



CONSOLIDATED GENERAL REPORT
ON PROVINCIAL
AUDIT OUTCOMES
2010-11

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Our reputation promise/mission

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.



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This flagship publication of my office is a tool that gives simple and handy insights. These insights empower users to focus on those issues that will lead to improved audit outcomes. This publication also captures the commitments that leaders have made to address audit outcomes.

Auditor-General: Terence Nombembe

SECTION 1: FOREWORD

It is a pleasure to present to Parliament my 2010-11 PFMA consolidated general report on provincial audit outcomes. This report consolidates the results of the audit outcomes for the financial year ended 31 March 2011 of all provincial departments, their legislatures, provincial revenue funds, provincial public entities and other entity types.

The audit outcomes have generally stagnated, as the number of auditees with improved audit outcomes (37, nationally) was negated by the number of auditees whose outcomes had regressed (33, nationally). The 15 provincial departments (13%) and five legislatures (56%) and 26 public entities (22%) that obtained clean audit reports for the year under review, together constitute only 19% of all auditees. Some 56% (2009-10: 57%) of departments received financially unqualified audit reports but had findings on predetermined objectives (service delivery) reporting and/or compliance with laws and regulations. Thirty-two (28%) departments (2009-10: 27%) received financially qualified audit reports, while four departments received disclaimed audit opinions (2009-10: ten). Disclaimers and adverse opinions for public entities decreased to 4% (2009-10: 7%). The Free State, Limpopo, Northern Cape and North West provinces have a third or more of their auditees receiving financially qualified audit reports.

A three-year analysis of audit outcomes shows that departments and public entities in Gauteng (94%), KwaZulu-Natal (86%) and Western Cape (96%) have made sustained progress towards financially unqualified audit reports. Eastern Cape (73%), Free State (67%), Limpopo (61%), Mpumalanga (88%) and Northern Cape (53%) have stagnated, while the audit outcomes of North West (48%) have regressed compared to the 2008-09 financial year.

The overall deterioration in the audit outcomes of Education, Health, Public Works, Human Settlements and Social Development needs to be arrested. Except for the Department of Human Settlements (Limpopo) none of these

departments obtained a clean audit report. For the 2010-11 financial year, ten departments in these sectors registered improved audit outcomes, while three regressed. The net result is that only 50% are financially unqualified, compared to the 83% overall of departments in other sectors. Four departments in these five sectors received adverse or disclaimers of audit opinions. In total, these sectors account for approximately 85% of annual provincial government spending. Therefore, by virtue of their combined size compared to the other sectors, clean administration in provincial government will only be possible with significant improvements in audit outcomes of these five sectors. These sectors are important contributors to the realisation of government's 12 national outcomes. The rising cost of procurement and human resources, the escalating trend in unauthorised, irregular as well as fruitless and wasteful expenditure, the management of conditional grants, and the shortcomings in reporting on and non-achievement of service delivery objectives remain key concerns.

For the year under review 15 auditees progressed to clean administration while 15 others were unable to retain that status from the previous financial year. Accounting officers and those charged with their governance should prevent a future regression in their commendable audit outcomes by maintaining what my office refers to as being the "pillars of sustainability." These urgent actions also apply to those entities that have not yet achieved clean audit opinions and include (i) highly effective internal audit units and audit committees, that will take ownership of internal control assessments (key control dashboards), the credibility of which needs to be verified by internal audit units and interrogated by audit committees; (ii) regular monthly reporting and validation of financial information, service delivery information and compliance information; (iii) ensuring key positions remain staffed with personnel that possess the required skills; and (iv) regular interface between audit committees and executive authorities and legislatures.

Following the release of the 2010-11 audit outcomes, executive authority and oversight structures have committed to quarterly monitoring and evaluation of the status of the key controls and commitments in order to



achieve sustainable clean audit outcomes. At a minimum, this will require a commitment by the executive authority to a meeting of one hour every 90 days. This can be followed by the sharing of the consolidated picture with the premiers and the legislatures quarterly. Enhancement of the provincial oversight model is required, which includes effective coordination between provincial public accounts committees and portfolio committees. If all these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, provincial governance will be placed on a higher level, and will greatly contribute to sustainable positive audit outcomes.

Establishing formal channels of communication and forums for communication between audit committees, executive authorities and legislatures, together with more effective coordination between provincial public accounts committees and portfolio committees, will also make provincial monitoring and governance more effective. The Association of Public Accounts Committees (APAC) could play a constructive role in facilitating such coordination.

In addition to implementing action plans to address qualification findings, a stronger focus is needed by management, provincial leadership and coordinated provincial oversight bodies on (i) supply chain management; (ii) predetermined objectives; (iii) human resource management; and (iv) the management of information technology.

As part of our contribution towards clean administration the leadership of the AGSA will continue to enhance its visibility and provide proactive insights into the root causes on the status of internal controls. These engagements will include timely feedback and inputs into the adequacy of the guidance provided by coordinating role players, such as the provincial treasuries.

In this centenary year of the AGSA, I wish to thank the audit teams from my office and the audit firms that assisted, for their diligent efforts towards fulfilling the AGSA's constitutional mandate and the manner in which they

continue to strengthen cooperation with the leadership of the provinces. It is particularly pleasing to note that both audit groups have understood that, in addition to producing audit opinions and findings, our purpose is to provide useful and relevant information and insights that promote oversight and accountability in government, thereby strengthening public confidence in our democracy.

Auditor-General

Auditor-General
Pretoria
December 2011



SECTION 2: ANALYSIS OF AUDIT OUTCOMES

This general report summarises key aspects of the 2010-11 audit outcomes of provincial government, which are contained in separate general reports issued for each of the provinces. The root causes of unsatisfactory audit outcomes are analysed in sections 2.2.8 (financial management and reporting), 2.3.5 (reporting against predetermined objectives) and 2.4.8 (compliance with laws and regulations). Recommended focus areas for provincial role players are outlined in section 2.6 and the drivers of audit outcomes in section 3 of this general report. Section 4 summarises commitments received from provincial executive leadership, provincial treasuries and provincial public accounts committees in response to the audit outcomes for the financial year under review.

2.1 Timelines of submission/finalisation of audits and summary of audit outcomes

Included in the analysis of audit outcomes presented in this report are summaries of audit opinions on the financial statements of departments, legislatures and public entities, improvements and regressions in audit opinions, increases/reductions in findings on auditees' reporting on predetermined objectives and compliance with laws and regulations.

2.1.1 Key audit-related requirements and terminology used in the report

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 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 audit 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 outcome: The financial statements of the department/public entity are free from 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 audit opinion: 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 department/public entity provided insufficient evidence (documentation) on which to form 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 or omitted information in 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 subjecting auditees' reporting on their predetermined (service delivery) objectives and auditing compliance by auditees with laws and regulations.

2.1.2 Summary of audit outcomes for the year ended March 2011

Provincial government comprises 112 provincial departments, nine provincial legislatures, nine provincial revenue funds and 141 provincial public entities.

The audits of all provincial departments and all legislatures, three provincial revenue funds (33%) and 118 (84%) provincial public entities that had submitted financial statements by 31 May 2011, were completed within the legislated time frame of two months from receipt of the financial statements by the AGSA. The audits of 12 (10%) provincial public entities were performed by auditors from the private sector, who were appointed by the public entities after consultation with the AGSA. The results of these audits are included in this general report.

The audits of six provincial revenue funds and 23 public entities had not been finalised as at 30 September 2011, the cut-off date set by the AGSA for inclusion of their audit outcomes in this general report.

The audit outcomes for the 2010-11 financial year and those of the previous year are summarised in table 1.

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

Audit outcomes	Departments*		Legislature		Public entities**	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	15	19	5	1	26	34
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	64	69	4	7	72	77
Financially unqualified financial statements	69%	73%	100%	89%	83%	80%
Qualified opinion	32	23	0	1	15	18
Adverse opinion	0	0	0	0	1	1
Disclaimer of opinion	4	10	0	0	4	9
Financially qualified financial statements	31%	27%	0%	11%	17%	20%
Total number of audits reported on	115	121	9	9	118	139
Number of audit reports not issued by 30 September 2011	6	2	0	0	23	9
Total number of audits	121	123	9	9	141	148

* Including nine provincial revenue funds ** Including public entities not audited by the AGSA

The number of departments decreased from 132 to 130 since the previous financial year due to the establishment of four new departments and the closure of six others. The number of public entities likewise decreased from 148 to 141 since the previous financial year (14 public entities were closed and seven new public entities were established).

Table 2 depicts the movement in audit outcomes per province.



Table 2: Provincial analysis of improvements and regressions in audit outcomes for the year ended 31 March 2011

Movement in audit opinion	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape	Total
Retained clean	2	6	8	6	1	3			5	31
Progressed to clean	1	1	1	6	3	2			1	15
Slipped from clean to 'with findings'	1	2	2	3					7	15
Remained 'with findings'	11	7	14	23	7	10	9	10	12	103
Improved to financially unqualified	2	2	5	4		1	1	1		16
New auditees financially unqualified	2		2	1					1	6
Financially unqualified	73%	67%	94%	86%	61%	89%	53%	48%	96%	77%
Remained qualified	3	3	1	5	2	1	3	5		23
Improved from disclaimed/adverse to qualified	1	2			1			2		6
Regressed from financially unqualified to qualified	2	3		1	3		2	4		15
Remained disclaimed/adverse	1						3	1		5
Regressed into disclaimed/adverse				1	1				1	3
New auditees financially qualified		1	1			1	1			4
Financially qualified	27%	33%	6%	14%	39%	11%	47%	52%	4%	23%
Total number of audits reported on	26	27	34	50	18	18	19	23	27	242
Number of audit reports not issued by 30 September 2011		2	1	2	6		6	11	1	29
Total number of auditees in provinces	26	29	35	52	24	18	25	34	28	271

The salient aspects of the 2010-11 audit outcomes presented in tables 1 and 2 are reflected in table 5 of this report.

Figure 1 depicts findings arising from the audit of reporting by auditees on their predetermined objectives and compliance with the laws and regulations to which they are subject.

Figure 1: Movements in number of auditees with findings on predetermined objectives and/or compliance with laws and regulations



*Audits completed and reported on: 2010-11=242 (2009-10: 269)

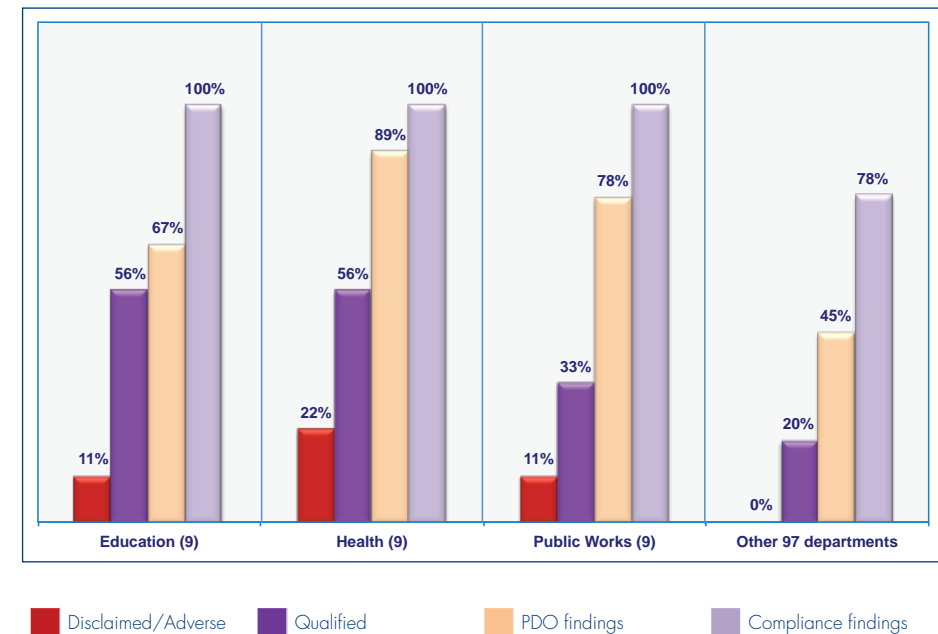
■ No findings
■ Findings on both predetermined objectives and compliance
■ Findings on compliance with laws and regulations only
■ Findings on predetermined objectives only

Findings on predetermined objectives are further analysed in section 2.3 of this general report, while an overview of auditees' compliance with laws and regulations is provided in section 2.4 of this general report.

2.1.3 Sector analysis of audit outcomes for the year under review

The departments of Education, Health, Human Settlements, Public Works and Social Development account for approximately 85% of provincial government's annual spending. For this reason the AGSA has specifically focused on these sectors over the past several years. The figure below illustrates how far the audit outcomes of the departments of Education, Health and Public Works lag behind those of other sectors.

Figure 2: Sector analysis of audit outcomes – Education, Health and Public Works



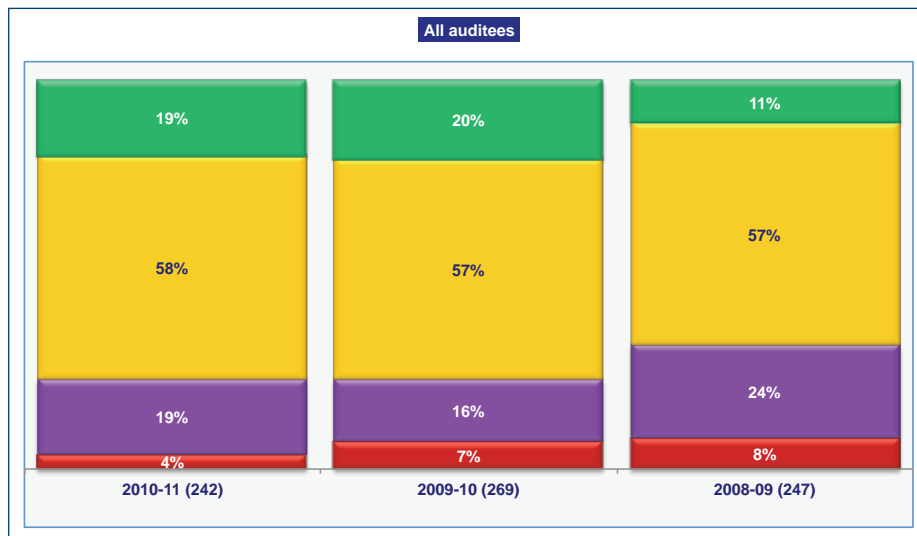


Sections 2.5 and 6 of this report provide a further analysis of the audit findings of all five sectors.

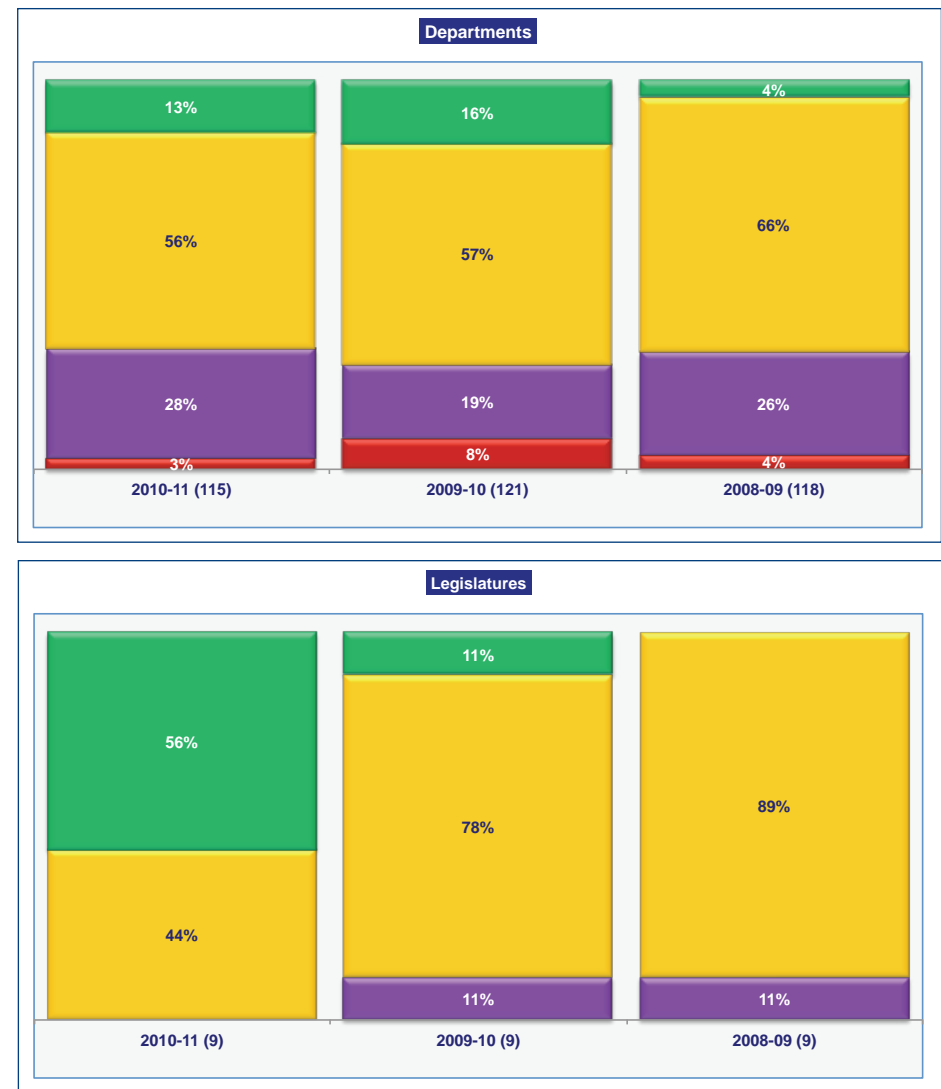
2.1.4 Three-year history of provincial audit outcomes

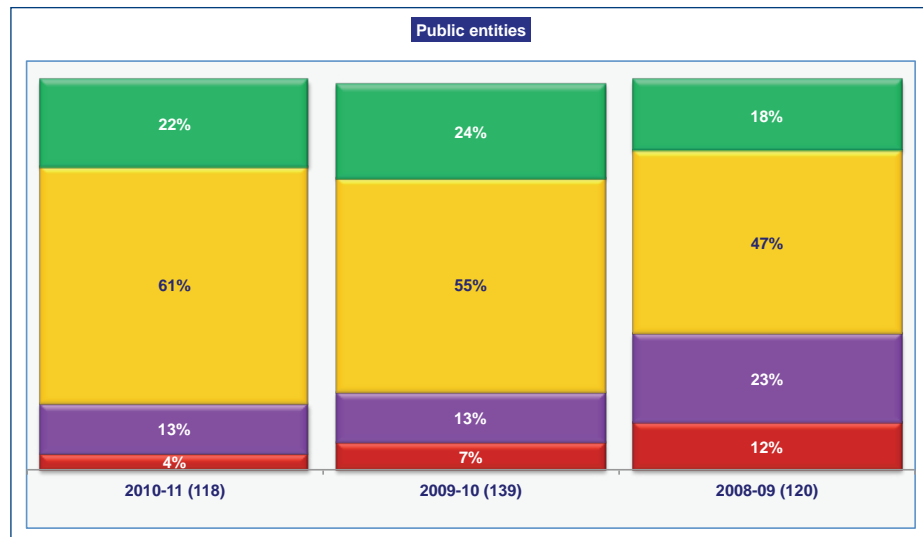
The audit outcomes over the past three financial years for departments, legislatures and public entities, respectively, are depicted in figure 3.

Figure 3: Summarised three-year audit outcomes of provincial auditees



A provincial analysis of the three-year audit outcomes of departments and public entities is as follows:





Financially unqualified with no findings
Qualified

Financially unqualified with findings
Disclaimed/Adverse

Table 3: Provincial analysis of three-year audit outcomes – financially unqualified auditees

Province	Departments				Public entities			
	2010-11		2008-09	3 Year direction	2010-11		2008-09	3 Year direction
	Number	%	%		Number	%	%	
Eastern Cape	9	60%	67%	↓	10	91%	77%	↑
Free State	6	46%	43%	↔	12	86%	93%	↓
Gauteng	11	92%	73%	↑	21	96%	57%	↑
KwaZulu-Natal	13	81%	76%	↑	30	88%	57%	↑
Limpopo	7	54%	62%	↓	4	80%	67%	↑
Mpumalanga	13	93%	79%	↑	3	75%	100%	↓
Northern Cape	9	64%	64%	↔	1	20%	17%	↔
North West	6	46%	80%	↓	5	50%	47%	↔
Western Cape	14	100%	93%	↑	12	92%	83%	↑
Total number of financially unqualified auditees	88	71%	71%	↔	98	83%	65%	↑

Financial statements of 1/3rd or more auditees in the province received financially qualified audit reports for the year ended March 2011

It is clear from the above that a number of provinces should focus more intensely on the leadership, financial and performance management and governance in order to achieve clean administration, i.e. audit reports that are financially unqualified, with no findings on their reporting on predetermined objectives or compliance with laws and regulations. Continued progress towards clean administration may not be sustainable at some auditees due to accounting routines, disciplines, and oversight and governance structures not yet fully entrenched.



2.1.5 Analysis of improvements and regressions in audit outcomes for the year under review

The table below depicts the current year movement in audit opinions for departments, legislatures and public entities in the nine provinces. Salient aspects of audit outcomes for the year under review are presented thereafter.

Table 4: Improvements and regressions in audit opinions on financial statements for the year under review

Audit opinion	All auditees						Departments					
	Improved	Unchanged	Regressed	New auditees	Auditees at 31 March 2011	%	Improved	Unchanged	Regressed	New auditees	Auditees at 31 March 2011	%
Financially unqualified with no findings	15	31			46	19%	6	9			15	13%
Financially unqualified with findings	16	103	15	6	140	58%	6	50	5	3	64	56%
Qualified	6	23	15	3	47	19%	5	17	9	1	32	28%
Disclaimed/Adverse	0	5	3	1	9	4%		3	1		4	3%
Movement for year	37	162	33	10			17	79	15	4		
% movement	15%	67%	14%	4%	242	100%	15%	69%	13%	3%	115	100%

Audit opinion	Legislatures				Auditees at 31 March 2011	%	Public entities				Auditees at 31 March 2011	%
	Improved	Unchanged	Regressed	New auditees			Improved	Unchanged	Regressed	New auditees		
Financially unqualified with no findings	4	1			5	56%	5	21			26	22%
Financially unqualified with findings	1	3			4	44%	9	50	10	3	72	61%
Qualified							1	6	6	2	15	13%
Disclaimed/Adverse								2	2	1	5	4%
Movement for year	5	4			9	100%	15	79	18	6	118	100%
% movement	56%	44%					13%	67%	15%	5%		

Highlights and major trends in audit opinions on the financial statements for the year under review are presented below. Annexure 1 to this report lists all auditees together with their 2010-11 audit outcomes and those of the previous financial year.

Table 5: Salient aspects of 2010-11 audit outcomes

Outcomes category	Salient aspects
Overall trends	<ul style="list-style-type: none"> The overall improvement in the audit outcomes of provincial government for the 2010-11 financial year was only marginal due to the number of auditees with regressed audit outcomes (33), negating those with improved outcomes (37). Fifteen auditees were unable to retain their 'financially unqualified with no findings' status of the previous year due to them attracting findings on either predetermined objectives and/or compliance. Provinces that recorded an overall net improvement are KwaZulu-Natal (five), Gauteng (four), Mpumalanga (three) and Eastern Cape (one), while Western Cape registered a net deterioration in the audit outcomes of seven (26%) auditees. Northern Cape and North West remained the only provinces that do not have any auditees whose financial statements were financially unqualified with no findings on either predetermined objectives or compliance with laws and regulations, i.e. there are no auditees with clean audit outcomes in these two provinces. The majority of auditees (64%) did not address all of their prior year findings on predetermined objectives and/or compliance with laws and regulations. Accordingly, they did not progress to clean audit outcome status. Twenty-six (96%) of the "leading departments" (legislatures, provincial treasuries and offices of the premiers) were financially unqualified in 2010-11 (2009-10: 88%). The financial statements of 29% (2009-10: 26%) of departments remain financially qualified. The audits of only three (33%) provincial revenue funds had been finalised as at 30 September 2011 compared to seven in the previous year. No consolidated financial statements had been submitted for the provincial revenue funds of Limpopo and North West for the last two financial years.
Financially unqualified audit opinions with no findings	<ul style="list-style-type: none"> Thirty-one auditees (13%) (10 departments and 21 public entities) remained financially unqualified with no findings on reporting on predetermined objectives or compliance with laws and regulations. Ten departments and five public entities had addressed their prior year findings on predetermined objectives and/or compliance with laws and regulations to progress to clean audits.

Outcomes category	Salient aspects
Notable improvements	<ul style="list-style-type: none"> Five auditees in Gauteng (one department and four public entities) and four in KwaZulu-Natal (two departments and two public entities) improved from financially qualified in the previous financial year to financially unqualified in the current financial year. A 56% improvement was registered by the legislatures, resulting in all the nine legislatures being financially unqualified. The Northern Cape Roads and Public Works Department and two public entities in Gauteng (Gauteng Medical Supplies Depot and g-Fleet Management) improved from a disclaimer in 2009-10 to financially unqualified with findings in the current year.
Disclaimed, adverse or qualified audit opinions	<ul style="list-style-type: none"> Thirty-six auditees (15%) did not address all their 2009-10 qualification findings and were again financially qualified in 2010-11. Such auditees are found in all the provinces except the Western Cape. Seventeen departments (2009-10: 17) have been receiving disclaimed/adverse/qualified audit opinions for three successive years. Twelve provincial departments of Education, Health and Public Works account for 71% of these. Of the 16 newly qualified auditees, four are in North West.
Progress in addressing prior year qualification findings	<ul style="list-style-type: none"> The 62 auditees qualified in 2009-10 had 160 qualification findings, of which they addressed 71, while attracting 27 new qualification findings. Eighty of the 173 qualification findings (46%) raised in the current year are repeat findings.
Further qualification findings	<ul style="list-style-type: none"> Of the 36 auditees that were again disclaimed, adverse or qualified, 18 (50%) attracted further qualification findings. The highest increase in further qualification findings was in respect of capital assets, liabilities and unauthorised, irregular as well as fruitless and wasteful expenditure.
Repeatedly qualified auditees	<ul style="list-style-type: none"> Nine public entities (2009-10: 13) have received disclaimed/adverse/qualified opinions for the third successive year, four of which are in KwaZulu-Natal. Eight of the 12 qualified auditees in the North West failed to address their prior year qualification findings and again received qualified audit opinions in the current financial year.



2.1.6 Timeliness of the submission and auditing of financial statements

By the legislated deadline of 31 May 2011, 118 (91%) departments [2009-10: 124 (93%)] and 110 (78%) public entities [2009-10: 127 (77%)] had submitted their financial statements for auditing. A total of 43 (16%) auditees were still not able to meet the legislative requirement of timely submission.

The absence of monthly accounting routines and effective review by audit committees during the year, of full sets of financial statements are key reasons for financial statements not already being close to a stage of finalisation shortly after the financial year-end. Although the financial statements of 14 auditees were received late, their audits were finalised by the legislated deadline. Table 6 below provides details of audits that had not been finalised by 30 September 2011, the cut-off date of this general report.

Table 6: Audits not finalised by the 2010-11 general report cut-off date

Province	Reason for audit outstanding or not finalised at this general report cut-off date			
	Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	Total
Free State		2		2
Gauteng			1	1
KwaZulu-Natal		2		2
Limpopo	3	3		6
Northern Cape	6			6
North West	10	1		11
Western Cape			1	1
Total	19	8	2	29

2.1.7 Outcomes of audits finalised after the cut-off date of the 2010-11 general report

Between 1 October 2011 and the date of this general report, the audit of only one provincial revenue fund was finalised. The Free State Provincial Revenue Fund received a financially unqualified audit report with no findings on predetermined objectives or compliance with laws and regulations. The prior year audit outcomes of audits not included in this general report are analysed in the table below.

Table 7: Prior year outcomes of audits outstanding at the 2010-11 general report date

Province	Audits outstanding as at 30 September 2011	2009-10 audit outcomes						New auditee
		Disclaimer/Adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Total number of 2009-10 audits finalised	Audits still outstanding from the 2009-10 financial year	
Free State	2				1	1	1	
Gauteng	1				1	1		
KwaZulu-Natal	2			1	1	2		
Limpopo	6	1		1	1	3	3	
Northern Cape	6	1	1			2	3	1
North West	11	2	1	4		7	4	
Western Cape	1				1	1		
Total	29	4	2	6	5	17	11	1

2.2 Findings arising from the audit of financial management, including defects in financial statements

Matters relating to financial management presented in this analysis include the progress (or lack thereof) by auditees in addressing prior year financial statement qualification findings, material misstatements in financial statements submitted for auditing, material losses incurred by auditees, underspending by auditees against their votes or conditional grants, and auditees facing financial sustainability concerns.

2.2.1 Auditees' progress in addressing prior year financial statement qualifications

Tables 8 and 9 depict the areas that were materially misstated (qualified) in the financial statements of the departments, legislatures and public entities that obtained disclaimed, adverse or qualified audit opinions or addressed prior year financial statement qualifications. Corrective action taken by management to address prior year qualification findings is outlined in section 2.2.2, while details of current year financial statement qualification findings are provided in section 2.2.3 of this general report.

Table 8: Progress made by departments (including legislatures) in addressing prior year financial statement qualification findings

Financial statement qualification areas – departments and legislatures						
Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	U, I, F & W expenditure
19	10	8	12		4	7
10	4	7	5	5	2	7
23%	11%	12%	14%	4%	5%	11%
7	3	3	7	2	5	10
88	107	106	100	117	113	100
77%	89%	88%	86%	96%	95%	89%
Repeat findings		New findings		Findings addressed		No prior year findings

Table 9: Progress made by public entities in addressing prior year financial statement qualification findings

Financial statement qualification areas – public entities							
Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	U, I, F & W expenditure
8	3	1	2		5	1	
10	8	6	3	8	6	4	8
15%	9%	6%	4%	7%	9%	4%	7%
6	6	6	2	7	2	1	4
94	101	105	111	103	105	112	106
85%	91%	94%	96%	93%	91%	96%	93%
Repeat findings		New findings		Findings addressed		No prior year findings	

The above analysis shows that some auditees were able to sustain fair presentation of financial information; some auditees addressed financial statement areas that were misstated in the prior year, while others failed to



remedy prior year financial statement defects and/or even attracted new qualifications.

2.2.2 Outline of corrective action taken by management to address 2009-10 qualification findings

Actions taken by auditees that were able to successfully address their 2009-10 financial statement qualification findings are indicated below with a view to highlighting good practices that should be replicated by others.

Improvements in audit outcomes can be attributed to timely and fully implemented corrective steps taken by the leadership and management, which included the following specific actions:

- Active monitoring throughout the financial year of action plans to address prior year findings.
- Implementation of internal and external auditor recommendations relating to financial statement qualification findings.
- Improvement of record keeping/record management.
- Appointment of staff with the necessary skills and filling of critical positions at finance units.
- Improving controls over daily processing and reconciling of transactions to prevent and detect errors before the preparation of financial statements.
- Preparing reconciliations and supporting schedules and information for audit purposes.
- Effective interaction between audit teams, management and audit committees to obtain the required output from financial reporting systems, for example, trial balances/general ledger.
- Developing and implementing documented policies and procedures.
- Periodic review of annual financial statements by governance structures.

In order to avoid a regression in audit outcomes, the leadership of auditees that were assisted by consultants to address their prior year qualification

findings should satisfy themselves that skills had indeed been transferred to finance staff and that the controls have been implemented to ensure that improved audit outcomes are sustainable.

2.2.3 Misstatements in current year financial statements resulting in disclaimed, adverse or qualified audit opinions

Figures 4 and 5 depict the areas that were materially misstated (and therefore qualified) in the financial statements of the 36 departments (2009-10: 34) and 20 public entities (2009-10: 27) that obtained disclaimed, adverse or qualified audit opinions.

Figure 4: Transversal financial statement qualification areas – departments

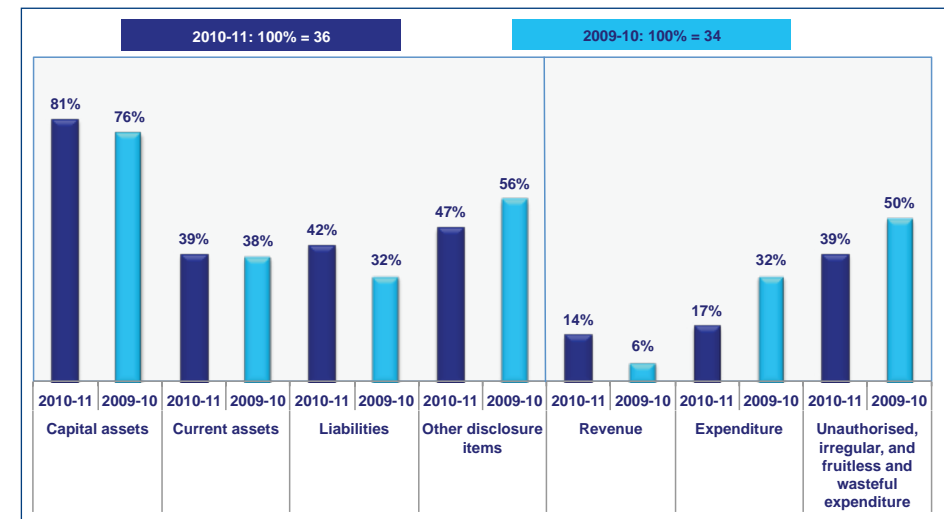
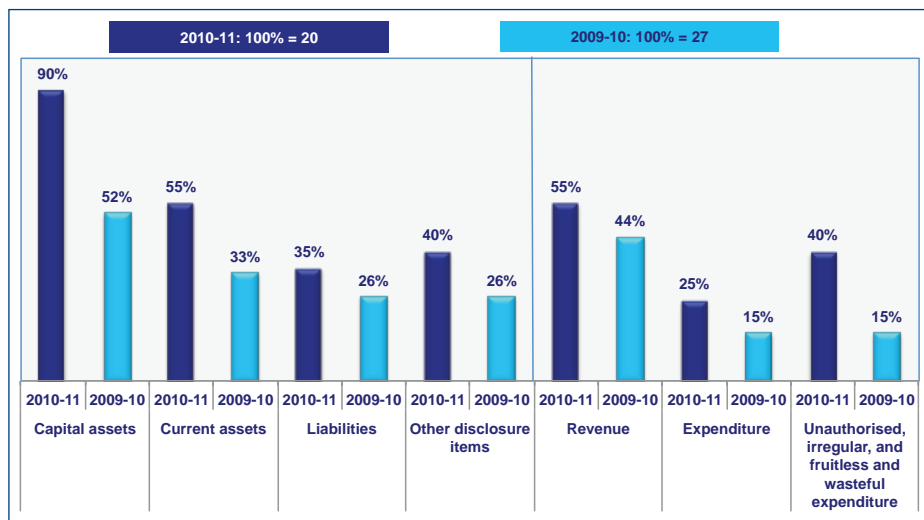


Figure 5: Transversal financial statement qualification areas – public entities



Below is a summary of the nature and causes of the qualifications in the financial statements

Capital assets

29 departments (81%)	Addressed = 7	Repeat = 19	New = 10
18 public entities (90%)	Addressed = 6	Repeat = 8	New = 10

Capital assets refer mainly to property, infrastructure, plant and equipment, and qualifications arising from an inability to confirm the ownership, existence and value of these assets. Common matters attracting qualifications included the following:

- Asset registers used to support the amounts and disclosures in the financial statements did not include all assets.

- Poor record management, resulting in unavailability of supporting documentation to substantiate the values at which assets are reported in financial statements.

Current assets

14 departments (39%)	Addressed = 3	Repeat = 10	New = 4
11 public entities (55%)	Addressed = 6	Repeat = 3	New = 8

Current assets principally consist of inventory, cash and cash equivalents and receivables. Common matters attracting qualifications included the following:

- The provision for doubtful debts and other receivables not properly accounted for.
- The existence and value of inventory could not be substantiated due to poor records maintained in respect of the location and value of such inventory. Some items of stock were excluded from physical inventory counts and at some auditees no inventory counts were performed at year-end.
- Inadequate filing systems resulted in documentation not being available to substantiate amounts owing by debtors at year-end.

Liabilities

15 departments (42%)	Addressed = 3	Repeat = 8	New = 7
7 public entities (35%)	Addressed = 6	Repeat = 1	New = 6

Liabilities refer mainly to payables, accruals, borrowings, provisions and guarantees. Common matters attracting qualifications included the following:



- Post-employment benefit plan liabilities for retired and current employees were not reflected in the financial statements or were incorrectly valued.
- Inadequate management of conditional grants expenditure.
- Financial statements did not disclose all payments due to creditors at year-end.

Other disclosure items

17 departments (47%)	Addressed = 6	Repeat = 12	New = 5
8 public entities (40%)	Addressed = 7	Repeat = 0	New = 8

Qualifications on other disclosure items stemmed from, among others, a lack of supporting documentation for financial commitments, contingent liabilities, employee benefits and related-party disclosures at financial year-end. Common matters attracting qualifications included the following:

- The lease commitments balances disclosed in the financial statements did not agree with lease balances.
- Lack of sufficient appropriate audit evidence such as project and contract registers for disclosure of financial commitments.

Revenue

5 departments (14%)	Addressed = 2	Repeat = 0	New = 5
11 public entities (55%)	Addressed = 2	Repeat = 5	New = 6

Revenue principally consists of voted funds, grants and revenue from the rendering of services. Common matters attracting qualifications included the following:

- Inadequate supporting documents for revenue (e.g. service charges) reflected in the financial statements.

- Services charged understated as consumers were not billed for services rendered.

Expenditure

6 departments (17%)	Addressed = 5	Repeat = 4	New = 2
5 public entities (25%)	Addressed = 1	Repeat = 1	New = 4

Expenditure principally consists of transfer payments, employment cost and the cost of goods and services procured by departments and public entities. Common matters attracting qualifications included the following:

- Employee-related costs incorrectly reported or not substantiated by adequate documentation.
- No supporting documents for other expenditure reflected in the financial statements.

Unauthorised, irregular as well as fruitless and wasteful expenditure

14 departments (39%)	Addressed = 10	Repeat = 7	New = 7
8 public entities (40%)	Addressed = 4	Repeat = 0	New = 8

Qualification findings stem mainly from the inability to verify, through audit, that such expenditure had been fully disclosed in the financial statements. Annexure 1 to this report lists the audit outcomes of all auditees, together with their financial statement qualification areas.

2.2.4 Material misstatements in financial statements submitted for auditing

As in prior years, auditees submitted financial statements for auditing that contained material misstatements in one or more areas.

Fifty-five (44%) departments obtained financially unqualified audit opinions simply because they were given the opportunity during the audit to correct the material misstatements. The corresponding figure for public entities was 52 (44% of public entities). Some auditees were willing and/or able to correct only some of the misstatements (partial) and therefore could not avoid attracting qualifications. The extent of material misstatements in financial statements submitted for audit for the year under review are depicted in figure 6 below.

Figure 6: Material misstatements in financial statements submitted for audit

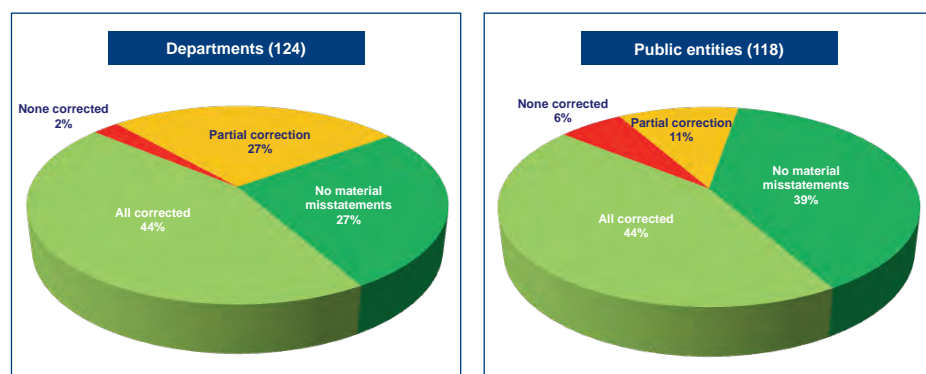
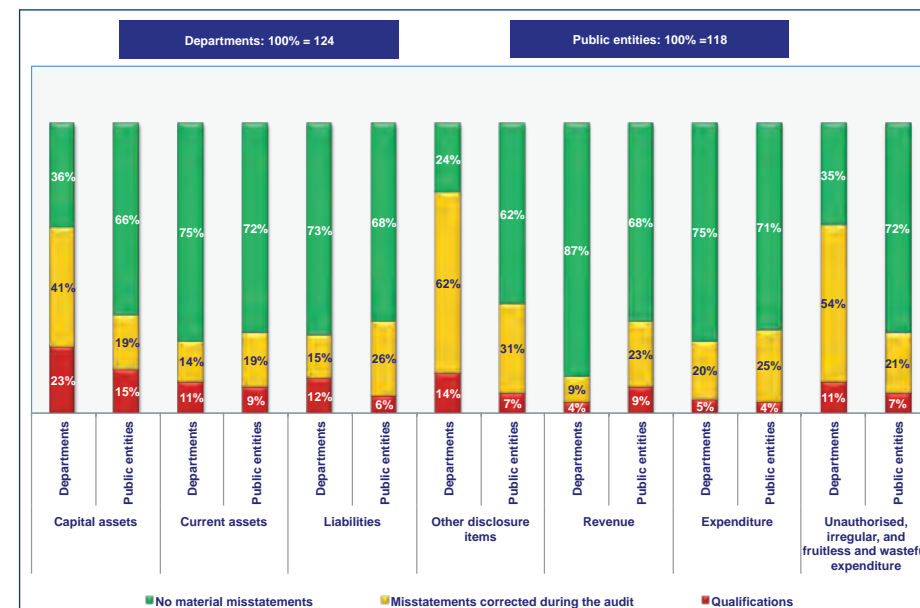


Figure 7 depicts areas in the submitted financial statements that contained the material misstatements.

Figure 7: Areas of material misstatements in financial statements (corrected and uncorrected)



Internal control deficiencies that failed to prevent or timeously detect material misstatements in the financial statements included the following:

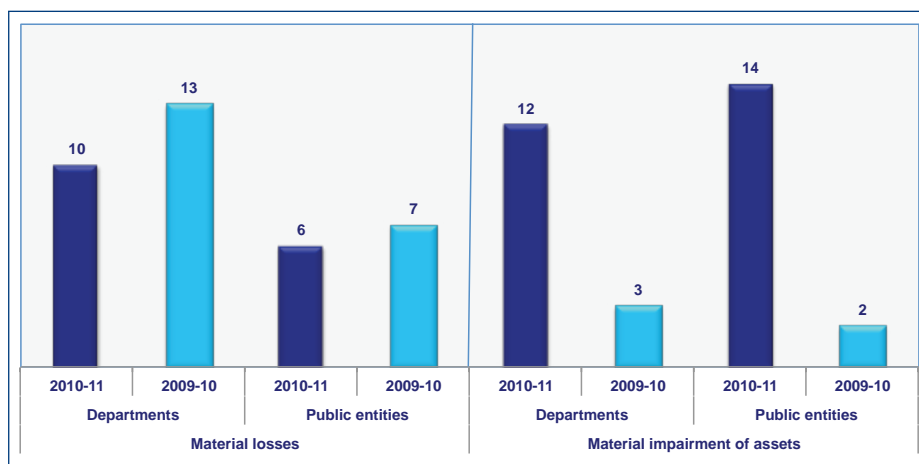
- Auditees do not implement systems and processes to assist them to report in accordance with the accounting framework. This leads directly to the high prevalence of misstatements on “other disclosure items”.
- There appears to be a tendency to simply submit annual financial statements with the expectation that corrections would be pointed out by the audit team and that the AGSA would give management an opportunity to make corrections during the audit process.
- Monthly in-year monitoring reports on financial information are not effective as errors and omissions are not identified by management.



2.2.5 Material losses, impairment of assets and underspending of votes or conditional grants

Details of material losses and asset impairments as disclosed in the financial statements of departments (including legislatures) and public entities for the year ended 31 March 2011 are depicted below.

Figure 8: Material losses and asset impairments



Material losses incurred

Significant material losses were reported by 10 (2009-10: 13) departments and six (2009-10: seven) public entities amounting in aggregate to R288 million (2009-10: R997 million) in all the provinces except Limpopo and Mpumalanga. These were caused in the main by a breakdown in controls (monitoring processes), which resulted in the write-off of assets whose existence could not be physically verified. The highest incidence of material loss was R90 million incurred by Ithala Development Finance Corporation as a result of the write off of irrecoverable loans and advances.

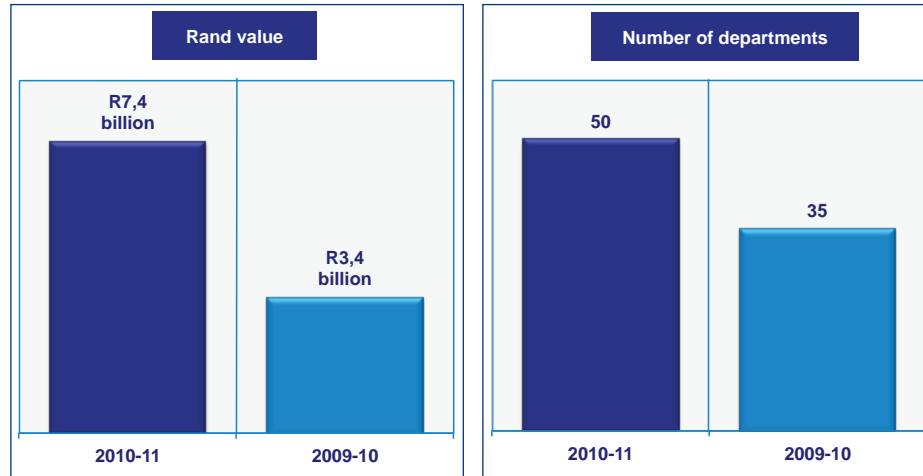
Material impairment of assets (assets written down in value)

The value of assets totalling R2,9 billion (2009-10: R367 million) was written down by all the provinces. The most significant write-off related to staff and patient debts to the value of R698 million by the Department of Health and Social Development in Gauteng. The KZN Housing Fund wrote down the value of sale debtors of R365 million and rental debtors of R45 million outstanding for more than 12 months and interest raised on previously impaired loans and advances. Old debtor accounts (R20 million) were written off by the Department of Education in the Northern Cape during the year under review. The provision for doubtful debts at the Western Cape Housing Development Fund amounted to R384 million (2009-10: R408 million) at year-end and was prompted by non-payment by debtors.

Material underspending of vote/conditional grants

Fifty departments (40%) [2009-10: 35, (27%)] underspent on their votes and/or conditional grants for the year ended 31 March 2011, as depicted in the following figure.

Figure 9: Material underspending of votes or conditional grants



Forty-three (35%) departments [2009-10: 32 (26%)] materially underspent their votes by a total amount of R6,4 billion (2009-10: R2,8 billion). Seven of these departments had underspending on both their votes and conditional grants. An aggregate amount of approximately R1 billion was underspent by 14 (11%) departments [2009-10: 10 (8%)]. Of the 50 departments that underspent their votes or conditional grants, 19 (38%) departments also underspent their votes or conditional grants in the previous financial year.

The Department of Health in KwaZulu-Natal alone underspent its budget by R1,4 billion in the 2010-11 financial year. This resulted from several lengthy tender appeals and delays in construction, implementation of cost-cutting measures, and savings of interest on bank overdraft facilities not used and the non-filling of budgeted vacant posts.

The impact of the underspending by the various departments is that the objectives contained in their performance plans have not been realised and therefore that actual service delivery levels were lower than planned. This is especially true in the Education, Health and Public Works sectors in the provinces.

2.2.6 Auditees with concerns regarding funding of operations, sustainability or going concern

Concerns regarding the funding of operations or financial sustainability were identified at 18 (7%) auditees [2009-10: 22 (8%)]. The following table depicts the main reasons for such concerns.

Table 10: Reasons for funding and financial sustainability concerns at auditees

Province	Liquidation/Disestablishment	Incorporation with another entity	High reliance on grants/own revenue generated not sufficient to cover operating costs	Current liabilities exceed current assets	Significant financial challenges	Number of auditees
Gauteng	2		1			3
KwaZulu-Natal	2			3	1	6
Mpumalanga			1			1
Northern Cape	1	1				2
North West	1			3		4
Western Cape	1	1				2
Total	7	2	2	6	1	18

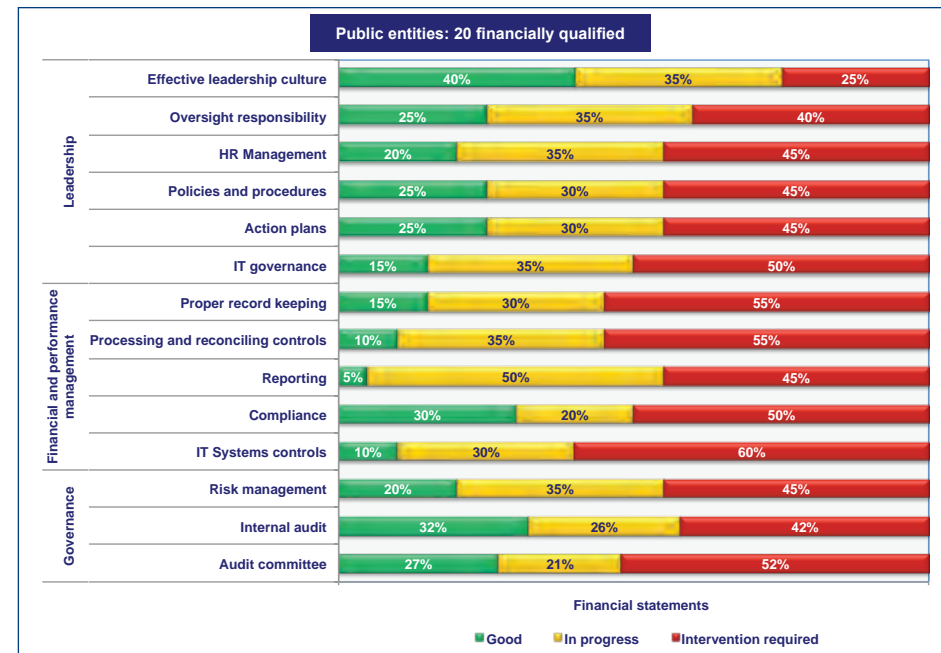
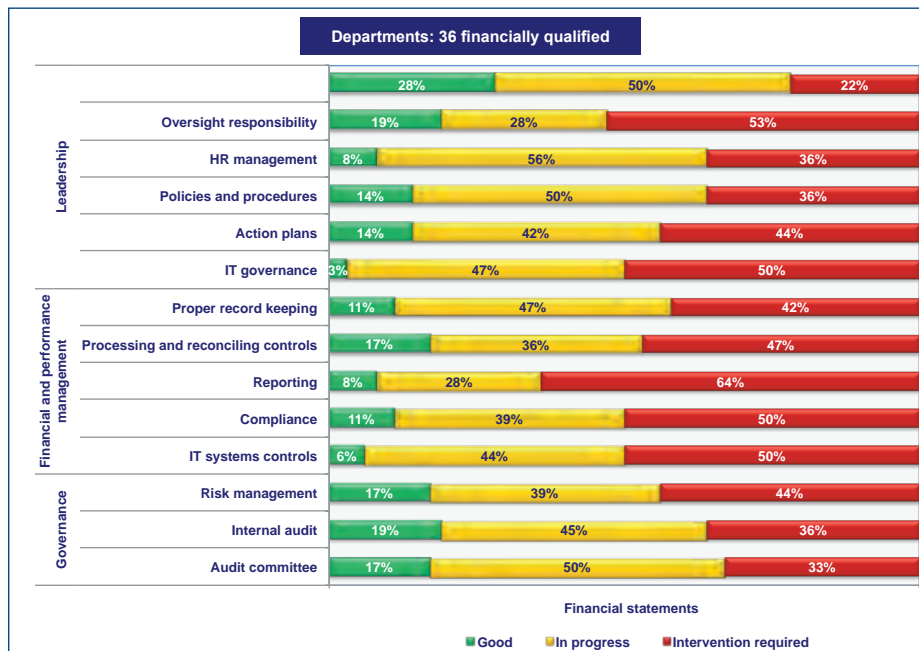
While all the individual components of internal control depicted below are important and need to operate in an integrated manner, the low percentage, in particular of action plans assessed as being adequate, is not encouraging as a predictor of improved audit outcomes for the 2011-12 financial year.



2.2.7 Assessment of drivers of internal control over financial management and reporting

The ability of auditees to produce financially unqualified financial statements is determined by the operation of key drivers of internal control. These drivers are classified as (i) leadership; (ii) financial and performance management; and (iii) governance.

Figure 10: Assessment of key controls over financial management and reporting of financially qualified auditees



2.2.8 Best practices, root causes of findings and the way forward on auditees' financial statement qualifications and financial management

Best practices that can be replicated by those auditees attracting findings

- The leadership and management driving the implementation of action plans to address audit findings.
- Full verification of all assets at least annually.
- Adjusting financial statements when errors are identified by the auditors.
- Review of financial statements by the audit committee prior to submission to the external auditors.
- Appointment of suitably skilled personnel in critical positions.
- Improvement of the filing systems to ensure that documents required for audit are easily retrievable.

- Monthly reconciliations of transactions and account balances (general ledger reconciliation).
- Internal auditors validating the correctness of the financial statements.

These best practices are more prevalent at public entities that at departments.

Root causes of financial reporting and financial management-related matters

- The accounting authorities failed to implement adequate controls over the collation, recording, processing and monitoring of financial information.
- Action plans developed in the prior year were not fully implemented. Some plans were not specific enough, not time bound and were not executed with discipline. As a result, actions were taken too late in the financial year to have a direct impact on these outcomes.
- Management did not implement recommendations to revisit entire batches/groups of transactions where errors were identified through the AGSA audit. The root causes of such errors were not addressed.
- No proper systems to ensure that asset improvements and additions were regularly and timeously updated.
- Financial statements were not reviewed by the audit committees on a regular basis.
- Finance staff were not adequately trained to prepare annual financial statements in compliance with Generally Recognised Accounting Practice (GRAP).

Key elements of the way forward on financial management and reporting

- Reliable financial statements and sound financial management can be achieved and sustained if three elements are implemented and maintained by the leadership, namely (a) leadership tone portraying a willingness to accept accountability for the financial management throughout the financial year; (b) creating a control environment that is conducive to accountability and oversight; and (c) decisive action plans

with clear time frames to address the root cause of audit qualifications and the continuous monitoring of the implementation of action plans.

- Sound leadership principles, financial and performance management, and governance are the building blocks of clean administration. The provincial governance oversight structures need to intensify initiatives to institutionalise these principles to achieve clean audit outcomes in the foreseeable future.

2.3 Findings arising from the audit of reporting on predetermined objectives

2.3.1 Overview of the AGSA's approach to the audit of predetermined objectives

Departments, legislatures and public entities are required by legislation to report against their predetermined objectives (PDOs) 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.



2.3.2 Overall findings arising from the audit of reporting on predetermined objectives

There has been an overall reduction of 35% in the number of auditees that had findings on their predetermined objectives' reporting (2010-11: 116, 2009-10: 178). The findings reported in the auditor's reports of 62 departments (54%), three legislatures (33%) and 51 public entities (43%), including the following:

- The planned performance targets were not specific, not measurable and not time bound, which affected the usefulness of the service delivery report.
- In the service delivery reports reasons were not given for major variances between planned and actual targets: While the best plans may suffer setbacks and unexpected implementation problems, it is important, in the interest of effective accountability, to provide an explanation as to why set targets or service delivery levels were not attained.
- Reported indicators/measures were not well defined, not verifiable, or not accurate when compared to source information or there is no supporting documentation to support targets and service delivery indicators.

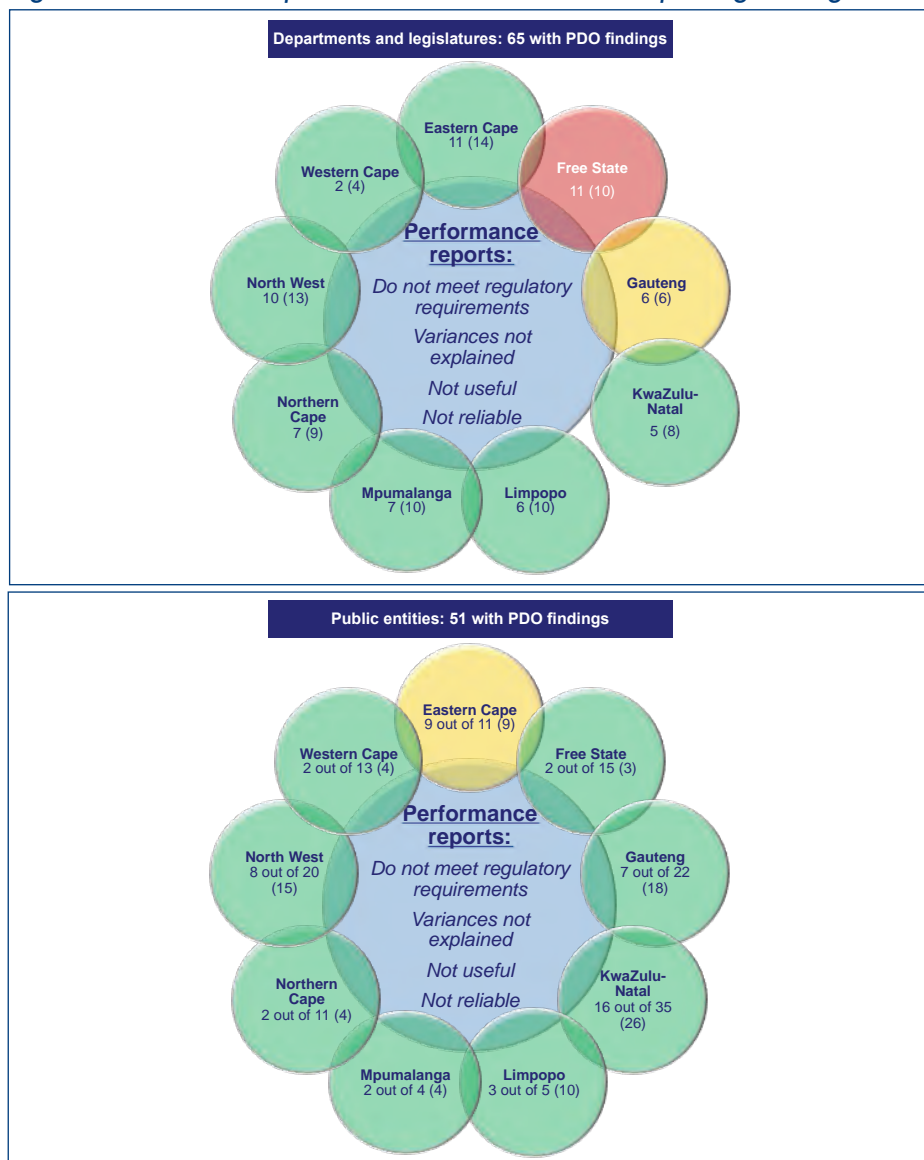
Progress made by auditees in addressing prior year audit findings on predetermined objectives' reporting is depicted in table 11. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Table 11: Reductions/increases in findings on reporting on predetermined objectives

Movement in number of auditees with PDO findings	Departments	Legislatures	Public entities	Total	Percentage
Remained with no findings	31	3	37	71	29%
Findings addressed	20	3	29	52	21%
New auditees	2		1	3	1%
Auditees with no findings	46%	67%	57%	126	52%
Repeat findings	58	3	37	98	40%
New findings	2		9	11	5%
New auditees	2		5	7	3%
Auditees with PDO findings	54%	33%	43%	116	48%
Total number of auditees reported on	115	9	118	242	100%

A provincial analysis of the 116 auditees (48%) with findings on PDO is depicted below. The number of auditees with PDO findings in the 2009-10 financial year is given in brackets.

Figure 11: Provincial spread of auditees with PDO reporting findings



Some 228 material findings on PDO were reported in the auditor's reports of these 116 auditees. Progress made by auditees in meeting the legislative PDO requirements and providing useful and reliable service delivery reports, shows an overall improvement in all three aspects of findings, as depicted below.

Figure 12: Movements in findings on reporting against their predetermined objectives

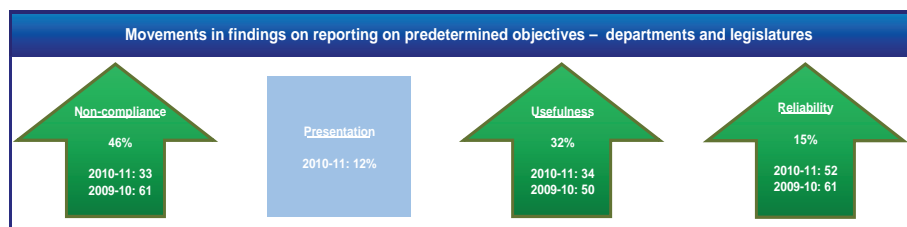
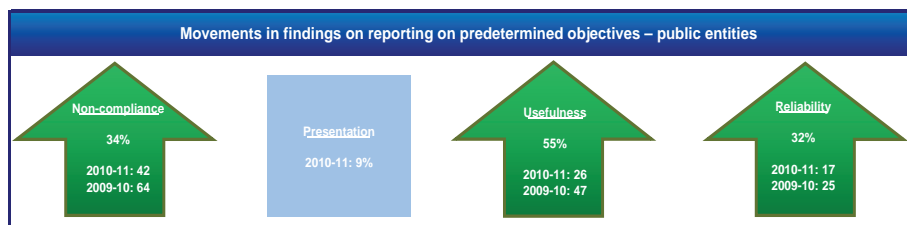


Figure 13: Movements in findings on reporting against their predetermined objectives



As can be seen from the table below, the level of PDO findings in some provinces is still high and in some provinces has even increased over the previous financial year. Since most auditees have more than one PDO finding, the number of findings exceeds those figures and tables that depict the number of auditees.



Table 12: Provincial analysis of findings on auditees' reporting against their predetermined objectives

Province	Non-compliance with PDO legislation				Usefulness				Reliability				Presentation	
	Departments		Public entities		Departments		Public entities		Departments		Public entities		Departments	Public entities
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10		
Eastern Cape	9	13	5	8	8	11	5	6	8	7	5	4	29%	18%
Free State	10	7	2	4	1	4	1	1	10	9	1	1	15%	0%
Gauteng	1	10	5	16	4	5	4	12	3	6	1	8	17%	5%
KwaZulu-Natal	1	3	16	21	2	4	5	14	5	4	1	2	0%	3%
Limpopo	3	5	2	2	6	4	1	3	5	10	1	1	0%	0%
Mpumalanga	0	6	2	3	2	6	0	3	7	8	1	3	7%	25%
Northern Cape	5	5	2	1	6	7	2	1	6	7	2	0	31%	50%
North West	4	10	7	8	7	8	7	5	6	6	5	4	17%	22%
Western Cape	0	2	1	1	0	1	1	2	2	4	0	2	0%	0%
Number of auditees	33	61	42	64	36	50	26	47	52	61	17	25	12%	9%
	27%	49%	42%	52%	28%	40%	26%	39%	43%	49%	17%	20%		

■ Increase in number of auditees over the previous year

2.3.3 Summary of regulatory requirements or criteria not met by auditees and trends in findings

Key trends in findings related to predetermined objectives reporting are as follows:

Non-compliance

Non-compliance with regulatory requirements refers to the preparation of the strategic/corporate plan and the annual performance plan, submission to those delegated for approval depending on the type of institution, the evaluation of the contents for achieving objectives and indicators and the subsequent reporting.

Findings relate mainly to the following:

- No reporting of information on performance against predetermined objectives, indicators and targets [11 auditees (10%)].
- Lack of effective, efficient and transparent systems and internal controls regarding performance management and a lack of or inadequate quarterly reporting of information on performance against predetermined objectives [52 auditees (45%)].

There has nonetheless been an improvement in the level of compliance by both departments and public entities.

Usefulness of reported information

The audit focused on the consistency, relevance and measurability of planned and reported achievements against predetermined objectives.

Findings relating to usefulness of reported information on performance against predetermined objectives refer to the reported performance information not being consistent with the objectives and targets and whether the targets are clearly linked to the mandate and objective of the institution, are specific and clearly identify the nature and required level of performance, and are measurable and time bound.

Reliability of reported information

The audit focused on whether the reported information on performance against predetermined objectives could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.

In some instances the reliability of reported information could not be confirmed due to the absence of sufficient appropriate evidence available in relation to reported performance against predetermined objectives and the lack of an appropriate system to generate the information. Evidence provided by auditees did not always support the reported information and was not accurate and complete.

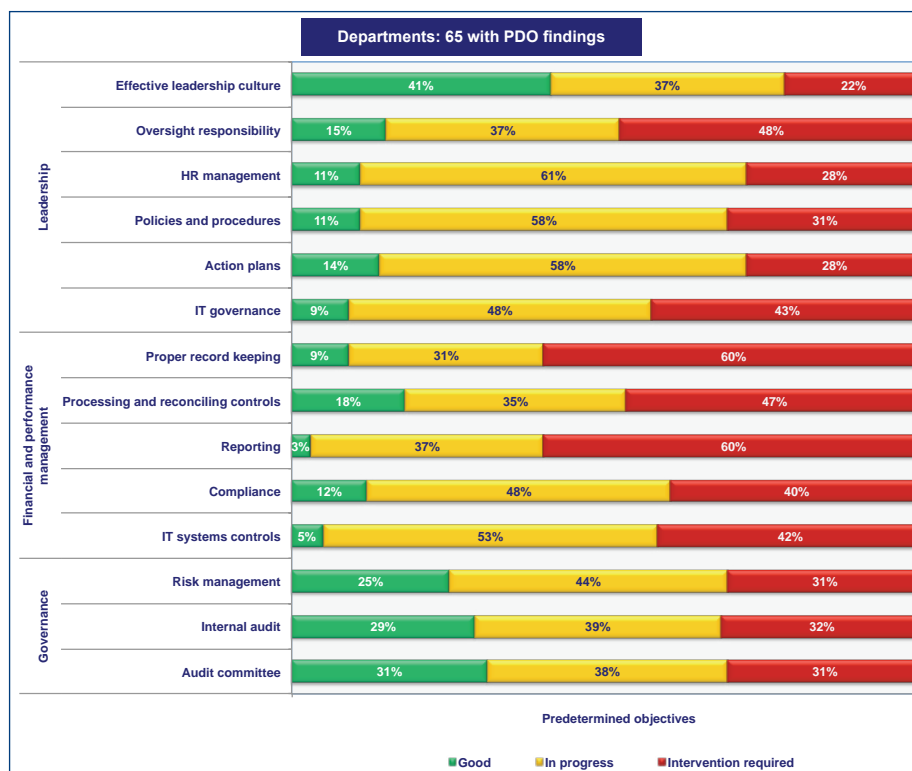
Presentation of information – variances

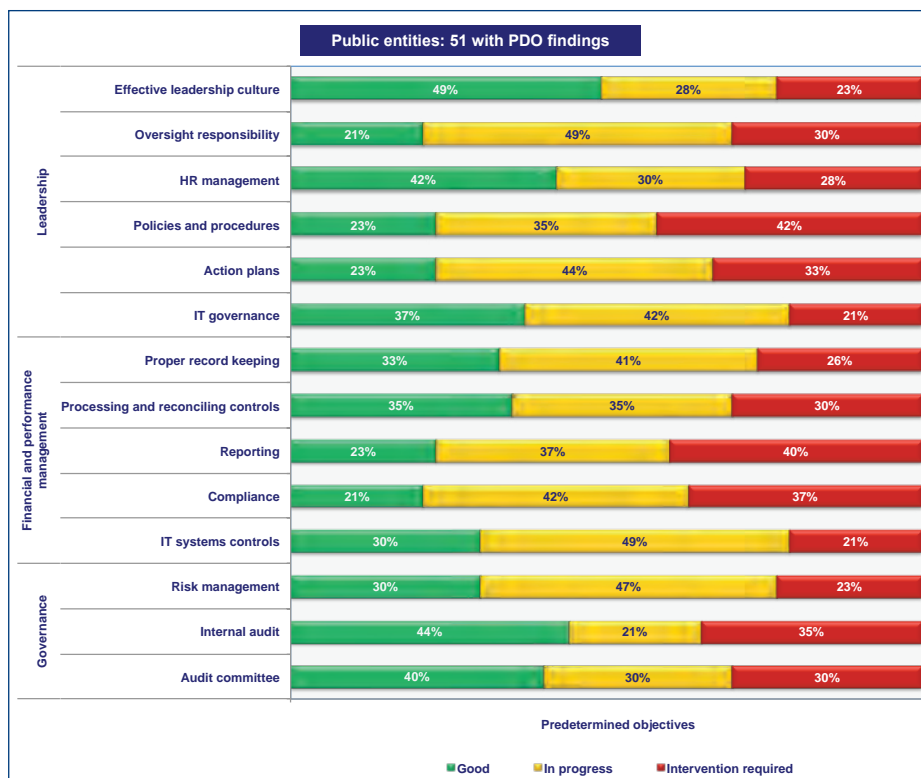
Major variances between the objectives set and the actual targets achieved were not explained in the performance reports of 33 departments, one legislature and 26 public entities.

2.3.4 Assessment of internal control over reporting on predetermined objectives

The AGSA assessed individual auditees' internal controls regularly during the year with a final assessment at the conclusion of the audit. Overall, the number of auditees where the implementation of key controls on predetermined objectives was still in progress at year-end and those assessed as requiring intervention is disquieting. Figure 14 provides an overall assessment at March 2011 of the status of the key drivers of internal control of those departments and public entities that had audit findings on predetermined objectives reporting.

Figure 14: Assessment of drivers of internal control over reporting on predetermined objectives





The above assessment highlights the significant attention required from the leadership, those charged with governance and management to address the findings on predetermined objectives.

Oversight of performance reporting needs to be reinforced at departments and public entities that had findings on predetermined objectives. Efforts need to be made to improve oversight so that reliable performance information is reported which can be used as a basis for effective decision-making and improved service delivery.

The production of quality information on performance against predetermined objectives by dedicated staff who understand the requirements, is a priority. The information should be evaluated by internal audit and audit committees and monitored at appropriate leadership levels to enable quality decision-making and service delivery in support of government's service delivery commitments to the citizenry.

2.3.5 Best practices, root causes of findings and the way forward on predetermined objectives reporting

Best practices of auditees which could be replicated by those attracting findings include the following:

- Action plans were devised and closely monitored by management to ensure that audit issues raised in previous years did not recur.
- Teams regularly monitored the achievement of objectives and targets and took corrective action where variances occurred.
- Allocation of clear roles and responsibilities with regard to performance management and reporting as well as clear responsibilities for overseeing the achievement of objectives and targets. Monitoring is performed on a quarterly basis and where deviations arise, corrective action is taken.
- Monthly reviews by the monitoring and evaluation manager, which include the confirmation of existence of sufficient appropriate source documentation in support of reported service delivery achievements.
- Procedure manuals and guidance from the treasury were effectively communicated to staff and actions were taken to implement the principles as per these guidelines.

Root causes of repeat and new findings on PDO at provincial level:

- Lack of dedicated resources (people and systems) to effectively report on predetermined objectives.

- Senior manager vacancies resulting in the limited review of regular reporting on predetermined objectives.
- No review conducted by internal audit and audit committees of performance management and reporting. Internal audit and the audit committee did not focus on the problems raised in the quarterly key control assessments.
- Absence of adequate controls over the collation, recording, processing and monitoring of predetermined objectives data.
- Lack of documented performance management policies.
- Record keeping not properly implemented to ensure that complete, relevant and accurate performance information is available to support performance and financial reporting.

Way forward for improved reporting against predetermined objectives:

- Implementing and monitoring a policy on performance information.
- Internal audit should attest to the validity, accuracy and completeness of reported information.
- Self-assessment by auditees who should not rely on the audit process to identify deficiencies in the processes of ensuring accurate information for reporting purposes.
- Audit committees should review quarterly performance reports and track progress made on the implementation of action plans. Audit committees should review the internal audit charter and internal audit coverage plans to include the validation of PDO information.
- Internal audit should review quarterly performance reports to ensure that they are supported by reliable evidence.
- The accounting authorities should ensure that quarterly reports on predetermined objectives are presented to the audit committees and the boards for their review.
- Management should compile quarterly reports on progress made in achieving measurable objectives and targets.

2.4 Findings arising from 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. Departments, legislatures and public entities 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 compliance audit approach followed by the AGSA for the year under review is described in section 2.4.1 and the outcomes of audits are presented and analysed in sections 2.4.2 and 2.4.3. Specific focus was placed on auditing procurement and contract management processes and a summary of the findings is presented in section 2.4.4.

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. An analysis of the expenditure is included in section 2.4.5 in order to provide a comprehensive picture of the level of non-compliance by auditees. Details are provided in section 2.4.6 of investigations conducted at auditees into matters such as SCM contraventions, fraud and financial misconduct, only some of which were conducted by the AGSA.



Section 2.4.7 provides an assessment of the drivers of internal control at auditees as it relates to compliance with laws and regulations. The root causes of non-compliance and the way forward are analysed in section 2.4.8.

2.4.1 Overview of the AGSA's approach to auditing compliance with laws and regulations

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. The procedures performed to obtain evidence that auditees complied with applicable laws and regulations were limited to the following focus areas:

- Annual financial statements, performance report and annual report
- Asset management • Audit committees • Budgets • Expenditure management • Financial misconduct • Internal audit • Revenue management • Strategic planning and performance management • Transfer of funds and conditional grants • Procurement and contract management • Human resource management and compensation.

Although compliance in most of the specified areas was audited in previous years, the scope and extent of coverage increased for the year under review in accordance with the phased approach. The non-compliance related to predetermined objectives was also reported for the first time this year in the auditor's report as non-compliance and not predetermined objective findings. These changes resulted in more areas and instances of non-compliance being identified by the audits for the year under review. Audits not performed by the AGSA also included compliance auditing, although not all the focus areas were covered to the same extent.

2.4.2 Overall trends in the level of material non-compliance reported

As depicted below, findings on material non-compliance with laws and regulations were raised in the auditor's reports of 192 auditees (79%) [2009-10: 177 auditees (66 %)]. This represents an overall increase of 8% compared to the 2009-10 financial year.

Figure 15: Overall movement in the number of auditees with reported material non-compliance





*Audits completed and reported on: 2010-11=242 (2009-10: 269)

Departments show the highest level of non-compliance at 86% while legislatures have significantly reduced their level of non-compliance, improving by 43%. Public entities show a 75% level of non-compliance; which represents the highest increase over the prior financial year at 17%.

Details of the non-compliance findings are further analysed in section 2.4.3.

The table below analyses the movements in the number of auditees with non-compliance findings across the provinces.

Table 13: Provincial analyses of the movement in the number of auditees with reported material non-compliance

Movement in findings	EC	FS	GP	KZN	LIM	MP	NC	NW	WC	Total
Remained with no findings	2	6	9	6	4	4			7	38
Findings addressed	1	1	1	8		1				12
Auditees with no findings	12%	26%	29%	28%	22%	28%	0%	12%	26%	21%
Repeat findings	18	13	12	32	7	8	17	19	11	137
New findings	4	6	9	3	7	4	1	4	8	46
New auditees	1	1	3	1		1	1		1	9
Auditees with PDO findings	88%	74%	71%	72%	78%	72%	100%	100%	74%	79%
Total number of auditees reported on	26	27	34	50	18	18	19	23	27	242

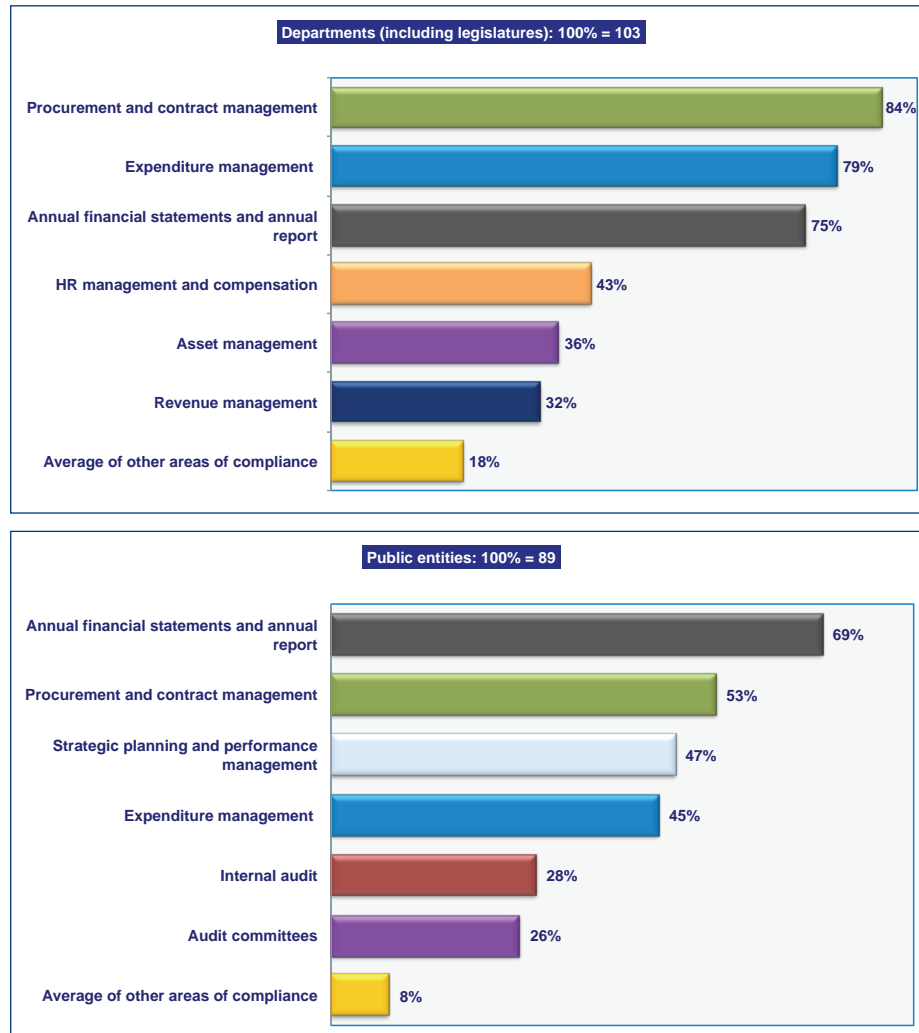
Notably, the Northern Cape and North West reflect 100% incidents of non-compliance.

2.4.3 Nature of transversal findings arising from the audit of compliance with laws and regulations

The following figure depicts the areas of material non-compliance, as reported in the auditor's reports, which were most prevalent at departments and public entities overall for the year under review and across provinces. As the focus areas and legislative requirements audited differ from those of the previous year, a comparison to the prior year is not given.



Figure 16: Transversal reported areas of material non-compliance for departments (including legislatures) and public entities



The following two tables analyse the auditees with significant non-compliance findings across the provinces. High concentrations of findings are shaded in red and no identified incidents of material non-compliance are shaded green.

Table 14: Transversal areas of material non-compliance per province – departments

Focus areas	EC	FS	GP	KZN	LIM	MP	NC	NW	WC
Procurement and contract management	85%	91%	60%	91%	73%	80%	86%	92%	100%
Expenditure management	92%	91%	100%	82%	82%	60%	79%	69%	50%
Annual financial statements and annual report	92%	73%	60%	82%	91%	70%	79%	85%	30%
HR management and compensation	62%	82%	10%	0%	36%	40%	64%	38%	40%
Asset management	38%	73%	30%	18%	55%	10%	43%	38%	10%
Revenue management	54%	36%	40%	9%	36%	10%	43%	46%	0%
Average of other non-compliance findings*	26%	42%	6%	9%	6%	7%	41%	13%	4%
Auditees with findings	87%	85%	83%	69%	85%	71%	100%	100%	71%
Auditees with no findings	13%	15%	17%	31%	15%	29%	0%	0%	29%
Total auditees reported on	15	13	12	16	13	14	14	13	14

* The average of other non-compliance findings includes strategic planning and performance management, audit committees, internal audit, transfer of funds and conditional grants, budgets and financial misconduct.

Table 15: Transversal areas of material non-compliance per province – public entities

Focus areas	EC	FS	GP	KZN	LIM	MP	NC	NW	WC
Annual financial statements and annual report	100%	89%	43%	60%	100%	67%	80%	90%	40%
Procurement and contract management	70%	56%	21%	40%	67%	33%	40%	70%	100%
Strategic planning and performance management	70%	22%	36%	60%	33%	67%	40%	70%	10%
Expenditure management	50%	67%	50%	36%	67%	100%	20%	50%	20%
Internal audit	30%	78%	0%	16%	67%	0%	100%	40%	0%
Audit committees	10%	56%	14%	24%	33%	0%	100%	20%	10%
Average of other non-compliance findings*	9%	14%	5%	8%	10%	5%	17%	7%	3%
Auditees with findings	91%	64%	64%	74%	60%	75%	100%	100%	77%
Auditees with no findings	9%	36%	36%	26%	40%	25%	0%	0%	23%
Total auditees reported on	11	14	22	34	5	4	5	10	13

* The average of other non-compliance findings includes asset management, budgets, revenue management, HR management and compensation and financial misconduct.

The findings reported in the area of strategic planning and performance management are analysed in section 2.3 (predetermined objectives reporting). Submission for audit of financial statements that contain material misstatements also constitutes non-compliance with the PFMA, which is analysed in section 2.2.4.

Transversal non-compliance findings relating to the remaining AGSA compliance focus areas are analysed below. The most significant findings based on the total auditees with non-compliance in the auditor's reports (103 departments and 89 public entities) are depicted in tables 16 to 22.

Procurement and contract management

Findings were identified at 87 (84%) departments and 47 (53%) public entities; the most significant of these are depicted in the following table.

Table 16: Non-compliance findings arising from the audit of procurement and contract management

Summary of common findings	Departments (103)	Public entities (89)
Competitive bidding processes were not followed in the awarding of contracts	24%	10%
No or an inadequate number of price quotations were obtained for the procurement of lower value goods and services	26%	17%
Suppliers did not submit declarations on interest/connections with state officials	29%	12%

The AGSA's continued focus on the procurement and contract management processes resulted in material non-compliance with SCM-related legislation being reported in the auditor's reports of 59% of the 210 auditees where the procurement procedures were performed.

Unapproved deviations from prescribed procurement processes remain the most common finding. Many auditees were unable to implement the fairly new instruction from National Treasury (Practice note 7 of 2009-10) for prospective suppliers to submit declarations of interest. Section 2.4.4 and section 5 provide more detail on findings resulting from the audit of procurement and contract management.

Expenditure management

Findings were identified at 81 (79%) departments and 40 (45%) public entities, the most significant of these are depicted in the following table.



Table 17: Expenditure management findings

Summary of common findings	Departments (103)	Public entities (89)
The accounting officer/authority did not prevent irregular expenditure	56%	33%
Payments to creditors not made within 30 days from receipt of an invoice	45%	11%

Accounting officers and authorities of departments and public entities subject to the PFMA are responsible for ensuring that irregular expenditure is detected and prevented. Irregular expenditure refers to expenditure incurred in contravention of, or is not in accordance with, a requirement of legislation. The high incidence of non-compliance with SCM-related legislation, as identified by the AGSA, inevitably led to an increase in irregular expenditure. Controls implemented by accounting officers and authorities to prevent irregular expenditure were inadequate at 36% of provincial auditees. The extent and nature of irregular expenditure are further analysed in section 2.4.5.

The late payment of creditors has been a recurring material non-compliance finding. This was identified at 46 provincial auditees (2009-10: 84). Late payment of suppliers impacts negatively on the ability of especially small and medium enterprises to continue providing services to government. Weaknesses in creditor payment processes of auditees are mostly the root cause of such non-compliance, but there are also instances of auditees delaying payment because of insufficient funds or budget.

Annual financial statements and annual report

Findings were identified at 77 (75%) departments and 61 (69%) public entities, the most significant of these are depicted in the table below.

Table 18: Non-compliance relating to annual financial statements and annual reports

Summary of common findings	Departments (103)	Public entities (89)
The submitted AFS were not prepared in accordance with the prescribed accounting framework	59%	56%
The submitted AFS were not supported by full and proper records	20%	10%

The most prevalent findings in this area relate to material misstatements in and the lack of supporting records for financial statements submitted for auditing, which were, in some cases, subsequently corrected as analysed in section 2.2.5. These findings were elevated to the auditor's report as material non-compliance matters for the first time this year in order to bring them to the attention of those charged with governance.

Audit committees and internal audit

Non-compliance findings related to audit committees were identified at 25 (24%) departments and 23 (26%) public entities. Internal audit findings were identified at 25 (24%) departments and 25 (28%) public entities, the most significant of these are depicted in the table below.

Table 19: Non-compliance relating to audit committees and internal audit

Focus area	Summary of common findings	Departments (103)	Public entities (89)
Internal audit	Internal audit was not under the control and direction of the audit committee	16%	6%
	The rolling three year internal audit plan was not approved by the audit committee	11%	1%
	No internal audit function was in place	0%	12%
Audit committees	No audit committee was in place	12%	15%

Overall, 10% of all provincial departments did not have audit committees, all of which are in the Free State and the Northern Cape where the shared

audit committees had not been established as envisaged. Eleven per cent of all provincial public entities did not have audit committees and 9% did not have internal audit functions. These entities were in the Free State, KwaZulu-Natal, North West and Northern Cape.

Asset management

Findings were identified at 37 (36%) departments and 12 (13%) public entities, the most significant of these are depicted in the following table.

Table 20: Non-compliance relating to asset management

Summary of common findings	Departments (103)	Public entities (89)
Adequate control systems were not implemented for the safeguarding and maintenance of assets	33%	10%

The finding on inadequate control systems for assets was most prevalent at departments and was reported across all provinces except Mpumalanga. Of the 34 departments with this finding in their auditor's reports, the highest incidence was in the sectors for Health (seven), Public Works (six) and Human Settlements (four).

The inability of the accounting officers to comply with this requirement also resulted in the high incidence of material misstatements of capital assets in financial statements. The most common control weakness in this area remains the absence of updated asset registers.

Revenue management

Findings were identified at 33 (32%) departments and six (7%) public entities, the most significant of these are depicted in the table below.

Table 21: Legislated revenue management requirements not complied with

Summary of common findings	Departments (103)	Public entities (89)
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Effective and appropriate steps were not taken to timeously collect all revenue due	25%	6%
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Findings on inadequate revenue collection were also most prevalent at departments and were reported across all the provinces except the Western Cape. Of the 26 departments with this non-compliance finding in their auditor's reports, the highest incidence was in the sectors Education (five), Health (four), Public Works (four) and Agriculture (three).

Human resource management and compensation

Findings were identified at 44 (43%) departments and five (6%) public entities, the most significant of these are depicted in the table below.

Table 22: Public Service Act human resource management and compensation prescripts not followed

Summary of common findings	Departments (103)	Public entities (89)
Employees acted in positions for more than 12 months	14%	0%
Senior managers did not sign performance agreements for current performance period	13%	0%

HR management is a specific focus area for the AGSA as it is a key driver of improved audit outcomes. The Public Service Act and its regulations are the only legislation that prescribes HR practices in government and is only applicable to departments. Prolonged acting periods and lack of performance contracts were identified at a third of the departments but the extent of the non-compliance was deemed material enough for inclusion in the auditor's report at only 14% of the auditees.

Section 3.2 of this report provides more detail on findings resulting from the audit of HR management and compensation.



2.4.4 Summary of findings arising from the audit of supply chain management (SCM)

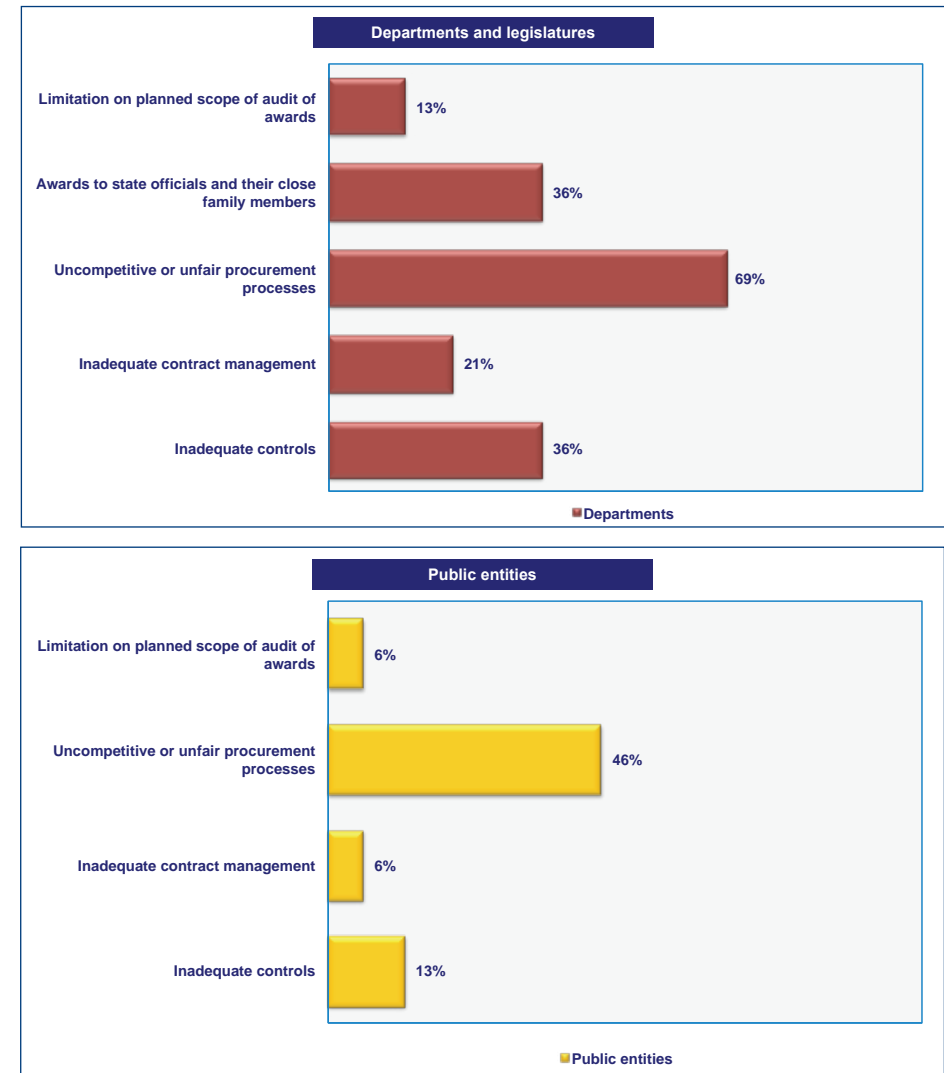
The audits included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. The assessments were performed only at provincial departments, trading entities and PFMA-listed public entities audited by the AGSA – 210 (87%) auditees in total.

Contracts awarded and price quotations accepted (referred to as “awards” in the rest of the report) to the value of R22,7 billion were tested. Awards to the value of R1,9 billion that were selected for audit could, however, not be audited due to the required information or documentation not being made available by departments and entities.

Findings arising from the audit were reported in the management reports 140 (67%) of the auditees included in the scope, while in 111 (79%) of these cases the findings were material enough to warrant reporting thereof in the auditor’s report. Such findings were reported across all provinces.

A summary of findings arising from the audit is depicted below.

Figure 17: Summary of findings arising from audit of supply chain management



Section 5 of this report provides a more detailed analysis of SCM findings.

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

Accounting officers or authorities of auditees subject to the PFMA must take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented and detected. Unauthorised expenditure stems from overspending on a vote or a main division within a vote or refers to expenditure that is not in accordance with the purpose of a vote or main division.

Irregular expenditure refers to expenditure, other than unauthorised expenditure, incurred in contravention of, or not in accordance with, a requirement of any applicable legislation. Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

The PFMA also makes it compulsory for the auditees to disclose such expenditure in their financial statements.

Extent of unauthorised, irregular as well as fruitless and wasteful expenditure incurred

The figure below depicts the extent of such expenditure incurred in the year under review and the portion thereof that was identified during the audit and not first detected or reported by the auditees.

Figure 18: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and public entities

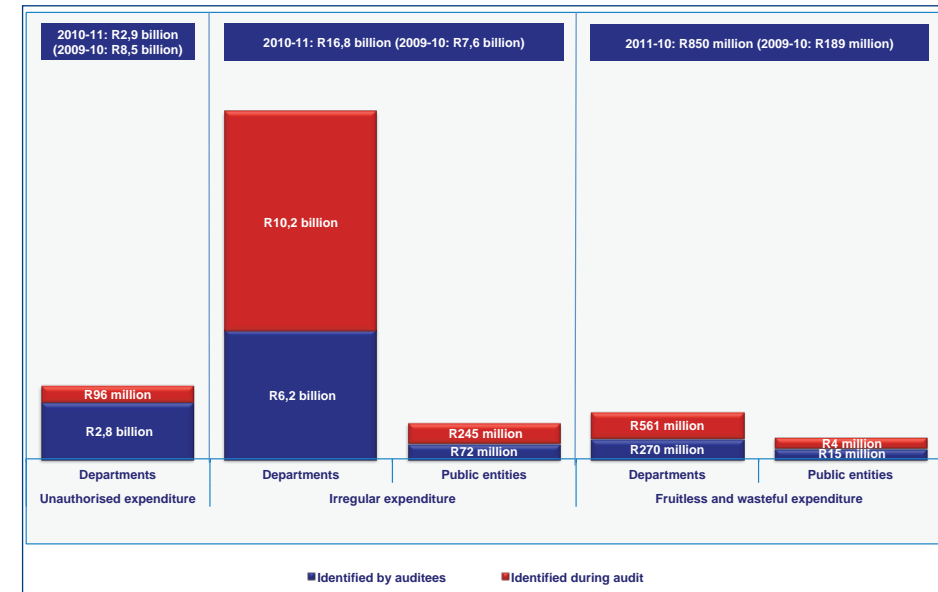




Table 23 provides a provincial analysis.

Table 23: Provincial analysis of departments incurring unauthorised, irregular as well as fruitless and wasteful expenditure

Provinces	Unauthorised expenditure (departments only)			Irregular expenditure			Fruitless and wasteful expenditure		
	Number of auditees	Percentage (of auditees reported on)	Amount (R'000)	Number of auditees	Percentage (of auditees reported on)	Amount (R'000)	Number of auditees	Percentage (of auditees reported on)	Amount (R'000)
Eastern Cape	3	20%	139 372	19	73%	4 553 334	10	38%	116 886
Free State	5	38%	81 386	17	63%	1 159 685	17	63%	57 784
Gauteng	6	50%	1 436 527	14	40%	4 813 889	10	29%	400 455
KwaZulu-Natal	4	25%	265 037	25	50%	1 402 851	7	14%	12 363
Limpopo	2	15%	773 771	11	61%	1 135 804	10	56%	225 446
Mpumalanga	3	21%	84 730	8	44%	535 589	6	33%	10 149
Northern Cape	6	43%	101 755	13	68%	1 323 561	9	47%	9 784
North West	4	31%	66 023	18	78%	1 682 604	16	70%	9 003
Western Cape	0	0%	0	16	59%	182 880	6	22%	7 702
Total	33	27%	2 948 601	141	58%	16 790 196	91	37%	849 571

No unauthorised expenditure was identified during the audit of departments in the Western Cape. R16,3 billion (80%) of the total unauthorised, irregular as well as fruitless and wasteful expenditure was incurred by 42 departments in the sectors of Education, Health, Human Settlements, Public Works and Social Development. Findings related to these sectors are further analysed in section 6.

Nature and trends of unauthorised, irregular as well as fruitless and wasteful expenditure incurred.

The following figure depicts the nature of and movements in unauthorised, irregular as well as fruitless and wasteful expenditure incurred.

Table 24: Nature of and movements in unauthorised, irregular as well as fruitless and wasteful expenditure

Nature of movements	Departments			Public entities		
	Number of auditees	Movement over 2009-10	Amount	Number of auditees	Movement over 2009-10	Amount
Unauthorised expenditure (applicable to departments only)						
Overspending of votes/main division within votes	32	23%	R 2,8 billion			
Expenditure not in accordance with votes	2	82%	R 104 million			
Irregular expenditure						
Supply chain management	90	22%	R 11,4 billion	43		R 303 million
Compensation of employees	34	42%	R 3,6 billion	2		R 3 million
Other non-compliance	25	32%	R 1,5 billion	5		R 10 million
Fruitless and wasteful expenditure						
Supply chain management	18	200%	R 346 million	6	6%	R 9 million
Other non-compliance	58	867%	R 485 million	19		R 9 million

Note: 'Unchanged' denotes an increase/reduction of 5% or less in the level of findings compared to the previous financial year.

Overall trends in unauthorised, irregular as well as fruitless and wasteful expenditure

There has been a 12% overall increase (from 93 to 104) compared to the previous financial year in the number of departments incurring such expenditure. The aggregate amount incurred by them increased by 25% from R16 billion to R20 billion. The number of public entities incurring such expenditure increased by 41% from 37 to 52; while the aggregate amount increased by 63% from R205 million to R318 million.

The trends are analysed in table 25 below and a three-year analysis is presented in figures 19 to 21. Only unauthorised expenditure shows a decline. The specific focus of the AGSA and the public sector in general resulted in an increase in the detection and reporting of irregular and fruitless and wasteful expenditure.

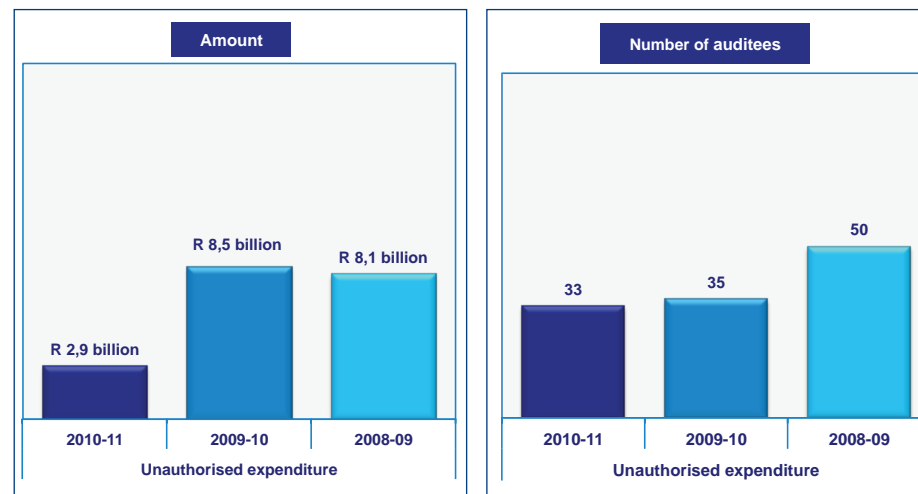
Table 25: Trends in unauthorised, irregular as well as fruitless and wasteful expenditure

Expenditure type	All auditees			Provincial trends		
	Number		Percentage increase/decrease	Provinces		
	2010-11	2009-10		EC	FS	GP
Unauthorised expenditure	33	35	6%	KZN	LP	MP
				NC	NW	WC
Irregular expenditure	141	106	33%	EC	FS	GP
				KZN	LP	MP
				NC	NW	WC
Fruitless and wasteful expenditure	91	74	23%	EC	FS	GP
				KZN	LP	MP
				NC	NW	WC

Increase
Unchanged
Decrease

Note: 'Unchanged' denotes an increase/reduction of 5% or less in the level of findings compared to the previous financial year.

Figure 19: Three-year trend in unauthorised expenditure – departments only



Notably, the rate of increase in the amounts incurred in irregular (more than double) as well as fruitless and wasteful expenditure (more than four-fold over the prior year) is significantly higher than the rate of increase in the number of auditees incurring this expenditure being 33% and 26%, respectively, over the 2009-10 financial year.



Figure 20: Three-year trend in irregular expenditure – all auditees

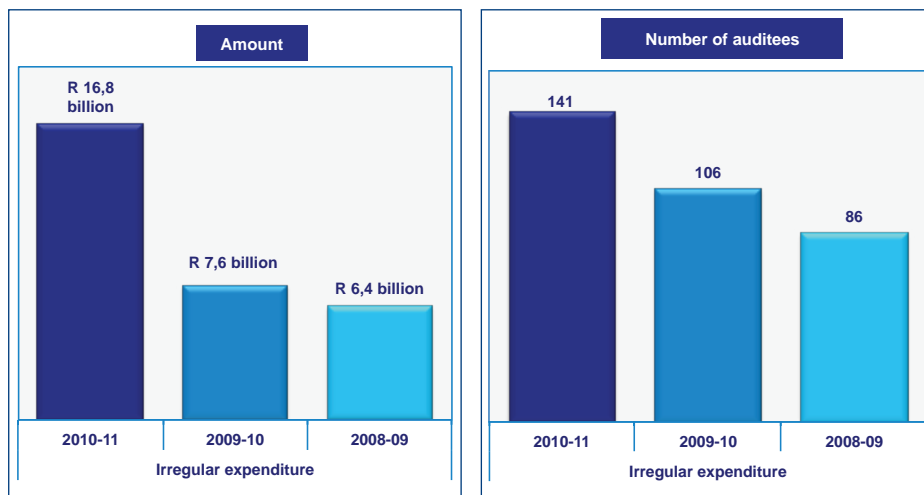
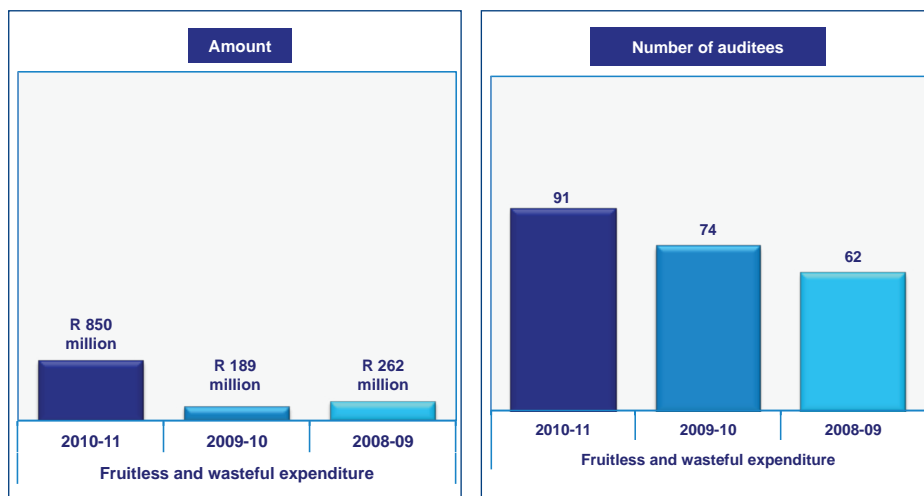


Figure 21: Three-year trend in fruitless and wasteful expenditure – all auditees



2.4.6 Investigations into irregularities, fraud or other financial misconduct

Investigations, which the AGSA is aware of, have been commissioned by 88 (36%) of the auditees, with most investigations in KwaZulu-Natal (23% of 88 auditees). Table 26 analyses investigations in progress or completed by March 2011. Most of the investigations were not conducted by the AGSA.

Table 26: Investigations completed or in process as at 31 March 2011

Province	Number of auditees	SCM-related	Fraud	Other financial misconduct	Total number of investigations
Eastern Cape	5	81	84	85	250
Free State	11	8	1	8	17
Gauteng	9	16	15	10	41
KwaZulu-Natal	21	138	710	255	1 103
Limpopo	3	6	3	1	10
Mpumalanga	10	16	18	7	41
Northern Cape	9	11	2	3	16
North West	8	6	1	1	8
Western Cape	13	55	13	86	154
Total	88	337	847	456	1 640

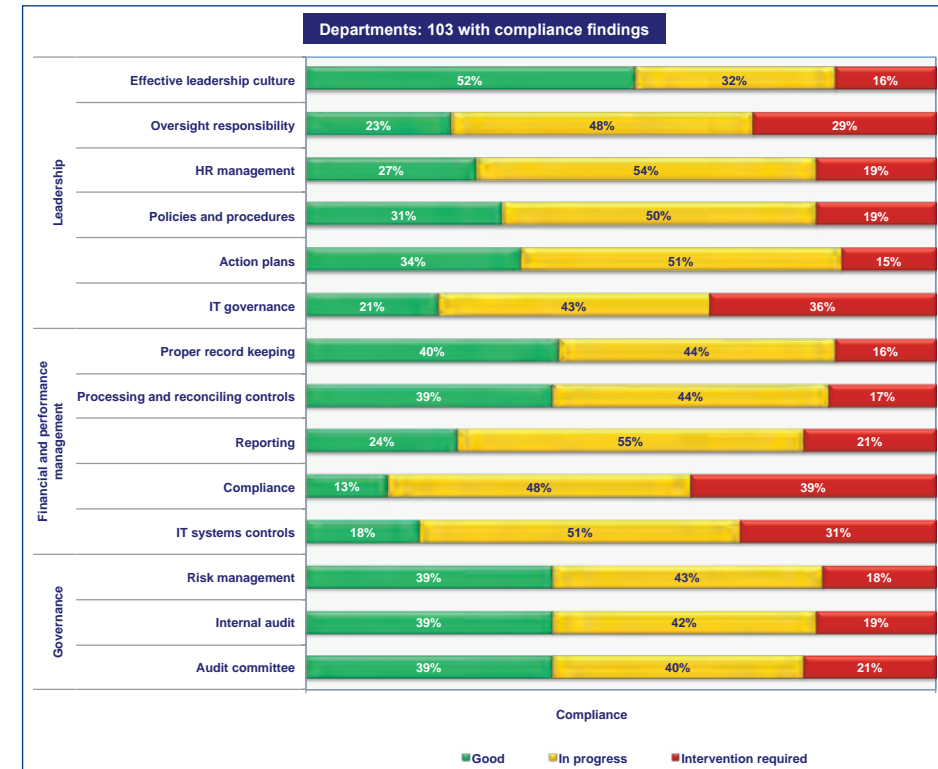
The extent of investigations commissioned suggests a control environment where fraud and financial misconduct are not prevented. It is encouraging, however, that measures are in place for detecting fraud and dealing with allegations/suspensions related to fraud and financial misconduct.

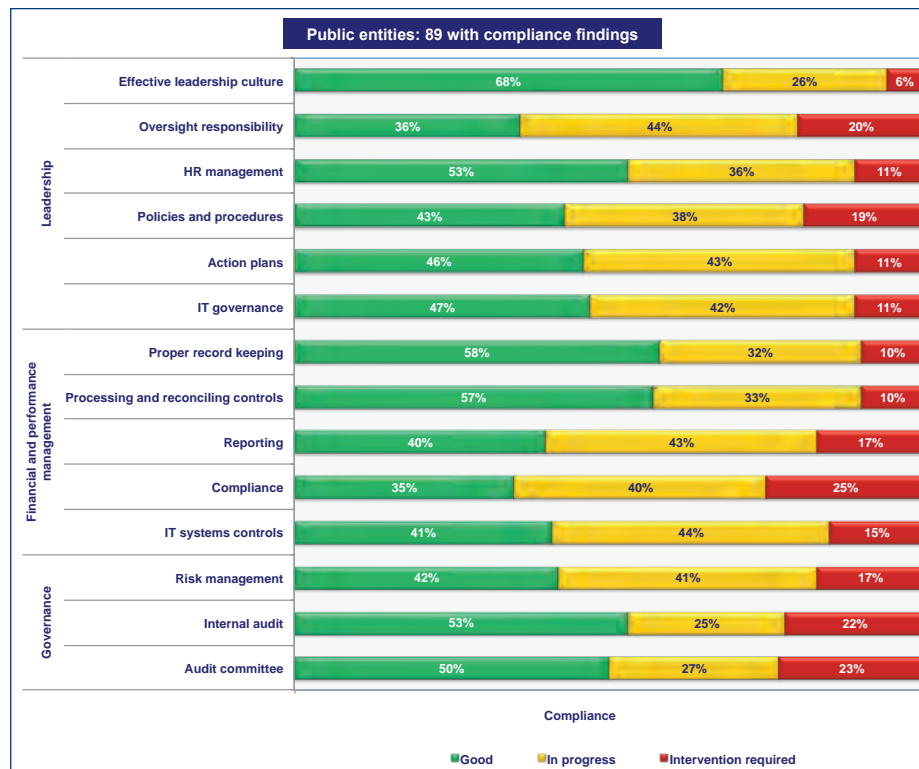
2.4.7 Assessment of drivers of internal control over compliance with laws and regulations

The AGSA formally assessed individual auditees' internal controls regularly during the year with a final assessment at the conclusion of the audit. Overall, the number of auditees where the implementation of key controls on financial management was still in progress at year-end and those assessed as requiring intervention is disquieting. While all the individual components of internal control depicted below are important and need to operate in an integrated manner, the low percentage, in particular of action plans assessed as being adequate, is not encouraging as a predictor of improved audit outcomes for the 2011-12 financial year.

Figure 22 provides an overall assessment of the status of the key drivers of internal control of those departments and public entities that had audit findings on compliance with laws and regulations.

Figure 22: Assessment of drivers of internal control over reporting on compliance with laws and regulations





The drivers of internal control over compliance by public entities with laws and regulations at the time of the audit point to a higher rate of compliance for the ensuing year than that of departments.

2.4.8 Root causes of non-compliance with laws and regulations and the way forward

Compliance with laws and regulations is a measure of clean administration and continued non-compliance will result in provincial auditees not achieving a clean audit status. In total, 33% of auditees were financially unqualified with no findings on predetermined objectives – only the non-

compliance findings in their auditor's reports prevented them from achieving a clean audit.

Although all the matters reported in the current year were not previously reported in the auditor's reports, they had been to the accounting officers and authorities via the management reports. Insufficient progress is being made in addressing non-compliance findings, while the assessment of drivers indicates that little progress will be made in 2011-12 unless the leadership honours commitments made to improve the situation.

The majority of the reported non-compliance findings and the bulk of irregular and fruitless as well as wasteful expenditure stemmed from non-compliance with SCM legislation, which also accounts for a significant portion of the investigations commissioned by auditees. The following recommendations to address the underlying root causes of non-compliance in general and SCM specifically, should be considered as a way forward:

Leadership action to ensure compliance with laws and regulations

- Insufficient attention is given by leadership to ensuring that departments and public entities operate within the boundaries and rules set by legislation. Accounting officers/authorities, executive authorities, provincial treasuries and the premiers should set the tone for officials to the effect that legislation does not represent red tape or bureaucracy, but reflects, through Parliament, the will of the citizens in how public funds should be administered and services delivered.
- Provincial treasuries should improve their monitoring and support activities to enable auditees to fully implement legislative requirements and instructions from the time they become effective.
- Provincial public accounts committees (PACs) should intensify their focus on compliance matters and ensure that members have sufficient knowledge of legislation to interact meaningfully on matters of compliance.

- A tighter approach is required by all parties, including those charged with governance and oversight (executive, portfolio committees, PACs, audit committees and accounting officers), which will result in accountability being enforced and consequences for those who intentionally fail to comply with legislation.
- Officials should be trained on a continuous basis, not only on compliance with policies and procedures, but also with regard to the desired intention and outcome of legislation and the practical implementation thereof.

Financial and performance management measures required to adhere to legislation

- Proper record keeping, especially in the area of SCM, will enable compliance, but also demonstrate transparency and accountability on the part of auditees and not raise concerns about possible fraud or irregularities where documentation is missing.
- Compliance checklists are required as an implementation tool for policies and procedures. These will enable officials, supervisors and monitoring units (e.g. internal audit) to check whether all legislative requirements are met in the daily transactional and management processes as well as in the SCM process.
- Regular reports to management on compliance with key legislation, specifically in the area of SCM, will also promote awareness of legislative requirements and will ensure that management deals with compliance in a regular and structured manner.

Effective governance measures for compliance with legislation

- The legislation with which most public sector entities must comply is extensive and the leadership will need to direct their attention into those areas of highest risk. In this regard, the risk identification and management process should be of great value to leadership and should

not be relegated to an annual exercise that does not comprehensively address all compliance objectives.

- Internal audit is required to play a significant role in monitoring compliance with laws and regulations. Although audits showed that the internal audit function covers this in their audits, such audits are not effective in identifying weaknesses or the audit findings and recommendations are not appropriately addressed. Internal audit can also greatly improve internal controls in the SCM processes by proactively auditing the regularity of contract award processes and providing some assurance to management on this matter.
- Audit committees should direct internal audit focus appropriately.

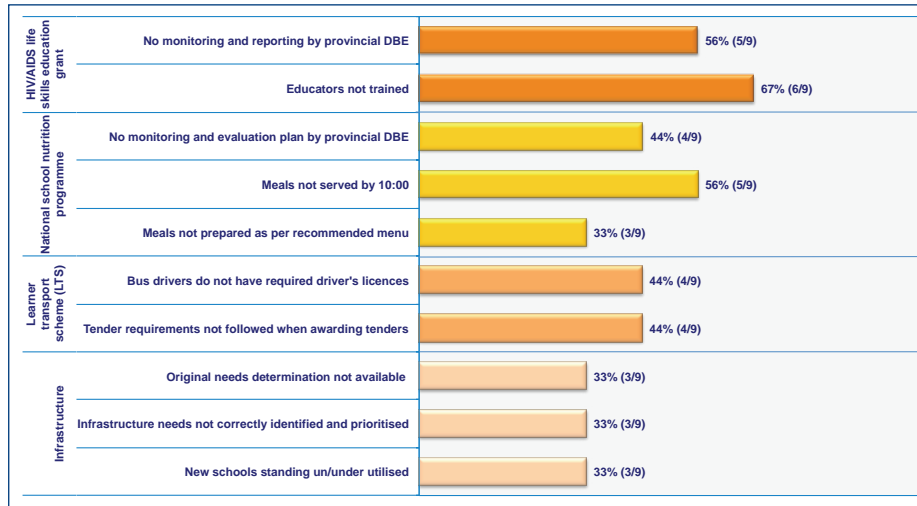
2.5 Summary of findings arising from the audit of sectors

Section 6 of this report contains the results of audits conducted in the departments of Education, Health, Human Settlements, Public Works and Social Development across the country. Depicted in the following figure are some of the findings and their prevalence (percentage and number) relating to key national programmes which are being implemented by these sector departments countrywide.

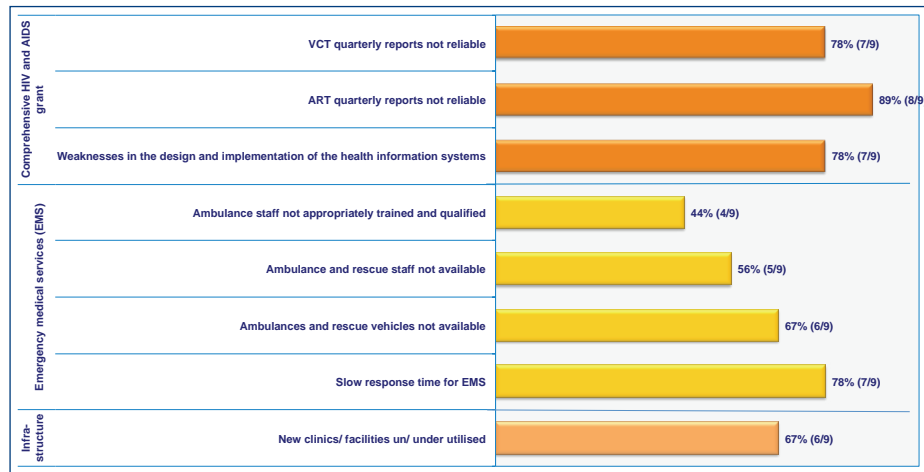


Figure 23: Findings arising from the audit of key national programmes

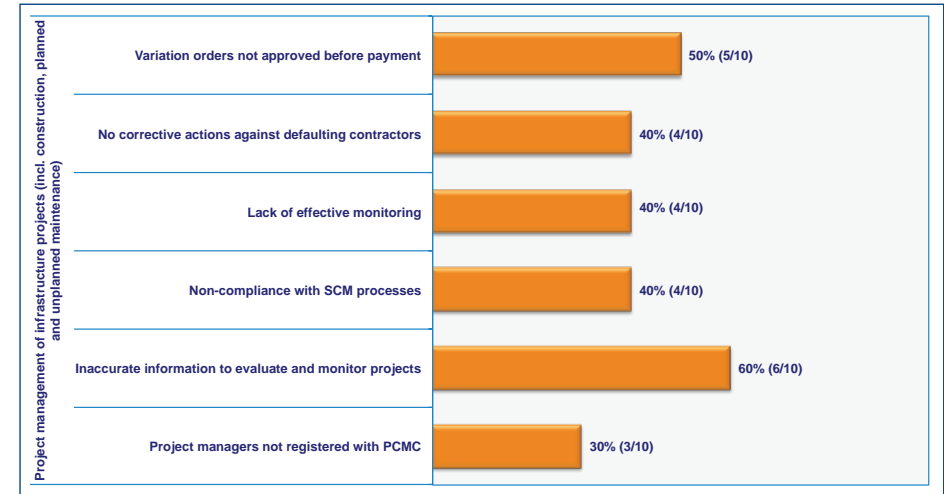
Department of Education



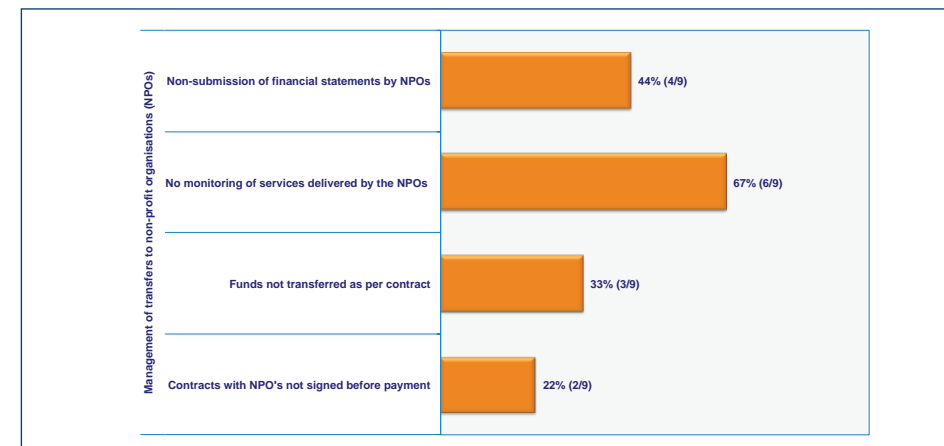
Department of Health



Department of Public Works



Department of Social Development



A provincial analysis of audit findings is presented in table 27, after which implementation challenges and audit findings are summarised.

Table 27: Prevalence of findings in provinces

Department of Education														
HIV/Aids life skills grant			National school nutrition programme grant			Learner teacher support material (LTSM)			Learner Transport Scheme (LTS)			Allocation of funds to school		
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP
	NW	WC	NC	NW	WC		NW		NC	NW	WC		NW	

Department of Health														
Comprehensive HIV & Aids grant			Hospital revitalisation grant			Medical waste			Emergency medical services			Infrastructure		
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
KZN	LP	MP	KZN	LP		KZN	LP	MP	KZN	LP	MP	KZN	LP	MP
NC	NW	WC	NC	NW		NC	NW	WC	NC	NW		NC		

Department of Human Settlements														
Management of individual housing subsidies						Monitoring of the appropriate utilisation of transfer payments to municipalities for the building of houses								
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
KZN			KZN			KZN			KZN			KZN		

Department of Public Works														
Management of accommodation for client departments			Management of arrears rates and taxes			Project management of infrastructure projects			Extended public works programme (EPWP)					
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
KZN	LP	MP	KZN	LP		KZN	LP	MP	KZN	LP	MP	KZN	LP	MP
NC	NW	WC				NC	NW	WC	NC	NW	WC	NC	NW	WC

Department of Social Development														
Management of transfers to non-profit organisations (NPOs)			Care and service to older persons			Child care and protection services			Home & community-based care (HCBC) for HIV/Aids			Availability of social service professionals to communities		
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
KZN	LP		KZN	LP		KZN	LP		KZN	LP		KZN	LP	
NC		WC	NC		WC	NC		WC	NC		WC	NC		WC

Repeat finding First-time finding

Summary of implementation challenges and audit findings

Department of Education programmes

Division of Revenue Act (DoRA) – HIV/Aids life skills education grant

Despite the fact that this programme has been running for 10 years, very few of the planned outputs of the HIV/Aids (life skills education) grant have materialised in more than half of the provincial education departments. This is mainly due to the inadequate implementation of the HIV/Aids life skills education programmes at schools level and the lack of leadership oversight, review and monitoring of the performance of this programme by the provincial and district offices in the relevant provinces.

Division of Revenue Act – national school nutrition programme

The objective of ensuring that balanced nutritional meals are made available to needy learners to assist in promoting active participation by these learners in classroom activities has not been fully met. As reported in the prior year, the key challenges of the programme relate to inadequate monitoring by provincial departmental officials and a lack of adequate facilities and resources to prepare meals as required. Some of the matters reported in the current year were repeat findings.



Learner transport scheme (LTS)

The total grant allocation for the 2010-11 financial year was R1,1 billion and the highest allocations were made to KwaZulu-Natal and Limpopo. The scheme is not being managed effectively. Bus drivers without driver's licences and non-roadworthy buses expose beneficiaries of this scheme to road accident risks. A lack of adequate monitoring and review of the LTS by the education leadership in the affected provinces also contributed to audit findings not being addressed and recommendations not being implemented.

Education infrastructure

The underutilisation of new or upgraded schools is largely due to a lack of coordination and liaison between the provincial departments and the implementing agent, the Department of Public Works. Coordination was insufficient to ensure that schools or certain sections are used optimally at the time of commissioning. The late provision of the required resources also contributed to the underutilisation of newly built infrastructure.

Neither the Department of Education nor the Department of Public Works adequately monitored ongoing projects. This resulted in defective and poor quality work not being detected for a long period. Where intervention does occur it is only at the completion stage of the project by which time the bulk of the contract value had been paid.

Department of Health programmes

Division of Revenue Act – comprehensive HIV/Aids grant

In an environment of limited resources, it is essential that an adequate monitoring and evaluation framework be designed and implemented to facilitate proper accountability for resources entrusted but also to provide sufficient intelligence to support the planning and budgeting process. This is critical for service delivery. The national department must take the lead

to develop policies and procedures as well as to design suitable processes and internal controls to support the reporting of reliable information. Greater cooperation must be promoted between the national and provincial departments to enforce compliance with the DoRA framework.

Emergency medical services

The aim of this programme is to render pre-hospital emergency medical services, including inter-hospital transfers, medical rescue and planned patient transport. In comparison with the audit findings raised in previous years, the areas reported have not improved.

Infrastructure

Overall, there was a considerable delay in the completion of hospitals. There are various reasons for this, for example unavailability of funds at some stage due to improper cash management processes, unforeseen difficulties, poor performance by contractors and changes to the scope of work. In many instances, additional funds had to be paid for substandard work. Proper planning with accurate needs determination processes was not conducted before the projects were initiated. A robust procurement system was not consistently applied, thus compromising the transparency, accountability and economy with which commitments were made. Project management was not effective, resulting in projects not being completed on time and at the required level of quality and cost.

Department of Public Works programme

Project management of infrastructure projects (including construction, planned and unplanned maintenance)

The findings on project management reflected in the table above indicate that the quality and monitoring of projects are 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. The affected departments are urged to prioritise the addressing of shortcomings identified.

Department of Social Development programme

Management of transfers to non-profit organisations (NPOs)

Provincial departments provide social welfare services directly to communities or through subsidising NPOs to deliver services on their behalf. A total of R4,3 billion was transferred to NPOs by provincial departments. Total transfers to NPOs represented 54% of the total budgeted expenditure for provincial social development departments.

Provincial departments do not have proper measures in place to monitor NPOs with regard to expenditure incurred and progress made on service delivery as no financial statements are submitted by the NPOs. Provincial departments also do not have proper measures in place to monitor the actual service delivery of NPOs regarding care and service to older persons, child care and protection services as well as home and community-based care for HIV/Aids, as sufficient appropriate audit evidence could not be provided for audit purposes in most of the provinces affected.

2.6 Focus areas for management and provincial role players for improved and sustained audit outcomes

As is evident from the analysis of audit outcomes presented in this section of the report, there are a number of areas that require focus and, in some instances, intervention to achieve clean administration. Such intensified focus and intervention are required principally from the following parties:

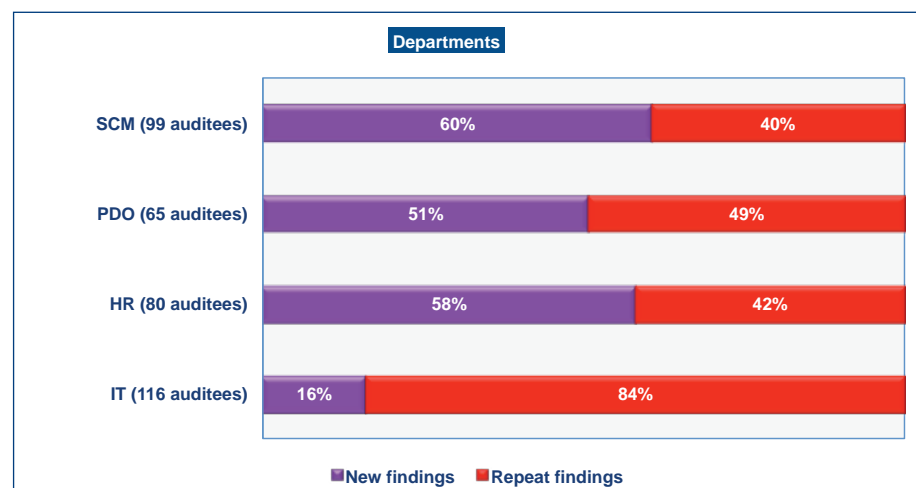
- Accounting authorities, accounting officers, chief financial officers, and auditee management (analysed in sections 3.1, 3.2 and 3.3).

- Provincial executive leadership (analysed in section 4.1).
- National role players (analysed in section 4.2).

The AGSA has identified seven areas of focus in total which, if properly attended to by auditee management, provincial leadership and coordinated provincial oversight bodies, will make a significant contribution to clean administration at provincial departments and public entities. In addition to implementing action plans to address qualification findings, a stronger focus by management and provincial role players on four specific areas will result in a significant and rapid improvement in financial management and reporting by departments and public entities. These four areas are (i) supply chain management; (ii) reporting on predetermined objectives; (iii) HR management; and (iv) management of information technology.

There has been little overall movement in findings in these areas, as depicted in figure 24.

Figure 24: Repeat and new findings in four focus areas



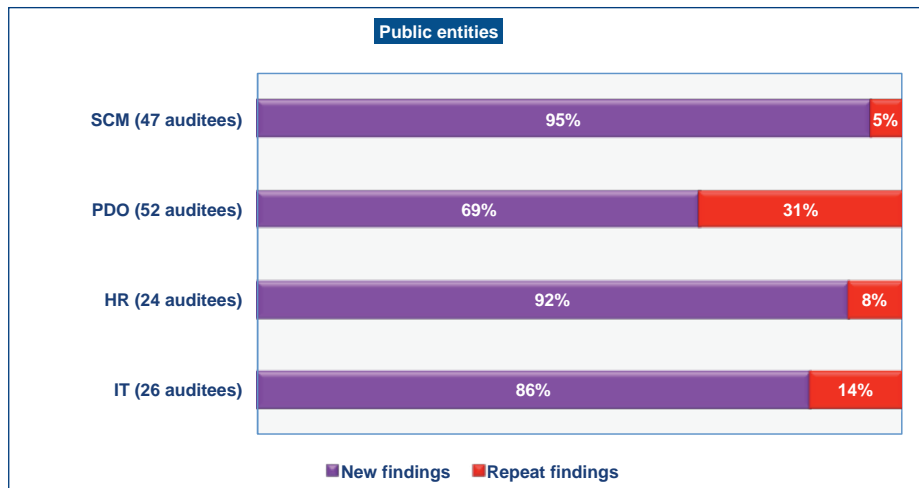


Table 28 shows that these areas require attention from the leadership in all provinces.

Table 28: Provincial analysis of four focus area findings for the year under review

Provinces	Auditees with findings in the four focus areas											
	SCM			PDO			HR			IT		
	2010-11 findings	Repeat findings	New findings	2010-11 findings	Repeat findings	New findings	2010-11 findings	Repeat findings	New findings	2010-11 findings	Repeat findings	New findings
Departments												
Eastern Cape	12	53%	47%	11	73%	27%	11	73%	27%	13	80%	20%
Free State	10	46%	54%	11	77%	23%	11	69%	31%	13	100%	0%
Gauteng	6	25%	75%	6	33%	67%	10	42%	58%	12	83%	17%
KwaZulu-Natal	14	25%	75%	5	25%	75%	7	13%	88%	15	94%	6%
Limpopo	8	23%	77%	6	46%	54%	3	15%	85%	13	100%	0%
Mpumalanga	7	14%	86%	7	50%	50%	7	29%	71%	13	93%	7%
Northern Cape	13	93%	7%	7	50%	50%	12	64%	36%	13	86%	14%
North West	12	54%	46%	10	77%	23%	9	23%	77%	13	46%	54%
Western Cape	12	21%	79%	2	14%	86%	10	50%	50%	11	71%	29%
Subtotal - departments	94	40%	60%	65	49%	51%	80	42%	58%	116	84%	16%
Public entities												
Eastern Cape	7	18%	82%	9	64%	36%	4	18%	82%	5	45%	55%
Free State	5	7%	93%	2	0%	100%	3	21%	79%	2	14%	86%
Gauteng	3	0%	100%	7	27%	73%	6	14%	86%	7	27%	73%
KwaZulu-Natal	11	6%	94%	16	38%	62%	2	3%	97%	1	3%	97%
Limpopo	2	0%	100%	3	40%	60%	0	0%	100%	3	0%	100%
Mpumalanga	1	0%	100%	2	25%	75%	0	0%	100%	1	25%	75%
Northern Cape	2	0%	100%	2	20%	80%	1	0%	100%	0	0%	100%
North West	7	10%	90%	8	60%	40%	6	10%	90%	2	0%	100%
Western Cape	8	0%	100%	2	8%	92%	2	0%	100%	5	15%	85%
Subtotal - public entities	46	5%	95%	51	31%	69%	24	8%	92%	26	14%	86%
Total	140	23%	77%	116	40%	60%	104	26%	74%	142	50%	50%

The AGSA's senior leadership has specifically engaged with the leadership on these four focus areas. The lack of progress made in these areas is reflected above.

Sections 4.1 and 4.2 of this report provide an assessment of the role of provincial and national role players and the commitments made by them during the months of September and October 2011. Section 4.3 provides an overview of the role of audit committees in promoting clean administration.

The AGSA's ongoing initiatives to encourage clean administration are discussed in section 4.3 of this general report, while other emerging matters that require attention to prevent a negative impact on future audit outcomes are discussed in section 4.4.



SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS

3.1 Overview of key controls as drivers of the three facets of audit outcomes

The AGSA had identified three categories of drivers of improved audit outcomes during its interaction with auditees over the past several years. These categories have been used to formally document the results of quarterly key control visits by the AGSA to the auditee management and provincial leadership.

These drivers (key controls) are categorised into the fundamental areas of internal control, namely:

- leadership
- financial and performance management
- governance.

Deficiencies in some or all of these controls can be directly linked to:

- audit opinions on the financial statements
- findings on predetermined objectives
- findings on compliance with laws and regulations.

Auditees that improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to a failure to implement and monitor these fundamentals of internal control.

An assessment of these drivers for financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided in sections 2.2.7, 2.3.4 and 2.4.7, respectively.

Sections 3.2 and 3.3 provide an assessment of HR management and IT management as specific drivers of audit outcomes and service delivery.

3.1.1 Progress made by auditees in implementing key controls

An overall assessment of progress made by departments and public entities in implementing key controls is depicted in figure 25.

Figure 25: Progress made in implementing key controls (all auditees)

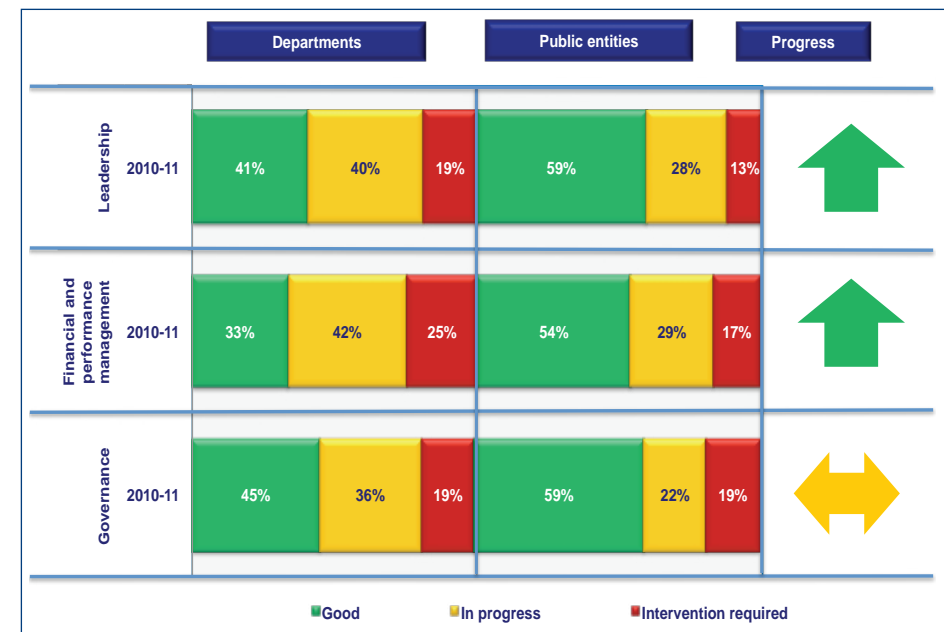


Table 29: Provincial analysis of drivers of audit outcomes – departments

Province	Leadership			Financial and performance management			Governance		
	Good	In progress	Intervention required	Good	In progress	Intervention required	Good	In progress	Intervention required
Eastern Cape	7%	60%	33%	7%	53%	40%	11%	58%	31%
Free State	15%	47%	38%	15%	62%	23%	15%	47%	38%
Gauteng	54%	42%	4%	50%	42%	8%	83%	17%	0%
KwaZulu-Natal	48%	46%	6%	63%	31%	6%	46%	48%	6%
Limpopo	23%	46%	31%	23%	46%	31%	46%	23%	31%
Mpumalanga	55%	37%	8%	37%	34%	29%	57%	36%	7%
Northern Cape	0%	92%	8%	0%	54%	46%	0%	0%	100%
North West	8%	56%	36%	13%	43%	44%	6%	68%	26%
Western Cape	80%	17%	3%	51%	42%	7%	88%	12%	0%

Table 30: Provincial analysis of drivers of audit outcomes – public entities

Province	Leadership			Financial and performance management			Governance		
	Good	In progress	Intervention required	Good	In progress	Intervention required	Good	In progress	Intervention required
Eastern Cape	36%	46%	18%	27%	46%	27%	45%	45%	10%
Free State	36%	43%	21%	42%	29%	29%	42%	29%	29%
Gauteng	82%	14%	4%	73%	18%	9%	86%	9%	5%
KwaZulu-Natal	65%	23%	12%	63%	23%	14%	65%	26%	9%
Limpopo	20%	80%	0%	20%	80%	0%	20%	80%	0%
Mpumalanga	54%	28%	18%	48%	13%	39%	51%	24%	25%
Northern Cape	0%	100%	0%	0%	40%	60%	0%	0%	100%
North West	31%	32%	37%	46%	19%	35%	47%	6%	47%
Western Cape	74%	24%	2%	61%	31%	8%	69%	29%	2%



3.1.2 Identified best practices in leadership, financial and performance management and governance

Outlined below are identified better practices in leadership, financial and performance management and governance and identified challenges relating thereto.

Leadership

Effective leadership should be exercised at all levels of those charged with governance and management. Better practices in this regard include:

- Hands-on approach by management.
- Implementation of internal controls.
- Review of financial statements to ensure compliance with the requirements of the applicable financial reporting framework.
- Availability of leadership for AGSA's stakeholder interactions throughout the year to influence improvements in audit outcomes.

Financial and performance management

The basic controls to improve financial and performance management include the following:

- Regular preparation of complete and accurate financial and performance reports that are supported by reliable information.
- Enforcing and monitoring of compliance with laws and regulations.
- Proper record keeping ensuring that complete, relevant and accurate information is accessible and available in a timely manner.
- Maintaining discipline over daily and monthly processing and reconciling of transactions.
- Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and safeguarding of information.

Accounting authorities and accounting officers have a responsibility to ensure that quality, reliable financial statements and management information are produced by departments or public entities headed by them. This responsibility can only effectively be discharged by the recruitment of competent individuals who understand the financial reporting framework (including knowledge of the controls and related processes) and performance management requirements.

A high proportion of findings remain work in progress with regard to review and monitoring of compliance with applicable laws and regulations. This poses the risk of regression in outcomes for those departments and public entities that received a "financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations" opinion.

Governance

Good governance practices include the following:

- Ensuring that regular risk assessments are conducted, including consideration of IT risks and fraud prevention, and that a strategy to address identified risks is developed and its implementation monitored.
- Ensuring that an adequately resourced and effectively functioning internal audit unit is in place to identify internal control deficiencies and recommend corrective action.
- Ensuring that the audit committee promotes accountability and service delivery by evaluating and monitoring management responses to risks and providing oversight of the adequacy of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

The overall impression that good progress is being made is distorted by the number of findings that are either in progress or require intervention. Some of the reasons are as follows:

- Risk management activities and steps to improve the effectiveness of the audit committees are in progress.
- Lack of a close working relationship between the internal audit unit and audit committees.
- Instances of non-implementation of internal audit recommendations.
- Lack of capacity in internal audit units.

For this reason, greater emphasis should be placed on audit committees playing a more active role in monitoring corrective measures in respect of financial statement qualification findings throughout the financial year, while only internal auditors that possess the requisite competencies and skills should be appointed. Audit committees should monitor the activities of the internal audit functions to ensure that the scope of planned and actual annual audit coverage is responsive to risks related to financial management, financial reporting, service delivery reporting and compliance with laws and regulations.

3.2 Effective human resource (HR) management as a specific driver of audit outcomes

3.2.1 Overview of HR management as a key driver

Effective HR management is a key driver of all three facets 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 managed.

The assessment of the drivers of internal control at the time of the audit, as analysed in sections 2.2.7, 2.3.4 and 2.4.6, identified HR management as the area where significant attention is still required for audit outcomes

to improve. Auditees often identify a lack of capacity as the root cause of audit outcomes, which prompted the AGSA to specifically focus on HR management.

The AGSA's 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 120 provincial departments in the current and previous years and was introduced at 55 provincial public entities and all nine legislatures for the year under review.

Findings arising from the assessment were reported in the management reports of 72% of the auditees that were included in the scope, while at 26% of them the findings were material enough to warrant reporting in the auditor's report. Such findings were reported across all provinces.



3.2.2 Nature of transversal findings on HR management weaknesses

Figure 26 depicts the number of departments and legislatures with weaknesses in each focus area.

Figure 26: Summary of HR management weaknesses – departments (including legislatures)

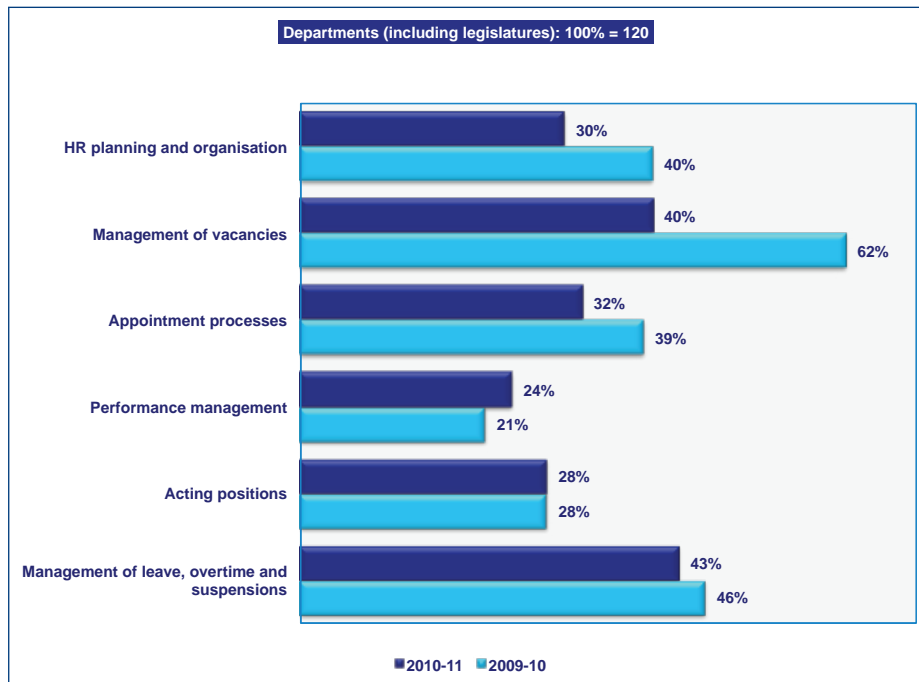
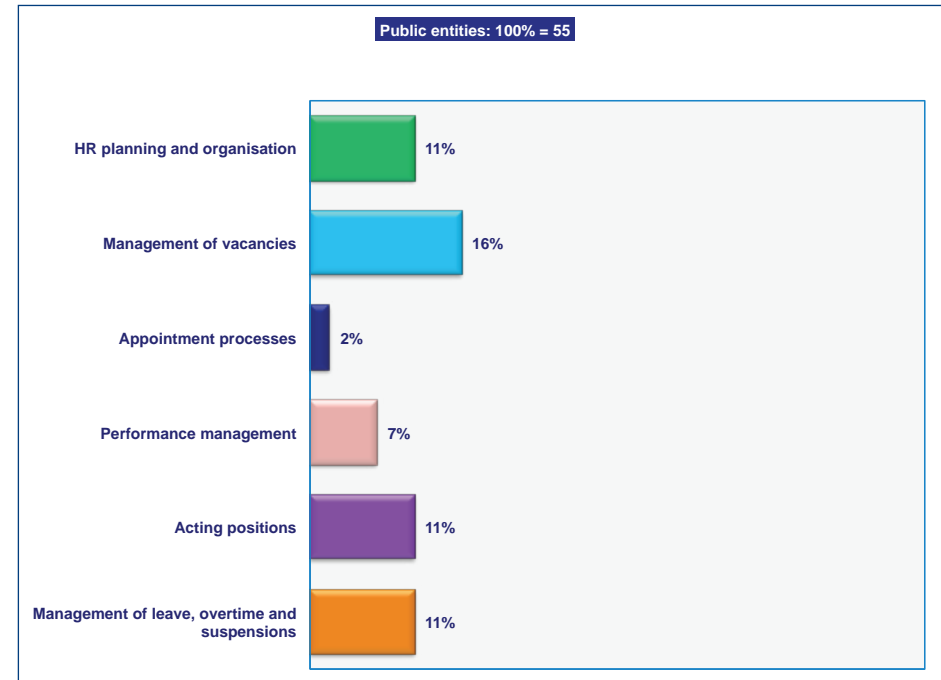


Figure 27 depicts the number of public entities with weaknesses in each focus area. No comparatives are included as the assessment was introduced for the first time in the current year.

Figure 27: Summary of HR management weaknesses – public entities



The following tables depict the prevalence of weaknesses in the focus areas across the provinces.

Table 31: Provincial analysis of HR management weaknesses – departments and legislatures

Focus areas	HR planning and organisation		Management of vacancies		Appointment processes		Performance management		Acting positions		Management of leave, overtime and suspensions	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Eastern Cape	43%	69%	79%	69%	57%	69%	57%	31%	71%	23%	79%	77%
Free State	54%	58%	54%	67%	31%	67%	54%	25%	23%	33%	46%	83%
Gauteng	33%	40%	50%	67%	42%	33%	17%	40%	50%	20%	67%	53%
KwaZulu-Natal	18%	25%	13%	69%	38%	25%	6%	13%	13%	25%	31%	56%
Limpopo	17%	33%	50%	58%	8%	25%	8%	8%	17%	25%	8%	33%
Mpumalanga	8%	23%	31%	77%	15%	31%	8%	15%	15%	31%	15%	62%
Northern Cape	54%	54%	69%	54%	38%	54%	46%	23%	38%	46%	54%	62%
North West	38%	38%	38%	54%	23%	23%	31%	38%	31%	38%	46%	46%
Western Cape	7%	15%	14%	38%	21%	31%	14%	0%	14%	15%	79%	62%

Improved

Unchanged

Regressed

Table 32: Provincial analysis of HR management weaknesses – public entities

Focus areas	HR planning and organisation	Management of vacancies	Appointment processes	Performance management	Acting positions	Management of leave, overtime and suspensions
Free State	50%	100%		50%		50%
Gauteng	60%	60%			20%	40%
KwaZulu-Natal				4%		9%
Northern Cape					33%	
North West	10%	10%		10%	40%	10%
Western Cape	14%		14%			29%

* No comparatives are included for public entities as the assessment was introduced for the first time in the current year.

Common findings arising from the focus areas are detailed below.

HR planning and organisation

The table below depicts the top findings on HR planning and organisation. The percentage is based on the number of departments or public entities assessed.

Table 33: Findings on HR planning and organisation

Summary of common findings	Departments (120)	Public entities (55)
HR plan based on the strategic plan not in place	12%	19%
Approved organisational structure not in place	11%	0%

The point of departure for effective HR management is the planning of human resources to deliver on strategy and determining the organisational structure based on the plan. This fundamental process was not in place at some provincial auditees, most notably the Free State and Gauteng.



Management of vacancies

The table below depicts the provincial status of vacancies at departments and public entities and for senior management specifically.

Table 34: Progress in filling of vacancies

Focus areas	Overall vacancy rate		Senior management vacancy rate	
	Departments	Public entities	Departments	Public entities
Eastern Cape		NA		NA
Free State				
Gauteng				
KwaZulu-Natal				
Limpopo		NA		NA
Mpumalanga				
Northern Cape				
North West				
Western Cape				

■ Improved
 ■ Unchanged
 ■ Regressed

The table below depicts the top findings on the management of the vacancies. The percentage is based on the number of departments or public entities assessed.

Table 35: Findings on filling of vacancies – senior management

Summary of common findings	Departments (120)	Public entities (55)
Senior management – positions vacant for more than 12 months	21%	15%
Senior management – vacancy rate increased from previous year	10%	12%

Continued vacancies, especially in senior management, affect control activities which form an integral part of planning, implementation and review of and accountability for stewardship of government resources managed by auditees and the achievement of results.

Such control activities include a wide range of diverse tasks related to the three facets of audit outcomes, such as:

- Maintaining sound financial management, keeping adequate records and preparing financial statements.
- Setting performance targets and indicators, monitoring recording and validating performance against predetermined objectives, investigating variances from set targets and taking corrective action for deviations identified.
- Enforcing compliance by officials with laws and regulations and ensuring that obligations imposed by legislation on the organisation are timeously and fully discharged.

Appointment processes

The following table depicts the top findings on appointment processes. The percentage is based on the number of departments or public entities assessed.

Table 36: Findings on the appointment process

Summary of common findings	Departments (120)	Public entities (55)
Verification process for new appointments did not always take place	14%	4%
Verification process for new appointments did not cover all verifications prescribed	14%	0%
Prescribed selection and approval processes not followed for all appointments	8%	0%

Verification of the qualifications, criminal records, citizenship and previous employment of candidates is a legislative requirement for departments. As in the previous year, 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 auditee's capacity to deliver.

Performance management

The table below depicts the top finding on performance management. The percentage is based on the number of departments or public entities assessed.

Table 37: Findings on performance management

Summary of common findings	Departments (120)	Public entities (55)
Senior managers did not sign performance agreements for current performance period	22%	15%
Performance bonuses incorrectly calculated	4%	0%

Performance agreements are a requirement in terms of the Public Service Act and regulations at departments for staff at all levels. It is also a best practice to ensure alignment of staff organisational objectives and to manage performance. In spite of a specific focus by the DPSA and the Presidency on this matter, instances were noted where senior managers did not have performance agreements or the agreements were not signed timeously.

Acting positions

The table below depicts the top findings on acting positions. The percentage is based on the number of departments or public entities assessed.

Table 38: Findings on acting positions

Summary of common findings	Departments (120)	Public entities (55)
Employees acted in positions for more than 12 months	24%	4%
Senior managers acted in positions for more than six months	11%	23%

Auditees have the option to temporarily direct an employee to act in a higher vacant position, but at departments the period is restricted to 12 months by the Public Service Act. There are also limitations on the acting periods for senior management. Prolonged acting periods could be an indication of ineffective processes to appoint or recruit suitable permanent staff, while instability in leadership positions has shown to impact on the performance of auditees.

Management of leave, overtime and suspensions

The table below depicts the top findings on leave and overtime. There was a low prevalence of findings on suspensions. The percentage reflected in the table is based on the number of departments or public entities assessed.

Table 39: Findings on management of leave, overtime and suspensions

Summary of common findings	Departments (120)	Public entities (55)
Medical certificates not submitted for sick leave	18%	8%
Written authorisation not provided in advance for overtime to be worked	13%	0%

These focus area and the findings on it reflect the ability of auditees to manage the productivity of the personnel. The accounting officer/authority has 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. Overtime also needs to be controlled to protect the employee from working more hours than their conditions allow and to prevent abuse thereof by staff in order to supplement their income.



3.2.3 Root causes of findings and the way forward on HR management

HR management at provincial auditees requires focused attention by leadership and oversight in order to improve the audit outcomes. Auditees have dedicated HR personnel who should ensure that the basic principles, as defined by legislation, and the guidance and determinations from the DPSA are implemented. These principles can also be applied for public entities. The vacancies in senior management, prolonged acting in those positions and the lack of performance agreements are of specific concern as the senior management has a direct impact on the ability of public sector to deliver on their mandate.

3.3 Information technology (IT) management as a specific driver of audit outcomes

3.3.1 Computer systems in use and the management of IT

Departments and public entities rely heavily on IT systems to perform their statutory financial management, reporting and administrative functions. Furthermore, these systems enable the automation of business processes and transaction processing, which contribute to effective internal control. The information processed and stored on IT systems is vital to the accuracy and reliability of the financial and performance information used by management for planning, monitoring and reporting.

Information technology employed by provincial departments

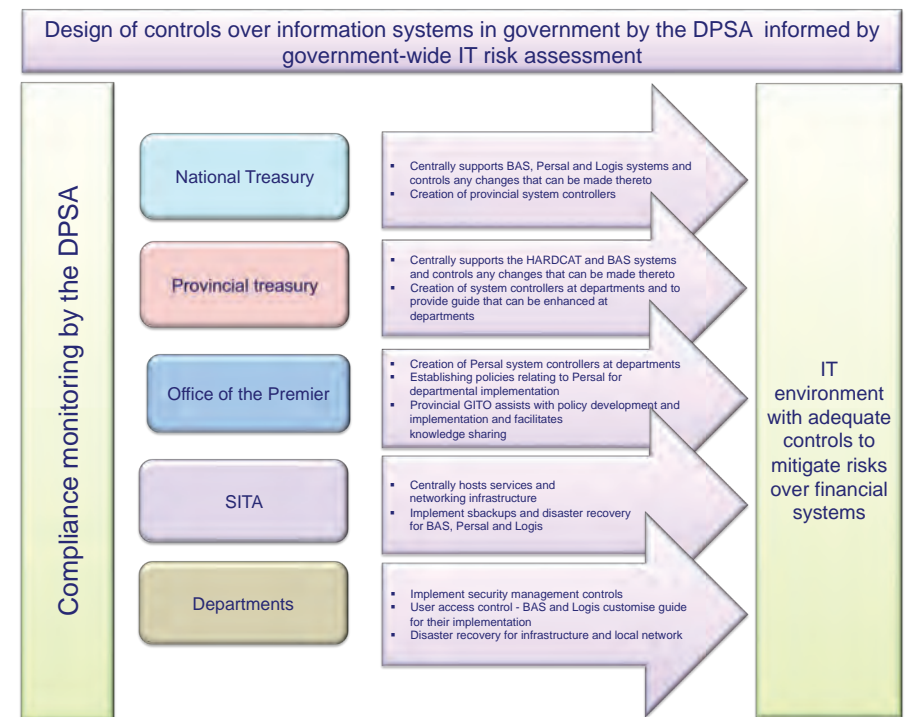
Provincial departments utilise transversal systems, e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal), Logistical Information System (Logis) and HARDCAT to perform functions for managing financial information. The Biometrics Access Control Systems (BACS) is used in KwaZulu-Natal to enhance access control to Persal and BAS in addition to

the existing security features within these systems. Gauteng Province uses the SAP financial application for procurement which is linked to BAS. The provincial legislatures of Gauteng, Free State and KwaZulu-Natal utilise different systems for their financial information such as SAP, Oracle and the CAMS system.

Design of IT management

Roles and responsibilities in terms of support and usage of systems to ensure a controlled environment are depicted in figure 28:

Figure 28: IT management roles and responsibilities



Information technology employed by public entities

Public entities use a variety of computer systems. Although the IT environment was formally reviewed at only 26 public entities, the IT environments at the remaining public entities were considered during the key control assessment which is performed on a quarterly basis.

The AGSA's focus areas in auditing IT management

It is against the roles and responsibilities outlined above that the following focus areas were selected for IT audits:

- IT governance
- Security management
- User access management

The following focus areas are transversally performed and were audited at the National Treasury and the State Information Technology Agency (SITA):

- Program change management
- Facilities management
- Data centre

3.3.2 Deficiencies identified in IT management

IT management for financial systems was evaluated at 116 departments and 26 public entities within the provincial government.

Key areas where deficiencies were identified are summarised in the following table.

Figure 29: Identified control deficiencies in IT management





Based on the findings, controls are generally not adequately designed by management. Furthermore, the implementation of controls should be monitored by management with the assistance of internal audit on a continuous basis and reported to those charged with governance.

Table 40: Summary of control deficiencies in IT management

Focus area	Outline of aspects audited	Incidence of control weaknesses identified			
		Departments		Public entities	
		Number audited	Percentage	Number audited	Percentage
IT governance	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	107	94%	24	88%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generates and prepares financial information	110	83%	24	88%
User access management	Procedures through which the departments and public entities ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system	116	95%	26	96%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable departments to recover or establish information system services in the event of a disaster	109	93%	25	100%

Key issues within the provinces can be summarised as follows:

- In the absence of a government-wide IT governance framework, which needs to be developed and rolled out by the DPSA, some provincial treasuries have developed provincial IT governance framework but these

have not yet been approved and implemented, while other provinces have no IT governance frameworks in place. The following governance processes have not been implemented at all departments:

- IT steering committees were not established
- IT strategic plans were not developed
- Inadequate risk management processes
- Responsibilities for the key IT positions not delegated
- IT policies and procedures not formally established
- Service level agreement not formalised and monitored.

- The KwaZulu-Natal Provincial Treasury has issued a guide with minimum security controls for HARDCAT; however, not all departments have implemented the guide, which has resulted in the inadequate and inconsistent configuration of security parameter settings.
- There is no security parameter setting guide for BAS, hence the inconsistency in the manner in which settings are configured by departments. Departments were able to change the security settings on BAS, but not on Persal and Logis where such changes cannot be made because they are centrally managed at SITA and the National Treasury.
- Inadequate segregation of duties (system controllers also perform normal user functions) and inappropriate access granted to the systems are key control weaknesses.
- Business continuity plans and disaster recovery plans have not been established at all the departments to enable connection to SITA for the resumption of business operations in the event of a disaster.

Some of the audit focus areas were also assessed in the 2009-10 financial year. The following figure depicts progress made by departments and public entities in addressing the issues raised.

Figure 30: Progress in addressing prior year IT findings

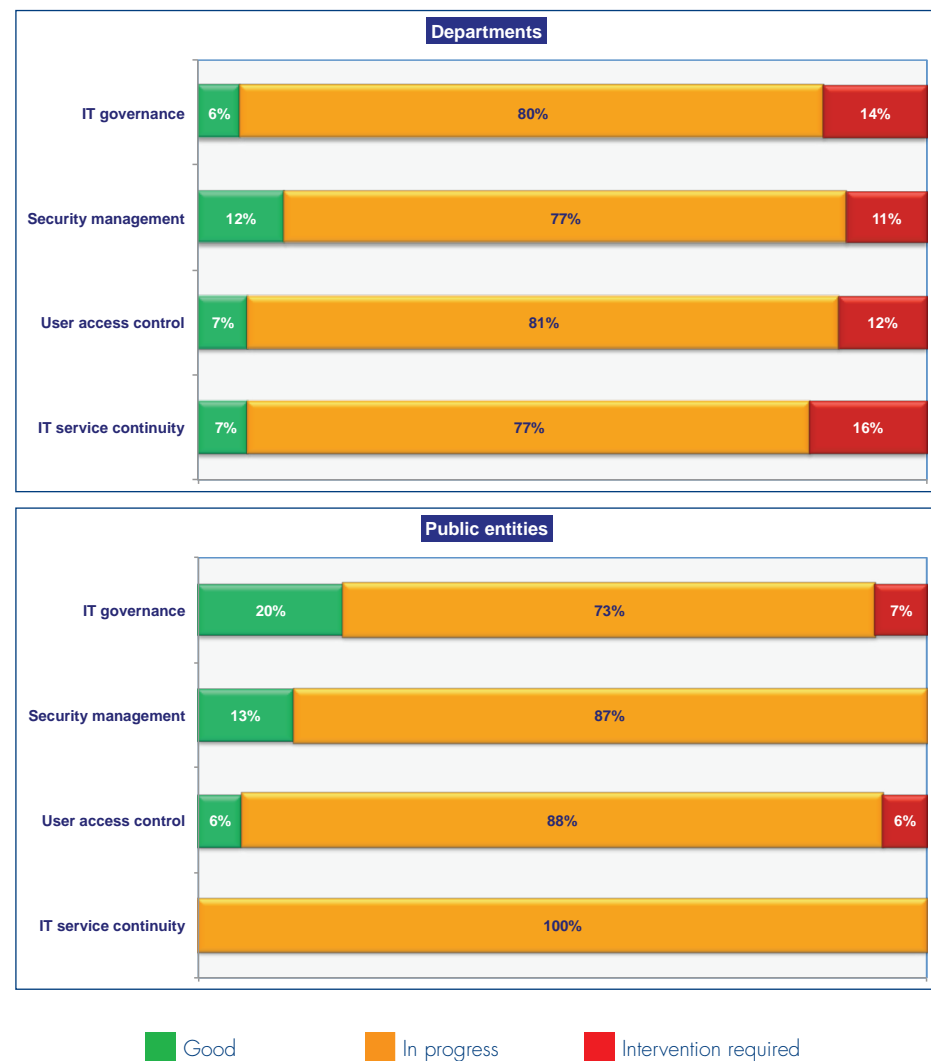


Table 41: Provincial analysis of IT focus areas requiring attention – departments

Province	IT governance			Security management			User access control			IT service continuity		
	Good	In progress	Intervention required	Good	In progress	Intervention required	Good	In progress	Intervention required	Good	In progress	Intervention required
Eastern Cape	0%	83%	17%	25%	58%	17%	0%	83%	17%	25%	58%	17%
Free State	0%	85%	15%	0%	85%	15%	0%	85%	15%	0%	100%	0%
Gauteng	17%	66%	17%	29%	71%	0%	50%	50%	0%	0%	89%	11%
KwaZulu-Natal	0%	100%	0%	7%	93%	0%	0%	100%	0%	0%	100%	0%
Limpopo	0%	100%	0%	0%	92%	8%	0%	100%	0%	0%	69%	31%
Mpumalanga	0%	77%	23%	0%	77%	23%	0%	77%	23%	15%	62%	23%
Northern Cape	8%	77%	15%	8%	75%	17%	0%	92%	8%	0%	85%	15%
North West	20%	20%	60%	50%	33%	17%	20%	0%	80%	0%	20%	80%
Western Cape	0%	100%	0%	33%	67%	0%	17%	83%	0%	40%	60%	0%

Work has commenced to address the previous year's audit findings but at the majority of departments, the previous audit findings had not yet been fully addressed. During follow-up audits, management again failed to commit to addressing these findings.

Findings that require immediate management intervention as they are repeat findings can be summarised as follows:

- **IT governance** – Provincial treasuries, in consultation with the provincial government technology information officer (GITO), should engage with the DPSA to ensure alignment with the draft government-wide IT governance framework.

It is evident that the majority of issues have not yet been fully addressed and this is reflected in the audit findings above.



- **Security management** – Departments that utilise HARDCAT, should implement the procedures that have been developed by the provincial treasuries. Provincial treasuries should develop a similar procedure in respect of security parameter settings for BAS.
- **User access management** – The guidelines for user access management issued by the provincial treasuries for BAS and HARDCAT and by the offices of the premier for Persal should be implemented by departments to ensure monitoring and review of system controller activities and users' access rights, segregation of duties and adequate supporting documentation for access granted.
- **IT service continuity** – The offices of the premier should provide guidance to the departments to compile business continuity plans (BCPs) for all departments.

3.3.3 Overall assessment of the design and implementation of IT management controls at provincial level

The controls designed to mitigate the financial risks are inadequate. Due to the inadequate design of the Persal, BAS and HARDCAT user access management procedures, certain key monitoring controls were not properly implemented by departments even though guidelines and policies in this regard had been developed by some provincial treasuries and the offices of the premier. Furthermore, although IT governance frameworks had been developed in some provinces while waiting for the IT governance framework from DPSA, such frameworks have not yet been formally approved for implementation. This contributed to the provinces' failure to implement adequate IT governance practices, which also had an impact on the design of security management and IT continuity controls.

3.3.4 Root causes of findings and the way forward on IT management

The overall root cause is a lack of implementation of commitments by the leadership, the reason for this being that management's commitments had still not yet been fully implemented as per last year's management's responses. However, it is concluded that where audit findings had been raised previously and were still in the process of being addressed, the relevant departments were unable to fully implement their management's commitments. In addition, no system is in place to monitor the implementation of commitments.

- **IT governance** – The key root cause of findings within IT governance is the absence of an IT governance framework, which has not yet been developed and rolled out by the DPSA.
- **Security management** – Non-implementation of the guide for HARDCAT by the departments and the lack of formalised security parameter guidelines from the provincial treasuries for BAS.
- **User access management** – Lack of adequate implementation by the departments of the guidelines developed by the provincial treasuries and the offices of the premier.
- **IT service continuity** – The leadership has failed to take responsibility for developing the BCPs.

The way forward to address IT management challenges and exposures

- Internal audit should be more involved in tracking progress made with the implementation of IT management commitments, proactively and continuously.
- The DPSA should seek approval for the implementation and roll-out of a government-wide IT governance framework within all the departments.

- The provincial GITO, with the assistance of the offices of the premier, should align the governance framework with the government-wide framework developed by the DPSA. It should then be presented at the HoD forum for adoption and implementation within all the departments.
- To ensure consistency, the function of changing the security parameter setting should be disabled for BAS and HARDCAT, as in the case of Persal.
- Accounting officers should ensure that BCPs are compiled for each department and that the user access management guidelines and policies developed by provincial treasuries and the offices of the premier are implemented.



SECTION 4: INITIATIVES AND COMMITMENTS BY PROVINCIAL ROLE PLAYERS AND THE ROLE OF AUDIT COMMITTEES

4.1 The function of key provincial role players in audit outcomes

4.1.1 Assessment of monitoring capacity and focus areas of provincial role players

The AGSA has, between August 2011 and the date of this report, engaged provincial role players on all seven specific focus areas where their contributions to improve audit outcomes could be further enhanced. An assessment of the monitoring capacity and effectiveness of the role players in relation to these focus areas at the time of the audit is depicted in the following table.

Table 42: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Provincial executive leadership (Premier and MEC Finance)	EC FS GP FS LP	EC			EC FS GP		GP
	KZN LP MP	KZN LP			LP MP		KZN
	NC NW WC	WC NC	WC NC	NC	NC		NC
Coordinated Provincial oversight (Provincial standing committees and Provincial Speakers Forum)	EC FS GP FS			EC	EC FS GP		GP
	KZN LP MP				LP MP KZN		LP
	NC NW WC	WC NC	WC NC	NC	NC		NC
Accounting officers, accounting authorities, CFOs and senior officials							
Administrative accountability							

Good progress

In progress

Intervention required

Note: Responsibility for these focus areas varies amongst the role players

4.1.2 Commitments and actions by provincial executive leadership and oversight structures

A summary of the common responses and commitments emanating from the September/October 2011 interactions and roadshows in the various provinces is outlined in the following table. These vary amongst the provinces as their challenges and solutions differ.

Table 43: Commitments and actions by provincial executive leadership and oversight structures

Outline of role player commitment/ proposed action plans – September/October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Provincial executive leadership								
1	Action plans will be developed to address audit findings and implementation will be monitored by leadership.	MP	MP	MP	NC, NW	MP	MP	MP
2	Monthly/quarterly reporting on financial matters/predetermined objectives/compliance with laws and regulations will be implemented.	GP, WC	WC	GP, MP, WC	NC, WC	WC	WC	WC
3	The credibility of management information will be validated by internal audit and audit committees.	EC, WC	EC, WC	EC, WC	EC	EC, WC	EC, WC	WC
4	Quarterly key control engagements will also include other key role players e.g. the audit committee chairperson and internal audit.	GP, WC	GP, WC	GP, WC	GP, NC, WC	GP, WC	GP, WC	GP, WC
5	Policies, procedures, systems and plans (e.g. fraud prevention) will be revised and strengthened to ensure they comply with legislation and other requirements and establish effective controls.	LP, WC			LP			MP
6	Key vacant positions will be filled with competent, professional and qualified incumbents.	FS, KZN, MP, NC	FS, KZN, MP	FS, KZN, MP	FS, KZN	FS, KZN, MP	FS, KZN, MP, NC, NW	KZN, MP
7	MECs and/or HoDs will make themselves available for regular liaison with the AGSA.	FS, LP	FS, LP	FS, LP	FS, LP	FS, LP	FS, LP	LP, NW

Outline of role player commitment/ proposed action plans – September/October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
8	The effectiveness of using shared services for internal audit and/ or audit committees will be reviewed and where necessary, dedicated governance structures will be established.							NC, NW
9	IT weaknesses will be addressed by improving controls and clearly defining responsibilities of officials and service providers.	KZN, NC	KZN	KZN	GP, KZN	EC, FS, GP, KZN, MP, NC, NW	KZN	KZN
10	Improved record and document management processes will be implemented to support filing and retrieval of supporting documentation.			MP			NC	
11	Guidance/ instructions will be issued by the Premier's Office and training presented on key matters that affect audit outcomes.	FS, MP	NC	FS				FS
12	There will be closer cooperation between departments in the province through agreements and forums.	FS, NC	FS		NC			FS
13	Capacity will be increased and processes and management improved with the view of improving audit outcomes.	EC	EC	EC, NC	EC, NC		EC	
14	Monitoring through Exco meetings will be improved.	EC, GP	EC, GP	EC, GP, NC	EC	EC	EC, GP	EC, NC
15	Drafting of provincial legislation to address business interests of employees.	EC, WC						
16	Executive leadership will act in a responsible manner and instil a culture of high performance and commitment.	FS	FS, NW	FS, NW	FS, NW	FS	FS, NW	



Outline of role player commitment/ proposed action plans – September/October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Provincial treasuries								
1	An action plan will be developed to address transversal audit findings in the province.	MP, WC	MP	GP, MP			MP	MP
2	The action plans of auditees to address audit findings will be assessed and implementation monitored.	KZN, MP, WC	KZN, MP, WC	KZN, MP, WC	EC, KZN, WC	KZN, WC	KZN, MP, WC	KZN, MP, WC
3	Increased/improved support will be provided to auditees in the form of technical support, capacity and funding.	EC, FS, GP, KZN, MP	EC, FS, GP, KZN	EC, FS, GP, KZN, MP	EC, FS, GP, KZN, NW	EC, FS, GP, KZN	EC, FS, GP, KZN	KZN, MP
4	Training, workshops and/or roadshows will be conducted to improve skills, raise awareness and provide support.	GP, KZN, LP, MP, NW	EC, GP, KZN, MP, NW	GP, KZN, MP	GP, KZN, LP, MP	GP, KZN	GP, KZN, NW	KZN, MP
5	CFO forums will be established/their roles strengthened and regular meetings facilitated.	EC		EC, NW	EC			
6	Increased interaction with and reporting to MECs on issues of concern and non-compliance in order to strengthen oversight.	EC		EC, LP	EC		EC, LP	
7	IT issues affecting the province will be addressed.					MP, NC		
8	Monitoring and review of financial statements/asset management/irregular, fruitless and wasteful expenditure of auditees.	FS, GP	GP	GP, NC				

Outline of role player commitment/ proposed action plans – September/October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
9	Development of a proper record and document management system for the province to ensure supporting documentation is easily retrievable.	FS	FS	FS, GP	FS	FS	FS	
10	Greater involvement in appointment processes of CFOs in order to ensure vacancies are filled and persons with necessary skills and experience are appointed.				LP		LP	KZN
11	Action will be taken against auditees and/or officials in response to non-compliance with legislation and/or irregular and fruitless and wasteful expenditure.	KZN, LP, NW		KZN, LP, NC	LP			
12	A province-wide performance management system will be established and performance monitored.	LP	KZN, LP	KZN, LP	LP	LP	LP	LP
13	Provincial policies, procedures and practice notice will be reviewed to ensure they comply with legislation and other requirements.	NW, WC					NW	
Provincial public accounts committee								
1	The oversight functions and processes within legislation will be reviewed with a view of improving effectiveness there-off.		WC	WC	NC			EC, WC
2	The working relationship between portfolio committees and the executive will be strengthened.	WC	WC	WC	NC	WC	WC	EC

Outline of role player commitment/ proposed action plans – September/October 2011	Focus areas targeted by commitments and action plans						
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
3	Training/workshops will be conducted to improve understanding of oversight responsibilities/IT/SCM/annual and audit reports.	FS, KZN	KZN	KZN	FS, KZN	KZN	EC, KZN
4	The appointment of competent, qualified and experienced persons in key positions at auditees will be monitored and/or additional focus placed on HR management.					EC, WC	
5	Unauthorised, irregular as well as fruitless and wasteful expenditure will be investigated.	FS, KZN, NW	KZN	FS, KZN	KZN	KZN	KZN
6	Portfolio committees will improve coordination and collaboration with public accounts committees.	WC	WC	GP, WC	WC	WC	WC
7	Portfolio committees and provincial public accounts committees will interact with AGSA on a regular basis.	GP	GP	GP	GP, NC	GP	
8	Public accounts committees will also engage with the chair of the audit committee.	KZN	KZN	KZN	KZN	KZN	KZN
9	SCOPA resolutions will be followed up to ensure they are implemented.	KZN, MP	KZN, MP	KZN, MP	KZN	KZN, MP	KZN, MP
10	Public accounts committees will also monitor the implementation of action plans by auditees and provincial executive leadership to improve audit outcomes.		WC	WC	NC, WC		

4.1.3 Status implementation of public accounts committees' oversight resolutions

At year-end 381 (50%) of the 763 public accounts committee (PAC) resolutions were in various stages of implementation. Some provincial treasuries assist the PACs in the evaluation of replies submitted by departments and public entities. The resolutions analysed as being outstanding are based on the evaluation by provincial treasuries based on feedback received from departments and public entities.

Table 44: Status of implementation of PAC resolutions

Province	Number of auditees	Total number of resolutions	Number of resolutions in progress from prior year	Number of resolutions resolved during 2010-11	Number of resolutions in progress	Number of resolutions not actioned
Free State	15	144		97	47	
Gauteng	11	104		73	30	1
KwaZulu-Natal	17	55	5	32	18	
Mpumalanga	13	167	54	33	69	11
Northern Cape	13	65		12	32	21
North West	3	21			21	
Western Cape	27	207	30	100	75	2
Total	99	763	89	347	292	35

For Limpopo Province, the last public hearing was held in 2010 for the 2008-09 financial outcomes. At the date of this report these resolutions had yet been tabled in the legislature. No resolutions were passed during 2010 by the Eastern Cape PAC.



4.2 Areas that key national role players should focus on for improved audit outcomes

4.2.1 Assessment of monitoring capacity and focus areas of national role players at the time of the audit

The AGSA has, since August 2011, also engaged with national role players on seven specific focus areas where their contributions to improve audit outcomes can be further enhanced. An assessment of the monitoring capacity and effectiveness of the role players in relation to these focus areas at the time of the audit is depicted in the following table.

Table 45: Assessment of monitoring capacity of key national role players to address audit outcomes at the time of the audit

	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Oversight accountability	Executive leadership (National Treasury, DPSA, Presidency)							
	Legislative oversight (NCOP, NA portfolio committees)							
Accounting officers, accounting authorities, CFOs and senior officials								
Administrative accountability								

■ Good progress
 ■ In progress
 ■ Intervention required

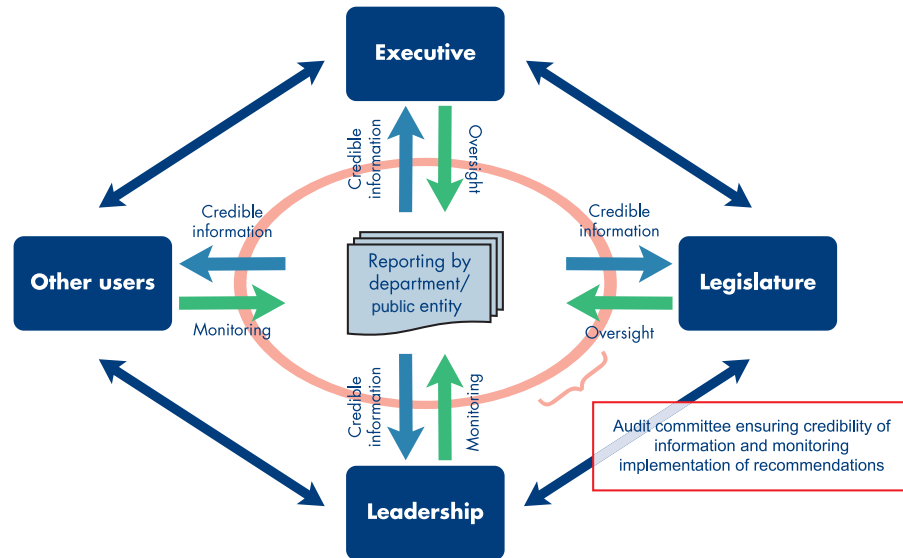
Note: Responsibility for these focus areas varies amongst the role players

The table clearly highlights the fact that significant attention is required also at a national level to improve audit outcomes.

4.3 Overview of the role of audit committees in promoting clean administration

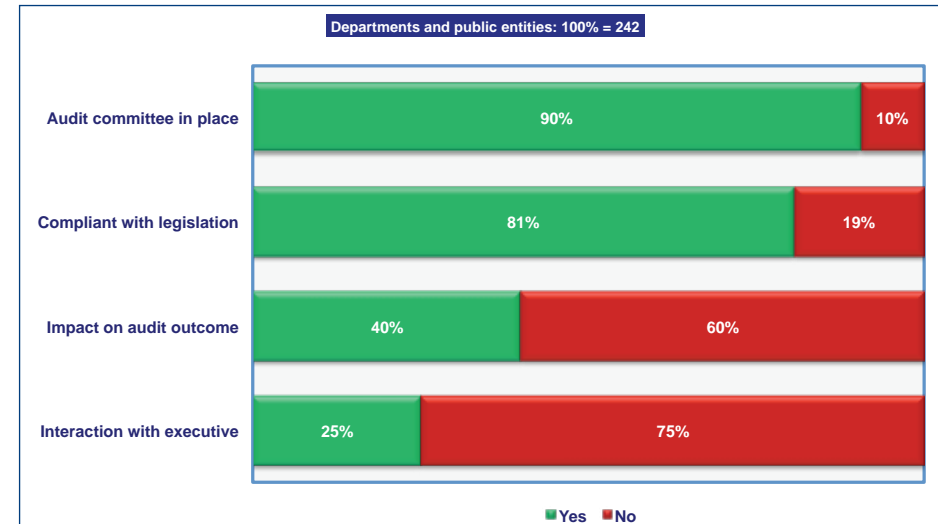
An audit committee must be established by all departments and public entities, in terms of the PFMA and Treasury Regulations. Audit committees must serve as an independent governance structure whose function is to provide an oversight role on the systems of internal control, compliance with legislation, risk management, and 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 the achievement of the organisation's objectives. The role of the audit committee worldwide is evolving and audit committees need to look wider than their legally prescribed duties and focus on intent of legislation. In the public sector this means that audit committees need a level of maturity in order to serve the society as a whole.

Figure 31: Role of audit committees in assessing and reporting on governance, risk management and control at departments and public entities



The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision-making and accountability. Should the audit committee fail in executing this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable. Figure 32 below depicts the current status and effectiveness of audit committees in the provinces.

Figure 32: Effectiveness of audit committees



One hundred and three (83%) departments and 116 (98%) public entities had audit committees in place for the period under review as prescribed by the PFMA and related Treasury Regulations. While 195 (81%) of the audit committees complied with their legislative duties, only 97 (40%) of the audit committees had a direct impact on the audit outcomes of their auditees.

Reporting by audit committees on audit-related matters

- The PFMA requires that accounting officers appoint audit committees that report and make recommendations to the accounting officer on audit and internal control matters. This has created a situation where the official responsible for implementing effective systems of internal control and ensuring compliance with legislation is also the recipient of the recommendations.



- Although the legislation clearly places the responsibility for implementation of external and internal audit recommendations on the accounting officer and not the audit committee, the process creates a circular effect not conducive to accountability and transparency. At public entities this potential dilution of the effectiveness of audit committees is countermanded by a board of directors comprising more than one person as the accounting authority.
- An effective way to address this matter with regard to provincial departments is for the audit committees to have frequent interactions with the respective portfolio executives (MECs) as well as with the legislature's portfolio committees. While legislation making provision for interaction of audit committees with the executive and provincial treasuries only 61 (25%) audit committees had regular interactions with their MEC during the year under review.

Implementation of external and internal audit recommendations

- It is the implementation of the recommendations rather than the recommendation itself that drives improved systems of internal control, monitoring and supervision and ultimately improved outcomes. Currently and in the absence of the interaction with the executive and portfolio committees, there are no mechanisms to oversee and monitor the recommendations of the audit committee by accounting officers.
- Effectiveness of audit committees is dependent on the support and cooperation received from the leadership of the provinces. Leadership should ensure that audit committees are afforded sufficient time, financial and other resources to effectively discharge their responsibilities. Effective audit committees assist the provinces by ensuring, through advice and guidance, that the provinces are able to produce credible reports on performance and financial management that will enhance oversight.
- The effectiveness of audit committees is dependent on a properly resourced and skilled internal audit function that produces timely, relevant and quality reports focused on systems of internal control.

- Provincial audit committee forums have not yet been set up in all provinces. It is recommended that this be established within the same parameters as the internal audit forum and be coordinated and driven by the provincial treasuries.

4.4 Initiatives taken by the AGSA to encourage clean administration

In support of an ultimate audit outcome of unqualified audit opinions with no findings on predetermined objectives or compliance with laws and regulations, the AGSA's leadership in the provinces embarked on an intensified programme to enhance its visibility with the objective of improving the effectiveness of the audit process and engaging with all role players that can influence clean administration. To this end, the audit teams paid regular visits during the audits and meetings were held with those charged with governance on a quarterly basis, highlighting deficiencies in controls intended to address findings raised in the previous year's audit and management reports.

The AGSA engagements focused on the simplicity, clarity and relevance of the message to gain an understanding, secure buy-in and seek commitments to remedial action and interventions that would promote clean administration. This relationship, together with the receptiveness of the leadership within the provinces, resulted in an improvement in the understanding of the adverse audit findings and their root causes.

During the months of September through to December of 2011 the AGSA leadership in the provinces met with the MECs and speakers of the provincial legislatures to discuss the 2011 outcomes of the PFMA audits. This initiative served to enlighten the MECs of their portfolios and offered an opportunity to discuss audit outcomes and key controls of the departments and public entities under their jurisdiction. The MECs were able to assess

the root causes of the qualifications and findings of their portfolios. The objectives of the AGSA quarterly key control appraisals and the link thereof to clean administration, were again explained.

The AGSA conducted reviews to identify the root causes of sector departments' (Education, Health, Human Settlements, Public Works and Social Development) inability to produce performance reports that are reliable and useful. The results of this review informed the 'root causes of findings on predetermined objective reporting by sectors' in section 6.4 of this report, and serve as broad areas that require attention at all other sectors.

To further support the improvement of clean administration and reporting on predetermined objectives by all departments, the AGSA will continue with the following initiatives:

- Discussion of key controls to be required for credible reporting on predetermined objectives during the key control visits with the heads of auditees and the executive.
- Raising awareness among auditees of the correlation between predetermined objectives and effective and efficient service delivery.
- Raising awareness among audit committees of the role they can play in relation to predetermined objectives' reporting.
- Discussion of key audit findings relevant to predetermined objectives and highlighting of areas for improvement during meetings and workshops held by auditees and the National Treasury with regard to strategic planning, monitoring and evaluation.
- The AGSA leadership will continue to enhance its visibility and provide proactive insights into the root causes on the status of internal controls.

4.5 Emerging matters that require attention to prevent a negative impact on future audit outcomes

Accounting and compliance matters that did not have an impact in the current year but have the potential to result in misstatements in the ensuing year if not attended to, include the following:

Changes in Generally Recognised Accounting Practice (GRAP) standards

The following SA Standards of GRAP were issued by the Accounting Standards Board (ASB) and are effective for financial periods beginning on or after 1 April 2012:

- GRAP 21 – Impairment of non-cash-generating units
- GRAP 23 – Revenue from non-exchange transactions
- GRAP 24 – Presentation of budget information in financial statements

In terms of GRAP 24 an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with SA Standards of GRAP.

The standard goes further in prescribing the nature and extent of this disclosure. As this disclosure will form part of the financial statements, it will be subject to audit.

- GRAP 26 – Impairment of cash-generating units
- GRAP 103 – Heritage assets
- GRAP 104 – Financial instruments



The following SA Standards of GRAP were issued by the ASB but the date on which they will become effective has not yet been promulgated by the Minister of Finance:

- GRAP 18 – Segment reporting
- GRAP 25 – Employee benefits
- GRAP 105 – Transfers of functions between entities under common control
- GRAP 106 – Transfers of functions between entities not under common control
- GRAP 107 – Mergers

Reporting on inventory by departments

The National Treasury issued an *Inventory Management Framework* (IMF) in July 2009. This Framework describes the phasing-in of requirements for reporting on and managing inventory, which will lead departments to report on inventory as part of their disclosure notes on an accrual basis. The phased-in provisions for the IMF require departments to apply GRAP 12 for the 2012-13 financial year-end.

Therefore, departments must begin to put procedures and mechanisms in place to record, measure and disclose inventory assets and associated transactions.

Departments must obtain reliable values for inventory for the required annexures to the 2011-12 annual financial statements and prepare for full compliance with GRAP 12 by the 2012-13 financial year-end.

For this to be achieved, departments must ensure that inventory management practices are implemented. This may involve introducing physical controls over inventory and implementing systems for tracking inventory transactions. From the beginning of 2012-13, inventory management policies and

practices must be fully compliant with the requirements of the IMF. All required procedure manuals must be in place and operational.

Reporting on library books by departments

As per the Standard Chart of Accounts (SCOA) classification circular 9 of 2011, which is effective for financial periods after 1 April 2011, departments will be required to report on library books as assets. The departments could experience challenges in establishing the ownership and value of the library books and should commence processes to determine whether they have library books under their control and follow the relevant guidelines to establish the value at which these should be recorded.

Developments in SCM legislation

The revised Preferential Procurement Regulations came into effect on 7 December 2011. The most significant changes were the introduction of B-BBEE certificates and that the regulations will also be applicable to schedule 2 public entities. Entities should ensure that their policies and procedures are in compliance with these regulations to avoid any regression in terms of compliance findings.

The National Treasury issued an Instruction Note 32 on enhancing compliance monitoring and improving transparency and accountability in SCM of which some of the sections became effective from 31 May 2011 with the rest being delayed as a result of practical consideration. Entities will have to ensure that their SCM policies comply with this Instruction Note.

Framework for strategic plans and annual performance plans

The National Treasury issued a framework for strategic plans and annual performance plans in August 2010, which sets out a framework to align strategic and annual performance planning, with the emphasis on the outcomes-oriented monitoring and evaluation approach led by the Presidency. Departments and public entities will be required to present strategic and annual performance plans in line with this framework in 2011-12.



SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT (SCM)

5.1 Background to the audit of SCM

The 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. The assessments were performed only at the provincial departments, trading entities and PFMA listed public entities that are audited by the AGSA – 210 auditees in total.

As is evident from the analysis of irregular expenditure (section 2.4.5), R11,7 billion (69%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Sixty-two per cent of this irregular expenditure was identified through the audit process. At the majority of the auditees the incomplete identification of SCM irregular expenditure was as a result of their lack of application of legislation.

Findings from the audit were reported in the management reports of 83% of the auditees where the assessment was performed, while the findings were material enough to warrant reporting in the auditor's report of 78% of them. It was reported across all provinces.

Figure 33 present a summary of the overall SCM findings per departments and public entities followed by a provincial analysis of the most prominent findings. Details of the most prevalent findings are provided further under the headings as depicted in the figure. The percentages are based on the number of auditees where findings were identified.

Figure 33: Summary of findings arising from the audit of supply chain management

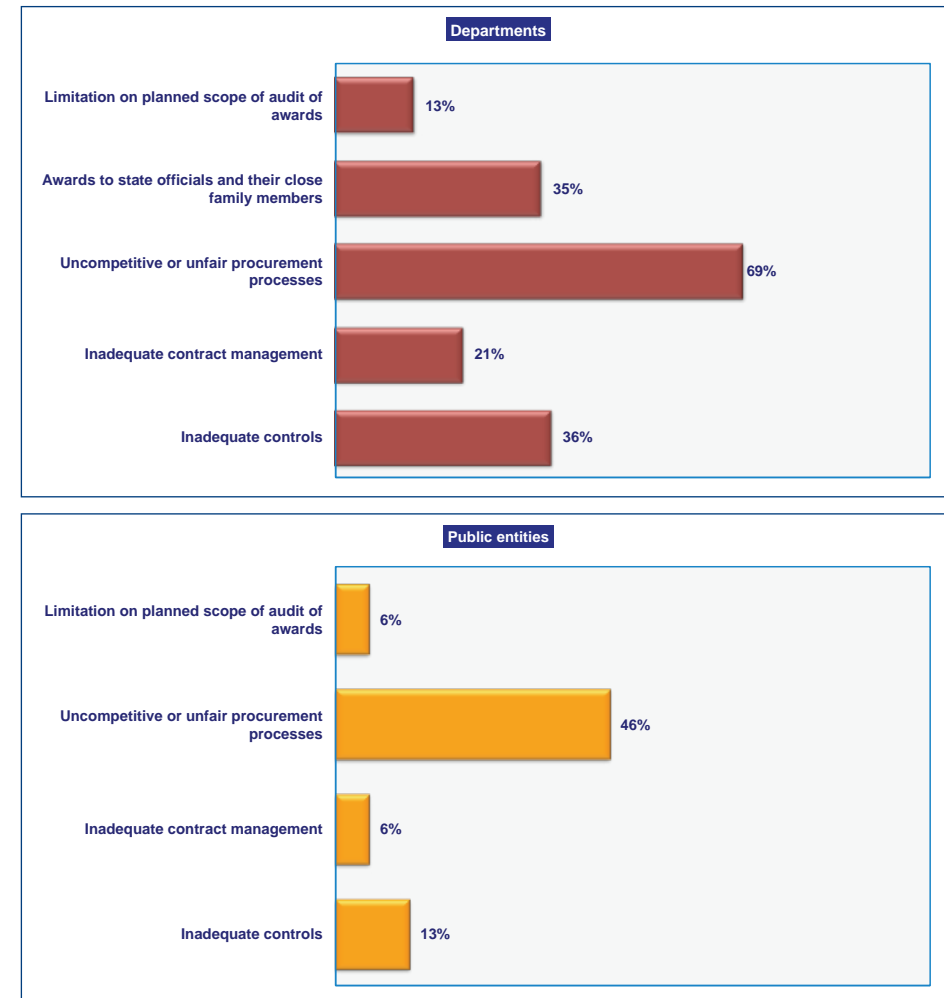
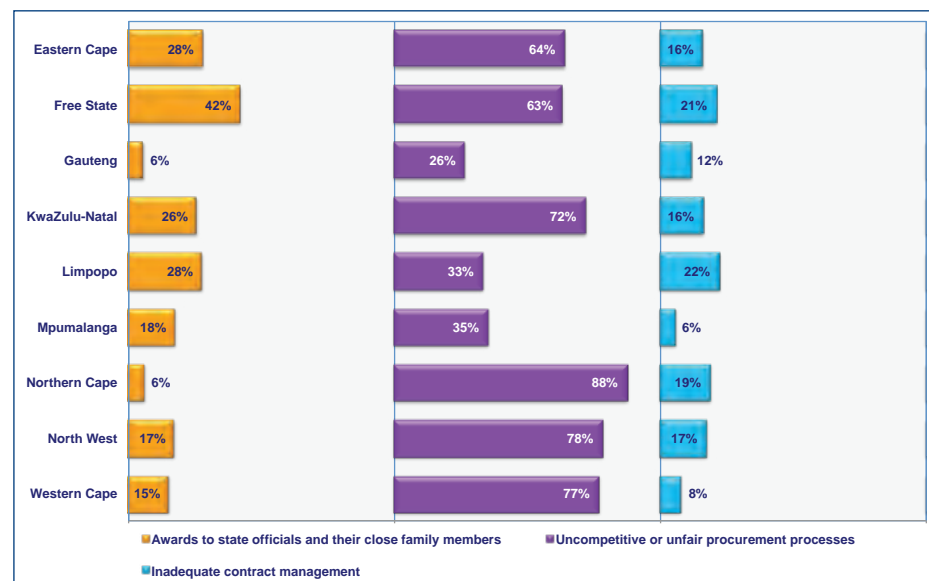


Figure 34: Summary of findings arising from the audit of supply chain management – provincial analysis



5.2 Limitations on planned scope of audit of awards

In all provinces except Gauteng, sufficient appropriate audit evidence could not be provided at all the auditees that awards had been made in accordance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. The reasons for the limitations experienced were bidding and quotation documents that were missing or could not be produced timeously as a result of weak record and document management systems. Some auditees claim that they were not aware that the bids submitted by all the prospective suppliers should be kept for audit purposes.

Table 46 depicts the limitations experienced.

Table 46: Limitations experienced – awards that could not be subjected to audit

Province	Number of auditees	Number of awards	Value of awards R'000
Eastern Cape	6	344	1 372 033
Free State	1	33	16 416
KwaZulu-Natal	4	16	7 994
Limpopo*	4	688	275 744
Mpumalanga	1	8	15 532
Northern Cape	3	43	177 180
North West*	2	66	242
Western Cape	1	5	1 830
Total	22	1203	1 866 971

*The value of 27 contracts in Limpopo and 62 contracts in North West could not be determined.

As a result of the limitations experienced, the findings reported in the analysis that follow might not reflect the full extent of irregularities and SCM weaknesses at the auditees.

5.3 Awards to state officials and their close family members

The audit included an assessment of the interests of officials of the auditee and their close family members in suppliers to the auditee.

Legislation does not prohibit such awards but there is legislation that endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment.



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

The table below depicts the number of auditees and the rand value of findings relating to interests in contracts awarded.

Table 47: Awards to state officials in the employ of departments and public entities and their close family members

Province	Awards made to				Non-compliance with regard to awards made							
	Officials		Close family members of officials		Supplier did not declare interest		Official did not declare interest		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Eastern Cape	10	924 840	4	54 189	5	821 884	5	70 154	8	84 435	1	795
Free State	8	13 753	4	2 116	3	2 422	2	2 380	6	7 968	1	179
Gauteng	2	4 252	1	3 684	2	7 781	1	7 928	2	4 252	1	4 105
KwaZulu-Natal	8	65 717	3	18 139	3	14 097	4	68 528	4	1 432		
Limpopo	5	30 478			2	11 928			5	3 390	3	296 186
Mpumalanga	5	52 013	1	401	3	45 698	3	4 536	1	2 180		
Northern Cape	3	21 797	2	142	2	21 728	2	1 070	8	*		
North West	4	12 368	1	*			1	3 285	4	12 368		
Western Cape	3	10 044	3	14 885	2	152	2	19				
Total	48	1 135 262	19	93 556	22	925 690	20	157 900	38	116 025	6	301 265
Percentage of auditees tested	34%		13%									

Note: the number indicated in the table refers to the number of auditees.

* The value of awards could not be established due to a lack of a proper contract management system.

5.4 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective comes from our Constitution. Legislation, most notably the PFMA and Treasury Regulations, prescribes the processes and rules to be followed by departments and public entities in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of providing preference to the previously disadvantaged in the allocation of work by the public sector.

Our audits also focus on whether procurement processes followed were fair and competitive in that it provided all suppliers equal opportunity to compete for public sector contracts and that the process does not favour some suppliers above others. It is important that the prescribed processes are followed in order to ensure that the selected supplier meets the requirements, has the capacity and ability to deliver the goods and services, and that procurement is done at competitive and economical prices.

The procurement processes of 4 470 contracts (R22,7 billion) and 20 782 quotations (R7,3 billion) were tested at 121 departments and 89 public entities.

The top five most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in table 48 which depicts the number of auditees and the rand value of the instances of non-compliance:

Table 48: Uncompetitive or unfair procurement processes

Province	Competitive bids not invited - no deviation approved		No declaration of interest submitted		Inadequate number of quotations obtained – no deviation approved		Competitive bids not invited - approved deviation not reasonable/justified		Procurement from suppliers without SARS Tax clearance		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Eastern Cape					8	4 778	6	72 463	6	84 744	8	1 111 636
Free State	11	197 493	7	23 959	12	24 615	5	22 662	4	11 278	11	530 437
Gauteng	6	825 211	4	375 556	3	7 665			2	12 766	4	1 546 128
KwaZulu-Natal	6	391 945			6	33 196	3	43 696	4	106 100	14	269 472
Limpopo					3	38 730	4	19 167			1	29 735
Mpumalanga	3	348 639	1	40 641	4	2 465			1	205	2	1 853
Northern Cape	8	38 276	12	394 979							6	91 781
North West	8	444 731			8	23 338			3	4 116	6	129 276
Western Cape	5	41 174	17	140 297	4	1 784			8	49 793	5	164 549
Total	47	2 287 469	41	975 432	48	136 571	18	157 988	28	269 002	57	3 874 866
Percentage of auditees tested	33%		29%		34%		13%		20%		40%	

Further details on the legislation not complied with are depicted in the following table:



Table 49: Uncompetitive or unfair procurement processes

Non-compliance matter	Summary of findings
No declaration of interest submitted	Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers that did not submit the required declaration.
Inadequate number of price quotations obtained – no deviation approved	A price quotation process is prescribed for the procurement of goods and services of a lower value (e.g. below R500 000 in the case of departments). The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee.
Competitive bids not invited – no deviation approved	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Competitive bids were not always invited and the deviations were not approved by a properly delegated official or committee.
Procurement from suppliers without SARS tax clearance	Awards were made to suppliers who failed to provide written proof from South African Revenue Service (SARS) that their tax matters were in order.
Competitive bids not invited – deviations not reasonable or justifiable	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Instances were identified of deviations from the competitive bidding process being approved even though it was not impractical or impossible to follow such a process.
Other findings:	<p>The other prevalent findings reported were as follows:</p> <ul style="list-style-type: none"> • The preference point system was not applied in all procurement of goods and services above R30 000, as required by Preferential Procurement Policy Framework Act. • No prospective suppliers list in place for inviting price quotations. • Prospective suppliers lists used for inviting price quotations were not administered in accordance with the requirements. • Contracts were awarded to suppliers who did not submit their declarations of past SCM processes. • Deviations were approved for obtaining less than the required number of price quotations based on it being impossible or impractical to obtain the quotes even though the deviation was not justified or reasonable.

5.5 Inadequate contract management

Shortcomings in the manner that contracts are managed result in delays, wastage and fruitless expenditure, which impact directly on service delivery to the citizens.

The top five most prevalent findings on inadequate contract management are summarised in table 50 which depicts the number of auditees and the rand value of the instances of non-compliance:

Table 50: Contract management weaknesses identified

Province	Payments made in excess of approved contract price (with further approved extensions)		Contracts extended or renewed to circumvent competitive bidding processes		Inadequate contract performance measures and monitoring		No signed contract/ not signed by delegated official		Contracts not prepared in accordance with general conditions of contract (prescribed by NT)		Other	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Eastern Cape	1	3 313 162	3	578 152	1	23 250	3	355 978	1	44 817	1	16 000
Free State			1	31 222	2	1 102 902			1	236 338		
Gauteng	3	160 789	2	1 527 232			2	457 506				
KwaZulu-Natal	2	17 309	2	398 300			2	4 800			1	422
Limpopo	2	78 569	2	10 595	1	76 483	1	145				
Mpumalanga											1	822
Northern Cape			1	910	1	113 031	1	87 238				
North West	1	7 470	3	8 642	2	#	1	*			2	*
Total	9	3 577 299	14	2 555 053	7	1 315 666	10	905 667	2	281 155	5	17 244
Percentage of auditees tested	6%		10%		5%		7%		1%		4%	

* The value of the 36 awards could not be established due to lack of a proper contract management system

No value is attached to this finding

Further details on the findings are included in the following table:

Table 51: Inadequate contract management

Aspect tested	Summary of contract management weaknesses
Contracts extended or renewed to circumvent competitive bidding processes	It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.
Inadequate contract performance measures and monitoring	Measures applied in monitoring the performance of contractors were not always sufficient to ensure that contractors delivered in accordance with the contract.
No signed contract or contract not signed by delegated official	Goods and services were received and payments were made to suppliers without written, signed contracts.
Payments made in excess of approved contract price (with further approved extensions)	A contract prescribes the prices, terms and maximum values, which can be increased through approved extensions and variations. Instances were identified of payments being made to suppliers in excess of these approved contract prices.
Other findings	The other findings reported were as follows: <ul style="list-style-type: none"> Contracts were drafted and signed in formats that were not in line with the prescribed requirements. Instances were identified of contracts that were amended or extended in the favour of the supplier without the approval of a properly delegated official or committee.

5.6 Inadequate SCM controls

Identified deficiencies in fundamental SCM controls at departments and public entities are summarised in the following table.

Table 52: SCM control weaknesses across provinces

Province	Inadequate controls to ensure interest is declared	SCM officials not adequately trained	SCM officials not aware of SCM policies/do not understand roles and responsibilities	Risk assessment did not address SCM	Other controls
Eastern Cape	4	3	2		7
Free State	6				9
Gauteng	2	3		2	5
Limpopo	2			4	1
Mpumalanga					1
Northern Cape	3	2	3	3	12
North West	5		6	2	5
Western Cape	19	4	8		12
Total	41	12	19	11	52
Percentage of auditees tested	29%	9%	13%	8%	37%

Further details on the findings are included in the following table:



Table 53: Inadequate supply chain management controls

Finding	Detail
Inadequate controls to ensure that interest is declared	The controls at some auditees were inadequate to ensure that officials declare whether they or their close family members, partners and associates have interests in suppliers or in a contract to be awarded and that they withdraw from the process involving such contract.
Internal audit did not evaluate SCM controls, processes and compliance	Even though SCM is generally a high-risk area and directly affects the objectives of most auditees, the internal audit sections at some auditees did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM.
SCM officials not adequately trained	Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.
SCM officials not aware of SCM policies or do not understand roles and responsibilities	Officials involved in the implementation of the SCM policy were not always aware of, or did not understand, the SCM policy and their roles and responsibilities in connection with the SCM system.
Risk assessment did not address SCM	SCM is generally an area of considerable risk at most of the auditees. However, the risk was not recognised in the risk assessments performed at these auditees.
Other findings	<p>The most prevalent other control weaknesses reported were as follows:</p> <ul style="list-style-type: none"> • The audit committee review of compliance with laws and regulations did not include SCM. • Inadequate controls to monitor the performance of contractors. • A code of conduct for ethical behaviour in the SCM process was not adopted.

5.7 Overall conclusion on SCM matters

The extent and pervasiveness of findings on unfair and uncompetitive procurement processes delay the restoration of the public's confidence in the ability of provincial government to use public funds in a fair, cost-effective and transparent manner in order to deliver services. Although there is an urgent and continuous need for service delivery, it does not serve as a reason for circumventing the procurement best practices such as competitive bidding and the invitation of price quotations.

The consistent application of prescripts on declarations and certificates to be submitted by prospective suppliers is fundamental in order to ensure fairness in the procurement process and to prevent abuse of the SCM system. Of particular concern is the prevalence of non-compliance with the instruction by the National Treasury on declarations to be submitted by prospective suppliers on their connection to state officials. This instruction was a measure by the National Treasury to prevent possible undue influence in the procurement processes by a state official who has an interest in the suppliers and was issued in response to previous audits performed by the AGSA.

Although legislation does not prohibit the making of awards to suppliers in which officials of an auditee or their close family members have an interest the prevalence of these practices across all provinces are of concern. The audits identified some instances where the officials were involved in making the specific award and these cases were reported to management to deal with through forensic investigations. The instances of declaration of interest not being made by the suppliers and the officials as well as the officials not obtaining approvals for all other remunerative work could be an indication of an intention to conceal the conflict of interest and should also be investigated for possible undue influence in the award processes and fraud. Conflicts of interest fuel the public perceptions of corruption and carelessness of state officials even though it is in most part not a reality. In response to the public outcry over state officials and their government contracts some of the provinces are in the process of drafting provincial legislation that prohibits such practices. Legislation will be a significant step

towards decreasing the abuse of the SCM system and national legislation should also be considered.

The findings on procurement processes and contract management are indicative of an environment where insufficient attention is given by leadership, oversight and treasuries to the implementation, enablement, enforcement and monitoring of compliance with the SCM legislation. In response to the 2010-11 findings from the SCM audit these key role players have again committed to improving the situation through various interventions. The AGSA will continue to focus on the audit of SCM and will provide recommendations and support to auditees and key role players in order to enable equitable, transparent, competitive and cost-effective SCM systems that comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.



SECTION 6: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SECTOR DEPARTMENTS

6.1 Background to the audit of sector departments by the AGSA

A specific assessment of service delivery aspects relevant to the departments of Education, Health and Human Settlements has been included as part of the AGSA's regularity audits since the 2007-08 financial year. Subsequently, the Public Works and Social Development sectors were added to ensure a comprehensive focus on the issues pertaining to service delivery in the primary sectors. At a provincial level the total budgets for the five sectors represent approximately 85% of the total budget for provincial departments.

This section of the general report highlights the main areas of concern within service delivery and further provides an overall summary of the financial audit outcomes and findings arising from the audits of predetermined objectives and compliance with laws and regulations.

The objective of this assessment is to provide an overview of the five sectors (Health, Education, Human Settlements, Social Development and Public Works) from a national perspective to concurrent provincial functions that are responsible for service delivery.

6.2 Improvements and regressions in the audit outcomes of sector departments

Movements in audit outcomes are depicted in table 54.

Table 54: Movements in audit outcomes of sector departments

Movement in audit outcome – sectors			
Audit opinion	Improvement	Unchanged	Regressed
Financially unqualified with no findings	Human Settlements (1)		
Financially unqualified with findings	Education (1) Human Settlements (1) Social Development (1) Public Works (2)	Education (3) Health (2) Human Settlement (5) Social Development (5) Public Works (3)	
Qualified	Education (2) Health (3)	Education (2) Health (2) Human Settlement (2) Social Development (3) Public Works (3)	Education (1) Health (1) Human Settlements (1) Social Development (1)
Disclaimer/Adverse		Education (1) Health (1) Public Works (1)	Health (1) Public Works (1)
Total	11	33	6

6.3 Findings arising from the audit of reporting by sector departments against their predetermined objectives

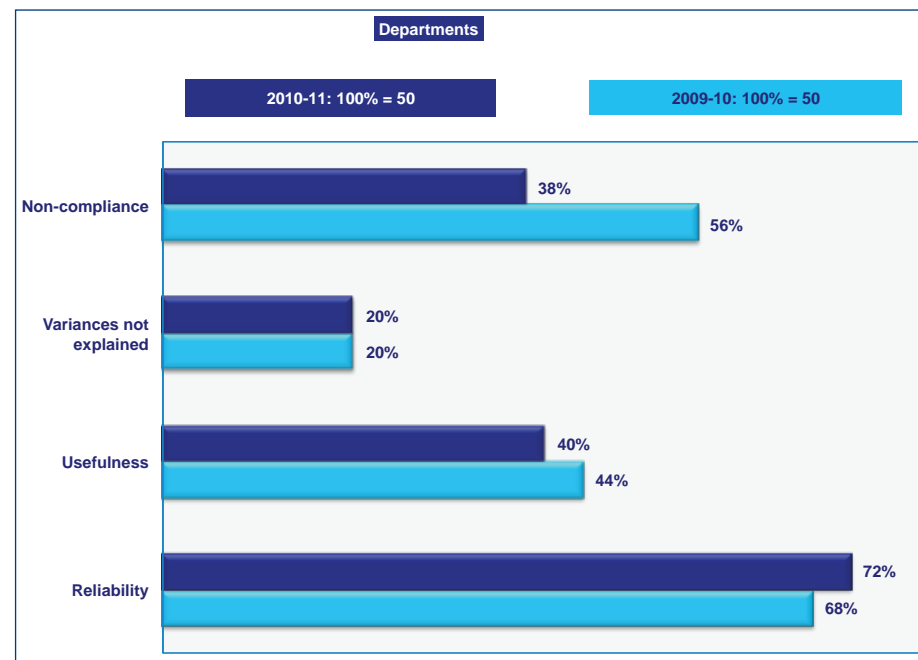
The level of findings on PDO reporting for the sector departments is significantly higher than for other departments. The following tables and figures provide a summary and overview of the findings relating to the audit of predetermined objectives. Findings relate to the nine provincial departments in each of the provinces, plus the national department of each of the sectors.

Figure 35: Findings arising from the audit of predetermined objectives

	Education	Health	Human Settlements	Public Works	Social Development
Non-compliance	3 30%	5 50%	4 40%	4 40%	3 30%
Variances not explained	0 0%	4 40%	2 20%	3 30%	1 10%
Performance information not useful	3 30%	4 40%	3 30%	6 60%	4 40%
Performance information not reliable	5 50%	9 90%	6 60%	8 80%	8 80%
Total number of departments	10	10	10	10	10

The increase in the findings on the reliability of performance reports (as per figure 36) compared to the previous year is of concern as this indicates that the credibility of the actual reported performance information could not be verified to supporting evidence. In some instances the increase in findings on reliability was due to the absence of evidence in support of actual service delivery achievements reported by the sector departments.

Figure 36: Movement in findings arising from the audit of predetermined objectives



The nature of PDO findings is outlined in section 2.3.4 of this report.



6.4 Root causes of findings arising from the audit of predetermined objective reporting by sector departments

The AGSA conducted audits at sector departments, the objectives of which included identifying the following root causes of departments' inability to meet the legal requirements, aims and objectives related to reporting against predetermined objectives.

Aspects of leadership and management requiring attention

- The prime responsibility for producing accurate, complete and valid performance reports lies with the leadership of departments. They did not ensure the existence of approved policies and procedures which, among others, describe how the department's performance information management system should be operating.
- Roles and responsibilities relating to performance information management were not formally assigned.
- Departments experienced capacity constraints in managing performance because capacity needs had not been determined, and also because of vacancies in key positions relating to performance management.
- Officials are not held accountable throughout for underperformance through effective employee performance management systems. Underperformance is also not addressed timeously through the use of action plans that specify the desired outcomes, assign responsibilities and set specific target dates.

Weaknesses in performance management and reporting thereof

- Performance indicators were not always well defined, which negatively affected the usefulness of performance information. Provincial treasuries, offices of the premier and national sector departments did not, in all instances, assist the provincial departments in the identification and definition of performance indicators, while performance targets of

departments were not always SMART (specific, measurable, achievable, relevant and time bound).

- Reported performance information for many sector departments was not reliable as departments did not have approved processes and system documentation for the collection, collation, verification, storing and reporting of actual performance information.
- Staff, with the core responsibility of managing and reporting on performance, were not always trained.
- The link between the budgets of provincial departments and their measurable performance objectives were not always clear. Provincial departments could therefore not monitor actual expenditure against budgeted expenditure per performance objective and could also not evaluate the correlation between performance (planned and actual performance) and cost (budgeted and actual expenditure).

Aspects of governance requiring attention

- Internal audits did not, in all instances, include reviews of performance information systems, while in other instances the internal audits did not focus on the usefulness and reliability of reported performance information.
- In instances where internal audits conducted reviews of performance information systems and reports, the departments did not develop action plans to address shortcomings revealed by internal audits, while audit committees and/or executive authorities did not always evaluate the internal audit findings and monitor the implementation of recommendations.
- Provincial treasuries, offices of the premier and national sector departments did not always assist provincial departments to address under-performance by recommending corrective actions, assisting and guiding the departments to implement the recommendations and by monitoring the implementation thereof.

6.5 Non-compliance findings (including SCM) at sector departments

Non-compliance findings raised during the audit of sector departments are depicted in the figures that follow.

Figure 37: Non-compliance findings arising from the audit of the sectors

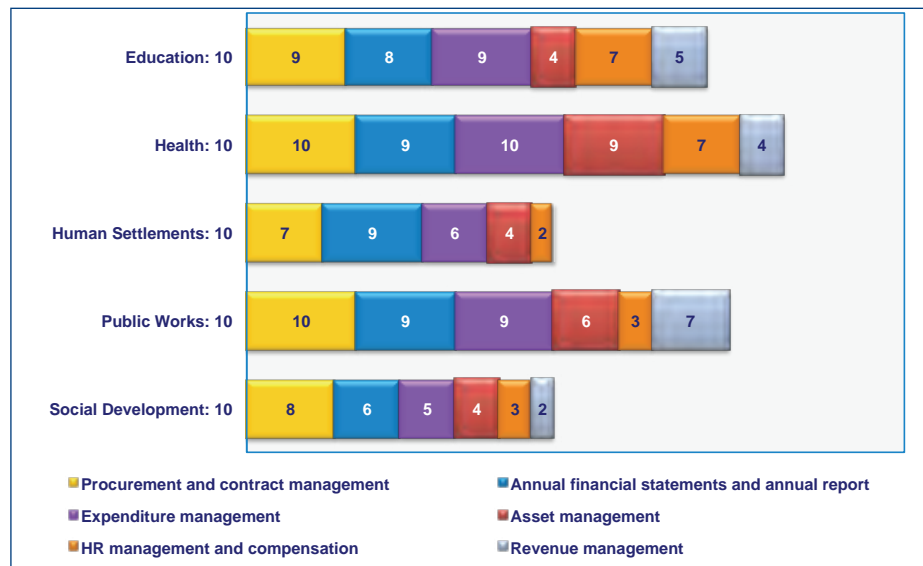
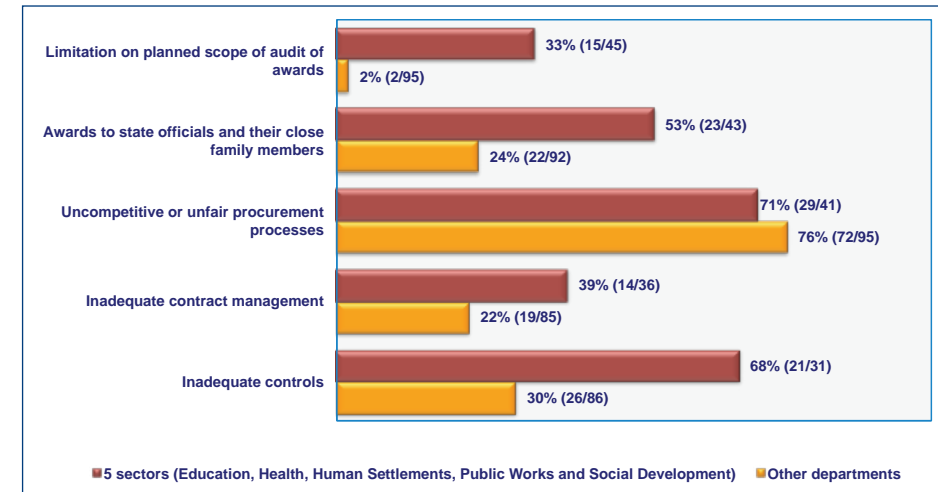


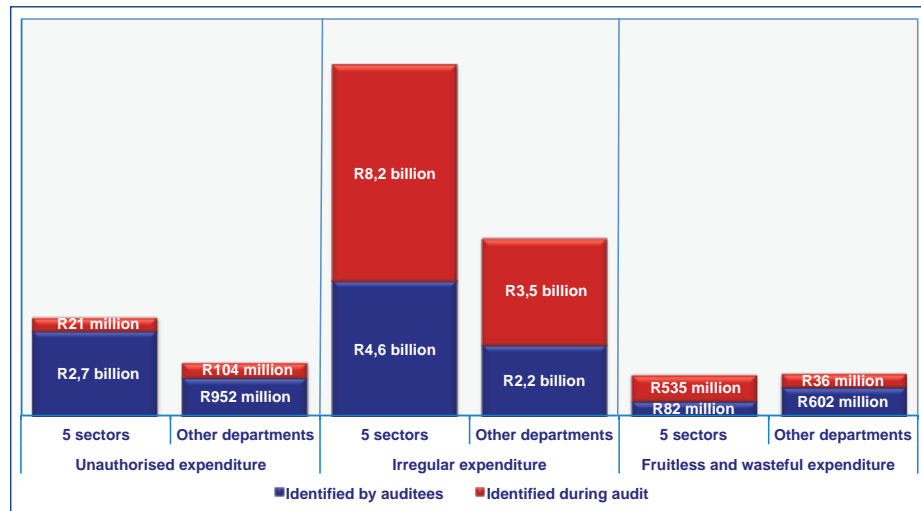
Figure 38: SCM findings at sector departments



Uncompetitive or unfair procurement processes remain an issue for all departments (i.e. both the sector and other departments), while the main reasons for this at sector departments were identified as inadequate contract management, controls and monitoring of the entire process of inviting bids, assessing the bids according to the specific criteria and the awarding of tenders.



Figure 39: Unauthorised, irregular as well as fruitless and wasteful expenditure (sector comparison)



Unauthorised expenditure

- The health sector incurred 55% (R1,4 billion) of the total unauthorised expenditure for the five sectors, mainly due to overspending on the main division of the vote. Unauthorised expenditure has decreased with 74% (R4,08 billion) during the year under review, primarily as a result of improved controls in the Gauteng and KwaZulu-Natal provincial departments of Health.
- The unauthorised expenditure relevant to the education sector amounted to R958 million or 35% of total unauthorised expenditure for the five sectors.
- Overall, unauthorised expenditure decreased by 67% in the current year.

Irregular expenditure

- Education (42%) and Health (45%) incurred the highest amounts of irregular expenditure within the sectors, which for both of the sectors was a drastic increase from the previous year.
- Eastern Cape incurred 74% of irregular expenditure within the education sector and Gauteng incurred 39% of irregular expenditure within the health sector.
- Overall, irregular expenditure increased by 58% from the previous year, with SCM-related expenditure representing 63% of the total irregular expenditure for the current year.

Fruitless and wasteful expenditure

- Health incurred 66% of the total of fruitless and wasteful expenditure for the sectors, with Gauteng as the province with the highest amount of fruitless and wasteful expenditure. This was due to security services being paid for closed health facilities as well as variation orders for hospitals in construction.
- Overall, fruitless and wasteful expenditure increased by 70% from the previous year.

6.6 Weaknesses identified in information systems used by sector departments for reporting against their predetermined objectives

As part of the audits of predetermined objectives a general and application controls review was conducted on some of the non-financial systems used in the Health and Human Settlements sectors to report on performance information. A general controls review was performed for the Education sector as the non-financial system used has no application controls.

The general control reviews focused on IT governance, user access management, change controls, security management and IT service continuity. The application controls review focused mainly on the automation of business processes and transaction processing, which contributes to effective internal control. The information processed and stored on IT systems is vital to the reliability of the performance information used by management for planning, monitoring and reporting.

The following systems were evaluated:

- Education management information system (EMIS)
- District health information system (DHIS)
- Tuberculosis health information system (ETR.NET)
- Housing subsidy system (HSS)

Table 55: Deficiencies identified in information technology management

Sector	Findings reported in audited areas					
	User account management	Program change control	IT service continuity	Security management	Facility and environmental controls	IT governance
Education (EMIS)	X	X	X	X	X	
Health (DHIS)	X	X	X	X		X
Health (ETR.NET)	X	X	X	X		X
Human Settlements (HSS)	X		X	X		X

The findings summarised above were mainly due to the following weaknesses:

User account management process: The key issue within this process is that user account management procedures were not documented, approved and implemented, with the result that user access was not formally requested. This gave rise to a conflict in terms of the segregation of duties and lack of database administrator reviews to prevent unauthorised access to systems and data.

Program change control: Program change control policies and procedures had not been formally documented, approved and implemented. Furthermore, segregation of duties was not maintained between the programmers and the DHIS users with regard to access to data, which increased the risk of unauthorised changes being implemented in the system and therefore compromising data integrity.

IT service continuity: The main audit findings related to the absence of documented disaster recovery plans, backup policies and service level agreements where a service provider performed the IT service continuity activities. While some provinces had backup policies, such backup was not tested or stored off site. In addition, there was no consolidated backup for the DHIS, which could prevent provinces from recovering fully or timeously in the event of a disaster or processing disruption.



Security management: The security and firewall policies were not formally documented, approved and implemented. In some other provinces where a security policy was in place it was inadequate. The password settings implemented were also inadequate and in some cases default accounts on the domain controller had not been renamed. This increased the risk of unauthorised access to the system and data.

Facility and environmental controls: The physical security policy regulating access to sensitive areas (e.g. server rooms) had not been formally documented, approved and implemented. Furthermore, environmental controls, such as smoke detectors and humidity and temperature control systems, had not been implemented in some of the provinces. This led to an increased risk of unauthorised access to server rooms as well as unavailability of systems and data.

IT governance: In the case of the HSS, the service level agreement between the department and the vendor was cancelled, which affected the support of the system countrywide. For the Health systems (i.e. DHIS and ETR.NET), the service level agreements between the national department and the vendors were not signed

6.7 Findings arising from the audit of key national programmes implemented by sector departments

Education

For the current year, the focus was on the following service delivery aspects within the Education sector:

- Division of Revenue Act – HIV/Aids life skills education
- Division of Revenue Act – National school nutrition programme
- Learner teacher support material (LTSM)
- Learner transport scheme (LTS)
- Allocation of funds to school
- Technical secondary schools recapitalisation grant
- Education infrastructure

Division of Revenue Act – HIV/Aids life skills education

Service delivery objective: This programme was introduced in the 2000-01 financial year with the overall purpose of coordinating and supporting the structured integration of life skills and HIV/Aids programmes across all learning areas in the school curriculum with a view to 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. The total grant allocation for 2010-11 amounted to R196 million. The highest allocations were made to KwaZulu-Natal, the Eastern Cape and Gauteng, with these provinces receiving 25%, 21% and 16% of the total grant, respectively.

Audit conclusion: Despite the fact that this programme has been running for 10 years, very few of the planned outputs of the HIV/Aids (life skills education) grant have materialised in more than half of the provincial Education departments. This is mainly due to the inadequate implementation of the HIV/Aids life skills education programmes at schools level and the

lack of leadership oversight, review and monitoring of the performance of this programme by the provincial and district offices in the relevant provinces.

Table 56: HIV/Aids life skills education

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	Master trainers did not receive all planned training	3	*
2	Educators did not receive all planned training	6	6
3	HIV and Aids expenditure not in line with conditions of DoRA framework and approved business plan	1	0
4	Monitoring and reporting responsibilities to DoRA framework not performed	5	8

*Not audited

Division of Revenue Act – National school nutrition programme

Service delivery objective: The overall purpose of this programme is to enhance learning capacity through school feeding, while the grant is intended to encourage school attendance and improve learner enrolment at schools. The total grant allocation for 2010-11 was R3,7 billion, with the highest allocations made to KwaZulu-Natal, the Eastern Cape and Gauteng. These provinces received 28%, 23% and 13% of the total grant, respectively.

Audit conclusion: The objective of ensuring that balanced nutritional meals are made available to needy learners to assist in promoting active participation by these learners in classroom activities has not been fully met. As reported in the prior year, the key challenges of the programme relate to inadequate monitoring by provincial departmental officials and lack of adequate facilities and resources to prepare meals as required. Some of the matters reported in the current year were repeat findings.

Table 57: National school nutrition programme

No.	Findings	Number of provinces affected		
		2010-11	2009-10	2008-09
1	Less than 95% of the grant was allocated and used for school feeding, while more than 5% was allocated and used for administration and other activities	2	1	2
2	Attendance of food handlers not monitored by schools	4	*	*
3	Quarterly and/or annual financial and performance reports not approved and submitted to national department	2	4	2
4	Monitoring and evaluation plan not developed as required per DoRA framework	4	4	3
5	Meals not served by 10:00 and arrangement not pre-approved by national department	5	4	7
6	Sustainable food production and nutrition education not promoted at school level	3	*	*
7	Food handlers did not have a valid contract with department or NGO	5	*	*
8	Meals not prepared as per recommended menu	2	7	5
9	Meals not served on all school days	2	*	*

* Not audited

Learner teacher support material (LTSM)

Service delivery objective: With this programme it is envisaged that support materials will enhance performance of learners and that of teachers. The total grant allocation for the 2010-11 financial year was R2,8 billion and the highest allocations were made to KwaZulu-Natal and Limpopo, with these provinces receiving 22% and 20% of the total grant, respectively.



Audit conclusion: While education is a top priority on the government's agenda, it was found that in some instances resources allocated to improve study support material were used for other activities. It was also found that LTSM was, in some cases, either not delivered or delivered late to schools, which had an adverse effect on the quality of teaching and learning. This is indicative of a lack of accountability, poor planning and lack of monitoring and evaluation by the education leadership in the affected provinces.

Table 58: Learner teacher support material (LTSM)

No.	Findings	Number of provinces affected
1	Funds allocated specifically for LTSM not used for intended purposes	2
2	LTSM acquired but not distributed to schools during year under review	2
3	Schools received LTSM only after academic year started	5
4	Schools received no LTSM although budgeted for	2

Note: LTSM was audited for the first time during 2010-11

Learner transport scheme (LTS)

Service delivery objective: The overall purpose of this initiative is to make education accessible to all by providing scholar transport for needy learners. The total grant allocation for the 2010-11 financial year was R1,1 billion and the highest allocations were made to KwaZulu-Natal and Limpopo, with these provinces receiving 22% and 20% of the total grant, respectively.

Audit conclusion: Although the LTS was implemented a few years ago, it is evident from the findings that the scheme is not being managed effectively. Bus drivers without driver's licences and non-roadworthy buses expose beneficiaries of this scheme to road accident risks. A lack of adequate monitoring and review of the LTS by the education leadership in the affected provinces also contributed to the findings not being addressed and recommendations not implemented.

Table 59: Learner transport scheme (LTS)

No.	Findings	Number of provinces affected		
		2010-11	2009-10	2008-09
1	Tenders awarded to LTS contractors despite non-compliance with tender requirements and processes	4	4	7
2	No indicators and targets in annual performance plan for measuring management of LTS and performance of contractors in annual performance plan	3	2	4
3	Buses declared unroadworthy by private or state-controlled testing centres	1	2	4
4	No policies or objectives to manage LTS in province	1	6	5
5	Payments made to LTS contractors without proof of claims submitted or not in accordance with contract specifications	2	*	*
6	Non-adherence to requirements of LTS policies	3	2	8
7	Bus drivers without required driver's licences and/or public driver permits to transport learners	4	4	4

* Not audited

Allocation of funds to school

Service delivery objective: The school allocation is intended to finance key inputs other than personnel and buildings in the education process. Key examples of inputs for which the school allocation is intended are textbooks, stationery and non-educational items such as cleaning materials and electricity. Such inputs are necessary if educators and other personnel at schools are to perform their functions properly.

Audit conclusion: The findings indicated a lack of control and monitoring by the leadership at school, district and provincial levels to ensure the effective utilisation of funds allocated to schools.

Table 60: Allocation of funds to school

No.	Findings	Number of provinces affected 2010-2011
1	Incorrect quintile rankings used when determining resource allocations for schools	1
2	Applicable norms and standards used incorrectly in allocating funds to schools	3
3	Action not taken against schools for mismanagement of funds and steps not taken to recover monies lost	1
4	Funds allocated as per allocation letter differed from gazetted amount in DoRA	1

Note: Audited for the first time during 2010-11

Technical secondary schools recapitalisation grant

Service delivery objective: The overall purpose of the grant is to recapitalise up to 200 technical schools to improve their capacity to contribute to skills development and training in the country. The grant allocation for the 2010-11 financial year amounted to R116 million and the highest allocations were made to Limpopo and Gauteng, which received 38% and 16% of the total grant, respectively.

Audit conclusion: The challenges related mainly to compliance with the grant requirements regarding submission of the annual evaluation of performance reports and quarterly reports to the national Department of Basic Education.

Table 61: Technical secondary schools recapitalisation grant

No.	Findings	Number of provinces affected 2010-2011
1	Annual evaluation report of performance of conditional grant not submitted to national department	3
2	Quarterly reports regarding grant not submitted to national department	2

Note: Audited for the first time during 2010-11

Education infrastructure

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. The total grant allocation for the 2010-11 financial year amounted to R3,2 billion and the highest allocations were made to the Eastern Cape, KwaZulu-Natal and Limpopo, with these provinces receiving 32%, 18% and 18% of the total grant, respectively.

Audit conclusion: The under-utilisation of new or upgraded schools is largely due to a lack of coordination and liaison between the provincial departments and the implementing agent (DPW). Coordination was insufficient to ensure that schools or certain sections are used optimally at the time of commissioning. The late delivery of the necessary resources also contributed to the under-utilisation of newly built infrastructure.

Both the Department of Education and Department of Public Works failed to adequately monitor ongoing projects. This resulted in defective and poor quality work not being detected for a long period. Intervention, if any, occurs only at the completion of the project and by that time the most of the contract value had been paid.



An incorrect needs determination process led to either an oversupply or, in other cases, undersupply of the necessary infrastructure. For example, in Gauteng, although only 24 842 primary school classrooms were required, 27 151 classrooms were available, thus an oversupply. At the same time, 16 417 secondary classrooms were required but only 14 388 were available. This was aggravated by the fact that the department did not have a formal prioritisation model to aid with identifying critical needs.

Table 62: Education infrastructure

No.	Findings	Number of provinces affected 2010-2011
1	New/upgraded schools not utilised or underutilised	4
2	Infrastructure needs not correctly identified/prioritised as result of inappropriate information used during needs determination process	7
3	The department did not correctly identify and prioritise the infrastructure needs as inappropriate information was used during the needs determination process	6
4	The needs determination and budget were compiled without considering relevant technical issues, which caused inappropriate scoping and budgeting of education infrastructure projects	4

Note: Audited for the first time during 2010-11

Health

For the current year, the focus was on the following service delivery aspects within the Health sector:

- Division of Revenue Act – Comprehensive HIV/Aids grant
- Division of Revenue Act – Hospital revitalisation grant
- Medical waste
- Emergency medical services
- Health infrastructure

Division of Revenue Act – Comprehensive HIV/Aids grant

Service delivery objective: The overall purpose of this grant is to enable the health sector to develop an effective response to HIV/Aids and support the implementation of the national operational plan for comprehensive HIV and Aids treatment and care. The total grant allocation for 2010-11 amounted to R6,051 billion and the highest allocations were made to KwaZulu-Natal (25%), Gauteng (21%) and the Eastern Cape (11%), with these provinces receiving 58% of the total grant.

Audit conclusion: In an environment of limited resources, it is essential that an adequate monitoring and evaluation framework be designed and implemented to facilitate proper accountability for resources entrusted but also to provide sufficient intelligence to support the planning and budgeting process. This is critical for service delivery. The national department must take the lead to develop policies and procedures as well as to design suitable processes and internal controls to support the reporting of reliable information. Greater cooperation must be promoted between the national and provincial departments to enforce compliance with the DoRA framework.

Table 63: Comprehensive HIV/Aids grant

No.	Findings	Number of provinces affected		
		2010-11	2009-10	2008-09
1	Weaknesses exist in design and implementation of health information systems	7	7	7
2	Data used to prepare quarterly reports for ART interventions are either not supported by evidence or supporting documentation was not available	8	7	6
3	Data used to prepare quarterly reports for VCT interventions are either not supported by evidence or supporting documentation was not available	7	7	6

Division of Revenue Act – Hospital revitalisation grant and infrastructure

Service delivery objective: The purpose of this grant 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 2010-11 amounted to R4,020 billion and the actual amount spent was R3,229 billion, representing a 20% underspending of the total grant. The highest allocations were made to Gauteng (20%), KwaZulu-Natal (12%) and the Western Cape (14%), with these provinces being allocated 47% of the total grant. The following provinces recorded the highest material underspending of the grant allocations made to them: Eastern Cape (53%), KwaZulu-Natal (41%), Northern Cape (38%), Free State (35%), and Limpopo (28%).

Audit conclusion: Overall, there was a considerable delay in the completion of hospitals. There are various reasons for this. For example, unavailability of funds at some stage due to improper cash management processes, unforeseen difficulties, poor performance by contractors and changes to the scope of work. In many instances, additional funds had to be paid for substandard work. Proper planning with accurate needs determination processes should be conducted before the projects are initiated. A robust procurement system was not consistently applied, thus compromising the transparency, accountability and economy with which commitments were made. Project management was not effective, resulting in projects not being completed on time and at the required level of quality and cost.

Table 64: Hospital revitalisation grant and infrastructure

No.	Findings	Number of provinces affected		
		2010-11	2009-10	2008-09
1	Poor performance of contractors has delayed the completion of projects	4	4	7
2	Poor performance of contractors has resulted in additional costs to the department	4	4	6
3	New/upgraded hospitals or clinics not utilised or underutilised	6	*	*
4	Additional costs incurred to correct substandard work	4	*	*
5	Infrastructure needs not correctly identified/prioritised as result of inappropriate information used during needs determination process	2	*	*
6	Project implementation plans did not include all deliverables	3	2	*
7	Data used to prepare monthly and quarterly reports not supported by evidence	3	8	5
8	The storage facilities for linen, medicines, medical waste disposal, mortuary, etc., are inadequate	4	2	*

* Not audited

Medical waste

Service delivery objective: The audit of medical waste management focused on the handling, storage and disposal of medical waste. The focus areas related to systems and processes being in place in each province to establish whether reasonable measures had been put in place for the appropriate management of medical waste and compliance with the relevant legislation.



Audit conclusion: In general, the audit findings indicate non-compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and the minimum requirements as prescribed by the Department of Water Affairs which has the legislative mandate to set a framework for compliance for waste disposal sites. It is clear that compliance with the relevant legislation is not monitored at hospital and clinic levels.

Table 65: Medical waste

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	Contract with service provider(s) could not be obtained as the department did not enter into a signed contract with the service provider	4	0
2	Medical waste not appropriately disposed	7	6
3	Expired medicines not appropriately dealt with and disposed	8	5
4	Access control to the collection areas of medical waste as well as the medical waste storage site was not adequate	8	6
5	Proof that the medical waste was delivered to the incinerator could not be obtained	5	3

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.

Audit conclusion: In comparison with the audit findings raised in previous years, the areas reported below have not improved.

Table 66: Emergency medical services

No.	Findings	Number of provinces affected		
		2010-11	2009-10	2008-09
1	Slow response time	7	6	8
2	Ambulances and rescue vehicles not available	6	7	7
3	Communication centre, ambulance and rescue staff not available	5	6	8
4	Ambulance staff not appropriately trained and qualified	4	3	9

Human Settlements

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 provide access to state assistance where qualifying households wish to acquire an existing house or a vacant residential serviced stand linked to a house construction contract through an approved mortgage loan. These properties are available in the normal secondary housing market or have been developed as part of projects that are not financed through one of the national housing programmes.

Audit conclusion: In comparison with the 2009-10 financial year, the number of findings had decreased; however, attention needs to be given to the deficiencies in leadership and financial and performance management to ensure that the identified findings do not recur in the forthcoming years.

Table 67: Management of individual housing subsidies

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	Contrary to the requirements of the Housing Code, Part 3A, paragraphs 4(a), (b), (g) and 11:		
1 (i)	subsidies were paid to applicants with invalid ID numbers	4	5
1 (ii)	subsidies were paid to government employees earning in excess of the housing subsidy threshold	3	6
1 (iii)	subsidies were paid to applicants who were younger than 18 years	2	5
1 (iv)	payments were made to beneficiaries who are not approved on HSS	2	3
2	The department approved more than one housing subsidy for the same site/stand	2	3
3	The department approved and paid subsidies after the applicant's date of death	2	5
4	Subsidies were paid to applicants earning in excess of the housing subsidy threshold	1	8
5	Payments not in line with contract milestones	1	3

Audit conclusion: Ongoing monitoring and supervision were not undertaken to ensure that housing allocations were only made to registered contractors with the necessary skills and qualifications or that progress made with the projects was aligned to the units completed and recorded. Furthermore, the department failed to review and monitor compliance with the specifications of the Housing Code when it comes to approval of projects. This led to approval of houses that did not meet the specifications and requirements.

The department also did not ensure that the municipalities had adequate measures and controls in place before the funds were transferred, resulting in municipalities appointing contractors in contravention of the preferential procurement policy framework.

Monitoring of the appropriate utilisation of transfer payments and advance (tranche) payment to municipalities for the building of houses

Service delivery objective: To ensure that the provincial departments of Human Settlements monitored implementation by municipalities of effective, efficient and transparent financial management and internal control systems before funds are transferred to the municipalities.



Table 68: Monitoring of the appropriate utilisation of transfer payments and advance (tranche) payments to municipalities for the building of houses

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	The provincial department did not ensure that there was adequate project management, which resulted in no or limited monitoring and control over projects and the completion thereof	5	1
2	Contrary to the requirements of DoRA, section 20; the provincial department did not calculate the unspent portion of the transfer or advance payment	3	1
3	The appointment of contractors was not in terms of the procurement processes as stipulated by the provincial department	3	1
4	Payments were made for houses that were claimed as built but did not exist	3	2
5	The quality of the houses that were built was not according to the specific requirements and the expenditure incurred	3	5
6	Contrary to the requirements of PFMA, section 38(1)(i); the department did not ensure that the municipality implements effective, efficient and transparent financial management and internal control system before they transferred the funds to the entity	2	1
7	Contrary to the requirements of DoRA, section 20; the provincial department did not confirm the balance and existence of the unspent portion of transfer or advance payments at year-end	2	1

Public Works

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 (including construction, planned and unplanned maintenance)
- Extended public works programme (EPWP): Monitoring of performance against service delivery targets.

Management of accommodation for client departments

Service delivery objective: The mandate of the Department of Public Works is articulated in the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA). The objective of the act is to ensure efficient and effective immovable asset management within government in order to improve service delivery overall. One of the objectives of the sector departments is to provide and manage the accommodation, housing, land and infrastructure needs of user departments.

Audit conclusion: The management of accommodation for client departments remains a wide concern. The number of provinces affected by the findings indicated below is evident of the fact that the departments do not have sufficient procedures to identify vacant buildings. This could lead to the departments paying rental for buildings that are not occupied. This would amount to fruitless and wasteful expenditure. The departments also did not have adequate strategies in place to address maintenance backlogs.

Furthermore, focused attention is required in respect of compliance with SCM requirements upon entering into lease agreements with private

landlords. Circumvention of the prescribed procurement process could result in excessive lease payments.

Table 69: Management of accommodation for client departments

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1 (i)	The DPW did not have an immovable asset management plan in place resulting in non-compliance with GIAMA requirements (applicable as from 1 April 2010)	1	0
1 (ii)	Although the DPW had an immovable asset management plan in place it did not address the needs of all client departments	3	0
2	The DPW did not have processes and procedures in place to identify unused owned and leased buildings to prevent ineffective/underutilisation/non-utilisation of the building	6	7
3	Utilisation inspections were not carried out to verify occupation of the accommodation and to assess the condition of the building to prevent ineffective use/underutilisation/non-utilisation	6	7
4	The process used by the department to plan for maintenance was not adequate	4	6
5	The DPW did not have a strategy in place to address the maintenance backlogs which had a negative impact on service delivery	4	3
6	The DPW did not follow the correct SCM processes when entering into lease contracts	3	0

Management of arrear rates and taxes

Service delivery objective: In 2008-09, the function of payment of property rates and taxes was transferred from the national Department of Public Works to the provincial departments. The Devolution of Property Rates Funds Grant was established for this purpose. Therefore, the accounting officers of each department (national and provincial) are responsible for paying the property rates on all of the properties owned.

Audit conclusion: The extent of the findings is an indication of the need to finalise the vesting process of properties, which is targeted to be completed by 2014.

Table 70: Management of arrear rates and taxes

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	The department did not have a process in place to ensure complete payment of rates and taxes on all property on their immovable asset register	4	2

Project management of infrastructure projects (including construction, planned and unplanned maintenance)

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 utilise an efficient and effective project management system to manage the large budget allocation on its works projects by completing projects on time, within the budget and according to the specifications and needs of client departments.

Audit conclusion: The findings on project management reflected in the table below indicate that the quality and monitoring of projects are 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. The affected departments are urged to prioritise the addressing of shortcomings identified.

Table 71: Project management of infrastructure projects (including construction, planned and unplanned maintenance)

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	Project managers appointed were not registered with the Project and Construction Management Council	3	4
2	Management did not have accurate information for evaluation and monitoring of projects to identify, avoid and address delays and/or overspending on projects	6	*
3	The department did not take adequate action against non-performing contractors	2	*
4	Prescribed SCM processes were not complied with during the appointment of contractors	4	*
5	Infrastructure projects were not effectively monitored by DPW. For example:		
	- The quality of the construction work was unsatisfactorily, additional costs were incurred to complete the work. (e.g. water erosion on walls, no drainage channels, inaccessible fire hydrants)	1	*
	- Project expenditure was not effectively monitored and project budgets were exceeded	4	*
	- Large numbers of variation orders were used to change the scope of projects	3	*

No.	Findings	Number of provinces affected	
		2010-11	2009-10
6	Corrective actions were not instituted timely against defaulting contractors concerned	4	*
7	Where delays were experienced with the completion of the projects, penalties were not always charged for the late completion of projects	1	*
8	The department paid for the additional costs of variations to the original plan, but did not approve the variation orders before payment was made to the contractors	5	*

**Not audited*

Extended public works programme (EPWP): Monitoring of performance against service delivery targets

Service delivery objective: The service delivery objective of the programme is to ensure the creation of work opportunities and the provision of training for unskilled, marginalised and unemployed people in South Africa by coordinating the implementation of the expanded public works programme. 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 required 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.

Audit conclusion: It is clear from actual results as well as variance explanations that significant challenges are still being experienced by departments in striving to achieve the set targets. It would appear that definitions (for example, what constitutes a person living with disabilities) are not being interpreted consistently across the board. Furthermore, reporting across the sector is not 100% aligned. For example, certain departments

focus on reporting on work opportunities created while others focus on people employed. The aforementioned inconsistencies result in an inability to fully analyse performance on the EPWP programme across the sector and it is suggested that this matter be addressed as a priority in the 2011-12 financial year.

Table 72: Extended public works programme (EPWP): Monitoring of performance against service delivery targets

Findings	Number of provinces affected
<i>The accuracy, validity and completeness of the reported performance results for the indicators could not be verified against appropriate source documentation:</i>	
- Number of people employed	2
- Number of jobs created	5
- Number of youth (16 – 25) employed	2
- Number of women employed	2
- Number of people living with disabilities employed	2
- Number of people trained	3

Note: Audited for the first time during 2010-11

Social Development

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)
- Monitoring of service delivery programmes
- Care and service to older persons
- Child care and protection services
- Home and community-based care (HCBC) for HIV and Aids
- Availability of social service professionals to communities

Management of transfers to non-profit organisations (NPOs)

Service delivery objective: Provincial departments provide social welfare services directly to communities or through subsidising NPOs to deliver services on their behalf. A total of R4,3 billion was transferred to NPOs by provincial departments. Total transfers to NPOs represented 54% of the total budgeted expenditure for provincial Social Development departments.

Audit conclusion: Provincial departments do not have proper measures in place to monitor NPOs with regard to expenditure incurred and progress made on service delivery.



Table 73: Management of transfers to NPOs

No.	Findings	Number of provinces affected	
		2010-11	2009-10
1	The department did not monitor compliance with the service level agreement (SLA) nor the expenditure incurred and progress made by the NPOs in delivering service	6	6
2	Registered NPOs did not in all instances submit financial statements to the department	4	5
3	Departments transferred funds to NPOs outside the agreed intervals per the contracts, which negatively affected the cash-flow position of the NPOs and their ability to plan and deliver the expected social service	3	4
4	The department made payments to the NPOs before contracts were signed	2	4

Monitoring of service delivery programmes

- Care and service to older persons
- Child care and protection services
- Home and community-based care (HCBC) for HIV and Aids

Service delivery objective: To determine whether the departments monitored the actual delivery of NPOs against the social welfare objectives for the home and community-based care for HIV and Aids, child care protection services and the care and service to older persons programme as per planned indicators/measures and targets.

Audit conclusion: Provincial departments do not have proper measures in place to monitor the actual service delivery of NPOs regarding care and service to older persons, child care and protection services as well as home and community-based care for HIV and Aids, as sufficient appropriate audit evidence could not be provided for audit purposes in most of the provinces affected.

Table 74: Monitoring of service delivery programmes

No.	Findings	Number of provinces affected
The accuracy, validity and completeness of the reported performance results for the indicators could not be verified against appropriate source documentation for the following programmes:		
1	Care and service to older persons:	
	Number of service providers trained on the transformation charter for older persons	6
2	Child care and protection services:	
	Number of children abused	6
	Number of children newly placed in foster care	6
	Number of children in registered and funded partial care sites	5
	Number of children participating in Early Childhood Development (ECD) programme	5
	Number of children in registered and funded shelters managed by NPOs	4
3	Home and community-based care for HIV/Aids:	
	Number of community care givers trained on skills development programmes	5
	Number of orphans and other children made vulnerable by HIV and Aids receiving services	5
	Number of HCBC organisations trained on management training for HCBC	5

Availability of social service professionals to communities

Service delivery objective: To determine whether the departments have a strategy in place to ensure that sufficient social service professionals are available to the community in the provinces.

Audit conclusion: Most of the provinces have a vacancy rate of more than 10% in the social service programmes within the departments and it is unclear how this will be addressed by the departments.



SECTION 7: CONSOLIDATED FINANCIAL STATEMENTS

In terms of section 19 of the PFMA, provincial treasuries are required to prepare consolidated financial statements for each financial year in accordance with GRAP in respect of departments and public entities under the ownership control of the provincial executive and legislature in the provinces.

To date the provincial treasuries have been unable to prepare the required consolidation. The provincial treasuries continue to prepare separate financial statements which aggregate the financial results of the departments and the provincial legislature, and another set which aggregate the financial results of the public entities. This practice does not conform to the PFMA and the provincial treasuries are urged to ensure that processes are put in place to rectify such non-compliance.

Due to the above, the AGSA is unable to issue an auditor's report on the fair presentation of the financial statements, but instead separate factual finding auditor's reports are issued for the departments and the legislature, and for the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in the following table.

Table 75: Status of consolidated audits

Province	Departments (audits completed)		Public entities (audits completed)	
	2010-11	2009-10	2010-11	2009-10
Eastern Cape	Yes	Yes	Yes	Yes
Free State	No	Yes	No	Yes
Gauteng	No	Yes	No	Yes
KwaZulu-Natal	No	Yes	No	Yes
Limpopo	No	No	No	No
Mpumalanga	Yes	Yes	Yes	Yes
Northern Cape	Yes	Yes	Yes	Yes
North West	No	No	No	No
Western Cape	No	Yes	No	Yes

The fact that the 2009-10 financial statements of the Provincial Revenue Fund for two provinces are in arrears to this extent is a cause for concern and should be escalated as soon as possible to the respective premiers, cabinet and respective MECs in the two provinces.

The 2008-09 consolidated financial statements for the departments in Limpopo had also not yet been submitted for audit. The audit of the 2008-09 consolidated financial statements for public entities in the province was completed.



SECTION 8: STATUS OF TABLING OF ANNUAL REPORTS

In accordance with section 65 of the PFMA the executive authorities responsible for departments or public entities are required to table in the provincial legislatures the annual report, annual financial statements and the auditor's report relating to the financial statements. Such reports must be tabled within one month of the auditor's report having been received by the executive authorities.

A summary of the tabling of annual reports is provided below.

Table 76: Annual reports tabled by departments and public entities

Auditee type	Percentage of reports tabled at 30 September 2011	
	2010-11	2009-10
Departments	62%	71%
Public entities	52%	52%
Other entities	18%	24%
Provincial consolidation	0%	33%
Total	144	182

Details of the annual reports not tabled are listed in the following table.

Table 77: Annual reports not tabled by 30 September 2011 by departments and public entities

Province	Number of annual reports not tabled	Reasons			
		Late finalisation of audit process	Late submission for tabling	Not submitted for tabling	Financial statements submitted late or still outstanding
Eastern Cape	3	1	1	0	1
Free State	0	0	0	0	0
Gauteng	34	0	0	34	0
KwaZulu-Natal	25	0	9	16	0
Limpopo	6	3	0	0	3
Mpumalanga	3	1	0	2	0
Northern Cape	7	0	0	7	0
North West	7	3	1	2	1
Western Cape	2	2	0	0	0
Total	87	10	11	61	5

The high number of annual reports not tabled by the legislative date is of concern as it impacts on the oversight responsibility of the legislatures. Annual reports are important oversight tools for the legislatures and its various committees. The provincial public accounts committees and portfolio committees should compare the actual reported results, as contained in the annual reports, against the budgeted spending, to determine whether the departments and public entities met their service delivery objectives. The provincial public accounts committees also rely on the audit reports to give assurance of the quality of the information in the financial reports.



CONCLUSION TO THE 2010-11 GENERAL REPORT

The challenges outlined in this report are not insurmountable and potential solutions have been offered. Indeed, many role players have given firm commitments to implement solutions. The AGSA remains committed to assist in the process of identifying and communicating good practices to improve governance and accountability so as to build public confidence in government's ability to account for public resources in a transparent manner. The matters highlighted throughout this report relate to the following three fundamental areas which should be addressed to achieve sustained clean administration.

Leadership

Improving leadership oversight is critical to prevent a regression of audit outcomes. Premiers and their leadership teams must act decisively to implement corrective measures and address non-performance. Increased monitoring and concentrated oversight are required to improve the audit outcomes of an increasing number of auditees with unqualified financial statements with findings on predetermined objectives and/or compliance with laws and regulations. This prevents them from improving to the desirable position of clean administration and without findings.

Departments should focus on addressing shortcomings in controls over capital assets (both movable and immovable), compliance with legislation, and on arresting the trend in irregular expenditure. Leadership should focus on resolving the issues identified with regard to the IFMS asset management system in order to accelerate its implementation, while departments with repeat qualification findings need to take decisive steps to improve their financial administration.

Four specific focus areas have been identified where provincial role players should follow through on their 2010-11 commitments and proposed interventions. Provincial PACs should more actively monitor the implementation of their resolutions relating to departments and public entities.

Attention should be given to the state of readiness of provinces to fully comply with the disclosure of inventory in the financial statements on expiry of the exemption granted by the National Treasury. A concerted effort should be made to ensure that matters concerning the measurement of and reporting on predetermined objectives and compliance with laws and regulations are given attention to prevent recurring findings on these matters.

Financial and performance management

The credibility of monthly financial information requires urgent attention and the leadership is urged to implement measures to ensure that resources, especially human resources, are in place, that performance is acceptable, and that adequate policies and procedures are implemented and monitored. The integrity of financial information is dependent on well-designed and secure computerised systems. Intervention by the leadership is required to attend to information systems weaknesses and exposures.

The financial management systems should be enhanced to enable management to produce regular financial statements, including disclosure notes, to ensure that possible material misstatements are detected before the audit commences. Monthly reconciliations should become an embedded discipline that should be monitored at the appropriate level.

Departments and public entities must ensure that the required systems and controls are in place for accurate service delivery reporting, continuous monitoring of achievements of the measurable objectives and overall compliance with the reporting requirements in respect of predetermined objectives.

Governance

Regular risk assessments should be conducted and strategies implemented to address the risks identified. A fully operational internal audit function is crucial in assisting management to establish a sound internal control environment, to perform ongoing evaluation and to monitor management's compliance with predefined controls and progress in implementing the action plans. Audit committees should seek to engage regularly with executive authorities and legislatures.