



AUDITOR - GENERAL  
SOUTH AFRICA



PFMA 2011-12

## Responsibilities of key role players in national and provincial government and oversight bodies

CONSOLIDATED GENERAL REPORT  
on NATIONAL and PROVINCIAL audit outcomes



# Our reputation promise/mission

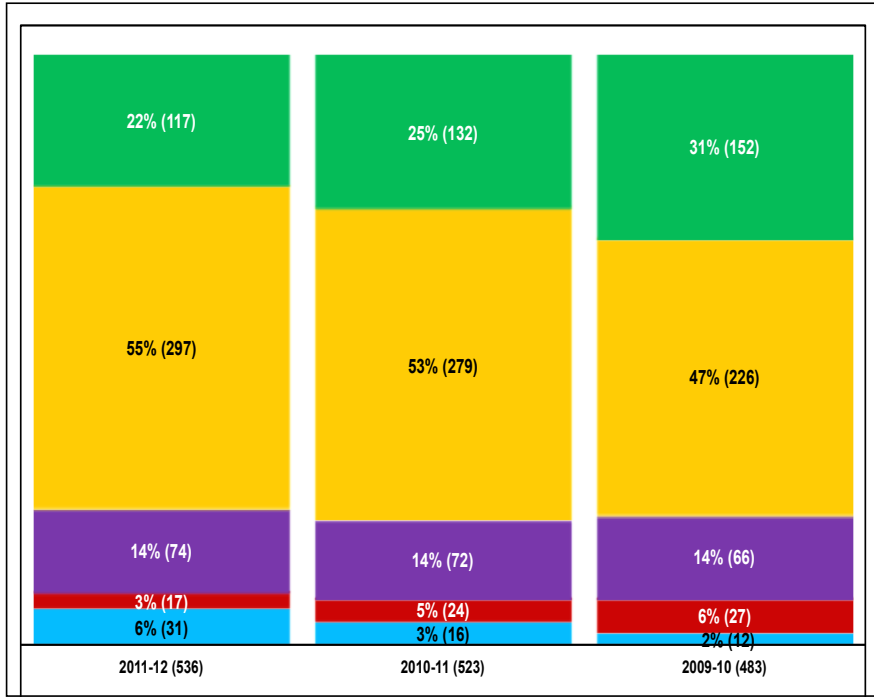
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.





FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements

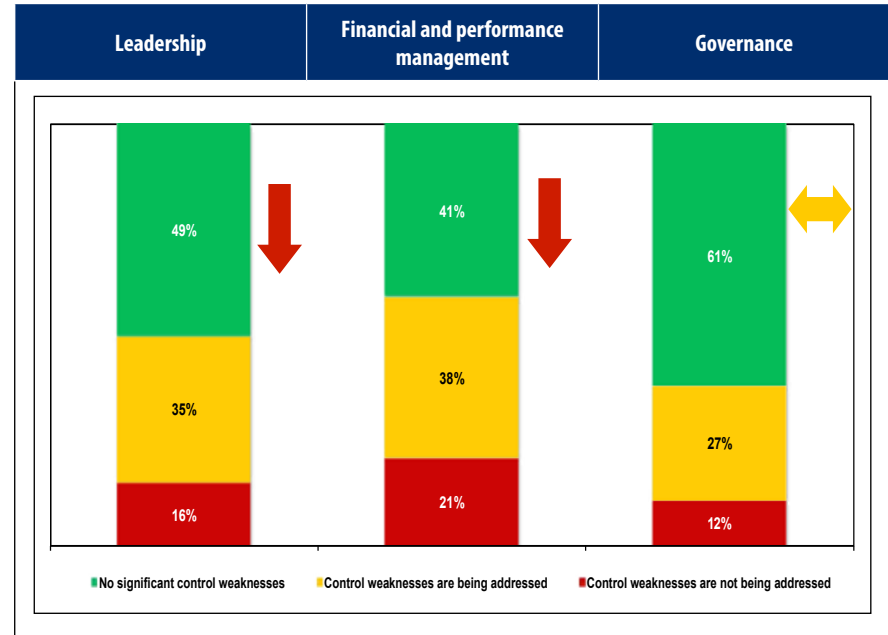


Limited progress made in addressing five key risk areas and regression in overall status of key controls

5 risk areas



Key controls



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

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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.
- Governments 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**





RESPONSIBILITIES OF KEY ROLE PLAYERS



## RESPONSIBILITIES OF KEY ROLE PLAYERS IN NATIONAL AND PROVINCIAL GOVERNMENT AND OVERSIGHT BODIES

The table below summarises the legislated responsibility of key role players to take action in response to the matters reported.

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
<b>Financial misconduct by the accounting officer</b>						
Report possible financial misconduct		Any person, institution or oversight body can report possible financial misconduct by an accounting officer to the relevant executive authority, which has a legislated duty to investigate the allegations. It can also be reported to the relevant treasury or audit committee.				
Required to report alleged misconduct to executive authority when made aware of it	TR 4.1.3 TR 3.1.14					Audit committee
<ul style="list-style-type: none"> <li>Investigation into allegation</li> <li>Disciplinary hearing if allegation is confirmed</li> </ul>	PFMA s84 TR 4.1.3 TR 4.1.4		Responsible	May get involved		

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
Sanction if found guilty – including criminal charges	PFMA s86					
Reporting and monitoring of process	PFMA s65(1)(b)		Report		Receive reports	
<b>Financial misconduct by officials</b>						
Report possible misconduct		Any person, institution or oversight body can report possible financial misconduct by an official to the relevant accounting officer, who has a legislated duty to investigate the allegations.				
<ul style="list-style-type: none"> <li>Investigation into allegation</li> <li>Disciplinary hearing if allegation is confirmed</li> </ul>	PFMA s84 TR 4.1.1					
Sanction if found guilty – including criminal charges	TR 4.2	Responsible		May get involved		



KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
Reporting and monitoring of process	TR 4.2.1 TR 4.3.1 TR 4.3.4	Report	Receive reports	Receive reports		Department of Public Service
<b>Unauthorised, irregular and fruitless and wasteful expenditure</b>						
Detect unauthorised, irregular and fruitless and wasteful expenditure (UIFW) and disclose in financial statements	PFMA s40(3)(b)(i) and (ii) TR 9.1.1 TR 9.1.5					

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
<u>UIFW incurred or permitted by official*</u> <ul style="list-style-type: none"> <li>Investigation</li> <li>Disciplinary hearing if required</li> <li>Sanction if found guilty – including recovery of resultant loss</li> </ul> * Refer financial misconduct actions if UIFW was incurred or permitted by accounting officer	PFMA s38(1)(h)(iii) TR 9.1.3 and 9.1.4					
Reporting and monitoring of process	PFMA s38(1)(g),	Responsible		Receive reports		
Approval/non-approval of unauthorised expenditure	PFMA s34					

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
<b>Possible fraud and corruption</b>						
Report possible fraud and corruption		Any person, institution or oversight body can report possible fraud and corruption, whether directly or through a whistle-blowing mechanism, to the relevant accounting officer or treasury with a legislated duty to investigate the allegations.				
Required to report to executive authority if accounting officer has been implicated in fraud and corruption when made aware of it	TR 3.1.14					Audit committee
<ul style="list-style-type: none"> <li>Investigation into allegation</li> <li>Take steps and report to SAPS</li> </ul>	TR 16A9.1(b) TR 16A9.3					
Duty to report possible fraud and corruption involving an amount of R100 000 or more to SAPS	PRECCA s34(1) and(4)					Senior managers in departments

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
Cancel contract awarded to supplier if any corrupt or fraudulent act is committed by supplier, officials or other role player	TR 16A9.1(f)					
Reporting and monitoring of process	TR 16A9.1(b)	Report		Receive reports		
<b>Poor work performance – officials</b>						
Establish performance management process at a department	PSR 1/VIII/B1 PSR 4/III/A					
Assess performance and identity unsatisfactory performance	PSR 1/VIII/D1 PSR 4/III/B2(c)					Supervisor of official
Manage unsatisfactory performance through development or discharge	PSR1/VIII/E					

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
<b>Poor work performance – suppliers</b>						
Establish systems of financial management and internal control to ensure effective, efficient and economic use of resources and to prevent fruitless and wasteful expenditure	PFMA s38(1)(a) (i); (b) and (c) (ii)					
Manage unsatisfactory performance through penalties or cancellation of contract	PPR 13(1) (b) and 13(2)					

KEY ROLE PLAYERS						
Actions required	Reference to legislation	Accounting officer	Executive authority	National/provincial treasuries	National or provincial legislatures	Other role players
<b>Other non-compliance with legislation – PFMA</b>						
Report possible non-compliance		Any person, institution or oversight body can report non-compliance with the PFMA to the accounting officer, who has a legislated duty to take steps against the official.				
<u>Non-compliance by official*</u> <ul style="list-style-type: none"> <li>Investigation</li> <li>Disciplinary hearing if required</li> <li>Sanction if found guilty – including recovery of resultant loss</li> </ul> * Refer financial misconduct actions if non-compliance by accounting officer	PFMA s38(h)(i)					



# overview of full report



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Auditor-  
General

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