AUDITOR-GENERAL
SOUTH AFRICA

PFMA 2011-12

Executive summary

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.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

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

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

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

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

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

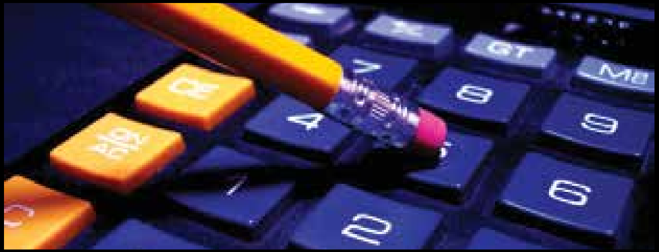
Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Reporting on predetermined objectives	🟩	Three hundred and three (60%) auditees do not have **any material findings on the usefulness and reliability** of their annual performance reports – improving from 277 (55%) in the previous year.			
	🟥	Auditees that continue to have material shortcomings in reporting on service delivery include **key departments responsible for national outcomes**, such as those in the health, education and the human settlement sectors.			
	🟥	Eighty-three (16%) auditees submitted **annual performance reports that contained material misstatements,** 53 of which were able to avoid findings on the presentation and reliability of the reports because they corrected all misstatements identified as a result of the audit.			
	🟥	Based on the annual performance reports, 42% of auditees (102 departments and 112 public entities) **achieved 80% or fewer of their planned service delivery targets**.			
		The **most common material finding** for both departments and public entities on the usefulness of the reported information was that the performance targets were not specific and/or measurable to ensure that the required performance can be meaningfully measured. Findings on reliability of the annual performance reports of departments mostly related to the accuracy of the information and, for public entities, the validity thereof.			
		The general **root causes** of the material findings on the annual performance reports were serious shortcomings in the planning, oversight and monitoring processes, which included lack of understanding and implementation of the principles of National Treasury's *Framework for managing performance information* and inadequate support and guidance by national and provincial oversight bodies. Furthermore, basic systems, processes and controls are not in place or are not functioning effectively, which includes record keeping as evidence of achieving performance targets. Vacancies, lack of skills and inadequate performance monitoring further impacted on the outcomes of some auditees.			
Findings on non-compliance with laws and regulations	🟥	**Material findings on non-compliance with laws and regulations** were reported for 375 (74%) auditees, a regression from the 362 (71%) in the previous year. Only 44 auditees addressed their prior year findings on compliance and 72 (14%) auditees had material findings for the first time this year.			
	🟨	Seventy-three (25%) auditees with findings on compliance had **findings in one AGSA focus area only**, while 42 (14%) auditees only had findings on material misstatements in submitted financial statements. Full compliance with key laws and regulations is therefore within their reach.			
		The **top three areas of non-compliance** relate to material misstatements in submitted financial statements, prevention of and addressing unauthorised, irregular as well as fruitless and wasteful expenditure, and procurement and contract management (supply chain management) which together account for 57% of all findings on compliance. The other areas of non-compliance included expenditure management, human resource management, revenue management and asset and liability management.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Findings on non-compliance with laws and regulations	🟥	**Findings on supply chain management** were reported in the management reports of 287 (57%) [2010-11: 282 (56%)] of the auditees, while at 222 (44%) [2010-11: 228 (45%)] auditees the findings were material enough to warrant reporting thereon in the auditor's report. At an overall level there has been no improvement, with an equal number of auditees that improved and regressed.			
	🟥	Contracts and quotations to the value of R4 862 million which were selected for audit **could not be audited** due to the required information or documentation not being made available by auditees. These limitations further impact on the extent of identified irregularities and supply chain management weaknesses.			
	🟥	Contracts to the value of R438 million identified at 47 auditees were **awarded to suppliers in which employees of the auditee had an interest**. At some auditees the employees included supply chain management officials and senior managers.			
	🟥	Contracts to the value of R141 million identified at 42 auditees were **awarded to suppliers in which close family members of employees of the auditee had an interest,** which represents an increase from the R136 million identified in the previous year at 21 auditees.			
	🟥	Where interest was identified, the **suppliers did not declare** such interest in 73% of instances and the **employee did not declare** in 76% of instances. At 16 departments the employees doing business with the auditee did not obtain **approval for the additional remunerative work**.			
	🟥	Findings **on unfair and uncompetitive bidding** were raised at 50% of auditees – an increase from 42% in the previous year. The most common findings relate to competitive bidding and quotation processes not followed to select suppliers and the non-submission by suppliers of their tax certificates and declarations of independence. The preference point system was also not always applied in the procurement process.			
	🟥	Findings on compliance relating to **unauthorised, irregular as well as fruitless and wasteful** expenditure remained at the same high level as in the previous financial year (45% of auditees). Two thirds of auditees incurred one or more types of unauthorised, irregular and fruitless and wasteful expenditure.			
	🟨	**Unauthorised expenditure** of R2 978 million was incurred by 26 (16%) auditees, 14 fewer than in the 2010-11 financial year and R831 million less. Provincial departments account for 98% of the total value of unauthorised expenditure.			

<table>
<tr><th>Aspect</th><th>Indicator</th><th>Key outcomes and trends</th><th>Good outcomes/ trends</th><th>Stagnant or little progress</th><th>Poor outcomes/trends</th></tr>
<tr><td rowspan="3">Findings on non-compliance with laws and regulations</td><td>🟥</td><td colspan="4">Irregular expenditure of R28 378 million was incurred by 294 (58%) auditees. The number of auditees incurring irregular expenditure increased by 32 (12%) and the value by R6 254 million (28%).
R9 798 million of the irregular expenditure was incurred in prior years and only identified and reported in the current year. Provincial departments account for 73% of the total irregular expenditure incurred.</td></tr>
<tr><td>🟥</td><td colspan="4">Fruitless and wasteful expenditure of R1 793 million was incurred by 226 (44%) auditees. The number of auditees incurring fruitless and wasteful expenditure increased by 29 (13%) and the value by R249 million (16%).
Provincial departments account for 55% of the total fruitless and wasteful expenditure incurred.</td></tr>
<tr><td colspan="5">The general root causes of material findings on non-compliance with laws and regulations relate to weak controls to ensure that systems and processes of the auditees are designed to comply with all applicable laws and regulations and to provide for record keeping of, for example, the evidence of the procurement processes followed.
Oversight and monitoring of compliance were insufficient, while internal audit and the audit committees did not adequately focus on their duty to audit and report on compliance.
It was also reported at a number of auditees that leadership (the accounting officer and/or executive authority) does not set the appropriate tone when it comes to compliance. Accountability is not accepted and the leadership does not apply the remedies available in legislation to ensure that there are consequences for transgressions.</td></tr>
<tr><td rowspan="2">AGSA focus area – Human resource management</td><td>🟨</td><td colspan="4">Findings arising from an assessment of human resource management were reported in the management reports of 46% of the auditees that were included in the scope, while at 19% of them the findings were material enough to warrant reporting in the auditor’s report.
Overall the level of findings remained unchanged since the previous year with the most significant increases in the number of auditees with findings being in the areas of vacancy management and appointment processes.</td></tr>
<tr><td>🟥</td><td colspan="4">Some senior management positions at 51 (31%) departments took more than 12 months to fill while 26 (16%) departments did not advertise vacant senior management positions within six months of them becoming vacant.
Forty-six per cent of departments that received qualified or disclaimed audit opinions experienced lengthy vacancies at senior management level and 35% of them had also not advertised the vacancies timeously. Positions were vacant for longer than 12 months in the finance units of 24% of auditees that received qualified or disclaimed audit opinions.
Senior managers who did not have performance agreements or whose agreements were not signed timeously were identified at 37 (23%) departments.
Poor performance management at senior management level was identified at 37% of the departments that received qualified or disclaimed audit opinions.</td></tr>
</table>

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

overview of full report



Visit our website,

www.agsa.co.za,

to view the complete

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

RP07/2013
ISBN: 978-0-621-41523-0