



AUDITOR - GENERAL
SOUTH AFRICA

BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR)

Portfolio Committee on
Home Affairs

October 2022

*Briefing document on the
audit outcomes for the
home affairs portfolio:
2021-22*



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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) 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.

1.2 Role of the AGSA

Our role as the 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 objective to produce a budgetary review and recommendations report (BRRR).

1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and forward allocation of available resource
- Recommendations on the forward use of resources

1.4 Mandate of the AGSA and the portfolio committee

AGSA mandate	Portfolio committee mandate
<p>Section 188 of the Constitution</p> <p>The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.</p>	<p>National Assembly Rule 227</p> <p>Portfolio committees may, amongst other things, perform the following functions:</p>

AGSA mandate	Portfolio committee mandate
<p>Section 20(2) of the Public Audit Act (PAA)</p> <ul style="list-style-type: none"> • The AGSA must prepare an audit report containing an opinion/conclusion on the: <ul style="list-style-type: none"> ○ fair presentation of the financial statements ○ compliance with applicable legislation ○ reported performance against predetermined objectives. • Discretionary audits (including special audits, investigations and performance audits) <p>Section 5(1B) of the PAA</p> <p>The auditor-general has the power to:</p> <ul style="list-style-type: none"> • issue a material irregularity • include recommendations in the audit report • take an appropriate remedial action • issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action. 	<ul style="list-style-type: none"> • 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, any executive organ of state falling within its portfolio, any constitutional institution falling within its portfolio, and any other body or institution in respect of which oversight was assigned to it • 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 • Perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions

1.5 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the objective of the committee to produce a BRRR.

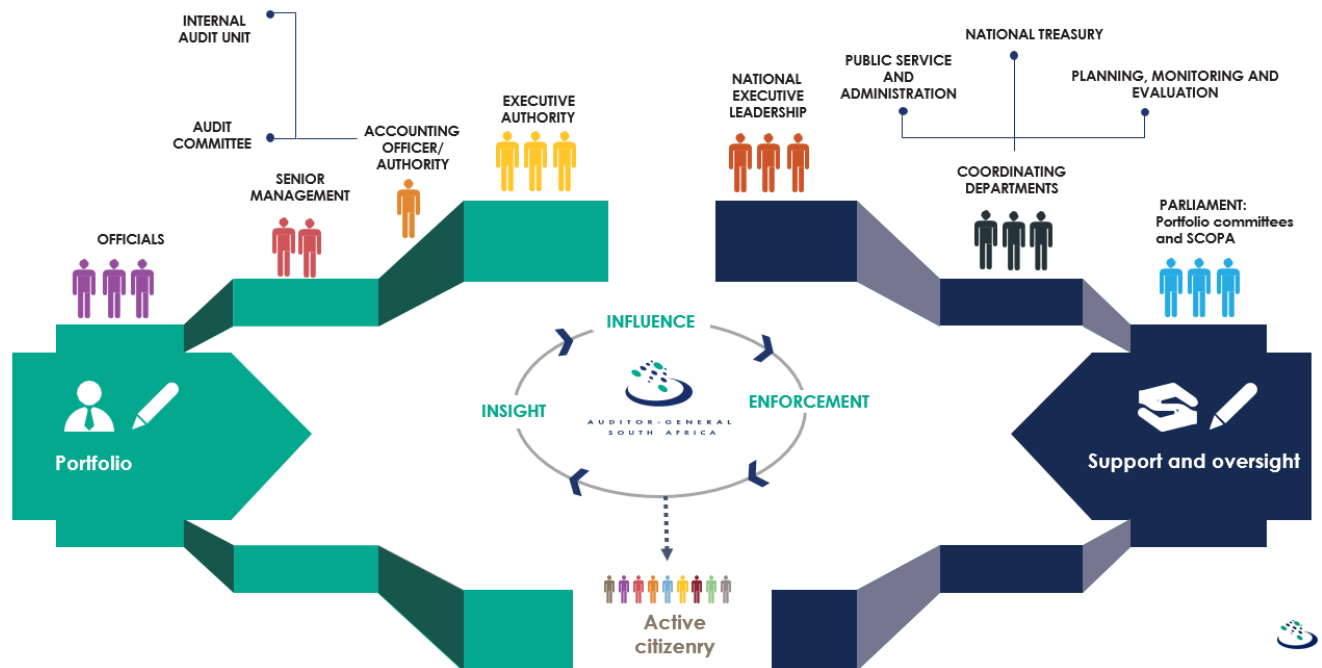


1.6 Shifting the public sector culture through the accountability ecosystem

Slide 3

All have role to play in national government accountability eco-system

3



All have a role to play in the accountability ecosystem, whether it is at a leadership and decision-making level, or at a support, intervention or oversight level.

The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.






A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.

Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.

Given the nature of the AGSA’s mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.

Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.

1.7 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> produced credible and reliable financial statements that are free of material misstatements reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP) complied with key legislation in conducting their day-to-day operations to achieve their mandate 	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> align performance reports to the predetermined objectives they committed to in APPs set clear performance indicators and targets to measure their performance against their predetermined objectives report reliably on whether they achieved their performance targets determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance 	 <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published. 	 <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements 	 <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

1.8 Material irregularities

Definition: A material irregularity 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 PAA 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.

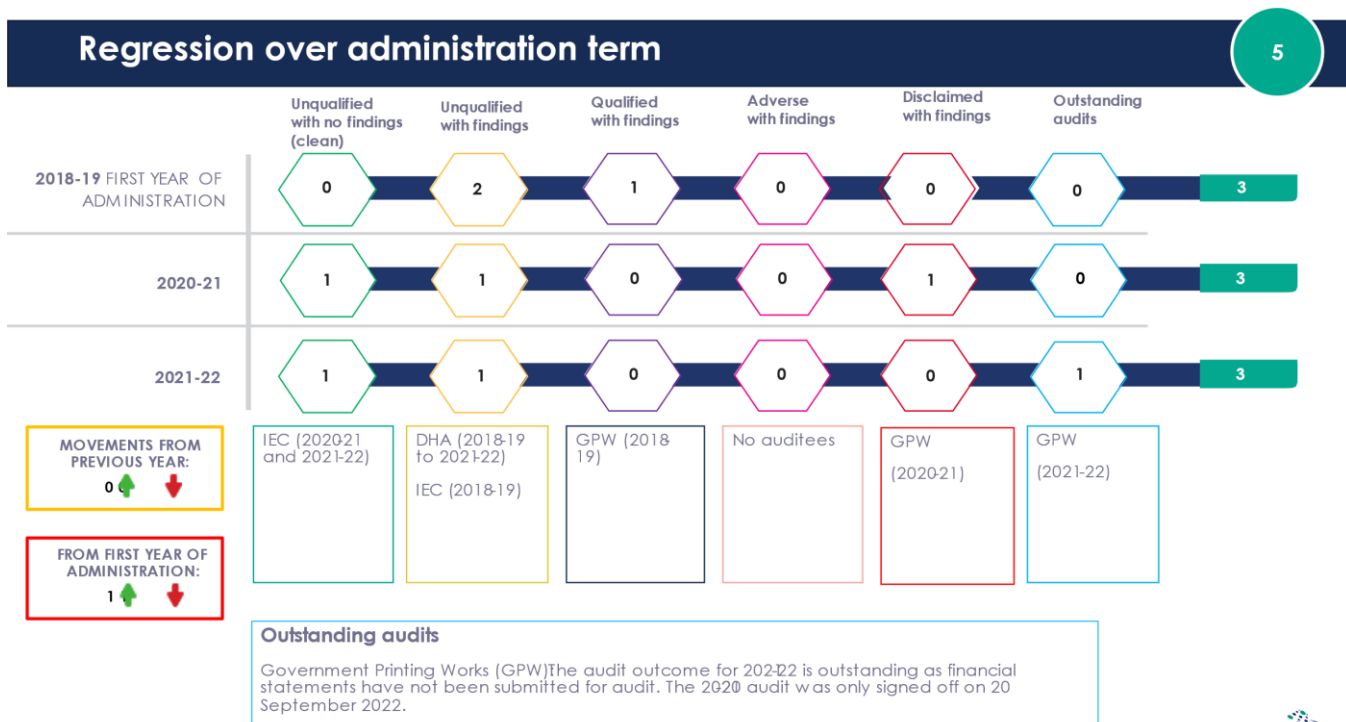
Auditees in the portfolio scoped in

	2021-22 (current year)
<u>Auditees</u>	Department of Home Affairs (DHA) Government Printing Works (GPW) Independent Electoral Commission (IEC)

We have not identified any material irregularities to date.

2. Movement in audit outcomes over administration term

Slides 5



Overview

Clean administration that is characterised by favourable audit outcomes is the fundamental base for service delivery and an ultimate improvement in the lived experiences of citizens. At the start of the current administration (2018-19), the audit outcomes for the portfolio were as follows:

- DHA: unqualified with findings on compliance
- IEC: unqualified with findings on compliance
- GPW: qualified with findings on compliance

The DHA has maintained the same audit outcome, the IEC has improved to a clean audit, and the GPW regressed to a disclaimed audit opinion in 2020-21, while the current audit outcome of the GPW is outstanding.

We commend the IEC for attaining an audit outcome that is characterised by reliable financial statements, a reliable performance report and compliance with applicable legislation.

As a result of system crashes at the GPW, the financial statements for the 2020-21 financial year were only received a year late on 31 May 2022, while the financial statements for the 2021-22 financial year have not been received.

The overall audit outcome of the GPW for 2020-21 remained stagnant on a disclaimer. This can be attributed to data losses in February 2021 and March 2022. This severely affected the GPW in that the supporting schedules for the 2020-21 financial year were lost, which prevented the entity from addressing the material audit finding of the previous year. The status of the information technology (IT) controls continues to require intervention and has had an extremely negative impact on operations.

The GPW audit opinion for 2019-20 was a disclaimer and the audit flagged significant weaknesses IT system. In February 2021, a system crash occurred resulting in the loss and non-recovery of data and underlying records for preparation of financial statements. While management was in the process of recapturing the data, the entity suffered further system crashes which wiped out the recaptured data.

- 31 January 2022
- 25 March 2022
- 11 April 2022

The financial statements for the 2020-21 financial year were submitted a year late – on 31 May 2022. The financial statements did not reconcile to supporting schedules and underlying records and were not adequately reviewed by governance structures like Internal audit and audit committee.

There is a lot of uncertainty around the data loss, and the impact it has on financial reporting, with the audit limitation mainly informed by system data that was not reliable. Internal controls were also lacking. Basic controls such as inventory and asset counts were not conducted timeously; and the GPW should thus focus on improving the performance of daily controls.

Since the 2021-22 audit outcome of the GPW is outstanding, this document does not further analyse the GPW.

2.1 DHA

Overview

The audit opinion remained unchanged from the prior year as financially unqualified with findings on compliance.

Material misstatements were identified in the financial statements submitted for auditing, which were subsequently corrected by management. These material misstatements were due to reviews that were not effective enough to identify errors in contingent liabilities and accruals and payables not recognised.

2.1.1 Findings on the audit of the annual performance report

Slide 8

Programme 2 – citizen affairs

Material adjustments were made to the reported performance information. The findings on performance information resulted from the reviews in place being unable to identify and correct presentation issues in the annual performance report.

Achieving key performance targets – summarised information from performance report

Slides 8 & 9

The medium-term strategic framework identifies a number of priority interventions and related targets for the DHA, as listed below. It is important for all role players (including the portfolio committee) to track these targets in line with the department's reported performance for a particular year.



- ABIS implemented by 2022-23
- BMA established by 2021-22
- BMA operational by 2023-24 at 18 ports of entry, 6 segments of the land border law enforcement area and 1 community crossing point
- BMA rolled out to an additional 7 ports of entry and 1 additional segment of the land border law enforcement area by 2024
- 100% of identified ports of entry equipped with biometric functionality by March 2024 (BMCS)

The DHA reported that 20 of the 29 planned targets were achieved for 2021-22, which represents a 69% achievement based on the annual performance report.

Key targets not achieved (as per annual performance report)

Performance indicator	Target	Actual performance	Reason for non-achievement
Number of selected ports of entry with biometric movement control system (BMCS) implemented as per approved specifications	23	0	Procurement process delays due to global shortage of computer chips
Development of Asylum Seeker and Refugee system onto live capture as per approved specifications (prototype) (21-22)	Asylum Seeker and Refugee system development onto live capture – prototype	Not achieved	Service provider was not appointed to develop a fully functional system, so that the system becomes fully functional
Number of ports of entry, land border law enforcement area segments and community crossing points with incremental BMA rollout	BMA incrementally established	Not achieved	The implementation protocols with SAPS and Defence have not been concluded and the section 97 proclamation pertaining to the transfer of functions has not been finalised
	BMA incrementally rolled out at 11 ports of entry by incorporating frontline immigration, port health, agriculture and border facility management functions into the BMA	Not achieved	The BMA could not be rolled out to 11 ports of entry as the section 97 proclamation, through which frontline functions would have been incorporated into the BMA, was not finalised

Two of the targets above relates to the department's modernisation programme, which is a key enabler for building a capable state and critically important to drive improvement in security, business process efficiency and the provision of access to services.

The non-achievement of targets relating to the operations of the BMA risks further delays in resolving structural and systematic challenges of border security, control and coordination in the border law enforcement environment.

2.1.2 DHA modernisation programme and related information and communication technology (ICT) environment/projects

The modernisation programme is a key enabler for building a capable state and critically important to drive improvement in security, business process efficiency and the provision of access to services. Some projects within the modernisation programme are significantly behind schedule and may require additional budget allocation to ensure successful implementation – if the weaknesses identified and related delays are not effectively rectified.

Some of the weaknesses identified are summarised below.

Slide 10

E-Visa and BMCS

The purpose of the project was to automate and secure the end-to-end process of applying for a visa by eliminating the manual process and paper forms. This will introduce a complete end-to-end automated process from the online application, adjudication, and visual permit on BMCS. Currently, e-Visa has been deployed in 15 missions across the world.

Key concerns

Several issues regarding the operating effectiveness of the system and deployment were noted:

- Project management-related weaknesses resulted in key systems such as the E-Visa system and the BMCS being deployed into production without user acceptance sign-off.
- Poor governance processes over projects led to issues which ranged from system designs not being in line with business requirements, no processing of fingerprints analysis of travellers captured at ports of entry, ineffective management of identities and access to the system, and no user acceptance testing being performed.
- Both the E-Visa and the BMCS systems were rolled out onto infrastructure that was not secure. Some workstations on which the BMCS system was rolled out were not protected by anti-

malware software, while some of the workstations on which the E-Visa application was deployed did not meet minimum hardware and software requirements.

- Officials did not take necessary steps to ensure compliance with user account management policy and procedures requirements to ensure adequate E-Visa user access management processes.

Recommendations

Management should urgently address the significant control deficiencies. The modernisation projects seem to be having similar control deficiencies as the legacy systems. If the issues are not addressed, no progress will be seen in the DHA's IT control environment and the department will continue to be exposed to the current risks. In addition, if these systems are not operating as intended, it will result in material losses to the department.

Slide 11

ABIS

The ABIS project is a fundamental baseline of the DHA's modernisation programme.

Phase 1 of the project was 3 years and 4 months behind schedule as at 31 March 2022. The initial planned delivery date of phase 1 was 30 November 2018. Data migration and application interfaces proved to be the biggest challenges during phase 1.

The project was initially contracted to EOH but later ceded to IDEMIA.

The project budget increased from R410 million to R475 million as a result of the delays and change in service provider (ceding). A total of R294 million (90%) has been spent on phase 1 against a budget of R328 million. With project delays caused by technical complexities related to data migration and interfaces, the department is at risk of exceeding this budget.

Recommendations

The ABIS project is of national importance. To avoid losses to the state, the project needs to be closely monitored by all assurance providers to ensure that there is adequate project management, the project is seen to finality, and set deadlines are met.

With the speed at which information system technology is progressing, management should also assess if the technology being implemented in the ABIS project is still relevant.

2.1.3 Findings on the audit of financial statements

Slide 15

Unqualified with findings on compliance with laws and regulations

Material misstatements were identified in the financial statements submitted for auditing relating to:

- Accruals and payables not recognised
- Contingent liabilities

These material misstatements were due to reviews that were not effective enough to identify the errors. These misstatements were later corrected, resulting in an unqualified audit opinion on the financial statements.

2.1.4 Financial health risk

Slide 16

The financial health of the department was assessed as concerning due to the following:

Revenue management

- The debtors' impairment provision was at 87% of accrued departmental revenue, indicating that the department struggled to timeously collect money due and impaired incidentally significant amounts. This also formed part of the material non-compliance reported on the department's failure to collect money due.

Cash management

- Claims against the department at year-end was at 76% of the next year's budget, excluding compensation of employees as well as transfers and subsidies. These claims are too high; should they become payable in the next financial year, the department will have little left to fund operations, settle other financial obligations, sustain optimal service delivery, and implement planned activities, programmes and projects.

2.1.5 Irregular expenditure analysis

Slide 19

During the year under review, the department incurred irregular expenditure of R47 million (2020-21: R7,8 million), which was disclosed in the financial statements. The expenditure can be broken down as follows:

Description and root cause	Amount
Mandatory IT goods not procured through SITA	R33,2 million
Irregularities in ABIS procurement	R12,8 million
Other instances of irregular expenditure disclosed	R1,2 million
Total disclosed	R47 million

2.1.6 Findings on compliance with legislation

Slides 17 & 18

The following material non-compliance issues were identified and reported:

Description	Root cause
Quality of financial statements <ul style="list-style-type: none"> Material adjustments to the AFS 	Inadequate reviews to detect and correct material errors in the AFS
Revenue management <ul style="list-style-type: none"> Effective steps not taken to recover money due 	Lack of rigour in the enforcement of fines issued No documented policies and procedures to guide the collection of fines and penalties issued in terms of the Immigration Act
Procurement and contract management <ul style="list-style-type: none"> Mandatory IT goods not procured through SITA 	Inadequate review and monitoring of compliance with supply chain management prescripts

2.1.7 Dealing with irregular expenditure

Slide 20

The Public Finance Management Act (PFMA), read with the irregular expenditure framework issued by the National Treasury, prescribes a process for ensuring accountability for each instance of irregular expenditure identified. As at 31 March 2022, the department had an irregular expenditure balance of R521,9 million that is undergoing the necessary determinations and investigations. These processes must be monitored to ensure timely consequence management for those who caused or permitted irregularities and to collect any losses that might have been incurred.

2.2 IEC

Overview

The IEC maintained an unqualified opinion with no findings relating to scoped-in compliance matters.

There was an improvement in the preparation of the annual performance report as no material misstatements were identified that required correction. Management is commended for this achievement and should ensure that the best practice of enhanced reviews of the annual performance report is maintained.

No material findings were reported on the audit of supply chain management, which was also the status in the prior year. Management is commended for maintaining the status quo. Though we did not identify any material non-compliance through the audit work done, management's internal controls identified instances of non-compliance which resulted in the irregular expenditure disclosed for the current year. There is therefore still work to be done in monitoring compliance with supply chain management regulations to ensure that non-compliance and irregular expenditure are prevented as required by the PFMA.

2.2.1 Findings on the audit of the annual performance report

Slides 7 – 9

Programme 2 – electoral operations

No material findings were identified.



Programme 4 – political party fund

No material findings were identified.

Achieving key performance targets – summarised information from performance report**Slide 8**

Nine of the 12 planned targets were achieved for 2021-22, which represents a 75% achievement based on the annual performance report.

2.2.2 Financial health risk**Slide 16**

No significant risks were identified in relation to the financial health of the IEC.

2.2.3 Irregular expenditure analysis**Slide 19**

During the year under review, the IEC incurred irregular expenditure amounting to R28 million, which was disclosed in the financial statements; of which R5,9 million related to transactions entered into in the prior year. Irregular expenditure decreased by 30% compared to the prior year. The expenditure can be broken down as follows:

Description and root cause	Amount
Deviation not approved for the printing of ballot papers	R14 million
Competitive bidding processes relating to the procurement from an established panel were not followed	R5,9 million
Other various instances of non-compliance	R8,1 million
Total disclosed	R28 million

2.2.4 Findings on compliance with legislation**Slides 17 & 18**

There were no material findings on compliance with legislation.



2.2.5 Dealing with irregular expenditure

Slide 20

As at 31 March 2022, the IEC had an irregular expenditure balance of R66,5 million that is undergoing the necessary accountability processes. These processes must be monitored to ensure timely consequence management for those who caused or permitted irregularities and to collect any losses that might have been incurred.

3. Main root causes, recommendations and commitments for the portfolio

Slide 22

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

Overall root causes and key recommendations to accounting officers and authorities

Root cause	Recommendation
Inadequate review and monitoring of compliance with applicable laws and regulations relating to financial reporting and revenue management (DHA)	Review and monitor compliance with legislation (DHA)
No documented policies and procedures to guide the collection of fines and penalties issued (DHA)	Management should rigorously implement effective measures for the collection of fines issued (DHA) In consultation with the executive authority, management should assess the appropriateness of existing policy and/or legislative prescripts to ensure that these fines are effective to deter contraventions of the Immigration Act (DHA)
Inadequate monitoring of implementation of action plans, as the plans did not effectively address repeat audit findings including those relating to IT (DHA)	Monitor the design and implementation of action plans to ensure improvement in the audit outcomes (DHA) and continue with rigorous and diligent implementation of action plans (IEC)
Reviews performed were inadequate to detect and correct material errors in the AFS, resulting in material adjustments to the financial statements (DHA)	There must be timely consequences for officials who do not implement action plans (DHA)
Inadequate disaster recovery planning processes, which resulted in the GPW not being able to restore backups	Oversight and intervention are required based on the 2020-21 audit outcomes to remediate the limitation of scope/loss of data (GPW)

Commitments by executive authority

Commitment	Status
The department will embark on a rigorous approach in ensuring that the fines and penalties are collected from airline and bus companies	In progress

4. Portfolio committee message**Slide 23**

Regularly monitor and follow up with the executive authority and accounting officer on progress on the audit action plans put in place.

Provide oversight on the measures relating to the collection of fines.

Oversight and intervention are required for the DHA modernisation project and the significant deficiencies related to the project.

Intervention is also required for collaboration and cooperation by other institutions for the successful implementation and operation of the BMA.

Provide oversight and intervention on the GPW based on the 2020-21 audit outcomes to remediate the limitation of scope and data loss.

Proposed commitments

Commitment	Date of commitment