



AUDITOR-GENERAL
SOUTH AFRICA

Briefing to the Standing Committee on Appropriations

August 2022





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.



VISION

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



To brief the committee on:

National departments that consistently incurred fruitless and wasteful expenditure (FWE)

Top 15 national departments (Rand value and % of appropriated funds) that **consistently incurred FWE** in the last 5 financial years, in contravention of the PFMA

Material irregularities (MIs) identified by the AGSA

MIs that the AGSA has identified since the promulgation of the Public Audit Amendment Act and total funds attached to these identified irregularities

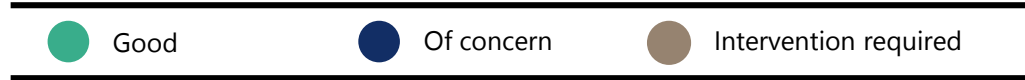
Other matters

Other matters that can assist the committee in fulfilling its legislative mandate

However, this must be considered within the broader context of pressure on the fiscus



FINANCIAL HEALTH STATUS (2020-21)



FRUITLESS AND WASTEFUL EXPENDITURE (FWE)

what does this mean in terms of legislation

Section 1 of the Public Finance Management Act defines fruitless and wasteful expenditure as

“expenditure which was made in vain and would have been avoided had reasonable care been exercised”.

Similar provisions apply to public entities (section 51) and for the local government environment in terms of the Municipal Finance Management Act (MFMA)

Section 38 (1) (c) (ii): The accounting officer must take effective and appropriate steps to prevent fruitless and wasteful expenditure;

Section 38 (1) (g): The accounting officer must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury;

Section 38 (1) (h): The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure; and

Section 40(3) (b): The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure.



FRUITLESS AND WASTEFUL EXPENDITURE (FWE)

incurred by national departments over the past five years

Cumulative FWE over past 5 years

R1,52 bn* incurred by
41 depts

* 0,04% of cumulative appropriated funds

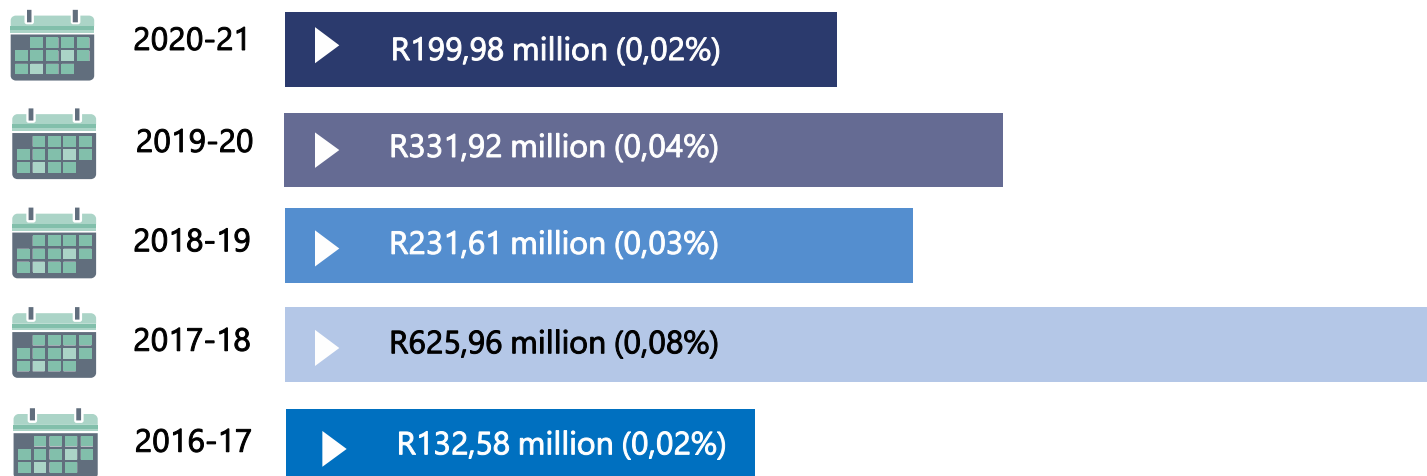
Departments incurred FWE

21 of 41
national departments (51%)
incurred FWE for the past
5 years

Highest contributors (cumulative over 5 years)

Defence	R460,09 million
National Treasury	R339,47 million
Basic Education	R106,85 million
Tourism	R92,59 million
Environment, Forestry and Fisheries	R87,94 million*
Water and Sanitation	R85,80 million
Justice and Constitutional Development– Correctional Services	R55,99 million
Correctional Services	R46,96 million
Agriculture Land Reform and Rural Development	R44,55 million*
The Presidency	R28,91 million
International Relations and Co-operation	R25,16 million
Higher Education and Training	R24,77 million*
Women Youth and Persons with Disabilities	R24,32 million*
Mineral Resources and Energy	R20,70 million*
Police	R19,58 million

Annual FWE and percentage of appropriated funds



Notes: * Only incurred this expenditure in some of the years in the last five year period



FRUITLESS AND WASTEFUL EXPENDITURE (FWE)

incurred by national departments over the past five years (continue)





60

Material irregularities (MIs) brought to attention of accounting officers and authorities
(estimated financial loss – R8,6 billion)

PROCUREMENT AND PAYMENT	RESOURCE MANAGEMENT	REVENUE MANAGEMENT	INTEREST AND PENALTIES	FRAUD AND COMPLIANCE
<p>11</p> <p>Non-compliance in procurement processes resulting in overpricing of goods and services procured or appointed supplier not delivering</p>	<p>1</p> <p>Assets not safeguarded, resulting in loss</p>	<p>2</p> <p>Revenue not billed</p>	<p>12</p> <p>Suppliers not paid on time resulting in interest</p>	<p>3</p> <p>Non-compliance resulting in penalties</p>
<p>1</p> <p>Uneconomical procurement resulting in overpricing of goods and services procured</p>	<p>8</p> <p>Inefficient use of resources – no/ limited benefit derived for money spent</p>	<p>1</p> <p>Debt not recovered</p>	<p>13</p> <p>Payroll and value-added tax returns not paid on time or incorrectly calculated resulting in South African Revenue Service interest and penalties</p>	
<p>22</p> <p>Payment for goods or services not received / of poor quality/ not in line with contract or to ineligible beneficiaries</p>				

IMPACT

- Prevented financial lose (some before MI was even raised)
- Financial losses recovered or in process of recovery
- Improved systems, controls, safeguarding of assets and payment arrangements to **prevent any further losses**
- Responsible officials identified and disciplinary processes completed or in process
- Supplier contracts cancelled
- Fraud/ criminal investigations instituted



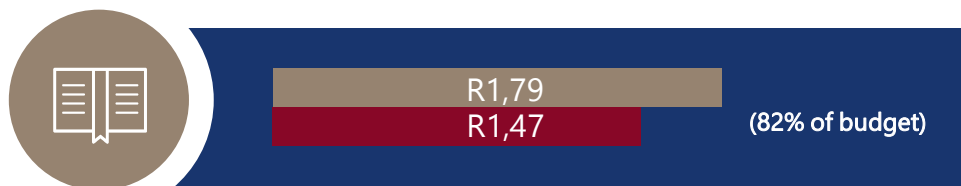
INFRASTRUCTURE PROJECTS

Health, Education, Human Settlements (2020-21)

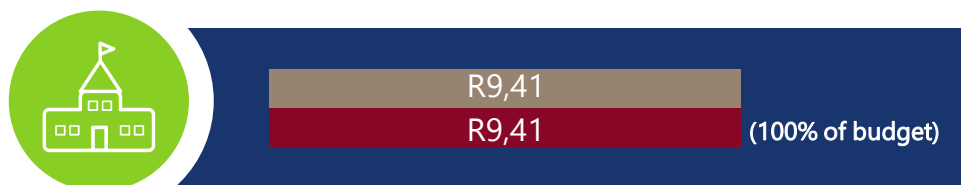
INFRASTRUCTURE GRANTS R billion



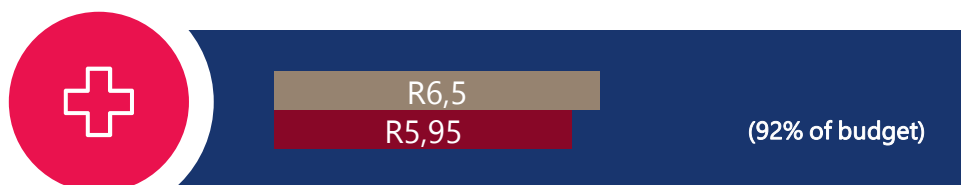
HUMAN SETTLEMENT DEVELOPMENT



SCHOOLS BACKLOG



EDUCATION INFRASTRUCTURE



HEALTH FACILITY REVITALISATION

■ Budget ■ Spending

Project deficiencies left unattended

- Inadequate needs assessment and project planning
- Ineffective monitoring of project milestones and contractors/ implementing agents
- Underperformance by contractors without consequences
- Contractors not paid on time
- Failure in intergovernmental coordination and collaboration

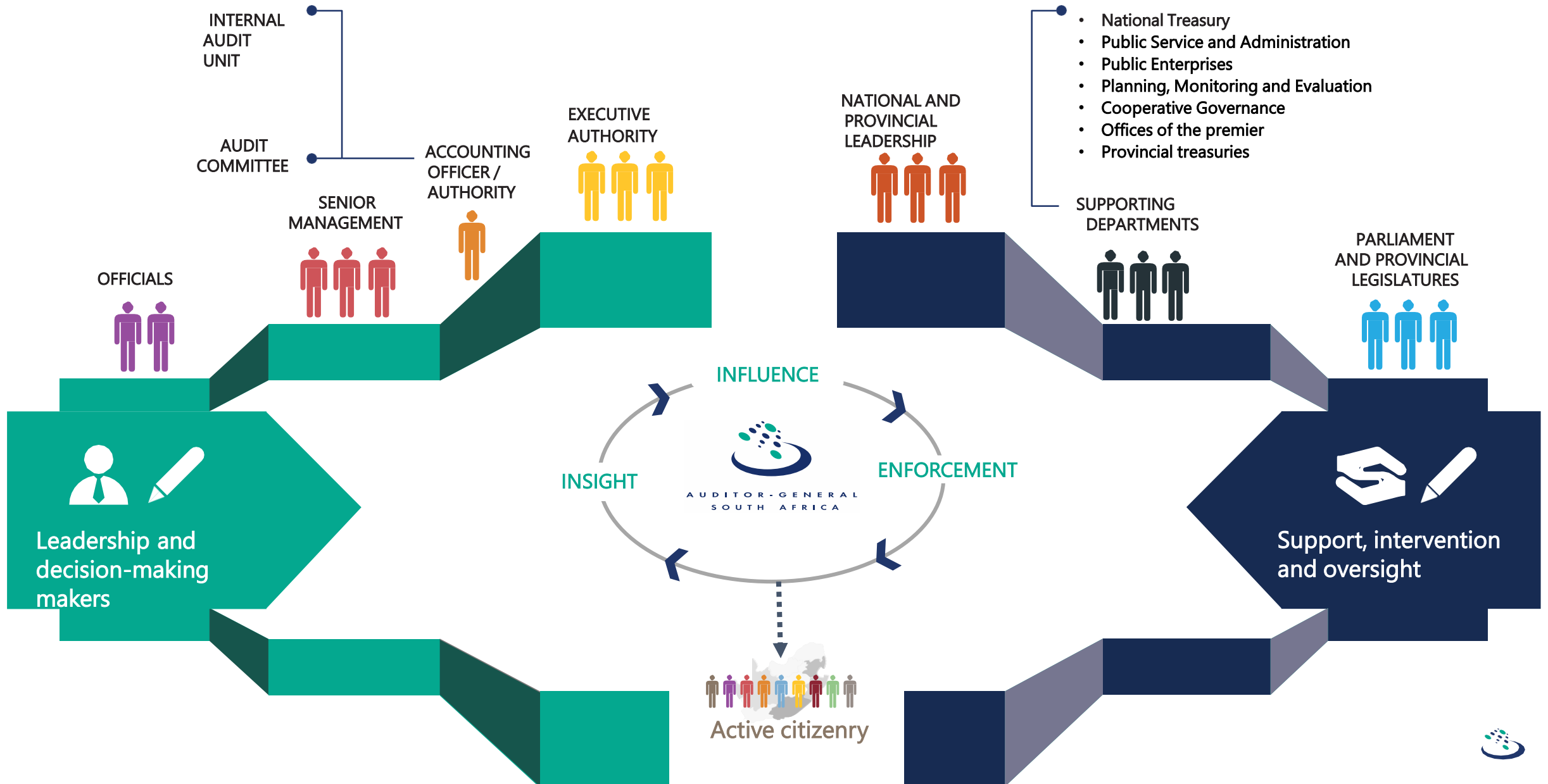
What we found again

- Delayed completion of projects
- Increased project cost and financial losses
- Quality defects
- Completed infrastructure not commissioned or not utilised

The impact remains

- Continued shortage of housing, good school infrastructure and access to health facilities
- Poor quality infrastructure - shorter useful life and expose public to harm
- Money wasted - could have been spent on other infrastructure priorities







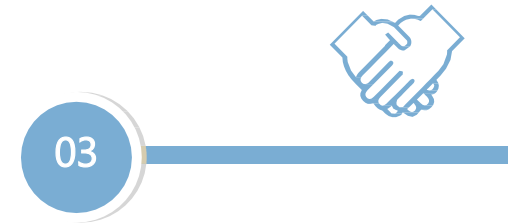
Discipline to comply with legislation and avoid leakages from the public purse should be a natural behaviour, not the exception.

To turn the tide **proper consequence management to be applied** as per legislation (including investigating causes of FWE, hold those responsible accountable, recovery of lost funds and strengthening control environment to prevent further instances).



The committee to continue to hold all relevant role-players **in the accountability ecosystem to account** on how it provides an effective, transparent, accountable and coherent government as a whole, per the constitutional principles of cooperative government and inter-governmental relations.

For example, transferring and receiving departments supported by coordinating departments all have an important role to ensure accountability.



The committee to use the insights provided for its **recommendations for enhancing bills and policy statements**.

For example, as one of the main contributors of financial losses is circumvention of procurement processes, committee can consider a recommendation to National Treasury to strengthen procurement practices to ensure economical use of resources.



AGSA will continue to engage oversight committees as part of the budgetary review and recommendations report process, **sharing insights** on issues that affect service delivery and place pressure on the fiscus, and **that require oversight and intervention**.



THANK YOU

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The following three slides are the detailed analysis of national departments that incurred fruitless and wasteful expenditure (FWE).

- Slide 14 – National departments which incurred FWE consistently across all 5 years (2016-17 to 2020-21)
- Slide 15 - Nature of the FWE as listed in slide 14
- Slide 16 – National department which incurred FWE in some (not all) of the 5 years that still cumulatively totals amongst the highest



NATIONAL DEPARTMENTS CONSISTENTLY INCURRING FWE

over five years

Department	FWE - R million (% of appropriated funds)						*Appropriated funds – R million	
	Cumulative amount over five years	2020-21	2019-20	2018-19	2017-18	2016-17	Cumulative amount over five years	2020-21
Defence#	460,09 (0,19%)	4,28 (0,01%)	19,06 (0,04%)	37,47 (0,08%)	398,58(0,%)	0,71(<0,01%)	247 322	54 201
National Treasury	339,47 (0,21%)	67,61 (0,20%)	67,61 (0,22%)	67,61 (0,23%)	67,61 (0,17%)	67,02 (0,24%)	163 883	34 526
Basic Education	106,85 (0,09%)	17,37 (0,07%)	76,99 (0,31%)	0,84 (<0,01%)	0,50 (<0,01%)	1,16 (0,05%)	116 996	23 395
Tourism	92,59 (0,91%)	0,18 (0,01%)	74,95 (3,13%)	16,34 (0,72%)	1,07 (0,05%)	0,06 (<0,01%)	102 231	1 427
Water and Sanitation	85,80 (0,11%)	0,01 (<0,01%)	0,02 (<0,01%)	60,12 (0,36%)	11,57 (0,07%)	14,07 (0,09%)	81 467	16 694
Justice and Constitutional Development	55,99 (0,06%)	0,02 (<0,01%)	1,19 (0,01%)	5,31 (0,03%)	47,81 (0,28%)	1,66 (0,01%)	877 34	18 666
Correctional Services	46,96 (0,04%)	1,13 (<0,01%)	0,56 (<0,01%)	3,06 (0,01%)	41,24 (0,18%)	0,97 (<0,01%)	119 157	25 597
The Presidency	28,91 (1,05%)	0,02 (<0,01%)	0,32 (0,05%)	0,61 (0,12%)	27,87 (5,56%)	0,09 (0,02%)	2 761	573
International Relations and Co-operation	25,16 (0,08%)	14,57 (0,23%)	2,43 (0,04%)	1,91 (0,03%)	3,57 (0,06%)	2,68 (0,04%)	32 623	6 315
Police	19,58 (<0,01%)	8,74 (0,01%)	1,28 (<0,01%)	0,97 (<0,01%)	0,54 (<0,01%)	8,04 (0,01%)	455 818	99 561
Cooperative Governance	14,79 (<0,01%)	5,09 (<0,01%)	8,44 (0,01%)	0,77 (<0,01%)	0,14 (<0,01%)	0,35 (<0,01%)	433 812	106 943
Labour	10,20 (0,06%)	0,73 (0,02%)	0,70 (0,02%)	4,55 (0,14%)	4,02 (0,13%)	0,30 (0,01%)	15 914	3 299
Military Veterans#	6,54 (0,22%)	1,33 (0,28%)	0,15 (0,02%)	0,17 (0,03%)	3,06 (0,49%)	1,83 (0,31%)	2 980	480
Social Development	4,42 (<0,01%)	1,99 (<0,01%)	0,09 (<0,01%)	0,71 (<0,01%)	0,54 (<0,01%)	0,27 (<0,01%)	896 643	230 807
Independent Police Investigative Directorate	3,34 (0,22%)	0,01 (<0,01%)	0,09 (0,03%)	0,01 (<0,01%)	<0,01 (<0,01%)	3,23 (1,34%)	1 490	341

* Appropriated funds are based on section 32 reports published by National Treasury

Vote for defence and military veterans were combined for 2019-20, 2018-19, 2017,18 and 2016-17 financial years



NATURE OF FWE INCURRED BY TOP 15 DEPARTMENTS

Department	FW&E - R million				
	<i>Cumulative amount over five years</i>	<i>Interest & penalties</i>	<i>Litigation & claims</i>	<i>Other</i>	<i>Nature of other</i>
Defence#	460,09	10,90 (2%)		449,09 (98%)	Unoccupied lease properties fees and travel cancellation costs
National Treasury	339,47			339,47 (100%)	Payment of software licenses not utilized
Basic Education	106,85	9,94 (9%)		96,91 (91%)	Non delivery of goods and services, some projects were stopped, incurring of costs for work that should have done internally
Tourism	92,59			92,59 (100%)	Travel cancellation cots
Water and Sanitation	85,80	12,35 (14%)		73,45 (86%)	Cancellation costs and payment for standing time for construction
Justice and Constitutional Development	55,99	0,21 (<1%)	0,01 (<1%)	59,77 (100%)	Misuse of state vehicles, cancellation costs, payment of items not used
Correctional Services	46,96	4,69 (10%)	5,62 (12%)	36,65 (78%)	Travel cancellations costs
The Presidency	28,91	0,05 (<1%)		28,86 (100%)	Payment of the cabinet system that was not operational, salary over payments and cancellation fees
International Relations and Co-operation	25,16	17,171 (70%)		7,45 (30%)	Payment for unoccupied properties abroad and cancellation costs
Police	19,58	0,04 (<1%)		19,54 (100%)	Towing costs and travel cancellations costs
Cooperative Governance	14,79	0,24 (2%)		14,55 (98%)	Traffic infringements, non- attendance of training and payment of deceased Community Work Programme participants.
Labour	10,20			10,20(100%)	Damages to vehicles, towing fess and cancellation costs
Military Veterans#	6,54	1,31 (20%)		5,23 (80%)	Travel cancellation cots and payment of LOGIS system not used by departments
Social Development	4,42			4,42 (100%)	Damages to vehicles and cancellation costs
Independent Police Investigative Directorate	3,34	0,02 (1%)		3,32 (99%)	Travel cancellation costs as well as payments relating to unnecessary of suppliers



NATIONAL DEPARTMENTS WITH HIGHEST AMOUNT OF CUMULATIVE FWE

over five years – incurred in some of the five years

Department	FW&E - R million					When the FWE was incurred
	<i>Cumulative amount over five years</i>	<i>Interest and penalties</i>	<i>Litigation and claims</i>	<i>Other</i>	<i>Nature of other</i>	
Environment, Forestry and Fisheries	87,94	0,01 (<1%)		87,93 (100%)	Overpayments of suppliers and wages	All the years except 2018-19 and 2017-18 financial years
Agriculture, Land Reform and Rural Development	44,55	13,96 (31%)		30,59 (69%)	Non- attendance of training and non delivery of goods and services	Only in 2020-21 financial year
Higher Education and Training	24,77			24,77 (100%)	Salary overpayments and fraud	Only in 2019-20 financial year
Women, Youth and Persons with Disabilities	24,32	0,54 (2%)	12 (49%)	11,78 (%48)	Payment of LOGIS system utilised and arbitration element for unfair labour practice	All the years except 2020-21 financial year
Department of Mineral Resources and Energy	20,70			20,70 (100%)	Storage of solar water heaters not immediately taken from supplier	Only in 2020-21 financial year
Human Settlements	4,12	0,10 (2%)		4,02 (98%)	Cancellation costs and costs incurred on motor vehicle hire for which the official vehicle was not available	All the years except 2019 -20 and 2018-19 financial years
Government Communication and Information System	4,03	0,02 (1%)	4 (99%)	<0,01 (<0,01)	Cancellation costs	Only in 2020-21, 2018-19 and 2017-18 financial year

