



AUDITOR - GENERAL
SOUTH AFRICA



PFMA 2011-12

Audit outcomes of the Social Development Sector

CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes



Our reputation promise/mission

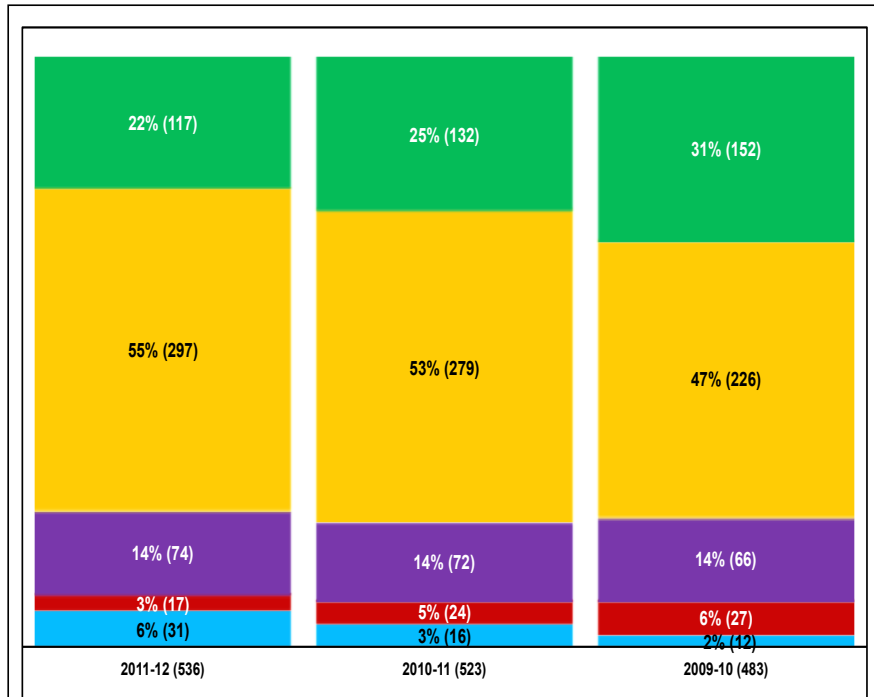
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.





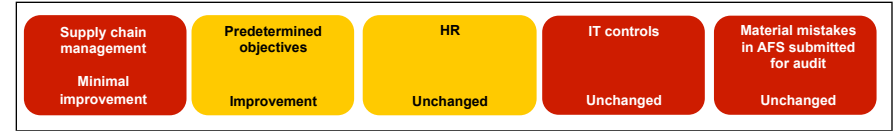
FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements

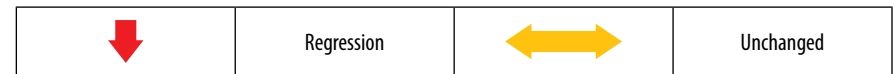
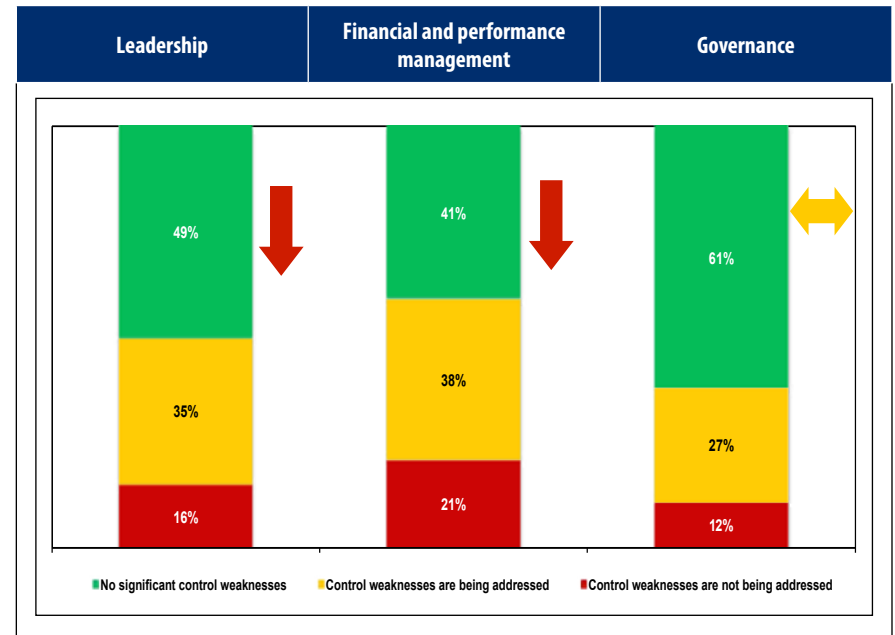


Limited progress made in addressing five key risk areas and regression in overall status of key controls

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**






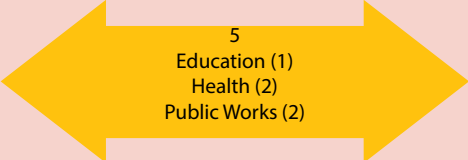
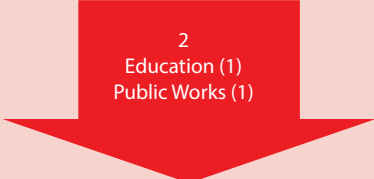


SECTOR AUDIT OUTCOMES

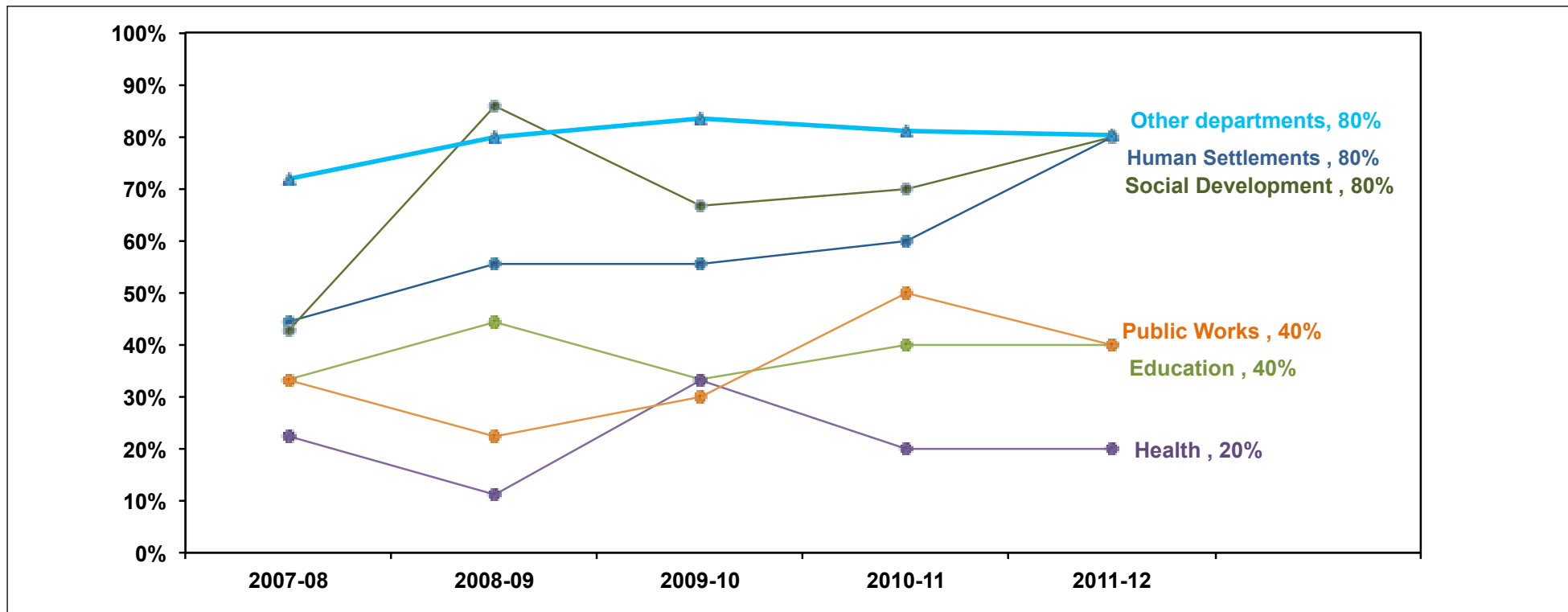
SECTOR AUDIT OUTCOMES

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

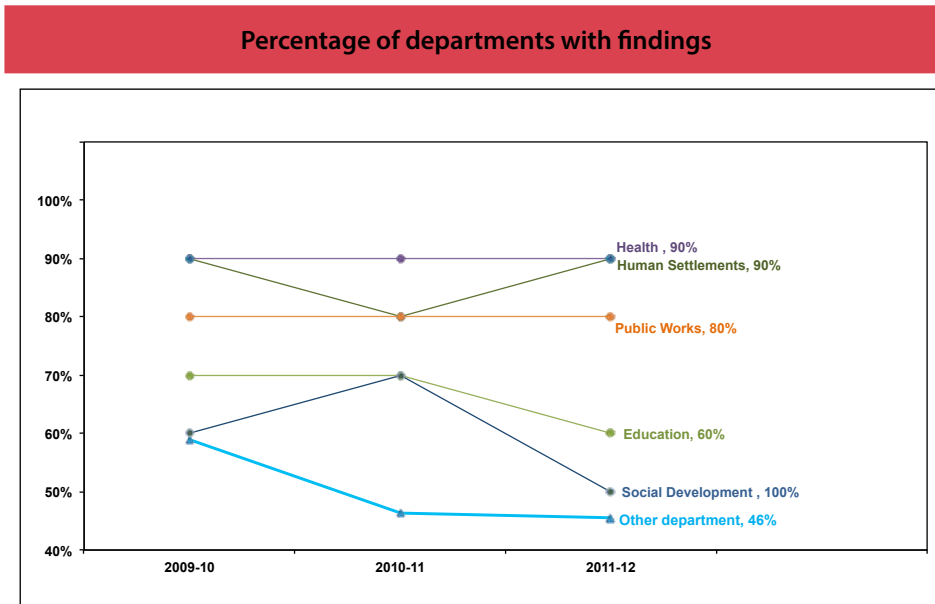
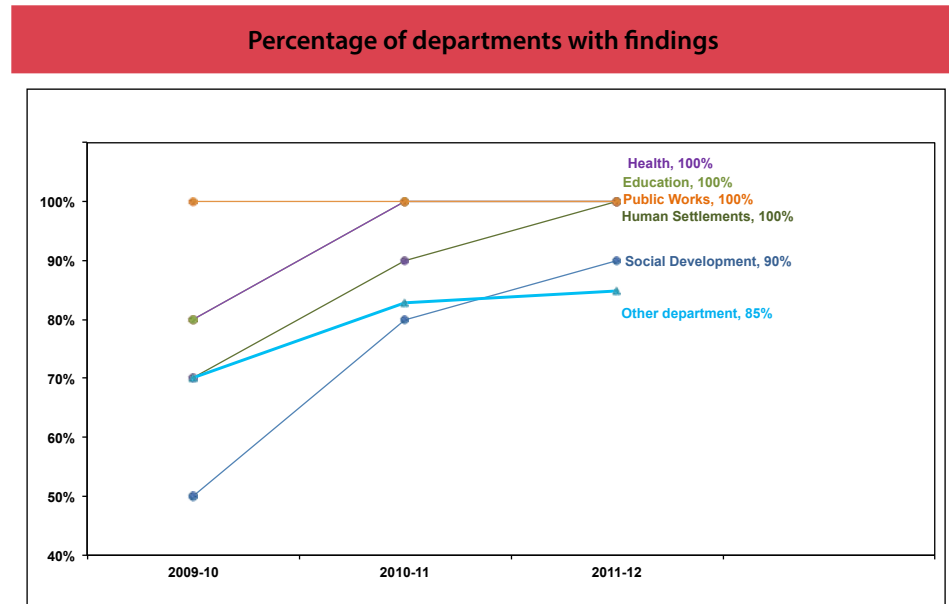


Figure 48: Three-year progress in addressing findings on compliance - Sector departments compared to other departments



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

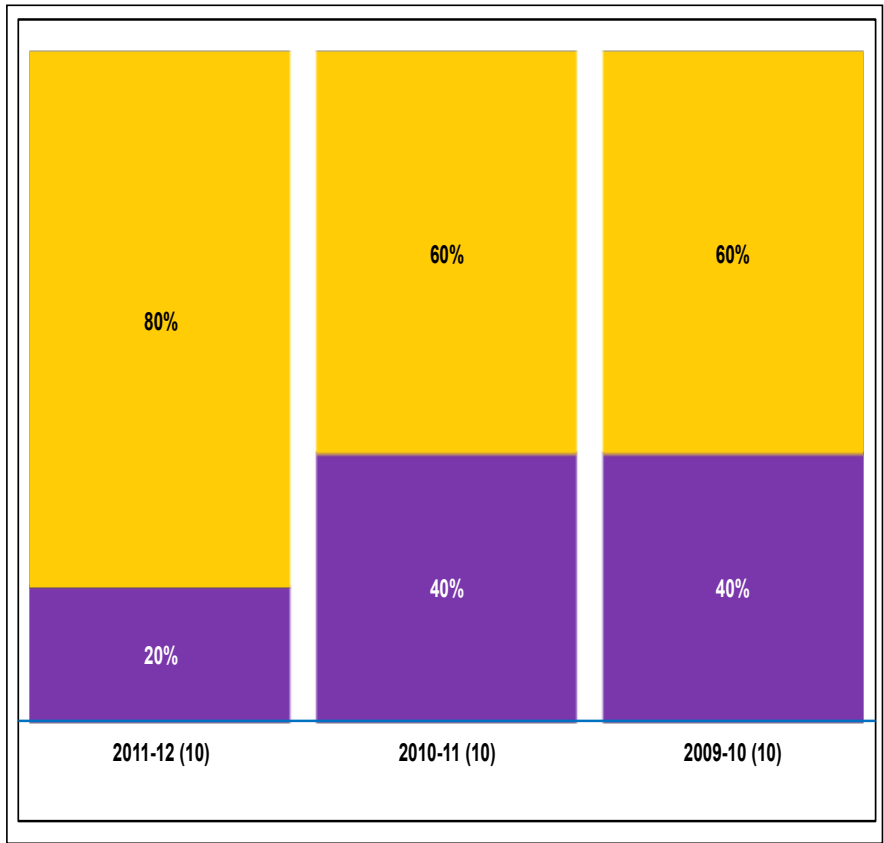
The root causes of the inability of sector departments to produce unqualified financial statements and their slow progress in addressing findings on PDOs and compliance, as detailed in sub-sections 2.2, 2.3 and 2.4 of this general report, can be summarised as follows:

- 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.

SOCIAL DEVELOPMENT

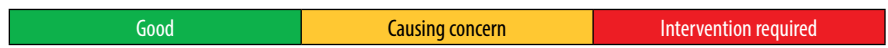
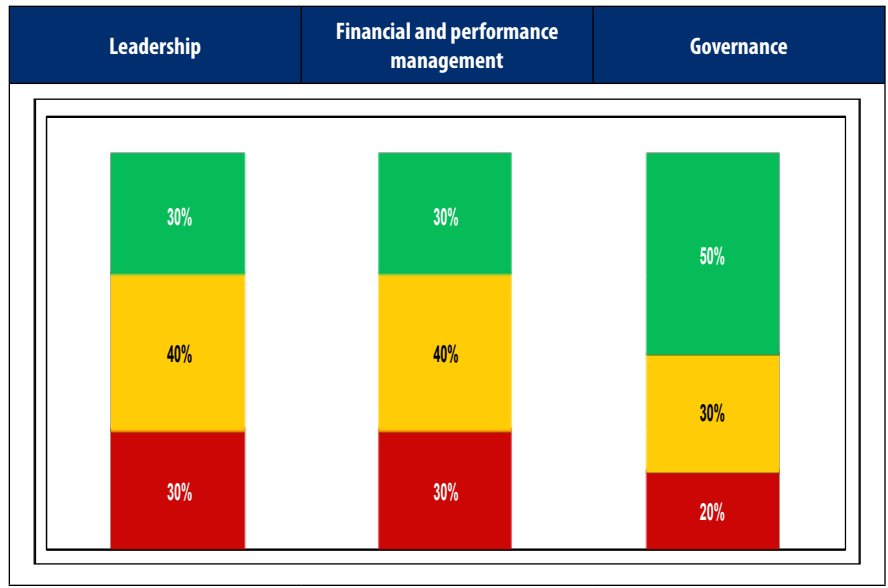


Legend (Audit outcomes)	Financially unqualified with findings
	Qualified

5 risk areas



Key controls



Root causes

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

Table 50: Significant aspects of the audit outcomes

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

Legend Finding Improvement ↑ Unchanged ↔

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

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

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

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

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

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

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

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

Management of transfers to non-profit organisations (NPOs)

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

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

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

*Audit procedures not performed

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

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

Social sector expanded public works programme incentive grant for provinces

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

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

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

Monitoring of service delivery programmes

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

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

Table 52: Findings on monitoring of service delivery programmes

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

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

*Audit procedures not performed

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

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

Availability of social service professionals to communities

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

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

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

*Audit procedures not performed

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

Commitments by national leadership

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

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

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

and evaluation process.

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

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

overview of full report



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