Audit of predetermined objectives

National risk management forum

31 October 2012
The Auditor-General of South Africa 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.
Topics for discussion

- Background
- Legal requirements for performance info
- Performance information framework
- Audit strategy and approach
- Key risks and audit findings
- Roles and responsibilities
Audits performed by AGSA

Annual mandatory audits

• Financial statements
• Report on predetermined objectives
• Compliance with laws and regulations

Discretionary audits

• Performance audits e.g. infrastructure
Clean administration – from annual audits

- Unqualified financial statements*
- No findings of predetermined objectives
- No findings on compliance with laws and regulations

*Not qualified, disclaimed or adverse opinion
Annual audit of reported actual performance against predetermined objectives, indicators and targets as contained in the annual performance report.

Integral part of the annual regularity audit process, confirming the
• Compliance with laws and regulations
• Usefulness of performance reporting
• Reliability of performance reporting
An audit report must reflect an opinion or conclusion relating to the performance of the auditee against predetermined objectives.

Applicable to all spheres of government.
Legislative requirements for planning, budgeting & reporting of performance info

- Public Finance Management Act (PFMA), 1999 (Act No.1 of 1999)
- Treasury Regulations issued in terms of the PFMA, 2002
- Public Service Regulations (PSR), Part III B: (Only applicable to departments)
- Guidelines, instruction notes, practice notes, issued by National Treasury
- Framework for managing programme performance information (issued by the National Treasury in May 2007)
- Framework for strategic and annual performance plans (issued by National Treasury in August 2010)
What is the performance information framework?

The following represents the performance management and reporting framework against which the performance information should be managed. Also used as a basis for the audit conclusions:

- All relevant laws and regulations
- Framework for the managing of programme performance information
  - Framework for strategic and annual performance plans
    (issued by the National Treasury)
- Circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance information

Refer to annual AG Directive
AGSA strategy to the audit of predetermined objectives

2004/05 to 2008/09

- Adopted a phased-in approach
- Factual audit findings reported in both management and audit reports
- No audit opinion in audit reports – only findings
- Regular interaction with stakeholders (NT, Presidency, DPSA) to determine and test audit approach
- Provided inputs to drafting of NT Frameworks (FMPPI)

2009/10 to 2012/13

- Completed phased audit approach
- Audit to the extent necessary to express an audit opinion
- Audit opinion in the management report
- Audit reports contain audit findings – not audit opinions
Auditing the planning, budgeting and reporting cycle

Oversight
by Parliament, provincial legislature or municipal council

Policy development
Identify desired impacts

Strategic planning

Assess and adjust

End-year reporting
Monitor and take corrective action

INSTITUTION
national department
provincial department
municipality
public entity
municipal entity

Operational planning and budgeting
Set targets and allocate resources

Implementation and in-year reporting
Three-year audit outcomes – AGSA audits

<table>
<thead>
<tr>
<th>Year</th>
<th>Financially unqualified with no findings</th>
<th>Financially unqualified with findings</th>
<th>Qualified, with findings</th>
<th>Adverse, disclaimer, with findings</th>
<th>Audits outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>22% (117)</td>
<td>55% (297)</td>
<td>14% (74)</td>
<td>3% (17)</td>
<td>6% (31)</td>
</tr>
<tr>
<td>2010-11</td>
<td>26% (130)</td>
<td>53% (273)</td>
<td>13% (67)</td>
<td>4% (20)</td>
<td>4% (19)</td>
</tr>
<tr>
<td>2009-10</td>
<td>31% (152)</td>
<td>47% (228)</td>
<td>14% (67)</td>
<td>6% (27)</td>
<td>2% (9)</td>
</tr>
</tbody>
</table>

2011-12 (536) 2010-11 (509) 2009-10 (483)
Current year audit outcomes

- Financially unqualified with no findings
- Financially unqualified with findings
- Qualified, with findings
- Adverse, disclaimer, with findings
- Audits outstanding

National departments [40]
- Financially unqualified with no findings: 8%
- Financially unqualified with findings: 15%
- Qualified, with findings: 1%
- Adverse, disclaimer, with findings: 1%
- Audits outstanding: 76%

Provincial departments [122]
- Financially unqualified with no findings: 9%
- Financially unqualified with findings: 58%
- Qualified, with findings: 5%
- Adverse, disclaimer, with findings: 1%
- Audits outstanding: 48%

National and other provincial entities [351]
- Financially unqualified with no findings: 28%
- Financially unqualified with findings: 27%
- Qualified, with findings: 9%
- Adverse, disclaimer, with findings: 2%
- Audits outstanding: 53%

Major public entities and government business enterprises [23]
- Financially unqualified with no findings: 22%
- Financially unqualified with findings: 13%
- Qualified, with findings: 13%
- Adverse, disclaimer, with findings: 4%
- Audits outstanding: 48%
Current year audit outcomes – Education, Health, Public Works compared to other departments

- **Education**
  - Financially unqualified with no findings: 20%
  - Financially unqualified with findings: 40%
  - Qualified: 40%
  - Disclaimer/Adverse: 69%

- **Health**
  - Financially unqualified with no findings: 20%
  - Financially unqualified with findings: 20%
  - Qualified: 30%
  - Disclaimer/Adverse: 11%

- **Public Works**
  - Financially unqualified with no findings: 40%
  - Financially unqualified with findings: 30%
  - Qualified: 30%

- **Other departments/sectors**
  - Financially unqualified with no findings: 20%
  - Financially unqualified with findings: 40%
  - Qualified: 20%
  - Disclaimer/Adverse: 69%
Findings on predetermined objectives (PDO)

**Auditees with PDO findings**

- **All auditees**
  - 2011-12: 61%
  - 2010-11: 54%

**Auditees with no PDO findings**

- 2011-12: 39%
- 2010-11: 46%

**Movement in number of auditees with findings on PDO**

- **Improvement**: 71 (14%) (2011-12 vs 2010-11)
- **Unchanged with findings**: 142 (29%)
- **Regression**: 50 (10%)
- **Unchanged with no findings**: 232 (47%)
- **Improvement**: 71 (14%)

**Nature of PDO findings**

- **Usefulness**: 148 (30%) (2011-12 vs 2010-11)
- **Reliability**: 111 (22%) (2011-12 vs 2010-11)
- **No annual performance report**: 9 (2%)
- **Information not submitted in time**: 6 (1%)
- **Total auditees with no findings**: 302 (61%) (2011-12 vs 2010-11)
Key Risks
Status of focus areas

- IT controls: 43%
- Supply chain management: 43% (2% increase)
- Quality of service delivery reporting: 60% (6% increase)
- Quality of submitted financial statements: 43% (7% decrease)
- Human resource management: 57% (6% decrease)
Sector department PDO findings

Health (9 out of 10) - 90%
Public Works (8 out of 10) - 80%
Education (6 out of 10) - 60%
Other departments/sectors (65 out of 131) - 50%
Roles and responsibilities:

Thorough and collaborative monitoring
## Root causes

### First level of assurance: Management assurance

<table>
<thead>
<tr>
<th>Human resources capacity and productivity</th>
<th>Attention to credibility of management information</th>
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<td>Timeous filling of <strong>vacancies</strong> with <strong>right skills</strong></td>
<td>Monthly reporting (Financial, service delivery, compliance and IT controls)</td>
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<tr>
<td>Effective <strong>performance management</strong></td>
<td>Effective operation of daily controls (checks and balances)</td>
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<td>Maintaining <strong>leadership stability</strong></td>
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### Second and third level of assurance: Oversight and audit (independent assurance)

**Effectiveness of assurance providers**

<table>
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<tr>
<th>Management implement action plans and report thereon</th>
<th>Effective monitoring of commitments by <strong>oversight</strong></th>
<th>Validating <strong>credibility</strong> of management information</th>
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Combined Assurance Providers in the South African Public Sector

Management assurance
First level of assurance
- Senior management
- Accounting Officer / Authority
- Executive Authority

Oversight assurance
Second level of assurance
- Coordinating / monitoring Institutions
- Internal Audit
- Audit Committee

Independent assurance
Third level of assurance
- Oversight (Portfolio committee and councils)
- Public Accounts Committee
- External audit

Required Assurance Levels
- Extensive
- Extensive
- Extensive
- Extensive
- Extensive
- Extensive
- Extensive
- Extensive
- Extensive
THANK YOU