



PFMA 2016-17



Budgetary review and recommendations report

Portfolio Committee on Finance

3 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).



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 areas 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:

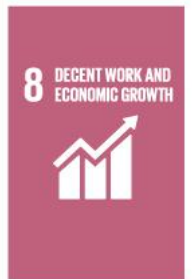
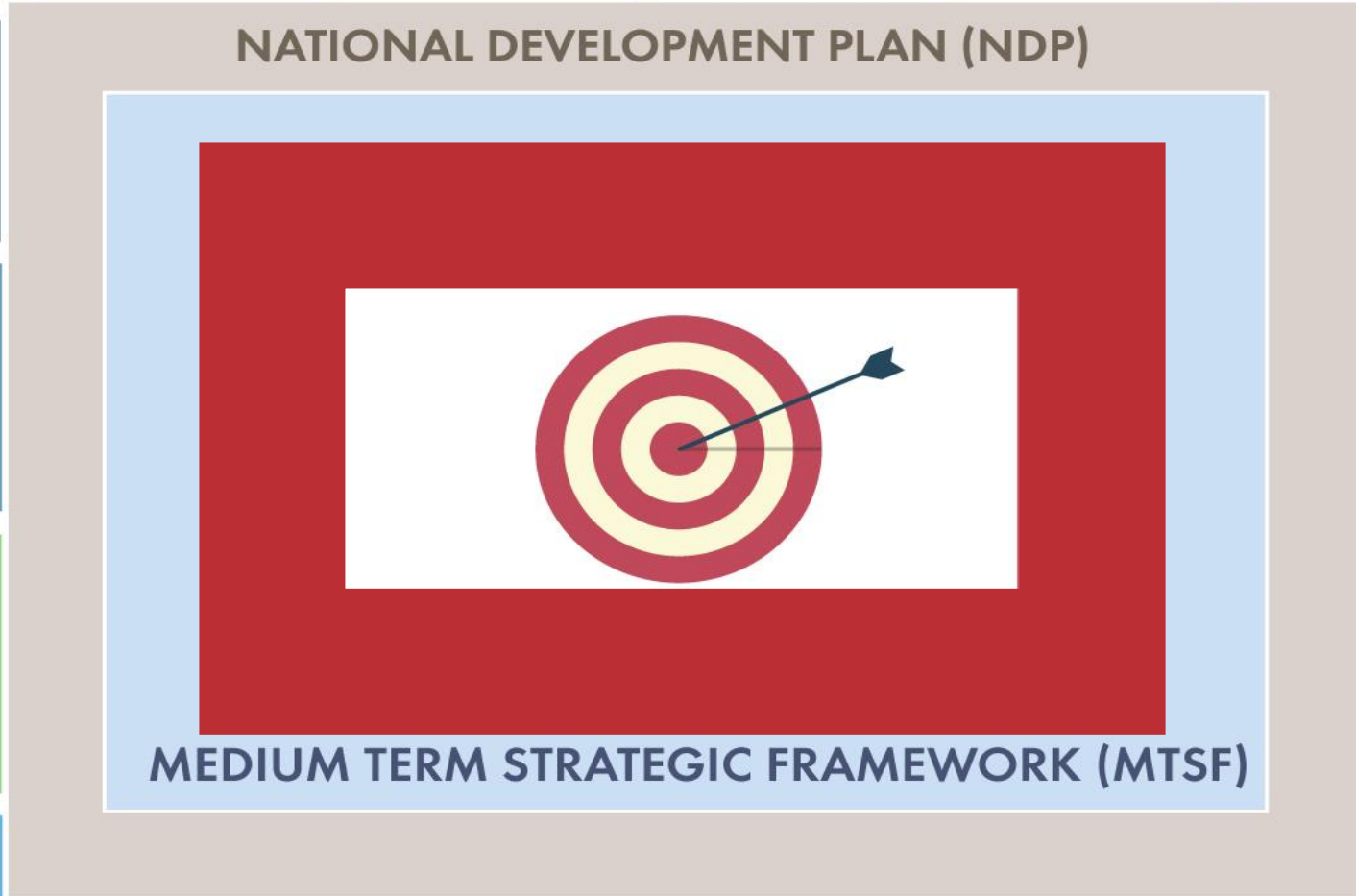
- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements.

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.





ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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








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The percentages in this presentation are calculated based on the completed audits of 12 auditees, unless indicated otherwise

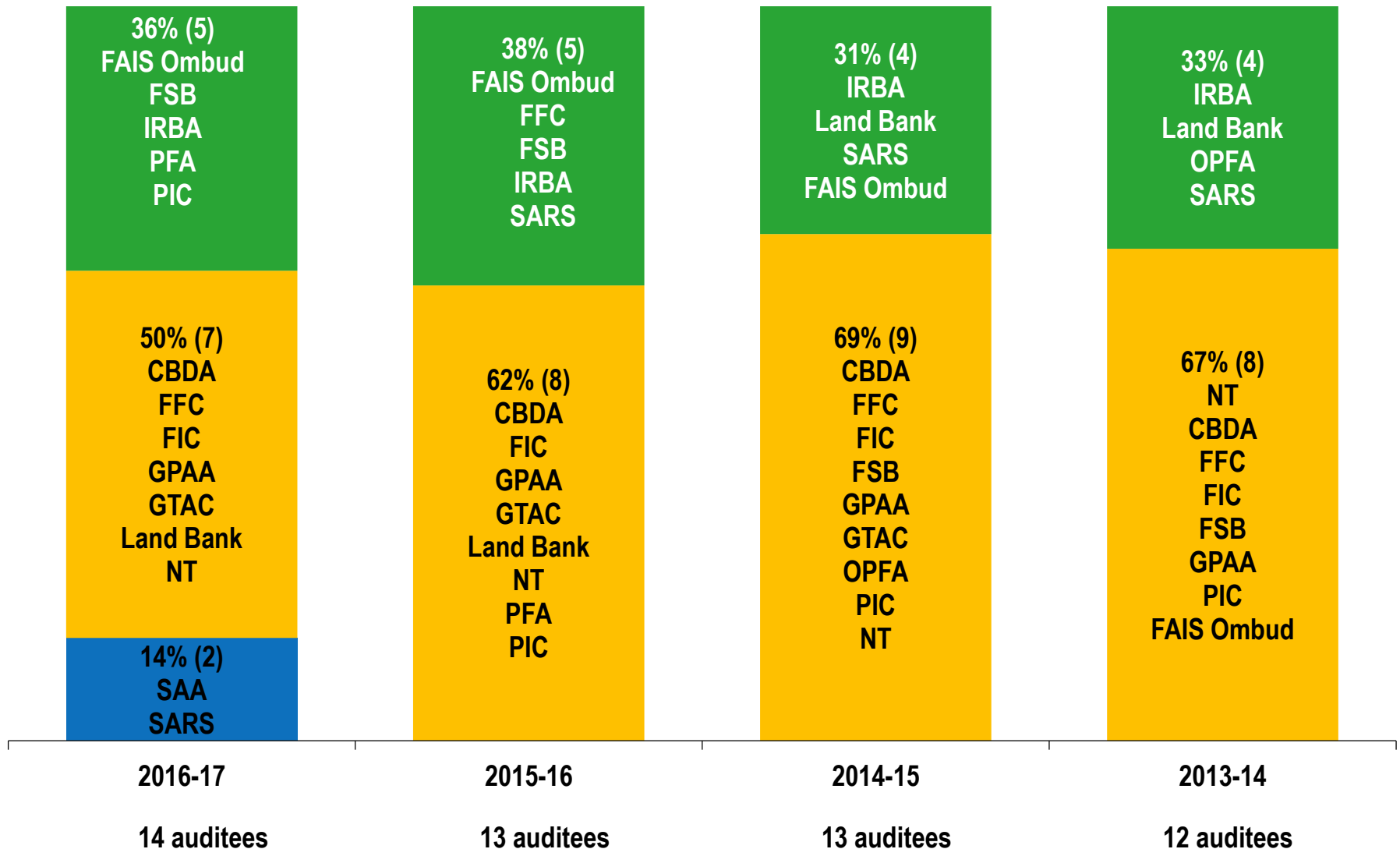
The overall audit outcomes are indicated as follows:

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

Movement over a period is depicted as follows:



Audit outcomes of portfolio over four years



Management and delivery on key programmes – spending, performance and reporting - GPAA

Programme	Budget spent	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators			Achievement of targets – from performance report
				Indicator	Not useful	Not reliable	
Support Services	76%	Yes	None	No findings			All targets achieved
Benefits administration	78%	Yes	None	No findings			89% of targets achieved

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

■ Good

■ Of concern

■ Intervention required



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Management and delivery on key programmes – spending, performance and reporting - NT

Programme	Budget spent	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators			Achievement of targets – from performance report
				Indicator	Not useful	Not reliable	
Economic policy, tax, financial regulation & research	97%	Yes	None	No findings			100% of targets received
Asset & liability management	97%	Yes	None	No findings			90% of targets achieved
Civil & military pensions, contributions to funds & other benefits	99%	No	None	No findings			100% of targets received
Technical & management support & development finance	96%	No	None	No findings			96% of targets achieved

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



Good



Of concern



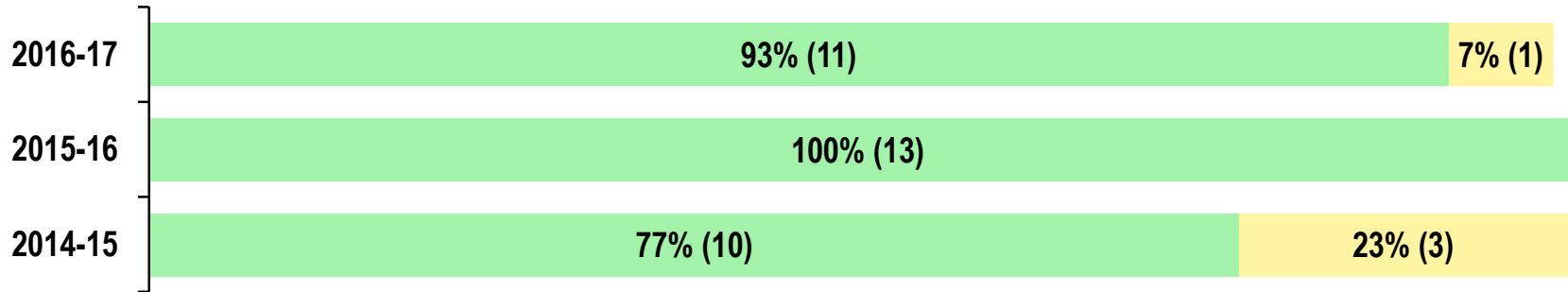
Intervention required



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Stagnation in financial health




No material uncertainty exists whether the auditees can continue to operate in future.



No key concerns impacting the financial health of the auditees were identified.

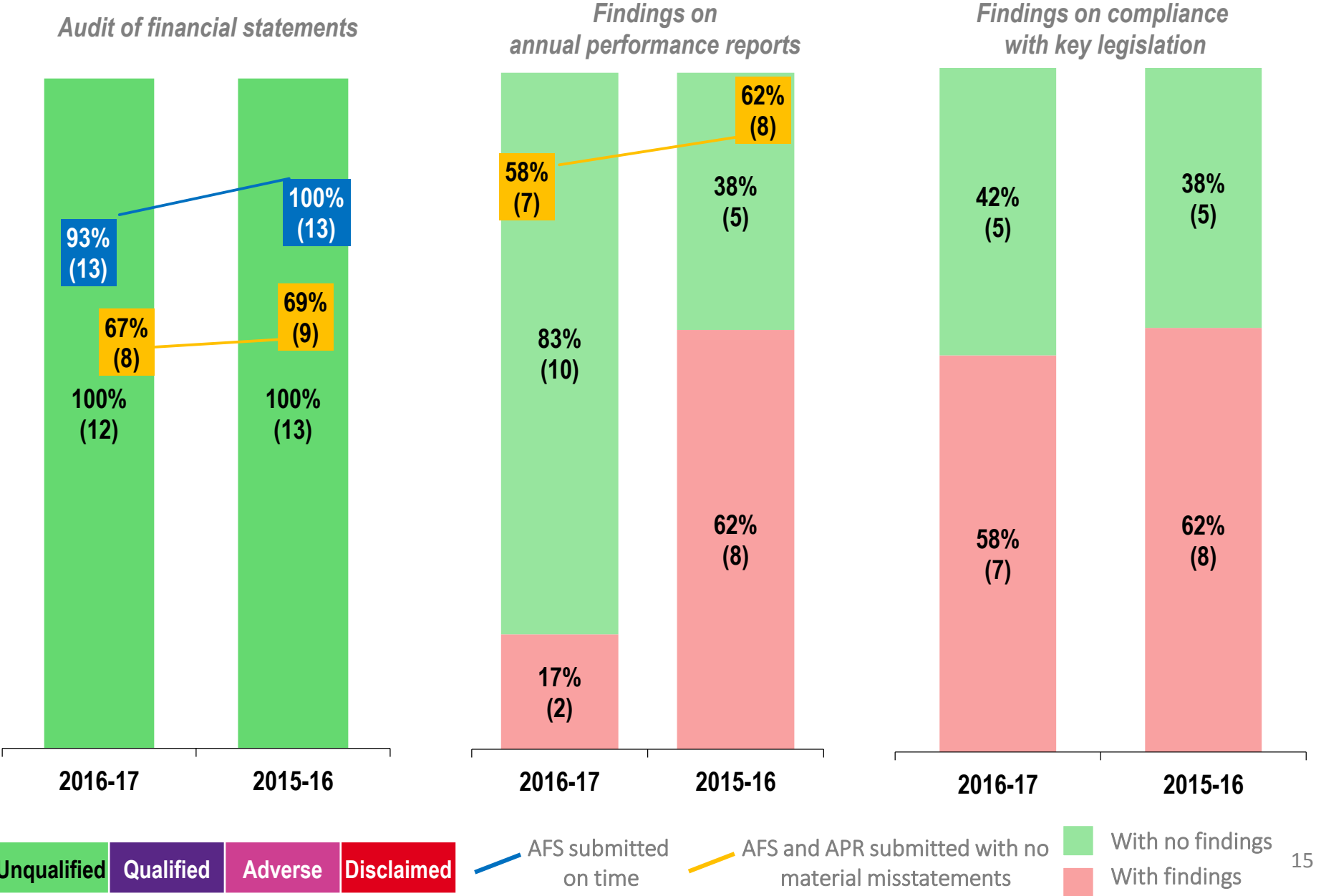
Outstanding audits not included in the above:

SAA
SARS

-  Two or less unfavourable indicators
-  More than two unfavourable indicators
-  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



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



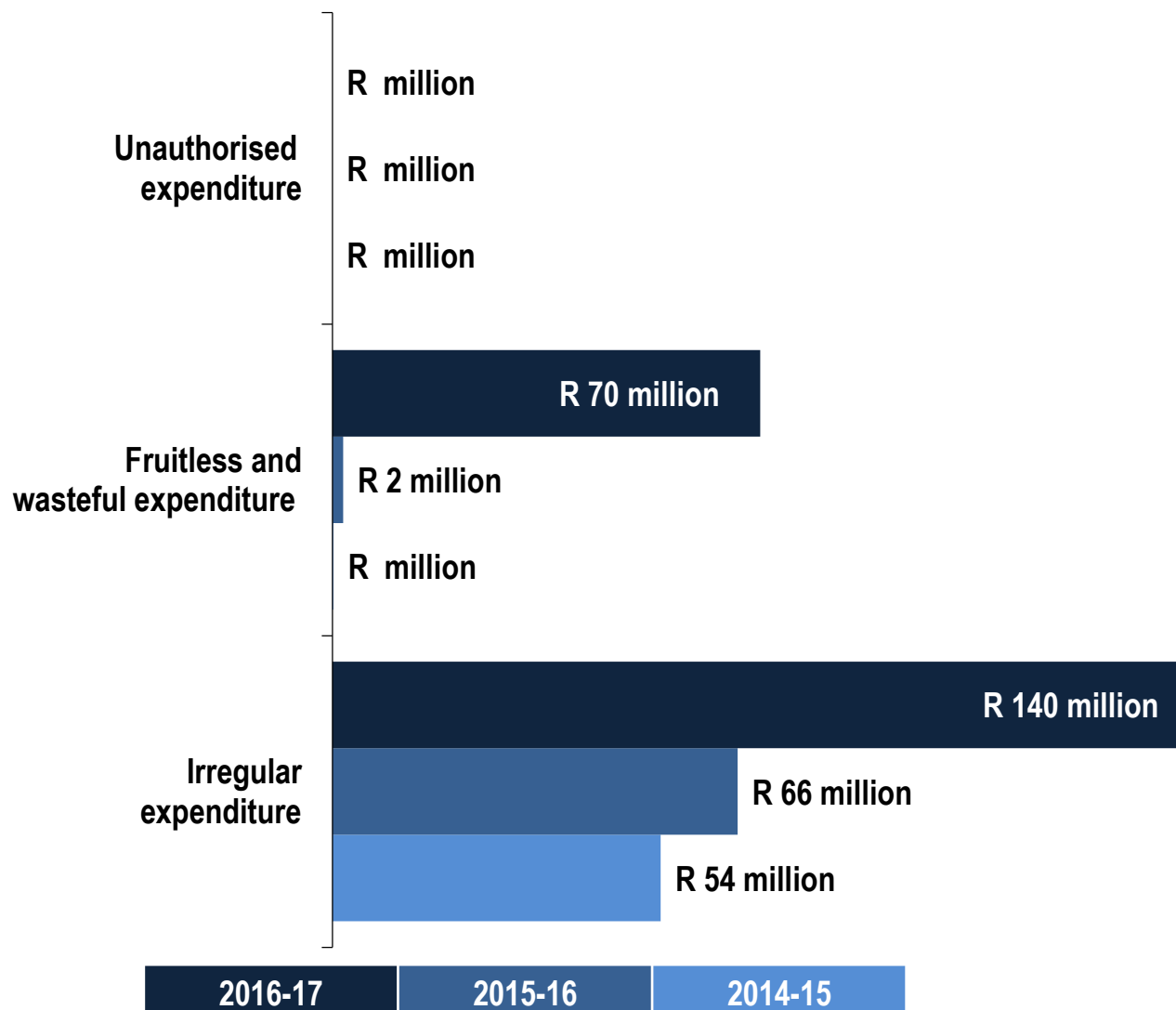
Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years

Definition

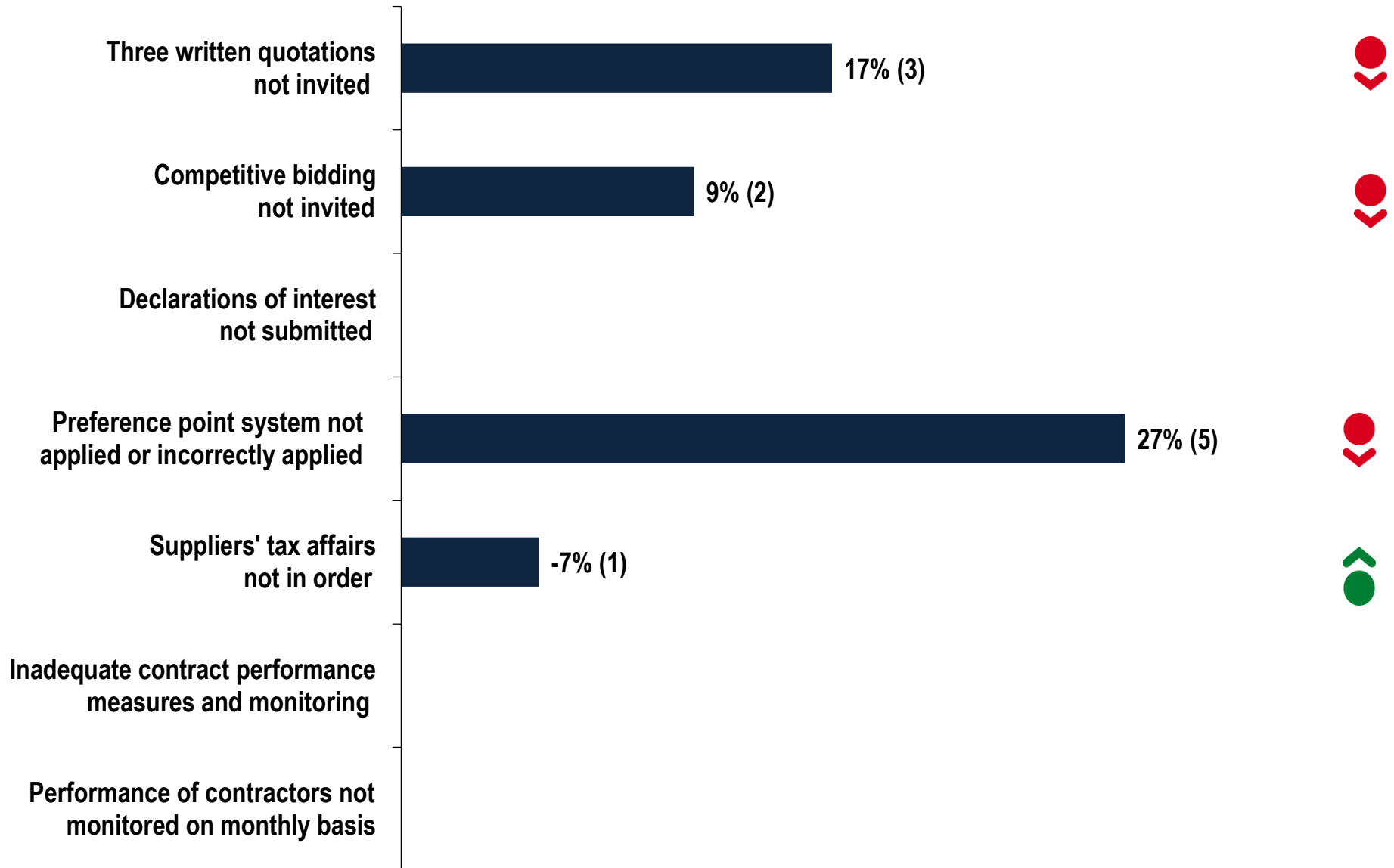
Expenditure not in accordance with the budget vote/ overspending of budget or programme

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



Most common findings on supply chain management



Fraud and consequence management

- One auditee had findings on non-compliance with legislation on consequence management

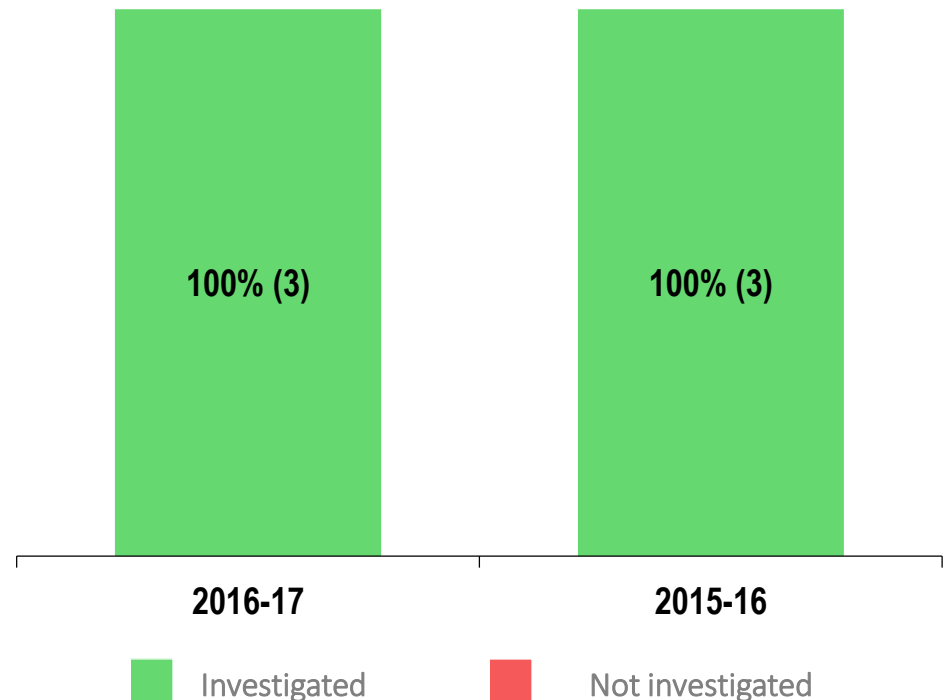
Allegations of financial and/or fraud and SCM misconduct

Allegations not investigated

Investigations took longer than three months

Allegations not properly investigated

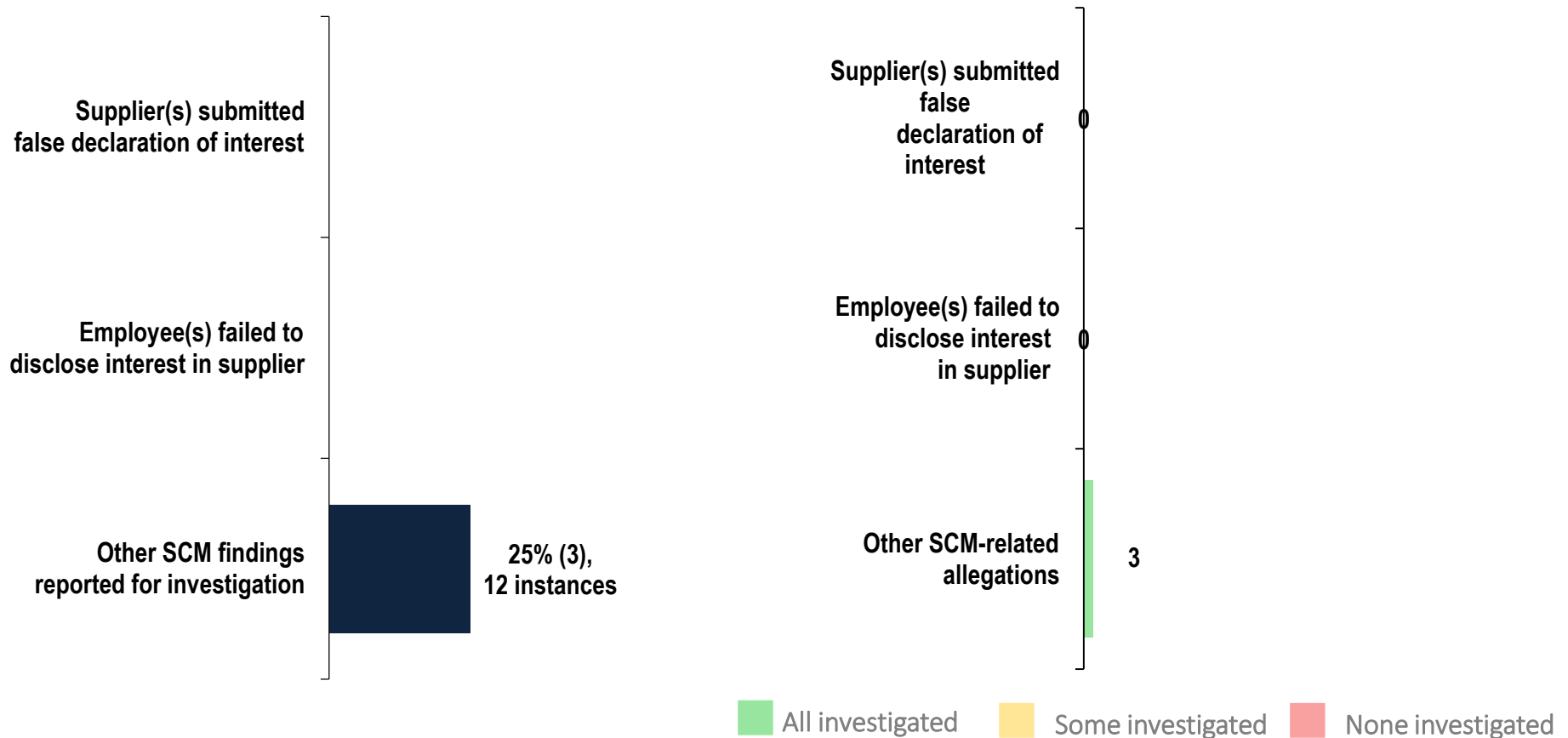
Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation



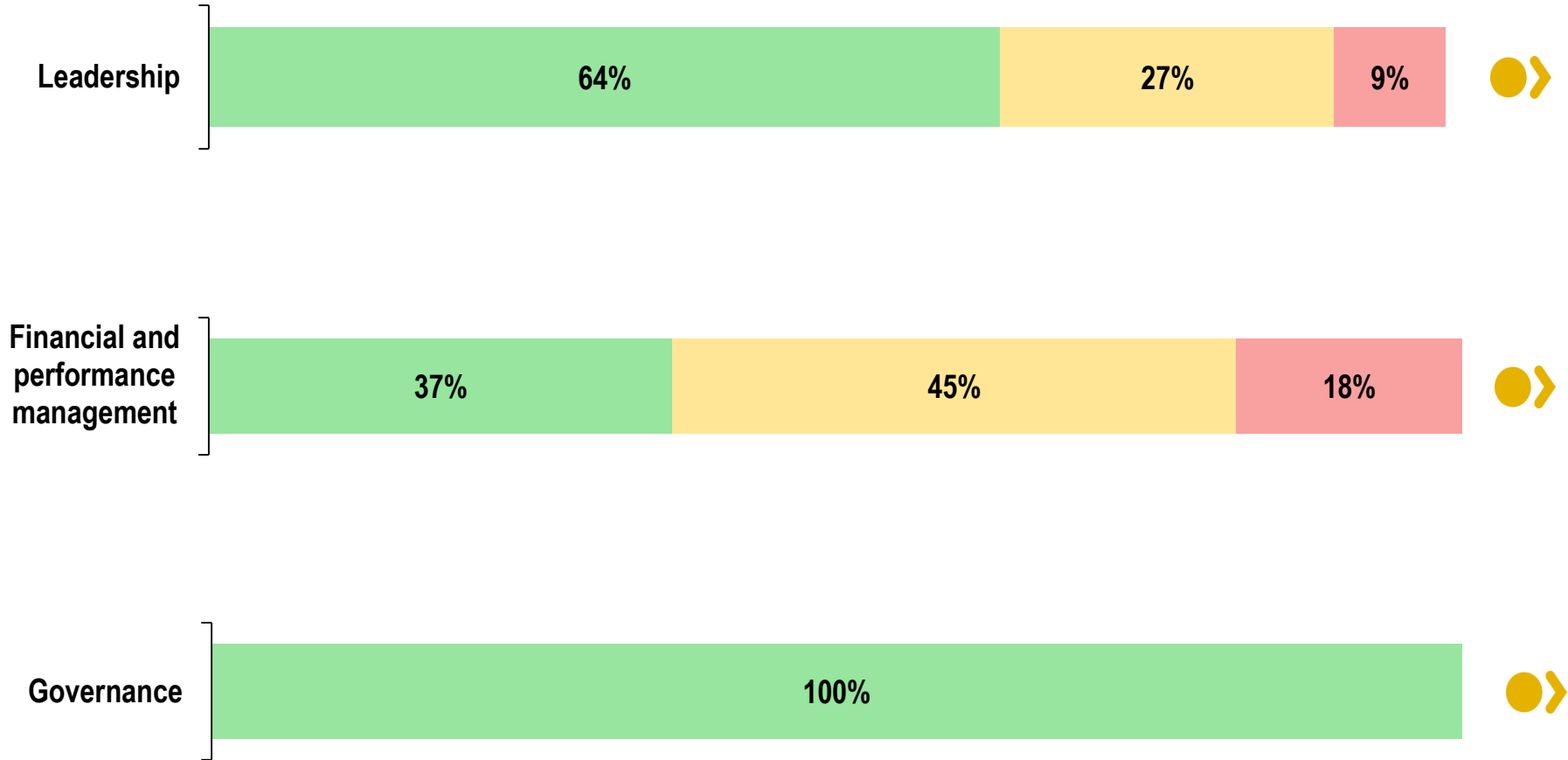
Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2015-16 audit process
(all auditees)

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



Status of internal control



CBDA is excluded from this assessment.



Good



Of concern



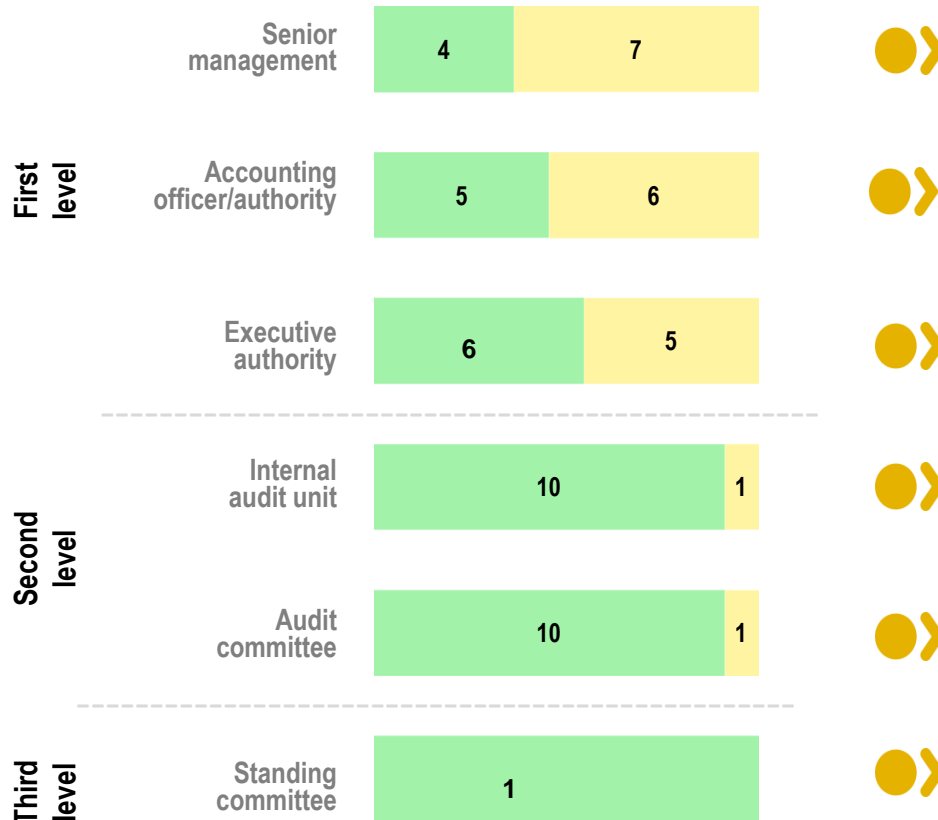
Intervention required



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Assurance levels

Assurance



CBDA is excluded from this assessment.



Root causes

Slow response to improving key controls and addressing risk areas

100% (7)



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

14% (1)



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

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



Follow up on commitments and proposed recommendations

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

Status of key commitments

Twin Peaks model:

Monitoring of the coordination and implementation of the Twin Picks to ensure that the audit outcomes do not regress

IFMS project:

Terms of References for other key governance structure were crafted in order to signify the mandate of programme structures and promoting the clarity of roles.

The lead sites for implementation were identified and finalised, Oracle OSM Negotiation for Software license contract was concluded.

Procurement reform

Transforming government procurement to make it more cost-effective, transparent and equitable remains an area of significant importance.

Not implemented In progress Implemented New

We have not been able to meet with the minister to discuss the 2016/17 audit outcomes, as well as the status of the implementation of the above commitments. Due to the extent of repeat findings, we anticipate that the minister would need to reinforce a number of the prior year's commitments.

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

1. Engage with the department and entities on the action plans to ensure that it improves the audit outcomes of all entities within the finance portfolio in respect of financial information, performance information and compliance with legislation.
2. Request input from the department on the way forward regarding the Integrated Financial Management System (IFMS) project and what the department will be doing differently to ensure that this critical project is delivered timely.
3. Request input from the department, Office of the Chief Procurement Officer (OCPO), in respect of the strategic procurement framework developed for government, tailored for the needs of different forms of procurement.
4. Request committee to consider the effective date of implementation of Twin Peaks to the start of the financial year.



Key focus areas for committee to probe in review of annual reports prior to final approval of budget of portfolio.

Performance reporting:

- reasons for non-achievement of targets;
- what was programme spending used for if targets not achieved;

Financial statements:

- Contract management – extensions /variation in contracts resulting in “evergreen” contracts
- Consequence management for staff that permit the incurrence of irregular and fruitless and wasteful expenditure and recovery mechanisms

General

- IT contracts (system development) within the finance portfolio
- Procurement – ensuring full compliance with applicable legislation to comply and testing market prior to contract extensions
- Detailed approved project plan with set milestones and due dates for IFMS accompanied by an approved yearly budget for each significant deliverable



Status of audits that were outstanding at 31 August 2017

- **SARS**

The audit is still not finalised owing to matters still under dispute and consultations.

- **SAA**

We have not received financial statements yet for audit due to SAA not meeting going concern requirements in terms of IFRS. We have been auditing SAA based on draft financial statements that were not formally submitted. Based on our engagements with National Treasury and the board, it looks like going concern can be addressed by end of September. We are anticipating that the AFS may be submitted end of September and the audit report can be issued at the end of November. As this is the first audit, there are lot of findings that we have identified in the draft financial statements and management is still working on resolving them before they submit the AFS by end of this month.



Our revised audit methodology



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**.



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



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

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, with consequential regression in audit outcomes

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 those matters that add value when measures and action plans have been put in place well in advance to mitigate risks

Key control engagements/status of records review – focus areas





CORRUPTION

C

=

M

+

D

-

A

MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption

Source: Robert Klitgaard (academic anti-corruption research)

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