



AUDITOR - GENERAL
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Auditor-general says the multi-billion rand Covid-19 relief package landed in an environment with many control weaknesses

PRETORIA – Auditor-general (AG), Kimi Makwetu, today reported that the relief package redirected by government as a response to the Covid-19 pandemic, “landed in a weak control environment”.

After the outbreak of the novel coronavirus in South Africa, the government announced a R500 billion package for the health response and the relief of social and economic distress caused by the drastic measures that had to be taken to contain the spread of the virus. The fiscal relief package is funded by reprioritising the 2020-21 budgets and securing loans.

On request of the president, Cyril Ramaphosa, Makwetu's office has undertaken a real-time audit of 16 of the key Covid-19 initiatives introduced by the government and the management of R147,4 billion of the funds made available for these initiatives.

This report represents the first in a series of reports that will deal with the financial management of the government's Covid-19 initiatives, covering R68,9 billion (47%) of the R147,4 billion spending. The audit work per this report is for all expenditure up to and including 31 July 2020.

Giving context to this special audit, Makwetu remarked that “emergency responses and quick actions are required to save lives and livelihoods, but the easing of controls and

the streamlining of processes and procedures to respond to the crisis, expose the government to the risks of the misuse or abuse of public resources.

We have been reporting on and warning about poor financial management controls, a disregard for supply chain management legislation, an inability to effectively manage projects and a lack of accountability in many of the government sectors that now need to lead or support the government's efforts," said the AG.

Unique audit approach

Explaining the nature of this Covid-19 audit, he said it was unique in its approach compared to the regularity audits they conduct annually. His office started off by highlighting the importance of preventative controls to accounting officers and authorities to address the increased risks to and significant changes in their operations, as such controls are by their nature a deterrent to abuse.

"The Covid-19 audit is performed by multidisciplinary teams, made up of fraud, information technology and sector-specific experts, who support the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations. We are auditing payments, procurement and delivery as they occur and are reporting any findings to the accounting officer or authority to enable them to deal with any shortcomings immediately and tighten the controls to prevent a recurrence," Makwetu elaborated.

Throughout the work done, audit teams found that the rapid implementation of the initiatives in already compromised control environments created significant risks that most auditees were not able to address. Processes, criteria, needs and controls were not well considered and in the haste of implementation, mistakes were made and opportunities created for abuse.

A compromised control environment

The AG reports that the information technology systems used in government were not agile enough to respond to the changes required.

“The lack of validation, integration and sharing of data across government platforms resulted in people – including government officials – receiving benefits and grants they were not entitled to. Some applicants could have been unfairly rejected as a result of outdated information on which assessment for eligibility was based.

The pre-existing deficiencies in the supply chain processes of government were amplified by the introduction of the emergency procurement processes allowed for personal protective equipment. Based on what was audited to date, there are clear signs of overpricing, unfair processes, potential fraud and supply chain management legislation being sidestepped. In addition, delays in the delivery of personal protective equipment and quality concerns could have been avoided through better planning and management of suppliers.”

The AG notes that poor record keeping is a common feature across many of the initiatives, which means that auditees do not always have updated or reliable information on the goods and services delivered and the implementation of initiatives, which also made it difficult to completely audit these matters.

Some initiatives were slow to get off the ground, despite large amounts allocated to provide relief or fund important front-line work and projects. The pre-existing inability to coordinate and oversee efforts where multiple departments, agencies and spheres of government are involved, continue to plague these projects.

Indicators of potential fraud

Says Makwetu: “We are concerned about the indicators of high risk of fraud and abuse we observed – not only in the areas that we were able to audit, but also where information for auditing was not forthcoming, which could be a deliberate tactic to frustrate our audit efforts. This report can serve as a guide for the agencies that have been tasked by the president to investigate allegations and indicators of abuse of the Covid-19 funds of the main areas of risk they can focus on.

The list of cases pointing to the high risk of fraud will be handed to the multi-agency fusion centre for their swift follow-up and action. It is possible that these can be dispensed with

swiftly, as the fusion centre has all that is required to finalise the matters we have identified.

Outcomes of the audit process until the end of July 2020

The AG's report lists the following as some key observations and findings:

A. Payment of temporary employee/employer relief (TERS) scheme benefits and social grants

The TERS benefit, the social distress grant and the top-up of existing social grants were introduced to provide economic relief to the vulnerable and assist employers to protect jobs. By 31 July, the Unemployment Insurance Fund (UIF) had paid just over R37 billion in TERS benefits and the South African Social Security Agency (Sassa) had paid R19,6 billion in social grants.

The information technology systems across government carry data on almost everyone in the country; for example, there is information on the Home Affairs databases on identity numbers and deceased people, the South African Revenue Service databases include information on the earnings of people, the details of grant recipients are on the social pension systems, and the salary systems of public sector entities carry information on government employees. But this rich data is not integrated, shared across government or effectively used by the UIF and Sassa (and similar entities) to check if people applying for benefits and grants qualify for these.

In addition, the UIF and Sassa had to make significant changes in their processes and systems within a very short period to enable these pay-outs, without ensuring that good preventative controls are in place.

All of this increased the risk of payments to beneficiaries that are not eligible, overpayments, underpayments, the invalid rejection of beneficiaries, fraud and double-dipping.

Key findings on the payment of TERS benefits are:

- A new system implemented for TERS incorrectly calculated the benefits for the first lockdown period (27 March to 30 April) by not taking into account the actual

period of inactivity and the portion of the salary paid by employers, resulting in significant overpayments.

- Through analysing the payment data and checking the beneficiary information against other government databases, a high number of payments were flagged that require investigation. Work is continuing to verify this. These include payments to people who are below the legal age of employment, deceased, working in government, receiving social grants or students funded by the national student financial aid scheme.
- Recalculations of claims and reconciliations with payment data identified overpayments, underpayments, duplicate payments and discrepancies such as approvals for payments made before the date of application.
- Poor input and validation controls on the new system and a manual claim submission process used in the first two weeks of implementation further heightened the risk of invalid or manipulated claim information.

The Unemployment Insurance Fund is implementing actions to address what we have reported. We further selected payments to employers and bargaining councils to verify that the eligible beneficiaries were paid. The observations in this regard will be included in the next report.

Key findings on the payment of social grants are:

- There is a risk that the R350 social relief grant is being paid to people who are not in distress. The application process includes very limited verification to determine if the applicant is receiving other income and provides opportunities for people such as students or scholars older than 18 to also get access to the grant.
- Sassa used some government databases to check if applicants have alternate sources of income which would disqualify them for the social relief grant. The databases they have access to are not sufficient, as our data analytics still flagged payments to over 30 000 beneficiaries that required further investigation. These include payments to beneficiaries employed in government or that received other sources of income such as other social grants, government pension, UIF payments and benefits from other relief funds. The databases that Sassa used are also outdated and could have led to the rejection of applicants that should have

received the grant. The audit of the validity of the rejections will be dealt with in the next report.

- Changes to the information technology system to enable the payment of the top-up grants could not be completed in time for the May grant payment and a manual workaround was used with little controls to prevent mistakes. This resulted in duplicate payments and some beneficiaries not receiving their grants – these issues were subsequently corrected.

B. Relief of economic and social distress

Government identified various initiatives in addition to the TERS benefits and social grants to ease the hardship experienced by individuals, households and businesses. A number of key initiatives was selected as the focus of the audit – most of the audit work is in an early stage and will be reported on more comprehensively in upcoming reports. Some of our key observations at this stage are:

Support to small business

The Department of Small Business Development aims to implement 10 initiatives to the value of R1,8 billion to support small, micro and medium enterprises to remain in business during the pandemic.

The focus of the audit was first on the debt relief finance scheme and the spaza shop support scheme as these initiatives have progressed quite well. The debt relief finance scheme provides access to low-interest loans for small, micro and medium enterprises and will end in September. In total, R145 million had been disbursed up to 15 July and no concerns have been identified at this stage of the audit.

The uptake on the spaza shop support scheme has been below the department's expectations – only 1 697 owners had received the grant (in total R5,9 million) by 30 June, against a budget of R175 million. A control weakness in the approval process was identified, which the department is attending to.

Farmers relief

The Department of Agriculture, Land Reform and Rural Development implemented a relief scheme for financially distressed small-scale farmers in the form of vouchers for production input. By 22 July, 14 589 applications for vouchers had been approved with a value of R517 million and 13 662 had already been distributed.

The audit identified inadequate record keeping and reconciliations of vouchers approved, distributed and redeemed, which increases the risk of unreliable reporting by the department and undetected fraud or error. Concerns were raised with the department on the inadequate and unfair process followed to select the suppliers utilised for the redemption of vouchers and beneficiaries who might not be eligible for the vouchers. The department is investigating these concerns.

Tourism relief fund

A tourism relief fund of R200 million was made available by the Department of Tourism to support qualifying small, micro and medium enterprises in the tourism and hospitality sector. In total, 4 000 applications had been approved to each receive a R50 000 relief payment.

By 31 July, 3 994 applicants had been paid. So far, the audit focused on the identification of risks and controls in the application process. The audit teams reported to the accounting officer the risks created by amendments made to the original process and criteria as well as inadequate review and segregation of duties. The accounting officer was comfortable that the risks identified have been sufficiently mitigated.

Sports, Arts and Culture relief fund

The Department of Sports, Arts and Culture established a R235 million relief fund to assist artists, athletes and technical personnel affected by cancellations of sport and art events and to fund digital solutions.

The progress of distributing the funds has been slow with large numbers of the applications rejected originally and now being re-evaluated. By 3 July, only R39 million was paid out. The audit to date focused on the overall controls in place. The audit identified that the original criteria used to evaluate applications were not specific

enough to prevent double-dipping and subsequent amendments thereto could result in an unfair process.

Loans through the Industrial Development Corporation

The Industrial Development Corporation ring-fenced R2,5 billion in funds to provide as loans to their clients and other businesses operating in sectors within its mandate. The audit team determined that specific criteria for the provision of the loans were established and sufficient preventative controls were in place. By 15 July, no loans in respect of debt relief had been approved yet as the businesses did not comply with the qualifying criteria.

Food parcels distributed by Sassa

Before the R350 social relief grant was activated, Sassa used part of its budget to purchase and distribute food parcels to people in need. By 11 May, when this initiative ended, 146 936 food parcels had been distributed. The audit team determined that the distribution process could have been significantly cheaper had Sassa used the existing non-profit organisations utilised by the Department of Social Development instead of appointing service providers.

The controls over the distribution of the food parcels were also not always effective, which increased the time from application to distribution, incidents of damaged and poorly packaged food parcels, and beneficiaries receiving more food parcels than they were entitled to.

Only the food parcels distributed by Sassa were audited and not those distributed by other organisations.

Compensation for occupationally incurred Covid-19

People contracting Covid-19 in the workplace can claim compensation from the Compensation Fund. The fund operates in a compromised internal control environment and is busy implementing a new system, which led the audit team to pay attention to the ability of the fund to effectively deal with the expected increase in Covid-19-related claims. Control weaknesses in the new system were identified as well as in the receipt

and adjudication of claims. The accounting officer should pay closer attention to these weaknesses and prioritise strong preventative controls.

C. Procurement of personal protective equipment (PPE)

So far, the audit of PPE procurement focused on the health and education sectors; in particular, on the processes undertaken to identify the need for PPE, the procurement process, payments made and PPE delivered.

The audit is in different stages of completion – in some provinces, a lot of the procurement was audited while in others, audit work must still begin. The audit teams were not able to consistently obtain all the information needed for auditing PPE and the audit has been plagued by delays. Nonetheless, a worrying picture is emerging – thus far the **key findings on PPE** are:

There are delays in the delivery of PPE

- In the education sector, this was one of the main factors contributing to the delay in the opening of schools. In determining the need for PPE at schools, some provinces used unreliable methods for determining the number of employees and learners at schools and not the management information systems of Education available to them.

The needs analyses did not always consider that support staff in schools (such as cleaners and administrative personnel) also require PPE, and some schools did not receive sufficient masks and face shields for learners and teachers. Most of the affected schools had to use their own funds to purchase PPE to address the shortages, leaving the schools that are in financial difficulty in a vulnerable position.

- The purchasing of large volumes of PPE for the health sector already started in March, but some health facilities experienced shortages of certain PPE items during the pandemic. This is mainly due to significant delays in delivery by suppliers.

Further work will be done to determine whether the reasons for the delays extend beyond low availability of certain PPE items in the market.

PPE are not always procured at market-related prices

- The National Treasury determined the specifications and market-related prices for PPE items. Through instruction notes, the National Treasury made it a requirement for public sector institutions to purchase the specified PPE at these prices or less and provided for approval processes if there is no choice but to procure at a higher price.
- Contrary to these instructions, our analyses of orders placed by health departments identified that some items were priced at more than double and even five times the prescribed price. Similar instances were identified in the procurement of PPE in the education sector where the national and provincial departments are not procuring PPE at market-related prices.

There are deficiencies and non-compliance in PPE procurement processes

Although emergency procurement processes were allowed for procuring PPE, it does not mean that all supply chain management requirements as defined in legislation were relaxed. Teams are still busy auditing the procurement processes, but are identifying matters such as suppliers not having valid tax clearance certificates, quotation and competitive bidding processes not being correctly applied, inadequate or inaccurate specifications and evaluation criteria and the incorrect application thereof, conflicts of interest, and the awarding of a contract in the health sector to a supplier with no previous history of supplying or delivering PPE.

There are insufficient controls to ensure the receipt and payment of PPE at the levels of quality and price ordered

- The problem with the quality of PPE purchased is most evident in a few schools that were visited where the masks provided were not to specifications and were often one-size-fits-all (whether for a child or an adult). Instances were also found where specified PPE items ordered by a health department were substituted by the supplier with items of a lower specification, which the department accepted and even paid for at the higher price of the originally ordered item. In addition, poor controls were evident in auditees that received and paid for goods that were not ordered.

The procurement of PPE remains a key focus of the audit and most of the outstanding audit work should be completed within the next two months, which will provide a more comprehensive picture in the next report. There are clear indicators of fraudulent activities in the procurement processes, which will be further investigated and shared with the newly established fusion centre and other investigating agencies.

D. Emergency supply of water

The washing of hands is a crucial component of protection against the virus, but there are communities and schools that do not have easy access to water. The Department of Water Affairs and Sanitation and the Department of Education identified the need for emergency water supplies to communities where there is no or an unreliable water supply and to schools without water and sanitation facilities.

The departments provided the funding and determined where emergency water is required. Rand Water was appointed as an implementing agent to procure water tanks and tankering services.

The water supply initiative is behind schedule – the planned installation date for tanks across 3 401 informal settlements was the first week of May, but by 31 July, only 69% were reported to have been installed. The Department of Education only transferred the first funds to Rand Water by 26 May, which delayed the start of the emergency response. The delayed start and pressure due the reopening of schools resulted in corners being cut in the installation of water tanks and the design specifications for foundations and hydraulics not always being followed.

The audit of the needs analysis, procurement and distribution processes is still in its early stages but shows the following **key findings on the emergency water supply** to communities at this time:

- The Department of Water Affairs and Sanitation could not provide a reliable listing of all water tanks delivered and their location, which makes it difficult for us to audit whether the water tanks paid for have been received. It also calls into question the effectiveness of the controls implemented by the department and the reliability of the reporting on the implementation of the initiative.

- In some instances, Rand Water did not comply with the required procurement processes to appoint suppliers for water tanks and tankering services.

E. Frontline services and health response to Covid-19

The audit of selected frontline and health response initiatives, in addition to PPE procurement and water supply, is in an early stage and will be reported on more comprehensively in upcoming reports. Some of the **key observations** at this stage are:

Ventilators

The R410 million pledged by the United States government for South Africa's health response has not yet been received and of the 1 000 ventilators pledged, only 150 had been received by 6 July. The availability of ventilators in the market remains a problem – 1 144 ventilators were ordered for the health sector and by 31 July only 58 could be delivered.

Quarantine sites

In planning the health response, it was expected that a high number of people would require facilities for quarantine and self-isolation. In total, 6 123 quarantine sites were initially targeted but by 31 July, only 510 sites had been identified by the Department of Public Works and only 192 had been activated for use by the Department of Health. The slow progress is partly as a result of poor coordination between the two departments, which also resulted in accountability for the sites being unclear and our audit efforts being hampered.

The audit identified control weaknesses, overpayments, money spent on sites not yet activated (approved) by the Department of Health, and state-owned properties upgraded for use as quarantine sites not being utilised. It is unlikely that government will pursue the original target for quarantine sites as the demand for such facilities has been relatively low.

Field hospitals

In total, R4,8 billion was made available for field hospitals. For this purpose, 66 projects were identified across the country – the money would be used either to upgrade current

hospitals or build/use temporary structures to increase hospital beds. By 30 June, only 18 of these projects had been completed.

The audit of the procurement processes for appointing contractors only recently commenced as a result of delays in providing us with the information and documentation requested, but the audit teams have already identified non-compliance with legislation in the processes followed. This is another area in which there is a need for closer cooperation between the health and public works departments to monitor the demand for additional beds and the implementation of the initiative.

Temporary residential units

A resettlement programme for informal settlements was initiated in response to the increased risk of contracting Covid-19 in overcrowded and dense settlements. This would be done by fast-tracking the move of residents to already completed permanent structures and to temporary residential units.

The audit focuses on 31 571 temporary residential units planned for completion through 95 projects across the country. The progress with these projects has been slow and concerns were raised about inadequate coordination across the human settlements sector. In this early stage of the audit, the audit teams are observing discrepancies in pricing and the allocation of units to beneficiaries, which we will pursue further as the audit continues.

Expanded public work programme

The expanded public works programme (EPWP) was mobilised to provide frontline services and, at the same time, much-needed job opportunities. The Department of Public Works was tasked with urgently sourcing 25 000 additional workers to assist the Department of Health with screening, testing and educational campaigns – funding of R771 million was allocated for this purpose.

By 30 June, only 8 229 workers had been recruited and R26 million spent on management and administrative expenses and PPE for participants. No payments had yet been made to workers as the start of the programme was delayed. The Independent Development Trust is the implementing agent for the EPWP and also for this initiative. The same poor

record keeping and potential fraud risks are emerging as has been reported for a number of years with regard to the programme.

Local government

Local government is at the forefront of dealing with the response to the pandemic and the social and economic impact thereof. Funding was provided by the national government to support municipalities in providing emergency water supply, increased sanitation of public transport and facilities, food and shelter for the homeless as well as basic and community services.

At first R3,9 billion was provided through repurposing grants that municipalities already received for the 2019-20 financial year towards Covid-19 response, topped up by money from the municipal disaster relief fund. The fiscal relief package provided for a further R20 billion for municipal support in the form of an additional R9 billion in grants for Covid-19 response and a further R11 billion in equitable share payments.

The increase in equitable share will be paid out later in the year and is to provide community services as well as basic services to the additional households who lost their source of income and became indigent due to Covid-19. Audit work on the spending at municipal level will begin in October 2020 and will cover procedures to determine whether the money provided was used for its intended purpose and in compliance with the relevant legislation.

Other

The audit also focuses on community screening and testing in the health sector and frontline services by the Department of Defence. Audit work in these areas only started recently and will be reported on in upcoming reports.

A call to leaders to use the report to improve governance systems

Makwetu says that “accounting officers and authorities were appreciative of the matters we reported to them and committed specific actions to prevent any recurrence and to deal appropriately with what has already transpired. However, some disagreed with our findings and others needed more time to consider the actions they need to take.

We will report on the steps they took and whether it had a positive impact on the continuing implementation of the initiatives in our next special report."

He further confirmed that his audit teams have engaged with executive authorities to ensure that they are aware of the status of the Covid-19 initiatives for which they are responsible and any risks and concerns they should pay attention to.

Says Makwetu, "as can be observed from all the initiatives started this far, there are significant risks that point to internal deficiencies as well as the exposure to external risk on the funds. To date, less than half of the appropriated funds have been spent. This suggests that a heightened level of oversight will be required as more programmes are rolled out."

"We call on oversight structures to use this report to direct their oversight actions and call accounting officers and authorities as well as executive authorities to account for the implementation of the initiatives related to the pandemic and the management of the funds entrusted to them. This report should become the baseline for the interrogation by oversight on how the funds entrusted for the Covid-19 response were used."

Makwetu clearly indicated that the upcoming reports on the government's response to the pandemic will be a useful tool to monitor whether the control weaknesses which open up the funds for abuse are being closed and whether the instances where abuse already happened were appropriately dealt with.

Conclusion

Makwetu urged all role players "to heed our call for a shift in thinking towards prevention. Designing and implementing controls that prevent fraud, errors and abuse are an investment that pays off when an institution is called upon to deal with a crisis as we are now experiencing. It is by far a better approach than having to deal with lengthy and costly investigations and a loss of resources and public confidence. Even in the midst of a crisis, transparency and accountability for government spending to the benefit of citizens cannot take a backseat".

Issued by: Auditor-General of South Africa

Contact: Africa Boso • (012) 422 9880 • Africab@agsa.co.za



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Media note: The *first special report on the financial management of government's Covid-19 initiatives* will be available on www.agsa.co.za.

About the AGSA: The AGSA is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.