AUDITOR-GENERAL
SOUTH AFRICA

PAA amendments – the key expansion to our mandate

June 2019

Audit

Report

For Accountability

AGSA mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) 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.

Points for discussion

- Existing legislative instruments for public finance management
- History of audit outcomes
- Audit and report – our contribution to date
- Expansion of our mandate through the Public Audit Amendment Act, 2018
- Implementation of the expanded mandate

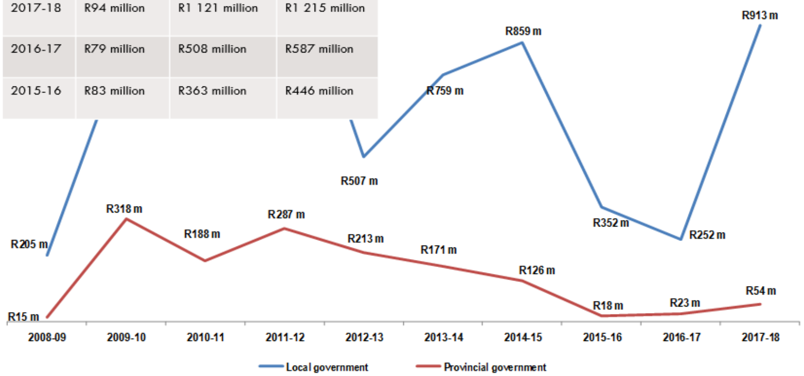
Existing legislative instruments for public finance management

- Oversight
- Executive authority
- Accounting officer or accounting authority

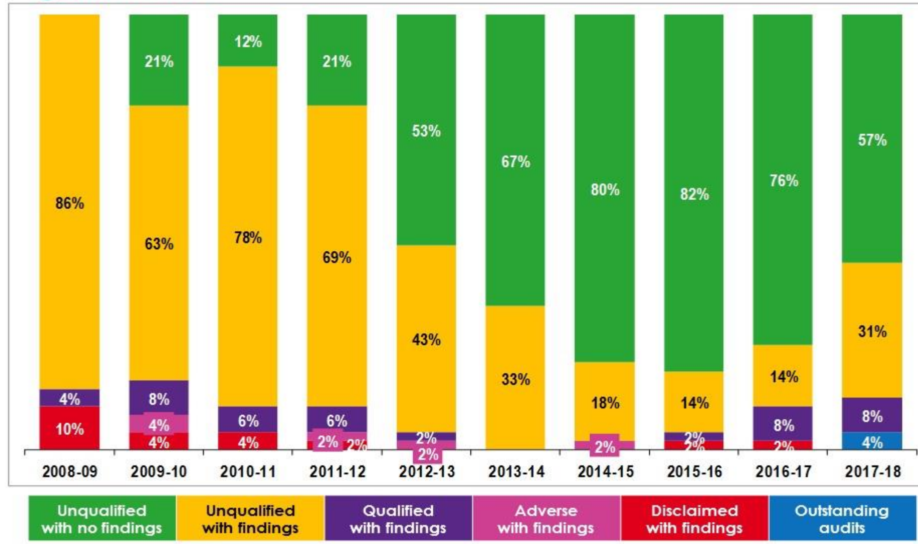
The need to expand the AG's mandate

Rise in UIFW expenditure

Balances of irregular expenditure not yet dealt with			
Provincial government		Local government	Total
2017-18	R94 million	R1 121 million	R1 215 million
2016-17	R79 million	R508 million	R587 million
2015-16	R83 million	R363 million	R446 million



Audit outcomes over the past 10 years – provincial and local government



Additional efforts were introduced

Accountability failures → worsened financial health → lack of delivery and maintenance of infrastructure → negative impact on the well-being of South African people.

PAA amendment seeks to address the lack of suitable mechanisms to effectively follow through on the recommendations made during the audit process

What is a material irregularity?

Definition from the Amendment Act

irregularity

*“Material irregularity” means any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty** …*

material irregularity

identified during an audit performed under this Act that resulted in or is likely to result in …

material

*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**.*

Accounting officers and authorities have a legal obligation to prevent all irregularities and take action if it occurred. The AGSA’s focus is only on material irregularities.

Introducing the concept of material irregularities

Refer material irregularities to relevant public bodies for further investigations

Take binding remedial action for failure to implement the AG's recommendations for material irregularities

Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

A focus on material irregularities..

- Sharpen the risk orientation of the audit and increase the focus on critical areas that attract public interest
- Differentiate between irregularities that are tolerable (but still pose a risk and must be addressed) and those that needs specific and urgent attention as it exposes the public sector to financial loss and misuse of resources and the public to significant harm
- Create greater awareness of the irregularities that expose the public purse to financial vulnerability and loss and how accounting officers and authorities are addressing it in line with their legislative responsibilities

Identification of MI process – 2018-19

AT

1. Perform audit procedures
2. Identify non-compliance with scoped in legislative requirements
3. Report and confirm factual correctness of finding

Phase 1

Results: Irregularity has been identified

4. Can non-compliance have a financial impact?

Yes

5. Are there indicators of financial loss?

Yes

6. Calculate actual/ estimated financial loss or likely financial loss?

Phase 2

Result: The actual/ estimated financial loss/ likely financial loss

7. Is financial loss/ likely financial loss

Yes

No

8. Is financial loss/ likely financial loss

Yes

9. Conclude it is an MI

10. Report in the AR

Phase 3

Certificates of debt process (1/2)

A certificate of debt can be avoided by implementing the directive to quantify the financial loss and take steps to recover the losses.

If the remedial actions are not implemented a process as defined in the PAA and regulations are followed.

DETERMINE financial loss if not determined or inaccurately determined by AO/AA

NOTIFY AO or individual members of AA who failed to implement remedial action of intent to issue CoD and request written representation within 20 days

Receive **NO WRITTEN** representation

Receive **WRITTEN** representation

ASSESS if AGSA should continue with CoD

CoD **TO BE ISSUED**

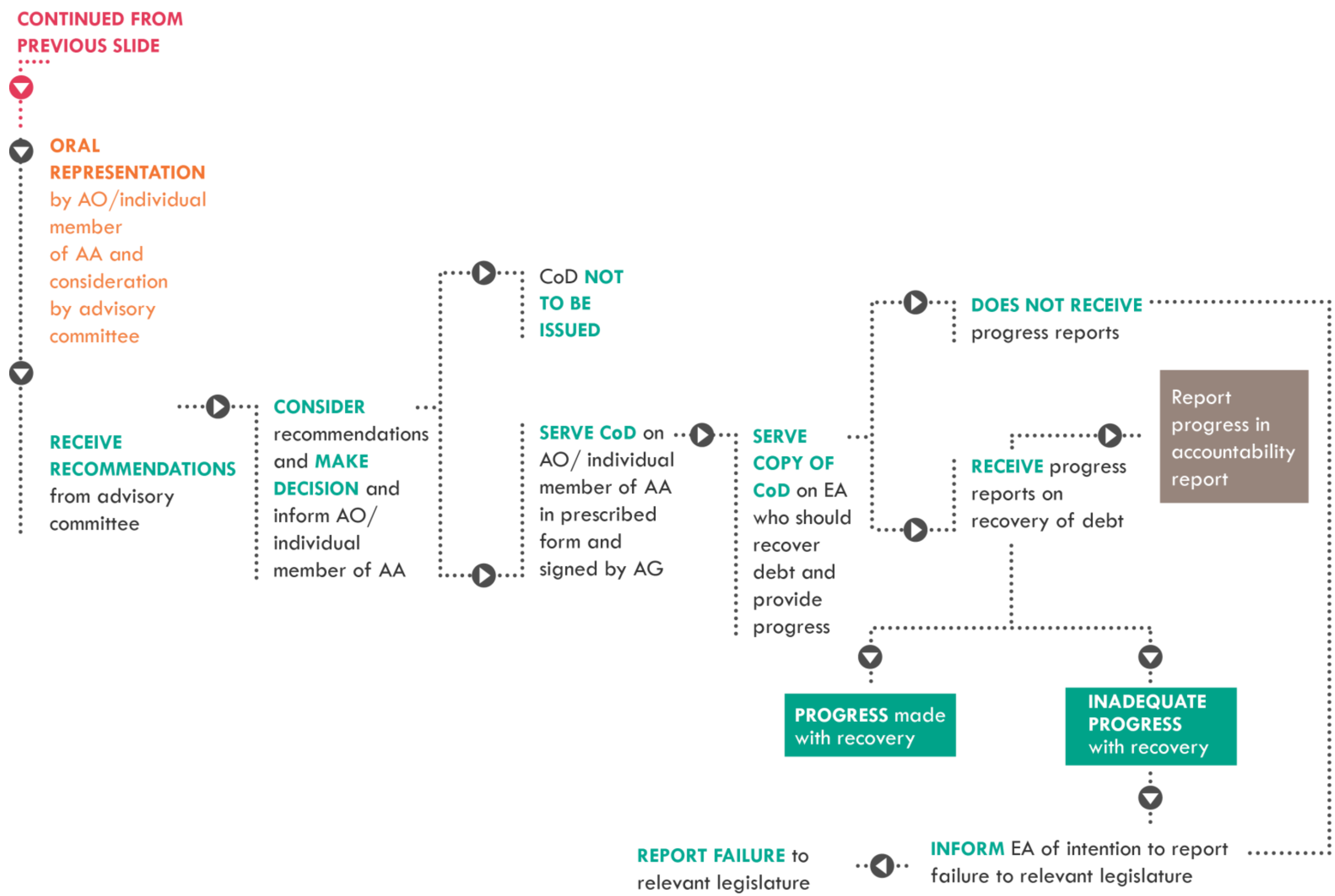
CoD **NOT TO BE ISSUED**

NOTIFY AO or individual members of AA intent to continue with issuing CoD and **INVITE AN ORAL REPRESENTATION** to advisory committee by stipulated date

APPOINT advisory committee

CONTINUE ON NEXT SLIDE

Certificate of debt process (2/2)



Implementation of expanded mandate

Commencement date *agreed with the president is 1 April 2019*

To allow for establishing capacity and processes, a **phased approach** for implementation was agreed with SCoAG on the basis of:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

2018-19 implementation

Type of material irregularity

Type of material irregularity = Material non-compliance (which would be reported in the audit report)
that resulted in (or is likely to result in) a material financial loss

Selection of auditees

Selection criteria

- Latest audit outcome not clean or unqualified with findings – except if there was a material finding on prevention or follow-up of irregular expenditure
- High irregular expenditure over the last three years
- Sufficient coverage across spheres of government and provinces.

Preparing for implementation – accounting officers and authorities

Adhere to **responsibilities** as defined in legislation
A renewed effort to **prevent and detect** non-compliance, fraud and theft and breaches of fiduciary duty

Deal with identified irregularities as per the legislation – **investigate and take action.**

Focus on:

- irregular contracts/ transactions
- fruitless and wasteful expenditure
- material non-compliance identified in previous years
- any allegations of SCM abuse or financial misconduct
- long-outstanding investigations or where actions have not been taken based on an investigation.

Role of oversight and executive authority

Executive authority

- Insist on credible and frequent **reporting** on state of financial and performance management
- Use reports to **monitor, direct and support accountability**
- **Set the tone** for accountability and consequence management by investigating and dealing with any allegations of financial misconduct and irregularities by accounting officers and authorities
- **Share any knowledge** on possible material irregularities with AO/AA and the AGSA
- Monitor the **implementation of the recommendations** on material irregularities
- **Support referral and remedial processes**, including recovery of debt, if required.
- If responsible for **public body – monitor progress of investigations**

Oversight structure

- Use information in the **audit report on material irregularities** for accountability and oversight purposes, insisting on timeous implementation of recommendation
- Use reports tabled on **progress with material irregularities** to oversee and influence progress made by public bodies with investigations and executive authorities (for recovery of debt)

Thank you

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