

# Using the annual report as an oversight tool

**Presenter:** National Treasury, Office of the Accountant-General | July 2014



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

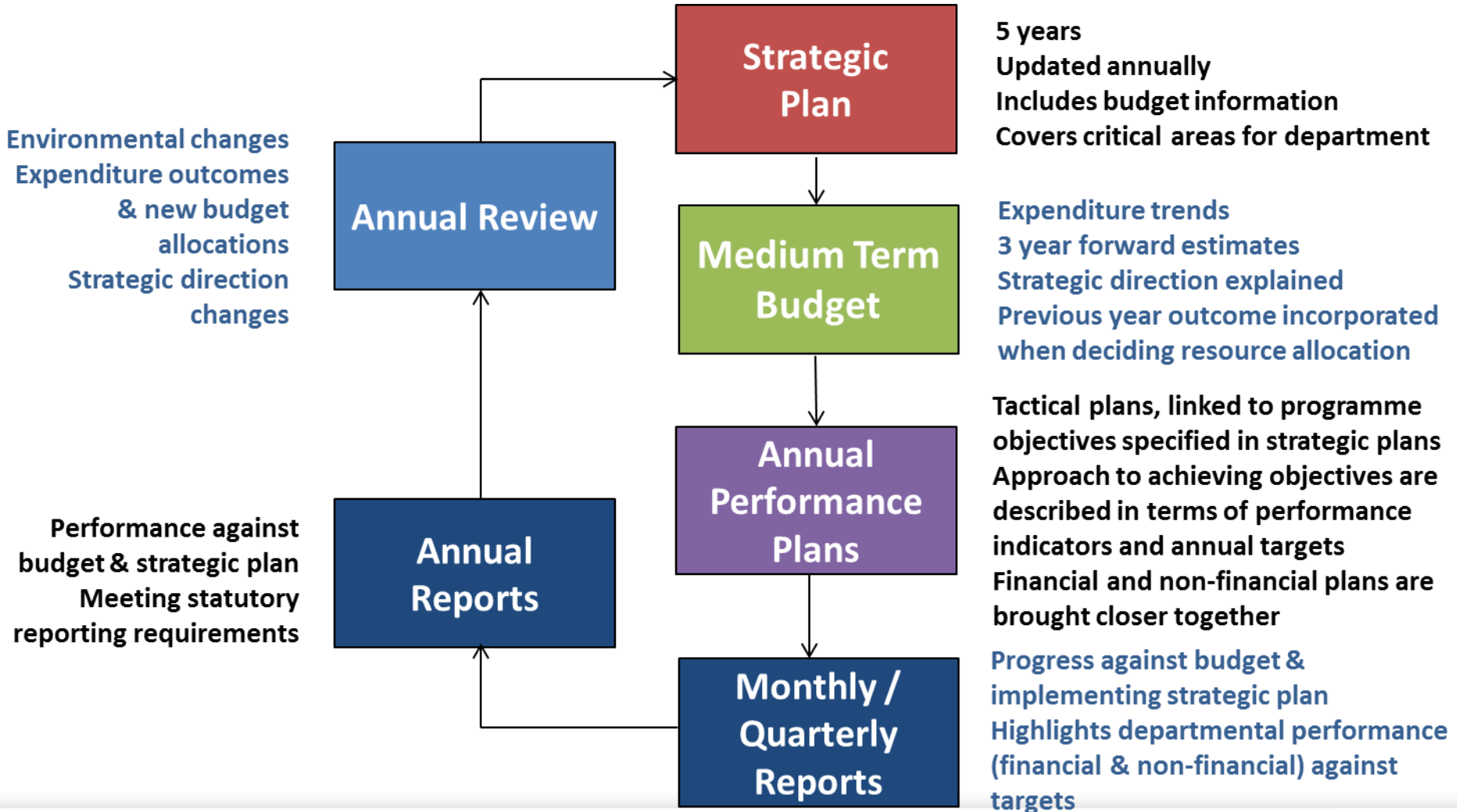
# Overview

- Purpose of the annual report
- Accountability cycle
- Content of the annual report
- Matters to consider
- The governance information
- The financial information

# Purpose of the annual report

- The annual report is an important tool in the **accountability** loop and is thus primarily for accountability purposes
- It should describe **actual results** and compare them with **planned results**, explaining any significant **variances**
- It should include information about factors critical to understanding **performance**, including identifying significant **risks**, **capacity** considerations, and other factors that have had an impact on performance and results, and
- Link **financial and non-financial information** to show how **resources** and **strategies** influence results.

# The accountability cycle



# Content of the annual report

Components	Content
<b>Part A:</b> General Information	General information about the entity, including a foreword by the Minister/MEC, report by the AO/AA, strategic overview, legislative mandate, organisation structure
<b>Part B:</b> Performance Information	Achievements against targets set in strategic plans and annual performance plans. Includes AGSA report on findings
<b>Part C:</b> Governance	Discussion on governance arrangements and reports by internal oversight bodies (e.g. audit committee)
<b>Part D:</b> Human Resource Information	Status of HR in the entity including performance management, wellness programmes and resource plans/goals
<b>Part E:</b> Financial Information	Annual financial statements and the report by AGSA on findings

# Content of the annual report (cont.)

Components	Important documents for the preparation of the annual report		
<b>Part A:</b> General Information	Strategic Plan (incl. NDP)		
<b>Part B:</b> Performance Information	Strategic Plan (incl. NDP)	Medium Term Budget	Annual Performance Plans
<b>Part C:</b> Governance	RM & IA Plans	SCOPA resolutions	
<b>Part D:</b> Human Resource Information	HRM Plans	Medium Term Budget	Annual Performance Plans
<b>Part E:</b> Financial Information	Medium Term Budget		AFS

# Matters to consider

- Does the report include all relevant content (as per previous slides)?
- Is the information communicated simply and clearly?
- Is sufficient information provided by the entity on complex matters?
- Is the report original, or are key portions copied from previous reports?
- Is each measurable objective specified in the APP reported on in the report?
- Is the service delivery information consistent with the mandate of the department?
- Does management demonstrate a commitment to address concerns raised by oversight bodies (incl. SCOPA, Audit committees, AGSA)?
- Does the entity have sufficient resources (incl. HR) to achieve objectives, if not what plans are in place to address shortcomings?

# Why is governance important?

- Commitment by the department to maintain the highest standards of governance is fundamental to the management of public finances and resources.
- Users want assurance that the department has good governance structures in place to effectively, efficiently and economically utilize the state resources, which is funded by the tax payer.



# The governance information

**Risk Management** – eg risk management policy and strategy, risk assessments to determine the effectiveness of its risk management strategy and to identify new and emerging risks etc.

**Fraud and Corruption** – eg fraud prevention plan and how this has been implemented, mechanisms such as whistleblowing etc

**Minimising Conflict of Interest** – eg processes implemented to minimise conflict of interest in SCM

**Code of Conduct** – eg adherence to the Public Service Code of Conduct and Service Charter.

**Health Safety and Environmental Issues**

**Portfolio Committees** – eg dates of meetings, matters raised and how the department addressed these matters

**SCOPA Resolutions** - eg details provided in a tabular format

# The governance information

- **Prior modifications to audit reports** – Nature of qualification, disclaimer, adverse opinion and matters of non-compliance, financial year in which it first arose, progress made to resolve it
- **Internal Control Unit**
- **Internal Audit** – internal audit key activities, objectives, work done,
- **Audit Committees** - audit committee member composition
- **Audit Committee Report** - draft report to be submitted with AFS by 31 July, final report to be submitted after the AGSA audit report

# Annual financial statements – basis of preparation

- Departments → modified cash basis of accounting as determined by the National Treasury (Modified Cash Standard)
- All other public sector entities → accrual basis of accounting using standards set by ASB (except GBE's)



Municipalities & municipal entities  
Non-GBE public entities

- Government business enterprises (GBEs) → IFRS

# Modified Cash Standard (MCS)

- Modified cash – cash receipts and payments, with near cash balances and supplementary disclosures
- Issued as a standard for the first time – April 2013
- Comprise of primary and secondary reporting requirements
- **Primary** – information recognised in the primary statements (eg: receipts, payments, cash, receivables)
- **Secondary** – supplementary accrual-basis financial information that is important for decision making but not recognised in the primary statements (eg: accruals, payables, provisions, contingent assets / liabilities, capital assets, related party disclosures, leases)
- Both primary and secondary information are subject to audit
- Annexures – include information in preparation for recognition (eg: inventories)

# The annual financial statements (departments)

Components	Content
Appropriation Statement	Provides information on actual vs. budget per economic classification for each programme and sub-programme
Statement of Financial Performance	Illustrates total revenue and expenditure for the year (incl. donor funds received and used)
Statement of Financial Position	Illustrates cash and near cash balances on hand at year-end
Cash Flow Statement	Illustrates cash movement per operating, investing and financing activities
Statement of Changes in Net Assets	Illustrates any reserves or future revenues to be collected (recoverable revenue)
Notes – Accounting Policies	Principles used for preparing the financial statements
Notes – Primary and Secondary Information	Supporting information relating to information recognised in the statements and information not recognised
Annexures	Unaudited financial information

# Matters to consider

- The nature of the qualification (where applicable) as well as the root causes
- Has the entity been receiving repeated qualifications? Is it the same matters? Have they been resolved? Effectiveness of the AC, control environment, and management commitment to address queries.
- The extent of compliance with legislation including that of Public entities under the same executive authority's responsibility
- The extent of adjustments made to the financial information after submitted to AGSA for audit (readiness for preparation and completion of AFS)
- Errors identified relating to the previous financial year
- Any unusual transactions that do not relate to the purpose of the entity
- Follow items in the qualification paragraph of the AGSA to the various reports such as AC and AO report
- Understand the extent & the nature of unauthorised expenditure, as well as uncleared unauthorised expenditure and the impact of unauthorised expenditure to service delivery in the future

# The appropriation statement

Use of content for reader:

- Indication of strength of planning
- Indication of overspending
- Variances between actual performance against (adjusted) budget with explanations for material variances in notes
- Can assist in assessment of cost of service delivery (performance information per programme vs. allocations and spending)

# The statement of financial performance

- Use of content for reader:
  - Includes funds received from donors and the utilisation thereof – extent to which outside parties are contributing towards service delivery and whether it relates to the objectives of the department
  - Also important to consider in-kind donor assistance (included in annexures to the AFS)
  - Compensation of employees vs. cost of consultants – assessed against HR and service delivery information
  - Extent of transfer payments – in line with departmental objectives, excessive amounts transferred to its public entities?
  - Capital and or inventory purchases – in line with departmental objectives?
  - Visible cost savings?
  - Extent of valid vs. irregular / fruitless and wasteful expenditure
  - Surplus/deficit – is it consistent with performance?



# The statement of financial position

- Use of content for reader:
  - Cash resources available to the department & indicates any overdrafts (usually due to unauthorised expenditure)
  - Suspense accounts maintained by the entity
  - Unauthorised expenditure to be approved
  - Extent Debt: inter-departmental debt & staff debt
  - Important to consider the aging of receivables and payables (is the department committed to recovering amounts owing and settling amounts due to suppliers?)

# The cash flow statement

- Use of content for reader:
  - Analysis of current (operating activities) and non-current (investing & financing activities) revenue and expenditure transactions
  - Cash impact of movements in assets and liabilities

# The notes to the annual financial statements

- Use of content for reader:
  - Extent of spending on training and staff development
  - Material losses, unauthorised, fruitless and wasteful expenditure – movement in balances
  - Extent of debt written off
  - Capital assets (movable and immovable) on hand at year-end
  - Information on functions transferred during or at the beginning of the year
  - Information on agency services executed by the department or by another entity for the department – how this contributes towards objectives of the department
  - Prior period errors (new note introduced)
  - Information on unpaid expenditure at year-end – payables and accruals
  - Information on commitments and contingent liabilities