



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

PORTFOLIO COMMITTEE BRIEFING

DEPARTMENT OF CORRECTIONAL SERVICES

PFMA audit outcomes for the 2011/12 financial year

Date of Briefing: 10 October 2012



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Portfolio Committee Briefing 2011/12

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2. Audit opinion history: Vote: 21

Audit opinions	08/09	09/10	10/11	11/12
<i>Department of Correctional Services</i>				
Qualification areas				
• <i>Assets</i>	X	X	X	X
Other matters				
• <i>Predetermined objectives</i>		X	X	X
• <i>Compliance with laws and regulations</i>	X	X	X	X
• <i>Material underspending of budget</i>		X	X	X

AUDIT OPINION

- CLEAN AUDIT OPINION: No findings on PDO and Compliance
- UNQUALIFIED with findings on PDO and Compliance
- QUALIFIED AUDIT OPINION (with/without findings)
- DISCLAIMER/ADVERSE AUDIT OPINION



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3. Key Focus Areas:

Auditee	Department of Correctional Services	Pre-determined Objectives No improvement	Internal Controls No improvement	Financial Health Material Underpending No improvement

3.1 Supply Chain Management

Entity	Finding	Root Cause	Recommendation
Department of Correctional Services	<ul style="list-style-type: none"> Sufficient appropriate audit evidence could not, in some cases be obtained that contracts relating to food, security and maintenance were awarded in accordance with the legislative requirements as some of the documentation is in the possession of outside institutions pending investigations. 	Lack of understanding of SCM laws and regulations resulting in misinterpretation of the applicable legislation	Adequate implementation of SCM laws and regulations to ensure that policies and procedures ensure compliance.
	<ul style="list-style-type: none"> Awards were sometimes made to suppliers that are listed on the National Treasury's database as persons prohibited from doing business with the public sector in contravention of Treasury Regulations 16A.9.1(c) 		
	<ul style="list-style-type: none"> Some persons in service of the Department whose close family members, partners or associates had a private or business interest in contracts awarded by the Department failed to disclose such interest as required by Treasury Regulation 16A.8.4. 	Lack of monitoring and review of compliance with laws and regulations resulting in non-compliance Inadequate planning resulting the non-compliance	Adequate planning should be enforced by management to ensure compliance in the SCM unit



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<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
	<ul style="list-style-type: none"> • <i>Some persons in service of the Department who had a private or business interest in contracts awarded by the Department failed to disclose such interest, as required by Treasury Regulation 16A8.4.</i> 		
	<ul style="list-style-type: none"> • <i>Some employees of the department performed remunerative work outside their employment in the department without written permission from the relevant authority as required by section 30 of the Public Service Act.</i> 		
	<ul style="list-style-type: none"> • <i>Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.</i> 		
	<ul style="list-style-type: none"> • <i>In some instances quotations were procured from suppliers who did not have tax clearance from SARS confirming that their tax matters are in order.</i> 		
	<ul style="list-style-type: none"> • <i>Four deviations from competitive bidding to the total value of R4 112 102.70 were approved on the basis of it being an emergency, even though immediate action was not necessary to avoid a dangerous and risky situation of misery and sufficient time was process and/or proper planning available to follow a bidding would have prevented such an emergency.</i> 		
	<ul style="list-style-type: none"> • <i>One contract was extended without approval by a delegated</i> 		



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Entity	Finding	Root Cause	Recommendation
	official. The total value of the extensions is R5 472 000.		

3.2 Predetermined Objectives

Entity	Finding	Root Cause	Recommendation
Department of Correctional Services (DCS)	<p><u>Usefulness of information</u></p> <p>Reported indicators not consistent with planned indicators</p> <p>Treasury Regulation 5.2.4 requires that the strategic and annual performance plan should form the basis for the annual report, therefore requiring the consistency of indicators between planning and reporting documents. A total of 22% of the reported indicators are not consistent with the indicators as per the approved strategic and annual performance plan. This is due to the lack of alignment between the Strategic Plan indicators and the Annual Performance Plan indicators.</p>	<p>Lack of alignment between the Strategic Plan and the Annual Performance Plan</p> <p>Compliance with applicable laws and regulations not reviewed or monitored</p>	<p>Compliance with regulation should be reviewed and adhered to Indicators in both the Strategic Plan and the Annual Performance Plan should be aligned</p>
	<p><u>Reliability of information</u></p> <p>Reported performance not valid, accurate and complete</p> <ul style="list-style-type: none"> The National Treasury Framework for managing programme performance information (FMPPi) requires that processes and systems which produce the indicator should be verifiable. The development programme has performance indicators where those participating offenders had to be calculated against those eligible for these programmes. I was unable to obtain all 60% of the information and explanations, I 	<p>Proper record keeping not implemented to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.</p> <p>Procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities not established and/or communicated.</p>	<p>Information should be kept to support data reported in the monthly statistics.</p> <p>Procedures should be established and communicated to give personnel guidance to enable understanding and execution of internal control objectives.</p> <p>Action plans should be developed and monitored to address any internal control</p>



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Entity	Finding	Root Cause	Recommendation
	<p>considered necessary to satisfy myself as to the validity, accuracy and completeness of the actual reported performance relevant to these performance indicators. This was due to limitations placed on the scope of my work due to the absence of information systems/the institution's records not permitting the application of alternative audit procedures.</p>	<p>The action plans to address internal control deficiencies not developed and/or monitored.</p>	<p>deficiencies</p>

3.3 Human Resources

Entity	Finding	Root Cause	Recommendation
<p>Department of Correctional Services (DCS)</p>	<ul style="list-style-type: none"> The accounting officer did not always implement effective measures to ensure that employees do not abuse sick leave, as required by Public Service Regulation 1/V/F(c). 	<p>The designed and implemented controls are not adequately operational when measured by the extent to which specific control objectives are achieved.</p>	<p>It is recommended that the Department ensures that leave application forms are submitted timely</p>
	<ul style="list-style-type: none"> Sufficient appropriate audit evidence could not be obtained that the accounting officer implemented effective measures to ensure that employees do not abuse sick leave, as required by Public Service Regulation 1/V/F(c). 	<p>There is a lack of review and monitoring of compliance with all applicable laws and regulations.</p> <p>The designed and implemented controls are not adequately operational when measured by the extent to which specific control objectives are achieved.</p> <p>Late submissions of leave forms</p>	<p>It is recommended that management checks the completeness of the leave on the system and take into account the discrepancies identified.</p> <p>Management should ensure that leave applications are filled per employee record.</p> <p>Management should ensure that leave is captured on a regular basis</p>
	<ul style="list-style-type: none"> Employees received overtime compensation in excess of 30% of their monthly salaries, in contravention of Public Service Regulation 1/W/D.2(d). 	<p>Controls over daily and monthly processing and reconciling of transactions not performed.</p>	<p>Controls over the payment of overtime should be reviewed to ensure that amounts paid staff members</p>



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<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
			should be reviewed by a senior payroll administrator separate to the one who prepared the calculation, prior to the payment being made.
	<ul style="list-style-type: none"> Sufficient appropriate audit evidence could not be obtained that monthly compensation for overtime was limited to 30% of employee's monthly salary as required by Public Service Regulation 1/W/D. 2(d) 	Controls over daily and monthly processing and reconciling of transactions not performed.	Controls over the payment of overtime should be reviewed ensure that amounts paid staff members should be reviewed by a senior payroll administrator separate to the one who prepared the calculation, prior to the payment being made.
	<ul style="list-style-type: none"> An approved performance and career management policy for other employees than senior management was still in a draft format during the time of the audit. 	No established and communicated policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.	Management should ensure that policies and procedures are developed and approved by appropriate officials. These should be reviewed, communicated and made readily available for use by all officials within the department

3.4 Information Technology Controls

<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
Department of Correctional Services (DCS)	Lack of IT and Project Governance Framework	Establish an IT governance framework that supports and enables the business, delivers value and improves performance	The CDC: GITO should communicate the urgency to all level of management for the department to implement an IT and



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Entity	Finding	Root Cause	Recommendation	
			<p>Project Governance frameworks to mainly direct IT to align all its initiatives to the department's business and strategic objectives.</p> <p>As a member of the Government Information Technology Officer Council (GITOC), the CDC GITO should contribute and influence towards the finalization of the Government – wide framework during their regular meetings.</p>	
			<p>Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored</p>	<p>The CDC: GITO with the assistance of the department's Human Resource function should ensure that the recruitment processes to fill the 2 deputy commissioner positions is expedited to ensure adequate implementation of the newly approved IT organisational structure by 31 July 2012. Also the department's management team should consider making funds available for the appointment of the DC: Portfolio and Programme Management.</p>
			<p>Establish and communicate policies and procedures to enable and support, understanding and execution of internal control objectives, processes and</p>	<p>The CDC GITO should draft a formal submission to the Commissioner outlining reasons and the need to urgently finalise the ICSS Policy of the department since this is</p>



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<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
		<i>responsibilities</i>	<i>an overarching policy and all other operational policies and procedures are dependent on its existence and implementation</i>
	<i>User Access Management procedures and processes not yet designed</i>	<i>Establish and communicate policies and procedures to enable and support, understanding and execution of internal control objectives, processes and responsibilities</i>	<i>The CDC GITO should propose the establishment of a forum that will be made up of business manager representative and IT personnel to timeously address operational issues, like the management of user access controls across the department. Such controls should be documented, approved and communicated to all users</i>
	<i>Change control procedures not yet implemented</i>	<i>Establish and communicate policies and procedures to enable and support, understanding and execution of internal control objectives, processes and responsibilities</i>	<i>The CDC GITO with the assistance of the change control committee should ensure that the operational processes for managing changes on the department's systems are established.</i>
	<i>Disaster recovery plan not designed as at 31 March 2012</i>	<i>Design and implement formal controls over IT systems to ensure the reliability of the system and the availability, accuracy and protection of information</i>	<i>It is recommended that the CDC GITO should incorporate the development of the department's DRP to the current project that is underway for the overhaul of the department's network and infrastructure. Alternatively, a parallel project should be considered to conduct a comprehensive business impact analysis based on the</i>



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Entity	Finding	Root Cause	Recommendation
[REDACTED]	[REDACTED]	[REDACTED]	<p>technology and infrastructure to be deployed. Together with business IT should then prioritize the recovery requirements of all the systems at the department to come up with a fitting recovery processes for each of them</p>
	<p>Data and systems backups and restoration processes not adequately designed and implemented</p>	<p>Design and implement formal controls over IT systems to ensure the reliability of the system and the availability, accuracy and protection of information</p>	<p>It is recommended that interventions to resolve the data replication challenges from management areas/correctional centres to head office should be expedited to ensure that majority of the information are backed up. Furthermore, the decision for the migration of the department's data centre to SITA should be implemented as a matter of urgency where after CDC GITO and her management team should in the meantime start compiling the backup and restore procedures to be implemented once a proper and fitting backup solution for the departments is implemented.</p>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]



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3.5 Material Errors/Omissions in AFS submitted for Audit

<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
Department Of Correctional Services (DCS)	The financial statements submitted for auditing were not prepared in all respects in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. Material misstatements on accruals, commitments, contingent liabilities, irregular expenditure, fruitless and wasteful, employee cost, pre payments, capital assets, goods and services and leases identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.	Lack of adequate review of AFS by those charged with governance.	AFS should be reviewed by the governance structures i.e. management, internal audit and audit committee.

3.6 Financial Health Status

<i>Entity</i>	<i>Finding</i>	<i>Root Cause</i>	<i>Recommendation</i>
Department Of Correctional Services (DCS)	The Department has underspent on its budget by R893,9 million. This may be an indication that not all projects planned for the year could be carried out or could not be completed as planned. It should be noted however that a part of the underspending was used to fund the unauthorised expenditure that was approved during the year without funding.	Lack of proper planning by management resulting in late implementation and thus underspending.	Adequate planning and project management should be implemented by management to ensure fund earmarked are spent in the budget year.



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3.7 Other Compliance Matters

Entity	Finding	Root Cause	Recommendation
<p>Department Of Correctional Services (DCS)</p>	<p>Strategic planning The accounting officer did not, always, ensure that the Department had and maintained effective, efficient and transparent systems of financial and risk management and internal control as required by section 38(1)(a) of PFMA. Departmental systems to collate and report performance information are not adequate.</p>	<p>Develop and monitor the implementation of action plans to address internal control deficiencies</p>	<p>The accounting officer did not, always, ensure that the Department had and maintained effective, efficient and transparent systems of financial and risk management and internal control .</p>
	<p>Receivables In terms the of Section 38(1)(c)(i) of the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) and Treasury regulation 11.2.1 the accounting officer of an institution must take effective and appropriate steps to timely collect all money due to the institution ontime, including debtors. Although the accounting officer do collect money due to the department and maintain proper accounts and records for all debtors, outstanding debtors for three years and longer are not pursued rigorously enough to ensure that long outstanding amounts are collected or written off. Outstanding debtors for three years and older increased by 18% compared to the previous year and consist of 43 % of the total outstanding debtors.</p>	<p>Review and monitor compliance with applicable laws and regulations</p>	<p>The accounting officer of an institution must take effective and appropriate steps to timely collect all money due to the institution, including debtors.</p>
	<p>Tangible Capital Assets</p> <ul style="list-style-type: none"> The accounting officer did not always implement proper control systems for the safeguarding and maintenance of assets to prevent theft, losses, wastage and misuse as required by Treasury Regulations 10.1 	<p>Lack of adequate internal controls for safeguarding and maintenance of assets</p>	<p>Adequate internal controls should be implemented for safeguarding and maintenance of assets so as to prevent theft, losses, wastage and misuse.</p>



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Entity	Finding	Root Cause	Recommendation
	<p>• In 2010/11 financial year, non-cash additions and disposals were materially overstated by internal transfers of movable tangible capital assets between departmental stores. This was as a result of the LOGIS system used by the department being unable to account separately for internal transfers.</p> <p>During the current year the Department made adjustments to these disclosure notes in order to properly account for internal transfers but the adjustments made were materially misstated. Furthermore, the Department could not provide sufficient and appropriate audit evidence to confirm the completeness, occurrence and accuracy of the adjustments to the approximate value of R10 million.</p> <p>• Assets register for both major and minor assets were misstated: There were assets that were not captured on asset register and there were also assets that could not be physically identified. Furthermore asset register was not fairly valued since amounts used for some assets could not be substantiated.</p>	<p>Lack of proper monitoring controls regarding internal transfers of assets from store to store to ensure that they are all accounted for as internal transfers at both the issuing store and receiving store.</p> <p>Lack of adequate reconciliation of assets to ensure that all assets are recorded in asset register at correct amount and that all recorded assets do exist.</p> <p>Lack of monitoring controls to ensure that internal transfers are all accounted for at both the issuing stores and at correct amounts.</p>	<p>As this misstatement is an ongoing problem, the recommendation below is also relevant for the current financial year:</p> <p>The Department has designed a manual form to validate internal transfers. In addition to the above control, it is recommended that the Department should run a report to match internal transfers-in with internal transfers out and follow any unmatched items. The report should be reviewed for correspondence of cost prices at both the issuing and receiving stores.</p> <p>The Department must conduct monthly asset verification tests to ensure that the asset register is up to date and is a true reflection of the assets that the Department owns. In addition, the following controls should be effectively implemented:</p> <ul style="list-style-type: none"> - All assets to be bar coded - Use of a unique identification number (no asset should have double



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Entity	Finding	Root Cause	Recommendation
			<p>identification)</p> <ul style="list-style-type: none">- Disposed off assets to be removed from asset register- Controls to check accuracy and completeness of internal transfers to be implemented (refer to first finding).- Effective implementation of controls over movement of assets from office to office- A clear policy on valuation of assets which is in line with NT guidance and effectively implemented throughout the Department- Review of asset register to identify and correct asset that are incorrectly valued.- Hiring right staff for asset management in the correctional- Install the culture of accountability for all staff



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Entity	Finding	Root Cause	Recommendation
[REDACTED]			<ul style="list-style-type: none"> - Training staff for better performing their work
	<p><u>Expenditure management</u></p> <ul style="list-style-type: none"> • The accounting officer did not always take effective steps to prevent irregular / fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1. • The accounting officer did not always ensure effective internal controls were in place for payment approval and processing, as required by Treasury Regulation 8.1.1. • Sufficient appropriate audit evidence could not be obtained, in all instances that all money was spent with the approval of the accounting officer or a properly authorised official, as required by Treasury Regulations 8.2.1 and 8.2.2. • Contractual obligations and money owed by the Department were not, in all instances, settled within 30 days or an agreed period, as required by section 38(1)(f) of the Public Finance Management Act and Treasury Regulation 8.2.3. • Payments were made in advance of the receipt of goods or services in contravention of Treasury Regulation 15.10.1.2. 	<p>Lack of monitoring and review of compliance with laws and regulations resulting in non-compliance</p>	<p>There should be timely monitoring and review of compliance with laws and regulations and implementation of strong internal controls so as to avoid non-compliance</p>



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4. Commitments by the Executive

During an engagement with the executive on 5 July 2012, Honourable Minister voiced his concerns over deficiencies in key controls in the dashboard report and tendered his commitment to drive the progress reporting process.

5. Other Matters of interest

(a) Unauthorised expenditure

No unauthorised expenditure during the year.

(b) Fruitless and wasteful expenditure

Fruitless and wasteful expenditure amounting to R71,3 Million was incurred during the current year.

(c) Irregular expenditure

Auditee	Irregular expenditure		
	Movement	Amount R 2012 (000)	Amount R 2011 (000)
1 Department Of Correctional Services (DCS)		R214 652	R994

6. Other AG Reports

- Investigations:

No investigations are currently underway as undertaken by the AGSA.

- Performance Audits:






No performance audits are currently underway as undertaken by the AGSA.

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




Department		1		Department of Correctional Services		
Auditee	Audit opinion 2011-12		2011-12 Financial audit opinion		↔	
	2010-11 Financial audit opinion		2010-11 Financial audit opinion			
	Predetermined objectives		Predetermined objectives			
	Compliance with laws and regulations		Compliance with laws and regulations			
	Material Underspending on Budget		Material Underspending on Budget			
	Findings on predetermined objectives		Non-compliance with laws and regulations		↔	
	Presentation		Presentation			
	Reported information not useful		Reported information not useful			
	Reported information not reliable		Reported information not reliable			
	Findings on areas of non-compliance		AFS subject to material misstatement		↔	
	Procurement and contract management		Procurement and contract management			
	Human resource management		Human resource management			
	Asset management		Asset management			
	Internal Audit		Internal Audit			
	Audit committees		Audit committees			
	Expenditure management		Expenditure management			
	Revenue management		Revenue management			
	Financial Sustainability		Financial Sustainability			
	Financial misconduct		Financial misconduct			
	Transfer and conditional grants		Transfer and conditional grants			
Unauthorised, irregular as well as fruitless and wasteful expenditure		Unauthorised expenditure	Movement	R		↔
Irregular expenditure		Movement	R	R214M		
Fruitless and wasteful expenditure		Movement	R	R71m		
Procurement and contract management		Uncompetitive or unfair procurement processes		↔		
Three Quotations not obtained		Awards made to suppliers without independence declarations		↔		
Awards made to supplier with no valid Tax Clearance Certificate		HDI Criteria not communicated /preference point system		↔		
Inadequate contract/database management						

LEGENDS:

A) AUDIT OPINION

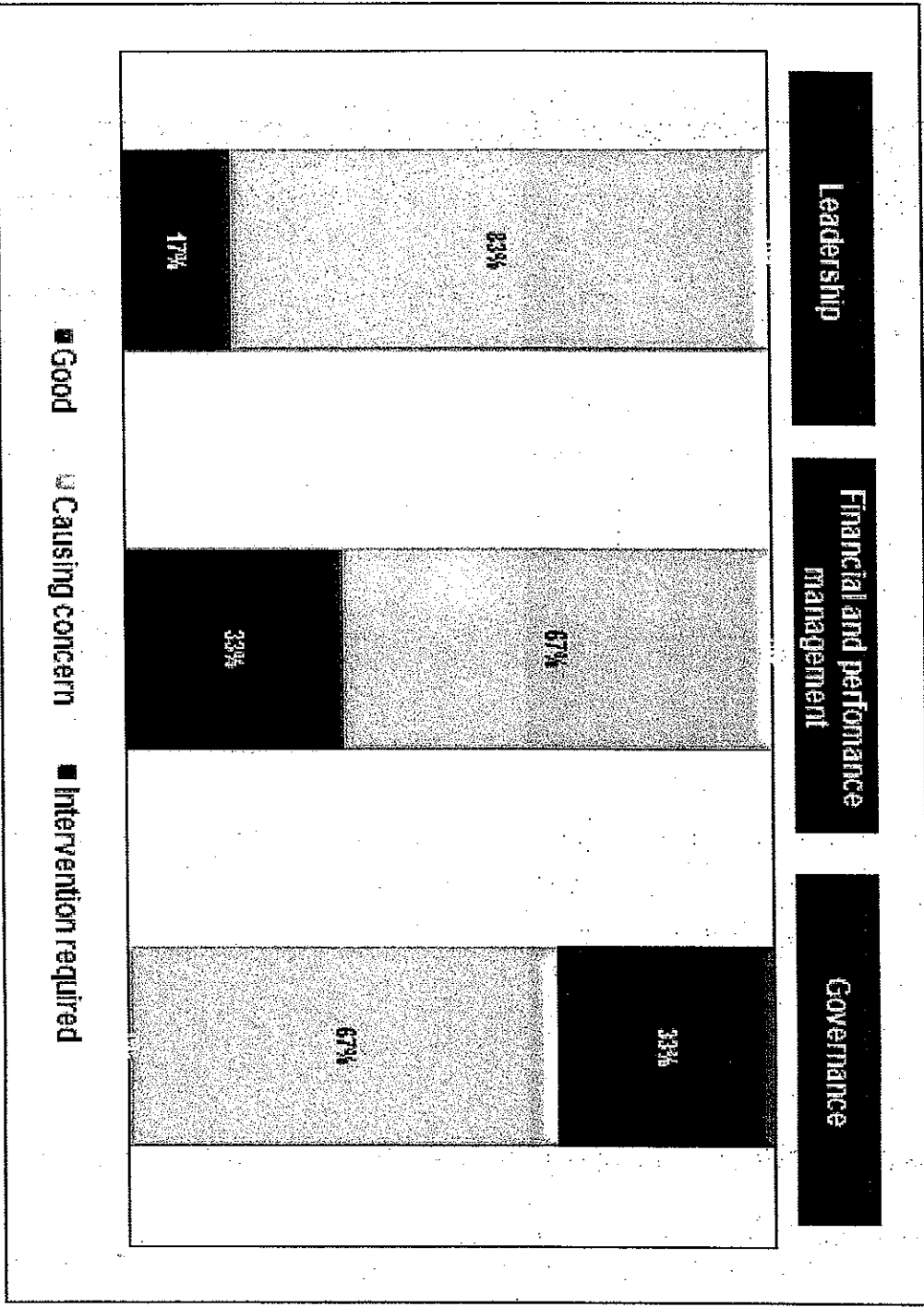
-  CLEAN AUDIT OPINION: No findings on PDO and Compliance
-  UNQUALIFIED with findings on PDO and Compliance
-  QUALIFIED AUDIT OPINION (with/without findings)
-  DISCLAIMER/ADVERSE AUDIT OPINION
-  ^(?) In liquidation

B) FINDINGS:

-  Where a finding was raised
-  Where NO FINDING was raised, this block will have NO COLOUR
-  Movement of Arrows must be copied and pasted.
-  Situation has improved from prior year, with LESS instances noted (Lower values)
-  Situation has not significantly changed from prior year
-  Situation has Deteriorated from prior year, with More instances noted (Higher values)

Review of Key Risk Areas

Auditee		Predetermined Objectives		IT controls		Financial health
Department of Correctional Services		No improvement		No improvement		Material Under spending No improvement



<p>Top areas of concern</p>	<p>Assets - Manual system used to adjust additions and disposals for inter-store transfers Inadequate knowledge for officials responsible for assets at regional level AOP0 Lack of review by management to ensure validity, accuracy and completeness of information COE- Lack of review of suspensions</p>
	<p>Revenue - Completeness of departmental revenue</p>
	<p>Procurement and Contracts- Deviations from the competitive bidding process.</p>
<p>Proper measures should be undertaken to rectify the highlighted shortcomings with proper implementation and monitoring by management. There should be proper review of the financial statements and performance information by those charged with governance. During a first meeting with an executive authority on 5 July 2012, the Honourable Minister voiced his concerns over deficiencies in key controls in the dashboard report and tendered his commitment to drive the progress reporting process.</p>	
<p>Commitments</p>	
	<p>New Legislation -</p>
	<p>New framework for strategic and annual performance plans: The National Treasury Framework for strategic and annual performance plans is fully effective from 1 April 2012.</p>
	<p>Inventory – Departments are to be required to report on their inventory in the future, not yet effective.</p>

