

PART THREE:

SECTOR AUDIT OUTCOMES

3.1 AUDIT OUTCOMES OF SECTOR DEPARTMENTS



AUDITOR - GENERAL
SOUTH AFRICA










PART 3: SECTOR AUDIT OUTCOMES

PART 3

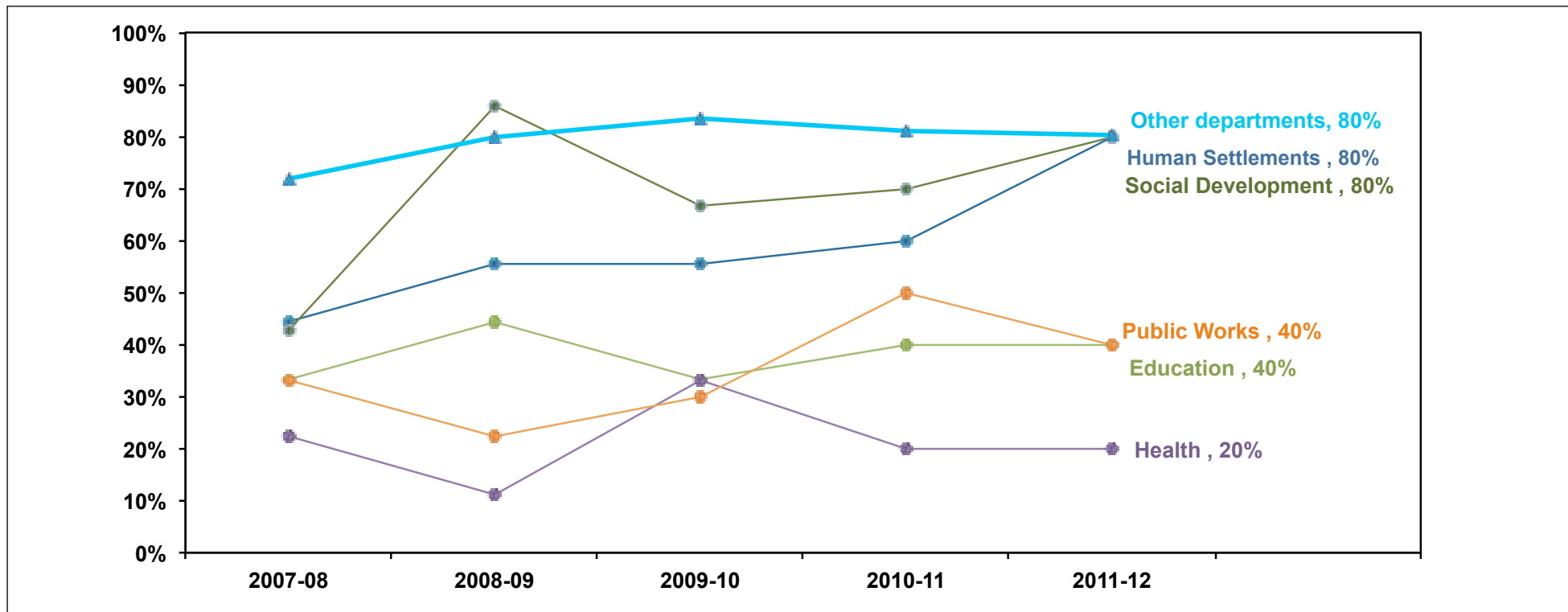
SECTOR AUDIT OUTCOMES

3.1 AUDIT OUTCOMES OF SECTOR DEPARTMENTS

Current year (2011-12) improvements and regressions in sector department audit outcomes

Movement in audit outcomes from 2010-11 of major sectors				
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on
Financially unqualified with no findings				0
Financially unqualified with findings	 <p>6 Education (1) Health (1) Human Settlements (1) Public Works (1) Social Development (2)</p>	 <p>18 Education (3) Health (1) Human Settlements (5) Public Works (3) Social Development (6)</p>	 <p>1 Human Settlements (1)</p>	25
Qualified, with findings		 <p>13 Education (3) Health (5) Human Settlements (2) Public Works (1) Social Development (2)</p>	 <p>5 Education (1) Health (1) Human Settlements (1) Public Works (2)</p>	18
Adverse/Disclaimer, with findings		 <p>5 Education (1) Health (2) Public Works (2)</p>	 <p>2 Education (1) Public Works (1)</p>	7
Total	6	36	8	50

Five-year progress towards financially unqualified audit reports: Sector departments compared to other departments



Since the 2007-08 audit cycle the AGSA's regularity audits have included a specific assessment of service delivery aspects relevant to the health, education and human settlements sectors, with the audits of the social development and public works sectors added and reported on in the 2008-09 general report. It is important to note that the total budgets for the 50 departments within the five sectors (Education, Health, Human Settlements, Public Works and Social Development) represent approximately 85% of the total budget for all provincial departments. Apart from their size, unique aspects related to these five sector departments include the specific focus of the 12 national outcomes on the services to be delivered by the sectors as well as the importance of these sectors in building a strong society and economy. Other unique aspects of these five sectors include their dependency on an appropriately trained, skilled and committed workforce, the need for appropriate policies and procedures to ensure efficient and effective service delivery as well as the importance of good and functional monitoring and evaluation systems to ensure relevant and continuous service delivery of good quality. This section summarises the outcomes related to the audits of financial statements and performance against predetermined objectives and compliance with laws and regulations. Sector department audit outcomes are analysed in more detail in sub-sections 3.2.1 to 3.2.5, together with findings arising from the audit of their implementation of key national programmes.

Audit outcomes of sector departments: Progress towards financially unqualified audit reports

As depicted, the sector departments were subject to a net deterioration in their current year audit outcomes, with the Social Development and Human Settlements portfolios having reached the same level of financially unqualified audits as the non-sector departments over the past five years.

Movements in financial statement areas that attracted audit qualifications are summarised in the following table.

Table 29: Movements in financial statement areas that attracted qualifications

Financial statement qualification areas	Number of departments	Education	Health	Human Settlements	Public Works	Social Development
Property, plant and equipment	19	↑	↑	↓	↓	↓
Other disclosure items	14	↔	↓	↔	↑	↑
Receivables (debtors)	11	↔	↑	↔	↔	↔
Payables, accruals and borrowings	9	↓	↑	↑	↔	↔
Expenditure	9	↑	↓	↑	↔	↔
Unauthorised, irregular and fruitless and wasteful expenditure	14	↓	↑	↔	↑	↔

Decrease	↓	Increase	↑	Unchanged	↔
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Sector departments' rate of addressing findings on predetermined objectives and compliance

Figure 47: Three-year progress in addressing findings on predetermined objectives - Sector departments compared to other departments

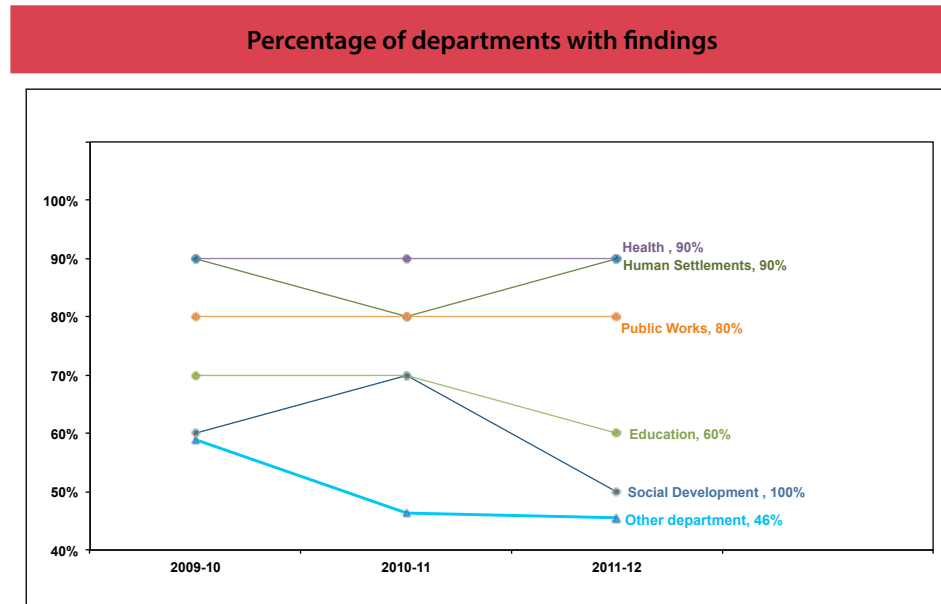
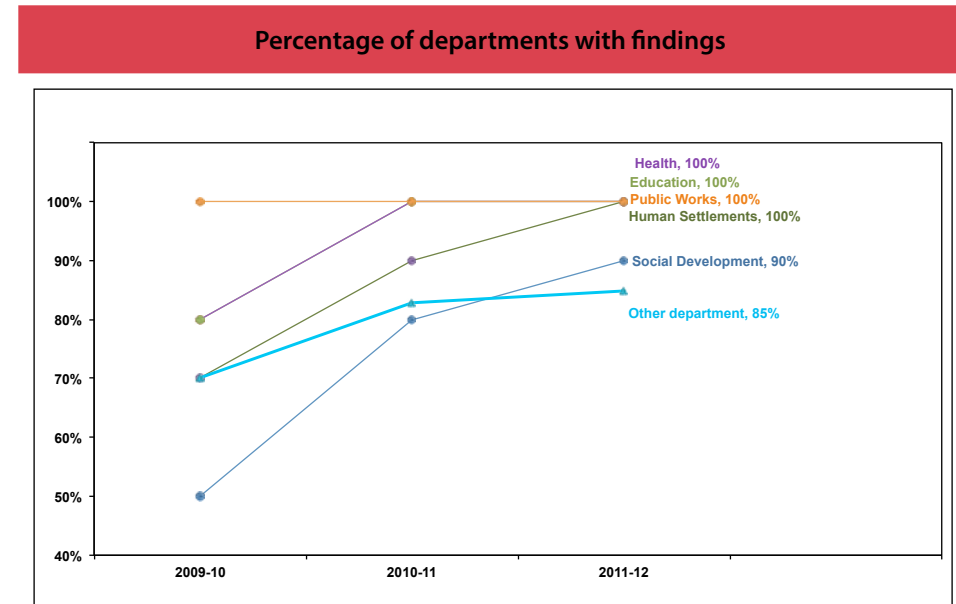


Figure 48: Three-year progress in addressing findings on compliance - Sector departments compared to other departments



Sector departments' rate of addressing findings on predetermined objectives and compliance with laws and regulations

The slow progress made over the past three years by sector departments in addressing findings on PDOs and compliance, compared to other departments, is depicted in **figures 47 and 48**. Key findings specifically relating to the sector departments are outlined in the following table.

Table 30: Sector departments' rate of addressing findings on predetermined objectives and compliance with laws and regulations

PDO findings	Summary of PDO findings in the sector departments
Usefulness and reliability of PDO information	<p>Only 24% of the sector departments had no PDO findings, compared to an average of 54% for the other departments.</p> <ul style="list-style-type: none"> Audit findings relating to usefulness were raised at 51% of the sector departments, with 59% of them having findings on the reliability of their reported performance information. No significant progress has been made by the sector departments in addressing control weaknesses identified in the 2010-11 financial year relating to major information systems used by them, which include: EMIS (Education), DHIS and ETR.NET, (Health) and the department of Public Works' WCS and PMIS. Section 3 of part 1 of this report provides details of findings arising from these information systems.
Findings on compliance	Summary of findings on compliance in sector departments
Supply chain management	<p>Limitations on planned audits were experienced due to appropriate documentation not being available at 17 (35%) of the sector departments. Other findings include the following:</p> <ul style="list-style-type: none"> Uncompetitive or unfair procurement processes ranging from 56% to 100% of the departments within the five sectors. Contracts were awarded to employees or state officials at 20 (41%) of the sector departments and awards to close family members of employees at 19 (39%) of them.

Unauthorised, irregular and fruitless and wasteful expenditure	<ul style="list-style-type: none"> The aggregate level of unauthorised expenditure incurred by the sector departments remained at approximately the same level of the prior year: R2,8 billion. Irregular expenditure increased by 14% to R15,8 billion, of which only R8,8 billion was detected by the sector departments themselves and the balance by the AGSA audit. For the year under review the sector departments contributed 69% of the total unauthorised, irregular and fruitless and wasteful expenditure incurred by national and provincial government (totalling R28,4 billion for the 2011-12 financial year).
Other significant findings	Summary of findings on compliance in sector departments
	<ul style="list-style-type: none"> Seventy-eight per cent of sector departments submitted financial statements for audit that contained material misstatements. Poorly developed internal controls that should prevent, detect and correct errors may in future result in a situation where the nature or extent of required corrections are such that these cannot be made during the audit, resulting in financially qualified audit opinions. The level of findings on Expenditure management and Revenue management have increased further from the high levels of the 2010-11 financial year, with Expenditure management increasing from 51% to 59% and Revenue management increasing from 37% to 47%. The sector departments have not paid sufficient attention to the prior year findings on Human resource management , which increased from 47% to 59% over the 2010-11 financial year. Audit findings raised during the year under review are as follows: management of vacancies (59% of departments), appointment processes (57% of the sector departments) and management of leave, overtime and suspension (55%).

Root causes of lack of progress towards clean audits by sector departments

The root causes of the inability of sector departments to produce unqualified financial statements and their slow progress in addressing findings on PDOs and compliance, as detailed in sub-sections 2.2, 2.3 and 2.4 of this general report, can be summarised as follows:

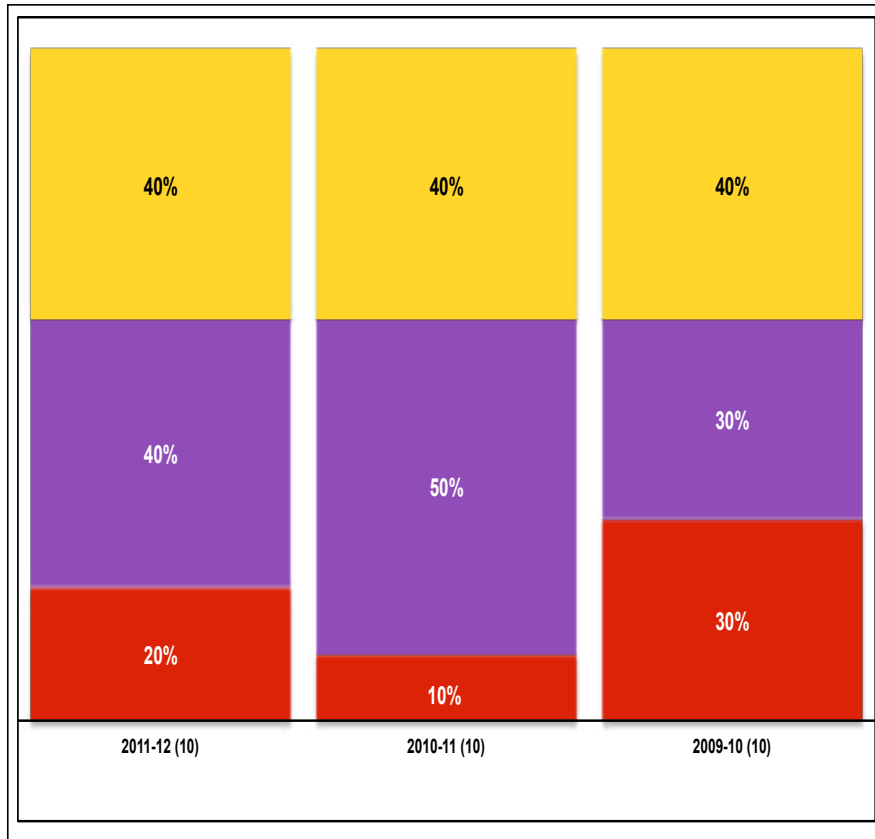
- Instability at leadership level.
- Commitments by the leadership of relevant sector departments and coordinating national departments to intervene and/or support those departments were not honoured.
- Action plans to address prior year audit findings were not adequately designed or properly implemented.
- Sector departments have not filled key vacancies and some posts were filled with officials who do not possess the requisite levels of skills and experience.
- Repeated material audit findings and even serious regression in the audit outcomes in many cases do not attract appropriate consequences for poor performance by the responsible officials.
- Lack of attention to the requirements of performance management frameworks, for example lead to sector targets not being SMART in all instances. Although some sector departments started with the process of aligning the sector indicators and targets to the relevant 12 national outcomes, this process should be further refined to ensure appropriate and relevant targets to achieve the relevant outcomes as well as to ensure good quality service delivery. In this regard the relevant coordinating departments and legislatures must become actively involved in improving the usefulness of PDOs and ensuring that the budgeted programmes are aligned to those objectives. Prior year reported information system deficiencies and limitations to support reporting against PDOs are not being addressed.

- Daily processing of information and monthly reconciling routines have not yet been established.

The drivers of internal controls (leadership, financial and performance management and governance) for sector departments have generally regressed since the previous financial year.

3.1.1 EDUCATION

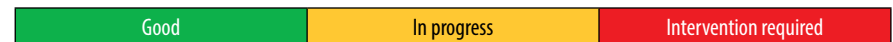
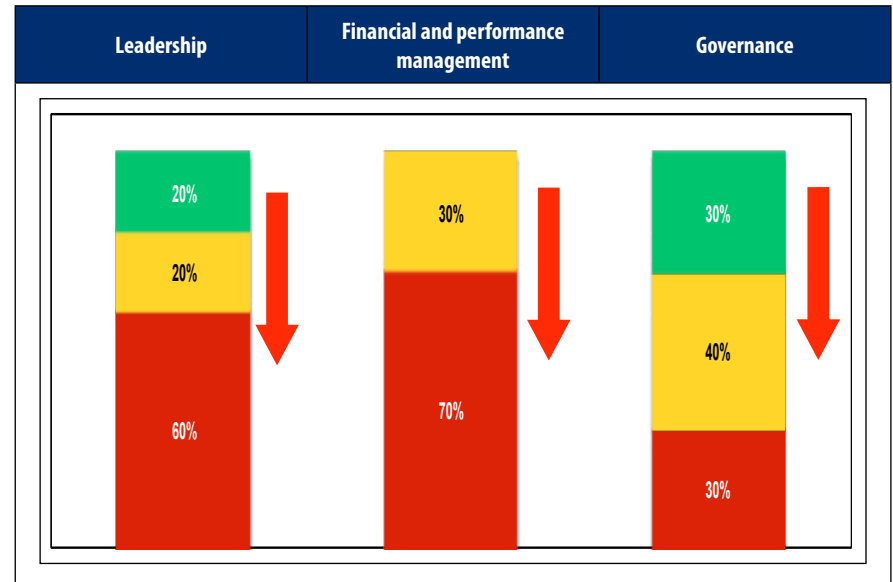
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5 risk areas



Key controls



Root causes risk

- Procurement process not improved to prevent irregular expenditure
- Daily and monthly processing controls not in place to reduce material adjustments to AFS.
- Financial statements not prepared in accordance with section 40(a) of PFMA

Table 31: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Basic Education	Financially unqualified with findings			Financially unqualified with findings			↔
Eastern Cape	Disclaimer			Disclaimer			↔
Free State	Financially unqualified with findings			Qualified			↑
Gauteng	Financially unqualified with findings			Financially unqualified with findings			↔
KwaZulu-Natal	Qualified			Qualified			↔
Limpopo	Disclaimer			Qualified			↓
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Qualified			Qualified			↔
North West	Qualified			Qualified			↔
Western Cape	Qualified			Financially unqualified with findings			↓



The education sector reflects two regressions with Limpopo regressing from qualification to disclaimer of opinion and Western Cape from unqualified with findings to a qualified opinion. The Free State department is the only department that improved from a qualification to unqualified with findings.

Despite commitments made by the executive authorities to address deficiencies identified and reported in previous audit reports, the audit results of the education sector are still not satisfactory. Stringent management effort is therefore required to address the root causes of reported deficiencies in order to achieve clean audits.

The most significant qualification areas for the sector are capital assets, current assets, liabilities, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure.

The **reporting on predetermined objectives (PDO)** remains a challenge as six of the ten (60%) education departments remained with findings compared to the previous year.

Five (50%) of the education departments faced challenges with regard to the usefulness of reported information, while five (50%) of the departments' reported information could not be traced back to source information or the reported information was not accurate, complete and valid in relation to the source documentation provided. The lack of relevant performance management skills in this area contributed to these audit outcomes.

Compliance with applicable laws and regulations is another area that requires urgent attention by the leadership within the education sector as nine of the departments had findings on non-compliance. Most instances of such non-compliance also contributed to the unauthorised, irregular and fruitless and wasteful expenditure reported in the sector. Although significant non-compliance has been reported in the sector, the responsible staff are not held accountable for the consequences of such non-compliance and the necessary action is not taken against the responsible staff.

Unauthorised expenditure amounting to R1,426 billion was incurred in the 2011-12 (2010-11: R1,389 billion) financial year in the education sector.

Irregular expenditure of R2,203 billion was reported in the sector for the 2011-12

financial year (2010-11: R2,089 billion). The irregular expenditure mainly relates to the supply chain management processes in the sector.

Overall deficiencies in key controls

Following the 2010-11 audits, management committed to address identified deficiencies in internal controls. The status of honouring such commitments as determined during the 2011-12 audits indicates that in some provinces there was inadequate progress in implementing management commitments in all fundamentals of internal controls. This was due to lack of oversight monitoring by the leadership of the affected departments.

Findings relevant to key service delivery aspects in the education sector HIV and Aids life skills education grant

Service delivery objective: This programme is intended to coordinate and support the structured integration of life skills and HIV and Aids programmes across all learning areas in the school curriculum for purposes of achieving a significant change in the learners' behaviour. Furthermore, the programme aims to provide care and support to learners who are infected and affected by HIV/Aids.

Table 32: HIV and Aids life skills education grant

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Master trainers did not receive all planned training (EC, NC, NW and WC)	4	3	0
2	Educators did not receive all planned training (EC, FS, LP, NC and NW)	5	6	6
3	The department did not monitor and report on the outcomes and outputs of the grant (EC, FS, LP and NC)	4	5	8

Conclusion: Some of the provinces are still experiencing challenges although this programme has been implemented for more than 10 years (since 2000-01). We noted that there is still lack of leadership oversight, review and monitoring of the performance of this programme by the provincial and district offices in the relevant provinces, impacting negatively on the implementation of the HIV and

Aids life skills education programmes at schools.

National school nutrition programme

Service delivery objective: This programme is intended to improve learning capacity by feeding needy learners. Through this grant it is envisaged that school attendance will improve and learner enrolment will increase at schools.

Table 33: National school nutrition programme

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Meals not prepared as per recommended menu (FS, LP, MP, NC and NW)	5	2	7
2	Meals not served on all school days (EC, FS, KZN and NW)	4	2	0
3	Cost per meal per learner not at required average (FS and MP)	2	2	0
4	Meals not served by 10:00 and arrangement not pre-approved by national department (EC, FS, KZN, LP, MP, NC, NW and WC)	7	5	4
5	Sustainable food production and nutrition education not promoted at school level (NC and NW)	2	0	0
6	Food handlers did not have a valid contract with department or NGO (EC, FS, LP and NC)	4	5	0
7	Attendance of food handlers not monitored by schools (EC, FS, GP and GP)	4	4	0
8	Payments to food handlers less than minimum required by DoRA framework and not authorised by designated school official (EC and FS)	2	0	0
9	Quarterly and/or annual financial and performance reports not approved and submitted to national department (EC and LP)	2	0	0

Conclusion: As reported in the prior year, the key challenges of the programme are the inadequate monitoring by provincial departmental officials and leadership and lack of adequate facilities and resources to prepare meals as required. This resulted in the objective of the programme not being met in all instances.

Learner/Teacher support material (LTSM)

Service delivery objective: This programme is intended to improve learning capacity through study support materials with a view to improving the performance of learners and that of teachers.

Table 34: Learner/Teacher support material

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Schools received no LTSM although budgeted for (2011-12: EC, FS GP, LP and NC) (2010-11: FS and LP)	5	2	0
2	Schools received LTSM only after academic year started (2011-12: EC, FS, GP, KZN, MP, NC, NW and WC) (2010-11: EC, FS, KZN, NW, and LP)	8	5	0
3	No processes in place to monitor the timeous delivery of books to schools (2011-12: EC and MP)	2	0	0
4	LTSM shortages at schools (2011-12: LP, FS, GP and MP)	4	0	0
5	Inappropriate LTSM ordered and delivered (2011-12: GP and MP)	2	0	0
6	Excessive LTSM stock received from NDE kept at provinces and not distributed to schools ((2011-12: EC)	1	0	0
7	Schools receive LTSM workbook in the incorrect language from the service provider (2011-12: GP)	1	0	0
8	School did not receive LTSM for the academic year it was intended for (2011-12: GP, FS and LP)	3	0	0

Conclusion: Due to a lack of adequate processes and controls in the management of the printing and distribution of workbooks, the national Department of Basic Education did not timeously deliver workbooks to the learners. In some cases not enough workbooks or workbooks in incorrect languages were delivered to the learners. This resulted in the department putting in a considerable effort late during the 2012 academic year to remedy the situation. At the date of this sector report the department had not determined the impact of these shortcomings on the delivery of quality basic education.

Inaccurate statistics of the learner records as per the Education Management Information System (EMIS) also contributed significantly to the delayed delivery of the workbooks. Numerous other control deficiencies on LTSM were also noted in various provinces.

Emerging risk – LTSM Inventory (workbooks and text books)

Currently the basic Education sector does not have an inventory management process and/or system in place to monitor and determine the value (quantities and rand value) of the LTSM material on hand at year-end. This could result in fruitless and wasteful expenditure due to workbooks that are printed and not used on a yearly basis. The quantity and value of workbooks and text books on hand could not be quantified at year-end.

Learner transport scheme (LTS)

Service delivery objective: This initiative is intended to make education accessible to all by providing scholar transport to needy learners.

Table 35: Learner transport scheme

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	No policies or objectives to manage LTS in province (FS, GP and KZN)	3	1	6
2	Non-adherence to requirements of LTS policies (EC, KZN and NC)	3	0	0
3	No indicators and targets in annual performance plan for measuring management of LTS and performance of contractors in annual performance plan (KZN and MP)	2	0	0
4	Tenders awarded to LTS contractors despite non-compliance with tender requirements and processes (KZN, MP, NC and NW)	4	4	4
6	Bus drivers without required driver's licences and public driver permits to transport learners (EC, FS, GP, LP, MP, NC, NW and WC)	8	4	4
7	Buses declared non-roadworthy by private or state-controlled testing centres (EC, GP and LP)	3	1	0

Conclusion: Management of this scheme is still a major challenge. Bus drivers without driver's licences, buses declared non-roadworthy and awarding of tenders to contractors despite non-compliance with tender requirements are some of the major challenges. Lack of adequate monitoring and review of the learner transport scheme at a provincial level also contributes to the findings not being addressed and recommendations not implemented.

In some provinces LTS is managed by the transport department, which requires a close working relationship between the two departments as deficiencies in the management of this programme negatively impact the objective of the department of Education to ensure that all learners reach schools.

Education infrastructure grant

Service delivery objective: The overall purpose of the grant is to accelerate construction, maintenance, upgrading and rehabilitation of new and existing infrastructure in education and to enhance capacity to deliver infrastructure in education.

Table 36: Education infrastructure grant

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	New/upgraded schools underutilised (EC, KZN and MP)	2	4	0
2	Additional cost incurred to correct substandard work (EC and NC)	2	0	0
3	Infrastructure needs not correctly identified/prioritised as result of inappropriate information used during needs determination process (EC, LP and NC)	3	0	0
4	Original needs determination documentation not provided for audit (EC, NC and WC)	2	4	0
5	Needs determination and budget compiled without considering relevant technical issues which caused inappropriate scoping and budgeting of projects (EC and MP)	2	4	0

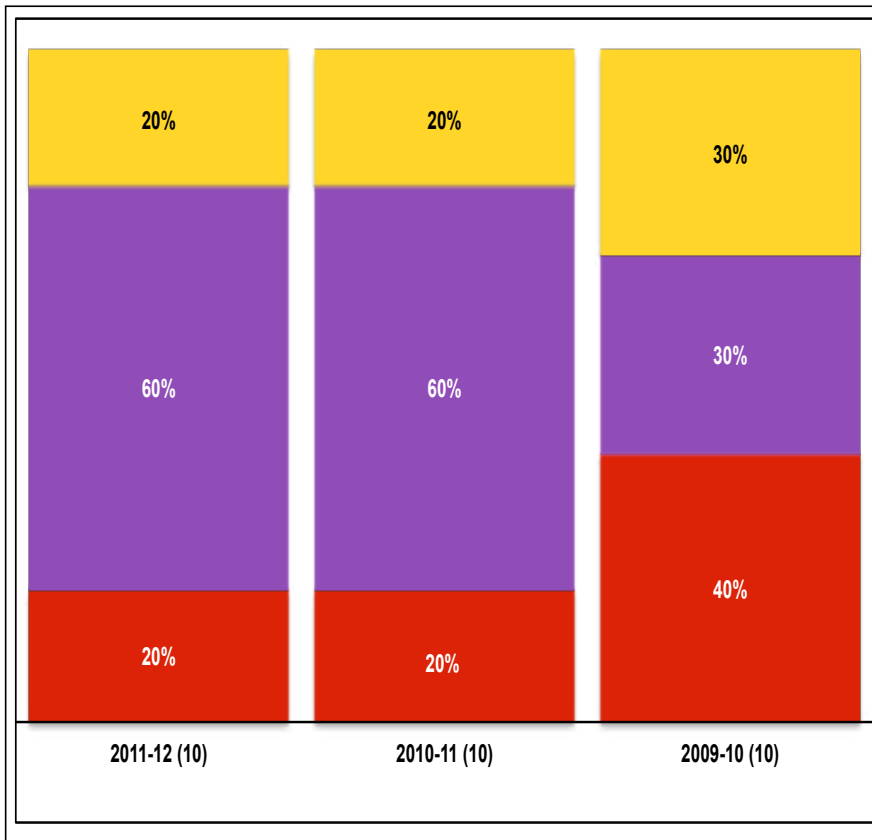
Conclusion: The leadership of the education departments appeared before the Standing Committee on Public Accounts (SCOPA) where commitments were made that all deficiencies reported by the AGSA in the education infrastructure performance audit report tabled in Parliament during September 2011 will be addressed and sustainable solutions will be developed to ensure that such deficiencies does not recur. Although the nature and scope of the audit for the year under review was limited compared to the performance audit, the findings above are an indication of slow progress being made in addressing matters that

were reported.

In some provinces infrastructure projects are managed by the department of Public Works while some projects are managed by implementing agents, which requires a close working relationship between both departments.

Numerous significant control deficiencies that contributed to irregular and fruitless and wasteful expenditure were identified in various provinces. These deficiencies related mainly to shortcomings in the infrastructure procurement process and weaknesses in contract and project management. The quality of workmanship on infrastructure projects was also identified as an area of concern.

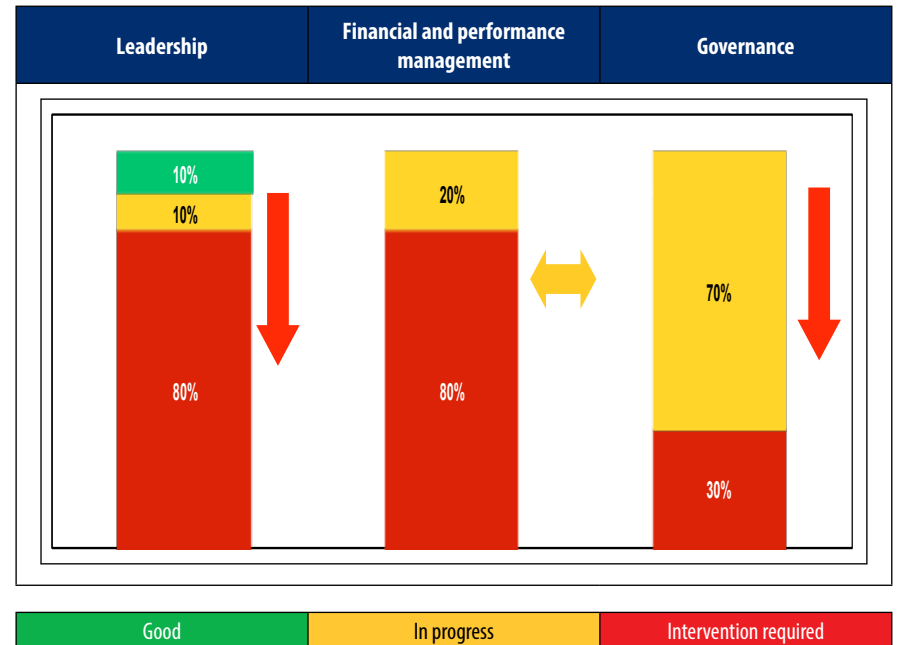
3.1.2 HEALTH



5 risk areas



Key controls



Root causes risk

- Leadership instability and HR capacity
- Inadequate discipline to monitor and review financial and performance information
- No consequences for poor performance

Table 37: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Health	Financially unqualified with findings			Qualified			↑
Eastern Cape	Qualified			Qualified			↔
Free State	Qualified			Qualified			↔
Gauteng	Qualified			Qualified			↔
KwaZulu-Natal	Qualified			Qualified			↔
Limpopo	Disclaimer			Disclaimer			↔
Mpumalanga	Qualified			Qualified			↔
Northern Cape	Disclaimer			Disclaimer			↔
North West	Qualified			Financially unqualified with findings			↓
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔



The health sector reflect one improvement, with the National Department of Health improving from a qualification to financially unqualified with findings, and one regression as the North West department of Health regressed from financially unqualified with finding to a qualification on assets. Two departments (Limpopo and Northern Cape) received repeat disclaimers, while the remaining five provincial departments all had repeat qualifications. The audit outcomes for the current year are a concern due to the inability of the sector to demonstrate improvement. This is mainly as a result of leadership instability, inadequate discipline to monitor and review daily activities and staff not being held accountable for poor performance.

The most significant qualification areas for the sector are capital assets, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure. Seven departments were qualified on assets due to asset registers being inadequately maintained and reconciled on a monthly basis. There is a general lack of appropriate systems in the health sector to properly record and account for other disclosure items. Six departments were qualified on other disclosure notes. The qualifications on other disclosure items stemmed primarily from poor internal controls, a lack of reconciling this information monthly and a lack of understanding/knowledge on the part of staff responsible for compiling the required information. Five departments were qualified on irregular expenditure for failing to maintain adequate records to disclose irregular expenditure incurred. The health sector incurred irregular expenditure to the amount of R8, 2 billion for the 2011-12 year, which represents an increase of R2, 4 billion compared to the 2010-11 year.

The reporting on predetermined objectives (PDO) remains a challenge for the sector. Except for the Western Cape provincial department, all departments had findings on predetermined objectives. Mpumalanga and Northern Cape had new findings on presentation because material variances were not explained. Four departments (Eastern Cape, Northern Cape, North West and Gauteng) failed to include targets that were measurable, specific and time bound. Limpopo addressed the prior year finding on usefulness, while targets were found to be specific and measurable. All nine departments had repeat findings on reported information not being reliable. Good progress was made by the national department as they had developed guidance for the provinces in respect of the collection, recording

and monitoring of reported information. These guidelines have, however, not been fully implemented and complied with during the year under review.

All 10 departments had findings on compliance. The majority of them related to expenditure management (9 departments), procurement management (9), human resource management (8) and material corrections to the annual financial statements (8). The national department resolved most of the findings from the previous year except for some in the area of human resource management and transfer payments. The non-compliance in the health sector is as a result of inadequate discipline to monitor and review daily activities and failure to hold staff accountable for non-compliance with laws and regulations.

Based on the commitment made by the Minister of Health during 2011-12, the national department is in the process of developing norms and standards that will, amongst others, guide the provincial departments in terms of organisational structures per province and minimum qualifications/requirements for specific positions.

Findings relevant to key service delivery aspects in the health sector

For the year under review, the focus was on the following service delivery aspects within the health sector:

- Division of Revenue Act – Comprehensive HIV and Aids grant
- Division of Revenue Act – Hospital revitalisation grant and health infrastructure grant
- Medical waste
- Emergency medical services

Division of Revenue Act – Comprehensive HIV and Aids grant

Service delivery objective: The overall purpose of this grant is to enable the health sector to develop an effective response to HIV and Aids and support the implementation of the national operational plan for comprehensive HIV and Aids treatment and care. The total grant allocation for 2011-12 amounted to R7, 5 billion and the highest allocations were made to KwaZulu-Natal (25%), Gauteng (21%) and Eastern Cape (12%) with these provinces receiving 59% of the total grant.

Table 38: Division of Revenue Act – Comprehensive HIV and Aids grant

No.	Findings	Number of provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Weaknesses exist in design and implementation of health information systems (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	7	7	7
2	Data used to prepare quarterly reports for ART interventions was either not supported by evidence or supporting documentation was not available (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	8	7	6

Conclusion: Significant weaknesses were identified in relation to the systems and associated internal controls in place to report reliable data. It is essential that an appropriate information system exists to monitor and measure the performance of the grant. Reliable data will also assist in the planning and budgeting process to ensure that resources are allocated economically and effectively to the key focus areas of the comprehensive HIV and Aids grant.

Recommendation: The national department must take the lead to design suitable processes and internal controls to support the reporting of reliable information at each of the provinces.

Division of Revenue Act – Hospital revitalisation grant and infrastructure grant

Service delivery objective: The purpose of these grants is to provide funding to enable provinces to plan, modernise, rationalise and transform the infrastructure, health technology, monitoring and evaluation of hospital management and to improve quality of care in line with national policy objectives. The total grant allocation for the two grants amounted to R6, 4 billion.

Table 39: Division of Revenue Act – Hospital revitalisation grant and infrastructure grant

No.	Findings	Provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Poor performance of contractors has delayed the completion of projects	0	4	4	7
2	Poor performance of contractors has resulted in additional costs to the department	0	4	4	6
3	New/upgraded hospitals or clinics underutilised/ not utilised (EC, FS, GP, MP, NC)	5	6	*	*
4	Additional costs incurred to correct substandard work (EC, FS, GP, NC)	1	4	*	*
5	Infrastructure needs not correctly identified/ prioritised as a result of inappropriate information used during needs determination process and/or original needs determination documentation not provided for audit (FS, GP, KZN, NC)	4	2	*	*
6	Project implementation plans did not include all deliverables (FS, MP)	2	3	2	*
7	Data used to prepare monthly and quarterly reports not supported by evidence	0	3	8	5

Conclusion: A proper needs analysis was not always performed and inadequate planning and budgeting for staff and equipment resulted in some facilities being underutilised. Poor planning impacted on the planned level of service delivery at the newly built/refurbished facilities. During the year under review the national department appointed the necessary staff, including engineers, to oversee and monitor all hospital revitalisation and infrastructure projects in the provinces. This will enhance the controls that are in place to ensure that resources are being effectively utilised.

Recommendation: It is recommended that the needs analysis (planning) and budget be done in a coordinated process by staff who have the necessary expertise and that monthly progress reports be provided to the national and provincial leadership to identify and act on deviations.

Medical waste

Service delivery objective: The audit of medical waste focused on the handling, storage and disposal of medical waste and on establishing whether reasonable measures have been put in place for the appropriate management of medical waste and compliance with relevant legislation.

Table 40: Findings on medical waste

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Medical waste was not appropriately disposed of (EC, FS, GP, KZN, LP, MP, NC)	7	7	6
2	Expired medicines not appropriately dealt with and disposed of (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	8	5
3	Access control to the collection areas of medical waste as well as the medical waste storage site was not adequate (EC, FS, GP, LP, MP, NC)	6	8	6

Conclusion: The above findings represent significant non-compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), potentially impacting on the health of the community and risking damage to the environment. The findings are primarily the result of a lack of effective control over the disposal of medical waste and expired medicines in provinces. They can also be attributed to a lack of effective oversight at a leadership level.

Recommendation: It is recommended that appropriate action be taken by the leadership of the provincial departments of health to implement adequate internal controls to ensure compliance with NEMA. It is further recommended that the responsible officials be held accountable for non-compliance with NEMA.

Emergency medical services

Service delivery objective: The aim of this programme is to render pre-hospital emergency medical services, including inter-hospital transfers, medical rescue and planned patient transport.

Table 41: Findings on emergency medical services

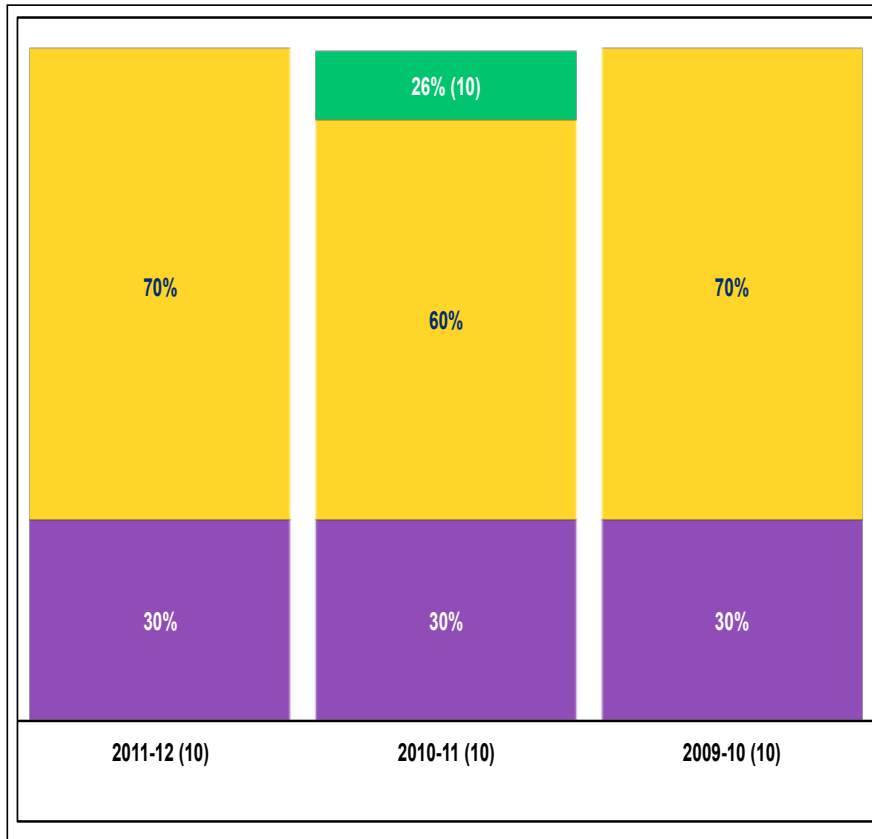
No.	Findings	Number of provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Slow response time (EC, FS, GP, KZN, MP, NC, NW)	7	7	6	8
2	Ambulances and rescue vehicles not available (EC, FS, GP, KZN, MP, NC, NW)	7	6	7	7
3	Communication centre, ambulance and rescue staff not available (EC, FS, MP, NC, NW)	5	5	6	8
4	Ambulance staff not appropriately trained and qualified (MP, NC)	2	4	3	9
5	Inadequate availability of communication centre staff (FS, GP, MP, NC)	4	2		

Conclusion: No progress was made in addressing the prior year findings. The slow response time identified in seven provinces is mainly due to the unavailability of ambulances, rescue vehicles and staff.

Recommendation: Leadership at the provincial departments should review the current status of emergency medical services in their respective provinces relating to the availability of vehicles and staff. Based on the outcome of the review an action plan to address the above should be developed and monitored on a regular basis.

3.1.3 HUMAN SETTLEMENTS

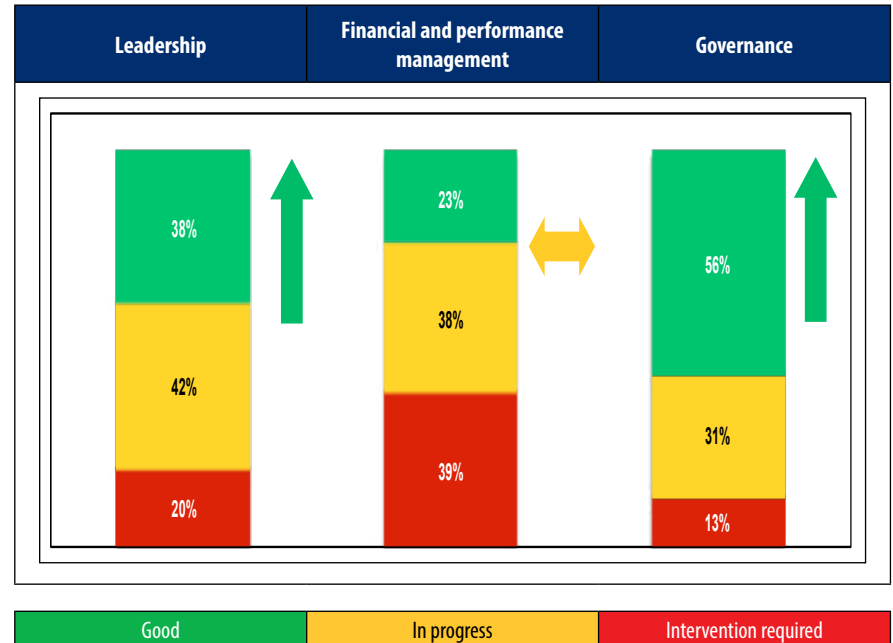
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5 risk areas



Key controls



Root causes risk

Action plans to address prior year audit findings were not appropriately designed and implemented. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not adequately exercised.

Sufficient and skilled resources are not in place as vacancies are not filled timeously.

Insufficient attention paid to key controls with regard to daily processing and monthly controls, including the preparation and review of financial and performance reports.

Table 42: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Human Settlements	Financially unqualified with findings			Financially unqualified with findings			↔
Eastern Cape	Qualified			Qualified			↔
Free State	Qualified			Financially unqualified with findings			↓
Gauteng	Financially unqualified with findings			Financially unqualified with findings			↔
KwaZulu-Natal	Financially unqualified with findings			Financially unqualified with findings			↔
Limpopo	Financially unqualified with findings			Financially unqualified with no findings			↓
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Financially unqualified with findings			Qualified			↑
North West	Qualified			Qualified			↔
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔



The human settlements sector audit results of the 10 departments analysed [national and nine (9) provincial departments of Human Settlements] reflect one improvement and two regressions.

The Northern Cape received an improved audit opinion as this department moved from financially qualified to a financially unqualified opinion with findings on PDOs and compliance.

The improvement in the audit opinion of the Northern Cape is mainly due to management providing effective leadership and exercising oversight responsibility in attending to and addressing audit findings timeously, as well as monitoring the implementation of the action plan and implementing proper record keeping to support performance reporting.

Limpopo regressed from financially unqualified (with no other findings) to an unqualified audit opinion with findings on compliance. The regression in the audit opinion is due to findings on compliance relating to remunerative work performed by employees with other institutions not being adequately detected and monitored by the department.

The Free State regressed from an unqualified (with findings) opinion to a qualified audit opinion. The following areas were qualified: irregular expenditure, commitments, accruals and transfers and subsidies. The following is a summary of the reasons for the regression:

- Management did not effectively exercise its oversight responsibility regarding financial, performance reporting and compliance with laws and regulations and related internal controls due to inadequate monitoring and evaluation.
- Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that internal controls are implemented. This was due to delays in approving the new organisational structure.
- Management had limited capacity and as a result did not 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.

- Management did not regularly review and improve controls in the housing section. This resulted in the department instituting an internal investigation during June 2012, with six officials of the department being suspended.
- Management did not perform 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.

Two departments (North West and Eastern Cape) received repeat qualifications and the remaining four provincial departments as well as the national department all had financially unqualified opinions with repeat findings on PDOs and compliance. The Eastern Cape was qualified on commitments, which were understated in the annual financial statements as the commitments listing was not adequately reviewed prior to inclusion in the disclosure note. The qualification in the North West province was due to insufficient appropriate audit evidence for the unspent funds portion of tranche payments.

The audit outcomes for the current year are a concern due to the inability of the sector to demonstrate improvement. This is mainly as a result of leadership instability, inadequate discipline to monitor and review daily activities and staff not being held accountable for poor performance.

The human settlements sector incurred irregular expenditure to the amount of R2, 7 billion for the 2011-12 year, which indicates an increase of R2, 2 billion compared to the 2010-11 year at seven departments (2011: eight). The irregular expenditure incurred in the Free State accounted for 74% of this amount and was incurred mainly due to housing contracts awarded subsequent to the 2009-10 financial year-end not being evaluated by a bid evaluation and bid adjudication committee and a preference point system not being used to award these contracts.

Reporting on PDOs within the sector is not encouraging as only the Limpopo provincial department had no PDO findings. The KwaZulu-Natal department did not submit their annual performance report in time for audit purposes. Findings with regard to the consistency, relevance and measurability of performance information were raised in seven (70%) departments and are detailed below:

- For Gauteng, Northern Cape, Mpumalanga and the national department, targets were not specific and measurable. For Gauteng, Northern Cape and the national department, indicators were not well defined.
- In Mpumalanga, a total of 90% of reported targets were not consistent with targets as per the approved annual performance plan.
- Adequate explanations for major variances between the planned and actual reported targets were not provided in the Free State, Mpumalanga, North West, Northern Cape and the Western Cape [five departments (50%)].

Findings with regard to the reliability of reported performance information were raised in four (40%) departments and are detailed below:

- In the Western Cape, the targets were not valid, accurate or complete based on the evidence provided.
- In three (30%) provincial departments, namely Eastern Cape, Northern Cape and Free State, sufficient appropriate audit evidence could not be provided to support the validity, accuracy and/or completeness of the targets.

All 10 departments had **findings on compliance**. Of particular concern is the significant number of repeat findings. The majority of the findings on compliance related to material corrections to the annual financial statements [nine (90%) departments], procurement management [seven (70%) departments], expenditure management [five (50%) departments], HR management [five (50%) departments] and asset management [four (40%) departments]. The non-compliance is as a result of inadequate discipline to monitor action plans developed to address prior period findings as well as a lack of daily control activities and not holding staff accountable for non-compliance.

IT controls for the financial and housing subsidy systems have not significantly improved since the prior year. Although IT service continuity has been addressed in most departments, user account management and security management remain areas of concern, especially with regard to the financial information systems.

Overall there has been no significant movement in the implementation of key controls to ensure movement towards clean administration in the sector.

Oversight responsibility in ensuring that policies and procedures are established remains a challenge, along with lack of implementation of action plans. Proper preparation and adequate review of financial and performance reports, as well as proper review and monitoring of compliance with laws and regulations, are not performed.

The Minister of Human Settlements committed at the MINMEC meeting to implement action plans to address the findings. Proper monthly financial statements with all relevant disclosure notes will be prepared by the departments. The departments will also fully implement monthly key controls, which will be reviewed by internal audit. These plans will be monitored by the audit committees and accounting officers. Progress will be monitored by means of quarterly reports, which will be provided to the minister and MECs.

Findings relevant to key service delivery aspects in the human settlements sector

For the year under review, the focus was on the following service delivery aspects within the human settlements sector:

- Management of individual housing subsidies
- Monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses.

Management of individual housing subsidies

Service delivery objective: To encourage growth in the secondary residential property market in order to create sustainable human settlements and to provide access to state assistance where qualifying households wish to acquire an existing house or a vacant residential serviced stand that is linked to a house construction contract. Funding is provided through an approved mortgage loan.

The purpose of the human settlements development grant (HSDG) is to facilitate the development of sustainable human settlements through the provision of a conditional grant to fund housing programmes approved in terms of the national housing code.

Gauteng (R3, 8 billion), KwaZulu-Natal (R2, 8 billion), Eastern Cape (R2, 2 billion) and the Western Cape (R1, 6 billion) received the highest allocations during the

2011-12 financial year, which totalled 70% (65% in 2010-11) of the total grant allocation. The remainder of the provinces' allocations ranged from R333 million to R1,399 billion.

Table 43: Summary of findings relating to management of individual housing subsidies per province

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Subsidies were paid to applicants with invalid ID numbers (GP)	1	4	5
2	The department approved and paid subsidies to applicants in excess of the housing subsidy threshold (FS, KZN, GP)	3	2	8
3	Subsidies were paid to government employees earning in excess of the housing subsidy threshold	0	3	6
4	Subsidies were paid to applicants who were younger than 18 years	0	2	5
5	Payments were made to beneficiaries who are not approved on the HSS (FS)	1	2	3
6	The department approved more than one housing subsidy for the same site/stand (MP)	1	2	3
7	Payments to developers of housing projects exceeded project budgets (FS)	1	0	0
8	The department approved and paid subsidies after the applicant's date of death (GP)	1	2	5
9	Payments not in line with contract milestones (FS)	1	1	3

Conclusion: The number of findings identified in the nine provincial departments which relate to this focus area has decreased compared to the 2010-11 financial year. However, attention needs to be given to the deficiencies in approval processes to ensure that payments are only made to applicants eligible as per the requirements of the housing code. Budgets also need to be monitored throughout the year.

Monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses

Service delivery objective: To ensure that the municipality implements effective, efficient and transparent financial management and internal control systems before transfer of funds and to ensure that the municipality will utilise the funds for the housing projects as required.

To ensure the progressive upgrade of informal settlements in accordance with the targets for eradicating poverty and reducing slum dwellers by formalisation of informal settlements by 2014 and eradication thereof by 2020.

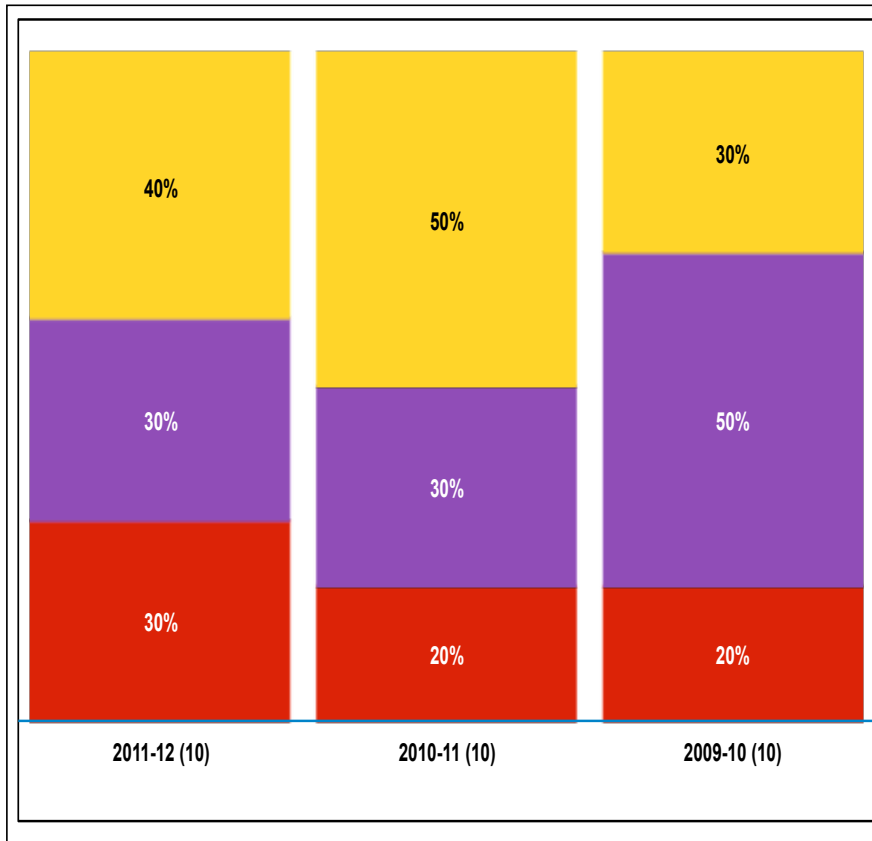
Table 44: Summary of findings relating to monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses

No.	Findings	Provinces affected		
		2011-12	2010-11	2009-10
1	The department did not ensure that the municipality implements efficient and transparent financial management and internal controls systems before transferring funds (WC)	1	2	1
2	The provincial department did not calculate the unspent portion of the transfer or advance payment	0	3	1
3	The appointment of contractors was not subject to the procurement processes as stipulated by the provincial department	0	3	1
4	Payments were made for houses that were claimed as built but did not exist	0	3	2
5	The quality of the houses that were built was not according to the specific requirements and the expenditure incurred (KZN, LP, WC)	3	3	5
6	Lack of or limited project management by the provincial department resulting in a lack of or limited monitoring of and control over projects and the completion thereof (EC, WC)	2	5	1
7	The provincial department did not confirm the balance and existence of the unspent portion of transfer or advance payments at year-end (GP)	1	2	1

Conclusion: The management and monitoring of advance payments have improved since the prior year. This was mainly due to management improving controls over procurement processes prior to payments being made to contractors and monitoring unspent portions of the advances. Although project management controls were improved and regular site inspections conducted to ensure existence of houses built, the quality of houses built remained a concern. Leadership of departments must act decisively to mitigate emerging risks and implement timely corrective measures to address non-performance.

3.1.4 PUBLIC WORKS

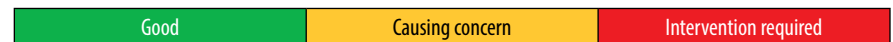
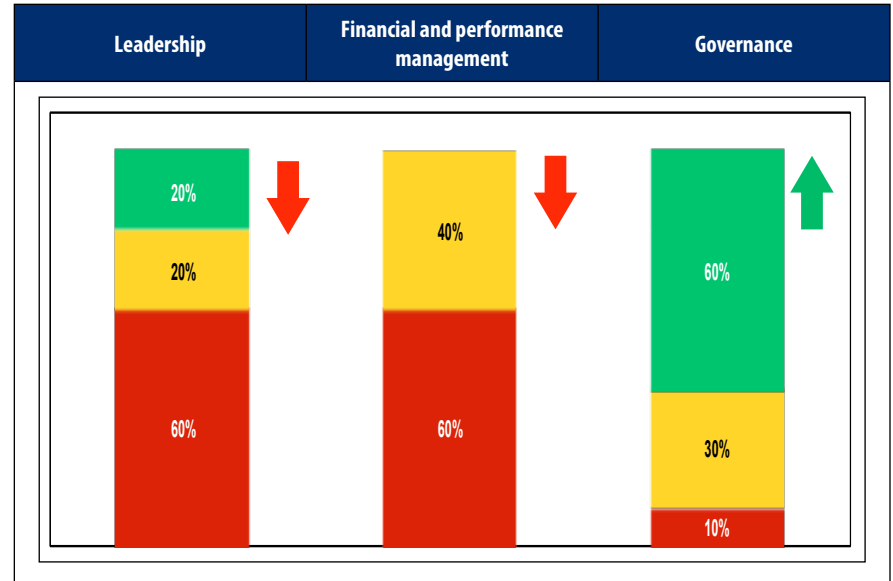
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5 risk areas



Key controls



Root causes risk

Instability in key leadership positions and a lack of human resources capacity had a negative impact in providing effective leadership.

Implemented controls over daily and monthly processing and reconciling of transactions were ineffective. Inadequate discipline to review and monitor financial and performance information.

Action plans for improving audit outcomes were not timeously implemented.

Table 45: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Public Works	Disclaimer			Disclaimer			↔
Eastern Cape	Qualified			Financially unqualified with findings			↓
Free State	Qualified			Qualified			↔
Gauteng	Financially unqualified with findings			Financially unqualified with findings			↔
KwaZulu-Natal	Financially unqualified with findings			Qualified			↑
Limpopo	Disclaimer			Qualified			↓
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Qualified			Financially unqualified with findings			↓
North West	Disclaimer			Disclaimer			↔
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔



Significant aspects of the audit outcomes

The Public Works sector reflects one improvement, with KwaZulu-Natal improving from a qualification to financially unqualified with findings on compliance, and three regressions. The Eastern Cape and Northern Cape received qualified opinions whereas in the previous year unqualified opinions with findings were expressed, while Limpopo regressed from a qualified opinion to a disclaimer of opinion in the current year. Audit opinions for the rest of the sector remained consistent, with the national department and North West receiving disclaimers, Free State remaining qualified and other departments receiving unqualified opinions with findings.

Regressions in the sector are primarily attributable to instability in key leadership positions and a lack of human resource capacity. There are ineffective controls over daily and monthly processing and reconciling of transactions and financial and performance information is not being properly reviewed and monitored by management and those charged with governance. Timeous action was not taken to resolve audit qualifications reported in the previous financial year and decisive action is not taken against officials transgressing laws and regulations, resulting in non-compliance recurring.

The shortcomings in the information technology (IT) environment and systems are in the process of being addressed; however, significant improvement has not been noted during the year under review.

The most significant qualification areas for the sector are immovable assets, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure. Six departments were qualified on immovable assets due to their inability to produce accurate, complete and valid immovable asset registers in support of the figures disclosed and insufficient coordination between the national and provincial departments.

Four departments were qualified on other disclosure notes and five departments on the completeness of irregular expenditure. Qualifications on other disclosure items resulted from a lack of understanding/knowledge on the part of staff responsible for compiling the required information as well as the disclosure notes not being compiled and reviewed on a monthly basis. Furthermore, the

information systems in place are not conducive to generating the information required to fairly present the disclosure notes and there are inadequate manual compensating controls in place.

Irregular expenditure was not completely accounted for as officials failed to recognise and disclose irregular transactions as a result of supply chain management (SCM) procedures not having been followed. The sector incurred irregular expenditure amounting to R2, 1 billion compared to R998 million in the previous year. It is clear that compliance with applicable SCM laws and regulations and the prevention of irregular expenditure are not being prioritised enough by leadership and management of the departments and this should be addressed without delay.

Reporting on predetermined objectives remains a challenge for the sector with 80% of departments having findings in this area. The current systems in place are not in all instances adequately governed by policies and procedures in terms of the collection, monitoring and reporting of such information. Furthermore, control and reporting systems as well as the present information technology (IT) infrastructure are not adequate to ensure accurate, valid and complete reporting on PDOs. Intervention is also required to ensure that all officials involved in the process are well versed in the performance management requirements and principles, as required by the National Treasury *Framework for managing programme performance information*.

Findings on compliance were reported at all departments, with the most critical areas of non-compliance being procurement and contract management (all departments), expenditure management (9 departments), financial statements being subjected to material adjustments subsequent to submission (9 departments), revenue management (8 departments) and human resource and asset management (7 departments).

It is recommended that appropriate systems, processes and procedures be implemented by the departments to prevent non-compliance with applicable laws and regulations. In addition, leadership oversight and monitoring controls with respect to compliance with laws and regulations should be enhanced, while immediate and decisive action should be taken against officials committing and

permitting non-compliance to prevent these findings from recurring in future financial periods. Start here

In the prior year, all departments made commitments to develop action plans to address qualification areas and findings on reporting on predetermined objectives and compliance with laws and regulations. These initiatives were, however, not fully implemented in all instances and as a result only KwaZulu-Natal managed to improve its audit outcome. Decisive and effective leadership was not exhibited in driving the implementation of audit action plans to address the affected areas and holding officials accountable for failing to timeously implement corrective actions proposed. This is also reflected in the assessment of key controls presented above where there were regressions in the areas of leadership as well as financial and performance management.

During 2006 a decision was taken that accommodation-related costs be devolved by the national Department of Public Works to client departments, which resulted in the establishment of a trading entity, namely the Property Management Trading Entity (PMTE). As a result, the following functions are performed by the PMTE and not by the national department: construction and planned maintenance; payment of property rates and taxes; and entering into lease agreements with private landlords to obtain accommodation where state-owned properties cannot fulfil the needs of client departments and subsequently managing these leases. The PMTE received a disclaimer of audit opinion for the 2011-12 financial year and significant non-compliance with relevant laws and regulations was identified. Because of the importance of its functions in relation to the sector the findings reflected in the following tables include findings that were identified during the audit process of the PMTE.

Findings relevant to key service delivery aspects in the public works sector

For the year under review, the focus was on the following service delivery aspects within the public works sector:

- Management of accommodation for client departments
- Management of arrear rates and taxes

- Project management of infrastructure projects
- Expanded public works programme (EPWP)

Management of accommodation for client departments

Service delivery objective: The mandate of the national Department of Public Works is articulated in GIAMA. The objective of the act is to ensure efficient and effective immovable asset management within government in order to improve overall service delivery. One of the objectives of the sector departments is to provide and manage the accommodation, housing, land and infrastructure needs of user departments. The following findings were noted:

Table 46: Findings on management of accommodation for client departments

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Immovable Asset management plan not in place or the immovable Asset management plan in place did not address the needs of all client departments (FS, NC, NW, LP, MP and National)	6	4	*1
2	No processes/procedures to identify unused owned and leased buildings, resulting in fruitless and wasteful expenditure (EC, KZN, MP, NW and National)	5	7	*
3	Utilisation inspections not carried out to verify occupation of accommodation and assess condition of buildings (FS, GP, LP, NW, WC and National)	6	6	7
4	No strategy in place to address maintenance backlogs (FS, GP, MP, NC, NW and National)	6	4	3
5	SCM processes not followed for lease contracts (WC, FS, LP, MP, NW and National)	6	4	*

Conclusion: The management of accommodation for client departments remains a concern. There was poor coordination between the public works sector and client departments to obtain accurate accommodation needs to enable the sector to plan strategically to address requirements. Sufficient procedures to identify vacant buildings are not in place in all instances, which could lead to departments paying rental for buildings that are not occupied, leading to fruitless and wasteful expenditure. The effect of this poor coordination is also evident in the number of leases that are running on a month-to-month basis as a result of the public works departments not timeously and effectively liaising with client departments to procure new leased accommodation, in line with the client department's needs, when the existing lease is nearing expiry. In certain instances this has resulted in eviction of client departments from their premises.

The necessary monitoring measures and oversight to ensure compliance with relevant laws and regulations were not implemented to ensure that the awarding of contracts to landlords for leased accommodation is fair, transparent, cost effective and equitable. The departments also did not have adequate strategies in place to address maintenance backlogs. The national department did not implement controls to ensure that accurate information was captured onto the Property Management Information System (PMIS) and, furthermore, several deficiencies exist around the system, especially with respect to user access controls as well as back-up and disaster recovery processes.

Departments should ensure that comprehensive and accurate user and custodial asset management plans are compiled by client departments and that utilisation inspections are carried out to facilitate strategic planning with regard to the building, buying or leasing of accommodation. Leadership must prioritise their oversight function in respect of compliance with laws and regulations when leased accommodation is procured. The shortcomings in and around the PMIS must be addressed by the national department as a matter of urgency, especially given that the accuracy of payments being made to landlords are dependent on the PMIS as payments are automatically calculated based on information contained in the system.

Management of arrear rates and taxes

Service delivery objective: In 2008-09 the function of payment of property rates and taxes was assigned to the provincial departments. The devolution of property rates fund grant was established for this purpose.

Therefore, the accounting officer of each department (national and provincial) is responsible for paying the property rates on all the properties owned. The following findings were noted:

Table 47: Findings on management of arrear rates and taxes

No	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	No process to ensure complete payment of rates and taxes (GP, LP, NW and National)	4	4	2
2	The department did not pay outstanding property rates for properties devolved to the province (EC)	1	*	*
3	Fruitless and wasteful expenditure was incurred due to penalties and/or interest for the non-payment of outstanding property rates (KZN and National)	2	*	*

Conclusion: Even though the majority of departments were not affected by material findings identified in respect of the management of rates and taxes, it should be noted that the full extent of rates and taxes payable to municipalities cannot be confirmed until the vesting process (the process of establishing the rightful owner of the property in terms of applicable legislation and the owner accepting accountability of the asset in question) is completed, which is targeted for 2014.

Project management of infrastructure projects

Service delivery objective: The functional mandate of the public works sector is to provide land and accommodation to government departments and institutions. For the sector to deliver on its mandate, it needs to use an efficient and effective project management system to manage the large budget allocation on its projects by completing projects on time, within the budget and according to the specifications and needs of client departments. The following findings were noted:

Table 48: Findings on project management of infrastructure projects

No.	Findings	Provinces affected		
		2011-12	2010-11	2009-10
1	Inadequate management information for evaluation and monitoring of projects to identify, avoid and address delays and/or overspending on projects (LP, NW, FS, MP, NC and National)	6	6	*
2	Non-compliance with SCM legislation in appointment of contractors (FS, NW, MP, NC and National)	5	5	*
3	Project managers not registered with Project and Construction Management Council (LP, NW, MP, EC and FS)	5	5	4
4	Adequate action not taken against non-performing contractors (GP, NW, MP and National)	4	3	*
5	High numbers of variation orders to change scope of projects resulting in potential fruitless and wasteful expenditure (NW, EC, FS and National)	4	3	*
6	Construction contracts did not provide for penalties for late completion/penalties waived without valid reasons (GP, NW, MP and National)	4	2	*

Conclusion: The findings in the table above indicate that monitoring of projects is not in all instances of the desired standard. Given the fact that the public works sector mainly acts as an implementing agent on these infrastructure projects, service delivery is negatively affected across government when these projects are not executed in accordance with specifications and predetermined timelines. Departments should address the shortcomings identified, specifically focusing on only appointing contractors with the required skills and capacity for construction contracts, monitoring the work of contractors continuously and taking timely corrective action in respect of slow progress and poor quality workmanship. Key to this process is the departments ensuring that they address current capacity constraints in terms of skills and numbers of project managers.

Expanded public works programme

Service delivery objective: The main objective of the EPWP is to ensure the creation of employment opportunities and the provision of training for unskilled, marginalised and unemployed people in South Africa. The EPWP promotes the use of government expenditure to create additional employment opportunities by introducing labour-intensive delivery methods and additional employment and skills programmes for the participation of the unemployed in the delivery of needed services. Funds for the performance-based incentives to municipalities and provinces are distributed on the basis of their ability to absorb unskilled labour in the EPWP projects. The following findings were noted:

Table 49: Findings on expanded public works programme

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Performance results could not be verified – number of employment days created (NC and National)	2	2	*
2	Performance results could not be verified – number of jobs created (EC and National)	2	4	*
3	Performance results could not be verified – number of youths (16 - 25) employed (EC and National)	2	2	*
4	Performance results could not be verified – number of women employed (EC and National)	2	2	*
5	Performance results could not be verified – number of people with disabilities (EC and National)	2	2	*

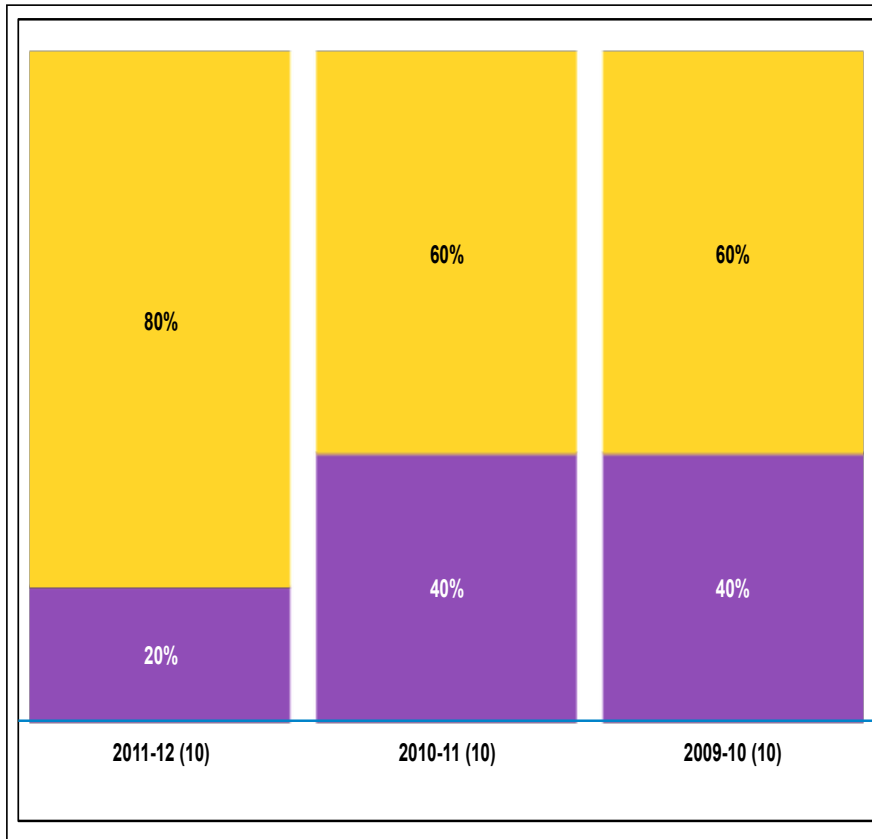
Conclusion: Improvement has been noted, with Gauteng, Northern Cape and North West resolving the weaknesses in terms of reliable reporting. This was a result of improved leadership oversight and implementation of proposed action plans to address findings raised in the prior year combined with improved record keeping.

The national department did not report on achievements for all prescribed targets, for example the number of people employed and the people trained was not reflected in the annual performance report. Furthermore, difficulties were experienced in verifying actual performance reported due to challenges in obtaining supporting documentation from implementing bodies (e.g. provincial departments and municipalities).

The Eastern Cape and Northern Cape were also unable to verify all reported performance mainly due to poor record keeping by the respective departments.

Achievements are not being reported in a consistent manner across the sector, which might hamper meaningful interpretation of performance against predetermined objectives in respect of EPWP for the sector as a whole. Furthermore, reasons for variances were not in all instances reported by departments. It should be noted that the explanation of major variances is critical for the understanding of the user of these reports and should therefore be included in all instances in future. Given the national importance of job creation, the resolution of these matters should receive priority. The national department should take the lead in driving consistency across the board.

3.1.5 SOCIAL DEVELOPMENT

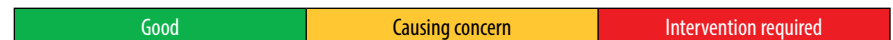
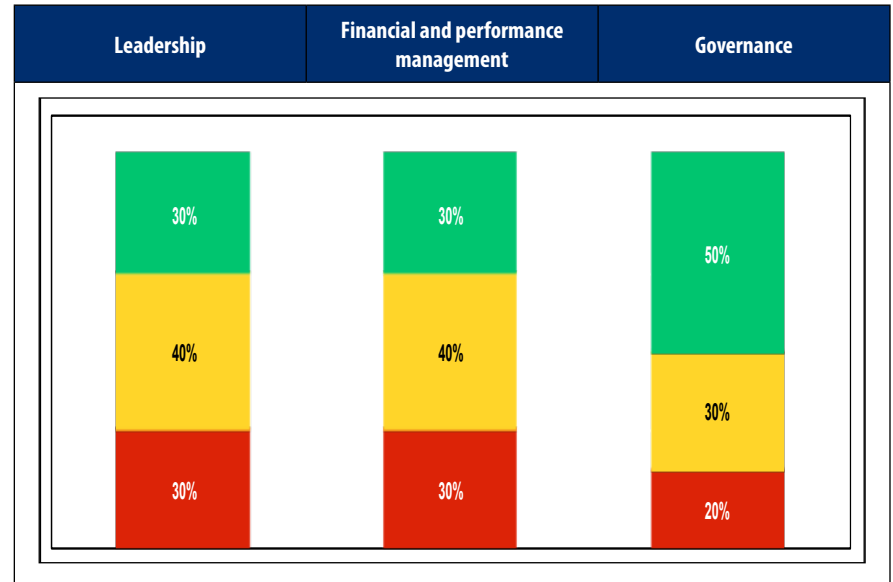


Legend (Audit outcomes)	Financially unqualified with findings
	Qualified

5 risk areas



Key controls



Root causes

- Inadequate review and oversight of leadership.
- Inadequate discipline to monitor and review financial and performance information.
- Governance structures did not adequately impact upon the operations of departments.

Table 50: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Social Development	Financially unqualified with findings			Qualified			↑
Eastern Cape	Financially unqualified with findings			Financially unqualified with findings			↔
Free State	Financially unqualified with findings			Financially unqualified with findings			↔
Gauteng	Qualified			Qualified			↔
KwaZulu-Natal	Financially unqualified with findings			Financially unqualified with findings			↔
Limpopo	Financially unqualified with findings			Qualified			↑
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Financially unqualified with findings			Financially unqualified with findings			↔
North West	Qualified			Qualified			↔
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔

Legend Finding Improvement ↑ Unchanged ↔

The social development sector reflects two improvements, with the national department as well as the Limpopo province improving from financially qualified to financially unqualified with findings. Two departments (Gauteng and North West) received repeat qualifications. Gauteng department is combined with the department of Health and the qualification mainly relates to findings in the department of Health.

The areas of qualification for the North West province are capital assets and other disclosure items, while for Gauteng the qualification was for current assets, receivables for departmental revenue and provision for bad debt. This was mainly due to controls not being in place to ensure adequate record keeping in support of accurate and complete financial reporting.

The social development sector incurred irregular expenditure to the amount of R431 million for the 2011-12 year, which indicates an increase of R160 million compared to the 2010-11 year.

Reporting on predetermined objectives remains a challenge for the sector. Six departments had repeat findings on predetermined objectives. These six departments had findings on reported information which was not reliable. This mainly relates to actual performance not being accurate, complete and valid. Three provinces had findings on reported information which was not useful. The national department as well as the Eastern Cape and Limpopo departments had addressed their prior year audit findings relating to predetermined objectives.

All 10 departments had findings on non-compliance. Most of the non-compliance related to expenditure management (8 departments), transfers and subsidies (7 departments), human resource management (7 departments), procurement management (7 departments), and material corrections to the annual financial statements (4 departments). The non-compliance is as a result of lack of oversight by management as well as inadequate discipline to monitor and review daily activities.

Findings relevant to key service delivery aspects in the social development sector

For the year under review, the focus was on the following service delivery aspects within the social development sector:

- Management of transfers to non-profit organisations (NPOs)
- Social sector expanded works programme incentive grant for provinces (EPWP)
- Monitoring of service delivery programmes:
- Care and service to older persons
- Child care and protection services
- Crime prevention and support
- HIV and Aids
- Availability of social service professionals to communities.

Management of transfers to non-profit organisations (NPOs)

Service delivery objective: To determine whether payments to NPOs were made in accordance with the requirements of the PFMA, Treasury Regulations and service contracts with the NPOs. Furthermore, to determine whether the departments have processes in place to monitor expenditure and progress made by NPOs in delivering social services.

Table 51: Findings on management of transfers to non-profit organisations

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	The department did not have adequate capacity in place to manage the related NPO function (EC, FS,LP,MP,NC,NW,WC)	7	6	6
2	Based on the site visits to the NPOs, the building does not have a first aid kit/sanitation and water is not in order (EC,LP,MP,NC,NW,WC)	6	*	*
3	Payments made to NPO before contract signed (GP,KZN,MP,NC,NW)	5	4	5
4	All payments to NPO not made according to service contract in place (FS,GPLP,MP,NW)	5	4	4
5	Registered NPOs did not in all instances submit financial statements (FS,GP,KZN,LP,NW)	5	4	4

*Audit procedures not performed

Conclusion: Significant weaknesses were identified in the provincial systems and associated internal controls over NPOs to ensure appropriate expenditure by NPOs as well as delivery of social services.

Departments should put measures in place to ensure compliance with policies and procedures regarding the transfer of funds to NPOs.

Social sector expanded public works programme incentive grant for provinces

Service delivery objective: To determine whether the conditions of the social EPWP grant were complied with and whether the department fulfilled its responsibilities in terms of the DoRA framework.

The Gauteng and Limpopo departments did not submit to the national Department of Public Works a business plan containing targets and budgets for the year under review.

Conclusion: The Gauteng and Limpopo departments do not have proper measures in place to ensure that all relevant information is submitted to the Department of Public Works.

Monitoring of service delivery programmes

Service delivery objective: To determine whether the department monitored the actual service delivery by NPOs against the planned social welfare objectives, indicators and targets for the following programmes:

- Care and services to older persons
- Child care and protection services
- Crime prevention and support; and
- HIV and Aids

Table 52: Findings on monitoring of service delivery programmes

No.	Findings	Number of provinces affected	
		2011-12	2010-11
1	Care and services to older persons		
	Performance results could not be verified - number of older persons accessing community-based care and support services (FS,GP,KZN,NW,WC)	5	6
	Performance results could not be verified - number of older persons abused (EC,FS,NW,WC)	4	*
	Performance results cannot be verified - number of older persons in active ageing programmes (FS,GP,NW,WC)	4	*
2	Child care and protection services		*
	Performance results could not be verified - number of children participating in ECD programme (FS,GP,KZN,NW,WC)	5	5
	Performance results could not be verified - number of children abused (FS,GPNW,WC)	4	6
	Performance results could not be verified - number of children newly placed in foster care (GP,KZN,NW,WC)	4	6
3	Crime prevention and support		
	Performance results could not be verified - number of children in conflict with the law awaiting trial in secure care centres (FS,GP,WC)	3	*
	Performance results could not be verified - number of children in conflict with the law assessed (FS,KZN,WC)	3	*

No.	Findings	Number of provinces affected	
		2011-12	2010-11
4	HIV and AIDS		
	Performance results could not be verified - number of orphans and other children made vulnerable by HIV and Aids receiving services (FS,KZN,NW,WC)	4	5
	Performance results could not be verified - Number of jobs in HCBC created through EPWP (FS,GP,NW,WC)	4	5

**Audit procedures not performed*

Conclusion: Provincial departments do not have proper measures in place to monitor the actual service delivery by NPOs regarding critical social services. Sufficient and appropriate audit evidence could not be verified for audit purposes in most of the affected provinces.

Departments should put proper measures in place to assist the NPOs in delivering services.

Availability of social service professionals to communities

Service delivery objective: To determine whether the department has a strategy in place to ensure that sufficient social service professionals are available to the communities in the province and that these professionals have adequate skills and competencies to achieve the strategic objective of the department.

Table 53: Findings on availability of social service professionals to communities

No.	Findings	Number of provinces affected	
		2011-12	2010-11
1	A vacancy rate of more than 10% identified in social services programmes within the department (FS,KZN,LP,WC)	4	8
2	Social service professional norms and standards not applied in planning for social service professionals (EC,FS,MP)	3	*

*Audit procedures not performed

Conclusion: Departments should put measures in place to address the vacancy rate in the social service programmes to ensure that the necessary social services are available to the communities.

Commitments by national leadership

The national department has analysed the sector outcomes and developed a preliminary sector audit action plan which we will coordinate across the sector and monitor progress on a quarterly basis. Progress on the implementation of actions will be presented by the heads of Social Development on a periodic basis.

The sector is addressing the issues of capacity through the scholarship programme for increasing the number of social workers in the field. There are currently about 4 700 social workers who have already qualified. However, the economic decline and provincial budget pressures have resulted in budget cuts and as a result the sector is facing challenges in absorbing the qualified graduates. In this regard the sector is having ongoing discussions with National Treasury and the provincial treasuries to be able to absorb the graduates.

Regarding the NPO management, the sector has developed in the short term a uniform guideline for the transfer of funds to NPOs and is also enforcing the service level agreement for funded NPOs. In the long term, the sector is planning to increase the capacity of its monitoring and evaluation units as well as explore an NPO management system that will ensure an effective and efficient monitoring

and evaluation process.

The social development sector, through the special projects office at the national office, has been assigned the leadership role to oversee the implementation of the extended public works grant. The office will coordinate with the provinces to monitor and guide the implementation of the extended public works requirements.

Regarding compliance with laws and regulations and in addition to the audit action plan, the sector is planning a comprehensive review of the state of welfare service in the country, including the review of the White Paper on welfare services. This will also inform the sector of the level of compliance with laws and regulations that govern it.

