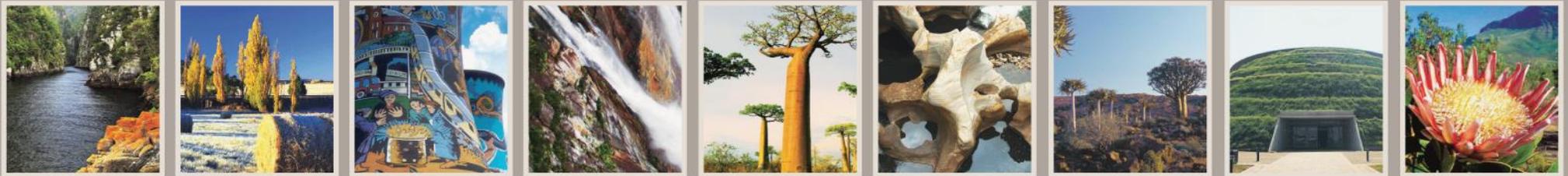


PFMA
2015-16



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Briefing to the Portfolio Committee on Basic Education: Audit outcomes of the Basic Education Portfolio for the 2015-16 financial year

12 October 2016

Reputation promise

2015-16
PFMA

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.

Role of AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the basic education portfolio taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Department of basic education portfolio's for the 2015-16 audit outcomes so that the committee can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



AUDITOR - GENERAL
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Our annual audits examine three areas

2015-16
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1

FAIR PRESENTATION AND
RELIABILITY OF FINANCIAL
STATEMENTS

2

RELIABLE AND CREDIBLE
PERFORMANCE INFORMATION
FOR PREDETERMINED
OBJECTIVES

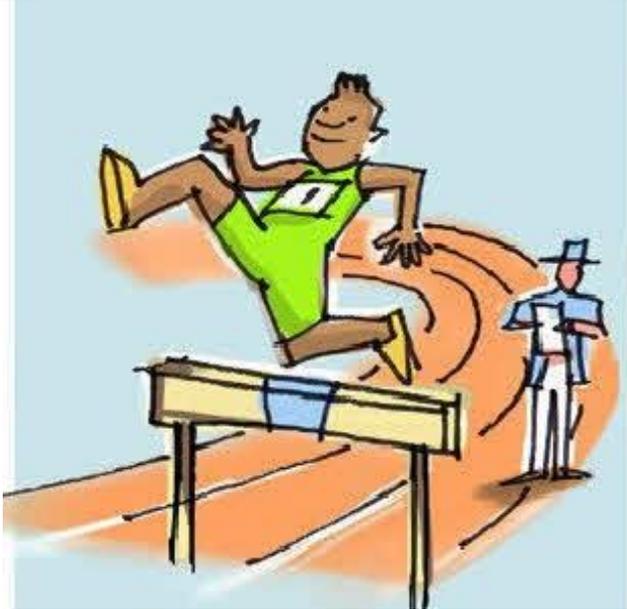
3

COMPLIANCE WITH KEY
LEGISLATION ON FINANCIAL
AND PERFORMANCE
MANAGEMENT



AUDITOR-GENERAL
SOUTH AFRICA

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements; and
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP); and
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate.

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their APPs; and/or
- set clear performance indicators and targets to measure their performance against their predetermined objectives; and/or
- report reliably on whether they achieved their performance targets; and/or
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure compliance.

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Qualified opinion



Auditee:

- had same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements.
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.
- did not comply with key legislation in certain instances.

Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

Disclaimed opinion



Auditee:

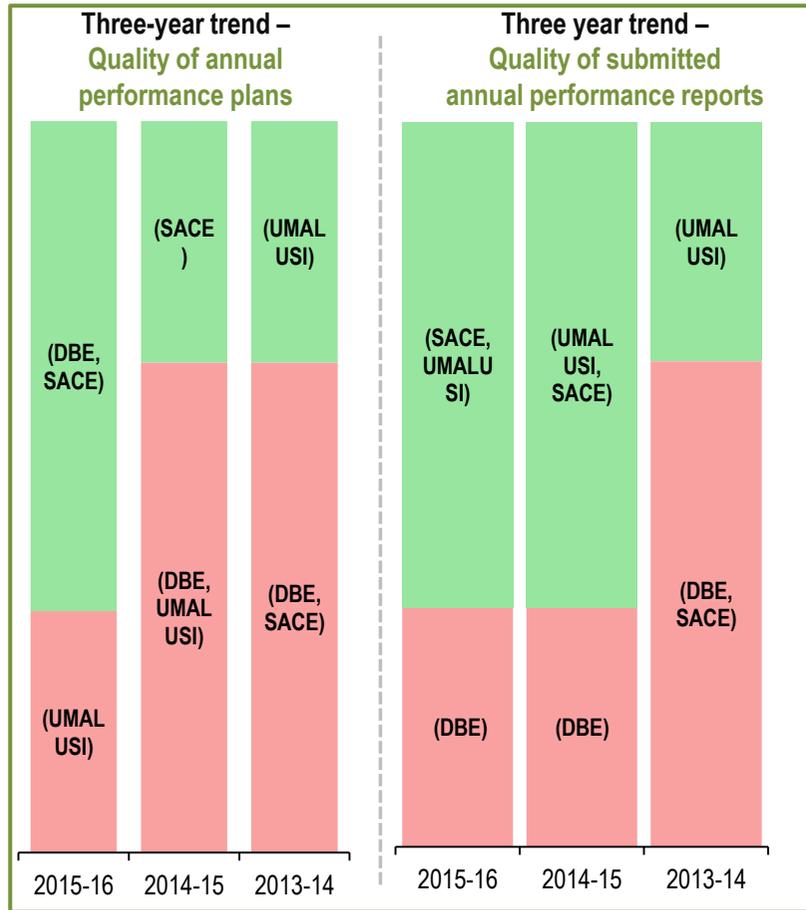
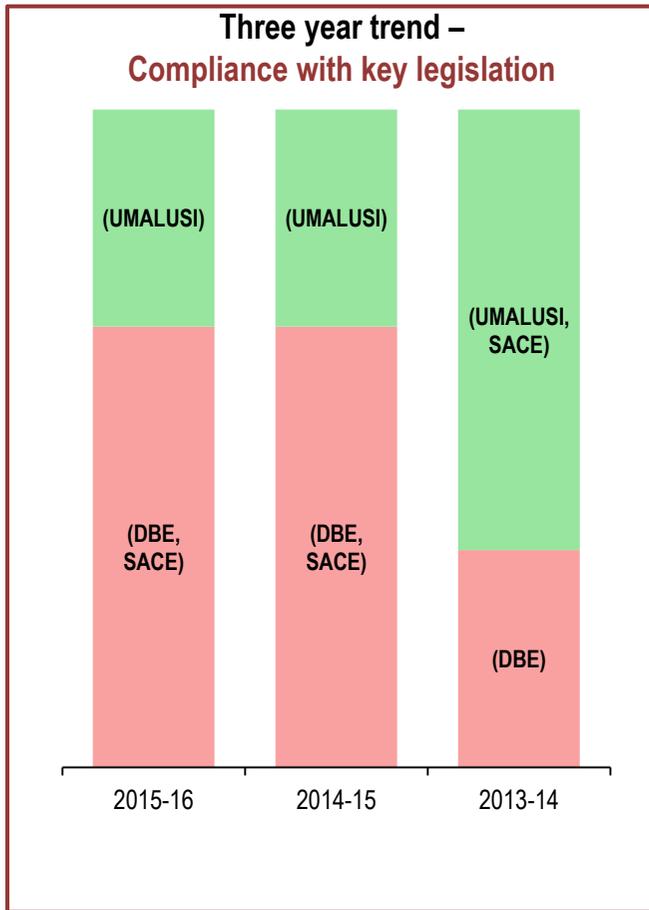
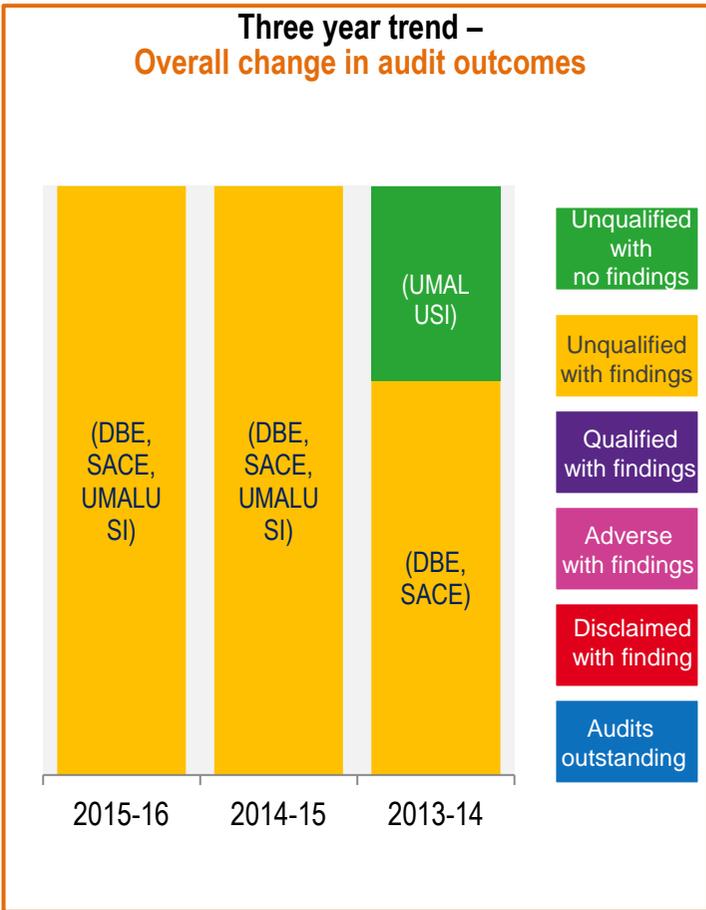
- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

2

The 2015-16 audit outcomes and key messages



Change in audit outcomes over 3 years



1 To improve/maintain the **overall audit outcomes**, financial statements processes,

The portfolio's overall outcomes remained unchanged from the prior year with all entities achieving unqualified audit outcomes with findings. The outcomes can be improved by:

- Implement monthly disciplines of record keeping, reconciling and reviewing transactions to ensure the credibility and completeness of monthly financial information.
- Enhance the skills and resources in the infrastructure and internal audit units to address capacity challenges.
- Monitoring of progress in implementing the action plans on an ongoing basis to ensure that milestones set and deliverables are achieved.

2 **compliance** with key legislation and....

Non-compliance by the DBE is an indication of deficiencies in the monitoring of compliance with legislative requirements in the areas of financial and performance management and procurement of contracts. Monthly and quarterly management reviews were also not adequate at the department entities to ensure credible reporting. The controls can be strengthened by monitoring and enforcing compliance with procurement processes, when appointing implementing agents and ensuring that the procurement processes followed by implementing agents are aligned to the department's SCM policies.

3 **performance planning and reporting** must be improved by....

An annual performance report (APR) submitted for auditing contained material misstatements, this was due to inadequate management reviews when performance information was reported quarterly and in the annual report. The performance planning and reporting can be improved by:

- Reconciling the reported performance results to verifiable evidence and against the technical indicator descriptions.
- Implementing proper record keeping in a timely manner to ensure complete, relevant and accurate information.
- Developing and monitoring of action plans to address control deficiencies identified relating to the planning, credibility and completeness of the performance reported.

Change in audit outcomes over 3 years - continued

Status of Key controls

	DBE	Umalusi	SACE
LEADERSHIP	◀	▶▶	▶
- Effective leadership			
- Oversight responsibility			
- Effective HR management			
- Policies and procedures			
- Audit Action plans			
- ICT governance			
FINANCIAL AND PERFORMANCE MANAGEMENT	▶▶	▶▶	▶▶
- Proper record keeping			
- Daily and monthly controls			
- Regular, accurate & complete financial and			
- Review and monitor compliance			
- Design and Implement IT controls			
GOVERNANCE	◀	▶▶	◀
- Risk management			
- Internal Audit			
- Audit committee			

Assurance providers per level

Level	Role	Assurance Providers
First level	Senior management	SACE, UMALUSI (Green), DBE (Yellow)
	Accounting officer/authority	SACE, UMALUSI (Green), DBE (Yellow)
	Executive authority	(Yellow)
Second level	Internal audit unit	SACE, UMALUSI (Green), DBE (Red)
	Audit committee	SACE, UMALUSI (Green), DBE (Yellow)
Third level	Portfolio committee	(Yellow)

Provides assurance
Provides some assurance
Provides limited/no assurance
Vacancy
Not established

4 Good Concerning Intervention required

... providing attention to the **key controls** by...

The regression in key controls was mainly due to the fact that action plans to address deficiencies reported are developed but there is inadequate monitoring of the implementation of these which results in the recurring audit findings. **There was also lack of consequence management in the past where staff was not held accountable for unsatisfactory performance and transgressions.** interventions are still required in order to improve the current status of key controls relating to:

- Daily financial management and performance management disciplines.
- Coordination between the various departments within the education sector and principal actors and oversight of deliverables by implementing agents must be prioritised to ensure credible financial, performance and compliance reporting.
- Monitoring and evaluation processes – The monitoring and evaluation of all information received internally and externally must be thoroughly reviewed, monitored and evaluated to ensure it is credible and reliable.

5 ... the key role players as part of their role in **combined assurance**

Despite *senior management* being constantly informed about the importance of proper record keeping; it was still a challenge to obtain information relating to infrastructure and performance reporting at DBE. The *Director-General* provided some assurance mainly because of his efforts following his appointment during the current financial year. His impact was limited on the areas of non-compliance and deficiencies in the control environment that existed prior to his appointment.. The *Minister* was assessed as providing some assurance due to a number of recurring findings from the prior financial years. The performance of the *internal audit unit* against the annual internal audit plan was not satisfactory due to challenges in the capacity of the unit. The *audit committee* operated effectively and executed their responsibilities as required during the year, however their effectiveness and ability to influence improved audit outcomes was negatively impacted by the functioning of the internal audit unit. Although the PC held the department accountable to achieve improved outcomes, this has not yet translated to desired outcomes.

3

Performance management linked
to programmes/ objectives tested



Quality of annual performance plans improved and quality of submitted annual performance reports remained unchanged for DBE

Outcomes of programmes/objectives selected for testing:

Auditee:	Programmes/ Objectives	Usefulness	Reliability
Basic Education Department	<i>Programme 2: Curriculum policy support and monitoring</i>	No material findings reported.	The reported performance information was not reliable when compared to the source information
	<i>Programme 3: Teachers, education human resources and institutional development</i>	No material findings reported.	The reported performance information was not reliable when compared to the source information
	<i>Programme 4: Planning, information and assessment</i>	No material findings reported.	The reported performance information was not reliable when compared to the source information
	<i>Programme 5: Education enrichment services</i>	No material findings reported.	No material findings reported.
South African Council for Educators	<i>Programme 1: Registration of educators, Programme 2: Professional development of educators and programme 3: Professional ethics</i>	No material findings reported.	No material findings reported.
Umalusi	<i>Programme 1: Administration</i>	Changes made to the indicators and targets in the annual performance report without the necessary approval	No material findings reported.
	<i>Programme 2: Qualifications and research</i>		No material findings reported.
	<i>Programme 3: Quality Assurance and Monitoring</i>		No material findings reported.



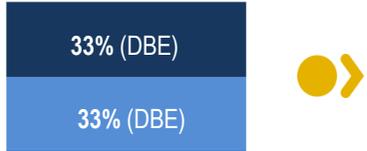
4 Financial management



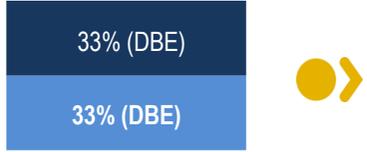
Slight improvement in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

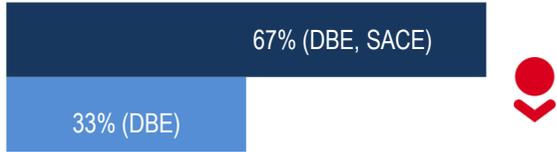
Material misstatements in submitted annual financial statements



Prevention of unauthorised, irregular and/or fruitless and wasteful expenditure



Management of procurement and/or contracts



Consequence management

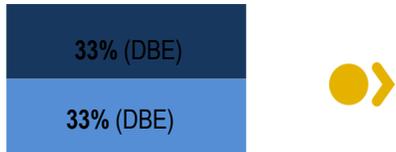
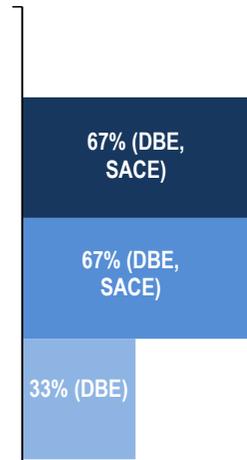


Figure 2: Findings on compliance with key SCM legislation – all auditees

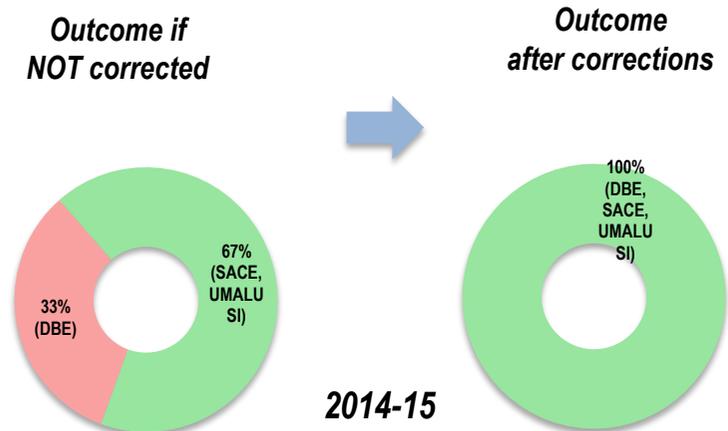
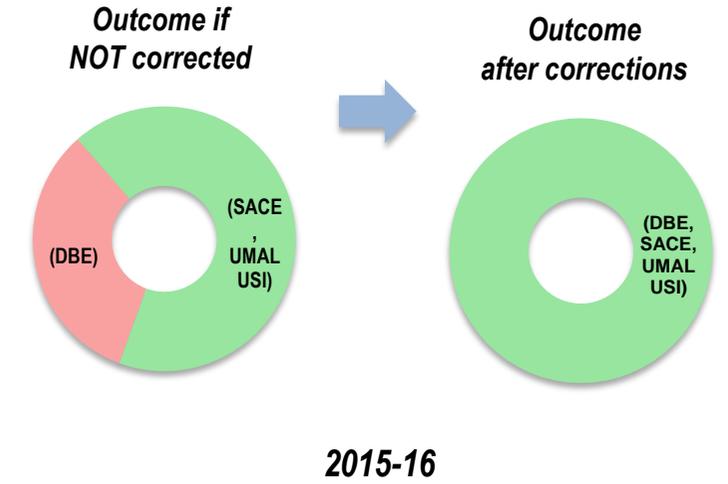
Uncompetitive or unfair procurement processes



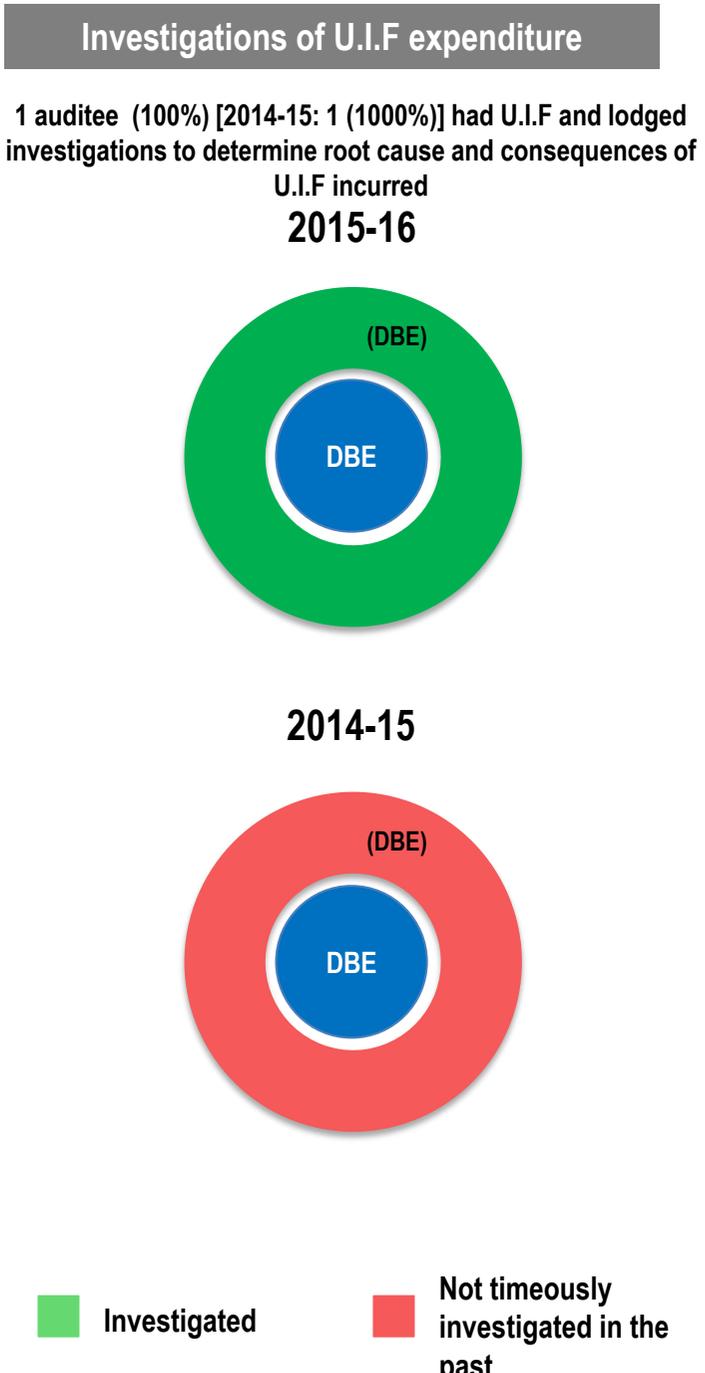
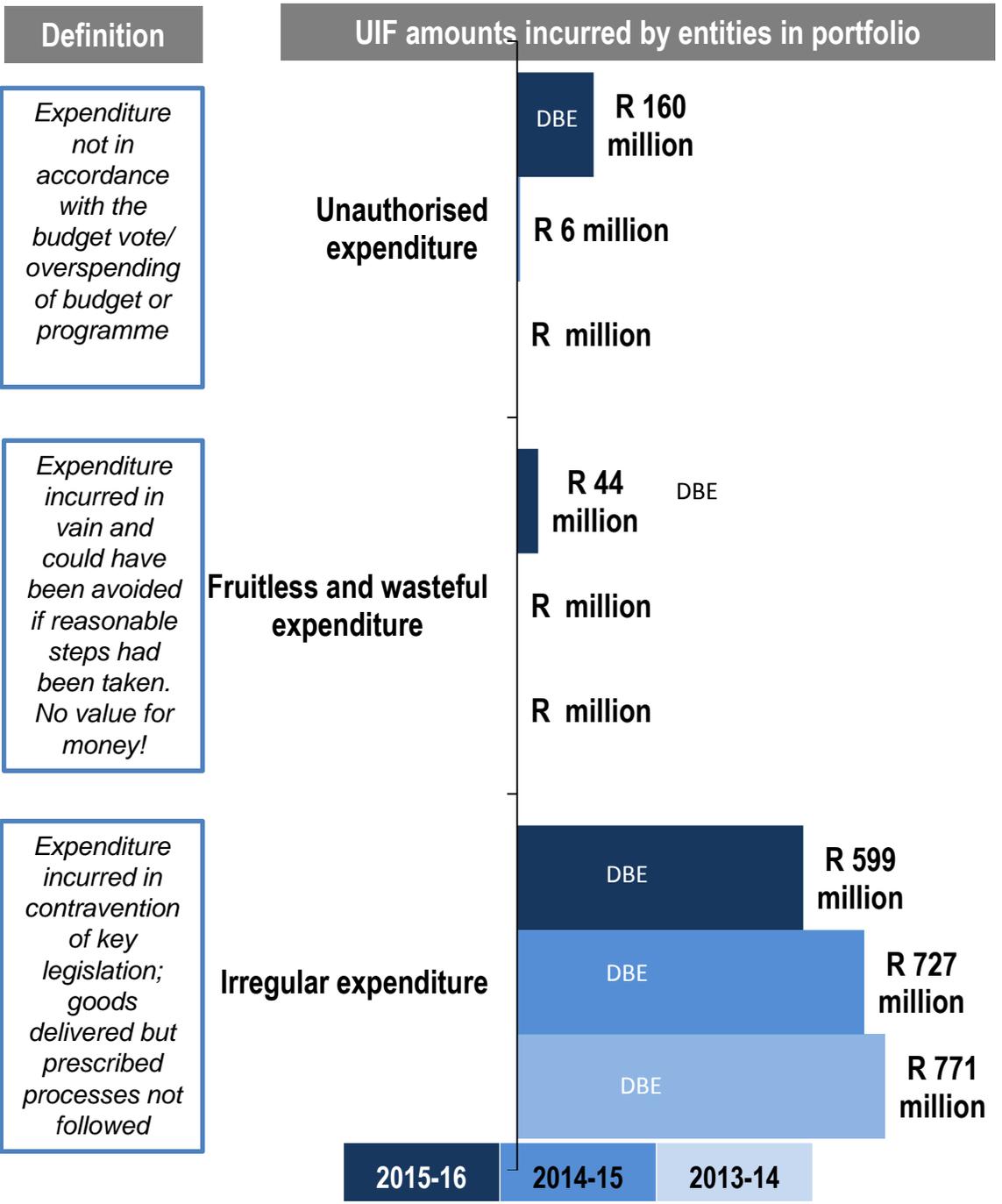
Inadequate contract management



Figure 3: Auditees who avoided qualifications due to the correction of material misstatements during the audit



Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years and follow up action



6

Top three root causes, follow up on commitments and proposed recommendations



Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...

Root causes

Slow response by management
(Accounting officer and senior management)



Lack of consequences for poor performance and transgressions



■ 2015-16 ■ 2014-15

> Monitoring and evaluation processes particularly with regard to the implementation of the action plan developed should be strengthened by frequent monitoring of progress made to address internal control deficiencies and communication of the action plan to address internal control deficiencies to all levels of staff.

> The performance management system must be strengthened to ensure alignment of the annual performance plans to the performance contracts of employees.

> Performance reviews conducted must thereafter focus on officials being held accountable for poor performance and transgressions. This will ensure that officials are held accountable and to minimise the environment where poor performance and transgressions will continue.

2

... through honouring the following **commitments** made by the executive authority.....

Status of key commitments by Director- General

Ensuring that effective internal controls are implemented across all 3 levels (financial administration, performance information and compliance with laws and regulations) at the DBE.

DBE to prepare complete monthly financial and performance reports that include disclosure items and also encourage this to all provincial departments of education.

Appoint suitably skilled officials for all phases of the infrastructure delivery process and strengthen leadership oversight in this area, including review of quarterly reporting on performance by the monitoring and evaluation unit.

Ensure alignment of strategic objectives to all individual's performance contracts.

Implement daily, weekly and monthly checks and balances to ensure the credibility and completeness of financial and performance information presented to management and oversight committees

Continuous oversight monitoring of provinces on areas affecting the management of predetermined objectives (service delivery) and management of conditional grants.

Not implemented In progress Implemented New

The Director-General undertook to personally oversee the development and implementation of the audit action plan to address the root causes of outstanding and new issues reported. This affirmed the commitment from the leadership to address challenges impeding on the ability of the department to achieve improved audit outcomes.

3

... and implementation of the following **proposed commitments** by the Portfolio committee and management...

Daily management disciplines – Getting the daily disciplines of management right is critical for an improved audit outcome.

Coordination between the various departments within the education sector and principal actors - One of the root causes for findings reported in the education sector is lack of clear coordination among national and provincial education departments, implementing agents, districts and schools. The limitations in dealing with concurrent functions will need to be appropriately addressed and oversight of deliverables by implementing agents must be prioritised to ensure credible financial, performance and compliance reporting.

Monitoring and evaluation processes – The monitoring and evaluation of all information received internally and externally must be thoroughly reviewed, monitored and evaluated to ensure it is credible and reliable.

9. Sector audit outcomes – (2015-16)

Auditee	Outcomes (2015/16)			Outcomes (2014/15)			Movement
	Audit Opinion	PDOs	Non-compliance with laws and regulations	Audit Opinion	PDOs	Non-compliance with laws and regulations	
Eastern Cape	Qualified	Yes	Yes	Qualified	Yes	Yes	
Free State	Qualified	Yes	Yes	Unqualified with findings	Yes	Yes	
Gauteng	Unqualified with findings	No	Yes	Unqualified with findings	No	Yes	
KwaZulu-Natal	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	Yes	
Limpopo	Disclaimer	Yes	Yes	Disclaimer	Yes	Yes	
Mpumalanga	Qualified	Yes	Yes	Qualified	No	Yes	
Northern Cape	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	Yes	
North West	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	Yes	
Western Cape	Unqualified without findings	No	No	Unqualified without findings	No	No	
Basic Education	Unqualified with findings	Yes	Yes	Unqualified with findings	Yes	Yes	

Key projects/programmes



Key projects selected for audit

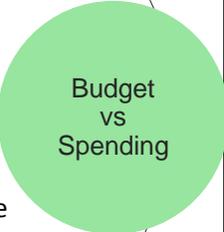


The objective of ASIDI is to eradicate the backlog of schools not complying with the Basic Safety Norms i.e. without water, sanitation and electricity and to replace those schools constructed from inappropriate materials (mud, plankie, asbestos) to contribute to improved levels of learning.

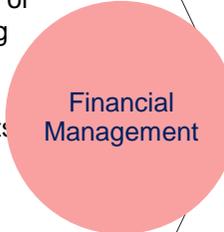
The School Infrastructure Backlog Grant (SIBG) funds the ASIDI portfolio.

MTSF allocated budget = R 2 046 186 000
 - Actual Spending = R1 922 421 000 (93%).

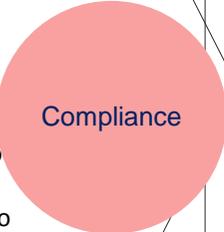
Minimal underspending of R 447 858 00. This deviation is due to payments in respect of ASIDI projects. The process of rationalisation for schools had and impact on the spending trends for the ASIDI project.



Unqualified with findings: Controls were not in place with regard to the daily and monthly processing of transactions relating to the transfer of finalised ASIDI construction projects from work-in-progress to the immovable asset register which resulted in errors in the immovable asset register.



Procurement and Contract Management: Some contracts were awarded to bidders based on preference points that were not allocated and/or calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.). Expenditure in this regard was disclosed as irregular expenditure and relates to payments for water, sanitation and electricity to implementing agents appointed by the department who awarded contracts to contractors not registered with the CIDB or their registration with the CIDB was suspended



3 of the infrastructure indicator was found to be unrealisable and not measurable due the client being unable to support the number of schools reported in the APR.



Projects exceeded their agreed timeframes and budgets because project managers did not monitor and report on the performance of contractors and take corrective measures when needed. The following are examples:

- At the Kaja Secondary School in the Eastern Cape, the completion of the six month contract which began in September 2011 had been delayed for nearly three years. The reasons could not be established.
- Project information requested for the Cabana JSS, Mavatha JSS and Xolobe JSS in the Eastern Cape was not submitted for audit and project information such as practical completion date could not be drawn from a reliable project management system.
- At the Mkanzini JSS in the Eastern Cape, the foundation surface is of poor quality and will have to be re-done and the wall is cracked due to incorrect work methods of the contractor.

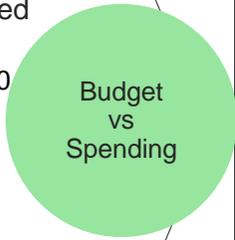
Nutrition Programme

National School Nutrition Programme

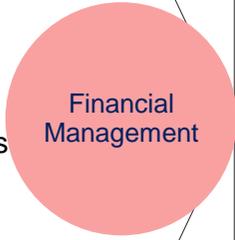
The NSNP aims to enhance the learning capacity of learners through the provision of a healthy meal at schools. Where it is implemented, the programme has shown to improve punctuality, regular school attendance, concentration and the general wellbeing of participating learners. Whilst learners are being provided with nutritious meals, they are also taught to establish and maintain good eating and lifestyle habits for life. Nutrition Education also provides educators with resource materials to support curriculum and to make every school a healthy school.

- MTSF allocated budget = R 5 685 381 000
 - Actual Spending = R 5 685 381 (100%).

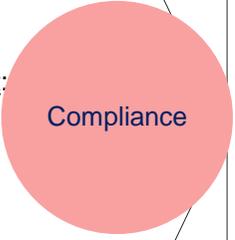
All funds spent



Unqualified with findings:
 Conditional grants and was paid to provinces



Procurement and Contract Management:
 Conditional grants and was paid to provinces



For the 2015/16 financial year, the programme provided daily nutritious meals to an average of 21 177 Q1–3 primary, secondary and special schools nationally, reaching 9 630 590 learners



No significant findings were identified and reported at the DBE for NSNP.



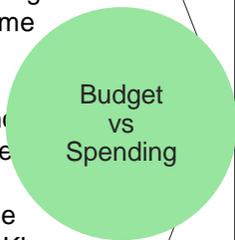
LITERACY CAMPAIGN SOUTH AFRICA

The aim of Kha Ri Gude is to empower (skills development) socially disadvantaged people to become self-reliant and to be able to participate more effectively in the economy and society.

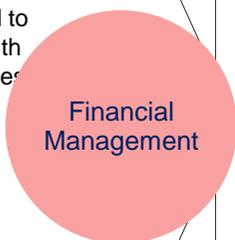
The Kha Ri Gude Literacy Campaign is informed by the Constitution of South Africa, which states that "Everyone has the right to a basic education, including adult basic education (Chapter 2, Clause 29, 1a). According to Statistics SA (2001), there were 9.6 million illiterate adults in South Africa above the age of 15. Of these, 4.7 million, including people living with disabilities, were illiterate and innumerate in one of the 11 official languages.

- MTSF allocated budget = R 504 683 000
- Actual Spending = 454 683 000
- (90%).

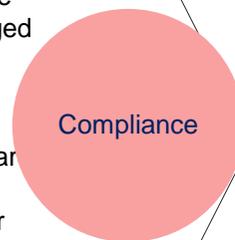
The underspending on this programme is due to the significant underperformance of the cumulative total number of volunteers on the EPWP grant on Kha Ri Gude programme. The performance of the Kha Ri Gude programme is taken into account when this subsidy is determined.



Unqualified with findings: Oversight over service providers entrusted with the payments of stipends to monitors of the Kha Ri Gude project who ensure that classes take place and that learners exist, was not adequately monitored to ensure compliance with policies and procedures. Thus monitors failed to prevent and detect payments of stipends to tutors for teaching deceased learners. Oversight by the department did not ensure the timely verification of learners with the Department of Home Affairs to detect deceased persons recorded as learners, for which tutors were paid stipends.



Procurement and Contract Management:
Based on the significance of the findings identified when quantified, it was agreed that the department disclose the management fee charged by SAB&T as irregular expenditure for the current and prior year. The amount in this regard amounted to R23 755 918 for the current year and R32 975 271 for the prior year. This was due to the department not following the right processing in appointing the services provider for the management of the Kha RI Gude campaign.



The two total numbers, 329 641 and 343 900, were provided during the capturing of data of learners. The total number of learners changed because the registration of learners is attached to the registration of Volunteers. Volunteer registration on the system is depended upon submission of official documents (ID copies and matric certificate) which usually delays both volunteers and learners final capturing on the system. However, while the volunteers are sorting out their documents, teaching is taking place. After documentation has been sorted, learners registered under volunteers are then added on the total number of learners. The current total number of learners still stands at 343 900.



- Policies and procedures for Kha Ri Gude were not approved as required in terms of the delegation of authority resulting in changes made to policies and procedures not being binding given that authorisation particularly of minimum class sizes were approved as per a Cabinet memorandum.
- The department does not have adequate record keeping or an effective record management system in place for matters related to certain disclosures which are critical in an organisation of its size and complexity. The use of manual systems account for certain financial and performance information is ineffective particularly in the context of the amounts involved. This resulted in errors in the reporting of certain financial and performance information, e.g. the Kha Ri Gude programme.

Questions

