

BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | **PFMA**
2017-18

Briefing to Portfolio Committee on Public Enterprises



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

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.



Role of the AGSA in the reporting process

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 the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.

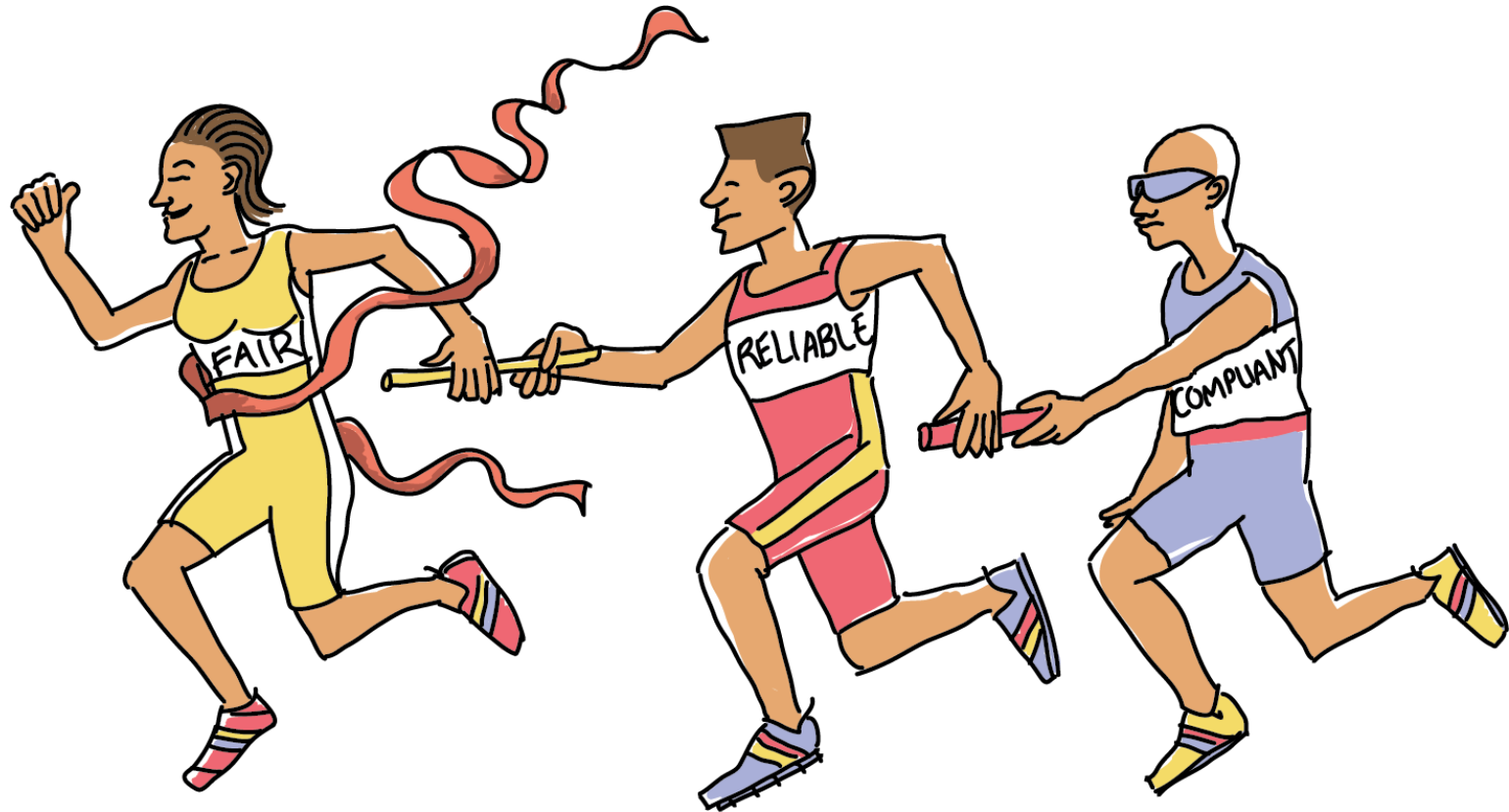


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Our focus



Our annual audit examines three areas



1 FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT



The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- 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

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- 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

Qualified opinion



Auditee:

- 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

Adverse opinion



Auditee:

- 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

Disclaimed opinion









Auditee:

- 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

The percentages in this presentation are calculated based on the completed audits of four auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

DPE – Department of Public Enterprises

Alexkor

Eskom

Transnet

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

Movement of 5% or less:

 slight improvement

 slight regression

 Regressed



2

The 2017-18 audit outcomes





No improvement in plan-do-check-act cycle



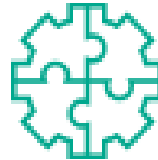
Portfolio snapshot



Clean audits: 25%
(2016-17: 25%)



Quality financial statements: 50%
(2016-17: 75%)



Quality performance reports: 50%
(2016-17: 25%)

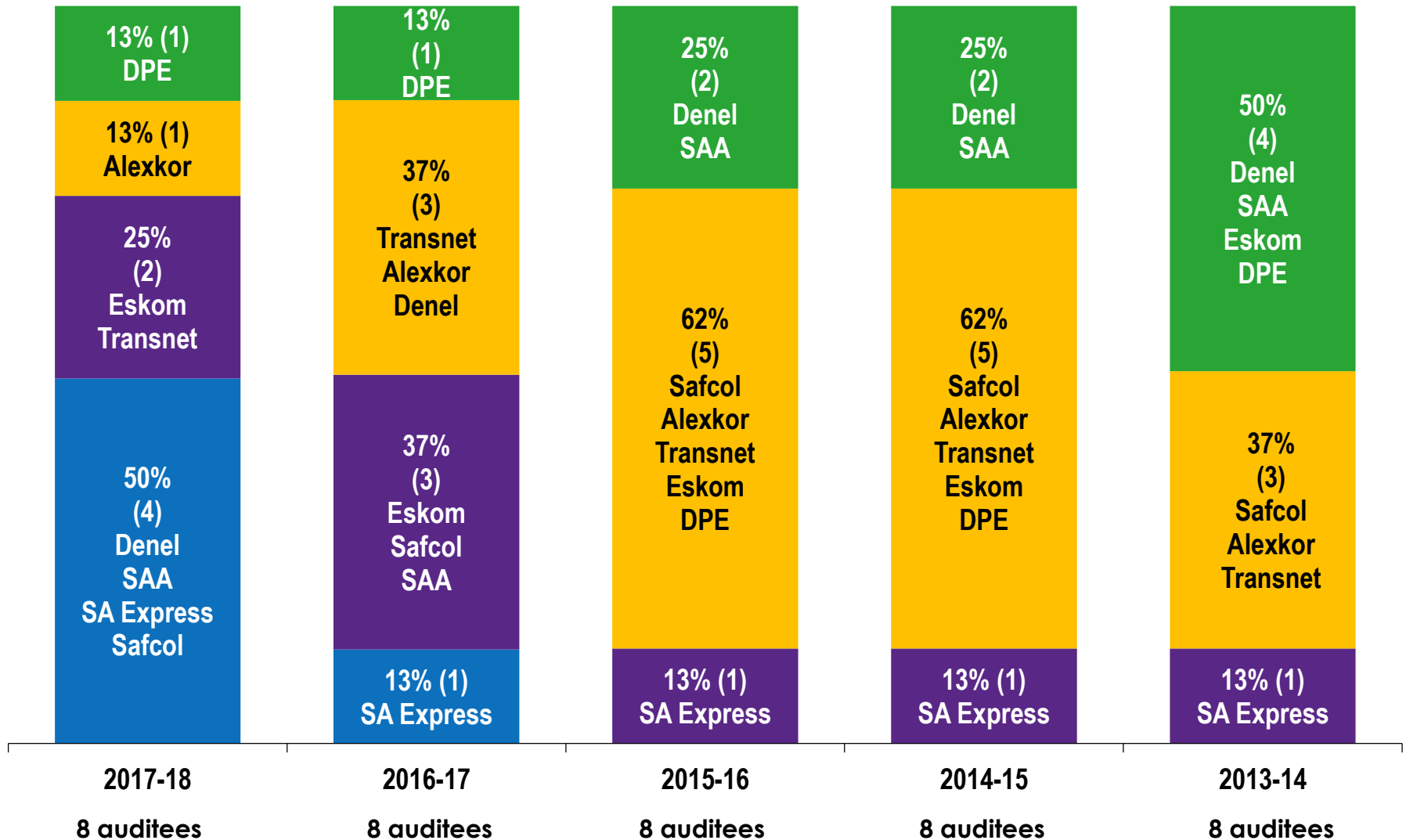


No findings on compliance with legislation: 25%
(2016-17: 25%)



Irregular expenditure: R27.746 Billion
(2016-17: R4.976 billion)

Audit outcomes of portfolio over five years



Status of audits outstanding as at 31 August 2018

- **Denel group** - Financial statements were received on 31 July 2018. Denel was still negotiating with lenders to address going concern challenges since they could not submit AFS with a going concern assumption.
- **Safcol** - The audited IFLOMA financial statements, subsidiary of Safcol in Mozambique, were not received on time to audit the consolidated figures of the group.
- **SA Express** - SA Express had not submitted AFS for auditing due to amongst others its going concern status.
- **SAA group** - SAA did not submit formal AFS for audit due to amongst others going concern challenges. Financial statements excluding going concern were received 31 July 2018.



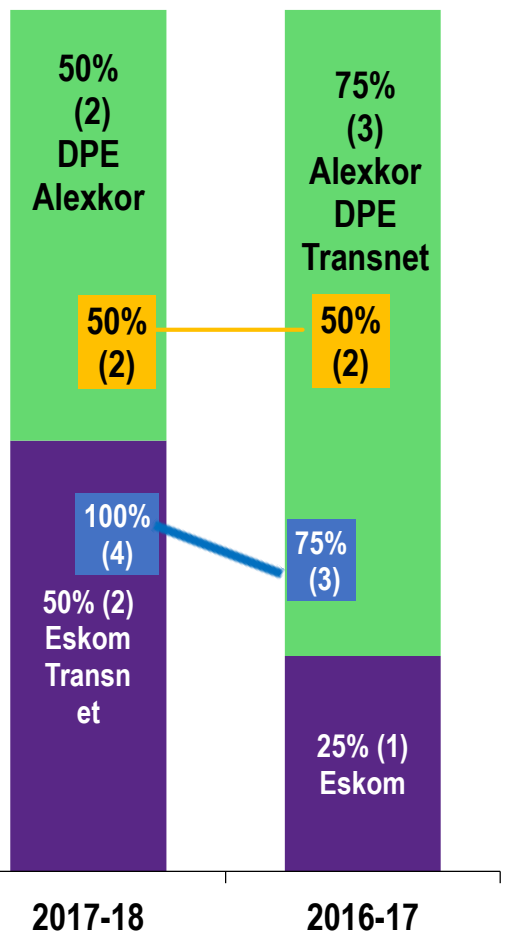
Movement table (2017-18 over 2016-17)

Audit outcome	MOVEMENT				
	0 Improved	3 Unchanged	1 Regressed	0 New	1 + 3 Outstanding audits
Unqualified with no findings = 1		DPE			SA Express Safcol Denel SAA
Unqualified with findings = 1		Alexkor			
Qualified with findings = 2		Eskom	Transnet		
Adverse with findings = 0					
Disclaimed with findings = 0					

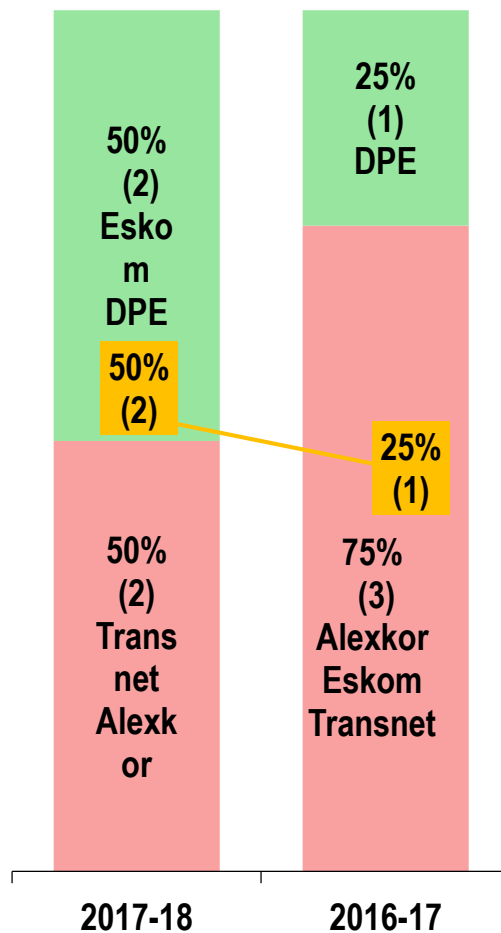
Colour of the name indicates the audit opinion from which the auditee has moved.

Movement on the quality of financial statements, annual performance reports and compliance

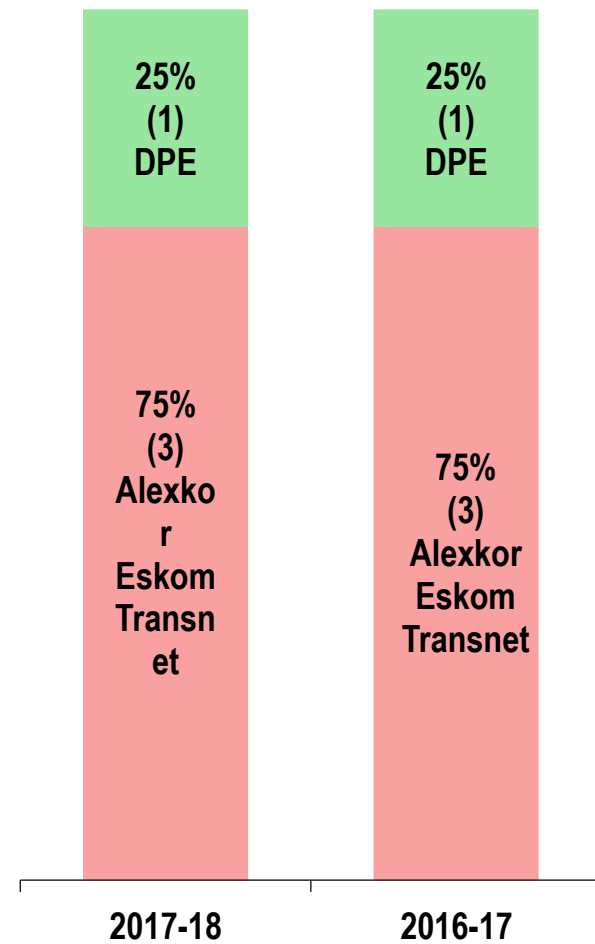
Audit of financial statements



Findings on annual performance reports



Findings on compliance with key legislation



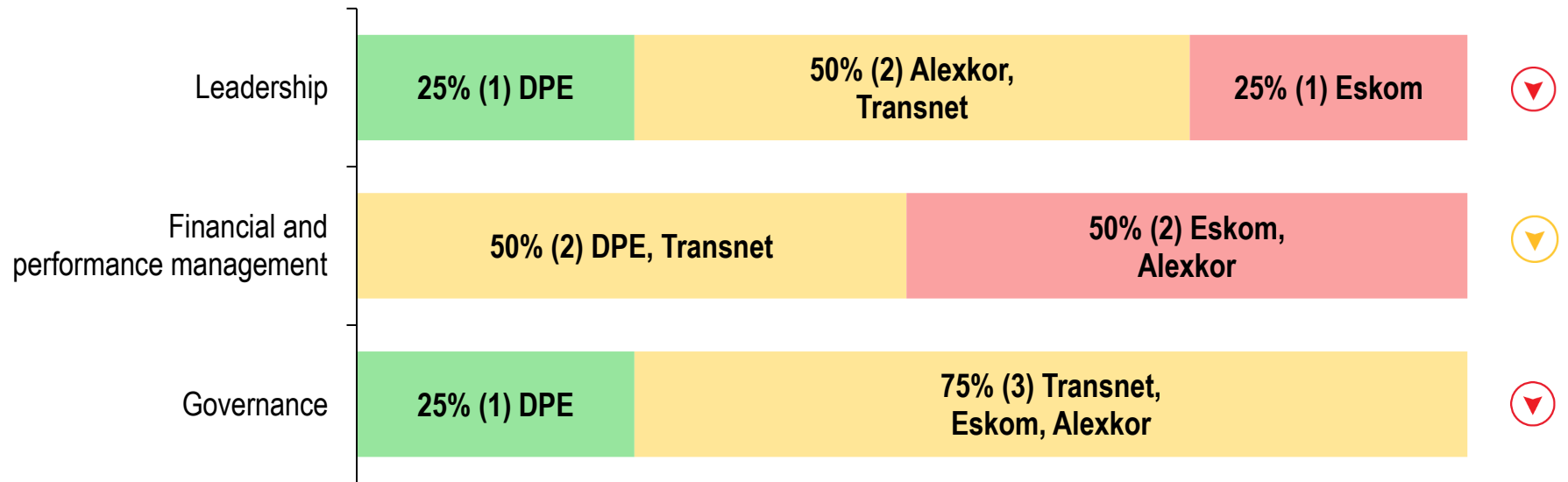
Unqualified Qualified Adverse Disclaimed

AFS submitted on time

AFS and APR submitted with no material misstatements

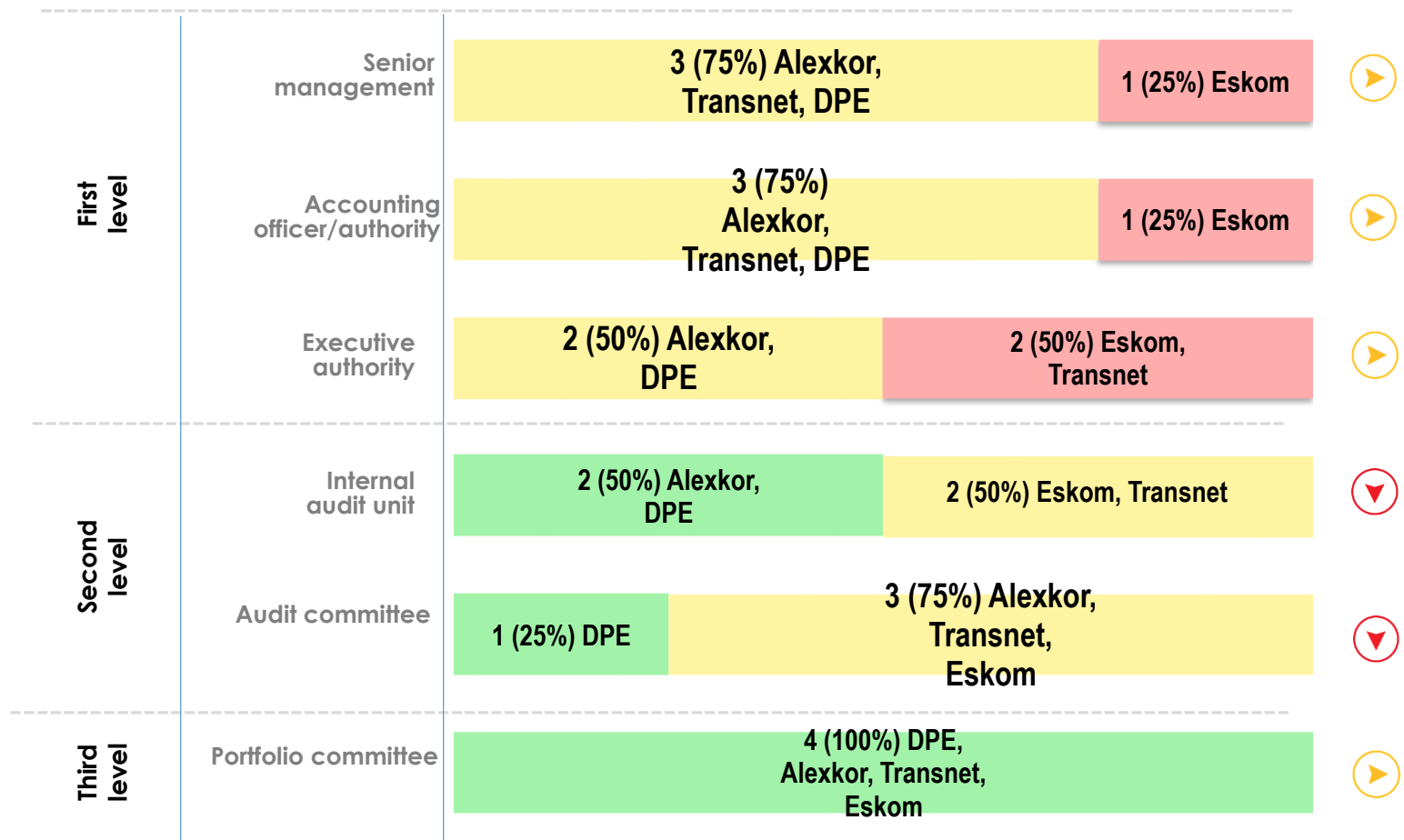
With no findings
With findings

Status of internal control



Assurance provided

Assurance

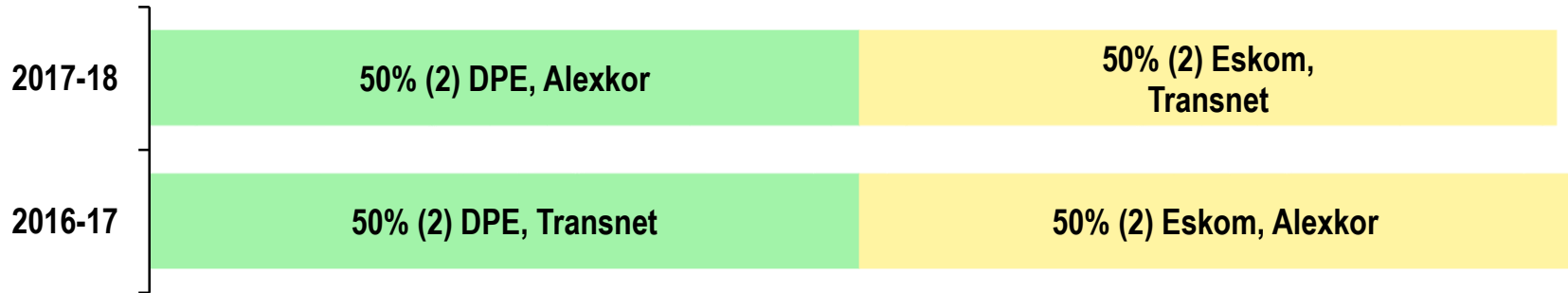


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Financial health and financial management




Declining financial health and losses




Key concerns identified

- Loans and facilities for the Transnet group includes covenants that if breached could result in funders recalling the loans and facilities, which would have a negative impact on the group's access to sufficient resources to meet its obligations. As a consequence, operations could be jeopardised. Some loans also included a qualified opinion as a default event.
- Losses were incurred by Eskom in the current year and sales remained stagnant. Credit rating downgrades also affect access to funding, including the current year qualification that could further restrict access to funding depending on how investors perceive the qualification, and includes how governance issues are addressed by Eskom.

 Good

 Of concern

 Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses

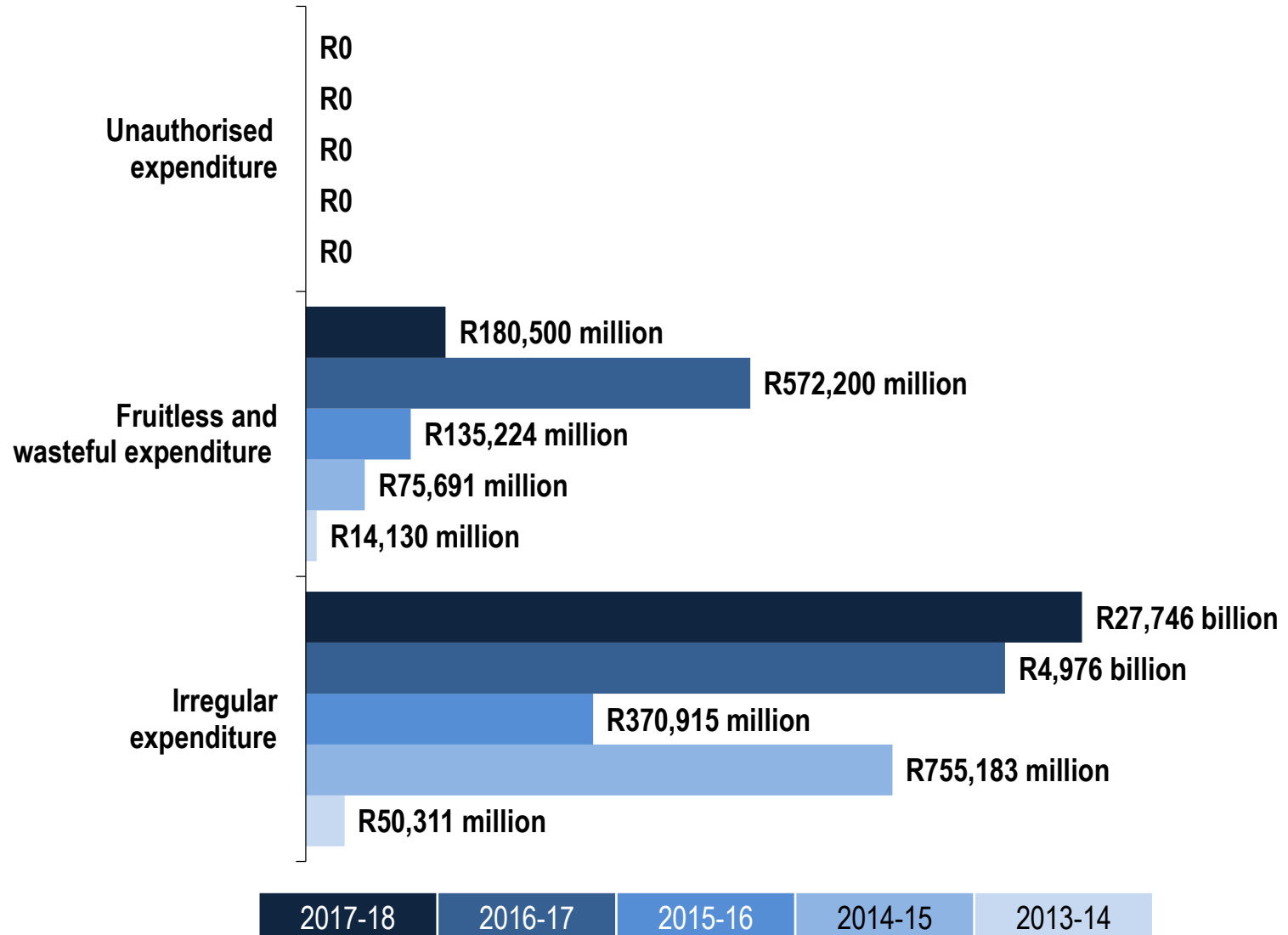
Unauthorised, irregular as well as fruitless and wasteful expenditure over 5 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

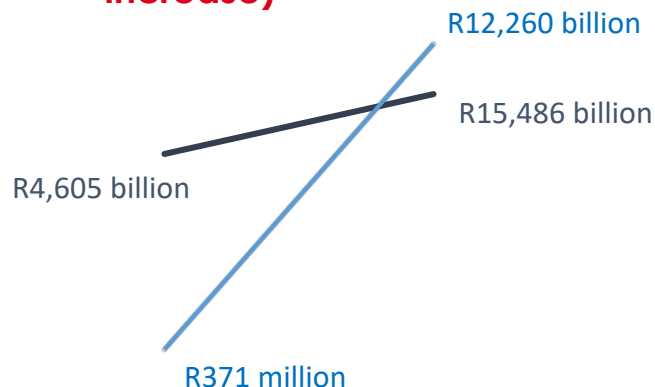
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed



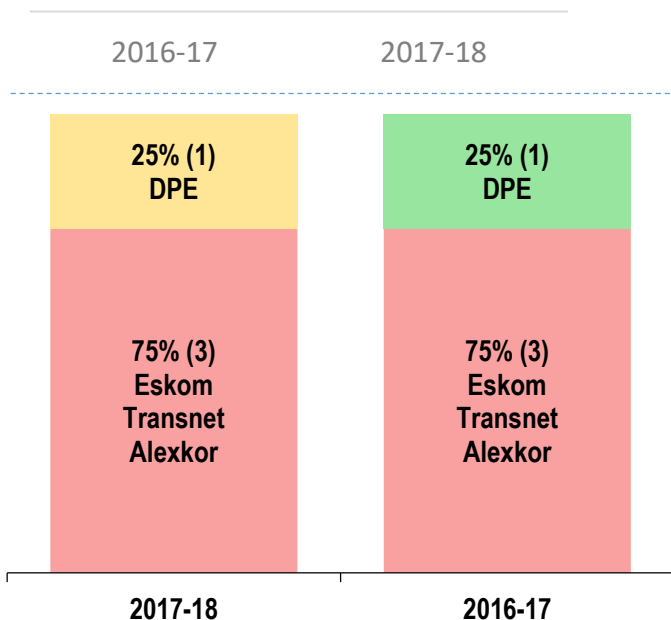
Irregular expenditure and supply chain management

Irregular expenditure increased from R4,976 billion to **R27,746 billion (more than 100% increase)**



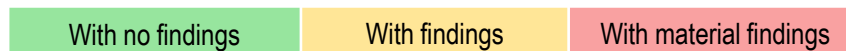
44% of the irregular expenditure was payments/ expenses in previous years only uncovered and disclosed for the first time in 2017-18

56% of the irregular expenditure was payments/ expenses in 2017-18. It includes payments made on contracts irregularly awarded in a previous year – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts continue to be viewed and disclosed as irregular expenditure

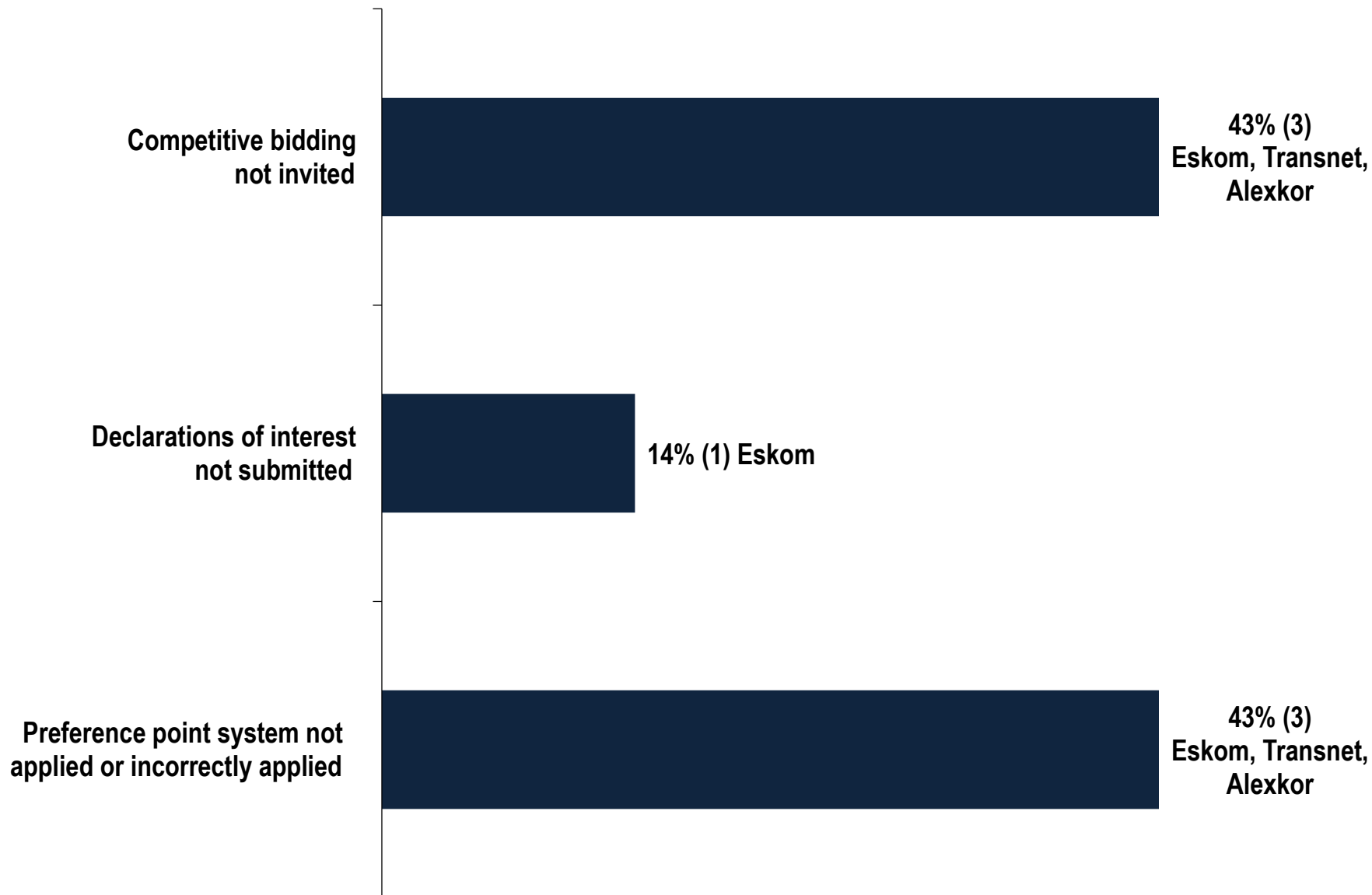


Regression in SCM compliance

Uncompetitive and unfair procurement processes at **75% of entities**



Most common findings on supply chain management



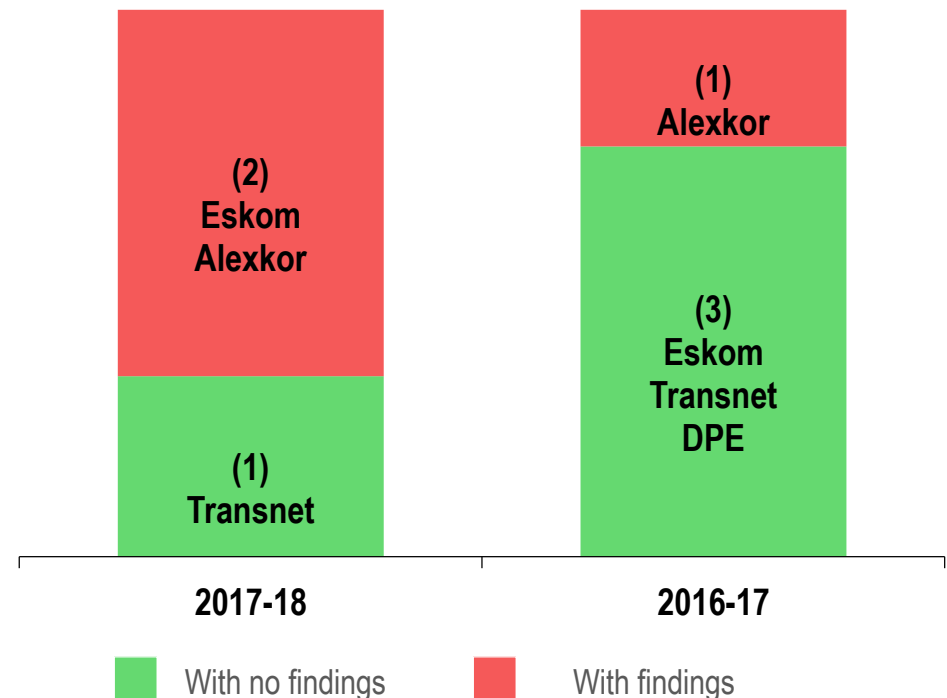
Fraud and consequence management

- Two auditees had findings on non-compliance with legislation on consequence management for which both had material findings reported in the audit report.

Allegations of financial or SCM misconduct (1 auditee)

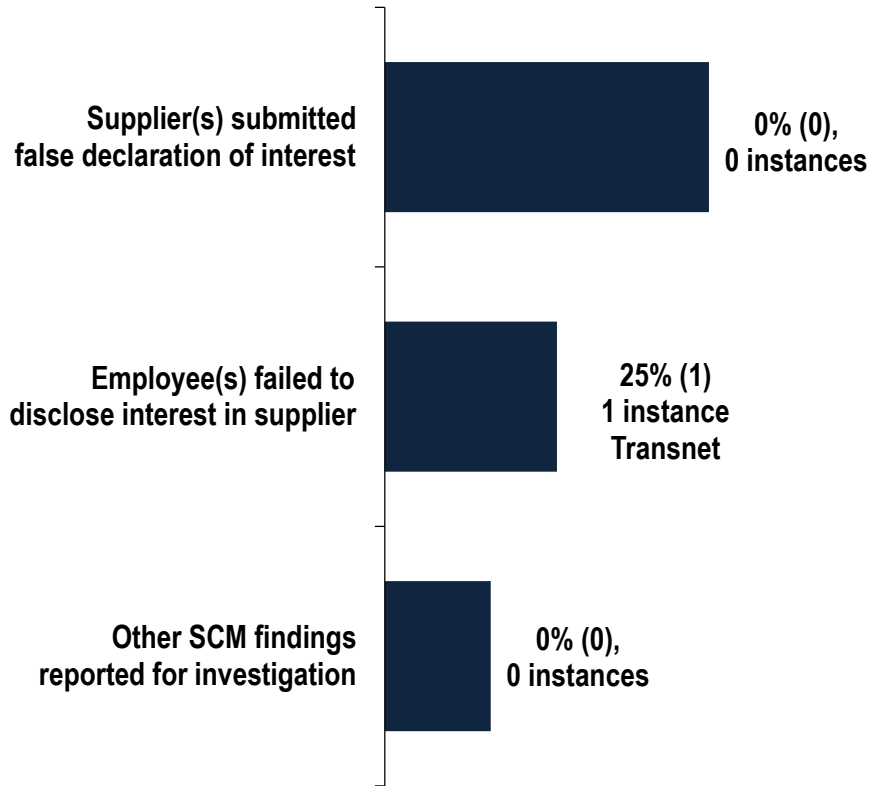


Previous year irregular, fruitless and wasteful expenditure reported for investigation

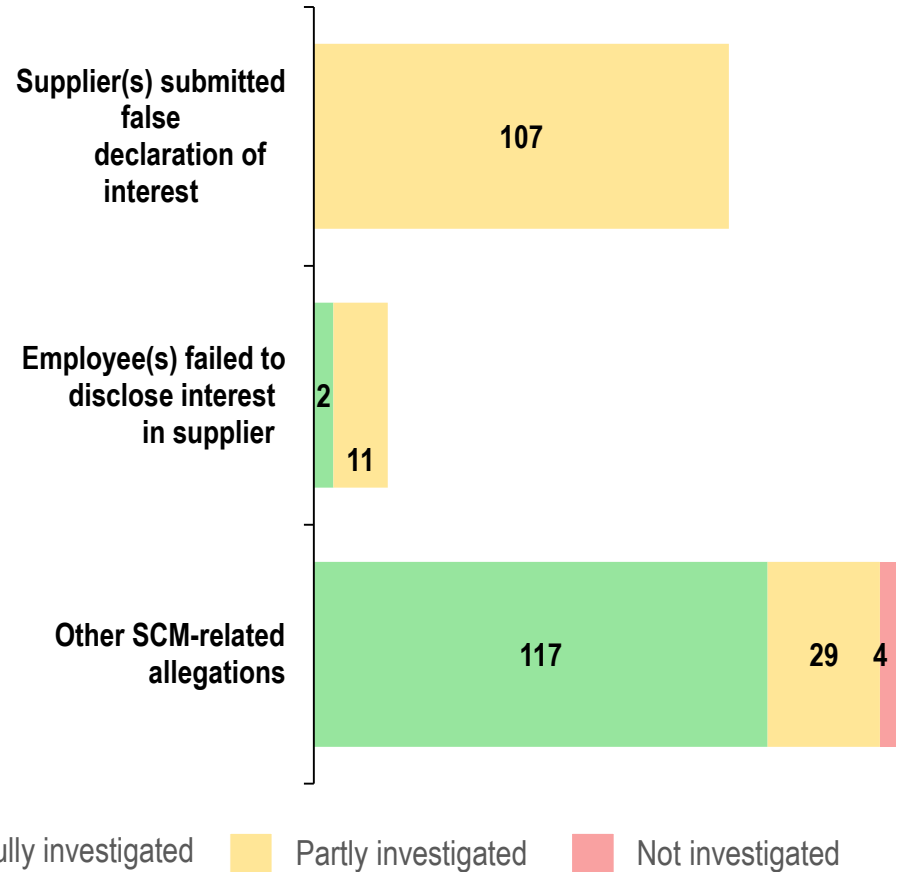


Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2017-18 audit process



Follow-up of the previous year's SCM findings reported for investigations



Root causes

Slow response to improving key controls and addressing risk areas

75% (3)
Eskom,
Alexkor,
Transnet



Management (accounting officers/authorities and senior management) and the political leadership (executive authorities) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

Inadequate consequences for poor performance and transgressions

75% (3)
Eskom,
Alexkor,
Transnet



If officials who deliberately or negligently ignore their duties and contravene legislation are **not held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.

Instability or vacancies in key positions

25% (1)
Alexkor,
Eskom,
Transnet



The **instability** and **prolonged vacancies in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.



Recommendations

- There must be timely consequences for officials who deliberately or negligently ignore their duties and contravene legislation. A list of action taken against transgressors must be provided quarterly to PC for follow up of all irregular, fruitless and wasteful expenditure.
- The PC should monitor the implementation of commitments by accounting officers/authorities and the executive authority.
- PC should request management to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.





CORRUPTION

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MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption



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