

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON VOTE NO.99: NATIONAL DEPARTMENT OF PUBLIC ACCOUNTS COMMITTEES

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the National Department of Public Accounts Committees set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with Departmental financial reporting framework prescribed by National Treasury and the requirements of the Public Finance Management Act of South Africa, 2003 (Act no. 1 of 1999) (PFMA) and the Division of Revenue Act of South Africa, 2012 (Act no. 5 of 2012)(DoRA) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Expenditure

6. The entity incorrectly recorded goods and services relating to the prior year to the current year goods and services, resulting in the current year goods and services expenditure - included in note 5 to the financial statements - being overstated and prior year accruals - included in note 23 - being understated by an estimated amount of R8 250 000. Additionally there is a consequential impact on the surplus to be surrendered and prior year surplus surrendered.

Irregular expenditure

7. The department did not include particulars of irregular expenditure in the notes to the financial statements as required by section 40(3)(i) of the PFMA. The department made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure - disclosed in note 23 to the financial statements - being understated by R123 900 000 (2012: R50 500 000).

Movable tangible capital assets

8. The department did not adequately control and safeguard its movable tangible assets as required by section 38(1)(d) of the PFMA, resulting in the movable tangible assets- included in note 31 to the financial statements – being overstated and material losses – included in note 22 – being understated with an estimated amount of R15 250 000.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the National Department of Public Accounts Committees as at 31 March 2013 and its financial performance and cash flows for the year then ended, in accordance with the Departmental financial reporting framework prescribed by the National Treasury and the requirements of PFMA and DoRA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of this matters.

Significant uncertainties

11. With reference to note 32 to the financial statements, the department is the defendant in various lawsuits. The outcome of these matters cannot be determined at present and no provision for any liability that may result has been made by the department.

Material underspending of the vote

12. As disclosed in the appropriation statement, the department has materially underspent the budget on programme 4: Public Accounts Analysis to the amount of R100 000 000. As a consequence, the department has not achieved on its objectives of ensuring oversight in public accounts.

Additional matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

14. Paragraph 12 of the accounting officer's report indicates a material underspending on programme 4: Public Accounts Analysis, amounting to R75 000 000 for the year under review. This is inconsistent with the material underspending of R100 000 000 as disclosed in the department's appropriation statement.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Financial reporting framework

16. The financial reporting framework prescribed by the National Treasury and applied by the department is a compliance framework. The wording of my opinion on compliance framework should reflect that the financial statements have been properly prepared in accordance with this framework. Section 20(2)(a) of the PAA, however requires me to express an opinion on the fair presentation of the financial statements. The wording of my opinion therefore will reflect this requirement.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programme Centre for Public Service and Administration presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected presented in the annual performance report of the department for the year ended 31 March 2014:
19. Programme / objective 1

20. Programme / objective 2

21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the selected programmes are as follows:

Usefulness of information

Measurability

25. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 29% of the targets for programme 2: Public Accounts Policy and Research Management, programme 3: Public Accounts Relations and programme 4: Public Accounts Analysis of the National Department of Public Accounts Committees, were not specific in clearly identifying the nature and the required level of performance, nor were they measurable as the required performance could not be measured.
26. This was due to the fact that management was aware of the requirements of the FMPPI, but did not receive the necessary training to enable application of the principles.
27. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 31% of the indicators of programme 2: Public Accounts Policy and Research Management, programme 3: Public Accounts Relations and programme 4: Public Accounts Analysis of the National Department of Public Accounts Committees were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
28. This was due to the fact that management was aware of the requirements of the FMPPI, but did not receive the necessary training to enable application of the principles.
29. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 31% of the indicators programme 2: Public Accounts Policy and Research Management, programme 3: Public Accounts Relations and programme 4: Public Accounts Analysis of the National Department of Public Accounts Committees, were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
30. This was due to the fact that management was aware of the requirements of the FMPPI, but did not receive the necessary training to enable application of the principles.

Reliability of information

31. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
32. Significantly important targets with respect to Programme 2: Public Accounts Policy and Research Management were materially misstated. This was due to the planned indicators not being verifiable and planned performance targets not being specific in clearly identifying the nature and required level of performance, thus not allowing for the actual achievement to be measured against what was predetermined.
33. Significantly important targets with respect to Programme 3: Public Accounts Relations were materially misstated. This was due to the planned indicators not being verifiable and planned performance targets not being specific in clearly identifying the nature and required level of performance, thus not allowing for the actual achievement to be measured against what was predetermined.
34. Significantly important targets with respect to Programme 4: Public Accounts Analysis, were materially misstated. This was due to the planned indicators not being verifiable and planned performance targets not being specific in clearly identifying the nature and required level of performance, thus not allowing for the actual achievement to be measured against what was predetermined.

Additional matter

35. I draw attention to the following matter below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

36. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the significant findings on the usefulness and/or reliability of the reported performance information for CPSI in paragraph 26 of this report

Material adjustments to the annual performance report

37. Material audit adjustments in the annual performance report were identified during the audit for the National Department of Public Accounts Committees, all of which were corrected by management and those that were not corrected have been reported accordingly.

Compliance with laws and regulations

38. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

39. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the prescribed financial reporting framework as required by section 40(1)(b) of the PFMA.
40. Material misstatements of capital assets, minor assets, intangible assets, accruals and commitments disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Audit committee

41. The audit committee did not review the effectiveness of the internal audit function, the annual work programme of the internal audit function, coordination between the internal audit function and the external auditors, reports of significant investigations issued by the internal audit function, responses of management to specific recommendations made by the internal audit function, risk areas of the institution's operations covered in the scope of internal and external audits, effectiveness of the internal control systems and accounting and auditing concerns identified from internal and external audits as required by Treasury Regulation 3.1.10(a), (b), (c), (e) and (g).
42. The audit committee did not review the adequacy, reliability and accuracy of the financial information provided to management and other users, as required by Treasury Regulation 3.1.10(d).
43. The audit committee did not review the institution's compliance with legal and regulatory provisions, as required by Treasury Regulation 3.1.10(f).

Internal audit

44. The internal audit function did not assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act, as required by Treasury Regulation 3.2.8.
45. The internal audit function did not evaluate the effectiveness and efficiency of controls and give recommendations for their enhancement and improvement, as required by Treasury Regulation 3.2.11.
46. The internal audit function did not evaluate the reliability and integrity of financial and operational information, as required by Treasury Regulation 3.2.11(b).
47. The internal audit function did not evaluate the compliance with laws and regulations, as required by Treasury Regulation 3.2.11(e).

Procurement and contract management

48. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1.
49. 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.
50. Contract and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Treasury Regulation 16A9.1(d), Preferential Procurement Regulations and PN 8 of 2007-08 par 6.

Expenditure management

51. The accounting officer did not take effective steps to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and Treasury Regulations 9.1.1.
52. Payments due to creditors were not always settled within 30 days from the receipt of an invoice as per the requirements of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3

Human resource management and compensation

53. Persons in charge at pay points did not always certify that the employees receiving payment were entitled thereto as required by Treasury Regulation 8.3.
54. Funded vacant posts were not filled within 12 months as required by Public Service Regulation 1/VII/C.1A.2.

Asset management

55. Proper control systems to safeguard and maintain assets were not implemented, as required by section 38(1)(d) of the PFMA and Treasury Regulation 10.1.1(a).

Internal control

56. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

57. The accounting officers did not exercise adequate oversight responsibility regarding performance reporting, compliance and related internal controls.
58. The accounting officer did not establish and communicate formal documented policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities relating to predetermined objectives and expenditure management.
59. The accounting officer did not implement effective Human Resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
60. The accounting officer did not develop and monitor the implementation of action plans to address internal control deficiencies.

Financial and performance management

61. Management did not implement controls over daily and monthly processing and reconciling of transactions.
62. Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

63. Management did not adequately review and monitor compliance with applicable laws and regulations.

Governance

64. The accounting officers did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

65. The accounting officer did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

OTHER REPORTS

Investigations

66. An investigation was conducted on allegations of utilisation of funds of the department by a service provider from whom goods services were not received. The investigation was concluded prior to the date of this report and has been referred to department's legal services.

67. A forensic investigation was conducted by an independent consulting firm on request of the Minister. The investigation was initiated based on a number of allegations and complaints regarding the implementation of the Establish Oversight Committees Programme (OCP). The investigation focussed on procurement and Irregularities in the awarding of the tender to the lead agents and validity of the members.

Agreed upon procedures

68. As requested by the department, an engagement was conducted during the year under review concerning the donor funding received from the Danish Government for project Establish MPACs. The report covered the period 1 April 2011 to 31 March 2012 and was issued on 31 August 2012.

Performance audit

69. A performance audit was conducted during the year under review on the Department of Public Accounts Committee's readiness to fulfil its performance oversight roles and responsibilities. The report was finalised in August 2012. The consolidated report will be tabled early next year.

Pretoria

31 July 2013



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence