



**PFMA
2022-23**

Briefing on the status of records review,
material irregularities and APP review
**Portfolio committee on Sport, Arts
and Culture**

21 April 2023



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.

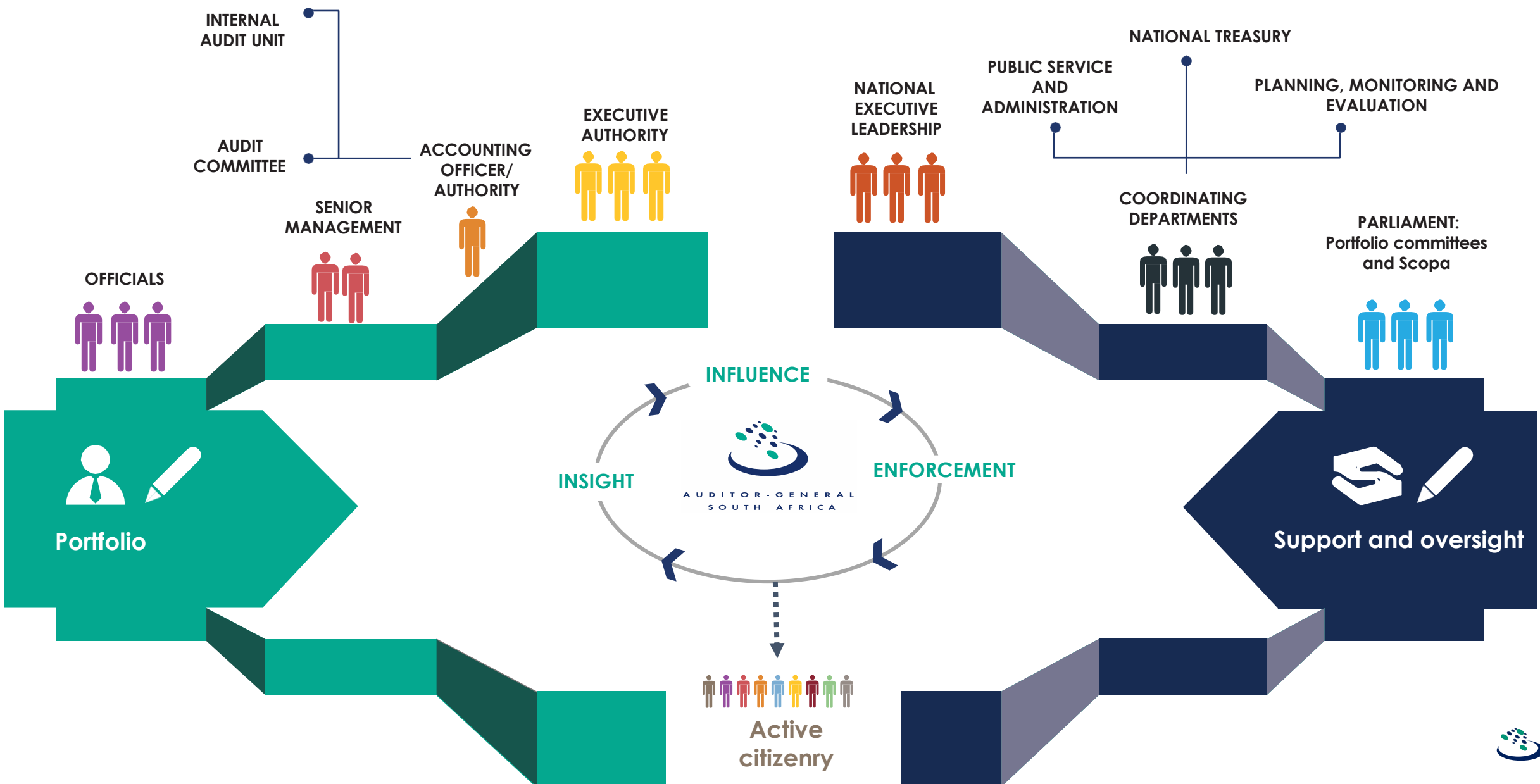


VISION

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



We all have role to play in enabling the national government accountability ecosystem



Status of Records Review



Objectives:

- Identify key areas of concern that may derail progress in preparation of financial and performance reports and compliance with relevant legislation, and may result in regression in audit outcome
- Provide our assessment of status of key focus areas that we reviewed
- Assess progress made in implementing action plans / follow through on commitments made in previous engagements
- Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Format of Assessment:

Status of records review (SoRR)



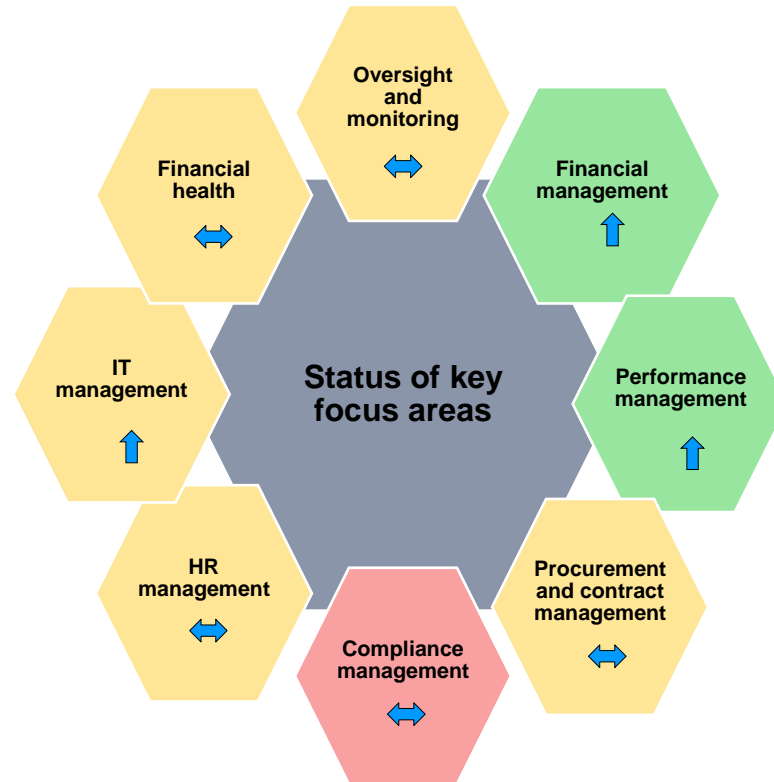
Follow-up procedures



Analysis of financial and non-financial information (internal and external reports/documents and discussions with management)



Focus Areas



Good	The basics are in place as no concerns were identified.
Concerning	Concerns identified.
Intervention required	Level of concerns identified is an indicator that urgent intervention is required to prevent audit failure.

↑	Improved
↔	Unchanged
↓	Regressed



Procurement and contract management

- Based on the review of the procurement plan for 2022/23, we noted several items that have passed the envisaged award date due to outstanding terms of reference (TOR) or some TOR's being at finalisation stage. Some of the items that were not procured directly impact the achievement of output indicators in the respective programmes in respect of performance information.
- We noted that the department has not updated the supply chain management policy to cater for the significant changes contained in National Treasury instruction note 3 of 2021/2022.
- The department implemented a variation for its contract with an implementing agent, the variation was done through the National Treasury instruction note 3 of 2021/2022. The total contract variation and above R20 000 000, management should note that they are required to include the details of the variation in the annual report in the format determined by National Treasury. Failure to do so will result in non-compliance with NT instruction note 3 of 2021-22 and a possible irregular expenditure.



Procurement and contract management - continued

- We noted the contractor for JL Dube Amphitheatre vacated the construction site in June 2022 due to contractual challenges (poor quality work by the sub-contractor and conflict between contractor and sub-contractor). Management should ensure that stringent project and contract management measures are put in place to avoid continuous delays in completing this project. The revised completion date was 30 November 2022 and has now moved to September 2023. These delays will also affect the achievement of the targets for reporting under performance information programme 2, indicator: number of heritage legacy facilities developed &/ maintained to transform the national heritage landscape.
- There are also still delays in the completion of the construction of the Sarah Baartman Centre of Remembrance. A project execution plan was developed and planned to have a contractor on site by September 2022. The implementation was subject to signing of a memorandum of understanding (MoU) and terms of reference (ToR) for establishment to give effect to co-management of the project with the Department of Public Works and Infrastructure. We noted that the MoU and ToR were only signed on 3 October 2022 due to some delays in finalising the approval of assignment which is a critical activity preceding the appointment of contractors to resume construction. As a result, no contractor has been appointed and the anticipated completion date is moved to February 2024. We recommend that the department should engage management of DPWI regarding these delays to prevent any variations for this project and to meet the new anticipated date of completion.



Compliance management

- In the previous year audit report, we reported instances of non-compliance with Treasury Regulations 8.4.1 under the audit of transfers and subsidies. This was because the second and third tranche payments were made to the entities or beneficiaries without obtaining relevant reports or supporting evidence indicating that monies were used for intended projects as agreed with the department.
- The department should strengthen the internal controls to prevent further instances of non-compliance in this regard as these are likely to result in financial losses for the department. One of the instances reported in the prior year has resulted in a material irregularity (refer to slide 20).

Human resource management

- The post of the director general has been vacant since 1 September 2022 and that of Director: Internal Control and Compliance since 1 April 2020.
- The vacancy rate for the office of Chief Directorate: Finance management services is 19.44%. The vacancies may lead to the department not being able to meet its financial and performance reporting objectives at year-end. The vacancies may also negative impact effective monitoring and review of internal controls.



Oversight and monitoring

- Internal audit is behind schedule in terms of executing the internal audit plan because 53% (10/19) of the engagements that were planned to be completed between 1 April 2022 and 31 October 2022 have not been completed. The new planned completion dates are in March 2023. Furthermore, the majority of the planned engagements that were completed were not done in time as per the audit plan. The same matter was also raised in the prior year and a non-compliance with section 3.2.11 (a) of the Treasury Regulation may re-occur.
- The fraud risk assessment was finalised on the 23rd of February 2023, and with a month remaining before the year end, the department might not have sufficient time to ensure that adequate controls are in place to address the risks of fraud and to implement the recommendations. Treasury Regulation 3.2.1 requires that a risk assessment be conducted regularly to identify emerging risks of the institution. The department should adhere to this regulation.



National Heritage council

- During 2021 the council of the National Heritage Council (NHC) appointed a company to conduct a forensic investigation into allegations of financial misconduct committed by the former chief executive officer. The investigation report into these allegations was completed in 2022 and the entity referred the matter to the Special Investigating Unit (SIU) and the South African Police Services (SAPS) for further investigation.
- The NHC management indicated that the matter is still with SIU and SAPS and no feedback has been received from these agencies. The department and the minister should follow up on the progress of these investigations.

Boxing SA

- The forensic investigation in relation to the supply chain management irregularities was completed in January 2022 and presented to the Audit and Risk Committee and the board. The board has implemented the recommendations against those who were implicated except for a criminal case that must still be opened against the service provider and a senior official that resigned from the entity. The entity should expedite the process.



South African State Theatre (SAST)

- During the prior year, the entity did not adequately conduct an impairment assessment into property, plant and equipment, as required by the standards. In addition, assets were not fully accounted for in the asset register and financial statements, resulting in a qualified audit opinion. We have engaged with the entity in this regard and management indicated that they are still busy with the asset verifications with a planned completion date of mid March 2023.
- Management should adhere to this timeline to allow the auditors to perform early testing which may possibly assist the department in clearing the qualification on the opening balance of assets.

National Library of South Africa

- Heritage assets acquired before 1 April 2012 were not recognised in the financial statements and this was due to the public entity not maintaining adequate records of the heritage assets which then resulted in a qualification in the prior years. Upon follow up in January 2023, management indicated that the process to properly account for these heritage assets is taking very long and it may not be completed on time for submission of the annual financial statements for audit on 31 May 2023.
- There is a risk that the qualification may not be resolved in the current year.



Iziko Museum

- During the prior year, the internal policies and procedures of the museum did not adequately address the risk relating to heritage assets and the internal controls could therefore not ensure the completeness of heritage assets which resulted in a qualified opinion. The entity is busy with the process to account for these assets and anticipate to complete on time before the submission of the financial statements for audit on 31 May 2023. The process must be monitored to ensure smooth and timeous conclusion.

Robben Island Museum

- During 2019/20, the entity incurred irregular expenditure as procurement processes were not followed during the purchase of a boat. In the prior year consequence management had still not taken place against officials who had incurred irregular expenditure which resulted in a material non-compliance paragraph in the audit report. The entity should undertake disciplinary steps against responsible officials to as required by the PFMA.



Performing Arts Centre of the Free State (PACOFS)

- During 2016, the Minister commissioned a forensic investigation on possible fraud and corruption allegations relating to capital works projects at the PACOFS. The investigation focused on the appointment of consultants by PACOFS to assist with the implementation of the capital projects.
- Phase 1 of the investigation was conducted by a service provider through an appointment that was done by the National Treasury. In line with the scope of the assignment, the investigation focused and reported on only specific aspects of interest at the time. It was therefore discovered that certain aspects that should have been included as part of the investigation did not form part of the scope of the original investigation. This then resulted in phase 2 of the investigation.
- The department indicated that phase 2 of the investigation is at finalization stage. The minister should monitor the matter ensuring that the department and the entity implement recommendations from the outcomes of both investigations once finalized.



Material irregularities

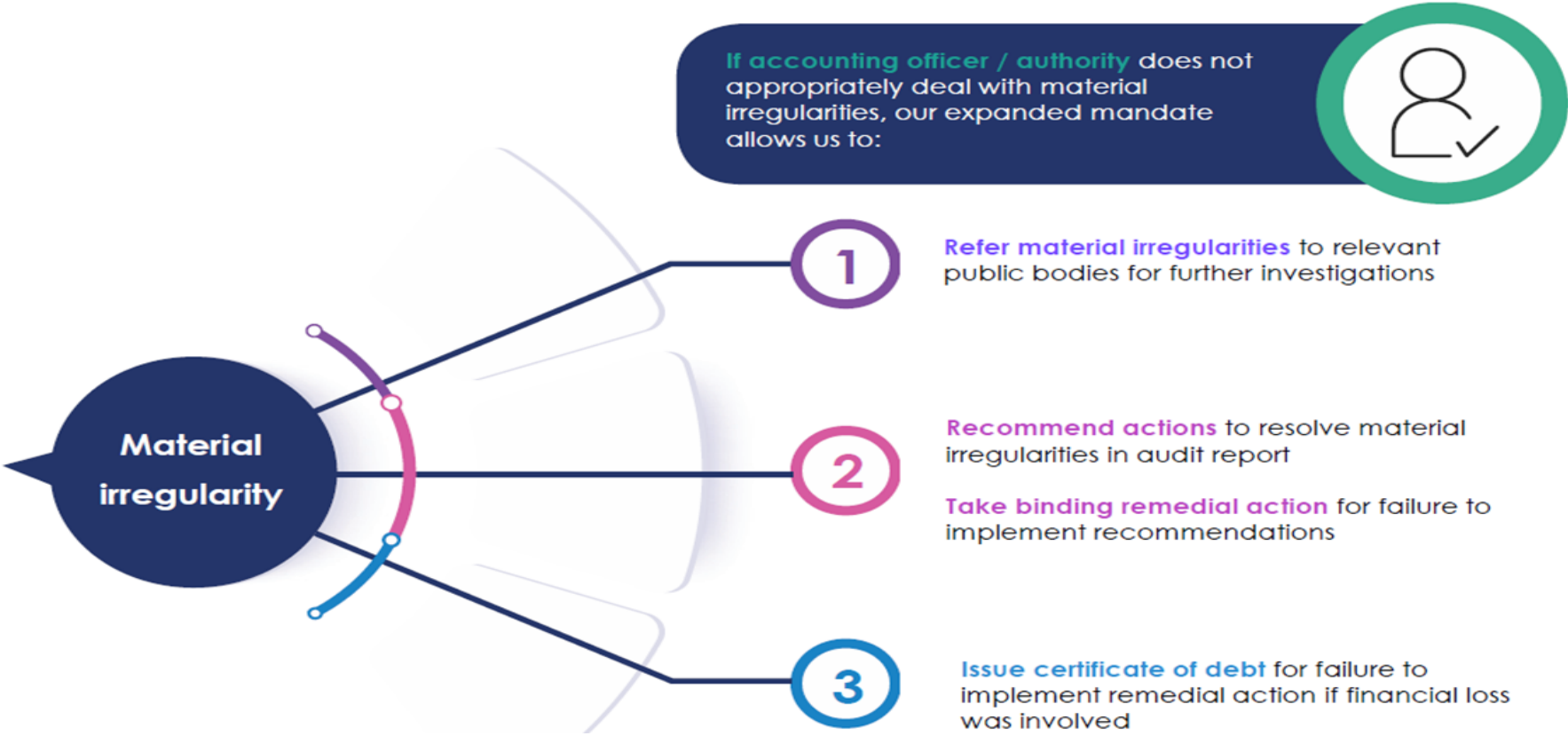


Implementation of material irregularity (MI) process

MI process implemented in 2022-23 at 14 auditees as follows:

- Department of Sport, Arts and Culture, Freedom Park, Ditsong Museum, Pan South African Language Board, Boxing SA, Iziko Museum, National Arts Council, South Africa Heritage Resources Agency, South African State Theatre, National Heritage Council, Market Theatre, National Film and Video Foundation, National Library of SA and Robben Island Museum

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

Nature of material irregularities identified at National and Provincial government

Procurement and payment



Resource management



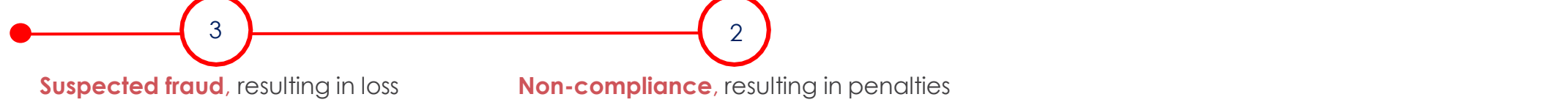
Revenue management



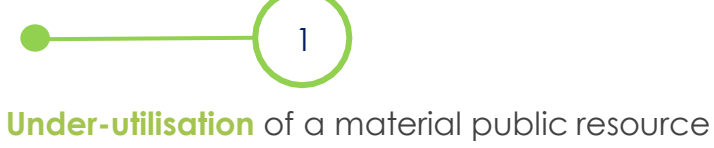
Interest and penalties



Fraud and compliance



Misuse of a material public resource



Harm to public institution



From INACTION to ACTION

179 material irregularities on non-compliance and fraud resulting in:

169 material financial loss (estimated R12 billion)

9 substantial harm to public sector institution

1 misuse of material public sector resource

No actions were taken to address 82% of these matters until we issued notifications.

ACTIONS TAKEN BY AUDITEES

R636 m Prevented financial loss from taking place

R509 m Financial loss in process of recovery

R14 m Financial loss recovered

36 Responsible officials identified and disciplinary process completed or in process

15 Fraud/criminal investigations instituted

5 Stopped supplier contracts where money is being lost

Examples of actions taken by auditees

The **Department of Defence** imported an unregistered drug (Heberon) at a cost of approximately R260 million without approval from the South African Health Products Regulatory Authority. The unused vials were repatriated to Cuba, preventing an estimated financial loss of R227 million.

The **Property Management Trading Entity** made payments to a landlord for leasing properties in excess of the amount payable as per the lease agreement, resulting in an estimated R11 million in overpayments. By 31 March 2022, R9,7 million had been recovered from the landlord and the remaining amount was in the process of being recovered.

The **KZN Department of Health** procured sanitiser detergent at a significantly higher price than that mandated by the National Treasury, resulting in a R1,3 million financial loss. Acknowledgement of debt was signed with the supplier, resulting in R0,5 million of the loss being recovered.

Multiple instances of non-compliance by **Prasa** were identified in the procurement process for locomotives in July 2012. Seven officials were charged with procurement irregularities and are being subjected to disciplinary processes; so far, one official has been dismissed and another has resigned.

The **National Department of Cooperative Governance** made payments to non-qualifying government employees as part of the community work programme. In response to the recommendations, we made and an internal investigation into the matter, the accounting officer referred the matter to the Directorate for Priority Crime Investigation (Hawks) for investigation. The accounting officer also took disciplinary steps against the responsible officials.

The **Eastern Cape Department of Human Settlements** awarded three contracts for housing units to bidders who did not score the highest points. On an application by the accounting officer, the High Court set two of the contracts aside, declaring them invalid, which prevented an estimated financial loss of R6,45 million.



Notified	Type	MI description	Status of MI	Current status
28/10/2022	Inefficient use of resources – no benefit derived from cost	<p>The department made transfer payments amounting to R7,5 million to a beneficiary for implementation of a project in broadcasting. The department did not implement timely and appropriate procedures to monitor the usage of funds by the beneficiary. No evidence could be provided to confirm that the funds were used for the project as agreed between the department and the beneficiary.</p> <p>This resulted in non-compliance with treasury regulation 8.4.1. and a financial loss of R7,5 million to the department.</p>	Appropriate action is taken by AO	<p>The AO has concluded a forensic investigation into the matter.</p> <p>The recommendations of the investigation report are being implemented.</p>





Proactive review of the 2023-24 annual performance plan (APP) for DSAC



The purpose of the review was to:

- understand the process followed for the preparation and revision of the five-year plans strategic plans and final draft annual plans (APP);
- assess the measurability, relevance, and quality of the indicators and targets planned for the scoped-in subject matter(s) in the final draft annual plans;
- assess the completeness of relevant indicators relating to core functions prioritized for the scoped-in subject matter; and
- enable insights to accounting officers, executive authorities and oversight through discussions of the proactive findings raised.



Indicators/Sections	Details	Conclusion
Various indicators under programme 2 and 3	<p>Performance indicators not defined such that data will be collected consistently</p> <p>The source of data as described in the Technical Indicator Descriptions (TID) for Programme 2 and 3 relates to the location of the documentation and not a database, report and/or a system.</p>	Management corrected the source data on the APP and the finding was resolved
RDSP 2.3: % of national federations (NF's) meeting 50% or more of all prescribed charter transformation targets	<p>The performance indicator is not well defined and verifiable:</p> <p>The word "assessed" is used in the denominator and in the definition. However, this results in ambiguity as to whether, the transformation targets of all the federations are reported on or reporting is only done on those that have been selected for assessment.</p> <p>The indicator reflects that the transformation targets are "prescribed" whereas the calculation method and definition/purpose refers to "Self-set projected targets". Therefore, it is not clear what the required level of performance is based on.</p>	Management has subsequently removed the indicator from the APP. They indicated that there are other indicators that address the priority outcome "Transformed, capable and professional sport, arts and culture sector"
RDSP 2.9 Number of municipalities provided with technical and /or management support during construction	<p>The performance indicator is not specific</p> <p>It is not clear what the nature of the support provided to municipalities is.</p> <p>The performance indicator is not verifiable</p> <p>For technical support, the means of verification does not state whether the approved site inspection/technical report will be facilitated by the department as evidence of support to the municipality. It is also not clear how the virtual or physical attendance register will constitute technical support.</p>	Management updated the TID with additional information and the finding was resolved




Indicators/Sections	Details	Conclusion
RDSP 2.11 Number of heritage legacy facilities (including the Resistance and Liberation Heritage Route [RLHR] sites) developed and/or maintained to transform the national heritage landscape.	<p>The performance indicator is not specific</p> <p>The definition of the indicator as per the TID does not clearly define what 'developed' and 'maintained' means.</p>	Management updated the TID with additional information and the finding was resolved
ACPD 3.15 Number of projects in the creative industry supported through the Mzansi Golden Economy (MGE) Programme	<p>The performance indicator is not specific</p> <p>The indicator is not aligned to the outcome as stipulated in the draft APP which refers to the MGE which is only focused on supporting projects in the creative and cultural industry and leaves out the sport industry as stipulated in the envisaged outcome over the MTSF period.</p>	The contribution of sport is noted in the table under 1.1.1 of the APP depicting DSAC's response to economic transformation and job creation. The finding was resolved
	<p>The performance indicator is not consistent</p> <p>The APP indicates a target of 90 projects for the year while the TID has 67 projects.</p>	The TID was updated to reflect 90 projects and the finding was resolved
ACPD 3.16 Number of artists placed in schools per year	<p>The performance indicator is not specific</p> <p>The indicator description does not clearly indicate how the artists will be identified and what placement in schools means. There is also no indication of how the schools will be pre-selected for this project.</p>	Management updated the TID with additional information and the finding was resolved



Recommendations





Overall recommendations to the accounting officer

- Ensure that all the key audit issues reported in the status of records review under the key focus areas are timeously addressed.
- Implement without delay, all the actions required to address the material irregularity.
- Provide oversight over entities within the portfolio with focus on proper and timely investigations into all instances of irregular fruitless and wasteful expenditure and implementation of consequence management.



It was recommended that the portfolio committee should:

- 1 Obtain and actively track commitments made, specifically in relation to the AO/AA implementing action plans and other corrective measures to ensure improvement in the portfolio audit outcomes
- 2 The portfolio committee should continue to actively engage with all role players within the accountability ecosystem to ensure that appropriate measures are taken to implement consequence management.
- 3 The portfolio committee should assess the department and public entities' strategic and annual performance plans to ensure that auditees plan and deliver in line with their respective mandates.
- 4 Utilisation of the preventative control guides as developed by the AGSA to assist other oversight functions to ask relevant questions during their oversight.



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