



AUDITOR - GENERAL  
SOUTH AFRICA



PFMA 2011-12

## Audit outcomes of the Financial and Administrative Services

National Treasury • Public Enterprises • Public Service and Administration • Statistics South Africa

CONSOLIDATED GENERAL REPORT  
on NATIONAL and PROVINCIAL audit outcomes



# Our reputation promise/mission

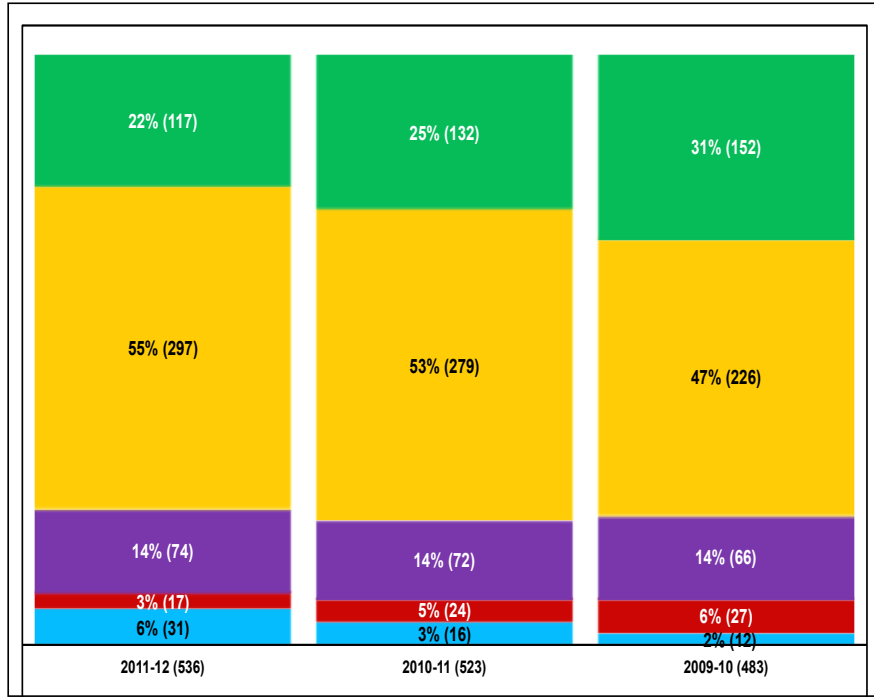
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



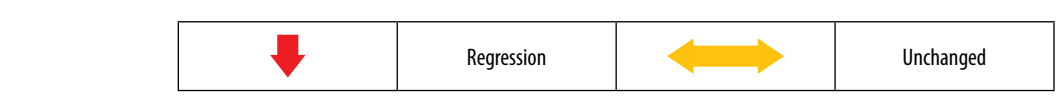
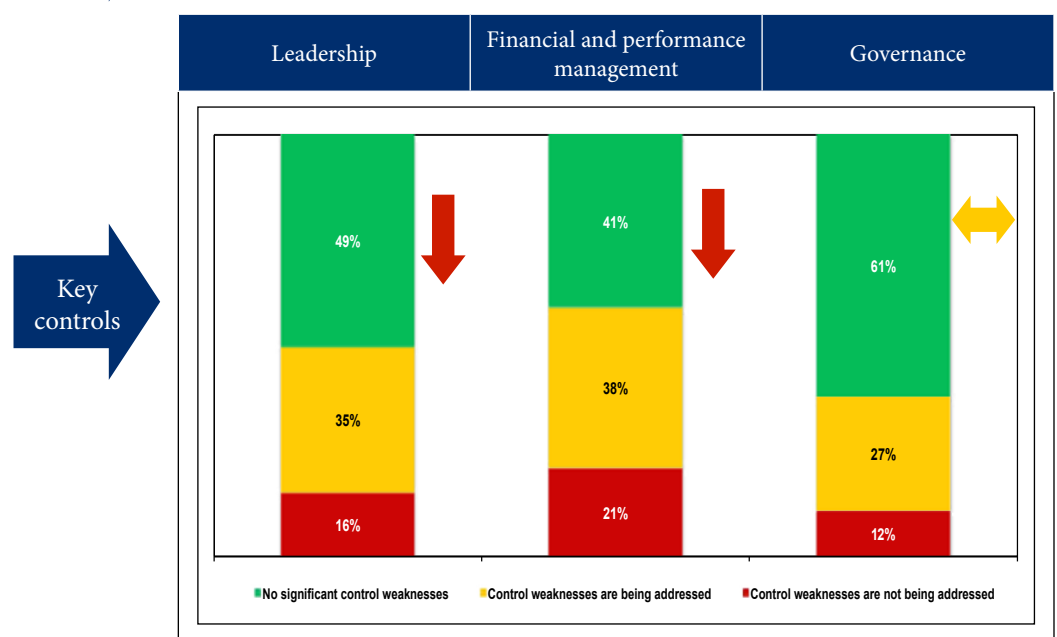
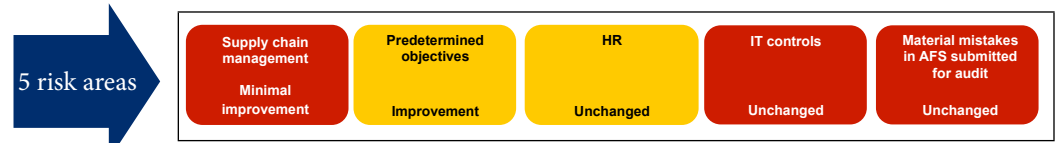


FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements



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



**Pervasive root causes**

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

# FOREWORD

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

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

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

- The executive committed to meet with my office quarterly for at least an hour. About 78% of them have made time at least three times in the past year to meet and share the results of our assessment of the risks and controls and to consider the status of commitments made and make new commitments. Although the engagements were well received, only small movements in audit outcomes can be seen. This was due to frequent leadership changes resulting in disruption in the implementation of commitments, our message being ignored, or our conversation not being compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations leading to increased impact.



- Parliament and legislatures committed to improve the collaboration between their respective public accounts committees and portfolio committees. We have yet to see more concentrated efforts in this regard as an uncoordinated approach will continue to weaken the effectiveness of oversight.

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

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

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

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

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

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

and the relevant legislatures and departments to take action. All parties have to play their part.

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

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

*Auditor-General*

**Auditor-General**  
**Pretoria**  
**March 2013**

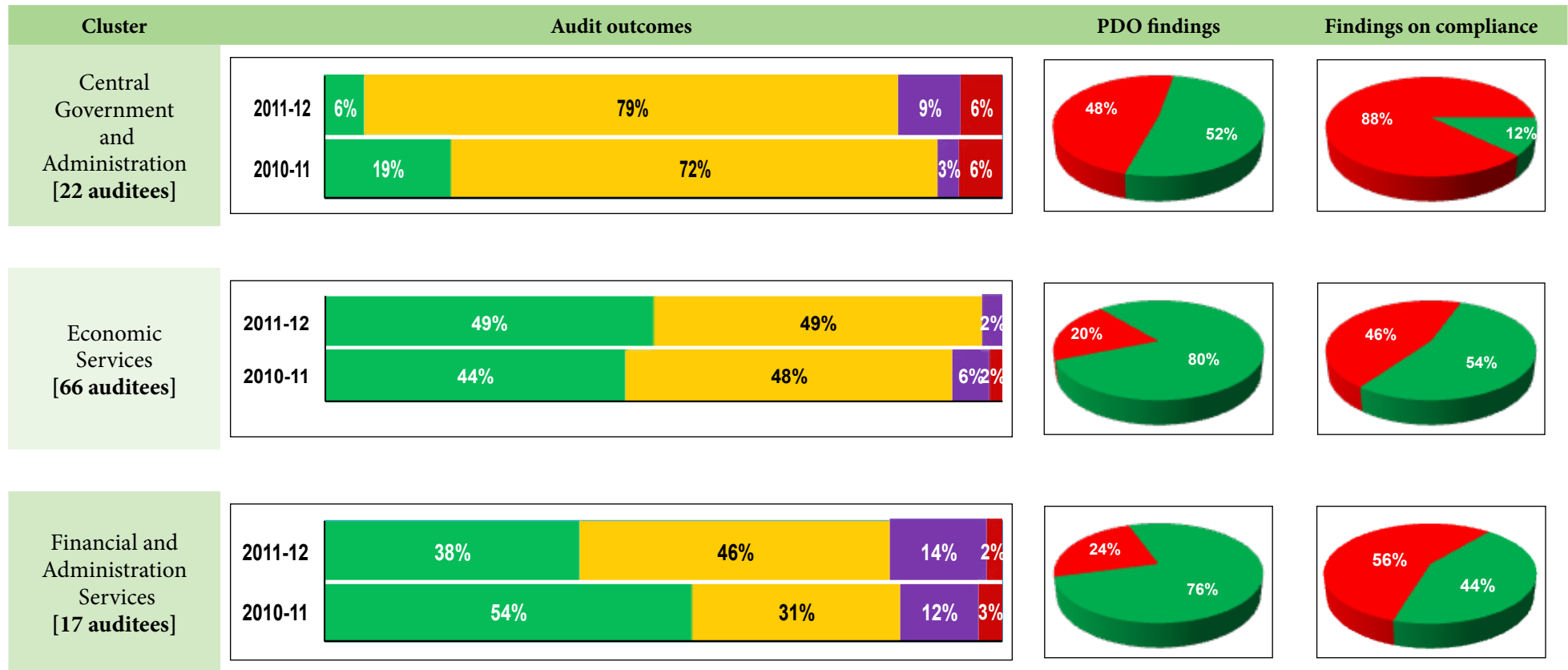


KEY ASPECTS OF AUDIT OUTCOMES OF GOVERNMENT CLUSTERS AND MINISTERIAL PORTFOLIOS

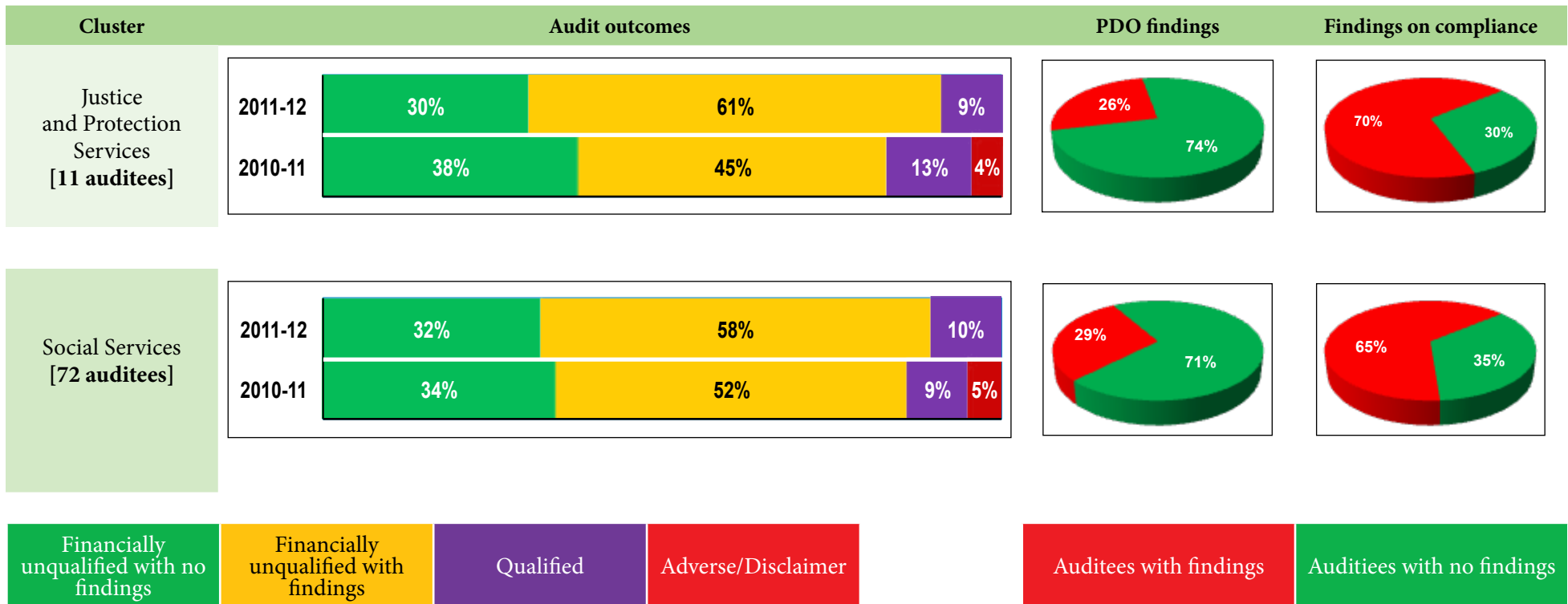
# PART 2: AUDIT OUTCOMES OF MINISTERIAL PORTFOLIOS

## SECTION 2.1: KEY ASPECTS OF AUDIT OUTCOMES OF GOVERNMENT CLUSTERS AND MINISTERIAL PORTFOLIOS

This section of the general report presents the 2011-12 audit outcomes of government clusters.







The audit outcomes of individual departments within these clusters as well as the status of the five risk areas at March 2012 are summarised below.

| Cluster  | Audit opinions on national departments' financial statements | Focus area findings                              |   |   |                               |                 |
|--|--|--|---|---|-------------------------------|-----------------|
|  |  | Material errors in AFS submitted for audit<br>No |   | Supply chain management<br>Some improvement | IT controls<br>No improvement | HR<br>Regressed |
| Central Government Administration<br>[9 Departments]     | The Presidency   | •  | • | •   | •                             | •               |
|  | Parliament of the Republic of South Africa                   | •  | • | •   | •                             | •               |
|  | Cooperative Governance and Traditional Affairs               | •  | • | •   | •                             | •               |
|  | Government Communications and Information System             | •  | • | •   | •                             | •               |
|  | Home Affairs   | •  | • | •   | •                             | •               |
|  | International Relations and Cooperation                      | •  | • | •   | •                             | •               |
|  | Performance Monitoring and Evaluation                        | •  | • | •   | •                             | •               |
|  | Public Works   | •  | • | •   | •                             | •               |
|  | Women, Children and Persons with Disabilities                | •  | • | •   | •                             | •               |
| Financial and Administrative Services<br>[4 Departments] | National Treasury (Finance)                                  | •  | • | •   | •                             | •               |
|  | Public Enterprises   | •  | • | •   | •                             | •               |
|  | Public Service and Administration                            | •  | • | •   | •                             | •               |
|  | Statistics South Africa                                      | •  | • | •   | •                             | •               |

| Cluster  | Audit opinions on national departments' financial statements | Focus area findings                              |   |   |                               |                 |
|--|--|--|---|---|-------------------------------|-----------------|
|  |  | Material errors in AFS submitted for audit<br>No |   | Supply chain management<br>Some improvement | IT controls<br>No improvement | HR<br>Regressed |
| Social Services<br>[7 Departments]                 | Arts and Culture   | •  | • | •   | •                             | •               |
|  | Basic Education  | •  | • | •   | •                             | •               |
|  | Health   | •  | • | •   | •                             | •               |
|  | Higher Education and Training                                | •  | • | •   | •                             | •               |
|  | Labour   | •  | • | •   | •                             | •               |
|  | Social Development   | •  | • | •   | •                             | •               |
|  | Sport and Recreation South Africa                            | •  | • | •   | •                             | •               |
| Justice and Protection Services<br>[5 Departments] | Correctional Services  | •  | • | •   | •                             | •               |
|  | Defence and Military Veterans                                | •  | • | •   | •                             | •               |
|  | Independent Complaints Directorate                           | •  | • | •   | •                             | •               |
|  | Justice and Constitutional Development                       | •  | • | •   | •                             | •               |
|  | Police   | •  | • | •   | •                             | •               |

| Cluster  | Audit opinions on national departments' financial statements | Focus area findings                              |   |   |                               |                 |
|--|--|--|---|---|-------------------------------|-----------------|
|  |  | Material errors in AFS submitted for audit<br>No |   | Supply chain management<br>Some improvement | IT controls<br>No improvement | HR<br>Regressed |
| Economic Services and Infrastructure<br>[13 Departments] | Agriculture, Forestry and Fisheries                          | •  | • | •   | •                             | •               |
|  | Communications   | •  | • | •   | •                             | •               |
|  | Economic Development   | •  | • | •   | •                             | •               |
|  | Energy   | •  | • | •   | •                             | •               |
|  | Environmental Affairs  | •  | • | •   | •                             | •               |
|  | Human Settlements  | •  | • | •   | •                             | •               |
|  | Mineral Resources  | •  | • | •   | •                             | •               |
|  | Rural Development and Land Reform                            | •  | • | •   | •                             | •               |
|  | Science and Technology                                       | •  | • | •   | •                             | •               |
|  | Tourism  | •  | • | •   | •                             | •               |
|  | Trade and Industry   | •  | • | •   | •                             | •               |
|  | Transport  | •  | • | •   | •                             | •               |
|  | Water Affairs  | •  | • | •   | •                             | •               |

|  |                                       |           |                    |                 |             |             |
|--|---------------------------------------|-----------|--------------------|-----------------|-------------|-------------|
| Financially unqualified with no findings | Financially unqualified with findings | Qualified | Adverse/Disclaimer | Repeat findings | No findings | New finding |
|--|---------------------------------------|-----------|--------------------|-----------------|-------------|-------------|

The audit outcomes of individual ministerial portfolios, the impact of the AGSA's quarterly discussions with the executive authorities and key commitments received from ministers are presented in the remainder of this section.

*The audit outcomes of Vote 6: Performance Monitoring and Evaluation and Vote 9: Government Communication and Information System are included under Vote 1: Presidency, while those of Vote 23: Independent Police Investigative Directorate (Independent Complaints Directorate) are included under Vote 25: Police*



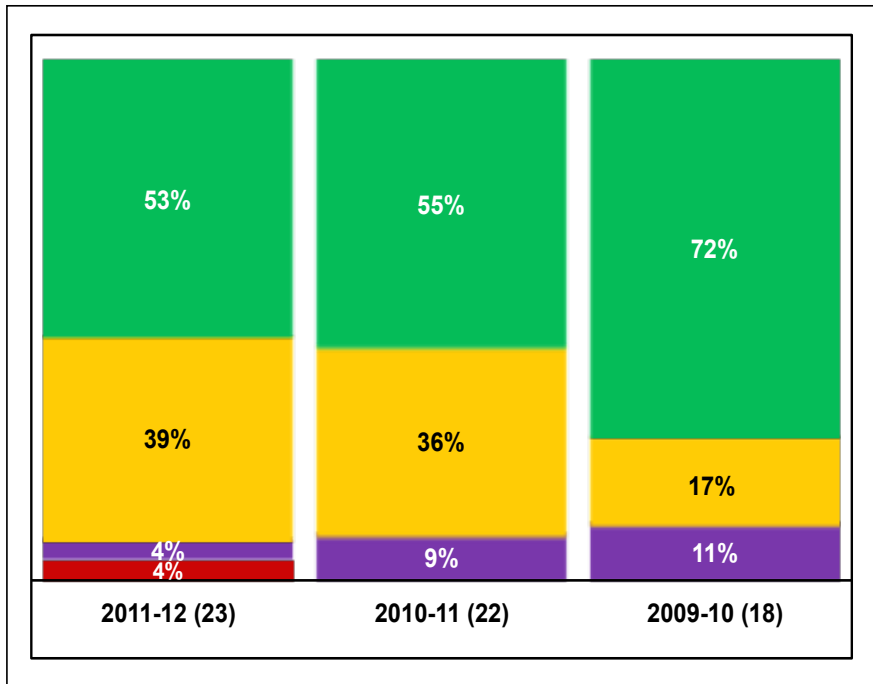
AUDIT OUTCOMES OF FINANCIAL AND ADMINISTRATIVE SERVICES

## 2.2.2 FINANCIAL AND ADMINISTRATIVE SERVICES

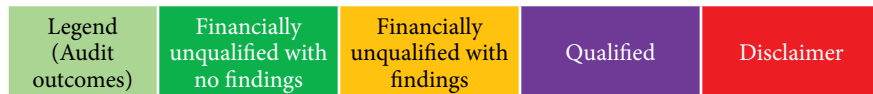


### VOTE 10: NATIONAL TREASURY (FINANCE)

#### Three-year progress towards clean audits



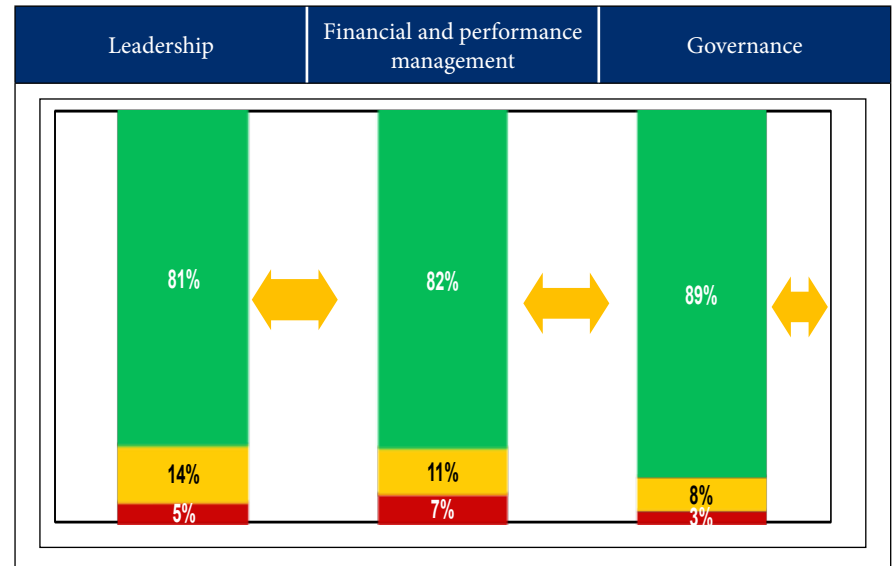
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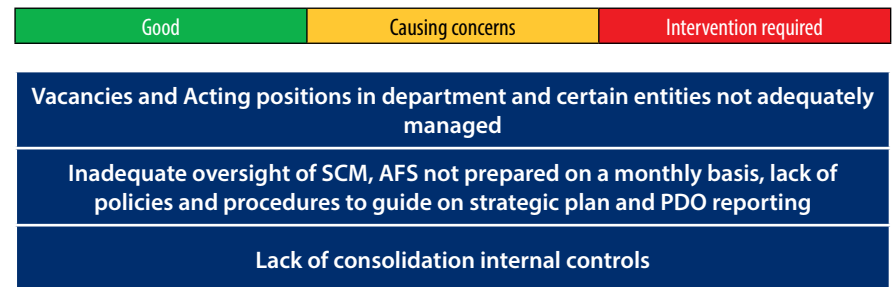
5 risk areas



Key controls



Root causes



## VOTE 10: NATIONAL TREASURY (FINANCE)

### SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

#### **Audit outcomes and key reasons for movements**

The audit outcomes of the portfolio have regressed over a period of the three years. The outcomes of the consolidation process for both departments and entities were modified, entities disclaimed and departments qualified. The portfolio had 72% of clean audit outcomes in 2009-10, with 55% in 2012. This represents a regression, mainly due to findings on compliance with laws and regulations (SCM, material adjustments, etc).

The regression is attributable to lack of implementation and monitoring of action plans and understanding of the FMPPI. The parent department does not perform adequate monitoring and provide proper guidance.

Consolidations - National department consolidation received a qualified audit opinion due to non-elimination of interdepartmental transactions and balances, immovable tangible capital assets and irregular expenditure.

Public entity consolidations received a disclaimer. In 2011-12 the consolidations were audited for the first time (i.e. we expressed an opinion) while in the previous years it was agreed-upon procedures. The disclaimer was mainly due to the basis of preparation, failure by National Treasury to adequately adjust for different accounting frameworks applied by individual entities and incomplete elimination of inter-entity transactions.

#### **Risk/focus areas**

Information technology - One department (National Treasury) and three entities (GPAA, Land Bank and SARS: Admin Revenue) all had findings on IT.

Supply chain management - Employees with interests in contracts were identified and a limitation was placed on contract management (service provider with no contract).

HR management - The most common findings in this area relate to a lack of HR plans, delays in approving organisational structures at some entities and inadequate management of vacancies and Acting positions at the department and entities.

PDO reporting – Compliance matters. Strategic plan not submitted on time. Information to support reported performance was not accurate at two entities. At four entities it was found that the objectives, indicators and targets did not meet the SMART principles.

Material misstatements – Six entities had material misstatements in submitted financial statements that were subsequently corrected by management .

## VOTE 10: NATIONAL TREASURY (FINANCE)

### Status of key controls and root causes of audit outcomes

#### Leadership

Inadequate oversight of the high-risk area of procurement and contract management as well as a lack of review of the procurement. decisions made.

#### Financial and performance management

Inadequate review of annual financial statements and disclosure notes; annual financial statements not prepared on a monthly basis; lack of policies and procedures to guide preparation of strategic plan and reporting of PDOs; non-compliance with SCM manual and over-reliance on consultants for preparation of the financial statements.

#### Governance

Limited discussions between Audit committees and the executive authority or accounting authority. We will recommend that these interactions take place during our stakeholder engagements. Overall governance structures in the Finance portfolio are effective.

### Commitments and initiatives by minister

#### Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

#### *Impact of quarterly discussions with the executive authority*

The AGSA leadership has met with the executive authority represented by the Deputy Minister twice during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards and previous audit outcomes.

The meeting with the minister took place in July 2012 to discuss the audit outcomes for the 2011-12 audit period. These engagements resulted in positive responses from those charged with governance in terms of dealing with outcomes. Significant improvements were realised by improving controls relating to special pensions.

#### *Previous year*

No documented action plans were received in the previous year.

#### *New*



## VOTE 10: NATIONAL TREASURY (FINANCE)

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The following were commitments made by the Minister of Finance during a stakeholder meeting:

- He undertook to give us time where detailed transversal IT findings can be discussed, including issues impacting SITA and IFMS.
- The minister cited a need for government (i.e. National Treasury) to focus on a more streamlined approach to reporting which relates to the specific objectives of government.
- The minister acknowledged findings on HR and committed to sign off on the National Treasury's HR Plan as soon as possible.
- He proposed a round table discussion with affected entities that have audit outcomes so as to devise action plans to resolve negative audit outcomes.
- The minister suggested that a broader view and discussions were necessary to consider political culture, societal culture, a culture matrix in government and the bureaucratic culture of the country to deal with audit findings raised by AGSA.
- The deputy director-general at National Treasury responsible for the administration intervention in Limpopo liaise with the corporate executive in the AGSA responsible for that province and to agree on how to take these matters forward.

### ***Constitutional entity: Financial and Fiscal Commission***

The entity has improved on its audit outcomes. In 2010-11, the entity had findings on predetermined objectives and compliance while in 2011-12 it only had findings on compliance matters. The action plan aimed at addressing PDO findings was effective.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

# VOTE 10: NATIONAL TREASURY (FINANCE)

| Number                    | Auditee   | 2011-12 Audit outcomes |                          |                                      | 2010-11 Audit outcomes |                          |                                      | Financial statement qualification areas |                      |         |  | Findings on predetermined objectives |                                   |   |                              | Findings on areas of non-compliance  |  |                        |               |                        |   |   |                                |                 |                |       |  |
|---------------------------|---|------------------------|--------------------------|--------------------------------------|------------------------|--------------------------|--------------------------------------|---|----------------------|---------|--|--------------------------------------|-----------------------------------|---|------------------------------|--|--|------------------------|---------------|------------------------|---|---|--------------------------------|-----------------|----------------|-------|--|
|                           |   | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Current asset                           | Capital and reserves | Revenue | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Reported information not useful      | Reported information not reliable | Information not submitted in time for audit | No annual performance report | Material misstatement/limitations in submitted annual financial statements | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Expenditure management | HR management | Procurement management | Annual financial statements and annual report | Strategic planning and performance management | Asset and liability management | Audit committee | Internal audit | Other |  |
| 1                         | National Treasury                                   |                        |                          |                                      |                        |                          |                                      |   |                      |         | N  |                                      |                                   |   | R                            |  | A  | N                      | R             | A                      | R   |   |                                |                 |                |       |  |
| <b>Reporting auditees</b> |   |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |
| 2                         | Cooperative Banks Development Agency                |                        |                          |                                      |                        |                          |                                      |   |                      |         | N  |                                      |                                   |   | R                            | R  |  |                        | N             |                        | R   |   |                                |                 |                | N     |  |
| 3                         | Financial Intelligence Centre                       |                        |                          |                                      |                        |                          |                                      |   |                      |         | N  |                                      |                                   |   | R                            | R  |  |                        | R             |                        |   |   | N                              |                 |                |       |  |
| 4                         | Financial Services Board                            |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |
| 5                         | Government Pensions Administration Agency           |                        |                          |                                      |                        |                          |                                      |   |                      |         |  | N                                    |                                   |   |                              |  |  |                        |               |                        |   | N   |                                | R               |                |       |  |
| 6                         | Independent Regulatory Board for Auditors           |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |
| 7                         | Land and Agricultural Bank of South Africa          |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |
| 8                         | Land Bank Insurance Company                         |                        |                          |                                      |                        |                          |                                      |   |                      |         | N  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |
| 9                         | Office of the Ombud for Financial Service Providers |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      | N                                 |   | N                            |  |  |                        |               |                        |   |   |                                |                 | N              |       |  |

|                         |  |                                       |           |            |          |
|-------------------------|--|---------------------------------------|-----------|------------|----------|
| Legend (Audit outcomes) | Financially unqualified with no findings | Financially unqualified with findings | Qualified | Disclaimer | Findings |
|-------------------------|--|---------------------------------------|-----------|------------|----------|

|                   |           |     |        |
|-------------------|-----------|-----|--------|
| Legend (Findings) | Addressed | New | Repeat |
|-------------------|-----------|-----|--------|

# VOTE 10: NATIONAL TREASURY (FINANCE)

| Unauthorised, irregular, as well as fruitless and wasteful expenditure |          |                       |          |                                    |          | Procurement and contract management            |                     |   |   |                                | Drivers of internal control   |                              |                          |               |                         |              |                                      |                       |                                     |           |            | Human resource management |                      |  |                         |                        | Information technology management |                     |                               |               | Root causes         |                        |                       |  |                           |                                      |
|--|----------|-----------------------|----------|------------------------------------|----------|--|---------------------|---|---|--------------------------------|-------------------------------|------------------------------|--------------------------|---------------|-------------------------|--------------|--------------------------------------|-----------------------|-------------------------------------|-----------|------------|---------------------------|----------------------|--|-------------------------|------------------------|-----------------------------------|---------------------|-------------------------------|---------------|---------------------|------------------------|-----------------------|--|---------------------------|--------------------------------------|
| Unauthorised expenditure   |          | Irregular expenditure |          | Fruitless and wasteful expenditure |          | Limitation on planned scope of audit of awards | Awards to employees | Awards to close family members of employees | Uncompetitive or unfair procurement processes | Inadequate contract management | Internal control deficiencies | Leadership                   |                          |               |                         |              | Financial and performance management |                       |                                     |           | Governance |                           | Human resources plan | Management of leave, overtime and suspension | Management of vacancies | Performance management | Acting positions                  | Appointment process | Competencies of key personnel | IT governance | Security management | User access management | IT service management | Human resource capacity and productivity | Attention to key controls | Effectiveness of assurance providers |
| Movement   | Amount R | Movement              | Amount R | Movement                           | Amount R |  |                     |   |   |                                |                               | Effective leadership culture | Oversight responsibility | HR management | Policies and procedures | Action plans | IT governance                        | Proper record keeping | Processing and reconciling controls | Reporting | Compliance | IT systems controls       |                      |  |                         |                        |                                   |                     |                               |               |                     |                        |                       |  |                           |                                      |
|  |          | ↑                     | -        | ↓                                  | 5m       |  |                     | N   | N   | R                              |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            | R                         |                      | N  | N                       | N                      | N                                 | A                   | R                             | R             | A                   | R                      |                       |  |                           |                                      |
|  |          | ↓                     | 596k     | ↑                                  | 18k      |  |                     |   | N   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            | R                         |                      | N  |                         |                        |                                   |                     |                               |               |                     |                        |                       |  |                           |                                      |
|  |          | ↓                     | 863k     | ↑                                  | 5k       |  |                     |   | R   | A                              | A                             |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                           |                      |  |                         | R                      | R                                 | R                   | R                             | R             |                     |                        |                       |  |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                           | A                    |  | A                       | R                      | R                                 |                     |                               | R             | N                   | R                      | N                     |  |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                           |                      |  |                         |                        |                                   |                     |                               |               |                     |                        |                       |  |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                           |                      |  |                         |                        |                                   |                     |                               |               |                     |                        |                       |  |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                           |                      |  |                         |                        |                                   |                     |                               |               |                     |                        |                       |  |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                           |                      |  |                         |                        |                                   |                     |                               |               |                     |                        |                       |  |                           |                                      |

Legend Reduction ↑ Increase ↓

Legend (Drivers) Good Causing concern

Legend (Findings) New Repeat





# VOTE 10: NATIONAL TREASURY (FINANCE)

| Number                                  | Auditee                                  | 2011-12 Audit outcomes |                          |                                      | 2010-11 Audit outcomes |                          |                                      | Financial statement qualification areas |                      |         |  | Findings on predetermined objectives |                                   |   |                              | Findings on areas of non-compliance  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
|---|--|------------------------|--------------------------|--------------------------------------|------------------------|--------------------------|--------------------------------------|---|----------------------|---------|--|--------------------------------------|-----------------------------------|---|------------------------------|--|--|------------------------|---------------|------------------------|---|---|--------------------------------|-----------------|----------------|-------|--|--|--|---|
|   |  | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Current asset                           | Capital and reserves | Revenue | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Reported information not useful      | Reported information not reliable | Information not submitted in time for audit | No annual performance report | Material misstatement/limitations in submitted annual financial statements | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Expenditure management | HR management | Procurement management | Annual financial statements and annual report | Strategic planning and performance management | Asset and liability management | Audit committee | Internal audit | Other |  |  |  |   |
| <b>Audits not conducted by the AGSA</b> |  |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 17                                      | Development Bank of Southern Africa      | Green                  |                          |                                      | Green                  |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 18                                      | Development Bank of Southern Africa Fund | Green                  |                          |                                      | Green                  |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 19                                      | SASRIA                                   | Green                  |                          |                                      | Yellow                 | Blue                     |                                      |   |                      |         |  |                                      | A                                 |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 20                                      | Accounting Standards Board               | Green                  |                          |                                      | Green                  |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| <b>Constitutional Institution</b>       |  |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 21                                      | Financial and Fiscal Commission          |                        |                          | Blue                                 | Yellow                 | Blue                     | Blue                                 |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  | A |
| <b>National Treasury Consolidations</b> |  |                        |                          |                                      |                        |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 22                                      | NT Consolidations (Departments)          | Purple                 |                          |                                      | Purple                 |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |
| 23                                      | NT Consolidations (Public Entities)      | Red                    |                          |                                      | Blue                   |                          |                                      |   |                      |         |  |                                      |                                   |   |                              |  |  |                        |               |                        |   |   |                                |                 |                |       |  |  |  |   |

|                         |  |                                       |           |            |          |
|-------------------------|--|---------------------------------------|-----------|------------|----------|
| Legend (Audit outcomes) | Financially unqualified with no findings | Financially unqualified with findings | Qualified | Disclaimer | Findings |
|-------------------------|--|---------------------------------------|-----------|------------|----------|

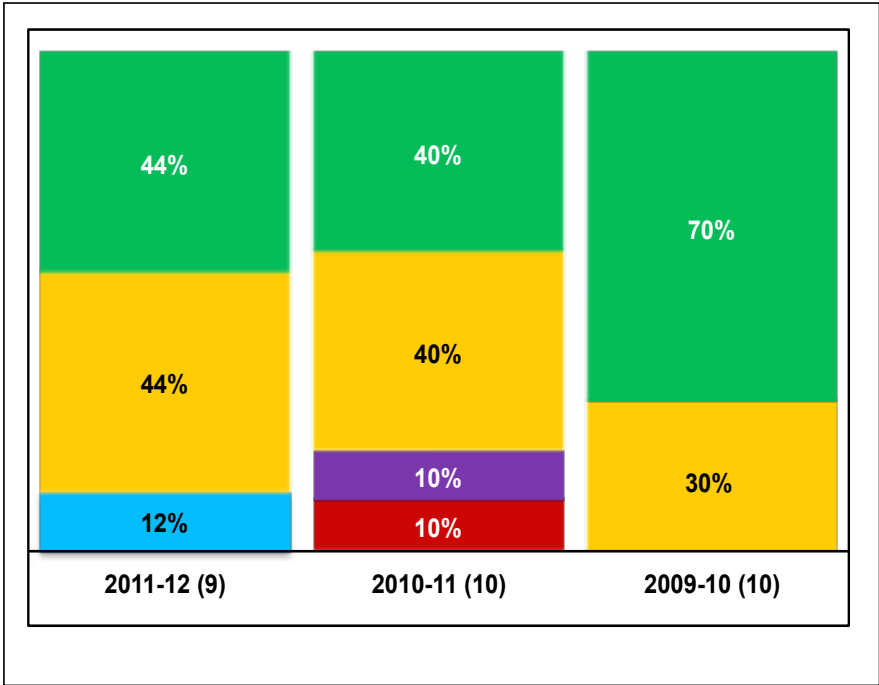
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|-------------------|-----------|-----|--------|
| Legend (Findings) | Addressed | New | Repeat |
|-------------------|-----------|-----|--------|



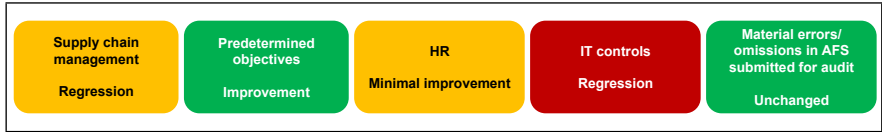


# VOTE 11: PUBLIC ENTERPRISES

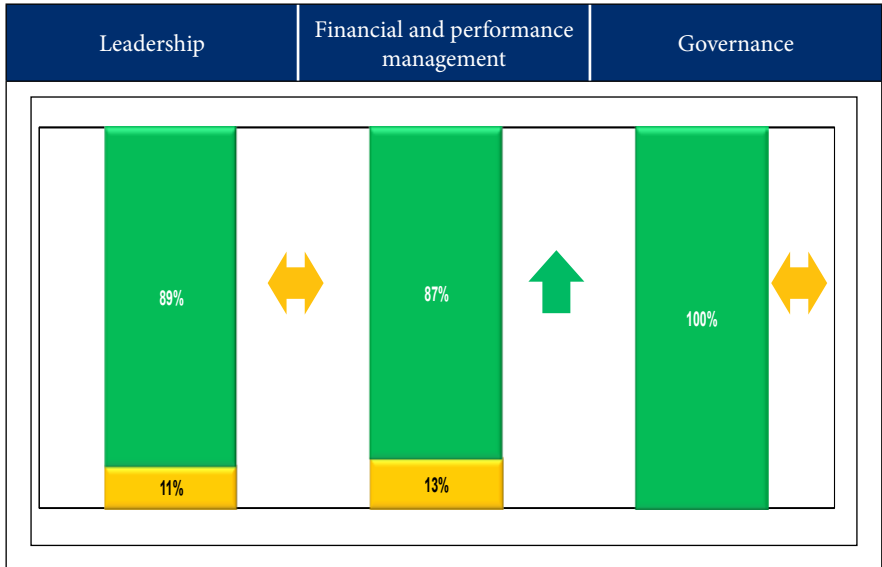
## Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Weaknesses within the systems for the reporting on non-compliance and irregular, fruitless and wasteful expenditure at SOCs
- Management has created a culture of implementing key controls
- Challenges are experienced with the recruitment and retention of highly skilled staff by the SOCs.



## VOTE 11: PUBLIC ENTERPRISES

### SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

#### **Audit outcomes and key reasons for movements**

The Department of Public Enterprises (DPE) received a clean audit opinion in the 2011-12 financial year. The department has managed to maintain a clean audit opinion for nine years. Broadband Infracore improved from a financially qualified audit opinion to a financially unqualified opinion with findings on compliance with laws and regulations. The Pebble Bed Modular Reactor (PBMR) was placed under care and maintenance and their financial results have been incorporated into the consolidated annual financial statements of Eskom for the 2011-12 financial year. The audit of South African Express Airways has not yet been finalised.

The accounting officer and the chief financial officer of the DPE have been hands-on in ensuring that the department's internal controls are strengthened, resulting in the department consistently producing accurate and complete financial information.

#### **Risks and focus areas**

Challenges are experienced with the recruitment and retention of highly skilled staff to carry out the function of oversight and governance at state-owned companies. The DPE cannot compete with private sector salaries, which contributes to the high migration of key staff members. Linked to this is the high rate of leadership change at accounting officer level and the resultant changes at lower levels of leadership. The DPE should continue to focus on increasing oversight of state-owned companies to ensure the efficient roll-out of infrastructure plans by such companies; meaning that there should be a move away from functional oversight to strategic oversight.

#### **Status of key controls and root causes of audit outcomes**

Weaknesses were identified in the systems for reporting non-compliance as well as irregular and fruitless and wasteful expenditure at state-owned companies. The lack of leadership stability at the state-owned companies also remains a challenge.

#### **Oversight and governance of PFMA schedule 2 public entities**

Oversight procedures were conducted at the department. The department has established a directorate that facilitates the oversight and governance function at its public entities. No material findings were noted.

## VOTE 11: PUBLIC ENTERPRISES

| Commitments and initiatives by the minister  | Impact on 2011-12 audit outcomes |           |                |
|--|----------------------------------|-----------|----------------|
|  | Significant impact               | No impact | Limited impact |
| <b><i>Impact of quarterly discussions with the executive authority</i></b>   |                                  |           |                |
| <p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DPE provides the required level of assurance.</p> | ■                                |           |                |
| <b><i>Previous year</i></b>  |                                  |           |                |
| <p>The executive authority committed to meet with the Audit committee chairpersons of state-owned companies. This process is at an advanced stage.</p> <p>The relationship with the AGSA on matters relating to state-owned companies was enhanced in 2011-12.</p>   | ■                                |           |                |
| <b><i>New</i></b>  |                                  |           |                |
| <p>Focus on the sustainability of the clean audit and clean administration at state-owned companies in order to lead by example, as well as continuous focus on the engagements between the Audit committee and board chairpersons of state-owned companies and the executive.</p>   |                                  |           |                |

## VOTE 11: PUBLIC ENTERPRISES

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NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

# VOTE 11: PUBLIC ENTERPRISES

| Number                                  | Auditee                                | 2011-12 Audit outcomes |                          |                                      | 2010-11 Audit outcomes |                          |                                      | Financial statement qualification areas | Findings on predetermined objectives |                                   |   |                              | Findings on areas of non-compliance  |  |               |   |                                 |
|---|--|------------------------|--------------------------|--------------------------------------|------------------------|--------------------------|--------------------------------------|---|--------------------------------------|-----------------------------------|---|------------------------------|--|--|---------------|---|---------------------------------|
|   |  | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Fruitless and wasteful expenditure      | Reported information not useful      | Reported information not reliable | Information not submitted in time for audit | No annual performance report | Material misstatement/limitations in submitted annual financial statements | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Annual report | Strategic planning and performance management | Transfer and conditional grants |
| Department of Public Enterprises        |  |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  |  |               |   |                                 |
| <b>Audits not conducted by the AGSA</b> |  |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  |  |               |   |                                 |
| 2                                       | Alexkor Limited                        |                        |                          |                                      |                        |                          |                                      |   | A                                    |                                   |   |                              |  |  | N             | A   |                                 |
| 3                                       | Broadband Infraco (SOC) Ltd            |                        |                          |                                      |                        |                          |                                      | A                                       |                                      |                                   |   |                              |  | A  |               | N   |                                 |
| 4                                       | DENEL (SOC) Ltd                        |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  |  |               |   |                                 |
| 5                                       | Eskom                                  |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  |  |               |   |                                 |
| 6                                       | South African Airways (SOC) Limited    |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  | R  |               |   |                                 |
| 7                                       | South African Express (SOC) Limited    |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  |  |               |   |                                 |
| 8                                       | South African Forestry Company Limited |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  |  |               |   |                                 |
| 9                                       | Transnet Limited                       |                        |                          |                                      |                        |                          |                                      |   |                                      |                                   |   |                              |  | R  |               |   |                                 |

|                         |  |                                       |           |            |                   |          |
|-------------------------|--|---------------------------------------|-----------|------------|-------------------|----------|
| Legend (Audit outcomes) | Financially unqualified with no findings | Financially unqualified with findings | Qualified | Disclaimer | Audit outstanding | Findings |
|-------------------------|--|---------------------------------------|-----------|------------|-------------------|----------|

|                   |           |     |        |
|-------------------|-----------|-----|--------|
| Legend (Findings) | Addressed | New | Repeat |
|-------------------|-----------|-----|--------|

# VOTE 11: PUBLIC ENTERPRISES

| Unauthorised, irregular, as well as fruitless and wasteful expenditure |          |                       |          |                                    |          | Procurement and contract management  |                     |   |   |                                |                               | Drivers of internal control  |                          |               |                         |              |                                      |                       |                                     |           | Human resource management |                     |                 | Information technology management |                         |                       |       | Root causes   |                     |                        |                       |   |                           |                                      |
|--|----------|-----------------------|----------|------------------------------------|----------|--|---------------------|---|---|--------------------------------|-------------------------------|------------------------------|--------------------------|---------------|-------------------------|--------------|--------------------------------------|-----------------------|-------------------------------------|-----------|---------------------------|---------------------|-----------------|-----------------------------------|-------------------------|-----------------------|-------|---------------|---------------------|------------------------|-----------------------|---|---------------------------|--------------------------------------|
| Unauthorised expenditure   |          | Irregular expenditure |          | Fruitless and wasteful expenditure |          | Limitation on planned scope of audit of awards   | Awards to employees | Awards to close family members of employees | Uncompetitive or unfair procurement processes | Inadequate contract management | Internal control deficiencies | Leadership                   |                          |               |                         |              | Financial and performance management |                       |                                     |           | Governance                |                     |                 | HR planning and organisation      | Management of vacancies | Appointment processes | Other | IT governance | Security management | User access management | IT service management | Human resources capacity & productivity | Attention to key controls | Effectiveness of assurance providers |
| Movement   | Amount R | Movement              | Amount R | Movement                           | Amount R |  |                     |   |   |                                |                               | Effective leadership culture | Oversight responsibility | HR management | Policies and procedures | Action plans | IT governance                        | Proper record keeping | Processing and reconciling controls | Reporting | Compliance                | IT systems controls | Risk management |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |
|  |          |                       |          |                                    |          |  |                     | N   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           | A                         | R                   |                 |                                   |                         | N                     | R     | R             | R                   |                        |                       |   |                           |                                      |
|  |          | ↑                     | 73,45m   | ↑                                  | 1,11m    | These entities are not audited by the AGSA in terms of section 4(3) of the Public Audit Act, therefore we have not assessed the status of the key areas. |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |                           |                     |                 |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |
|  |          |                       |          | ↑                                  | 20m      |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |                           |                     |                 |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |
|  |          | ↓                     | 128m     | ↓                                  | 4m       |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |                           |                     |                 |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |                           |                     |                 |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |
|  |          | ↓                     | 155m     | ↓                                  | 89m      |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |                           |                     |                 |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |
|  |          |                       |          |                                    |          |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |                           |                     |                 |                                   |                         |                       |       |               |                     |                        |                       |   |                           |                                      |

Legend Reduction ↑ Increase ↓

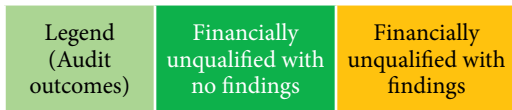
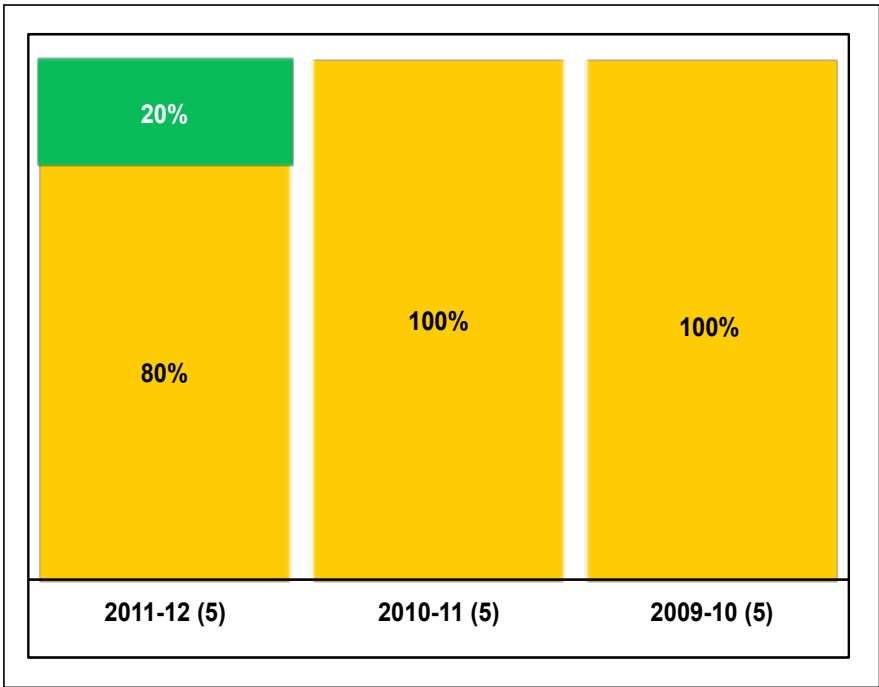
Legend (Drivers) Good

Legend (Findings) New Repeat

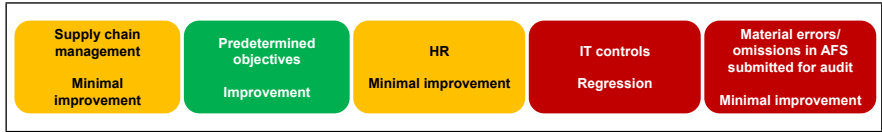


# VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

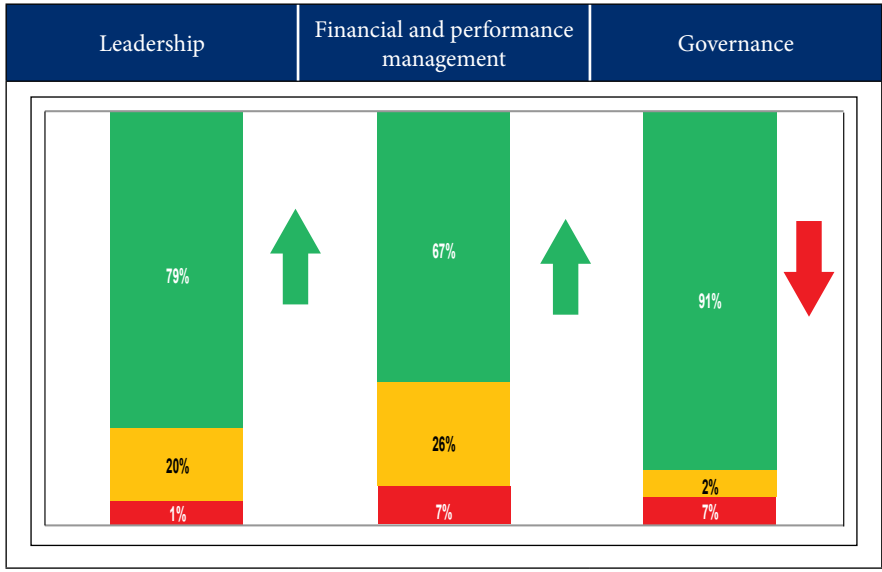
## Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Vacancies in senior management positions and leadership instability
- Lack of effective and efficient utilisation of the available systems
- Lack of monitoring and review of controls over monthly processing

## VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

### SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

#### **Audit outcomes and key reasons for movements**

There were notable improvements in the public service and administration portfolio. The Department of Public Service and Administration had significant improvements within the reported predetermined objectives. State Information Technology Agency remained unchanged and achieved an unqualified audit opinion on the annual financial statements with findings on compliance with laws and regulations. The number of transgressions per non-compliance area has decreased.

The improvement in the department's reported predetermined objectives was due to the necessary interventions from its leadership, such as filling key vacancies and focusing on the improvement of the internal control environment, driven by the detailed discussions on the key control dashboard with the AGSA. The Internal audit unit conducted an extensive review of the strategic plan and the annual performance plan, which resulted in indicators and targets being adjusted to be well defined and SMART. The accounting officer implemented key controls for reporting and managing the predetermined objectives with the cooperation of the management team. The decrease in the number of transgressions per non-compliance item at SITA was due to the Internal audit unit reviewing significant procurement contracts before the contracts were awarded.

#### **Risks and focus areas**

Capacity or a system to effectively monitor the audit outcomes throughout government to improve service delivery should be created. More specifically, a system should be developed to monitor the results of outcomes of Performance management within government to be able to react to the results timeously. Difficulty with the appointment of senior management within the public sector should be addressed to ensure that critical vacancies are filled to ensure service delivery. The available systems should be used effectively and efficiently to avoid extensive reliance on manual interventions that lead to a high rate of human error. Proper record keeping and preparation of full monthly financial statements with all relevant disclosure notes should be implemented to eliminate material corrections to financial statements. The restructuring process at SITA should be finalised.

#### **Status of key controls and root causes of audit outcomes**

Senior management positions were vacant for more than 12 months at the DPSA and the department had three different ministers during the last 12 months, which resulted in some of the commitments made by the executive authority not being implemented. There was poor budgetary planning per programme to enable programme directors to achieve the indicators and targets. As the available systems were not used effectively and efficiently, manual interventions at the department led to a high rate of human error.

## VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

| Commitments and initiatives made by the minister  | Impact on 2011-12 audit outcomes |           |                |
|---|----------------------------------|-----------|----------------|
|   | Significant impact               | No impact | Limited impact |
| <b><i>Impact of quarterly discussions with the executive authority</i></b>  |                                  |           |                |
| <p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DPSA provides some level of assurance.</p>   |                                  |           | ■              |
| <b><i>Previous year</i></b>   |                                  |           |                |
| <p>The DPSA committed to address weaknesses in the reported predetermined objectives. This was achieved in the 2011-12 financial year.</p> <p>The process flow in respect of HR management was rolled out in 2011-12, but challenges were experienced due to changes in the executive. The roll-out of a turnaround strategy at SITA is still in progress.</p> <p>The DPSA committed to finalise the information and communications technology governance framework by 28 February 2013. This was achieved.</p> |                                  |           | ■              |
| <b><i>New</i></b>   |                                  |           |                |
| <p>Continuous commitment by the new executive to focus on the turnaround strategy at SITA.</p> <p>Improve the quality of quarterly financial reporting through proper reviews of financial information by the governance structures (Internal audit units).</p>   |                                  |           |                |



## VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

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### **Constitutional institution: Public Service Commission**

#### **Audit outcomes and key reasons for movements**

The Public Service Commission (PSC) achieved an improved audit outcome (clean audit) compared to the prior year's financially unqualified opinion with findings.

A culture of implementing mitigating controls where control deficiencies were identified resulted in the PSC requiring insignificant amendments to the financial statements during 2011-12. No material adjustments to the financial statements submitted for auditing were necessary.

#### **Risks and focus areas**

The focus should be on sustaining the clean audit outcome through continuous oversight by the governance structures.

#### **Status of key controls and root causes of audit outcomes**

Staff members at the PSC have a positive attitude and are willing to go the extra mile to ensure that the objectives of the Public Service Commission Act are achieved. Controls have also been put in place to ensure that all invoices are paid within 30 days.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

# VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

| Number                    | Auditee   | 2011-12 Audit outcomes |                          |                                      | 2010-11 Audit outcomes |                          |                                      | Findings on predetermined objectives |                                   |   |                              | Findings on areas of non-compliance  |  |                                     |                        |                  |   |                      |
|---------------------------|---|------------------------|--------------------------|--------------------------------------|------------------------|--------------------------|--------------------------------------|--------------------------------------|-----------------------------------|---|------------------------------|--|--|-------------------------------------|------------------------|------------------|---|----------------------|
|                           |   | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Reported information not useful      | Reported information not reliable | Information not submitted in time for audit | No annual performance report | Material misstatement/limitations in submitted annual financial statements | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Procurement and contract management | Expenditure management | Asset management | Strateg planning and performance management | Financial misconduct |
|                           | Department of Public Service and Administration                                       |                        |                          |                                      |                        |                          |                                      |                                      |                                   |   |                              |  |  |                                     |                        |                  |   |                      |
| <b>Reporting auditees</b> |   |                        |                          |                                      |                        |                          |                                      |                                      |                                   |   |                              |  |  |                                     |                        |                  |   |                      |
| 1                         | Public Administration Leadership and Management Academy (PALAMA department)           |                        |                          |                                      |                        |                          |                                      |                                      |                                   |   |                              |  |  |                                     |                        |                  |   |                      |
| 2                         | Public Service Commission (PSC)   |                        |                          |                                      |                        |                          |                                      |                                      |                                   |   |                              |  |  |                                     |                        |                  |   |                      |
| 3                         | State Information Technology Agency (SITA)  |                        |                          |                                      |                        |                          |                                      |                                      |                                   |   |                              |  |  |                                     |                        |                  |   |                      |
| 4                         | Public Administration and Leadership Management Training Trading Account (PALAMA TTA) |                        |                          |                                      |                        |                          |                                      |                                      |                                   |   |                              |  |  |                                     |                        |                  |   |                      |

|                         |  |                                       |          |
|-------------------------|--|---------------------------------------|----------|
| Legend (Audit outcomes) | Financially unqualified with no findings | Financially unqualified with findings | Findings |
|-------------------------|--|---------------------------------------|----------|

|                   |           |     |        |
|-------------------|-----------|-----|--------|
| Legend (Findings) | Addressed | New | Repeat |
|-------------------|-----------|-----|--------|

# VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

| Unauthorised, irregular, as well as fruitless and wasteful expenditure |          |                       |          |                                    |          | Procurement and contract management            |                     |   |   |                                | Drivers of internal control   |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                     | Human resource management |                         |                        |                              | Information technology management                              |               |                     |                        | Root causes           |   |                           |                                      |                |                 |
|--|----------|-----------------------|----------|------------------------------------|----------|--|---------------------|---|---|--------------------------------|-------------------------------|------------------------------|--------------------------|---------------|-------------------------|--------------|--------------------------------------|-----------------------|-------------------------------------|-----------|------------|---------------------|---------------------------|-------------------------|------------------------|------------------------------|--|---------------|---------------------|------------------------|-----------------------|---|---------------------------|--------------------------------------|----------------|-----------------|
| Unauthorised expenditure   |          | Irregular expenditure |          | Fruitless and wasteful expenditure |          | Limitation on planned scope of audit of awards | Awards to employees | Awards to close family members of employees | Uncompetitive or unfair procurement processes | Inadequate contract management | Internal control deficiencies | Leadership                   |                          |               |                         |              | Financial and performance management |                       |                                     |           | Governance |                     |                           | Management of vacancies | Performance management | HR planning and organisation | Acting positions management of leave, overtime and suspensions | IT governance | Security management | User access management | IT service management | Human resources capacity & productivity | Attention to key controls | Effectiveness of assurance providers |                |                 |
| Movement   | Amount R | Movement              | Amount R | Movement                           | Amount R |  |                     |   |   |                                |                               | Effective leadership culture | Oversight responsibility | HR management | Policies and procedures | Action plans | IT governance                        | Proper record keeping | Processing and reconciling controls | Reporting | Compliance | IT systems controls | Risk management           |                         |                        |                              |  |               |                     |                        |                       |   |                           |                                      | Internal audit | Audit committee |
|  |          | ↑                     | 1,6m     | ↑                                  | 37k      |  |                     |   | A   | A                              |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                     | R                         | A                       |                        |                              |  | R             | N                   | R                      | R                     |   |                           |                                      |                |                 |
|  |          | ↓                     | 67k      |                                    |          |  |                     |   | N   |                                | A                             |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                     |                           |                         |                        |                              |  |               | N                   | N                      | R                     | R                                       |                           |                                      |                |                 |
|  |          |                       |          | ↑                                  | 5k       |  |                     |   |   |                                |                               |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                     |                           |                         |                        |                              |  | R             | R                   | N                      | R                     |   |                           |                                      |                |                 |
|  |          | ↑                     | 19,9m    | ↑                                  | 7k       | N  | R                   |   | R   | R                              | A                             |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                     | R                         | R                       |                        | A                            | R  | R             | R                   | R                      |                       |   |                           |                                      |                |                 |
|  |          | ↑                     | 127k     | ↓                                  | 3k       |  |                     |   | N   |                                | A                             |                              |                          |               |                         |              |                                      |                       |                                     |           |            |                     |                           |                         |                        |                              |  |               |                     |                        |                       |   |                           |                                      |                |                 |

Legend Reduction ↑ Increase ↓

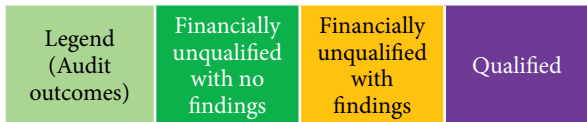
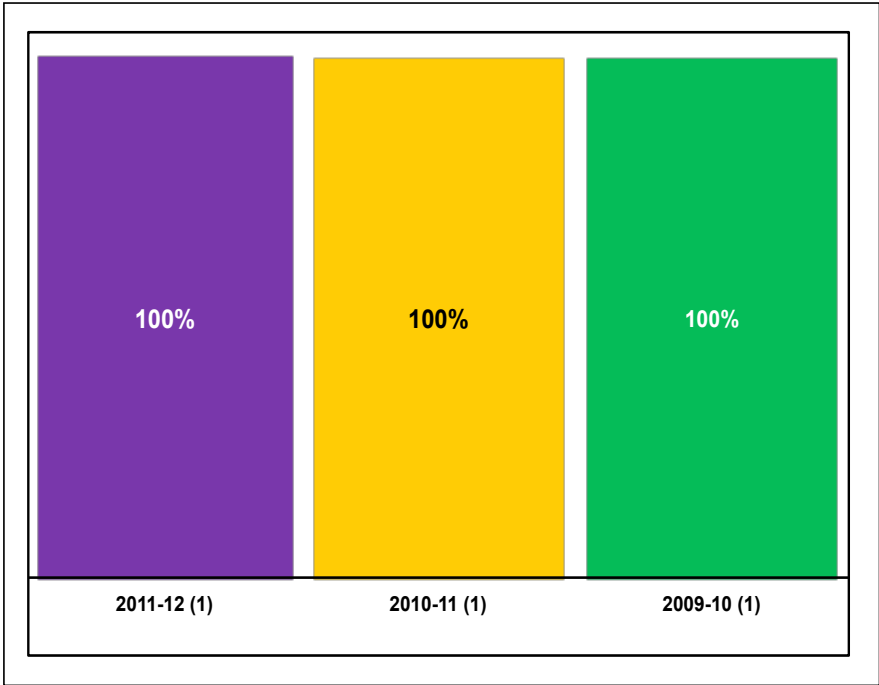
Legend (Drivers) Good Causing concern

Legend (Findings) New Repeat



# VOTE 13: STATISTICS SOUTH AFRICA

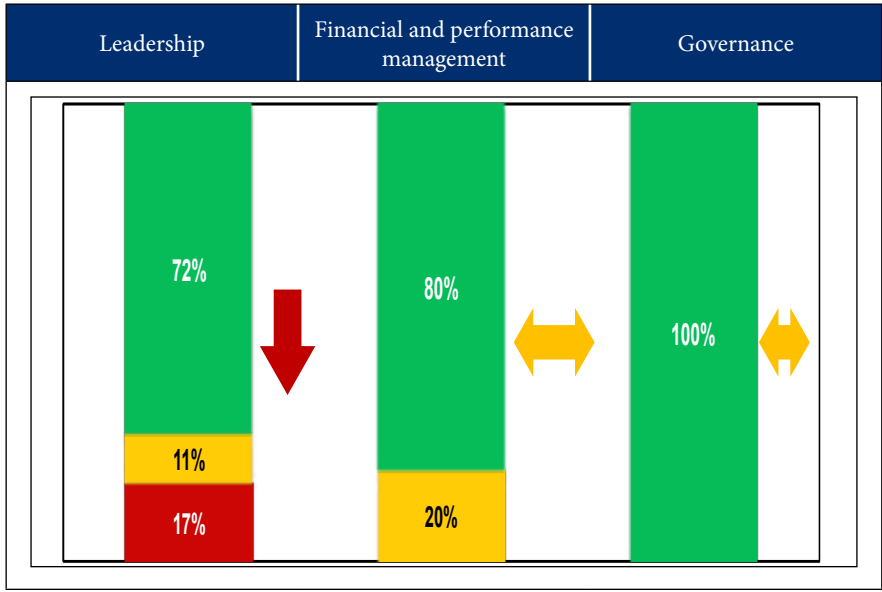
## Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Inadequate review of AFS and disclosure notes, AFS not prepared on a monthly basis.
- Lack of policies and procedures and non-compliance with SCM manual.
- Payroll reports not returned to the CFO, leave not captured timeously on Persal, temporary incapacity leave non-compliance and no policy on suspensions

### SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

#### **Audit outcomes and key reasons for movements**

In comparing the three years' audit outcomes, it was found that the department is regressing. The audit outcomes regressed from unqualified with no findings in 2009-10 to unqualified with findings in 2010-11, and regressed further to qualified opinion in the 2011-12 as a result of incomplete and inaccurate accruals disclosed in the annual financial statements. The reason for the qualification was that the department focused on the census project which took place in 2011 due to inadequate planning for the Census activities. This has led to internal controls being neglected as many staff members were removed from their normal day-to-day operations in order to assist with the Census. This was exacerbated by the fact that during Census the volume of transactions increased significantly creating some backlogs in the capturing and recording of the invoices and insufficient review time prior to submission of the information for auditing.

The regression was driven by lack of implementation of action plans and monitoring therefore.

#### **Risk/focus areas**

The department regressed in the area of financial reporting, while one area which remained without findings is predetermined objectives. This is due to adequate monitoring and controls in place over reporting on predetermined objectives. With regard to financial reporting, the department should put measures in place to address the following:

Supply chain management - the requirements of SCM legislation should be communicated to the internal officials. Where necessary training should be provided and guidance from National Treasury as areas of concern were identified during the audit.

The department needs to develop and document policies and procedures, setting out the process to be followed on a monthly basis for capturing the financial information on the financial reporting system. The department needs to monitor and review the implemented controls over the monthly processes on a regular basis with the assistance of the Internal audit unit.

Human resource processes relating to recruitment, the organisational structure or plan were not approved timeously. The departments should communicate all HR requirements to staff. These include the payroll certificates submission requirements in terms of legislation.

Information technology - IT strategic plan and IT governance framework/charter had not been approved, IT violation reports were not reviewed, Statistics SA does not have a process in place to ensure that the system administrators/controllers' activities were reviewed on the network and the disaster recovery plan was not approved.

#### **Status of key controls and root causes of audit outcomes**

The material adjustments to the financial statements were due to lack of monitoring and review of controls over monthly processing. The qualification was due to the lack of monthly controls over financial reporting.

There was also a lack of appropriate oversight responsibility regarding compliance with laws and regulations. This non-compliance could have been prevented if compliance with laws and regulations relating to procurement and contract management had been adequately monitored and reviewed.

## VOTE 13: STATISTICS SOUTH AFRICA

| Commitments and initiatives by minister   | Impact on 2011-12 audit outcomes |           |                |
|---|----------------------------------|-----------|----------------|
|   | Significant impact               | No impact | Limited impact |
| <b><i>Impact of quarterly discussions with the executive authority</i></b>  |                                  |           |                |
| <p>The AGSA leadership met with the executive authority three times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the Stats SA provides the required level of assurance. The quarterly engagements did not have an impact on the audit outcomes.</p>  |                                  | ■         |                |
| <b><i>Previous year</i></b>   |                                  |           |                |
| No written commitments to address the internal control deficiencies were made during the 2010-11 financial year because the department focused on the Census project.   |                                  |           |                |
| <b><i>New</i></b>   |                                  |           |                |
| <p>Progress with the implementation of corrective action plan which would be used to monitor and track the corrective actions taken will be reported to the Audit committee on a monthly basis. These plans were shared with the AGSA team during the debrief meeting.</p> <ul style="list-style-type: none"> <li>• Numerous monthly reporting controls are implemented to create a culture of regular reporting.</li> <li>• The office of the Statistician-General (SG) would receive a monthly progress report from HRM on progress made with the leave approval.</li> <li>• The AGSA should facilitate a workshop with the management to discuss root causes of the qualification and recommendations in this regard.</li> </ul> |                                  |           |                |

## VOTE 13: STATISTICS SOUTH AFRICA

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NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT IN PORTFOLIO

# VOTE 13: STATISTICS SOUTH AFRICA

| Number | Auditee       | 2011-12 Audit outcomes |                          |                                      | 2010-11 Audit outcomes |                          |                                      | Financial statement qualification areas |                      |             |  | Findings on predetermined objectives |                                   |   |                              | Findings on areas of non-compliance  |  |                        |               |                        |
|--------|---------------|------------------------|--------------------------|--------------------------------------|------------------------|--------------------------|--------------------------------------|---|----------------------|-------------|--|--------------------------------------|-----------------------------------|---|------------------------------|--|--|------------------------|---------------|------------------------|
|        |               | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Audit opinion          | Predetermined objectives | Compliance with laws and regulations | Current asset                           | Capital and reserves | Liabilities | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Reported information not useful      | Reported information not reliable | Information not submitted in time for audit | No annual performance report | Material misstatement/limitations in submitted annual financial statements | Unauthorised, irregular, as well as fruitless and wasteful expenditure | Expenditure management | HR management | Procurement management |
| 40     | Statistics SA |                        |                          |                                      |                        |                          |                                      |   |                      | N           |  |                                      |                                   |   | R                            | A  | N  | N                      |               |                        |

|                         |                                       |           |          |
|-------------------------|---------------------------------------|-----------|----------|
| Legend (Audit outcomes) | Financially unqualified with findings | Qualified | Findings |
|-------------------------|---------------------------------------|-----------|----------|

|                   |           |     |        |
|-------------------|-----------|-----|--------|
| Legend (Findings) | Addressed | New | Repeat |
|-------------------|-----------|-----|--------|



# VOTE 13: STATISTICS SOUTH AFRICA

| Unauthorised, irregular, as well as fruitless and wasteful expenditure |          | Procurement and contract management |          |                                    |          |  |                     | Drivers of internal control                 |   |                                |                               |                              |                          |               |                         |                                      | Human resource management |                       |                                     |           | Information technology management |  |                         | Root causes           |       |               |                     |                        |                       |  |                           |                                      |            |
|--|----------|-------------------------------------|----------|------------------------------------|----------|--|---------------------|---|---|--------------------------------|-------------------------------|------------------------------|--------------------------|---------------|-------------------------|--------------------------------------|---------------------------|-----------------------|-------------------------------------|-----------|-----------------------------------|--|-------------------------|-----------------------|-------|---------------|---------------------|------------------------|-----------------------|--|---------------------------|--------------------------------------|------------|
| Unauthorised expenditure   |          | Irregular expenditure               |          | Fruitless and wasteful expenditure |          | Limitation on planned scope of audit of awards | Awards to employees | Awards to close family members of employees | Uncompetitive or unfair procurement processes | Inadequate contract management | Internal control deficiencies | Leadership                   |                          |               |                         | Financial and performance management |                           |                       | Governance                          |           | Human resources plan              | Management of leave, overtime and suspension | Management of vacancies | Appointment processes | Other | IT governance | Security management | User access management | IT service management | Human resource capacity and productivity | Attention to key controls | Effectiveness of assurance providers |            |
| Movement   | Amount R | Movement                            | Amount R | Movement                           | Amount R |  |                     |   |   |                                |                               | Effective leadership culture | Oversight responsibility | HR management | Policies and procedures | Action plans                         | IT governance             | Proper record keeping | Processing and reconciling controls | Reporting |                                   |  |                         |                       |       |               |                     |                        |                       |  |                           |                                      | Compliance |
|  |          | ↔                                   | 2,7m     |                                    |          |  | R                   |   | R   | R                              | A                             |                              |                          |               |                         |                                      |                           |                       |                                     |           |                                   | R  | R                       | A                     | N     | A             | R                   | R                      | R                     | R  |                           |                                      |            |

Legend Unchanged ↔

Legend (Drivers) Good Causing concern

Legend (Findings) New Repeat

# overview of full report



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