

Budgetary review and recommendations report (BRRR) Portfolio Committee on Social Development

PFMA
2021-22

12 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

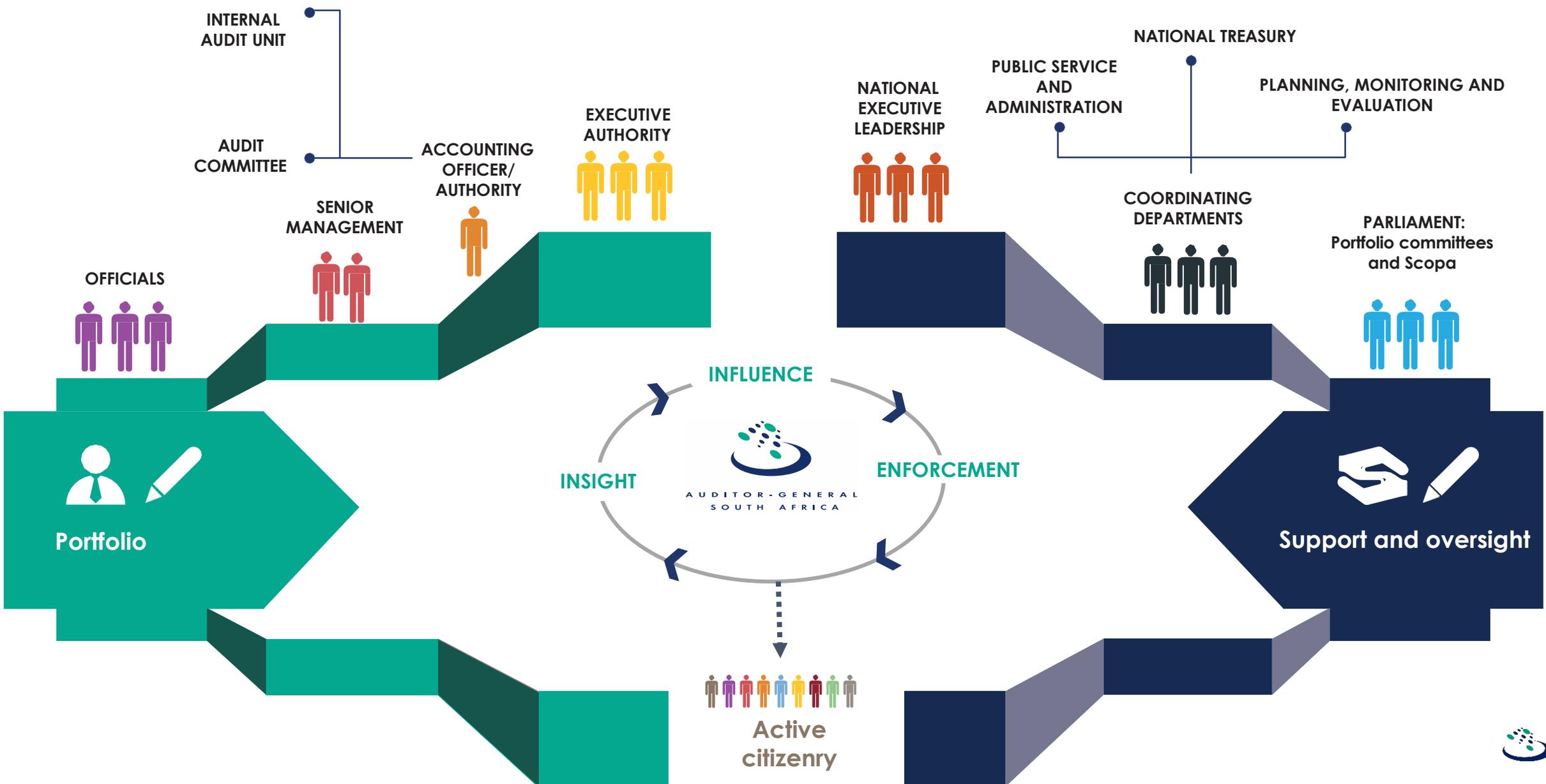


VISION

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, thereafter regression in audit outcomes over administration term



MOVEMENTS FROM PREVIOUS YEAR:
 6 ↔ 1 ↓

FROM 2018-19 OF ADMINISTRATION:
 6 ↔ 1 ↑

- Disaster relief fund (DRF)
- Refugee Relief Fund (RRF)
- Social Relief Fund (SRF)
- State President Fund (SPF)

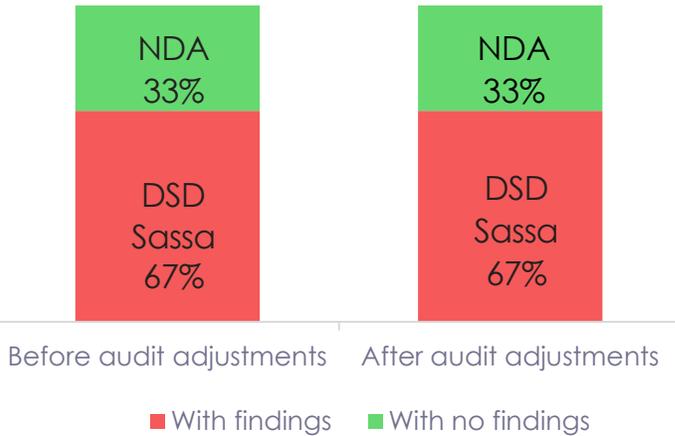
- Department of Social Development (DSD)
- South African Social Security Agency (Sassa)
- National Development Agency (NDA)



Portfolio performance



Quality of performance reports before and after audit



Findings: Reporting

- DSD - Unable to obtain sufficient appropriate audit evidence to audit the reliability of the achievement of 57.7% reported of children who has access to quality early childhood development (ECD) services during the 2021-22 financial year.
- Sassa - The actual achievement reported for the percentage of new grant applications processed within stipulated timeframes differed from the supporting evidence provided for audit, as a result the accuracy of the reported achievement for that indicator could not be confirmed.

Impact

DSD

- Inadequate system to track the achievement of targets for ECD services may have a negative impact on the quality of ECD services provided since the department is unable to ascertain the nature of curriculum provided by the ECD centres. As a result DSD may also be unable to confirm whether funds are being spent correctly for the services rendered by ECD centres.

Sassa

- In-accurate systems to track application turnaround times has a direct impact on service delivery by the entity, this is due to some undetected delays in providing social assistance to citizens. This is also aligned to public outcry on delays of processing of their applications by the agency.



Key targets in medium-term strategic framework for portfolio

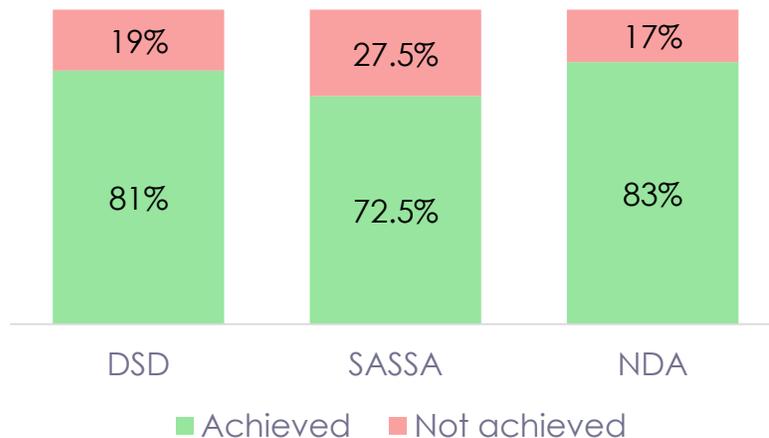
Priority 4: Consolidating the Social Wage through Reliable and Quality Basic Services and Priority 6: Social Cohesion and Safer Communities.

Priority 4 Targets: 3 300 000 individuals accessing nutritious foods through DSD Food Programmes; 25% households receiving promotion, protection, prevention, early intervention and statutory services; 10% of households with grant beneficiaries linked to sustainable livelihood opportunities; 2% of Child Support Grant beneficiary caregivers (below 60 years of age) linked to livelihood opportunities; 30% of persons with disabilities accessing social development services.

Priority 6 Targets: Number of eligible beneficiaries receiving social grants 19.4 million grants; White Paper on Comprehensive Social Security approved by cabinet; 10% of people accessing psychosocial services through the GBV Command Centre; 30% reduction of GBV incidences by implementing programmes; 10% of people (0-18) accessing treatment for substance abuse.

The portfolio committee should monitor the progress of these key MTSF targets to ensure that these targets are met.

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



Key targets not achieved:

DSD

- Policies and legislation improving social security coverage implemented
- Policy and Draft Bill on Social Development Services to Persons with Disabilities approved

Sassa

- Number of children below the age of 1 in receipt of the children's grant
- Number of social relief or distress applications awarded.
- Percentage of covid-19 Special Relief grant applications processed.

Impact of targets not achieved

- The targets not achieved have an impact on delivery of services to the public in alleviating poverty and providing necessary social assistance in a timely manner for those in need.



Achieving key performance targets – summarised information from performance report

DSD

Performance indicator	Target	Actual performance	Reason for non-achievement
Policies and legislation improving social security coverage implemented	Consultation report on Green Paper on Comprehensive Social Security	Engagements with the Nedlac social partners were finalised. The green paper was gazetted for public comments. However, consultation report was not completed due to the withdrawal of the green paper. Refinements to the green paper commenced and a Cabinet memo prepared.	The Green paper was withdrawn in the second quarter of 2021-22 to allow for further refinements to the contentious issues. Some of the proposals were misrepresented. The department has commenced the work on the refinements with the intention to implement public engagements on completion of due processes.
Policy and Draft Bill on Social Development Services to Persons with Disabilities approved	Submit Policy on Social Development Services to Persons with Disabilities to Cabinet for approval	Policy on Social Development Services to Persons with Disabilities has not been finalised and was therefore not submitted to Cabinet for approval. The policy was presented to the executive and peer reviewed through a panel of experts to ensure that it reflects programmatic interventions for beneficiaries. The policy was edited in order to respond to core policy issues through conducting research, document review of policies, strategies and interviews with provincial coordinators. The Socio-Economic Impact Assessment (SEAIS) Report was finalised and submitted to the Department of Planning, Monitoring and Evaluation (DMPE) resulting in obtaining approval certificate to table the policy at Cabinet for approval.	The revised policy by the editor lacked a chapter on programmes addressing policy issues that requires inter-sectoral and interdepartmental collaboration. Executive buy-in and policy peer review by the panel of experts was critical in order to beef up policy quality and ensure alignment to social development programmes, addressing disability specific needs and mainstreaming considerations.



Achieving key performance targets – summarised information from performance report

Sassa

Performance indicator	Target	Actual performance	Reason for non-achievement
Number of social relief of distress applications awarded.	390 880 SRD applications awarded at a cost of R391 million.	1 67 802 SRD applications were awarded at a cost of R191 755. This represents 42.93% achievement against the planned target. Total expenditure: A total of R191 755 was committed at the end of March 2022. However, actual expenditure as at 31 March 2022 stood at R139 789 million.	The applicants of SRD grant were channeled to covid-19 special relief grant (R350 grant) to avoid multiple benefits from both grant types. Normal SRD was mainly provided as a response to disaster. SRD budget savings were utilised for covid-19 special relief grant (R350).
Percentage of covid-19 Special Relief grant applications processed.	100% of covid-19 Special Relief grant applications processed.	126 685 470 cumulative applications were received and 124 204 429 were processed, inclusive of Asylum seekers and Special permit holders. This represents 98.04% of applications processed. The 126 685 470 cumulative applications received, consist of 10 000 663 for April 2021 and an additional 116 684 807 for August 2021 to March 2022. All covid-19 Special Relief grant (R350) applications received by Sassa on a monthly basis including existing ones were considered as new and subjected to a verification process. This resulted in 126 685 470 cumulative applications received and 124 204 429 of those were processed.	Non-achievement is attributed to applications which were referred for investigation and could not be finalised. The extension was prompted by the Adjusted Alert Level 3 Directions issued by the Minister of Social Development, as published in Government Gazette No. 44938, Government Notice No. R.681 of 3 August 2021.
Number of children below the age of 1 in receipt of the children's grant	580 000 children below the age of 1 in receipt of the children's grant	544 237 children below the age of 1 were in receipt of the children's grant. This represents 93.83% achievement against the target	Despite concerted efforts to encourage applications for children as soon as possible after birth, this target has not been achieved . The impact of office closures due to covid-19 related protocols and offices operating at limited capacity also played a part in the non- achievement of this target





Sassa on behalf of DSD

- Social relief was provided to flood victims in the form of approximately 99 500 hot meals, 10 894 food vouchers for groceries in KwaZulu-Natal, 2 637 humanitarian goods were delivered, 4 159 cash distributions were paid directly into bank accounts and 816 school uniforms were provided in KZN and Eastern Cape
- Selected sample of recipients who received the above relief and audited distribution processes and controls on social pension system to determine whether payments were made to valid beneficiaries

Impact:

Social relief is being delivered to flood victims while also reducing the risk of invalid payments to an acceptable level

Cause:

The loss of homes and documents and the inability to access online facilities necessitated a **manual application process for social relief**, with subsequent verification and capturing on the system.

Actions/Recommendations:

Adequate preventative controls were implemented to ensure distribution to eligible applicants, however some improvements on the systems control on validations and manual controls on distribution are still required.

Key observations previously reported in the special report on flood relief funds

- We did not identify any material findings or risks on the provision of social relief.
- The loss of documents (e.g. identity documents and school records) and the inability of flood victims to access online facilities understandably had an effect on the effectiveness of controls to prevent payments and aid to beneficiaries not entitled to it.



Material irregularities



Implementation of material irregularity (MI) process

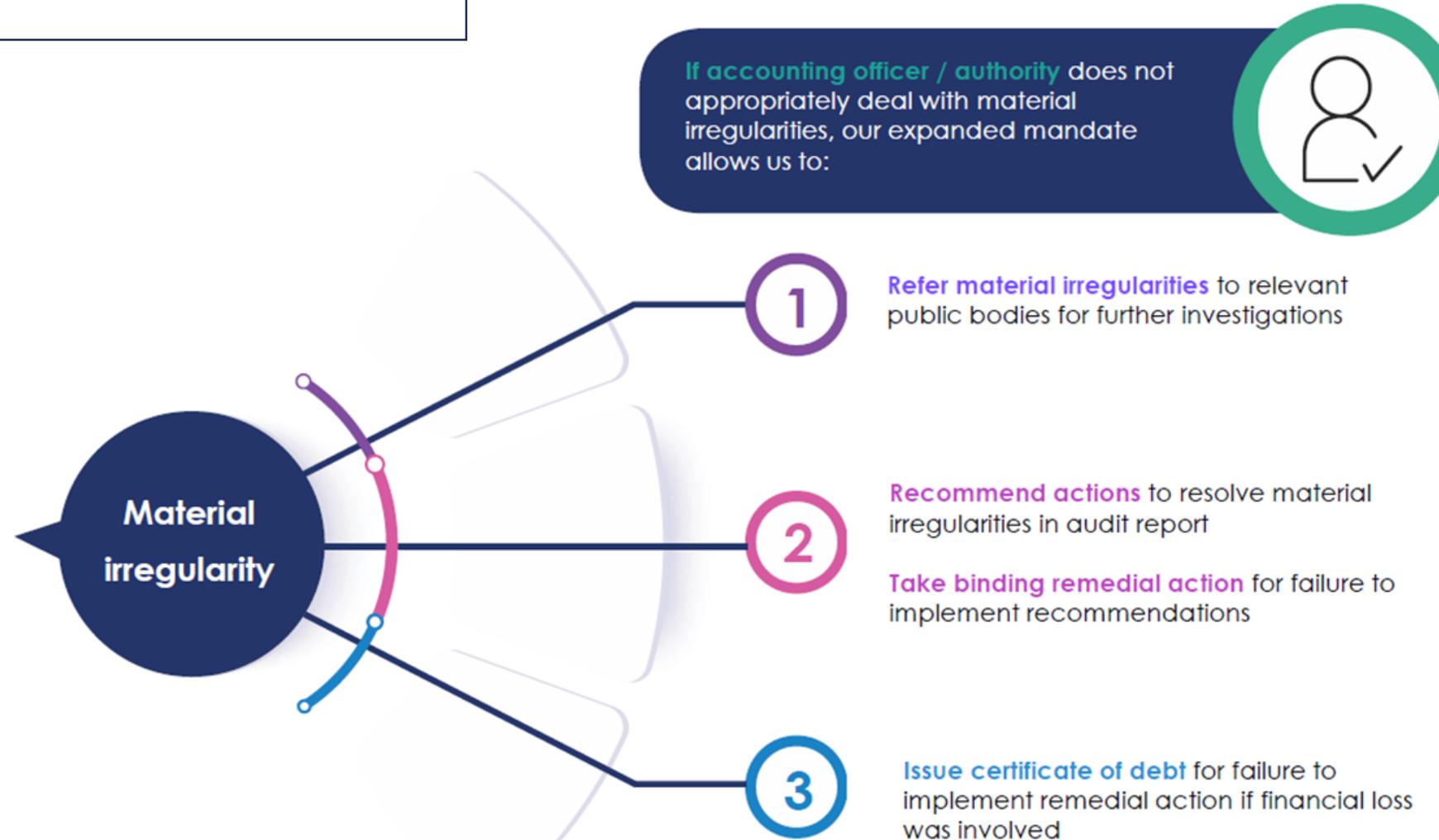
MI process implemented at:

- DSD
- Sassa
- NDA

MI process to be implemented at:

- Disaster Relief Fund

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**



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



SASSA

Notified	Type	MI description	Status of MI	Status description
23 August 2021	Payment for goods and services not received	Payment for social services not rendered - R 74 million.	In progress – Accounting authority is taking actions to address the MI	Necessary actions are being taken by the Accounting Authority to resolve the MI. An investigation is being conducted to determine if any current and former employees can be held liable for the loss. The investigation is being conducted by an external firm appointed through the National Treasury and the investigations is still in progress. The liquidation process of the supplier that was paid and not entitled to is still in progress.
4 October 2021	Payment for goods and services not in line with contract	Payments made where no goods and services were received - Overpayment of R316 million to service provider.	In progress – Accounting authority is taking actions to address the MI	Necessary actions are being taken by the Accounting Authority to resolve the MI. An investigation is being conducted to determine if any current and former employees can be held liable for the loss. The investigation is being conducted by an external firm appointed through National Treasury and the investigations is still in progress. The liquidation process of the supplier that was paid and not entitled to is still in progress.
4 October 2021	Payment for goods and services to ineligible applicants	Payment of R350 SRD grants to ineligible beneficiaries.	In progress – Recommendations issued	Recommendations submitted to the accounting authority on 29 July 2022 to implement within six months.



Observations from MI process

- The accounting authority (AA) is taking appropriate action to deal with the two MIs where payments were made while services were not received (R74m and R31.6m). The AA referred these two MIs for further investigation through the National Treasury, who appointed a firm to do a forensic investigation to determine the root cause of the non-compliance and if any current or former officials can be held liable.
- There has been some delays in finalising the investigation into these 2 MIs due to legacy nature of the issues involved. Both investigations are still in progress while the service provider relating to these MIs that is undergoing a liquidation process.
- After the recommendations were made in the special reports, management started to act on some of those recommendations. Sassa started to stop payments and recover funds through the SOCPEN/SRD system from the beneficiaries who did not meet the criteria to qualify for the grant. Sassa had recovered R56m from ineligible beneficiaries as at 31/03/2022. Recommendations were included in the audit report to ensure that the entity implemented all necessary actions that will enforce timely recoveries and other relevant actions to strengthen the controls.

Recommendations for portfolio committee

- Obtain progress from the AA regarding the status of investigations and if finalised the actions taken to address MIs through implementation of relevant actions taken against all implicated officials and recoveries where appropriate.
- Request the AA to present a plan of action regarding the implementation of all recommendations as included in the audit report for the R350 grants MI to ensure that such actions are implemented within the due date as stipulated.



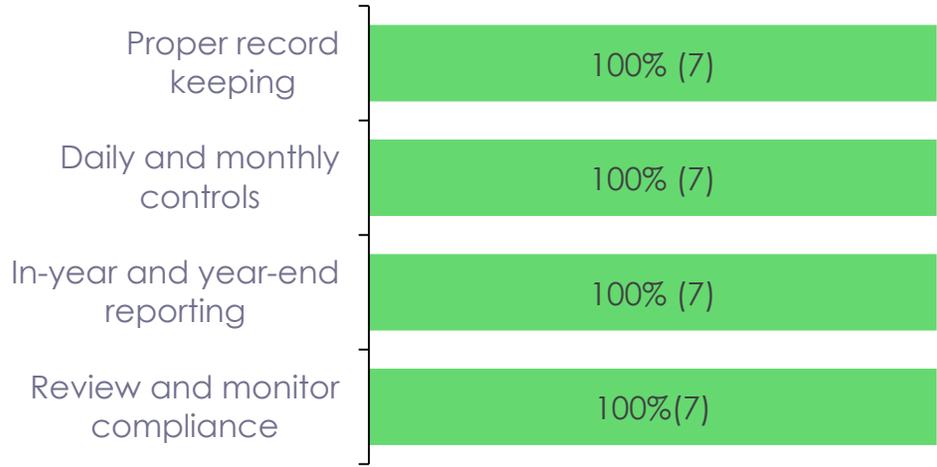


Financial management and compliance

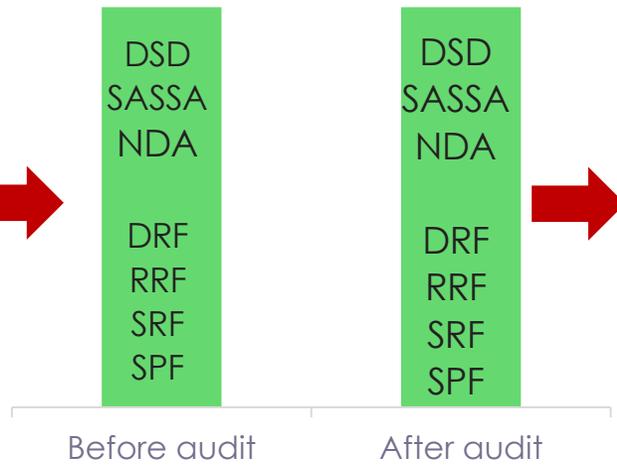


Impact on quality of financial statements submitted for auditing

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required



■ Unmodified
 ■ Modified

Main qualification areas

- None

Impact

- The department and its entities should continue to prepare financial statements that are free from material misstatement by maintaining adequate internal control measures over the financial reporting.



Revenue



Expenditure



Debt- collection period >90 days at **Sassa**

Average debt- collection period was 100 days at **Sassa**.

More than 10% of debt irrecoverable at **Sassa**.

R2.065 million of expenditure was **fruitless and wasteful** (R430 000 at DSD, R1 631 319 at SASSA and R4 329 at NDA)

Creditor- payment period > 30 days at **DSD and NDA**

Accruals that aged longer than 30 days increased from last year's 12.1% to 75.3% at **DSD**.

Creditors greater than available cash at year-end at **DSD**

Average creditor-payment period = 32 days

- 34 days at DSD
- 30 days at SASSA
- 33 days at NDA

An **accrual-adjusted net liability** position was realised at **DSD**

Impact



DSD financial viability is concerning in that if an accrual basis of accounting is applied, its total liabilities will exceed its total assets. This means that the department may not have enough cash to cover its liabilities.

DSD – the unauthorised expenditure balance from the prior years has not yet been authorised and as a result the net bank balance remains in an overdraft of R15 billion.





2021-22



0 ↑ 1 ↓

● No material findings ● Material findings

Most common areas of non-compliance	DSD	Sassa	NDA	4 funds
Procurement and contract management	-	-	X	-
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	-	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



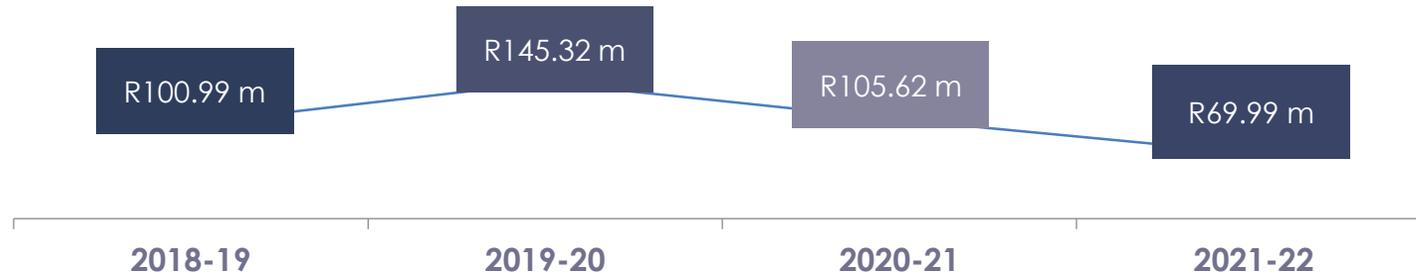
With no findings With findings With material findings

Details of procurement findings	DSD	SASSA	NDA	4 Funds
Uncompetitive and unfair procurement processes	X	X	X	-
Prohibited awards to other state officials	X	-	-	-
Limitations on audit of awards selected for testing	X	-	-	-

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



Annual irregular expenditure



Top contributors

R54.62 m **Sassa**

R14.67 m **DSD**

R0.7 m **NDA**

Impact assessment of irregular expenditure incurred

No value for money: R1.55m for DSD in paying amounts higher than the market values for some goods.

Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness: R9.81m for DSD; R54.45m for Sassa and R701 014 for NDA

Limitation of scope: R1.3m for DSD

Other: : R2m for DSD in respect of non-justifiable reasons to deviate on contract awarded and R176 552 for Sassa in respect of awards not approved by delegated officials and expenditure incurred without purchase orders.



Closing balance of irregular expenditure continues to decrease



2018-19

2019-20

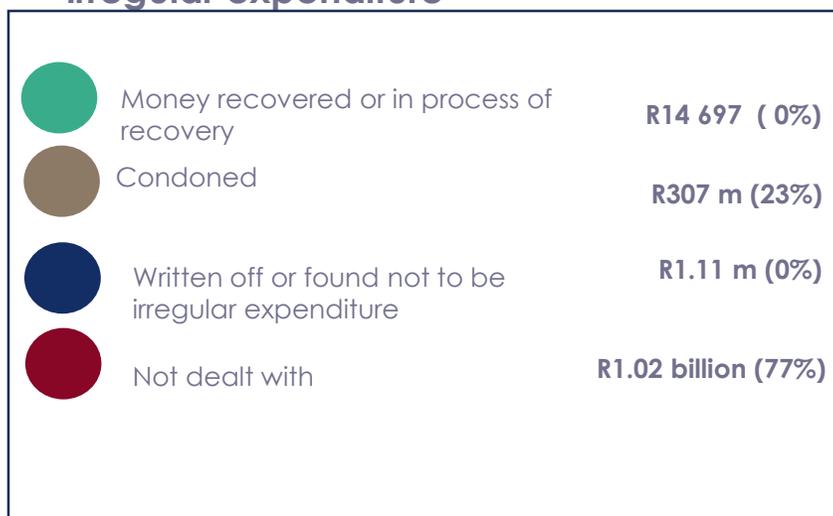
2020-21

2021-22

Top two contributors (R701 million) to irregular expenditure not dealt with constitute 64.3% of R1,09 billion



How have auditees dealt with irregular expenditure



Reasons for IE not dealt with:

- 83.87% of the Irregular expenditure not dealt with are due to delays in completing investigations into irregular expenditure
- 7.65% of the Irregular expenditure not dealt with are cases that are under the preliminary investigation stage
- 0,05% of the Irregular expenditure not dealt with are cases awaiting consequence management outcome.
- 8.43% of the Irregular expenditure not dealt with are cases submitted to the National Treasury for condonement.



Conclusions and recommendations



Overall root causes of significant findings

- Management did not maintain a system of adequate record keeping to ensure complete and accurate source documentation to support performance reporting.
- Slow response by management as action plans developed for prevention and detection of instances of non-compliance with applicable laws and regulations were not adequate as significant internal control deficiencies were identified in the SCM function.

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

Recommendations

- The accounting officer should strengthen preventative controls to ensure that adequate evidence is provided to support the targets achieved as reported in the annual performance report and to prevent and identify non-compliance
- Develop and monitor the implementation of the audit action plan to address audit findings on financial, compliance and performance reporting and grant administration

Commitments

- The accounting officer and authority to address the findings that directly influence audit opinions (All entities)
- Fill critical positions (DSD)
- The accounting officers and authorities will improve the internal controls by ensuring compliance with supply chain management regulations (All entities)

Commitments by executive authority

- Follow up on the filling of critical strategic positions
- Monitor the implementation of the audit action plan to address audit findings on financial, compliance and performance reporting and grant administration`
- Monitor prevention of financial misconduct cases, especially irregular, fruitless and wasteful expenditure; and finalisation of existing major financial misconduct cases
- Monitor the finalisation and implementation of the biometrics access to prevent fraudulent access to the grant systems,
- Monitor the progress on the system improvement on the validations to other databases and validations to test if persons qualifies for the grants
- Ensure that management has put in adequate preventative controls including security controls, user access controls and cyber-security controls on the grant systems to prevent fraud.



Portfolio committee message

In 2020-21, we recommended the following:

- The portfolio committee should follow up on the implementation of consequence management.
- Follow up on the process that SASSA is following to obtain all relevant data bases to validate payments to only valid beneficiaries for the SRD 350 grant.
- Follow up on the action to recover payments from invalid beneficiaries.

Overall reflections on implementation of recommendations:

The portfolio committee provided necessary oversight and met numerous times with the department and its entities to discuss key issues impacting the department and its entities throughout the year.

Key messages going forward:

- 1 The portfolio committee should monitor the accountability ecosystem to ensure that all role players/assurance providers effectively exercise their roles to improve audit outcomes and ensure service delivery is provided by the portfolio
- 2 The portfolio committee should follow up on the finalisation of long outstanding cases of consequence management and progress made to address material irregularities reported to Sassa
- 3 Utilisation of the preventative control guides as developed by the AGSA to assist other oversight functions to ask relevant questions during their oversight.
- 4 The portfolio committee should continue to actively engage with all role players within the accountability ecosystem to ensure that appropriate measures to resolve the MIs are effectively implemented.



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