

Material irregularities (MI) report (BRRR)

Portfolio Committee on Forestry, Fisheries and the Environment

**PFMA
2022-23**

17 October 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.



Lived experiences of South Africans

Consuming unsafe water



Schools using pit latrines, no basic amenities

Crossing rivers without bridges



Continued misuse of state resources and persistent weaknesses in systems of transparency, accountability and performance are of significant concern for citizens of South Africa broadly

The negative impact on the lived reality of South Africans is the most important story represented by the numbers, findings and audit outcomes.

Heavy duty goods transported through roads



Learners learning under trees



Overcrowded hospitals



High influx of illegal immigrants

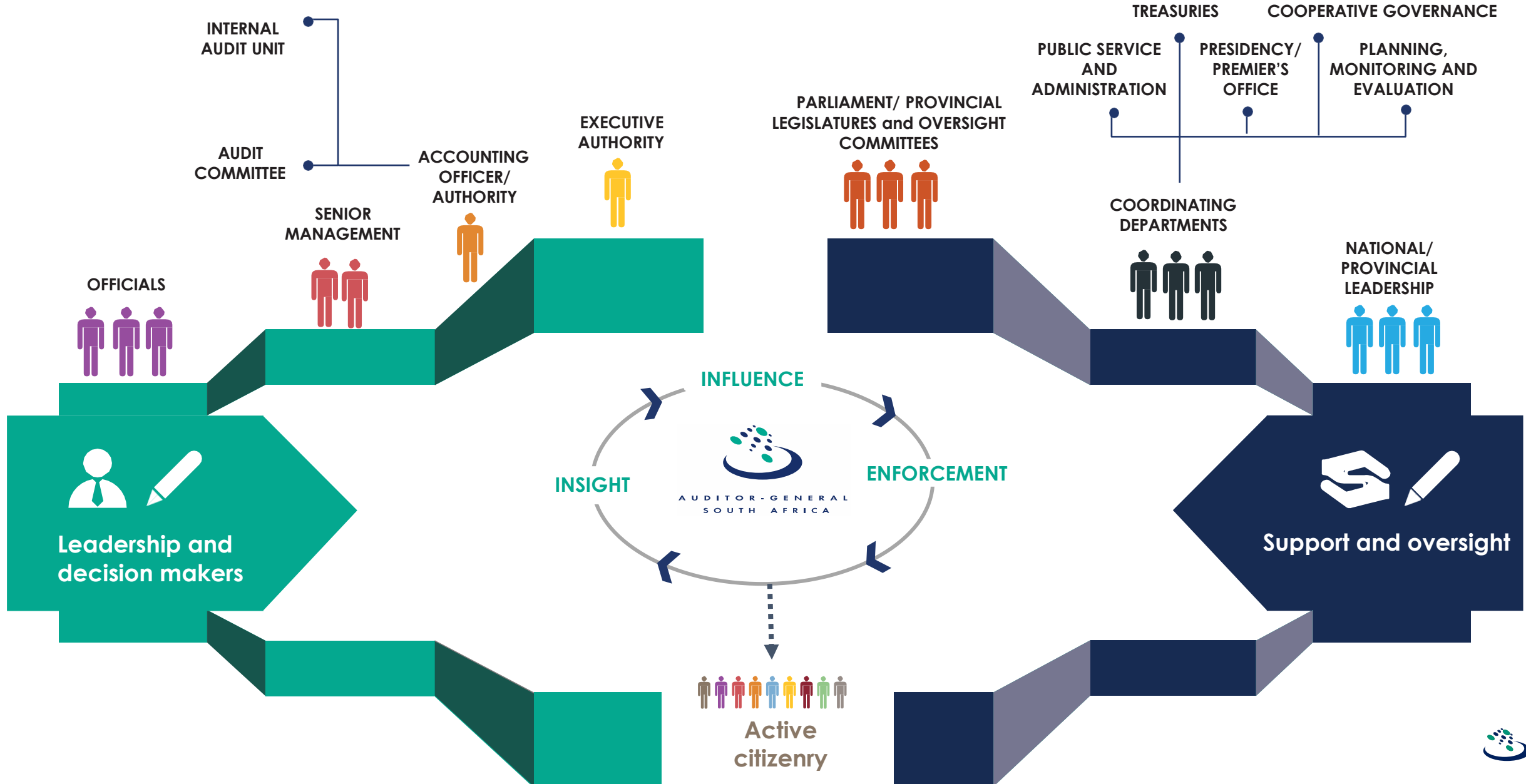


Living in mud houses and shacks



Load shedding

All have a role to play in accountability ecosystem



Material irregularities



Material irregularities

We have long reported on **pervasive mismanagement/ leakage of public funds without consequences** and our **audit recommendations not receiving the required attention**, with little or no improvement noted in the status quo, leading to our relevance being questioned.

Public outcry for increased **accountability and transparency**, saw calls from parliamentary oversight structures, civil society, organised labour, media and the public at large for the **AG to be empowered to hold accounting officers entrusted with public funds accountable for their actions.**

The original expanded mandate now finding its basis in our strategy



Enforcement

Apply powers to directly and indirectly recover resources lost to the state and taxpayers, and ensure application of consequences for wrongdoing – **#cultureshift2030.**

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 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 AO/AA does not appropriately deal with MIs, our expanded mandate allows us to:

- 1 **Refer material irregularities** to relevant public bodies for further investigation.
- 2 **Recommend actions** in audit report to resolve the material irregularities.
- Take binding remedial action** for failure to implement recommendations.
- 3 **Issue certificate of debt** for failure to implement remedial action if financial loss was involved.

The overall aim of our expanded mandate is to:

Instil a culture of accountability	Improve the protection of resources	Enhance public sector performance and encourage an ethical culture	Strengthen public sector institutions to better serve the people of South Africa
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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

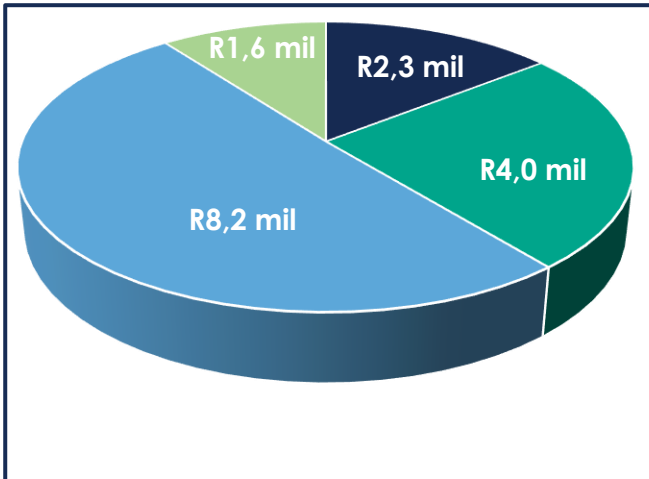


Executive and oversight

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

Material irregularities



MI description

Payments made to perform remedial work on vandalism of deliverables that were already completed

Lease payments made for no value for leasing of land required for tyre storage

Payments made for waste disposal project deliverables not received

Disposal of state motor vehicles through transfer to employees of the service provider not in line with requirements of National Treasury



ACTIONS TAKEN BY AUDITEES

R0 m

Prevented financial loss from taking place

R14,7 m

Financial loss **in process of recovery**

R0 m

Financial loss **recovered**

5

Responsible officials identified and **disciplinary process** completed or in process

4

Investigations instituted

1

Stopped supplier contracts where money is being lost

3

Internal controls and processes improved to prevent recurrence

Observations from MI process

- Five ex officials were found to be liable for the financial loss incurred for the lease of land required for tyre storage, however consequence management could not be implemented as there were no longer in the employment of the department. The department is still in the process of identifying the official responsible for the infrastructure project MIs.
- The accounting officer (AO) has instituted investigations into all MIs notified and the department has undertaken a litigation process for recovery of the financial losses incurred from the service providers.
- The lease contract has since been cancelled
- The department enhanced the controls by amending the Employment Environmental Protection & infrastructure programmes (EPIP) policy to discourage prepayments. Furthermore, the department has strengthened their contract management to ensure implementation of controls.

Recommendations for portfolio committee

The PC should follow-up with the AO on the recovery process of the financial losses within the agreed timelines to ensure that the funds are recovered.

Continuous monitoring of the investigations to ensure that they are finalised and that consequence management is implemented to hold the officials found to be responsible accountable.



MI identified during the current year's audit and notified

Notified	MI description	Action taken	Action planned/ In progress
<p>14 December 2022</p>	<p>Payments made to perform remedial work on vandalism of deliverables that were already completed</p> <p>The Public Finance Management Act 1 of 1999 (PFMA) section 45(b) states that "an official in a department, trading entity or constitutional institution is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility."</p> <p>The non-compliance resulted in a material financial loss of R2 359 461 by 31 March 2022. The expenditure incurred by the service provider was traced to the irregular expenditure as a result of the variation order not being approved at the appropriate level.</p>	<p>An investigation has been instituted by the department to determine if any official is liable for the financial loss. A Service Provider(SP) was appointed to investigate the matter and the investigation is at an advanced stage as the report is undergoing quality assurance. The recommendations of the report will be implemented thereafter.</p>	<p>MI has been concluded that appropriate actions are being taken to address the matter. We will follow up on the progress of these actions and the implementation of the planned actions during my next audit (23/24).</p>



MI identified during the current year's audit and notified

Notified	MI description	Action taken	Action planned/ In progress
<p>06 December 2022</p>	<p>Payments made for waste disposal project deliverables not received</p> <p>The Public Finance Management Act No.1 of 1999 (PFMA) section 45(b) states that <i>“an official in a department, trading entity or constitutional institution is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility.”</i></p> <p>The non-compliance has resulted in a material financial loss of R8 290 558 by 31 March 2022.</p>	<p>The service provider signed the acknowledgement of debt in January 2023 and is in the process of recovery.</p> <p>An investigation has been instituted to determine if any official is liable for the financial loss. The investigation is at an advanced stage as the report is undergoing quality assurance. The recommendations of the report will be implemented thereafter.</p>	<p>MI has been concluded that appropriate actions are being taken to address the matter. We will follow up on the progress of these actions and the implementation of the planned actions during my next audit (22324).</p>



MI identified during the current year's audit and notified

Notified	MI description	Action taken	Action planned/ In progress
<p>06 December 2023</p>	<p>Lease payments made for no value for leasing of land required for tyre storage.</p> <p>The Public Finance Management Act 1 of 1999 (PFMA) section 45(b) states that "an official in a department, trading entity or constitutional institution is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility."</p> <p>The non-compliance resulted in a material financial loss of R4 035 438 as at 31 March 2022, and there might be further losses as the contract is still ongoing. The loss is also disclosed as fruitless and wasteful expenditure in the annual financial statements for the year ended 31 March 2022.</p>	<p>The agreement with the service provider was terminated on 06 May 2022.</p> <p>An investigation was concluded on 19 April 2023 and the matter has been referred to the State Attorney for the possible recovery of funds from the service provider. The matter is still in progress and is being assessed by the Determination Committee for the implementation of the investigation recommendations.</p> <p>The department amended the bid specifications for future land lease bids through including the requirement to provide proof of written municipal approval for the use of the site for waste tyre storage and processing.</p>	<p>MI has been concluded that appropriate actions are being taken to address the matter. We will follow up on the progress of these actions and the implementation of the planned actions during my next audit (23/24).</p>



Notified	MI description	Action taken	Action planned/ In progress
<p>26 June 2023</p>	<p>Disposal of state motor vehicles through transfer to employees of the service provider not in line with requirements of Treasury</p> <p>The Public Finance Management Act No.1 of 1999 (PFMA) section 45(b) states that "an official in a department, trading entity or constitutional institution is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility."</p> <p>The non-compliance has resulted in a material financial loss estimated at R1,8 million by 31 March 2022.</p>	<p>The department has sent two letters to Working on Fire for the following purposes:</p> <ul style="list-style-type: none"> • The recoupment of proceeds from the disposals of the 42 plus 6 vehicles which have been disposed off. • The intention to transfer all the assets which were procured under the 2014 MoA (7 year agreement) as well as the 6-month MoA and First and Second Addendum Agreements, including the transfer of ownership for the remainder of the assets. <p><i>* However, the department is of the view that no one can be held responsible for this MI.</i></p>	<p>A needs analysis to ensure the transfer of assets take place as per the Transfer Management Plan(TMP) and to avoid any further unauthorized disposals is also being finalized.</p> <p>The matter has also been to the state attorneys and legal counsel referred by the department which is still under the progress.</p> <p>Recommended action: The MI will be referred to the MI committee for further action.</p>



THANK YOU



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