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Report of the auditor-general to Parliament on the State Security Agency

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the State Security Agency set out on pages ... to ..., which comprise statement of financial position as at 31 March 2020, statement of financial performance, statement of changes in net assets appropriation statement and cash flow statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the State Security Agency as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

Basis for qualified opinion

High inherent risk due to nature of environment

3. The State Security Agency accounts for non-sensitive and sensitive project expenditure and assets incurred in connection with the performance of the function and the duty of the intelligence services, as defined in section 1 of the Intelligence Services Act, 2002 (Act No. 65 of 2002). The level of assurance that can be given by my audit on expenditure and assets relating to sensitive projects, included in notes 7 and 18 to the financial statements respectively, is lower than in the case of other audits due to the significant inherent risk relating to the sensitivity of the environment in which they are incurred and the manner in which they are recorded.
4. The accounting officer has commenced with a process to implement the recommendations of the review panel that was appointed by the President. This has resulted in a greater level of transparency related to the expenditure on special projects and the following matters are therefore qualified:

4.1 The nature of the business of the agency poses significant challenges to follow the legislated supply chain processes related to the procurement of operational equipment as well as goods and services used in sensitive projects. Even as controls are being implemented by the accounting officer, practical challenges to comply are faced. The balance between the nature and mandate of the agency and open and transparent procurement process necessitate an exemption from the minister of finance to deviate on supply chain processes. This is resulting in irregular expenditure. The full extent of the misstatement could not be quantified and I was unable to confirm the amount of the irregular expenditure to be disclosed by alternative means.

4.2 The nature of the business and the related inherent risk have also limited my ability to confirm the assets, under property and equipment and computer software, which are used in sensitive projects. As such, I was unable to confirm whether property and equipment, depreciation, computer software, amortisation and operational expenditure were fairly presented in the financial statements.

Property and Equipment

5. The Agency did not review the residual values and useful lives of property and equipment at each reporting date in accordance with GRAP 17. Consequently, I was unable to confirm property and equipment recognised at [REDACTED] (2019: [REDACTED]) in note 18 to the annual financial statements. In addition, I was unable to confirm the depreciation recognised at [REDACTED] (2019: [REDACTED]) in note 8 to the financial statements. Therefore, I was unable to determine whether any adjustments were necessary to the assets' value disclosed in the financial statements, the surplus for the period and the accumulated surplus.

Context for the opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
7. I am independent of the agency in accordance with sections 290 and 291 of the *Code of Ethics for Professional Accountants* and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Claims against the agency

10. As disclosed in note 32 to the financial statements, the agency is the defendant in a number of claims instituted against it. The agency is opposing the claims as it believes the claims to be invalid and/or overstated. The ultimate outcome of these matters cannot currently be determined and no provisions for any liabilities have been made in the financial statements.

Restatement of corresponding figures

11. As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2019 have been restated as a result of an error in the 2018-19 financial statements which was identified during the 2019-20 financial year.

Other matters

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Use of internal auditors

13. I was able to obtain assistance from the internal auditors for purposes of auditing sensitive operational expenditure, assets and performance information reported in the annual performance report. Although the inherent limitation referred to in paragraph 3 to this report was not resolved in its entirety, the assistance obtained from internal auditors reduced the extent of the limitation in comparison to the prior year audit. This is an arrangement we intend to continue for future audits, in compliance with the ISAs.

Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of GRAP and the requirements of the PFMA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the agency or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programme presented in the annual performance report. Due to the nature of the environment I was not able to test the completeness of the performance information reported. I performed procedures to identify material findings but not to gather evidence to express assurance.

19. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the agency. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the agency enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the agency for the year ended 31 March 2020:

Programme	Pages in the annual performance report
Programme 2: [REDACTED]	x – x

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid and accurate.
22. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

Programme 2 – [REDACTED]

Counter Intelligence: Identification and effective response to intelligence requirements which contribute towards national security

23. Adequate systems and processes were not established for the target 'Review and update the Minimum Information Security Standard (MISS)' to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions relating to the target in question.
24. Adequate systems and processes were not established for the target 'Prioritise the fast tracking of vetting and advising in order to eliminate the backlog' to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions relating to the target in question.

25. I was unable to obtain sufficient appropriate audit evidence for the achievement of the actual reported performance against the target 'conduct and coordinate counter-intelligence operations in line with national intelligence priorities' in the annual performance report as reflected in the table below; this was due to a lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Target	Reported achievement
[REDACTED]	[REDACTED] • [REDACTED]

26. The achievement of the below performance was reported against the target 'conduct and coordinate counter intelligence operations in line with national intelligence priorities' in the annual performance report. However, due to deficiencies in the supporting schedules submitted for the audit, I was not able to determine the accuracy of the reported information. The supporting evidence provided differed materially from the reported achievement.

Target	Reported achievement	Audited Value
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]

Target	Reported achievement	Audited Value

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on page(s) xx to xx for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 to 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Domestic Branch. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included as material findings.

Report on the audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the agency's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

31. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

32. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA.
33. Material misstatements of liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified opinion.

Expenditure management

34. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to [REDACTED], incurred in the 2019-20 financial year as disclosed in note 34 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure was caused by non-compliance with SCM regulations.
35. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R16 261 000, as disclosed in note 33 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.

Consequence Management

36. I was unable to obtain sufficient appropriate audit evidence during the 2019-20 audit process that disciplinary steps, including the initiation of investigations, were taken against all officials who had incurred irregular expenditure as well as fruitless and wasteful expenditure incurred during the 2018-19 financial year, as required by section 38(1)(h)(iii) of the PFMA.
37. Notwithstanding pending investigations, disciplinary hearings were not always held for confirmed cases of financial misconduct committed by some of the officials, as required by treasury regulation 4.1.1.

Procurement and contract management

38. Some of the contracts were extended or modified without the approval of National Treasury as required by section 44 of the PFMA and treasury regulations 8.1 and 8.2.

Strategic planning and performance management

39. Procedures for the facilitation of effective performance monitoring, evaluation and corrective action through quarterly reports, as required by treasury regulation 5.3.1, were not effective due to the late submission of the quarterly reports to the executive authority.

Other information

40. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected programme presented in the annual performance report that has been specifically reported in this auditor's report.

41. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
42. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement in this other information, I am required to report that fact.
44. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
46. The agency's financial information systems need urgent attention; some key applications are outdated and are, therefore, unsupported by service providers. This has resulted in other systems and applications not being updated to newer versions so that the system, as a whole, is still able to interface. The ability of the agency to invest in these systems is limited by the impending split of the department. For the interim management needs to ensure that compensating controls are in place to support these systems.
47. Inherent limitations in the internal controls relating to the keeping of valid, accurate and complete financial records as well as compliance with supply chain management legislation for sensitive projects are noted.
48. The agency has a number of senior acting positions; this has created instability in different structures, which may be detrimental to creating a culture of accountability.
49. There were inadequate review processes, which resulted in material misstatements in the annual financial statements. Management has still not yet finalised assessing the useful lives of the all the assets due to finance staffing constraints.
50. The agency did not have approved standard operating procedures to guide collection, collation, verification, storing and reporting of performance information, which resulted in scope limitations.

51. There were inadequate corrective measures put in place to address the causes of prior year findings, relating to material misstatements in the annual financial statements and annual performance report which are not related to the inherent limitations within the environment.
52. Some policies and procedures are outdated and do not incorporate the changes in the Agency's operating environment as well as changes in the applicable laws and regulations.

Other reports

53. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the agency's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
54. The agency is currently considering and/or implementing recommendations relating to investigations relating to the temporary advances of [REDACTED] that have been concluded. These investigations were conducted in collaboration with other relevant law enforcement agencies.
55. In June 2018, President Cyril Ramaphosa appointed a review panel to assess the mandate, capacity and organisational integrity of the agency. These proceedings were concluded and a report was released to the public in December 2018. An implementation task team has been set up to oversee the implementation of the recommendations in the review panel's report. Furthermore, there are numerous internal investigations underway as result of matters raised in the report.
56. The Office of the Inspector General on Intelligence are in the process of investigating numerous complaints received, which are at various stages of completion.

T-Auditor - General

Pretoria

27 October 2020



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the agency's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State Security Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an agency to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.