

REAL-TIME AUDIT – FLOOD RELIEF FUNDS



AUDITOR-GENERAL
SOUTH AFRICA

Preliminary plan for real-time audit: Flood relief funds (KZN and EC) MAY 2022

Introduction and objective

1. Following severe weather events that caused significant damage in various provinces, government declared a national state of disaster in terms of section 27(1) of the Disaster Management Act 57 of 2002. This response, announced by the president in his address to the nation on 18 April 2022, will follow a phased approach. The first phase will focus on immediate humanitarian relief, the second phase on stabilisation and recovery (including rehousing people who have lost homes and restoring services), and the third phase on reconstruction and rehabilitation.
2. The outbreak of the covid-19 pandemic truly tested the agility and robustness of public finance management systems. Experience both internationally and locally shows that these types of circumstances create opportunities for integrity violations, most notably fraud and corruption, which could seriously weaken the effectiveness of government actions. With the announcement of the flood relief funds, the public and oversight once again raised concerns about the increased risks of fraud, abuse, financial loss and non-delivery.



image: ewn.co.za

MANDATE OF THE AUDITOR-GENERAL OF SOUTH AFRICA

3. As the supreme audit office, we provide independent assurance on whether public funds have been appropriately accounted for, and report findings on pre-determined objectives and compliance with key laws and regulations.
4. In terms of section 5(3) of the Public Audit Act 25 of 2004 (PAA), the auditor-general may, in the public interest, report on any matter within the function of the auditor-general and submit such a report to the relevant legislature and to any other organ of state with a direct interest in the matter.
5. The Auditor-General of South Africa (AGSA) will therefore conduct real-time audits on the emergency flood relief funds that government has made available to provide much-needed relief to communities in flood-ravaged areas.

REAL-TIME AUDITS

6. A real-time audit is an early audit that aims to prevent, detect and report on our findings to ensure that those responsible can respond immediately to prevent leakage, potential fraud and wastage. Real-time audits equip accounting officers and accounting authorities of public institutions to act quickly on weaknesses in controls and prevent further losses. A real-time audit also enables immediate oversight and timely consequence management.
7. A real-time audit is still reactive and transactions must therefore take place before the audit can provide independent assurance that they were performed correctly, that the purchased goods or services were of the right quality, and that these goods and services reached the intended beneficiaries. The audit must also determine whether the transactions complied with the requisite laws and regulations.
8. As with the covid-19 real time audits, our objective is not to disrupt or stand in the way of the good work government is doing – our role will be to enhance the public confidence that government funds and interventions have reached their intended targets.
9. During a real-time audit, we do not audit all amounts. Instead, we select and audit a sample of high-value/ high-risk amounts, as well as a sample of transactions as and when money is spent.

NATIONAL STATE OF DISASTER

R1 billion + reprioritisation of budget (national, provincial and local) + other humanitarian donations (± R214 million)

IMMEDIATE HUMANITARIAN RELIEF AND SAFETY

PROVINCIAL AND LOCAL GOVERNMENT

- Coordination of disaster management initiatives
- Restore basic services (water, electricity, sanitation, waste removal)

SOCIAL DEVELOPMENT

- Relief parcels
- Funeral costs

GOVERNMENT, NGOs AND BUSINESS

- Basic relief parcels



STABILITY, RECOVERY, REHOUSING PEOPLE AND RESTORING SERVICE

HOUSING

- 13 556 households – 40 000 people affected
- Personal documents – ID, birth and death certificated, travel documents lost/damaged
- 8 329 homes partially damaged
- 3 987 homes completely destroyed
- Temporary housing – where people are currently housed

TELECOMMUNICATION, ELECTRICITY AND RAIL

- Severely affecting food and fuel supply

WATER AND SANITATION

- Wastewater treatment
- Infrastructure
- Storm water drainage
- Water disruptions



RECONSTRUCTION AND REBUILDING INFRASTRUCTURE

OTHER INFRASTRUCTURE

- Police stations and magistrate offices severely damaged
- Port of Durban has been affected and access has been disrupted

SCHOOLS

- 630 schools affected – 270 000 learners affected
- Estimated repair cost – R400 million
- Need 98 mobile classrooms

ROADS (N2 & N3) AND OTHER ROADS

- Cleaning up roads
- Restoring road infrastructure – ± R5,6 billion
- 1 369 projects
- Sanral to look at N2 and N3 immediately

HOSPITALS AND HEALTH INFRASTRUCTURE

- 66 public health facilities – minimal repairs and not much disruption
- High risk of infectious diseases
- Severe damage to health infrastructure



Sources: President's address

SOURCES OF FUNDING

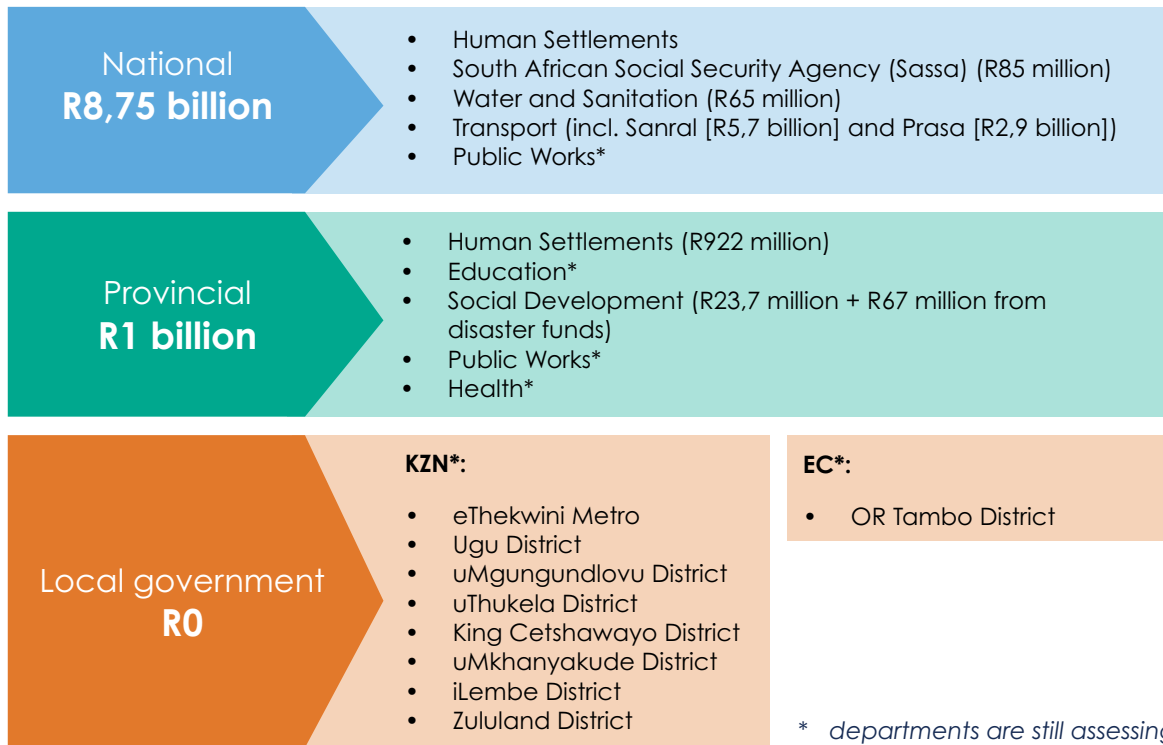
10. The first two sources of funding are available to support spending in the remaining months of 2021-22 for MFMA auditees. All four sources of funding will be considered in funding the ongoing response to the severe weather events:

- Reprioritisation within existing national, provincial and municipal budgets
- Disaster relief/response conditional grants
- Reallocation within other conditional grants
- Use of the contingency reserve for 2022-23



Amounts identified by the auditors through confirmation from accounting officers:

Written confirmation of budget and expenditure will be obtained from respective accounting officers



Government structures:

11. Government also created and activated different structures to oversee the distribution and spending of funds, including:

- a KwaZulu-Natal (KZN) oversight mechanism chaired by the directors-general in the presidency and the Department of Planning, Monitoring and Evaluation (DPME)
- the national joint flood coordination committee (NJFCC), which will coordinate the efforts of all relevant stakeholders to provide relief and response measures to address immediate needs from existing arrangements and programmes
- the intergovernmental committee on disaster management (ICDM), led by the minister of cooperative governance and traditional affairs (Cogta), which has been activated to provide executive leadership in implementing the seasonal contingency plan, as approved by Cabinet
- the National Disaster Management Centre (NDMC), which was activated to coordinate the NJFCC, which constitutes all relevant organs of state for preparedness measures, contingency arrangements and intervention measures
- relevant structures in all affected provinces that were activated through coordination of provincial disaster management centres (PDMCs) to activate provincial response plans and coordinate reports by organs of state and relevant stakeholders.



Pre-award assessment

12. In line with the cabinet resolution, the KZN provincial treasury has issued a circular about pre-award assessments and indicated that all procurement of goods, services and infrastructure above R1 million shall be subjected to a pre-award assessment to be performed by the provincial treasury before the award is made by the accounting officer or authority, or the delegated official of the department or committee.
13. In line with the AGSA's mandate, once these awards are concluded, we will perform additional tests and issue findings to support these structures.

PURPOSE

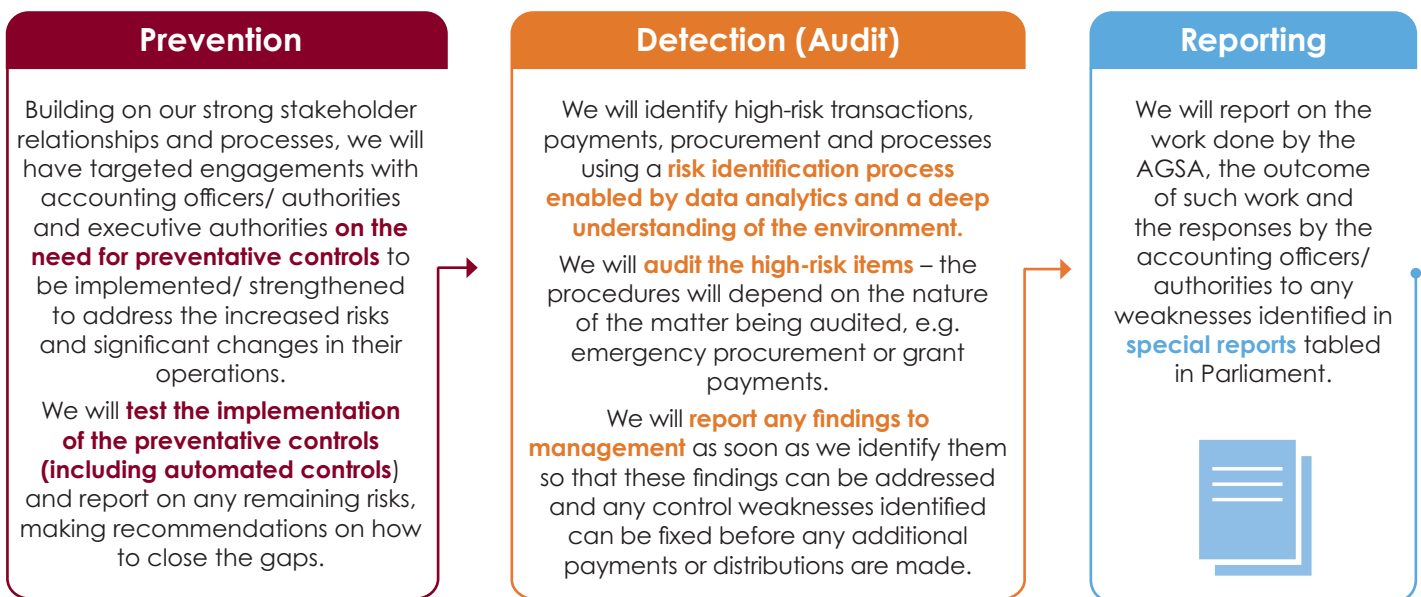
14. The purpose of this audit plan is to set out the planned real-time audit of the KZN and Eastern Cape (EC) flood relief-related funds and transactions.
15. The plan is based on the information available on government interventions as at 29 April 2022. However, the allocation of funds and formulation of interventions had not yet been finalised in a

number of areas by this date. As such, this should be viewed as the preliminary audit plan, which will be updated as more information becomes available.

16. The AGSA will not be auditing all the money spent in response to the disaster. The focus of our audit will depend on the availability of funds, the amounts expended, the availability of source documentation and the status of the intervention by government.

NATURE OF THE AUDIT

17. Our audit will have three main components:



STRATEGIC RISKS

18. The key risks that might be present during this state of disaster and affect how money will be spent, and that will be mitigated during the audit, are as follows:
 - Procurement and contract management
 - Risk of no documentation to substantiate transactions leading to limitation of scope
 - Risk of fragmentation through the three spheres of government affecting planning, coordination and monitoring
 - Risk of benefits not reaching intended persons due to lack of validation, integration and sharing of data across government platforms – some people (including government officials)

might receive benefits and grants to which they are not entitled

- Value for money might not be achieved, money might not be spent for the right purpose, at the right value and for the right beneficiary
- Significant infrastructure risk identified – includes the risk of inadequate or absent needs assessment and planning, excessive or inflated prices being paid, funds not being used for the intended purpose, poor quality infrastructure and significant delays in completing projects
- Fraud risk – the elements of the fraud triangle (opportunity, rationalisation and motivation) remain prevalent during a disaster

AUDIT SCOPE, RISK AND RESPONSE

19. The scope of the audit was determined based on the information currently available. There are some auditees or sectors that are still assessing the damage, and therefore interventions might change.

Audit process

20. We will follow a normal audit process, selecting high-value/ high-risk transactions to audit and sharing any findings and recommendations with the accounting officer as soon as possible so that they can formally respond. We will then evaluate the responses and finalise the audit findings, which we will regularly share with the executive authority, ministers in the presidency and finance, and the president, before also sharing it at Cabinet level and with relevant oversight structures.

Review of work done by other structures

21. Where other institutions are responsible for monitoring the quality of the deliverables, the AGSA will assess the quality assessment process and will also independently conduct an assessment on a sample basis. Activities by any of the oversight departments will therefore be assessed as part of the real-time audit.

22. Although most of the activities will take place at auditee level, some activities will also be performed by the different treasuries (national and provincial), and the AGSA will also stay close to those activities. Those structures will pre-assess the awards and we will share the lessons learnt from similar activities undertaken by other government structures, as well as perform certain additional tests once the award has been made to support these structures.

23. We will audit and report on the disaster relief-related expenditure of auditees that is not included in this real-time audit as part of the normal statutory audit.

24. We have issued letters to accounting officers that contained our preventative controls guides that we issued on infrastructure spending and on procurement of goods and services to aid in strengthening the control environments by implementing required preventative controls.

25. We will provide a report on key risks, observations and recommendations made through the covid-19 audits to help departments be aware of the risks they need to mitigate when disbursing disaster relief funds.

26. This real-time audit will only succeed in strengthening transparency, monitoring and accountability with the support and coordination of key role-players. As the AGSA, we will audit, report on and engage with the role-players on their primary responsibilities, their coordinating institutions' responsibilities and their oversight responsibilities to assess how effectively they fulfil their duties in line with their mandates.

27. We have drawn on the experience from other SAIs such as the National Audit Office of the People's Republic of China, noting that the Beijing Olympics committee has the oversight model, with all key role-players effectively fulfilling their responsibilities and contributing to strengthening effective oversight.

VALUE FOR MONEY

28. The AGSA's involvement during the third phase of the flood relief, when government will be concentrating on reconstruction and rehabilitation, is going to be focused on ensuring that infrastructure build projects are delivered economically, effectively and efficiently. It is essential that government receives value for money – which is making sure that money is spent for the right purpose and at a right price, that it delivers the intended value and that it reaches the right beneficiary – for every rand spent. Some of the value-for-money considerations include:

- performing a needs assessment on selected projects to determine how the bill of quantities was determined and how the number of affected beneficiaries was identified – this will ensure that projects are not overpriced
- determining if the emergency procurement arrangements were within the prescripts of the supply chain management (SCM) regulations
- determining if project billing is line with the billing schedules based on the predefined bill of quantities

- determining if the quality of materials used in the built project is in line with the project specification
- identifying the root causes that can lead to project delays and cost overruns, and how these can be avoided
- determining if the end product was delivered at a quality that ensures the safety and dignity of the intended beneficiaries – we will collaborate with the monitoring and evaluation mechanisms that have been put in place by the oversight committees to ensure that there is no duplication of effort.

We will draw on the experiences of other supreme audit institutions across the globe that audit large infrastructure projects and which have developed good-practice guides for specific infrastructure projects. We will share these with our auditees as part of our proactive approach to the audit, to ensure that the known risks are prevented and/or detected before they materialise.

Identified areas of infrastructure support

As the AGSA, one of our key priorities is recognising the lived experiences of citizens and contributing to a better life for all. As such, we recognise the unfortunate events that have transpired in KZN and believe that, through our efforts, we can make a significant contribution in the following areas:



Our main objective is to evaluate and report on service delivery to citizens.

At the heart of our work is a deliberate intention to influence change within the leadership structures of government.

INTERVENTIONS SUBJECTED TO AUDIT

KEY GOVERNMENT INTERVENTIONS	RISKS	RESPONSE
INFRASTRUCTURE		
<ol style="list-style-type: none"> 1. Temporary residential units (TRUs) 2. Human settlements – building materials for building housing 3. Schools 4. Roads 5. Water infrastructure 6. Health facilities, clinics and hospitals 7. Railway and other facilities (Passenger Rail Agency of South Africa – Prasa) 	<ul style="list-style-type: none"> • Overspending on projects, lack of timely delivery, poor quality work (value for money not achieved) • Misuse of funds • Non-compliance with key built environment legislation and regulations • Conflicts of interest • Preferential treatment in awarding contracts to certain suppliers • Awards made to entities with no prior history in delivering said services (as seen during covid-19) • Land preparation and appropriate positioning of TRUs for safety and stability • Covid-19 TRUs being passed as flood relief TRUs • Building material being issued to unaffected individuals • Overpricing of building materials • Overpayment of land • Pollution of water sources and spread of diseases • Delivery of tanks not filled properly/ payments for incomplete or undelivered work • Delivery of tanks to incorrect beneficiaries 	<ul style="list-style-type: none"> • Continue to monitor and track progress to report on timely delivery • Perform quality checks on infrastructure projects, including 3 Es (economy, efficiency and effectiveness) • Perform supply chain management (SCM) testing on service providers • Use data analytics to determine reasonability of cost related to distribution of building materials • Engage expert on bill of quantity for repairs to existing structures • Perform fraud data analytics on supplier database and payment data • Audit all payment vouchers or orders above R1 million • Audit procurement process

KEY GOVERNMENT INTERVENTIONS	RISKS	RESPONSE
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PROVISION OF WATER

<p>Procurement and distribution of water tankering services to provide relief to affected areas</p>	<ul style="list-style-type: none"> • Overspending, lack of timely delivery • Misuse of funds • Non-compliance with key legislation and regulations • Pollution of water sources and spread of diseases • Delivery of tanks not filled properly/ payments for incomplete or undelivered work • Delivery of tanks to incorrect beneficiaries • Excessive pricing • Water tankers procured as part of covid-19 relief presented as part of flood relief • SCM non-compliance • Duplicate efforts for water distribution 	<ul style="list-style-type: none"> • Assess adequacy of water tankering services; civil society organisations (CSOs) to also assist (needs assessment) • Audit emergency procurement at departments and municipalities • Assess monitoring of services received as contracted by departments and municipalities • Assess whether water tanks already made available at municipalities during covid-19 (2020-21 financial year) are in good condition, effectively installed, used and replenished to ensure continuous water delivery • Perform fraud data analytics on supplier database and payment data (new companies, same addresses, same bank details) • Perform SCM testing on service providers appointed • Test actual distribution of water tankering and no duplication of efforts or supply
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PROVISION OF SOCIAL RELIEF

<p>Provision of dignity packages, food parcels, funeral expenses, food and grocery vouchers, as well as social support required from additional social workers to be appointed on a temporary basis</p>	<ul style="list-style-type: none"> • Overspending • Incorrect content • Lack of proper distribution • Incorrect/ unaffected/ ghost beneficiaries • Excessive pricing of food parcels • Food parcels not meeting requirements, or containing damaged or expired goods • No value for money on procurement and spending of social relief of distress (SRD) funds • Non-compliance with SCM prescripts • New non-governmental organisations (NGOs) and NGOs distributing food parcels 	<ul style="list-style-type: none"> • Perform computer-assisted audit techniques (CAATs) testing on eligibility of beneficiaries and distributions of vouchers • Perform SCM testing on service providers appointed • Perform invoice testing and price reasonability testing to determine if procurement was done in most economical manner • Visit distribution sites to see if distribution is done according to policy and procedures • Reconcile number of items purchased with number of food parcels distributed • Agree to list of identified beneficiaries to ensure that eligible beneficiaries received food parcels; possibly perform data analytics on beneficiaries • Test creation of new NGOs • Test SCM compliance for awards below R1 million • Audit appointment of temporary social workers
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KEY GOVERNMENT INTERVENTIONS	RISKS	RESPONSE
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TREASURY

<p>Provincial Treasury (pre-award assessments)</p>	<ul style="list-style-type: none"> • Pre assessment of awards may not be adequate to detect and prevent non-compliance with SCM prescripts • Preferential treatment in awarding contracts to certain suppliers • Conflicts of interest • Awards made to entities with no prior history in delivering said goods or services – risk of excessive pricing and poor quality of deliverables (as seen during covid-19) 	<ul style="list-style-type: none"> • Audit pre-assessment (to be conducted by provincial treasury SCM unit) of compliance with procurement regulations for all awards above R1 million • Consider performing (manual) SCM due diligence procedures typically performed by Investigations business unit (IBU) as part of our SCM reviews
<p>National Treasury (monitoring and reporting on disaster funds)</p>	<ul style="list-style-type: none"> • Incomplete / inaccurate information being reported 	<ul style="list-style-type: none"> • Continuously engage with National Treasury on flow of funds • Continuously verify spending for accuracy and completeness

RESOURCES

29. The real-time audit is performed by multidisciplinary teams, made up of fraud, information technology and sector-specific experts, who support the regulatory auditors to provide relevant insights on risks and operations relating to the disaster relief funding. These experts include:

- supply chain audit specialists to analyse payments to suppliers delivering disaster-related goods and services and to evaluate specific high-risk contracts
- fraud experts to assess the adequacy of auditees' control environment and the effectiveness of their fraud risk responses
- data and fraud data specialists to interrogate supplier and payment data by identifying

patterns and trends that elevate areas of concerns, and to assess if the relief reached the intended beneficiaries

- information technology specialists to assess whether the application systems auditees use to process grant applications and payments can be relied upon or not
- engineers, quantity surveyors and other specialists to assess the economy, efficiency and effectiveness of temporary facilities and infrastructure build projects that form part of the response to the disaster.

COLLABORATION WITH OTHER STATE BODIES

30. We will continue to collaborate with other state bodies through the Fusion Centre to share information and intelligence in real time and to avoid duplication of effort. This structure, which was set up by the president to combat corruption around the covid 19 expenditure, comprises the Special Investigating Unit, the National Prosecuting Authority, the South African Revenue Service (SARS), the Financial Intelligence Centre (FIC), the Directorate for Priority Crime Investigation (the Hawks), the Public Protector and the AGSA. The benefits of working with other state bodies include:

- sharing our detailed findings and audit exceptions relating to procurement with the Fusion Centre to investigate if there has been corruption
- sharing our findings that implicate government

employees with the Department of Public Service and Administration and with auditees so that they can institute disciplinary action

- sharing relevant findings with SARS to identify non-compliance with tax regulations
- working with the FIC to identify additional risks on bank accounts of service providers and individuals that have been red-flagged in our audits
- using information from the Fusion Centre bodies to identify additional audit risks and refine our audit focus.

COLLABORATION WITH CIVIL SOCIETY ORGANISATIONS

31. The AGSA will also collaborate with relevant civil society organisations (CSOs) on common areas of interest. We have specifically identified a number of CSOs that have deeper insights and experience in the water and sanitation, housing, education and health sectors, as well as with the distribution of social relief packages. We will use these engagements to deepen our understanding of the lived experiences of citizens and the intended

beneficiaries of the relief funds as part of our risk assessment to focus our audit on the areas that matter to the citizens. We will share our findings with the CSOs so that they can follow up on our recommendations.

32. The CSOs have a deeper reach in society than the AGSA, and this collaboration will allow our messages to be spread further into the affected communities.

STAKEHOLDER ENGAGEMENTS

33. Auditing standards require us to make certain communications throughout the audit to those charged with governance. As mandated by section 5(3) of the PAA, the AGSA will be conducting this audit in the interest of the public. We will engage continuously with those charged with governance and oversight to ensure corrective action is rapidly implemented. We will enable real-time executive oversight by regularly engaging the minister of finance, who has a keen interest in the money leaving the public

purse and how it is spent, and the minister in the presidency as the minister overseeing the DPME, which plays a critical role in monitoring how services are delivered. We will also engage the executive authorities for the different implementing departments on the audit findings, before reporting to a Cabinet session that is chaired by the president. All these engagements are aimed at empowering real-time executive oversight and interventions. When Parliament is then exercising oversight, it is able to call the executive to account.

34. Other key stakeholders:

National stakeholders	Provincial stakeholders	Local government
Minister of cooperative governance and traditional affairs (Cogta)	Premiers of KZN and EC	Mayors and municipal managers of affected municipalities and metros
Ministers of all affected departments	Affected members of the executive council (MECs) in KZN/ EC	Councils
Oversight committees	Oversight committees	

AUDIT FEES

35. The transactions at national and provincial departments and entities that will be audited would have occurred in the 2022-23 financial year. This means this audit can also be viewed as part of an interim audit (or early audit, for ease of reference) of the 2022-23 financial statements and compliance with legislation. The audit teams will also simultaneously complete the audit of the 2021- 22 financial year.
36. The funds available for the flood relief fund audits are those that have been budgeted for the statutory audit of the 2021-22 financial year. Once the scoping is completed for the flood relief fund audits, additional funding will have to be obtained – details to be determined.
37. The cost of the audit will be determined by an hourly rate and will be charged to the affected auditee.

TIMELINES

38. The audits will commence at different times, depending on the timing of the interventions that apply to the auditee.
39. The audits have already commenced where there has been indication of flow of funds.

REPORTING

40. The reporting will be integrated and will incorporate the activities by all three spheres of government – national, provincial and local.
41. We will table a number of special reports on these audits in legislature, and are likely to issue a standalone report by August 2022. We will also reflect on the real-time audit work in the upcoming general reports for the PFMA and MFMA audit cycles, and compile a close-out report. Further standalone reports will be considered based on risks identified and future interventions.
42. The close-out report will be used as a best practice guide to enhance government's readiness to proactively deal with disaster management.
43. The special reports will be issued and tabled in a similar manner as the annual general reports and covid-19 special reports.