



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



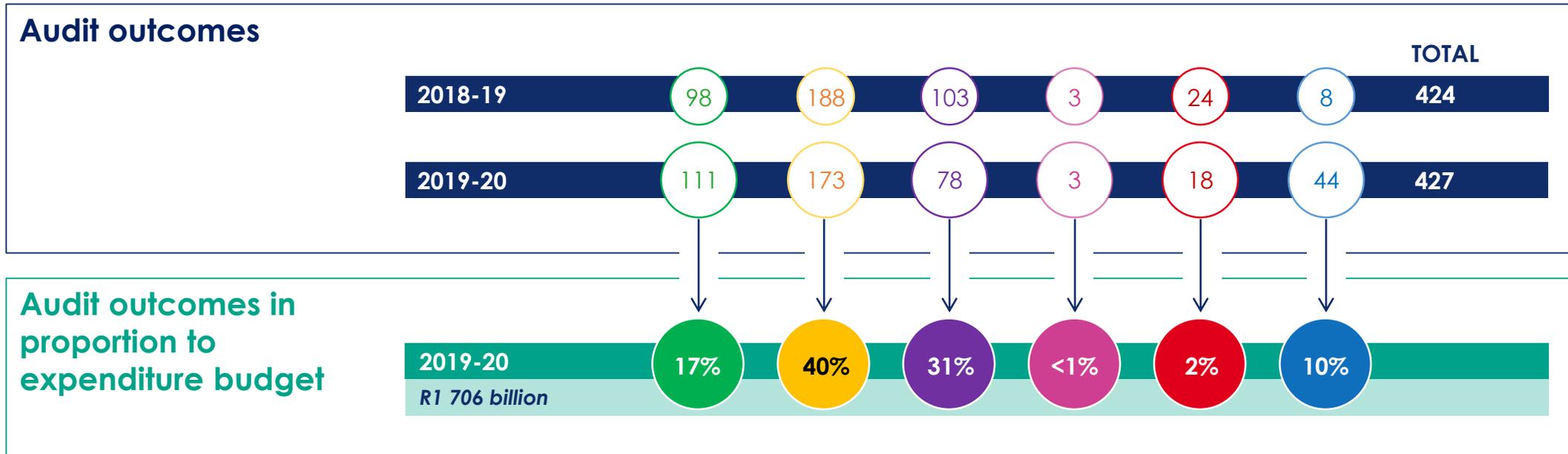
Stronger assurance contributions made by **new portfolio committees and public accounting committees**, and closer oversight by **executive authorities**



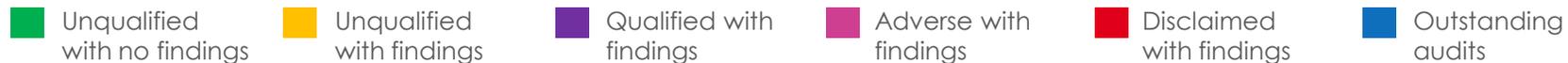
Coordinating departments improving and starting to play bigger role to support auditees



Audit outcomes



MOVEMENT from previous year



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 • R890 million of expenditure was fruitless and wasteful • R18,12 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 R147,12 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>Analysis of all auditees including public entities, with completed audits, responsible for total expenditure budget of R1 533 billion:</p> <ul style="list-style-type: none"> • 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 		



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

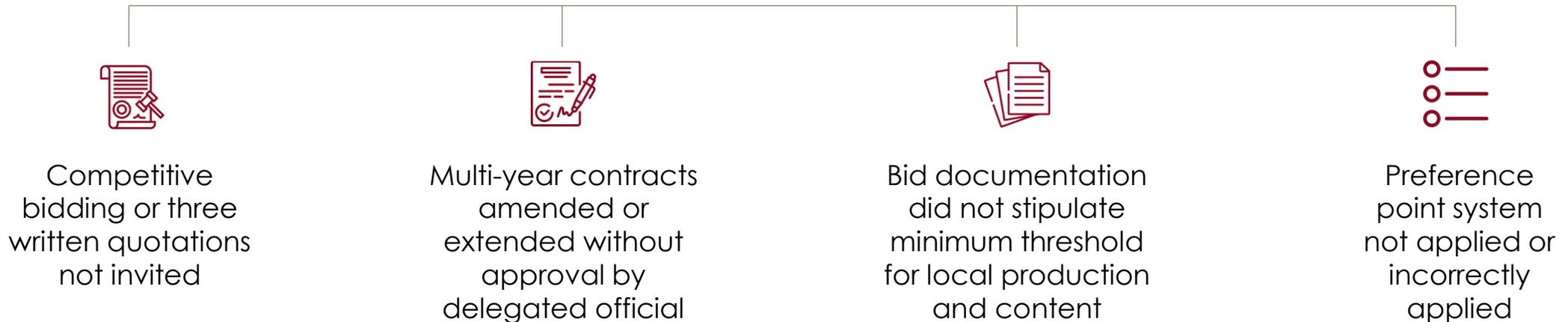
Significant doubt whether they will be able to continue operations (based on number of times disclosed in financial statements since 2014-15)



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





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



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