Budgetary Review and Recommendation Report of the Standing Committee on Finance, Dated 14 March 2023

The Standing Committee on Finance (SCOF/ the Committee), having considered the performance report and audited financial statements of the National Treasury (NT) and the South African Revenue Service (SARS) for the 2021/22 financial year, reports as follows:

1. INTRODUCTION

1.1. On 21 February 2023, the Deputy Minister of Finance, Dr David Masondo and senior staff of the National Treasury (NT) and the South African Revenue Service (SARS), led by the Commissioner, Mr Edward Kieswetter, appeared virtually before the Standing Committee of Finance to present their annual reports and audited financial statements for 2021/22. The Minister of Finance, Mr Enoch Godongwana, and the Acting Director-General, Mr Ismail Momoniat, sent apologies as they were preparing for the tabling of the national budget the following day.

1.2. Prior to the presentation of the annual reports, the Office of the Auditor-General of South Africa (AGSA), led by Ms Nompakamo Matanzima, Business Unit Leader: Finance Portfolio, presented to the Committee the audit outcomes of all the entities that AGSA audits in the finance portfolio.

2. PRESENTATION BY NATIONAL TREASURY

2.1. National Treasury started by presenting its audit performance, which for the first time in years received a a qualified audit opinion. The basis of this audit finding was that NT failed to record R68 million in respect of the Integrated Financial Management System (IFMS) related payments to Oracle for technical support and maintenance. AGSA also found that the balance for these payments since 2017 was incorrectly removed from the balance sheet, resulting in an understatement of R400 million.

2.2. NT and AGSA has been in dispute in respect of the IFMS payments since 2016/17. Since then, AGSA has found that the expenditure incurred in line with annual support and maintenance of the IFMS was fruitless and wasteful expenditure. NT told the Committee that its view with regards to these payments has been that they are not made in vain as failure to make them would result in legal and financial implications for NT. NT stated that none of these payments have been regarded by AGSA or any forensic investigation as suspicious or inappropriate or criminal.

2.3. NT explained that the license support and maintenance fees are paid annually to ensure that the IFMS project has automatic access to updated versions of licenses and software and security patches, updates and specialised technical problem solving which would be required in the full implementation of the IFMS. NT further explained that if these annual fees are not paid, any discounts given will be lost and penalties and back payments will be incurred. NT stated that it had provided evidence of utilisation of licenses as well as support and maintenance.

2.4. NT explained that AGSA had calculated the Department's performance on the utilisation of the IFMS licenses at the time of the full rollout planned for 2023. It said that given that AGSA agreed that the IFMS software should be treated as work in progress, NT is of the view that the support and maintenance should be reclassified.

2.5. NT explained that an unsuccessful procurement process was initiated through the State Information Technology Agency (SITA) for the appointment of a service provider to implement the pilot to establish the basis for its national roll-out. NT further explained that the SITA Act required government entities to procure goods and services through SITA. NT stated that Government has no alternative but to successfully implement the IFMS. It said it is implementing mitigating measures to ensure this successful implementation.

2.6. NT explained that in respect of the IFMS related expenditure, it was exercising its rights, following the audit objection process and obtaining legal advice in the interest of government-wide treatment of such large, co-managed multi-year projects.

2.7. Other audit findings of NT in the 2021/22 financial were that it incurred irregular expenditure of R30,7 million due to not following a proper tender process and failure to properly approve expenditure. This is an improvement as last year irregular expenditure by NT was R66.175 million.

2.8. Although there were misstatements in the financial statements, there were corrected resulting in material findings.

3. STRATEGIC GOALS FOR 2019/20: NATIONAL TREASURY

3.1. The NT is responsible for managing the country's finances and draws its mandate from Chapter 2 of the Public Finance Management Act, as well as Chapter 13 of the Constitution. The overall legal mandate of NT is based on section 216 (1) of the Constitution which requires it to ensure transparency, accountability and sound financial controls in the management of the country's finances and the Public Finance Management Act (1999).

4. OVERVIEW OF NATIONAL TREASURY'S PERFORMANCE

4.1. During the year under review, NT achieved 77.78% of its annual targets, 14.81% were partially achieved while 7.41% were not achieved. The Budget Office and the Jobs Funds are two divisions where none of the targets were achieved.

4.2. NT's allocation for 2021/22 increased by 83% or R28.3 billion from the previous year. The increase in spending is largely attributed to the payment of R22 billion made to the South African Special Risk Insurance Association (SASRIA) because of the 2021 July unrest.

4.3. The Administration Programme (Programme 1) which provides for strategic leadership, management and support services to the department achieved only 60% of its performance targets, and 20% were partially achieved or not achieved, respectively. It managed to spend 89% of its R513 million budget, resulting in an under-expenditure of R57.9 million.

4.4. The Economic Policy, Tax, Financial Regulation and Research Programme (Programme 2) which provides specialist policy research, analysis and advisory services in the area of macroeconomics and regulatory reforms achieved 100% of its performance targets. The programme spent 88% per cent of its R141.8 million budget, resulting in the underspending of R16.4 million.

4.5. The Public Finance and Budget Management Programme (Programme 3) aims to provide analysis and advise on fiscal policy and public finances, intergovernmental financial relations, expenditure and planning priorities and to manage government's annual budget process and provide public finance management support. This programme achieved 54.5% of its performance targets while spending 97% of its R4,3 billion budget, leading to an under-expenditure of R136.7 million.

4.6. The Asset and Liability Management Programme (Programme 4) manages the government's annual funding programme in a manner that ensures prudent cash management. It also aims to promote and enforce prudent financial management of state-owned entities through financial analysis and oversight. This programme achieved 92.3 % of its performance targets and spent 98% of its R9 billion budget, underspending R442.7 million.

4.7. The Financial Accounting and Supply Chain Management Systems Programme (Programme 5) achieved 66.7% of its performance targets for 2021/22 and spent only 76% of its R1 billion allocation, leading to an under-expenditure of R238 million. The targets not achieved were related to the rollout of the IFMS project.

4.8. The International Financial Relations Programme (Programme 6) again achieved 100% of its performance targets and 100% of its R7.8 billion budget for the year.

4.9. The Civil and Military Pensions, Contributions to Funds and Other Benefits Programme (Programme 7) also achieved 100% of its performance targets but spent 94% of its R6.4 billion budget, leading to an under-expenditure of R336 million.

5. STRATEGIC GOALS OF THE SOUTH AFRICAN REVENUE SERVICE: 2019/20

5.1. SARS's mandate is to contribute to the economic and social development of the country by collecting all taxes, duties and levies due to fund the South African government's public service programmes and priorities.

5.2. Its objective is the efficient and effective collection of revenue and control over the import, export, manufacture, movement, storage, or use of certain goods.

6. OVERVIEW OF THE SOUTH AFRICAN REVENUE SERVICE PERFORMANCE

6.1. SARS constitutes Programme 9: Revenue Administration, in the NT's strategic and annual performance plans. It has got nine strategic objectives (SOs). SO1 seeks to provide clarity and certainty for taxpayers and traders of their obligations. SO2 seeks to make it easy for taxpayers and traders to comply with their obligations. SO3 seeks detect taxpayers and traders who do not comply and make non-compliance hard and costly. SO4 seeks to develop a high performing, diverse, agile, engaged and evolved workforce. SO5 seeks to increase and expand the use of data within a comprehensive knowledge management framework, to ensure integrity, derive insight and improve outcomes. SO6 seeks to modernize systems to provide digital and streamlined online services. SO7 seeks to demonstrate effective resource stewardship to ensure efficiency and effectiveness in the delivery of quality outcomes and performance excellence. SO8 seeks to ensure that SARS works with and through stakeholders to improve the tax ecosystem. SO9 seeks to build public trust and confidence in the tax administration system.

6.2. SARS achieved an overall performance of 68.75 over its targets and received a transfer of R11.2 billion and spent all it (100%).

6.3. It collected 1.56 trillion net revenue, compared to R1.24 trillion the previous year. The gross revenue collected was R1.8 trillion, offset by refunds of R321.1 billion. Personal Income Tax (PIT-35.5%), Value Added Tax (VAT-25%), and Corporate Income Tax (CIT-20%) contributed over 80% of the revenue collected in 2021/22.

6.4. Compliance-related revenue collection, which is revenue that was collected through compliance interventions by SARS, contributed 13.8% (R215.4 billion, that is R43.5 billion more than in 2020/21) to the overall revenue in 2021/22.

6.5. SARS received an unqualified audit opinion from the AGSA for its own accounts, performance audit as well as revenue accounts. Audit findings on revenue and own accounts also reduced by 50% from the previous, while no audit findings were raised for fruitless and wasteful and irregular expenditure.

6.6. SARS reported updates on the implementation of the Nugent and the Zondo Commissions of Inquiry recommendations. The Nugent Commission Report made 16 recommendations for implementation by SARS, which were broken down into 27 sub-recommendations. All these related to governance with 17 being the responsibility of SARS and 10, the National Treasury. SARS reported that it has finalised the implementation of 13 of the 17 sub-recommendations. It said that the 4 remaining were under ongoing implementation, with two of those having been referred to the justice system for investigation, particularly the BAIN matter and other investigations related to fruitless and wasteful expenditure by former employees. SARS reported that at its request, BAIN has been restricted for 10 years from tendering for any government work.

6.7. With respect to the Zondo Commission of Inquiry, SARS has finalised implementing 8 of the 12 SARS specific recommendations and 4 are work in progress.

7. REPORT OF THE AUDITOR-GENERAL SOUTH AFRICA ON NATIONAL TREASURY AND FINANCE PORTFOLIO ENTITIES.

7.1. AGSA audits 17 of the entities in the finance portfolio. These include the regulatory agencies, development banks, state-owned insurance and investment companies, government agencies, National Treasury and SARS. The regulatory agencies audited are the: Accounting Standards Board (ASB), Co-operative Banks Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre, Financial Sector Conduct Authority, Independent Regulatory Board for Auditors (IRBA), Pension Funds Adjudicator (PFA). The SARB and the Prudential Authority are audited by private auditors. The Development Banks audited are the Land and Agricultural Development Bank of South Africa (LB) and the Development Bank of Southern Africa (DBSA). The audited government agencies are the Government Technical and Advisory Centre (GTAC) and the Government Pension and Administration Agency. The insurance and investment companies are the Public Investment Corporation, Land Bank Insurance SOC, South African Special Risk Insurance Association (SASRIA) and the Land Bank Life Insurance SOC Limited (LBLIC). The latter two are subsidiaries of the Land Bank.

7.2. AGSA reported that the overall audit outcomes for 2021/22 regressed when compared to the previous year. Only six (38%) entities (DBSA, FSCA, LBIC, LBLIC, LB and IRBA) in the portfolio obtained clean audits, compared to 44% the previous year. Despite this regression, some entities within the portfolio improved, such as IRBA and the LB. AGSA however clarified that LB was not subjected to the audit process because of its exemption by the Minister of Finance as it was still resolving its default position with the lenders.

7.3. AGSA noted that the entities that managed to maintain clean audit outcomes have a strong leadership culture, sound financial and performance management processes, and effective governance. It said that the effective governance structures in these entities ensured that actions were taken to address audit findings and were supported by adequately resourced and skilled officials. AGSA said that the entities that did not do well could learn from the good practices implemented by these entities to improve their audit outcomes in the future.

7.4. AGSA further noted that the entities that received clean audits achieved between 69% and 83% of their core mandate targets. It said that it is important to ensure their achievements translate into service delivery to the citizens. AGSA urged that going forward, the focus on these entities should be to ensure that they do not only achieve clean audit outcomes, but also ensure effective and efficient delivery of services in line with their respective mandates.

7.5. NT regressed from an unqualified audit opinion with findings to a qualified auditing opinion. NT's qualified audit findings resulted from an incomplete disclosure of fruitless and wasteful expenditure relating to the IFMS project expenditure. AGSA reported that NT lodged a formal dispute on the classification of the IFMS technical support and maintenance as fruitless and wasteful expenditure and removed the disclosure of fruitless and wasteful expenditure on the revised annual financial statements (submitted on 20 October 2022) and instead disclosed the previous fruitless and wasteful expenditure as a prior period error on an incorrect basis that such a determination can only be concluded once the system is fully rolled out and the licenses were reclassified as capital work in progress.

7.6. AGSA stated that as required by Section 40(3)(b)(i) of the PFMA all confirmed fruitless and wasteful expenditure must be disclosed in the financial statements. It also said that as the expenditure was confirmed previously (the 2019-20 dispute resolution process) as fruitless and wasteful expenditure, AGSA disagreed with the removal. As a result, this resulted in a modification (qualification) of the 2021-22 audit report of National Treasury.

7.7. Other entities (FIC, OPFA and the FAIS Ombud) regressed from a clean opinion the previous year to unqualified audit opinion with findings.

7.8. AGSA further reported that most of the entities in the portfolio, especially the large ones such as NT, SARS and the PIC, continued to struggle to achieve clean audit outcomes. It said that the main key root causes were inadequate review and monitoring controls over the preparation of financial statements and performance reports and vacancies in key positions.

7.9. AGSA acknowledged that the delay in finalising NTs audit impacted negatively on the accountability and oversight process. It said that the cause of the delay was a dispute relating to the treatment of the IFMS project's annual technical support and maintenance payments. However, AGSA reported that it has revised its dispute resolution processes to ensure that there are no delays of this nature going forward. The new dispute resolution policy was shared with the Committee.

7.10. Nine (56%) entities in the portfolio (CBDA, FAIS, FFC, FIC, OPFA, SARS, GTAC, GPAA, and PIC received unqualified audit opinions with findings. AGSA said that these entities, including NT, continued to struggle with compliance with legislation and prior year action plans appear to have failed to adequately address significant internal control deficiencies. AGSA said that the prevalent instances of non-compliance were in the areas of expenditure management (GPAA, NT, FFC, OPFA), supply chain management (GPAA, FIC, FAIS, FFC, OPFA), consequence management (GPAA, FFC) and material misstatements identified in the financial statements submitted for auditing (GPAA, SARS, NT, PIC, CBDA, FFC, OPFA).

7.11. AGSA stated that these challenges are like those reported in the prior year and may be indicative of ineffective audit action plans and inadequate consequence management in some entities in the portfolio.

7.12. AGSA further presented the outcomes of the portfolio and the drivers of these outcomes in the key nine focus areas which are: performance against Medium Term Strategic Framework (MTSF) targets and annual performance, governance and stability, expenditure management, material irregularities, consequence management, quality of submitted financial statements and annual performance reports, financial health and information technology.

7.13. On the MTSF targets, AGSA reported that the finance portfolio entities played a direct role in all seven priority areas of the MTSF. It noted that all the strategic plans and annual performance plans (APPs) of the entities in the portfolio are aligned with government priorities as contained in MTSF and the National Development Plan (NDP) 2030. Six entities in the portfolio achieved more than 80% of their targets as per the annual performance report for the 2021/22 (NT, FFC, FIC, GTAC, FAIS, FSCA). Eight of the entities achieved more than 60% of their targets (SARS, PIC, IRBA, GPAA, CBDA, LBLIC, LBIC, DBSA) and only one (OFPA) achieved less than 60%. AGSA said that the main reasons for failure to achieve targets included the lingering impact of Covid-19 restrictions on the effectiveness of operations and the delays in implementing the necessary initiatives on the planned targets.

7.14. AGSA reported that the indicators in the FFC strategic plan were not aligned with its core mandate. It said that this was due to inadequate reviews of the strategic plan by the Commission's leadership.

7.15. AGSA said that to improve delivery of services and the realisation of the MTSF priorities, strategic planning documents should be reviewed by the accounting officer/authority to ensure alignment with government priorities and commitments, and that there should be regular monitoring over service delivery. There should also be effective consequence management for non-achievement.

7.16. On governance and stability, AGSA noted that although the portfolio is stable as most of the entities have fully constituted boards/accounting authorities and key positions at executive level are filled, vacancies in critical positions in the portfolio impacted the overall audit outcomes. Some of these vacancies are one of the root causes of the overall stagnation of audit outcomes as they impacted on the effectiveness of the developed action plans.

7.17. AGSA said that the following vacancies for the current year were reported: accounting officer positions remain for GTAC, GPAA, chief executive officer (CEO)/managing director (MD) for CBDA, LB, IRBA, and chief financial officer (CFO) positions for NT, GPAA, PIC, IRBA were filled with acting appointments.

7.18. AGSA noted that NT had made progress in filling vacant positions that were reported in the prior year but the positions of the accountant-general, chief procurement officer (CPO), and chief audit executive remained vacant during the year under audit. It said that after the financial year-end, the director-general (DG) position at the NT also became vacant. The new Accountant-General and CPO were appointed after the financial year-end and resumed duty during the 2022/23 period.

7.19. On the PIC, AGSA noted the appointment of the chief investment officer (CIO) and the precautionary suspension of the chief operating officer (COO) due to an allegation of misconduct after year-end. The IRBA CEO was also appointed in September 2022, after the year-end under audit.

7.20. On expenditure management, AGSA noted that although there were some improvements in the levels of irregular expenditure over the past two years, it remained high at R122 million (2021: R171 million). Fruitless and wasteful expenditure remained unchanged at R73 million, AGSA reported. It said that although NT, GTAC and GPAA remained the highest contributors to irregular expenditure (more than 84% of the total irregular expenditure), there were significant improvements in the control environment at GTAC and NT as the irregular expenditure relates to the previous year's multi-year contracts and no new irregular contracts were identified.

7.21. AGSA said that the FFC and OPFA had material non-compliance findings on expenditure management, which were driven by irregular expenditure incurred from non-compliance with procurement prescripts. It said that although, in most instances, the entities were able to detect non-compliance with procurement prescripts and the related irregular expenditure, the preventative controls implemented by management were not adequate to prevent non-compliance. AGSA recommended that preventative controls be strengthened. It further noted that NT remained the biggest contributor of fruitless and wasteful expenditure due to the IFMS project that had still not been implemented. It recommended that the accounting officer should take steps to prevent further fruitless and wasteful expenditure and should ensure that procurement delays and proper project management concerns over the IFMS project are addressed and the solution implemented. It said that failure to do this could result to material irregularities (MI's) in terms of the Public Audit Act (PAA).

7.22. AGSA reported that NT and DBSA were included for the implementation of the material irregularity in terms of the Public Audit Act. It however did not identify or report material irregularity in respect of the DBSA for the 2021/22 audit. For NT, it had identified a material irregularity relating to the IFMS project. It explained that a formal material irregularity notification was issued to the accounting officer of NT, as required by Material Irregularity Regulation 3(2), and the accounting officer had responded to the notification. It explained that it considered the accounting officer's response, however, as the accounting officer had already done several investigations on this matter and the matter was already a dispute, AGSA decided to refer the matter to the Special Investigation Unit (SIU) for further investigation (furthermore, the SIU was already investigating IFMS in accordance with a Presidential Proclamation). AGSA referred the matter to the SIU in January 2022 and the investigation was still in progress. It must also be noted that there is an ongoing Public Protector investigation on the IFMS into alleged mismanagement, irregular and wasteful expenditure.

7.23. On consequence management, AGSA noted that the finance portfolio has effective consequence management processes in place to investigate and up on irregular expenditure and this has led to the reduction of irregular expenditure by 29% from R171 million (2020/21) to R122 million. AGSA further noted that over the past two years more than R402 million of irregular expenditure had been condoned, demonstrating that progress had been made to resolve prior year irregular expenditure cases. AGSA noted however that consequence management remained a challenge at the FFC and GPAA as material non-compliance findings were raised relating to the lack of investigation or evidence to support such investigations. AGSA recommended that there must be timely investigations and disciplinary action against those found wanting. AGSA noted that failure to implement consequence management encourages a culture where disregard for legislation, policies and procedures thrive.

7.24. On the quality of submitted financial statements, AGSA found that the portfolio had regressed as only three entities (NT, CBDA and PIC) had material misstatements which resulted in non-compliance with section 40 and 55 of the PFMA. However, this number increased to seven (GPAA, SARS, FFC, CBDA, NT, PIC, OPFA) in the current year. AGSA urged management to develop action plans that address the root causes, augment existing capacity in their finance divisions, use internal audit to perform a more detailed review of the financial statements and, enhance the review processes and implement consequence management by holding officials accountable.

7.25. On the quality of performance reporting, AGSA noted that most of the auditees in the portfolio maintained the quality of performance reporting during the year and had no material findings reported on the reliability and usefulness of the reported performance information. It pointed out that GTAC and CBDA had material findings on the usefulness and reliability of reported performance information. This was due the performance information in the annual performance reports not supported by reliable evidence. AGSA said that the technical indicator descriptions did not clearly specify the method of calculation for key indicators. AGSA said that it was therefore unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined simple count for the required level of performance and method of calculation to be used when measuring the actual achievement. AGSA recommended that the management of these auditees implement effective action plans to address these repeat findings.

7.26. AGSA also identified material misstatements in the annual performance reports submitted for auditing by the PIC, NT, and DBSA. However, these were subsequently corrected the misstatements, leading AGSA not to raise any material findings on the usefulness and reliability of the reported performance information.

7.27. On financial health, AGSA noted that the entities in the portfolio were in good financial health, except for NT, SASRIA and LB. It explained that NT provides financial guarantees which enable entities to obtain funding to fulfil their mandates. It said that by 31 March 2022, NT had issued total guarantees of R22 billion (a R1 billion increase from previous year) to the South African Reserve Bank (SARB), LB and DBSA. AGSA explained that the guarantees issued created pressure on the fiscus due to the potential interest and capital payments in the event of a default. The guarantees to entities within the finance portfolio hold potential risks to operating performance and continued service delivery due to the potential negative impact on the department's ability to fund planned operations, activities, programmes and projects, as funds may need to be diverted away from operating and service delivery objectives in order to fund the guarantees if called on.

7.28. On the financial health of LB, AGSA explained that towards the end of April 2020, LB experienced a liquidity shortfall, which resulted in the bank defaulting on some of its obligations. This triggered a cross default and resulted in de-facto stand still on capital and interest payments to its funders, AGSA explained. The bank is currently working on a liability solution to remedy the default and the liability solution to cure the default was still in progress and is dependent on the signing of the commitment agreements with lenders. The planned date for finalization of the liability solution was the end of September 2022. AGSA explained that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

7.29. AGSA said that an emphasis of matter paragraph has been included in the audit report to draw this matter to the attention of users of the financial statements of LB. It explained that the bank's underperforming loans showed a decrease from R11.33bn (2021) to R4.99bn (2022) which resulted in an impairment release of R800m. AGSA explained further that the profits reported in the current year mainly related to the reversal of the previous recognised expected credit losses (provision for bad debts) in prior years. It said that this reversal is mainly due to a significant decrease in the debtors' book due to credit worthy customers leaving the bank for other commercial banks since LB could only provide limited facilities during the default period. AGSA said that LB appears to be losing customers who are servicing their debts well and might be left with under performing loans which may cause sustainability challenges to the bank.

7.30. AGSA further explained that LB was allocated R5 billion in the 2021-2022 financial year by NT, but the funds could not be paid due to the outstanding commitment agreements. AGSA recommended that LB should consider rehabilitation and recovery of the non-performing loans to improve the quality of the loan book. It also recommended that the bank should work on a strategy focusing on the new business model of the bank that will enable recognition of new business to improve performance and financial viability of the bank.

7.31. On financial health of SASRIA, AGSA reported that it faces liquidity and solvency risks due to the July 2021 riots in Kwazulu-Natal and parts of Gauteng. AGSA said that it noted the announcement by the finance minister to support SASRIA in dealing with the claims arising from the riots. It said that to date, NT had provided financial assistance amounting to R22 billion to enable the entity to address the immediate liquidity and solvency risks. AGSA recommended continuous engagement with SASRIA to address this risk and ensure that liquidity and solvency risks are identified and mitigated.

7.32. AGSA explained that NT plays an enabling role in the economic recovery plan of the country and to ensure that departments and public sector entities deliver on their mandates and key imperatives of the economic recovery plan. AGSA said that NT needs to ensure that there is adequate oversight over government spending and that the continued government debt is capped to the extent possible and that there are adequate funds available to stimulate the South African economy, which has been severely impacted by the covid-19 pandemic.

7.33. On information technology, AGSA said that the finance portfolio has effective IT management processes in place and the entities in the portfolio have improved on the IT general and application controls. AGSA recommended, however, that at DBSA management needs to enhance the processes in relation to the approval of IT governance policies and procedure documents, in particular IT governance framework, IT disaster recovery plan, cyber security management and user access administration.

7.34. AGSA noted that at LB, LBIC and LBLIC, Information and communication technology (ICT) management oversight had not ensured that policies and procedures are adequately documented, approved, implemented, and monitored to ensure adherence. AGSA said that this has negatively affected the governance of IT and controls within and around the key financial and performance information systems. Should these concerns not be attended to, the entire IT environment is susceptible to loss of data, phishing, cyber-attacks for ransom and unauthorised access to sensitive information.

7.35. AGSA noted that at FSCA management did not review user and administrative access on the payroll system, as they were still embedding user account processes on this new system. AGSA further recommended that at SARS, management needs to ensure that the firewall standard and procedure is revised to include the control on firewall rules. It also recommended that the management of GPAA needs to enhance processes in relation to management of ICT plans and budget, security management and change management. AGSA said that the government component at GPAA needs to implement new technologies, and in other instances, enhance the current capabilities offered by the technology tools in place to improve audit trail logging and encryption.

7.36. On NT, AGSA said that improvement is still required to address the repeat weaknesses identified within the IT environment, which were due to utilisation of unsupported Windows operating systems. AGSA said that no weaknesses were identified during the audit of the program change management, user access management and automated controls in the Personnel Salary System (Persal), basic accounting system (BAS) and the logistical information system (Logis), transversal system environments and controls were adequately maintained and implemented. There were also no weaknesses identified during the testing of automated controls embedded into the central supplier database (CSD), AGSA said. AGSA however identified weaknesses regarding the inadequate design and implementation of controls in the focus areas of network security and ICT service continuity in the CSD environment.

7.37. With respect to the IFMS, AGSA explained that in the prior year it had reported that the overall project status was behind the delivery milestones, mainly due to procurement delays. It explained that during the current year, AGSA noted that NT had attempted to appoint the service provider through SITA, however the process was unsuccessful because the bid price exceeded the allocated budget, and the bid was subsequently cancelled in September 2021.

7.38. AGSA urged management that urgent action plans must be implemented to expedite the procurement process and re-define the programme milestones to ensure successful implementation of the IFMS by 31 March 2024. AGSA further recommended that the memorandum of agreement (MoA) regarding the IFMS steering committee between NT, SITA, the Department of Communications and Digital Technologies (DCDT) and the Department of Public Service and Administration (DPSA), as the latter two have not signed the MoA. AGSA explained that the finalisation of the MoA by all stakeholders is critical to ensuring that adherence can be effectively monitored, and accountability be enforced.

8. OBSERVATIONS AND RECOMMENDATIONS

GENERAL OBSERVATIONS AND RECOMMENDATIONS ON THE FINANCE PORTFOLIO

8.1. The Committee again regrets the delays by the National Treasury to table in Parliament its annual report with audited financial statements This is the second year in a row that NT's annual financial statements were only tabled in January due to the resolution of a dispute between NT and AGSA over the IFMS project issues, which this year resulted in NT receiving a qualified audit opinion, a regression from the previous year's audit finding. While the Committee recognises NT's prerogative to challenge the findings of AGSA, and there is need to comply with all the due process prescripts of dispute resolution thereof, the Committee notes that this, nonetheless, negatively affects the Committee's oversight role and the National Assembly's programming schedule. This year the Committee had to deal with annual reports while also processing the fiscal framework and revenue proposals. The Committee welcomes that a new policy for dispute resolution has been adopted by AGSA and will, in the future, minimise or eliminate the delays that have been occurring in the past three financial years between NT and AGSA.

8.2. The Committee extends its gratitude to AGSA on the detailed audit report and recommendations. The Committee further notes all AGSA's recommendations to the Committee and will implement them as it has in the previous year. In this regard, the Committee will immediately, on 28 and 29 March 2023, conduct an oversight visit to NT over its adverse audit outcomes, particularly on the IFMS project, and meet all the entities in the portfolio to receive reports on the implementation of audit action plans. This will be followed by continued monitoring including quarterly update reports on the implementation of audit action plans by these entities to the Committee.

8.3. The Committee notes that the overall audit outcomes of the finance portfolio regressed in 2021/22 when compared to the previous year. Only six (38%) entities (DBSA, FSCA, LBIC, LBLIC, LB and IRBA) obtained clean audits, compared to 44% the previous year. Other entities (FIC, OPFA and the FAIS Ombud) regressed from a clean opinion the previous year to unqualified audit opinion with findings. The Committee further notes that most of the entities in the portfolio, especially the large ones such as NT, SARS and the PIC, continued to struggle to achieve clean audit outcomes. The Committee is obviously disappointed with the regression but also notes that some entities within the portfolio improved, such as IRBA and the LB. The Committee further notes that 56% of entities in the portfolio (CBDA, FAIS, FFC, FIC, OPFA, SARS, GTAC, GPAA, and PIC) received unqualified audit opinions, although with findings.

8.4. The Committee notes the message from AGSA that entities that managed to maintain clean audit outcomes have a strong leadership culture, sound financial and performance management processes, and effective governance. On the other hand, entities that did not do well continued to struggle with compliance with legislation and prior year action plans appeared to have failed to adequately address significant internal control deficiencies. AGSA said that the prevalent instances of non-compliance were in the areas of expenditure management (GPAA, NT, FFC, OPFA), supply chain management (GPAA, FIC, FAIS, FFC, OPFA), consequence management (GPAA, FFC) and material misstatements identified in the financial statements submitted for auditing (GPAA, SARS, NT, PIC, CBDA, FFC, OPFA). The Committee agrees with AGSA that entities that did not do well could learn from the good practices implemented by entities that achieved clean audits to improve their audit outcomes in the future. The Committee further agrees that clean audit outcomes should be accompanied by effective and efficient delivery of services in line with the entities' respective mandates.

8.5. The Committee notes the audit outcomes and their drivers as presented by AGSA in key nine focus areas which are: performance against Medium Term Strategic Framework (MTSF) targets and annual performance, governance and stability, expenditure management, material irregularities, consequence management, quality of submitted financial statements and annual performance reports, financial health, and information technology.

8.6. The Committee notes that the finance portfolio entities play a direct role in all seven priority areas of the MTSF. The MTSF targets for the portfolio are to: strengthen Municipal Financial System by 2023; implement the IFMS in the public sector by 2021; 100% elimination of wasteful expenditure in the public sector institutions by 2024; 75% reduction of irregular expenditure in public sector institutions by 2024; 75% reduction of qualified audits in the public sector by 2024; illicit economy established and fully functional at SARS and; Infrastructure Fund established and operationalised with R1 trillion invested by 2024. The Committee will actively monitor the achievement of these targets through its oversight programme and welcomes that AGSA will now evaluate in its audits the achievement of these MTSF targets, most of which are due next year, and those in the NDP.

8.7. The Committee further welcomes that most of the strategic and annual performance plans (APPs) of the entities in the portfolio are aligned with government priorities as contained in MTSF and the National Development Plan (NDP) 2030. It also welcomes and commends that six entities in the portfolio achieved more than 80% of their targets (NT, FFC, FIC, GTAC, FAIS, FSCA). Eight of the entities achieved more than 60% of their targets (SARS, PIC, IRBA, GPAA, CBDA, LBLIC, LBIC, DBSA) and only one (OFPA) achieved less than 60%. The Committee is concerned that OPFA achieved only 33.3% of its annual targets and calls upon the Ministry of Finance to heighten oversight over the entity and the management of OPFA to ensure that the office is capacitated with enough resources to deal with the volume of complaints that the entity receives.

8.8. The Committee further notes that the performance indicators in the FFC strategic plan were found by AGSA to be not aligned with its core mandate. The Committee urges that FFC's leadership to pay attention to its strategic and annual performance plans to ensure that they are aligned with its core mandate and hopes that it did so when it reviewed its strategic plan in January this year.

8.9. On governance and stability, the Committee notes that although the portfolio is stable as most of the entities have fully constituted boards/accounting authorities and key positions at executive level are filled, there are still vacancies in critical positions in the portfolio which impact the overall audit outcomes. The Committee notes that vacancies are one of the key root causes of the overall stagnation of audit outcomes as they impacted on the effectiveness of the developed action plans. When the Committee meets with the finance portfolio entities on its oversight visit later this month, it requires reports of all vacant critical positions in the portfolio and deadlines on when they will be filled.

8.10. The Committee notes, on expenditure management, that although there were some improvements in the levels of irregular expenditure over the past two years, it remained high at R122 million (2020/21: R171 million). The Committee further notes that fruitless and wasteful expenditure remained unchanged at R73 million and could have been higher if NT correctly classified the IFMS payments on technical support and licenses.

8.11. The Committee further notes that the FFC and OPFA had material non-compliance findings on expenditure management, which were driven by irregular expenditure incurred from non-compliance with procurement prescripts. The Committee calls on all the entities that had issues with irregular and fruitless and wasteful expenditure, particularly the FFC and OPFA, to strengthen their preventative controls.

8.12. The Committee notes that consequence management remained a challenge at the FFC and GPAA as material non-compliance findings were raised relating to the lack of investigations or evidence to support such investigations. The Committee agrees with AGSA that failure to implement consequence management encourages a culture of disregard for legislation, policies, and procedures. The Committee recommends that all entities in the portfolio conduct investigations timeously and ensure that there is disciplinary action against those found wanting.

8.13. The Committee notes that the quality of submitted financial statements regressed from three entities the previous year (NT, CBDA and PIC) to seven (GPAA, SARS, FFC, CBDA, NT, PIC, OPFA) in the current year. The Committee will closely monitor that the action plans address the root causes. When the Committee conducts its oversight over the audit action plans, it will invite AGSA's officials that are responsible for the portfolio to assist the Committee in this regard.

8.14. The Committee further notes that most of the auditees in the portfolio maintained the quality of performance reporting during the year and had no material findings reported on the reliability and usefulness of the reported performance information. The Committee calls on GTAC and CBDA to rectify the repeat material findings on the usefulness and reliability of reported performance information, as recommended by AGSA.

8.15. The Committee notes that most entities in the portfolio were in good financial health, except for NT, SASRIA and LB. The major risk with NT is the financial guarantees that it provides when there is an event of default. On LB, the issue is the cross-default position which started in April 2020 and failure to finalise a liability solution. On SASRIA, the main issue it liquidity and solvency challenges following the July 2021 riots in KZN and parts of Gauteng. The Committee called for heightened oversight over these issues by the Ministry, executive and accounting authorities.

8.16. The Committee notes, on information technology, that the finance portfolio has effective IT management processes in place and that the entities in the portfolio have improved on the IT general and application controls. The Committee calls on the DBSA management to enhance the processes in relation to the approval of IT governance policies and procedure documents, in particular IT governance framework, IT disaster recovery plan, cyber security management and user access administration.

8.17. The Committee further recommends that the LB, LBIC and LBLIC ensure that the Information and Communication Technology (ICT) management policies and procedures are adequately documented, approved, implemented, and monitored to ensure adherence.

8.18. The Committee further calls on the FSCA management to attend to the issues raised by AGSA regarding its user and administrative access on the payroll system. It further calls on SARS, GPAA and NT to attend to the specific issues raised by AGSA regarding their IT systems.

NATIONAL TREASURY

8.19. The Committee notes that the National Treasury achieved about 80% of its performance targets and spent 98% of its budget in the 2021/22 financial year. The Committee commends NT for this achievement and believes that there is room for improvement in ensuring that NT's expenditure aligns with performance targets across its programmes.

8.20. The Committee notes that the reasons for non-achievement of targets related to the Municipal Finance Improvement Programme, the non-implementation of the IFMS project due to procurement delays, and the Jobs Fund where grant funding disbursement was less than the projected amount.

8.21. On the MFIP, the Committee notes that AGSA highlighted the ineffectiveness of interventions by NT and provincial treasuries which led to little improvement in the audit outcomes, internal control environment and overall governance of struggling municipalities. AGSA also noted that there was also no improvement in the financial affairs of municipalities who are in financial distress and that section 139 intervention had not improved the overall running of municipalities, among others. The Committee will soon request a full briefing on the effectiveness of the MFIP and related interventions from NT and other relevant stakeholders.

8.22. On the IFMS, the Committee notes that NT regressed from an unqualified audit opinion with findings to a qualified auditing opinion because of it. NT's qualified audit findings resulted from an incomplete disclosure of fruitless and wasteful expenditure relating to the IFMS project expenditure. AGSA reported that NT lodged a formal dispute on the classification of the IFMS technical support and maintenance as fruitless and wasteful expenditure and removed the disclosure of fruitless and wasteful expenditure on the revised annual financial statements (submitted on 20 October 2022) and instead disclosed the previous fruitless and wasteful expenditure as a prior period error on an incorrect basis that such a determination can only be concluded once the system is fully rolled out and the licenses were reclassified as capital work in progress. AGSA disagreed and as a result, this resulted in a modification (qualification) of the 2021/22 audit report of National Treasury.

8.23. The Committee notes further that NT was last year included for the implementation of the material irregularity in terms of the Public Audit Act because of the IFMS project expenditure. The formal material irregularity notification was issued to the accounting officer of NT, as required by Material Irregularity Regulation 3(2), and the accounting officer had responded to the notification. AGSA also decided to refer the matter to the Special Investigation Unit (SIU) for further investigation in January 2022 and the investigation is still in progress. It must also be noted that there is an ongoing Public Protector investigation on the IFMS into alleged mismanagement, irregular and wasteful expenditure. The issues around the IFMS project payments have become complicated and seem to have worsened as they have led to a qualified audit opinion and the formal notification of a material irregularity. The Committee will conduct its own oversight visit to NT on the IFMS project on 28 March 2023, as it planned oversight last year was indefinitely postponed due to non-availability of the Minister and the accounting officer. The Committee will also seek to understand if the matters that have led to the audit qualification and material irregularity will not recur in future audits. It is not clear to the Committee whether not declaring the payments as fruitless and wasteful in the previous years resolve the disputes between AGSA and NT.

8.24. The Committee is concerned by the failure to achieve targets by the Jobs Fund, in a country with such high levels of unemployment. The Committee will in the next quarter request a full presentation from NT on the impact and effectiveness of the Jobs Fund, plans for its recapitalisation and future contribution.

8.25. The Committee is concerned with the risk posed by the increasing financial guarantees. The Committee has already expressed itself on these issues in its 2023 report on the Fiscal Framework and Revenue Proposals.

SARS

8.26. The Committee notes that SARS achieved an overall performance of 68.75 over its targets and received a transfer of R11.2 billion and spent all it (100%). The Committee commends SARS for these achieves and believes that there is room for improvement in ensuring that its expenditure aligns with its performance targets.

8.27. The Committee notes that SARS collected 1.56 trillion net revenue, compared to R1.24 trillion the previous year. The gross revenue collected was R1.8 trillion, offset by refunds of R321.1 billion. The Committee further notes that Personal Income Tax (PIT-35.5%), Value Added Tax (VAT-25%), and Corporate Income Tax (CIT-20%) contributed over 80% of the revenue collected in 2021/22.

8.28. The Committee notes the achievements on compliance-related revenue collection, which is revenue that was collected through compliance interventions by SARS, contributed 13.8% (R215.4 billion, that is R43.5 billion more than in 2020/21) to the overall revenue in 2021/22.

8.29. The Committee notes that SARS received an unqualified audit opinion with no material findings raised on fruitless and wasteful and irregular expenditure.

8.30. The Committee further notes the update report on the implementation of the Nugent and the Zondo Commissions of Inquiry recommendations. SARS reported that it has finalised the implementation of 13 of the 17 sub-recommendations directed to it by the Nugent Report. SARS further reported that it had finalised the implementation of 8 of the 12 SARS specific recommendations on the Zondo Commission of Inquiry report, and 4 were work in progress. The Committee will schedule a full detailed briefing on the implementation of the Zondo Commission of Inquiry report in the next quarter.

The Democratic Alliance (DA) reserve their position.

Report to be considered.