



**PFMA
2021-22**



02 December 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

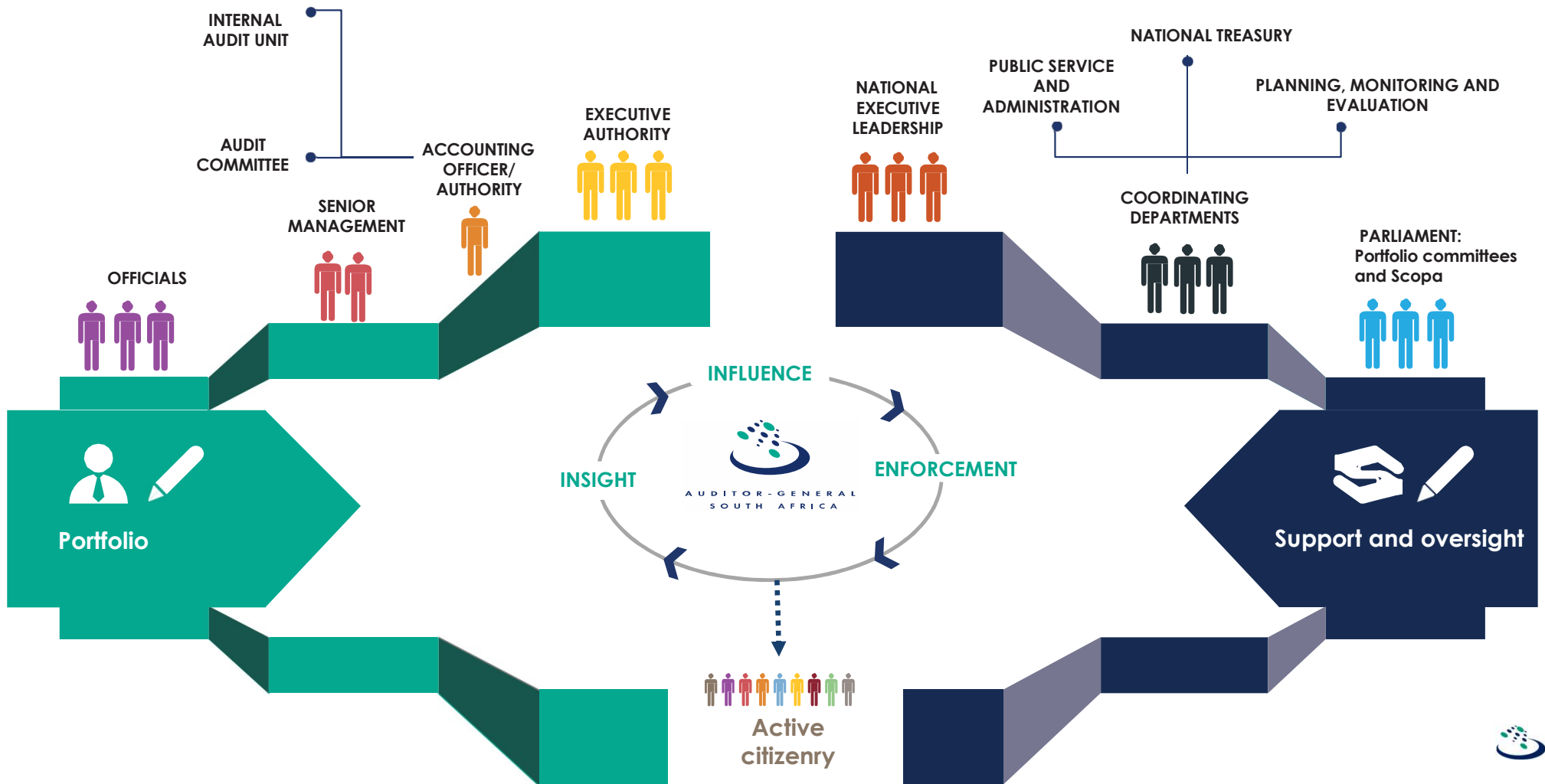
The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



VISION

To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.







Audit outcomes over the years



AGSA audit outcomes

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

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:

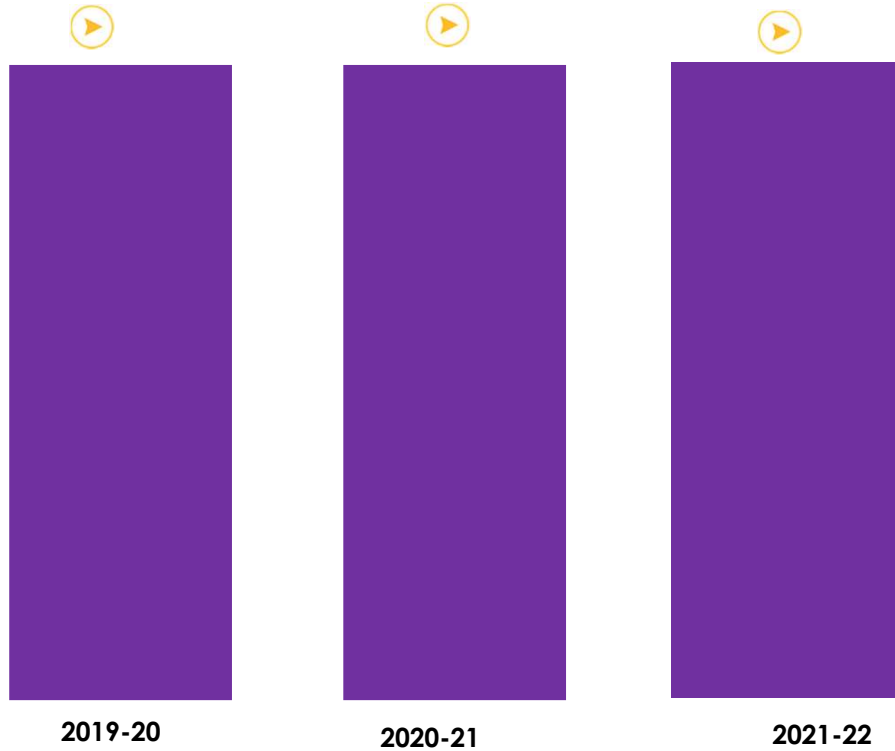
 Improved

 Unchanged

 Regressed

Audit opinion history

The audit outcomes for the fund for the past three financial years are summarised below



Movement	
▲	Improvement
▼	Regression
▶	Unchanged

Audit outcomes are depicted as follows:	■ Unqualified with no findings	■ Unqualified with findings	■ Qualified with findings	■ Adverse with findings	■ Disclaimed with findings	■ Outstanding audits





Discretionary grants commitments (R2 698 586 000)



- The entity did not disclose the correct amount of amendments in relation to the discretionary grants commitments in note 26 to the financial statements, as required by GRAP 1. *Presentation of financial statements.* There were differences between the amendments on the discretionary grants commitments and the underlying supporting evidence. This was as a result of inadequate controls over the accounting records. Consequently, discretionary grants are understated by R528 562 883.
- I was unable to obtain sufficient appropriate audit evidence for discretionary grants commitments, as the public entity did not maintain accurate and complete records of contractual information used to determine the commitments. In addition, the public entity did not maintain proper records of reconciliations for commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the following items in the financial statements:
 - Discretionary grants commitments stated at R2 698 586 000 (R2021: R3 463 411 000) in note 26 to the financial statements
 - Irregular expenditure stated at R99 397 000 in the comparative period in note 34 to the financial statements



Quality of performance reporting



Second focus area: credible performance reporting

Performance report

Services SETA remained with uncorrected misstatements after the audit process. The findings were identified on **Programme 3: Learning programmes**

Usefulness

I was unable to obtain sufficient appropriate audit evidence that clearly defines the predetermined evidence or method of calculation to be used when measuring the actual achievement for the indicators. This was due to insufficient measurement definitions and processes for the following indicators listed below:

- 4.2.1.2 Number of learnerships completed
- 4.2.1.8 Number of skills programmes completed
- 4.2.1.15 Number of candidacy completed
- 4.1.1.1 Number of employers submitting WSP/ATR

Reliability

The achievement reported in the annual performance report differed materially from the supporting evidence provided for the indicators listed below:

- 4.2.1.8 Number of skills programmes completed
- 4.2.1.4 Number of internships placement completions
- 4.2.1.2 Number of learnership completions

Root cause analysis

There is a cut-off issue wherein learners that completed a learning intervention in the prior years are reported in the current year under review

Recommendation

- Learners that have completed a learning intervention should be reported in the period which they participated and completed in the intervention.

Compliance with legislation



Third focus area: compliance with legislation

In the current year there has been a stagnation in compliance with legislation for the Services SETA.

In some instances, the non-compliance identified is similar to that reported in the prior year and the nature is as follows:

Annual financial statements: Financial statements were not submitted for auditing within two months' after the end of financial year and material misstatements were identified in various components of the financial statements.

Annual financial statements: Financial statements that were submitted for audit were not prepared in accordance with GRAP.

Expenditure management: Irregular expenditure was not prevented. Discretionary grant support cost expenditure exceeded the 7.5% limit and payments were made in excess of the contract cost.

Expenditure management: Fruitless and wasteful expenditure was not prevented. Payments were made for litigation settlements for interest and other costs where the entity did not receive a benefit.

Findings on compliance with key legislation

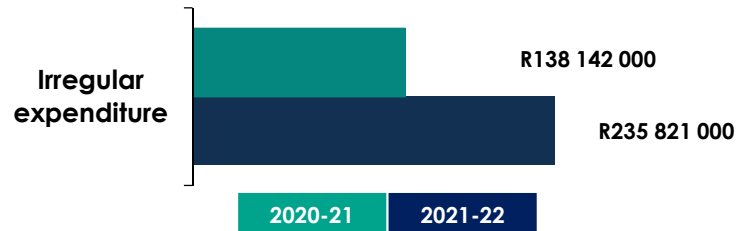


Irregular expenditure over 2 years

Definition

Expenditure incurred in contravention of key legislation; prescribed processes not followed.

Irregular expenditure incurred by the public entity



Nature of irregular expenditure

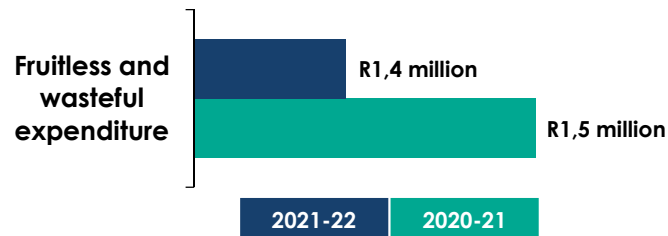
Highest contributors to irregular expenditure related mainly to costs incurred in excess of the approved budget, expenditure incurred in excess of the 7.5% limit of DG support costs and payments made above contract value.

Fruitless and wasteful expenditure over 2 years

Definition

Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

Fruitless and wasteful expenditure incurred by the department and entities in portfolio



Nature of fruitless and wasteful expenditure

- The majority of the fruitless and wasteful expenditure relates to litigation settlements (interest and other costs).

Governance and internal controls



Internal control deficiencies



The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the audit opinion as well as the material findings on performance information and compliance with legislation.

Action plans to address internal control deficiencies

- Management developed an audit action plan to address the internal control deficiencies; however, the plan has not been adequately monitored to ensure that there is effective implementation of corrective measure to address the internal control deficiencies. As a result, there were recurring and significant new findings with similar root causes as that were previously reported.

Regular, accurate and complete financial and performance reports

- Management did not ensure that the financial statements and annual performance report were adequately reviewed and supported by complete and accurate supporting documents, resulting in material misstatements being identified during the audit.

Internal control deficiencies (continued)

Daily and monthly processing and reconciling of transactions

- Management did not implement adequate controls relating to daily and monthly processing and reconciliation of transactions. The controls that management put in place to ensure regular, accurate and complete financial reports did not always detect prevent and/or detect material misstatements in annual financial statements and annual performance report.

Compliance monitoring

- The public entity did not adequately review and monitor compliance with applicable laws and regulations, which resulted in non-compliance with legislation being identified during the audit



Recommendations





Perform a detailed root cause analysis



Enhancement preventative and detective internal controls activities



Monitor implementation of audit action plan activities



Intensify review processes on financial reports against supporting information



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