

Report of the auditor-general to Parliament on the South African Police Services – Crime Intelligence: Secret Services Account

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the South African Police Services – Crime Intelligence: Secret Services Account set out on pages XX to XX, which comprise the appropriation statement, statement of financial position as at 31 March 2020, statement of financial performance, statement of changes in net assets, 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 South African Police Services – Crime Intelligence: Secret Services Account as at 31 March 2020 and financial performance and cash flows for the year then ended in accordance with the Modified Cash Standards (MCS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for qualified opinion

High inherent risk due to the nature of the environment

3. The South African Police Service – Crime Intelligence: Secret Services Account accounts for sensitive and non-sensitive project expenditure incurred in connection with the performance of the function and the duty of the Secret Services as defined in section 1 of the Secret Services Act of South Africa, 1978 (Act No. 56 of 1978). The level of assurance that can be given by my audit on sensitive projects expenditure and assets included in notes 3, 6 and 24 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.

Goods and services

4. The department did not classify salary payments made to general workers as compensation of employees, in accordance with Modified Cash Standard chapter 8, Expenditure in the financial statements. The department has a contractual relationship with these employees that requires separate disclosure from goods and services as compensation of employees. Consequently, goods and services are overstated and compensation of employees is understated by R11,7 million and corresponding figure for compensation of employees is understated by R9,9 million.

Cash and cash equivalents

5. In the prior years the department overstated cash and cash equivalents by approximately R6,2 million. The department is still in the process of reconciling the transactions in order to finalise

the adjustments that need to be made to the financial statements in order to correct the misstatement. Consequently, the misstatement of approximately R6,2 million, included in the comparative figures of note 7 to the financial statements, remains unresolved.

Lease commitments

6. The department did not correctly calculate operating leases in accordance with the Modified Cash Standard (MCS) chapter 13, Leases. Consequently, operating leases in note 18.1 are overstated by approximately R8,4 million.

Irregular expenditure

7. The nature of the business of the department pose significant challenges to follow proper supply chain processes related to the procurement of operational equipment and goods & services. Even as controls are being implemented by senior management, practical challenges to comply are faced. This is resulting in irregular expenditure. 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 resulted in the irregular expenditure disclosure being understated. The full extent of the misstatement identified could not be quantified and I was unable to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure stated at R65,1 million (2019: R65,1 million) in note 19 to the financial statements.

Movable tangible capital assets

8. I was unable to obtain the sufficient appropriate audit evidence for movable tangible assets to the value of approximately R10,3 million (2019: R9,4 million), due to the asset register not being updated for known losses in the movable assets which identified during asset counts. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to movable tangible assets stated at R1 046 million in note 24 to the financial statements.

Context for the opinion

9. 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.
10. I am independent of the department 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the MCS 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.
13. In preparing the financial statements, the accounting officer is responsible for assessing the department'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 department or to cease operations, or has no realistic alternative but to do so.

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

14. 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.
15. 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

16. 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 programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the department. I have not evaluated the completeness and appropriateness of the performance indicators / measures included in the planning documents. My procedures do not examine whether the actions taken by the department 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.
18. 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 programmes presented in the annual performance report of the department for the year ended 31 march 2020:

Programme	Pages in the annual performance report
Secret Services of the SAPS (Crime Intelligence)	x – x

19. 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, accurate and complete.
20. The material findings in respect of the usefulness and reliability of the selected programme are as follows:

Secret Services Account of the SAPS (Crime Intelligence)

Various indicators

21. The planned targets for the indicators below were not specific in clearly identifying the nature and required level of performance.

Indicator	Target
Number of undercover operations successfully terminated per annum	(100%) 65
Percentage of network operations successfully terminated per annum	65% (570)

Various indicators

22. The reported achievements were not consistent with the planned target as approved in the annual performance plan for the indicators below. Furthermore, I was unable to obtain sufficient appropriate evidence for the reported achievement. This was due to the inadequate record management, i.e. profiles and communication analysis generated not properly referenced and maintained. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Indicator	Planned target	Reported achievement
Number of profiles generated per pre and undercover per annum	A minimum of 2 profiles generated per pre and undercover operation per annum	20 from a baseline of 330 (6.06%)

Number of communication analysis generated per pre- and undercover per annum	1 communication analysis report generated per pre and undercover operation per annum	18 from baseline 165 (10.91%)
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Various indicators

23. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator	Reported performance	Audited value
Number of undercover operations successfully terminated	124	73
Percentage of physical surveillance requests finalised, in relation to total requests received annually.	97.31%	79.00%

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. Refer to the annual performance report on pages XX to XX for information on the achievement of planned targets for the year and explanations provided for the under achievement 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 21 to 23 of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

27. The material findings on compliance with specific matters in key legislation are as follows:

Annual Financial Statements

28. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1) (a) of the PFMA. Material misstatements of capital commitment disclosure identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

Expenditure management

29. As reported in the basis for the qualified opinion the full extent of the irregular expenditure could not be quantified. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.

Consequence management

30. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure as required by section 38(1)(h)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular and fruitless and wasteful expenditure.

Procurement and contract management

31. Treasury Regulations 16A6.1 requires that goods and services of a transaction value above R500 000 should be procured by inviting competitive bids, as required by. The prior written approval for deviation was requested from National Treasury as required by National Treasury SCM instruction note 3 of 2016/17. National Treasury pre-approved the deviations with conditions however, the department did not meet those conditions due to the sensitive nature of the department's operations.
32. Due to the sensitive nature of the department's operations, some of the contracts were awarded to suppliers whose tax matters had not been confirmed by the South African Revenue Service to be in order as required by Treasury Regulation 16A9.1(d). Similar non-compliance was reported in the prior year.
33. Sufficient appropriate audit evidence could not be obtained that bid documentation for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). A similar limitation was reported in the prior year.
34. 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. Similar non-compliance was reported in the prior year.
35. Some of the suppliers of emergency goods or services procured through quotations in response to National State of Disaster declared on 15 March 2020 were not listed on the Central Supplier Database in accordance with paragraph 3.7.6. (iii) of the National Treasury Instruction no. 08 of 2019/2020.

Other information

36. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
37. 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.
38. 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.
39. 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

40. 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.
41. SCM policies are not aligned to laws and regulations, this is as a result of the sensitive nature of the environment which is causing practical implementation challenges.
42. There is a lack of consequence management as the leadership does not always hold staff accountable for non-compliance and poor quality of financial and performance reporting.
43. Some officials do not have the necessary skills, knowledge and qualifications required for financial management and reporting, management of performance information and reporting, supply chain management and performing activities for oversight role within the department. In addition, the appointment of personnel into positions that require specialised technical training (such as accounting, asset management and supply chain management) is not always done considering the requirements of the position.
44. There were inadequate review processes; this resulted in material misstatements on the annual financial statements and the annual performance report as well instances of material non-compliance.

45. The department does not have systems or mechanisms in place to monitor compliance with laws and regulations.
46. The financial information management system is not adequately designed to ensure that all data fields which relate to core business transactions and operations are captured. This would ensure that all information required for management decision-making and for governance and accountability purposes is readily available for internal and external assurance providers.
47. The corrective action plan developed did not adequately address the root causes and deficiencies. In addition, the implementation and adherence to the plan was not adequately monitored at the appropriate level of management.

Other reports

48. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the department'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.
49. Investigations are currently being conducted by the Independent Police Investigative Directorate (IPID) into allegations of misuse and abuse of the department's funds by certain members of the staff.
50. The Office of the Inspector General on Intelligence is in the process of investigating numerous complaints received, which are at various stages of completion.

Auditor - General

Pretoria

13 November 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 department’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 department’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 relating to events or conditions that may cast significant doubt on the ability of the South African Police Services – Crime Intelligence: Secret Services Account 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 my 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 a department to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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, actions taken to eliminate threats or safeguards applied.

