



AUDITOR - GENERAL  
SOUTH AFRICA



PFMA 2011-12

Findings arising from the audit of reporting on predetermined objectives

CONSOLIDATED GENERAL REPORT  
on NATIONAL and PROVINCIAL audit outcomes



# Our reputation promise/mission

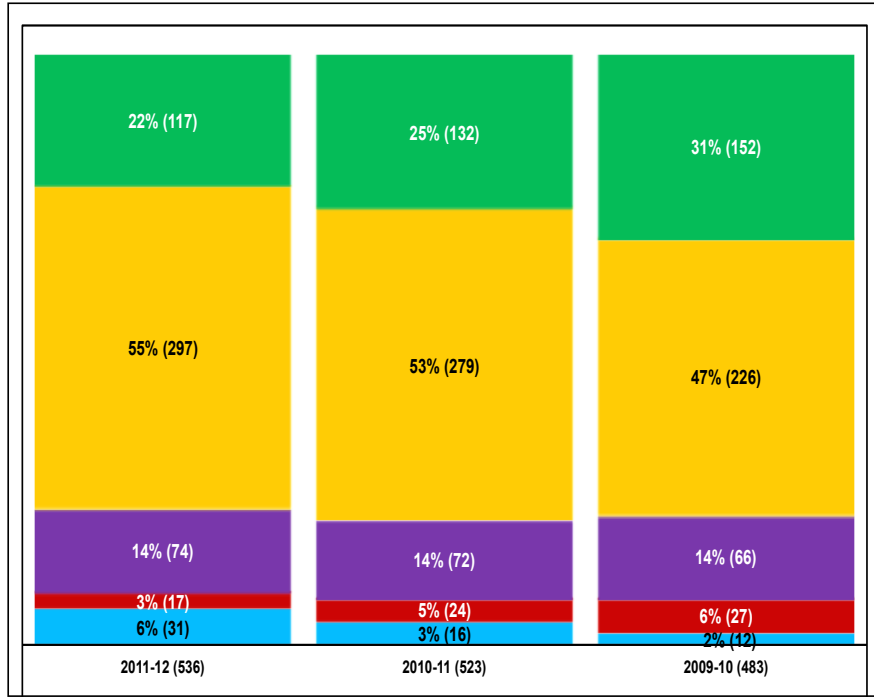
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



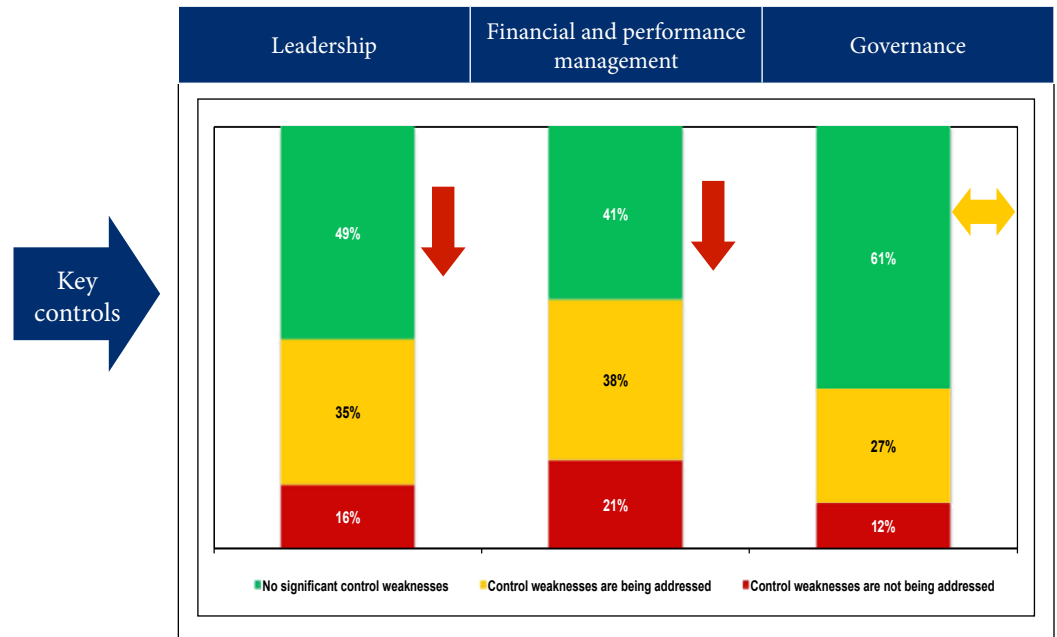
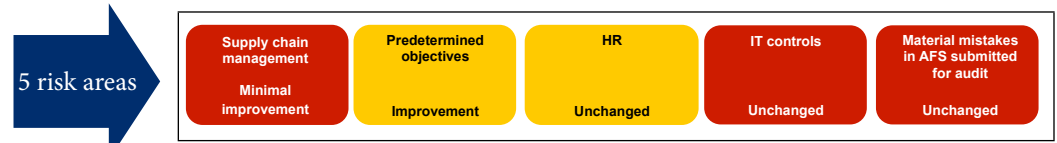


FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements



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



Pervasive root causes

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

# FOREWORD

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

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

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

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



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

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

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

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

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

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

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

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

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

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

*Auditor-General*

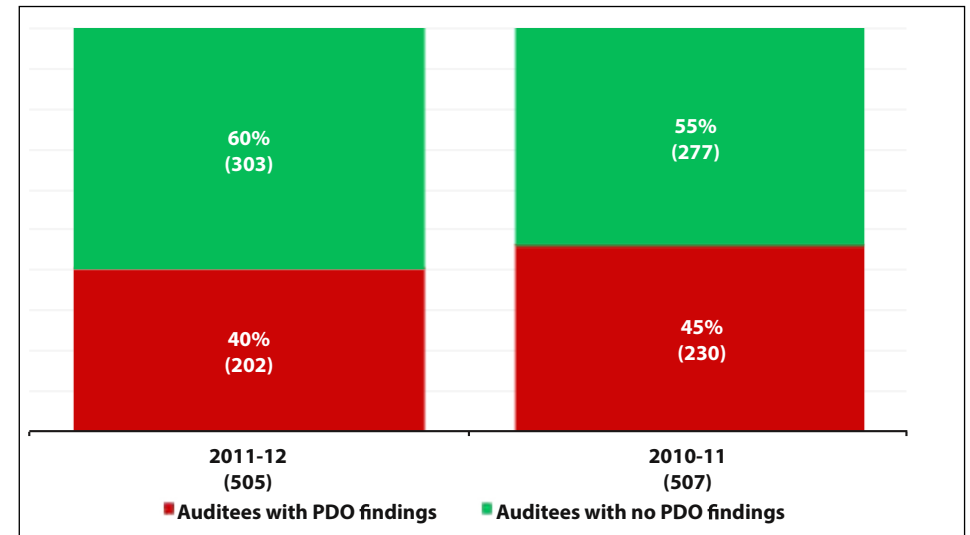
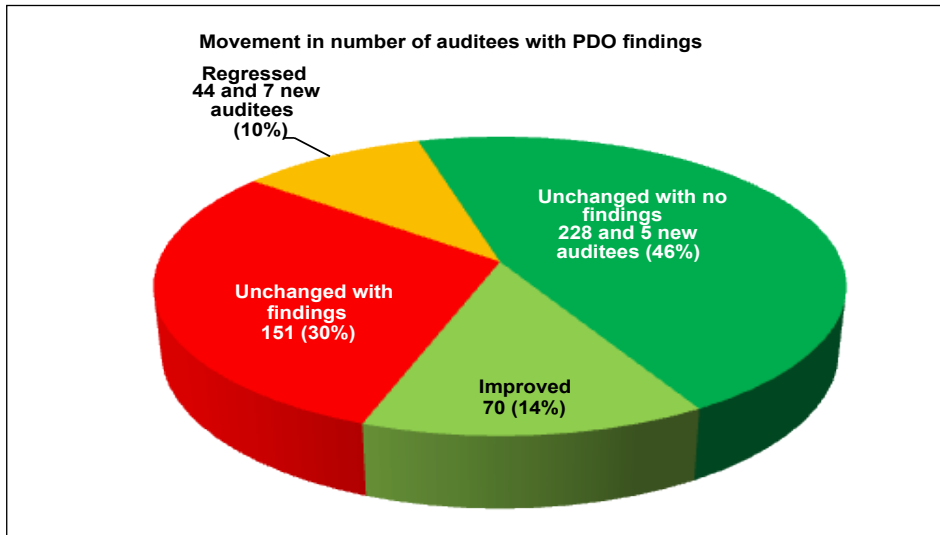
**Auditor-General**  
**Pretoria**  
**March 2013**



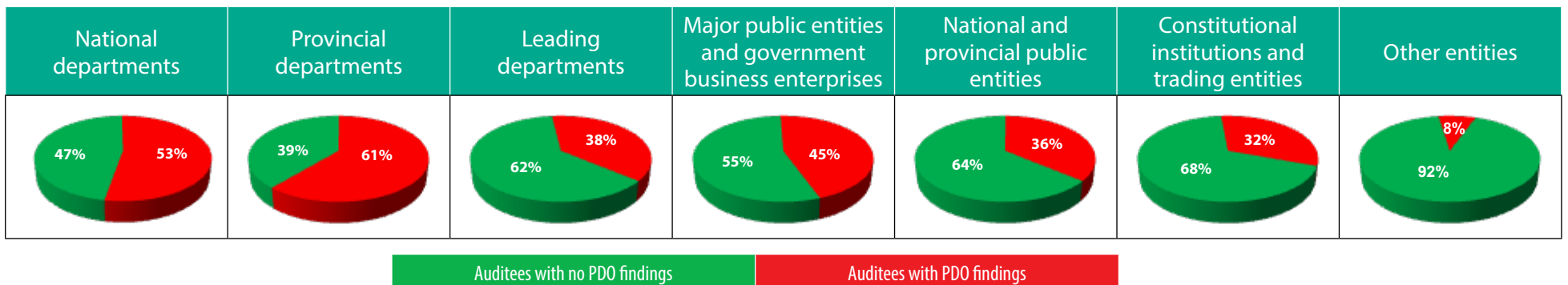
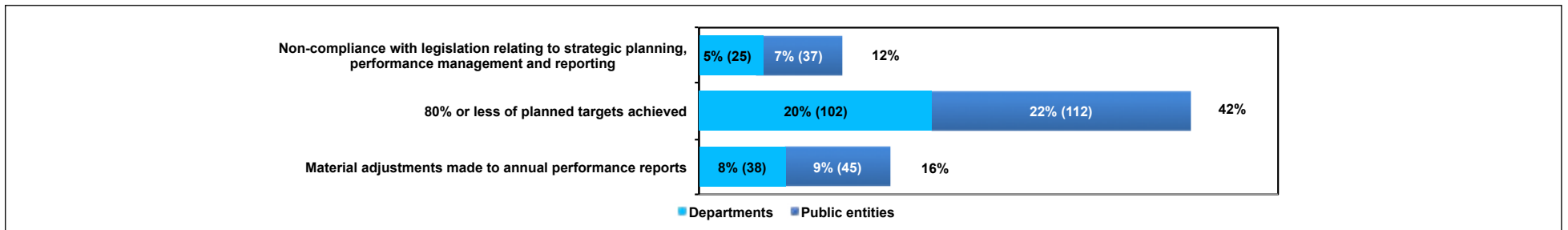
FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

## 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



8





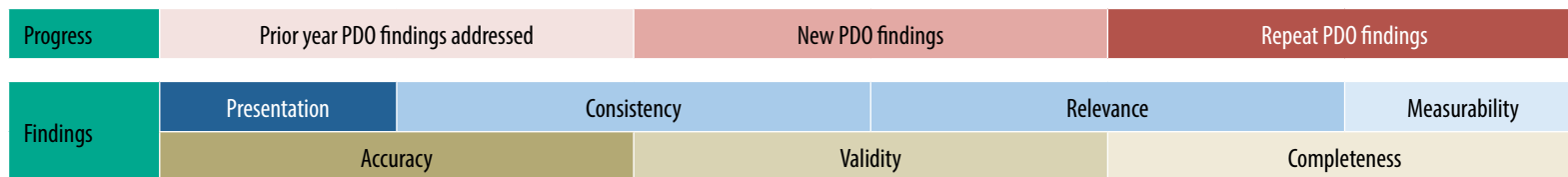
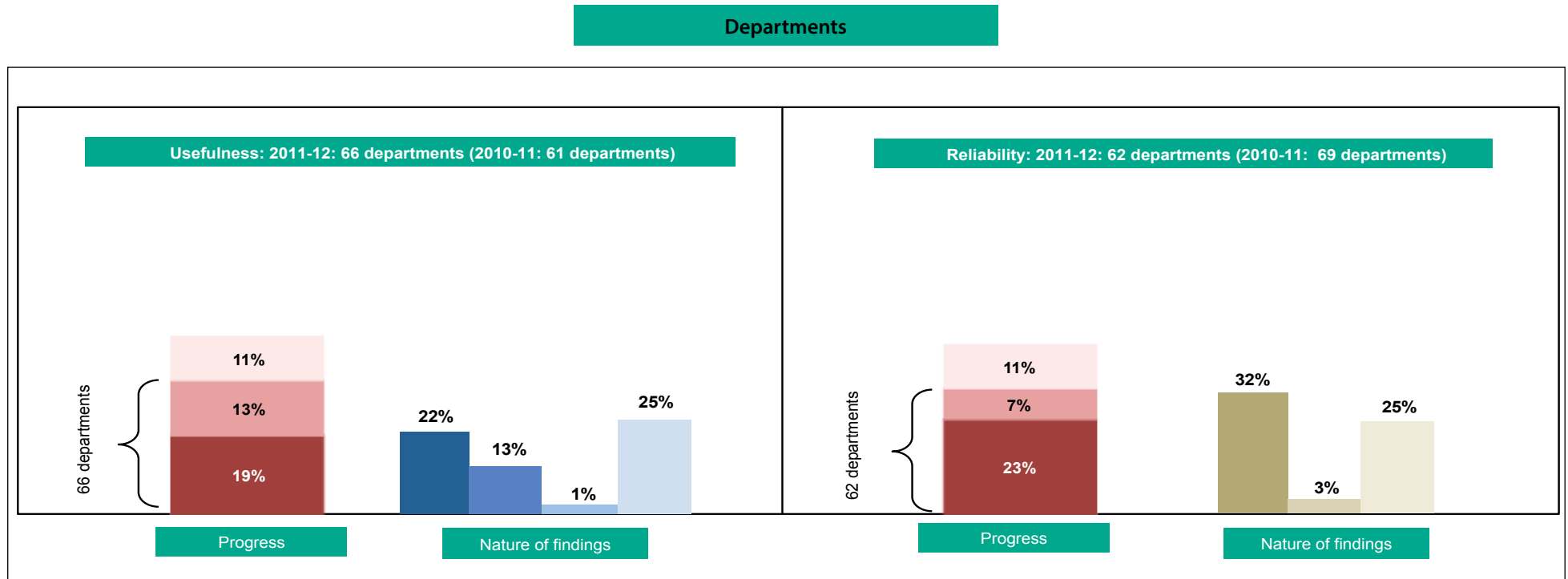
The Public Audit Act (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. Not all public entities are subject to this requirement.

**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.

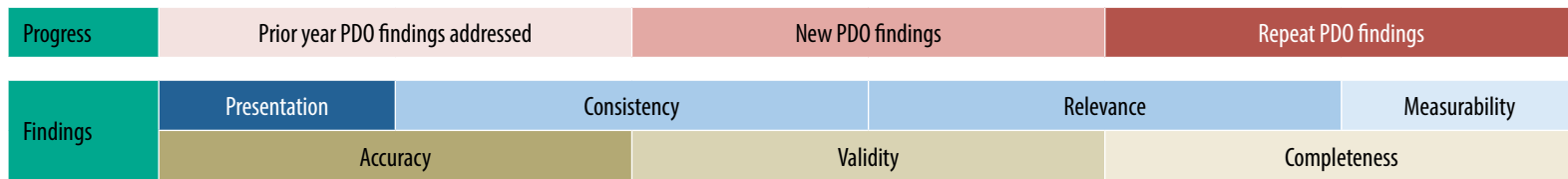
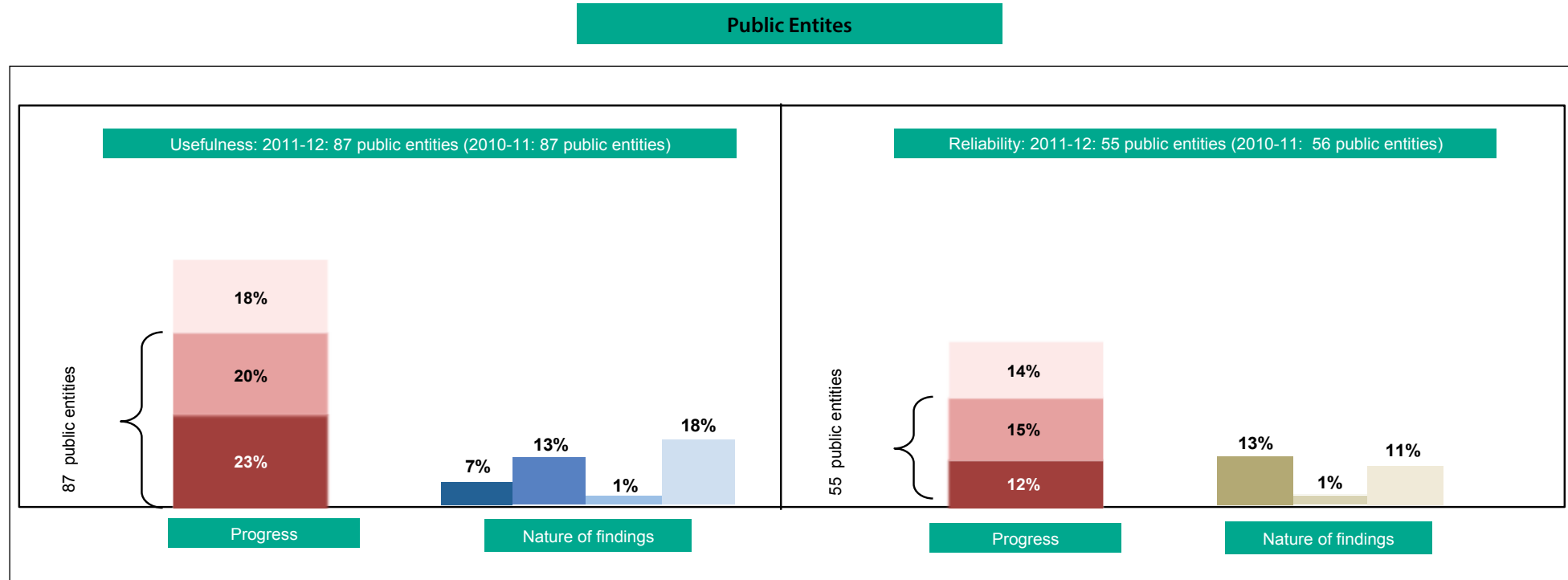
Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/ trends
	There have been significant increases in the number of auditees without PDO findings for national departments (from 13 to 19), constitutional institutions and trading entities (from 13 to 23) and 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**



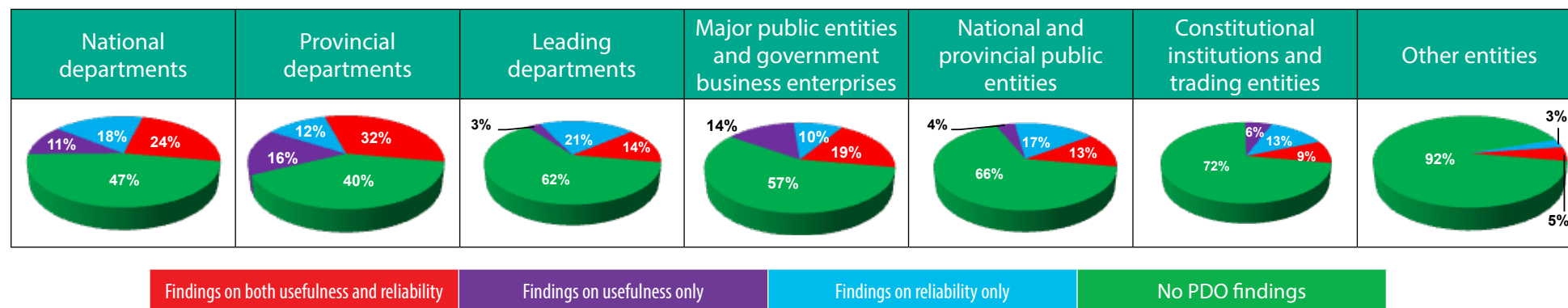
Progress made by auditees in addressing prior year findings and the nature of current year audit findings are **depicted in figure 15**.

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**

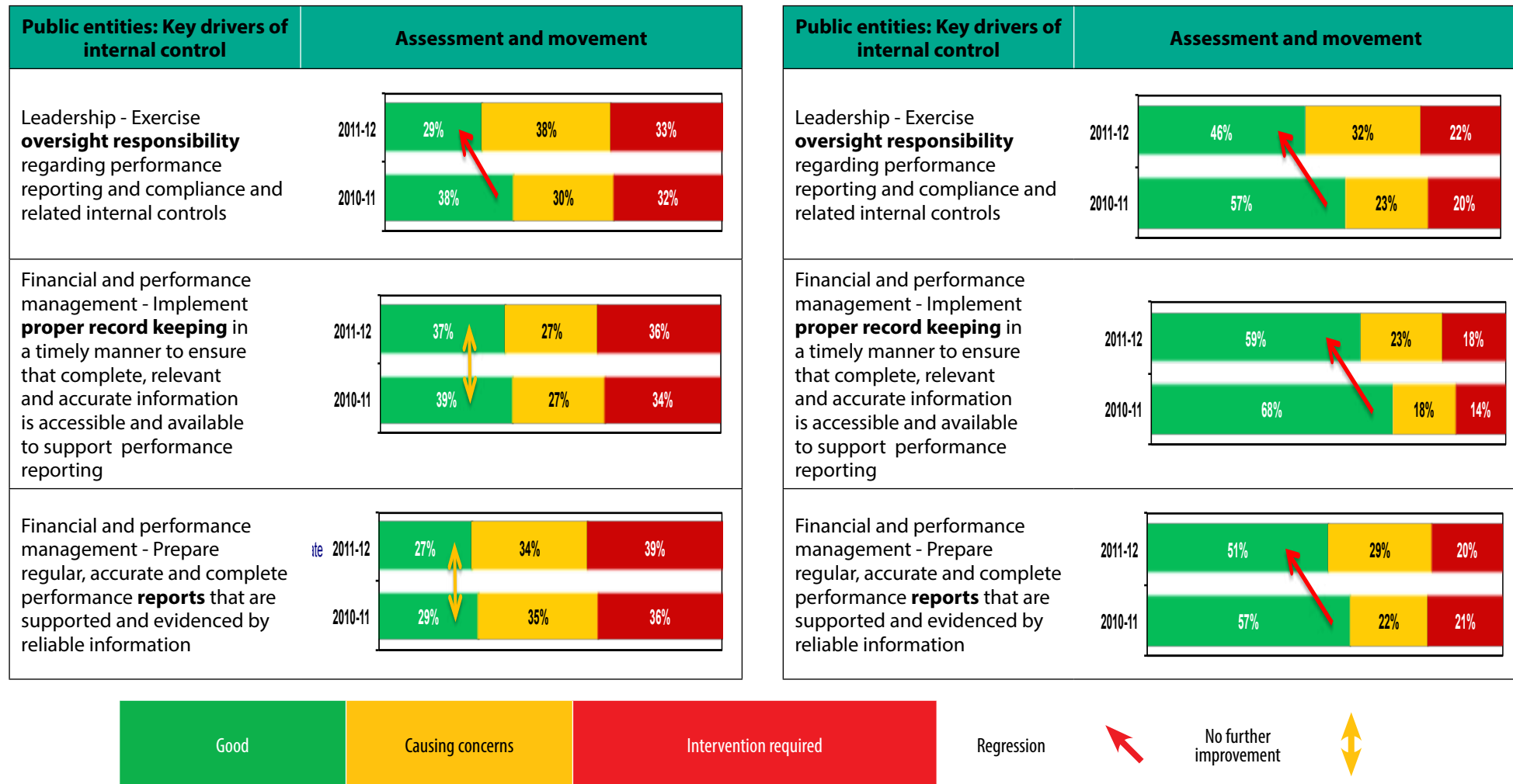


12

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>	<b>Root causes</b>
	<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>
	<b>Way forward: Prior year AGSA recommendations</b>
	<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>
	<b>Way forward: Additional/new best practices</b>
	<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>	<b>Root causes</b>
	<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>
	<b>Way forward: Prior year AGSA recommendations</b>
	<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>
	<b>Way forward: Additional/new best practices</b>
	<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>

# overview of full report



Message from  
the  
Auditor-Gen-  
eral

12

Slow progress towards clean audits  
with more regressions than im-  
provements  
(Part 1)

38



**117 auditees achieved clean audits**  
(Part 1)

39



Some progress  
made towards  
improving the reli-  
ability and useful-  
ness of service  
delivery reporting  
(Part 1)

69



Continuing  
high level of  
non-compli-  
ance with laws  
and regula-  
tions  
(Part 1)

79



High levels of unauthorised, irreg-  
ular as well as fruitless and waste-  
ful expenditure  
(Part 1)

91

*Auditees' internal control systems are not improving*

*(Part 1)*

106



HR and IT management needs further attention

*(Part 1)*

115



*Executive leadership, coordinating institutions and legislative oversight should strengthen their contributions*

*(Part 1)*

138



Indications of financial health issues at some departments and public entities

*(Part 1)*

168

Audit outcomes of ministerial portfolios and commitments made for improvement

*(Part 2)*

178



Audit outcomes and weaknesses in implementation of key national programmes in Health, Human Settlements, Education, Social Development and Public Works sectors

428



**The audit outcomes of 3 provinces regress**

***(Part 4)***

470

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