**Report of the Standing Committee on the Auditor-General on its Oversight visit to the Auditor-General of South Africa in Pretoria, Gauteng on 25 March 2022, Dated 21 September 2022**

1. **INTRODUCTION**
2. On 25 March 2022, the Standing Committee on the Auditor-General (the Committee) undertook an oversight visit to the head offices of the Auditor-General of South Africa (AGSA) in Gauteng, its first in the Sixth Parliament.

This report entails the nature and extent of the reported issues, deliberations and related activities undertaken during this important visit.

1. The Committee met the AGSA Executive team, led by the Auditor-General, and later undertook a walk-about of the premises, which the institution recently took occupation of.
2. The Committee delegation comprised of: ANC; Mr S Somyo, MP, (Chairperson and Leader of the delegation); Ms C Seoposengwe, MP, DA; Mr M Hoosen, MP, Ms S Kopane, MP, and IFP; Mr N Singh, MP.
3. The delegation was supported by staff members; Mr P Mbele (Committee Secretary); Mr M Hlekiso (Committee Researcher) and Mr E Martiens (Stand-In Committee Assistant)
4. **BACKGROUND AND CONTEXT**

In October 2021, the Committee held the mandatory briefing with the AGSA on its 2020/21 Integrated Annual Report. In line with its theme of ‘Increased Relevance in a Changing World’, the report reflected on the challenges facing the country’s governance systems, including financial management, in the midst of the global Covid-19 pandemic. It reminded the nation of the R500 billion funds that were released by the government to cope with the pandemic’s ramifications, and the challenges of transparency and accountability that came to the fore when these funds were dispersed. The theme, as other parts of the report, further reflected on the Auditor-General’s role in seeking to bring about these important governance values, and the work that was done thereof, especially the real-time audits on the management of the funds, as well as the collaborative work done with law enforcement authorities thereafter.

Although the report was well-received by the Committee and the AGSA commended for its sterling work during the most difficult if periods, a number of issues were raised that the collective felt need further attention and follow-up, these ranged from; the seeming resistance from section 4 (3) SOEs, which are not audited by AG to change their current auditors, the increase in outstanding debts owed to the AGSA, as well as the funding model of the institution under the current economic climate.

The Committee, as part of its oversight work, has undertaken to hold its own Strategic Plan for the parliamentary term. Following up on these important matters would assist it to plan for an active oversight programme up to the end of its term. Furthermore, as part of its member’s induction to the work of the AGSA, it was thought important to visit the head offices of the institution, which happen to be newly-occupied by the AGSA, following years of challenges with office accommodation and space.

Following up on the most recent deliberations on the AGSA IAR, the Committee’s topical oversight objectives, in this instance, were centred on the following:

1. On taking up more SOE audits - AGSA had reported commendable efforts to increase its ability to handle such audits and create some desire to audit them. These efforts which are in line to address concerns raised by SCOAG in its previous engagements with AGSA, that AGSA should ensure that it audits all of the 21 Schedule 2 SOEs. However, these efforts reportedly exerted pressure on the resources of AGSA due to a continuous need for intensive training and learning for staff after taking over and in preparation for the takeover.
2. It was further reported that for those SOEs, which are still not yet under the AGSA’s audit portfolio, the AG has enhanced their audits oversight by implementing the PAA regulations. This has to ensure that AGSA concurs with the conditions of appointing private auditors to those SOEs. In implementing such enhanced strict audits oversight to those SOEs, which are still yet to become under AGSA’s audit Portfolio, AGSA has identified threats of familiarity at some institutions that have been audited by the same private auditors for between five to twenty years. To emphasise its commitment to good governance for those SOEs, AGSA imposed some conditions, which include amongst others, that those SOEs should appoint new auditors for the 2021/22 financial year. In this regard, AGSA reported that they receive pushbacks from other SOEs.
3. Therefore, it was important to find out on how AGSA planned to address the looming need for resources taking into consideration the limited resources they have. Further, the Committee wished to ascertain the form of assistance SCOAG would give to AGSA, if any, for the institution to require to fast track the takeover of the remaining Schedule 2 SOEs.
4. AGSA had planned to achieve 80%-90% implementation of 2020/21 ICT projects to implement the ICT strategy. For the 2020/21 financial year, only 77 percent of ICT projects were implemented towards achieving ICT Strategy. Some of the reasons for this non-achievement of this performance target include amongst others, delay in finalisation of IT strategy, retention of ICT employees that resulted in a high turnover of employees in IT infrastructure.
5. It was reported that during the 2020/21 financial year, an amount of R638 million was spent on core audit work by private firms. This amount was lesser than the amount spent on private firms (R686 million) for the 2019/20 financial year. The Committee needed to be appraised on the plans in this regard, going forward.
6. Historically, AGSA used to experience a challenge of outstanding debts which were mounting annually. In conjunction with the SCOAG, in 2014, AGSA introduced some enhancement collection strategies, which include ring-fencing of the outstanding debts with auditees and litigation of auditees. Following the implementation of those strategies, the challenge of outstanding debts subsided pointing to the effectiveness of these strategies. However, with some financial challenges from municipalities and some SOEs, those strategies may need to be reviewed. The Committee wished to engage the leadership of the institution on this matter.
7. Lastly, considering all the challenges, which impose financial risk to AGSA, it is important to have ongoing, yet effective discussions on the relevance or irrelevance of the current Funding Model of the AGSA and its impact on the institution’s work into the future.
8. **REPORTED ISSUES FOR OVERSIGHT AS DISCUSSED**
   1. **Use of private audit firms**

Since 2013/14 audit period, the AGSA had to start taking over the schedule two audits from the private audit firms. Out of 21 Schedule two entities, AGSA began to audit the following entities in 2013/14 audit period:

* National Energy (Necsa) –
* SAFCOL-
* SA Express Airways –
* Central Energy Fund (CEF)-
* South African Broadcasting Authority (SABC) –
* Land Bank –

In 2021/22 audit period, AGSA audited 15 SOEs out of 21 schedule two entities to be published in their annual reports in 2022, namely:

* Independent Development Trust (IDT)
* Post Office of South Africa (SAPO)
* Development Bank of South Africa (DBSA)
* ARMSCOR
* Trans Caledon Transport Authority (TCTA)
* SA Express Airways
* South African Broadcasting Corporation (SABC)
* Airport Company of South Africa (ACSA)
* SAFCOL
* CEF
* Land Bank
* Necsa
* Denel
* South African Airways (SAA)
* Transnet

The AGSA informed the Committee that it will continue to make use of private audit firms, thought it will maximize the use of its own resources. The envisaged participation of private firms is at 15% of the total audit work.

* + 1. **Next audit planned for take-over by AGSA**

Eskom is the next auditee to be taken over by AGSA, however AGSA still need to undertake a detailed study on Eskom’s environment, nature, timing and extent of audit and risk assessment. Eskom is one of the complex entities, which have a complex audit environment that requires a carefully planned audit approach. Therefore, AGSA has to undertake the assessment of resources, specialized skills and expertise as well as the resource structure in terms of auditing personnel. AGSA has to also ensure that it carefully apply the accounting policies in a complex transactions and activities of the entity, which require expertise for assurance and specific accounts.

* 1. **Funding model**

The AGSA’s current funding enables the funding of both operational and capital expenditure, and still allows the institution to remain commercially viable and financially independent.

As a self-funded organization, the AGSA charges fees based on the services performed. The funding is stated in section 36(1) of the Public Audit Act, and in practice consists of the money:

* Earned as fees for audits or services performed by the AGSA in terms of the Act or any other legislation;
* Appropriated by Parliament for the purposes of the AGSA and;
* Earned on investments.

In addition, the institution may accept a donation or bequest, provided that it will not result in a conflict of interest. However, the consideration to determine the practicality of this element is being currently reviewed.

AGSA reports that as part of its #CultureShift2030 strategy, it has refocused the attention on how audit insights can be used to drive high-impact outcomes in the public sector. A review of the operating and funding model will be carried out. Consideration of the following elements will be at the centre of the review; the pricing of AGSA services based on the value of insights (messages) to auditees and other stakeholders; improving operational processes, technology and audit methodology to improve audit efficiencies; as well as considering various options to fund major capex projects.

The leadership of AGSA briefed SCOAG, at length, on their revenue optimization journey. Amongst some of the efforts in this category, the commitments include:

* Ensuring that audits are run efficiently, resulting in resources being released to take some work away from CWC, using opt in/out tactics and differentiated audit methodology (small audit packages);
* The finalization of the implementation of the resource pooling policy, to drive the use of the AGSA’s own resources before allocation to CWC;
* Building more internal capacity, skills and competencies to take back more key strategic audits, as well as;
* Enabling the organization to make informed decisions on continued association with CWC service providers.

The Committee also heard that over the last two years, the AGSA invoiced R246 million to the National Treasury for the 1% allocation for financially distressed municipalities, but only R141 million (57%) has been collected. This leaves a funding shortfall of R105 million. Of that shortfall, the National Treasury offered to pay R70 million as a final settlement before 31 March 2022.

* 1. **Debt collection**

As reported in the AGSA’s last Integrated Annual Report, the local government sector remains the largest contributor to the institution’s debt book (R770 million or 61% as at 28 February 2022). Collection challenges in this category are mainly concentrated on outstanding debt owed by the provinces of Northern Cape, Eastern Cape, Free State and North West (who all make up R491 million of the total debt).

Debt owned by state-owned entities stands at R167 million (13% of the debt book). The largest contributors here are the Denel Group (R81 million), the South African Post Office (R19 million) and SAA Express (R15 million). AGSA reports that attempts to give these auditees opportunities to catch up with their owed payments through ring-fencing have not yielded the desired results, as some of these institutions are either undergoing business rescue or under financial administration.

Some of the ongoing debt collection strategies and tactics include the AGSA’s bilateral meetings with the National Treasury, where the Director-General’s intervention of sending letters to defaulting auditees resulted in AGSA managing to collect over R94 million from some local government debtors.

* 1. **Eradicating audit findings**

SCOAG had previously recommended that AGSA develops an audit action plan to deal with the identified audit findings. The Auditor-General committed to ensure the presentation of the plan to the committee in the near future.

* 1. **Material Irregularities**

The amendments to the Public Audit Act, no 25 of 2004 (PAA), came into effect on 1 April 2019. It empowers AGSA to report on matters of material irregularities and to take remedial action if the accounting officers and the executive authorities do not deal with material irregularities appropriately. The weaknesses in financial management, controls, fraud, prevention and legislative compliance, as indicated in the audit outcomes resulted in material financial losses at some auditees. The AGSA estimates the total financial losses of the material irregularities at R11.9 billion. These material irregularities prevail due to lack of basic disciplines and proper processes in place to procure economically and pay for only what was received, make payments on time, recover revenue owed to the state, safeguard assets, effectively and efficiently use the resources of the state to drive value for money spent, prevent fraud, and comply with legislation.

The material irregularities also include matters such as procurement as follows:

* Inflated priced personal protective equipment (PPEs) by various auditees;
* Importing unregistered medicine by the Department of Defence;
* Losses resulting from the Beitbridge Boarder infrastructure projects;
* Debt collection weaknesses and incorrect bursary pay-outs by the National Student Financial Aid (NSFAS) Scheme;
* Payments for poor quality work on infrastructure projects and losses as a result of contractors not being paid;
* Uneconomical use of resources, such as the losses suffered by the National Treasury on the Integrated Financial Management System (IFMS) project.
* Multiple lapses in the procurement and payment processes in the Free State and North West Provinces and at the PRASA.

**3.6 Progress on ICT initiatives**

The development of an ICT strategy is at an advanced stage and consultations have been done extensively within the organization. The ICT operating model has also been optimized for greater efficiency, and job profiles have been refined, with new roles confirmed in the new ICT management structure. A candidate within ICT has been appointed to act as Business Unit Leader while the organization is busy with the recruitment process.

* 1. **AGSA’s new head offices**

The previous head office accommodation was no longer suitable to meet office needs. There were also a number of challenges, mostly structural, that could not be resolved by the then landlord, including:

* A lack of occupational health and safety (compliance) – where the building did not have a lift or ramp to accommodate employees with special needs;
* Inadequate meeting rooms, restrooms and parking bays and;
* Costly ongoing maintenance challenges that could not address a congested sewerage system and inadequate waste areas.

The Committee also heard that the rental charges of R220 per square metre were expensive for a grade C building. The AGSA was now paying R229 per square metre for a grade A building.

The Committee delegation was taken through the new head offices, and learnt that the building is green star rated and environmentally friendly, with location that is accessible to staff and stakeholders. AGSA pays market related rental for this new, grade A building with energy efficiencies, which result in savings of electricity and water consumption with low maintenance costs.

1. **Committee Observations and Recommendations**

Following the deliberations, which the Committee considered successful, the observations and recommendations below are made, with the latter to be monitored by SCOAG as part of its ongoing oversight responsibilities:

1. At the onset of the visit, the Auditor-General briefed the committee delegation on three legal challenges that the institution was working to finalise through the courts and other avenues. These were in particular the Road Accident Fund vs AGSA, the Western Cape Department of Agriculture vs AGSA, as well as the legal action by some retirees on medical aid subscription payments post their employment with the AGSA. On the latter, the Committee noted that since the dismissal of the matter by a court of law, it is now being resolved internally.
   1. On the RAF matter – The Committee noted that **the High Court had dismissed an urgent application by the Road Accident Fund to prevent the Auditor-General of South Africa from disclosing an audit report. The Committee recommends that the AGSA teams work closely with the National Treasury to ensure certainty around the implementation of accounting standards.**
   2. On the Western Cape Department of Agriculture matter - The Department had sought the intervention of the High Court after various failed attempts to resolve its dispute with the Auditor-General regarding their qualification of the Department's accounting treatment of transfer payments and the Auditor-General's view on the principal-agent principle for the two financial years. The Committee noted the ruling of the Supreme Court of Appeal, and also recommends that the legal unit of the AGSA work with the National Treasury to firm up the systems, so as to minimise pushbacks against the AG audit findings, especially in light of the new powers as set in the amended Public Audit Act.
2. The Committee notes the request for support from the AGSA on a number of areas, and will, as part of its own strategic planning formulate a programme to explore the possibilities in that regard. These range from the engaging the relevant stakeholders to prioritise the long-outstanding debts in local government and SOEs; discussing the 1% fee full payment with the National Treasury; assisting with advocating for budgets for real-time audits of important government programmes, and gathering support from Parliament for funding of performance audits; amongst others.
3. The Committee notes that AGSA intends to implement a staggered approach taking over sections of the audit in periods of 2 to 3 years when the ESKOM audit commences. This is supported, and the institution must indeed ensure the implementation of the mitigating activities prior to the audit takeover.
4. As part of its own oversight responsibilities, the Committee will continue the conversations on the funding model of AGSA, including conversing with sister committees at the national legislature and the National Treasury, so as to find solutions in the immediate to long terms.
5. The Committee noted the matter reported on the prevailing material irregularities, and is aware that in order for the purpose of the Public Audit Act to be achieved, AGSA must be supported through oversight mechanisms to implement those provisions.
6. The Committee noted the progress that has been made on the ICT strategic direction, but is of the view that the appointment of the Chief Technology Officer is now crucial so as to create certainty and the safeguarding against the many risks the institution faces in its daily work and future plans.
7. The Committee had recommended that the AGSA should develop an audit action plan to deal with the identified audit findings, and submit it to the Committee for monitoring its implementation. AGSA has committed to presenting that to the Committee.
8. The Committee will take forward the conversations with the AGSA on the need to tie the regulatory audits and performance audits together to ascertain real value for money through the audit processes.
9. There is a need to strengthen the legal competency of AGSA to deal with litigious push-backs by auditees. The institution has to defend itself when auditees take it to court. This could be averted by providing firm explanations of legal issues to auditees, based on feedback from a well capacitated legal unit.
10. **Conclusion**

The Committee thanks the leadership of the AGSA for what it considered to be a successful, and long overdue visit to the headquarters of this important Chapter 9 institution. The wide-ranging and fruitful conversations the parties had on the day will go a long way in ensuring the success of all stakeholders as they play their various roles in the quest to always serve South Africans better. The Committee looks forward to its own sessions where the clear outcomes of this visit will assist with planning as it undertakes its own oversight responsibilities.

Report to be considered.