



**PFMA  
2021-22**

# Budgetary review and recommendations report (BRRR) **Portfolio Committee on the Environment**

11 October 2022



AUDITOR-GENERAL  
SOUTH AFRICA



## MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

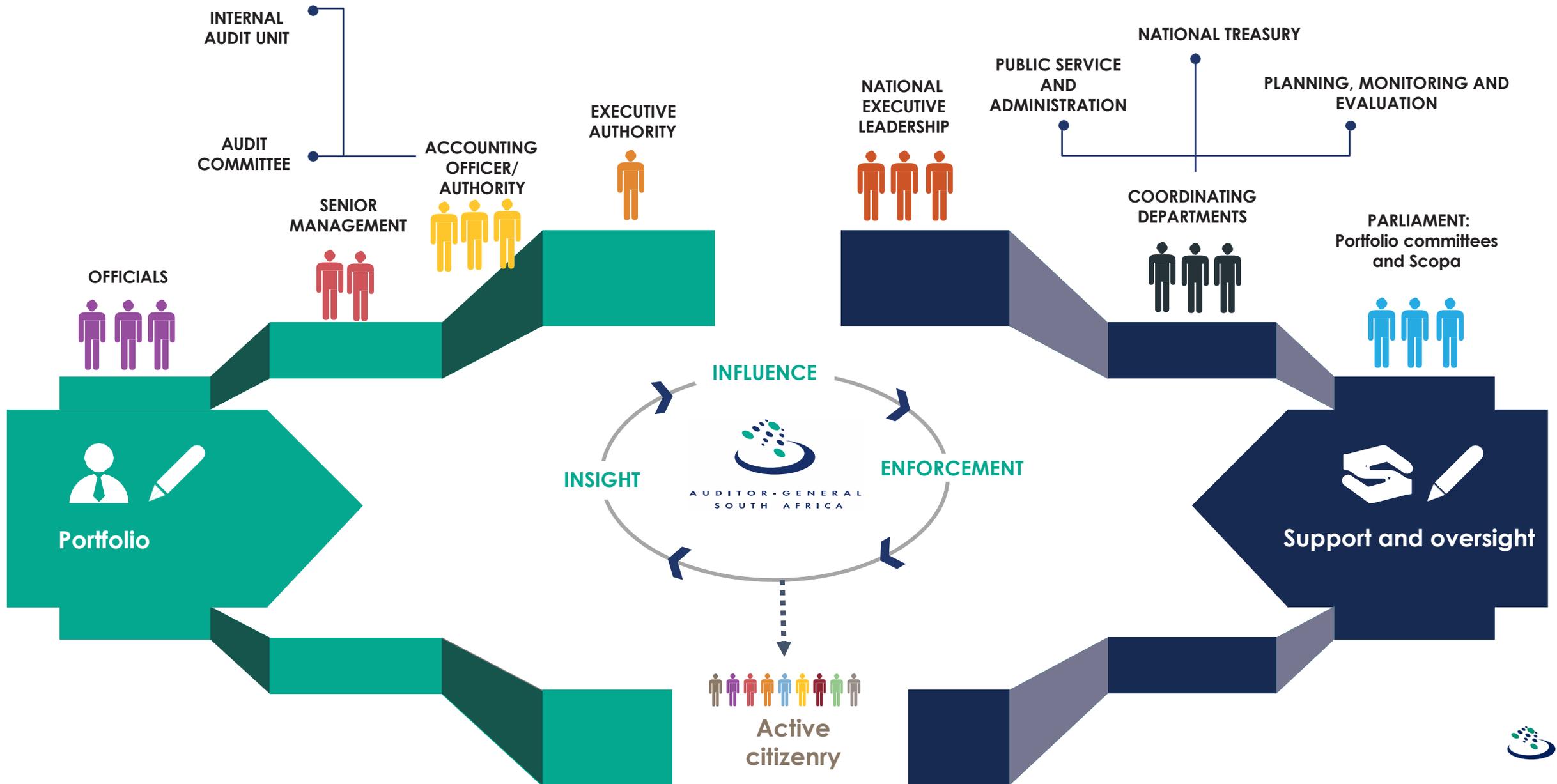


## VISION

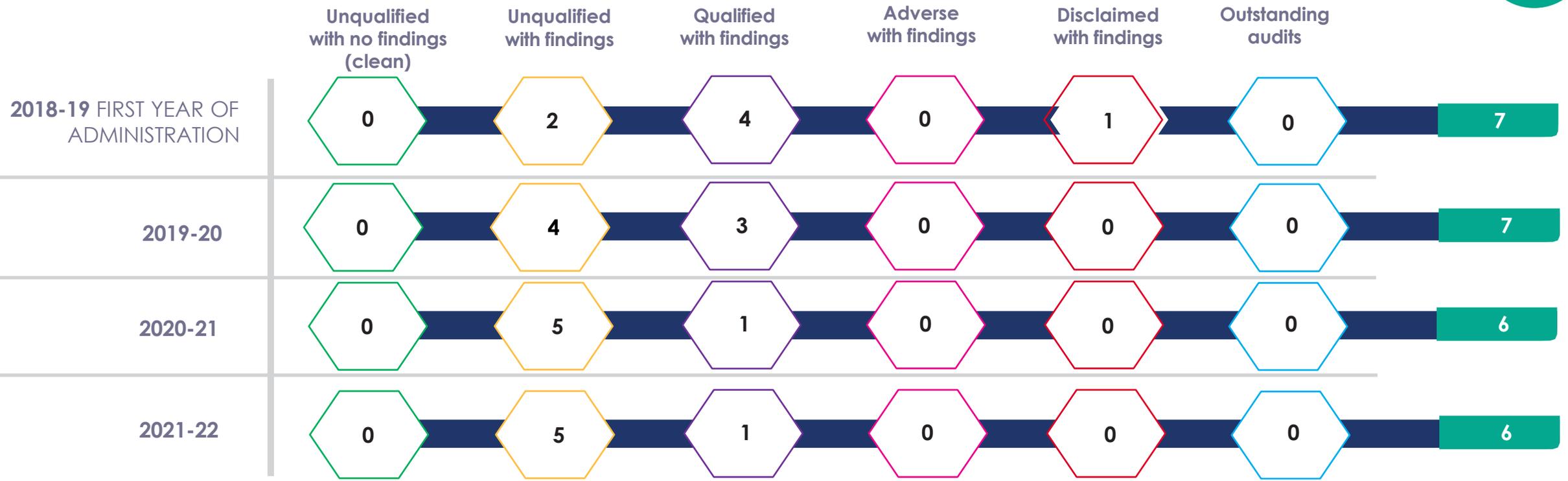
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.



# All have role to play in national government accountability ecosystem



# Improvement over administration term



**MOVEMENTS FROM PREVIOUS YEAR:**  
 0 ↑ 0 ↓

**FROM FIRST YEAR OF ADMINISTRATION:**  
 3 ↑ 0 ↓

None

South African Weather Service (SAWS)  
 South African National Parks (SANParks)  
 South African National Biodiversity Institute (SANBI)  
 iSimangaliso Wetland Park (iSi)  
 Marine Living Resource Fund (MLRF)

2019:20 DFFE, SANBI & MLRF  
 2020:21 DFFE

None

2018-19 : DFFE

None

\*The clients reduced from 7 to 6 clients over the 2020/21 financial year due to the Forestry directorate being merged into DFFE.



# Portfolio performance

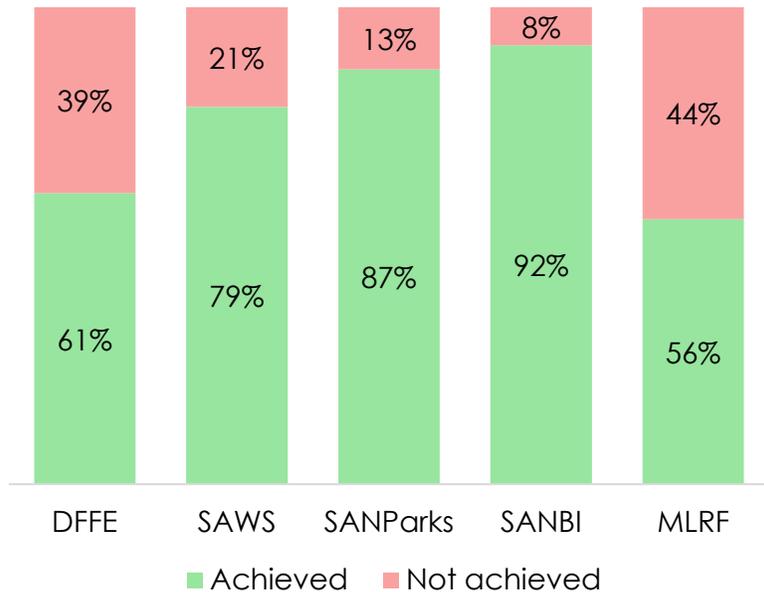


## Key targets in medium-term strategic framework for portfolio

Three key targets from the MTSF have been identified but only one was scope in being \*

- Percentage decrease of HCFC consumption
- Percentage waste diverted from the landfill sites (prioritized waste streams) \*
- National parks and MPAs assessed (METT)

## Achievement of annual targets as reported in annual performance report (all indicators) – 2021-22



### Some reflections:

Overall we noted that in 5 of the 9 programmes the department had not achieved a minimum of 70% of their performance targets. Some contain transfers to other entities.

Programme 7 reflected a 57% achievement of their planned targets, while programme 8 reflected a 71% achievement indicating room for improvement. Furthermore, the mentioned programmes were audited in the 2021/22 financial year, and material findings were noted.

Goods and services form a significant portion of the actual expenditure within programme 7 and this is due to the waste tyre management expenditure, in which the Waste Bureau payments are made.

Programme 8's achievement exceeds the extent of payments made within the programme, which is commendable and should be improved going forward to ensure that the department improves the lived experiences of the citizens. \*The above achievements should be considered in light of the material misstatements raised.

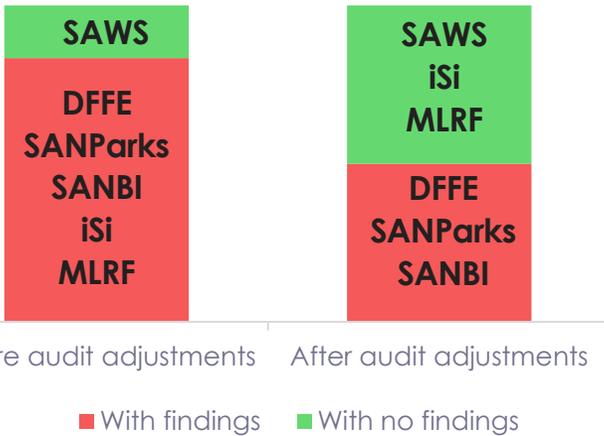
**Key targets not achieved included:** Percentage waste diverted from the landfill sites (prioritized waste streams).

## Impact of targets not achieved

- Reduced rate at which the tyres are processed possibly resulting in tyre pile up and consequentially hampering the successful management of waste tyre management.



## Quality of performance reports before and after audit



## Findings: Planning for service delivery

- Method of calculation was not clearly defined (SANParks)
- Planned targets were not specific (SANBI)
- Evidence to validate the reported achievement was not defined (DFFE)

## Findings: Reporting

- Revised planned targets were not report on in the annual performance report (DFFE)
- Reported achievements were not supported by credible, reliable and complete supporting evidence (DFFE, SANParks)

### Some reflections:

We commend management of SAWS for submitting their reported performance information without material misstatements.

The reported information submitted by iSi and MLRF contained misstatements, which were subsequently resolved resulting in the no material matters reported. The indicators and targets were not well defined in the annual performance report for SANBI and SANParks, as the targets were not specific. They are also linked to key strategic objectives and may result in non-achievement of the strategic intent of these entities.

The reported performance for certain indicators at the DFFE and SANParks was not supported by verifiable evidence and therefore was not reliable. This means that the performance reported by these entities may not be credible.

## Impact

The portfolio is not able to properly report and account for waste impacts on the ability of all spheres of government to put measures in place that will result in the reduction of waste in the country. This could possibly result in waste pile up and consequentially hampering the successful management of waste management. (DFFE)





## DFFE Waste tyre management

### Impact

Reduced rate at which the tyres are processed possibly resulting in tyre pile up and consequentially hampering the successful management of waste tyre management.

### Cause

Deficiencies in the implementation of the established internal controls, resulting in breach of contracts.

### Recommendations to AO

Revisit the effectiveness of internal controls within Waste Bureau to ensure that tyres are collected and processed as required for effective waste tyre management



Depot site visits were performed in **all 9 provinces** by multiple teams  
The aim of the visits was to assess whether **value is being derived from payments made** within the waste tyre management programme

### Inadequate monitoring of the waste management implementation plan

The department did not report on 3 out of the 4 targets that are aimed at measuring waste diverted from landfill sites (E-waste, lighting waste, paper and packaging waste) that were removed during the mid term review. This was due to changes in EPR Regulations during the financial year. These targets are meant to measure the threats on environmental quality and human health.

The department did not have processes in place to measure the number of tyres that have been processed by the tyre processors. As a result, a material misstatement was reported on the remaining target. Therefore, the impact of the diversion of waste tyres from landfill sites could not be measured reliably.

The following control deficiencies were noted within waste tyre management:

- Inadequate contract management resulting in contracts with depot operators ending and/or extension required
- Delays in paying depot owners resulting in them restricting access to depot operators

### Key message

We could not confirm that the department is effectively implementing the waste management initiatives and facilitation of sustainable socio- economic growth and development opportunities and strategies in the environmental sector.

Ultimately the lack of and inadequate reporting on such key information does not assist in ensuring that interventions put in place to control pollution and reducing the impact of waste on the environment and ordinary citizens have not been implemented accordingly.

# Material irregularities



# Implementation of material irregularity (MI) process

## MI process implemented at:

- DFFE
- SAWS
- During the 2022/23 financial year audit cycle the MI process will be implemented on the rest of the auditees in the portfolio (SANParks, SANBI, iSi and MLRF)

means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in 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:



# Identified MIs – next steps and responsibilities

## 1 AO/AA is dealing with MI

**AO/AA**... implements the committed actions to address the MI and improves controls to prevent recurrence

**AGSA**... follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

## 2 MI is referred to a public body

**AO/AA**... cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence

**AGSA**... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

## 3 Recommendation included in audit report

**AO/AA**... implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence

**AGSA**... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

## 4 Remedial action issued

**AO/AA**... implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence

**AGSA** ... follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days



### Executive and oversight

**Executive**... monitors progress and supports AO/AA in addressing the MI and improving controls

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



### Executive and oversight

**Executive**... supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation

**Oversight**... monitors progress with investigation and calls public body to account for undue delays in Investigation.



### Executive and oversight

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

**Oversight**... request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes



### Executive and oversight

**Executive**... monitors progress and supports AO/AA in implementing remedial action and improving controls

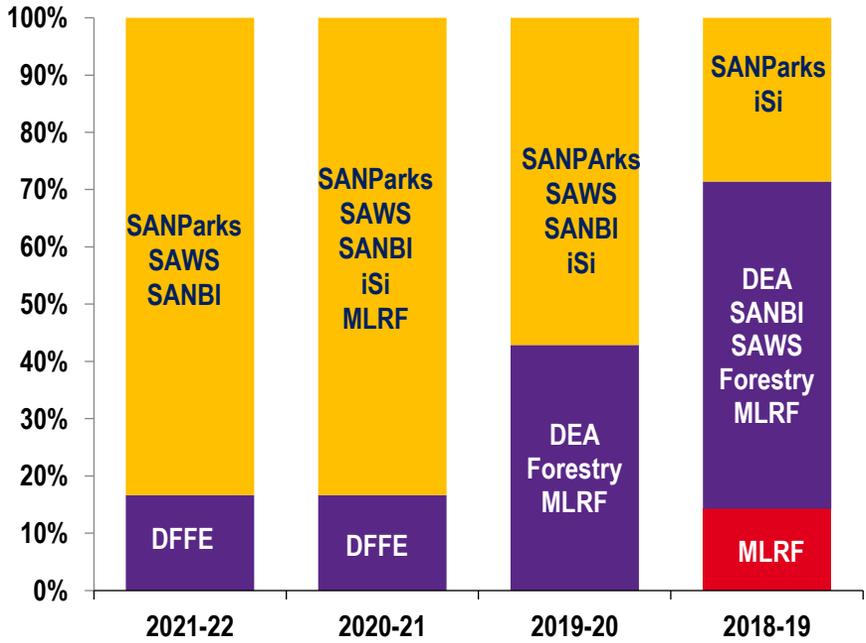
**Oversight**... monitors progress and calls AO/AA to account for actions taken and outcomes



# Financial management and compliance



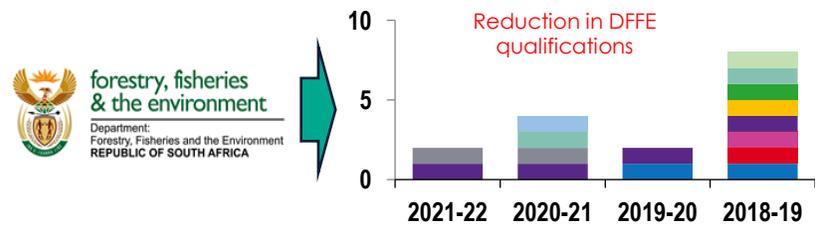
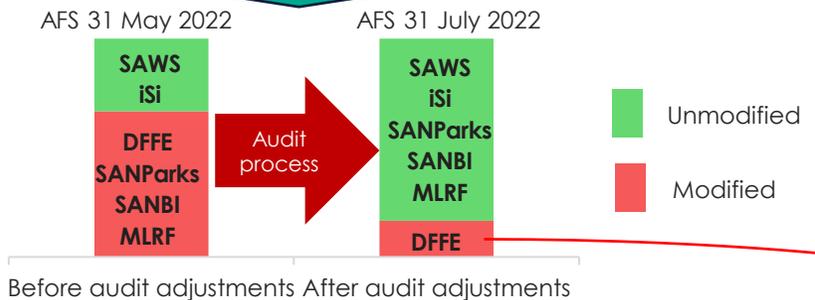
# Quality of financial reporting



The **overall audit outcomes of the portfolio remained stagnant**, with only the department receiving a qualified audit opinion.

- The **action plan prepared by DFFE management to address the prior year misstatements was effective in resolving some of the qualification matters**. DFFE management successfully collaborated with the assurance providers in using the limited time available after the conclusion of the prior year audit to address the matters resolved. The **work performed was however not sufficient to achieve an unqualified audit outcome**. Material misstatements were noted on the capital work in progress, immovable tangible assets and irregular expenditure disclosure balances.
- Some improvements were noted in compliance with key legislation as **SAWS, SANBI and iSi were able to successfully reduce the prior year matters to one material non-compliance finding in the current year**. Unfortunately, SANParks experienced an increase in non-compliance findings in the current year while the department continued to struggle with numerous compliance matters.
- The financial statements provided by the public entities unfortunately **contained material misstatements, with the exception of SAWS and iSi**. These errors were **detected and corrected through the audit process** which resulted in the financial statements being unqualified therefore indicating some residual improvements in internal control still required in management's own processes.

Audit outcomes are indicated as follows	Movement
Unqualified with no findings	0
Unqualified with findings	0
Qualified with findings	6
Adverse with findings	
Disclaimed with findings	
Outstanding audits	



DFFE gradually reduced the qualification areas, reflecting efforts put in place by the department to improve the quality of the AFS submitted for audit. Management should maintain the efforts implemented. **The AFS item that has been qualified consistently over the years is irregular expenditure, while capital work in progress has been qualified twice over two years**. Management should prioritize these two areas in the action plan, to prevent repeat findings. Furthermore, we noted a decrease in the material instances of non-compliance with SCM legislation, resulting in a reduction in the CY irregular expenditure.



## Revenue



## Expenditure



Debt-collection period > 90 days at **one** auditee (SANParks)

Average debt-collection period = **48 days**

More than 10% of debt irrecoverable at **four** auditees (DFFE, SAWS, SANParks, SANBI)

**R9 million** of expenditure was **fruitless and wasteful** (two auditees – DFFE, SANParks)

**Creditor-payment period > 30 days** at **two auditees** (SAWS, SANBI)

**Creditors greater than available cash** at year-end at **none** of the auditees

**Average creditor-payment period = 29 days**

## Impact



**33%** auditees **ended year in deficit** (expenditure more than revenue) – (SANParks, MLRF)

**None** of the auditees incurred **unauthorised expenditure**.

**None** of the auditees disclosed or should have disclosed significant doubt in financial statements about ability to continue **operating as a going concern** in foreseeable future



# Compliance with key legislation



● No material findings    ● Material findings



## Most common areas of non-compliance

	DFFE	SANParks	SAWS	SANBI	MLRF	isi
Procurement and contract management	X	X				X
Quality of financial statements	X	X		X	X	X
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	X	X	X	X		
Effecting consequences	X	X		X		

X Previous year's finding addressed    X New finding identified in 2021-22    X Repeat finding



## Status of compliance with legislation on procurement and contract management



2021-22

SAWS    SANBI, MLRF    DFFE, SANParks, iSi

MOVEMENTS FROM PREVIOUS YEAR:  
0 ↑ 0 ↓

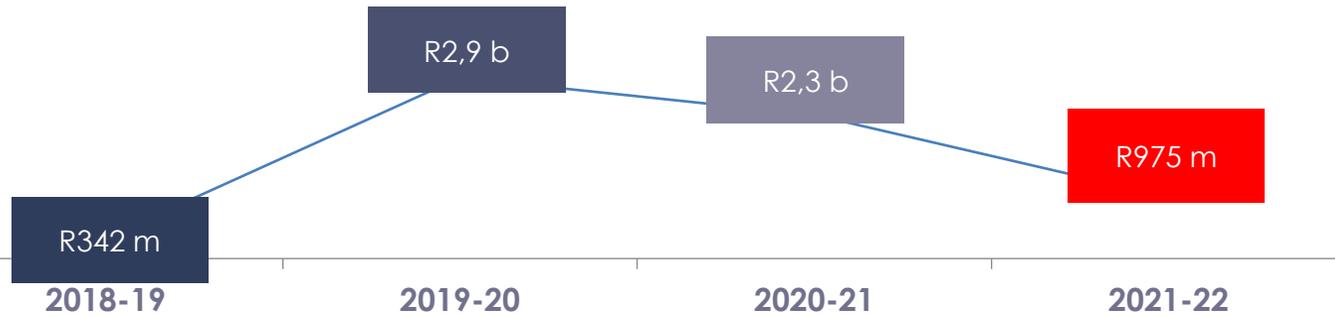
FROM FIRST YEAR OF ADMINISTRATION:  
1 ↑ 0 ↓

● With no findings   ● With findings   ● With material findings

Details of procurement findings	DFFE	SANParks	iSi	SANBI	MLRF
Uncompetitive and unfair procurement processes	X	X	X	X	X
Prohibited awards to employees		X			
Prohibited awards to other state officials	X				
Limitations on audit of awards selected for testing	X				



## Annual irregular expenditure



## Top contributors

98% of the irregular expenditure incurred by the DFFE is due to a matter identified in the 2018/19 financial year audit affecting awards made from the 2017/18 financial year and as most of these contracts are still in place, the expenditure continues to be incurred resulting in the department's irregular expenditure not reducing significantly.

R888 m	DFFE
R41 m	iSi
R37 m	SANParks
R9 m	SANBI
R0,4 m	SAWS

### Irregular expenditure is not complete



Qualifications – DFFE: Irregular expenditure disclosure of irregular expenditure

Still investigating to determine full amount = two auditees (42%) (2021-22) (2020-21: one (5,3%))

The highest contributors to irregular expenditure in the portfolio:

- Objectivity criteria not applied as prescribed by the Preferential Procurement Policy Framework Act (PPFA) mainly from ongoing contracts;
- Procurement of services not in line with Service Level Agreements (Working-on-Fire); and
- Procurement without following competitive bidding or quotation process (main contributor incurred by the department and SANParks).

### Impact of irregular expenditure incurred

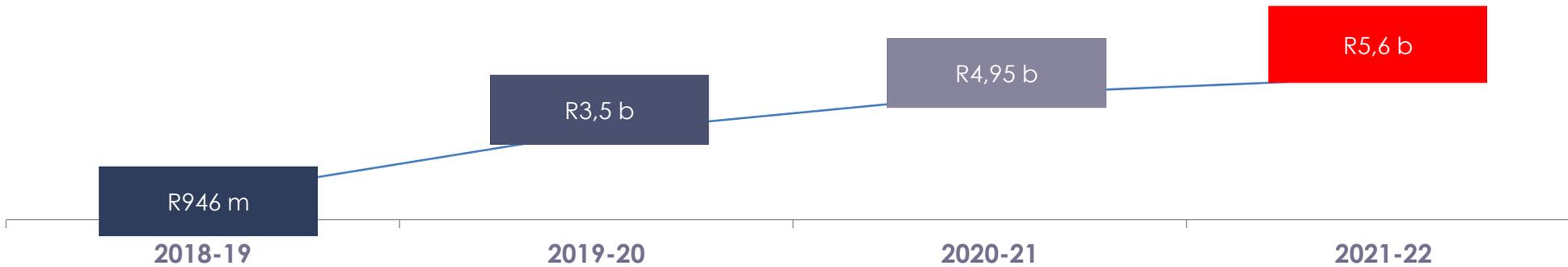
**Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive: DFFE:** R603 m – Various awards on breach of fairness in the subjective application of functionality criteria; **SANBI:** R9 m – Various awards; **iSi** : R15 m - In respect of a tender awarded to a bidder who did not meet pre-qualification criteria, and R26 m in relation to construction related services procured from suppliers. not registered with the CIDB. **SANParks:** R30 m – Various awards.

**Other: DFFE** : R285 m – Various awards, **SAWS:** R0,35 m – Payments made without underlying contract; **SANParks:** R6,3 m – Various awards.

**Impact not yet assessed: DFFE:** R12,6 m (Non-compliance with PPPFMA regulation and service rendered outside the contract); **SANParks:** R393,7 m (Expenditure beyond the approved budget)



## Closing balance of irregular expenditure continues to increase

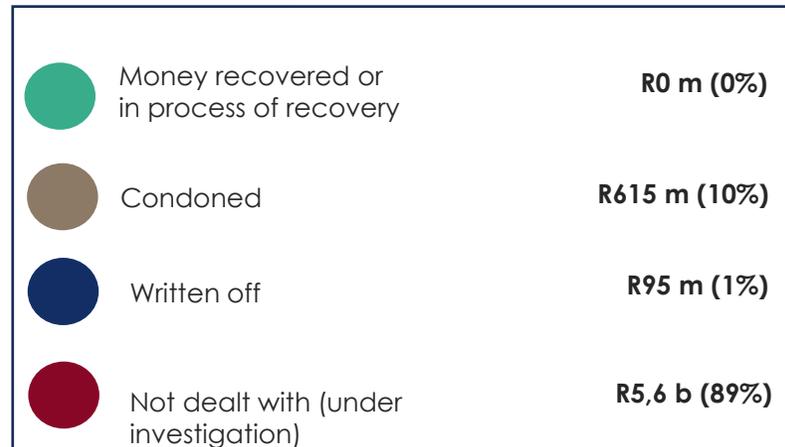


98% of the irregular expenditure incurred by the DFFE is due to a matter identified in the 2018/19 financial year audit affecting awards made from the 2017/18 financial year and as most of these contracts are still in place, the expenditure continues to be incurred resulting in the department's irregular expenditure not reducing significantly.

**Top 5 contributors (R5,6 billion) to irregular expenditure that is under investigation constitutes 99,9% of the R5,6 billion balance**



## How have auditees dealt with irregular expenditure



## Reasons for IE not dealt with:

- Backlogs in the investigation of the irregular expenditure to enable consequences to be implemented. Of the DFFE's backlog of irregular expenditure opening balance, 53% was investigated as at 31 March 2022, and 47% was in the process of being investigated. The department prioritised their investigations to irregular expenditure prior to the prior year. Therefore they are currently catching up and resolving the old irregular expenditure first
- Slow response by management in investigating the immediate prior irregular expenditure was noted as they are prioritising old instances before the preceding year.



# Conclusions and recommendations



## Overall root causes of significant findings

- Inadequate review of the validity, accuracy and completeness of the information presented for audit, as included in the financial statements (DFFE, SANParks, MLRF, SANBI) and the annual performance report (DFFE, SANParks, SANBI, iSi, MLRF).
- Deficiencies in the quality assurance controls that ensure that the reported performance information is supported by credible and reliable supporting evidence (DFFE, SANParks).
- Inadequate consideration of the SMART criteria in planning and defining the planned indicators and targets (DFFE, SANParks, SANBI)
- Inadequate controls were put in place by management to prevent material non-compliance findings (DFFE, SANParks, SANBI, iSi, MLRF).

## Key recommendations to, and commitments by, accounting officers and authorities

- Continue regular monitoring of the progress made in implementing action plans to ensure that all findings raised are addressed and are not repeated.
- Institute reviews of the implementation of compliance monitoring control in place to reduce material non-compliance and the resultant irregular expenditure.
- Revisit the process followed in determining and defining annual indicators and targets to ensure that they are well defined and that targets are specific.
- Monitor the timeous implementation of the AFS and APR preparation plans, which will enable management to have adequate time to address misstatements identified before submission for audit purposes.
- Recommended to prioritise finalizing investigations on most recent irregular expenditure first and then move to prior years of irregular expenditure

## Commitments by executive authority

- Minister agreed to corporate governance agreements with the entities in the portfolio to create alignment in the execution of the overall mandate of the department
- Minister is also to follow up with DG (AO) on progress of implementation of audit action plan
- Regular engagements with the executive authority and accounting officer. Commitments obtained from executive authority



## In 2020-21, we recommended the following:

- Follow-up on action plans implemented for proper record keeping and daily reconciliations to ensure complete and accurate reporting.
- Monitor the consequence management processes to ensure investigations are finalised and perpetrators are held accountable.
- The PC should monitor the implementation of action plans against regressive audit outcomes, especially those relating to non-compliance, to address the areas of key concern and internal control deficiencies identified during the audits. This should keep management accountable and empower the accounting authorities\officer to implement consequence management stipulations



## Overall reflections on implementation of recommendations:

- The PC's regularly engaged and requested feedback on the key matters, and noted a reduction of qualification areas in the portfolio.
- Despite some progress, material non-compliance remains that prevents progress towards clean audit outcomes.

## Key messages going forward: Portfolio committee

1

Request regular feedback from the portfolio on the irregular expenditure in order to identify the movements in the expenditure incurred. Request the department and entities to provide action plans on how they will implement preventative controls to deal with the repetition of instances of non-compliance.

2

Request and review progress reports of feedback on the tracking and identification of emerging risks in the portfolio, and how the department is mitigating the risks identified that could prevent achievement of key objectives linked to the mandate.

3

Request feedback on the progress made in ensuring that the planned indicators and targets not only adhere to the SMART criteria, but that they contribute to what the portfolio wants to achieve and is responsible for in terms of delivery.

4

Continue the engagements on requesting proper detailed briefs on how the portfolio continues to deal with the irregular expenditure investigations. This feedback must clearly indicate the actions taken in terms of consequence management implemented by the department and entities.



# THANK YOU



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