



AUDITOR - GENERAL
SOUTH AFRICA

Workshop for elected chairpersons of committees

Wednesday 7 August 2024

7th
Administration

Our vision, mission and values



VISION

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

MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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

VALUES

Our values underpin the culture of our organisation, building on the principles of mutual respect, trust, courage and ethical behaviour



WE CARE FOR
EACH OTHER



WE BUILD
TRUST



WE DO THE
RIGHT THING



WE EXCEL IN
ALL WE DO



Principle 4

Reporting on audit results and thereby enabling the public to hold government and public sector entities accountable

Principle 3

Enabling those charged with public sector governance to discharge their responsibilities in responding to audit findings and recommendations and taking appropriate corrective action

Principle 2

Carrying out audits to ensure that government and public sector entities are held accountable for their stewardship over, and use of, public resources

Principle 1

Safeguarding the independence of SAs

Principle 5

Being responsive to changing environments and emerging risks

Principle 6

Communicating effectively with stakeholders

Principle 7

Being a credible source of independent and objective insight and guidance to support beneficial change in the public sector



Principle 12

Capacity building through promoting learning and knowledge sharing

Principle 11

Striving for service excellence and quality

Principle 10

Complying with the SAI's Code of Ethics

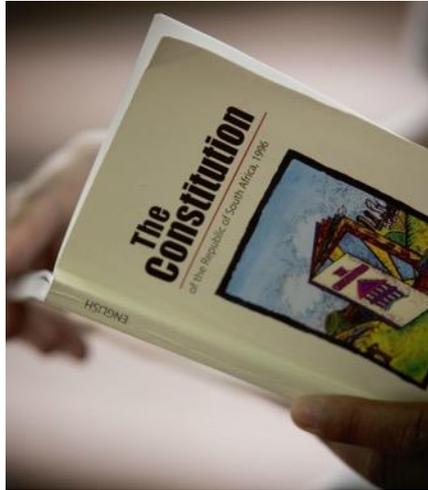
Principle 9

Ensuring good governance of SAs

Principle 8

Ensuring appropriate transparency and accountability of SAs





Chapter 9, section 188

AGSA's mandate: **Strengthen constitutional democracy** in the Republic. AGSA must audit and report on, accounts, financial statement and financial management of government institutions.

Chapter 5, section 92 (2)

Members of the Cabinet are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions

Chapter 4, section 114 (2)

Provincial legislatures' mandate: To ensure that all provincial executive organs of the state in the province are accountable to it; to maintain oversight and receive petitions.

Public Audit Act 25 of 2004

Section 20: AGSA must prepare audit reports reflecting an opinion, conclusion or finding:

S20(2): An audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee, which is the subject of the audit, and must reflect an opinion, conclusion or findings

- ❑ **The financial statements** in accordance with applicable financial reporting framework and legislation
- ❑ Compliance with applicable legislation
- ❑ Reported performance against predetermined objectives

Also includes as per section 5:

- ❑ Discretionary audits (including special audits, investigations and performance audits)

Section 1: Material irregularities

1(A) The AG may refer any suspected material irregularity identified during an audit to a relevant public body for investigation.

1(B) The AG has the power to:

- ❑ Take any appropriate remedial action, and
- ❑ Issue a certificate of debt ...where an accounting officer or authority has failed to comply with remedial action



PFMA chapter 7, section 63

The financial responsibilities of executive authorities:

(1) (a) Executive authorities of departments must perform their statutory functions within the limits of the funds authorised for the relevant vote.

(b) In performing their statutory functions executive authorities must consider the monthly reports submitted to them in terms of section 39 (2) (b) and 40 (4) (c).

(2) The executive authority responsible for a public entity under the ownership control of the national or a provincial executive must exercise that executive's ownership control powers to ensure that that public entity complies with this Act and the financial policies of that executive.

(3) The executive authorities responsible for local government and finance in the province have additional responsibilities which emanate from the **MFMA**, such as section 131, 132, 134, 135 -162 etc.



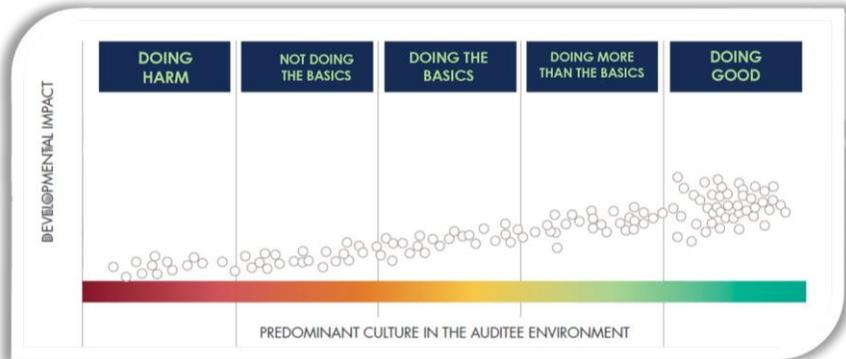
What we aspire to:

To have stronger, more direct and consistent impact on improving the lived reality of South Africans

How we aim to achieve it:

By sustainably and efficiently shifting public sector culture through insight, influence and enforcement

1 We plot our auditees along the continuum from **doing harm** to **doing good**



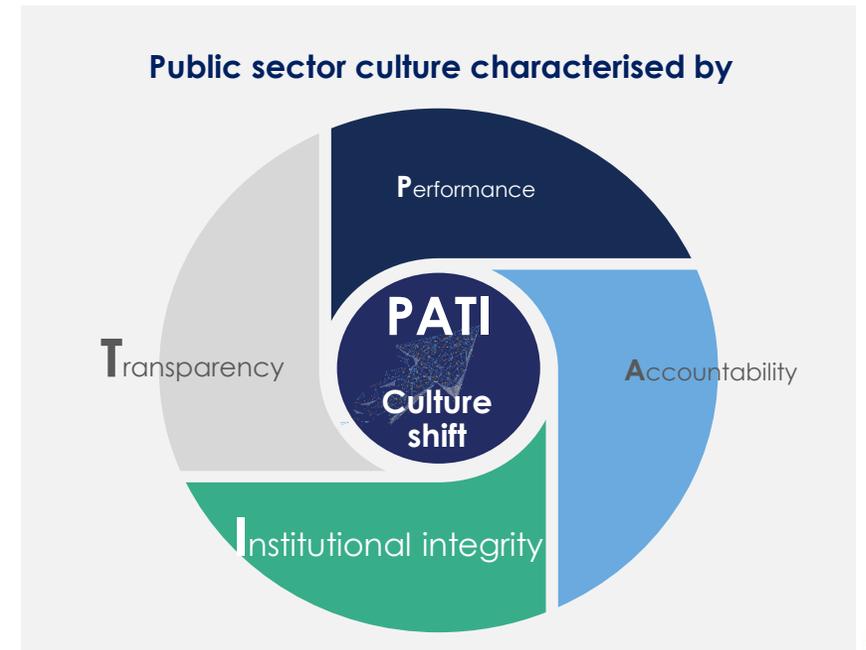
2 and provide **Insights**

3 that can be used to **Influence**

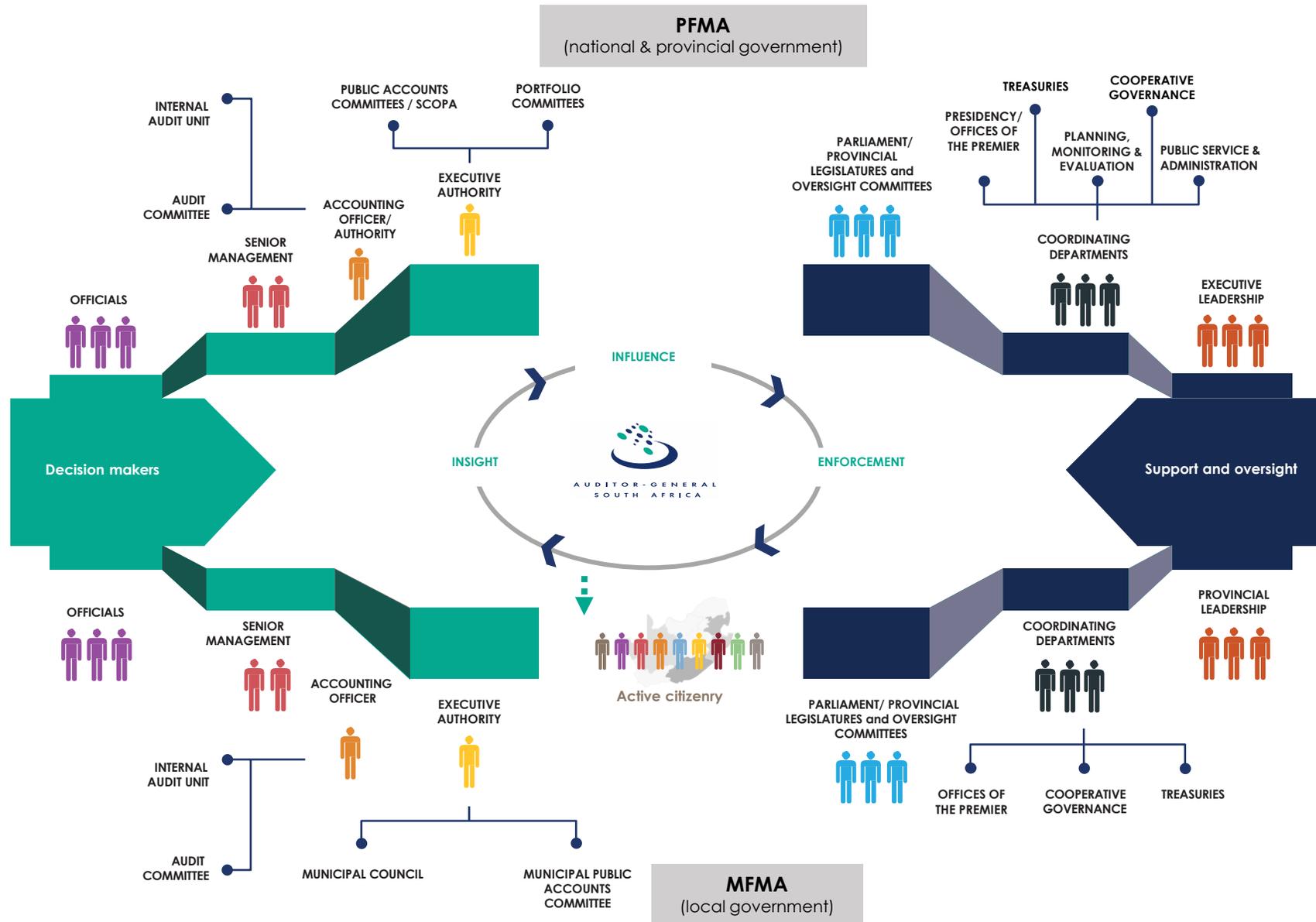
a **shift** across the continuum towards

4 If auditees do not respond appropriately, we

Enforce to **shift** the culture towards



Accountability ecosystem

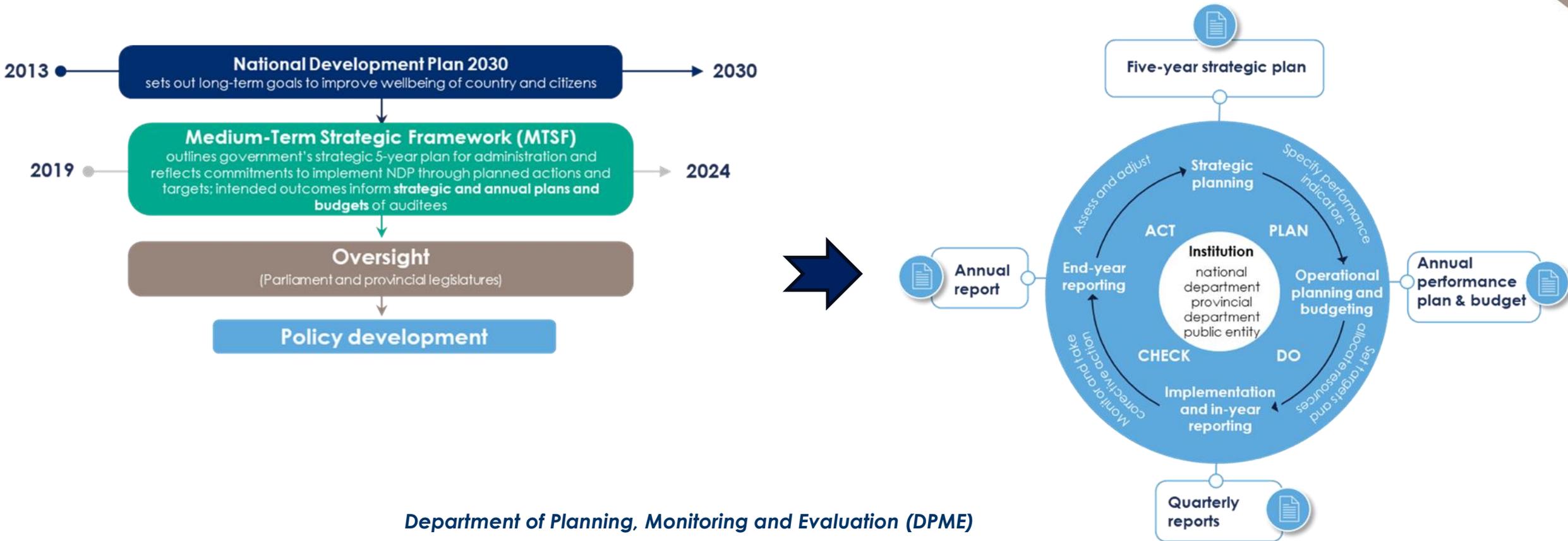


PERFORMANCE REPORTING

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Planning, budgeting and reporting cycle of government

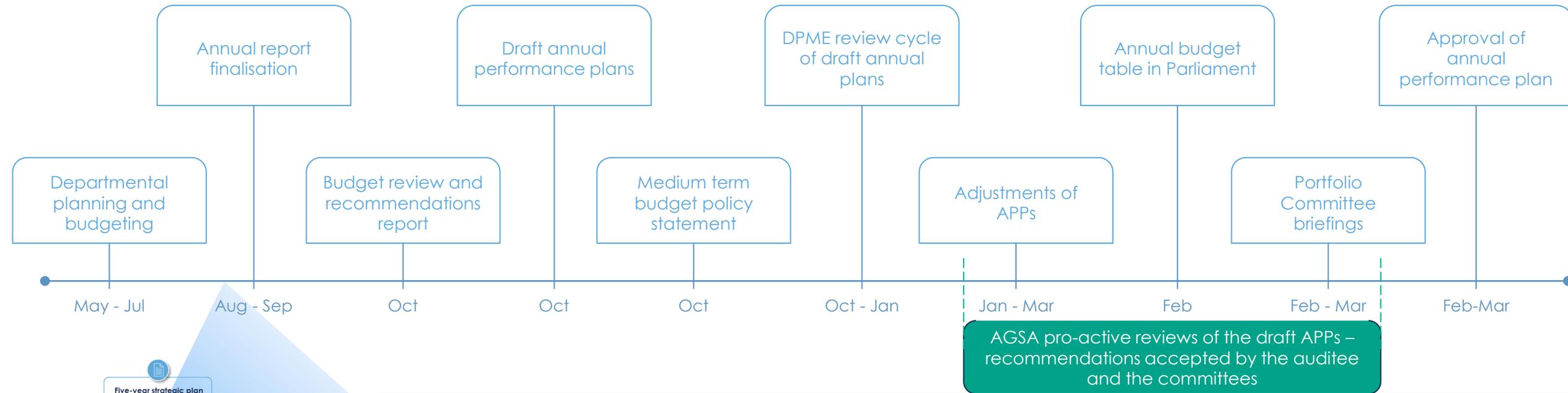


Department of Planning, Monitoring and Evaluation (DPME) and AGSA continue to collaborate on performance planning and reporting. DPME reviews first drafts of annual performance plans of departments.



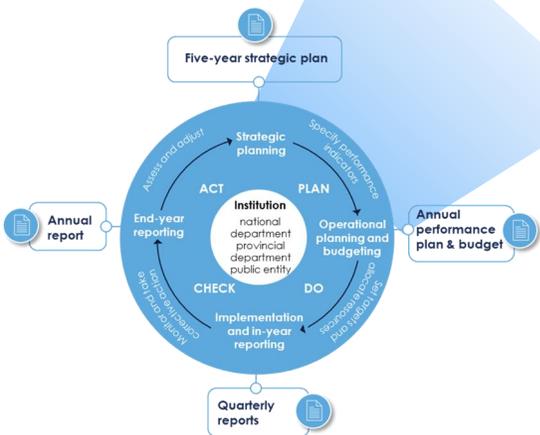
Pro-active review of the annual performance plans

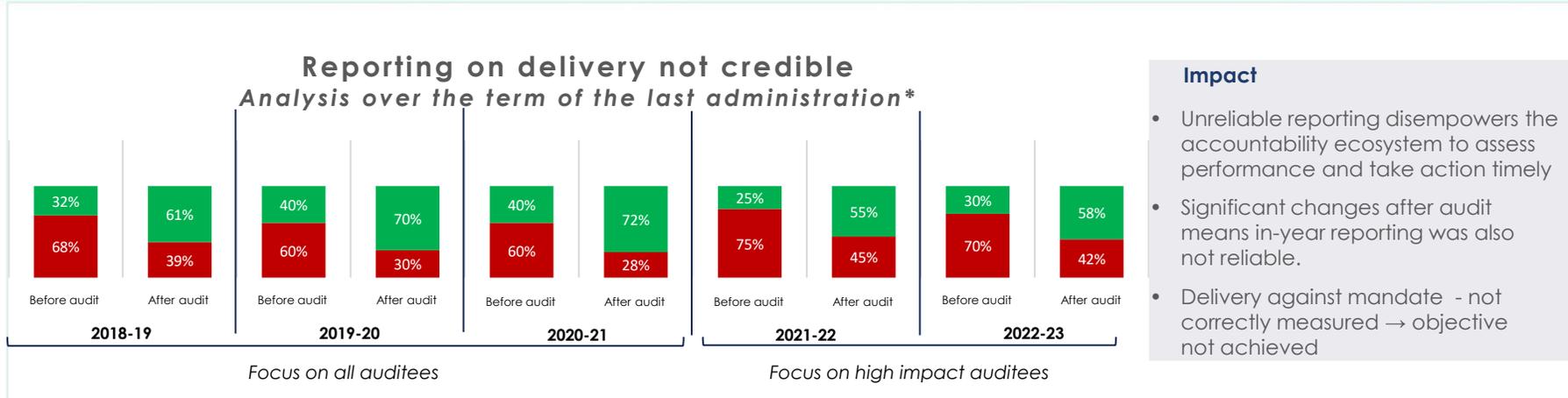
Annual performance plan cycle



Objectives of the AGSA pro-active reviews of the draft APPs

- Understand the process followed for the **preparation and revision** of the five-year plans and final draft annual plans
- Determine whether the prior year's material misstatements reported in audit report relating to **measurability, relevance, and reliability** were considered in updating indicators and targets in the draft annual plan
- Assess the **measurability, relevance, and quality of the indicators** and targets
- Assess the **completeness of relevant indicators** relating to core functions (mandate and MTSF) prioritized





Examples reported achievements not reliable (e.g. not supported by sufficient evidence)

- Square meters of blacktop (pothole) patching (Limpopo Department of Public Works)**
- ▶ Target: 180 000 m²
 - ▶ Reported achievement: 318 371 m²
- Square meters of blacktop (pothole) patching (North West Department of Transport)**
- ▶ Target: 52 470 m²
 - ▶ Reported achievement: 151 353 m²

Exclusion of performance indicators

13 high-impact auditees (10%) excluded indicators to measure contribution to MTSF

- ▶ Four provincial education departments excluded indicator: Grade 6 and 9 learners with maths and English first additional language textbooks

Example of underachievement on key programmes

Infrastructure development (Provincial education departments)

- ▶ Target achievement: Average 49%
- ▶ Budget spent: Average 94%

Examples of MTSF targets at risk of not being achieved

- Number of clinics attaining ideal clinic status (Provincial health departments)**
- ▶ Target: 3 467 (100%)
 - ▶ Achievement after 4 years: 2 053 (59%)
- Register title deeds (Provincial human settlements departments)**
- ▶ Target: 1 193 222
 - ▶ Achievement after 4 years: 143 707 (12%)

*National and provincial government



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**FINANCIAL
MANAGEMENT AND
COMPLIANCE**



Portfolio overall audit outcomes

PFMA

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2018-19	94	179	100	3	25	4	405
Last year of previous administration	126	183	80	2	14	12	417
2021-22	147	166	76	4	12	13	418
	35%	40%	18%	1%	3%	3%	

Movement from previous year

70 ▲ 33 ▼

Movement from last year of previous administration

127 ▲ 49 ▼

Non-submission of financial statements – 6

Late submission of financial statements – 5

Delays by auditee – 2

MFMA

Submission of financial statements by legislated date slightly improved from 92% to 93%

2020-21	41	100	83	4	28	1	257
Last year of previous administration	38	105	84	6	22	2	257
2021-22							

Submission of financial statements by legislated date slightly improved from 91% to 93%

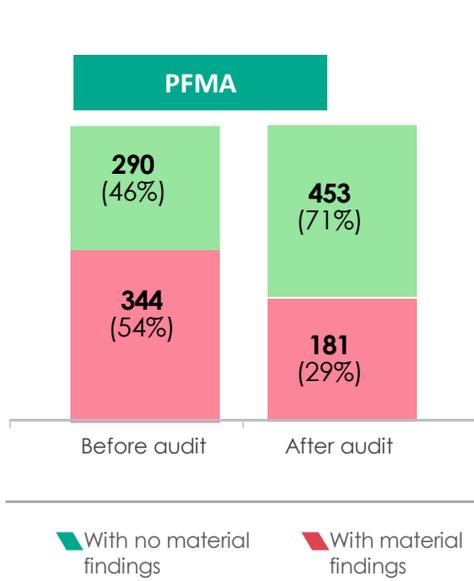
Good practices for clean administration

- Stability in leadership and governance structures
- Leadership tone that drives ethical culture, integrity and accountability
- Sound financial and performance management disciplines

Root causes for stagnation and regression

- Vacancies and instability in key positions
- Slow response to implement recommendations for sustaining the outcomes – inadequate effectiveness of internal audit units and audit committees
- Inadequate oversight and monitoring





Transversal financial management issues

Financial statements of auditees not prepared and submitted for auditing

More auditees submitted poor-quality financial statements for auditing

Auditees had **disclaimed or adverse opinions**

Auditees with poor financial health status



Impact

Lack of financial transparency
No accountability for financial performance

In-year monitoring and decision making based on inaccurate information
Reliance on auditors to identify misstatements

Information in financial statements not reliable for accountability on financial performance

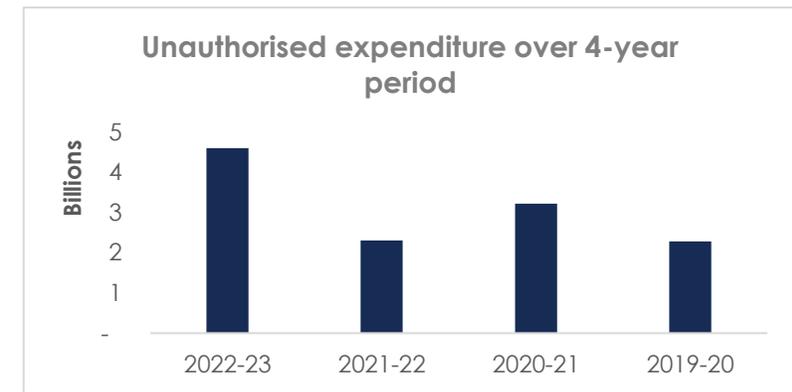
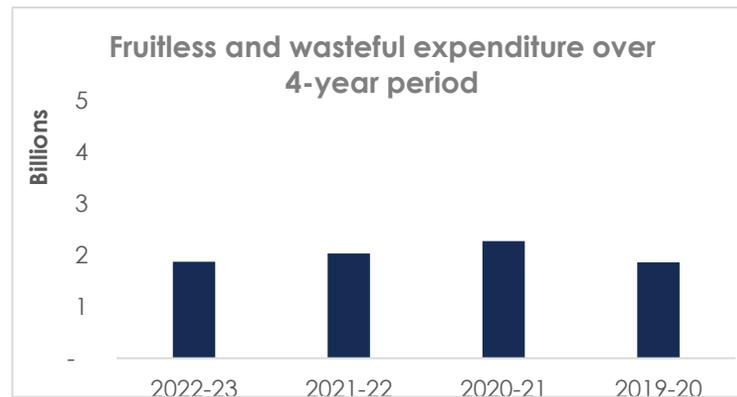
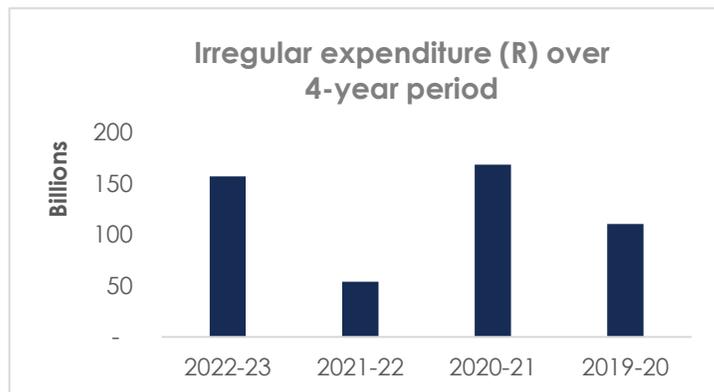
Auditees show signs of financial distress
Some auditees disclosed they are struggling to remain a going concern – some for multiple years

PFMA and MFMA

No findings on compliance with legislation: 30% (190) [2021-22: 28% (175)]

PFMA

Unauthorised, irregular, and fruitless and wasteful expenditure remains concerningly high



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MATERIAL IRREGULARITIES





MI definition

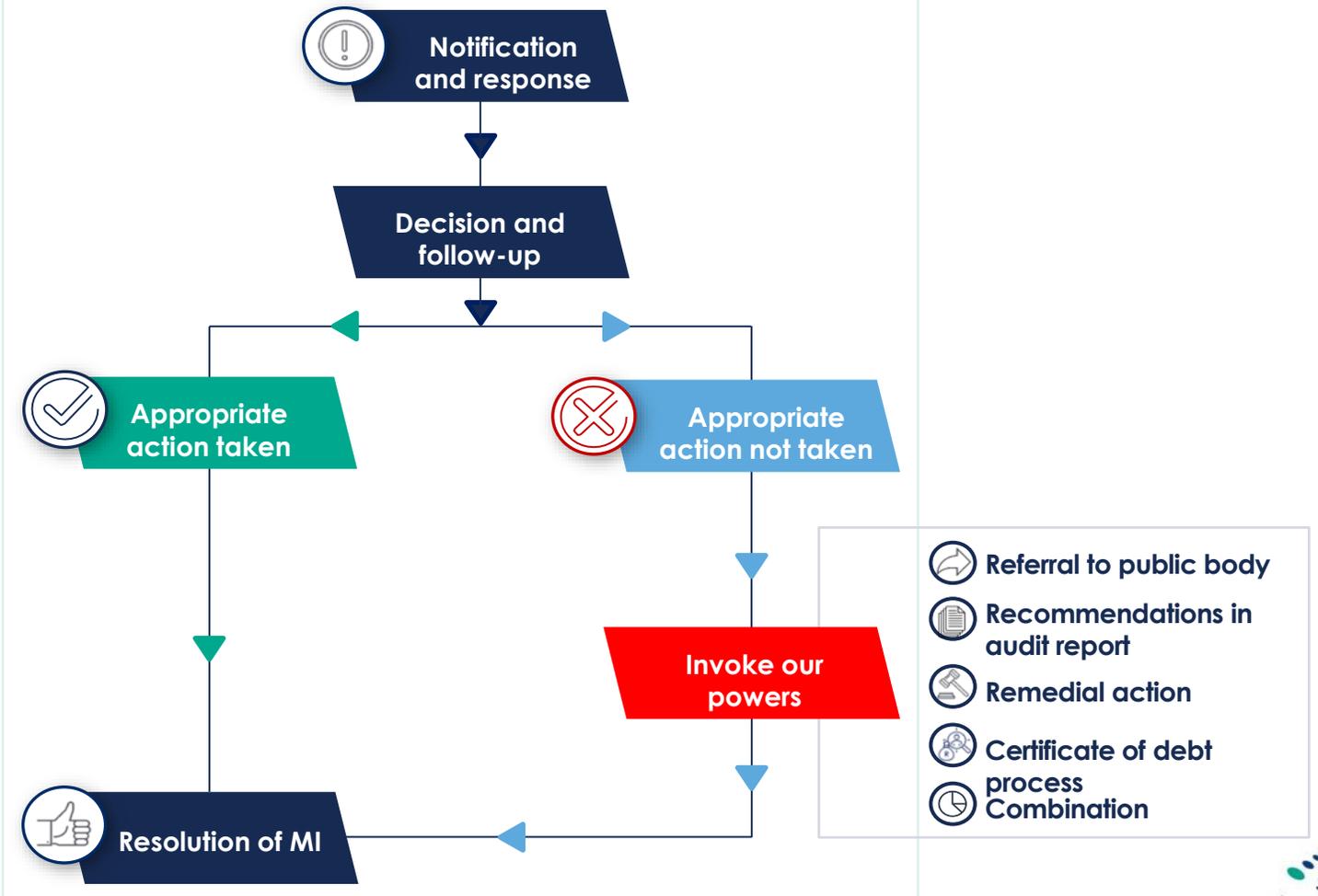
Any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely** to result in a **material financial loss**, the **misuse or loss** of a **material public resource**, or **substantial harm** to a **public sector institution** or the **general public**



Objective

- Instil a culture of **accountability**
- Improve the **protection of resources**
- Enhance public **sector performance** and encourage an **ethical culture**
- Strengthen public sector institutions to **better serve the people of South Africa**

MI process



360 MIs on non-compliance and suspected fraud, resulting in:

- 260** material **financial loss** (estimated R7,34bn)
- 48** substantial **harm to general public**
- 52** substantial **harm to public sector institutions**

Impact made

R262,88m	Financial loss recovered
R217,03m	Financial loss prevented
R444,31m	Financial loss in process of being recovered

- 116 internal control improvements** to prevent recurrence
- 80** responsible officials identified and **disciplinary process** completed / in process
- 26 fraud / criminal investigations** instituted
- 23 submitted overdue annual financial statements**
- 8 dysfunctional wastewater treatment plants** in process of being refurbished/repared
- 6 supplier contracts stopped** where money was being lost



Status of MIs

- 99** Resolved MI
- 117** Appropriate action taken to resolve MI
- 28** Appropriate action not taken – decision on invoking our powers in process
- 26** Recommendations included in audit report
- 27** Referral to other investigating bodies
- 3** Referral and recommendations
- 24** Remedial action
- 2** Certificate of debt
- 23** Response received on notification – in process of assessing action
- 11** Recently notified



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THE DISPUTE RESOLUTION MECHANISM





- Reaffirm the AGSA's mandate to audit and report
- Include **multiple opportunities** for the auditee to be heard
- Ensure that resolution is always done in a **professional manner**
- Cement the role of the engagement manager
- Classify as a dispute if it cannot be resolved by the engagement manager
- Enhance focus and **attention to timely resolution**
- Applicable to audit and audit-related services – **irrespective of whether the report is signed or not**
- Dispute resolution is the responsibility and accountability of those with direct knowledge of the auditee

Why disputes arise

What drives disputes/complaints:

- Differing legal interpretations
- Differing application of accounting standards
- Auditees' desire for a clean audit
- Need for procedural fairness

Scope



Overview of the dispute resolution process

Engagement manager will, as part of audit process, resolve all matters being disputed through support from technical support and National Treasury (if applicable)

Auditee will be encouraged to reach out to National Treasury for support on matter raised



Auditee still disagrees



Engagement Manager

Auditee still disagrees



Escalation to Business Unit Leader

Auditee still disagrees



Tier 1
Escalation to Head of Portfolio

Final outcome / decision



Tier 2
Head of Audit

Supported by PCs, Technical Audit Support, National Treasury , Accounting Standards Board, Quality Management, external legal review



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A CALL TO ACTION





Our mandate:
Audit and report



Our strategy:
#cultureshift2030



Expanded mandate:
Material irregularities

Additional initiatives:



Root cause identification and recommendations



Impactful engagements



Real-time audits



Preventative control guidance and awareness



Participation in capacitation initiatives



- Speakers' Forum supports the adoption of committee resolutions by legislatures
- Through Speakers' offices, creates a tracking structure between the committees and executive authority
- Speakers' support and advocate for consequence management
- AGSA shares insights on root cause of audit outcomes, recommendations on corrective actions needed for improvement and sustainable outcomes through briefings to the committees
- AGSA provides support to committees during public hearings and oversight visits
- AGSA engages committee chairpersons before public hearings to share insights
- AGSA provides training and capacity-building initiatives to parliamentary staff and members to enhance their understanding of auditing processes



- **Internal controls** are categorised as preventative controls, detective controls and corrective controls.
- They are designed and implemented by management to avoid threats to the objectives of the institution materialising
- **Detective and corrective controls** focus more on identifying and correcting failures after they had already occurred
- The guides cover:
 - Organisational Level
 - Procurement of goods and services
 - Preparation of organizational statements
 - Asset management
 - Infrastructure delivery process



Improved service delivery enabled by capable, cooperative, accountable and responsive institutions delivering on their mandates

Activate the accountability ecosystem to address the current realities

1 Culture of no accountability and consequences

2 Ineffective resource management

3 Inadequate intergovernmental planning, coordination and support

Our recommendations

- **Professionalisation** of the public sector – qualified and competent officials equipped to perform their public function conscientiously and with a strong sense of public service and an ethical disposition
- Requires support to implement a professionalisation framework built on meritocracy (merit-based management)

- **Executive authorities and committees in legislature** should insist on timely and credible reporting and accountability, and should play an oversight role effectively and with greater impact
- Institutions with a mandate for **monitoring and enforcement** should play their part to ensure accountability and consequences

- **Coordinating institutions** should intensify interventions to improve intergovernmental planning and coordination to ensure service delivery is planned for in an integrated and effective manner, and account transparently in performance reports
- Effective use of **audit committees and internal audit units** should improve governance

Improved **quality of spending** through a focus on economy, efficiency and effectiveness





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REPORTS

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PREVENTATIVE
CONTROL GUIDES



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