



AUDITOR - GENERAL
SOUTH AFRICA



PFMA 2011-12

Audit outcomes of the Education Sector

CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes



Our reputation promise/mission

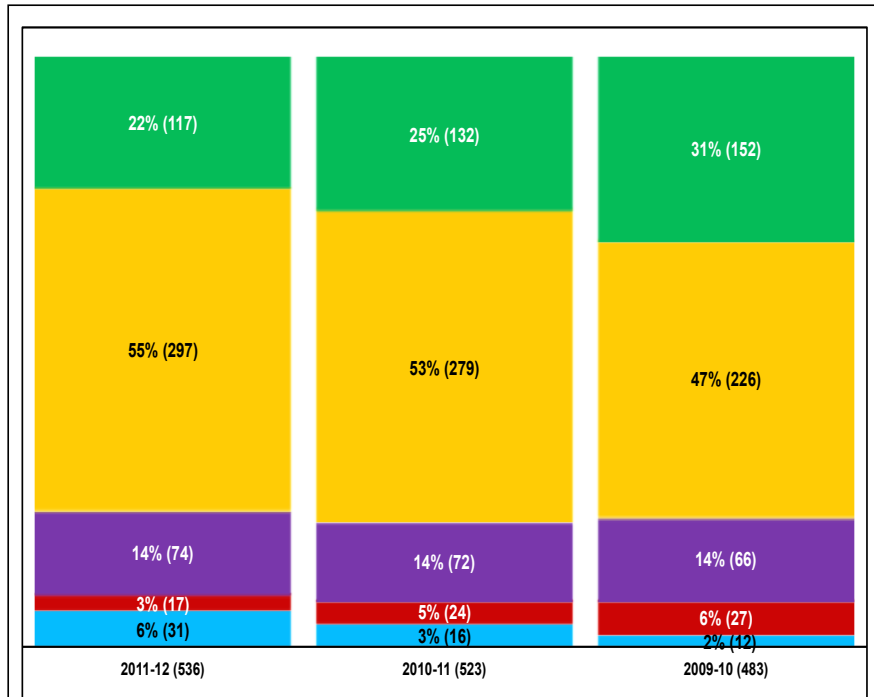
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.





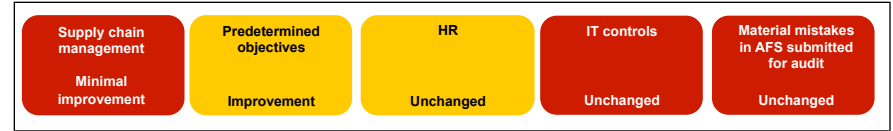
FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements

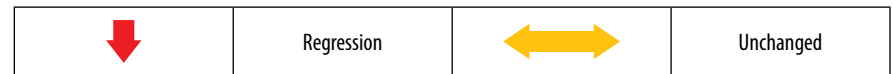
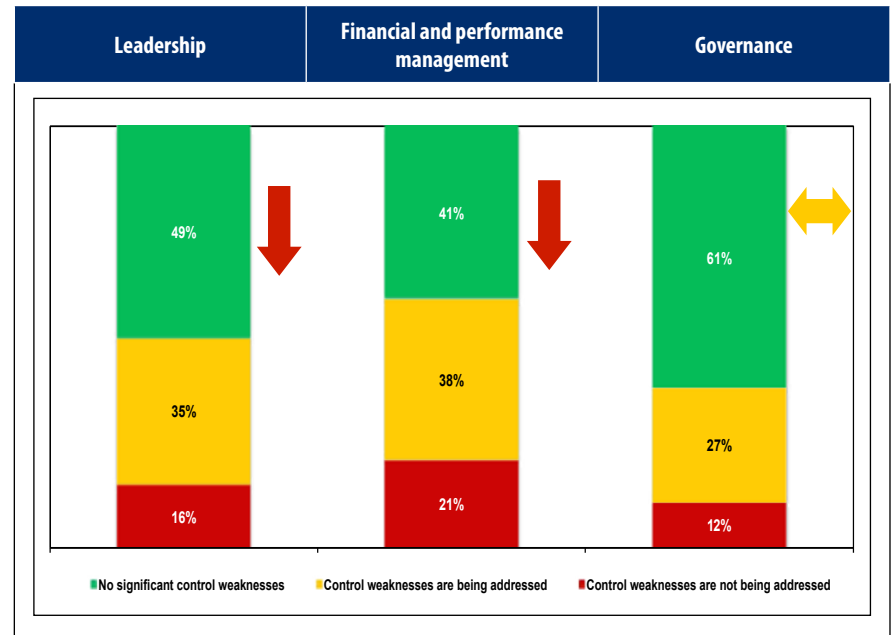


Limited progress made in addressing five key risk areas and regression in overall status of key controls

5 risk areas



Key controls



Pervasive root causes

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

FOREWORD

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

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

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

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



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

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

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

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

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

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

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

Highlighting these remedies provides a starting point for our responsible leaders and the relevant legislatures and departments to take action. All parties have to play their part.

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

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

Auditor-General

Auditor-General
Pretoria
March 2013







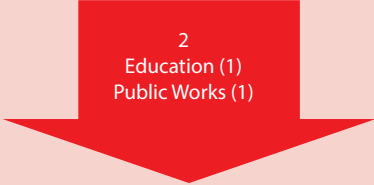


SECTOR AUDIT OUTCOMES

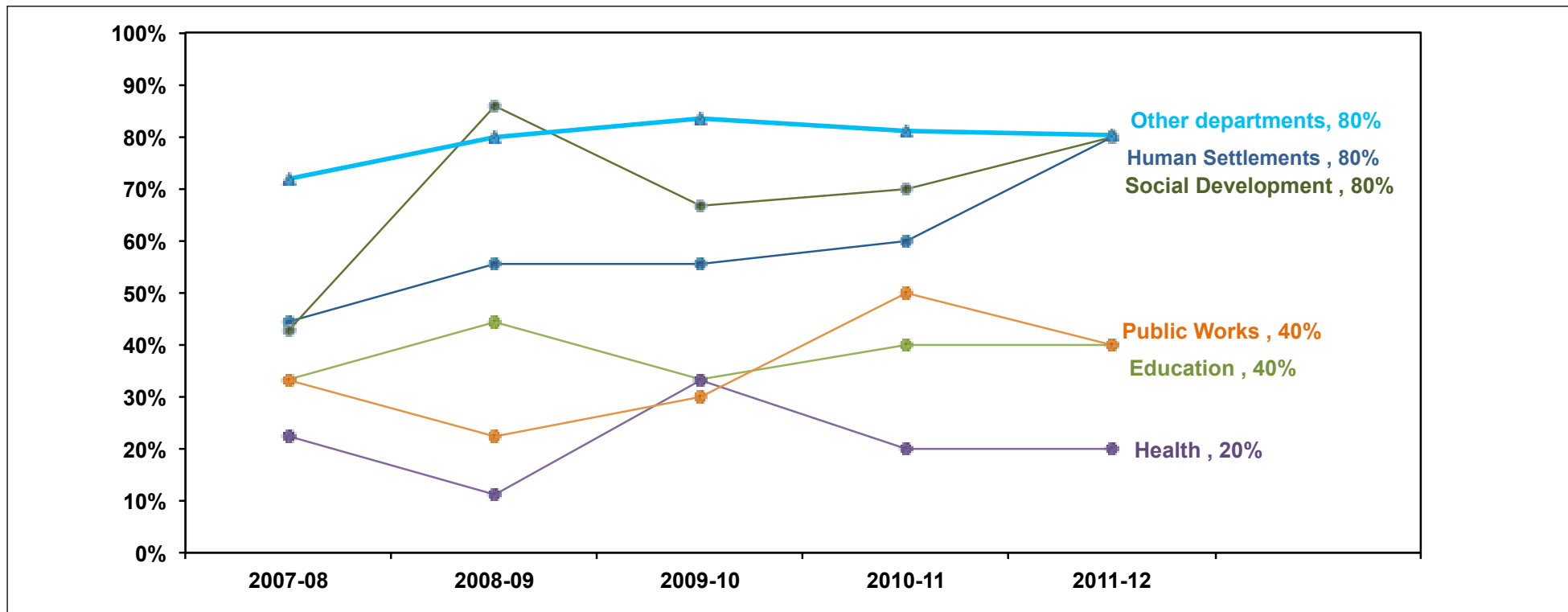
SECTOR AUDIT OUTCOMES

AUDIT OUTCOMES OF SECTOR DEPARTMENTS

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

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

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



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

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

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

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

Table 29: Movements in financial statement areas that attracted qualifications

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

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

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

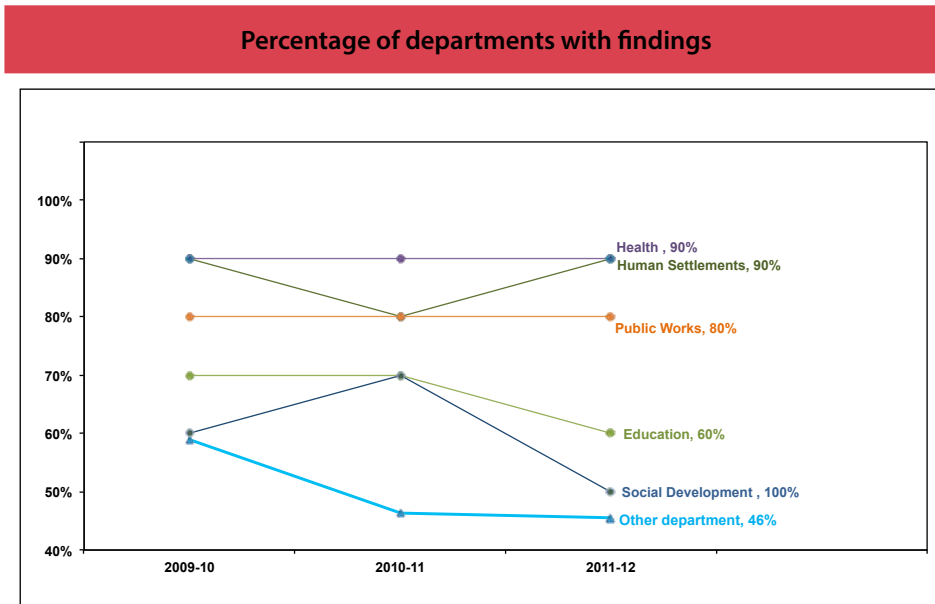
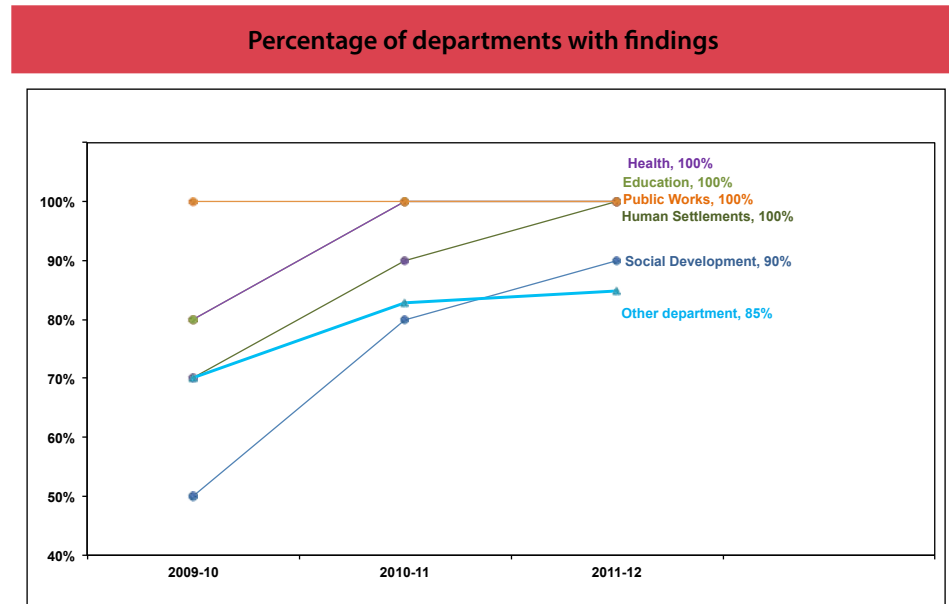


Figure 48: Three-year progress in addressing findings on compliance - Sector departments compared to other departments



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

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

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

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

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

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

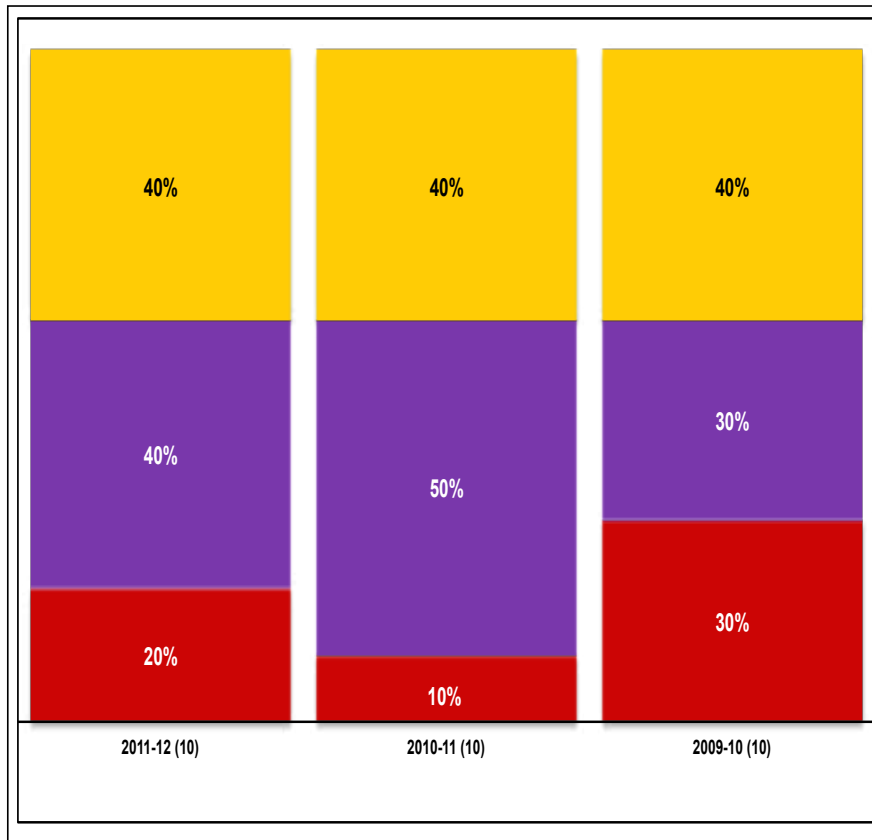
The root causes of the inability of sector departments to produce unqualified financial statements and their slow progress in addressing findings on PDOs and compliance, as detailed in sub-sections 2.2, 2.3 and 2.4 of this general report, can be summarised as follows:

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

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

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

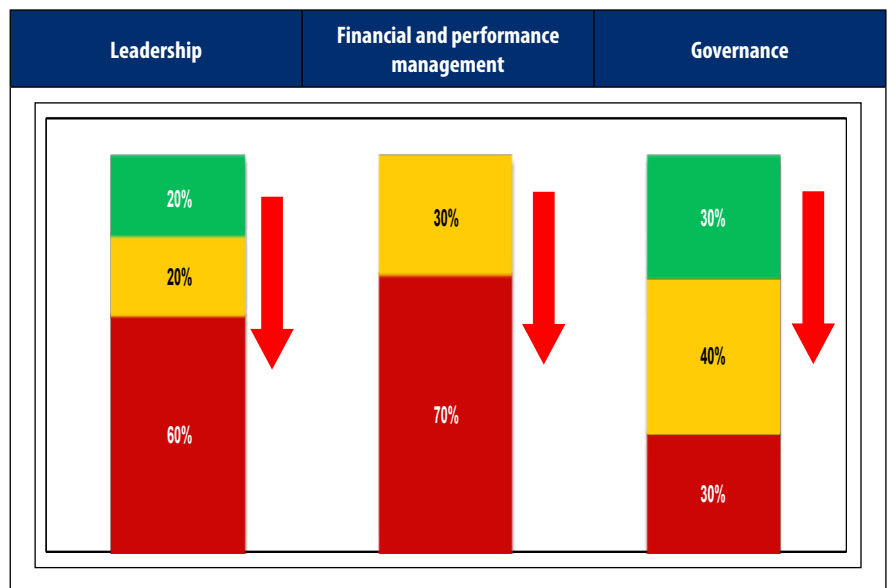
EDUCATION



5 risk areas



Key controls

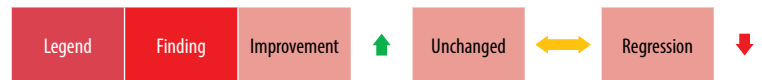


Root causes risk

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

Table 31: Significant aspects of the audit outcomes

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



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

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

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

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

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

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

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

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

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

Overall deficiencies in key controls

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

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

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

Table 32: HIV and Aids life skills education grant

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

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

Aids life skills education programmes at schools.

National school nutrition programme

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

Table 33: National school nutrition programme

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

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

Learner/Teacher support material (LTSM)

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

Table 34: Learner/Teacher support material

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

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

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

Emerging risk – LTSM Inventory (workbooks and text books)

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

Learner transport scheme (LTS)

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

Table 35: Learner transport scheme

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

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

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

Education infrastructure grant

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

Table 36: Education infrastructure grant

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

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

were reported.

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

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

overview of full report



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the
Auditor-
General

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Slow progress towards clean
audits with more regressions than
improvements
(Part 1)

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117 auditees achieved clean audits
(Part 1)

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high level
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with laws
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