



AUDITOR - GENERAL  
SOUTH AFRICA



PFMA 2011-12

Overview of the audit outcomes

CONSOLIDATED GENERAL REPORT  
on NATIONAL and PROVINCIAL audit outcomes



# Our reputation promise/mission

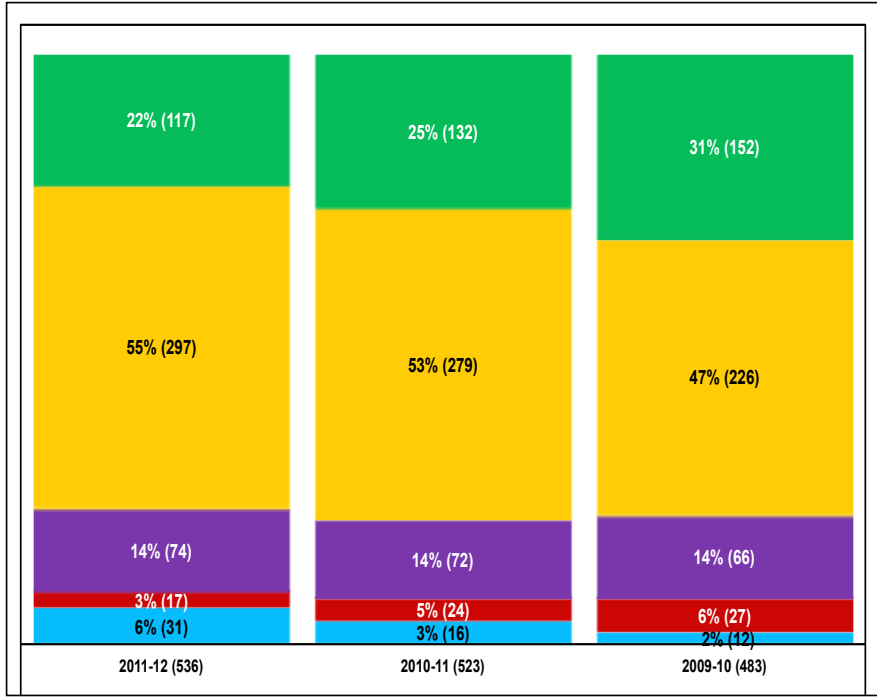
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



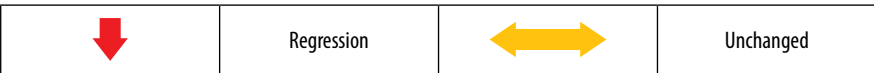
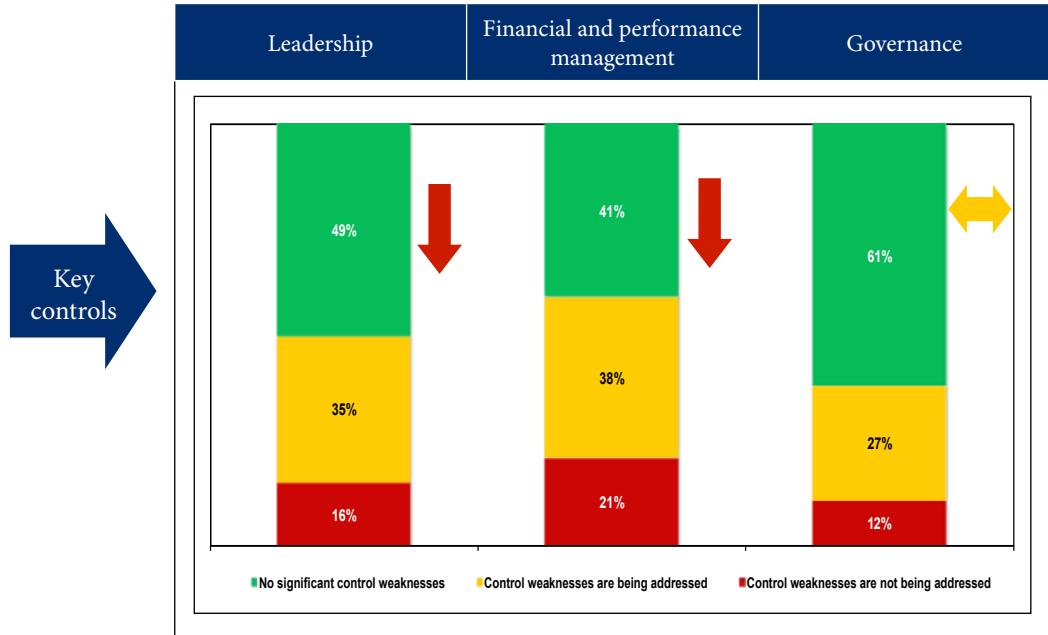
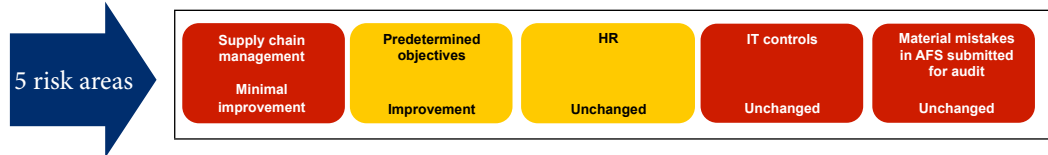


FOREWORD

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

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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**

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## OVERVIEW OF AUDIT OUTCOMES

# OVERVIEW OF AUDIT OUTCOMES

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This section of the general report provides the 2011-12 overall audit outcomes of national and provincial government (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their predetermined objectives (PDOs) (section 2.3) and key compliance by auditees with key laws and regulations (section 2.4).

Root causes of audit findings and recommended best practices are also presented in the respective sections. This should be read together with an analysis of the auditees' internal control system in section 3.

## 2.1 OVERALL AUDIT OUTCOMES

### 2.1.1 Summary of overall audit outcomes

National and provincial government comprises 671 auditees [162 departments (including Parliament and the provincial legislatures) and 509 public entities]. Public entities include the major public entities, government business enterprises, national and provincial public entities, constitutional institutions and trading entities that are audited in terms of the PFMA, as well as other entities audited in terms of any legislation other than the PFMA.

The audit outcomes of the 135 public entities not audited by the AGSA are not analysed in this general report except for the summary outcomes reflected in section 2.1.6. The establishment of 11 new public entities has increased the number of public entities audited by the AGSA from 363 to 374.

Arising mainly from non-submission or late submission of financial statements for audit, the audits of the new Department of Rural Development in the Free State and 30 (8%) public entities had not been finalised as at 15 October 2012, which was set as the cut-off date for inclusion in this general report. However, the

outcomes of eight audits finalised between this cut-off date and the date of this general report are presented in section 2.1.5.

The following table provides a summary of the 2011-12 outcomes of AGSA audits finalised by 15 October 2012 per type of auditee. The term "leading departments" is used in this table and further analyses in the report – leading departments are those auditees which monitor and set the example for other auditees in national and provincial government. The leading departments comprise Parliament, nine provincial legislatures, nine Offices of the Premier, National Treasury and nine provincial treasuries.



**Table 1: Summary of audit outcomes for current and prior year**

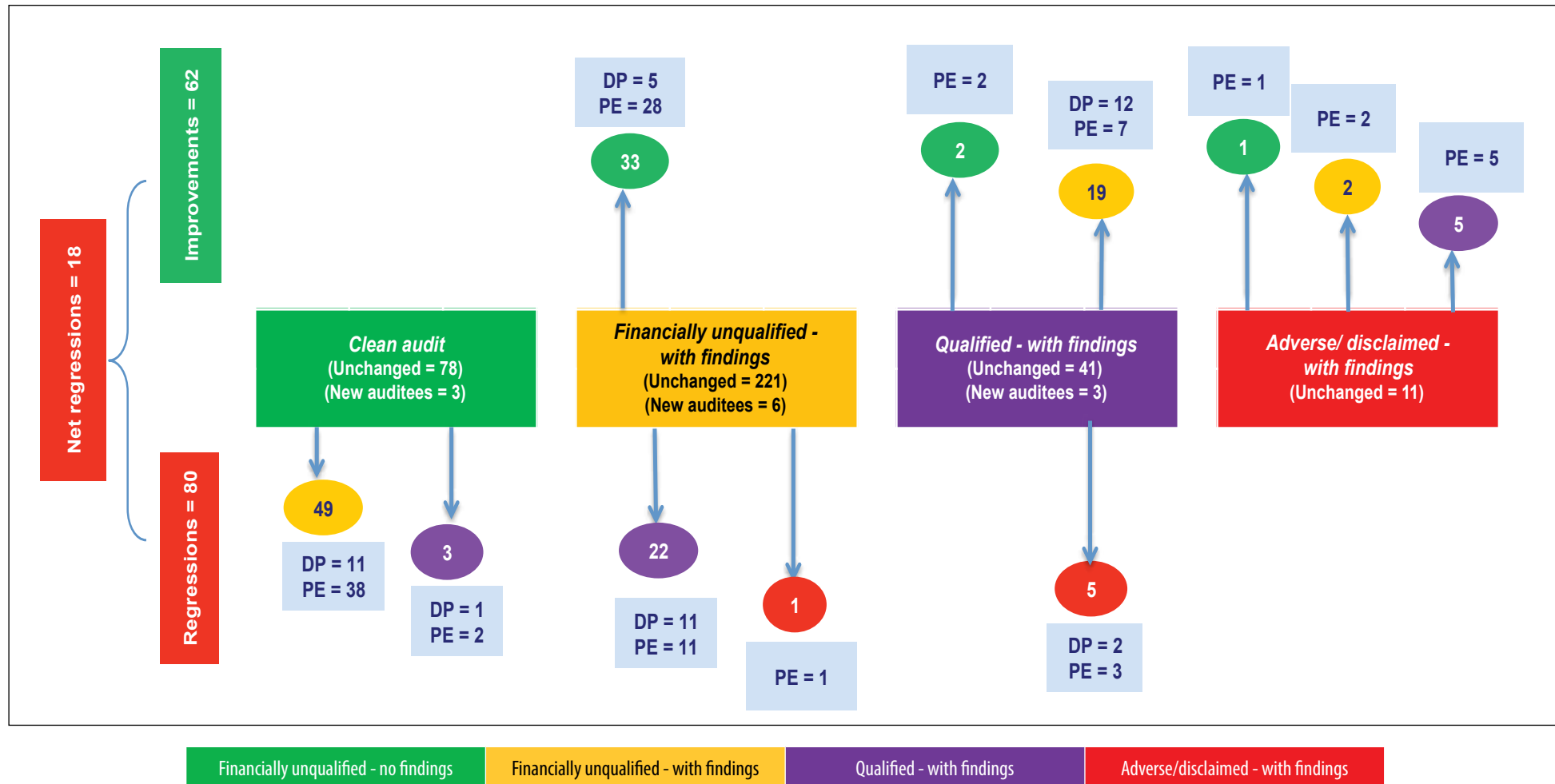
Audit outcomes	Departments						Public entities								Total	
	National		Provincial		Leading*		Major public entities and government business enterprises		National and provincial public entities		Constitutional institutions and trading entities		Other entities			
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	3	3	3	7	8	11	5	7	76	82	5	0	17	22	117	132
Financially unqualified with findings	28	24	55	52	18	17	11	10	146	137	22	27	17	12	297	279
Financially unqualified financial statements	82% ↑	73%	61%	63%	90% ↓	97%	70%	74%	85%	87%	77%	79%	62%	64%	77%	79%
Qualified opinion, with findings	6	9	30	31	3	1	3	4	23	20	5	2	4	5	74	72
Adverse opinion, with findings	0	0	0	0	0	0	0	1	0	2	1	0	1	0	2	3
Disclaimer of opinion, with findings	1	1	6	4	0	0	3	1	4	7	1	5	0	3	15	21
Number of audit reports not issued by 15 October 2012	0	0	1	0	0	0	1	0	12	5	1	0	16	11	31	16
Outstanding audits and financially qualified financial statements	18% ↑	27%	39%	37%	10% ↓	3%	30%	26%	15%	13%	23%	21%	38%	36%	23%	21%
Total number of audits	38	37	95	94	29	29	23	23	261	253	35	34	55	53	536	523
Findings on reporting on predetermined objectives (PDOs) only	1	0	0	1	1	0	0	0	10	8	0	1	0	2	12	12
Findings on compliance with laws and regulations only	15	8	34	30	9	10	7	6	83	69	18	13	19	8	185	144
Findings on both PDOs and compliance	19	26	57	56	10	8	10	10	80	89	11	20	3	9	190	218
Total number of audits "with findings"	35	34	91	87	20	18	17	16	173	166	29	34	22	19	387	374

\* Leading departments comprise of legislatures, Offices of the Premiers and provincial treasuries

Legend:  Significant improvement  Significant regression

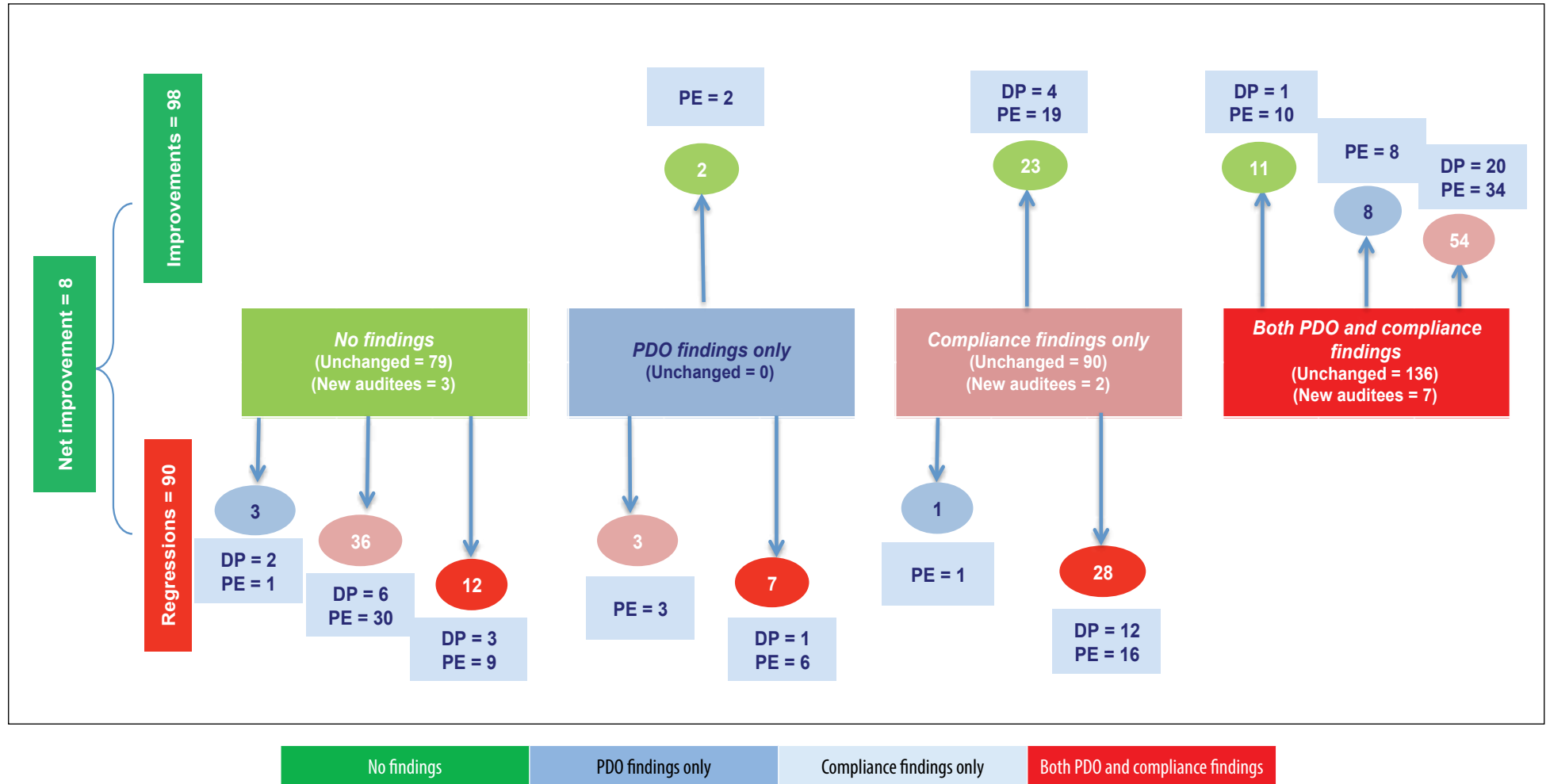
The previous table shows the net change in audit outcomes from the previous year while the following figure highlights the detail of improvements and regressions of departments (DP) and public entities (PE) that caused the net change.

**Figure 1: Improvements and regressions in audit opinions**



It is apparent from the previous table shows the net change in audit outcomes from the previous year while the following figure highlights the detail of improvements and regressions of departments (DP) and public entities (PE) that caused the net change.

**Figure 2: Improvements and regressions in findings on predetermined objectives and compliance with laws and regulations on findings**



The following observations are made on the overall audit outcomes and the improvements and regressions since the previous year:

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
<b>Overall audit outcomes</b>	The <b>overall audit outcomes</b> for national and provincial government regressed as 62 (12%) auditees (17 departments and 45 public entities) improved, but 80 (16%) auditees (25 departments and 55 public entities) regressed.			
<b>Progression to clean audit opinion</b>	<p>The <b>improvements in overall audit outcomes</b> include those of the following 36 (7%) auditees that progressed to a clean audit outcome by addressing the PDO weaknesses and/or findings on compliance reported in the prior year:</p> <ul style="list-style-type: none"> <li>• Five departments - <i>Public Service Commission, the Free State Legislature, Mpumalanga Premier's office, the Western Cape Environmental Affairs and Development Planning and the Western Cape Provincial Treasury.</i></li> <li>• Thirty-one public entities, including 16 national public entities and 15 provincial public entities, the majority in the Western Cape and Gauteng.</li> </ul>			
<b>Sustained clean audit opinions</b>	<p>Seventy-eight (16%) of the auditees were able <b>to sustain their clean audit</b> status of the prior year. These include the provincial <i>treasuries</i> of the Free State, Kwazulu-Natal and Mpumalanga, <i>the Free State Premier's office, the Western Cape Legislature and the Department of Public Enterprises.</i></p> <p>Public entities that sustained their clean audit status include the <i>South African Revenue Service, the Unemployment Insurance Fund, the Land Bank and the Independent Regulatory Board for Auditors,</i> as well as 15 smaller funds, boards and trusts.</p>			
<b>Regressions from clean audit opinions</b>	<p>The 52 auditees that <b>regressed from clean audits</b> are made up as follows:</p> <ul style="list-style-type: none"> <li>• <i>The Mpumalanga Legislature, the Wholesale and Retail SETA and Great North Transport</i> regressed from a clean audit to a qualified audit opinion.</li> <li>• <i>The Gauteng and KwaZulu-Natal Premier's offices and the provincial legislatures of Eastern Cape, Gauteng and KwaZulu-Natal</i> retained financially unqualified opinions on financial statements but regressed on material findings on PDO and/or compliance.</li> <li>• Five provincial departments regressed due to material findings on compliance and one national department due to material PDO findings.</li> <li>• Thirty-eight public entities, which include nine provincial public entities (five in Gauteng), two major public entities/government enterprises, 21 national public entities and six smaller funds and trusts.</li> </ul>			
<b>Adverse opinions</b>	<p>The <i>National Arts Council</i> was able to improve from an <b>adverse opinion</b> with findings on PDO and compliance in the previous year to a qualified opinion with findings on compliance, while the <i>Road Traffic Management Corporation</i> improved to a financially unqualified opinion with findings on PDO and compliance. The <i>Mpumalanga Economic Growth Agency</i> showed no improvement, moving from an adverse to a disclaimer of opinion.</p> <p>The <i>KZN Housing Fund and the Northern Cape Fleet Management Trading Entity</i> have adverse opinions in the current year, moving from a qualified and disclaimer of opinion, respectively.</p>			

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
<b>Disclaimer of opinions</b>	<p>The financial statements of the national department of <i>Public Works</i>, Eastern Cape department of Education, provincial departments of <i>Health (Limpopo and Northern Cape)</i> and the North West department of <i>Public Works, Roads and Transport</i> were again <b>disclaimed</b>. <i>The Property Management Trading Entity</i>, which since 2011-12 falls under the national department of <i>Public Works</i>, also remained disclaimed along with the <i>Free State Development Cooperation</i>, the <i>Limpopo Tourism and Parks Board</i> and the <i>North West Golden Leopards Resorts</i>. The Limpopo departments of Education and Public Works regressed from a qualified opinion to a disclaimer. The public entities that regressed to disclaimers were the <i>Local Government SETA</i> (from an unqualified opinion), the <i>SA Heritage Resources Agency</i> and the <i>Mafikeng Industrial Development Zone</i>.</p>			
<b>Regressions to qualified audit opinions</b>	<p>There has been a net increase of five in the number of financial statements that received financially <b>qualified opinions</b>, with 25 regressions and only 21 improvements. Of the auditees that regressed, 92% were financially unqualified in the previous year with material findings on PDO and/or compliance.</p> <p>Included in the 12 departments that failed to retain their financially unqualified opinions are <i>Home Affairs, Statistics SA</i>, the <i>legislatures of Northern Cape and Mpumalanga</i>, <i>Eastern Cape and Northern Cape</i> departments of <i>Roads and Public Works</i>, <i>Free State</i> department of <i>Human Settlements</i> and the <i>Western Cape</i> department of <i>Education</i>. The main financial statement areas that were materially misstated and therefore qualified are non-current assets, other disclosure items and liabilities.</p> <p>Included in the 13 public entities that regressed to qualified audit opinions are the <i>Safety and Security SETA</i>, the <i>Deeds Registration Trading Account</i> and the <i>Gateway Airport Authority</i> in Limpopo.</p>			
<b>Movement towards unqualified audit opinions</b>	<p>Twelve departments and nine public entities were able to improve their financial statements and obtained on financially unqualified opinion with material findings on PDO and/or compliance. The most noteworthy among those with qualified opinions for at least two prior years are the <i>Free State</i> departments of Education and Cooperative Governance and Traditional Affairs, the national departments of Defence and of Social Development, <i>KwaZulu-Natal's Public Works</i>, <i>Limpopo's Social Development</i> and the <i>Eastern Cape</i> department of Economic Development and Environmental Affairs.</p>			
<b>Unchanged qualified audit opinions for past 3 years</b>	<p>The following 26 departments failed to obtain financially unqualified audit reports for the past three years:</p> <p>The national departments of <i>Correctional Services, Water Affairs, Justice and Constitutional Development, Public Works and Rural Development and Land Reform</i>.</p> <ul style="list-style-type: none"> <li>• The <i>Health</i> department of the <i>Free State, Eastern Cape, KwaZulu-Natal and Mpumalanga, Limpopo and Northern Cape</i>.</li> <li>• The <i>Education</i> departments in the <i>Northern Cape, North West, Eastern Cape and Limpopo</i>.</li> <li>• The departments of <i>Human Settlements</i> in the <i>Eastern Cape and North West</i> and the <i>Free State, North West and Limpopo</i> departments of <i>Public Works</i>.</li> <li>• Four departments in the <i>North West province (including the Premier's office)</i> and one each in the <i>Free State and Northern Cape</i>.</li> </ul> <p>Recurrent financial statement qualification areas include non-current assets, current assets and other disclosure items.</p>			

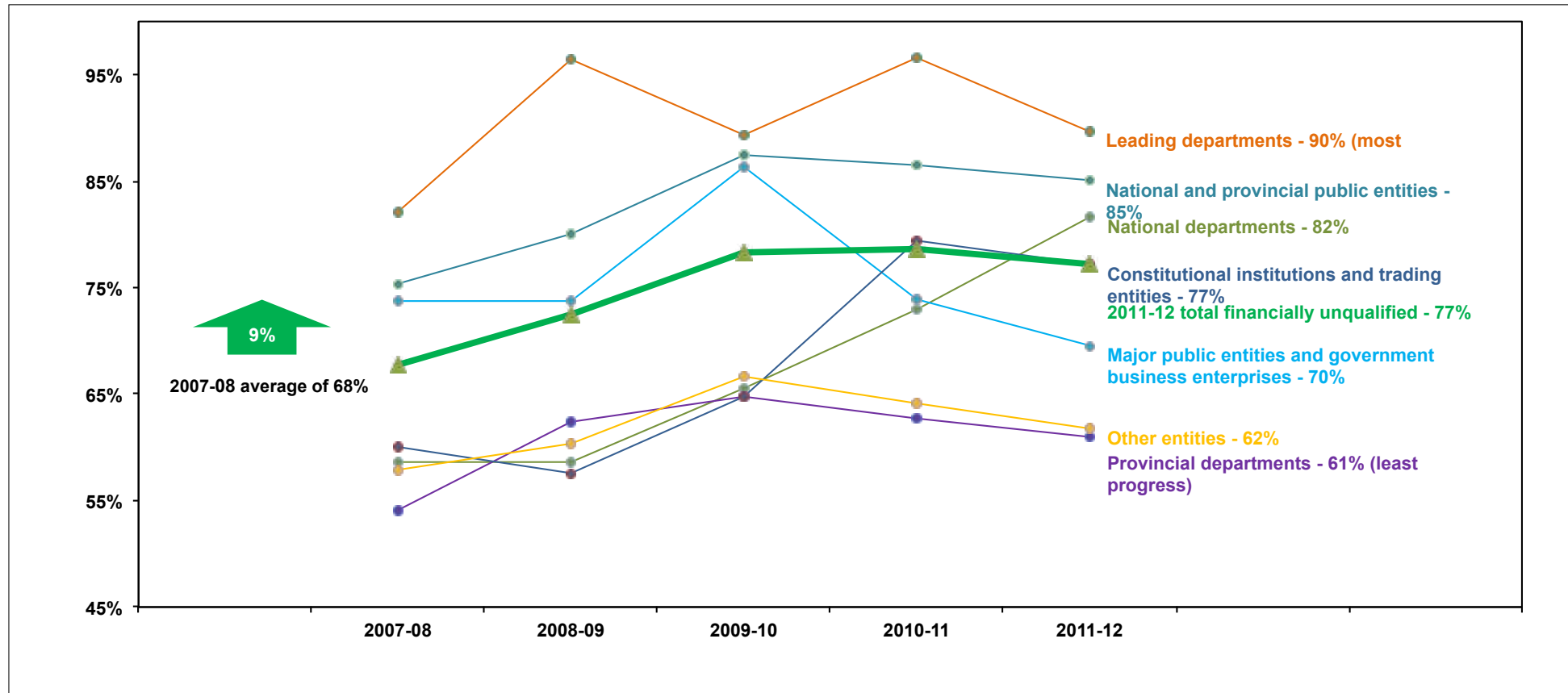
Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
<b>Financial unqualified with findings – stagnation</b>	<p>Two hundred and twenty-one (44%) auditees remained <b>financially unqualified with material findings on PDO and/or compliance</b>. Included are 13 leading departments, 21 national departments, 43 provincial departments (mostly in Gauteng, KwaZulu-Natal, Mpumalanga and the Western Cape) and 144 public entities.</p> <p>One hundred and forty (27%) of these auditees have not been able to progress to clean audits for the past three years, failing to avoid material findings on PDO and/or compliance.</p>			
<b>Overall outcomes on PDO and compliance</b>	<p>Ninety-eight (19%) auditees improved their <b>overall outcomes regarding PDO and compliance findings</b> but only 36 were able to move to a clean audit opinion. Ninety (18%) auditees regressed – 52 of them with no material PDO and compliance findings in the previous year.</p>			
<b>Outcomes on PDO – limited improvement</b>	<p>Seventy (14%) auditees improved since the prior year to having no <b>material findings on PDO</b> while 44 (9%) regressed. Included in this group of auditees are the following:</p> <p>The <i>provincial treasuries of North West and Eastern Cape</i>, the <i>Free State legislature</i> and the <i>Limpopo Premier’s office</i> addressed their prior year findings. The following leading departments had material findings on PDO for the first time: <i>the provincial treasuries of Gauteng, Northern Cape and Limpopo</i>; the <i>Gauteng and KwaZulu-Natal Premier’s offices</i> and the <i>legislatures of KwaZulu-Natal and Eastern Cape</i>.</p> <ul style="list-style-type: none"> <li>• Two national departments regressed and eight (including <i>Justice and Constitutional Development, Public Service and Administration and Transport</i>) addressed their prior year findings.</li> <li>• Thirteen provincial departments improved (two each in Gauteng and Mpumalanga and three in Limpopo) and 16 regressed (including four in KwaZulu-Natal, three in the Northern Cape and two each in Gauteng, Mpumalanga and North West).</li> <li>• The public entities that improved included the <i>Compensation Fund, Independent Electoral Commission, SA Social Security Agency, South African Human Rights Commission</i> and the <i>Public Protector</i>. Those that regressed included three SETAs.</li> </ul> <p>One hundred and fifty-one (30%) auditees did not address their prior year findings on PDO – 117 (23%) auditees also had findings on PDO in the preceding two years, among others the <i>North West and Northern Cape legislatures</i>, the <i>North West Premier’s office</i>, the national departments of <i>Correctional Services, Home Affairs, Labour, Public Works, Police, Water Affairs, Health, Human Settlements</i> and <i>Cooperative Governance and Traditional Affairs</i>, five provincial departments of <i>Education</i>, seven provincial departments of <i>Health</i>, six provincial departments of <i>Human Settlements</i>, six provincial departments of <i>Public Works</i> and 56 public entities.</p>			

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
<p><b>Continued regressions in compliance with laws and regulations</b></p>	<p>Only 44 auditees addressed their prior year findings on compliance (including three leading departments). Sixty-seven (13%) auditees regressed (11% of which are public entities). Regression occurred in compliance-related material misstatements in financial statements submitted for audit, HR management, asset and liability management and revenue management.</p> <p>The 87 (17%) auditees that were able to maintain their status of no findings on compliance included only 12 departments [<i>three provincial treasuries (Free State, KwaZulu-Natal and Mpumalanga)</i>], the <i>Premier's offices</i> in the <i>Free State</i> and <i>Gauteng</i> and the <i>legislatures of Mpumalanga</i> and <i>Western Cape</i>.</p> <p>Three hundred and eight (61%) auditees again attracted material findings on compliance, 99 (19%) of which had the same outcome (financially, unqualified with findings) in the prior two years. Among these are the <i>National Treasury</i>, <i>three provincial treasuries (Eastern Cape, Northern Cape and North West)</i>, the <i>Premier's office (Western Cape)</i>, nine national departments, one provincial <i>Health</i> department and two of the provincial <i>Human Settlements</i> departments.</p>			
<p><b>Outstanding audits</b></p>	<p>Included in the eight auditees whose audits have not been finalised for two or more years due to non-submission of financial statements are all provincial public entities, two of which are in the Northern Cape and three in the North West province.</p>			

## 2.1.2 Financially unqualified financial statements – five-year progress

Producing unqualified financial statements is an important milestone towards clean audits. The five-year progress of national and provincial government towards obtaining financially unqualified audit opinions on the financial statements of departments and public entities is depicted in the following figure at an overall level and per type of auditee.

**Figure 3: Five-year progress towards financially unqualified financial statements**



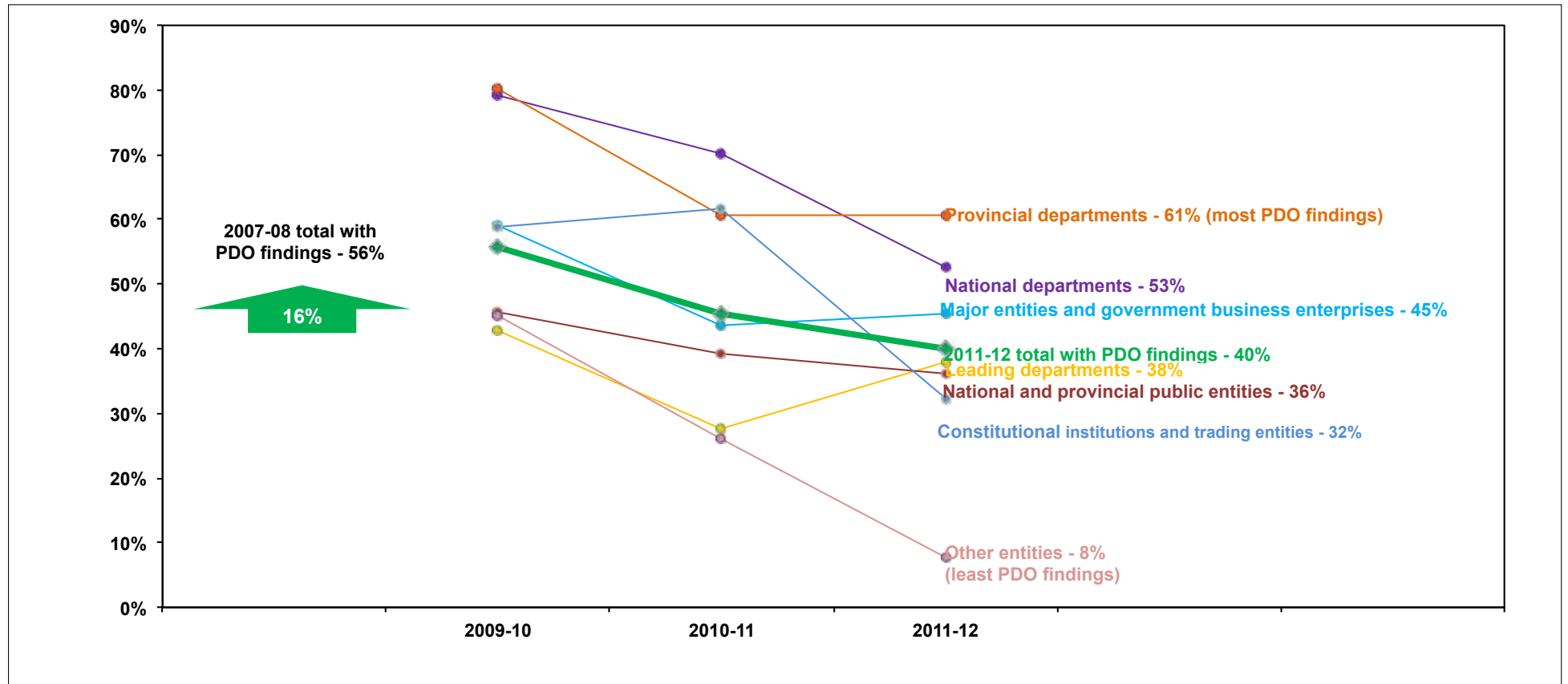


### 2.1.3 Useful and reliable reporting against predetermined objectives – three-year progress

In order to obtain clean audit opinions auditees should report annually on the achievement of their PDOs in a useful and reliable manner.

The three-year progress of national and provincial government towards meeting this requirement is depicted in the following figure at an overall level and per type of auditee, which indicates an overall reduction of 16% in PDO findings.

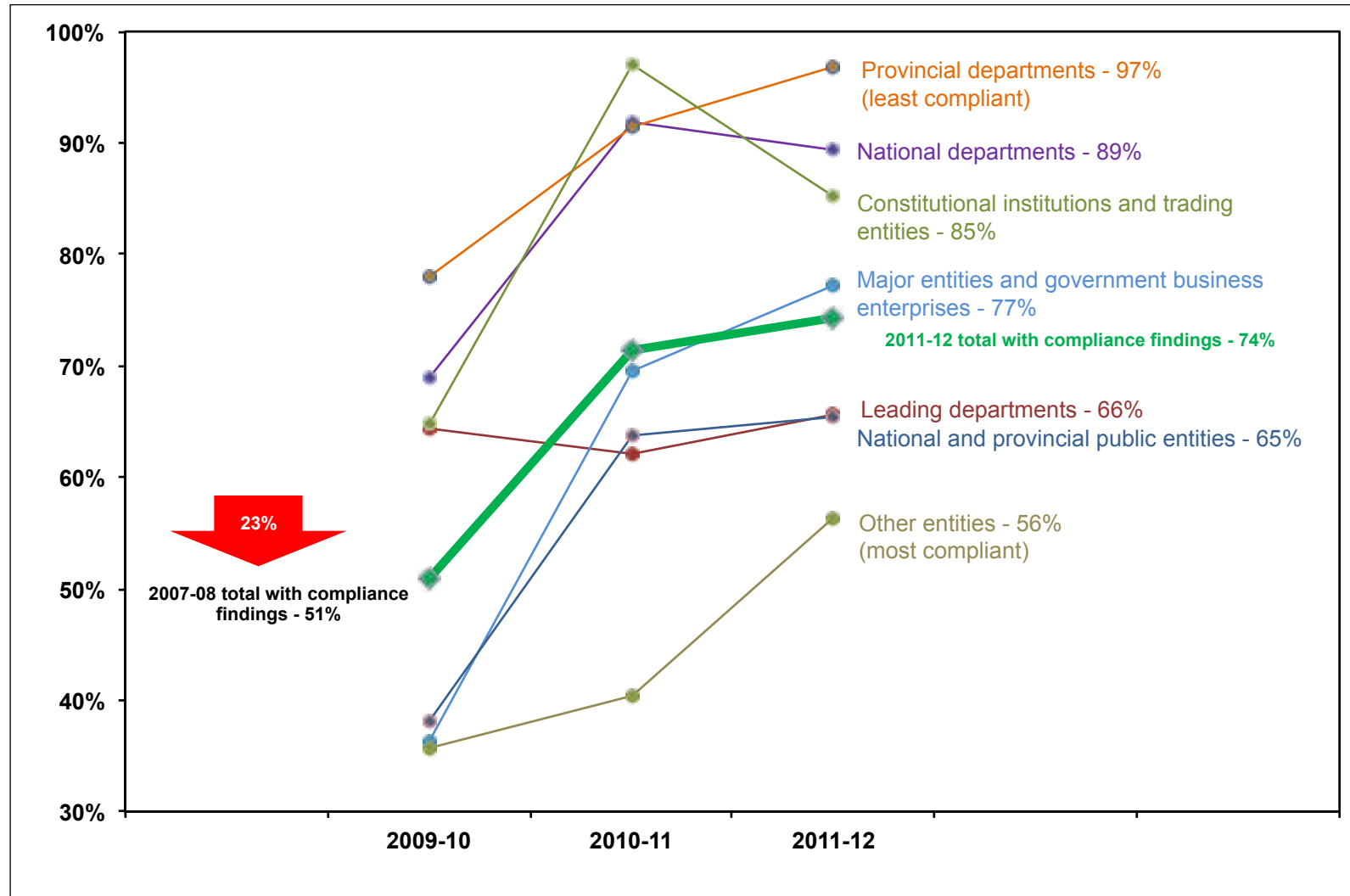
**Figure 4: Three-year progress towards no findings on predetermined objectives**



## 2.1.4 Compliance with key laws and regulations – three-year progress

The audit reports include outcomes of material findings on compliance, which need to be addressed in order to achieve a clean audit opinion. The three-year progress of national and provincial government towards compliance with the key legislation is depicted in the following figure at an overall level and per type of auditee, which indicates an overall regression of 23% in findings on compliance.

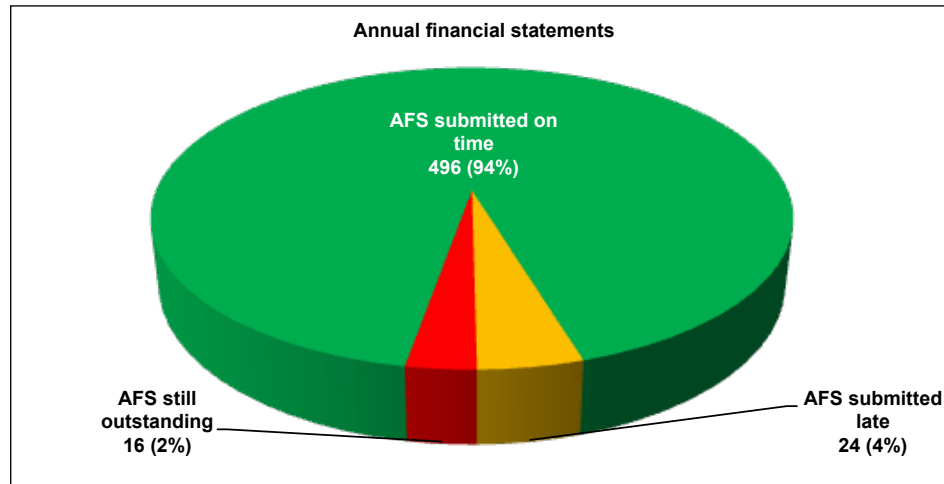
**Figure 5: Three-year progress towards no findings on compliance**



## 2.1.5 Status and outcomes of audits not finalised by 15 October 2012

Timely completion of audits within the legislated timelines is primarily influenced by the date on which the AGSA receives the auditees' financial statements for audit and the efficiency with which the audits proceed until completed. The figure below indicates that a total of 40 (6%) auditees were unable to submit financial statements for audit by 31 May 2012 as required by the PFMA.

**Figure 6: Timeliness of submission of annual financial statements for audit**



Included in the 40 auditees are seven national public entities, one provincial department and 32 provincial public entities. The audits of 12 of the auditees that submitted late were completed by 15 October 2012 and their outcomes are included in this general report.

Between 15 October 2012 and the date of this general report eight further audits were finalised. Their outcomes are not included in the analysis contained in this report.

The following table depicts the audit outcomes for the audits that were finalised between the 15 October 2012 general report cut-off date and the date of this report.

**Table 2: Outcomes of audits finalised after 15 October 2012**

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement from 2010-11 audit opinion
<b>Public entities</b>			
Agribank Creditors Settlement Trust	Financially unqualified with no findings	Financially unqualified with no findings	↔
Agribank	Financially unqualified with findings	Financially unqualified with findings	↔
Atteridgeville Bus Services	Financially unqualified with findings	Qualified	↑
KwaZulu-Natal Business Rehabilitation Trust Fund	Disclaimer	Disclaimer	↔
Mmabana Arts, Culture and Sport Foundation	Qualified	Qualified	↔
North West Star	Financially unqualified with findings	Qualified	↑
North West Transport Investments	Qualified	Qualified	↔
North West Youth Development Trust	Qualified	Financially unqualified with findings	↓

The following table depicts the reasons for the remaining audits being outstanding at the date of this report with an indication of the prior year audit outcomes.

**Table 3: Prior year outcomes of audits outstanding at the date of this report**

Auditee category	Reasons not finalised				Audit outcome of audit last finalised					
	Total	Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	Disclaimer/ Adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Audit outstanding	New auditee
Provincial departments	1	1								1
National public entities	6	4	1	1	2			1	3	
Provincial public entities	16	11	4	1	5	1	1		8	1
Total	23	16	5	2	7	1	1	1	11	2

### 2.1.6 Outcomes of audits not conducted by the AGSA

In terms of section 25(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the Auditor-General elected not to audit 135 public entities, which were permitted to appoint their own auditors in consultation with the AGSA.

These entities are the following:

- Seventy-three higher education institutions, consisting of 23 universities and 50 further education training colleges
- Sixteen major public entities, including Eskom, Denel, South African Airways, Telkom and the SABC

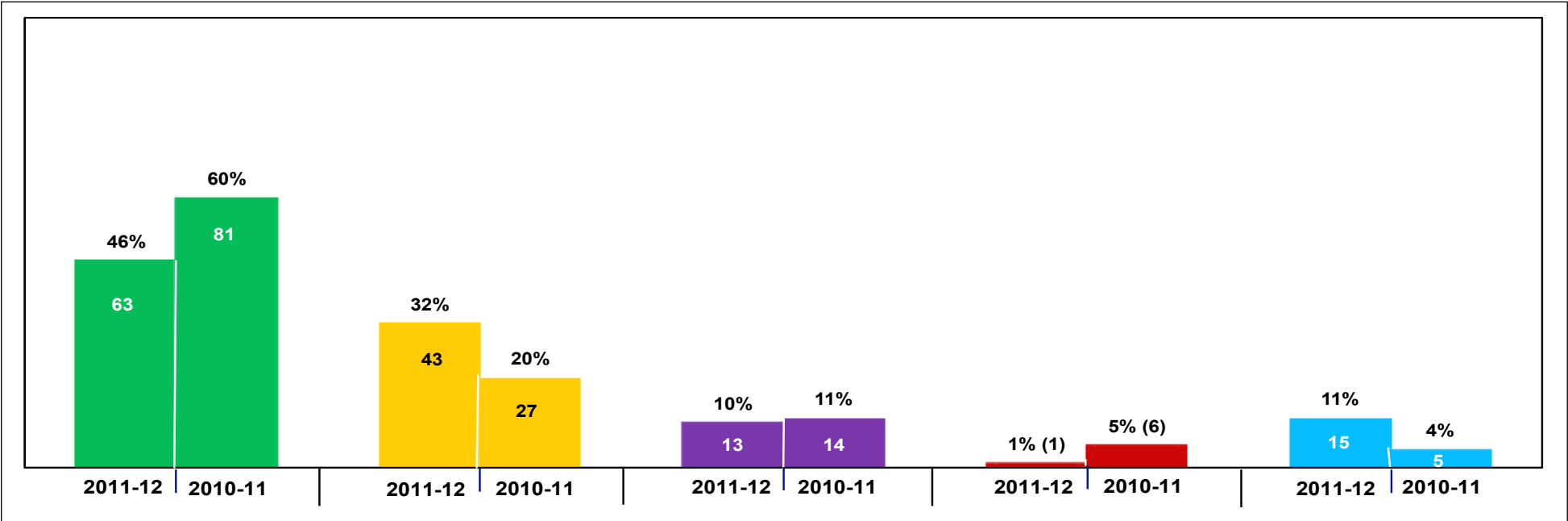
- Eight government business enterprises
- Nine water boards
- Thirty-five national and provincial public entities
- Three other entities (the DBSA – Development Fund, the Academy of Science of South Africa and La Mercy Property Investment) not subject to the PFMA.

The water boards have a June financial year-end which resulted in their audits not being finalised at the time of this report – they are therefore excluded from the analysis that follows.

Their audit outcomes are depicted in the following figures.

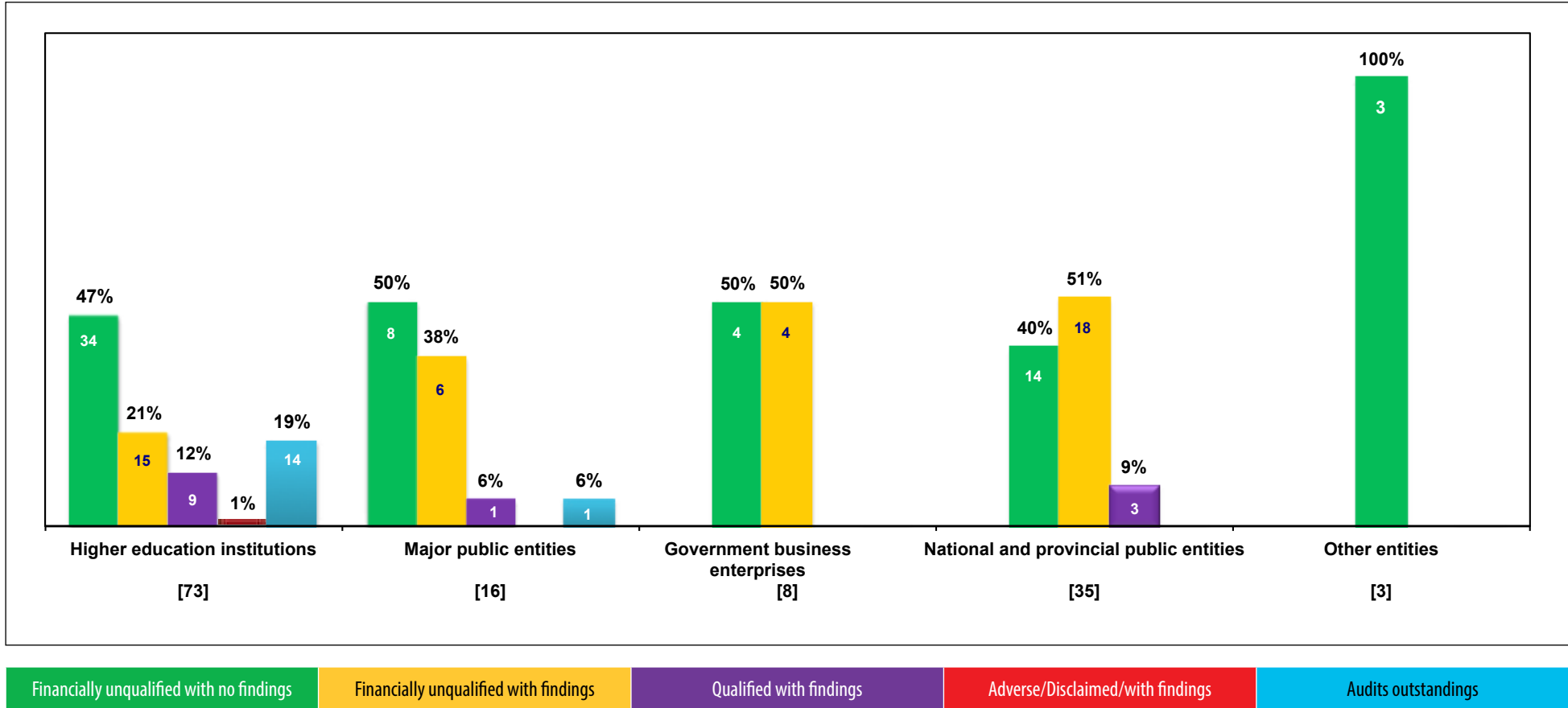
**Figure 7: Summary of audit outcomes – audits not conducted by the AGSA**

100% = 135 entities (2010-11: 100% = 133 entities)



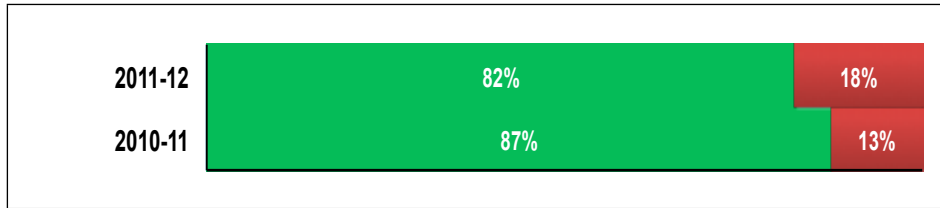
Financially unqualified with no findings    Financially unqualified with findings    Qualified with findings    Adverse/Disclaimed/with findings    Audits outstanding

**Figure 8: Summary of audit outcomes – per entity category of audits not conducted by the AGSA**



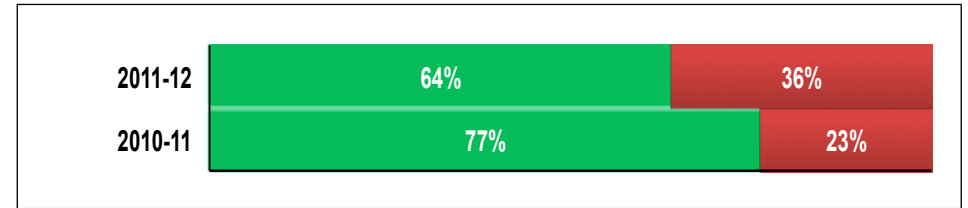
Depicted below is the number of entities (not audited by the AGSA) with material PDO and compliance findings reported on.

**Figure 9: Findings on predetermined objectives – audits not conducted by the AGSA**

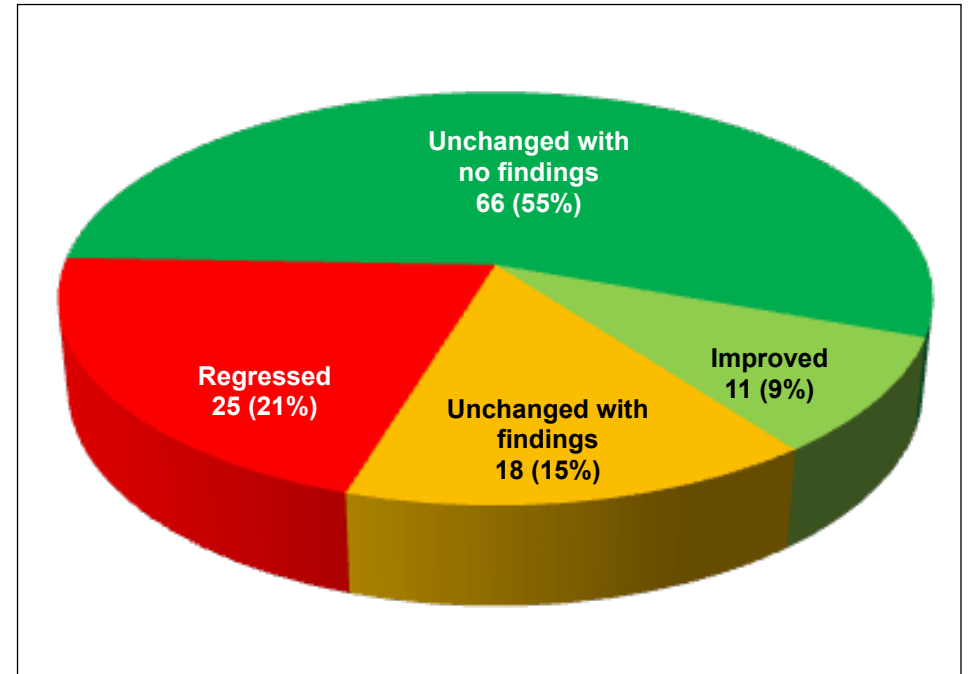
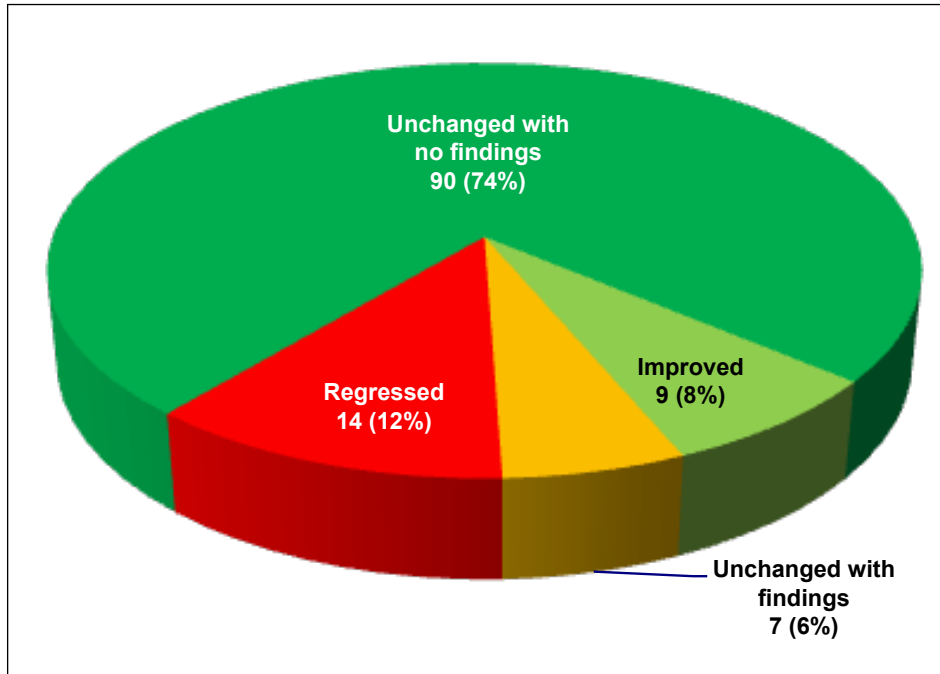


**Movement in number of entities with PDO findings**

**Figure 10: Findings on compliance – audits not conducted by the AGSA**



**Movement in number of entities with compliance findings**



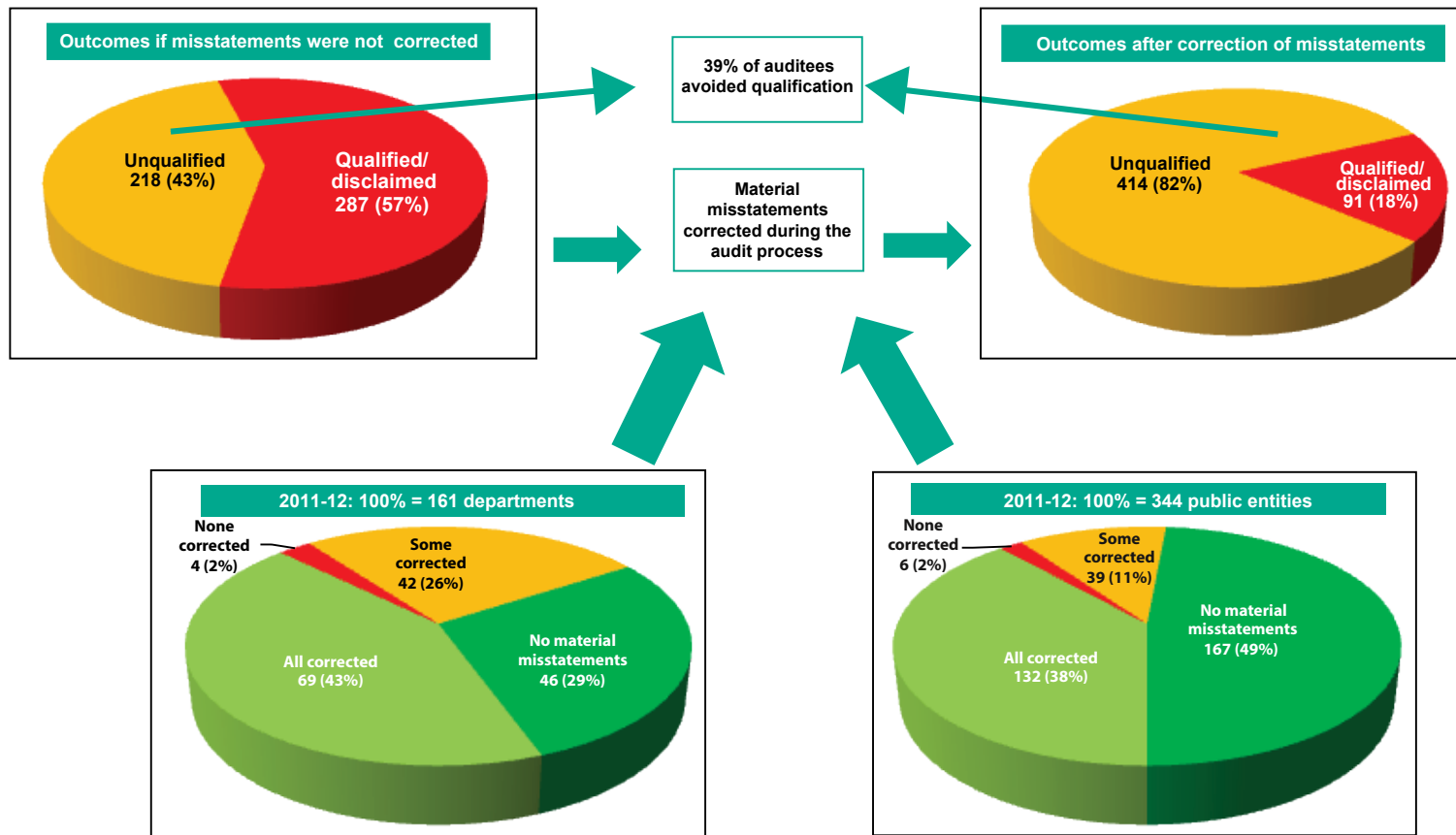
The following overall observations are made on the audit outcomes of entities not audited by the AGSA.

Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little improvement	Poor outcomes/ trends
	Nine entities improved to clean audit reports, which include two higher education institutions, two government business enterprise and five public entities.			
	A total of 23 entities regressed from a clean audit report: 17 to financially unqualified with findings, five to qualified and one to a disclaimer.			
	Fifty-two entities remained clean. These include 32 higher education institutions, eight major public entities, two government business enterprises, nine public entities and one other entity.			
	Twenty-one entities remained financially unqualified with findings for two years, without progressing to a clean audit report.			
	Six entities remained financially qualified. These include three higher education institutions, one major public entity and two public entities.			
	Of the completed audits, only one higher education institution was disclaimed in the 2011-12 financial year.			
	The entities have a lower rate of PDO findings than the AGSA auditees, mainly because the majority of entities not audited by the AGSA have no legislated requirements related to performance planning, monitoring and reporting.			
	Material findings on compliance are reported for these entities but generally also at a lower rate than for AGSA auditees. The reason for this is partly that less legislation is applicable, but also that the auditing and reporting of compliance are not an equally established practice for audits not conducted by the AGSA. However, as a result of the increased focus on compliance audits, a regression occurred in the audit outcomes in this area.			
	Fifteen audits (2010-11: five) are still outstanding. These include 14 higher education institutions, and one major public entity.			

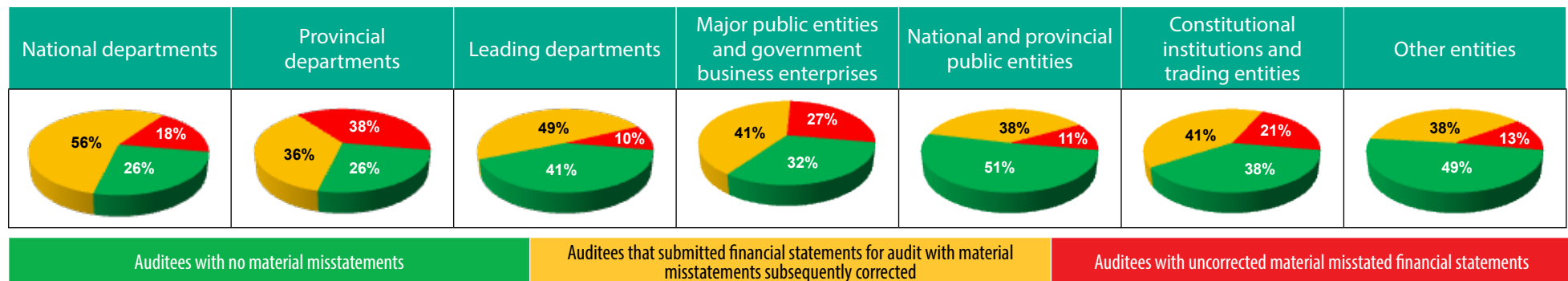


## 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

### 2.2.1 Material misstatements in financial statements (corrected and uncorrected)



24



The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's operations (statement of financial results) and cash flows for the reporting period in accordance with the applicable accounting framework and the requirements of the applicable legislation.

The audit provides the users with assurance on the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not identify any material errors or omissions therein.

### **The quality of financial statements submitted for audit**

The majority of auditees submitted financial statements for audit by the legislated

**Table 4: Financial statement area qualified (misstated)**

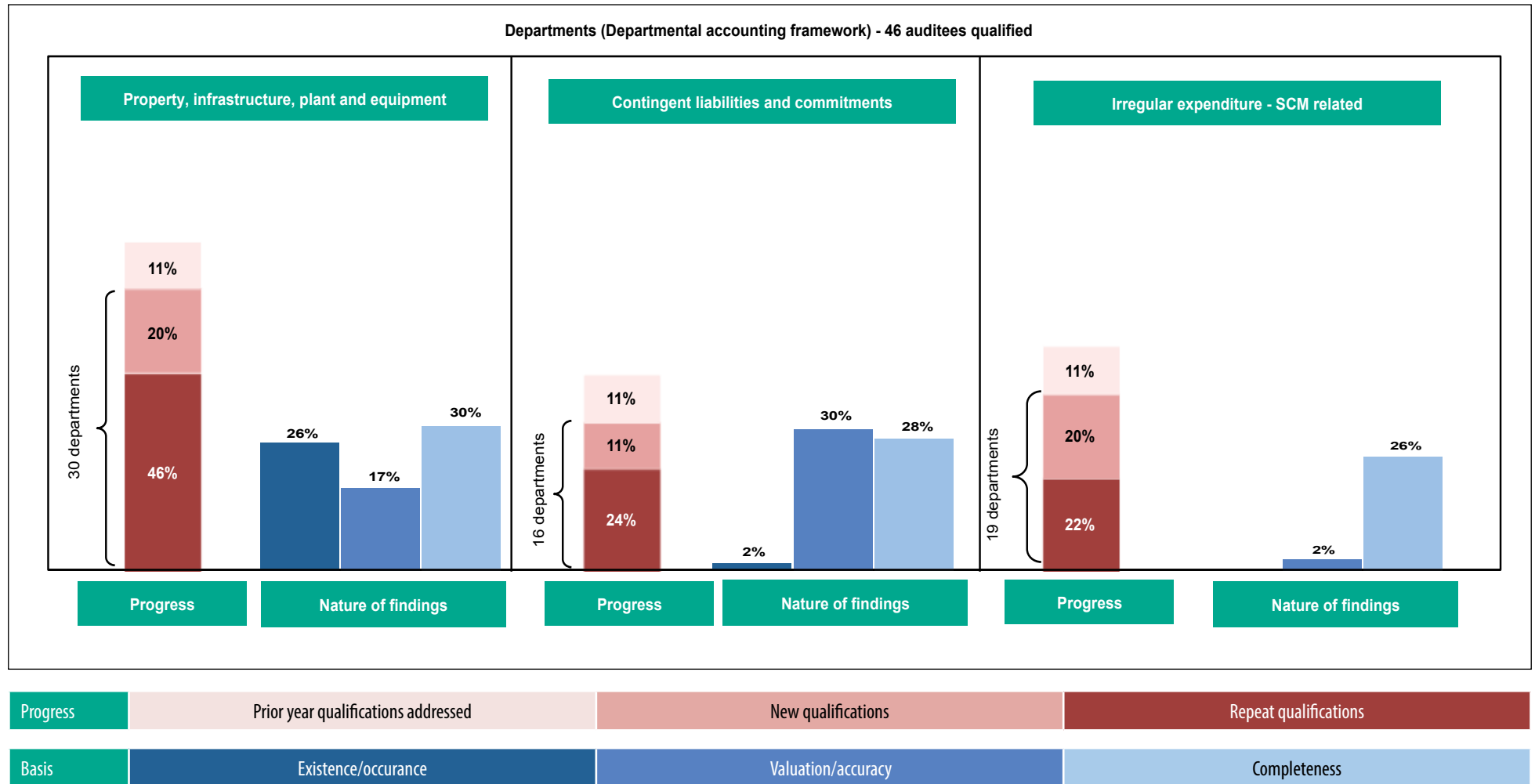
<b>Auditee type</b>	<b>Number of auditees qualified</b>	<b>Property, infrastructure, plant and equipment</b>	<b>Receivables</b>	<b>Payables, accruals and borrowings</b>	<b>Contingent liabilities and commitments</b>	<b>Other disclosures</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Irregular expenditure - Supply chain management</b>	<b>Fruitless and wasteful expenditure</b>
National departments	7	4	1	2	1	3	1	2	2	1
Provincial departments	36	25	13	10	15	8	5	9	16	8
Leading departments	3	1	2	1		2		2	1	
Major public entities and government enterprises	6	3	4	4	3		4	4	3	2
National and provincial public entities	27	8	5	8	5	2	7	7	12	2
Constitutional institutions and trading entities	7	2	5	4	2		4	5	3	1
Other entities	5	3	4	1			3	1		
<b>Total</b>	<b>91</b>	<b>46</b>	<b>34</b>	<b>30</b>	<b>26</b>	<b>15</b>	<b>24</b>	<b>30</b>	<b>37</b>	<b>14</b>
Percentage qualified		<b>51%</b>	<b>37%</b>	<b>33%</b>	<b>29%</b>	<b>16%</b>	<b>26%</b>	<b>33%</b>	<b>41%</b>	<b>15%</b>

deadline of 31 May 2012 but, as **depicted earlier**, only 213 (42%) [2010-11: 269 (53%)] auditees submitted financial statements with no material misstatements. One hundred and ninety-six (39%) [2010-11: 169 (33%)] auditees achieved a financially unqualified audit opinion because they corrected all the misstatements the AGSA identified during the audit.

The inability to produce credible and reliable financial statements is evident across all types of auditees but is most prevalent at departments. The continued reliance on the auditors to identify corrections to be made to the financial statements in order to obtain an unqualified audit opinion is not a sustainable practice as it highlights the lack of adequate financial management disciplines. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

## 2.2.2 Financial statement qualification findings – departments

**Figure 11: Progress on and nature of financial statement qualification findings - departments**



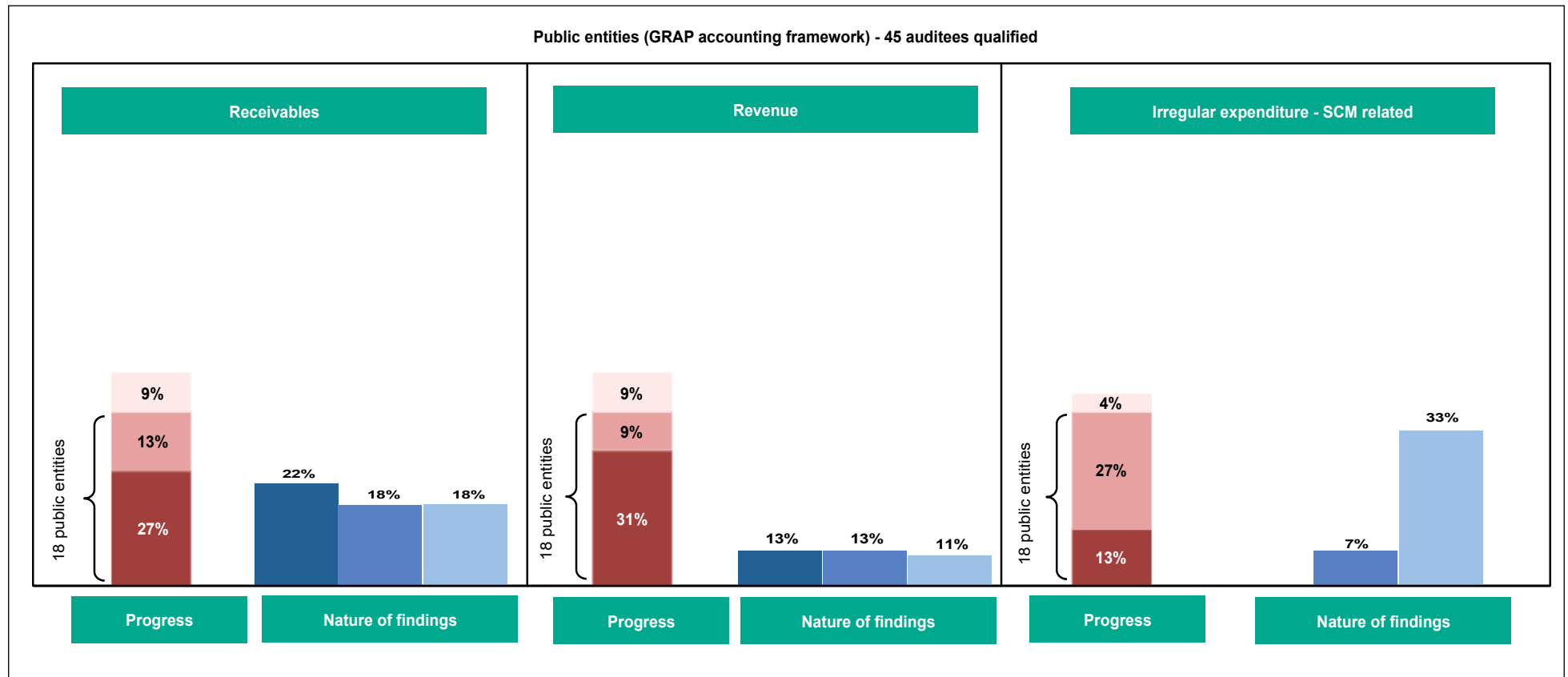
The three most common qualification areas for departments are **depicted earlier** with an indication of the progress made by auditees in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

**Table 5: Common qualification areas**

Qualification area	Basis for qualification	Reason for qualifications
<b>Property, infrastructure, plant and equipment</b>	<b>Completeness</b> of the assets disclosed	<ul style="list-style-type: none"> <li>Asset register does not exist or is incomplete</li> <li>Asset register not updated on timely basis</li> <li>Asset register does not reconcile to the general ledger</li> </ul>
	<b>Valuation</b> of the disclosed assets	<ul style="list-style-type: none"> <li>No/incorrect assessment of impairment</li> <li>Cost cannot be determined</li> </ul>
	<b>Existence</b> of the disclosed assets	<ul style="list-style-type: none"> <li>Assets not identifiable/cannot be physically verified for existence</li> <li>Duplication of assets in the asset register</li> </ul>
<b>Contingent liabilities and commitments</b>	<b>Completeness</b> of items disclosed	<ul style="list-style-type: none"> <li>Inadequate systems and controls over disclosure items</li> <li>Inadequate processes to identify and report items for disclosure in financial statement</li> </ul>
	<b>Valuation/accuracy of amounts</b> disclosed	<ul style="list-style-type: none"> <li>Financial and other information has not been appropriately presented and described and disclosures are not clearly expressed</li> <li>No supporting documents for commitments recorded</li> </ul>
<b>Irregular expenditure—SCM related</b>	<b>Completeness</b> of disclosure of the irregular expenditure resulting from non-compliance with legislation on supply chain management (SCM)	<ul style="list-style-type: none"> <li>Inadequate policies, procedures and controls in place to identify, detect and account for irregular expenditure</li> <li>Procurement documentation not provided to test completeness</li> </ul>
	<b>Valuation</b> - incurred expenditure disclosed at correct amounts	<ul style="list-style-type: none"> <li>Supporting evidence is inadequate or could not be provided</li> </ul>

## 2.2.3 Financial statement qualification findings – public entities

**Figure 12: Progress on and nature of financial statement qualification findings – public entities**



Progress	Prior year qualifications addressed	New qualifications	Repeat qualifications
Basis	Existence/occurrence	Valuation/accuracy	Completeness

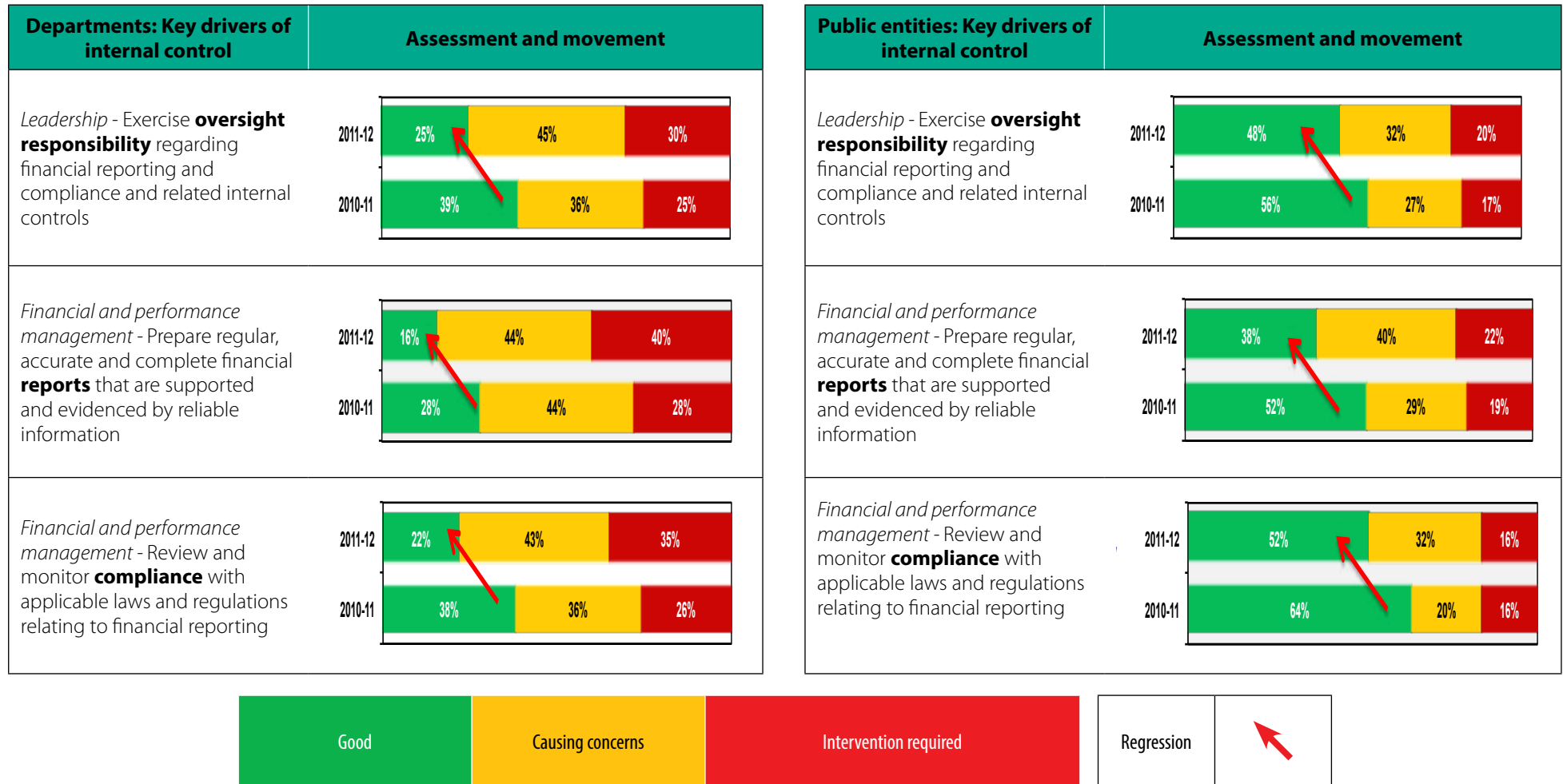
The three most common qualification areas for public entities are **depicted earlier** with an indication of progress made in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

**Table 6: Common qualification areas – public entities**

Qualification area	Basis for qualification	Reason for qualifications
<b>Receivables</b>	<b>Completeness</b> of debtors disclosed	Aged receivables list does not reconcile to the general ledger Not all revenue due to be collected, was billed Lack of adequate financial systems and controls to ensure that all receivables raised were recorded
	<b>Valuation</b> of the disclosed debtors	No interest is charged on long-outstanding debtors Policies and procedures for collection of receivables do not exist or are ineffective
<b>Revenue</b>	<b>Completeness</b> of accounting for revenue received	Lack of adequate financial systems and controls to ensure that all revenue was recorded
	<b>Occurrence</b> - substantiating the disclosed revenue received	No/inadequate documentation to support recorded revenue
<b>Irregular expenditure: SCM related</b>	<b>Completeness</b> of disclosure of the irregular expenditure resulting from non-compliance with legislation on supply chain management (SCM)	Inadequate policies, procedures and controls in place to identify, detect and account for irregular expenditure Procurement documentation not provided to test completeness
	<b>Valuation</b> - incurred expenditure included at correct amounts	Supporting evidence is inadequate or could not be provided

## 2.2.4 Root causes identified and best practice recommendations

**Figure 13: Assessment of key drivers of internal control over financial reporting**



The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of internal control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this consolidated general report.

The figure indicates the significant deficiencies in internal control that require attention from leadership to improve the audit outcomes.

The table that follows summarises the identified root causes that gave rise to the assessment, the recommendations made by the AGSA in the prior year and the additional best practices recommended.

**Table 7: Identified root causes and recommended way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership, monitoring and oversight</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• Inadequate implementation and monitoring of key controls, action plans and commitments by leadership to ensure that identified control deficiencies relating to financial reporting are addressed</li> <li>• Findings and recommendations by internal audit relating to internal control over financial reporting are not always addressed, prioritised and monitored by management</li> <li>• Input from audit committee reviews of financial statements is not always taken into account by management in the preparation of financial statements prior to submission for audit</li> <li>• Lack of stability and ownership by political and administrative leadership to effectively manage and address financial, performance and governance challenges</li> <li>• Initiatives to deliver on commitments have not yet proven to be effective, as not all areas were addressed</li> <li>• Where action plans had been developed, these were not specifically addressing the root causes, were not time bound and were not executed with discipline. Actions were taken too late in the financial year to have a direct impact on the outcomes</li> </ul>
	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>• Leadership and management should actively drive the implementation of action plans to address audit findings</li> <li>• A full verification of all assets should be conducted at least annually and the accounting records adjusted with the results thereof</li> <li>• Internal auditors should validate the correctness of the financial statements</li> <li>• Financial statements should be reviewed by the audit committee prior to submission to the external auditors</li> <li>• Oversight structures need to intensify initiatives to institutionalise sound leadership principles, financial and performance management and governance to achieve clean audit outcomes</li> </ul>



Aspect	Identified root causes and way forward
	<b>Way forward: Additional/new best practices</b>
	<p>Leadership should accept accountability for ensuring credibility of information provided to them through the use and/or establishment of internal audit units</p> <ul style="list-style-type: none"> <li>• Findings and recommendations of internal audit should be effectively addressed by management</li> <li>• Audit committees, with the assistance of internal audit, should place greater focus on the financial statement preparation process to ensure credible financial statements are submitted for audit</li> <li>• Leadership should satisfy themselves that findings raised in the audit reports receive timely and sufficient attention and that specific target dates are set for their achievement</li> </ul>
<b>Credibility of information</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• Compliance with legislation governing financial reporting is not adequately monitored</li> <li>• Adequate controls over daily and monthly processing and reconciling of transactions were not implemented</li> <li>• Inadequate processes to ensure that financial information is obtained from regional or provincial offices and collated and verified in the bigger decentralised departments, which resulted in a number of qualifications</li> </ul>
	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>• Perform monthly general ledger reconciliations</li> </ul>
	<b>Way forward: Additional/new best practices</b>
<ul style="list-style-type: none"> <li>• In preparing quarterly financial statements (inclusive of disclosure notes) for audit committee review, management would allow for material errors to be identified in advance</li> <li>• Adequate controls over daily and monthly processing and reconciling of transactions to be implemented by all auditees</li> <li>• Basic accounting disciplines should become the norm</li> </ul>	
<b>Human resource management</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• Lack of consequences to address poor performance and transgressions</li> <li>• Capacity constraints and vacancies in key positions</li> <li>• Large number of vacancies and officials in acting positions, which limits accountability for actions taken or not taken</li> <li>• Lack of attention to basic accounting and internal controls by CFOs, although skilled in the area</li> </ul>
	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>• Appointment of suitably skilled personnel in critical positions</li> </ul>
	<b>Way forward: Additional/new best practices</b>
<ul style="list-style-type: none"> <li>• Action plans to improve staff performance in relation to financial reporting must specify the desired outcomes, assign responsibilities and set specific target dates</li> <li>• Ongoing training on financial statement preparation due to changes in accounting standards</li> <li>• Policies and procedures should be implemented which reflect the required performance standards and hold individuals accountable for achieving them.</li> </ul>	

## 2.2.5 Outcomes of the audit of consolidated financial statements and revenue funds

The PFMA requires that the National Treasury prepare and publish consolidated annual financial statements in respect of: (i) national departments; (ii) public entities under the ownership control of the national executive; (iii) constitutional institutions; (iv) the South African Reserve Bank; (v) the Auditor-General; and (vi) Parliament, while provincial treasuries have to do so in respect of (i) provincial departments; (ii) public entities under the ownership control of the provincial executive; and (iii) the provincial legislature.

The consolidated financial statements provide information on financial performance as well as national government's ability to meet current and future obligations by presenting the consolidated monetary values of national government (assets, liabilities, revenue and expenditure) which serve as a summary of government's financial resources and their application for the benefit of the people of the Republic of South Africa.

Due to different accounting bases in use for departments and public entities, the treasuries decided that the most suitable interim solution would be to prepare separate consolidations for these two groupings. The public entities consolidation includes trading entities and unlisted public entities, but excludes the water boards, as they have a different year-end, as well as the State Security Agency.

The 2011-12 and prior year audit outcomes of national departments and public entities are depicted next .

**Table 8: Audit opinions on the consolidated financial statements of national department and national public entities**

	National consolidation								
	Departments						Public entities		
	2011-12			2010-11			2011-12		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
<b>National</b>	Qualified	1. No evidence that inter-entity transactions and balances have been eliminated - This affects all classes of transactions and balances	1. Immovable tangible capital assets 2. Irregular expenditure	Qualified	1. No evidence that inter-entity transactions and balances have been eliminated - This affects all classes of transactions and balances	1. Immovable tangible capital assets 2. Movable tangible capital assets 3. Contingent liabilities 4. Fruitless and wasteful expenditure 5. Aggregation of immaterial uncorrected misstatements	Disclaimer	1. Financial reporting framework used not disclosed 2. No evidence could be obtained that accounting framework applied by individual entities was adjusted to Generally Recognised Accounting Practice (GRAP) 3. The consistency of application of accounting policies used in preparation of consolidated financial statements could not be verified 4. Sufficient appropriate evidence could not be obtained that inter-entity transactions and balances were eliminated	1. Trade and other receivables 2. Property, plant and equipment 3. Revenue 4. Operating lease commitments 5. Aggregation of immaterial uncorrected misstatements 6. Irregular expenditure

The audit of the public entities consolidation for 2010-11 was performed based on agreed-upon procedures and consequently no outcomes are presented for that year in this general report.

The legislated date for submission of the consolidated financial statements to the legislature is 31 October. The table below contains the audit outcomes for those provinces where this process had been completed by 31 October 2012.

**Table 9: Audit opinions on the consolidated financial statements of national department and national public entities**

	Consolidation of provincial financial statements					
	Departments			Public entities		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
<b>Eastern Cape</b>	Disclaimer	<ol style="list-style-type: none"> <li>1. Non-elimination of inter-entity balances and transactions</li> <li>2. Accounting framework used by individual entities not adjusted to GRAP</li> <li>3. Financial reporting framework not disclosed</li> </ol>	<ol style="list-style-type: none"> <li>1. Noncurrent assets</li> <li>2. Current assets</li> <li>3. Liabilities</li> <li>4. Other disclosure items</li> <li>5. Revenue</li> <li>6. Expenditure</li> <li>7. Unauthorised, irregular as well as fruitless and wasteful expenditure</li> </ol>	Qualified	<ol style="list-style-type: none"> <li>1. Non-elimination of inter-entity balances and transactions</li> <li>2. Accounting framework used by individual entities not adjusted to GRAP</li> <li>3. Financial reporting framework not disclosed</li> </ol>	<ol style="list-style-type: none"> <li>1. Revenue</li> <li>2. Expenditure</li> </ol>
<b>Free State</b>	Qualified	<ol style="list-style-type: none"> <li>1. Non-elimination of inter-entity balances and transactions</li> <li>2. Accounting framework used by individual entities not adjusted to GRAP</li> <li>3. Financial reporting framework not disclosed</li> </ol>	<ol style="list-style-type: none"> <li>1. Noncurrent assets</li> <li>2. Current assets</li> <li>3. Liabilities</li> <li>4. Other disclosure items</li> <li>5. Revenue</li> <li>6. Expenditure</li> <li>7. Unauthorised, irregular as well as fruitless and wasteful expenditure</li> </ol>	Disclaimer	<ol style="list-style-type: none"> <li>1. Non-elimination of inter-entity balances and transactions</li> <li>2. Accounting framework used by individual entities not adjusted to GRAP</li> <li>3. Financial reporting framework not disclosed</li> </ol>	<ol style="list-style-type: none"> <li>1. Non-current assets</li> <li>2. Liabilities</li> <li>3. Current assets</li> <li>4. Other disclosure items</li> <li>5. Revenue</li> <li>6. Unauthorised, irregular as well as fruitless and wasteful expenditure</li> </ol>

	Consolidation of provincial financial statements					
	Departments			Public entities		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
<b>KwaZulu-Natal</b>	Qualified	<ol style="list-style-type: none"> <li>Late submission of financial statements for audit</li> <li>Consolidated financial statements do not incorporate both departments and public entities</li> </ol>	<ol style="list-style-type: none"> <li>Tangible immovable assets</li> <li>Irregular expenditure</li> <li>Classification of conditional grant expenditure</li> <li>Existence and valuation of employee benefits</li> </ol>	Unqualified	None	None
<b>Mpumalanga</b>	Unqualified	None	None	Disclaimer	<ol style="list-style-type: none"> <li>Non-elimination of inter-entity balances and transactions</li> <li>Accounting framework used by individual entities not adjusted to GRAP</li> <li>Financial reporting framework not disclosed</li> </ol>	<ol style="list-style-type: none"> <li>Biological assets</li> <li>Investment property</li> <li>Investment property</li> <li>Property, plant and equipment</li> <li>Other financial assets</li> <li>Trade and other receivables</li> <li>Non-current assets held for transfer</li> <li>Trade and other payables</li> <li>Provisions</li> <li>Operating expenses</li> <li>Revenue</li> </ol>

The provincial consolidated financial statements of departments and public entities were only subject to an agreed-upon procedures engagement in prior years and thus no outcomes are presented for the 2010-11 financial year.

The audits of the consolidated departmental and public entity financial statements of Gauteng, North West, Northern Cape and Western Cape have not been completed for the 2011-12 financial year. The consolidated financial statements for Limpopo had not been submitted for the 2011-12 and 2010-11 financial years.

### ***Root causes of qualified, disclaimed consolidated financial statements***

The root cause of the findings on the consolidation is that sufficient group-wide controls were not implemented to ensure that the consolidation process addresses the requirements for consolidations concerning the elimination of inter-entity balances and transactions and, in the case of the consolidation of the public entities, the added requirement of ensuring that all entities consolidated have prepared their financial statements using the same accounting policies as those disclosed in the consolidated financial statements.

These issues, as well as the uncorrected misstatements in the individual department or public entity's financial statements which are material to the consolidated financial statements, impact the audit outcomes of the consolidated financial statements.

### ***Audit opinion on the financial statements at revenue funds***

In terms of the Treasury Regulations, financial statements have to be prepared for the national and provincial revenue funds. There is no legislated date for this, however, as they are included in the consolidated financial statements for departments and the legislated date for the submission of these financial statements for audit is 30 June, which can be assumed as being the deadline for their submission to the AGSA. There is no legislated requirement for these financial statements and the audit reports thereon to be submitted to the legislature and in most instances they are not.

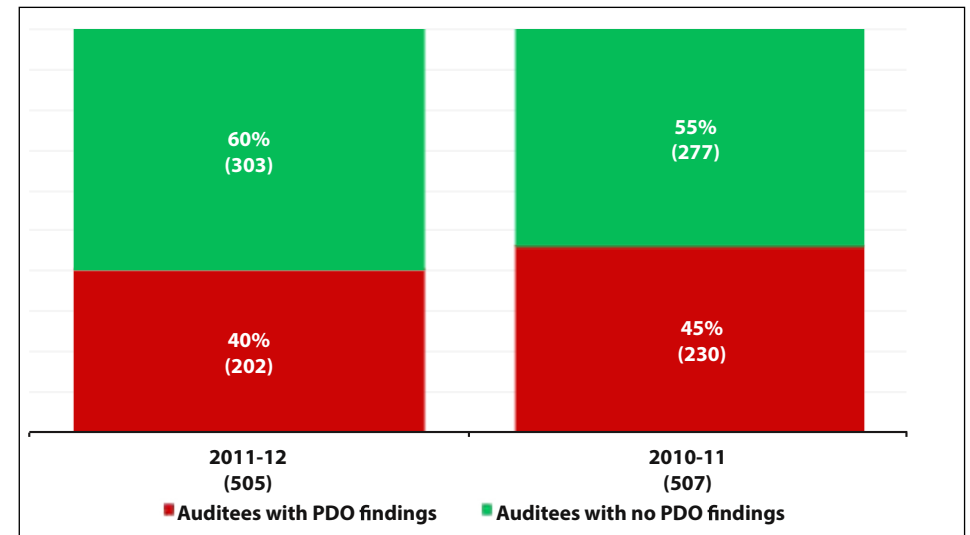
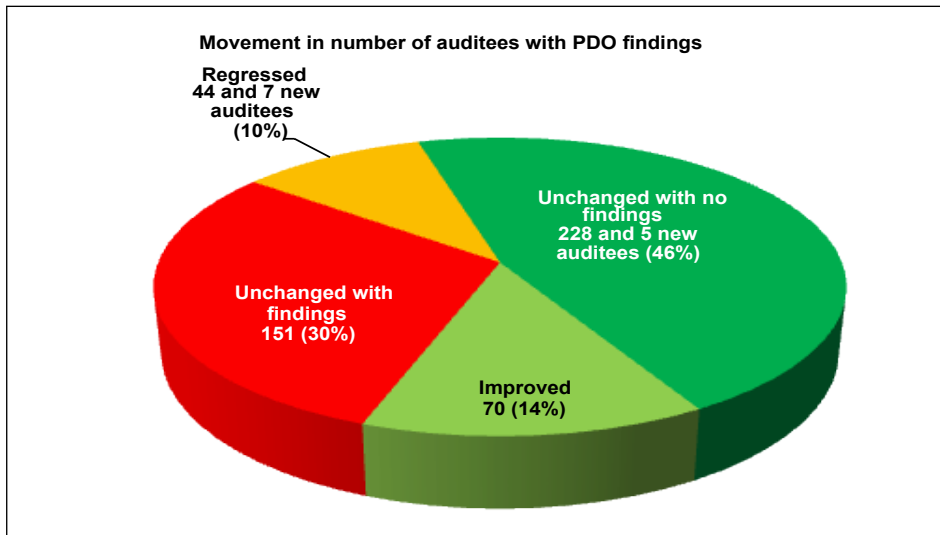
As at 31 October 2012, the following revenue funds were financially unqualified: National, Eastern Cape, Free State, Gauteng, Mpumalanga and Western Cape. The audit of the KwaZulu-Natal revenue fund was finalised in February 2013 and the financial statements were financially unqualified with no findings. The audit of the Northern Cape revenue fund had not been completed at the date of this report. The financial statements of the Limpopo and North West revenue funds for the 2011-12 financial year have not yet been received. The 2010-11 financial statements of the Limpopo revenue fund had not been received at the date of this report.

### ***Commitments from National Treasury***

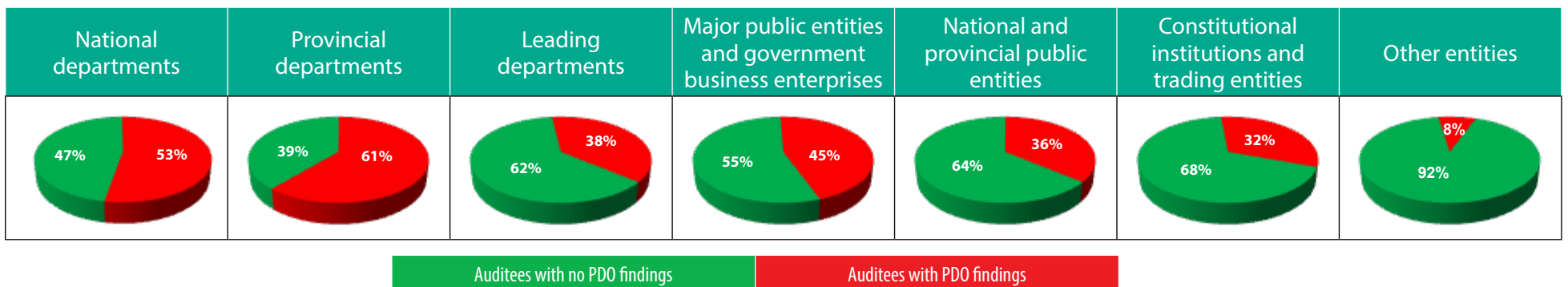
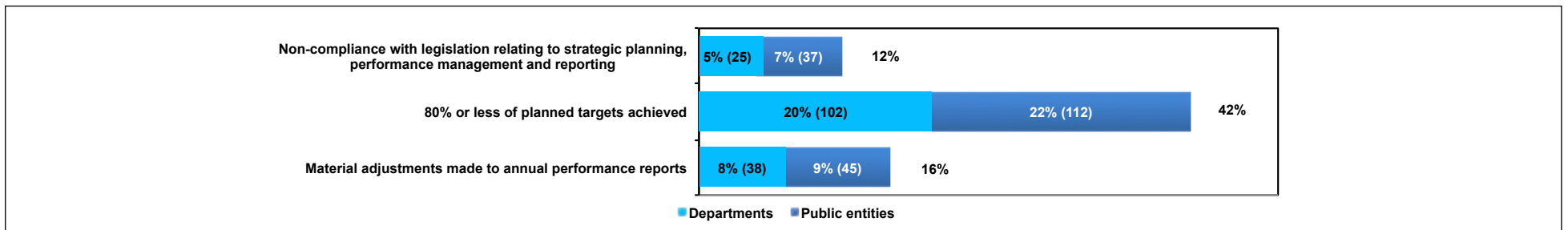
The National Treasury undertook to attend to the requirements of the consolidation process and to reconsider the accounting framework for the revenue funds to consistently and reliably account for state debt at national level.

## 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

### 2.3.1 Overall outcomes from the audit of reporting on predetermined objectives



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The Public Audit Act (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. Not all public entities are subject to this requirement.

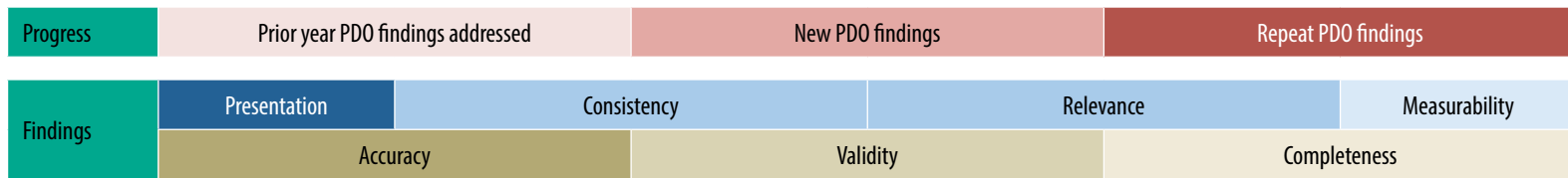
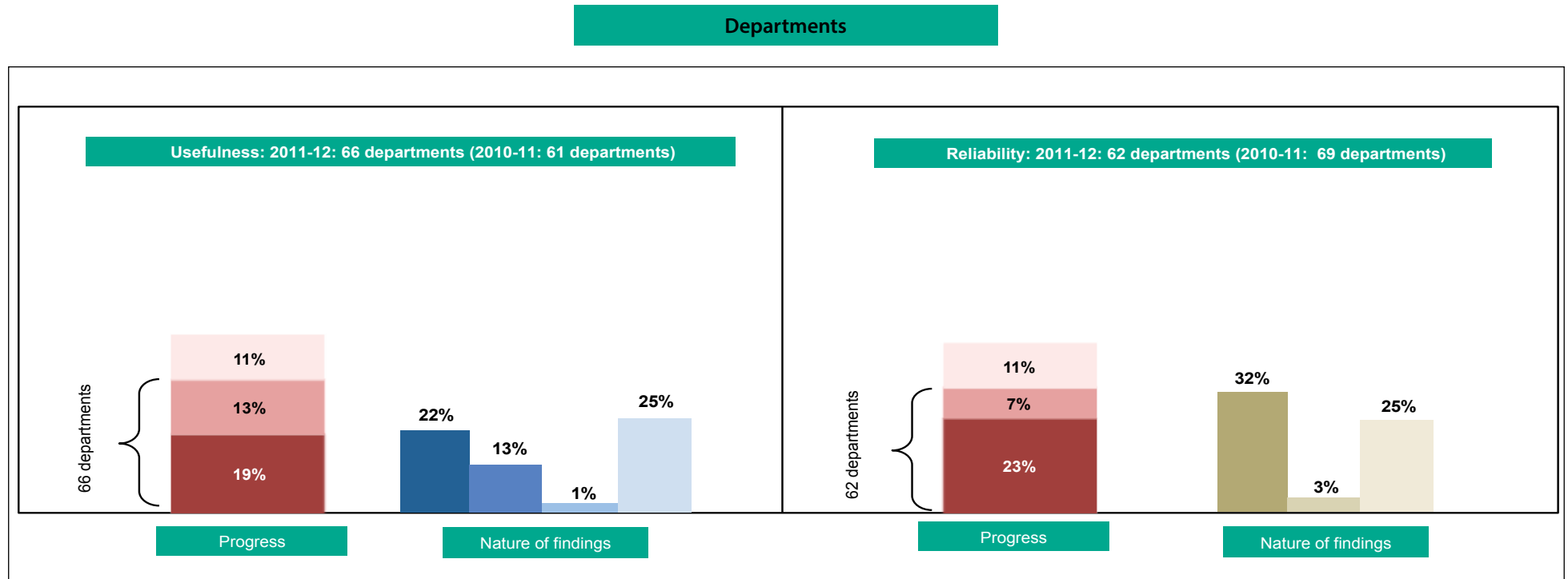
**As depicted in the figure** are the overall audit outcomes which show an overall improvement in the number of auditees that had no PDO findings. Reporting of PDOs remains a challenge for departments and mostly also for provincial departments. Notable findings arising from the audits are presented below.

Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/ trends
	There have been significant increases in the number of auditees without PDO findings for national departments (from 13 to 19), constitutional institutions and trading entities (from 13 to 23) and other entities (from 36 to 31).			
	Only 10 auditees did not prepare annual performance reports.			
	Sixty-two (12%) auditees had material findings on non-compliance with legislation relating to strategic planning, performance management and reporting. The most prevalent of these findings relate to lack of effective, efficient and transparent systems of internal control regarding reporting on PDOs.			
	It was reported in the audit reports of 214 (42%) auditees that 80% or fewer planned targets were fully achieved as disclosed in their annual performance reports. "Fully achieved" refers to the planned target being 100% achieved.			
	The 44 auditees that regressed included one national department, seven leading departments, nine provincial departments, 14 national public entities and 13 provincial public entities. The number of leading departments with no PDO findings decreased overall from 21 to 18, with four improvements and seven regressions. Three provincial treasuries, two offices of the Premier and two provincial legislatures attracted PDO findings.			
	A total of 83 (16%) auditees submitted annual performance reports that contained material misstatements in one or more areas. Forty-one (8%) auditees 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. Reliance on auditors to identify corrections to be made to the annual performance reports is a practice that should be discouraged.			

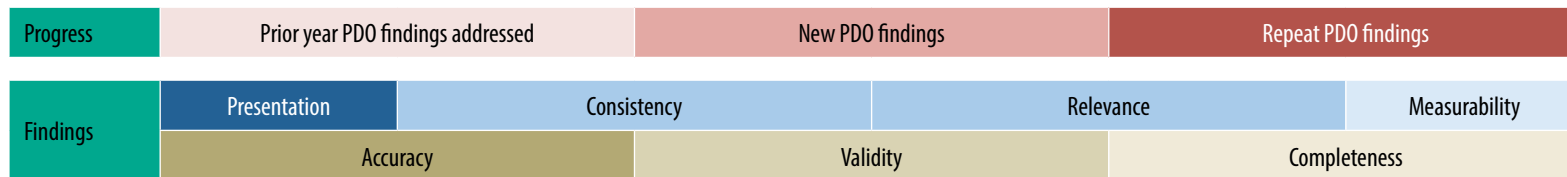
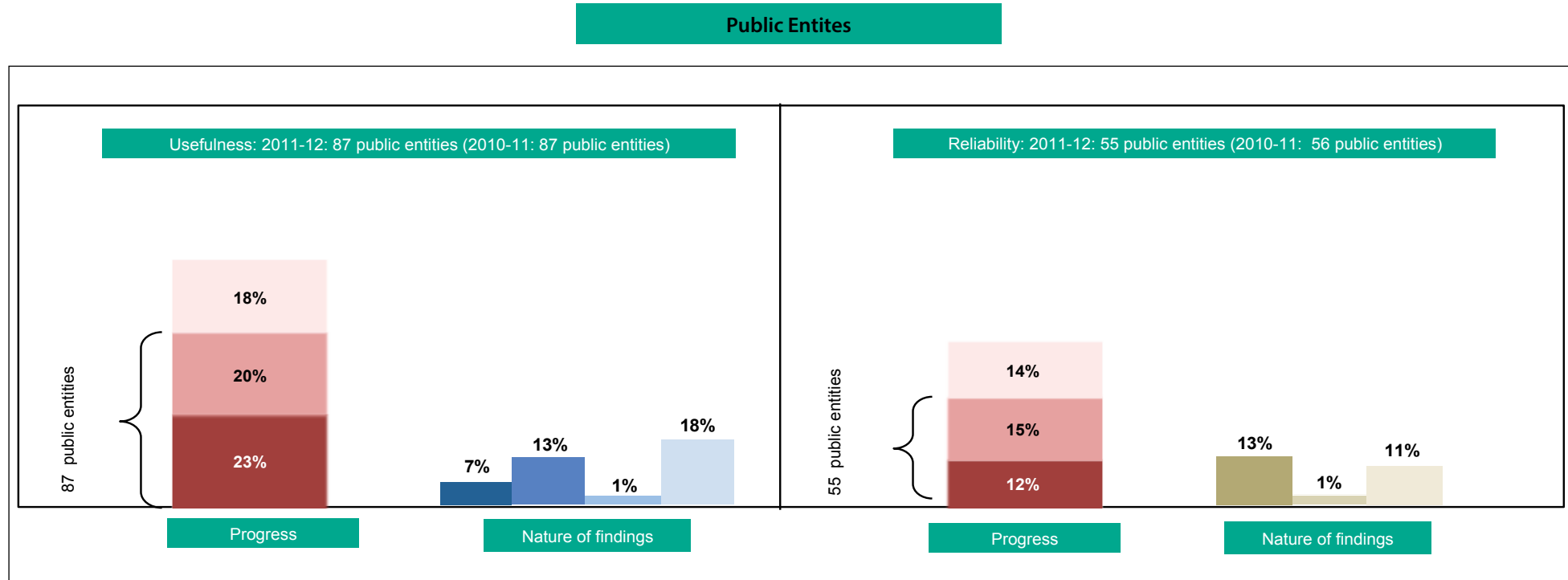


### 2.3.2 Findings on predetermined objectives

**Figure 14: Progress on and nature of findings on predetermined objectives – departments**



**Figure 15: Progress on and nature of findings on predetermined objectives – public entities**



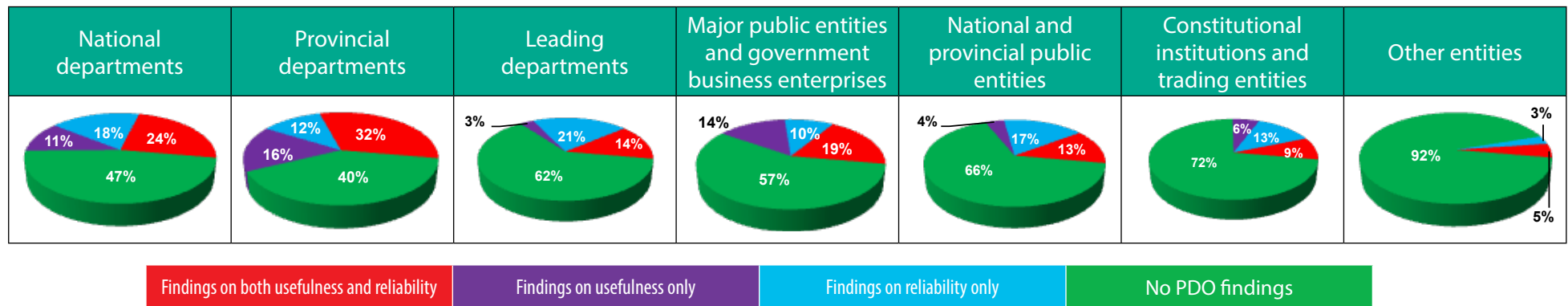
Progress made by auditees in addressing prior year findings and the nature of current year audit findings are **depicted in figure 15**.

The **usefulness** of reported information is measured against the criteria of presentation, consistency, measurability and relevance. The information contained in the performance reports of 153 (30%) [2010-11: 148 (29%)] auditees was not useful.

Findings on **reliability** relate to whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source data, evidence or documentation. The information contained in the performance reports of 117 (23%) [2010-11: 125 (25%)] auditees was not reliable.

The prevalence of findings at the different types of auditees and the most prevalent types of findings are depicted in the figure and table below.

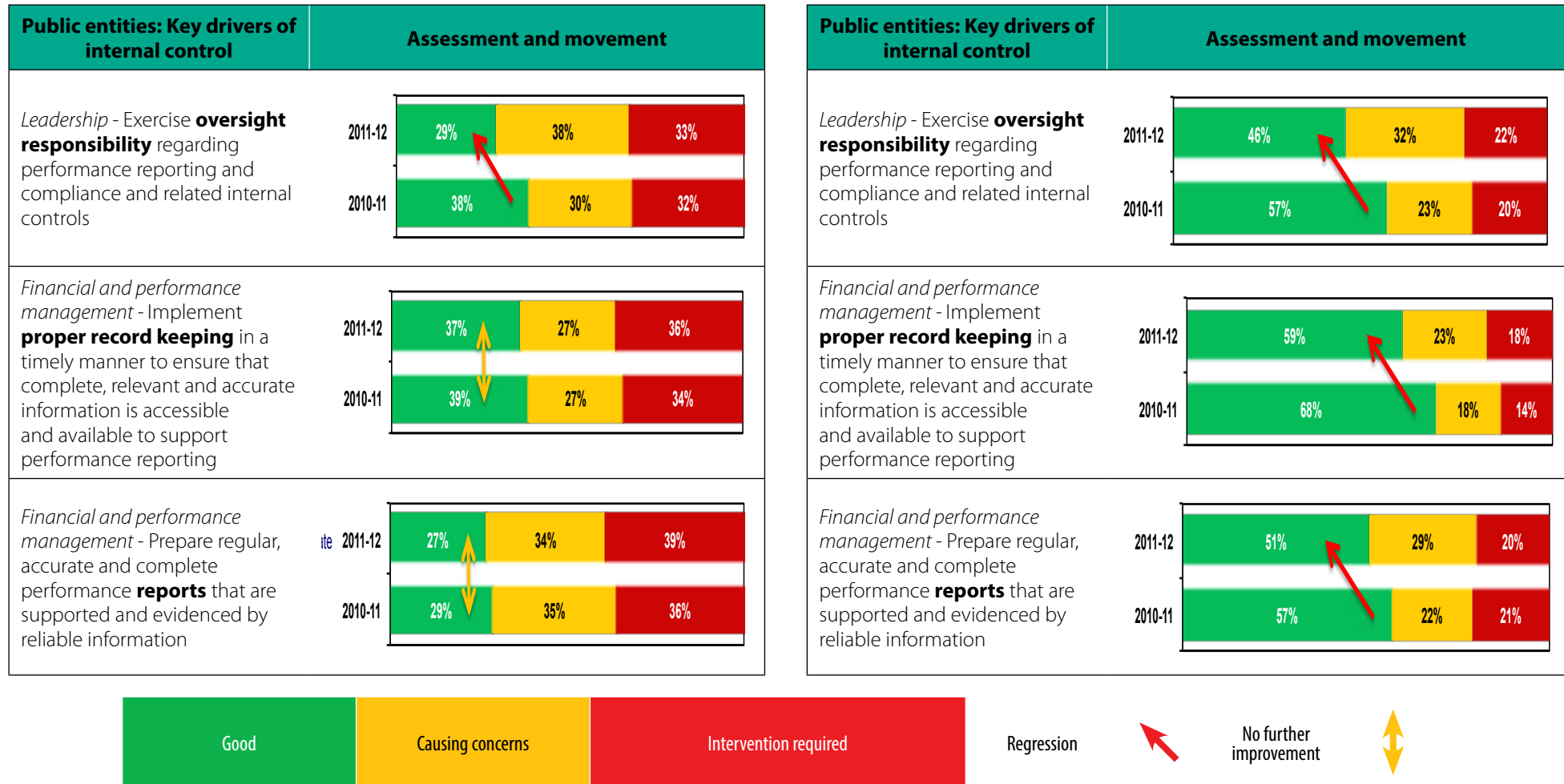
**Figure 16: Prevalence of findings on predetermined objectives**



Category of PDO findings	Most prevalent types of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>The indicators/measures were not well defined to ensure that performance data will be collected consistently and be easy to understand and use</li> <li>Changes to planned performance information were not approved</li> <li>Performance targets were not specific and/or measurable to ensure that the required performance can be measured</li> </ul>
<b>Reported information not reliable</b>	<ul style="list-style-type: none"> <li>Supporting information for reported performance information not complete</li> <li>Reported performance information not accurate when compared to supporting information</li> <li>Reported performance information not valid when compared to supporting information.</li> </ul>

### 2.3.3 Root causes and best practice recommendations

**Figure 17: Assessment of key drivers of internal control over predetermined objectives**



A complete assessment of other drivers of internal control is provided in section 3 of this consolidated general report.

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this consolidated general report.

**Figure 17** indicates the significant deficiencies in the internal control that require attention from leadership to improve the audit outcomes.

The table that follows summarises the root causes that gave rise to the assessment, the recommendations made by the AGSA in the prior year and the additional best practices recommended.

**Table 10: Identified root causes and recommended way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Planning, oversight and monitoring</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• National and provincial oversight institutions did not provide timely guidance on performance information planning, management and reporting to departments.</li> <li>• Leadership did not prioritise the development of performance objectives, indicators and targets that are necessary to achieve the mandate of the auditee</li> <li>• National and provincial oversight institutions did not assist auditees to address under-performance by recommending corrective action and monitoring the implementation thereof.</li> <li>• The performance oversight powers and functions of national and provincial oversight institutions were not legislated.</li> <li>• Risks relating to PDO reporting were not included in the risk management strategies of all provincial departments and public entities. As a result, the governance structures did not pay sufficient attention to PDO reporting.</li> <li>• Lack of understanding and implementation of the fundamental principles as per the National Treasury FMPPI. Monitoring of performance reporting is not embedded in the auditees' reporting processes or controls.</li> <li>• Internal performance management policies and procedures do not exist or were not adhered to.</li> <li>• The required level of review of the quarterly reports by management, internal audit units and the audit committees of auditees was not prioritised, resulting in new and repeat findings.</li> </ul>

Aspect	Identified root causes and way forward
<b>Planning, oversight and monitoring (continued)</b>	<ul style="list-style-type: none"> <li>Indicators and targets were not suitably designed during the strategic planning process.</li> <li>No or limited corrective action was taken to address deficiencies in the development of performance objectives, indicators and targets.</li> <li>The link between budgets and performance objectives was not clear, which resulted in findings.</li> <li>Internal audit units did not ensure compliance with PDO requirements.</li> <li>A lack of adequate quarterly reviews and reporting by internal audit as well as audit committees contributed to some of the PDO findings.</li> </ul>
	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>Quarterly reports should be reviewed to identify variances in order to facilitate corrective action at an early stage.</li> <li>The content of the strategic and annual performance plan must form the basis for the information reported in the annual performance report.</li> <li>Internal audit should attest to the validity, accuracy and completeness of reported information.</li> <li>Audit committees should review quarterly reports and track progress to identify deficiencies in the processes of ensuring accurate information for reporting purposes.</li> </ul>
	<b>Way forward: Additional/new best practices</b>
	<ul style="list-style-type: none"> <li>Auditees should integrate performance reporting into the regular financial reporting routines. This will also ensure that there are sufficient controls to address the gaps that are created by treating the performance reporting as an event rather than a continuous process.</li> <li>Auditees should develop and implement internal performance management policies and procedures.</li> </ul>

Aspect	Identified root causes and way forward
<b>Planning, oversight and monitoring (continued)</b>	<ul style="list-style-type: none"> <li>Indicators and targets in the annual performance plan should be carefully designed to ensure specific and clear measures of planned service delivery.</li> <li>A rigorous review of the targets must be undertaken to ensure that there are adequate available resources that are under the control of the entity and that targets are achievable within the set time frames.</li> <li>Workshops must be held to assist management in setting relevant targets that are measurable and verifiable, as well as determining ways to measure targets and to provide supporting information for these.</li> <li>The link between budgets and performance objectives should be strengthened.</li> <li>Auditees should develop action plans to address under-performance and continuously monitor the implementation thereof.</li> <li>The performance oversight functions/responsibilities of national and provincial oversight institutions should be legislated.</li> <li>National and provincial oversight institutions should provide timely guidance on performance information planning, management and reporting to departments.</li> <li>Risks relating to PDO reporting should be included in annual internal audit coverage plans and findings resulting from such reviews should be responded to by management in a timely manner.</li> <li>Entities must include PDOs as part of the risk assessment and identification process for governance structures to pay specific attention to PDO reporting.</li> <li>Internal audit should be used during the planning phase to ensure that strategic and annual performance plans meet the planning framework requirements prior to the approval of the plans.</li> <li>Audit committees need to better utilise the internal audit units to ensure compliance with PDO reporting requirements.</li> </ul>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p style="text-align: center;"><b>Root causes</b></p> <ul style="list-style-type: none"> <li>• The evidentiary obligations and processes required to collect, collate and report information (by senior management) on actual performance are not adequately considered during the planning process.</li> <li>• A lack of policies and procedures to address an integrated performance management process.</li> <li>• Roles and responsibilities in the performance management process were not formally allocated.</li> <li>• A lack of systems (manual or computerised) and processes to ensure that actual reported performance is reconciled to supporting documentation and reviewed and approved by designated officials.</li> </ul>
	<p style="text-align: center;"><b>Way forward: Prior year AGSA recommendations</b></p> <ul style="list-style-type: none"> <li>• Systems need to be implemented, whether manual or automated, to capture and report on performance-related data.</li> <li>• Policies and procedures must be developed to guide auditees on the requirements for performance planning, monitoring and reporting.</li> </ul>
	<p style="text-align: center;"><b>Way forward: Additional/new best practices</b></p> <ul style="list-style-type: none"> <li>• Leadership should align their reporting systems to the service delivery requirements contained in the planning documents.</li> <li>• Leadership should formally allocate roles and responsibilities in the performance management process to specific officials.</li> <li>• Implementation of adequate manual or computerised systems for identifying, collecting, collating, verifying and storing information.</li> <li>• Integration of performance information structures and systems within existing management processes and systems must be explored.</li> </ul>

Aspect	Identified root causes and way forward
<b>Proper record keeping</b>	<p style="text-align: center;"><b>Root causes</b></p> <ul style="list-style-type: none"> <li>• Adequate document management systems were not put in place to ensure that evidence could be easily accessed and retrieved in support of actual reported information.</li> <li>• Lack of guidance by national sector departments to provincial sector departments on performance information to be maintained.</li> </ul>
	<p style="text-align: center;"><b>Way forward: Prior year AGSA recommendations</b></p> <ul style="list-style-type: none"> <li>• Documentation controls such as proper filing systems should be implemented.</li> <li>• National sector departments should provide more guidance to their provincial counterparts on the extent and scope of performance information-related records to be maintained for record keeping.</li> </ul>
	<p style="text-align: center;"><b>Way forward: Additional/new best practices</b></p> <ul style="list-style-type: none"> <li>• Adequate document management systems need to be put in place to ensure that supporting evidence is collected, collated and readily available to substantiate reported PDOs.</li> </ul>

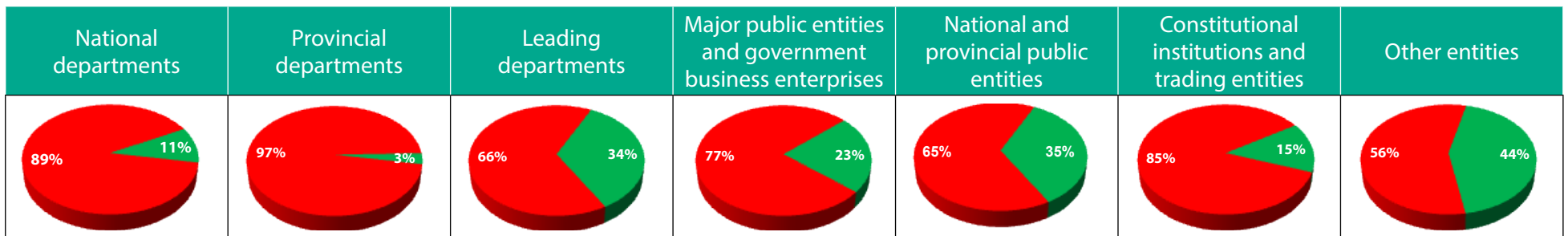
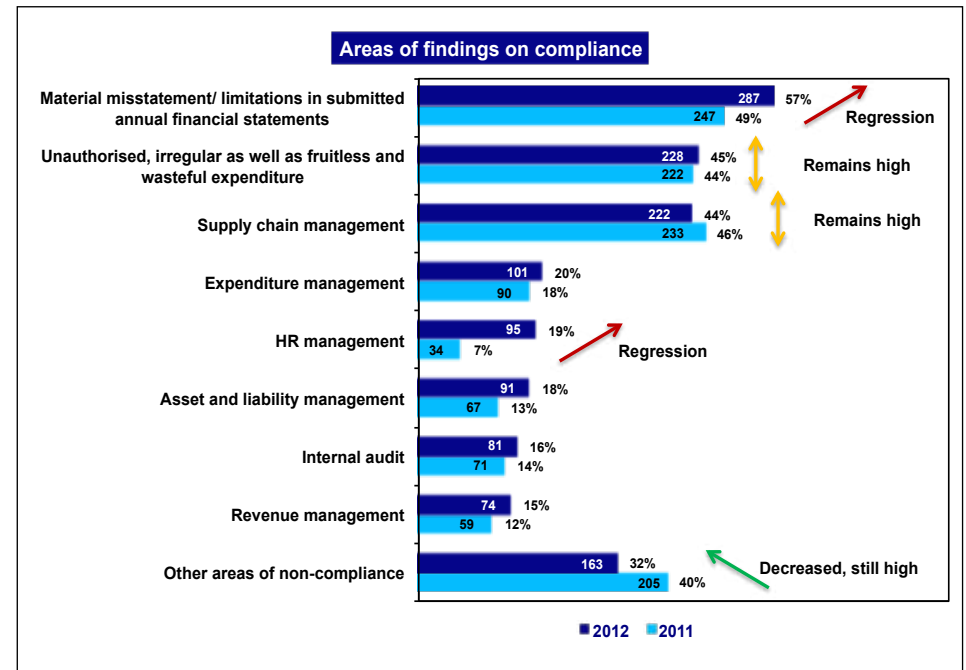
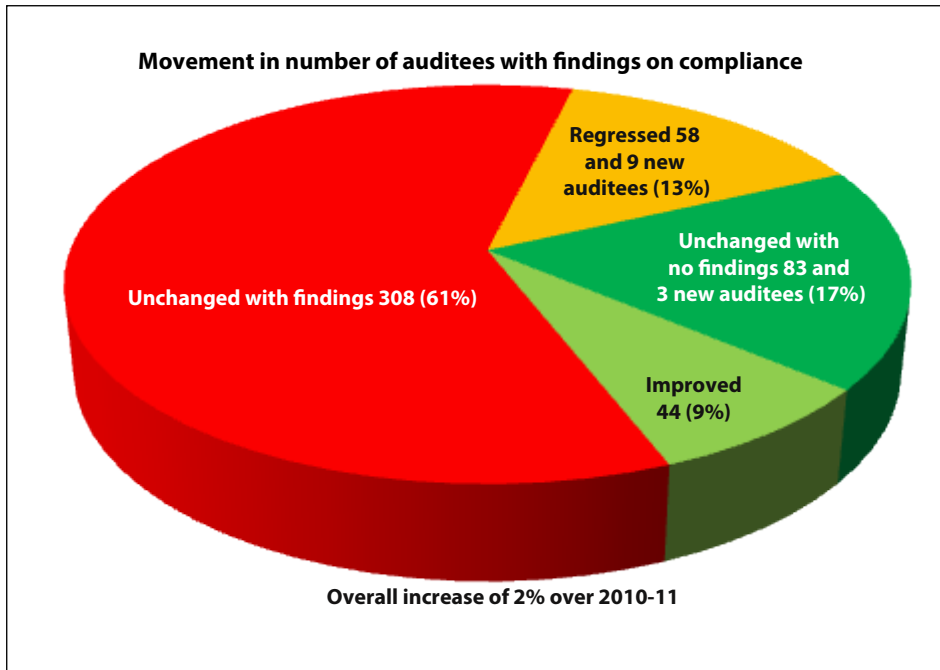
Aspect	Identified root causes and way forward
<b>Human resource management</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• Capacity constraints exist in certain performance information units due to capacity needs not having been determined and vacancies in key positions.</li> <li>• Performance management staff was not trained in the requirements relating to reporting.</li> <li>• There are still officials who have an insufficient understanding of PDO requirements, and therefore do not collect, verify, safeguard and submit the relevant source documentation when required by audit.</li> <li>• Accounting officers and staff were not held accountable for under-performance.</li> <li>• Under-performance by auditees and their staff is also not always addressed in a timely manner through quarterly and mid-year performance reviews and subsequent corrective action to ensure that all shortcomings are addressed.</li> </ul>
	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>• National Treasury should provide more detailed guidance/training to auditees on the process of setting targets and indicators.</li> </ul>

Aspect	Identified root causes and way forward
<b>Human resource management</b>	<b>Way forward: Additional/new best practices</b>
	<ul style="list-style-type: none"> <li>• Leadership should ensure that sufficient and skilled capacity is put in place to manage and report on performance.</li> <li>• Auditees should designate staff for the collection of performance information and the reporting thereof. These officials should receive training to improve their understanding of the performance information processes and requirements.</li> <li>• Accounting officers and staff must be held accountable for ensuring the reliability of performance information through an effective employee performance management system and corrective action (where required) must be agreed on and adequately monitored.</li> </ul>



## 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

### 2.4.1 Overall outcomes from the audit of compliance with laws and regulations



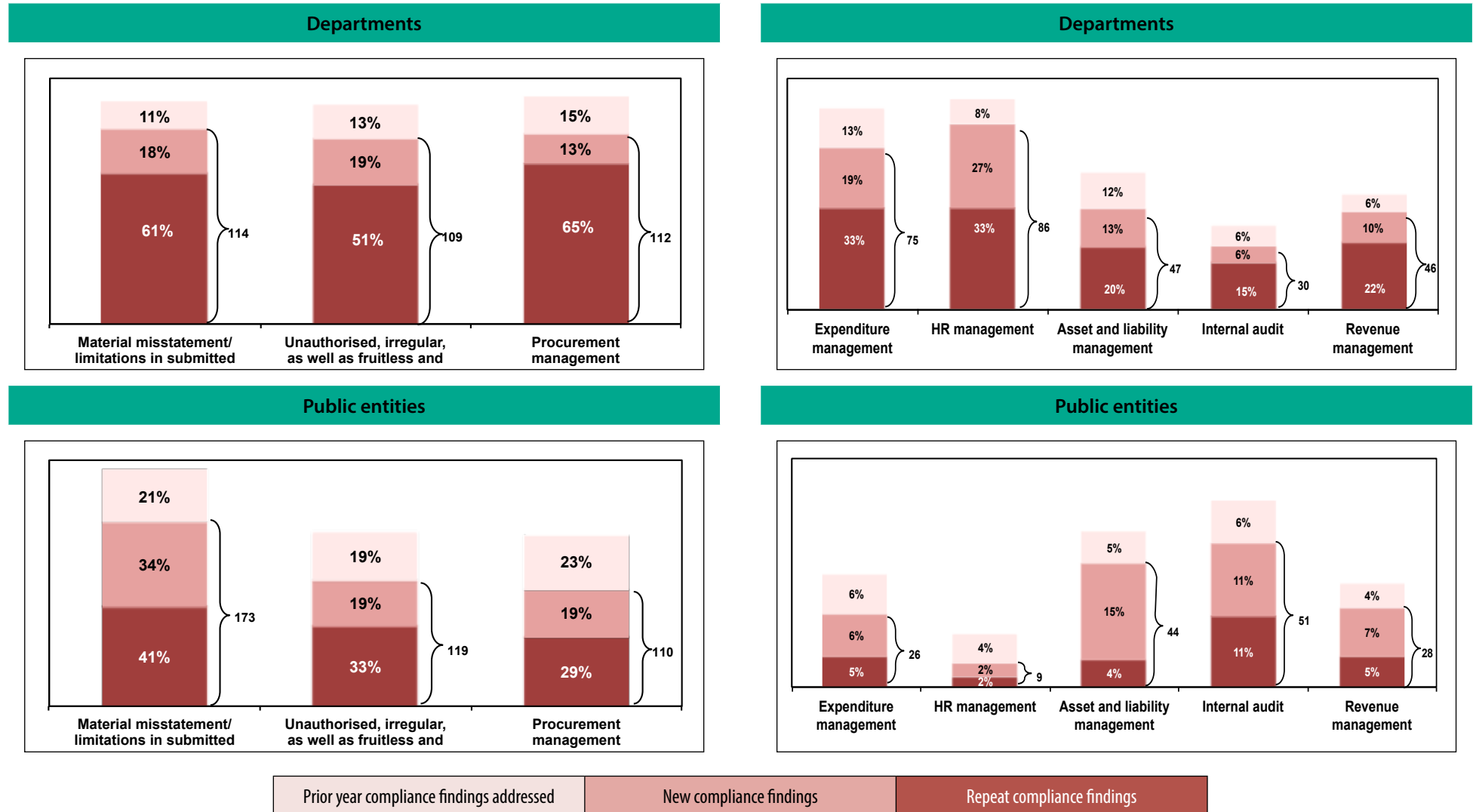
The PAA requires the AGSA to audit compliance with laws and regulations applicable to financial matters, financial management and other related matters on an annual basis. The compliance audit was limited to the following focus areas: • Material misstatements in submitted annual financial statements • asset and liability management • audit committees • budget management • expenditure management • prevention of unauthorised, irregular as well as fruitless and wasteful expenditure • financial misconduct • internal audit • revenue management • strategic planning and performance management • transfer of funds and conditional grants • procurement and contract management (supply chain management) • human resource management and compensation.

**Depicted in 2.4.1** are the overall outcomes from the audits which show an overall increase in the number of auditees that had findings on compliance. Notable outcomes and trends arising from the audits are presented below

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Material findings on compliance were reported for 375 (74%) auditees [2010-11: 360 (71%)].		
	Only 40 auditees addressed their prior year findings on compliance (including three leading departments). Seventy-two (14%) auditees regressed (12% of which are public entities).		
	The highest prevalence is among provincial departments – 97%. Findings on compliance ranged from 71% (Western Cape) to 100% (Eastern Cape, Limpopo, North West and Northern Cape).		
	Only four national departments did not have findings on compliance and the leading departments that were able to set the example in the provinces were limited to four provincial treasuries (Mpumalanga, Free State, KwaZulu-Natal and Western Cape), three Premier’s offices (Mpumalanga, Free State and Gauteng) and three legislatures (Mpumalanga, Free State and Western Cape).		
	Fifty-seven per cent of auditees had findings on one or more of the top three areas of non-compliance, namely (i) material misstatements in submitted financial statements, (ii) unauthorised, irregular as well as fruitless and wasteful expenditure, and (iii) supply chain management (SCM).		
	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).		
	Twenty-seven per cent of auditees (76) with findings on compliance had findings in one AGSA focus area only, while 15% of auditees (44) with findings on compliance had findings on material misstatements in submitted annual financial statements only.		
	Findings on compliance relating to SCM remained at a high level. The significant findings that were reported in the audit reports include three written quotations and/or competitive bids not being invited and/or deviations not justified and preference point system not applied.		
	Other findings on compliance show further regression, with the most significant being in the area of HR management.		
For auditees whose financial statements were financially unqualified, <b>other areas of findings on compliance include</b> strategic planning and performance management - 52 auditees (12%) [2010-11: 114 (23%)]; budgets - 40 auditees (8%) [2010-11: 34 (7%)]; financial misconduct - 25 auditees (5%) [2010-11: 16 (3%)] and transfers and conditional grants - 35 auditees (7%) [2010-11: 30 (6%)].			

## 2.4.2 Findings on compliance with laws and regulations

**Figure 18: Common areas of findings on compliance with laws and regulations**



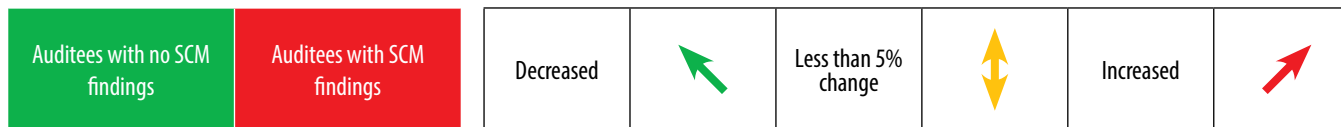
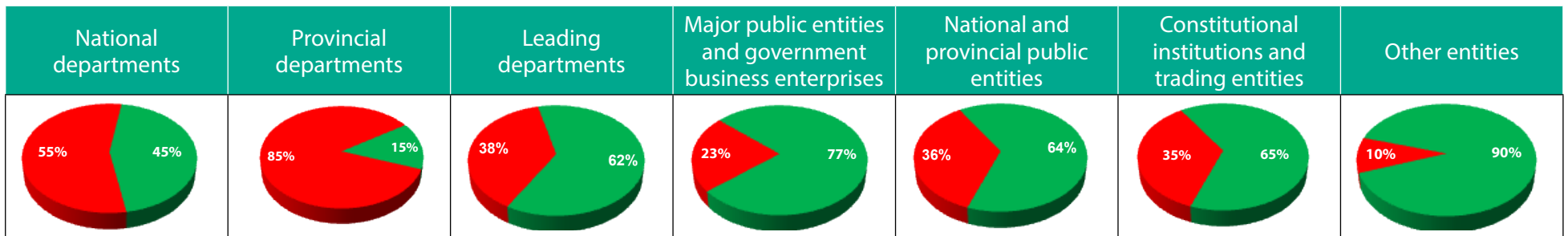
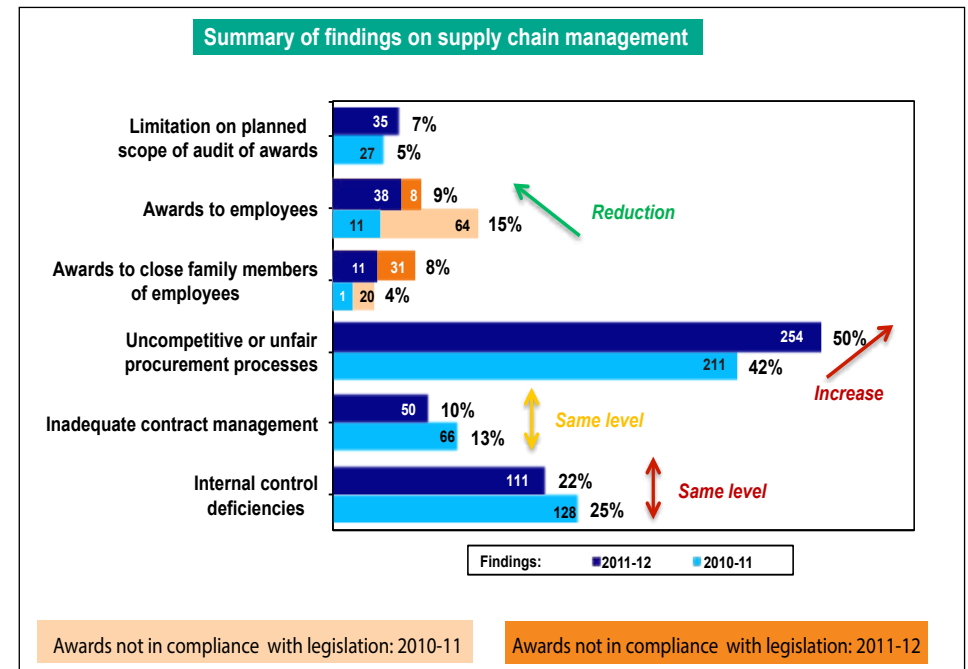
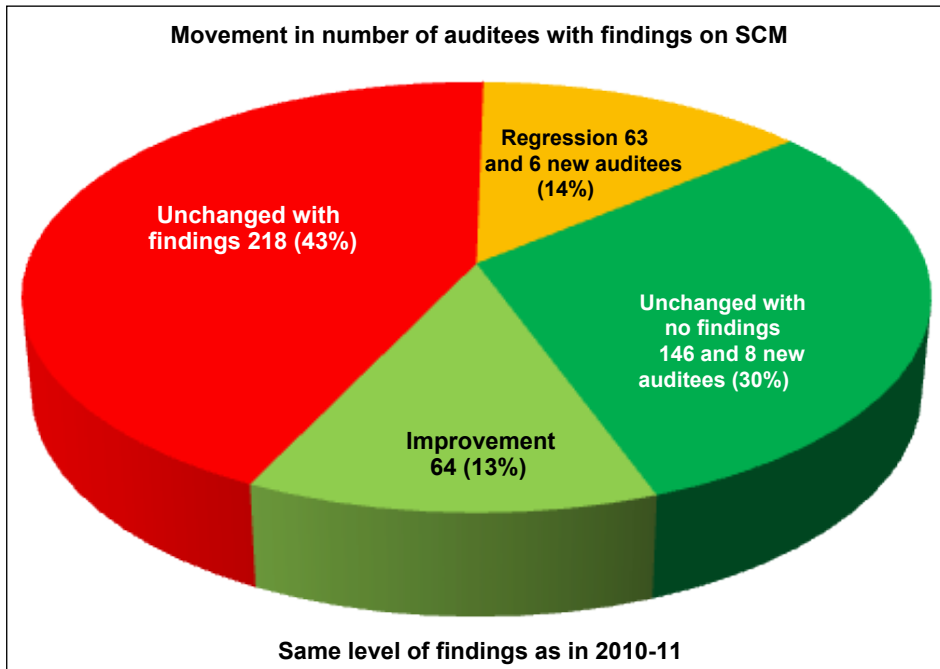
**Figure 18** shows progress (or lack thereof) made by auditees to address prior year findings on compliance.

The extent and impact of material misstatement/limitations in annual financial statements submitted for audit are analysed in section 2.2. Findings on procurement management are detailed in section 2.4.3 and the extent and nature of unauthorised, irregular, as well as fruitless and wasteful expenditure in section 2.4.4. HR management findings are analysed in section 3.2. Details on the nature of the most prevalent findings in other areas of non-compliance per type of auditee are provided below.

**Table 11: Summarised findings in other areas of non-compliance**

Nature of other areas of non-compliance per type of auditee									
<b>Expenditure management – 101 auditees (20%)</b>				<b>Asset and liability management – 91 auditees (18%)</b>					
	<ul style="list-style-type: none"> <li>• Payments to creditors not made within 30 days from receipt of an invoice [92 (18%) auditees]</li> <li>• Ineffective system of internal control over expenditure [17 (3%) auditees]</li> <li>• Expenditure incurred without approval by a delegated official [9 (2%) auditees]</li> </ul>				<ul style="list-style-type: none"> <li>• Proper control systems not implemented for safeguarding and maintenance of assets [71 (14%) auditees]</li> <li>• Bank reconciliations not performed on a daily/weekly basis [27 (5%) auditees]</li> </ul>				
<b>Internal audit – 81 auditees (16%)</b>				<b>Revenue management – 74 auditees (14%)</b>					
	<ul style="list-style-type: none"> <li>• No internal audit function in place [43 (9%) auditees]</li> <li>• No internal audit evaluation and/or recommendations on reliability and integrity of financial and operational information [34 (7%) auditees]</li> <li>• No internal audit evaluation and/or recommendations on compliance findings [26 (5%) auditees]</li> <li>• Internal audit findings are further analysed in section 3.4.</li> </ul>				<ul style="list-style-type: none"> <li>• Effective and appropriate steps not taken to timeously collect all revenue due [59 (12%) auditees]</li> <li>• Appropriate processes not in place for identification, collection, recording, reconciliation and safeguarding of information about revenue [17 (3%) auditees]</li> <li>• Interest on debts owed to the state is not charged at the rate determined by Minister of Finance [12 (2%) auditees].</li> </ul>				
<table border="1" style="width: 100%; text-align: center;"> <tr> <td style="width: 15%;">Auditees with findings:</td> <td style="width: 20%;">National departments</td> <td style="width: 20%;">Provincial departments</td> <td style="width: 20%;">Leading departments</td> <td style="width: 25%;">Public entities</td> </tr> </table>					Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities
Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities					

### 2.4.3 Findings arising from the audit of supply chain management



The AGSA audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. Contracts awarded and price quotations accepted (referred to as “awards” in the remaining sections of this report) to the value of R96 406 million were tested.

**The previous figure** presents the movements in the number of auditees with SCM findings, the prevalence of SCM findings across the different types of auditees and a summary of SCM findings, with a comparison to the audit results of the 2010-11 financial year.

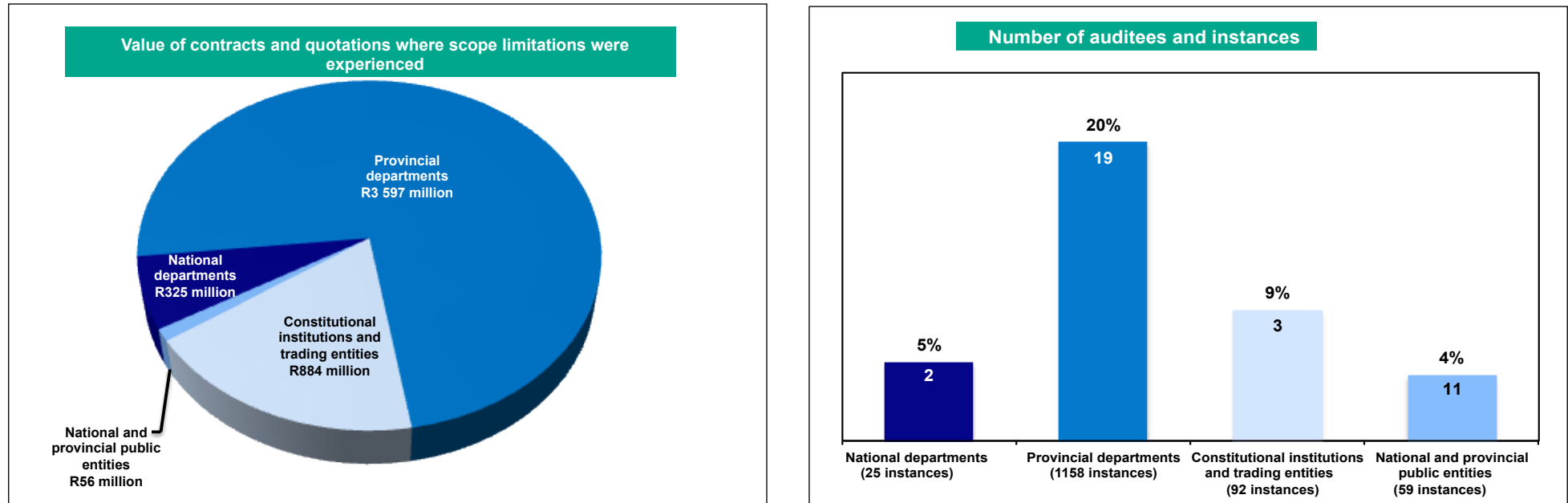
Although the auditees in the categories of major public entities, government business enterprises and other entities appear to have the best SCM audit outcomes, it must be noted that they are not subject to the Treasury Regulations on SCM. A number of these auditees are also dormant and/or do limited procurement. Key outcomes and trends are provided in the table below, followed by further analysis of the SCM findings.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Findings on SCM were reported in the management reports of 287 (57%) [2010-11: 282 (58%)] of the auditees, while at 222 (44%) [2010-11: 228 (47%)] auditees the findings were material enough to warrant reporting thereof in the auditor’s report. At an overall level there has been no improvement as the number of auditees that improved is the same as those that regressed.		
	Awards to the value of R4 862 million that were selected for audit could not be audited due to the required information or documentation not being made available by auditees. These limitations could further impact on the extent of identified irregularities and SCM weaknesses.		
	The 30% auditees that had no findings in the current or prior year included 11 departments and leading departments, four of the major public entities and government business enterprises, 107 smaller national and provincial public entities and 32 other entities.		
	The 64 auditees that improved their SCM audit outcomes comprise three national departments, four leading departments, eight provincial departments, five major public entities and government enterprises, 37 national and provincial public entities, five constitutional institutions and trading entities and two other entities.		
	Of the 154 auditees that again had no SCM findings, nine are provincial departments, two are national departments and 143 are national and provincial public entities. New auditees that had no SCM findings are included in the 154 auditees.		
	Findings on uncompetitive and unfair procurement processes remain the most prevalent and the number of auditees with these findings continues to increase. The other categories of findings remained largely at the same level.		

## Limitations on planned scope of the audit of awards

Limitations of R4 862 million were experienced at 35 (7%) auditees where sufficient appropriate audit evidence could not be obtained that awards selected for audit had been made in compliance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for these limitations is that supporting documentation is not made available for auditing. The figures below show the extent of limitations and the types of auditees where they are most prevalent.

**Figure 19: Limitations experienced on planned scope of the audit of awards**



Key outcomes and trends are provided in the table below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	The contract and quotation value of limitations experienced increased by R1,5 billion (44%) and limitations were encountered at three more auditees than was the case in the 2010-11 financial year.		
	The number of identified contracts and quotations decreased by 161 (11%) over 2010-11 from 1 495 to 1 334.		
	Limitations on planned scope of the audit of awards were experienced at 35 auditees (7%) compared to 27 auditees (6%) in the previous year. eight auditees (30%) regressed, with the most significant increases in this regard were recorded at provincial departments [(four auditees (27%)] and at other entities [five auditees (83%)].		
	<p>Provincial departments account for 74% of the value of contracts and quotations that could not be audited, 54% of the auditees and 87% of the instances of limitations experienced.</p> <p>The value of the limitations experienced at provincial departments increased significantly by 92% (from R1 874 million to R3 597 million) over the 2010-11 financial year.</p> <p>The auditees where limitations were experienced at provincial departments increased from 15 to 19 (4%) while the instances decreased from 1 203 to 1 158 (4%) over the 2010-11 financial year.</p>		

### **Awards to employees and close family members**

The AGSA audits included an assessment of the interest of employees of the auditee and their close family members in suppliers to the auditee. The next table shows the extent and nature of these awards and whether any non-compliance with legislation was identified.



**Table 12: Awards to employees and close family members**

Auditee type	Awards made to							Non-compliance with regard to awards made											
	Employees				Close family members of employees			Supplier did not declare interest			Employee did not declare interest			Other remunerative work not approved			Non-compliance/irregularity in procurement process		
	Number of instances	Number of auditees	Amount	Positions	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount
National departments	230	9	R218,0 million	SCM Official, Senior Managers, Other employees	40	5	R20,3 million	112	14	R17,5 million	118	16	R17,5 million	67	3	R12,9 million			
Provincial departments	1268	26	R217,5 million	Senior Manager, Other employees	686	31	R119,9 million	1495	30	R307,2 million	1556	31	R37,8 million	728	13	R193,8 million	179	3	R4,8 million
Leading departments	2	2	R40 thousand	Other employees	10	2	R0,1 million	4	3	R0,2 million	4	3							
Major public entities and government business enterprises	8	2	R0,4 million	Other employees	3	2	R0,6 million	7	4		13	5		Applicable to national and provincial departments only					
National and provincial public entities	7	4	R1,0 million	Senior Manager, Other employees	3	2	R0,5 million	15	4	R0,1 million	15	4	R0,1 million						
Constitutional institutions and trading entities	16	3	R1,2 million	Other employees				16	3	R1,1 million	16	3	R1,1 million						
Total 2011-12	1531	46	R438,1million		742	42	R141,4 million	1649	58	R326,1 million	1722	62	R56,5 million	795	16	R206,7 million	179	3	R4,8 million
Total 2010-11	1890	75	R1 204,8million		223	21	R136,3 million	793	26	R946,3 million	852	39	R225,6 million	505	42	R147,1 million	119	7	R301,9 million
	↑	↑	↑		↓	↓	↓	↓	↓	↑	↓	↓	↑	↓	↑	↓	↓	↑	↑

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 Improvement
  Regression

Legislation does not prohibit awards being made to suppliers in which employees and/or their close family members have an interest. However, there is legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations. Legislation also requires of employees at departments to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation of the auditee was tested. The awards identified were also tested with a view to identifying possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

Key outcomes and trends are provided in the table below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	<p>Awards to the value of R 438 million identified at 46 auditees were made to suppliers in which employees of the auditee had an interest. At some auditees the employees included SCM officials and senior managers. This represents a significant decrease from the R 1 205 million identified in the previous year at 75 auditees.</p> <p>The awards to employees identified decreased by 39% - 14% at national departments (six), by 18% at provincial departments (17) and by 7% at leading departments (two).</p>		
	<p>Awards to the value of R141 million identified at 42 auditees were made to suppliers in which close family members of employees of the auditee had an interest. It represents an increase from the R136 million identified in the previous year at 21 auditees. The awards to close family members of employees identified increased by 100% - 21% at national departments (eight), by 7% at provincial departments (seven), by 14% at leading departments (four) and by 9% at major public entities and government business enterprises (two).</p>		
	<p>Where interest was identified, the suppliers did not declare the interest in 73% of the instances and the employee did not declare in 76% of instances.</p> <p>At 16 departments the employees doing business with the auditee did not obtain approval for the additional remunerative work.</p>		

### Uncompetitive or unfair procurement processes

A further focus of AGSA audits was on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process did not unfairly favour some suppliers above others. The procurement processes of 8 282 contracts (R90 840 million) and 176 588 quotations (R5 566 billion) were tested at 157 departments and 268 public entities. The number of auditees with findings on uncompetitive or unfair procurement processes increased for all types of auditees, the most significant being by 14% at national departments (6), by 14% at leading departments (4), by 11% at constitutional institutions and trading entities (4) and by 20% at major public entities and government business enterprises (4). The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table. Similar findings were identified in the prior year.

**Table 13: Summarised findings on uncompetitive or unfair procurement processes**

Nature of other areas of non-compliance per type of auditee				
Three written quotations not invited – no deviation approved/approved deviation not reasonable/justified – 183 (33%)		Competitive bids not invited – no deviation approved/approved deviation not reasonable/justifiable – 119 (21%)		
A price quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000. Three prices quotations were not in all instances obtained from prospective providers and deviations were not approved by a properly delegated official or committee as required.		A competitive bidding process should be followed for the procurement of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.		
No declaration of interest submitted by provider – 69 (14%)		Preference point system not applied – 74 (14%)		
Awards were made to suppliers that did not submit a completed declaration of interest (SBD4 form).		The preferences point system was not applied in all procurement of goods and services above R30 000, as required by Preferential Procurement Policy Framework Act.		
Procurement from suppliers without SARS tax clearance – 89 (17%)		Other findings – 119 (24%)		
Awards were made to suppliers without proof from South African Revenue Service that their tax matters were in order.		Other findings include: No declaration of past SCM practices, no certificate of independent bid determination and bids advertised for shorter period than prescribed.		
Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities

### **Inadequate contract management**

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless and wasteful expenditure, which in turn impact directly on service delivery. Inadequate contract management remained at the same level, with the most noteworthy improvements at national departments (2) and major public entities and government business enterprises (5). The most prevalent findings on inadequate contract management are summarised in the table below. Similar findings were identified in the prior year.

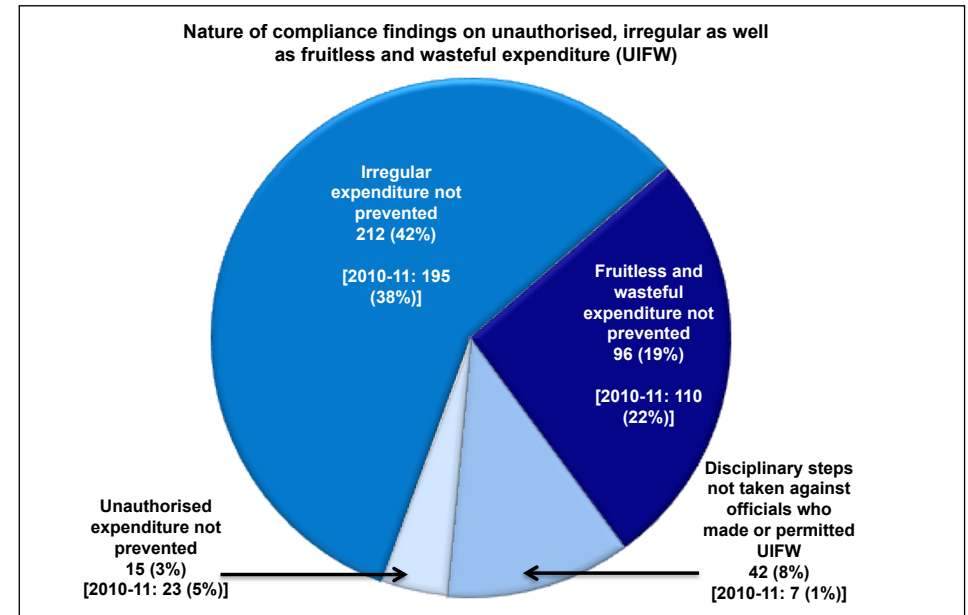
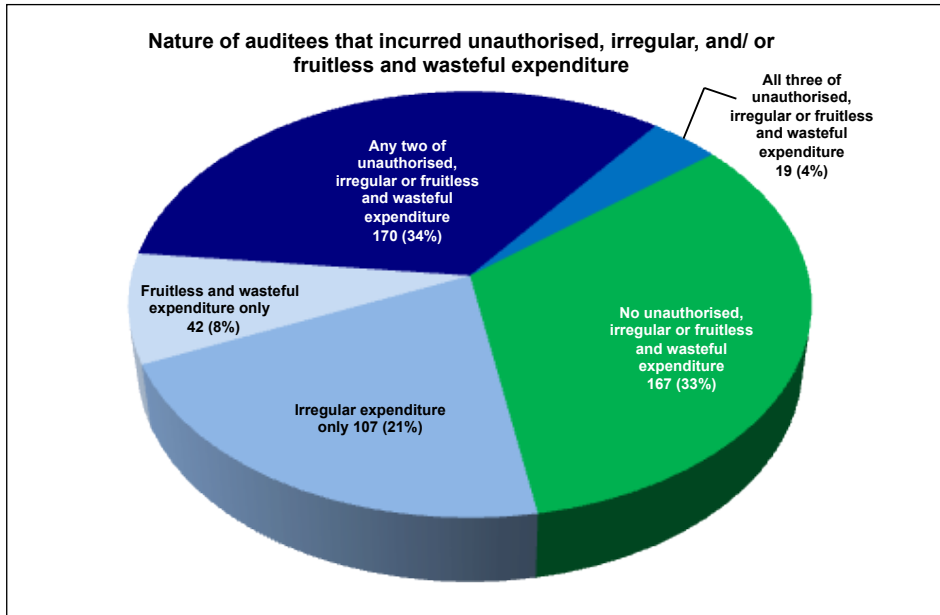
<b>Key findings: Inadequate contract management</b>
Goods and services were received and payments were made to suppliers without a written, signed contract being in place – 9 (2%) auditees.
Contracts amended or extended without approval by a delegated official - 12 (2%) auditees.
Contracts extended or renewed to circumvent competitive bidding processes - 9 (2%)
Inadequate contract performance measures and monitoring - 15 (3%)
Contract not prepared in accordance with the general conditions of the contract as prescribed by National Treasury - 3 (1%).
Other findings include payments made in excess of approved contract price (with further approved extensions) and total payments under quotations exceeding the original quoted amount - 9 (2%).

### **Inadequate SCM controls**

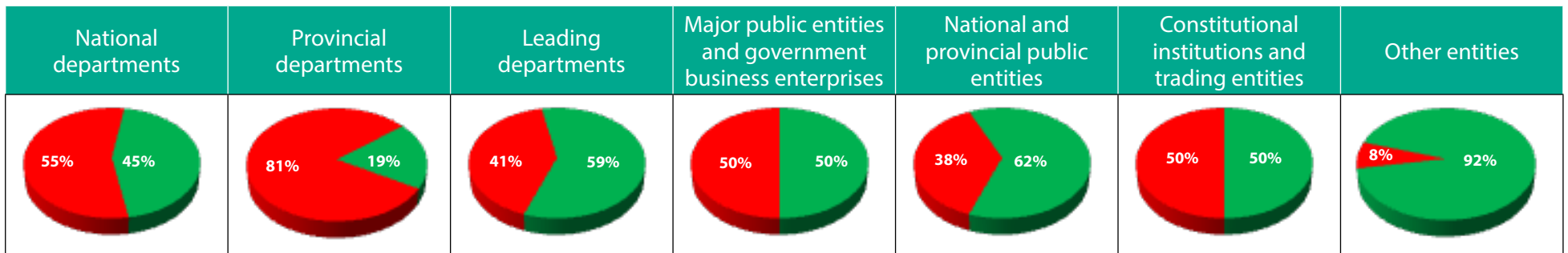
Internal control deficiencies in the SCM environment are the highest at 57 (61%) provincial departments, with a further deterioration of six (12%) auditees. The most prevalent deficiencies identified during the audit on fundamental SCM controls are summarised in the table below. Similar findings were identified in the prior year

<b>Key findings: Inadequate internal controls</b>
The audit committee did not review the effectiveness of the internal control systems related to SCM - 17 (3%)
Employees without interest in suppliers to the auditee - additional remunerative work not approved - 33 (7%) <ul style="list-style-type: none"> <li>• Employees performed additional remunerative work without approval</li> </ul>
Inadequate controls to ensure interest is declared - 26 (5%) <ul style="list-style-type: none"> <li>• The controls were inadequate to ensure that officials declare to the auditee whether they or their close family members, partners and associates have interests in suppliers and suppliers to the auditee fail to declare any connections to persons in service of the auditee</li> </ul>
Internal audit did not evaluate SCM controls/processes and compliance - 19 (4%) <ul style="list-style-type: none"> <li>• Some departments utilised a shared an insufficiently staffed internal audit division within the provincial treasury, resulting in the internal audit responsibilities not being fulfilled</li> </ul>
Inadequate controls to ensure interest is declared - 26 (5%) <ul style="list-style-type: none"> <li>• Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively - 22 (4%)</li> </ul>
Internal audit did not evaluate SCM controls/processes and compliance - 19 (4%) <ul style="list-style-type: none"> <li>• Other control deficiencies included: Performance of the SCM unit is not regularly analysed, risk assessment did not address SCM and where it did, no actions were taken to address SCM risks identified and no controls to monitor performance of contractors - 73 (14%)</li> </ul>

## 2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred



60



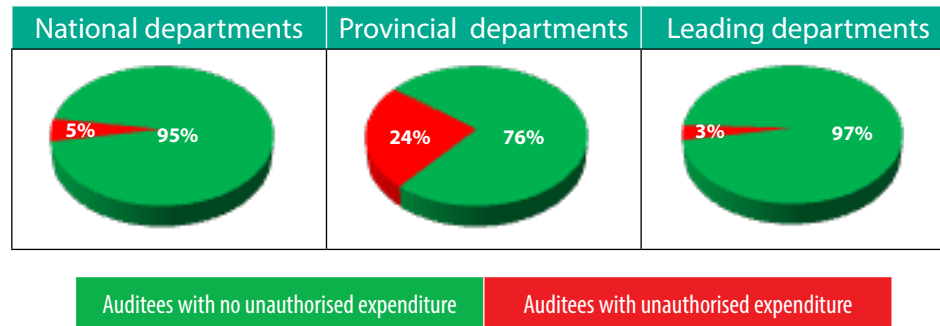
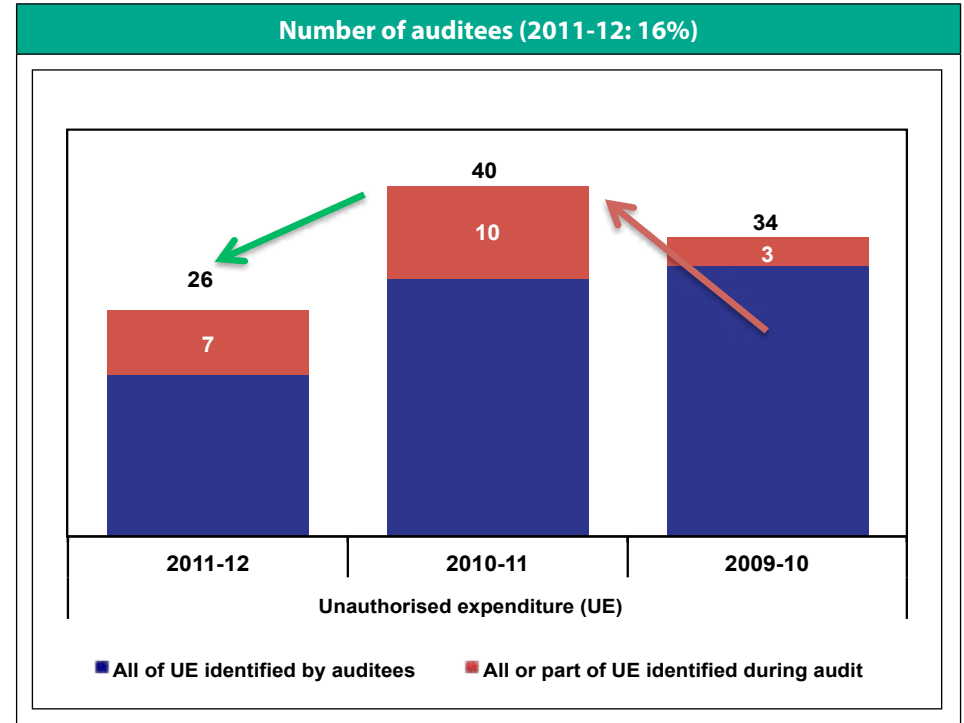
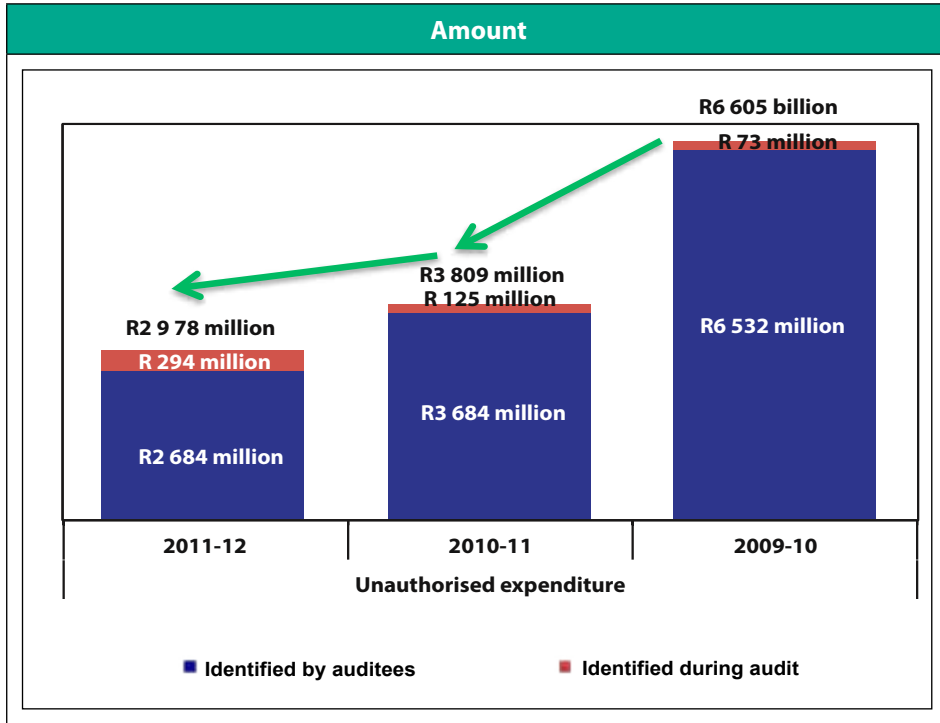
Auditees with no UIFW compliance findings      Auditees with UIFW compliance findings

The PFMA requires accounting officers/authorities to take effective and appropriate steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure (UIFW) is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof even if all reasonable steps had been taken. In instances where it does occur, the PFMA makes it compulsory for auditees to disclose such expenditure in their annual financial statements.

The extent of UIFW and the pervasiveness of the related non-compliance with legislation applicable to UIFW as **depicted in the previous figure** are indicative of a breakdown in auditees' internal control environment. Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Two thirds of auditees incurred one or more types of UIFW.		
	Findings on compliance related to UIFW remain the second highest non-compliance area across all auditees (depicted in section 2.4.1). The prevalence of these findings remains unchanged from the 2010-11 financial year at 45% of auditees.		
	The most prevalent finding was accounting officers/authorities not taking effective steps to prevent irregular expenditure – 217 (43%) auditees, which is an regression from the 195(40%) of the previous year.		
	The number of auditees with findings on accounting officers not taking effective steps to prevent unauthorised expenditure decreased to only 18 (4%) from 23(5%). A similar improvement to 102 (20%) from 112 (22%) auditees was recorded for prevention of fruitless and wasteful expenditure.		
	The findings on compliance relating to failure to take disciplinary action against employees who made or permitted unauthorised, irregular or fruitless and wasteful expenditure increased by more than 300%.		
	Provincial departments (81%) and national departments (55%) had the most findings on compliance relating to UIFW.		

**Nature of and overall trends in unauthorised expenditure (departments only)**



The figure **above** reflects the three-year trend in unauthorised expenditure, the extent to which it was identified during the audit (and not by the auditees' internal control systems) and the type of auditee where it occurs.

The unauthorised expenditure incurred was as a result of overspending of the votes (budget) or main divisions within the votes.

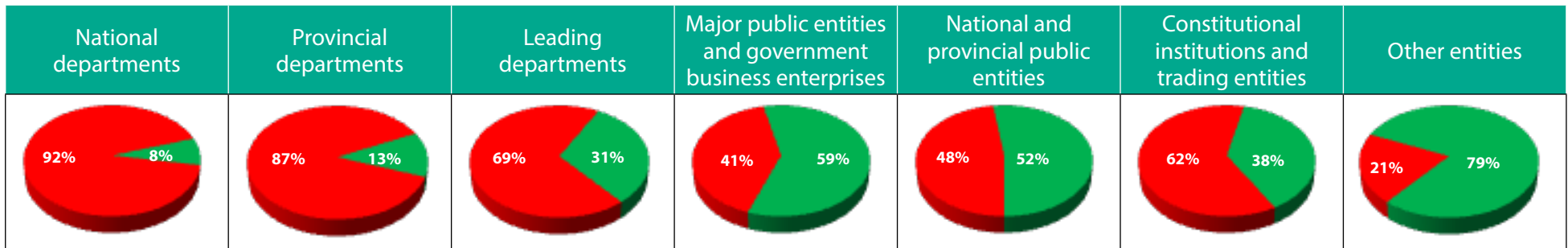
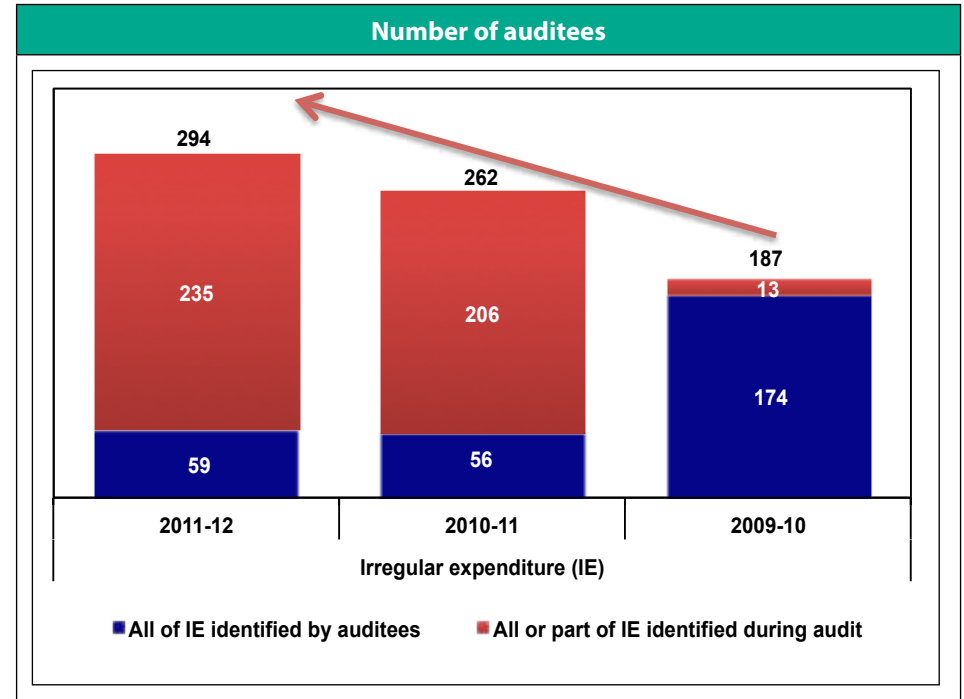
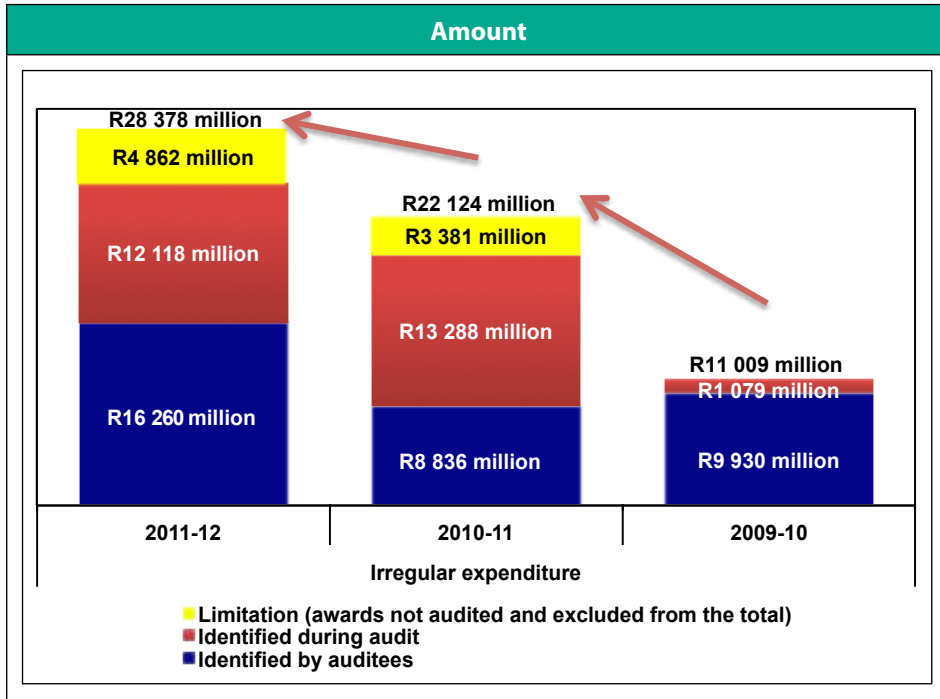
Unauthorised expenditure invariably means that money intended for other programmes was used, which affects service delivery in accordance with the performance objectives set for the year.

Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Unauthorised expenditure decreased by 35% in number of auditees and by 22% in value.		
	The most significant decrease in unauthorised expenditure was at national departments where the number of auditees decreased by five and the value by R811 million.		
	Two national departments (Women, Children and Persons with Disabilities and Public Works) and 24 provincial departments incurred R50 million and R2 928 million, respectively. Provincial departments account for 98% of the total value of unauthorised expenditure.		
	Ten per cent of unauthorised expenditure was identified by the auditors, increasing from 3% in the 2010-11 financial year.		



**Nature of and overall trends in irregular expenditure**



Auditees with no irregular expenditure
Auditees with irregular expenditure

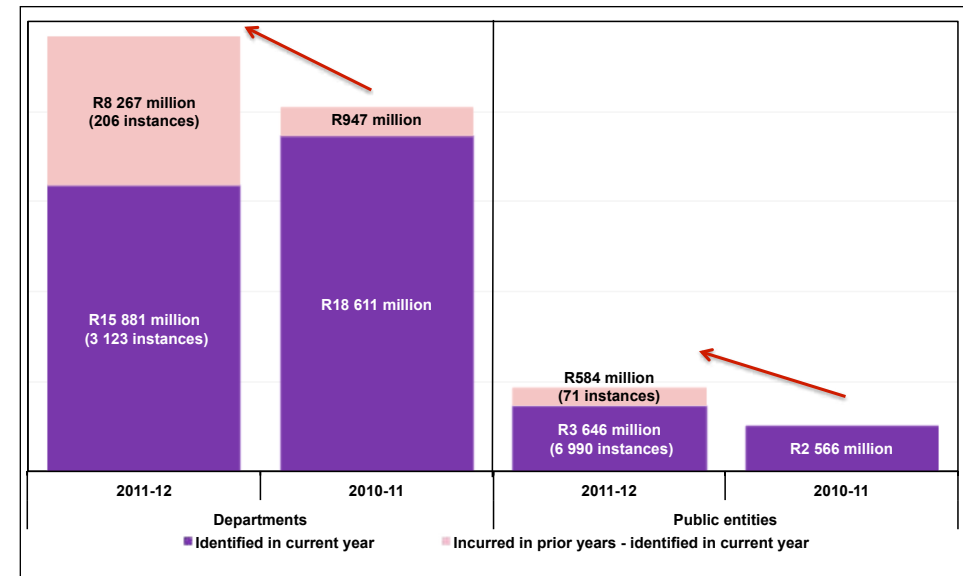
The nature of and overall trends in irregular expenditure incurred by auditees are **depicted earlier**. Irregular expenditure does not necessarily mean that money had been wasted or that fraud had been perpetrated. However, it is a measure of an auditees' ability to comply with laws and regulations as it relates to expenditure and procurement management. The nature of and current year movements in irregular expenditure are reflected in the table below.

**Table 14: Nature of and current year movements in irregular expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
SCM related	281	16%	R24 270 million	50%
Compensation of employees related	59	20%	R1 333 million	65%
Other non-compliance	60	7%	R2 774 million	35%

The following figure shows the extent of irregular expenditure which was disclosed in the current year but stemmed from non-compliance with legislation in prior years.

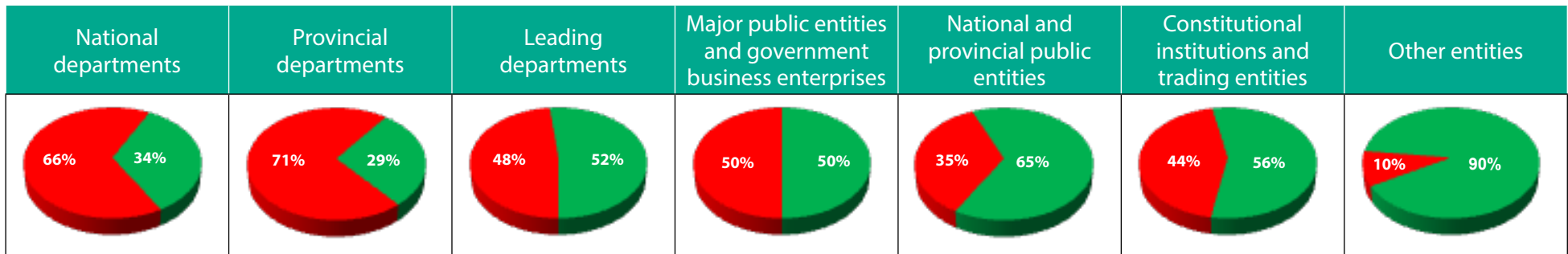
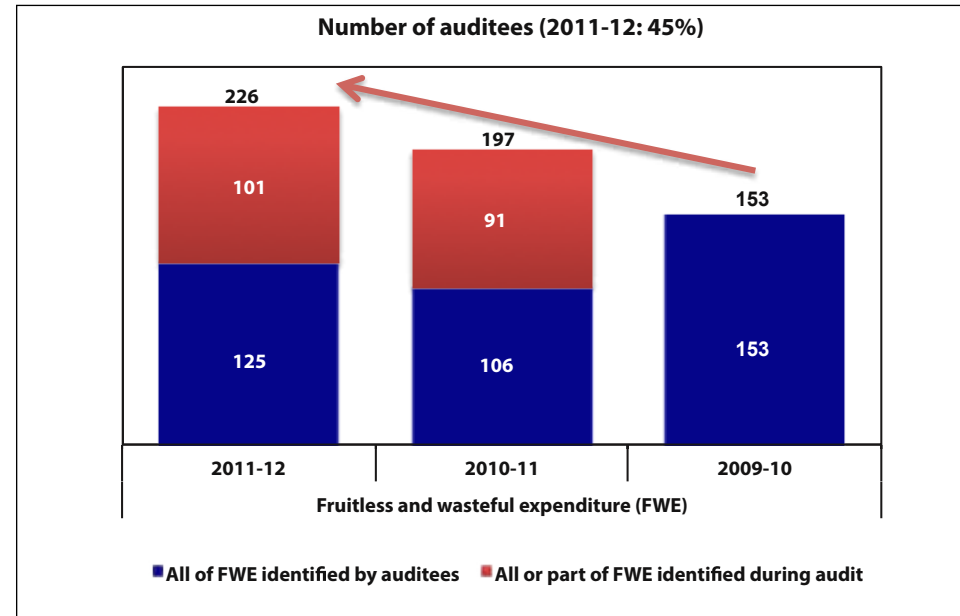
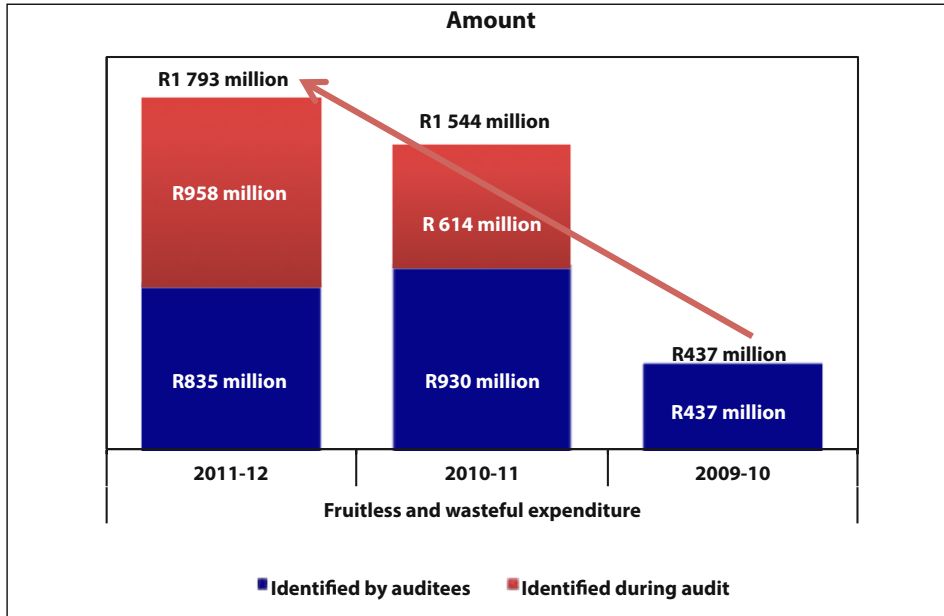
**Figure 20: Irregular expenditure incurred in prior year**



Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	A significant portion (43%) of irregular expenditure incurred by auditees was identified during the audit, indicating that the auditees' internal controls failed to detect those deviations.		
	Irregular expenditure increased at 32 auditees (12%) and by R6 254 million (28%). The increase in the number of auditees incurring irregular expenditure is 6 (5%) and 26 (20%) for departments and public entities, respectively.		
	A notable trend at provincial departments is that the number of auditees remained virtually unchanged (1% increase), but the rand value increased by R3,5 billion (21%). Provincial departments account for 73% of the total irregular expenditure incurred.		
	Irregular expenditure at auditees that achieved an audit opinion in the category of financially unqualified with findings on PDO and/or compliance increased by 891 million (12%) and at those with qualifications by R6 639 million (89%).		
	R9 798 million of the irregular expenditure was incurred in prior years but was only identified and reported in the current year.		

## Nature of and overall trends in fruitless and wasteful expenditure





Auditees with no fruitless and wasteful expenditure

Auditees with fruitless and wasteful expenditure

The analysis of the nature of fruitless and wasteful expenditure this year reflects the amounts spent to prevent irregular expenditure, losses or further fruitless and wasteful expenditure. The movement indicated in the table below refers to the overall movement in the number of auditees and the movement in amount of fruitless and wasteful expenditure incurred by these auditees.

The actual fruitless and wasteful expenditure relates mostly to payments made to employees and interest incurred on late payments.

**Table 25: Nature of and current year movements in fruitless and wasteful expenditure**

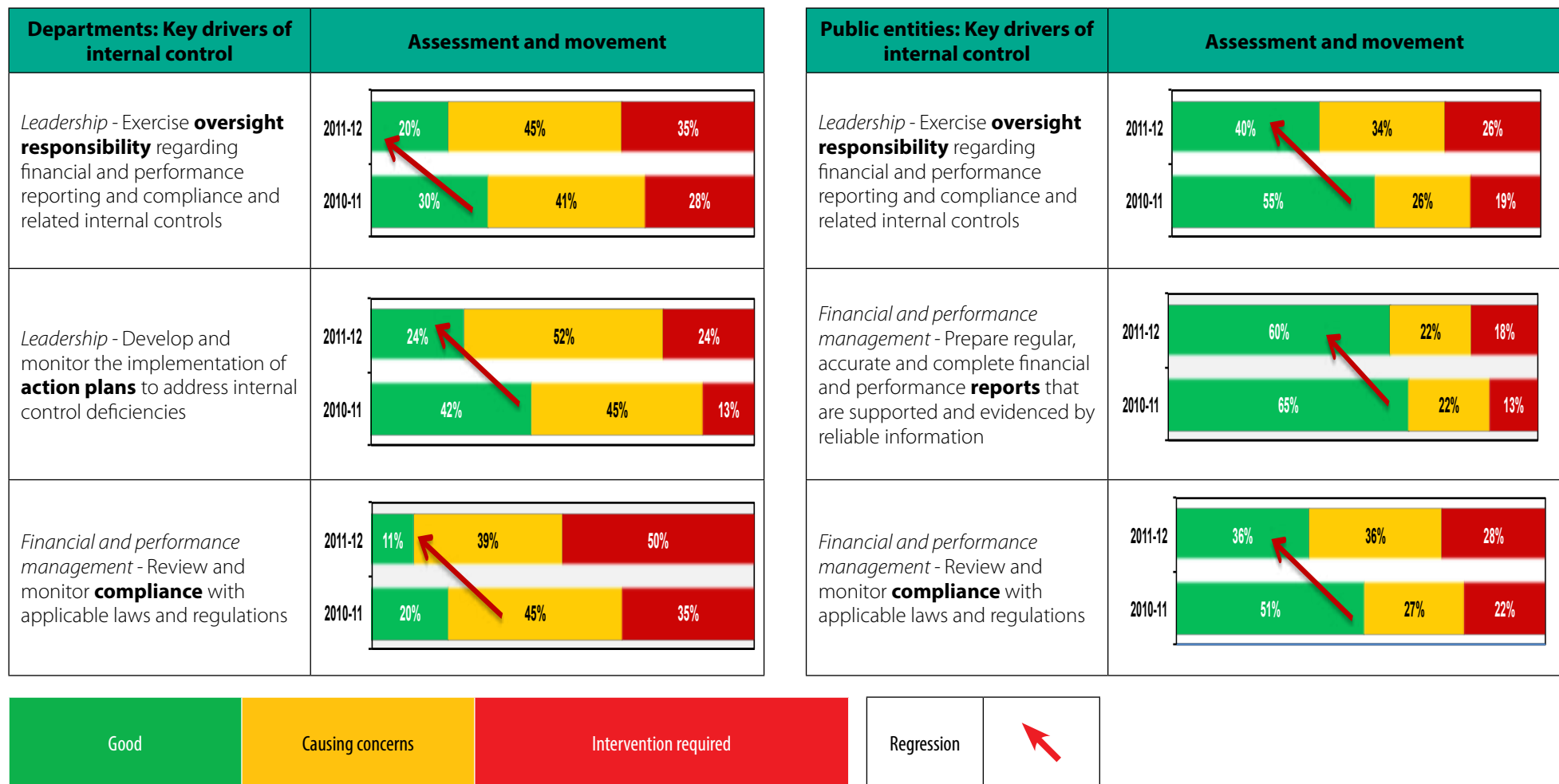
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Incurring to prevent irregular/ loss/ further fruitless and wasteful expenditure	56	 14%	R669 million	 16%
Actual fruitless and wasteful expenditure	170		R1 123 million	

Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	The number of auditees incurring fruitless and wasteful expenditure increased by 29 auditees (15%) and the value by R245 million (16%).		
	The most significant upward trend was at provincial departments where the number of auditees increased by 9 (16%) and the value by R290 million (42%). Provincial departments account for 55% of the total fruitless and wasteful expenditure incurred.		
	Fruitless and wasteful expenditure at auditees that achieved an audit opinion in the category of financially unqualified with findings on PDO and/or compliance increased in value by R118 million (24%) and at those obtaining disclaimed audit opinions by R193 million (61%).		
	The increase in number of auditees is eight (8%) and 21 (21%) for departments and public entities, respectively.		

## 2.4.5 Root causes identified and good practice recommendations

**Figure 21: Assessment of drivers of internal control – compliance with laws and regulations**



A complete assessment of other drivers of internal control is provided in section 3 of this general report.

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Identified root causes which gave rise to this assessment and the recommended way forward (both prior and additional recommendations for the current year) are summarised as follows.

**Table 16: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward recommendations
<b>Leadership tone</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>At many departments and public entities, there is a lack of day-to-day monitoring and involvement by the leadership in the administration of the department. This includes taking ownership of compliance issues and addressing key control deficiencies.</li> <li>Accountability is not accepted for actions and/or audit outcomes in respect of procurement processes and the use of deviations and for not following a competitive bidding process as a result of poor planning.</li> <li>Leadership does not set the correct tone at the top.</li> <li>Lack of adequate controls and procedures to ensure compliance with applicable laws and regulations.</li> </ul>

Aspect	Identified root causes and way forward recommendations
<b>Leadership tone (continued)</b>	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that action plans to improve known internal control weaknesses are implemented and monitored.</li> <li>Those charged with governance and oversight should ensure that accountability is enforced and appropriate consequences are implemented when officials intentionally do not comply with the requirements of applicable prescripts (especially with regard to SCM).</li> </ul>
	<b>Way forward: Additional/new good practices recommended</b>
	<ul style="list-style-type: none"> <li>Action plans must address findings on compliance identified by any audit and must also include measures to prevent non-compliance.</li> <li>Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that internal control action plans are implemented and monitored.</li> <li>Policies and procedures that are aligned to legislation should be implemented.</li> <li>Leadership should set the correct tone in dealing with audit outcomes, ensuring compliance with laws and regulations, and should take responsibility for implementing actions to address the reported findings on compliance.</li> </ul>

Aspect	Identified root causes and way forward recommendations
<b>Systems and processes</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• Lack of proper record keeping, specifically with regard to tenders, and failure to appropriately safeguard documentation to support tender procedures.</li> <li>• Leadership did not take appropriate action with regard to a lack of controls in the finance and SCM directorates, resulting in findings on compliance and such non-compliance remaining undetected until the audit.</li> <li>• Lack of communication of new or amended policies and procedures to affected officials of auditees.</li> </ul>

Aspect	Identified root causes and way forward recommendations
<b>Systems and processes (continued)</b>	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>• Appropriate record management and filing systems should be implemented to ensure that tender documentation is readily available. This could include maintaining electronic copies of documentation scanning.</li> <li>• Monitoring on a monthly basis by designated staff members with a view to detecting and preventing non-compliance. The introduction of compliance checklists will provide auditee management some assurance that controls are achieving the required level of adherence.</li> <li>• Way forward: Additional/new good practices recommended</li> <li>• Continuous awareness and training on applicable laws and regulations to prevent non-compliance resulting from lack of awareness of new or amended legislation.</li> <li>• Systems and processes should be implemented to ensure that breaches of the legislative prescripts are identified and appropriate corrective actions are taken. This includes developing and implementing appropriate compliance reporting policies and procedures, clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation, and reporting regularly on compliance.</li> <li>• Some auditees should consider establishing a compliance unit to perform these compliance functions.</li> </ul>



Aspect	Identified root causes and way forward recommendations
<b>Oversight and monitoring</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• The lack of continuous oversight and monitoring by the leadership is one of the main drivers of regression in compliance with laws and regulations. Findings on compliance are not dealt with in a proactive manner, resulting in recurring findings.</li> <li>• Lack of proper planning for procurement which results in an abuse of provisions for deviations provided for in legislation.</li> <li>• The lack of continuity in the leadership structures. This instability results in a lack of accountability by leadership and governance structures.</li> </ul>
	<b>Way forward: Prior year AGSA recommendations</b>
	<ul style="list-style-type: none"> <li>• Leadership should introduce a culture of discipline and should set the right tone. The involvement of the leadership in the day-to-day operations, including involvement in the audit process, should become a standard practice.</li> </ul>
	<b>Way forward: Additional/new good practices recommended</b>
	<ul style="list-style-type: none"> <li>• Leadership should ensure that internal audit units regularly monitor common and recurring areas of non-compliance and the effective implementation of checklists to ensure compliance before a transaction is entered into and not only after the transaction has been concluded and the payment made.</li> <li>• The portfolio committees need to intensify their oversight role by holding those departments with recurrent findings on compliance accountable.</li> <li>• Monthly reporting should include an assessment of compliance with applicable laws and regulations.</li> </ul>

Aspect	Identified root causes and way forward recommendations
<b>Oversight and monitoring (continued)</b>	<ul style="list-style-type: none"> <li>• An oversight system or process to monitor the commitments made by leadership and management to address internal control deficiencies should be established. In the process, this oversight must reside with and be coordinated by the Office of the Premier with quarterly reporting on progress made with regard to commitments.</li> </ul>
<b>Effective governance measures</b>	<b>Root causes</b>
	<ul style="list-style-type: none"> <li>• Audit committees did not use internal audit units effectively to report on the implementation of action plans as reported by management.</li> <li>• The internal audit function of some auditees was not fully functional during the year, which can be attributed to vacancies within the unit.</li> <li>• The audit committee did not function throughout the year. Audit committee members were only appointed late in the year, resulting in the committees not being able to fulfil their responsibilities</li> <li>• Leadership did not regularly seek the findings and views of audit committees and internal audit on internal control and risk management nor did they monitor implementation of recommendations by the audit committee and internal audit with a view to remedial action.</li> <li>• Risk assessments not performed (at least annually) or performed much too late in the year rendered the risks assessments outdated or irrelevant to the risk management process.</li> </ul>

Aspect	Identified root causes and way forward recommendations
<p><b>Effective governance measures (continued)</b></p>	<p><b>Way forward: Prior year AGSA recommendations</b></p>
	<ul style="list-style-type: none"> <li>• Internal audit units should be adequately staffed to ensure that they can accommodate additional requests by the audit committees to confirm credibility of information reported to audit committees.</li> <li>• Strengthened oversight by the executive leadership in ensuring that risk assessments take place regularly and that those risks are addressed or mitigated timeously.</li> <li>• Internal audit should validate all irregular expenditure reports and progress made on addressing the root causes and implementation of controls. Progress should be reported to the audit committee, which in turn must provide feedback to the executive authority.</li> </ul>
	<p><b>Way forward: Additional/new good practices recommended</b></p>
	<ul style="list-style-type: none"> <li>• Intensify the focus on the review of compliance by internal audit and audit committee.</li> <li>• Meetings between the audit committee and the various executive authorities must take place on a quarterly basis to discuss the progress made in addressing findings on internal control deficiencies.</li> </ul>

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