



---

# NATIONAL AND PROVINCIAL AUDIT OUTCOMES

*BUSA Webinar 6 April 2021*

**PFMA**  
2019-20



AUDITOR-GENERAL  
SOUTH AFRICA

# 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



# 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

## Audit outcomes

|         |     |     |     |   |    |    | TOTAL |
|---------|-----|-----|-----|---|----|----|-------|
| 2018-19 | 98  | 188 | 103 | 3 | 24 | 8  | 424   |
| 2019-20 | 111 | 173 | 78  | 3 | 18 | 44 | 427   |

## Audit outcomes in proportion to expenditure budget

|                |     |     |     |     |    |     |
|----------------|-----|-----|-----|-----|----|-----|
| 2019-20        | 17% | 40% | 31% | <1% | 2% | 10% |
| R1 706 billion |     |     |     |     |    |     |

## MOVEMENT from previous year

66 auditees (16% of budget)  
Improved

35 auditees (2% of budget)  
Regressed

|                              |                           |                         |                       |                          |                    |
|------------------------------|---------------------------|-------------------------|-----------------------|--------------------------|--------------------|
| Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings | Outstanding audits |
|------------------------------|---------------------------|-------------------------|-----------------------|--------------------------|--------------------|



# Financial health pressure points for departments

(Based on financial statements of 159 completed audits)

|   |                     |   |
|---|---------------------|---|
| Income statement  | Expenditure         | <ul style="list-style-type: none"> <li>• <b>30% (47)</b> had <b>creditor-payment period</b> of more than 30 days</li> <li>• <b>R890 million</b> of expenditure was <b>fruitless and wasteful</b></li> <li>• <b>R18,12 billion</b> of expenditure was <b>unauthorised</b></li> </ul>   |
|   | Net result          | <ul style="list-style-type: none"> <li>• <b>35% (56)</b> ended year in <b>deficit</b> (expenditure was more than revenue)</li> <li>• Total <b>deficit at departments: R21,20 billion</b></li> </ul>   |
| Balance sheet   | Claims              | <ul style="list-style-type: none"> <li>• Claims stemming from <b>litigation against departments</b> are not budgeted for, resulting in successful claims being paid from funds budgeted for other purposes</li> <li>• <b>Claims payable</b> by departments at year-end was <b>R147,12 billion</b></li> <li>• <b>33% (49)</b> had <b>claims at year-end that exceeded 10% of following year's budget</b>; outstanding claims at year-end exceeded entire following year's budget at <b>13</b> departments</li> </ul>   |
|   | Debtors & creditors | <ul style="list-style-type: none"> <li>• Departments do not budget on accrual basis – expenditure not paid at year-end is effectively funded by following year's budget; <b>unpaid expenditure</b> totalled <b>R22,78 billion</b> at year-end</li> <li>• <b>18% (27)</b> had already used <b>more than 10% of following year's budget</b> (excluding employee cost and transfers) to fund current year's shortfall</li> <li>• On average, <b>12%</b> of <b>departmental debt is not recoverable</b>; average <b>debt-collection period</b> was <b>112</b> days</li> </ul> |
| <b>Analysis of all auditees including public entities</b> , with completed audits, responsible for total expenditure budget of <b>R1 533 billion</b> : <ul style="list-style-type: none"> <li>• <b>2%</b> of them: financial statements <b>not reliable enough for financial analysis</b></li> <li>• <b>12%</b> of them: <b>cannot continue to operate as going concern</b> in foreseeable future based on budget disclosed in financial statements</li> <li>• <b>66%</b> of them: <b>indicators of financial strain</b></li> </ul> |                     |   |



# 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

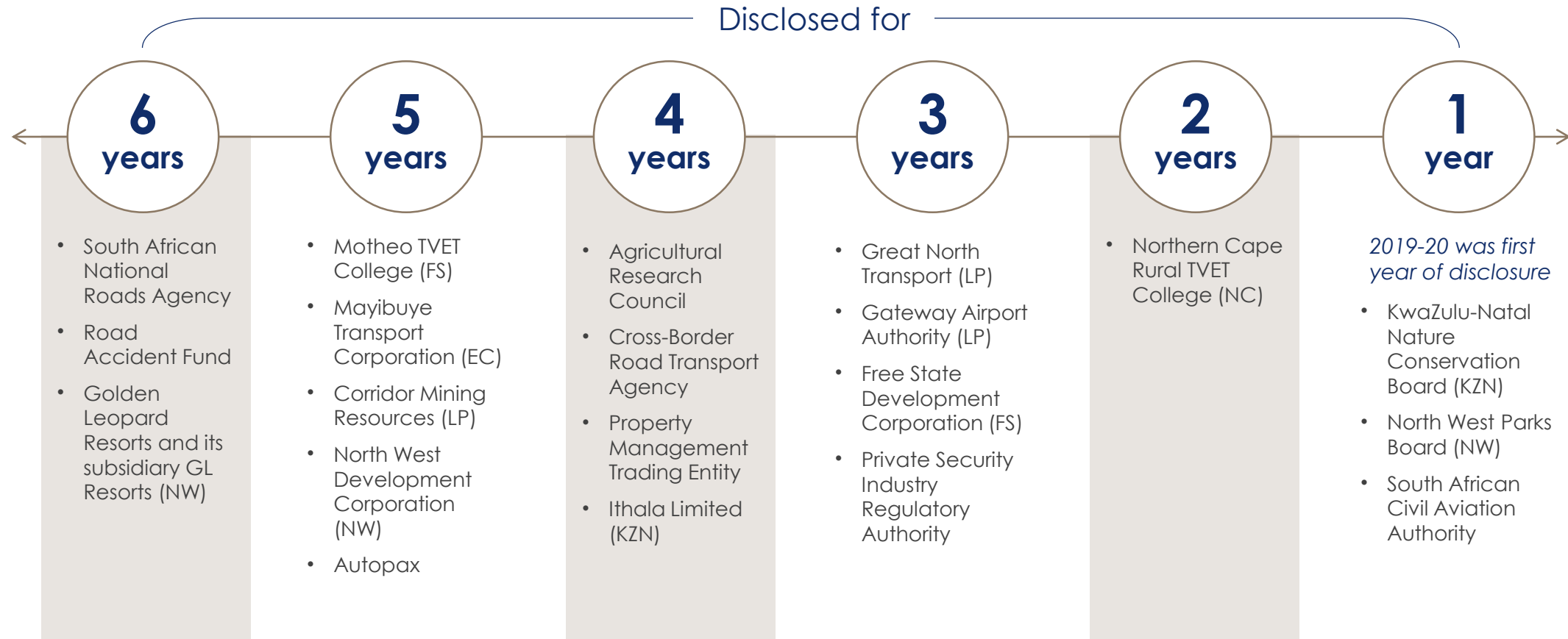
## What does the picture look like at Eskom and Transnet?

- **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)*



# 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 076 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 R54,34 billion

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



Amount of **R54,34 bn** not complete because of the 383 completed audits, **118 auditees (31%)** were either qualified on the completeness of their disclosure and/or did not know the total amount and were still investigating to determine the total amount

## Irregular expenditure incurred in 2019-20 by Eskom and Transnet

Transnet – R56,2 billion

Eskom – R11,17 billion



# 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



# Nature of identified material irregularities (MIs)

75 MIs identified to date with estimated financial loss of R6,9 billion



## Procurement

Non-compliance in procurement processes resulting in **overpricing of goods and services procured**  
**27 MIs (14%) – R983 million** estimated loss

Non-compliance in procurement processes resulting in **appointed supplier not delivering**  
**2 MIs (32%) – R2 221 million** estimated loss



## Expenditure management

Payment for **goods or services not received** or of **poor quality**  
**24 MIs (21%) – R1 447 million** estimated loss

Invoices or claims **not paid on time** resulting in interest or penalties  
**11 MIs (2%) – R151 million** estimated loss



## Revenue management

Revenue **not billed**  
**2 MIs (10%) – R666 million** estimated loss

Debt **not recovered**  
**2 MIs (16%) – R1 096 million** estimated loss



## Resource management

**Inefficiencies** – no benefit derived from cost  
**6 MIs (4%) – R285 million** estimated loss

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



# 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

- 25 Implementation of appropriate actions by accounting officer/authority in process
- 7 Resolved or closed
- 5 Lack of progress by accounting officer 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



# 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](http://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