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SECTION 2: SPECIALISED AUDIT SERVICES 2003-04

This section of the report includes information on audits conducted over and above the regularity audits. These include the following:

- Forensic audits
- Performance audits
- Integrated audits
- Performance information reviews

For an explanation of each type of audit, please refer to my 2003-04 Activity Report. It is important to highlight that some of the forensic and performance audits result in a report to management and are not therefore tabled in Parliament.

2.1 Forensic audits

2.1.1 Forensic audits at provincial government departments and public entities

During the 2003-04 financial year the following forensic audits conducted at a provincial government department and public entity were reported on to Parliament and the Provincial Legislature:

Table 6. Forensic audit reports issued 2003-04

Report number	Cost R	Department/ Entity	Focus areas	Key findings
RP179/ 2003	410 000	Transnet	The sale of non-ferrous scrap metal	<ul style="list-style-type: none"> • Prices lower than market-related for non-ferrous scrap metal were agreed to in the contract with a company which resulted in a loss to Transnet. • Certain calculation and other errors occurred on some invoices issued to the company, resulting in a loss to Transnet. • Certain narrations appeared on Transnet weighbridge certificates that resulted in lesser weights being recorded on invoices issued to the company, also causing a loss of income for Transnet.
PR 26/ 2004	1 010 000	Northern Cape Department of Transport, Roads and Public Works	The appointment of consultants	<ul style="list-style-type: none"> • Consultants for various projects at the department were not appointed in accordance with the Tender Board Regulations. • In various instances no agreements were entered into between the department and the consultants. Therefore, the correctness of payments made to the consultants could not be verified and it could not be determined if both parties met their contractual obligations.



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Report number	Cost R	Department Entity	Focus areas	Key findings
PR 26/2004	1 010 000	Northern Cape Department of Transport, Roads and Public Works	Subsistence and travelling expenditure of the Ministry of Transport, Roads and Public Works	<ul style="list-style-type: none"> In various cases it could not be determined if the trips undertaken by the member of the executive council (MEC) and his spouse were for official purposes. According to invoices received, the department made payments to service providers for hotel rooms booked in the name of the MEC although the invoices indicated a "no show".

2.1.2 Management reports issued

The following management reports were issued during the 2003-04 financial year on forensic audits conducted at provincial government departments, public entities and local authorities:

Table 7. Management reports on forensic audits 2003-04

Department/Entity	Focus area
Gauteng Department of Public Transport, Roads and Works	The procurement of goods and services
Northern Cape Department of Local Government and Housing	Alleged irregularities pertaining to RDP houses
Sector Education and Training Authority for Secondary Agriculture (SETASA)	The procurement of goods and services
Compensation Fund	Medical claims
Dipaleseng Municipality	Cash received and deposited, the procurement of goods and services and the backdating of salary increases
Ga-Segonyana Municipality	Procurement of computer hardware and software

2.2 Specialised performance audits

2.2.1 Performance audits at provincial government departments

During the 2003-04 financial year the following performance audits conducted at provincial government departments were reported on to the relevant Provincial Legislature:



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Table 8. Performance audit reports issued 2003-04

Report number	Cost R	Department / Entity	Focus area	Key findings
PR 39/2003	580 000	Limpopo Province Department of Public Works	Management of residential properties	<ul style="list-style-type: none"> Market-related rent on residential properties was not collected in accordance with the provincial guidelines. The department did not manage the collection of rent effectively, which resulted in long outstanding rent for public servants and for private tenants. In some instances rent was outstanding for periods of up to 29 months without the tenants being evicted. The rent payable by tenants was not adjusted to market-related rent. Staff members were not taxed on the fringe benefit of official accommodation.
	560 000	Follow-up audit regarding social grants at various provincial administrations	Follow-up audit regarding social grants	<ul style="list-style-type: none"> It was found that measures were still not in place and therefore payments were still being made to deceased beneficiaries as well as beneficiaries who did not qualify to receive a grant.

The following management reports were issued during the 2003-04 financial year on performance audits conducted at seven national departments and one provincial department:

Table 9. Management reports on performance audits 2003-04

Institution	Focus area
National Department of Transport	Transfer payments for bus subsidies
Gauteng Province: Office of the Premier	Procurement of goods and services
South African Police Service, Defence, Department of Justice, National Treasury, Home Affairs and Department of Correctional Services	Transversal sick leave report (to be tabled under one transversal report)

2.2.2 Performance audit of the disclosure of financial interest

During the 2003-04 financial year pilot performance audits that focused on the disclosure of financial interest by members of the executive council, heads of departments and certain other employees of the Department of Education and the Department of Health and Welfare of the Limpopo Provincial Administration were performed. Twenty-two senior managers and approximately 2 800 other



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employees were identified who had not declared their financial interests in private companies and/or close corporations, as prescribed in the relevant regulations. Furthermore, 81 employees who were directors or members of private companies or close corporations that supplied goods and/or rendered services to the departments at which they were employed had not requested permission to perform remunerative work outside their employment at the department and did not disclose a conflict of interest.

2.2.3 Transversal performance audit of housing subsidies

A performance audit pertaining to housing subsidies is currently being conducted at all provincial Departments of Housing.

Upon conclusion of the performance audits at the provincial Departments of Housing, a report will be submitted to the national Department of Housing for their inputs before being tabled in Parliament.

2.3 Integrated audits

The findings included under this section were all part of the audit report on the South African Police Service. An integrated audit was conducted at the South African Police Service. Below is a summary of the findings:

Issue	Findings
Vehicle fleet management	<ul style="list-style-type: none"> • Deficiencies in the procurement process of vehicles • Vehicles not optimally utilised • Inadequate measurable norms and standards governing turnaround times for vehicles undergoing repairs and maintenance • The vehicle fleet management exception reports were not followed up and appropriate action was not taken
Asset management	<ul style="list-style-type: none"> • Deficiencies in the number, condition and location of police buildings
Human resource management	<ul style="list-style-type: none"> • Leave (including sick leave) statistics were inadequately compiled or not compiled at all • Management measures were not in place to ensure that funded vacancies were filled in the shortest time possible • The total number of administrative personnel as a percentage of the total staff complement was excessive in some provinces while shortages were experienced in others
Dockets and case administration	<ul style="list-style-type: none"> • Lack of trained staff, adequate support equipment and physical controls to safeguard docket-related information • In a province between 100 and 150 dockets on average were assigned per police officer, compared to the department's norm of between 17 to 20 new cases, and 35 to 40 cases on hand • Effective record keeping was not always possible
Operational response services	<ul style="list-style-type: none"> • Lack of trained staff and adequate facilities at various border units



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2.4 Performance information review – national departments 2003-04

2.4.1 Introduction

Last year I reported in paragraph 5.1 of my Activity Report [RP 222/03] for the financial year 2002-03, that my office had developed a strategy for the auditing of performance information.

Over the past several decades audit offices around the world have moved away from simply carrying out financial audits, to a wide range of value-for-money or performance audits. An extension of the audit mandate and responsibility, namely that of providing assurance on performance reports produced by governments for tabling in legislatures and parliaments, has also evolved. This was necessitated by, amongst others, public sector reform in various countries similar to South Africa, which included significant initiatives to improve public reporting. This included providing legislatures and the public with better information on what government programmes are accomplishing and clearer answers to the question "What are taxpayers getting for their taxes?"

As performance information and reporting becomes more important for governance, greater focus will be placed on the quality of the information. Consequently, legislatures in some instances have turned to their auditors to provide them with some assurance that the performance information provided by government can be trusted. The answer to the question of "Why should performance information be reviewed or audited?" can thus be found in the need to increase accountability, as well as the credibility of the information.

As a first step in the process of phasing in performance information audits, my office has therefore conducted a desk review on performance information reported by national departments. This performance information is contained in the section "programme performance" in the departments' annual reports for 2003-04. The review was conducted on a sample of 19 of the 34 national departments. In monetary terms these 19 national departments represent 68% of the total actual expenditure for the year under review. The following 19 departments were subjected to this review:

- Arts and Culture
- Communications
- Correctional Services
- Defence
- Government Communication and Information System
- Health
- Independent Complaints Directorate
- Minerals and Energy
- National Treasury
- Provincial and Local Government
- Public Service and Administration
- Public Service Commission
- Public Works
- Safety and Security
- Science and Technology
- SA Management Development Institute



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- Sport and Recreation
- The Presidency
- Water Affairs and Forestry

The performance information in the annual reports was evaluated against certain criteria. The selection of these criteria was based on and supported by the requirements of financial legislation, regulations and guidelines for the preparation of budgets and annual reports for the year ended 31 March 2004.

The criteria for the review were formulated as follows:

1. The performance information (specifically the measurable objectives and the measures/indicators) reflected in the annual report should agree with the performance information in the Estimates of National Expenditure (ENE) for 2003-04.
2. Measurable objectives should be formulated to adhere to the SMART principle, namely to be:
 - Specific
 - Measurable
 - Attainable
 - Relevant
 - Timebound

Note – during the review only the principles of specific, measurable and timebound were evaluated.

3. Subprogrammes should be grouped together so that their outputs contribute to a single measurable objective for the programme.
4. The performance information should be presented in a way that is straightforward and meaningful and should not be fragmented in the annual report or difficult to follow.
5. Actual performance should be indicated for each measure/indicator and reasons for any differences should be explained.

2.4.2 Review results

The outcome of the review results on each of the above-mentioned criteria for the 19 departments reviewed are presented below.

Criterion 1: The performance information (specifically the measurable objectives and the measures/indicators) reflected in the annual report should agree with the performance information in the ENE for 2003-04.

One of the criteria for good reporting on performance information is consistency.¹ The criterion of consistency is defined as follows:

"Performance measures should be consistent from one reporting period to the next, and the information should be prepared on the same basis in order to compare and assess performance adequately."

The results of the review were as follows:

¹ Guide for the preparation of annual reports, national and provincial departments, for the year ended 31 March 2004, National Treasury



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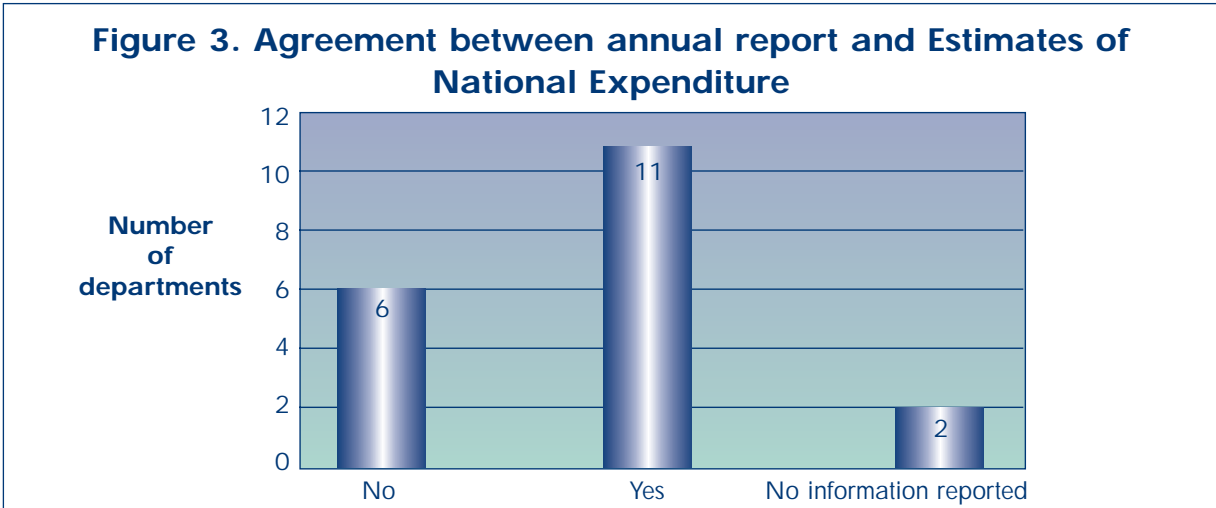


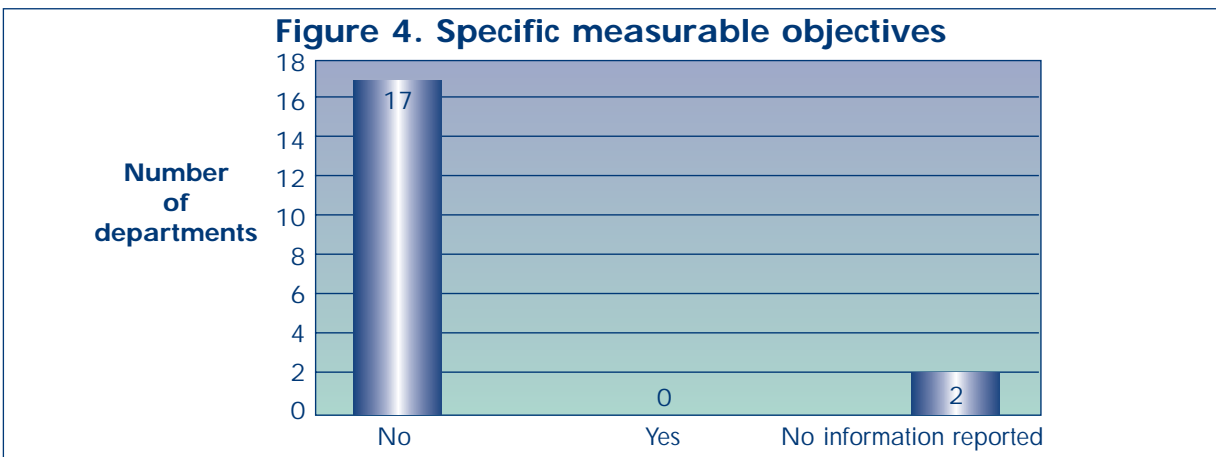
Figure 3 shows that 58% (11 out of 19) of the departments could link performance information with the Estimates of National Expenditure whilst 32% (6 out of 19) of the departments tested could not. Therefore the basis of funding and the reporting requirements in the public domain are not aligned, resulting in a lack of clear accountability. The fact that 42% of the departments tested did not comply with this criterion could result in poor budgeting and performance.

Criterion 2: Measurable objectives should be formulated to be specific, measurable and timebound.

In terms of guidance provided by the National Treasury in this regard, the following has reference:²

- Measurable objectives are defined as specific, quantifiable outcomes that can be achieved within a foreseeable time.
- A measurable objective should be an observable action that describes what the programme will do.
- Measurable objectives serve as a roadmap for achieving the department's goals and define the actual impact on the public rather than focusing on the level of effort that is expended.
- Objectives could be measured by means of setting expected outcomes, programme outputs, indicators (measures) and targets of the institution's programmes.

The results of the review were as follows:

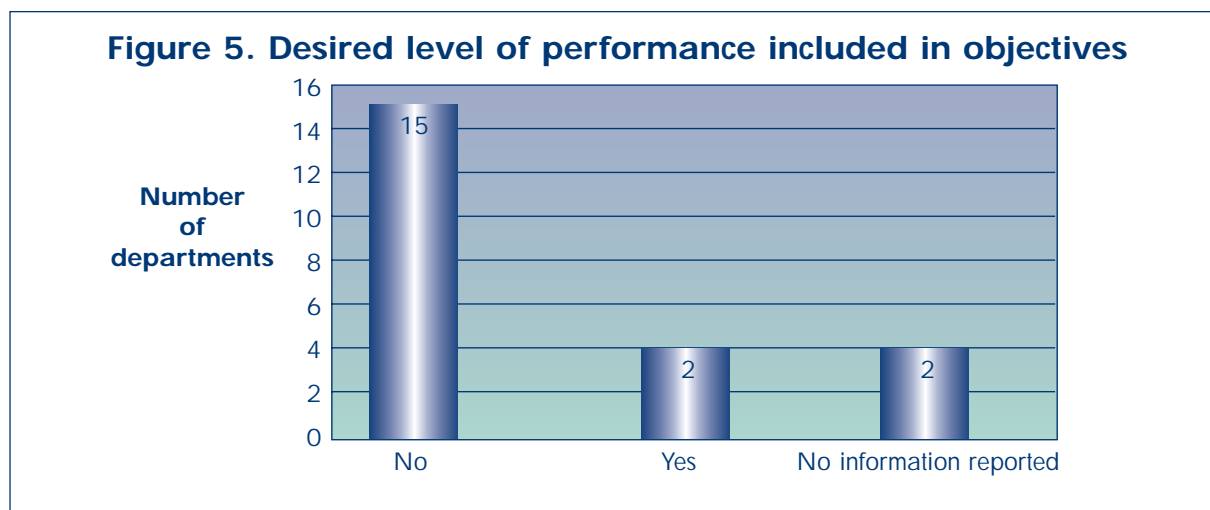


² Treasury Guidelines on the Medium Term Expenditure Framework: Preparing MTEC submissions, National Treasury, 2003

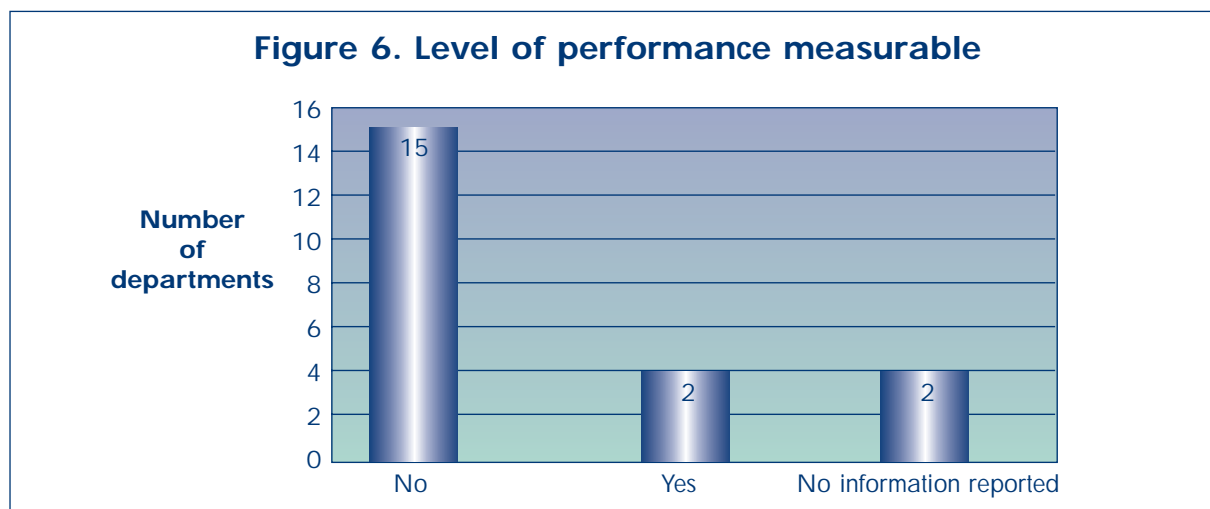


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As can be seen from figure 4, in all cases where information was available, no specific measurable objectives were in place. This clearly represents a challenge to all parties involved for improved guidance and training.



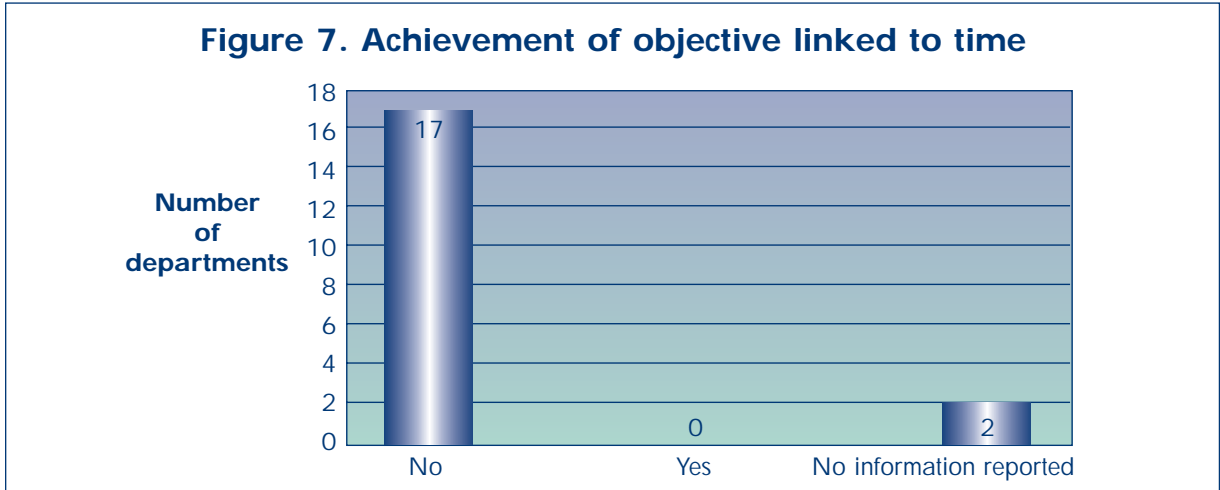
Setting the desired level of performance is essential to ensure that the relevant agents of service delivery are held accountable. Issues such as capacity and resources can be assessed from this. This information was only available in two cases out of the total of 19 departments, while two departments did not report on this at all.



The performance measurable provides an indication of the impact on the stakeholders involved. In 15 of the 17 cases it was not possible to identify such impact.



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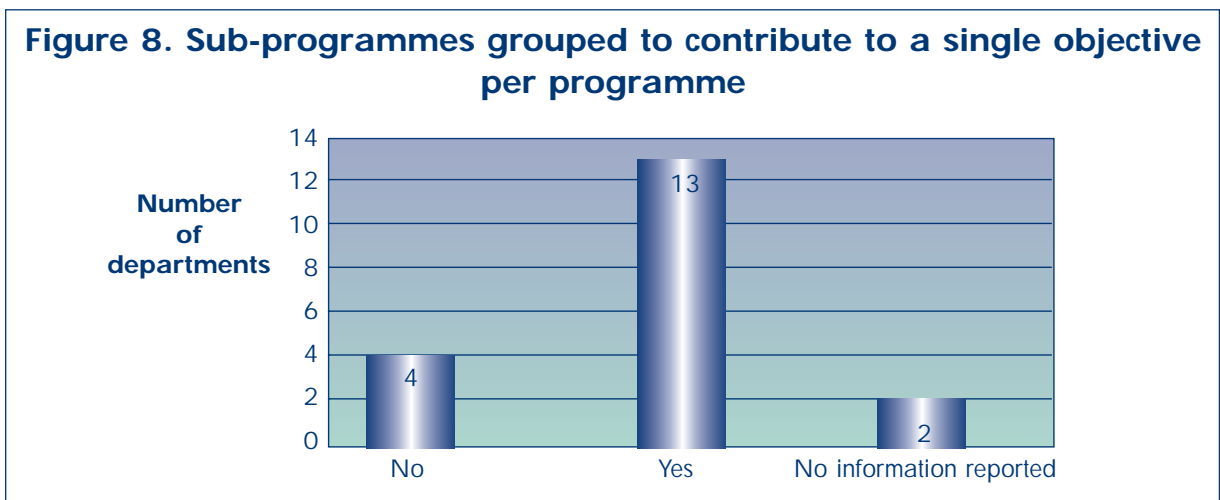
In no cases could the objective be directly linked to time. This provides another challenge to the accountability processes, as a key question is often: "When will the service be delivered?"

Criterion 3: Sub-programmes should be grouped together so that their outputs contribute to a single measurable objective for the programme.

According to National Treasury guidance, when reviewing the measurable objectives, departments should also consider the following as a way of ensuring alignment with the programme's purpose and structure:³

- Sub-programmes should be grouped together so that their outputs contribute to a single measurable objective for the programme.
- Too many sub-programmes included under a single programme very often complicate the formulation of a common objective.
- The right balance between the number of programmes and sub-programmes that achieve the department's mandate in the most efficient and effective manner is desired.
- Consideration of certain programmes to be downscaled and shifted under another programme.

The results of the review were as follows:



³ Treasury Guidelines on the Medium Term Expenditure Framework: Preparing MTEC submissions, National Treasury, 2003



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This area was encouraging as only 24% of the departments tested did not group sub-programmes together adequately to provide a "bigger picture". This provides for more complete coverage of the department's performance.

Criterion 4: The performance information should be presented in a way that is straightforward and meaningful and should not be fragmented in the annual report or difficult to follow.

Another criterion for good reporting on performance information is understandability.⁴ This criterion is defined as follows:

"The readers for whom the report is intended should be able to clearly understand the contents of the report, which can be achieved by using terminology and reasoning that is comprehensible to any lay reader – especially when technical matters are discussed."

The results of the review were as follows:

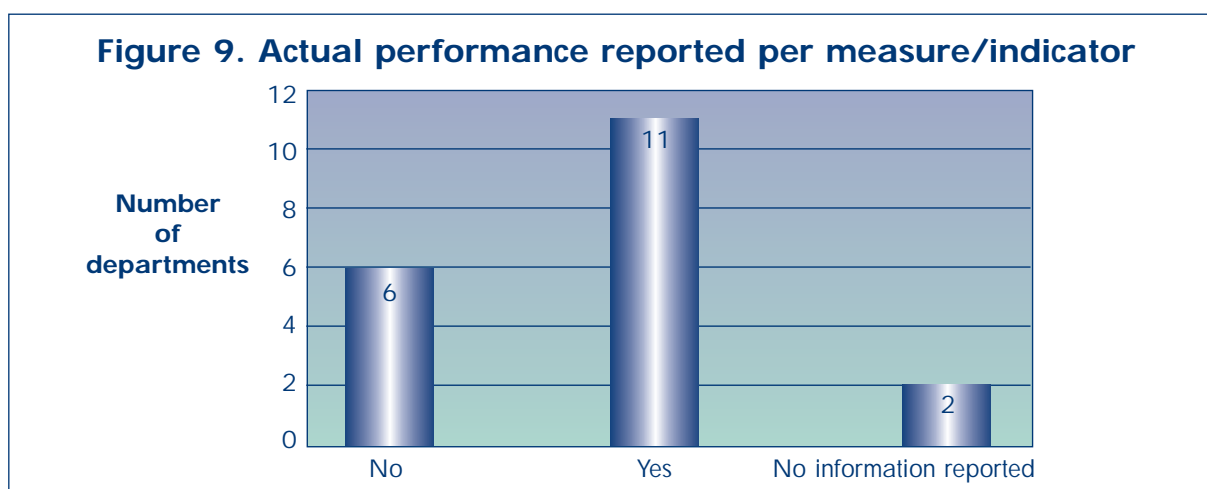
Overall the findings under this criteria were mixed. The technical nature of the functions of some departments provides a challenge in representing their performance in non-technical terms. This was achieved in the majority (10) of cases where information was available.

Criterion 5: Actual performance should be indicated for each measure/indicator and reasons for any differences should be explained.

Also indicated as a criterion for good reporting on performance information is the analysis of information.⁴ This criterion is explained as follows:

"It is important to show that any significant variances have been analysed. The reasons for variances should be examined, analysed and explained. Periodic programme evaluations are therefore important to assess the relationship between anticipated outputs and actual achievements."

The results of the review were as follows:



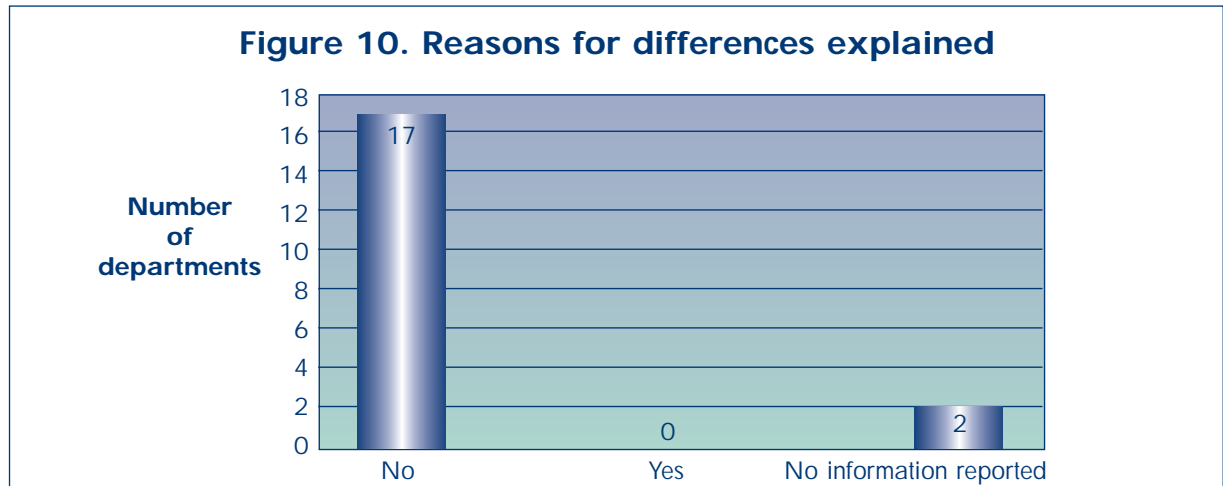
The reporting of performance against the measure/indicator provides an essential guide to the planned progress. This was achieved by 11 of the departments tested and represents a good basis for performance reporting.

⁴ Guide for the preparation of annual reports, national and provincial departments, for the year ended 31 March 2004, National Treasury



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The reasons for any difference should be explained. The results of the review were as follows:



This represents a major area for improvement. An important recognition is that what is planned cannot always be achieved and the reasons "why not" are essential for the reader of the annual reports.

2.4.3 A few general comments emanating from the reviews

The departments reviewed succeeded to some extent (58%) in the alignment of the performance information in the ENE with the programme performance information in the annual reports. A minority of national departments reviewed (42%) did not address the performance information in their annual reports, with the result that the other criteria could not be evaluated. The evaluation of the rest of the criteria revealed a mixture of positive and negative results. One of the positive findings was that most (68%) of the departments reviewed grouped together their sub-programmes to contribute to a single measurable objective for the programme and that the performance information was presented in a straightforward and meaningful way.

Continual improvement is, however, an integral part of any process and the departments will always be challenged to improve on performance reporting. One specific area for improvement identified during this review was the formulation of objectives to be specific, measurable and timebound. Another important area for improvement will be to ensure consistency of performance information from one reporting period to the next with specific emphasis on in-year reporting on performance information.

2.4.4 Recommendations

With reference to the phasing-in approach and strategy of my office regarding the review of performance information, the following recommendations can serve as a guide to improve the reporting on performance:

- Fragmented guidance on performance reporting should be consolidated, revisited and issued for consistent implementation by departments.
- A framework supported by training initiatives should be compiled to ensure consistency of performance reporting within and between departments.



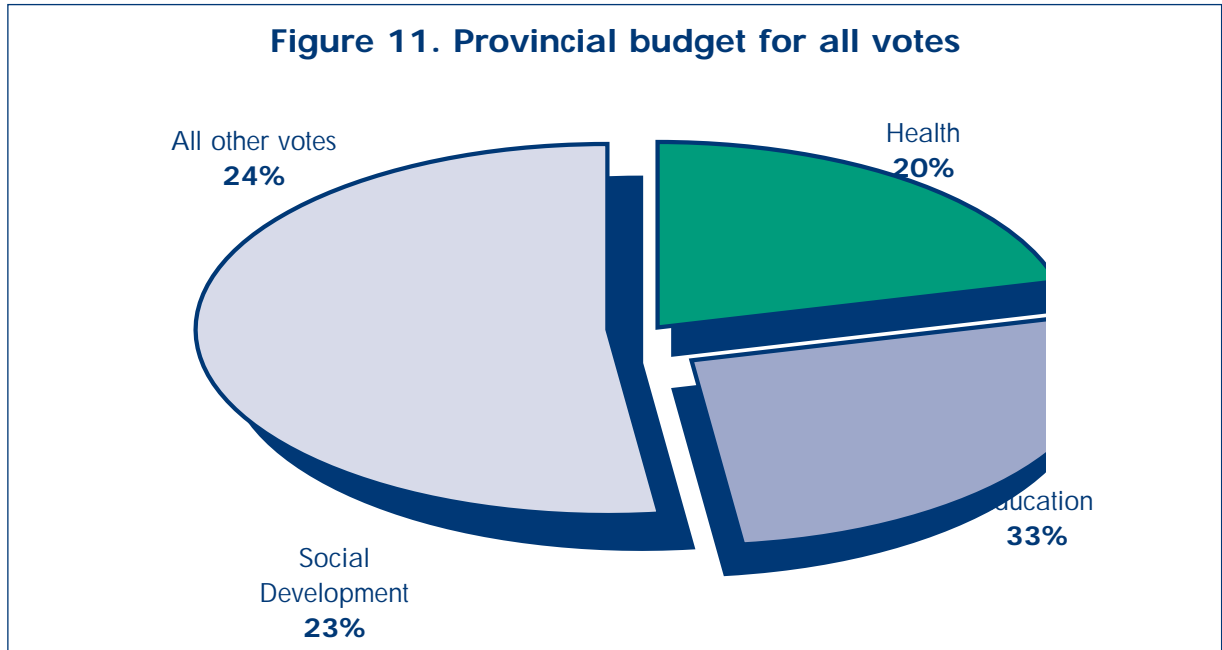
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- A further step to ensure proper performance reporting would be to include a link between national priorities (as per the National Programme of Action), budgeted information and specific measurable objectives and targets reported on by departments in annual reports.
- Problems and difficulties experienced by departments when formulating, implementing, monitoring and reporting on performance should be monitored and corrective action should be taken in a proactive manner.
- Guidelines and training should be provided to governance and oversight bodies on performance reporting to ensure better understanding and review of performance information.



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SECTION 3: PROVINCIAL OVERVIEW



The figure above shows that the budgeted expenditure for the three main votes represents 76% of the total provincial budgeted expenditure.

Education is the single largest area of expenditure, with Social Development receiving the largest increase. Note that the total expenditure of R140 billion for these three main sectors exceeds the total expenditure of R134 billion, including transfer payments, for all the national departments.

Table 10. Total provincial expenditure on Education, Health and Social Development

Province	Total expenditure 2003-04 R million	Total expenditure 2002-03 R million	Percentage increase
Education	60 233	52 711	14%
Health	37 573	33 407	12%
Social Development	42 374	32 517	30%
Total	140 180	118 635	18%

3.1 Audit opinions

Figure 12 below depicts the unqualified audit opinions issued per sector over the past three years. The overall average of the three sectors is also shown. In most cases there has been a decrease in the number of unqualified opinions for the past year. The most significant deterioration can be found in the Health sector where only three unqualified audit opinions were found in 2003-04, whereas by comparison in the 2002-03 reports six of the nine provincial Departments of Health had unqualified