

BUDGETARY REVIEW AND  
RECOMMENDATIONS REPORT | PFMA  
2019-20

Briefing to the Portfolio Committee on Basic  
Education



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 2019-20 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



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 2 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 from the previous year is depicted as follows:

 Improved

 Unchanged

 Regressed

**DBE** – Department of Basic Education  
**Umalusi** - Council for Quality Assurance in General and Further Education and Training  
**Sace** – South African Council for Educators

# ACCOUNTABILITY = PLAN + DO + CHECK + ACT

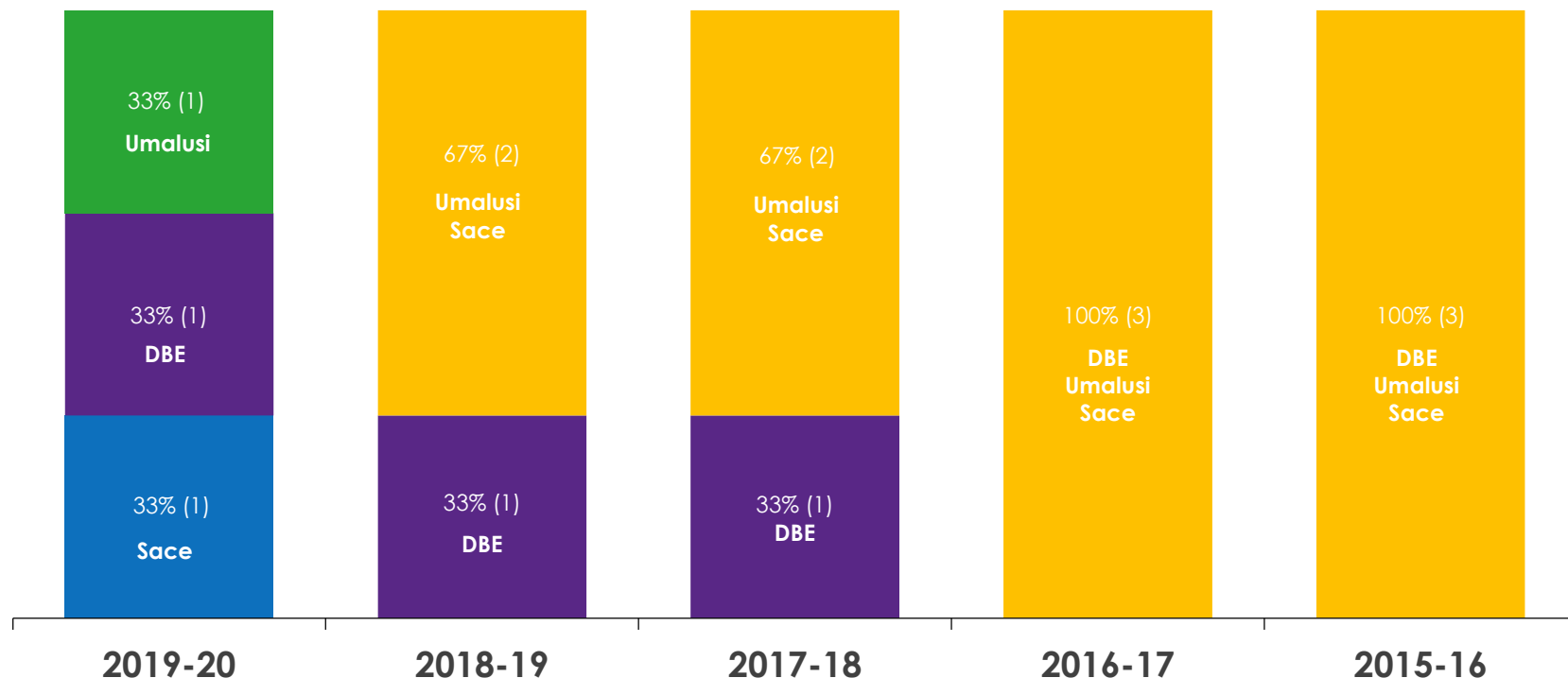




# Portfolio outcomes



# Audit outcomes of portfolio over five years



- The audit outcomes for the portfolio improved as result of Umalusi was unqualified with no findings. The audit of Sace is ongoing.
- Financial statement preparation remains a concerns as material adjustments were effected to the annual financial statements submitted for audit at DBE. The uncorrected material misstatements result in the financial statements receiving a qualified audit opinion.
- The qualified audit opinions for the DBE are mainly due to control deficiencies regarding monitoring and accounting of the infrastructure programme (Asidi). The qualification on capital commitments is due to items not meeting the definition of commitments included in the balance disclosed. School projects that have already reached practical completion and are in use were still reflected as commitments. In addition, the controls to prevent and detect instances of non-compliances when procuring goods and services were inadequate, as a result the irregular expenditure balance was incomplete.



# Credible financial reporting



## Financial statements

Submission of financial statements by the legislated date (2 auditees)

Financial statements submitted without errors

Quality of final submission after auditing

### Movement



### 2019-20

67%

50%

50%

### 2018-19

100%

0%

67%



*The analysis above exclude Sace for which the audit was still ongoing at the time of this report. The Umalusi financial statements contained no material errors. DBE obtained a qualified opinion because not all material misstatements identified during the audit could be corrected.*

## Qualification areas

- Capital commitments disclosure (DBE)
- Irregular expenditure disclosure (DBE)



# Credible performance reporting



## Performance report

Performance report submitted without errors

Quality of final submission after auditing

### Movement



### 2019-20

### 2018-19

	50%		33%
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100%
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67%



*As management subsequently corrected all of the misstatements, I still reported no material findings on the usefulness and reliability of the reported performance information after auditing. Percentages excludes Sace for which the audit report is still outstanding and is based on two entities in the portfolio where the audits have been finalised.*

Reliable reporting of achievements (19-20:Umalusi; DBE)  
(18-19:Umalusi; Sace)

100%

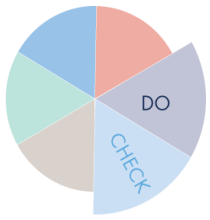
67%

Usefulness of performance indicators and targets (19-20:Umalusi,  
DBE) (18-19: Umalusi; Sace)

100%

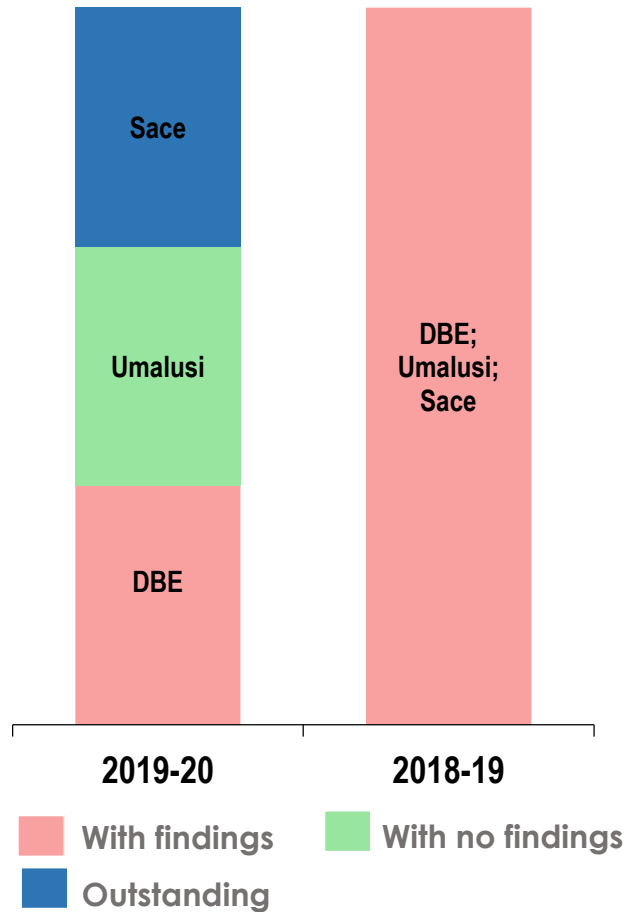
67%





# Disregard for compliance with legislation

## Findings on compliance with key legislation



## Top non-compliance areas 2019-20

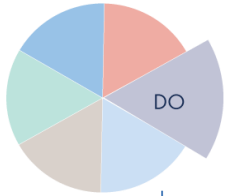
- Quality of financial statements (DBE)
- Prevention of irregular and fruitless and wasteful expenditure (DBE)
- Management of procurement and contracts (DBE)

## Top non-compliance areas 2018-19

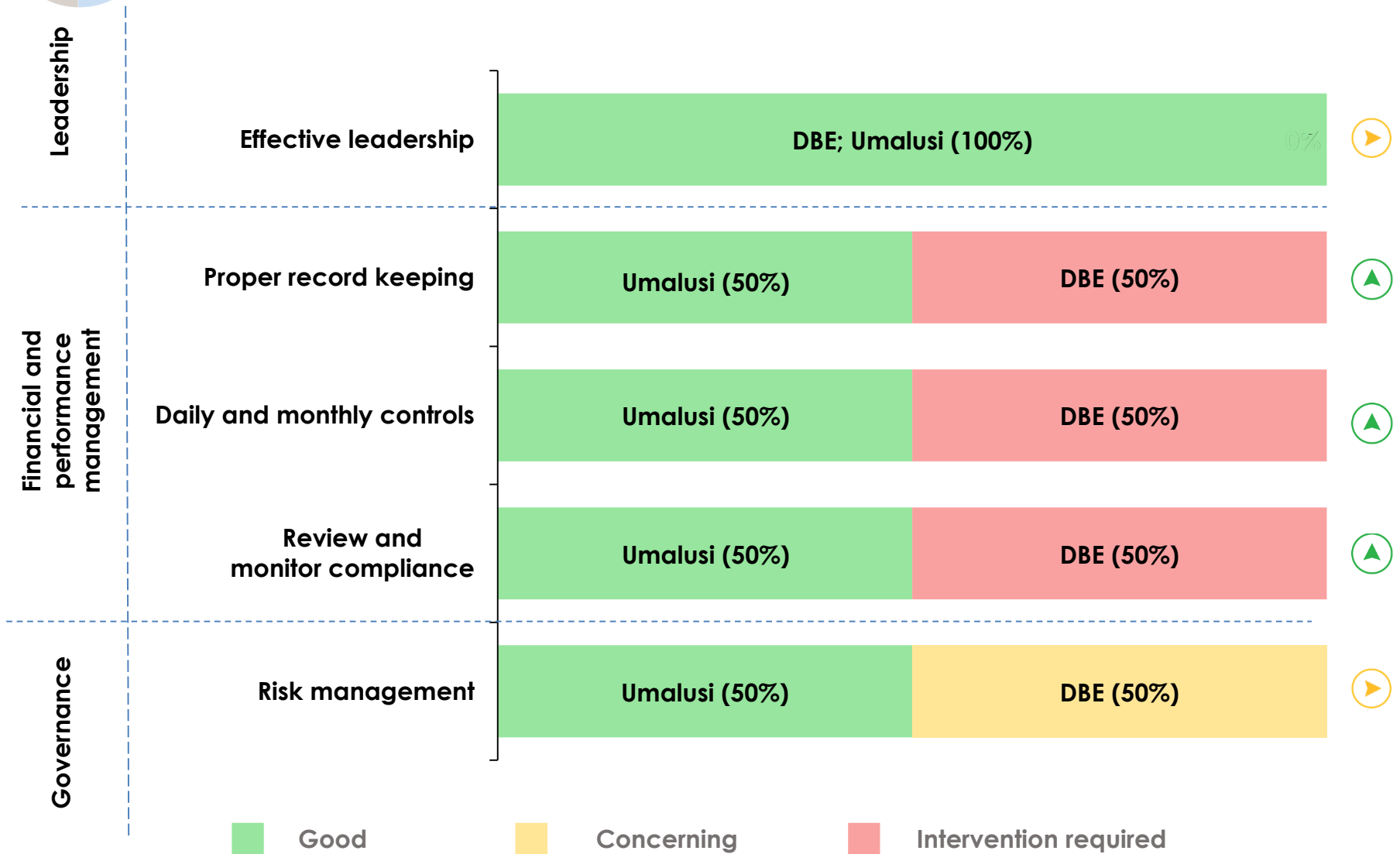
- Quality of financial statements (DBE, Umalusi, Sace)
- Prevention of irregular expenditure (DBE)
- Management of procurement and contracts (DBE)
- Inadequate consequence management (DBE)







# Status of internal control



# Fruitless and wasteful expenditure increases over two years

## Definition

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

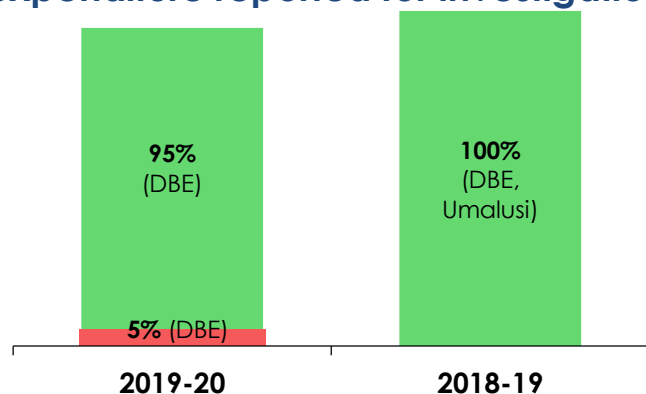
## Fruitless and wasteful expenditure analysis by entities in portfolio

### Fruitless and wasteful expenditure incurred

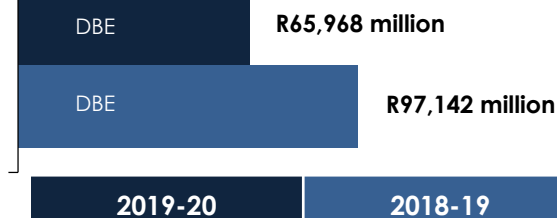


- DBE:** Contractor invoices not having been paid timeously, resulted in interest of R7,4 million; stopped projects resulted in fruitless expenditure of R60 million; remedial work of R2,7 million and fraudulent payments of R5,3 million at an implementing agent.
- Umalusi:** Payment of R6,981 million made to a Joint Venture contract that has since been cancelled.

### Previous year fruitless and wasteful expenditure reported for investigation



### Potential F&W expenditure



- Potential fruitless and wasteful expenditure relates to cost incurred for school infrastructure projects that were subsequently discontinued, for example due to schools no longer being viable due to rationalisation processes & mergers. Included for both years was R10,689 million relating to the Kha Ri Gude project currently under investigation by the Hawks (stipend payments to volunteers)
- The investigation into the above potential fruitless and wasteful expenditure was still ongoing as at 31 March 2020 and the expenditure does not form part of the main note of fruitless and wasteful expenditure

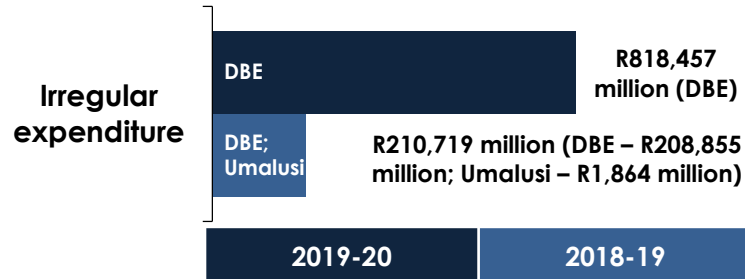


# Irregular expenditure increases over two years

## Definition

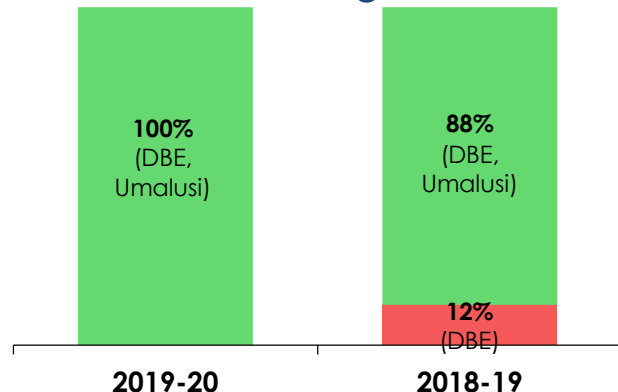
Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

## Irregular expenditure (IE) analysis by entities in portfolio

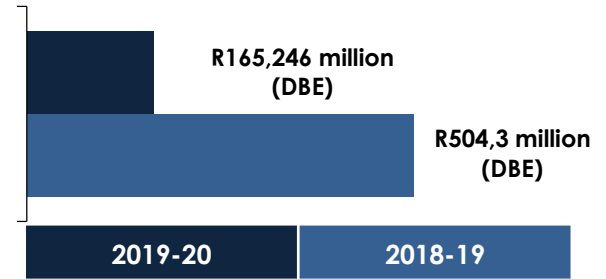


- 100% of IE incurred in the current and previous year was as a result of contravention of SCM legislation
- The DBE received a qualification on the completeness of IE. The full extent of the understatement of IE for the current and previous year could not be determined, as it was impracticable to do so.

## Previous year irregular expenditure reported for investigation



## Potential irregular expenditure



- Potential IE relates to costs incurred for school infrastructure projects in excess of the approved and contracted amount.
- Included in the amount for 2018-19 was R379 million relating to ten (10) school infrastructure projects under investigation by the SIU regarding allegations of procurement and contracting irregularities, of which the investigation was concluded during the 2019-20 financial year.
- The above potential irregular expenditure was still under assessment as at 31 March 2020 and does not form part of the main note of irregular expenditure.

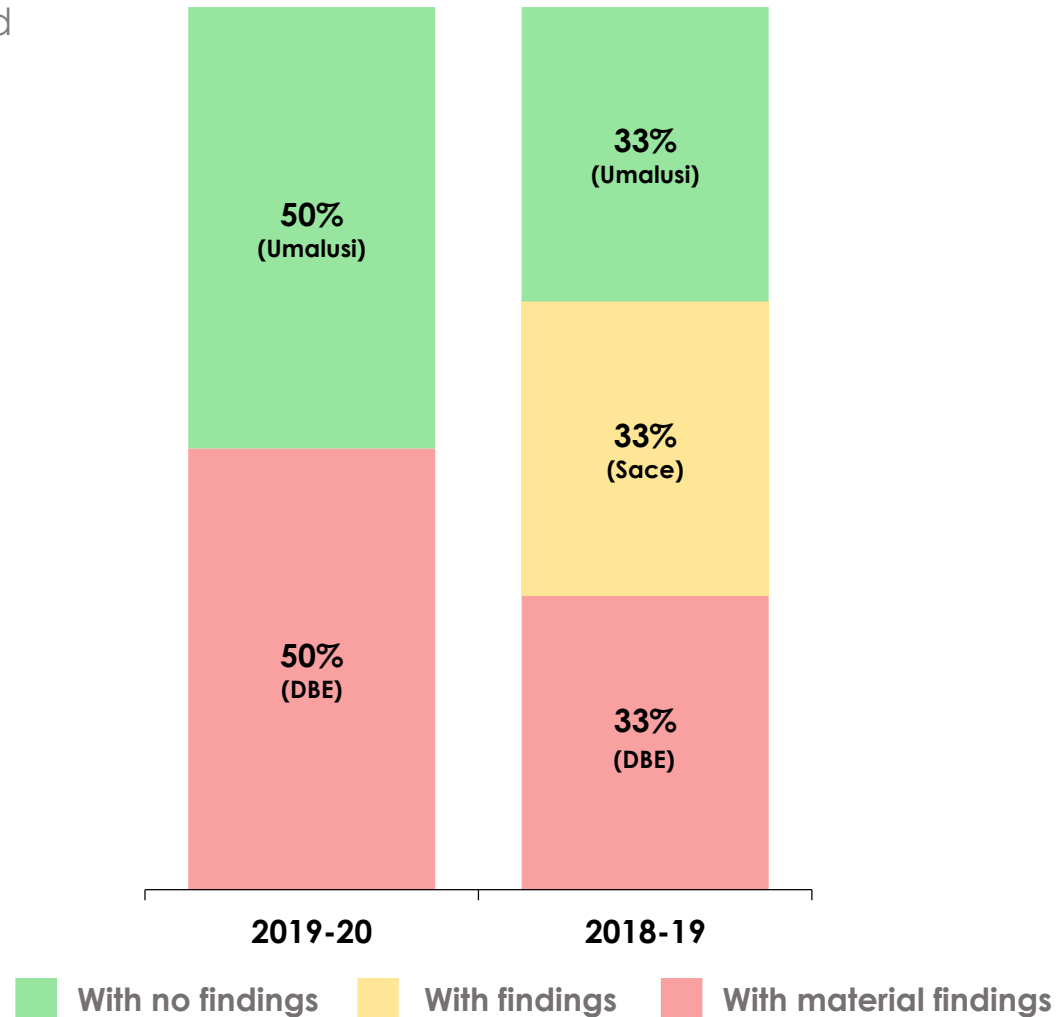


# Supply chain management (SCM)

All SCM findings should be investigated

## Most common SCM findings

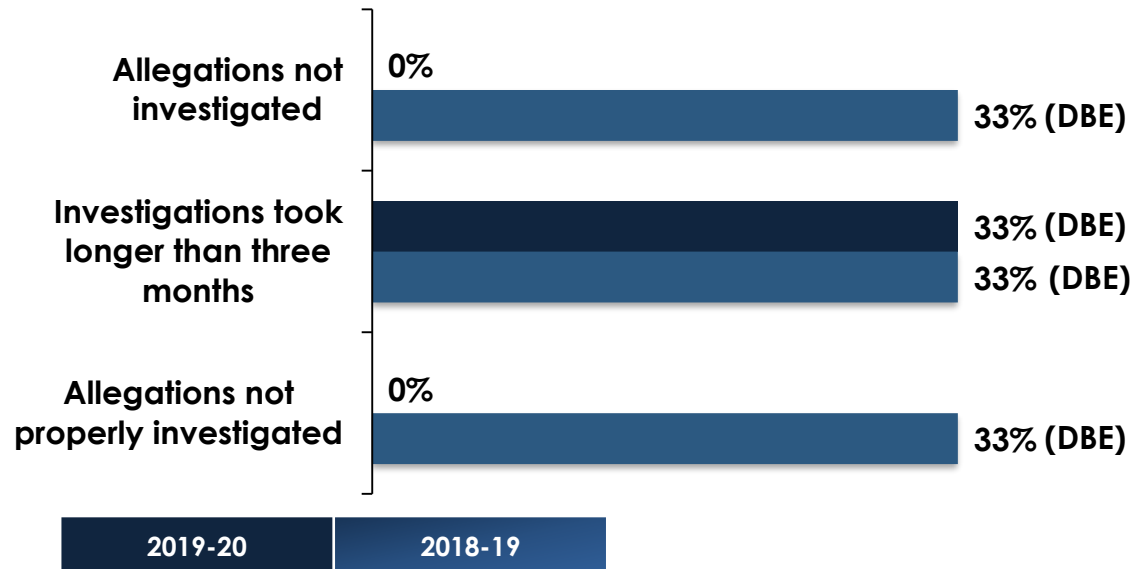
- Regulation on procurement of commodities **designated for local content** and production was **not followed**.
- Repeat **conflicts of interest** not identified due to **weak internal controls**.





## Fraud and lack of consequences

Allegations of financial and/or fraud and SCM misconduct



- A total of one(1) investigations by external parties (Hawks) were ongoing at year-end with regards to allegations of financial misconduct and/or fraud. These investigations have been ongoing for a period exceeding 12 months (**DBE**).
- Investigations into instances of prior year potential irregular expenditure commenced however were still ongoing as at 31 March 2020, similarly to the status reported as at 31 March 2019(**DBE**).



# 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**





## Status of previously reported material irregularities

Material irregularity identified at entities/department in the portfolio

### Nature of material irregularity

- Payments were made for construction work that was not of the required quality standard as there was a lack of proper professional service provider supervision by the department in the execution of the work. Effective internal controls, that should have prevented the payments for the defective work, were therefore not in place when the payments were approved and processed, as required by treasury regulation 8.1.1. Further payments had to be made to another contractor appointed to perform remedial construction work, which resulted in a material financial loss for the department. The project was funded by the accelerated school's infrastructure delivery initiative (Asidi) backlog grant*

### Stage of material irregularity

*The department quantified the cost incurred for remedial work to be R2,777 million, as disclosed in note 26 to the financial statements. Subsequently, on 28 January 2020, the accounting officer issued a letter of demand for the cost of remedial work. The contractor acknowledged receipt of the letter of demand on 4 February 2020. This was followed up by another letter of demand on 20 March 2020, to which the contractor responded on 30 March 2020 stating that they were not liable for the amount and that they were not in a position to incur the cost, but confirmed their commitment to resolve the matter. A facilitator was appointed on 28 July 2020 to mediate between the parties per the dispute resolution clause included in the signed memorandum of agreement. The department had meetings with the facilitator on 14 and 17 September 2020, as well as a joint meeting with the contractor on 18 September 2020.*

*I will follow up on the implementation of the planned actions during my next audit.*

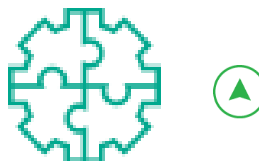
# Portfolio snapshot (2019-20)



**Unqualified with  
no findings: 50%**  
(2018-19: 0%)



**Financially  
unqualified financial  
statements: 50%**  
(2018-19: 67%)



**No findings on performance  
reports: 100%**  
(2018-19: 67%)



**No findings on compliance  
with legislation: 50%**  
(2018-19: 0%)



**Irregular expenditure:  
R818,5 million**  
(2018-19: R210,7  
million)

# Root causes

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

33%  
(DBE)



Action plans implemented by management did not adequately address the root causes of previously raised audit findings. This resulted in inadequate remedies for internal control shortcomings previously reported and repeat internal control deficiencies. Management (accounting officer and senior management), the political leadership (executive authorities) and oversight bodies (SCOPAs and portfolio committees) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.



# Recommendations

## To the department

- The accounting officer should ensure timeous implementation of the action plan drawn up to address internal control deficiencies identified by our reports. The action plan should focus on the underlying root causes. This will prevent recurrence of audit findings in future.
- The accounting officer should ensure that non-compliance findings are investigated to determine whether there were misconduct in the SCM processes. Disciplinary hearings should be held where misconduct was confirmed. All irregular as well as fruitless and wasteful expenditure (including potential IE and FW) should also be investigated timeously to determine whether such expenditure should be recovered from the responsible official. In order to improve the performance and productivity of officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.
- Controls should be in place to ensure that transactions are processed in an accurate, complete and timely manner, which will in turn reduce the errors and omissions in financial and performance reports. Such controls include (i) the daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts, (ii) the collection of performance information at intervals that are appropriate for monitoring service delivery targets and milestones as well as the validation of recorded information and (iii) confirming that legislative requirements and policies have been complied with before initiating transactions.
- Strengthen oversight over financial reporting and compliance with laws and regulations



# Recommendations

## To the portfolio committee

- Ensure that quarterly reports submitted have been verified by internal audit and the audit committee.
- Evaluation of the quarterly reports, action plans and measures for consequences and details of how the department and its entities will resolve issues raised that will not result in recurring issues should be monitored.
- Use information in the audit report on material irregularities for accountability and oversight purposes, insisting on timeous implementation of recommendation and use the reports tabled on progress with material irregularities to oversee and influence progress made with the implementation of the actions.



## Sector outcomes

# Audit outcomes for the sector

Auditee	Movement	Outcomes (2019/20)			Outcomes (2018/19)		
		Audit opinion	PDOs	Non-compliance with laws and regulations	Audit opinion	PDOs	Non-compliance with laws and regulations
Eastern Cape	▶	Qualified	Yes	Yes	Qualified	Yes	Yes
Free State	▶	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	Yes
Gauteng		Outstanding			Unqualified with findings	No	Yes
KwaZulu-Natal		Outstanding			Unqualified with findings	Yes	Yes
Limpopo	▶	Qualified	Yes	Yes	Qualified	Yes	Yes
Mpumalanga		Outstanding			Unqualified with findings	Yes	Yes
Northern Cape	▲	Unqualified with findings	Yes	Yes	Qualified	Yes	Yes
North West	▶	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	Yes
Western Cape	▼	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	No
Basic Education	▲	Qualified	No	Yes	Qualified	Yes	Yes

# Covid-19 special audit





# COVID19 special audit

## PURPOSE

- To report on the observations made during the COVID19 special audit in respect of the national department basic education sector interventions.

## BACKGROUND

- The outbreak of the global coronavirus pandemic has demanded an extraordinary response from government. The Auditor-General of South Africa (AGSA) has made a commitment to the President to assist government in dealing with the financial management risks posed by the emergency measures taken.
- As part of the special audit, we currently in the process of auditing the transactions that will be included in the financial statements for the next financial year, as well as the controls implemented to prevent any fraud, misuse, non-compliance or misstatement. The focus of our audit is on:
  - COVID-19-related account balances and classes of transactions; and
  - Compliance with key legislation applicable to the COVID-19-related transactions, funds and processes.

# Covid-19 special audit report 1

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  - Compliance with key legislation applicable to the COVID-19-related transactions, funds and processes.

# COVID19 special audit report 1

## FOCUS AREAS

1. Provisioning **personal protective equipment (PPE)** to learners, educators, and support staff so that they would be ready when schools reopened.
  - Needs analysis of PPE, bulk warehousing and distribution of PPE schools, PPE record/stock management at schools and rationale, safe use and disposal of PPE
  - Procurement and contract management
  - Internal control weaknesses
2. Providing **emergency water and basic sanitation services** to selected public school
  - Procurement and contract management
  - Internal control weaknesses

# COVID19 special audit report 1

## Key audit findings: PPE – Demand and needs

### Use of available systems to determine demand and need for PPE

- We noted from the responses that provincial education departments used different processes to determine the PPE needs at schools.
- Some provincial education departments did not use the available systems, such as the South African School Administration and Management System and Education Management Information Systems (SA-SAMS), to determine how much PPE was needed for the schools based on the actual numbers of registered employees and learners.

### Inconsistent supply of PPE to schools by provinces resulting in insufficient PPE being distributed to schools

- PPE was not distributed consistently to provinces, education districts and schools. The North West, Free State and Mpumalanga education departments did not procure PPE for non-teaching personnel, such as school administration staff, cleaners, security, general staff and food handlers. The schools had to use their own budgets to buy PPE for additional staff and volunteers.

### Substandard quality of PPE supplied to schools by suppliers



Substandard quality of PPE were provided to Leolane school by the education district.



Substandard quality of PPE were provided to Ramoshie school by education districts.



Substandard quality of PPE were provided to KwaMhlanga school by education districts.

# COVID19 special audit report 1

## Key audit findings: PPE – Procurement

### General supply chain management non-compliance

- The Mpumalanga **participated in the contract of another organ of state** (department of Health) to procure certain PPE supplies, as allowed for by Treasury Regulation 16A6.6. PPE goods procured was however not included in the scope of the original contract. As a result of the non-compliance there is a possible irregular expenditure impact of R21,937 million
- At the North West education department, we identified that some teachers had a **conflict of interest** for PPE suppliers added result in irregular expenditure.

The following matters were identified at the KwaZulu-Natal education department for **quotations**:

- Only two quotations were obtained instead of three when procuring latex hand gloves to the value of R160 770. There was no recorded approved deviation, and is deemed to be irregular expenditure.
- Quotations were obtained and evaluated from three service providers, two of whom were not registered on the central supplier database for the procurement of hand sanitizers to the value of R45 627.
- Contracts totalling R521 867 were awarded to two service providers who were not tax compliant at the time of the award and is deemed to be irregular expenditure.
- Quotations totalling R491 625 were received from two related suppliers, one of which was awarded the contract. These suppliers have the same addresses and are owned by the same person, which shows possible cover quoting.
- 20 B-BBEE points were allocated to one service provider who was awarded two contracts totalling R550 119. However, there was no B-BBEE certificate to confirm the level in the information submitted for audit and is deemed to be an irregular expenditure.



# COVID19 special audit report 1

## Key audit findings: PPE – Procurement

### Non-compliance with disaster management instruction notes

#### Pricing of PPE

- The Mpumalanga education department paid more than the maximum of R25, including VAT, for a three-ply cloth face mask. One supplier charged the department R25 excluding VAT (or R28,75 including VAT) for each mask. The department bought 15 946 face masks from this supplier, which comes to an additional R59 797,50. This additional cost may result in irregular expenditure.
- The KwaZulu-Natal education department procured some PPE items at prices higher than those recommended in paragraph 3.7.6 of instruction note 8 of 2019-20, which states that the institutions may procure from other suppliers as long as the prices are equal to or lower than the prices in the annexure. This resulted in a possible irregular expenditure of approximately R316 990.
- The national department procured PPE items at prices higher than those prescribed in the instruction notes to an amount of R219 829,60 through its private party as part of the public-private partnership contract.

#### Local production and content, and small business development

At both the North West and Mpumalanga education departments:

- The invitation to tender did not always include the minimum threshold for local production and content as part of the evaluation criteria.
- The departments did not ensure that all appointed suppliers were registered on the Department of Small Business Development database.



# COVID19 special audit report 1

## Key audit findings: PPE – Internal control

### **Internal control weakness in the ordering, delivery, invoicing and payment processes**

Although we are still testing processes, there were clear control deficiencies. We identified weaknesses in the ordering, delivery, invoicing and payment processes for some departments in the sector, which resulted in the following:

- The Eastern Cape education department overpaid suppliers because the invoiced quantities of PPEs did not always match the quantities delivered to schools as per the delivery notes.
- The quantities of PPE ordered, invoiced and paid for by the KwaZulu-Natal education department did not match the quantities delivered by the supplier, which is likely to result in a total estimated loss of R61 813. When we followed up, the department indicated that the supplier had agreed to deliver the shortfall at no additional cost to the department.



# COVID19 special audit report 1

## Key audit findings: Emergency water supply

### Non-compliance with the implementation protocol agreement

We identified weaknesses in the implementation of the protocol agreement with Rand water. The agreement requires the implementing agent to provide the DBE with formal weekly progress reports, together with an analysis of expenses and spending. Rand Water has not consistently provided these reports and analyses. The accounting officer has committed to follow up with Rand Water and enforce compliance with the agreement.

## Overall conclusion

The planned initiatives were progressing well despite the challenges that the sector and the country are facing due to the pandemic.

We will continue to engage with the accounting officers on key findings noted and assess the impact of these findings on the sector's outcomes. We will also share the procurement findings with the fusion centre for immediate follow-up and investigation.

The agreed-upon responses should be implemented and monitored to prevent the identified shortcomings from recurring.

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