AUDITOR-GENERAL
SOUTH AFRICA

PFMA 2011-12

Accountability and remedies to address transgressions and poor performance

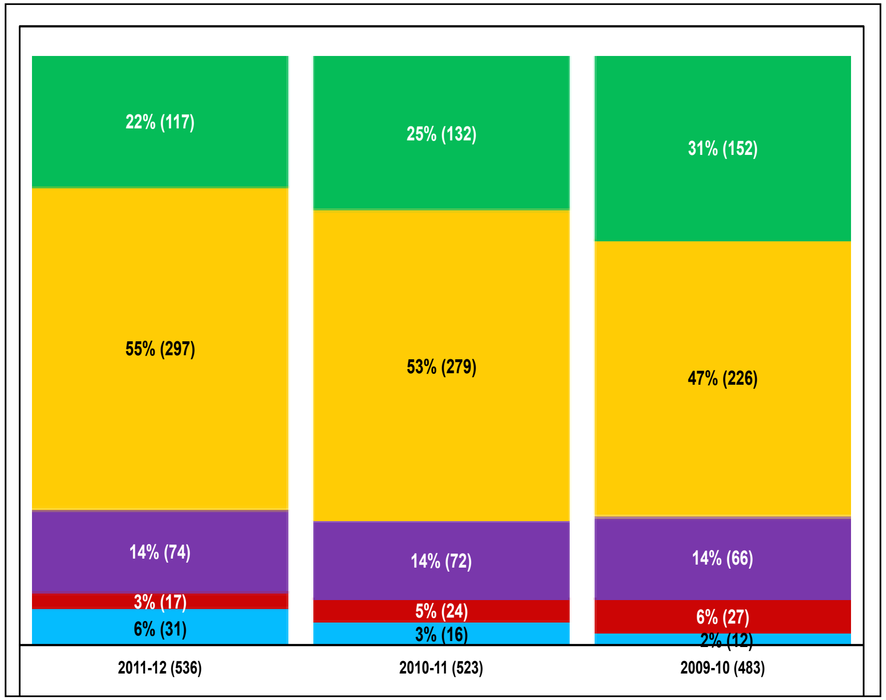
CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes

Our reputation promise/mission

The Auditor-General of South Africa (AGSA) 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.

FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements



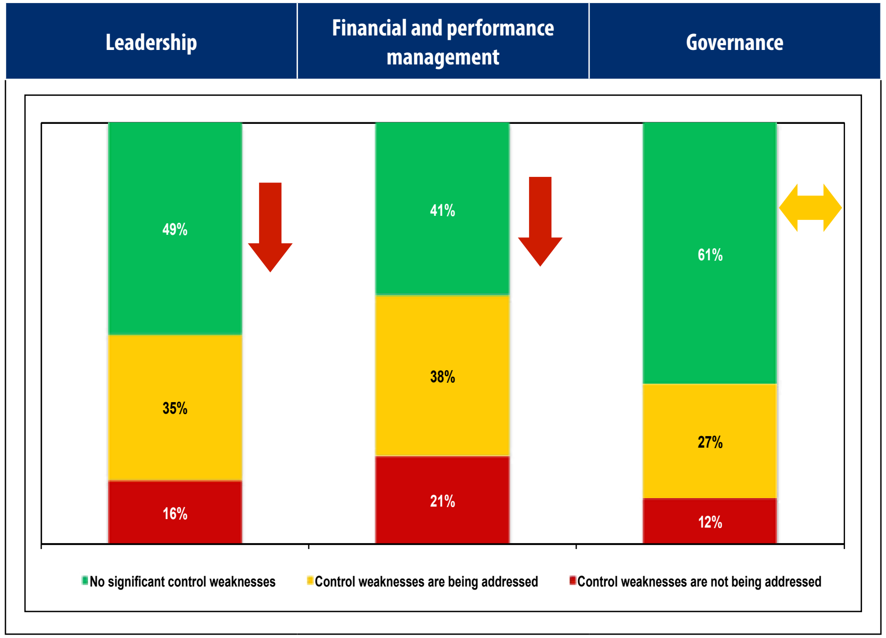
Financially unqualified with no findings	Financially unqualified with findings	Qualified with findings	Adverse, disclaimer with findings	Audits outstanding

Limited progress made in addressing five key risk areas and regression in overall status of key controls

5 risk areas

Supply chain management	Predetermined objectives	HR	IT controls	Material mistakes in AFS submitted for audit
Minimal improvement	Improvement	Unchanged	Unchanged	Unchanged

Key controls



	Regression		Unchanged

Pervasive root causes

- Vacancies in key positions, leadership instability and ineffective performance management
- Internal controls not effective – checks and balances not performed
- Not all role players are providing the level of assurance required

FOREWORD

It is a pleasure to present to Parliament my 2011-12 general report on audit outcomes of departments, legislatures, public entities and other entities in the national and provincial spheres of government.

In response to the 2010-11 audit outcomes, commitments were made by the executive and oversight bodies to intensify their efforts in bringing positive change within the administration.

Despite my expectation that these commitments would drive improvements towards clean audits, the audit outcomes for the year show a general stagnant trend, with less than a quarter of auditees obtaining clean audit opinions and 52 not able to sustain their prior year clean audit opinion. My report shows that many leaders did not own and drive these commitments, so the commitments are left to flounder until the next audit starts. In this regard, I single out two significant commitments made a year ago:

- The executive committed to meet with my office quarterly for at least an hour. About 78% of them have made time at least three times in the past year to meet and share the results of our assessment of the risks and controls and to consider the status of commitments made and make new commitments. Although the engagements were well received, only small movements in audit outcomes can be seen. This was due to frequent leadership changes resulting in disruption in the implementation of commitments, our message being ignored, or our conversation not being compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations leading to increased impact.
- Parliament and legislatures committed to improve the collaboration between their respective public accounts committees and portfolio committees. We have yet to see more concentrated efforts in this regard as an uncoordinated approach will continue to weaken the effectiveness of oversight.

Of special concern is the increase in auditees with material findings on non-compliance with legislation, bringing it to 74%. Even though I have stressed for the past three years the urgent need to address the quality of the financial statements submitted for audit and weaknesses in supply chain management, human resource management and information technology controls, there has been minimal improvement.

The usefulness and reliability of the annual performance reports continue to improve, which is gratifying. I am now able to make a clearer assessment of service delivery risks but not to the full extent necessary (as some key departments responsible for national outcomes, such as those in the health, education and human settlement sectors, continue to have material shortcomings). Based on the annual performance reports, about 42% of auditees achieved 80% or fewer of their planned service delivery targets, while some departments had significantly underspent their conditional grants and capital budgets. My report further highlights risks to the financial health of national and provincial government flowing from poor budget management, cash and debtors management of departments and the financial management of some public entities. These indicators reflect that the fiscus could be placed under further pressure if such risks are not addressed.

In this general report, I raise three areas that require corrective steps by those charged with governance to achieve improvements in the audit outcomes:

- **Vacancies in key positions** and **instability in leadership** positions affect the pace of sustainable improvements. **Ineffective performance management** is evident at some auditees, which means that officials who perform poorly are not dealt with decisively. A concerted effort is required to address the challenges in human resource capacity and productivity.

- **Effective internal controls** to prevent, detect and correct non-compliance with legislation and mistakes in the financial and performance reports are lacking. Overall the effectiveness of key controls has regressed, as they were not designed and implemented in a sustainable manner. Checks and balances for all key processes, monthly reporting and validation processes to ensure the credibility of all management information are basic controls which skilled professional should be able to implement.
- Government should be monitored in a thorough, diligent and collaborative manner. My office only provides independent assurance on the credibility of financial and performance information and compliance with selected legislation. We are not the only **provider of assurance** to the citizens that government is delivering services in a responsible and accountable manner. The monitoring functions vested in **senior management, accounting officers, internal audit, audit committees and executive authorities** should be better exercised so that audit outcomes and service delivery issues are dealt with through self-monitoring, while audit provides an external validation. The **treasuries, offices of the premiers, public service administration and other coordinating/monitoring institutions** should fulfil their role envisaged in legislation to guide, support, coordinate and monitor government. The **legislatures and Parliament** should be scrupulous and courageous in performing their oversight function in order to make an impact on clean administration. My assessment (detailed in this report) is that not all of these role players are providing the level of assurance required to create the momentum towards improve audit outcomes.

A common reaction to the audit outcomes is the question posed by many about the need for officials to be accountable, and for there to be consequences for poor performance, misappropriation of state resources and fraud. In response, we have highlighted in a separate booklet, the range of legislation at the government's disposal that enables remedies to be applied where there has been transgression. These must be used where necessary to reverse the culture of "business-as-usual". It is my assessment that the full power of the law is yet to be activated, leading to commentators asking "What can be done?" or saying "There are no consequences".

Highlighting these remedies provides a starting point for our responsible leaders and the relevant legislatures and departments to take action. All parties have to play their part.

Although progress towards clean audits is slow, I am encouraged by examples of commitments by leaders and officials which translated into improved audit outcomes and I am confident similar results can be achieved by all auditees. In conjunction with various key role players, my office has provided input towards the development of solutions to the challenges highlighted in this report, and will in future share assessments of progress in joint sessions with the Head of Government Business and Parliament and through similar engagements in the provinces.

It is through all our efforts and the work of auditors that we will contribute towards strengthening our democracy through auditing.

Auditor- General

Auditor-General
Pretoria
March 2013

ACCOUNTABILITY AND REMEDIES

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ACCOUNTABILITY AND REMEDIES TO ADDRESS TRANSGRESSIONS AND POOR PERFORMANCE - DEPARTMENTS

Introduction

The AGSA general reports (consolidated and provincial) summarise the findings in the audit reports, additional findings reported to the accounting officer and management and the critical matters disclosed in the financial statements of auditees. Some of the matters in the general reports are indicators of transgressions and/or poor performance by officials, accounting officers/authorities, executive authorities, oversight authorities and even suppliers that do business with the state.

A common reaction to the general reports relates to the questions posed by many, including key role players in government, about the need for accountability and consequences and how these can be enforced. Legislation provides the answer to this question as it clearly defines accountability and the remedies. The full power of the law is yet to be activated in this regard, which will result in improved audit outcomes but also improved governance and accountability.

Purpose

This AGSA booklet highlights the legislation that enables remedies to be applied where national and provincial departments are guilty of transgressions and poor performance. It addresses the following typical matters reported in the general reports:

- Failure to comply with legislated obligations and responsibilities
- Unauthorised, irregular and fruitless and wasteful expenditure
- Possible fraud and corruption
- Poor work performance – officials and suppliers
- Other non-compliance with legislation

The failure to comply with legislated obligations and responsibilities and the occurrence of unauthorised, irregular and fruitless and wasteful expenditure can be indicators of **financial misconduct** by accounting officers or officials. In terms of the Public Finance Management Act (PFMA) an accounting officer commits financial misconduct if he/she:

- **wilfully or negligently** fails to comply with a requirement in the PFMA that defines the **responsibilities of accounting officers** [section 38 (general responsibilities), section 39 (budgetary control), section 40 (reporting), section 41 (information to be submitted) and section 42 (transfer of assets and liabilities)] or
- **incurs or permits** an unauthorised expenditure, an irregular expenditure or a fruitless and wasteful expenditure.

An **official** is guilty of financial misconduct if he/she **wilfully or negligently** fails to exercise a power or perform a duty delegated by the accounting officer in terms of the PFMA.

It is presented in two parts to distinguish between the different roles played by oversight and those with executive powers assigned by legislation.

An annexure is included with the relevant sections in the legislation for easy reference.

overview of full report

Visit our website,

www.agsa.co.za,

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Consolidated general report on the 2011-12 national and provincial audit outcomes.

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