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Criterion 5: 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.

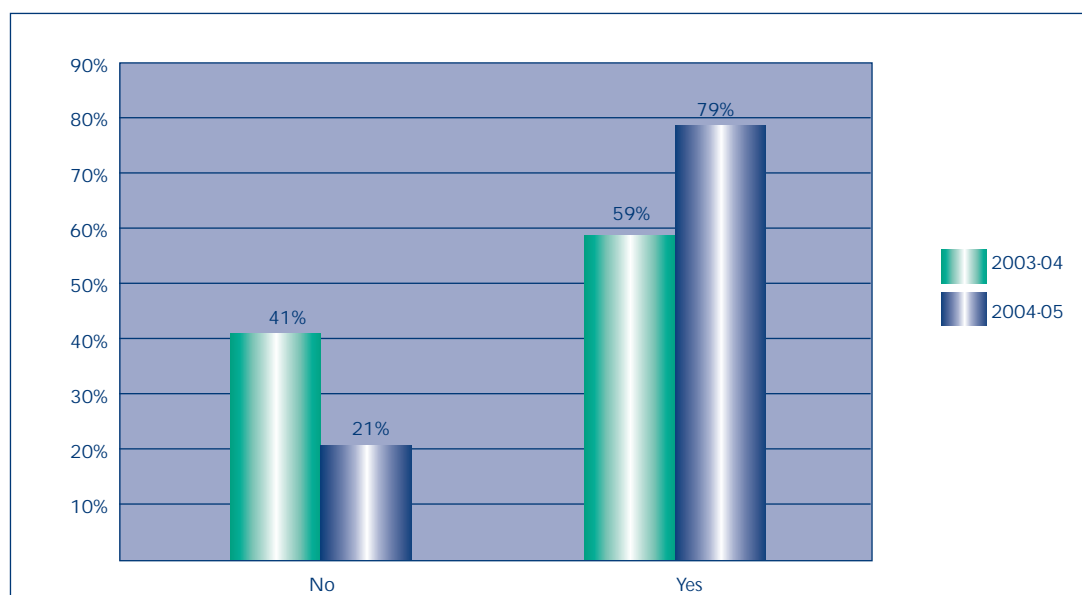
Another criterion for good reporting on performance information is understandability.¹ This criterion is defined as follows:

"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 finding under this criteria was positive in that 79% of the departments analysed, presented the performance information in a straightforward and meaningful manner. Performance information was mainly reported on in a tabular format according to the prescribed guidance issued by the National Treasury.

Figure 9. Objectives/indicators are consistent from one period to the next



Criterion 6: 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.¹ 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."

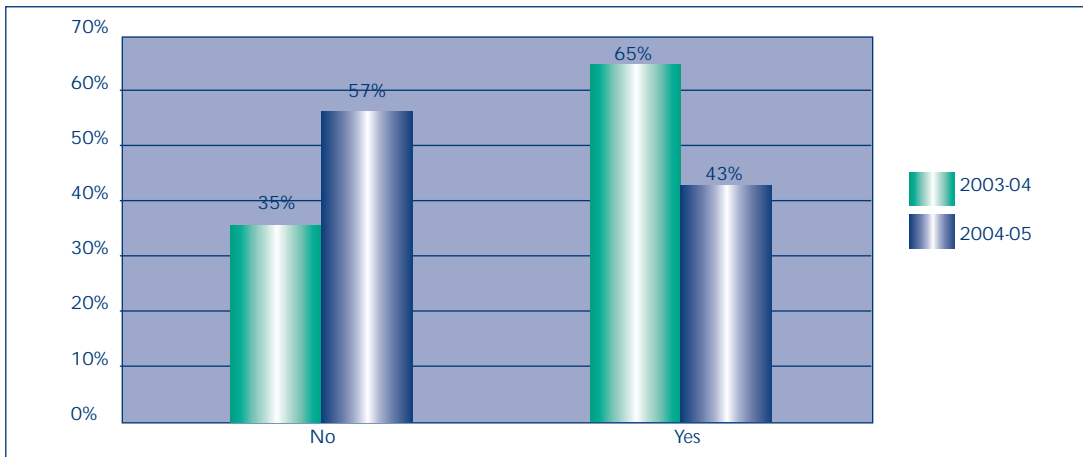
The results of the review were as follows:

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 10. Actual performance reported per measurable indicator



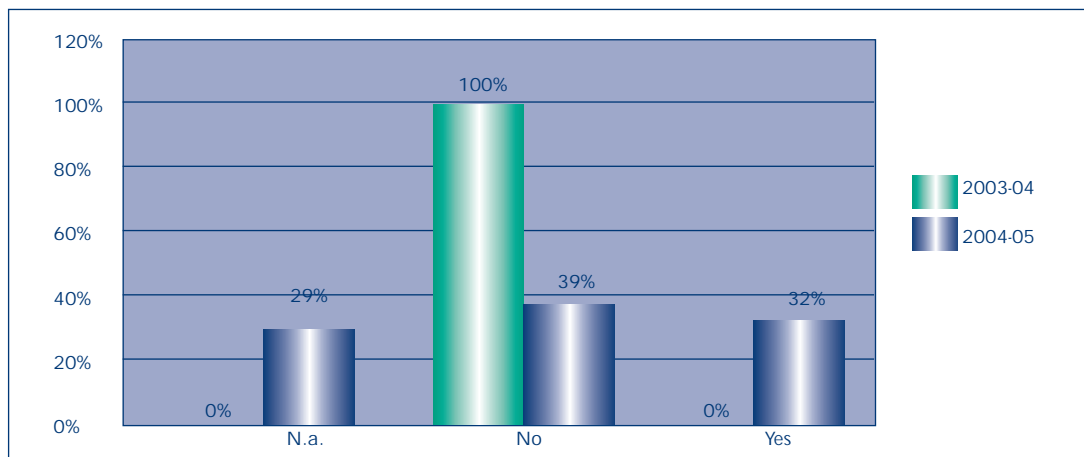
The reporting of performance against the measure/indicator provides an essential guide to the planned progress. It was disappointing to note there had been a decrease in the percentage of departments complying with this criterion as only 43% of the departments indicated actual performance for each measure/indicator and/or target. The following shortcomings were noted:

- Actual performance was not consistently reported on against the relevant measure/indicator. In some instances actual performance was only reported on against the overall measurable objectives.
- Actual performance did not relate to the measure/indicator set, but merely described the activities/projects performed by the departments.

The root cause of the above can be attributed to unrealistic targets set or selective reporting on those aspects where positive performance can be reported on.

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

Figure 11. Reasons for differences explained





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This represents a major area for improvement as in 32% of the cases reasons for differences were explained. Another concern is the 29% of cases where this was indicated as “not applicable”, as this may reflect inconsistent reporting on planned versus actual performance. 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.

3.3 A few general comments emanating from the reviews

It was encouraging to notice improvements in some of the findings compared to those of the previous year. Those findings specifically related to the formulation of objectives to be specific and measurable. Other positive findings reported on remained constant compared to the previous year. These included the grouping of subprogrammes to contribute to a single measurable objective and the presentation of performance information in a straightforward and meaningful way.

It is of concern, however, that in the majority of departments reviewed, the objectives and performance information reflected in the annual reports, ENE and strategic plans did not always agree. This is an indication that the planning, funding and reporting of performance information are not aligned.

Another area of concern is the decrease in the percentage of departments that reported on actual performance for each measure/indicator and/or target and the limited number of departments reflecting on the reasons for the differences between planned and actual performance. The limited number of departments adhering to the requirement of quarterly reporting, as required by the Treasury Regulations, is another major area of concern. Departments furthermore did not link performance delivery measures and indicators to timelines throughout. All these areas of concern pose challenges to the accountability process that would require the necessary attention.

3.4 Recommendations

With reference to the phasing-in approach and strategy for the auditing 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. Over and above the overall guidance, specific guidance and training are needed in the following areas:

- Criteria to ensure that the desired level of performance is measurable
- A requirement to include appropriate timelines for the achievement of objectives, measures/indicators
- Performance measures/indicators to facilitate the formulation of outputs
- Linkage between outputs and measures/indicators per programme and subprogramme
- The importance of balanced reporting and not only reflecting on achievements and ignoring non-achievement



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- The monitoring of the consistent application of guidelines by departments
- A performance information framework supported by training initiatives should be finalised and implemented as a matter of urgency to ensure consistency of performance reporting within and amongst departments.
- Clear guidelines should be established and implemented to operationalise in-year monitoring and reporting on both financial and non-financial performance and to integrate the two.
- The reporting of performance information in the annual report is the final stage in the accountability cycle. To ensure proper accountability, there should be clear links between the information presented in terms of measurable objectives in the strategic plan, the ENE and the annual report.
- Problems and difficulties experienced by departments when formulating, implementing, monitoring and reporting on performance should be consistently monitored and corrective action should be taken in a proactive manner. This could be done by establishing a dedicated unit at the National Treasury to provide ongoing assistance and guidance to departments on various areas related to performance information. This could include, for example, reviewing objectives set in terms of the SMART principles, reviewing the alignment of objectives between the different strategic documents and providing the necessary support and advice to improve the quality of planned objectives and subsequent reporting. The unit could also provide assistance with defining outputs to ensure that these outputs are specific and do not only address part of the objectives and that the subprogrammes reflect all aspects of the objective. Another important function of such a unit would be to ensure that reporting on planned performance measures/indicators takes place and differences between planned and actual performance are explained.



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SECTION 4: SPECIALISED AUDIT SERVICES 2004-05

4.1 Special investigation reports for 2004-05 at national government

Only one report was tabled, namely the *Special report on the procurement of goods and services by Armscor from a specific armament supplier* [RP 40/2005]. In addition two reports were issued to management but were not tabled in Parliament, namely:

Department of Defence: Far North Command repair to state housing; and
Department of Health: NAPWA: Contracts and transfer payments.

4.2 Performance audit reports

No reports were tabled in Parliament. The following reports were issued to management but not tabled in Parliament:

Table 8. Reports issued to management but not tabled to Parliament

Department/entity	Focus area
National Treasury	Management of sick leave
Land Affairs	Reform programme
Correctional Services	Supply of uniforms and clothes
Ntsika	Overall management measures
SABS	Overall management measures

The extent of work done in this area is not adequate if one considers the stakeholders' expectations and the national drive towards higher levels of accountability. This is cause for concern to me and a significant challenge to my organisation, to increase its effort in this area of our work.

4.3 Integrated audits

An integrated audit report addresses more sophisticated aspects of a particular entity through a multidisciplinary team of performance and regularity auditors. This approach requires a fundamental understanding of a particular department or entity. The area of investigation will be based on particular concerns and issues at that entity.

4.3.1 Safety and Security

- Performance audit: Human resource management
 - Due to an ineffective management information system, leave and overtime statistics were not properly compiled to manage and analyse leave effectively.
 - 18% vacancy rate for detectives due to an ineffective succession planning process, resulting in a shortage of expertise.



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- Performance audit: Ineffective monitoring and control over docket and case administration system
 - Dockets at certain units were assigned to members that left the unit.
 - The status of cases and docket on hand per investigator was not always reviewed and followed up.
 - Lack of trained staff and controls to safeguard docket-related information resulted in ineffective docket-keeping and an increased risk of docket being lost or stolen.

4.3.2 Department of Defence

- Performance audit: Unrealistic establishment
 - The lower structure of the department is predominantly African while senior and middle management and professional staff are predominantly white.
 - The goal of 70 000 members for the establishment in 2010 appears to be unrealistic.



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SECTION 5: REVIEW OF NATIONAL PUBLIC ENTITIES

5.1 The Public Audit Act and the auditing of public entities

5.1.1 Background

The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (Constitution), the Auditor-General Act, 1995 (Act No. 12 of 1995) (now repealed), the Audit Arrangements Act, 1992 (Act No. 122 of 1992) (now repealed) and the PFMA did not provide the AG with a sufficient mandate to audit public entities. Only in the event of a request by Parliament to audit a public entity, did the AG have the mandate to perform the audit. The AG could, however, not enforce such an audit.

Parliament was not comfortable with the situation, as most of the entities use substantial public resources and they should account to Parliament for that. The committee tasked with the Public Audit Bill initially wanted the AG to perform the audit of all public entities. As this would have an enormous impact, the AG proposed a more balanced approach, namely that the AG has the first option to audit the public entities. Should the AG decide not to exercise this option, then the public entities can appoint their own auditors, but the AG will:

- prescribe the audit standards to be applied by the appointed auditor, and
- set certain reporting requirements.

The decision ultimately taken on this issue, as embodied in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) was that the Auditor-General would have first option to audit these public entities. If the Auditor-General elected in terms of section 4(3) of the PAA not to perform the audit, such entity would be responsible for appointing its own auditor in private practice, who must apply the auditing and reporting standards determined by the Auditor-General.

This does not, however, mean that the Auditor-General retains the risk for an audit where he has opted not to perform the audit. Once the Auditor-General has exercised his discretion, the audit risk would rest fully on the auditor appointed.

5.1.2 Duties imposed

The objective of the PAA is to give effect to the provisions of the Constitution by establishing and assigning functions to an Auditor-General, to provide for the auditing of institutions in the public sector and to provide for accountability arrangements of the Auditor-General.

Section 4(3) of the PAA states that:

...the Auditor-General may audit and report on the accounts, financial statements and financial management of:

- (a) any public entity listed in the Public Finance Management Act; and
- (b) any other institution not mentioned in subsection (1) and which is-
 - i. funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
 - ii. authorised in terms of any legislation to receive money for a public purpose...



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Section 25(1) of the PAA states that where the Auditor-General has elected not to perform the audit of an institution referred to in section 4(3):

- (a) the Auditor-General must give notice of his or her decision to that auditee before the start of the auditee's financial year for which the appointment is to be made; and*
- (b) the auditee must appoint as its auditor a person registered in terms of the Public Accountants' and Auditors' Act as an accountant and auditor and engaged in public practice as such.*

When electing not to perform an audit of a public entity or institution in terms of section 4(3) of the PAA, the Auditor-General is mandated by the PAA to impose a wide spectrum of duties on auditors in private practice appointed as auditors to these entities, namely:

- Section 27(1) states that the auditor, if appointed in terms of section 25(1)(b), must perform the functions of office as auditor in terms of section 20 of the Public Accountants' and Auditors' Act, 1991 (Act No. 80 of 1991).
- Section 27(2) states that the auditor, in performing the functions of the auditor of the auditee, has the same powers as assigned to the Auditor-General in terms of section 15 of the PAA.
- Section 27(5) states that the Auditor-General may request information regarding the audit from an auditor appointed in terms of section 25(1)(b).
- Section 28(1) allows the Auditor-General to prescribe what content the report of the auditor should reflect.
- The Auditor-General may, in terms of section 28(2)(a), request the auditor to, in addition to the normal audit report, report on whether or not the auditee's resources were procured economically and utilised efficiently and effectively.
- The Auditor-General may, in terms of section 29(1), designate an authorised auditor to carry out an investigation or special audit (as referred to in section 5(1)(d) of the PAA).
- The Auditor-General may further, in terms of section 28(2)(b), request the auditor, in addition to the normal audit report, to report on any matters arising from an investigation required by the Auditor-General that should, in the public interest, be brought to the attention of the relevant legislature.

From the above it is clear that the PAA allows the Auditor-General to play an active monitoring and prescribing role (i.e. the mandate to impose duties) during the audit of an institution by an auditor in private practice, where the Auditor-General has elected not to perform the audit. Note that sections 58 to 62 of the PFMA have been repealed and replaced by the PAA.

5.1.3 Population of public entities and institutions

It is the responsibility of the National Treasury to identify and capture all entities. Based on the consolidated list from the National Treasury as well as criteria approved by the Auditor-General, he must elect the entities which will be audited by him. The most recent list provided by the National



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Treasury is incomplete. This, as previously reported on, suggests that there is still no authoritative list of public entities available.

5.1.4 Need for decision criteria

In order to determine which entities should be audited by the Auditor-General and which entities may be audited by auditors in private practice, certain criteria have been developed which can be summarised as follows:

- Request from Parliament
- Request from the entity itself
- Public interest
- Internal capacity
- Specialist industrial and technical knowledge

The criteria are not used in isolation, although one group or specific criteria may carry more weight in the decision whether or not to audit the entity. When deciding to perform an audit of an entity, these and other relevant criteria are carefully considered.

5.1.5 Allocation of audits between the Auditor-General and public firms

In table 9 below, it is clear that entities that are run along commercial lines are audited by outside firms, and in the four cases where the audit of schedule 2 entities was allocated to the Auditor-General, three of these audits have been contracted out. The schedule 2 entities that are contracted out are:

- Land and Agricultural Bank of South Africa
- SA Nuclear Energy Corporation
- Independent Development Trust

It is interesting to note that the expenditure incurred by the entities for which I have received information totalled R198 billion, of which R164 billion relates to schedule 2 entities, R24 billion to schedule 3A entities and R10 billion to schedule 3B entities.

Schedule 3A entities are run along departmental lines and most of these are audited by the AG.

Table 9. Analysis of audits performed by the Auditor-General, contracted out and performed by public firms

	Schedule 2	Schedule 3A	Schedule 3B	Total
Audited by AG	1	93	3	97
Contracted out by AG	3	18	3	24
Not audited by AG	14	26	24	64
	18	137	30	185



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5.2 Classification of public entities

Public entities are classified into different schedules based on their nature and level of autonomy.

5.2.1 Schedule 2

Schedule 2 entities are referred to as major public entities and are intended to generate profits and declare dividends. As such the percentage transfer payment that schedule 2 entities receive from government is minimal in relation to revenue generated internally. For 2004-05 the average government grant was 0,9% (2003-04 – 1,0%) of total revenue generated by these entities. These entities have the most autonomy of all the public entities, as they operate in a competitive marketplace and are run in accordance with general profit-driven business principles. Section 66(3)(a) of the PFMA also provides schedule 2 public entities with borrowing powers through the accounting authority of that entity. According to the list of entities published by the National Treasury on 30 May 2005, there are 18 schedule 2 entities.

5.2.2 Schedule 3B and 3D

Schedule 3B and 3D entities are referred to as government business enterprises. These entities generate income, but may be either substantially self-funded or substantially government funded. As a result they have less autonomy than the schedule 2 public entities even though they are still run in accordance with general business principles. These entities also have limited borrowing powers. According to the list of entities published by the National Treasury on 30 May 2005, there are 30 schedule 3B and 13 schedule 3D entities.

5.2.3 Schedule 3A and 3C

The remaining public entities are classified as schedule 3A (national public entities) and 3C entities (provincial public entities). These entities are normally extensions of a department with the mandate to fulfil a specific economic or social responsibility of government. They rely on government funding, either by means of a transfer from the Revenue Fund or through statutory money and public money. As such, these entities have the least autonomy. According to the list of entities published by the National Treasury on 30 May 2005, there are 137 schedule 3A and 83 schedule 3C entities.

In total, there are 281 listed entities in the PFMA. The public entities reviewed for the purpose of this report only include the following schedules and are hereinafter referred to as national public entities:

- Schedule 2 – 18 entities
- Schedule 3A – 137 entities
- Schedule 3B – 30 entities

Schedule 3C and 3D entities are provincial public entities and provincial business enterprises respectively.

The completeness of the analysis is also limited in certain instances due to the fact that annual reports were not available in all cases. Where the annual report was not available, the audit report and annual financial statements were used. Usually the annual report contains more detail, for



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example the report of the audit committee, establishment of an internal audit unit and performance reporting.

5.3 Availability of information

5.3.1 Availability of information to the Auditor-General

In terms of section 55(1)(d) of the PFMA, the accounting authority for a public entity must submit within five months of the end of a financial year to the relevant treasury, to the executive authority responsible for that public entity and, if the Auditor-General did not perform the audit of the financial statements, to the Auditor-General –

- (i) an annual report on the activities of that public entity during that financial year;
- (ii) the financial statements for that financial year after the statements have been audited; and
- (iii) the report of the auditors on those statements.

In total there are 185 (2003-04: 191) national public entities, of which 121 (2003-04: 117) were audited by the AG. At 31 August 2005 information on only 158 (2003-04: 151) of these entities was available, which represent 85% (2003-04: 79%) of all the national public entities. Twenty-seven entities (2003-04: 40), representing 15% (2003-04: 21%) of the total national public entities, either did not submit the relevant information to the AG, or had not finalised their information at that date. Annexure 4 lists the entities for which no information was available.

Table 10 provides a breakdown of the 27 (2003-04: 40) public entities for which information was not available, per ministerial portfolio.

Table 10. Entity information not submitted to the Auditor-General per ministerial portfolio

Ministerial portfolio	Total number of public entities per ministerial portfolio		Entities that did not submit information on time		Percentage of non-submission per portfolio	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
Transport	11	11	6	8	55%	73%
Arts and Culture	26	27	6 ¹	4	23%	15%
Minerals and Energy	9	9	2	3	22%	33%
Environmental Affairs and Tourism	6	7	1	4	17%	57%
Trade and Industry	18	18	3	6	17%	33%
Housing	7	10	1	3	14%	30%
Other	108	109	8	12	7%	11%
TOTAL	185	191	27	40	15%	21%

The following ministerial portfolios performed the worst:

- Transport
- Minerals and Energy

¹ Three of the entities' audit reports had been finalised on time, but were not available at the time of this analysis



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- Environmental Affairs and Tourism
- Trade and Industry

The above portfolios represent 67% (18 entities out of 27) of the total entities that did not submit information to the AG.

The analysis I am able to provide in the general report is therefore limited to 158 (2003-04: 151) entities, which makes it incomplete and also limits comparability between financial years.

Table 11 details a list of the entities for which I am still to receive 2003-04 financials. It should also be noted that all the entities listed below with the exception of the SA Quality Institute have not provided their 2004-05 financial statements to the AG.

Table 11. Financial statements for 2003-04 not provided to Auditor-General

Entity	Ministerial portfolio
Inala Farms (Pty) Ltd	Agriculture and Land Affairs
Marine Living Resources Fund	Environmental Affairs and Tourism
Aventura	Public Enterprises
Estate Agency Affairs Board	Trade and Industry
SA Excellence Foundation	Trade and Industry
SA Quality Institute	Trade and Industry
Road Traffic Management Corporation	Transport

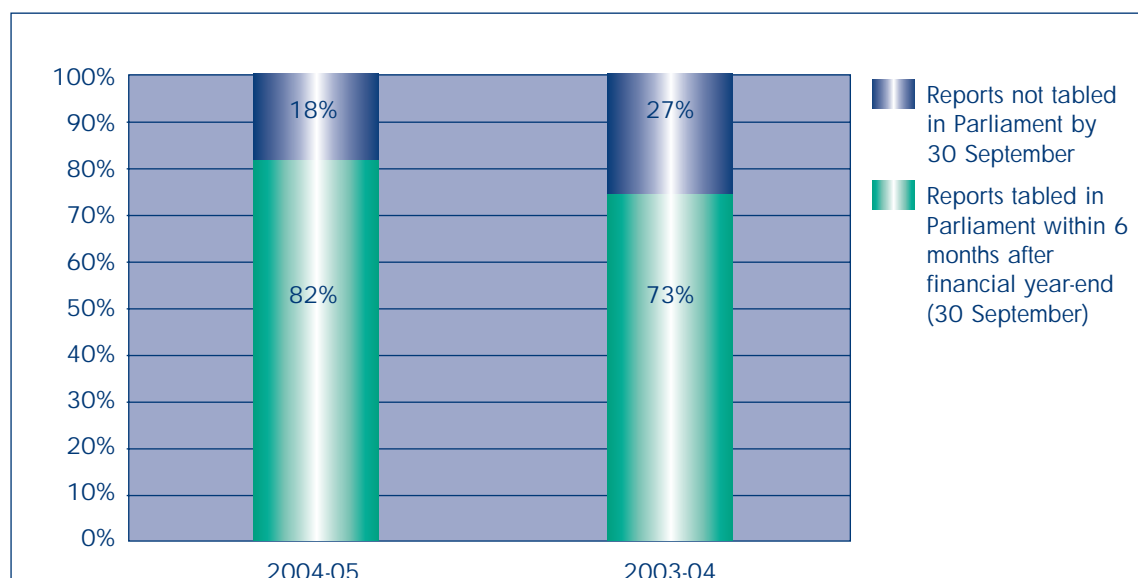
Although there has been an improvement from the 2003-04 financial year relating to the timely submission of financial statements to me, it is of concern that certain entities do not regard this as a significant priority. I wish to draw your attention to section 83 of the PFMA, which stipulates that the accounting authority commits an act of financial misconduct if that accounting authority wilfully or negligently fails to comply with sections 50, 51, 52, 53, 54 and 55.

5.3.2 Availability of information to Parliament

Section 65(1) of the PFMA requires the executive authority to table the annual report, financial statements and audit report in Parliament within one month after the accounting authority has received the audit report. The tabling date is, therefore, six months after year-end. Of the 195 (2003-04: 191) public entities, 166 (2003-04: 165) have 31 March as their year-end and these entities need to table their reports by 30 September 2005. On 30 September 2005, 82% (2003-04: 73%), 136 (2003-04: 121) public entities had tabled their annual report, financial statements and audit report to Parliament, with 18% (2003-04: 27%), 30 (2003-04: 44) public entities not having tabled as per PFMA requirements. The data for entities that have not tabled financial statements in Parliament also includes entities that have successfully applied for exemptions in terms of section 65 of the PFMA. There has been an increase in the tabling of annual reports, financial statements and audit reports, which is testimony to the strides being made by government departments in complying with the PFMA. Figure 12 sets out the comparison.



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Figure 12. Submission of annual reports to Parliament

Of the 18% (2003-04: 27%), 30 (2003-04: 44) reports not tabled in Parliament, the following ministerial portfolios had the highest percentage public entities not complying with section 65(1). The improvement year-on-year, from 73% (2003-04) to 82%, is noted and can be ascribed to entities' greater awareness of the PFMA requirements and their efforts to ensure compliance with these requirements.

Table 12. Ministerial portfolios not tabled in Parliament

Ministerial portfolio	Total number of public entities per ministerial portfolio		Number of public entities not tabled in Parliament		Percentage of public entities not tabled per ministerial portfolio	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
Housing	8	10	3	4	38%	40%
Trade and Industry	17	18	5	6	29%	33%
Arts and Culture	25	27	5	4	20%	15%
Labour	30	31	4	3	13%	10%
Other	86	79	13	27	15%	34%
Total	166	165	30	44	18%	27%

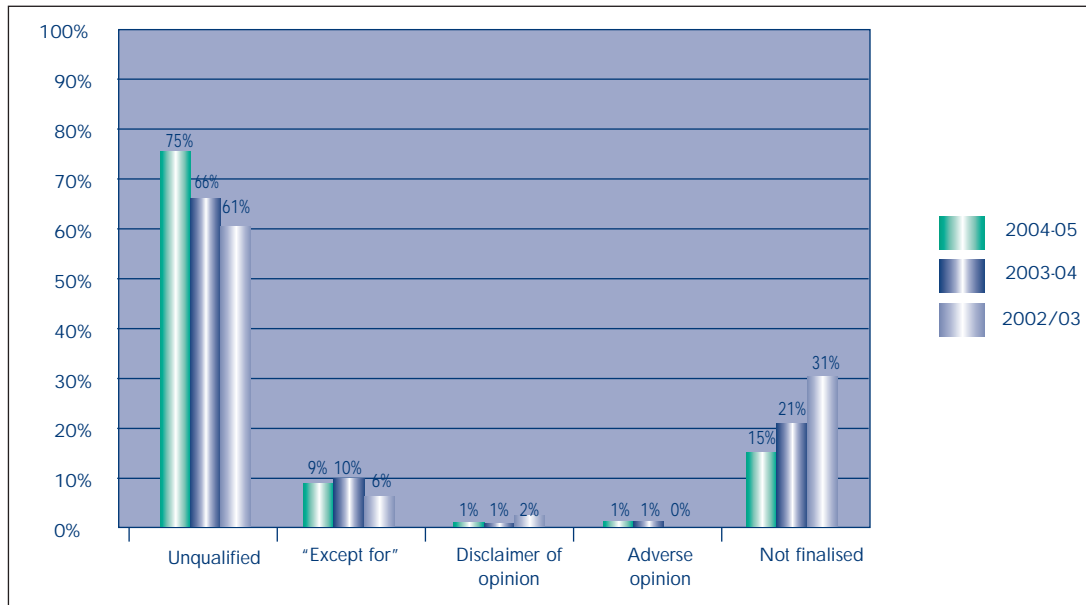
5.4 Audit opinions

The audit opinions of the 158 (2003-04: 151) public entities, for which information was received and analysed, show that there is a decrease in the percentage of entities that received an adverse, disclaimer or "except for" audit opinion (figure 13).



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Figure 13. Public entity audit opinions



The unqualified audit opinions (“clean” reports) have increased year-on-year from 66% (2003-04) to 75% (2004-05), representing an improvement of 9% over that period. This, coupled with increasing numbers of audit reports being finalised, means a positive trend. However, 15% of public entities are still not providing information.

Table 13 provides an analysis of the individual matters that have led to qualified audit opinions for the 102 entities, for which information was received from the entity and audited by the Auditor-General. From the analysis it is clear that items related to income and fixed assets are the major reasons for qualified audit opinions.

Table 13. Analysis and classification of matters resulting in qualified audit opinions for entities audited by the Auditor-General

Issue	Number of qualification items
<u>Income statement</u>	17
Income	8
Expenditure	4
Other	5
<u>Balance sheet</u>	20
Fixed asset controls and disclosure	10
Provision and accounts payable	4
Fixed asset register	3
Other	3
<u>Compliance</u>	1
Going concern	1
Total	38



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It was noted that four (2003-04: 12) public entities, listed in table 14, received an "except for", disclaimer or adverse audit opinion for the last three years. In addition, entities are included in the table for which we have not received information but which have had "except for", disclaimer or adverse audit opinions in the 2003-04 and 2002-03 financial periods.

Table 14. Details of public entities that received qualified audit opinions for the past three financial years

No.	Public entity	Ministerial portfolio	PFMA schedule	Audited by AG or not	2004-05 audit opinion	2003-04 audit opinion	2002-03 audit opinion
1	Ingonyama Trust Board	Agriculture and Land Affairs	3A	Yes	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
2	SA Blind Workers Organisation, Johannesburg	Arts and Culture	3A	No	"Except for"	"Except for"	"Except for"
3	Sate Theatre, Pretoria	Arts and Culture	3A	No	Information not provided	"Except for"	"Except for"
4	Castle Control Board	Defence	3A	Yes	"Except for"	"Except for"	"Except for"
5	Unemployment Insurance Fund	Labour	3A	Yes	Information not provided	Disclaimer of opinion	Disclaimer of opinion
6	Mine Health & Safety Council	Minerals and Energy	3A	Yes Contracted out	"Except for"	"Except for"	Disclaimer of opinion
7	Cross-border Road Transport Agency	Transport	3A	Yes	Information not provided	"Except for"	Disclaimer of opinion

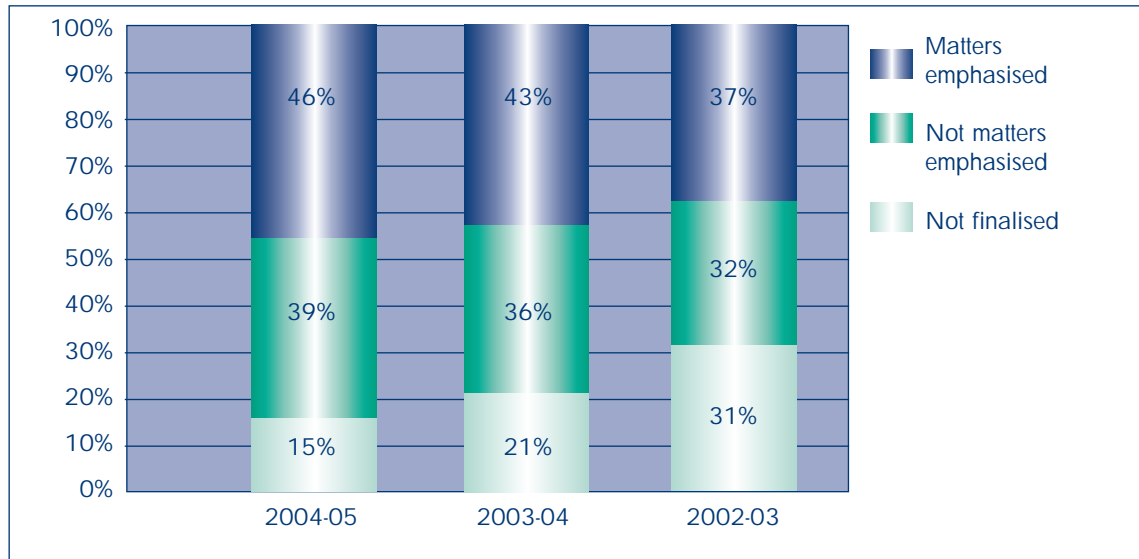
5.5 Matters emphasised

Although the percentage of entities for which information was not available decreased to 15% from the previous year's 21%, the average number of reports that contained emphasis of matter paragraphs increased from 43% to 46%. It is thus anticipated that of the outstanding reports, a significant number will also feature emphasis of matter paragraphs.



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Figure 14. Matters emphasised



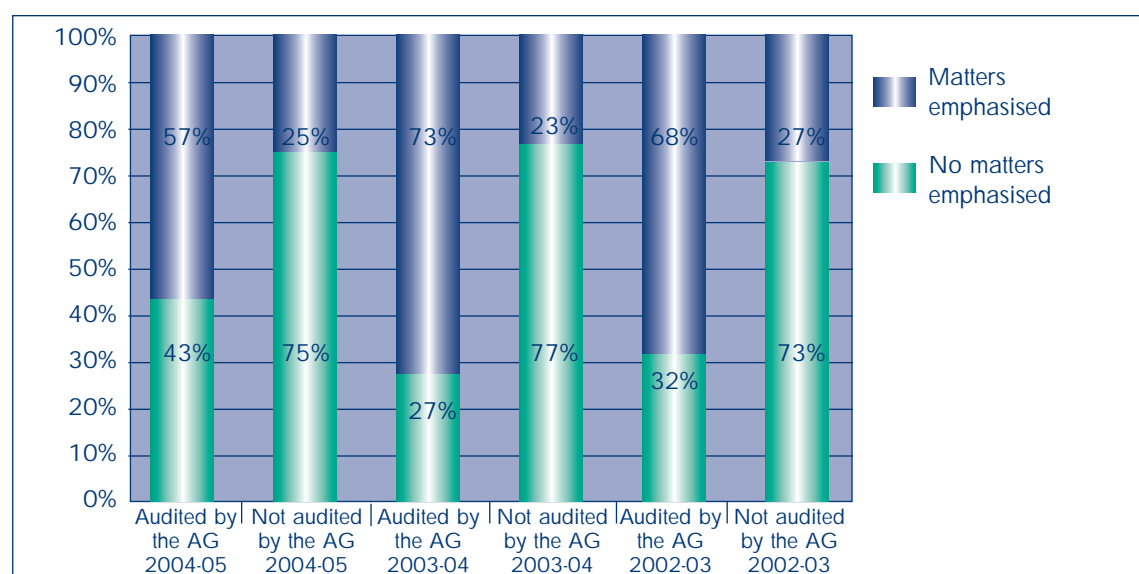
A tendency for more matters to be emphasised when the AG conducts audits is still prevalent. In 57% (2003-04: 73%) of the audit reports issued by the AG, one or more emphasis of matter paragraph was included in the report. In the case where the audit was performed by an external audit firm, appointed in terms of section 25(1)(b) of the PAA (previously section 58(1)(b) of the PFMA), only 25% (2003-04: 23%) of the reports contained an emphasis of matter paragraph (figure 15).

This might indicate that auditors appointed in terms of section 25(1)(b) of the PAA (previously section 58(1)(b) of the PFMA) do not place sufficient emphasis on the importance of reporting on legislative and internal control requirements such as:

- Non-compliance with laws and regulations e.g. the PFMA and Treasury Regulations; including the basic elements of a policy framework (22,2% of matters emphasised by the AG included these issues);
- Internal audit and audit committees (5,8% of matters emphasised by the AG included these issues); and
- Asset management (8% of matters emphasised by the AG included these issues).



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Figure 15. Analysis of matters emphasised based on auditors

Based on an analysis of the audit reports, the issues that led to matters being emphasised in the audit reports on the 102 entities for which information had been provided to me are detailed in table 15.

Table 15. Analysis and classification of issues resulting in emphasis of matter paragraphs for entities audited by the Auditor-General

Issue	Number of items emphasised
<u>Income statement</u>	47
Income	16
Expenditure	18
Other	13
<u>Balance sheet</u>	75
Cash and bank	19
Provision and accounts payable	10
Asset management	25
Other	21
<u>Compliance</u>	165
Non-compliance with laws and regulations	69
Internal audit issues	18
Other control weaknesses	19
Going concern	6
Other	53
<u>Information systems</u>	24
General control	24
Total	311



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The statistic causing concern that emanates from the above analysis is the large number of matters emphasised regarding non-compliance with laws and regulations. This clearly demonstrates that the requirements of, amongst others, the PFMA are not being adhered to.

5.6 Compliance issues

In my 2003-04 report, I listed four key problematic areas, namely reporting on performance information, reporting of irregular and fruitless and wasteful expenditure and material losses, disclosure of directors' and executive members' emoluments and the materiality and significance framework. Subsequent to that report some progress has been made on these issues.

5.6.1 Performance information

Section 55(2) (a) of the PFMA states that the annual report and financial statements...must–

(a) fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year...

The requirement in terms of performance against predetermined objectives represents a fundamental and important characteristic of the PFMA, namely that entities are not expected to provide information merely on their financial health and performance, but also on aspects such as service delivery. This broader information is a crucial element of the overall accountability process. In particular, it provides an important bridge between the expectations of the stakeholders of audit and annual reports and the information that is currently provided.

For an assessment of the extent of compliance with this requirement, refer to par. 5.7 for the results.

5.6.2 Reporting on irregular and fruitless and wasteful expenditure and material losses

TR 28.2.1 was added in the Treasury Regulations issued in March 2005, namely:

Any material losses through criminal conduct and any irregular and fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the public entity.

The above now clarifies the question of where to report. However, there is still uncertainty about what to report. This uncertainty stems from the wording used in section 55(2)(b)(i) of the PFMA:

...any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure...

This means that only material losses through criminal conduct are reported, but that all irregular and fruitless and wasteful expenditure must be reported. Further guidance from the National Treasury is still required to clarify this matter. Refer to par. 5.8 for more details.



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5.6.3 Directors' and executive members' emoluments

TR 28.1.1 was amended and provides more guidance on the disclosure of remuneration of members of the accounting authority, the chief executive officer or the person in charge of the public entity, the chief financial officer, persons serving in the public entity's senior management and members or persons mentioned serving in other entities under the ownership control of the public entity.

Disclosure is required as to whether such payment is receivable in the capacity as mentioned in the previous paragraph or in any other capacity. The disclosures shall include fees for services as a member or person, basic salary, bonuses and performance-related payments, sums paid by way of expense, salary or other allowances, contributions made to any pension fund, medical aid, insurance scheme, any commission, gain or profit-sharing arrangements, any share options, including their strike price and period and any other material benefits received.

In comparison with the previous Treasury Regulations, the new Treasury Regulations no longer refer to "executive members", but rather to "senior management", which is now defined as:

... the level of management that is directly accountable to the chief executive officer or to the person in charge of the public entity.

Refer to par. 5.9.5 for more details. Also note from TR 28.1.1 that the new Treasury Regulations are explicit in asking for disclosure of both the CEO's and CFO's emoluments.

5.6.4 Materiality and significance framework

TR 28.3.1 has been amended and consultation with the external auditors on the materiality and significance framework is no longer required. Guidance on what should be contained in the materiality and significance framework has not been issued.

5.7 Performance information

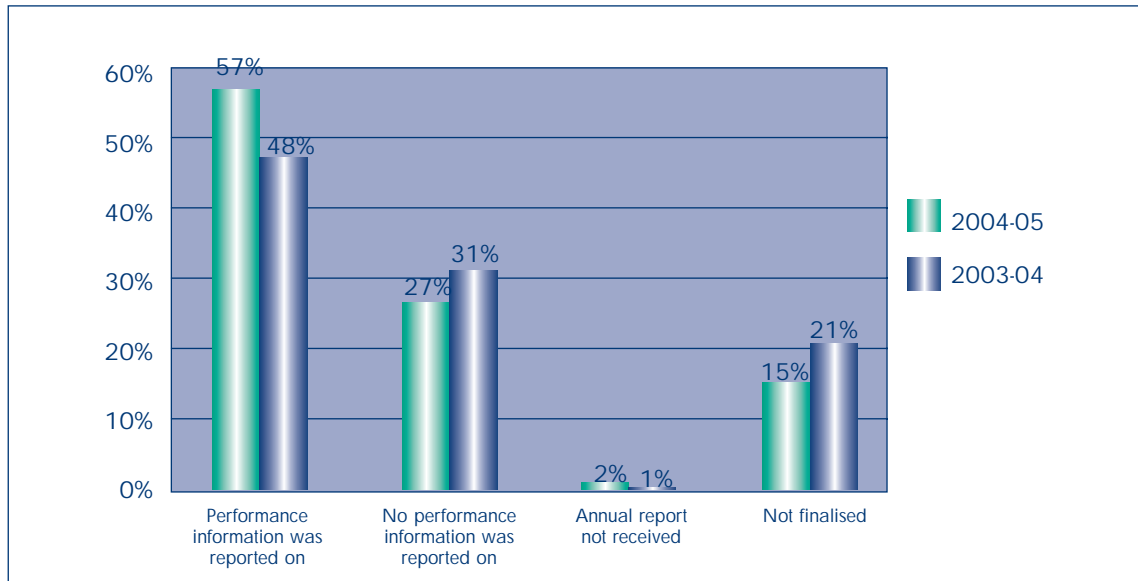
Last year I reported in paragraph 4.7 of my general report on the increase in the number of entities that reported on performance information. For the 2004-05 financial year a further increase of 9% (2003-04: 19%) can be reported.



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Performance information reported on for the public entities analysed is set out in figure 16 below.

Figure 16. Performance information reporting



Included in the analysis above are entities for which I have received the annual financial statements but no annual report. Entities generally disclose performance reporting information in their annual report and it was therefore not possible for me, in 2% (2003-04: 1%) of these cases, to determine whether this information had been disclosed, as the annual reports had not been provided to me.

As a first step in the process of phasing in performance information audits at public entities, a desk review of performance information reported by public entities was conducted. Please refer to paragraph 3.1 of this report for a discussion regarding the phasing-in approach towards the auditing of performance information.

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 best practices taken from guidelines for the preparation of budgets and annual reports, issued by the National Treasury up until the year ended 31 March 2005. For the criteria used during the review please refer to paragraph 3.1 of this report.

The review was conducted on 53 of the 158 public entities who reported on performance information.

5.7.1 Review results

The outcomes of the review results on each of the criteria discussed in paragraph 3.1 of this report, for the 53 public entities reviewed, are presented below.