



BUDGETARY REVIEW AND  
RECOMMENDATIONS REPORT | PFMA  
2018-19

Briefing to Portfolio Committee on Trade and Industry



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 taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



# The 2018-19 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 (clean audit)



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 (APP)
- 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 APPs
- 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

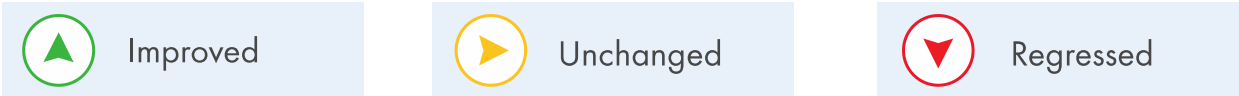
# Important to note

The percentages in this presentation are calculated based on the **completed audits of twelve auditees**, unless indicated otherwise. All audits within the Trade and Industry portfolio have been completed.

## Audit outcomes are indicated as follows:



## Movement over the previous year is depicted as follows:



DTI – Department of Trade and Industry	NRCS – National Regulator for Compulsory Specifications
CIPC – Companies and Intellectual Property Commission	SABS – South African Bureau of Standards
CT – Companies Tribunal	EDD – Economic Development Department
NCR – National Credit Regulator	ITAC – International Trade Administration Commission
NGB – National Gambling Board	CC – Competition Commission
NLC – National Lotteries Commission	C – Competition Tribunal



## Constitution requires from public administration:



- High standard of **professional ethics**
- Promotion of **efficient, economic and effective use of resources**
- **Accountability**
- Fostering of **transparency**

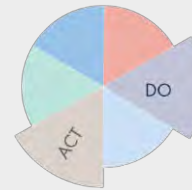


DO

## PFMA prescribes obligations of accounting officers and authorities to:



- **Plan and budget** for delivery
- Use resources in **effective, efficient and transparent** manner



- Establish and implement **internal controls to prevent and detect** irregularities, losses and financial misconduct **and effectively deal with any breaches**



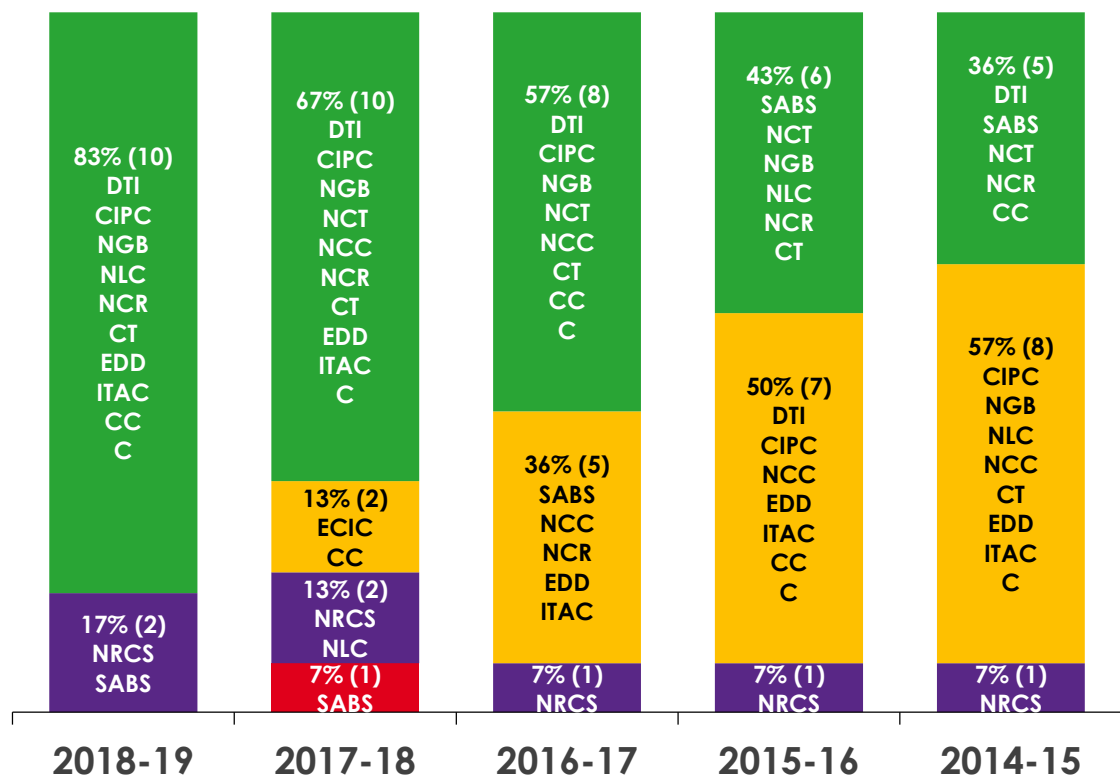
- **Report and account** on regular basis



**Act now on accountability**



# Audit outcomes of portfolio over five years



Movement	
	3
	0
	9
Outstanding audits	0

- The number of clean audits in the portfolio is an indication of effective leadership which set the correct tone at the top, and provided sufficient oversight support.
- NLC managed to consolidate the National Lotteries Participants Trust's financial statements to the NLC group financial statements, resulting in an improved audit outcome due to managements hands-on approach to audit process and a dedication in ensuring accurate and compliant financial statements were produced.
- CC adequately monitored and implemented the audit action plan to address the prior year's audit findings on annual financial statements preparation. Furthermore, CC in all instances obtained the required pre-approval from National Treasury for procurement deviations.
- **SABS improved due to their implementation of their turn-around strategy and DTI intervention.**

# Key reflections on the audit outcomes of the portfolio over five years

## NRCS

- ❑ The entity remains qualified over the past MTSF period as a result of inadequate processes for levies to ensure that all revenue due to the NRCS is completely recognized and recorded in the correct financial period.
- ❑ Instability in key management positions including, the positions of Finance manager, SM-HR, SM- SCM and CIO have contributed to the regression in audit outcomes. This impacted the entities provision for leave and employee benefit obligation, as records were not provided on time during the audit. In addition, the entity relied on consultants for the preparation of financial statements.
- ❑ Fraud allegations that came to the attention of auditors during the reporting phase of the audit, resulted in late signing of the audit report.

## SABS

- ❑ Prescripts(laws/regulations) were not followed in preparing financial statements and performance report resulting in number of misstatements due to slow response to audit findings and inadequate implementation of action plans.
- ❑ Overall process of compliance with supply chain management requirements were not adequate, e.g. overspending on certain contracts.
- ❑ Internal audit was not well capacitated as the chief audit executive was only appointed in March 2019, it has been vacant since October 2019.



# Key reflections on the audit outcomes of the portfolio over five years

NLC

- ❑ The NLC's leadership and governance structures played a key role with implementing prior years audit recommendations, resulting in an improved audit outcome.
- ❑ The AGSA audited National Lotteries Participants trust (NLPT) for the first time. The audit outcome was unqualified with no findings.





# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date (all auditees)

AFS submitted without material errors

Quality of final submission after audit

### Movement



### 2018-19

### 2017-18

100%

100%

83%

67%

83%

80%

The internal controls were effective for the 83% audits to ensure quality financial statements without audit effort.





# Credible performance reporting



## Performance report

APR submitted without errors

Quality of final submission after audit

### Movement



2018-19

2017-18

	75%		67%
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92%

93%

**17% (ITAC & NCR)** had no material findings only because they corrected all misstatements identified during the audit

Reliable reporting of achievements (DTI, CIPC, NGB, CT, NCR, NRCS, NLC, EDD, ITAC, CC & C)

92%

93%

Usefulness of performance indicators and targets (DTI, CIPC, NGB, CT, NCR, NRCS, NLC, SABS, EDD, ITAC, CC & C)

100%

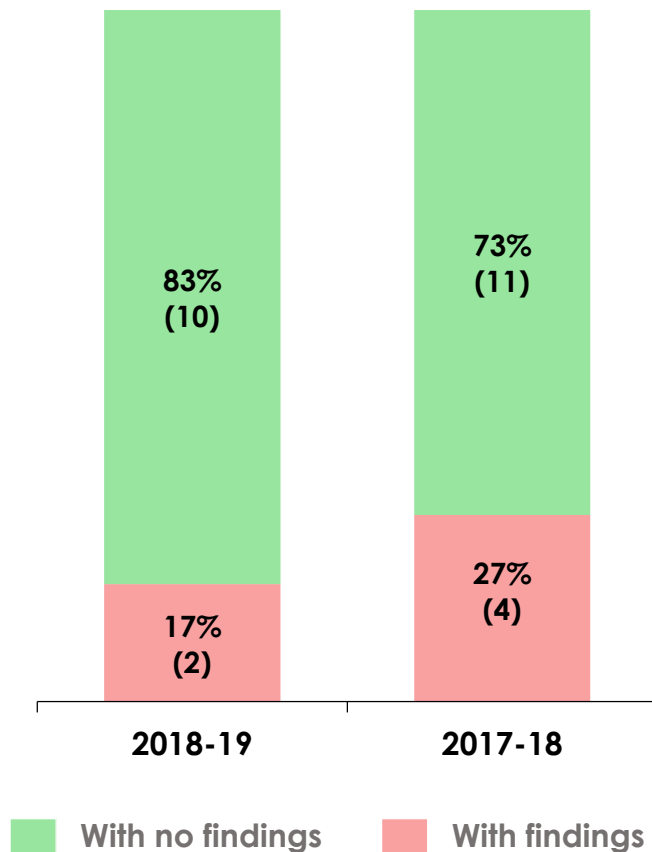
100%





# Compliance with legislation

## Findings on compliance with key legislation



## Top five non-compliance areas

- Some of the goods, works or service were not procured through a procurement process which is fair, equitable and competitive (SABS).
- Future financial commitment was issued without authorisation of the Minister of Finance (SABS).
- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework (SABS and NRCS).
- Effective and appropriate steps were not taken to prevent irregular expenditure due to instability in SCM unit and slow implementation of consequence management (NRCS).
- Effective and appropriate steps were not taken to collect revenue due poor internal controls to ensure all customers are billed and pay levies (NRCS).

# Status of internal control



Leadership

Effective leadership

90%  
(9)

10%  
(1)  
NRCS



Financial and  
performance  
management

Proper record keeping

60%  
(6)

40%  
(4)  
CC, NLC, NRCS, SABS



Daily and monthly controls

70%  
(7)

30%  
(3)  
CIPC, NRCS, SABS



Review and  
monitor compliance

60%  
(5)

30%  
(3)  
DTI, CIPC, SABS

10%  
(1)  
NRCS



Governance

Risk management

90%  
(9)

10%  
(1)  
NRCS



Good

Of concern

Intervention required

15



# Key drivers of internal control

NRCS

Due to instability in key management positions:

- ☐ Employee benefit and provision for leave schedules were not submitted on time to the auditors as a result of inadequate record keeping practices by the entity.
- ☐ Irregular expenditure increased due to insufficient monitoring and review processes to eliminate instances of non-compliance throughout the year, as the Finance manager and Senior Manager SCM positions were vacant throughout the period .
- ☐ Inadequate controls over daily and monthly processing of transactions around levies to ensure that all revenue due is collected and recorded.

SABS

- ☐ Daily and monthly records of the entity not always kept, e.g. Revenue, receivables, useful live assessment.
- ☐ Compliance with prescripts not reviewed and monitored, e.g. supply chain management, income tax act (SABS Commercial)

NLC

- ☐ Information was not easily retrievable and available within the required timeframes as per the engagement letter, which caused delays in the audit.

CIPC

- ☐ Some of the policies, procedures and committee charters were not reviewed annually.

CC

- ☐ CC did not have comprehensive policies and procedures in place to ensure adherence to all applicable legislation in procuring services from legal and other experts, procurement deviations were however pre-approved by National Treasury.

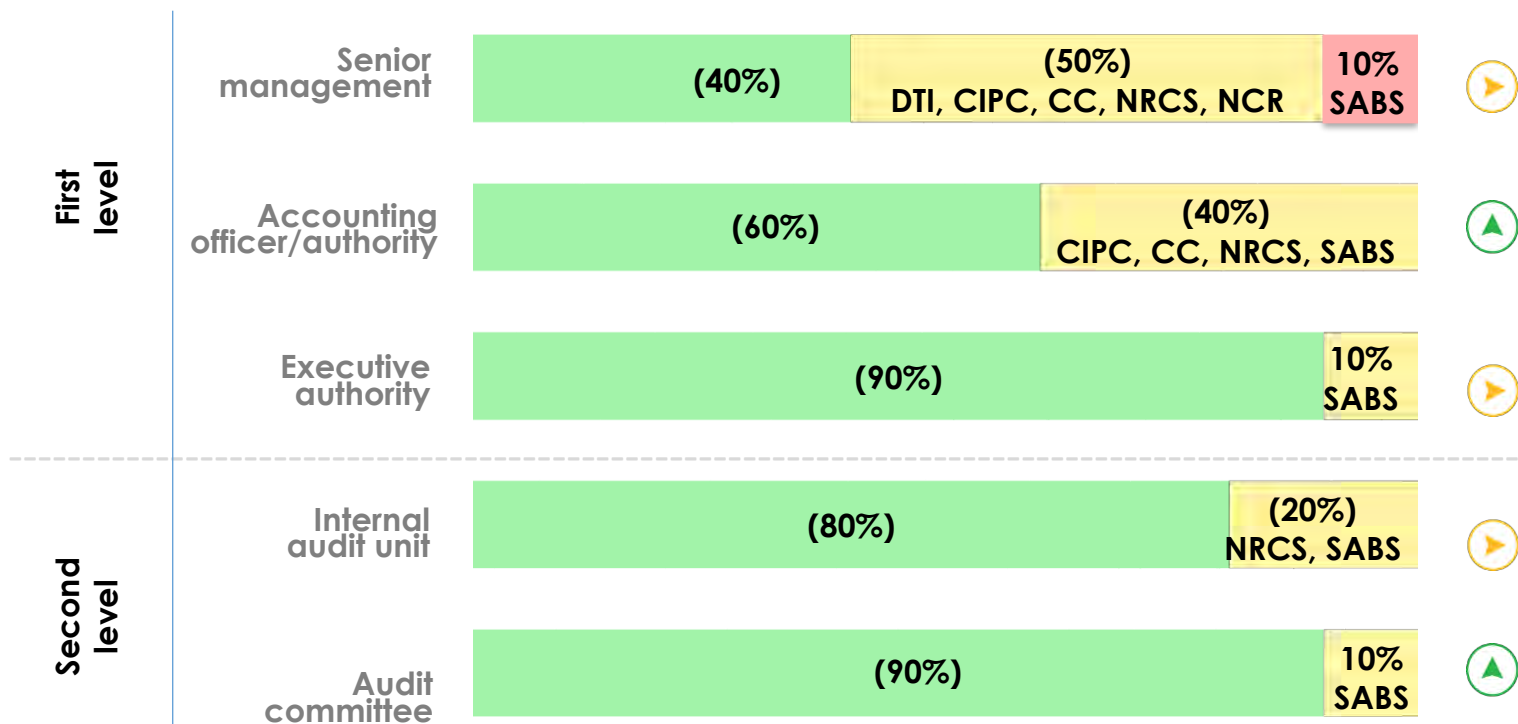






# Assurance provided

## Assurance



- SABS senior management provides limited assurance as management controls were not adequate and some reviews were performed after year-end, as a result material misstatements were identified through the audit process resulting in the qualified opinion.





# Status of records review (SoRR)

## Objectives

Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans / follow-through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

## Reflections

The following critical issues were raised during the SoRR and below is the reflection:

1. Implementation at some of the auditees had the following positive results:
  - NLC managed to consolidate NLPT's financial statements to the NLC group.
  - Measures were put in place to address the going concern uncertainty at SABS Commercial and SABS.
2. Matters that were still not addressed which led to unfavorable audit outcomes:
  - Clean up of the accounting system to ensure integrity of the data (NRCS)
  - Critical posts still vacant (NRCS)
  - A full board has still not been appointed (SABS).
  - Irregular and wasteful expenditure registers not updated regularly (SABS)
  - Quarterly performance reports were not properly reviewed to ensure reliability of reported achievements. This resulted in material adjustments to the APR after submission for auditing. (ITAC)

## Way forward

Will continue with proactive and continuous engagement to enable safeguarding against vulnerable areas of risk and more focus will be placed on NRCS and SABS.



# Financial health and financial management



# Financial health

No material uncertainty exists as **100%** of auditees in the portfolio can continue to operate in future.

## Asset and liability management

- The group is not able to meet all its operating costs from the revenues generated from operations but there has been an improvement from the prior year as a result of the increase in grant funding from the shareholder.

## Cash management

- The SABS group's cash flows from operating activities is negative. This is indicative of possible cash flow constraints resulting in a higher risk of the entity's ability to meet its obligations and to provide basic services.



Of concern



Intervention required

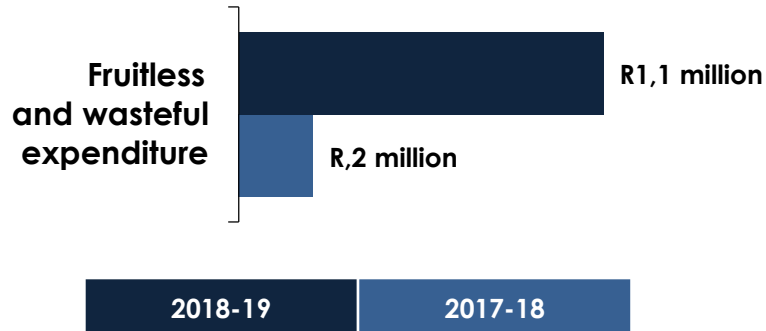


# Fruitless and wasteful expenditure expenditure decrease over 2 years

## Definition

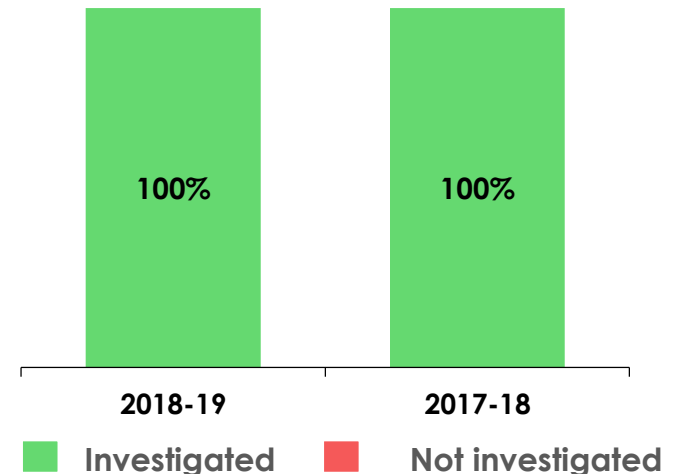
*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!*

## Fruitless and wasteful expenditure incurred by entities in portfolio



- R1 052 000 represents fruitless and wasteful expenditure relating to prior year but was identified in the current year (EDD).
- R76 271 relates to current year's expenditure (SABS, NCR).

## Previous year fruitless and wasteful expenditure reported for investigation



## Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by payment of bonuses to non-eligible staff amounting to R1 052 000 (EDD).
- For SABS all the fruitless and wasteful expenditure was due to interest and penalties for late payments to suppliers (R58 000) and SARS (R17 000).
- For NCR the fruitless and wasteful expenditure of R1 271 was due to interest and penalties for late payments to suppliers.

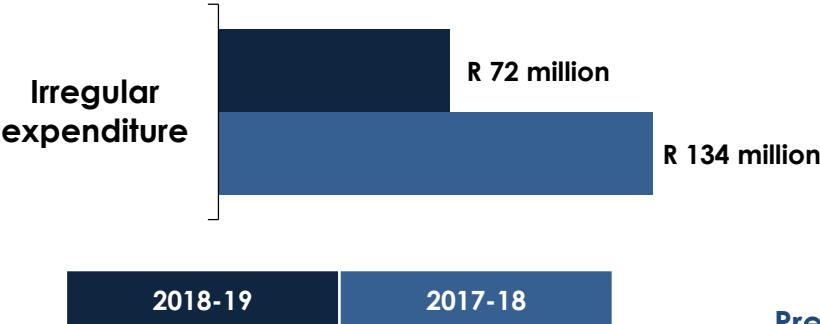


# Irregular expenditure expenditure decrease over 2 years

## Definition

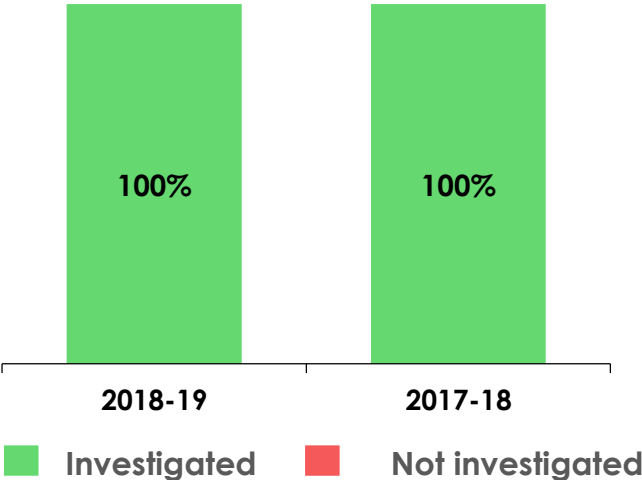
Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

## Irregular expenditure incurred by entities in portfolio



- R19,146 million represents non-compliance in 2018-19.
- R44,057 million is expenditure on ongoing multi-year contracts.
- R8,626 million is prior year irregular expenditure identified this year.

## Previous year irregular expenditure reported for investigation



## Nature of irregular expenditure

- CC: The majority was caused by the entity not following procurement processes on the appointment of professional service experts.
- NRCS: The majority was caused by non-compliance with procurement process requirements of R14 983 835 and R371 103 for payments on expired contracts.
- SABS: The majority was caused by overspending on certain contract values of R5 545 000 (2019) and R3 824 000 (relating to prior year but identified this year).



# Supply chain management



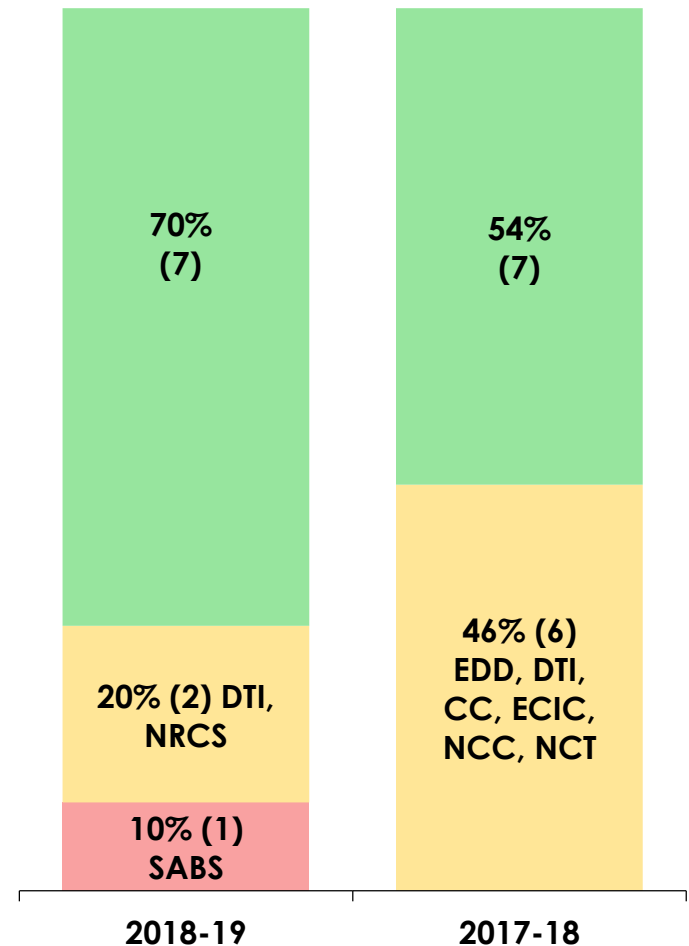
## Stagnation in SCM compliance (2018-19: 70% with no findings)

The auditees implemented and monitored procurement processes to ensure compliance.

### Most common findings on supply chain management

- Material findings identified on uncompetitive and unfair procurement processes at **10% of auditees.**
- Findings identified on uncompetitive and unfair procurement processes at **20% of auditees.**

They should continue investigating all SCM findings like they did in the current year.



With no findings



With findings



With material findings 23

# 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 this Act 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.**

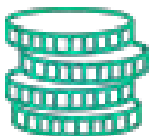




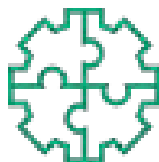
# Portfolio snapshot (2018-19)



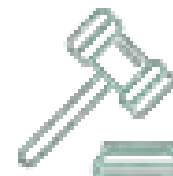
**Clean audits: 83%**  
(2017-18: 67%)



**Financially  
unqualified financial  
statements: 83%**  
(2017-18: 80%)



**No findings on performance  
reports: 92%**  
(2017-18: 93%)

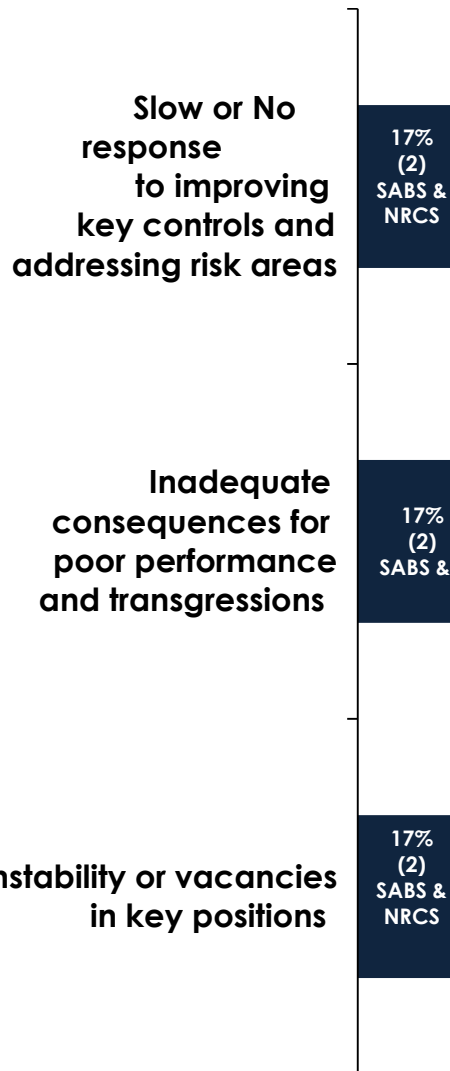


**No findings on compliance  
with legislation: 83%**  
(2017-18: 73%)



**Irregular expenditure:  
R71,8m**  
(2017-18: R134,4m)

# Root causes



There were recommendations made by the AGSA and the **SABS** is acting on the recommendations; however, it is taking some time for the impact to be realised.

Management (accounting authority and senior management) do not respond with the required urgency to our messages about addressing risks and improving internal controls at **NRCS**



If officials who ignore their duties and contravene legislation are **not held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.



The **instability** and **prolonged vacancies in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.

# Recommendations

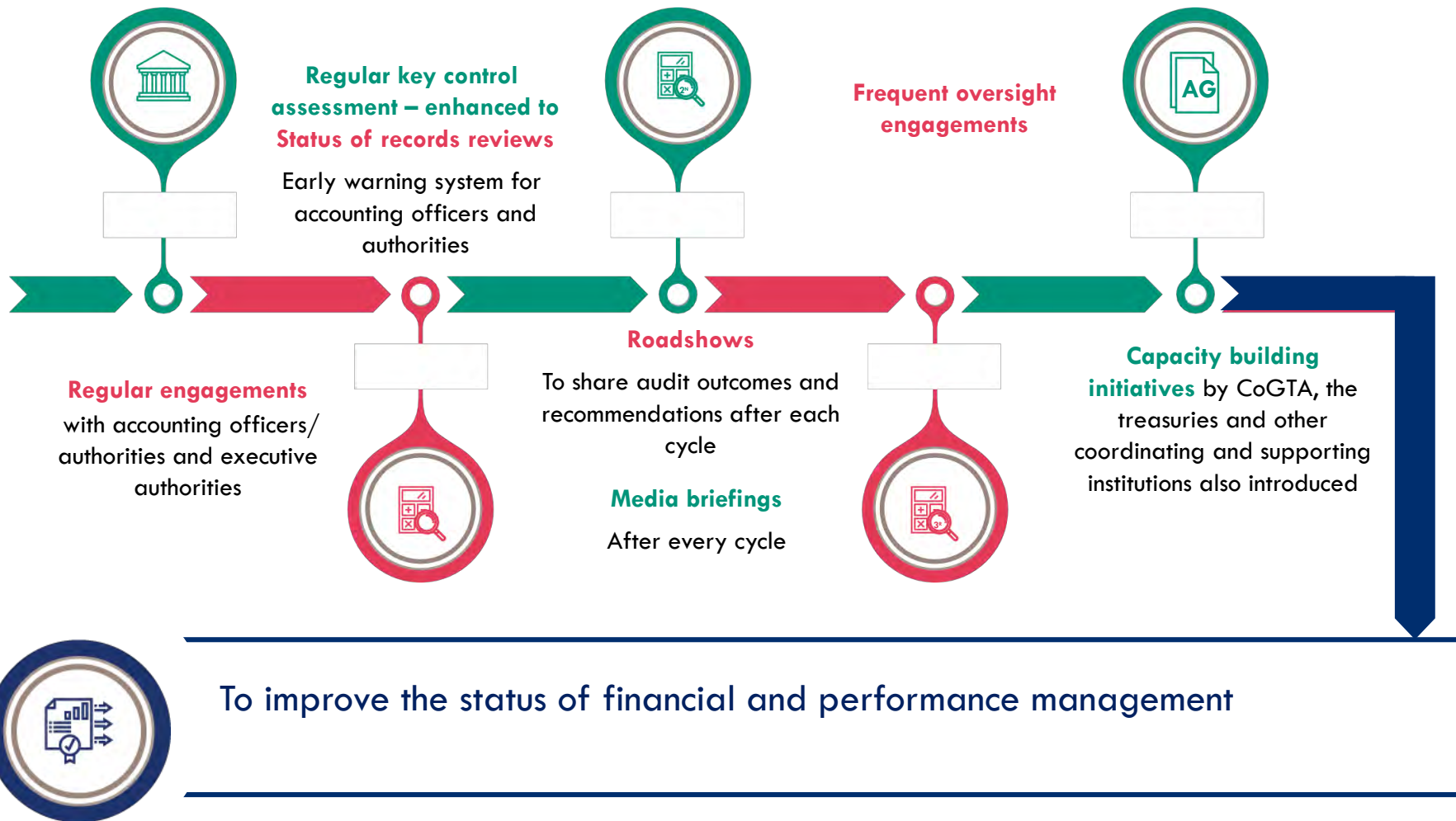
## To the portfolio committee:

- Request management to provide feedback on the implementation and progress of the action plans to address poor audit outcomes during quarterly reporting at SABS and NRCS.
- Request feedback on the progress of filling current vacancies for key positions at NRCS.
- Follow up on implementation of consequence management by obtaining a status update on the actions taken against transgressors at NRCS.

## To department and its entities:

- Vacant posts should be filled to enable quick response in addressing internal control weaknesses identified (NRCS).
- Continue implementing and monitoring the audit action plans on a regular basis by the accounting authority to address audit findings (SABS).
- Audit action plan should be properly designed, implemented and monitored on a regular basis by the accounting authority to address audit findings (NRCS).
- Provide continuous feedback on current investigations instituted by the entity to all oversight structures and implement recommendations to effect consequence management (NRCS).

# Additional efforts were introduced



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