

PFMA
2016-17



Accountability for government spending: From the plan to the people

Women in the Presidency Portfolio



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



PFMA 2016-17



Budgetary review and recommendations report

Women in the Presidency

4 October 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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)*.



1

The AGSA's Public Audit Act Promise and 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

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 their performance reports to the predetermined objectives they committed to in their 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



AGSA theme for the current year to improve outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

"Plan-Do-Check-Act Cycle", also the Deming cycle , courtesy of the International Organization for Standardization



AGSA theme for the current year to improve outcomes



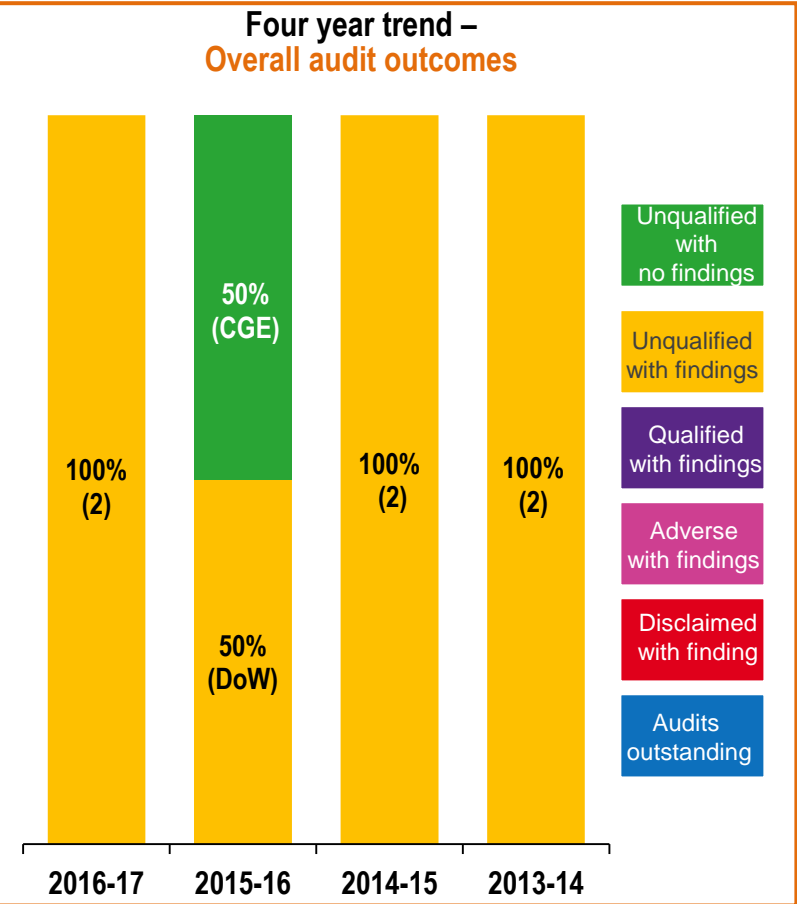
ACCOUNTABILITY = PLAN + DO + CHECK + ACT

2

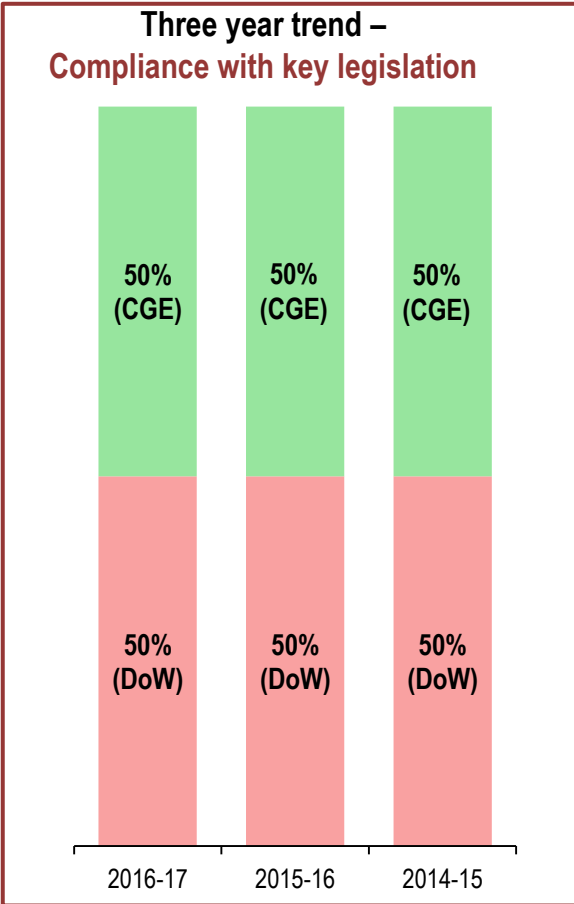
The 2016-17 audit outcomes and key messages



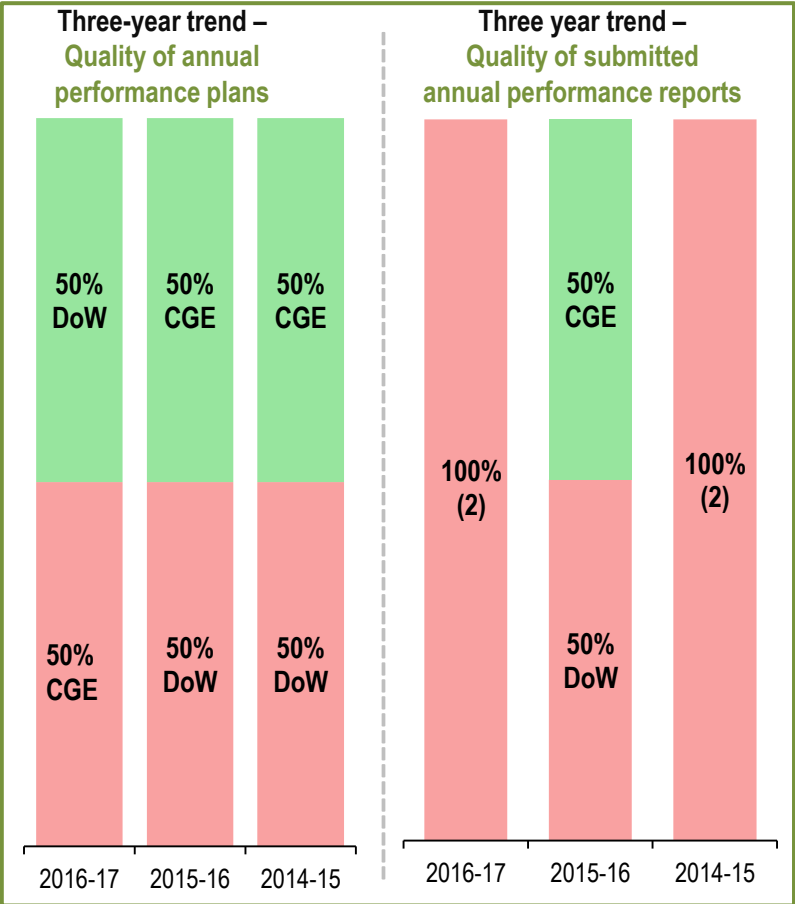
Regression in audit outcomes in the current year



- 1 To improve/maintain the **overall audit outcomes**, financial statements processes,
- The department's inability to appropriately address findings of noncompliance in the supply chain management (SCM) environment has persisted over the past four years. These material non compliances have also resulted in irregular and fruitless and wasteful expenditure being incurred.
 - CGE regressed from a clean audit to an unqualified audit opinion with findings on performance information. CGE incurred a material finding on the usefulness and reliability of one material indicator.



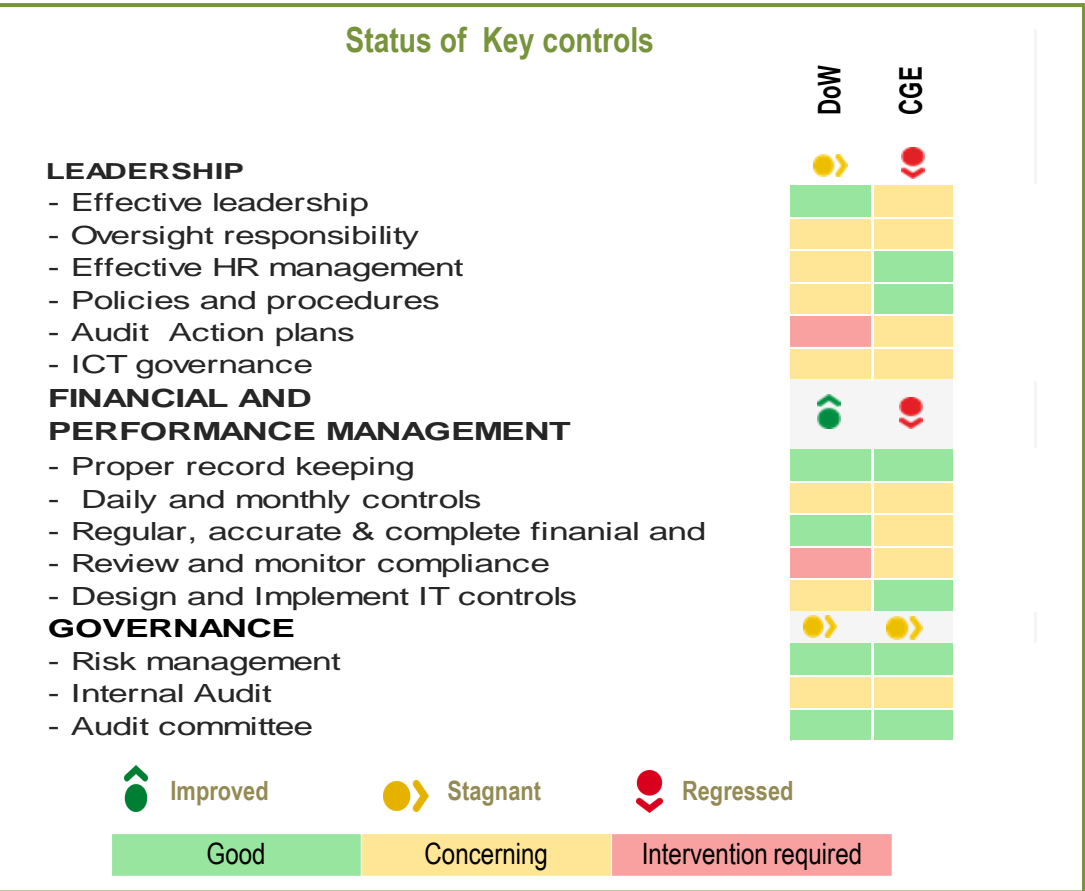
- 2 **compliance** with key legislation and....
- The quality of submitted financial statements have significantly improved, however their remains concerns that may be unsustainable without a permanent chief financial officer.
 - Internal controls were not effective in the prevention and detect ion of irregular, fruitless and wasteful expenditure. (DoW).



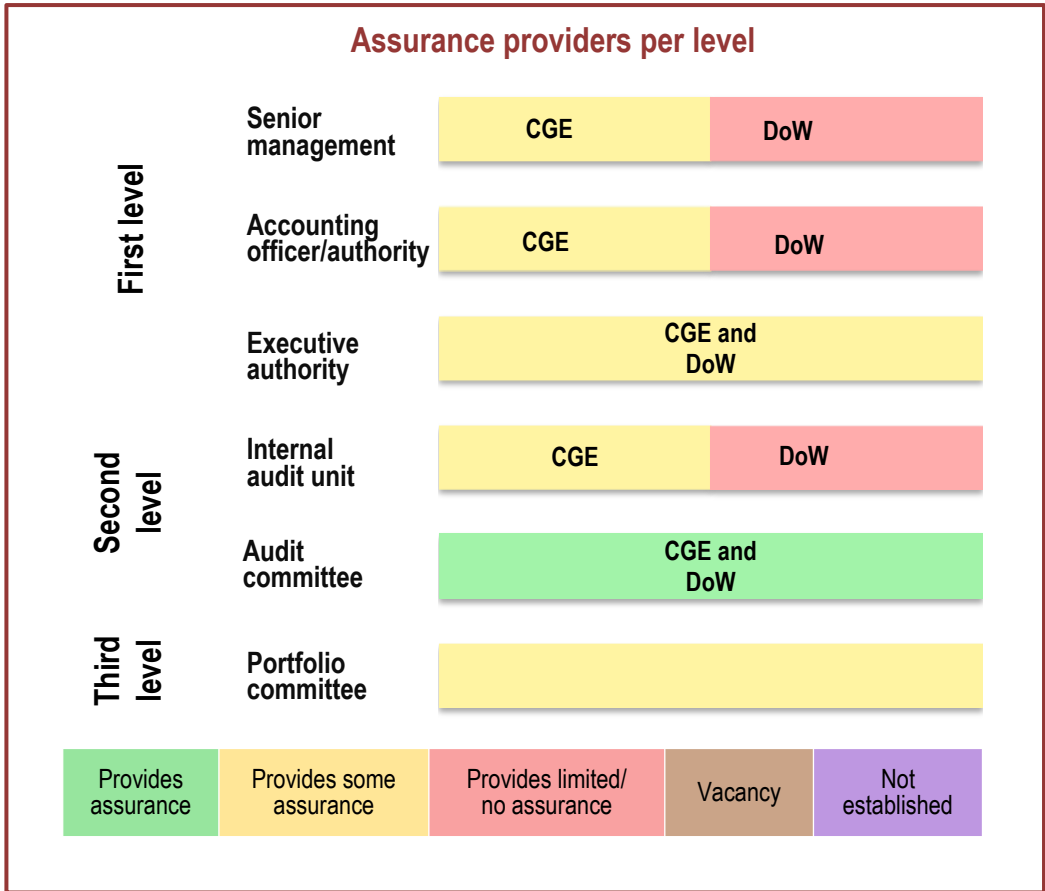
- 3 **performance planning and reporting** must be improved by....
- All material issues on the consistency, presentation and reliability of the submitted annual report were subsequently addressed by management.
 - The Dow has in the past 3 years made significant in year changes to its approved annual performance plan.
 - A material target relating to the management of complaints received by the CGE was not specific and did not allow for the supporting evidence to be appropriately and consistently collected and reported on



Regression in audit outcomes in the current year - continued



- 4 ... providing attention to the **key controls** by...
- Leadership of the DoW must focus on creating a culture of accountability, including implementing efficient consequent management practices for transgressions and poor performance by employees.
 - Audit action plans are developed by DoW management, but these actions are not effectively implemented and monitored to ensure findings are not repeated
 - Rigorous review of SCM legislation is required at DoW where deviations resulted on non-compliance with SCM legislation.



- 5 ... the key role players as part of their role in **combined assurance**
- Level of assurance by senior management at the department in particular must to be enhanced. The appointed of a permanent skilled chief financial officer is key to improving the controls within the financial and SCM environments.
- Basis for PC evaluation:
- Oversight role ito robust budget vote process, review of the annual report including the audit report, quarterly reporting;
 - Frequent and relevant engagement with all key role players.

3

Performance management linked to programmes/ objectives tested & key projects audited



Quality of APP and analysis of expenditure per programme vs performance achievements

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	Spent amount (R '000)	% Spending	No. of targets planned	No. of targets achieved or overachieved	% Achievement
Department of Women									
Programme 2- Social Transformation and Economic Empowerment	No material finding	No material findings	X	R80 468	R79 548	98.9%	9	0	0%
Programme 3- Policy. Stakeholder Coordination and Knowledge management	No material findings	No material findings	X	R27 739	R26 732	96.4%	13	2	15%
Commission of Gender Equality									
Strategic Objective No. 2: To protect and promote gender equality	X	X	X			100%	7	6	86%

Kindly refer to pages 29 to 58 of the DoW annual report for the detail of where management has reported on the their achievement of the above targets for each programme as included in the Annual Performance Report.

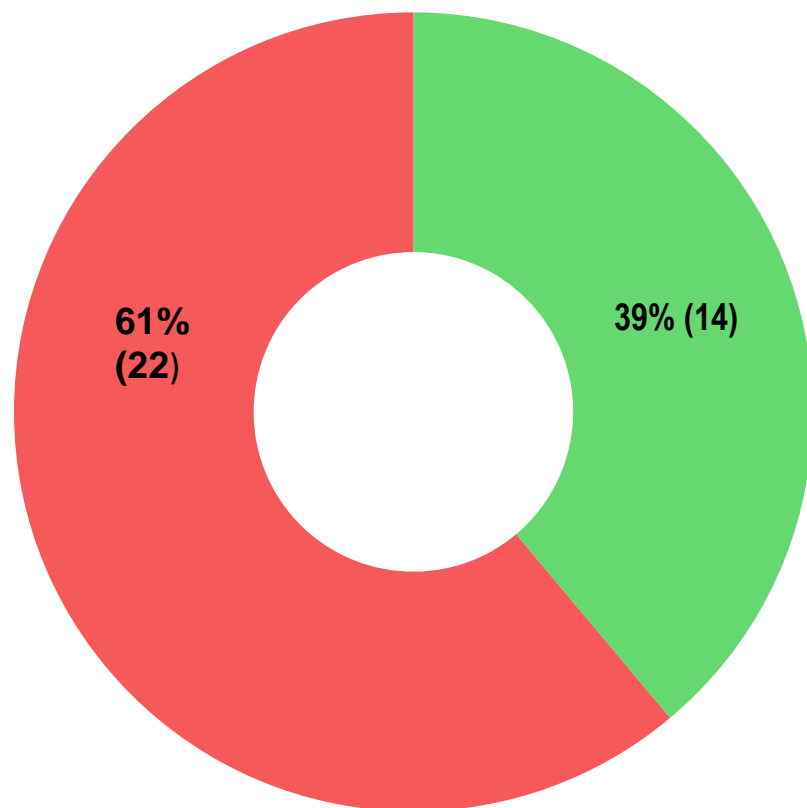


Key projects selected as part of the statutory audit

Department of Women only achieved 14 of the planned 36 targets.

39%

Achievement of planned targets – projects



Targets achieved



Targets not achieved/ not evaluated

Key findings

Programme 2: Social Transformation and Economic Empowerment

- **Misalignment between budgeting and operational planning** resulting in the development and approval of performance targets for which the department did not have adequate skills and resources to achieve.
- **Lack of clarity of the mandate** of the department resulted in the approval of targets that were subsequently removed due to them falling under the mandate of other departments.

Programme 3: Research, Policy Coordination and Knowledge Management

- Initial targets relating to policy and research analysis required in-depth research and analysis, the department **did not have the requisite capacity** within the unit highlighting the misalignment between the budgeting, performance management and human resource management functions of the department..
- A number of the reports/strategies planned for completion in the 2016/17 remained in draft format either due to **the unavailability of critical stakeholders** and /or the documents prepared **did not meet the required standards and objectives**.

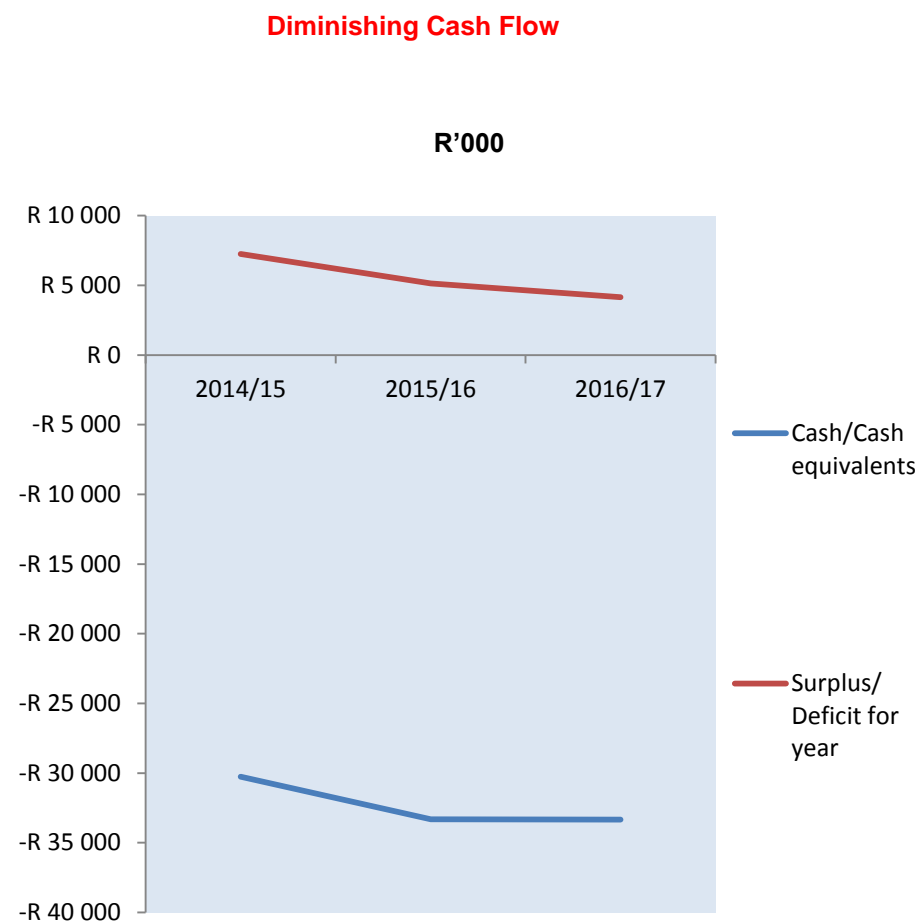


4

Financial health and financial management

Financial Viability: DoW

Figure 1: Going concern considerations



The figures above should be read in conjunction with the areas reported on unauthorised expenditure, Irregular expenditure and Fruitless and wasteful expenditure.

FINANCIAL VIABILITY RATIO	
EXPENDITURE MANAGEMENT	
Creditor-payment period	42
30+ day accruals as percentage of total accruals	28.20%
Cash Management	
Cash shortfall as a percentage of next year's total appropriation (budget)	17.60%
Cash shortfall as a percentage of next year's appropriation (budget), excluding "compensation of employees"	27.00%

No material uncertainty related to going concern/financial sustainability of either the department or the CGE exists.

- The unauthorised expenditure incurred in the previous financial years as well as the long outstanding receivables, have a direct impact on the department's cash balance:
- Implementation and monitoring of budgetary controls have however prevented the re-occurrence of unauthorised expenditure.
- The efficiency of the department's has significantly improved and no material findings relating to the payment of suppliers within the required 30 period was noted.



Improvement in compliance with legislation and poor quality of financial statements

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

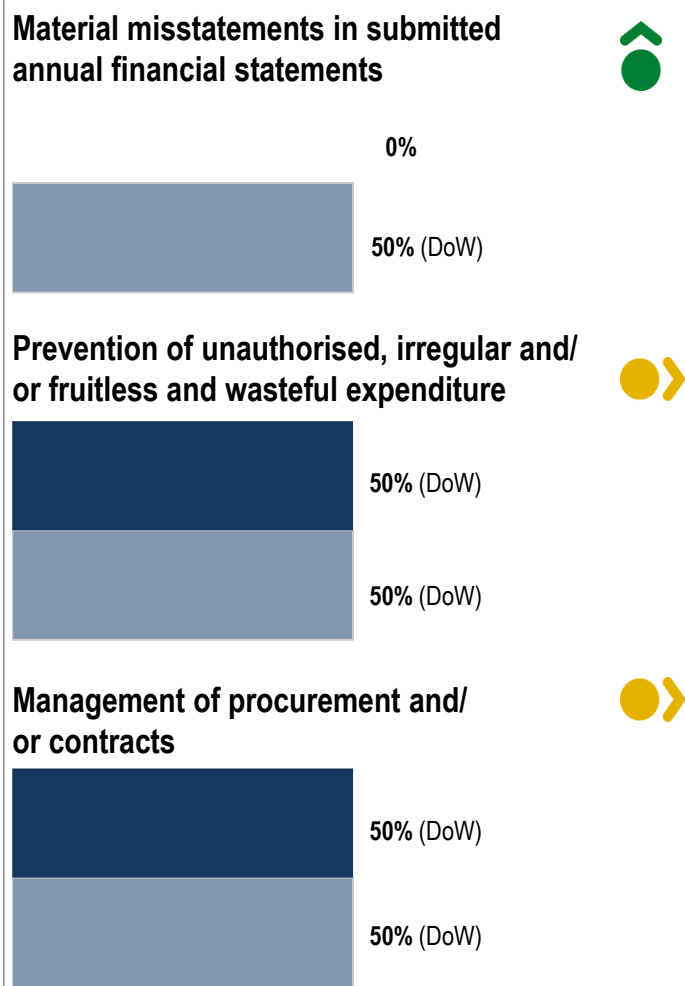
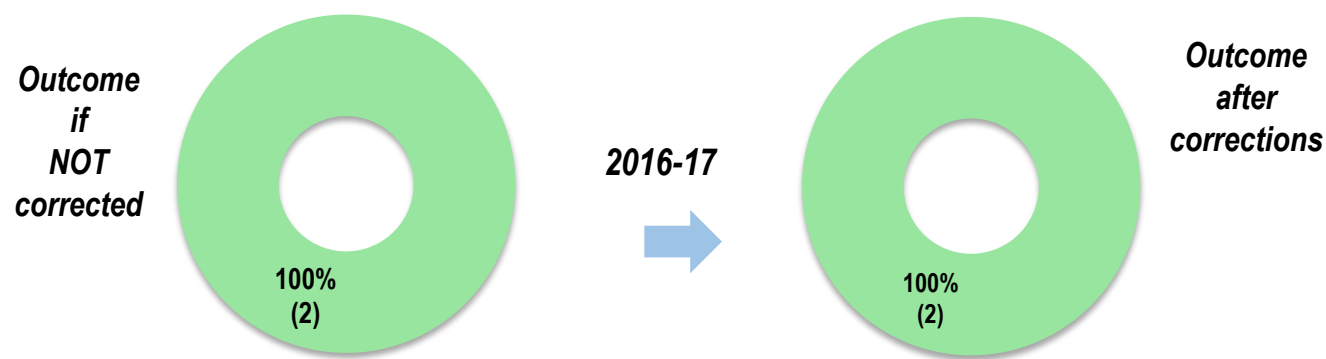


Figure 2: Audit report paragraphs over two years

	AoPI - Usefulness		AoPI - Reliability		AoPI – Material adjustments		AFS – Material adjustments		Procurement		Expenditure	
Auditee	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
DoW		X			X			X	X	X	X	X
CGE	X		X		X							

Figure 3: Auditees who avoided qualifications due to the correction of material misstatements during the audit



2016-17

2015-16

 Improved

 Stagnant

 Regressed

With no material misstatements

With material misstatements

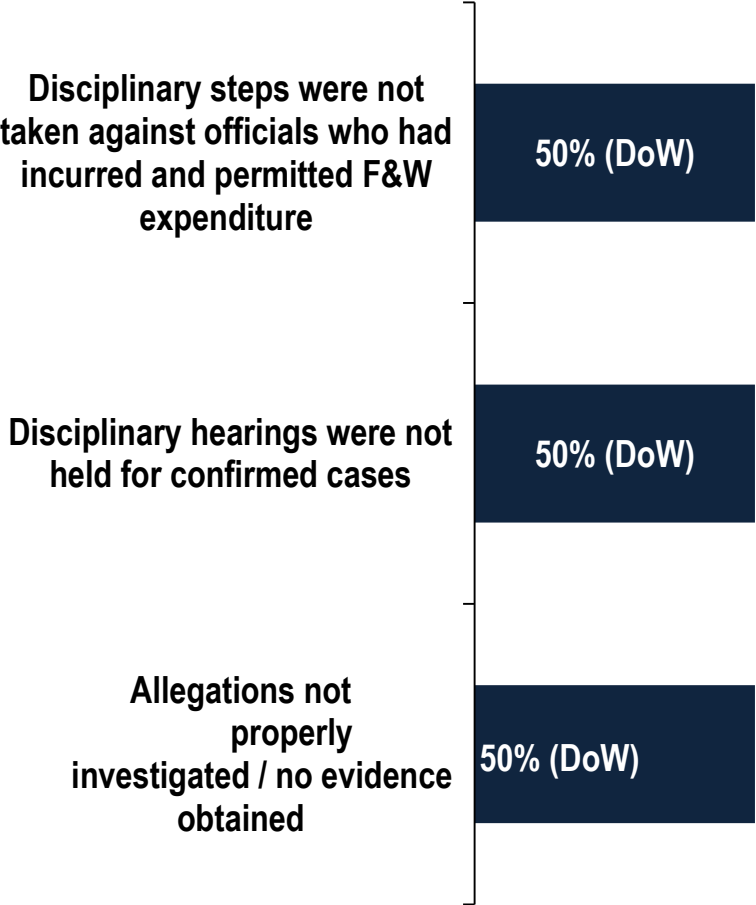
Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in the financial statements in DoW and CGE

Definition	UIFW amounts incurred by entities in portfolio			Nature of UIFW expenditure R'million	Audit report impact
<i>Expenditure <u>not</u> in accordance with the <u>budget</u> vote/<u>overspending of budget</u> or programme</i>	Unauthorised expenditure	R0 m		<ul style="list-style-type: none">During the 2015-16 financial year, DoW overspend the budget on programme level.The department is waiting for the total amount of R29,575 million of unauthorised expenditure to be approval from Parliament as at 31 March 2017 and contribute to the bank overdraft.	No impact on the 2016/17 audit report.
		R2.2 m			
		R0 m			
<i>Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. <u>No value for money!</u></i>	Fruitless and wasteful expenditure	R12.5 m		<ul style="list-style-type: none">The f/w expenditure recognised during the current financial year relates to duplicate billing by a supplier that rendered comprehensive travel services to the department from 2011 to 2014.The amount is transferred to Receivables for recovery from the service provider.	The inability of the department to prevent fruitless and wasteful expenditure was reported in the audit report in the current and prior year
		R2.3 m			
		R1.6 m			
<i>Expenditure incurred in contravention of key legislation; goods delivered but <u>prescribed processes not followed</u></i>	Irregular expenditure	R7.4 m		<ul style="list-style-type: none">At DoW were the procurement process not been followed in obtaining the required number of quotations/ tenders; quotations were awarded to bidders based on preference points that were not allocated and calculated accordance to the PPPF act and the requirements of Local Production and content were not followed.Irregular expenditure incurred at CGE as a result of payments made in excess of contracts	The inability of the department to prevent fruitless and wasteful expenditure was reported in the audit report in the current and prior year
		R13.8 m			
		R4 m			
		2016-17	2015-16	2014-15	

Fraud and consequence management

None of the auditees had material findings on non-compliance with legislation on consequence management

Investigations to be conducted on allegations of financial and/or fraud and SCM misconduct within DoW & CGE



Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

There four categories of investigations to be conducted.

- Unauthorised expenditure
- Fruitless and Wasteful Expenditure
- Irregular Expenditure
- Financial misconduct and other.

All allegations within the department received through the National Hot-line, DG’s office or from requests from Chief directors, are investigated by the Director: Finance.

At the department, a total of 220 (two hundred and twenty) investigations was on-going at yearend on allegations relating to financial misconduct, fraud or improper conduct in SCM. Some of these investigations have been outstanding for a long time.



5

Top four 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

■ 2016-17 ■ 2015-16

Slow response by management (Accounting officer and senior management)

DoW & CGE 100% (2)

DoW 50% (1)



Instability or vacancies in key positions

DoW 50% (1)

DoW 50% (1)



Lack of consequences for poor performance and transgressions

DoW 50% (1)

DoW 50% (1)



- Management (accounting officer and senior management), the political leadership (executive authorities) did not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.
- Officials who deliberately or negligently ignore their duties and contravene legislation are **not promptly held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.
- The **instability** and **prolonged vacancies in key positions (CFO)** can cause a **competency gap** and affect the rate of improvement in audit outcomes.

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

Status of key commitments by minister

Integrated Planning

- Planning and budgeting will be aligned to ensure that the approved targets are realistic and that the necessary resources including skilled staff are in place to achieve on these targets.

Supply Chain Management

- Increased monitoring and reviewing followed by applicable consequence management will be implemented.

Investigations and consequence management to be finalised by the end of the financial year 2017/18:

- allegations into financial misconduct;
- irregular – and fruitless and wasteful expenditures;
- improper conduct in Supply Chain Management (SCM); or
- fraud will be concluded in line with the applicable requirements.

Not implemented

In progress

Implemented

New

- We met with the minister on 21 July 2017. The outcomes as well as the slow progress of the implementation of the above commitments were discussed with the minister.
- Commitments solicited from the minister in the prior year were reinforced during this meeting.

3 and implementation of the following **proposed commitments** by the PC.

1. PC must request management to provide feedback on the implementation and progress of the action plans to address poor audit outcomes during quarterly reporting.
2. PC must request management to provide quarterly feedback on status of key controls, especially around SCM compliance and performance information reporting .
3. PC must be request feedback and track progress of filling key vacancies at DoW.
4. List of action taken against transgressors must be provided quarterly to PC for follow up for all irregular and fruitless and wasteful expenditure incurred.



6

AGSA audit methodology improvements



AGSA audit methodology improvements

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

Status of records review = Pro-active follow up procedures + Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



Key control engagements / status of records review – objectives

Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans/ follow through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Feedback linked to Focus Areas



AGSA audit methodology improvements (cont.)



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



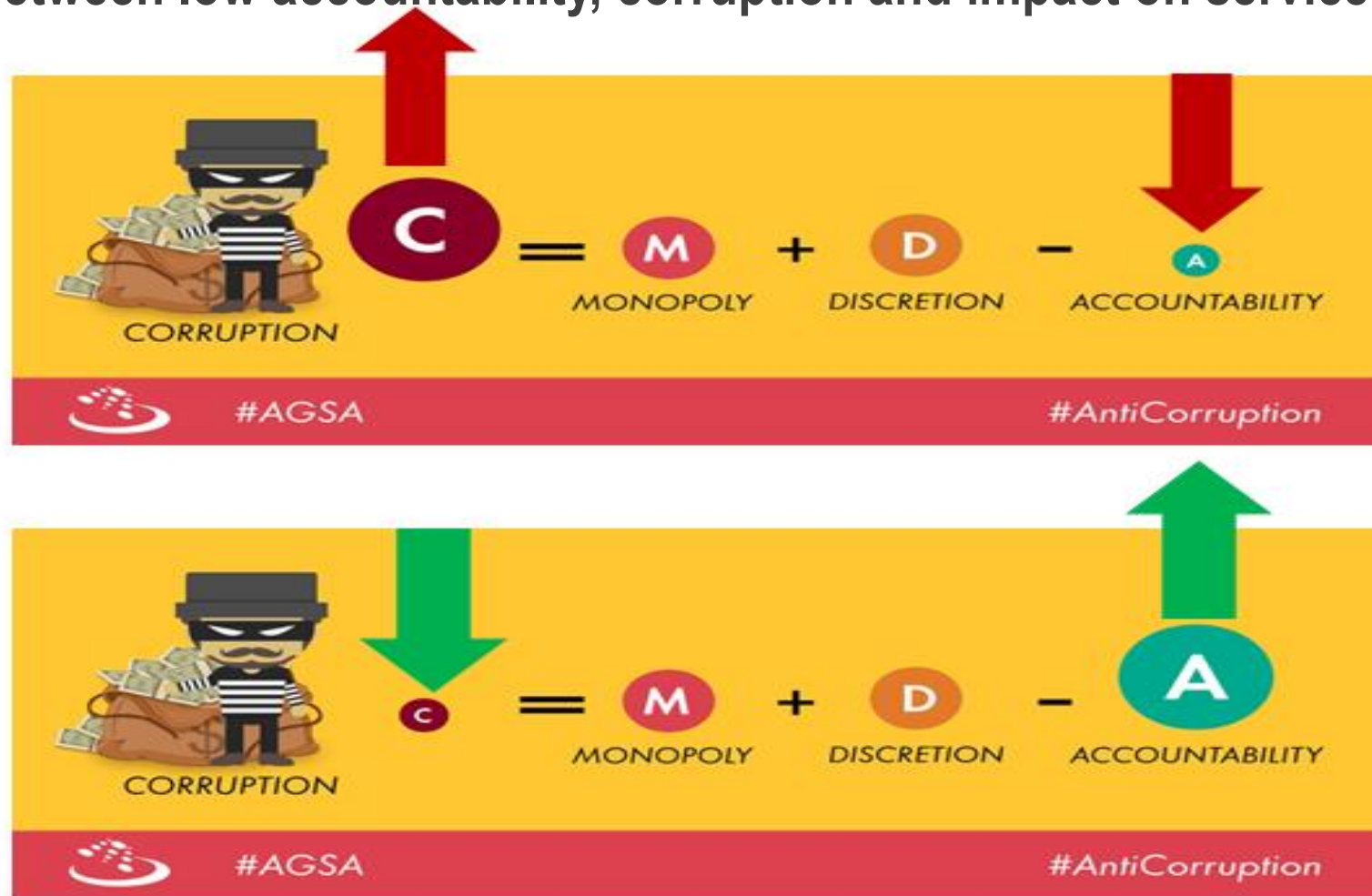
Numerous local and international discussions



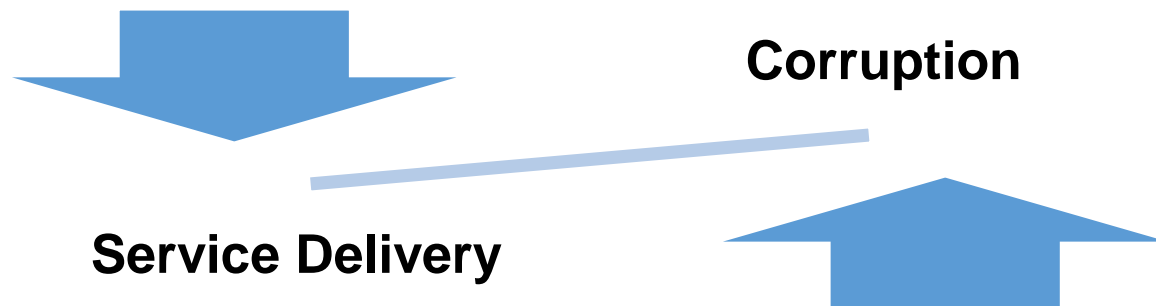
Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.

Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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