



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  
PFMA

We audit ...	to determine ...
<b>Financial statements</b>	Fair presentation and reliability of information (no material misstatements)
<b>Annual performance reports</b>	Whether the reported information is reliable and credible (no material findings)
<b>Compliance with legislation</b>	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

2013-14  
PFMA

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.

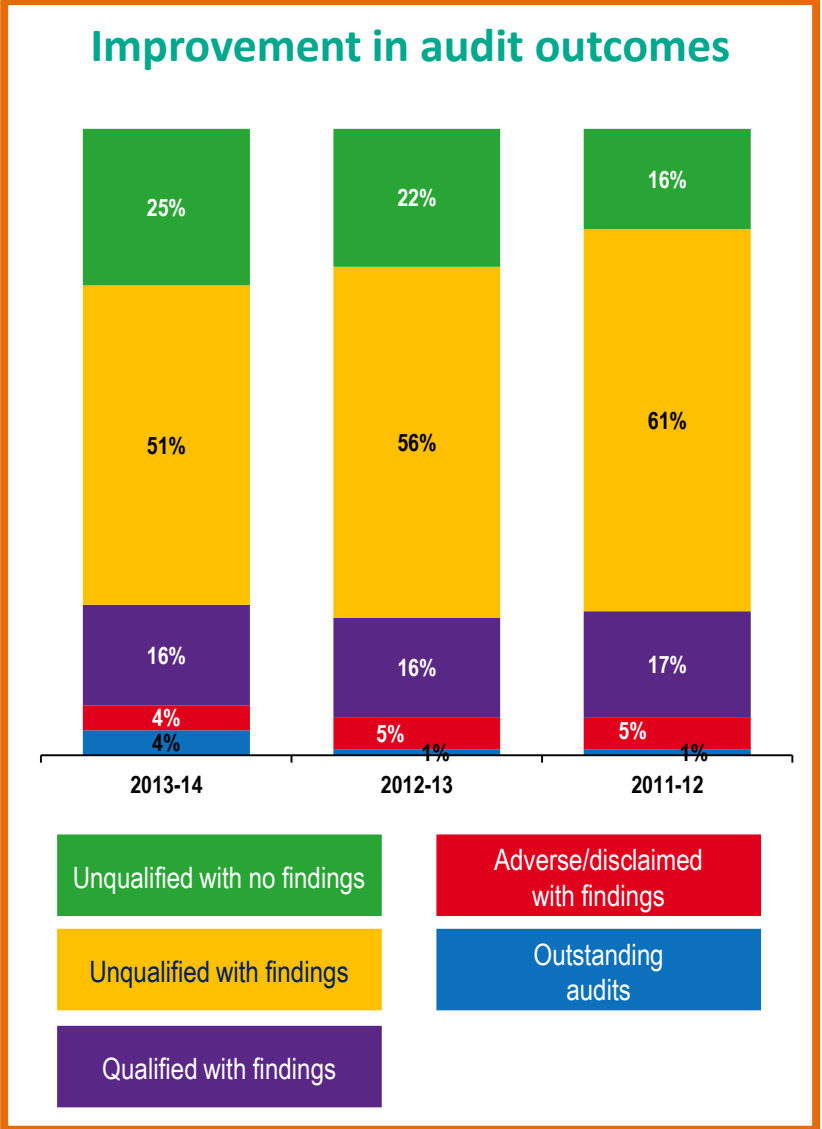
**Adverse** and **disclaimed opinions** mean the auditee was ...

- 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.

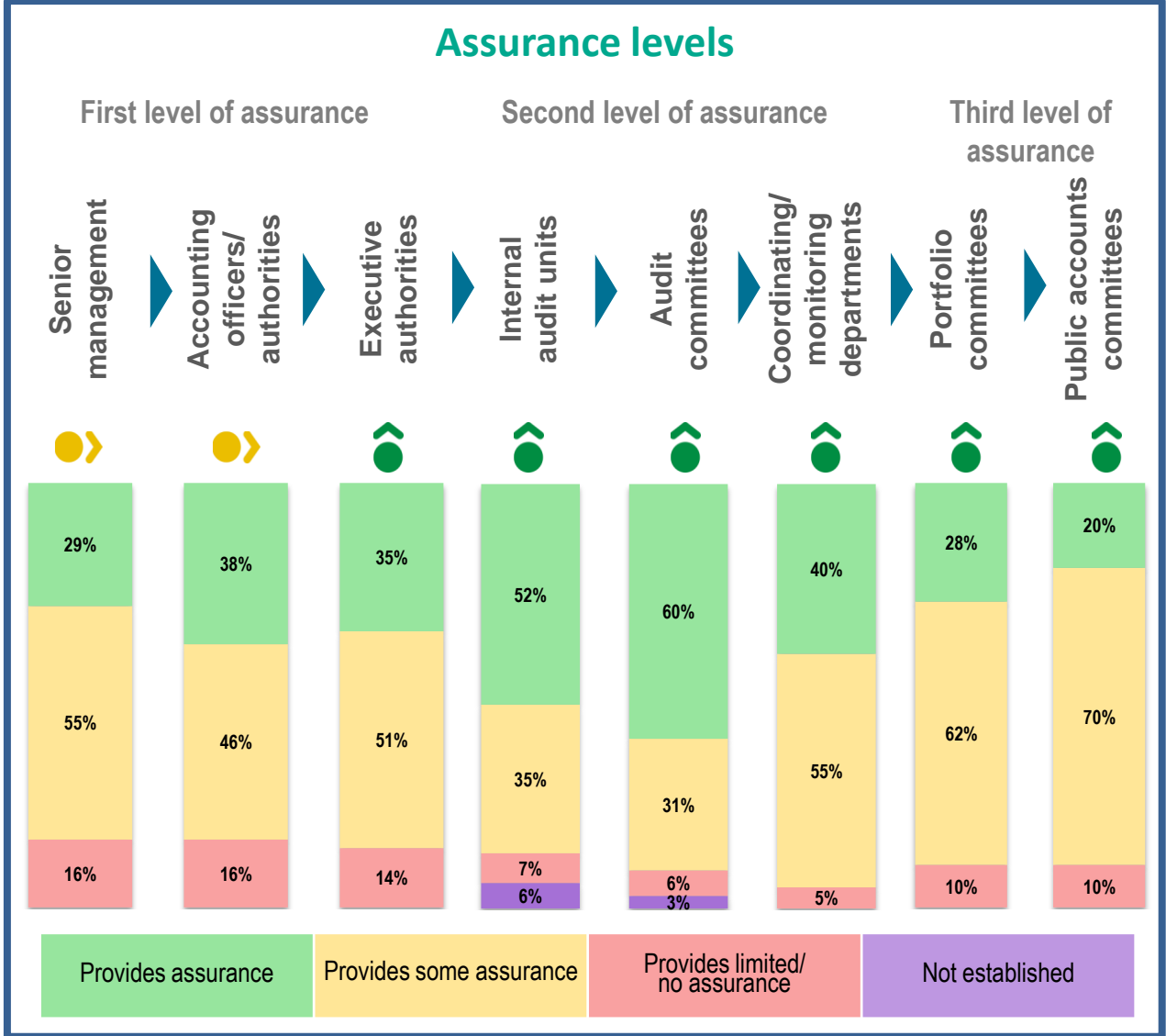


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# Our message



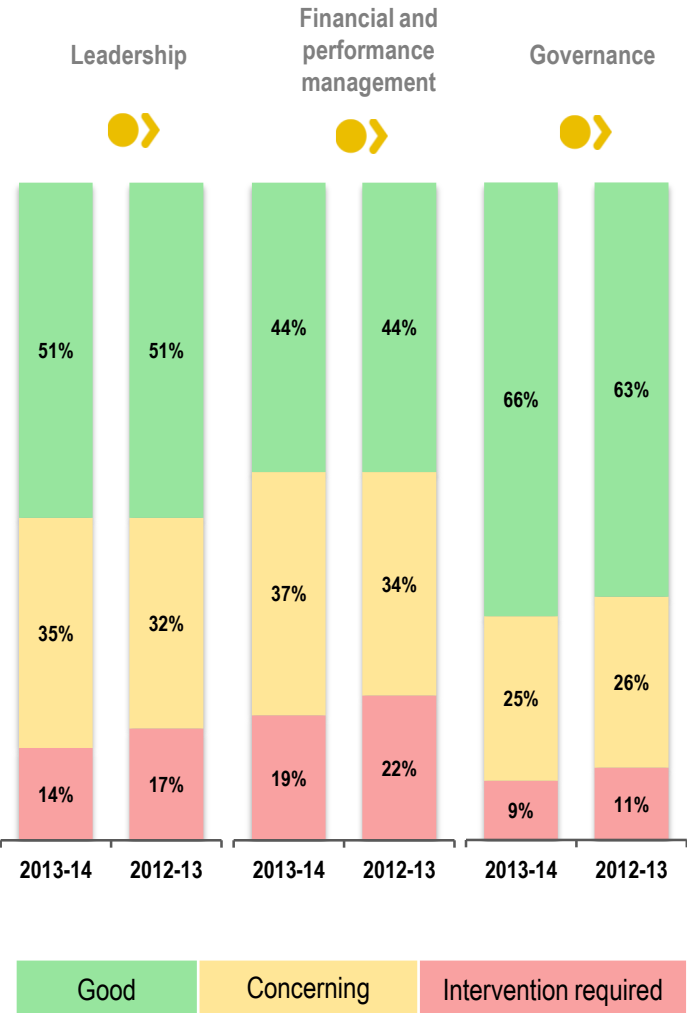
To improve/maintain the **audit outcomes** ...



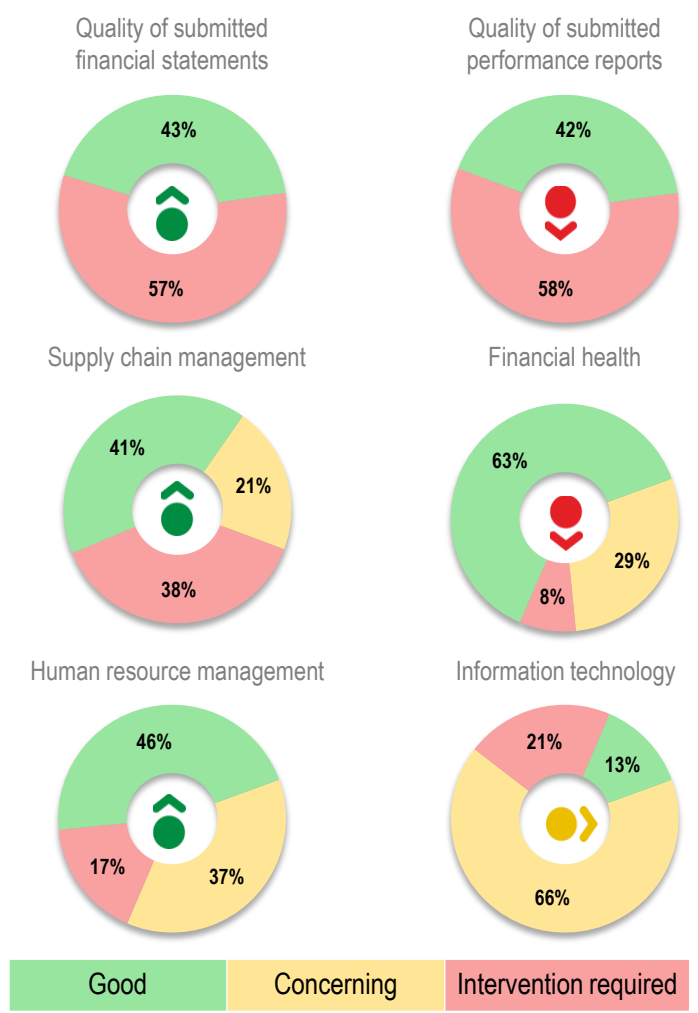
... the key **role players** need to ...

# 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**.

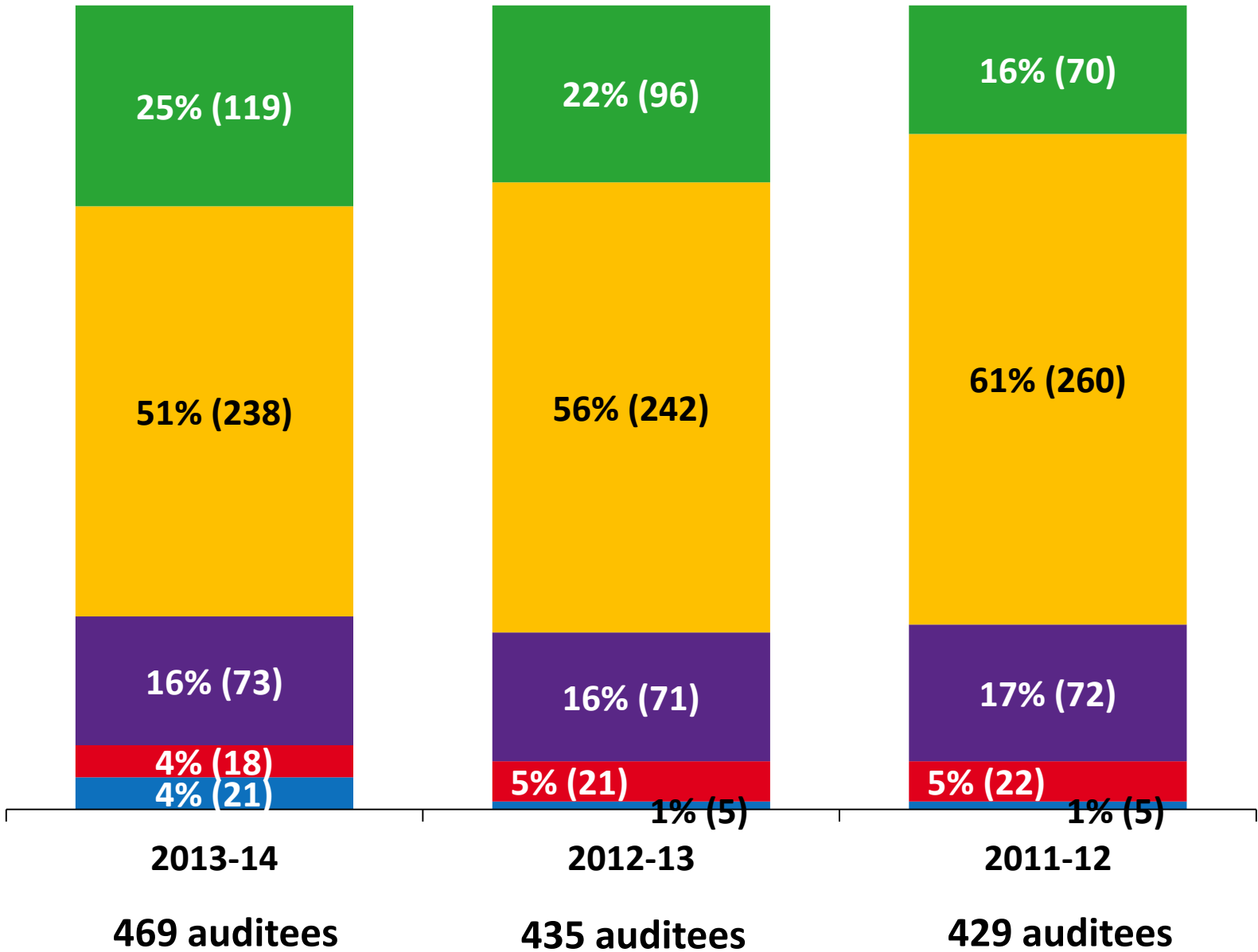
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**What is the status and progress on audit outcomes of national and provincial government?**





# Improvement in overall PFMA audit outcomes over the past three years



**2013-14  
PFMA**

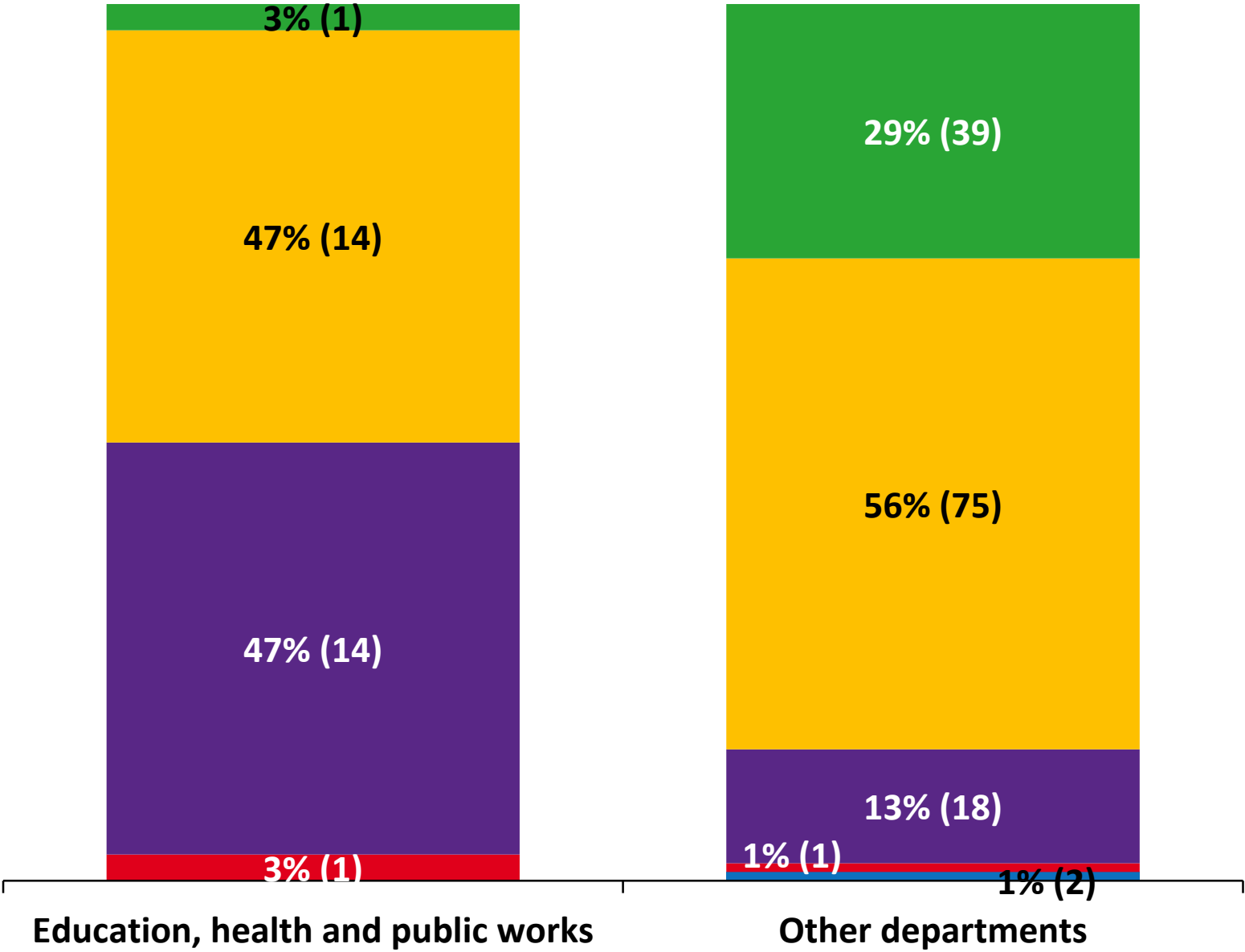
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding



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



2013-14  
PFMA

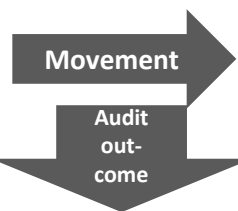
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding



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# Movement in PFMA audit outcomes

2013-14  
PFMA



	92 Improved	288 Unchanged	50 Regressed	18 New auditee	12 + 9 Outstanding
Unqualified with no findings = 119	45 2	70		2	4
Unqualified with findings = 238	33 1	176	24	4	2
Qualified with findings = 73	11	33	2 20	7	1
Adverse or disclaimed with findings = 18		9	1 3	5	5

Colour of the number for improved and regressed indicates the audit opinion from which the auditee has moved. Of the 21 outstanding audits, five remain outstanding from the 2012-13 financial year and four new auditees that are also outstanding.

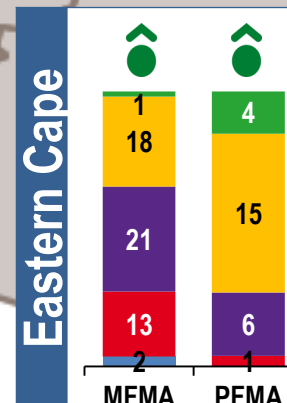
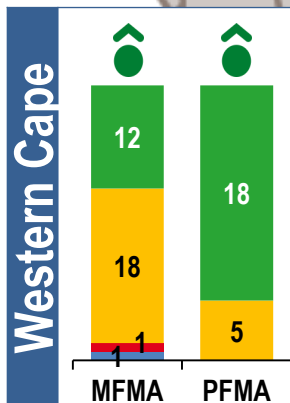
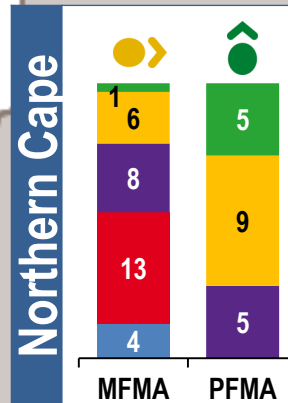
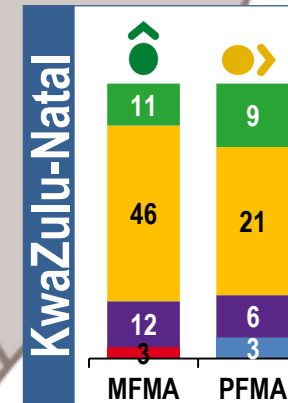
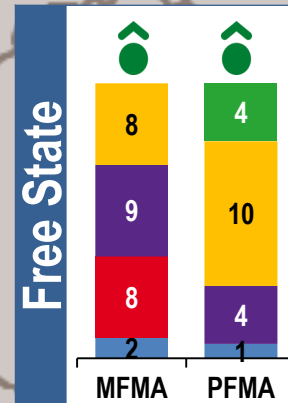
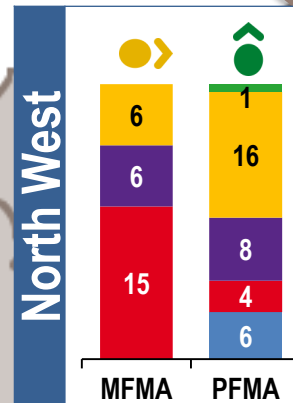
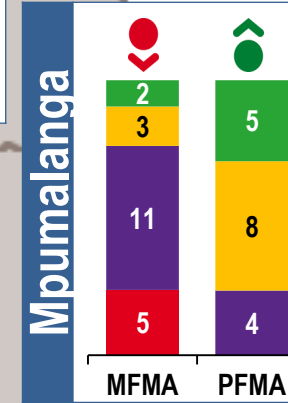
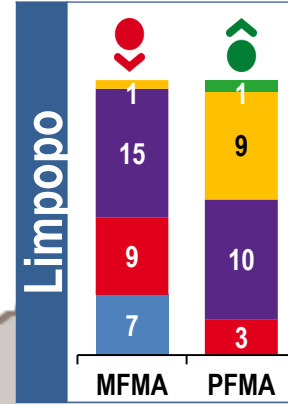
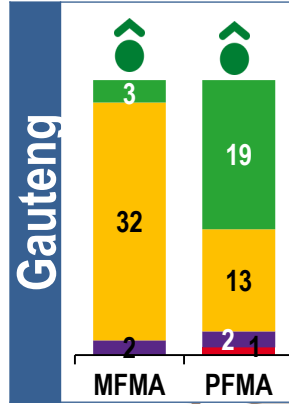
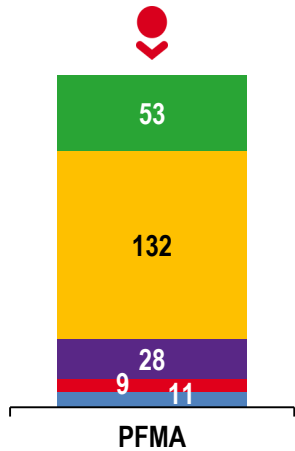


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# Audit outcomes

2013-14  
PFMA

## National government



- 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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# Audit outcomes – PFMA vs. MFMA

2013-14  
PFMA

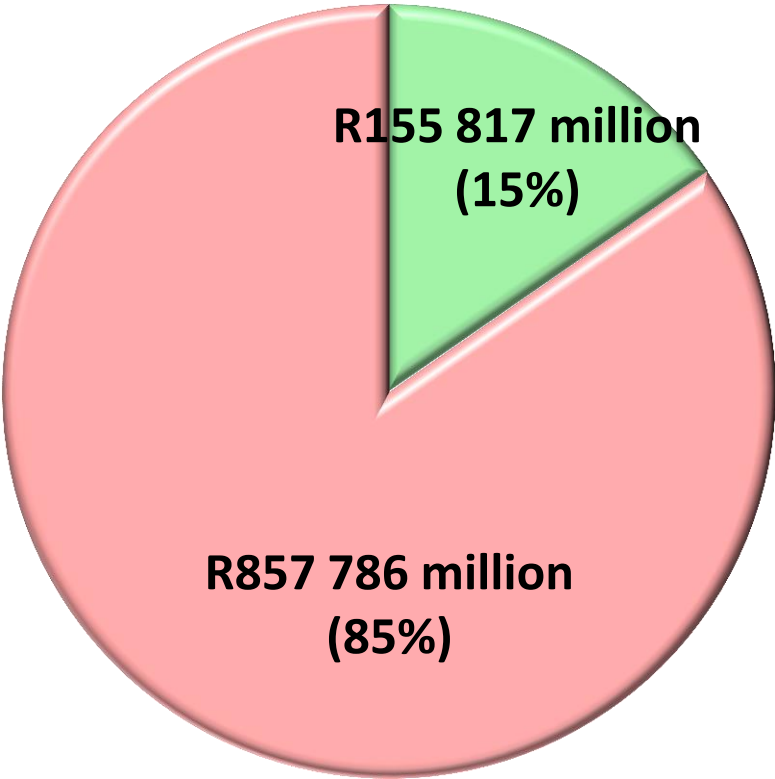
Audit opinions	PFMA		MFMA		Total	
	2008-09	2013-14	2008-09	2012-13	2008-09	2012-13
Unqualified with no findings	107	119	6	30	113	149
Unqualified with findings	248	238	145	138	393	376
Qualified with findings	93	73	51	84	144	157
Adverse	5	2	8	8	13	10
Disclaimer	16	16	85	59	101	75
Audits outstanding	25	21	44	16	69	37
<b>TOTAL</b>	<b>494</b>	<b>469</b>	<b>339</b>	<b>335</b>	<b>833</b>	<b>804</b>



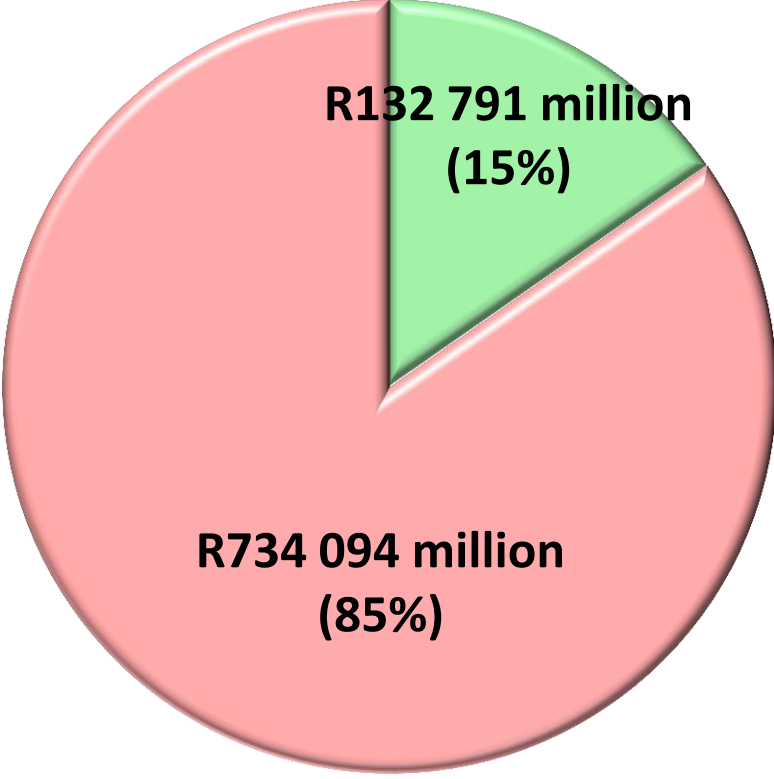
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# The departments with clean audit opinions are responsible for only 15% of the budget

2013-14



2012-13



2013-14  
PFMA

- Department with clean audits
- Other departments

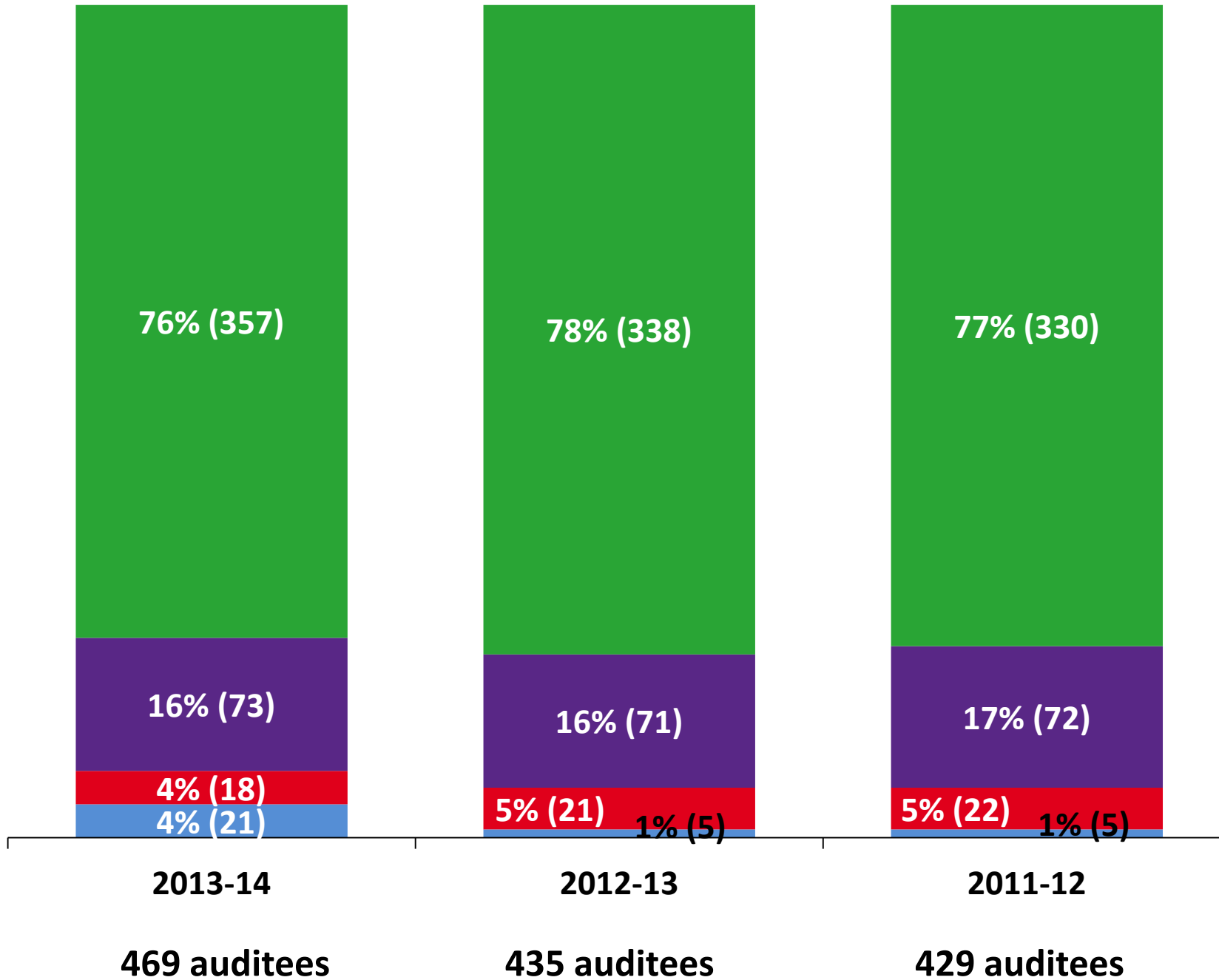


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**What is the status of financial statements?**



# Three-year trend – financial statements



2013-14  
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- Unqualified
- Qualified
- Adverse or disclaimer
- Audit outstanding



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# Quality of submitted financial statements

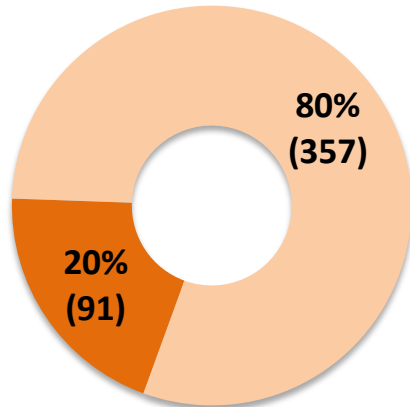
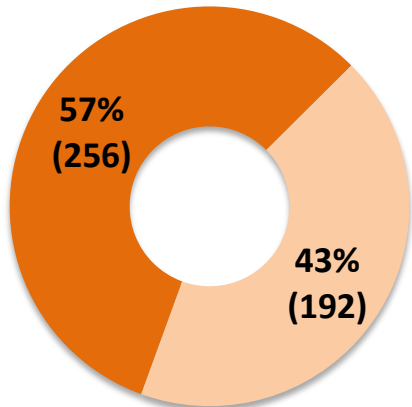
2013-14  
PFMA

2013-14

*Outcome if NOT corrected*



*Outcome after corrections*



165 auditees



Avoided qualifications by correcting material misstatements during audit process

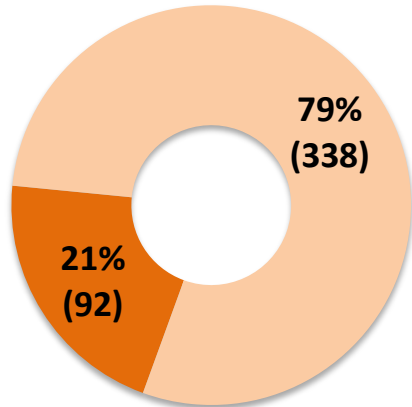
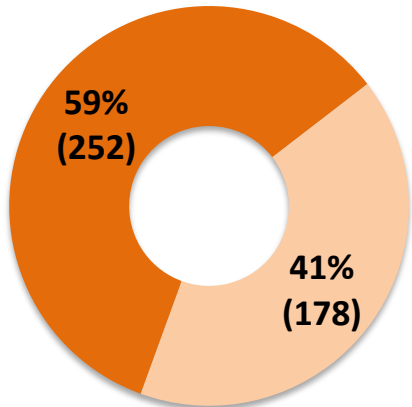
- Financially unqualified (clean audit/ unqualified with findings)
- Financially qualified (qualified/ adverse/ disclaimed with findings)

2012-13

*Outcome if NOT corrected*



*Outcome after corrections*



160 auditees



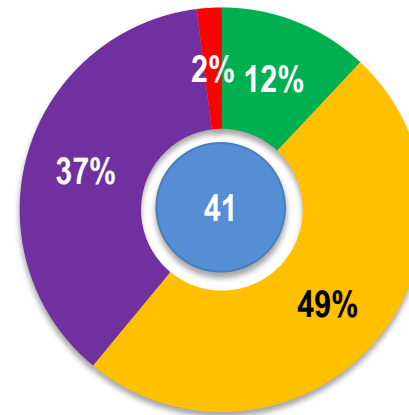
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# Auditees were assisted by consultants

## Financial reporting

25% of departments were assisted by consultants to the amount of R598m

Audit outcomes



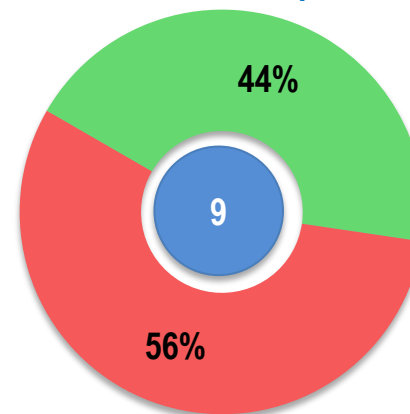
2013-14  
PFMA



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

## Preparation of performance information

6% of departments were assisted by consultants to the amount of R24m

Quality of annual performance reporting

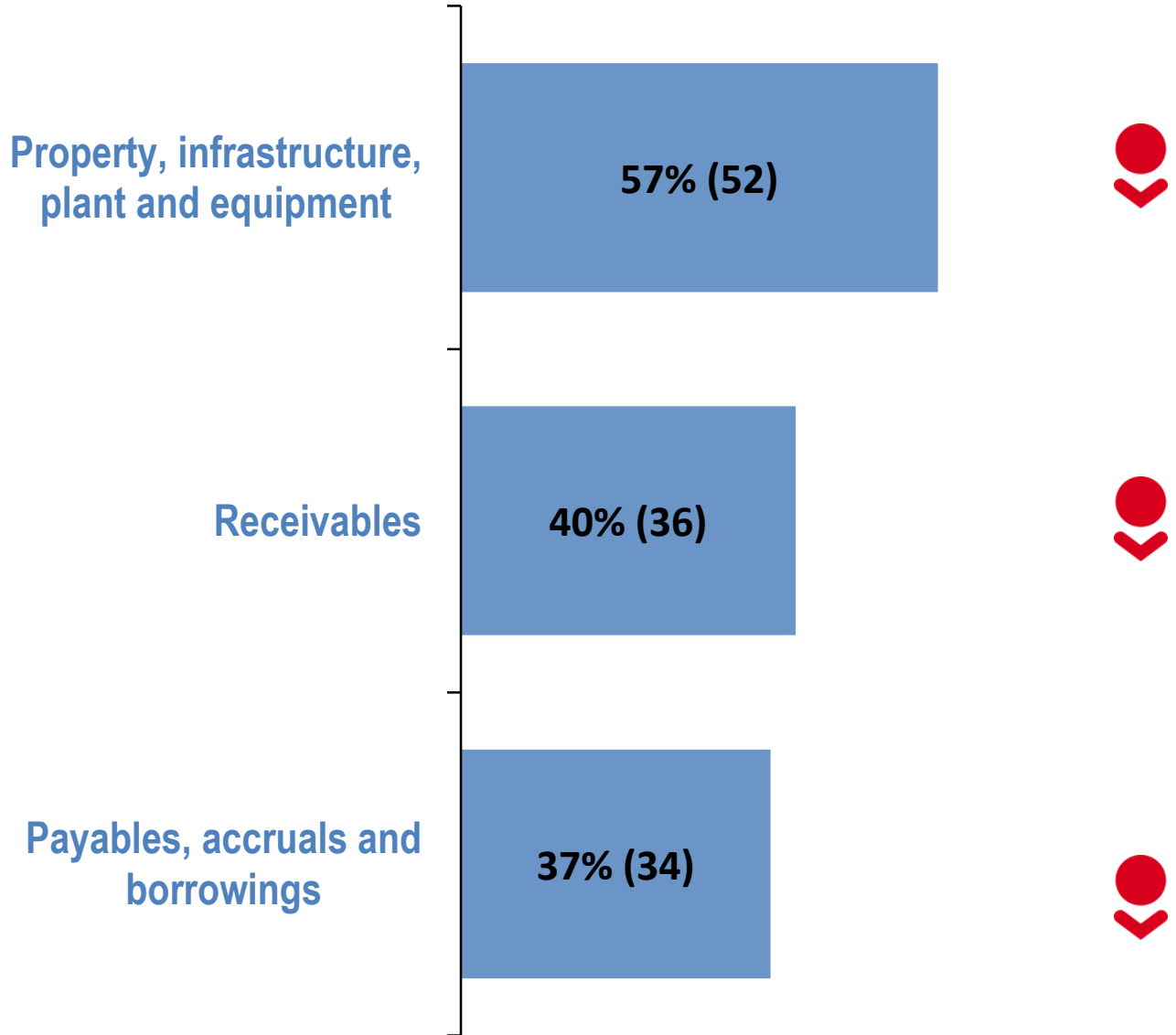


-  No finding on performance information
-  With findings on performance information



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# Most common areas of qualifications on financial statements



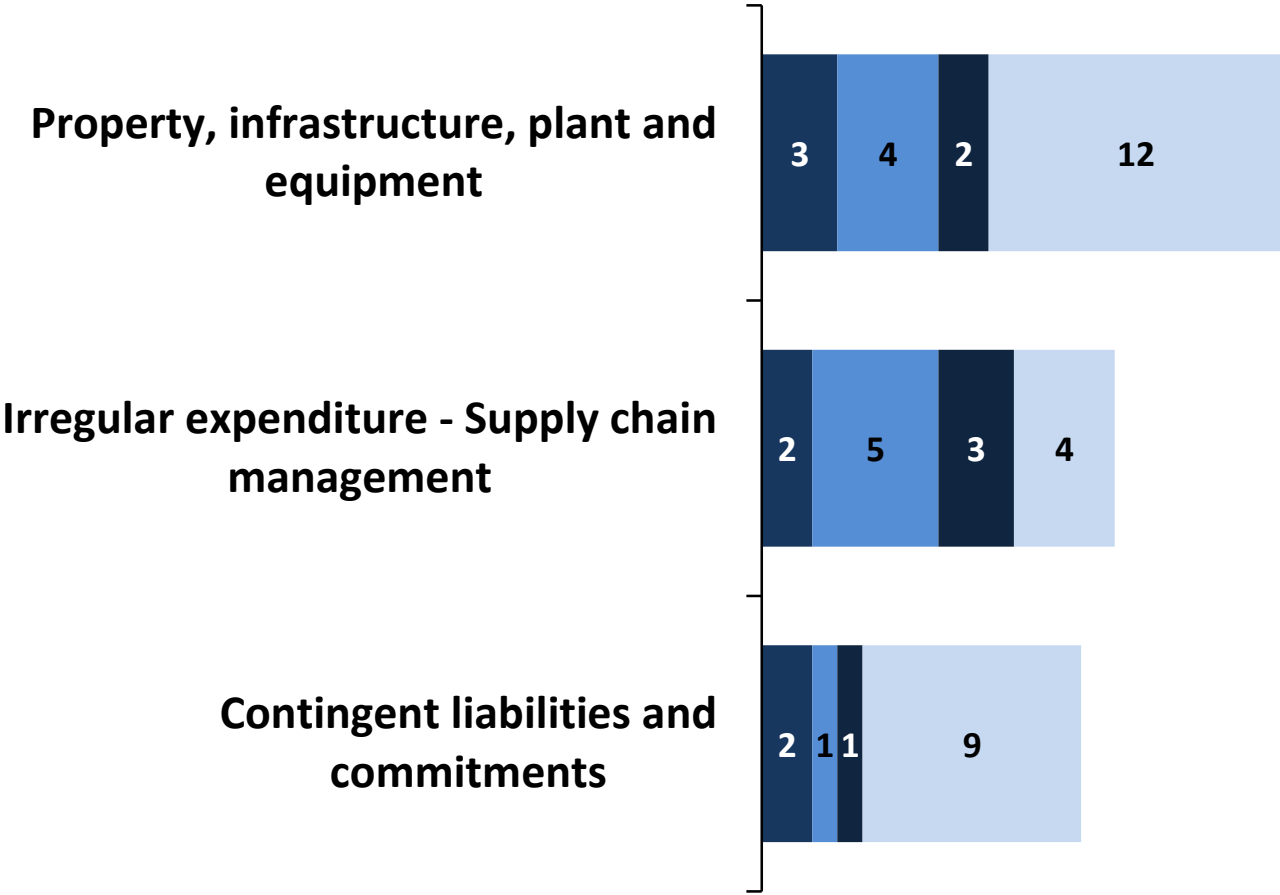
2013-14  
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-  Improved
-  Stagnant or little progress
-  Regressed



# 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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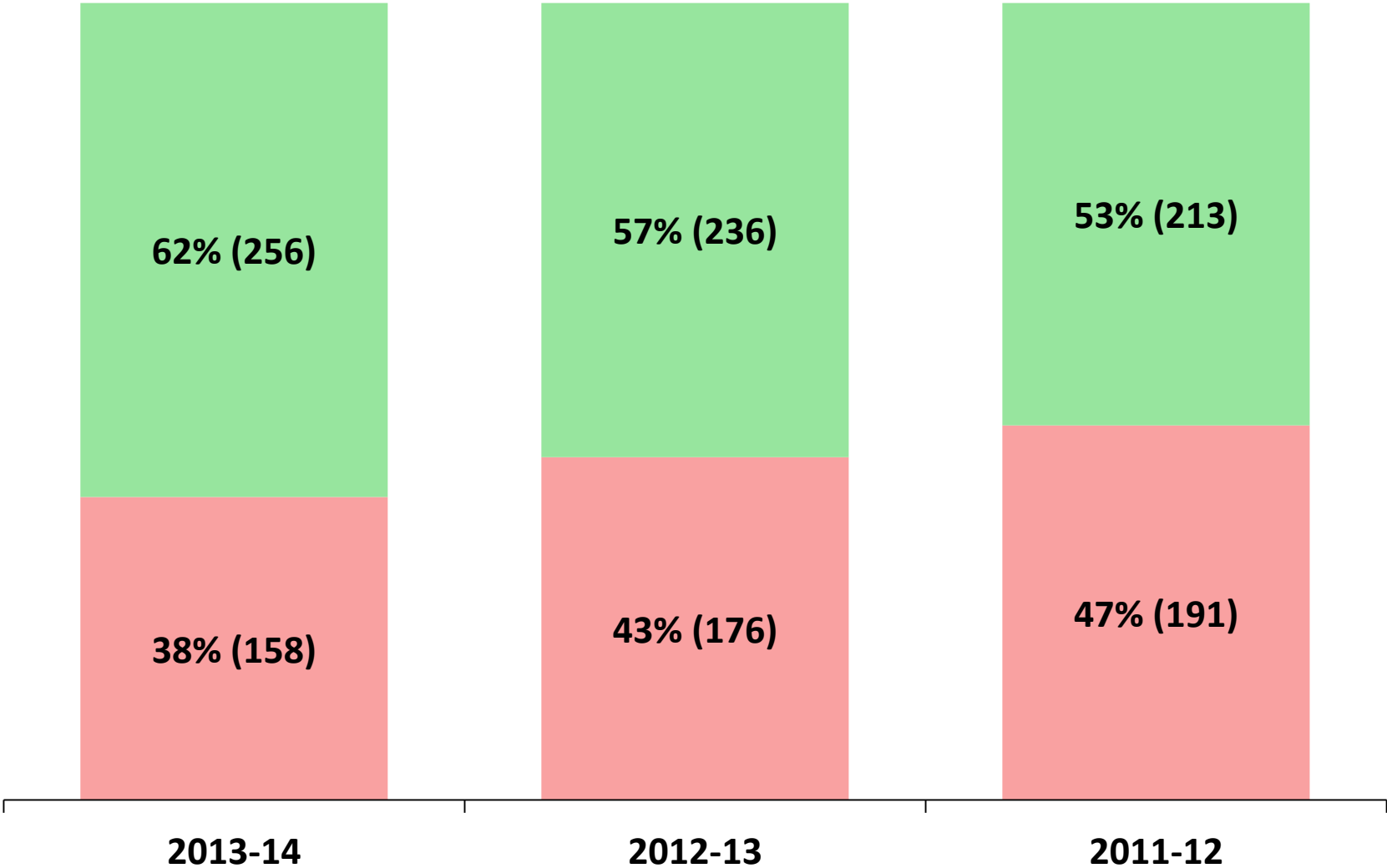
4

**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



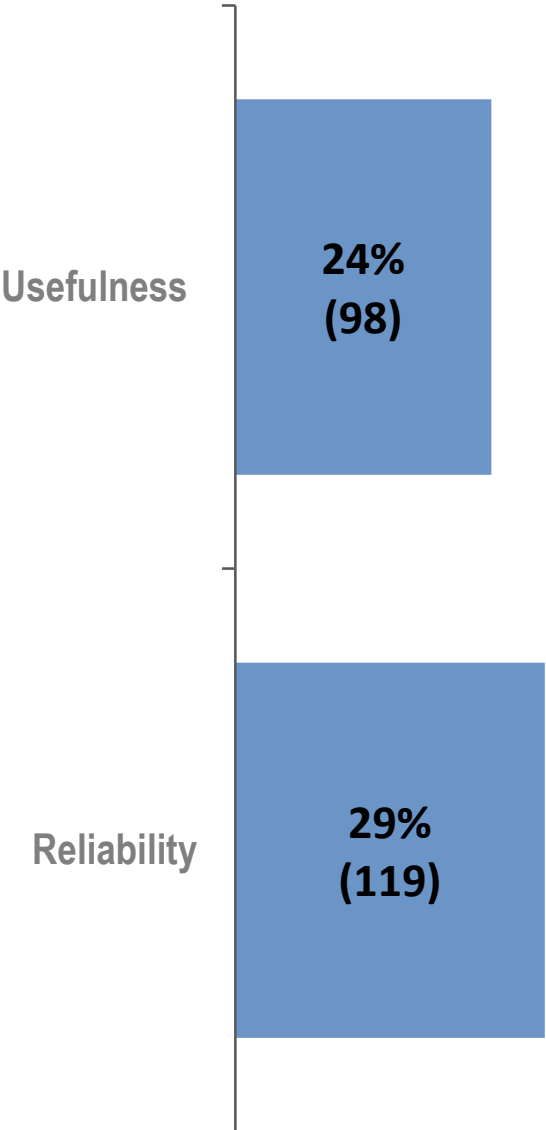
2013-14  
PFMA

With no findings  
With findings



# Most common material findings on usefulness and reliability

2013-14  
PFMA



### Usefulness

- The performance Indicators were not well defined.
- The performance targets were not specific enough to ensure that the required performance could be measured and reported in a useful manner.



### Reliability

- Reported information could not be traced back to the source data or documentation to determine if reported information is accurate, complete and valid when compared to the source.



Improved



Stagnant or little progress



Regressed

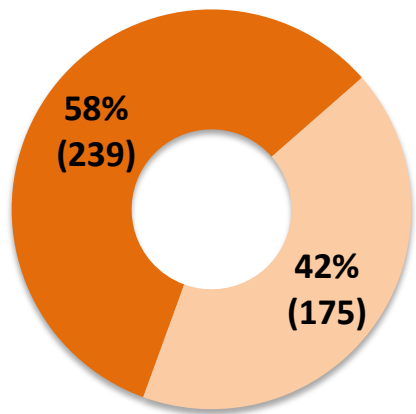


# Quality of annual performance reports submitted for auditing

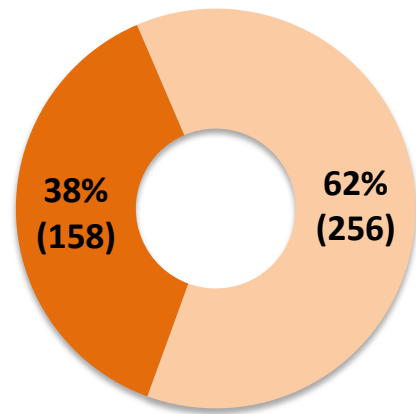
2013-14  
PFMA

2013-14

*Outcome if NOT corrected*



*Outcome after corrections*



**81 auditees**



Avoided findings on their annual performance reports by correcting material misstatements during audit process

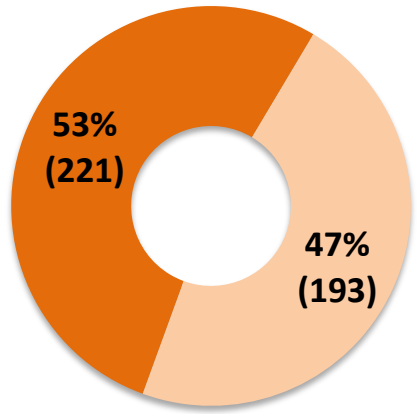


**45 auditees**

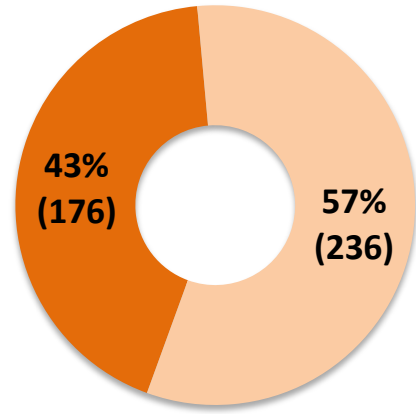
- With no material misstatements
- With material misstatements

2012-13

*Outcome if NOT corrected*



*Outcome after corrections*





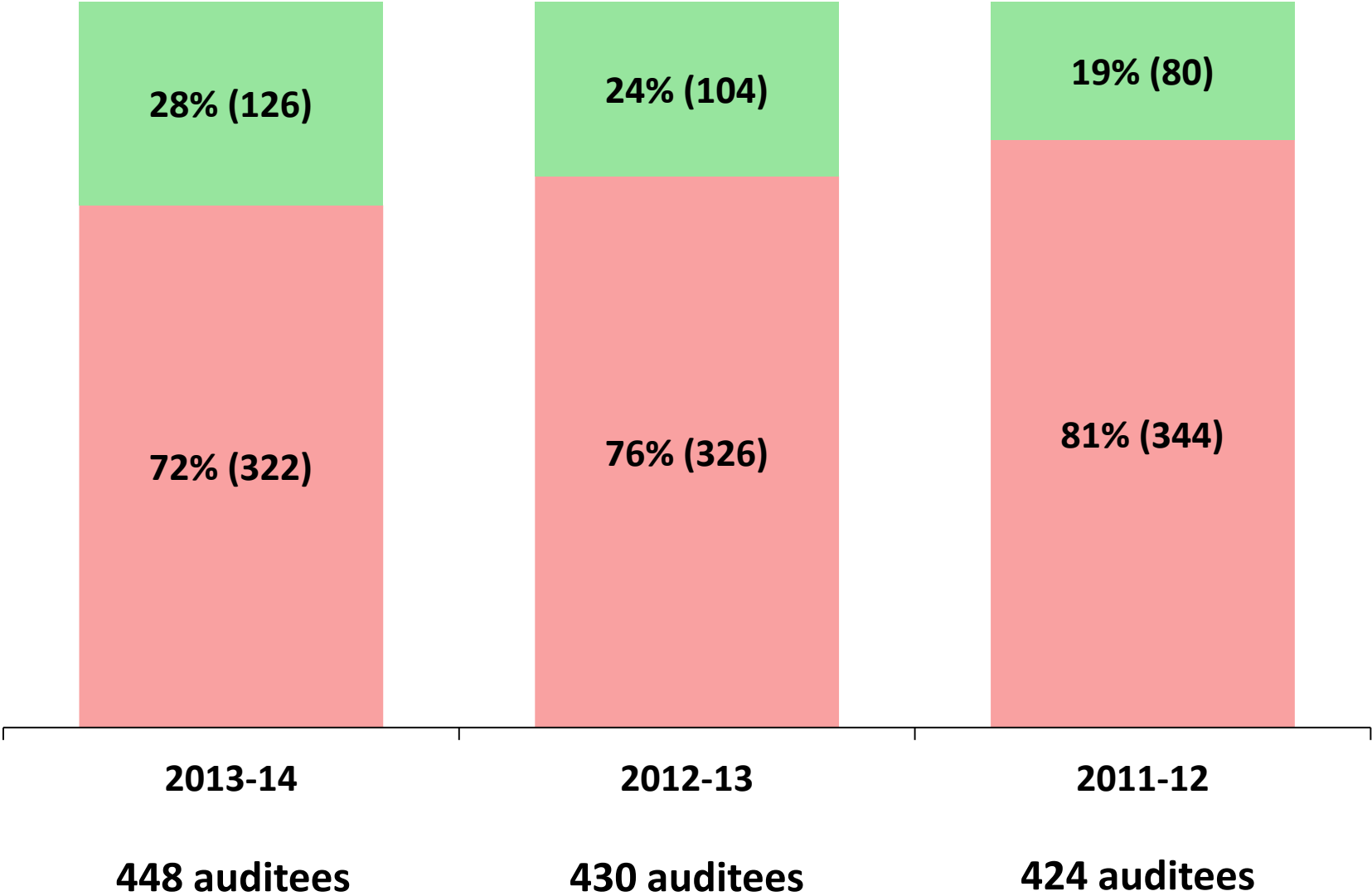
5

**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



2013-14  
PFMA

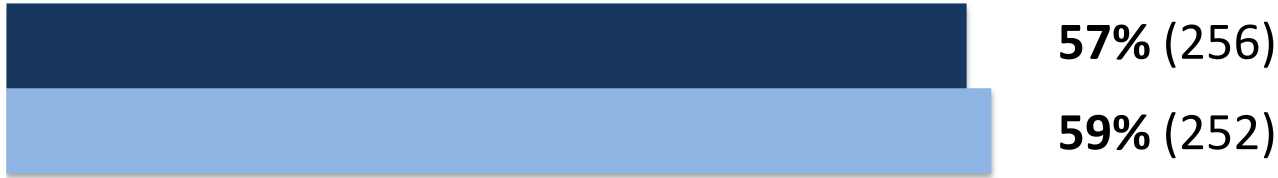
With no findings  
With findings



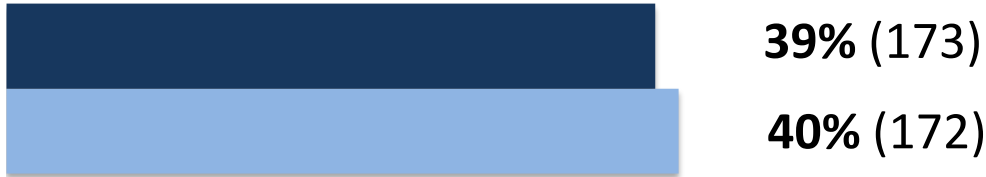
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# Most common areas of non-compliance

## Quality of the financial statements submitted



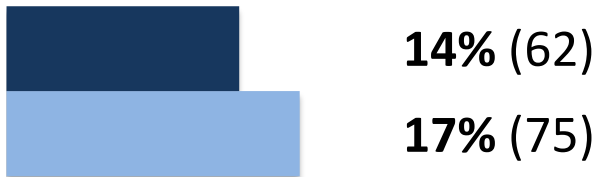
## Unauthorised, irregular and fruitless and wasteful expenditure



## Supply chain management



## Expenditure management



## Human resource management



2013-14  
PFMA

2013-14

2012-13

Improved

Stagnant or little progress

Regressed

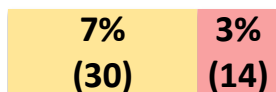


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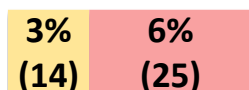
# Status of supply chain management (SCM)

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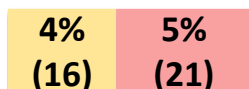
## Limitation on planned scope of audit of awards



## Awards to employees



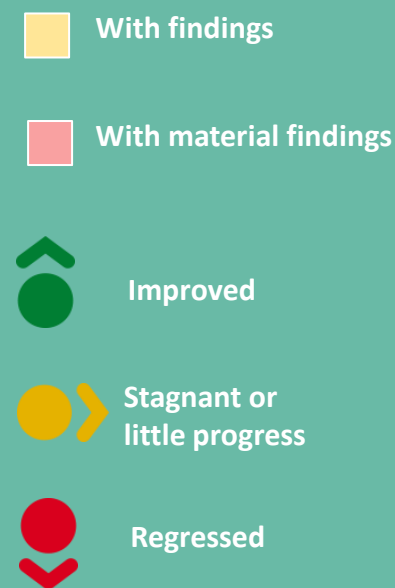
## Awards to close family members of employees



## Uncompetitive or unfair procurement processes



## Inadequate contract management



## Most common findings:

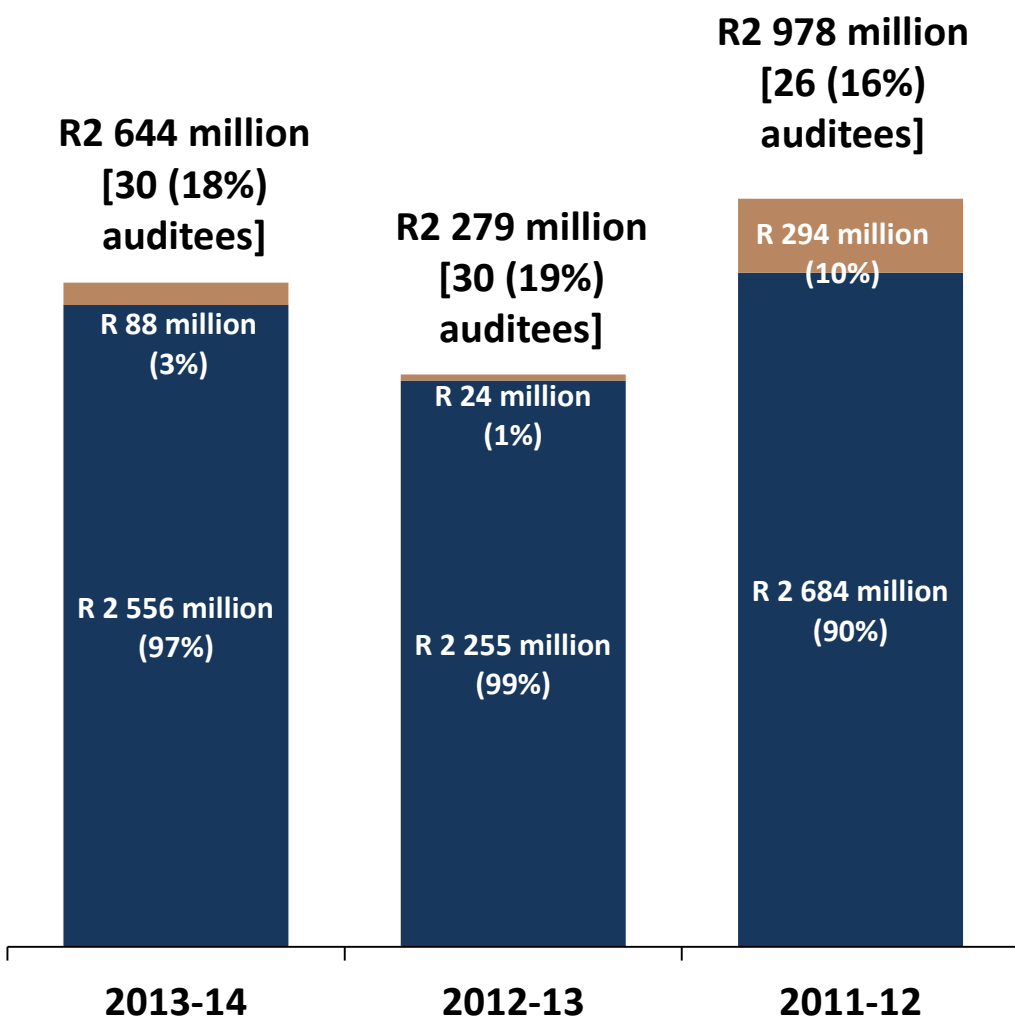
- Three written quotations not invited and/or deviations not justified
- Competitive bids not invited and/ or deviations not justified
- Declarations of interest not submitted by providers



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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 Cooperation (R117m)

2013-14  
PFMA

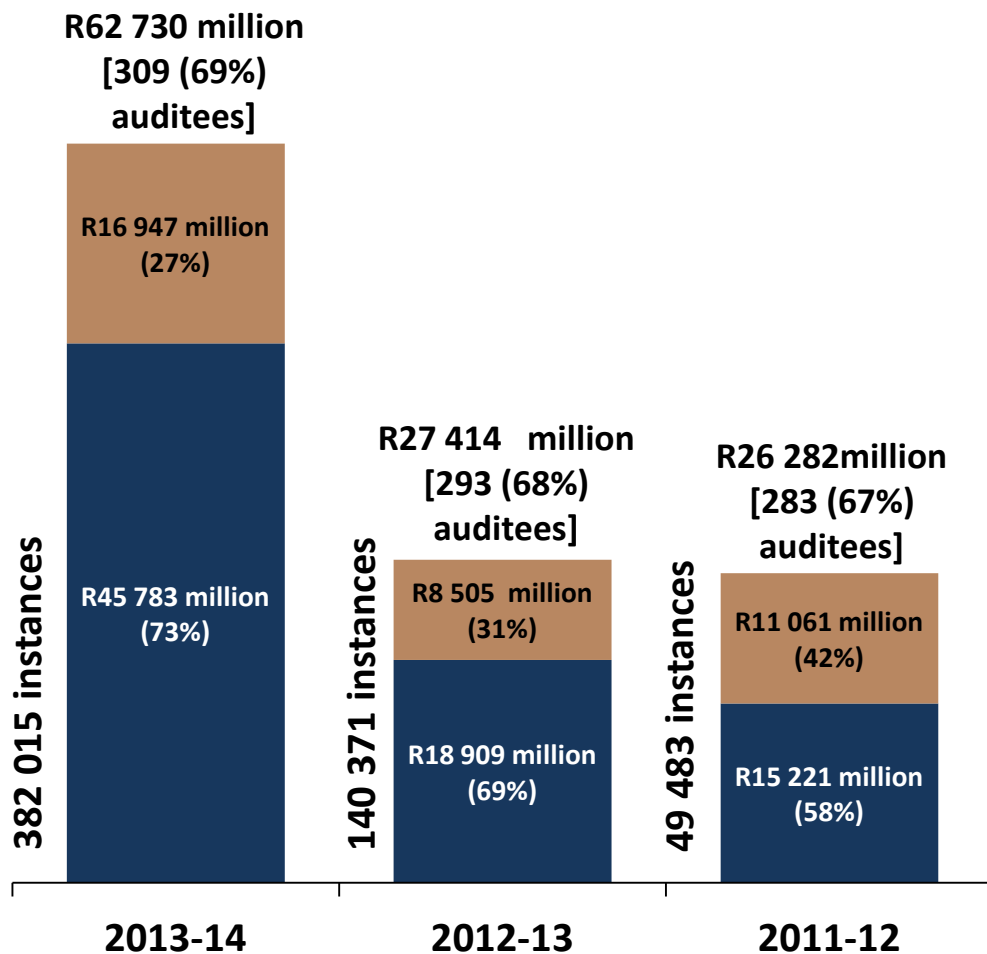
- Identified by the auditees
- Identified during the audit



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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 million) (4%)

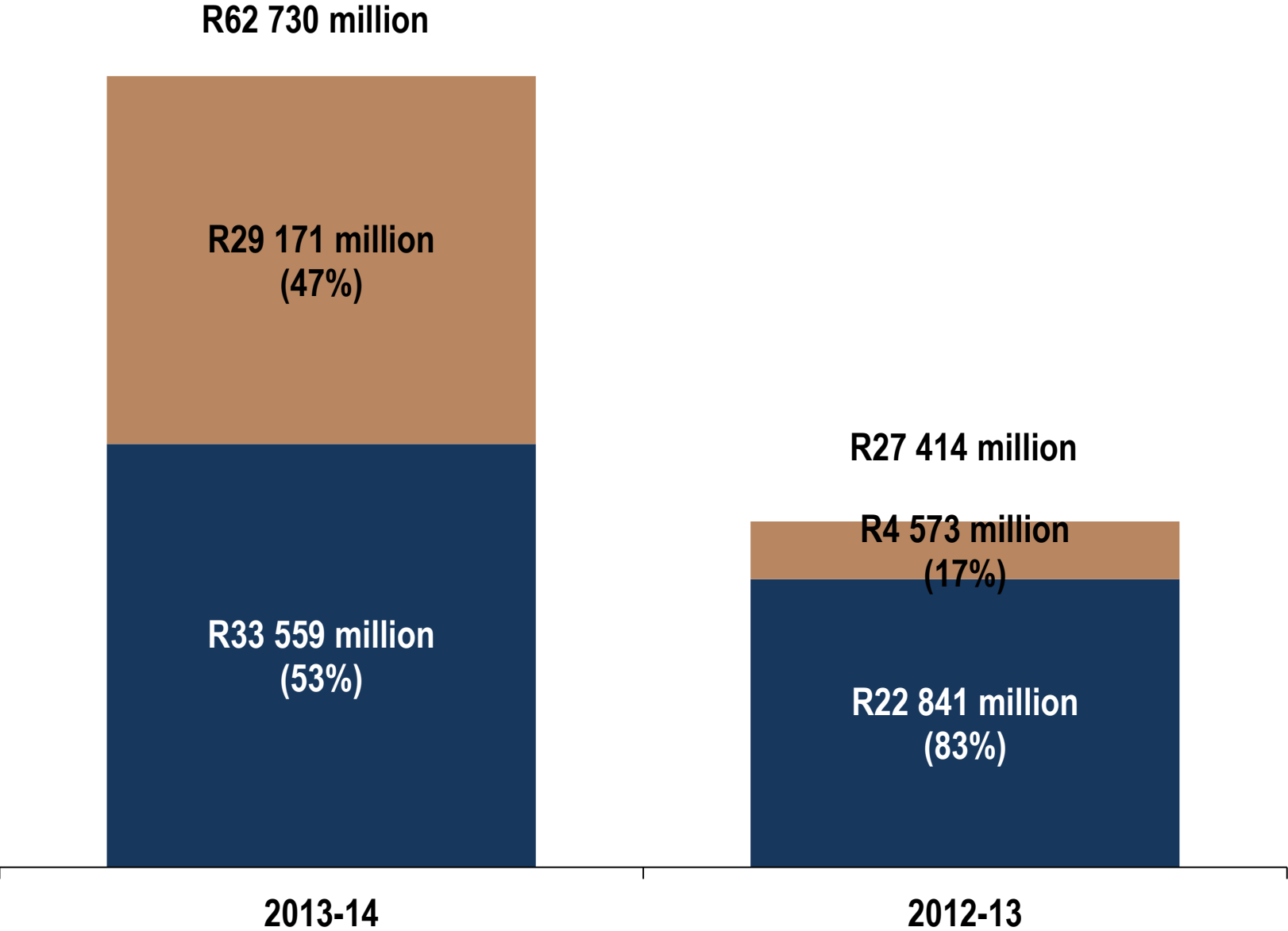
2013-14  
PFMA

- Identified by auditees
- Identified during audit





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# Previous year irregular expenditure identified in the current year

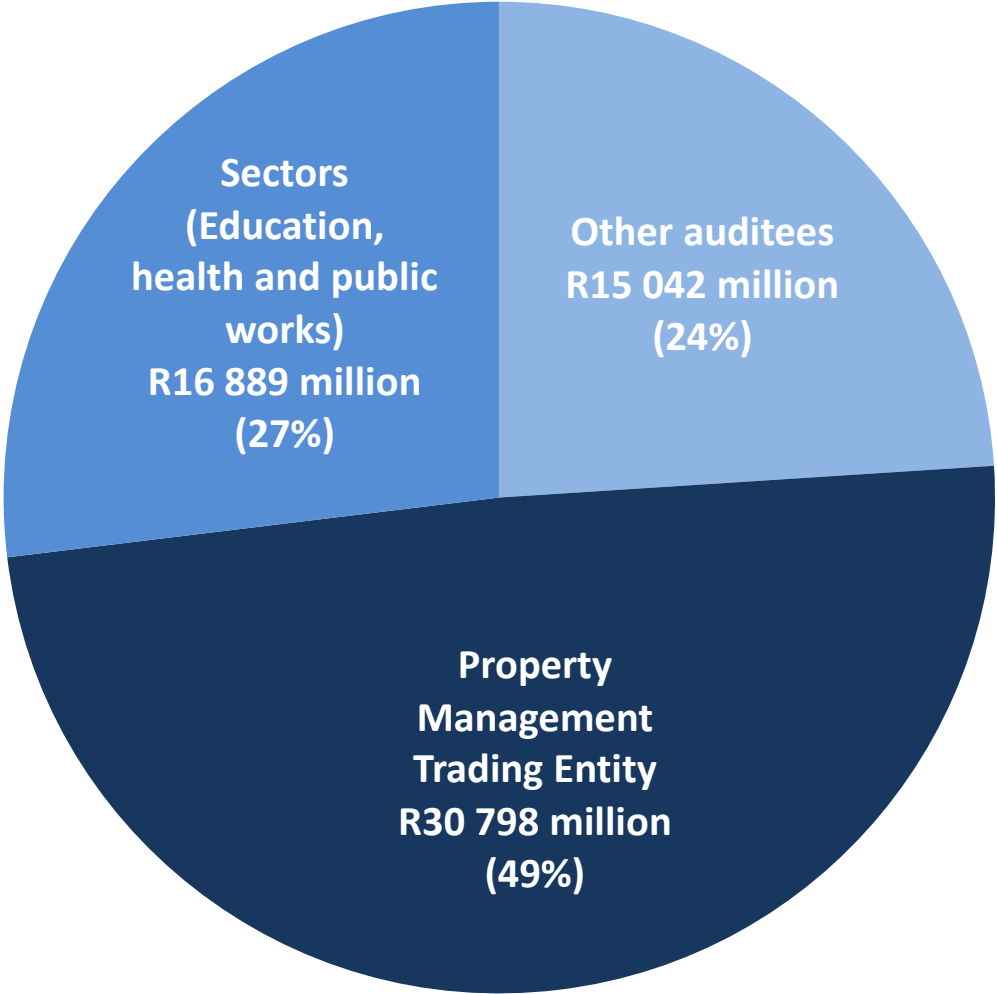


2013-14  
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-  Incurred in current year
-  Incurred in previous year – identified in current year



# 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

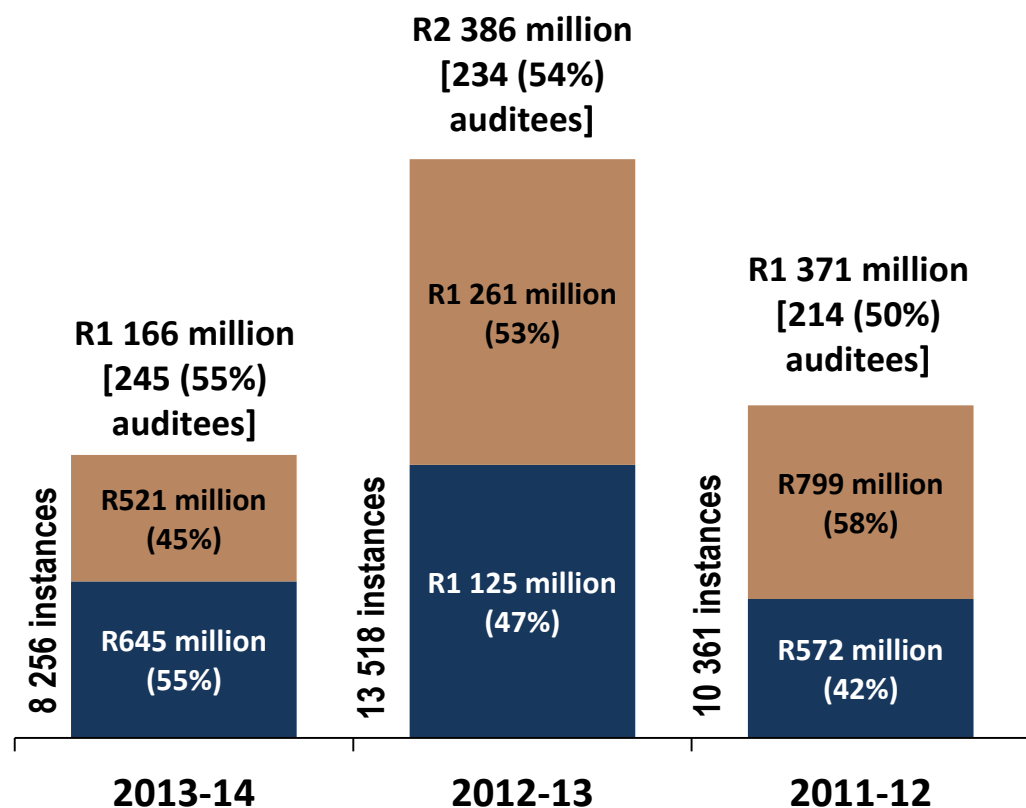
## Nature

- 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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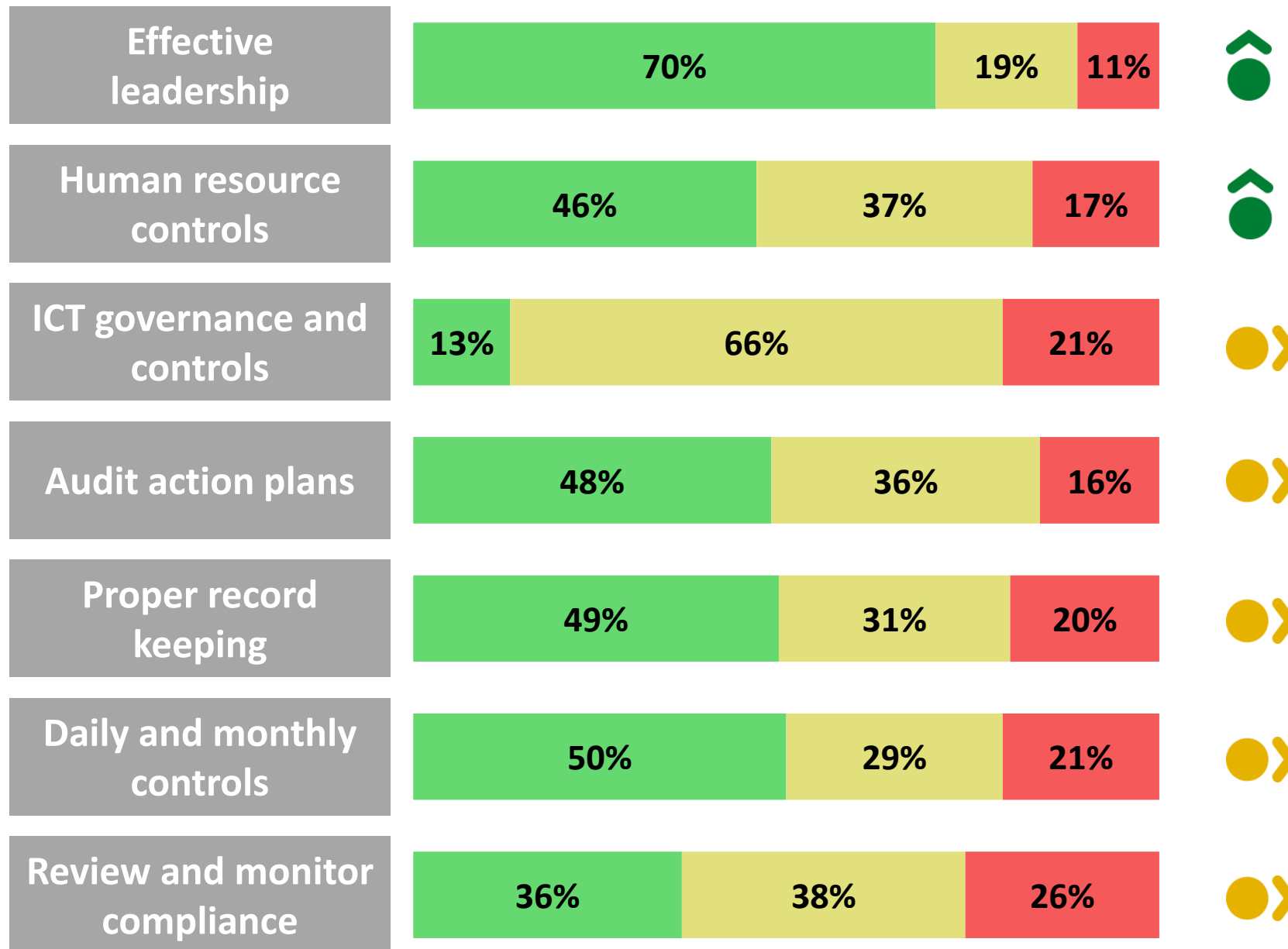
7

**What are the internal control deficiencies and root causes?**



# Attention should be given to basic controls

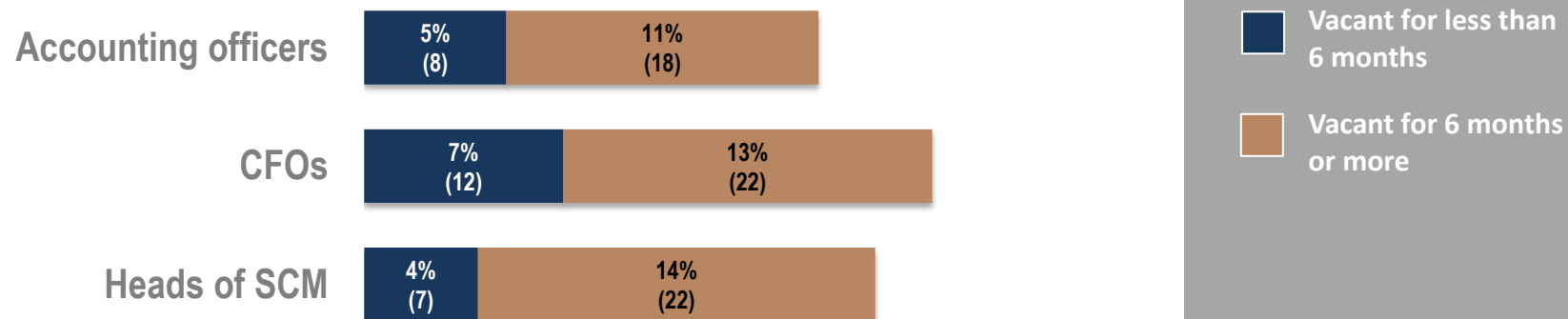
2013-14  
PFMA



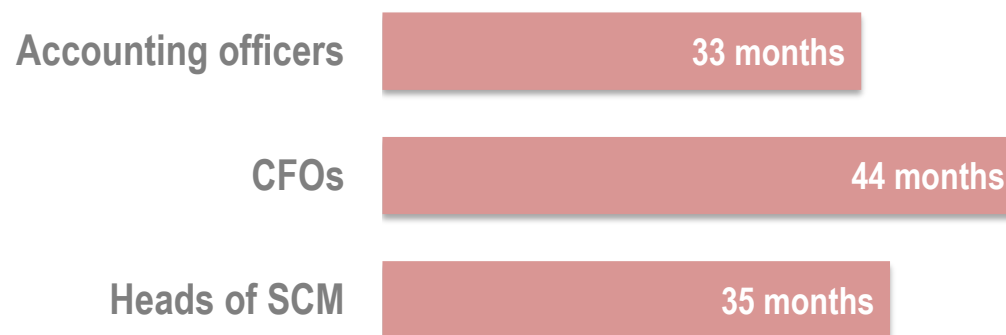
# Vacancies and instability in key positions – departments

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PFMA

## Vacancies at year-end



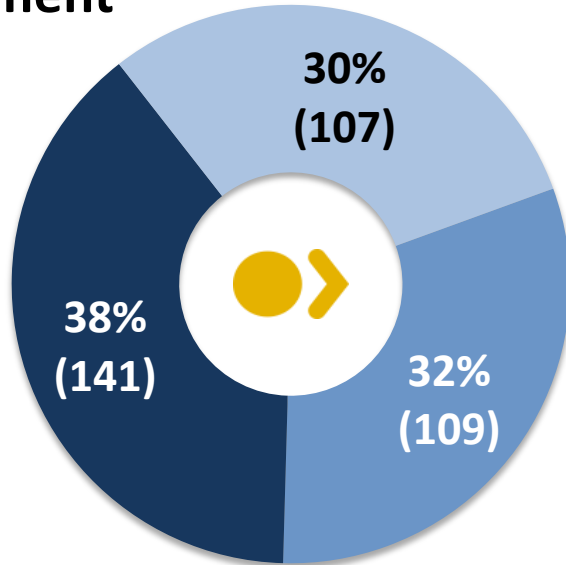
## Stability (average number of months in position)



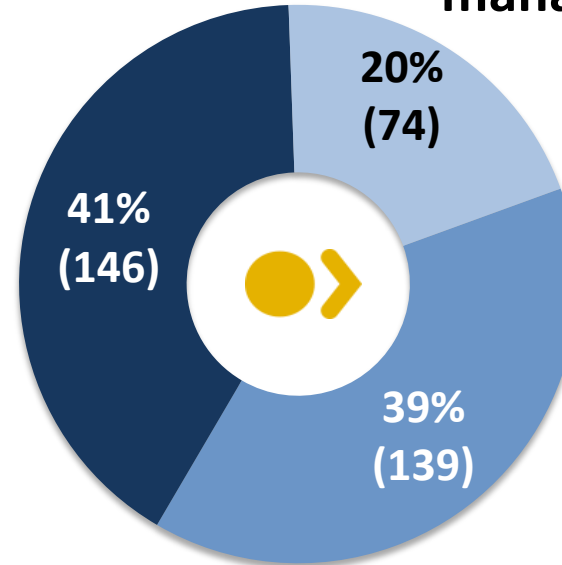
# Information technology controls remained unchanged

2013-14  
PFMA

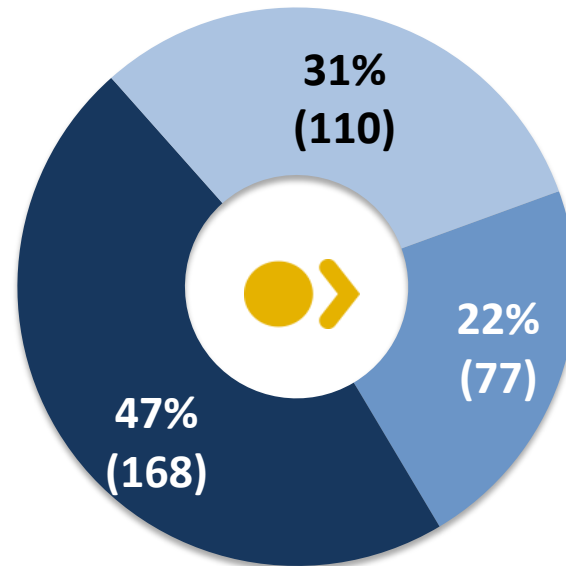
## Security management



## User access management



## IT service continuity



- IT controls embedded and functioning effectively
- IT controls to be implemented
- IT controls to be designed
- Improved
- Stagnant or limited progress
- Regressed



# Combined assurance approach to oversight

## Management assurance First level of assurance

Senior  
Management

Accounting  
officers/  
authority

Executive  
authority

### Required assurance levels

Extensive

Extensive

Extensive

## Oversight assurance Second level of assurance

Coordinating  
Monitoring  
institutions

Internal  
audit

Audit  
committee

### Required assurance levels

Extensive

Extensive

Extensive

## Independent assurance Third level of assurance

Oversight  
(portfolio  
committees/  
councils)

Public  
accounts  
committee

National  
Assembly

### Required assurance levels

Extensive

Extensive

Extensive

## 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

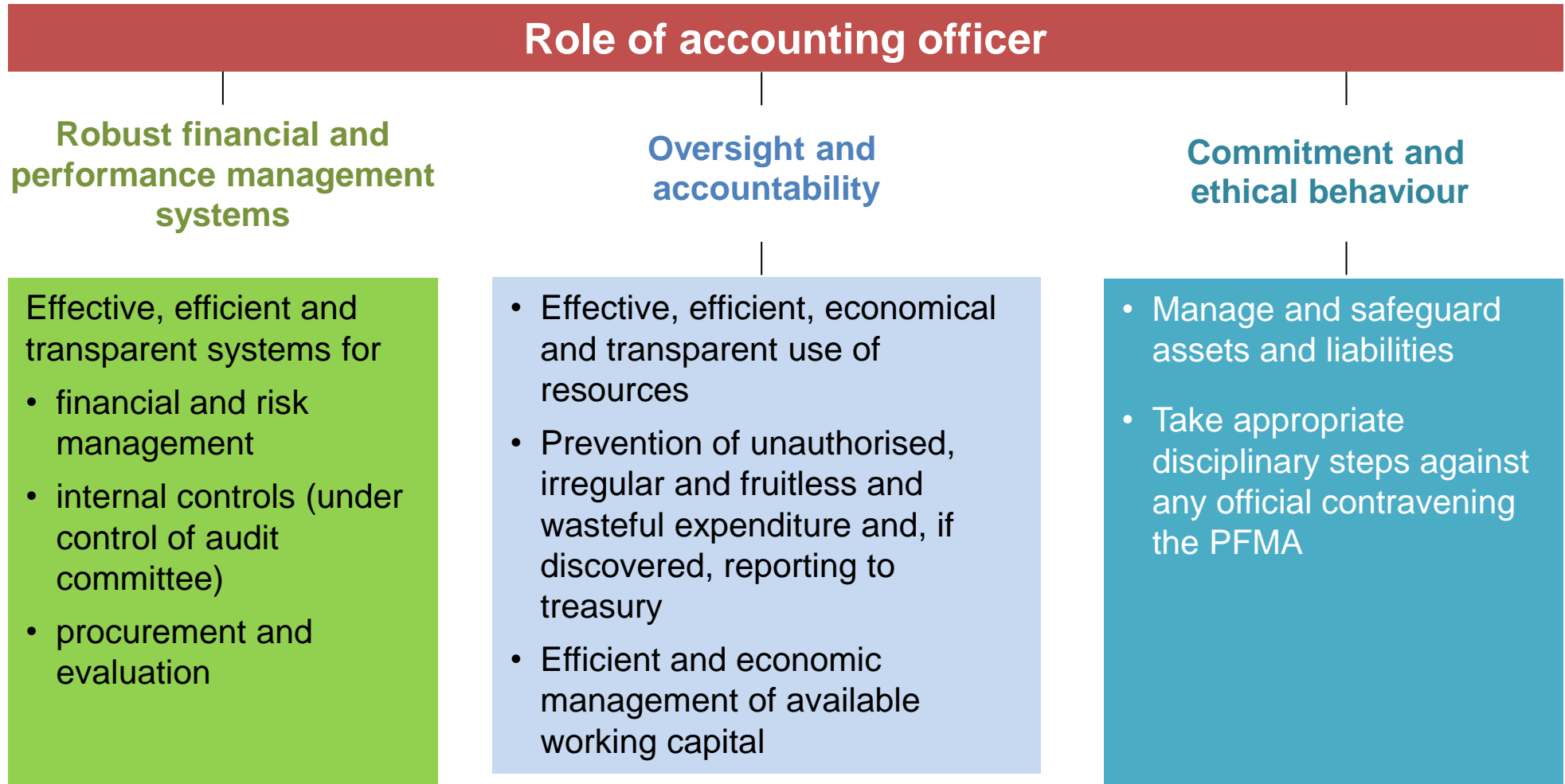
## Oversight's assurance role

- **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

# 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*