Budgetary review and recommendations report | PFMA 2018-19

Briefing to portfolio committee on Department of Planning, Monitoring and Evaluation

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 in its portfolio, taking into consideration the objective of the committee to produce a ***Budgetary review and recommendations report*** (BRRR).

The 2018-19 audit outcomes

Our annual audit examines three areas

THE AG's ANNUAL AUDITS EXAMINE

3

AREAS:

1 FAIR PRESENTATION AND ABSENCE OF SIGNIFICANT MISSTATEMENTS IN FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL LAWS AND REGULATIONS GOVERNING FINANCIAL MATTERS

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
- 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 annual performance plans
- 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

Important to note

The percentages in this presentation are calculated based on the **completed audits of 5 auditees**, unless indicated otherwise. There were no outstanding audits as at 31 July 2019 in this portfolio.

Audit outcomes are indicated as follows:

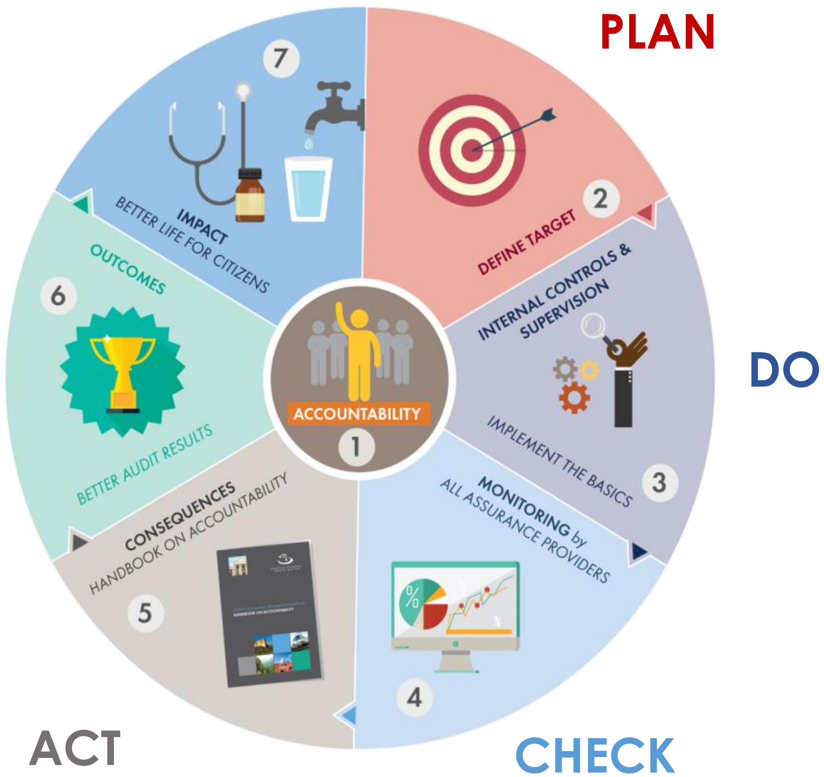
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits

Movement from the previous year is depicted as follows:

- Improved
- Unchanged
- Regressed

List of auditees in the Portfolio:

Department of Planning Monitoring and Evaluation (DPME)
Statistics South Africa (STATS SA)
Government Communication Information Systems (GCIS)
Brand South Africa (Brand SA)
Media Development and Diversity Agency (MDDA)



Act now on accountability

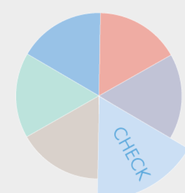
Constitution requires from public administration:

- High standard of **professional ethics**
- Promotion of **efficient, economic and effective use of resources**
- **Accountability**
- Fostering of **transparency**

PFMA prescribes obligations of accounting officers and authorities to:

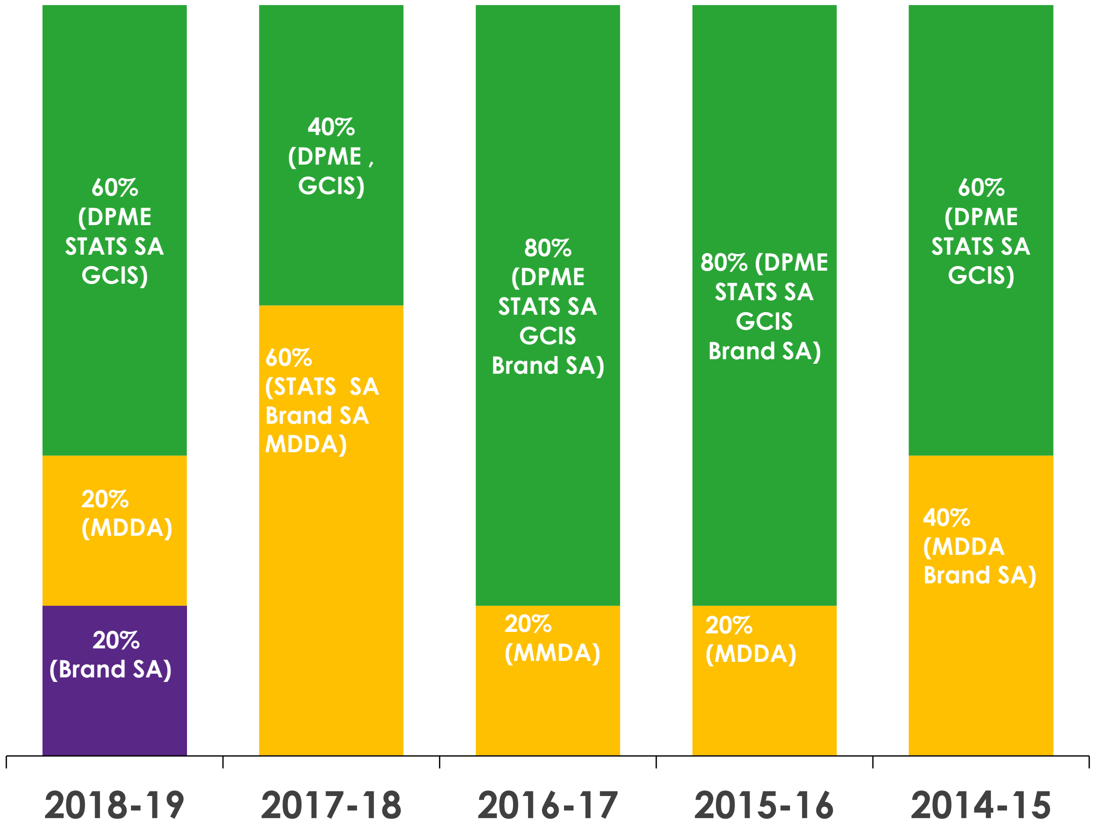
- **Plan and budget** for delivery
- Use resources in **effective, efficient and transparent** manner

- Establish and implement **internal controls to prevent and detect** irregularities, losses and financial misconduct **and effectively deal with any breaches**



- **Report and account** on regular basis

Audit outcomes of portfolio over five years



Movement	
▲	1
►	3
▼	1
Outstanding audits	0

- Continuous involvement by the accounting officers of DPME, GCIS and Stats SA in the audit process and effective checks and balances are the reason behind desired outcome.

Key concerns on the audit outcomes of the portfolio over five years

Brand SA

- Inaccurate reporting of payables due to a new financial system being implemented.
- Internal controls and daily checks and balances, were not effective in ensuring that set targets were reported correctly and compliance with Supply Chain Management regulations strictly monitored.

MDDA

- Instability in key role players to ensure proper checks before information is submitted for preparation of AFS and Performance information had an impact on non-compliance with the SCM regulation.

Credible financial reporting

Financial statements

	Movement	2018-19	2017-18
Submission of financial statements by legislated date		100%	100%
Quality of initial submission for auditing		60%	60%
Quality of final submission after auditing		80%	100%

***20 % (MDDA)** Achieved unqualified opinion only because they corrected all misstatements identified during the audit*

Qualification area

- Brand SA was qualified on trade and other payables due to a change in financial systems during the 2018/19 financial year. This resulted in the auditors not being able to obtain records that trade and other payables were accounted for correctly.

Credible performance reporting

Performance report

	Movement	2018-19	2017-18
Quality of initial submission for auditing	▼	40%	40%
Quality of final submission after auditing	►	80%	80%

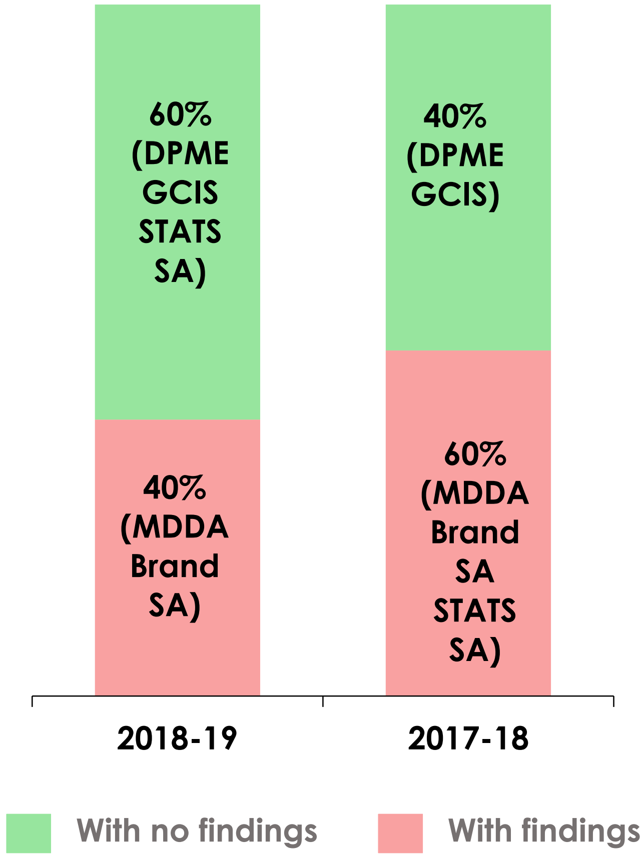
40% (DPME and Brand SA) *had no material findings only because they corrected all misstatements identified during the audit*

20% (MDDA) *had material findings because clear plans were not set and reported correctly.*

Reliable reporting of achievements (DPME, STATS SA, GCIS, BRAND SA)	80%	80%
Usefulness of performance indicators and targets (DPME,STATS SA, GCIS, BRAND SA)	80%	80%

Compliance with legislation

Findings on compliance with key legislation



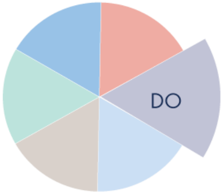
Top three non-compliance areas

- Non-compliance with procurement and contract management regulations, including treasury regulations – Deviation from the SCM process. (Brand SA)
- Submitted financial statements had significant errors which were identified during the audit, entities managed to correct some while other errors were not corrected(BRAND SA, MDDA)
- Prevention of irregular expenditure – deviation from the SCM process (BRAND SA , MDDA)

Status of internal control

Area	Control	Good	Of concern	Intervention required
Leadership	Effective leadership	80% DMPE, MDDA. STATS SA, GCIS	20% Brand SA	
Financial and performance management	Proper record keeping	40 % STATS SA, GCIS	40% DPME, MDDA	20% Brand SA
Financial and performance management	Daily and monthly controls	60% DPME, STATS SA, GCIS	40% MDDA, Brand SA	
Financial and performance management	Review and monitor compliance	60% DPME STATS SA, GCIS		40% MDDA, Brand SA
Governance	Risk management	40% Brand SA, GCIS, STATS SA	20% DPME	20% MDDA

Good Of concern Intervention required



Key drivers of internal control

Brand SA	❑ No proper recording keeping to support financial statements e.g payables. ❑ Ineffective compliance monitoring specifically related to the SCM process, that led to irregular expenditure
MDDA	❑ Reported achievements on targets not supported by proof of delivery ❑ Ineffective compliance monitoring specifically related to the SCM process, that led to irregular expenditure ❑ Key positions vacancies had an impact on risk management controls, e.g Internal audit and CFO were vacant.

Assurance provided

First level	Senior management	20% GCIS; 80% DPME, MDDA, Brand SA, STATS SA
	Accounting officer/authority	60% DPME, STATS SA,GCIS; 40% MDDA, Brand SA
	Executive authority	100% DPME, MDDA, Brand SA, STATS SA, GCIS
Second level	Internal audit unit	80% DPME, Brand SA, GCIS, STATS SA; 20% MDDA
	Audit committee	100% DPME, MDDA, Brand SA, STATS SA, GCIS

- Provides assurance
- Provides some assurance
- Provides limited/ no assurance
- Not established

AGSA Status of records review - Engaging accounting officers in conversations that are insightful, relevant and have an impact

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

Reflections

Status of records review was performed on the departments and entities internal controls except for **Brand SA** as at 31 March 2019. Despite efforts in providing management with an early warning, internal control deficiencies were still identified during the annual audit:

- **MDDA** - Key vacancies at CFO and internal audit was highlighted. key internal control deficiencies identified included reconciliations not being performed for cash and cash equivalents and creditors. Proper asset verifications were not done at the time of the SORR and assets were recorded on the fixed asset register with no values. Contract management was also not at the desired level with inadequate monitoring of contracts that expire in the near future to start procurement processes.
- **BRAND SA** –The Although a request for information was sent, due to the instability at senior management, no information was received to complete the SORR

Accounting officers/authorities are encouraged to participate more and make use of this initiative to assist in improving their internal control environment by proactively addressing the risks raised during the audit process.

Way forward

Will continue with proactive and continuous engagement to enable safeguarding against vulnerable areas of risk

Financial health and financial management

Financial health

No Material uncertainty exists as **100%** of auditees in the portfolio can continue to operate in future

Expenditure management

- Brand SA – the entity on average, only paid invoices within 56 days for 2018/19, compared to the 24 days of the 2017/18 year

Asset and liability management

- Brand SA – it is concerning that the entity incurred a deficit of R18 139 493 compared to the deficit of R9 031 849 for the previous financial year. The deficit is largely attributable to the increase in employee cost, activation, branding and collateral costs
- STATS SA - Deficit for the year – this correlates with an over-spending of the auditee's operating expenditure budget due to the budget cut on compensation of employees. Measures must be implemented to address this situation to ensure sustainable service delivery and financial viability
- Accrual adjusted current liabilities exceeding current assets for STATS SA indicating liquidity issues, which means that the department will not be able to pay their creditors as payments become due (Historic unauthorised expenditure which has an effect on budget cuts by National Treasury)

Cash management

- Brand SA – the creditors as a % of cash is significantly high at 91.4 % in comparison with the 34,5% of the prior year due to an 150% increase in creditors at year end, which amounted to R24,3 million
- STATS SA - Negative cash balance: possible cash flow constraints resulting in a higher risk in the event of financial set-backs and the ability of the department to meet its obligations to provide basic services and its financial commitments will be compromised
- STATS SA – The department currently has unauthorised expenditure which was mostly on compensation of employees. This was due to budget reductions that exceeded the vacancy rate in the 2018-19 financial year. This will most likely reoccur if National Treasury does not increase the budget on compensation of employees

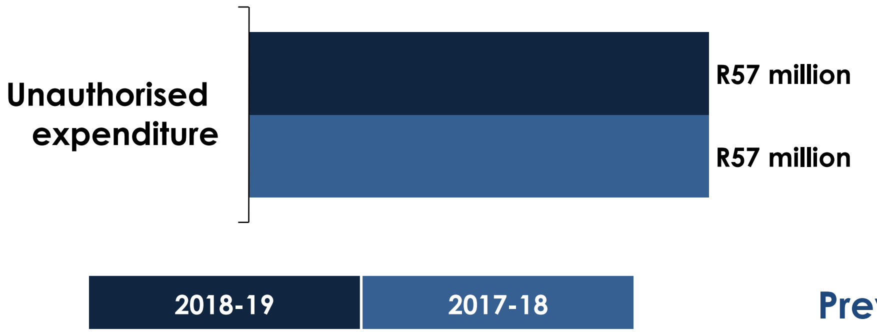
Of concern Intervention required

Unauthorised expenditure decrease over 2 years

Definition

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

Unauthorised expenditure incurred by the department

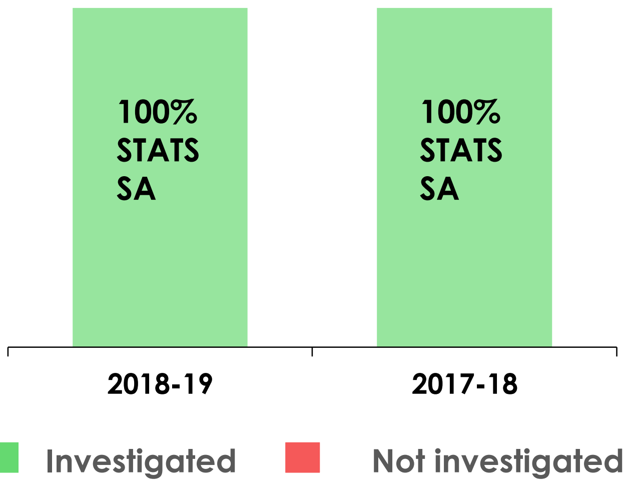


- *STATS SA - The total balance in the annual financial statements is as follows;*
  2018-19 – R 121, 213, 000
  2017-18 – R 64, 073, 000

Nature of unauthorised expenditure

- *R5,528 million was due to payments made towards goods and services which exceeded the budget.*
- *R2,747 million was due to the Kwa Zulu Natal Office of the premier requesting the department to conduct a Citizen Satisfaction survey. There was a shortfall in the money received from the Office of the Premier.*
- *R48, 865 million was due to overspending on the budget on compensation of employees*
- *None of the departments and other entities incurred unauthorised expenditure*

Previous year unauthorised expenditure reported for investigation

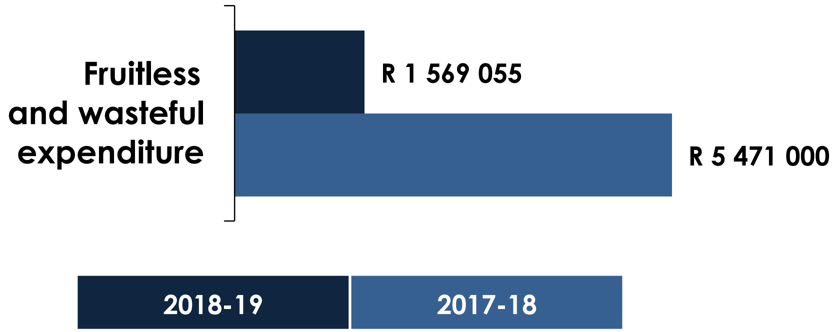


Fruitless and wasteful expenditure expenditure decrease over 2 years

Definition

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

Fruitless and wasteful expenditure incurred by entities in portfolio

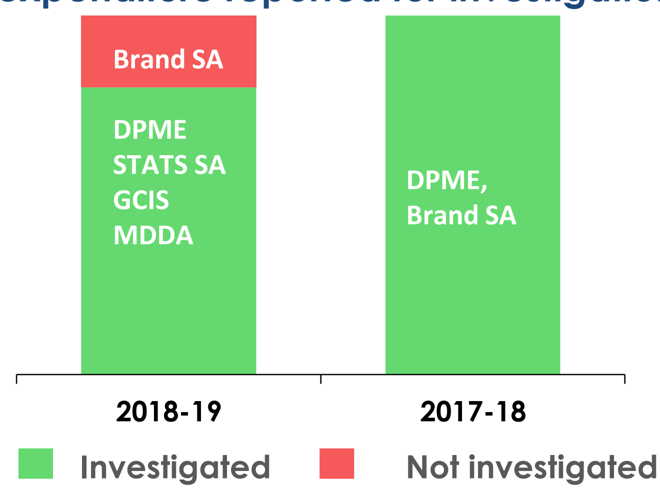


- *All entities except MDDA incurred fruitless and wasteful expenditure*
- *Brand SA (R1 460 055) - Prepayments made of talent modules system not implemented*
- *DPME (R43 000)- Late cancellations on flights and vehicle damages*
- *STATS SA (61 000) Late cancellations on flights*
- *GCIS (R5000) – Late cancellations on flights*

Nature of the fruitless and wasteful expenditure

- *The majority of the disclosed fruitless and wasteful expenditure for the current year is a prepayment of talent modules system (HR system) not implemented related to Brand SA.*

Previous year fruitless and wasteful expenditure reported for investigation

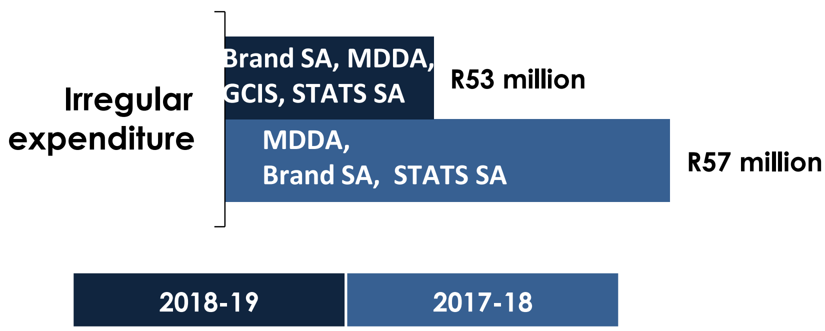


Irregular expenditure decrease over two years

Definition

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

Irregular expenditure incurred by entities in portfolio

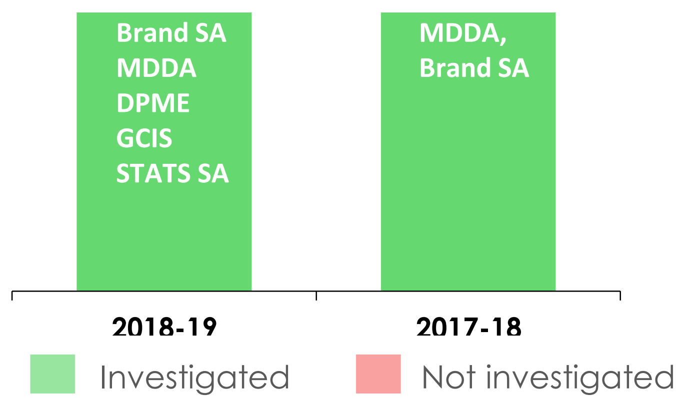


- *Brand SA (R13 537 million)- SCM process not followed*
- *MDDA (R39 126 million) – SCM process not followed*
- *DPME (R152 000) - Cost containment limit on accommodation expenses exceeded.*
- *GCIS (R54 000) – Expenditure on contracts without approved extension*
- *STATS SA (R169 000) – Expenditure on contracts without approved extension*

Nature of irregular expenditure

- *The nature of the irregular expenditure related to irregular appointment of suppliers and deviations from SCM regulations that did not meet the criteria.*

Previous year irregular expenditure reported for investigation



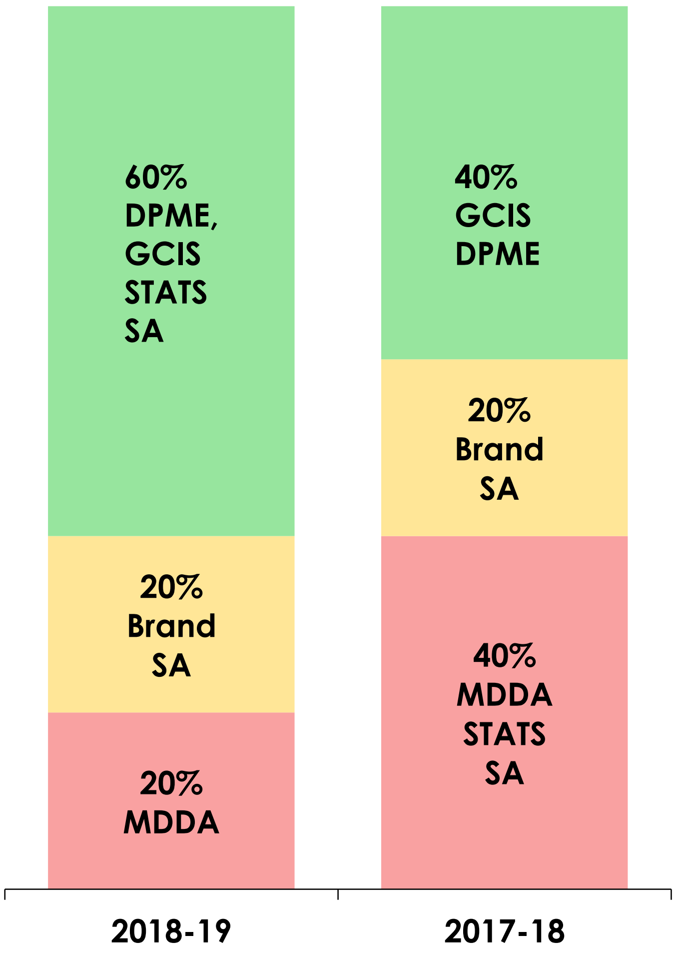
Supply chain management

Stagnation in SCM compliance

All SCM findings should be investigated

Most common findings on supply chain management

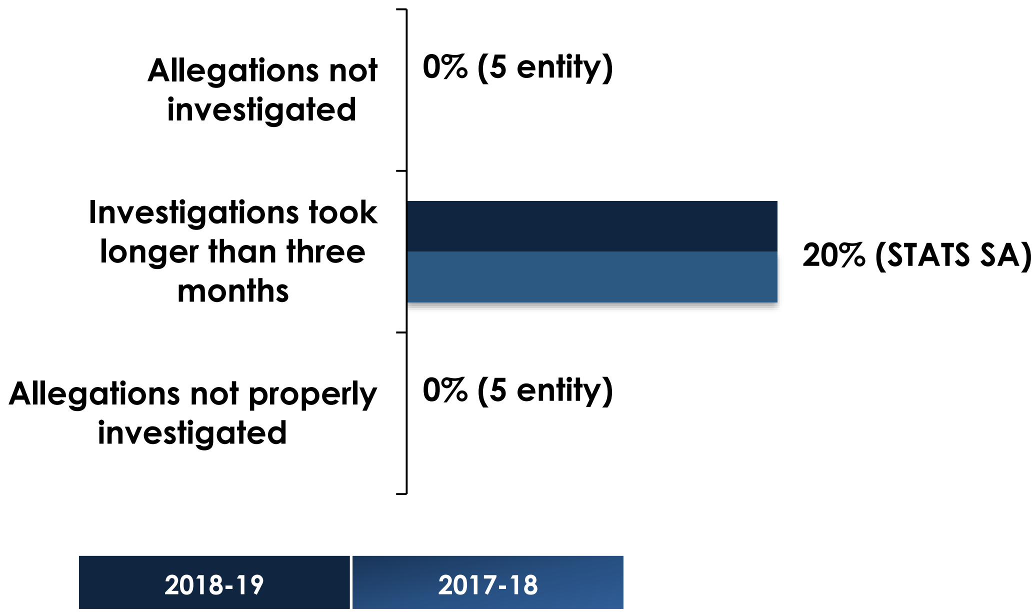
- Irregular appointment of various suppliers and deviations from SCM regulations that did not meet the criteria were noted at MDDA
- Awards to 10 (ten) bidders who did not submit declaration forms were identified at Brand SA
- An award to person in service of state and their close family member was noted at Brand SA



With no findings | With findings | With material findings

Fraud and lack of consequences

Allegations of financial and/or fraud and SCM misconduct at the **auditee**



- *STATS SA - The majority was caused by abuse of state vehicles and irregular appointment of suppliers*

Key expansion of our mandate

Refer material irregularities to relevant public bodies for further investigations

Take binding remedial action for failure to implement the AG's recommendations for material irregularities

Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

What is a material irregularity?

Irregularity

any ***non-compliance*** *with, or contravention of, legislation,*
fraud,
theft *or*
a breach of a fiduciary duty

Material irregularity

identified during an audit performed under the PAA
that ***resulted in or is likely*** *to result in …*

Impact

a ***material financial loss,***
the ***misuse or loss of a material public resource*** *or*
substantial harm to a public sector institution or the general public

Root causes

Root cause	Extent	Explanation
Slow or No response to improving key controls and addressing risk areas	**40% (MDDA, Brand SA)**	Management (accounting authorities and senior management) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.
Instability or vacancies in key positions	**60% (MDDA, Brand SA, STATS SA)**	The **instability** and **prolonged vacancies in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.

Portfolio snapshot (2018-19)

Clean audits: 60%
(2017-18: 40%)

Financially unqualified financial statements: 80%
(2017-18: 100%)

No findings on performance reports: 60%
(2017-18: 40%)

No findings on compliance with legislation: 60%
(2017-18: 40%)

Irregular expenditure: R53 million
(2017-18: R57m)

Recommendations

To the Portfolio Committee

- Continuous engagements with key role players at the entities to be more vigilant, specifically in strengthening internal controls which will result in improved audit outcomes.

To the accounting officers/authorities

- Strengthen the internal controls around quality performance reporting at DPME, MDDA and BRAND SA.
- Maintain best practices in place to ensure that there is no regression in the current audit outcomes at DPME, STATS SA and GCIS.
- Filling of key positions to ensure stability in leadership and senior management at BRAND SA, MDDA and STATS SA should be prioritised.
- Continuous engagements through the Minister should be held with the National Treasury regarding budget cuts on compensation of employees and unfunded mandates due to historic unauthorised expenditure incurred by STATS SA.

Additional efforts were introduced

Regular key control assessment – enhanced to Status of records reviews

Early warning system for accounting officers and authorities

Frequent oversight engagements

Regular engagements with accounting officers/ authorities and executive authorities

Roadshows

To share audit outcomes and recommendations after each cycle

Media briefings

After every cycle

Capacity building initiatives by Cogta, treasuries and other coordinating and supporting institutions also introduced

To improve the status of financial and performance management

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