



Africa Criminal Justice Reform
 Organisation pour la Réforme de la Justice Pénale en Afrique
 Organização para a Reforma da Justiça Criminal em África

GOVERNMENT ANNUAL REPORTS

A GUIDE TO READING

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Introduction

Annual reports are a valuable source of information to the public and civil society organisations seeking to better understand whether or not departments have achieved what they set out to do in a financial year. However, many people find the reading annual reports daunting due to the length, the volume of information and complexity of the reports.¹ The plans of a government department are presented in the Annual Performance Plan (APP) and in the Medium-Term Expenditure Framework (MTEF) for a three-year period. This fact sheet is a guide that deals with how to read annual reports of national government departments (e.g. Police or Correctional Services) by explaining the general structure of departmental annual reports and highlighting key points that one should consider when reading and analysing an annual report.

What is an annual report?

Annual reports are the primary means by which government departments, organisations, and corporations formally communicate with their shareholders, investors, and the general public about the operations that took place during a

financial year and its expected future direction.² Annual reports are an integral part of national and provincial departmental reporting,³ and must be prepared by every government department each year as required by the Public Finance Management Act.⁴ The departmental annual report is a crucial instrument for Parliament to assess the performance of departments against the APP targets and the relevant budgets outlined in their strategic plans and to hold them accountable for the three year financial cycle.⁵ Annual reports do not simply inform stakeholders of the state of affairs within a department - they also serve the function of persuading.⁶ Departmental annual reports are presented in a standardised format as per National Treasury guidelines and are tabled in Parliament and provincial legislatures.⁷ All national and provincial departments are meant to comply with the minimum writing process as set out in by National Treasury.⁸ However, there are cases where some departments have failed to comply with these guidelines.

Highlights and Challenges

The greatest value of annual reports lies in that they provide a means of reflection on the overall performance of a department for a financial year.⁹ The value of making both the financial and

non-financial information public is that it promotes accountability and transparency which improves trust and confidence in government's ability to deliver on services.¹⁰ According to a New Zealand study about the readership of annual reports, the most commonly held view of annual reports is that they are there to hold management accountable.¹¹ Through annual reports, a department also has an opportunity to better market itself and present its achievements and good performance to the general public.¹²

While annual reports are a valuable resource, there are also limitations to their usefulness. Firstly, there may be delays in their publication; difficulty in accessing the reports, and doubts about the reliability of the information provided.¹³ Secondly, annual reports are generally lengthy, detailed and complex make it a challenge for lay persons to read.¹⁴ Thirdly, in order to gain insights into the state of affairs within a department on a yearly basis, a department's annual report should contain information from the previous year which can be compared to the current year as this allows for evaluation and comparison. However, many annual reports fail to indicate previous years' results raising concerns about information being purposefully hidden. Similarly, changes in the definition of performance indicators also pose a challenge to reading annual reports as a change in performance indicators over the years should always be highlighted within the report so that readers are able to reconcile previous indicators with current ones.¹⁵ Indicators are separately defined in a document known as the "technical indicator report".

An additional challenge is that crucial information may be erroneously reported. This is known as material misstatement and occurs when information is incorrectly captured in a financial statement.¹⁶ This has a negative impact on readers who rely on that information in order to make particular

decisions.¹⁷ On the other hand, when information is not reported sufficiently in terms of disaggregating figures into particular categories (e.g. provinces and districts), this poses a challenge when it comes to analysing data and scrutinizing it against the strategic plan. Furthermore, inconsistency in reporting makes it difficult to highlight trends. For example, when reading some annual reports, one may find that a department reports intermittently on a particular indicator or ceases to do so entirely. Finally, the use of too many graphs without a proper explanation is also a challenge, as readers are more likely to thoroughly read the narrative parts.¹⁸ It is for this reason that readers prefer that annual reports contain more narrative and user-friendly language which are easy to understand.¹⁹ Therefore, it is important that reported information in annual reports is accurate and balanced, highlighting successes and explaining the shortcomings of the financial year.

Structure

According to National Treasury, an annual report should meet the following requirements:

- The annual report must comply with statutory and policy requirements.
- The annual report should present information (both positive and negative) in an understandable and concise manner.
- 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.

- The annual report is an important tool in the accountability loop and is thus primarily for accountability purposes.
- It should link financial and non-financial information to show how resources and strategies influence results.²⁰

The standard design and layout of South African government department annual reports is comprised of five main parts:

Introduction

This section provides an introduction to the report. The report usually starts with a foreword by the Minister, highlighting key issues of the financial year under review.²¹ The foreword is followed by a brief summary by the accounting officer which is the Director-General. Subsequently, the strategic overview of the department is explained and the organisational organogram is presented. Guidance and clarity regarding the legislation governing the department and general information about the department are also presented in this section.²² When reading through this section, one should compare the introduction to past reports to analyse whether the same issues are flagged or are new issues identified.²³ This will indicate whether or not strategies put in place to address the issues raised in previous years have been successful or whether there is still a continuity of issues facing the department.²⁴

Performance information

This section provides an overview of the performance of the department.²⁵ It will often have the long-, medium- and short-term strategic objectives of the department. In this section, a reader should be able to draw comparisons between expected and actual results per objective and indicator.²⁶ For example, if the target of the Department of Human Settlement was to build 10 000 housing units and 9 000 units have been built, this means that 90% of the target was achieved and there was a deviation of 10%. There should be a short narrative explanation for any

deviation from the target. For example, the price of cement increased by 15%, resulting in fewer housing units being built due to budget restrictions. As such, it is also advised to make use of past annual reports for the purpose of comparing results with previous year results as this will allow for multi-year comparison and also indicate whether or not there have been overall improvements or not.²⁷

Governance

In this section, the corporate governance information regarding the department is highlighted. Governance is understood to be the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.²⁸ In order for public services and resources to be well managed, a department needs to commit to upholding the highest standards in terms of governance.²⁹ This section of the annual report covers topics such as:

- risk management, fraud and corruption,
- health, safety and environmental issues,
- internal controls and the audit committee reports.

Readers should pay particular attention to risk management information, such as issues concerning fraud, corruption as well as legal proceedings that the department is facing which can be an indication of irregularities going on within the department.³⁰

Human Resources

This section details the human resources component of the department. It is usually broken down to highlight the human resources statistics within a financial year. The issues highlighted include: performance management, wellness programmes and resource plans, the number of personnel that are working within the department as well as the statistics on new recruits, promotions and annual leave.³¹ When reading this section, an interesting component to consider is the turnover

rate of executive staff and the vacancy rate in key positions. A high turnover is often an indication of internal issues within the department and prolonged vacancies often indicate management and governance challenges.

Financial information

This section of the annual report has two important components: (1) the Auditor General’s report and (2) the annual financial statements of the department.³² This section is perceived by many to be the most important because one is able to see the financial balance sheet indicating if the department overspent or underspent on its budget.³³ Furthermore, fruitless and wasteful expenditure as well as unaccounted funds can also be detected in this section of the annual report.³⁴ Amounts within financial statements are indicated using ‘R’ for Rands. It is essential that one is mindful of whether the amounts reported are units of R1, R1000s, R100 000 or R1 000 000 as this is sometimes not clear. One needs to pay attention to understand which unit is being used and by taking note of the numbers, one is able to evaluate the financial health of the department.³⁵ Furthermore, besides operational costs which generally occupy a significant percentage of a departmental budget, the specific mandate of the department typically informs the allocation of funds within the different programmes.

The Auditor-General can express one of the following audit opinions:

- Clean audit outcome: The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.
- Financially unqualified audit opinion: The financial statements contain no material misstatements. Unless

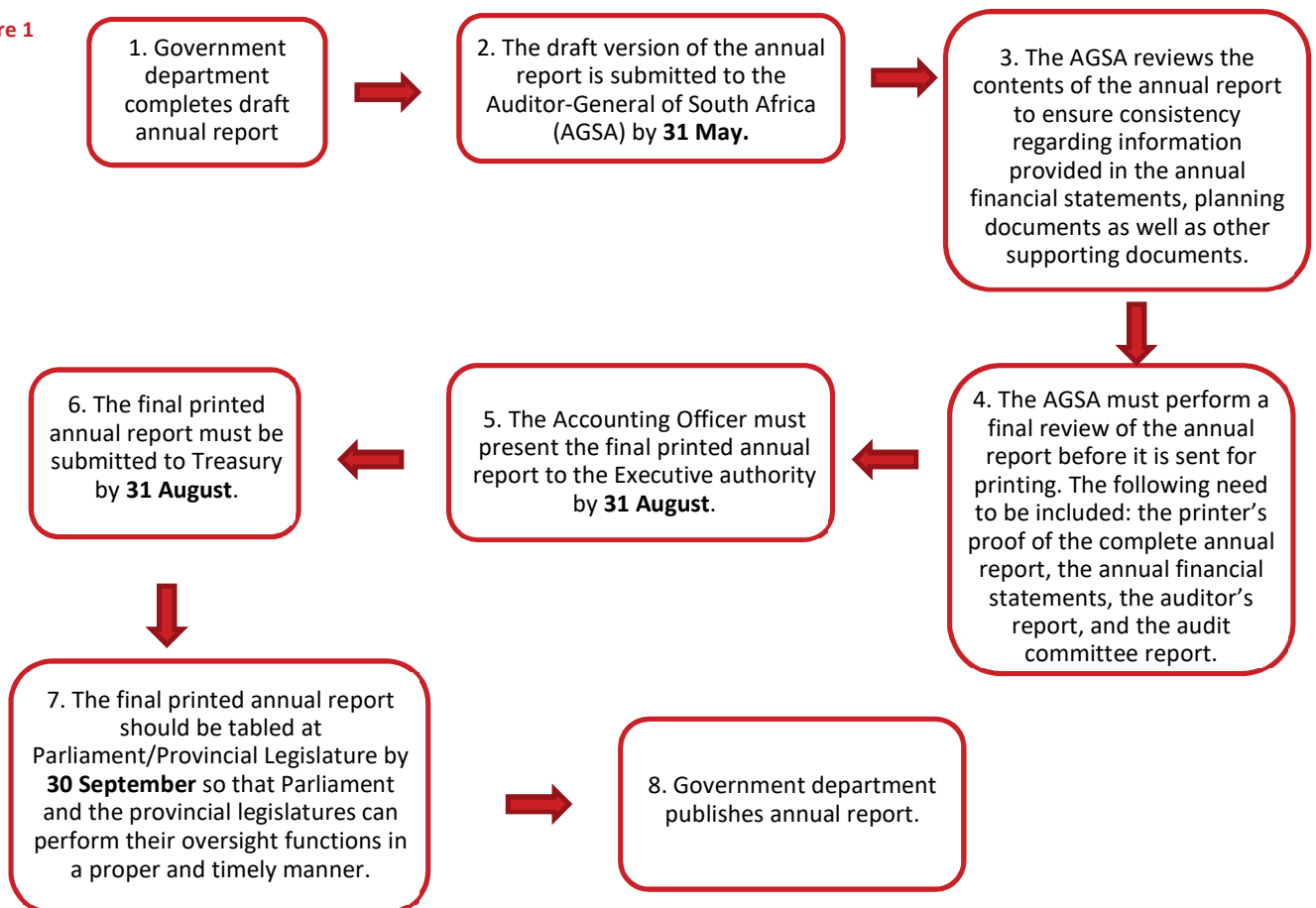
the Auditor General expresses a clean audit outcome, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.

- Qualified audit opinion: The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for the Auditor-General to conclude that specific amounts included in the financial statements are not materially misstated.
- Adverse audit opinion: The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.
- Disclaimer of audit opinion: The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.³⁶

Submission timelines

There is a set timeline within which departmental annual reports must be submitted. Figure 1 below illustrates the submission flow and timelines of the annual report.³⁷

Figure 1



Conclusion

This factsheet highlighted key points to consider when reading and analysing annual reports. Whereas annual reports are instrumental for reporting performance targets,³⁸ it is equally important that all information is presented in a simple, clear and truthful manner. In this way, annual reports not only serve as an overall account of the activities within a particular financial year, but also as a tool for citizens and civil society organisations to hold government to account with regards to the set strategic objectives.³⁹ It forms an essential tool in assessing whether the tax payers' money was used efficiently, effectively and for the purposes that it was approved for by the legislature.

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