



AUDITOR - GENERAL

## GENERAL REPORT ON AUDIT OUTCOMES 2002-03

### FOREWORD

#### 1.1 INTRODUCTION

I have the pleasure to present my *General report on audit outcomes for the financial year ended 31 March 2003*. This report intends to provide an analysis of the audit outcomes on national and to a large extent on provincial level. In addition, for the first time a detailed analysis has been compiled to demonstrate serious shortcomings pertaining to the accountability arrangements of public entities on the national level. The South African Auditing Standards and quality control processes are applied throughout the performance of these audits. I trust that this report will be of value to all my stakeholders in providing insight into trends and challenges which could be utilised to improve governance in the public sector.

#### 1.2 NATIONAL DEPARTMENTS

Audit reports of the national departments for 2002-03 were once again largely unqualified. Only eight of the 33 departments received qualified audit opinions. Of these eight, four departments have been qualified for the past three years. These are:

- Home Affairs
- Justice and Constitutional Development
- Public Works
- Water Affairs and Forestry

More detailed information on the nature of qualifications and whether the issues are recurring can be found in table 2 on page 10.

Although unqualified audit opinions are the norm for national departments, this does not provide the complete picture in terms of internal control and compliance with fundamental legislation. When reviewing the matters emphasised an alarming trend can be seen, namely an increase in the issues being found. Figure 3 on page 14 demonstrates an increase in the issues reported compared to previous years. The critical areas on which departments urgently need to focus their attention are:

- Asset management
- Administration of transfer payments
- Internal audit function



## A U D I T O R - G E N E R A L

Insufficient management capacity in these areas could make departments susceptible to fraud, irregularities and poor performance. It could moreover have the effect that such practices are not detected. This could in part be borne out by the lack of reporting on losses, irregular expenditure and fruitless and wasteful expenditure.

Asset management in particular is a widespread problem: this was reported on in 64% of the national departments. The main reasons for reporting on asset management were incomplete or inaccurate asset registers. The intention of the National Treasury is to phase in full accrual accounting which will require more detailed disclosure in terms of assets. Transfer payments, as can be seen from figure 2 on page 8, constitute 46% of the total expenditure of national departments. Therefore the problems with control over these payments pose a material risk to public funds and accountability.

In terms of internal audit the findings reported consisted of a variety of issues ranging from different focus areas between internal and external audit to a lack of internal audit reports issued.

The issues raised in respect of the above internal control matters will be further examined during the review of financial management in the next audit cycle. The emphasis will be on understanding the underlying causes that give rise to the breakdowns in internal control.

The development of disclosure requirements and financial information at departments is an evolutionary process. In this report I have managed to provide some useful insights into the financial performance of public entities from the financial statements; however, this was not possible for the departments.

### **1.3 PROVINCIAL DEPARTMENTS**

The three main sectors at the provincial level in terms of expenditure are Education, Health and Social Development. Their budgeted expenditure represents 80% of the total provincial budgeted expenditure. Education is the single largest area of expenditure (R52,7 billion) with Social Development receiving the largest increase (36,4%). The total expenditure of R119 billion for these three main sectors exceeds the total expenditure of R114 billion for all national departments.

Only 14 out of 27 (52%) of these three major sectors in the nine provinces received unqualified opinions. The percentage of unqualified audit opinions has improved from 15% in 2000-01 to 52% in 2002-03. Figure 7 on page 21 reflects the trend over a three-year period. Of the 13 qualified audit



A U D I T O R - G E N E R A L

opinions, eight related to documentation that was not available for audit purposes.

In terms of the matters emphasised, the picture for the three main sectors is similar to that for the national departments. The main categories can be summarised into the following issues:

- Asset management
- Personnel
- Internal audit
- Transfer payments

Once again the risks pointed out for national departments are applicable to the provinces as well.

#### **1.4 PUBLIC ENTITIES**

This year my report also includes some interesting analysis of public entities. The primary concern, however, in compiling the information for the analysis was the lack of availability of public entity information. This is in contravention of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and represents a fundamental breakdown in accountability. The situation in terms of information being tabled in Parliament is equally poor. Many of the ministerial portfolios are failing to meet the statutory deadline of tabling within six months after year-end. Well over 50% of the public entities falling under these ministerial portfolios have not reported to Parliament even seven months after year-end. Figure 13 on page 29 provides further information.

According to the information received the number of unqualified reports this year has improved from the previous year. However, note should be taken that the significant number of entities not included in the analysis would affect the overall picture. This is substantiated by the review of the audit opinions for the entities excluded from the analysis in figure 14 on page 29. In the review it was found that the entities excluded from this year's analysis received a much lower proportion of unqualified opinions.

Of the public entities I reviewed, the following four entities received disclaimers of audit opinions:

- Ingonyama Trust Board
- Mines and Works Compensation Fund
- Unemployment Insurance Fund
- Mine Health and Safety Council



**A U D I T O R - G E N E R A L**

Details of the disclaimers can be found in table 6 on page 32. Regarding matters emphasised an interesting result is that the likelihood of matters being emphasised is significantly higher if my office performs the audit of the public entity. Where private sector firms were the auditors less than 30% of entities had matters emphasised, whereas in cases where I was the auditor the number rose to almost 70%. This might be partly because private firms do not give sufficient attention to the regularity framework in which public entities operate. Details can be found in figure 18 on page 34.

Another important conclusion that can be drawn from the report is the need for improved guidance on specific areas from the National Treasury. These areas are as follows:

- Reporting requirements regarding performance information
- Disclosure of irregular and fruitless and wasteful expenditure
- Definition and disclosure of the emoluments of directors and executive members
- The materiality and significance framework as required by the Treasury Regulations

A lack of guidance in this area has led to problems with inconsistent disclosure and therefore comparability, transparency and accountability are compromised.

In terms of the detailed analysis of the public entities, there are many trends and issues. The main overall findings pertain to the following issues:

- Schedule 3A directors' and executive members' emoluments are significantly higher than at other public entities.
- Schedule 3B public entities' financial performance is cause for concern.

An explanation of the different types of public entities can be found on page 25.

Given the concerns raised above it is encouraging to note that the Department of Public Service and Administration and the National Treasury have activated a project to investigate matters pertaining to public entities.

## **1.5 TRANSVERSAL ISSUES**

The final part of section one of the report discusses other transversal issues. These fall under the audit flavours on which I have previously reported. The



A U D I T O R - G E N E R A L

details of the findings appear on pages 41 to 50. The main issues arising here are the following factors:

- Transversal personnel and finance systems used by national and provincial departments are subject to potential serious risks that could go undetected. The problems are often simply inadequate policies and procedures. The responsibility for rectifying these problems rests with the National Treasury.
- Vacancy rates for senior management positions in national departments are still excessive. The use of consultants is found in some instances to be ineffective in addressing capacity issues and the transfer of skills. This is cause for concern in terms of service delivery and financial management.

## 1.6 STRUCTURE OF THE REPORT

The report covers the audit outcomes for:

- National departments
- Key provincial departments
- National public entities

The aim is to provide a summary of the audit findings and where possible provide links to other authoritative information. The report looks at the resources employed in each grouping and the summary position of the audit reports.

A link to the underlying financial management issues is provided for the national and provincial departments. For the public entities, an analysis of their financial performance is also included.

The final section before the portfolio summaries looks at transversal issues that affect at least one of the groupings above. The findings throughout are mainly the results of the regularity audit process that is explained in Annexure 1 of this report. As shown in figure 1 on page 7, this report is complemented by the activity report that provides more background on the actual activities that are undertaken to provide the results in this report. Currently the vast majority of audit resources of my office are concentrated on the execution of regularity auditing. The office plans to move gradually towards performance auditing and the auditing of performance information, which depends to a large extent on the ability of departments to progress to an optimised level of financial management.

The overall position of this report in terms of the other transversal reports I provide is set out below.



A U D I T O R - G E N E R A L

I would like to express my appreciation to all contributors to this report, including my staff as well as other persons who provided inputs to ensure the completeness of information included.



SA FAKIE  
Auditor-General

Pretoria  
14 /11/04