



NATIONAL AND PROVINCIAL AUDIT OUTCOMES

March 2021

PFMA
2019-20



AUDITOR - GENERAL
SOUTH AFRICA

Reputation promise



MISSION

The Auditor-General of South Africa 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.



VISION

To be recognised by all our stakeholders as a relevant supreme audit institution (SAI) that enhances public sector accountability.



Our message from previous general report and special reports



Act now on accountability

1. Sustainable solutions are required to **prevent** accountability failures
2. There must be **consequences** for accountability failures
3. Urgent attention should be paid to **financial management**
4. With the new administration, **opportunities for progressive and sustainable change** were evident



Impact of covid-19 on 2019-20 audits of national and provincial government

 <p>Financial statements</p>	<p>Finance minister gave PFMA auditees two-month extension to submit financial statements – from 31 May 2020 to 31 July 2020</p>
 <p>Audit completion</p>	<p>Legislated audit completion date for PFMA auditees moved from 31 July 2020 to 30 September 2020</p>
 <p>Covid-19-related expenditure</p>	<p>The outcomes in these slides are for the financial year ended 31 March 2020</p> <p>The covid-19-related expenditure occurred after this year-end – we audited / are auditing it for reporting on the 2020-21 financial year</p>



Limited improvement in control environment



Signs of improvement – but **not the progressive and sustainable improvements required**



Widespread **weaknesses in basic internal controls** and little movement towards investing in **preventative controls**



State of internal controls and prevalence of recurring findings and weaknesses mean the **assurance being provided by senior management and accounting officers** should be improved



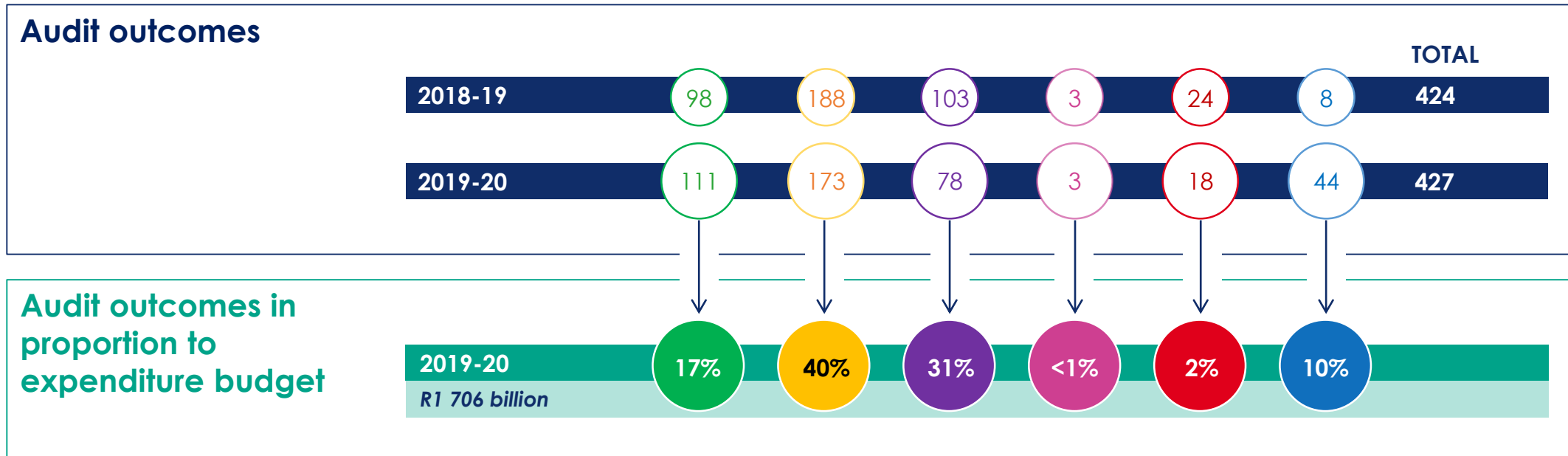
Stronger assurance contributions made by **new portfolio committees and public accounting committees**, and closer oversight by **executive authorities**



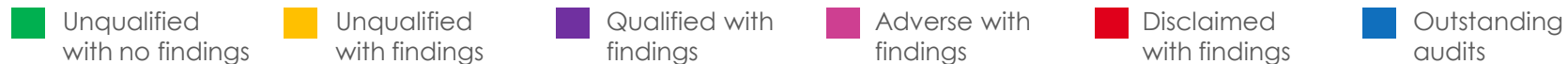
Coordinating departments improving and starting to play bigger role to support auditees



Audit outcomes



MOVEMENT from previous year



Outstanding audits

30 Nov
2020

audits of **44** auditees outstanding

05 Mar
2021

- **30** of these finalised
- **14** not yet finalised

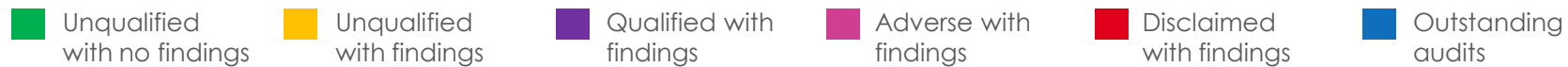
Audit outcomes

2019-20



Main reasons for delay

- Annual financial statements still outstanding
- Auditee delays



Provincial key messages



Improvements due to leadership implementing commitments and oversight being more involved and accountable
Preventative controls still need attention



Second year of improvements, but lack of accountability continues to result in pervasive non-compliance (especially relating to procurement) and deteriorating financial health



Inadequate monitoring of preventative controls and insufficient consequence management resulting in stagnation or regression



Provincial key messages (continued)



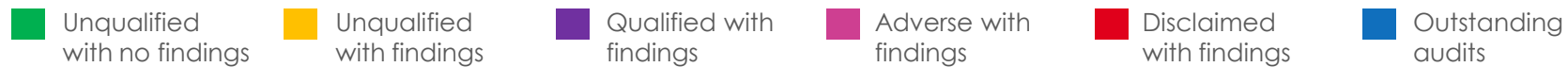
Progressing trends - greater effort required to trigger further improvements



Notable improvement as auditees continue to enhance their control environment and provincial treasury strengthens oversight



Preventative controls (as critical element of accountability) still not embedded at most auditees, resulting in erratic audit outcomes. Leadership involvement is required to drive accountability and improve audit outcomes



Provincial key messages (continued)



■ Unqualified with no findings
 ■ Unqualified with findings
 ■ Qualified with findings
 ■ Adverse with findings
 ■ Disclaimed with findings
 ■ Outstanding audits



Status of financial management in national and provincial government



74% of auditees published quality financial statements

	Movement	2019-20
Submission of financial statements by legislated date (all auditees)	▼	93%
Quality submission for auditing	▲	49%
Quality of published financial statements	▲	74%

Material misstatements		
Property, infrastructure, plant and equipment	▲	13%
Expenditure	▲	12%
Receivables	▼	10%
Payables, accruals and borrowings	▼	10%

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

Impact

Accountability and transparency not enabled through credible financial reporting

Reliance on auditors comes at great cost (increased audit fees) and is not sustainable



Preventative controls that failed

- Independent review and reconciliation
- Disciplined record keeping and document control
- In-year reporting and monitoring



Financial health of auditees



What do the numbers say?

Analysis of auditees' financial statements shows **pressure on their financial health** – specially **departments and state-owned entities**

Auditees where audits were completed, were responsible for total expenditure budget of **R1 533 billion**:

- **2%** of them: financial statements **not reliable enough for financial analysis**
- **12%** of them: **cannot continue to operate as going concern** in foreseeable future based on budget disclosed in financial statements
- **66%** of them: **indicators of financial strain**



Financial health pressure points for departments

(Based on financial statements of 159 completed audits)

Income statement	Expenditure	<ul style="list-style-type: none"> • 30% (47) had creditor-payment period of more than 30 days • R544 million of expenditure was fruitless and wasteful • R17,98 billion of expenditure was unauthorised
	Net result	<ul style="list-style-type: none"> • 35% (56) ended year in deficit (expenditure was more than revenue) • Total deficit at departments: R21,20 billion
Balance sheet	Claims	<ul style="list-style-type: none"> • Claims stemming from litigation against departments are not budgeted for, resulting in successful claims being paid from funds budgeted for other purposes • Claims payable by departments at year-end was R110,4 billion • 33% (49) had claims at year-end that exceeded 10% of following year's budget; outstanding claims at year-end exceeded entire following year's budget at 13 departments
	Debtors & creditors	<ul style="list-style-type: none"> • Departments do not budget on accrual basis – expenditure not paid at year-end is effectively funded by following year's budget; unpaid expenditure totalled R22,78 billion at year-end • 18% (27) had already used more than 10% of following year's budget (excluding employee cost and transfers) to fund current year's shortfall • On average, 12% of departmental debt is not recoverable; average debt-collection period was 112 days
<p>9% of departments (14) disclosed in their financial statements that there is significant doubt that they will be able to continue operations</p>		





Annual unauthorised expenditure increased from R1,65 billion to R18,12 billion

Number of departments incurring unauthorised expenditure increased slightly from 20 to 22

2019-20	R15,13 bn (Social development)	R1,4 bn (Education sector)	R0,97 bn (Health sector)	R0,62 bn (Other sectors)	R18,12 bn	<p>Almost 100% related to overspending of budget</p> <p>Excluding social development as an anomaly, education sector constitutes 47% of remaining total</p>
2018-19	R0,0 bn (Social development)	R0,31 bn (Education sector)	R0,61 bn (Health sector)	R0,73 bn (Other sectors)	R1,65 bn	

Top contributors constituting **98%** of total: **national government, Eastern Cape, Free State** and **KwaZulu-Natal**

Top 5 contributors	2019-20 (R million)	Nature	2018-19 (R million)
Department of Social Development	15 134	Early payment of April social grants (old age and disability) in response to covid-19 lockdown measures	0
Education (EC)	990	Overspending on employee costs as well as goods and services relating to settling of municipal debt on behalf of schools	280
Health (EC)	598	Settlement of medical legal claims	569
Department of International Relations and Cooperation	247	Overspending on employee costs	0
Education (KZN)	236	Overspending on employee costs related to fluctuating educator numbers	12



Key indicators show pressure in provincial education departments



Provincial departments	Unauthorised expenditure incurred (R million)	Vulnerable position	Deficit (R million)	% of cash shortfall funded by next year's operational budget*	Claims as percentage of next year's budget	
					Percentage	R million
Education	1 398					3 102
Eastern Cape	990	No	-	38,3	0,28	34
Free State	97	Yes	37	72,1	4,74	72
Gauteng	-	No	-	3,0	12,84	1 039
KwaZulu-Natal	236	Yes	217	16,9	16,77	1 083
Limpopo	1	No	241	3,5	2,24	95
Mpumalanga	56	No	-	22,7	6,93	212
Northern Cape	18	No	13	31,5	8,67	85
North West	-	No	-	11,0	8,08	197
Western Cape	-	No	-	0,4	7,85	285

■ Unqualified with no findings
 ■ Unqualified with findings
 ■ Qualified with findings
 ■ Adverse with findings
 ■ Disclaimed with findings
 ■ Outstanding audits



Key indicators show pressure in provincial health departments



Provincial departments**	Unauthorised expenditure incurred (R million)	Vulnerable position	Deficit (R million)	% of cash shortfall funded by next year's operational budget*	Claims as percentage of next year's budget	
					Percentage	R million
Health	974					69 110
Eastern Cape	598	Yes	4	11,5	135,59	36
Free State	80	Yes	-	7,5	26,95	3 431
Gauteng	-	No	2 242	9,5	114,9	23 793
KwaZulu-Natal	92	No	1 368	0,3	117,31	24 419
Mpumalanga	-	No	-	4,5	174,72	9 637
Northern Cape	-	Yes	448	21,9	122,58	2 317
North West	204	No	598	0,0	92,39	5 477

■ Unqualified with no findings
 ■ Unqualified with findings
 ■ Qualified with findings
 ■ Adverse with findings
 ■ Disclaimed with findings
 ■ Outstanding audits



State-owned entities (SOEs) – the stark reality

- High number of SOE audits completed late after cut-off date: TCTA, Denel, Land Bank, Safcol & IDT
- Audits still in progress: Necsa & SAPO
- Annual financial statements still outstanding: SAA & SA Express
- Completed audits: Armscor, Acsa, DBSA, CEF, SABC & 9 subsidiaries

Some observations

- SOEs disclosed significant doubt in financial statements about their ability to continue **operating as going concern** in foreseeable future
- In some cases, **the financial statements were not reliable enough to analyse due to adverse/disclaimed opinion**
- Some SOEs **ended year in deficit** (expenditure was more than revenue)
- Annual financial statements not submitted as result of business rescue

What does the picture look like at Eskom and Transnet?

- **Eskom** ended year in **deficit – R20,5 billion**
- **Transnet** ended year with profit – **R3,9 billion**
- **Eskom** disclosed significant doubt in financial statements about their ability to continue as **going concern**



Other public entities in vulnerable financial position

Significant doubt whether they will be able to continue operations (based on number of times disclosed in financial statements since 2014-15)





Annual fruitless and wasteful expenditure slightly increased to R2,39 billion

Number of auditees incurring fruitless and wasteful expenditure decreased from 246 to 231

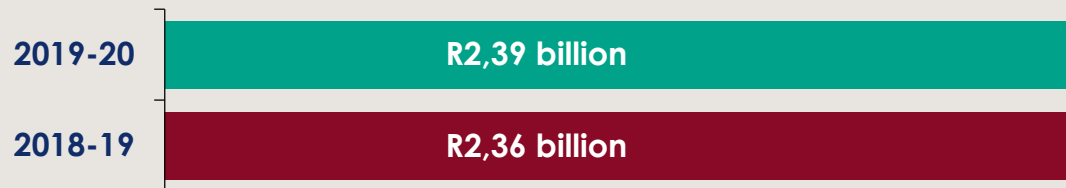


Figure **not complete** because of the 383 completed audits, 4 auditees (1%) were **qualified on incomplete disclosure** of fruitless and wasteful expenditure
 Figure also excludes fruitless and wasteful expenditure of SOEs we do not audit

Top contributors constituting **89%** of total: **national government, Gauteng and Free State**

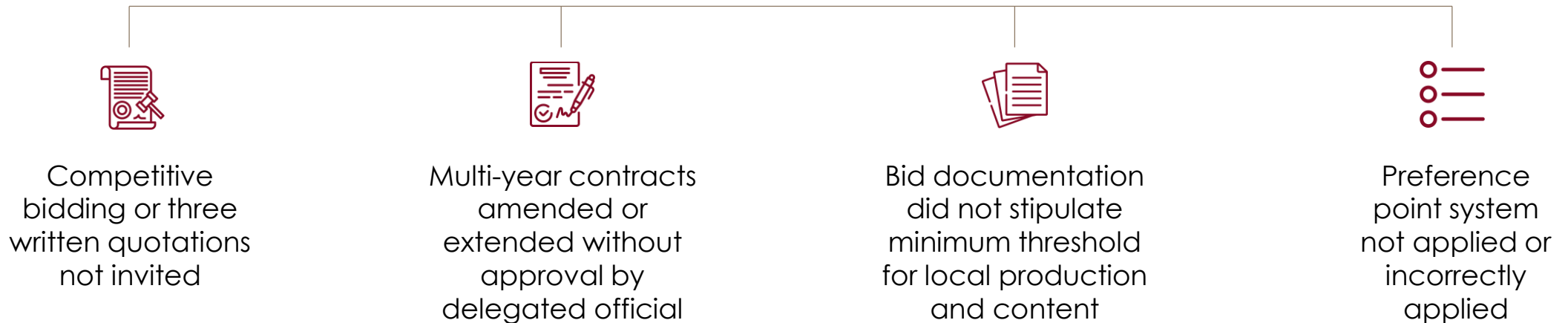
Top 5 contributors	2019-20 (R million)	Nature	2018-19 (R million)
South African Social Security Agency	321	Payments to a supplier for services not delivered	0,42
Department of Energy	90	Storage costs paid to supplier for goods not taken receipt of within contract period	89
Department of Basic Education	77	Expenditure on school infrastructure projects subsequently cancelled	0,50
Department of Tourism	75	Overpayments on EPWP projects	1,1
Petroleum Oil and Gas Corporation	52	Interest and penalties due to Sars	8,8



Supply chain management findings

	Movement	2019-20
Uncompetitive and unfair procurement processes	▼	54% (205)
Awards to employees and political office-bearers	▶	R116 million
False declarations by suppliers	▲	605 suppliers
Limitations on audit of awards	▲	R2 079 million

Most common findings on uncompetitive and unfair procurement processes and contract management



Competitive bidding or three written quotations not invited

Multi-year contracts amended or extended without approval by delegated official

Bid documentation did not stipulate minimum threshold for local production and content

Preference point system not applied or incorrectly applied

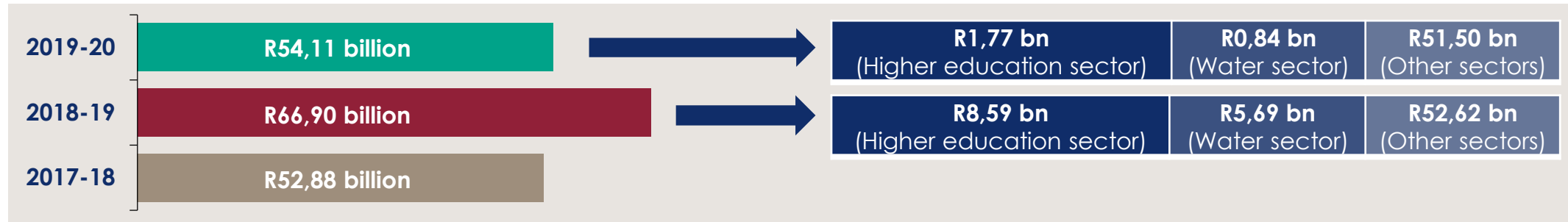




Supply chain management non-compliance is main cause of irregular expenditure

Annual irregular expenditure decreased from R66,90 billion to R54,11 billion

Number of auditees incurring irregular expenditure decreased slightly from 300 to 285



Amount of **R54,11 bn** not complete because of the 383 completed audits, **28 auditees (7%)** were qualified on incomplete disclosure of irregular expenditure

Irregular expenditure incurred in 2019-20 by Eskom and Transnet

Transnet – R56,2 billion

Eskom – R11,17 billion



Top contributors to annual irregular expenditure and key movements

Top contributors constituting 69% of total:

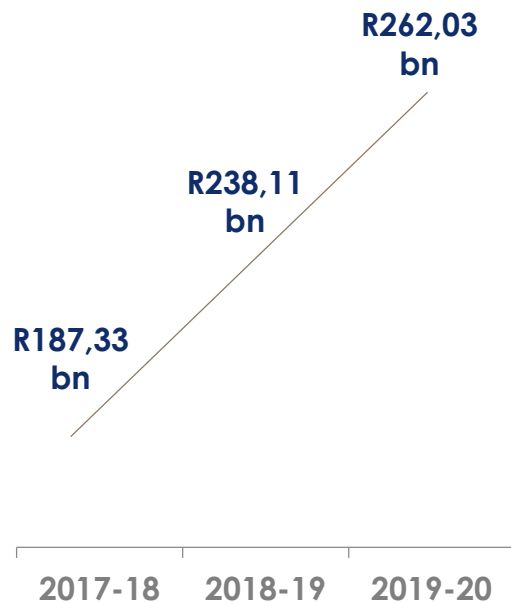
1. National government	R15,01 billion (2018-19: R25,83 billion)
2. KwaZulu-Natal	R9,75 billion (2018-19: R12,45 billion)
3. Gauteng	R7,45 billion (2018-19: R7,13 billion)

Top 5 contributors	2019-20 (R billion)	Nature	2018-19 (R billion)
Transport (KZN)	5,47	50% related to non-compliance with legislation on contracts Mostly related to bus subsidies and grants of R3,2 billion (public transport operations grant) irregularly spent	4,15
Defence	2,84	92% related to non-compliance with legislation restricting overspending on the budget for employee compensation	3,59
Health (GP)	2,32	58% related to procurement without following competitive bidding or quotation processes Mostly related to consignment stock, security contracts, outsourced nursing staff, etc.	2,86
Roads and Transport (GP)	2,17	100% related to non-compliance with other procurement process requirements Mostly related to bus contracts and grants of R2,17 billion (public transport operations grant) irregularly spent	2,26
Education (KZN)	1,58	87% related to procurement without following competitive bidding or quotation processes Mostly related to school feeding scheme contracts and grants of R1,4 billion (national school nutrition programme grant) irregularly spent	1,88



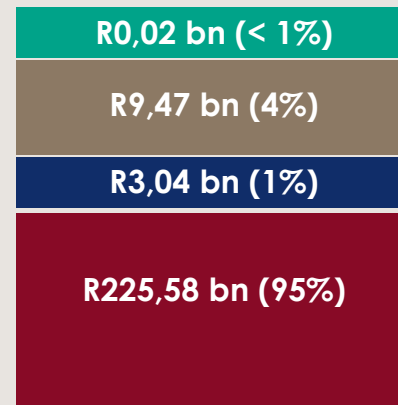
Irregular expenditure is not speedily dealt with

Closing balance of irregular expenditure continues to increase



How have auditees dealt with irregular expenditure?

(Figures below expressed as percentage of previous year's closing balance of R238,11 bn)



Top 10 contributors (R116,37 billion) to irregular expenditure not dealt with (constitutes 52% of R225,58 billion):

- Passenger Rail Agency of South Africa – R27,29 billion
- Health (GP) – R13,55 billion
- Health (KZN) – R13,44 billion
- Transport (KZN) – R12,37 billion
- South African National Roads Agency – R10,90 billion
- Department of Water and Sanitation – R8,94 billion
- Health (NW) – R8,86 billion
- National Student Financial Aid Scheme – R7,58 billion
- Health (NC) – R6,87 billion
- Education (KZN) – R6,57 billion

■ Money recovered or in process of recovery
 ■ Condoned or authorised
 ■ Written off
 ■ Not dealt with





The material irregularity process



Why the expanded mandate?

To strengthen accountability mechanisms in public sector

Accounting officers and authorities (AO/AA)

AO/AA have legal obligation to prevent all irregularities and take action when they occur

We:

- **Identify irregularities that could have significant impact** on auditees' finances, resources and delivery
- Notify AO/AA so they can **timeously take appropriate steps in terms of legislation**
- **Give space to AO/AA to take actions required** to deal with material irregularities before using our additional powers

Oversight and executive authorities

Oversight and monitoring roles remain unchanged

By reporting material irregularities, **most material matters** are highlighted and information provided to assist oversight and monitoring roles

Success is: Swift action by AO/AA to resolve material irregularities and prevent reoccurrence



Implementation of material irregularity process

Material irregularity

means any **non-compliance** with, or **contravention** of, legislation, **fraud, theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in 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**

If accounting officer/authority does not appropriately deal with material irregularities, our expanded mandate allows us to:



Refer material irregularities to relevant public bodies for further investigations



Recommend actions to resolve material irregularities in audit report
Take binding remedial action for failure to implement recommendations



Issue certificate of debt for failure to implement remedial action if financial loss was involved



Identifying and reporting on material irregularities



Potential material irregularity can be **identified during any phase of audit**

Confirmation, notification, response and follow-up is continuous process – **not bound to specific audit cycle**

When audit report is signed, we **report confirmed material irregularities** based on status at that date:

- **New material irregularities** identified and actions accounting officer/authority is taking to address these – or we include recommendations or information on referral (as applicable)
- Whether there are other material irregularities of which accounting officer/authority was notified, but which are still **in process**
- **Progress made in resolving material irregularities** reported in previous audit report



Nature of identified material irregularities (MIs)

78 MIs identified to date with estimated financial loss of R5,8 billion



Procurement

Unfair or uncompetitive procurement processes resulting in **overpricing of goods and services procured**
25 MIs (33%) – R960 million estimated loss

Unfair procurement processes resulting in **appointed supplier not delivering**
2 MIs (3%) – R2 221 million estimated loss



Expenditure management

Payment for **goods or services not received** or of **poor quality**
26 MIs (34%) – R1 435 million estimated loss

Invoices or claims **not paid on time** resulting in interest or penalties
11 MIs (14%) – R33 million estimated loss



Revenue management

Revenue **not billed**
3 MIs (4%) – R784 million estimated loss

Debt **not recovered**
2 MIs (3%) – R104 million estimated loss



Resource management

Inefficiencies – no benefit derived from cost
6 MIs (8%) – R285 million estimated loss

Assets not safeguarded resulting in loss
1 MI (1%) – R1,5 million estimated loss



Examples of material irregularities

Non-compliance	Financial loss	Further actions
Lease payments (Department of Defence)		
<p>Lease payments for unoccupied buildings – uneconomical and inefficient use of resources</p> <p>(Section 45(b) of PFMA)</p>	<p>No value derived from expenditure</p> <p><u>Financial loss</u> = R108,3 million (payment made)</p>	<p>Accounting officer issued instruction for investigation of material irregularity and plans to take further actions based on outcome</p>
Standing time (Limpopo Roads Agency)		
<p>Construction permit not obtained for project before contractor took over site – contractor could not commence work</p> <p>(Construction Regulation 3(1))</p>	<p>Payments to contractor for standing time for period of permit delays – no value derived from expenditure</p> <p><u>Financial loss</u> = R1,3 million (amount paid to contractor)</p>	<p>Based on outcome of preliminary investigation, accounting officer commenced formal investigation to identify responsible officials</p>
Procurement (Free State Education)		
<p>Contract not awarded to bidder that scored highest points in evaluation process – shared between 8 suppliers</p> <p>(Section 2(1)(f) of PPPFA)</p>	<p>Department paying higher price per item</p> <p><u>Financial loss</u> = accounting officer to quantify loss</p>	<p>We recommended for implementation by 31 March 2021:</p> <ul style="list-style-type: none"> • Investigate and quantify loss • Disciplinary steps and determine if officials are liable



Legal obligations of accounting officer/authority to address irregularity

If accounting officer/authority is made aware of irregularity (non-compliance, fraud, theft or breach of fiduciary duty), **PFMA, Treasury Regulations and instruction notes typically prescribe** following steps to be taken:

1. Perform preliminary investigation to determine facts and collect information on what caused transgression, who is responsible and whether financial loss was (or will be) suffered

If applicable

2. Prevent any losses or further losses
3. Institute formal investigation if there are indications of fraud, corruption or other criminal conduct; if confirmed, take further action (e.g. report matter to police)
4. Recover any financial losses from external party
5. Take steps against responsible officials (which can include financial misconduct investigation)
6. Recover any financial losses from responsible officials

Auditee's policies and procedures typically describe how these steps should be taken and the timing thereof

Same steps should be taken if accounting officer/authority is notified of material irregularity



Status of material irregularities reported in 2018-19

39 material irregularities reported in 2018-19

- 36 Accounting officer/authority taking action
- 2 Recommendations in audit report for accounting officer/authority action
- 1 Referral to public body

Progress in resolving material irregularities in 2019-20

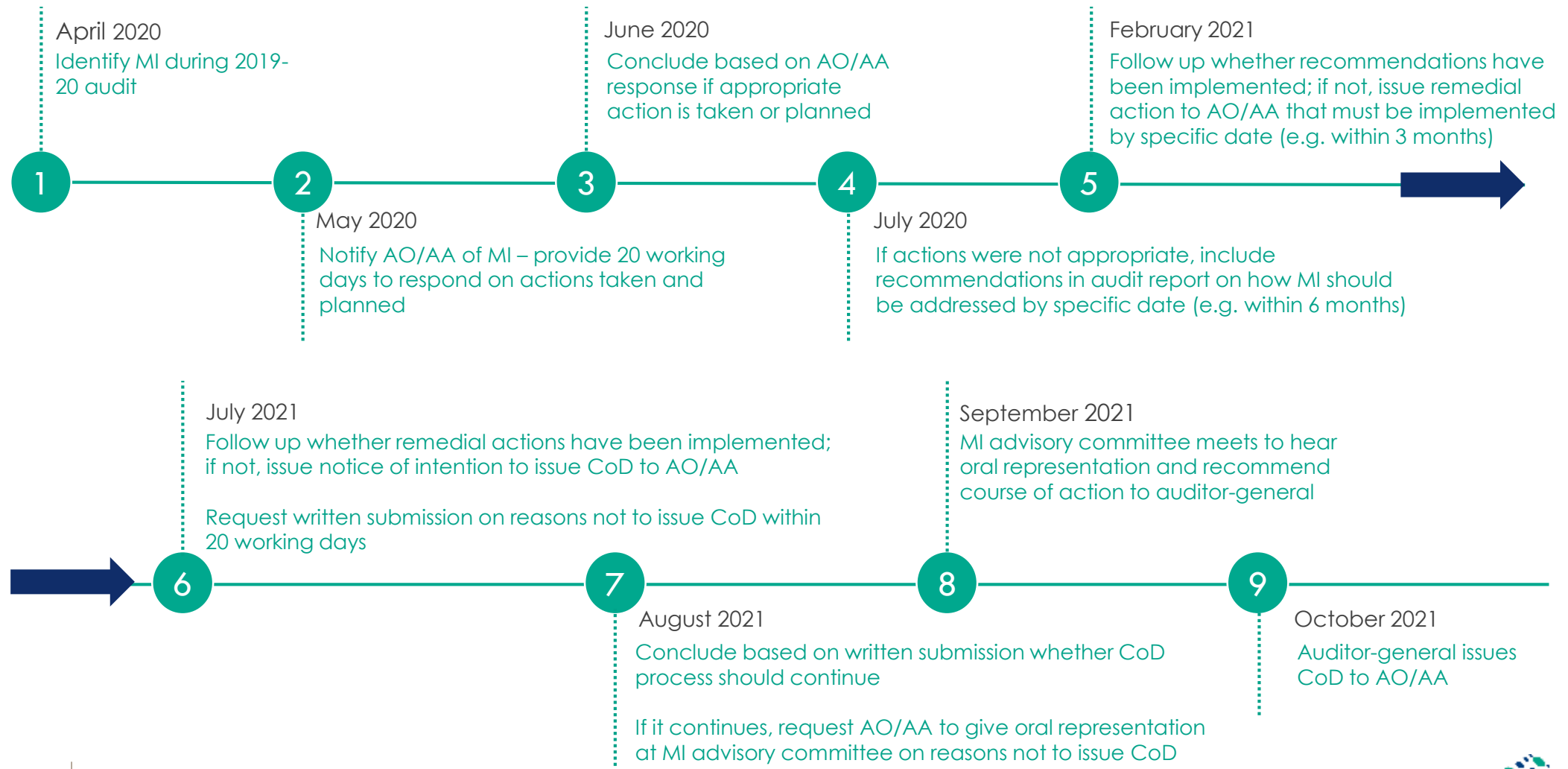
- 24 Implementation of appropriate actions by accounting officer/authority in process
- 7 Resolved or closed
- 6 Lack of progress by accounting officer/authority resulting in recommendations issued
- 1 Investigation by public body in process
- 1 Implementation of recommendations in process

Implementation of actions and recommendations to resolve material irregularities hampered by:

- Instability at accounting officer/authority level
- Covid-19-related delays
- Dependence on other public bodies



Process from identifying material irregularity that caused material financial loss to issuing certificate of debt – an example



Material irregularity (MI) vs irregular expenditure (IE) - nature



Irregular expenditure

Expenditure incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation



Difference: irregularity

IE: Irregularity is only **non-compliance with legislation when incurring expenditure**

MI: Irregularity is **any non-compliance (not limited to expenditure)** as well as **fraud, theft or breach of fiduciary duty**



Difference: impact

Impact is not specified, as PFMA requires accounting officer/authority to determine impact

There can be **irregular expenditure that did not result in any financial losses**, misuse or harm

Examples – IE that can result in financial loss:

- Competitive bidding process not followed – best price not obtained
- Contract not awarded to bidder with highest points – supplier cannot do the work and remedial work is required or goods/services cost more



BUT possible that there is **no financial loss if goods and services were reasonably priced and delivered on time and at right quality**

Examples – IE that rarely result in financial loss:

- Supplier did not submit updated tax certificate
- Advert did not include specifications for local content




Material irregularity vs irregular expenditure - value

	Irregular expenditure	Material irregularity
 Difference: value	Value is expenditure to date	Does not necessarily have a value, but if impact is financial loss, value we report is estimated financial loss
 Example	Lack of competitive bidding process for awarding contract of R20 million Irregular expenditure is all payments made on contract to date (e.g. R10 million)	Lack of competitive bidding process for awarding contract of R20 million, resulting in material financial loss as same service could have been delivered at lower price (e.g. R18 million) Financial loss is R2 million (what was lost and what can still be lost)



Identified material irregularities – next steps and responsibilities

	AO/AA and AGSA	Executive and oversight
 <p>AO/AA is dealing with MI</p>	<p>AO/AA... implements committed actions to address MI and improves controls to prevent reoccurrence</p> <p>AGSA... follows up in next audit if actions were implemented and if outcomes were reasonable; if not, can result in referral or recommendation in audit report</p>	<p>Executive... monitors progress and supports AO/AA in addressing MI and improving controls</p> <p>Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes</p>
 <p>MI is referred to public body</p>	<p>AO/AA... cooperates with public body and implements any remedial actions/recommendations made; improves controls to prevent reoccurrence</p> <p>AGSA... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/recommendations</p>	<p>Executive... supports public body investigation and AO/AA in improving controls; if responsible for public body, monitors progress with investigation</p> <p>Oversight... monitors progress with investigation and calls public body to account for undue delays in investigation</p>



Identified material irregularities – next steps and responsibilities *(continued)*



**Recommendation
included in audit
report**

AO/AA and AGSA

AO/AA... implements recommendations by date stipulated in audit report and improves controls to prevent reoccurrence

AGSA... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable; if not, **issue remedial action**

Executive and oversight

Executive... monitors progress and supports AO/AA in implementing recommendations and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes





Act on accountability now



AUDITOR-GENERAL
SOUTH AFRICA

In conclusion

A continued call to **act on accountability**

Pay specific attention to the following:



Prevent **leakages and recover lost money**



Follow good **financial management disciplines**



Support **state-owned entities, struggling public entities** and **key service delivery departments**



Invest in **sustainable solutions to prevent accountability failures**; if **consequences for accountability failures** are required, implement them swiftly, bravely and consistently



Stay in touch with the AGSA



www.agsa.co.za



[@AuditorGen_SA](https://twitter.com/AuditorGen_SA)



Auditor-General of South Africa



Auditor-General of South Africa



AUDITOR-GENERAL
SOUTH AFRICA