shaped the mandate.

## OBJECT OF THE FUND

- Payment of compensation, ***in accordance with the RAF Act***, for loss or damage wrongfully caused by the driving of motor vehicles

# BACKGROUND – AUDIT OUTCOMES

Financial year	Audit Outcome	Area of Finding Raised	Nature of Finding Raised
2019/20	Clean Audit Report	-	-
2018/19	Unqualified with material findings	Audit of performance information	Reliability of 1 target could not be confirmed
2017/18	Unqualified with material findings	Compliance with Legislation	Value of Irregular Expenditure exceeded the Trivial Threshold
2016/17	Clean Audit Report	-	-
2015/16	Unqualified with material findings	Compliance with Legislation	Value of Irregular Expenditure exceeded the Trivial Threshold
2014/15	Clean Audit Report	-	-

# **CHANGE IN ACCOUNTING POLICY**

2020/21 Financial Year

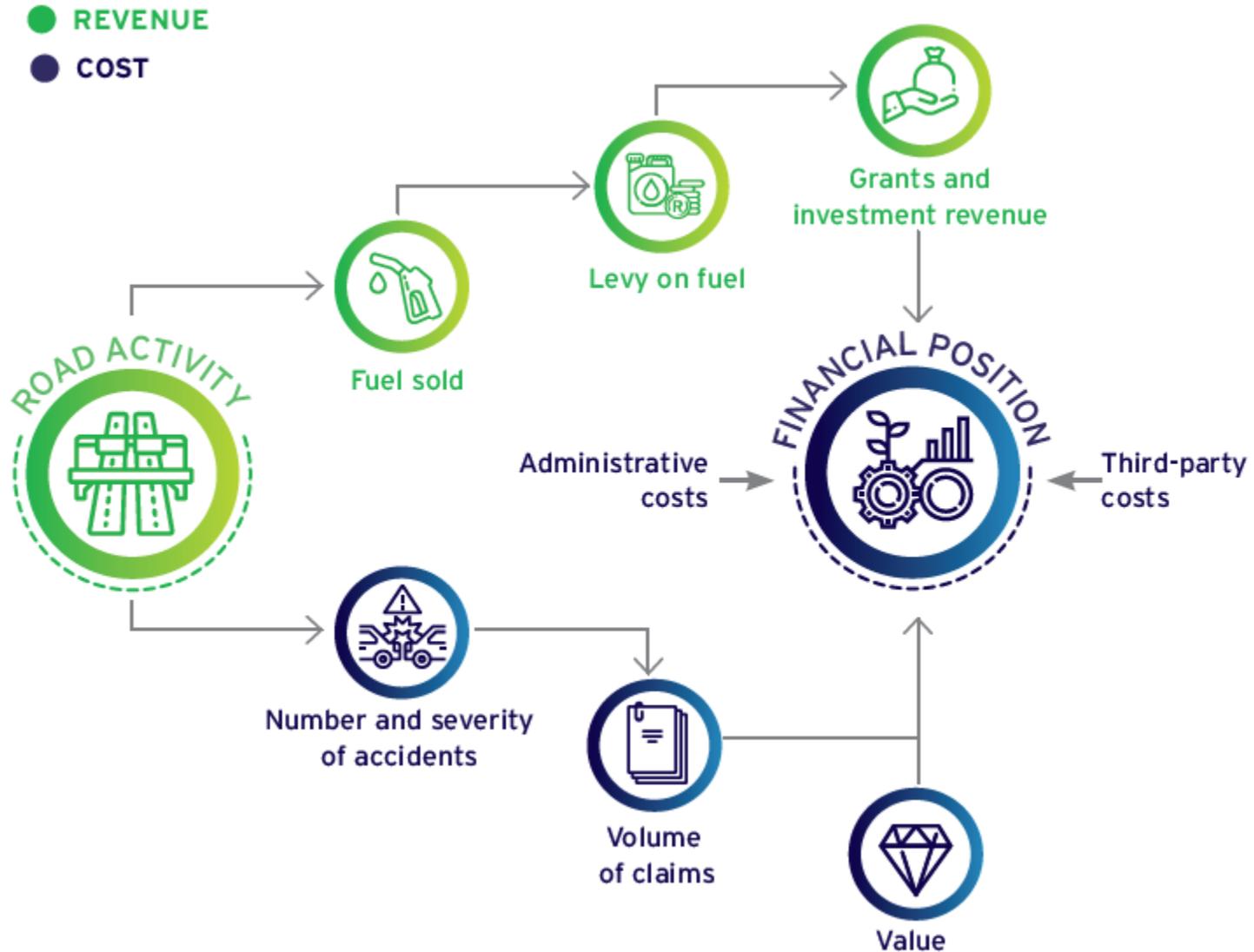
# CHANGE IN ACCOUNTING POLICY

- Section 55(1)(b) and (1)(b) of the PFMA empowers the accounting authority to prepare financial statements in accordance with generally accepted accounting practice and to ensure that such statements fairly represent the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned.
- One of the key deliverables and priorities for the Board was the investigation of the escalating liability that was estimated at R330 billion as at the end of 2019/20 financial year.
- During the investigation of the liability, management discovered that the escalation of the liability coincided with an accounting policy adopted in 2013/14 financial year. This accounting policy was formulated using IFRS 4, which is accounting for insurance contracts.
- At the core of this accounting policy change was the obligating event for accounting for claims liability and ultimately whether the RAF is in the business of Insurance or a social benefit fund. A dispute surrounding this matter arose between the AGSA and the RAF during the audit of the 2013/14 financial year. RAF management ultimately conceded under threat of a qualified audit report.
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# CHANGE IN ACCOUNTING POLICY

- The Road Accident Fund is in fact a social benefit scheme and therefore does not have any insurance contracts. It is simply not an insurance company or involved in the insurance business. Furthermore, it does not fall within the definition of an insurance fund in terms of the Insurance Act 18 of 2017. The Prudential Authority, the RAF's regulator maintains that the RAF is fundamentally a social benefit fund.

# Figure 1: OUR BUSINESS MODEL



# CONSULTATION WITH THE ASB

- The Road Accident Fund, after consultations with the AGSA, approached the Accounting Standards Board (ASB) with the intention to further investigate the rationale for the change in accounting policy in the year 2013/14 as the AGSA had indicated that the then accounting policy was as a result of the directive, through a letter, from the ASB.
- A meeting between the ASB and the RAF occurred in January 2021 at which the CEO of the ASB stated that the 2013/14 letter was not authoritative, but that entities should consider the application of IFRS 4 to identify insurance like activities. The ASB issued a letter to the RAF in February 2021 to this effect.
- The RAF was, up until this point, under the impression that it was obliged to apply IFRS 4 to its Annual Financial Statements. Had the ASB indicated that the letter was authoritative, the RAF would not have proceeded with the Change in Accounting Policy.
- This consultation culminated in the RAF starting a process, as expected at the end of every financial reporting period, to assess the accounting policies with a view to prepare financial statements that give fair representation of the financial position of the RAF.

# DEVELOPMENT OF NEW ACCOUNTING POLICIES

- The RAF considered the available GRAP Accounting Standards and other international accounting standards as allowed by GRAP 3 in order to identify an accounting standard which best represented the economic substance of the transactions.
- Where there is no GRAP Standard applicable to the transactions of an entity, GRAP 3 allows management to formulate accounting policies from Accounting Standards Issued by other accounting standard setters namely the International Public Sector Accounting Standards Board (IPSASB) and the International Accounting Standards Board (IASB) that promulgate International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) respectively.
- GRAP 3 prescribes the order of application of Accounting Standards as follows:
  - Standards of GRAP
  - IPSAS
  - IFRS
- As there was not an appropriate GRAP standard that could be applied, RAF management turned to the IPSAS standards that were issued by the IPSASB, in accordance with the preference stipulated in GRAP 3. IPSAS 42 on Social benefits issued in 2019 was identified as an appropriate accounting standard that would reliably reflect the transactions of the RAF.

# DEVELOPMENT OF NEW ACCOUNTING POLICIES

- A new accounting policy was formulated using the IPSASB's, new standard for social benefits, IPSAS 42. This was done in line with the GRAP 3 Standard that provides management the authority to apply its judgment in formulating an accounting policy.
- Prior to the approval of the Annual Financial Statements by the Board of RAF and submission to AGSA, the annual financial statements were subjected to an independent review by an independent accounting firm to ensure management had correctly applied IPSAS 42 in the annual financial statements.
- The annual financial statements were submitted to the AGSA for audit in May 2021.

# **DISPUTE WITH THE AGSA**

# ORIGIN OF THE DISPUTE

- On 25 June 2021 the AGSA issued a finding that sought to disagree with the new accounting policy that the RAF has adopted and recommended the continued application of IFRS 4.
- RAF management responded to the finding, providing the AGSA with all technical considerations management used to arrive at the newly formulated accounting policy.
- The AGSA however, concluded that the new accounting policy was not appropriate, despite management's explanations and requests for the AGSA to obtain an external review opinion.
- This resulted in a dispute between the AGSA and RAF on this technical aspect of the audit which is a material disagreement.

# MATTERS OF DISAGREEMENT

- The AGSA retained the view that the RAF performed insurance activities and that IFRS 4 was appropriate to be applied to the annual financial statements. This view was maintained, despite the RAF's clear demonstration that this was not the case and that the PA, the regulator of the RAF, considers the RAF a Social Benefit Fund.
- The AGSA expressed the view that liabilities for claims against the RAF should be recognised at the date the accident occurred, even though management clearly demonstrated the fact that the RAF does not incur liability until a claim is registered with the Fund and found to be valid in accordance with all the requirements of the RAF Act.
- The AGSA expressed the view that IPSAS 42 was in conflict with the Conceptual Framework for General Purposes Financial Reporting as the application of the standard resulted in liabilities being recognised only when the claim has met the requirements of the RAF Act and not at the date the accident occurred.
- The AGSA at no point responded to the technical considerations put forward by RAF management. They were merely overruled.

# DISPUTE RESOLUTION PROCESS FOLLOWED

- In accordance with the dispute resolution process recommended by the AGSA, RAF management referred the matter to the Office of the Accountant General (OAG) at National Treasury for mediation in July 2021.
- Repeated engagements took place between the RAF and the OAG where the technical aspects of the dispute were discussed and representations made. The AGSA was not present at these engagements and the OAG assured the RAF that engagements between the OAG and the AGSA were taking place.
- RAF management also requested the AGSA's technical report on the matter in order for the report to be considered. The AGSA however has not provided this report to date.
- In December 2021, the AGSA issued a letter to the OAG indicating that the Audit would be finalised within a week, regardless of whether the dispute resolution process was complete or not. As such the AGSA did not allow the dispute resolution process to be completed before issuing the Audit report for the 2020/21 financial year.

# **AUDIT REPORT OF THE 2020/21 FINANCIAL YEAR**

# AUDIT REPORTED ISSUED

- The AGSA then proceeded to issue an audit report containing a disclaimer of opinion on the annual financial statements.
- Due to the fact that the annual financial statements would only be approved by the board after the dispute resolution process was complete and the matter resolved, the AGSA issued their disclaimer of opinion on the draft annual financial statements submitted for audit in May 2021.
- The adjustments made to the draft version of the annual financial statements submitted in May 2021 were material adjustments and included other material adjustments recommended by the AGSA.
- The audit report of the AGSA inappropriately expresses an opinion on the incorrect version of the Annual Financial Statements.

# **LEGAL PROCEEDINGS**

- In January 2022, the RAF instituted an urgent application to the high court to:
  - prevent the AGSA from publishing the issued audit report until such time as the disagreement was resolved, and
  - requesting that a judicial review be performed on the conclusions of the AGSA.
- The application to prevent the publication of the audit report was dismissed by the court but leave to appeal has been granted. The AGSA published their report and tabled it at parliament.
- The application for the judicial review is currently still under way as the court is awaiting the responding affidavit of the AGSA. The AGSA was expected to have filled their responding affidavit on the 26 August 2022 and they had not yet filled at the time of preparing this report.
- It is the RAF's wish that this legal dispute is expedited because this also impacts negatively on the current audit of the 2021/22 FY.

**IRREGULAR, FRUITLESS AND  
WASTEFUL EXPENDITURE**

## FRUITLESS AND WASTEFUL EXPENDITURE

	2021	2020
	R '000	R '000
Opening balance	-	453
Fruitless and wasteful expenditure - relating to prior year	1	3
Fruitless and wasteful expenditure - relating to current year	1 633	15 350
Less: Amounts finalised	(1 226)	(15 798)
Less: Amounts transferred to receivables for recovery	(4)	(8)
<b>Fruitless and wasteful expenditure awaiting resolution</b>	<b>404</b>	<b>-</b>
<b>Reconciliation of fruitless and wasteful expenditure recoverable</b>		
Opening balance	10	12
Recoverable fruitless and wasteful expenditure identified in the current year	4	8
Less: Amounts recovered	(5)	(10)
<b>Fruitless and wasteful expenditure recoverable</b>	<b>9</b>	<b>10</b>

# 2020/21 FRUITLESS & WASTEFUL EXPENDITURE

BRIEF DESCRIPTION OF INCIDENCE OF FRUITLESS AND WASTEFUL EXPENDITURE	INCIDENT DATE	COMPANY INVOLVED	AMOUNT IN RANDS	ACTION TAKEN AGAINST THE OFFICIAL/S
Claims-related expenditures (Interest, Sheriff Costs and Writ Costs)	April 2020 to March 2021	N/A	R 1,226,056.00	1 employee counselled, 4 verbal warnings and 6 written warnings issued.
Additional travel costs (Hotel and Travel booking cancellations)	February 2020 to March 2021	Travel with Flair (Travel Management Company)	R5,368.10	The responsible party is no longer employed with the Fund.
Interest incurred on supplier invoices	April 2020 to March 2021	SKG Africa (Pty) Ltd	R99,907,00	Responsible employee was dismissed
Contract with a supplier in breach of contract was not terminated timeously	April 2020 to March 2021	EENBEE Plumbing	R303,600.00	No disciplinary action has been taken as the individual responsible has not been identified.

# 2020/21 IRREGULAR EXPENDITURE

## IRREGULAR EXPENDITURE

	2021 R '000	2020 R '000
Opening balance	341 995	338 421
Add: Irregular expenditure - prior year	69 031	3 734
Add: Irregular expenditure - current year	23 963	-
Less: Amounts condoned	-	(160)
<b>Irregular expenditure pending condonation or recovery</b>	<b>434 989</b>	<b>341 995</b>

# 2020/21 IRREGULAR EXPENDITURE

BRIEF DESCRIPTION OF INCIDENT OF IRREGULAR EXPENDITURE	INCIDENT DATE	COMPANY INVOLVED	AMOUNT IN RANDS	ACTION TAKEN AGAINST THE OFFICIAL/S
Extension cables in excess of the value of R2 000 were bought without following the correct procurement process.	May 2020	N/A	R3,698.56	Responsible employee has left the employ of the RAF and no action could be taken.  Item has been condoned by NT subsequent to reporting.
Delayed submission of a request for the variation of a lease to extend the period, which resulted in variation not being supported by NT.	October 2020	Delta Property Fund	R2,167,257.50	Matter still under determination stage.
Services procured from a service provider without following the correct procurement process.	October 2019 to November 2019	Managed Integrity Evaluation (Pty) Ltd	R20,763,15	1 employee received a written warning.  Item has been condoned by NT subsequent to reporting.
The correct procurement process was not followed when procuring emergency PPE during the National Lockdown and thus NT instruction no 8 of 2020 was not complied with.	April 2020	Monabo Cleaning Services Mosegoane Trading and Projects	R487,432.45	1 employee has been dismissed and further investigation into other employees is ongoing.

# 2020/21 IRREGULAR EXPENDITURE

BRIEF DESCRIPTION OF INCIDENT OF IRREGULAR EXPENDITURE	INCIDENT DATE	COMPANY INVOLVED	AMOUNT IN RANDS	ACTION TAKEN AGAINST THE OFFICIAL/S
A rental car was kept beyond the original rental period without the necessary approvals.	October 2020	Travel with Flair	R13,252.75	A warning was issued to the responsible employee.
The procurement process to appoint a service provider to perform Tenant installations was not followed.	September to November 2020	SKG Africa (Pty)Ltd	R1,058,837.99	The responsible employee has been dismissed.
The price evaluation performed during the tender process in 2013/14 was not performed correctly, resulting in the irregular appointment of the fleet vehicle service provider.	2013/14 FY	Fleet Data Technologies	R67,951,799,83	4 of the 8 people recommended for disciplinary action have since resigned from the RAF. The disciplinary hearings for 4 employees are currently under way.

# 2020/21 IRREGULAR EXPENDITURE

BRIEF DESCRIPTION OF INCIDENT OF IRREGULAR EXPENDITURE	INCIDENT DATE	COMPANY INVOLVED	AMOUNT IN RANDS	ACTION TAKEN AGAINST THE OFFICIAL/S
The correct procurement process was not followed to procure a service provider to move printers from the old office location to the new premises. This service was not included in the original contract.	March 2020	Altron Bytes	R117,305.11	The responsible employee has been dismissed.
Payments relating to medical expenses for specific claims were split into smaller payments and approved by an official with a lower level of delegation of authority.	July 2020	N/A	R21,173,961.89	The investigation into this matter is ongoing.

# Thank You

