



AUDITOR - GENERAL
SOUTH AFRICA



PFMA 2011-12

CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes





AUDITOR - GENERAL
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2011-12

CONSOLIDATED GENERAL REPORT ON NATIONAL AND PROVINCIAL AUDIT OUTCOMES

RP07/2013
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Our *reputation promise/mission*

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



The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with laws and regulations.

This publication also captures the commitments that leaders have made to improve audit outcomes.



AUDITOR-GENERAL: TERENCE NOMBEMBE

Our responsibility extends to citizens who trust us to make a contribution towards a better South Africa

overview



Message from the Auditor-General

Slow progress towards clean audits with more regressions than improvements
(Part 1)



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Some progress made towards improving the reliability and usefulness of service delivery reporting
(Part 1)

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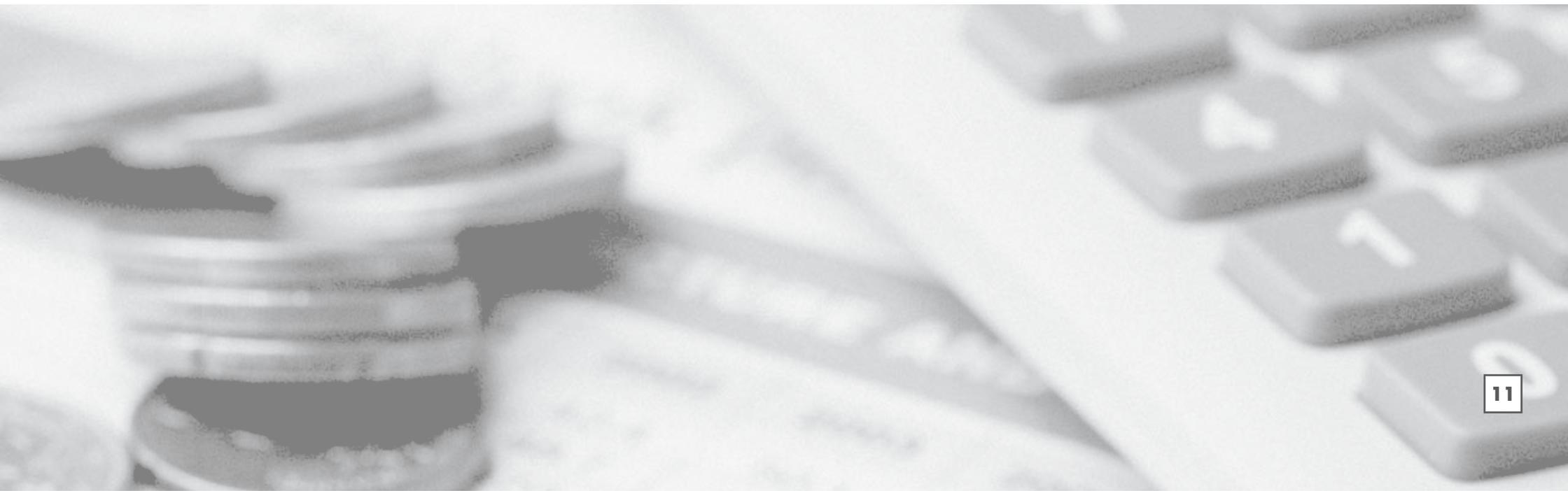
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CLEAN AUDITS 2011-12



Clean audit = Unqualified financial statements with no material findings on predetermined objectives or compliance with laws and regulations



NATIONAL CLEAN AUDITS 2011-12

DEPARTMENT

Environmental Affairs
Public Enterprises
Public Service Commission

PUBLIC ENTITY

AEC-Amersham (Pty) Ltd
Areca Human Capital (Pty) Ltd
Armcor Defence Institutes (Pty) Ltd
Banking Sector Education and Training Authority (BANKSETA)
Chemical Industries Education and Training Authority
Companies Tribunal
Council for Medical Schemes
Council for Mineral Technology (Mintek)
Council for Scientific and Industrial Research (CSIR)
Council on Higher Education
Cyclotope (Pty) Ltd
Education, Training and Development Practices Sector Education
and Training Authority
Energy Africa Rehabilitation
Erasmusrand Eiendomme (Pty) Ltd

PUBLIC ENTITY

Erf 706 Rietfontein
Finance and Accounting Services Sector Education and
Training Authority
Financial Services Board
Fluoro Pack (Pty) Ltd
Fluoropharm (Pty) Ltd
Freedom Park Trust
Gamma Film Industries (Pty) Ltd
Gammatec NDT Supplies (Pty) Ltd
Human Sciences Research Council
Independent Regulatory Board for Auditors
Institute for Maritime Technology (Pty) Ltd
International Frontier Technologies (Interfront) SOC Ltd
iSimangaliso Wetland Park Authority
Iziko Museums of Cape Town
Klippoortje Koolmyne (Pty) Ltd
KwaZulu-Natal Museum
KwaZulu-Natal Performing Arts Company
Land and Agricultural Bank of South Africa
Luthuli Museum
Mahne's Areas (Pty) Ltd
Market Theatre Foundation
Media, Information and Communication Technologies Sector
Education and Training Authority
MINDEV (Pty) Ltd
Mining Qualifications Sector Education and Training Authority

NATIONAL CLEAN AUDITS 2011-12

PUBLIC ENTITY

Msunduzi/Voortrekker Museum
National Agricultural Marketing Council
National Research Foundation
NTP Logistics (Pty) Ltd
NTP Radiosotopes (Pty) Ltd
Oospark (Pty) Ltd
Pelchem
Petroleum Oil and Gas Corporation of SA (Namibia) (Pty) Ltd
Petrosa Brass (Pty) Ltd
Petrosa Gryphon Marin Permit (Pty) Ltd
Petrosa Iris (Pty) Ltd
Petrosa Sudan (Pty) Ltd
Petrosa Synfuels International (Pty) Ltd
Petrosa Themis (Pty) Ltd
President's Fund
Project Development Facility
SA Bureau of Standards (SABS)
Small Enterprise Development Agency
South Africa Diamond and Precious Metals Regulator
South African Agency for Promotion of Petroleum Exploration and
Exploitation (Pty) Ltd
South African Defence Force Fund
South African Housing Fund

PUBLIC ENTITY

South African National AIDS Trust
South African National Energy Research Institute (Pty) Ltd
South African National Parks
South African Qualifications Authority
South African Revenue Services (Administered Revenue)
South African Revenue Services (Own Account)
South African Social Security Agency (SASSA)
South African Weather Services
Sportsrand (Pty) Ltd
State Diamond Trader
Technical Assistance Unit
Technology and Human Resources for Industry Programme
The South African National Roads Agency Limited
Unemployment Insurance Fund

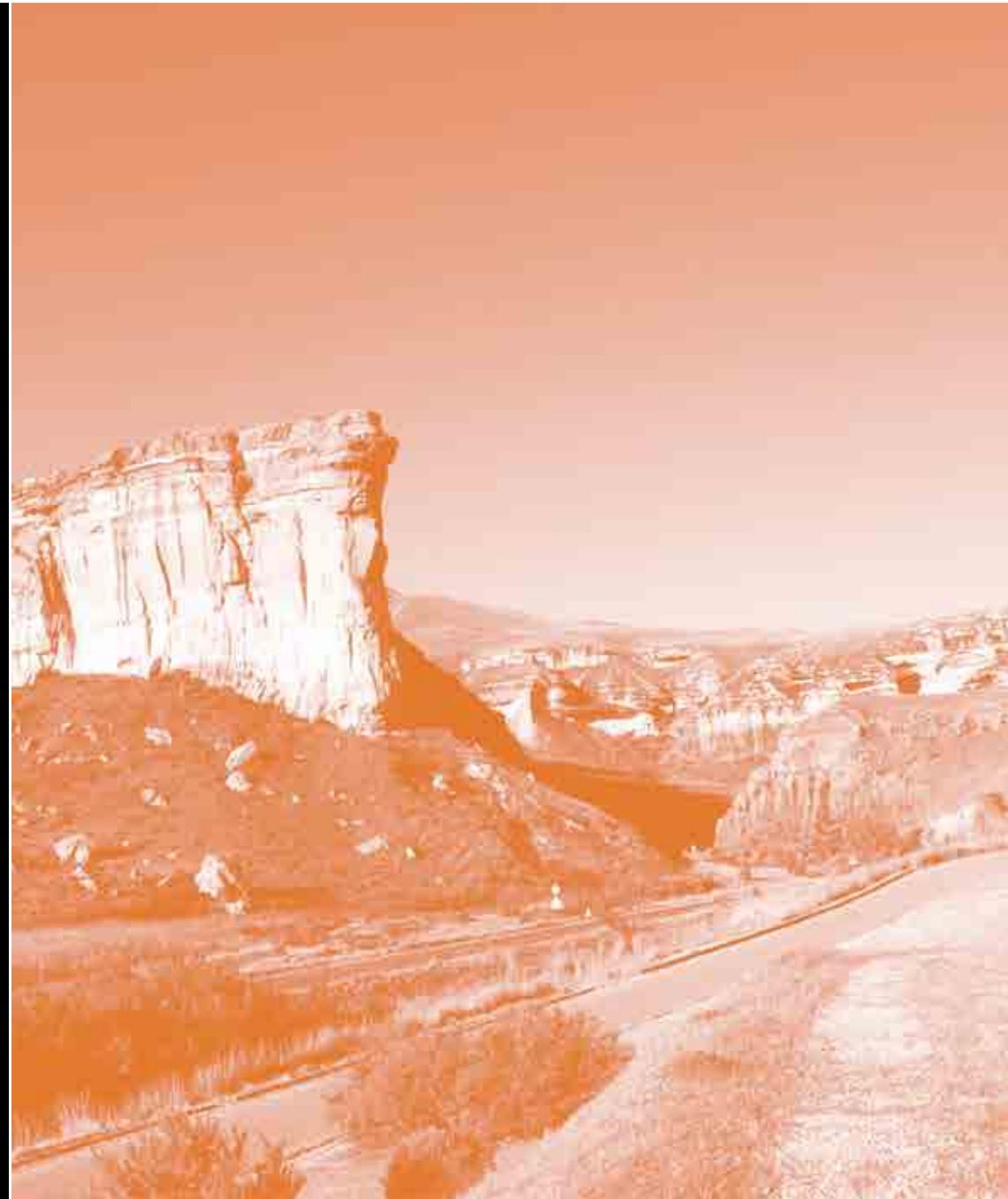
FREE STATE CLEAN AUDITS 2011-12

DEPARTMENT

**Free State Provincial Legislature
Free State Provincial Treasury
Office of the Premier**

PUBLIC ENTITY

**James Robertson Bursary Fund
Nature Conservation Trust Fund
Private Patients Fund Trust
Recreation Fund Trust
Thomas Robertson Bursary Fund**



GAUTENG CLEAN AUDITS 2011-12

PUBLIC ENTITY

AIDC Development Centre

Cradle of Humankind Trading Entity

**Dinokeng World Heritage
Trading Entity**

Gauteng Partnership Fund

**Greater Newtown Development
Company**

Industrial Development Zone

The Innovation Hub



KWAZULU-NATAL CLEAN AUDITS 2011-12

DEPARTMENT

Arts and Culture

KwaZulu-Natal Provincial Treasury

PUBLIC ENTITY

Amafa aKwazulu-Natali

KZN Political Parties' Fund

**Natal Joint Municipal Pension Fund
(Provident)**

**Natal Joint Municipal Pension Fund
(Retirement)**

**Natal Joint Municipal Pension Fund
(Superannuation)**

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LIMPOPO CLEAN AUDITS 2011-12

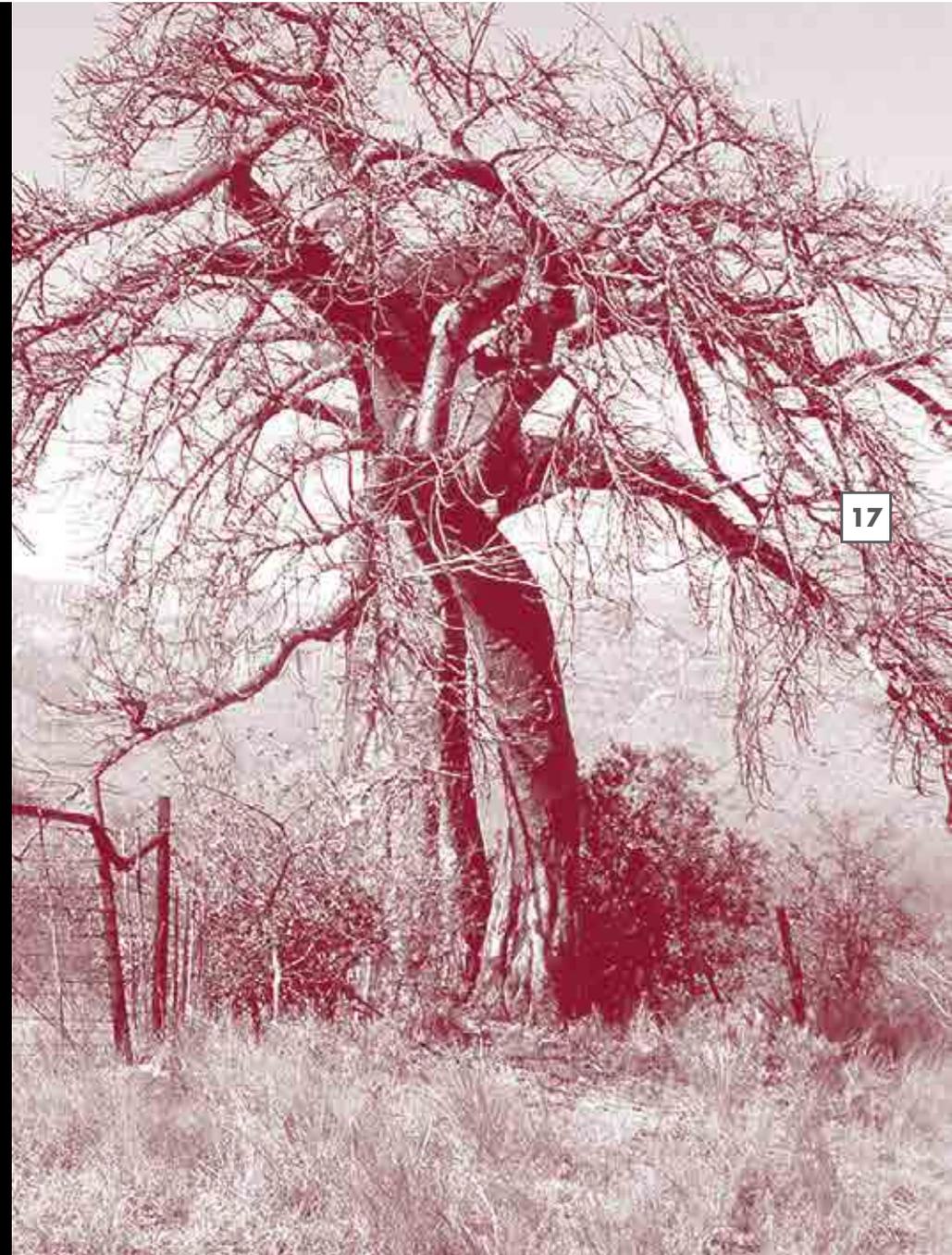
PUBLIC ENTITY

Centennial Trading Company 145

Limpopo Housing Board

Mukumbani Tea Estate

Mutale Agric Estate



MPUMALANGA CLEAN AUDITS 2011-12

DEPARTMENT

Finance

Office of the Premier

PUBLIC ENTITY

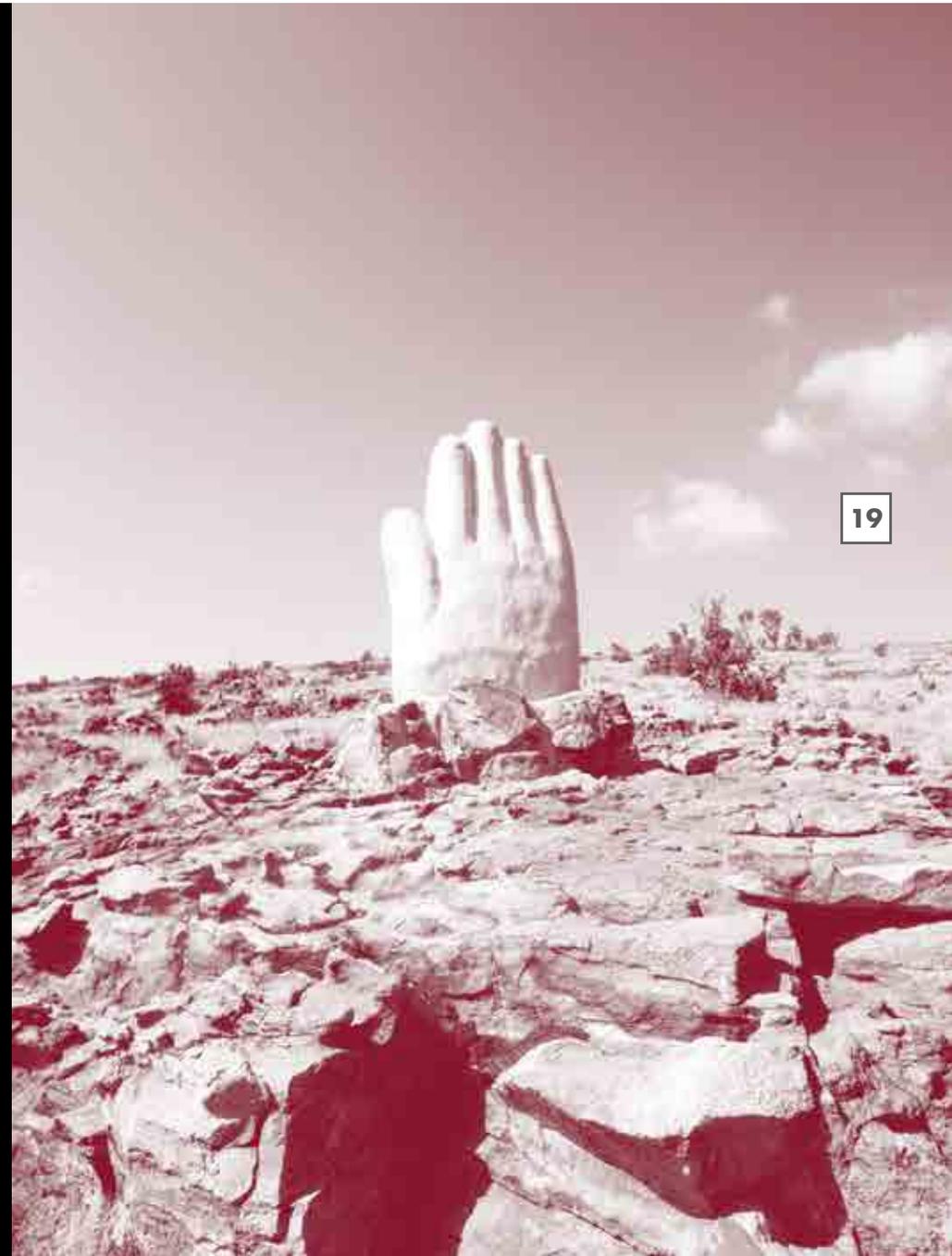
Mpumalanga Gambling Board



NORTH WEST CLEAN AUDIT 2011-12

PUBLIC ENTITY

North West Gambling Board



WESTERN CAPE CLEAN AUDITS 2011-12

DEPARTMENT

Community Safety

**Environmental Affairs and Development
Planning**

Western Cape Provincial Legislature

Western Cape Provincial Treasury

PUBLIC ENTITY

Cape Medical Depot

**Destination Marketing Organisation
(t/a Cape Town Routes Unlimited)**

The Heritage Western Cape

Western Cape Cultural Commission

Western Cape Gambling and Racing Board

Western Cape Language Committee

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FOREWORD

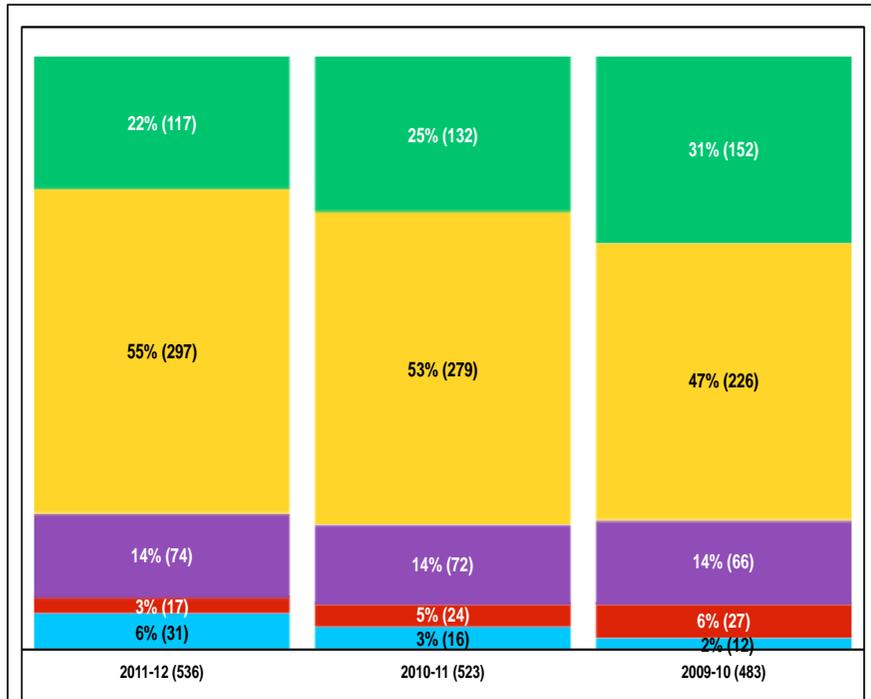


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FOREWORD

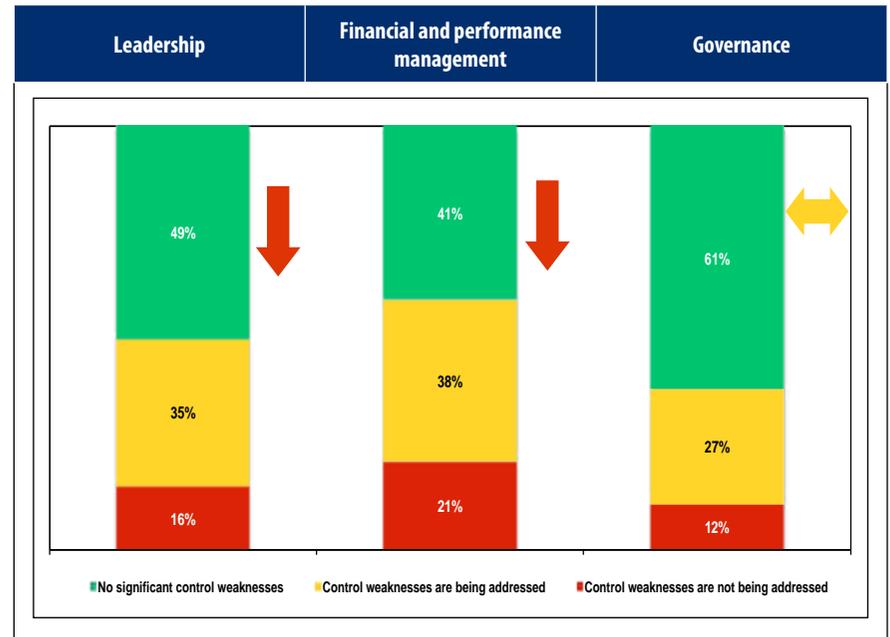
Slow progress towards clean audits with slightly more regressions than improvements



5 risk areas



Key controls



Pervasive root causes

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

FOREWORD

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

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

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

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



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

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

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

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

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

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

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

Highlighting these remedies provides a starting point for our responsible leaders and the relevant legislatures and departments to take action. All parties have to play their part.

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

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

Auditor-General

**Auditor-General
Pretoria
March 2013**

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PART ONE:

CONSOLIDATED ANALYSIS OF THE AUDIT OUTCOMES OF NATIONAL AND PROVINCIAL GOVERNMENT

SECTION 1: EXECUTIVE SUMMARY

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

SECTION 3: AUDITEES' SYSTEMS OF INTERNAL CONTROL

SECTION 4: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES AND COMMITMENTS MADE

SECTION 5: EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS



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SECTION 1: EXECUTIVE SUMMARY

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Significant aspects of the 2011-12 audit outcomes of national and provincial government are summarised in the table below, while section 2 provides a more detailed analysis of findings, trends and root causes. The status of the auditees' internal control system is reported in section 3.

Section 4 presents an analysis of the role and impact of key role players in terms of the assurances required from them in relation to their responsibilities. This section also records the initiatives and commitments received from legislative oversight, executive leadership and coordinating institutions in response to the audit outcomes.

Section 5 highlights emerging matters that may impact on future audit outcomes and auditees' financial health indicators requiring attention from the leadership.

Aspect	Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Overall audit outcomes		The overall audit outcomes for national and provincial government (excluding revenue funds and water boards) regressed as 62 (12%) auditees (17 departments and 45 public entities) improved, but 80 (16%) auditees (25 departments and 55 public entities) regressed. Over the past three years there has been slow progress towards clean audits, with the number of clean audits declining from 152 in 2009-10 to 132 in 2010-11 and thereafter to 117 in 2011-12.			
		The improved audit outcomes included those of 36 (7%) auditees (five departments and 31 public entities) that progressed to a clean audit by addressing the weaknesses in predetermined objectives and/or findings on compliance reported in the prior year.			
		Only 78 (60%) of the 132 auditees with clean audit opinions in 2010-11 were able to sustain their clean audit status. The 52 auditees that regressed from clean audits consisted of 12 departments and 40 public entities. The audits of two public entities that obtained clean audits in 2010-11, have not been finalised.			
		Two hundred and twenty-one (44%) auditees remained financially unqualified with material findings on predetermined objectives and/or compliance . One hundred and forty (28%) of these auditees have not been able to progress to a clean audit for the past three years, failing to avoid material findings on predetermined objectives and/or compliance.			
		Ninety-eight (19%) auditees improved their overall outcomes on findings on predetermined objectives and compliance but only 36 were able to move to a clean audit opinion. Ninety (18%) auditees regressed – 52 of them with no material findings on predetermined objectives and compliance in the previous year.			
Submission of financial statements for audit		Only 40 (6%) auditees had not submitted annual financial statements for audit by 31 May 2012 , as required by the Public Finance Management Act (PFMA). By 15 October 2012 the audits of 31 (6%) auditees had not been finalised as a result of late or non-submission of the annual financial statements.			
		Two hundred and eighty-seven (57%) auditees submitted financial statements with material misstatements . One hundred and ninety-six (39%) auditees achieved a financially unqualified audit opinion because they corrected all the misstatements the AGSA identified during the audit.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Opinions on financial statements		Only two public entities had adverse opinions , moving from a qualified and disclaimed opinion in the previous year. The three public entities with adverse opinions in 2010-11 moved to disclaimed, qualified and unqualified opinions.			
		The annual financial statements of five departments and four public entities were again disclaimed due to the unavailability of documentation and/or information to form an audit opinion. The opinions of two departments and four public entities regressed to disclaimers.			
		There has been an increase in the number of annual financial statements that received financially qualified opinions , with 25 regressions (12 departments and 13 public entities) and only 21 improvements. Of the auditees that regressed, 88% were financially unqualified in the previous year with material findings on predetermined objectives and/or compliance. The annual financial statements of 27 departments were qualified again, 15 of which failed to obtain financially unqualified audit opinions for the past three years .			
		Twelve departments and nine public entities were able to improve their financial statements and received an unqualified opinion .			
		The most common qualification areas for departments are the completeness and existence of assets (property, plant, infrastructure and equipment) and the completeness and valuation of financial commitments and contingent liabilities disclosed in their financial statements. Public entities were mostly qualified on the existence and valuation of their revenue and receivables. Both departments and public entities had qualifications due to them not fully disclosing irregular expenditure relating to supply chain management.			
		The general root causes of the adverse, disclaimers and qualified audit opinions are ineffective internal controls as checks and balances for all key financial processes are not in place, monthly reporting does not take place and validation processes to ensure the credibility of financial reporting are inadequate. The chief financial officer, the accounting officer/authority, internal audit and/or the audit committees did not always fulfil their internal control and assurance responsibilities. At some auditees vacancies in key positions and leadership instability affected the quality of financial reporting and the attention given to addressing prior year financial statement qualifications.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Consolidated financial statements and revenue funds		The consolidated financial statements of national departments were again qualified, while the consolidated financial statements of national public entities were disclaimed.			
		The audits of the consolidated financial statements of provincial departments and public entities in Gauteng, North West, Limpopo, Northern Cape and Western Cape had not been completed by 31 October 2012 as a result of late submissions and delays in the audit and finalisation processes.			
		The consolidated financial statements of the provincial departments of the Eastern Cape were disclaimed, while those of the Free State and KwaZulu-Natal were qualified. Only Mpumalanga was unqualified. The consolidated financial statements of the provincial public entities of the Eastern Cape were qualified, while those of the Free State and Mpumalanga were disclaimed. Only Kwazulu-Natal was unqualified.			
		These audit opinions stemmed from misstatements as a result of inter-entity balances and transactions not being eliminated, different accounting policies of the public entities as well as misstatements in the financial statements of the auditees that were consolidated. Some consolidated financial statements were qualified or disclaimed due to material misstatement in the financial statements of the entities that were being consolidated.			
		The following revenue funds achieved financially unqualified opinions: National, Gauteng, Eastern Cape, Free State and Mpumalanga. The financial statements of Limpopo, Northern Cape and North West have not been submitted for audit and the audit of the KwaZulu-Natal Revenue Fund had not been completed at 31 October 2012.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Reporting on predetermined objectives		Three hundred and three (60%) auditees do not have any material findings on the usefulness and reliability of their annual performance reports – improving from 277 (55%) in the previous year.			
		Auditees that continue to have material shortcomings in reporting on service delivery include key departments responsible for national outcomes , such as those in the health, education and the human settlement sectors.			
		Eighty-three (16%) auditees submitted annual performance reports that contained material misstatements , 53 of which were able to avoid findings on the presentation and reliability of the reports because they corrected all misstatements identified as a result of the audit.			
		Based on the annual performance reports, 42% of auditees (102 departments and 112 public entities) achieved 80% or fewer of their planned service delivery targets .			
	<p>The most common material finding for both departments and public entities on the usefulness of the reported information was that the performance targets were not specific and/or measurable to ensure that the required performance can be meaningfully measured. Findings on reliability of the annual performance reports of departments mostly related to the accuracy of the information and, for public entities, the validity thereof.</p> <p>The general root causes of the material findings on the annual performance reports were serious shortcomings in the planning, oversight and monitoring processes, which included lack of understanding and implementation of the principles of National Treasury's <i>Framework for managing performance information</i> and inadequate support and guidance by national and provincial oversight bodies.</p> <p>Furthermore, basic systems, processes and controls are not in place or are not functioning effectively, which includes record keeping as evidence of achieving performance targets. Vacancies, lack of skills and inadequate performance monitoring further impacted on the outcomes of some auditees.</p>				
Findings on non-compliance with laws and regulations		Material findings on non-compliance with laws and regulations were reported for 375 (74%) auditees, a regression from the 362 (71%) in the previous year. Only 44 auditees addressed their prior year findings on compliance and 72 (14%) auditees had material findings for the first time this year.			
		Seventy-three (25%) auditees with findings on compliance had findings in one AGSA focus area only , while 42 (14%) auditees only had findings on material misstatements in submitted financial statements. Full compliance with key laws and regulations is therefore within their reach.			
	<p>The top three areas of non-compliance relate to material misstatements in submitted financial statements, prevention of and addressing unauthorised, irregular as well as fruitless and wasteful expenditure, and procurement and contract management (supply chain management) which together account for 57% of all findings on compliance.</p> <p>The other areas of non-compliance included expenditure management, human resource management, revenue management and asset and liability management.</p>				

Aspect	Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Findings on non-compliance with laws and regulations		Findings on supply chain management were reported in the management reports of 287 (57%) [2010-11: 282 (56%)] of the auditees, while at 222 (44%) [2010-11: 228 (45%)] auditees the findings were material enough to warrant reporting thereon in the auditor's report. At an overall level there has been no improvement, with an equal number of auditees that improved and regressed.			
		Contracts and quotations to the value of R4 862 million which were selected for audit could not be audited due to the required information or documentation not being made available by auditees. These limitations further impact on the extent of identified irregularities and supply chain management weaknesses.			
		Contracts to the value of R438 million identified at 47 auditees were awarded to suppliers in which employees of the auditee had an interest . At some auditees the employees included supply chain management officials and senior managers.			
		Contracts to the value of R141 million identified at 42 auditees were awarded to suppliers in which close family members of employees of the auditee had an interest , which represents an increase from the R136 million identified in the previous year at 21 auditees.			
		Where interest was identified, the suppliers did not declare such interest in 73% of instances and the employee did not declare in 76% of instances. At 16 departments the employees doing business with the auditee did not obtain approval for the additional remunerative work .			
		Findings on unfair and uncompetitive bidding were raised at 50% of auditees – an increase from 42% in the previous year. The most common findings relate to competitive bidding and quotation processes not followed to select suppliers and the non-submission by suppliers of their tax certificates and declarations of independence. The preference point system was also not always applied in the procurement process.			
		Findings on compliance relating to unauthorised, irregular as well as fruitless and wasteful expenditure remained at the same high level as in the previous financial year (45% of auditees). Two thirds of auditees incurred one or more types of unauthorised, irregular and fruitless and wasteful expenditure.			
		Unauthorised expenditure of R2 978 million was incurred by 26 (16%) auditees, 14 fewer than in the 2010-11 financial year and R831 million less. Provincial departments account for 98% of the total value of unauthorised expenditure.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
Findings on non-compliance with laws and regulations		Irregular expenditure of R28 378 million was incurred by 294 (58%) auditees. The number of auditees incurring irregular expenditure increased by 32 (12%) and the value by R6 254 million (28%). R9 798 million of the irregular expenditure was incurred in prior years and only identified and reported in the current year. Provincial departments account for 73% of the total irregular expenditure incurred.			
		Fruitless and wasteful expenditure of R1 793 million was incurred by 226 (44%) auditees. The number of auditees incurring fruitless and wasteful expenditure increased by 29 (13%) and the value by R249 million (16%). Provincial departments account for 55% of the total fruitless and wasteful expenditure incurred.			
		The general root causes of material findings on non-compliance with laws and regulations relate to weak controls to ensure that systems and processes of the auditees are designed to comply with all applicable laws and regulations and to provide for record keeping of, for example, the evidence of the procurement processes followed. Oversight and monitoring of compliance were insufficient, while internal audit and the audit committees did not adequately focus on their duty to audit and report on compliance. It was also reported at a number of auditees that leadership (the accounting officer and/or executive authority) does not set the appropriate tone when it comes to compliance. Accountability is not accepted and the leadership does not apply the remedies available in legislation to ensure that there are consequences for transgressions.			
AGSA focus area – Human resource management		Findings arising from an assessment of human resource management were reported in the management reports of 46% of the auditees that were included in the scope, while at 19% of them the findings were material enough to warrant reporting in the auditor's report. Overall the level of findings remained unchanged since the previous year with the most significant increases in the number of auditees with findings being in the areas of vacancy management and appointment processes.			
		Some senior management positions at 51 (31%) departments took more than 12 months to fill while 26 (16%) departments did not advertise vacant senior management positions within six months of them becoming vacant. Forty-six per cent of departments that received qualified or disclaimed audit opinions experienced lengthy vacancies at senior management level and 35% of them had also not advertised the vacancies timeously. Positions were vacant for longer than 12 months in the finance units of 24% of auditees that received qualified or disclaimed audit opinions. Senior managers who did not have performance agreements or whose agreements were not signed timeously were identified at 37 (23%) departments. Poor performance management at senior management level was identified at 37% of the departments that received qualified or disclaimed audit opinions.			

Aspect	Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/trends
AGSA focus area: IT management		The majority of departments and public entities experienced challenges with the design and implementation of information technology (IT) controls that provide assurance on the confidentiality, integrity and availability of financial information .			
		Delays in the approval, roll-out and implementation of a government-wide IT governance framework resulted in the IT governance processes not being implemented effectively at the majority of national departments and public entities.			
		Business continuity plans had not been designed to ensure that all critical business processes supported by IT systems would be identified and included in a recovery plan.			
Auditees' system of internal control		Effective internal controls to prevent, detect and correct non-compliance with legislation and errors in the financial and performance reports are lacking. Overall the effectiveness of key controls has regressed, as they were not designed and implemented in a sustainable manner.			
		Audit committees and internal audit units are in place at more than 90% of auditees, but at 35% of auditees the audit committees are not making any positive impact on the audit outcomes. The same applies to internal audit units at 42% of auditees. The reason for the inadequate impact is that the scope of their work in some instances does not include evaluating the reliability and credibility of financial and performance information and/or compliance with laws and regulations.			
Auditees' financial health		The results of the high-level analysis of auditees' financial health indicators demonstrate that there are a number of risks that management of these auditees, oversight and monitoring departments, treasuries and executive authorities should note. The weaknesses identified in budget and financial management , the inability of some auditees to collect the revenue due to the state and the additional financial burden placed on the state by some public entities will continue to put the fiscus under pressure if not addressed.			



SECTION 2: OVERVIEW OF AUDIT OUTCOMES

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

This section of the general report provides the 2011-12 overall audit outcomes of national and provincial government (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their predetermined objectives (PDOs) (section 2.3) and key compliance by auditees with key laws and regulations (section 2.4).

Root causes of audit findings and recommended best practices are also presented in the respective sections. This should be read together with an analysis of the auditees' internal control system in section 3.

2.1 OVERALL AUDIT OUTCOMES

2.1.1 Summary of overall audit outcomes

National and provincial government comprises 671 auditees [162 departments (including Parliament and the provincial legislatures) and 509 public entities]. Public entities include the major public entities, government business enterprises, national and provincial public entities, constitutional institutions and trading entities that are audited in terms of the PFMA, as well as other entities audited in terms of any legislation other than the PFMA.

The audit outcomes of the 135 public entities not audited by the AGSA are not analysed in this general report except for the summary outcomes reflected in section 2.1.6. The establishment of 11 new public entities has increased the number of public entities audited by the AGSA from 363 to 374.

Arising mainly from non-submission or late submission of financial statements for audit, the audits of the new Department of Rural Development in the Free State and 30 (8%) public entities had not been finalised as at 15 October 2012, which was set as the cut-off date for inclusion in this general report. However, the

outcomes of eight audits finalised between this cut-off date and the date of this general report are presented in section 2.1.5.

The following table provides a summary of the 2011-12 outcomes of AGSA audits finalised by 15 October 2012 per type of auditee. The term "leading departments" is used in this table and further analyses in the report – leading departments are those auditees which monitor and set the example for other auditees in national and provincial government. The leading departments comprise Parliament, nine provincial legislatures, nine Offices of the Premier, National Treasury and nine provincial treasuries.

Table 1: Summary of audit outcomes for current and prior year

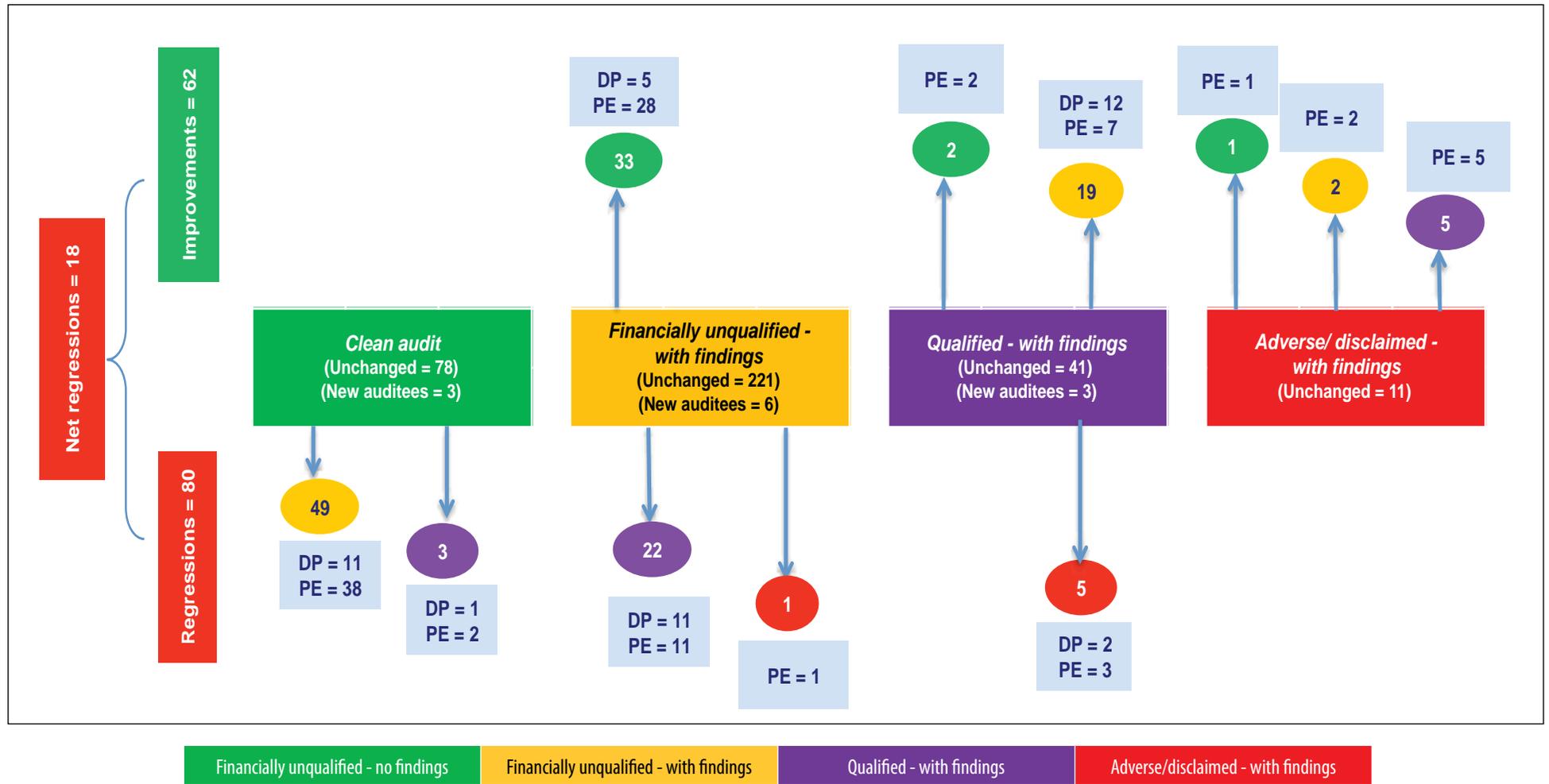
Audit outcomes	Departments						Public entities								Total	
	National		Provincial		Leading*		Major public entities and government business enterprises		National and provincial public entities		Constitutional institutions and trading entities		Other entities			
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	3	3	3 ↓	7	8 ↓	11	5 ↓	7	76 ↓	82	5 ↑	0	17 ↓	22	117 ↓	132
Financially unqualified with findings	28	24	55	52	18	17	11	10	146	137	22	27	17	12	297	279
Financially unqualified financial statements	82% ↑	73%	61%	63%	90% ↓	97%	70%	74%	85%	87%	77%	79%	62%	64%	77%	79%
Qualified opinion, with findings	6	9	30	31	3	1	3	4	23	20	5	2	4	5	74	72
Adverse opinion, with findings	0	0	0	0	0	0	0	1	0	2	1	0	1	0	2	3
Disclaimer of opinion, with findings	1	1	6	4	0	0	3	1	4	7	1	5	0	3	15	21
Number of audit reports not issued by 15 October 2012	0	0	1	0	0	0	1	0	12	5	1	0	16	11	31	16
Outstanding audits and financially qualified financial statements	18% ↑	27%	39%	37%	10% ↓	3%	30%	26%	15%	13%	23%	21%	38%	36%	23%	21%
Total number of audits	38	37	95	94	29	29	23	23	261	253	35	34	55	53	536	523
Findings on reporting on predetermined objectives (PDOs) only	1	0	0	1	1	0	0	0	10	8	0	1	0	2	12	12
Findings on compliance with laws and regulations only	15	8	34	30	9	10	7	6	83	69	18	13	19	8	185	144
Findings on both PDOs and compliance	19	26	57	56	10	8	10	10	80	89	11	20	3	9	190	218
Total number of audits "with findings"	35	34	91	87	20	18	17	16	173	166	29	34	22	19	387	374

* Leading departments comprise of legislatures, Offices of the Premiers and provincial treasuries

Legend:  Significant improvement  Significant regression

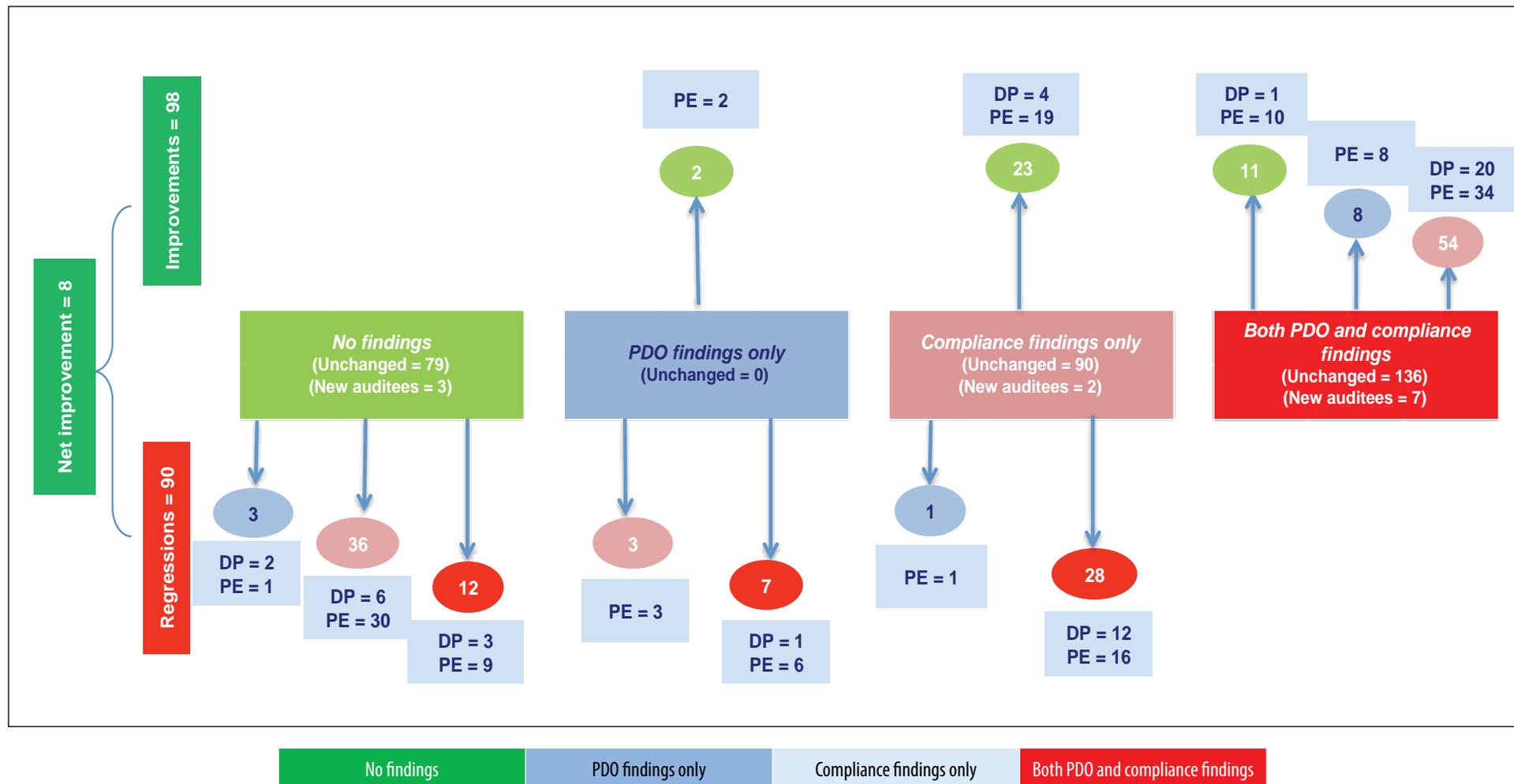
The previous table shows the net change in audit outcomes from the previous year while the following figure highlights the detail of improvements and regressions of departments (DP) and public entities (PE) that caused the net change.

Figure 1: Improvements and regressions in audit opinions



It is apparent from the previous table shows the net change in audit outcomes from the previous year while the following figure highlights the detail of improvements and regressions of departments (DP) and public entities (PE) that caused the net change.

Figure 2: Improvements and regressions in findings on predetermined objectives and compliance with laws and regulations on findings



The following observations are made on the overall audit outcomes and the improvements and regressions since the previous year:

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Overall audit outcomes	The overall audit outcomes for national and provincial government regressed as 62 (12%) auditees (17 departments and 45 public entities) improved, but 80 (16%) auditees (25 departments and 55 public entities) regressed.			
Progression to clean audit opinion	<p>The improvements in overall audit outcomes include those of the following 36 (7%) auditees that progressed to a clean audit outcome by addressing the PDO weaknesses and/or findings on compliance reported in the prior year:</p> <ul style="list-style-type: none"> • Five departments - <i>Public Service Commission, the Free State Legislature, Mpumalanga Premier's office, the Western Cape Environmental Affairs and Development Planning and the Western Cape Provincial Treasury.</i> • Thirty-one public entities, including 16 national public entities and 15 provincial public entities, the majority in the Western Cape and Gauteng. 			
Sustained clean audit opinions	<p>Seventy-eight (16%) of the auditees were able to sustain their clean audit status of the prior year. These include the provincial <i>treasuries</i> of the Free State, Kwazulu-Natal and Mpumalanga, <i>the Free State Premier's office, the Western Cape Legislature and the Department of Public Enterprises.</i></p> <p>Public entities that sustained their clean audit status include the <i>South African Revenue Service, the Unemployment Insurance Fund, the Land Bank and the Independent Regulatory Board for Auditors,</i> as well as 15 smaller funds, boards and trusts.</p>			
Regressions from clean audit opinions	<p>The 52 auditees that regressed from clean audits are made up as follows:</p> <ul style="list-style-type: none"> • <i>The Mpumalanga Legislature, the Wholesale and Retail SETA and Great North Transport</i> regressed from a clean audit to a qualified audit opinion. • <i>The Gauteng and KwaZulu-Natal Premier's offices and the provincial legislatures of Eastern Cape, Gauteng and KwaZulu-Natal</i> retained financially unqualified opinions on financial statements but regressed on material findings on PDO and/or compliance. • Five provincial departments regressed due to material findings on compliance and one national department due to material PDO findings. • Thirty-eight public entities, which include nine provincial public entities (five in Gauteng), two major public entities/government enterprises, 21 national public entities and six smaller funds and trusts. 			
Adverse opinions	<p>The <i>National Arts Council</i> was able to improve from an adverse opinion with findings on PDO and compliance in the previous year to a qualified opinion with findings on compliance, while the <i>Road Traffic Management Corporation</i> improved to a financially unqualified opinion with findings on PDO and compliance. The <i>Mpumalanga Economic Growth Agency</i> showed no improvement, moving from an adverse to a disclaimer of opinion.</p> <p>The <i>KZN Housing Fund and the Northern Cape Fleet Management Trading Entity</i> have adverse opinions in the current year, moving from a qualified and disclaimer of opinion, respectively.</p>			

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Disclaimer of opinions	<p>The financial statements of the national department of <i>Public Works</i>, Eastern Cape department of Education, provincial departments of <i>Health (Limpopo and Northern Cape)</i> and the North West department of <i>Public Works, Roads and Transport</i> were again disclaimed. <i>The Property Management Trading Entity</i>, which since 2011-12 falls under the national department of <i>Public Works</i>, also remained disclaimed along with the <i>Free State Development Cooperation</i>, the <i>Limpopo Tourism and Parks Board</i> and the <i>North West Golden Leopards Resorts</i>.</p> <p>The Limpopo departments of Education and Public Works regressed from a qualified opinion to a disclaimer. The public entities that regressed to disclaimers were the <i>Local Government SETA</i> (from an unqualified opinion), the <i>SA Heritage Resources Agency</i> and the <i>Mafikeng Industrial Development Zone</i>.</p>			
Regressions to qualified audit opinions	<p>There has been a net increase of five in the number of financial statements that received financially qualified opinions, with 25 regressions and only 21 improvements. Of the auditees that regressed, 92% were financially unqualified in the previous year with material findings on PDO and/or compliance.</p> <p>Included in the 12 departments that failed to retain their financially unqualified opinions are <i>Home Affairs, Statistics SA</i>, the <i>legislatures of Northern Cape and Mpumalanga, Eastern Cape and Northern Cape departments of Roads and Public Works</i>, Free State department of <i>Human Settlements</i> and the Western Cape department of <i>Education</i>. The main financial statement areas that were materially misstated and therefore qualified are non-current assets, other disclosure items and liabilities.</p> <p>Included in the 13 public entities that regressed to qualified audit opinions are the <i>Safety and Security SETA</i>, the <i>Deeds Registration Trading Account</i> and the <i>Gateway Airport Authority</i> in Limpopo.</p>			
Movement towards unqualified audit opinions	<p>Twelve departments and nine public entities were able to improve their financial statements and obtained on financially unqualified opinion with material findings on PDO and/or compliance. The most noteworthy among those with qualified opinions for at least two prior years are the Free State departments of Education and Cooperative Governance and Traditional Affairs, the national departments of Defence and of Social Development, KwaZulu-Natal's Public Works, Limpopo's Social Development and the Eastern Cape department of Economic Development and Environmental Affairs.</p>			
Unchanged qualified audit opinions for past 3 years	<p>The following 26 departments failed to obtain financially unqualified audit reports for the past three years:</p> <p>The national departments of <i>Correctional Services, Water Affairs, Justice and Constitutional Development, Public Works and Rural Development and Land Reform</i>.</p> <ul style="list-style-type: none"> • The <i>Health</i> department of the Free State, Eastern Cape, KwaZulu-Natal and Mpumalanga, Limpopo and Northern Cape. • The <i>Education</i> departments in the Northern Cape, North West, Eastern Cape and Limpopo. • The departments of <i>Human Settlements</i> in the Eastern Cape and North West and the Free State, North West and Limpopo departments of <i>Public Works</i>. • Four departments in the North West province (including the <i>Premier's office</i>) and one each in the Free State and Northern Cape. <p>Recurrent financial statement qualification areas include non-current assets, current assets and other disclosure items.</p>			

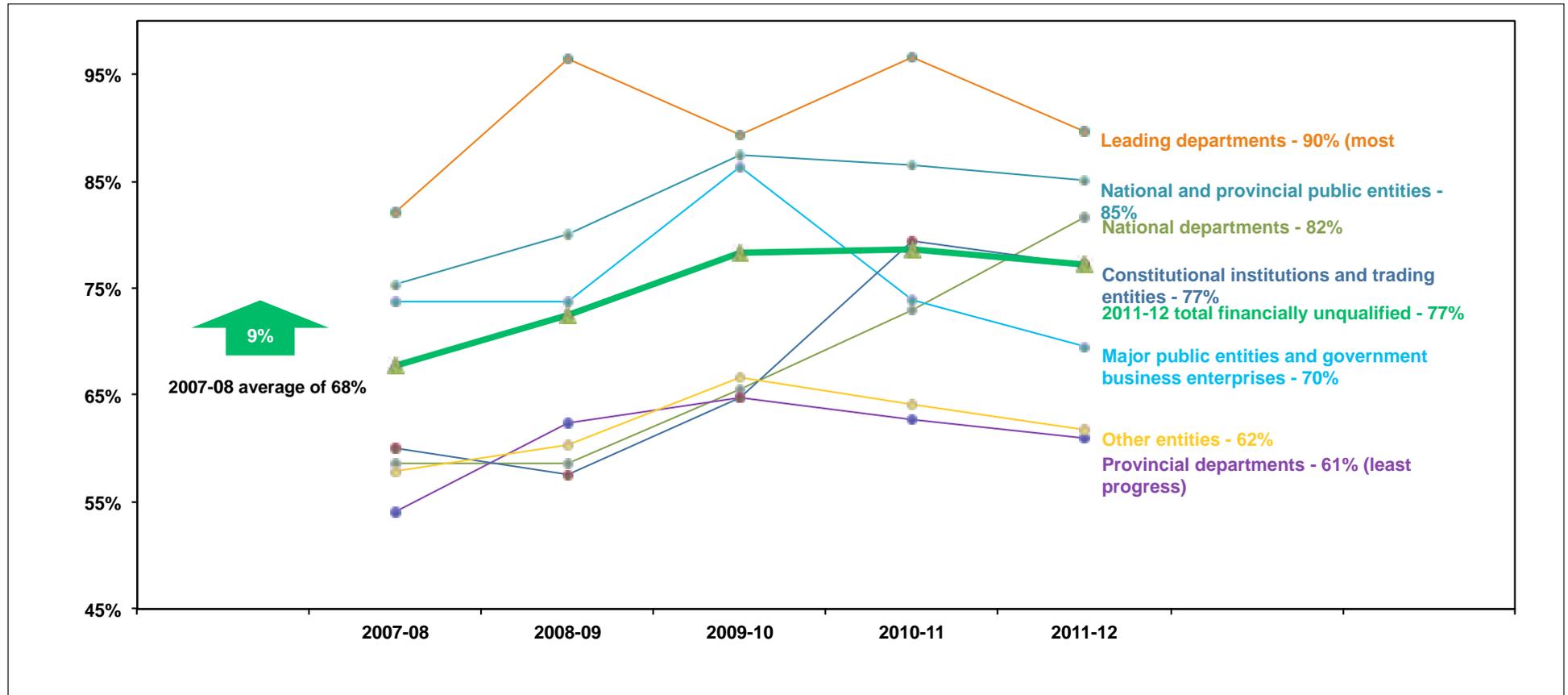
Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
Financial unqualified with findings – stagnation	<p>Two hundred and twenty-one (44%) auditees remained financially unqualified with material findings on PDO and/or compliance. Included are 13 leading departments, 21 national departments, 43 provincial departments (mostly in Gauteng, KwaZulu-Natal, Mpumalanga and the Western Cape) and 144 public entities.</p> <p>One hundred and forty (27%) of these auditees have not been able to progress to clean audits for the past three years, failing to avoid material findings on PDO and/or compliance.</p>			
Overall outcomes on PDO and compliance	<p>Ninety-eight (19%) auditees improved their overall outcomes regarding PDO and compliance findings but only 36 were able to move to a clean audit opinion. Ninety (18%) auditees regressed – 52 of them with no material PDO and compliance findings in the previous year.</p>			
Outcomes on PDO – limited improvement	<p>Seventy (14%) auditees improved since the prior year to having no material findings on PDO while 44 (9%) regressed. Included in this group of auditees are the following:</p> <p>The <i>provincial treasuries of North West and Eastern Cape</i>, the <i>Free State legislature</i> and the <i>Limpopo Premier's office</i> addressed their prior year findings. The following leading departments had material findings on PDO for the first time: <i>the provincial treasuries of Gauteng, Northern Cape and Limpopo</i>; the <i>Gauteng and KwaZulu-Natal Premier's offices</i> and the <i>legislatures of KwaZulu-Natal and Eastern Cape</i>.</p> <ul style="list-style-type: none"> • Two national departments regressed and eight (including <i>Justice and Constitutional Development, Public Service and Administration</i> and <i>Transport</i>) addressed their prior year findings. • Thirteen provincial departments improved (two each in Gauteng and Mpumalanga and three in Limpopo) and 16 regressed (including four in KwaZulu-Natal, three in the Northern Cape and two each in Gauteng, Mpumalanga and North West). • The public entities that improved included the <i>Compensation Fund, Independent Electoral Commission, SA Social Security Agency, South African Human Rights Commission</i> and the <i>Public Protector</i>. Those that regressed included three SETAs. <p>One hundred and fifty-one (30%) auditees did not address their prior year findings on PDO – 117 (23%) auditees also had findings on PDO in the preceding two years, among others the <i>North West and Northern Cape legislatures</i>, the <i>North West Premier's office</i>, the national departments of <i>Correctional Services, Home Affairs, Labour, Public Works, Police, Water Affairs, Health, Human Settlements</i> and <i>Cooperative Governance and Traditional Affairs</i>, five provincial departments of <i>Education</i>, seven provincial departments of <i>Health</i>, six provincial departments of <i>Human Settlements</i>, six provincial departments of <i>Public Works</i> and 56 public entities.</p>			

Indicator	Key outcomes and trends	Good outcomes/trends	Stagnant or little progress	Poor outcomes/trends
<p>Continued regressions in compliance with laws and regulations</p>	<p>Only 44 auditees addressed their prior year findings on compliance (including three leading departments). Sixty-seven (13%) auditees regressed (11% of which are public entities). Regression occurred in compliance-related material misstatements in financial statements submitted for audit, HR management, asset and liability management and revenue management.</p> <p>The 87 (17%) auditees that were able to maintain their status of no findings on compliance included only 12 departments [<i>three provincial treasuries (Free State, KwaZulu-Natal and Mpumalanga)</i>], the <i>Premier's offices</i> in the <i>Free State</i> and <i>Gauteng</i> and the <i>legislatures of Mpumalanga</i> and <i>Western Cape</i>.</p> <p>Three hundred and eight (61%) auditees again attracted material findings on compliance, 99 (19%) of which had the same outcome (financially, unqualified with findings) in the prior two years. Among these are the <i>National Treasury</i>, <i>three provincial treasuries (Eastern Cape, Northern Cape and North West)</i>, the <i>Premier's office (Western Cape)</i>, nine national departments, one provincial <i>Health</i> department and two of the provincial <i>Human Settlements</i> departments.</p>			
<p>Outstanding audits</p>	<p>Included in the eight auditees whose audits have not been finalised for two or more years due to non-submission of financial statements are all provincial public entities, two of which are in the Northern Cape and three in the North West province.</p>			

2.1.2 Financially unqualified financial statements – five-year progress

Producing unqualified financial statements is an important milestone towards clean audits. The five-year progress of national and provincial government towards obtaining financially unqualified audit opinions on the financial statements of departments and public entities is depicted in the following figure at an overall level and per type of auditee.

Figure 3: Five-year progress towards financially unqualified financial statements

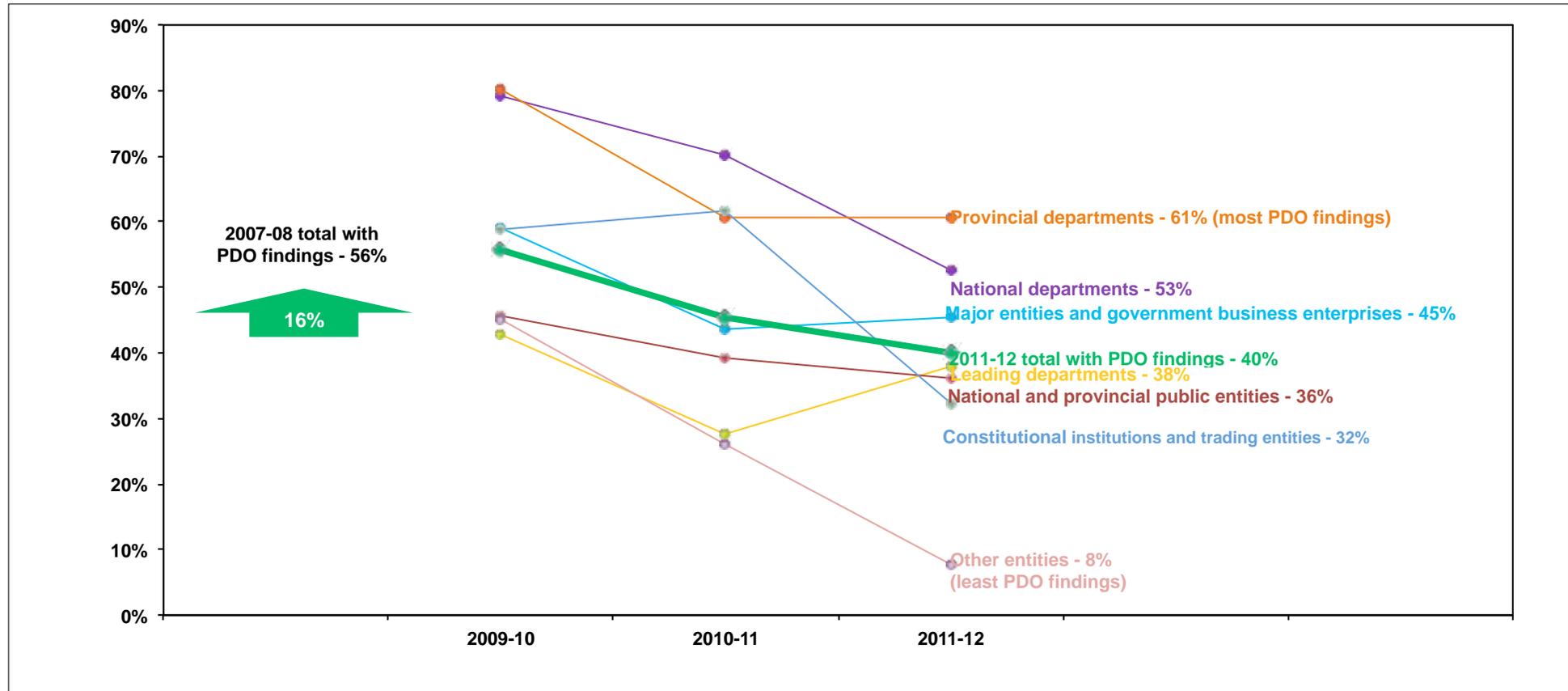


2.1.3 Useful and reliable reporting against predetermined objectives – three-year progress

In order to obtain clean audit opinions auditees should report annually on the achievement of their PDOs in a useful and reliable manner.

The three-year progress of national and provincial government towards meeting this requirement is depicted in the following figure at an overall level and per type of auditee, which indicates an overall reduction of 16% in PDO findings.

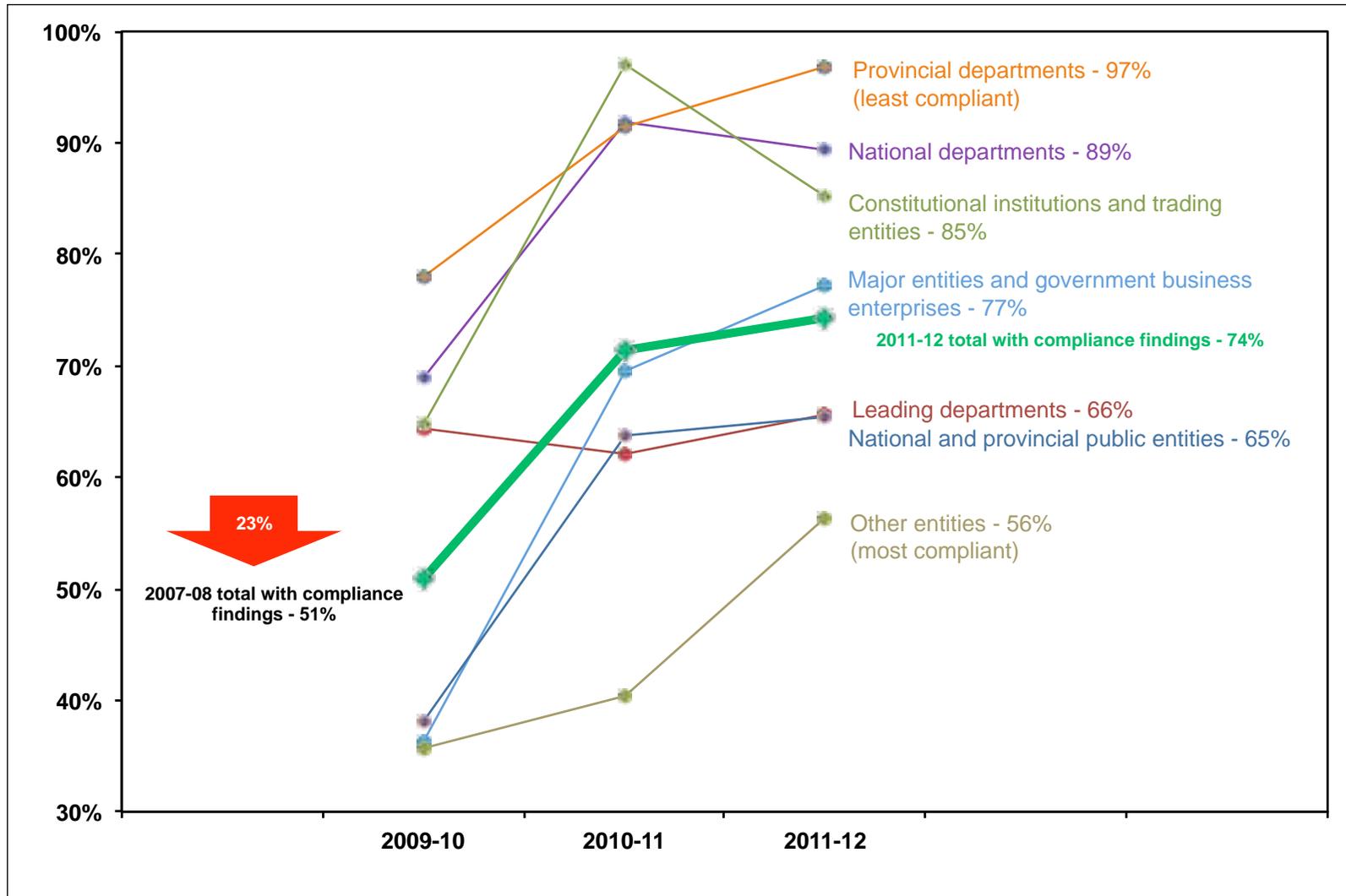
Figure 4: Three-year progress towards no findings on predetermined objectives



2.1.4 Compliance with key laws and regulations – three-year progress

The audit reports include outcomes of material findings on compliance, which need to be addressed in order to achieve a clean audit opinion. The three-year progress of national and provincial government towards compliance with the key legislation is depicted in the following figure at an overall level and per type of auditee, which indicates an overall regression of 23% in findings on compliance.

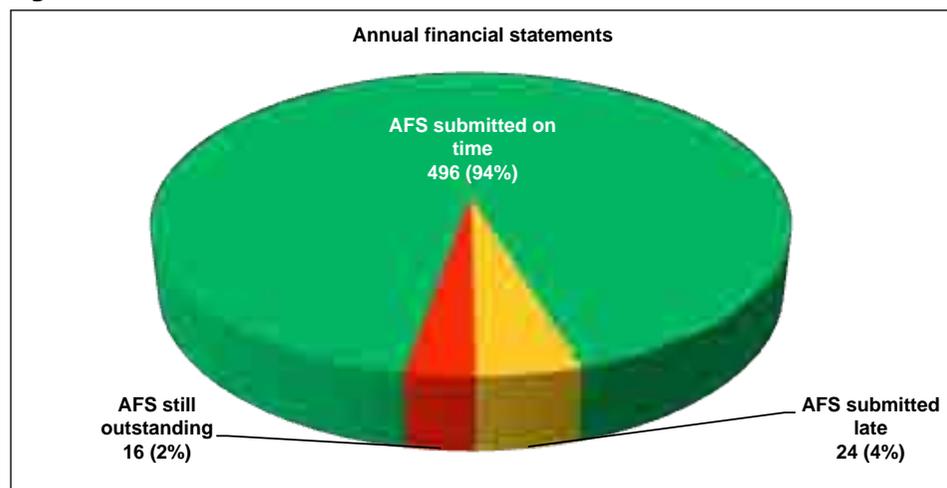
Figure 5: Three-year progress towards no findings on compliance



2.1.5 Status and outcomes of audits not finalised by 15 October 2012

Timely completion of audits within the legislated timelines is primarily influenced by the date on which the AGSA receives the auditees' financial statements for audit and the efficiency with which the audits proceed until completed. The figure below indicates that a total of 40 (6%) auditees were unable to submit financial statements for audit by 31 May 2012 as required by the PFMA.

Figure 6: Timeliness of submission of annual financial statements for audit



Included in the 40 auditees are seven national public entities, one provincial department and 32 provincial public entities. The audits of 12 of the auditees that submitted late were completed by 15 October 2012 and their outcomes are included in this general report.

Between 15 October 2012 and the date of this general report eight further audits were finalised. Their outcomes are not included in the analysis contained in this report.

The following table depicts the audit outcomes for the audits that were finalised between the 15 October 2012 general report cut-off date and the date of this report.

Table 2: Outcomes of audits finalised after 15 October 2012

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement from 2010-11 audit opinion
Public entities			
Agribank Creditors Settlement Trust	Financially unqualified with no findings	Financially unqualified with no findings	↔
Agribank	Financially unqualified with findings	Financially unqualified with findings	↔
Atteridgeville Bus Services	Financially unqualified with findings	Qualified	↑
KwaZulu-Natal Business Rehabilitation Trust Fund	Disclaimer	Disclaimer	↔
Mmabana Arts, Culture and Sport Foundation	Qualified	Qualified	↔
North West Star	Financially unqualified with findings	Qualified	↑
North West Transport Investments	Qualified	Qualified	↔
North West Youth Development Trust	Qualified	Financially unqualified with findings	↓

The following table depicts the reasons for the remaining audits being outstanding at the date of this report with an indication of the prior year audit outcomes.

Table 3: Prior year outcomes of audits outstanding at the date of this report

Auditee category	Reasons not finalised				Audit outcome of audit last finalised					
	Total	Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	Disclaimer/ Adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Audit outstanding	New auditee
Provincial departments	1	1								1
National public entities	6	4	1	1	2			1	3	
Provincial public entities	16	11	4	1	5	1	1		8	1
Total	23	16	5	2	7	1	1	1	11	2

2.1.6 Outcomes of audits not conducted by the AGSA

In terms of section 25(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the Auditor-General elected not to audit 135 public entities, which were permitted to appoint their own auditors in consultation with the AGSA.

These entities are the following:

- Seventy-three higher education institutions, consisting of 23 universities and 50 further education training colleges
- Sixteen major public entities, including Eskom, Denel, South African Airways, Telkom and the SABC

- Eight government business enterprises
- Nine water boards
- Thirty-five national and provincial public entities
- Three other entities (the DBSA – Development Fund, the Academy of Science of South Africa and La Mercy Property Investment) not subject to the PFMA.

The water boards have a June financial year-end which resulted in their audits not being finalised at the time of this report – they are therefore excluded from the analysis that follows.

Their audit outcomes are depicted in the following figures.

Figure 7: Summary of audit outcomes – audits not conducted by the AGSA

100% = 135 entities (2010-11: 100% = 133 entities)

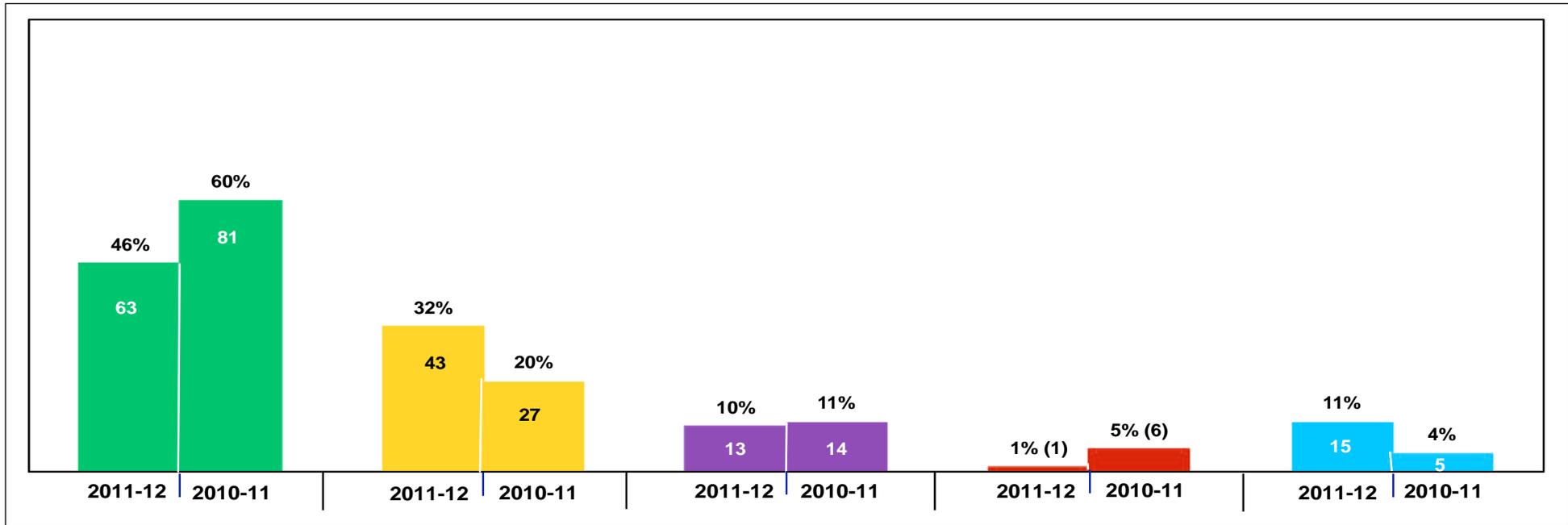
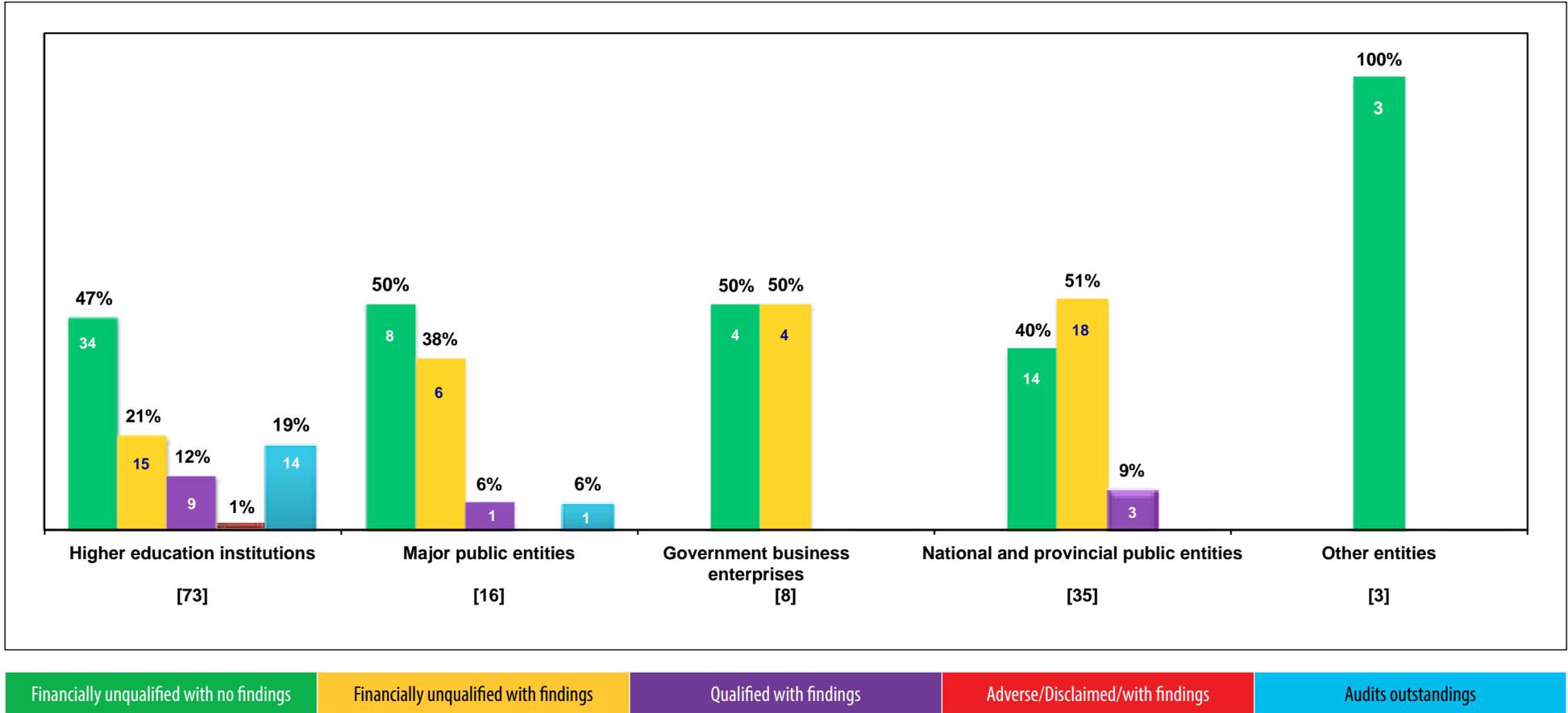
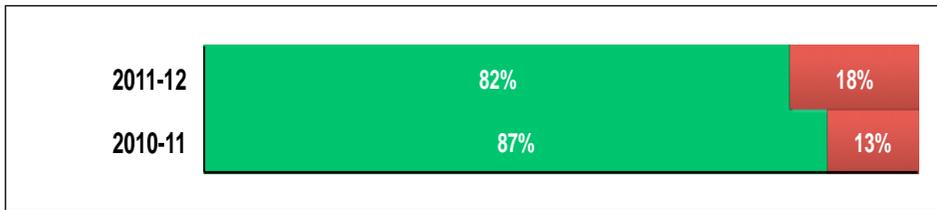


Figure 8: Summary of audit outcomes – per entity category of audits not conducted by the AGSA



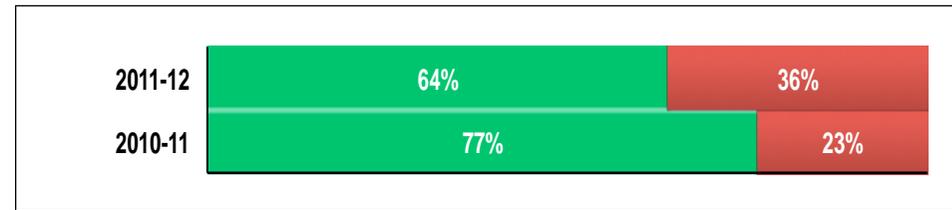
Depicted below is the number of entities (not audited by the AGSA) with material PDO and compliance findings reported on.

Figure 9: Findings on predetermined objectives – audits not conducted by the AGSA

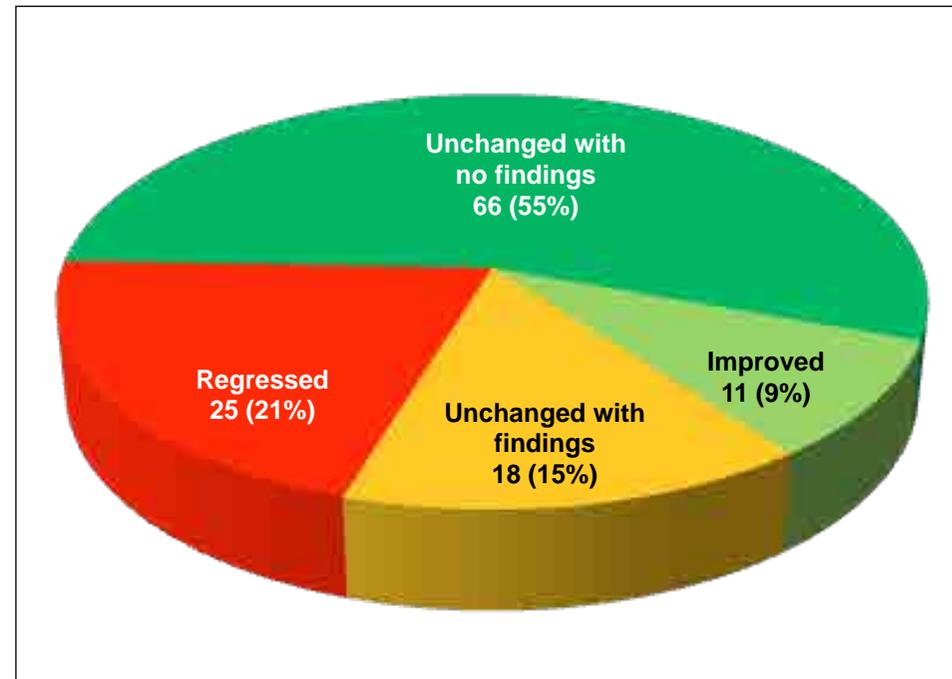
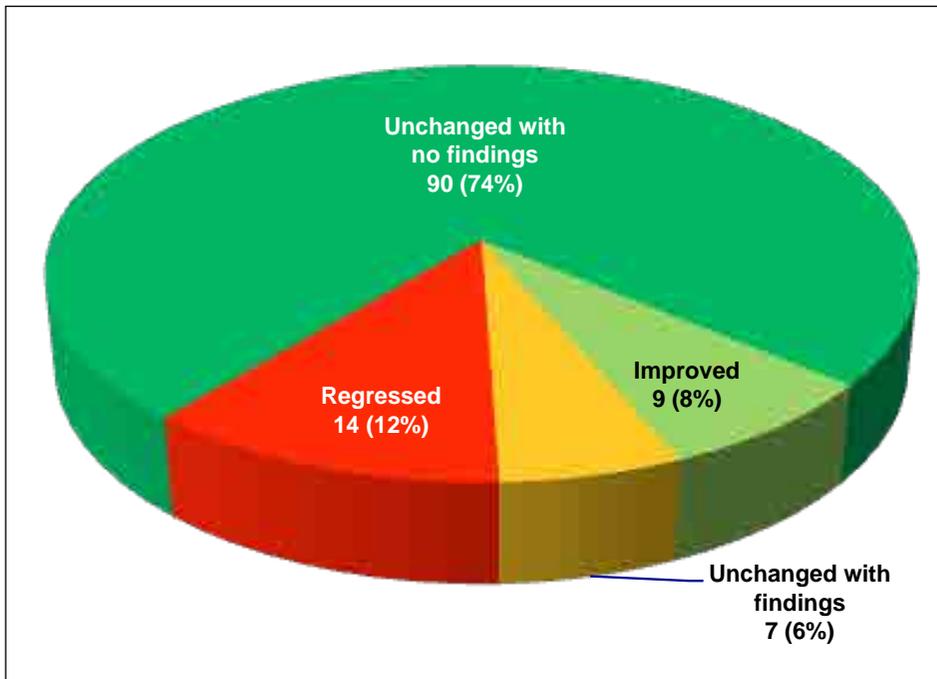


Movement in number of entities with PDO findings

Figure 10: Findings on compliance – audits not conducted by the AGSA



Movement in number of entities with compliance findings

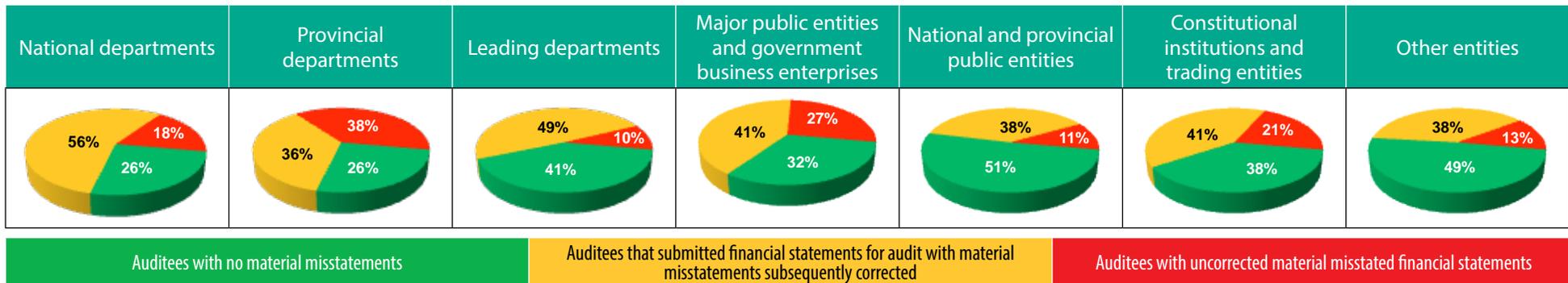
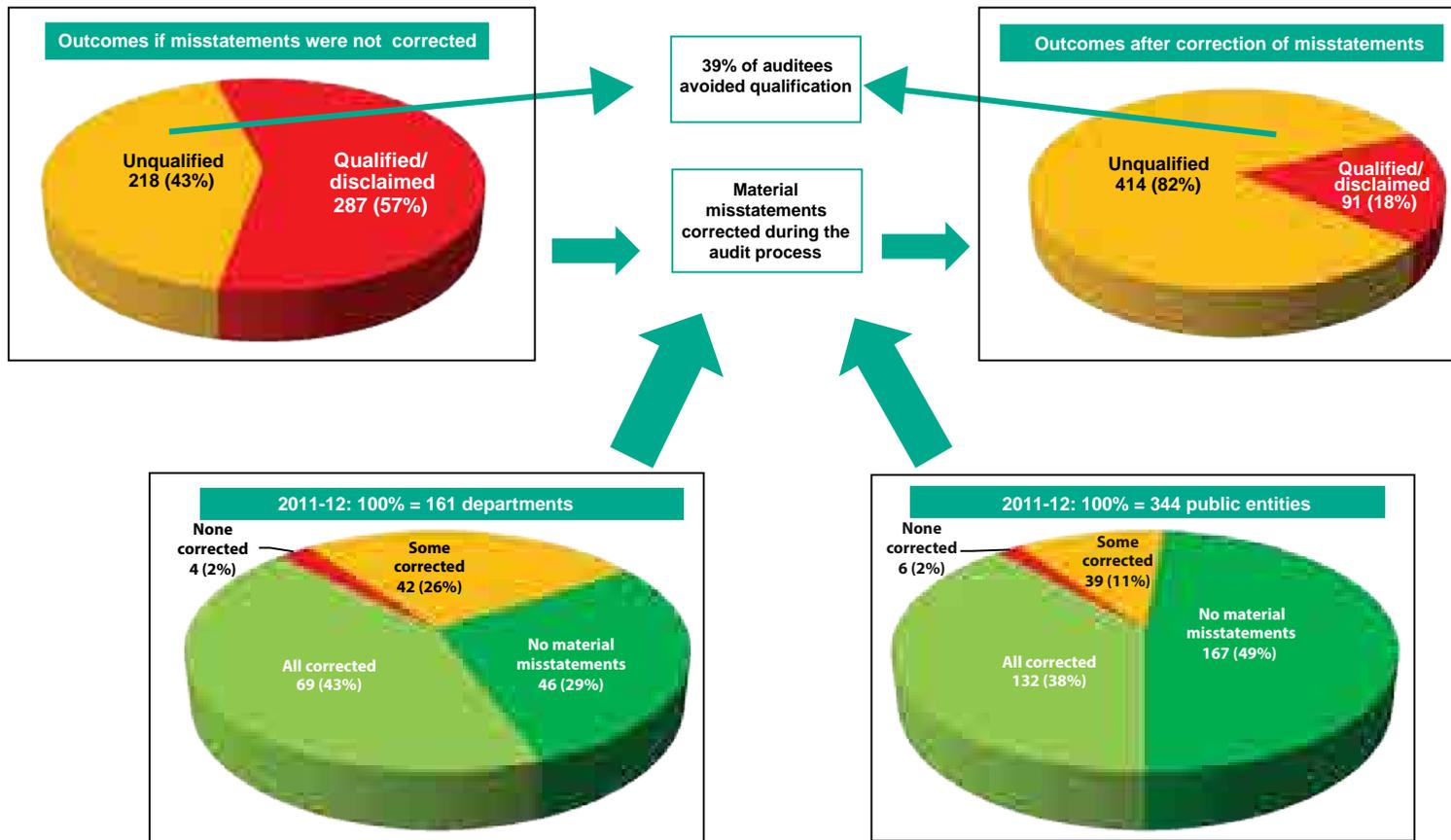


The following overall observations are made on the audit outcomes of entities not audited by the AGSA.

Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little improvement	Poor outcomes/ trends
	Nine entities improved to clean audit reports, which include two higher education institutions, two government business enterprise and five public entities.			
	A total of 23 entities regressed from a clean audit report: 17 to financially unqualified with findings, five to qualified and one to a disclaimer.			
	Fifty-two entities remained clean. These include 32 higher education institutions, eight major public entities, two government business enterprises, nine public entities and one other entity.			
	Twenty-one entities remained financially unqualified with findings for two years, without progressing to a clean audit report.			
	Six entities remained financially qualified. These include three higher education institutions, one major public entity and two public entities.			
	Of the completed audits, only one higher education institution was disclaimed in the 2011-12 financial year.			
	The entities have a lower rate of PDO findings than the AGSA auditees, mainly because the majority of entities not audited by the AGSA have no legislated requirements related to performance planning, monitoring and reporting.			
	Material findings on compliance are reported for these entities but generally also at a lower rate than for AGSA auditees. The reason for this is partly that less legislation is applicable, but also that the auditing and reporting of compliance are not an equally established practice for audits not conducted by the AGSA. However, as a result of the increased focus on compliance audits, a regression occurred in the audit outcomes in this area.			
	Fifteen audits (2010-11: five) are still outstanding. These include 14 higher education institutions, and one major public entity.			

2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

2.2.1 Material misstatements in financial statements (corrected and uncorrected)



The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's operations (statement of financial results) and cash flows for the reporting period in accordance with the applicable accounting framework and the requirements of the applicable legislation.

The audit provides the users with assurance on the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not identify any material errors or omissions therein.

The quality of financial statements submitted for audit

The majority of auditees submitted financial statements for audit by the legislated

deadline of 31 May 2012 but, as **depicted earlier**, only 213 (42%) [2010-11: 269 (53%)] auditees submitted financial statements with no material misstatements. One hundred and ninety-six (39%) [2010-11: 169 (33%)] auditees achieved a financially unqualified audit opinion because they corrected all the misstatements the AGSA identified during the audit.

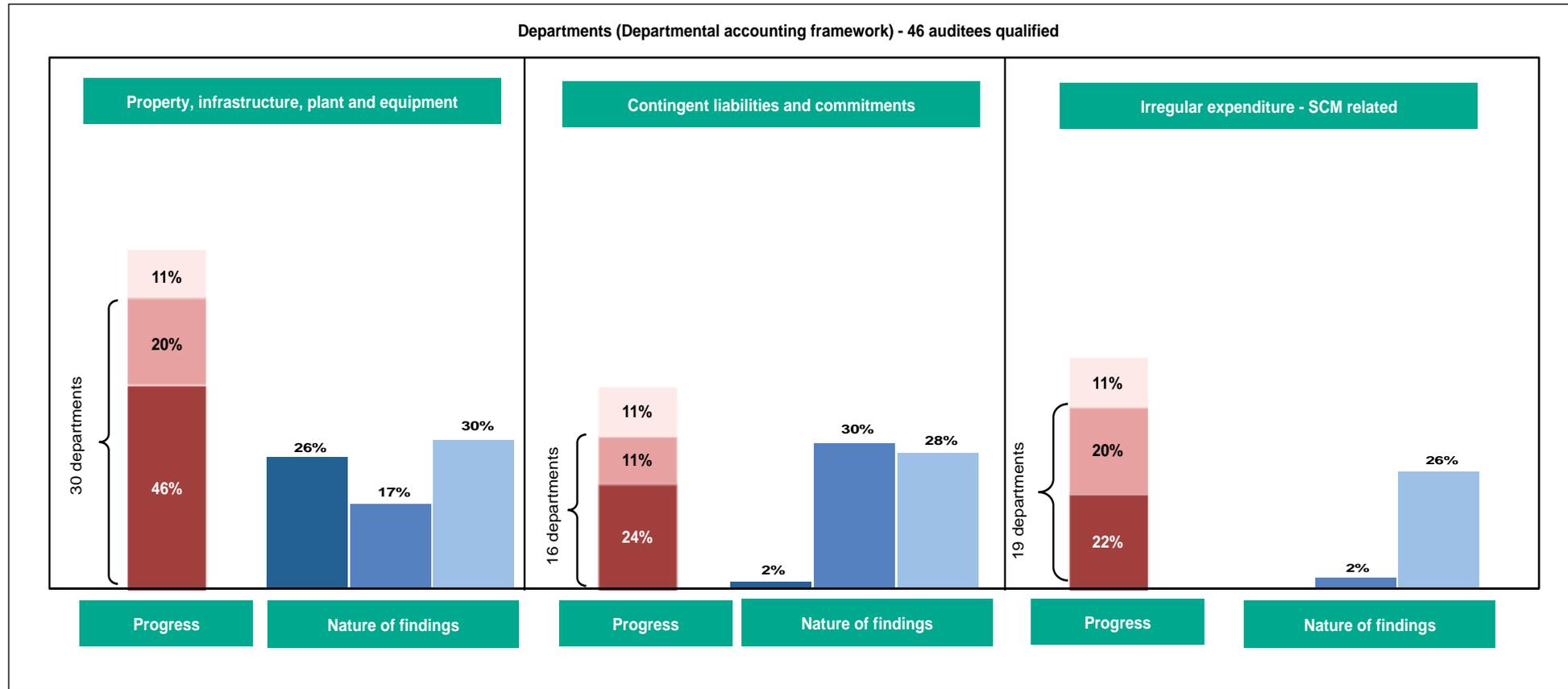
The inability to produce credible and reliable financial statements is evident across all types of auditees but is most prevalent at departments. The continued reliance on the auditors to identify corrections to be made to the financial statements in order to obtain an unqualified audit opinion is not a sustainable practice as it highlights the lack of adequate financial management disciplines. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Table 4: Financial statement area qualified (misstated)

Auditee type	Number of auditees qualified	Property, infrastructure, plant and equipment	Receivables	Payables, accruals and borrowings	Contingent liabilities and commitments	Other disclosures	Revenue	Expenditure	Irregular expenditure - Supply chain management	Fruitless and wasteful expenditure
National departments	7	4	1	2	1	3	1	2	2	1
Provincial departments	36	25	13	10	15	8	5	9	16	8
Leading departments	3	1	2	1		2		2	1	
Major public entities and government enterprises	6	3	4	4	3		4	4	3	2
National and provincial public entities	27	8	5	8	5	2	7	7	12	2
Constitutional institutions and trading entities	7	2	5	4	2		4	5	3	1
Other entities	5	3	4	1			3	1		
Total	91	46	34	30	26	15	24	30	37	14
Percentage qualified		51%	37%	33%	29%	16%	26%	33%	41%	15%

2.2.2 Financial statement qualification findings – departments

Figure 11: Progress on and nature of financial statement qualification findings - departments



Progress	Prior year qualifications addressed	New qualifications	Repeat qualifications
Basis	Existence/occurrence	Valuation/accuracy	Completeness

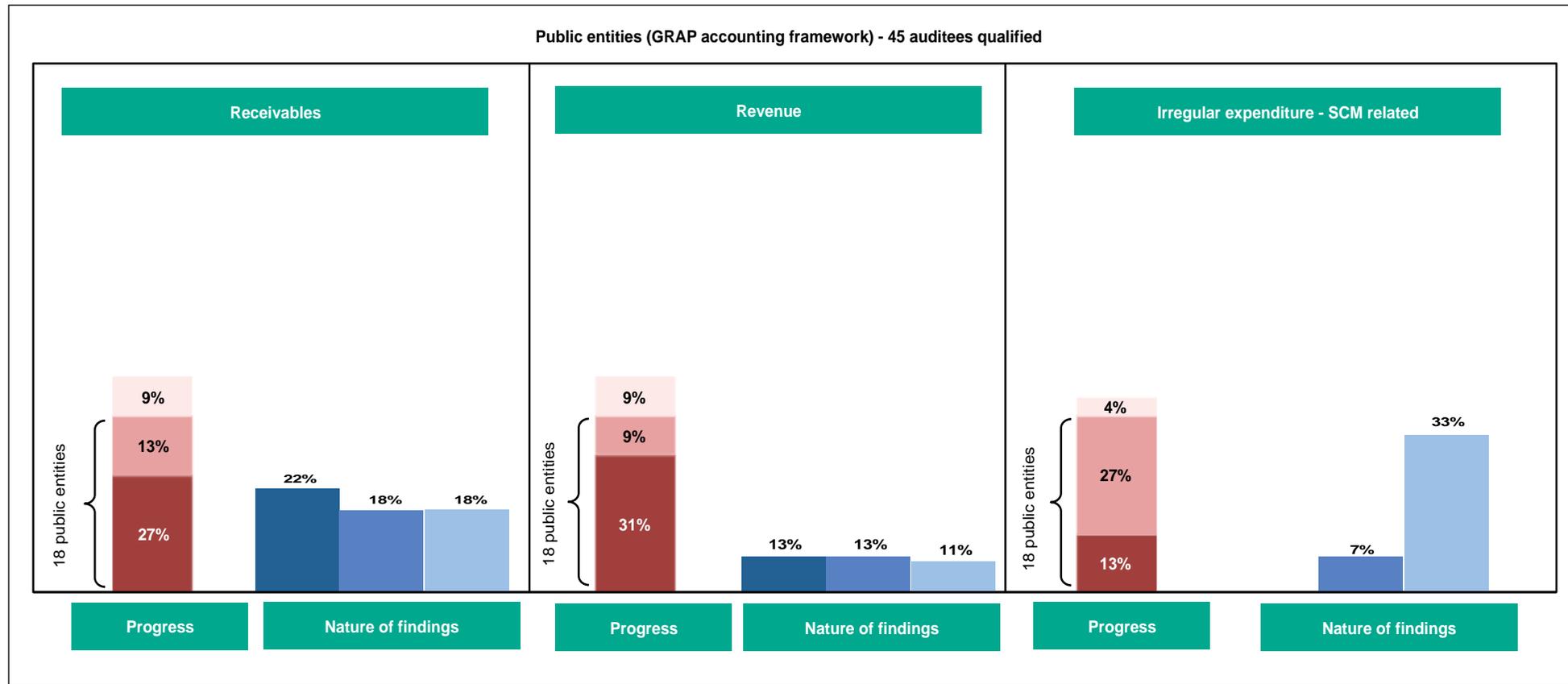
The three most common qualification areas for departments are **depicted earlier** with an indication of the progress made by auditees in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

Table 5: Common qualification areas

Qualification area	Basis for qualification	Reason for qualifications
Property, infrastructure, plant and equipment	Completeness of the assets disclosed	<ul style="list-style-type: none"> Asset register does not exist or is incomplete Asset register not updated on timely basis Asset register does not reconcile to the general ledger
	Valuation of the disclosed assets	<ul style="list-style-type: none"> No/incorrect assessment of impairment Cost cannot be determined
	Existence of the disclosed assets	<ul style="list-style-type: none"> Assets not identifiable/cannot be physically verified for existence Duplication of assets in the asset register
Contingent liabilities and commitments	Completeness of items disclosed	<ul style="list-style-type: none"> Inadequate systems and controls over disclosure items Inadequate processes to identify and report items for disclosure in financial statement
	Valuation/accuracy of amounts disclosed	<ul style="list-style-type: none"> Financial and other information has not been appropriately presented and described and disclosures are not clearly expressed No supporting documents for commitments recorded
Irregular expenditure—SCM related	Completeness of disclosure of the irregular expenditure resulting from non-compliance with legislation on supply chain management (SCM)	<ul style="list-style-type: none"> Inadequate policies, procedures and controls in place to identify, detect and account for irregular expenditure Procurement documentation not provided to test completeness
	Valuation - incurred expenditure disclosed at correct amounts	<ul style="list-style-type: none"> Supporting evidence is inadequate or could not be provided

2.2.3 Financial statement qualification findings – public entities

Figure 12: Progress on and nature of financial statement qualification findings – public entities



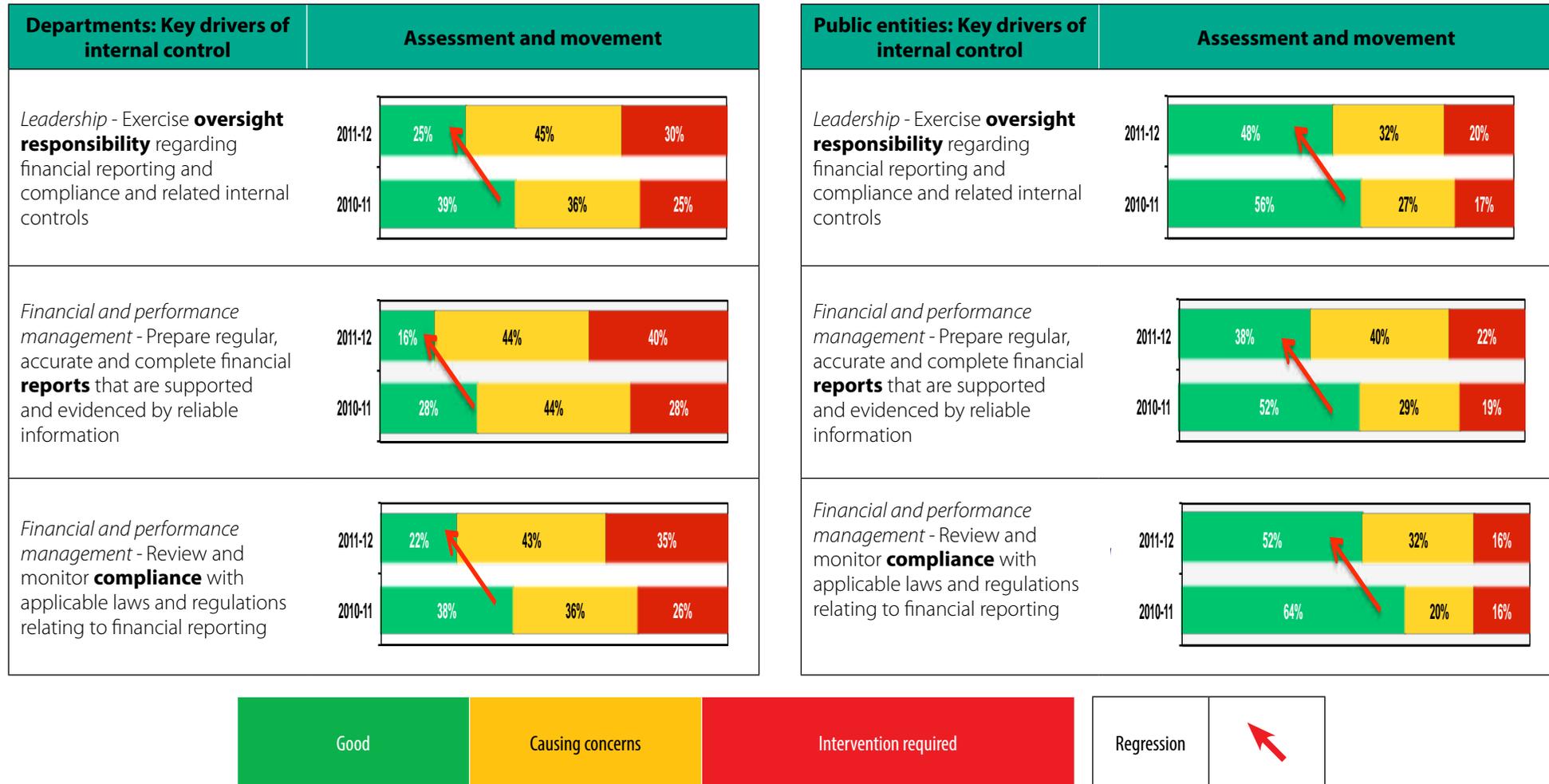
The three most common qualification areas for public entities are **depicted earlier** with an indication of progress made in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

Table 6: Common qualification areas – public entities

Qualification area	Basis for qualification	Reason for qualifications
Receivables	Completeness of debtors disclosed	Aged receivables list does not reconcile to the general ledger Not all revenue due to be collected, was billed Lack of adequate financial systems and controls to ensure that all receivables raised were recorded
	Valuation of the disclosed debtors	No interest is charged on long-outstanding debtors Policies and procedures for collection of receivables do not exist or are ineffective
Revenue	Completeness of accounting for revenue received	Lack of adequate financial systems and controls to ensure that all revenue was recorded
	Occurrence - substantiating the disclosed revenue received	No/inadequate documentation to support recorded revenue
Irregular expenditure: SCM related	Completeness of disclosure of the irregular expenditure resulting from non-compliance with legislation on supply chain management (SCM)	Inadequate policies, procedures and controls in place to identify, detect and account for irregular expenditure Procurement documentation not provided to test completeness
	Valuation - incurred expenditure included at correct amounts	Supporting evidence is inadequate or could not be provided

2.2.4 Root causes identified and best practice recommendations

Figure 13: Assessment of key drivers of internal control over financial reporting



The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of internal control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this consolidated general report.

The figure indicates the significant deficiencies in internal control that require attention from leadership to improve the audit outcomes.

The table that follows summarises the identified root causes that gave rise to the assessment, the recommendations made by the AGSA in the prior year and the additional best practices recommended.

Table 7: Identified root causes and recommended way forward (good practices)

Aspect	Identified root causes and way forward
<p>Leadership, monitoring and oversight</p>	<p>Root causes</p>
	<ul style="list-style-type: none"> • Inadequate implementation and monitoring of key controls, action plans and commitments by leadership to ensure that identified control deficiencies relating to financial reporting are addressed • Findings and recommendations by internal audit relating to internal control over financial reporting are not always addressed, prioritised and monitored by management • Input from audit committee reviews of financial statements is not always taken into account by management in the preparation of financial statements prior to submission for audit • Lack of stability and ownership by political and administrative leadership to effectively manage and address financial, performance and governance challenges • Initiatives to deliver on commitments have not yet proven to be effective, as not all areas were addressed • Where action plans had been developed, these were not specifically addressing the root causes, were not time bound and were not executed with discipline. Actions were taken too late in the financial year to have a direct impact on the outcomes
	<p>Way forward: Prior year AGSA recommendations</p>
<ul style="list-style-type: none"> • Leadership and management should actively drive the implementation of action plans to address audit findings • A full verification of all assets should be conducted at least annually and the accounting records adjusted with the results thereof • Internal auditors should validate the correctness of the financial statements • Financial statements should be reviewed by the audit committee prior to submission to the external auditors • Oversight structures need to intensify initiatives to institutionalise sound leadership principles, financial and performance management and governance to achieve clean audit outcomes 	

Aspect	Identified root causes and way forward
	Way forward: Additional/new best practices
	<p>Leadership should accept accountability for ensuring credibility of information provided to them through the use and/or establishment of internal audit units</p> <ul style="list-style-type: none"> • Findings and recommendations of internal audit should be effectively addressed by management • Audit committees, with the assistance of internal audit, should place greater focus on the financial statement preparation process to ensure credible financial statements are submitted for audit • Leadership should satisfy themselves that findings raised in the audit reports receive timely and sufficient attention and that specific target dates are set for their achievement
Credibility of information	Root causes
	<ul style="list-style-type: none"> • Compliance with legislation governing financial reporting is not adequately monitored • Adequate controls over daily and monthly processing and reconciling of transactions were not implemented • Inadequate processes to ensure that financial information is obtained from regional or provincial offices and collated and verified in the bigger decentralised departments, which resulted in a number of qualifications
	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> • Perform monthly general ledger reconciliations
Human resource management	Way forward: Additional/new best practices
	<ul style="list-style-type: none"> • In preparing quarterly financial statements (inclusive of disclosure notes) for audit committee review, management would allow for material errors to be identified in advance • Adequate controls over daily and monthly processing and reconciling of transactions to be implemented by all auditees • Basic accounting disciplines should become the norm
	Root causes
	<ul style="list-style-type: none"> • Lack of consequences to address poor performance and transgressions • Capacity constraints and vacancies in key positions • Large number of vacancies and officials in acting positions, which limits accountability for actions taken or not taken • Lack of attention to basic accounting and internal controls by CFOs, although skilled in the area
Human resource management	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> • Appointment of suitably skilled personnel in critical positions
	Way forward: Additional/new best practices
Human resource management	<ul style="list-style-type: none"> • Action plans to improve staff performance in relation to financial reporting must specify the desired outcomes, assign responsibilities and set specific target dates • Ongoing training on financial statement preparation due to changes in accounting standards • Policies and procedures should be implemented which reflect the required performance standards and hold individuals accountable for achieving them.

2.2.5 Outcomes of the audit of consolidated financial statements and revenue funds

The PFMA requires that the National Treasury prepare and publish consolidated annual financial statements in respect of: (i) national departments; (ii) public entities under the ownership control of the national executive; (iii) constitutional institutions; (iv) the South African Reserve Bank; (v) the Auditor-General; and (vi) Parliament, while provincial treasuries have to do so in respect of (i) provincial departments; (ii) public entities under the ownership control of the provincial executive; and (iii) the provincial legislature.

The consolidated financial statements provide information on financial performance as well as national government's ability to meet current and future obligations by presenting the consolidated monetary values of national government (assets, liabilities, revenue and expenditure) which serve as a summary of government's financial resources and their application for the benefit of the people of the Republic of South Africa.

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Due to different accounting bases in use for departments and public entities, the treasuries decided that the most suitable interim solution would be to prepare separate consolidations for these two groupings. The public entities consolidation includes trading entities and unlisted public entities, but excludes the water boards, as they have a different year-end, as well as the State Security Agency.

The 2011-12 and prior year audit outcomes of national departments and public entities are depicted next .

Table 8: Audit opinions on the consolidated financial statements of national department and national public entities

	National consolidation								
	Departments						Public entities		
	2011-12			2010-11			2011-12		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
National	Qualified	1. No evidence that inter-entity transactions and balances have been eliminated - This affects all classes of transactions and balances	1. Immovable tangible capital assets 2. Irregular expenditure	Qualified	1. No evidence that inter-entity transactions and balances have been eliminated - This affects all classes of transactions and balances	1. Immovable tangible capital assets 2. Movable tangible capital assets 3. Contingent liabilities 4. Fruitless and wasteful expenditure 5. Aggregation of immaterial uncorrected misstatements	Disclaimer	1. Financial reporting framework used not disclosed 2. No evidence could be obtained that accounting framework applied by individual entities was adjusted to Generally Recognised Accounting Practice (GRAP) 3. The consistency of application of accounting policies used in preparation of consolidated financial statements could not be verified 4. Sufficient appropriate evidence could not be obtained that inter-entity transactions and balances were eliminated	1. Trade and other receivables 2. Property, plant and equipment 3. Revenue 4. Operating lease commitments 5. Aggregation of immaterial uncorrected misstatements 6. Irregular expenditure

The audit of the public entities consolidation for 2010-11 was performed based on agreed-upon procedures and consequently no outcomes are presented for that year in this general report.

The legislated date for submission of the consolidated financial statements to the legislature is 31 October. The table below contains the audit outcomes for those provinces where this process had been completed by 31 October 2012.

Table 9: Audit opinions on the consolidated financial statements of national department and national public entities

	Consolidation of provincial financial statements					
	Departments			Public entities		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
Eastern Cape	Disclaimer	<ol style="list-style-type: none"> 1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed 	<ol style="list-style-type: none"> 1. Noncurrent assets 2. Current assets 3. Liabilities 4. Other disclosure items 5. Revenue 6. Expenditure 7. Unauthorised, irregular as well as fruitless and wasteful expenditure 	Qualified	<ol style="list-style-type: none"> 1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed 	<ol style="list-style-type: none"> 1. Revenue 2. Expenditure
Free State	Qualified	<ol style="list-style-type: none"> 1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed 	<ol style="list-style-type: none"> 1. Noncurrent assets 2. Current assets 3. Liabilities 4. Other disclosure items 5. Revenue 6. Expenditure 7. Unauthorised, irregular as well as fruitless and wasteful expenditure 	Disclaimer	<ol style="list-style-type: none"> 1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed 	<ol style="list-style-type: none"> 1. Non-current assets 2. Liabilities 3. Current assets 4. Other disclosure items 5. Revenue 6. Unauthorised, irregular as well as fruitless and wasteful expenditure

	Consolidation of provincial financial statements					
	Departments			Public entities		
	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of departments audited separately	Audit opinion	Misstatements identified during the audit of consolidated financial statements	Misstatements in the financial statements of public entities audited separately
KwaZulu-Natal	Qualified	<ul style="list-style-type: none"> 1. Late submission of financial statements for audit 2. Consolidated financial statements do not incorporate both departments and public entities 	<ul style="list-style-type: none"> 1. Tangible immovable assets 2. Irregular expenditure 3. Classification of conditional grant expenditure 4. Existence and valuation of employee benefits 	Unqualified	None	None
Mpumalanga	Unqualified	None	None	Disclaimer	<ul style="list-style-type: none"> 1. Non-elimination of inter-entity balances and transactions 2. Accounting framework used by individual entities not adjusted to GRAP 3. Financial reporting framework not disclosed 	<ul style="list-style-type: none"> 1. Biological assets 2. Investment property 3. Investment property 4. Property, plant and equipment 5. Other financial assets 6. Trade and other receivables 7. Non-current assets held for transfer 8. Trade and other payables 9. Provisions 10. Operating expenses 11. Revenue

The provincial consolidated financial statements of departments and public entities were only subject to an agreed-upon procedures engagement in prior years and thus no outcomes are presented for the 2010-11 financial year.

The audits of the consolidated departmental and public entity financial statements of Gauteng, North West, Northern Cape and Western Cape have not been completed for the 2011-12 financial year. The consolidated financial statements for Limpopo had not been submitted for the 2011-12 and 2010-11 financial years.

Root causes of qualified, disclaimed consolidated financial statements

The root cause of the findings on the consolidation is that sufficient group-wide controls were not implemented to ensure that the consolidation process addresses the requirements for consolidations concerning the elimination of inter-entity balances and transactions and, in the case of the consolidation of the public entities, the added requirement of ensuring that all entities consolidated have prepared their financial statements using the same accounting policies as those disclosed in the consolidated financial statements.

These issues, as well as the uncorrected misstatements in the individual department or public entity's financial statements which are material to the consolidated financial statements, impact the audit outcomes of the consolidated financial statements.

Audit opinion on the financial statements at revenue funds

In terms of the Treasury Regulations, financial statements have to be prepared for the national and provincial revenue funds. There is no legislated date for this, however, as they are included in the consolidated financial statements for departments and the legislated date for the submission of these financial statements for audit is 30 June, which can be assumed as being the deadline for their submission to the AGSA. There is no legislated requirement for these financial statements and the audit reports thereon to be submitted to the legislature and in most instances they are not.

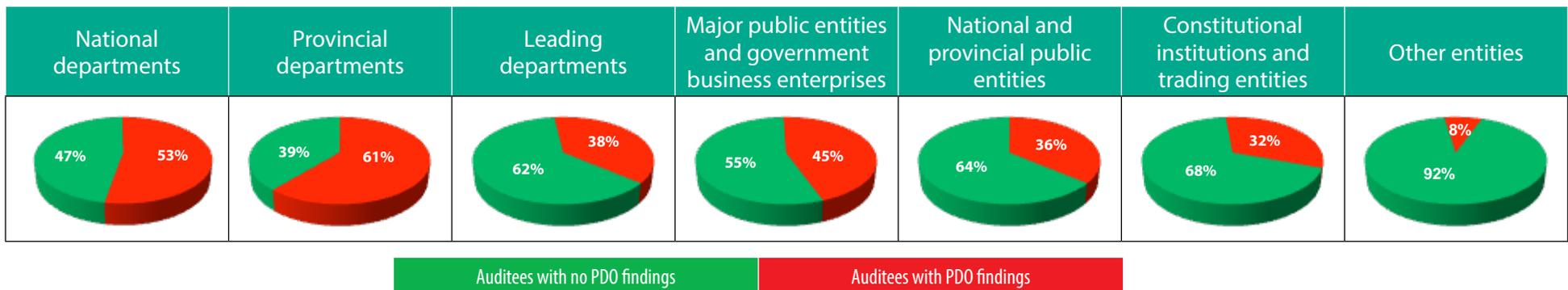
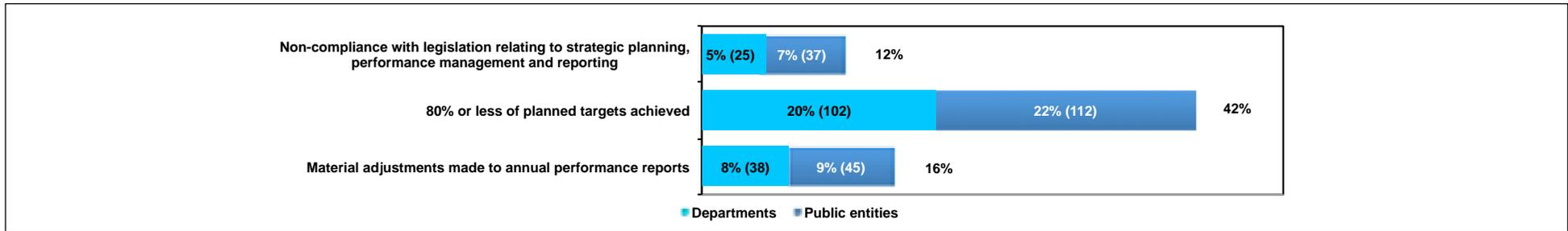
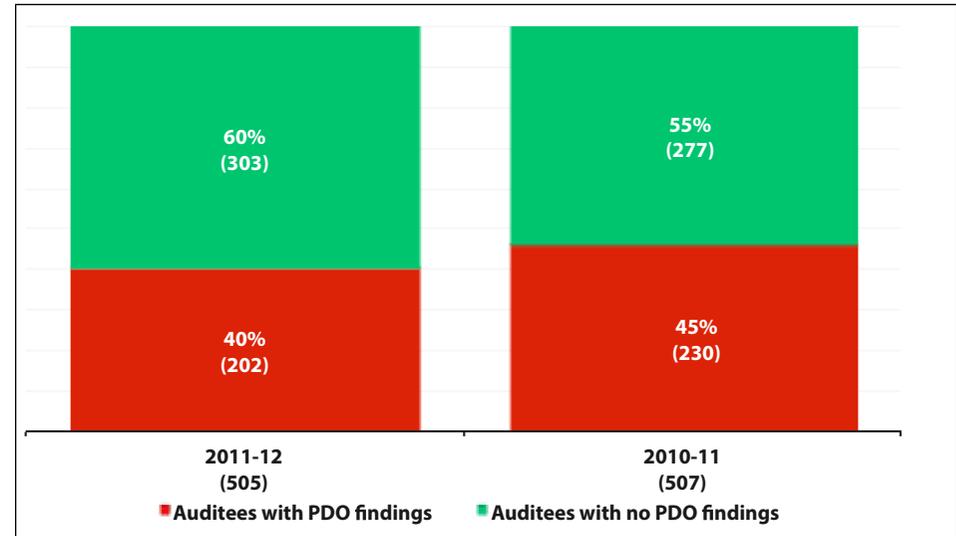
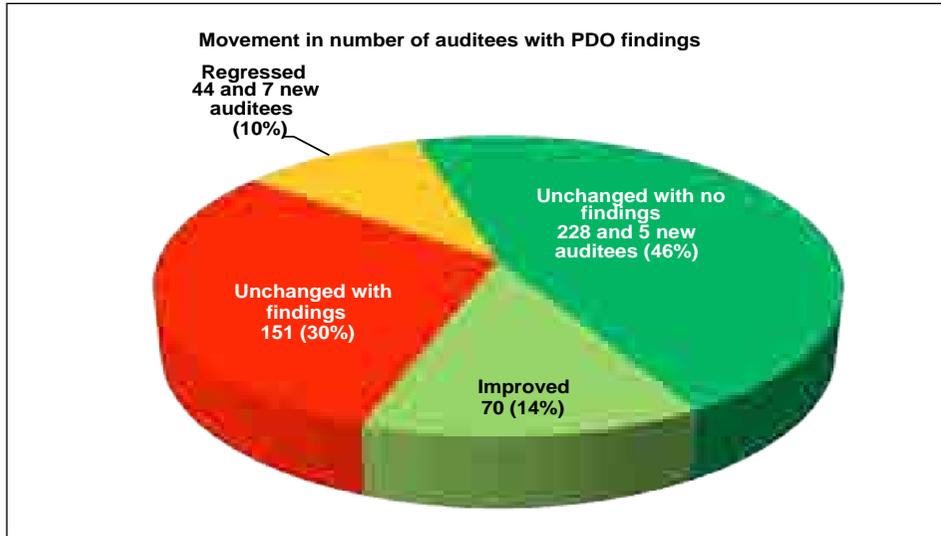
As at 31 October 2012, the following revenue funds were financially unqualified: National, Eastern Cape, Free State, Gauteng, Mpumalanga and Western Cape. The audit of the KwaZulu-Natal revenue fund was finalised in February 2013 and the financial statements were financially unqualified with no findings. The audit of the Northern Cape revenue fund had not been completed at the date of this report. The financial statements of the Limpopo and North West revenue funds for the 2011-12 financial year have not yet been received. The 2010-11 financial statements of the Limpopo revenue fund had not been received at the date of this report.

Commitments from National Treasury

The National Treasury undertook to attend to the requirements of the consolidation process and to reconsider the accounting framework for the revenue funds to consistently and reliably account for state debt at national level.

2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

2.3.1 Overall outcomes from the audit of reporting on predetermined objectives



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

As depicted in the figure are the overall audit outcomes which show an overall improvement in the number of auditees that had no PDO findings. Reporting of PDOs remains a challenge for departments and mostly also for provincial departments. Notable findings arising from the audits are presented below.

Indicator	Key outcomes and trends	Good outcomes/ trends	Stagnant or little progress	Poor outcomes/ trends
	There have been significant increases in the number of auditees without PDO findings for national departments (from 13 to 19), constitutional institutions and trading entities (from 13 to 23) and other entities (from 36 to 31).			
	Only 10 auditees did not prepare annual performance reports.			
	Sixty-two (12%) auditees had material findings on non-compliance with legislation relating to strategic planning, performance management and reporting. The most prevalent of these findings relate to lack of effective, efficient and transparent systems of internal control regarding reporting on PDOs.			
	It was reported in the audit reports of 214 (42%) auditees that 80% or fewer planned targets were fully achieved as disclosed in their annual performance reports. "Fully achieved" refers to the planned target being 100% achieved.			
	The 44 auditees that regressed included one national department, seven leading departments, nine provincial departments, 14 national public entities and 13 provincial public entities. The number of leading departments with no PDO findings decreased overall from 21 to 18, with four improvements and seven regressions. Three provincial treasuries, two offices of the Premier and two provincial legislatures attracted PDO findings.			
	A total of 83 (16%) auditees submitted annual performance reports that contained material misstatements in one or more areas. Forty-one (8%) auditees were able to avoid findings on the presentation and reliability of the reports because they corrected all misstatements identified as a result of the audit. Reliance on auditors to identify corrections to be made to the annual performance reports is a practice that should be discouraged.			

2.3.2 Findings on predetermined objectives

Figure 14: Progress on and nature of findings on predetermined objectives – departments

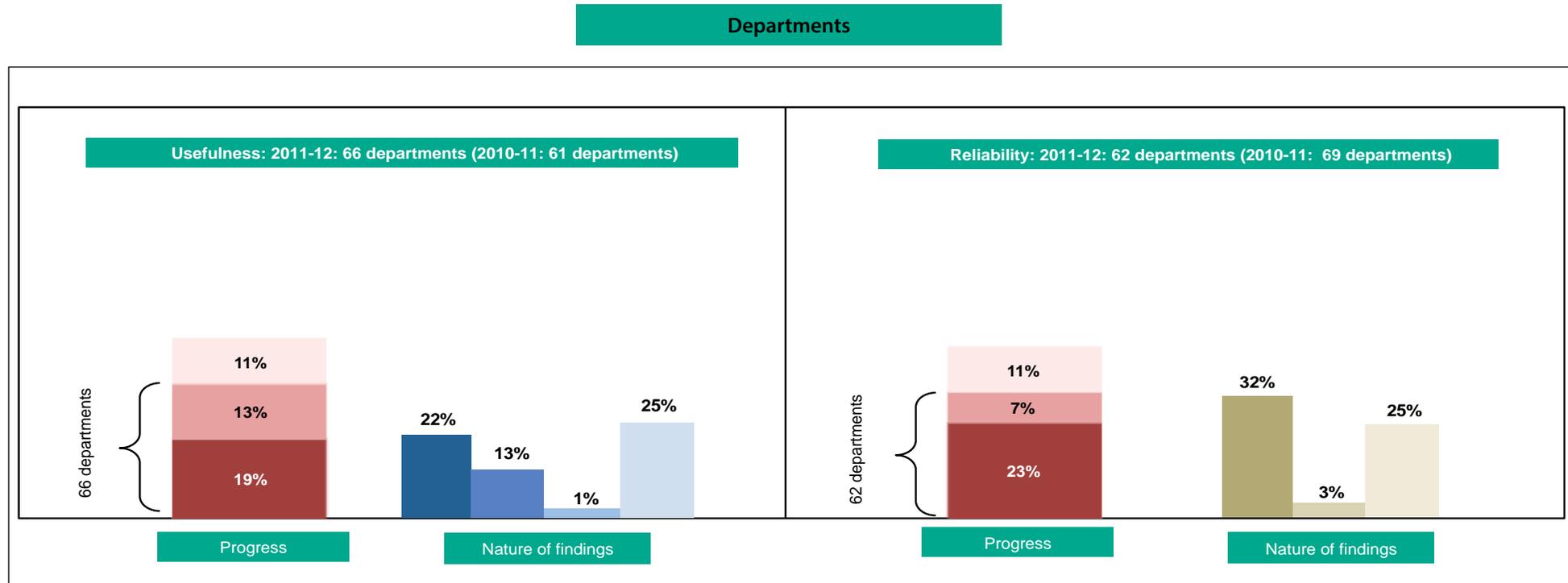
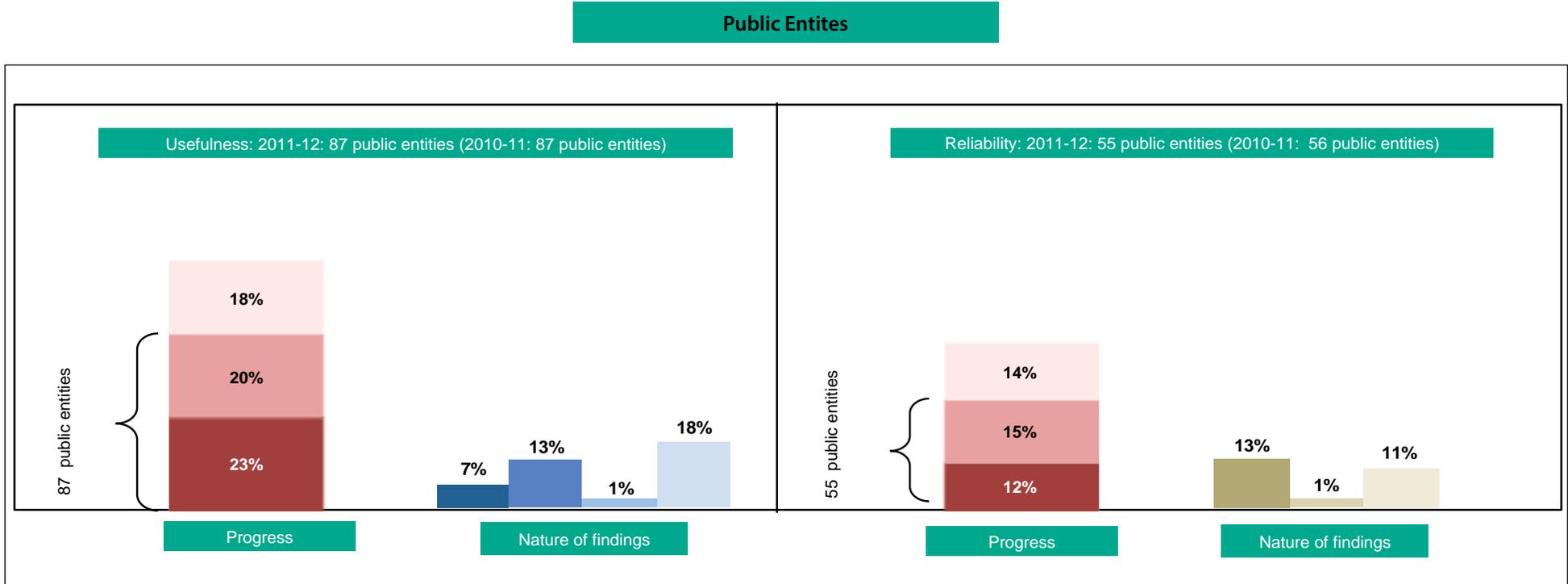


Figure 15: Progress on and nature of findings on predetermined objectives – public entities



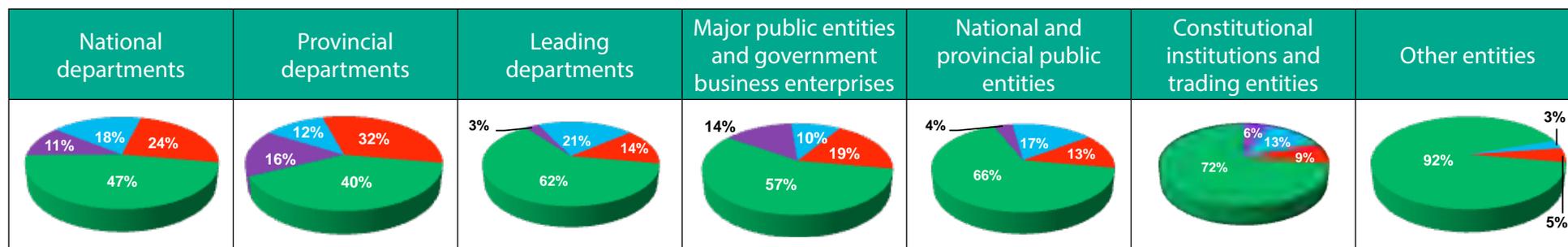
Progress made by auditees in addressing prior year findings and the nature of current year audit findings are **depicted in figure 15**.

The **usefulness** of reported information is measured against the criteria of presentation, consistency, measurability and relevance. The information contained in the performance reports of 153 (30%) [2010-11: 148 (29%)] auditees was not useful.

Findings on **reliability** relate to whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source data, evidence or documentation. The information contained in the performance reports of 117 (23%) [2010-11: 125 (25%)] auditees was not reliable.

The prevalence of findings at the different types of auditees and the most prevalent types of findings are depicted in the figure and table below.

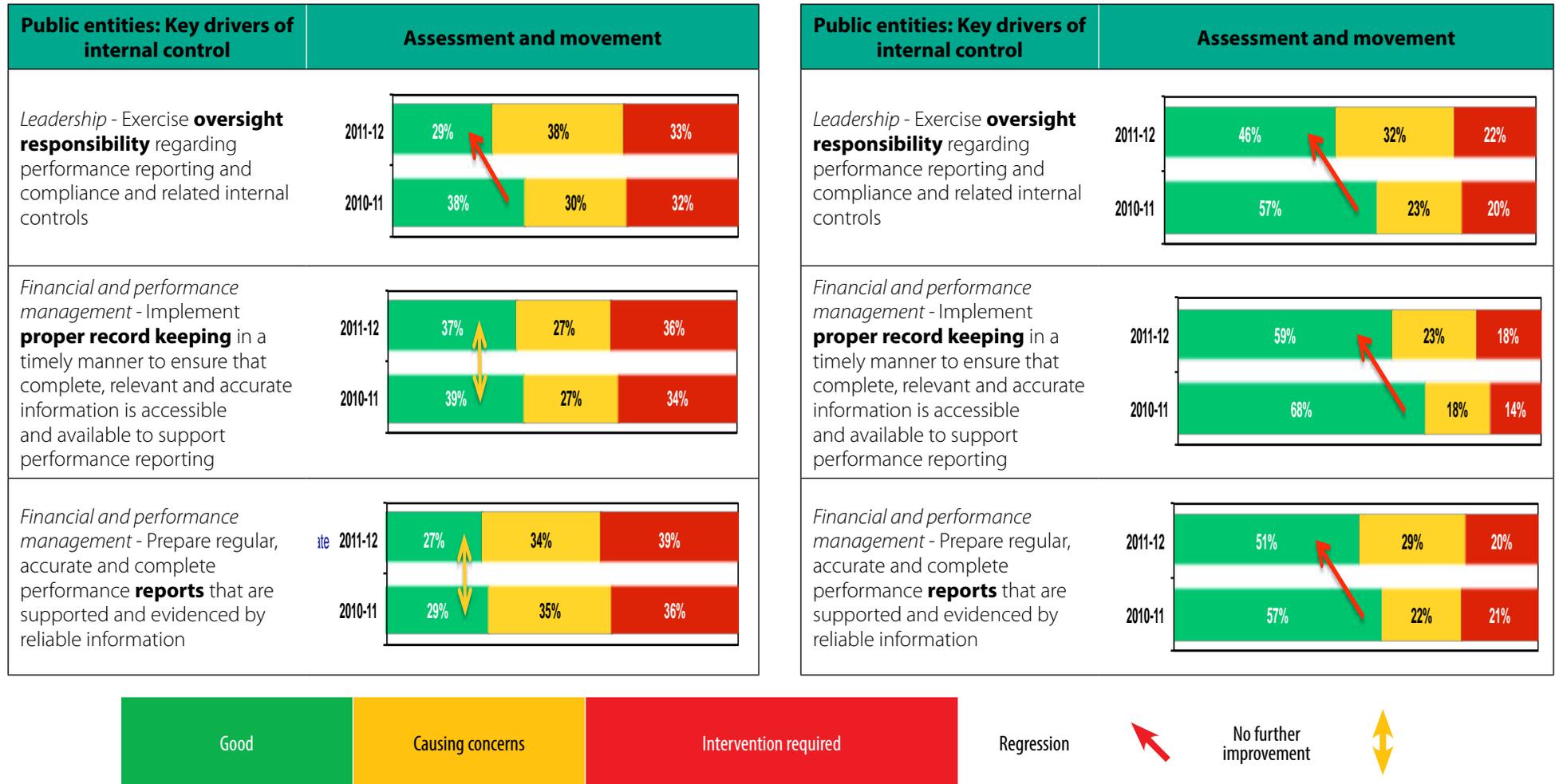
Figure 16: Prevalence of findings on predetermined objectives



Category of PDO findings	Most prevalent types of findings
Reported information not useful	<ul style="list-style-type: none"> The indicators/measures were not well defined to ensure that performance data will be collected consistently and be easy to understand and use Changes to planned performance information were not approved Performance targets were not specific and/or measurable to ensure that the required performance can be measured
Reported information not reliable	<ul style="list-style-type: none"> Supporting information for reported performance information not complete Reported performance information not accurate when compared to supporting information Reported performance information not valid when compared to supporting information.

2.3.3 Root causes and best practice recommendations

Figure 17: Assessment of key drivers of internal control over predetermined objectives



A complete assessment of other drivers of internal control is provided in section 3 of this consolidated general report.

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this consolidated general report.

Figure 17 indicates the significant deficiencies in the internal control that require attention from leadership to improve the audit outcomes.

The table that follows summarises the root causes that gave rise to the assessment, the recommendations made by the AGSA in the prior year and the additional best practices recommended.

Table 10: Identified root causes and recommended way forward (good practices)

Aspect	Identified root causes and way forward
Planning, oversight and monitoring	Root causes
	<ul style="list-style-type: none"> • National and provincial oversight institutions did not provide timely guidance on performance information planning, management and reporting to departments. • Leadership did not prioritise the development of performance objectives, indicators and targets that are necessary to achieve the mandate of the auditee • National and provincial oversight institutions did not assist auditees to address under-performance by recommending corrective action and monitoring the implementation thereof. • The performance oversight powers and functions of national and provincial oversight institutions were not legislated. • Risks relating to PDO reporting were not included in the risk management strategies of all provincial departments and public entities. As a result, the governance structures did not pay sufficient attention to PDO reporting. • Lack of understanding and implementation of the fundamental principles as per the National Treasury FMPPI. Monitoring of performance reporting is not embedded in the auditees' reporting processes or controls. • Internal performance management policies and procedures do not exist or were not adhered to. • The required level of review of the quarterly reports by management, internal audit units and the audit committees of auditees was not prioritised, resulting in new and repeat findings.

Aspect	Identified root causes and way forward
Planning, oversight and monitoring (continued)	<ul style="list-style-type: none"> Indicators and targets were not suitably designed during the strategic planning process. No or limited corrective action was taken to address deficiencies in the development of performance objectives, indicators and targets. The link between budgets and performance objectives was not clear, which resulted in findings. Internal audit units did not ensure compliance with PDO requirements. A lack of adequate quarterly reviews and reporting by internal audit as well as audit committees contributed to some of the PDO findings.
	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> Quarterly reports should be reviewed to identify variances in order to facilitate corrective action at an early stage. The content of the strategic and annual performance plan must form the basis for the information reported in the annual performance report. Internal audit should attest to the validity, accuracy and completeness of reported information. Audit committees should review quarterly reports and track progress to identify deficiencies in the processes of ensuring accurate information for reporting purposes.
	Way forward: Additional/new best practices
	<ul style="list-style-type: none"> Auditees should integrate performance reporting into the regular financial reporting routines. This will also ensure that there are sufficient controls to address the gaps that are created by treating the performance reporting as an event rather than a continuous process. Auditees should develop and implement internal performance management policies and procedures.

Aspect	Identified root causes and way forward
Planning, oversight and monitoring (continued)	<ul style="list-style-type: none"> Indicators and targets in the annual performance plan should be carefully designed to ensure specific and clear measures of planned service delivery. A rigorous review of the targets must be undertaken to ensure that there are adequate available resources that are under the control of the entity and that targets are achievable within the set time frames. Workshops must be held to assist management in setting relevant targets that are measurable and verifiable, as well as determining ways to measure targets and to provide supporting information for these. The link between budgets and performance objectives should be strengthened. Auditees should develop action plans to address under-performance and continuously monitor the implementation thereof. The performance oversight functions/responsibilities of national and provincial oversight institutions should be legislated. National and provincial oversight institutions should provide timely guidance on performance information planning, management and reporting to departments. Risks relating to PDO reporting should be included in annual internal audit coverage plans and findings resulting from such reviews should be responded to by management in a timely manner. Entities must include PDOs as part of the risk assessment and identification process for governance structures to pay specific attention to PDO reporting. Internal audit should be used during the planning phase to ensure that strategic and annual performance plans meet the planning framework requirements prior to the approval of the plans. Audit committees need to better utilise the internal audit units to ensure compliance with PDO reporting requirements.

Aspect	Identified root causes and way forward
Systems and processes	Root causes
	<ul style="list-style-type: none"> • The evidentiary obligations and processes required to collect, collate and report information (by senior management) on actual performance are not adequately considered during the planning process. • A lack of policies and procedures to address an integrated performance management process. • Roles and responsibilities in the performance management process were not formally allocated. • A lack of systems (manual or computerised) and processes to ensure that actual reported performance is reconciled to supporting documentation and reviewed and approved by designated officials.
	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> • Systems need to be implemented, whether manual or automated, to capture and report on performance-related data. • Policies and procedures must be developed to guide auditees on the requirements for performance planning, monitoring and reporting.
	Way forward: Additional/new best practices
<ul style="list-style-type: none"> • Leadership should align their reporting systems to the service delivery requirements contained in the planning documents. • Leadership should formally allocate roles and responsibilities in the performance management process to specific officials. • Implementation of adequate manual or computerised systems for identifying, collecting, collating, verifying and storing information. • Integration of performance information structures and systems within existing management processes and systems must be explored. 	

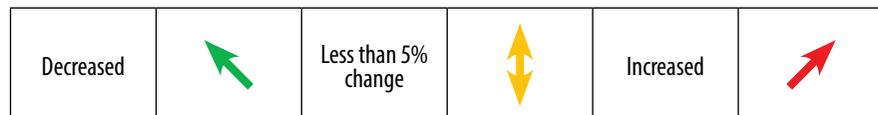
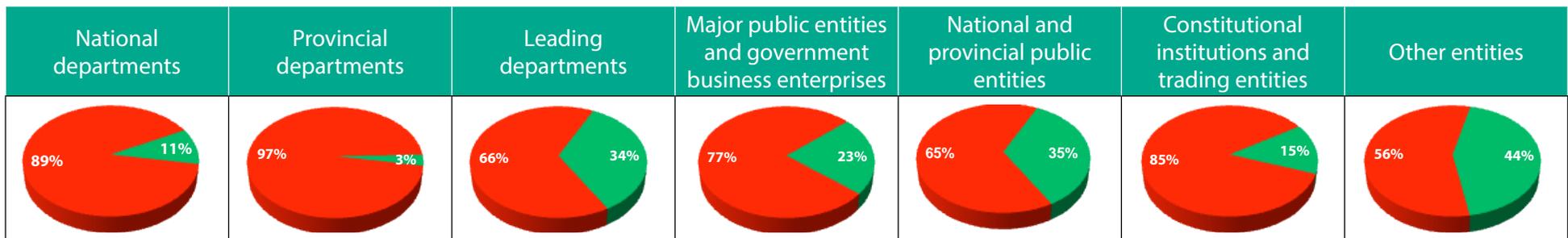
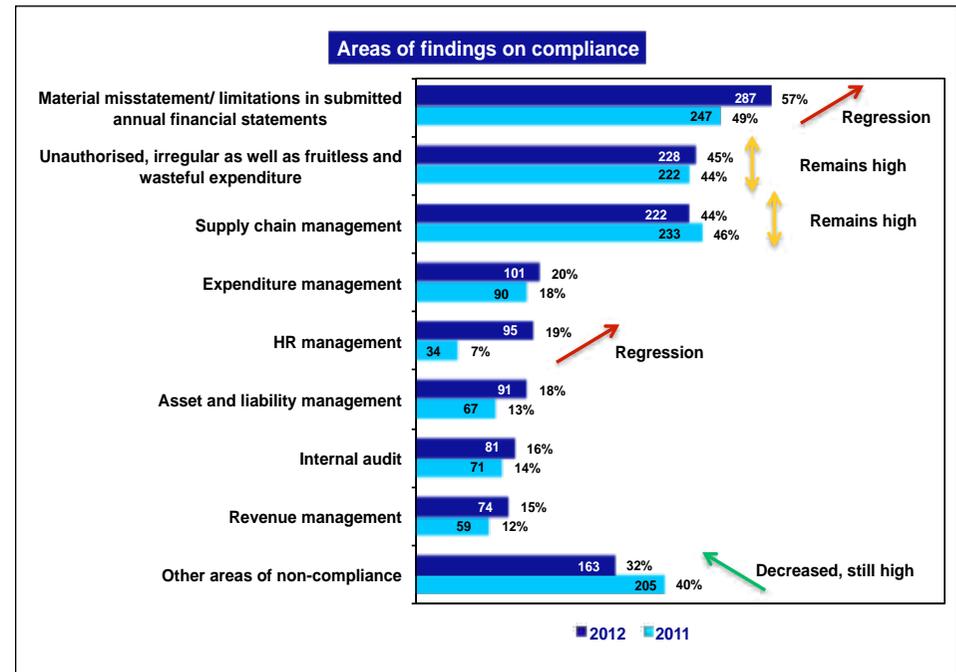
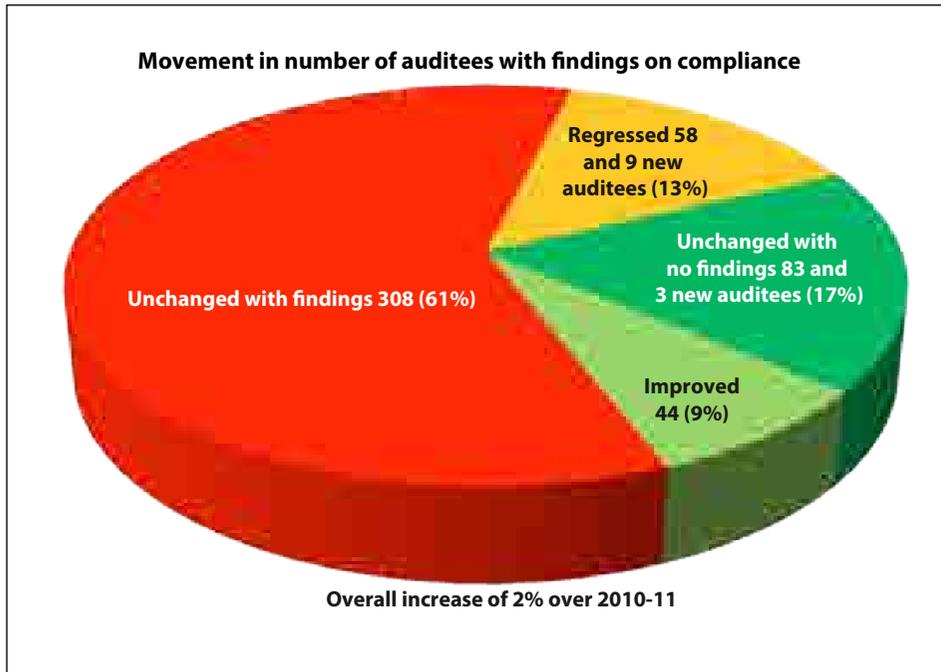
Aspect	Identified root causes and way forward
Proper record keeping	Root causes
	<ul style="list-style-type: none"> • Adequate document management systems were not put in place to ensure that evidence could be easily accessed and retrieved in support of actual reported information. • Lack of guidance by national sector departments to provincial sector departments on performance information to be maintained.
	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> • Documentation controls such as proper filing systems should be implemented. • National sector departments should provide more guidance to their provincial counterparts on the extent and scope of performance information-related records to be maintained for record keeping.
	Way forward: Additional/new best practices
<ul style="list-style-type: none"> • Adequate document management systems need to be put in place to ensure that supporting evidence is collected, collated and readily available to substantiate reported PDOs. 	

Aspect	Identified root causes and way forward
Human resource management	Root causes
	<ul style="list-style-type: none"> • Capacity constraints exist in certain performance information units due to capacity needs not having been determined and vacancies in key positions. • Performance management staff was not trained in the requirements relating to reporting. • There are still officials who have an insufficient understanding of PDO requirements, and therefore do not collect, verify, safeguard and submit the relevant source documentation when required by audit. • Accounting officers and staff were not held accountable for under-performance. • Under-performance by auditees and their staff is also not always addressed in a timely manner through quarterly and mid-year performance reviews and subsequent corrective action to ensure that all shortcomings are addressed.
	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> • National Treasury should provide more detailed guidance/training to auditees on the process of setting targets and indicators.

Aspect	Identified root causes and way forward
Human resource management	Way forward: Additional/new best practices
	<ul style="list-style-type: none"> • Leadership should ensure that sufficient and skilled capacity is put in place to manage and report on performance. • Auditees should designate staff for the collection of performance information and the reporting thereof. These officials should receive training to improve their understanding of the performance information processes and requirements. • Accounting officers and staff must be held accountable for ensuring the reliability of performance information through an effective employee performance management system and corrective action (where required) must be agreed on and adequately monitored.

2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

2.4.1 Overall outcomes from the audit of compliance with laws and regulations



The PAA requires the AGSA to audit compliance with laws and regulations applicable to financial matters, financial management and other related matters on an annual basis. The compliance audit was limited to the following focus areas: • Material misstatements in submitted annual financial statements • asset and liability management • audit committees • budget management • expenditure management • prevention of unauthorised, irregular as well as fruitless and wasteful expenditure • financial misconduct • internal audit • revenue management • strategic planning and performance management • transfer of funds and conditional grants • procurement and contract management (supply chain management) • human resource management and compensation.

Depicted in 2.4.1 are the overall outcomes from the audits which show an overall increase in the number of auditees that had findings on compliance. Notable outcomes and trends arising from the audits are presented below

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Material findings on compliance were reported for 375 (74%) auditees [2010-11: 360 (71%)].		
	Only 40 auditees addressed their prior year findings on compliance (including three leading departments). Seventy-two (14%) auditees regressed (12% of which are public entities).		
	The highest prevalence is among provincial departments – 97%. Findings on compliance ranged from 71% (Western Cape) to 100% (Eastern Cape, Limpopo, North West and Northern Cape).		
	Only four national departments did not have findings on compliance and the leading departments that were able to set the example in the provinces were limited to four provincial treasuries (Mpumalanga, Free State, KwaZulu-Natal and Western Cape), three Premier's offices (Mpumalanga, Free State and Gauteng) and three legislatures (Mpumalanga, Free State and Western Cape).		
	Fifty-seven per cent of auditees had findings on one or more of the top three areas of non-compliance, namely (i) material misstatements in submitted financial statements, (ii) unauthorised, irregular as well as fruitless and wasteful expenditure, and (iii) supply chain management (SCM).		
	Findings on compliance relating to unauthorised, irregular as well as fruitless and wasteful expenditure remained at the same high level as in the previous financial year (45% of auditees).		
	Twenty-seven per cent of auditees (76) with findings on compliance had findings in one AGSA focus area only, while 15% of auditees (44) with findings on compliance had findings on material misstatements in submitted annual financial statements only.		
	Findings on compliance relating to SCM remained at a high level. The significant findings that were reported in the audit reports include three written quotations and/or competitive bids not being invited and/or deviations not justified and preference point system not applied.		
	Other findings on compliance show further regression, with the most significant being in the area of HR management.		
For auditees whose financial statements were financially unqualified, other areas of findings on compliance include strategic planning and performance management - 52 auditees (12%) [2010-11: 114 (23%)]; budgets - 40 auditees (8%) [2010-11: 34 (7%)]; financial misconduct - 25 auditees (5%) [2010-11: 16 (3%)]; and transfers and conditional grants - 35 auditees (7%) [2010-11: 30 (6%)].			

2.4.2 Findings on compliance with laws and regulations

Figure 18: Common areas of findings on compliance with laws and regulations

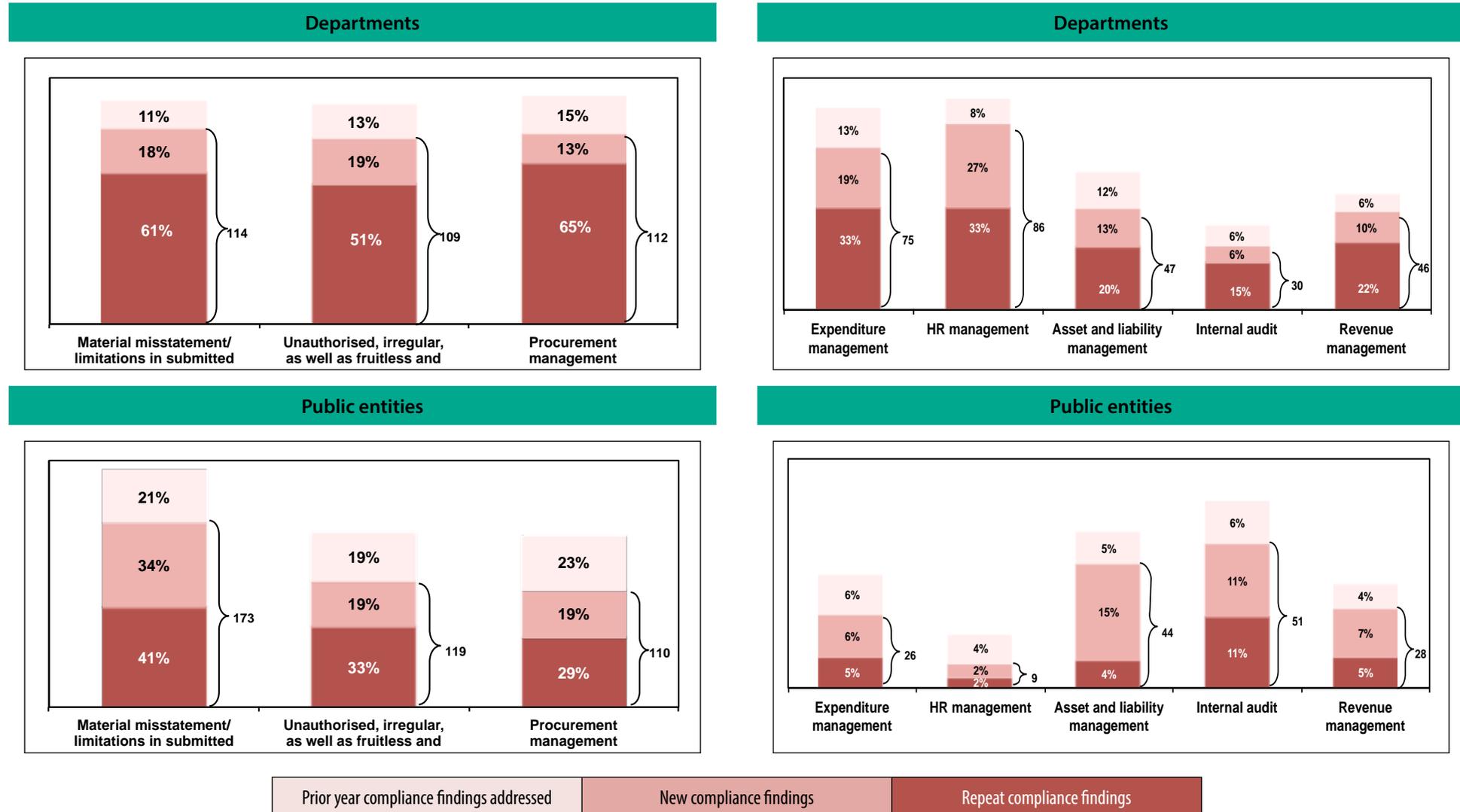


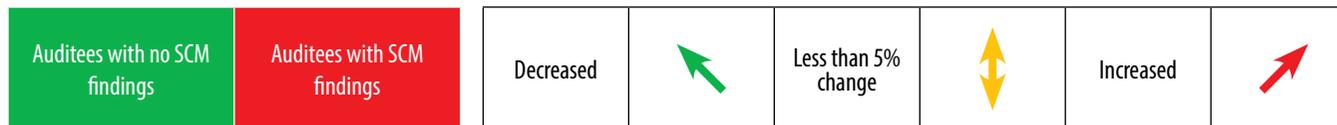
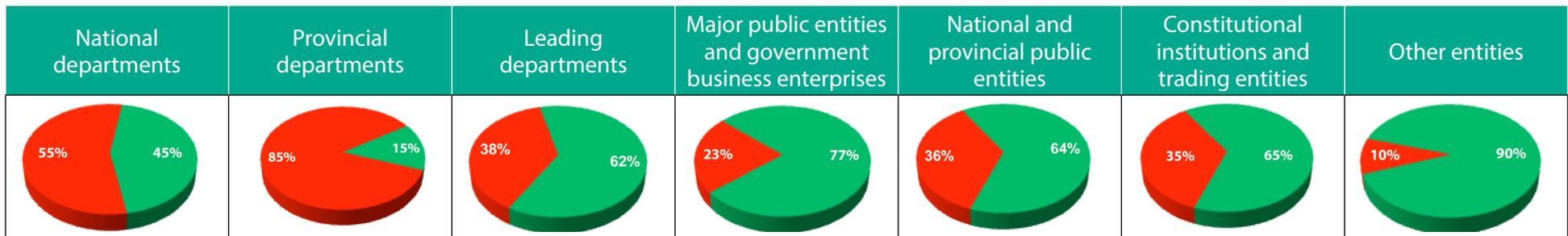
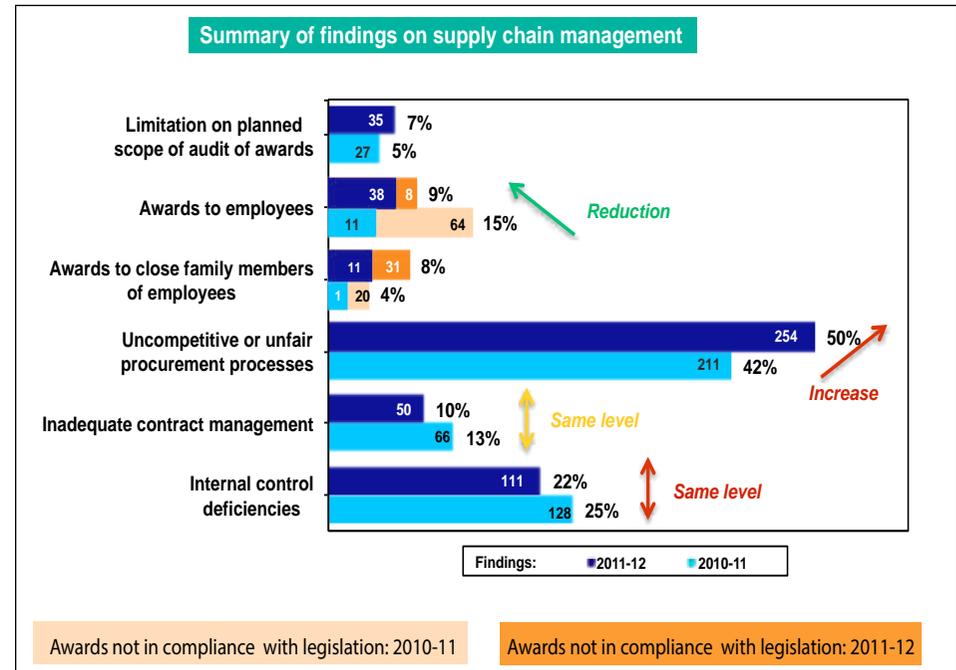
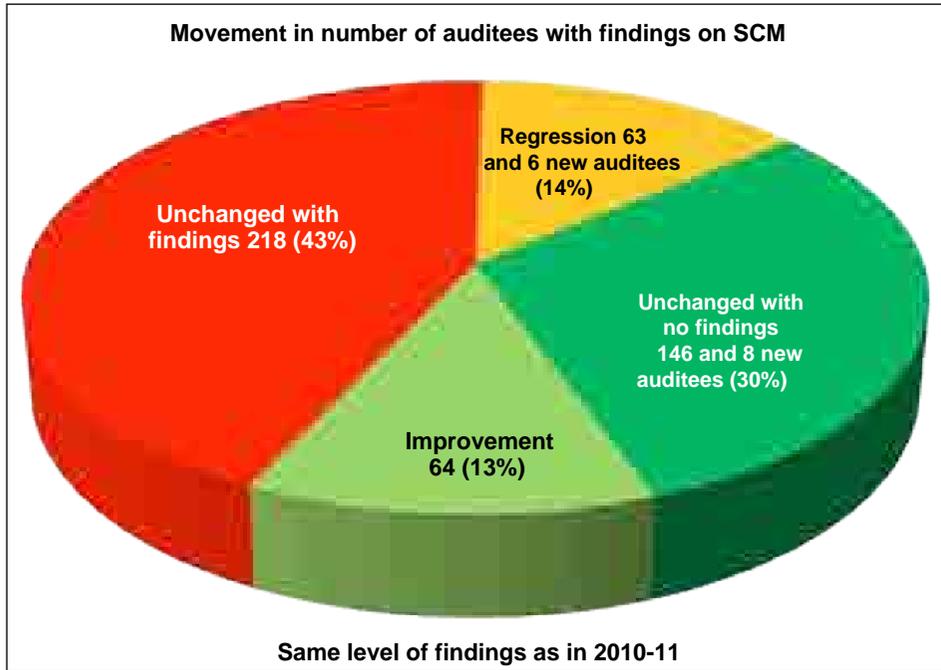
Figure 18 shows progress (or lack thereof) made by auditees to address prior year findings on compliance.

The extent and impact of material misstatement/limitations in annual financial statements submitted for audit are analysed in section 2.2. Findings on procurement management are detailed in section 2.4.3 and the extent and nature of unauthorised, irregular, as well as fruitless and wasteful expenditure in section 2.4.4. HR management findings are analysed in section 3.2. Details on the nature of the most prevalent findings in other areas of non-compliance per type of auditee are provided below.

Table 11: Summarised findings in other areas of non-compliance

Nature of other areas of non-compliance per type of auditee									
Expenditure management – 101 auditees (20%)				Asset and liability management – 91 auditees (18%)					
<ul style="list-style-type: none"> • Payments to creditors not made within 30 days from receipt of an invoice [92 (18%) auditees] • Ineffective system of internal control over expenditure [17 (3%) auditees] • Expenditure incurred without approval by a delegated official [9 (2%) auditees] 			<ul style="list-style-type: none"> • Proper control systems not implemented for safeguarding and maintenance of assets [71 (14%) auditees] • Bank reconciliations not performed on a daily/weekly basis [27 (5%) auditees] 						
Internal audit – 81 auditees (16%)				Revenue management – 74 auditees (14%)					
<ul style="list-style-type: none"> • No internal audit function in place [43 (9%) auditees] • No internal audit evaluation and/or recommendations on reliability and integrity of financial and operational information [34 (7%) auditees] • No internal audit evaluation and/or recommendations on compliance findings [26 (5%) auditees] • Internal audit findings are further analysed in section 3.4. 			<ul style="list-style-type: none"> • Effective and appropriate steps not taken to timeously collect all revenue due [59 (12%) auditees] • Appropriate processes not in place for identification, collection, recording, reconciliation and safeguarding of information about revenue [17 (3%) auditees] • Interest on debts owed to the state is not charged at the rate determined by Minister of Finance [12 (2%) auditees]. 						
<table border="1" style="width: 100%; text-align: center;"> <tr> <td style="width: 20%;">Auditees with findings:</td> <td style="width: 20%; background-color: #ffe0b2;">National departments</td> <td style="width: 20%; background-color: #ffb74d;">Provincial departments</td> <td style="width: 20%; background-color: #ffcdd2;">Leading departments</td> <td style="width: 20%; background-color: #a1887f;">Public entities</td> </tr> </table>					Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities
Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities					

2.4.3 Findings arising from the audit of supply chain management



The AGSA audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. Contracts awarded and price quotations accepted (referred to as “awards” in the remaining sections of this report) to the value of R96 406 million were tested.

The previous figure presents the movements in the number of auditees with SCM findings, the prevalence of SCM findings across the different types of auditees and a summary of SCM findings, with a comparison to the audit results of the 2010-11 financial year.

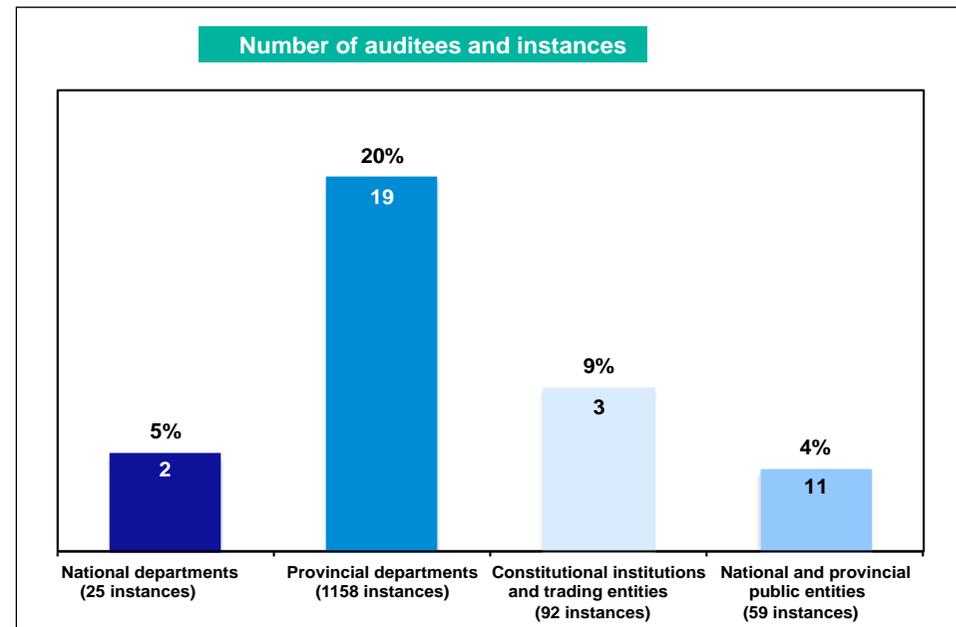
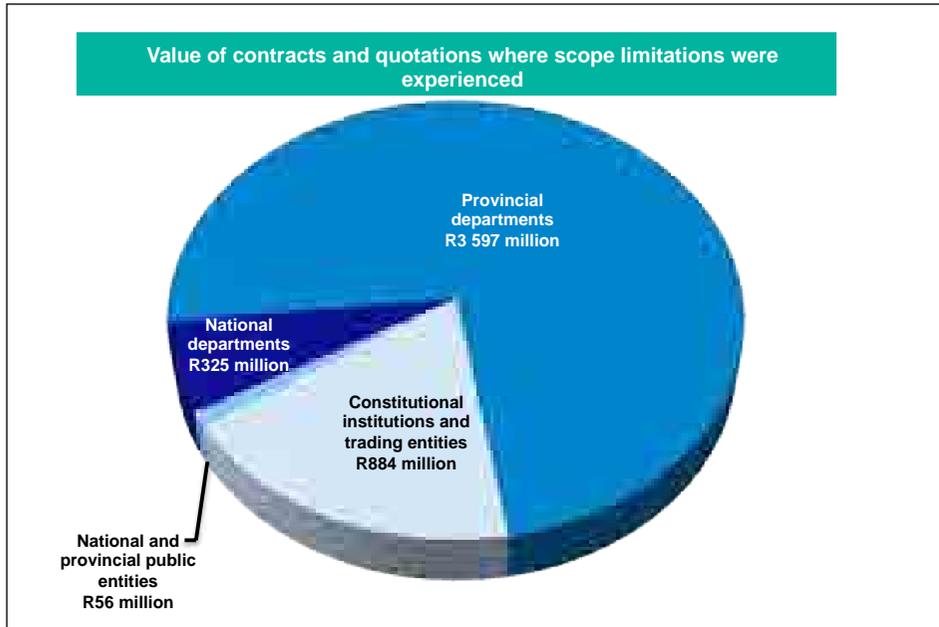
Although the auditees in the categories of major public entities, government business enterprises and other entities appear to have the best SCM audit outcomes, it must be noted that they are not subject to the Treasury Regulations on SCM. A number of these auditees are also dormant and/or do limited procurement. Key outcomes and trends are provided in the table below, followed by further analysis of the SCM findings.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Findings on SCM were reported in the management reports of 287 (57%) [2010-11: 282 (58%)] of the auditees, while at 222 (44%) [2010-11: 228 (47%)] auditees the findings were material enough to warrant reporting thereof in the auditor’s report. At an overall level there has been no improvement as the number of auditees that improved is the same as those that regressed.		
	Awards to the value of R4 862 million that were selected for audit could not be audited due to the required information or documentation not being made available by auditees. These limitations could further impact on the extent of identified irregularities and SCM weaknesses.		
	The 30% auditees that had no findings in the current or prior year included 11 departments and leading departments, four of the major public entities and government business enterprises, 107 smaller national and provincial public entities and 32 other entities.		
	The 64 auditees that improved their SCM audit outcomes comprise three national departments, four leading departments, eight provincial departments, five major public entities and government enterprises, 37 national and provincial public entities, five constitutional institutions and trading entities and two other entities.		
	Of the 154 auditees that again had no SCM findings, nine are provincial departments, two are national departments and 143 are national and provincial public entities. New auditees that had no SCM findings are included in the 154 auditees.		
	Findings on uncompetitive and unfair procurement processes remain the most prevalent and the number of auditees with these findings continues to increase. The other categories of findings remained largely at the same level.		

Limitations on planned scope of the audit of awards

Limitations of R4 862 million were experienced at 35 (7%) auditees where sufficient appropriate audit evidence could not be obtained that awards selected for audit had been made in compliance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for these limitations is that supporting documentation is not made available for auditing. The figures below show the extent of limitations and the types of auditees where they are most prevalent.

Figure 19: Limitations experienced on planned scope of the audit of awards



Key outcomes and trends are provided in the table below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	The contract and quotation value of limitations experienced increased by R1,5 billion (44%) and limitations were encountered at three more auditees than was the case in the 2010-11 financial year.		
	The number of identified contracts and quotations decreased by 161 (11%) over 2010-11 from 1 495 to 1 334.		
	Limitations on planned scope of the audit of awards were experienced at 35 auditees (7%) compared to 27 auditees (6%) in the previous year. eight auditees (30%) regressed, with the most significant increases in this regard were recorded at provincial departments [(four auditees (27%))] and at other entities [five auditees (83%)].		
	<p>Provincial departments account for 74% of the value of contracts and quotations that could not be audited, 54% of the auditees and 87% of the instances of limitations experienced.</p> <p>The value of the limitations experienced at provincial departments increased significantly by 92% (from R1 874 million to R3 597 million) over the 2010-11 financial year.</p> <p>The auditees where limitations were experienced at provincial departments increased from 15 to 19 (4%) while the instances decreased from 1 203 to 1 158 (4%) over the 2010-11 financial year.</p>		

Awards to employees and close family members

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The AGSA audits included an assessment of the interest of employees of the auditee and their close family members in suppliers to the auditee. The next table shows the extent and nature of these awards and whether any non-compliance with legislation was identified.

Table 12: Awards to employees and close family members

Auditee type	Awards made to							Non-compliance with regard to awards made											
	Employees				Close family members of employees			Supplier did not declare interest			Employee did not declare interest			Other remunerative work not approved			Non-compliance/irregularity in procurement process		
	Number of instances	Number of auditees	Amount	Positions	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount
National departments	230	9	R218,0 million	SCM Official, Senior Managers, Other employees	40	5	R20,3 million	112	14	R17,5 million	118	16	R17,5 million	67	3	R12,9 million			
Provincial departments	1268	26	R217,5 million	Senior Manager, Other employees	686	31	R119,9 million	1495	30	R307,2 million	1556	31	R37,8 million	728	13	R193,8 million	179	3	R4,8 million
Leading departments	2	2	R40 thousand	Other employees	10	2	R0,1 million	4	3	R0,2 million	4	3							
Major public entities and government business enterprises	8	2	R0,4 million	Other employees	3	2	R0,6 million	7	4		13	5		Applicable to national and provincial departments only					
National and provincial public entities	7	4	R1,0 million	Senior Manager, Other employees	3	2	R0,5 million	15	4	R0,1 million	15	4	R0,1 million						
Constitutional institutions and trading entities	16	3	R1,2 million	Other employees				16	3	R1,1 million	16	3	R1,1 million						
Total 2011-12	1531	46	R438,1million		742	42	R141,4 million	1649	58	R326,1 million	1722	62	R56,5 million	795	16	R206,7 million	179	3	R4,8 million
Total 2010-11	1890	75	R1 204,8million		223	21	R136,3 million	793	26	R946,3 million	852	39	R225,6 million	505	42	R147,1 million	119	7	R301,9 million
	↑	↑	↑		↓	↓	↓	↓	↓	↑	↓	↓	↑	↓	↑	↓	↓	↑	↑

↑ Improvement

↓ Regression

Legislation does not prohibit awards being made to suppliers in which employees and/or their close family members have an interest. However, there is legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations. Legislation also requires of employees at departments to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation of the auditee was tested. The awards identified were also tested with a view to identifying possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

Key outcomes and trends are provided in the table below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	<p>Awards to the value of R 438 million identified at 46 auditees were made to suppliers in which employees of the auditee had an interest. At some auditees the employees included SCM officials and senior managers. This represents a significant decrease from the R 1 205 million identified in the previous year at 75 auditees.</p> <p>The awards to employees identified decreased by 39% - 14% at national departments (six), by 18% at provincial departments (17) and by 7% at leading departments (two).</p>		
	<p>Awards to the value of R141 million identified at 42 auditees were made to suppliers in which close family members of employees of the auditee had an interest. It represents an increase from the R136 million identified in the previous year at 21 auditees. The awards to close family members of employees identified increased by 100% - 21% at national departments (eight), by 7% at provincial departments (seven), by 14% at leading departments (four) and by 9% at major public entities and government business enterprises (two).</p>		
	<p>Where interest was identified, the suppliers did not declare the interest in 73% of the instances and the employee did not declare in 76% of instances.</p> <p>At 16 departments the employees doing business with the auditee did not obtain approval for the additional remunerative work.</p>		

Uncompetitive or unfair procurement processes

A further focus of AGSA audits was on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process did not unfairly favour some suppliers above others. The procurement processes of 8 282 contracts (R90 840 million) and 176 588 quotations (R5 566 billion) were tested at 157 departments and 268 public entities. The number of auditees with findings on uncompetitive or unfair procurement processes increased for all types of auditees, the most significant being by 14% at national departments (6), by 14% at leading departments (4), by 11% at constitutional institutions and trading entities (4) and by 20% at major public entities and government business enterprises (4). The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table. Similar findings were identified in the prior year.

Table 13: Summarised findings on uncompetitive or unfair procurement processes

Nature of other areas of non-compliance per type of auditee																				
Three written quotations not invited – no deviation approved/approved deviation not reasonable/justified – 183 (33%)	<table border="1"> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>National departments</td><td>9%</td></tr> <tr><td>Provincial departments</td><td>33%</td></tr> <tr><td>Public entities</td><td>52%</td></tr> </table>	Category	Percentage	National departments	9%	Provincial departments	33%	Public entities	52%	Competitive bids not invited – no deviation approved/approved deviation not reasonable/justifiable – 119 (21%)	<table border="1"> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>National departments</td><td>9%</td></tr> <tr><td>Provincial departments</td><td>43%</td></tr> <tr><td>Public entities</td><td>44%</td></tr> </table>	Category	Percentage	National departments	9%	Provincial departments	43%	Public entities	44%	
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Category	Percentage																			
National departments	9%																			
Provincial departments	43%																			
Public entities	44%																			
A price quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000. Three prices quotations were not in all instances obtained from prospective providers and deviations were not approved by a properly delegated official or committee as required.		A competitive bidding process should be followed for the procurement of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.																		
No declaration of interest submitted by provider – 69 (14%)	<table border="1"> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>National departments</td><td>13%</td></tr> <tr><td>Provincial departments</td><td>45%</td></tr> <tr><td>Public entities</td><td>35%</td></tr> </table>	Category	Percentage	National departments	13%	Provincial departments	45%	Public entities	35%	Preference point system not applied – 74 (14%)	<table border="1"> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>National departments</td><td>9%</td></tr> <tr><td>Provincial departments</td><td>34%</td></tr> <tr><td>Public entities</td><td>50%</td></tr> </table>	Category	Percentage	National departments	9%	Provincial departments	34%	Public entities	50%	
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Awards were made to suppliers that did not submit a completed declaration of interest (SBD4 form).		The preferences point system was not applied in all procurement of goods and services above R30 000, as required by Preferential Procurement Policy Framework Act.																		
Procurement from suppliers without SARS tax clearance – 89 (17%)	<table border="1"> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>National departments</td><td>12%</td></tr> <tr><td>Provincial departments</td><td>29%</td></tr> <tr><td>Public entities</td><td>49%</td></tr> </table>	Category	Percentage	National departments	12%	Provincial departments	29%	Public entities	49%	Other findings – 119 (24%)	<table border="1"> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>National departments</td><td>16%</td></tr> <tr><td>Provincial departments</td><td>34%</td></tr> <tr><td>Public entities</td><td>46%</td></tr> </table>	Category	Percentage	National departments	16%	Provincial departments	34%	Public entities	46%	
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Provincial departments	34%																			
Public entities	46%																			
Awards were made to suppliers without proof from South African Revenue Service that their tax matters were in order.		Other findings include: No declaration of past SCM practices, no certificate of independent bid determination and bids advertised for shorter period than prescribed.																		
Auditees with findings:	National departments	Provincial departments	Leading departments	Public entities																

Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless and wasteful expenditure, which in turn impact directly on service delivery. Inadequate contract management remained at the same level, with the most noteworthy improvements at national departments (2) and major public entities and government business enterprises (5). The most prevalent findings on inadequate contract management are summarised in the table below. Similar findings were identified in the prior year.

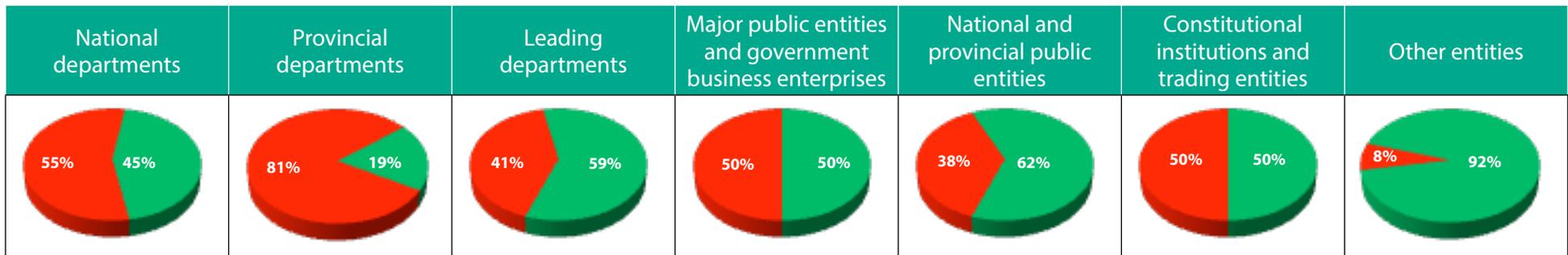
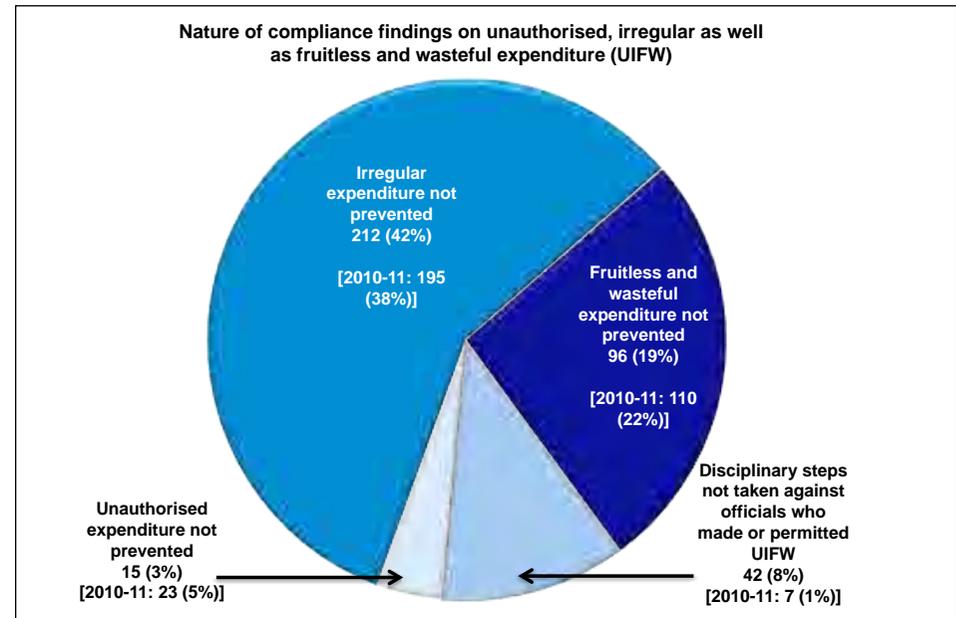
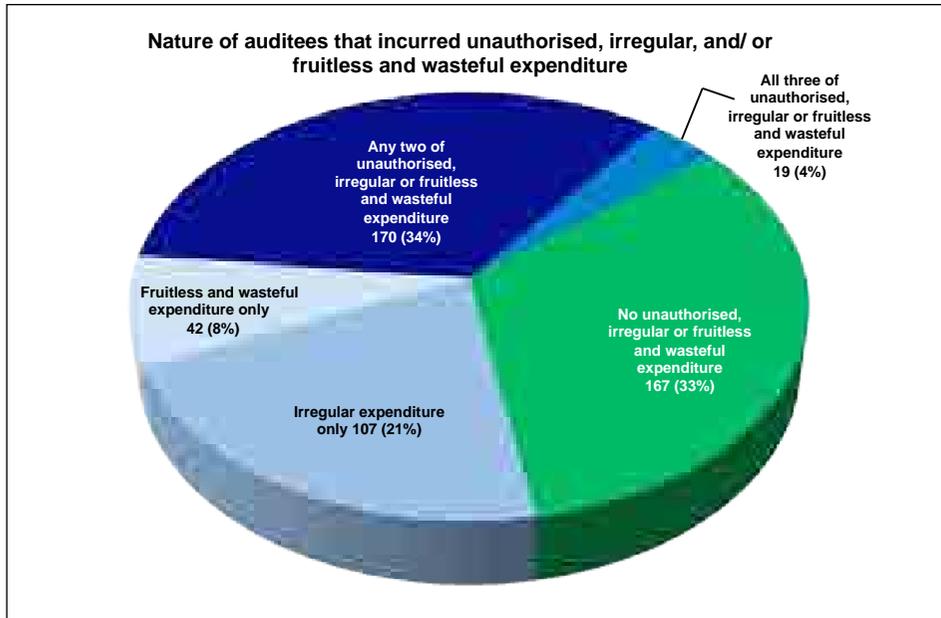
Key findings: Inadequate contract management
Goods and services were received and payments were made to suppliers without a written, signed contract being in place – 9 (2%) auditees.
Contracts amended or extended without approval by a delegated official - 12 (2%) auditees.
Contracts extended or renewed to circumvent competitive bidding processes - 9 (2%)
Inadequate contract performance measures and monitoring - 15 (3%)
Contract not prepared in accordance with the general conditions of the contract as prescribed by National Treasury - 3 (1%).
Other findings include payments made in excess of approved contract price (with further approved extensions) and total payments under quotations exceeding the original quoted amount - 9 (2%).

Inadequate SCM controls

Internal control deficiencies in the SCM environment are the highest at 57 (61%) provincial departments, with a further deterioration of six (12%) auditees. The most prevalent deficiencies identified during the audit on fundamental SCM controls are summarised in the table below. Similar findings were identified in the prior year

Key findings: Inadequate internal controls
The audit committee did not review the effectiveness of the internal control systems related to SCM - 17 (3%)
Employees without interest in suppliers to the auditee - additional remunerative work not approved - 33 (7%) <ul style="list-style-type: none"> • Employees performed additional remunerative work without approval
Inadequate controls to ensure interest is declared - 26 (5%) <ul style="list-style-type: none"> • The controls were inadequate to ensure that officials declare to the auditee whether they or their close family members, partners and associates have interests in suppliers and suppliers to the auditee fail to declare any connections to persons in service of the auditee
Internal audit did not evaluate SCM controls/processes and compliance - 19 (4%) <ul style="list-style-type: none"> • Some departments utilised a shared an insufficiently staffed internal audit division within the provincial treasury, resulting in the internal audit responsibilities not being fulfilled
Inadequate controls to ensure interest is declared - 26 (5%) <ul style="list-style-type: none"> • Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively - 22 (4%)
Internal audit did not evaluate SCM controls/processes and compliance - 19 (4%) <ul style="list-style-type: none"> • Other control deficiencies included: Performance of the SCM unit is not regularly analysed, risk assessment did not address SCM and where it did, no actions were taken to address SCM risks identified and no controls to monitor performance of contractors - 73 (14%)

2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred



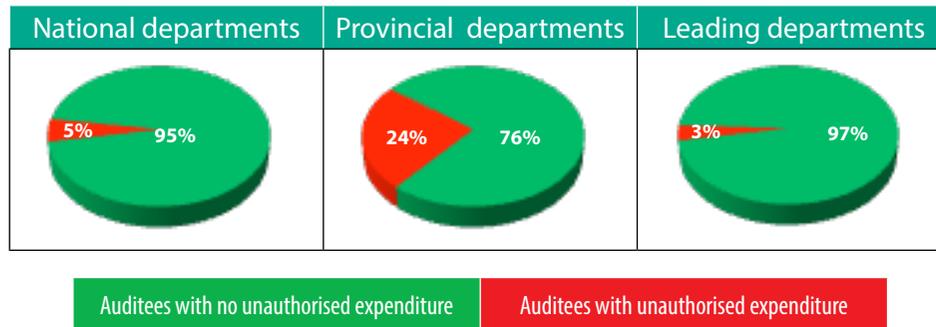
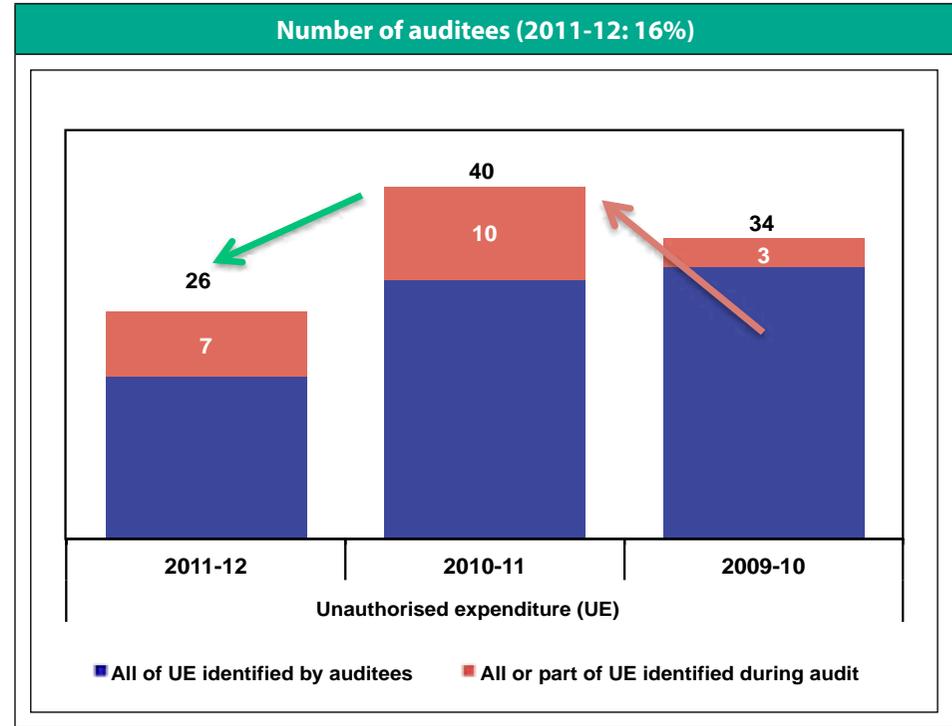
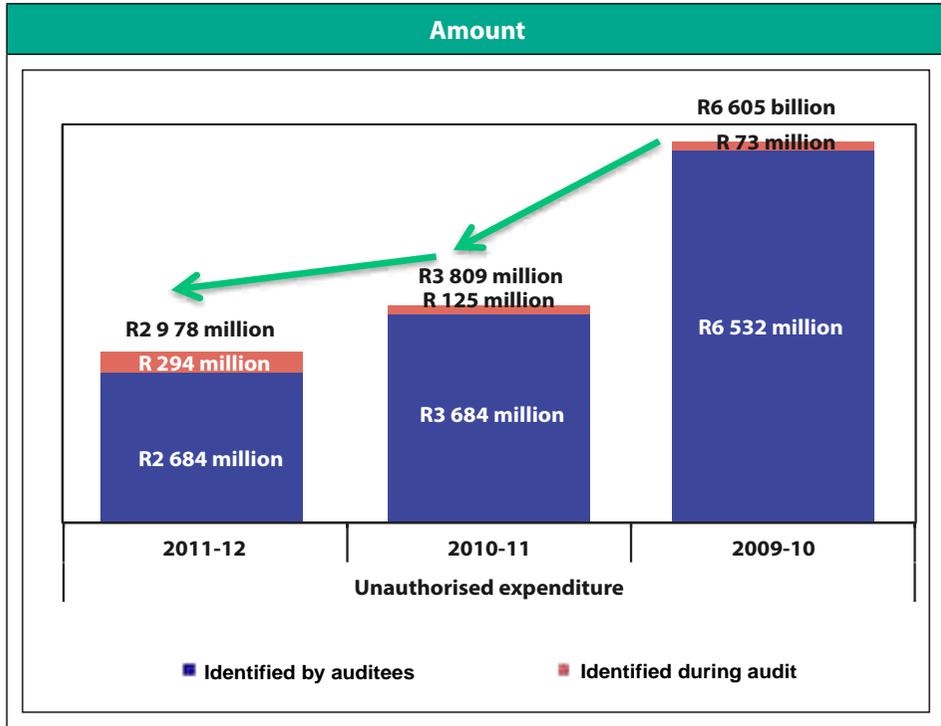
Auditees with no UIFW compliance findings Auditees with UIFW compliance findings

The PFMA requires accounting officers/authorities to take effective and appropriate steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure (UIFW) is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof even if all reasonable steps had been taken. In instances where it does occur, the PFMA makes it compulsory for auditees to disclose such expenditure in their annual financial statements.

The extent of UIFW and the pervasiveness of the related non-compliance with legislation applicable to UIFW as **depicted in the previous figure** are indicative of a breakdown in auditees' internal control environment. Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Two thirds of auditees incurred one or more types of UIFW.		
	Findings on compliance related to UIFW remain the second highest non-compliance area across all auditees (depicted in section 2.4.1). The prevalence of these findings remains unchanged from the 2010-11 financial year at 45% of auditees.		
	The most prevalent finding was accounting officers/authorities not taking effective steps to prevent irregular expenditure – 217 (43%) auditees, which is an regression from the 195(40%) of the previous year.		
	The number of auditees with findings on accounting officers not taking effective steps to prevent unauthorised expenditure decreased to only 18 (4%) from 23(5%). A similar improvement to 102 (20%) from 112 (22%) auditees was recorded for prevention of fruitless and wasteful expenditure.		
	The findings on compliance relating to failure to take disciplinary action against employees who made or permitted unauthorised, irregular or fruitless and wasteful expenditure increased by more than 300%.		
	Provincial departments (81%) and national departments (55%) had the most findings on compliance relating to UIFW.		

Nature of and overall trends in unauthorised expenditure (departments only)



The figure **above** reflects the three-year trend in unauthorised expenditure, the extent to which it was identified during the audit (and not by the auditees' internal control systems) and the type of auditee where it occurs.

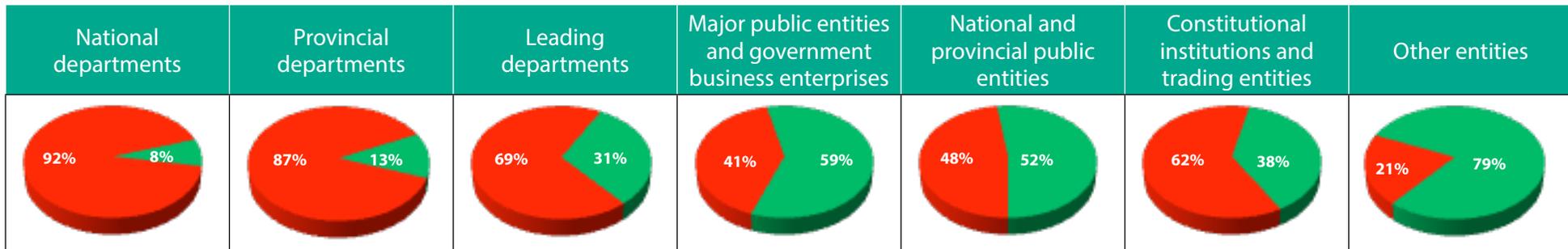
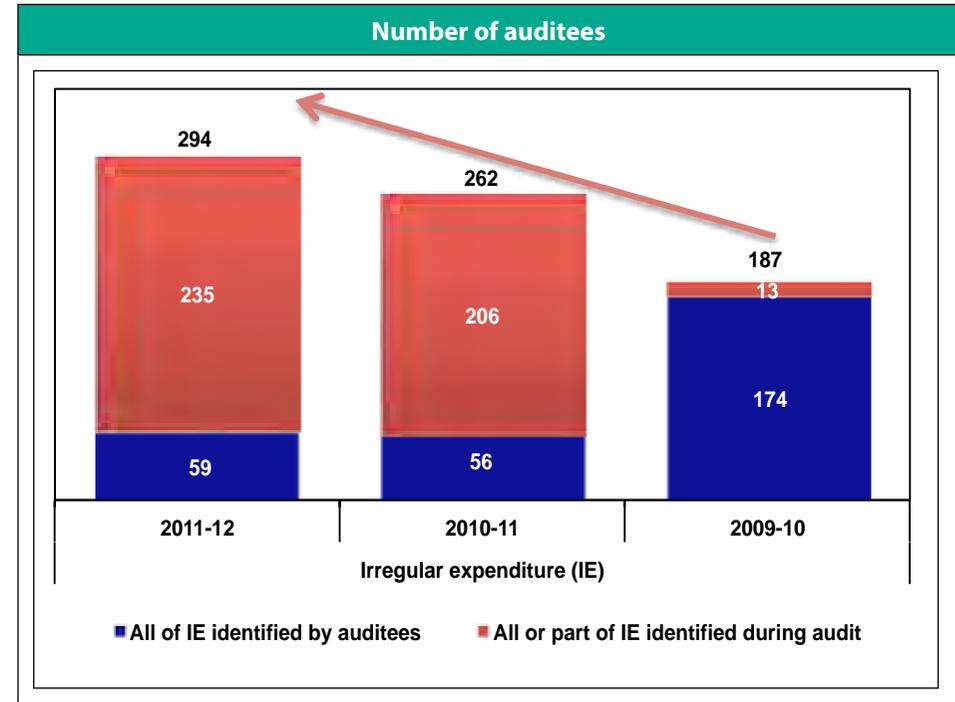
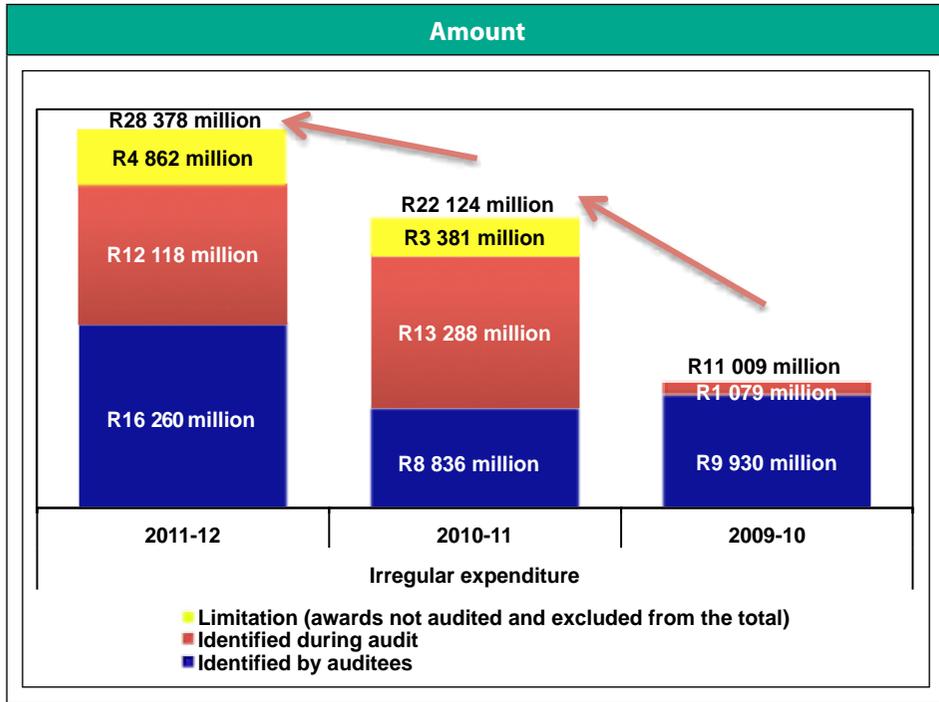
The unauthorised expenditure incurred was as a result of overspending of the votes (budget) or main divisions within the votes.

Unauthorised expenditure invariably means that money intended for other programmes was used, which affects service delivery in accordance with the performance objectives set for the year.

Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	Unauthorised expenditure decreased by 35% in number of auditees and by 22% in value.		
	The most significant decrease in unauthorised expenditure was at national departments where the number of auditees decreased by five and the value by R811 million.		
	Two national departments (Women, Children and Persons with Disabilities and Public Works) and 24 provincial departments incurred R50 million and R2 928 million, respectively. Provincial departments account for 98% of the total value of unauthorised expenditure.		
	Ten per cent of unauthorised expenditure was identified by the auditors, increasing from 3% in the 2010-11 financial year.		

Nature of and overall trends in irregular expenditure



Auditees with no irregular expenditure
Auditees with irregular expenditure

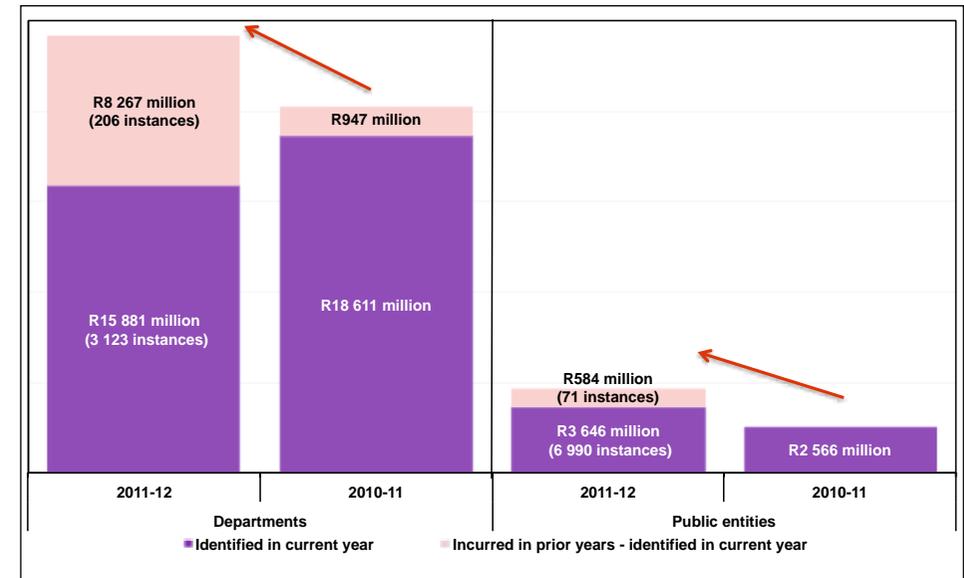
The nature of and overall trends in irregular expenditure incurred by auditees are **depicted earlier**. Irregular expenditure does not necessarily mean that money had been wasted or that fraud had been perpetrated. However, it is a measure of an auditees' ability to comply with laws and regulations as it relates to expenditure and procurement management. The nature of and current year movements in irregular expenditure are reflected in the table below.

Table 14: Nature of and current year movements in irregular expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
SCM related	281	16%	R24 270 million	50%
Compensation of employees related	59	20%	R1 333 million	65%
Other non-compliance	60	7%	R2 774 million	35%

The following figure shows the extent of irregular expenditure which was disclosed in the current year but stemmed from non-compliance with legislation in prior years.

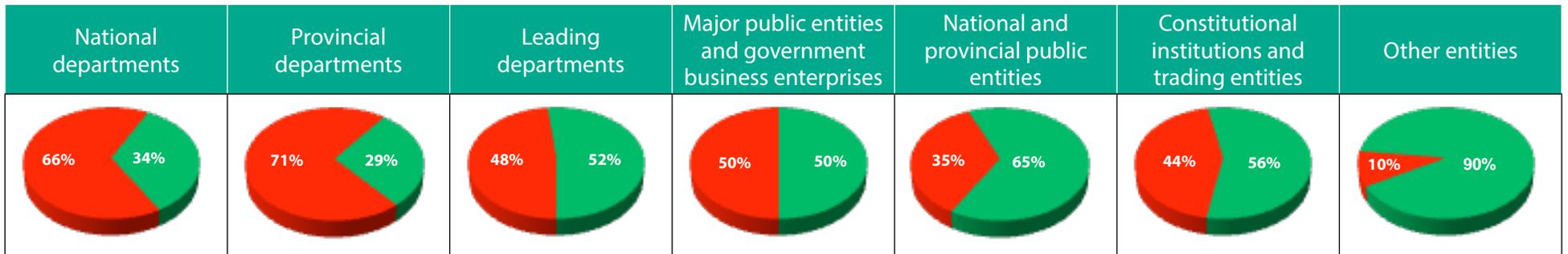
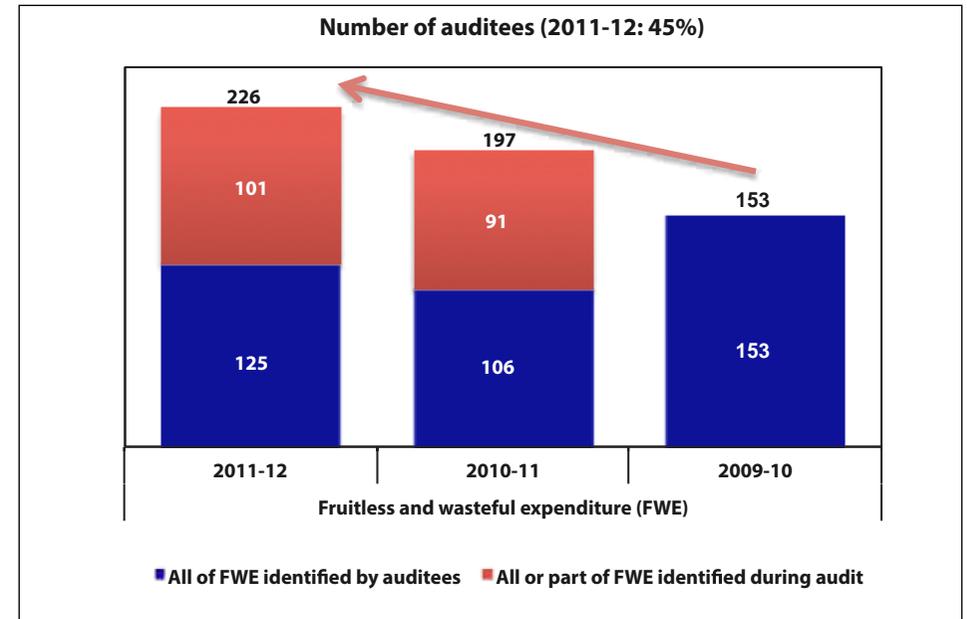
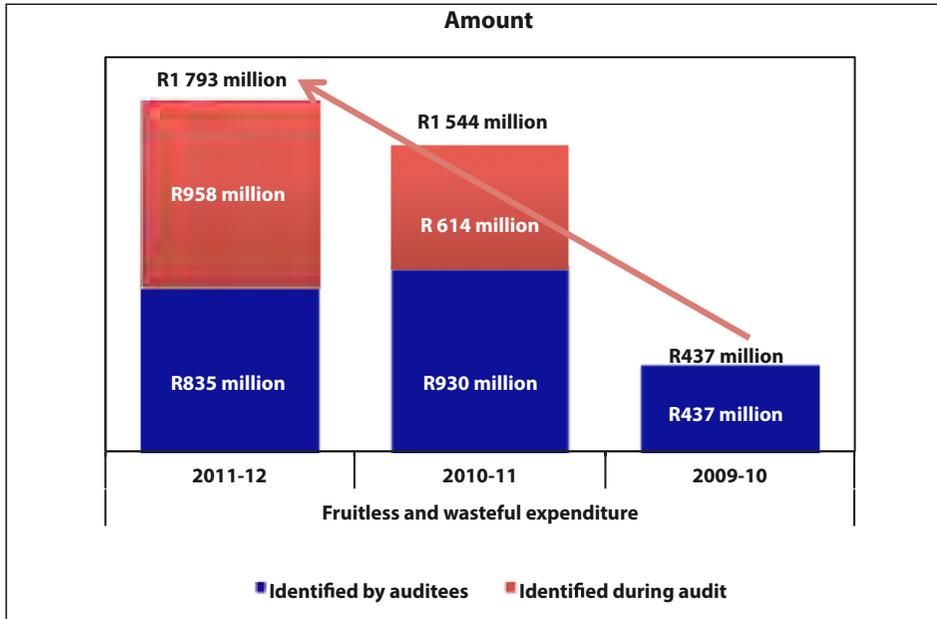
Figure 20: Irregular expenditure incurred in prior year



Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	A significant portion (43%) of irregular expenditure incurred by auditees was identified during the audit, indicating that the auditees' internal controls failed to detect those deviations.		
	Irregular expenditure increased at 32 auditees (12%) and by R6 254 million (28%). The increase in the number of auditees incurring irregular expenditure is 6 (5%) and 26 (20%) for departments and public entities, respectively.		
	A notable trend at provincial departments is that the number of auditees remained virtually unchanged (1% increase), but the rand value increased by R3,5 billion (21%). Provincial departments account for 73% of the total irregular expenditure incurred.		
	Irregular expenditure at auditees that achieved an audit opinion in the category of financially unqualified with findings on PDO and/or compliance increased by 891 million (12%) and at those with qualifications by R6 639 million (89%).		
	R9 798 million of the irregular expenditure was incurred in prior years but was only identified and reported in the current year.		

Nature of and overall trends in fruitless and wasteful expenditure



Auditees with no fruitless and wasteful expenditure
Auditees with fruitless and wasteful expenditure

The analysis of the nature of fruitless and wasteful expenditure this year reflects the amounts spent to prevent irregular expenditure, losses or further fruitless and wasteful expenditure. The movement indicated in the table below refers to the overall movement in the number of auditees and the movement in amount of fruitless and wasteful expenditure incurred by these auditees.

The actual fruitless and wasteful expenditure relates mostly to payments made to employees and interest incurred on late payments.

Table 25: Nature of and current year movements in fruitless and wasteful expenditure

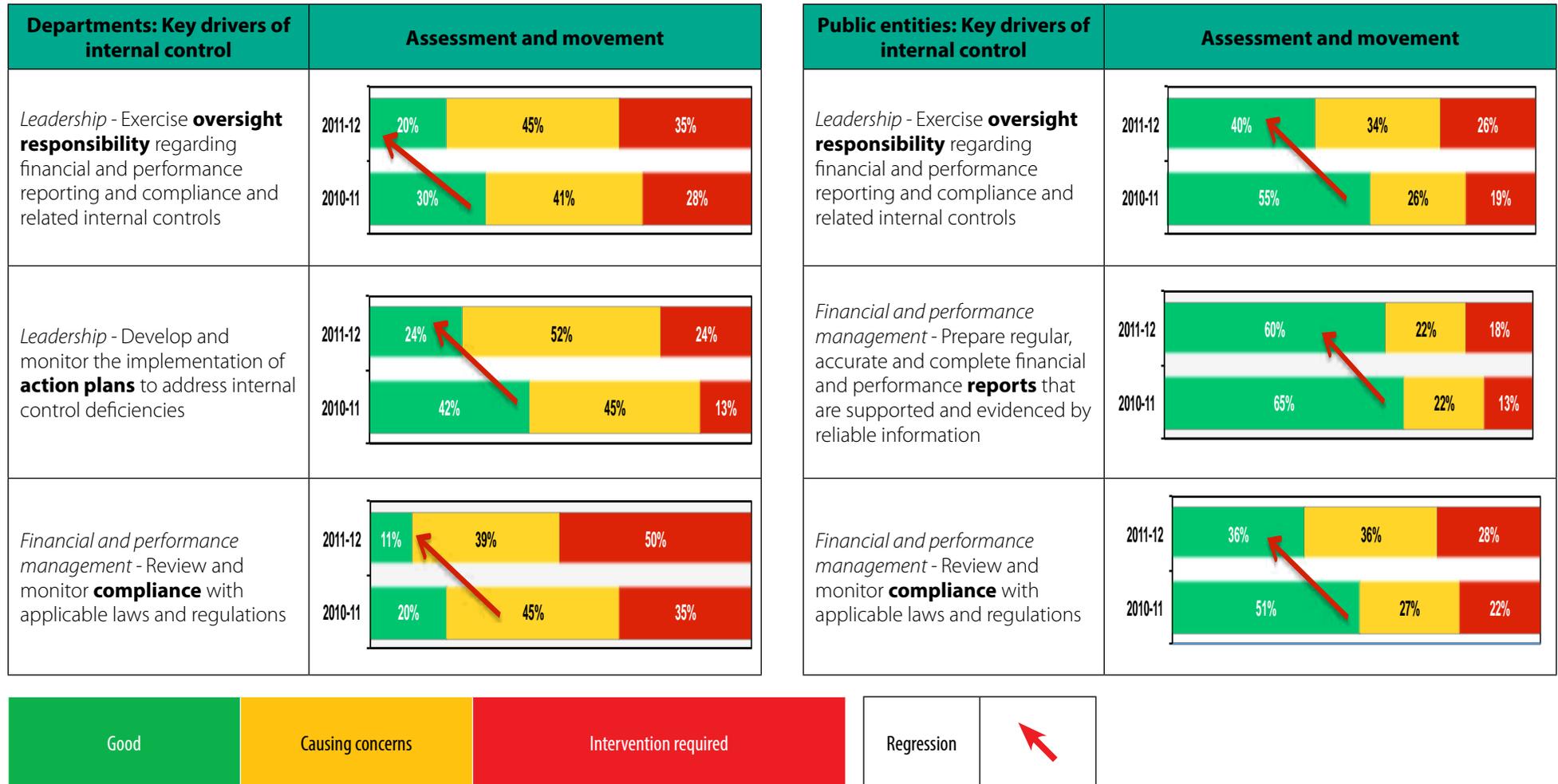
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Incurring to prevent irregular/ loss/ further fruitless and wasteful expenditure	56	 14%	R669 million	 16%
Actual fruitless and wasteful expenditure	170		R1 123 million	

Key findings are summarised below.

Indicator	Key outcomes and trends	Good outcomes/trends	Poor outcomes/trends
	The number of auditees incurring fruitless and wasteful expenditure increased by 29 auditees (15%) and the value by R245 million (16%).		
	The most significant upward trend was at provincial departments where the number of auditees increased by 9 (16%) and the value by R290 million (42%). Provincial departments account for 55% of the total fruitless and wasteful expenditure incurred.		
	Fruitless and wasteful expenditure at auditees that achieved an audit opinion in the category of financially unqualified with findings on PDO and/or compliance increased in value by R118 million (24%) and at those obtaining disclaimed audit opinions by R193 million (61%).		
	The increase in number of auditees is eight (8%) and 21 (21%) for departments and public entities, respectively.		

2.4.5 Root causes identified and good practice recommendations

Figure 21: Assessment of drivers of internal control – compliance with laws and regulations



A complete assessment of other drivers of internal control is provided in section 3 of this general report.

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Identified root causes which gave rise to this assessment and the recommended way forward (both prior and additional recommendations for the current year) are summarised as follows.

Table 16: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward recommendations
Leadership tone	Root causes
	<ul style="list-style-type: none"> At many departments and public entities, there is a lack of day-to-day monitoring and involvement by the leadership in the administration of the department. This includes taking ownership of compliance issues and addressing key control deficiencies. Accountability is not accepted for actions and/or audit outcomes in respect of procurement processes and the use of deviations and for not following a competitive bidding process as a result of poor planning. Leadership does not set the correct tone at the top. Lack of adequate controls and procedures to ensure compliance with applicable laws and regulations.

Aspect	Identified root causes and way forward recommendations
Leadership tone (continued)	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that action plans to improve known internal control weaknesses are implemented and monitored. Those charged with governance and oversight should ensure that accountability is enforced and appropriate consequences are implemented when officials intentionally do not comply with the requirements of applicable prescripts (especially with regard to SCM).
	Way forward: Additional/new good practices recommended
	<ul style="list-style-type: none"> Action plans must address findings on compliance identified by any audit and must also include measures to prevent non-compliance. Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that internal control action plans are implemented and monitored. Policies and procedures that are aligned to legislation should be implemented. Leadership should set the correct tone in dealing with audit outcomes, ensuring compliance with laws and regulations, and should take responsibility for implementing actions to address the reported findings on compliance.

Aspect	Identified root causes and way forward recommendations
Systems and processes	Root causes
	<ul style="list-style-type: none"> • Lack of proper record keeping, specifically with regard to tenders, and failure to appropriately safeguard documentation to support tender procedures. • Leadership did not take appropriate action with regard to a lack of controls in the finance and SCM directorates, resulting in findings on compliance and such non-compliance remaining undetected until the audit. • Lack of communication of new or amended policies and procedures to affected officials of auditees.

Aspect	Identified root causes and way forward recommendations
Systems and processes (continued)	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> • Appropriate record management and filing systems should be implemented to ensure that tender documentation is readily available. This could include maintaining electronic copies of documentation scanning. • Monitoring on a monthly basis by designated staff members with a view to detecting and preventing non-compliance. The introduction of compliance checklists will provide auditee management some assurance that controls are achieving the required level of adherence. • Way forward: Additional/new good practices recommended • Continuous awareness and training on applicable laws and regulations to prevent non-compliance resulting from lack of awareness of new or amended legislation. • Systems and processes should be implemented to ensure that breaches of the legislative prescripts are identified and appropriate corrective actions are taken. This includes developing and implementing appropriate compliance reporting policies and procedures, clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation, and reporting regularly on compliance. • Some auditees should consider establishing a compliance unit to perform these compliance functions.

Aspect	Identified root causes and way forward recommendations
Oversight and monitoring	Root causes
	<ul style="list-style-type: none"> The lack of continuous oversight and monitoring by the leadership is one of the main drivers of regression in compliance with laws and regulations. Findings on compliance are not dealt with in a proactive manner, resulting in recurring findings. Lack of proper planning for procurement which results in an abuse of provisions for deviations provided for in legislation. The lack of continuity in the leadership structures. This instability results in a lack of accountability by leadership and governance structures.
	Way forward: Prior year AGSA recommendations
	<ul style="list-style-type: none"> Leadership should introduce a culture of discipline and should set the right tone. The involvement of the leadership in the day-to-day operations, including involvement in the audit process, should become a standard practice.
	Way forward: Additional/new good practices recommended
	<ul style="list-style-type: none"> Leadership should ensure that internal audit units regularly monitor common and recurring areas of non-compliance and the effective implementation of checklists to ensure compliance before a transaction is entered into and not only after the transaction has been concluded and the payment made. The portfolio committees need to intensify their oversight role by holding those departments with recurrent findings on compliance accountable. Monthly reporting should include an assessment of compliance with applicable laws and regulations.

Aspect	Identified root causes and way forward recommendations
Oversight and monitoring (continued)	<ul style="list-style-type: none"> An oversight system or process to monitor the commitments made by leadership and management to address internal control deficiencies should be established. In the process, this oversight must reside with and be coordinated by the Office of the Premier with quarterly reporting on progress made with regard to commitments.
Effective governance measures	Root causes
	<ul style="list-style-type: none"> Audit committees did not use internal audit units effectively to report on the implementation of action plans as reported by management. The internal audit function of some auditees was not fully functional during the year, which can be attributed to vacancies within the unit. The audit committee did not function throughout the year. Audit committee members were only appointed late in the year, resulting in the committees not being able to fulfil their responsibilities Leadership did not regularly seek the findings and views of audit committees and internal audit on internal control and risk management nor did they monitor implementation of recommendations by the audit committee and internal audit with a view to remedial action. Risk assessments not performed (at least annually) or performed much too late in the year rendered the risks assessments outdated or irrelevant to the risk management process.

Aspect	Identified root causes and way forward recommendations
<p>Effective governance measures (continued)</p>	<p>Way forward: Prior year AGSA recommendations</p>
	<ul style="list-style-type: none"> • Internal audit units should be adequately staffed to ensure that they can accommodate additional requests by the audit committees to confirm credibility of information reported to audit committees. • Strengthened oversight by the executive leadership in ensuring that risk assessments take place regularly and that those risks are addressed or mitigated timeously. • Internal audit should validate all irregular expenditure reports and progress made on addressing the root causes and implementation of controls. Progress should be reported to the audit committee, which in turn must provide feedback to the executive authority.
	<p>Way forward: Additional/new good practices recommended</p>
	<ul style="list-style-type: none"> • Intensify the focus on the review of compliance by internal audit and audit committee. • Meetings between the audit committee and the various executive authorities must take place on a quarterly basis to discuss the progress made in addressing findings on internal control deficiencies.

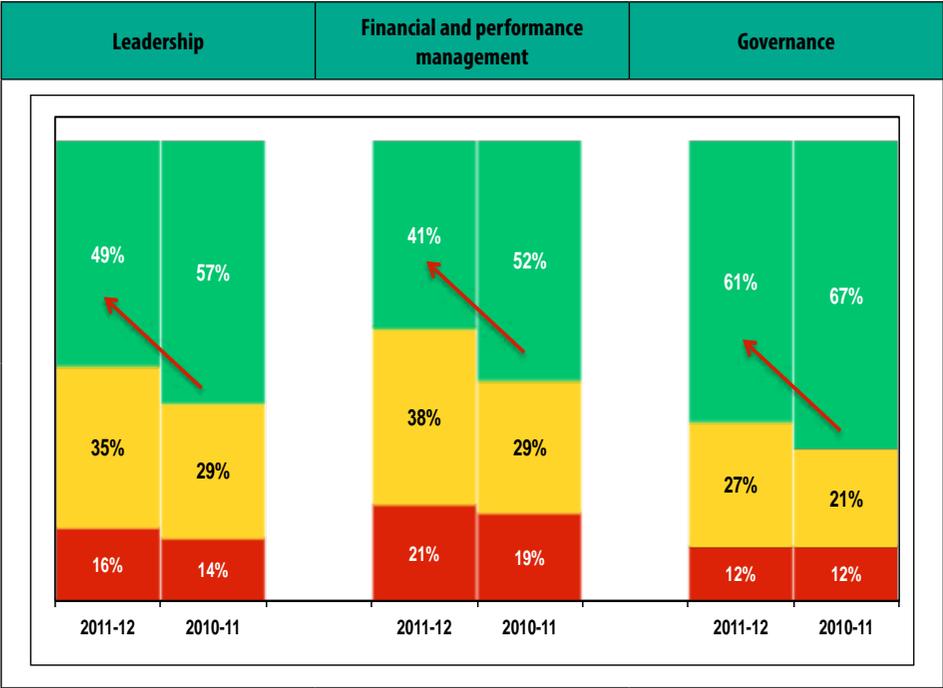


SECTION 3: AUDITEES' SYSTEMS OF INTERNAL CONTROL

SECTION 3: AUDITEES' SYSTEMS OF INTERNAL CONTROL

3.1 THE DRIVERS OF INTERNAL CONTROL

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Internal control driver	Objectives and impacted on by internal control driver		
	Financial management and reporting	Service delivery planning and reporting	Compliance with laws and regulations
Leadership			
Financial and performance management			
Governance			



This section of the general report identifies the drivers of audit outcomes under the following headings:

- Significant deficiencies in auditees' systems of internal control and the drivers thereof (section 3.1)
- Effective human resource management as driver of audit outcomes (section 3.2)
- The use of consultants by some national departments (section 3.3)
- Information technology management as driver of audit outcomes (section 3.4)
- The effectiveness of audit committees and internal audit units (section 3.5).

A key responsibility of accounting officers/authorities and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits, the auditees' system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control, termed drivers of internal control, have been categorised under leadership, finance and performance management and governance.

The figure alongside provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control which resulted in material misstatements (corrected and uncorrected) in financial statements and also in performance reports as well as findings on compliance with laws and regulations. The following broad areas of concern are highlighted.

	The overall reduction in the number of auditees whose drivers were assessed as being 'good' at the conclusion of the 2010-11 audits.
	The overall increase in the number of auditees requiring intervention in controls related to financial and performance management
	The impact of the combined deficiencies in leadership, financial and performance management and governance on all three facets of the audit outcomes: (i) financial statements, (ii) reporting against PDOs (service delivery reporting) as well as on (iii) compliance with laws and regulations.

Root causes and recommended best practices are analysed in more detail under section 2.2 (financial statement qualifications), 2.3 (PDO findings) and 2.4 (findings on non-compliance with laws and regulations).

The status of the **internal control elements** at March 2012, underlying leadership, financial and performance management and governance and movements in the implementation thereof, is presented in the following table, indicating overall deteriorations (red arrows) or overall unchanged status from the previous financial year (sideway arrows) for departments and public entities.

Table 17: The status of and movements in the internal control elements underlying leadership, financial and performance management

Driver no. 1: Leadership	Departments	Assessment of driver (all auditees)	Public entities												
<p>Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.</p>		 <table border="1"> <caption>Assessment of driver (all auditees)</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>69%</td> <td>24%</td> <td>7%</td> </tr> <tr> <td>2010-11</td> <td>77%</td> <td>16%</td> <td>7%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	69%	24%	7%	2010-11	77%	16%	7%	
Year	Green (%)	Yellow (%)	Red (%)												
2011-12	69%	24%	7%												
2010-11	77%	16%	7%												
<p>The majority of auditees were assessed to have committed and ethical leadership. However, instability in political leadership and ineffective administrative leadership have negatively affected the audit outcomes of some auditees. Neither administrative nor political leadership adequately addressed the matters that prevent auditees from progressing towards clean audits. The weaknesses in leadership practices at some auditees include the following:</p> <ul style="list-style-type: none"> • Failure to implement formal codes of conduct and periodically communicate to officials their existence and continued applicability. • Failure to monitor the performance of key officials relating to the maintenance of adequate systems of internal control that ensure credible monthly financial reporting, reliable reporting against PDOs and compliance with laws and regulations. • Failure to establish clear lines of accountability. • Corrective/disciplinary action not taken against key officials for misconduct. • Failure to honour commitments made for interventions following the 2010-11 audit outcomes. • The awarding of contracts to employees, close family members of employees and other state officials. 															

Driver no. 1: Leadership	Departments	Assessment of driver (all auditees)	Public entities												
<p>Exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations and related internal controls.</p>		 <table border="1" data-bbox="1043 217 1805 328"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>38%</td> <td>36%</td> <td>26%</td> </tr> <tr> <td>2010-11</td> <td>50%</td> <td>28%</td> <td>22%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	38%	36%	26%	2010-11	50%	28%	22%	
Year	Green (%)	Yellow (%)	Red (%)												
2011-12	38%	36%	26%												
2010-11	50%	28%	22%												
<p>Leadership at auditees who failed to make progress and those whose outcomes have regressed has not effectively exercised their oversight responsibility with regard to financial and performance reporting and compliance with applicable laws and regulations.</p> <p>Lapses in effective oversight include the following:</p> <ul style="list-style-type: none"> • Not exerting a positive influence on the control environment. • Not ensuring that auditees appoint suitably qualified staff to perform essential duties related to financial and performance reporting. • Not periodically reviewing progress made by management in addressing external audit findings. • Not monitoring controls. • Not addressing the root causes of repeated qualifications of financial statements, findings on reporting against PDOs as well as findings on non-compliance with laws and regulations. • No insisting (i) on receiving credible monthly financial statements, (ii) that proper accounting records be maintained, (iii) that key reconciliations are periodically prepared, and (iv) the accuracy of reported information is independently verified. 															
<p>Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.</p>		 <table border="1" data-bbox="1043 844 1805 956"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>52%</td> <td>33%</td> <td>15%</td> </tr> <tr> <td>2010-11</td> <td>58%</td> <td>30%</td> <td>12%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	52%	33%	15%	2010-11	58%	30%	12%	
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2011-12	52%	33%	15%												
2010-11	58%	30%	12%												
<p>An assessment of findings arising from the audit of human resource management is presented in section 3.2 of this general report</p>															

Driver no. 1: Leadership	Departments	Assessment of driver (all auditees)	Public entities												
Establish and communicate policies and procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities.		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green</th> <th>Yellow</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>51%</td> <td>34%</td> <td>15%</td> </tr> <tr> <td>2010-11</td> <td>58%</td> <td>27%</td> <td>15%</td> </tr> </tbody> </table>	Year	Green	Yellow	Red	2011-12	51%	34%	15%	2010-11	58%	27%	15%	
Year	Green	Yellow	Red												
2011-12	51%	34%	15%												
2010-11	58%	27%	15%												
<p>Policies and procedures to address areas of risk, to achieve desired internal control objectives and to guide the operations of auditees still require improvement at many auditees. Matters that specifically need to be addressed include the following:</p> <ul style="list-style-type: none"> • The effective implementation of documented policies and procedures. • Many auditees have not put in place policies specifically providing guidelines and directives for the collection, processing and validation of performance information. • Policies and procedures are not in place to ensure compliance with the laws and regulations. • Auditees whose policies and procedures are still in draft should prioritise their finalisation and monitor compliance once approved. . 															
Develop and monitor the implementation of action plans to address internal control deficiencies.		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green</th> <th>Yellow</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>50%</td> <td>35%</td> <td>15%</td> </tr> <tr> <td>2010-11</td> <td>58%</td> <td>30%</td> <td>12%</td> </tr> </tbody> </table>	Year	Green	Yellow	Red	2011-12	50%	35%	15%	2010-11	58%	30%	12%	
Year	Green	Yellow	Red												
2011-12	50%	35%	15%												
2010-11	58%	30%	12%												
<p>Specific action plans are required to address internal control deficiencies and improve audit outcomes. Matters requiring attention include the following:</p> <ul style="list-style-type: none"> • Setting action plans to specifically address the external and internal audit findings. Some action plans did not address the root causes of audit findings and therefore did not prevent repeat findings. • Staff members were not assigned responsibility to carry out these action plans. • Ineffective monitoring to ensure that the responsibilities assigned were carried out effectively and consistently. • Some auditees' action plans were developed too late in the financial year to resolve matters by year-end. • Action plans do not address all three facets of audit outcomes, namely qualifications, findings on PDO reporting and compliance with laws and regulations. 															
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green</th> <th>Yellow</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>49%</td> <td>34%</td> <td>17%</td> </tr> <tr> <td>2010-11</td> <td>55%</td> <td>29%</td> <td>16%</td> </tr> </tbody> </table>	Year	Green	Yellow	Red	2011-12	49%	34%	17%	2010-11	55%	29%	16%	
Year	Green	Yellow	Red												
2011-12	49%	34%	17%												
2010-11	55%	29%	16%												
An assessment of information technology controls is presented in section 3.3 of this general report															

Driver no. 2: Financial and performance management	Departments	Assessment of driver (all auditees)	Public entities												
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.		 <table border="1" data-bbox="1043 229 1812 341"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>53%</td> <td>28%</td> <td>19%</td> </tr> <tr> <td>2010-11</td> <td>62%</td> <td>23%</td> <td>15%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	53%	28%	19%	2010-11	62%	23%	15%	
Year	Green (%)	Yellow (%)	Red (%)												
2011-12	53%	28%	19%												
2010-11	62%	23%	15%												

Proper record keeping is an essential step towards achieving clean audit outcomes as it ensures that the information reported can be substantiated and verified. It also empowers senior management to hold staff accountable for their actions. An adequate system of record keeping requires that senior management establish adequately developed and communicated policies to ensure that staff align their actions with the entity's objectives. A key objective of maintaining a formal and reliable system of record keeping is to have documentation readily available when requested.

Most auditees' financial and performance systems have not yet reached the level of maturity where information is centrally available and evidence to support major decisions is readily available. The root causes include the following:

- A lack of document management policies.
- Poor monitoring of those policies by management where policies do exist.
- A lack of willingness by leadership to implement those commitments that were made to specifically address the recurring instances of missing and incomplete supporting information.
- A lack of management of documentation to support the reported performance against PDO.

Driver no. 2: Financial and performance management	Departments	Assessment of driver (all auditees)	Public entities												
Implement controls over daily and monthly processing and reconciling of transactions.		 <table border="1" data-bbox="1043 916 1812 1027"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>54%</td> <td>31%</td> <td>15%</td> </tr> <tr> <td>2010-11</td> <td>63%</td> <td>23%</td> <td>14%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	54%	31%	15%	2010-11	63%	23%	14%	
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2011-12	54%	31%	15%												
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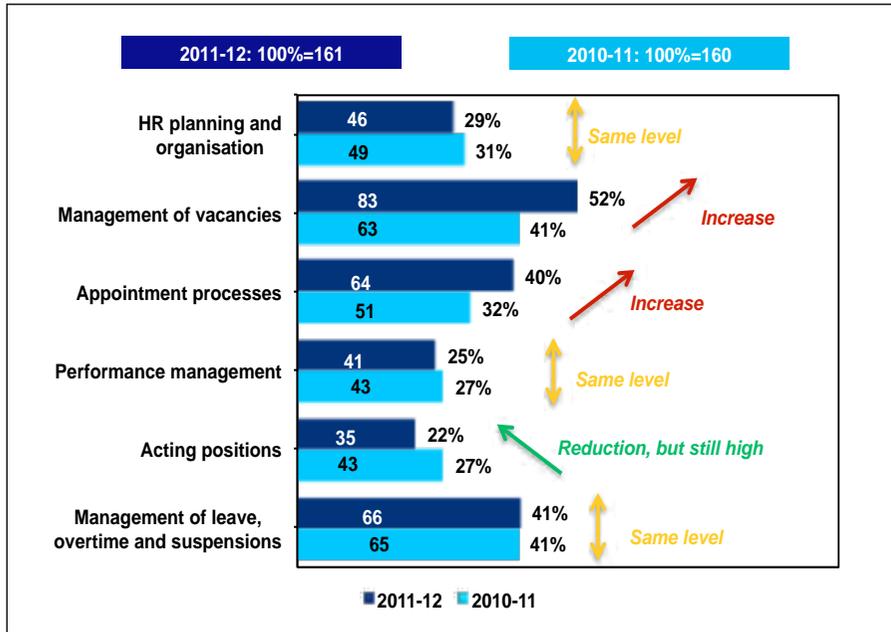
Driver no. 2: Financial and performance management	Departments	Assessment of driver (all auditees)	Public entities												
<p>Auditees that improved or sustained their audit outcomes were found to effectively monitor daily and monthly processing and reconciling of transactions. Auditees that improved on reconciliation processes and reconstruction of fixed assets register were able to resolve audit qualifications. Monthly reconciliations and clearing of suspense accounts provide the platform for reliable in-year financial reporting and the early detection of errors in and omissions from financial and performance reporting.</p> <p>Poor and deteriorating controls which negatively impacted on audit outcomes included the following:</p> <ul style="list-style-type: none"> • Key controls were not reviewed and monitored on a daily, weekly and monthly basis. • Assets were not verified at least on a quarterly basis to ensure that asset registers are reliable, which resulted in errors being detected only when an audit is performed. • Auditees did not ensure that controls such as the following are in place: <ul style="list-style-type: none"> – Daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliation of key accounts. – Collection of performance information at intervals that are appropriate for monitoring of set service delivery targets and milestones and validation of recorded information. – Management of contracts and the commitments relating to such contracts. – Confirmation that legislative requirements and policies have been complied with prior to initiating transactions. 															
<p>Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</p>		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>41%</td> <td>34%</td> <td>25%</td> </tr> <tr> <td>2010-11</td> <td>49%</td> <td>30%</td> <td>21%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	41%	34%	25%	2010-11	49%	30%	21%	
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2011-12	41%	34%	25%												
2010-11	49%	30%	21%												
<p>Only when the in-year preparation and independent review of financial statements and performance information become an established practice will the quality of financial statements submitted for audit significantly improve and findings resulting from material misstatements in financial statements and performance reports be eliminated.</p> <p>The following matters contribute to poor audit outcomes due to errors in and omission of information which cannot all be corrected when the annual audit has commenced, resulting in qualifications or material PDO findings:</p> <ul style="list-style-type: none"> • The practice of regular internal reporting is not fully embedded at most auditees to ensure self-monitoring, thereby reducing the likelihood of producing financial statements that attract qualifications when audited, or findings on the usefulness and/or reliability of performance information. • Leadership does not insist on receiving in-year financial and performance reports that are independently validated, as well as reports on legislative requirements having being met. • Finance staff lack an adequate understanding of the reporting framework, resulting in them not being able to draft the required disclosure notes to the financial statements. • Over-reliance on consultants to assist auditees in achieving an unqualified audit opinion. 															

Driver no. 2: Financial and performance management	Departments	Assessment of driver (all auditees)	Public entities												
Review and monitor compliance with applicable laws and regulations.		 <table border="1" data-bbox="1043 228 1809 336"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>40%</td> <td>35%</td> <td>25%</td> </tr> <tr> <td>2010-11</td> <td>51%</td> <td>27%</td> <td>22%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	40%	35%	25%	2010-11	51%	27%	22%	
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2010-11	51%	27%	22%												
<p>Management should conduct regular monitoring to ensure that appropriate controls are in place with a view to consistent compliance with all applicable laws and regulations as a significant number of auditees remain in the 'unqualified with findings on non-compliance' category. Leadership should focus on the regular monitoring of common areas of non-compliance and the effective implementation of checklists to ensure compliance before transactions are concluded and not after payments have been made.</p> <p>Findings on non-compliance with applicable laws and regulations are the result of matters that commonly include the following:</p> <ul style="list-style-type: none"> • Management and governance structures have not established their own processes to identify all existing legislation applicable to their departments and public entities. • Instances that point to a deliberate disregard for laws and regulations. • Certain cases where management fails to demonstrate any commitment to ensure compliance with the relevant laws and regulations. • There appears to be no appreciable consequences for officials who fail to comply with laws and regulations to which departments and public entities are subject or for officials who fail to discharge their legislated duties. • While many auditees do have policies and procedures in place to monitor compliance with laws and regulations, monitoring should take place at more frequent intervals, such as on a monthly basis, by dedicated/designated staff members with a view to detecting, or preferably preventing, non-compliance. 															
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (Information systems).		 <table border="1" data-bbox="1043 911 1809 1019"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>44%</td> <td>37%</td> <td>19%</td> </tr> <tr> <td>2010-11</td> <td>50%</td> <td>33%</td> <td>17%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	44%	37%	19%	2010-11	50%	33%	17%	
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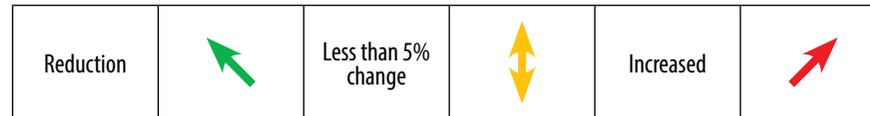
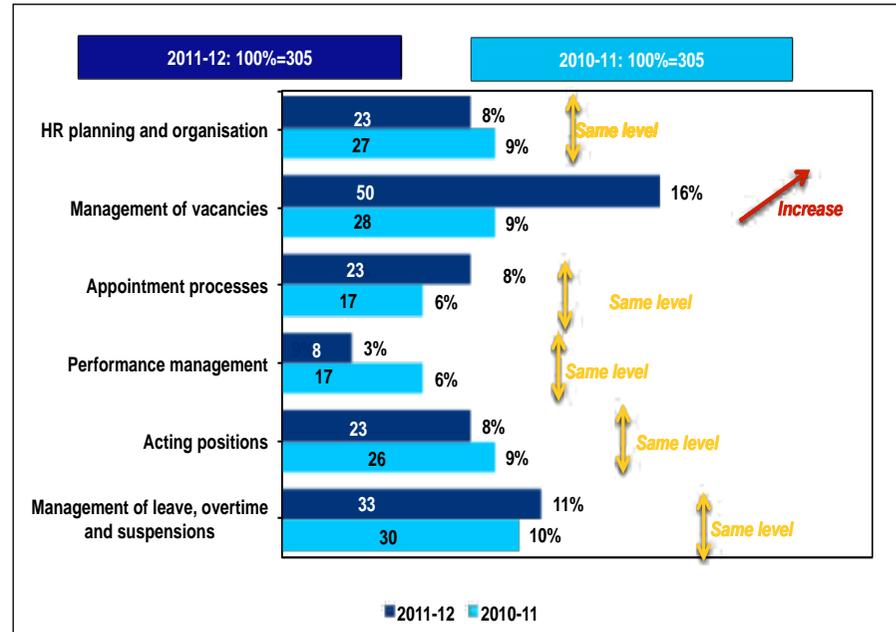
Driver no. 3: Governance	Departments	Assessment of driver (all auditees)	Public entities
<p>Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.</p>			
<p>Risk management is the practice of identifying, assessing and prioritising risks and developing risk management plans which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability in respect of financial reporting and reporting on achievements against PDOs (service delivery)</p> <p>Risk management activities that require attention from leadership, management and governance structures of departments and public entities include the following:</p> <ul style="list-style-type: none"> • A lack of risk assessments and risk management strategies that sufficiently cover financial reporting, reporting on achievements against PDOs and consistent compliance with applicable laws and regulations. • IT risk plans and fraud prevention plans were inadequately implemented. • Risk management strategies were developed but not appropriately implemented and monitored. • A significant number of auditees could not provide sufficient adequate evidence that their IT risks such business continuity, IT governance and user access management are well managed. This has a significant impact on auditees' ability to achieve excellent public administration as most transactions are now initiated through a computer, processed and reported by computerised application. • Auditees' risk assessment results do not inform the work plans of internal audit and the agendas of audit committees. 			
<p>Section 3.5 of this report provides an assessment of the effectiveness of internal audit units</p>			
<p>Ensure that an adequately resourced and functioning internal audit unit is in place that identifies internal control deficiencies and recommends corrective action effectively.</p>			
<p>Section 3.5 of this report provides an assessment of the effectiveness of audit committees</p>			
<p>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.</p>			

3.2 EFFECTIVE HUMAN RESOURCE MANAGEMENT AS A SPECIFIC DRIVER OF AUDIT OUTCOMES

Departments



Public entities



Findings arising from the audit human resource management

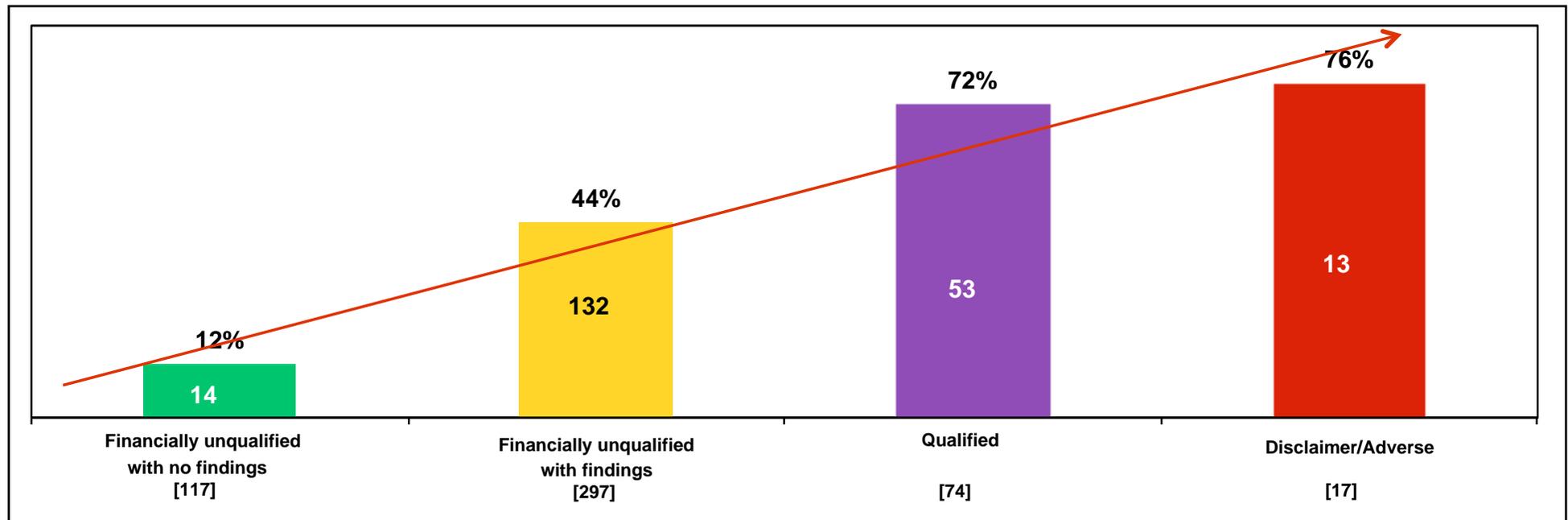
Effective HR management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are properly managed.

As in previous years, ineffective HR management was identified as one of the significant root causes of qualification findings, findings on reporting against PDOs and findings on compliance (as detailed in sections 2.2 to 2.4). For the past two years the audits of all departments and those public entities subject to the PFMA included a specific focus on HR management. The assessment of HR management focused on the following areas: • HR planning and organisation • management of vacancies • appointment processes • performance management • acting positions • management of leave, overtime and suspensions

This assessment was performed at all departments for the past three years, and for public entities subject to the PFMA and legislatures in the past two years. Findings arising from the assessment were reported in the management reports of 45% of the auditees that were included in the scope, while at 19% of them the findings were material enough to warrant reporting in the auditor's report. The progress made by auditees in addressing weaknesses in the main areas of HR management is **depicted earlier**.

The figure below demonstrates that auditees with a high rate of HR findings have poorer audit outcomes than those that maintain sound HR management.

Figure 22: Correlation between auditees with human resource findings and their audit outcomes



HR findings are more prevalent at departments than at public entities. Key findings from the audits are summarised below.

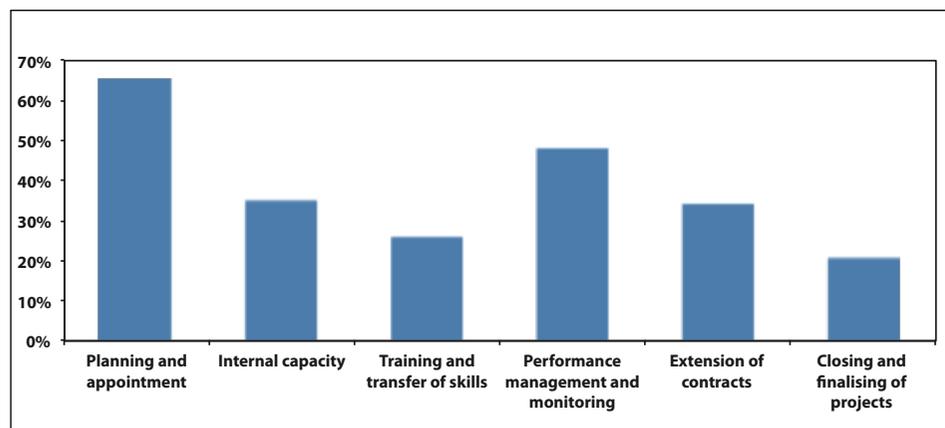
Aspects	Indicator	Detailed findings
Vacancy management - General		<p>At year-end the average vacancy rate for departments was 23% and for public entities 11%.</p> <p>For 91% of auditees, the overall vacancy rate at year-end remained unchanged or decreased in comparison with the previous year. The same percentage of auditees was also able to maintain or decrease their year-end senior management vacancy rate.</p> <p>The number of auditees that had findings on their level of vacancies and/or the time it takes to fill the vacancies increased since the previous year and remains the most challenging area.</p>
Departments - Vacant senior management positions		<p>Although the vacancy rates at national and provincial government overall is at an acceptable level, the time it takes to fill vacancies in senior managements positions has the biggest impact on audit outcomes. This weakness is more prevalent at departments.</p> <p>Although it is acknowledged that it can take time to recruit and appoint people with the necessary skills and competence in these positions, some senior management positions at 51 (31%) of departments took more than 12 months to fill while 26 (16%) did not advertise vacant senior management positions within six months of the position becoming vacant, which points to weaknesses in the management of these vacancies.</p> <p>In total 46% of departments that received qualified or disclaimed audit opinions experienced long vacancies at senior management level and 35% of them had not advertised the vacancies timeously.</p>

Aspects	Indicator	Detailed findings
Vacancies in the finance sections		Key financial positions were vacant for longer than 12 months at 24% of auditees that received qualified or disclaimed audit opinions.
Departments - Acting positions		<p>At 21 (12%) of the departments the acting periods in senior manager positions were for longer periods than the accepted benchmark of six months. At 29 (18%) of the departments employees acted in positions for longer than 12 months, in contravention of the public service regulations (PSR).</p> <p>Officials acting in positions tend not to take on the full responsibility, functions and powers for the post, with a lower commitment to the deliverables as a result of the temporary nature of the position.</p>
Departments - Performance management		<p>Performance agreements are a requirement in terms of the Public Service Act and regulations at departments for staff at all levels. It is regarded as best practice to ensure that staff are aligned with the organisational objectives and to manage performance.</p> <p>In spite of a specific focus by the Department of Public Service Administration and the Presidency on performance management, senior managers were identified at 37 (23%) departments who did not have performance agreements or whose agreements had not been signed timeously.</p> <p>Poor performance management at senior management levels was identified at 37% of the departments that received qualified or disclaimed audit opinions.</p>

Aspects	Indicator	Detailed findings
Departments – Human resource planning and organisation		<p>The basis for effective HR management is the planning of human resources to deliver on the strategy of the auditee and determining the organisational structure based on the plan.</p> <p>In spite of it being a requirement in terms of the PSR, 28 (17%) departments do not have HR plans in place, 10 (6%) do not have approved organisational structures and, of those departments where organisational structures have been established, 7% are not aligned to their strategic plans.</p>
Departments – Verification processes		<p>Verification of the qualifications, criminal records, citizenship and previous employment of candidates is a legislative requirement for departments.</p> <p>As in the previous year, 61 (39%) departments continue to either disregard these requirements or face challenges in fully implementing them. Inadequate verification and prescribed selection and approval processes for new appointments create the risk that persons without the necessary qualifications, experience and ethical standards will be appointed, which in turn has a direct effect on the auditees' capacity to deliver.</p>

Aspects	Indicator	Detailed findings
Departments – Management of leave, overtime and suspensions		<p>Findings on the management of leave, overtime and suspensions reflect the ability of departments to manage the productivity of the personnel. The top three findings in this area are as follows:</p> <p>Employees were paid overtime for more than the maximum hours allowed – 25 (15%) departments</p> <p>Employees did not submit medical certificates for sick leave – 25 (16%) departments</p> <p>Employees were suspended on full pay for longer than the prescribed period – 20 (12%) departments.</p> <p>Accounting officers have a responsibility to ensure that staff do not abuse sick leave. The submission of medical certificates for prolonged periods of sick leave is a measure to prevent such abuse and is a basic control that is expected to be in place at all auditees.</p> <p>Overtime should also be controlled to prevent employees from working more hours than their conditions allow and to prevent abuse thereof by staff in order to supplement their income.</p> <p>The investigation and disciplinary processes should be finalised timeously for employees who are suspended on full pay in order for them to resume their duties or to commence the recruitment process if their services are terminated.</p>

3.3 FINDINGS ARISING FROM PERFORMANCE AUDITS ON THE USE ON CONSULTANTS AT SELECTED GOVERNMENT DEPARTMENTS



It is common practice at auditees to appoint consultants from the private sector to supplement their HR capacity. The AGSA conducted a performance audit on the use of consultants by eight national departments to assess the economy, efficiency and effectiveness of 124 consultancy projects with an estimated value of R5,5 billion out of the total estimated contract values of R24 billion. The audit covered the period 2008-09 to 2010-11. **The figure above highlights the main areas in which the performance audit identified deficiencies.**

In the current economic environment, the partnership between the private and public sectors has become important in driving South Africa towards its development goals. To optimise the value of this partnership, the report identified areas that need to be controlled to get the best value for money. The termination of consultancy services in the public sector is not advocated, but attention is drawn to those areas where the use of consultants duplicates existing costs incurred, and where value for money spent on consultancy services was not secured. Although some departments experience serious challenges, others demonstrated the ability to succeed in certain areas. The good practices applied should be shared

with other departments to promote clean administration.

The performance audit report indicated instances of inadequate planning, high turnover of employees in key positions, inadequate financial and performance management and ineffective governance arrangements, which adversely affected the economical, effective and efficient use of consultants. Key findings in this regard are presented below.

Aspect of the audit	Summary of findings
Economy	Consultants were not always appointed in a manner that ensured projects were implemented in the most economical manner. At times, competitive procurement processes were not followed. Consultants were also sometimes appointed in areas where internal capacity was available or where the establishment of a permanent capacity to perform these functions may have been more cost-effective. Contracts were regularly extended and consultants were paid more than contractually agreed.
Efficiency	Proper cost/benefit analyses were not always performed before consultants were appointed, while project management to ensure that consultants met project deliverables on time was lacking in various instances. In many cases, milestones and timelines were not set, deliverables were not clear, measurable and specific, and roles and responsibilities were not defined. The actual work performed by consultants was not always properly monitored, which adversely affected the achievement of deliverables.
Effectiveness	Set objectives were not always met where deliverables were completed late. Furthermore, prolonged processes for the approval of project deliverables raised the risk that such projects could become obsolete or irrelevant. In addition, departments did not always plan in advance to provide financial and other resources necessary to enable the implementation of the deliverables.

In total, approximately R102 billion was spent on consultants by national and provincial departments in the last three financial years (2008-09, 2009-10 and 2010-11). In light of this substantial amount, the issues raised require urgent attention.

The outcomes of this audit have been shared with the ministers, chairpersons of portfolio committees and management of the audited departments. The National Assembly House chairperson, the chairpersons of the portfolio committees on Appropriations, Finance and Public Service and Administration, as well as the Department of Public Service and Administration, the Public Service Commission and the National Treasury were also informed of the findings in light of their respective supporting and coordinating roles.

National departments responded positively and have made a number of commitments, key among them being the institution of immediate action to address the findings and recommendations identified in the report. Most notably, the departments audited committed to the following:

Exercising greater control over the use of consultants in areas where capacity of a permanent nature is required. Departments indicated that the prescripts issued by the National Treasury and the Department of Public Service and Administration would be adopted and customised

- Ensuring compliance with SCM practices and contract administration
- Providing sufficient internal capacity to enable delivery on their mandate
- Monitoring staff development and training through the transfer of skills
- Monitoring the performance of consultants to ensure that contractually agreed deliverables are met
- Granting extensions of contracts only in exceptional cases and for valid and documented reasons
- Enforcing the procedures for concluding consultancy contracts.

Ministers and chairpersons of portfolio committees welcomed the report as a tool to enhance their oversight activities.

3.4 INFORMATION TECHNOLOGY MANAGEMENT AS A KEY DRIVER OF AUDIT OUTCOMES

Information technology (IT) controls that ensure the confidentiality, integrity and availability of data need to be properly designed and implemented and have to function effectively to maintain the operational integrity of the state, enable service delivery and promote national security.

It is thus essential for good IT governance, effective IT management and a secure IT architecture / infrastructure to be in place.

The following diagram provides a consolidated view of the status of IT across national departments and public entities, based on our audit outcomes:

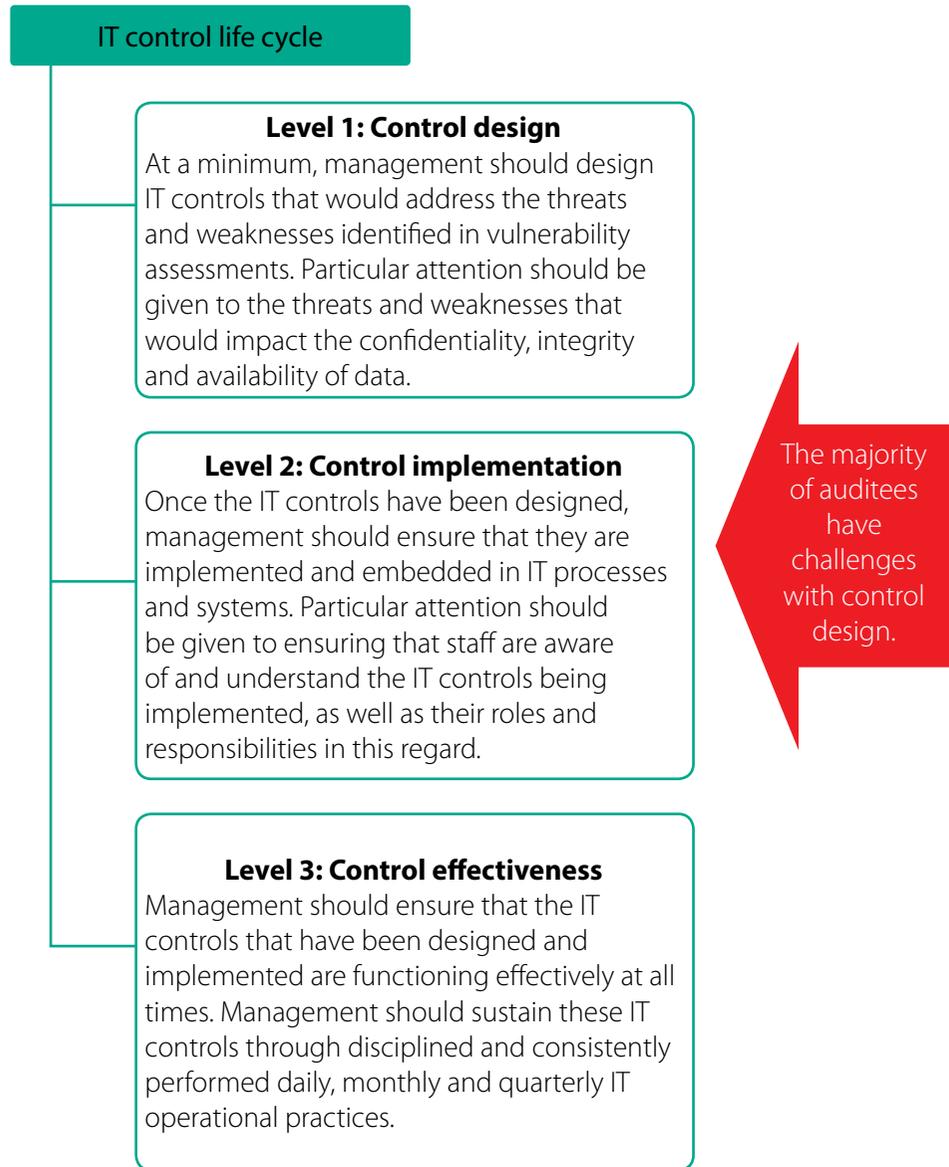
Figure 23: Status of information technology across national departments and public entities

	CONFIDENTIALITY	INTEGRITY	AVAILABILITY
Status of state information	The necessary level of secrecy is enforced for all state information. This was assessed by auditing the following focus areas: <ul style="list-style-type: none"> • Security Management • IT governance • User access controls 	All state information is authentic and remains unaltered until authorised to change and is complete. This was assessed by performing data analytics and auditing the following focus areas: <ul style="list-style-type: none"> • Security Management • User access controls 	All state information is ready for use when expected. This was assessed by auditing the following focus areas: <ul style="list-style-type: none"> • Security management • IT service continuity
Status of key enabling controls	GOOD GOVERNANCE EFFECTIVE MANAGEMENT SECURE ARCHITECTURE/INFRASTRUCTURE		

Management intervention required

IT controls typically move through a life cycle that includes the three stages of design, implementation and effectiveness.

Figure 24: Typical information technology control life cycle



3.4.1 Information technology governance

Delays in the approval, roll-out and implementation of a government-wide IT governance framework resulted in the IT governance processes depicted in the diagram below not being implemented effectively in the majority of national departments and entities. These governance processes are based on the framework endorsed by the Department of Public Service and Administration (DPSA) and the Government Information Technology Officers Council (GITOC).

Figure 25: Information technology governance processes

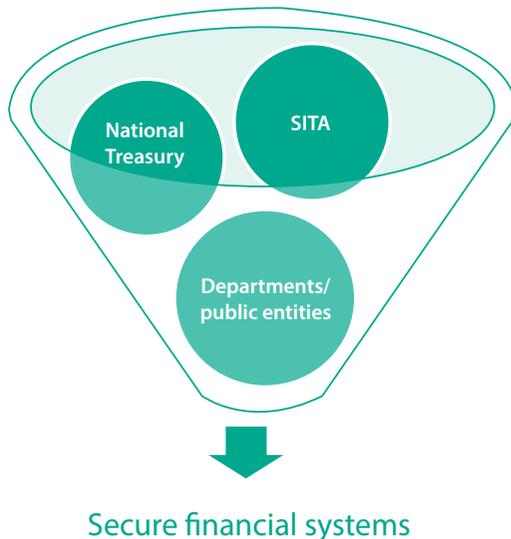


3.4.2 Summary of weaknesses identified in the management of financial information systems

The transversal financial systems used by national government departments, i.e. the Basic Accounting System (BAS), the Personnel and Salary System (Persal) and the Logistical Information System (Logis), are hosted by the State Information Technology Agency (SITA). SITA is responsible for establishing and maintaining security controls over the network that connects these systems with the national government departments. SITA also ensures that information from the departments that is processed on these systems is centrally backed up. The National Treasury (NT) is responsible for ensuring that programmatic changes to these systems are managed and controlled. In contrast, public entities utilise various financial systems and manage these on their own with no intervention from either NT or SITA.

Adequate coordination between SITA, NT and government departments and public entities would contribute towards ensuring a secure IT environment for financial systems.

Figure 26: Key role players in ensuring a secure information technology environment

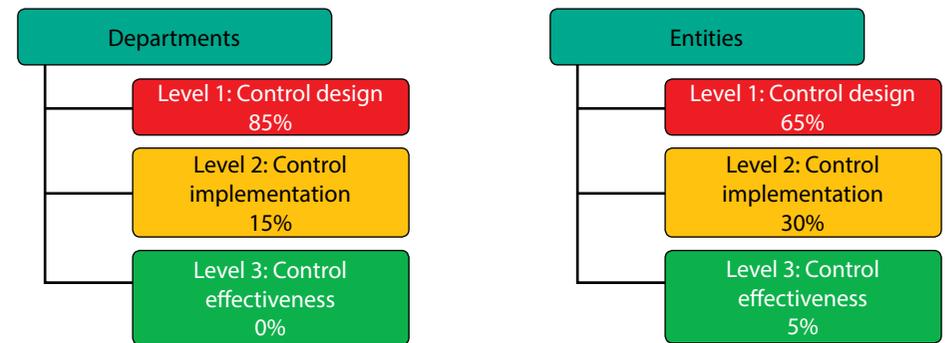


IT controls were assessed at 40 national departments and 109 public entities. An analysis of the audit outcomes indicated that the majority of departments and entities experienced challenges with the design and implementation of IT controls that provide assurance of the confidentiality, integrity and availability of financial information.

Weaknesses specific to focus areas have been summarised below:

3.4.2.1 Program change management

Figure 27: Control weaknesses in program change management



- National Treasury**

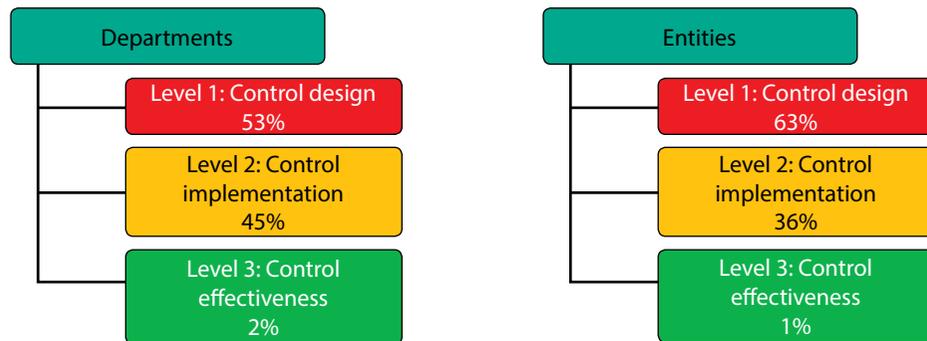
Program and data change controls were adequately designed and implemented and operated effectively on the BAS and Logis systems. However, the controls governing the correction of personnel records on the Persal system were not adequately designed. The risk of unauthorised changes being made to personnel and financial information was compounded by inherent weaknesses such as the ageing technology of the transversal systems.
- Departments and entities**

Program and data change controls for public entities were not adequately designed. As a result, changes were implemented that had not been approved or tested.

Inadequate segregation of duties stemming from programmers having permanent access to the live environments of the transversal and non-transversal systems at both departments and public entities resulted in management not always being empowered to ensure the integrity of personnel and financial information.

3.4.2.2 Security management

Figure 28: Control weaknesses in security management



- **State Information Technology Agency**

Significant control deficiencies related to encryption, Internet security and firewall configurations were identified on SITA's network. These control deficiencies could impact on the security of the financial systems used by government departments.

Formal information security policies and standards had not been designed for the network infrastructure.

Information security responsibilities for the infrastructure that supports the network environment had also not been assigned to an information security officer.

The security measures were therefore inadequate to protect the confidentiality, integrity and availability of the financial, performance and personnel information stored by SITA on behalf of all government departments.

- **Departments and entities**

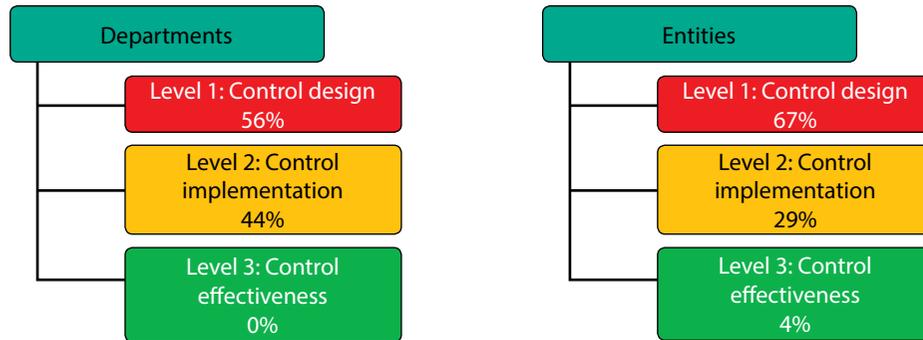
As a result of the lack of formally designed and implemented information security policies and standards, effective security controls were not in place, which gave rise to the following weaknesses:

- Firewalls were not securely configured.
- Antivirus software and patches were not updated.
- Password controls were not adequately configured.

The weak security control environment was in a number of instances exploited to gain unauthorised access.

3.4.2.3 User access management

Figure 29: Control weaknesses in user access management

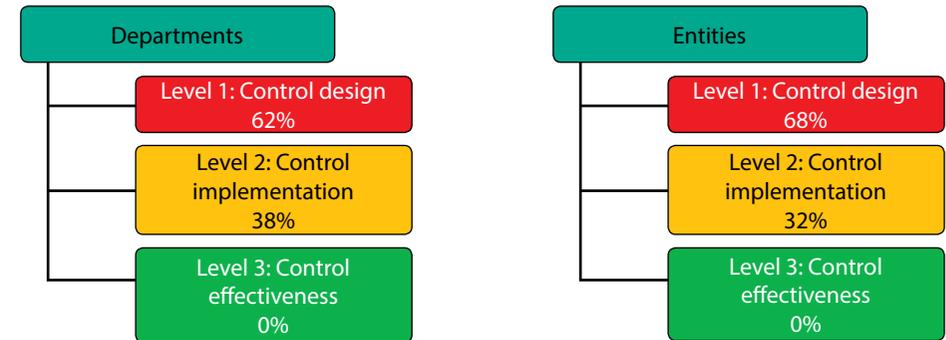


The lack of implementation of user access controls gave rise to the following weaknesses:

- Users who left organisations were not removed from systems in a timely manner.
- User access profiles used to initiate and approve financial and HR transactions were not continuously monitored to ensure that only authorised access would be given to users.
- Users were created on systems without supporting documentation.
- User passwords were reset without supporting documentation.
- System controller access that allowed a person to perform the above actions was not monitored to ensure that only authorised transactions were performed.

3.4.2.4 Information technology service continuity

Figure 30: Control weaknesses in information technology service continuity



- Business continuity plans had not been designed to ensure that all critical business processes supported by IT systems would be identified and included in a recovery plan. This gave rise to the risk of misalignment between business expectations and IT recovery processes, as departments and public entities might not be able to recover information systems services to enable the timely resumption of business in the event of a business disruption and IT disaster. This risk was elevated by the lack of disaster recovery testing that would establish recovery capabilities.
- Disaster recovery plans that could be invoked to recover IT systems to a normal operating state in the event of a disaster had not been documented for departments and entities. The risk of data loss was further increased by the inconsistent performance of recovery disciplines, such as daily backups, off-site storage and periodic data restoration tests. For entities, the lack of a centralised disaster recovery facility, such as that provided by SITA for the departments, increased the risk of business continuity and data recovery not being possible in the event of a disaster.

3.4.3 Project risks in developing or implementing major systems in government

Trends were noted in entities and legislatures embarking on the implementation of Enterprise Resource Planning (ERP) systems from vendors such as Oracle and SAP. While the implementation of these systems is not necessarily problematic, the status of the current IT environment elevates certain key risks related to their deployment, as the following examples will illustrate.

Figure 31: Examples of information technology project risks elevated by the status of the current environment

Pre-initiation

- Not having a business case, or having a poorly developed business case, could result in questionable project decisions, intended business objectives not being met, incorrect solution selection and inaccurate budgeting. Further, there is a risk of functionality in existing systems being duplicated.
- The lack of engagement with users in defining their requirements could result in an inadequate system that does not meet all business needs.
- The lack of appropriate executive and/or senior leadership involvement from the outset could result in poor oversight and management of the project.

Initiation

- Not having a project management and governance framework, or having one that is inadequate, may result in poor management and control of project deliverables and risks.
- Inadequate stakeholder identification and engagement could result in unnecessary delays during subsequent project implementation phases.

Planning

- A lack of input from subject matter experts/users could result in inadequate planning, poor technology selection and inadequate management of critical success factors related to project costs, quality and schedule.
- Risks related to implementation scope, procurement, human resources, communication, information security, end-user acceptance, integration and change management may also be poorly managed.

Execution

- Insufficient resources and/or a lack of suitably skilled resources could result in dependency on consultants and delays in execution.

Monitoring and control

- Ineffective project leadership and governance, a lack of continuous risk and internal audit assurance oversight and a lack of compliance with established project implementation disciplines could result in projects not meeting business objectives.
- Poor contract management could result in project delays, budget overruns, inferior quality and a lack of proper scope management.

Closing and operations

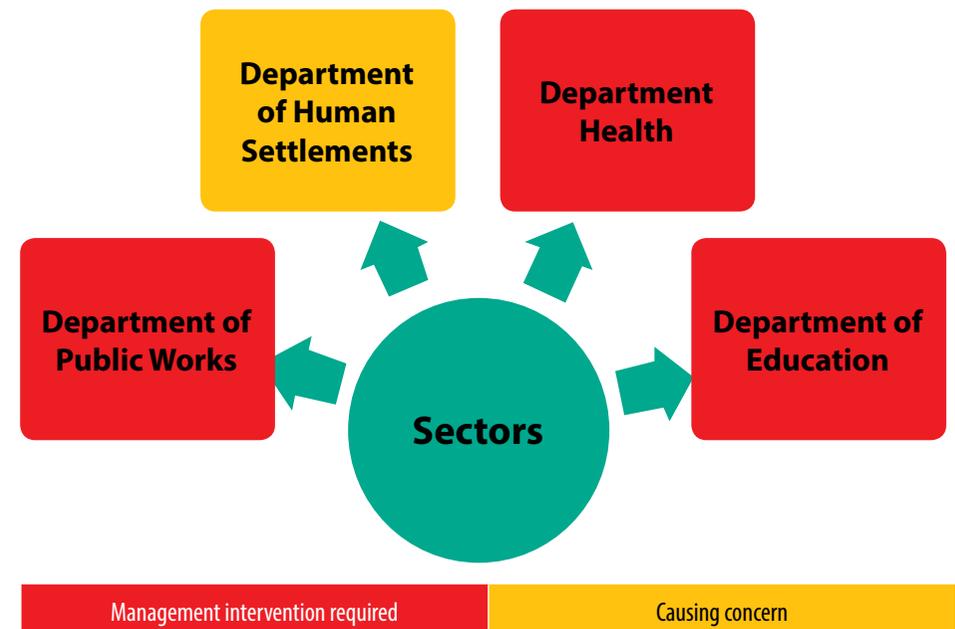
- Inadequately planned project handover processes could result in operations teams not having the capability or capacity to support the system once it has been implemented.
- Inadequate operations and maintenance planning could impact the sustainability of the solution and long-term benefits realisation.

3.4.4 Summary of identified weaknesses in the management of performance information systems

Framework 86 of 2007 was compiled by the National Treasury for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the systems used by the provincial departments for reporting on the achievement of predetermined objectives. IT controls that ensure the confidentiality, integrity and availability of performance data need to be properly designed and implemented and have to function effectively to maintain the operational integrity of the state and enable service delivery.

The following diagram provides a consolidated view of the status of performance information systems for the sectors audited:

Figure 32: Status of performance information systems controls



3.4.4.1 Department of Public Works

Mandate of the department

The core responsibility of the Department of Public Works is to provide land and accommodation to government departments and institutions. Various information systems are used to maintain and protect the confidentiality, integrity and availability of information, in line with the programmes that form part of the department's annual performance plans, namely Programme 2 (Immovable assets investment management) for lease management and Programme 3 (Expanded Public Works Programme (EPWP) for job creation. This information includes the billing of government departments and payment of landlords.

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

Weaknesses identified in the Property Management Information System (PMIS), which supports the process of lease management for creating job opportunities:

- Inconsistencies were noted in the preventative and processing controls developed to ensure that valid and complete lease information would be captured and processed on the PMIS. The risk of fraud and overpayment was further increased by the changes being made to captured lease agreements without supporting evidence to indicate who effected the changes. These inconsistencies can be attributed to ageing technology and the delayed implementation of the iE-Works implementation project that has been in development since 2005 with only 16% of the deliverables completed, despite the project having exceeded its budget by 120%.

The Work-based System (WBS) and the Management Information System (MIS), which are used to report on the beneficiaries of the Expanded Public Works Programme (EPWP), did not have preventative controls to ensure that beneficiaries:

- have valid South African identity numbers
- are not already employed
- are paid the correct wages.

Mandate of the department

The core responsibility of the Department of Human Settlements is to provide housing and give housing assistance to qualifying individuals. The Housing Act, Act No. 107 of 1997, requires the establishment and maintenance of a national housing databank and a national housing information system. In compliance with the act, the Department of Human Settlements uses the Housing Subsidy System (HSS) to manage and administer housing subsidies in line with Programme 3 (Housing development) of the National Housing Code.

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

The HSS is a centralised system used to manage housing subsidies.

Control weaknesses within the HSS:

- Management tended to follow manual processes when allocating houses instead of using the system processes that have controls to ensure that houses are allocated to approved beneficiaries.
- The risk of management system overrides was further increased by the lack of standardised business processes across the nine provinces.

Control weaknesses surrounding the HSS:

- Improvements were noted in the centralised provinces (Free State, Gauteng, KwaZulu-Natal, Northern Cape, Limpopo and Mpumalanga), with the exception of the monitoring of user access control, which remained a concern.
- Concerns were noted in the decentralised provinces (Western Cape, North West and Eastern Cape). Specific red flags raised in the Eastern Cape related to user access controls and in the North West included all focus areas audited (i.e. security management, user access controls, IT service continuity). The risks of unauthorised access and data being irrecoverable in the event of a business disruption or IT disaster were exacerbated by the fact that these provinces are responsible for monitoring their own controls, in contrast to the centralised provinces that are monitored by the national department.

3.4.4.3 Department of Health

Mandate of the department

The core responsibility of the Department of Health is to plan, provide and monitor health care services in the country. This includes primary health care services at district level and tertiary health care services at hospital level. Various information systems, such as the District Health Information System (DHIS), are used to collect aggregated anonymous statistical data regarding health facilities from provincial departments, districts and sub-districts in support of the programmes that form part of the department's annual performance plans, namely Programme 2 (District Health Service) and Programme 4 (Provincial hospital services). The data is used to facilitate the planning of health needs in the country.

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

Control weaknesses noted within the DHIS:

- Consolidation controls for data received from the provinces were inadequate as manual interventions were possible and no verification processes were in place to ensure the accuracy, validity and completeness of data. Reporting on information such as the number of patients treated, the number of health professionals employed and the number of health care facilities might consequently not be accurate.
- The lack of an integrated data recovery plan for facilities and provinces could, in instances of data corruption or loss, impact on the completeness and availability of consolidated data at the national department. Information on, for example, the number of hospitals to be built or the number of clinics to be provided with water, electricity and sanitation facilities might therefore not be available.

3.4.4.4 Department of Education

Mandate of the department

The core responsibility of the Department of Basic Education is to plan, provide and monitor basic education services in the country. This includes Grade R, primary schools and secondary schools. The department utilises the Education Management Information System (EMIS) to collect aggregated anonymous statistical data regarding the number of learners at education facilities, in line with the programmes that form part of the department's annual performance plans, namely with Programme 4 (Planning Information and Assessment).

IT systems used to support and facilitate service delivery were assessed and the following weaknesses were noted

Control weaknesses

Control weaknesses noted within EMIS:

- Consolidation controls for data received from the provinces were inadequate as manual interventions were possible and no verification processes were in place to ensure the accuracy, validity and completeness of data. Reporting on information such as the number of learners enrolled, educators and non-educator staff employed and the number of learners benefiting from the "no fee school" policy might therefore not be accurate.
- The lack of an integrated data recovery plan for facilities could, in instances of data corruption or loss, impact on the completeness and availability of consolidated learner and school data at the national department. Statistics on, for example, the number of classrooms to be built or the number of schools to be provided with water, electricity and sanitation facilities might therefore not be available.

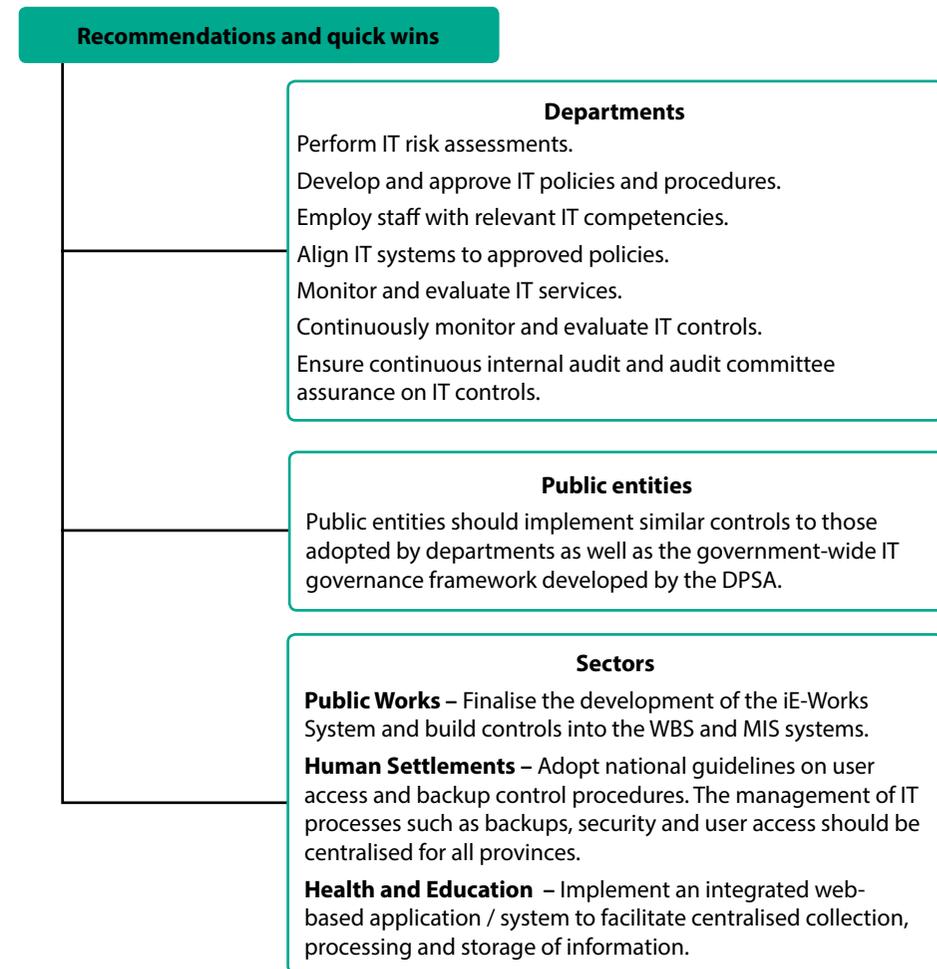
3.4.5 Drivers of IT control weaknesses

- Accounting officers did not view IT as a strategic and service delivery enabler.
- A change in leadership within the DPSA delayed the approval of the government-wide IT governance framework.
- An IT governance framework had not been designed and implemented for public entities and legislatures.
- The lack of consequences for IT control weaknesses contributed to routine tasks, such as the resolution of audit findings and the design and implementation of key controls (policies, procedures, monitoring), not being performed.
- Unfilled vacancies and shortages of key IT skills (IT security officers, network technicians and database administrators) resulted in IT not being properly capacitated to adequately fulfil the required IT control obligations.
- Internal assurance processes, such IT management reporting, internal audit and audit committees, were not effective in supporting leadership oversight of IT.

3.4.6 Recommendations and quick wins in resolving information technology management weaknesses

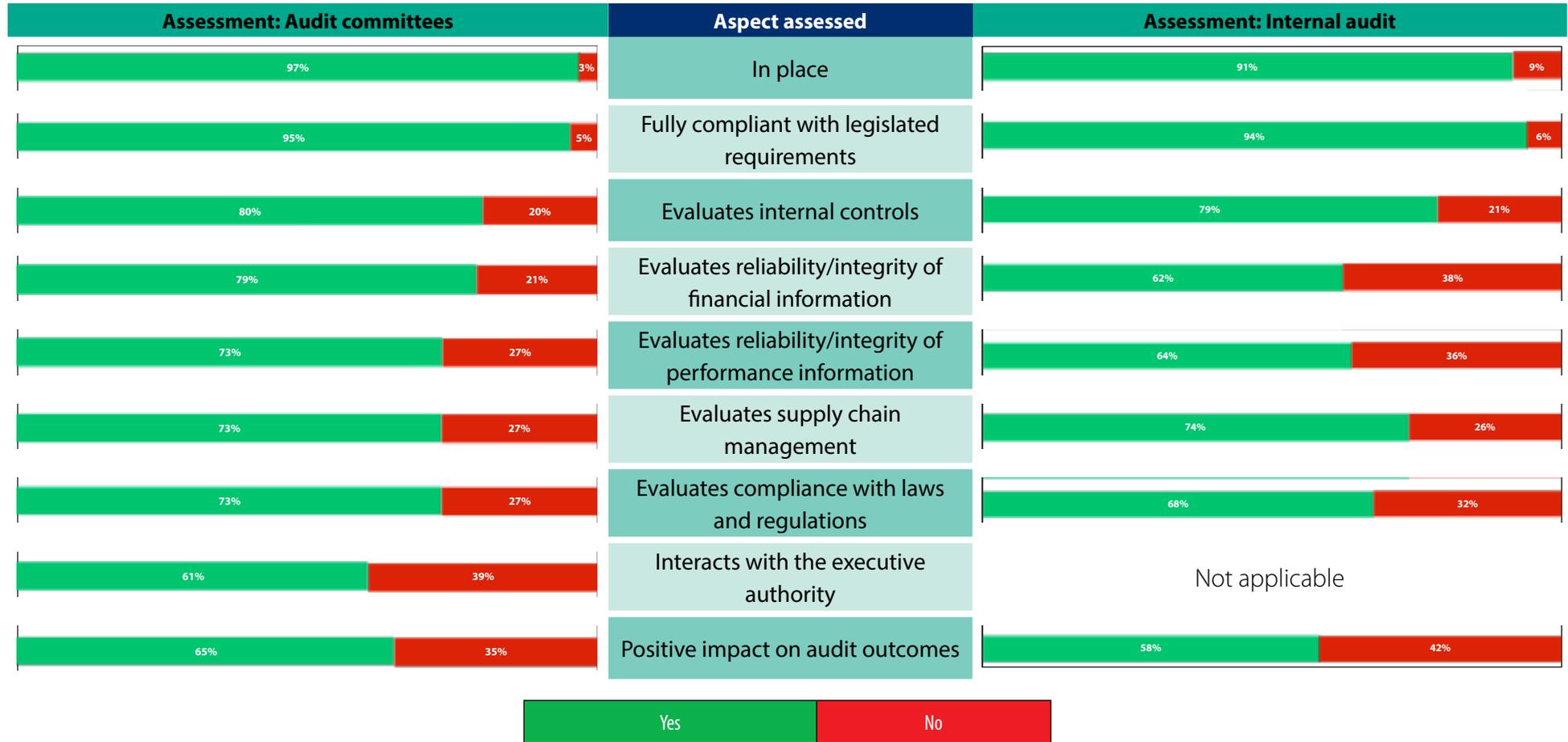
While we acknowledge that the soon-to-be-implemented government-wide IT governance framework will lay the foundation for medium- to long-term sustainable change in IT across government, we believe that management could proactively address certain issues. For this purpose, we have put together a number of recommendations, some representing quick wins, which would address certain concerns and reduce the impact of current IT exposures.

Figure 33: Recommendations and quick wins



3.5 AUDIT COMMITTEES AND INTERNAL AUDIT

Assessed effectiveness of audit committees and internal audit units



Effective governance is a key driver of internal control, which in turn impacts audit outcomes. Risk management and effective audit committees and internal audit functions are key elements of this driver of internal control. In terms of the PFMA, an audit committee and internal audit unit must be established by all public sector organisations. Audit committees serve as an independent governance structure whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and all other matters of governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of ensuring that the organisation achieves its objectives. Internal audit units form an integral part of providing assurance on governance, risk management and internal control.

Depicted alongside is the assessment of the effectiveness of audit committees and internal audit units for the 2011-12 financial year as well as the extent to which auditees have met legislative requirements related to audit committees and internal audit.

The table below provides information on the assessment of the effectiveness of audit committees and internal audit, as well as their compliance with applicable legislation. The assessment was performed during all AGSA-conducted audits.

Table 18: Assessment of the effectiveness of audit committees and internal audit

Governance structure aspect	Assessment results and way forward
Audit committee and internal audit units in place	As required by the PFMA, the majority of national and provincial auditees have established audit committees and internal audit units, with some instances where these were not in place for the entire financial year.
Audit committees and internal audit fully compliant with legislation	<p>Audit committees and internal audit that are compliant with the legislation are an important component of effective governance, risk management and internal control at the organisations where they are appointed. The following findings on audit committees relate to non-compliance with the PFMA and the Treasury Regulations:</p> <ul style="list-style-type: none"> (a) Not correctly constituted (b) No review of the effectiveness of the internal audit function (c) No review of risk areas of institution's operations to be covered in scope of internal and external audits. <p>A significant number (23%) of internal audits units in the provincial sphere of government did not comply with all the requirements of the PFMA. Non-compliance findings related to internal audit units included the following:</p> <ul style="list-style-type: none"> (a) No three-year strategic internal audit plan (b) Quarterly reports, detailing performance against annual internal audit plan, not submitted to audit committee.

Table 19: Assessment of the effectiveness of audit committees and internal audit

Governance structure aspect	Assessment results and way forward	Governance structure aspect	Assessment results and way forward
Audit committees and internal audit evaluate internal control	<p>The general regression in the implementation of the drivers of internal control serves as a signal to committees and internal audit units that they should broaden their scope of independent reviews to include all aspects of financial and performance management and should also discharge their responsibilities in line with the recommendations of King III to ensure that an improved control environment is established and sustained.</p> <ul style="list-style-type: none"> • Audit committees and internal audit units should implement an effective and consistent method of follow-up on actions taken to address audit findings relating to internal control weaknesses, • Assurances given by internal audit on the adequacy of auditees' systems of internal control should be supported by assessments undertaken in accordance with the <i>International Standards on Internal Auditing</i>. 	Audit committees interact with executive authority	<p>Frequent, candid interactions between audit committees and their executive authorities provide a basis for progress towards clean audit outcomes, especially as executive authorities are in a position to objectively assess the merits of audit committee recommendations and have the authority and power to address obstacles that audit committees may encounter in executing their mandate to promote sound governance, risk management and control.</p> <p>A high number of audit committees, across all the spheres of government, did not have regular interactions with the executive authority. The lack of regular interactions is most prevalent at departments and should be remedied to ensure that these two critical governance structures interact formally and regularly in order to improve audit outcomes.</p>
Audit committees and internal audit evaluate the reliability of performance information	<p>The increased attention given by audit committees and internal audit units to auditees is a contributor to the overall progress made by auditees during the year under review in addressing prior year PDO findings. However, the material adjustments made to performance information submitted for audit indicate that audit committees and internal audit should conduct a more robust assessment of controls relied on by management to produce reliable performance information.</p>	Audit committees and internal audit positive impact on audit outcomes	<p>Audit committees that focus on all three audit aspects, namely (i) financial reporting, (ii) reporting against PDOs, and (iii) compliance with laws and regulations, positively impact audit outcomes, especially at auditees whose management seriously considers their recommendations for improvements to risk management, governance and internal control.</p> <p>It is recognised that the impact may not immediately translate into auditees' progression to clean audits or even from qualified to financially unqualified financial statements. However, committees and internal audit units have been assessed as having had an impact on audit outcomes at those auditees whose financial statement qualification findings had been reduced and/or which had fewer findings, compared to the previous financial year, on PDO and compliance.</p>
Audit committees and internal audit evaluate supply chain management and compliance with laws and regulations	<p>An encouraging proportion of audit committees and internal audit units do give attention to SCM risks and other risks of non-compliance (including unauthorised and fruitless and wasteful expenditure). However, the general increase in external audit findings on compliance indicates the need for a more intense focus on and improved attention to implementing audit recommendations.</p>		

Governance structure aspect	Assessment results and way forward
<p><i>Audit committees and internal audit positive impact on audit outcomes (continued)</i></p>	<p>Further steps that should be taken by audit committees and internal audit units to improve audit outcomes include the following:</p> <ul style="list-style-type: none"> • Perform a risk assessment to ensure that the audit plan covers the most significant areas • Arrange a joint planning session with external audit to improve cooperation and coordination throughout the audit process • Ensure that management has implemented measures to correct the internal and external audit findings • Perform regular reviews of key internal controls, especially those related to daily financial and performance management and ensuring compliance with laws and regulations • Review of monthly/quarterly financial and performance reports during the financial year and in particular those submitted for audit at year-end • Ensure that internal audits are conducted in compliance with the Internal Audit Standards • Ensure that the internal audit plan is completed • Ensure that all actions taken have a strong regard for independence and objectivity with the aim of achieving sustainable improved audit outcomes.



SECTION 4: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES AND COMMITMENTS MADE

SECTION 4: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES AND COMMITMENTS MADE

This section of the general report provides an overview of the assurance providers in the national and provincial spheres of government, with an assessment of assurance provided by the different role players in section 4.1 to 4.3. The commitments made by oversight and the executive authorities, the status thereof and the impact on audit outcomes are also reported in section 4.2 and 4.3. Section 4.4 addresses the responsibilities of the key role players to enforce consequences for poor performance and transgressions and the remedies available in legislation. Section 4.5 outlines the AGSA's ongoing initiatives to encourage clean administration.

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4.1 ASSURANCE PROVIDERS IN NATIONAL AND PROVINCIAL GOVERNMENT

The accountability of the executive and national or provincial departments and public entities (auditees) for their actions, performance, financial management and compliance with legislation serves as a cornerstone of democratic governance in South Africa. One of the most important oversight functions of Parliament and the provincial legislatures is the consideration of auditees' annual reports. These annual reports serve as a mechanism whereby the executive and their accounting officers report on the financial position of the auditee, its performance against

predetermined objectives and overall governance. For Parliament and the provincial legislatures to perform their oversight function, assurance needed that the information in the annual report is credible. To this end, the annual report also includes the audit report of the AGSA which provides the required assurance on the credibility of the financial statements and annual performance report and the auditees' compliance with laws and regulations.

There are other role players in the public sector that contribute to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented at auditees.

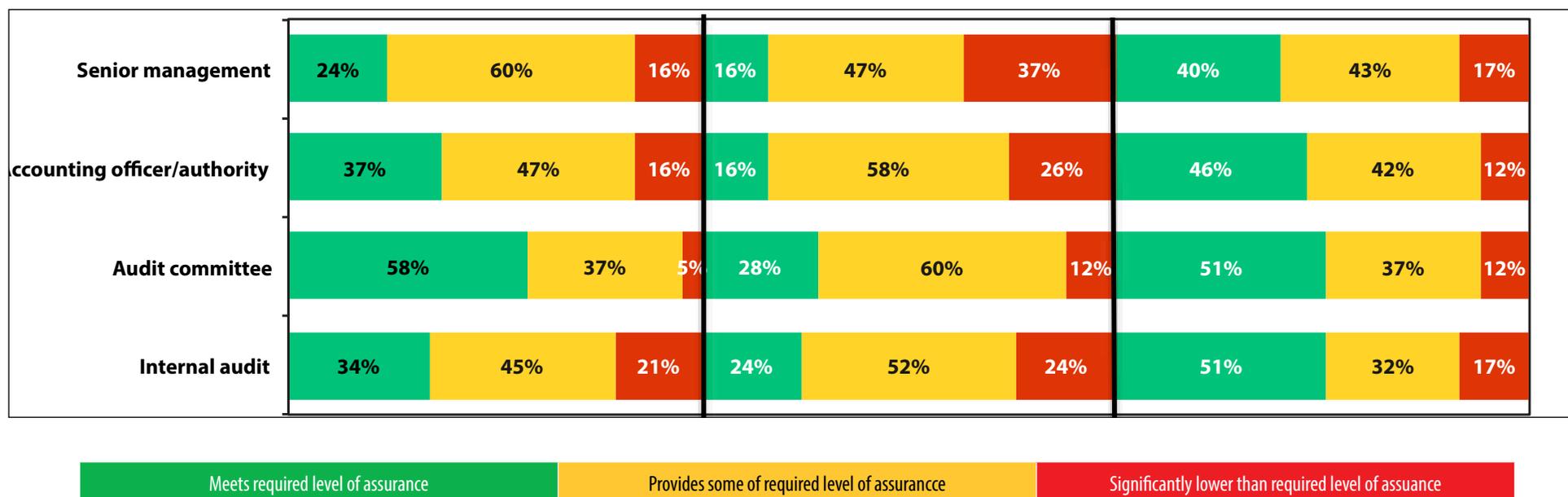
The role players recorded hereunder are (1) those directly involved with the management of the auditee (management assurance); (2) the role players that perform an oversight/governance function, either as an internal governance function or as an external monitoring function (oversight assurance); and (3) the independent assurance providers that provide an objective assessment of the auditee's reporting.

Figure 34: Combined assurance providers in the South African public sector

Management assurance First level of assurance			Oversight assurance Second level of assurance			Independent assurance Third level of assurance		
Senior management	Accounting officer/ authority	Executive authority	Coordinating/ monitoring institutions	Internal audit	Audit committee	Oversight (portfolio committee and councils)	Public accounts committee	External audit

The level of assurance provided by the role players was assessed based on the status of internal controls of auditees and the impact of the different role players on the controls. In the current environment characterised by inadequate internal controls, material misstatements in financial and performance information and pervasive non-compliance with legislation, all role players are expected to provide an extensive level of assurance. The outcome of the assessment of senior management, the accounting officers/authorities, internal audit and the audit committees is depicted below. The assessment of the portfolio and public accounts committees is included in section 4.2 and that of executive authorities and coordinating institutions in section 4.3 of this general report.

Figure 35: Level of assurance provided by role players that form part of the auditee



The poor and regressing status of the drivers of internal control, as reported in section 3.1, is a reflection of the inadequate assurance provided by those role players that have a direct impact on auditees. Senior management, which includes the chief financial officer, chief information officer, head of SCM, etc., is responsible for implementing the detailed financial and performance management controls. The assessment demonstrates that they have failed to do so adequately, especially at provincial departments. This unsatisfactory level of assurance may also be a symptom of the vacancies and inadequate performance management at this level, as reported in section 3.2 of this report.

Accounting officers and authorities are assessed only marginally higher than senior managers but their impact on creating an effective control environment is not evident at a significant number of auditees. In general there has been a regression in the status of the drivers of internal control for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring do not result in sustainable practices which translate into improved audit outcomes.

Although internal audit units are in place they are not providing sufficient assurance in the areas they are required by legislation to audit and report on. These areas correspond with the AGSA's assurance mandate, which effectively means that their inability to function at the required level, together with the inadequate assurance provided by senior management and the accounting officers and authorities, is placing undue pressure on the AGSA teams and consequently on the audit fees. Audit committees, although assessed at a higher level, are not playing their role to ensure that internal audit is functioning at the required level. This must improve significantly at most auditees to fully meet the extensive level of assurance expected from them. Neither of these role players, as reported in section 3.5, have any discernable impact on the audit outcomes of more than a third of the auditees.

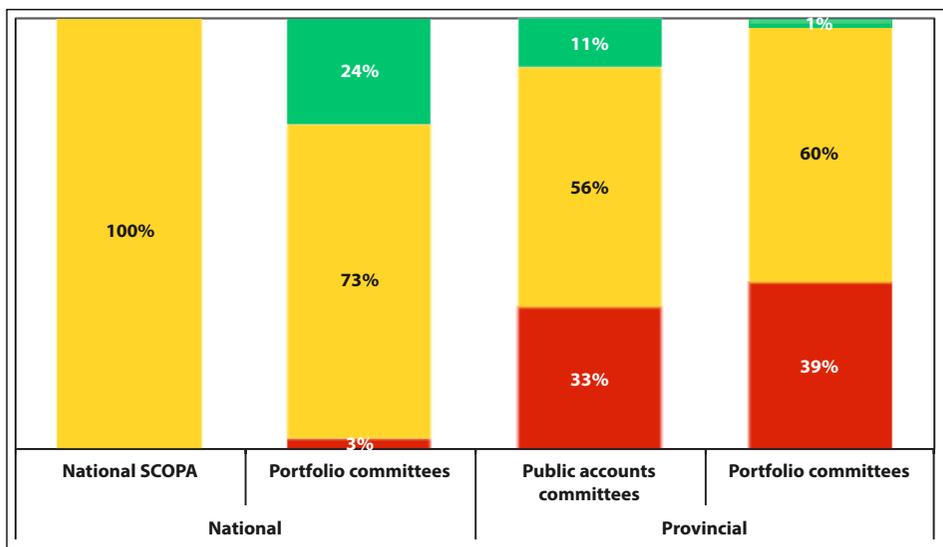
4.2 LEGISLATIVE OVERSIGHT

Role of legislative oversight and assurance provided

In terms of the Constitution, Parliament and the provincial legislatures must maintain oversight of all executive organs of state. Oversight entails proactive interactions with the executive authorities and the departments and public entities within their portfolios to encourage compliance with their constitutional obligations with a view to delivery on agreed-to objectives for the achievement of government priorities. The mechanism used to conduct oversight is generally through committees. The public accounts committees (PACs) and portfolio committees deal with financial and performance management and the implementation of legislation by auditees and are key assurance providers in this regard.

The impact of the PACs and portfolio committees, as independent assurance providers on the internal controls of the auditees was assessed on the basis of the AGSA's interactions with the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. The assessment of the level of assurance is depicted below.

Figure 36: Assessment of assurances provided by oversight bodies



As detailed in the following sections, committees have varying degrees of success in influencing improvements at auditees and ensuring that their resolutions are implemented, partly because they have limited enforcement powers but also as a result of ineffective working methods.

Public accounts committees and portfolio committees - provincial

A summary on the status of provincial PAC resolutions as at March 2012 is reflected in the next table.

Table 20: Status of implementation of provincial PAC resolutions

Province	Number of resolutions			
	Passed	Implemented	In progress	Not actioned
Eastern Cape	38	3	3	32
Free State	No resolutions were tabled by the provincial PAC in respect of the 2010-11 financial year for implementation in 2011-12.			
Gauteng	56	35	20	1
KwaZulu-Natal	63	43	13	7
Limpopo	Resolutions were tabled on 2 October 2012.			
Mpumalanga	103	34	52	17
North West	No resolutions tabled by the public accounts committee relating to specific auditees in the province, mainly due to various changes in political leadership, non-attendance by political leadership of departments of the hearings scheduled and cancellation of scheduled hearings.			
Northern Cape	100	21	61	18
Western Cape	161	89	71	1

The PACs of the provinces where a significant proportion of resolutions have not been implemented or have remained “in progress” for prolonged periods of time need to recognise that the effectiveness of their oversight is diluted and that the audit outcomes for the provinces concerned are unlikely to improve with this scenario. Of greater concern are the provinces where the PACs have not passed any resolutions in the past year. The provincial general reports include more detail on the status of resolutions and the level of impact PACs are having, or not having, in the provinces.

A summary of the initiatives and commitments of provincial PACs and PCs is included in the table below – the detail is available in the provincial general reports.

The commitments include those made in response to the previous year’s audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

Table 21: Outline of commitments by provincial portfolio and public accounts committees - October 2012

Impact of commitments of Provincial portfolio and public accounts committees							
Summarised commitments		Free State	Gauteng	KwaZulu-Natal	Mpumalanga	Northern Cape	Western Cape
1	The oversight functions and processes within legislature will be reviewed with a view of improving the effectiveness thereof.					Prior year: No impact	
2	The working relationship between portfolio committees and the executive will be strengthened.						Prior year: Limited impact
3	Training/workshops will be conducted to improve understanding of oversight responsibilities and IT, SCM reports.	Prior year: No impact		Prior year: Significant impact			
4	Unauthorised, irregular and fruitless and wasteful expenditure will be investigated.	Prior year: No impact		Prior year: Limited impact			
5	There will be increased focus on reporting of performance against predetermined objectives.	Prior year: No impact					
6	There will be increased focus on auditees’ supply chain management.	Prior year: No impact					
7	Portfolio committees and provincial public accounts committees will interact with AGSA on a regular basis.		Prior year: Limited impact			Prior year: No impact	
8	Public accounts committees will engage with the chair of the audit committee.			Prior year: Limited impact			
9	SCOPA resolutions will be followed up to ensure that these are implemented.			Prior year: Limited impact	Prior year: Limited impact		
10	Auditees and the executive will be visited to monitor administration.					Prior year: No impact	

The status of the implementation of resolutions of the national standing committee on public accounts (SCOPA) is reflected in the next table.

Table 22: Status of implementation of resolutions of the national standing committee on public accounts

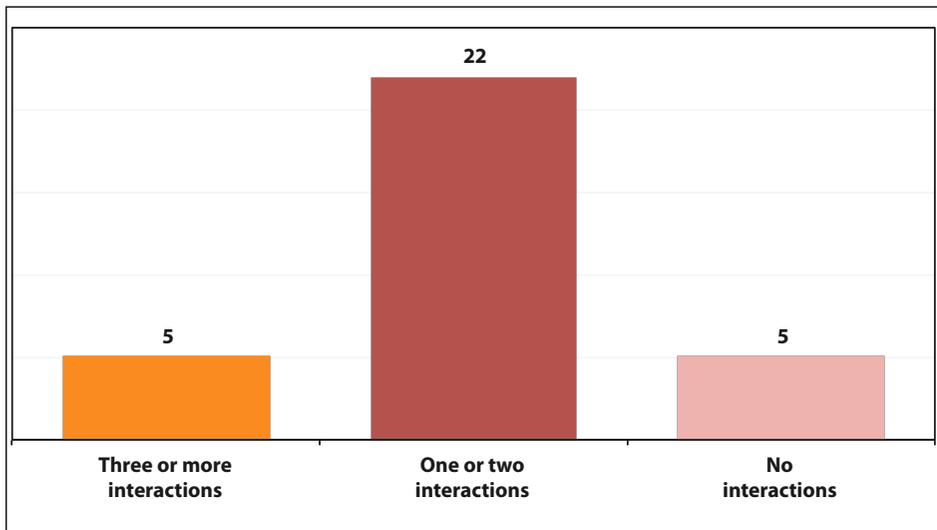
Portfolio	Auditees to which resolutions relate	Number of resolutions			
		Passed	Implemented	In progress	Not actioned
Communications	ICASA	5	1	2	2
	SABC	22		22	
Health	Department of Health	5	2	2	1
	Council for Medical Schemes	4	4		
	Health Laboratory Services	6	5	1	
Higher Education and Training	Health and Welfare Sector Education Training Authority (H&W SETA)	1	1		
Human Settlements	Department of Human Settlements	16	16		
Justice and Constitutional Development	Department of Justice and Constitutional Development	26	12	14	
	National Prosecuting Authority	10	3	7	
	Criminal Assets Recovery Account	2		2	
	Department of Police	6		6	

Portfolio	Auditees to which resolutions relate	Number of resolutions			
		Passed	Implemented	In progress	Not actioned
Labour	Department of Labour	6	5	1	
	Compensation Fund	8	3	5	
	Sheltered Employment Factories	4	2	2	
Public Works	Department of Public Works	5	1	4	
	Property Management Trading Entity	9		9	
	Council for the Built Environment	11	7	4	
Trade and Industry	Companies and Intellectual Property Commission	3	2	1	
Water Affairs and Forestry	Department of Water Affairs	12	8	4	
	Water Trading Account	7		3	4

For oversight committees to be effective, it is important that they are clear on the root causes of the obstacles to clean administration and good governance. The AGSA leadership has lived up to its commitment of providing such insight to portfolio committees by means of quarterly briefings to the portfolio committee chairpersons at the National Assembly who availed themselves for such interactions. In a number of instances portfolio committees were also provided with insight into root causes by means of briefings to the full committee. In support of clear and consistent messages, the AGSA will in future make frontline liaison staff available on an ongoing basis to confirm and clarify key messages to portfolio committees that request such clarity in between the structured quarterly interactions.

The graph below indicates that three or more interactions took place with chairpersons of only five portfolio committees during the year under review.

Figure 37: National portfolio committee interactions



It was evident that the portfolio committees that interacted regularly with the AGSA leadership were able to focus effectively on the key obstacles to clean administration prevalent in the departments and public entities which they oversee.

Table 23: Summary of portfolio committee interactions

ASPECT	OUTLINE OF ISSUES
Findings, root causes and corrective action	The oversight hearings and other oversight engagements, as well as the oversight reports of these committees, illustrated a direct correlation with key audit findings as well as the corrective actions required to remedy the root causes of the findings. Similarly, a lack of focus on the root causes of key audit findings was evident in the oversight activities and outputs of portfolio committees where quarterly briefings by the AGSA leadership did not take place.
Portfolio committee oversight processes are improving	Portfolio committee oversight processes appear to be marginally improving as a result of the AGSA leadership’s visibility drive and most notably during the annual October assessment of departments by the National Assembly committees, as required in terms of the Money Bills Amendment Procedure and Related Matters Act, when the AGSA leadership provides pre-assessment briefings to some portfolio committees.
SCOPA support for audit committees and internal audit	The AGSA continued to provide briefings to SCOPA before public hearings. This has enabled SCOPA to structure their hearings based on the root causes of the key audit findings highlighted during the briefings. Given its role of financial oversight, SCOPA has confirmed the importance of assurance mechanisms such as internal audit units and audit committees of departments by making them a permanent feature during hearings, although their full participation is still lacking.

ASPECT	OUTLINE OF ISSUES
Alignment between portfolio committees and PACs	<p>The legislative sector oversight model emphasises the importance of collaboration between committees. In response to the 2010-11 audit outcomes, the National Assembly leadership committed to advance collaborations between PACs and portfolio committees, but has since not been able to foster such collaboration in a structured manner.</p> <p>SCOPA has made ongoing attempts to collaborate with portfolio committees, but in only two cases did this result in portfolio committees joining forces with SCOPA. One such joint meeting was successful thanks to effective alignment of purpose between the two committees. In provincial legislatures integration of oversight between PACs and portfolio committees has taken the form of portfolio committees following up on areas of concern identified during their more regular interactions with the departments. In the case of many provincial portfolio committees, members also have PAC membership, thus facilitating information sharing and alignment of purpose between the portfolio committee and the PAC.</p>
Timing of passing and follow-up of SCOPA resolutions	<p>Despite notable improvements in SCOPA's oversight scrutiny, serious challenges remain with regard to the late processing of resolutions by the House (several months after the hearings). The general follow-up on resolutions is also weak because of SCOPA's limited assessment of the responses that the relevant ministers/accounting officers tabled in response to SCOPA's recommendations. However, a commendable step was the National Assembly debate on a series of SCOPA reports – more regular debates of this nature will ensure appropriate high-level attention to the importance of effective accountability and governance practices.</p>

ASPECT	OUTLINE OF ISSUES
Effective use by SCOPA of the AGSA's report on infrastructure	<p>The performance audit report on infrastructure of the departments of Education and Health provided impetus to SCOPA's oversight activities. Using this report, SCOPA effectively joined other stakeholders in holding a hearing involving provincial and national heads of departments to seek corrective actions on issues raised in the report which affect both spheres of government.</p> <p>SCOPA has ventured into other forms of oversight by conducting visits to six different provinces based on the findings contained in the infrastructure report and was also briefed by the AGSA leadership prior to and during such visits. In this way SCOPA is extending its activities beyond the traditional oversight channels.</p>
Use of sector-specific audit outcomes in general reports	<p>The National Assembly committees have not used the insight contained in the general reports on sectoral service delivery aspects. This sectoral perspective can be used by a number of committees in the National Assembly and the National Council of Provinces to oversee key service delivery such as education, health, human settlements, social development and public works.</p>

The table that follows outlines the key commitments of national portfolio committees to improve audit outcomes. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with the committees between October 2012 and the date of this report. An assessment of the impact of prior year commitments, where implemented, is also included.

Table 24: Key commitments by national portfolio committees

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Agriculture, Fisheries and Forestry		
New	Monitor the process of capacitating internal audit and the monitoring and evaluation units of the department.	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Arts and Culture		
New	The committee resolved to call entities that showed regression to account to the committee.	Not yet able to assess
	The committee resolved to request training from the AGSA before the 2012 process to obtain a better understanding of how to use the annual report during their annual review.	Not yet able to assess
Portfolio committee: Basic Education		
New	The portfolio committee undertook to coordinate with the provincial legislatures and other oversight structures in the provinces to address matters hampering delivery on the department's mandate of providing quality basic education and developing processes to remedy unsatisfactory audit outcomes in the sector.	Not yet able to assess
	Follow-up on the effectiveness of internal audit within the department and acceleration of the appointment of the internal audit service provider for the Education Labour Relations Council.	Not yet able to assess
	Confirm with management, the audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
New	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring, including stock of workbooks and text books on hand. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess
Portfolio committee: Communications		
New	Review strategic plans for the department and entities for 2012-13 before March 2012 for adherence to the SMART criteria.	Not yet able to assess
	Review strategic plans for the department and entities for 2013-14 before March 2013 for adherence to the SMART criteria.	Not yet able to assess
	Obtain quarterly confirmation from the department and entities that action plans are in place and are being monitored by the accounting officers/accounting authorities to ensure resolution of audit findings.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Cooperative Governance and Traditional Affairs		
New	Obtain confirmation from the department that financial statements have been reviewed by the chief financial officer, accounting officer and audit committee prior to submission for auditing.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of audit findings.	Not yet able to assess
	Obtain confirmation from the chairperson of the audit committee that regular interactions are taking place between the chairperson and executive authority.	Not yet able to assess
	Monitor quarterly key control dashboard report of the department with particular focus on compliance with laws and regulations, SCM and HR management.	Not yet able to assess
Portfolio committee: Correctional Services		
Prior year	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of the audit qualification on assets.	Limited impact
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of the audit findings on predetermined objectives.	Limited impact
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of non-compliance findings.	Limited impact

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Defence and Military Veterans		
Prior year	A commitment was made to follow up with the department regarding the progress made in finalising and determining the most appropriate accounting framework for the Special Defence Account.	Limited impact
New	Ensure that the department can account for all capital assets.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to sustain the improved audit outcomes.	Not yet able to assess
Portfolio committee: Economic Development		
New	Improve the quality of the financial statements by requesting all entities and the department in the portfolio to compile financial statements monthly and also request confirmation from the entities that the financial statements have been reviewed by chief financial officers, accounting officers/ accounting authorities and audit committees prior to submission for auditing.	Not yet able to assess
	Confirm that action plans are being monitored and that quarterly key control assessments are being performed.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Energy		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Engage with PetroSA, focusing on finding a solution to reduce irregular, fruitless and wasteful expenditure.	Not yet able to assess
	Assist the department to obtain additional funding to ensure that key positions can be filled to effect oversight of the roll-out of the national infrastructure programmes relating to energy.	Not yet able to assess
Portfolio committee: Environmental Affairs		
New	Obtain confirmation from the department and the South African National Bioinformatics Institute (SANBI) that an action plan is in place and is being monitored by the accounting officers/accounting authorities to ensure resolution of audit findings before May 2013.	Not yet able to assess
	Review strategic plans for the department and entities for 2013-14 before March 2013 for adherence to the SMART criteria.	Not yet able to assess
Portfolio committee: Government Communication and Information System		
New	Reduce material corrections to the financial statements and performance reports by monitoring quarterly and monthly financial and performance reports.	Not yet able to assess
	Ensure that the internal control dashboard reports and action plans are closely monitored.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Health		
New	Chairperson committed to meet with all provincial departments of Health to identify the root causes of the current sector outcomes.	Not yet able to assess
	Obtain quarterly confirmation from the departments that action plans are in place and are being monitored by the accounting officers to ensure resolution of audit findings.	Not yet able to assess
Portfolio committee: Higher Education and Training		
New	Monitor the process of capacitating the internal audit, SETA performance and evaluation and Further Education and Training (FET) coordination units at the department.	Not yet able to assess
	Monitor the department's progress in legislating reporting on predetermined objectives and procurement and contract management at higher education institutions.	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess
Portfolio committee: Home Affairs		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Focus on improvement of the relationship between the Department of International Relations and Cooperation and the Department of Home Affairs.	Not yet able to assess
	Focused oversight on the improvement of the record keeping, especially revenue and asset management.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Human Settlements		
New	Request the department to compile monthly financial statements.	Not yet able to assess
	Obtain confirmation from entities that financial statements have been adequately reviewed by the chief financial officer, accounting officer/authority and audit committees prior to submission for auditing.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to ensure resolution of audit findings.	Not yet able to assess
	Monitor quarterly key control dashboard report of the department, with particular focus on compliance with laws and regulations, SCM and HR management.	Not yet able to assess
	Ensure that the department provides feedback on a quarterly basis regarding implementation and accounting for sanitation assets.	Not yet able to assess
Portfolio committee: International Relations and Cooperation		
	No new commitments have been made.	

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Justice and Constitutional Development		
New	Require entities to compile monthly financial statements.	Not yet able to assess
	Obtain confirmation from entities that financial statements have been reviewed by the chief financial officers, accounting officers/accounting authorities and audit committees prior to submission for auditing.	Not yet able to assess
	Obtain confirmation from entities that action plans are in place and are being monitored by the accounting officers/ accounting authorities to ensure resolution of audit findings.	Not yet able to assess
	Obtain confirmation from chairpersons of audit committees that regular interactions are taking place between the chairpersons and executive authorities.	Not yet able to assess
	Monitor quarterly key control dashboard reports of all entities, with particular focus on compliance with laws and regulations and supply chain management.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Labour		
New	Undertake a site visit to the Compensation Fund and interview staff and the executive management to obtain a better understanding of the environment at the Compensation Fund and develop a method to hold the department accountable.	Not yet able to assess
	Hold the department accountable for performing oversight responsibilities at entities within the Labour portfolio.	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Mineral Resources		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Entities to commit to plans to reduce irregular and fruitless and wasteful expenditure.	Not yet able to assess
Portfolio committee: National Treasury		
	No new commitments have been made.	
Portfolio committee: Performance Monitoring and Evaluation and National Youth Development Agency		
New	Monitor monthly and quarterly financial reporting.	Not yet able to assess
	Monitor implementation of action plans and key controls.	Not yet able to assess
Portfolio committee: Police		
New	The committee requested a performance audit to establish whether the PSIRA building had been procured in the most economical, effective and efficient manner.	Not yet able to assess
Portfolio committee: Public Enterprises		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Entities to commit to plans to reduce irregular and fruitless and wasteful expenditure.	Not yet able to assess
	Assist the department in increasing its oversight capacity on SOCs.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Public Service and Administration		
New	Improve on the role of review by internal audit and have the audit committee chairperson account to the portfolio committee.	Not yet able to assess
	Assist in the delivery of the IT governance framework.	Not yet able to assess
Portfolio committee: Public Works		
New	Monitor progress on the action plan/turnaround strategy against short- and long-term milestones, specifically the reconstruction of the immovable asset and lease register. DPW and PMTE will be required to submit feedback at least on a monthly basis to enable effective monitoring.	Not yet able to assess
	Monitor progress against the department's proposed deadlines for finalising the PMTE business case.	Not yet able to assess
	Monitor progress on implementation of iE-Works and an accrual-based accounting system for PMTE to replace the current Basic Accounting System which is not an accrual system.	Not yet able to assess
	Request feedback from the department on a monthly basis as to progress made with disciplinary action taken against officials who permit unauthorised, irregular, fruitless and wasteful expenditure.	Not yet able to assess
	Monitor to determine whether a comprehensive set of financial statements is being prepared on a monthly basis and whether it is reviewed by appropriate officials in senior management (primarily CFO).	Not yet able to assess
	Monitor progress made in capacitating governance functions, namely internal audit and the risk management unit.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Rural Development and Land Reform		
New	Monitor progress made with investigations conducted at the department on a quarterly basis and make sure that investigations are completed and reported on timeously and that appropriate action is taken against those found guilty after conclusion of such investigations.	Not yet able to assess
	Monitor progress made on procedures implemented by the department to ensure completeness and accuracy of the immovable assets register (the procedures must include milestones and planned completion dates).	Not yet able to assess
	Confirm with management, audit committee and internal audit whether credibility checks were performed on all quarterly information (financial and performance quarterly reports) submitted to the portfolio committee.	Not yet able to assess
	Hold management accountable for presenting quarterly financial and performance reports that are meaningful and enable the portfolio committee to perform their in-year monitoring. For example, link the financial spending to performance information and give reasons for non-achievement of targets where the quarterly budgets are being spent yet targets are not achieved.	Not yet able to assess
	Monitor progress on alignment of performance contracts of senior management and staff to the strategic plans and the implementation of an effective performance management process that holds each person accountable for their own actions.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Science and Technology		
New	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to address findings on predetermined objectives.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer for the non-compliance findings at the African Institute for South Africa.	Not yet able to assess
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to determine progress in sustaining good outcomes.	Not yet able to assess
Portfolio committee: Social Development		
Prior year	Obtain confirmation from the department that the department is providing oversight of the grant payments made by SASSA.	Limited impact
	Obtain confirmation that SASSA's action plans to implement effective controls over grants payments are in place and are being monitored.	Limited impact
	The committee undertook to follow up with the department regarding progress made in addressing the non-compliance and other findings for National Development Agency.	Limited impact
	Commitments were made to follow up on the department's progress in closing down or consolidating the dormant funds.	Limited impact

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
New	The prior year commitments are still in progress and no new commitments have been made.	Not yet able to assess
Portfolio committee: Sport and Recreation		
Prior year	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer to monitor progress in addressing non-compliance findings at the department.	Limited impact
	Obtain confirmation from the department that an action plan is in place and is being monitored by the accounting officer with regard to the transfer of funds to other entities.	Limited impact
	The committee undertook to follow up on the findings made regarding the financial sustainability of Boxing SA.	Limited impact
Portfolio committee: Statistics South Africa		
	No new commitments have been made.	

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Trade and Industry		
New	Improve the quality of the financial statements by requesting all entities to compile monthly financial statements and also request confirmation from the entities that the financial statements have been reviewed by chief financial officers, accounting officers/accounting authorities and audit committees prior to submission for auditing.	Not yet able to assess
	Monitor quarterly progress on the implementation of action plans and progress on implementing key controls.	Not yet able to assess
Portfolio committee: Tourism		
New	Monitor progress on EPWP investigations that were sanctioned by management.	Not yet able to assess
	Policies and procedures on the PDO process at both departments and entities will be monitored to ensure that objectives set meet the SMART principle and that no adjustments are made on the reporting.	Not yet able to assess
	Arrest potential risks associated with non-compliance with SCM prescripts and procurement through deviations that do not meet the requirements of the PFMA.	Not yet able to assess
	Monitor how SAT addresses the weaknesses in the general control environment affecting IT and capacitating of the entity with the right IT skills.	Not yet able to assess
	Follow up on how SAT resolves the annual financial statement review process to avoid material misstatements and the deficit position of SAT.	Not yet able to assess

Commitments and initiatives by national portfolio committees		Impact on audit outcomes
Portfolio committee: Transport		
New	No new commitments have been made.	
Portfolio committee: Water Affairs		
New	Review strategic plans for the department and entities for 2013-14 before March 2013 for adherence to the SMART criteria.	Not yet able to assess
	Review allocation of bulk infrastructure to take into account the needs of developmental areas.	Not yet able to assess
	Obtain confirmation from the department and entities that action plans are in place and are being monitored by the accounting officers/accounting authorities to ensure resolution of audit findings.	Not yet able to assess
Portfolio committee: Women, Children and People with Disabilities		
New	Monitor progress on the turnaround strategy and request and review the preparation of monthly financial statements. Also review quarterly reports and the implementation and assessment of key controls.	Not yet able to assess
	Request confirmation from the chairpersons of audit committees that regular interactions are taking place between the audit committee chair and the minister.	Not yet able to assess

4.3 EXECUTIVE LEADERSHIP AND COORDINATING INSTITUTIONS

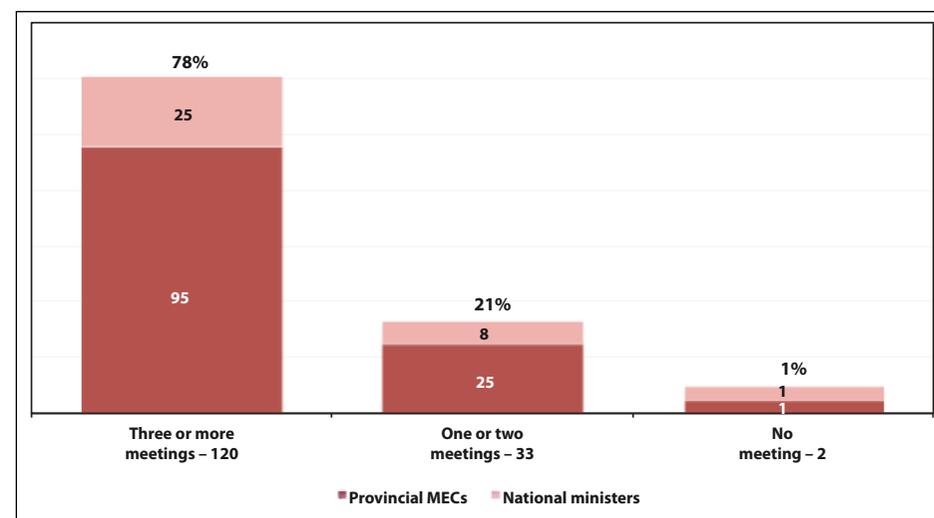
Role of executive authorities and impact of quarterly engagements

The executive authorities in the national government are the President and the national ministers and in the provinces the Premier and members of the executive council (MECs). In terms of the Constitution they have executive powers to implement legislation and policies through the departments and public entities (portfolios) they are responsible for. Executive leadership plays a direct role in the departments as they need to ensure that the strategies and budgets are aligned to the mandate, that objectives are achieved and that they have further specific oversight responsibilities in terms of the PFMA and Public Service Act. In the past two years the AGSA has increasingly engaged with the ministers and MECs on how they can bring about improvements in the audit outcomes of the auditees within their portfolio.

In response to the 2010-11 audit outcomes, ministers and MECs committed an hour of their time every 90 days to meet with senior members of the AGSA. At these interactions the status of the key controls of auditees and commitments are discussed and identified risks shared.

As shown below, the majority of the executive had met with the AGSA teams at least three times during the financial year ended March 2012.

Figure 38: Quarterly interaction with national ministers and provincial MECs



Although the engagements were well received, these engagements had limited impact on the audit outcomes of most of the auditees. An assessment of the impact of interactions with ministers is included in the ministerial portfolios (part 2 of this general report) while those with MECs are covered in the provincial general reports.

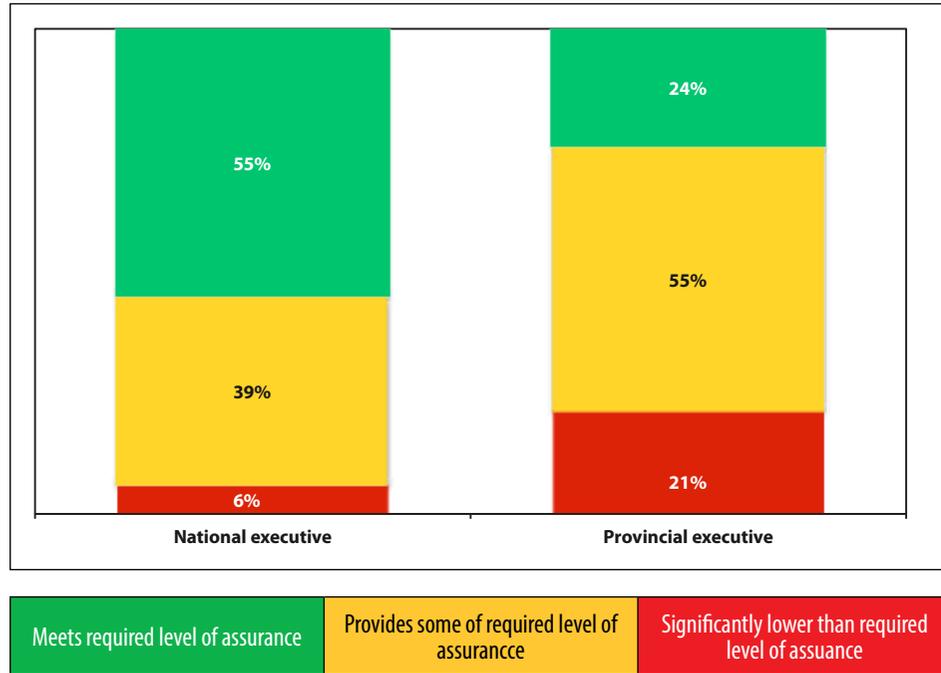
In our assessment the limited impact was due to frequent leadership changes resulting in disruption in the implementation of commitments, the stumbling blocks towards a clean audit at these auditees requiring a multi-year approach or our message being ignored. It could, however, also mean that our conversation has not been compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations leading to increased impact.

Assurance provided by Ministers and MECs and commitments made to improve audit outcomes

The impact of the executive on ensuring that the controls of the auditees were assessed is based on the interactions with them (or lack thereof), commitments given and honoured and the impact of their actions and initiatives on the auditees. The assessment of the ministers is included in the national ministerial

portfolios (part 2) and those with MECs in the provincial general reports. The overall assessment of the impact is shown below.

Figure 39: Level of assurance provided by executives



The assessment shows that the national ministers are considered to have a direct and positive impact on the credibility of financial and performance information and the compliance with laws and regulations. In general the audit outcomes of national departments and public entities are also better than those of their provincial counterparts. The assessments of the impact of MECs in the provinces vary significantly as do their audit outcomes but in general the impact of political pressures leading to instability and poor leadership decisions is more pronounced in the provinces.

Commitments made by executive leadership

The commitments made by national ministers to improve audit outcomes and the status and impact thereof are included in the national ministerial portfolios (part 2) and those with MECs in the provincial general reports.

The table that follows summarises the key commitments made by executive leadership in the provinces to improve audit outcomes – the detail is available in the provincial general reports. The commitments include those made in response to the previous year’s audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the status and impact of the commitments is also provided.

Table 25: Key initiatives and commitments by executive leadership

Initiatives and summarised commitments by executive leadership		Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
1	Action plans will be developed and implemented to address audit findings and implementation will be monitored by leadership.						Prior year: Limited impact	New: Not yet able to assess		
2	Monthly/quarterly reporting on financial statements (including disclosure notes)/ predetermined objectives/compliance with laws and regulations will be implemented.									Prior year: Limited impact
3	The credibility of management information will be validated by internal audit and audit committees.	Prior year: Limited impact					New: Not yet able to assess			Prior year: Limited impact
4	Quarterly key control engagements will include other key role players such as the audit committee chairperson and internal audit.			Prior year: No impact						Prior year: Limited impact
5	Policies, procedures and plans (e.g. fraud prevention) will be revised and strengthened to ensure that these comply with legislative and other requirements and establish effective controls.						Prior year: No impact			
6	Key vacant positions will be filled with competent, professional and qualified personnel.		Prior year: Limited impact				Prior year: Limited impact	New: Not yet able to assess	New: Not yet able to assess	
7	MECs and/or HoDs will make themselves available for regular liaison with the AGSA.	New: Not yet able to assess	Prior year: Limited impact							

Initiatives and summarised commitments by executive leadership		Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
8	IT weaknesses will be addressed by improving controls and clearly defining responsibilities of officials and service providers.				Prior year: Limited impact		Prior year: No impact	New: Not yet able to assess	New: Not yet able to assess	
9	Action will be taken against officials in response to non-compliance with legislation.						Prior year: Limited impact			
10	Improved record and document management processes will be implemented to support filing and retrieval of documents required for audit.						Prior year: Limited impact			
11	Guidance/instructions will be issued by the Premier's office and findings and training presented on key matters that affect audit outcomes.		Prior year: Limited impact							
12	Closer cooperation between departments in province through agreements and forums.				New: Not yet able to assess					
13	Capacity will be increased and processes and management improved with a view of improving audit outcomes.	Prior year: Limited impact	New: Not yet able to assess							
14	Monitoring/oversight by Premier's office will be improved.							Prior year: Limited impact		
15	Monitoring through Exco meetings will be improved.	Prior year: Limited impact								

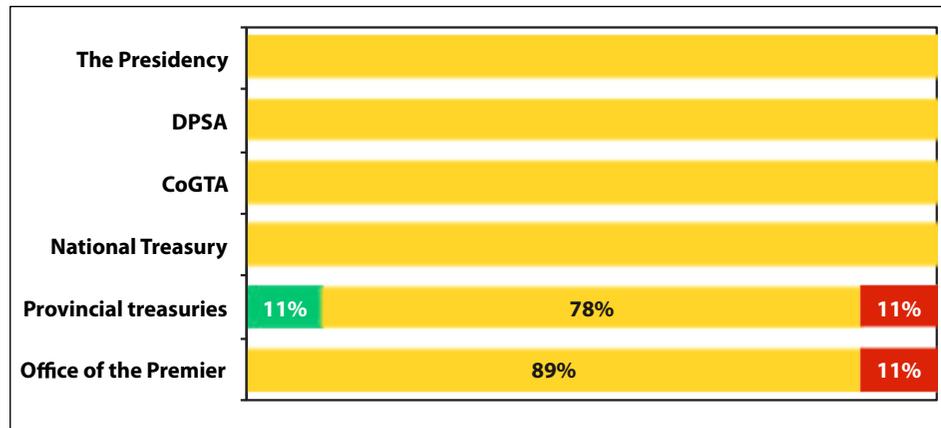
Initiatives and summarised commitments by executive leadership		Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
16	Drafting of provincial legislation to address business interests of employees.	Prior year: No impact								Prior year: Limited impact
17	Executive leadership will act in a responsible manner and instil a culture of high performance and commitment.								Prior year: Limited impact	
18	Executive leadership will assist portfolio committees in fulfilling their oversight responsibilities.		Prior year: Limited impact							

Role of coordinating institutions, assurance provided and commitments made

At national and provincial level there are departments that play a coordinating and monitoring role. In the provinces this role is played by provincial treasuries, the offices of the Premier and the cooperative governance departments (CoGTAs). The main role players nationally are the Presidency, the National Treasury, the Department of Public Service Administration (DPSA) and the national CoGTA. The impact of these departments on the controls of the auditees was assessed based on interactions with the departments, commitments given and honoured and the impact of their actions and initiatives.

The outcome of the assessment at national level and a summary at provincial level are shown below. The detailed provincial assessments are included in the provincial general reports.

Figure 40: Level of assurance provided by coordinating/monitoring departments



In analysing the root causes for poor audit outcomes it becomes apparent that auditees need more support and guidance from these coordinating departments to hasten their progression to clean audits. It is most pronounced in terms of the treasuries which have/can have a direct impact on the credibility of financial

and performance information, compliance with the PFMA and improvement in governance. The treasuries also have a monitoring responsibility as does DPSA and the Presidency, which if exercised to its full extent will add to the assurance required.

The table that follows summarises the key commitments/initiatives to be undertaken by provincial treasuries to improve audit outcomes – the detail is available in the provincial general reports.

The commitments include those made in response to the previous year’s audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the status and impact of the commitments is also provided.

Table 26: Commitments made by provincial treasuries

Summarised commitments		Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
1	An action plan will be developed to address transversal audit findings in the province.						Prior year: Limited impact			Prior year: Limited impact
2	The action plans of auditees to address audit findings will be assessed and implementation monitored.				Prior year: Limited impact					Prior year: Limited impact
3	Increased/improved support will be provided to auditees in the form of technical support, capacity and funding.	Prior year: Limited impact	Prior year: Limited impact	Prior year: No impact	Prior year: Limited impact					
4	Training, workshops and/or roadshows will be conducted to improve skills, raise awareness and provide support.			Prior year: No impact	Prior year: Limited impact	New: Not yet able to assess	Prior year: Limited impact			
5	Chief financial officer (CFO) forums will be established, their roles strengthened and regular meetings facilitated.	Prior year: Limited impact							Prior year: Limited impact	
6	Key vacant positions in provincial treasury will be filled.		New: Not yet able to assess					Prior year: Limited impact		

Summarised commitments		Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
7	Monitoring and review of financial statements/asset management/irregular, fruitless and wasteful expenditure of departments and entities in the province.		Prior year: Limited impact	Prior year: Limited impact						
8	Development of a proper record and document management system for the province to ensure that supporting documentation is easily retrievable.		Prior year: Limited impact							
9	Action will be taken against auditees and/or officials in response to non-compliance with legislation and/or irregular and fruitless and wasteful expenditure.				Prior year: Limited impact	Prior year: Limited impact			Prior year: Limited impact	
10	Monitoring of the existence and effectiveness of key controls at auditees.					Prior year: Limited impact				

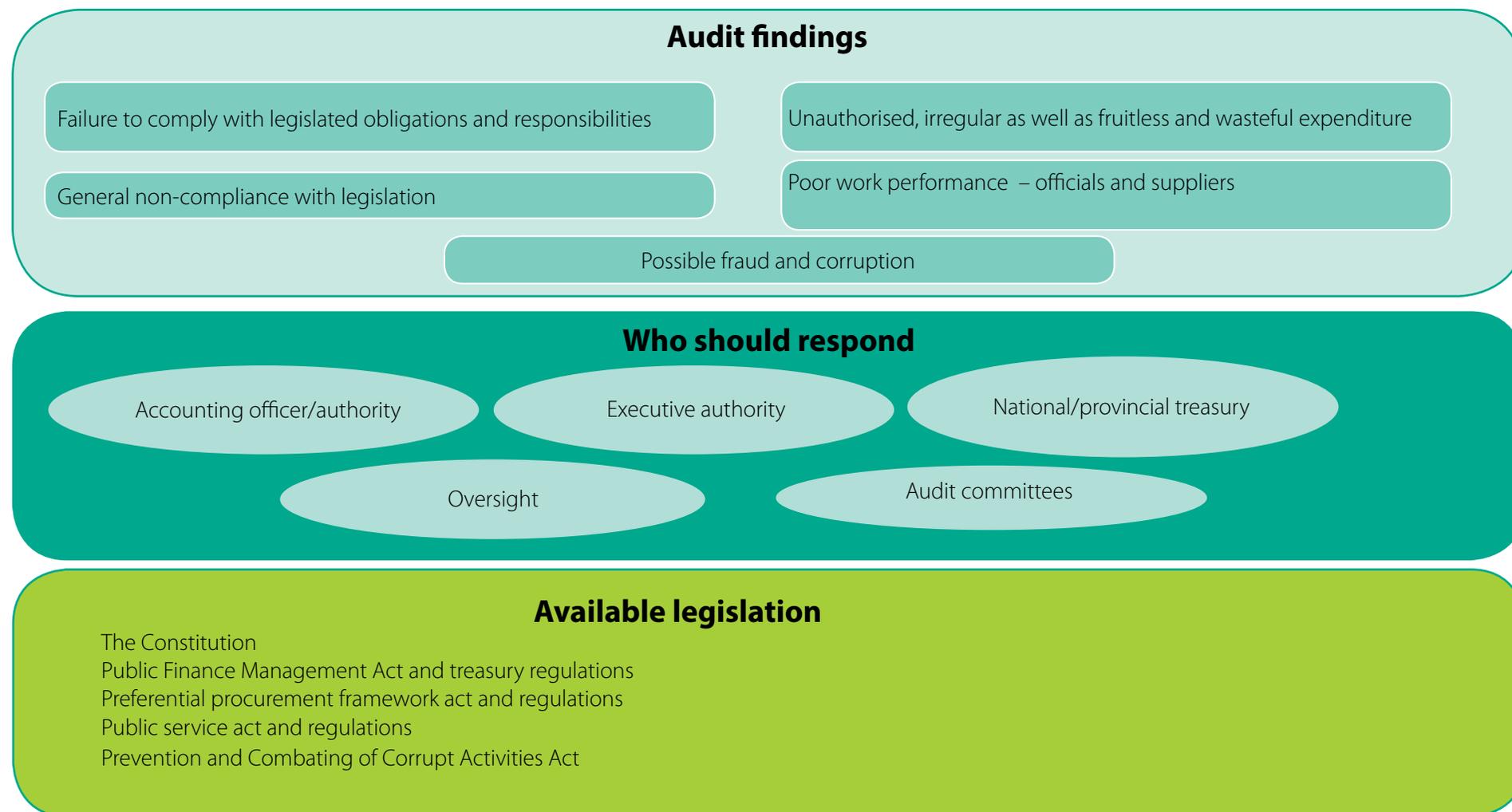
4.4 RESPONSIBILITY OF KEY ROLE PLAYERS TO ADDRESS POOR PERFORMANCE AND TRANSGRESSIONS

This consolidated general report and the provincial general reports summarise the findings in the audit reports, additional findings reported to the accounting officer/authorities and management and the critical matters reported in the annual financial statements of these auditees. Some of the matters reported on clearly point to transgressions of legislation and/or poor performance by officials, accounting officers/authorities, executive authorities, oversight authorities and even suppliers that do business with the state.

A common reaction to the general reports is the question posed by many, including key role players in government, about the need for accountability and consequences and how these can be enforced. Legislation provides the answer to this question as it clearly defines accountability and the remedies. The full power of the law is yet to be activated in this regard and doing so will result in improved audit outcomes but also improved governance and accountability.

A separate booklet distributed with this general report highlights the range of legislation at the government's disposal which enables remedies to be applied where there has been transgressions and poor performance. It addresses the matters as shown below:

Figure 41: Remedies available to political and administrative leaders



Highlighting these remedies is a starting point for responsible political and administrative leaders, oversight and the institutions responsible for monitoring and enforcement. All parties have to play their part.

4.5 AGSA INITIATIVES TO ENCOURAGE CLEAN AUDITS

Over the past two years, the AGSA has embarked on many initiatives to enhance accountability and to influence the process towards improving audit outcomes and clean administration. The main initiative was to further strengthen its relationship with the political and administrative leadership to deepen their understanding of the accountability, audit and governance mechanisms thereby paving the way towards improving public confidence. This initiative included the increased visibility of the AGSA's senior leadership and continuous interactions to highlight possible challenges, audit findings and transversal risks.

Summarised below are some of the key initiatives the AGSA has undertaken to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

Table 27: Summarised AGSA's key initiatives

Nature	Outline of AGSA initiatives
Root cause reporting	<p>In reporting audit findings the AGSA teams always report on the root cause of the finding as it relates to the drivers of internal control. Recommendations are made as part of the audit finding to correct the misstatement, non-compliance etc. but also to address the root cause in order to assist auditees in finding sustainable solutions to prevent recurrent findings.</p> <p>Root causes are also reported in the audit reports in order to provide the insight gained on what the significant deficiencies in internal control are which caused the qualifications and material findings on PDO reporting and compliance with laws and regulations.</p>
Quarterly assessment of key drivers and interactions with accounting officers/authorities, audit committees and executive authorities	<p>A basic assessment of the status of the key drivers of internal control is conducted on a quarterly basis although not audited until the interim audit and/or final audit takes place. The results of the assessment are shared with the accounting officer/ authority, executive authorities and audit committee.</p> <p>The assessment and risks identified pertaining to the auditee are share via a defined engagement programme with these role players with the aim of meeting with them at least once per quarter. This engagement also serves as an opportunity to obtain commitments from the role players on actions that will be taken to improve audit outcomes and to discuss the status of prior commitments made.</p>
Engagement with legislative oversight	<p>Senior members of the AGSA teams engage with the portfolio and public accounts committees (directly or through the chairpersons) at least twice a year. They are also available to the committees if they need briefings or insight on matters coming before the committee. It has become standard practice to brief the public accounts committees for hearings in order to assist them in focusing on the most important matters to be addressed. Portfolio committees have started to request briefings before consideration of the strategic plans and budgets of departments.</p>
Roadshows and other interactions	<p>The general report is not published until the audit outcomes have been shared with all political leaders, including the President and his cabinet. The Auditor-General, by way of roadshows, also personally meets with ministers, premiers, legislatures, the National Assembly and the National Council of Provinces to share the audit outcomes and our insights on the root causes of outcomes and to agree on possible solutions.</p>

Nature	Outline of AGSA initiatives
<i>Promoting understanding of PDO requirements</i>	Presentations on the requirements for reporting on PDOs were made to auditees, executive authorities, portfolio committees and audit committees where a need was identified. In instances where further engagement and clarity are required, sessions with National Treasury are arranged to ensure that an understanding is obtained regarding the requirements of the Framework for managing programme performance information.
<i>Collaboration with National Treasury and the Accounting Standards Board</i>	A formal trilateral relationship exists between the AGSA, the National Treasury and the Accounting Standards Board in order to highlight and address transversal matters that impact the audit outcomes. These parties meet formally at least on a quarterly basis and more often on an informal basis. Bilateral relationships are also in place in the provinces between the AGSA and the provincial treasuries in order to address any province-specific matters that could arise.
<i>Collaboration with the Institute of internal auditors (IIA) and the Public sector audit committee forum (PSACF)</i>	The AGSA collaborates with the IIA through its public sector working group with the aim of equipping and supporting internal auditors in the public sector to function effectively. The AGSA is also a founding member of the PSACF which has various objectives to improve the effectiveness of audit committees in the public sector.
<i>Promoting an understanding of IT risks and controls</i>	There is regular engagement on IT issues during steering committee meetings, quarterly engagements and other stakeholder interactions to ensure an understanding of IT-related risks and controls.



SECTION 5: EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

SECTION 5: EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on national and provincial government audit outcomes in 2012-13 and future financial years if not addressed through timeously implemented appropriate corrective measures.

Table 28: Current and emerging matters that require immediate attention

Area of change	Summary of expected changes
Accounting matters affecting all auditees	
Readiness of departments for the eventual inclusion of inventory in the financial statements disclosures	<p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and consequently no audit findings were raised in the auditor's report in this regard.</p> <p>In preparation for this a review conducted of departments' inventory management processes identified matters that need to be addressed, including the following:</p> <ul style="list-style-type: none"> • Inventory management systems are not in place • There are no written procedures/instructions for inventory counts • Inventory records are not regularly reconciled to the general ledger • Regular inventory counts not undertaken • The control systems are inadequate to safeguard inventory against theft, losses, wastage and misuse
Additional Standards of GRAP issued by the ASB	<p>The Accounting Standards Board (ASB) has issued the following additional Standards of GRAP, for which the Minister of Finance has prescribed an effective date of 1 April 2012 in the Government Gazette:</p> <ul style="list-style-type: none"> • GRAP 21 Impairment of non-cash-generating assets • GRAP 23 Revenue from non-exchange transactions (Taxes and transfers) • GRAP 24 Presentation of budget information in financial statements • GRAP 26 Impairment of cash-generating assets • GRAP 103 Heritage assets • GRAP 104 Financial instruments

Area of change	Summary of expected changes
Withdrawal of the SA Statements of GAAP by FRSC and APB	The Financial Reporting Standards Council (FRSC) and the Accounting Practices Board (APB) issued a joint statement in March this year, indicating that the SA Statements of GAAP would no longer apply in respect of financial years commencing on or after 1 December 2012. This will impact the 2012-13 financial statements of schedule 2, 3B and 3D public entities and trading entities that current apply the GAAP financial reporting framework. They will have to migrate to another reporting framework.
Accounting for leases	In a number of provinces a Fleet Management Trading Entity has been established to manage the fleet requirements of provincial and, in some instances, local government. Accounting for these vehicles by both the trading entity and user departments and municipalities remains a contentious issue. In some provinces the National Treasury has granted the province approval to deviate from the applicable financial reporting framework in the 2011-12 annual financial statements. This matter requires urgent attention at the appropriate level to avoid the possibility of qualifications of the audit opinion during the next audit cycle.
Immovable assets	Certain departments of Roads and Public Works received a qualification on the completeness of their immovable assets for the past year. This department is the custodian of immovable assets and should therefore ensure that controls around immovable assets are developed and implemented. The lack of controls over immovable assets also negatively impacted other departments. This could have been avoided had the Department of Roads and Public Works effectively fulfilled their custodian role and implemented the relevant controls.
Transfer of funds to public entities acting as agents	The National Treasury issued a departmental guide on agency/principal activities, which is effective for the 2012-13 financial year. All departments using public entities as agents will have to comply with disclosure and accounting requirements in this regard. The guide also needs to be considered when entering into service level agreements with entities for these arrangements.
Predetermined objectives matters affecting all auditees	
Implementation of the Framework for strategic plans and annual performance plans	<p>In terms of the Framework for strategic plans and annual performance plans and National Treasury's instruction note no. 33, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA must be compiled in accordance with the principles as per the framework.</p> <p>Audits of predetermined objectives (for the 2012-13 PFMA audit cycle and going forward) will be conducted in accordance with the principles of the Framework for strategic plans and annual performance plans in addition to the applicable laws and regulations and Framework for managing programme performance information (as per the AG Directive) for the said auditees.</p>
Compliance matters affecting all auditees	
Revised preferential procurement regulations	<p>The revised procurement regulations came into effect on 7 December 2011. The most significant changes are the following:</p> <ul style="list-style-type: none"> • The regulations will be applicable to schedule 2, 3B and 3D public entities effective 7 December 2012. • The introduction of the B-BBEE certificates and requirements for evaluation and functionality.

5.2 AUDITEES' FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. The annual AGSA audits now include a high-level analysis of auditees' financial health indicators in order to provide management with an overview of selected aspects of their current financial health and enable timely remedial action where financial health and service delivery may be at risk.

The analysis is presented under the following headings:

- Financial management by departments on the modified cash basis of accounting (section 5.2.1)
- Underspensing of capital budgets and conditional grants by departments (section 5.2.2)
- Debtors management (section 5.2.3)
- Financial health risks at public entities (section 5.2.4).

5.2.1 Financial management by departments on the modified cash basis of accounting

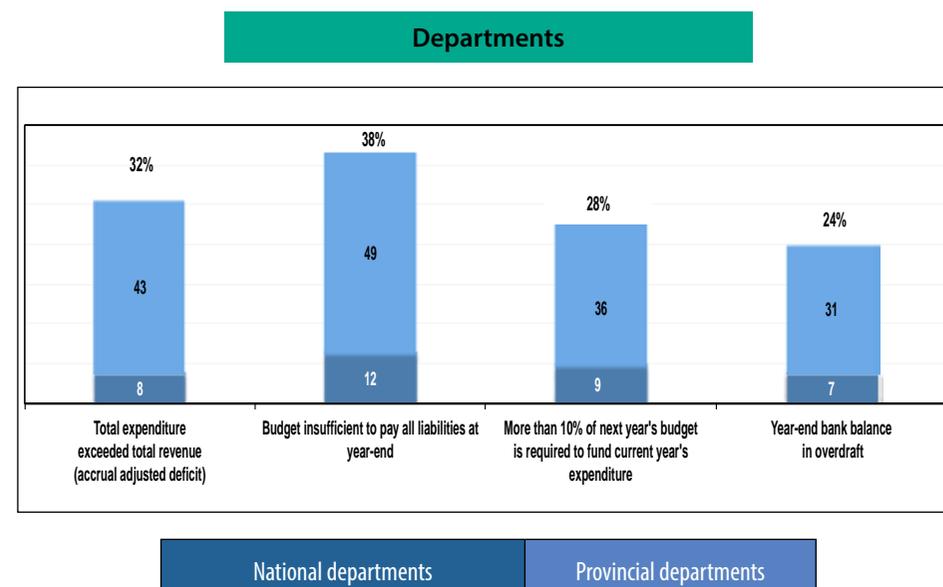
The annual financial statements of departments are prepared on the modified cash basis of accounting. The result is that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. On this basis of accounting, the full amounts of inventory and impairments of assets is expensed when purchased and impairments of assets and provisions are not included in the statement of financial performance.

As part of the financial health analysis, the 2011-12 annual financial statements of departments were reconstructed taking into consideration the accrual disclosure notes to determine whether the surpluses disclosed would also be evident in an accrual-based environment. The impact of the unpaid expenses at year-end on the current and following year's budget was also assessed and the nature and

extent of the disclosed bank overdrafts reviewed.

The following figure depicts the results of the analysis.

Figure 42: Budget and cash management – departments



If departments prepared their annual financial statements on an accrual basis of accounting as applied by public entities and local government, an estimated 32% of departments would have shown a deficit. This is most prevalent among provincial departments.

The spending of 102 (63%) departments for 2011-12 was within their approved budgets. However, taking into account their unpaid expenses at year-end, more than a third of departments incurred expenditure in excess of what they had budgeted for and technically had insufficient funds (budget) to pay all liabilities that existed at year-end. If these departments had accounted on the accrual basis, they would have incurred unauthorised expenditure, which would further increase the already high prevalence and amount of unauthorised expenditure. The impact of the incurrence of unauthorised expenditure is that it either requires additional funding from the fiscus or has to be funded from the next year's budget allocation, which reduces the funds available to achieve that year's objectives.

The unpaid expenses of 2011-12 will need to be paid from the 2012-13 budgets. For some departments, this will have a minor impact, but 58 (36%) would have started 2012-13 with more than 10% of their budget effectively spent. The reasons for the deficits and technical overspending of budgets are as follows:

- The budget preparation process does not make provision for expected unpaid expenditure at year-end
- Ineffective in-year monitoring of expenditure incurred vs. expenditure paid due to the modified cash basis of accounting and inadequate systems to account for liabilities incurred
- Long-outstanding creditors as a result of suppliers not being paid timeously and withholding of payments in order to avoid unauthorised expenditure.

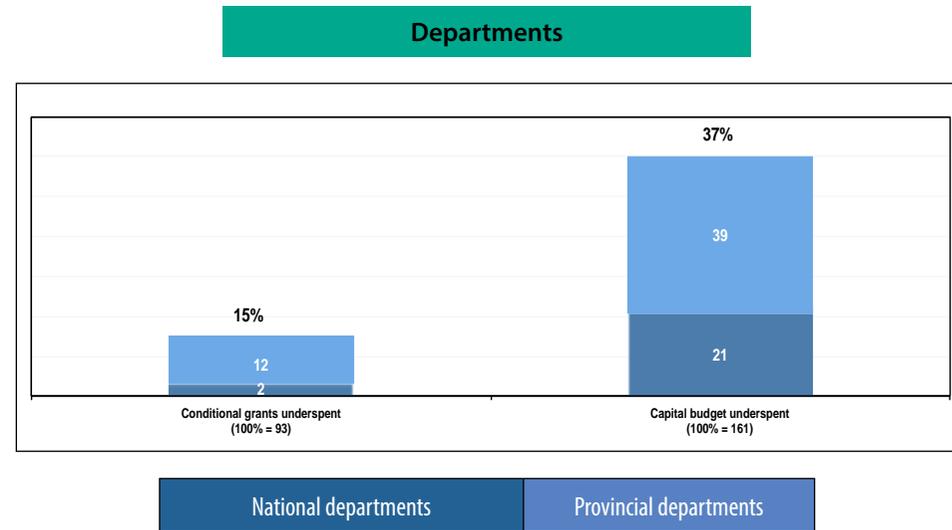
40 (25%) departments had an overdraft at year-end. This was largely as a result of the following:

- Unauthorised expenditure incurred
- Payments authorised where voted funds have not been drawn down
- Payments in advance for services or goods not received at year-end.

5.2.2 Underspending of capital budgets and conditional grants by departments

The figure below shows the number of departments that underspent by more than 10% on their capital budgets and/or conditional grants.

Figure 43: Underspending by departments



Conditional grants and capital budgets are intended to enhance specific service delivery objectives. Significant underspending of these budgets is an indicator that these departments did not, or will not, achieve their service delivery objectives.

The root causes of underspending are a lack of:

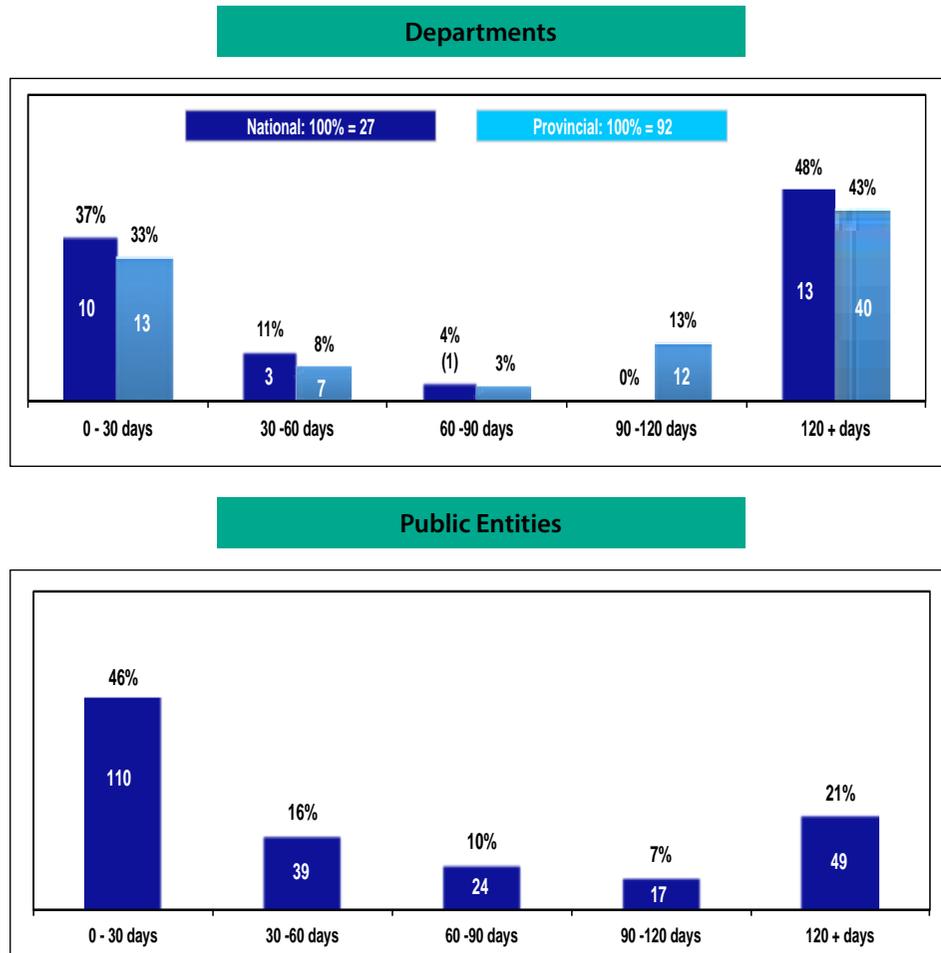
institutional capacity to deliver on capital projects and key national service delivery programmes delays in appointing service providers as a result of poor planning and ineffective SCM processes

inadequate monitoring and oversight of key projects which can be attributed to an inadequate level of reporting, the credibility of the information reported and lack of action taken to address delayed projects.

5.2.3 Debtors management

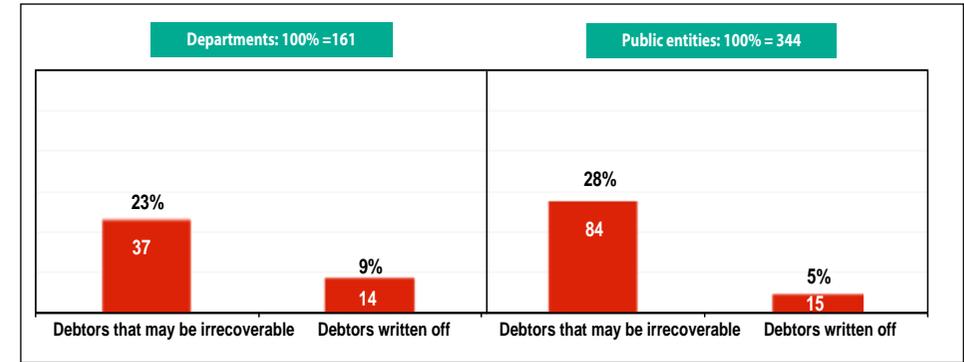
The figure below shows the average number of days it takes for the auditee to recover the money owed to them by persons and/or institutions.

Figure 44: Debtor days



The weakness in recovering revenue owed by debtors is further highlighted in the following figure which shows the number of auditees that wrote off more than 10% of the debtors in the past financial year and/or that made provision in their annual financial statements for more than 10% of the debtors to be irrecoverable.

Figure 45: More than 10% of debtors written off or provision made for irrecoverability of debtors



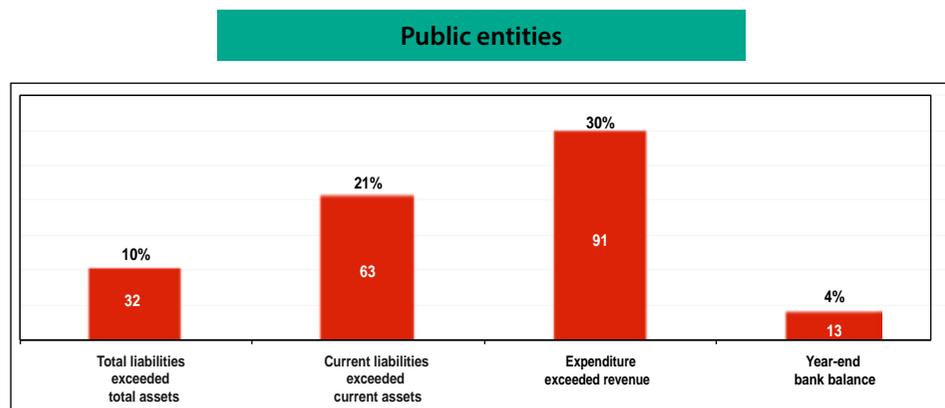
Departments have the longest outstanding debtors and a significant part of their debtors may be irrecoverable (bad debt) or were written off in the 2012-11 financial statements. As departments use the modified cash basis of accounting, revenue is not recognised until it is received. All debts that are not recovered should be considered in the context of revenue that has been, or could be, lost to the state. This revenue includes revenue for services rendered, e.g. hospital patient fees, licence fees and taxes, but also money owed to the department by its employees (e.g. as a result of salary overpayments) and other departments and state institutions.

Poor revenue collection and debtors management practices and lack of incentive or demand for the collection of revenue are the root cause of the long-outstanding debtors of departments, which in turn could place the national and provincial revenue funds under pressure.

5.2.4 Financial health risks at public entities

The figure below shows the number of public entities that had negative indicators in relation to the funding of their continued operations.

Figure 46: Funding of continued operations – public entities



Public entities with these negative indicators spend more in one year than they have resources to cover, with the result that their income is less than their expenditure or their liabilities exceed their assets. Nineteen public entities had deficits in the past year as well as negative asset /liability ratios, while two of these public entities also had a year-end bank balance in overdraft.

In the private sector these results would be indicators of a possible going concern problem, i.e. the entity would not have sufficient funds to continue in business. However, it is uncommon for the operational existence of a public entity to cease as a result of an inability to finance its operations or net liabilities because:

- they have multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity
- they have a legislative right to levy rates or taxes
- there is a likelihood of continued government funding.

The inability of a public entity to continue doing business most likely stems from

a government policy decision, for example to wind up and dissolve the entity in its entirety or to scale back on its operations or to merge it with another entity. 51 (15%) public entities disclosed in their annual financial statements that there was a material uncertainty about their ability to continue operating in future.

Even though the majority of public entities will be able to continue their operations, the negative indicators raise concerns about the financial viability of some of the public entities, which will require additional funding from government.

5.2.5 Conclusions around auditees' financial health indicators

The results of the high-level analysis of auditees' financial health indicators demonstrate that there are a number of risks that management of these auditees, oversight and monitoring departments, treasuries and executive authorities should note.

These risks are not apparent to the users of the financial statements of departments or to those responsible for in-year monitoring as the modified cash basis of accounting does not lend itself to effective financial health assessment and monitoring. The disclosure notes in the financial statements provide accrual information but are not taken into consideration for in-year monitoring. It will be difficult for a normal user of the financial statements to make the assessments required.

The weaknesses identified in budget and financial management, the inability of some auditees to collect the revenue due to the state and the additional financial burden placed on the state by some public entities will continue to put the fiscus under pressure if not addressed.

PART TWO:

AUDIT OUTCOMES OF MINISTERIAL PORTFOLIOS

SECTION 2.1: KEY ASPECTS OF AUDIT OUTCOMES OF GOVERNMENT CLUSTERS AND MINISTERIAL PORTFOLIOS

SECTION 2.2: AUDIT OUTCOMES OF INDIVIDUAL MINISTERIAL PORTFOLIOS



AUDITOR - GENERAL
SOUTH AFRICA



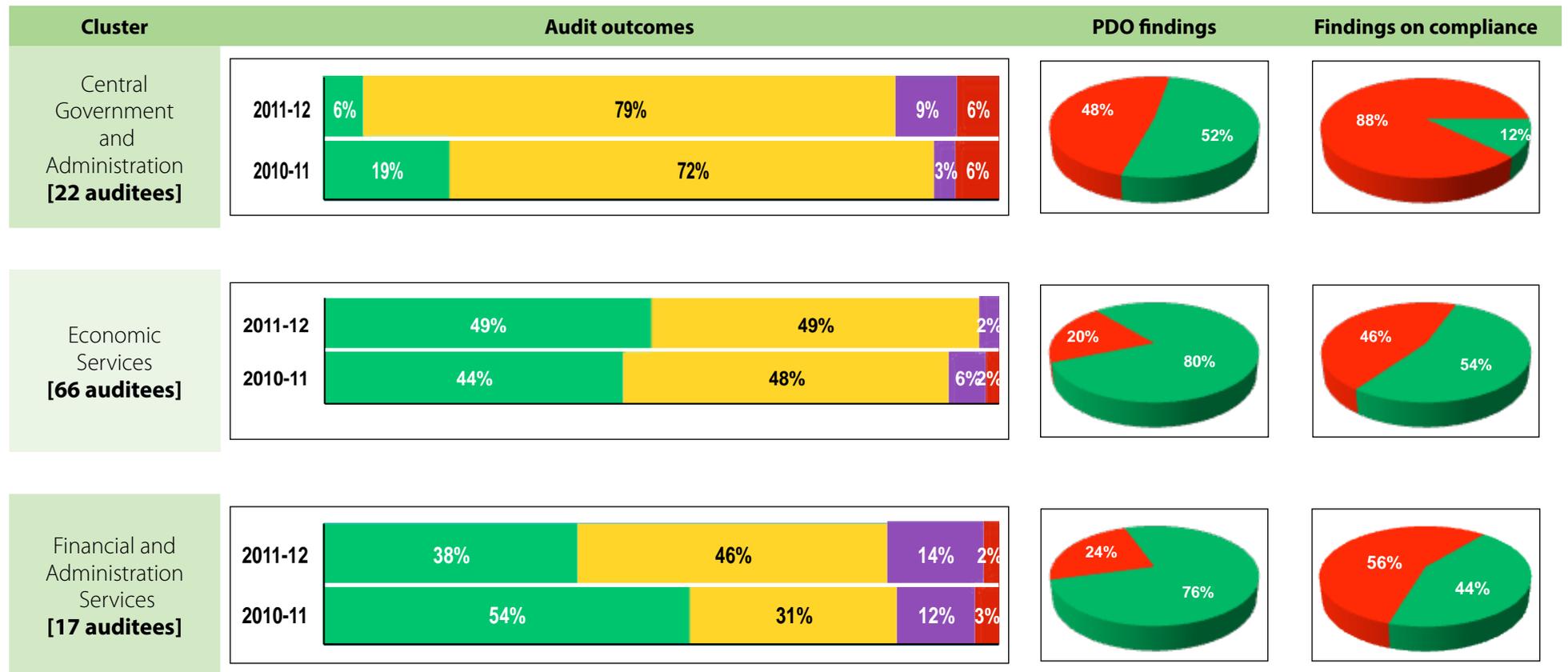
PART 2: AUDIT OUTCOMES OF MINISTERIAL PORTFOLIOS

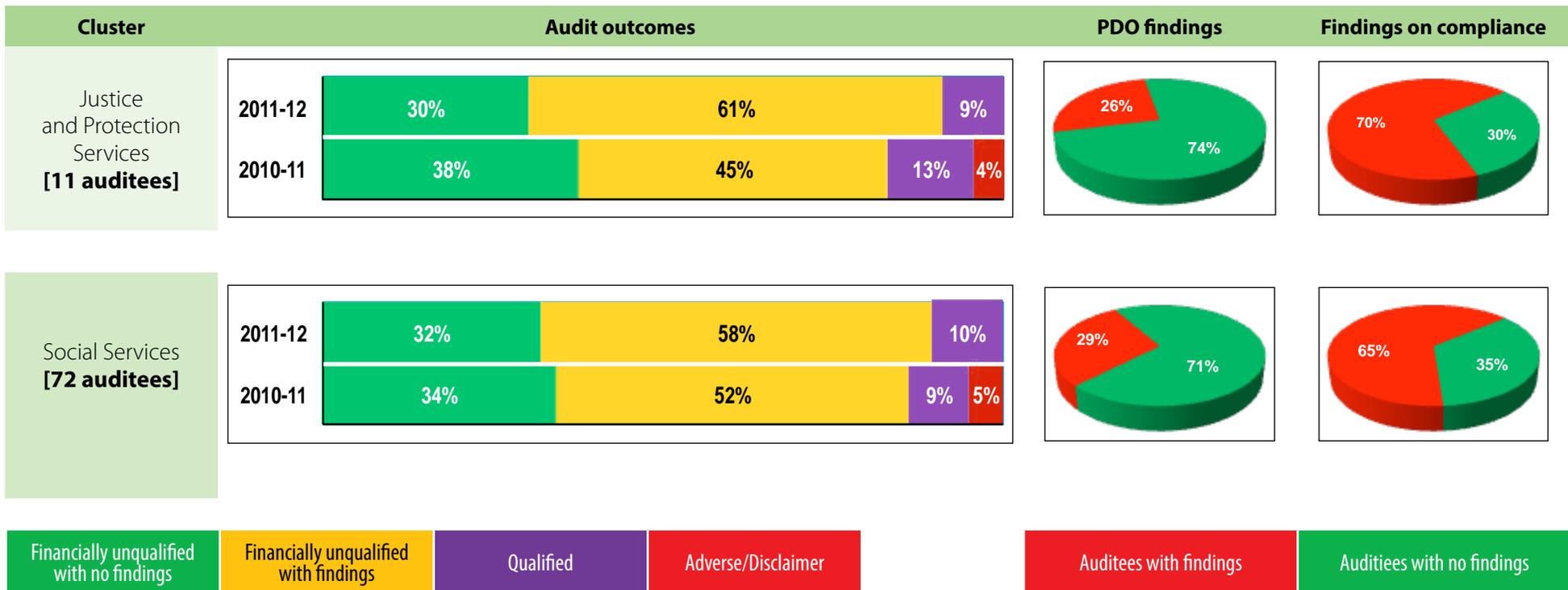
SECTION 2.1: KEY ASPECTS OF AUDIT OUTCOMES OF GOVERNMENT CLUSTERS AND MINISTERIAL PORTFOLIOS

PART 2: AUDIT OUTCOMES OF MINISTERIAL PORTFOLIOS

SECTION 2.1: KEY ASPECTS OF AUDIT OUTCOMES OF GOVERNMENT CLUSTERS AND MINISTERIAL PORTFOLIOS

This section of the general report presents the 2011-12 audit outcomes of government clusters.





The audit outcomes of individual departments within these clusters as well as the status of the five risk areas at March 2012 are summarised below.

Cluster	Audit opinions on national departments' financial statements	Focus area findings				
		Material errors in AFS submitted for audit No improvement	Predetermined objectives Improvement	Supply chain management Some improvement	IT controls No improvement	HR Regressed
Central Government Administration [9 Departments]	The Presidency	•	•	•	•	•
	Parliament of the Republic of South Africa	•	•	•	•	•
	Cooperative Governance and Traditional Affairs	•	•	•	•	•
	Government Communications and Information System	•	•	•	•	•
	Home Affairs	•	•	•	•	•
	International Relations and Cooperation	•	•	•	•	•
	Performance Monitoring and Evaluation	•	•	•	•	•
	Public Works	•	•	•	•	•
	Women, Children and Persons with Disabilities	•	•	•	•	•
Financial and Administrative Services [4 Departments]	National Treasury (Finance)	•	•	•	•	•
	Public Enterprises	•	•	•	•	•
	Public Service and Administration	•	•	•	•	•
	Statistics South Africa	•	•	•	•	•

Cluster	Audit opinions on national departments' financial statements	Focus area findings				
		Material errors in AFS submitted for audit No improvement	Predetermined objectives Improvement	Supply chain management Some improvement	IT controls No improvement	HR Regressed
Social Services [7 Departments]	Arts and Culture	•	•	•	•	•
	Basic Education	•	•	•	•	•
	Health	•	•	•	•	•
	Higher Education and Training	•	•	•	•	•
	Labour	•	•	•	•	•
	Social Development	•	•	•	•	•
	Sport and Recreation South Africa	•	•	•	•	•
Justice and Protection Services [5 Departments]	Correctional Services	•	•	•	•	•
	Defence and Military Veterans	•	•	•	•	•
	Independent Complaints Directorate	•	•	•	•	•
	Justice and Constitutional Development	•	•	•	•	•
	Police	•	•	•	•	•

Cluster	Audit opinions on national departments' financial statements	Focus area findings				
		Material errors in AFS submitted for audit No improvement	Predetermined objectives Improvement	Supply chain management Some improvement	IT controls No improvement	HR Regressed
Economic Services and Infrastructure [13 Departments]	Agriculture, Forestry and Fisheries	•	•	•	•	•
	Communications	•	•	•	•	•
	Economic Development	•	•	•	•	•
	Energy	•	•	•	•	•
	Environmental Affairs	•	•	•	•	•
	Human Settlements	•	•	•	•	•
	Mineral Resources	•	•	•	•	•
	Rural Development and Land Reform	•	•	•	•	•
	Science and Technology	•	•	•	•	•
	Tourism	•	•	•	•	•
	Trade and Industry	•	•	•	•	•
	Transport	•	•	•	•	•
	Water Affairs	•	•	•	•	•

Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse/Disclaimer	Repeat findings	No findings	New finding
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The audit outcomes of individual ministerial portfolios, the impact of the AGSA's quarterly discussions with the executive authorities and key commitments received from ministers are presented in the remainder of this section.

The audit outcomes of Vote 6: Performance Monitoring and Evaluation and Vote 9: Government Communication and Information System are included under Vote 1: Presidency, while those of Vote 23: Independent Police Investigative Directorate (Independent Complaints Directorate) are included under Vote 25: Police



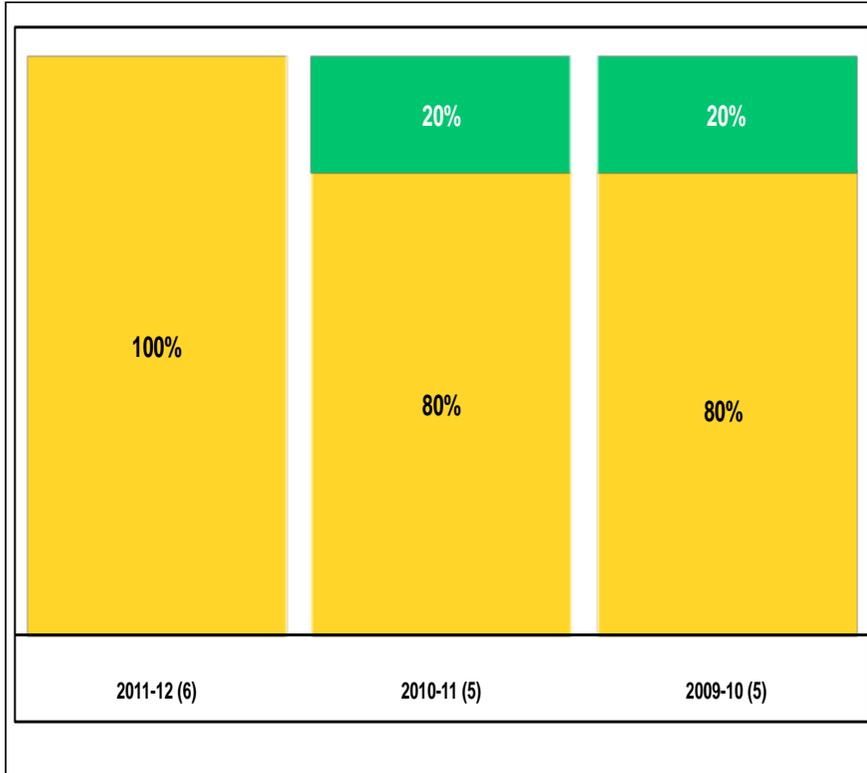
SECTION 2.2: AUDIT OUTCOMES OF INDIVIDUAL MINISTERIAL PORTFOLIOS

2.2.1 CENTRAL GOVERNMENT ADMINISTRATION



VOTE 1: THE PRESIDENCY [including Performance Monitoring and Evaluation and Government Communication and Information Systems (GCIS)]

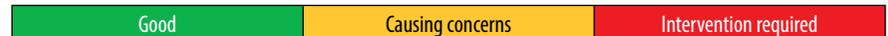
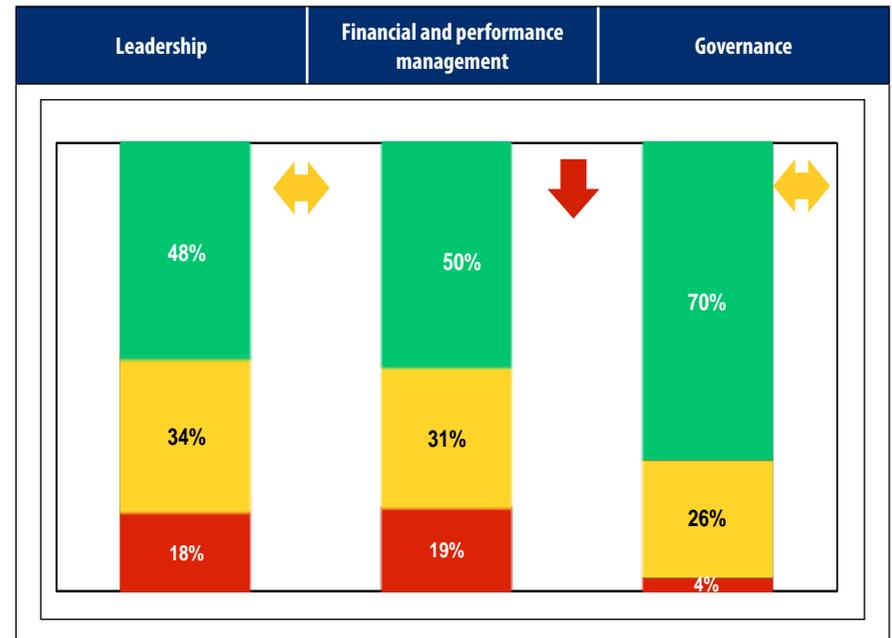
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes



VOTE 1: THE PRESIDENCY [including Performance Monitoring and Evaluation and Government Communication and Information Systems (GCIS)]

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes relating to the departments and entities within this portfolio were financially unqualified with findings. Media Development and Diversity Agency (MDDA) regressed from financially unqualified with no findings on non-compliance with laws and regulations to financially unqualified with findings. The accounting authority at MDDA did not take adequate steps to prevent irregular expenditure.

The Presidency, Government Communication and Information System, National Youth Development Agency, Brand SA and MDDA only had findings on compliance, whereby the Department of Performance Monitoring and Evaluation (established 1 April 2011) had findings on both compliance and predetermined objectives.

Risk/focus areas

The main areas of concern are the non-adherence to SCM regulations and financial statements subject to material misstatements. The findings on predetermined objectives relate to targets not conforming to the SMART principles, i.e. Specific, Measurable, Achievable, Relevant and Time bound.

The Presidency portfolio should continue to focus on implementing monthly controls to eliminate material corrections to the annual financial statements, including preparation of a complete set of monthly financial statements and controls to ensure compliance with SCM regulations and the requirements of the *Framework for managing programme performance information* (FMPPi). The executive authority should intervene to ensure that all the departments and entities implement effective internal controls and that leadership is held accountable for their actions.

The executive authority should also focus on appointing a new board for the NYDA and remedial measures to manage the non-performing loan book.

VOTE 1: THE PRESIDENCY [including Performance Monitoring and Evaluation and Government Communication and Information Systems (GCIS)]

Status of key controls and root causes of audit outcomes

The failure to record improved outcomes was mainly due to the key messages which were communicated during the audit not being taken seriously and, consequently, key controls not being adequately implemented throughout the year.

Senior management and those charged with governance also failed to adequately review financial statements and the report on predetermined objectives prior to submission for auditing.

Although most of the departments and entities within the portfolio have Internal audit and governance structures, there still seems to be inadequate reviews over financial and performance reporting which resulted in material adjustments having to be made to the financial statements.

Poor procurement planning, inadequate checks, reviews and application of SCM regulations resulted in irregular expenditure within the presidency portfolio.

Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

No impact

Impact of quarterly discussions with the executive authority

We did not meet with the minister for quarterly discussions.

Previous year

We could not secure any meetings with the minister and therefore did not obtain any commitments regarding his portfolio. The minister had also not provided any commitments in the prior year.

New

VOTE 1: THE PRESIDENCY [including Performance Monitoring and Evaluation and Government Communication and Information Systems (GCIS)]

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENTS AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 1: THE PRESIDENCY [including Performance Monitoring and Evaluation and Government Communication and Information Systems (GCIS)]

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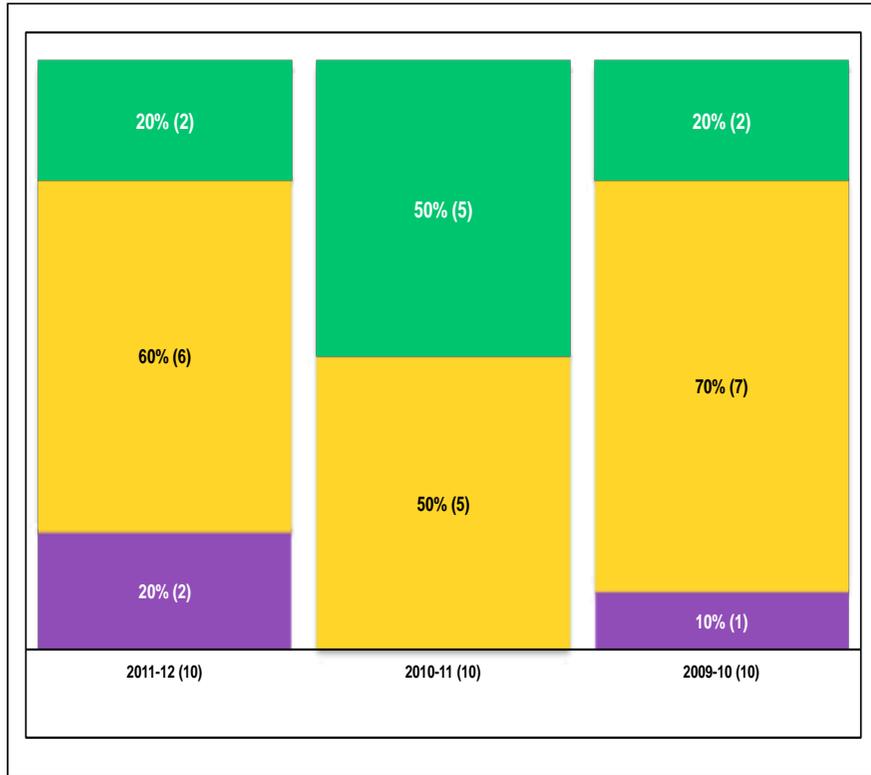
Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas	Findings on predetermined objectives	Findings on areas of non-compliance									
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	None	Reported information not useful	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Revenue management	Asset management	Audit committees	AFS, performance report and annual report	Expenditure management	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Budget
Departments																			
1	Presidency								A	N	R	N					R	R	
2	Department of Performance Monitoring and Evaluation								N	N		N						N	
3	Government Communication Information Systems									N	R							A	
Public Entities																			
1	National Youth Development Agency									R	R		N	N	N	N	N	R	N
2	Brand SA								A	N								R	N
3	Media Development and Diversity Agency										N							N	

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Findings
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Legend (Findings)	Addressed	New	Repeat
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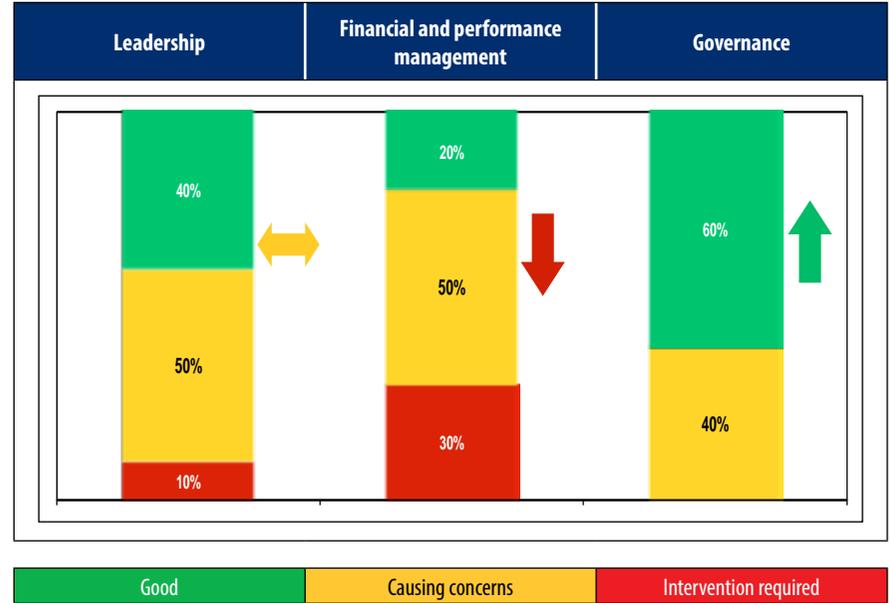
VOTE 2: PARLIAMENT (including provincial legislatures)



5 risk areas



Key controls



Root causes

- Vacancies in key positions and inadequate performance management
- Financial and performance reports not regularly prepared and reviewed
- Lack of proper leadership oversight

VOTE 2: PARLIAMENT (including provincial legislatures)

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

While the Western Cape legislature retained its clean audit outcome of the prior financial year and was joined by the Free State legislature in this category, the overall audit outcomes of the legislature cluster regressed, with the legislatures of Eastern Cape, Gauteng and KwaZulu-Natal regressing from clean audit outcomes to financially unqualified with findings on PDOs and/or compliance.

Parliament remained financially unqualified with findings on compliance with laws and regulations, which included money owing by Parliament not paid within 30 days and material corrections having to be made to the financial statements during the audit

The financial statements of Mpumalanga Legislature were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in elements making up the statement of financial position, the statement of financial performance and the notes to the financial statements. The financial statements of the Northern Cape Legislature were qualified due to the absence of sufficient and appropriate audit evidence to support goods and services and the existence and value of its debtors. The value of staff leave entitlement could likewise not be substantiated.

Risk/focus areas

Six (2010-11: 2) of the legislatures submitted financial statements for audit that contained material misstatements, five of which were corrected during the audit, thereby avoiding qualification of their financial statements.

The performance information of four legislatures (2010-11: 3) did not meet all the criteria for usefulness, while the information of three (2010-11: 2) was not reliable. The usefulness of reported information was measured against the criteria of presentation, consistency, measurability and relevance. As regards consistency, some of the findings related to targets not being specific or time bound. Indicators are not well defined or verifiable and there was no consistency between planned and reported objectives/targets. Performance could not be measured for some of the targets relevant to sub-programmes.

SCM findings were raised at two (20%) of the legislatures (2010-11: 2).

Findings on HR management were raised at six of the legislatures, which included vacancies in key posts, Performance management matters and the absence of an HR plan based on the strategic plan.

Weaknesses of varying levels of risk were identified in the management of information technology at all legislatures in one or more of the following areas: IT service continuity, data centre management, facilities and environmental control, user access control, program change management and security management. Section 3.4 of part 1 of this report provides more information on the IT audit focus areas.

The declaration of a provincial legislature's management actions as unconstitutional would have a far-reaching impact on the operations of provincial legislatures as well as the financial reporting framework.

VOTE 2: PARLIAMENT (including provincial legislatures)

Status of key controls and root causes of audit outcomes

Financial statement qualifications and PDO findings stem from matters that include the following:

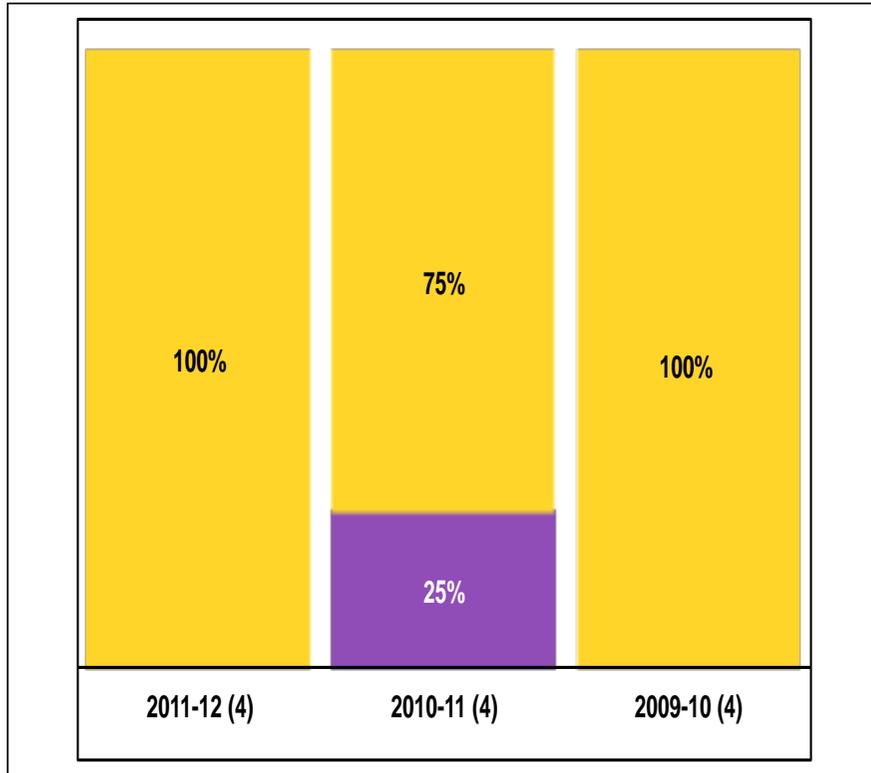
- **Leadership:** The leadership did not perform sufficient monitoring and oversight in respect of financial and performance reporting and related internal controls, resulting in errors not being detected and corrected timeously. In addition, the leadership did not address identified internal control deficiencies and risks.
- **Financial and performance management :** The financial statements and performance reports were not adequately reviewed for completeness, validity and accuracy prior to submission for audit, resulting in material misstatements being identified during the audit. Findings on performance information are the result of a lack of proper systems of record management for maintaining information that supports the reported performance.
- **Governance:** Audit committees did not adequately review financial statements before submission for audit, while Internal audit coverage for the financial year did not adequately cover performance information and compliance with laws and regulations.

NEXT PAGE: AUDIT OUTCOMES OF LEGISLATURES



VOTE 3: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

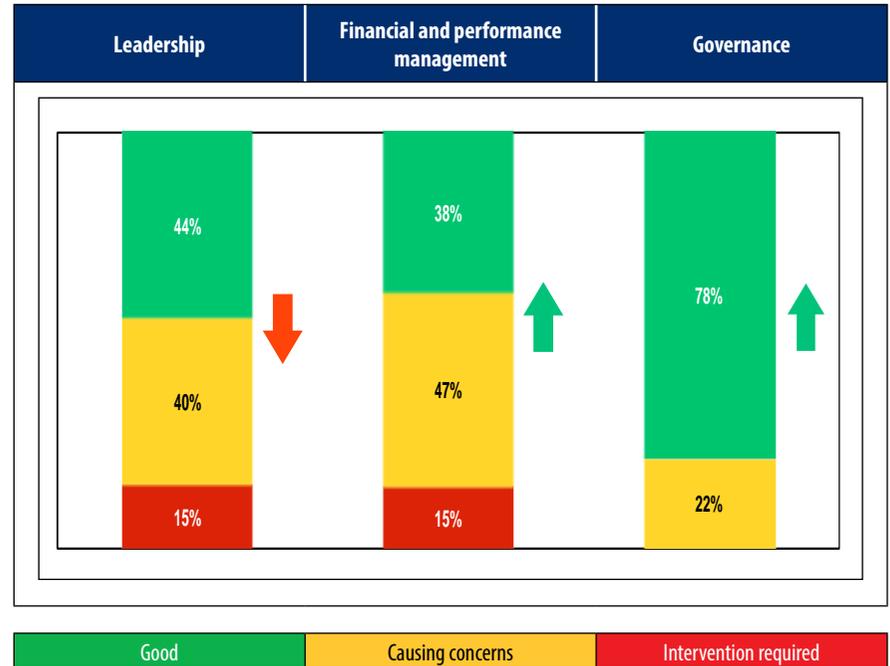
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Lack of understanding of laws, regulations and FMPPi as well as lack of key controls in system for collation, collection and filing of PDO and SCM documentation.
- Action plans are inadequate or not implemented correctly to address prior year matters reported.
- Lack of monitoring of commitments by oversight and adequate review of annual financial statements.
- Instability in leadership and vacancies in internal audit and supply chain management unit not filled timeously.

VOTE 3: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The overall improvement in the audit outcomes is due to the Department of Cooperative Governance and Traditional Affairs (**CoGTA**) improving from a financially qualified opinion with findings on compliance and predetermined objectives to a financially unqualified opinion with findings on compliance and predetermined objectives. Although the department cleared the qualification by focusing on the detection and disclosure of irregular expenditure, prevention thereof still has not been addressed. Thus, there has not been a reduction in the number of non-compliance findings, especially with regard to SCM, compliance with laws and regulations and material adjustments to the financial statements. The South African Local Government Association (**SALGA**) has remained financially unqualified with findings on compliance. Findings on predetermined objectives were reported at **CoGTA**.

Risk/focus areas

The key challenges to moving towards clean administration remain primarily in the areas of submission of financial statements which are free from material misstatements, compliance with SCM prescripts and compliance with the regulations and guidance on managing and reporting on performance against predetermined objectives.

The improvement in audit outcomes at the department cannot be attributed to an improvement in internal controls as numerous instances of non-compliance persist with regard to SCM laws and regulations. Adequate controls must now be implemented at **CoGTA** and **SALGA** to properly review and monitor compliance with laws and regulations, mainly in the area of SCM prescripts, to avoid incurring irregular expenditure. Monthly financial statements with all relevant disclosure notes should be prepared by both entities to avoid material corrections to financial statements submitted to audit. Proper record keeping supporting reported performance information should also be a focus at **CoGTA**.

Status of key controls and root causes of audit outcomes

Key controls have not improved significantly as a result of lack of oversight responsibility. This resulted in a lack of progression towards clean administration. Action plans implemented to address prior year audit outcomes were not fully implemented resulting in many repeat findings in the areas of non-compliance with SCM laws and regulations, material adjustments to financial statements and findings on predetermined objectives, especially at **CoGTA**. There is also a lack of adequate progress monitoring of the action plans. Financial statements submitted are not adequately reviewed by the leadership and those charged with governance at both **CoGTA** and **SALGA**.

The PDO findings at the department were mainly as a result of a lack of understanding of the FMPPPI requirements resulting in indicators not being well defined and verifiable, targets not conforming to the SMART principle and reported indicators and targets not being consistent with planned indicators and targets. Further to this, a system to collect and collate information to support reported performance information was not implemented at **CoGTA**, resulting in reported performance not being supported by source information. The findings on compliance were mainly as a result of non-adherence to SCM prescripts, which was reported at the department and **SALGA**. **CoGTA** and **SALGA** also required material adjustments to their financial statements due to a lack of adequate review of financial statements.

VOTE 3: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

Commitments and initiatives made by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met once with the new executive authority during the 2011-12 financial year. The discussion focused on the weaknesses reported as per the key control dashboards and on prior year qualification areas. We were not successful in securing meetings with the previous executive authority of the department and letters were sent regarding the key control assessments.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our limited interactions, we have assessed that the executive authority of CoGTA does not yet provide the required level of assurance.</p>			■
Previous year			
No commitments were obtained from the previous minister in the prior year.		■	
New			
The minister of CoGTA undertook to ensure that proper systems are implemented to address non-compliance with laws and regulations, especially in the area of SCM, and to capacitate Internal audit to improve its effectiveness. Progress will be monitored by means of monthly reports provided to the minister.			

VOTE 3: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

Constitutional institutions

The Municipal Demarcation Board (**MDB**) and the **CRL** Rights Commission have remained financially unqualified with findings.

Findings on predetermined objectives were reported at the **CRL** Rights Commission, with no material findings reported at **MDB**. A system to collect and collate information to support reported performance information was also not implemented at the **CRL** Rights Commission, resulting in reported performance not being supported by source information. The findings on compliance were mainly due to non-adherence to SCM prescripts as a result of lack of understanding and incorrect interpretation of applicable laws and regulations at the **CRL** Rights Commission, a lack of capacity in the SCM unit and inadequate documentation storage processes at **MDB**. Both **MDB** and **CRL** Rights Commission required material adjustments to their financial statements. This was due to those charged with governance not adequately reviewing the financial statements.

MDB and the **CRL** Rights Commission's lack of progression towards clean administration can be attributed to management developing action plans which did not address the real root causes of the findings reported, actions not being specific and/or failure to assign responsibility for the tasks, and/or timelines not being determined for ultimate resolution of internal and external audit findings. There was also a lack of adequate monitoring of the action plans.

The executive authorities of these entities should focus on improving the key controls which impact on these areas, including the requirement to prepare monthly financial statements with all relevant disclosure notes that are properly reviewed by management and those charged with governance.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 3: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance										
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Revenue	Contingent liabilities	Irregular expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset management	Expenditure management	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Transfers and conditional grants	Strategic planning and performance management	Audit committee	Internal audit	
	Department of Cooperative Governance and Traditional Affairs								A		R	R			R	R	N	N	R	R	A	R		A		
Reporting auditees																										
1	South African Local Government Association											A			R	R					R		A			
2	Municipal Demarcation Board														R	R					R					
3	Commission for the promotion and protection of the rights of cultural, religious and linguistic communities										A	N			R	R		N	A	R		A	A	A		

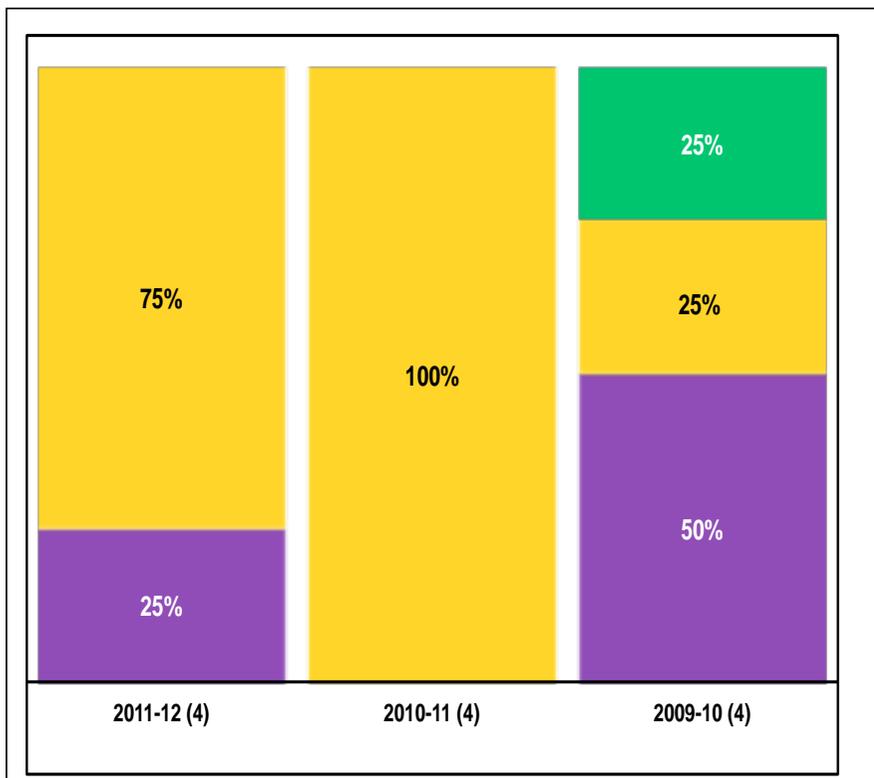
Legend (Audit outcomes)	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 4: HOME AFFAIRS

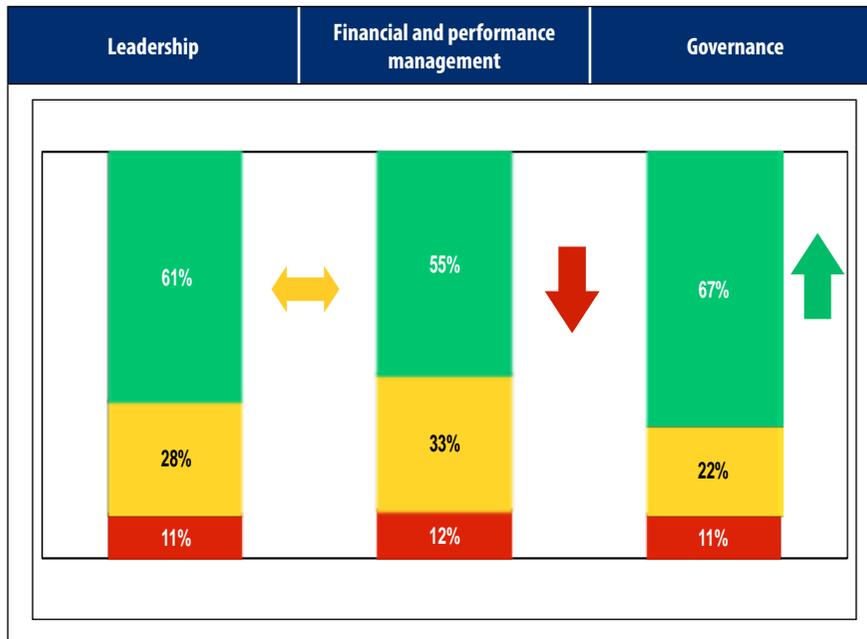
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Lack of monitoring and review of controls over monthly processing
- Vacancies in senior management positions within the portfolio
- Ineffective and poor record keeping from the point of source of information to the financial records.

VOTE 4: HOME AFFAIRS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

Overall, the portfolio showed a regression, with the best-ever results for the portfolio being for the 2010-11 financial year. The DHA regressed to a financially qualified audit opinion with findings on predetermined objectives and compliance with laws and regulations. The audit outcome for the current year reflects a regression relative to the prior year and potentially a yo-yo effect over a three-year period, with the 2009-10 result also being qualified with other matters.

The deterioration in the department's results is driven by inconsistent application of the changed accounting policy because management has not implemented processes to adequately deal with the implications thereof; shortcomings in the skills level with respect to financial reporting; management not having implemented processes and controls to address internal control deficiencies identified in the previous year's audit; and a lack of proper record keeping.

Risks and focus areas

Asset management remains a concern even though there are no audit report findings on the matter. Regular asset counts must be performed at least twice annually on documented instructions so that there is consistency in the accounting treatment of items. The departmental processes for Revenue management must be standardised and should include documented processes with pre-numbered stationery and regular revenue reconciliations. Record keeping must be improved. A procedure manual must be developed for operations in foreign missions and this manual must be rolled out in conjunction with the Department of International Relations and Cooperation (DIRCO). The service level agreement with DIRCO needs to be revised in order to establish accountability arrangements between the two departments. The Internal audit unit must audit the processes to be implemented by the department and a robust audit must be performed on the financial statement preparation process with a view to understanding the internal control deficiencies in this process. The current accounting policy on foreign revenue could have significant negative consequences in respect of the migration to the GRAP framework.

Status of key controls and root causes of audit outcomes

Capacity issues in terms of the skills level pose a challenge to the department. There is a deficiency in management's understanding of financial accounting concepts (as contained in the National Treasury's *Departmental financial reporting framework guide*) and, in turn, a lack of appropriate processes to address the reporting requirements. Despite interventions by the accounting officer, such as senior management being held accountable for not implementing appropriate actions to address internal control deficiencies, there were still non-compliance findings, findings on material corrected and uncorrected misstatements as well as significant findings on predetermined objectives. The department's current internal control processes are not sustainable in that there is still much reliance on the audit process to identify and drive the correction of material errors and misstatements. Appropriate actions have not been implemented to address the internal control deficiencies identified in the current and previous audits.

VOTE 4: HOME AFFAIRS

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Commitments and initiatives by the minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we have assessed that the executive authority of the DHA provides some level of assurance.</p>			■
Previous year			
<p>The Minister of the DHA undertook to improve service delivery processes throughout the country. Significant progress has been made and this remains a focus area going forward.</p> <p>There was also a commitment to make full use of the Internal audit unit and the Audit committee to ensure the ongoing quality of financial information. Although progress has been made, it remains a challenge.</p>			■
New			
<p>Improve the relationship between DIRCO and the DHA to ensure better quality of information on the vouchers from foreign missions.</p> <p>Improve record keeping with regard to the capturing of vouchers in the financial records (monthly listings for both local and foreign revenue).</p> <p>Improve the process of Asset management with regard to maintenance of the asset register (improve the monthly reconciliations).</p>			
Constitutional institution (IEC)			
Audit outcomes and key reasons for movements			
<p>The IEC received an unqualified audit opinion with findings on compliance with laws and regulations. This is an improvement since the prior year, as there are no findings on predetermined objectives.</p>			
Risks and focus areas			
<p>Non-compliance with laws and regulations remains an issue at the IEC. Irregular expenditure was incurred by the commission and the evaluation criteria for equity ownership were not specified when quotations were invited.</p>			

VOTE 4: HOME AFFAIRS

Status of key controls and root causes of audit outcomes

Although there has been an improvement in addressing internal control deficiencies and the root causes of audit outcomes, management should put measures in place to update staff on new laws and regulations and to apply them when they become effective.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 4: HOME AFFAIRS

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Contingent assets	Contingent assets - Prior year	Receivables for departmental revenue - Prior year	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	Internal audit	Revenue management	Procurement and contract management
	Department of Home Affairs						N	N	N		R	N			R	R	R	R	N	R	R
Reporting auditees																					
1	Independent Electoral Commission										A					R				R	
2	Government Printing Works										A					A	N	R	A		A
3	Film and Publication Board															R					

Legend (Audit outcomes)	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 4: HOME AFFAIRS

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management						Drivers of internal control										Human resource management				Information technology management				Root causes						
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls	Leadership					Financial and performance management					Governance			Management of vacancies	Overtime	Performance management	HR planning and organisation	IT governance	Security management	User access management	IT service management	Human resources capacity & productivity	Attention to key controls	Effectiveness of assurance providers	
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit												Audit committee
		↑	5,72m	↑	700k		R	N	R		A		S			S		S	S	S	S		S			R	A	R		R	R	R				
		↑	42,60m	↓	20,45k		R		R																	A			R	R	R	R	R			
		↑	1,85m						A																A	A			R	R	R	R				
				↓	200k				R	A																		R	N	N	N					

Legend (Movements)	Reduction	↑	Increase	↓
Legend (Drivers)	Good	Causing concern	Intervention required	S = Significant control deficiency
Legend (Findings)	Addressed	New	Repeat	



VOTE 5: INTERNATIONAL RELATIONS AND COOPERATION

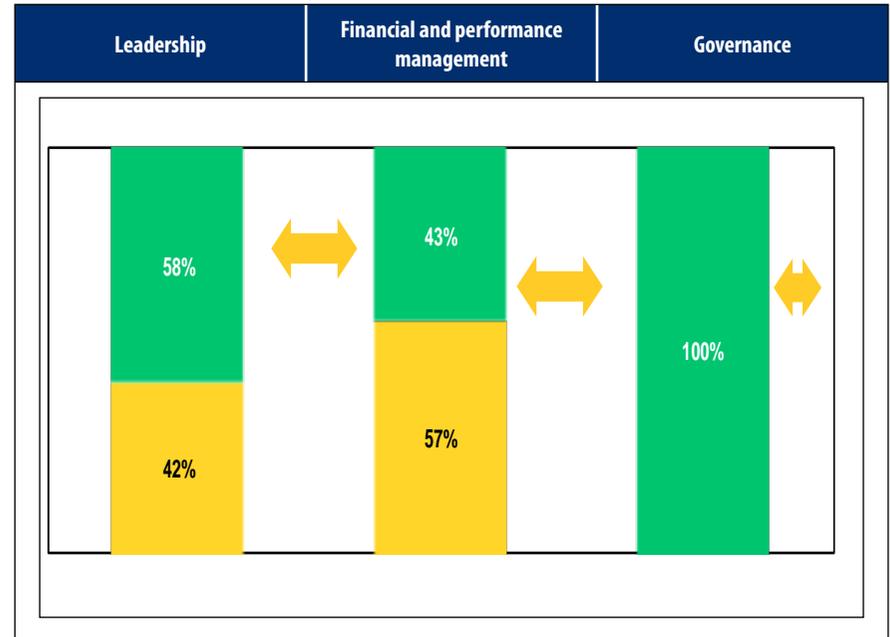
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Lack of monthly preparation and proper reviews of financial statements
- Lack of timely updating of the fixed asset register
- Key performance indicators not useful

VOTE 5: INTERNATIONAL RELATIONS AND COOPERATION

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

Overall the portfolio regressed over the period of three years. In 2009-10 it was unqualified with no findings and in 2010-11 and 2011-12 it was qualified with findings on predetermined objectives and compliance.

The Department of International Relations and Cooperation (DIRCO) achieved a financially unqualified audit opinion with findings on compliance with laws and regulations and predetermined objectives.

The African Renaissance and International Cooperation Fund (ARF) achieved a financially unqualified audit opinion with findings on predetermined objectives. It cleared findings on compliance with laws and regulations (as it does not have SCM, annual financial statements were not materially adjusted).

The regression in the audit outcomes of the portfolio was due to lack of implementation of key controls, such as monthly preparation of financial statements and monitoring.

Risk/focus areas

Supply chain management remains a challenge in the department as it has embassies and missions in all countries. Some countries do not comply with South Africa's SCM legislation. The major challenge is the approval of deviations from SCM legislation. The oversight function of monitoring and implementation of controls as well as risk management relating to SCM processes should be improved.

Issues identified in relation to predetermined objectives included performance targets not being specific and measurable and performance indicators not being well defined. The major challenge is meeting the SMART principle due to the sensitivity of the information that the department has as key performance indicators (KPIs). The department should continue to engage with National Treasury on its challenges with regards to compliance with the requirements of the FMPPI. The oversight of the predetermined objectives process, including the implementation of action plans to address the issues raised should be closely monitored by the accounting officer.

IT governance should be elevated to an appropriate level of management and, in the absence of a government-wide framework, the department should develop its own framework which should then be evaluated for alignment to the government-wide framework once approved by Cabinet.

The oversight function of monitoring the implementation and effectiveness of controls over the financial statement processes, including the review function, should be substantially improved.

The department did not always ensure that the system of controls over Asset management was adequately implemented and functioned appropriately. This function requires substantial improvement.

Overall the portfolio remained the same as in the previous year.

VOTE 5: INTERNATIONAL RELATIONS AND COOPERATION

Status of key controls and root causes of audit outcomes

Deficiencies in the oversight, monitoring and review of the implementation and effectiveness of key controls resulted in the audit outcomes. There was no movement in the audit outcomes for DIRCO since the previous year while the ARF improved from findings on both compliance and predetermined objectives in 2010-11 to findings on predetermined objectives in 2011-12.

Some of the measures taken to address the issues raised previously were rolled out for implementation in the last quarter of 2011-12, resulting in repeat findings.

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
The AGSA leadership met with the executive authority once during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.		■	
Previous year			
No commitments were made in the 2010-11.			
New			
Meeting with the minister took place on 9 February 2012. The minister undertook to follow up on the action plans that were being implemented by the department and to engage the accounting officer on the focus area issues raised by the AGSA.			

VOTE 5: INTERNATIONAL RELATIONS AND COOPERATION

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENTS AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 5: INTERNATIONAL RELATIONS AND COOPERATION

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current asset	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	Strategic planning and performance management	Procurement management	Financial misconduct
1	Department of International Relations and Cooperation										R				R	R	N	R	N	A	N
Reporting auditees																					
2	African Renaissance and International Cooperation Fund										R				A						

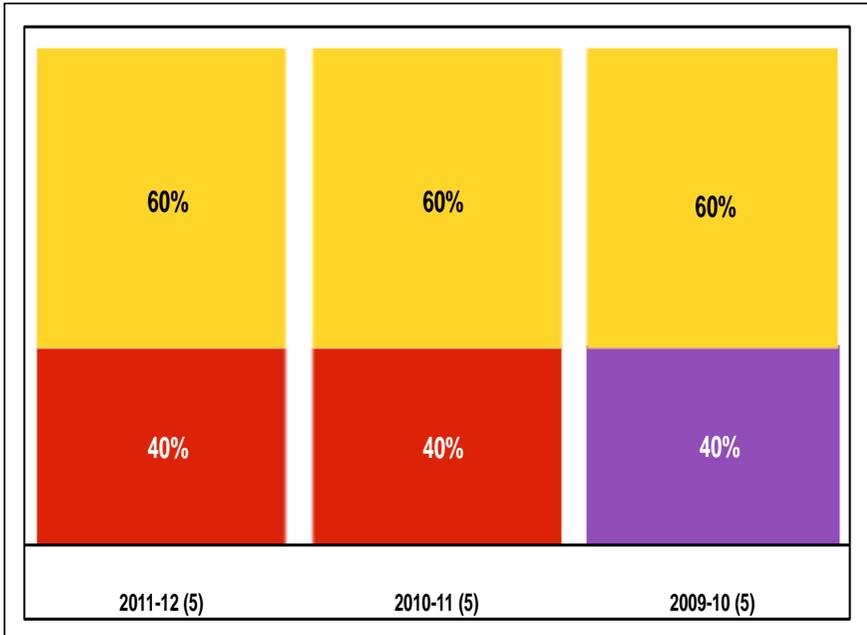
Legend (Audit outcomes)	Financially unqualified with findings	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 7: PUBLIC WORKS

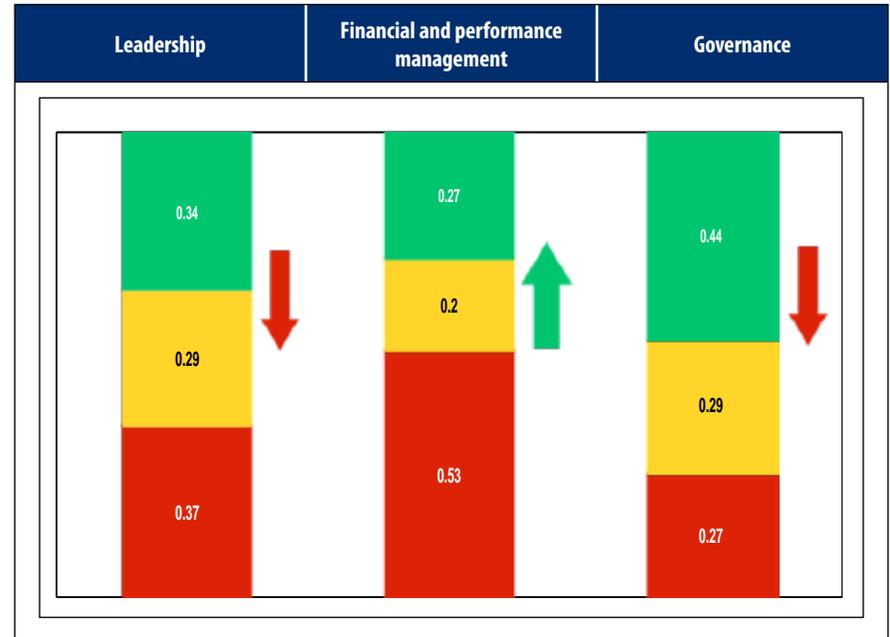
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Instability in key leadership positions and a lack of human resource capacity had a negative impact in providing effective leadership in the department.

Implemented controls over daily and monthly processing and reconciling of transactions were ineffective.

The high level turnaround strategy did not timeously translate into a comprehensively documented audit action plan with deadlines and short and long term milestones and deliverables to sustainably address internal control deficiencies.

VOTE 7: PUBLIC WORKS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes of the department and all entities in the portfolio remained unchanged. The Department of Public Works (DPW) and the Property Management Trading Entity (PMTE) received disclaimers and the Independent Development Trust (IDT), Council for the Built Environment (CBE) and the Construction Industry Development Board (CIDB) received financially unqualified opinions with findings on predetermined objectives and compliance with laws and regulations. Although ultimately it did not influence the audit outcome, compliance in the area of procurement and contract management regressed for both IDT and CBE due to a lack of appropriate monitoring of compliance by leadership.

Risk/focus areas

Supply chain management remains a major risk area throughout the portfolio and it is critical that the department and entities focus on enhancing their oversight and monitoring functions in respect of SCM as well as adopting a zero tolerance stance on non-compliance and holding transgressors accountable. Furthermore, updating of SCM policies and procedures in line with latest laws and regulations should be ensured and training should be rolled out to all applicable staff members to enhance understanding of principles. At the department and PMTE a comprehensive contract management system must be implemented to enable proper procurement planning and avoid unjustified deviations.

With respect to reporting against predetermined objectives a minimal improvement was noted, with the CBE and CIDB improving the reliability of reported information. There is, however, a continued lack of understanding and incorrect implementation of guidance issued by the National Treasury, amongst others the FMPPI, which had a negative impact on the usefulness of reported information of all entities in the portfolio except for the IDT. The department and affected entities should implement corrective action during the crafting of targets and indicators for inclusion in the strategic plan to ensure that they conform to the required principles. Furthermore, the department and the IDT should improve their records management systems and ensure that appropriate audit evidence is available to substantiate all achievements recorded.

Human resource management is a concern at the DPW where the organisational structure must be aligned to the strategic plan of the department, the filling of vacancies with appropriately skilled people must be expedited and the essential basic control of certification of the payroll must be rigorously enforced.

Significant shortcomings were identified in the IT environment; specifically with respect to the Property Management Information System (PMIS) utilised by the department and PMTE, which must be addressed as a matter of urgency. The proposed implementation of the iE-Works system and procurement of a financial system which enables accrual accounting for the PMTE must also be expedited.

The focus must be on the preparation and adequate review by appropriate members of senior management of a full set of financial statements (including disclosure notes for the department) and reports on compliance with laws and regulations on a monthly basis. Similarly performance reports should also be updated and reviewed (including obtaining confirmation that sufficient and appropriate supporting evidence was in place) on a monthly basis to enable corrective action where achievement of targets is not on track. Those charged with governance should place significant focus on performing a proper review of financial statements submitted for auditing purposes to avoid material adjustments after submission.

VOTE 7: PUBLIC WORKS

Status of key controls and root causes of audit outcomes

The status of key controls in the portfolio remained unchanged since the previous financial year with DPW and PMTE experiencing a significant breakdown in all areas of internal control – leadership, Financial and performance management and governance. Key controls at the entities are largely implemented; however, improvement is required in the areas of leadership oversight of financial reporting, compliance with laws and regulations and reporting on performance against predetermined objectives to ensure a movement towards an unqualified opinion without findings.

The instability of leadership and lack of sufficiently skilled human resources in both the department and the PMTE, combined with the lack of implementation of corrective action in respect of prior year audit outcomes (by means of successful execution of an audit action plan/turnaround strategy), contributed to the repeated disclaimer. Furthermore, a comprehensive policy and procedure framework was not in place, which resulted in an inability to implement properly functioning daily controls. This was exacerbated by the absence of a proper records management system.

Oversight

Oversight procedures were conducted at the department. The department has established a directorate which facilitates the oversight and governance function at its public entities. Even though the department has adopted policies to facilitate its function of oversight and governance, it did not have policies and procedures to monitor, detect and mitigate risks affecting the business of the public entity.

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Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the Minister of Public Works three times during the 2011-12 audit cycle. These discussions focused on the critical weaknesses reported as per the key control dashboards and recommendations to address these shortcomings.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority had provided some level of assurance for the year under review.</p>			■
Previous year			
The current executive authority was not with the DPW in the previous financial year, therefore the focus is on current commitments (see below).	Change in leadership, therefore not applicable.		

VOTE 7: PUBLIC WORKS

New

The executive authority committed to the implementation of a multi-year turnaround strategy for the department and the PMTE, as well as the implementation of a stabilisation project with a view of achieving clean audit outcomes. These initiatives will address critical areas of leadership stability and enhancement, a fairly presented immovable asset register by 31 March 2014, implementation of policies governing prestige procurement and addressing shortcomings in leasing. In addition, the accounting officer of DPW will report monthly on expenditure against the budget and the executive authority will review the report and take appropriate action.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 7: PUBLIC WORKS

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas						Findings on predetermined objectives				Findings on areas of non-compliance													
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Immovable assets	Current assets	Liabilities	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Revenue	Operating expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Strategic planning and performance management	Asset management	Procurement and contract management	Budgets	Expenditure management	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Financial misconduct	HR management	Revenue management	Internal audit		
	Department of Public Works	R	A	A	R	A	A	R			R		R	R	R			R	R	R	R	N	R	R	R	R	R	N	R		
Reporting auditees																															
1	Property Management Trading Entity	R	A	A	R	A	A	R	R	R	R	R						R			R		R	R	N						
2	Independent Development Trust	A	A	A	A	A									R			R			N										
3	Council for the Built Environment	A	A	A	A	A								R	A			R	N	N	N			N							
4	Construction Industry Development Board	A	A	A	A	A								R	A			R			R	N		R							

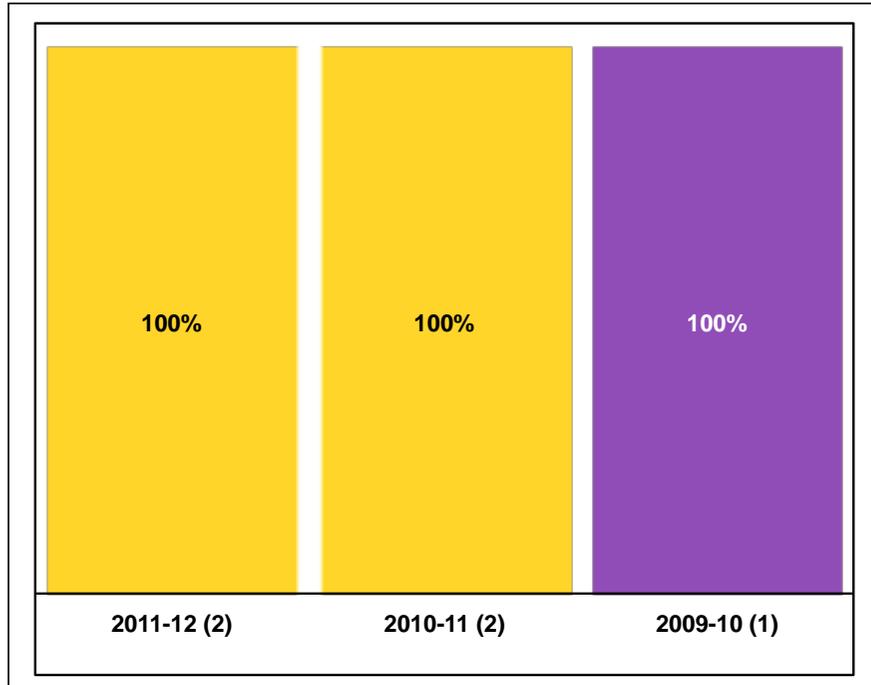
Legend (Audit outcomes)	Financially unqualified with findings	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 8: WOMEN, CHILDREN AND PEOPLE WITH DISABILITIES

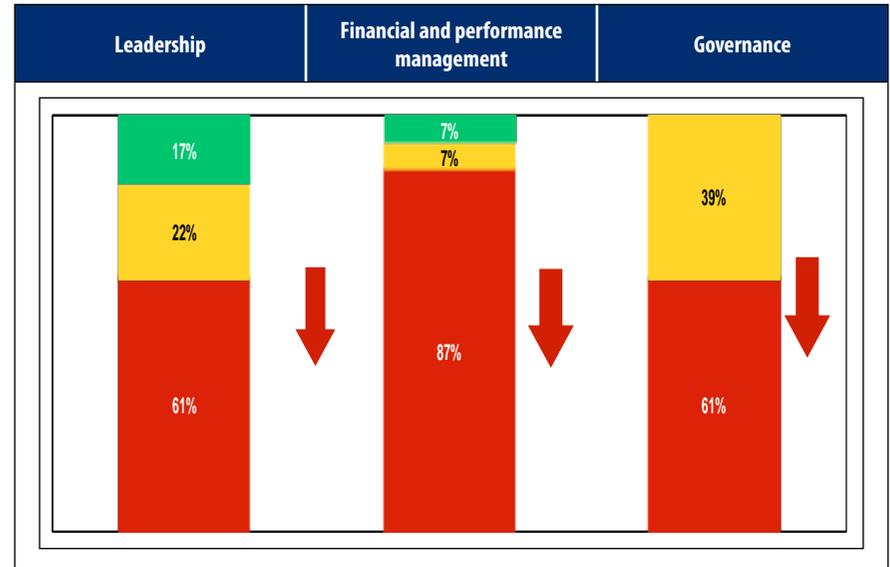
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Ineffective governance structures, no Internal audit appointed and the Audit committee was not effective.

Leadership did not take action to address issues identified.

Basic internal control procedures were not in place. Lack of understanding of the *Framework for managing programme performance information*.

VOTE 8: WOMEN, CHILDREN AND PEOPLE WITH DISABILITIES

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes of the department remained unchanged. The Department of Women, Children and People with Disabilities (DWCPD) received a financially unqualified opinion with findings on compliance with laws and regulations and predetermined objectives. Although the department remained in the same category, the extent of non-compliance as well as unauthorised expenditure and irregular expenditure had increased since the prior year. This can be attributed to the failure by leadership to take action in addressing the issues raised in the prior year.

Risk/focus areas

The main area of concern at the department is compliance with laws and regulations, including the SCM prescripts and predetermined objectives. Inadequate expenditure management and in-year monitoring of the budget as well as a lack of oversight and monitoring mechanisms have resulted in the department incurring significant unauthorised and irregular expenditure. There were inadequate systems and processes in place for the identification and recording of irregular expenditure. The financial statements were not appropriately reviewed by senior management, which was exacerbated by a lack of discipline in preparing credible monthly financial, compliance and performance reports, resulting in material adjustments being made. The annual report was not consistent with the strategic plan and the indicators did not conform to the SMART principles.

The department should focus on implementing monthly controls to eliminate material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements with all relevant disclosure notes. SCM processes should also be improved. The department should focus on ensuring that the strategic plan is prepared in compliance with the guidelines issued by the National Treasury and that reporting is consistent between the strategic plan and the annual performance report.

Status of key controls and root causes of audit outcomes

The recurrent poor audit outcomes at the department can be attributed to a lack of committed leadership. Effective controls were not developed and implemented in the department, while governance structures such as Internal audit were not in place. The audit committee was appointed too late in the financial year to have any impact. In addition, leadership failed to timeously implement corrective action to address matters reported previously.

Findings on predetermined objectives were mainly as a result of a lack of understanding of the FMPPI requirements, resulting in the department's strategic plan not conforming to the SMART principles as well as inconsistent reporting between planning and reporting documents.

VOTE 8: WOMEN, CHILDREN AND PEOPLE WITH DISABILITIES

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority at least four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DWCPD provides some level of assurance.</p>			■
Previous year			
<p>The filling of critical positions to ensure that the department establishes the governance structures as required by legislation.</p>		■	
New			
<p>The minister has undertaken to develop a turnaround strategy to address the identified internal control deficiencies. Such a plan will be monitored by the Audit committee, while the accounting officer will report quarterly to the minister on the progress thereof.</p>			
Constitutional institution: Commission on Gender Equality			
Constitutional institution			
<p>The audit outcomes of the constitutional institution remained unchanged. The Commission on Gender Equality (CGE) received a financially unqualified opinion with findings.</p> <p>At the CGE there has been no improvement in the environment with respect to predetermined objectives. Predetermined objectives findings have been raised again and five compliance matters recurred. The financial statements were again subject to material adjustments.</p> <p>Findings on predetermined objectives were raised mainly as a result of a lack of understanding of the FMPPI requirements resulting in the institution's strategic plan not conforming to the SMART principles as well as inconsistent reporting between planning and reporting documents.</p> <p>Although two areas of non-compliance had been resolved, the CGE leadership has to show more commitment and take audit findings and the key messages communicated during the audit process more seriously to move towards a positive outcome.</p>			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITY IN PORTFOLIO

VOTE 8: WOMEN, CHILDREN AND PEOPLE WITH DISABILITIES

224

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance											
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current assets	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset management	Expenditure	Strategic planning and performance management	Budgets	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Audit committee	Internal audit	Revenue	Borrowings
	Department of Women, Children and People with Disabilities										R				R	R	R			R	R	R	R	R	R	R	
Reporting auditees																											
1	Commission on Gender Equality										R				R	R		R	R	A		R					A

Legend (Audit outcomes)	Financially unqualified with findings	Findings
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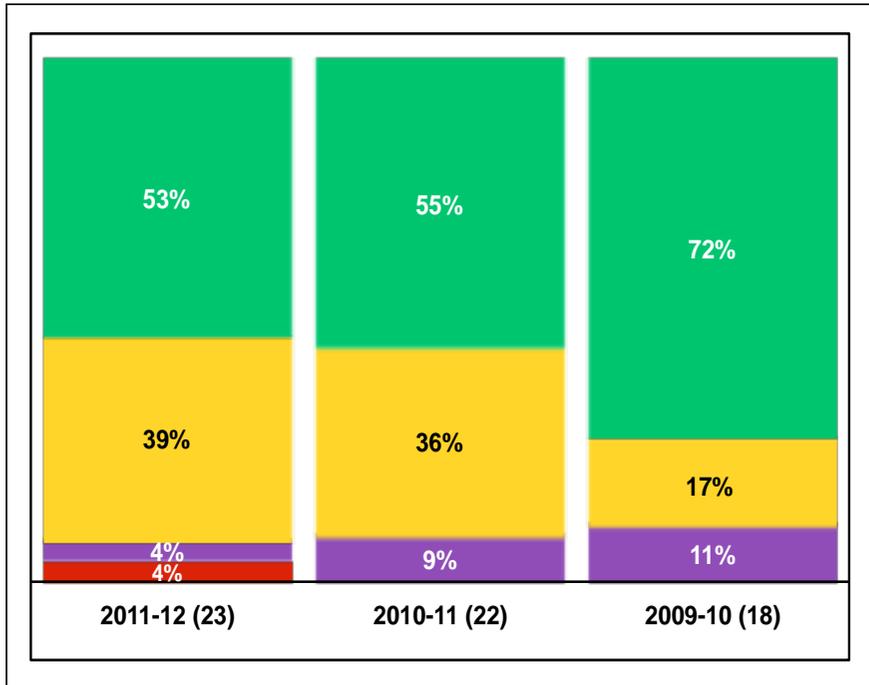
Legend (Findings)	Addressed	Repeat
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2.2.2 FINANCIAL AND ADMINISTRATIVE SERVICES



VOTE 10: NATIONAL TREASURY (FINANCE)

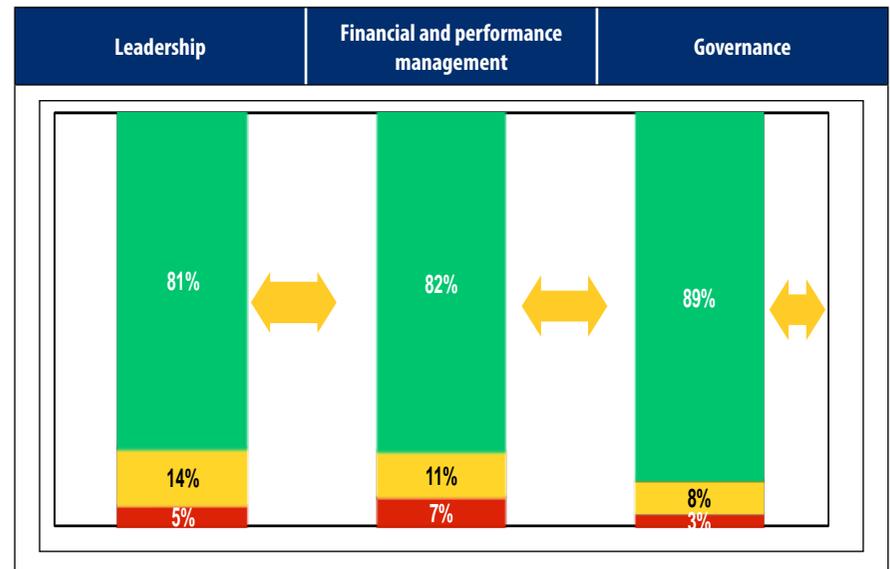
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes



Vacancies and Acting positions in department and certain entities not adequately managed

Inadequate oversight of SCM, AFS not prepared on a monthly basis, lack of policies and procedures to guide on strategic plan and PDO reporting

Lack of consolidation internal controls

VOTE 10: NATIONAL TREASURY (FINANCE)

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes of the portfolio have regressed over a period of the three years. The outcomes of the consolidation process for both departments and entities were modified, entities disclaimed and departments qualified. The portfolio had 72% of clean audit outcomes in 2009-10, with 55% in 2012. This represents a regression, mainly due to findings on compliance with laws and regulations (SCM, material adjustments, etc).

The regression is attributable to lack of implementation and monitoring of action plans and understanding of the FMPPI. The parent department does not perform adequate monitoring and provide proper guidance.

Consolidations - National department consolidation received a qualified audit opinion due to non-elimination of interdepartmental transactions and balances, immovable tangible capital assets and irregular expenditure.

Public entity consolidations received a disclaimer. In 2011-12 the consolidations were audited for the first time (i.e. we expressed an opinion) while in the previous years it was agreed-upon procedures. The disclaimer was mainly due to the basis of preparation, failure by National Treasury to adequately adjust for different accounting frameworks applied by individual entities and incomplete elimination of inter-entity transactions.

Risk/focus areas

Information technology - One department (National Treasury) and three entities (GPAA, Land Bank and SARS: Admin Revenue) all had findings on IT.

Supply chain management - Employees with interests in contracts were identified and a limitation was placed on contract management (service provider with no contract).

HR management - The most common findings in this area relate to a lack of HR plans, delays in approving organisational structures at some entities and inadequate management of vacancies and Acting positions at the department and entities.

PDO reporting – Compliance matters. Strategic plan not submitted on time. Information to support reported performance was not accurate at two entities. At four entities it was found that the objectives, indicators and targets did not meet the SMART principles.

Material misstatements – Six entities had material misstatements in submitted financial statements that were subsequently corrected by management .

VOTE 10: NATIONAL TREASURY (FINANCE)

Status of key controls and root causes of audit outcomes

Leadership

Inadequate oversight of the high-risk area of procurement and contract management as well as a lack of review of the procurement decisions made.

Financial and performance management

Inadequate review of annual financial statements and disclosure notes; annual financial statements not prepared on a monthly basis; lack of policies and procedures to guide preparation of strategic plan and reporting of PDOs; non-compliance with SCM manual and over-reliance on consultants for preparation of the financial statements.

Governance

Limited discussions between Audit committees and the executive authority or accounting authority. We will recommend that these interactions take place during our stakeholder engagements. Overall governance structures in the Finance portfolio are effective.

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Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

Impact of quarterly discussions with the executive authority

The AGSA leadership has met with the executive authority represented by the Deputy Minister twice during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards and previous audit outcomes.

The meeting with the minister took place in July 2012 to discuss the audit outcomes for the 2011-12 audit period. These engagements resulted in positive responses from those charged with governance in terms of dealing with outcomes. Significant improvements were realised by improving controls relating to special pensions.



Previous year

No documented action plans were received in the previous year.

VOTE 10: NATIONAL TREASURY (FINANCE)

New

The following were commitments made by the Minister of Finance during a stakeholder meeting:

- He undertook to give us time where detailed transversal IT findings can be discussed, including issues impacting SITA and IFMS.
- The minister cited a need for government (i.e. National Treasury) to focus on a more streamlined approach to reporting which relates to the specific objectives of government.
- The minister acknowledged findings on HR and committed to sign off on the National Treasury's HR Plan as soon as possible.
- He proposed a round table discussion with affected entities that have audit outcomes so as to devise action plans to resolve negative audit outcomes.
- The minister suggested that a broader view and discussions were necessary to consider political culture, societal culture, a culture matrix in government and the bureaucratic culture of the country to deal with audit findings raised by AGSA.
- The deputy director-general at National Treasury responsible for the administration intervention in Limpopo liaise with the corporate executive in the AGSA responsible for that province and to agree on how to take these matters forward.

Constitutional entity: Financial and Fiscal Commission

The entity has improved on its audit outcomes. In 2010-11, the entity had findings on predetermined objectives and compliance while in 2011-12 it only had findings on compliance matters. The action plan aimed at addressing PDO findings was effective.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 10: NATIONAL TREASURY (FINANCE)

230

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance											
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current asset	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	HR management	Procurement management	Annual financial statements and annual report	Strategic planning and performance management	Asset and liability management	Audit committee	Internal audit	Other	
1	National Treasury										N				R		A	N	R	A	R						
Reporting auditees																											
2	Cooperative Banks Development Agency										N				R	R			N		R					N	
3	Financial Intelligence Centre										N				R	R			R			N					
4	Financial Services Board																										
5	Government Pensions Administration Agency											N									N		R				
6	Independent Regulatory Board for Auditors																										
7	Land and Agricultural Bank of South Africa																										
8	Land Bank Insurance Company										N																
9	Office of the Ombud for Financial Service Providers												N		N						N						

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 10: NATIONAL TREASURY (FINANCE)

234

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance											
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current asset	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	HR management	Procurement management	Annual financial statements and annual report	Strategic planning and performance management	Asset and liability management	Audit committee	Internal audit	Other	
Audits not conducted by the AGSA																											
17	Development Bank of Southern Africa																										
18	Development Bank of Southern Africa Fund																										
19	SASRIA																										
20	Accounting Standards Board																										
Constitutional Institution																											
21	Financial and Fiscal Commission																										
National Treasury Consolidations																											
22	NT Consolidations (Departments)																										
23	NT Consolidations (Public Entities)																										

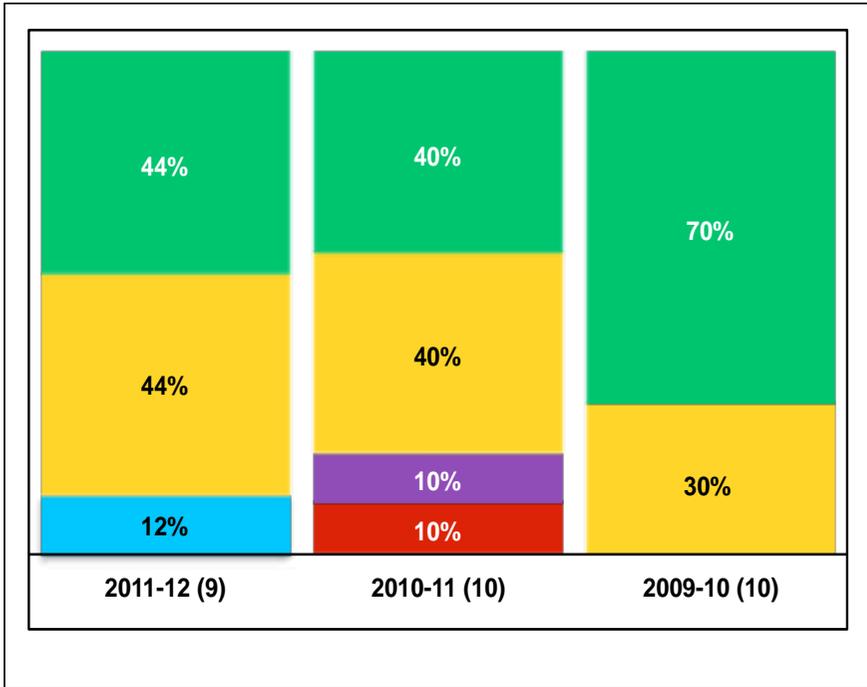
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 11: PUBLIC ENTERPRISES

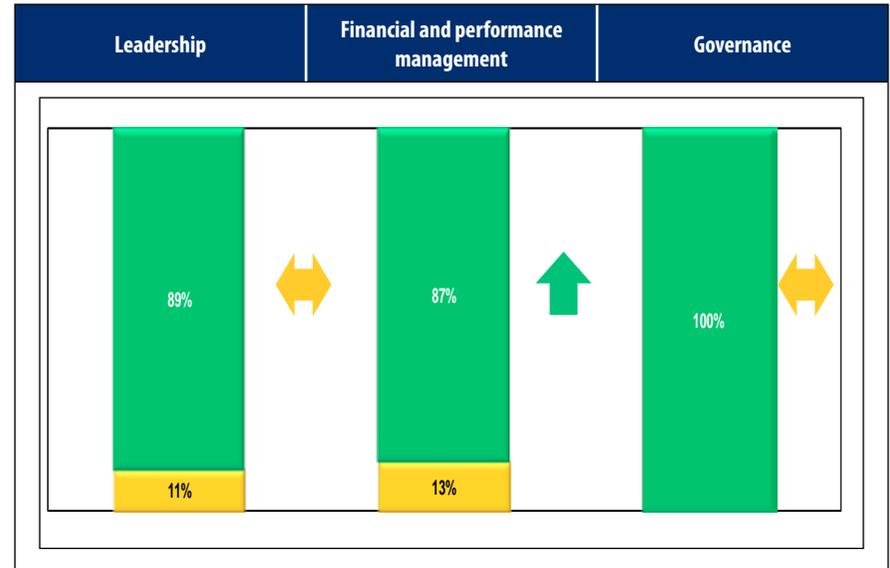
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Weaknesses within the systems for the reporting on non-compliance and irregular, fruitless and wasteful expenditure at SOCs

Management has created a culture of implementing key controls

Challenges are experienced with the recruitment and retention of highly skilled staff by the SOCs.

VOTE 11: PUBLIC ENTERPRISES

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Department of Public Enterprises (DPE) received a clean audit opinion in the 2011-12 financial year. The department has managed to maintain a clean audit opinion for nine years. Broadband Infracore improved from a financially qualified audit opinion to a financially unqualified opinion with findings on compliance with laws and regulations. The Pebble Bed Modular Reactor (PBMR) was placed under care and maintenance and their financial results have been incorporated into the consolidated annual financial statements of Eskom for the 2011-12 financial year. The audit of South African Express Airways has not yet been finalised.

The accounting officer and the chief financial officer of the DPE have been hands-on in ensuring that the department's internal controls are strengthened, resulting in the department consistently producing accurate and complete financial information.

Risks and focus areas

Challenges are experienced with the recruitment and retention of highly skilled staff to carry out the function of oversight and governance at state-owned companies. The DPE cannot compete with private sector salaries, which contributes to the high migration of key staff members. Linked to this is the high rate of leadership change at accounting officer level and the resultant changes at lower levels of leadership. The DPE should continue to focus on increasing oversight of state-owned companies to ensure the efficient roll-out of infrastructure plans by such companies; meaning that there should be a move away from functional oversight to strategic oversight.

Status of key controls and root causes of audit outcomes

Weaknesses were identified in the systems for reporting non-compliance as well as irregular and fruitless and wasteful expenditure at state-owned companies. The lack of leadership stability at the state-owned companies also remains a challenge.

Oversight and governance of PFMA schedule 2 public entities

Oversight procedures were conducted at the department. The department has established a directorate that facilitates the oversight and governance function at its public entities. No material findings were noted.

VOTE 11: PUBLIC ENTERPRISES

Commitments and initiatives by the minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DPE provides the required level of assurance.</p>	■		
Previous year			
<p>The executive authority committed to meet with the Audit committee chairpersons of state-owned companies. This process is at an advanced stage.</p> <p>The relationship with the AGSA on matters relating to state-owned companies was enhanced in 2011-12.</p>	■		
New			
Focus on the sustainability of the clean audit and clean administration at state-owned companies in order to lead by example, as well as continuous focus on the engagements between the Audit committee and board chairpersons of state-owned companies and the executive.			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 11: PUBLIC ENTERPRISES

240

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas	Findings on predetermined objectives				Findings on areas of non-compliance				
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual report	Strategic planning and performance management	Transfer and conditional grants
Department of Public Enterprises																	
Audits not conducted by the AGSA																	
2	Alexkor Limited								A						N	A	
3	Broadband Infraco (SOC) Ltd							A						A		N	
4	DENEL (SOC) Ltd																
5	Eskom																
6	South African Airways (SOC) Limited													R			
7	South African Express (SOC) Limited																
8	South African Forestry Company Limited																
9	Transnet Limited													R			

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Audit outstanding	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 11: PUBLIC ENTERPRISES

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management					Drivers of internal control									Human resource management			Information technology management				Root causes							
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership					Financial and performance management				Governance			HR planning and organisation	Management of vacancies	Appointment processes	Other	IT governance	Security management	User access management	IT service management	Human resources capacity & productivity	Attention to key controls	Effectiveness of assurance providers
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management											
								N													A	R			N	R	R	R						
		↑	73,45m	↑	1,11m	These entities are not audited by the AGSA in terms of section 4(3) of the Public Audit Act, therefore we have not assessed the status of the key areas.																												
				↑	20m																													
		↓	128m	↓	4m																													
		↓	155m	↓	89m																													

Legend (Movements) Reduction ↑ Increase ↓

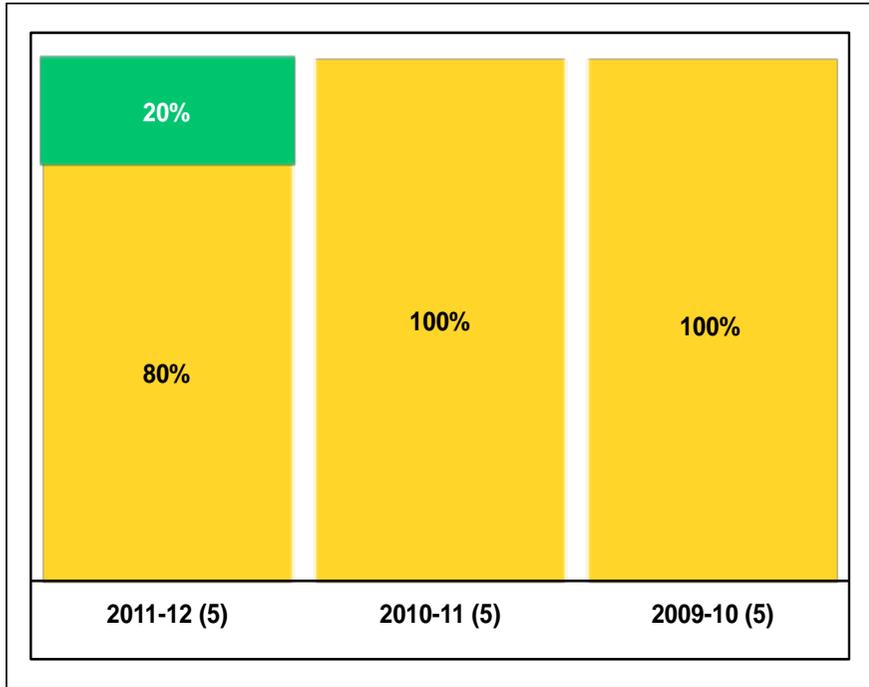
Legend (Drivers) Good

Legend (Findings) Addressed New Repeat



VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

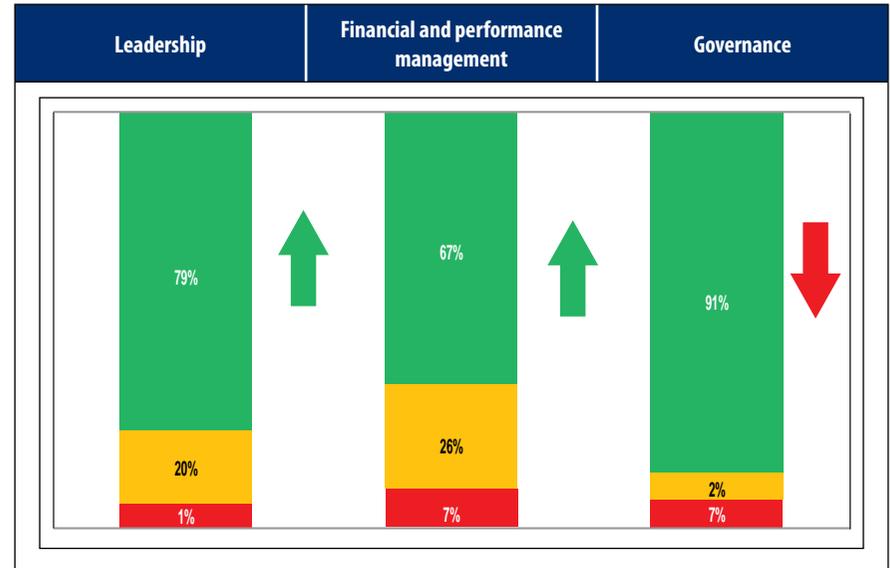
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Vacancies in senior management positions and leadership instability
- Lack of effective and efficient utilisation of the available systems
- Lack of monitoring and review of controls over monthly processing

VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

There were notable improvements in the public service and administration portfolio. The Department of Public Service and Administration had significant improvements within the reported predetermined objectives. State Information Technology Agency remained unchanged and achieved an unqualified audit opinion on the annual financial statements with findings on compliance with laws and regulations. The number of transgressions per non-compliance area has decreased.

The improvement in the department's reported predetermined objectives was due to the necessary interventions from its leadership, such as filling key vacancies and focusing on the improvement of the internal control environment, driven by the detailed discussions on the key control dashboard with the AGSA. The Internal audit unit conducted an extensive review of the strategic plan and the annual performance plan, which resulted in indicators and targets being adjusted to be well defined and SMART. The accounting officer implemented key controls for reporting and managing the predetermined objectives with the cooperation of the management team. The decrease in the number of transgressions per non-compliance item at SITA was due to the Internal audit unit reviewing significant procurement contracts before the contracts were awarded.

Risks and focus areas

Capacity or a system to effectively monitor the audit outcomes throughout government to improve service delivery should be created. More specifically, a system should be developed to monitor the results of outcomes of Performance management within government to be able to react to the results timeously. Difficulty with the appointment of senior management within the public sector should be addressed to ensure that critical vacancies are filled to ensure service delivery. The available systems should be used effectively and efficiently to avoid extensive reliance on manual interventions that lead to a high rate of human error. Proper record keeping and preparation of full monthly financial statements with all relevant disclosure notes should be implemented to eliminate material corrections to financial statements. The restructuring process at SITA should be finalised.

Status of key controls and root causes of audit outcomes

Senior management positions were vacant for more than 12 months at the DPSA and the department had three different ministers during the last 12 months, which resulted in some of the commitments made by the executive authority not being implemented. There was poor budgetary planning per programme to enable programme directors to achieve the indicators and targets. As the available systems were not used effectively and efficiently, manual interventions at the department led to a high rate of human error.

VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

Commitments and initiatives made by the minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DPSA provides some level of assurance.</p>			■
Previous year			
<p>The DPSA committed to address weaknesses in the reported predetermined objectives. This was achieved in the 2011-12 financial year.</p> <p>The process flow in respect of HR management was rolled out in 2011-12, but challenges were experienced due to changes in the executive. The roll-out of a turnaround strategy at SITA is still in progress.</p> <p>The DPSA committed to finalise the information and communications technology governance framework by 28 February 2013. This was achieved.</p>			■
New			
<p>Continuous commitment by the new executive to focus on the turnaround strategy at SITA.</p> <p>Improve the quality of quarterly financial reporting through proper reviews of financial information by the governance structures (Internal audit units).</p>			

VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

Constitutional institution: Public Service Commission

Audit outcomes and key reasons for movements

The Public Service Commission (PSC) achieved an improved audit outcome (clean audit) compared to the prior year's financially unqualified opinion with findings. A culture of implementing mitigating controls where control deficiencies were identified resulted in the PSC requiring insignificant amendments to the financial statements during 2011-12. No material adjustments to the financial statements submitted for auditing were necessary.

Risks and focus areas

The focus should be on sustaining the clean audit outcome through continuous oversight by the governance structures.

Status of key controls and root causes of audit outcomes

Staff members at the PSC have a positive attitude and are willing to go the extra mile to ensure that the objectives of the Public Service Commission Act are achieved. Controls have also been put in place to ensure that all invoices are paid within 30 days.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

246

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Findings on predetermined objectives				Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement and contract management	Expenditure management	Asset management	Strategic planning and performance management	Financial misconduct
	Department of Public Service and Administration							A	A			R	A	A				
Reporting auditees																		
1	Public Administration Leadership and Management Academy (PALAMA department)											R	A	R	N			N
2	Public Service Commission (PSC)											A	A		A			
3	State Information Technology Agency (SITA)											R	A	R			A	
4	Public Administration and Leadership Management Training Trading Account (PALAMA TTA)											A	A	A	N			

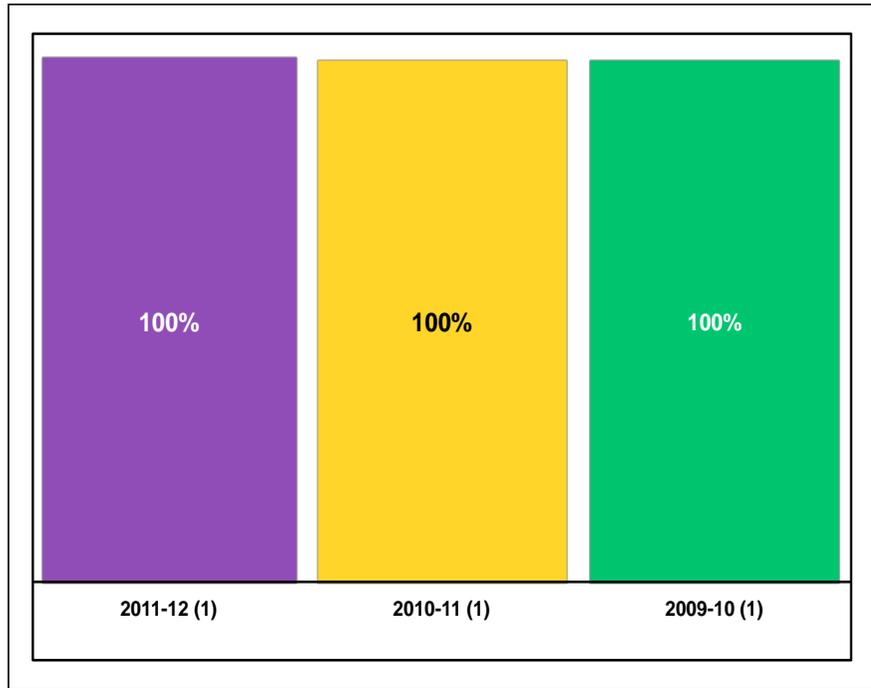
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 13: STATISTICS SOUTH AFRICA

Three-year progress towards clean audits



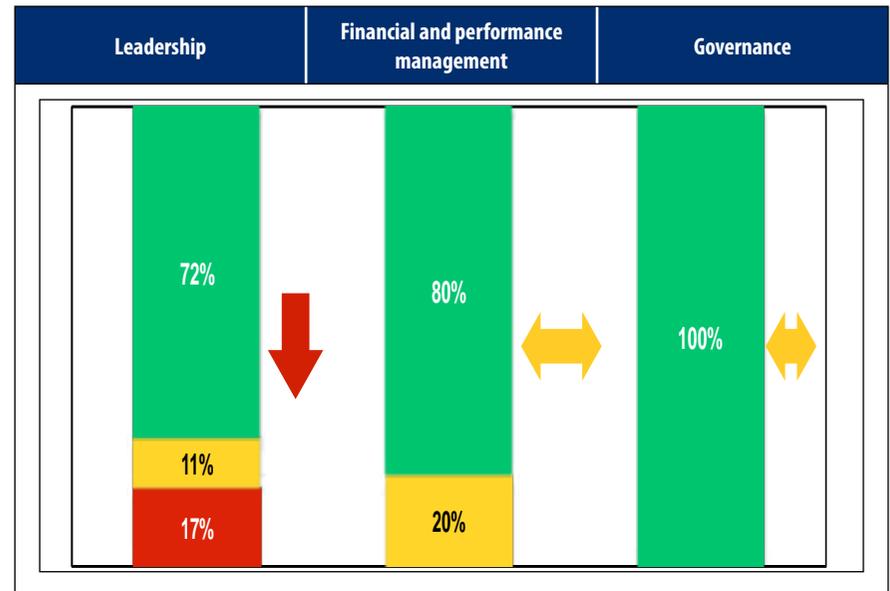
248



5 risk areas



Key controls



Root causes

- Inadequate review of AFS and disclosure notes, AFS not prepared on a monthly basis.
- Lack of policies and procedures and non-compliance with SCM manual.
- Payroll reports not returned to the CFO, leave not captured timeously on Persal, temporary incapacity leave non-compliance and no policy on suspensions

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

In comparing the three years' audit outcomes, it was found that the department is regressing. The audit outcomes regressed from unqualified with no findings in 2009-10 to unqualified with findings in 2010-11, and regressed further to qualified opinion in the 2011-12 as a result of incomplete and inaccurate accruals disclosed in the annual financial statements. The reason for the qualification was that the department focused on the census project which took place in 2011 due to inadequate planning for the Census activities. This has led to internal controls being neglected as many staff members were removed from their normal day-to-day operations in order to assist with the Census. This was exacerbated by the fact that during Census the volume of transactions increased significantly creating some backlogs in the capturing and recording of the invoices and insufficient review time prior to submission of the information for auditing.

The regression was driven by lack of implementation of action plans and monitoring therefore.

Risk/focus areas

The department regressed in the area of financial reporting, while one area which remained without findings is predetermined objectives. This is due to adequate monitoring and controls in place over reporting on predetermined objectives. With regard to financial reporting, the department should put measures in place to address the following:

Supply chain management - the requirements of SCM legislation should be communicated to the internal officials. Where necessary training should be provided and guidance from National Treasury as areas of concern were identified during the audit.

The department needs to develop and document policies and procedures, setting out the process to be followed on a monthly basis for capturing the financial information on the financial reporting system. The department needs to monitor and review the implemented controls over the monthly processes on a regular basis with the assistance of the Internal audit unit.

Human resource processes relating to recruitment, the organisational structure or plan were not approved timeously. The departments should communicate all HR requirements to staff. These include the payroll certificates submission requirements in terms of legislation.

Information technology - IT strategic plan and IT governance framework/charter had not been approved, IT violation reports were not reviewed, Statistics SA does not have a process in place to ensure that the system administrators/controllers' activities were reviewed on the network and the disaster recovery plan was not approved.

Status of key controls and root causes of audit outcomes

The material adjustments to the financial statements were due to lack of monitoring and review of controls over monthly processing. The qualification was due to the lack of monthly controls over financial reporting.

There was also a lack of appropriate oversight responsibility regarding compliance with laws and regulations. This non-compliance could have been prevented if compliance with laws and regulations relating to procurement and contract management had been adequately monitored and reviewed.

VOTE 13: STATISTICS SOUTH AFRICA

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority three times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the Stats SA provides the required level of assurance. The quarterly engagements did not have an impact on the audit outcomes.</p>		■	
Previous year			
No written commitments to address the internal control deficiencies were made during the 2010-11 financial year because the department focused on the Census project.			
New			
<p>Progress with the implementation of corrective action plan which would be used to monitor and track the corrective actions taken will be reported to the Audit committee on a monthly basis. These plans were shared with the AGSA team during the debrief meeting.</p> <ul style="list-style-type: none"> • Numerous monthly reporting controls are implemented to create a culture of regular reporting. • The office of the Statistician-General (SG) would receive a monthly progress report from HRM on progress made with the leave approval. • The AGSA should facilitate a workshop with the management to discuss root causes of the qualification and recommendations in this regard. 			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT IN PORTFOLIO

VOTE 13: STATISTICS SOUTH AFRICA

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance				
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current asset	Capital and reserves	Liabilities	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	HR management	Procurement management
Statistics SA									N						R	A	N	N		

252

Legend (Audit outcomes)	Financially unqualified with findings	Qualified	Findings
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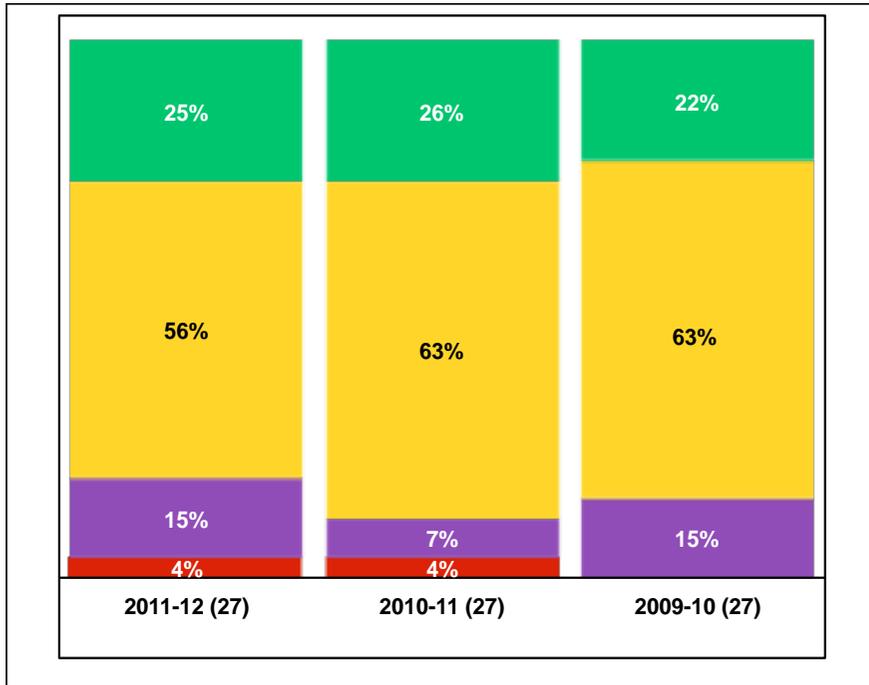
Legend (Findings)	Addressed	New	Repeat
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2.2.3 SOCIAL SERVICES



VOTE 14: ARTS AND CULTURE

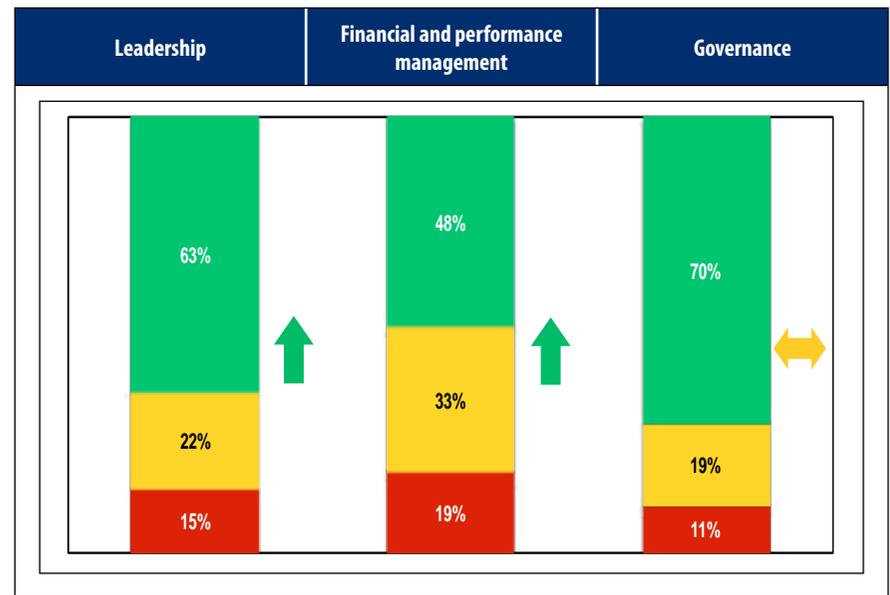
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Instability in key leadership

Accountability not accepted for actions and lack of consequences for transgressions

Inadequate discipline (monitoring) to ensure availability of financial and performance information and compliance

VOTE 14: ARTS AND CULTURE

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes for the arts and culture portfolio showed a slight regression overall with five of the 27 entities remaining “clean”, i.e. financially unqualified with no other findings. Four entities (15%) showed improvement. The Market Theatre and Iziko improved from financially unqualified with findings to financially unqualified without other findings, the Afrikaans Taalmuseum (ATM) improved from a qualification to financially unqualified with other findings and the National Arts Council (NAC) improved from an adverse opinion to a qualified opinion. The improvement can be contributed to the improvement in PDO outcomes, which in turn is attributable to the workshops that the department and the AGSA held with all the entities and the fact that the minister signed performance agreements with all the entities in the portfolio.

Six (23%) entities showed a regression, with the National Museum and William Humphrey Museum regressing from clean to financially unqualified with findings. Three entities, namely the Performing Arts Centre of the Free State (PACKOFS), State Theatre and Pan South African Language Board (PanSALB), regressed from financially unqualified with findings to a qualified opinion, while South African Heritage Resources Agency (SAHRA) regressed from a qualification to a disclaimer of opinion.

Twelve (44%) auditees, including the department, remained unchanged at financially unqualified with other findings. The effectiveness of the leadership proved to have a direct impact on the improvement or regression in audit outcomes.

Risk/focus areas

There were only three entities, namely Iziko, Market Theatre and the National Library of South Africa (NLSA), that resolved all their previous non-compliance issues. Material non-compliance was identified at 70% (19) of the entities in the portfolio. Reporting on predetermined objectives improved and only 30% (8) of the entities again received findings on predetermined objectives. Some improvements were also noted in supply chain management with a reduction of 43% in reported irregular expenditure. The lack of information technology governance frameworks was still an area of concern at the department and six entities, namely the National Arts Council, National Heritage Council, National Library of South Africa, PACOFS, PANSALB and SAHRA. Nine (33%) of the auditees in the portfolio had to make material adjustments to their financial statements to prevent qualifications.

Status of key controls and root causes of audit outcomes

Improved discipline to monitor and review daily activities will enhance the quality of financial information and it is recommended that monthly financial statements be prepared to reduce the extent of year-end efforts. Poor HR management was identified at five (18%) of the auditees, including the department, which still had to fill senior positions. PANSALB was administered by a caretaker chief executive officer (CEO) after the board was dissolved, the CEO was released after a long suspension and the chief financial officer’s contract came to an end.

VOTE 14: ARTS AND CULTURE

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority twice during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DAC provides some level of assurance.</p>			■
Previous year			
The minister undertook to resolve PDO matters and internal control deficiencies.			■
New			
The minister undertook to sign performance agreements with all entities as from the 2011-12 financial year and also did so for 2011-12. The minister also committed to enhance support from the department to its entities and to explore the possibility of shared services. A further commitment was received from the minister to expedite the filling of leadership vacancies, including the position of the chief financial officer in the department.			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 14: ARTS AND CULTURE

258

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes		Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance																		
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Liabilities	Current assets	Non-current assets	Capital and reserves	Other disclosure items	Aggregate mistatements	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	Strategic planning and performance management	Procurement management	Budget	Revenue management	Financial misconduct	Internal audit	Audit committees	Asset and liability management	Annual financial statements	Other			
	Department of Arts and Culture															R				R	N	R														
Reporting auditees																																				
1	Artscape																				N	A			A											
2	Die Afrikaanse Taalmuseum												A								N												A			
3	Ditsong: Museums of South Africa															A	A			R																
4	Freedom Park Trust																																			
5	Iziko Museums of Cape Town																					A			A											
6	KwaZulu-Natal Museum																																			
7	KwaZulu-Natal Performing Arts Company (The Playhouse Company)																																			
8	Luthuli Museum																																			
9	Market Theatre Foundation																				A				A											
10	Msunduzi/Voortrekker Museum																																			
11	National Arts Council of South Africa						R	A	A	R	A	N	A			A					N	R			R											

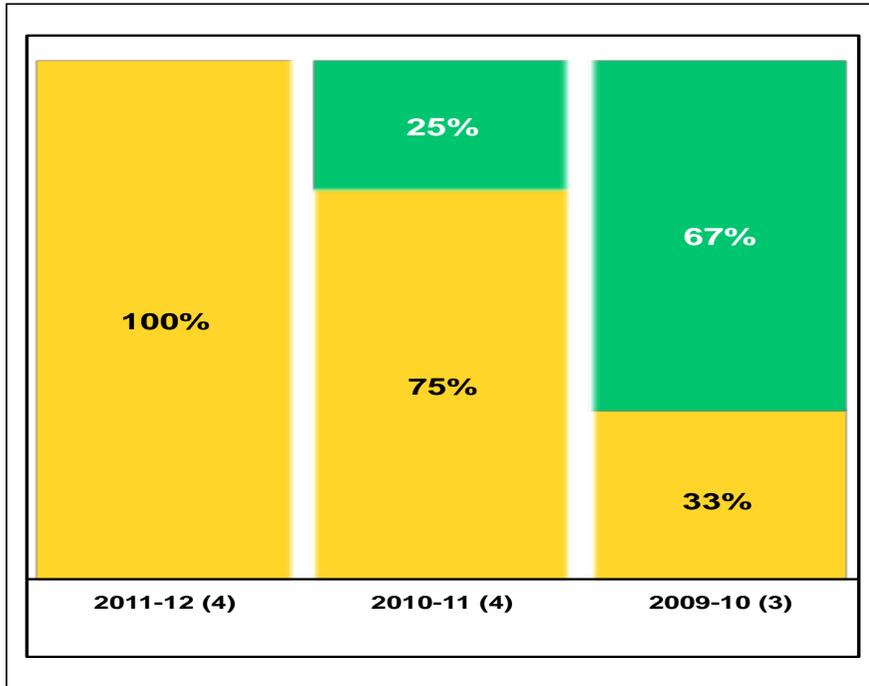
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 15: BASIC EDUCATION

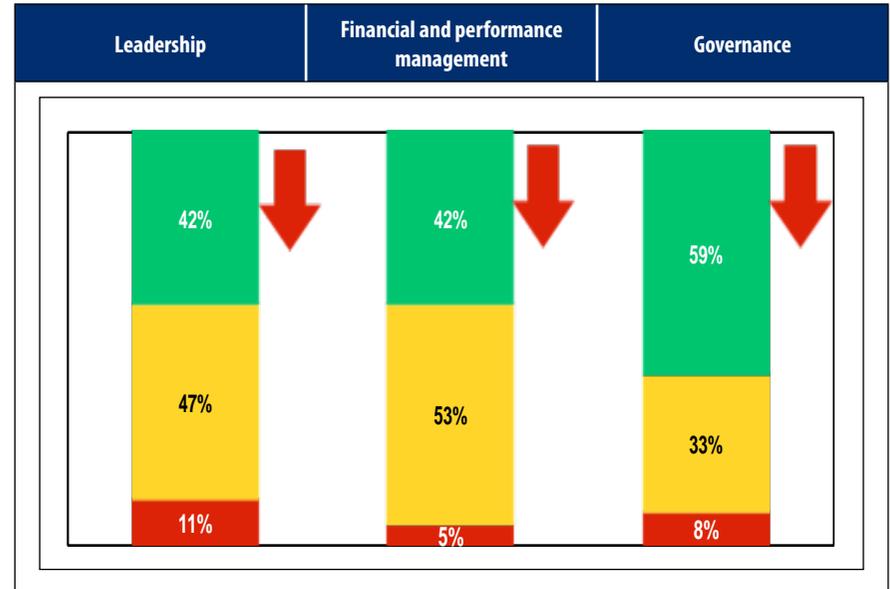
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Lack of oversight and compliance monitoring
- Inadequate financial administration policies and procedures
- Slow implementation of action plans to address findings previously reported
- Inadequate credible and comprehensive monthly reporting
- Ineffective Internal audit function
- Lack of capacity in the monitoring and evaluation of predetermined objectives units

VOTE 15: BASIC EDUCATION

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The overall audit outcomes for the portfolio have regressed with one entity unable to sustain the clean audit outcome achieved in the previous year. This resulted in the portfolio having no clean audit outcomes. The department and all entities achieved financially unqualified audit opinions with findings on either predetermined objectives or compliance with laws and regulations.

The regression relating to predetermined objectives is attributable to audit findings on the usefulness of information reported, in that some of the reported indicators and targets were not consistent with the indicators and targets as per the approved strategic plan.

Other factors relating to the regression in the portfolio are the slow implementation, monitoring and follow-up of the action plans to address previous year reported audit findings and recommendations.

Risk/focus areas

The main area of concern over the usefulness of performance indicators in the strategic plan is that the indicators were not measurable and the tools to measure these indicators were not specifically defined.

The lack of monitoring compliance with SCM regulations resulted in irregular expenditure. Irregular expenditure was also aggravated by the lack of timeous review of existing risk assessment and lack of oversight by the Audit committee and the accounting authority at the affected entity.

The department experiences capacity challenges as a result of unfunded positions. This has resulted in the department not being able to meet its set targets, which in turn compromises service delivery.

VOTE 15: BASIC EDUCATION

Status of key controls and root causes of audit outcomes

Considerable efforts were made by the leadership to address all deficiencies within the portfolio identified and reported on during the prior year audit, among others, filling of vacancies and performing risk assessment in the department. The Internal audit function was not effective due to inadequate capacity.

The department had a number of unfunded positions which had a negative impact on the achievement of targets and monitoring and evaluation responsibilities at different levels.

Lack of clear alignment of the performance contracts of senior management and staff to the strategic plan of the department resulted in ineffective Performance management and lack of accountability for non-performance.

Lack of controls over monthly reporting resulted in inaccurate and incomplete financial (with full disclosure notes) and performance reporting.

A lack of monitoring and review of controls over monthly processing and reporting led to the material misstatements in the financial statements and annual performance report submitted for auditing. This is an indication of inadequate disciplines to ensure credible monthly reporting on Financial and performance management and compliance with laws and regulations.

The national department does not have a clear mandate in relation to the oversight monitoring responsibilities at the provincial departments of education. This impacts negatively on the national department's effectiveness in exercising oversight and monitoring responsibilities, including areas affecting service delivery and management of conditional grants.

In addition, challenges were experienced in the Eastern Cape and Limpopo with the execution of powers for oversight monitoring as per section 100 (1)(b) of the Constitution.

Credibility of data on EMIS creates challenges for the department in relation to proper planning, allocation and monitoring of resources (for example accounting for inventory relating to workbooks and textbooks on hand at year-end).

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Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
<p>Impact of quarterly discussions with the executive authority</p> <p>The AGSA leadership met with the minister four times during the 2011-12 financial year.</p> <p>These interactions were focused on positively addressing the audit recommendations intended to improve effectiveness in the five key focus areas and ways to improve involvement of the national department in the province's service delivery.</p> <p>The impact of these interactions on audit outcomes was limited due to the late implementation of action plans.</p>			■

VOTE 15: BASIC EDUCATION

Previous year

- The department committed to account for all loans and assets received from the “old department of education” in the financial statements for 2011-12 as per advice from National Treasury.
- Review and awareness of procurement policies and procedures to ensure compliance with laws and regulations relating to procurement.
- Compliance with HR regulations relating to leave management
- Enforce compliance with government procurement regulations by service provider appointed to assist on the Kha Ri Gude project.
- Follow-up on control deficiencies identified at PEDs reported in the sector service delivery focus areas:
 - LTSM, NSNP, LTS
 - Education infrastructure
 - HIV/Aids life skills education



New

In addition to carrying over prior year commitments not met, the minister undertook to hold the accounting officer accountable for the following:

- Ensuring that effective internal controls are implemented across all three levels (financial administration, performance information and compliance with laws and regulations) at the national department
- Regular monitoring of performance (financial administration, performance information and compliance with laws and regulations) of entities reporting to DBE
- Continuous oversight monitoring of provinces in areas affecting the management of predetermined objectives (service delivery) and management of conditional grants
- DBE to prepare complete monthly financial and performance reports that include disclosure items and also encourage all provincial departments of education to do the same
- DBE leadership intervention where remedial action is required at the provincial departments of education
- Effective utilisation of the Internal audit: Review Internal audit scope to include adequate coverage of PDO and compliance in the Internal audit plans
- Ensure that performance contracts of the senior management and staff are aligned to the strategic plan of the department and fill positions as per the establishment.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 15: BASIC EDUCATION

268

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance							
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Audit committees	Revenue management	Strategic planning and performance management	Transfer and conditional grants
	Department of Basic Education										R	R			R	R	R	R					A
Reporting auditees																							
1	Education Labour Relations Council															R	N		N	N	N		
Audits not conducted by the AGSA																							
2	South African Council of Educators										R												
3	Umalusi QA on Further Training & Education										N												

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Findings
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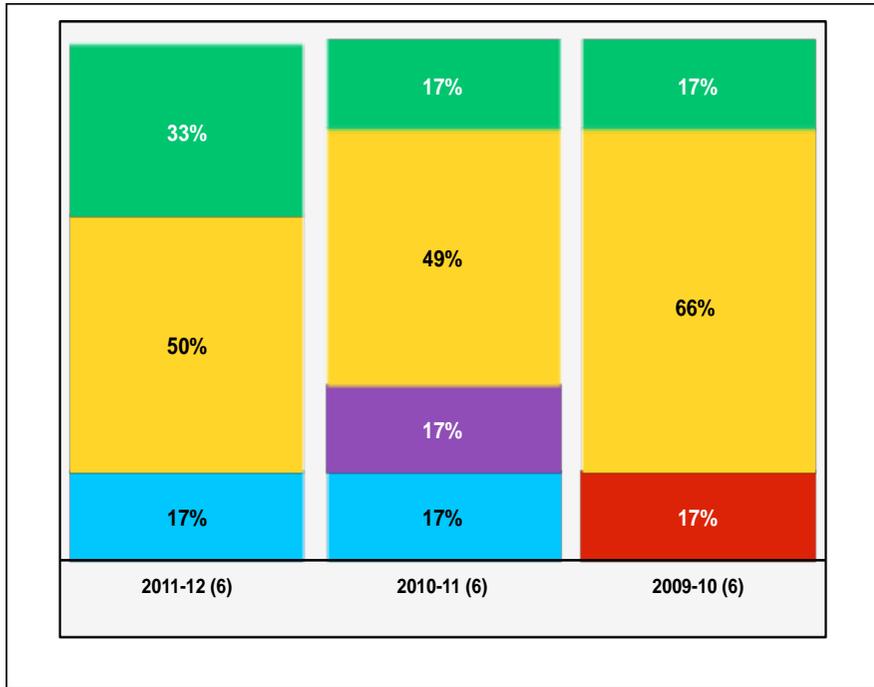
Legend (Findings)	Addressed	New	Repeat
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VOTE 16: HEALTH

270

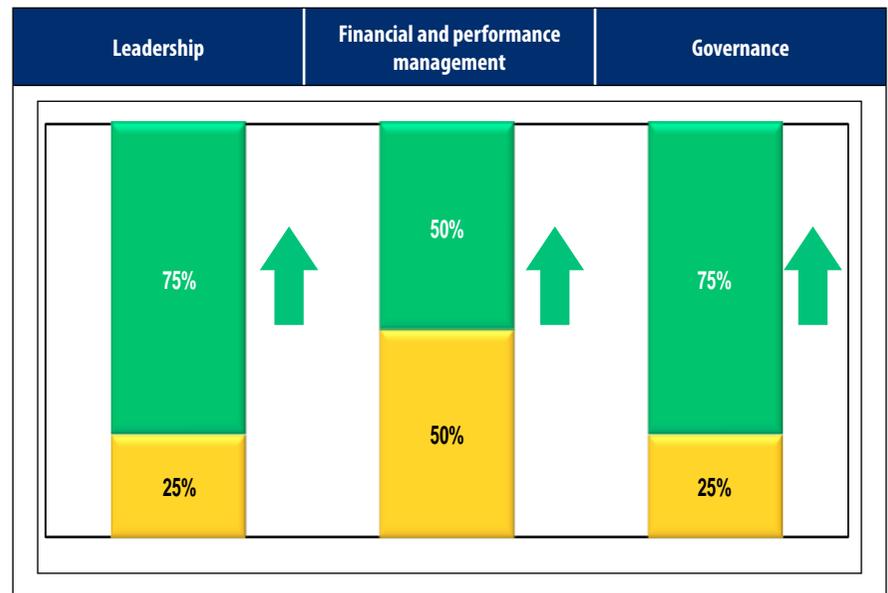
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Vacancies and instability in leadership positions as well as lack of financial and performance management skills
- Inadequate discipline to monitor daily financial and performance activities
- Responsibility for the implementation of action plans not taken seriously

VOTE 16: HEALTH

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Health portfolio showed improvement as the national Department of Health (NDoH) and the Council for Medical Schemes (CMS) improved to financially unqualified with other matters and financially unqualified with no other matters (clean audit) respectively. The South African Medical Research Council (MRC) and National Health Laboratory Service (NHLS) improved in respect of predetermined objectives as no findings were reported for the 2011-12 financial year.

The improvements that were noted are mainly due to the tone set by the accounting officer and the executive authority. The revised establishment was approved, senior positions were being filled and the Performance management system was strengthened. The leadership at CMS implemented policies and procedures to address the prior year findings on predetermined objectives.

Regular engagements with the AGSA on areas of risk such as assets and predetermined objectives also contributed to the improved outcomes, resulting in a reduction in year-end efforts to resolve audit findings. The national Department of Health (NDoH) had also improved in terms of their oversight responsibility over the provinces and regular interactions are taking place within the health sector.

Risk/focus areas

The information technology control environment was an area of concern and no improvement has been noted. More attention should be given to monitoring and review of compliance with procurement processes to prevent irregular expenditure. The national department showed no improvement in reporting accurate performance information as it was found that information in the manual registers used in the provinces was incorrectly transferred to the health information systems.

Status of key controls and root causes of audit outcomes

Management should prioritise strengthening of the IT environment.

Daily monitoring and review procedures should be enhanced to prevent the reporting of unreliable information.

VOTE 16: HEALTH

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the NDoH provides the required level of assurance.</p>			■
Previous year			
<p>Enhancement of monitoring and oversight of grants to improve service delivery and the quality of reporting on predetermined objectives. Capacitating the department to build on internal controls and address the predetermined objectives matters.</p>			■
New			
<p>The minister committed to strengthen the daily and monthly controls of NDoH to report accurate financial and performance information. More attention will be given to align performance contracts to the strategic plan.</p>			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 16: HEALTH

274

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance												
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Capital assets				Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Strategic planning and performance management	Transfers and conditional grants	Annual financial statements, performance report and annual report	Expenditure management	Asset management	Audit committee	HR management	Material misstatements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	Budgets	Other	
	Department of Health						A					R			R	R			A	A	R	A	A	A				
Reporting auditees																												
1	Compensation Commissioner for Occupational Diseases																											
2	Council for Medical Schemes										A	A			A		A						A					
3	South African Medical Research Council										A											A	R	N				
4	South African National Aids Council																											
Audits not conducted by the AGSA																												
5	National Health Laboratory Services										A				A		A					A				A	N	

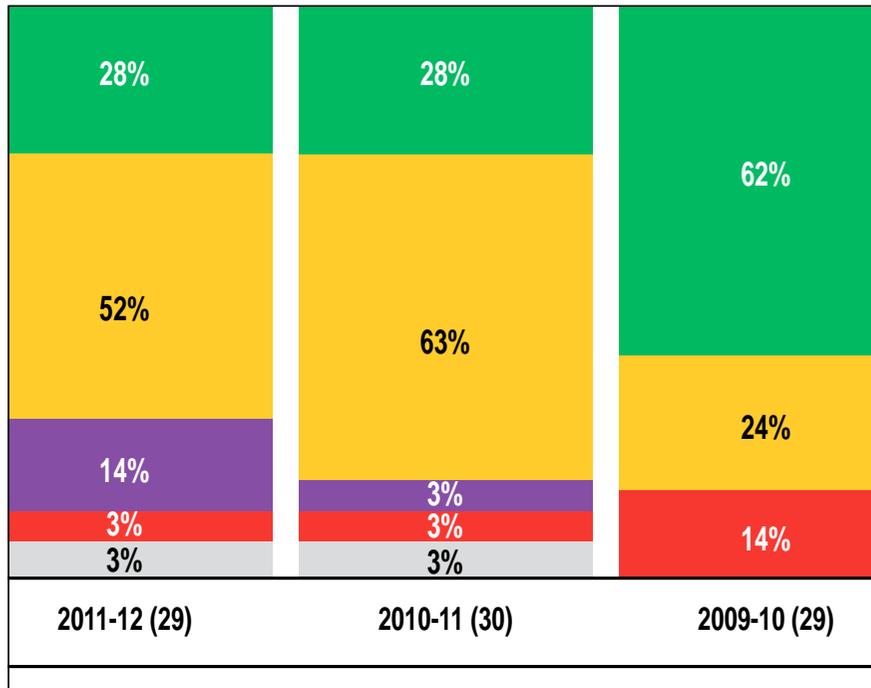
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Audit outstanding	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 17: HIGHER EDUCATION AND TRAINING

Three-year progress towards clean audits



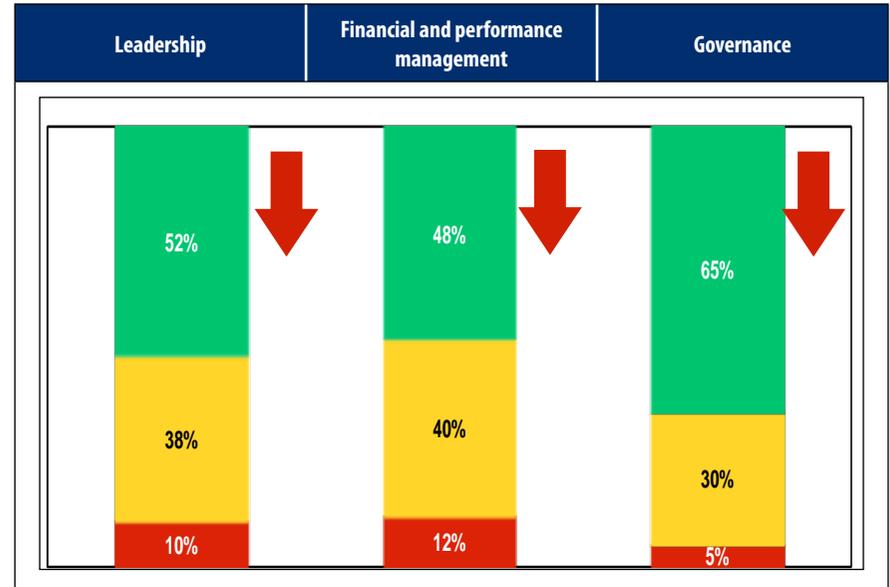
276



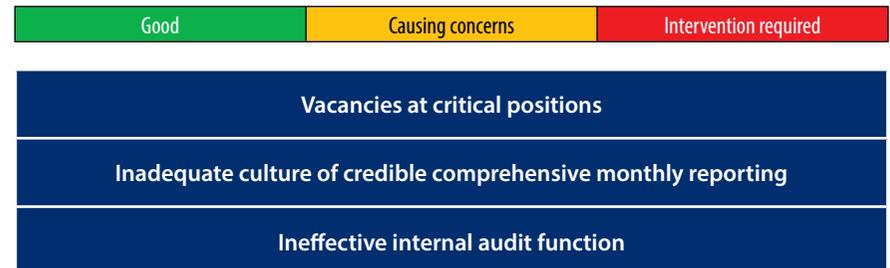
5 risk areas



Key controls

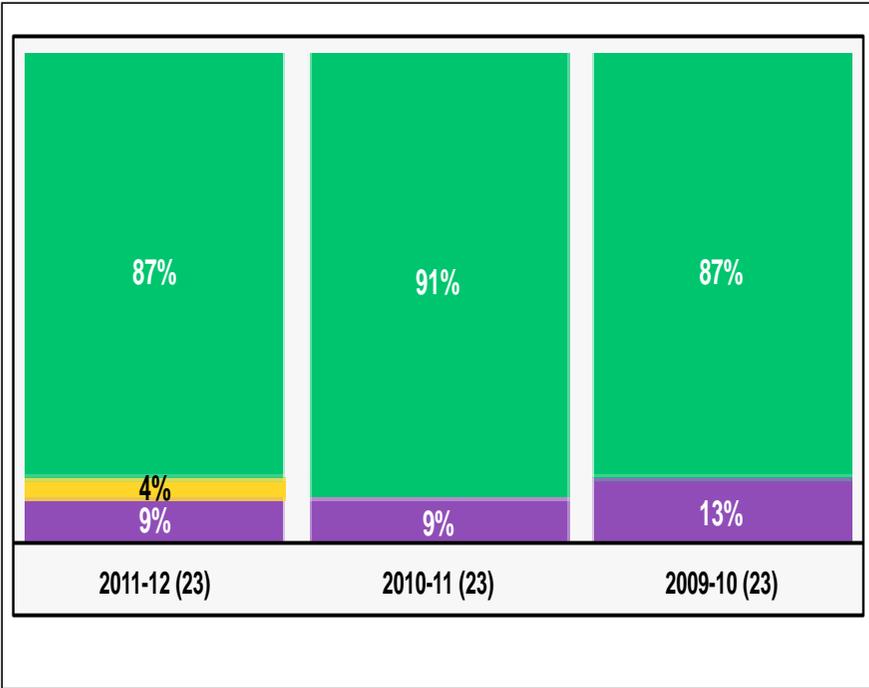


Root causes

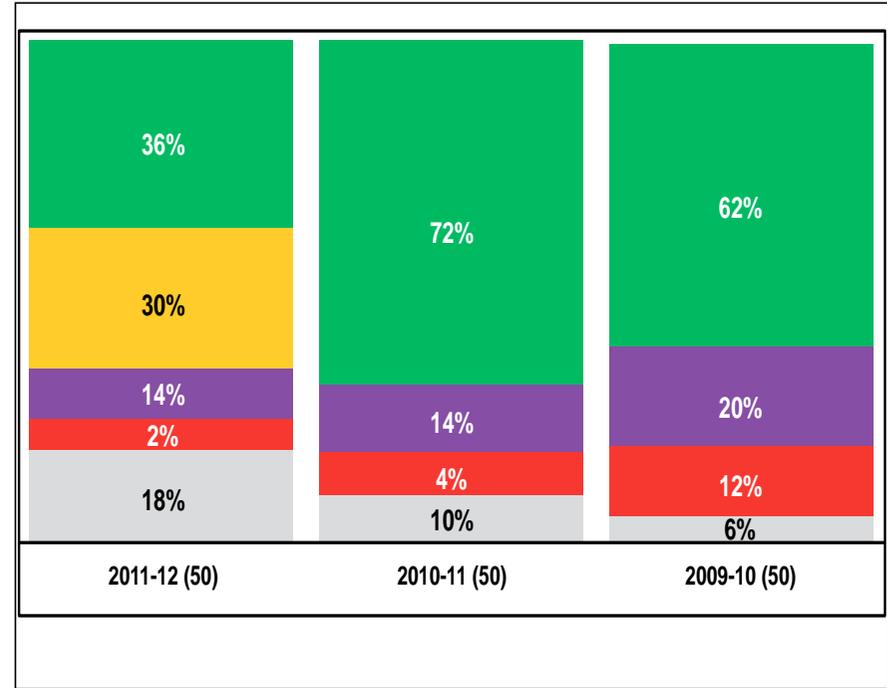


VOTE 17: HIGHER EDUCATION AND TRAINING

Three-year progress towards clean audits - Universities



Three-year progress towards clean audits - FET colleges



Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified
	Financially unqualified with findings	Audit not finalised at legislated date	

VOTE 17: HIGHER EDUCATION AND TRAINING

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Department of Higher Education and Training (DHET) has now been in existence for two years, together with its 28 public entities [including the National Skills Fund (NSF) that is not yet listed], 23 public universities and 50 Further Education and Training Colleges (FETs).

The department and the majority of entities in the portfolio received a financially unqualified audit opinion with findings on reporting on predetermined objectives or compliance with laws and regulations. While the department still has findings on predetermined objectives, there has been an improvement since the prior year in this area.

The improvement in the reported predetermined objectives is due to the department's leadership implementing the necessary interventions, such as filling key vacancies and holding a workshop with AGSA and National Treasury to gain an understanding of the requirements relating to the audit of predetermined objectives, leading to the department aligning the strategic plan to the SMART principles.

Ten SETAs were financially unqualified with findings on predetermined objective and/or compliance with laws and regulations. Four were qualified and one received a disclaimer. Only six SETAs received clean audit outcomes for the 2011-12 financial year.

Universities and FETs were audited in terms of the Public Audit Act for the first time in the financial year ended 31 December 2011. The audits of universities included the audit of compliance with laws and regulations, as well as audit of predetermined objectives. Due to limitations in current legislation, the audit of predetermined objectives was limited to the reliability of information reported. The audit of predetermined objectives was not carried out at the FETs as there is currently no legal requirement for them to report in this area and as such they do not report on predetermined objectives. Limitations were also experienced in the audit of procurement and contract management as this area is currently not legislated.

Of the 23 Universities, 20 received clean audit outcomes, one had material findings on compliance with laws and regulations and/or predetermined objectives and two were qualified.

Of the 50 FET colleges, 18 received clean audit outcomes, 15 had material findings on compliance with laws and regulations and seven obtained qualified opinions. One received an adverse/or disclaimer of opinion and nine audits had not yet been finalised by 30 September 2012.

The audit of the National Institute for Higher Education - Northern Cape for the financial years ended 31 March 2011 and 31 March 2012 was outstanding at the date of this report as the financial statements had not been submitted for audit.

VOTE 17: HIGHER EDUCATION AND TRAINING

Risk/focus areas

The main area of concern involves compliance with laws and regulations relating to procurement and material misstatement in the financial statements at the department and its entities. Another concern relates to timely approval of the SETA's strategic plans.

The department and its entities should continue to focus on implementing monthly controls to avoid material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements with all relevant disclosure notes.

The accounting authorities of the entities have to adequately exercise their oversight responsibility by implementing and monitoring proper systems of internal controls to ensure compliance with laws and regulations and the monitoring of and reporting on predetermined objectives.

The DHET and NSF should capacitate its Internal audit function to be fully effective in carrying out its assurance role.

The DHET should create capacity/systems to effectively monitor the performance of the department's public entities, FETs and universities throughout the year to ensure service delivery.

The filling of vacant positions within the entities in the DHET portfolio must be prioritised.

Progress still needs to be made in amending legislation to ensure that the FETs report on performance against their predetermined objectives, to ensure adequacy of such reporting by universities as well, and to address the legislation gap in supply chain management in the higher education sector.

Status of key controls and root causes of audit outcomes

A lack of monitoring and review of controls over monthly processing at the department and entities led to the material misstatements in the financial statements submitted for auditing which, in turn, led to material adjustments. This is an indication of inadequate disciplines to ensure credible monthly reporting on Financial and performance management and compliance with laws and regulations.

Lack of clear alignment between performance contracts of senior management and staff and the strategic plan of the department. This resulted in ineffective Performance management and lack of accountability for non-performance.

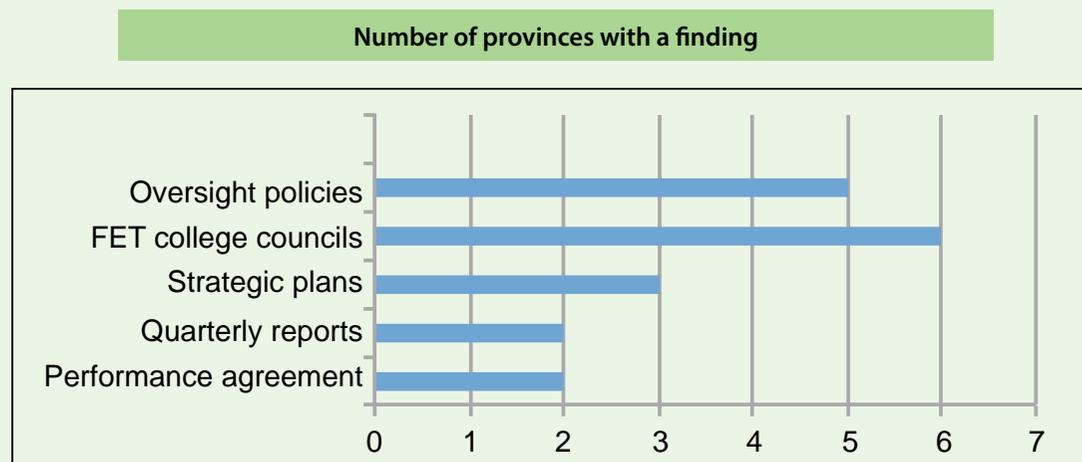
A delay in filling critical vacancies resulted in the department not being able to achieve its targets.

The Internal audit function was not able to adequately evaluate the control environment at the department and NSF and therefore could not identify material weaknesses in internal control.

VOTE 17: HIGHER EDUCATION AND TRAINING

Oversight

The effectiveness of the governance and oversight mechanisms instituted by the national department and the provincial departments of Education in the FET sector was audited. The audit focused on influencing strategic direction, monitoring implementation, identifying risks, implementing corrective actions and ensuring transparency and accountability. The graph below indicates the number of provinces with findings.



Four provincial departments did not have policies and procedures in place to provide a framework to exercise their oversight function.

Five provincial departments did not have policies and guidelines to assist FETs to detect, monitor and mitigate risks affecting their activities.

Five provincial departments did not have policies and guidelines to appoint, monitor and evaluate the performance of the FET councils.

Instances were noted at six provincial departments where the performance of the FET councils was not assessed.

At three provincial departments, instances were noted where the strategic plans for FETs had not been reviewed and approved by the MEC.

At one provincial department, quarterly reports that would have facilitated effective performance monitoring, evaluation and the implementation of corrective actions were not received from the FETs. Another provincial department only used the quarterly reports to monitor the conditional grant of FETs.

At two provincial departments, it was noted that no performance agreements existed between the department and college principals. Furthermore, at one province instances were noted where college principals were evaluated late or were not evaluated at all and yet were given pay progressions.

VOTE 17: HIGHER EDUCATION AND TRAINING

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The four interactions that took place between the AGSA and the minister and accounting officer have been positive with firm commitments being obtained. The challenge lies in the follow-through on commitments made by the executive and holding the accounting officer accountable to ensure implementation and monitoring of these commitments.</p> <p>The executive authority plays a role in providing assurance in the public sector. Our assessment is that more work needs to be done in this area to ensure that the assurance provided is at the required level.</p>			■
Previous year			
<p>Audit of predetermined objectives - To hold a workshop with National Treasury and AGSA to obtain an understanding regarding the requirements for audit of predetermined objectives.</p> <p>Financial management - To implement controls to ensure that information provided for financial statement disclosures is reliable. This will include preparation of monthly financial statements, together with disclosure notes, that are verified by Internal audit or other reliable internal processes.</p> <p>Information technology - To develop and implement IT strategies, policies and procedures and to capacitate the IT department.</p> <p>HR management - Develop a plan to fill critical posts.</p> <p>Unconditional approval of entities' strategic plans before commencement of the financial year.</p>			■
New			
<p>In addition to carrying over prior year commitments not met, the minister committed to hold the accounting officer accountable for the following:</p> <ul style="list-style-type: none"> Amend grant regulations to the Skills Development Act with the focus on discretionary funding Develop regulations for FETs to report on performance information and supply chain management processes Urgently issue the revised regulations on reporting requirements of universities and SCM processes Amend relevant legislation to phase in the audit of the FETs by the AGSA. 			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 17: HIGHER EDUCATION AND TRAINING

282

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance																	
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Liabilities	Capital and reserves	Other disclosure items	Non-current assets	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Current assets	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit	Audit committees	Budgets	Revenue management	Financial misconduct	Strategic planning and performance management	Transfer and conditional grants	Other	
	Department of Higher Education and Training															R				R	A			N	N		N					N			A	N
Reporting auditees																																				
1	Agricultural Sector Education and Training (AGRISETA)															N				N																
2	Banking Sector Education and Training Authority (BANKSETA)																																			
3	Chemical Industries Education and Training Authority																					A														
4	Construction Education and Training Authority															N	R			N	R		N			N						N			N	
5	Council on Higher Education																					A														
6	Culture, Arts, Tourism, Hospitality and Sports Education and Training Authority															N	A			A	A															
7	Education, Training and Development Practices Sector Education and Training Authority																						A													
8	Energy and Water Sector Education and Training Authority															A	R			N	R	A	N		N						A				A	

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Audit outstanding	Closed	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 17: HIGHER EDUCATION AND TRAINING

286

Number	Auditee	2011-12 Audit outcomes		2010-11 Audit outcomes		Financial statement qualification areas							Findings on predetermined objectives			Findings on areas of non-compliance																			
		Audit opinion	Predetermined objectives Compliance with laws and regulations	Audit opinion	Predetermined objectives Compliance with laws and regulations	Liabilities	Capital and reserves	Other disclosure items	Non-current assets	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Current assets	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit	Audit committees	Budgets	Revenue management	Financial misconduct	Strategic planning and performance management	Transfer and conditional grants	Other		
18	National Skills Fund													A	A			R	A																A
19	Public Service Sector Education and Training Authority					R	A							N	A			R	R																
20	Quality Council for Trades and Occupations													N				N																	
21	Safety and Security Sector Education and Training Authority (SASSETA)					N	N							N	R			R	R			N													
22	Services Sector Education and Training Authority (Services SETA)										A			N	A			R	R	N	N														A
23	South African Qualifications Authority (SAQA)																																		
24	Transport Education and Training Authority (TETA)													N	R			R																	
25	Wholesale & Retail Sector Education and Training Authority													N				N	N			N													
26	National Student Financial Aid Scheme																	R	R			N													
27	National Institute for Higher Education - Northern Cape																																		

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Audit outstanding	Closed	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 17: HIGHER EDUCATION AND TRAINING

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management						Drivers of internal control									Human resource management						Information technology management			Root causes								
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership				Financial and performance management				Governance			HR planning and organisation	Management of vacancies	Appointment processes	Competencies of key personnel	Performance management	Acting positions	Management of leave, overtime and suspensions	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers		
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls															Risk management	Internal audit
<p>These entities are not audited by the AGSA in terms of section 4(3) of the Public Audit Act, therefore we have not assessed the status of the key areas.</p>																																						

VOTE 17: HIGHER EDUCATION AND TRAINING

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management				Drivers of internal control									Human resource management				Information technology management			Root causes								
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VOTE 17: HIGHER EDUCATION AND TRAINING

Number	Auditee	2011-12 Audit outcomes		2010-11 Audit outcomes		Financial statement qualification areas							Findings on predetermined objectives			Findings on areas of non-compliance																						
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54	Walter Sisulu University for Technology and Science					R		A	R	A	A		A					N																				
55	Vaal University of Technology																																					
56	Boland FET College																																					
57	Buffalo City FET College																		N						N													
58	Capricorn FET College																																					
59	Central JHB FET College																				N											N						
60	Coastal FET College																																					
61	College of Cape Town																																					
62	East Cape Midlands FET College																																					
63	Ehlanzeni FET College																																					
64	Ekurhuleni East FET College																																					
65	Ekurhuleni West FET College																																					
66	Elangeni FET College																																					
67	Esayidi FET College																																					
68	False Bay FET College																																					

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Audit outstanding	Closed	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 17: HIGHER EDUCATION AND TRAINING

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management				Drivers of internal control									Human resource management				Information technology management			Root causes								
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership				Financial and performance management			Governance		HR planning and organisation	Management of vacancies	Appointment processes	Competencies of key personnel	Performance management	Acting positions	Management of leave, overtime and suspensions	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers
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VOTE 17: HIGHER EDUCATION AND TRAINING

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management				Drivers of internal control									Human resource management				Information technology management			Root causes								
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership				Financial and performance management			Governance		HR planning and organisation	Management of vacancies	Appointment processes	Competencies of key personnel	Performance management	Acting positions	Management of leave, overtime and suspensions	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers
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VOTE 17: HIGHER EDUCATION AND TRAINING

Unauthorised, irregular, as well as fruitless and wasteful expenditure				Procurement and contract management				Drivers of internal control						Human resource management				Information technology management		Root causes														
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership			Financial and performance management			Governance			HR planning and organisation	Management of vacancies	Appointment processes	Competencies of key personnel	Performance management	Acting positions	Management of leave, overtime and suspensions	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers
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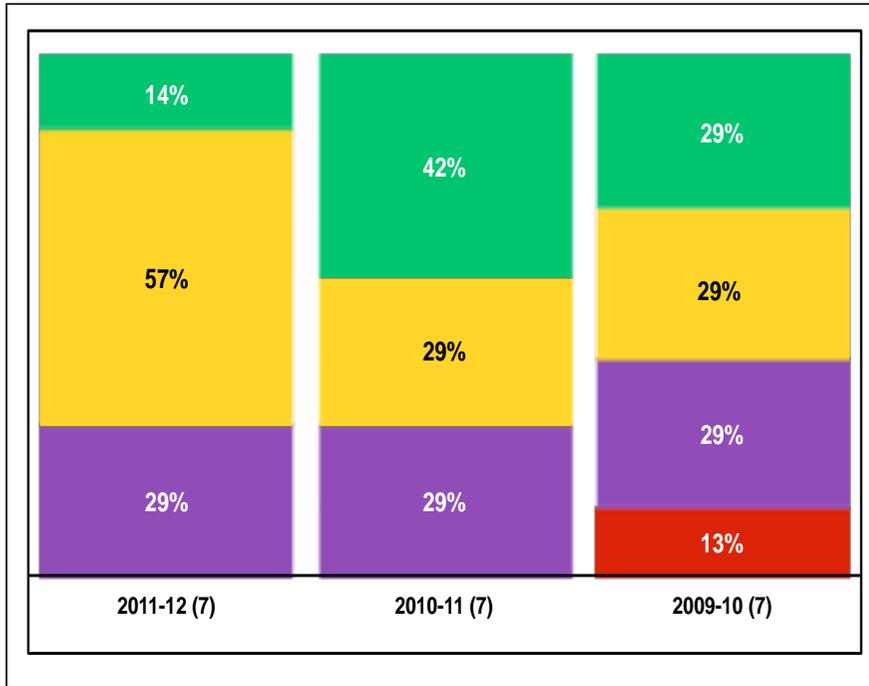
VOTE 17: HIGHER EDUCATION AND TRAINING

Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management				Drivers of internal control									Human resource management				Information technology management			Root causes										
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Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls														
These entities are not audited by the AGSA in terms of section 4(3) of the Public Audit Act, therefore we have not assessed the status of the key areas.																																				



VOTE 18: LABOUR

Three-year progress towards clean audits



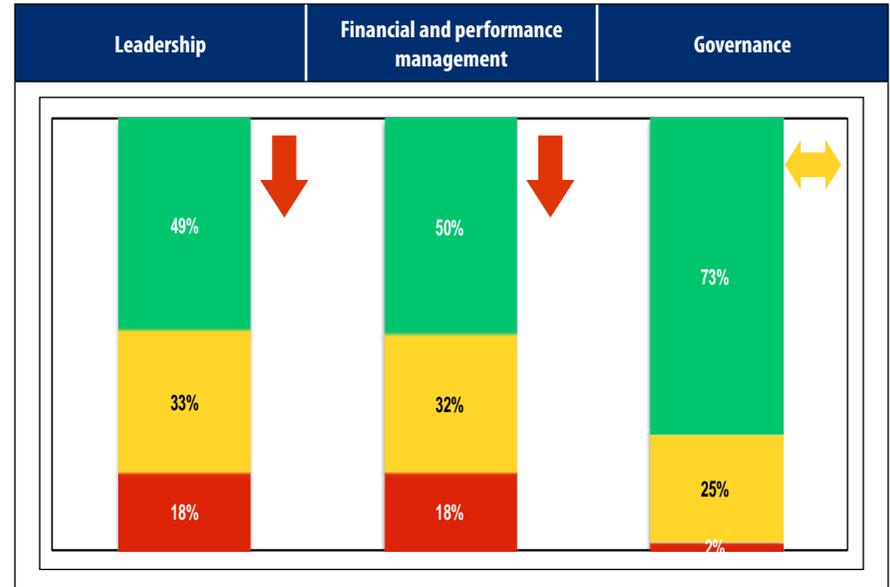
300



5 risk areas



Key controls



Root causes

- Lack of timely strategic and operational decision-making which impacts on progress of commitments made
- Inadequate monitoring of compliance with laws and regulations
- Lack of credible comprehensive monthly reporting
- Accountability not enforced resulting in lack of consequences for poor performance

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The department and some of its entities achieved a financially unqualified audit opinion with findings on either reporting against predetermined objectives or compliance with laws and regulations. While one of its entities has maintained clean audit outcomes, the portfolio outcomes in general remain stagnant at unqualified with findings on predetermined objectives and compliance with laws and regulations. The findings raised at the entities can be resolved quickly with focused attention.

Due to the lack of timely and effective follow-up on agreed action plans and commitments there was limited impact on the internal controls for some entities within the portfolio. The improvement in the reported predetermined objectives for some of the entities was due to the accounting authority implementing interventions such as filling key vacancies and focusing on improving the internal control environment, driven by detailed discussions on the key control dashboard with the AGSA.

Risk/focus areas

Lack of an effective process to collate information from the regional offices for the compilation of financial and performance reporting resulted in material adjustments to the financial statements and performance information. The non-compliance with laws regulations relating to SCM processes which resulted in irregular expenditure for the department and some of its entities is a cause for concern.

Of major concern is the monitoring of the exit strategy of the current IT supplier and the portfolio strategy that governs the IT environment of the department and its entities.

Status of key controls and root causes of audit outcomes

Effective leadership is lacking at the Compensation Fund and SEF. While the commitment of leadership at the department is evident, the implementation of action plans to address internal control deficiencies identified during the audit has been slow.

Lack of adequate disciplines to ensure credible monthly reporting on financial, performance information and compliance with laws and regulations, including monitoring and review of controls over collation of information from the regions, led to the material misstatements in the financial statements and annual performance report submitted for auditing.

Lack of clear alignment between performance contracts of senior management and staff and the strategic plans within the portfolio. This results in ineffective Performance management and lack of accountability for non-performance.

VOTE 18: LABOUR

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership had four quarterly interactions with the executive authority, the director-general and the chief financial officer to discuss the portfolio's significant audit risks, status on key controls per entity, progress on commitments and audit outcomes.</p> <p>These interactions were focused on positively addressing the audit recommendations intended to improve effectiveness in the five key focus areas and ways to improve the involvement of the department within the labour portfolio service delivery.</p> <p>The interactions with the executive authority had limited impact on the outcomes for some of the entities within the portfolio as a result of slow decision-making relating to a reduction in instances of non-compliance with laws and regulations and predetermined objectives. The UIF succeeded in sustaining its audit outcomes.</p>			■
Previous year			
<p>Sustainability of audit outcomes for the portfolio</p> <p>Leadership commitment at CF</p> <p>Improve progress in implementation of strategic decision at CF and SEF</p> <p>Improvement in audit outcomes relating to predetermined objectives</p>			■

302

VOTE 18: LABOUR

New

In addition to carrying over prior year commitments not met, the minister undertook to hold the accounting officer accountable for the following:

Sharing of good practices within the portfolio

Increase executive's oversight of entities in the portfolio

Constant follow-up on progress made with commitments

Monitor, evaluate, manage and follow up commitments made on a regular basis

Ensure that performance contracts of the senior management and staff are aligned to the strategic plan on the department and fill positions as per the establishment.

Decisive actions against poor performance to be implemented (starting from the top)

Effectively use of oversight and governance structures, i.e. Internal audit

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 18: LABOUR

304

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas					Findings on predetermined objectives				Findings on areas of non-compliance										
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Other disclosure items	Revenue	Expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Procurement management	HR management	Expenditure management	Asset and liability management	Revenue management	Audit committees	Internal audit	
Department of Labour												R	N			R	R		N	N	R	R	N				
Reporting auditees																											
1	Commission for Conciliation, Mediation and Arbitration																N		N								
2	Compensation Fund							R		R	R	A	A			R	A	A	N	N	N	N	R				
3	Sheltered Employment Factories						A	A	A			R	A			R	R		N	N				N			
4	Unemployment Insurance Fund																										
Audits not conducted by the AGSA																											
5	National Economic Development and Labour Council										N	N				A								N	N		
6	Productivity SA															N											

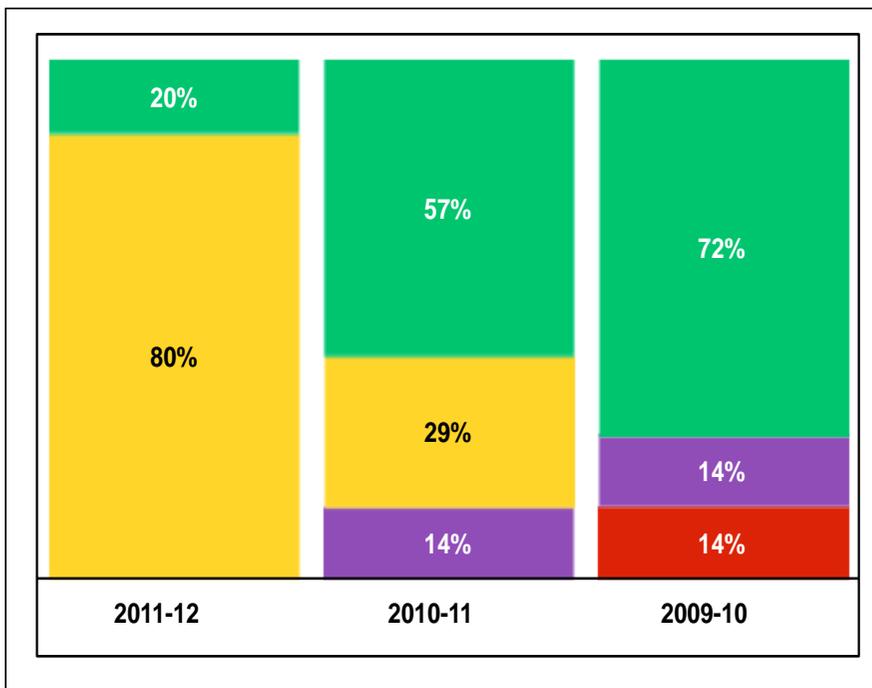
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 19: SOCIAL DEVELOPMENT

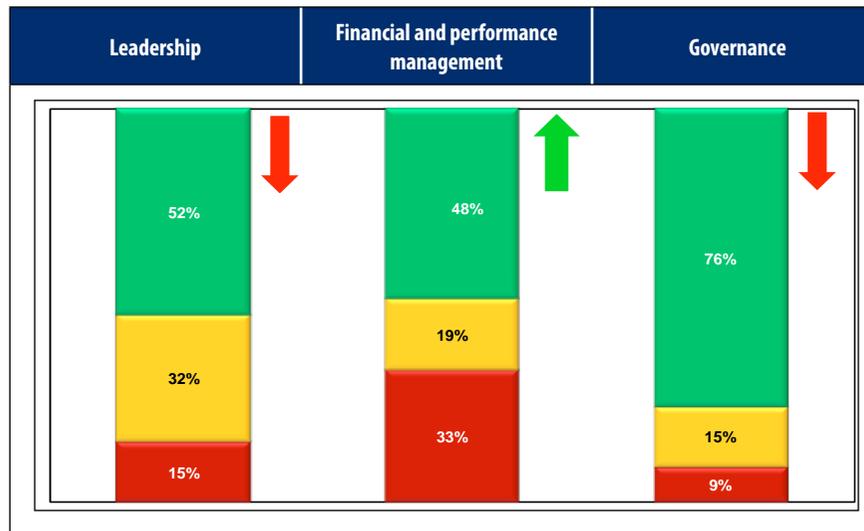
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Leadership: Lack of oversight by leadership over performance reporting, compliance with laws and regulations and related controls
Lack of performance management skills

Financial and performance management: Lack of consequences for poor performance and consequences for transgression
Inadequate discipline of credible monthly reporting on financial, performance and compliance
Lack of proper record keeping to ensure regular, accurate and complete financial records and performance reports resulting in material amendments to the financial statements and reports on predetermined objectives

Governance: SASSA's internal audit function are not fully staffed and was therefore not able to perform a full audit on the administration of SASSA. Therefore internal audit was not able to report sufficiently to the audit committee.
The NDA did not conduct an adequate risk assessment in accordance with legislated requirements

VOTE 19: SOCIAL DEVELOPMENT

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Social Development portfolio, which comprised the National Department of Social Development (NDSD), the South African Social Security Agency (SASSA - schedule 3A), the National Development Agency (NDA – schedule 3A) and the four dormant funds (State President Fund, the Social Relief Fund, Refugee Relief Fund and Disaster Relief Fund), showed an overall improvement. For the NDA the status is unchanged. The dormant funds are insignificant to the portfolio. All the audits within the portfolio received a financially unqualified audit report, with findings on predetermined objectives and/or compliance, with the exception of SASSA which had no findings on predetermined objectives or compliance.

The Department of Social Development improved from financially qualified to a financially unqualified audit opinion with findings on compliance. This was a result of good leadership, implementation of effective controls, progress made in document management and an effective audit action plan aimed at addressing risks and implementing previous audit recommendations.

The four dormant funds have regressed from financially clean audit opinions to financially unqualified audit opinions with findings on compliance. The regression was caused by a lack of oversight of financial reporting and compliance with laws and regulations by management .

Although the audit opinion of the NDA remained unchanged at financially unqualified with findings on predetermined objectives and compliance, more findings on predetermined objectives and compliance were reported than in the prior financial year audit. This was as a result of performance objectives, indicators and targets that were not appropriately approved and supported by relevant supporting documentation.

Risk/focus areas

The focus should be on ensuring that only eligible beneficiaries are recorded on the Social Pension System (SOCPEN), on maintaining and cleaning up existing grant beneficiary files, ensuring an adequate functioning document management system, fortifying the IT systems and related controls and maintaining sufficient processing and reconciliation systems. The weaknesses identified in the information system environment relating to user access controls on the Oracle, SOCPEN and BAS systems as well as program change controls on the SOCPEN system at SASSA should also be addressed.

For the NDA, there is concern regarding the entity's reporting on predetermined objectives. The NDA has had findings on PDO for the past two years. Controls should be implemented to ensure proper record keeping and monitoring of performance information as well as the monitoring of and control over the reliability of performance information. For DSD and NDA there are also concerns relating to procurement and contract management which these entities need to address by implementing adequate controls to ensure that all treasury regulations are complied with.

VOTE 19: SOCIAL DEVELOPMENT

Status of key controls and root causes of audit outcomes

There was a lack of oversight by leadership regarding performance reporting and compliance with laws and regulations and Performance management skills and a lack of consequences for poor performance and transgressions. There was inadequate discipline regarding credible monthly reporting on financial, performance and compliance matters. SASSA's Internal audit function is not fully staffed and was therefore unable to perform a full audit on the financial, performance and compliance matters of SASSA itself. Therefore Internal audit was unable to report sufficiently to the Audit committee.

The NDA did not ensure that an adequate risk assessment is conducted in accordance with legislated requirements.

Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

Impact of quarterly discussions with the executive authority

The AGSA leadership met with the executive authority three times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.

The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DSD provides the required level of assurance.



Previous year commitments

Department of Social Development

Commitments to implement a standard operating policy and procedures to address the presentation, usefulness and reliability of performance reporting.

AoPO



Commitments were made to develop and implement controls to prevent non-compliance with laws and regulations pertaining to Expenditure management and transfer of funds.

Compliance with laws and regulations



Commitments were made to improve oversight in order to ensure compliance with procurement policies and procedures.

Procurement and contract management



Actions taken by management were in progress to repeal the Fund-raising Act and to deregister the dormant funds.

Dormant funds



VOTE 19: SOCIAL DEVELOPMENT

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
South African Social Security Agency			
Detailed action plans were successfully implemented by SASSA for Transfers and subsidies, resulting in an unqualified audit opinion for the Department of Social Development. SASSA committed to cleaning the grant database of all duplications by March 2013.	Transfers and subsidies		
The entity committed to implement standard operating procedures which include accurate recordkeeping, reconciliations and rollout of monitoring and control procedures to improve performance reporting.	AoPO		
Leadership committed to develop policies and implement control procedures to address weaknesses in the IT environment.	Information systems		
The entity committed to put a process in place to capacitate the Internal audit section.	Governance		
National Development Agency			
The Minister committed to follow up on the implementation of the action plan to ensure that the National Treasury framework was implemented and that all the non-compliance matters are addressed.	AoPO and compliance with laws and regulations.		
New			
The commitments previously made are still in place and will address the matters reported in the current year.			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 19: SOCIAL DEVELOPMENT

310

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas	Findings on predetermined objectives				Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Transfers and subsidies	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Procurement and contract management	Expenditure management	Annual financial statements	Transfer and conditional grants	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Financial misconduct
	Department of Social Development							A	A	A			N			N	A	N	A
Reporting auditees																			
1	South African Social Security Agency									A									
2	National Development Agency								A	N			N				N	R	
3	State President Fund																N		
4	Disaster Relief Fund																N		
5	Refugee Relief Fund																N		
6	Social Relief Fund																N		

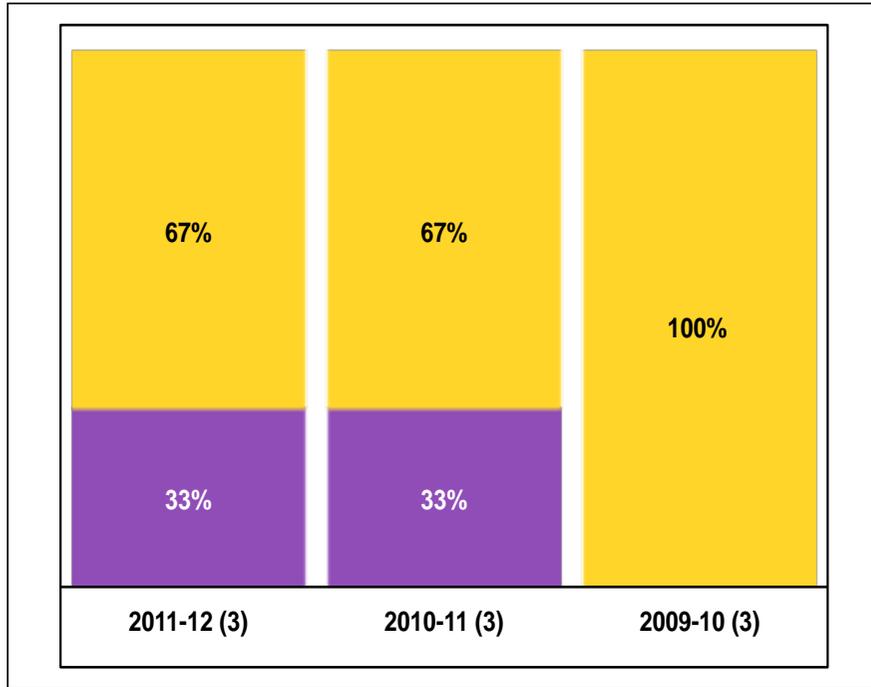
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 20: SPORT AND RECREATION SOUTH AFRICA

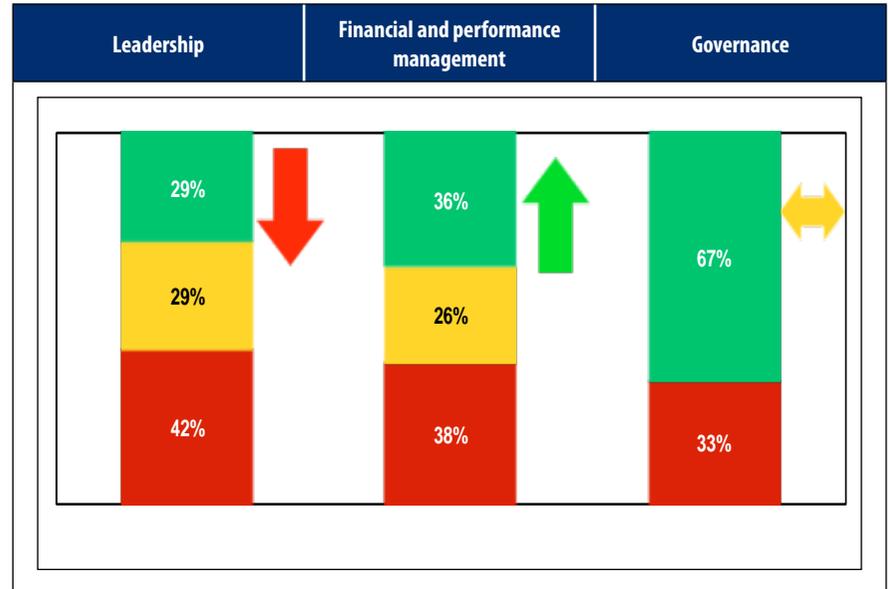
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- People:** Lack of financial and performance management skills
Vacancy and instability in key leadership positions, inability of leadership to provide effective leadership and to successfully manage projects
- Accountability:** Lack of consequences for transgressions and poor performance, no responsibility for commitments
- Sustainability:** Implementing adequately skilled workforce, inadequate discipline of credible monthly reporting on financial, performance and compliance

VOTE 20: SPORT AND RECREATION SOUTH AFRICA

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

There has been no change in the audit outcomes for this portfolio. SRSA and SAIDS achieved a financially unqualified audit opinion with findings in the areas of compliance and predetermined objectives. Boxing SA again received a financially qualified opinion with findings in the areas of compliance and predetermined objectives. The number of qualification areas at Boxing SA increased since the previous year. The entity was qualified in the area of trade payables and trade receivables. The audit outcome for SRSA remained unchanged compared to the previous year; however, it had fewer findings on compliance than in the previous year.

Risk/focus areas

The main concern for the department is the material findings on predetermined objectives. Departmental systems to collate and report performance information are inadequate to ensure the reliability of the information reported. The department also had findings in different areas of non-compliance with laws and regulations. The department still does not have an approved HR plan or IT governance framework in place. There was a lack of compliance and monitoring of compliance with the Public Service Regulations in respect of sick leave to prevent the abuse thereof, as well as overtime and Performance management .

Boxing SA is struggling to achieve a clean audit outcome mainly due to a lack of funds. They do not have adequately skilled staff due to the lack of funding, while key top management positions have been vacant for long periods. There is also inadequate segregation of duties as the financial management consultant is involved in preparing financial, processing transactions, making payments as well as overseeing human resources. The number of instances of non-compliance with SCM laws and regulations increased in the current year. Compliance with SCM regulations must be monitored.

For SAIDS the main concern is the material findings on predetermined objectives. The entity also reported non-compliance with laws and regulations. Supply chain management is also a concern as many prior year findings had not yet been addressed in the current year.

For all three entities there was inadequate monitoring and control over the compilation of financial statements and a lack of review of the financial statements prior to submission to the auditors, resulting in material adjustments being made to the financial statements.

Status of key controls and root causes of audit outcomes

Staff lack sufficient Financial and performance management skills. Vacancy and instability in key leadership positions, such as the CFO position that had been vacant at Boxing SA for an extended period of time due to funding constraints. Inability of leadership to provide effective leadership and to successfully manage projects. Lack of consequences for transgressions and poor performance. No responsibility is accepted for commitments made. Inadequate discipline of credible monthly reporting on financial, performance and compliance. Boxing SA did not have an Audit committee and Internal audit function due to a lack of funding.

VOTE 20: SPORT AND RECREATION SOUTH AFRICA

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority twice during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the SRSA provides some level of assurance.</p>			■
Previous year commitments			
Accounting officer to review and approve outstanding policies.		■	
Evidence of all quotations to be kept. All officials should be informed of the new delegations and SCM policies must be adhered to.			■
New			
<p>SRSA undertook to help Boxing SA with regards to the Internal audit function for the year 2012-13. Boxing SA committed to ensure that an Audit committee is set up for the coming financial year which will provide oversight on the audit process. Boxing SA undertook to appoint a CFO to ensure that the financial process runs smoothly and to take responsibility for the finance section. Boxing SA also committed to ensure that processes will be followed to remove the qualifications of the current year in order to obtain an unqualified audit opinion in the following year. SRSA prepared an action plan and the director-general and CFO undertook to implement and continuously monitor the action plans and progress made in this regard. No commitments were received for SAIDS.</p>			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 20: SPORT AND RECREATION SOUTH AFRICA

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas		Findings on predetermined objectives				Findings on areas of non-compliance													
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Trade receivables	Trade payables	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset management	Internal audit	Audit committees	Expenditure management	Revenue management	Transfer and conditional grants	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Budgets	Financial misconduct	Strategic planning and performance management	
	Department of Sport and Recreation								A	R			R	A	R					N		R	A		A	N	
Reporting auditees																											
1	Boxing SA						N	R	R	N			R	R		N	R	R		N		R				R	
2	SA Institute of Drug Free Sport								R				N	R								N	A			A	

Legend (Audit outcomes)	Financially unqualified with findings	Qualified	Findings
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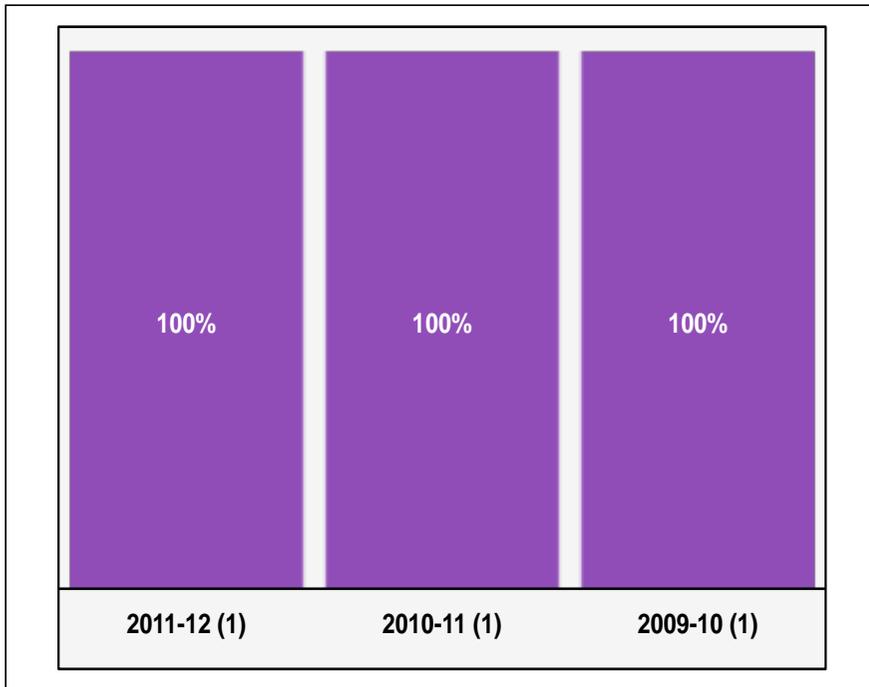
Legend (Findings)	Addressed	New	Repeat
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2.2.4 JUSTICE AND PROTECTION SERVICES



VOTE 21: CORRECTIONAL SERVICES

Three-year progress towards clean audits

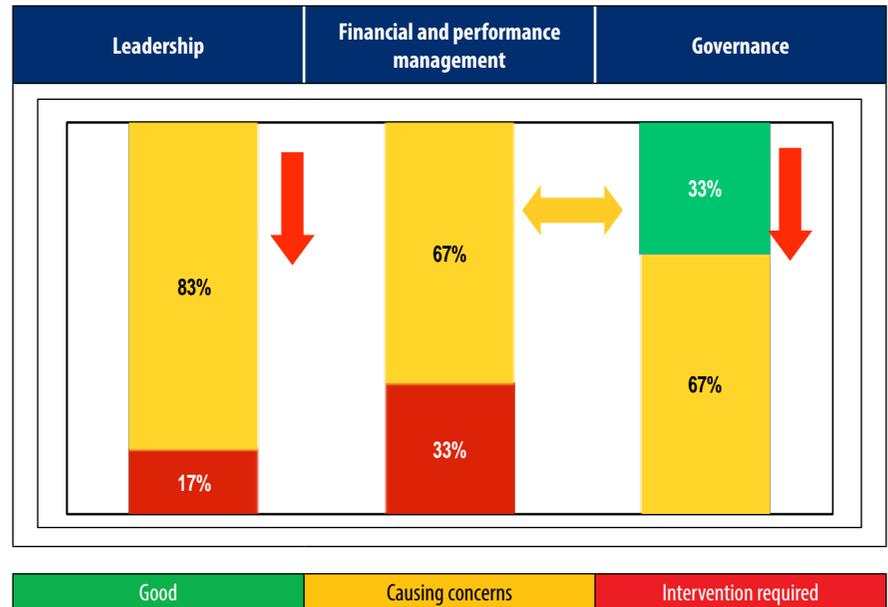


Legend (Audit outcomes)
Qualified

5 risk areas



Key controls



Root causes

People: Vacancy and instability in key leadership positions
 Inability of leaders to provide effective leadership and /or to successfully manage projects/teams/deliverables
 Lack of financial and performance management skills

Accountability: Accountability not accepted for actions and outcomes
 Responsibility for commitments not taken seriously
 Lack of consequences for poor performance
 Lack of consequences for transgressions

Sustainability: Implementing short term solutions to improve audit outcomes
 Inadequate discipline of credible monthly reporting on financial, performance and compliance

VOTE 21: CORRECTIONAL SERVICES

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes of Department of Correctional Services (DCS) for the 2011-12 financial year remained unchanged with a financially qualified opinion on tangible major and minor assets and with findings on compliance and predetermined objectives. The department is still trying to address issues relating to the existence and completeness of assets recorded in its asset register, compliance and predetermined objectives.

Risk and focus areas

The department should focus on addressing the weaknesses identified in its asset register. These actions would include ensuring that the assets on hand agree to the assets recorded in the asset register and that the values of the assets as per the asset register are substantiated with supporting documents. Manual reconciliation of the Logis system should be monitored and reviewed regularly to avoid duplication of assets when there is an internal transfer of assets in the department. The departments should also ensure the implementation of proper control systems for safeguarding and maintenance of assets to prevent theft, losses, wastage and misuse.

In the area of compliance, measures should be implemented to ensure compliance with SCM regulations to prevent irregular and fruitless and wasteful expenditure. Management must ensure that creditors are settled within 30 days as required by the PFMA. Proper monitoring by management to ensure payments made in advance are not in contravention of stipulations in the contract. Management should institute controls to ensure that officials do not abuse sick leave and that overtime is claimed as per the Public Service Regulations. The department must implement measures to ensure that the financial statements submitted for audit are adequately reviewed and supported by relevant evidence before submission to the auditors. For revenue management the department must implement controls to ensure that long-outstanding debtors are written off or recovered from the relevant officials.

For PDO the department should implement controls to ensure that the information reported is supported by relevant documentation. The department must also ensure that the indicators as per the strategic plan are aligned to the indicators in the annual performance plan.

Weaknesses were identified in the IT environment which included a lack of a proper IT governance framework to enable the department to support and enable the business, deliver value and improve performance. The department should focus on implementing an IT governance framework.

VOTE 21: CORRECTIONAL SERVICES

Status of key controls and root causes of audit outcomes

In the area of people the key root causes that contributed to the audit outcomes of the department include vacancies and instability in key leadership positions and the inability of some leaders to provide effective leadership and/or to successfully manage projects/teams/deliverables and, in some instances, a lack of Financial and performance management skills.

Accountability was mostly not accepted for actions and outcomes and responsibility for commitments seemed not to be taken seriously. There was also, generally, a lack of consequences for poor performance and transgressions.

The department implemented short-term solutions to improve audit outcomes but there was also a lack of adequate discipline to ensure credible monthly reporting.

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The audit outcomes for the current year can be attributed to a lack of skills and staff in the Asset management unit. Even though commitments were made by the minister, the department was only able to fill its vacancies towards the end of the financial year, therefore the department will only be able to address the audit findings in the 2013-14 financial year.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DCS provides some level of assurance.</p>			
Previous commitments			
Commitment to address qualification on assets during the financial year			
Commitment to reduce the material losses in state vehicles			
Commitment to reduce the material underspending of budget			
Commitment to ensure that all long-outstanding debts are prioritised and paid timeously			
Commitment to strengthen internal controls			

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VOTE 21: CORRECTIONAL SERVICES

New

Commitment to address internal control deficiencies in IT environment, performance reporting and HR management .

Commitment to enhance the impact on service delivery.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT IN PORTFOLIO

VOTE 21: CORRECTIONAL SERVICES

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas	Findings on predetermined objectives				Findings on areas of non-compliance							
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset and liability management	Expenditure management	Strategic planning and performance management	Revenue management	Unauthorised, irregular, as well as fruitless and wasteful expenditure
	Department of Correctional Services							R	R	R			N	R	N	N	R	R	N	N

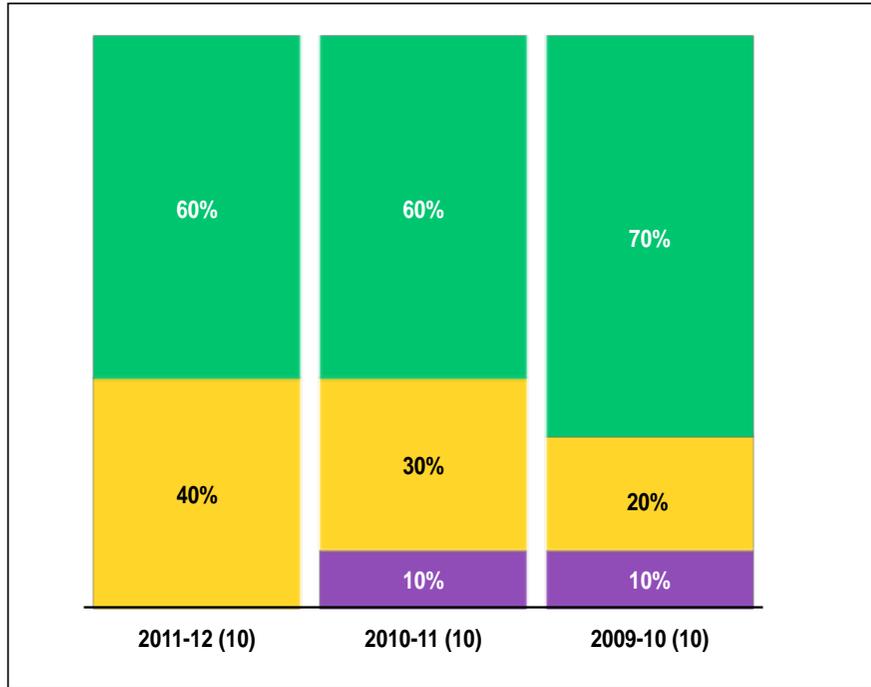
Legend (Audit outcomes)	Qualified	Findings
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Legend (Findings)	New	Repeat
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VOTE 22: DEFENCE AND MILITARY VETERANS

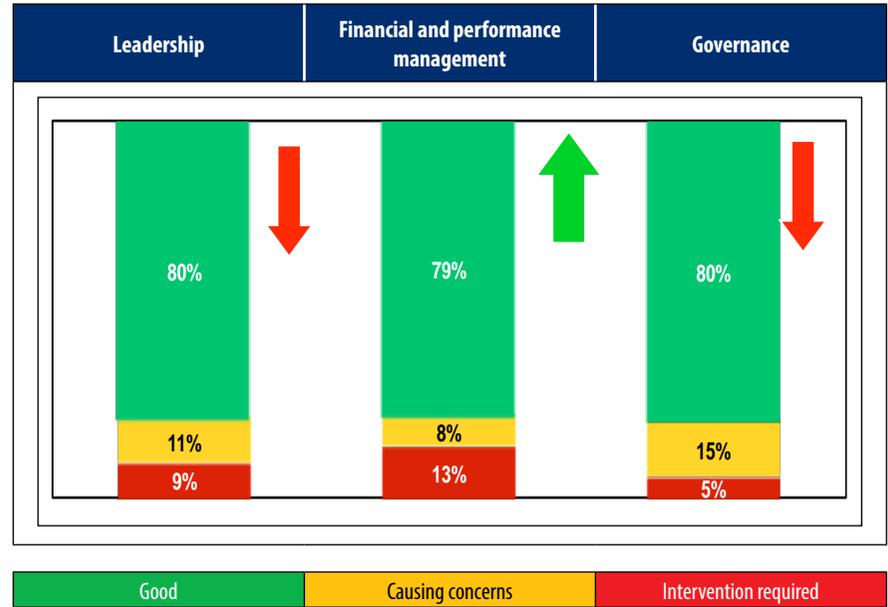
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Leadership: Inadequate oversight responsibility regarding financial reporting over capital assets, compliance and related internal controls

Financial and performance management : Inadequate record keeping to support accurate and complete financial reporting

Governance: The department is still in the process of capacitating the Internal audit component

VOTE 22: DEFENCE AND MILITARY VETERANS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

During the 2011-12 financial year, the portfolio showed an overall improvement in audit outcomes. After many years, more specifically during the past three years, the Department of Defence and Military Veterans (DOD) made considerable progress towards a clean audit and achieved a financially unqualified opinion with findings on non-compliance.

The South African National Defence Force Fund (SANDF Fund) outcome improved from financially unqualified with findings to financially unqualified with no findings. The Castle Control Board (CCB) remained unchanged at financially unqualified with findings. The Armaments Corporation of South Africa (Armcor) regressed from financially unqualified with no findings to financially unqualified with findings on compliance. The regression related to the shareholders' compact not being concluded. The Armcor Defence Institute (ADI), Erasmusrand, Oospark, Sportrand and IMT remained unchanged at financially unqualified with no findings. The Special Defence Account (SDA) remained unchanged at financially unqualified with findings.

The main reason for the overall improvement in the portfolio is the increased ministerial commitment and involvement, as well as the extensive commitment from the asset management team of the DOD. Frequent interactions and guidance by the AGSA audit team also contributed to the positive outcomes.

Risk/focus areas

In respect of tangible and intangible assets the department has to ensure that the positive audit outcomes achieved during 2011-12 are sustained.

In terms of the departure granted by the Accountant General, only immovable, transport and specialised military assets need to be disclosed in the financial statements for the 2011-12 financial year. The departure was also granted subject to the development of an action plan to enable the department to fully disclose all categories of assets for the 2012-13 financial year. As full disclosure of all capital assets will be required as from 2012-13, the above action plans will have to be implemented and monitored to ensure compliance with the departmental reporting framework.

With regard to supply chain management the DOD must ensure compliance with SCM policies and monitoring thereof. The DOD commenced with the roll-out of the revised SCM policies during November 2012. This process as well as compliance with the policy should be closely monitored.

In respect of predetermined objectives, the corporate policy approved during April 2012 must be rolled out to the lowest levels in the department and monitored at all levels to ensure that material changes to the performance report are not required during audit. Targets must be well defined and rolled down to the lowest level to ensure that there is a consistent understanding of the targets and the information to be reported. Quarterly reports must be evaluated by management and Internal audit before submission to the Audit committee and the Minister.

Inadequate monitoring and controls over the compilation of the annual financial statements resulted in material adjustments to capital assets in the annual financial statements submitted for audit.

In respect of compliance, Internal audit was not fully operational and appropriately staffed. There were also compliance findings in respect of human resources.

In the IT environment there were inadequate policies, security management, control over data integrity, change management, as well as contingency plans. The DOD as well as Armcor had outdated legacy systems which need to be replaced.

VOTE 22: DEFENCE AND MILITARY VETERANS

Status of key controls and root causes of audit outcomes

In the area of accountability, the department had inadequate controls and a lack of accountability for record keeping. As a result there were material changes to the financial statements and performance report submitted on 31 May. There was inadequate monitoring of controls to ensure full adherence to the treasury regulation requirements for Armscor, SDA and the Castle Control Board.

With regard to sustainability, the department's monthly and quarterly reconciliation of financial and performance information, monitoring controls and standard operating procedures were not adequate to ensure sustainability. For the public entities the root causes mainly relate the non-compliance with policies and procedures, inadequate review and monitoring of financial and performance information, and a lack of credible monthly reporting on financial, performance and compliance.

Oversight and Governance of PFMA Schedule 2 public entities

Oversight procedures were conducted at the department for Armscor. The department has established a unit which facilitates the oversight and governance function at its public entities. The department did not provide policies and procedures to monitor, detect and mitigate risks affecting the business of the public entity; however, a service level agreement was in place to regulate interactions, procurement and sale of strategic armaments. No other material findings were noted.

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Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
<p>Impact of quarterly discussions with the executive authority</p> <p>The AGSA leadership met with the executive authority eight times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards and the prior year audit outcomes, especially the capital assets. The former minister had honoured all the commitments to monitor action plans developed by the department. Furthermore, the former minister made herself available as and when deemed necessary to meet with the AGSA team during the period July 2011 to June 2012, where possible areas of internal key control concerns, risks and progress were discussed. The former minister also made herself available to engage with senior officials and regularly received feedback from department staff on progress made with action plans.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DOD provides the required level of assurance.</p>	■		
<p>Previous year commitments</p> <p>The former minister undertook to actively monitor the action plan for capital assets. She was actively involved in the monitoring of action plans, resulting in an unqualified audit opinion.</p>	■		

VOTE 22: DEFENCE AND MILITARY VETERANS

New commitments

The current minister undertook to follow up quarterly on the key control assessment and related matters as well as the action plans pertaining to capital assets and predetermined objectives. She also committed to sustain the achievements made on accounting for capital assets (immovable, transport and specialised military assets) and to improve governance within the DOD.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 22: DEFENCE AND MILITARY VETERANS

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas	Findings on predetermined objectives				Findings on areas of non-compliance													
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	AFS (Not submitted for auditing within 2 months)	Procurement and contract management	Human resource management	Internal audit	Audit committee	Expenditure management	Budget	Financial misconduct	Asset management	Strategic planning and performance management	Annual financial statements and annual report	
	Department of Defence and Military Veterans						A					R	A		R	R	R		A		A	A	N			
Reporting auditees																										
1	Armaments Corporation of SA (SOC) Ltd																								N	
2	Armcor Defence Institutes (SOC) Ltd																									
3	Erasmusrand Eiendomme (SOC) Ltd																									
4	Institute for Maritime Technology (SOC) Ltd																									
5	Oospark (SOC) Ltd																									
6	South African National Defence Force Fund																								A	
7	Special Defence Account																								N	
8	Sportsrand (SOC) Ltd																									
9	Castle Control Board																								A	R

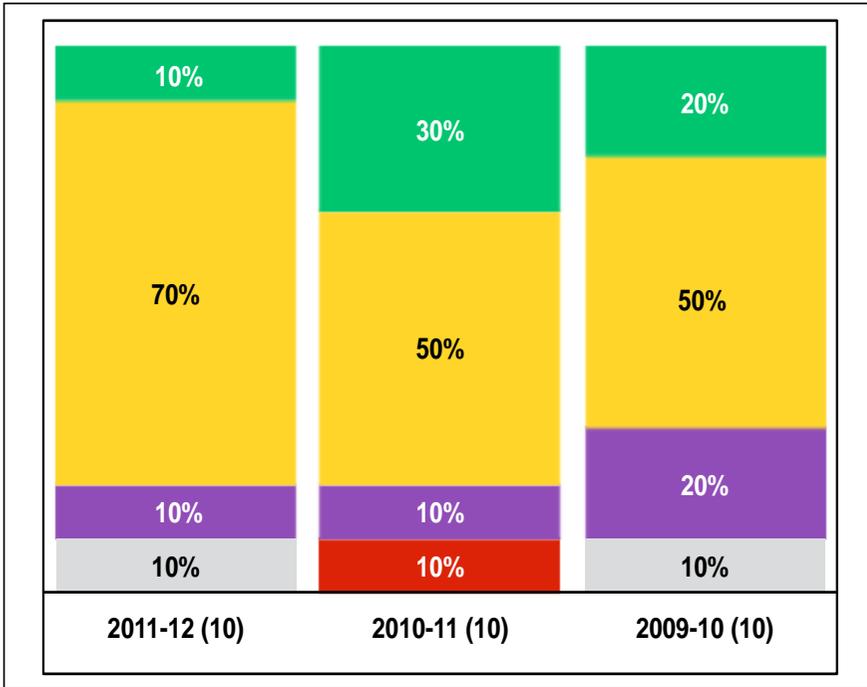
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

Three-year progress towards clean audits



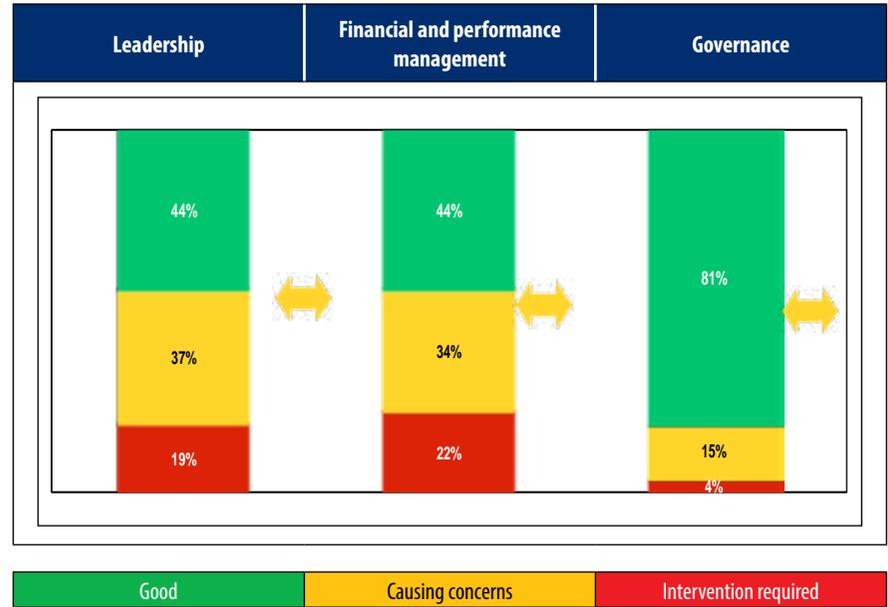
330



5 risk areas



Key controls



Root causes

In year monitoring of financial and performance reporting as well as compliance with laws and regulations are inadequate and recurring transgressions are not timeously investigated to hold people accountable.

Key messages communicated throughout the audit process are not taken seriously and/or are not actioned immediately or decisively by management .

Inadequate review of financial statements by senior leadership and those charged with governance prior to submission for auditing.

VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes for this portfolio have regressed. The majority of reports are in the category of financially unqualified with other findings. Regressions were recorded for Legal Aid South Africa (LASA) and the Guardian's Fund. The only qualified report relates to the Department of Justice and Constitutional Development (DoJ&CD), which recorded only one qualification matter affecting various line items on the financial statements, namely departmental revenue, receivables for departmental revenue, provisions and contingent liabilities. This was mainly due to the inadequacy of internal controls and information technology systems to ensure proper controls and financial reporting with respect to its relationship with the Third Party Funds (TPF). The TPF audit for 2011-12 was not performed as financial statements had not yet been submitted for auditing. Financial statements were received during March 2012 for the 2010-11 financial year and a disclaimed audit opinion was issued.

With respect to the regressions, findings were raised at LASA on non-compliance with SCM prescripts, which led to the identification and disclosure of irregular expenditure. The Guardian's Fund financial statements contained material misstatements which were corrected as a result of the audit process after submission of financial statements for auditing. Previous findings on reporting of performance against predetermined objectives by the DoJ&CD have been addressed.

Risk/focus areas

The key challenge for the movement of audit outcomes towards clean administration remains primarily in the areas of submission of financial statements which are free from material misstatements, compliance with sSCM prescripts and regulations and guidance on managing and reporting on performance against predetermined objectives. Minimal improvements in addressing previous Human resource management findings have been noted and the IT controls review revealed a regression in IT controls.

The DoJ&CD and its related entities should continue to focus on implementing monthly controls to avoid material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements.

The leadership should focus on preventative controls to ensure that non-compliance findings on supply chain management are eliminated, thereby preventing irregular expenditure.

Status of key controls and root causes of audit outcomes

The key focus areas in internal controls that should be addressed relate mainly to oversight by leadership of financial and performance management and compliance with laws and regulations, in-year monitoring of action plans, budgets and financial statements, as well as proper records management to ensure documentation requested for auditing is easily retrievable.

The root causes of the lack of improvement in audit outcomes are inadequate review of financial statements by senior leadership and those charged with governance prior to submission for auditing; key messages communicated throughout the audit process which were not taken seriously and/or are not actioned immediately or decisively by management; inadequate in-year monitoring of financial and performance reporting and compliance with laws and regulations; recurring transgressions which are not timeously investigated to hold people accountable; and inadequacies in IT systems to ensure proper financial reporting, specifically with regards to the TPF.

VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority once during the 2011-12 financial year. The discussions focused on the weaknesses reported as per the key control dashboards as well as the prior year qualification areas.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DoJ&CD does not fully meet the required level of assurance.</p>			■
Previous year			
<p>The Minister of the DoJ&CD undertook to support the department in appointing skilled staff in key positions so that the department could function effectively to address areas on concern, including supply chain management .</p>			■
<p>The Minister of the DoJ&CD undertook to ensure that financial statements are submitted for TPF.</p>			■
<p>The Minister of the DoJ&CD undertook to ensure that the accounting system matters of TPF were resolved within the next two years.</p>		■	
New			
<p>The Minister of the DoJ&CD committed to ensure that vacancies at the department are filled within a short space of time after the vacancy arises, especially at senior management level.</p> <p>The Minister of the DoJ&CD undertook to ensure that the CFO of the department takes control of SCM and Asset management reporting functions and reports to the accounting officer on a monthly basis with a view to corrective action. Recurring non-compliance will be investigated and action taken against the relevant officials.</p> <p>The Minister of the DoJ&CD undertook to strengthen reporting on quarterly performance against predetermined objectives, with the involvement of Internal audit, and to ensure credibility of reported information. The Performance management system will be utilised effectively to facilitate collation and consolidation of information from the various line functions and regions.</p> <p>The Minister of the DoJ&CD undertook to prioritise upgrading and/or replacement of ageing and redundant IT systems, e.g. JDAS (Third Party Funds), GFS (Guardian's Fund), etc. in order to ensure proper financial reporting and preparation of credible financial statements.</p>			

VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

Constitutional institutions

The audit outcomes with respect to the two constitutional institutions, namely the South African Human Rights Commission and the Public Protector of South Africa, remained financially unqualified with other findings on compliance with laws and regulations. There was improvement in reporting of performance against predetermined objectives by the South African Human Rights Commission. The key challenge for the movement of audit outcomes towards clean administration remains primarily in the areas of submission of financial statements which are free from material misstatements and compliance with SCM prescripts. The executive authorities of these institutions should focus on improving the key controls which impact on these areas, including the requirement to prepare full monthly financial statements that are properly reviewed by management and those charged with governance.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

334

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas					Findings on predetermined objectives				Findings on areas of non-compliance							
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Revenue	Other disclosure items	Irregular expenditure	Current assets	Liabilities	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset management	Expenditure management	Revenue management	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Strategic planning and performance management
1	Department of Justice and Constitutional Development						R	R	A	R	R	A	A			R	R	R	R	R	N	R		
Reporting auditees																								
2	Criminal Assets Recovery Account															R								
3	Guardian's Fund															N								
4	Special Investigating Unit											R	N			R	R		N			R	N	
5	Third Party Funds																							
6	Legal Aid South Africa																N					N		
7	The Public Protector of South Africa												A			R				R				
8	President's Fund																							
9	South African Human Rights Commission											A				R	R					R		
10	National Prosecuting Authority															R	R	A		R		R		

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Audit outstanding	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

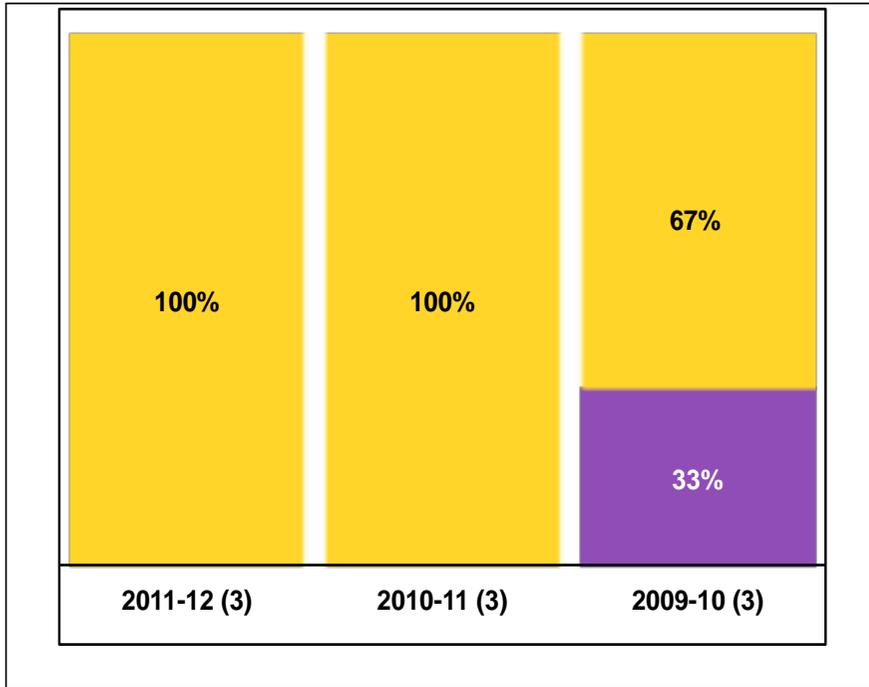
Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management					Drivers of internal control										Human resource management					Information technology management				Root causes									
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership					Financial and performance management					Governance					Management of vacancies	Appointment process	Leave administration	Other	Performance management	Acting positions	IT governance	Security management	User access management	IT service management	Human resource capacity and productivity	Attention to key controls	Effectiveness of assurance providers
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee	Risk management													
		↑	277m	↓	7,2m		R	R	R	R	R		S		S	S	S	S							R	R	R	A	R		R	R	R	R					
		↓	33,6m																																				
		↓	105,9m																																				
		↓	1,1m																																				
		↑	32m	↑	386k																																		

Legend (Movements)	Reduction	↑	Increase	↓
Legend (Drivers)	Good	Causing concern	Intervention required	S = Significant control deficiency
Legend (Findings)	Addressed	New	Repeat	



VOTE 25: POLICE

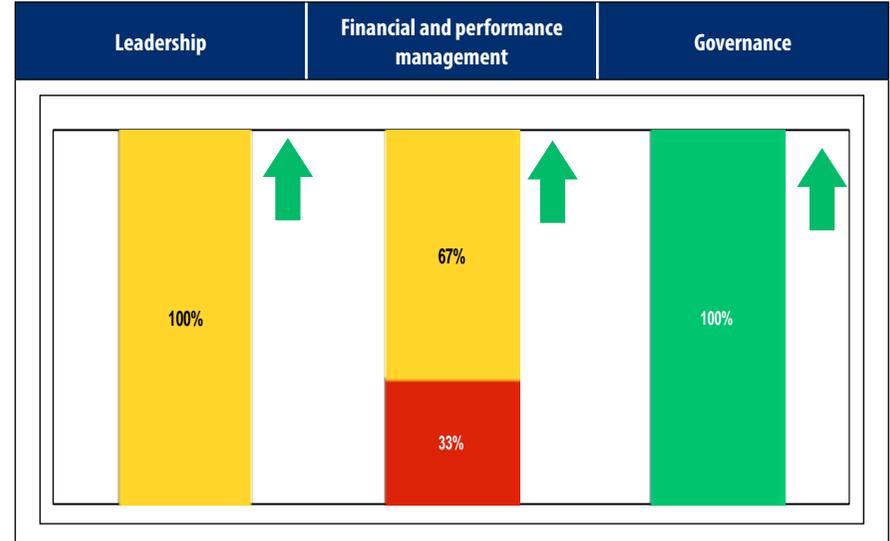
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Inability of leaders at provincial/station level to effectively monitor performance information
- Accountability not accepted for actions and outcomes not known to lower levels
- Inadequate discipline to ensure credible monthly performance information

VOTE 25: POLICE

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes of the police portfolio remained the same as the previous year for all three auditees, i.e. the Department of Police (SAPS), Independent Complaints Directorate (ICD) and the Public Security Industry Regulatory Authority (PSIRA), all of which were financially unqualified with other findings on both compliance and performance information. The stagnation at SAPS was mainly as a result of inadequate discipline to monitor and review performance information, especially at station and provincial level.

Risk/focus areas

At all three auditees the leadership inadequately implemented the systems that support accurate and reliable performance information. ICD implemented a new system to track their performance information and the focus should now be on ensuring that all staff are adequately trained on the system, that it is used consistently and that the information is adequately monitored to ensure that information presented in the annual report is reliable.

The PSIRA resolved its HR findings of the previous year but should still pay attention to the effectiveness of its monitoring and review processes to prevent non-compliance and to avoid material corrections to its financial statements. We also found the strategic objectives not to be useful and management must ensure that targets are specific, time bound and measurable.

As in the previous year, we identified inadequate IT governance frameworks at all three auditees. The leadership should implement and enhance the IT control environment.

Notwithstanding an overall decrease in irregular, fruitless and wasteful expenditure, the portfolio should focus on the overall compliance with procurement processes. Three contracts were identified at SAPS which are currently under investigation to determine whether the expenditure should be regarded as irregular.

Status of key controls and root causes

Quarterly engagements between the AGSA and the executive had some impact as improvements were noted in respect of the effectiveness of internal controls. However, leadership and Performance management still require attention. During the year under review there was instability in the leadership with senior positions being vacant at SAPS and ICD, resulting in oversight being less effective.

VOTE 25: POLICE

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority at least four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of SAPS provides some of the required level of assurance.</p>			■
Previous year			
<p>A commitment was made to a joint effort between SAPS and the AGSA to visit all the provinces. However, only three provinces were visited.</p>			■
New			
<p>The minister undertook to prioritise the joint AGSA and SAPS provincial visits to clarify roles and responsibilities at provincial level before the end of December 2012. These visits aim to enhance the reliability of performance information. It is recommended that performance agreements be aligned in terms of the clarified roles and that staff be held accountable for reporting inaccurate performance information.</p>			

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NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENTS AND PUBLIC ENTITY IN PORTFOLIO

VOTE 25: POLICE

340

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas			Findings on predetermined objectives				Findings on areas of non-compliance													
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement and contract management	Strategic planning and performance management	Expenditure management	Revenue management	Budgets	Internal audit	Audit committee	HR management	Material misstatement/limitations in submitted annual financial statements			
1	Department of Police											R			A	A	R											A
2	Independent Complaints Directorate (ICD)											R							R						R			A
Reporting auditees																												
1	PSIRA										R				R	R	R		R	A	A	A					R	

Legend (Audit outcomes)	Financially unqualified with findings	Findings
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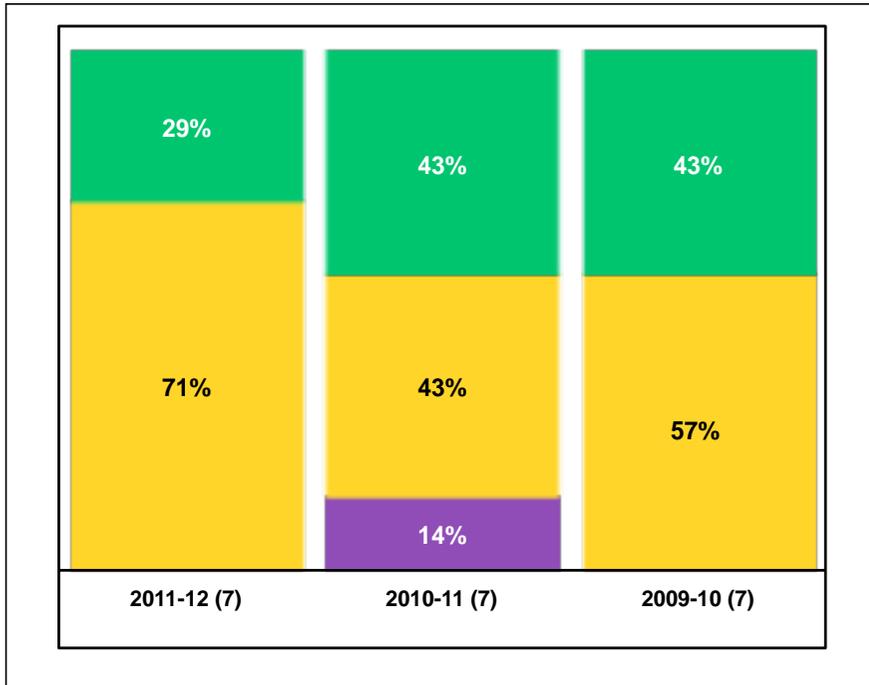
Legend (Findings)	Addressed	Repeat
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2.2.5 ECONOMIC SERVICES AND INFRASTRUCTURE



VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

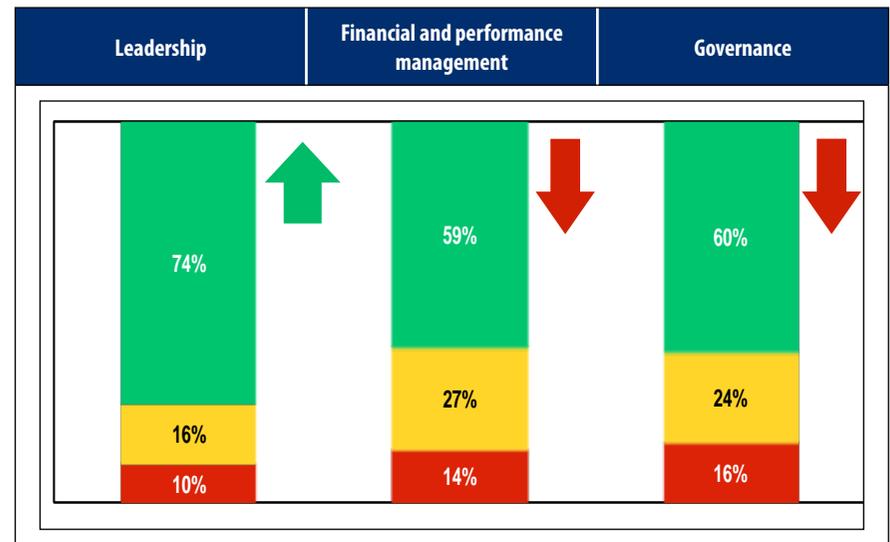
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Lack of monitoring of compliance with laws and regulations
- Lack of discipline of credible comprehensive monthly reporting
- Ineffective internal audit function
- Skills and policies for predetermined objectives are lacking

VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Department of Agriculture, Forestry and Fisheries (DAFF) and three entities received a financially unqualified audit opinion with findings on either reporting against predetermined objectives or compliance with laws and regulations.

There was an overall improvement in the portfolio resulting in the portfolio receiving financially unqualified audit opinions; however, predetermined objectives and compliance remain a challenge. The improvement in the audit opinion is due to the entity's leadership implementing the necessary interventions to improve processes based on prior year commitments made.

Two of the entities received clean audit opinion as in the prior year.

The portfolio failed to make overall progress towards clean audit outcomes due to commitments not being specific to address audit findings and shortcomings identified in the previous year. Although detailed actions plan were developed, progress in implementing the action plans was slow.

Risk/focus areas

Areas of concern include compliance with laws and regulations relating to procurement, as well as lack of capacity and instability in the Internal audit function at the department. Skills, policies and procedures in the department are not adequate to ensure effective reporting on predetermined objectives. A further concern is the repeat findings on material adjustments to disclosure notes. In addition, the instability in the position of the director-general as well as availability of the director-general is a concern.

DAFF and its related entities should continue to focus on implementing monthly controls to avoid material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements with all relevant disclosure notes.

SCM processes and resources relating to the oversight and monitoring of compliance should be improved.

The department needs to focus on its staff establishment to ensure that there are sufficient staff to carry out the monitoring and evaluating functions.

Poor budgeting processes and failure to set achievable indicators and targets resulted in the department continuously not meeting their targets.

DAFF should ensure that performance agreements of senior management are aligned to the strategic goals of the department, as per the relevant policy requirements, to enhance accountability of the portfolio.

VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

Status of key controls and root causes of audit outcomes	Insufficient communication between those charged with governance and the minister contributed to the lack of commitment and accountability by leadership to address repeat findings on reporting on predetermined objectives, governance and compliance.			
	The repeat audit findings are as a result of inadequate training, lack of procedures and monitoring on reporting of predetermined objectives and lack of monitoring of compliance by management and Internal audit. The leadership of the department needs to take ownership of the process of performance reporting and ensure that daily checks and balances are in place that will result in credible reporting on predetermined objectives.			
	Lack of stable and decisive leadership resulted in the Internal audit function not being fully effective and SCM issues not being addressed.			
Commitments and initiatives by minister		Impact on 2011-12 audit outcomes		
		Significant impact	No impact	Limited impact
<i>Impact of quarterly discussions with the executive authority</i>				
Due to the unavailability of the minister, the AGSA leadership could meet only twice with the minister during the financial year, where the portfolio key controls were discussed and commitments were made. Although some progress has been made on the commitments, the impact on audit outcomes has been limited partly because these were not specific enough.				
The executive authority plays a role in providing assurance in the public sector. Our assessment is that more work needs to be done in this area to ensure that the assurance provided to the executive authority is at the appropriate level.				
<i>Previous year</i>				
Development and implementation of action plans to address deficiencies in internal control.				
Projects to be registered for development of the IT governance framework and to address reliability of systems and data integrity.				
Address weaknesses in the accounting and disclosure against predetermined objectives.				
Improvement of the Internal audit and risk management functions.				

VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

New

New commitments have not yet been agreed with the minister; however, the minister undertook to carry over the previous year's commitments. New commitments will be signed off as soon as a meeting has been secured with the minister.

All commitments made in the prior year are carried over to the new year.

Specific commitments to enhance prior year generic commitments are as follows:

- Capacitate Internal audit to be fully effective and functional.
- Align the performance agreements of senior management with the department's strategic goals.
- Revise the staff establishment specifically to ensure that there are sufficient staff to carry out the monitoring and evaluating functions.
- Manage deviation from the procurement process in a transparent manner.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance									
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Internal audit	Procurement management	Asset and liability management	HR management	Audit committees	Strategic planning and performance management	Other	
	Department of Agriculture, Forestry and Fisheries										R	R			R	R	A	N		N		A			
Reporting auditees																									
1	Agricultural Research Council														R	A									
2	National Agricultural Marketing Council																								
3	Onderstepoort Biological Products Ltd						A	A			R	A			R	R	R	N	N		A	N			
4	Marine Living Resources Fund																				N				
Audits not conducted by the AGSA																									
5	Ncera Farms (Pty) Ltd										R	R					A				R	R			
6	Perishable Products Export Control Board																								

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

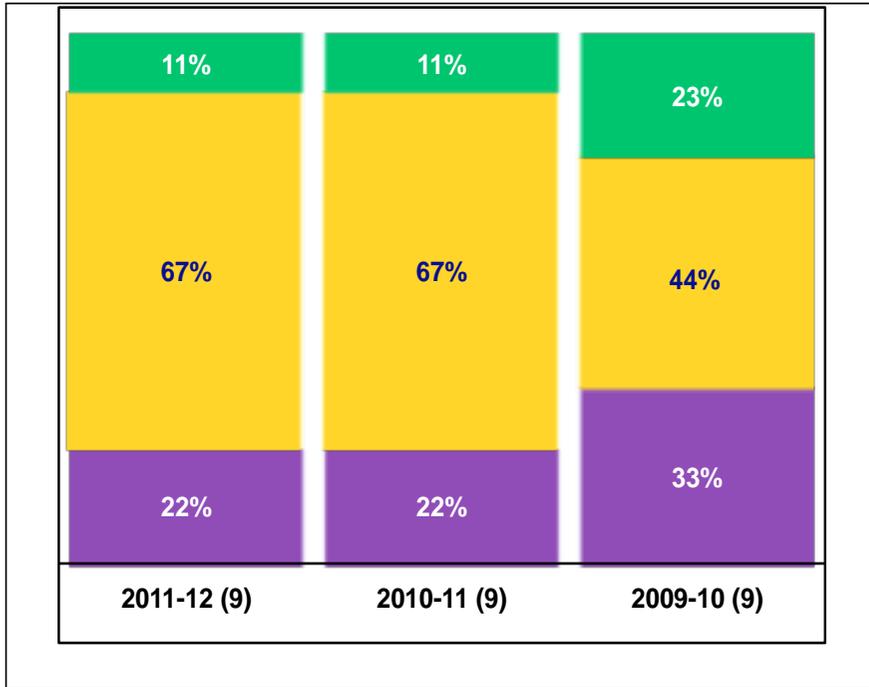
Unauthorised, irregular, as well as fruitless and wasteful expenditure						Procurement and contract management					Drivers of internal control											Human resource management				Information technology management				Root causes						
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership					Financial and performance management				Governance		HR planning and organisation	Management of leave, overtime and suspensions	Management of vacancies	Appointment processes	Performance management	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers		
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls													Risk management	Internal audit
		↓	34,75m	↓	15k			N	R									S			S		N	A	R		A	R	R	R	R					
		↓	1,02m	↓	9k																		N		N											
		↓	11,96m	↓	474k										S			S							A			R	R	R	R					
				↑	9k																						R	R	R	R						

Legend (Movements)	Reduction	↑	Increase	↓
Legend (Drivers)	Good	Causing concern	Intervention required	S = Significant control deficiency
Legend (Findings)	Addressed	New	Repeat	

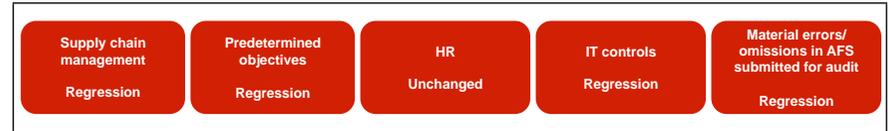


VOTE 27: COMMUNICATIONS

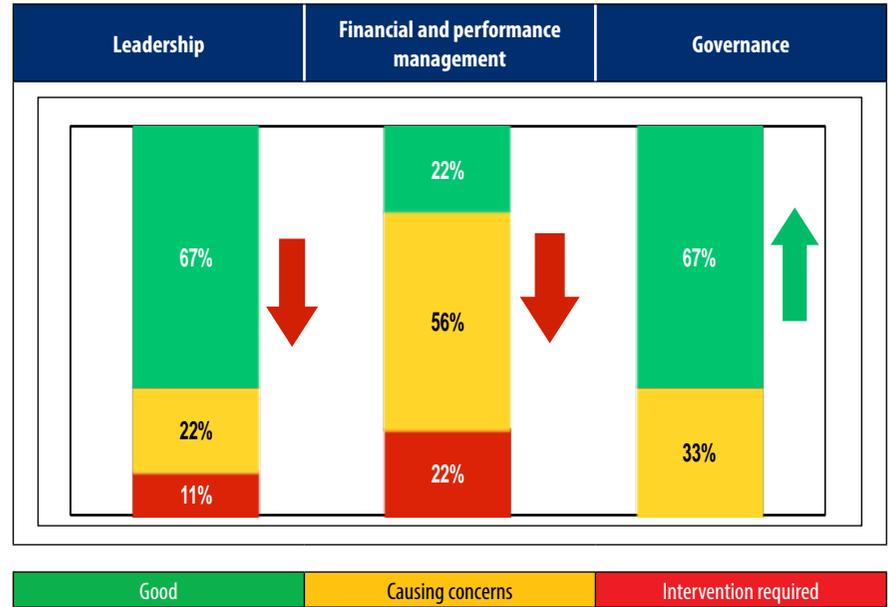
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Vacancy and instability in key leadership positions

Accountability not accepted by senior managers and lack of consequences for transgressions and poor performance.

Inadequate discipline (monitoring) of financial and performance information

VOTE 27: COMMUNICATIONS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The communication portfolio showed no improvement in its audit outcomes. Telkom successfully maintained a clean audit outcome. The department, National Electronic Media Institute of South Africa (NEMISA), Universal Service and Access Agency of South Africa (USAASA), Universal Service and Access Fund (USAF), Sentech and South African Post Office (SAPO), as in the prior year, were financially unqualified with other matters. The South African Broadcasting Corporation (SABC) and Independent Communications Authority of South Africa (ICASA) recorded qualified audit outcomes as in the previous year.

Risk/focus areas

It is of great concern that there was an overall regression in all five focus (risk) areas. The department, SABC and SAPO had repeat SCM findings, while non-compliance with procurement processes was, for the first time, identified at USAF and NEMISA. Material corrections had to be made to the financial statements submitted by the department, Sentech and ICASA, while for SABC it was a repeat finding. Human resources regressed, with the department and SABC having repeat findings, and Sentech a new finding.

Of concern is also the number of leadership vacancies in the Communications portfolio and the length of time it takes to fill vacancies. The leadership vacuum has resulted in an overall regression in key controls which might have a negative impact on audit outcomes in future if not addressed urgently.

IT governance frameworks were identified as a concern at four auditees, with the department and ICASA having repeat findings and USAASA and NEMISA having IT findings for the first time. SABC managed to clear all its previous findings on predetermined objectives; however, findings were raised at USAF, NEMISA and SAPO in 2011-12, while USAASA and ICASA had repeat PDO findings.

Except for Telkom, non-compliance findings were reported for the department and all the entities (eight out of nine), with the main areas of concern being strategic planning (reported at six auditees) and non-compliance with procurement policies and procedures identified at six auditees. Overall there was a decrease in the irregular expenditure that was identified and disclosed. The completeness of the irregular expenditure disclosed by SABC could not be confirmed, resulting in SABC receiving a qualification on irregular expenditure. Possible irregular expenditure was disclosed by SAPO, which is to be investigated by the National Treasury.

Status of key controls and root causes of audit outcomes

The inability to show improvement can be mainly attributed to leadership vacancies at the department, USAASA, USAF, NEMISA, SABC and SAPO. The CEO and CFO positions at ICASA had been filled during the year. As a result of the vacancies in this portfolio there was a lack of discipline to monitor and review daily financial and performance information and staff were not held accountable for poor performance. It is recommended that critical vacancies be filled, Performance management be enhanced and a discipline be instilled to supervise and monitor daily tasks.

VOTE 27: COMMUNICATIONS

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority three times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DOC provides the required level of assurance.</p>			■
Previous year			
No commitments were recorded for the current minister in the previous year as she was only appointed to the position in December 2011.		■	
New			
The minister committed the portfolio to a clean audit in 2013, which resulted in several engagements with the AGSA. Checks and balances need to be identified and implemented to enhance the effectiveness of the overall control environment. Critical vacant positions were identified and the minister undertook to fill those vacancies within the current year.			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 27: COMMUNICATIONS

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Number	Auditee	2011-12 Audit outcomes		2010-11 Audit outcomes		Financial statement qualification areas			Findings on predetermined objectives				Findings on areas of non-compliance																	
		Audit opinion	Predetermined objectives	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Irregular expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Asset and liability management	AFS Not submitted in time for audit.	Budgets	Expenditure management	Internal control	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Financial management and performance	Procurement management	HR management	Other	
1	Department of Communications													R	R				R			A	A		A		R	R		
Reporting auditees																														
1	NEMISA										N														R		N			
2	ICASA						A	R	R	R	R			R	R							A	A		R		A			
3	USAASA										R			A	R	A	A		R						R		N			
4	USAF												N		N		A								N		N			
Audits not conducted by the AGSA																														
6	SABC						R			N	A	A		R		R	R		R	R	R	R	A	R		R	R			
7	SENTECH													N	R							N	N		N		A	N		
8	SAPO											N															R			
9	TELKOM																													

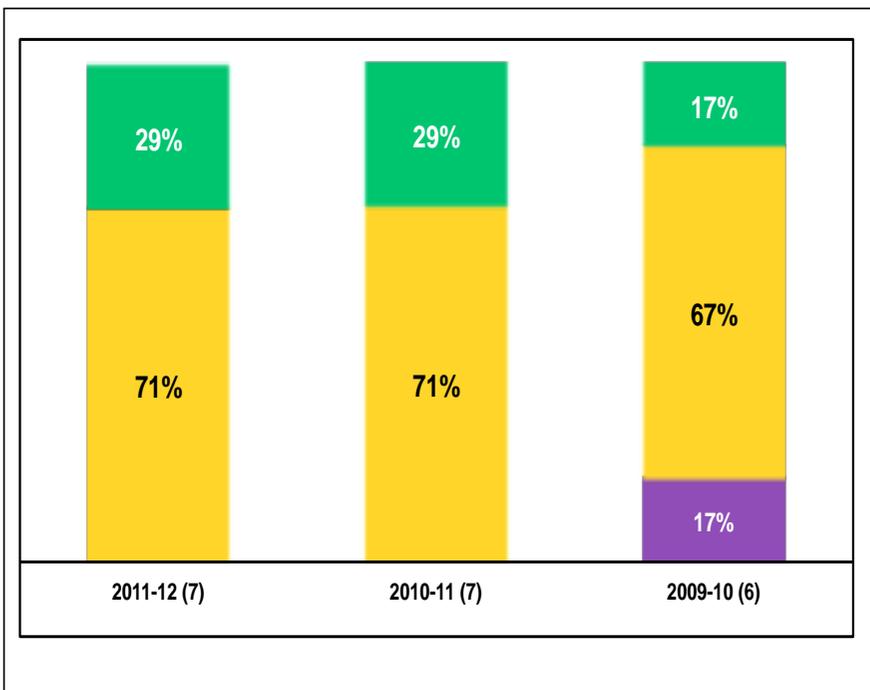
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 28: ECONOMIC DEVELOPMENT

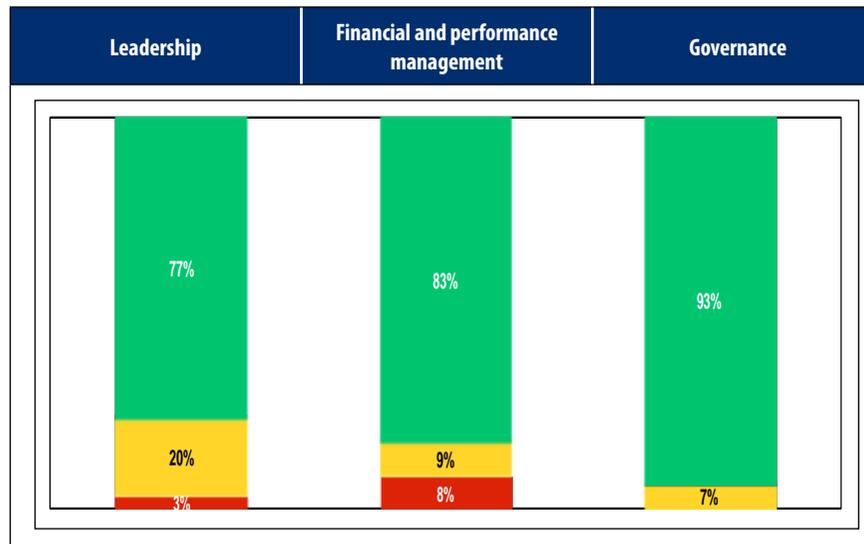
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- A lack of review of the submitted financial statements by management .
- Action plans not sufficient in addressing real root causes and were not monitored by assurance providers.
- Lack of understanding of the framework for managing performance information and supply chain management regulations.

VOTE 28: ECONOMIC DEVELOPMENT

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

No overall change in the audit outcomes of the portfolio. The department has reduced the number of non-compliance findings and although there were material adjustments to the financial statements, these had decreased compared to the prior year. The Industrial Development Corporation of South Africa (**IDC**) and Khula Finance Enterprise Limited (**KHULA**) both remained financially unqualified without findings on predetermined objectives and compliance with laws and regulations (clean audit outcomes). The Competition Commission, Competition Tribunal, International Trade and Administration Commission of South Africa (**ITAC**) and the South African Micro Finance Apex Fund (**SAMAF**) remained financially unqualified with findings on predetermined objectives and compliance with laws and regulations.

The key reason for the reduction in the number of non-compliance findings at the department is that the acting accounting officer had accepted full accountability for dealing with the identified control deficiencies by implementing appropriate action plans to address the issues, as well as interventions from the minister. Although the Competition Commission remained in the same category, there was a significant decrease in the amount of irregular expenditure incurred as effective steps were taken by the accounting authority to address the issue.

Risk/focus areas

The department should continue to focus on implementing monthly controls to eliminate material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements.

The main area of concern in the rest of portfolio involves compliance with laws and regulations relating to procurement and predetermined objectives. Leadership should focus on taking action against transgressors and implementing action plans.

Status of key controls and root causes of audit outcomes

A lack of monitoring and review of controls over monthly processing led to the material misstatements in the financial statements submitted for auditing at the **EDD**, which in turn, resulted in material adjustments.

The main reasons for most of the entities remaining unqualified with findings category are that management had developed action plans which did not address the root causes of the findings, that the action plans were not specific and/or no responsibility was assigned for the tasks, and/or timelines were not determined for ultimate resolution of internal and external audit findings. The non-compliance findings at the Competition Tribunal were due to incorrect interpretations and a lack of understanding of the SCM requirements. The PDO issues at **ITAC** and **SAMAF** were a result of staff still not being trained to gain a better understanding of reporting and compliance requirements.

VOTE 28: ECONOMIC DEVELOPMENT

Oversight and Governance of PFMA Schedule 2 public entities

Oversight procedures were conducted at the department. The department has established a directorate which facilitates the oversight and governance function at its public entities. No material findings were noted.

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority twice during the 2011-12 financial year. The discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing the first level of assurance in the public sector in terms of the combined assurance model. Based on our interactions, we have assessed that the executive authority of the EDD provides the required level of assurance.</p>	■		
Previous year			
<p>The minister had committed to the development and implementation of an HR plan with a view to meeting the department's HR needs, the improvement of the payment process to ensure that payments are made within 30 days and the improvement of processes regarding the declarations of interest.</p>	■		
New			
<p>The minister undertook to ensure greater focus on the risk assessment and risk management , and to improve effectiveness of Internal audit and engage with all entities to address internal control deficiencies. Progress will be monitored by means of quarterly reports provided to the minister.</p>			

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NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 28: ECONOMIC DEVELOPMENT

358

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current assets	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset management	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Strategic planning and performance management	Revenue management
	Economic Development Department														R	A	A				A	
Reporting auditees																						
1	Competition Commission															A	R				R	
2	Competition Tribunal																R				R	
3	International Trade and Administration Commission (ITAS)												R			A	R				R	
4	South African Micro Finance Apex Fund												R	R		A	A	N			R	N
Audits not conducted by the AGSA																						
5	Khula Enterprise Finance Limited																					
6	Industrial Development Corporation of South Africa(IDC)																					

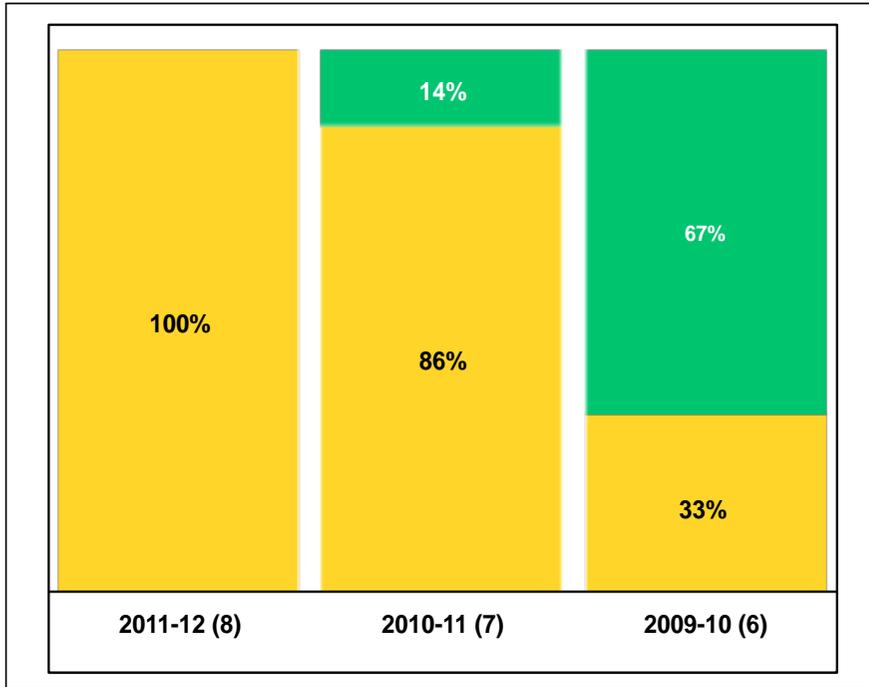
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 29: ENERGY

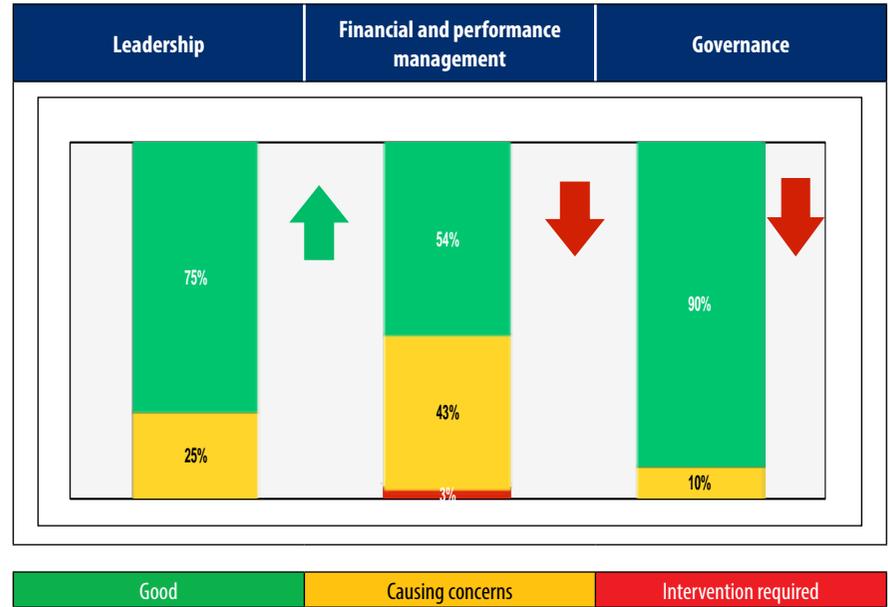
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Vacancies in senior management positions within the portfolio
- Lack of monitoring and review of controls over monthly processing
- Auditees still have poorly designed IT controls

VOTE 29: ENERGY

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Department of Energy (DOE) and the significant entities in the energy portfolio all received a financially unqualified audit opinion with findings on either reporting against predetermined objectives or compliance with laws and regulations. The DOE significantly improved with regard to its reported predetermined objectives.

The National Energy Regulator of South Africa (NERSA) regressed from a clean audit opinion to being financially unqualified with findings on compliance with laws and regulations relating to material misstatements that were corrected.

The improvement in the reported predetermined objectives is due to the DOE's leadership implementing the necessary interventions, such as filling key vacancies and focusing on improving the internal control environment, driven by detailed discussions on the key control dashboard between the AGSA and the leadership. The reason for the regression at NERSA was that almost all the staff in the finance department had changed (including the CFO and the director of finance).

Risk and focus areas

The main area of concern involves compliance with laws and regulations relating to procurement and transfer payments at the DOE. Another concern relates to discharging the provision for the environmental rehabilitation liability with regard to the decommissioning and decontamination of past strategic nuclear facilities disclosed in the financial statements of the DOE. The current funding transferred to the Nuclear Energy Corporation of South Africa (NECSA) to discharge the liability is lower than the amount budgeted by NECSA. This could potentially extend the period needed to decommission and decontaminate these facilities and as a result increase the liability.

The DOE and its related entities should continue to focus on implementing monthly controls to avoid material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements with all relevant disclosure notes.

The executive authority should intervene at leadership level to assist the DOE in obtaining additional funding to create capacity in terms of both human resources and systems to ensure oversight of the energy infrastructure programmes scheduled to take place over the next five years. The filling of vacant positions within the entities in the energy portfolio should be prioritised.

SCM processes should also be improved and resources allocated for the oversight, monitoring and compliance of infrastructure programmes over the next five years, including major project partnerships with other countries and international companies.

VOTE 29: ENERGY

Status of key controls and root causes of audit outcomes

The vacancies within the energy portfolio are mainly due to funding restrictions, while the split of the Department of Minerals and Energy (DME) into the Department of Energy and the Department of Mineral Resources meant that limited skilled human resources have to be shared between the two departments.

A lack of monitoring and review of controls over monthly processing led to the material misstatements in the financial statements submitted for auditing which, in turn, led to material adjustments.

Oversight and Governance of PFMA Schedule 2 public entities

Oversight procedures were conducted at the department. The department has established a directorate which facilitates the oversight and governance function of its public entities. Even though the department has adopted policies to facilitate its function of oversight and governance, the department did not provide feedback to its public entities on measures to mitigate indentified risks that could influence the operations of the public entities. No other material findings were noted.

Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

Impact of quarterly discussions with the executive authority

The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.

The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DOE provides the required level of assurance.



Previous year

The Minister of Energy undertook to address weaknesses reported on the reported predetermined objectives and non-compliance with laws and regulations. This was achieved in the 2011-12 financial year for reported predetermined objectives; however, non-compliance remains a focus point.



New

The Minister of Energy committed to improve on the quality of the quarterly financial reporting through proper reviews of financial information by the governance structures through Internal audit.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 29: ENERGY

364

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Revenue	Expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Transfer and conditional grants	Asset and liability management	Procurement and contract management	Other
	Department of Energy										A				R	R	R	R			N	
Reporting auditees																						
1	National Energy Regulator of South Africa (NERSA)																					N
2	Central Energy Fund (CEF)														R	R						
3	PetroSA														R	R					N	R
4	Nuclear Energy Corporation of South Africa (NECSA)															R						
5	South African National Energy Research and Development Institute (SANEDI)										N	N			N							
6	EDI Holdings										A	A			R							
7	National Nuclear Regulator (NNR)										R	N			R	A				N		

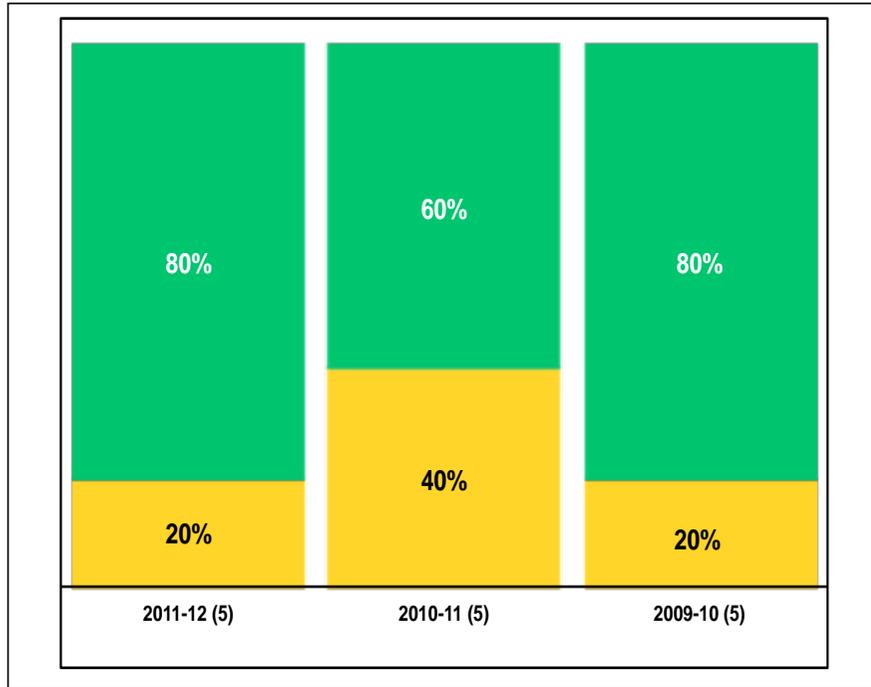
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	New	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 30: ENVIRONMENTAL AFFAIRS

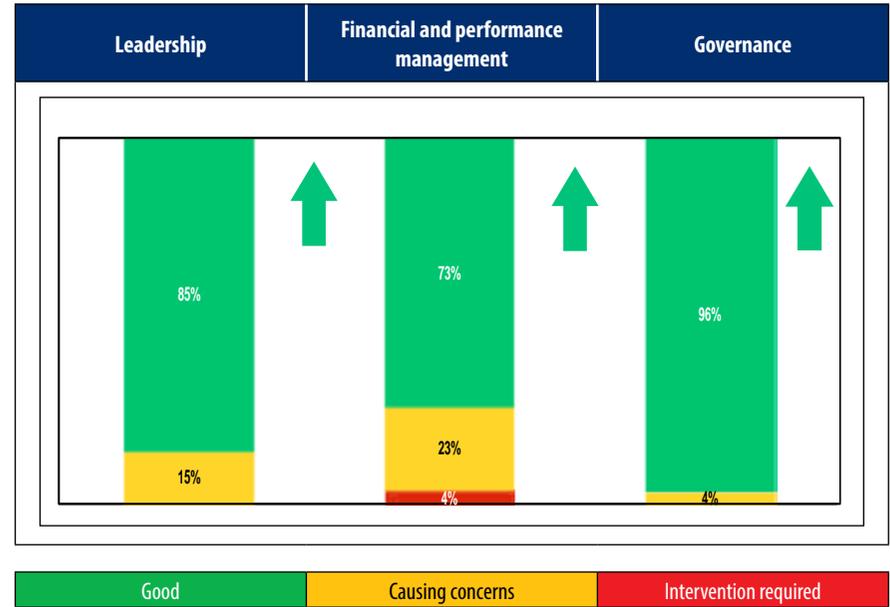
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Responsibility for commitments not taken seriously
Inadequate discipline of credible monthly reporting on financial, performance and compliance

VOTE 30: ENVIRONMENTAL AFFAIRS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The environmental affairs portfolio showed improvement in its audit outcomes as 80% (four out of five) of the auditees managed to get clean audit outcomes. It is only the South African National Biodiversity Institute (SANBI) which, similar to last year, had to make material adjustments to its financial statements due to the inadequate attention to key controls.

Material misstatements were identified during the audit at SANBI which, if not corrected, would have resulted in qualifications. The CFO position was filled in April 2012 and the effectiveness of the control environment should be reviewed and enhanced by instilling a discipline of capturing and reviewing financial information daily. The leadership should also improve the document management system to allow easy access to information. It is further recommended that the CFO prepare monthly financial information to prevent year-end efforts.

Risk/focus areas

It is commendable that for two consecutive years there have been no audit findings in the entire portfolio relating to predetermined objectives.

For the portfolio to maintain its clean audits, leadership should strengthen the monitoring and review procedures to prevent and detect non-compliance with procurement policies and procedures resulting in instances of irregular, fruitless and wasteful expenditure that were identified during the audit.

The leadership should also focus on governance frameworks to control and maintain the IT environment.

Status of key controls and root causes of audit outcomes

The SANBI HR plan was only approved on 13 June 2012. Quarterly engagements with the executive authority had a significant impact and management undertook to strengthen their daily and monthly monitoring and review controls to enable them to prepare accurate financial information.

VOTE 30: ENVIRONMENTAL AFFAIRS

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority at least four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DEA provides the required level of assurance.</p>	■		
Previous year			
A commitment was made to sustain the outcome on performance against predetermined objectives.	■		
New			
A commitment was made to have the IT governance frameworks approved before 31 December 2012.			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 30: ENVIRONMENTAL AFFAIRS

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement	Expenditure management	Human resources	Other
	Department of Environmental Affairs																
Reporting auditees																	
1	South African National Parks																
2	South African Weather Service																
3	iSimangaliso Wetland Park																
4	South African National Biodiversity Institute																

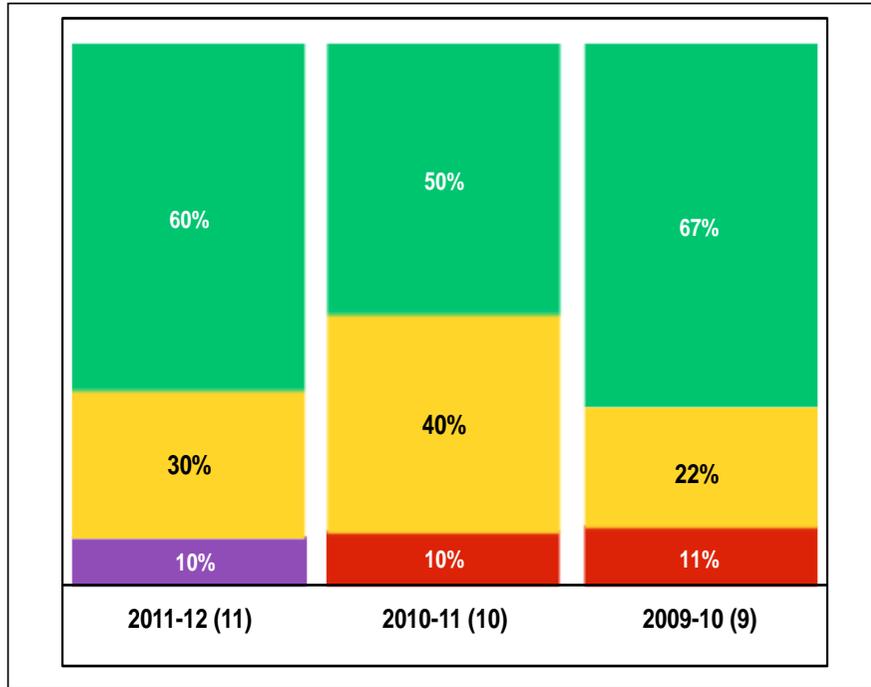
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Findings
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Legend (Findings)	Addressed	Repeat
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VOTE 31: HUMAN SETTLEMENTS

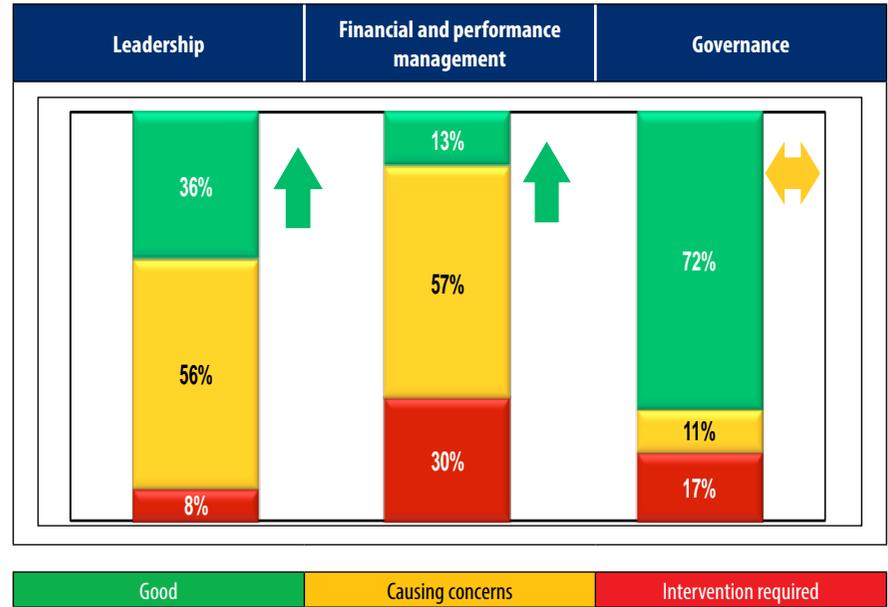
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

Action plans to address prior period audit findings were not appropriately designed and implemented. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not adequately exercised.

Lack of necessary knowledge and skills in senior management positions as a result of delays in the filling of vacancies.

Insufficient attention paid to key controls with regard to daily processing and monthly controls including the preparation and review of financial and performance reports .

VOTE 31: HUMAN SETTLEMENTS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes of the portfolio show two improvements and two regressions in audit opinions, while the majority of reports remained in the categories of either a clean audit report or a financially unqualified report with findings. The National Home Builders' Registration Council (**NHBRC**) regressed to a qualified opinion because it did not have adequate controls in place to ensure that irregular expenditure incurred as a result of non-compliance with procurement regulations is detected and fully disclosed in the financial misstatements. The Social Housing are regulatory Authority (**SHRA**) regressed to financially unqualified with findings on non-compliance with laws and regulations and predetermined objectives because it did not have adequate controls in place to ensure that irregular expenditure is prevented. The audit outcomes for the Housing Development Agency (**HDA**) improved to financially unqualified with no findings due to management developing action plans to adequately address prior year findings, especially on compliance.

The audit outcome for the National Department of Human Settlements (**NDHS**) has remained unchanged. The financial statements of **NDHS** and **NHBRC** which were submitted for auditing contained material misstatements which were corrected as a result of the audit process.

Risk/focus areas

The key challenge for the movement of audit outcomes towards clean administration remains in the areas of submission of financial statements which are free from material misstatements, compliance with SCM prescripts and regulations, and guidance on managing and reporting on performance against predetermined objectives. No improvements in information technology (IT) controls and Human resource management have been noted and these are also contributory factors hampering the progress towards clean administration.

The **NDHS** and **NHBRC** should continue to focus on implementing monthly controls to avoid material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements with all relevant disclosure notes. Monthly key controls assessments should also be performed on the control environment. The control environment within the sanitation unit at **NDHS** also poses a significant risk to progress towards clean administration. The leadership should therefore also focus on monthly reconciliation controls in ensuring that the entity can accurately account for all project related costs.

Proper controls regarding the adequate review and monitoring of compliance with SCM laws and regulations need to be implemented to prevent incurring irregular expenditure, while at the **NHBRC** controls must be put in place to completely detect all irregular expenditure incurred as a result of the non-compliance with SCM laws and regulations.

VOTE 31: HUMAN SETTLEMENTS

Status of key controls and root causes of audit outcomes

The status of key controls overall has not improved significantly, especially in the areas of leadership and financial and performance management, resulting in the entities' lack of progression towards clean administration. Management is also developing action plans which are not addressing the real root causes of the findings reported. Action lists are not specific and responsibility is not assigned for the tasks, nor are timelines determined to ensure timely resolution of internal and external audit findings. Concern still remains with regard to compliance with SCM laws and regulations and predetermined objectives. Financial statements submitted are also not adequately reviewed by the leadership and those charged with governance.

Vacancies at NDHS were not filled timeously due to the turnaround strategy which was implemented during the past year.

The PDO findings at the department were mainly as a result of a lack of understanding of the FMPPI requirements, resulting in indicators not being well defined and targets not conforming to the SMART principle at the **NDHS** and **NHBC**.

Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

Impact of quarterly discussions with the executive authority

The AGSA leadership only met once with the executive authority of the NDHS. On occasions where the AGSA leadership was unable to secure meetings with the executive authority key control assessments were communicated via letters during the 2011-12 financial year. The discussion and letters focused on the weaknesses reported in the key control dashboards and other matters of concern brought to the attention of the executive authority, including sanitation.

The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our limited interactions, we assessed that the executive authority of the NDHS does not yet provide the required level of assurance.

Previous year

None

New

The Minister of **NDHS** undertook to implement an action plan to address the findings of the prior year, especially regarding capital expenditure, preparation of proper monthly financial statements with all relevant disclosure notes and full implementation of monthly key controls. This plan will be monitored by the Audit committee and the accounting officer. Progress will be monitored by means of quarterly reports which must be provided to the minister.

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NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 31: HUMAN SETTLEMENTS

376

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas			Findings on predetermined objectives				Findings on areas of non-compliance									
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Irregular expenditure	N/A	N/A	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Procurement and contract management	Human resource management	Asset management	Expenditure management	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Revenue management	Financial misconduct	Transfers and conditional grants	Internal audit
	National Department of Human Settlements									R	A			R	R	N	N	R	R			A		
Reporting auditees																								
1	National Home Builders Registration Council (NHBC)						N			R				R	N					N	R	N	R	
Audits not conducted AGSA																								
2	Tubelisha Homes (*)																							
3	Social Housing regulatory Authority (SHRA)									N	N				N	N				N				
4	Servcon Housing Solutions													N	R						N			
5	Social Housing Foundation (SHF)																							
6	Housing Development Agency (HDA)																							
7	National Urban Reconstruction and Housing Agency (NURCHA)																							
8	National Housing Finance Corporation (NHFC)																							
9	Rural Housing Loan Fund (RHLF)																							

(*) In liquidation

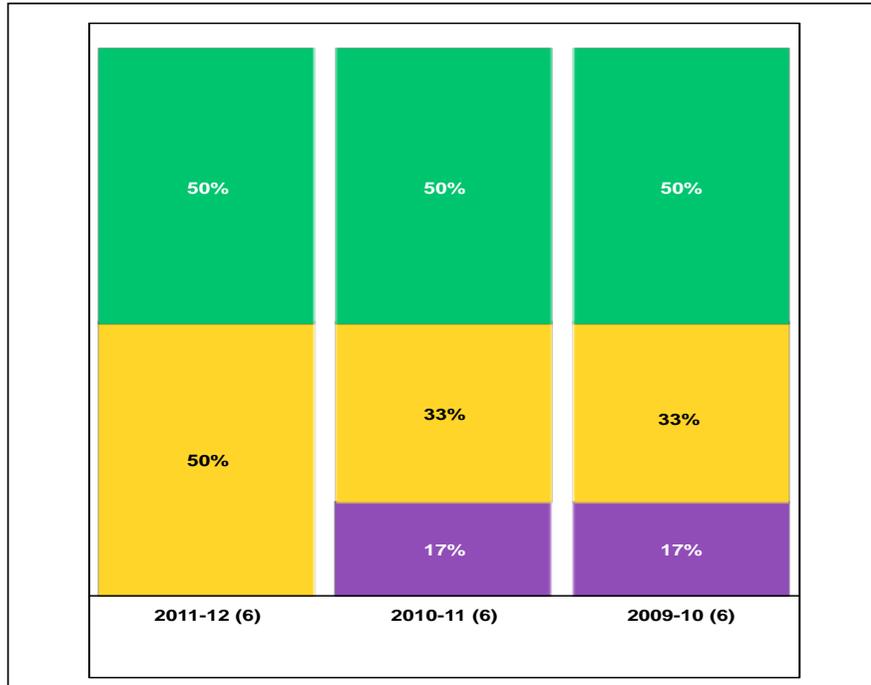
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 32: MINERAL RESOURCES

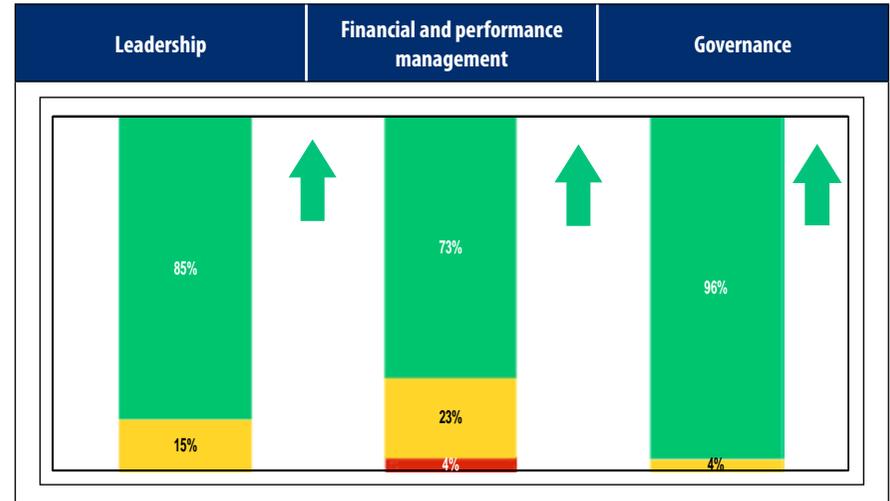
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Lack of monitoring and review of controls over monthly processing
- Compliance with laws and regulations regarding procurement and contract management not adequately monitored and reviewed.
- Auditees still have poorly designed IT controls

VOTE 32: MINERAL RESOURCES

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

There were two notable improvements in the mineral resources portfolio, namely the Department of Mineral Resources, which moved from financially qualified to financially unqualified with findings on compliance with laws and regulations, and the South African Diamond and Precious Metal Regulator which moved to a clean audit compared to the prior year's financially unqualified opinion with findings on compliance with laws and regulations.

The Council of Geoscience regressed from a clean audit to financially unqualified with findings on compliance with laws and regulations, relating to material misstatements corrected as a result of the audit, and Expenditure management .

The improvements were due to the drafting of action plans to address the findings raised in the previous year, the continuous monitoring of progress against action plans by the Internal audit unit, and communicating thereon to those charged with governance.

Risks and focus areas

Although the department received a financially unqualified audit opinion, processes and procedures to ensure reliable and accurate accounting records throughout the year have to be put in place and monitored throughout with the assistance of Internal audit. The department needs to develop, document and implement policies and procedures, setting out the process to be followed on a monthly basis for capturing the receivables information as well as for following up and collecting outstanding debt. The department needs to seek additional funding to increase its capacity to continue its research into the rehabilitation of the asbestos mines and increase the number of inspections of the sites to be rehabilitated. This should be done to identify the conditions specific to those sites and mines to ensure that the quantification of the provision and contingent liability can be refined and calculated as accurately and reasonably as possible.

Status of key controls and root causes of audit outcomes

The material adjustments to the financial statements submitted for auditing were due to a lack of monitoring and review of controls over monthly processing. There was also a lack of appropriate oversight responsibility regarding compliance with laws and regulations. This non-compliance could have been prevented if the compliance with laws and regulations relating to procurement and contract management had been adequately monitored and reviewed.

VOTE 32: MINERAL RESOURCES

Commitments and initiatives made by the Minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. The discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DMR provides the required level of assurance.</p>	■		
Previous year			
<p>The Minister of Mineral Resources committed to the development and implementation of a system to account for the rehabilitation provision and revenue in the previous year. Even though this is still in progress, it had a significant impact on the audit outcome.</p>	■		
New			
<p>The filling of key vacancies to facilitate effective monthly reporting.</p> <p>The governance structures (Internal audit units) to review all financial information produced.</p> <p>Timeous review of the rehabilitation provision for mines through the use of specialists.</p>			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 32: MINERAL RESOURCES

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Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Payables	Departmental revenue	Receivables for departmental revenue	Provisions	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	Revenue management	Procurement and contract management	HR management
	Department of Mineral Resources							A	A	A	A					R	R	R	R		N
Reporting auditees																					
1	Mine Health and Safety Council (MHSC)															R	R			N	
2	Council for Mineral Technology (MINTEK)																				
3	South African Diamond and Precious Metal Regulator (SADPMR)														A	A		A	A		
4	State Diamond Trader (SDT)																				
5	Council of Geoscience														N	N				N	

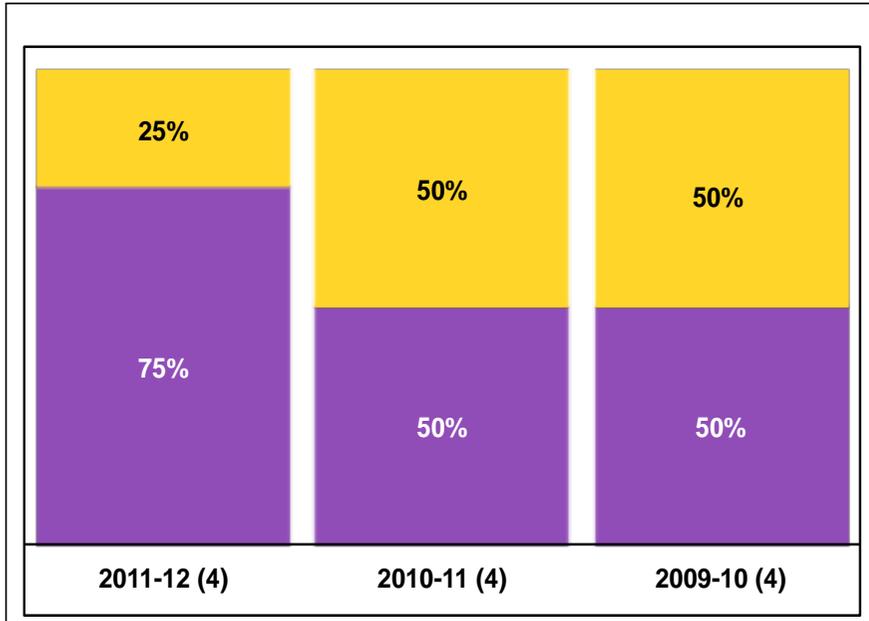
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 33: RURAL DEVELOPMENT AND LAND REFORM

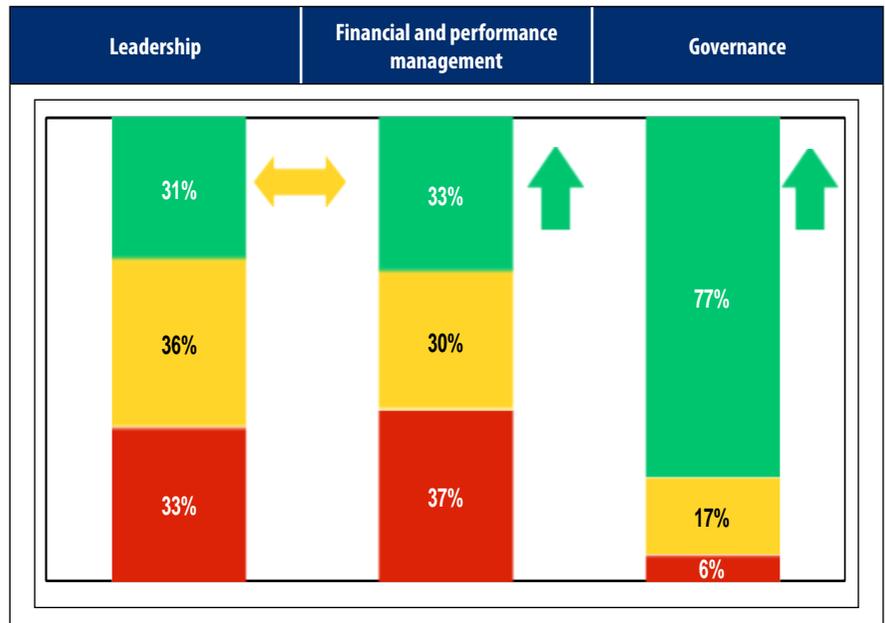
Three-year progress towards clean audits



5 risk areas



Key controls



Root causes

- Vacancies in key positions and inadequate skills
- Management not held accountable for implementation of action plans and commitments
- Specific accounting and operational policies not developed to address internal control deficiencies and complex accounting issues

VOTE 33: RURAL DEVELOPMENT AND LAND REFORM

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

There has been a regression in audit outcomes since the prior year for the Department of Rural Development and Land Reform (DRDLR), portfolio. The Deeds Registration Trading Account saw a regression from unqualified with findings on predetermined objectives in the prior year to qualified with findings on predetermined objectives and compliance with laws and regulations.

The lack of improvement in the audit outcomes of DRDLR and ITB is as a result of the inadequate preparation, implementation and monitoring of the action plans. The regression at the portfolio was caused by lack of capacity and poor financial management in the recording of transactions by the finance department.

Risk/focus areas

Recurring issues relating to completeness and accuracy of immovable assets indicate that not all state-owned land has been accounted for. The department needs to develop and implement a process to verify and account for all state-owned land and enhance the link between the departmental immovable register, the deeds register and surveyor-general information.

Commitment to regular meetings by several stakeholders (Rural Development and Land Reform, Public Works, National Treasury, provincial departments and municipalities that are custodians of state land) is urgently required to resolve the issue of completeness and accuracy of the immovable asset register.

It is critical that the department secure funding for fair value valuation of immovable assets owned by the Ingonyama Trust Board (ITB) as required in terms of the GRAP.

The portfolio needs to focus on preparing complete and credible monthly financial and performance reporting (including disclosure items). Emphasis should also be placed on implementing appropriate checks and balances to ensure timely submission of reliable and credible information to those charged with governance, including the oversight committees to which the department reports.

The DRDLR and its related entities need to develop, document, update and implement policies and procedures that are relevant to the current business addressing operational procedures and complex accounting issues.

Monitoring and evaluation responsibilities relating to performance information and compliance with rules and regulations are still areas of concern.

The department undertook to ensure that senior management performance contracts are aligned to the strategic plan of the department. This will be followed by an alignment at middle management and for staff at lower levels to enhance effective individual Performance management process.

VOTE 33: RURAL DEVELOPMENT AND LAND REFORM

Status of key controls and root causes of audit outcomes

There has been little progress on key controls since the prior year and the status of most key controls remains in progress or under implementation. This is mainly due to lack of specific timelines in the action plans developed to address audit findings, slow implementation and lack of an effective monitoring and evaluation process.

Effective HR management processes need to be implemented to ensure that vacancies are filled and that skills are retained to enable the department to develop a strong and effective control environment.

A lack of monitoring and review of controls over monthly processing and reporting led to the material misstatements in the financial statements and annual performance report submitted for auditing, resulting in material adjustments. This is an indication of inadequate discipline of credible monthly reporting on financial, Performance management and compliance with laws and regulations.

Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

Impact of quarterly discussions with the executive authority

There were four interactions with the minister during the year.

The quarterly interactions with the minister and accounting officer have been positive, with firm commitments being obtained. The modifications to the audit report require more leadership involvement from the department in its assessment of the root causes that led to the ongoing modifications. In addition, the department needs to be proactive in correcting the root causes that led to the findings reported and not only the findings reported during the prior years.

Implementation of these commitments has not been fully achieved to date, with a number of commitments that remain outstanding becoming a cause for concern. Some of the commitments were implemented in the 2012-13 financial year.

The executive authority plays a role in providing assurance in the public sector. Our assessment is that more work needs to be done in this area to ensure that the assurance provided is at the appropriate level.



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VOTE 33: RURAL DEVELOPMENT AND LAND REFORM

Previous year

New operational and financial policies are to be drafted and implemented to help the department to mitigate risks, detect and prevent irregularities and safeguard assets and records.

Separate unit to be created, with a focus on management information systems support.

Development of action plans to address weakness in the system of internal controls and to issue progress reports quarterly..

Enhance communication and management of information to enable better decision-making and performance reporting and to meet strategic objectives efficiently and effectively

The strategic plans for the 2011-2015 financial years to be developed using the new planning framework to ensure that the department-wide objectives are clearly defined and that risks associated with each objective are spelled out and controlled throughout the financial year.

To ensure that Internal audit function is functioning adequately and is fully staffed.



New

No new commitments. The minister reiterated the commitments previously made.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 33: RURAL DEVELOPMENT AND LAND REFORM

388

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance							
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Liabilities	Revenue	Expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	Expenditure management	Asset and liability management	Revenue management	Strategic planning and performance management	HR management
	Department of Rural Development and Land Reform						R				R	R			R	R			N		R		
Reporting auditees																							
1	Agricultural Land Holding Account														N	R			N	N			
2	Deeds Registration Trading Account							N		N	A	R			N		N						
3	Ingonyama Trust Board						R	N	R						R	A	N	N	N	N			N

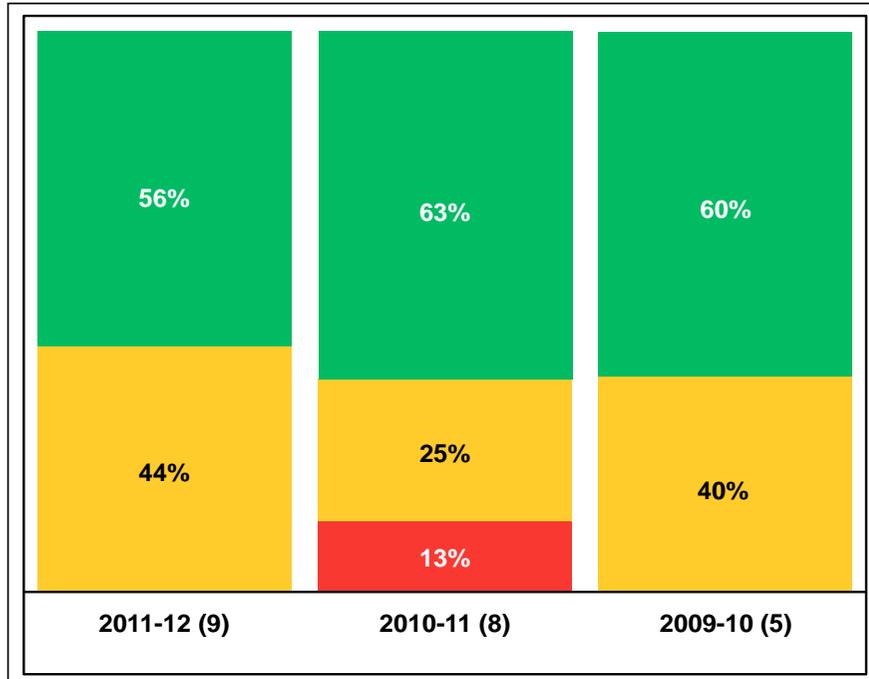
Legend (Audit outcomes)	Financially unqualified with findings	Qualified	Findings
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VOTE 34: SCIENCE AND TECHNOLOGY

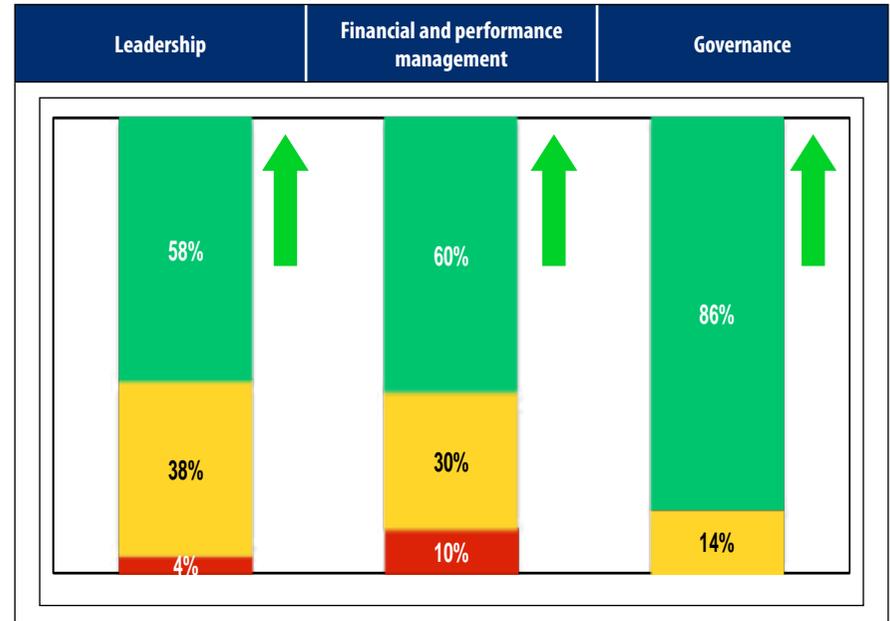
Three-year progress towards clean audits



5 risk areas



Key controls



390



Root causes



VOTE 34: SCIENCE AND TECHNOLOGY

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The outcomes for the portfolio have generally remained unchanged. ASSAF, NRF, CSIR and HSRC have unqualified opinions with no findings on predetermined objectives and compliance. SANSA, DST and AISA have unqualified opinion with findings on either compliance or predetermined objectives. TIA is unqualified with other findings.

The audit outcome for HSRC improved since the previous year as HSRC had established a risk section responsible for monitoring adherence to predetermined objectives and compliance with laws and regulations. The audit outcomes for DST and AISA regressed since the previous year. DST regressed as a result of findings relating to predetermined objectives where the targets were not monitored to ensure that they are specific, measurable, achievable, realistic and time bound. AISA recorded instances of non-compliance with procurement and contract management policies and procedures, while material adjustments were required to the financial statements. TIA's audit outcome improved from an adverse opinion to unqualified with findings on predetermined objectives. This improvement is due to management's commitment and the fact that the finance department was staffed with qualified personnel. For SANSA and TIA [section 4(3) entities] there were findings on both compliance with laws and regulations and predetermined objectives.

Risk/focus areas

The main areas of concern for DST and its entities are findings related to the IT environment, predetermined objectives and compliance with SCM regulations. The root causes of the findings in the portfolio include the fact that the chief information officer had only been appointed in June 2012. The staff at the lower levels in the department did not have a proper understanding regarding the information required for the annual performance report. In respect of supply chain management, even though approved policies and procedures were in place at AISA, these were not always adhered to and there was inadequate review of the SCM process at the entity. The department and entities should focus on these areas in the next financial year.

Status of key controls and root causes of audit outcomes

With regard to predetermined objectives there was a lack of oversight of performance reporting, insufficient monitoring during the planning cycle to ensure that the programmes adhere to the development guidelines. and insufficient monitoring and evaluation of predetermined objectives on a timely basis. In the IT environment there was a lack of policies and procedures and inadequate monitoring of controls.

VOTE 34: SCIENCE AND TECHNOLOGY

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of the DST provides the required level of assurance.</p>	■		
New			
The minister has committed to follow up on the predetermined objectives findings of the department on a quarterly basis.			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 34: SCIENCE AND TECHNOLOGY

394

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas		Findings on predetermined objectives		Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current assets	Other disclosure items	Reported information not useful	Reported information not reliable	Procurement and contract management	Expenditure management	Material misstatement/limitations in submitted annual financial statements	Strategic planning and performance management	Internal audit	Annual financial statements and annual report	Unauthorised, irregular, as well as fruitless and wasteful expenditure
	Department of Science and Technology																	
Reporting auditees																		
1	Human Sciences Research Council																	
2	Africa institute for South Africa																	
3	National Research Foundation																	
4	Council for Scientific and industrial research																	
Audits not conducted by the AGSA																		
5	South Africa National Space Agency																	
6	Technology innovation Agency																	
7	Academy of Science of South Africa																	
8	Technology and human resources for industry programme																	

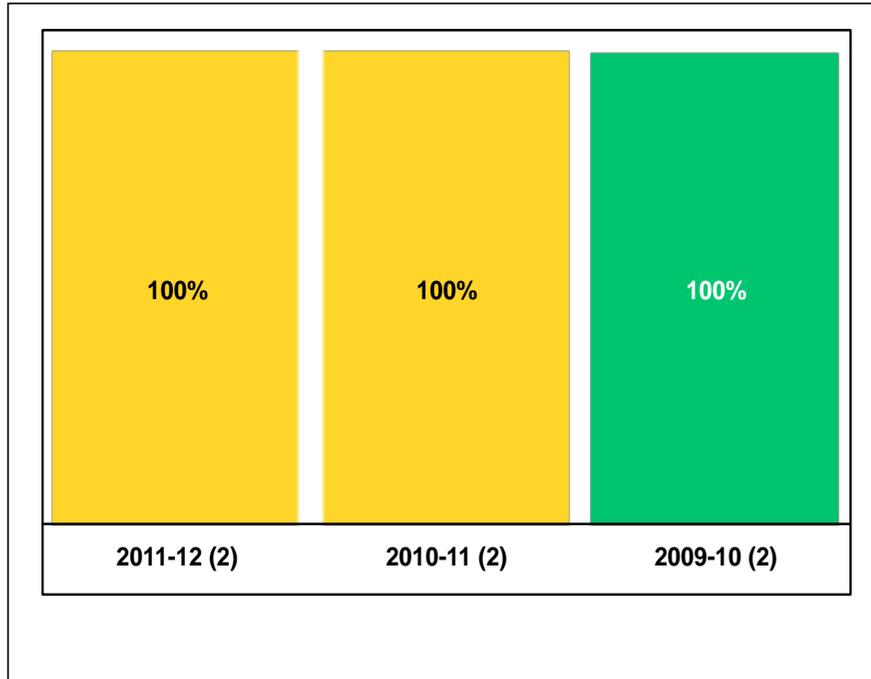
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 35: TOURISM

Three-year progress towards clean audits



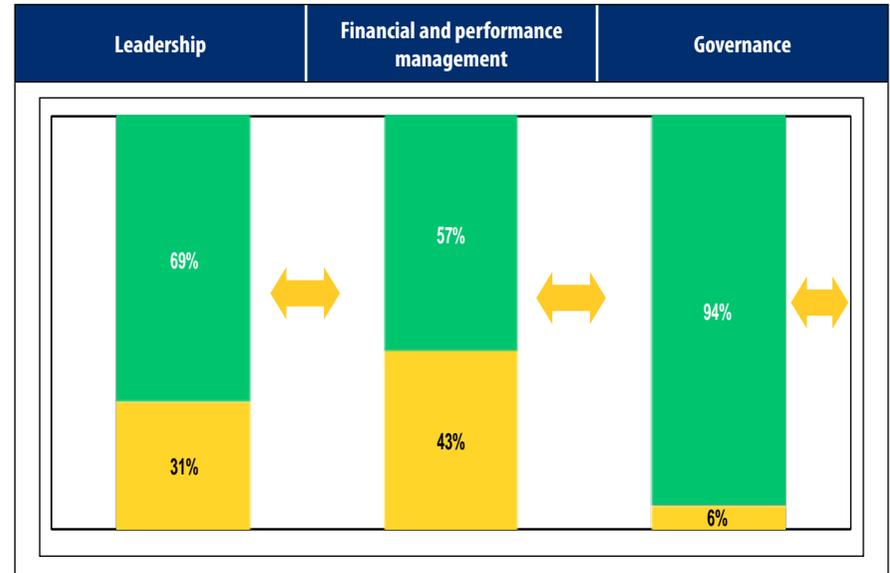
396

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings
	Green	Yellow

5 risk areas



Key controls



Root causes

- Inadequate review of financial statements by management and audit committee
- Compliance with laws and regulations not always being enforced by management to avoid deviations and material adjustments.
- Non-compliance with DoRA requirements in transfers to EPWP

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

In 2009-10 the National Department of Tourism (NDT) and South African Tourism (SAT) were unqualified with no findings. Their outcomes have remained unchanged for the last two years at unqualified with findings on compliance with laws and regulations.

The cause of non-compliance with laws and regulations relates to the Expanded Public Works Programme (EPWP). As for the material adjustments to the financial statements, this was due to lack of the monthly discipline of preparing the financial information/reports.

The accounting officer is committed to achieving clean administration, which is why he is conducting investigations into compliance with laws and regulations.

Risk/focus areas

The accounting officer identified the EPWP as a risk for the department and had already raised this with the AGSA when he was appointed. He requested the AGSA to focus on the programme during the last two audits. He has also initiated his own investigations and has put new controls in place to address the previous weaknesses. He has personally driven this process and the improvement should be seen in future audit outcomes.

The main area of concern at SAT is their procurement through deviations from the SCM laws and regulations, some of which resulted in irregular expenditure. Oversight and monitoring of and compliance with the SCM process should be improved.

The additional matter in the SAT audit report relating to predetermined objectives was as a result of non-achievement of certain targets.

IT policies and controls at SAT relating to security management and user access control are being reviewed by management to ensure that they are aligned with best practices.

SAT incurred a net deficit which was funded from accumulated surpluses. This was due to foreign exchange losses for which the entity cannot hedge.

Status of key controls and root causes of audit outcomes

NDT's non-compliance was due to the fact that the impact of the corrective actions taken by the accounting officer to address weaknesses in controls will only be evident in the next financial year. The action plans to address prior year findings have been implemented and are being tracked by both management and Internal audit on a continuous basis. The minister is also regularly updated by management on the progress being made.

The SCM findings at SAT were as a result of the SCM laws and regulations not always being enforced by management to avoid deviations.

The material adjustments to the financial statements of SAT were as a result of ineffective review of the financial statements by both management and Audit committee.

SAT's accounting authority and management have indicated that action plans will be updated and implemented to address the findings.

The additional matter reported in the NDT audit report relating to predetermined objectives resulted from material misstatements due to the unreliability of supporting evidence. These misstatements relate directly to EPWP information.

VOTE 35: TOURISM

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership has met with the executive authority three times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we have assessed that the executive authority of the DT meets the required level of assurance.</p>			■
Previous year			
<p>Will maintain proper records supporting predetermined objective reports and will be available for audit purposes. This will contribute to improved audit outcomes from the 2010-11.</p>			■
New			
<p>Regular engagements have taken place with the executive to discuss the key control assessments as well as the audit outcomes. At the last meeting held on 20 September 2012, the tourism portfolio audit outcomes were shared with the executive authority and the root causes and recommendations were discussed.</p> <p>The executive authority confirmed that the engagements were invaluable and that they were given high priority.</p> <p>The minister will focus more closely on setting performance targets and indicators for both the department and SAT.</p> <p>The EPWP projects are an area of concern to the minister and the department's management and will continue to be an area of focus.</p>			

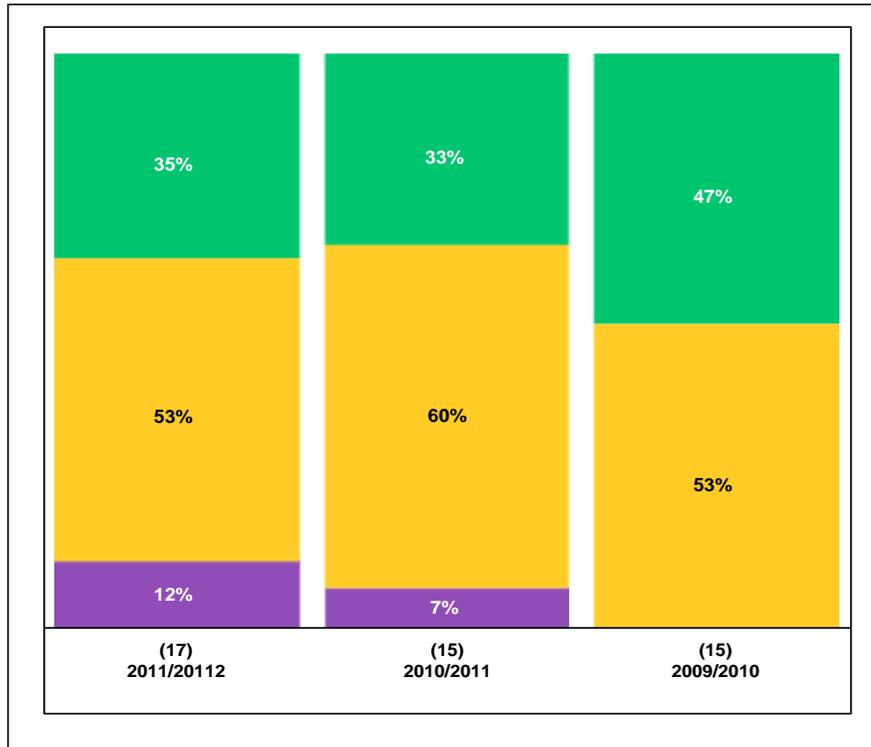
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NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITY IN PORTFOLIO



VOTE 36: TRADE AND INDUSTRY

Three-year progress towards clean audits



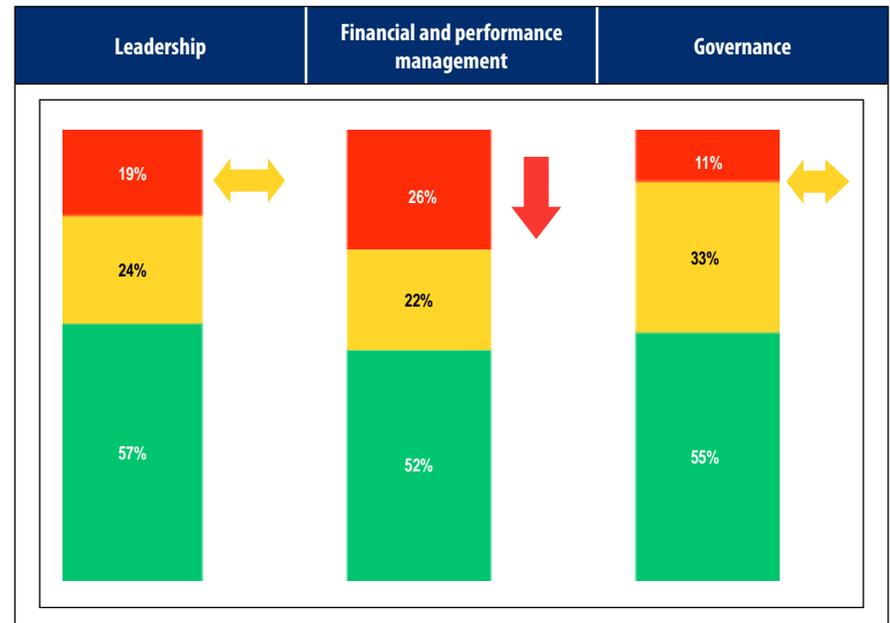
402



5 risk areas



Key controls



Root causes

Insufficient oversight by leadership on financial and performance management and compliance with laws and regulations and in year monitoring of action plans

Ineffective monitoring of key controls and inadequate IT systems

Action plans were not properly developed and effectively implemented to address the prior year audit outcomes

VOTE 36: TRADE AND INDUSTRY

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The audit outcomes for this portfolio have regressed, with the majority of reports being in the category of financially unqualified with findings (9 entities) and financially unqualified with no findings (6 entities). There were two entities that received qualified audit opinions, namely Companies and Intellectual Property Commission (CIPC) and the National Regulator for Compulsory Specifications (NRCS). CIPC received repeat qualifications on annual return revenue and receivables as well as a new qualification on payables from non-exchange transactions. This was mainly as a result of inadequate information systems being in place to provide for reliable and accurate financial reporting. There was a regression in the audit outcomes of NRCS, which moved from financially unqualified with findings to a qualified audit opinion. The qualification was on the completeness of revenue from services rendered from exchange transactions due to inadequate systems being in place for the identification and recognition of all revenue from services rendered. Furthermore, there was a qualification on property, plant and equipment due to the useful lives not being evaluated for each reporting period as required by the accounting standards, as well as the asset register not agreeing to the financial statements. The material misstatements that led to the qualifications were mainly due to lack of adequate review of the financial statements because of vacancies in key leadership positions.

There were four entities that had findings on predetermined objectives, namely National Gambling Board (NGB), National Consumer Tribunal (NCT), CIPC and NRCS. The findings on predetermined objectives were mainly as a result of a lack of understanding of the FMPPI requirements due to indicators not being well defined and verifiable, targets not conforming to the SMART principles and reported indicators and targets not being consistent with planned indicators and targets. The findings on compliance were mainly as a result of non-adherence to SCM prescripts. Eight entities also had non-compliance findings due to material adjustments to their financial statements.

The six entities that were financially unqualified with no findings are the South African Bureau of Standards (SABS), Small Enterprise Development Agency (SEDA), the Companies Tribunal, South African National Accreditation System, National Empowerment Fund and Export Credit Insurance Corporation of South Africa.

Risk/focus areas

The key challenge for the movement of audit outcomes towards clean administration remains primarily in the areas of submission of financial statements which are free from material misstatements, compliance with SCM prescripts and compliance with the FMPPI regulations on performance against predetermined objectives. There are also inadequate information systems in place to provide for reliable and accurate financial reporting at CIPC.

The Department of Trade and Industry and its related entities should continue to focus on implementing monthly controls to avoid material corrections to the financial statements. These controls should include proper record keeping and full monthly financial statements with all relevant disclosure notes. SCM processes should also be improved to prevent and detect irregular expenditure.

The vacancies in key leadership positions at NRCS should be prioritised, i.e. accounting authority, CEO and the CFO. At CIPC, the focus should also be on implementing adequate information systems, including a revenue and debtor management system.

VOTE 36: TRADE AND INDUSTRY

Status of key controls and root causes of audit outcomes

The key focus areas in internal control that should be addressed relate mainly to oversight by leadership of Financial and performance management , compliance with laws and regulations and in-year monitoring of action plans.

The root causes of non-improvement in audit outcomes are insufficient oversight by leadership of Financial and performance management and compliance with laws and regulations; ineffective monitoring of key controls; messages communicated throughout the audit process not being taken seriously and/or not actioned immediately or decisively by management ; and inadequate information systems to provide for reliable and accurate financial reporting, specifically with regards to CIPC.

Commitments and initiatives by minister

Impact on 2011-12 audit outcomes

Significant impact

No impact

Limited impact

Impact of quarterly discussions with the executive authority

The AGSA leadership met with the executive authority twice during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.

The executive authority has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the executive authority of Trade and Industry provides the required level of assurance.

Previous year

None

New

The executive authority committed to improving the quality of the annual financial statements. This will be done through the development and implementation of an action plan to address all audit findings, which will be monitored by the accounting officer, Internal audit and Audit committee on a quarterly basis. The accounting officer will submit the assessment for review to the Audit committee and the executive authority for follow-up on all areas where the controls were found not to be implemented.

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 36: TRADE AND INDUSTRY

406

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas					Findings on predetermined objectives				Findings on areas of non-compliance										
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Revenue	Receivables	Other: Interest income, impairments, bad debts recovered	Liabilities	Property, plant and equipment	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Asset management	Expenditure management	Internal audit	Revenue management	Procurement management	HR management	Strategic planning and performance management	Audit committee	Enabling legislation	
1	Department of Trade and Industry											A	A			R	R	R				R	N				
Reporting auditees																											
2	Companies and Intellectual Property Commission						R	R	R	N		R	R			R			N	R	A						
3	Companies Tribunal																										
4	National Gambling Board											R				A											
5	National Consumer Commission															N	N	N	N			N			N		
6	National Consumer Tribunal											R										A					
7	National Credit Regulator															N											
8	National Regulator for Compulsory Specifications						N				N	N	N			N	N	R			R						
9	South African Bureau Of Standards																										
10	Small Enterprise Development Agency (SEDA)																										

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	New	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 36: TRADE AND INDUSTRY

408

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas					Findings on predetermined objectives				Findings on areas of non-compliance										
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Revenue	Receivables	Other: Interest income, impairments, bad debts recovered	Liabilities	Property, plant and equipment	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Asset management	Expenditure management	Internal audit	Revenue management	Procurement management	HR management	Strategic planning and performance management	Audit committee	Enabling legislation	
11	National Lotteries Board															N		R	A		R						
12	National Lottery Distribution Trust Fund															R		R								R	
Audits not conducted by the AGSA																											
13	Estate Agency Affairs Board															N		R		N	R		R	A	R		
14	South African National Accreditation System																										
15	National Empowerment Fund																										
16	Export Credit Insurance Corporation of South Africa											A	A														
17	National Metrology Institute of SA															A					N						

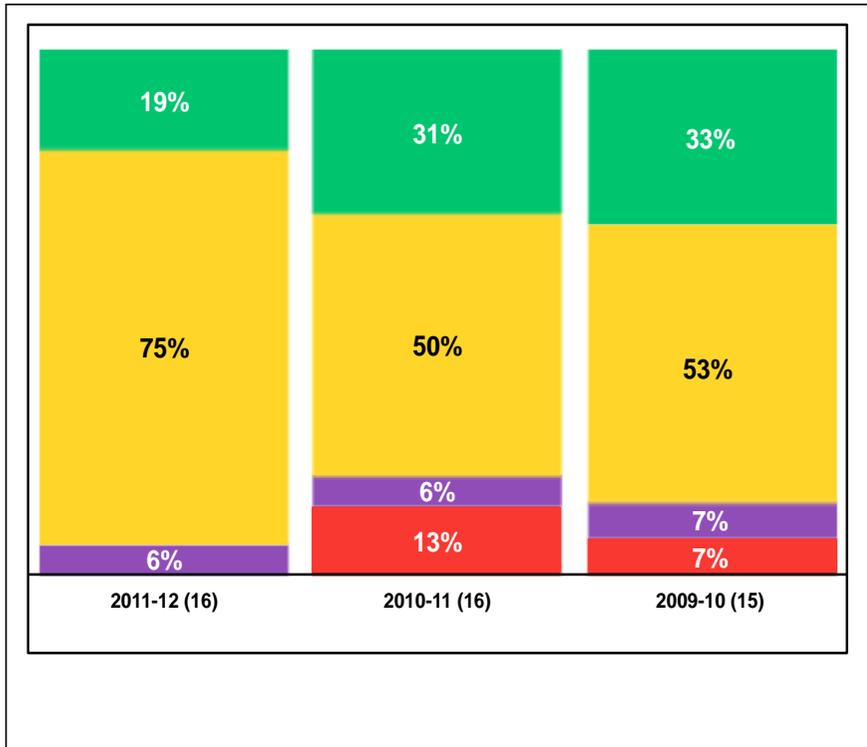
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	New	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 37: TRANSPORT

Three-year progress towards clean audits



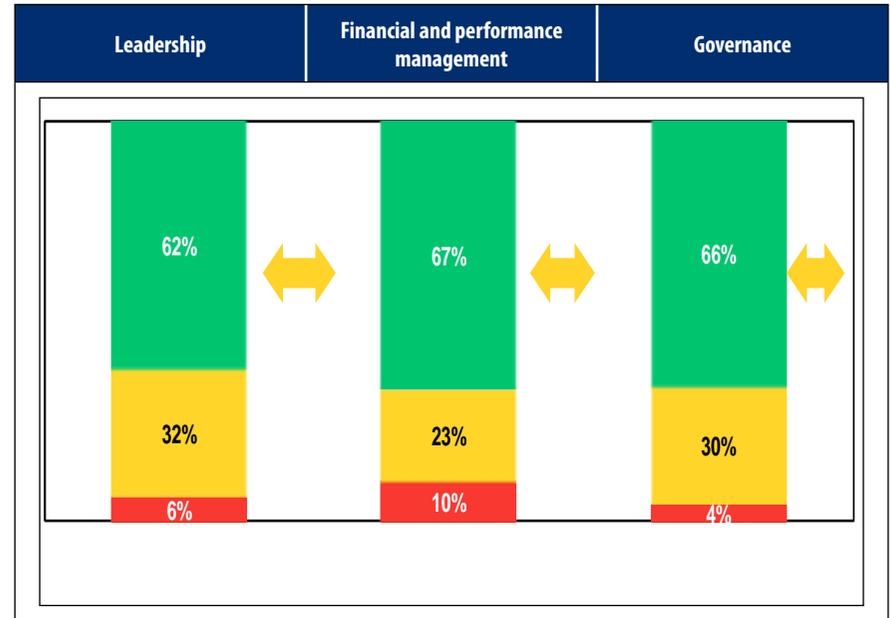
410



5 risk areas



Key controls



Root causes

Key vacant posts in both the department and the entities.

Ineffective oversight by the department over the public entities and inadequate reviews of the financial statements prior to these being submitted for audit.

Ineffective Internal audit section and audit committees to provide oversight and assurance functions within the department and certain entities.

VOTE 37: TRANSPORT

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The Department of Transport (DOT) and the significant entities in the transport portfolio achieved a financially unqualified audit opinion with findings on either reporting against predetermined objectives or compliance with laws and regulations, with the exception of one entity (CBRTA) which was qualified. Despite this, the portfolio has regressed in that it had 33% clean audits in 2009-10 and currently has 19%. It has also improved from two entities with a disclaimed/adverse opinion (RTMC and RTIA) to none reported in the current year. These two entities received unqualified audit opinion with findings on compliance and predetermined objectives.

The movement in the adverse/disclaimer category was due to the entities changing their accounting policies, developing action plans to address the modified areas and more involvement by the delegated officials. In certain instances, vacant positions were filled.

The portfolio is regressing in the area of compliance with laws and regulations, especially the SCM-related regulations.

Risk/focus areas

Supply chain management – deviations from SCM practices; written price quotations not obtained; procurement above R500 000 not being subject to competitive bidding; tax clearance certificates not obtained; and preference point system not applied correctly, which resulted in irregular expenditure being incurred.

Predetermined objectives reporting – Compliance matters, changes to performance targets and indicators not approved, strategic plan not submitted on time. Information to support reported performance was not accurate for two entities. At two entities it was found that the reported objectives, indicators and targets were not consistent with the planned objectives, indicators and targets. At three entities it was found that the objectives, indicators and targets did not meet the SMART principles.

HR management – The department had an overall vacancy rate of 33% , 20% of which was at senior management level. There was ineffective management of leave, overtime and suspensions. At two entities there was a concern over HR planning and organisation.

Information technology - Disaster recovery, back up and user access controls were identified as the common findings within the portfolio.

Material misstatements in financial statements - Eight entities had material misstatements in the financial statements submitted for audit which were subsequently corrected. One entity partially corrected the misstatement in the financial statements.

VOTE 37: TRANSPORT

Status of key controls

Weaknesses were identified in the systems for reporting non-compliance as well as irregular and fruitless and wasteful expenditure at state-owned entities. This is also due to the parent department incurring such expenditure.

Leadership – ineffective oversight by the department of the public entities due to lack of capacity in the oversight units within the department. Key vacant posts in both the department and the entities. Lack of policies and procedures to guide PDO reporting and the SCM processes. Action not being taken against staff who do not comply with laws and regulations, which caused the department and the entities to incur irregular and fruitless and wasteful expenditure.

Financial and performance management – inadequate document and records management which result in delays in finalising audits. Lack of skilled and experienced staff in the finance sections. Inadequate review of the financial statements prior to these being submitted for audit. Culture of preparing monthly financial statements with disclosure notes and the discipline of regular checks and balances are not in place in the portfolio.

Governance – Ineffective Internal audit section and Audit committees to provide oversight and assurance functions within the department and certain entities.

Leadership not setting the correct tone at the top and deviations from SCM practices not properly considered.

Lack of action being taken against officials who do not comply with laws and regulations.

Key vacant posts and staff acting in key posts for extended periods.

Lack of training of staff in procurement sections on the latest practice notes and regulations governing supply chain management .

Lack of skilled and experienced staff in the finance sections.

Leadership not monitoring the implementation of action plans to address prior year audit findings.

Lack of capacity in the department to perform effective oversight of all the public entities in the portfolio.

Oversight and governance of PFMA schedule 2 public entities

Oversight procedures were conducted at the department. The department has established a directorate that facilitates the oversight and governance function at its public entities. The directorate was not capacitated to deal with the monitoring of entities. The following were raised in the performance audit procedures:

Late submission of quarterly reports; lack of review of such reports and guidance to the entities; and lack of analysis of the entities in terms of their reporting on PDOs.

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VOTE 37: TRANSPORT

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the executive authority			
<p>The AGSA leadership met with the executive authority four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards and the previous year's audit outcomes.</p> <p>The impact of the meetings was minimal and reflected in RTIA and RTMC which moved from a disclaimer/adverse to unqualified audit opinion with findings. CBRTA addressed the qualification areas raised in 2010-11 financial year and the impact will reflect in 2012-13 financial year. Going concern status of PRASA group has improved.</p>			■
Previous year			
No documented commitments were received			
New			
<p>Through the quarterly interactions the minister has committed to:</p> <ul style="list-style-type: none"> • ensure that the DOT leads by example for the entities under its control by attaining a clean audit report. • engage all the entities in the portfolio to drive the progress towards clean administration. • meet regularly with the chairpersons of the boards and the Audit committees to track the progress of the entities. • instructing the accounting officer to ensure that the CEO Forum meets regularly to track progress made with implementation of action plans to address prior year audit findings. 			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 37: TRANSPORT

414

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance								
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current asset	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Internal audit	Budgets	Audit committee	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	Financial misconduct	Procurement management	Strategic planning and performance management
1	Transport										A	A								R			R	
Reporting auditees																								
2	Autopax (Pty) Ltd														N	N				N	N		N	
3	Cross-Border Road Transport Agency						R	N	A		R	R			R				R		N	R		
4	Driving Licence Card Account										A				A	R				R				
5	Intersite Property Management Services (Pty) Ltd										N	N			N									
6	Passenger Rail Agency of South Africa														R					N			R	
7	Railway Safety Regulator																			A			R	
8	Road Accident Fund																			R				
9	Road Traffic Infringement Agency						A		A	A	R	A			R					N			R	

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 37: TRANSPORT

416

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance								
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Current asset	Capital and reserves	Revenue	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted annual financial statements	Internal audit	Budgets	Audit committee	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Expenditure management	Financial misconduct	Procurement management	Strategic planning and performance management
10	Road Traffic Management Corporation						A				R	A			R									
11	South African Civil Aviation Authority											A			A								R	
12	South African Maritime Safety Authority										R				R		A	N	A			A	N	
13	Ports Regulator of South Africa														N	R		R						R
14	The South African National Roads Agency Limited																							
Audits not conducted by the AGSA																								
15	Air Traffic Navigation Services																							
16	Airports Company of SA Limited																	N						

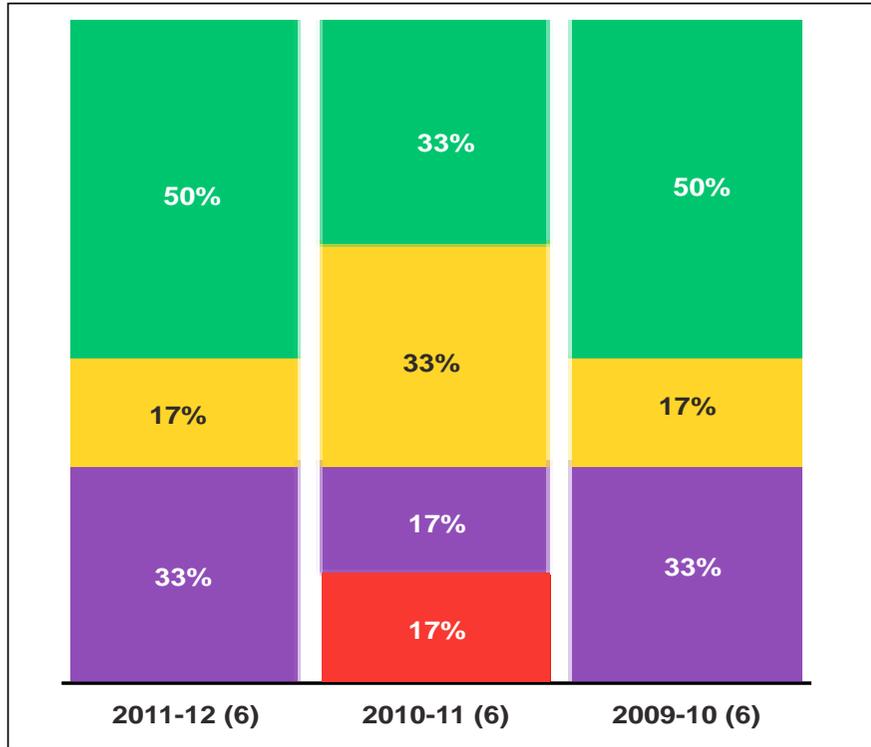
Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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VOTE 38: WATER AFFAIRS

Three-year progress towards clean audits



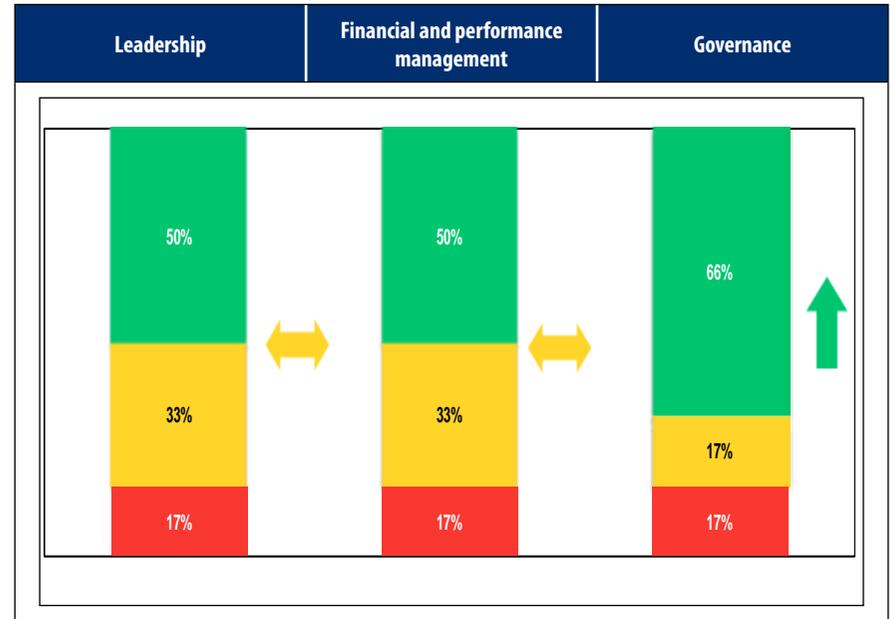
418



5 risk areas



Key controls



Root causes

- Inability of leadership to provide effective leadership due to the current structure. Leadership instability due to vacancies
- Accountability not accepted for outcomes and actions
- Inadequate discipline (monitoring) to ensure credible monthly financial and performance reporting

VOTE 38: WATER AFFAIRS

SIGNIFICANT ASPECTS OF THE AUDIT OUTCOMES

Audit outcomes and key reasons for movements

The water affairs portfolio showed some improvement in its audit outcomes as the BCMA improved from financially unqualified with findings to financially unqualified with no findings (clean audit outcome), while the WTE improved from a disclaimer to a qualification. Two entities, namely TCTA and ICMA, remained clean and the department remained unchanged with qualifications. Although the WRC's outcomes remained unchanged at financially unqualified with findings, it managed to clear the prior year non-compliance finding on the strategic plan but regressed after non-compliance with SCM policies and procedures was identified. As a result of the irregular expenditure identified during the audit, WRC had to make material corrections to its financial statements. WRC would have to improve its current policies and procedures to ensure alignment to and compliance with treasury regulations.

Risk/focus areas

Irregular expenditure remains a cause of concern, mainly as a result of poor project management in the provinces and inadequate discipline to monitor and review transactions to prevent non-compliance.

Various areas of non-compliance were reported. Such non-compliance included procurement and contract management, material corrections required to the annual financial statements, and other Expenditure management findings. It is recommended that the department enhance its Performance management system so that staff are clear about their roles and responsibilities and can be held accountable for poor performance.

Repeat findings were raised at both the department and the WTE on the presentation, usefulness and reliability of performance information. The AGSA held workshops with the department and entity to assist them in understanding the requirements when preparing a strategic plan as well as the importance of having a system of collecting and reviewing information to ensure the accuracy thereof. There was no impact on the outcomes as a result of the workshops and it is anticipated that once the structure has been finalised and the positions filled, the department will be in a position to improve in the area of predetermined objectives.

Status of key controls and root causes of audit outcomes

The current outcomes at the department were mainly as a result of leadership instability, inadequate discipline (monitoring) to ensure credible financial and performance information and a lack of consequences for transgression and poor performance. The department is in the process of enhancing its staff establishment and critical positions are still vacant. The appointment of the CFO at the department resulted in some improvement in the department's daily activities. There are, however, challenges as the persons responsible for finances in the provinces do not report directly to the CFO and it is recommended that the department implement a change management process to successfully implement a revised reporting line for financial staff in the provinces so that they report directly to the CFO.

VOTE 38: WATER AFFAIRS

Commitments and initiatives by minister	Impact on 2011-12 audit outcomes		
	Significant impact	No impact	Limited impact
Impact of quarterly discussions with the Minister			
<p>The AGSA leadership met with the minister at least four times during the 2011-12 financial year. These discussions focused on the weaknesses reported as per the key control dashboards.</p> <p>The minister has a role in providing assurance in the public sector in terms of the combined assurance model. Based on our interactions, we assessed that the Minister of the DWA provides the required level of assurance.</p>	■		
Previous year			
<p>The minister was actively involved in addressing the challenges at the department and the WTE and had appointed a business process review (BPR) team in 2011. The BPR team performed a comprehensive diagnosis and recommendations should now be implemented and monitored in order to progress to financially unqualified audit outcomes by 2014.</p>			■
New			
<p>The commitments of 2011 are still in progress.</p>			

NEXT PAGE: AUDIT OUTCOMES OF DEPARTMENT AND PUBLIC ENTITIES IN PORTFOLIO

VOTE 38: WATER AFFAIRS

422

Number	Auditee	2011-12 Audit outcomes			2010-11 Audit outcomes			Financial statement qualification areas						Findings on predetermined objectives				Findings on areas of non-compliance											
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Revenue	Current assets	Non-current assets	Expenditure	Liabilities	Other disclosure items	Capital and reserves	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Strategic planning and performance management	Annual financial statements and annual report	Internal audit	Procurement and contract management	HR management and compensation	Expenditure management	Revenue management	Audit committees	Material misstatement/limitations in submitted annual financial statements
	Department of Water Affairs						A	N	R	R	N	R		R	R	N			R				R	R	R			R	
Reporting auditees																													
1	Water Trading Entity						R	R	R	R	A	R	A	R	R	R			R	R	N	R	R	R	R	R		R	R
2	Water Research Commission																		N	A			N					R	
Audits not conducted by the AGSA																													
1	Trans-Caledon Tunnel Authority (TCTA)																												
2	Inkomati CMA																												
3	Breede CMA																				A						A		

Legend (Audit outcomes)	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Disclaimer	Findings
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Legend (Findings)	Addressed	New	Repeat
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PART THREE:

SECTOR AUDIT OUTCOMES

3.1 AUDIT OUTCOMES OF SECTOR DEPARTMENTS



AUDITOR - GENERAL
SOUTH AFRICA



PART 3: SECTOR AUDIT OUTCOMES

PART 3

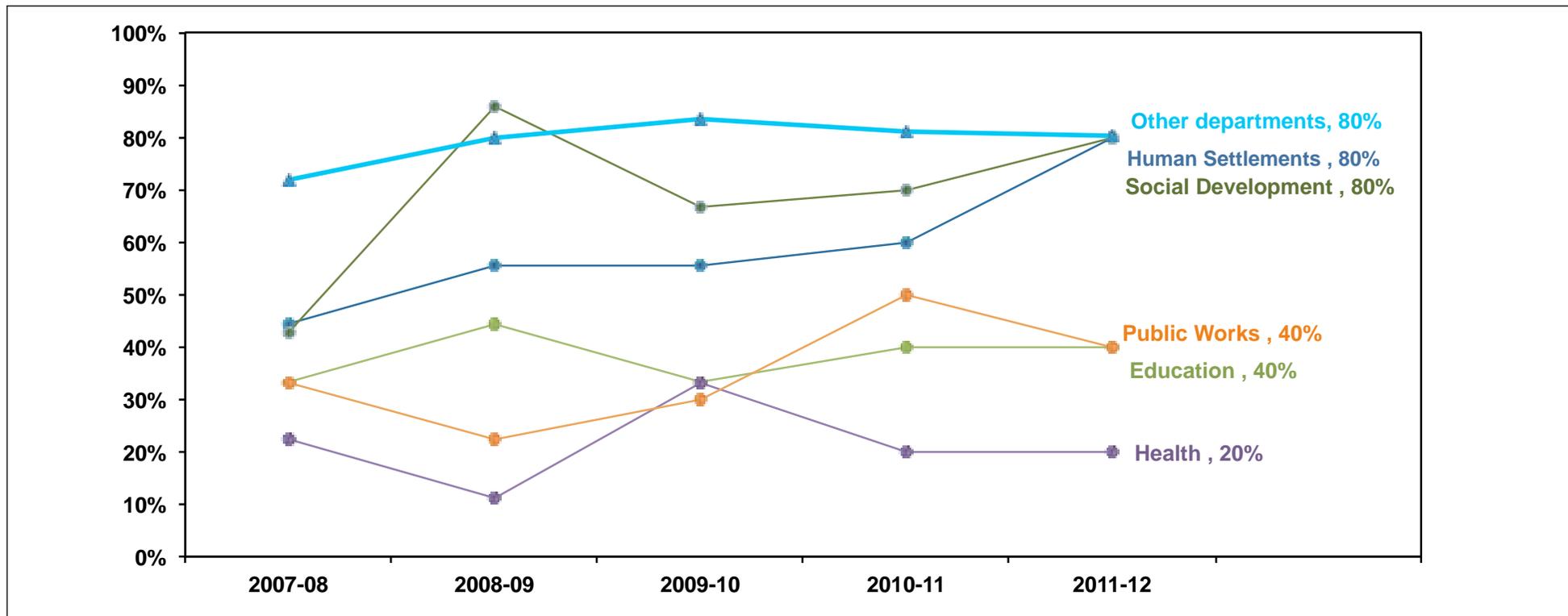
SECTOR AUDIT OUTCOMES

3.1 AUDIT OUTCOMES OF SECTOR DEPARTMENTS

Current year (2011-12) improvements and regressions in sector department audit outcomes

Movement in audit outcomes from 2010-11 of major sectors				
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on
Financially unqualified with no findings				0
Financially unqualified with findings	 <p>6 Education (1) Health (1) Human Settlements (1) Public Works (1) Social Development (2)</p>	 <p>18 Education (3) Health (1) Human Settlements (5) Public Works (3) Social Development (6)</p>	 <p>1 Human Settlements (1)</p>	25
Qualified, with findings		 <p>13 Education (3) Health (5) Human Settlements (2) Public Works (1) Social Development (2)</p>	 <p>5 Education (1) Health (1) Human Settlements (1) Public Works (2)</p>	18
Adverse/Disclaimer, with findings		 <p>5 Education (1) Health (2) Public Works (2)</p>	 <p>2 Education (1) Public Works (1)</p>	7
Total	6	36	8	50

Five-year progress towards financially unqualified audit reports: Sector departments compared to other departments



Since the 2007-08 audit cycle the AGSA's regularity audits have included a specific assessment of service delivery aspects relevant to the health, education and human settlements sectors, with the audits of the social development and public works sectors added and reported on in the 2008-09 general report. It is important to note that the total budgets for the 50 departments within the five sectors (Education, Health, Human Settlements, Public Works and Social Development) represent approximately 85% of the total budget for all provincial departments. Apart from their size, unique aspects related to these five sector departments include the specific focus of the 12 national outcomes on the services to be delivered by the sectors as well as the importance of these sectors in building a strong society and economy. Other unique aspects of these five sectors include their dependency on an appropriately trained, skilled and committed workforce, the need for appropriate policies and procedures to ensure efficient and effective service delivery as well as the importance of good and functional monitoring and evaluation systems to ensure relevant and continuous service delivery of good quality. This section summarises the outcomes related to the audits of financial statements and performance against predetermined objectives and compliance with laws and regulations. Sector department audit outcomes are analysed in more detail in sub-sections 3.2.1 to 3.2.5, together with findings arising from the audit of their implementation of key national programmes.

Audit outcomes of sector departments: Progress towards financially unqualified audit reports

As depicted, the sector departments were subject to a net deterioration in their current year audit outcomes, with the Social Development and Human Settlements portfolios having reached the same level of financially unqualified audits as the non-sector departments over the past five years.

Movements in financial statement areas that attracted audit qualifications are summarised in the following table.

Table 29: Movements in financial statement areas that attracted qualifications

Financial statement qualification areas	Number of departments	Education	Health	Human Settlements	Public Works	Social Development
Property, plant and equipment	19	↑	↑	↓	↓	↓
Other disclosure items	14	↔	↓	↔	↑	↑
Receivables (debtors)	11	↔	↑	↔	↔	↔
Payables, accruals and borrowings	9	↓	↑	↑	↔	↔
Expenditure	9	↑	↓	↑	↔	↔
Unauthorised, irregular and fruitless and wasteful expenditure	14	↓	↑	↔	↑	↔

Decrease	↓	Increase	↑	Unchanged	↔
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Sector departments' rate of addressing findings on predetermined objectives and compliance

Figure 47: Three-year progress in addressing findings on predetermined objectives - Sector departments compared to other departments

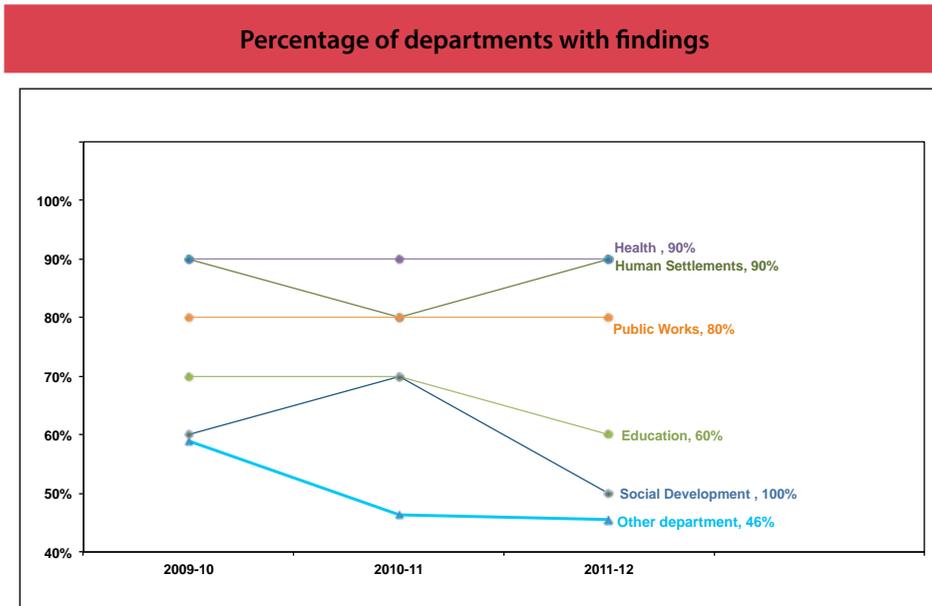
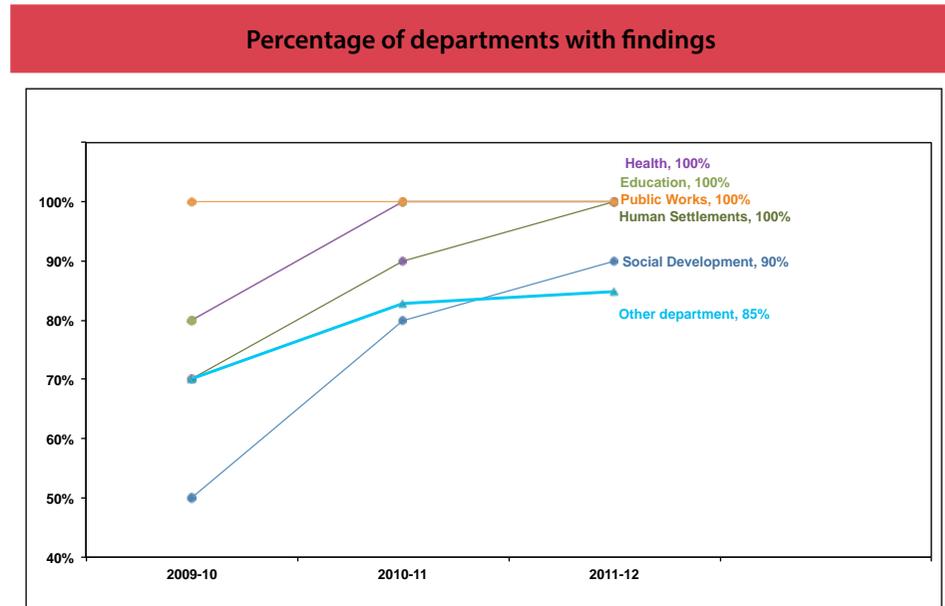


Figure 48: Three-year progress in addressing findings on compliance - Sector departments compared to other departments



Sector departments' rate of addressing findings on predetermined objectives and compliance with laws and regulations

The slow progress made over the past three years by sector departments in addressing findings on PDOs and compliance, compared to other departments, is depicted in **figures 47 and 48**. Key findings specifically relating to the sector departments are outlined in the following table.

Table 30: Sector departments' rate of addressing findings on predetermined objectives and compliance with laws and regulations

PDO findings	Summary of PDO findings in the sector departments
Usefulness and reliability of PDO information	<p>Only 24% of the sector departments had no PDO findings, compared to an average of 54% for the other departments.</p> <ul style="list-style-type: none"> • Audit findings relating to usefulness were raised at 51% of the sector departments, with 59% of them having findings on the reliability of their reported performance information. • No significant progress has been made by the sector departments in addressing control weaknesses identified in the 2010-11 financial year relating to major information systems used by them, which include: EMIS (Education), DHIS and ETR.NET, (Health) and the department of Public Works' WCS and PMIS. Section 3 of part 1 of this report provides details of findings arising from these information systems.
Findings on compliance	Summary of findings on compliance in sector departments
Supply chain management	<p>Limitations on planned audits were experienced due to appropriate documentation not being available at 17 (35%) of the sector departments. Other findings include the following:</p> <ul style="list-style-type: none"> • Uncompetitive or unfair procurement processes ranging from 56% to 100% of the departments within the five sectors. • Contracts were awarded to employees or state officials at 20 (41%) of the sector departments and awards to close family members of employees at 19 (39%) of them.

Unauthorised, irregular and fruitless and wasteful expenditure	<ul style="list-style-type: none"> • The aggregate level of unauthorised expenditure incurred by the sector departments remained at approximately the same level of the prior year: R2,8 billion. Irregular expenditure increased by 14% to R15,8 billion, of which only R8,8 billion was detected by the sector departments themselves and the balance by the AGSA audit. • For the year under review the sector departments contributed 69% of the total unauthorised, irregular and fruitless and wasteful expenditure incurred by national and provincial government (totalling R28,4 billion for the 2011-12 financial year).
Other significant findings	Summary of findings on compliance in sector departments
	<ul style="list-style-type: none"> • Seventy-eight per cent of sector departments submitted financial statements for audit that contained material misstatements. Poorly developed internal controls that should prevent, detect and correct errors may in future result in a situation where the nature or extent of required corrections are such that these cannot be made during the audit, resulting in financially qualified audit opinions. • The level of findings on Expenditure management and Revenue management have increased further from the high levels of the 2010-11 financial year, with Expenditure management increasing from 51% to 59% and Revenue management increasing from 37% to 47%. • The sector departments have not paid sufficient attention to the prior year findings on Human resource management , which increased from 47% to 59% over the 2010-11 financial year. Audit findings raised during the year under review are as follows: management of vacancies (59% of departments), appointment processes (57% of the sector departments) and management of leave, overtime and suspension (55%).

Root causes of lack of progress towards clean audits by sector departments

The root causes of the inability of sector departments to produce unqualified financial statements and their slow progress in addressing findings on PDOs and compliance, as detailed in sub-sections 2.2, 2.3 and 2.4 of this general report, can be summarised as follows:

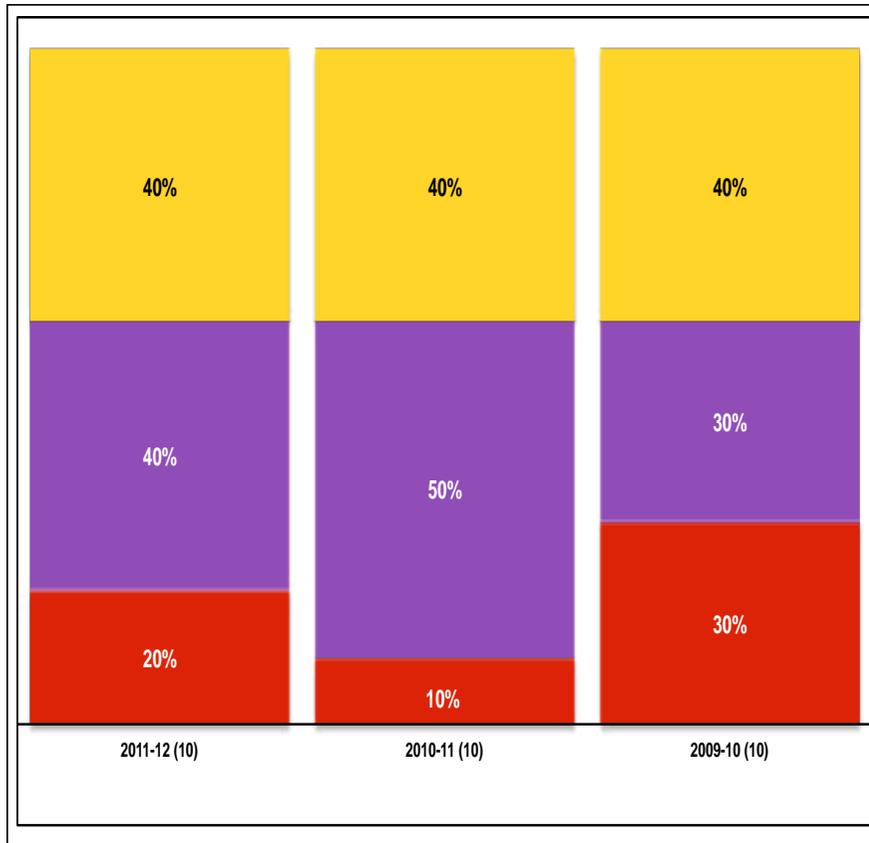
- Instability at leadership level.
- Commitments by the leadership of relevant sector departments and coordinating national departments to intervene and/or support those departments were not honoured.
- Action plans to address prior year audit findings were not adequately designed or properly implemented.
- Sector departments have not filled key vacancies and some posts were filled with officials who do not possess the requisite levels of skills and experience.
- Repeated material audit findings and even serious regression in the audit outcomes in many cases do not attract appropriate consequences for poor performance by the responsible officials.
- Lack of attention to the requirements of performance management frameworks, for example lead to sector targets not being SMART in all instances. Although some sector departments started with the process of aligning the sector indicators and targets to the relevant 12 national outcomes, this process should be further refined to ensure appropriate and relevant targets to achieve the relevant outcomes as well as to ensure good quality service delivery. In this regard the relevant coordinating departments and legislatures must become actively involved in improving the usefulness of PDOs and ensuring that the budgeted programmes are aligned to those objectives. Prior year reported information system deficiencies and limitations to support reporting against PDOs are not being addressed.

- Daily processing of information and monthly reconciling routines have not yet been established.

The drivers of internal controls (leadership, financial and performance management and governance) for sector departments have generally regressed since the previous financial year.

3.1.1 EDUCATION

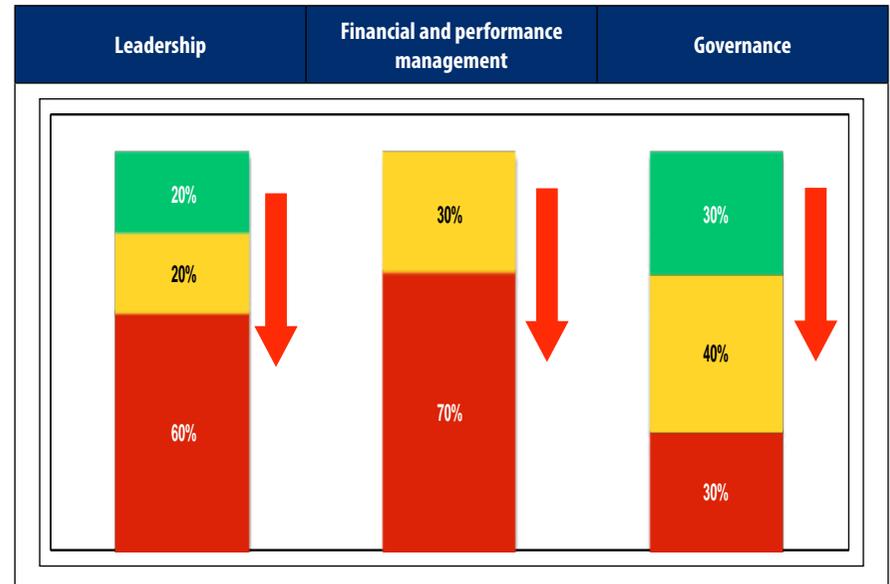
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5 risk areas



Key controls



Root causes risk

- Procurement process not improved to prevent irregular expenditure
- Daily and monthly processing controls not in place to reduce material adjustments to AFS.
- Financial statements not prepared in accordance with section 40(a) of PFMA

Table 31: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Basic Education	Financially unqualified with findings			Financially unqualified with findings			↔
Eastern Cape	Disclaimer			Disclaimer			↔
Free State	Financially unqualified with findings			Qualified			↑
Gauteng	Financially unqualified with findings			Financially unqualified with findings			↔
KwaZulu-Natal	Qualified			Qualified			↔
Limpopo	Disclaimer			Qualified			↓
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Qualified			Qualified			↔
North West	Qualified			Qualified			↔
Western Cape	Qualified			Financially unqualified with findings			↓



The education sector reflects two regressions with Limpopo regressing from qualification to disclaimer of opinion and Western Cape from unqualified with findings to a qualified opinion. The Free State department is the only department that improved from a qualification to unqualified with findings.

Despite commitments made by the executive authorities to address deficiencies identified and reported in previous audit reports, the audit results of the education sector are still not satisfactory. Stringent management effort is therefore required to address the root causes of reported deficiencies in order to achieve clean audits.

The most significant qualification areas for the sector are capital assets, current assets, liabilities, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure.

The **reporting on predetermined objectives (PDO)** remains a challenge as six of the ten (60%) education departments remained with findings compared to the previous year.

Five (50%) of the education departments faced challenges with regard to the usefulness of reported information, while five (50%) of the departments' reported information could not be traced back to source information or the reported information was not accurate, complete and valid in relation to the source documentation provided. The lack of relevant performance management skills in this area contributed to these audit outcomes.

Compliance with applicable laws and regulations is another area that requires urgent attention by the leadership within the education sector as nine of the departments had findings on non-compliance. Most instances of such non-compliance also contributed to the unauthorised, irregular and fruitless and wasteful expenditure reported in the sector. Although significant non-compliance has been reported in the sector, the responsible staff are not held accountable for the consequences of such non-compliance and the necessary action is not taken against the responsible staff.

Unauthorised expenditure amounting to R1,426 billion was incurred in the 2011-12 (2010-11: R1,389 billion) financial year in the education sector.

Irregular expenditure of R2,203 billion was reported in the sector for the 2011-12

financial year (2010-11: R2,089 billion). The irregular expenditure mainly relates to the supply chain management processes in the sector.

Overall deficiencies in key controls

Following the 2010-11 audits, management committed to address identified deficiencies in internal controls. The status of honouring such commitments as determined during the 2011-12 audits indicates that in some provinces there was inadequate progress in implementing management commitments in all fundamentals of internal controls. This was due to lack of oversight monitoring by the leadership of the affected departments.

Findings relevant to key service delivery aspects in the education sector HIV and Aids life skills education grant

Service delivery objective: This programme is intended to coordinate and support the structured integration of life skills and HIV and Aids programmes across all learning areas in the school curriculum for purposes of achieving a significant change in the learners' behaviour. Furthermore, the programme aims to provide care and support to learners who are infected and affected by HIV/Aids.

Table 32: HIV and Aids life skills education grant

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Master trainers did not receive all planned training (EC, NC, NW and WC)	4	3	0
2	Educators did not receive all planned training (EC, FS, LP, NC and NW)	5	6	6
3	The department did not monitor and report on the outcomes and outputs of the grant (EC, FS, LP and NC)	4	5	8

Conclusion: Some of the provinces are still experiencing challenges although this programme has been implemented for more than 10 years (since 2000-01). We noted that there is still lack of leadership oversight, review and monitoring of the performance of this programme by the provincial and district offices in the relevant provinces, impacting negatively on the implementation of the HIV and

Aids life skills education programmes at schools.

National school nutrition programme

Service delivery objective: This programme is intended to improve learning capacity by feeding needy learners. Through this grant it is envisaged that school attendance will improve and learner enrolment will increase at schools.

Table 33: National school nutrition programme

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Meals not prepared as per recommended menu (FS, LP, MP, NC and NW)	5	2	7
2	Meals not served on all school days (EC, FS, KZN and NW)	4	2	0
3	Cost per meal per learner not at required average (FS and MP)	2	2	0
4	Meals not served by 10:00 and arrangement not pre-approved by national department (EC, FS, KZN, LP, MP, NC, NW and WC)	7	5	4
5	Sustainable food production and nutrition education not promoted at school level (NC and NW)	2	0	0
6	Food handlers did not have a valid contract with department or NGO (EC, FS, LP and NC)	4	5	0
7	Attendance of food handlers not monitored by schools (EC, FS, GP and GP)	4	4	0
8	Payments to food handlers less than minimum required by DoRA framework and not authorised by designated school official (EC and FS)	2	0	0
9	Quarterly and/or annual financial and performance reports not approved and submitted to national department (EC and LP)	2	0	0

Conclusion: As reported in the prior year, the key challenges of the programme are the inadequate monitoring by provincial departmental officials and leadership and lack of adequate facilities and resources to prepare meals as required. This resulted in the objective of the programme not being met in all instances.

Learner/Teacher support material (LTSM)

Service delivery objective: This programme is intended to improve learning capacity through study support materials with a view to improving the performance of learners and that of teachers.

Table 34: Learner/Teacher support material

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Schools received no LTSM although budgeted for (2011-12: EC, FS GP, LP and NC) (2010-11: FS and LP)	5	2	0
2	Schools received LTSM only after academic year started (2011-12: EC, FS, GP, KZN, MP, NC, NW and WC) (2010-11: EC, FS, KZN, NW, and LP)	8	5	0
3	No processes in place to monitor the timeous delivery of books to schools (2011-12: EC and MP)	2	0	0
4	LTSM shortages at schools (2011-12: LP, FS, GP and MP)	4	0	0
5	Inappropriate LTSM ordered and delivered (2011-12: GP and MP)	2	0	0
6	Excessive LTSM stock received from NDE kept at provinces and not distributed to schools ((2011-12: EC)	1	0	0
7	Schools receive LTSM workbook in the incorrect language from the service provider (2011-12: GP)	1	0	0
8	School did not receive LTSM for the academic year it was intended for (2011-12: GP, FS and LP)	3	0	0

Conclusion: Due to a lack of adequate processes and controls in the management of the printing and distribution of workbooks, the national Department of Basic Education did not timeously deliver workbooks to the learners. In some cases not enough workbooks or workbooks in incorrect languages were delivered to the learners. This resulted in the department putting in a considerable effort late during the 2012 academic year to remedy the situation. At the date of this sector report the department had not determined the impact of these shortcomings on the delivery of quality basic education.

Inaccurate statistics of the learner records as per the Education Management Information System (EMIS) also contributed significantly to the delayed delivery of the workbooks. Numerous other control deficiencies on LTSM were also noted in various provinces.

Emerging risk – LTSM Inventory (workbooks and text books)

Currently the basic Education sector does not have an inventory management process and/or system in place to monitor and determine the value (quantities and rand value) of the LTSM material on hand at year-end. This could result in fruitless and wasteful expenditure due to workbooks that are printed and not used on a yearly basis. The quantity and value of workbooks and text books on hand could not be quantified at year-end.

Learner transport scheme (LTS)

Service delivery objective: This initiative is intended to make education accessible to all by providing scholar transport to needy learners.

Table 35: Learner transport scheme

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	No policies or objectives to manage LTS in province (FS, GP and KZN)	3	1	6
2	Non-adherence to requirements of LTS policies (EC, KZN and NC)	3	0	0
3	No indicators and targets in annual performance plan for measuring management of LTS and performance of contractors in annual performance plan (KZN and MP)	2	0	0
4	Tenders awarded to LTS contractors despite non-compliance with tender requirements and processes (KZN, MP, NC and NW)	4	4	4
6	Bus drivers without required driver's licences and public driver permits to transport learners (EC, FS, GP, LP, MP, NC, NW and WC)	8	4	4
7	Buses declared non-roadworthy by private or state-controlled testing centres (EC, GP and LP)	3	1	0

Conclusion: Management of this scheme is still a major challenge. Bus drivers without driver's licences, buses declared non-roadworthy and awarding of tenders to contractors despite non-compliance with tender requirements are some of the major challenges. Lack of adequate monitoring and review of the learner transport scheme at a provincial level also contributes to the findings not being addressed and recommendations not implemented.

In some provinces LTS is managed by the transport department, which requires a close working relationship between the two departments as deficiencies in the management of this programme negatively impact the objective of the department of Education to ensure that all learners reach schools.

Education infrastructure grant

Service delivery objective: The overall purpose of the grant is to accelerate construction, maintenance, upgrading and rehabilitation of new and existing infrastructure in education and to enhance capacity to deliver infrastructure in education.

Table 36: Education infrastructure grant

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	New/upgraded schools underutilised (EC, KZN and MP)	2	4	0
2	Additional cost incurred to correct substandard work (EC and NC)	2	0	0
3	Infrastructure needs not correctly identified/prioritised as result of inappropriate information used during needs determination process (EC, LP and NC)	3	0	0
4	Original needs determination documentation not provided for audit (EC, NC and WC)	2	4	0
5	Needs determination and budget compiled without considering relevant technical issues which caused inappropriate scoping and budgeting of projects (EC and MP)	2	4	0

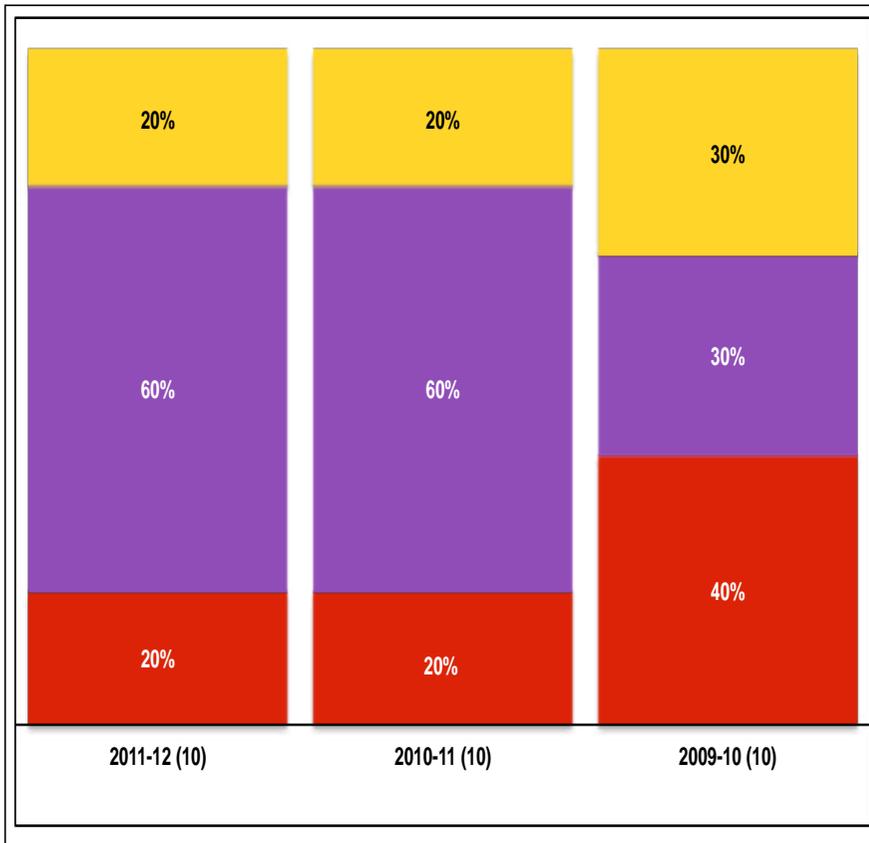
Conclusion: The leadership of the education departments appeared before the Standing Committee on Public Accounts (SCOPA) where commitments were made that all deficiencies reported by the AGSA in the education infrastructure performance audit report tabled in Parliament during September 2011 will be addressed and sustainable solutions will be developed to ensure that such deficiencies does not recur. Although the nature and scope of the audit for the year under review was limited compared to the performance audit, the findings above are an indication of slow progress being made in addressing matters that

were reported.

In some provinces infrastructure projects are managed by the department of Public Works while some projects are managed by implementing agents, which requires a close working relationship between both departments.

Numerous significant control deficiencies that contributed to irregular and fruitless and wasteful expenditure were identified in various provinces. These deficiencies related mainly to shortcomings in the infrastructure procurement process and weaknesses in contract and project management. The quality of workmanship on infrastructure projects was also identified as an area of concern.

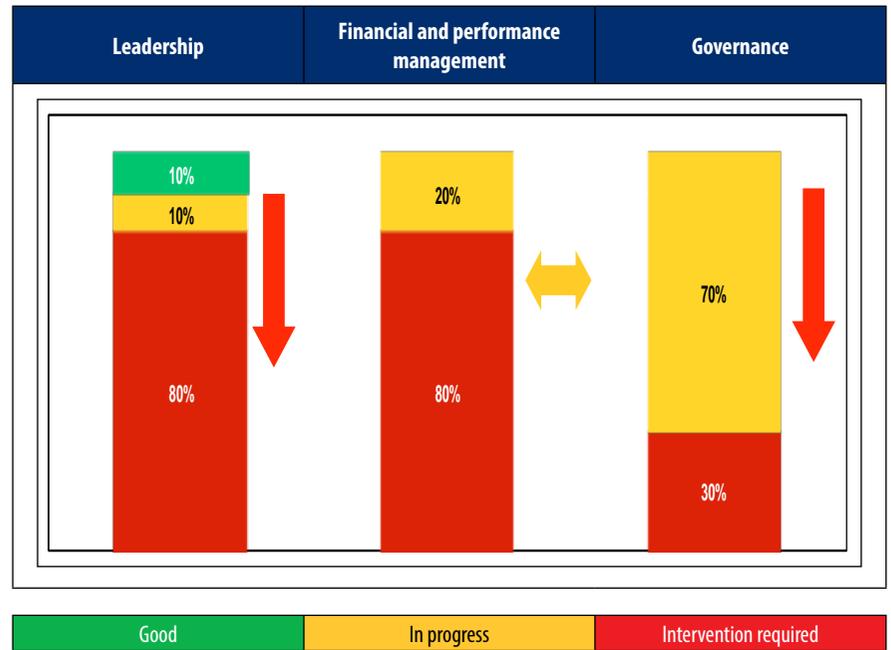
3.1.2 HEALTH



5 risk areas



Key controls



Root causes risk

- Leadership instability and HR capacity
- Inadequate discipline to monitor and review financial and performance information
- No consequences for poor performance

Table 37: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Health	Financially unqualified with findings			Qualified			↑
Eastern Cape	Qualified			Qualified			↔
Free State	Qualified			Qualified			↔
Gauteng	Qualified			Qualified			↔
KwaZulu-Natal	Qualified			Qualified			↔
Limpopo	Disclaimer			Disclaimer			↔
Mpumalanga	Qualified			Qualified			↔
Northern Cape	Disclaimer			Disclaimer			↔
North West	Qualified			Financially unqualified with findings			↓
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔



The health sector reflect one improvement, with the National Department of Health improving from a qualification to financially unqualified with findings, and one regression as the North West department of Health regressed from financially unqualified with finding to a qualification on assets. Two departments (Limpopo and Northern Cape) received repeat disclaimers, while the remaining five provincial departments all had repeat qualifications. The audit outcomes for the current year are a concern due to the inability of the sector to demonstrate improvement. This is mainly as a result of leadership instability, inadequate discipline to monitor and review daily activities and staff not being held accountable for poor performance.

The most significant qualification areas for the sector are capital assets, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure. Seven departments were qualified on assets due to asset registers being inadequately maintained and reconciled on a monthly basis. There is a general lack of appropriate systems in the health sector to properly record and account for other disclosure items. Six departments were qualified on other disclosure notes. The qualifications on other disclosure items stemmed primarily from poor internal controls, a lack of reconciling this information monthly and a lack of understanding/knowledge on the part of staff responsible for compiling the required information. Five departments were qualified on irregular expenditure for failing to maintain adequate records to disclose irregular expenditure incurred. The health sector incurred irregular expenditure to the amount of R8, 2 billion for the 2011-12 year, which represents an increase of R2, 4 billion compared to the 2010-11 year.

The reporting on predetermined objectives (PDO) remains a challenge for the sector. Except for the Western Cape provincial department, all departments had findings on predetermined objectives. Mpumalanga and Northern Cape had new findings on presentation because material variances were not explained. Four departments (Eastern Cape, Northern Cape, North West and Gauteng) failed to include targets that were measurable, specific and time bound. Limpopo addressed the prior year finding on usefulness, while targets were found to be specific and measurable. All nine departments had repeat findings on reported information not being reliable. Good progress was made by the national department as they had developed guidance for the provinces in respect of the collection, recording

and monitoring of reported information. These guidelines have, however, not been fully implemented and complied with during the year under review.

All 10 departments had findings on compliance. The majority of them related to expenditure management (9 departments), procurement management (9), human resource management (8) and material corrections to the annual financial statements (8). The national department resolved most of the findings from the previous year except for some in the area of human resource management and transfer payments. The non-compliance in the health sector is as a result of inadequate discipline to monitor and review daily activities and failure to hold staff accountable for non-compliance with laws and regulations.

Based on the commitment made by the Minister of Health during 2011-12, the national department is in the process of developing norms and standards that will, amongst others, guide the provincial departments in terms of organisational structures per province and minimum qualifications/requirements for specific positions.

Findings relevant to key service delivery aspects in the health sector

For the year under review, the focus was on the following service delivery aspects within the health sector:

- Division of Revenue Act – Comprehensive HIV and Aids grant
- Division of Revenue Act – Hospital revitalisation grant and health infrastructure grant
- Medical waste
- Emergency medical services

Division of Revenue Act – Comprehensive HIV and Aids grant

Service delivery objective: The overall purpose of this grant is to enable the health sector to develop an effective response to HIV and Aids and support the implementation of the national operational plan for comprehensive HIV and Aids treatment and care. The total grant allocation for 2011-12 amounted to R7,5 billion and the highest allocations were made to KwaZulu-Natal (25%), Gauteng (21%) and Eastern Cape (12%) with these provinces receiving 59% of the total grant.

Table 38: Division of Revenue Act – Comprehensive HIV and Aids grant

No.	Findings	Number of provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Weaknesses exist in design and implementation of health information systems (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	7	7	7
2	Data used to prepare quarterly reports for ART interventions was either not supported by evidence or supporting documentation was not available (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	8	7	6

Conclusion: Significant weaknesses were identified in relation to the systems and associated internal controls in place to report reliable data. It is essential that an appropriate information system exists to monitor and measure the performance of the grant. Reliable data will also assist in the planning and budgeting process to ensure that resources are allocated economically and effectively to the key focus areas of the comprehensive HIV and Aids grant.

Recommendation: The national department must take the lead to design suitable processes and internal controls to support the reporting of reliable information at each of the provinces.

Division of Revenue Act – Hospital revitalisation grant and infrastructure grant

Service delivery objective: The purpose of these grants is to provide funding to enable provinces to plan, modernise, rationalise and transform the infrastructure, health technology, monitoring and evaluation of hospital management and to improve quality of care in line with national policy objectives. The total grant allocation for the two grants amounted to R6, 4 billion.

Table 39: Division of Revenue Act – Hospital revitalisation grant and infrastructure grant

No.	Findings	Provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Poor performance of contractors has delayed the completion of projects	0	4	4	7
2	Poor performance of contractors has resulted in additional costs to the department	0	4	4	6
3	New/upgraded hospitals or clinics underutilised/ not utilised (EC, FS, GP, MP, NC)	5	6	*	*
4	Additional costs incurred to correct substandard work (EC, FS, GP, NC)	1	4	*	*
5	Infrastructure needs not correctly identified/ prioritised as a result of inappropriate information used during needs determination process and/or original needs determination documentation not provided for audit (FS, GP, KZN, NC)	4	2	*	*
6	Project implementation plans did not include all deliverables (FS, MP)	2	3	2	*
7	Data used to prepare monthly and quarterly reports not supported by evidence	0	3	8	5

Conclusion: A proper needs analysis was not always performed and inadequate planning and budgeting for staff and equipment resulted in some facilities being underutilised. Poor planning impacted on the planned level of service delivery at the newly built/refurbished facilities. During the year under review the national department appointed the necessary staff, including engineers, to oversee and monitor all hospital revitalisation and infrastructure projects in the provinces. This will enhance the controls that are in place to ensure that resources are being effectively utilised.

Recommendation: It is recommended that the needs analysis (planning) and budget be done in a coordinated process by staff who have the necessary expertise and that monthly progress reports be provided to the national and provincial leadership to identify and act on deviations.

Medical waste

Service delivery objective: The audit of medical waste focused on the handling, storage and disposal of medical waste and on establishing whether reasonable measures have been put in place for the appropriate management of medical waste and compliance with relevant legislation.

Table 40: Findings on medical waste

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Medical waste was not appropriately disposed of (EC, FS, GP, KZN, LP, MP, NC)	7	7	6
2	Expired medicines not appropriately dealt with and disposed of (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	8	5
3	Access control to the collection areas of medical waste as well as the medical waste storage site was not adequate (EC, FS, GP, LP, MP, NC)	6	8	6

Conclusion: The above findings represent significant non-compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), potentially impacting on the health of the community and risking damage to the environment. The findings are primarily the result of a lack of effective control over the disposal of medical waste and expired medicines in provinces. They can also be attributed to a lack of effective oversight at a leadership level.

Recommendation: It is recommended that appropriate action be taken by the leadership of the provincial departments of health to implement adequate internal controls to ensure compliance with NEMA. It is further recommended that the responsible officials be held accountable for non-compliance with NEMA.

Emergency medical services

Service delivery objective: The aim of this programme is to render pre-hospital emergency medical services, including inter-hospital transfers, medical rescue and planned patient transport.

Table 41: Findings on emergency medical services

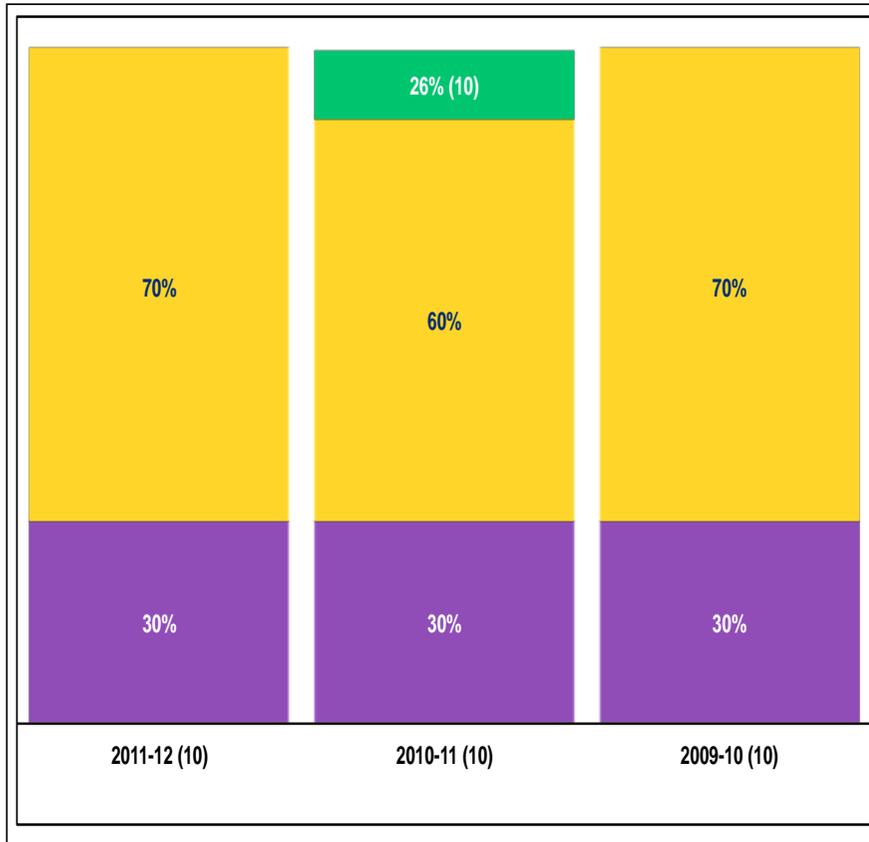
No.	Findings	Number of provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Slow response time (EC, FS, GP, KZN, MP, NC, NW)	7	7	6	8
2	Ambulances and rescue vehicles not available (EC, FS, GP, KZN, MP, NC, NW)	7	6	7	7
3	Communication centre, ambulance and rescue staff not available (EC, FS, MP, NC, NW)	5	5	6	8
4	Ambulance staff not appropriately trained and qualified (MP, NC)	2	4	3	9
5	Inadequate availability of communication centre staff (FS, GP, MP, NC)	4	2		

Conclusion: No progress was made in addressing the prior year findings. The slow response time identified in seven provinces is mainly due to the unavailability of ambulances, rescue vehicles and staff.

Recommendation: Leadership at the provincial departments should review the current status of emergency medical services in their respective provinces relating to the availability of vehicles and staff. Based on the outcome of the review an action plan to address the above should be developed and monitored on a regular basis.

3.1.3 HUMAN SETTLEMENTS

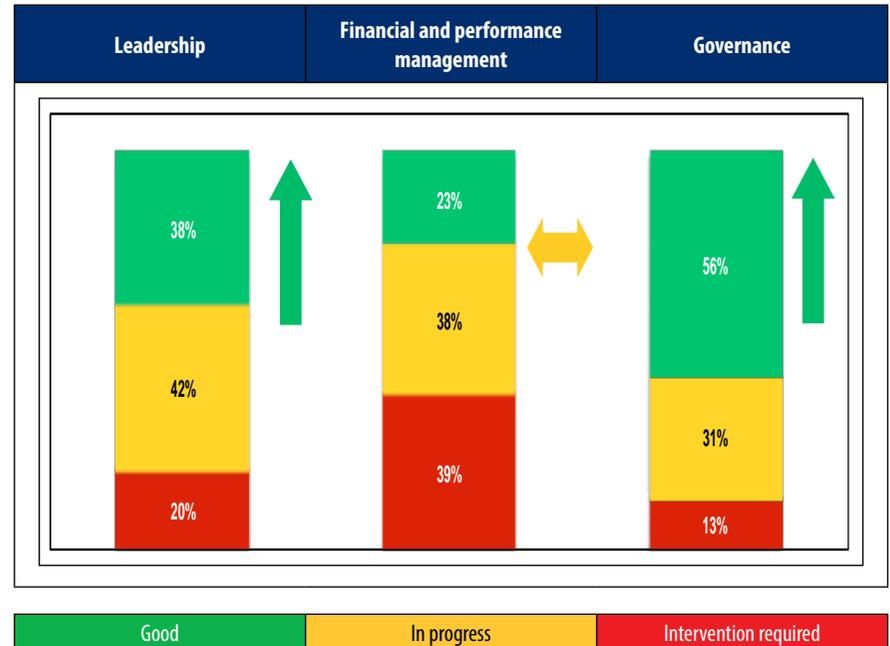
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5 risk areas



Key controls



Root causes risk

Action plans to address prior year audit findings were not appropriately designed and implemented. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not adequately exercised.

Sufficient and skilled resources are not in place as vacancies are not filled timeously.

Insufficient attention paid to key controls with regard to daily processing and monthly controls, including the preparation and review of financial and performance reports.

Table 42: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Human Settlements	Financially unqualified with findings			Financially unqualified with findings			↔
Eastern Cape	Qualified			Qualified			↔
Free State	Qualified			Financially unqualified with findings			↓
Gauteng	Financially unqualified with findings			Financially unqualified with findings			↔
KwaZulu-Natal	Financially unqualified with findings			Financially unqualified with findings			↔
Limpopo	Financially unqualified with findings			Financially unqualified with no findings			↓
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Financially unqualified with findings			Qualified			↑
North West	Qualified			Qualified			↔
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔



The human settlements sector audit results of the 10 departments analysed [national and nine (9) provincial departments of Human Settlements] reflect one improvement and two regressions.

The Northern Cape received an improved audit opinion as this department moved from financially qualified to a financially unqualified opinion with findings on PDOs and compliance.

The improvement in the audit opinion of the Northern Cape is mainly due to management providing effective leadership and exercising oversight responsibility in attending to and addressing audit findings timeously, as well as monitoring the implementation of the action plan and implementing proper record keeping to support performance reporting.

Limpopo regressed from financially unqualified (with no other findings) to an unqualified audit opinion with findings on compliance. The regression in the audit opinion is due to findings on compliance relating to remunerative work performed by employees with other institutions not being adequately detected and monitored by the department.

The Free State regressed from an unqualified (with findings) opinion to a qualified audit opinion. The following areas were qualified: irregular expenditure, commitments, accruals and transfers and subsidies. The following is a summary of the reasons for the regression:

- Management did not effectively exercise its oversight responsibility regarding financial, performance reporting and compliance with laws and regulations and related internal controls due to inadequate monitoring and evaluation.
- Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that internal controls are implemented. This was due to delays in approving the new organisational structure.
- Management had limited capacity and as a result did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and

performance reporting.

- Management did not regularly review and improve controls in the housing section. This resulted in the department instituting an internal investigation during June 2012, with six officials of the department being suspended.
- Management did not perform appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Two departments (North West and Eastern Cape) received repeat qualifications and the remaining four provincial departments as well as the national department all had financially unqualified opinions with repeat findings on PDOs and compliance. The Eastern Cape was qualified on commitments, which were understated in the annual financial statements as the commitments listing was not adequately reviewed prior to inclusion in the disclosure note. The qualification in the North West province was due to insufficient appropriate audit evidence for the unspent funds portion of tranche payments.

The audit outcomes for the current year are a concern due to the inability of the sector to demonstrate improvement. This is mainly as a result of leadership instability, inadequate discipline to monitor and review daily activities and staff not being held accountable for poor performance.

The human settlements sector incurred irregular expenditure to the amount of R2, 7 billion for the 2011-12 year, which indicates an increase of R2, 2 billion compared to the 2010-11 year at seven departments (2011: eight). The irregular expenditure incurred in the Free State accounted for 74% of this amount and was incurred mainly due to housing contracts awarded subsequent to the 2009-10 financial year-end not being evaluated by a bid evaluation and bid adjudication committee and a preference point system not being used to award these contracts.

Reporting on PDOs within the sector is not encouraging as only the Limpopo provincial department had no PDO findings. The KwaZulu-Natal department did not submit their annual performance report in time for audit purposes. Findings with regard to the consistency, relevance and measurability of performance information were raised in seven (70%) departments and are detailed below:

- For Gauteng, Northern Cape, Mpumalanga and the national department, targets were not specific and measurable. For Gauteng, Northern Cape and the national department, indicators were not well defined.
- In Mpumalanga, a total of 90% of reported targets were not consistent with targets as per the approved annual performance plan.
- Adequate explanations for major variances between the planned and actual reported targets were not provided in the Free State, Mpumalanga, North West, Northern Cape and the Western Cape [five departments (50%)].

Findings with regard to the reliability of reported performance information were raised in four (40%) departments and are detailed below:

- In the Western Cape, the targets were not valid, accurate or complete based on the evidence provided.
- In three (30%) provincial departments, namely Eastern Cape, Northern Cape and Free State, sufficient appropriate audit evidence could not be provided to support the validity, accuracy and/or completeness of the targets.

All 10 departments had **findings on compliance**. Of particular concern is the significant number of repeat findings. The majority of the findings on compliance related to material corrections to the annual financial statements [nine (90%) departments], procurement management [seven (70%) departments], expenditure management [five (50%) departments], HR management [five (50%) departments] and asset management [four (40%) departments]. The non-compliance is as a result of inadequate discipline to monitor action plans developed to address prior period findings as well as a lack of daily control activities and not holding staff accountable for non-compliance.

IT controls for the financial and housing subsidy systems have not significantly improved since the prior year. Although IT service continuity has been addressed in most departments, user account management and security management remain areas of concern, especially with regard to the financial information systems.

Overall there has been no significant movement in the implementation of key controls to ensure movement towards clean administration in the sector.

Oversight responsibility in ensuring that policies and procedures are established remains a challenge, along with lack of implementation of action plans. Proper preparation and adequate review of financial and performance reports, as well as proper review and monitoring of compliance with laws and regulations, are not performed.

The Minister of Human Settlements committed at the MINMEC meeting to implement action plans to address the findings. Proper monthly financial statements with all relevant disclosure notes will be prepared by the departments. The departments will also fully implement monthly key controls, which will be reviewed by internal audit. These plans will be monitored by the audit committees and accounting officers. Progress will be monitored by means of quarterly reports, which will be provided to the minister and MECs.

Findings relevant to key service delivery aspects in the human settlements sector

For the year under review, the focus was on the following service delivery aspects within the human settlements sector:

- Management of individual housing subsidies
- Monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses.

Management of individual housing subsidies

Service delivery objective: To encourage growth in the secondary residential property market in order to create sustainable human settlements and to provide access to state assistance where qualifying households wish to acquire an existing house or a vacant residential serviced stand that is linked to a house construction contract. Funding is provided through an approved mortgage loan.

The purpose of the human settlements development grant (HSDG) is to facilitate the development of sustainable human settlements through the provision of a conditional grant to fund housing programmes approved in terms of the national housing code.

Gauteng (R3, 8 billion), KwaZulu-Natal (R2, 8 billion), Eastern Cape (R2, 2 billion) and the Western Cape (R1, 6 billion) received the highest allocations during the

2011-12 financial year, which totalled 70% (65% in 2010-11) of the total grant allocation. The remainder of the provinces' allocations ranged from R333 million to R1,399 billion.

Table 43: Summary of findings relating to management of individual housing subsidies per province

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Subsidies were paid to applicants with invalid ID numbers (GP)	1	4	5
2	The department approved and paid subsidies to applicants in excess of the housing subsidy threshold (FS, KZN, GP)	3	2	8
3	Subsidies were paid to government employees earning in excess of the housing subsidy threshold	0	3	6
4	Subsidies were paid to applicants who were younger than 18 years	0	2	5
5	Payments were made to beneficiaries who are not approved on the HSS (FS)	1	2	3
6	The department approved more than one housing subsidy for the same site/stand (MP)	1	2	3
7	Payments to developers of housing projects exceeded project budgets (FS)	1	0	0
8	The department approved and paid subsidies after the applicant's date of death (GP)	1	2	5
9	Payments not in line with contract milestones (FS)	1	1	3

Conclusion: The number of findings identified in the nine provincial departments which relate to this focus area has decreased compared to the 2010-11 financial year. However, attention needs to be given to the deficiencies in approval processes to ensure that payments are only made to applicants eligible as per the requirements of the housing code. Budgets also need to be monitored throughout the year.

Monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses

Service delivery objective: To ensure that the municipality implements effective, efficient and transparent financial management and internal control systems before transfer of funds and to ensure that the municipality will utilise the funds for the housing projects as required.

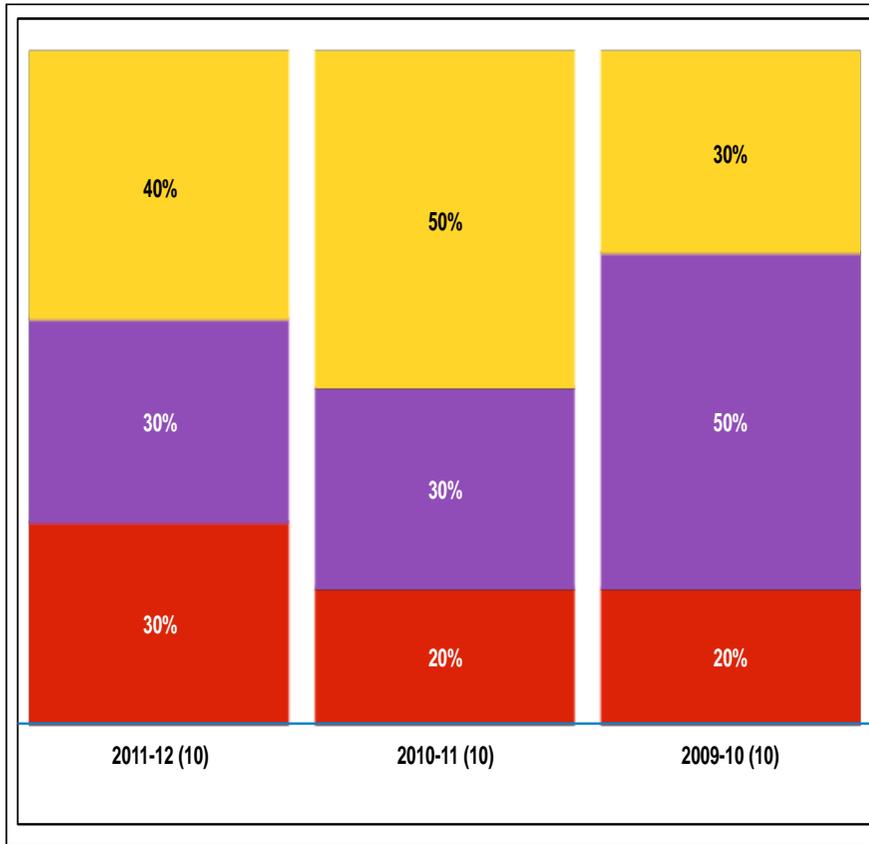
To ensure the progressive upgrade of informal settlements in accordance with the targets for eradicating poverty and reducing slum dwellers by formalisation of informal settlements by 2014 and eradication thereof by 2020.

Table 44: Summary of findings relating to monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses

No.	Findings	Provinces affected		
		2011-12	2010-11	2009-10
1	The department did not ensure that the municipality implements efficient and transparent financial management and internal controls systems before transferring funds (WC)	1	2	1
2	The provincial department did not calculate the unspent portion of the transfer or advance payment	0	3	1
3	The appointment of contractors was not subject to the procurement processes as stipulated by the provincial department	0	3	1
4	Payments were made for houses that were claimed as built but did not exist	0	3	2
5	The quality of the houses that were built was not according to the specific requirements and the expenditure incurred (KZN, LP, WC)	3	3	5
6	Lack of or limited project management by the provincial department resulting in a lack of or limited monitoring of and control over projects and the completion thereof (EC, WC)	2	5	1
7	The provincial department did not confirm the balance and existence of the unspent portion of transfer or advance payments at year-end (GP)	1	2	1

Conclusion: The management and monitoring of advance payments have improved since the prior year. This was mainly due to management improving controls over procurement processes prior to payments being made to contractors and monitoring unspent portions of the advances. Although project management controls were improved and regular site inspections conducted to ensure existence of houses built, the quality of houses built remained a concern. Leadership of departments must act decisively to mitigate emerging risks and implement timely corrective measures to address non-performance.

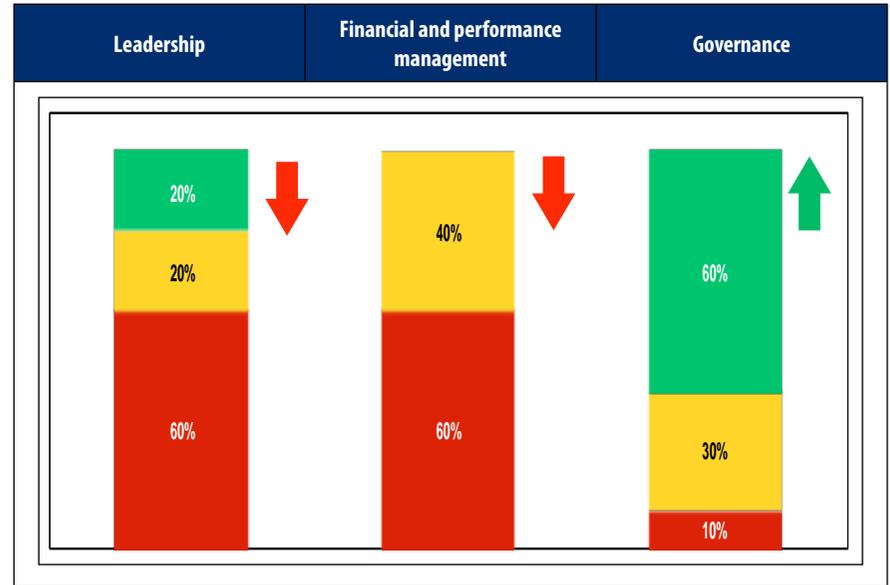
3.1.4 PUBLIC WORKS



5 risk areas



Key controls



Root causes risk

Instability in key leadership positions and a lack of human resources capacity had a negative impact in providing effective leadership.

Implemented controls over daily and monthly processing and reconciling of transactions were ineffective. Inadequate discipline to review and monitor financial and performance information.

Action plans for improving audit outcomes were not timeously implemented.

Table 45: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Public Works	Disclaimer			Disclaimer			↔
Eastern Cape	Qualified			Financially unqualified with findings			↓
Free State	Qualified			Qualified			↔
Gauteng	Financially unqualified with findings			Financially unqualified with findings			↔
KwaZulu-Natal	Financially unqualified with findings			Qualified			↑
Limpopo	Disclaimer			Qualified			↓
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Qualified			Financially unqualified with findings			↓
North West	Disclaimer			Disclaimer			↔
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔

Legend Finding Improvement ↑ Unchanged ↔ Regression ↓

Significant aspects of the audit outcomes

The Public Works sector reflects one improvement, with KwaZulu-Natal improving from a qualification to financially unqualified with findings on compliance, and three regressions. The Eastern Cape and Northern Cape received qualified opinions whereas in the previous year unqualified opinions with findings were expressed, while Limpopo regressed from a qualified opinion to a disclaimer of opinion in the current year. Audit opinions for the rest of the sector remained consistent, with the national department and North West receiving disclaimers, Free State remaining qualified and other departments receiving unqualified opinions with findings.

Regressions in the sector are primarily attributable to instability in key leadership positions and a lack of human resource capacity. There are ineffective controls over daily and monthly processing and reconciling of transactions and financial and performance information is not being properly reviewed and monitored by management and those charged with governance. Timeous action was not taken to resolve audit qualifications reported in the previous financial year and decisive action is not taken against officials transgressing laws and regulations, resulting in non-compliance recurring.

The shortcomings in the information technology (IT) environment and systems are in the process of being addressed; however, significant improvement has not been noted during the year under review.

The most significant qualification areas for the sector are immovable assets, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure. Six departments were qualified on immovable assets due to their inability to produce accurate, complete and valid immovable asset registers in support of the figures disclosed and insufficient coordination between the national and provincial departments.

Four departments were qualified on other disclosure notes and five departments on the completeness of irregular expenditure. Qualifications on other disclosure items resulted from a lack of understanding/knowledge on the part of staff responsible for compiling the required information as well as the disclosure notes not being compiled and reviewed on a monthly basis. Furthermore, the

information systems in place are not conducive to generating the information required to fairly present the disclosure notes and there are inadequate manual compensating controls in place.

Irregular expenditure was not completely accounted for as officials failed to recognise and disclose irregular transactions as a result of supply chain management (SCM) procedures not having been followed. The sector incurred irregular expenditure amounting to R2, 1 billion compared to R998 million in the previous year. It is clear that compliance with applicable SCM laws and regulations and the prevention of irregular expenditure are not being prioritised enough by leadership and management of the departments and this should be addressed without delay.

Reporting on predetermined objectives remains a challenge for the sector with 80% of departments having findings in this area. The current systems in place are not in all instances adequately governed by policies and procedures in terms of the collection, monitoring and reporting of such information. Furthermore, control and reporting systems as well as the present information technology (IT) infrastructure are not adequate to ensure accurate, valid and complete reporting on PDOs. Intervention is also required to ensure that all officials involved in the process are well versed in the performance management requirements and principles, as required by the National Treasury *Framework for managing programme performance information*.

Findings on compliance were reported at all departments, with the most critical areas of non-compliance being procurement and contract management (all departments), expenditure management (9 departments), financial statements being subjected to material adjustments subsequent to submission (9 departments), revenue management (8 departments) and human resource and asset management (7 departments).

It is recommended that appropriate systems, processes and procedures be implemented by the departments to prevent non-compliance with applicable laws and regulations. In addition, leadership oversight and monitoring controls with respect to compliance with laws and regulations should be enhanced, while immediate and decisive action should be taken against officials committing and

permitting non-compliance to prevent these findings from recurring in future financial periods. Start here

In the prior year, all departments made commitments to develop action plans to address qualification areas and findings on reporting on predetermined objectives and compliance with laws and regulations. These initiatives were, however, not fully implemented in all instances and as a result only KwaZulu-Natal managed to improve its audit outcome. Decisive and effective leadership was not exhibited in driving the implementation of audit action plans to address the affected areas and holding officials accountable for failing to timeously implement corrective actions proposed. This is also reflected in the assessment of key controls presented above where there were regressions in the areas of leadership as well as financial and performance management.

During 2006 a decision was taken that accommodation-related costs be devolved by the national Department of Public Works to client departments, which resulted in the establishment of a trading entity, namely the Property Management Trading Entity (PMTE). As a result, the following functions are performed by the PMTE and not by the national department: construction and planned maintenance; payment of property rates and taxes; and entering into lease agreements with private landlords to obtain accommodation where state-owned properties cannot fulfil the needs of client departments and subsequently managing these leases. The PMTE received a disclaimer of audit opinion for the 2011-12 financial year and significant non-compliance with relevant laws and regulations was identified. Because of the importance of its functions in relation to the sector the findings reflected in the following tables include findings that were identified during the audit process of the PMTE.

Findings relevant to key service delivery aspects in the public works sector

For the year under review, the focus was on the following service delivery aspects within the public works sector:

- Management of accommodation for client departments
- Management of arrear rates and taxes

- Project management of infrastructure projects
- Expanded public works programme (EPWP)

Management of accommodation for client departments

Service delivery objective: The mandate of the national Department of Public Works is articulated in GIAMA. The objective of the act is to ensure efficient and effective immovable asset management within government in order to improve overall service delivery. One of the objectives of the sector departments is to provide and manage the accommodation, housing, land and infrastructure needs of user departments. The following findings were noted:

Table 46: Findings on management of accommodation for client departments

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Immovable Asset management plan not in place or the immovable Asset management plan in place did not address the needs of all client departments (FS, NC, NW, LP, MP and National)	6	4	*1
2	No processes/procedures to identify unused owned and leased buildings, resulting in fruitless and wasteful expenditure (EC, KZN, MP, NW and National)	5	7	*
3	Utilisation inspections not carried out to verify occupation of accommodation and assess condition of buildings (FS, GP, LP, NW, WC and National)	6	6	7
4	No strategy in place to address maintenance backlogs (FS, GP, MP, NC, NW and National)	6	4	3
5	SCM processes not followed for lease contracts (WC, FS, LP, MP, NW and National)	6	4	*

Conclusion: The management of accommodation for client departments remains a concern. There was poor coordination between the public works sector and client departments to obtain accurate accommodation needs to enable the sector to plan strategically to address requirements. Sufficient procedures to identify vacant buildings are not in place in all instances, which could lead to departments paying rental for buildings that are not occupied, leading to fruitless and wasteful expenditure. The effect of this poor coordination is also evident in the number of leases that are running on a month-to-month basis as a result of the public works departments not timeously and effectively liaising with client departments to procure new leased accommodation, in line with the client department's needs, when the existing lease is nearing expiry. In certain instances this has resulted in eviction of client departments from their premises.

The necessary monitoring measures and oversight to ensure compliance with relevant laws and regulations were not implemented to ensure that the awarding of contracts to landlords for leased accommodation is fair, transparent, cost effective and equitable. The departments also did not have adequate strategies in place to address maintenance backlogs. The national department did not implement controls to ensure that accurate information was captured onto the Property Management Information System (PMIS) and, furthermore, several deficiencies exist around the system, especially with respect to user access controls as well as back-up and disaster recovery processes.

Departments should ensure that comprehensive and accurate user and custodial asset management plans are compiled by client departments and that utilisation inspections are carried out to facilitate strategic planning with regard to the building, buying or leasing of accommodation. Leadership must prioritise their oversight function in respect of compliance with laws and regulations when leased accommodation is procured. The shortcomings in and around the PMIS must be addressed by the national department as a matter of urgency, especially given that the accuracy of payments being made to landlords are dependent on the PMIS as payments are automatically calculated based on information contained in the system.

Management of arrear rates and taxes

Service delivery objective: In 2008-09 the function of payment of property rates and taxes was assigned to the provincial departments. The devolution of property rates fund grant was established for this purpose.

Therefore, the accounting officer of each department (national and provincial) is responsible for paying the property rates on all the properties owned. The following findings were noted:

Table 47: Findings on management of arrear rates and taxes

No	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	No process to ensure complete payment of rates and taxes (GP, LP, NW and National)	4	4	2
2	The department did not pay outstanding property rates for properties devolved to the province (EC)	1	*	*
3	Fruitless and wasteful expenditure was incurred due to penalties and/or interest for the non-payment of outstanding property rates (KZN and National)	2	*	*

Conclusion: Even though the majority of departments were not affected by material findings identified in respect of the management of rates and taxes, it should be noted that the full extent of rates and taxes payable to municipalities cannot be confirmed until the vesting process (the process of establishing the rightful owner of the property in terms of applicable legislation and the owner accepting accountability of the asset in question) is completed, which is targeted for 2014.

Project management of infrastructure projects

Service delivery objective: The functional mandate of the public works sector is to provide land and accommodation to government departments and institutions. For the sector to deliver on its mandate, it needs to use an efficient and effective project management system to manage the large budget allocation on its projects by completing projects on time, within the budget and according to the specifications and needs of client departments. The following findings were noted:

Table 48: Findings on project management of infrastructure projects

No.	Findings	Provinces affected		
		2011-12	2010-11	2009-10
1	Inadequate management information for evaluation and monitoring of projects to identify, avoid and address delays and/or overspending on projects (LP, NW, FS, MP, NC and National)	6	6	*
2	Non-compliance with SCM legislation in appointment of contractors (FS, NW, MP, NC and National)	5	5	*
3	Project managers not registered with Project and Construction Management Council (LP, NW, MP, EC and FS)	5	5	4
4	Adequate action not taken against non-performing contractors (GP, NW, MP and National)	4	3	*
5	High numbers of variation orders to change scope of projects resulting in potential fruitless and wasteful expenditure (NW, EC, FS and National)	4	3	*
6	Construction contracts did not provide for penalties for late completion/penalties waived without valid reasons (GP, NW, MP and National)	4	2	*

Conclusion: The findings in the table above indicate that monitoring of projects is not in all instances of the desired standard. Given the fact that the public works sector mainly acts as an implementing agent on these infrastructure projects, service delivery is negatively affected across government when these projects are not executed in accordance with specifications and predetermined timelines. Departments should address the shortcomings identified, specifically focusing on only appointing contractors with the required skills and capacity for construction contracts, monitoring the work of contractors continuously and taking timely corrective action in respect of slow progress and poor quality workmanship. Key to this process is the departments ensuring that they address current capacity constraints in terms of skills and numbers of project managers.

Expanded public works programme

Service delivery objective: The main objective of the EPWP is to ensure the creation of employment opportunities and the provision of training for unskilled, marginalised and unemployed people in South Africa. The EPWP promotes the use of government expenditure to create additional employment opportunities by introducing labour-intensive delivery methods and additional employment and skills programmes for the participation of the unemployed in the delivery of needed services. Funds for the performance-based incentives to municipalities and provinces are distributed on the basis of their ability to absorb unskilled labour in the EPWP projects. The following findings were noted:

Table 49: Findings on expanded public works programme

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Performance results could not be verified – number of employment days created (NC and National)	2	2	*
2	Performance results could not be verified – number of jobs created (EC and National)	2	4	*
3	Performance results could not be verified – number of youths (16 - 25) employed (EC and National)	2	2	*
4	Performance results could not be verified – number of women employed (EC and National)	2	2	*
5	Performance results could not be verified – number of people with disabilities (EC and National)	2	2	*

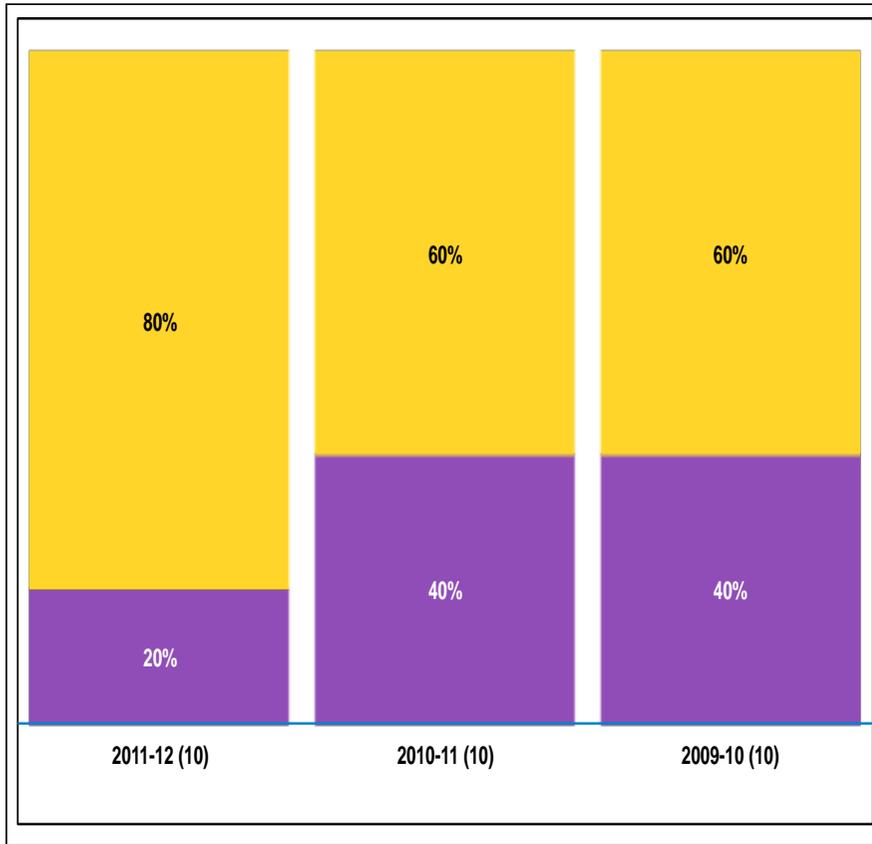
Conclusion: Improvement has been noted, with Gauteng, Northern Cape and North West resolving the weaknesses in terms of reliable reporting. This was a result of improved leadership oversight and implementation of proposed action plans to address findings raised in the prior year combined with improved record keeping.

The national department did not report on achievements for all prescribed targets, for example the number of people employed and the people trained was not reflected in the annual performance report. Furthermore, difficulties were experienced in verifying actual performance reported due to challenges in obtaining supporting documentation from implementing bodies (e.g. provincial departments and municipalities).

The Eastern Cape and Northern Cape were also unable to verify all reported performance mainly due to poor record keeping by the respective departments.

Achievements are not being reported in a consistent manner across the sector, which might hamper meaningful interpretation of performance against predetermined objectives in respect of EPWP for the sector as a whole. Furthermore, reasons for variances were not in all instances reported by departments. It should be noted that the explanation of major variances is critical for the understanding of the user of these reports and should therefore be included in all instances in future. Given the national importance of job creation, the resolution of these matters should receive priority. The national department should take the lead in driving consistency across the board.

3.1.5 SOCIAL DEVELOPMENT

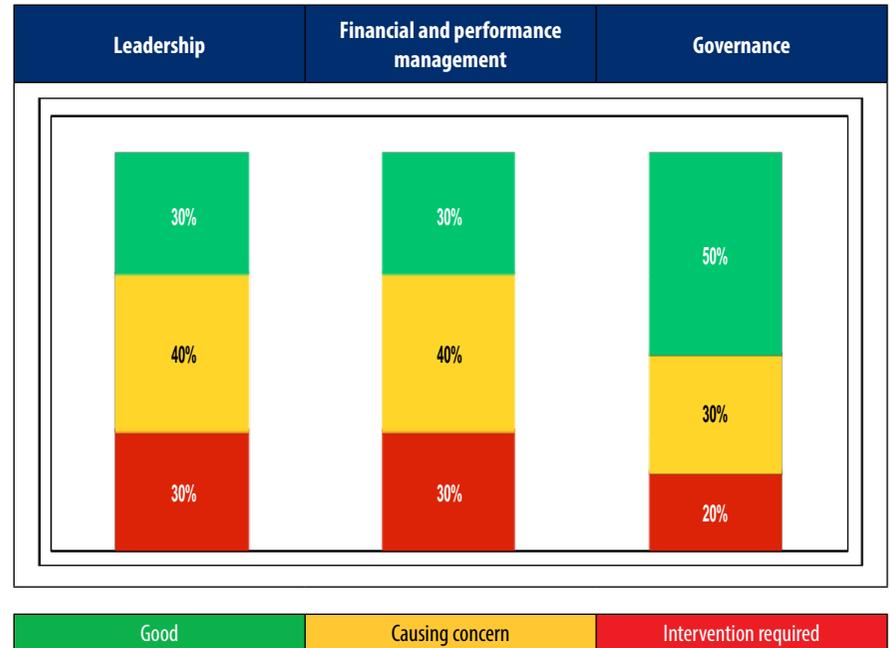


Legend (Audit outcomes)	Financially unqualified with findings
	Qualified

5 risk areas



Key controls



Root causes

- Inadequate review and oversight of leadership.
- Inadequate discipline to monitor and review financial and performance information.
- Governance structures did not adequately impact upon the operations of departments.

Table 50: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Social Development	Financially unqualified with findings			Qualified			↑
Eastern Cape	Financially unqualified with findings			Financially unqualified with findings			↔
Free State	Financially unqualified with findings			Financially unqualified with findings			↔
Gauteng	Qualified			Qualified			↔
KwaZulu-Natal	Financially unqualified with findings			Financially unqualified with findings			↔
Limpopo	Financially unqualified with findings			Qualified			↑
Mpumalanga	Financially unqualified with findings			Financially unqualified with findings			↔
Northern Cape	Financially unqualified with findings			Financially unqualified with findings			↔
North West	Qualified			Qualified			↔
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔

Legend Finding Improvement ↑ Unchanged ↔

The social development sector reflects two improvements, with the national department as well as the Limpopo province improving from financially qualified to financially unqualified with findings. Two departments (Gauteng and North West) received repeat qualifications. Gauteng department is combined with the department of Health and the qualification mainly relates to findings in the department of Health.

The areas of qualification for the North West province are capital assets and other disclosure items, while for Gauteng the qualification was for current assets, receivables for departmental revenue and provision for bad debt. This was mainly due to controls not being in place to ensure adequate record keeping in support of accurate and complete financial reporting.

The social development sector incurred irregular expenditure to the amount of R431 million for the 2011-12 year, which indicates an increase of R160 million compared to the 2010-11 year.

Reporting on predetermined objectives remains a challenge for the sector. Six departments had repeat findings on predetermined objectives. These six departments had findings on reported information which was not reliable. This mainly relates to actual performance not being accurate, complete and valid. Three provinces had findings on reported information which was not useful. The national department as well as the Eastern Cape and Limpopo departments had addressed their prior year audit findings relating to predetermined objectives.

All 10 departments had findings on non-compliance. Most of the non-compliance related to expenditure management (8 departments), transfers and subsidies (7 departments), human resource management (7 departments), procurement management (7 departments), and material corrections to the annual financial statements (4 departments). The non-compliance is as a result of lack of oversight by management as well as inadequate discipline to monitor and review daily activities.

Findings relevant to key service delivery aspects in the social development sector

For the year under review, the focus was on the following service delivery aspects within the social development sector:

- Management of transfers to non-profit organisations (NPOs)
- Social sector expanded works programme incentive grant for provinces (EPWP)
- Monitoring of service delivery programmes:
- Care and service to older persons
- Child care and protection services
- Crime prevention and support
- HIV and Aids
- Availability of social service professionals to communities.

Management of transfers to non-profit organisations (NPOs)

Service delivery objective: To determine whether payments to NPOs were made in accordance with the requirements of the PFMA, Treasury Regulations and service contracts with the NPOs. Furthermore, to determine whether the departments have processes in place to monitor expenditure and progress made by NPOs in delivering social services.

Table 51: Findings on management of transfers to non-profit organisations

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	The department did not have adequate capacity in place to manage the related NPO function (EC, FS,LP,MP,NC,NW,WC)	7	6	6
2	Based on the site visits to the NPOs, the building does not have a first aid kit/sanitation and water is not in order (EC,LP,MP,NC,NW,WC)	6	*	*
3	Payments made to NPO before contract signed (GP,KZN,MP,NC,NW)	5	4	5
4	All payments to NPO not made according to service contract in place (FS,GPLP,MP,NW)	5	4	4
5	Registered NPOs did not in all instances submit financial statements (FS,GP,KZN,LP,NW)	5	4	4

*Audit procedures not performed

Conclusion: Significant weaknesses were identified in the provincial systems and associated internal controls over NPOs to ensure appropriate expenditure by NPOs as well as delivery of social services.

Departments should put measures in place to ensure compliance with policies and procedures regarding the transfer of funds to NPOs.

Social sector expanded public works programme incentive grant for provinces

Service delivery objective: To determine whether the conditions of the social EPWP grant were complied with and whether the department fulfilled its responsibilities in terms of the DoRA framework.

The Gauteng and Limpopo departments did not submit to the national Department of Public Works a business plan containing targets and budgets for the year under review.

Conclusion: The Gauteng and Limpopo departments do not have proper measures in place to ensure that all relevant information is submitted to the Department of Public Works.

Monitoring of service delivery programmes

Service delivery objective: To determine whether the department monitored the actual service delivery by NPOs against the planned social welfare objectives, indicators and targets for the following programmes:

- Care and services to older persons
- Child care and protection services
- Crime prevention and support; and
- HIV and Aids

Table 52: Findings on monitoring of service delivery programmes

No.	Findings	Number of provinces affected	
		2011-12	2010-11
1	Care and services to older persons		
	Performance results could not be verified - number of older persons accessing community-based care and support services (FS,GP,KZN,NW,WC)	5	6
	Performance results could not be verified - number of older persons abused (EC,FS,NW,WC)	4	*
	Performance results cannot be verified - number of older persons in active ageing programmes (FS,GP,NW,WC)	4	*
2	Child care and protection services		*
	Performance results could not be verified - number of children participating in ECD programme (FS,GP,KZN,NW,WC)	5	5
	Performance results could not be verified - number of children abused (FS,GPNW,WC)	4	6
	Performance results could not be verified - number of children newly placed in foster care (GP,KZN,NW,WC)	4	6
3	Crime prevention and support		
	Performance results could not be verified - number of children in conflict with the law awaiting trial in secure care centres (FS,GP,WC)	3	*
	Performance results could not be verified - number of children in conflict with the law assessed (FS,KZN,WC)	3	*

No.	Findings	Number of provinces affected	
		2011-12	2010-11
4	HIV and AIDS		
	Performance results could not be verified - number of orphans and other children made vulnerable by HIV and Aids receiving services (FS,KZN,NW,WC)	4	5
	Performance results could not be verified - Number of jobs in HCBC created through EPWP (FS,GP,NW,WC)	4	5

**Audit procedures not performed*

Conclusion: Provincial departments do not have proper measures in place to monitor the actual service delivery by NPOs regarding critical social services. Sufficient and appropriate audit evidence could not be verified for audit purposes in most of the affected provinces.

Departments should put proper measures in place to assist the NPOs in delivering services.

Availability of social service professionals to communities

Service delivery objective: To determine whether the department has a strategy in place to ensure that sufficient social service professionals are available to the communities in the province and that these professionals have adequate skills and competencies to achieve the strategic objective of the department.

Table 53: Findings on availability of social service professionals to communities

No.	Findings	Number of provinces affected	
		2011-12	2010-11
1	A vacancy rate of more than 10% identified in social services programmes within the department (FS,KZN,LP,WC)	4	8
2	Social service professional norms and standards not applied in planning for social service professionals (EC,FS,MP)	3	*

*Audit procedures not performed

Conclusion: Departments should put measures in place to address the vacancy rate in the social service programmes to ensure that the necessary social services are available to the communities.

Commitments by national leadership

The national department has analysed the sector outcomes and developed a preliminary sector audit action plan which we will coordinate across the sector and monitor progress on a quarterly basis. Progress on the implementation of actions will be presented by the heads of Social Development on a periodic basis.

The sector is addressing the issues of capacity through the scholarship programme for increasing the number of social workers in the field. There are currently about 4 700 social workers who have already qualified. However, the economic decline and provincial budget pressures have resulted in budget cuts and as a result the sector is facing challenges in absorbing the qualified graduates. In this regard the sector is having ongoing discussions with National Treasury and the provincial treasuries to be able to absorb the graduates.

Regarding the NPO management, the sector has developed in the short term a uniform guideline for the transfer of funds to NPOs and is also enforcing the service level agreement for funded NPOs. In the long term, the sector is planning to increase the capacity of its monitoring and evaluation units as well as explore an NPO management system that will ensure an effective and efficient monitoring

and evaluation process.

The social development sector, through the special projects office at the national office, has been assigned the leadership role to oversee the implementation of the extended public works grant. The office will coordinate with the provinces to monitor and guide the implementation of the extended public works requirements.

Regarding compliance with laws and regulations and in addition to the audit action plan, the sector is planning a comprehensive review of the state of welfare service in the country, including the review of the White Paper on welfare services. This will also inform the sector of the level of compliance with laws and regulations that govern it.

PART FOUR:

HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES



AUDITOR - GENERAL
SOUTH AFRICA

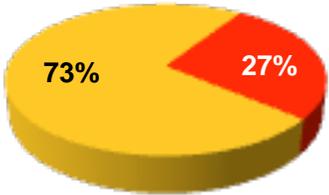


PART 4: HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES

PART 4

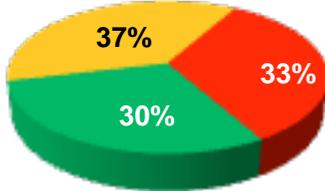
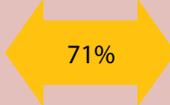
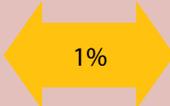
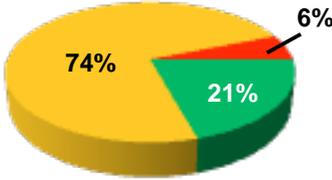
HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES

This section of the general report is a high-level summary of the 2011-12 audit outcomes of the nine provinces. The table below provides a summary of the progress made by provinces towards obtaining clean audit reports. Key aspects of the 2011-12 audit outcomes of individual provinces are presented in the balance of section 4.

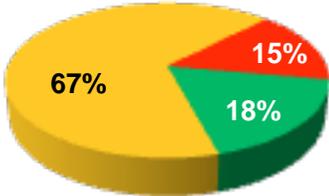
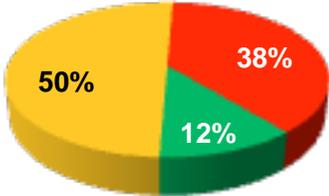
Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	Eastern Cape	None of the 26 auditees reported on received clean audits. The overall audit outcomes in the province show a marginal regression (three auditees), with only one auditee improving from qualified in 2010-11 to financially unqualified with findings.	← 1%		← 72%	← 100%

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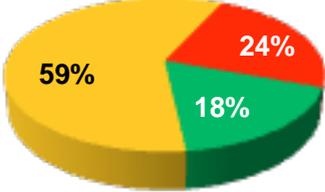
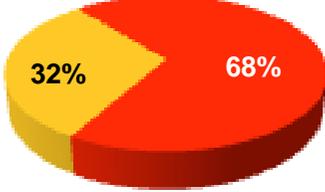


Provinces	Summary of movement in audit outcomes	Progress towards financially unqualified			
		Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
 Free State	<p>Clean audit reports: Office of the Premier, provincial legislature, the provincial treasury, James Robertson Bursary Fund, Nature Conservation Trust Fund, Private Patients Fund Trust, Recreation Fund Trust and Thomas Robertson Bursary Fund</p> <p>One department successfully dealt with its prior year qualification and moved to an unqualified opinion with findings. There were two further improvements, where prior year qualifications on assets were addressed to move to unqualified opinions with findings. The only regression for the province was the Department of Human Settlements that received a qualified audit opinion.</p>	 8%		 50%	 71%
 Gauteng	<p>Clean audit reports: Cradle of Humankind Trading Entity, Dinokeng World Heritage Trading Entity, Gauteng Partnership Fund, Greater Newtown Development Company, AIDC Development Centre, The Innovation Hub and the Industrial Development Zone</p> <p>The overall audit outcomes have regressed in the current year (eight auditees), with only six auditees improving - five being financially unqualified with findings in 2010-11 and one auditee that was qualified. Seven auditees that received clean audit opinions in the previous year regressed to financially unqualified with findings.</p>	 1%		 29%	 79%

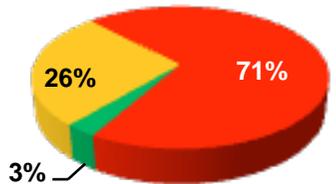
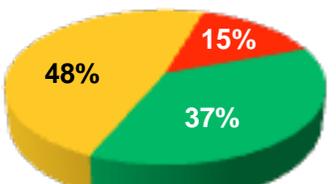
Legend (Movements) Improvement ↑ Unchanged ↔ Regression ↓

Provinces	Summary of movement in audit outcomes	Progress towards financially unqualified			
		Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
 KwaZulu-Natal	<p>Clean audit reports: Arts and Culture, the provincial treasury, Amafa Akwazulu-Natali, KZN Political Parties' Fund, Natal Joint Municipal Pension Fund (Provident), Natal Joint Municipal Pension Fund (Retirement) and the Natal Joint Municipal Pension Fund (Superannuation)</p> <p>The overall audit outcomes have stagnated in the current year, with only two auditees improving. Five regressed, with three departments regressing to financially unqualified with findings in 2010-11 after receiving a clean audit report in the previous year.</p>	 3%	 67% 18% 15%	 31%	 71%
 Limpopo	<p>Clean audit reports: Limpopo Housing Board, Mutale Agric Estate, Centennial Trading Company 145 and the Mukumbani Tea Estate</p> <p>The results reflect seven improvements while there were nine regressions. The provincial administration is moving further away from the desired clean audit outcomes. Five departments of the Limpopo provincial government (including the Provincial Treasury) were placed under administration during the financial year under review.</p>	 7%	 50% 38% 12%	 55%	 89%

Legend (Movements) Improvement ↑ Unchanged ↔ Regression ↓

Provinces	Summary of movement in audit outcomes	Progress towards financially unqualified			
		Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
 Mpumalanga	<p>Clean audit reports: Finance, Office of the Premier and the Mpumalanga Gambling Board</p> <p>Overall there was a regression in the audit outcomes. Only one department improved, while three departments regressed. The provincial legislature regressed from being clean in 2010-11 to qualified in the year under review.</p>	 13%		 53%	 76%
 Northern Cape	<p>None of the 22 audits reported on received clean audit reports. There was an overall regression in the audit outcomes. Two auditees progressed to financially unqualified audits with findings on predetermined objectives and/or compliance, while one auditee progressed to a qualified opinion. Four auditees regressed from financially unqualified to qualified.</p>	 8%		 65%	 100%

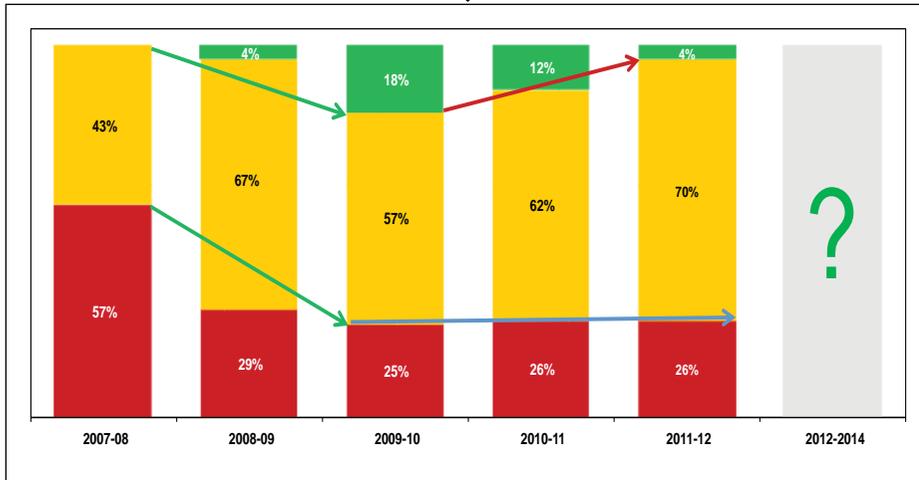
Legend (Movements) Improvement ↑ Unchanged ↔ Regression ↓

Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	North West	<p>Clean audit reports: North West Gambling Board</p> <p>One department regressed from being financially unqualified to qualified and one public entity regressed from qualified to a disclaimer. Qualified or disclaimed audits represent in total 91% of the provincial budget, including all five of the largest departments. The audits of 14 auditees have not yet been finalised.</p>				
	Western Cape	<p>Clean audit reports: Environmental Affairs and Development Planning, Community Safety, Destination Marketing Organisation, provincial treasury, provincial legislature, Cape Medical Depot, Western Cape Gambling and Racing Board, The Heritage Western Cape, Western Cape Cultural Commission and the Western Cape Language Committee</p> <p>Eight auditees progressed to clean audits while five auditees regressed. Only two auditees (Education and the South Africa Heritage Resources Agency) were financially qualified in the year under review.</p>				

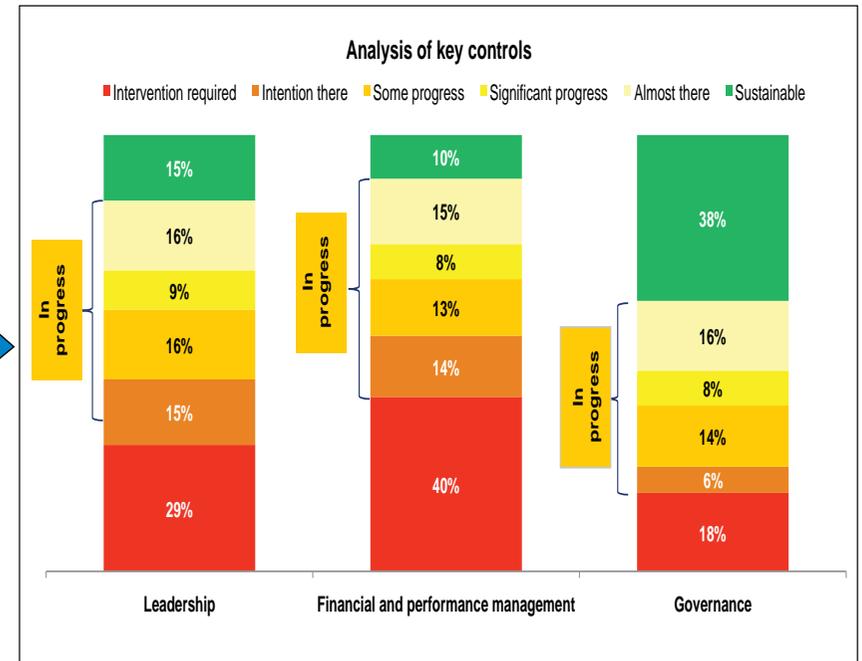
Legend (Movements) Improvement  Unchanged  Regression 



Stagnation of outcomes in the province is of great concern. Improvement is slow and nullified by regressions



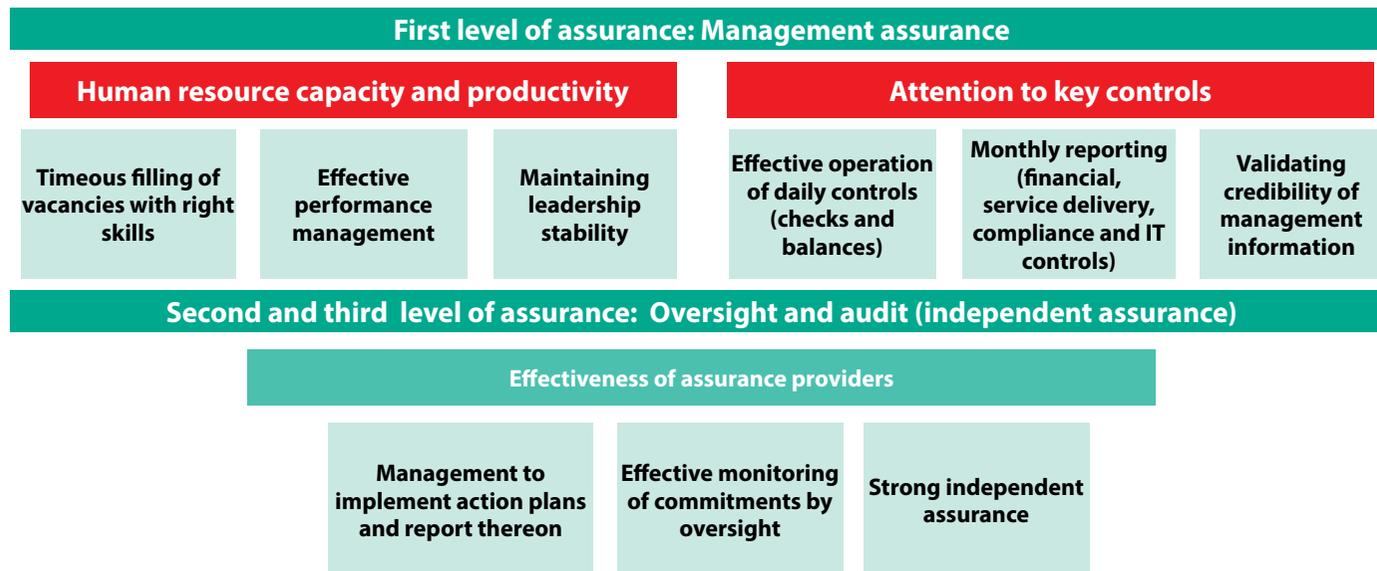
A key responsibility of leadership is to implement and maintain effective and efficient systems. Of concern is the slow movement towards sustainable implementation of internal control



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Root causes and interventions required to sustain clean administration



4.1 AUDIT OUTCOMES OF THE EASTERN CAPE PROVINCE

At a point where, based on the previous year's commitments, there was an expectation of an improvement towards clean administration for the **Eastern Cape Province**, these outcomes reflect a regression compared to previous years.

My message for the 2010-11 financial period confirmed the following commitments: *The leadership across the board pledged that the basic principles of monthly reporting, validation of reported information and constant monitoring would be intensified. To give effect to these commitments, key positions will need to be filled, or remain staffed, with personnel who possess the required skills. In addition, the provincial treasury will play a coordinating role with an emphasis on supply chain management, service delivery reporting, Human resource management and information technology management. To sustain these, all committees of the legislature should collaborate with members of the executive council, heads of department and Audit committees to quarterly provide assurance on the status of internal controls at the level of root causes. As a final step, the premier and the legislature would review progress quarterly and take appropriate action.*

Very little progress has been made in strengthening **internal controls** in the province. This is especially evident in the fact that most of the financial statements reported on still required **material adjustments** before finalisation. To illustrate, 81% of the audit outcomes would have been either qualified or disclaimed had the adjustments not been effected as part of the audit process. Nine departments and nine entities did not make sufficient progress towards addressing the requirements of **PDO reporting**, while **SCM** findings were reported at 18 auditees (2011: 18). The number of **HR** findings has increased since the previous year. In particular, findings relating to Appointment processes, management of vacancies as well as HR planning and organisation have increased. **IT controls** were not adequately designed and/or implemented at most of the departments to ensure the integrity, security and availability of financial and performance information

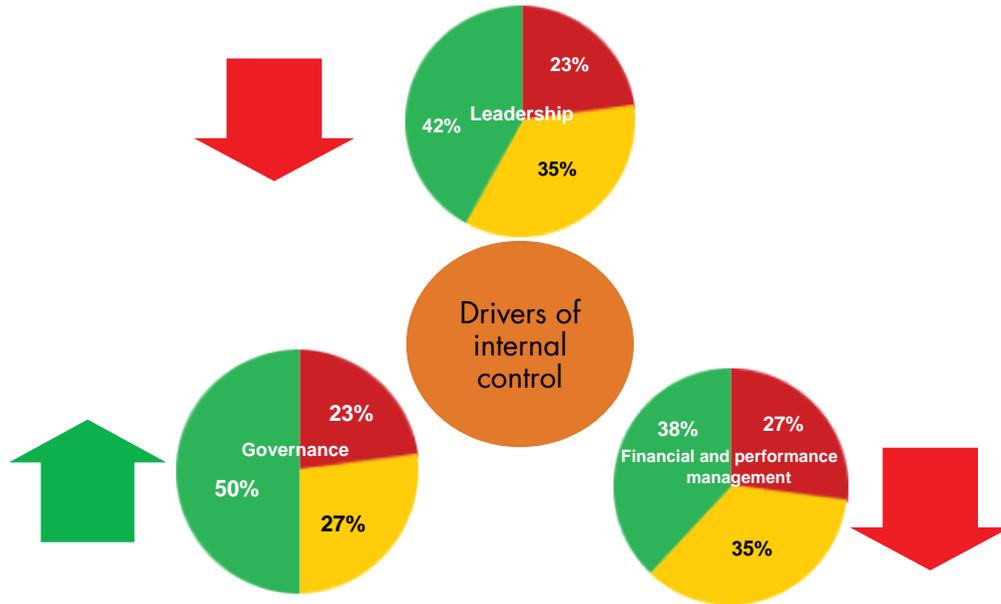
At the heart of the regression in audit outcomes is a clear pattern reflecting the slow and very reactive manner in which the audit messages as contained in the prior year's general report were addressed and as reinforced in the quarterly engagements following that report. This happened despite the efforts of my

audit teams to inspire the key role players to action these messages and related commitments, both at the level of individual departments and entities, and at the level of the provincial cabinet and coordinating departments.

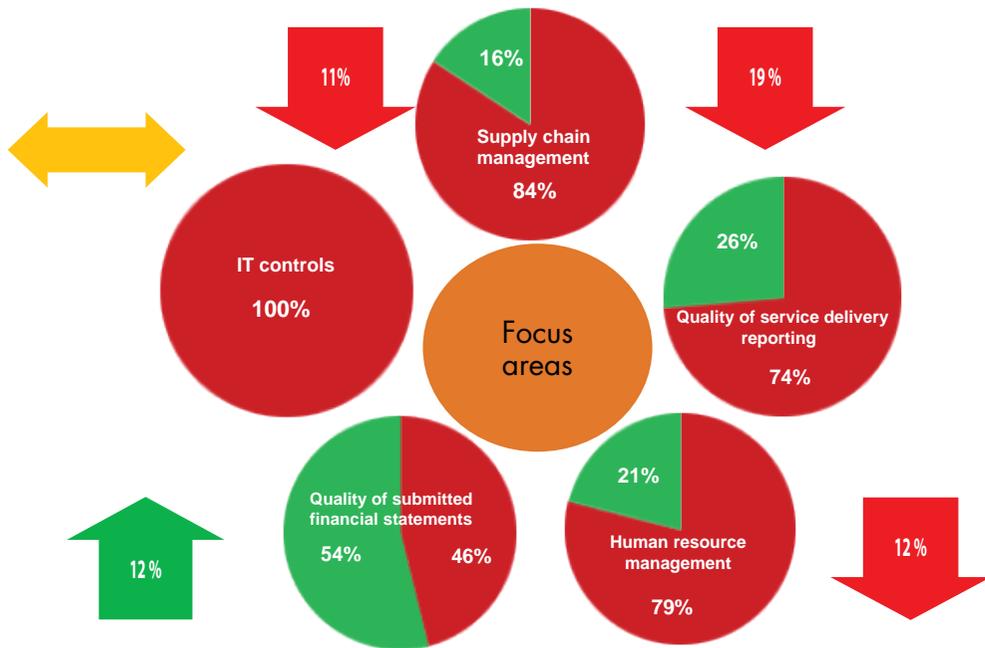
Over and above these internal control weaknesses, the following key statistics were reported in the province: 86% of departments and 60% of public entities only achieved 80% or fewer of their service delivery targets, while at 50% of the departments and public entities expenditure exceeded revenue. In addition, 64% of the departments incurred liabilities in excess of available funds at year-end.

The Department of Social Development stands out as a single example to other departments and entities of how enthusiastic leadership as well as working in harmony and with sincerity can effect a move towards clean administration in a focused and sustainable way. I have also noted the public accounts committee's efforts to catch up and intensify its work.

Analysis of key controls



Key focus area assessment



Root causes

First level of assurance: Management assurance

Human resources capacity and productivity

Timeous filling of vacancies with right skills

Effective performance management

Maintaining leadership stability

Attention to key controls

Effective operation of daily controls (checks and balances)

Monthly reporting (Financial, service delivery, compliance and IT controls)

Validating credibility of management information

Second and third level of assurance: Oversight and audit (independent assurance)

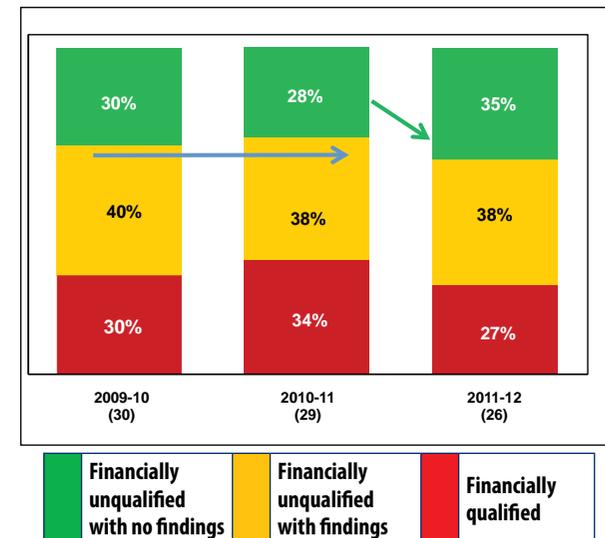
Effectiveness of assurance providers

Management to implement action plans and report thereon

Effective monitoring of commitments by oversight

Strong independent assurance

Audit outcomes



4.2 AUDIT OUTCOMES OF THE FREE STATE PROVINCE

The audit outcomes for the **Free State Province** show a year-on-year steady improvement towards unqualified audit opinions. It is commendable that three of the leading departments, namely the Office of the Premier, Free State Provincial Legislature and the provincial treasury received clean audit opinions, while the Department of Cooperative Governance and Traditional Affairs successfully dealt with its prior year qualification and moved to an unqualified opinion with findings. The other two improvements are the departments of Education and Agriculture and Rural Development which addressed their prior year qualifications on assets to move to unqualified opinions with findings. The only regression for the province was the Department of Human Settlements which received a qualified audit opinion.

The slow progress towards clean opinions can be mainly attributed to a lack of stability in leadership positions, including that of chief financial officer; the inadequate implementation and monitoring of basic key controls to ensure that both financial and non-financial reports are reliable; and the lack of consequences for poor performance or transgressions, especially in light of the continuous increase in irregular expenditure.

The province has made little progress in implementing **internal controls**, which raises a concern regarding the sustainability of the current outcomes. Although **the quality of financial information submitted for audit improved slightly**, very little was done to improve the areas of **reporting on PDOs, HR management** and **information technology**. The controls in the areas of **supply chain management regressed substantially**.

In the previous year the executives committed to meet with the Auditor-General of South Africa for 60 minutes every quarter so as to work towards improving the audit outcomes. This commitment was honoured to a certain extent but most of the engagements happened towards the end of the audit, which resulted in the departments putting an effort into improving the audit outcomes during the last two weeks of the audits. Had the commitment to meet with the AGSA every quarter been honoured the quality of the interactions would have been higher and would have allowed the executives to pro-actively address the issues with

sustainable solutions.

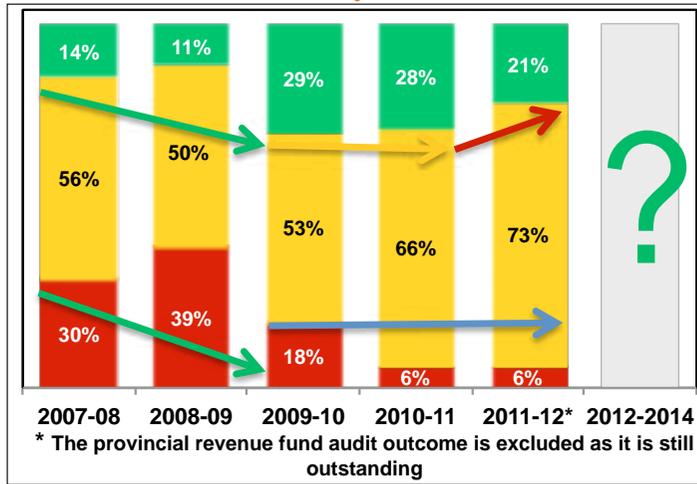
The appointment of cluster Audit committees yielded positive results in promoting their effectiveness; however, improved interaction between the Audit committees and the political leadership can contribute to better and sustained audit outcomes. The Internal audit units are equally important as management has to react to the findings of the Internal audit to strengthen the implementation of internal controls.

The provincial public accounts committee did not table any resolutions during the financial year, which contributed to the overall lack of consequences in the province for not addressing findings. The portfolio committees did not function effectively during the financial year and had no impact towards improving audit outcomes.

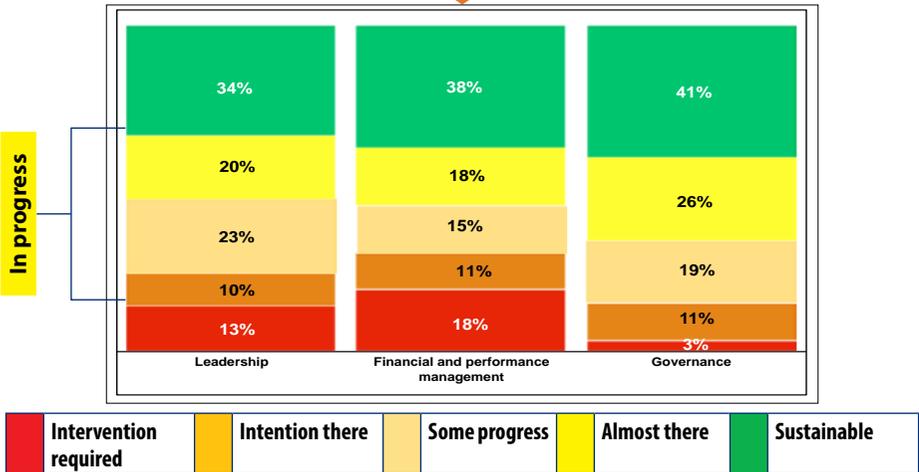
During the roadshow the Premier renewed his commitment that the executive and provincial leadership would honour their undertaking to meet quarterly with the Auditor-General of South Africa, to fill all critical vacancies and to ensure that all performance agreements are in place and continuously monitored. Furthermore, accounting officers must report monthly to the provincial treasury on the progress of investigations into irregular and fruitless and wasteful expenditure.

The AGSA leadership will continue to improve the quality and impact of their interactions and provide insights into the root causes of the status of internal controls.

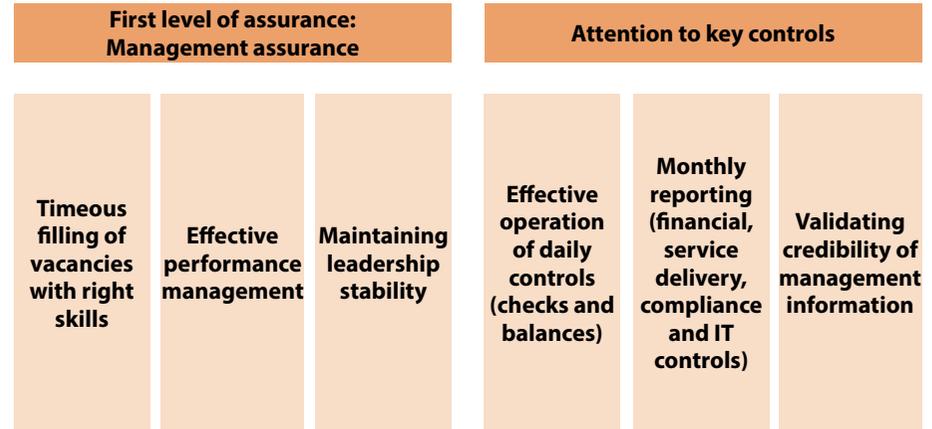
Stagnant nature of outcomes in the province is of great concern. Improvement is slow and nullified by regression



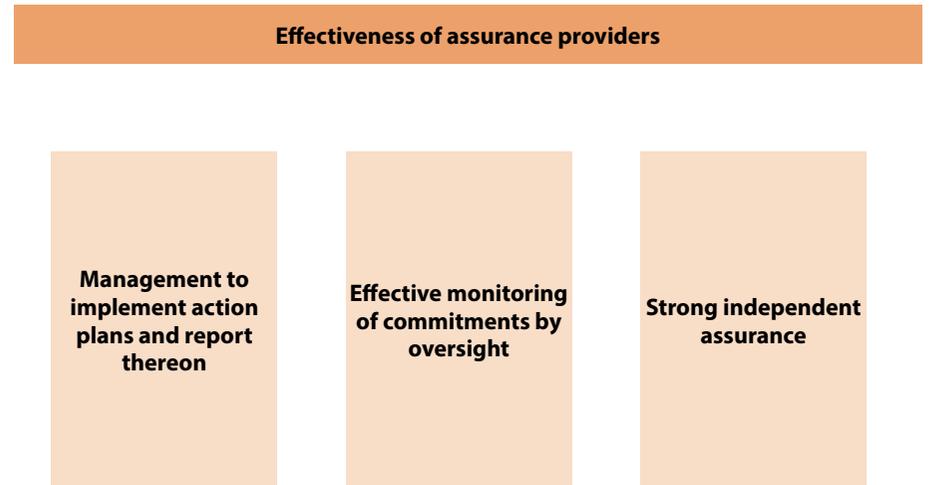
A key responsibility of leadership is to implement and maintain effective and efficient systems of internal control. Of concern is the slow movement towards sustainable implementation of internal control



First level of assurance: Management assurance



Second and third levels of assurance: Oversight and audit (independent assurance)



4.3 AUDIT OUTCOMES OF GAUTENG PROVINCE

The audit outcomes for Gauteng have regressed in the current year. The province has achieved seven clean audit outcomes for public entities compared to nine clean audit outcomes in 2010-11. This included two departments. Seventy-three per cent (73%) of audit outcomes are financially unqualified with findings on compliance with laws and regulations and/or predetermined objectives.

The drivers of **internal control** for auditees in the province showed an overall regression. The audit outcomes of 45% of the auditees would have been qualified had the **adjustments to the financial statements** not been effected as part of the audit process, which is not sustainable. Other non-compliance with laws and regulations included **contravention of SCM regulations** and payments not being made within 30 days. Although there were no adverse or disclaimers of opinion, the Department of Health and one entity received a qualified audit opinion.

There has, however, been a marginal improvement in addressing prior year findings on **PDOs**, the most prominent findings being that reported performance against predetermined objectives is not useful and/or not reliable. In order to improve this situation Internal audit and Audit committees' should intensify their review of the annual performance reports. Overall, there has been a reduction in the number of findings on **HR management** ; however, a greater effort is still needed to further eradicate these findings since human resources are the driving force of the activities and control processes. No progress was made in addressing exposure in the **IT** environment reported at auditees in the prior year.

Following the 2010-11 audit outcomes, the provincial leadership committed to the following: 1) the preparation of complete monthly financial statements, accompanied by a review and validation process; 2) the coordination of guidance and support on IT, SCM, PDOs and HR management by the provincial treasury; 3) the extension of the quarterly key control discussions to include portfolio committee chairpersons and Internal audit; and 4) the continued leadership influence to ensure approval of the organisational structures to ensure that critical positions are filled timeously.

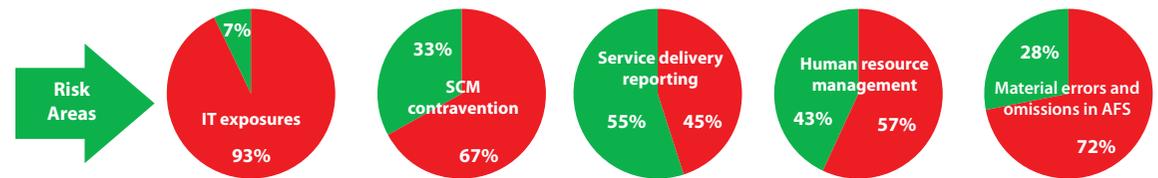
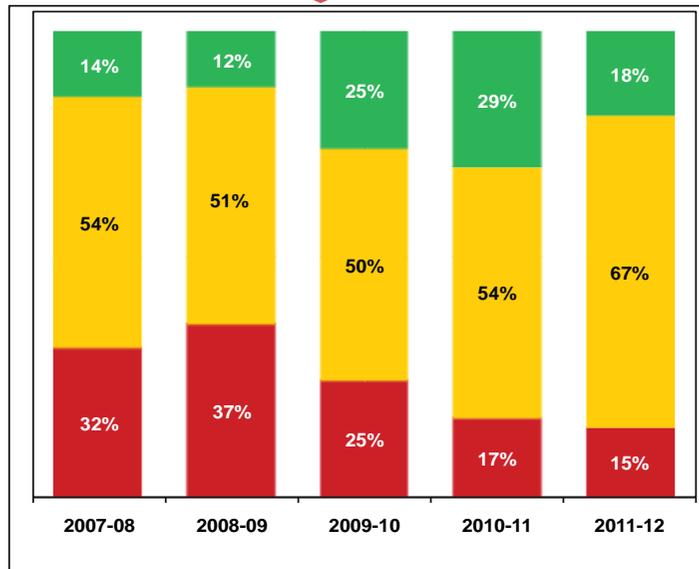
Other than the implementation of PDO commitments, which yielded an improved

outcome, the provincial executive commitments made and action plans formulated in the prior year were not fully implemented, notably the preparation of monthly financial statements and limited progress on the IT, SCM and HR management commitments. Not all MECs took ownership of quarterly key controls assessments through engagement with the audit and portfolio committee chairpersons. Furthermore, not all the quarterly key control discussions between the AGSA and MECs took place due to unavailability of some MECs. Although the provincial legislature continued to enhance coordination between the provincial public accounts committee and the portfolio committees during the year, the impact on the outcomes should be apparent in the coming financial year.

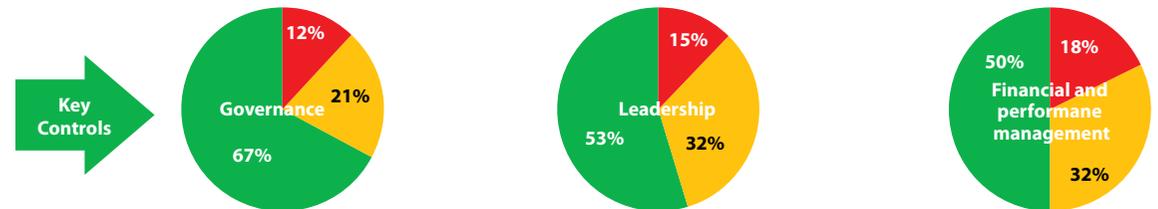
The political and administrative leadership must take ownership and prioritise the implementation of commitments. Reliable structures and systems should be put in place to enable the preparation of a set of accurate monthly financial statements, reports on predetermined objectives and a compliance checklist as a mechanism to curb instances of non-compliance. The provincial leadership should ensure that positions are filled with suitably skilled staff whose performance is adequately monitored and that there are consequences for transgressions and poor performance.

The AGSA will continue to interact on a quarterly basis with the provincial executive, Audit committees and portfolio committees on the implementation and effectiveness of key controls and progress made in implementing commitments to achieve clean administration.

The province was unable to build momentum on the increase in the clean audit outcomes reported over the past three financial years



Limited progress in addressing key controls



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Way forward

First level of assurance: Management assurance

Human resource capacity and productivity

- Timeous filling of vacancies with right skills
- Effective performance management
- Maintaining leadership stability

Attention to key controls

- Effective operation of daily controls (checks and balances)
- Monthly reporting (financial, service delivery, compliance and IT controls)
- Validating credibility of management information

Second and third levels of assurance: Oversight and audit (independent assurance)

Effectiveness of assurance providers

- Management to implement action plans and report thereon
- Effective monitoring of commitments by oversight
- Strong independent assurance

4.4 AUDIT OUTCOMES OF KWAZULU-NATAL

KwaZulu-Natal was unable to build momentum towards the clean audit outcomes previously reported due to provincial efforts to respond to prior year commitments revealing additional risks that first needed attention in order to sustain the internal control environment and accountability. With a greater effort in this direction the 35 (69%) unqualified reports can be converted to clean audits.

The overall regression in the drivers of **internal control** in the province resulted in only 11 (28%) auditees submitting financial statements that required no **material adjustments**. Further, there has been a regression in **PDO** findings for departments as 50% had findings, compared to 31% in 2010-11. As regards **supply chain management**, there has been a reduction in findings with regard to uncompetitive or unfair procurement processes. However, internal control deficiencies resulted in an increase in findings pertaining to inadequate contract management. The overall **HR management** improved. **Information technology** weaknesses reported in the prior year have not been addressed by auditees in the province, except partially by provincial treasury.

My message for the 2010-11 financial period confirmed the following commitments: *Leadership across the board pledged intensified regular monthly reporting, validation of reported financial, service delivery and compliance information and constant monitoring with specific emphasis on a vigorous and proactive approach to eliminate irregular expenditure and to ensure effective Internal audits and Audit committees to continuously verify the credibility of internal controls supporting monthly reports. To give effect to these commitments, key vacant positions will need to be filled with suitably skilled persons. In addition, the provincial treasury would play a coordinating role in monitoring, providing technical support, compiling manuals and providing training. To sustain these, the legislature undertook to strengthen its oversight collaboration between portfolio committees, the public accounts committee and MECs as well as regular interactions with HoDs and CEOs of public entities to provide quarterly assurance on the status of internal controls at the level of root causes. Furthermore, the Premier and the executive would review progress quarterly and ensure the adequacy provided by coordinating role players.*

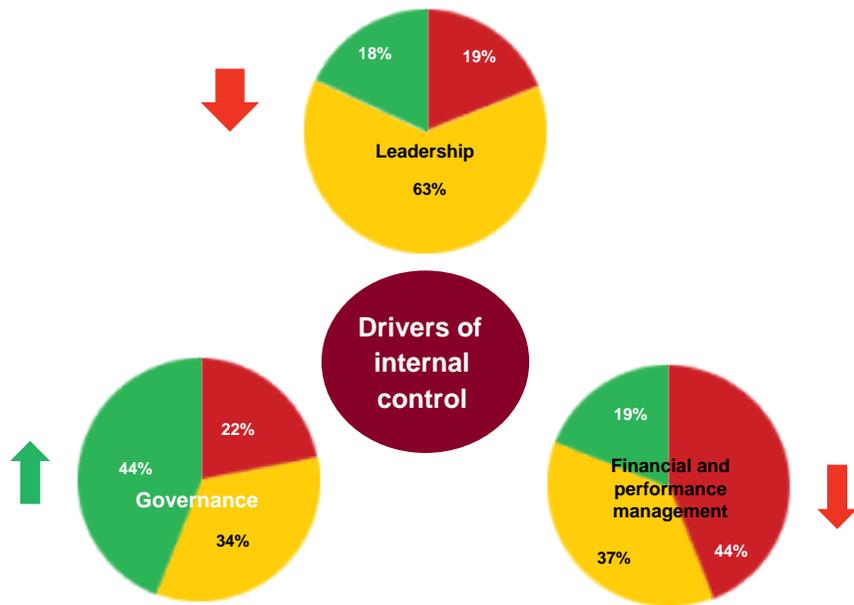
We are encouraged by the enthusiastic willingness of the leadership of the

province to engage on the risks and status of internal controls that were revealed through the contributions made by the provincial treasury, Internal audit, Audit committees and the AGSA during the risk evaluation process. Now that most of the significant risks have been identified, leadership should urgently revive the implementation of the remaining clearly defined commitments made in the prior year. These relate specifically to the stability of human resource capacity and credibility of reported information.

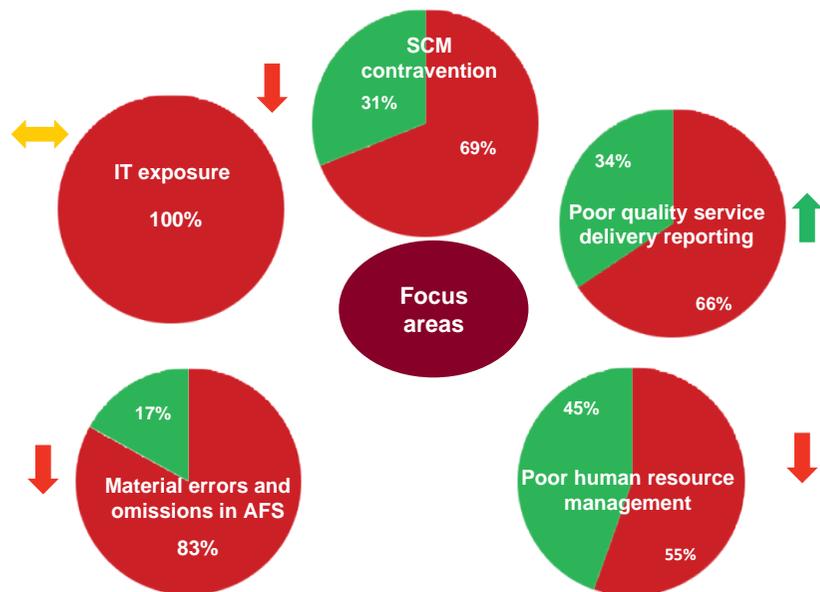
The credibility of reports would also improve the ability of the province to effectively manage service delivery and cash flow results. In this regard the province would be better positioned to respond to the reported situation where 50% of departments and 31% of public entities achieved fewer than 80% of their service delivery targets. In addition, six departments whose budgets collectively represent 58% of the provincial budget incurred liabilities in excess of available budgeted funds.

As part of our contribution towards clean administration, the leadership and all levels of the AGSA staff have committed to enhance and intensify leadership visibility and provide proactive insights into the root causes of the status of internal controls with clarity and simplicity. Dialogue will also include matters that are not being resolved in a timely manner, together with accountability and consequences for non-performance. The highly intensified interactions with and commitment of all levels of staff will indeed be characteristics associated with the AGSA in KwaZulu-Natal, which will contribute to positive sustainable outcomes in our province.

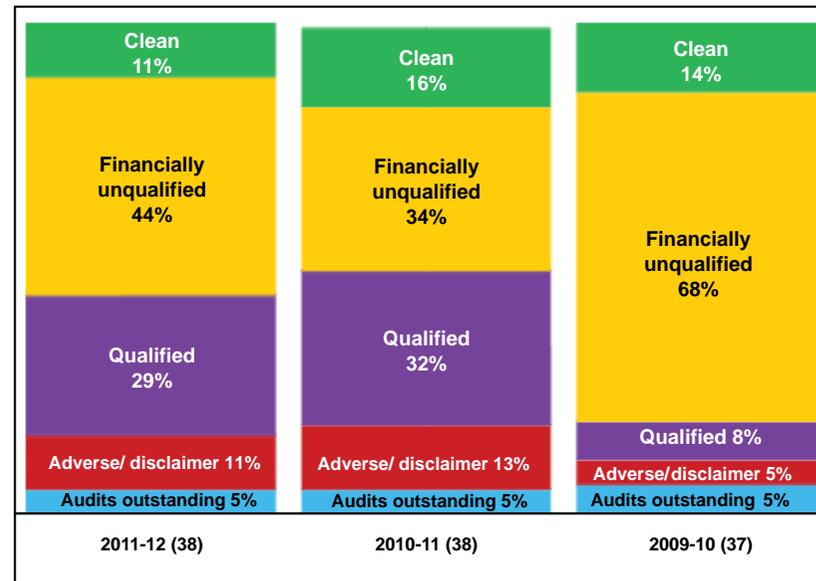
Analysis of key controls



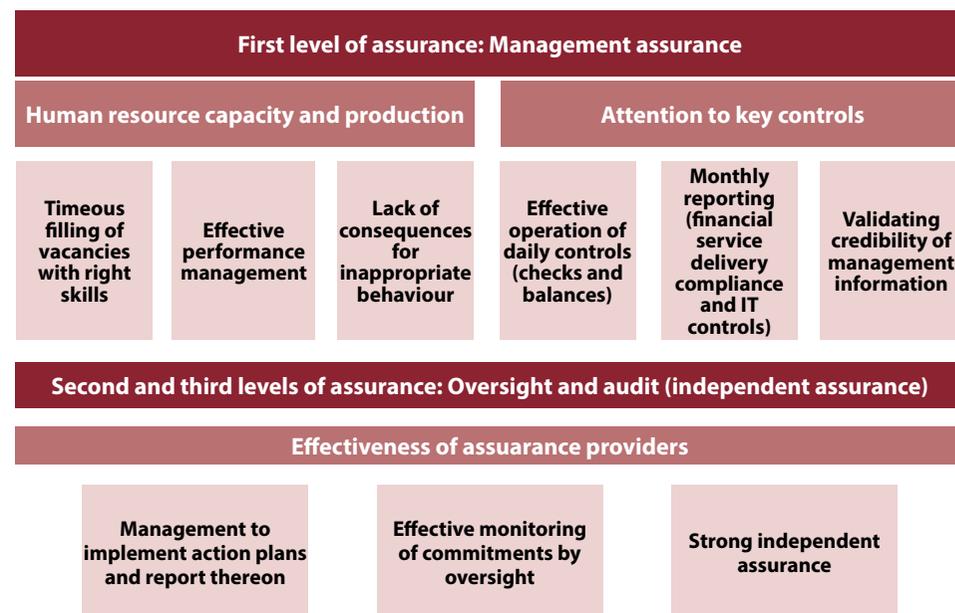
Key focus assessment



Audit outcomes



Audit outcomes



4.5 AUDIT OUTCOMES OF THE LIMPOPO PROVINCE

The results of the **Limpopo province** reflect an overall regression, which means that the provincial administration is moving further away from the desired clean audit outcomes.

Of the three **drivers of internal control**, only governance improved since the previous financial year. Leadership and Financial and performance management showed an overall regression. Only two departments and four public entities submitted financial statements that required no **material adjustments**, compared to two departments and nine public entities in the previous year. Seven auditees maintained their status of having no **PDO** findings. Eighteen auditees remained unchanged with findings. Four auditees improved to no PDO findings while three auditees regressed. Ten auditees had no findings on **supply chain management** for the year under review, seven of which maintained their no finding status, while four had addressed their findings of the previous year. Six auditees that previously had no SCM findings attracted findings on SCM. Three departments maintained their no finding status on **HR management**. Six departments had repeat findings on HR management, while four departments had new findings. Out of 22 public entities, eight had findings on HR management. Management undertook to implement recommendations made during the previous year's audit regarding the management of **information technology**. While some commitments have been resolved, the majority have been either partially resolved or not resolved at all.

My message from the 2010-11 financial report confirmed the following commitments:

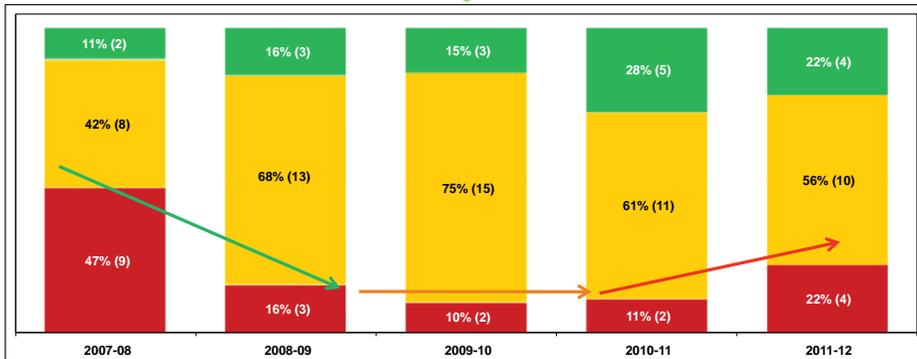
The political leadership committed to address the critical challenges that still exist with regard to skills and capacity in finance units, specifically at CFO level, and committed to address this by March 2012. The executive authority and oversight structures have undertaken to perform quarterly monitoring and to evaluate the status of key controls and commitments in order to achieve sustainable clean audit outcomes.

The process of addressing the skills in the various finance sections was started by the provincial treasury but deferred with a view to focusing on immediate cash flow recovery plan by the national intervention team. In October 2012 this

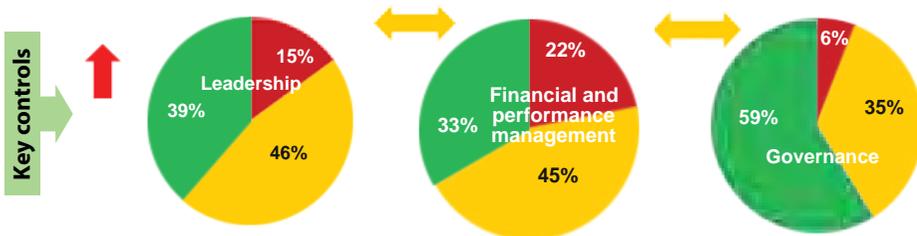
process was resumed with a new commitment to complete it by 31 March 2013. The uncoordinated working relationship between the intervention team and the provincial leadership had a negative impact on the effectiveness of quarterly monitoring and evaluation of the stability and sustainability of internal controls, hence the focus on accountability and consequences for poor performance by the executive and the legislature was neglected until the second quarter of the 2012-13 financial year. This is despite the numerous attempts by the AGSA to engage with the executive, the legislature and the intervention team regarding progress made on the 2010-11 commitments.

The intervention had a positive effect on reducing unauthorised expenditure. However, a lot still needs to be done to respond to the 62% of departments that still have commitments/liabilities in excess of budgeted funds and the departments that are still underspending on capital budgets and conditional grants by 77% and 38%, respectively. As a result, the big departments (that constitute more than 80% of the budget) did not achieve their predetermined objectives.

The province was unable to build momentum on the increase in the clean audit outcomes reported over the past three financial years



Limited progress in addressing key controls



Root causes and interventions required to sustain clean administration

First level of assurance

Human resources capacity and productivity

Attention to key controls

Timeous filling of vacancies with right skills

Effective performance management

Maintaining leadership stability

Effective operation of daily controls (checks and balances)

Monthly reporting (financial, service delivery, compliance and IT controls)

Validating credibility of management information

Second and third levels of assurance: Oversight and audit (independent assurance)

Effectiveness of assurance providers

Management to implement action plans and report thereon

Effective monitoring of commitments by oversight

Strong independent assurance

4.6 AUDIT OUTCOMES OF MPUMALANGA PROVINCE

This year the **Mpumalanga province** showed a regression compared to the previous year. The number of clean audits decreased from five to four, while the number of qualified audits increased from two to four.

Limited progress was made regarding the **drivers of internal control** as evidenced by the prevalence of **PDO findings**, compliance with laws and regulations and **material adjustments to financial statements**. **SCM** findings were reported in the management reports of 13 (76%) of the auditees. Limitations were encountered in the planned audits, while findings on uncompetitive procurement processes increased from 29% of auditees to 65%. As regards **HR management**, inadequate management of vacancies and Acting positions was identified at 71% of the auditees. Performance management remained a concern at 29% of the auditees. Commitments to address weaknesses in **IT management** were not adequately implemented.

My message for the 2010-11 financial period confirmed the following commitments: *The leadership across the board pledged intensified regular monthly reporting, validation of reported financial, service delivery and compliance information and constant monitoring, as well as ensuring highly effective Internal audit units and Audit committees to continuously verify the credibility of internal controls supporting monthly reports. To give effect to these commitments, key vacant positions would need to be filled with staff who possess the required skills. In addition, the provincial treasury would play a coordinating role with the emphasis on supply chain management, service delivery reporting, HR management and IT management. To sustain these efforts, the legislature committed to strengthen its oversight collaboration between portfolio committees, the public accounts committee and members of the executive council as well as regular interactions with heads of department to provide quarterly assurance on the status of internal controls at the level of root causes. Furthermore, the Premier and the executive would review progress quarterly and take appropriate action against non-performance.*

However, the lack of implementation of these clearly defined commitments in a timely manner led to a regression in the audit outcomes in the province. This was despite the efforts of my office to intensity interactions with the leadership

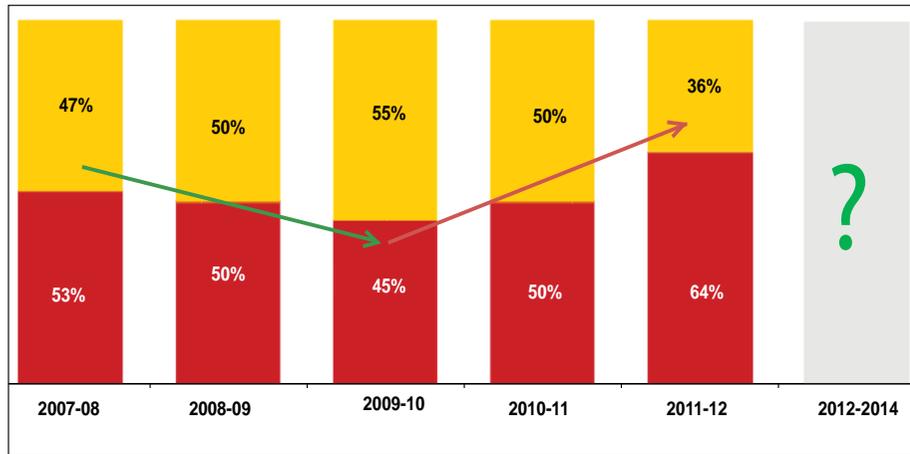
at all levels on a quarterly basis to align the action plans to the findings raised in the management reports and to review and monitor progress towards institutionalising Financial and performance management practices.

The Office of the Premier, the Mpumalanga Provincial Treasury, the Mpumalanga Gambling Board and the Department of Community Safety, Security and Liaison are good examples of what can be achieved if prior year findings are proactively and closely monitored by the leadership in collaboration with Internal auditors and the Audit committee.

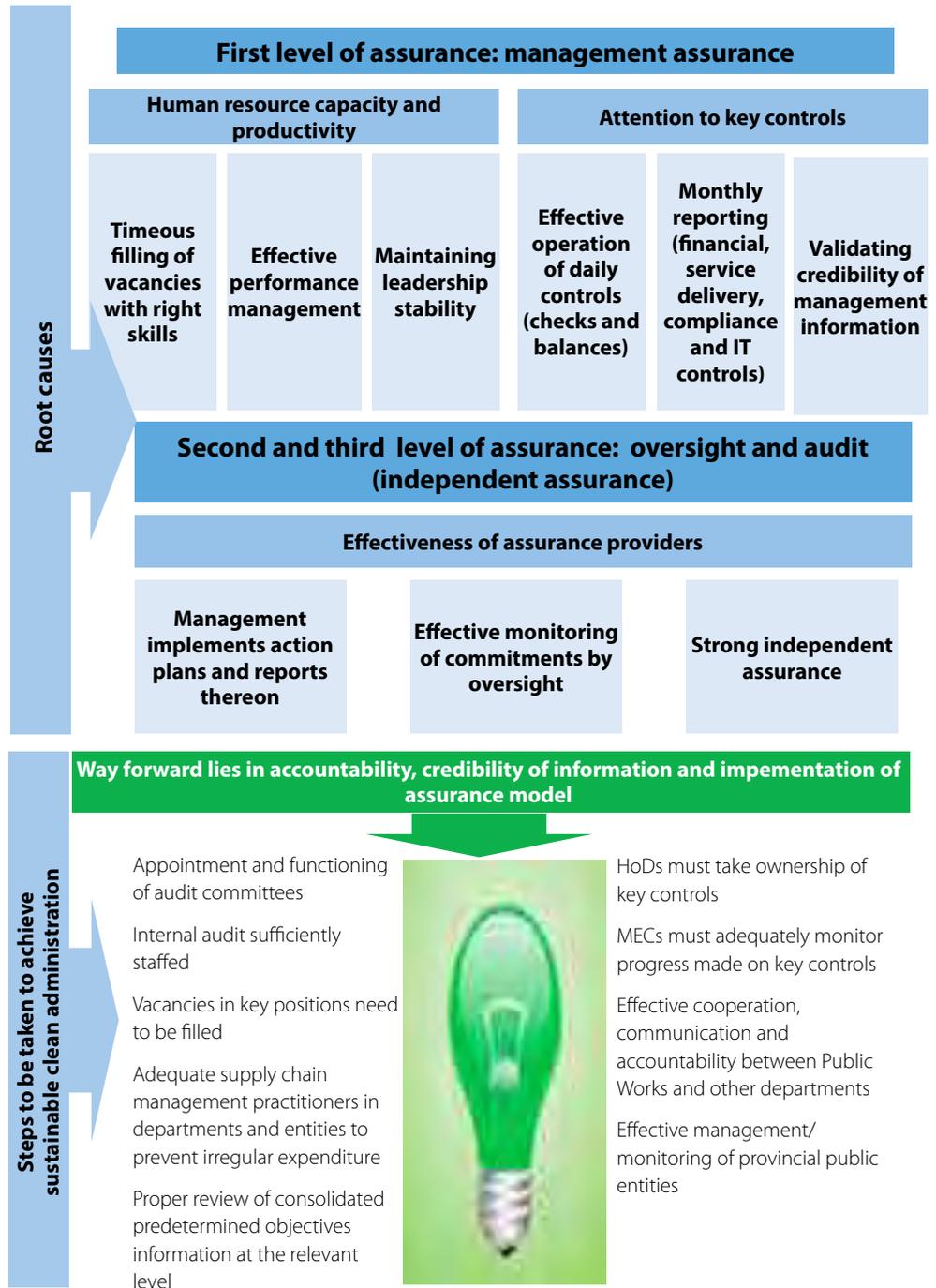
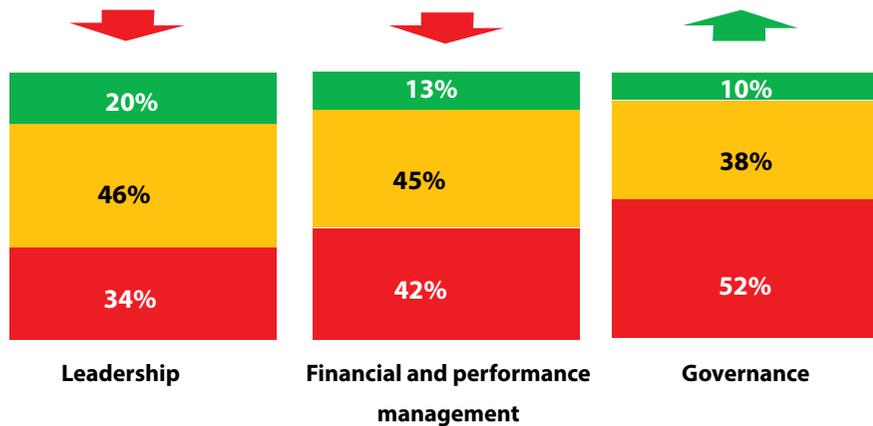
With improved internal controls, the province would also be better positioned to manage the reported cash flow and service delivery results, which indicate that 65% of the auditees had debtor collection ageing of more than 60 days, while 77% of departments and 50% of public entities achieved fewer than 80% of their service delivery targets. On a positive note, the departments that receive the greater portion of the provincial budget were able to confine their liabilities within their available budgeted funds.

As committed in the previous year's general report, my office remains available to support the commitment made in that report and the renewed energy brought about by the provincial director-general to enhance the quality of the action plans aimed at institutionalising the sustainability of internal controls. This would complement the efforts of the legislature, which has started to implement the oversight model.

Regression in provincial audit outcomes is of great concern



A key responsibility of leadership is to implement and maintain effective and efficient systems of internal control. Of concern is the slow movement towards sustainable implementation of internal control (ownership)



4.7 AUDIT OUTCOMES OF THE NORTHERN CAPE

The audit outcomes for the province as a whole have regressed and none of the 13 departments or nine public and other entities reported on received a financially unqualified opinion with no findings (clean audit). The departments of Health and Education constituted 68% of the provincial budget and were disclaimed on their PDOs, which indicates that service delivery within the province is being severely hampered.

All the departments received findings on compliance with laws and regulations. With the exception of one department, the submitted **financial statements for audit purposes required material amendments** to avoid qualification, which indicated that weaknesses in the area of financial management disciplines remain. Of great concern is the lack of progress that has been made in the **status of internal controls**, which resulted in an increase in the number of auditees that had **PDO findings**, while there was **no improvement in the area of supply chain management**. This is evident from the significant increase in irregular expenditure incurred. Weaknesses identified in the management of **information technology** were for the most part only partly addressed. Overall, 36% of the auditees reported on (constituting 14% of the budget) received a financially unqualified audit opinion with findings. The balance of 64% (representing 86% of the budget) had a negative audit outcome.

Over the past few years my office has intensified interactions and stressed that the leadership at all levels should take a keen interest in the administration of their portfolios. The leadership should ensure that basic controls are in place and are monitored with conviction, and that applicable legislation is adhered to in order to sustain good Financial and performance management practices. Despite these focused efforts, it appears that this message has not been taken to heart. In addition, the commitments received from the legislature, provincial executive and provincial treasury relating to the prior year audit outcomes were not implemented. Unfortunately this creates the impression that the province does not 'walk the talk' when it comes to implementing the commitments required to address its audit outcomes and that the current status quo has been accepted as the norm for the province. Progress has been hampered by a lack of commitment to change, the matters dealt with during the interactions not being viewed seriously and the political executive leadership not consistently making themselves available for quarterly key control interactions. We are also concerned that the engagements at executive level do not appear to filter through to and trigger appropriate action from all levels in the organisations under their leadership. As the AGSA, we will continue to sharpen our messages to trigger the desired actions from the provincial leadership to drive the

province towards the goal of clean audits in 2014.

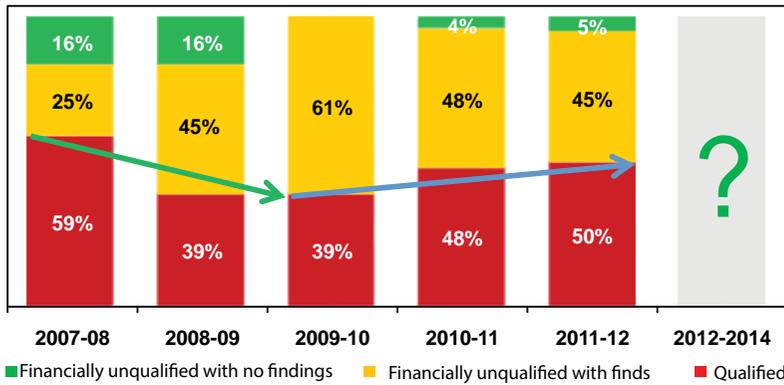
The reasons for the overall regression in audit outcomes in the province were **vacancies within the departments** which resulted in the over-reliance on consultants to assist with the financial information, lack of Internal audit capacity, lack of regular credibility checks on financial information prepared by the departments, lack of consequences for non-performance by the HoD, CFO and staff, and failure by the political leadership to take the Auditor-General's message seriously and to take ownership of the key controls.

In order to address these concerns the primary custodians (political executive leadership and auditee officials led by HoDs) should focus their efforts on strengthening the HR capacity of the province by appointing individuals with the right skills timeously and holding these individuals accountable through effective Performance management. The provincial leadership, through the CFO and senior managers, must pay attention to the key controls which will assist with the effective operation of daily controls, monthly reporting and validating credibility of management information. If this is done, quality annual financial statements will be submitted for audit which require no material amendments. The assurance providers in the province must provide strong independent assurance by ensuring effective monitoring of commitments by oversight and that management implements action plans and reports thereon. Provincial leadership should hold regular joint progress meetings that include all the assurance providers so as to encourage collaborative and synergistic interaction among all key role players in monitoring progress that is made. Good practices were identified at some departments during the audits and these good practices need to be highlighted to all departments and replicated throughout the province.

The acting Premier emphasised the continued commitment of the political leadership towards achieving the goal of clean audits in 2014. Furthermore, she gave the assurance that the concerns raised by the auditors during the 2011-12 audit process would be addressed. She added that initiatives to assist the Department of Health, which received a disclaimer, were already under way and that the Office of the Premier and the provincial treasury would assist the Department of Health in implementing their newly drafted recovery plan. Provincial leadership further undertook to fill critical vacancies within the provincial administration, to implement a more sophisticated IT solution to ensure better access control and to address the high occurrence of misstatements in the disclosure notes to provincial financial statements.

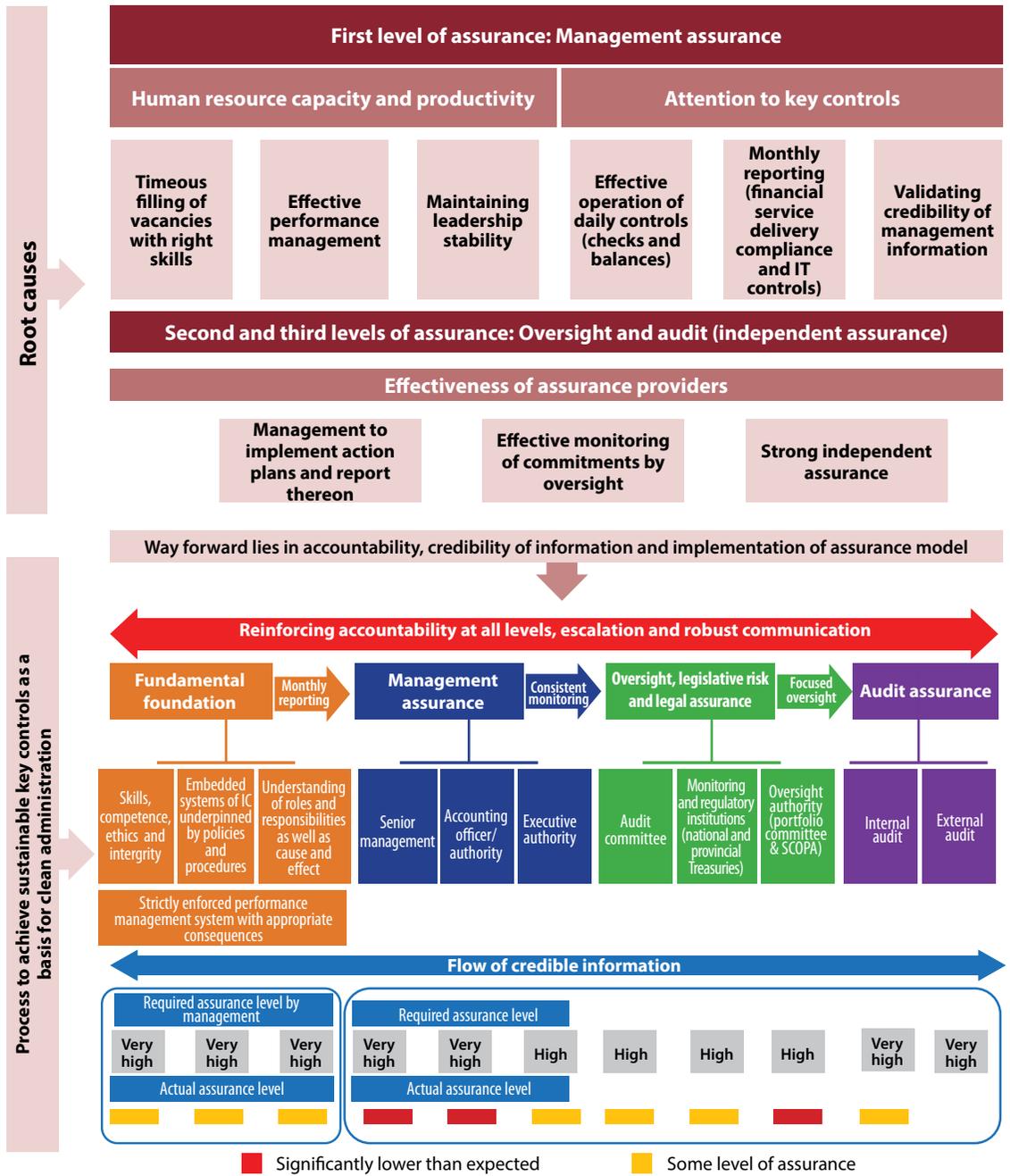
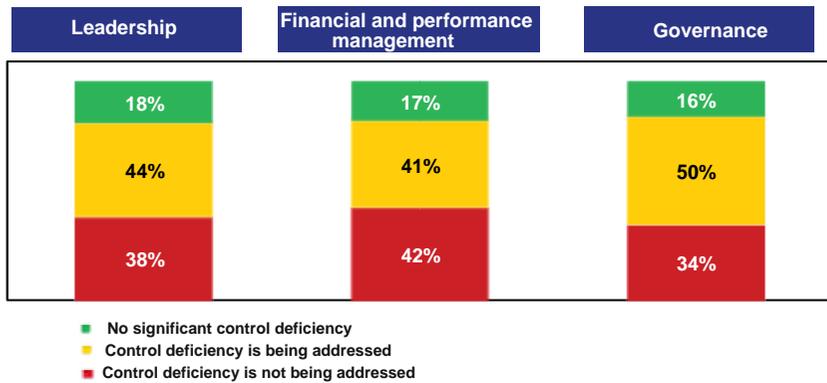
The leadership also committed to personally bear the consequences if their departments' audit outcomes do not improve during the coming year.

Stagnant nature of outcomes in the province is of great concern. Improvement is slow and nullified by regressions



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A key responsibility of the leadership is to implement and maintain effective and efficient systems of internal control. Of concern is the slow movement towards sustainable implementation of internal control (ownership)



4.8 AUDIT OUTCOMES OF THE NORTH WEST PROVINCE

Overall, the provincial audit outcomes of the **North West Province** have regressed, with 64% of departments and 76% of entities receiving either qualified or disclaimed audit opinions, while some failed to submit annual financial statements.

Overall, the **drivers of internal control** regressed in the province. Only five (25%) auditees submitted financial statements that required no **material adjustments**, compared to four (15%) auditees in the prior year. Progress towards addressing the requirements of PDO reporting has not been adequate. Three (15%) auditees remained unchanged with no **PDO** findings, while only one (5%) managed to improve to no finding status. Two (10%) auditees regressed and 14 (70%) auditees again attracted PDO findings. Only two auditees retained their status of no **SCM** findings, while another improved in that it attracted no findings. Seventeen (85%) auditees again attracted SCM findings. As regards **HR management**, there was a regression in terms of findings on the management of vacancies, leave, overtime, suspensions and Appointment processes. There was no significant improvement in addressing weaknesses identified in the **management of information technology**.

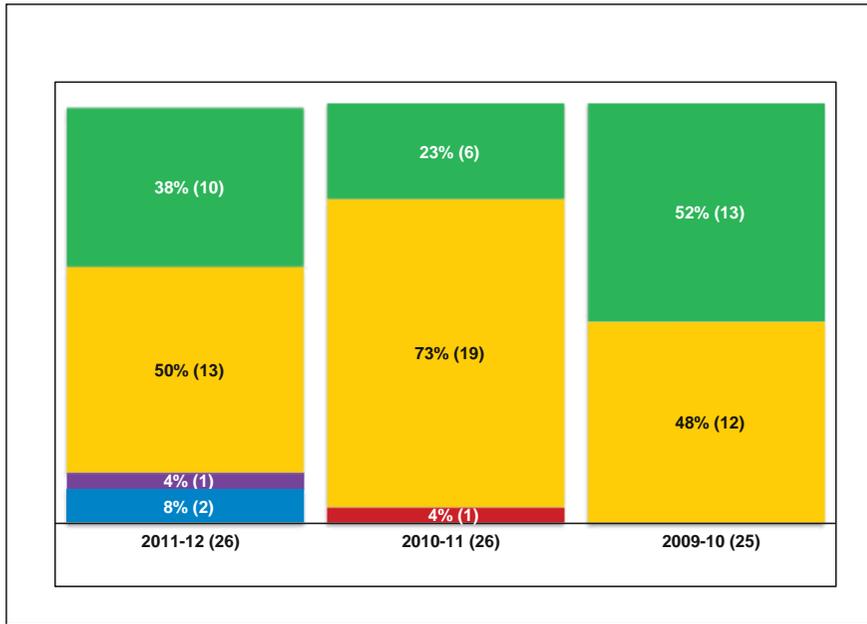
My message for the 2010-11 financial period confirmed the following commitments made by the provincial leadership: *The leadership undertook to fill key vacancies and conduct a skills audit; to prepare monthly financial statements and performance information; to review policies and procedures; to recruit competent human resources; to facilitate quarterly engagements between MECs and portfolio committee chairpersons and Audit committees and to ensure the availability of MECs at monthly key control engagements.*

While the commitment to meet monthly with the AGSA was honoured, the impact of these interactions was limited due to the late or non-implementation of key interventions committed to in the 2010-11 report. Despite prioritisation by the leadership of the commitment to attract and retain key skills in the province, her efforts were hampered by the **lengthy process of finalising suspensions and the lack of implementation of recommendations arising from the skills audit**.

Consequently, the impediments to clean administration continue to be instability at leadership level; slow filling of vacancies of critical leadership positions; inadequate competencies and skills at key levels; non-implementation of action plans and recommendations made by internal and external audit; poor Performance management in the departments and failure to prepare monthly financial statements. This is further exacerbated by the inadequate level of oversight by committees of the legislature to ensure that the executive is held to account.

The continued lack of credible reports on financial and performance information compromises the ability of the province to effectively manage service delivery and cash flows. In this regard, only the Department of Agriculture and Rural Development and four public entities managed to achieve their service delivery targets, which is consistent with the pattern of underspending as evidenced by the material underspending of capital budgets at eight departments.

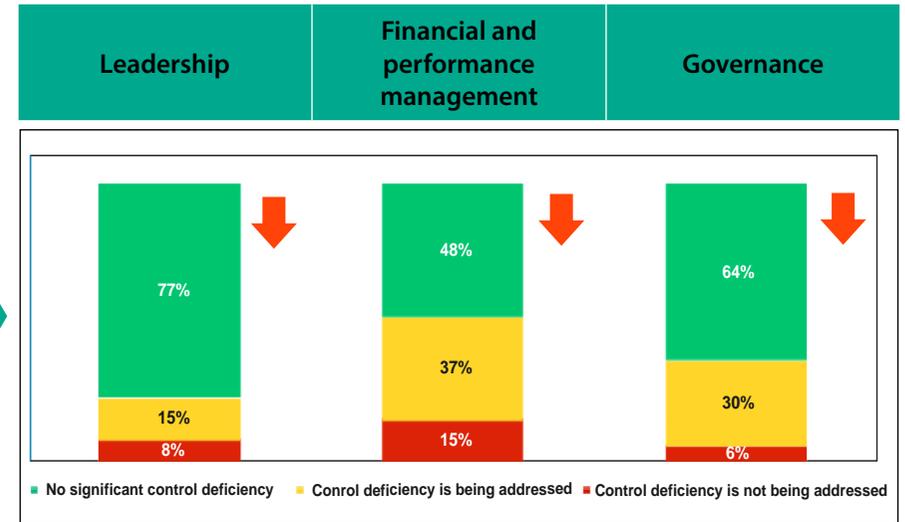
The North West Gambling Board progressed to achieving the only clean audit, which serves as evidence that a clean administration is achievable with the right leadership tone.



5 risk areas

Supply chain management No improvement	Predetermined objectives No improvement	HR No improvement	IT controls Some improvement	Material errors/ omissions in AFS Some improvement
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Key controls



Root causes

Accounting officers need to take ownership of key controls
Lack of consequences for non-adherence/lack of accountability
Inadequate discipline of credible monthly reporting on financials, performance and compliance

4.9 AUDIT OUTCOMES OF THE WESTERN CAPE

At a point where, based on the previous year's commitments, there was an expectation of significant improvement overall towards clean administration of the Western Cape province, these outcomes show progress only for entities and some improvement for departments.

While 23 (96%) auditees achieved financially unqualified opinions on their financial statements, the overall regression in the **drivers of internal control** (leadership, Financial and performance management, and governance) is a concern. Eight (57%) departments and seven (70%) public entities submitted financial statements that required no **material adjustments**, compared to seven and five, respectively, in the prior year. As in the prior year, two departments had findings on **predetermined objectives** while none of the 10 public entities reported on had any. Ten (42%) auditees had no findings on supply chain management. While there has been an overall reduction from 84% to 54% in auditees with uncompetitive or unfair **procurement processes**, these types of findings remain unchanged at 86% for departments. The **HR management** areas that showed improvement were planning and organisation, Performance management and management of leave, mainly due to improved monitoring. Overall the management of vacancies regressed compared to the prior year, with three departments reflecting increased findings in this area compared to two departments in the prior year. Notable progress was made in improving auditees' **IT** governance. However, little or no progress has been made in security management, user access controls and IT service continuity.

My message for the 2010-11 financial period confirmed leadership's pledge, namely *that the basic principles of monthly reporting, validation of reported information by Internal audit units and Audit committees, and constant monitoring will be the pillars on which the commitments for the coming year need to be based. This informed the new commitments, which included enhancing the monitoring and oversight capacity of the legislature and its committees; the development and support of entity-specific action plans to address Financial and performance management, with provincial treasury capitalising on the FMIP initiative to monitor the quality of departments' action plans and their implementation. To give effect to these commitments, officials will need to be monitored to ensure that they perform their responsibilities in line with*

their job requirements.

None of the commitments made in the 2010-11 general report have been fully realised with the result that management, governance and oversight structures are not working collectively on monitoring internal controls on a daily, monthly and quarterly basis to drive the achievement of sustainable positive audit outcomes. Even though progress has been made in some areas, the major limitation was the lack of detailed and specific target dates for implementation. In addition, our office did not consistently highlight shortcomings in the rate of implementation of the action plans to management and oversight structures during the regular interactions that were held with the leadership.

With improved internal controls, the province would be better positioned to manage the reported cash flow and service delivery results, which reflect that 57% of departments incurred liabilities in excess of the allocated budget, while 62% of departments and 50% of public entities achieved fewer than 80% of their service delivery targets.

It is pleasing to see the improvement in outcomes at those auditees whose leadership have taken accountability for the internal control deficiencies highlighted in the prior year audits as well during the quarterly key control interventions.

In addition to the four departments that achieved clean audit status, special mention must be made of the Department of Health whose findings have decreased significantly as a result of the accounting officer taking accountability for the internal control deficiencies highlighted by the auditors.

GLOSSARY OF TERMS ACRONYMS ABBREVIATIONS



AUDITOR - GENERAL
SOUTH AFRICA



BACKGROUND TO THE THREE ASPECTS AUDITED BY THE AGSA

THE AUDIT OF FINANCIAL STATEMENTS

Departments, legislatures and public entities (hereafter referred to as auditees) are required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) to compile and submit for audit annual financial statements that fairly present their state of affairs, performance against their budgets, their management of revenue, expenditure, assets and liabilities, their business activities, their financial results, and their financial position as at the end of March, annually.

Financial statements submitted for audit are therefore required to be free from material misstatements (i.e. material errors or omissions).

The *objective of an audit* of financial statements is to express an opinion on whether the financial statements fairly present the financial position of the auditee at financial year-end and the results of their operations for that financial year.

CLEAN AUDIT:

The financial statements of the auditees are free of material errors or omissions (financially unqualified audit opinion) and there are no material findings on reporting by them on their performance objectives or compliance with laws and regulations.

FINANCIALLY UNQUALIFIED WITH FINDINGS:

The financial statements contain no material misstatements. Unless a clean audit outcome, findings have been raised on predetermined objectives and/or compliance with laws and regulations.

QUALIFIED AUDIT OPINION:

The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific (identified) amounts included in the financial statements are not materially overstated or understated.

ADVERSE AUDIT OPINION:

The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.

DISCLAIMER OF AUDIT OPINION:

The auditee provided insufficient evidence (documentation) on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.

MISSTATEMENTS

refer to incorrect information in or information omitted from the financial statements. Examples include the incorrect or incomplete classification of transactions or incorrect values placed on assets, liabilities or financial obligations and commitments.

THE AGSA'S 'OTHER REPORTING RESPONSIBILITIES'

are auditing the reporting of the auditees on their predetermined (service delivery) objectives and their compliance with laws and regulations.

THE AUDIT OF AUDITEES' REPORTING ON PREDETERMINED OBJECTIVES

Auditees are required by legislation to report against their predetermined objectives and to submit such annual performance (service delivery) reports for auditing. The objective of the AGSA audit of predetermined objectives is to determine whether the reported performance against auditees' predetermined objectives is useful and reliable (valid, accurate and complete), in all material respects, based on predetermined criteria.

The AGSA has, since the 2005-06 financial year, been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined objectives, was included in management reports. However, these conclusions have not yet been elevated to the level of the audit report.

THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

Laws and regulations set out the activities public sector entities are charged with in serving the citizens and stipulate any limits or restrictions on such activities, the overall objectives to be achieved and how due process rights of individual citizens are to be protected. Auditees are subject to legislation such as the PFMA whose objectives are proper financial management and Performance management , transparency, accountability, stewardship and good governance.

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires auditors of public sector entities to audit compliance with laws and regulations applicable to financial matters, financial management and other related matters on an annual basis.

The audit of compliance with laws and regulations, as required by the PAA, is being phased in by the AGSA with a view to ultimately expressing a separate audit

opinion on compliance. Until such an opinion is expressed, material instances of non-compliance are being reported in the auditor's report.

In order to enhance accountability, auditees are required to identify and fully disclose any unauthorised, irregular as well as fruitless and wasteful expenditure incurred. Such expenditure in most part is incurred as a result of non-compliance with laws and regulations.

Specific focus was placed on auditing procurement and contract management .

GLOSSARY OF TERMS

Accounts payable/ accruals/liabilities	Money owed by the entity to those who have supplied goods and services.
Accounts receivable (debtor)	Money owed to the entity by those who have received goods or services from the entity.
Accruals	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
Adverse audit opinion	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
Asset	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
Asset impairment	The reduction in value of an asset below its normal realisable value.
Balance sheet	Summary of an entity's financial status, including assets, liabilities and equity.
Carrying value	Also referred to as book value - the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairment.
Cash flow	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.
Clean audit outcome	The financial statements of the auditee are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations.
Commitments (financial)	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.
Comparative figures	The figures recorded in the previous year which correspond to the figures for the same item in the current year.

Consolidated financial statements	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
Contingent liability	A potential liability, the amount of which will depend on a future event.
Current assets	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
Disclaimer of audit opinion	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.
Financial and performance management	Management of resources in order to achieve the financial and services delivery objectives of the auditee. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.
Financially unqualified audit opinion	The financial statements contain no material misstatements.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
General ledger	A record of all financial transactions undertaken by an entity.
Governance	In the context of this general report it refers to the governance structures (Audit committees) and processes (Internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.

Information technology (IT)	Computer systems used for recording and reporting financial and non-financial transactions.
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
IT security management	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
IT user access management	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
Internal control (key controls)	Internal control is the process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
Inventory	Goods held for resale or for internal use.
Irregular expenditure	Expenditure incurred without complying with applicable laws and regulations.
Leadership	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.

Leading department	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
Material finding	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
Material misstatement	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
Misstatement	Incorrect information in or information omitted from the financial statements or annual performance report.
Modified opinion	Qualified, adverse or disclaimer of opinion.
Payroll	A list of employees and their wages.
Pervasive findings	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
Property, plant and equipment	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
Qualified audit opinion	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.
Reconciliation	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
Reporting against predetermined objectives	Reporting by auditees on their actual service delivery achievements against their annual <i>objectives</i> performance plans.

<i>Residual value</i>	The estimated scrap or salvage value at the end of the asset's useful life.
<i>Root causes</i>	The underlying causes or drivers of audit findings, i.e. why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue or opportunity, thus preventing or reducing incidents of recurrence as opposed to simply providing a one-time or short-term fix.
<i>Supply chain management</i>	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
<i>Transversal findings</i>	Findings that are cross-cutting or occurring in a number of entities.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.
<i>Useful lives</i>	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating the depreciation of an asset.

ACRONYMS AND ABBREVIATIONS

AFS	annual financial statements
AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
BAS	Basic Accounting System
BCP	business continuity plan
CEO	chief executive officer
CFO	chief financial officer
CIDB	Construction Industry Development Board
CIO	chief information officer
CoGTA	Department of Cooperative Governance and Traditional Affairs
DLGTA	Department of Local Government and Traditional Affairs
DPSA	Department of Public Service and Administration
DRP	disaster recovery plan
FMS	Financial Management System
GAAP	Generally Accepted Accounting Practice
GITO	government information technology officer
GRAP	Generally Recognised Accounting Practice
HoD	head of department
HR	human resources
IDP	integrated development plan
IT	information technology
Logis	Logistical Information System
MEC	member of the executive council
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

MPAC	municipal public accounts committee
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
NT	National Treasury
PAA	Public Audit Act, 2004 (Act No. 25 of 2004)
PDOs	predetermined objectives
Persal	Personnel and Salary System
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PPAC	provincial public accounts committee
PPPPFA	Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
SALGA	South African Local Government Association
SARS	South African Revenue Service
SCM	supply chain management
SCOPA	Standing Committee on Public Accounts
SDBIP	service delivery and budget implementation plan
SITA	State Information Technology Agency
SLA	service level agreement
VAT	value-added tax

notes

Two columns of horizontal dotted lines for writing notes.