BUDGETARY REVIEW AND RECOMMENDATIONS REPORT | PFMA 2018-19

Briefing to portfolio committee on Police

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 (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

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 four auditees**, unless indicated otherwise.

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 over the previous year is depicted as follows:

- Improved
- Unchanged
- Regressed

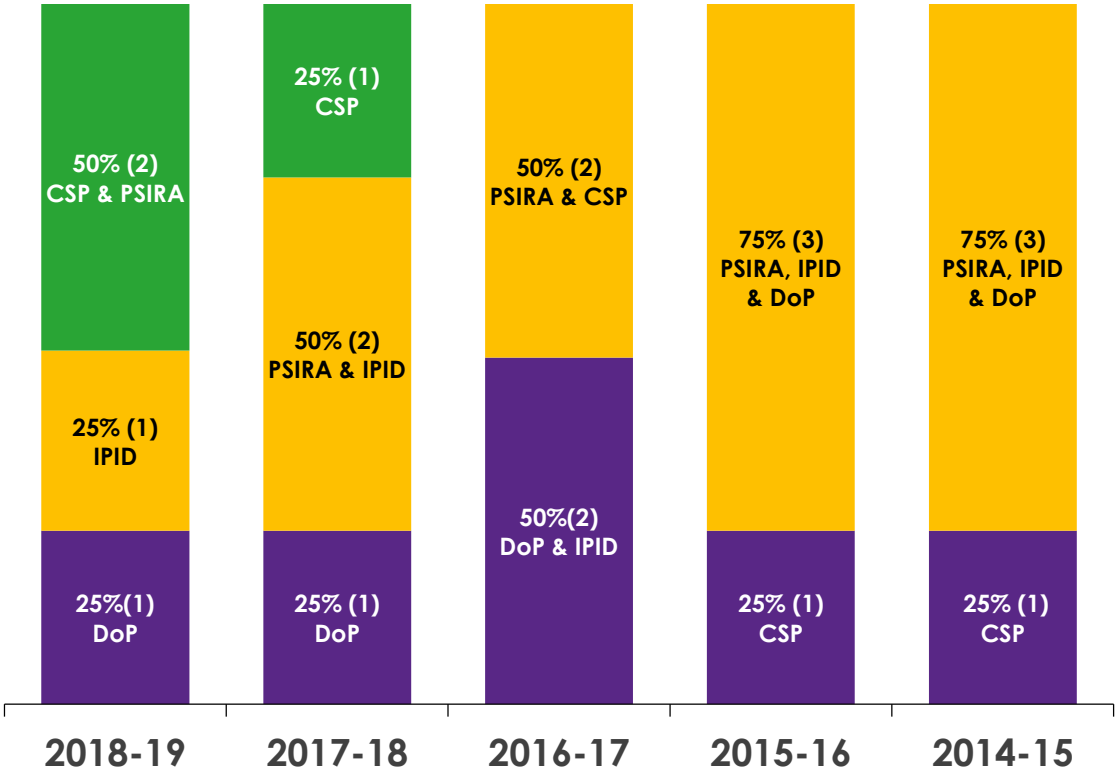
Movement of 5% or less:

- Slightly improved
- Slightly regressed

DoP – Department of Police
PSIRA – Private Security Industry Regulatory Authority
CSP – Department of Civilian Secretariat for Police Service
IPID – Independent Police Investigative Directorate

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Audit outcomes of portfolio over five years



Movement	
▲	1
▼	0
►	3
Outstanding audits	0

Additional information on audit outcomes and movements

- We commend PSIRA and CSP for achieving clean audits
- Financial statement preparation remains a concern as material uncorrected misstatements were identified at DoP. In other instances the department did not provide complete and accurate underlying records to support the AFS and APR.
- IPID's audit outcome did not improve due to findings on performance information and compliance
- Inadequate monitoring of Supply Chain Management (SCM) legislation resulted in non-compliance with SCM legislation especially due deviations not supported by National Treasury & poorly motivated deviations

Credible financial reporting

Financial statements

	Movement	2018-19	2017-18
Submission of financial statements by legislated date (all auditees)	▶	100%	100%
Quality of initial submission for auditing (PSIRA & CSP)	▶	50%	50%
Quality of final submission after audit (PSIRA , IPID & CSP)	▲	75%	50%

25% *achieved unqualified opinions only because they corrected all misstatements identified during the audit*

Qualification areas

- Property, infrastructure, plant and equipment (DoP)
- Irregular expenditure (DoP)

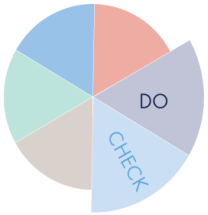
Credible performance reporting

Performance report

	Movement	2018-19	2017-18
Quality of initial submission for auditing (PSIRA & CSP)	▲	50%	25%
Quality of final submission after audit (PSIRA & CSP)	▲	50%	25%

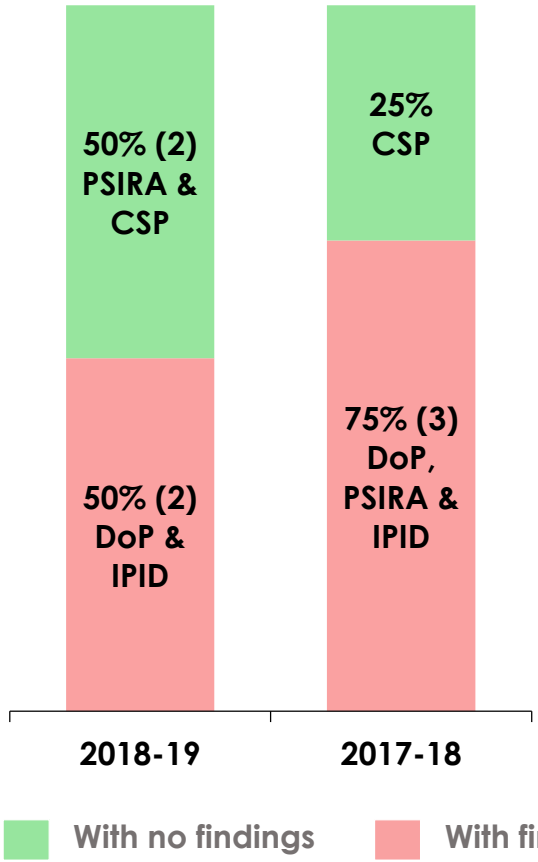
***0%** had no material findings only because they corrected all misstatements identified during the audit*

Reliable reporting of achievements (PSIRA & CSP)	50%	25%
Usefulness of performance indicators and targets	100%	100%



Disregard for compliance with legislation

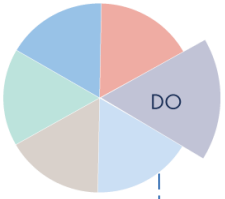
Findings on compliance with key legislation

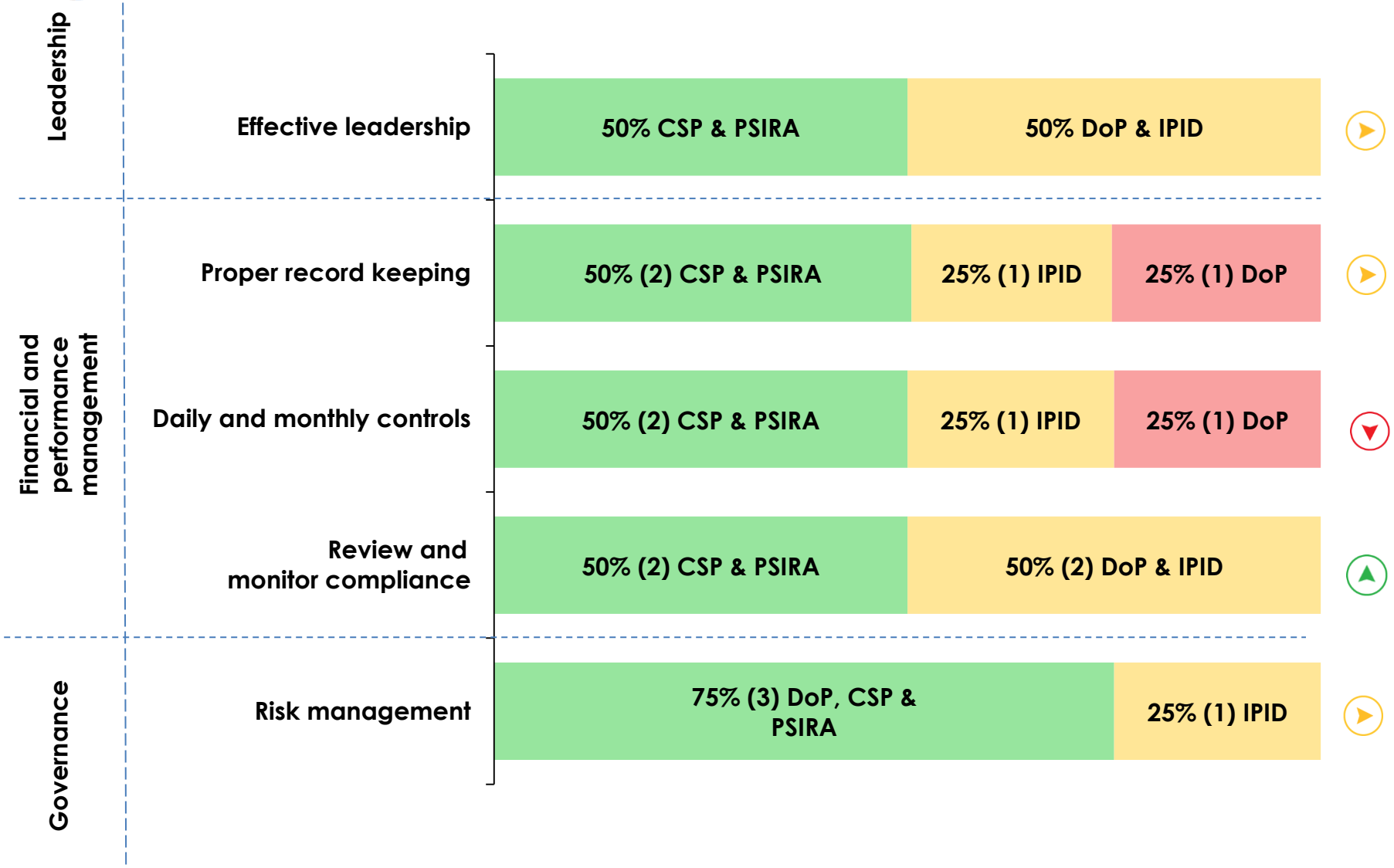


Non-compliance areas

- Procurement and contract management(DoP)
- Quality of financial statements (DoP & IPID)
- Prevention of irregular expenditure (DoP & IPID)
- Effective consequence management (DoP)

Status of internal control





Good | Of concern | Intervention required

Assurance provided

		Assurance		
First level	Senior management	(50%) CSP & PSIRA	(25%) IPID	(25%) DoP
	Accounting officer/authority	(50%) CSP & PSIRA	(50%) IPID & DoP	
	Executive authority	(100%)		
Second level	Internal audit unit	(100%)		
	Audit committee	(75%) CSP, PSIRA & IPID	(25%) DoP	

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

Financial health and financial management

Financial health

No material uncertainty exists on any of the auditees to continue to operate in future

Asset and liability management

- Deficit for the year – this may also correlate to an over-spending of the auditee's operating expenditure budget. Measures must be implemented to address this situation to ensure sustainable service delivery and financial viability. (CSP, IPID & DoP)
- Current liabilities exceeding current assets indicating liquidity issues, which means that they will not be able to pay their creditors as payments become due. (IPID, CSP, PSIRA & DoP)
- Net liability position - highlights a possible risk that the auditee cannot continue its operations at the desired levels, which may lead to an interruption or breakdown in service delivery. (CSP)

Cash management

- Negative cash balance - possible cash flow constraints resulting in a higher risk in the event of financial set-backs as well as the ability of the auditee to meet its obligations to provide basic services and its financial commitments. (IPID)
- Negative operating cash flows - may result in questions about the auditee's financial viability and its ability to continue operating optimally at its current capacity as a going concern. (IPID, CSP's & DoP)

Of concern

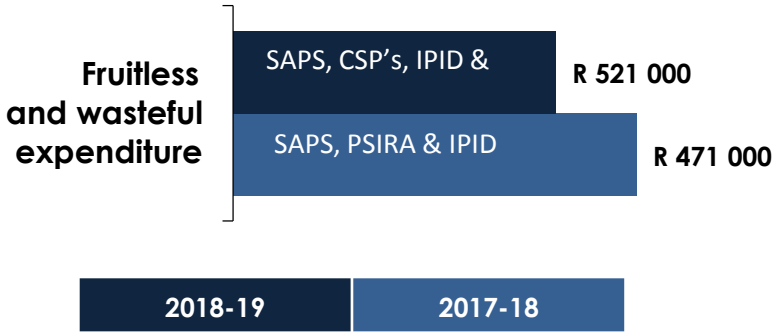
Intervention required

Fruitless and wasteful expenditure increase 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

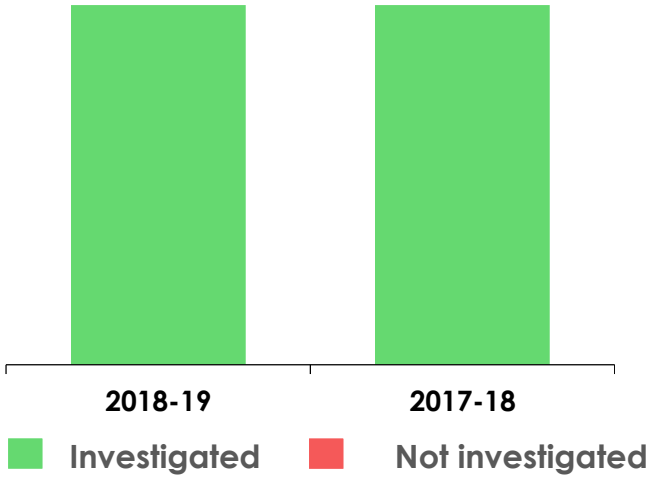


- *The fruitless and wasteful expenditure incurred represents non-compliance*

Nature of the fruitless and wasteful expenditure

- *The majority of the disclosed fruitless and wasteful expenditure for the current year was due to non-delivery of services paid for and penalties for late payment of vehicle license fees. (DoP)*

Previous year fruitless and wasteful expenditure reported for investigation

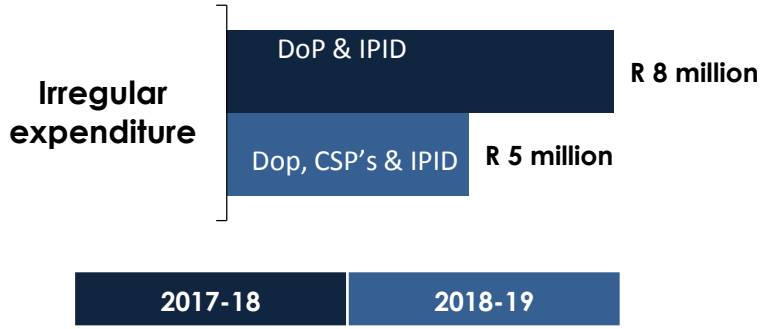


Irregular expenditure increase over 2 years

Definition

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

Irregular expenditure incurred by entities in portfolio

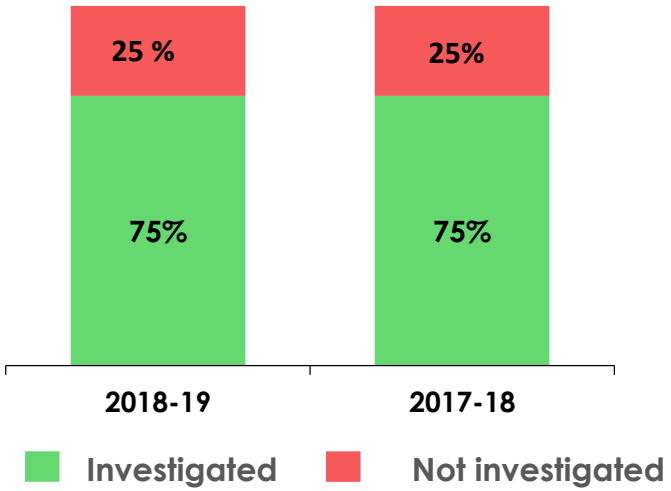


- *Irregular expenditure incurred represents non-compliance. DoP qualified on irregular expenditure.*

Nature of irregular expenditure

- *The majority was caused by not following adequate procurement processes when using travel agents and awarding other contracts in contravention of legislation*

Previous year irregular expenditure reported for investigation



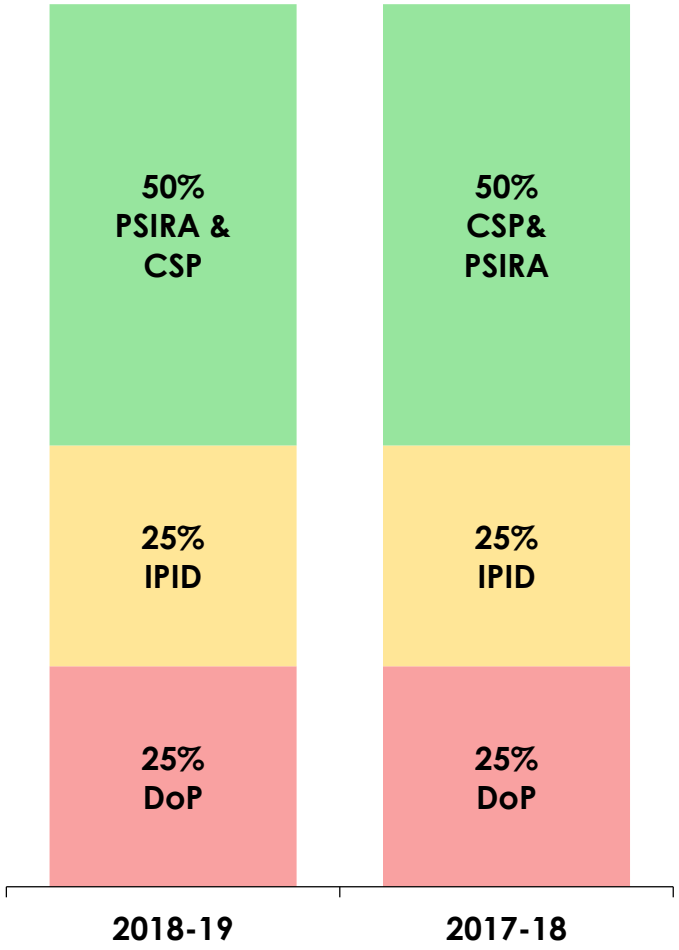
Supply chain management

Improvement in SCM compliance (2018-19: 50% with no findings)

All SCM findings should be investigated

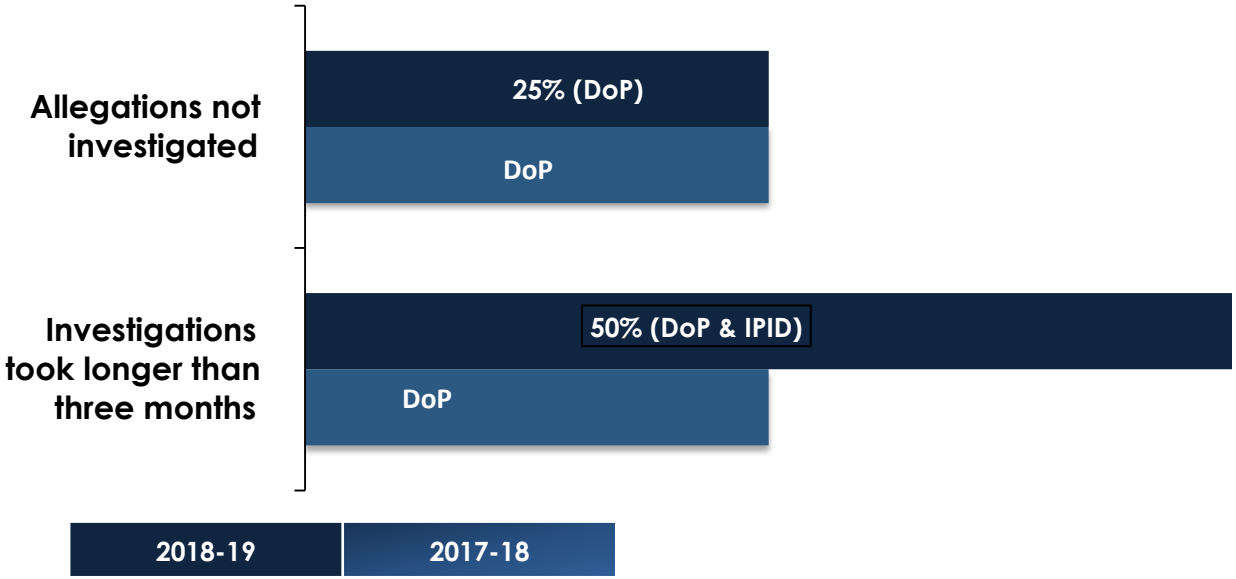
Most common findings on supply chain management

- Not able to audit procurement of **R9.3 million** due to **missing or incomplete information (DoP)**
- **Uncompetitive and unfair procurement** processes at **50% of auditees (IPID & DoP)**
- **False declarations** of interest made by **4 suppliers (DoP)**



Fraud and lack of consequences

Allegations of financial and SCM misconduct (4 auditees)



Key findings on the Integrated Justice System project

The objective of the IJS programme is to electronically enable and integrate the end-to-end criminal justice business processes (from the reporting of a crime to the release of a convicted person) through technology solutions and to manage the related inter-departmental information exchanges across the Criminal Justice System (CJS)

Key findings	Root causes
• An amount of R126 736 451 allocated by SAPS for the funding of projects did not agree to the budgeted amount of R223 768 201 approved by National Treasury • Inconsistencies on the quarterly reporting of deliverables for ICDMS • Eighty four percent (84%) 11 of the 13 IJS projects set for the 2018-19 financial year were not achieved. • The audit team selected the Integrated Person Management (IPM) project for detailed auditing The deliverables of this project were not achieved for the 2017-18 and 2018-19 financial years. • Two change requests at a total value of R10 711 000 were processed at SAPS without approval from the IJS Board	• Funding for SAPS IJS projects were previously (up to the 2018-19 financial year) provided directly to SAPS by National Treasury and not through the DOJCD as with the other member departments. Therefore, SAPS operated autonomously and did not always subject themselves to the same level of scrutiny by the governance structures of the IJS as the other member departments. • Resource constraints that were experienced by the State Information Technology Agency (SITA), supply chain management delays, lack of adequate network infrastructure at police stations as well as internal capacity challenges at SAPS

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 this Act 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.

Portfolio snapshot (2018-19)

Clean audits: 50%
(2017-18: 25%)

Financially unqualified financial statements: 75%
(2017-18: 75%)

No findings on performance reports: 50%
(2017-18: 25%)

No findings on compliance with legislation: 50%
(2017-18: 25%)

Irregular expenditure: unquantifiable
(2017-18: R1,1b)

Root causes

Slow or No response to improving key controls and addressing risk areas

50% (DoP) & IPID

Management (accounting officer and senior management), the political leadership (executive authorities) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

PSIRA obtained a clean audit this year, which was an improvement of their audit outcomes from the prior year.

Inadequate consequences for poor performance and transgressions

25% (DoP)

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**.

Recommendations

To department and its entities

- DoP should implement systems and processes to ensure that quarterly and annual reported performance information is supported by accurate and complete underlying schedules and records.
- DoP should implement consequence management for officials responsible for repeat findings.
- DoP should implement asset management controls that will ensure that assets disclosed in the annual financial statements are supported by accurate and complete underlying records.

To the portfolio committee

- PC should request management to provide quarterly feedback on the progress of the implementation of the action plans to address poor audit outcomes (AoPO, Assets and SCM).
- PC should request a quarterly feedback on the status of the investigations and actions taken against the transgressors of non-compliance instances and implementation of preventative controls over the supply chain management transgressions.
- PC should request a quarterly feedback on the status of the IJS project

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, the treasuries and other coordinating and supporting institutions also introduced

To improve the status of financial and performance management

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