

# IMPLEMENTING THE ENHANCED MANDATE

## Value adding auditing objective 1: Demonstrate value-adding auditing

### PERFORMANCE MEASURE

% completed actions as per the PAA project plan

#### 2020-21 TARGET

80% – 100% completed actions for the 2020-21 financial year as per the PAA implementation plan

#### 2020-21 ACTUAL

81%

Amendments to the PAA enhanced our powers and mandate to promote decisive action from those charged with the responsibility of safeguarding public resources, and enabling them to prevent or recover losses of public resources. In the 2020-21 financial year, we advanced our enhanced mandate while completing our annual audits under challenging conditions and conducting real-time audits of the covid-19 initiatives.

## THE PAA IMPLEMENTATION APPROACH

We implemented the MI process at 146 auditees in the 2019-20 audit cycle compared to 25 in the previous year. Our focus was on auditees that represent a significant portion of the government's expenditure budget and irregular expenditure at national, provincial and local government (including SOEs), and on key contributors to government priorities. We expanded the MI definition to include any non-compliance with, or contravention of legislation, fraud, theft or breach of fiduciary duty that resulted, or is likely to result, in a material financial loss.

### An MI is reported on every year until it is resolved

#### When is an MI fully resolved

- The loss, misuse or harm was prevented
- Any losses have been recovered or all possible steps have been taken to recover the losses
- Any further loss, misuse or harm is prevented
- Appropriate steps have been taken against the person or party responsible for the loss, misuse, or harm

## THE SECOND YEAR OF IMPLEMENTATION

We continued to consult with technical and legal specialists on difficult, contentious or complex matters to ensure that our decisions were legally sound and informed by evidence. We also mitigated potential risks to our audit quality by subjecting selected audits to at least two levels of independent reviews, including pre-issuance, peer and quality control proactive reviews.

Using lessons learnt from our first phase of implementation, we enhanced our training material and shifted our training approach from fundamental theoretical training to practical targeted training based on the implementation experience. Mindful of the current economic climate, we recruited conservatively for critical roles including legal and technical specialists. All other resourcing was from contracted firms or secondments across the organisation.

## MATERIAL IRREGULARITY COMMITTEE

The MI committee (MIC) is an internal governance committee that ensures consistency in applying the MI process. During 2020-21, the committee considered submissions of identified MIs and recommended action for the following auditees:

- Free State Department of Human Settlements (5 MIs)
- Free State Department of Education (1 MI)
- Department of Defence (1 MI)
- Ngaka Modiri Municipality (2 MIs).

The MIC also recommended referring one matter at the Mathjabeng Municipality to the Directorate for Priority Crime Investigation (Hawks) for investigation.

We closely monitored the recommendations in the previous audit cycle to the Gauteng Department of Health and the Passenger Rail Agency of South Africa (Prasa), and a referral to the National Treasury. The results at the time of writing this report were:

- the recommendations to the Gauteng Department of Health were implemented, which resolved the MI and resulted in the accounting officer investigating the R8 million financial loss and taking the appropriate action to address the internal control weaknesses
- the recommendations to Prasa to conclude the investigation and determine the employees responsible for the R2,2 billion financial loss was still being implemented.
- the Northern Cape Department of Health matter that was referred to the National Treasury for investigation was still under way.

## ADVISORY COMMITTEE ON MATERIAL IRREGULARITIES

The independent advisory committee on material irregularities (ACMI) is important to implementing our enhanced powers. The committee held its first meeting in August 2020 and a two-day workshop in February 2021, which introduced members to our general functions and, more specifically, the MI process.

The members also spent significant time defining the ACMI's terms of reference and method of work to ensure that the independence of the committee remains intact.

Since the MI implementation has not reached the stage where the auditor-general has considered issuing certificates of debt, the ACMI has not heard any oral representations by accounting officers or members of accounting authorities.

## Summary of the MIs identified during the 2019-20 national, provincial and local government audit cycles

### STATUS OF MIs REPORTED IN AUDIT REPORTS

DESCRIPTION	National and provincial government	Local government
Accounting officer/authority is taking appropriate actions	33	6
Recommendations in the audit report for the accounting officer/authority's action	8	3
Referred to a public body for investigation	1	1
Accounting officer/authority resolved the MI	3	–
<b>Total</b>	<b>45</b>	<b>10</b>

## 2019-20 LOCAL GOVERNMENT AUDIT CYCLE

## NATURE OF IDENTIFIED MATERIAL IRREGULARITIES (MIs)

96 MIs identified to date with an estimated financial loss of R2 billion


**DISCLAIMERS – 21 MIs**

Full and proper records not kept causing repeat disclaimers of opinion and resulting in substantial harm to municipalities (lack of service delivery and/or vulnerable financial position)


**PROCUREMENT AND PAYMENTS**

Non-compliance in procurement processes resulting in overpriced goods and services procured

**1 MI**                      **R2,5 million estimated loss**

Payment for goods and services that were not received or making invalid salary payments

**18 MIs**                  **R285,9 million estimated loss**


**INTEREST AND PENALTIES**

Eskom, water boards, loans and suppliers not paid on time resulting in interest

**23 MIs**                  **R979,3 million estimated loss**

Payout and value-added tax return not paid on time or incorrectly calculated resulting in South African Revenue Services interest and penalties

**11 MIs**                  **R54,7 million estimated loss**


**REVENUE MANAGEMENT**

Revenue not billed

**8 MIs**                    **R182,3 million estimated loss**

Debt not recovered

**2 MIs**                    **R149,4 million estimated loss**


**INVESTMENTS AND ASSETS**

Loss of investments

**3 MIs**                    **R264,9 million estimated loss**

Assets not safeguarded resulting in loss

**9 MIs**                    **R116,6 million estimated loss**

## 2019-20 NATIONAL AND PROVINCIAL GOVERNMENT AUDIT CYCLE

## NATURE OF IDENTIFIED MATERIAL IRREGULARITIES (MIs)

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

**PROCUREMENT**

Non-compliance in procurement processes resulting in overpriced good and services procured  
**27 MIs (14%) R983 million estimated loss**

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

**EXPENDITURE MANAGEMENT**

Payment for goods or services that were not received or were 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**