



Audit outcomes of national and provincial government as at 10 September 2014



1

What does the AGSA promise and what is our focus?



Reputation promise

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.



Focus of our audits

2013-14
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We audit ...	to determine ...
Financial statements	Fair presentation and reliability of information (no material misstatements)
Annual performance reports	Whether the reported information is reliable and credible (no material findings)
Compliance with legislation	Whether the auditee complied with key legislation on financial and performance management (no material non-compliance)



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Various categories of the audit outcomes

An **unqualified opinion with no findings (clean audit)** means the auditee was able to:

- produce financial statements free of material misstatements.
- report in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan.
- comply with key legislation.

Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without **material misstatements** but are struggling to:

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

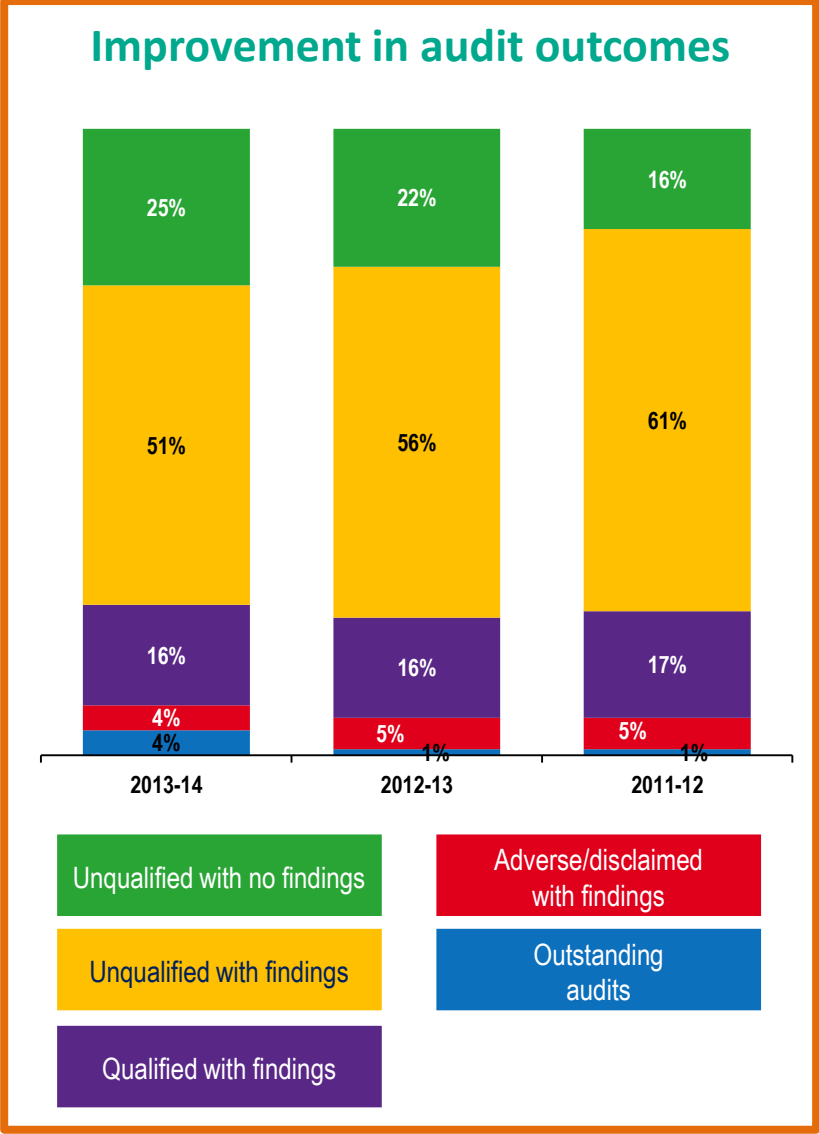
Auditees that received a financially **qualified audit opinion** with findings have the **same challenges** as those that were unqualified with findings but, **in addition**, they could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.

Adverse and **disclaimed opinions** mean the auditee was ...

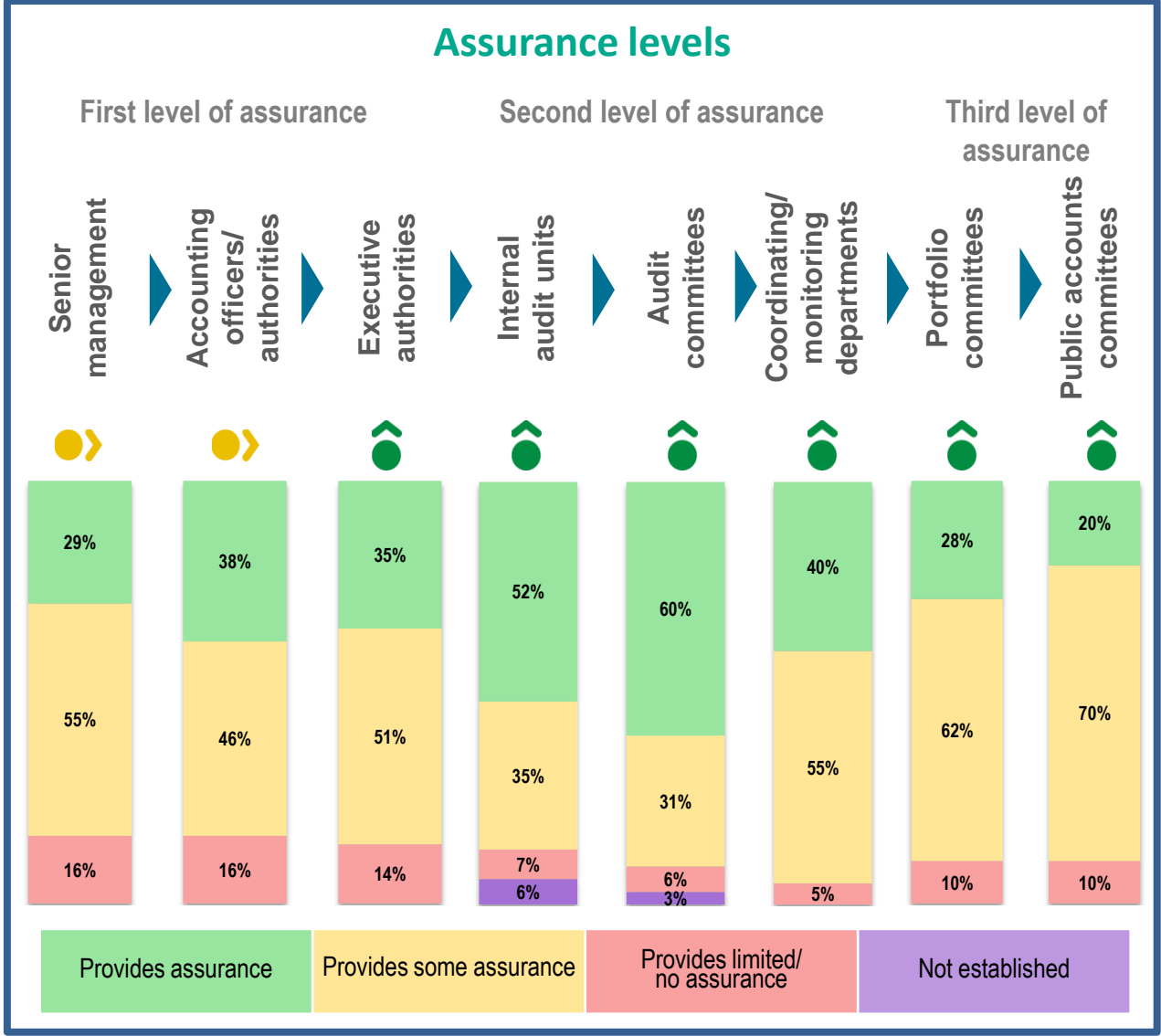
- unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- not complying with key legislation.



Our message



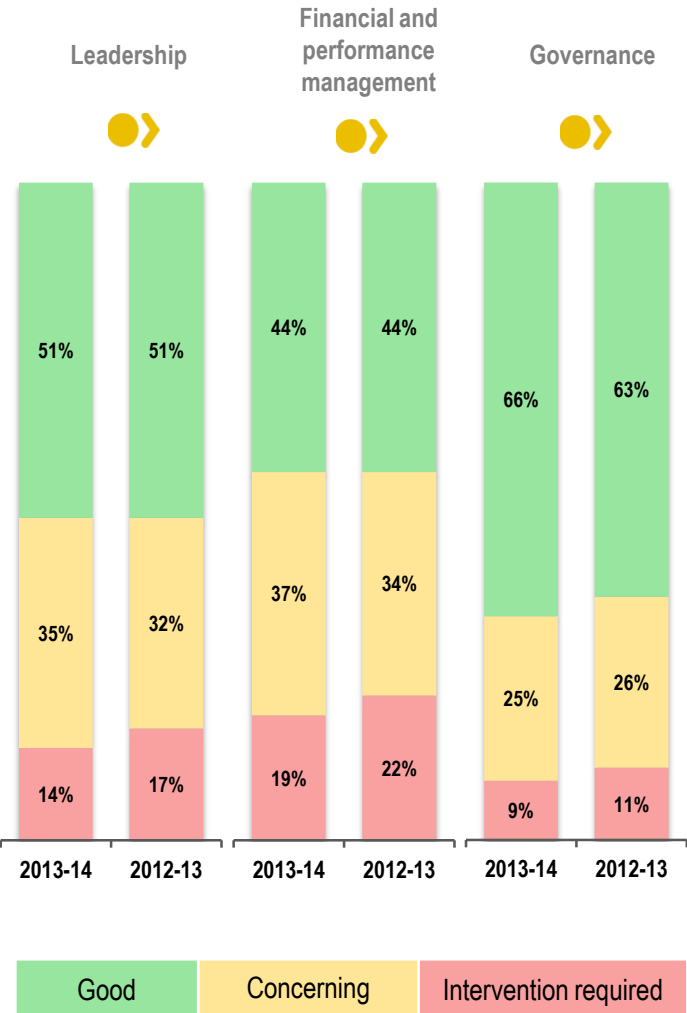
To improve/maintain the **audit outcomes** ...



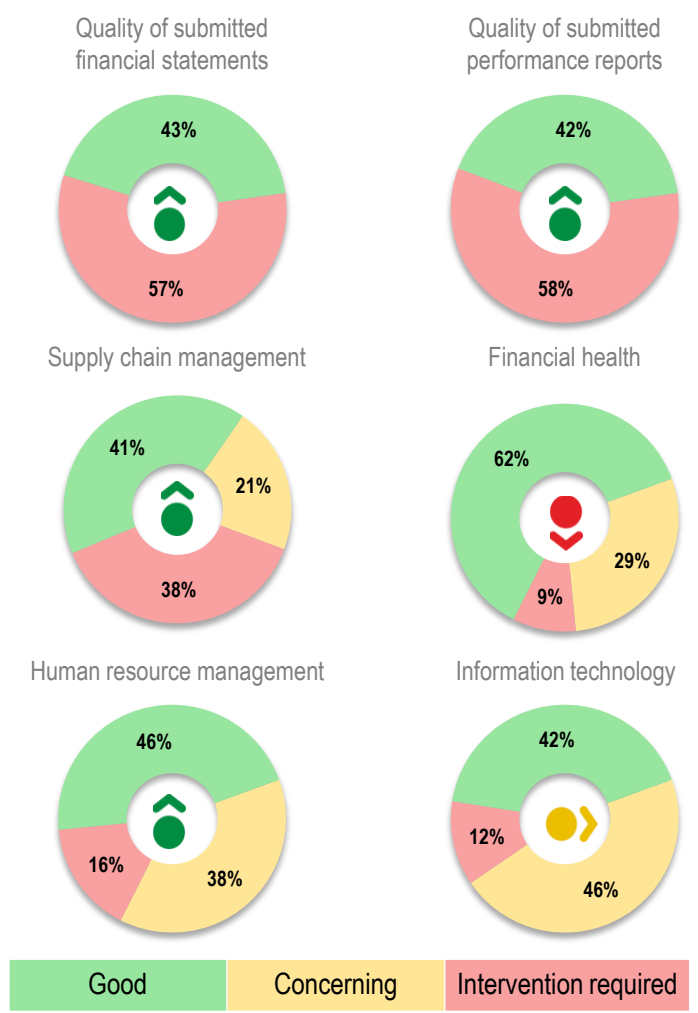
... the key **role players** need to ...

Our message *(continued)*

Key controls



Risk areas



Root causes

- Slow response by management improving key controls and addressing risk areas
- Instability or vacancies in key positions
- Lack of consequences for poor performance and transgression

... give attention to the **key controls**, ...

... the **risk areas**, and ...

... the **root causes**.

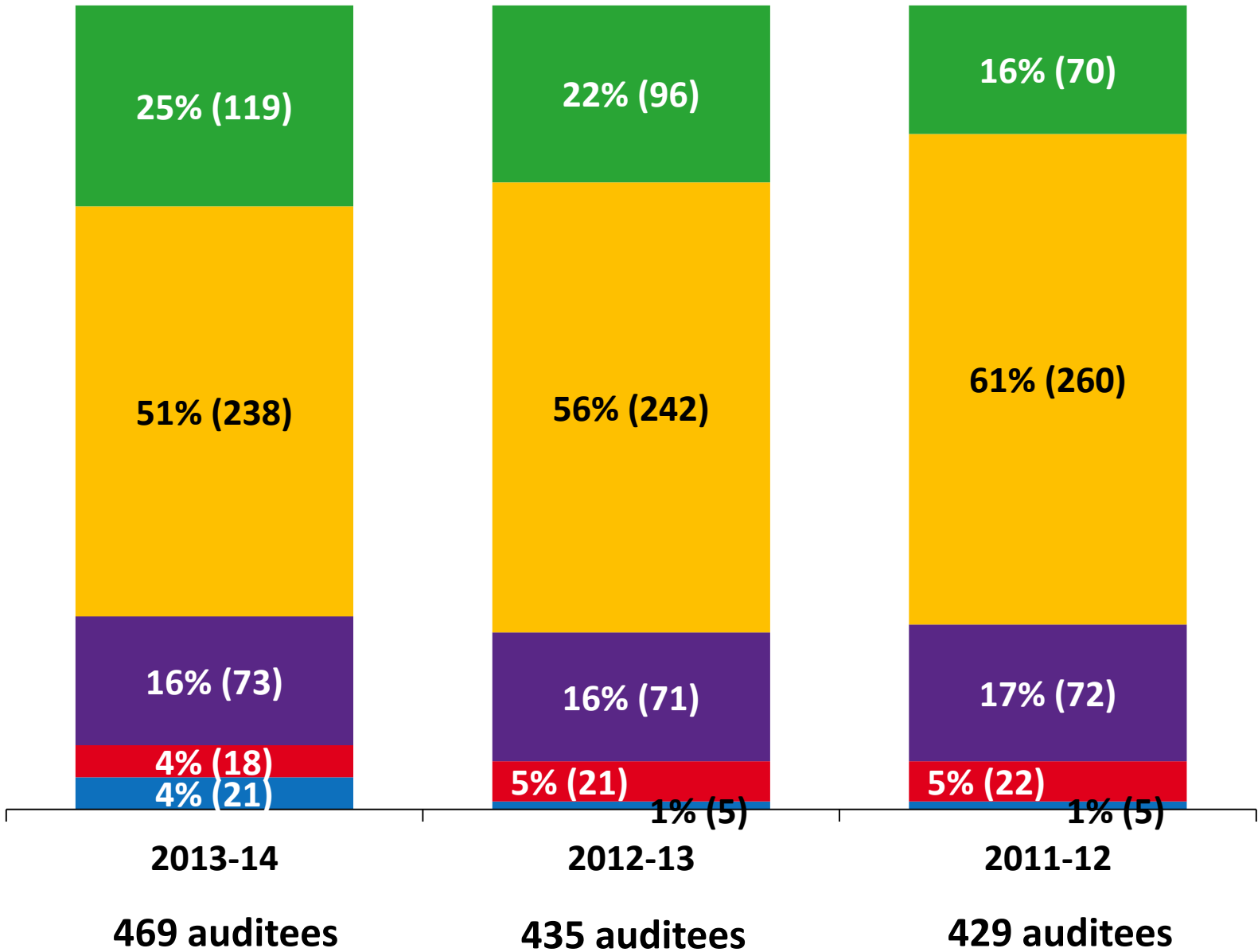
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What is the status and progress on audit outcomes of national and provincial government?



Improvement in overall audit outcomes over the past three years

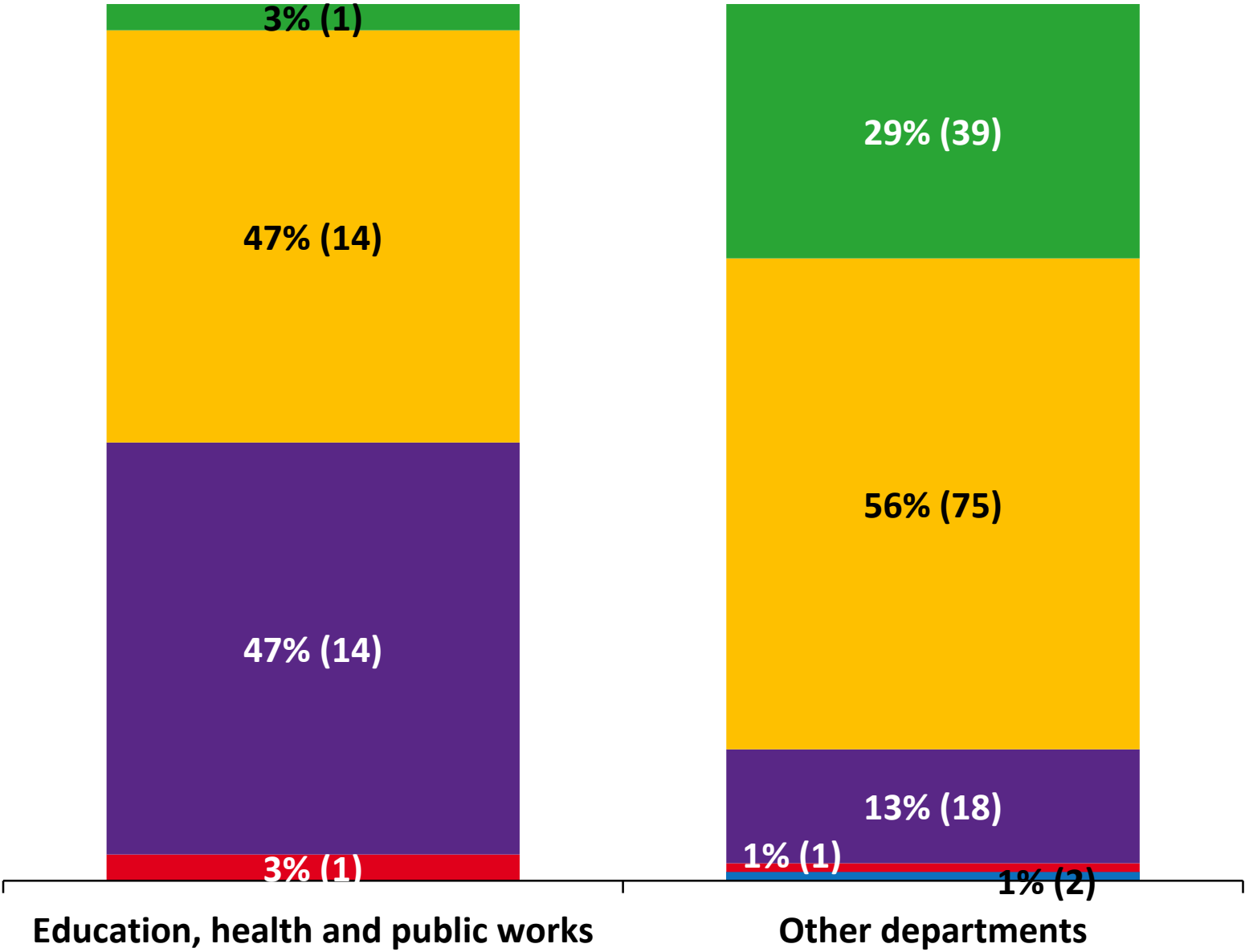
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- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding



Audit outcomes – Education, health and public works vs. other departments



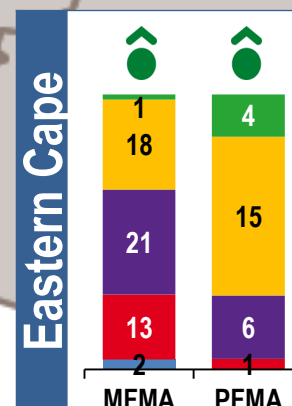
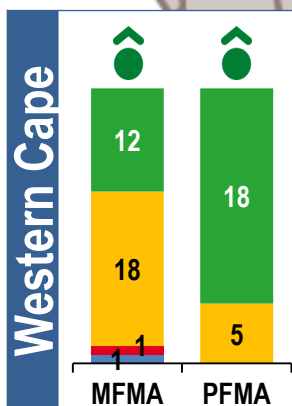
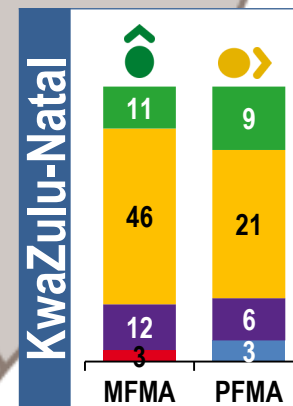
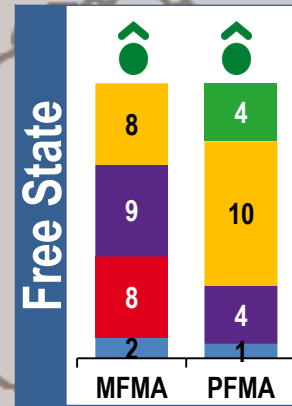
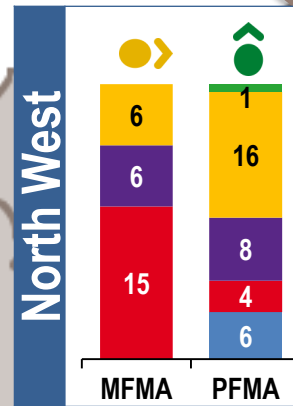
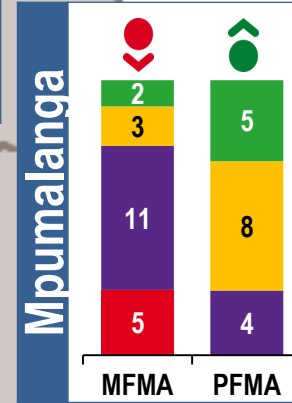
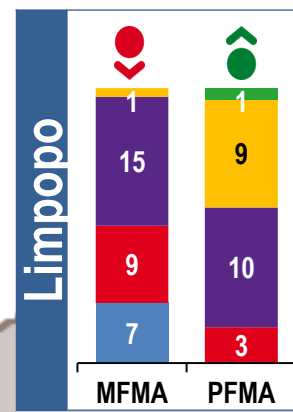
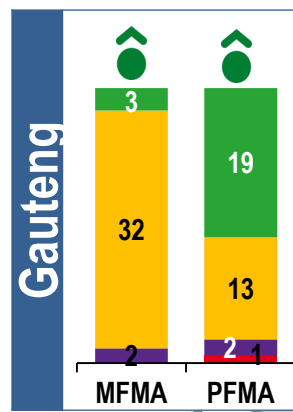
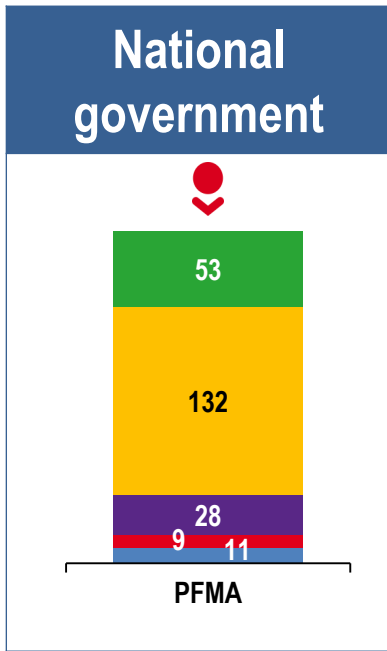
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- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding



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Audit outcomes



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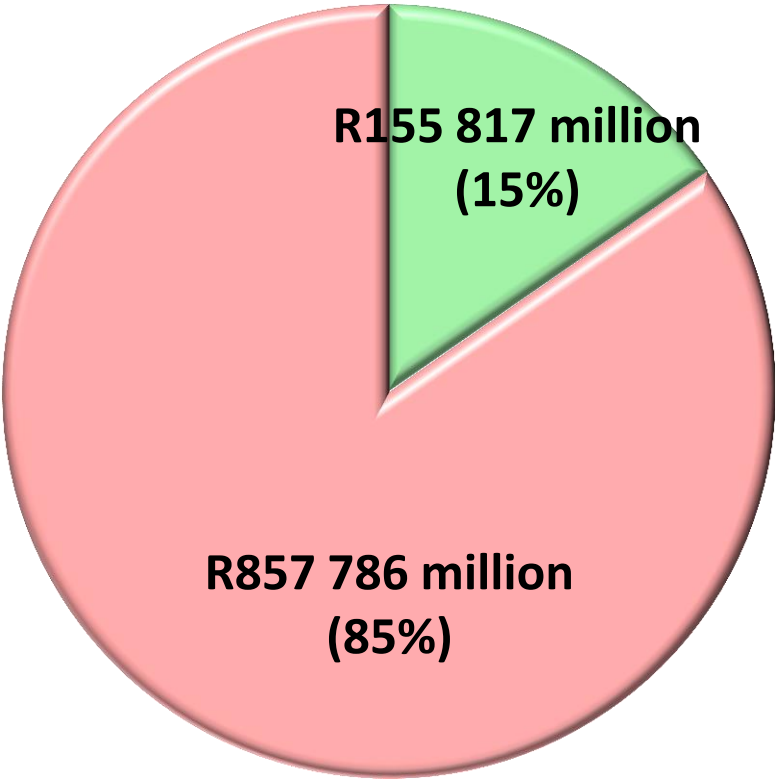
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding
- ▲ Improved
- Stagnant or little progress
- ▼ Regressed



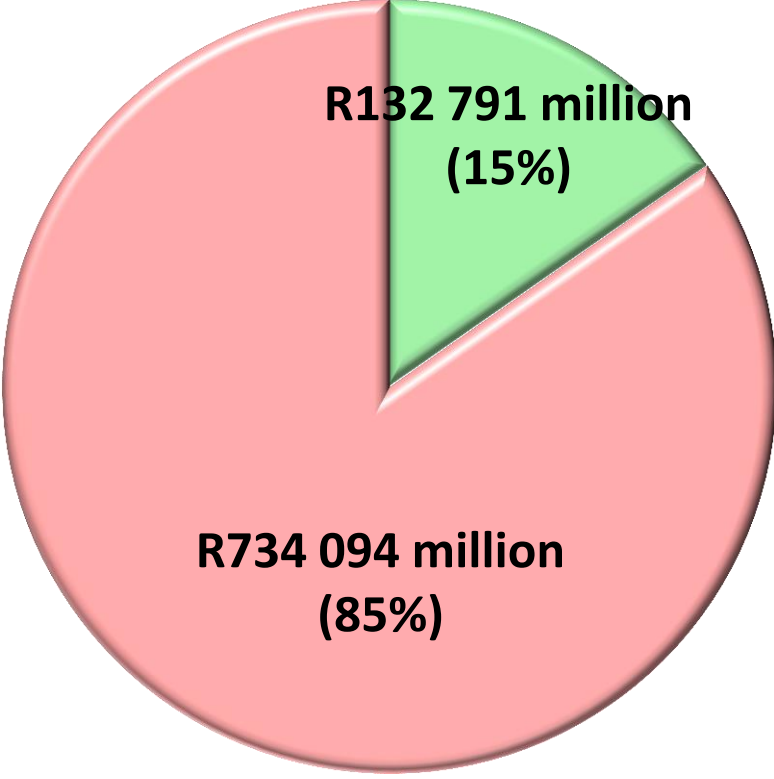
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The departments with clean audit opinions are responsible for only 15% of the budget

2013-14



2012-13



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- Department with clean audits
- Other departments

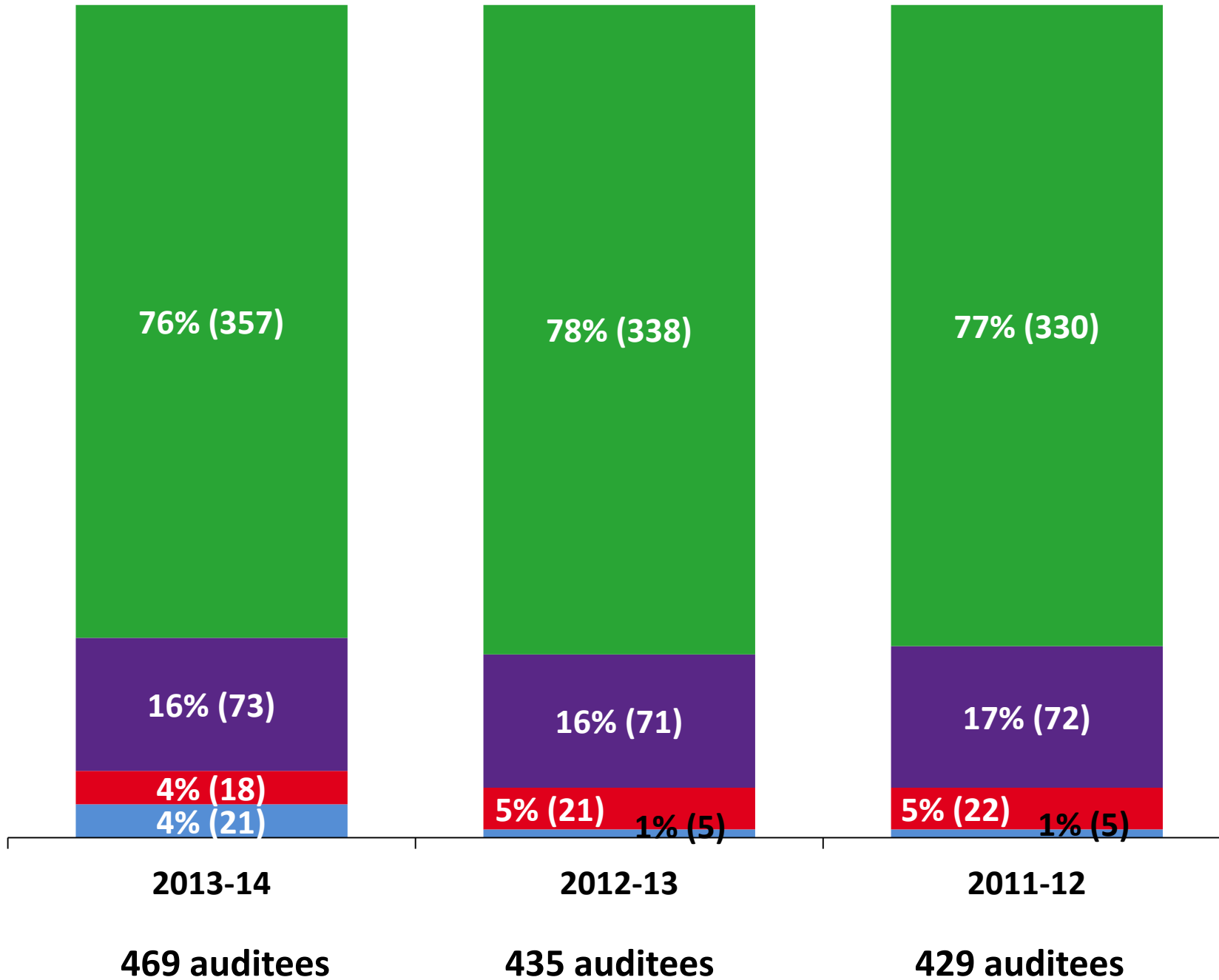


3

What is the status of financial statements?



Three-year trend – financial statements



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- Unqualified
- Qualified
- Adverse or disclaimer
- Audit outstanding



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Quality of submitted financial statements

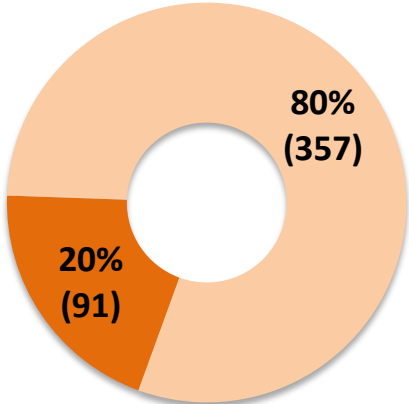
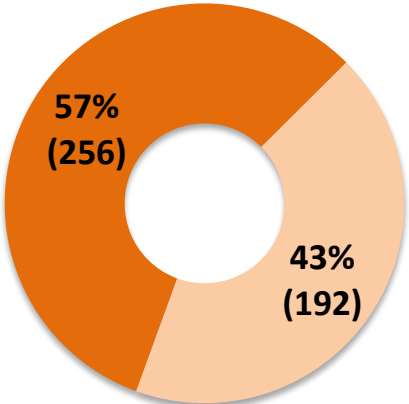
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2013-14

Outcome if NOT corrected



Outcome after corrections



165 auditees



Avoided qualifications by correcting material misstatements during audit process



160 auditees

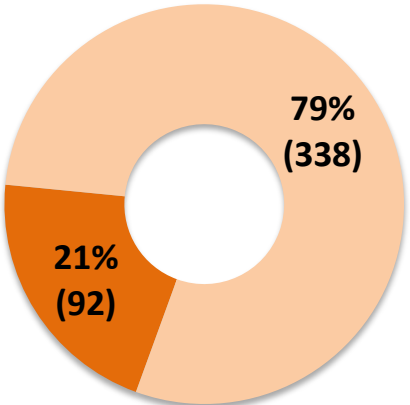
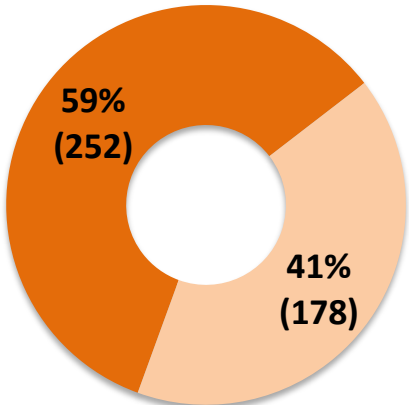
- Financially unqualified (clean audit/ unqualified with findings)
- Financially qualified (qualified/ adverse/ disclaimed with findings)

2012-13

Outcome if NOT corrected



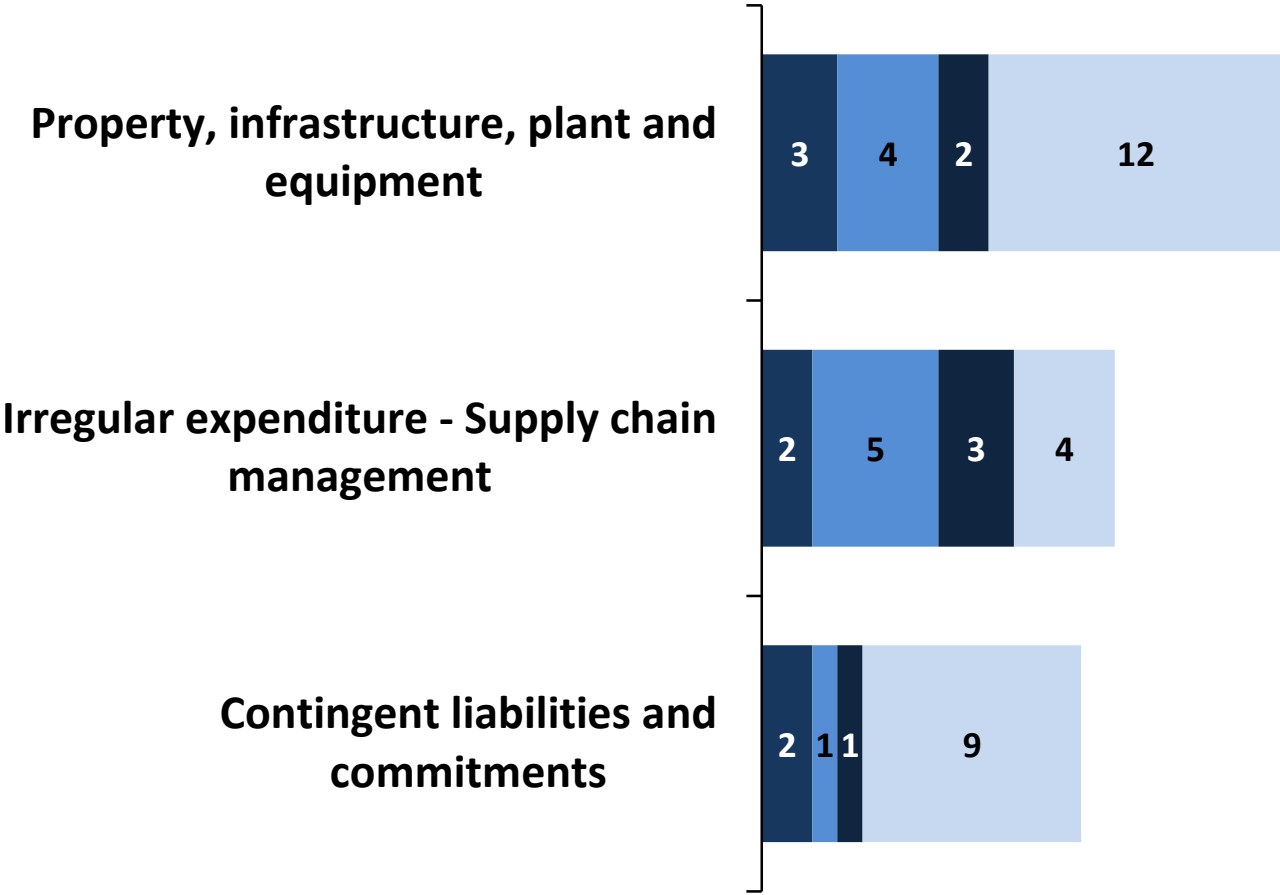
Outcome after corrections



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Most common areas of qualifications on financial statements of departments – sectors

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- Education
- Health
- Public Works
- Other departments



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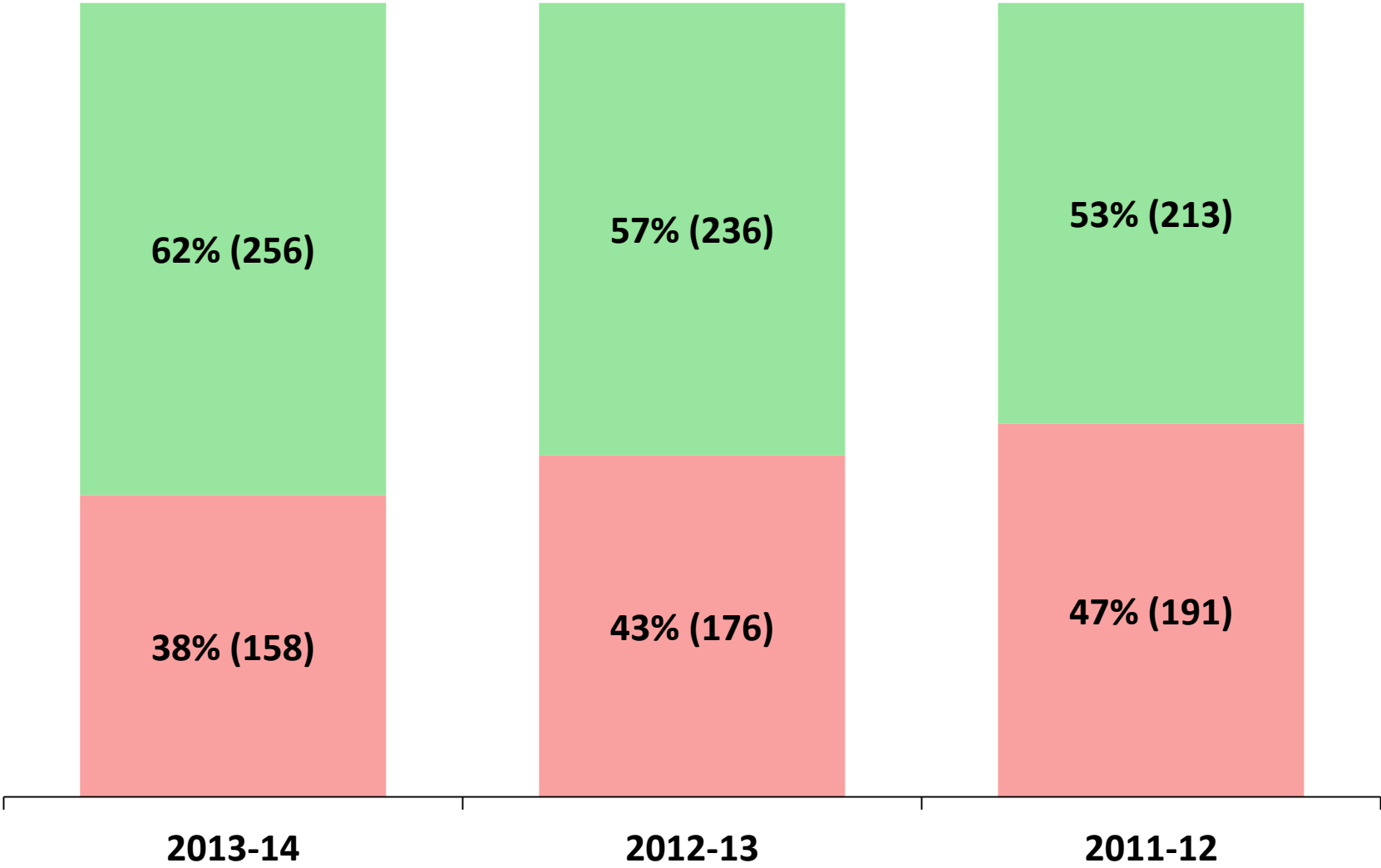
4

What is the status of annual performance reports?



Quality of annual performance reports

- Annual performance reports of **62%** of auditees were useful and reliable
- Slight improvement over 2012-13



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With no findings
With findings



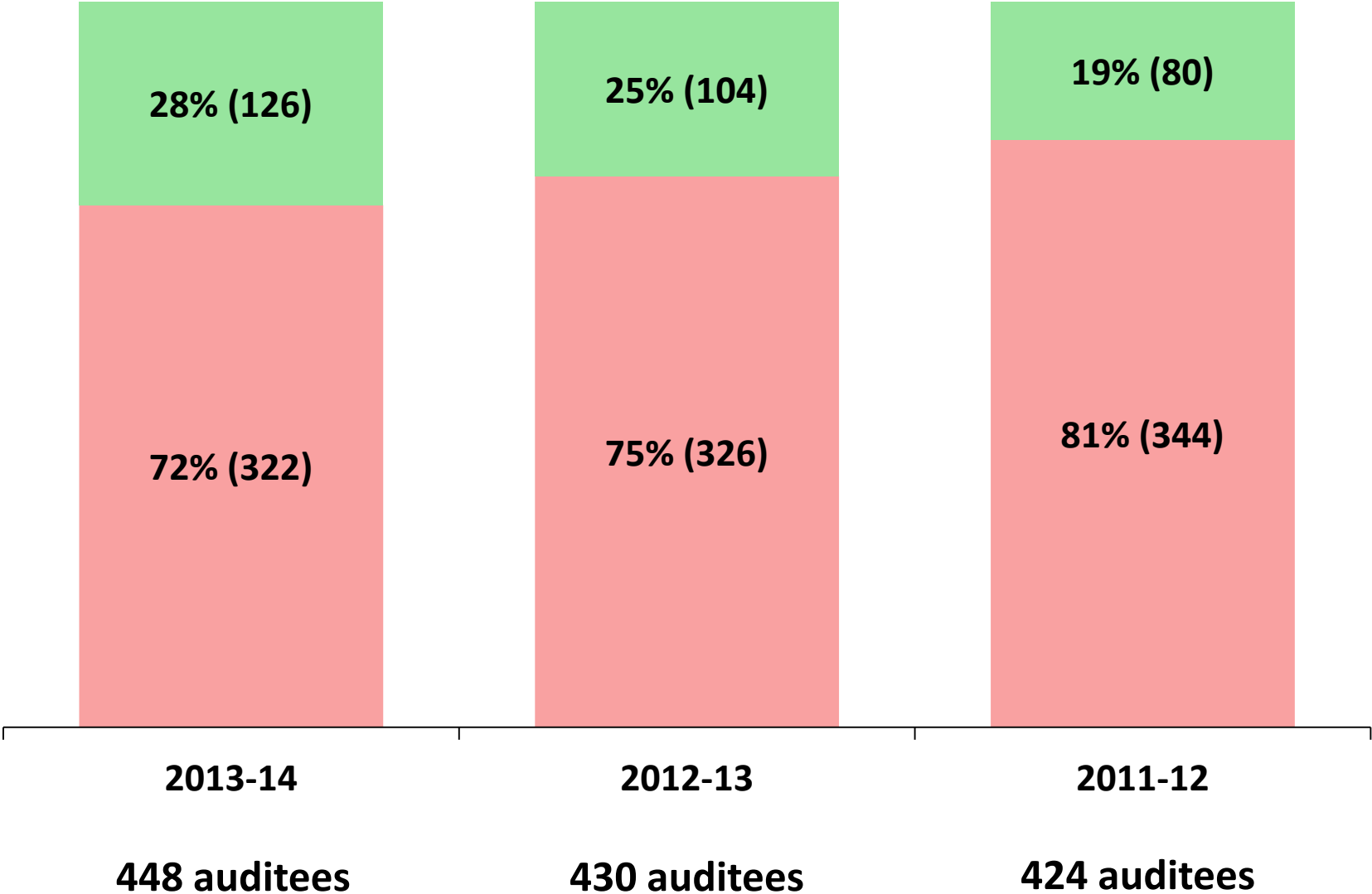
5

What is the status of compliance with key legislation?



Status of compliance with legislation

- Significant non-compliance with legislation by **72%** of auditees
- Some improvement over 2012-13



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With no findings
With findings



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Most common areas of non-compliance

Quality of the financial statements submitted



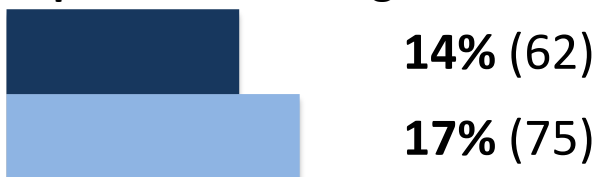
Unauthorised, irregular and fruitless and wasteful expenditure



Supply chain management



Expenditure management



Human resource management



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2013-14

2012-13

Improved

Stagnant or little progress

Regressed

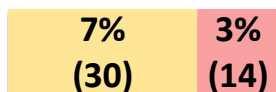


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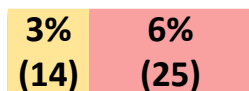
Status of supply chain management (SCM)

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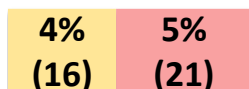
Limitation on planned scope of audit of awards



Awards to employees



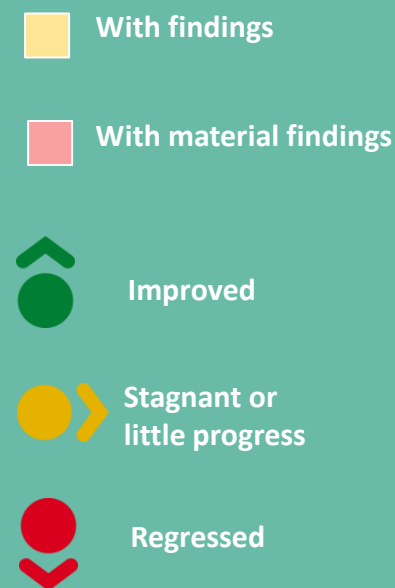
Awards to close family members of employees



Uncompetitive or unfair procurement processes



Inadequate contract management



Most common findings:

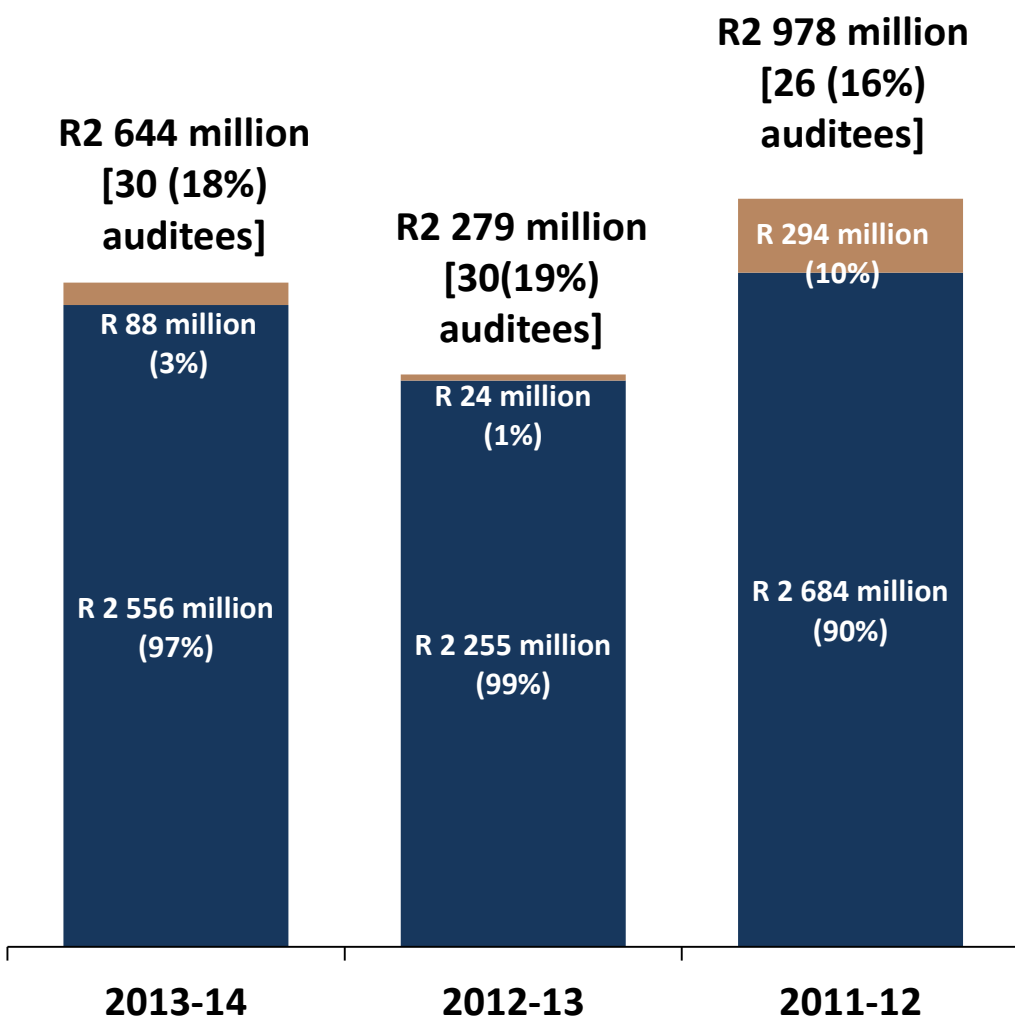
- Three written quotations not invited and/or deviations not justified
- Competitive bids not invited and/ or deviations not justified
- Declarations of interest not submitted by providers



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Unauthorised expenditure incurred

Increase in unauthorised expenditure



Nature

- **Overspending of budget/ main sections in budget** cause of 98% of occurrences

Highest contributors (close to 90%)

- Department of Transport (R768m)
- Education – FS (R427m)
- Health – KZN (R323m)
- Education – KZN (R260m)
- Education – NW (R256m)
- Department of International Relations and Co-operation (R117m)

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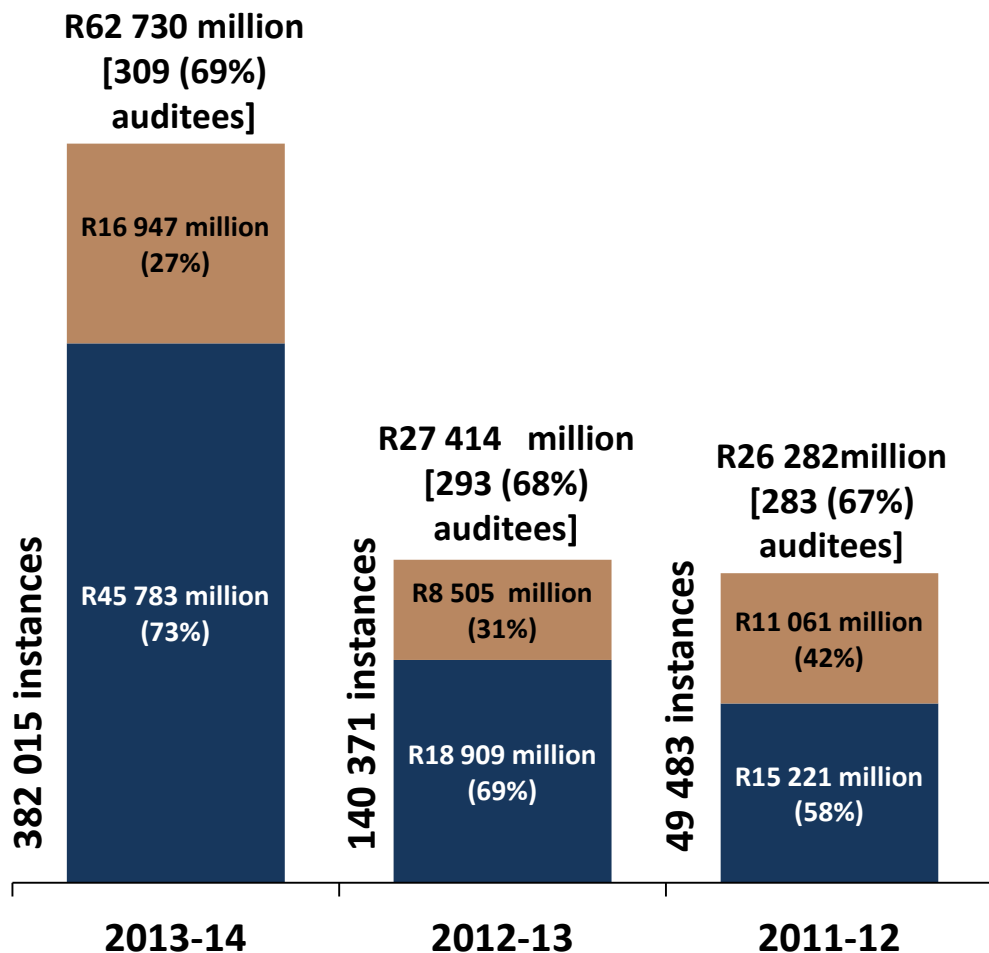
- Identified by the auditees
- Identified during the audit



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Irregular expenditure incurred

Increase in irregular expenditure



Main reason for increase are R30 798 million disclosed by Property Management Trading Entity based on review done of transactions since 2001 in order to address incomplete disclosure (qualification) reported in previous years.

Nature

- **Non-compliance with SCM legislation** cause of 93% of occurrences
- Main areas of non-compliance
 - Procurement without competitive bidding or quotation process (53%)
 - Non-compliance with procurement process requirements (40%)
 - Non-compliance with legislation on contract management (7%)

Highest contributors

- Property Management Trading Entity (R30 798 million) (49%)
- KwaZulu-Natal Department of Education (R2 680 million) (4%)
- Limpopo Department of Education (R2 209 billion) (4%)

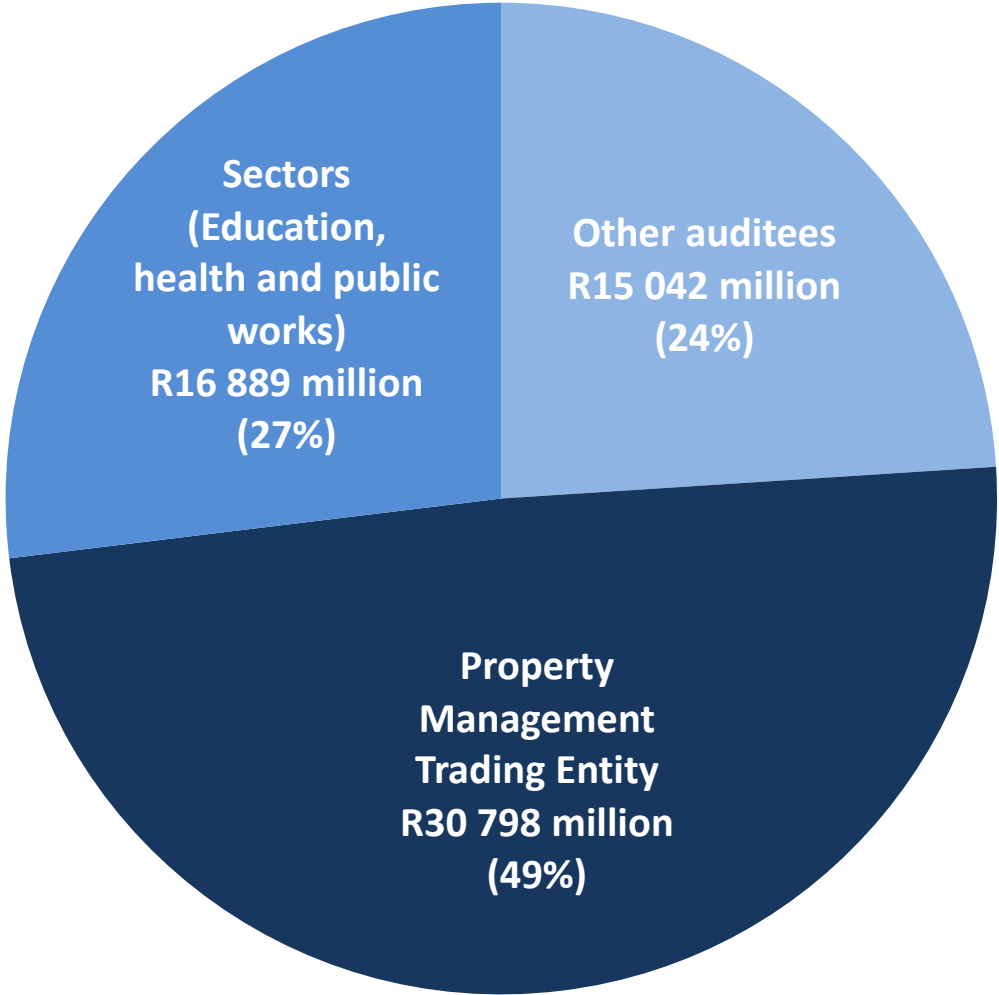
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- Identified by auditees
- Identified during audit



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Main contributors to irregular are in the education, health and public works sectors



Fruitless and wasteful expenditure incurred

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Decrease in fruitless and wasteful expenditure

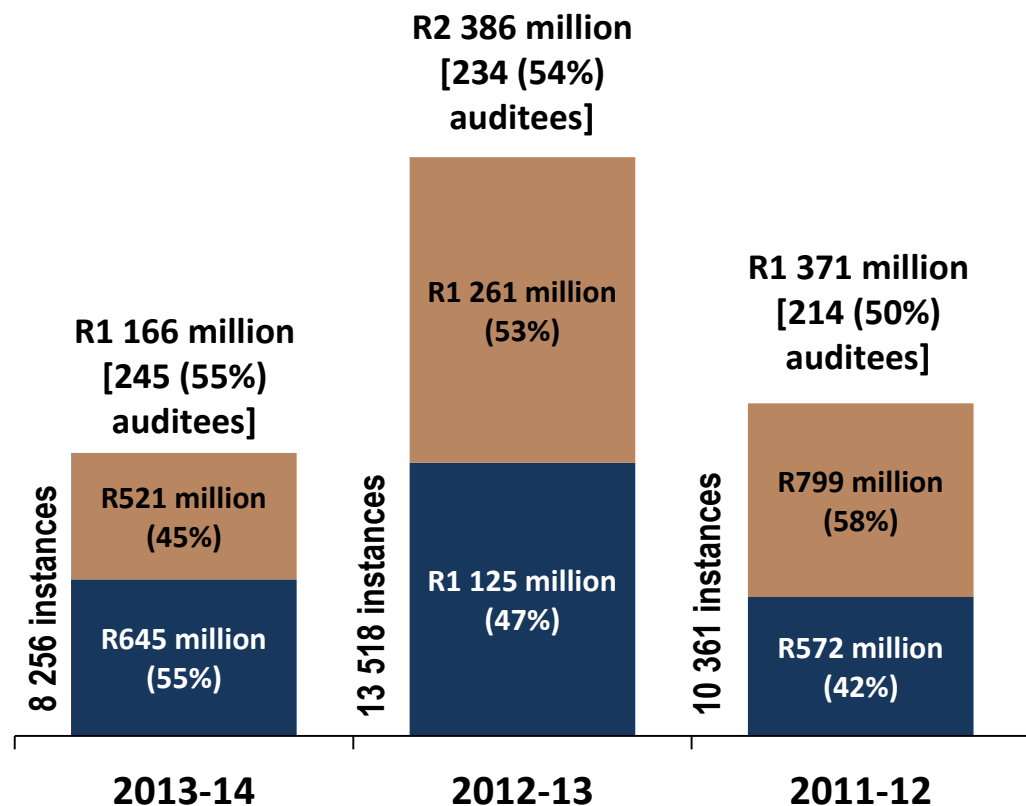
Nature

- Interest on overdue accounts and late payments
- Penalties
- Litigation costs and claims

Highest contributors

- Department of Defence (R304 million - 26%)
- Education - LP (R168 million – 14%)
- Health – GP (R161 million – 14%)
- Education – EC (R69 million – 6%)
- Health – EC (R51 million – 4%)

- Identified by the auditees
- Identified during the audit



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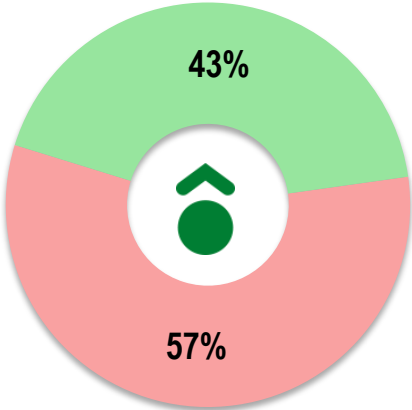
What are the internal control deficiencies and root causes?



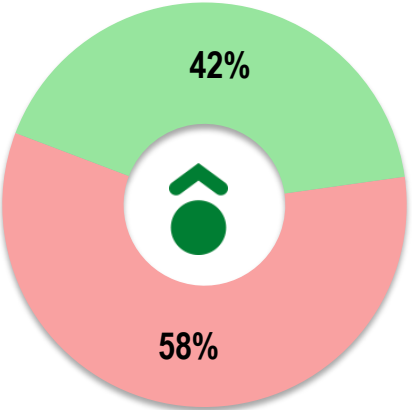
Attention should also be given to the risk areas

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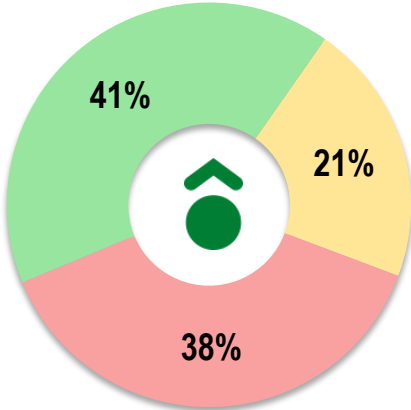
Quality of submitted financial statements



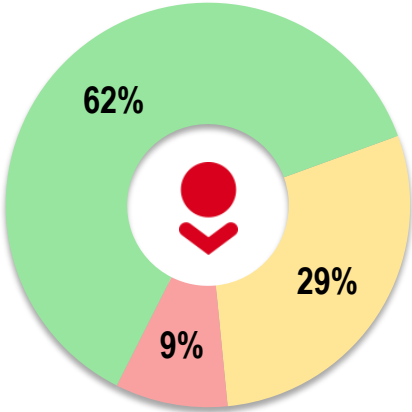
Quality of submitted performance reports



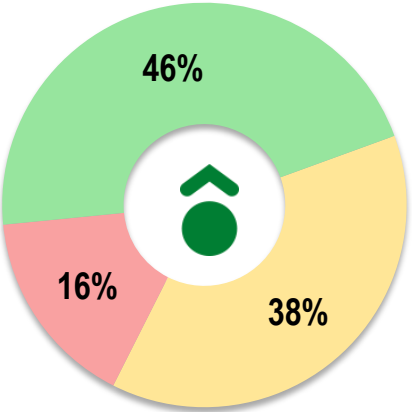
Supply chain management



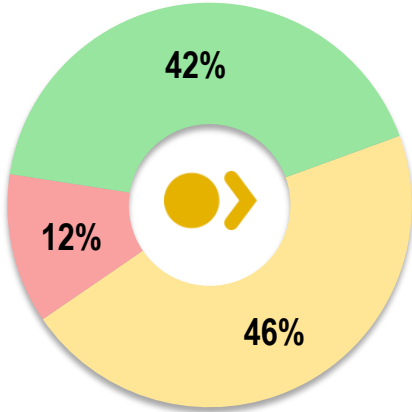
Financial health



Human resource management



Information technology



- Good
- Concerning
- Intervention required
- ↑ Improved
- ➔ Stagnant or limited progress
- ↓ Regressed



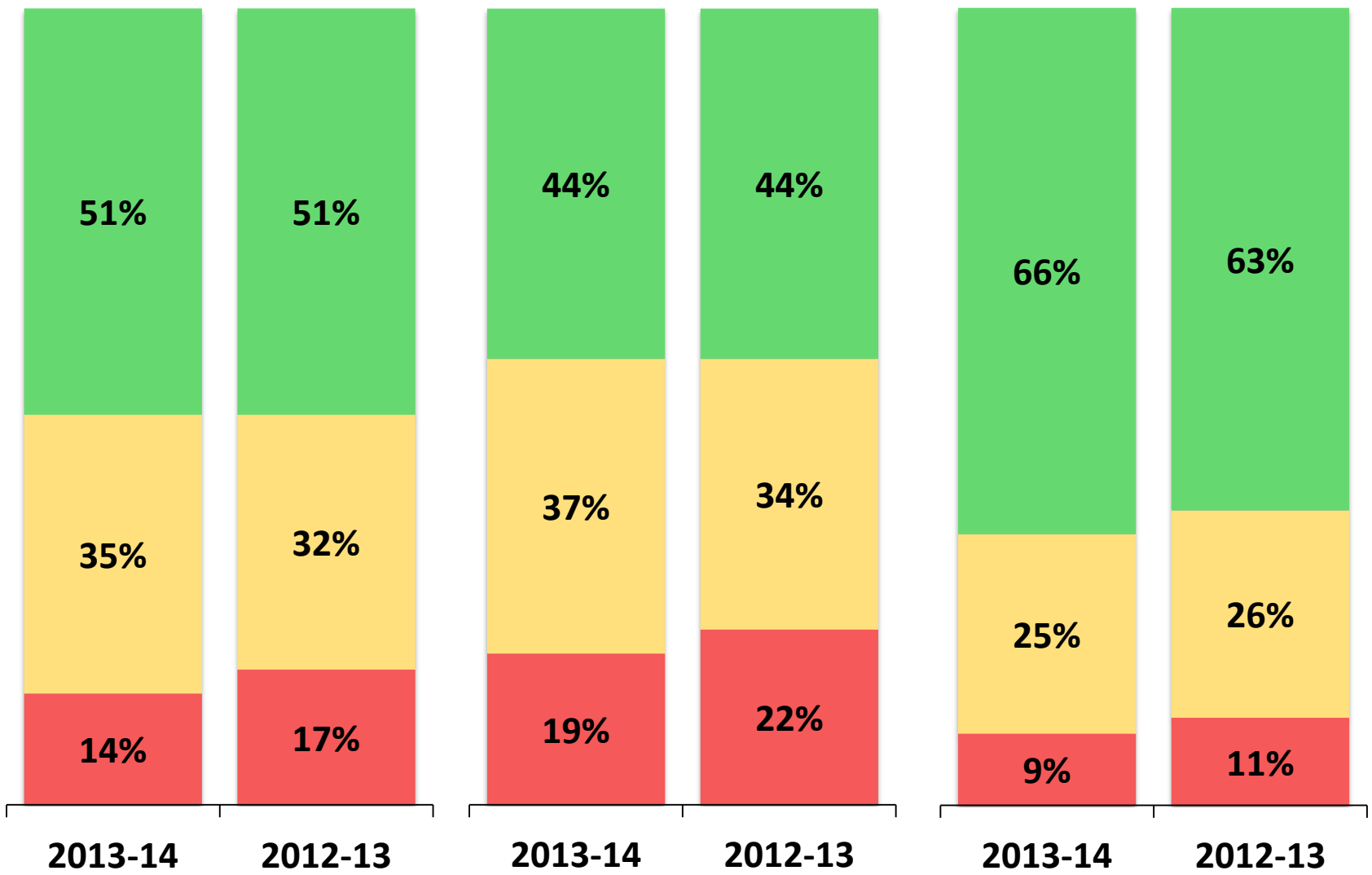
Drivers of internal control should improve


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 Leadership

 Financial and performance management

 Governance

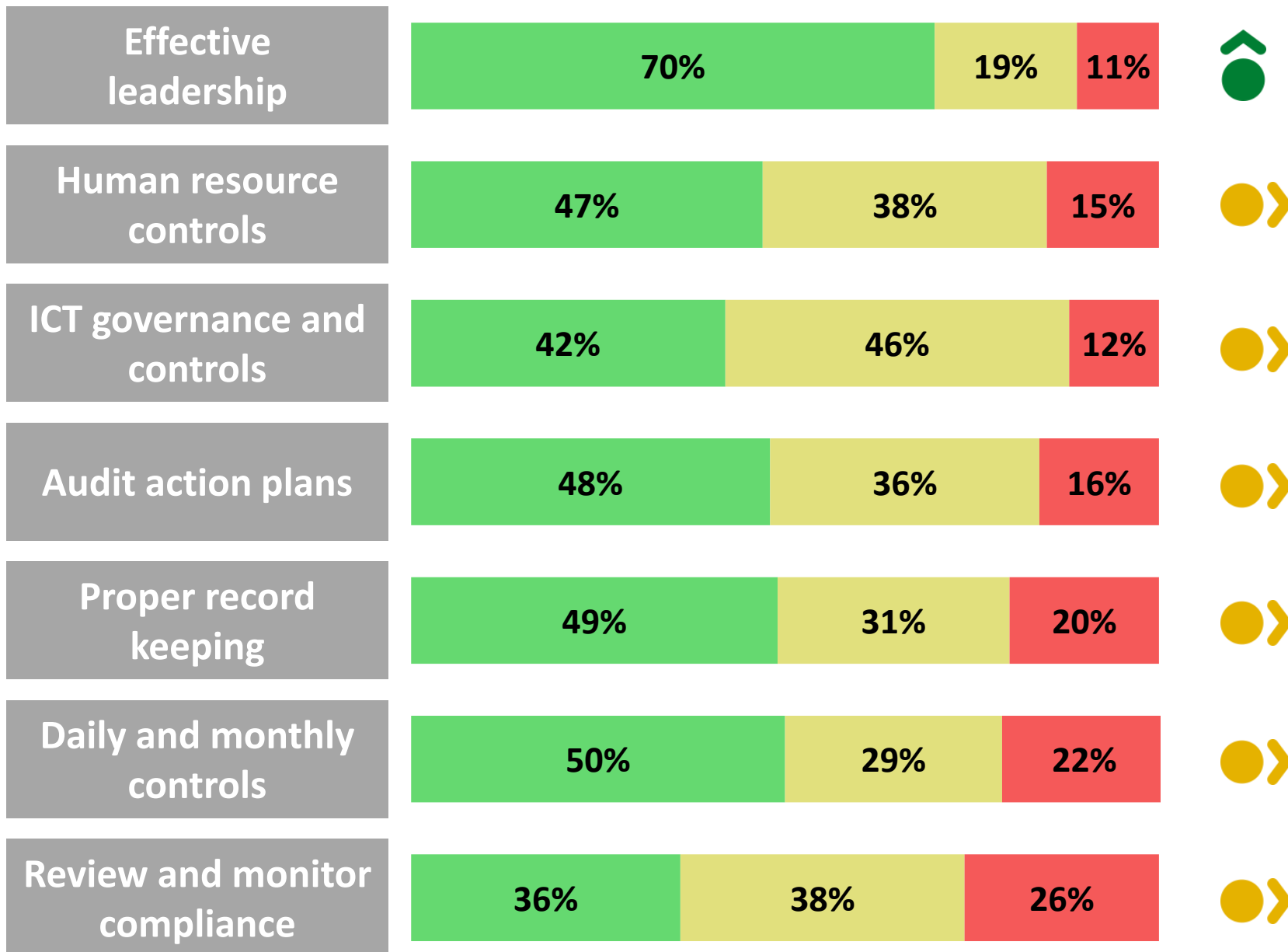


-  Good
-  Concerning
-  Intervention required
-  Improved
-  Stagnant or limited progress
-  Regressed



Attention should be given to basic controls

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Root causes should be addressed

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Slow response by management improving key controls and addressing risk areas (49%)

Instability or vacancies in key positions (33%)

Inadequate consequences for poor performance and transgressions (32%)



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Combined assurance approach to oversight

Management assurance First level of assurance

Senior Management	Accounting officers/ authority	Executive authority
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Required assurance levels

Extensive	Extensive	Extensive
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Oversight assurance Second level of assurance

Coordinating Monitoring institutions	Internal audit	Audit committee
--------------------------------------------	-------------------	--------------------

Required assurance levels

Extensive	Extensive	Extensive
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Independent assurance Third level of assurance

Oversight (portfolio committees/ councils)	Public accounts committee	National Assembly
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Required assurance levels

Extensive	Extensive	Extensive
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Management's assurance role

- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officers/ authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** – monitor the progress of performance and enforce accountability and consequences

Oversight's assurance role

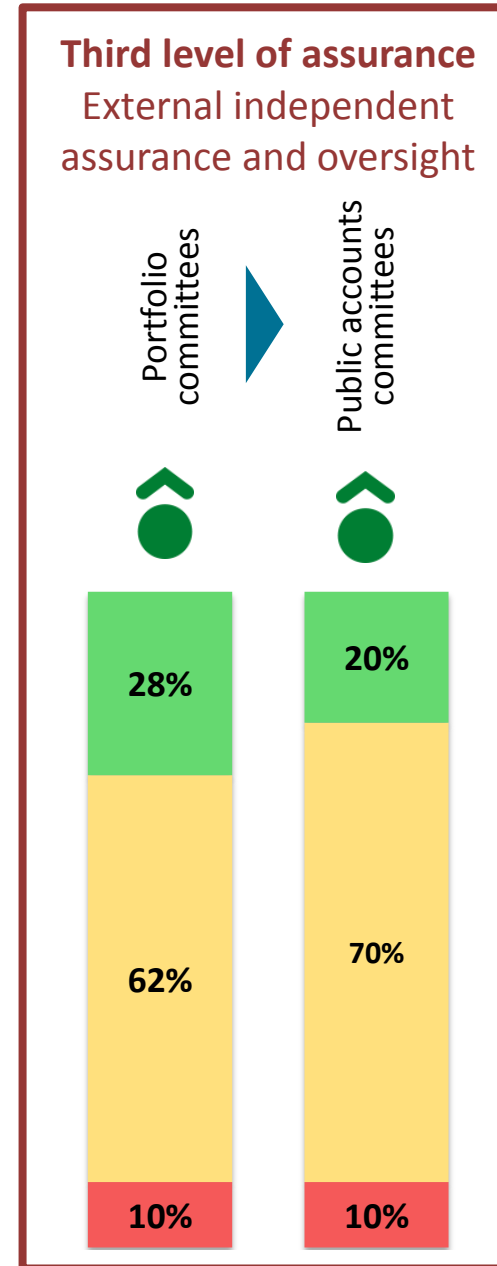
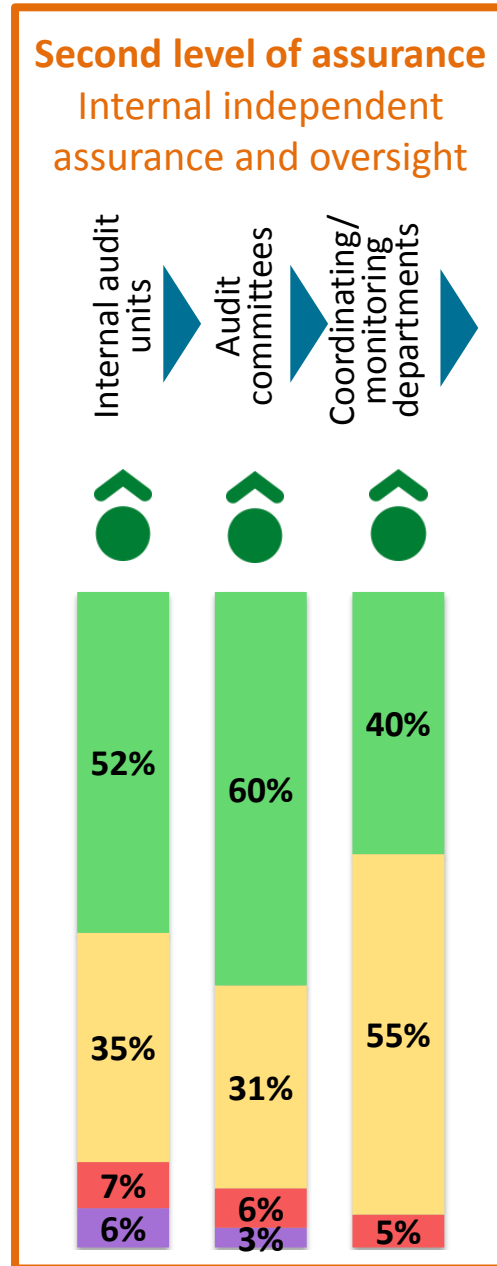
- **National Treasury/ DPSA** – monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Role of independent assurance

- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific oversight on a regular basis on any report which it may deem necessary
- **National Assembly** – provide independent oversight on the reliability, accuracy and credibility of National and provincial government

Assurance provided by key role players should improve

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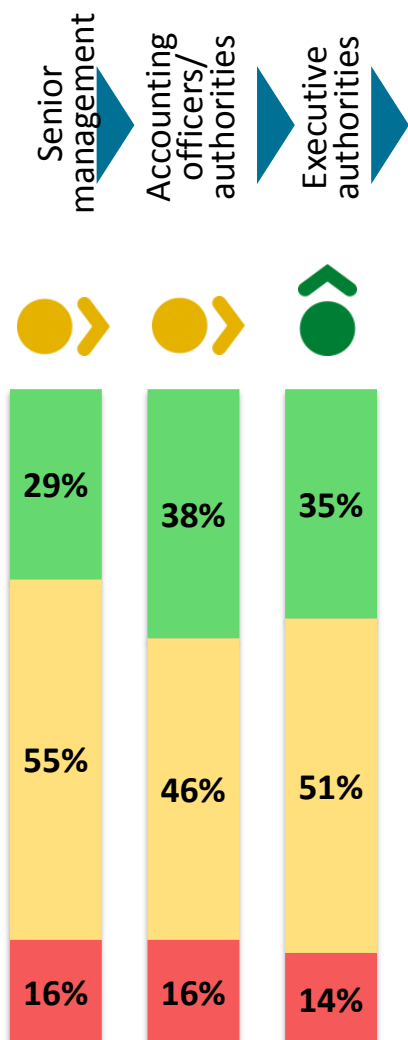
- Provides assurance
- Provides some assurance
- Provides limited/no assurance
- Not established
- ⬆ Improved assurance
- ➡ Limited progress on assurance
- ⬇ Less assurance



First level of assurance needs specific attention

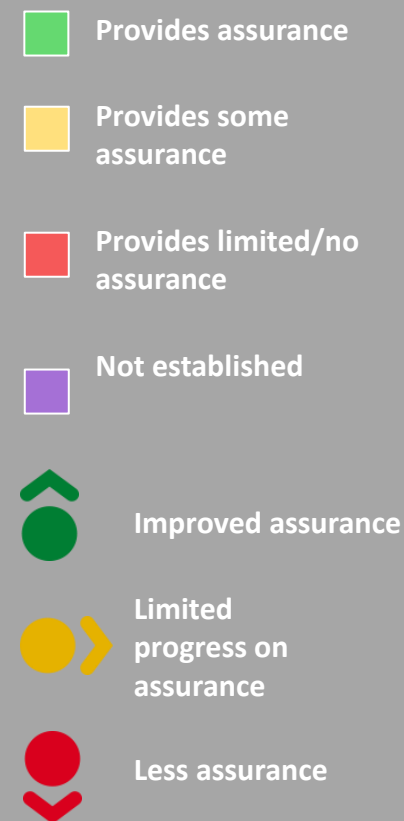
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First level of assurance Management/Leadership



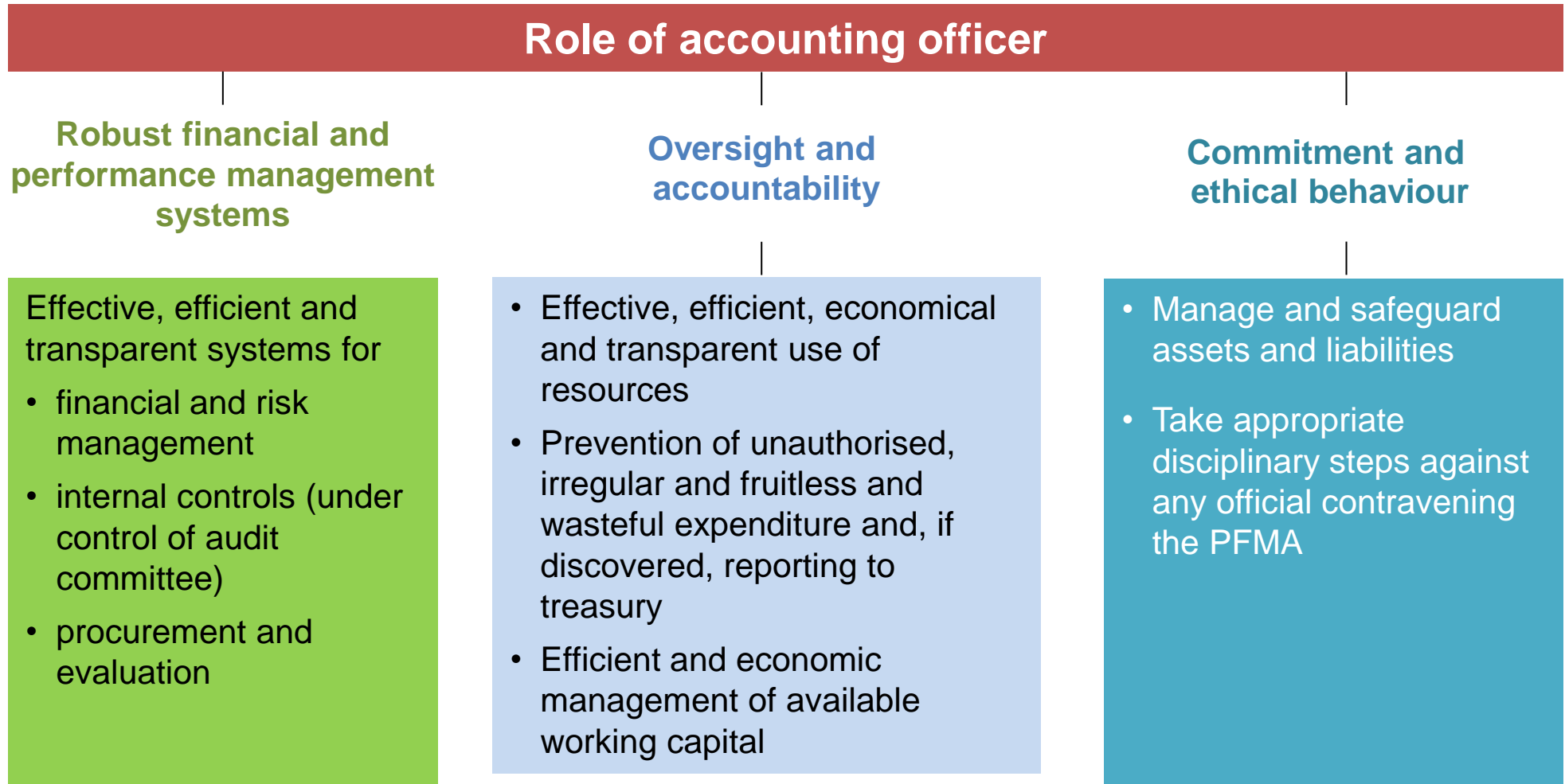
Actions to increase level of assurance

- Senior managers** should implement **basic financial and performance management controls** – proper record keeping, controls over processing and reconciling of transactions, regular and accurate reporting, monitoring of compliance with legislation and IT system controls.
- Accounting officers/ authorities** should support a **strong control environment** (see slide 31)
- Executive authorities** should provide **oversight and monitoring** as required by the PFMA and be actively **involved in key governance matters** and managing the **performance of accounting officers and authorities**. They should **obtain regular and credible assurances** on the status of internal controls, the reliability of the financial and performance reports submitted and the implementation of actions to improve audit outcomes.



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Understanding and monitoring of the accounting officer's mandate are key to improving internal control environment



The **role of the accounting officer** is critical to ensure:

timely, credible information + accountability + transparency + service delivery

Chapter 5 of the Public Finance Management Act, 1999

Assurance assessment on public accounts committees

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Portfolio	Public accounts committees	
	2013-14	2012-13
National	Provides some assurance	Provides some assurance
Eastern Cape	Provides some assurance	Provides some assurance
Free State	Provides limited/no assurance	Provides limited/no assurance
Gauteng	Provides assurance	Provides assurance
KwaZulu-Natal	Provides some assurance	Provides some assurance
Limpopo	Provides some assurance	Provides some assurance
Mpumalanga	Provides some assurance	Provides some assurance
Northern Cape	Provides some assurance	Provides some assurance
North West	Provides some assurance	Provides some assurance
Western Cape	Provides assurance	Provides some assurance

- Provides assurance
- Provides some assurance
- Provides limited/no assurance

Basis of assessment

Impact of oversight on national and provincial government based on interactions with the public accounts committees, commitments given and honoured and the impact of actions/ initiatives by the public accounts committees.



Assessment of PAC – providing “some assurance”

Notable improvements in SCOPAs oversight scrutiny

- Root cause of findings addressed in hearings
- Inclusion of audit committees and internal audit units in hearings (full participation still lacking)
- On-going attempts to collaborate with portfolio committees – limited success
- Strengthened ties with National Treasury and DPSA – with focus on SCM and ethical behaviour
- Highlighted importance of consequence management
- Follow-ups made on performance audit report on infrastructure
- Visits to departments

Gaps in completions of work

- No SCOPA resolutions passed by the House
- General follow-up on resolutions weak - responses not always assessed

-  Provides assurance
-  Provides some assurance
-  Provides limited/no assurance

