SCOPA BRIEFING NOTE | **PFMA 2022-23**

ROAD ACCIDENT FUND (RAF)

29 November 2023

AUDITOR-GENERAL SOUTH AFRICA

Contents

Introduction

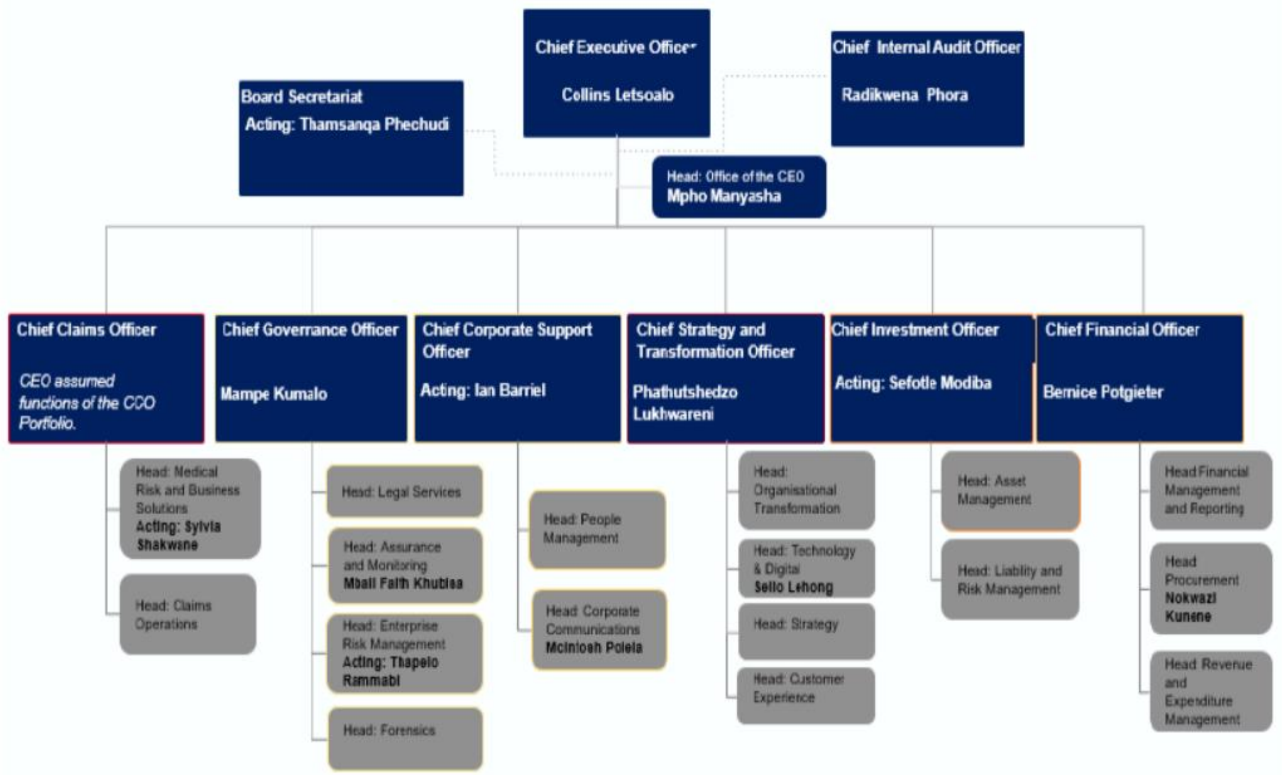
1.1 Reputation promise of the Auditor-General of South Africa

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.

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of the Road Accident Fund (herein after referred to as "RAF") for the 2022-23 financial year.

1.3 Organisational structure



1.4 Funding

The RAF obtains its funding from fuel levies, which is driven by fuel consumption. The fund received R48,5 billion (2021-22: R47,9 billion) from fuel levies in the 2022-23 financial year.

The fund also generated an investment revenue of R284,2 million (2022-23: R222,8 million) in the 2022-23 financial year.

2. Audit opinion history

The audit outcomes for the current period and the past two years have been summarised below:

Outcome area	Movement	2022-23	2021-22	2020-21
Financial statements				
Annual performance report				
A transformed and sustainable RAF				
Compliance with legislation				
Financial statements, performance reports and annual reports				
Procurement and contract management				
Expenditure management				
Asset management				
Consequence management				
Strategic planning and performance management				

	Unqualified/No material findings		Qualified		Adverse		Disclaimed		Material findings

	Improvement		Regression		Unchanged

The audit outcome for the current audit cycle has changed from a "disclaimer with material findings" in the previous audit cycle to an "adverse with material findings "in the current year.

3. Overview of the 2022-23 audit outcomes

3.1 Overall message

Annual financial statements

In the 2020-21 financial year, management supported by the accounting authority amended the accounting policy to recognise claim liabilities in accordance with the International Public Sector Accounting Standards (IPSAS) 42 (Social benefits) as it was their view that this resulted in a fairer presentation of the RAF financial performance and position.

We disagreed with the use of this accounting standard as in our view, this accounting standard is firstly, not approved for use in South Africa by the Accounting Standards Board (ASB), which is the Board authorised in terms of the Public Finance Management Act 1 of 1999 (PFMA) to set accounting frameworks and accounting standards for entities which includes the RAF and secondly, the principles of IPSAS 42 conflicts with the standards of the generally recognised accounting practice (GRAP), conceptual framework as the timing of recognising the liability using IPSAS 42 principles is significantly different to the standards of GRAP, i.e. the conceptual framework for general purpose financial reporting.

In our view, the past event is the accident that caused the claim, thus under the conceptual framework it would be incorrect to recognise the liability based on the claims where an offer has been made to the claimant.

The views of the AGSA is supported by both the ASB and the office of the accountant-general (OAG).

The use of the principles of IPSAS 42 to account for the provision for outstanding claims liabilities results in a material understatement of the provision for outstanding claims liability due to RAF only recognising claims liabilities once an offer has been made to a claimant and providing for claims liabilities for claims for which a payment has been requested but not yet paid at year end.

This excludes provision for claims for accidents which occurred but have not yet been reported to RAF and outstanding claims registered on the system for which an offer has not been made to the claimant.

We are unable to determine the extent of the misstatement as an actuarial expert is required to do the computation of these components of the provision for outstanding claims liabilities.

Below is the table which shows the impact of the change in accounting policy on the provision for outstanding claims liabilities.

Financial year	2022-23	2021-22	2020-21	2019-20
Liability for outstanding claims recorded (OCR)	**R0**	**R0**	**R0**	**R213 billion**
Claims incurred but not yet reported (IBNR)	**R0**	**R0**	**R0**	**R103 billion**
Claims requested not yet paid	**R9 billion**	**R9 billion**	**R14,9 billion**	**R15 billion**
Claims liability for *offers* not yet requested for payment*	**R25 billion**	**R17 billion**	**R14,7 billion**	**R0**
Total	**R34 billion**	**R26 billion**	**R29,6 billion**	**R331 billion**

The RAF management supported by the accounting authority disagreed with the AGSA's view on the matter and chose the route of litigation to resolve this matter. The litigation instituted against the 2020-21 audit opinion which commenced in the 2022 calendar year is still ongoing.

The RAF continued to make use of the principles of IPSAS 42, in the 2022-23 financial year, to account for the provision for claims liabilities hence the overall audit outcome of the Road Accident Fund (RAF) remains modified. The RAF received an adverse audit opinion in the current year compared to a disclaimer of audit opinion in the prior year.

This is attributable to management and those charged with governance co-operating during the audit process by signing the 2022-23 engagement letter, providing responses to audit findings, setting up governance meetings to discuss the audit report and management report, submission of approved financial statements and annual performance report after making the adjustments based on audit findings and, we had received the signed management representation letter before audit report sign-off.

The basis of the adverse audit opinion was that the financial statements submitted for audit were not prepared in accordance with the prescribed financial reporting framework, generally recognised accounting practice (GRAP), as required by section 55(1)(b) of the PFMA in that there were material misstatements in claims expenditure, current and non-current liabilities and disclosure notes which were not corrected by management.

The accounting authority did not implement adequate measures to ensure that the financial statements are prepared in accordance with the approved accounting framework. This was due to the entity making use of the IPSAS 42 in formulating the accounting policy to account the provision for outstanding claims liabilities.

We recommend that management and the accounting authority revert to using the accounting standards approved by the ASB until such time and appropriate accounting standard is developed and approved for use by the RAF to account for the provision for outstanding claims liabilities.

Annual performance reporting

The quality of submitted performance information has improved from the prior year as material misstatements identified on the consistency between the planned indicators and targets versus the reported indicators and targets were subsequently corrected by management.

The material misstatements identified were due to inadequate review of the annual performance report and supporting schedules submitted for audit.

We recommend that management should enhance the review processes of the annual performance report before submission for audit.

Material uncertainty on going concern

Attention is drawn to note 32 to the financial statements, which indicates that an accumulated deficit of R23 936 million was incurred during the year ended 31 March 2023 and, as of that date the current liabilities exceeded its total assets by R23 823 million. As stated in note 32, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the public entity's ability to continue as a going concern.

4. Litigation by RAF against the AGSA on the 2020-21audit opinion (current status)

The RAF applied for the review and setting aside of the 2020-21 audit report.

The application was two-fold; Part A was to interdict the release and/or publication of the audit report pending the outcome of Part B which was to review and set aside the audit report.

Part B of the application, the RAF seeks an order from the High Court to declare invalid and/or unlawful, and to set aside the decision of the AGSA, to issue a disclaimer of opinion and the resultant "irrational" content of the audit report. In addition to the order of invalidity, the RAF seeks an order to suspend the declaration of invalidity for a period of six months to allow sufficient time for the AGSA to remedy the "defect", i.e. the opinion and the content of the audit report.

Part A of the matter was initially dismissed with costs by the High Court. The RAF made an application for leave to appeal which succeeded and subsequently made a petition to the Supreme Court of Appeal. The application before the Supreme Court of Appeal was set down for argument on 8 May 2023 however the RAF, based on the recommendation of the Standing Committee on Public Accounts (Scopa) and the minister of transport, withdrew the appeal on 29 April 2023.

Part B of the application is still pending in the High Court. As matters stand, the RAF has filed its heads of argument on 30 October 2023. Our legal team has already begun the preparation of our own heads of argument, due by or before 30 November 2023. The matter is set down for hearing for three days which will be 30 January 2024 to 1 February 2024.

5. Key focus areas

5.1 Predetermined objectives

For the selected outcome 1: A transformed and sustainable RAF, there were no material findings on the usefulness and reliability of the performance information of the selected outcome (**Outcome 1: A transformed and sustainable RAF**)

RAF reported achieving 88% of the targets set under this outcome.

Timely processing of claims

The RAF has reported an overachievement of 9,78% on the indicator: *% of all new personal claims settled within 120 days* against the target of 5% for the year under review. However, we encourage management and the accounting authority to review the set target annually with a view to driving further efficiency in the number of claims processed annually in line with the timelines prescribed in legislation namely the RAF Act. This will further support the achievement of service delivery mandate of RAF which is to process and pay claims within a reasonable time.

Backlog of claims

It was noted that the overall backlog of claims has reduced in the current year which is indicative of the efforts of management to try and process and pay claims within the 120 days. However, RAF has not achieved the target set for the indicator: *% reduction of three year old opens claims.* The target was 20% reduction, and the actual achievement was 16,77%. This indicates that further effort will need to be put to reduce the historical backlog of claims over three years old. Management is encouraged to put in measures to ensure that they do achieve this target.

Refer to the annual performance report in the annual report of RAF 2022-23 for details of reasons for non-achievement of targets.

5.2 Compliance

Irregular expenditure

National Treasury Instruction Note No. 4 of 2022-23: PFMA Compliance and Reporting Framework

On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statements, only the current year and prior year figures are disclosed in note 25 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the annual financial statements of the Road Accident Fund. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the annual report of the public entity.

Auditee	Irregular expenditure			
	Movement	Amount R 2023	Amount R 2022	Amount R 2021
RAF	↓	R0 million	R2 million	R93 million

Irregular expenditure as disclosed in the financial statements (as per above National Treasury Instruction note) has decreased by R2 million when compared to the prior year. Through the audit process we identified irregular expenditure of R33 million however it should be noted that these non-compliance matters leading to irregular expenditure amount still needs to be investigated and confirmed by management as valid irregular expenditure in line with the National Treasury Instruction note referred to above. The cause of the irregular expenditure was mainly incurrence of expenditure without a contract in place.

5.3 IT performance

An analysis of the information technology (IT) audit outcomes indicated that management had implemented some of the IT controls committed to in the previous cycle to improve the implementation and effectiveness of the designed controls pertaining to IT environment such as updating system servers, conducting vulnerability assessment scans, and reviewing of access violations.

In the 2022-23 financial year, we did not identify any significant findings in the IT environment. However, areas of improvements such as enhanced controls around firewall management to prevent cyber incidents in the environment, security updates and patches released by service providers are not downloaded and installed timeously and lack of comprehensive activities logs generated by the firewall still existed which were reported to management, and we urge management to ensure that those deficiencies are also addressed.

6. Drivers of internal controls

	Leadership						Financial and performance					Governance		
Entity	Oversight responsibility	Effective leadership culture	HR management	Policies & procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee
RAF														

Legend drivers	Good	Causing concern	Intervention required

The RAF audit outcomes and assessment of internal controls, as indicated above, is evident of an entity that has certain key concerns on the application of the prescribed financial reporting standards in preparation of its financial statements and certain deficiencies in its control environment which led to an adverse audit outcome.

The overall control deficiencies, as summarised in the audit report, were as follows:

- The accounting authority did not implement adequate measures to ensure that the financial statements are prepared in accordance with the approved financial reporting framework. The accounting policy adopted by RAF in the prior years, up to 2019-20 financial year is appropriate and the entity should consider reverting back to it until such time that the local accounting standard for entities with insurance like activities is developed by the standard setter. Any changes to the accounting policy in future should be done in accordance with the requirements of the standards. RAF did not consider the advice received from the ASB to maintain the status quo on the recognition and measurement of claims liability. The accounting authority did not ensure that steps were taken to ensure that deficiencies in internal control identified by external auditors were addressed.

7. Overall conclusion

There is an adverse audit opinion on the financial statements, basis for accounting for the provision for outstanding claims and a material non-compliance with laws and regulations. To improve the audit outcome, we recommend that the RAF should not make use of IPSAS 42 to formulate the accounting policy for claims liabilities as it does not, in our view, result in the fair presentation of the financial statements for the 2022-23 financial year as the claims liability amount is materially misstated.

We commend management for their support and cooperation with the audit process despite the current ongoing litigation between the AGSA and the RAF on the 2020-21 audit report. This resulted in the resolution of some of the audit findings identified.

8. Special Investigating Unit - investigation status

The Special Investigating Unit (SIU) is investigating allegations of maladministration, unlawful or improper conduct and irregularities of the public entity's affairs and assets by order of the President, covering the period 1 April 2018 to 10 December 2021. At the date of this report, the investigation was still ongoing.

9. Key recommendations to the committee

- Follow up with executive authority on progress on the action to address audit findings,
    - Action plan to be drafted to address the audit findings and the reported internal control deficiencies, including the enhanced oversight measures.
- Engage the executive authority and RAF accounting authority on actions to be taken to avoid delays in the finalisation of audits and tabling of annual reports as experienced in the past three years.
- Through engagements with the executive and accounting authority monitor the achievement of key service delivery targets in the annual performance plan.
- Engage the executive authority and the accounting authority on the ongoing litigation on the 2020-21 audit opinion.

The end