PART ONE:

CONSOLIDATED ANALYSIS OF THE AUDIT OUTCOMES OF NATIONAL AND PROVINCIAL GOVERNMENT

AUDITOR-GENERAL
SOUTH AFRICA

SECTION 1: EXECUTIVE SUMMARY

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Significant aspects of the 2011-12 audit outcomes of national and provincial government are summarised in the table below, while section 2 provides a more detailed analysis of findings, trends and root causes. The status of the auditees' internal control system is reported in section 3.

Section 4 presents an analysis of the role and impact of key role players in terms of the assurances required from them in relation to their responsibilities. This section also records the initiatives and commitments received from legislative oversight, executive leadership and coordinating institutions in response to the audit outcomes.

Section 5 highlights emerging matters that may impact on future audit outcomes and auditees' financial health indicators requiring attention from the leadership.

Aspect	Indicator	Key outcomes and trends
Good outcomes/ trends = green; *Stagnant or little progress* = yellow; *Poor outcomes/trends* = red		
Overall audit outcomes	Red	The overall audit outcomes for national and provincial government (excluding revenue funds and water boards) **regressed** as 62 (12%) auditees (17 departments and 45 public entities) improved, but 80 (16%) auditees (25 departments and 55 public entities) regressed. Over the past three years there has been slow progress towards clean audits, with the number of clean audits declining from 152 in 2009-10 to 132 in 2010-11 and thereafter to 117 in 2011-12.
	Green	The **improved audit outcomes** included those of 36 (7%) auditees (five departments and 31 public entities) that progressed to a clean audit by addressing the weaknesses in predetermined objectives and/or findings on compliance reported in the prior year.
	Yellow	Only 78 (60%) of the 132 auditees with clean audit opinions in 2010-11 were able to **sustain their clean audit** status. The 52 auditees that regressed from clean audits consisted of 12 departments and 40 public entities. The audits of two public entities that obtained clean audits in 2010-11, have not been finalised.
	Yellow	Two hundred and twenty-one (44%) auditees **remained financially unqualified with material findings on predetermined objectives and/or compliance.** One hundred and forty (28%) of these auditees have not been able to progress to a clean audit for the past three years, failing to avoid material findings on predetermined objectives and/or compliance.
	Yellow	Ninety-eight (19%) auditees **improved their overall outcomes on findings on predetermined objectives and compliance** but only 36 were able to move to a clean audit opinion. Ninety (18%) auditees regressed – 52 of them with no material findings on predetermined objectives and compliance in the previous year.
Submission of financial statements for audit	Yellow	Only 40 (6%) auditees **had not submitted annual financial statements for audit by 31 May 2012,** as required by the Public Finance Management Act (PFMA). By 15 October 2012 the audits of 31 (6%) auditees had not been finalised as a result of late or non-submission of the annual financial statements.
	Red	Two hundred and eighty-seven (57%) auditees **submitted financial statements with material misstatements**. One hundred and ninety-six (39%) auditees achieved a financially unqualified audit opinion because they corrected all the misstatements the AGSA identified during the audit.

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Opinions on financial statements		Only two public entities had **adverse opinions**, moving from a qualified and disclaimed opinion in the previous year. The three public entities with adverse opinions in 2010-11 moved to disclaimed, qualified and unqualified opinions.			
		The annual financial statements of five departments and four public entities were **again disclaimed** due to the unavailability of documentation and/or information to form an audit opinion. The opinions of two departments and four public entities regressed to disclaimers.			
		There has been an increase in the number of annual financial statements that received **financially qualified opinions,** with 25 regressions (12 departments and 13 public entities) and only 21 improvements. Of the auditees that regressed, 88% were financially unqualified in the previous year with material findings on predetermined objectives and/or compliance. The annual financial statements of 27 departments were qualified again, 15 of which **failed to obtain financially unqualified audit opinions for the past three years.**			
		Twelve departments and nine public entities were able to improve their financial statements and received an **unqualified opinion**.			
	The **most common qualification areas** for departments are the completeness and existence of assets (property, plant, infrastructure and equipment) and the completeness and valuation of financial commitments and contingent liabilities disclosed in their financial statements. Public entities were mostly qualified on the existence and valuation of their revenue and receivables. Both departments and public entities had qualifications due to them not fully disclosing irregular expenditure relating to supply chain management.				
	The general **root causes** of the adverse, disclaimers and qualified audit opinions are ineffective internal controls as checks and balances for all key financial processes are not in place, monthly reporting does not take place and validation processes to ensure the credibility of financial reporting are inadequate. The chief financial officer, the accounting officer/authority, internal audit and/or the audit committees did not always fulfil their internal control and assurance responsibilities. At some auditees vacancies in key positions and leadership instability affected the quality of financial reporting and the attention given to addressing prior year financial statement qualifications.				

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Consolidated financial statements and revenue funds		The **consolidated financial statements of national departments** were again qualified, while the consolidated financial statements of national public entities were disclaimed.			
		The audits of the **consolidated financial statements of provincial departments** and **public entities** in Gauteng, North West, Limpopo, Northern Cape and Western Cape had not been completed by 31 October 2012 as a result of late submissions and delays in the audit and finalisation processes.			
		The **consolidated financial statements of the provincial departments** of the Eastern Cape were disclaimed, while those of the Free State and KwaZulu-Natal were qualified. Only Mpumalanga was unqualified. The **consolidated financial statements of the provincial public entities** of the Eastern Cape were qualified, while those of the Free State and Mpumalanga were disclaimed. Only Kwazulu-Natal was unqualified.			
	These audit opinions stemmed from misstatements as a result of inter-entity balances and transactions not being eliminated, different accounting policies of the public entities as well as misstatements in the financial statements of the auditees that were consolidated. Some consolidated financial statements were qualified or disclaimed due to material misstatement in the financial statements of the entities that were being consolidated.				
		The following **revenue funds** achieved financially unqualified opinions: National, Gauteng, Eastern Cape, Free State and Mpumalanga. The financial statements of Limpopo, Northern Cape and North West have not been submitted for audit and the audit of the KwaZulu-Natal Revenue Fund had not been completed at 31 October 2012.			

<table>
<tr><th>Aspect</th><th>Indicator</th><th>Key outcomes and trends</th><th>Good outcomes/ trends</th><th>Stagnant or little progress</th><th>Poor outcomes/trends</th></tr>
<tr><td rowspan="6">Reporting on predetermined objectives</td><td></td><td colspan="4">Three hundred and three (60%) auditees do not have any material findings on the usefulness and reliability of their annual performance reports – improving from 277 (55%) in the previous year.</td></tr>
<tr><td></td><td colspan="4">Auditees that continue to have material shortcomings in reporting on service delivery include key departments responsible for national outcomes, such as those in the health, education and the human settlement sectors.</td></tr>
<tr><td></td><td colspan="4">Eighty-three (16%) auditees submitted annual performance reports that contained material misstatements, 53 of which were able to avoid findings on the presentation and reliability of the reports because they corrected all misstatements identified as a result of the audit.</td></tr>
<tr><td></td><td colspan="4">Based on the annual performance reports, 42% of auditees (102 departments and 112 public entities) achieved 80% or fewer of their planned service delivery targets.</td></tr>
<tr><td colspan="5">The most common material finding for both departments and public entities on the usefulness of the reported information was that the performance targets were not specific and/or measurable to ensure that the required performance can be meaningfully measured.
Findings on reliability of the annual performance reports of departments mostly related to the accuracy of the information and, for public entities, the validity thereof.</td></tr>
<tr><td colspan="5">The general root causes of the material findings on the annual performance reports were serious shortcomings in the planning, oversight and monitoring processes, which included lack of understanding and implementation of the principles of National Treasury's Framework for managing performance information and inadequate support and guidance by national and provincial oversight bodies.
Furthermore, basic systems, processes and controls are not in place or are not functioning effectively, which includes record keeping as evidence of achieving performance targets. Vacancies, lack of skills and inadequate performance monitoring further impacted on the outcomes of some auditees.</td></tr>
<tr><td rowspan="3">Findings on non-compliance with laws and regulations</td><td></td><td colspan="4">Material findings on non-compliance with laws and regulations were reported for 375 (74%) auditees, a regression from the 362 (71%) in the previous year. Only 44 auditees addressed their prior year findings on compliance and 72 (14%) auditees had material findings for the first time this year.</td></tr>
<tr><td></td><td colspan="4">Seventy-three (25%) auditees with findings on compliance had findings in one AGSA focus area only, while 42 (14%) auditees only had findings on material misstatements in submitted financial statements. Full compliance with key laws and regulations is therefore within their reach.</td></tr>
<tr><td colspan="5">The top three areas of non-compliance relate to material misstatements in submitted financial statements, prevention of and addressing unauthorised, irregular as well as fruitless and wasteful expenditure, and procurement and contract management (supply chain management) which together account for 57% of all findings on compliance.
The other areas of non-compliance included expenditure management, human resource management, revenue management and asset and liability management.</td></tr>
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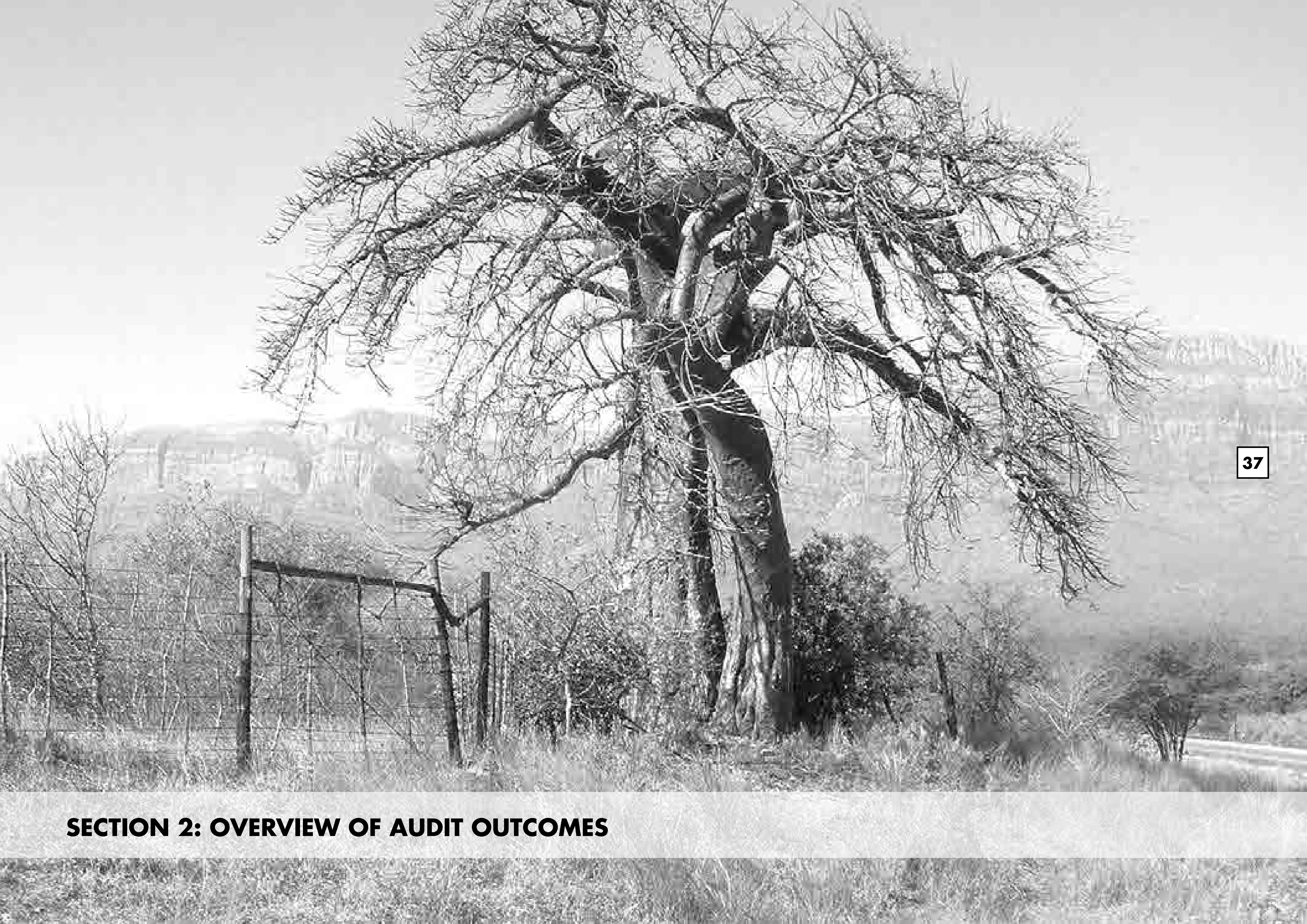
Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Findings on non-compliance with laws and regulations		**Findings on supply chain management** were reported in the management reports of 287 (57%) [2010-11: 282 (56%)] of the auditees, while at 222 (44%) [2010-11: 228 (45%)] auditees the findings were material enough to warrant reporting thereon in the auditor's report. At an overall level there has been no improvement, with an equal number of auditees that improved and regressed.			
		Contracts and quotations to the value of R4 862 million which were selected for audit **could not be audited** due to the required information or documentation not being made available by auditees. These limitations further impact on the extent of identified irregularities and supply chain management weaknesses.			
		Contracts to the value of R438 million identified at 47 auditees were **awarded to suppliers in which employees of the auditee had an interest**. At some auditees the employees included supply chain management officials and senior managers.			
		Contracts to the value of R141 million identified at 42 auditees were **awarded to suppliers in which close family members of employees of the auditee had an interest,** which represents an increase from the R136 million identified in the previous year at 21 auditees.			
		Where interest was identified, the **suppliers did not declare** such interest in 73% of instances and the **employee did not declare** in 76% of instances. At 16 departments the employees doing business with the auditee did not obtain **approval for the additional remunerative work**.			
		Findings **on unfair and uncompetitive bidding** were raised at 50% of auditees – an increase from 42% in the previous year. The most common findings relate to competitive bidding and quotation processes not followed to select suppliers and the non-submission by suppliers of their tax certificates and declarations of independence. The preference point system was also not always applied in the procurement process.			
		Findings on compliance relating to **unauthorised, irregular as well as fruitless and wasteful** expenditure remained at the same high level as in the previous financial year (45% of auditees). Two thirds of auditees incurred one or more types of unauthorised, irregular and fruitless and wasteful expenditure.			
		Unauthorised expenditure of R2 978 million was incurred by 26 (16%) auditees, 14 fewer than in the 2010-11 financial year and R831 million less. Provincial departments account for 98% of the total value of unauthorised expenditure.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Findings on non-compliance with laws and regulations		**Irregular expenditure** of R28 378 million was incurred by 294 (58%) auditees. The number of auditees incurring irregular expenditure increased by 32 (12%) and the value by R6 254 million (28%). R9 798 million of the irregular expenditure was incurred in prior years and only identified and reported in the current year. Provincial departments account for 73% of the total irregular expenditure incurred.			
		Fruitless and wasteful expenditure of R1 793 million was incurred by 226 (44%) auditees. The number of auditees incurring fruitless and wasteful expenditure increased by 29 (13%) and the value by R249 million (16%). Provincial departments account for 55% of the total fruitless and wasteful expenditure incurred.			
	The general **root causes** of material findings on non-compliance with laws and regulations relate to weak controls to ensure that systems and processes of the auditees are designed to comply with all applicable laws and regulations and to provide for record keeping of, for example, the evidence of the procurement processes followed. Oversight and monitoring of compliance were insufficient, while internal audit and the audit committees did not adequately focus on their duty to audit and report on compliance. It was also reported at a number of auditees that leadership (the accounting officer and/or executive authority) does not set the appropriate tone when it comes to compliance. Accountability is not accepted and the leadership does not apply the remedies available in legislation to ensure that there are consequences for transgressions.				
AGSA focus area – Human resource management		Findings arising from an assessment of human resource management were reported in the management reports of 46% of the auditees that were included in the scope, while at 19% of them the findings were material enough to warrant reporting in the auditor's report. Overall the level of findings **remained unchanged** since the previous year with the most significant increases in the number of auditees with findings being in the areas of vacancy management and appointment processes.			
		Some senior management positions at 51 (31%) departments took more than 12 months to fill while 26 (16%) departments did not advertise vacant senior management positions within six months of them becoming vacant. Forty-six per cent of departments that received qualified or disclaimed audit opinions experienced lengthy **vacancies at senior management** level and 35% of them had also not advertised the vacancies timeously. Positions were vacant for longer than 12 months in the finance units of 24% of auditees that received qualified or disclaimed audit opinions. Senior managers who did not have **performance agreements** or whose agreements were not signed timeously were identified at 37 (23%) departments. **Poor performance management at senior management** level was identified at 37% of the departments that received qualified or disclaimed audit opinions.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
AGSA focus area: IT management		The majority of departments and public entities experienced challenges with the design and implementation of information technology (IT) controls that provide assurance on the **confidentiality, integrity and availability of financial information**.			
		Delays in the approval, roll-out and implementation of a government-wide **IT governance framework** resulted in the IT governance processes not being implemented effectively at the majority of national departments and public entities.			
		Business continuity plans had not been designed to ensure that all critical business processes supported by IT systems would be identified and included in a recovery plan.			
Auditees' system of internal control		**Effective internal controls** to prevent, detect and correct non-compliance with legislation and errors 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.			
		Audit committees and internal audit units are in place at more than 90% of auditees, but at 35% of auditees the audit committees are not making any positive impact on the audit outcomes. The same applies to internal audit units at 42% of auditees. The reason for the inadequate impact is that the scope of their work in some instances does not include evaluating the reliability and credibility of financial and performance information and/or compliance with laws and regulations.			
Auditees' financial health		The results of the high-level analysis of auditees' financial health indicators demonstrate that there are a number of risks that management of these auditees, oversight and monitoring departments, treasuries and executive authorities should note. The weaknesses identified in **budget and financial management**, the inability of some auditees to **collect the revenue** due to the state and the additional **financial burden** placed on the state by some public entities will continue to put the fiscus under pressure if not addressed.			



SECTION 2: OVERVIEW OF AUDIT OUTCOMES

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This section of the general report provides the 2011-12 overall audit outcomes of national and provincial government (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their predetermined objectives (PDOs) (section 2.3) and key compliance by auditees with key laws and regulations (section 2.4).

Root causes of audit findings and recommended best practices are also presented in the respective sections. This should be read together with an analysis of the auditees' internal control system in section 3.

2.1 OVERALL AUDIT OUTCOMES

2.1.1 Summary of overall audit outcomes

National and provincial government comprises 671 auditees [162 departments (including Parliament and the provincial legislatures) and 509 public entities]. Public entities include the major public entities, government business enterprises, national and provincial public entities, constitutional institutions and trading entities that are audited in terms of the PFMA, as well as other entities audited in terms of any legislation other than the PFMA.

The audit outcomes of the 135 public entities not audited by the AGSA are not analysed in this general report except for the summary outcomes reflected in section 2.1.6. The establishment of 11 new public entities has increased the number of public entities audited by the AGSA from 363 to 374.

Arising mainly from non-submission or late submission of financial statements for audit, the audits of the new Department of Rural Development in the Free State and 30 (8%) public entities had not been finalised as at 15 October 2012, which was set as the cut-off date for inclusion in this general report. However, the outcomes of eight audits finalised between this cut-off date and the date of this general report are presented in section 2.1.5.

The following table provides a summary of the 2011-12 outcomes of AGSA audits finalised by 15 October 2012 per type of auditee. The term "leading departments" is used in this table and further analyses in the report – leading departments are those auditees which monitor and set the example for other auditees in national and provincial government. The leading departments comprise Parliament, nine provincial legislatures, nine Offices of the Premier, National Treasury and nine provincial treasuries.

Table 1: Summary of audit outcomes for current and prior year

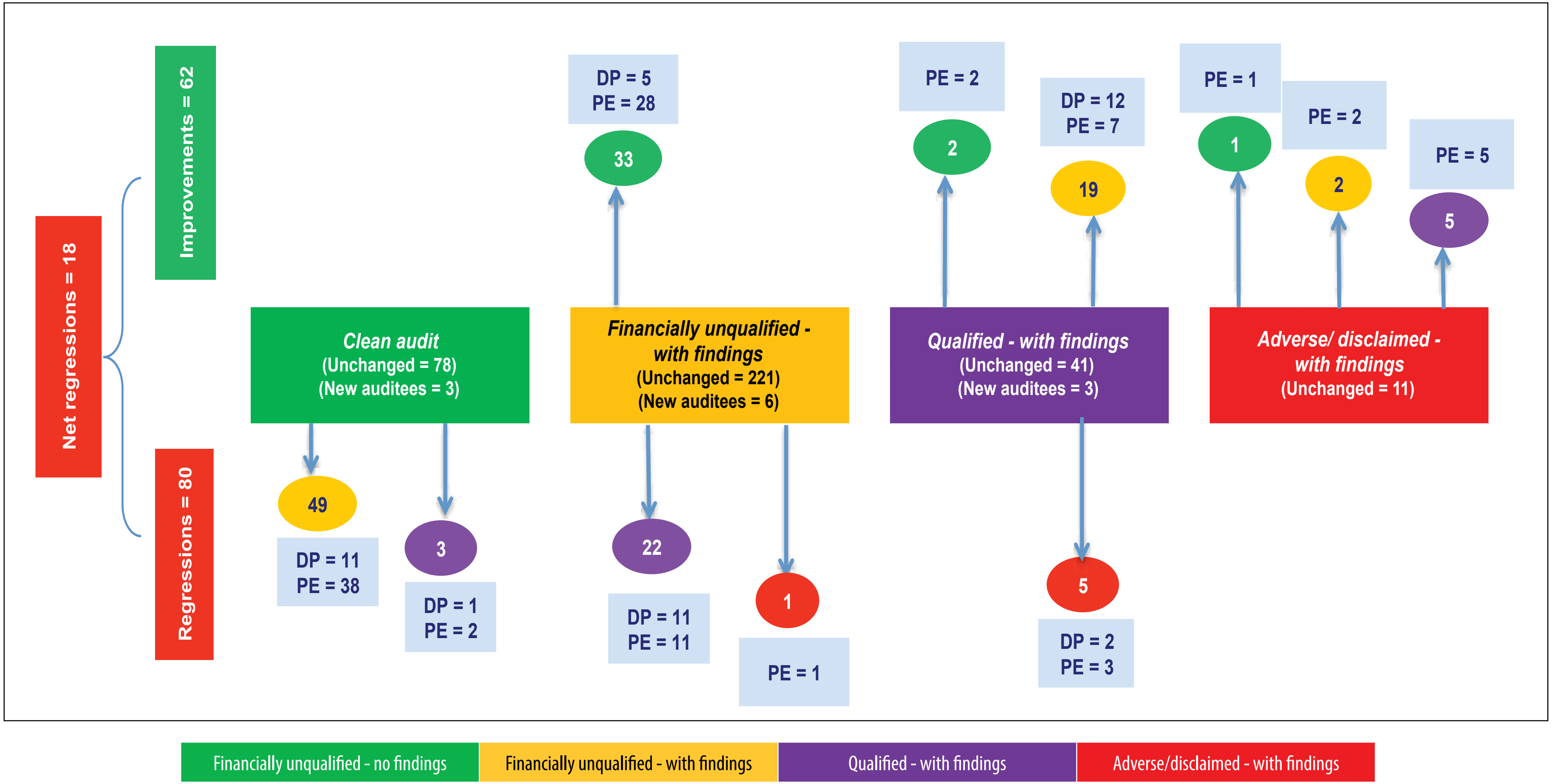
Audit outcomes	Departments						Public entities								Total	
	National		Provincial		Leading*		Major public entities and government business enterprises		National and provincial public entities		Constitutional institutions and trading entities		Other entities			
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	3	3	3 ↓	7	8 ↓	11	5 ↓	7	76 ↓	82	5 ⇧	0	17 ↓	22	117 ↓	132
Financially unqualified with findings	28	24	55	52	18	17	11	10	146	137	22	27	17	12	297	279
Financially unqualified financial statements	82% ↑	73%	61%	63%	90% ↓	97%	70%	74%	85%	87%	77%	79%	62%	64%	77%	79%
Qualified opinion, with findings	6	9	30	31	3	1	3	4	23	20	5	2	4	5	74	72
Adverse opinion, with findings	0	0	0	0	0	0	0	1	0	2	1	0	1	0	2	3
Disclaimer of opinion, with findings	1	1	6	4	0	0	3	1	4	7	1	5	0	3	15	21
Number of audit reports not issued by 15 October 2012	0	0	1	0	0	0	1	0	12	5	1	0	16	11	31	16
Outstanding audits and financially qualified financial statements	18% ↑	27%	39%	37%	10% ↓	3%	30%	26%	15%	13%	23%	21%	38%	36%	23%	21%
Total number of audits	38	37	95	94	29	29	23	23	261	253	35	34	55	53	536	523
Findings on reporting on predetermined objectives (PDOs) only	1	0	0	1	1	0	0	0	10	8	0	1	0	2	12	12
Findings on compliance with laws and regulations only	15	8	34	30	9	10	7	6	83	69	18	13	19	8	185	144
Findings on both PDOs and compliance	19	26	57	56	10	8	10	10	80	89	11	20	3	9	190	218
Total number of audits "with findings"	35	34	91	87	20	18	17	16	173	166	29	34	22	19	387	374

* Leading departments comprise of legislatures, Offices of the Premiers and provincial treasuries

Legend: ↑ Significant improvement ↓ Significant regression

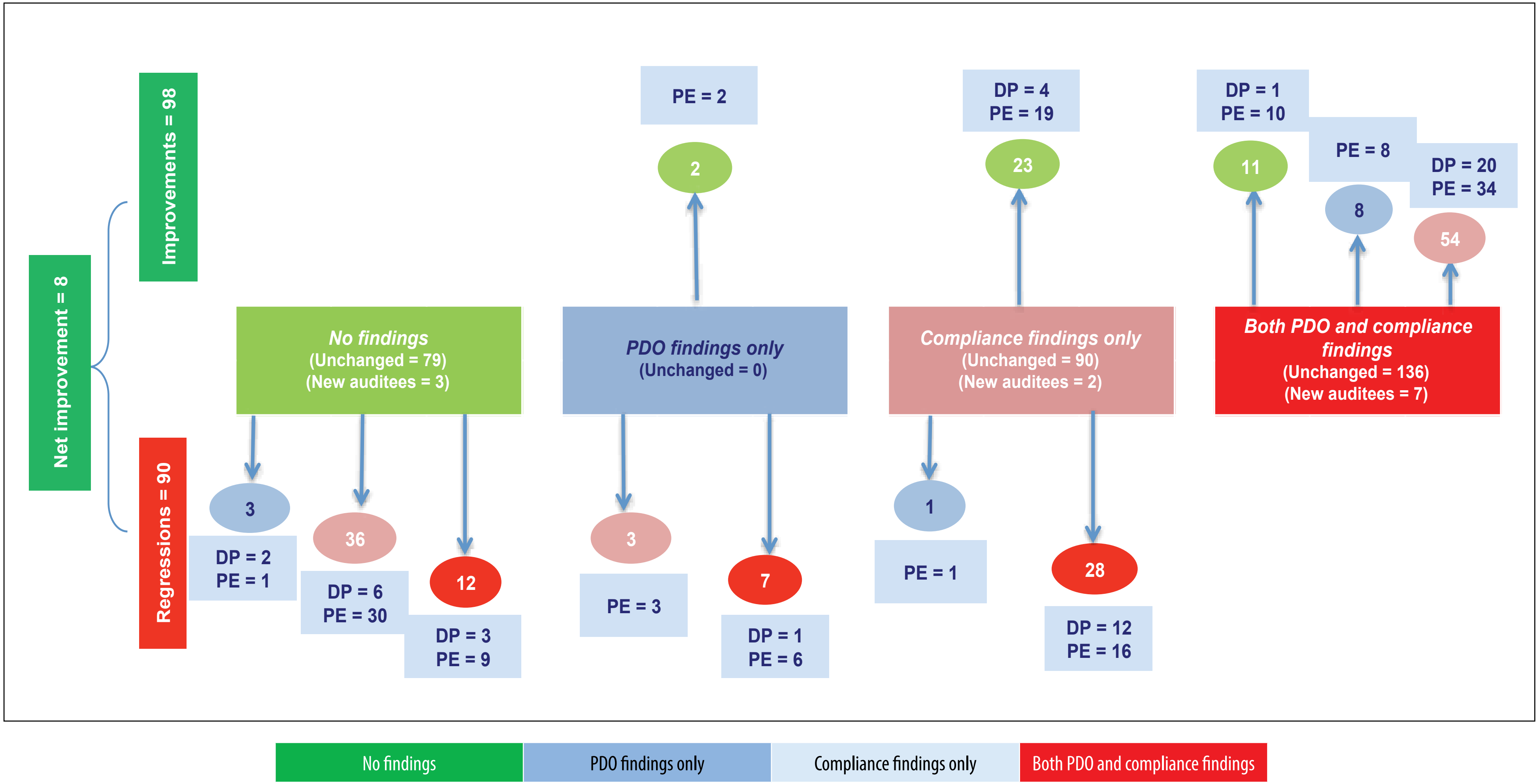
The previous table shows the net change in audit outcomes from the previous year while the following figure highlights the detail of improvements and regressions of departments **(DP)** and public entities **(PE)** that caused the net change.

Figure 1: Improvements and regressions in audit opinions



It is apparent from the previous table shows the net change in audit outcomes from the previous year while the following figure highlights the detail of improvements and regressions of departments **(DP)** and public entities **(PE)** that caused the net change.

Figure 2: Improvements and regressions in findings on predetermined objectives and compliance with laws and regulations on findings



The following observations are made on the overall audit outcomes and the improvements and regressions since the previous year:

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Overall audit outcomes	The **overall audit outcomes** for national and provincial government regressed as 62 (12%) auditees (17 departments and 45 public entities) improved, but 80 (16%) auditees (25 departments and 55 public entities) regressed.			
Progression to clean audit opinion	The **improvements in overall audit outcomes** include those of the following 36 (7%) auditees that progressed to a clean audit outcome by addressing the PDO weaknesses and/or findings on compliance reported in the prior year: • Five departments - *Public Service Commission, the Free State Legislature, Mpumalanga Premier's office, the Western Cape Environmental Affairs and Development Planning and the Western Cape Provincial Treasury.* • Thirty-one public entities, including 16 national public entities and 15 provincial public entities, the majority in the Western Cape and Gauteng.			
Sustained clean audit opinions	Seventy-eight (16%) of the auditees were able **to sustain their clean audit** status of the prior year. These include the provincial ***treasuries*** of the Free State, Kwazulu-Natal and Mpumalanga, *the Free State Premier's office, the Western Cape Legislature and the Department of Public Enterprises.* Public entities that sustained their clean audit status include the *South African Revenue Service, the Unemployment Insurance Fund, the Land Bank and the Independent Regulatory Board for Auditors,* as well as 15 smaller funds, boards and trusts.			
Regressions from clean audit opinions	The 52 auditees that **regressed from clean audits** are made up as follows: • *The Mpumalanga Legislature, the Wholesale and Retail SETA* and *Great North Transport* regressed from a clean audit to a qualified audit opinion. • The *Gauteng and KwaZulu-Natal Premier's offices* and the provincial *legislatures of Eastern Cape, Gauteng and KwaZulu-Natal* retained financially unqualified opinions on financial statements but regressed on material findings on PDO and/or compliance. • Five provincial departments regressed due to material findings on compliance and one national department due to material PDO findings. • Thirty-eight public entities, which include nine provincial public entities (five in Gauteng), two major public entities/government enterprises, 21 national public entities and six smaller funds and trusts.			
Adverse opinions	The *National Arts Council* was able to improve from an **adverse opinion** with findings on PDO and compliance in the previous year to a qualified opinion with findings on compliance, while the *Road Traffic Management Corporation* improved to a financially unqualified opinion with findings on PDO and compliance. The *Mpumalanga Economic Growth Agency* showed no improvement, moving from an adverse to a disclaimer of opinion. The *KZN Housing Fund and the Northern Cape Fleet Management Trading Entity* have adverse opinions in the current year, moving from a qualified and disclaimer of opinion, respectively.			

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Disclaimer of opinions	The financial statements of the national department of *Public Works*, Eastern Cape department of Education, provincial departments of *Health (Limpopo and Northern Cape)* and the North West department of *Public Works, Roads and Transport* were again **disclaimed**. *The Property Management Trading Entity*, which since 2011-12 falls under the national department of *Public Works*, also remained disclaimed along with the *Free State Development Cooperation*, the *Limpopo Tourism and Parks Board* and the *North West Golden Leopards Resorts*. The Limpopo departments of Education and Public Works regressed from a qualified opinion to a disclaimer. The public entities that regressed to disclaimers were the *Local Government SETA* (from an unqualified opinion), the *SA Heritage Resources Agency* and the *Mafikeng Industrial Development Zone*.			
Regressions to qualified audit opinions	There has been a net increase of five in the number of financial statements that received financially **qualified opinions**, with 25 regressions and only 21 improvements. Of the auditees that regressed, 92% were financially unqualified in the previous year with material findings on PDO and/or compliance. Included in the 12 departments that failed to retain their financially unqualified opinions are *Home Affairs, Statistics SA*, the *legislatures of Northern Cape* and *Mpumalanga, Eastern Cape* and *Northern Cape* departments of *Roads* and *Public Works*, Free State department of *Human Settlements* and the Western Cape department of *Education*. The main financial statement areas that were materially misstated and therefore qualified are non-current assets, other disclosure items and liabilities. Included in the 13 public entities that regressed to qualified audit opinions are the *Safety and Security SETA*, the *Deeds Registration Trading Account* and the *Gateway Airport Authority* in Limpopo.			
Movement towards unqualified audit opinions	Twelve departments and nine public entities were able to improve their financial statements and obtained on financially unqualified opinion with material findings on PDO and/or compliance. The most noteworthy among those with qualified opinions for at least two prior years are the Free State departments of Education and Cooperative Governance and Traditional Affairs, the national departments of Defence and of Social Development, KwaZulu-Natal's Public Works, Limpopo's Social Development and the Eastern Cape department of Economic Development and Environmental Affairs.			
Unchanged qualified audit opinions for past 3 years	The following 26 departments failed to obtain financially unqualified audit reports for the past three years: The national departments of *Correctional Services, Water Affairs, Justice and Constitutional Development*, *Public Works and Rural Development and Land Reform.* • The *Health* department of the Free State, Eastern Cape, KwaZulu-Natal and Mpumalanga, Limpopo and Northern Cape. • The *Education* departments in the Northern Cape, North West, Eastern Cape and Limpopo. • The departments of *Human Settlements* in the Eastern Cape and North West and the Free State, North West and Limpopo departments of *Public Works.* • Four departments in the North West province (including the *Premier's office)* and one each in the Free State and Northern Cape. Recurrent financial statement qualification areas include non-current assets, current assets and other disclosure items.			

<table>
<tr><th>Indicator</th><th>Key outcomes and trends</th><th>Good outcomes/trends</th><th>Stagnant or little progress</th><th>Poor outcomes/trends</th></tr>
<tr><td>Financial unqualified with findings – stagnation</td><td colspan="4">Two hundred and twenty-one (44%) auditees remained financially unqualified with material findings on PDO and/or compliance. Included are 13 leading departments, 21 national departments, 43 provincial departments (mostly in Gauteng, KwaZulu-Natal, Mpumalanga and the Western Cape) and 144 public entities.

One hondred and forty (27%) of these auditees have not been able to progress to clean audits for the past three years, failing to avoid material findings on PDO and/or compliance.</td></tr>
<tr><td>Overall outcomes on PDO and compliance</td><td colspan="4">Ninety-eight (19%) auditees improved their overall outcomes regarding PDO and compliance findings but only 36 were able to move to a clean audit opinion. Ninety (18%) auditees regressed – 52 of them with no material PDO and compliance findings in the previous year.</td></tr>
<tr><td>Outcomes on PDO – limited improvement</td><td colspan="4">Seventy (14%) auditees improved since the prior year to having no material findings on PDO while 44 (9%) regressed. Included in this group of auditees are the following:

The provincial treasuries of North West and Eastern Cape, the Free State legislature and the Limpopo Premier's office addressed their prior year findings. The following leading departments had material findings on PDO for the first time: the provincial treasuries of Gauteng, Northern Cape and Limpopo; the Gauteng and KwaZulu-Natal Premier's offices and the legislatures of KwaZulu-Natal and Eastern Cape.

• Two national departments regressed and eight (including Justice and Constitutional Development, Public Service and Administration and Transport) addressed their prior year findings.
• Thirteen provincial departments improved (two each in Gauteng and Mpumalanga and three in Limpopo) and 16 regressed (including four in KwaZulu-Natal, three in the Northern Cape and two each in Gauteng, Mpumalanga and North West).
• The public entities that improved included the Compensation Fund, Independent Electoral Commission, SA Social Security Agency, South African Human Rights Commission and the Public Protector. Those that regressed included three SETAs.

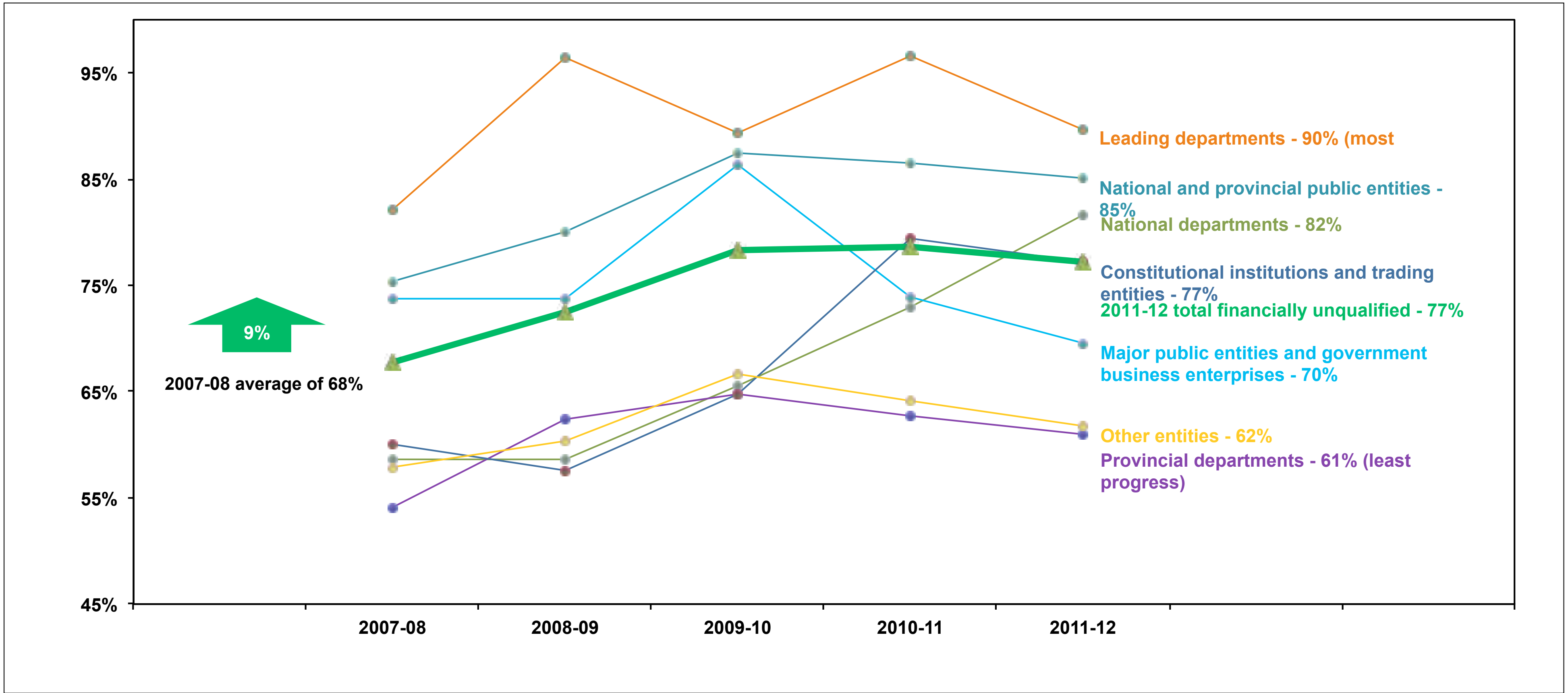
One hundred and fifty-one (30%) auditees did not address their prior year findings on PDO – 117 (23%) auditees also had findings on PDO in the preceding two years, among others the North West and Northern Cape legislatures, the North West Premier's office, the national departments of Correctional Services, Home Affairs, Labour, Public Works, Police, Water Affairs, Health, Human Settlements and Cooperative Governance and Traditional Affairs, five provincial departments of Education, seven provincial departments of Health, six provincial departments of Human Settlements, six provincial departments of Public Works and 56 public entities.</td></tr>
</table>

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Continued regressions in compliance with laws and regulations	Only 44 auditees addressed their prior year findings on compliance (including three leading departments). Sixty-seven (13%) auditees regressed (11% of which are public entities). Regression occurred in compliance-related material misstatements in financial statements submitted for audit, HR management, asset and liability management and revenue management. The 87 (17%) auditees that were able to maintain their status of no findings on compliance included only 12 departments [*three provincial treasures (Free State, KwaZulu-Natal and Mpumalanga)*], the *Premier's offices* in the *Free State* and *Gauteng* and the *legislatures of Mpumalanga* and *Western Cape*. Three hundred and eight (61%) auditees again attracted material findings on compliance, 99 (19%) of which had the same outcome (financially, unqualified with findings) in the prior two years. Among these are the *National Treasury, three provincial treasuries (Eastern Cape, Northern Cape and North West), the Premier's office (Western Cape)*, nine national departments, one provincial *Health* department and two of the provincial *Human Settlements* departments.			
Outstanding audits	Included in the eight auditees whose audits have not been finalised for two or more years due to non-submission of financial statements are all provincial public entities, two of which are in the Northern Cape and three in the North West province.			

2.1.2 Financially unqualified financial statements – five-year progress

Producing unqualified financial statements is an important milestone towards clean audits. The five-year progress of national and provincial government towards obtaining financially unqualified audit opinions on the financial statements of departments and public entities is depicted in the following figure at an overall level and per type of auditee.

Figure 3: Five-year progress towards financially unqualified financial statements

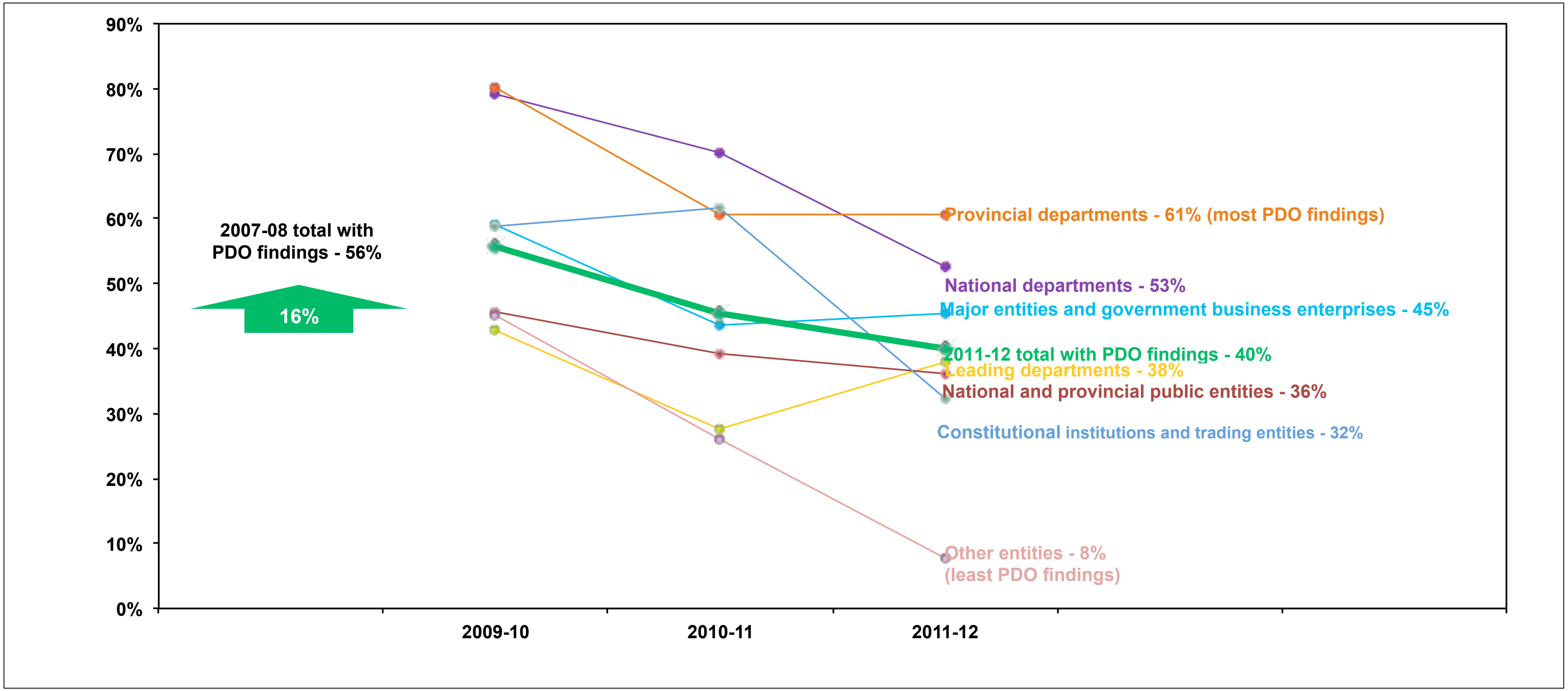


2.1.3 Useful and reliable reporting against predetermined objectives – three-year progress

In order to obtain clean audit opinions auditees should report annually on the achievement of their PDOs in a useful and reliable manner.

The three-year progress of national and provincial government towards meeting this requirement is depicted in the following figure at an overall level and per type of auditee, which indicates an overall reduction of 16% in PDO findings.

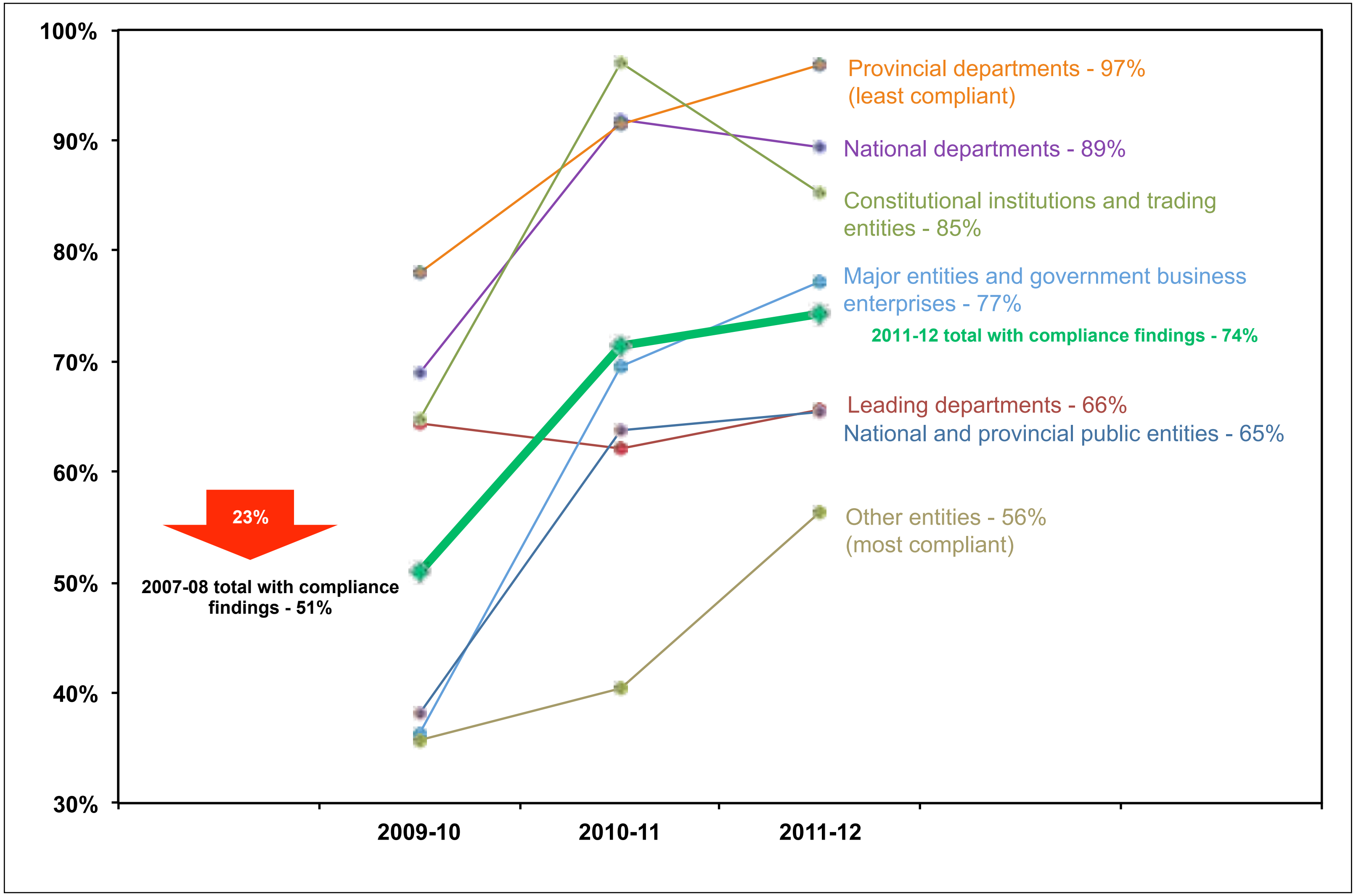
Figure 4: Three-year progress towards no findings on predetermined objectives



2.1.4 Compliance with key laws and regulations – three-year progress

The audit reports include outcomes of material findings on compliance, which need to be addressed in order to achieve a clean audit opinion. The three-year progress of national and provincial government towards compliance with the key legislation is depicted in the following figure at an overall level and per type of auditee, which indicates an overall regression of 23% in findings on compliance.

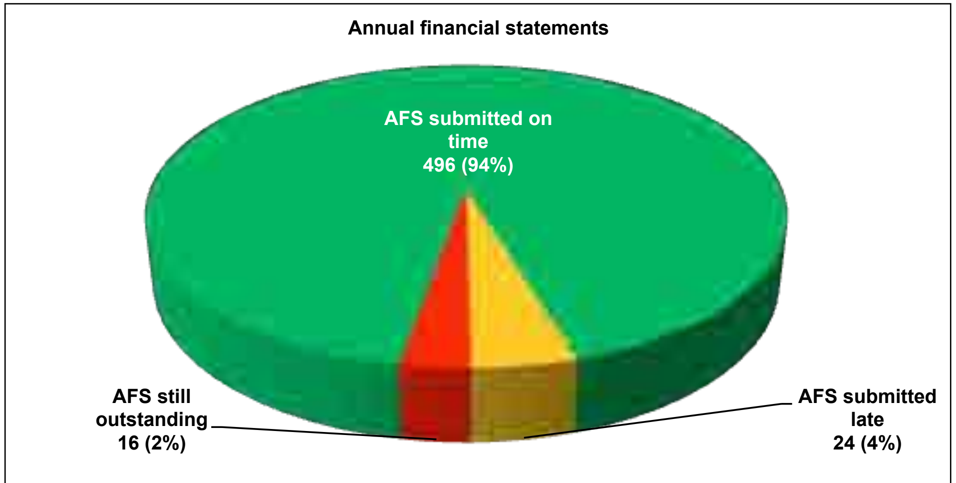
Figure 5: Three-year progress towards no findings on compliance



2.1.5 Status and outcomes of audits not finalised by 15 October 2012

Timely completion of audits within the legislated timelines is primarily influenced by the date on which the AGSA receives the auditees' financial statements for audit and the efficiency with which the audits proceed until completed. The figure below indicates that a total of 40 (6%) auditees were unable to submit financial statements for audit by 31 May 2012 as required by the PFMA.

Figure 6: Timeliness of submission of annual financial statements for audit



Included in the 40 auditees are seven national public entities, one provincial department and 32 provincial public entities. The audits of 12 of the auditees that submitted late were completed by 15 October 2012 and their outcomes are included in this general report.

Between 15 October 2012 and the date of this general report eight further audits were finalised. Their outcomes are not included in the analysis contained in this report.

The following table depicts the audit outcomes for the audits that were finalised between the 15 October 2012 general report cut-off date and the date of this report.

Table 2: Outcomes of audits finalised after 15 October 2012

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement from 2010-11 audit opinion
Public entities			
Agribank Creditors Settlement Trust	Financially unqualified with no findings	Financially unqualified with no findings	↔
Agribank	Financially unqualified with findings	Financially unqualified with findings	↔
Atteridgeville Bus Services	Financially unqualified with findings	Qualified	↑
KwaZulu-Natal Business Rehabilitation Trust Fund	Disclaimer	Disclaimer	↔
Mmabana Arts, Culture and Sport Foundation	Qualified	Qualified	↔
North West Star	Financially unqualified with findings	Qualified	↑
North West Transport Investments	Qualified	Qualified	↔
North West Youth Development Trust	Qualified	Financially unqualified with findings	↓

The following table depicts the reasons for the remaining audits being outstanding at the date of this report with an indication of the prior year audit outcomes.

Table 3: Prior year outcomes of audits outstanding at the date of this report

Auditee category	Reasons not finalised				Audit outcome of audit last finalised					
	Total	Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	Disclaimer/ Adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Audit outstanding	New auditee
Provincial departments	1	1								1
National public entities	6	4	1	1	2			1	3	
Provincial public entities	16	11	4	1	5	1	1		8	1
Total	23	16	5	2	7	1	1	1	11	2

2.1.6 Outcomes of audits not conducted by the AGSA

In terms of section 25(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the Auditor-General elected not to audit 135 public entities, which were permitted to appoint their own auditors in consultation with the AGSA.

These entities are the following:

- Seventy-three higher education institutions, consisting of 23 universities and 50 further education training colleges
- Sixteen major public entities, including Eskom, Denel, South African Airways, Telkom and the SABC
- Eight government business enterprises
- Nine water boards
- Thirty-five national and provincial public entities
- Three other entities (the DBSA – Development Fund, the Academy of Science of South Africa and La Mercy Property Investment) not subject to the PFMA.

The water boards have a June financial year-end which resulted in their audits not being finalised at the time of this report – they are therefore excluded from the analysis that follows.

Their audit outcomes are depicted in the following figures.

Figure 7: Summary of audit outcomes – audits not conducted by the AGSA

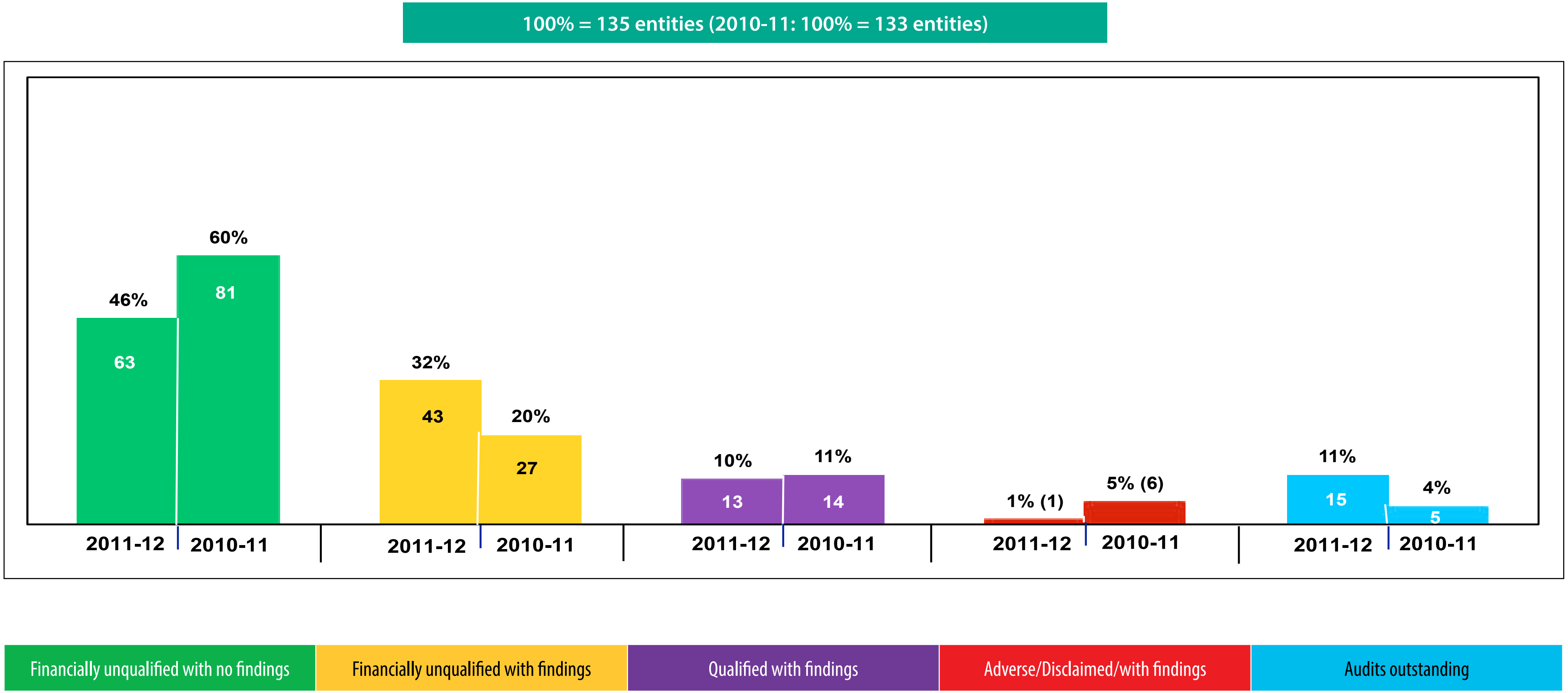
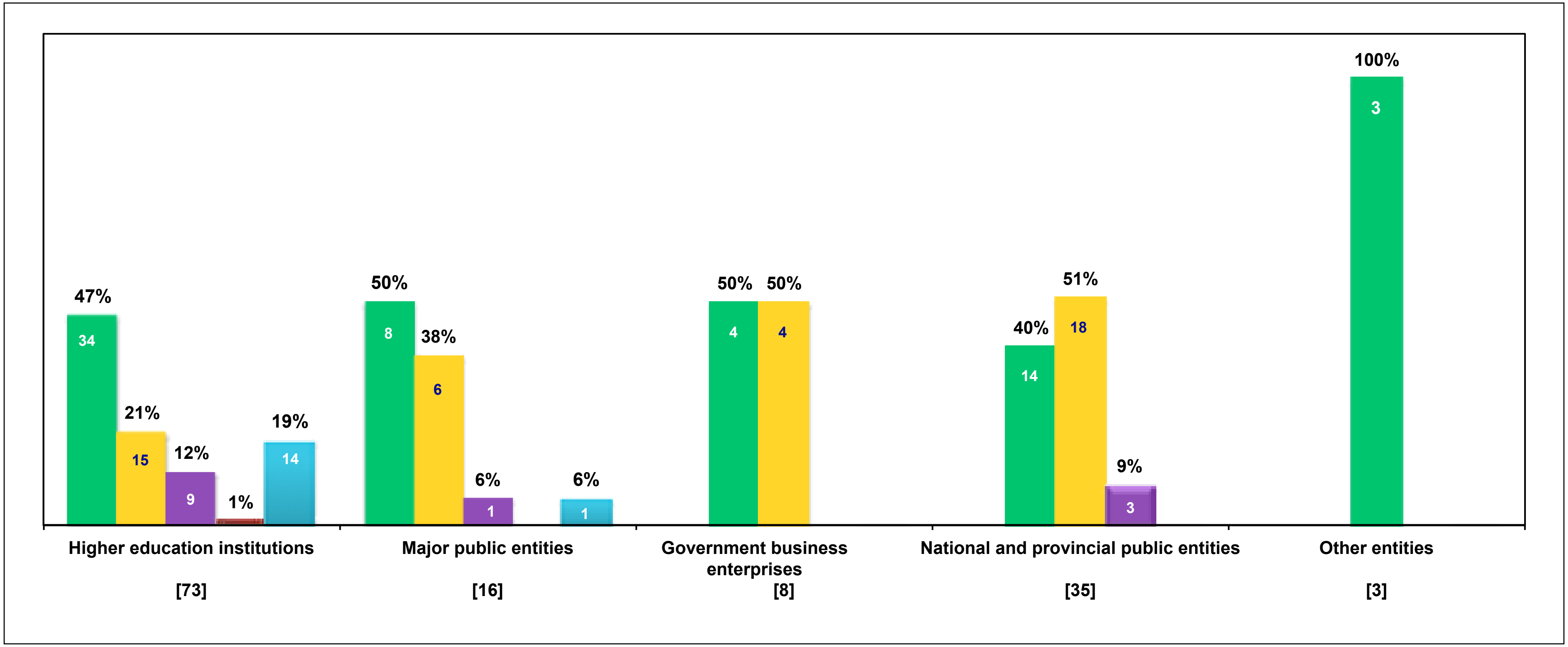


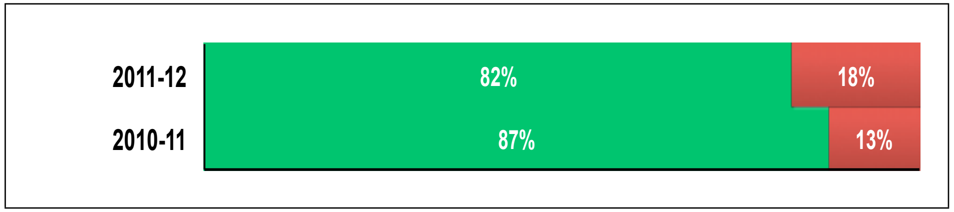
Figure 8: Summary of audit outcomes – per entity category of audits not conducted by the AGSA



Financially unqualified with no findings	Financially unqualified with findings	Qualified with findings	Adverse/Disclaimed/with findings	Audits outstandings

Depicted below is the number of entities (not audited by the AGSA) with material PDO and compliance findings reported on.

Figure 9: Findings on predetermined objectives – audits not conducted by the AGSA



Movement in number of entities with PDO findings

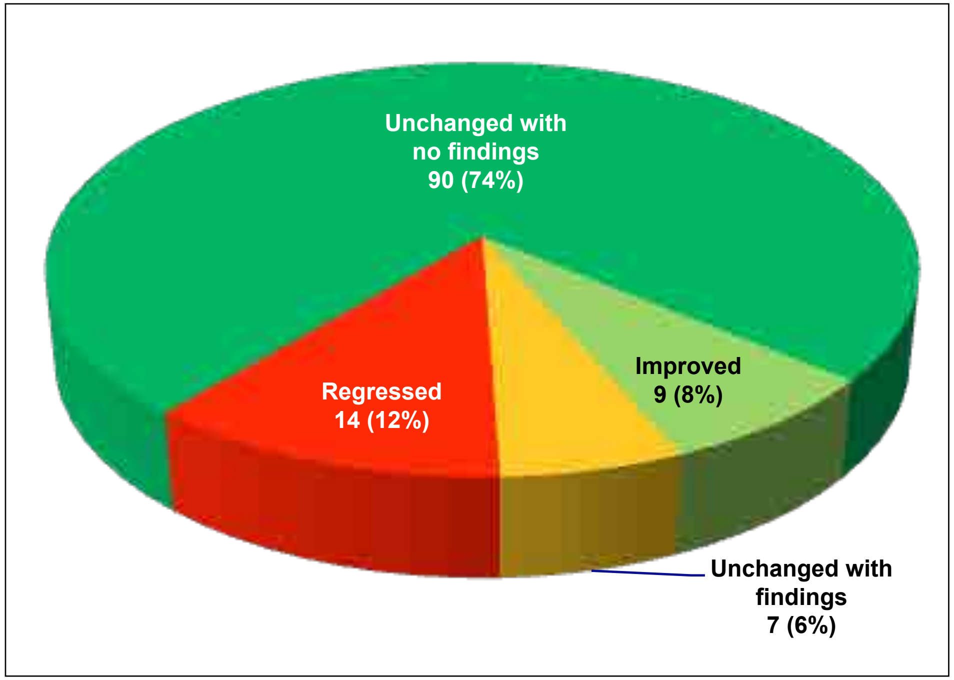
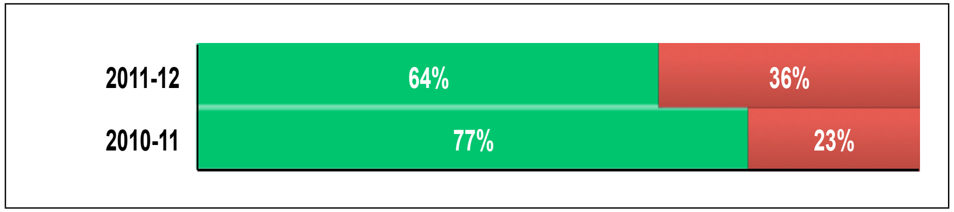
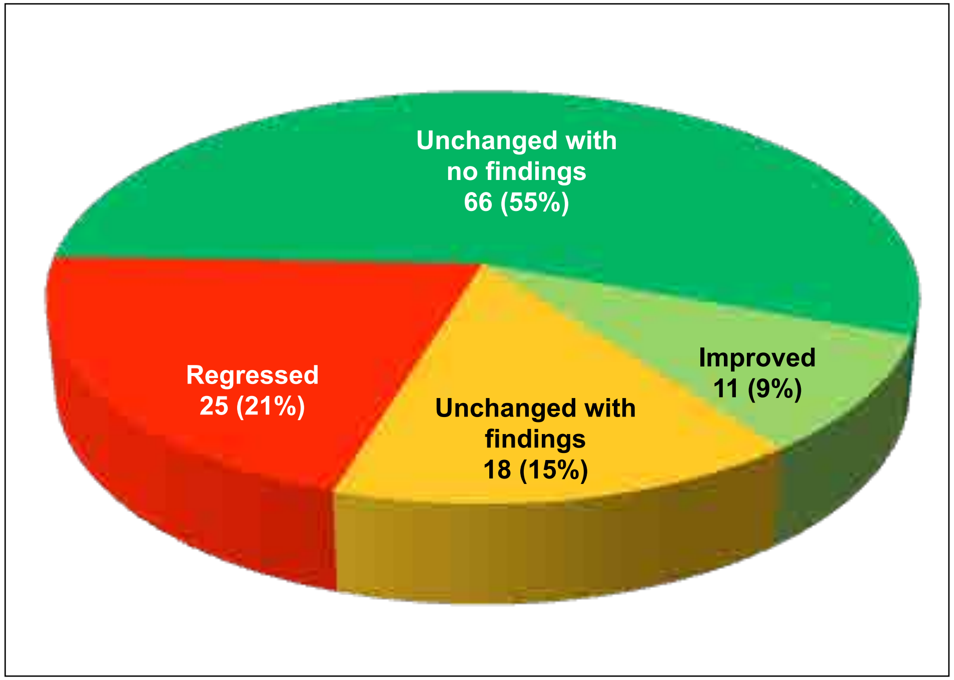


Figure 10: Findings on compliance – audits not conducted by the AGSA



Movement in number of entities with compliance findings

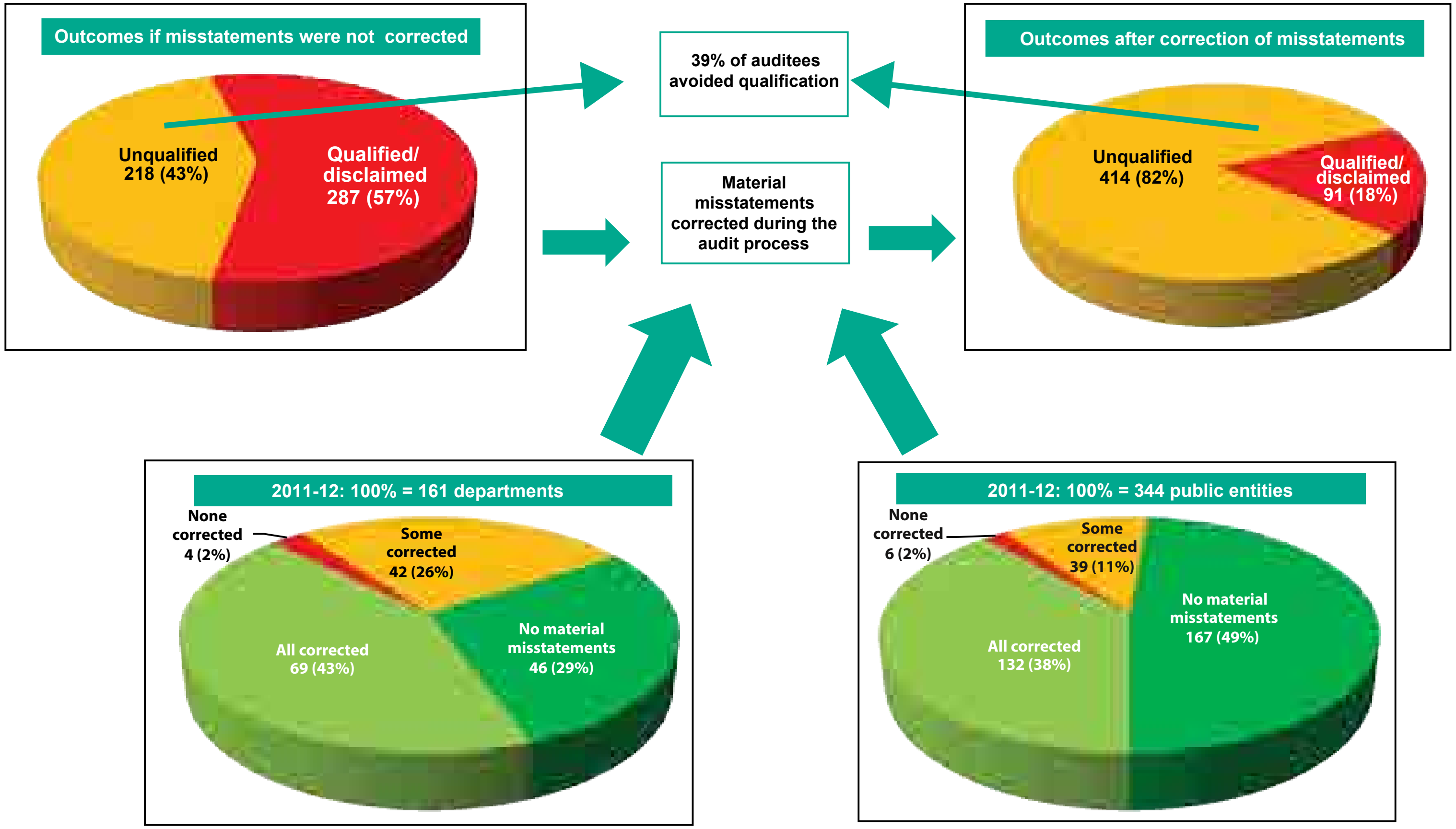


The following overall observations are made on the audit outcomes of entities not audited by the AGSA.

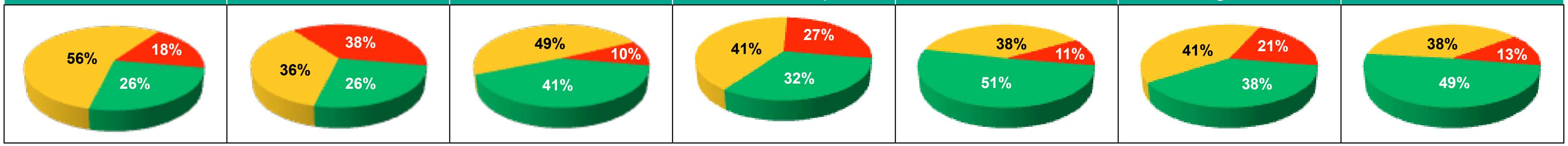
Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little improvement	Poor outcomes/ trends
	Nine entities improved to clean audit reports, which include two higher education institutions, two government business enterprise and five public entities.			
	A total of 23 entities regressed from a clean audit report: 17 to financially unqualified with findings, five to qualified and one to a disclaimer.			
	Fifty-two entities remained clean. These include 32 higher education institutions, eight major public entities, two government business enterprises, nine public entities and one other entity.			
	Twenty-one entities remained financially unqualified with findings for two years, without progressing to a clean audit report.			
	Six entities remained financially qualified. These include three higher education institutions, one major public entity and two public entities.			
	Of the completed audits, only one higher education institution was disclaimed in the 2011-12 financial year.			
	The entities have a lower rate of PDO findings than the AGSA auditees, mainly because the majority of entities not audited by the AGSA have no legislated requirements related to performance planning, monitoring and reporting.			
	Material findings on compliance are reported for these entities but generally also at a lower rate than for AGSA auditees. The reason for this is partly that less legislation is applicable, but also that the auditing and reporting of compliance are not an equally established practice for audits not conducted by the AGSA. However, as a result of the increased focus on compliance audits, a regression occurred in the audit outcomes in this area.			
	Fifteen audits (2010-11: five) are still outstanding. These include 14 higher education institutions, and one major public entity.			

2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

2.2.1 Material misstatements in financial statements (corrected and uncorrected)



National departments	Provincial departments	Leading departments	Major public entities and government business enterprises	National and provincial public entities	Constitutional institutions and trading entities	Other entities



Auditees with no material misstatements	Auditees that submitted financial statements for audit with material misstatements subsequently corrected	Auditees with uncorrected material misstated financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's operations (statement of financial results) and cash flows for the reporting period in accordance with the applicable accounting framework and the requirements of the applicable legislation.

The audit provides the users with assurance on the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not identify any material errors or omissions therein.

The quality of financial statements submitted for audit

The majority of auditees submitted financial statements for audit by the legislated deadline of 31 May 2012 but, as **depicted earlier**, only 213 (42%) [2010-11: 269 (53%)] auditees submitted financial statements with no material misstatements. One hundred and ninety-six (39%) [2010-11: 169 (33%)] auditees achieved a financially unqualified audit opinion because they corrected all the misstatements the AGSA identified during the audit.

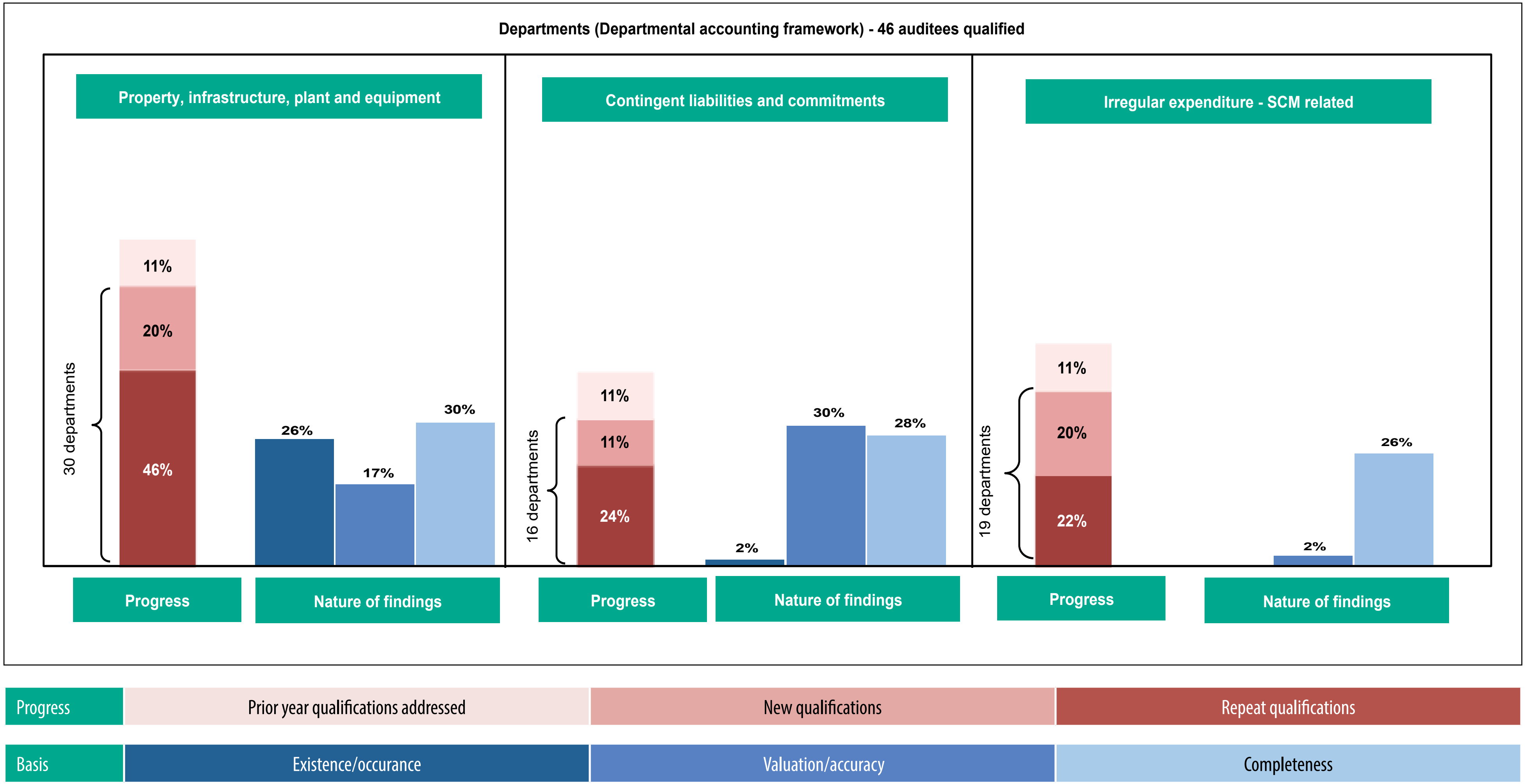
The inability to produce credible and reliable financial statements is evident across all types of auditees but is most prevalent at departments. The continued reliance on the auditors to identify corrections to be made to the financial statements in order to obtain an unqualified audit opinion is not a sustainable practice as it highlights the lack of adequate financial management disciplines. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Table 4: Financial statement area qualified (misstated)

Auditee type	Number of auditees qualified	Property, infrastructure, plant and equipment	Receivables	Payables, accruals and borrowings	Contingent liabilities and commitments	Other disclosures	Revenue	Expenditure	Irregular expenditure - Supply chain management	Fruitless and wasteful expenditure
National departments	**7**	4	1	2	1	3	1	2	2	1
Provincial departments	**36**	25	13	10	15	8	5	9	16	8
Leading departments	**3**	1	2	1		2		2	1	
Major public entities and government enterprises	**6**	3	4	4	3		4	4	3	2
National and provincial public entities	**27**	8	5	8	5	2	7	7	12	2
Constitutional institutions and trading entities	**7**	2	5	4	2		4	5	3	1
Other entities	**5**	3	4	1			3	1		
Total	**91**	**46**	**34**	**30**	**26**	**15**	**24**	**30**	**37**	**14**
Percentage qualified		**51%**	**37%**	**33%**	**29%**	**16%**	**26%**	**33%**	**41%**	**15%**

2.2.2 Financial statement qualification findings – departments

Figure 11: Progress on and nature of financial statement qualification findings - departments



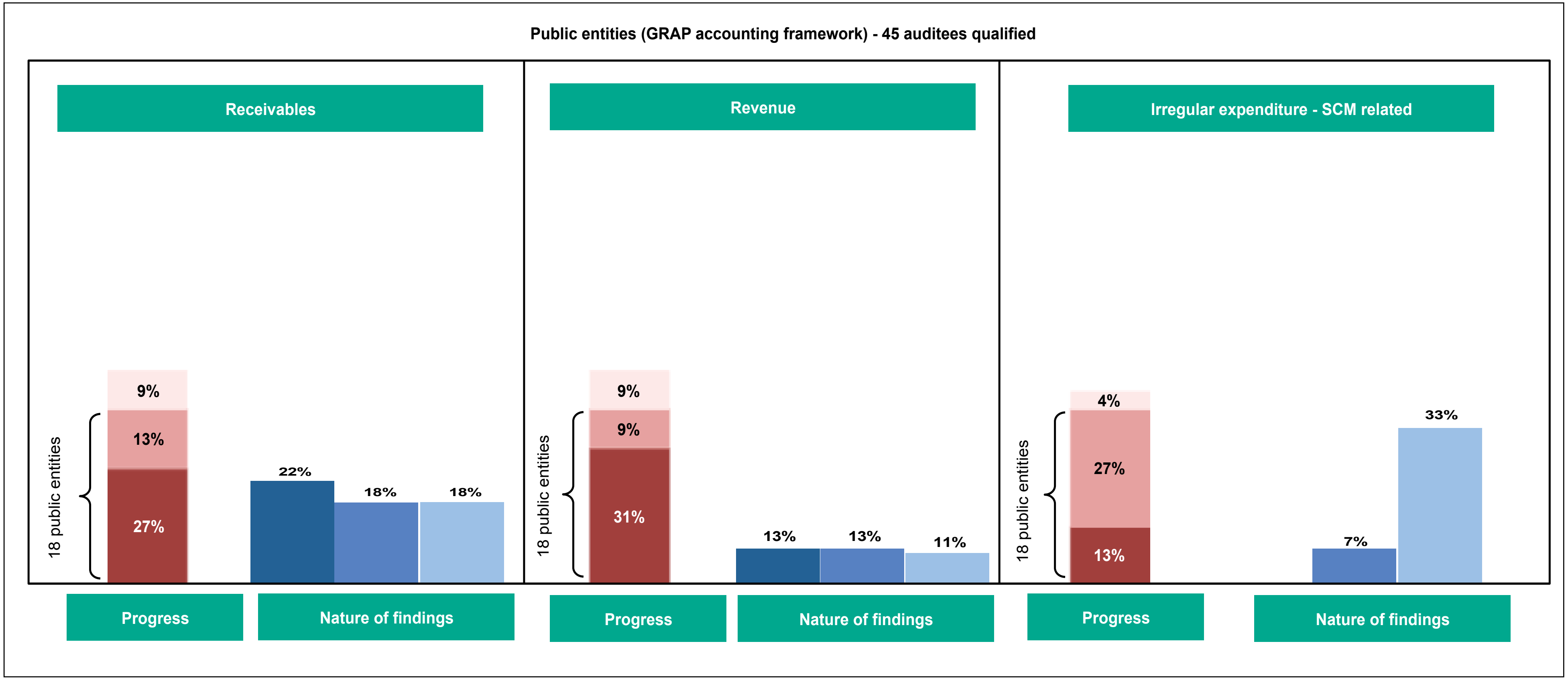
The three most common qualification areas for departments are **depicted earlier** with an indication of the progress made by auditees in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

Table 5: Common qualification areas

Qualification area	Basis for qualification	Reason for qualifications
Property, infrastructure, plant and equipment	***Completeness*** of the assets disclosed	• Asset register does not exist or is incomplete • Asset register not updated on timely basis • Asset register does not reconcile to the general ledger
	Valuation of the disclosed assets	• No/incorrect assessment of impairment • Cost cannot be determined
	Existence of the disclosed assets	• Assets not identifiable/cannot be physically verified for existence • Duplication of assets in the asset register
Contingent liabilities and commitments	***Completeness*** of items disclosed	• Inadequate systems and controls over disclosure items • Inadequate processes to identify and report items for disclosure in financial statement
	Valuation/accuracy of amounts disclosed	• Financial and other information has not been appropriately presented and described and disclosures are not clearly expressed • No supporting documents for commitments recorded
Irregular expenditure–SCM related	***Completeness*** of disclosure of the irregular expenditure resulting from non-compliance with legislation on supply chain management (SCM)	• Inadequate policies, procedures and controls in place to identify, detect and account for irregular expenditure • Procurement documentation not provided to test completeness
	Valuation - incurred expenditure disclosed at correct amounts	• Supporting evidence is inadequate or could not be provided

2.2.3 Financial statement qualification findings – public entities

Figure 12: Progress on and nature of financial statement qualification findings – public entities



Progress	Prior year qualifications addressed	New qualifications	Repeat qualifications
Basis	Existence/occurance	Valuation/accuracy	Completeness

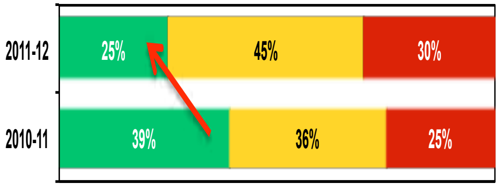
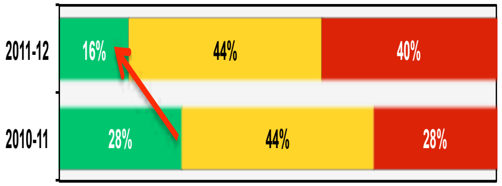
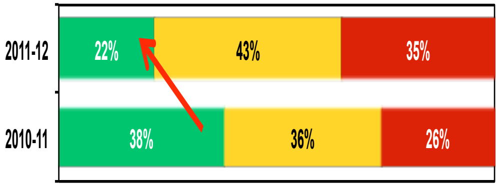
The three most common qualification areas for public entities are **depicted earlier** with an indication of progress made in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

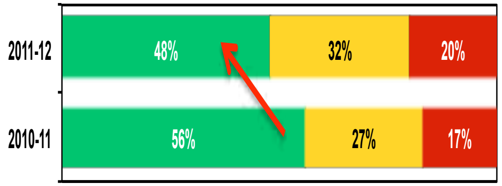
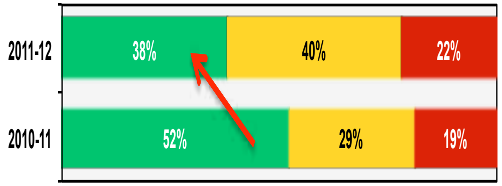
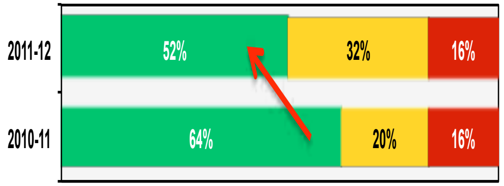
Table 6: Common qualification areas – public entities

Qualification area	Basis for qualification	Reason for qualifications
Receivables	***Completeness*** of debtors disclosed	Aged receivables list does not reconcile to the general ledger Not all revenue due to be collected, was billed Lack of adequate financial systems and controls to ensure that all receivables raised were recorded
	Valuation of the disclosed debtors	No interest is charged on long-outstanding debtors Policies and procedures for collection of receivables do not exist or are ineffective
Revenue	***Completeness*** of accounting for revenue received	Lack of adequate financial systems and controls to ensure that all revenue was recorded
	Occurrence - substantiating the disclosed revenue received	No/inadequate documentation to support recorded revenue
Irregular expenditure: SCM related	***Completeness*** of disclosure of the irregular expenditure resulting from non-compliance with legislation on supply chain management (SCM)	Inadequate policies, procedures and controls in place to identify, detect and account for irregular expenditure Procurement documentation not provided to test completeness
	Valuation - incurred expenditure included at correct amounts	Supporting evidence is inadequate or could not be provided

2.2.4 Root causes identified and best practice recommendations

Figure 13: Assessment of key drivers of internal control over financial reporting

Departments: Key drivers of internal control	Assessment and movement
Leadership - Exercise **oversight responsibility** regarding financial reporting and compliance and related internal controls	
Financial and performance management - Prepare regular, accurate and complete financial **reports** that are supported and evidenced by reliable information	
Financial and performance management - Review and monitor **compliance** with applicable laws and regulations relating to financial reporting	

Public entities: Key drivers of internal control	Assessment and movement
Leadership - Exercise **oversight responsibility** regarding financial reporting and compliance and related internal controls	
Financial and performance management - Prepare regular, accurate and complete financial **reports** that are supported and evidenced by reliable information	
Financial and performance management - Review and monitor **compliance** with applicable laws and regulations relating to financial reporting	

Good	Causing concerns	Intervention required	Regression

The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of internal control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this consolidated general report.

The figure indicates the significant deficiencies in internal control that require attention from leadership to improve the audit outcomes.

The table that follows summarises the identified root causes that gave rise to the assessment, the recommendations made by the AGSA in the prior year and the additional best practices recommended.

Table 7: Identified root causes and recommended way forward (good practices)

<table>
<tr><th>Aspect</th><th>Identified root causes and way forward</th></tr>
<tr><td rowspan="4">Leadership, monitoring and oversight</td><td>Root causes</td></tr>
<tr><td>• Inadequate implementation and monitoring of key controls, action plans and commitments by leadership to ensure that identified control deficiencies relating to financial reporting are addressed
• Findings and recommendations by internal audit relating to internal control over financial reporting are not always addressed, prioritised and monitored by management
• Input from audit committee reviews of financial statements is not always taken into account by management in the preparation of financial statements prior to submission for audit
• Lack of stability and ownership by political and administrative leadership to effectively manage and address financial, performance and governance challenges
• Initiatives to deliver on commitments have not yet proven to be effective, as not all areas were addressed
• Where action plans had been developed, these were not specifically addressing the root causes, were not time bound and were not executed with discipline. Actions were taken too late in the financial year to have a direct impact on the outcomes</td></tr>
<tr><td>Way forward: Prior year AGSA recommendations</td></tr>
<tr><td>• Leadership and management should actively drive the implementation of action plans to address audit findings
• A full verification of all assets should be conducted at least annually and the accounting records adjusted with the results thereof
• Internal auditors should validate the correctness of the financial statements
• Financial statements should be reviewed by the audit committee prior to submission to the external auditors
• Oversight structures need to intensify initiatives to institutionalise sound leadership principles, financial and performance management and governance to achieve clean audit outcomes</td></tr>
</table>

Aspect	Identified root causes and way forward
	Way forward: Additional/new best practices
	Leadership should accept accountability for ensuring credibility of information provided to them through the use and/or establishment of internal audit units • Findings and recommendations of internal audit should be effectively addressed by management • Audit committees, with the assistance of internal audit, should place greater focus on the financial statement preparation process to ensure credible financial statements are submitted for audit • Leadership should satisfy themselves that findings raised in the audit reports receive timely and sufficient attention and that specific target dates are set for their achievement
Credibility of information	**Root causes**
	• Compliance with legislation governing financial reporting is not adequately monitored • Adequate controls over daily and monthly processing and reconciling of transactions were not implemented • Inadequate processes to ensure that financial information is obtained from regional or provincial offices and collated and verified in the bigger decentralised departments, which resulted in a number of qualifications
	Way forward: Prior year AGSA recommendations
	• Perform monthly general ledger reconciliations
	Way forward: Additional/new best practices
	• In preparing quarterly financial statements (inclusive of disclosure notes) for audit committee review, management would allow for material errors to be identified in advance • Adequate controls over daily and monthly processing and reconciling of transactions to be implemented by all auditees • Basic accounting disciplines should become the norm
Human resource management	**Root causes**
	• Lack of consequences to address poor performance and transgressions • Capacity constraints and vacancies in key positions • Large number of vacancies and officials in acting positions, which limits accountability for actions taken or not taken • Lack of attention to basic accounting and internal controls by CFOs, although skilled in the area
	Way forward: Prior year AGSA recommendations
	• Appointment of suitably skilled personnel in critical positions
	Way forward: Additional/new best practices
	• Action plans to improve staff performance in relation to financial reporting must specify the desired outcomes, assign responsibilities and set specific target dates • Ongoing training on financial statement preparation due to changes in accounting standards • Policies and procedures should be implemented which reflect the required performance standards and hold individuals accountable for achieving them.

2.2.5 Outcomes of the audit of consolidated financial statements and revenue funds

The PFMA requires that the National Treasury prepare and publish consolidated annual financial statements in respect of: (i) national departments; (ii) public entities under the ownership control of the national executive; (iii) constitutional institutions; (iv) the South African Reserve Bank; (v) the Auditor-General; and (vi) Parliament, while provincial treasuries have to do so in respect of (i) provincial departments; (ii) public entities under the ownership control of the provincial executive; and (iii) the provincial legislature.

The consolidated financial statements provide information on financial performance as well as national government's ability to meet current and future obligations by presenting the consolidated monetary values of national government (assets, liabilities, revenue and expenditure) which serve as a summary of government's financial resources and their application for the benefit of the people of the Republic of South Africa.

Due to different accounting bases in use for departments and public entities, the treasuries decided that the most suitable interim solution would be to prepare separate consolidations for these two groupings. The public entities consolidation includes trading entities and unlisted public entities, but excludes the water boards, as they have a different year-end, as well as the State Security Agency.

The 2011-12 and prior year audit outcomes of national departments and public entities are depicted next .

Table 8: Audit opinions on the consolidated financial statements of national department and national public entities

	National consolidation								
	Departments						Public entities		
	2011-12			2010-11			2011-12		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
National	Qualified	1. No evidence that inter-entity transactions and balances have been eliminated - This affects all classes of transactions and balances	1. Immovable tangible capital assets 2. Irregular expenditure	Qualified	1. No evidence that inter-entity transactions and balances have been eliminated - This affects all classes of transactions and balances	1. Immovable tangible capital assets 2. Movable tangible capital assets 3. Contingent liabilities 4. Fruitless and wasteful expenditure 5. Aggregation of immaterial uncorrected misstatements	Disclaimer	1. Financial reporting framework used not disclosed 2. No evidence could be obtained that accounting framework applied by individual entities was adjusted to Generally Recognised Accounting Practice (GRAP) 3. The consistency of application of accounting policies used in preparation of consolidated financial statements could not be verified 4. Sufficient appropriate evidence could not be obtained that inter-entity transactions and balances were eliminated	1. Trade and other receivables 2. Property, plant and equipment 3. Revenue 4. Operating lease commitments 5. Aggregation of immaterial uncorrected misstatements 6. Irregular expenditure

The audit of the public entities consolidation for 2010-11 was performed based on agreed-upon procedures and consequently no outcomes are presented for that year in this general report.

The legislated date for submission of the consolidated financial statements to the legislature is 31 October. The table below contains the audit outcomes for those provinces where this process had been completed by 31 October 2012.

Table 9: Audit opinions on the consolidated financial statements of national department and national public entities

	Consolidation of provincial financial statements					
	Departments			Public entities		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
Eastern Cape	Disclaimer	1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed	1. Noncurrent assets 2. Current assets 3. Liabilities 4. Other disclosure items 5. Revenue 6. Expenditure 7. Unauthorised, irregular as well as fruitless and wasteful expenditure	Qualified	1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed	1. Revenue 2. Expenditure
Free State	Qualified	1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed	1. Noncurrent assets 2. Current assets 3. Liabilities 4. Other disclosure items 5. Revenue 6. Expenditure 7. Unauthorised, irregular as well as fruitless and wasteful expenditure	Disclaimer	1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed	1. Non-current assets 2. Liabilities 3. Current assets 4. Other disclosure items 5. Revenue 6. Unauthorised, irregular as well as fruitless and wasteful expenditure

	Consolidation of provincial financial statements					
	Departments			Public entities		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
KwaZulu-Natal	Qualified	1. Late submission of financial statements for audit 2. Consolidated fincial statements do not incorporate both departments and public entities	1. Tangible immovable assets 2. Irregular expenditure 3. Classification of conditional grant expenditure 4. Existence and valuation of employee benefits	Unqualified	None	None
Mpumalanga	Unqualified	None	None	Disclaimer	1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed	1. Biological assets 2. Investment property 3. Investment property 4. Property, plant and equipment 5. Other financial assets 6. Trade and other receivables 7. Non-current assets held for transfer 8. Trade and other payables 9. Provisions 10. Operating expenses 11. Revenue

The provincial consolidated financial statements of departments and public entities were only subject to an agreed-upon procedures engagement in prior years and thus no outcomes are presented for the 2010-11 financial year.

The audits of the consolidated departmental and public entity financial statements of Gauteng, North West, Northern Cape and Western Cape have not been completed for the 2011-12 financial year. The consolidated financial statements for Limpopo had not been submitted for the 2011-12 and 2010-11 financial years.

Root causes of qualified, disclaimed consolidated financial statements

The root cause of the findings on the consolidation is that sufficient group-wide controls were not implemented to ensure that the consolidation process addresses the requirements for consolidations concerning the elimination of inter-entity balances and transactions and, in the case of the consolidation of the public entities, the added requirement of ensuring that all entities consolidated have prepared their financial statements using the same accounting policies as those disclosed in the consolidated financial statements.

These issues, as well as the uncorrected misstatements in the individual department or public entity's financial statements which are material to the consolidated financial statements, impact the audit outcomes of the consolidated financial statements.

Audit opinion on the financial statements at revenue funds

In terms of the Treasury Regulations, financial statements have to be prepared for the national and provincial revenue funds. There is no legislated date for this, however, as they are included in the consolidated financial statements for departments and the legislated date for the submission of these financial statements for audit is 30 June, which can be assumed as being the deadline for their submission to the AGSA. There is no legislated requirement for these financial statements and the audit reports thereon to be submitted to the legislature and in most instances they are not.

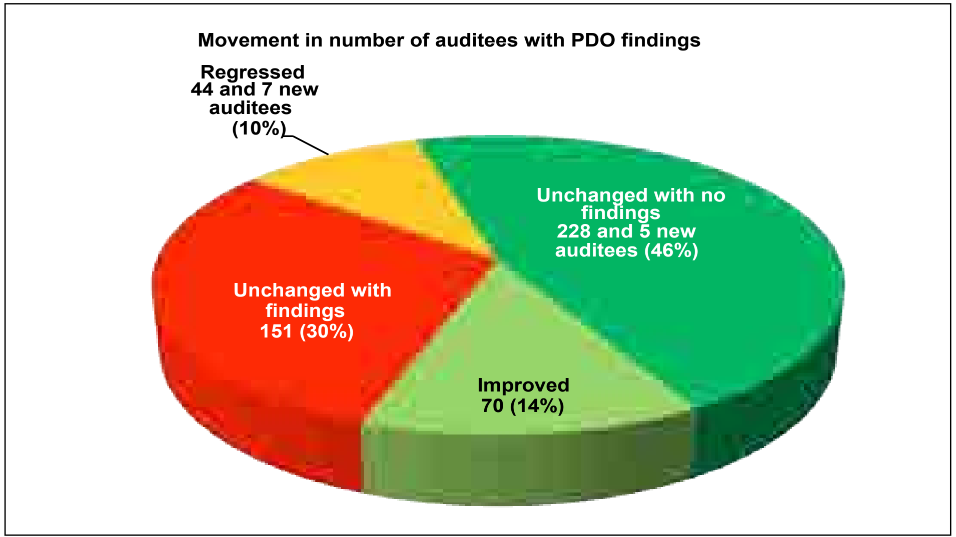
As at 31 October 2012, the following revenue funds were financially unqualified: National, Eastern Cape, Free State, Gauteng, Mpumalanga and Western Cape. The audit of the KwaZulu-Natal revenue fund was finalised in February 2013 and the financial statements were financially unqualified with no findings. The audit of the Northern Cape revenue fund had not been completed at the date of this report. The financial statements of the Limpopo and North West revenue funds for the 2011-12 financial year have not yet been received. The 2010-11 financial statements of the Limpopo revenue fund had not been received at the date of this report.

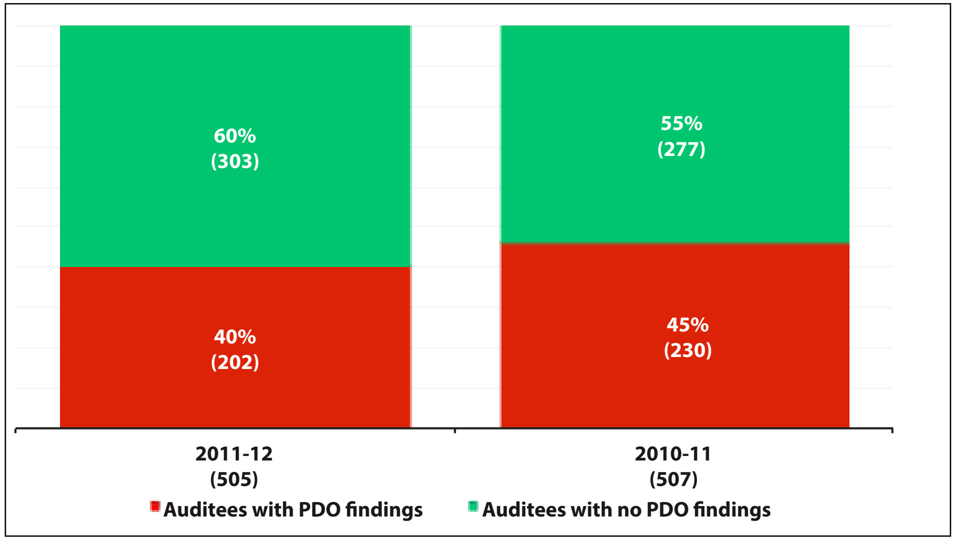
Commitments from National Treasury

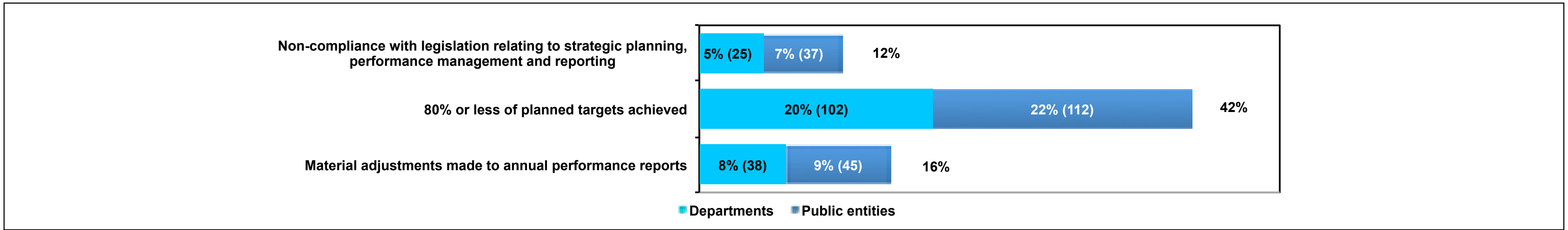
The National Treasury undertook to attend to the requirements of the consolidation process and to reconsider the accounting framework for the revenue funds to consistently and reliably account for state debt at national level.

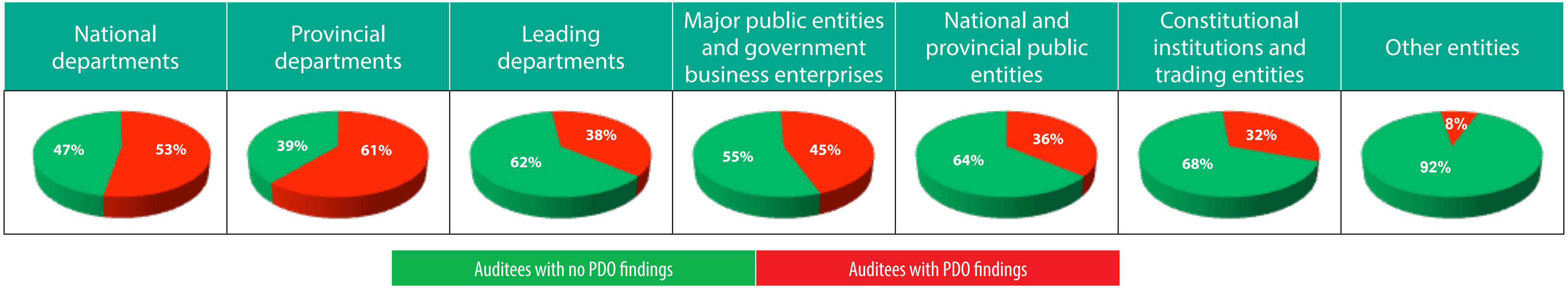
2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

2.3.1 Overall outcomes from the audit of reporting on predetermined objectives









The Public Audit Act (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. Not all public entities are subject to this requirement.

As depicted in the figure are the overall audit outcomes which show an overall improvement in the number of auditees that had no PDO findings. Reporting of PDOs remains a challenge for departments and mostly also for provincial departments. Notable findings arising from the audits are presented below.

Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/ trends
	There have been significant increases in the number of auditees without PDO findings for national departments (from 13 to 19), constitutional institutions and trading entities (from 13 to 23) and other entities (from 36 to 31).			
	Only 10 auditees did not prepare annual performance reports.			
	Sixty-two (12%) auditees had material findings on non-compliance with legislation relating to strategic planning, performance management and reporting. The most prevalent of these findings relate to lack of effective, efficient and transparent systems of internal control regarding reporting on PDOs.			
	It was reported in the audit reports of 214 (42%) auditees that 80% or fewer planned targets were fully achieved as disclosed in their annual performance reports. "Fully achieved" refers to the planned target being 100% achieved.			
	The 44 auditees that regressed included one national department, seven leading departments, nine provincial departments, 14 national public entities and 13 provincial public entities. The number of leading departments with no PDO findings decreased overall from 21 to 18, with four improvements and seven regressions. Three provincial treasuries, two offices of the Premier and two provincial legislatures attracted PDO findings.			
	A total of 83 (16%) auditees submitted annual performance reports that contained material misstatements in one or more areas. Forty-one (8%) auditees were able to avoid findings on the presentation and reliability of the reports because they corrected all misstatements identified as a result of the audit. Reliance on auditors to identify corrections to be made to the annual performance reports is a practice that should be discouraged.			

2.3.2 Findings on predetermined objectives

Figure 14: Progress on and nature of findings on predetermined objectives – departments

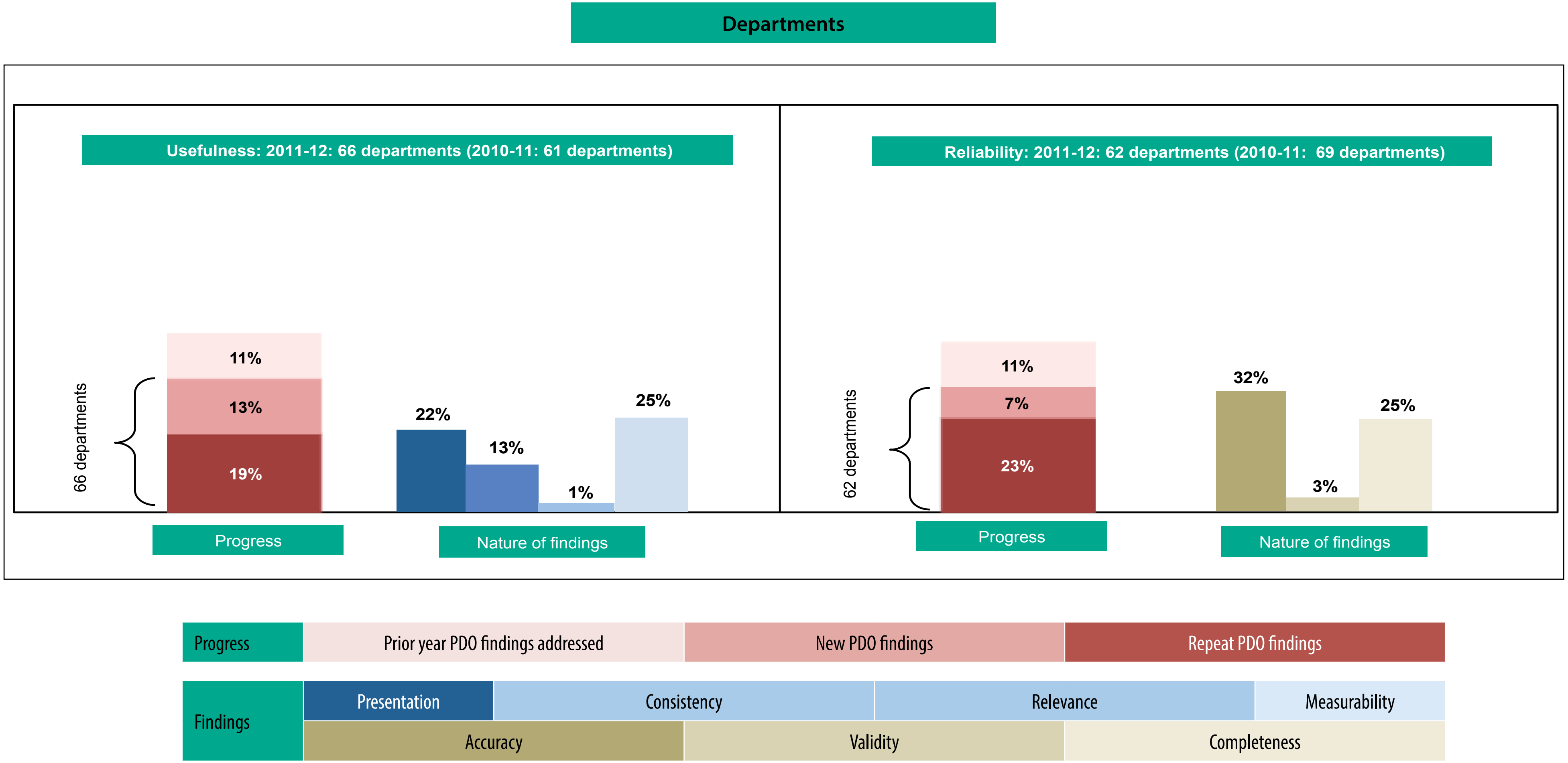
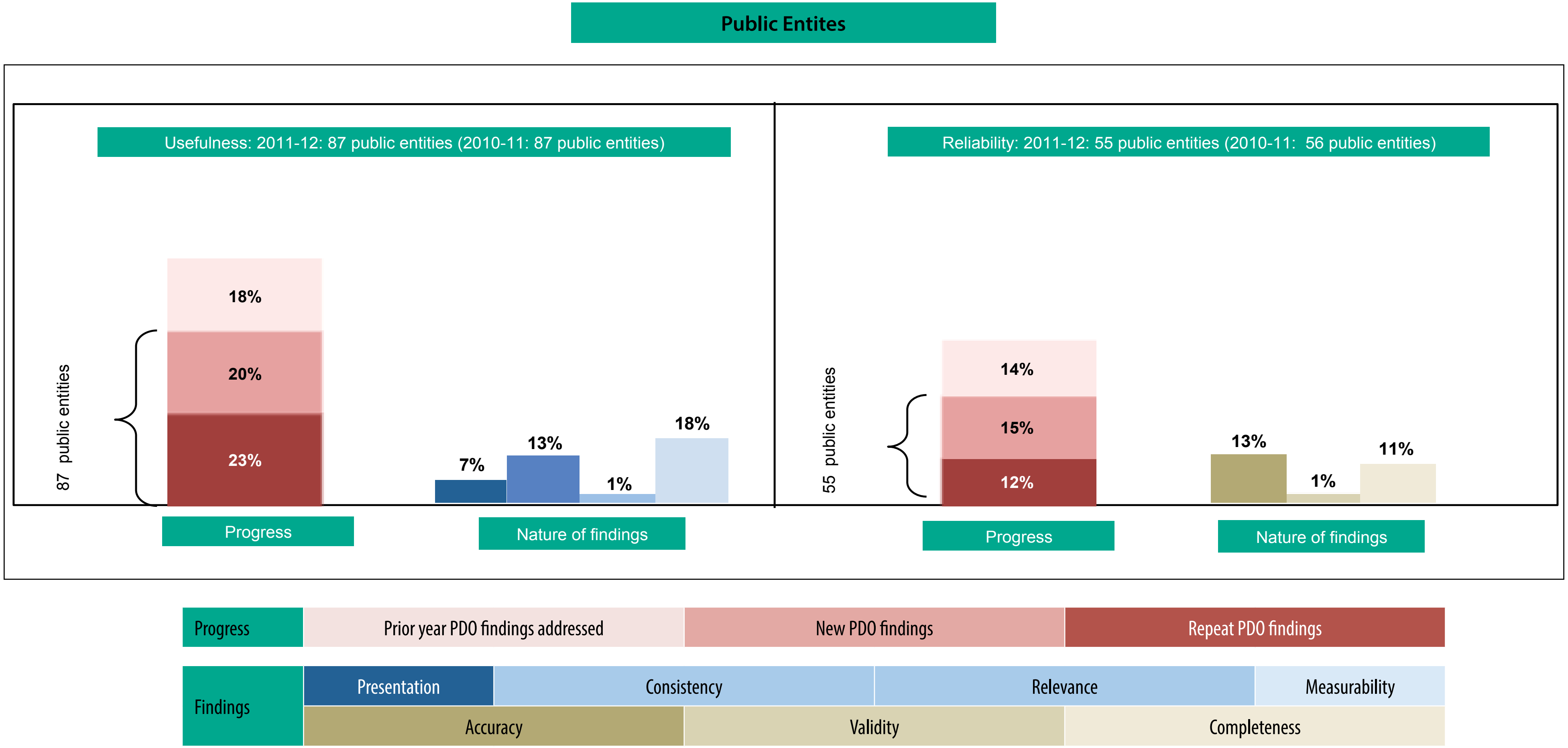


Figure 15: Progress on and nature of findings on predetermined objectives – public entities



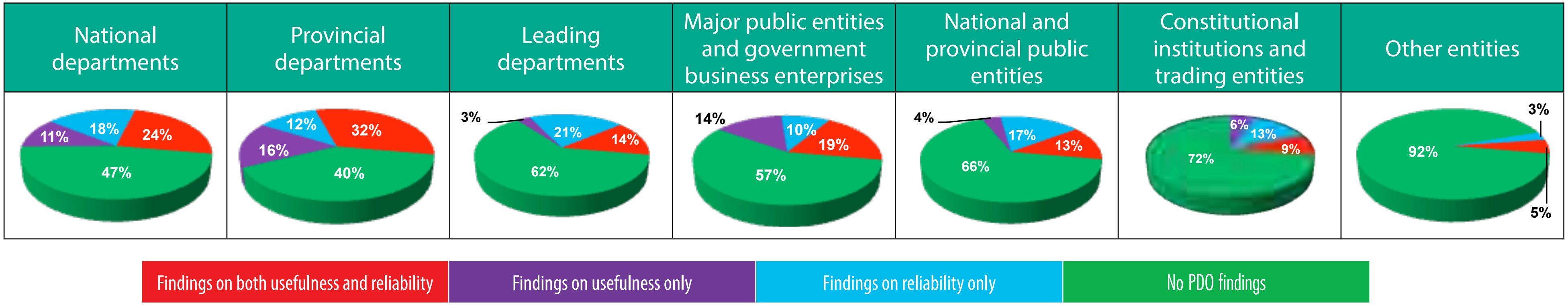
Progress made by auditees in addressing prior year findings and the nature of current year audit findings are **depicted in figure 15.**

The ***usefulness*** of reported information is measured against the criteria of presentation, consistency, measurability and relevance. The information contained in the performance reports of 153 (30%) [2010-11: 148 (29%)] auditees was not useful.

Findings on ***reliability*** relate to whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source data, evidence or documentation. The information contained in the performance reports of 117 (23%) [2010-11: 125 (25%)] auditees was not reliable.

The prevalence of findings at the different types of auditees and the most prevalent types of findings are depicted in the figure and table below.

Figure 16: Prevalence of findings on predetermined objectives



Category of PDO findings	Most prevalent types of findings
Reported information not useful	• The indicators/measures were not well defined to ensure that performance data will be collected consistently and be easy to understand and use • Changes to planned performance information were not approved • Performance targets were not specific and/or measurable to ensure that the required performance can be measured
Reported information not reliable	• Supporting information for reported performance information not complete • Reported performance information not accurate when compared to supporting information • Reported performance information not valid when compared to supporting information.

2.3.3 Root causes and best practice recommendations

Figure 17: Assessment of key drivers of internal control over predetermined objectives

Public entities: Key drivers of internal control	Assessment and movement
Leadership - Exercise **oversight responsibility** regarding performance reporting and compliance and related internal controls	2011-12: 29% / 38% / 33% 2010-11: 38% / 30% / 32%
Financial and performance management - Implement **proper record keeping** in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting	2011-12: 37% / 27% / 36% 2010-11: 39% / 27% / 34%
Financial and performance management - Prepare regular, accurate and complete performance **reports** that are supported and evidenced by reliable information	ite 2011-12: 27% / 34% / 39% 2010-11: 29% / 35% / 36%

Public entities: Key drivers of internal control	Assessment and movement
Leadership - Exercise **oversight responsibility** regarding performance reporting and compliance and related internal controls	2011-12: 46% / 32% / 22% 2010-11: 57% / 23% / 20%
Financial and performance management - Implement **proper record keeping** in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting	2011-12: 59% / 23% / 18% 2010-11: 68% / 18% / 14%
Financial and performance management - Prepare regular, accurate and complete performance **reports** that are supported and evidenced by reliable information	2011-12: 51% / 29% / 20% 2010-11: 57% / 22% / 21%

Good | Causing concerns | Intervention required | Regression | No further improvement

A complete assessment of other drivers of internal control is provided in section 3 of this consolidated general report.

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this consolidated general report.

Figure 17 indicates the significant deficiencies in the internal control that require attention from leadership to improve the audit outcomes.

The table that follows summarises the root causes that gave rise to the assessment, the recommendations made by the AGSA in the prior year and the additional best practices recommended.

Table 10: Identified root causes and recommended way forward (good practices)

Aspect	Identified root causes and way forward
	Root causes
Planning, oversight and monitoring	• National and provincial oversight institutions did not provide timely guidance on performance information planning, management and reporting to departments. • Leadership did not prioritise the development of performance objectives, indicators and targets that are necessary to achieve the mandate of the auditee • National and provincial oversight institutions did not assist auditees to address under-performance by recommending corrective action and monitoring the implementation thereof. • The performance oversight powers and functions of national and provincial oversight institutions were not legislated. • Risks relating to PDO reporting were not included in the risk management strategies of all provincial departments and public entities. As a result, the governance structures did not pay sufficient attention to PDO reporting. • Lack of understanding and implementation of the fundamental principles as per the National Treasury FMPPI. Monitoring of performance reporting is not embedded in the auditees' reporting processes or controls. • Internal performance management policies and procedures do not exist or were not adhered to. • The required level of review of the quarterly reports by management, internal audit units and the audit committees of auditees was not prioritised, resulting in new and repeat findings.

Aspect	Identified root causes and way forward
Planning, oversight and monitoring (continued)	• Indicators and targets were not suitably designed during the strategic planning process. • No or limited corrective action was taken to address deficiencies in the development of performance objectives, indicators and targets. • The link between budgets and performance objectives was not clear, which resulted in findings. • Internal audit units did not ensure compliance with PDO requirements. • A lack of adequate quarterly reviews and reporting by internal audit as well as audit committees contributed to some of the PDO findings.
	Way forward: Prior year AGSA recommendations
	• Quarterly reports should be reviewed to identify variances in order to facilitate corrective action at an early stage. • The content of the strategic and annual performance plan must form the basis for the information reported in the annual performance report. • Internal audit should attest to the validity, accuracy and completeness of reported information. • Audit committees should review quarterly reports and track progress to identify deficiencies in the processes of ensuring accurate information for reporting purposes.
	Way forward: Additional/new best practices
	• Auditees should integrate performance reporting into the regular financial reporting routines. This will also ensure that there are sufficient controls to address the gaps that are created by treating the performance reporting as an event rather than a continuous process. • Auditees should develop and implement internal performance management policies and procedures.

Aspect	Identified root causes and way forward
Planning, oversight and monitoring (continued)	• Indicators and targets in the annual performance plan should be carefully designed to ensure specific and clear measures of planned service delivery. • A rigorous review of the targets must be undertaken to ensure that there are adequate available resources that are under the control of the entity and that targets are achievable within the set time frames. • Workshops must be held to assist management in setting relevant targets that are measurable and verifiable, as well as determining ways to measure targets and to provide supporting information for these. • The link between budgets and performance objectives should be strengthened. • Auditees should develop action plans to address under-performance and continuously monitor the implementation thereof. • The performance oversight functions/responsibilities of national and provincial oversight institutions should be legislated. • National and provincial oversight institutions should provide timely guidance on performance information planning, management and reporting to departments. • Risks relating to PDO reporting should be included in annual internal audit coverage plans and findings resulting from such reviews should be responded to by management in a timely manner. • Entities must include PDOs as part of the risk assessment and identification process for governance structures to pay specific attention to PDO reporting. • Internal audit should be used during the planning phase to ensure that strategic and annual performance plans meet the planning framework requirements prior to the approval of the plans. • Audit committees need to better utilise the internal audit units to ensure compliance with PDO reporting requirements.

Aspect	Identified root causes and way forward
Systems and processes	**Root causes** • The evidentiary obligations and processes required to collect, collate and report information (by senior management) on actual performance are not adequately considered during the planning process. • A lack of policies and procedures to address an integrated performance management process. • Roles and responsibilities in the performance management process were not formally allocated. • A lack of systems (manual or computerised) and processes to ensure that actual reported performance is reconciled to supporting documentation and reviewed and approved by designated officials. **Way forward: Prior year AGSA recommendations** • Systems need to be implemented, whether manual or automated, to capture and report on performance-related data. • Policies and procedures must be developed to guide auditees on the requirements for performance planning, monitoring and reporting. **Way forward: Additional/new best practices** • Leadership should align their reporting systems to the service delivery requirements contained in the planning documents. • Leadership should formally allocate roles and responsibilities in the performance management process to specific officials. • Implementation of adequate manual or computerised systems for identifying, collecting, collating, verifying and storing information. • Integration of performance information structures and systems within existing management processes and systems must be explored.

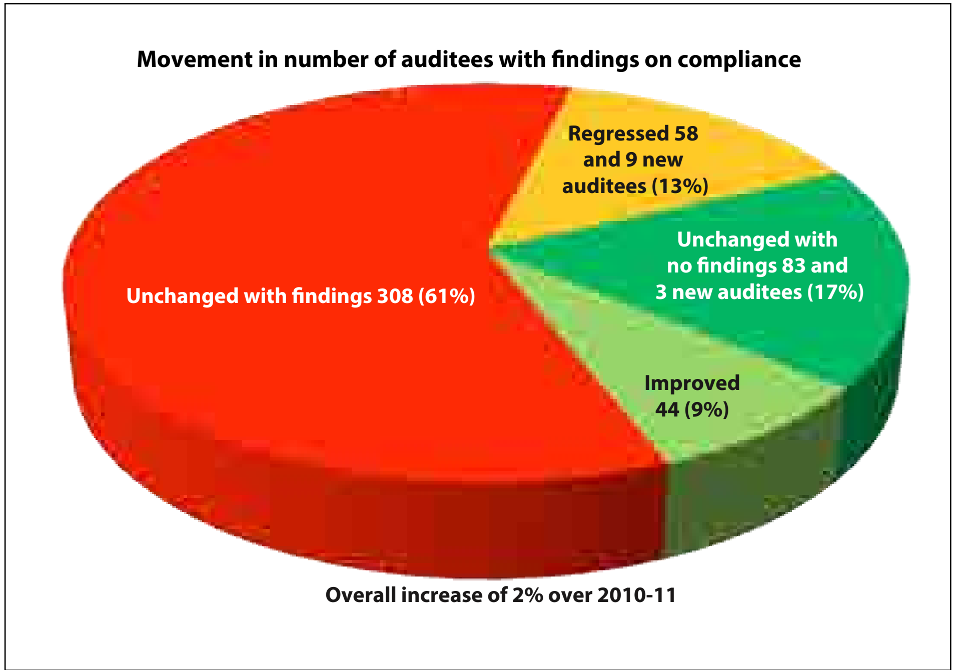
Aspect	Identified root causes and way forward
Proper record keeping	**Root causes** • Adequate document management systems were not put in place to ensure that evidence could be easily accessed and retrieved in support of actual reported information. • Lack of guidance by national sector departments to provincial sector departments on performance information to be maintained. **Way forward: Prior year AGSA recommendations** • Documentation controls such as proper filing systems should be implemented. • National sector departments should provide more guidance to their provincial counterparts on the extent and scope of performance information-related records to be maintained for record keeping. **Way forward: Additional/new best practices** • Adequate document management systems need to be put in place to ensure that supporting evidence is collected, collated and readily available to substantiate reported PDOs.

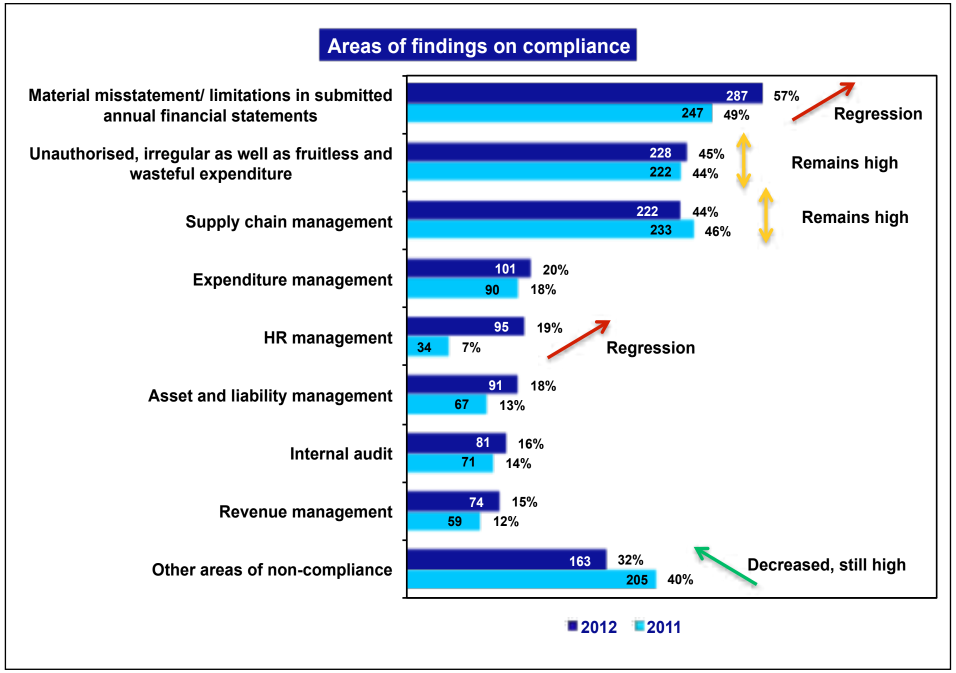
Aspect	Identified root causes and way forward
Human resource management	**Root causes**
	• Capacity constraints exist in certain performance information units due to capacity needs not having been determined and vacancies in key positions. • Performance management staff was not trained in the requirements relating to reporting. • There are still officials who have an insufficient understanding of PDO requirements, and therefore do not collect, verify, safeguard and submit the relevant source documentation when required by audit. • Accounting officers and staff were not held accountable for under-performance. • Under-performance by auditees and their staff is also not always addressed in a timely manner through quarterly and mid-year performance reviews and subsequent corrective action to ensure that all shortcomings are addressed.
	Way forward: Prior year AGSA recommendations
	• National Treasury should provide more detailed guidance/training to auditees on the process of setting targets and indicators.

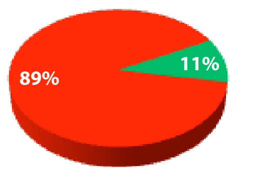
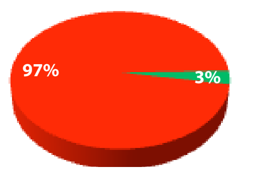
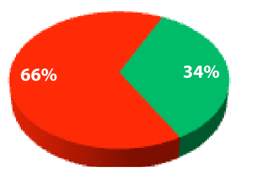
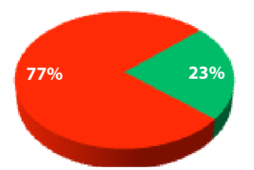
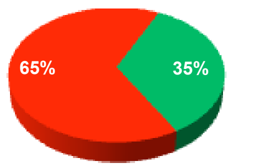
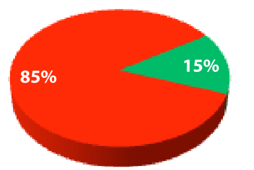
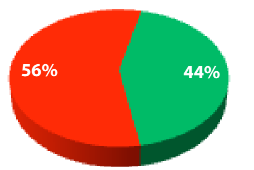
Aspect	Identified root causes and way forward
Human resource management	**Way forward: Additional/new best practices**
	• Leadership should ensure that sufficient and skilled capacity is put in place to manage and report on performance. • Auditees should designate staff for the collection of performance information and the reporting thereof. These officials should receive training to improve their understanding of the performance information processes and requirements. • Accounting officers and staff must be held accountable for ensuring the reliability of performance information through an effective employee performance management system and corrective action (where required) must be agreed on and adequately monitored.

2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

2.4.1 Overall outcomes from the audit of compliance with laws and regulations





National departments	Provincial departments	Leading departments	Major public entities and government business enterprises	National and provincial public entities	Constitutional institutions and trading entities	Other entities
						

Auditees with no compliance findings	Auditees with compliance findings

Decreased		Less than 5% change		Increased	

The PAA requires the AGSA to audit compliance with laws and regulations applicable to financial matters, financial management and other related matters on an annual basis. The compliance audit was limited to the following focus areas: • Material misstatements in submitted annual financial statements • asset and liability management • audit committees • budget management • expenditure management • prevention of unauthorised, irregular as well as fruitless and wasteful expenditure • financial misconduct • internal audit • revenue management • strategic planning and performance management • transfer of funds and conditional grants • procurement and contract management (supply chain management) • human resource management and compensation.

Depicted in 2.4.1 are the overall outcomes from the audits which show an overall increase in the number of auditees that had findings on compliance. Notable outcomes and trends arising from the audits are presented below

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Material findings on compliance were reported for 375 (74%) auditees [2010-11: 360 (71%)].		
	Only 40 auditees addressed their prior year findings on compliance (including three leading departments). Seventy-two (14%) auditees regressed (12% of which are public entities).		
	The highest prevalence is among provincial departments – 97%. Findings on compliance ranged from 71% (Western Cape) to 100% (Eastern Cape, Limpopo, North West and Northern Cape).		
	Only four national departments did not have findings on compliance and the leading departments that were able to set the example in the provinces were limited to four provincial treasuries (Mpumalanga, Free State, KwaZulu-Natal and Western Cape), three Premier's offices (Mpumalanga, Free State and Gauteng) and three legislatures (Mpumalanga, Free State and Western Cape).		
	Fifty-seven per cent of auditees had findings on one or more of the top three areas of non-compliance, namely (i) material misstatements in submitted financial statements, (ii) unauthorised, irregular as well as fruitless and wasteful expenditure, and (iii) supply chain management (SCM).		
	Findings on compliance relating to unauthorised, irregular as well as fruitless and wasteful expenditure remained at the same high level as in the previous financial year (45% of auditees).		
	Twenty-seven per cent of auditees (76) with findings on compliance had findings in one AGSA focus area only, while 15% of auditees (44) with findings on compliance had findings on material misstatements in submitted annual financial statements only.		
	Findings on compliance relating to SCM remained at a high level. The significant findings that were reported in the audit reports include three written quotations and/or competitive bids not being invited and/or deviations not justified and preference point system not applied.		
	Other findings on compliance show further regression, with the most significant being in the area of HR management.		
For auditees whose financial statements were financially unqualified, **other areas of findings on compliance include** strategic planning and performance management - 52 auditees (12%) [2010-11: 114 (23%)]; budgets - 40 auditees (8%) [2010-11: 34 (7%)]; financial misconduct - 25 auditees (5%) [2010-11: 16 (3%)]; and transfers and conditional grants - 35 auditees (7%) [2010-11: 30 (6%)].			

2.4.2 Findings on compliance with laws and regulations

Figure 18: Common areas of findings on compliance with laws and regulations

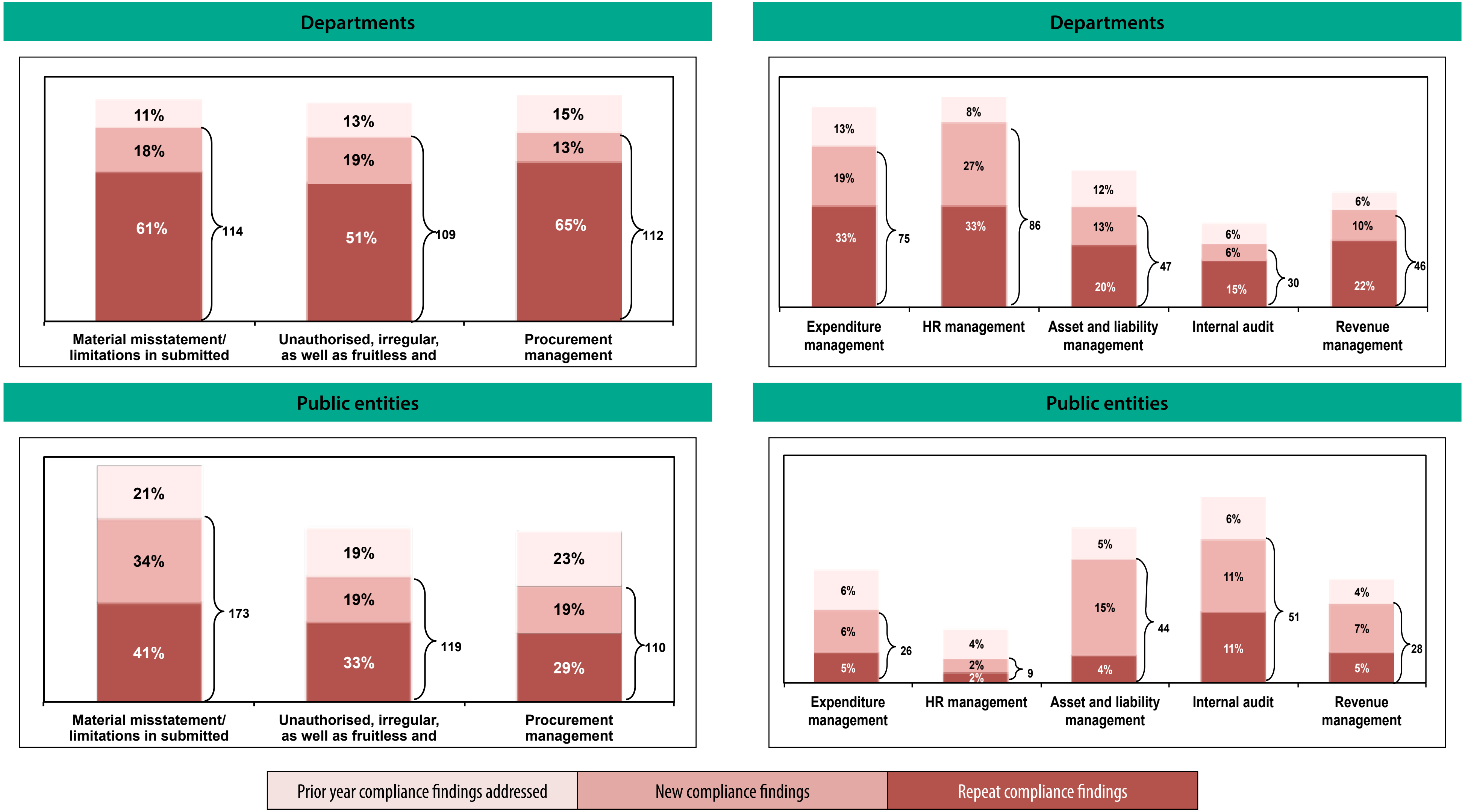
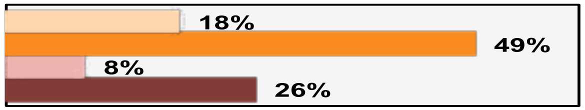
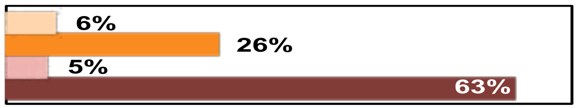


Figure 18 shows progress (or lack thereof) made by auditees to address prior year findings on compliance.

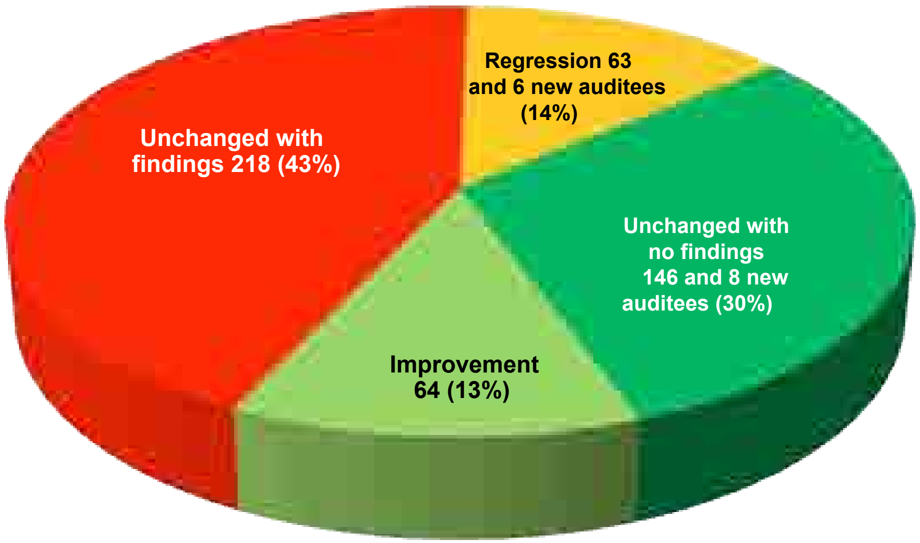
The extent and impact of material misstatement/limitations in annual financial statements submitted for audit are analysed in section 2.2. Findings on procurement management are detailed in section 2.4.3 and the extent and nature of unauthorised, irregular, as well as fruitless and wasteful expenditure in section 2.4.4. HR management findings are analysed in section 3.2. Details on the nature of the most prevalent findings in other areas of non-compliance per type of auditee are provided below.

Table 11: Summarised findings in other areas of non-compliance

Nature of other areas of non-compliance per type of auditee			
Expenditure management – 101 auditees (20%)		Asset and liability management – 91 auditees (18%)	
• Payments to creditors not made within 30 days from receipt of an invoice [92 (18%) auditees] • Ineffective system of internal control over expenditure [17 (3%) auditees] • Expenditure incurred without approval by a delegated official [9 (2%) auditees]		• Proper control systems not implemented for safeguarding and maintenance of assets [71 (14%) auditees] • Bank reconciliations not performed on a daily/weekly basis [27 (5%) auditees]	
Internal audit – 81 auditees (16%)		Revenue management – 74 auditees (14%)	
• No internal audit function in place [43 (9%) auditees] • No internal audit evaluation and/or recommendations on reliability and integrity of financial and operational information [34 (7%) auditees] • No internal audit evaluation and/or recommendations on compliance findings [26 (5%) auditees] • Internal audit findings are further analysed in section 3.4.		• Effective and appropriate steps not taken to timeously collect all revenue due [59 (12%) auditees] • Appropriate processes not in place for identification, collection, recording, reconciliation and safeguarding of information about revenue [17 (3%) auditees] • Interest on debts owed to the state is not charged at the rate determined by Minister of Finance [12 (2%) auditees].	
Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities

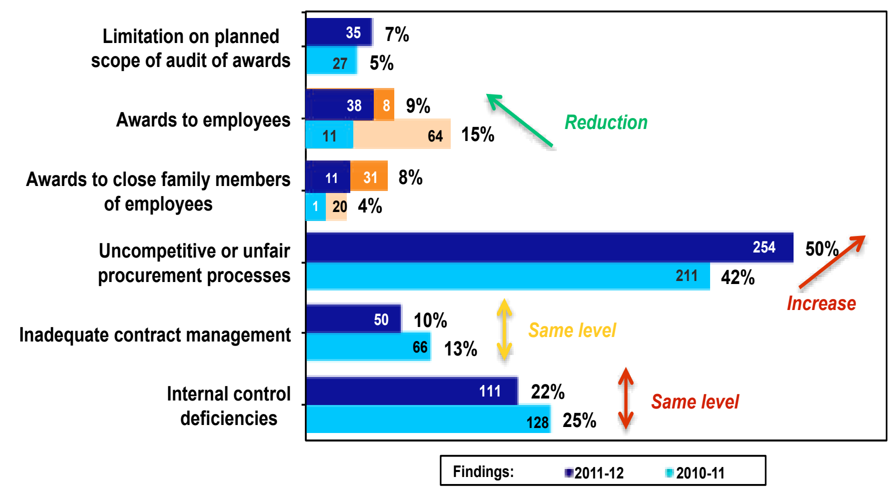
2.4.3 Findings arising from the audit of supply chain management

Movement in number of auditees with findings on SCM



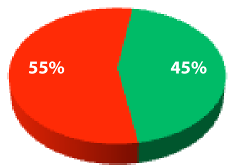
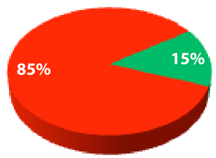
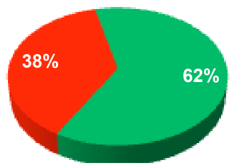
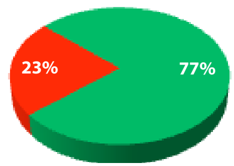
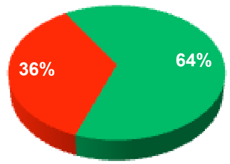
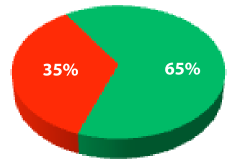
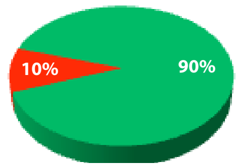
Same level of findings as in 2010-11

Summary of findings on supply chain management



Awards not in compliance with legislation: 2010-11

Awards not in compliance with legislation: 2011-12

National departments	Provincial departments	Leading departments	Major public entities and government business enterprises	National and provincial public entities	Constitutional institutions and trading entities	Other entities
						

Auditees with no SCM findings | Auditees with SCM findings

Decreased | Less than 5% change | Increased

The AGSA audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. Contracts awarded and price quotations accepted (referred to as "awards" in the remaining sections of this report) to the value of R96 406 million were tested.

The previous figure presents the movements in the number of auditees with SCM findings, the prevalence of SCM findings across the different types of auditees and a summary of SCM findings, with a comparison to the audit results of the 2010-11 financial year.

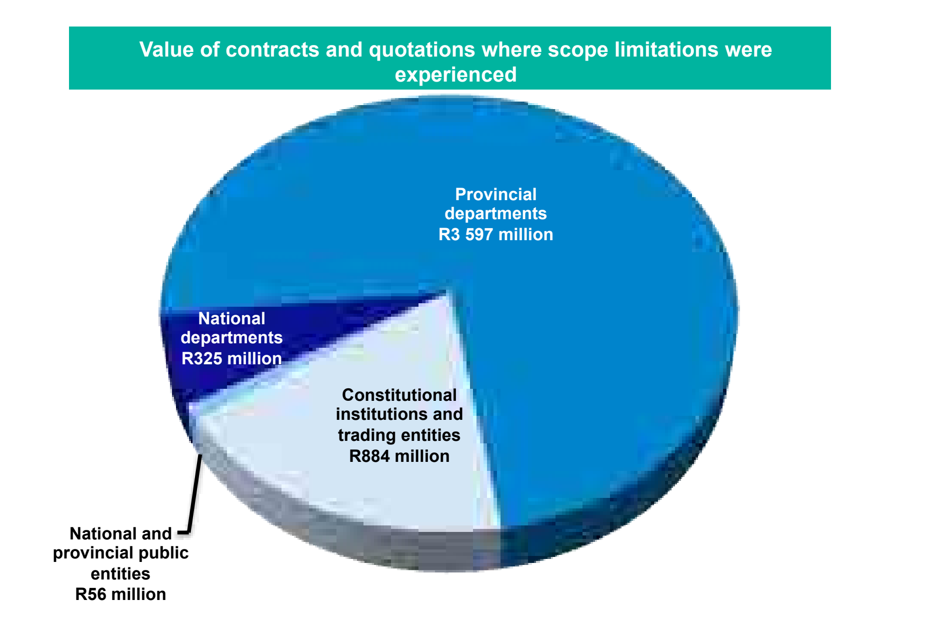
Although the auditees in the categories of major public entities, government business enterprises and other entities appear to have the best SCM audit outcomes, it must be noted that they are not subject to the Treasury Regulations on SCM. A number of these auditees are also dormant and/or do limited procurement. Key outcomes and trends are provided in the table below, followed by further analysis of the SCM findings.

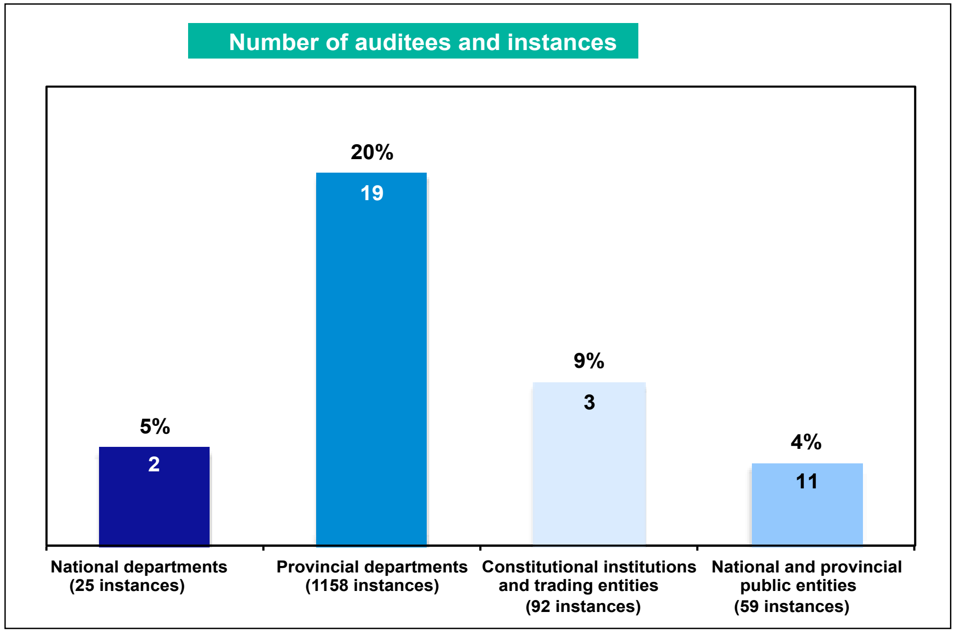
Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
Poor (red)	Findings on SCM were reported in the management reports of 287 (57%) [2010-11: 282 (58%)] of the auditees, while at 222 (44%) [2010-11: 228 (47%)] auditees the findings were material enough to warrant reporting thereof in the auditor's report. At an overall level there has been no improvement as the number of auditees that improved is the same as those that regressed.		
Poor (red)	Awards to the value of R4 862 million that were selected for audit could not be audited due to the required information or documentation not being made available by auditees. These limitations could further impact on the extent of identified irregularities and SCM weaknesses.		
Good (green)	The 30% auditees that had no findings in the current or prior year included 11 departments and leading departments, four of the major public entities and government business enterprises, 107 smaller national and provincial public entities and 32 other entities.		
Good (green)	The 64 auditees that improved their SCM audit outcomes comprise three national departments, four leading departments, eight provincial departments, five major public entities and government enterprises, 37 national and provincial public entities, five constitutional institutions and trading entities and two other entities.		
Good (green)	Of the 154 auditees that again had no SCM findings, nine are provincial departments, two are national departments and 143 are national and provincial public entities. New auditees that had no SCM findings are included in the 154 auditees.		
Poor (red)	Findings on uncompetitive and unfair procurement processes remain the most prevalent and the number of auditees with these findings continues to increase. The other categories of findings remained largely at the same level.		

Limitations on planned scope of the audit of awards

Limitations of R4 862 million were experienced at 35 (7%) auditees where sufficient appropriate audit evidence could not be obtained that awards selected for audit had been made in compliance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for these limitations is that supporting documentation is not made available for auditing. The figures below show the extent of limitations and the types of auditees where they are most prevalent.

Figure 19: Limitations experienced on planned scope of the audit of awards





Key outcomes and trends are provided in the table below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
Poor	The contract and quotation value of limitations experienced increased by R1,5 billion (44%) and limitations were encountered at three more auditees than was the case in the 2010-11 financial year.		
Good	The number of identified contracts and quotations decreased by 161 (11%) over 2010-11 from 1 495 to 1 334.		
Poor	Limitations on planned scope of the audit of awards were experienced at 35 auditees (7%) compared to 27 auditees (6%) in the previous year. eight auditees (30%) regressed, with the most significant increases in this regard were recorded at provincial departments [(four auditees (27%)] and at other entities [five auditees (83%)].		
Poor	Provincial departments account for 74% of the value of contracts and quotations that could not be audited, 54% of the auditees and 87% of the instances of limitations experienced. The value of the limitations experienced at provincial departments increased significantly by 92% (from R1 874 million to R3 597 million) over the 2010-11 financial year. The auditees where limitations were experienced at provincial departments increased from 15 to 19 (4%) while the instances decreased from 1 203 to 1 158 (4%) over the 2010-11 financial year.		

Awards to employees and close family members

The AGSA audits included an assessment of the interest of employees of the auditee and their close family members in suppliers to the auditee. The next table shows the extent and nature of these awards and whether any non-compliance with legislation was identified.

Table 12: Awards to employees and close family members

Auditee type	Awards made to							Non-compliance with regard to awards made												
	Employees				Close family members of employees			Supplier did not declare interest			Employee did not declare interest			Other remunerative work not approved			Non-compliance/ irregularity in procurement process		
	Number of instances	Number of auditees	Amount	Positions	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount
National departments	230	9	R218,0 million	SCM Official, Senior Managers, Other employees	40	5	R20,3 million	112	14	R17,5 million	118	16	R17,5 million	67	3	R12,9 million			
Provincial departments	1268	26	R217,5 million	Senior Manager, Other employees	686	31	R119,9 million	1495	30	R307,2 million	1556	31	R37,8 million	728	13	R193,8 million	179	3	R4,8 million
Leading departments	2	2	R40 thousand	Other employees	10	2	R0,1 million	4	3	R0,2 million	4	3							
Major public entities and government business enterprises	8	2	R0,4 million	Other employees	3	2	R0,6 million	7	4		13	5		Applicable to national and provincial departments only					
National and provincial public entities	7	4	R1,0 million	Senior Manager, Other employees	3	2	R0,5 million	15	4	R0,1 million	15	4	R0,1 million						
Constitutional institutions and trading entities	16	3	R1,2 million	Other employees				16	3	R1,1 million	16	3	R1,1 million						
Total 2011-12	1531	46	R438,1million		742	42	R141,4 million	1649	58	R326,1 million	1722	62	R56,5 million	795	16	R206,7 million	179	3	R4,8 million
Total 2010-11	1890	75	R1 204,8million		223	21	R136,3 million	793	26	R946,3 million	852	39	R225,6 million	505	42	R147,1 million	119	7	R301,9 million
	↑	↑	↑		↓	↓	↓	↓	↓	↑	↓	↓	↑	↓	↑	↓	↓	↑	↑

↑ Improvement

↓ Regression

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Legislation does not prohibit awards being made to suppliers in which employees and/or their close family members have an interest. However, there is legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations. Legislation also requires of employees at departments to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation of the auditee was tested. The awards identified were also tested with a view to identifying possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

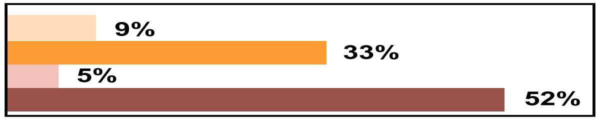
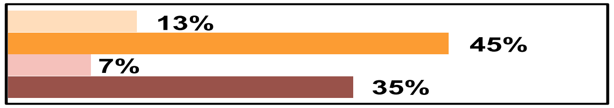
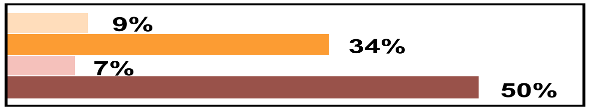
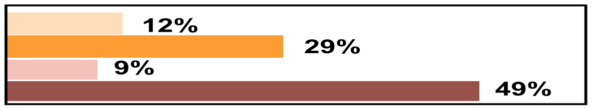
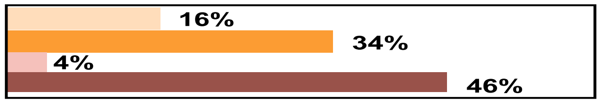
Key outcomes and trends are provided in the table below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
Good	Awards to the value of R 438 million identified at 46 auditees were made to suppliers in which employees of the auditee had an interest. At some auditees the employees included SCM officials and senior managers. This represents a significant decrease from the R 1 205 million identified in the previous year at 75 auditees. The awards to employees identified decreased by 39% - 14% at national departments (six), by 18% at provincial departments (17) and by 7% at leading departments (two).		
Poor	Awards to the value of R141 million identified at 42 auditees were made to suppliers in which close family members of employees of the auditee had an interest. It represents an increase from the R136 million identified in the previous year at 21 auditees. The awards to close family members of employees identified increased by 100% - 21% at national departments (eight), by 7% at provincial departments (seven), by 14% at leading departments (four) and by 9% at major public entities and government business enterprises (two).		
Poor	Where interest was identified, the suppliers did not declare the interest in 73% of the instances and the employee did not declare in 76% of instances. At 16 departments the employees doing business with the auditee did not obtain approval for the additional remunerative work.		

Uncompetitive or unfair procurement processes

A further focus of AGSA audits was on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process did not unfairly favour some suppliers above others. The procurement processes of 8 282 contracts (R90 840 million) and 176 588 quotations (R5 566 billion) were tested at 157 departments and 268 public entities. The number of auditees with findings on uncompetitive or unfair procurement processes increased for all types of auditees, the most significant being by 14% at national departments (6), by 14% at leading departments (4), by 11% at constitutional institutions and trading entities (4) and by 20% at major public entities and government business enterprises (4). The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table. Similar findings were identified in the prior year.

Table 13: Summarised findings on uncompetitive or unfair procurement processes

Nature of other areas of non-compliance per type of auditee			
Three written quotations not invited – no deviation approved/approved deviation not reasonable/justified – 183 (33%)		Competitive bids not invited – no deviation approved/approved deviation not reasonable/justifiable – 119 (21%)	
A price quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000. Three prices quotations were not in all instances obtainednfrom prospective providers and deviations were not approved by a properly delegated official or committee as required.		A competitive bidding process should be followed for the procuremnt of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approves by a properly delegated official.	
No declaration of interest submitted by provider – 69 (14%)		Preference point system not applied – 74 (14%)	
Awards were made to suppliers that did not submit a completed declaration of interest (SBD4 form).		The preferences point system was not applied in all procurement of goods and services above R30 000, as required by Preferential Procurement Policy Framework Act.	
Procurement from suppliers without SARS tax clearance – 89 (17%)		Other findings – 119 (24%)	
Awards were made to suppliers without proof from South African Revenue Service that their tax matters were in order.		Other findings include: No declaration of past SCM practices, no certificate of independent bid determination and bids advertised for shorter period than prescribed.	

Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities

Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless and wasteful expenditure, which in turn impact directly on service delivery. Inadequate contract management remained at the same level, with the most noteworthy improvements at national departments (2) and major public entities and government business enterprises (5). The most prevalent findings on inadequate contract management are summarised in the table below. Similar findings were identified in the prior year.

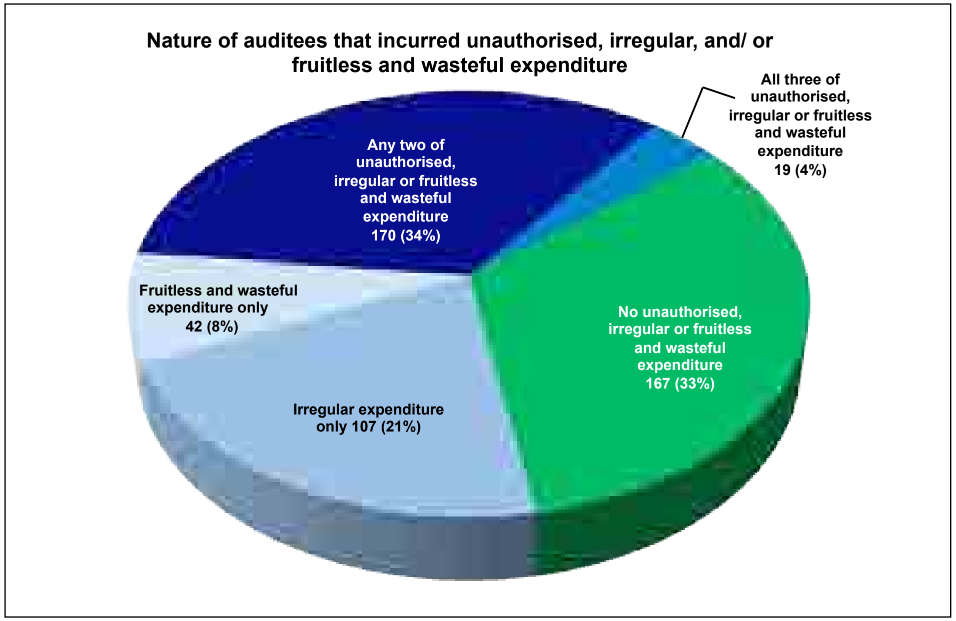
Key findings: Inadequate contract management
Goods and services were received and payments were made to suppliers without a written, signed contract being in place – 9 (2%) auditees.
Contracts amended or extended without approval by a delegated official - 12 (2%) auditees.
Contracts extended or renewed to circumvent competitive bidding processes - 9 (2%)
Inadequate contract performance measures and monitoring - 15 (3%)
Contract not prepared in accordance with the general conditions of the contract as prescribed by National Treasury - 3 (1%).
Other findings include payments made in excess of approved contract price (with further approved extensions) and total payments under quotations exceeding the original quoted amount - 9 (2%).

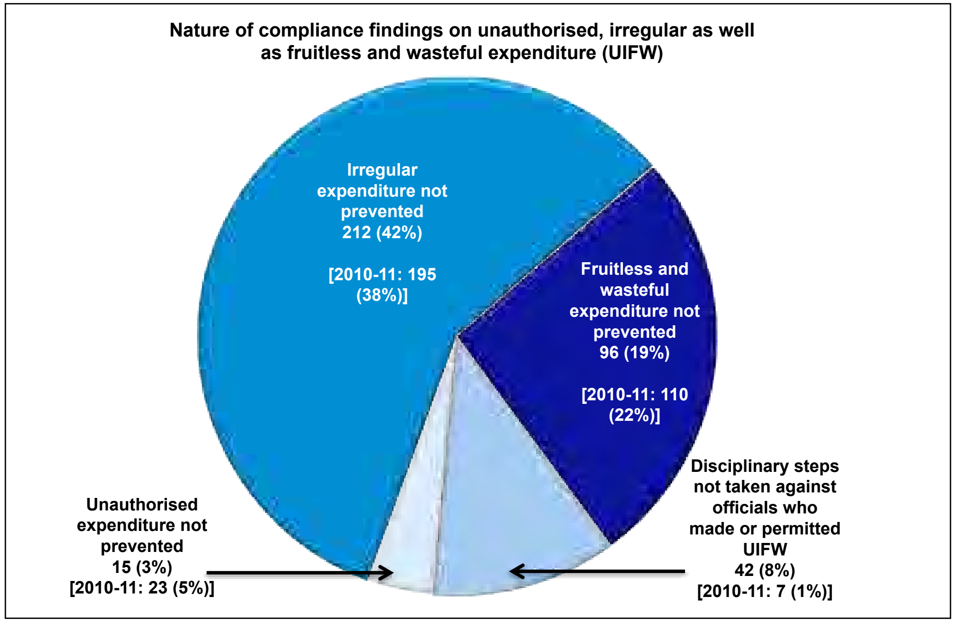
Inadequate SCM controls

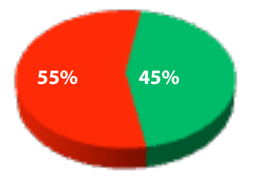
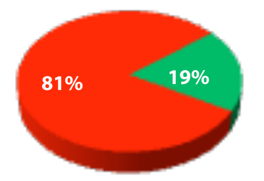
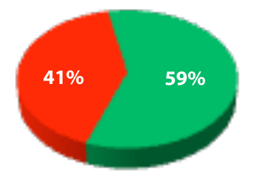
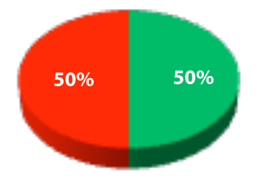
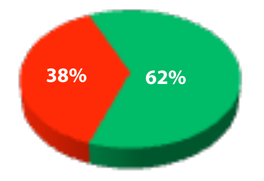
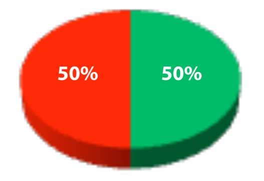
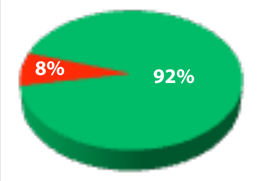
Internal control deficiencies in the SCM environment are the highest at 57 (61%) provincial departments, with a further deterioration of six (12%) auditees. The most prevalent deficiencies identified during the audit on fundamental SCM controls are summarised in the table below. Similar findings were identified in the prior year

Key findings: Inadequate internal controls
The audit committee did not review the effectiveness of the internal control systems related to SCM - 17 (3%)
Employees without interest in suppliers to the auditee - additional remunerative work not approved - 33 (7%) • Employees performed additional remunerative work without approval
Inadequate controls to ensure interest is declared - 26 (5%) • The controls were inadequate to ensure that officials declare to the auditee whether they or their close family members, partners and associates have interests in suppliers and suppliers to the auditee fail to declare any connections to persons in service of the auditee
Internal audit did not evaluate SCM controls/processes and compliance - 19 (4%) • Some departments utilised a shared an insufficiently staffed internal audit division within the provincial treasury, resulting in the internal audit responsibilities not being fulfilled
Inadequate controls to ensure interest is declared - 26 (5%) • Some officials involved in the implementation of the SCM policy were not adequatly trained to perform their duties effectively - 22 (4%)
Internal audit did not evaluate SCM controls/processes and compliance - 19 (4%) • Other control deficiencies included: Performance of the SCM unit is not regularly analysed, risk assessment did not address SCM and where it did, no actions were taken to address SCM risks identified and no controls to monitor performance of contractors - 73 (14%)

2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred





National departments	Provincial departments	Leading departments	Major public entities and government business enterprises	National and provincial public entities	Constitutional institutions and trading entities	Other entities
						

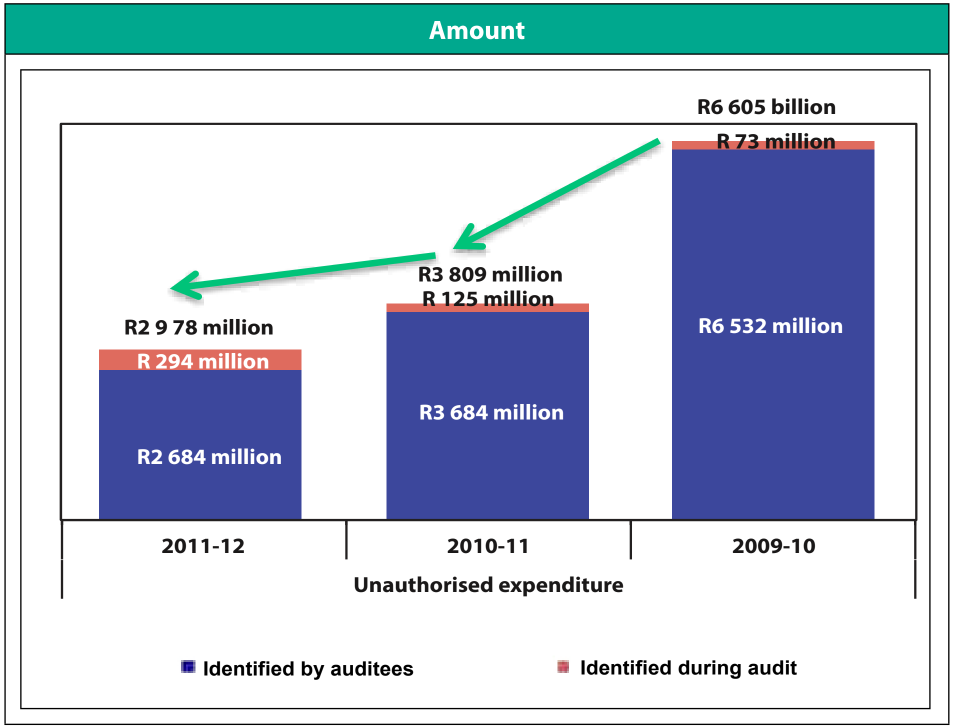
Auditees with no UIFW compliance findings | Auditees with UIFW compliance findings

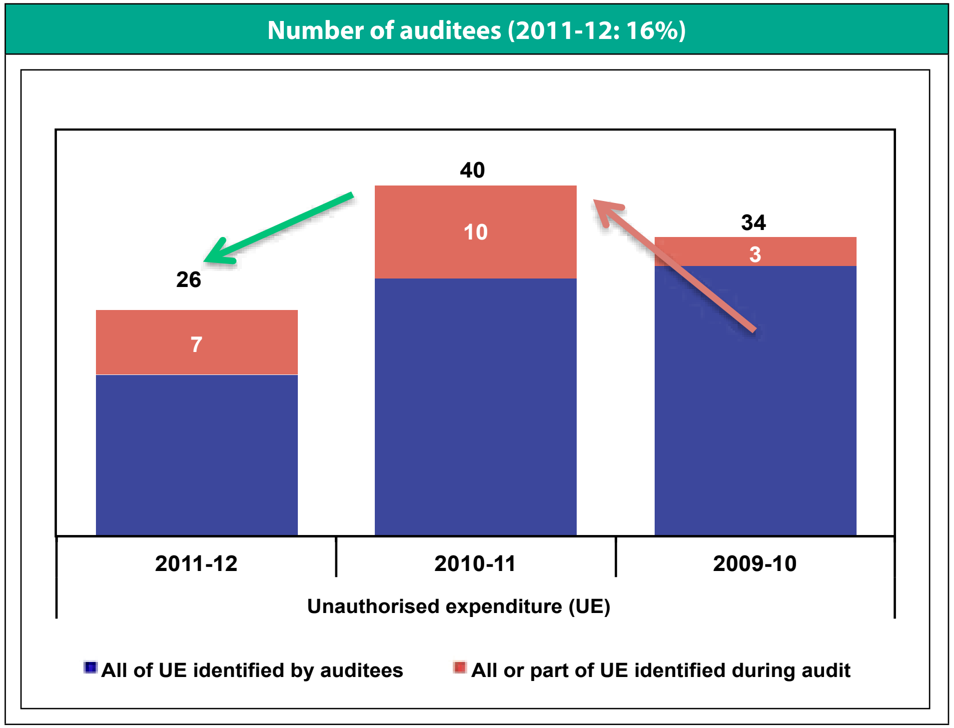
The PFMA requires accounting officers/authorities to take effective and appropriate steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure (UIFW) is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof even if all reasonable steps had been taken. In instances where it does occur, the PFMA makes it compulsory for auditees to disclose such expenditure in their annual financial statements.

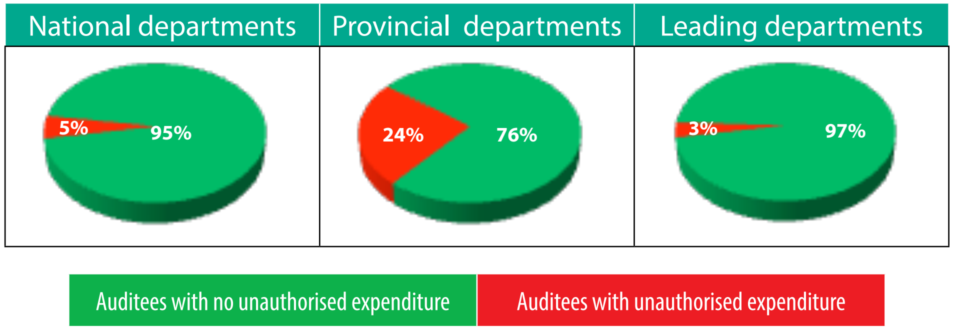
The extent of UIFW and the pervasiveness of the related non-compliance with legislation applicable to UIFW as **depicted in the previous figure** are indicative of a breakdown in auditees' internal control environment. Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Two thirds of auditees incurred one or more types of UIFW.		
	Findings on compliance related to UIFW remain the second highest non-compliance area across all auditees (depicted in section 2.4.1). The prevalence of these findings remains unchanged from the 2010-11 financial year at 45% of auditees.		
	The most prevalent finding was accounting officers/authorities not taking effective steps to prevent irregular expenditure – 217 (43%) auditees, which is an regression from the 195(40%) of the previous year.		
	The number of auditees with findings on accounting officers not taking effective steps to prevent unauthorised expenditure decreased to only 18 (4%) from 23(5%). A similar improvement to 102 (20%) from 112 (22%) auditees was recorded for prevention of fruitless and wasteful expenditure.		
	The findings on compliance relating to failure to take disciplinary action against employees who made or permitted unauthorised, irregular or fruitless and wasteful expenditure increased by more than 300%.		
	Provincial departments (81%) and national departments (55%) had the most findings on compliance relating to UIFW.		

Nature of and overall trends in unauthorised expenditure (departments only)







The figure **above** reflects the three-year trend in unauthorised expenditure, the extent to which it was identified during the audit (and not by the auditees' internal control systems) and the type of auditee where it occurs.

The unauthorised expenditure incurred was as a result of overspending of the votes (budget) or main divisions within the votes.

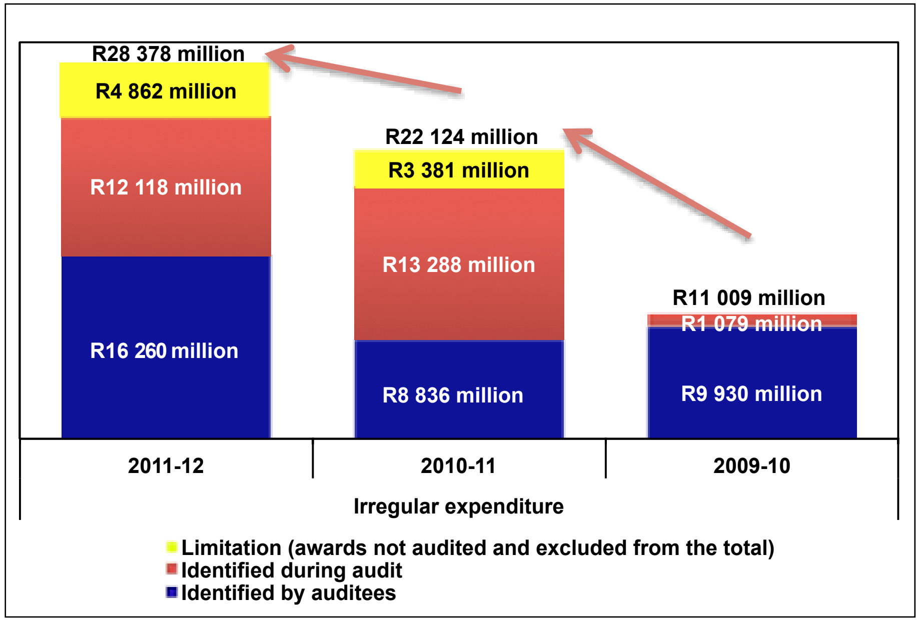
Unauthorised expenditure invariably means that money intended for other programmes was used, which affects service delivery in accordance with the performance objectives set for the year.

Key findings are summarised below.

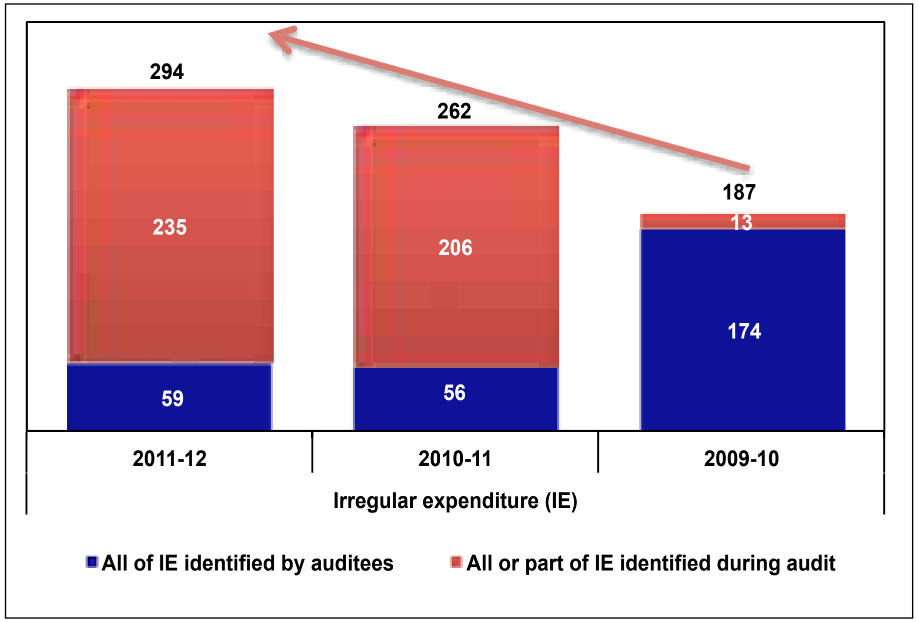
Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Unauthorised expenditure decreased by 35% in number of auditees and by 22% in value.		
	The most significant decrease in unauthorised expenditure was at national departments where the number of auditees decreased by five and the value by R811 million.		
	Two national departments (Women, Children and Persons with Disabilities and Public Works) and 24 provincial departments incurred R50 million and R2 928 million, respectively. Provincial departments account for 98% of the total value of unauthorised expenditure.		
	Ten per cent of unauthorised expenditure was identified by the auditors, increasing from 3% in the 2010-11 financial year.		

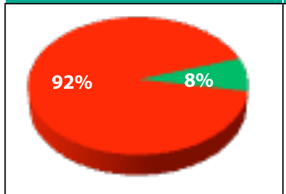
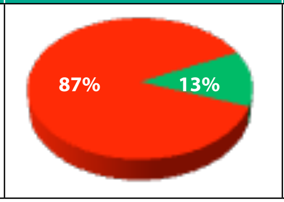
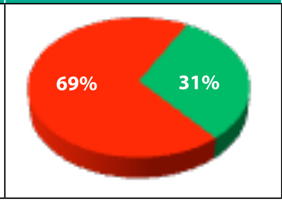
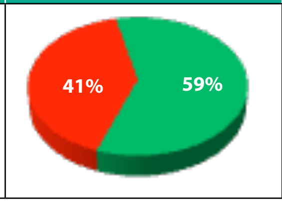
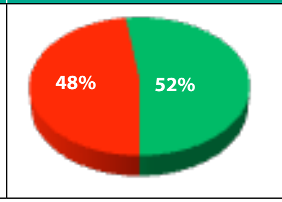
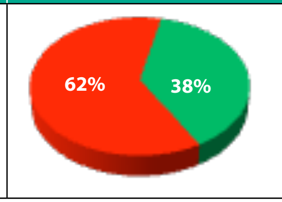
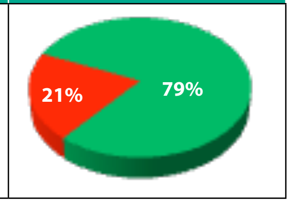
Nature of and overall trends in irregular expenditure

Amount



Number of auditees



National departments	Provincial departments	Leading departments	Major public entities and government business enterprises	National and provincial public entities	Constitutional institutions and trading entities	Other entities
						

Auditees with no irregular expenditure | Auditees with irregular expenditure

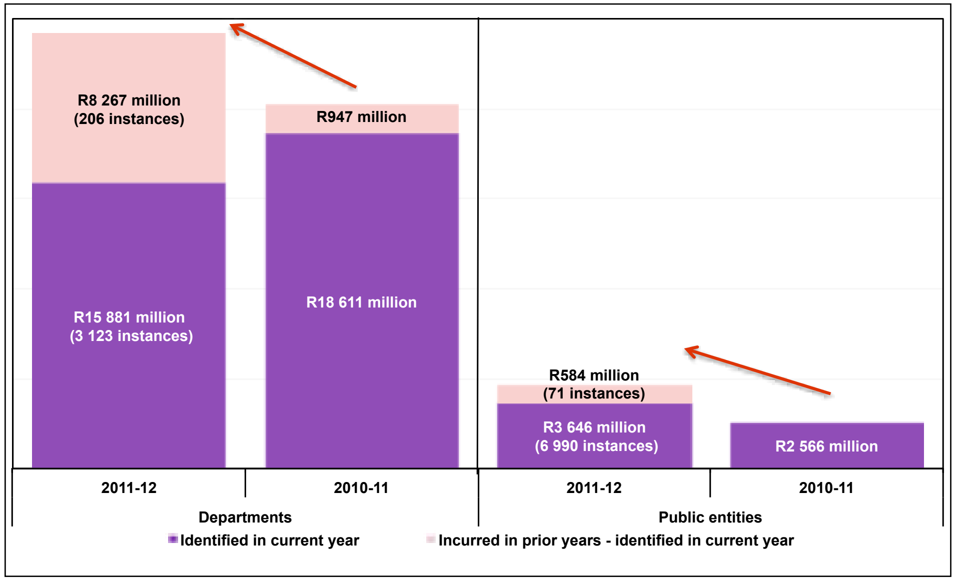
The nature of and overall trends in irregular expenditure incurred by auditees are **depicted earlier**. Irregular expenditure does not necessarily mean that money had been wasted or that fraud had been perpetrated. However, it is a measure of an auditees' ability to comply with laws and regulations as it relates to expenditure and procurement management. The nature of and current year movements in irregular expenditure are reflected in the table below.

Table 14: Nature of and current year movements in irregular expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
SCM related	281	16%	R24 270 million	50%
Compensation of employees related	59	20%	R1 333 million	65%
Other non-compliance	60	7%	R2 774 million	35%

The following figure shows the extent of irregular expenditure which was disclosed in the current year but stemmed from non-compliance with legislation in prior years.

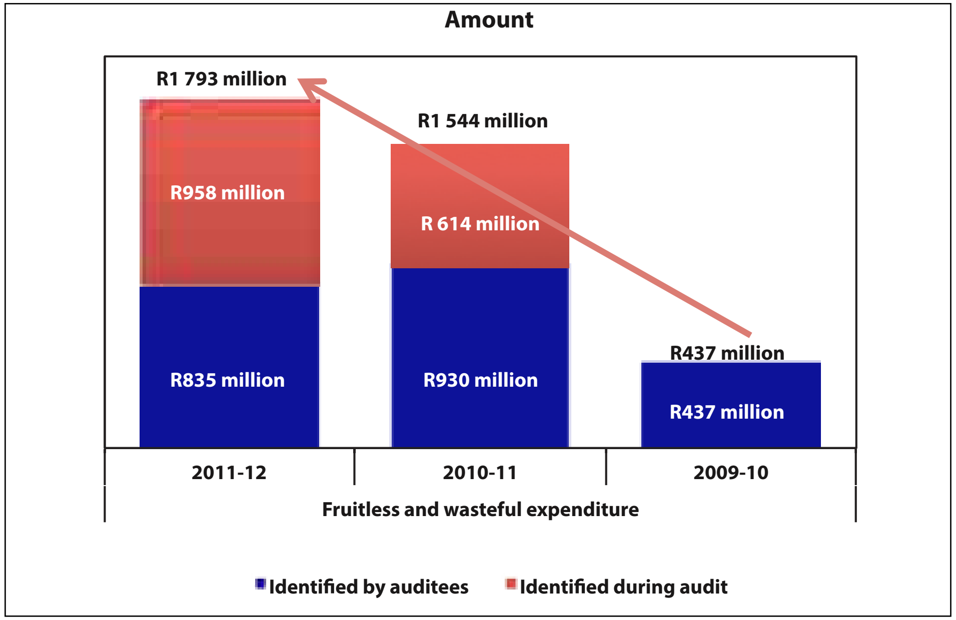
Figure 20: Irregular expenditure incurred in prior year

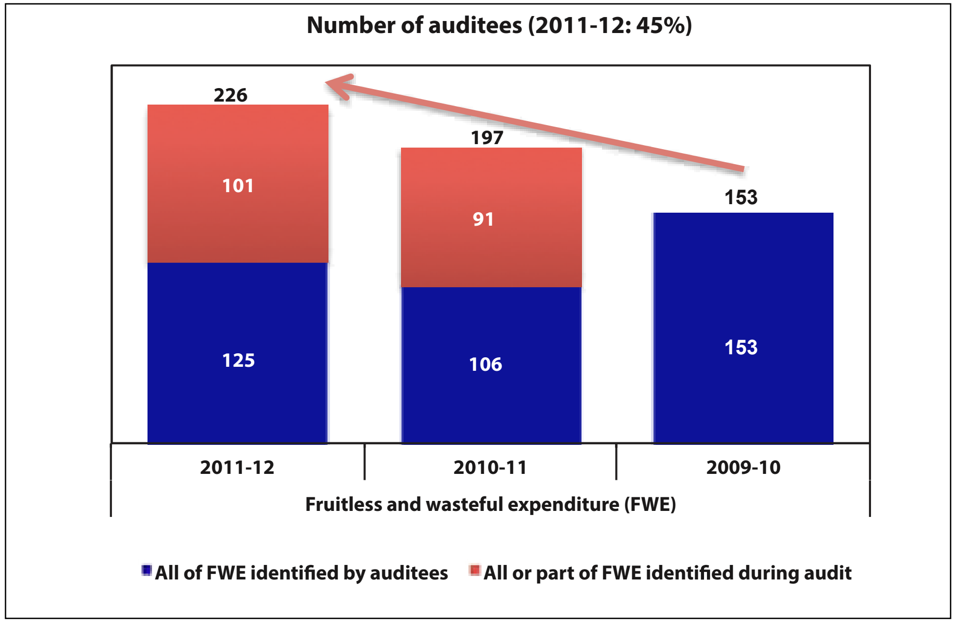


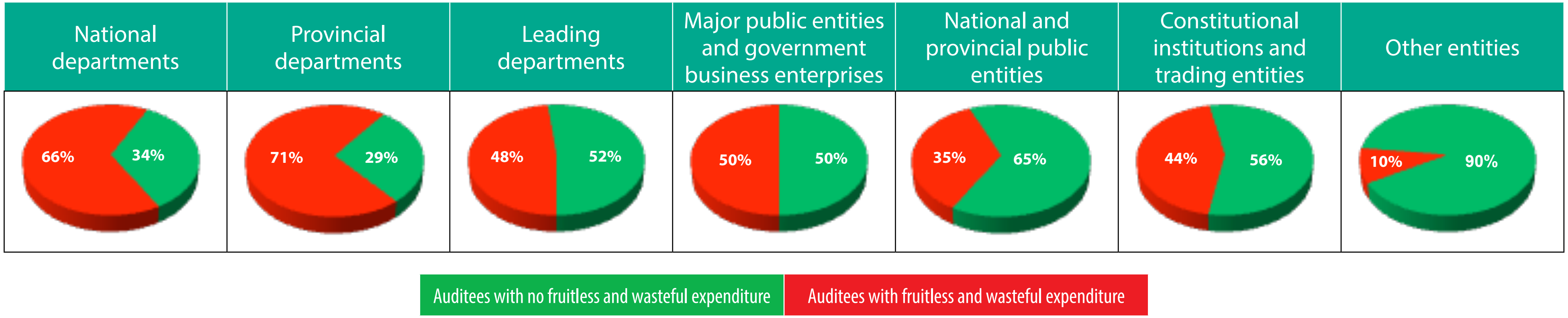
Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	A significant portion (43%) of irregular expenditure incurred by auditees was identified during the audit, indicating that the auditees' internal controls failed to detect those deviations.		
	Irregular expenditure increased at 32 auditees (12%) and by R6 254 million (28%). The increase in the number of auditees incurring irregular expenditure is 6 (5%) and 26 (20%) for departments and public entities, respectively.		
	A notable trend at provincial departments is that the number of auditees remained virtually unchanged (1% increase), but the rand value increased by R3,5 billion (21%). Provincial departments account for 73% of the total irregular expenditure incurred.		
	Irregular expenditure at auditees that achieved an audit opinion in the category of financially unqualified with findings on PDO and/or compliance increased by 891 million (12%) and at those with qualifications by R6 639 million (89%).		
	R9 798 million of the irregular expenditure was incurred in prior years but was only identified and reported in the current year.		

Nature of and overall trends in fruitless and wasteful expenditure







The analysis of the nature of fruitless and wasteful expenditure this year reflects the amounts spent to prevent irregular expenditure, losses or further fruitless and wasteful expenditure. The movement indicated in the table below refers to the overall movement in the number of auditees and the movement in amount of fruitless and wasteful expenditure incurred by these auditees.

The actual fruitless and wasteful expenditure relates mostly to payments made to employees and interest incurred on late payments.

Table 25: Nature of and current year movements in fruitless and wasteful expenditure

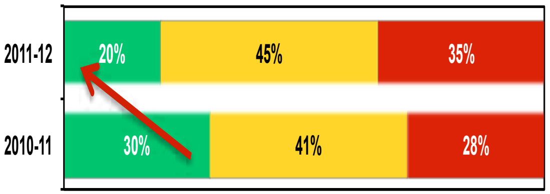
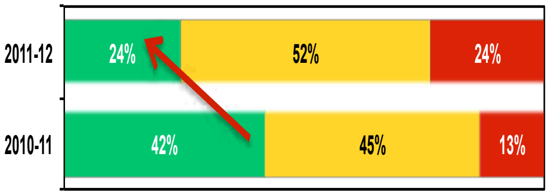
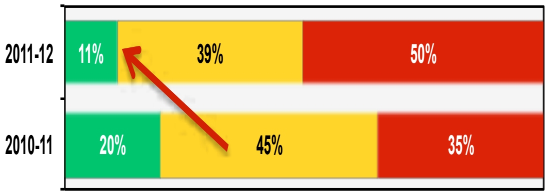
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Incurred to prevent irregular/ loss/ further fruitless and wasteful expenditure	56	14%	R669 million	16%
Actual fruitless and wasteful expenditure	170		R1 123 million	

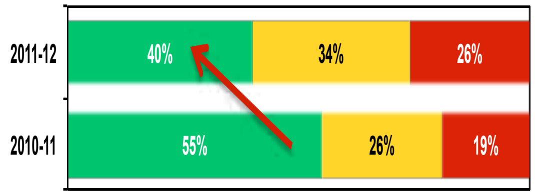
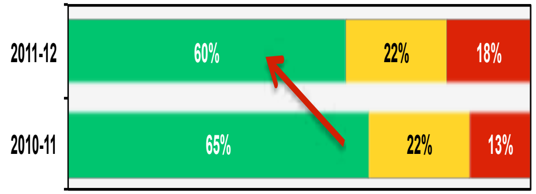
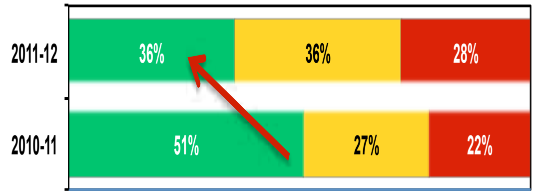
Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	The number of auditees incurring fruitless and wasteful expenditure increased by 29 auditees (15%) and the value by R245 million (16%).		
	The most significant upward trend was at provincial departments where the number of auditees increased by 9 (16%) and the value by R290 million (42%). Provincial departments account for 55% of the total fruitless and wasteful expenditure incurred.		
	Fruitless and wasteful expenditure at auditees that achieved an audit opinion in the category of financially unqualified with findings on PDO and/or compliance increased in value by R118 million (24%) and at those obtaining disclaimed audit opinions by R193 million (61%).		
	The increase in number of auditees is eight (8%) and 21 (21%) for departments and public entities, respectively.		

2.4.5 Root causes identified and good practice recommendations

Figure 21: Assessment of drivers of internal control – compliance with laws and regulations

Departments: Key drivers of internal control	Assessment and movement
Leadership - Exercise **oversight responsibility** regarding financial and performance reporting and compliance and related internal controls	
Leadership - Develop and monitor the implementation of **action plans** to address internal control deficiencies	
Financial and performance management - Review and monitor **compliance** with applicable laws and regulations	

Public entities: Key drivers of internal control	Assessment and movement
Leadership - Exercise **oversight responsibility** regarding financial and performance reporting and compliance and related internal controls	
Financial and performance management - Prepare regular, accurate and complete financial and performance **reports** that are supported and evidenced by reliable information	
Financial and performance management - Review and monitor **compliance** with applicable laws and regulations	

Good | Causing concerns | Intervention required | Regression

A complete assessment of other drivers of internal control is provided in section 3 of this general report.

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Identified root causes which gave rise to this assessment and the recommended way forward (both prior and additional recommendations for the current year) are summarised as follows.

Table 16: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward recommendations
	Root causes
Leadership tone	• At many departments and public entities, there is a lack of day-to-day monitoring and involvement by the leadership in the administration of the department. This includes taking ownership of compliance issues and addressing key control deficiencies. • Accountability is not accepted for actions and/or audit outcomes in respect of procurement processes and the use of deviations and for not following a competitive bidding process as a result of poor planning. • Leadership does not set the correct tone at the top. • Lack of adequate controls and procedures to ensure compliance with applicable laws and regulations.

Aspect	Identified root causes and way forward recommendations
	Way forward: Prior year AGSA recommendations
Leadership tone (continued)	• Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that action plans to improve known internal control weaknesses are implemented and monitored. • Those charged with governance and oversight should ensure that accountability is enforced and appropriate consequences are implemented when officials intentionally do not comply with the requirements of applicable prescripts (especially with regard to SCM).
	Way forward: Additional/new good practices recommended
	• Action plans must address findings on compliance identified by any audit and must also include measures to prevent non-compliance. • Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that internal control action plans are implemented and monitored. • Policies and procedures that are aligned to legislation should be implemented. • Leadership should set the correct tone in dealing with audit outcomes, ensuring compliance with laws and regulations, and should take responsibility for implementing actions to address the reported findings on compliance.

Aspect	Identified root causes and way forward recommendations
	Root causes
Systems and processes	• Lack of proper record keeping, specifically with regard to tenders, and failure to appropriately safeguard documentation to support tender procedures. • Leadership did not take appropriate action with regard to a lack of controls in the finance and SCM directorates, resulting in findings on compliance and such non-compliance remaining undetected until the audit. • Lack of communication of new or amended policies and procedures to affected officials of auditees.

Aspect	Identified root causes and way forward recommendations
	Way forward: Prior year AGSA recommendations
Systems and processes (continued)	• Appropriate record management and filing systems should be implemented to ensure that tender documentation is readily available. This could include maintaining electronic copies of documentation scanning. • Monitoring on a monthly basis by designated staff members with a view to detecting and preventing non-compliance. The introduction of compliance checklists will provide auditee management some assurance that controls are achieving the required level of adherence. • Way forward: Additional/new good practices recommended • Continuous awareness and training on applicable laws and regulations to prevent non-compliance resulting from lack of awareness of new or amended legislation. • Systems and processes should be implemented to ensure that breaches of the legislative prescripts are identified and appropriate corrective actions are taken. This includes developing and implementing appropriate compliance reporting policies and procedures, clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation, and reporting regularly on compliance. • Some auditees should consider establishing a compliance unit to perform these compliance functions.

Aspect	Identified root causes and way forward recommendations
Oversight and monitoring	**Root causes**
	• The lack of continuous oversight and monitoring by the leadership is one of the main drivers of regression in compliance with laws and regulations. Findings on compliance are not dealt with in a proactive manner, resulting in recurring findings. • Lack of proper planning for procurement which results in an abuse of provisions for deviations provided for in legislation. • The lack of continuity in the leadership structures. This instability results in a lack of accountability by leadership and governance structures.
	Way forward: Prior year AGSA recommendations
	• Leadership should introduce a culture of discipline and should set the right tone. The involvement of the leadership in the day-to-day operations, including involvement in the audit process, should become a standard practice.
	Way forward: Additional/new good practices recommended
	• Leadership should ensure that internal audit units regularly monitor common and recurring areas of non-compliance and the effective implementation of checklists to ensure compliance before a transaction is entered into and not only after the transaction has been concluded and the payment made. • The portfolio committees need to intensify their oversight role by holding those departments with recurrent findings on compliance accountable. • Monthly reporting should include an assessment of compliance with applicable laws and regulations.

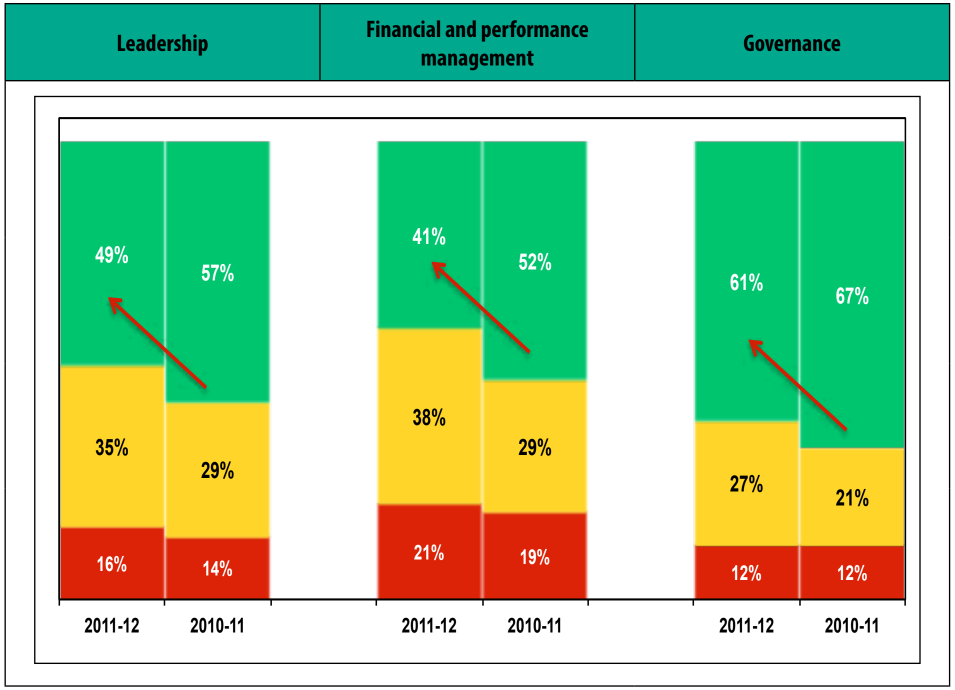
Aspect	Identified root causes and way forward recommendations
Oversight and monitoring (continued)	• An oversight system or process to monitor the commitments made by leadership and management to address internal control deficiencies should be established. In the process, this oversight must reside with and be coordinated by the Office of the Premier with quarterly reporting on progress made with regard to commitments.
Effective governance measures	**Root causes**
	• Audit committees did not use internal audit units effectively to report on the implementation of action plans as reported by management. • The internal audit function of some auditees was not fully functional during the year, which can be attributed to vacancies within the unit. • The audit committee did not function throughout the year. Audit committee members were only appointed late in the year, resulting in the committees not being able to fulfil their responsibilities • Leadership did not regularly seek the findings and views of audit committees and internal audit on internal control and risk management nor did they monitor implementation of recommendations by the audit committee and internal audit with a view to remedial action. • Risk assessments not performed (at least annually) or performed much too late in the year rendered the risks assessments outdated or irrelevant to the risk management process.

Aspect	Identified root causes and way forward recommendations
Effective governance measures (continued)	**Way forward: Prior year AGSA recommendations**
	• Internal audit units should be adequately staffed to ensure that they can accommodate additional requests by the audit committees to confirm credibility of information reported to audit committees. • Strengthened oversight by the executive leadership in ensuring that risk assessments take place regularly and that those risks are addressed or mitigated timeously. • Internal audit should validate all irregular expenditure reports and progress made on addressing the root causes and implementation of controls. Progress should be reported to the audit committee, which in turn must provide feedback to the executive authority.
	Way forward: Additional/new good practices recommended
	• Intensify the focus on the review of compliance by internal audit and audit committee. • Meetings between the audit committee and the various executive authorities must take place on a quarterly basis to discuss the progress made in addressing findings on internal control deficiencies.

SECTION 3: AUDITEES' SYSTEMS OF INTERNAL CONTROL

SECTION 3: AUDITEES' SYSTEMS OF INTERNAL CONTROL

3.1 THE DRIVERS OF INTERNAL CONTROL



Internal control driver	Objectives and impacted on by internal control driver: Financial management and reporting	Service delivery planning and reporting	Compliance with laws and regulations
Leadership	49% / 35% / 16%	54% / 30% / 16%	51% / 33% / 16%
Financial and performance management	41% / 38% / 21%	50% / 29% / 21%	49% / 31% / 20%
Governance	61% / 27% / 12%	61% / 26% / 13%	60% / 29% / 11%

Good	Causing concerns	Intervention required	Regression

This section of the general report identifies the drivers of audit outcomes under the following headings:

- Significant deficiencies in auditees' systems of internal control and the drivers thereof (section 3.1)
- Effective human resource management as driver of audit outcomes (section 3.2)
- The use of consultants by some national departments (section 3.3)
- Information technology management as driver of audit outcomes (section 3.4)
- The effectiveness of audit committees and internal audit units (section 3. 5).

A key responsibility of accounting officers/authorities and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits, the auditees' system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control, termed drivers of internal control, have been categorised under leadership, finance and performance management and governance.

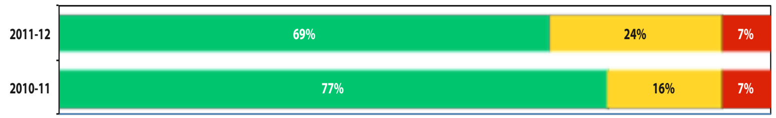
The figure alongside provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control which resulted in material misstatements (corrected and uncorrected) in financial statements and also in performance reports as well as findings on compliance with laws and regulations. The following broad areas of concern are highlighted.

	The overall reduction in the number of auditees whose drivers were assessed as being 'good' at the conclusion of the 2010-11 audits.
	The overall increase in the number of auditees requiring intervention in controls related to financial and performance management
	The impact of the combined deficiencies in leadership, financial and performance management and governance on all three facets of the audit outcomes: (i) financial statements, (ii) reporting against PDOs (service delivery reporting) as well as on (iii) compliance with laws and regulations.

Root causes and recommended best practices are analysed in more detail under section 2.2 (financial statement qualifications), 2.3 (PDO findings) and 2.4 (findings on non-compliance with laws and regulations).

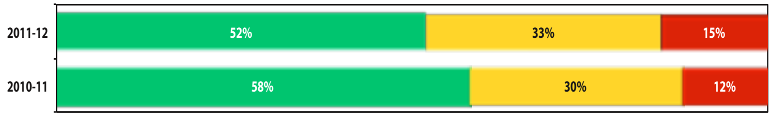
The status of the **internal *control* elements** at March 2012, underlying leadership, financial and performance management and governance and movements in the implementation thereof, is presented in the following table, indicating overall deteriorations (red arrows) or overall unchanged status from the previous financial year (sideway arrows) for departments and public entities.

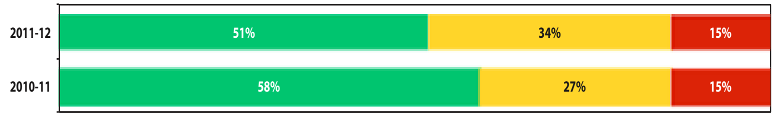
Table 17: The status of and movements in the internal control elements underlying leadership, financial and performance management

Driver no. 1: Leadership	Departments	Assessment of driver (all auditees)	Public entities
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.			

The majority of auditees were assessed to have committed and ethical leadership. However, instability in political leadership and ineffective administrative leadership have negatively affected the audit outcomes of some auditees. Neither administrative nor political leadership adequately addressed the matters that prevent auditees from progressing towards clean audits. The weaknesses in leadership practices at some auditees include the following:

- Failure to implement formal codes of conduct and periodically communicate to officials their existence and continued applicability.
- Failure to monitor the performance of key officials relating to the maintenance of adequate systems of internal control that ensure credible monthly financial reporting, reliable reporting against PDOs and compliance with laws and regulations.
- Failure to establish clear lines of accountability.
- Corrective/disciplinary action not taken against key officials for misconduct.
- Failure to honour commitments made for interventions following the 2010-11 audit outcomes.
- The awarding of contracts to employees, close family members of employees and other state officials.

Driver no. 1: Leadership	Departments	Assessment of driver (all auditees)	Public entities
Exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations and related internal controls.			
Leadership at auditees who failed to make progress and those whose outcomes have regressed has not effectively exercised their oversight responsibility with regard to financial and performance reporting and compliance with applicable laws and regulations. Lapses in effective oversight include the following: • Not exerting a positive influence on the control environment. • Not ensuring that auditees appoint suitably qualified staff to perform essential duties related to financial and performance reporting. • Not periodically reviewing progress made by management in addressing external audit findings. • Not monitoring controls. • Not addressing the root causes of repeated qualifications of financial statements, findings on reporting against PDOs as well as findings on non-compliance with laws and regulations. • No insisting (i) on receiving credible monthly financial statements, (ii) that proper accounting records be maintained, (iii) that key reconciliations are periodically prepared, and (iv) the accuracy of reported information is independently verified.			
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.			
An assessment of findings arising from the audit of human resource management is presented in section 3.2 of this general report			

<table>
<tr><th>Driver no. 1: Leadership</th><th>Departments</th><th>Assessment of driver (all auditees)</th><th>Public entities</th></tr>
<tr><td>Establish and communicate policies and procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities.</td><td></td><td>
</td><td></td></tr>
<tr><td colspan="4">Policies and procedures to address areas of risk, to achieve desired internal control objectives and to guide the operations of auditees still require improvement at many auditees. Matters that specifically need to be addressed include the following:
• The effective implementation of documented policies and procedures.
• Many auditees have not put in place policies specifically providing guidelines and directives for the collection, processing and validation of performance information.
• Policies and procedures are not in place to ensure compliance with the laws and regulations.
• Auditees whose policies and procedures are still in draft should prioritise their finalisation and monitor compliance once approved. .</td></tr>
<tr><td>Develop and monitor the implementation of action plans to address internal control deficiencies.</td><td></td><td>
</td><td></td></tr>
<tr><td colspan="4">Specific action plans are required to address internal control deficiencies and improve audit outcomes. Matters requiring attention include the following:
• Setting action plans to specifically address the external and internal audit findings. Some action plans did not address the root causes of audit findings and therefore did not prevent repeat findings.
• Staff members were not assigned responsibility to carry out these action plans.
• Ineffective monitoring to ensure that the responsibilities assigned were carried out effectively and consistently.
• Some auditees' action plans were developed too late in the financial year to resolve matters by year-end.
• Action plans do not address all three facets of audit outcomes, namely qualifications, findings on PDO reporting and compliance with laws and regulations.</td></tr>
<tr><td>Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.</td><td></td><td>
</td><td></td></tr>
<tr><td colspan="4">An assessment of information technology controls is presented in section 3.3 of this general report</td></tr>
</table>

Driver no. 2: Financial and performance management	Departments	Assessment of driver (all auditees)	Public entities
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.			

Proper record keeping is an essential step towards achieving clean audit outcomes as it ensures that the information reported can be substantiated and verified. It also empowers senior management to hold staff accountable for their actions. An adequate system of record keeping requires that senior management establish adequately developed and communicated policies to ensure that staff align their actions with the entity's objectives. A key objective of maintaining a formal and reliable system of record keeping is to have documentation readily available when requested.

Most auditees' financial and performance systems have not yet reached the level of maturity where information is centrally available and evidence to support major decisions is readily available. The root causes include the following:

- A lack of document management policies.
- Poor monitoring of those policies by management where policies do exist.
- A lack of willingness by leadership to implement those commitments that were made to specifically address the recurring instances of missing and incomplete supporting information.
- A lack of management of documentation to support the reported performance against PDO.

Driver no. 2: Financial and performance management	Departments	Assessment of driver (all auditees)	Public entities
Implement controls over daily and monthly processing and reconciling of transactions.			

<table>
<tr><th>Driver no. 2: Financial and performance management</th><th>Departments</th><th>Assessment of driver (all auditees)</th><th>Public entities</th></tr>
<tr><td colspan="4">
Auditees that improved or sustained their audit outcomes were found to effectively monitor daily and monthly processing and reconciling of transactions. Auditees that improved on reconciliation processes and reconstruction of fixed assets register were able to resolve audit qualifications. Monthly reconciliations and clearing of suspense accounts provide the platform for reliable in-year financial reporting and the early detection of errors in and omissions from financial and performance reporting.

Poor and deteriorating controls which negatively impacted on audit outcomes included the following:
• Key controls were not reviewed and monitored on a daily, weekly and monthly basis.
• Assets were not verified at least on a quarterly basis to ensure that asset registers are reliable, which resulted in errors being detected only when an audit is performed.
• Auditees did not ensure that controls such as the following are in place:
– Daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliation of key accounts.
– Collection of performance information at intervals that are appropriate for monitoring of set service delivery targets and milestones and validation of recorded information.
– Management of contracts and the commitments relating to such contracts.
– Confirmation that legislative requirements and policies have been complied with prior to initiating transactions.
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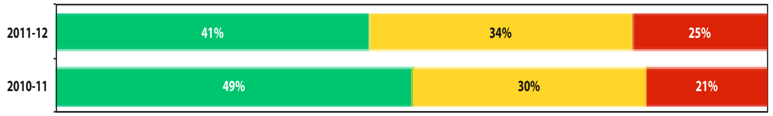
<tr><td>Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</td><td></td><td>
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Only when the in-year preparation and independent review of financial statements and performance information become an established practice will the quality of financial statements submitted for audit significantly improve and findings resulting from material misstatements in financial statements and performance reports be eliminated.

The following matters contribute to poor audit outcomes due to errors in and omission of information which cannot all be corrected when the annual audit has commenced, resulting in qualifications or material PDO findings:
• The practice of regular internal reporting is not fully embedded at most auditees to ensure self-monitoring, thereby reducing the likelihood of producing financial statements that attract qualifications when audited, or findings on the usefulness and/or reliability of performance information.
• Leadership does not insist on receiving in-year financial and performance reports that are independently validated, as well as reports on legislative requirements having being met.
• Finance staff lack an adequate understanding of the reporting framework, resulting in them not being able to draft the required disclosure notes to the financial statements.
• Over-reliance on consultants to assist auditees in achieving an unqualified audit opinion.
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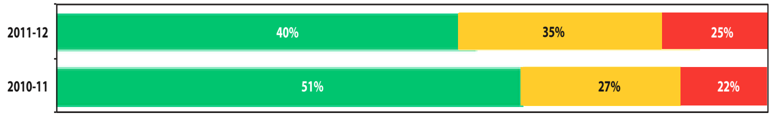
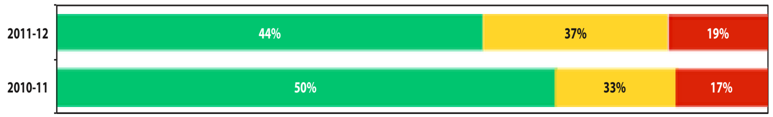
<table>
<tr><th>Driver no. 2: Financial and performance management</th><th>Departments</th><th>Assessment of driver (all auditees)</th><th>Public entities</th></tr>
<tr><td>Review and monitor compliance with applicable laws and regulations.</td><td></td><td>
</td><td></td></tr>
<tr><td colspan="4">Management should conduct regular monitoring to ensure that appropriate controls are in place with a view to consistent compliance with all applicable laws and regulations as a significant number of auditees remain in the 'unqualified with findings on non-compliance' category. Leadership should focus on the regular monitoring of common areas of non-compliance and the effective implementation of checklists to ensure compliance before transactions are concluded and not after payments have been made.

Findings on non-compliance with applicable laws and regulations are the result of matters that commonly include the following:
• Management and governance structures have not established their own processes to identify all existing legislation applicable to their departments and public entities.
• Instances that point to a deliberate disregard for laws and regulations.
• Certain cases where management fails to demonstrate any commitment to ensure compliance with the relevant laws and regulations.
• There appears to be no appreciable consequences for officials who fail to comply with laws and regulations to which departments and public entities are subject or for officials who fail to discharge their legislated duties.
• While many auditees do have policies and procedures in place to monitor compliance with laws and regulations, monitoring should take place at more frequent intervals, such as on a monthly basis, by dedicated/designated staff members with a view to detecting, or preferably preventing, non-compliance.</td></tr>
<tr><td>Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (Information systems).</td><td></td><td>
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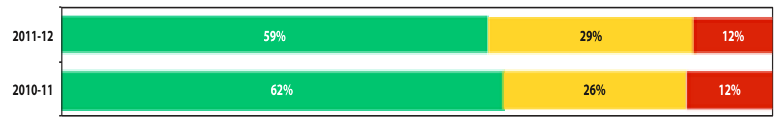
<table>
<tr><th>Driver no. 3: Governance</th><th>Departments</th><th>Assessment of driver (all auditees)</th><th>Public entities</th></tr>
<tr><td>Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.</td><td></td><td>
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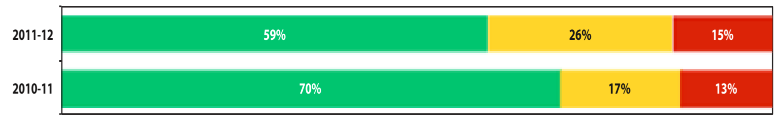
<tr><td colspan="4">Risk management is the practice of identifying, assessing and prioritising risks and developing risk management plans which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability in respect of financial reporting and reporting on achievements against PDOs (service delivery)

Risk management activities that require attention from leadership, management and governance structures of departments and public entities include the following:
• A lack of risk assessments and risk management strategies that sufficiently cover financial reporting, reporting on achievements against PDOs and consistent compliance with applicable laws and regulations.
• IT risk plans and fraud prevention plans were inadequately implemented.
• Risk management strategies were developed but not appropriately implemented and monitored.
• A significant number of auditees could not provide sufficient adequate evidence that their IT risks such business continuity, IT governance and user access management are well managed. This has a significant impact on auditees' ability to achieve excellent public administration as most transactions are now initiated through a computer, processed and reported by computerised application.
• Auditees' risk assessment results do not inform the work plans of internal audit and the agendas of audit committees.</td></tr>
<tr><th colspan="4">Section 3.5 of this report provides an assessment of the effectiveness of internal audit units</th></tr>
<tr><td>Ensure that an adequately resourced and functioning internal audit unit is in place that identifies internal control deficiencies and recommends corrective action effectively.</td><td></td><td>
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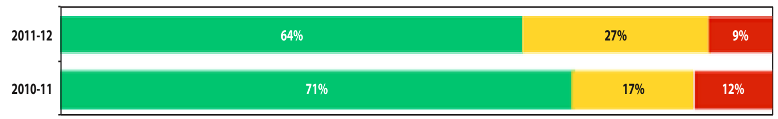
<tr><th colspan="4">Section 3.5 of this report provides an assessment of the effectiveness of audit committees</th></tr>
<tr><td>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.</td><td></td><td>
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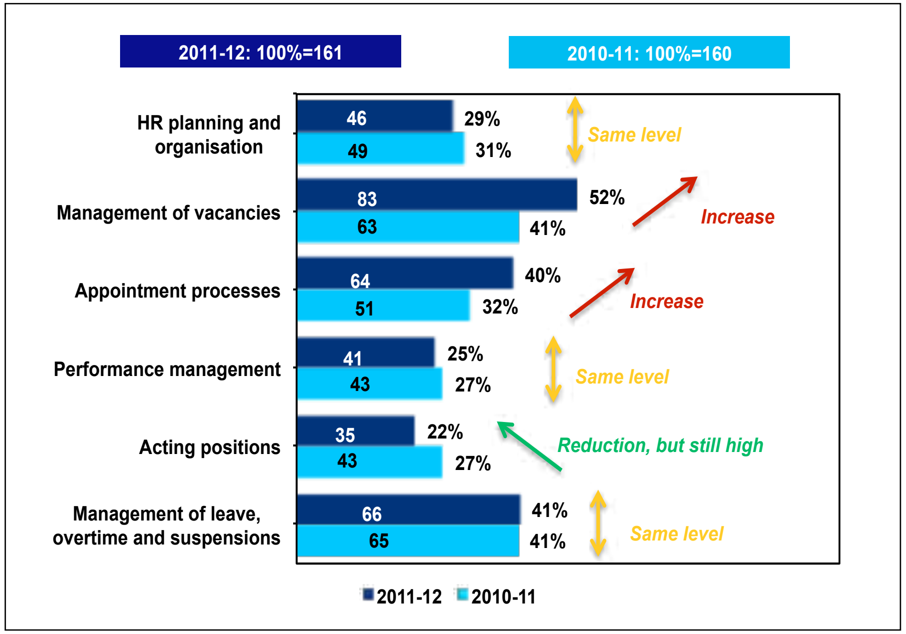
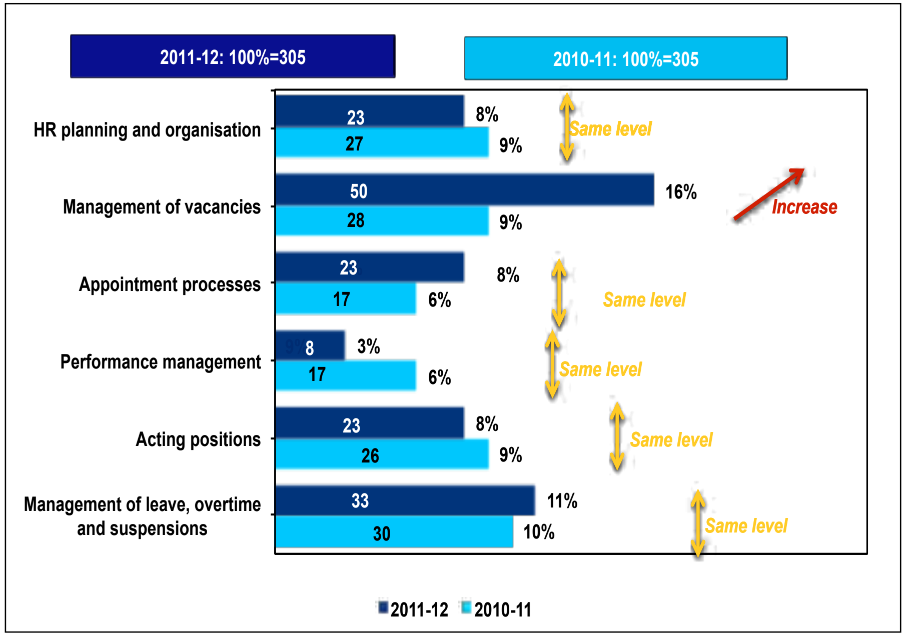
3.2 EFFECTIVE HUMAN RESOURCE MANAGEMENT AS A SPECIFIC DRIVER OF AUDIT OUTCOMES

Departments



Public entities



Reduction		Less than 5% change		Increased	

Findings arising from the audit human resource management

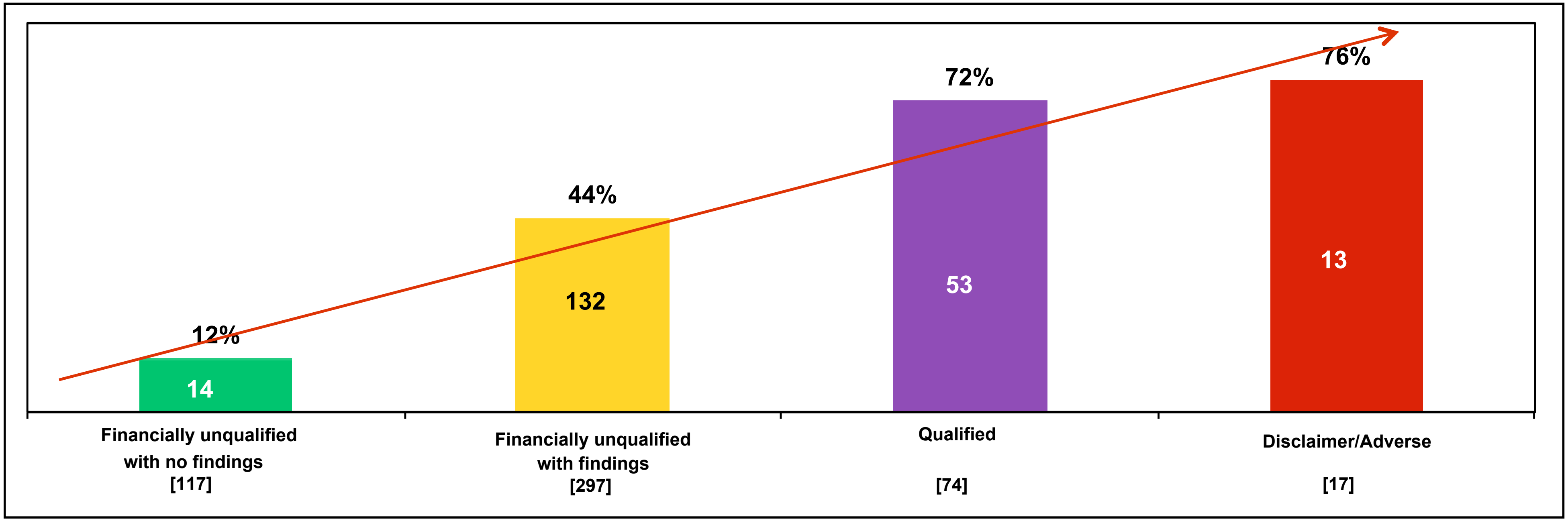
Effective HR management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are properly managed.

As in previous years, ineffective HR management was identified as one of the significant root causes of qualification findings, findings on reporting against PDOs and findings on compliance (as detailed in sections 2.2 to 2.4). For the past two years the audits of all departments and those public entities subject to the PFMA included a specific focus on HR management. The assessment of HR management focused on the following areas: • HR planning and organisation • management of vacancies • appointment processes • performance management • acting positions • management of leave, overtime and suspensions

This assessment was performed at all departments for the past three years, and for public entities subject to the PFMA and legislatures in the past two years. Findings arising from the assessment were reported in the management reports of 45% of the auditees that were included in the scope, while at 19% of them the findings were material enough to warrant reporting in the auditor's report. The progress made by auditees in addressing weaknesses in the main areas of HR management is **depicted earlier**.

The figure below demonstrates that auditees with a high rate of HR findings have poorer audit outcomes than those that maintain sound HR management.

Figure 22: Correlation between auditees with human resource findings and their audit outcomes



HR findings are more prevalent at departments than at public entities. Key findings from the audits are summarised below.

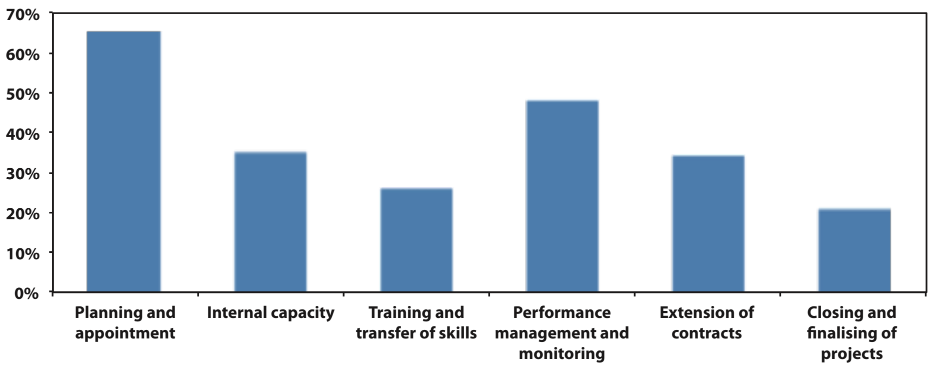
Aspects	Indicator	Detailed findings
Vacancy management - General		At year-end the average vacancy rate for departments was 23% and for public entities 11%. For 91% of auditees, the overall vacancy rate at year-end remained unchanged or decreased in comparison with the previous year. The same percentage of auditees was also able to maintain or decrease their year-end senior management vacancy rate. The number of auditees that had findings on their level of vacancies and/or the time it takes to fill the vacancies increased since the previous year and remains the most challenging area.
Departments -Vacant senior management positions		Although the vacancy rates at national and provincial government overall is at an acceptable level, the time it takes to fill vacancies in senior managements positions has the biggest impact on audit outcomes. This weakness is more prevalent at departments. Although it is acknowledged that it can take time to recruit and appoint people with the necessary skills and competence in these positions, some senior management positions at 51 (31%) of departments took more than 12 months to fill while 26 (16%) did not advertise vacant senior management positions within six months of the position becoming vacant, which points to weaknesses in the management of these vacancies. In total 46% of departments that received qualified or disclaimed audit opinions experienced long vacancies at senior management level and 35% of them had not advertised the vacancies timeously.

Aspects	Indicator	Detailed findings
Vacancies in the finance sections		Key financial positions were vacant for longer than 12 months at 24% of auditees that received qualified or disclaimed audit opinions.
Departments – Acting positions		At 21 (12%) of the departments the acting periods in senior manager positions were for longer periods than the accepted benchmark of six months. At 29 (18%) of the departments employees acted in positions for longer than 12 months, in contravention of the public service regulations (PSR). Officials acting in positions tend not to take on the full responsibility, functions and powers for the post, with a lower commitment to the deliverables as a result of the temporary nature of the position.
Departments - Performance management		Performance agreements are a requirement in terms of the Public Service Act and regulations at departments for staff at all levels. It is regarded as best practice to ensure that staff are aligned with the organisational objectives and to manage performance. In spite of a specific focus by the Department of Public Service Administration and the Presidency on performance management, senior managers were identified at 37 (23%) departments who did not have performance agreements or whose agreements had not been signed timeously. Poor performance management at senior management levels was identified at 37% of the departments that received qualified or disclaimed audit opinions.

Aspects	Indicator	Detailed findings
Departments – Human resource planning and organisation		The basis for effective HR management is the planning of human resources to deliver on the strategy of the auditee and determining the organisational structure based on the plan. In spite of it being a requirement in terms of the PSR, 28 (17%) departments do not have HR plans in place, 10 (6%) do not have approved organisational structures and, of those departments where organisational structures have been established, 7% are not aligned to their strategic plans.
Departments – Verification processes		Verification of the qualifications, criminal records, citizenship and previous employment of candidates is a legislative requirement for departments. As in the previous year, 61 (39%) departments continue to either disregard these requirements or face challenges in fully implementing them. Inadequate verification and prescribed selection and approval processes for new appointments create the risk that persons without the necessary qualifications, experience and ethical standards will be appointed, which in turn has a direct effect on the auditees' capacity to deliver.

Aspects	Indicator	Detailed findings
Departments - Management of leave, overtime and suspensions		Findings on the management of leave, overtime and suspensions reflect the ability of departments to manage the productivity of the personnel. The top three findings in this area are as follows: Employees were paid overtime for more than the maximum hours allowed – 25 (15%) departments Employees did not submit medical certificates for sick leave – 25 (16%) departments Employees were suspended on full pay for longer than the prescribed period – 20 (12%) departments. Accounting officers have a responsibility to ensure that staff do not abuse sick leave. The submission of medical certificates for prolonged periods of sick leave is a measure to prevent such abuse and is a basic control that is expected to be in place at all auditees. Overtime should also be controlled to prevent employees from working more hours than their conditions allow and to prevent abuse thereof by staff in order to supplement their income. The investigation and disciplinary processes should be finalised timeously for employees who are suspended on full pay in order for them to resume their duties or to commence the recruitment process if their services are terminated.

3.3 FINDINGS ARISING FROM PERFORMANCE AUDITS ON THE USE ON CONSULTANTS AT SELECTED GOVERNMENT DEPARTMENTS



It is common practice at auditees to appoint consultants from the private sector to supplement their HR capacity. The AGSA conducted a performance audit on the use of consultants by eight national departments to assess the economy, efficiency and effectiveness of 124 consultancy projects with an estimated value of R5,5 billion out of the total estimated contract values of R24 billion. The audit covered the period 2008-09 to 2010-11. **The figure above highlights the main areas in which the performance audit identified deficiencies.**

In the current economic environment, the partnership between the private and public sectors has become important in driving South Africa towards its development goals. To optimise the value of this partnership, the report identified areas that need to be controlled to get the best value for money. The termination of consultancy services in the public sector is not advocated, but attention is drawn to those areas where the use of consultants duplicates existing costs incurred, and where value for money spent on consultancy services was not secured. Although some departments experience serious challenges, others demonstrated the ability to succeed in certain areas. The good practices applied should be shared with other departments to promote clean administration.

The performance audit report indicated instances of inadequate planning, high turnover of employees in key positions, inadequate financial and performance management and ineffective governance arrangements, which adversely affected the economical, effective and efficient use of consultants. Key findings in this regard are presented below.

Aspect of the audit	Summary of findings
Economy	Consultants were not always appointed in a manner that ensured projects were implemented in the most economical manner. At times, competitive procurement processes were not followed. Consultants were also sometimes appointed in areas where internal capacity was available or where the establishment of a permanent capacity to perform these functions may have been more cost-effective. Contracts were regularly extended and consultants were paid more than contractually agreed.
Efficiency	Proper cost/benefit analyses were not always performed before consultants were appointed, while project management to ensure that consultants met project deliverables on time was lacking in various instances. In many cases, milestones and timelines were not set, deliverables were not clear, measurable and specific, and roles and responsibilities were not defined. The actual work performed by consultants was not always properly monitored, which adversely affected the achievement of deliverables.
Effectiveness	Set objectives were not always met where deliverables were completed late. Furthermore, prolonged processes for the approval of project deliverables raised the risk that such projects could become obsolete or irrelevant. In addition, departments did not always plan in advance to provide financial and other resources necessary to enable the implementation of the deliverables.

In total, approximately R102 billion was spent on consultants by national and provincial departments in the last three financial years (2008-09, 2009-10 and 2010-11). In light of this substantial amount, the issues raised require urgent attention.

The outcomes of this audit have been shared with the ministers, chairpersons of portfolio committees and management of the audited departments. The National Assembly House chairperson, the chairpersons of the portfolio committees on Appropriations, Finance and Public Service and Administration, as well as the Department of Public Service and Administration, the Public Service Commission and the National Treasury were also informed of the findings in light of their respective supporting and coordinating roles.

National departments responded positively and have made a number of commitments, key among them being the institution of immediate action to address the findings and recommendations identified in the report. Most notably, the departments audited committed to the following:

Exercising greater control over the use of consultants in areas where capacity of a permanent nature is required. Departments indicated that the prescripts issued by the National Treasury and the Department of Public Service and Administration would be adopted and customised

- Ensuring compliance with SCM practices and contract administration
- Providing sufficient internal capacity to enable delivery on their mandate
- Monitoring staff development and training through the transfer of skills
- Monitoring the performance of consultants to ensure that contractually agreed deliverables are met
- Granting extensions of contracts only in exceptional cases and for valid and documented reasons
- Enforcing the procedures for concluding consultancy contracts.

Ministers and chairpersons of portfolio committees welcomed the report as a tool to enhance their oversight activities.

3.4 INFORMATION TECHNOLOGY MANAGEMENT AS A KEY DRIVER OF AUDIT OUTCOMES

Information technology (IT) controls that ensure the confidentiality, integrity and availability of data need to be properly designed and implemented and have to function effectively to maintain the operational integrity of the state, enable service delivery and promote national security.

It is thus essential for good IT governance, effective IT management and a secure IT architecture / infrastructure to be in place.

The following diagram provides a consolidated view of the status of IT across national departments and public entities, based on our audit outcomes:

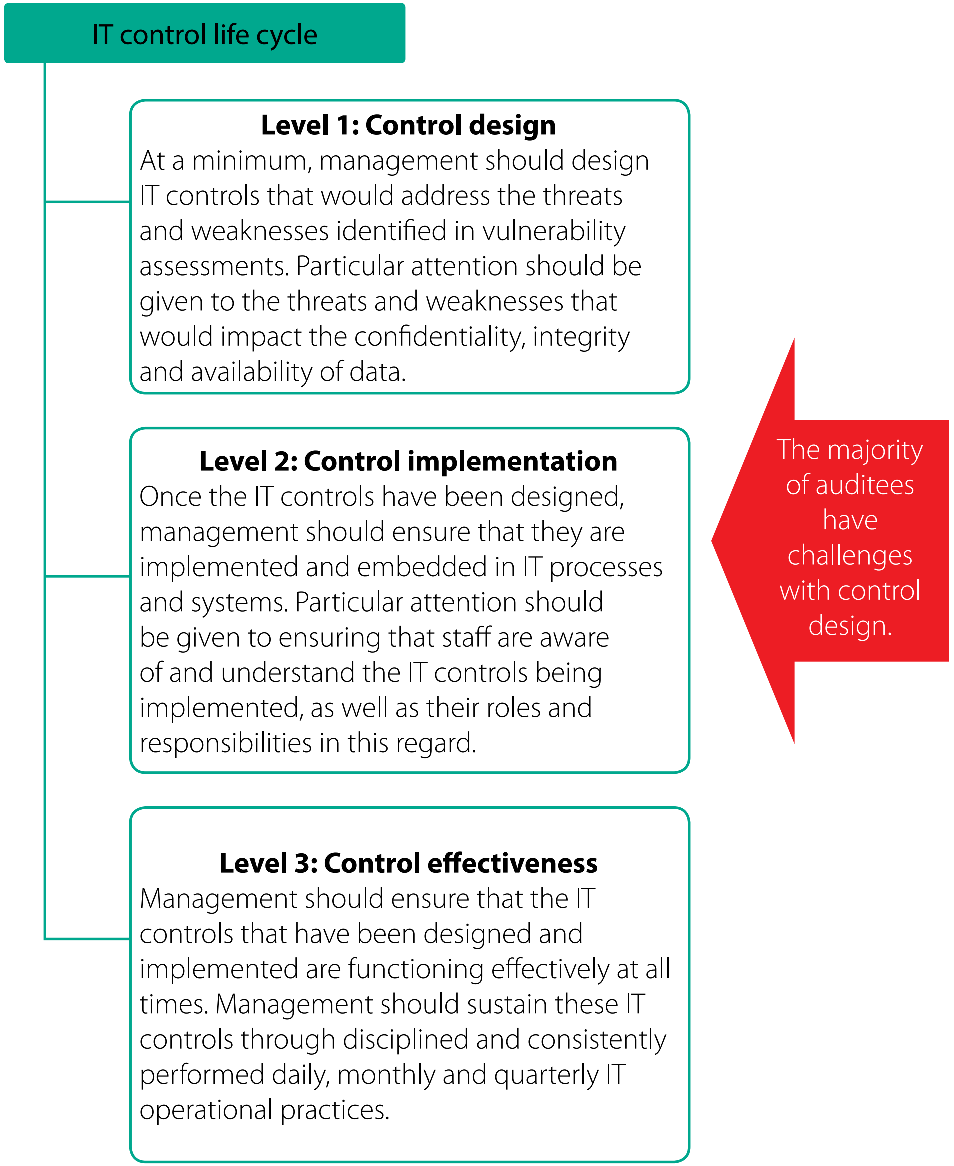
Figure 23: Status of information technology across national departments and public entities

	CONFIDENTIALITY	INTEGRITY	AVAILABILITY
Status of state information	The necessary level of secrecy is enforced for all state information. This was assessed by auditing the following focus areas: • Security Management • IT governance • User access controls	All state information is authentic and remains unaltered until authorised to change and is complete. This was assessed by performing data analytics and auditing the following focus areas: • Security Management • User access controls	All state information is ready for use when expected. This was assessed by auditing the following focus areas: • Security management • IT service continuity
Status of key enabliing controls	**GOOD GOVERNANCE**		
	EFFECTIVE MANAGEMENT		
	SECURE ARCHITECTURE/INFRASTRUCTURE		

Management intervention required

IT controls typically move through a life cycle that includes the three stages of design, implementation and effectiveness.

Figure 24: Typical information technology control life cycle



3.4.1 Information technology governance

Delays in the approval, roll-out and implementation of a government-wide IT governance framework resulted in the IT governance processes depicted in the diagram below not being implemented effectively in the majority of national departments and entities. These governance processes are based on the framework endorsed by the Department of Public Service and Administration (DPSA) and the Government Information Technology Officers Council (GITOC).

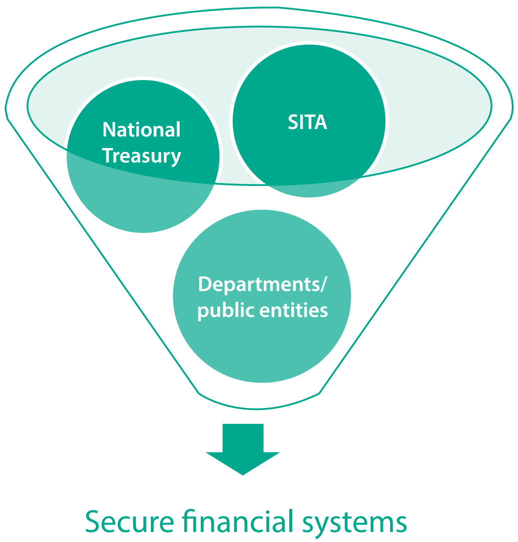
Figure 25: Information technology governance processes

3.4.2 Summary of weaknesses identified in the management of financial information systems

The transversal financial systems used by national government departments, i.e. the Basic Accounting System (BAS), the Personnel and Salary System (Persal) and the Logistical Information System (Logis), are hosted by the State Information Technology Agency (SITA). SITA is responsible for establishing and maintaining security controls over the network that connects these systems with the national government departments. SITA also ensures that information from the departments that is processed on these systems is centrally backed up. The National Treasury (NT) is responsible for ensuring that programmatic changes to these systems are managed and controlled. In contrast, public entities utilise various financial systems and manage these on their own with no intervention from either NT or SITA.

Adequate coordination between SITA, NT and government departments and public entities would contribute towards ensuring a secure IT environment for financial systems.

Figure 26: Key role players in ensuring a secure information technology environment

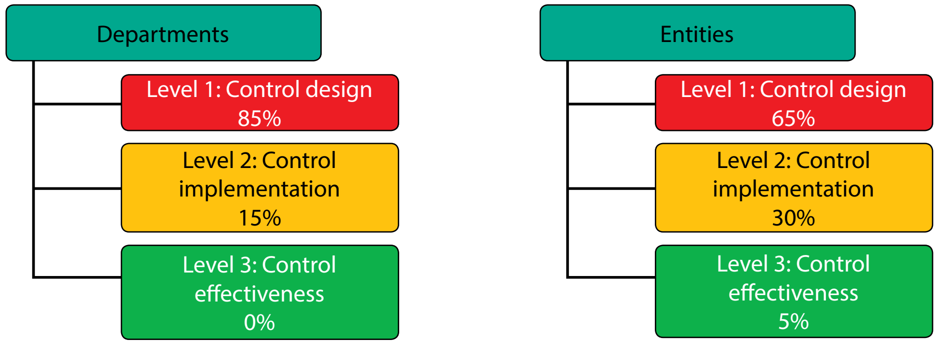


IT controls were assessed at 40 national departments and 109 public entities. An analysis of the audit outcomes indicated that the majority of departments and entities experienced challenges with the design and implementation of IT controls that provide assurance of the confidentiality, integrity and availability of financial information.

Weaknesses specific to focus areas have been summarised below:

3.4.2.1 Program change management

Figure 27: Control weaknesses in program change management



- ***National Treasury***

  Program and data change controls were adequately designed and implemented and operated effectively on the BAS and Logis systems. However, the controls governing the correction of personnel records on the Persal system were not adequately designed. The risk of unauthorised changes being made to personnel and financial information was compounded by inherent weaknesses such as the ageing technology of the transversal systems.

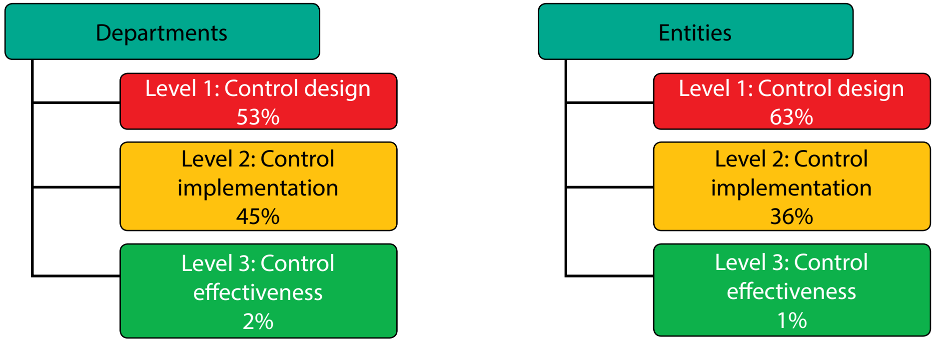
- ***Departments and entities***

  Program and data change controls for public entities were not adequately designed. As a result, changes were implemented that had not been approved or tested.

Inadequate segregation of duties stemming from programmers having permanent access to the live environments of the transversal and non-transversal systems at both departments and public entities resulted in management not always being empowered to ensure the integrity of personnel and financial information.

3.4.2.2 Security management

Figure 28: Control weaknesses in security management



- ***State Information Technology Agency***

Significant control deficiencies related to encryption, Internet security and firewall configurations were identified on SITA's network. These control deficiencies could impact on the security of the financial systems used by government departments.

Formal information security policies and standards had not been designed for the network infrastructure.

Information security responsibilities for the infrastructure that supports the network environment had also not been assigned to an information security officer.

The security measures were therefore inadequate to protect the confidentiality, integrity and availability of the financial, performance and personnel information stored by SITA on behalf of all government departments.

- ***Departments and entities***

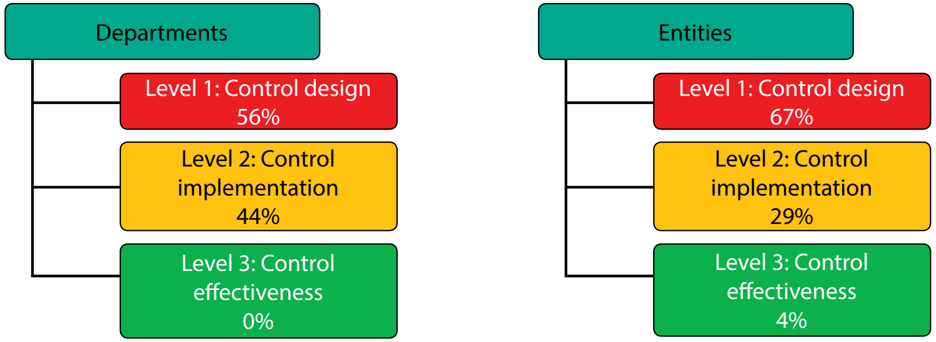
As a result of the lack of formally designed and implemented information security policies and standards, effective security controls were not in place, which gave rise to the following weaknesses:

- Firewalls were not securely configured.
- Antivirus software and patches were not updated.
- Password controls were not adequately configured.

The weak security control environment was in a number of instances exploited to gain unauthorised access.

3.4.2.3 User access management

Figure 29: Control weaknesses in user access management

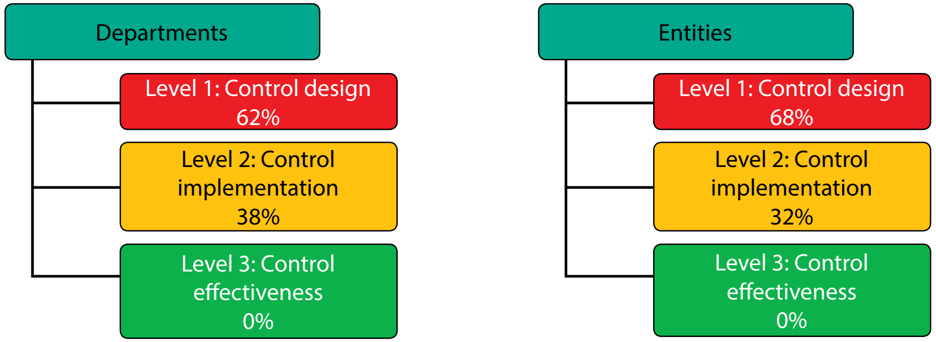


The lack of implementation of user access controls gave rise to the following weaknesses:

- Users who left organisations were not removed from systems in a timely manner.
- User access profiles used to initiate and approve financial and HR transactions were not continuously monitored to ensure that only authorised access would be given to users.
- Users were created on systems without supporting documentation.
- User passwords were reset without supporting documentation.
- System controller access that allowed a person to perform the above actions was not monitored to ensure that only authorised transactions were performed.

3.4.2.4 Information technology service continuity

Figure 30: Control weaknesses in information technology service continuity



- Business continuity plans had not been designed to ensure that all critical business processes supported by IT systems would be identified and included in a recovery plan. This gave rise to the risk of misalignment between business expectations and IT recovery processes, as departments and public entities might not be able to recover information systems services to enable the timely resumption of business in the event of a business disruption and IT disaster. This risk was elevated by the lack of disaster recovery testing that would establish recovery capabilities.
- Disaster recovery plans that could be invoked to recover IT systems to a normal operating state in the event of a disaster had not been documented for departments and entities. The risk of data loss was further increased by the inconsistent performance of recovery disciplines, such as daily backups, off-site storage and periodic data restoration tests. For entities, the lack of a centralised disaster recovery facility, such as that provided by SITA for the departments, increased the risk of business continuity and data recovery not being possible in the event of a disaster.

3.4.3 Project risks in developing or implementing major systems in government

Trends were noted in entities and legislatures embarking on the implementation of Enterprise Resource Planning (ERP) systems from vendors such as Oracle and SAP. While the implementation of these systems is not necessarily problematic, the status of the current IT environment elevates certain key risks related to their deployment, as the following examples will illustrate.

Figure 31: Examples of information technology project risks elevated by the status of the current environment

Pre-initiation

- Not having a business case, or having a poorly developed business case, could result in questionable project decisions, intended business objectives not being met, incorrect solution selection and inaccurate budgeting. Further, there is a risk of functionality in existing systems being duplicated.
- The lack of engagement with users in defining their requirements could result in an inadequate system that does not meet all business needs.
- The lack of appropriate executive and/or senior leadership involvement from the outset could result in poor oversight and management of the project.

Initiation

- Not having a project management and governance framework, or having one that is inadequate, may result in poor management and control of project deliverables and risks.
- Inadeqaute stakeholder identification and engagement could result in unnecessary delays during subsequent project implementation phases.

Planning

- A lack of input from subject matter experts/users could result in inadequate planning, poor technology selection and inadequate management of critical success factors related to project costs, quality and schedule.
- Risks related to implementation scope, procurement, human resources, communication, information security, end-user acceptance, integration and change management may also be poorly managed.

Execution

- Insufficient resources and/or a lack of suitably skilled resources could result in dependency on consultants and delays in execution.

Monitoring and control

- Ineffective project leadership and governance, a lack of continuous risk and internal audit assurance oversight and a lack of compliance with established project implementation disciplines could result in projects not meeting business objectives.
- Poor contract management could result in project delays, budget overruns, inferior quality and a lack of proper scope management.

Closing and operations

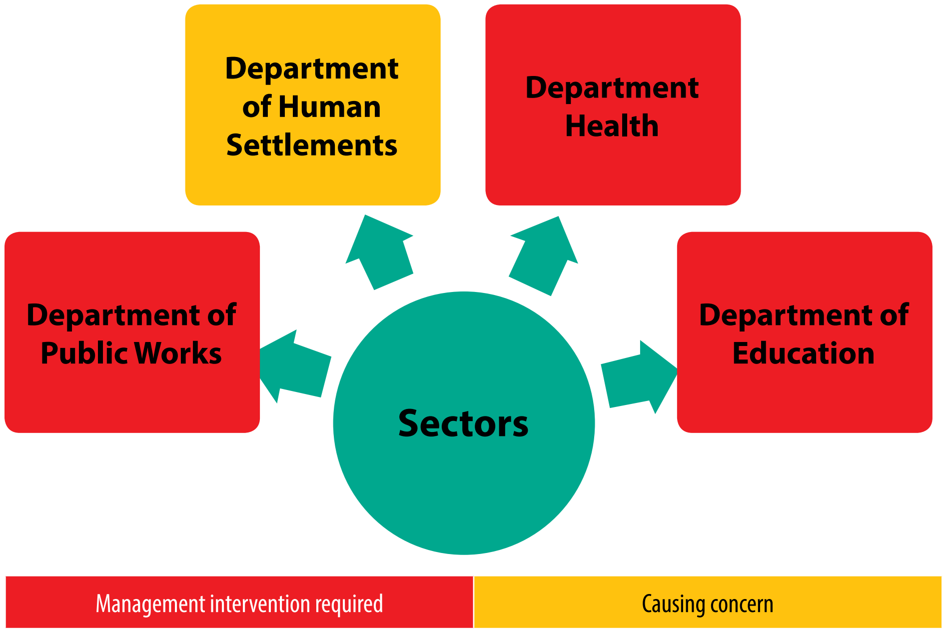
- Inadequately planned project handover processes could result in operations teams not having the capability or capacity to support the system once it has been implemented.
- Inadequate operations and maintenance planning could impact the sustainability of the solution and long-term benefits realisation.

3.4.4 Summary of identified weaknesses in the management of performance information systems

Framework 86 of 2007 was compiled by the National Treasury for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the systems used by the provincial departments for reporting on the achievement of predetermined objectives. IT controls that ensure the confidentiality, integrity and availability of performance data need to be properly designed and implemented and have to function effectively to maintain the operational integrity of the state and enable service delivery.

The following diagram provides a consolidated view of the status of performance information systems for the sectors audited:

Figure 32: Status of performance information systems controls



3.4.4.1 Department of Public Works

Mandate of the department

The core responsibility of the Department of Public Works is to provide land and accommodation to government departments and institutions. Various information systems are used to maintain and protect the confidentiality, integrity and availability of information, in line with the programmes that form part of the department's annual performance plans, namely Programme 2 (Immovable assets investment management) for lease management and Programme 3 (Expanded Public Works Programme (EPWP) for job creation. This information includes the billing of government departments and payment of landlords.

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

Weaknesses identified in the Property Management Information System (PMIS), which supports the process of lease management for creating job opportunities:

- Inconsistencies were noted in the preventative and processing controls developed to ensure that valid and complete lease information would be captured and processed on the PMIS. The risk of fraud and overpayment was further increased by the changes being made to captured lease agreements without supporting evidence to indicate who effected the changes. These inconsistencies can be attributed to ageing technology and the delayed implementation of the iE-Works implementation project that has been in development since 2005 with only 16% of the deliverables completed, despite the project having exceeded its budget by 120%.

The Work-based System (WBS) and the Management Information System (MIS), which are used to report on the beneficiaries of the Expanded Public Works Programme (EPWP), did not have preventative controls to ensure that beneficiaries:

- have valid South African identity numbers
- are not already employed
- are paid the correct wages.

3.4.4.2 Department of Human Settlements

Mandate of the department

The core responsibility of the Department of Human Settlements is to provide housing and give housing assistance to qualifying individuals. The Housing Act, Act No. 107 of 1997, requires the establishment and maintenance of a national housing databank and a national housing information system. In compliance with the act, the Department of Human Settlements uses the Housing Subsidy System (HSS) to manage and administer housing subsidies in line with Programme 3 (Housing development) of the National Housing Code.

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

The HSS is a centralised system used to manage housing subsidies.

Control weaknesses within the HSS:

- Management tended to follow manual processes when allocating houses instead of using the system processes that have controls to ensure that houses are allocated to approved beneficiaries.
- The risk of management system overrides was further increased by the lack of standardised business processes across the nine provinces.

Control weaknesses surrounding the HSS:

- Improvements were noted in the centralised provinces (Free State, Gauteng, KwaZulu-Natal, Northern Cape, Limpopo and Mpumalanga), with the exception of the monitoring of user access control, which remained a concern.
- Concerns were noted in the decentralised provinces (Western Cape, North West and Eastern Cape). Specific red flags raised in the Eastern Cape related to user access controls and in the North West included all focus areas audited (i.e. security management, user access controls, IT service continuity). The risks of unauthorised access and data being irrecoverable in the event of a business disruption or IT disaster were exacerbated by the fact that these provinces are responsible for monitoring their own controls, in contrast to the centralised provinces that are monitored by the national department.

3.4.4.3 Department of Health

Mandate of the department

The core responsibility of the Department of Health is to plan, provide and monitor health care services in the country. This includes primary health care services at district level and tertiary health care services at hospital level. Various information systems, such as the District Health Information System (DHIS), are used to collect aggregated anonymous statistical data regarding health facilities from provincial departments, districts and sub-districts in support of the programmes that form part of the department's annual performance plans, namely Programme 2 (District Health Service) and Programme 4 (Provincial hospital services). The data is used to facilitate the planning of health needs in the country.

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

Control weaknesses noted within the DHIS:

- Consolidation controls for data received from the provinces were inadequate as manual interventions were possible and no verification processes were in place to ensure the accuracy, validity and completeness of data. Reporting on information such as the number of patients treated, the number of health professionals employed and the number of health care facilities might consequently not be accurate.
- The lack of an integrated data recovery plan for facilities and provinces could, in instances of data corruption or loss, impact on the completeness and availability of consolidated data at the national department. Information on, for example, the number of hospitals to be built or the number of clinics to be provided with water, electricity and sanitation facilities might therefore not be available.

3.4.4.4 Department of Education

Mandate of the department

The core responsibility of the Department of Basic Education is to plan, provide and monitor basic education services in the country. This includes Grade R, primary schools and secondary schools. The department utilises the Education Management Information System (EMIS) to collect aggregated anonymous statistical data regarding the number of learners at education facilities, in line with the programmes that form part of the department's annual performance plans, namely with Programme 4 (Planning Information and Assessment).

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

Control weaknesses noted within EMIS:

- Consolidation controls for data received from the provinces were inadequate as manual interventions were possible and no verification processes were in place to ensure the accuracy, validity and completeness of data. Reporting on information such as the number of learners enrolled, educators and non-educator staff employed and the number of learners benefiting from the "no fee school" policy might therefore not be accurate.
- The lack of an integrated data recovery plan for facilities could, in instances of data corruption or loss, impact on the completeness and availability of consolidated learner and school data at the national department. Statistics on, for example, the number of classrooms to be built or the number of schools to be provided with water, electricity and sanitation facilities might therefore not be available.

3.4.5 Drivers of IT control weaknesses

- Accounting officers did not view IT as a strategic and service delivery enabler.
- A change in leadership within the DPSA delayed the approval of the government-wide IT governance framework.
- An IT governance framework had not been designed and implemented for public entities and legislatures.
- The lack of consequences for IT control weaknesses contributed to routine tasks, such as the resolution of audit findings and the design and implementation of key controls (policies, procedures, monitoring), not being performed.
- Unfilled vacancies and shortages of key IT skills (IT security officers, network technicians and database administrators) resulted in IT not being properly capacitated to adequately fulfil the required IT control obligations.
- Internal assurance processes, such IT management reporting, internal audit and audit committees, were not effective in supporting leadership oversight of IT.

3.4.6 Recommendations and quick wins in resolving information technology management weaknesses

While we acknowledge that the soon-to-be-implemented government-wide IT governance framework will lay the foundation for medium- to long-term sustainable change in IT across government, we believe that management could proactively address certain issues. For this purpose, we have put together a number of recommendations, some representing quick wins, which would address certain concerns and reduce the impact of current IT exposures.

Figure 33: Recommendations and quick wins

Recommendations and quick wins

Departments

Perform IT risk assessments.

Develop and approve IT policies and procedures.

Employ staff with relevant IT competencies.

Align IT systems to approved policies.

Monitor and evaluate IT services.

Continuously monitor and evaluate IT controls.

Ensure continuous internal audit and audit committee assurance on IT controls.

Public entities

Public entities should implement similar controls to those adopted by departments as well as the government-wide IT governance framework developed by the DPSA.

Sectors

Public Works – Finalise the development of the iE-Works System and build controls into the WBS and MIS systems.

Human Settlements – Adopt national guidelines on user access and backup control procedures. The management of IT processes such as backups, security and user access should be centralised for all provinces.

Health and Education – Implement an integrated web-based application / system to facilitate centralised collection, processing and storage of information.

3.5 AUDIT COMMITTEES AND INTERNAL AUDIT

Assessed effectiveness of audit committees and internal audit units

Assessment: Audit committees (Yes)	Assessment: Audit committees (No)	Aspect assessed	Assessment: Internal audit (Yes)	Assessment: Internal audit (No)
97%	3%	In place	91%	9%
95%	5%	Fully compliant with legislated requirements	94%	6%
80%	20%	Evaluates internal controls	79%	21%
79%	21%	Evaluates reliability/integrity of financial information	62%	38%
73%	27%	Evaluates reliability/integrity of performance information	64%	36%
73%	27%	Evaluates supply chain management	74%	26%
73%	27%	Evaluates compliance with laws and regulations	68%	32%
61%	39%	Interacts with the executive authority	Not applicable	
65%	35%	Positive impact on audit outcomes	58%	42%

Yes | No

Effective governance is a key driver of internal control, which in turn impacts audit outcomes. Risk management and effective audit committees and internal audit functions are key elements of this driver of internal control. In terms of the PFMA, an audit committee and internal audit unit must be established by all public sector organisations. Audit committees serve as an independent governance structure whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and all other matters of governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of ensuring that the organisation achieves its objectives. Internal audit units form an integral part of providing assurance on governance, risk management and internal control.

Depicted alongside is the assessment of the effectiveness of audit committees and internal audit units for the 2011-12 financial year as well as the extent to which auditees have met legislative requirements related to audit committees and internal audit.

The table below provides information on the assessment of the effectiveness of audit committees and internal audit, as well as their compliance with applicable legislation. The assessment was performed during all AGSA-conducted audits.

Table 18: Assessment of the effectiveness of audit committees and internal audit

Governance structure aspect	Assessment results and way forward
Audit committee and internal audit units in place	As required by the PFMA, the majority of national and provincial auditees have established audit committees and internal audit units, with some instances where these were not in place for the entire financial year.
Audit committees and internal audit fully compliant with legislation	Audit committees and internal audit that are compliant with the legislation are an important component of effective governance, risk management and internal control at the organisations where they are appointed. The following findings on audit committees relate to non-compliance with the PFMA and the Treasury Regulations: (a) Not correctly constituted (b) No review of the effectiveness of the internal audit function (c) No review of risk areas of institution's operations to be covered in scope of internal and external audits.
	A significant number (23%) of internal audits units in the provincial sphere of government did not comply with all the requirements of the PFMA. Non-compliance findings related to internal audit units included the following: (a) No three-year strategic internal audit plan (b) Quarterly reports, detailing performance against annual internal audit plan, not submitted to audit committee.

Table 19: Assessment of the effectiveness of audit committees and internal audit

Governance structure aspect	Assessment results and way forward
Audit committees and internal audit evaluate internal control	The general regression in the implementation of the drivers of internal control serves as a signal to committees and internal audit units that they should broaden their scope of independent reviews to include all aspects of financial and performance management and should also discharge their responsibilities in line with the recommendations of King III to ensure that an improved control environment is established and sustained. • Audit committees and internal audit units should implement an effective and consistent method of follow-up on actions taken to address audit findings relating to internal control weaknesses, • Assurances given by internal audit on the adequacy of auditees' systems of internal control should be supported by assessments undertaken in accordance with the *International Standards on Internal Auditing*.
Audit committees and internal audit evaluate the reliability of performance information	The increased attention given by audit committees and internal audit units to auditees is a contributor to the overall progress made by auditees during the year under review in addressing prior year PDO findings. However, the material adjustments made to performance information submitted for audit indicate that audit committees and internal audit should conduct a more robust assessment of controls relied on by management to produce reliable performance information.
Audit committees and internal audit evaluate supply chain management and compliance with laws and regulations	An encouraging proportion of audit committees and internal audit units do give attention to SCM risks and other risks of non-compliance (including unauthorised and fruitless and wasteful expenditure). However, the general increase in external audit findings on compliance indicates the need for a more intense focus on and improved attention to implementing audit recommendations.
Audit committees interact with executive authority	Frequent, candid interactions between audit committees and their executive authorities provide a basis for progress towards clean audit outcomes, especially as executive authorities are in a position to objectively assess the merits of audit committee recommendations and have the authority and power to address obstacles that audit committees may encounter in executing their mandate to promote sound governance, risk management and control. A high number of audit committees, across all the spheres of government, did not have regular interactions with the executive authority. The lack of regular interactions is most prevalent at departments and should be remedied to ensure that these two critical governance structures interact formally and regularly in order to improve audit outcomes.
Audit committees and internal audit positive impact on audit outcomes	Audit committees that focus on all three audit aspects, namely (i) financial reporting, (ii) reporting against PDOs, and (iii) compliance with laws and regulations, positively impact audit outcomes, especially at auditees whose management seriously considers their recommendations for improvements to risk management, governance and internal control. It is recognised that the impact may not immediately translate into auditees' progression to clean audits or even from qualified to financially unqualified financial statements. However, committees and internal audit units have been assessed as having had an impact on audit outcomes at those auditees whose financial statement qualification findings had been reduced and/or which had fewer findings, compared to the previous financial year, on PDO and compliance.

Governance structure aspect	Assessment results and way forward
Audit committees and internal audit positive impact on audit outcomes (continued)	Further steps that should be taken by audit committees and internal audit units to improve audit outcomes include the following: • Perform a risk assessment to ensure that the audit plan covers the most significant areas • Arrange a joint planning session with external audit to improve cooperation and coordination throughout the audit process • Ensure that management has implemented measures to correct the internal and external audit findings • Perform regular reviews of key internal controls, especially those related to daily financial and performance management and ensuring compliance with laws and regulations • Review of monthly/quarterly financial and performance reports during the financial year and in particular those submitted for audit at year-end • Ensure that internal audits are conducted in compliance with the Internal Audit Standards • Ensure that the internal audit plan is completed • Ensure that all actions taken have a strong regard for independence and objectivity with the aim of achieving sustainable improved audit outcomes.

SECTION 4: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES AND COMMITMENTS MADE

SECTION 4: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES AND COMMITMENTS MADE

This section of the general report provides an overview of the assurance providers in the national and provincial spheres of government, with an assessment of assurance provided by the different role players in section 4.1 to 4.3. The commitments made by oversight and the executive authorities, the status thereof and the impact on audit outcomes are also reported in section 4.2 and 4.3. Section 4.4 addresses the responsibilities of the key role players to enforce consequences for poor performance and transgressions and the remedies available in legislation. Section 4.5 outlines the AGSA's ongoing initiatives to encourage clean administration.

4.1 ASSURANCE PROVIDERS IN NATIONAL AND PROVINCIAL GOVERNMENT

The accountability of the executive and national or provincial departments and public entities (auditees) for their actions, performance, financial management and compliance with legislation serves as a cornerstone of democratic governance in South Africa. One of the most important oversight functions of Parliament and the provincial legislatures is the consideration of auditees' annual reports. These annual reports serve as a mechanism whereby the executive and their accounting officers report on the financial position of the auditee, its performance against predetermined objectives and overall governance. For Parliament and the provincial legislatures to perform their oversight function, assurance needed that the information in the annual report is credible. To this end, the annual report also includes the audit report of the AGSA which provides the required assurance on the credibility of the financial statements and annual performance report and the auditees' compliance with laws and regulations.

There are other role players in the public sector that contribute to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented at auditees.

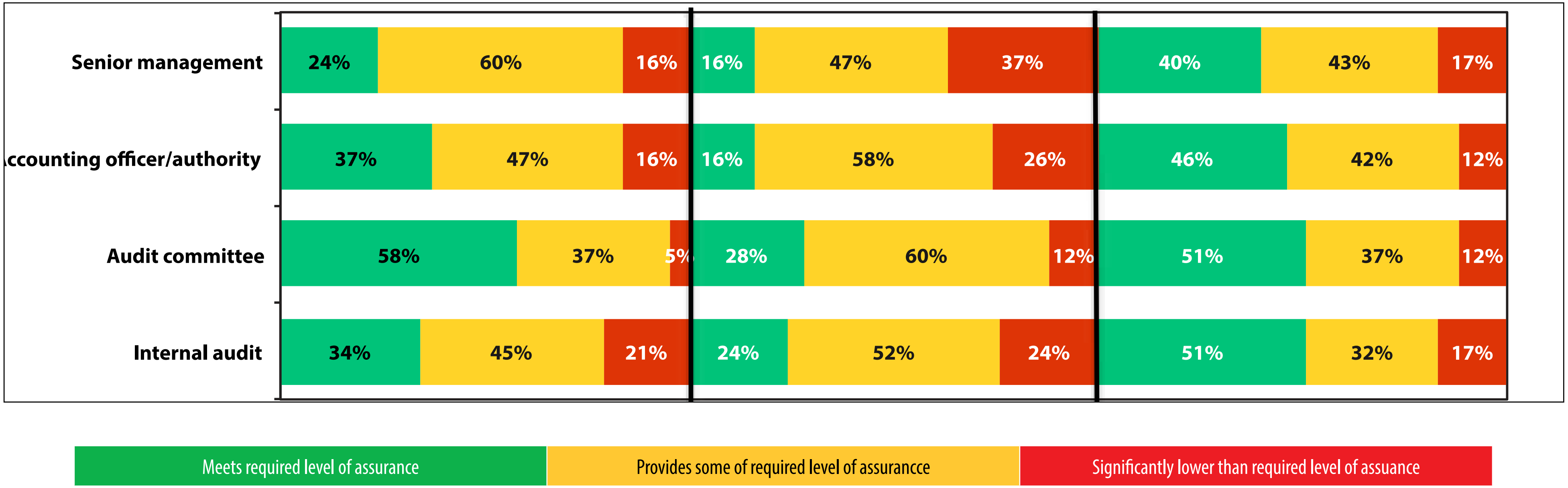
The role players recorded hereunder are (1) those directly involved with the management of the auditee (management assurance); (2) the role players that perform an oversight/governance function, either as an internal governance function or as an external monitoring function (oversight assurance); and (3) the independent assurance providers that provide an objective assessment of the auditee's reporting.

Figure 34: Combined assurance providers in the South African public sector

Management assurance First level of assurance			**Oversight assurance** Second level of assurance			**Independent assurance** Third level of assurance		
Senior management	Accounting officer/ authority	Executive authority	Coordinating/ monitoring institutions	Internal audit	Audit committee	Oversight (portfolio committee and councils)	Public accounts committee	External audit

The level of assurance provided by the role players was assessed based on the status of internal controls of auditees and the impact of the different role players on the controls. In the current environment characterised by inadequate internal controls, material misstatements in financial and performance information and pervasive non-compliance with legislation, all role players are expected to provide an extensive level of assurance. The outcome of the assessment of senior management, the accounting officers/authorities, internal audit and the audit committees is depicted below. The assessment of the portfolio and public accounts committees is included in section 4.2 and that of executive authorities and coordinating institutions in section 4.3 of this general report.

Figure 35: Level of assurance provided by role players that form part of the auditee



The poor and regressing status of the drivers of internal control, as reported in section 3.1, is a reflection of the inadequate assurance provided by those role players that have a direct impact on auditees. Senior management, which includes the chief financial officer, chief information officer, head of SCM, etc., is responsible for implementing the detailed financial and performance management controls. The assessment demonstrates that they have failed to do so adequately, especially at provincial departments. This unsatisfactory level of assurance may also be a symptom of the vacancies and inadequate performance management at this level, as reported in section 3.2 of this report.

Accounting officers and authorities are assessed only marginally higher than senior managers but their impact on creating an effective control environment is not evident at a significant number of auditees. In general there has been a regression in the status of the drivers of internal control for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring do not result in sustainable practices which translate into improved audit outcomes.

Although internal audit units are in place they are not providing sufficient assurance in the areas they are required by legislation to audit and report on. These areas correspond with the AGSA's assurance mandate, which effectively means that their inability to function at the required level, together with the inadequate assurance provided by senior management and the accounting officers and authorities, is placing undue pressure on the AGSA teams and consequently on the audit fees. Audit committees, although assessed at a higher level, are not playing their role to ensure that internal audit is functioning at the required level. This must improve significantly at most auditees to fully meet the extensive level of assurance expected from them. Neither of these role players, as reported in section 3.5, have any discernable impact on the audit outcomes of more than a third of the auditees.

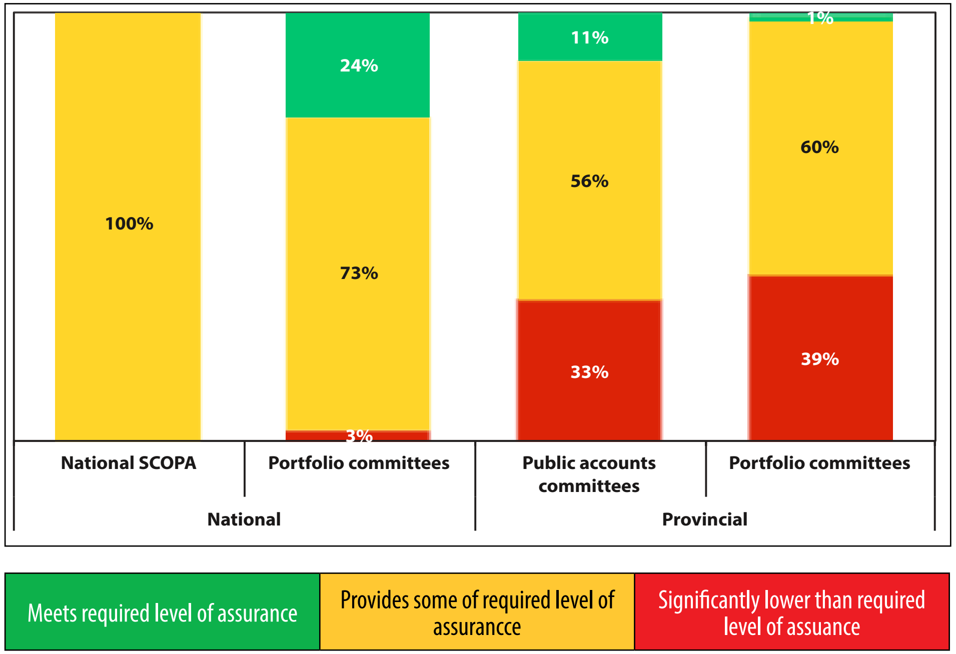
4.2 LEGISLATIVE OVERSIGHT

Role of legislative oversight and assurance provided

In terms of the Constitution, Parliament and the provincial legislatures must maintain oversight of all executive organs of state. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations with a view to delivery on agreed-to objectives for the achievement of government priorities. The mechanism used to conduct oversight is generally through committees. The public accounts committees (PACs) and portfolio committees deal with financial and performance management and the implementation of legislation by auditees and are key assurance providers in this regard.

The impact of the PACs and portfolio committees, as independent assurance providers on the internal controls of the auditees was assessed on the basis of the AGSA's interactions with the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. The assessment of the level of assurance is depicted below.

Figure 36: Assessment of assurances provided by oversight bodies



As detailed in the following sections, committees have varying degrees of success in influencing improvements at auditees and ensuring that their resolutions are implemented, partly because they have limited enforcement powers but also as a result of ineffective working methods.

Public accounts committees and portfolio committees - provincial

A summary on the status of provincial PAC resolutions as at March 2012 is reflected in the next table.

Table 20: Status of implementation of provincial PAC resolutions

Province	Number of resolutions			
	Passed	Implemented	In progress	Not actioned
Eastern Cape	38	3	3	32
Free State	No resolutions were tabled by the provincial PAC in respect of the 2010-11 financial year for implementation in 2011-12.			
Gauteng	56	35	20	1
KwaZulu-Natal	63	43	13	7
Limpopo	Resolutions were tabled on 2 October 2012.			
Mpumalanga	103	34	52	17
North West	No resolutions tabled by the public accounts committee relating to specific auditees in the province, mainly due to various changes in political leadership, non-attendance by political leadership of departments of the hearings scheduled and cancellation of scheduled hearings.			
Northern Cape	100	21	61	18
Western Cape	161	89	71	1

The PACs of the provinces where a significant proportion of resolutions have not been implemented or have remained "in progress" for prolonged periods of time need to recognise that the effectiveness of their oversight is diluted and that the audit outcomes for the provinces concerned are unlikely to improve with this scenario. Of greater concern are the provinces where the PACs have not passed any resolutions in the past year. The provincial general reports include more detail on the status of resolutions and the level of impact PACs are having, or not having, in the provinces.

A summary of the initiatives and commitments of provincial PACs and PCs is included in the table below – the detail is available in the provincial general reports.

The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

Table 21: Outline of commitments by provincial portfolio and public accounts committees - October 2012

Impact of commitments of Provincial portfolio and public accounts committees							
Summarised commitments		Free State	Gauteng	KwaZulu-Natal	Mpumalanga	Northern Cape	Western Cape
1	The oversight functions and processes within legislature will be reviewed with a view of improving the effectiveness thereof.					Prior year: No impact	
2	The working relationship between portfolio committees and the executive will be strengthened.						Prior year: Limited impact
3	Training/workshops will be conducted to improve understanding of oversight responsibilities and IT, SCM reports.	Prior year: No impact		Prior year: Significant impact			
4	Unauthorised, irregular and fruitless and wasteful expenditure will be investigated.	Prior year: No impact		Prior year: Limited impact			
5	There will be increased focus on reporting of performance against predetermined objectives.	Prior year: No impact					
6	There will be increased focus on auditees' supply chain management.	Prior year: No impact					
7	Portfolio committees and provincial public accounts committees will interact with AGSA on a regular basis.		Prior year: Limited impact			Prior year: No impact	
8	Public accounts committees will engage with the chair of the audit committee.			Prior year: Limited impact			
9	SCOPA resolutions will be followed up to ensure that these are implemented.			Prior year: Limited impact	Prior year: Limited impact		
10	Auditees and the executive will be visited to monitor administration.					Prior year: No impact	

Public accounts committees and portfolio committees - national

The status of the implementation of resolutions of the national standing committee on public accounts (SCOPA) is reflected in the next table.

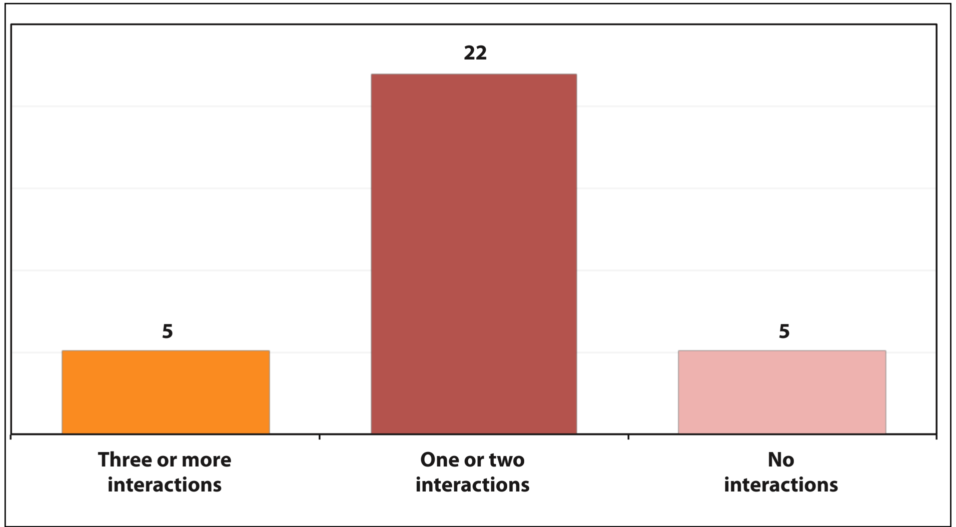
Table 22: Status of implementation of resolutions of the national standing committee on public accounts

Portfolio	Auditees to which resolutions relate	Number of resolutions			
		Passed	Implemented	In progress	Not actioned
Communications	ICASA	5	1	2	2
	SABC	22		22	
Health	Department of Health	5	2	2	1
	Council for Medical Schemes	4	4		
	Health Laboratory Services	6	5	1	
Higher Education and Training	Health and Welfare Sector Education Training Authority (H&W SETA)	1	1		
Human Settlements	Department of Human Settlements	16	16		
Justice and Constitutional Development	Department of Justice and Constitutional Development	26	12	14	
	National Prosecuting Authority	10	3	7	
	Criminal Assets Recovery Account	2		2	
	Department of Police	6		6	
Labour	Department of Labour	6	5	1	
	Compensation Fund	8	3	5	
	Sheltered Employment Factories	4	2	2	
Public Works	Department of Public Works	5	1	4	
	Property Management Trading Entity	9		9	
	Council for the Built Environment	11	7	4	
Trade and Industry	Companies and Intellectual Property Commission	3	2	1	
Water Affairs and Forestry	Department of Water Affairs	12	8	4	
	Water Trading Account	7		3	4

For oversight committees to be effective, it is important that they are clear on the root causes of the obstacles to clean administration and good governance. The AGSA leadership has lived up to its commitment of providing such insight to portfolio committees by means of quarterly briefings to the portfolio committee chairpersons at the National Assembly who availed themselves for such interactions. In a number of instances portfolio committees were also provided with insight into root causes by means of briefings to the full committee. In support of clear and consistent messages, the AGSA will in future make frontline liaison staff available on an ongoing basis to confirm and clarify key messages to portfolio committees that request such clarity in between the structured quarterly interactions.

The graph below indicates that three or more interactions took place with chairpersons of only five portfolio committees during the year under review.

Figure 37: National portfolio committee interactions



It was evident that the portfolio committees that interacted regularly with the AGSA leadership were able to focus effectively on the key obstacles to clean administration prevalent in the departments and public entities which they oversee.

Table 23: Summary of portfolio committee interactions

ASPECT	OUTLINE OF ISSUES
Findings, root causes and corrective action	The oversight hearings and other oversight engagements, as well as the oversight reports of these committees, illustrated a direct correlation with key audit findings as well as the corrective actions required to remedy the root causes of the findings. Similarly, a lack of focus on the root causes of key audit findings was evident in the oversight activities and outputs of portfolio committees where quarterly briefings by the AGSA leadership did not take place.
Portfolio committee oversight processes are improving	Portfolio committee oversight processes appear to be marginally improving as a result of the AGSA leadership's visibility drive and most notably during the annual October assessment of departments by the National Assembly committees, as required in terms of the Money Bills Amendment Procedure and Related Matters Act, when the AGSA leadership provides pre-assessment briefings to some portfolio committees.
SCOPA support for audit committees and internal audit	The AGSA continued to provide briefings to SCOPA before public hearings. This has enabled SCOPA to structure their hearings based on the root causes of the key audit findings highlighted during the briefings. Given its role of financial oversight, SCOPA has confirmed the importance of assurance mechanisms such as internal audit units and audit committees of departments by making them a permanent feature during hearings, although their full participation is still lacking.

ASPECT	OUTLINE OF ISSUES
Alignment between portfolio committees and PACs	The legislative sector oversight model emphasises the importance of collaboration between committees. In response to the 2010-11 audit outcomes, the National Assembly leadership committed to advance collaborations between PACs and portfolio committees, but has since not been able to foster such collaboration in a structured manner. SCOPA has made ongoing attempts to collaborate with portfolio committees, but in only two cases did this result in portfolio committees joining forces with SCOPA. One such joint meeting was successful thanks to effective alignment of purpose between the two committees. In provincial legislatures integration of oversight between PACs and portfolio committees has taken the form of portfolio committees following up on areas of concern identified during their more regular interactions with the departments. In the case of many provincial portfolio committees, members also have PAC membership, thus facilitating information sharing and alignment of purpose between the portfolio committee and the PAC.
Timing of passing and follow-up of SCOPA resolutions	Despite notable improvements in SCOPA's oversight scrutiny, serious challenges remain with regard to the late processing of resolutions by the House (several months after the hearings). The general follow-up on resolutions is also weak because of SCOPA's limited assessment of the responses that the relevant ministers/accounting officers tabled in response to SCOPA's recommendations. However, a commendable step was the National Assembly debate on a series of SCOPA reports – more regular debates of this nature will ensure appropriate high-level attention to the importance of effective accountability and governance practices.

ASPECT	OUTLINE OF ISSUES
Effective use by SCOPA of the AGSA's report on infrastructure	The performance audit report on infrastructure of the departments of Education and Health provided impetus to SCOPA's oversight activities. Using this report, SCOPA effectively joined other stakeholders in holding a hearing involving provincial and national heads of departments to seek corrective actions on issues raised in the report which affect both spheres of government. SCOPA has ventured into other forms of oversight by conducting visits to six different provinces based on the findings contained in the infrastructure report and was also briefed by the AGSA leadership prior to and during such visits. In this way SCOPA is extending its activities beyond the traditional oversight channels.
Use of sector-specific audit outcomes in general reports	The National Assembly committees have not used the insight contained in the general reports on sectoral service delivery aspects. This sectoral perspective can be used by a number of committees in the National Assembly and the National Council of Provinces to oversee key service delivery such as education, health, human settlements, social development and public works.

The table that follows outlines the key commitments of national portfolio committees to improve audit outcomes. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with the committees between October 2012 and the date of this report. An assessment of the impact of prior year commitments, where implemented, is also included.

Table 24: Key commitments by national portfolio committees

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Agriculture, Fisheries and Forestry		
New	Monitor the process of capacitating internal audit and the monitoring and evaluation units of the department.	Not yet able to assess
New	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
New	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
New	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Arts and Culture		
New	The committee resolved to call entities that showed regression to account to the committee.	Not yet able to assess
New	The committee resolved to request training from the AGSA before the 2012 process to obtain a better understanding of how to use the annual report during their annual review.	Not yet able to assess
Portfolio committee: Basic Education		
New	The portfolio committee undertook to coordinate with the provincial legislatures and other oversight structures in the provinces to address matters hampering delivery on the department's mandate of providing quality basic education and developing processes to remedy unsatisfactory audit outcomes in the sector.	Not yet able to assess
New	Follow-up on the effectiveness of internal audit within the department and acceleration of the appointment of the internal audit service provider for the Education Labour Relations Council.	Not yet able to assess
New	Confirm with management, the audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
New	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring, including stock of workbooks and text books on hand. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
New	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess
Portfolio committee: Communications		
New	Review strategic plans for the department and entities for 2012-13 before March 2012 for adherence to the SMART criteria.	Not yet able to assess
New	Review strategic plans for the department and entities for 2013-14 before March 2013 for adherence to the SMART criteria.	Not yet able to assess
New	Obtain quarterly confirmation from the department and entities that action plans are in place and are being monitored by the accounting officers/accounting authorities to ensure resolution of audit findings.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Cooperative Governance and Traditional Affairs		
New	Obtain confirmation from the department that financial statements have been reviewed by the chief financial officer, accounting officer and audit committee prior to submission for auditing.	Not yet able to assess
New	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of audit findings.	Not yet able to assess
New	Obtain confirmation from the chairperson of the audit committee that regular interactions are taking place between the chairperson and executive authority.	Not yet able to assess
New	Monitor quarterly key control dashboard report of the department with particular focus on compliance with laws and regulations, SCM and HR management.	Not yet able to assess
Portfolio committee: Correctional Services		
Prior year	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of the audit qualification on assets.	Limited impact
Prior year	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of the audit findings on predetermined objectives.	Limited impact
Prior year	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of non-compliance findings.	Limited impact

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Defence and Military Veterans		
Prior year	A commitment was made to follow up with the department regarding the progress made in finalising and determining the most appropriate accounting framework for the Special Defence Account.	Limited impact
New	Ensure that the department can account for all capital assets.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to sustain the improved audit outcomes.	Not yet able to assess
Portfolio committee: Economic Development		
New	Improve the quality of the financial statements by requesting all entities and the department in the portfolio to compile financial statements monthly and also request confirmation from the entities that the financial statements have been reviewed by chief financial officers, accounting officers/ accounting authorities and audit committees prior to submission for auditing.	Not yet able to assess
	Confirm that action plans are being monitored and that quarterly key control assessments are being performed.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Energy		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Engage with PetroSA, focusing on finding a solution to reduce irregular, fruitless and wasteful expenditure.	Not yet able to assess
	Assist the department to obtain additional funding to ensure that key positions can be filled to effect oversight of the roll-out of the national infrastructure programmes relating to energy.	Not yet able to assess
Portfolio committee: Environmental Affairs		
New	Obtain confirmation from the department and the South African National Bioinformatics Institute (SANBI) that an action plan is in place and is being monitored by the accounting officers/accounting authorities to ensure resolution of audit findings before May 2013.	Not yet able to assess
	Review strategic plans for the department and entities for 2013-14 before March 2013 for adherence to the SMART criteria.	Not yet able to assess
Portfolio committee: Government Communication and Information System		
New	Reduce material corrections to the financial statements and performance reports by monitoring quarterly and monthly financial and performance reports.	Not yet able to assess
	Ensure that the internal control dashboard reports and action plans are closely monitored.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Health		
New	Chairperson committed to meet with all provincial departments of Health to identify the root causes of the current sector outcomes.	Not yet able to assess
	Obtain quarterly confirmation from the departments that action plans are in place and are being monitored by the accounting officers to ensure resolution of audit findings.	Not yet able to assess
Portfolio committee: Higher Education and Training		
New	Monitor the process of capacitating the internal audit, SETA performance and evaluation and Further Education and Training (FET) coordination units at the department.	Not yet able to assess
	Monitor the department's progress in legislating reporting on predetermined objectives and procurement and contract management at higher education institutions.	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess
Portfolio committee: Home Affairs		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Focus on improvement of the relationship between the Department of International Relations and Cooperation and the Department of Home Affairs.	Not yet able to assess
	Focused oversight on the improvement of the record keeping, especially revenue and asset management.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Human Settlements		
New	Request the department to compile monthly financial statements.	Not yet able to assess
	Obtain confirmation from entities that financial statements have been adequately reviewed by the chief financial officer, accounting officer/authority and audit committees prior to submission for auditing.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of audit findings.	Not yet able to assess
	Monitor quarterly key control dashboard report of the department, with particular focus on compliance with laws and regulations, SCM and HR management.	Not yet able to assess
	Ensure that the department provides feedback on a quarterly basis regarding implementation and accounting for sanitation assets.	Not yet able to assess
Portfolio committee: International Relations and Cooperation		
	No new commitments have been made.	

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Justice and Constitutional Development		
New	Require entities to compile monthly financial statements.	Not yet able to assess
	Obtain confirmation from entities that financial statements have been reviewed by the chief financial officers, accounting officers/accounting authorities and audit committees prior to submission for auditing.	Not yet able to assess
	Obtain confirmation from entities that action plans are in place and are being monitored by the accounting officers/ accounting authorities to ensure resolution of audit findings.	Not yet able to assess
	Obtain confirmation from chairpersons of audit committees that regular interactions are taking place between the chairpersons and executive authorities.	Not yet able to assess
	Monitor quarterly key control dashboard reports of all entities, with particular focus on compliance with laws and regulations and supply chain management.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Labour		
New	Undertake a site visit to the Compensation Fund and interview staff and the executive management to obtain a better understanding of the environment at the Compensation Fund and develop a method to hold the department accountable.	Not yet able to assess
	Hold the department accountable for performing oversight responsibilities at entities within the Labour portfolio.	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Mineral Resources		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Entities to commit to plans to reduce irregular and fruitless and wasteful expenditure.	Not yet able to assess
Portfolio committee: National Treasury		
	No new commitments have been made.	
Portfolio committee: Performance Monitoring and Evaluation and National Youth Development Agency		
New	Monitor monthly and quarterly financial reporting.	Not yet able to assess
	Monitor implementation of action plans and key controls.	Not yet able to assess
Portfolio committee: Police		
New	The committee requested a performance audit to establish whether the PSIRA building had been procured in the most economical, effective and efficient manner.	Not yet able to assess
Portfolio committee: Public Enterprises		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Entities to commit to plans to reduce irregular and fruitless and wasteful expenditure.	Not yet able to assess
	Assist the department in increasing its oversight capacity on SOCs.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Public Service and Administration		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Assist in the delivery of the IT governance framework.	Not yet able to assess
Portfolio committee: Public Works		
New	Monitor progress on the action plan/turnaround strategy against short- and long-term milestones, specifically the reconstruction of the immovable asset and lease register. DPW and PMTE will be required to submit feedback at least on a monthly basis to enable effective monitoring.	Not yet able to assess
	Monitor progress against the department's proposed deadlines for finalising the PMTE business case.	Not yet able to assess
	Monitor progress on implementation of iE-Works and an accrual-based accounting system for PMTE to replace the current Basic Accounting System which is not an accrual system.	Not yet able to assess
	Request feedback from the department on a monthly basis as to progress made with disciplinary action taken against officials who permit unauthorised, irregular, fruitless and wasteful expenditure.	Not yet able to assess
	Monitor to determine whether a comprehensive set of financial statements is being prepared on a monthly basis and whether it is reviewed by appropriate officials in senior management (primarily CFO).	Not yet able to assess
	Monitor progress made in capacitating governance functions, namely internal audit and the risk management unit.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Rural Development and Land Reform		
New	Monitor progress made with investigations conducted at the department on a quarterly basis and make sure that investigations are completed and reported on timeously and that appropriate action is taken against those found guilty after conclusion of such investigations.	Not yet able to assess
	Monitor progress made on procedures implemented by the department to ensure completeness and accuracy of the immovable assets register (the procedures must include milestones and planned completion dates).	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Science and Technology		
New	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to address findings on predetermined objectives.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer for the non-compliance findings at the African Institute for South Africa.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to determine progress in sustaining good outcomes.	Not yet able to assess
Portfolio committee: Social Development		
Prior year	Obtain confirmation from the department that the department is providing oversight of the grant payments made by SASSA.	Limited impact
	Obtain confirmation that SASSA's action plans to implement effective controls over grants payments are in place and are being monitored.	Limited impact
	The committee undertook to follow up with the department regarding progress made in addressing the non-compliance and other findings for National Development Agency.	Limited impact
	Commitments were made to follow up on the department's progress in closing down or consolidating the dormant funds.	Limited impact

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
New	The prior year commitments are still in progress and no new commitments have been made.	Not yet able to assess
Portfolio committee: Sport and Recreation		
Prior year	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to monitor progress in addressing non-compliance findings at the department.	Limited impact
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer with regard to the transfer of funds to other entities.	Limited impact
	The committee undertook to follow up on the findings made regarding the financial sustainability of Boxing SA.	Limited impact
Portfolio committee: Statistics South Africa		
	No new commitments have been made.	

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Trade and Industry		
New	Improve the quality of the financial statements by requesting all entities to compile monthly financial statements and also request confirmation from the entities that the financial statements have been reviewed by chief financial officers, accounting officers/accounting authorities and audit committees prior to submission for auditing.	Not yet able to assess
New	Monitor quarterly progress on the implementation of action plans and progress on implementing key controls.	Not yet able to assess
Portfolio committee: Tourism		
New	Monitor progress on EPWP investigations that were sanctioned by management.	Not yet able to assess
New	Policies and procedures on the PDO process at both departments and entities will be monitored to ensure that objectives set meet the SMART principle and that no adjustments are made on the reporting.	Not yet able to assess
New	Arrest potential risks associated with non-compliance with SCM prescripts and procurement through deviations that do not meet the requirements of the PFMA.	Not yet able to assess
New	Monitor how SAT addresses the weaknesses in the general control environment affecting IT and capacitating of the entity with the right IT skills.	Not yet able to assess
	Follow up on how SAT resolves the annual financial statement review process to avoid material misstatements and the deficit position of SAT.	Not yet able to assess

	Commitments and initiatives by national portfolio committees	Impact on audit outcomes
Portfolio committee: Transport		
New	No new commitments have been made.	
Portfolio committee: Water Affairs		
New	Review strategic plans for the department and entities for 2013-14 before March 2013 for adherence to the SMART criteria.	Not yet able to assess
New	Review allocation of bulk infrastructure to take into account the needs of developmental areas.	Not yet able to assess
New	Obtain confirmation from the department and entities that action plans are in place and are being monitored by the accounting officers/accounting authorities to ensure resolution of audit findings.	Not yet able to assess
Portfolio committee: Women, Children and People with Disabilities		
New	Monitor progress on the turnaround strategy and request and review the preparation of monthly financial statements. Also review quarterly reports and the implementation and assessment of key controls.	Not yet able to assess
New	Request confirmation from the chairpersons of audit committees that regular interactions are taking place between the audit committee chair and the minister.	Not yet able to assess

4.3 EXECUTIVE LEADERSHIP AND COORDINATING INSTITUTIONS

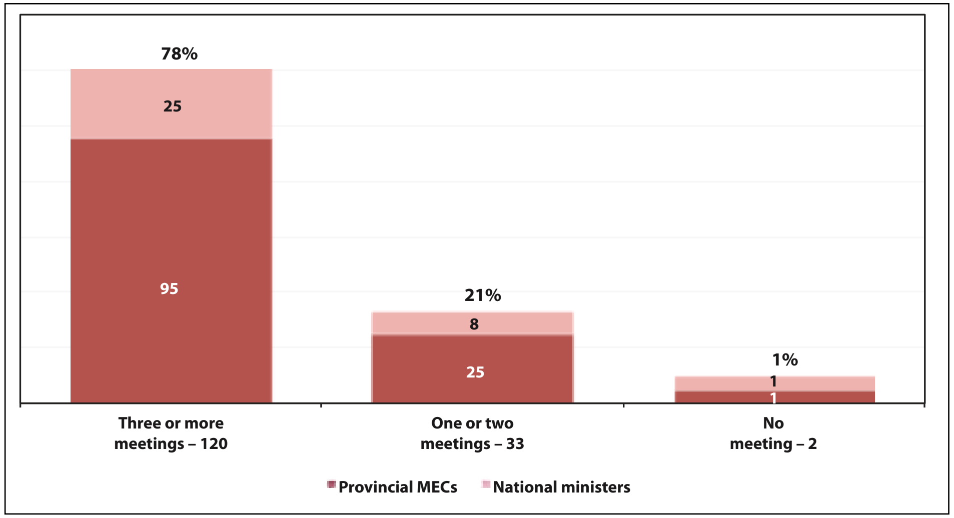
Role of executive authorities and impact of quarterly engagements

The executive authorities in the national government are the President and the national ministers and in the provinces the Premier and members of the executive council (MECs). In terms of the Constitution they have executive powers to implement legislation and policies through the departments and public entities (portfolios) they are responsible for. Executive leadership plays a direct role in the departments as they need to ensure that the strategies and budgets are aligned to the mandate, that objectives are achieved and that they have further specific oversight responsibilities in terms of the PFMA and Public Service Act. In the past two years the AGSA has increasingly engaged with the ministers and MECs on how they can bring about improvements in the audit outcomes of the auditees within their portfolio.

In response to the 2010-11 audit outcomes, ministers and MECs committed an hour of their time every 90 days to meet with senior members of the AGSA. At these interactions the status of the key controls of auditees and commitments are discussed and identified risks shared.

As shown below, the majority of the executive had met with the AGSA teams at least three times during the financial year ended March 2012.

Figure 38: Quarterly interaction with national ministers and provincial MECs



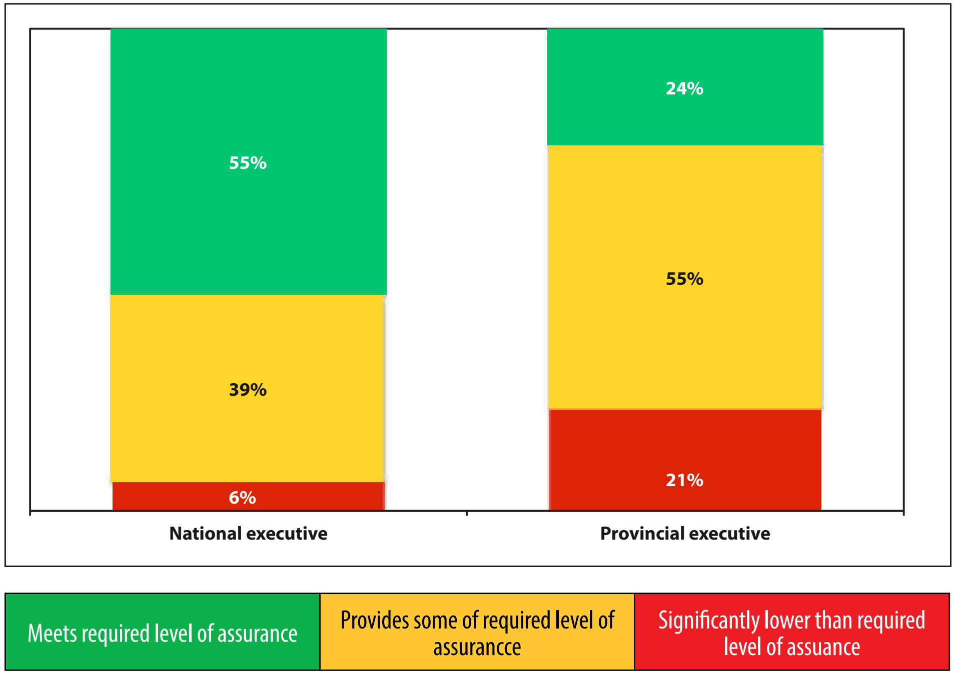
Although the engagements were well received, these engagements had limited impact on the audit outcomes of most of the auditees. An assessment of the impact of interactions with ministers is included in the ministerial portfolios (part 2 of this general report) while those with MECs are covered in the provincial general reports.

In our assessment the limited impact was due to frequent leadership changes resulting in disruption in the implementation of commitments, the stumbling blocks towards a clean audit at these auditees requiring a multi-year approach or our message being ignored. It could, however, also mean that our conversation has not been compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations leading to increased impact.

Assurance provided by Ministers and MECs and commitments made to improve audit outcomes

The impact of the executive on ensuring that the controls of the auditees were assessed is based on the interactions with them (or lack thereof), commitments given and honoured and the impact of their actions and initiatives on the auditees. The assessment of the ministers is included in the national ministerial portfolios (part 2) and those with MECs in the provincial general reports. The overall assessment of the impact is shown below.

Figure 39: Level of assurance provided by executives



The assessment shows that the national ministers are considered to have a direct and positive impact on the credibility of financial and performance information and the compliance with laws and regulations. In general the audit outcomes of national departments and public entities are also better than those of their provincial counterparts. The assessments of the impact of MECs in the provinces vary significantly as do their audit outcomes but in general the impact of political pressures leading to instability and poor leadership decisions is more pronounced in the provinces.

Commitments made by executive leadership

The commitments made by national ministers to improve audit outcomes and the status and impact thereof are included in the national ministerial portfolios (part 2) and those with MECs in the provincial general reports.

The table that follows summarises the key commitments made by executive leadership in the provinces to improve audit outcomes – the detail is available in the provincial general reports. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the status and impact of the commitments is also provided.

Table 25: Key initiatives and commitments by executive leadership

	Initiatives and summarised commitments by executive leadership	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
1	Action plans will be developed and implemented to address audit findings and implementation will be monitored by leadership.						Prior year: Limited impact	New: Not yet able to assess		
2	Monthly/quarterly reporting on financial statements (including disclosure notes)/ predetermined objectives/compliance with laws and regulations will be implemented.									Prior year: Limited impact
3	The credibility of management information will be validated by internal audit and audit committees.	Prior year: Limited impact					New: Not yet able to assess			Prior year: Limited impact
4	Quarterly key control engagements will include other key role players such as the audit committee chairperson and internal audit.			Prior year: No impact						Prior year: Limited impact
5	Policies, procedures and plans (e.g. fraud prevention) will be revised and strengthened to ensure that these comply with legislative and other requirements and establish effective controls.						Prior year: No impact			
6	Key vacant positions will be filled with competent, professional and qualified personnel.		Prior year: Limited impact				Prior year: Limited impact	New: Not yet able to assess	New: Not yet able to assess	
7	MECs and/or HoDs will make themselves available for regular liaison with the AGSA.	New: Not yet able to assess	Prior year: Limited impact							

	Initiatives and summarised commitments by executive leadership	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
8	IT weaknesses will be addressed by improving controls and clearly defining responsibilities of officials and service providers.				Prior year: Limited impact		Prior year: No impact	New: Not yet able to assess	New: Not yet able to assess	
9	Action will be taken against officials in response to non-compliance with legislation.						Prior year: Limited impact			
10	Improved record and document management processes will be implemented to support filing and retrieval of documents required for audit.						Prior year: Limited impact			
11	Guidance/instructions will be issued by the Premier's office and findings and training presented on key matters that affect audit outcomes.		Prior year: Limited impact							
12	Closer cooperation between departments in province through agreements and forums.				New: Not yet able to assess					
13	Capacity will be increased and processes and management improved with a view of improving audit outcomes.	Prior year: Limited impact	New: Not yet able to assess							
14	Monitoring/oversight by Premier's office will be improved.							Prior year: Limited impact		
15	Monitoring through Exco meetings will be improved.	Prior year: Limited impact								

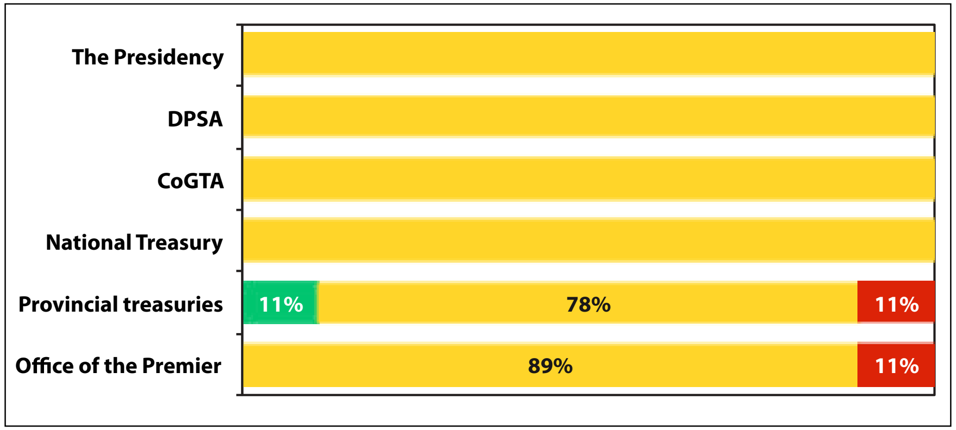
	Initiatives and summarised commitments by executive leadership	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
16	Drafting of provincial legislation to address business interests of employees.	Prior year: No impact								Prior year: Limited impact
17	Executive leadership will act in a responsible manner and instil a culture of high performance and commitment.								Prior year: Limited impact	
18	Executive leadership will assist portfolio committees in fulfilling their oversight responsibilities.		Prior year: Limited impact							

Role of coordinating institutions, assurance provided and commitments made

At national and provincial level there are departments that play a coordinating and monitoring role. In the provinces this role is played by provincial treasuries, the offices of the Premier and the cooperative governance departments (CoGTAs). The main role players nationally are the Presidency, the National Treasury, the Department of Public Service Administration (DPSA) and the national CoGTA. The impact of these departments on the controls of the auditees was assessed based on interactions with the departments, commitments given and honoured and the impact of their actions and initiatives.

The outcome of the assessment at national level and a summary at provincial level are shown below. The detailed provincial assessments are included in the provincial general reports.

Figure 40: Level of assurance provided by coordinating/monitoring departments



Meets required level of assurance	Provides some of required level of assurancce	Significantly lower than required level of assuance

In analysing the root causes for poor audit outcomes it becomes apparent that auditees need more support and guidance from these coordinating departments to hasten their progression to clean audits. It is most pronounced in terms of the treasuries which have/can have a direct impact on the credibility of financial and performance information, compliance with the PFMA and improvement in governance. The treasuries also have a monitoring responsibility as does DPSA and the Presidency, which if exercised to its full extent will add to the assurance required.

The table that follows summarises the key commitments/initiatives to be undertaken by provincial treasuries to improve audit outcomes – the detail is available in the provincial general reports.

The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the status and impact of the commitments is also provided.

Table 26: Commitments made by provincial treasuries

	Summarised commitments	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
1	An action plan will be developed to address transversal audit findings in the province.						Prior year: Limited impact			Prior year: Limited impact
2	The action plans of auditees to address audit findings will be assessed and implementation monitored.				Prior year: Limited impact					Prior year: Limited impact
3	Increased/improved support will be provided to auditees in the form of technical support, capacity and funding.	Prior year: Limited impact	Prior year: Limited impact	Prior year: No impact	Prior year: Limited impact					
4	Training, workshops and/or roadshows will be conducted to improve skills, raise awareness and provide support.			Prior year: No impact	Prior year: Limited impact	New: Not yet able to assess	Prior year: Limited impact			
5	Chief financial officer (CFO) forums will be established, their roles strengthened and regular meetings facilitated.	Prior year: Limited impact							Prior year: Limited impact	
6	Key vacant positions in provincial treasury will be filled.		New: Not yet able to assess					Prior year: Limited impact		

	Summarised commitments	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
7	Monitoring and review of financial statements/asset management/irregular, fruitless and wasteful expenditure of departments and entities in the province.		Prior year: Limited impact	Prior year: Limited impact						
8	Development of a proper record and document management system for the province to ensure that supporting documentation is easily retrievable.		Prior year: Limited impact							
9	Action will be taken against auditees and/or officials in response to non-compliance with legislation and/or irregular and fruitless and wasteful expenditure.				Prior year: Limited impact	Prior year: Limited impact			Prior year: Limited impact	
10	Monitoring of the existence and effectiveness of key controls at auditees.					Prior year: Limited impact				

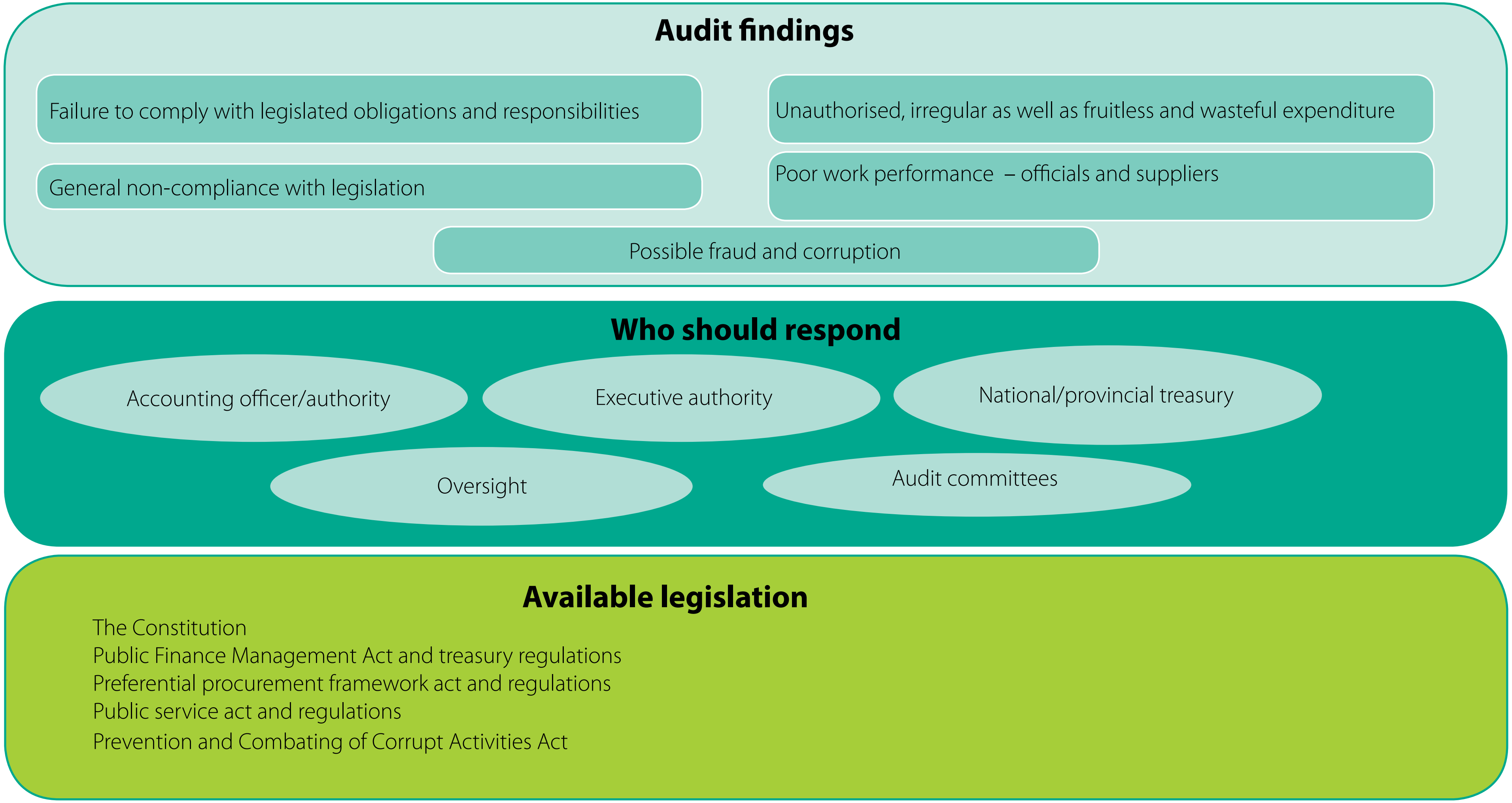
4.4 RESPONSIBILITY OF KEY ROLE PLAYERS TO ADDRESS POOR PERFORMANCE AND TRANSGRESSIONS

This consolidated general report and the provincial general reports summarise the findings in the audit reports, additional findings reported to the accounting officer/authorities and management and the critical matters reported in the annual financial statements of these auditees. Some of the matters reported on clearly point to transgressions of legislation 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 is the question 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 and doing so will result in improved audit outcomes but also improved governance and accountability.

A separate booklet distributed with this general report highlights the range of legislation at the government's disposal which enables remedies to be applied where there has been transgressions and poor performance. It addresses the matters as shown below:

Figure 41: Remedies available to political and administrative leaders



Highlighting these remedies is a starting point for responsible political and administrative leaders, oversight and the institutions responsible for monitoring and enforcement. All parties have to play their part.

4.5 AGSA INITIATIVES TO ENCOURAGE CLEAN AUDITS

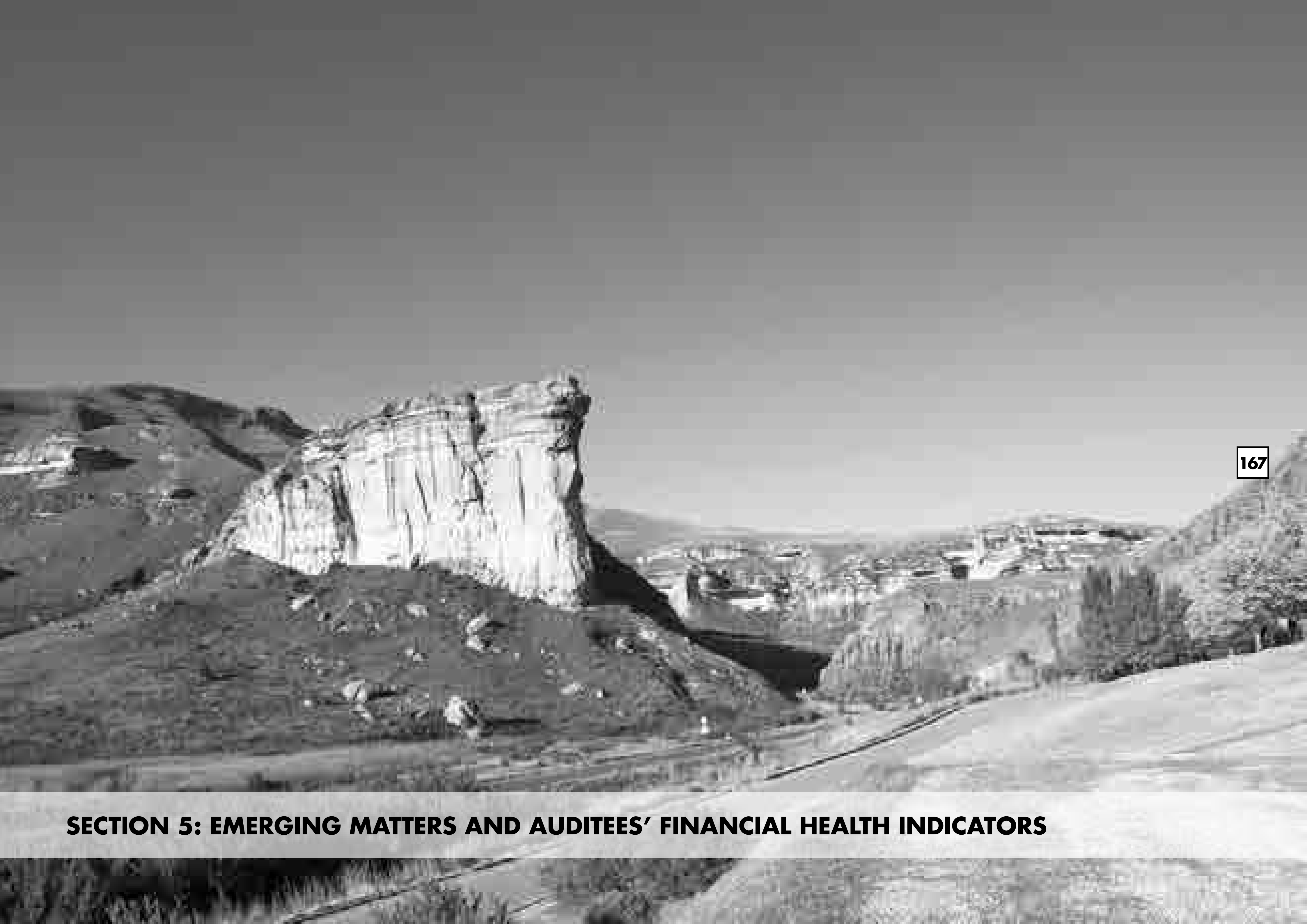
Over the past two years, the AGSA has embarked on many initiatives to enhance accountability and to influence the process towards improving audit outcomes and clean administration. The main initiative was to further strengthen its relationship with the political and administrative leadership to deepen their understanding of the accountability, audit and governance mechanisms thereby paving the way towards improving public confidence. This initiative included the increased visibility of the AGSA's senior leadership and continuous interactions to highlight possible challenges, audit findings and transversal risks.

Summarised below are some of the key initiatives the AGSA has undertaken to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

Table 27: Summarised AGSA's key initiatives

Nature	Outline of AGSA initiatives
Root cause reporting	In reporting audit findings the AGSA teams always report on the root cause of the finding as it relates to the drivers of internal control. Recommendations are made as part of the audit finding to correct the misstatement, non-compliance etc. but also to address the root cause in order to assist auditees in finding sustainable solutions to prevent recurrent findings. Root causes are also reported in the audit reports in order to provide the insight gained on what the significant deficiencies in internal control are which caused the qualifications and material findings on PDO reporting and compliance with laws and regulations.
Quarterly assessment of key drivers and interactions with accounting officers/authorities, audit committees and executive authorities	A basic assessment of the status of the key drivers of internal control is conducted on a quarterly basis although not audited until the interim audit and/or final audit takes place. The results of the assessment are shared with the accounting officer/ authority, executive authorities and audit committee. The assessment and risks identified pertaining to the auditee are share via a defined engagement programme with these role players with the aim of meeting with them at least once per quarter. This engagement also serves as an opportunity to obtain commitments from the role players on actions that will be taken to improve audit outcomes and to discuss the status of prior commitments made.
Engagement with legislative oversight	Senior members of the AGSA teams engage with the portfolio and public accounts committees (directly or through the chairpersons) at least twice a year. They are also available to the committees if they need briefings or insight on matters coming before the committee. It has become standard practice to brief the public accounts committees for hearings in order to assist them in focusing on the most important matters to be addressed. Portfolio committees have started to request briefings before consideration of the strategic plans and budgets of departments.
Roadshows and other interactions	The general report is not published until the audit outcomes have been shared with all political leaders, including the President and his cabinet. The Auditor-General, by way of roadshows, also personally meets with ministers, premiers, legislatures, the National Assembly and the National Council of Provinces to share the audit outcomes and our insights on the root causes of outcomes and to agree on possible solutions.

Nature	Outline of AGSA initiatives
Promoting understanding of PDO requirements	Presentations on the requirements for reporting on PDOs were made to auditees, executive authorities, portfolio committees and audit committees where a need was identified. In instances where further engagement and clarity are required, sessions with National Treasury are arranged to ensure that an understanding is obtained regarding the requirements of the Framework for managing programme performance information.
Collaboration with National Treasury and the Accounting Standards Board	A formal trilateral relationship exists between the AGSA, the National Treasury and the Accounting Standards Board in order to highlight and address transversal matters that impact the audit outcomes. These parties meet formally at least on a quarterly basis and more often on an informal basis. Bilateral relationships are also in place in the provinces between the AGSA and the provincial treasuries in order to address any province-specific matters that could arise.
Collaboration with the Institute of internal auditors (IIA) and the Public sector audit committee forum (PSACF)	The AGSA collaborates with the IIA through its public sector working group with the aim of equipping and supporting internal auditors in the public sector to function effectively. The AGSA is also a founding member of the PSACF which has various objectives to improve the effectiveness of audit committees in the public sector.
Promoting an understanding of IT risks and controls	There is regular engagement on IT issues during steering committee meetings, quarterly engagements and other stakeholder interactions to ensure an understanding of IT-related risks and controls.



SECTION 5: EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

SECTION 5: EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on national and provincial government audit outcomes in 2012-13 and future financial years if not addressed through timeously implemented appropriate corrective measures.

Table 28: Current and emerging matters that require immediate attention

Area of change	Summary of expected changes
Accounting matters affecting all auditees	
Readiness of departments for the eventual inclusion of inventory in the financial statements disclosures	Departments are not yet required to include inventory in the disclosure notes to the financial statements and consequently no audit findings were raised in the auditor's report in this regard. In preparation for this a review conducted of departments' inventory management processes identified matters that need to be addressed, including the following: • Inventory management systems are not in place • There are no written procedures/instructions for inventory counts • Inventory records are not regularly reconciled to the general ledger • Regular inventory counts not undertaken • The control systems are inadequate to safeguard inventory against theft, losses, wastage and misuse
Additional Standards of GRAP issued by the ASB	The Accounting Standards Board (ASB) has issued the following additional Standards of GRAP, for which the Minister of Finance has prescribed an effective date of 1 April 2012 in the Government Gazette: • GRAP 21 Impairment of non-cash-generating assets • GRAP 23 Revenue from non-exchange transactions (Taxes and transfers) • GRAP 24 Presentation of budget information in financial statements • GRAP 26 Impairment of cash-generating assets • GRAP 103 Heritage assets • GRAP 104 Financial instruments

Area of change	Summary of expected changes
Withdrawal of the SA Statements of GAAP by FRSC and APB	The Financial Reporting Standards Council (FRSC) and the Accounting Practices Board (APB) issued a joint statement in March this year, indicating that the SA Statements of GAAP would no longer apply in respect of financial years commencing on or after 1 December 2012. This will impact the 2012-13 financial statements of schedule 2, 3B and 3D public entities and trading entities that current apply the GAAP financial reporting framework. They will have to migrate to another reporting framework.
Accounting for leases	In a number of provinces a Fleet Management Trading Entity has been established to manage the fleet requirements of provincial and, in some instances, local government. Accounting for these vehicles by both the trading entity and user departments and municipalities remains a contentious issue. In some provinces the National Treasury has granted the province approval to deviate from the applicable financial reporting framework in the 2011-12 annual financial statements. This matter requires urgent attention at the appropriate level to avoid the possibility of qualifications of the audit opinion during the next audit cycle.
Immovable assets	Certain departments of Roads and Public Works received a qualification on the completeness of their immovable assets for the past year. This department is the custodian of immovable assets and should therefore ensure that controls around immovable assets are developed and implemented. The lack of controls over immovable assets also negatively impacted other departments. This could have been avoided had the Department of Roads and Public Works effectively fulfilled their custodian role and implemented the relevant controls.
Transfer of funds to public entities acting as agents	The National Treasury issued a departmental guide on agency/principal activities, which is effective for the 2012-13 financial year. All departments using public entities as agents will have to comply with disclosure and accounting requirements in this regard. The guide also needs to be considered when entering into service level agreements with entities for these arrangements.
Predetermined objectives matters affecting all auditees	
Implementation of the Framework for strategic plans and annual performance plans	In terms of the Framework for strategic plans and annual performance plans and National Treasury's instruction note no. 33, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA must be compiled in accordance with the principles as per the framework. Audits of predetermined objectives (for the 2012-13 PFMA audit cycle and going forward) will be conducted in accordance with the principles of the Framework for strategic plans and annual performance plans in addition to the applicable laws and regulations and Framework for managing programme performance information (as per the AG Directive) for the said auditees.
Compliance matters affecting all auditees	
Revised preferential procurement regulations	The revised procurement regulations came into effect on 7 December 2011. The most significant changes are the following: • The regulations will be applicable to schedule 2, 3B and 3D public entities effective 7 December 2012. • The introduction of the B-BBEE certificates and requirements for evaluation and functionality.

5.2 AUDITEES' FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. The annual AGSA audits now include a high-level analysis of auditees' financial health indicators in order to provide management with an overview of selected aspects of their current financial health and enable timely remedial action where financial health and service delivery may be at risk.

The analysis is presented under the following headings:

- Financial management by departments on the modified cash basis of accounting (section 5.2.1)
- Underspending of capital budgets and conditional grants by departments (section 5.2.2)
- Debtors management (section 5.2.3)
- Financial health risks at public entities (section 5.2.4).

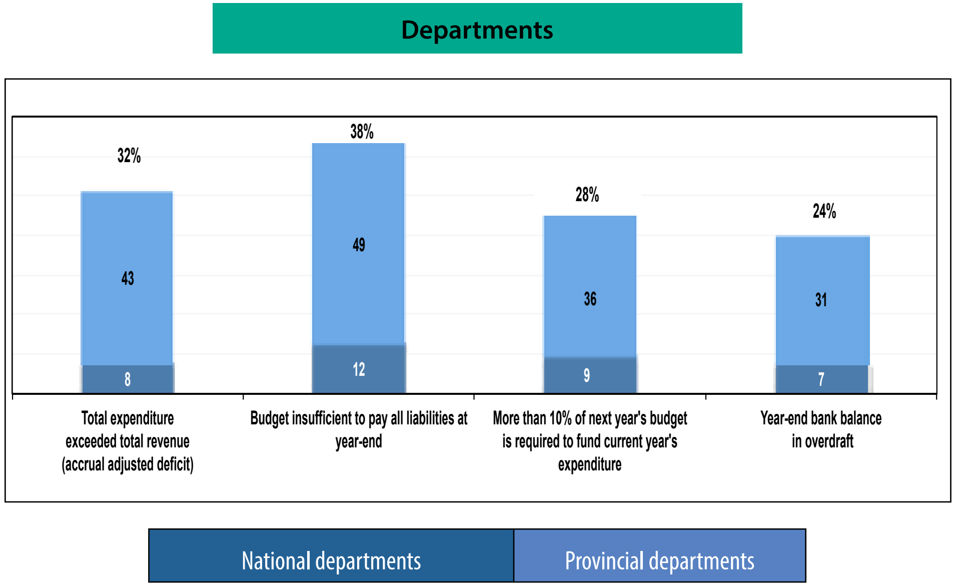
5.2.1 Financial management by departments on the modified cash basis of accounting

The annual financial statements of departments are prepared on the modified cash basis of accounting. The result is that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. On this basis of accounting, the full amounts of inventory and impairments of assets is expensed when purchased and impairments of assets and provisions are not included in the statement of financial performance.

As part of the financial health analysis, the 2011-12 annual financial statements of departments were reconstructed taking into consideration the accrual disclosure notes to determine whether the surpluses disclosed would also be evident in an accrual-based environment. The impact of the unpaid expenses at year-end on the current and following year's budget was also assessed and the nature and extent of the disclosed bank overdrafts reviewed.

The following figure depicts the results of the analysis.

Figure 42: Budget and cash management – departments



If departments prepared their annual financial statements on an accrual basis of accounting as applied by public entities and local government, an estimated 32% of departments would have shown a deficit. This is most prevalent among provincial departments.

The spending of 102 (63%) departments for 2011-12 was within their approved budgets. However, taking into account their unpaid expenses at year-end, more than a third of departments incurred expenditure in excess of what they had budgeted for and technically had insufficient funds (budget) to pay all liabilities that existed at year-end. If these departments had accounted on the accrual basis, they would have incurred unauthorised expenditure, which would further increase the already high prevalence and amount of unauthorised expenditure. The impact of the incurrence of unauthorised expenditure is that it either requires additional funding from the fiscus or has to be funded from the next year's budget allocation, which reduces the funds available to achieve that year's objectives.

The unpaid expenses of 2011-12 will need to be paid from the 2012-13 budgets. For some departments, this will have a minor impact, but 58 (36%) would have started 2012-13 with more than 10% of their budget effectively spent. The reasons for the deficits and technical overspending of budgets are as follows:

- The budget preparation process does not make provision for expected unpaid expenditure at year-end
- Ineffective in-year monitoring of expenditure incurred vs. expenditure paid due to the modified cash basis of accounting and inadequate systems to account for liabilities incurred
- Long-outstanding creditors as a result of suppliers not being paid timeously and withholding of payments in order to avoid unauthorised expenditure.

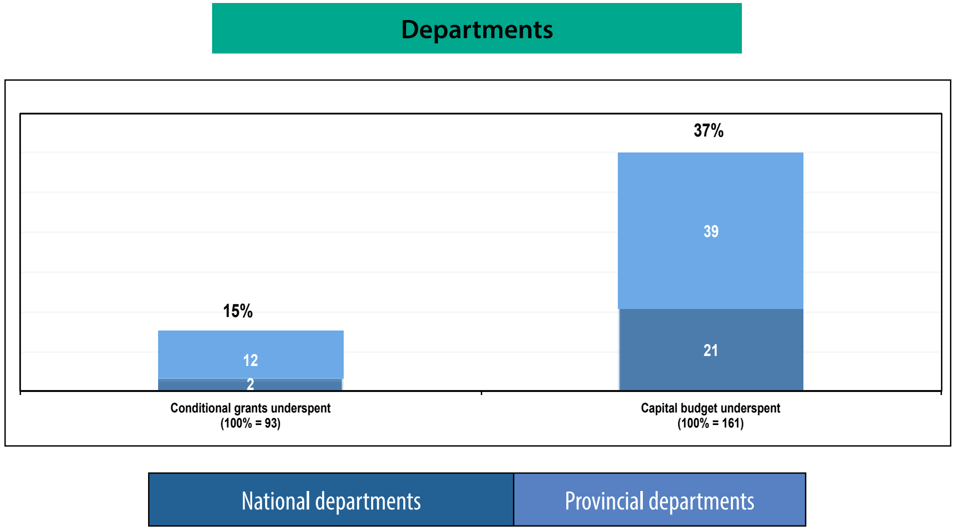
40 (25%) departments had an overdraft at year-end. This was largely as a result of the following:

- Unauthorised expenditure incurred
- Payments authorised where voted funds have not been drawn down
- Payments in advance for services or goods not received at year-end.

5.2.2 Underspending of capital budgets and conditional grants by departments

The figure below shows the number of departments that underspent by more than 10% on their capital budgets and/or conditional grants.

Figure 43: Underspending by departments



Conditional grants and capital budgets are intended to enhance specific service delivery objectives. Significant underspending of these budgets is an indicator that these departments did not, or will not, achieve their service delivery objectives.

The root causes of underspending are a lack of:

institutional capacity to deliver on capital projects and key national service delivery programmes delays in appointing service providers as a result of poor planning and ineffective SCM processes

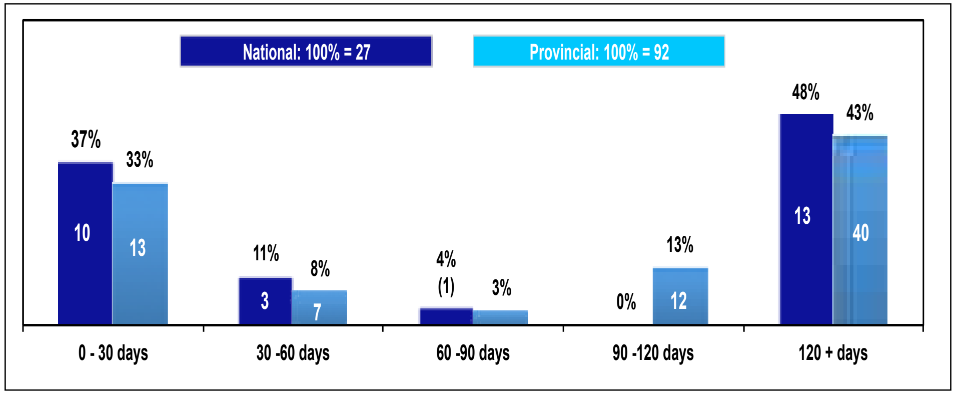
inadequate monitoring and oversight of key projects which can be attributed to an inadequate level of reporting, the credibility of the information reported and lack of action taken to address delayed projects.

5.2.3 Debtors management

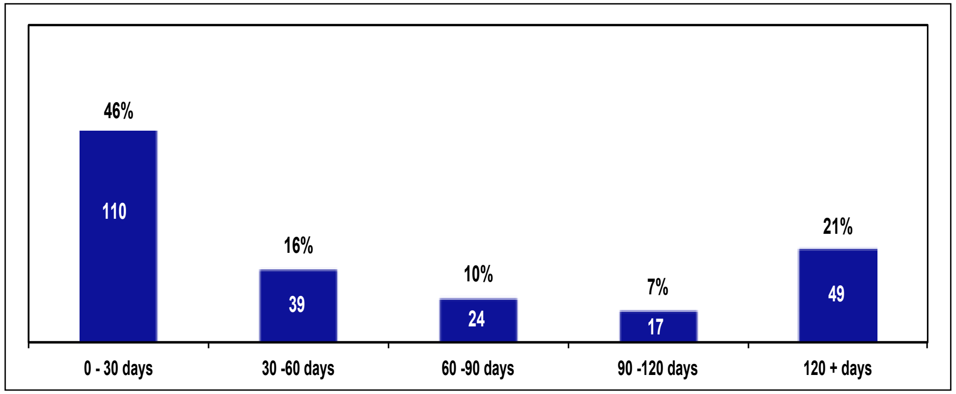
The figure below shows the average number of days it takes for the auditee to recover the money owed to them by persons and/or institutions.

Figure 44: Debtor days

Departments

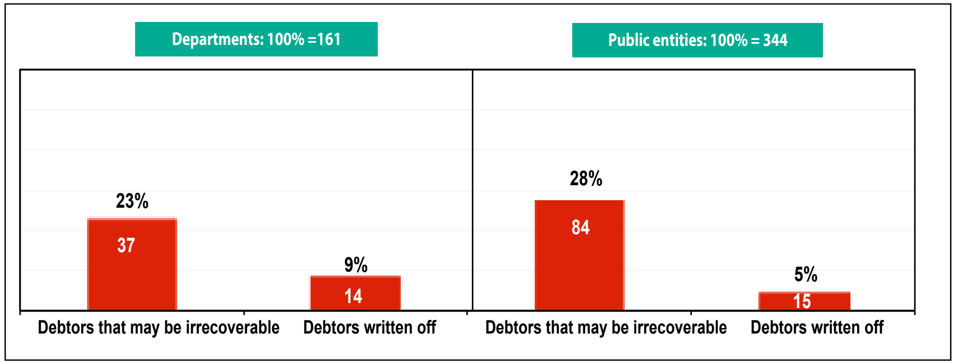


Public Entities



The weakness in recovering revenue owed by debtors is further highlighted in the following figure which shows the number of auditees that wrote off more than 10% of the debtors in the past financial year and/or that made provision in their annual financial statements for more than 10% of the debtors to be irrecoverable.

Figure 45: More than 10% of debtors written off or provision made for irrecoverability of debtors



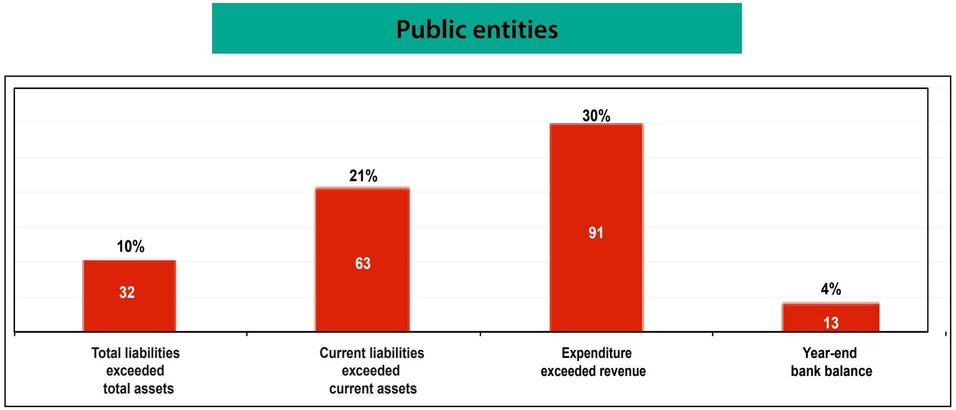
Departments have the longest outstanding debtors and a significant part of their debtors may be irrecoverable (bad debt) or were written off in the 2012-11 financial statements. As departments use the modified cash basis of accounting, revenue is not recognised until it is received. All debts that are not recovered should be considered in the context of revenue that has been, or could be, lost to the state. This revenue includes revenue for services rendered, e.g. hospital patient fees, licence fees and taxes, but also money owed to the department by its employees (e.g. as a result of salary overpayments) and other departments and state institutions.

Poor revenue collection and debtors management practices and lack of incentive or demand for the collection of revenue are the root cause of the long-outstanding debtors of departments, which in turn could place the national and provincial revenue funds under pressure.

5.2.4 Financial health risks at public entities

The figure below shows the number of public entities that had negative indicators in relation to the funding of their continued operations.

Figure 46: Funding of continued operations – public entities



Public entities with these negative indicators spend more in one year than they have resources to cover, with the result that their income is less than their expenditure or their liabilities exceed their assets. Nineteen public entities had deficits in the past year as well as negative asset /liability ratios, while two of these public entities also had a year-end bank balance in overdraft.

In the private sector these results would be indicators of a possible going concern problem, i.e. the entity would not have sufficient funds to continue in business. However, it is uncommon for the operational existence of a public entity to cease as a result of an inability to finance its operations or net liabilities because:

- they have multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity
- they have a legislative right to levy rates or taxes
- there is a likelihood of continued government funding.

The inability of a public entity to continue doing business most likely stems from a government policy decision, for example to wind up and dissolve the entity in its entirety or to scale back on its operations or to merge it with another entity. 51 (15%) public entities disclosed in their annual financial statements that there was a material uncertainty about their ability to continue operating in future.

Even though the majority of public entities will be able to continue their operations, the negative indicators raise concerns about the financial viability of some of the public entities, which will require additional funding from government.

5.2.5 Conclusions around auditees' financial health indicators

The results of the high-level analysis of auditees' financial health indicators demonstrate that there are a number of risks that management of these auditees, oversight and monitoring departments, treasuries and executive authorities should note.

These risks are not apparent to the users of the financial statements of departments or to those responsible for in-year monitoring as the modified cash basis of accounting does not lend itself to effective financial health assessment and monitoring. The disclosure notes in the financial statements provide accrual information but are not taken into consideration for in-year monitoring. It will be difficult for a normal user of the financial statements to make the assessments required.

The weaknesses identified in budget and financial management, the inability of some auditees to collect the revenue due to the state and the additional financial burden placed on the state by some public entities will continue to put the fiscus under pressure if not addressed.