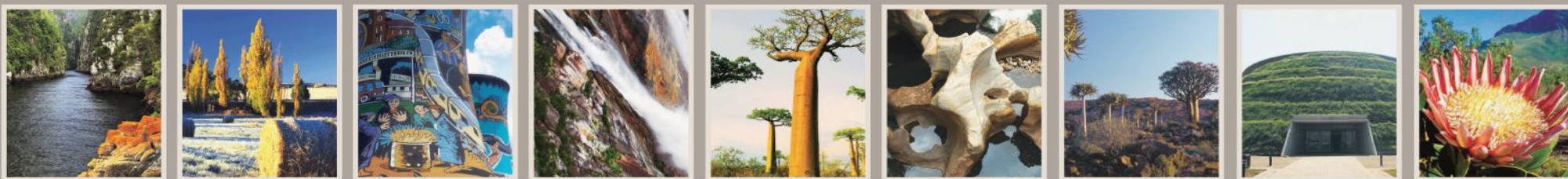


PFMA  
2015-16



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# Briefing to the Portfolio Committee: Cooperative Governance and Traditional Affairs

## Audit outcomes of the portfolio for the 2015-16 financial year

*October 2016*

# 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 Cooperative Governance and Traditional Affairs 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



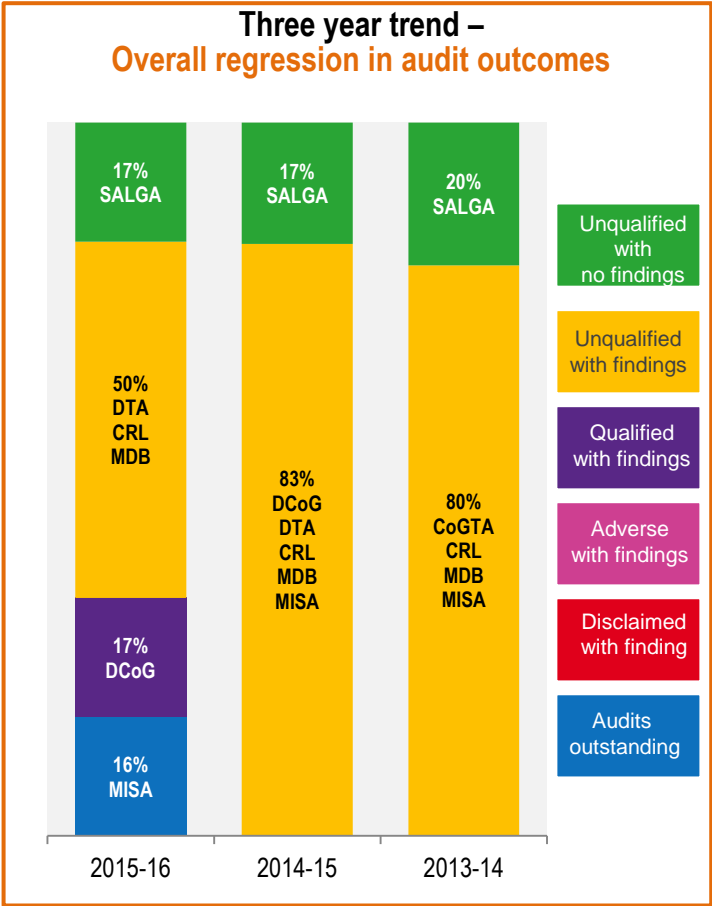
Auditee:

- 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.

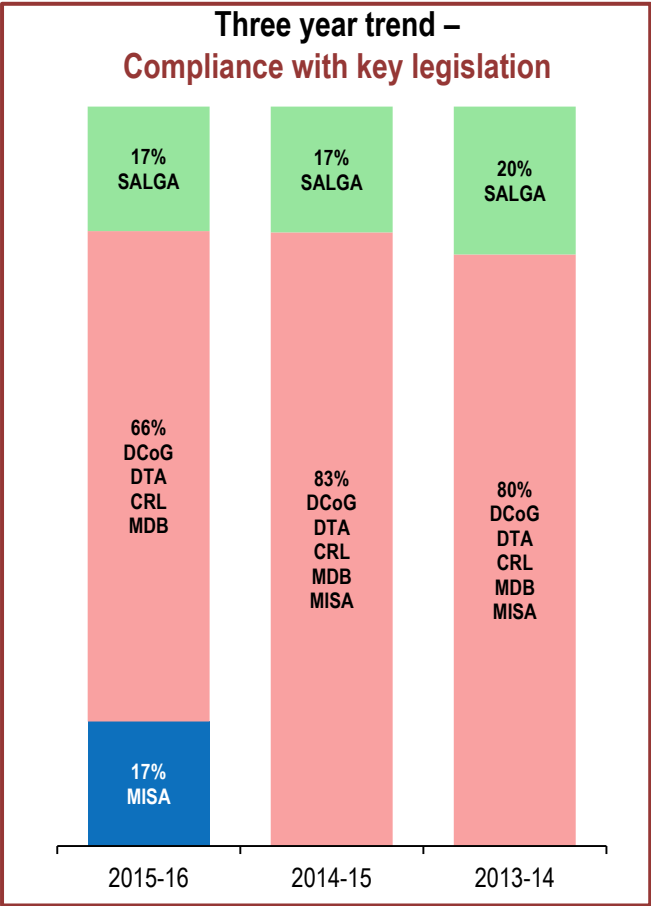
## The 2015-16 audit outcomes and key messages



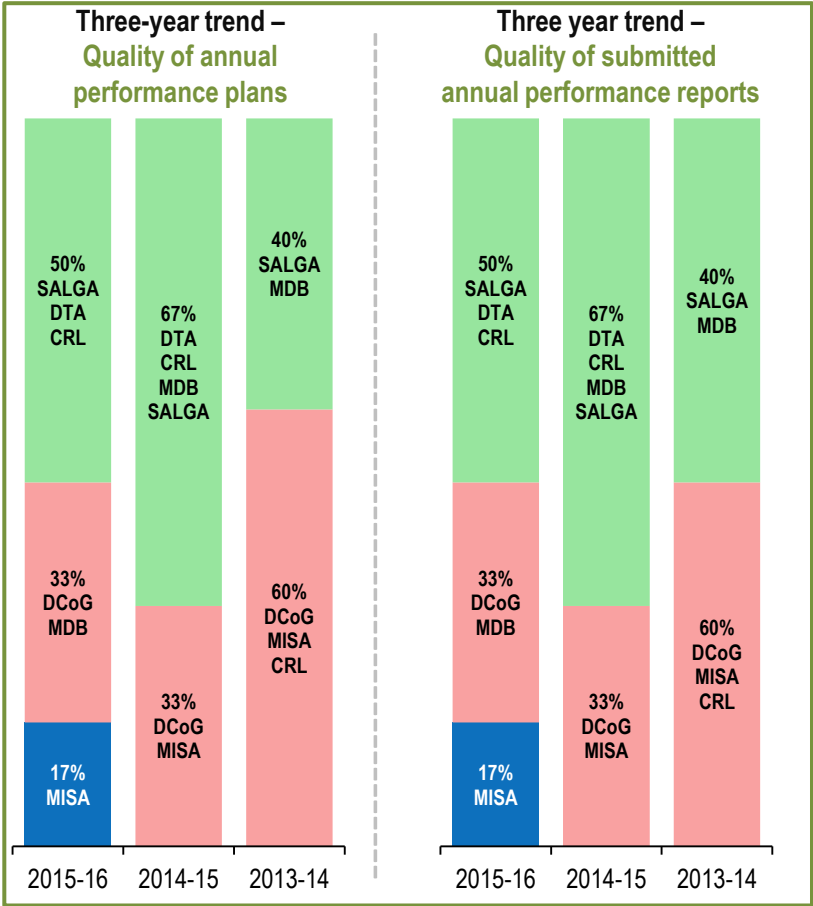
# Audit outcomes over 3 years



**1** To improve/maintain the **overall audit outcomes**, financial statements processes, The portfolio's overall outcomes regressed as a result of DCoG receiving a qualified audit opinion on goods and services and assets. DTA, CRL and MDB consistently achieved unqualified audit outcomes, with material findings on compliance and/or predetermined objectives, over the period. SALGA has successfully managed to achieve a financially unqualified audit outcome with no significant findings on compliance with legislation and predetermined objectives (clean audit) for the fourth consecutive year. \* No outcome included for DTA for 2013-14 as the department only started operating in 2014-15.



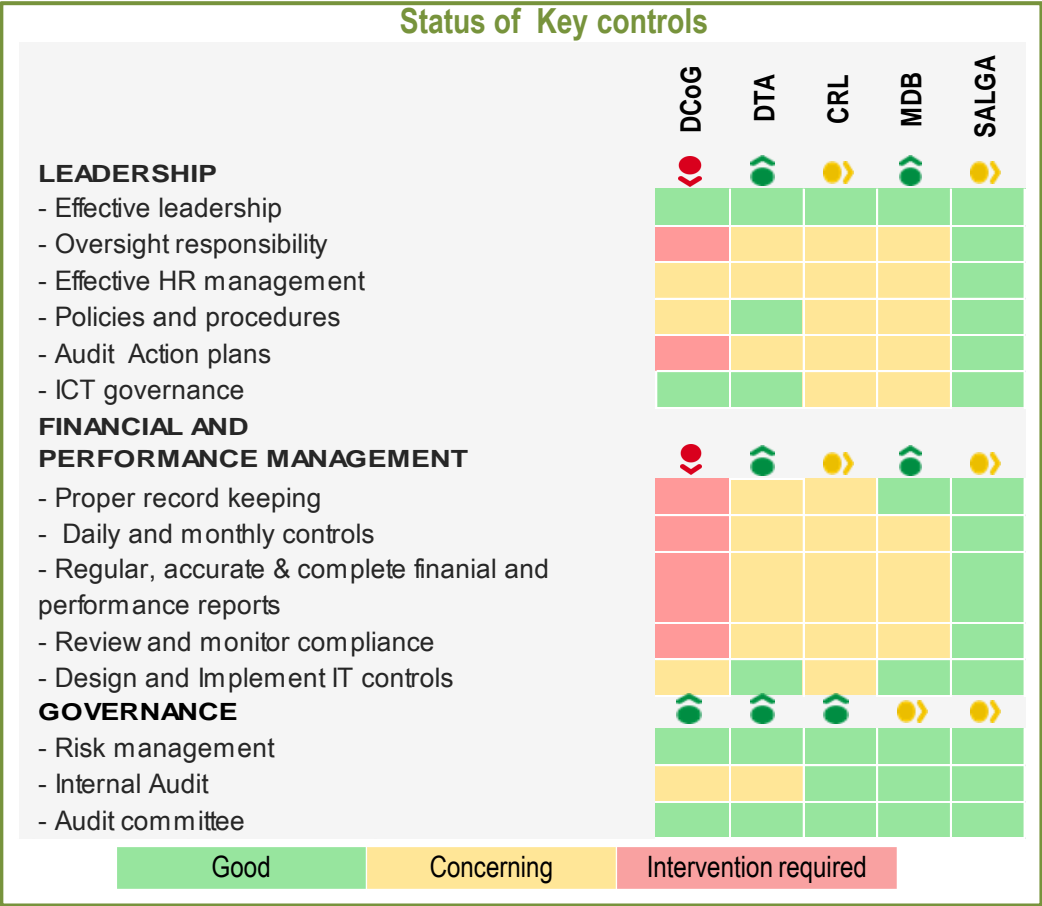
**2** .... **compliance** with key legislation and.... Compliance with legislation in the portfolio remains a concern as four of the five completed entities still have non-compliance findings. The entities (except for DCoG) are commended as the number of compliance matters reported reduced with 64% since the prior year. DCoG, DTA, CRL and MDB were however not yet able to prevent irregular expenditure, whilst the financial statements of DTA also required material adjustments in order to receive an unmodified audit opinion. Non-compliance with SCM laws and regulations remains a concerns at DCoG, especially with the procurement of goods and services for the CWP.



**3** .... **performance planning and reporting** must be improved by.... The quality of annual performance plans for the completed entities regressed due to MDB receiving material findings on the usefulness of reported performance information for 2015-16 financial year. No material findings relating to the quality of performance plans at DTA, SALGA and CRL were identified. Material adjustments were made to the submitted annual performance reports by DCoG. DCoG and MDB received material findings pertaining to reliability. This constitutes a regression as the MDB did not have any findings pertaining to the annual performance report in the previous two financial years. DTA, SALGA and CRL maintained their clean status pertaining to their annual performance reports.

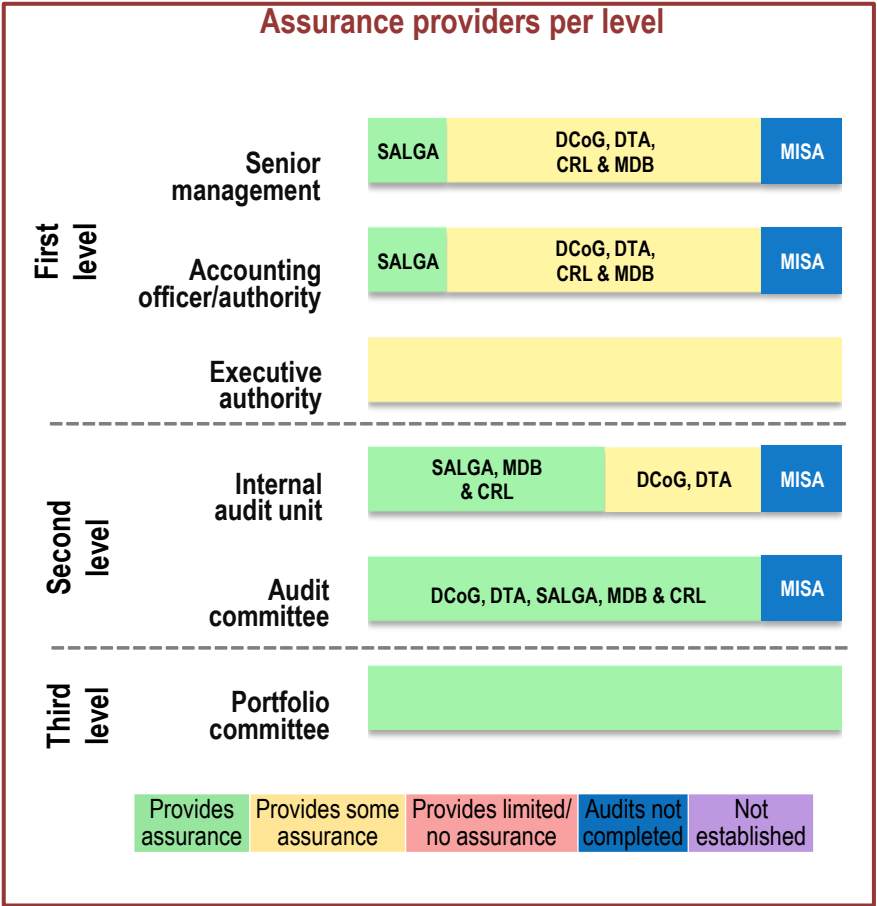


# Audit outcomes over 3 years - continued



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

Focused interventions and commitments are required in order to improve the current status of the overall audit outcomes. DTA, MDB and CRL must enhance controls to prevent irregular expenditure, whilst MDB also need to strengthen key controls pertaining to performance information to address the material findings on the usefulness and reliability of performance information. The key controls relating to financial and performance management at DCoG require focused attention to move the department from a qualification back to an unqualified audit outcome. Leadership is to ensure that adequate oversight is performed and that action plans are appropriate to address the root causes identified. Such action plans are to be monitored and effectively assessed on an ongoing basis so as to ensure timely action can be taken if progress is not being made / action plans are inadequate.



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

The level of assurance provided by senior management, accounting officers/authorities and the Executive Authority has remained stagnant. Efforts in developing and implementing post audit action plans to address audit findings are however commended, although the adequacy of DCoG's action plan remains a concern due to the regression in the audit outcome. Internal audit and audit committees have contributed towards improved key controls however these governance structures must continue to place intense focus on driving improvement in key controls with the objective of moving the DCoG, DTA, CRL and MDB towards clean audit outcomes.


3

## Performance management linked to programmes/ objectives tested



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


Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Department of Cooperative Governance		Programme 1 : Administration	No material findings reported	The reported performance information was not reliable when compared to the evidence provided
		Programme 2: Policy, Research and Knowledge Management	No material findings reported	The reported achievements against planned targets of 40% of the indicators were not reliable when compared to the evidence provided
		Programme 3: Governance and Intergovernmental Relations	I was unable to obtain sufficient appropriate audit evidence to support the reasons provided for the variance between planned targets and actual achievements.	I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.
		Programme 4: National Disaster Management Centre	No material findings reported	The reported performance information was not reliable when compared to the evidence provided.



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

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Department of Cooperative Governance (cont.)		<i>Programme 5: Provincial and Municipal Government Support</i>	I was unable to obtain sufficient appropriate audit evidence to support the reasons provided for the variance between planned targets and actual achievements.	The reported performance information was not reliable when compared to the evidence provided.
		<i>Programme 6: Infrastructure and Economic Development</i>	<p>I was unable to obtain sufficient appropriate audit evidence to support the reasons provided for the variance between planned targets and actual achievements.</p> <p>A total of 43% of the targets were not specific and could not be measured.</p> <p>A total of 43% of the indicators were not well defined and verifiable.</p>	I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information.

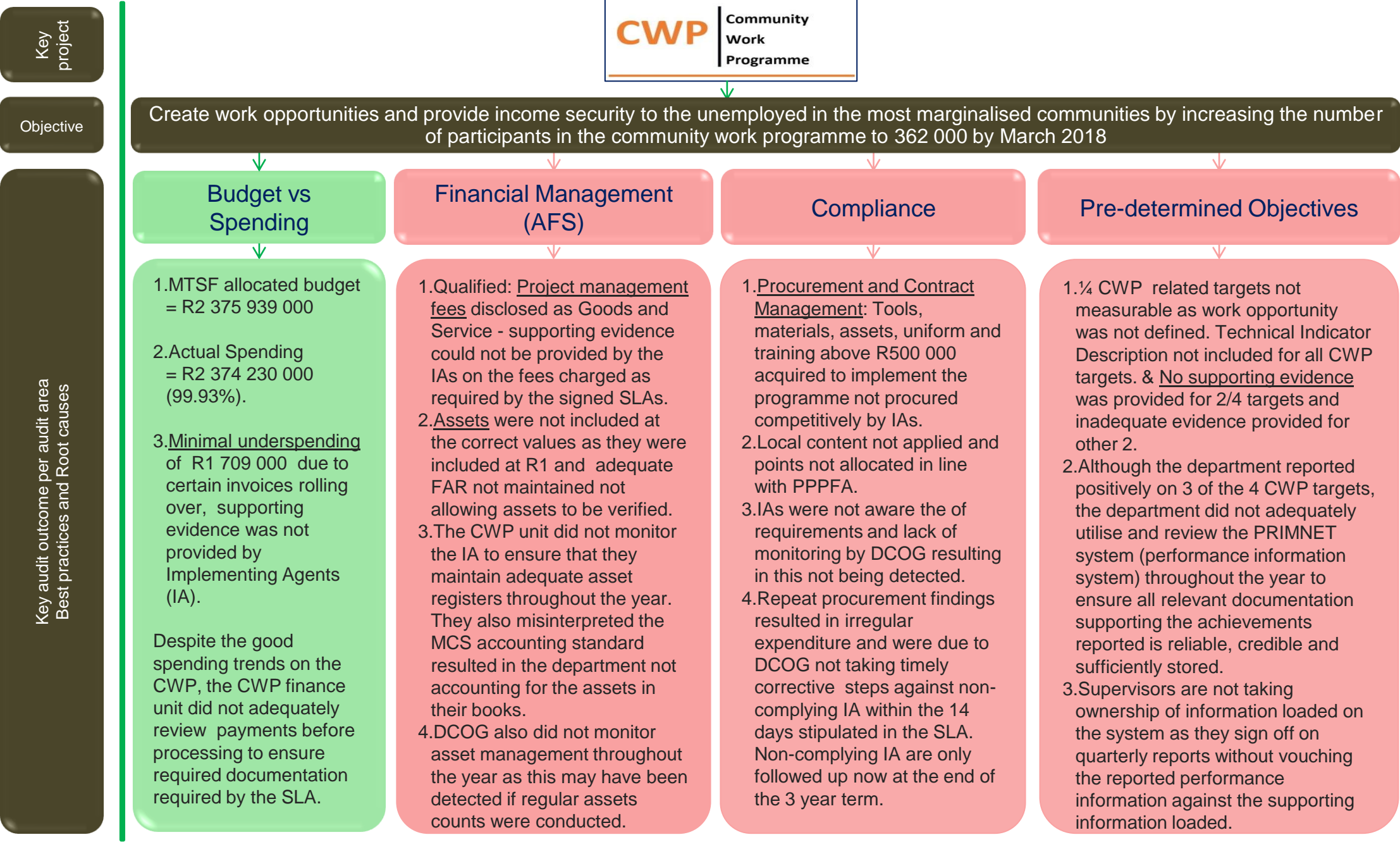


# Key projects selected for audit



Key project	Create work opportunities and provide income security to the unemployed in the most marginalised communities by increasing the number of participants in the community work programme to 362 000 by March 2018			
Objective				
Key outcome per audit area	Budget vs Spending	Financial Management (AFS)	Compliance	Pre-determined Objectives
	<ul style="list-style-type: none"><li>1.MTSF allocated budget = R2 375 939 000</li><li>2.Actual Spending = R2 374 230 000 (99.93%).</li><li>3.Minimal underspending of R1 709 000 due to certain invoices rolling over, supporting evidence was not provided by Implementing Agents .</li></ul>	<ul style="list-style-type: none"><li>• Qualified: <u>Project management fees</u> - supporting evidence could not be provided by the IAs on the fees charged as required by the signed SLAs</li><li>• <u>Assets</u> not included at the correct values as they were included at R1 and adequate FAR not maintained resulting in assets not verified.</li></ul>	<ul style="list-style-type: none"><li>• <u>SCM</u> Tools, materials, assets, uniform and training above R500 000 acquired to implement the programme not procured competitively by IAs.</li><li>• Local content not applied and points not allocated in line with PPPFA.</li></ul>	<ul style="list-style-type: none"><li>1.¼ CWP related targets not measurable as work opportunity was not defined. Technical Indicator Description not included for all CWP targets.</li><li>2.<u>No supporting evidence</u> was provided for 2/4 targets and inadequate evidence provided for the other 2.</li></ul>
Best Practices/ Root causes	<ul style="list-style-type: none"><li>• Despite the good spending trends on the CWP, the CWP finance unit did not adequately review payments before processing to ensure required documentation required by the SLA.</li><li>• We conducted site visits and verified wages for employees through physical inspection.</li></ul>	<ul style="list-style-type: none"><li>• The CWP unit did not monitor the IA to ensure that they maintain adequate asset registers throughout the year. They also misinterpreted the MCS accounting standard resulted in the department not accounting for the assets in their books. COGTA also did not monitor asset management throughout the year as this may have been detected if regular assets counts were conducted.</li></ul>	<ul style="list-style-type: none"><li>• IAs were not aware the of requirements and lack of monitoring by DCOG resulting in this not being detected.</li><li>• Repeat procurement findings resulted in irregular expenditure and were due to DCOG not taking timely corrective steps against non-complying IA within the 14 days stipulated in the SLA. Non-complying IA are only followed up now at the end of the 3 year term.</li></ul>	<ul style="list-style-type: none"><li>• Although the department reported positively on 3 of the 4 CWP targets, the department did not adequately utilise and review the PRIMNET system (performance information system) throughout the year to ensure all relevant documentation supporting the achievements reported is reliable, credible and sufficiently stored.</li><li>• Supervisors are not taking ownership of information loaded on the system as they sign off on quarterly reports without vouching the reported performance information against the supporting information loaded.</li></ul>

# Key projects selected for audit





# Key projects selected for audit

**CWP**

Community  
Work  
Programme

- MTSF allocated budget R2 375 939 000
- Actual Spending R2 374 230 000 (99.93%)
- Minimal underspending of R1 709 000 due to certain invoices rolling over as they were waiting for supporting evidence

**Budget vs Spending**

**Financial Management of project**

- Qualified: Project management fees disclosed as Goods and Service for supporting evidence could not be provided by the implementing agents (IA) on the fees charged as required by the signed SLAs & Assets not included at the correct values as they were included at R1 and adequate FAR not maintained not allowing assets to be verified.

- Procurement and Contract Management:: Tools, materials, assets, uniform and training above R500 000 acquired to implement the programme not procured competitively.
- Local content not applied and points not allocated in line with PPPFA.
- Implementing agents were not aware the of requirements and not monitored by CoGTA.

**Compliance**

**Predetermined Objectives (performance reporting)**

- ¼ CWP related targets not measurable as work opportunity was not defined. Technical Indicator Description not included for all CWP targets.
- No supporting evidence was provided for 2/4 targets and inadequate evidence provided for the other 2.



Create work opportunities and provide income security to the unemployed in the most marginalised communities by increasing the number of participants in the community work programme to 362 000 by March 2018

- Despite the good spending trends on the CWP, the CWP finance unit did not adequately review payments before processing to ensure required documentation required by the SLA.
- The CWP unit also did not monitor the IA to ensure that they maintain adequate asset registers throughout the year. They also misinterpreted the MCS accounting standard resulted in the department not accounting for the assets in their books. COGTA also did not monitor asset management throughout the year as this may have been detected if regular assets counts were conducted.
- Repeat procurement findings resulted in irregular expenditure and were due to DCOG not taking timely corrective steps against non-complying IA within the 14 days stipulated in the SLA. Non-complying IA are only followed up now at the end of the 3 year term.
- Although the department reported positively on 3 of the 4 CWP targets, the department did not adequately utilise and review the PRIMNET system (performance information system) throughout the year to ensure all relevant documentation supporting the achievements reported is reliable, credible and sufficiently stored. Supervisors are not taking ownership of information loaded on the system as they sign off on quarterly reports without vouching the reported performance information against the deficient supporting information loaded.



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



Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Department of Traditional Affairs		Programme 2: Research, Policy and Legislation	No material findings reported	No material findings reported
		Programme 3: Institutional Support and Coordination		
South African Local Government Association		Goal 1: Local Government Delivering equitable and sustainable services	No material findings reported	No material findings reported
		Goal 2: Safe and Healthy Environment and Communities		
		Goal 3: Planning and Economic Development at a Local Level		
		Goal 4: Effective, Responsive and Accountable Local Government for Communities		
		Goal 5: Human Capital Development in Local Government		
		Goal 6: Financial and Organisationally Capacitated Municipalities		
		Goal 7: Effective and Efficient Administration		



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

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
CRL Rights Commission		Legal Services and Conflict Resolution	No material findings reported	No material findings reported
		Public Engagement and Education		
		Communication and Marketing		
		Office of the Chairperson		
		Research and Policy Development		
Municipal Demarcation Board		Programme 1: Operations	No material findings reported	No material findings reported
		Programme 2: Research and Knowledge Management	33% of reported indicators and 100% of reported targets were not consistent with those in the approved annual performance plan 67% of targets were not specific and measurable 67% of indicators were no well-defined and verifiable	No material findings reported
		Programme 4: Corporate Services	86% of reported indicators and 93% of reported targets were not consistent with those in the approved annual performance plan 22% of the indicators and 22% of the targets that were reported in the annual performance report were not included in the annual performance plan 44% of targets were not specific and measurable 61% of indicators were not well-defined and verifiable	The reported performance information was not reliable when compared to the source information or evidence provided



## 4 Financial management



# Slight improvement in compliance with legislation and quality of financial statements

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

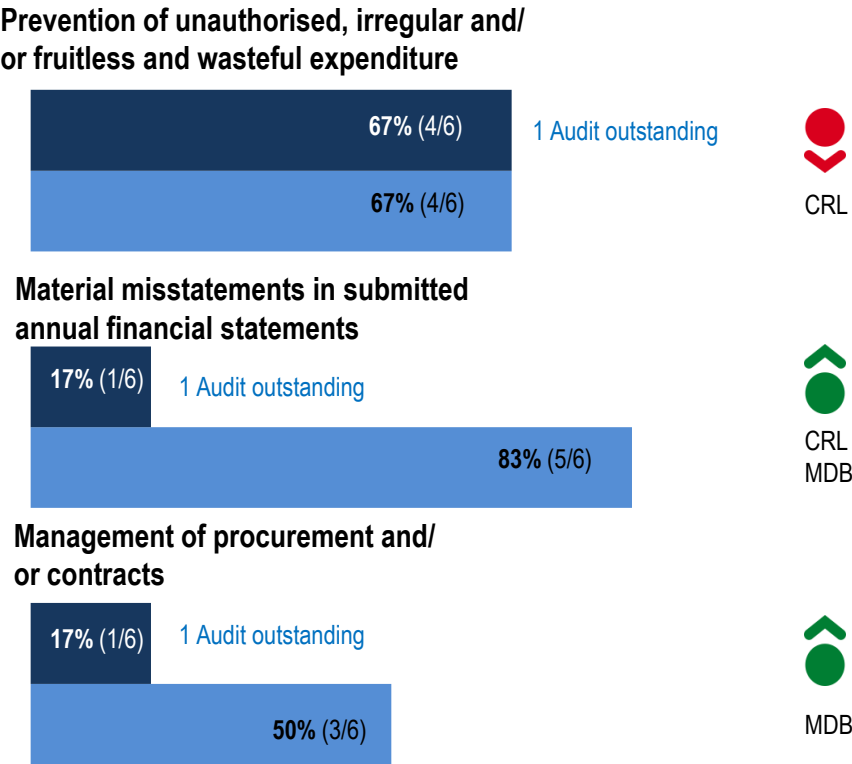


Figure 2: Findings on compliance with key SCM legislation – all auditees

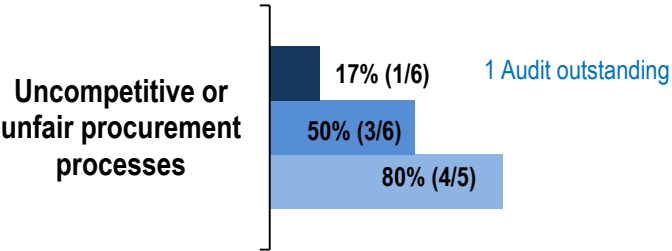


Figure 3: Qualification areas over three years

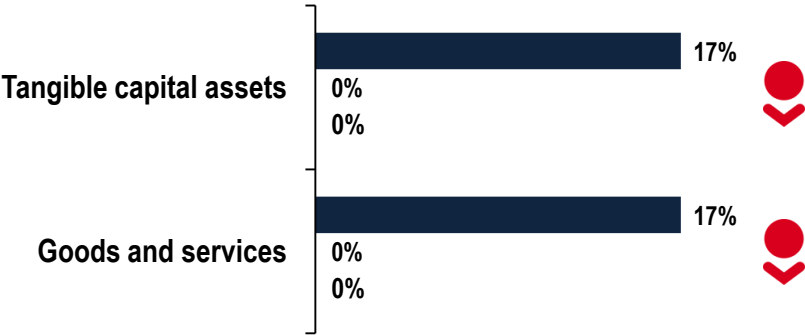
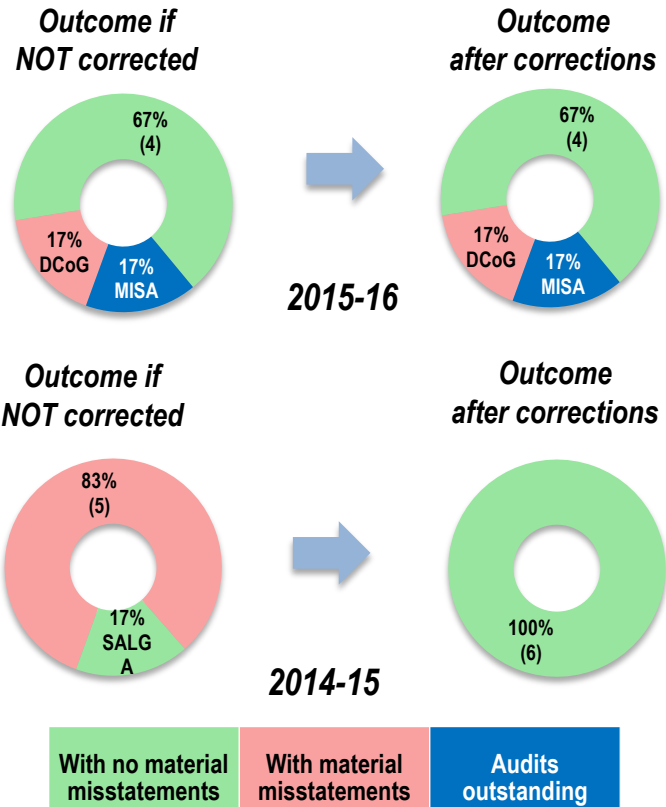
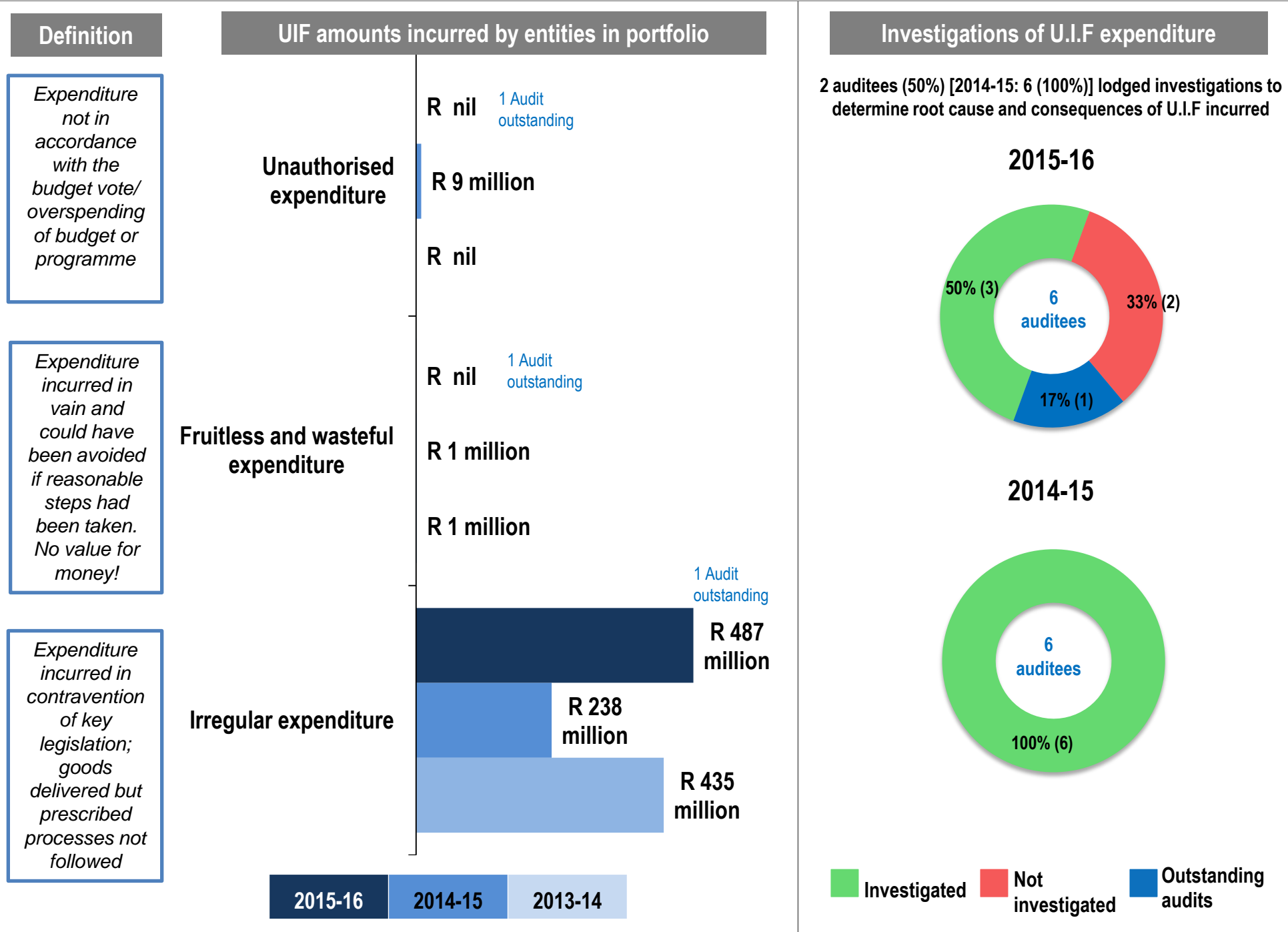


Figure 4: Auditees who avoided qualifications due to the correction of material misstatements during the audit



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





5

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



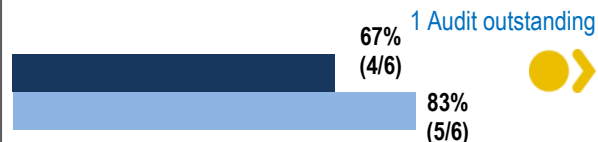
# Top three root causes, follow up on commitments and proposed recommendations

1

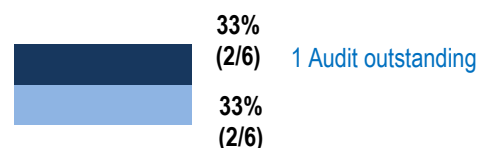
... the following **root causes** must be addressed ...

## Root causes

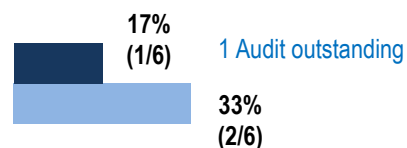
Slow response by management  
(Accounting officer and senior management)



Instability or vacancies  
in key positions



Lack of consequences for poor  
performance and transgressions



2015-16 2014-15

Action plans must be updated timely (as and when findings arise) with relevant actions to address real root causes so as to ensure findings are not repeated. These plans should be monitored monthly/quarterly.

The instability in CEO and CFO positions at the MDB during the financial year negatively impacted on the audit outcomes on predetermined objectives. These positions were however subsequently filled.

Compliance with legislation should be emphasised by enforcing consequences for unsatisfactory performance which hampers sustained progress towards clean administration.

2

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

## Status of key commitments by minister

Action plans to address repeat findings will be implemented and monitored in a timely manner.

Not implemented In progress Implemented New

We met with the minister on 19 July 2016.

No new commitments were received. The above commitment as made by the previous minister was reinforced by the new minister.

The outcomes were discussed with the minister and the status of the implementation of the above commitment was followed up with the minister.

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...

The portfolio committee are to reinforce the following commitments:

- Require entities to compile monthly financial statements;
- Request entities to have action plans on which feedback must be presented quarterly (progress reporting);
- To request entities to take action against transgressors;
- Review quarterly reports on performance information; and
- Review implementation and assessment of key controls.

# Questions

