

PFMA 2008/2009

Department of Education audit outcome



Auditing to build public confidence



AUDITOR - GENERAL
SOUTH AFRICA

Vision

- To be recognised by **all** our stakeholders as a **relevant** Supreme Audit Institution that enhances public sector accountability
 - ✓ we need to ensure that the public knows and understands the role of the AG as being significant to their everyday lives
 - ✓ we want to enable and empower the public sector to effectively and efficiently manage public resources
 - ✓ We want to earn our reputation as a credible and trustworthy auditor of the public sector by leading by example



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AGSA Reputation Promise/Mission

The Auditor-General 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.



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Values

- **We value, respect and recognise our people**
- **Our accountability is clear and personal**
- **We are performance driven**
- **We value and own our reputation**
- **We work effectively in teams**
- **We are proud to be South African**



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Audit Outcomes 08/09

Type of audit opinion	Departments		Entities	
	2008-09	2007-08	2008-09	2007-08
Disclaimer	0%	0%	8%	9%
Adverse	14%	15%	0%	0%
Qualified	22%	38%	17%	46%
Financially unqualified (with other matters)	64%	47%	75%	45%
Financially unqualified (with no other matters)	0	0	0	0
Total reported on	14	13	12	11
Total not reported on	0	0	0	0
Total departments and entities	14	13	12	11



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Audit of Performance Information

General

- Phase-in approach by the AGSA
- Opinion to be expressed as from 2010/2011 financial year
- Submission date: 31 May 2010

2008/09 Audit Results - Areas requiring improvement

Main findings on Performance Information:

No reporting on actual achievements on all predetermined objectives, indicators and targets per the APP in the annual report.

Discrepancies in the APP relating to performance measures.

Evidence materially inconsistent with reported performance information relating to target and actual outputs in the annual report.

Lack of effective, efficient and transparent systems and internal controls regarding performance management.

Inadequate quarterly reporting on performance information as progress was not matched against outputs, indicators and targets per the APP.



Audit process

- **Communication flow**

- Request for information – three days will be given for head office and 5 days for the districts.
- A day after the request has lapsed an exception will be issued.
- The following day a non-acceptance letter will be issued.
- Should the information be provided after a non-acceptance letter has been issued, the information will only be audited should we have time at the end of the audit to do so.
- Each request will be assessed on a case by case basis.

- **Meetings**

- A weekly or 2 weekly progress meeting, chaired by the CFO, will be held to discuss outstanding requests for information and responses to **exceptions**.
- A monthly steering committee meeting, chaired by the SG, will be held to discuss audit progress and **exceptions** which may appear in the audit report.

- **Components audited:**

- | | |
|---------------------------|--------------------------------|
| ➤ Revenue and receivables | Purchases and payables |
| ➤ Employee cost | Inventory and asset management |
| ➤ Financial | Disclosure |
| ➤ Value added procedures | Compliance |
| ➤ Performance information | |



Audit process (cont.)

- **Risk**
- Identify risk within each account balance/component and ensure that there are procedures/tests to address that risk.
- examples of risk:
 - payment of ghost employees
 - non-compliance with supply chain management regulations
- **Timing of Audit**
- **Interim audit**
- **to commence 5th October 2009**
- **limited audit testing at districts**
- **Interim management report – March**
- **DOE to address interim findings**
- **Final audit**
- **Head office and limited auditing at districts**



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Audit process (cont.)

- **Materiality – link to audit report**
 - Quantitative materiality: 1% of expenditure
 - Qualitative materiality. example: fruitless and wasteful expenditure
 - Relationship between risk and materiality
- **Sampling**
 - Extension of sample sizes
 - Extrapolation
 - **impact on the audit report**
 - **examples**
- **Audit findings**
 - Error identified
 - Population to be investigated by department
 - New sample tested
 - CAATs testing (exception reports)



Audit process (cont.)

Supporting documentation

- **Audit opinions**
 - Different types of audit opinions
 - Unqualified
 - Qualified
 - Adverse
 - Disclaimer

- **Completeness of payment vouchers**
 - Order form
 - Requisition form
 - Signed delivery note
 - Invoice
 - Pre-audit certificate of approval
 - Expenditure approval form/Payment advice
 - Commitment register



Audit process (cont.)

Supporting documentation

- **Completeness of employee files**

- Appointment letter
- Copy of Id
- Copy of contract
- Job description
- Advertisement
- Qualification
- Corroborating evidence for all payments i.e. allowances, bonuses etc.

- **Management responses**

- Written responses
- Supporting documentation included

- **SUFFICIENT APPROPRIATE EVIDENCE IS NOT A BAS/PERSAL PRINT – OUT BUT A SOURCE DOCUMENT VALIDATING A TRANSACTION.**



Factors Attributable to Audit Outcomes (Successes)

- Although the audit opinion has not improved from the previous year, there has been a decline in the number of qualifications and more information has been submitted in the 08/09 audit as opposed to the prior year.
- Continuous interaction between AGSA and departments to highlight possible challenges, audit findings and transversal risks.
- Timely submission of the financial statements and performance information
- Audit adjustments made by the department to reduce qualifications.



Challenges

- Availability of key
 - Management on leave during crucial periods of the audit
 - Management often tied up in meetings
 - Often management could not be contacted via email nor telephone
- Poor management of RFI and exception
 - **Directors did not timeously route RFI's to the sub-ordinates whom they had designated to retrieve the information.**
 - **Directors did not inform CFO support when an RFI had been erroneously routed to them.**
 - **Requests for information were not submitted timeously to implementing agents.**
 - **Clarification with regards to the content of an RFI and a exception was not sought timeously.**
 - **No designated person was responsible for following up on outstanding information when the state accountant was on leave.**
 - **Exceptions were not responded to timeously.**
- Non-submission, incomplete and untimely submission of information resulting in scope limitations and audit delays.



Challenges (cont)

- Extensions requested after the information was due and often still not submitted on the new deadline date.
- Action plans formulated by management to address prior year exceptions were not implemented; therefore there was no improvement in the control environment and the audit opinion expressed by the Auditor-General.
- Poor attendance of key personnel at audit progress meetings which reflected a lack of interest in the audit process.
- Poor co-operation received from implementing agents despite numerous interventions by the department.
- Insufficient supporting documentation provided for journals.
- Inadequate supporting documentation for expenditure relating to the school nutrition programme.



Improvements and enhancements

- Action plans must be formulated to address prior year qualifications and these should be implemented immediately and its effectiveness should be periodically assessed by internal audit.
- The annual financial statements should be timeously submitted to the Audit Committee and Internal audit so that they can engage with it and make suggestions which may improve the quality of the annual financial statements.
- The quality of the working paper file needs to be improved:
The working paper file must contain:
 - lead schedules
 - analytics (current year v prior year and current year vs budget) and explanations for variances within the material threshold and evidence confirming the validity of the movement.
 - confirmations
- Monitoring controls should be put into place to ensure that payment vouchers are authorized by the designated officials.
- Monitoring controls should be implemented to ensure that Vat is not paid on an invalid tax invoice or where the vendor is not a vat vendor.



Improvements and enhancements (Cont)

- All suspense accounts should be reconciled and cleared on a monthly basis.
- Monitoring controls should be put into place to ensure that attendance registers are signed on a daily basis and all leave is recording timeously on persal.
- Monitoring controls should be put in place to ensure that all staff have valid contracts or appointment letters in their employee files.
- All overtime worked should be approved before the overtime is worked and controls should be implemented to ensure that overtime worked does not exceed 30% of employees salary.
- Disciplinary action should be taken against officials who fail to provide information timeously.
- The outcome of the audit should be factored into the determination of performance bonuses paid to employees.
- Assets counts should be performed.
- Assets should be physically inspected and those no longer in use should be written-off and removed from the fixed asset register.
- District asset registers should be updated timeously with additions and disposals.
- All additions must be timeously recorded in the fixed asset register.



Improvements and enhancements (Cont)

- The fixed asset register must have a purchase invoice number column so as to enable the auditors to confirm that assets purchased have been included in the fixed asset register.
- A complete intangible asset register should be maintained.
- Procedures should be put in place whereby it is compulsory for employees who have housing and vehicle guarantees give the Department authorization to request confirmation from the banks of these housing and vehicle guarantees.
- With regards to the procurement of computers, management must ensure that 3 quotes are obtained except where the contract has been granted to SITA.
- Persal exception report should be generated and all exceptions should be followed up eg negative sick leave and negative leave balances etc
- Management should keep a complete record of incomplete projects and projects which have been authorized but have not commenced as yet so as to ensure that commitments are complete.
- Recommendations of internal audit and the audit committee should be implemented so as enable these structures to discharge their mandate.
- Responses to exceptions must be accompanied with supporting evidence disproving the exception.
- Internal audit should be utilized to evaluate all controls put in place to improve the leave management system



Audit Action plan

- Audit action plans to address matters reported in the management report
- Management's involvement in the monitoring the action plan.
- Evidence of the action plan and monitoring of the action plan.



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Thank you and Questions.....



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