



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

Briefing to Portfolio Committee on Cooperative  
Governance and Traditional Affairs



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

## Disclaimer 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 6 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
-  Disclaimer with findings
-  Audits outstanding

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

 Regressed

Movement of 5% or less:

 slight improvement

 slight regression

DCoG – Department of Cooperative Governance

DTA - Department of Traditional Affairs

SALGA – South African Local Government Association

MISA – Municipal Infrastructure Support Agent

MDB – Municipal Demarcation Board

CRL Rights Commission - Commission for the Promotion and Protection of the Rights of the Cultural, Religious and Linguistic Communities



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## The 2017-18 audit outcomes





# ACCOUNTABILITY = PLAN + DO + CHECK + ACT



# Regression in plan-do-check-act cycle



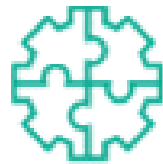
# Portfolio snapshot (2017-18)



**Clean audits: 33%**  
(2016-17: 50%)



**Quality financial statements: 83%**  
(2016-17: 83%)



**Quality performance reports: 83%**  
(2016-17: 50%)

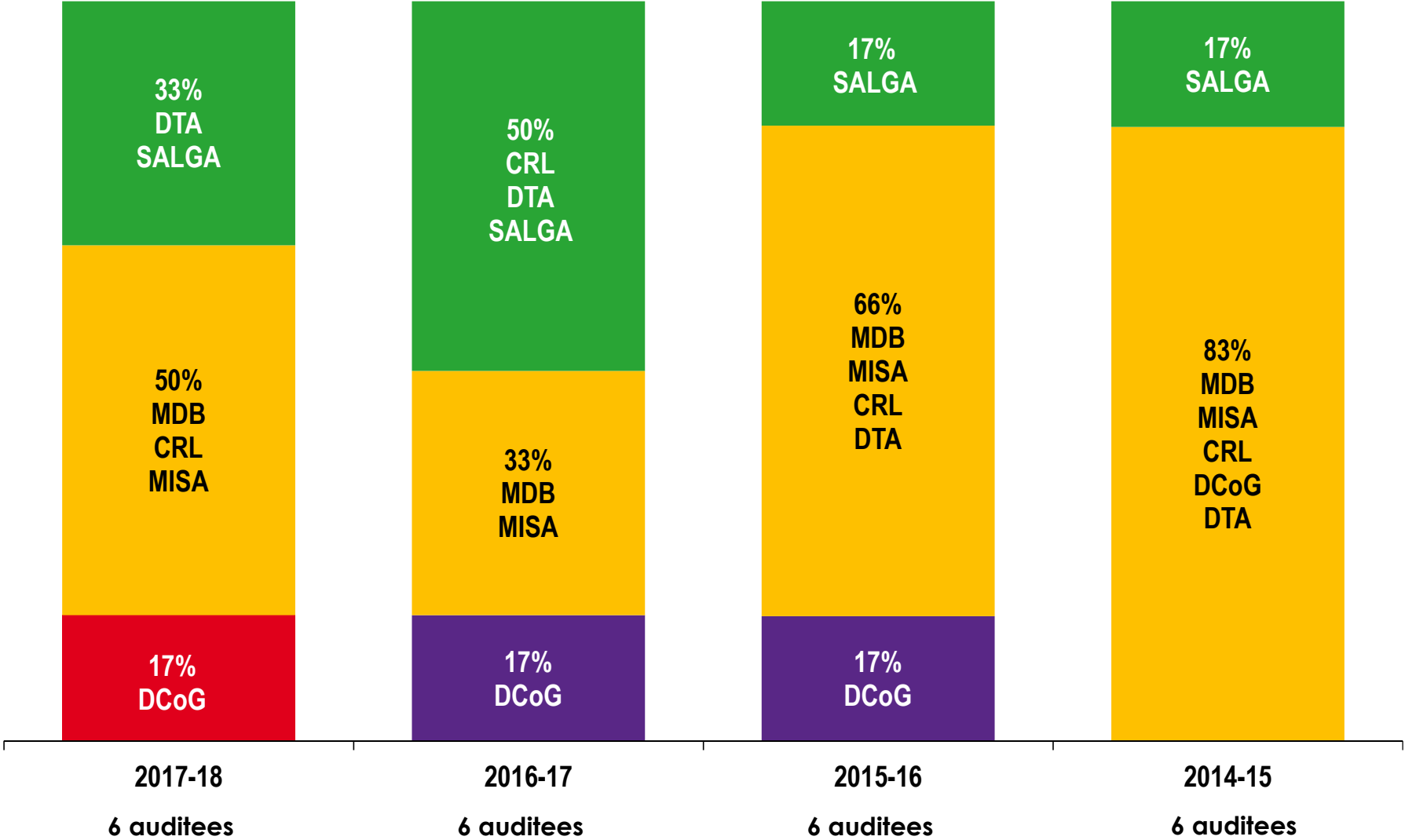


**No findings on compliance with legislation: 33%**  
(2016-17: 50%)



**Irregular expenditure: R716.6m**  
(2016-17: R422.9m)

# Audit outcomes of portfolio over four years



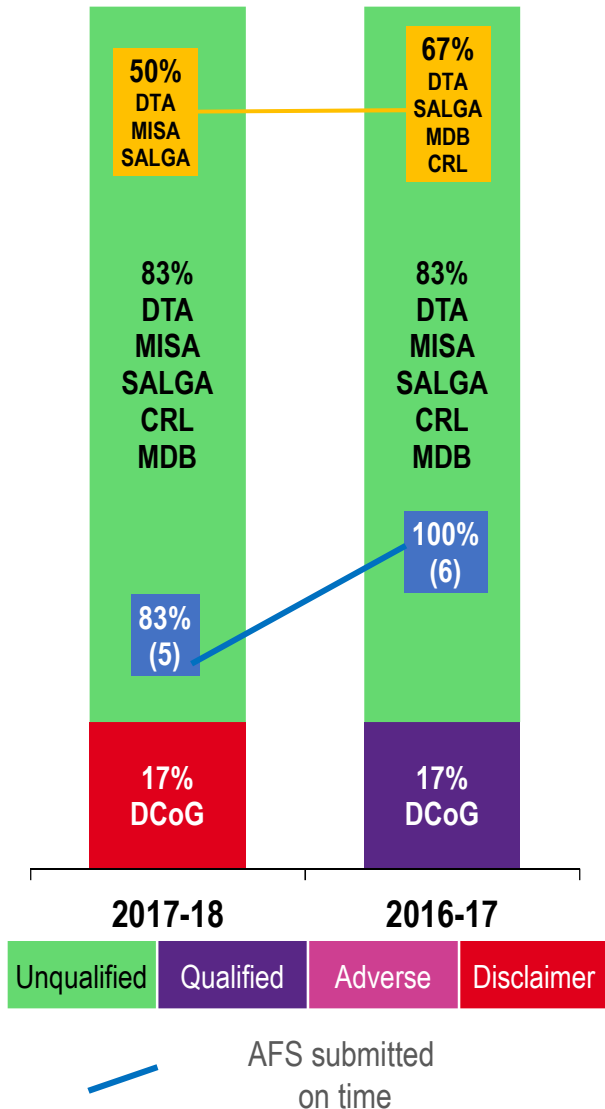
Unqualified with no findings
Unqualified with findings
Qualified
Adverse
Disclaimer

## Movement table (2017-18 over 2016-17)

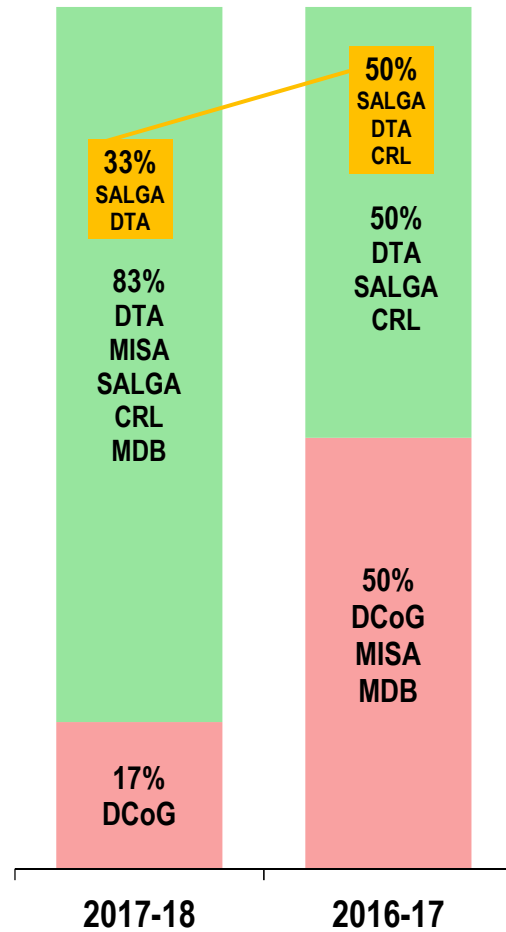
Audit outcome	MOVEMENT				
	0 Improved	4 Unchanged	2 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 2		DTA SALGA			
Unqualified with findings = 3		MISA MDB	CRL		
Qualified with findings = 0					
Adverse with findings = 0					
Disclaimer with findings = 1			DCoG		

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

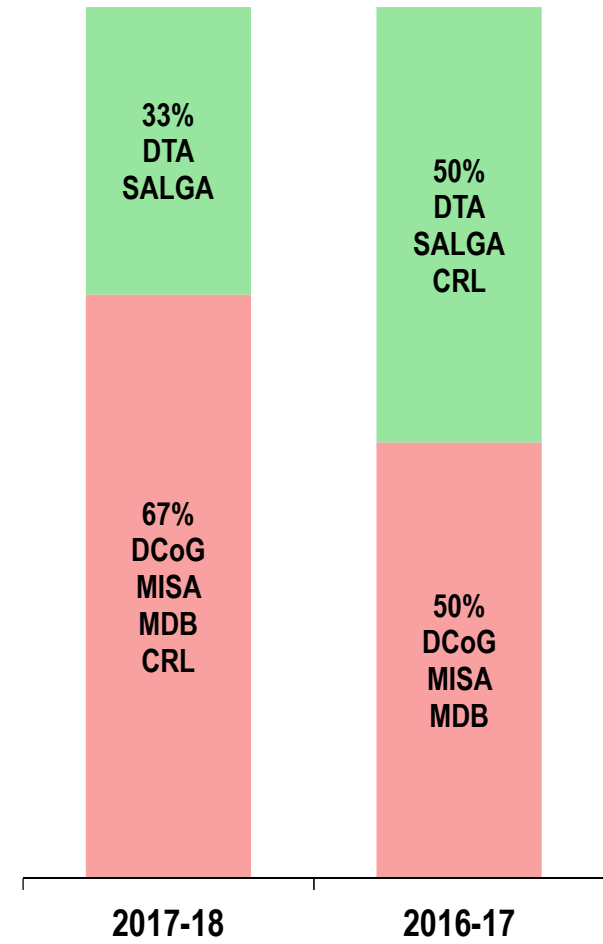
Audit of financial statements



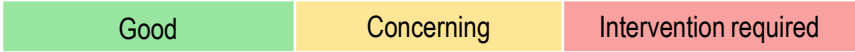
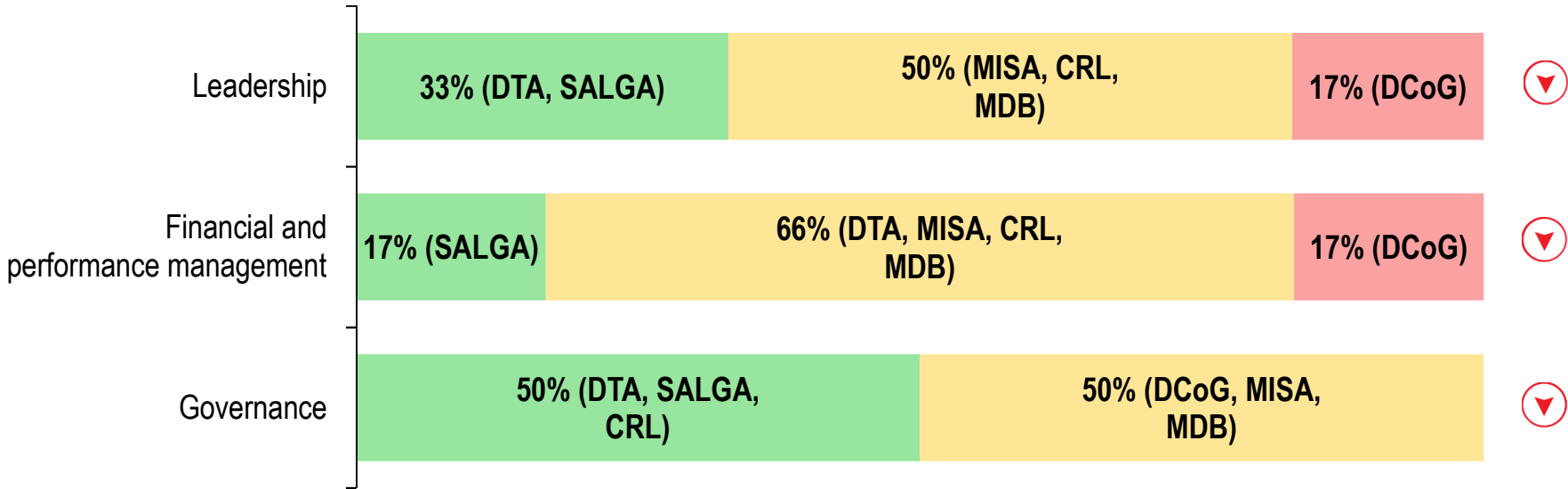
Findings on annual performance reports



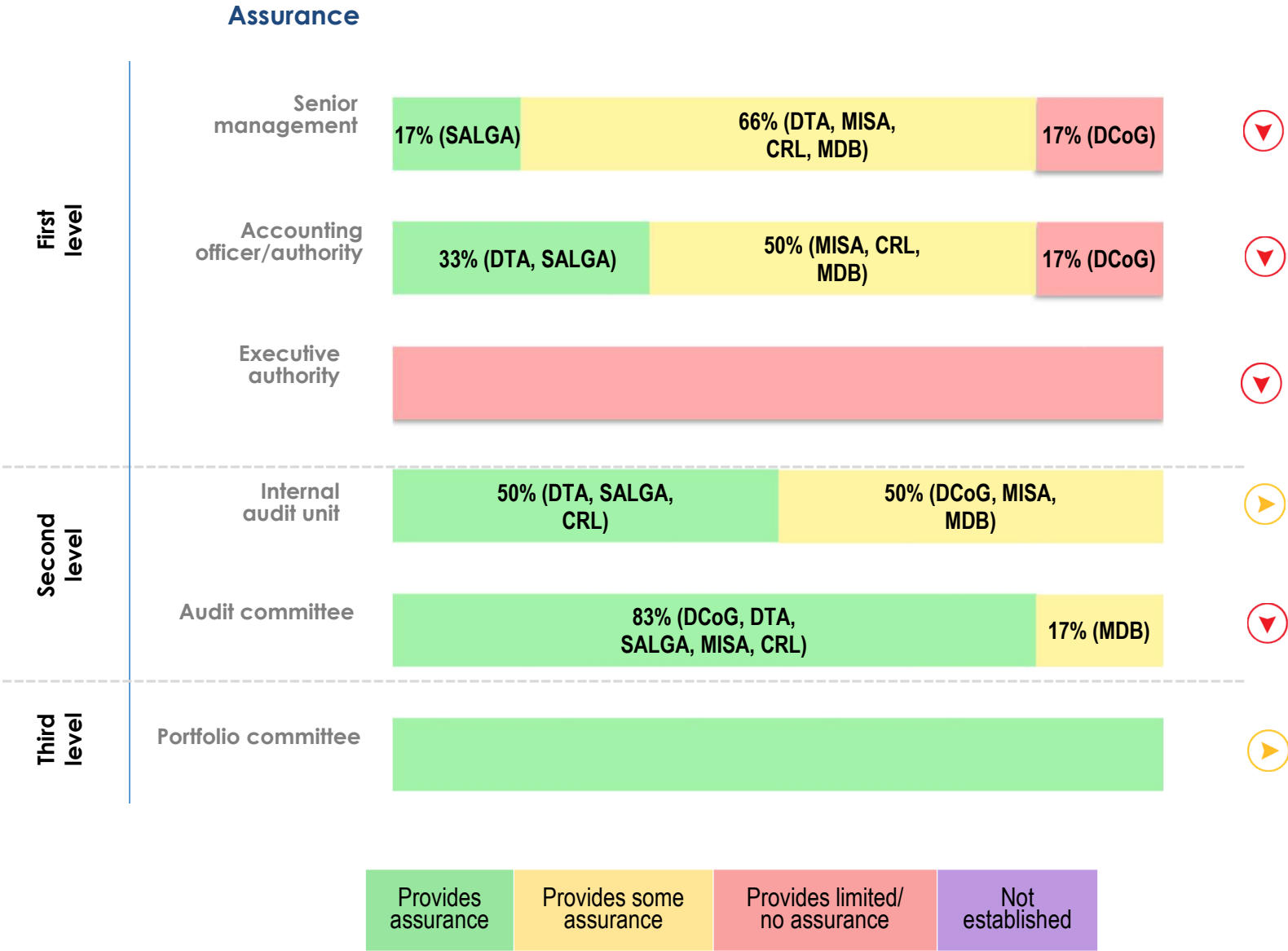
Findings on compliance with key legislation



# Status of internal control



# Assurance provided





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## Management and delivery of key programmes



# Management and delivery on key programmes – spending, performance and reporting

Programme	Budget spent	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators		Achievement of targets – from performance report
				Indicator	Useful and reliable?	
Community work programme	85,6%	Yes	IE – R331,1million	<p>Indicator 17 – Number of work opportunities provided by target date(s)</p> <p>Indicator 18 - Number of additional work opportunities provided</p> <p>Indicator 19 – Number of municipalities with CWP sites by target date(s)</p> <p>Indicator 20 – Number of participants trained by target date(s)</p> <p>Indicator 21 – Number of partnerships established by target date(s)</p>	No	Four (4) targets achieved / One (1) target relating to participants being trained was not achieved

UE – Unauthorised expenditure    IE – Irregular expenditure    FWE – Fruitless and wasteful expenditure

■ Good

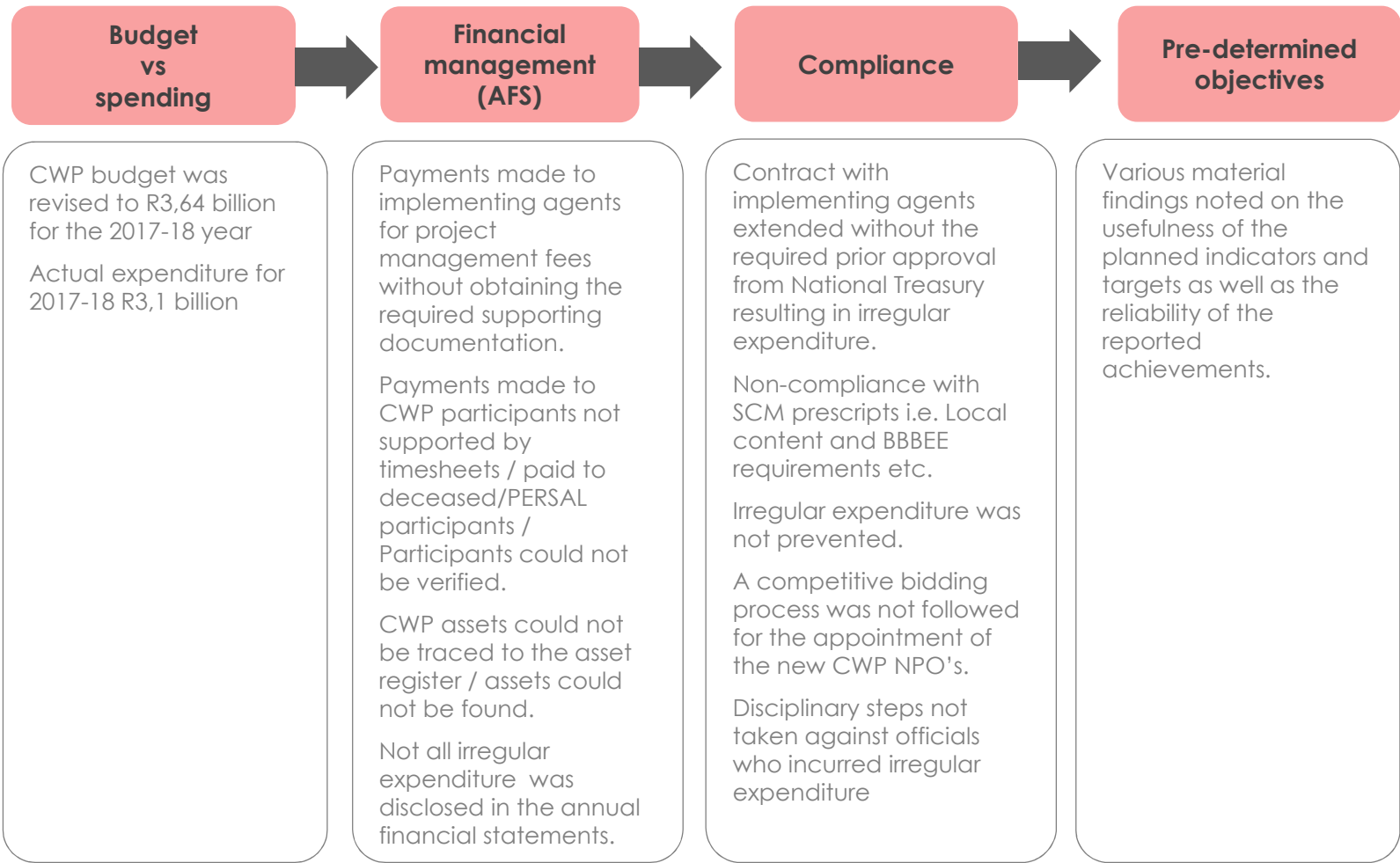
■ Of concern

■ Intervention required

# Community work programme



Programme 6 –  
Community work  
programme



### Value add audit

As part of the audit a value add assessment was performed on the training and skilling of CWP participants. The following recommendations were noted:

- The DCoG should engage stakeholders and develop guidelines on how informal training should be planned, monitored and reported including recognition thereof.
- The issuing of certificates at the completion of training by participants should be one of the deliverables when training has been conducted.
- The CWP officials should engage other stakeholders or hosting institutions on the possibility of exposing trained CWP beneficiaries to work related to training received to enhance their skills in that area.



Material findings / concerns noted



No material findings / concerns noted

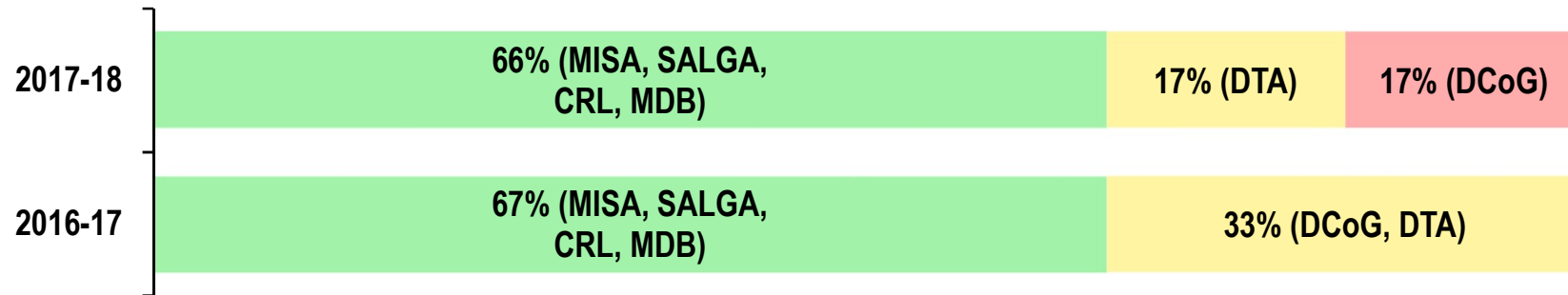
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## Financial health and financial management



# Financial health

Material uncertainty exists whether **0%** of auditees can continue to operate in future



### Key concerns identified

- DTA: Management should enhance timely remedial action to improve the cash management of the department.
- DCoG: Assessment limited to “unfavourable” overall assessment due to department receiving a disclaimer of audit opinion.

- Two or less unfavourable indicators
- More than two unfavourable indicators
- Significant doubt that operations can continue in future and/or auditee received a disclaimer or adverse opinion, which meant that the financial statements were not reliable enough for analyses



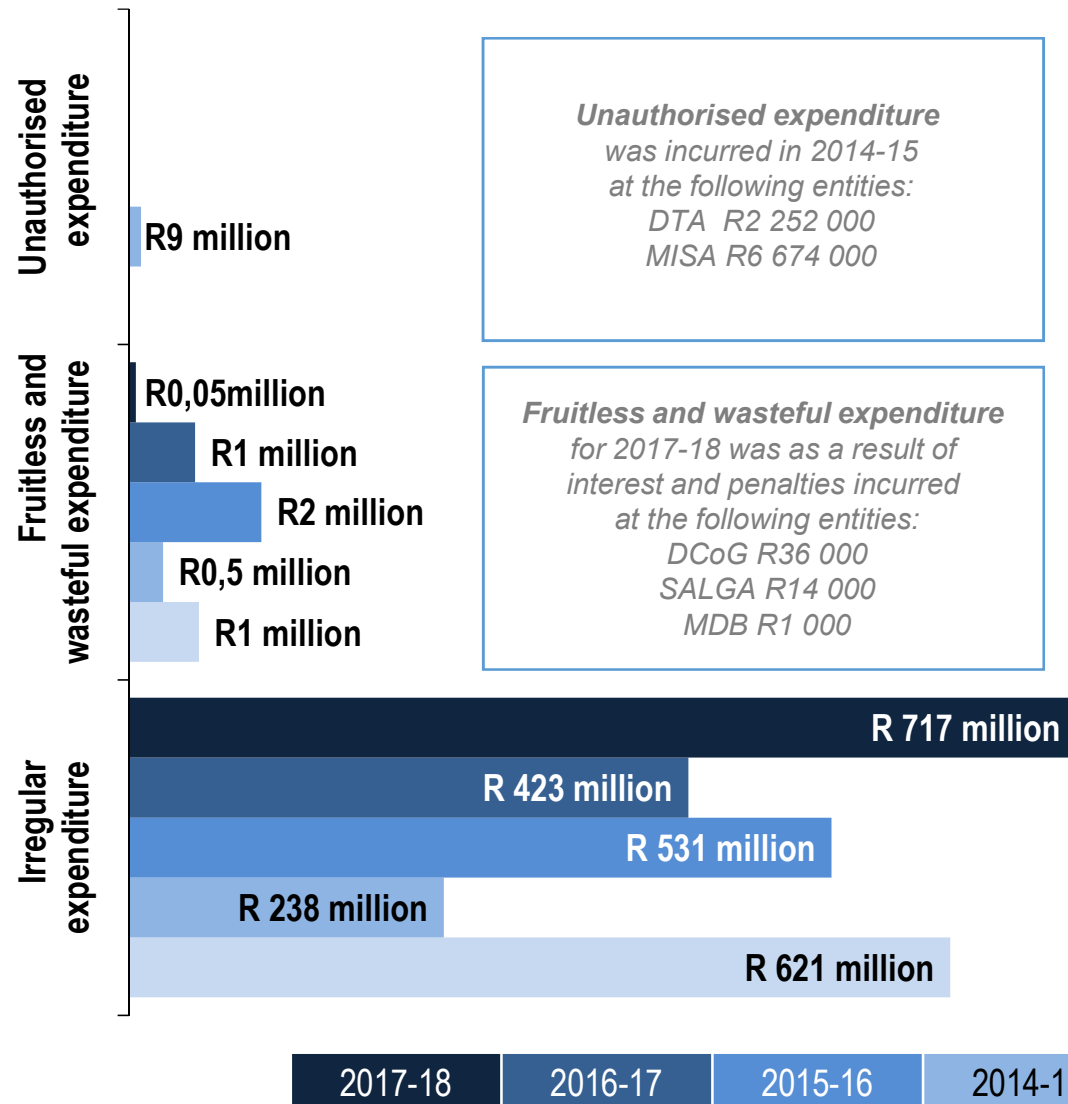
# Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 5 years

## 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*

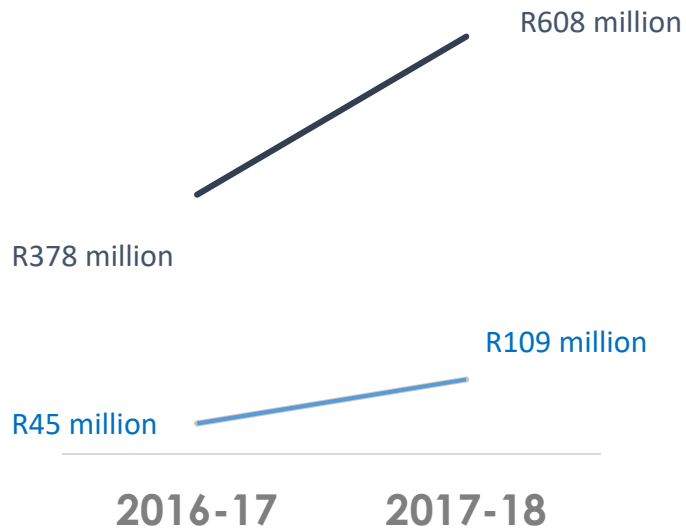


*100% of irregular expenditure incurred in the current financial year was as a result of contravention of SCM legislation*



# Irregular expenditure and supply chain management

Irregular expenditure increased from R423 million to **R717 million (70% increase)**

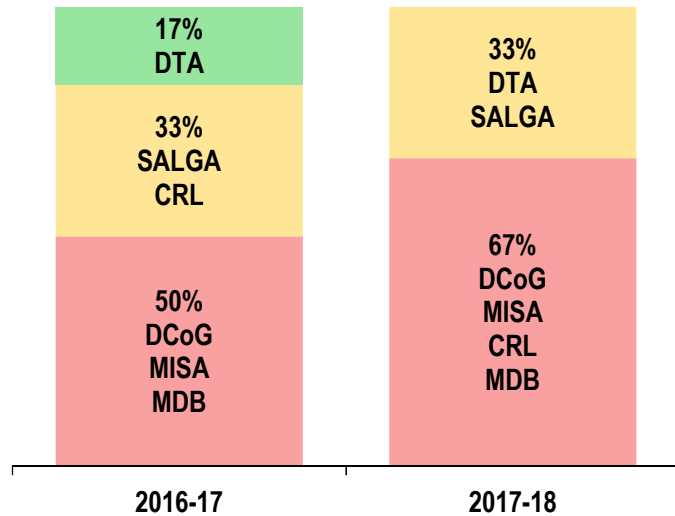


**2%** (R14 million) of the R608 million irregular expenditure includes payments made on contracts irregularly awarded in a previous year - if the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

**15%** (R109 million) of the R717 million irregular expenditure was payments/ expenses in previous years only uncovered and disclosed for the first time in 2017-18

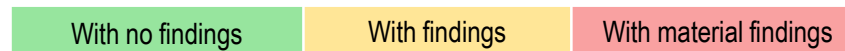
How much of the R608 million then represents **non-compliance in 2017-18?**

Based on analyses it is estimated to be 98%

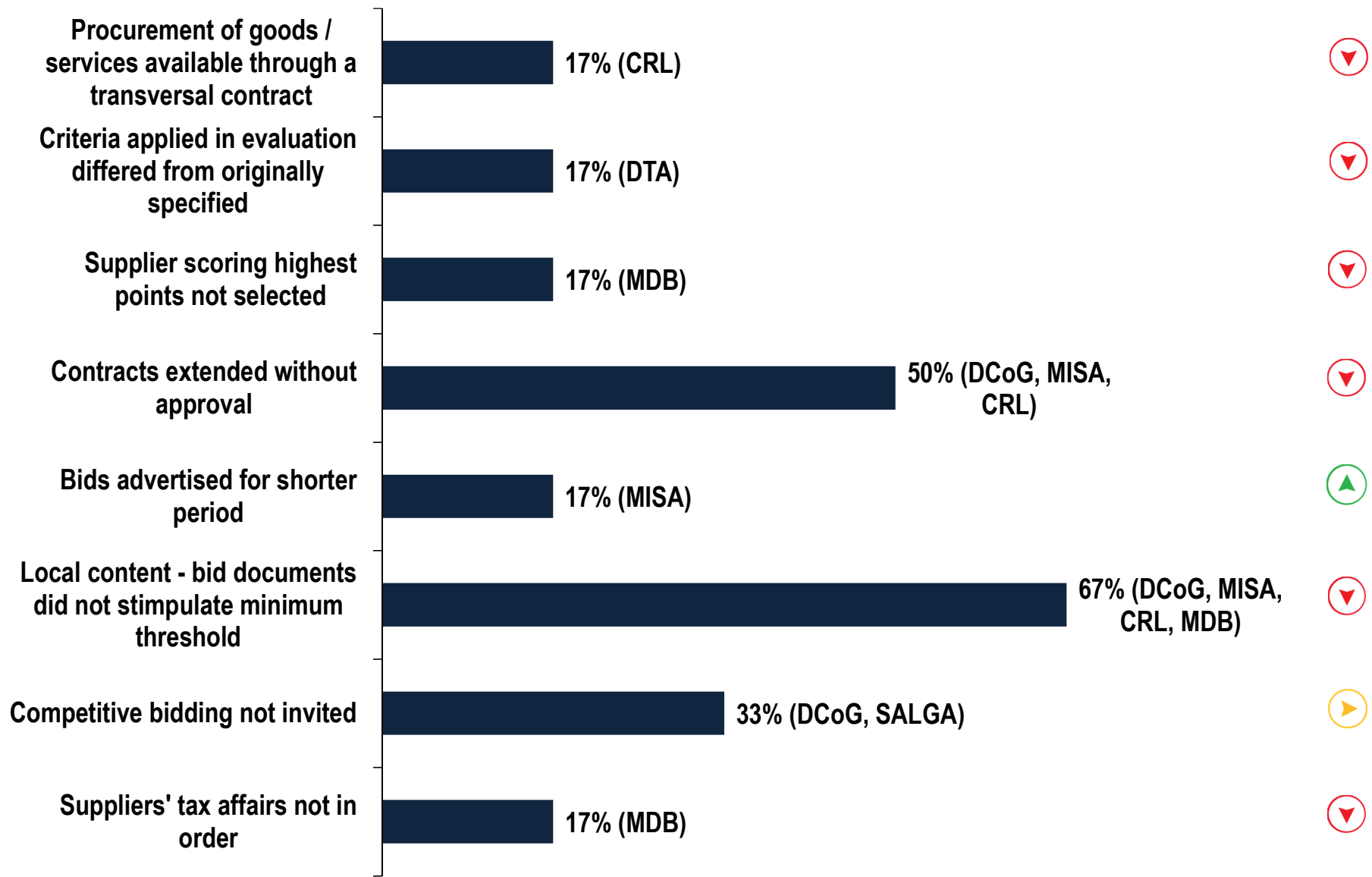


**Regression in SCM compliance (2016-17: 17% with no findings)**

Uncompetitive and unfair procurement processes at **67% material findings** and **33% non-material**



# Most common findings on supply chain management

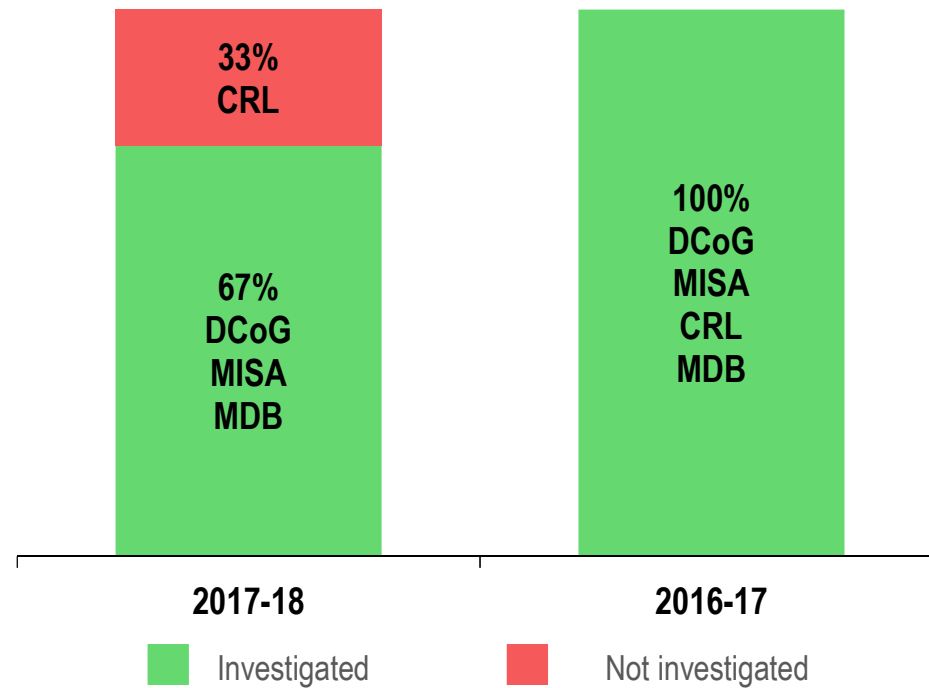




# Fraud and consequence management

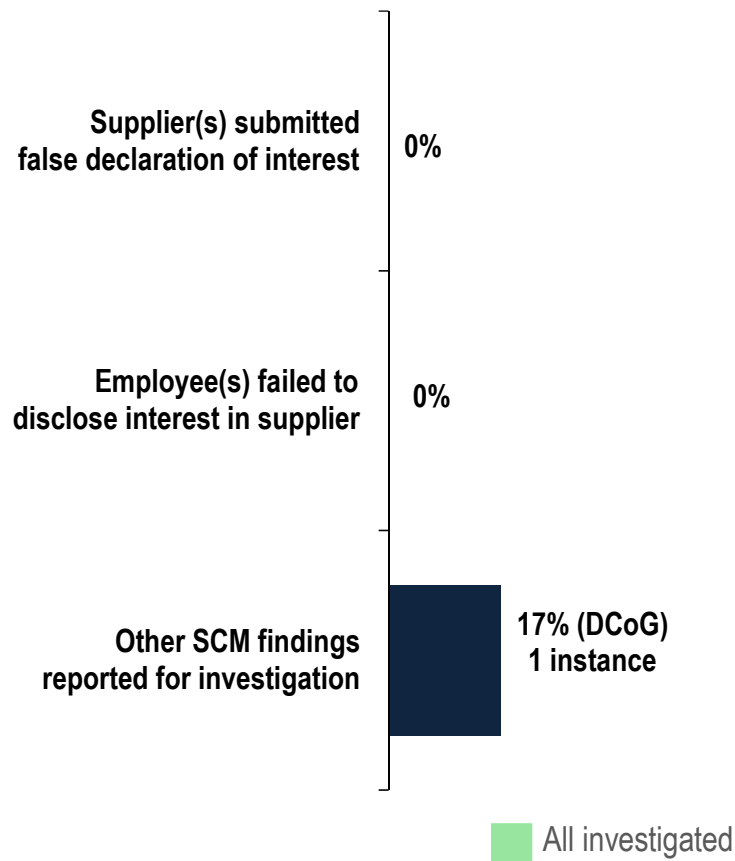
- DCoG and CRL had findings on non-compliance with legislation on consequence management

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

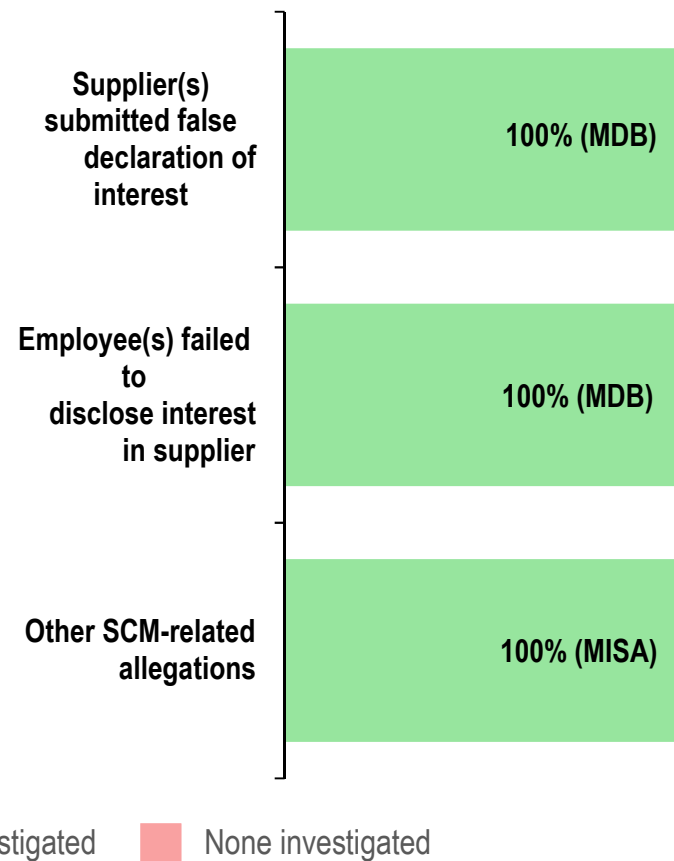


# Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2017-18 audit process (all auditees)



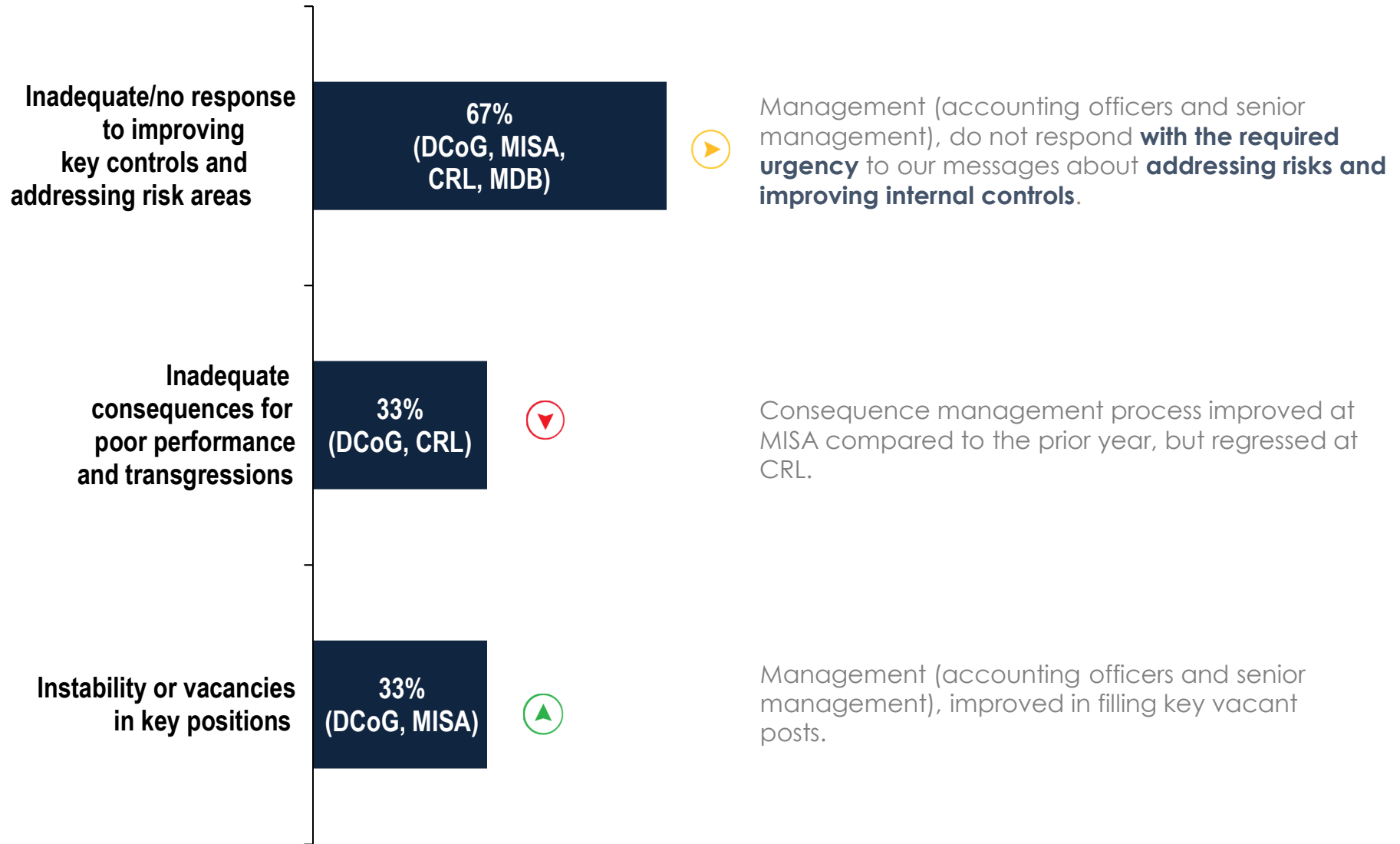
Follow-up of the previous year's SCM findings reported for investigations



■ All investigated    
 ■ Some investigated    
 ■ None investigated



# Root causes



# Recommendations/ commitments

## In progress

**DCoG** to manage and monitor the implementation of identified actions in the integrated management tool (IMT).

**DCoG** to perform monthly reconciliations between BAS, CWP MIS and the CWP Standard Bank account.

**DCoG** to implement contract management procedures to facilitate the effective management and administration of supply chain management contracts.

Project managers to report quarterly on performance of contracted service providers.

**MISA** to implement further controls to prevent and detect irregular and fruitless and wasteful expenditure.

**MDB** to monitor the implementation of SCM requirements through a checklist throughout the year.



# Recommendations/ commitments

## Not implemented

**DCoG** to prepare quarterly and annual Financial statements with complete supporting schedules and submit in time to management and internal audit for review before sign off by the DG and submission to NT and the AGSA as required.

**DCoG** to improve compliance with legislation, policies and delegations through the implementation of adequate controls and appropriate consequence management actions to curb irregular expenditure.

**DCoG** to review payments on an ongoing basis to identify unauthorised, irregular and fruitless and wasteful expenditure. Investigate and make recommendations on corrective action. Facilitate the implementation of the approved actions in collaboration with relevant role players.

**DCoG** to prepare quarterly performance reports and annual reports as required and submit to internal audit for review before final sign off by the DG and submission to the AGSA and Minister as required.

**DCoG** to appoint a service provider in 2017-18 to address the CWP asset qualification i.e. physically verify assets, perform valuation of assets and ensure asset registers are complete.





CORRUPTION

C

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M

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D

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A

MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption



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