



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



2015-16
PFMA

Briefing to the Portfolio Committee: Justice and Correctional Services
Audit outcomes of the Justice portfolio for the 2015-16 financial year

1

The AGSA's promise and focus



Reputation promise

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The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it 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 AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Justice and Constitutional Development portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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Our annual audits examine three areas

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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



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Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements; and
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP); and
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate.

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their APPs; and/or
- set clear performance indicators and targets to measure their performance against their predetermined objectives; and/or
- report reliably on whether they achieved their performance targets; and/or
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure compliance.

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Qualified opinion



Auditee:

- had same challenges as those that were unqualified 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.
- did not comply with key legislation in certain instances.

Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

Disclaimed opinion



Auditee:

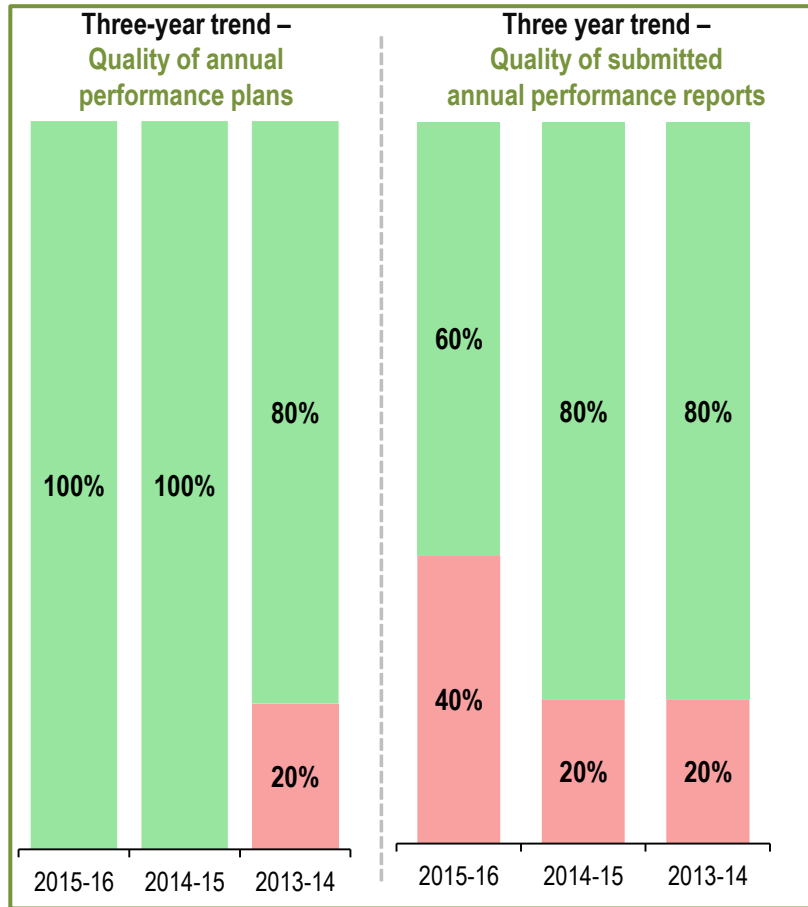
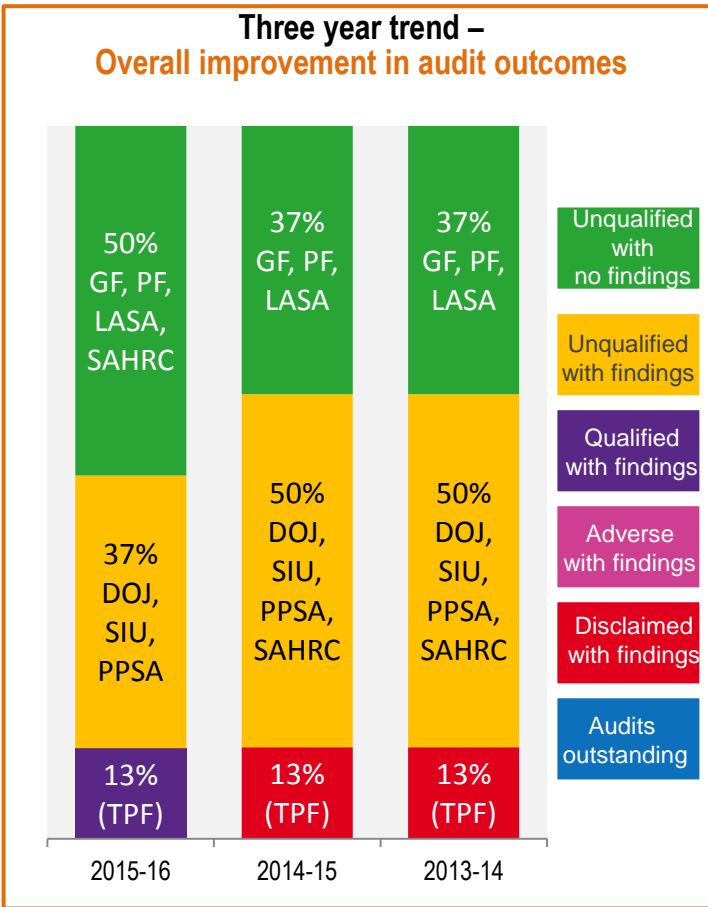
- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

2

The 2015-16 audit outcomes and key messages



Improvement in audit outcomes over 3 years

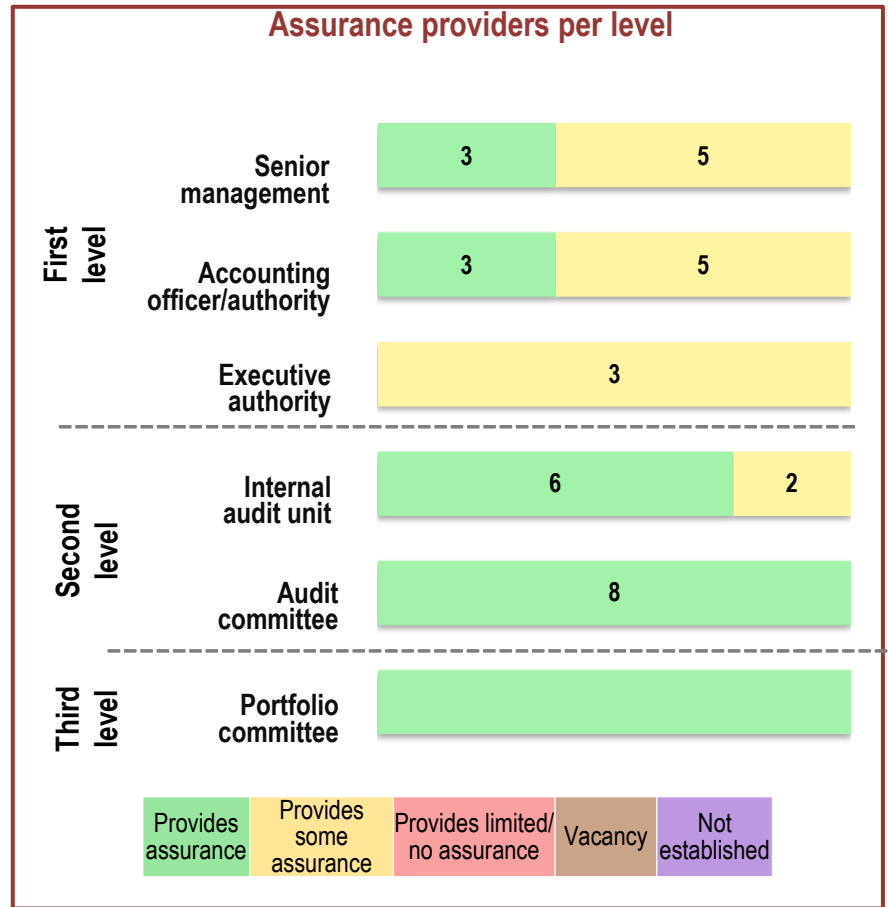
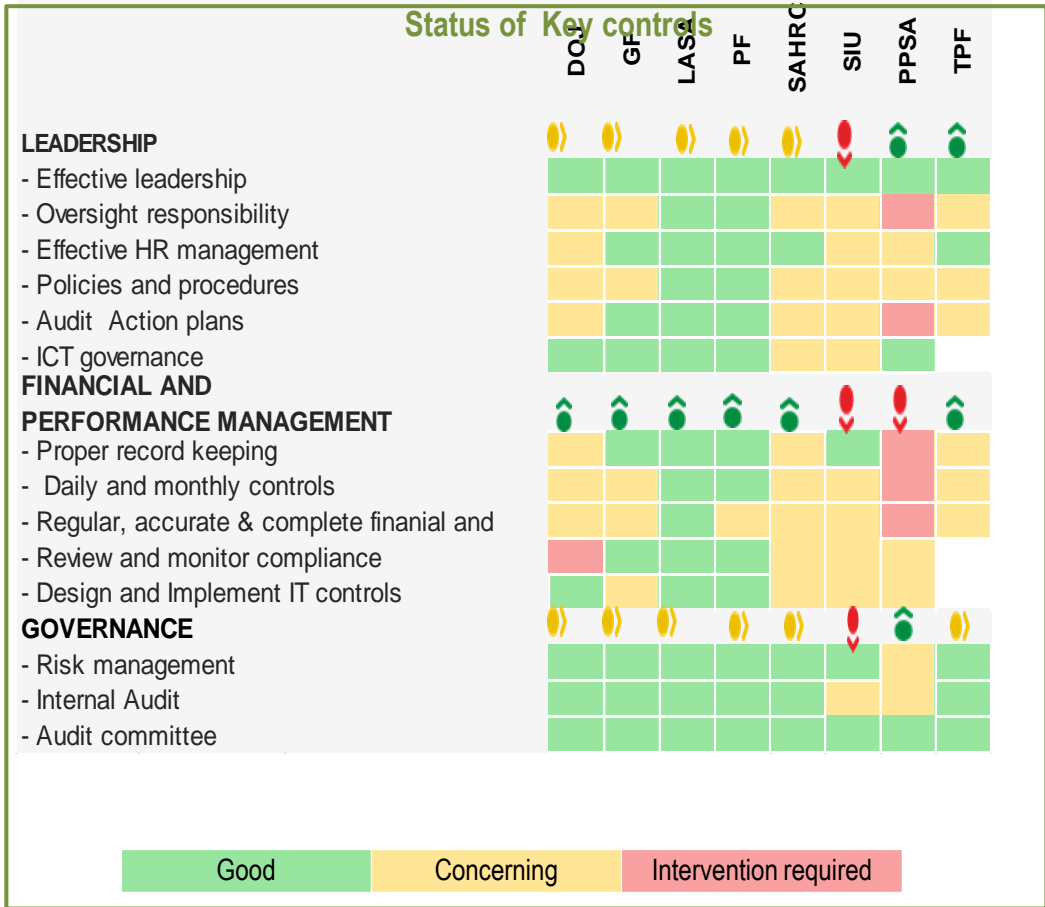


1 To improve/maintain the **overall audit outcomes**, financial statements processes, The audit outcomes of the portfolio has improved over the period with respect to the Third Party Funds (TPF) moving from a disclaimer of audit opinion to a qualified audit opinion and the SA Human Rights Commission (SAHRC) improved from an unqualified with findings to unqualified with no findings.. The TPF historically did not have adequate information systems and proper record keeping processes and reconciliations to support the financial results presented in its financial statements. The unverifiable historical balances remaining in the financial statements resulting from the information verification exercise undertaken by management, resulted in a qualified audit opinion.

2 **compliance** with key legislation and.... SAHRC has shown an improvement as no non-compliance was reported. Non-compliance identified at the Department of Justice & Constitutional Development (DoJ&CD), Special Investigating Unit (SIU) and Public Protector SA (PPSA) were material changes to financial statements resulting from the audit process after submission for auditing. In addition, DoJ&CD also had findings due to non-adherence to supply chain management prescripts around local content procurement and declarations by bidders, creditors not being paid within the prescribed period of 30 days from receiving an invoice as well as its inability to prevent irregular expenditure.

3 **performance planning and reporting** must be improved by.... There were no matters of concern on the annual performance plans for the portfolio. The DoJ&CD, SIU, SAHRC, PPSA, and Legal Aid SA (LASA) submitted annual performance reports on time. The remaining entities (Guardian's Fund (GF), President's Fund (PF) and TPF) in the portfolio are funds administered by the DoJ&CD and are not required to submit annual performance reports. There has been a regression in the quality of the submission of annual performance reports for auditing as DoJ&CD had to effect material changes to its annual performance report emanating from findings identified during the audit process. PPSA had repeat findings in this area.

Improvement in audit outcomes over 3 years - continued



4 ... providing attention to the **key controls** by...

Focused interventions and commitments are still required in order to improve the current status of the overall audit outcomes. The following controls should be strengthened to create a control environment that supports clean administration:

- The TPF requires a financial reporting system to replace the current administrative system, which currently limits management's ability to supervise and exercise oversight of daily reconciliations and to support reliable financial reporting.
- The DoJ&CD must implement sufficient monitoring controls to ensure compliance with all applicable legislation specifically with regards to prevention of irregular expenditure, compliance with supply chain management prescripts and payment of creditors within 30 days.
- The DoJ&CD, PPSA and SIU management should establish proper processes in the compilation and preparation of reliable financial statements and to review them prior to submission for auditing.

5 ... the key role players as part of their role in **combined assurance**

There has been an overall regression in assurance provided at the level of accounting authority, senior management and internal audit at the SIU. These are mainly related to the repeat audit findings identified at the SIU and also due to the internal audit function only being operational for part of the year for both SIU and the PPSA. TPF has shown an improvement on the levels of accounting officer and senior management in the current year due to the improved audit outcome.

Basis for PC evaluation:

- Oversight role in terms of robust budget vote process, and review of the annual plans;
- Follow up on progress made by the entities to address poor audit outcomes;
- Follow up on key matters reported in the committee's prior year BRRR report.





3

**Performance management linked
to programmes/ objectives tested**



Quality of annual performance plan and quality of submitted annual performance reports


Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Department of Justice and Constitutional Development		<i>Programme 2: Court Services</i>	No material findings reported.	No material findings reported.
		<i>Programme 4: National Prosecuting Authority</i>	No material findings reported.	No material findings reported.
Special Investigating Unit		<i>Objective 1: Quality forensic investigations, conducting civil litigation and assisting with other processes</i>	No material findings reported.	No material findings reported.
		<i>Objective 2: Developing and maintaining strategic partner relations</i>	No material findings reported.	No material findings reported.
Public Protector South Africa		<i>Programme 2: Investigations</i>	No material findings reported.	No material findings reported.
		<i>Programme 3: Outreach</i>	No material findings reported.	No material findings reported.
South African Human Rights Commission		<i>Programme 2: Promotion and protection of human rights</i>	No material findings reported.	No material findings reported.
		<i>Programme 3: Research, Monitoring and Reporting</i>	No material findings reported.	No material findings reported.



Quality of annual performance plan and quality of submitted annual performance reports

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Legal Aid South Africa		Programme 1: To deliver quality criminal legal aid services that are client-focused	No material findings reported.	No material findings reported.
		Programme 2: Deliver quality civil legal aid services that are client-focused, with a priority for constitutional rights	No material findings reported.	No material findings reported.
		Programme 3: To deliver (increase access) quality legal advice services that are client-focused	No material findings reported.	No material findings reported.



4 **Financial management**



Stagnation in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

Material misstatements in submitted annual financial statements



Prevention of unauthorised, irregular and/or fruitless and wasteful expenditure



Management of procurement and/or contracts

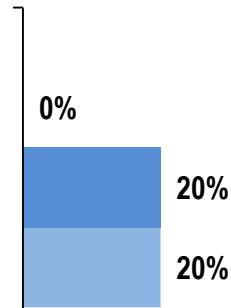


Consequence management

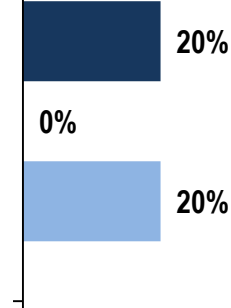


Figure 2: Findings on compliance with key SCM legislation – all auditees

Uncompetitive or unfair procurement processes



Awards to other state officials



Procurement general

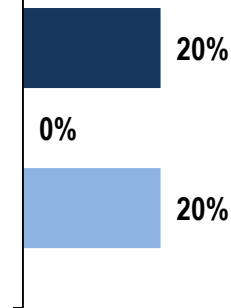


Figure 3: Qualification areas over three years (TPF)

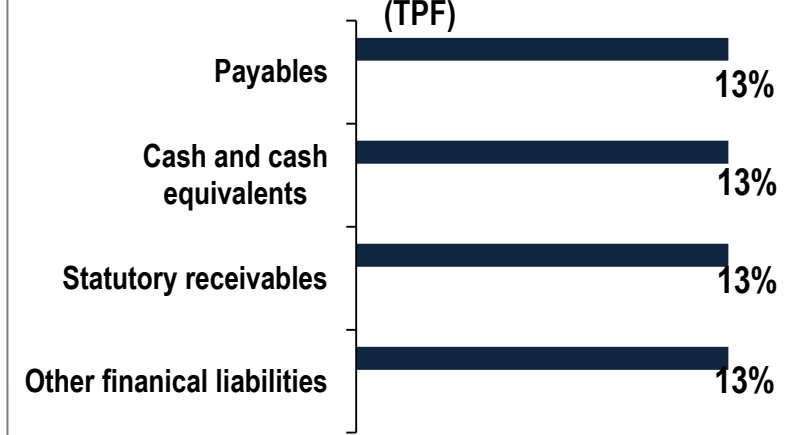
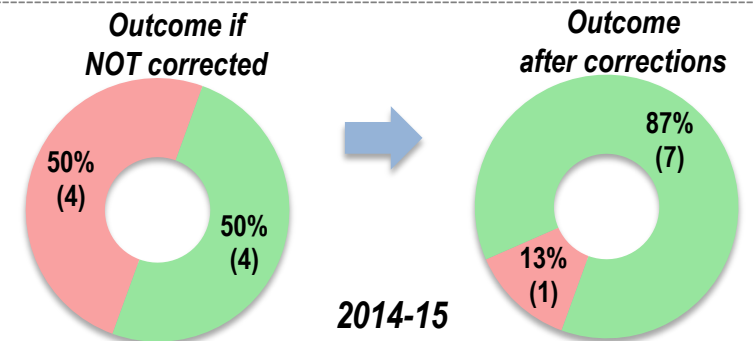
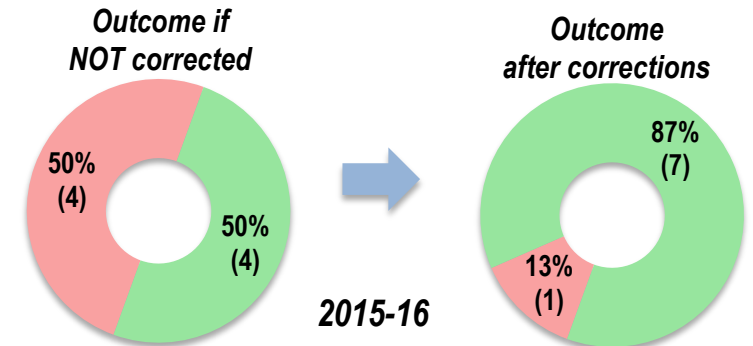
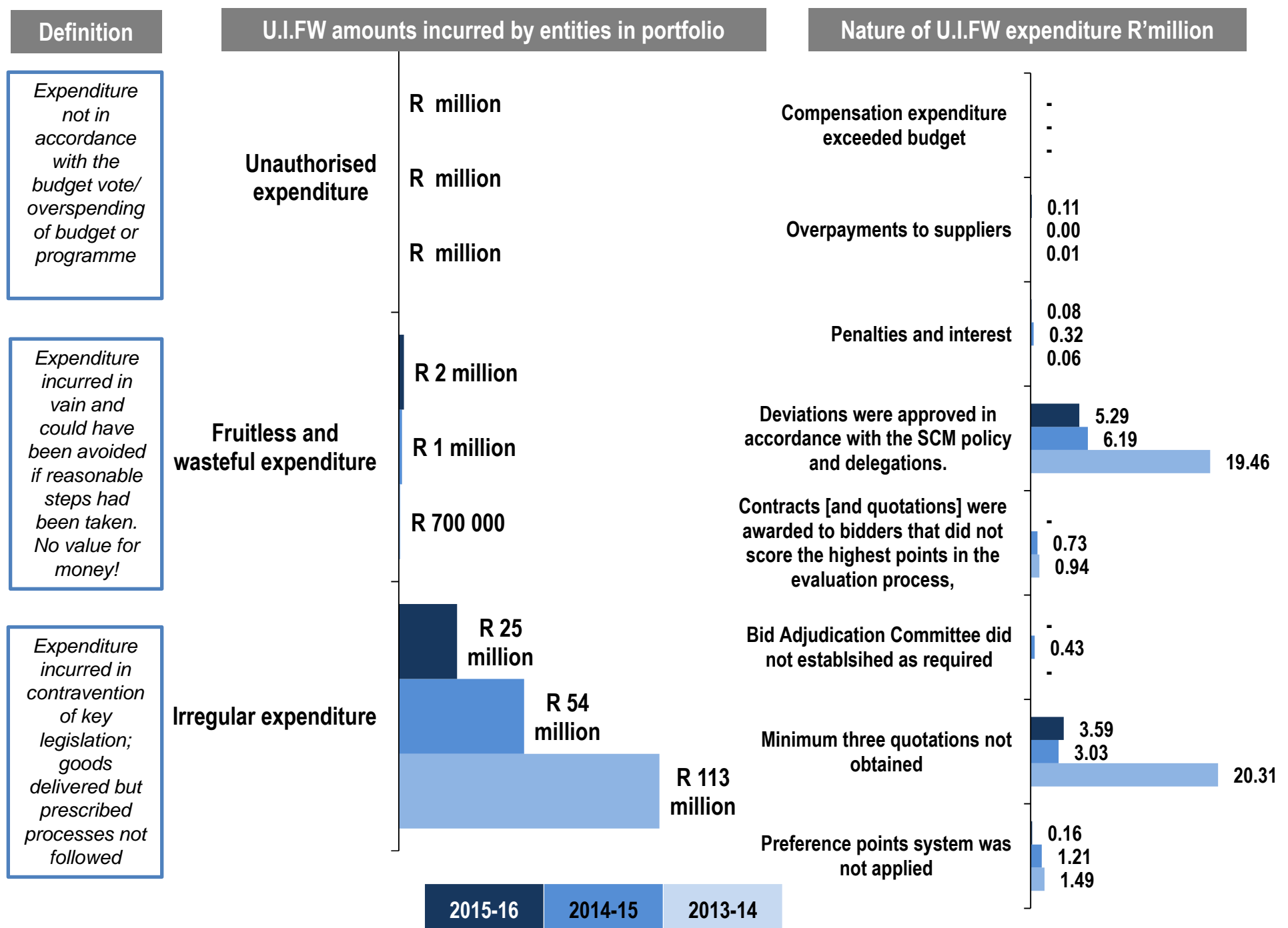


Figure 4: Auditees who avoided qualifications due to the correction of material misstatements during the audit



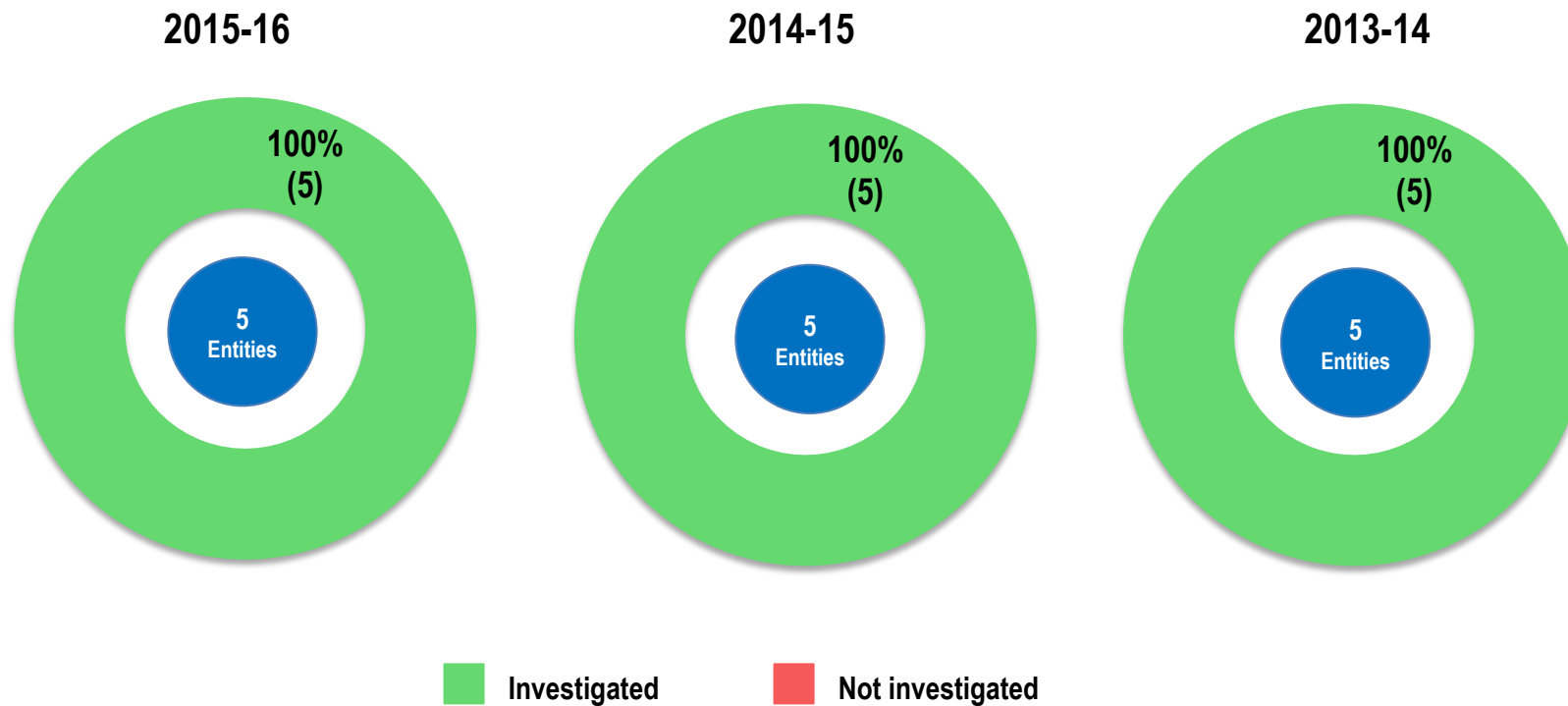
Unauthorised, irregular as well as fruitless and wasteful expenditure trends over 3 years and follow up action



Follow up action of unauthorised, irregular as well as fruitless and wasteful expenditure over 3 years

Investigations of U.I.FW expenditure

All auditees lodged investigations to determine root cause and consequences of U.I.FW incurred.



5

Top three root causes, follow up on commitments and proposed recommendations



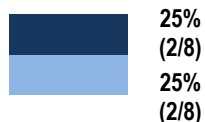
Top three root causes, follow up on commitments and proposed recommendations

1

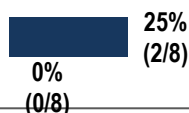
... the following **root causes** must be addressed ...

Root causes

Slow response by management
(Accounting officer and senior management)



Instability or vacancies
in key positions



Lack of consequences for poor
performance and transgressions



■ 2015-16 ■ 2014-15

Vacancies at the PPSA and SIU continue to pose significant challenges regarding the operations of these entities.
Compliance with legislation should be reinforced by enforcing consequences for unsatisfactory performance and transgressions, which are hindering the progress towards clean administration.

2

... through honouring the following **commitments** made by the executive authority.....

Status of key commitments by minister

The performance information management system will be used effectively to facilitate collation and consolidation of information from the various line functions and regions.

Ageing and redundant GFS (Guardian's Fund) IT system to be prioritised for upgrading and/or replacement to ensure proper financial reporting and preparation of credible financial statements.

The chief financial officer of the department to take control of supply chain and asset management reporting functions and report on progress to the accounting officer on a monthly basis for investigation and corrective action.

Support to be provided to the department to fill vacancies as soon as they arise, especially at senior management level.

IT system with respect to Third Party Funds to be prioritised for replacement in order to ensure proper financial reporting and preparation of credible financial statements.

Not implemented In progress Implemented New

We met with the minister on 28 July 2016. The outcomes were discussed with the minister and the status of the implementation of the above commitments were followed up with the minister.
No new commitments were solicited from the minister and certain of the prior year's commitments were reinforced.
The minister requested that he would appreciate it if the audit team could continue with the quarterly engagements regarding the status of key controls in the portfolio.

3

... and implementation of the following **proposed commitments** by the Portfolio committee and management...

1. Obtaining confirmations from entities that in-year financial reporting and financial statements are adequately reviewed by management.
2. Obtaining confirmations from entities that annual financial statements have been reviewed by chief financial officers, accounting officers/authorities and audit committees prior to submission for auditing.
3. Tracking progress on implementation of action plans by auditees to ensure resolution of audit findings with particular focus on compliance with legislation and supply chain management.

Entities included in the portfolio not audited by AGSA: Public Audit Act (PAA) (section 4(3) audit entities)

Three year audit outcome of auditees within the portfolio which are not audited by the AGSA in terms of section 4(3) of the PAA:

Auditee:	Three year Trend	Audit Outcomes 2015-16			Audit Outcomes 2014-15			Audit Outcomes 2013-14		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
South African Board for Sheriffs			n/a	✓		n/a	✓		n/a	✗ (reported)

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- Improved
- Stagnant
- Regressed

AFS outcome legend

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with finding
- Audits outstanding
- No Material Findings
- Material findings



Questions



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