



2021/2022 DFFE Audit Outcome

Portfolio Committee Presentation

11 October 2022



forestry, fisheries
& the environment

Department:
Forestry, Fisheries and the Environment
REPUBLIC OF SOUTH AFRICA



Presentation Outline

- Audit outcome
- Qualification items
- Irregular Expenditure
- Audit Action plan
- Consequence Management
- Continuous interventions implemented
- Conclusion



2021/2022 Audit Outcome

- AGSA expressed a qualified audit opinion.
- Qualification items on:
 - Irregular Expenditure
 - Immovable Tangible Capital Assets
- The audit action plan that was prepared to address the prior year's misstatements was effective in resolving some of the qualification matters identified, but due to the limited time available, not all the qualification items were resolved.
- The 2020/2021 audit was only concluded at the end of October 2021, leaving the department with approximately four (4) months to implement the audit action plan up until the end of the financial year, whereas the 2021/2022 audit was completed on time.
- The qualification areas for the department have reduced over the years, and this is a reflection of the efforts by management to improve the quality of the information submitted for audit.



Qualification Items

Audit Finding	Root causes
<p>Completeness of Irregular Expenditure</p>	<ul style="list-style-type: none"> In 2020/2021 financial year, the department was qualified on completeness and accuracy of the Irregular Expenditure register. However, in 2021/2022 financial year, the accuracy of the Irregular Expenditure disclosed was cleared and the completeness aspect of the register was reported as a material finding. All the payments made on the non-compliant contracts result in irregular expenditure however, due to a non-compliant contract that was omitted in the register, emanating from 2018/2019 financial year, the Irregular Expenditure register was deemed incomplete.
<p>Capital Work-in-Progress</p>	<ul style="list-style-type: none"> Infrastructure projects reported were overstated in terms of capitalizing all the attributable costs. AGSA was unable to determine the full extent of the misstatement of capital work in progress



Details of Irregular Expenditure Finding

- In 2017/2018 FY, the department entered into multi-year non-compliant contracts which were regarded as irregular due to the evaluation criteria used during the scoring of bids where the evaluation criteria was regarded as subjective and therefore, not in line with PFMA, PPPFA and the Treasury Regulation paragraph 16A3.2.
- However, in 2021/2022 FY, AGSA noted an improvement in the implementation of procurement and contract management processes, resulting in a decrease in the material instances of non-compliance.
- This resulted in a reduction of the irregular expenditure incurred in the 2021/2022 FY.

- In 2021/2022, the department incurred R824 million as Irregular Expenditure in from the non-compliant contracts which are still active up until the expiry of the contract duration.
- Critical to note, included in the R824 million, there was an audit finding raised due to an SCM non-compliance matter arising from the misinterpretation of the local content requirements and delegation to procure IT requirements, which amounted to R2 million.
- The audit findings emanated from the misinterpretation of the regulations and was even escalated to National Treasury for intervention during the audit.



Irregular Expenditure Treatment

- In order to deal with Irregular, Fruitless and Wasteful expenditure, the Accounting Officer is expected to make an assessment, a determination and/or investigate the transactions related to irregular expenditure, upon detection of alleged irregular expenditure.
- The process involves the following:
 - Confirmation of irregular expenditure - If a transaction has been processed in contravention of legislation and the same transaction has a financial implication.
 - Confirmation of Non-compliance
 - Conduct a Determination Test
 - Institute an investigation if it is suspected that there is a possibility of fraudulent, corrupt or other criminal conduct emanating from the incurrence of irregular expenditure
 - Implement the recommendations of the investigation
 - Request National Treasury to consider the expenditure for condonation.
- National Treasury only considers the condonation processes after all of the above has been concluded.
- The department has established a Determination Committee which constitutes multi-disciplinary experts from the offices of the Chief Risk Officer, Chief Financial Officer, Corporate Legal, SCM Practitioners, Human Resources Management, and the Ethics and Fraud unit.



Treatment of Irregular Expenditure emanating from prior years

- The department finalized the consequence management processes for 13 cases and submitted two applications to National Treasury for condonation of Irregular, Fruitless and Wasteful expenditure to the value of R1,242,270,868.39 and R208,127,407.72 respectively.
- The department implemented consequence management in line with Resolution 1 of 2003 and chapter 7 of the SMS Handbook principles, which states that any decision to discipline an employee is a corrective measure and not punitive action in nature and must be applied in a fair, consistent and progressive manner.
- From the above-mentioned 13 cases, the department derived value for money and there were no losses incurred, however, the non-compliance was as a result of misinterpretation of the law, translated into a common template utilized throughout the organisation with no malicious intent.
- The training intervention was deemed to be the most suitable form of consequence management (corrective action) to address the shortcomings in terms of knowledge for the officials who were participating in the Bid Committees.
- To-date, thirty-six (36) cases to the value of R1,971,946,195,81 have been considered by the Determination Committee and the department is in the process of compiling the submission to National Treasury for condonation.



Audit Action Plan

Audit Finding	Remedial Action
<p>Annual Financial Statements</p> <ul style="list-style-type: none">▪ Late implementation of the audit action plan	<ul style="list-style-type: none">• For the first time in about 5 years or so, the department concluded the audit on time.• This was attributable to the fact that the audit process was centralized in the office of the CFO, which assisted in streamlining the auditor's expectations thus ensuring consistent reporting.• An Audit Action Plan has been put in place to ensure all areas of qualification and other findings are addressed.• Progress on remedial actions is monitored by the office of the CFO on a weekly basis.• Branches are engaged on a weekly basis for updates on the implementation of remedial actions, with a sufficient Portfolio of Evidence.
<ul style="list-style-type: none">▪ Incomplete disclosure of irregular expenditure.	<ul style="list-style-type: none">• Management is performing adequate reviews (3 levels – DD to CD) of information (BAS reports, purchase orders, contracts and relevant invoices) supporting the schedules & ultimately the figures to be reported in the AFS.• The Departmental Determination Committee is currently assessing all the IFWE reported.



Audit Action Plan

Audit Finding	Remedial Action
<p>Annual Financial Statements</p> <ul style="list-style-type: none"> The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework. 	<ul style="list-style-type: none"> Management reviewed the processes and ensured that there is segregation of duties in terms of monitoring of the financial statement's preparation; and ensuring that the financial statements are supported by reliable and complete information that has been quality checked. Interim Financial Statements are now prepared on a quarterly basis in order to improve the quality, accuracy, and validity of financial reporting. The interim/annual financial year-end plan has been developed and circulated to the department, highlighting the expectations from the Branches and time-frames to allow ample time for the review of the AFS before submission to AGSA for audit.
<ul style="list-style-type: none"> As disclosed in the appropriation statement, the department underspent the budget appropriated for the 2021/2022 financial year. 	<ul style="list-style-type: none"> Bi-weekly engagements are held with the Branch Heads and the DG specifically on expenditure and procurement plans and, follow-ups on commitments made. Weekly tracking meetings are held at an operational level with Project Managers (Directors). Weekly reporting is done to the DG on progress made against the procurement plan, the budget, and the expenditure. The DG has started issuing warning letters to the Branch Heads for poor performance as part of consequence management.



Audit Action Plan

Audit Finding	Remedial Action
<ul style="list-style-type: none">As disclosed in the appropriation statement, the department underspent the budget appropriated for the financial year.	<ul style="list-style-type: none">The department held an SCM workshop on 13th of April 2022 to cover a range of issues including SCM challenges, areas of improvement, legislative/regulatory framework issues, transitional arrangements on the preferential procurement regulations, as well as SCM processes and procedures.The National Treasury Office of the Chief Procurement Officer was in attendance and unpacked the PFMA Instruction Note 3 of 2021/22 and addressed some of the questions raised with regard to public sector procurement in general.The department has since introduced and implemented different sourcing strategies to ensure speedy delivery of service and avoid duplication of effort.SCM through the weekly Procurement Plan Bid Trackers still continuously engages branches to advise them on other sourcing strategies that they should be considering, eg.<ul style="list-style-type: none">Government Printing WorksCatering ServicesFacilities Management (day-to-day maintenance)Panels of service providersLong-term contracts

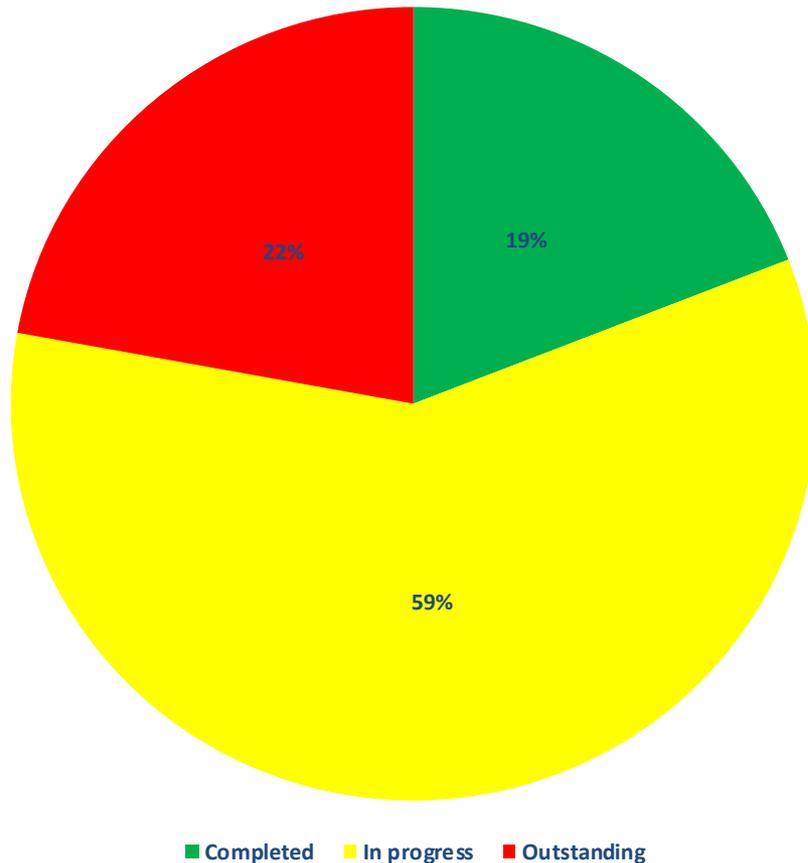


Audit Action Plan

Audit Finding	Remedial Action
<p>Annual Financial Statements</p> <ul style="list-style-type: none"> ▪ Material limitation on Capital Work in Progress (CWIP) opening balance adjustment 	<ul style="list-style-type: none"> • The department has signed a memorandum of agreement and terms of reference with the Office of the Valuer General (OVG). • The progress was expected to have been undertaken during the audit period but due to non-compliant status of the OVG, the department could not finalise the on-boarding processes on time. • The valuers are conducting the fair-value assessment of the projects thereby providing the department with the correct amounts to be capitalised. • All Capital Projects will be valued for correct disclosure amounts.
<ul style="list-style-type: none"> ▪ Understatement of immovable tangible capital assets opening balance 	<ul style="list-style-type: none"> • Management developed an audit action plan to address the deficiency noted after the issuance of the 2019/20 audit report. This, therefore, means that management can only remedy the deficiency noted above prospectively. • All EPIP completed projects and handed over after December 2020 are transferred out of the Departments asset register upon the signing of Section 42 / handover certificate by both the accounting officers of the Department and the receiving entities (beneficiaries)



Audit Action Plan Progress – 30 September 2022



- An Audit Action Plan has been put in place to ensure all areas of qualification and other findings are addressed.
- Progress on remedial actions monitored on weekly basis.
- Branches are engaged on a weekly basis for updates on the implementation of remedial actions, with a sufficient Portfolio of Evidence.



Matters affecting the Audit Report

Finding	Planned Remedial Action	Target Date
AUDIT OF COMPLIANCE WITH LEGISLATION		
Procurement and Contract Management		
Minimum threshold on the request for quotation not stipulated	<ul style="list-style-type: none"> • Communication was issued to SCM Practitioners to stipulate the minimum threshold on SBD6,2 for all transactions where local content is applicable. • The review is being done for each transaction during processing. • A formal communique was sent out that minimum threshold must be indicated on Request For Quotation from the Branches. • The internal control environment has been intensified and no orders will be created if the RFQ does not indicate the minimum thresholds where local content is specified. 	<p>COMPLETED</p> <p>2022/07/01</p>
Contract variations (increase of contract period and amounts) were not pre-approved by Accounting Officer	<ul style="list-style-type: none"> • A Contract Management Circular was re-issued to all employees as a reminder for contract management obligations, roles and responsibilities of all project managers. • Register of all contracts has been implemented and the contract variations to be noted and approved. 	<p>COMPLETED</p> <p>2022/09/30</p>



Matters affecting the Audit Report

Finding	Planned Remedial Action	Target Date
Capital Work in Progress		
Material limitation on CWIP opening balance adjustment	<ul style="list-style-type: none"> Management has signed a memorandum of agreement and terms of reference with OVG. All Capital Work in Progress balances will be valued for correct disclosure amounts The amendments for the correct disclosure amounts will be reported in the 3rd Quarter Interim Financial Statements. 	WORK-IN-PROGRESS
Misstatements noted between current year CWIP figure and invoices submitted for audit		2022/12/31
Irregular Expenditure		
Irregular expenditure not fully disclosed	<ul style="list-style-type: none"> Management is performing adequate reviews (3 levels – DD to CD) of information (BAS reports, purchase orders, contracts and relevant invoices) supporting the schedules & ultimately the figures in the AFS. 	WORK-IN-PROGRESS
Payments made with expired lease agreements/ Irregular expenditure not fully disclosed	<ul style="list-style-type: none"> Validity of the lease agreement are verified before making any lease payment. 	WORK-IN-PROGRESS
		2023/03/31



Matters affecting the Audit Report

Finding	Planned Remedial Action	Target Date
AUDIT OF COMPLIANCE WITH LEGISLATION		
Consequence Management		
Investigations of irregular, fruitless and wasteful expenditure not concluded	<ul style="list-style-type: none"> The department has established a Determination Committee which constitutes multi-disciplinary experts from the offices of the Chief Risk Officer, Chief Financial Officer, Corporate Legal, SCM Practitioners, Human Resources Management, and the Ethics and Fraud unit. The department has established a Determination Committee which constitutes multi-disciplinary experts from the offices of the Chief Risk Officer, Chief Financial Officer, Corporate Legal, SCM Practitioners, Human Resources Management, and the Ethics and Fraud unit. 36 cases to the value of R1,971,946,195,81 have been considered to-date 	<p>WORK-IN-PROGRESS</p> <p>2023/03/31</p>
Limitation of scope – information not provided for audit	<ul style="list-style-type: none"> The CFO is in process of establishing the Internal Control Directorate. The interviews for Director Internal Control have been conducted in mid-September 2022. The Internal Control unit will be central point in facilitating the end-to-end audit process. 	<p>WORK-IN-PROGRESS</p> <p>2022/12/31</p>



Matters affecting the Audit Report

Finding	Planned Remedial Action	Target Date
Immovable Tangible Capital Assets		
Understatement of immovable tangible capital assets opening balance	<ul style="list-style-type: none"> All EPIP assets (EPIP projects) completed and handed over will be transferred out of the Departments asset register upon the signing of the Section 42 / handover certificate by both the Accounting Officers of the Department and the receiving entities (beneficiaries) 	<p>WORK-IN-PROGRESS</p> <p>2022/12/31</p>



Matters affecting the Audit Report

Finding	Planned Remedial Action	Target Date
AUDIT OF COMPLIANCE WITH LEGISLATION		
Procurement and Contract Management		
<p>Motor Vehicles purchased using the department's EPWP project funds were transferred to the employees of Working-on-Fire Pty Ltd without the approval of the department at the end of the Working-on-Fire contract.</p>	<ul style="list-style-type: none"> • Management has decided to seek legal opinion on how best to recoup the resources spent on the disposal of these assets. • Management has put capacity in place that will monitor the movement of assets through physical verification of sampled assets regularly. The capacity will also ensure that all assets are accounted for and barcoded as per the asset register. • Management will be concluding the vehicle physical verification with Asset Management. The verification will focus on the extent and condition of all vehicles in the Working on Fire Programme. 	<p>OUTSTANDING</p> <p>2023/01/21</p>
<p>Deliverables paid for but could not be verified onsite</p>	<ul style="list-style-type: none"> • The letters requesting the Implementer to complete all outstanding project activities were issued with responses from the Implementer thereof. Although the Implementer committed to deliver and install lining for leachate pond and landfill cell with funds transferred to project account and complete the project. • A letter demanding the Implementer to pay back the above-mentioned amount will be issued. 	<p>OUTSTANDING</p> <p>2023/01/21</p>



Matters affecting the Audit Report

Finding	Planned Remedial Action	Target Date
AUDIT OF COMPLIANCE WITH LEGISLATION		
Waste Bureau		
Payment made for services not rendered as the depot was not operational	<ul style="list-style-type: none"> The department is currently in litigation trying to recoup funds that were paid to the service provider. 	OUTSTANDING 2023/01/21
Payment made for services not rendered as the depot was not operational	<ul style="list-style-type: none"> The department will be engaging with the AGSA team on the 13 October 2022 to discuss the disagreement 	OUTSTANDING



Progress on Consequence Management

- Investigations are still proceeding for tenders that were irregularly awarded since the 2017/2018 financial year, resulting in irregular expenditure and the department is pushing hard to bring this to conclusion.
- Management's approach was to conclude the backlog of the cases arising from the period 2017 to 2020 financial years, however, AGSA raised that as a concern and therefore emphasis is now placed on the material amounts reported.
- The department strikes a balance between recent and older cases, as well as prioritised cases with large amounts as this will accelerate progress in reducing the departmental registered amount of Irregular, Fruitless and Wasteful expenditure.



Progress on Consequence Management

- Consequence management as a result of contracts since 2017/2018 financial year which had resulted in irregular expenditure, are as follows.
 - 51 officials were instituted with disciplinary actions, and 1 official was dismissed for allegations of fraud. The official fabricated and backdated official documents and misrepresented the same as the original documents.
 - 9 officials who were implicated by the forensic investigations resigned. Out of the 9 (nine), 1 (one) official resigned while the disciplinary hearing was underway, and eight (8) others resigned before a disciplinary process could be initiated.
 - The SCM training on processes and procedures took place on 10th of May 2022, 27th of June 2022 and 16th of September 2022, respectively.
 - A total number of 100 officials attended the three [3] training sessions conducted on SCM as part of corrective measures.
 - An additional 94 officials will attend the training sessions by end of the third quarter as part of corrective measures.



Consequence Management: Irregular Expenditure Investigation

No of tenders	Findings as February 2021	Recommended Action	Updated Status as 06 October 2022
<p>13</p> <p>Total contract value</p> <p>R866 655 962</p>	<ul style="list-style-type: none"> In these tenders it was found that there was no evidence to indicate the presence of favouritism for any one bidder or that any fraudulent motives existed on the part of the members of the BEC and BAC No loss suffered Department received value for money due to the fact that the bid was awarded to the lowest quoting bidder who had met the criteria 	<ul style="list-style-type: none"> Implementation of the recommendations with regard to improvements to SCM procedures included in the investigation report Apply to National Treasury for condonation for the irregular expenditure incurred. 	<ul style="list-style-type: none"> 36 official attended counselling sessions as the investigations proved that there were no fraudulent motives in the awarding of contracts. SCM processes and procedures on the evaluation criteria have been improved.



Consequence Management: Irregular Expenditure Investigation

No of tenders	Findings as February 2021	Recommended Action	Updated Status as 06 October 2022
<p>5</p> <p>Total contract value</p> <p>R135 672 108</p>	<ul style="list-style-type: none"> • Bid Evaluation Committees for these tenders failed to apply due care during their evaluation, as they overlooked certain irregularities. • The investigation evidence illustrated that these BEC members have committed various acts of financial misconduct, including misrepresentation to the Bid Adjudication Committee. 	<ul style="list-style-type: none"> • Implement the recommendations with regard to improvements to SCM procedures included in the investigation report • Initiate disciplinary action 	<ul style="list-style-type: none"> • 5 officials were issued with final written warnings. • 3 officials were issued with written warnings. • 1 official was found guilty and suspended for three months without pay. • 2 officials were dismissed and both matters are at Dispute level. • 4 Officials were issued with written warnings.



Consequence Management: Irregular Expenditure Investigation

No of tenders	Findings as February 2021	Recommended Action	Updated Status as 06 October 2022
<p>3</p> <p>Total contract value</p> <p>R379 573 308</p>	<ul style="list-style-type: none"> Investigation found prima-facie evidence illustrating elements of preferential treatment to selected bidders with regard to two (2) of the three (3). In two of the tenders, the investigation evidence has confirmed that officials committed acts of fraud For the remaining tender there was no evidence to indicate the presence of favouritism for any one bidder 	<ul style="list-style-type: none"> Report matter to Section 34 of the PRECAA to SAPS Initiate disciplinary actions Application to the National Treasury for irregular expenditure to be condoned for bidders that were fully compliant in respect to tender requirements. Implement the recommendations with regard to improvements to SCM procedures included in the investigation report 	<ul style="list-style-type: none"> Reported the matter to SAPS –CAS548/1/2021 1 official was issued with a final written warning. 6 officials attended counselling sessions as the investigations proved that the non-compliance acts were not malicious acts.



Consequence Management: Irregular Expenditure Investigation

No of tenders	Findings as February 2021	Recommended Action	Updated Status as 06 October 2022
<p>3</p> <p>Total contract value</p> <p>R903 277 512</p>	<ul style="list-style-type: none"> Investigation found prima-facie evidence illustrating that irregular appointments arose as a result of fraud, misconduct and possible corruption by officials of the Department. It was also found that officials misrepresented information to the Bid Adjudication Committee. The investigation also found aspects of poor project management by the officials of Department The actions of officials resulted in fruitless and wasteful expenditure amounting. 	<ul style="list-style-type: none"> Implement the recommendations with regard to improvements to SCM procedures included in the investigation report Precautionary suspension Report matter to Section 34 PRECAA 	<ul style="list-style-type: none"> 6 officials were issued with written warnings. 1 official found guilty and suspended for three months without pay. Reported matter to SAPS – CAS548/1/2021

Consequence Management: Irregular Expenditure Investigation

No of tenders affected	Updated Status as 06 October 2022
<ul style="list-style-type: none"> • 13 Tenders with contract value of R32 024 292,96 and expenditure of R208 127 407,72 which were submitted to National Treasury for condonation. • 24 tenders with contract value of R1 157 656 546,59 and Expenditure of R1 242 270 868,39 which were submitted to National Treasury for condonation. 	<ul style="list-style-type: none"> • 3 training sessions were conducted on 10 May 2022, 27 June 2022 and 16 September 2022. • A total number of 100 Officials attended training sessions.
<p>14 Tenders with contract value of R1 091 459 918,94 and expenditure of R R550 207 803,63 which are in a process to apply for condonation to National Treasury.</p>	<p>The 94 officials will attend the training sessions by end of the third quarter as part of corrective measures.</p>

Continuous Interventions implemented

Timeous implementation of the audit action plan

Weekly meetings are in place to discuss the progress of the action plan implementation.

Prepared the Q1 Interim Financial Statements and submitted to National Treasury by the 31st of July 2022.

Q2 Interim Financial Statement are due by the 31st of October 2022 and will be submitted accordingly.

Weekly Determination Committee meeting assessing the Irregular, Fruitless and Wasteful expenditure

Branches are engaged on a weekly basis to assess the status of the implementation of the procurement plan against the budget vs expenditure progress.

IMPACT

- Service Delivery
- Positive Audit Outcomes
- Budget Spent



Conclusion

- The department conducted a post-audit workshop with the office of the Auditor-General, which was held on the 12th of September 2022 to deliberate and engage with the AGSA team on the issues, challenges, and measures to address the challenges encountered, as well as plan to improve the current financial year.
- The department will further engage the AGSA on aspects involving National Treasury in reaching common ground, in order to implement remedial action plans.
- The department is committed to the implementation of the audit action plan.
- Ensure an effective combined assurance with various assurance providers e.g. Risk, Legal Services, Internal audit, and the Audit Committee.



THANK YOU!

Thank You



forestry, fisheries
& the environment

Department
Forestry, Fisheries and the Environment
REPUBLIC OF SOUTH AFRICA

