

# AUDIT *Thought* LEADER

WITHOUT FEAR, FAVOUR OR PREJUDICE



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AUDITOR-GENERAL SOUTH AFRICA

*Auditing to build public confidence*

# AS THE SUPREME AUDIT INSTITUTION OF SOUTH AFRICA, WE ARE **COMMITTED TO** **PROFESSIONALISM**

**64** Certified Information  
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**358** Registered  
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Offices in all  
the Provinces

**3500+**  
Employees

**500+**

Chartered  
Accountants (SA)

**34**

Chartered  
Certified Accountants

We continuously invest in our staff through study support, internal training and development programmes

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## Editor's Note

Public sector auditing has progressed, extending its scope beyond ordinary financial or compliance audits to the audit of performance and service delivery.

In this edition of the Audit Thought Leader, we focus on specialised audit services (SAS), which comprises three business units: Performance Auditing, Information Systems Auditing and Investigations.

We take a look at how these three areas strategically lend support to the financial auditing business units by unearthing service delivery challenges and looking beyond the financial statements to bring audits closer to the citizens of South Africa.

Read more about SAS on page 4.

We also bring you insights on performance auditing, a strategic growth area of our business that is focused on the efficiency,

effectiveness and economical delivery of health, education, water and sanitation, housing and other important areas of our lives.

The case studies on pages 12 and 14 describe how performance audits in education and infrastructure demonstrate our commitment to improving the lives of South Africans by tackling burning issues of service delivery.

Thank you to everyone who contributed to this edition of the magazine. You made it possible.

I appreciate your taking the time to read this magazine and hope you find it as interesting as we do.

Regards,  
**Tshidi Ramoshaba**

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Auditor-General of South Africa

**Thembekile Kimi Makwetu**  
Auditor-General

# Audit THOUGHT LEADER



The AGSA has been conducting performance audits for 30 years, although on a limited scale. Relatively recently, though, performance auditing has become a bigger, more prominent part of our business. The reason is its enormous potential to help improve the quality of government service delivery to the citizens of South Africa.

Because performance auditing focuses on the efficiency, economy and effectiveness of government initiatives, it is an extremely powerful tool for auditees themselves. The findings of performance audits always include practical, workable recommendations that - if acted upon - can enable government entities to save money, avoid wastage, do more with less, identify possible fraud risks and take better, more accountable decisions about how they use scarce resources.

When auditees act on the issues we flag and the recommendations we make as a result of performance audits, they potentially enhance their own ability to deliver.

Whenever we conduct a performance audit, we ensure that a subject matter expert in health, education or infrastructure is part of the audit team. These specialists have deep insight not just into their own fields of expertise but also into the way government works, allowing them to concentrate on the things that really matter in quality service delivery.

Their insight adds to the credibility of our recommendations - as is clear from the responses received from auditees to a number of recent performance audits, some of which are described in this edition of *Audit Thought Leader*.

When the AGSA publishes a report on the outcome of a performance or special audit, we invite the management of the auditee concerned to comment on the audit process and findings, as well as their plans and intentions to act on the recommendations. More often than not, these comments show that management has taken our recommendations seriously and intends taking concrete steps to correct any shortcomings identified.

If words are followed up with action, the outcome is invariably to the benefit of the citizens that government is here to serve.

*After all, actions speak louder than words.*



Performance Auditing

Investigations



# PERFORMANCE AUDIT

*what it means:*



## EFFECTIVENESS

Achieve policy objectives, operational goals and other intended effects.



## EFFICIENCY

Achieve the optimal relationship between the output of goods, services or other results and the resources used to produce them.



## ECONOMY

Procure resources of the right quality in the right quantities at the right time and place at the lowest cost.

# How Specialised AUDIT SERVICES ADDS VALUE FOR AUDITEES



**As the supreme audit institution of South Africa, the AGSA is determined to remain relevant to its auditees and their environment by providing a valuable audit product that empowers them to deliver better services to the country's citizens.**

## **SULEMAN BADAT** - Corporate Executive: SAS, ARD & QC

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Within the AGSA, specialised audit services (SAS) has a clearly defined role to play in delivering value and ensuring a holistic and integrated audit approach that focuses on the things that matter.

First of all, we provide support to the regularity auditors, giving them the insight they need to understand their clients' business inside out. We do this by including subject matter experts in education, health and infrastructure on our auditing teams, so that when the regularity auditors visit a school, hospital or housing development, for instance, they know exactly how things work and what to look for in their audits.

In addition to our subject matter experts in education, health and infrastructure at Performance Auditing (PA), SAS also has two other highly skilled teams: Information Systems Auditing (ISA) and the Investigations business unit (IBU).



*IBU and ISA teams help to improve the efficiency and quality of the audit process and enhance the depth, relevance and impact of our auditors' findings and recommendations.*

Briefly, the role of ISA is to assess whether information technology investments in the public sector have helped to reduce the cost and duration of service delivery and enhance the quality.

IBU, on the other hand, assists the audit teams to identify fraud risk factors, focusing mainly on complex, high-risk or high-value transactions and contracts in the supply chain. This is important because procurement is considered a high-risk area in the public sector, resulting in significant losses – in resources and service deliverables – through maladministration and the contravention of procurement rules and procedures.

Together, our sectoral subject matter experts, IBU and ISA teams help to improve the efficiency and quality of the audit process and enhance the depth, relevance and impact of our auditors' findings and recommendations.

The second contribution that SAS makes is to conduct standalone performance audits of key service delivery areas in the public sector. A good example is the pharmaceutical value chain in the public health system, which is responsible for the timely delivery of quality medicines, in the right quantities, for dispensing to patients in need. Responding to widespread reports of pharmaceutical shortages and stock-outs, the AGSA has conducted a performance audit of the public sector pharmaceutical supply chain, and reported on this to Parliament in November 2016.

Other standalone audits have been performed of pressing service delivery areas such as water infrastructure, the learner transport system in the Eastern Cape and the rural household infrastructure programme, involving the rollout of ventilated improved pit (VIP) toilets in seven provinces.

It is my hope that this edition of *Audit Thought Leader* will be of value to auditees in all three spheres of government, offering insights and real-life experience on how specialised audit services such as performance auditing can make a fundamental difference to service delivery to the citizens of South Africa.

# ADDING MORE VALUE



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust methodical process:



In-depth research



Numerous local and international discussions



Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.

## HOW SPECIALISED AUDIT SERVICES INTEGRATES WITH OTHER AUDITS

Regularity Auditing

1



**FINANCIAL AUDITING** assesses the financial statements, financial management and whether the accounts are true and fair. Conducted annually, financial auditing focuses on the auditee's accounting and financial management systems.

2



**COMPLIANCE AUDITING** determines whether a process or transaction has met the applicable regulatory rules or guidelines.

3



**AUDIT OF PREDETERMINED OBJECTIVES** determine whether the reported performance against auditees' predetermined objectives in the annual performance report is useful and reliable in all material respects, based on predetermined criteria.

**PA**

Assess whether the performance of an entity is efficient, effective and economical. It also provides new information, analysis or insights and, where appropriate, recommendations.

**SAS**

**ISA**

Assesses whether information technology investments in the public sector have helped to reduce the cost and duration of service delivery and enhance the quality

**IBU**

Assists the audit teams to identify high-risk areas that are susceptible to fraud and other irregularities and to respond to them appropriately

# How performance auditing HELPS ERADICATE POVERTY AND PROMOTE SERVICE DELIVERY

Our country has a deeply skewed history of allocating and using resources. Since 1994, however, much effort has been made to correct the imbalances of the past and to reach the poorest of the poor. Performance auditing is an important way to make sure that scarce public resources are used wisely and where they are needed most: to deliver services, eradicate poverty and promote equality.



*Audit Thought Leader speaks to **Kevish Lachman**, Business Executive: Performance Auditing at the AGSA.*

*Audit Thought Leader: What's the difference between regularity auditing and performance auditing?*

**KEVISH:** With regularity audits, we express an opinion on the financial statements, or on compliance with legal requirements. Performance auditing goes beyond the financials: it enables us to establish how efficiently, effectively and economically the auditee has used the resources allocated to it. In other words, performance auditing is an important tool for holding people accountable for how they utilise resources.

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*Audit Thought Leader: So you don't just look at whether a government department has met the targets it set itself, or how it has spent its money?*

**KEVISH:** We go much deeper. We look at whether the service that was supposed to be delivered was provided to the right people, at the right place, at the right cost, and whether it was of the right quality and quantity.

Let me give you a practical example. Let's say a hospital has an X-ray machine that cost R6 million. But the machine is just sitting there, unused, because the hospital doesn't have people with the skills to operate it. This results in huge inefficiencies. First, patients needing X-ray services have to be transferred to another hospital where there is an operational X-ray machine. Second, a machine has a lifespan. Even when it is not used, it depreciates. So when expensive equipment stands idle, it is obvious that it is not a resource being used efficiently, effectively and economically.

Here's another example, this time in the education sector. We recently tabled a performance audit report on the learner transport system in rural areas of the Eastern Cape. We found that the cost of transporting children to and from school was approximately R250 000 per child per year. Had the processes been efficient, effective and economical, the learner transport system could have reached more children. We're not saying that less money should have been used, but that more children could have been reached with the amount available.

When assessing service delivery, it's also important to look at the value chain and not just an isolated part of it. Learner transport is not just about taking a child from point A to point B. It's also ensuring the child is safe and doesn't become sick after being caught in the cold or the rain. A healthy child can get a better education, be better prepared for a tertiary education, and can then be employed, paying taxes and helping to enrich the country. So performance auditing is also very helpful in keeping the bigger picture of service delivery in mind.

.....

**Audit Thought Leader:** *Service delivery is a vast topic and obviously the AGSA can't conduct unlimited performance audits. So how do you decide what to focus on?*

**KEVISH:** It all goes back to the National Development Plan and our national priorities: eradicating poverty, promoting equality and ensuring service delivery. Our current focus is on performance auditing in health, education and infrastructure, because these areas have a massive impact on poverty, inequality and service delivery.

Infrastructure is an essential tool for delivering health, education and all the other services that citizens need, so we do a lot of work in infrastructure, including water, sanitation, transport and housing. We say that infrastructure must be maintained, that it must support a growing population and that it needs to be progressive. South Africa's infrastructure was created initially to support a minority but today, it needs to support the poorest of the poor, promote developmental growth, and be future oriented and sustainable.

Health and education are also a major focus for performance auditing. Healthy, educated citizens with access to progressive, well-maintained infrastructure can find decent employment or business opportunities, produce more, create demand for our currency, strengthen our economy and reduce people's dependence on the state.

**Audit Thought Leader:** *The AGSA has been bringing in new skills to assist with performance auditing – people with specialised knowledge of education, health and infrastructure. Why is this?*

**KEVISH:** For service delivery to happen, and for us to evaluate it, we need people with a very good understanding of health, education and infrastructure, with insight that is beyond the financial criteria. These are subject matter experts who are highly qualified and experienced in their own fields.

For example, the first health specialist we employed was a medical practitioner with 20 years of emergency room experience in the public sector. Similarly, our education subject matter expert has a doctorate in education and 20 years' experience in public sector education, while our infrastructure specialist has a master's degree and hands-on experience in municipal and provincial infrastructure.

These specialists work with our regularity auditors to help them understand the auditees' business in much more detail. The education specialist, for instance, will go out with a team and spend time at a school, showing his colleagues how the education system should work, how the teachers should work, how the curriculum works, and so on, giving the auditors a much broader perspective than the financial criteria. Our specialists also inform standalone audits, by picking a key theme and zooming in on that space and, furthermore, they work with each other and with other audit teams. In this way, we are breaking out of silos, working together to see the bigger picture and, above all, adding more value for the clients we audit.

.....

**Audit Thought Leader:** *How does performance auditing add value for your auditees?*

**KEVISH:** We make recommendations about how the service concerned could be delivered more efficiently, effectively and economically. This is possible largely because of the expertise of our subject matter experts, who are able to identify best practices and role models, and highlight what they are doing right so that others can benefit from their example. Contrary to popular belief, there are some exceptional skills in our public sector and performance auditing is a great tool for identifying and sharing the success stories – and not just dwelling on the problem areas.

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*Infrastructure is an essential tool for delivering health, education and all the other services that citizens need, so we do a lot of work in infrastructure, including water, sanitation, transport and housing.*

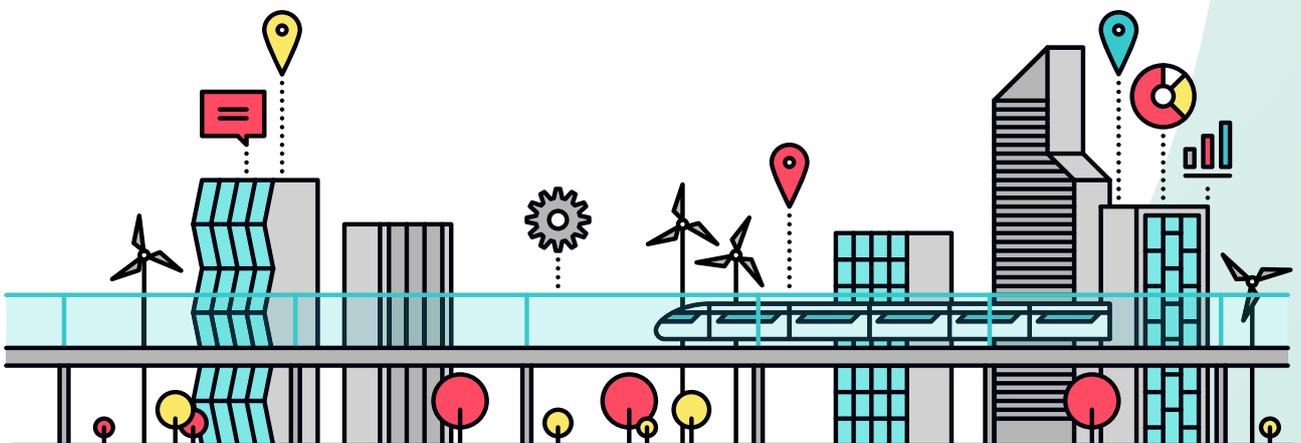
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# Why doctors, educators AND INFRASTRUCTURE EXPERTS ARE JOINING THE AGSA

*The Auditor-General of South Africa is the first to acknowledge that in-depth insight into how effectively, efficiently and economically government entities are using their resources should be based on expert knowledge of the area being audited.*

That's why the AGSA has been recruiting a new brand of professionals: subject matter experts who know exactly how a hospital is run, what goes into the design and construction of a bridge, dam or school, and how the education system works. Just as importantly, these experts have a detailed understanding of the way government operates.



## INSIGHT INTO EDUCATION

When Dr Takalani Rambau was interviewed for the position of Senior Manager: Education Specialist, the AGSA's interview panel was frank about the challenges they faced.

*'Two key things were a challenge,' he says. 'The first was that active citizenry was questioning the clean audits of the department (of Basic Education) because protests showed service delivery was not happening. The second challenge was that when the auditors submitted their reports, the auditees' feedback would be that the auditors did not understand the environment they operate in.'*

If anybody does understand the public education system, it's Dr Rambau, who has a doctorate in education, grassroots experience as a teacher and high-level expertise in education policy and strategy.

He joined the AGSA in 2014 after 20 years in education, starting out as an ABET trainer and high-school teacher, then moving to the South African Revenue Service as a training team leader, and finally joining the prestigious Academy of Science of South Africa (ASSAf) as Senior Manager: Strategy and Liaison.

His academic qualifications are extensive. Apart from a higher education diploma and a BA degree in history and education from Unisa, he has completed his honours, master's and doctorate in education, all from the University of Pretoria.

This varied background has honed his ability to zoom in on critical challenges in education and identify audit gaps.

On arriving at the AGSA, he soon noticed two areas for improvement in the way audit themes were being selected.

*'The themes had to do mainly with activities, targets and programmes, typically driven by grants such as nutrition and transport. However, the key challenges of the education sector are systems and processes, which are difficult to audit.'*

To start overcoming this gap, Dr Rambau is working with his auditing colleagues to develop a system-oriented audit that would look beyond the usual focus on targets set and met. It will also examine how systems and processes function, and what roles and responsibilities go with them. This is a step to ensuring that the public sector not only focuses on outputs but considers assessing the outcomes and impacts of activities undertaken.

### DON'T OVERLOOK THE DISTRICTS

The second major change he has suggested is putting more emphasis on the 'neglected middle part' of the basic education system – the districts.

*'AGSA audits are usually focused on national and provincial departments, but the districts have a very critical role as an intermediary between provinces and the schools.'*



**Dr Takalani Rambau**

It will take time to extend an auditing that drills down to the districts. In the meantime, Dr Rambau has plenty to keep him busy. The first audit he worked on was teacher development in the nine provincial departments and the national Department of Basic Education. More recently, he and his auditing colleagues wrapped up a sectoral audit of skills development, focusing on the National Skills Fund, Department of Higher Education and 21 sector education and training authorities (SETAs).

Asked how auditees respond to his involvement as an education specialist, Dr Rambau says:

*'They recognise that targets alone are not enough to show you are using resources effectively, efficiently and economically. At the end of the day, it all comes down to what impact education is having on alleviating poverty, unemployment and inequality in our country.'*

## INFRASTRUCTURE BUILT ON SOLID FOUNDATIONS

Government has earmarked R3,1 trillion for infrastructure programmes from 2012 to 2030, a vast amount of money. With parts of the country's existing infrastructure sliding into decay, how can we ensure that this R3,1 trillion is spent efficiently, effectively and economically? Enter the civil engineers and quantity surveyors who have joined the AGSA to help make sure government departments and taxpayers receive their money's worth from public spending on infrastructure.

They have already assisted with major audits such as the special audit of the rural household infrastructure grant and the water infrastructure delivery programme (see page 12), and are now focusing on what may arguably be the two weakest areas of government infrastructure delivery: planning and maintenance.

Failure to invest sufficient time and due diligence in planning is a major risk to infrastructure implementation. For this reason, infrastructure planning has become a key focus for audits going forward.

The AGSA has identified four projects in each province at the pre-planning or tender stage. Its infrastructure experts will then coach their performance auditing colleagues to put the right questions to the auditees:

- Did you do a feasibility study?
- Why are you building a school in this area and not that one?
- Have you spoken to your partners at local government about the availability of bulk services?
- How will the children get to school?
- What about the detailed designs?

No stone will be left unturned, either, in tackling the second major risk to government infrastructure development: maintenance.

Again, four maintenance programmes per province have been earmarked for auditing, focusing on refurbished or renovated projects. This time, the kind of questions that will be asked include: What is the department's maintenance strategy? What's your maintenance plan? How about the user asset management plan and the asset register? How old are the assets?

Through this approach, based on the insights of civil engineers and quantity surveyors with hands-on experience, the AGSA aims to ensure that government infrastructure is built on solid foundations, to the benefit of all South African citizens. So says Maryke Schneiganz,



*How can we ensure that this R3,1 trillion is spent efficiently, effectively and economically?*

Civil engineers and quantity surveyors who have joined the AGSA will to help to ensure that government departments and taxpayers receive their money's worth from public spending on infrastructure.



Infrastructure Programmes (2012 - 2030)

*'It helps a lot to have a medical doctor at your side when you go to see the CEO of a hospital. They know the medical terminology and can answer questions in medical terms. It makes life very easy.'*

coordinator of health sector performance auditing at the AGSA. A chartered accountant herself, she's had first-hand experience of the advantages of having a medical professional to smooth the way for the AGSA's audit teams.

A recent example is the performance audit of radiology and neonatal equipment conducted at 19 tertiary, central and regional hospitals across South Africa between February and May 2016.

The aim of the audit was to establish how efficiently and effectively the hospitals were using their high-value equipment, such as C arm X-ray machines, sonar scanners, MRI scanners and mammograms and phototherapy lights, infant warmers and incubators that are crucial for neonates.

### **GETTING DOWN TO DETAIL**

First, the AGSA's medical professional at the time assisted the performance auditing team to draw up a checklist of criteria that would indicate the equipment was being put to good use and maintained well.

Next, the coordinator and the medical professional trained the audit teams on the basics of the equipment so that when they arrived at the hospitals, they would know what each item looks like and why it's needed. The auditors would also know the ins and outs of important documents such as budgets, procurement plans, maintenance records and so forth.

Then, armed with this knowledge and accompanied wherever possible by their resident medical professional, the audit teams headed off to the hospitals assigned to them, spending an average of two days at each. During each visit, the AGSA staff met with the hospital CEO and management team, perused the budget, expenditure and maintenance records, inspected the equipment, took photographs and interviewed staff from the radiology and neonatal units.

*'On the last day, we would have an exit meeting with the CEO to talk about what was found and ask whether or not they were in agreement,' says Maryke.*

She adds that the hospital CEOs involved in this audit were extremely cooperative.

*'They are really good.*

*'They know our aim is to improve service delivery, and that our recommendations could ultimately improve hospital standards and save them money. And it definitely made things easier having our medical expert with us.'*



**Maryke Schneiganz**

# Demonstrating value to the citizens

## EDUCATION

### A SAFE RIDE TO AND FROM SCHOOL GIVES LEARNERS A HEAD START

The United Nations (UN) celebrated its Global Road Safety Week in May 2015 to create awareness and highlight the dangers children face on the world's roads and generate action to better ensure their safety. In 2014, the AGSA raised shocking findings on the Eastern Cape learner transport scheme.

Photographs showing the unsafe conditions under which some Eastern Cape learners travel to and from school are enough to make any parent shudder. One image shows learners being transported in overloaded, cramped conditions on the back of a bakkie. A second photograph shows learners being offloaded on the shoulder of the busy N2 highway, and a third shows learners travelling in a bakkie without a rear door.

These photographs were taken during the course of the AGSA's performance audit of the learner transport scheme at the Eastern Cape Department of Transport for the 2014 academic year.

The learners concerned were among the approximately **37 700 children** who could **not** be given a safe ride to and from school every day like their 57 176 more fortunate peers.

Hence, learners left out of the system either had to use private transport – such as those dangerously overloaded or doorless bakkies – or they had to walk or even resort to hitching lifts.

Granted, the situation was even worse before the learner transport system was introduced. In the Eastern Cape, 75% of all learners used to walk to school every day and 6,5% spent more than an hour a day walking to and from school, according to the national household travel survey of 2013.

## WHY IS THERE NO SPACE ON THE SCHOOL BUS?

Still, what of the 37 700 learners for whom there was no space on school buses when the AGSA conducted its performance audit?

On the face of it, the reason they were left behind was that there simply wasn't sufficient budget to accommodate them.

Going a little deeper into the situation, it quickly became clear to the AGSA's performance auditing team that many more learners could have been given a safe ride to and from school had the learner transport system not been so uneconomical, inefficient and ineffective.

For example, it cost a staggering R347 239 and R366 544, each, to transport just two learners for the 2014 academic year.

Similarly, on the highest-value route, Krom River in the Cradock district, the cost of transporting only 38 learners came to R4,36 million for the year. That works out at an average cost per learner of over R114 000 per year.

The team uncovered a host of inefficiencies and anomalies, including pickup points that could not be verified, inaccurate measurement of distances (resulting in overpayments to the operators), and significantly different costs for routes of the same distance.

For instance, it cost over R522 000 more per year to use the Nyanisweni route than the Auckland route – but both covered the same distance, 31 kilometres.

In the AGSA's report, tabled in February 2016, the root causes of all these inefficiencies were identified as the uneconomical implementation of the scheme's tariff and cost structure, the fact that a competitive bidding process was not followed for appointing transport operators, reliance on service providers to administer and manage the scheme, poor demand management, poor route design, inaccurate data and poor monitoring and reporting.



## Learner transport system AUDIT AT A GLANCE



The AGSA tabled its report on the Eastern Cape learner transport system in February 2016.



For the 2014 academic year, 94 938 learners qualified for transport but only 57 176 could be accommodated, leaving 37 762 to make their own way to and from school.



The total cost of the Eastern Cape learner transport system in 2014 was R392 million.



652 Eastern Cape schools participated.



There were 3 276 pickup points and 1 524 routes.



The system employed 1 524 bus and taxi operators and 2 687 vehicles.

## RECOMMENDATIONS OPEN DOORS FOR MANY MORE LEARNERS

More important, perhaps, were the recommendations made to address the shortcomings and, in the process, make safe, reliable transport a reality for thousands more learners.

First and foremost, the AGSA's report says, there had to be a proper policy framework for learner transport in the Eastern Cape. Fact is, when the provincial Department of Transport took over the system from the Department of Education in 2011, it had no approved policy, frameworks or guidelines to manage learner transport.

Second, it was crucial to have better intergovernmental coordination and planning. The transfer of learner transport to the Department of Transport had taken place without proper planning and at a time when that department was ill-equipped to take on the extra load. To compensate, it contracted service providers to manage parts of the scheme, which in turn threw monitoring and reporting into disarray.

A third key recommendation was that the use of service providers should be managed to limit the department's overreliance on them and ensure value for money. The department should also implement a tariff and cost structure that has been scientifically determined, based on demand, proper route design and accurate distances, among others.

Finally, proper performance indicators and targets had to be established to measure the performance of the learner transport scheme, specifically its economy, efficiency and effectiveness.

The Department of Transport has taken the recommendations to heart. It is drafting a provincial learner transport policy and now holds regular coordinating meetings with the Department of Education. The department is also establishing a fully-fledged Learner Transport Unit and is developing a tendered contract system for learner transport.

There is hope that many more learners in the Eastern Cape will be able to count on a safe, reliable way of travelling to and from school.

## Demonstrating value to the citizens

# INFRASTRUCTURE

## SANITATION SERVICES THAT UPHOLD HUMAN DIGNITY



### Rural household infrastructure programme and grant at a glance

- Since 2007, rural development has been one of the government's major priorities, and sanitation has been an important component of this.
- The rural household infrastructure programme (RHIP) was established to help water services authorities accelerate the delivery of basic services, specifically sanitation, to households in rural municipalities.
- In 2010, the national human settlements department established the rural household infrastructure grant (RHIG) to speed up the rate of delivery on the RHIP.
- The grant was envisaged to be spent over three financial years (2010-11, 2011-12 and 2012-13).
- The initial budget was R1,2 billion. However, only R501,4 million was spent over the three-year period.

These are not matters you would ordinarily expect auditors to be familiar with, perhaps. However, the answers to these and many similar questions have a direct bearing on whether or not the beneficiaries receive a sanitation service that affords them dignity and uplifts the quality of their lives, or leaves them disillusioned and vulnerable to unsafe, unhygienic and inconvenient conditions.

So, as is clear from the AGSA's report on the special audit of the rural household infrastructure grant (RHIG) and rural household infrastructure programme (RHIP), no stone was left unturned – and no poorly fitted door or toilet ring left unexposed – when looking into these two initiatives.

## AUDIT CONDUCTED AFTER CONCERNS RAISED

The minister and portfolio committee on human settlements requested the special audit after raising seven major concerns about the initiatives, which saw the Department of Human Settlements spend R501,4 million on 2 097 ventilated improved pit (VIP) toilets in seven provinces between April 2010 and March 2013.

Their concerns ranged from the tender awarded to the management consultant appointed to coordinate the work to non-compliance with approved toilet construction standards, as well as the adequacy of education and training provided to the beneficiaries.

*Rising to the challenge, the AGSA's auditing teams – including its infrastructure specialist wherever possible – visited 254 sites at 26 municipalities where VIP toilets were built.*

## UNEARTHING A HOST OF PROBLEMS

The special audit saw the teams inspecting each site with a fine-tooth comb, unearthing an array of questionable practices, especially around poor quality, workmanship and planning.

In fact, 7% of the toilets inspected had broken doors, ventilation pipes, panels, hinges or locks, and 4% had been poorly planned – such as being built under trees, where leaves accumulated on the toilet roofs or on top of the vent pipes.

To quote the AGSA's report: *'This increased the risk of leaves falling into the pit, which could cause the pit to fill with foreign objects and could lead to it filling up quicker than anticipated. This will cause an increase in costs for municipalities because the VIP toilets will need to be de-sludged more frequently.'*

Particularly alarming was that 43% of the toilets visited showed signs of poor workmanship: toilet rings were not securely fitted, the structures had crooked or slanting slabs or toilets, and vent pipes were the wrong length.

## DIGNITY AND SAFETY OF BENEFICIARIES AT STAKE

In many cases, these problems were to the very real detriment of the beneficiaries. Poor-quality door hinges and locks meant doors would not close properly, depriving the users of their privacy. In some instances, soil around the toilet structures was not properly compacted and had been eroded by rain, creating a hole where rainwater could collect and eventually compromise the structure.

An especially poignant paragraph in the audit report stated that holes in the roofs, drilled there to make construction easier, had not been sealed afterwards as they should have been:



*'This resulted in beneficiaries getting wet when it rained.'*

Equally disappointing was the evidence that many of the beneficiaries had not been educated on how to use or maintain the toilets. *'At 14 of the 26 municipalities visited during the audit, health and hygiene training was not effective,' says the AGSA's report. 'As a result, at some households the beneficiaries had no water in the water tanks because they were not sure what these tanks were for.'*

## BIDDING DISCREPANCIES AT THE BOTTOM OF IT ALL

All these flaws – and more – were noteworthy in themselves but pointed to the root causes of the problems: shortcomings in the way the management consultant and contractors were appointed and the way they went about the work.

In short, there were discrepancies in the way the bid evaluation committee scored the four bidders, with one committee member consistently giving lower scores to three out of the four, while the fourth (who was appointed) received the maximum number of points.

Adding insult to injury, the department's bid adjudication committee failed to request the first committee to justify the discrepancies or to explain why some bidders had been disqualified.

*'It is evident that the scoring was not fair, consistent and correctly done,' the AGSA's report reads. '...there was the possibility that other bidders who had the capacity necessary to successfully implement the RHIP were unfairly excluded.'*

Going further, the AGSA found that the management consultant had been paid R39,5 million over three years, even though it had not always performed its duties and in some instances had failed to comply with the approved standards for toilet construction.

Similarly, severe shortcomings were found in the work of the implementing agents and service providers who won the RHIG part of the programme. Indeed, a month after being appointed, one of the two implementing agents could not start constructing the VIP toilets because it lacked the funds and had to be given an advance from the Department of Human Settlements.

## RESTORING THE DIGNITY OF BENEFICIARIES

The good news is that the department accepted the AGSA's report and recommendations, and committed in writing to corrective measures. Most of these revolve around strengthening the bid evaluation and adjudication committees and processes, as well as linking pay to performance for service providers.

Most importantly of all, the department has systematically been going back to the VIP sites and correcting the quality and workmanship issues that beset the project. The beneficiaries' dignity, safety and health will no longer be compromised.

# Impact of THE RURAL HOUSEHOLD INFRASTRUCTURE PROGRAMME ON THE ENVIRONMENT

When the ventilated pit toilets are built without following crucial guidelines that are laid out in the South African National Standards, there is a probability of negative effects on the environment.



While the audit focused on whether the rural household infrastructure grant was used economically and whether the implementation of the Rural household infrastructure programme was efficient and effective in its objectives, we also noted the environmental impact that resulted from the implementation of the RHIP.

*\*The figure above contains some of the environmental issues observed.*

# Service delivery MUST TAKE ENVIRONMENTAL IMPACT INTO ACCOUNT

*No discussion on the way government uses resources is complete without considering the impact this has on the environment. Worldwide, including in South Africa, there has been a significant shift in the way resources are viewed and used.*

This shift is reflected in the increasing emphasis placed on the environmental impact in the AGSA's audits, including the special audit of the rural household infrastructure grant and rural household infrastructure programme. (See case study on p.12.)

*'Where resources are not being used sustainably or responsibly, this is cause for concern,' says Kevish Lachman, Business Executive: Performance Auditing. 'In a very real sense, unsustainable resource utilisation is like borrowing from the future. Amid global warming and climate change, it is vital to ensure that resources are used in a way that has a positive impact on future generations and at the same time, is an enabler for economic and social growth.'*

The AGSA's report on the special audit mentioned earlier pointed out a number of environmentally problematic issues that arose during the project, along with concerns about its impact on the health and hygiene of the beneficiaries.

## **ENVIRONMENTAL IMPACT ASSESSMENTS OVERLOOKED**

Most of the 57 municipalities where ventilated improved pit (VIP) toilets were deployed did not include the environment in their planning. Each municipality should have conducted an environmental impact assessment (EIA), which should have been signed off by the province's Department of Economic Development, Environmental Affairs and Tourism, or the relevant authority. This was not the case.

*'The absence of the EIA means that the information necessary for decision-making on the possible environmental consequences was not available or taken into consideration,' reads the report. 'Therefore, plans could not be formulated and implemented to mitigate the risks to the environment that would have been identified through the EIA.'*

Most local municipalities had also not compiled environmental

management plans, and some were planning to deal with the toilets in a way that was completely at odds with environmental considerations.

The report also noted hazards associated with disregarding the official South African National Standards (SANS) guidelines to ensure that VIP toilets are safe and hygienic to use. This could result in unsanitary conditions where the toilets become a breeding ground for insects and cause health problems to the beneficiaries,' says the report.

## **ENVIRONMENTAL IMPACT ASSESSMENTS ARE A MUST**

To correct these problems, the AGSA report made a number of practical recommendations, including the need for municipalities to ensure that an environmental impact assessment is done before VIP toilets are rolled out. The Department of Human Settlements, the owner of the initiative, should also compile a sanitation masterplan to prioritise the programme and track its impact on the municipalities' sanitation backlog.

Similarly, the report recommended that all targeted municipalities should develop an effective environmental management plan to deal with the maintenance of VIP toilets.

Granted, the VIP toilet programme is only one of many government initiatives, but it has many lessons to teach about the importance of taking into account the potential environmental impact of government service delivery, especially when it comes to sanitation, which is a huge problem in our country.

Gone are the days when it was enough to look only at the financial implications of government initiatives. Economy must be balanced with the need for a clean environment.

*Plans to protect air and water, wilderness and wildlife  
are in fact plans to protect man. - Stewart Udall*

# Investigations Business Unit

## TARGETS RISKY, HIGH-VALUE, COMPLEX CONTRACTS

### Investigations at a glance

When fraud risk specialists from Investigations are integrated into an audit, the audit teams are able to proactively identify high-risk areas that are susceptible to fraud and other irregularities.

This enhances the integrity of the audit process, supports a risk-based approach and boosts the audit teams' understanding of an auditee's value chain.

The AGSA's Investigations Business Unit provides five types of services:

- Fraud risk assessments
- Assistance with complex and high-risk areas
- Fraud risk detection analysis
- Sector support during sector audits
- Fraud risk training and consultation on high-risk areas.



The AGSA's Investigations business unit (IBU) is leading the drive to ensure that government steers clear of risky contracts and that its most complex, high-value transactions can withstand the closest scrutiny.

The IBU team, consisting of 34 highly trained lawyers, forensic experts, certified fraud examiners and auditors, spend their days going over government's most complex contracts with a fine-tooth comb. 'A transaction could be complex because of the strategic nature of the goods, or the amount involved, or both,' says Caroline Mampuru, Business Executive of the IBU.

She mentions some examples: 'Public-private partnerships can be complex, such as when a hospital is built by a private company and managed by a public sector organisation. The acquisition of new locomotive rolling stock or a fleet of emergency vehicles for a state-run health facility would be examples of complex, high-value transactions.'

Her team is called in when regularity auditors encounter any high-value, complex contract during an audit, or when they pick up evidence of material misstatements in financial statements as a result of error or fraud.

### LOOKING FOR FRAUD RISK INDICATORS

*'We help the auditors understand the risk profile and risk factors of the audit and help them to find a response plan. We also do capacity building, where we assist the auditors to be on the lookout for red flags – fraud risk indicators. When you can identify the risks and transactions that may go sour, you are likely to curb fraud and curb expenditure that would have little value for the department'*

The manipulation of procurement processes and systems is one of the most common fraud risks in a government setting, Mampuru says. 'Tender specifications are manipulated to suit a specific scenario, or regulations or licensing requirements are drafted to meet a particular agenda. Manipulation often occurs at the tender evaluation stage, or at the end, when the tender has been awarded and the scope of the contract is suddenly increased.'

For Mampuru, any tender containing the following three anomalies is almost certainly suspect: it turns out that a bidder registered as a company shortly before the tender was advertised; that the bidder did not have the technical capacity to take on a contract of that magnitude; and that it lacked the financial means to meet the requirements.

'Most likely you are dealing with conflict of interest and the sharing of confidential state information,' she says, adding that it is relatively simple to check whether or not a bidder has the financial viability to take on large projects. 'For huge contracts, securities need to be provided by banks; if the securities are not in place, that would be reason for suspicion. Similarly, you would not find a serious bidder asking to be paid a deposit or money upfront.'

It is also not unknown for dubious bidders to claim to have partnerships with reputable international companies or to fabricate their technical expertise. 'Anything can be made to look good on paper but the key is to validate, validate, validate,' Mampuru says.

Asked if she has one important message that every public sector agency should take to heart, she says: 'Timeous attention to fraud risk indicators can save government departments a lot of money and put them in the position where they can prevent things going wrong, while ensuring service delivery is not derailed.'

# Assessing the state OF ICT IN GOVERNMENT

*As government in South Africa moves increasingly from manual to automated processes and ultimately to e-government, its investment in information technology is rising fast. National and provincial governments alone spent approximately R5,8 billion on information technology in 2014-15.*



*The question is:*

*Are these investments paying off in better, faster, more cost-effective service delivery to the citizens of South Africa?*

*This is one of many IT-related questions that a specialised division within the AGSA, Information Systems Auditing, is endeavouring to answer.*

Another major project that is long overdue is the integrated justice systems project, which cabinet approved to commence in 2000. Since its inception, R4,67 billion has been spent against the approved budget of R4,92 billion, and it is anticipated that further funding will be required to complete the project.

## **CIO QUALIFICATIONS A BRIGHT SPOT**

When a government department develops a major new IT system or network, Information Systems Auditing may conduct a project assurance audit after each and every phase. *The aim is to identify areas of concern, confirm that the project is a good investment and the budget is being well spent, and provide assurance that the project performance, costs and timelines are managed well,* says Anita Ferreira, Business Executive: Information Systems Auditing.

This is important given the project delays, governance lapses and budget overruns that have cropped up to date.

Take the integrated financial management system, initiated in 2002 to replace government's ageing transversal financial systems – BAS, Persal and Logis. When cabinet approved the project, it was supposed to have commenced in 2005 and been completed within seven years. The project has yet to be implemented but, as at March 2015, spending on it amounted to approximately R1,1 billion. The National Treasury has since opted for a new technological approach and implementation of the revised solution by 2022.

On a positive note, a 2015 audit of the qualifications of chief information officers (CIOs) and IT management in government found that their qualifications and experience are generally good, according to the PFMA General Report published for 2014-15. Among national auditees, 67% of CIOs had good credentials and only 23% and 10%, respectively, had qualifications and experience that were of concern or required intervention.

The qualifications of provincial CIOs were more mixed: on the low end, only 40% of CIOs and IT managers in the Free State had good qualifications, compared to the top-scoring Northern Cape, at 85%, and the Eastern Cape at 100%.

However, government has a serious problem filling vacancies in other key IT positions such as system controllers and information security officers. IT staff also do not always comply with the controls that are supposed to secure and regulate their departments' IT environments, and the performance of external service providers is not adequately monitored for standards and quality.

## CONFLICT OF INTEREST AND STUDY LOAN DEFAULTERS

Another important area that Information Systems Auditing is emphasising is computer-assisted auditing to improve the efficiency of regularity audits, Ferreira says. Several times a year, the team runs computer-assisted auditing techniques on government's transversal financial systems to promote accountability and compliance by, for example, determining possible conflicts of interest and study loans held by public officials in employment.

The conflict of interest audits are helping to root out situations where local, provincial and national government employees are unduly involved with vendors and suppliers.

*'To identify such cases, Information Systems Auditing analyses government vendor lists and cross-checks them against employees and the directors of business as reflected by registered companies at the Companies and Intellectual Properties Commission (CIPC),' she says.*

Similarly, government employees who have failed to repay their study loans from the National Student Financial Aid Scheme (NSFAS) are identified. Here, Information Systems Auditing cross-references employee data against NSFAS's list of loan recipients to see who is working in government with unpaid study debt.

Over and above all this, the team conducts many general control reviews to check the confidentiality, integrity and availability of government's financial and performance data, and to determine whether IT environments are properly managed and systems are operating as intended.

Also a priority is network security reviews to determine the vulnerability of government networks to hacking and other intrusions or security breaches. Information security is something that many government departments still struggle with: in 2013-14, it was found that only 20% of auditees had user access controls that functioned effectively, while 41% experienced challenges with the design of these controls and 39% with implementation.

It is clear that there is much work to be done before government's IT systems deliver all the benefits they are potentially capable of, but there are definite bright spots, too, from the pockets of excellence that exist in some parts of government to the qualifications of CIOs and the fact that a small but growing number of auditees are taking the AGSA's recommendations to heart.

## Information Systems

# AUDITING AT A GLANCE



- The business unit ISA falls under specialised audit services (SAS), which also houses Performance Auditing and the Investigations business unit (IBU).



- The team has approximately 160 members, with 75 IT specialists with a Certified Information Systems Auditor (CISA) qualification (a global information systems qualification). Many team members have qualifications in internal auditing, computer auditing, computer science, IT and/or accounting or cost accounting.



- Each year, Information Systems Auditing conducts around 810 IT audits of different types:



- **General control reviews:** determine the reliability of financial and performance data and whether the general IT environment is adequately managed.



- **Computer-assisted audits:** detect areas that need to be reviewed further, enabling auditors to follow up on trends, pinpoint exceptions and focus on areas of potential concern.



- **Business process and automated controls reviews:** include enterprise resource planning (ERP) and the audit of predetermined objectives.



- **Project assurance:** identifies possible concerns and challenges when a new IT system is being implemented.



- **Network security reviews:** assist the audit teams to ensure that sensitive and critical information on a government network is protected and free from vulnerabilities.



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