

PFMA 2013-14



General report on the provincial audit outcomes of **GAUTENG**



AUDITOR-GENERAL  
SOUTH AFRICA



# General report on audit outcomes

## GAUTENG PFMA 2013-14

### Our reputation promise/mission

“The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.”



The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with laws and regulations.

This publication also captures the commitments that leaders have made to improve audit outcomes.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of provincial government for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the province.

*Auditor-General*

Kimi Makwetu  
Auditor-General



AUDITOR - GENERAL  
SOUTH AFRICA

# OVERVIEW



19 (54%) auditees achieved clean audits

Significant improvement in provincial audit outcomes

Audit outcomes of public entities improved, but departments remained stagnant

The departments of Human Settlements, Health, Infrastructure Development and Roads and Transport, with its trading entity, g-Fleet Management, need the most attention.

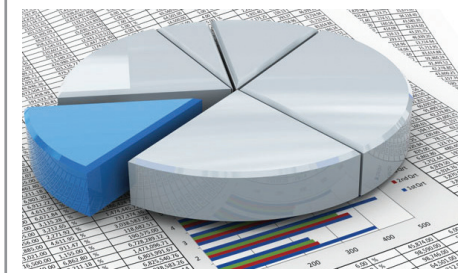


Material non-compliance with legislation by 46% (16) of auditees

Reduced levels of unauthorised and fruitless and wasteful expenditure, while irregular expenditure remained stagnant.

No progress made toward improving the reliability and usefulness of annual performance reports

91% (32) financially unqualified audit opinions



One auditee received an adverse opinion and two auditees received qualified opinions

Qualified opinions avoided by correcting material misstatements identified during audit process

Some improvement in the quality of financial statements submitted for audit

Quality of submitted performance reports

Audit findings avoided by correcting material misstatements identified during audit process

No improvement in the quality of performance reports submitted for audit

Uncompetitive and unfair procurement processes, inadequate contract management and conflicts of interest not declared



Vacancies and instability in key positions are affecting audit outcomes

Some improvement in HR management controls



Financial statement analyses show improvement, but there are still risks that affect auditees' financial health

Confidentiality, integrity and availability of information remained at risk

Some improvement in the ICT controls

Progress in addressing root causes of poor audit outcomes

Accounting officers and senior management should continue to strengthen their contributions



Key role players enhanced their level of assurance provided to improve controls

Implementation and impact of commitments and initiatives of role players contributed to improved audit outcomes



Audit outcomes of portfolios of MECs and commitments made for improvement

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# GAUTENG CLEAN AUDITS 2013-14



## DEPARTMENTS

Cooperative Governance and Traditional Affairs  
Office of the Premier  
Provincial legislature  
Provincial treasury  
Social Development  
Sport, Arts, Culture and Recreation



## PUBLIC ENTITIES

Constitution Hill Development Company	Gauteng Partnership Fund
Cradle of Human Kind Trading Entity	Gauteng Tourism Authority
Dinokeng World Heritage Trading Entity	Gautrain Management Agency
Gauteng Film Commission	Greater Newtown Development Agency
Gauteng Funding Agency	Industrial Development Zone (Pty) Ltd
Gauteng Growth and Development Agency (GGDA)	Supplier Park Development Co
	The Innovation Hub



# EXECUTIVE SUMMARY

## Executive summary

This general report summarises the audit outcomes of the Gauteng provincial government for the 2013-14 financial year.

The total budgeted expenditure of the province was R76 billion in 2013-14. The following were the main areas of expenditure:

Employee cost	R44 billion
Goods and services	R14 billion
Transfer payments	R14 billion
Capital expenditure	R4 billion

It is important to note that our annual audits have once again examined the following three areas:

1. Fair presentation and absence of material misstatements in financial statements.
2. Reliable and credible performance information for purposes of reporting on predetermined performance objectives.
3. Compliance with all legislation governing financial matters.

### Financially unqualified with no findings

Auditees that received a **financially unqualified opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the areas mentioned above. This is commonly referred to as a 'clean audit'. The 2013-14 audit outcomes show a commendable improvement, with 19 (54%) of the 35 auditees attaining clean audit opinions compared to the eight (23%) attained in 2012-13.

The clean audit outcomes and improvements are the result of a concerted effort and the responsiveness of the political and administrative leadership, audit committees and provincial treasury. The province's audit outcomes are beginning to reflect the benefits of an ideal combined assurance model where all assurance providers play their roles effectively and complementarily. Accounting officers/authorities and senior management, as a first line of assurance, successfully implemented basic internal controls and accounting disciplines with rigorous oversight and support to drive clean audit outcomes. This ensured that an effective control environment was maintained.

There was a notable decrease in non-compliance with key legislation, and reported unauthorised and fruitless and wasteful expenditure decreased from R1,6 billion to R228 million over three years.

The administrative leadership, audit committees, provincial treasury and office of the premier should continue to collaborate, proactively identify risks and address past audit findings to sustain these commendable audit outcomes.

### Financially unqualified with findings

Thirteen auditees (37%) received **financially unqualified audit opinions with findings** on their performance information, compliance with legislation, or both of these aspects (depicted in yellow in this report), compared to 24 (69%) auditees in 2012-13. These auditees have passed the critical test of fair presentation of financial statements, which means that they have accounted accurately for their financial transactions.

Inadequate controls regarding performance information and compliance with key legislation continue to prevent these auditees from obtaining clean audit outcomes. These deviations from internal controls were largely in the area of compliance with key legislation. Auditees in this category were unable to fully apply best practices, leading to shortcomings in their control environment.

This is also a category of auditees that submitted financial statements and performance reports that were initially unreliable and incorrect. The accounting officers/authorities need to make sure that the basic disciplines of regularly preparing and reviewing financial and performance reports are improved and sustained. Internal audit units and audit committees should continue to support the work of oversight committees by confirming the credibility of information used for accountability purposes. In turn, the committees of the provincial legislature should collaborate and coordinate their oversight initiatives to derive optimal benefit from their oversight work.

### Qualified audit opinion

Two auditees (6%) received a **qualified audit opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Although the qualified audit opinions reduced from three (9%) to two (6%) in the current year, it is of concern that two key basic service delivery departments, Health and Human Settlements obtained qualified audit opinions. It is, however, encouraging that treasury initiatives assisted the Department of Health to improve from a disclaimer of audit opinion to a qualified audit opinion with findings over a five-year period.

These two departments furnished performance information that was not reliable, which compromised effective accountability. A number of rules and regulations that apply to financial management and reporting were not observed as required in specific legislation.

The administrative leadership must be decisive and act promptly to implement effective and sustainable internal controls and disciplines for provincial audit outcomes to improve further. These controls should support the preparation of reliable and credible financial and performance information, and prevent non-compliance with legislation. The stability of the administrative leadership and key senior management through succession planning remains critical to ensuring that institutional knowledge is not lost. The leadership needs to continue setting a tone of zero tolerance for non-performance and holding staff accountable for achieving a strong control environment.

## Adverse opinion

One public entity (3%) regressed from a financially unqualified audit opinion with findings to an **adverse audit opinion** (depicted in red in this report). This auditee's performance was similar to those described above (with qualified audit opinions) with the exception that the conditions regarding unreliable financial statements were common in most areas of the financial statements. With a qualified audit opinion, this is limited to certain areas.

The adverse audit opinion was the result of a lack of decisive and timely intervention to ensure that financial competencies and disciplines were applied in preparing accurate and reliable financial reports. Basic internal controls also deteriorated and internal and external audit findings were disregarded. This increases the levels of financial exposure and multiplies the prospects for significant losses that could result in most service delivery and programme objectives not being achieved. The accounting officer needs to make sure that the basic disciplines of regularly preparing and reviewing financial reports are improved and sustained.

Auditees that have not yet progressed to clean audit opinions need to take ownership and commit to implementing corrective action plans. This, together with continued guidance, support and monitoring by the provincial treasury and the office of the premier, will assist auditees in their move towards sustainable clean audit opinions.

## Other significant audit observations

### Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives and to report on this in their annual performance reports.

It is commendable that all auditees submitted their annual performance reports for auditing on time. However, auditees that submitted annual performance reports without material misstatements regressed from 26 auditees (84%) in 2012-13 to 24 (75%) in the current year. Auditees are still relying on the audit process to identify and correct misstatements in their performance information. Regrettably, it appears that auditees have become complacent and not applied the same diligence that was exercised in the previous years when reporting on predetermined objectives in the current year.

These auditees need to adopt best practices and implement proper record keeping measures to ensure that complete, relevant and accurate information is accessible and available to support performance reporting. In addition, the auditees need to continue implementing the recommendations from the performance audit of the readiness of government to report on its performance.

### Non-compliance with laws and regulations

In the current year auditees with no material findings on their compliance with key legislation significantly improved, from eight auditees (23%) to 19 (54%) when compared to the previous year. It is, however, of concern that 16 auditees (46%) still had findings on compliance with legislation, many of which related to the quality of the financial statements submitted for auditing and supply chain management. Irregular expenditure was reported at 16 auditees (46%), mainly due to the lack of basic controls and non-compliance with supply chain management legislation. The value of these controls cannot be emphasised enough as an important mechanism to narrow the space for widespread abuse of the public resources required to provide services to citizens.

### Irregular expenditure

As a result of a breakdown in controls and the lack of proper systems to prevent, detect and record irregular expenditure, auditees entered into transactions that were not conducted in accordance with regulations and other prescripts. Such irregular expenditure constitutes an estimated 7% of the expenditure budget in the province.

Of the R5,333 billion in irregular expenditure incurred in 2013-14, 99% relates to non-compliance with supply chain management legislation. Our normal audits

determined that R4,913 billion of this amount represents goods and services that were received despite the normal processes governing procurement not being followed. The balance of R421 million was not audited and we could therefore not specifically confirm that goods and services had been received.

The main reasons for irregular expenditure were the lack of proper procurement plans and contract management controls. Consequently, auditees did not follow adequate procurement processes, which resulted in invalid deviations and contract extensions.

The prevalence of irregular expenditure in the province can be addressed effectively by accounting officers/authorities, with the support of provincial treasury, continuing to investigate allegations that officials have failed to comply with supply chain management legislation. There is an on-going need for oversight role players to ensure that accounting officers and senior management are held accountable for providing the desired level of assurance to maintain the momentum towards improved audit outcomes.

### Financial health

The financial health of the province has improved since the previous year. There has been a reduction in auditees that had financial risk indicators, from 13 (37%) in the previous year to seven (20%) in the current year.

Auditees improved financial disciplines regarding spending capital budgets and debt management. Accounting officers/authorities enforced the establishment of budget and cash management policies and procedures, and senior management played a critical role in implementing and monitoring these processes.

It is, however, of concern that financial constraints contributed to vacancies at some auditees. This included accruals at year-end that will have to be paid in the next financial year, which impacts the 2014-15 budget and service delivery objectives. Furthermore, the settlement of unfunded medical law suits threatens the delivery of key services in the health sector.

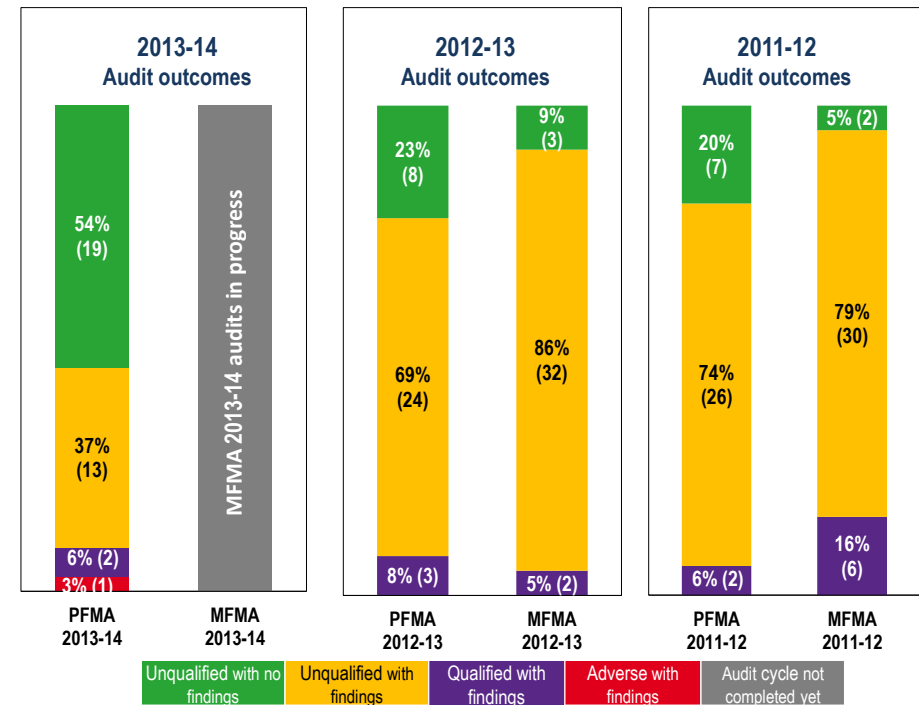
Accounting officers/authorities should ensure realistic budgets, proper in-year monitoring of budgets, and that budgets are supported by credible assumptions. The provincial leadership needs to continue contributing towards the financial health of the province and the improved social reality of Gauteng citizens.

### Comparison of provincial and local government audit outcomes

The Gauteng provincial government, through coordinating departments and oversight structures, supports both provincial and local government by setting standards of accountability, transparency, clean government and integrity across all institutions of government in the province. Although these two spheres of

government operate autonomously, improvement in the administration and audit outcomes will benefit the province as a whole. Figure 1 compares the results of the two spheres of government over the last three financial years.

Figure 1: Comparison of provincial and local government audit outcomes



The provincial government has led the province's emphasis on clean administration, over the last two years, obtaining 19 clean audits (54%) in 2013-14. The provincial treasury and the office of the premier continued to embrace and own the assurance initiatives, leading the collective effort to see significant improvement in the provincial government audit outcomes.

Provincial government was able to improve and sustain the internal control environments that supported the quality of financial statements submitted for audit, and reduce auditees with finding on compliance with key legislation. The significant improvement in audit outcomes was due to the political and administrative leadership building on a firm foundation from the previous years and their continued commitment to achieving clean administration, together with the oversight role played by various assurance providers and oversight structures.

However, progress towards clean audits has been comparatively slower in the local government sphere with only 3 auditees (9%) attaining financially unqualified opinions with no findings in 2012-13. The Gauteng government's continued effort to align local government with the province's vision of achieving clean

administration for all auditees is expected to bear fruit in the near future for this sphere of government.

The provincial departments of Treasury, Cooperative Governance and Traditional Affairs and the Office of the Premier have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance. The provincial legislature provides oversight through its speaker forum and oversight committees.

The Department of Cooperative Governance and Traditional Affairs, working together with the Department of Treasury and the Gauteng Office of the Premier as assurance providers, has an important role in coordinating and supporting local government capacity-building programmes, thereby improving service delivery. This includes developing and monitoring provincial policies and legislation to promote integration in government's development programmes and service delivery.

### *Provincial treasury*

The provincial treasury needs to continue implementing and monitoring initiatives to improve the local government audit outcomes, especially the quality of financial and performance reports and compliance with key legislation. These initiatives include providing support programmes for municipal budgets, financial accounting, auditing, resource management, compliance, asset management, training, monitoring, advisory technical support and inter-governmental forum engagements.

National Treasury should strengthen the support initiatives that it provides to the metros, specifically support initiatives relating to compliance with legislation and performance information.

### *Premier's office*

In the past few years, the office of the premier has played a prominent role in providing oversight and support as the head of the executive in the province. The premier's oversight responsibility is enabled through the premier's coordinating forum. This platform provides the Gauteng mayors, members of executive council for local government, members of executive council for provincial treasury and the premier's office the opportunity to come together and discuss local government issues in the province. The premier needs to continue and enhance the intensity and robustness of this forum's engagements.

It is encouraging that the premier is committed to working closely with the mayors to ensure that the premier's office and all coordinating departments are appropriately positioned to ensure that all spheres of the Gauteng government work together to serve the public.

## *Provincial Department of Cooperative Governance and Traditional Affairs*

Gauteng Department of Cooperative Governance and Traditional Affairs provided noticeable support by holding municipalities accountable for addressing findings in our audit and management reports, and strengthening internal controls by implementing the key controls assessed by the internal audit units. The department also provided technical support to municipalities that received qualified audit opinions in the previous year.

These initiatives need to be intensified and the progress adequately monitored, since the main goal of support initiatives is to ensure support and clean administration in the province. Furthermore, the Department of Cooperative Governance and Traditional Affairs should ensure that the annual consolidated report on the performance of municipalities in the province is submitted to the Gauteng Provincial Legislature to enable oversight through the portfolio committee of local government.

### *Key leadership actions*

We remain hopeful that the advances towards clean audits can be emulated in the local government sphere. It is crucial to note that those auditees that advanced towards clean were commonly characterised by the following:

- Executive leadership that stabilised the Gauteng administrative leadership and senior management, and ensured succession planning to promote accountability and continuity. This will safeguard the auditees' institutional knowledge.
- Accounting officers/authorities that were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- Executive authorities and accounting officers/authorities set a tone of zero tolerance for non-performance and held staff accountable for keeping quality financial and performance information and complying with key legislation.
- Audit committee and internal audit functions that were robust and proactive on matters regarding the implementation and monitoring of action plans to address recurring findings and commitments made.
- Accounting officers/authorities and senior management successfully implementing basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which in turn enabled governance structures to play an effective review role.

- Improved performance and consequence management by incorporating the requirements of preparing credible and regular financial reports into senior management's performance agreements, and holding them accountable.

In our partnership with the Gauteng Province we envisage a public service characterised by transparent financial and performance reporting. This will be led by accounting officers/authorities that appreciate ethical and professional behaviour, and have a low tolerance for indecisive execution of controls and deviation from legislation. Auditees must be supported by strong internal audit capabilities that contribute to a culture of good internal controls, and accurate and empowering financial and performance reporting to enable effective oversight by audit committees and legislative oversight.

We are encouraged by the newly elected provincial executive's committed cooperation to ensure transparency, accountability and service delivery in the province. This commitment is demonstrated by the Gauteng Provincial Treasury, together with the Provincial Department of Roads and Transport, piloting an open tender system for public scrutiny so that decisions made in awarding tenders are transparent.

We have noted the premier's commitment to establishing an integrity management office to create and promote an ethical organisational culture and provide behavioural guidelines. If this positive attitude and commitment is adopted by all levels of staff and filters into the daily oversight responsibilities of the executive, an improvement in the drive towards accountable administration will be seen within the province.

Oversight committees should continue with their robust interactions when holding the departments accountable for their audit outcomes. Going forward, it is critical that resolutions are tabled on time and are followed up quarterly to ensure that the implementation rate of these resolutions is improved.

We remain firmly committed to making a positive contribution to overcoming the obstacles to clean administration in the province. We will continue to make ourselves available and to provide proactive insights into the root causes of weak internal control environments. The engagements will include timely feedback on, and inputs towards the adequacy of the assurance provided by all role players.

# AUDIT OUTCOMES, RECOMMENDATIONS AND ROLE PLAYERS' COMMITMENTS

# 1. Our auditing and reporting process

We audit every department and public entity in the province, also called auditees in this report, so that we can report on the **quality of their financial statements** and **annual performance reports** and on their **compliance with key legislation**.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the members of the executive council and audit committees.
- Our opinion on the financial statements, material findings on the annual performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee's annual report and dealt with by the public accounts committees and portfolio committees as applicable.
- Annually we report on the audit outcomes of all auditees in a **provincial general report** (such as this one), in which we analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the Gauteng Provincial Legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist with the improvement in audit outcomes by identifying the key controls that should be in place at auditees; assessing these on a regular basis; and sharing the assessment with members of the executive, accounting officers and authorities, as well as audit committees.

We further identified the following **key risk areas** that need to be addressed to improve audit outcomes as well as financial and performance management. We specifically audit these so that we can report on their status: ■ quality of submitted financial statements and performance reports ■ supply chain management ■ financial health ■ information technology controls ■ human resource management (including the use of consultants).

During the auditing process, we work closely with the accounting officer or authority, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of the auditee's financial statements, performance report as well as compliance with legislation.

We also continue to strengthen our relationships with the members of the executive council, the premier and the Gauteng Provincial Treasury, as we are

convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figure 2 gives an overview of our message on the 2013-14 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province.

The overall audit outcome in figure 2 shows our opinion on the auditees' financial statements and whether we identified material audit findings on the quality of their annual performance report and compliance with key legislation. The overall audit outcomes fall into four categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that were able to:
  - produce financial statements free from material misstatements. Material misstatements means errors or omissions that are so significant that they affect the credibility and reliability of the financial statements
  - measure and report on their performance in accordance with the predetermined objectives in their annual performance plan in a manner which is useful and reliable
  - comply with key legislation.This audit outcome is also commonly referred to as a 'clean audit'.
2. Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without material misstatements, but are struggling to:
  - align their performance reports to the predetermined objectives they committed to in their annual performance plans
  - set clear performance indicators and targets to measure their performance against their predetermined objectives
  - report reliably on whether they achieved their performance targets
  - determine which legislation they should comply with and implement the required policies, procedures and controls to ensure they comply.
3. Auditees that received a **financially qualified audit opinion with findings** have the same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.



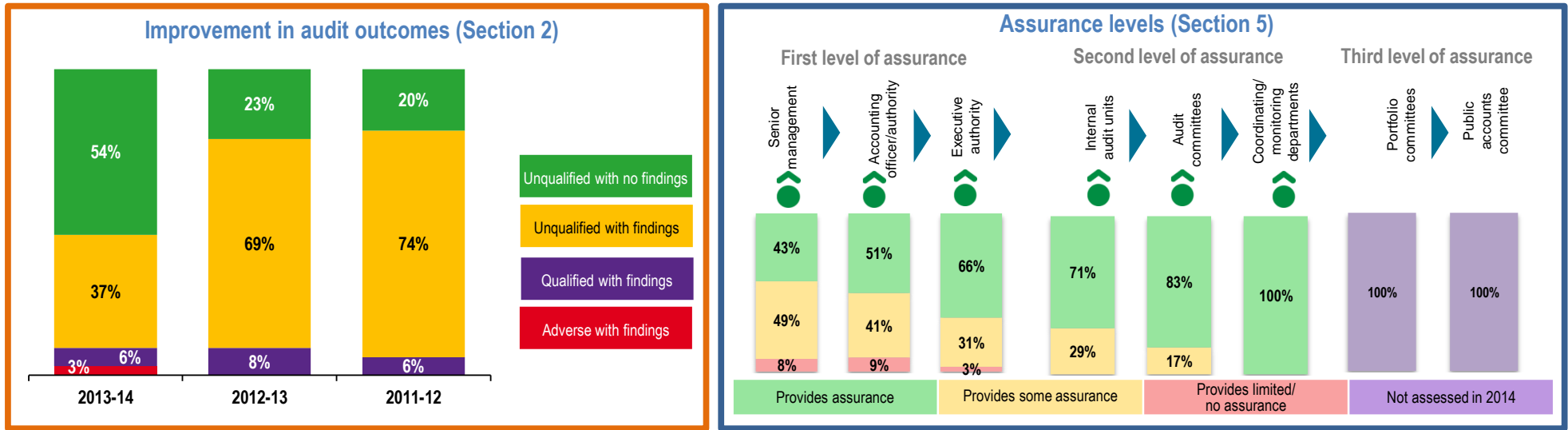
4. The financial statements of auditees with an **adverse opinion** include so many material misstatements that we basically disagree with almost all the amounts and disclosures in the financial statements. Those auditees with a **disclaimer of audit opinion** could not provide us with evidence for most of the account balances and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements. Auditees with adverse or disclaimer of opinions are typically also:
- unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
  - not complying with key legislation.

Please note when reading figure 2, other figures and the rest of the report that only a movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:

 Improved  Stagnant or little progress  Regressed

The rest of the section summarises the audit outcomes and our key recommendations for improvement followed by a summary of the audit outcomes of the auditees in each portfolio of the member of the executive council. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal controls at the auditees and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in this report.

Figure 2: Overview of audit outcomes and key recommendations for improvement



1 To improve the audit outcomes ...

2 ... the key role players need to ...

3 ... give attention to the key controls, and ...

4 ... the risk areas, and ...

5 ... the root causes.

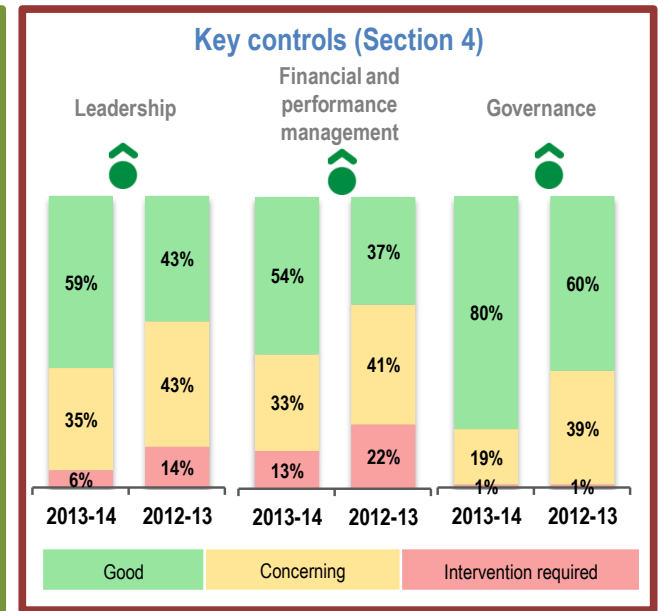
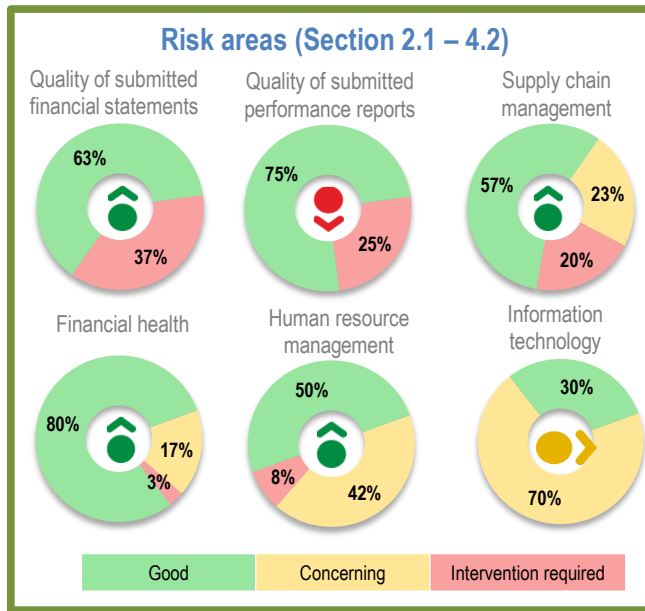
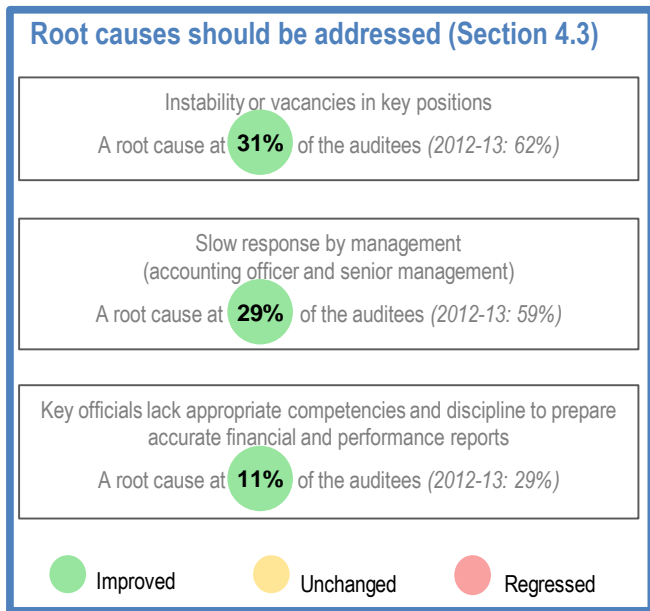



Figure 3: Movements in audit outcomes

<div style="text-align: center;">                       Movement                      Audit outcome                 </div>	<div style="text-align: center;"> <span style="background-color: #0070C0; color: white; border-radius: 50%; padding: 5px 10px; font-weight: bold;">11</span>                      Improved                 </div>	<div style="text-align: center;"> <span style="background-color: #0070C0; color: white; border-radius: 50%; padding: 5px 10px; font-weight: bold;">22</span>                      Unchanged                 </div>	<div style="text-align: center;"> <span style="background-color: #0070C0; color: white; border-radius: 50%; padding: 5px 10px; font-weight: bold;">1</span>                      Regressed                 </div>	<div style="text-align: center;"> <span style="background-color: #0070C0; color: white; border-radius: 50%; padding: 5px 10px; font-weight: bold;">1</span>                      New auditee                 </div>
Unqualified with no findings = 19	<ul style="list-style-type: none"> <li>■ Constitution Hill Development Company</li> <li>■ Cradle of Human Kind</li> <li>■ Dinokeng Trading Account</li> <li>■ Gauteng Film Commission</li> <li>■ Gauteng Growth and Development Agency (GGDA)</li> <li>■ Gauteng Tourism Authority</li> <li>■ Greater Newtown Development Agency</li> <li>■ Industrial Development Zone (Pty) Ltd</li> <li>■ Supplier Park Development Company</li> <li>■ The Innovation Hub</li> </ul>	<ul style="list-style-type: none"> <li>■ Gauteng Funding Agency</li> <li>■ Gauteng Partnership Fund</li> <li>■ Gautrain Management Agency</li> <li>■ Office of the Premier</li> <li>■ Provincial Legislature</li> <li>■ Provincial Treasury</li> <li>■ Department of Social Development</li> <li>■ Department of Sport, Arts, Culture and Recreation</li> </ul>		<ul style="list-style-type: none"> <li>■ Department of Cooperative Governance and Traditional Affairs</li> </ul>
Unqualified with findings = 13	<ul style="list-style-type: none"> <li>■ Gauteng Liquor Board</li> </ul>	<ul style="list-style-type: none"> <li>■ Department of Community Safety</li> <li>■ Department of Agriculture and Rural Development</li> <li>■ Department of Infrastructure and Development</li> <li>■ Department of Roads and Transport</li> <li>■ Department of Economic Development</li> <li>■ Department of Education</li> <li>■ Department of Finance</li> <li>■ Cost Recovery Trading Entity</li> <li>■ Gauteng Enterprise Propeller</li> <li>■ Gauteng Gambling Board</li> <li>■ Gauteng Housing Fund</li> <li>■ Gauteng Medical Supplies Depot</li> </ul>		
Qualified with findings = 2		<ul style="list-style-type: none"> <li>■ Department of Health</li> <li>■ Department of Human Settlements</li> </ul>		
Adverse with findings = 1			<ul style="list-style-type: none"> <li>■ g-Fleet</li> </ul>	

The colour of the auditee's name indicates the audit outcome from where the auditee has moved.

## Overall audit outcomes

The Gauteng provincial government consists of 16 departments, including the office of the premier, legislature and the Provincial Revenue Fund, and 20 public entities.

The number of departments increased from 15 to 16 and public entities have decreased from 21 to 20 since the previous year, due to a provincial executive decision to restructure the auditees. The Department of Housing and Local Government demerged to form two new departments: the Department of Human Settlements and the Department of Cooperative Governance and Traditional Affairs (CoGTA). This report excludes the information of the Provincial Revenue Fund, as the audit was not complete at the cut-off date for inclusion in this report.

Figure 2 indicates that there has been a significant improvement in the overall audit outcomes when compared to the previous year. Figure 3 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province. It is commendable that all audits in Gauteng were completed by 31 July 2014 as prescribed by legislation.

### *Improvement in audit outcomes*

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The current year's provincial audit outcomes improved significantly from the previous year, with 19 auditees (54%) (2012-13: eight [23%]) obtaining clean audit opinions, breaking the trend of a majority of auditees obtaining financially unqualified audit opinions with findings. It is encouraging to see that all eight auditees that obtained a clean audit opinion in the previous year sustained these outcomes. Even more inspiring is that 11 new auditees joined this group of clean audit opinions in the current year. The biggest contributory factor was the improvement in the internal control environment by senior management, which supported the quality of financial statements that were submitted for audit, and the reduction in auditees with findings on compliance with key legislation. In addition, one public entity improved from a financially qualified to a financially unqualified audit opinion with findings.

Leadership of the auditees that obtained clean audit opinions set a tone of zero tolerance for non-performance and held staff accountable for achieving a strong control environment. The significant improvement in audit outcomes was due to the political and administrative leadership's continued commitment to achieving clean administration, together with the oversight role played by various assurance providers and oversight structures.

### *Best practices*

The significant improvement in audit outcomes resulted from the good practices embraced by the auditees. These included the following:

- Robust and proactive audit committee and internal audit functions on matters regarding the implementation and monitoring of action plans to address recurring findings and the commitments made.
- Concerted effort and responsiveness of the political and administrative leadership that successfully implemented basic internal controls, ensuring that an effective control environment was maintained.
- Middle and senior management supported the decisive and timely oversight set by the administrative leadership. This contributed to improved control environments and, ultimately, better audit outcomes.

### *Unchanged and regressed audit outcomes*

Even with the significant improvement in the number of clean audit outcomes, from 20% in 2011-12 to 54% in the current year, it is still of concern that inadequate controls regarding performance information and compliance with key legislation continue to impede sustainable clean audit outcomes.

Twelve (34%) auditees' financially unqualified audit opinions with findings remained unchanged because they were unable to fully apply best practices, leading to shortcomings in their control environment. A majority of the findings related to non-compliance with key legislation.

One entity regressed from a financially unqualified audit opinion with findings to an adverse audit opinion. This was due to the lack of decisive and timely intervention by the chief executive officer in ensuring that financial competencies and disciplines were applied to prepare accurate and reliable financial reports. There was also a deterioration of basic internal controls, and disregard of internal and external audit findings as well as support from provincial treasury.

It is worth noting that while entities with clean audit opinions outnumber the departments with clean audit opinions, the departments are responsible for a larger portion of the province's budget and key service delivery. Therefore, if departments obtain clean audit opinions it will be of much greater benefit to the province and its citizens.

### *Areas of improvement*

In addition to the best practices above, and to improve and sustain the positive trend, we recommend the following areas of improvement:

- Stabilise Gauteng administrative leadership and senior management, and ensure succession planning to promote accountability and continuity. This will safeguard the auditees' institutional knowledge.
- Decisive and timely oversight interventions by the accounting officer/authority, setting a tone that ensures a transparent process of holding employees accountable for poor performance and non-adherence to key policies and controls.
- Implement effective operational procedures and an effective information technology environment to produce reliable financial and performance reporting, and ensure compliance with key legislation.
- Honouring commitments, including the regular preparation and review of financial statements. In addition, internal audit units must review the preparation process for financial and performance reports to assist with the credibility of these reports.
- Internal audit and risk assessment units must integrate and coordinate their functions to ensure that internal audit plans are informed by credible risk management processes.

### Concluding remarks

Overall, the political leadership is setting the right tone and message to the administrative leadership and senior management by continuing to embrace and support clean audit outcomes. The positive attitude towards the audit office and willingness to address concerns raised reaffirms a high level of commitment by Gauteng leadership. This message needs to be fully embraced by the senior management team as the implementers of the Gauteng strategy and the initiatives of service delivery.

## 2. Status of the three areas that we audit and report on

Below is an analysis of audit outcomes for financial statements, annual performance reports and compliance with legislation that contributed to the overall audit outcomes.

### 2.1 Financial statements

The purpose of the annual audit of the financial statements is to provide users with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users

with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

Figure 4: Three-year trend – financial statements

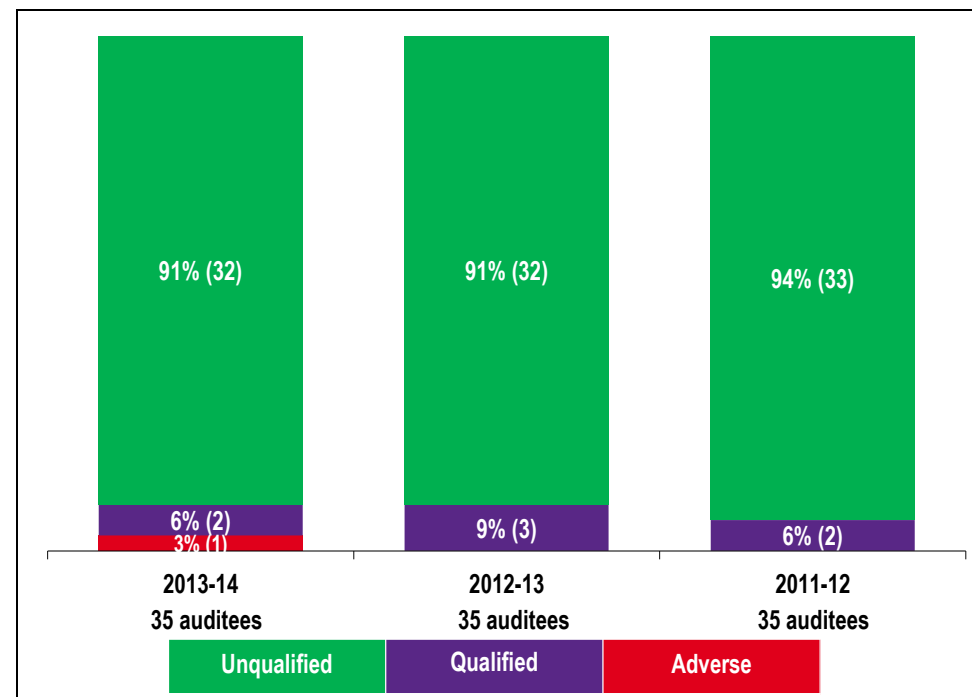


Figure 4 shows that the audit opinions on financial statements, when compared to the previous year, remained unchanged.

It is encouraging that in the current financial year 13 (87%) departments and 19 (95%) entities obtained unqualified audit opinions. The province is on track to obtain financially unqualified audit opinions for all 35 auditees. Unqualified audit outcomes have been above 90% for the last three years. This is an indication that accurate financial statements are a possibility in the province. However, this requires the chief financial officers to be disciplined in preparing regular and accurate financial statements.

While qualified audit opinions reduced from three (9%) to two (6%) in the current year, it is still not desirable that two key basic service delivery departments, Health and Human Settlements again obtained qualified audit opinions. Regrettably, g-Fleet Management Trading Entity (g-Fleet) moved from a financially unqualified audit opinion with findings to an adverse audit opinion.

In 2013-14, the combined budgeted expenditure of the departments of Education, Health and Infrastructure Development (Public Works) contributed 77% of the total in the province. These departments are the key drivers of basic service delivery in the province.

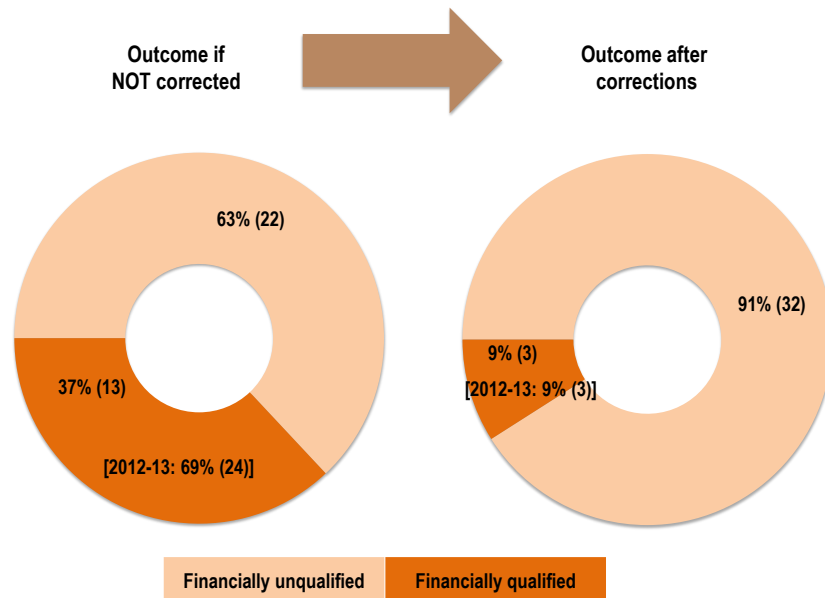
Similar to the previous year, the departments of Education and Infrastructure Development received financially unqualified audit opinions with findings. For both these auditees there is a need to enhance controls around compliance with laws and regulations. In addition, the Department of Infrastructure Development had material findings on the reliability of performance information. Therefore, the department needs to ensure the information technology or manual systems for reporting on predetermined objectives are enhanced to ensure proper record keeping and document collation processes.

As mentioned above, the Department of Health obtained a qualified audit opinion on the financial statements. Although the number of qualification areas reduced from three to one in the current year, it is of concern that the remaining qualification area is on the same finding as last year, relating to departmental revenue.

The qualification areas are discussed in detail under the sections below.

## The quality of the financial statements submitted for auditing

Figure 5: Quality of financial statements submitted for auditing



While all auditees submitted their financial statements for auditing on time, figure 5 shows that only 22 (63%) auditees submitted financial statements that did not contain material misstatements. Of the 22 auditees, six were departments and 16 were entities.

The quality of financial statements submitted for auditing improved from 11 (31%) auditees in the previous year to 22 (63%) auditees in the current year.

This improvement is encouraging, especially because the oversight functions and Gauteng Provincial Treasury have elevated their monitoring and oversight. The oversight and governance structures set a tone of zero tolerance for non-performance and held staff accountable for achieving a strong financial control environment. This was supported with improved basic monthly internal processes to verify data and support reliable financial reporting.

Figures 4 and 5 also show that 10 (29%) auditees received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. This resulted in 32 (91%) auditees receiving financially unqualified audit opinions. Only 22 (63%) auditees would have received an unqualified audit opinion if we had not identified the misstatements and allowed the 10 auditees to make the corrections.

The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit hours to perform the audit.

The most common areas which auditees corrected to achieve unqualified audit opinions are:

- current assets relating to receivables
- payables and accruals as part of liabilities
- irregular expenditure relating to supply chain management non-compliance.

A contributing factor is the instability at the level of accounting officers (five vacancies) and chief financial officers (15 vacancies) which negatively impacted on the continuity of a good financial control environment. Employees acting in positions usually had to perform the new acting responsibilities as well as their previous responsibilities, which led to the employees not being fully effective in the functions and powers of the acting position. This was characterised by the lack of discipline to prepare regular financial statements and reconciliations of key accounts.

We report the poor quality of the financial statements we receive in the audit reports of auditees as material non-compliance with the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) (refer to section 2.3). The finding is only reported if the financial statement we received for auditing included material misstatements that could have been prevented or detected if the auditee

had an effective internal control system and review processes. We do not report if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements were submitted. The Gauteng Housing Fund would have received a clean audit outcome were it not for this particular compliance finding.

## Financial statement areas qualified

Even though we reported the material misstatements to management for correction, three auditees (2012-13: three) could not make the necessary corrections to the financial statements, which resulted in two qualified and one adverse audit opinions.

The major reasons for not making the corrections include:

- Instability at accounting officer and chief financial officer level, which led to a lack of decisive and timely decision-making to ensure accurate financial reporting.
- Lack of implementation of proper record keeping systems to ensure that complete, relevant and accurate information was accessible and available to support financial reporting.
- Lack of proactive implementation and monitoring of action plans to address the previous year's audit findings due to poor financial reporting disciplines to prepare accurate financial statements.

Figure 6: Top three financial statement qualification areas

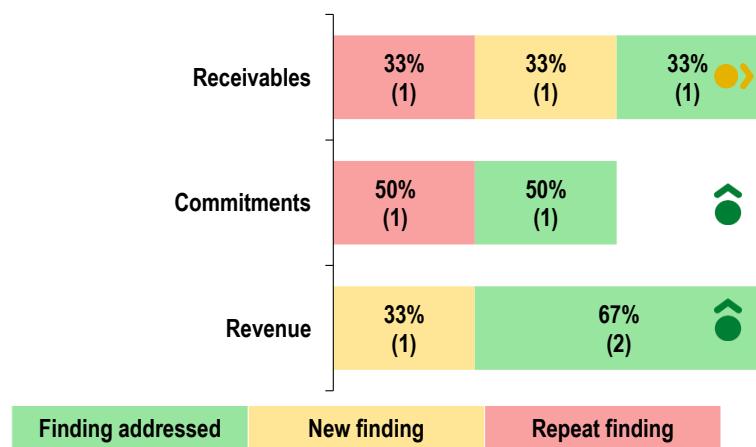


Figure 6 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year.

Provincial government is conscious of the fact that more work needs to be done, particularly in those departments and entities that did not achieve good audit outcomes in the current year. These are the Department of Health, Department of Human Settlements and g-Fleet. The political leadership committed to continue with its provincial administration support at the Department of Health to ensure a speedy turnaround so that it can focus on the provision of quality public healthcare services. The provincial treasury is also working closely with the Department of Human Settlements and g-Fleet to address issues that resulted in their failure to achieve the desired audit outcomes.

The reasons for the most common qualifications and the auditees qualified are as follows:

## Department of Health

### Receivables

The Department of Health was again qualified on accrued departmental revenue due to the receivables not being completely captured on the system and inadequate record keeping. A significant portion of this qualification is attributed to an inadequate receivable management system. The biggest contributor is the system downtime, exacerbated by a lack of discipline among hospital finance managers and their teams to capture complete information as soon as the system is up and running.

The accounting officer is dependent on hospital chief executive officers (CEO) to confirm the credibility of financial information submitted. However, CEOs rely on finance managers to confirm the completeness and accuracy of financial information. The information confirmed by finance managers to CEOs did not always give a true reflection of the status of receivables. Unfortunately, the material inaccuracies were only discovered by the auditors during the audit process.

There is a need to improve the credibility of financial information reported by some hospitals' finance managers to hospital CEOs. The department should consider using the services of internal control personnel or internal auditors to verify the completeness and accuracy of receivables data captured after system downtime has been experienced. This will assist hospital CEOs to hold respective managers accountable and take the necessary actions.

It is, however, encouraging that over the past five years the department's results have improved. This improvement is evidenced by the move from a disclaimed audit opinion to a qualified audit opinion with findings over a five year period. The department addressed its qualification on contingencies and provisions mainly due to an improvement of skills and financial disciplines in the legal and finance

departments relating to accounting for possible claims against the department. This improvement was also a result of the audit committee urging the department to heed our call to work diligently on resolving the qualification issues.

Based on our engagements with the previous and new members of executive councils (MECs), there will be a continued focus on improving financial governance. Hopefully, this will result in the department progressing to the category of financially unqualified audit opinions.

## Department of Human Settlements

### *Other disclosures – commitments and irregular expenditure*

The Gauteng Department of Human Settlements was qualified on the disclosure of commitments and irregular expenditure in the current year, and qualified on commitments in the previous year. The qualification in both areas, relating to a lack of completeness on disclosures of commitments and irregular expenditure, resulted from a lack of accountability due to instability at the accounting officer level. The position was vacant for more than 12 months.

The biggest contributor to the qualifications is the lack of basic disciplines of project management in the department. Record keeping of the housing projects in progress and the audit trail relating to extensions of these projects was inadequate. In addition, the reconciliations for the housing projects were not performed as the department did not have any systems for accounting and recording housing projects. Since the department did not have a reliable history of projects registered and there was no fully functional project management office, it could not substantiate the number of contracts entered into. The qualification on irregular expenditure was new and was due to an inadequate system to support the completeness of irregular expenditure.

The department needs to manage the project through its lifecycle to ensure that completed projects, as well as the stage of completeness, are fully captured. Human settlements, like health, needs strong oversight structures to stabilise the administrative leadership and key management positions, and drive accountability through poor performance and consequence management.

## g-Fleet Management Trading Entity (g-Fleet)

g-Fleet regressed from a financially unqualified audit opinion in the previous year to an adverse audit opinion with qualification areas on revenue, receivables, liabilities and other disclosures. The regression was due to the lack of decisive and timely intervention by the CEO to ensure financial competencies and disciplines were

applied to prepare accurate financial reports. There was also a deterioration of basic internal controls and disregard of internal and external audit findings and support by provincial treasury.

Included in the top three qualification areas are revenue and receivables, with property, plant and equipment being the biggest qualification area for g-Fleet. These qualification areas are discussed below.

### *Revenue and receivables*

g-Fleet was qualified on revenue and receivables as the entity overstated these by recording more revenue in the financial statements than it could substantiate. This was due to an ineffective billing system and a lack of proper reconciliation to ensure accurate transactions and balances reported in the financial statements.

### *Non-current assets – property, plant and equipment*

The qualification on property, plant and equipment related to the completeness and valuation of the recorded balance in the financial statements. The entity did not account for all properties, and recorded assets at the incorrect value. This was caused by incorrect and incomplete asset registers that did not reconcile to the general ledger.

### *Way forward (g-Fleet)*

Accounting officers are expected to take accountability and adequately capacitate financial divisions to ensure the credibility of financial reporting. Although the chief financial officer (CFO) at g-Fleet had the right qualifications, there was a complete lack of appropriate accounting disciplines to prepare accurate financial statements.

Based on the audit results, it is clear that g-Fleet will not be able to return to a financially unqualified audit opinion without some drastic intervention. As a first step, the g-Fleet CEO and CFO need to take accountability and ownership of these outcomes. The MEC for transport needs to immediately intervene for g-Fleet to improve these outcomes. In addition, provincial treasury should consider assisting with technical matters. The audit committee and internal audit may need to consider allocating sufficient time to attend to g-fleet issues, which will enable robust discussions and interventions.

## **Recommendations**

Auditees that received qualified and adverse opinions and those that submitted poor quality financial statements for auditing should draft and implement pointed action plans which hold officials accountable for delivery to strengthen their internal control processes. Consequence management should be evident and reported on



transparently where there is no delivery on action plans. These controls should create and sustain an environment that supports reliable reporting.

## Best practices

Twenty-two (63%) auditees were able to prepare financial statements that were free from material amendments. This was mainly because they implemented action plans and recommendations from the previous year. In addition, the following best practices were also implemented:

- Executive leadership, with the support of the accounting officers/authorities, encouraged regular and accurate financial statements, which enabled governance structures to play an effective review role.
- Accounting officers/authorities at some auditees insisted on a monitoring mechanism to ensure that officials deliver on the expected financial competencies. This was done by incorporating the requirements of preparing credible and regular financial reports into their senior management's performance agreements, and holding them accountable.
- Accounting officers/authorities heeded our audit recommendation to improve stability at senior management level and within their finance units. This resulted in improved accountability and entrenched good internal control disciplines.
- Accounting officers/ authorities were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance.
- Provincial treasury performed a high-level review of financial statements prior to submission to audit committees and for audit.

## Areas of improvement

For auditees that did not receive financially unqualified audit outcomes, we recommend that in addition to replicating the best practices above, they implement at least the following recommendations to enable them to attain unqualified audit opinions:

- Political leadership and oversight structures should hold accounting officers/authorities accountable for the timely implementation of action plans and honouring commitments.
- Accounting officers/authorities should improve and elevate the status of information technology (IT) systems and controls at the auditees to ensure that IT is effectively used as an enabler of credible financial reporting.
- Develop and implement human resource (HR) plans that focus on competence and succession planning of senior management positions to ensure institutional knowledge is not lost through staff turnover.

## Concluding remarks

In line with the increased assurance provided by audit committees and provincial treasury, it is evident that a collaborative effort by all key role players is required to sustain these financially unqualified audit outcomes. The focus should however remain on CFOs that have the discipline to produce credible, regular (at least quarterly) and accurate full financial statements. This will allow internal audit, the audit committee and provincial treasury to perform timely reviews, which will reduce the continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion.

## 2.2 Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives and to report on this in their annual performance reports. The analysis that follows excludes three entities that did not report on predetermined objectives. The programmes and objectives for the Cost Recovery Trading Entity and Gauteng Housing Fund are reported at a departmental level. The Greater Newtown Development Company did not report on predetermined objectives as the entity is in the process of liquidation.

We audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable to oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select are those that are important for the delivery by the auditee on its mandate. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of these users.

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees' planned objectives as defined in their strategic plans and annual performance plans. We also assessed whether the performance indicators and targets that were set to measure achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We audited the **reliability of the reported information** by determining whether it could be traced back to the source data or documentation and was accurate, complete and valid.

**Figure 7: Three-year trend – quality of annual performance reports**

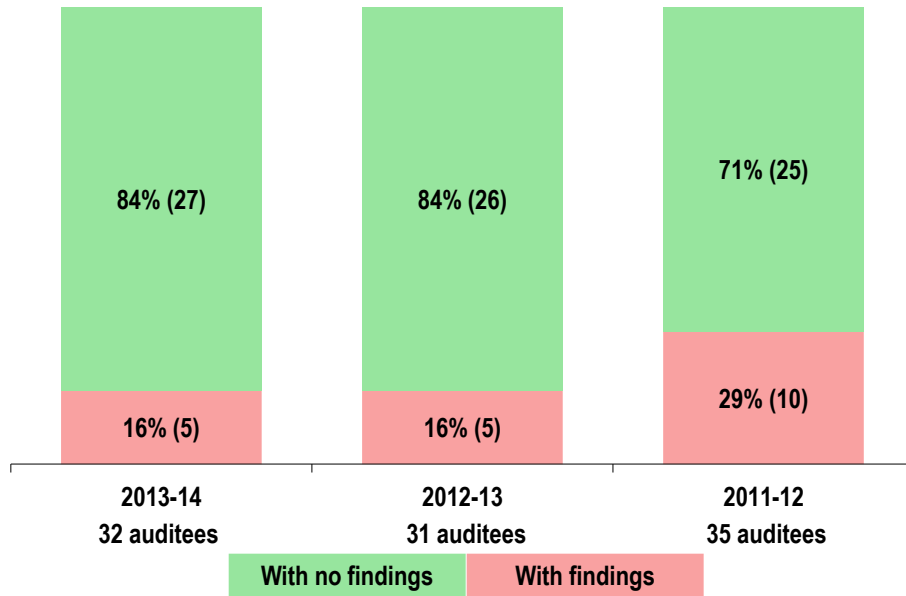


Figure 7 shows that there has not been a significant change in the number of auditees with no material findings on the quality of their annual performance reports when compared to the previous year.

The five auditees with findings are four departments and one entity, the Gauteng Medical Supplies Depot. This is an indication that the majority of auditees in this province have mastered the discipline of reporting on pre-determined objectives, especially the entities.

The departments of Agriculture and Rural Development and Community Safety addressed their previous year's material findings on predetermined objectives. This resulted in them producing performance information reports that are both useful and reliable.

### Key service delivery departments

It is commendable that over the past six years the Department of Education has had no material findings on performance reports. This was achieved by implementing basic controls for reporting on performance information and should be replicated by the four departments mentioned below.

The departments of Health and Infrastructure Development both obtained a repeat disclaimer conclusion on their annual performance report. This was mainly due to management providing insufficient information to support the reported figures.

The Department of Infrastructure Development did not have an adequate IT system for the collation and recording of audit evidence. The IT system at the Department of Health lacked sufficient general controls to prevent a management override of controls, which resulted in discrepancies between performance information captured on the system and supporting evidence.

The departments of Roads and Transport and Human Settlements regressed from the previous year where they had no material findings on the reported performance information. In the current year the Department of Human Settlements had material findings on the reliability of reported information, while the Department of Roads and Transport had material findings on both the usefulness and reliability of reported information.

The regression at the Department of Roads and Transport was due to a lapse in the effective review and monitoring of source documentation that supports actual reported results. Furthermore there was a lack of sufficient procedures to support the accurate recording of actual achievements. In some instances, reported information was not verifiable because processes and systems aimed at producing actual performance results were inadequate.

At the Department of Human Settlements, the lack of standard operating procedures, inadequate project management and monitoring of the completeness of source documentation resulted in the regression. Consequently, the reported performance information was not accurate and complete when compared to the source information or evidence provided.

### The quality of the annual performance reports submitted for auditing

It is commendable that all auditees submitted their annual performance reports for auditing on time. Figure 8 indicates that 24 (75%) auditees submitted annual performance reports that did not contain material misstatements, compared to the previous year where 26 (84%) auditees were able to submit annual performance reports that did not have any material misstatements.

The reasons for this regression have been covered above under the section for key service delivery departments.

Figure 8: Quality of submitted annual performance report

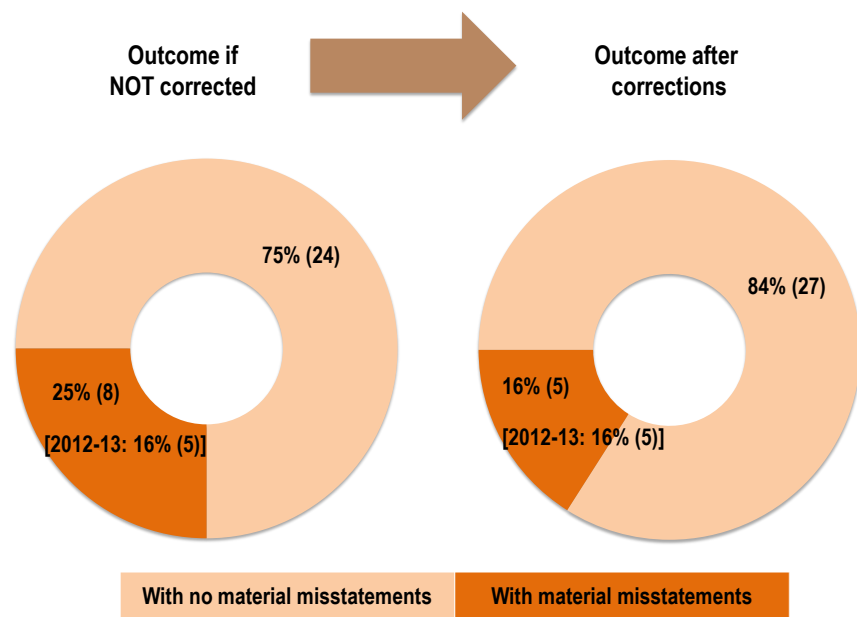


Figure 8 also shows that eight (25%) auditees submitted annual performance reports with material misstatements, compared to five (16%) in the previous financial year.

Regrettably, it appears that auditees have become complacent. The same diligence that is expected and was exercised in the previous years was not applied when reporting on predetermined objectives in the current year.

In the current year three (9%) auditees did not have material misstatements only because they corrected all the misstatements we had identified during the audit. Only 75% of the auditees would have had no material misstatements if we had not identified the misstatements and allowed them to make the corrections.

The Department of Education, Department of Community Safety and Gauteng Film Commission did not have material findings in the current year only because they corrected all the misstatements we had identified during the audit.

### Findings on usefulness and reliability of annual performance reports

Some auditees' main programmes/objectives are material in relation to their budget and mandate. The programmes and objectives that we selected for audit on which we reported material findings on usefulness and reliability were the following:

Table 1: Findings on usefulness and reliability

Auditee	Programme	Not useful	Not reliable
Department of Infrastructure Development	Programme 3: Expanded public works programme		
Department of Roads and Transport	Programme 2: Transport infrastructure		
	Programme 3: Transport operations		
Department of Health	Programme 2: District health service		
	Programme 4: Provincial hospital services		
	Programme 5: Central hospital service		
Department of Human Settlements	Programme 3: Housing development		
	Programme 4: Housing asset and property management		
Gauteng Medical Supplies Depot	Programme: Medical supplies depot		

The finding on usefulness for the Department of Roads and Transport relates to indicators not being verifiable as valid processes and systems that produce the actual performance did not exist.

The most common findings on reliability of information were the following:

- Management did not provide the auditors with sufficient and appropriate evidence to support the reported performance information.
- Controls were not in place to ensure that the information being reported was accurate and complete when compared to source documentation.

These findings on reliability were mainly due to:

- Inadequate document management systems to support reported information.
- A lack of review of by the head of performance and monitoring of the annual performance plans.

## Gauteng performance audit of the readiness of government to report on its performance

The audit was performed transversally across the provinces and focused on the following:

- The performance reporting guidance and oversight government departments received
- The systems and processes that government departments have put in place to report on their performance.

The audit identified the root causes why departments continue to produce annual performance reports that are not useful and reliable. In the Gauteng Province, the audit was performed at the following oversight institutions and departments:

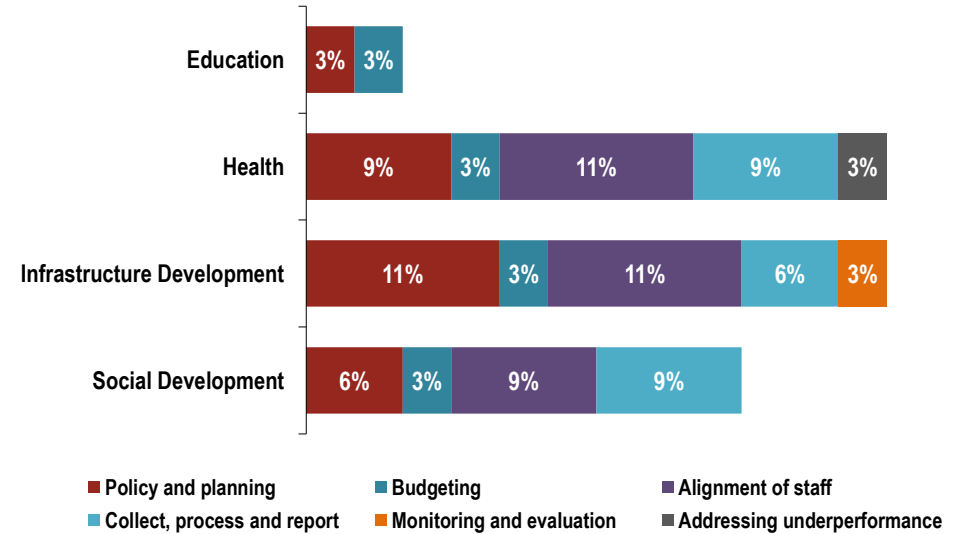
- Oversight institutions
  - Office of the Premier
  - Department of Finance
- Departments
  - Department of Education
  - Department of Health and Social Development
  - Department of Infrastructure Development

The audit indicated that the provincial oversight institutions provided limited performance management and reporting guidance and oversight. While the most common findings identified at the departments were the following:

- Some departments did not have approved and/or comprehensive policies and procedures for reporting on performance
- Some performance indicators were not well-defined, verifiable or did not measure whether resources were used efficiently, effectively and economically to produce the desired outputs and outcomes
- Some departments had insufficient skilled staff to manage and report on performance
- Staff was not always held accountable for underperformance in reporting on performance and/or achieving performance targets

- At some departments approved processes and system documentation for collecting, collating, verifying, storing and reporting on actual performance did not exist
- Internal audit sections of some departments did not perform annual reviews of performance information, or their reviews did not focus on the usefulness and reliability of reported performance information

Figure 9: Distribution of findings



Notwithstanding these findings, the province has made big strides over the last three years, improving the oversight functions by supporting departments through CFO and Heads of Department Forums. Accounting officers/authorities are aware of the importance of valid, accurate and complete performance information, and held the responsible officials accountable for preparing credible performance information.

## Recommendations

Auditees that had material findings and those that submitted poor quality annual performance reports for auditing should strengthen their processes and controls to create and/or sustain a control environment that supports useful and reliable performance reporting.

## Best practices

Twenty four (75%) auditees were able to prepare annual performance reports that were free from material misstatements. This was mainly because of them embracing the following best practices:

- Accounting officers/authorities implemented appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements.
- The heads of monitoring and evaluation adequately reviewed performance information resulting in credible performance reports.
- Internal audit reviews were extended beyond just the control environment and included the audit of quarterly performance reports.
- Accounting officers/authorities provided effective oversight and held the responsible officials accountable for preparing credible performance reports.

## Areas of improvement

For auditees that had material findings on performance information, we recommend that, in addition to the best practices above, they implement at least the following recommendations to enable them to produce quality performance information:

- Implement proper record keeping measures to ensure that complete, relevant and accurate information is accessible and available to support performance reporting. The head of performance and monitoring must verify the supporting records for every quarterly report.
- The information technology systems for reporting on predetermined objectives should either be implemented or enhanced to ensure proper record keeping and document collation processes.
- Internal audit should review the preparation process for performance reports to assist with the credibility of these reports.
- The risk assessment units should include adequate risk assessment of the performance information area to ensure that the scope of internal audit plans address key risks for performance information.
- Accounting officers/authorities should improve oversight by intervening decisively and in a timely manner to ensure quicker response on recommendations and action plans.

## Concluding remarks

The annual performance report measures whether the auditee met its set service delivery requirements. It is therefore important that the reported information is of a

high quality, useful and reliable so that stakeholders see an accurate reflection of how the auditee performed and whether any interventions are required to improve service delivery.

## 2.3 Compliance with key legislation

We annually audit and report on compliance with key legislation applicable to financial matters, financial management and other related matters.

We focused on the following areas in our compliance audits: ■ material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committee ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ internal audit unit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, supply chain management) ■ human resource (HR) management and compensation.

In the audit report, we reported findings from the audits that were material enough to be brought to the attention of oversight bodies and the public.

### Status and findings on compliance with key legislation

Figure 10: Three-year trend – compliance with key legislation

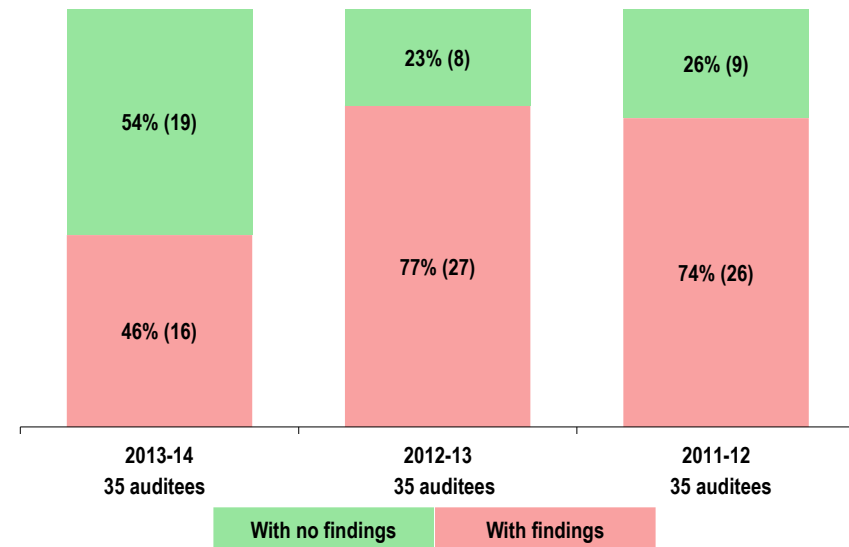


Figure 10 shows that there has been a significant increase, from eight (23%) auditees to 19 (54%) auditees with no material findings on their compliance with key legislation when compared to the previous year. It is, however, of concern that 16 (46%) auditees still have findings on compliance with key legislation in the current year.

This improvement resulted mainly from the stability in key positions in finance units after some entities were restructured. This was achieved by enhanced in-year monitoring of compliance by both the administrative leadership and the audit committees, through enforcing proper governance and accountability practices.

The auditees that still had findings on compliance did not retain key procurement officials possessing the requisite skills. Furthermore, instability at the accounting officer level resulted in a slow response by senior management to address compliance findings because of the lack of accountability, decisiveness and timely implementation of actions plans to support strong ethical procurement disciplines.

### Key service delivery departments

The departments of Education and Health had repeat findings on:

- Material misstatements in submitted financial statements
- Expenditure management
- Unauthorised, irregular, as well as fruitless and wasteful expenditure
- Procurement management.

It is of concern that both these departments were not able to address any of the significant findings on compliance reported in the previous year.

The Department of Infrastructure Development also had repeat findings on:

- material misstatements in submitted financial statements
- asset management
- expenditure management.

While this department had the above repeat findings, it is reassuring that it was able to address four compliance areas of the previous year.

For a more detailed discussion on the compliance areas refer to the rest of the section on compliance with key legislation.

Figure 11: Trends in findings on compliance with legislation

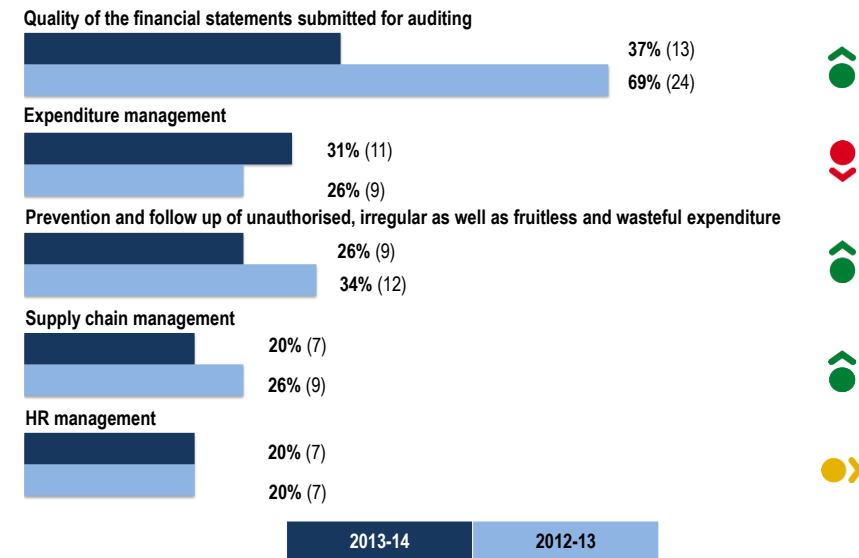


Figure 11 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings.

The most common findings across these compliance areas were the following:

- Material misstatements or limitations in the financial statements submitted for auditing, as mentioned and explained in section 2.1.
- Expenditure management relating to the settling of creditors within 30 days or agreed time frames on receipt of invoice.
- Unauthorised, irregular and fruitless and wasteful expenditure was not prevented and/or detected (refer to section 2.3.2 for more detail).
- Supply chain management (SCM) legislation and prescripts were not complied with (refer to section 2.3.1 for more detail).
- Proper verification process of information for new appointments did not always take place.

It is encouraging to see an improvement for most of these compliance areas from the previous year. This improvement was achieved through enhanced in-year monitoring of compliance by both administrative leadership and the audit committees, through enforcing proper governance and accountability practices.

The biggest improvement relates to the quality of the financial statement submitted for auditing, and is also the main contributor to the improved clean audit outcomes. The improvement resulted from the stability achieved at previously restructured

entities, which led to fewer auditees with material adjustments to the financial statements. This illustrates the importance of having proper risk and change management processes prior to restructuring operations to ensure business and operational continuity. Key to this process is the stability of senior management positions.

It is, however, of concern that the compliance area of expenditure management has regressed. This was due to the lack of proper cash-flow management processes, resulting in creditors not being settled within 30 days or in agreed time frames.

Sections 2.3.1 and 2.3.2 provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices in section 2.3.3.

### 2.3.1 Supply chain management

As part of our audits of SCM, we tested 590 contracts (with an approximate value of R10 billion) and 1 304 quotations (with an approximate value of R292 million), also referred to as *awards* in this report.

We tested whether the prescribed procurement processes had been followed, which would have ensured that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers of the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare the interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process.

We reported all the findings from the audit to management in a management report, while we reported the material compliance findings in the audit report.

Figure 12: Status of supply chain management

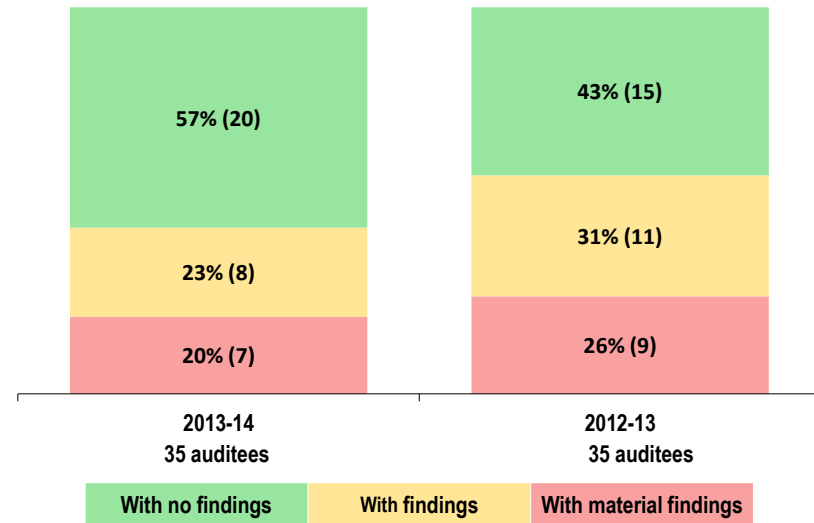


Figure 12 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous years.

It shows that there has been an improvement compared to the previous year. There were 20 (57%) auditees with no findings in the current year, compared to 15 (43%) auditees in the previous year. The reduction in the SCM findings was due to the accounting officers/authorities strengthening oversight and consequence management.

Even though an improvement has been observed, the 15 (43%) auditees that did not eliminate SCM findings are a cause for concern. These findings resulted from accounting officers' being unable to implement adequate reviews of SCM processes to detect non-compliance before the conclusion of the awards.

**Figure 13: Findings on supply chain management**

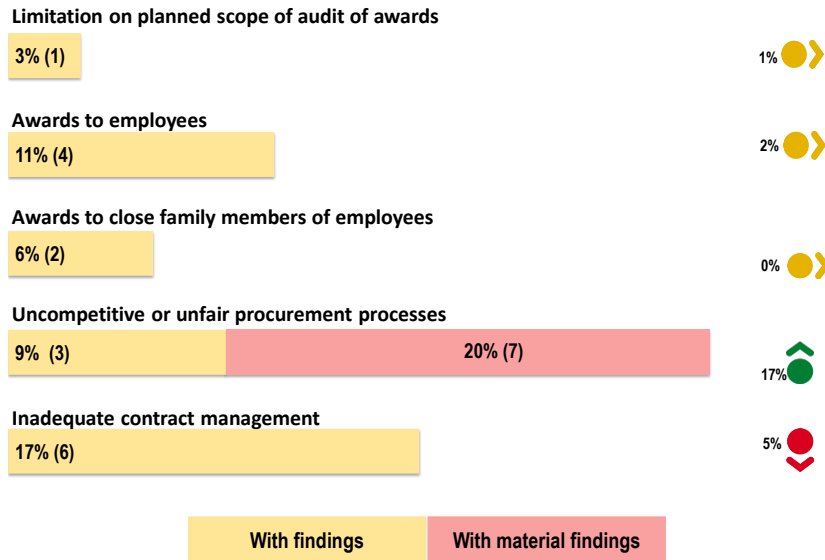


Figure 13 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year we again experienced limitations in auditing supply chain management. We could not audit twelve awards with a value of R10,3 million at one auditee (2012-13: two awards amounting to R57,6 million), as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation.  
We also could not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for the limitations was inadequate record keeping and document management processes at the auditee.
- There were 35 instances of awards, with an overall value of R28,7 million, to suppliers in which employees of the auditees had a financial interest. In 80% of these instances, the supplier did not declare the interest, while the employee did not declare the interest in 20% of the cases. Furthermore, in 33% of the instances the employees did not obtain permission to perform additional remunerative work. Although none of the employees with a conflict of interest was at a senior management level, the number of instances and rand values remains a concern.
- There were 22 instances of awards, with an overall value of R12,7 million, to suppliers in which close family members of employees of the auditees had an interest. In 53% of these instances, the supplier did not declare the interest,

while the employee did not declare the interest in 47% of the cases. Although none of the employees with a conflict of interest was at a senior management level, the number of instances and rand values remains a concern.

- The most common findings on uncompetitive and unfair procurement processes were:
  - Competitive bids were not invited and the approved deviation was not reasonable/ justifiable (11% of auditees).
  - Three written quotations were not invited and either the approved deviation was not reasonable or justified; or the deviation was not approved at all. (6% of auditees)
- The most common findings on contract management were:
  - Inadequate contract performance measures and monitoring of contracts (9% of auditees).
  - Contracts amended, extended or renewed without approval by a delegated official or to circumvent competitive bidding processes (6% of auditees).

## Recommendations

Auditees that had findings on compliance with SCM legislation should strengthen their processes and controls to create and/ or sustain a control environment that supports compliance.

## Best practices

Auditees that improved and continued to avoid material findings in this area were able to do so because:

- Senior management performed regular monitoring and review of controls to ensure proactive compliance with laws and regulations, and instilled discipline among staff to do the right thing.
- Accounting officers/authorities set a strong tone of ethical procurement disciplines and zero tolerance for non-compliance by making sure officials are held accountable.

## Areas of improvement

In addition to the above best practices, at least the following improvement areas should be addressed to improve the status of compliance with SCM legislation:



- Administrative leadership should consistently implement and entrench performance and consequence management controls for non-compliance with SCM legislation.
- The accounting officer/authority should insist that SCM units vet employees to detect those that may be doing business with the auditee and making false declarations.

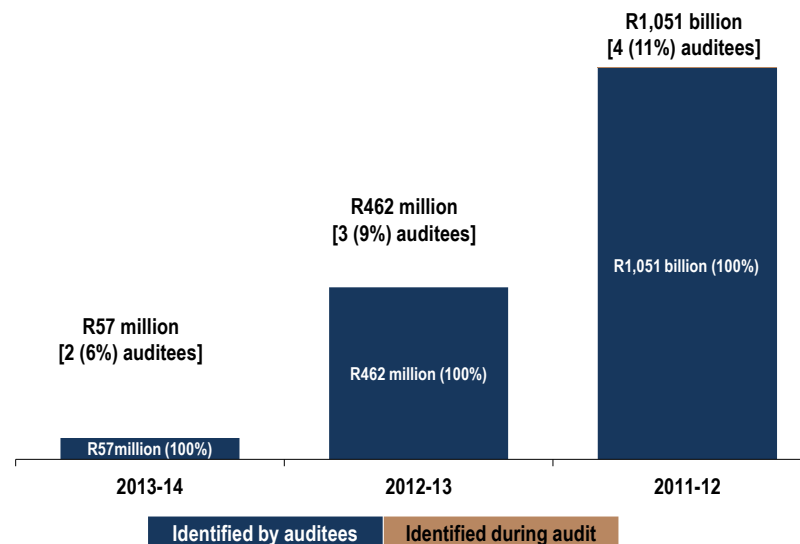
The accounting officers/authorities should produce detailed transparent reports on the status of SCM non-compliance. This will enable the executive authority and audit committee to provide effective and timely oversight and intervene where necessary. These reports should indicate why they did not comply, how and when the gaps will be dealt with. This will be key to cleaning up the SCM compliance area.

## 2.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

### Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. The PFMA requires accounting officers to take all reasonable steps to prevent unauthorised expenditure. The auditee should have processes in place to identify any unauthorised expenditure that was incurred and disclose the amounts in the financial statements. The PFMA also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

Figure 14: Trend in unauthorised expenditure



There has been a significant decrease in the total amount of unauthorised expenditure over the three-year period. The unauthorised expenditure decreased from R1,051 billion in 2011-12 to R57 million in the current year.

It is also encouraging that unauthorised expenditure was incurred by only two departments compared to the four and three departments in 2011-12 and 2012-13 respectively.

The contributing factors to this improvement include an increased focus on basic monthly budget reviews and monitoring controls in spending resources on allocated programmes. Provincial treasury also assisted with budget ring-fencing. In addition, the auditees have improved their controls to prevent and detect unauthorised expenditure as all unauthorised expenditure was identified by the auditees.

Of the R57 million in unauthorised expenditure incurred in the current year, R55,5 million (97%) was incurred at the Gauteng Department of Education as a result of overspending on employee costs for the programme: *Public Ordinary School*. Because of increased learner numbers requiring more human resources, the department could not reduce spending in public ordinary schools without affecting service delivery.

It is worth noting that the Department of Education is struggling to collect long outstanding debt. If debt management challenges are not attended to, this may increase their unauthorised expenditure in future.

It is, however, encouraging that the Department of Education, being the biggest contributor to unauthorised expenditure, committed to continue engaging at national level on all matters causing budget pressures.

### Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is also an indicator of a significant breakdown in controls at some auditees.

The PFMA requires accounting officers to take all reasonable steps to prevent irregular expenditure. Auditees should have processes in place to detect non-compliance with legislation that results in irregular expenditure and, if incurred, are required to disclose the amounts in the financial statements. Irregular expenditure is required to be reported when it is identified – even if such expenditure was from a previous financial year.

**Figure 15: Auditees incurring irregular expenditure**

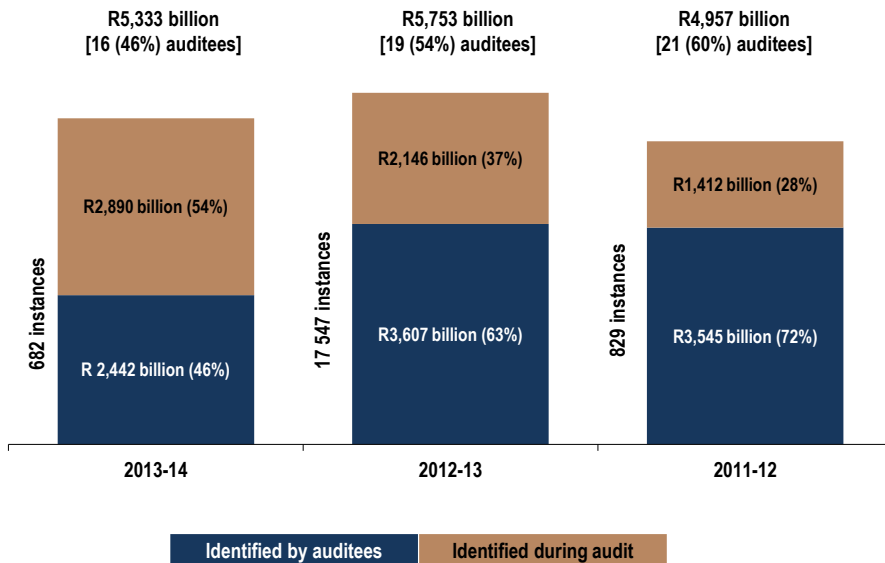


Figure 15 indicates that the irregular expenditure incurred remained stagnant over the last three years. There was, however, a decrease in the number of auditees incurring irregular expenditure over the last three years and there was a slight improvement in the amount from the previous year. Irregular expenditure decreased from R5,8 billion in 2012-13 to R5,333 billion in the 2013-14 financial year.

Of the 5,333 billion incurred in the current year, 99% relates to non-compliance with SCM legislation. For the main areas of SCM compliance refer to section 2.3.1 above. The R5,333 billion incurred in the current year constitutes an estimated 7% of the total expenditure budget in the province.

**Figure 16: Main auditees contributing to irregular expenditure**

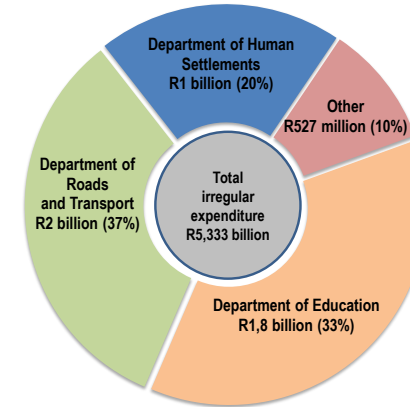


Figure 16 indicates the main auditees contributing to irregular expenditure are the departments of Roads and Transport (R2 billion), Education (R1,8 billion) and Human Settlements (R1 billion). The Department of Human Settlements was also qualified on irregular expenditure as it did not include all irregular expenditure in the financial statements, as required by the PFMA. This was due to inadequate systems, including the lack of appropriate policies and procedures to maintain the records of all irregular expenditure.

It is a concern that the province is not making any progress in decreasing its irregular expenditure. The auditees still lack proper systems to prevent, detect and record irregular expenditure as only 46% of the irregular expenditure was identified by the auditees.

**Figure 17: Previous year irregular expenditure identified in the current year**

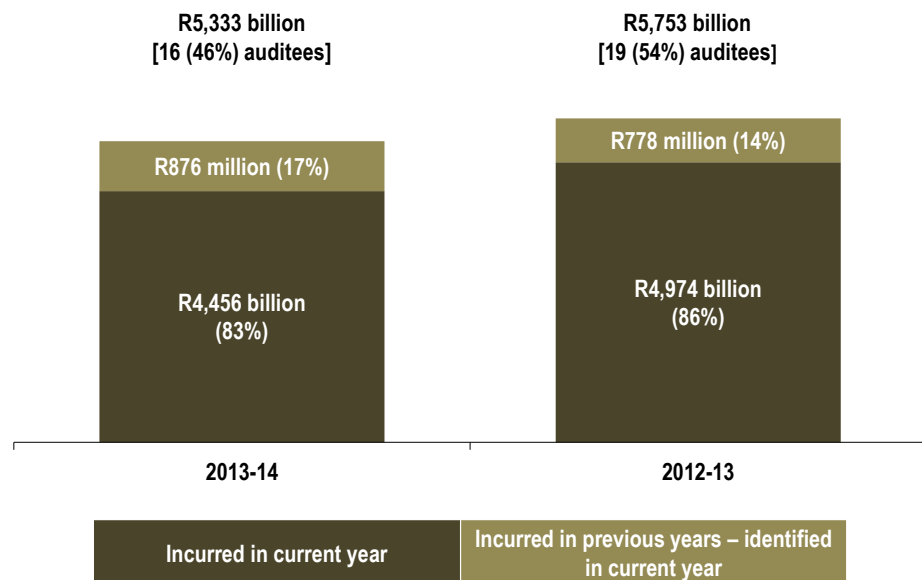


Figure 17 shows that 83% of the irregular expenditure identified in the current year was the result of acts of non-compliance in 2013-14. The remaining 17% was irregular expenditure resulting from transgressions in the previous years, which were identified in the current year.

The following were the main areas of SCM non-compliance that resulted in irregular expenditure, as disclosed by the auditees in their financial statements, with an indication of the estimated value of the expenditure:

- Procurement without a competitive bidding or quotation process – R1,5 billion (29%)
- Non-compliance with procurement process requirements – R2,1 billion (38%)
- Non-compliance with legislation on contract management – R1,7 billion (33%)

The PFMA provides for steps that accounting officers should take to investigate irregular expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The investigation should also confirm whether fraud has been committed or money has been wasted through goods and services that were not received or that were not procured at the best price. Irregular expenditure incurred remains on the auditee's financial statements until it is recovered if liability is proven, or written-off as not recoverable or condoned by a relevant authority (mostly the Provincial Treasury).

At 31 March 2013 the auditees' financial statements showed that the balance of irregular expenditure in the province that required action to be taken was R10,3 billion. It is of concern that in 2013-14 only R3,5 billion (34%) was dealt with as required by legislation, leaving a balance of R6,8 billion (66%) at the end of the 2013-14 financial year. Accounting officers/authorities, with the support of provincial treasury, must continue investigating any allegations against officials failing to comply with SCM legislation. We did not perform any investigations into the irregular expenditure as that is the role of the accounting officer and oversight body.

However, through our normal audits we determined that goods and services were received for R4,913 billion (92%) of the irregular expenditure relating to SCM, despite the normal processes governing procurement not being followed. Our financial audits at these auditees did not identify any specific risks or material instances of payment for goods not received or for services not rendered. The balance of R421 million (8%) was not audited and we could therefore not specifically confirm that goods and services had been received.

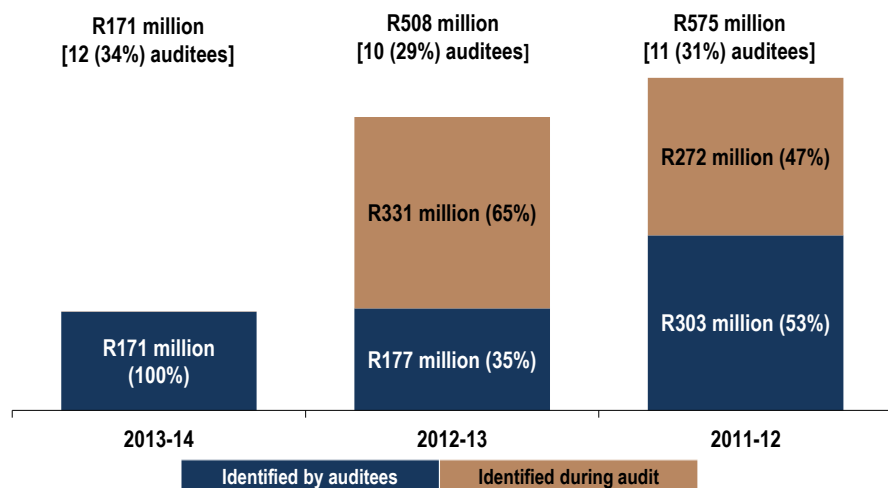
It is crucial that accounting officers and/or oversight bodies investigate irregular expenditure in a timely manner to determine if any person was liable for the expenditure. This will enable auditees to determine whether the irregularities constituted fraud or whether any money was wasted and take appropriate action.

### *Fruitless and wasteful expenditure*

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken.

The PFMA requires accounting officers to take all reasonable steps to prevent fruitless and wasteful expenditure. The auditee should have processes in place to detect fruitless and wasteful expenditure and, if incurred, to disclose the amounts in the financial statements. Fruitless and wasteful expenditure is required to be reported when it is identified – even if the expenditure was from a previous financial year.

**Figure 18: Trend in fruitless and wasteful expenditure**



The three-year trend in fruitless and wasteful expenditure shows a decrease from R575 million to R171 million in the current year. Of the R171 million the Department of Health incurred R161 million (94%) of which R155 million (91%) was a result of settling medical law suits.

This resulted from improved cash-flow and contract management processes, which led to a reduction in avoidable penalties. Auditees have also improved their controls to identify and record fruitless and wasteful expenditure as all of the amounts disclosed were identified by the auditees.

The nature of the fruitless and wasteful expenditure incurred was:

- Settlement of law suit amounting to R155 million (91%) for the Department of Health.
- Interest for late payments to creditors and expenditure incurred for goods not used before expiry date, amounting to R16 million (9%) for other departments.

It is noted that R166 million was incurred to prevent irregularities and further losses or fruitless and wasteful expenditure. The Department of Health will have to improve business processes to address further medical law suits, as this will deplete funding for key service delivery and poses a huge threat to the sustainability of this department.

### 2.3.3 Recommendations – compliance

Auditees that had findings on compliance with key legislation and SCM and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure

should strengthen their processes and controls to create and/or sustain a control environment that supports compliance. The PFMA provides for steps that accounting officers should take to investigate the fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The following best practices and improvement areas are in addition to those mentioned in the preceding sections.

#### Best practices

Auditees that were able to improve, that continued to avoid material findings on compliance and that reduced unauthorised, irregular as well as fruitless and wasteful expenditure were able to:

- Set the right tone by the accounting officers/authorities for strong ethical procurement disciplines with zero tolerance for non-compliance.
- Implement and maintain a register to record and track the status of invoices and followed-up regularly to ensure that creditors are paid within agreed time frames.
- Conduct investigations and take decisive and timely actions to address financial mismanagement and the overriding of internal controls. This assisted in reducing unauthorised, irregular, as well as fruitless and wasteful expenditure in the province.

#### Areas of improvement

In addition to the above best practices we recommend implementation of at least the following internal controls:

- Accounting officers/authorities should intensify performance and consequence management processes to eliminate findings on compliance with key legislation.
- Contract management controls should be improved and monitored closely to allow proper processes to be followed for new and expiring contracts.
- Implement sustainable proper budgetary control to avoid unauthorised expenditure.
- Senior management, with the oversight of the accounting officer, should continue to focus on cash-flow management processes and budgetary controls to reduce unauthorised and fruitless and wasteful expenditure.

#### Concluding remarks

Laws and regulations exist to prevent potential abuse of state resources. While government departments and entities execute their respective mandates in

addressing the developmental objectives set, it is important that this is done within the ambit of the law.

As is evident from the analysis of the audit outcomes presented in this section of the report, there has been a significant improvement in the controls around unauthorised expenditure and fruitless and wasteful expenditure. However, the province still needs to intensify its focus and interventions to address the SCM compliance areas driving irregular expenditure.

In the previous year we received commitments from the different role players to address SCM findings. There has been a slower than expected response by the leadership to honour these commitments.

Oversight bodies need to continue refining their oversight roles to monitor the extent of non-compliance with legislation and drive accountability.

The political leadership should remain focussed on eliminating findings of non-compliance in the province.

### 3. Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk.

Based on the high-level analysis of the status of the financial health of the province, there was an improvement in the financial management processes. Auditees were able to improve financial disciplines regarding spending capital budgets and debt management. This consequently had a positive impact on service delivery in the province and assisted the province to reduce unauthorised and fruitless and wasteful expenditure.

**Figure 19: Status of financial health**

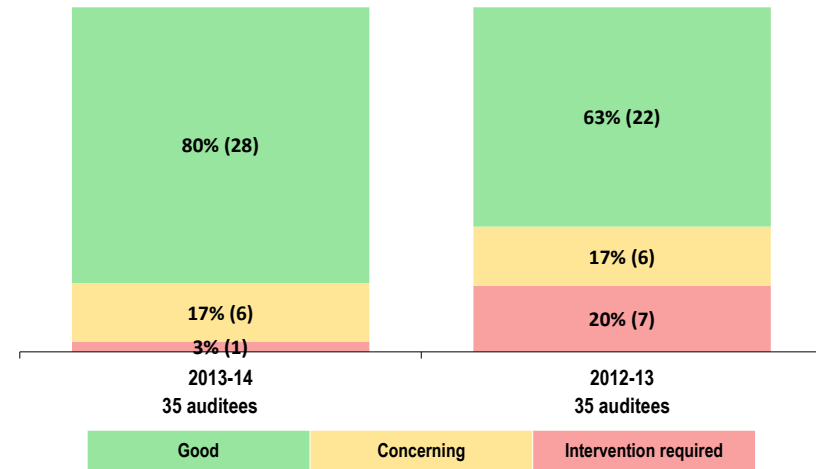
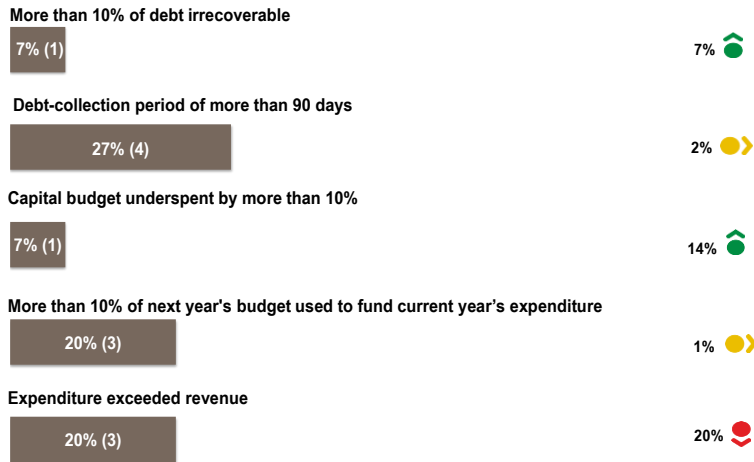


Figure 19 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning') and auditees with material going concern uncertainties or adverse audit opinion (g-Fleet), which resulted in their financial statements not being reliable enough to analyse (shown as 'intervention required').

There has been a reduction from 13 (37%) auditees in the previous year to seven (20%) auditees in the current years that had financial risk indicators. This improvement was because the accounting officers/authorities of the improved auditees enforced the establishment of budget and cash management policies and procedures. Senior management played a critical role in implementing and monitoring these processes.

**Figure 20: Areas of financial health concerns – departments**



**Figure 21: Areas of financial health concerns – public entities**



Figures 20 and 21 show the number of auditees with financial risk indicators and the movement since the previous year. There was an overall reduction in the number of departments and public entities that had indicators in the above areas of financial health concern compared to the previous year.

These indicators are discussed in more detail in the rest of this section.

## Financial management by departments

Departments prepare their financial statements on the modified cash basis of accounting. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. As part of the financial health analyses, we reconstructed the financial statements to determine whether these departments would still have had surpluses for the year had these expenses been included in their financial statements. We also assessed the impact of the unpaid expenses at year-end on the following year's budget.

It is encouraging that departments were able to address their cash flow management process from the previous year, which resulted in no departments with bank overdrafts at year end. This improvement was due to the administrative leadership taking ownership of better planning, adequate monitoring and oversight of the cash flow management process. Cash management was improved and unauthorised expenditure reduced due to the provincial treasury implementing appropriate controls, including the ring-fencing of conditional grants to ensure that they were spent on allocated projects.

At the end of the financial year under review, 20% of departments used more than 10% of next year's budget to fund the current year's expenditure. This area remained stagnant compared to the previous year. There has also been a regression of 20% in the number of departments whose expenditure exceeded revenue and resulted in an accrual-adjusted deficit.

It is of concern that for certain departments, accruals still remain a big challenge at year end, i.e. community safety had accruals amounting to 40% of next year's budget. This indicates that service delivery objectives for the next financial year may not be achieved. These auditees were not able to ensure that budget processes are tightened and that spending only occurs in line with a realistic assessment of the available budget. This resulted in auditees not being able to ensure that their spending was within the approved budget allocations. The Department of Health will have to improve business processes to address the increasing contingent liabilities relating to medical law suits, as this will deplete funding for key service delivery and poses a huge threat to the sustainability of this department.

Accounting officers/authorities should ensure there are realistic budgets, proper in-year monitoring of budgets, and budgets are supported by credible assumptions. Most importantly, these auditees should ensure that controls are in place to monitor and competently manage the budget throughout the year.

## Underspending by departments of capital budgets

Capital budgets are directly linked to service delivery and therefore, where capital budgets are significantly underspent, the implication is that service delivery objectives might not be achieved.

Underspending on the capital budgets decreased from three (9%) departments to one (7%) in the current year. It is encouraging to see that departments improved their management of the capital budget to ensure that they used the money to the fullest. This may result in a positive impact on service delivery objectives. Departments were also able to continue using conditional grants in full, which is positive for service delivery on those specific objectives.

Leadership is commended for ensuring that there was adequate planning, monitoring and oversight of the budget process.

## Debt management

There has been an improvement in the number of departments where debts were written off. In the current year there was only one department that had more than 10% of their debt being irrecoverable. This continued trend will have a positive impact on future cash flows for the province and the ability to deliver key services.

The indicator for the debt collection period being more than 90 days for departments has remained stagnant compared to the previous year. Administering long outstanding debt also has a negative impact on the effective use of human resources to attend to non-service delivery functions.

To ensure improvement of debt collection periods, it is recommended that:

- Regular financial reporting and analysis is prepared and supported by the reconciliation of debtors' accounts to identify debtor payment trends and possible bad debt early in the process.
- Debtors management strategies are revisited, updated and then strictly enforced.

The improvement in the debt collection period will have the impact of improving the overall cash flow of auditees. The money collected can be further used to fund additional service delivery initiatives.

## Financial health risks at public entities

We performed procedures to assess whether there are any events or conditions that may cast significant doubt on a public entity's ability to continue as a going concern. Based on our procedures and assessments performed, there are no significant concerns on the financial sustainability of the public entities to render services in the foreseeable future.

There was an overall improvement in all the above financial health areas for the public entities in the province. Entities were able to improve their debt collection period for long outstanding debtors and avoided any further bad debt write-offs. In addition, entities were able to improve their budget management by capping their expenditure to revenue received.

Entities should continue to ensure budgets are realistic, supported by credible assumptions and properly monitored during the year. Key to this will be for accounting officers/authorities to ensure that controls are in place to monitor and competently manage the budget.

Entities with strong financial performance, financial position and cash management process will be able to maximise their funds and deliver effectively on their mandates.

## Concluding remarks

It is important that the provincial leadership continues to promote good budget and fiscal management for all auditees. To this end, they should monitor the implementation of departmental budgets including expenditure, revenue collection and borrowing. Effective budget management will contribute to improved fiscal health and service delivery in the province.

It is of concern that financial constraints contributed to vacancies at some of the smaller departments and public entities as a result of budget limitations. Exacerbating this is the accruals at year-end that have to be paid in the next financial year, which impacts the 2014-15 budget and service delivery objectives. The settlement of unfunded medical law suits poses a huge threat to the delivery of key services in the health sector. Provincial leadership needs to drive effective cash-flow management to ensure that funds are used as planned.

Budgeting and planning processes ensure the effective, efficient and economical use of all public resources. The provincial leadership needs to continue displaying commitment to contribute towards the financial health of the province and the improved social reality of the Gauteng citizens.

## 4. Internal controls and root causes

As part of our audits, we assessed auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation.

Figure 22: Drivers of internal controls

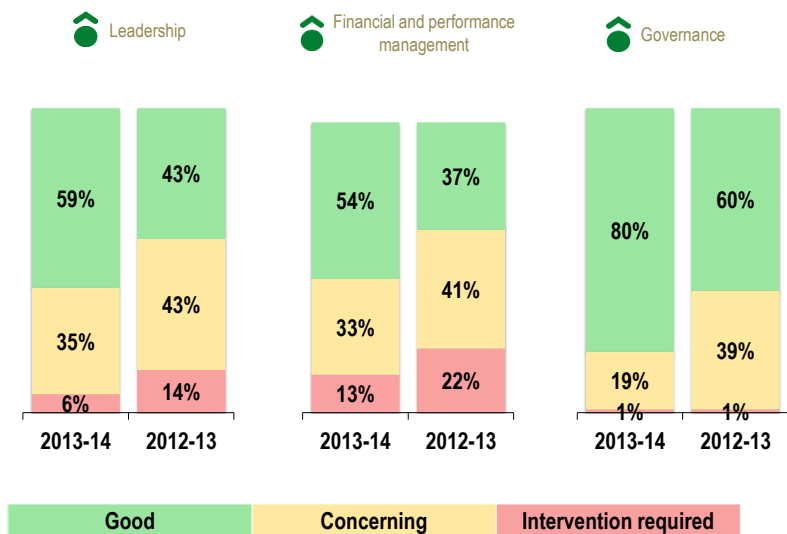


Figure 22 shows the status of the different areas of internal control and the overall movement since the previous year

There has been a noticeable improvement in all three drivers of internal control. The improved drivers have had a direct impact on the improved audit outcomes of the province, especially at those auditees that have achieved financially unqualified audit opinions with no findings.

It is commendable that the leadership of the province is leading from the front in ensuring that basic controls are in place to promote a control environment that is conducive to clean administration.

Although the internal control improvements are encouraging, their impact must be sustained by ensuring the discipline of good practices are embraced and replicated across the entire provincial government to further improve the audit outcomes.

Figure 23: Key controls requiring the most attention

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	27	7	1	25	7	1	25	0	10
Human resources controls	16	15	4	21	10	2	14	17	4
ICT governance and controls	21	12	2	21	6	4	22	6	4
Audit action plans	18	16	1	23	9	1	17	18	0
Proper record keeping	17	10	8	22	6	5	18	12	5
Daily and monthly controls	16	12	7	23	7	3	18	14	3
Review and monitor compliance	17	13	5	21	11	1	12	18	5

Good
Concerning
Intervention required

Figure 23 shows the status of the controls requiring the most attention.

In sections 2.1 (quality of financial statements), 2.2 (quality of annual performance reports and 2.3 (compliance with legislation) we commented broadly on those key controls that should receive attention to improve or sustain the audit outcomes.

Sections 4.1 and 4.2 provide further information on the status of the HR controls and the information and communication technology (ICT) governance and controls. Section 4.3 describes the most common root causes that should be addressed that have an impact on the effectiveness of internal controls.

### Pillars of key controls

Auditees should attend to the following elements of internal controls underlying leadership, financial and performance management as well as governance to improve their internal controls:

### Best practices

Auditees with improved and strong internal control environments were able to implement and sustain the following drivers of key controls. Other auditees are encouraged to embrace these best practices.



## Leadership

- Political and administrative leadership took ownership of key internal controls and exercised oversight by enforcing and maintaining accountability of management for addressing internal control deficiencies on a sustainable basis.
- Accounting officers/authorities led by example in setting a tone of zero tolerance for non-performance and holding senior management accountable for the achievement of a strong control environment and compliance with key legislation.
- Accounting officers/authorities provided effective oversight by implementing policies and procedures and monitoring the financial and performance reporting on a regular basis.
- Accounting officers/authorities took ownership of the IT control environment by supporting the initiatives of the chief information officers to address IT internal control deficiencies.
- Gauteng Provincial Treasury supported IT solutions aimed at improving the IT control environment.

## Financial and performance management

- Senior management performed regular quality reviews and monitored compliance, which enabled them to identify internal control deficiencies quickly and to correct these.
- Provincial treasury performed a high-level review of full financial statements prior to submission to audit committees and for audit.

## Governance

- Internal audit proactively performed risk assessments and reviewed financial and performance information processes and reports during the year. This provided management with an opportunity to resolve internal control deficiencies in good time.
- Audit committees were in place at all auditees and the robust and strong assurance provided had a positive impact on the audit outcomes.

## Areas of improvement

For auditees that had internal control deficiencies, which resulted in them not attaining financially unqualified audit opinions with no findings, we recommend that in addition to the best practices above, they implement at least the following recommendations:

## Leadership

- Stabilise Gauteng administrative leadership and ensure succession planning to promote accountability and safeguard institutional knowledge. Develop and implement HR plans that focus on competence and succession planning of senior management positions to ensure institutional knowledge is not lost through staff turnover.
- Administrative leadership should honour their commitments and ensure that action plans are implemented and monitored regularly. In some instances these action plans are not specific enough to address internal control deficiencies.
- Accounting officers/authorities should implement a system of internal control, including IT controls, over record keeping, monthly processing and reconciling transactions. The regular and proper review and monitoring of these controls should result in reliable, quality assured information that is available in good time.

## Financial and performance management

- The accounting officers/authorities should ensure that both the SCM and internal audit units perform adequate review and monitoring of compliance with legislation.
- Accounting officers/authorities and CFOs should intensify their efforts to produce credible, regular (at least quarterly) and accurate full financial and performance reports. This will allow provincial treasury and internal audit to perform timely reviews.
- Executive leadership should insist on accurate monthly management accounts and quarterly financial statements from the accounting officers/authorities as these are critical to decision making and identifying red flags.
- The quality of financial statements and performance information should be further elevated by strengthening basic monthly and quarterly internal processes to verify data and supporting evidence.

## Governance

- The audit committee chairpersons should continue to meet regularly with the MECs during the year to share key information and risks that will enable the MECs to provide effective oversight.

## Concluding remarks

A sustainable control environment is one that is supported by daily, weekly and monthly disciplines such as preparing reconciliations, proper record keeping and review of financial and performance information.

Although quarterly reporting took place, this did not always include all areas of the financial statements and the necessary supporting schedules. These reports were often prepared to ensure compliance with deadlines and not always reviewed by senior officials. It is worth noting that where there was stability at accounting officer and CFO level, it resulted in an improvement of key controls and audit outcomes.

There is a close link between key controls, combined assurance and audit outcomes. Status of key controls is supposed to be a predictor of the audit outcomes. It is therefore important that the quarterly key control process is given sufficient attention, as this will identify areas that may negatively impact the audit outcomes early during the year.

The senior management and accounting officers/authorities of the auditees and those that perform an oversight or governance function should work collectively towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the audit outcomes. The accounting officers/authorities must intervene decisively and timely to ensure financial competencies and disciplines are applied to prepare accurate financial reports. Furthermore, stability at accounting officer and senior management level will assist in speeding up the responsiveness to address compliance findings.

## 4.1 Human resource management

HR management is effective where adequate and sufficiently skilled staff are in place; their performance and productivity are properly managed and they are held accountable for their actions.

It is worth noting that 57% of the Gauteng budgeted expenditure in 2013-14 was for employee costs.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, competencies of key officials and performance management and consequences for transgressions, as these matters have a direct bearing on the quality of auditees' financial and performance reports and compliance by them with legislation.

Based on the results of these audits we assessed the status of HR management controls.

Figure 24: Status of human resources management

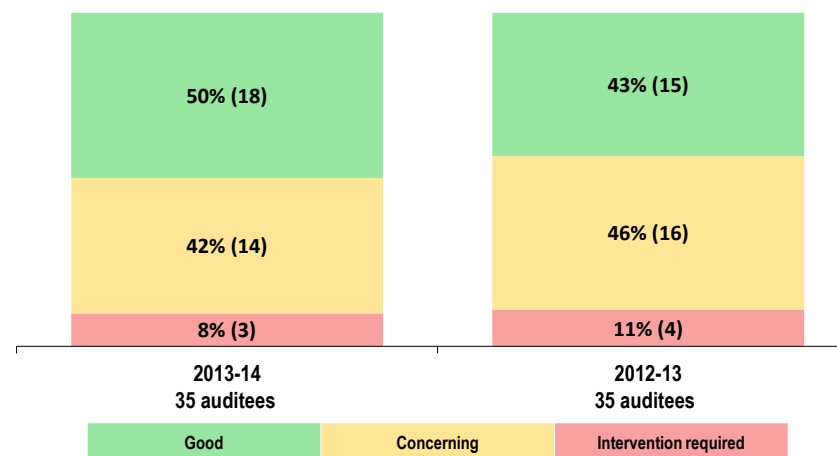


Figure 24 shows that there has been a slight improvement in the status of HR management when compared to the previous year. Auditees with HR findings have improved from 57% in the previous year to 50% in the current year. In the current year three (8%) auditees had material HR findings compared to four (11%) auditees in the previous year.

This improvement indicates that there was an attempt by the political and administrative leadership to stabilise vacancies and improve the vacancy rate. There is, however, a continued need to ensure that departments and entities improve their HR management systems. This should be done by ensuring proper planning, timely recruitment processes and the appointment of suitably qualified people, and the timely implementation of consequence management.

## Management of vacancies and acting positions

Figure 25: Vacancies in key positions

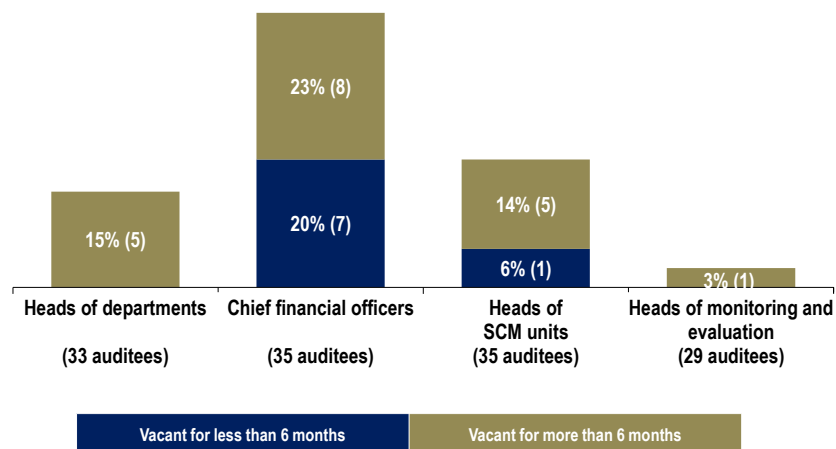


Figure 26: Stability in key positions (average number of months in position)

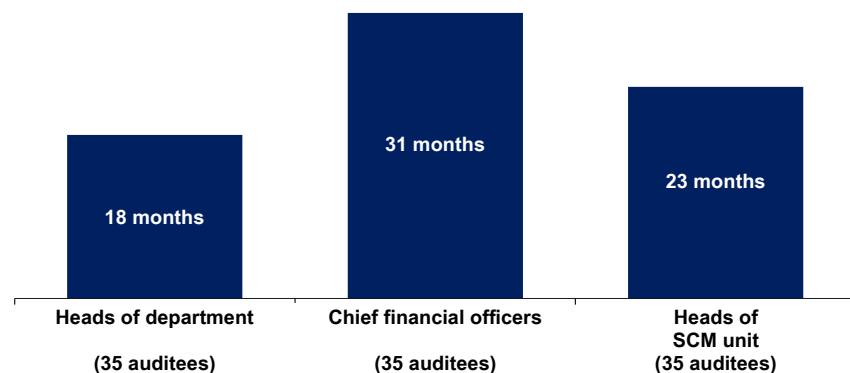


Figure 25 shows the number of auditees where the positions of the accounting officer (head of department or chief executive officer), chief financial officer, heads of the SCM units and head of monitoring and evaluation were vacant at year-end and also indicates the period that the positions had been vacant. Figure 26 shows the average number of months key officials had been in their positions.

Despite the fact that the overall audit outcomes and HR management has improved, instability in key positions and vacancies remain a challenge in the Gauteng provincial government. The CFO level seems to be stabilising, with these

positions being occupied for an average of 31 months compared to 26 months in the previous year. The vacancy rate at this level has also increased slightly.

The level of stability at the heads of SCM positions regressed, as they were in their positions for an average of 23 months compared to 27 months in the previous year. There is, however, room for improvement considering the high vacancy rate.

The vacancy rate at accounting officer level remained stagnant compared to the previous year. However it is of key concern that the vacancy periods have deteriorated, as they spent only an average of 18 months in their positions, which is significantly shorter than their expected term of office.

Auditees were not able to recruit and retain suitable candidates. Financial constraints contributed to vacancies at some of the smaller departments and public entities as a result of budget limitations. Potential candidates did not meet expected competency levels and the change in administration also delayed the filling of positions. Furthermore, the delay in approving the organisational structures at certain departments by the Department of Public Service and Administration (DPSA), had a significant impact on the timely filling of key vacancies.

The most common findings on the management of vacancies and acting positions were as follows:

- Senior managers acting for more than six months in contravention of the Public Service Act and Public Service Regulations.
- The overall vacancy rate at certain departments increased when compared to previous year.

Political and administrative leadership needs to speedily address the vacancies and instability to ensure an improved and sustained control environment, good financial governance and effective oversight and monitoring.

## Performance management

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

Where accounting officer positions were filled, performance contracts were in place. A majority of chief financial officers, heads of SCM and senior managers did have performance agreements in place, which were aligned to organisational performance. This positively contributed to the improved audit outcomes.

## Competencies of key officials/consequences for transgressions

There has been an overall improvement in the competencies of key personnel at auditees, resulting in improved audit outcomes.

However, despite the overall improvement, a concern remained at some auditees that performance agreements were not enforced to make sure that officials do what they are supposed to do. The impact was that the accountability and expected level of competency of officials could not be monitored by their line managers.

## Other common human resource findings

The other most common HR findings were the following:

- Proper verification processes for new appointments were not always followed.
- Employees received overtime payments in excess of the maximum allowed percentage of their salaries.
- Human resource plans and approved organisational structures were not in place.

The above findings were due to a lack of adequate policies and procedures, and non-adherence where they had been developed.

## Effective use of consultants by departments

Some departments appoint consultants/contractors to execute certain projects. In Gauteng consultants were engaged for business advisory services, which included infrastructure and planning, HR and finance, IT and health-related services. Consultancy services are services of an intellectual or advisory nature. SCM regulations contain specific guidelines for the appointment and management of consultants.

Provincial departments spent an estimated total of R442 million on consultancy services in 2013-14 to supplement their human resources. The amount was spent on the following specific areas:

- Financial reporting services: R17 million.
- Information technology services: R15 million
- Operational services: R410 million

The most common reasons for departments to appoint consultants were due to a lack of skills, and vacancies.

Our audits included an assessment of the management of the consultants at 11 departments. There has been an overall improvement in the management of

consultants by auditees in the current year compared to the previous year. There were no significant findings that arose from our assessment at the departments.

Auditees should sustain the practice of proper planning and monitoring of consultants. The emphasis on the transfer of skills should continue and/or improve to fill the competency gap at some auditees. Strategies already in place should be refined to ensure that the main purpose and objectives of appointing consultants is defined and should include measures to prevent over-reliance on consultants.

Where consultants were appointed as a result of non-performance by officials, those officials must be held accountable and necessary performance consequence management implemented.

## Recommendations

Auditees that had material findings on HR management should prioritise the processes of ensuring that effective, adequate and sufficiently skilled staff are appointed and that their performance and productivity are properly managed. The following best practices and improvement areas are in addition to those mentioned in the preceding sections:

### Best practices

Auditees with no material HR management findings were able to enforce the signing of performance agreements with administrative leadership, including those in acting positions. This assisted in holding them accountable for fulfilling their responsibilities and have consequences attached for those who did not meet expectations as per the agreements.

### Improvement areas

To improve performance, the political and administrative leadership should improve and maintain sound performance management processes, evaluate and monitor performance regularly and put measures in place where gaps are identified. This will send a strong message and consistently demonstrate that there are consequences for poor performance.

In addition the following recommendations should be implemented:

- The political and administrative leadership should ensure stability in key positions by prioritising filling key positions with people that have the necessary qualifications, experience and competency levels to fulfil their responsibilities and exercise their powers effectively.
- Accounting officers/authorities should ensure proper planning takes place well in advance so that the organisational structures are aligned to the strategic goals and objectives of the auditees.

- Succession planning measures, talent development and the continuous upskilling of officials should be improved to allow for continuity in the event of vacancies.
- Where officials have been adequately guided and supported, and performance still does not improve over a period of time; consequence management should be escalated in line with the auditees' performance management policy.

## Concluding remarks

Long-term vacancies often meant that auditees had employees in critical positions, yet with no full authority and decision-making powers as they view acting as temporary. The employees usually had to perform the new acting responsibilities as well as their previous responsibilities, leading to them not being fully effective for the functions and powers of the acting position. This could lead to a lower level of commitment and dedication, and could degenerate the entire control environment.

Gauteng invests more than half of its budget in HR, which is the backbone of financial disciplines, service delivery and compliance with legislation. The political and administrative leadership need to address the root causes of instability in key positions, skills and competencies as well as performance and consequence management to assist with further improving audit outcomes.

## 4.2 Information technology controls

IT controls ensure the confidentiality, integrity and availability of state information, enables service delivery, and promotes national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

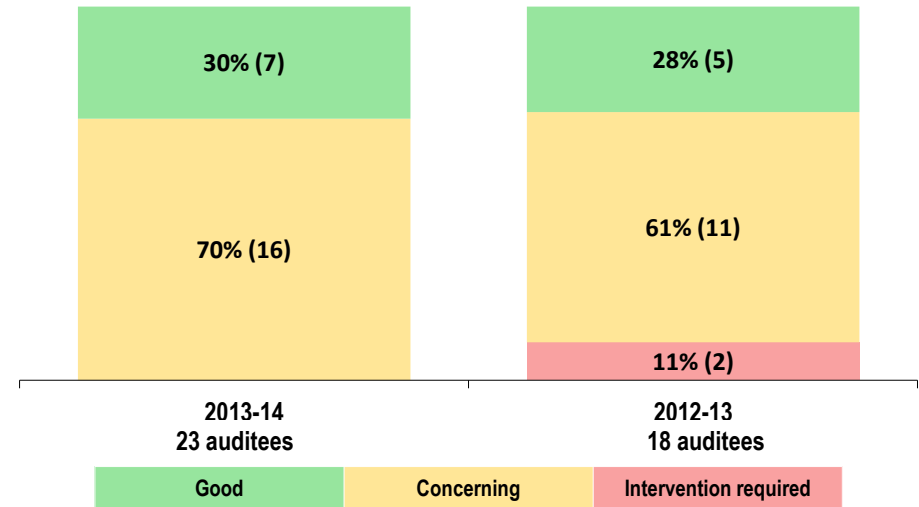
Effective **information technology governance** is essential for the overall well-being of an organisation's IT function and ensures that the organisation's IT control environment functions well and enables service delivery. All state departments and public entities are therefore required to adopt and implement the IT governance framework and guidelines developed by the DPSA in phases over a period of three years. Phase 1 was due for implementation by the end of the 2013-14 financial year and the DPSA moderated the Management Performance Assessment Tool (MPAT) self-assessment results to monitor implementation progress. The implementation of phase 1 will be evaluated in the next audit cycle. In the 2014-15 financial year the implementation of phase 2 should be prioritised by the accounting officers and chief information officers (CIOs).

As the legislatures have opted to develop their own IT governance frameworks, management should prioritise the implementation of these customised governance frameworks. Legislatures do not form part of the Public Service Regulations and

are therefore excluded from the DPSA IT Governance framework. We evaluated the IT governance at the Legislature and the most significant findings were:

- The IT steering committee did not meet to ensure that IT activities remained aligned to the business strategy.
- The IT annual performance plan was not aligned to the strategic plan to ensure that IT performance is directly linked to the business objectives.

Figure 27: Status of information technology



Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. Figure 27 demonstrates that there has been an improvement since the previous year as the number of auditees that had significant audit findings on IT controls decreased. This is attributed to some accounting officers taking ownership of the IT controls, as well as assistance from internal audit and risk management. Furthermore, provincial treasury is assisting with the implementation of IT controls.

**Figure 28: Status of information technology controls**

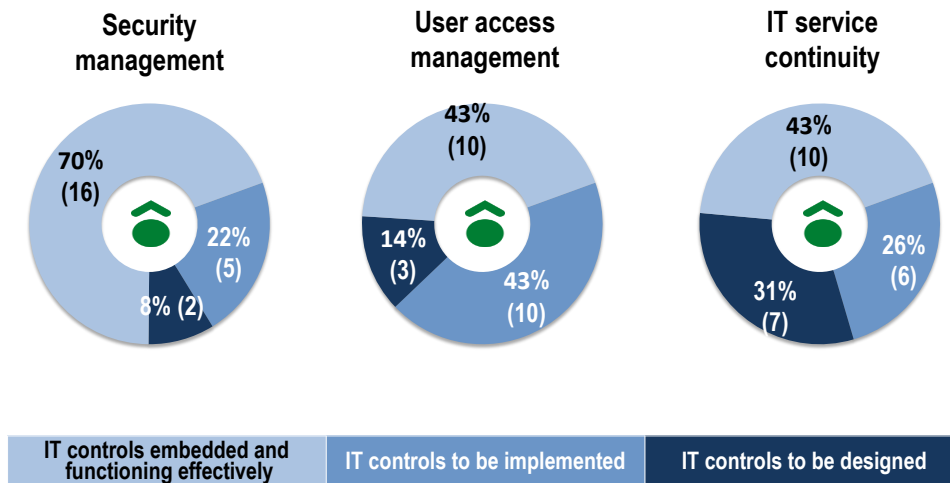


Figure 28 above indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls are functioning effectively, or are not in place (i.e. not designed), or have not been implemented.

The auditees prioritised the formalisation of the IT controls with the assistance of members of the CIO council forum, who acted as dedicated champions for the different focus areas. As a result, there has been movement from the design to the implementation of IT controls. For example, the management of user access moved from 33% (2012-13) to 19% (2013-14).

Furthermore, the departments of Sport, Art, Culture and Recreation and Community Safety, as well as the Office of the Premier did not have findings in any of the three focus areas. Although these are small environments, the CIOs and the risk management teams have been proactive in implementing IT controls.

However, it is still of concern that 13 (57%) auditees did not have adequately designed and implemented IT controls for the management of user access and IT service continuity. In general, IT security was managed effectively.

The most common findings in the above focus areas were the following:

- **Security management:**

A secure IT environment ensures confidentiality, integrity and availability of critical IT systems and business processes.

Although there were significant improvements in the security of systems in the province, there were still some concerns with regards to password parameters that were not configured according to the security policies and procedures developed. Security updates, which ensure that there are no known vulnerabilities in the systems, were also not consistently installed on operating systems. This exposure to security threats increases the risk of unauthorised access, financial information manipulation and information destruction, which could lead to incorrect information reporting.

- **User access management:**

User access controls are measures designed by management to prevent and detect unauthorised access to create or amend financial and performance information stored in the application systems.

SAP security policies and procedures had been drafted to direct how users should be created, amended and deleted. However, these did not address all user account management risks. As a result, unauthorised users might be created on the systems and such user accounts could be used to perform fraudulent activities. In addition, users' access rights on the financial systems were not monitored to ensure that they remained aligned to the users' job responsibilities. As a result, excessive access could be granted to the financial systems and users might execute functions for which they have not been authorised. This could lead to financial losses being suffered or data integrity being compromised.

- **Information technology service continuity:**

IT service continuity controls enable institutions to recover critical business operations and application systems affected by disasters or major system disruptions within reasonable time frames.

Most departments still did not have adequate disaster recovery plans or backup processes and procedures to ensure that their financial systems could be recovered in the event of a disaster. This was due to unclear roles and responsibilities with regards to the one disaster recovery solution for the province. The Gauteng Department of Finance did not develop a provincial disaster recovery plan to accommodate all provincial departments using the Basic Accounting System (BAS), the Personnel and Salary System (PERSAL) and the Systems, Applications and Products System (SAP). The province is exposed to the loss of financial information should a disaster occur.

Management should prioritise monitoring the implementation of policies and procedures for security and user access management. Furthermore, the disaster recovery plan for the province should be finalised and implemented by the Gauteng Department of Finance. Departments should take ownership of their specific systems and design disaster recovery plans for these systems.

## Recommendations

Auditees that had material findings on IT controls should prioritise the processes of ensuring that effective and adequate actions are taken to address these. The following best practices and improvement areas were implemented by some auditees:

### Best practices

- Accounting officers, risk management and internal audit played a proactive role in ensuring that IT controls are implemented in the departments that did not have findings and those that showed huge improvements. Accounting officers took ownership of IT findings. Risk management and internal audit were tracking the implementation of these findings.
- The CIO council forum has formed various sub committees which have been tasked with addressing audit issues. These forums develop consistent ways of implementing the IT controls.

### Areas of improvement

In addition to the best practices above the auditees should consider the following areas of improvement:

- IT controls should not only be implemented because auditors have recommended them. A proper risk assessment should be performed by the auditees on their IT environments. The policies and procedures should ensure that risks identified are mitigated by implementing adequate IT controls. An annual review of policies and procedures should be performed as IT is a fast changing environment.
- The departments should ensure continuous monitoring by the departmental risk management and internal audit units on both internal and external report findings. Critical risk areas should be identified, monitored and reported on a quarterly basis.
- The Gauteng Provincial Government (GPG) wide IT strategy should be assessed for adequacy and be aligned with the approved IT governance framework, taking into account the GPG IT environment.
- PERSAL management at the Gauteng Department of Finance should obtain assistance from the BAS team and try to implement our recommendations in relation to PERSAL user account management.
- The departments that did not have any findings and the ones that showed a huge improvement should share best practices on processes to assist in improving IT controls in the other departments.

- The accounting officers should be involved in implementing the universal disaster recovery solution for the province. This can be done by ensuring that business continuity plans are developed so that the disaster recovery solutions are based on the business continuity plans.

### Concluding remarks

IT controls and governance remains essential to ensure the confidentiality, integrity and availability of state information. This enables service delivery and promotes national security. It is thus essential that good IT governance, effective IT management and a secure IT infrastructure must be in place.

It is encouraging to see the involvement and responsiveness of the accounting officers/authorities and CIOs to their commitments to further improve the IT control environment. It is critical that auditees ensure compliance with the IT governance framework, which will be evaluated in the 2014-15 financial year.

## 4.3 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in the management report with the accounting officer and the executive authorities.

As reported in section 2 (overall audit outcomes), some auditees produced financial statements and annual performance reports of a poor quality and did not comply with key legislation. For recommendations, best practices and improvement areas as well as concluding remarks refer to the preceding sections.

The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls.

### *Instability or vacancies in key positions*

We identified instability or vacancies in key positions as a root cause at 31% (2012-13: 69%) of auditees.

Retention strategies and succession planning in the province improved due to the political and administrative leadership's commitment to create stability and reduce the vacancy rate. Treasury, together with the office of the premier intervened and liaised with the DPSA to assist with fast tracking organisational structures.

The accounting officers/authorities should ensure that the positive trend of filling vacancies and retaining staff is maintained and improved upon by implementing the recommendations below:

- Where there is a change in administrative leadership, a process should be implemented for proper transition to ensure sustainability of the control environment.
- Continuous training of existing staff in key positions should be improved and the administrative leadership should start optimising the use of key controls and dashboards by objectively assessing internal control deficiencies.

The political and administrative leadership should continue to play an effective role in driving the province's staff succession planning and retaining institutional knowledge.

### *Slow response by administrative leadership and management*

There was an improvement in this root cause from 20 (59%) auditees in the previous year, to 11 (29%) auditees in the current year.

The political and administrative leadership has shown a significant improvement in taking our messages to address the root causes of audit outcomes. Our messages during the engagement with the political and administrative leadership focused on basic internal controls, which were embraced and proactively driven by them. Commitments made by the provincial leadership in the previous year to improve audit outcomes were continuously monitored and followed up. This is evidenced by the improved audit outcomes.

The effectiveness of accounting officers/authorities is critical as they are the custodians of embedding and sustaining a strong control environment. The slow response at 29% of the auditees is still a concern.

It is recommended that the following actions are implemented to address this root cause:

- The executive authority and accounting officers/authorities should set the tone in creating a control environment that is conducive to accountability, ethical business practices and good governance. This will stimulate decisive and timely implementation of action plans with clear delivery time frames to address internal control deficiencies and the previous year's audit findings.
- Senior management should review and provide transparent reporting on non-compliance and the actions taken by the accounting officer/authority on a regular basis. Instances of non-compliance must be thoroughly investigated and addressed with a focus on reducing the lag time to finalise these processes.
- Operational business needs should be monitored continuously by the administrative leadership to assist them in reacting in a timely manner to any changes and key messages. For example, training programmes should be conducted well in advance so that management is fully equipped to deal with operational changes.

While the AGSA leadership meets with provincial leadership regularly, accounting officers/authorities should proactively engage with auditors to appraise the progress on all financial reporting and accountability matters.

### *Key officials lack appropriate competencies and discipline*

There has been a further improvement in this root cause from 29% in the previous year to 11% this year. This is an indication that officials in Gauteng were technically competent to carry out their duties. Where officials met the minimum competency requirements, this translated into better audit outcomes.

This improvement was further strengthened by the accounting officers/authorities that identified skills and competency gaps and addressed these shortcomings through planned training and interventions.

The political and administrative leadership demanded the application of financial experience and discipline by senior management in preparing regular and accurate financial and performance reports.

The following recommendations should be implemented to further improve and sustain the positive trend in this area:

- Accounting officers should ensure that processes are in place that will ensure that appointments are made only after the minimum competency requirements have been verified and the necessary background checks to confirm experience have been completed.
- New employees should complete relevant and robust competency assessments before appointments in any sphere of government.

Transparent financial and performance management reporting systems that are regularly maintained should be led and managed by staff with strong technical skills and experience.

### *Concluding remarks*

Gauteng, as the economic hub of South Africa, should endeavour to lead the implementation of the National Development Plan. This opportunity will require impeccable ethical behaviour and professionalism by all players in the public sector. The province will be strengthened as a capable province with a public service that consistently does the right thing.

The normal trend for provincial treasuries is to give a lot of attention to local government; however, it is commendable that in this province treasury provided support to both provincial and local government.

It was encouraging to see the political and administrative leadership taking large strides in addressing the lack of consequences for poor performance and transgressions.

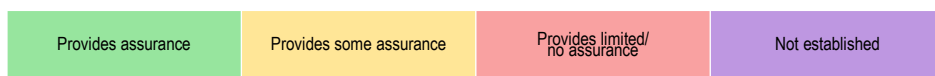


## 5. Impact of key role players

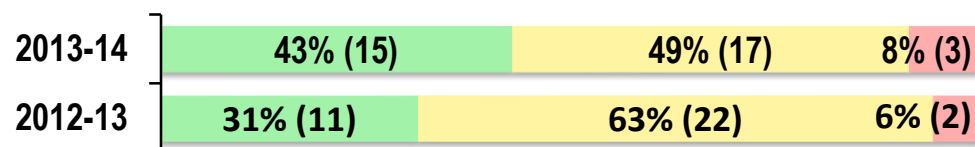
The management and leadership of the auditees and those that perform an oversight or governance function should work towards maintaining and improving the key controls, addressing the root causes and ensuring that there is an improvement in the risk areas. This assurance will improve and maintain the quality of the financial statements and performance reports as well as compliance with legislation.

Based on our assessment as shown in figure 2, there has been an improvement in the required level of assurance that contributed to the improvement in the audit outcomes. Below is an overview of the assurance provided by each of the key role players.

### Legend:



### Senior management



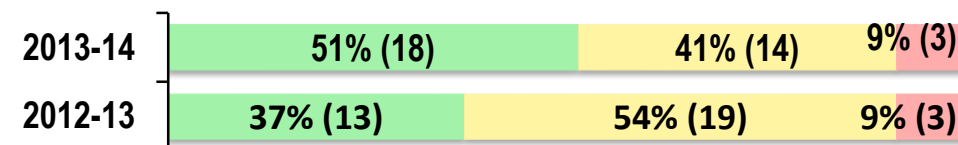
Senior management forms the foundation of the combined assurance model and should ensure that lower level staff implements the basic disciplines of control activities and are held accountable. This will automatically result in better financial, performance information and compliance controls. Stability at senior management level is crucial for ensuring accountability of implementation and sustainability of these control disciplines.

Senior management, which includes the CFOs, CIOs, head of HR, heads of Strategic Planning and heads of the SCM unit, provides assurance by implementing basic financial and performance management controls.

There has been an improvement in the level of assurance provided by senior management. Although the improvement is viewed in a positive light and contributed to the increase in clean audit outcomes, it is still a concern that senior management was only able to provide limited assurance.

For the best practices and improvement areas to increase the level of assurance provided by senior management refer to recommendations in the preceding section of this report.

### Accounting officers or accounting authorities



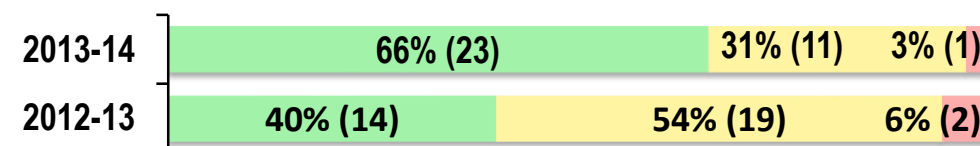
Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls.

The responsibilities of the accounting officers/authorities as required by the PFMA are explicit, extensive and broad. As the administrative leadership, they have a critical role of linking the oversight function of the political leadership and the implementing officials.

There was an improvement in the level of assurance provided by the accounting officers/authorities compared to the previous year. The level of assurance provided by the accounting officers of departments and the accounting authorities of public entities was at an appropriate level giving rise to an improvement in the audit outcomes.

This improvement was due to the accounting officers/authorities taking ownership of the audit process, having robust discussions with the auditors and holding senior management accountable for gaps identified. It will be important that the accounting officers/authorities continue with these engagements and increase their involvement in the audit process.

### Members of executive council



MECs have a monitoring and oversight role at both the departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. MECs can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of the accounting officers and authorities.

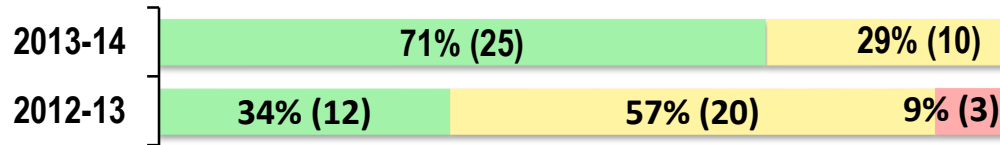
There has been a significant improvement in the level of assurance provided by the MECs compared to the previous year.

In the past three years, we have increasingly engaged with MECs on how they can bring about improvements in the audit outcomes of their portfolios. At these interactions, we discussed the status of key controls and MECs' commitments to improving audit outcomes, while also sharing identified risks. The meetings improve the MECs' understanding of the audit outcomes and messages and address the progress of interventions to ensure a positive impact on these audit outcomes. The engagements were well received, as evidenced by the improvements in the audit outcomes.

During the current audit cycle, there was a change in the MECs leadership as a result of the national elections. However, it is commendable that in Gauteng we were able to secure meetings with all MECs to discuss audit outcomes, key messages and continue to create impactful conversations.

The MECs accessibility, ownership and willingness to hold accounting officers accountable has added immense value to the audit process and is now bearing fruit, as evidenced by the improved audit outcomes.

### Internal audit units



Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on the effectiveness of internal controls, financial information, risk management, performance management and compliance with legislation. Gauteng makes use of a shared internal audit service for all departments and certain trading entities.

A significant improvement has been noted in the level of assurance provided by internal audit units compared to the previous year. The strong oversight by cluster audit committees over the shared internal audit service and the fully capacitated internal audit units of the public entities provided the required level of assurance. These units contributed significantly to achieving increased clean audit outcomes. The improvement was as a result of increased interaction between internal and external audit.

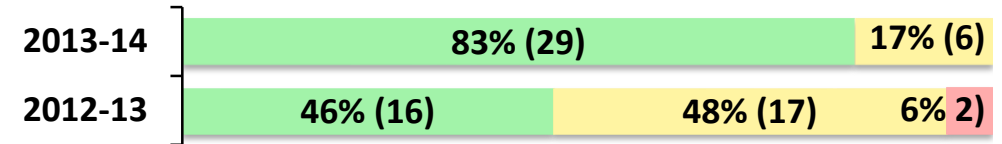
The culture of good internal controls promoted by these units served as a foundation for a strong and enabled administrative environment that supports credible financial reporting.

This overall improvement also resulted from internal audit recommendations and action plans that were taken seriously and implemented by the auditee's

leadership. Internal audit also provided assurance on interim financial statements and the quarterly key controls.

Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations, and accounting officers and senior management takes the findings seriously, cooperate and respond to their advice and recommendations.

### Audit committees



An audit committee is an independent body that advises the MECs, accounting officers/authorities and senior management on matters such as internal controls, risk management, performance management as well as evaluation and compliance with legislation. In addition the committee is required to provide assurance on the adequacy, reliability and accuracy of financial reporting and information.

There has been a significant improvement in the required level of assurance provided by the audit committees. Audit committees were in place at all auditees and the work of most of the committees covered all the required aspects of the audit committee charters. This contributed to the increase in clean audit outcomes for the year. The assurance was also enhanced by the interactions that the audit committees had with their MECs in the past year to provide the status of the effectiveness of internal controls and to highlight risks.

It was, however, noted that the audit committee did not provide the required level of assurance at six of the auditees. This was mainly due to the inadequate review of the interim and annual financial statements, as well as intensifying their oversight where internal audit and provincial treasury raised red flags.

The effectiveness of the audit committee heavily depends in accounting officers/authorities, and will improve if they take ownership of the internal control environment, adequately implement the recommendations from internal audit reports and provide accurate reports to audit committees on a timely basis.

### Provincial treasury, the premier's office and the department of cooperative governance

The provincial treasury and the office of the premier continued to embrace and own the combined assurance initiatives. With the support of MECs, they led the collective effort to see a significant improvement in the audit outcomes for the province in the current year.

The office of the premier played a key role by driving regular and impactful Heads of Department forums. These forums within the premier's office are used to share best practices. The office of the premier took our messages seriously and developed appropriate action plans to address all shortcomings identified.

The premier's office interventions included the following:

- Ensuring that the policy environment of the Gauteng Provincial Government is improved by developing, adopting and implementing required administrative policies to address the internal control, operational and governance weaknesses identified.
- To assist struggling auditees with the turnaround strategies and initiatives to achieve clean administration.

Provincial treasury was very active through the provincial accountant general in assisting the auditees. Treasury also assisted with the development of specific action plans to support those departments and entities still trying to achieve clean audits.

Provincial treasury interventions included the following:

- Monitoring the effective implementation of the AGSA's audit action plans.
- The quality review of quarterly and annual financial statements prior to submission to the auditors.
- Continuously training and developing staff at the offices of the chief financial officers of departments and entities.
- Ring-fencing conditional grants to ensure that they were spent on allocated projects, and curbing unauthorised expenditure.
- Holding quarterly CFO forums during the year.

These initiatives yielded positive results and, if sustained, will result in more clean audit outcomes in the future for the province.

It is commendable that the province did not have material findings based on sector audits performed on the functions and activities of the office of the premier, provincial treasury, legislature and the CoGTA. All four of these coordinating departments attained clean audit outcomes in the current year.

CoGTA, working together with the office of the premier, was not assessed as an assurance provider. However, CoGTA has an important role to play by promoting integrated service delivery that seeks to enable Gauteng to become a globally competitive city region. This includes developing and monitoring provincial policies and legislation to promote integration in government's development programmes and service delivery. Furthermore, CoGTA should ensure that the annual consolidated report on the performance of municipalities in the province is submitted to the Gauteng Provincial Legislature as required by section 47 of the

Municipal Systems Act. This will enable the political and administrative leadership to focus on promoting clean governance and the integrity of public institutions.

The coordinated approach including the office of the premier, treasury and CoGTA should be monitored by the office of the premier to ensure the continued effectiveness of the combined assurance provided.

## *Portfolio committees and public accounts committees*

The public accounts committee, in providing an appropriate level of assurance in carrying out their responsibilities, should continue with robust interactions when holding the departments accountable for their outcomes at hearings. This includes monitoring and regular following up the previous year's resolutions and commitments from the departments to ensure the implementation rate of these resolutions is improved.

Portfolio committees should complement this effort by tracking the implementation of the public accounts committee's resolutions. They should enhance interactions with auditees to ensure improvement in attaining planned service delivery targets.

The oversight model of the legislature, referred to as the Programme Evaluation and Budget Analysis (PEBA), enabled the committees to provide effective oversight over the budget, quarterly reports, annual report and focus intervention studies.

We did not assess the public accounts committee and portfolio committees' impact on the audit outcomes due to our limited interactions as a result of change in the committees' membership after the elections. We are, however, encouraged that the portfolio committees in the province do hold their quarterly oversight meetings with departmental executives and do their oversight visits/site inspections.

Standing invitations for the AGSA to attend the quarterly portfolio committee meetings should be encouraged, as well as quarterly interactions between the chairperson and the AGSA.

## 6. Initiatives and commitments by key role players

Throughout the year, we monitor the commitments and initiatives of MECs, the premier, the public account committees and the portfolio committees to implement initiatives that can improve audit outcomes. The progress of such commitments and the initiatives of the MECs in response to the previous year's audit outcomes and new commitments are included in the portfolio summaries to this report.

We have shared our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature through our reports and interactions with them. We met with all MECs and the premier during 2013-14 audits finalisations and audit reports handover function held on 1 August 2014. During these interactions, we confirmed the progress of the commitments made by all the role players in response to the previous year's audit outcomes.

### *Gauteng Office of the Premier*

We met with the new premier twice in the current year to continue driving the clean audit outcomes of the office of the premier and the Gauteng province.

The previous year's commitments to improve and sustain clean audits were effectively implemented. These included commitments on enhancing financial and performance controls and extending the head of department's contract by at least one year to create stability as the political leadership transition into their roles. The commitment to facilitate the training and implementation of new transversal policies impacting the province is in progress.

The premier of Gauteng has established an Integrity Management Office (IMO). The office is relatively new in Gauteng. It is tasked with continually assessing, preventing, monitoring, evaluating and maintaining the integrity of the officials to gain people's trust and ensure that the Gauteng government is not compromised. The main aim of establishing this office is to mitigate and eliminate incidences of unethical conduct by government officials. This will go a long way to improving good governance in the province.

In a bid to curb corruption, the premier initiated an open tender system. This transparency is aimed at ensuring that those who will be making decisions on tenders know that their decisions will be under public scrutiny, and for all the bidders to be aware of the impact of this scrutiny. This has already begun; with the pilot starting with Gauteng departments of Transport and Treasury. This is likely to reduce the chances of bidders winning contracts they did not deserve, thus curbing fraud and corruption. In addition, the OTP indicated that there will be a focus on vetting employees to detect those that may be doing business with the auditee and making false declarations.

The Premier also committed to share and unpack the root causes for the current year's audit outcomes during a session with senior management. In addition the premier committed to speedily intervene at g-Fleet, Human Settlements and Health to improve their audit outcomes.

### *Provincial Treasury*

We met with the new MEC of finance twice in the past year and these interactions had a significant impact on the audit outcomes. The number of clean audits increased in the current year. Through initiatives of treasury, the Department of Health was able to reduce the number of qualification areas.

The provincial treasury has enhanced the interventions that were rolled out to the departments to improve the outcomes. Some of the initiatives that were implemented are:

- Support Gauteng Audit Services' internal audit unit to ensure that there is sufficient budget to fill vacancies and enhance staff establishment capacity to enable the units to conduct effective audits.
- All commitments made by the provincial executives to be included in their signed performance agreements and cascaded down to all responsible officials.

Going forward provincial treasury committed to:

- Improve and sustain the clean administration in the number of departments and entities.
- To assist g-Fleet, department of Health and Human Settlements to implement turnaround strategies and initiatives to achieve clean administration.
- Track the progress of the IT Road Map development and implementation and the approved Gauteng IT governance framework.
- Finalise the disaster recovery project plan and ensure that all Gauteng provincial departments agree and sign service level agreements.
- Continue working closely with portfolio committees on reports submitted on local government.

Treasury, through the MEC, committed to develop an end-to-end support strategy aimed at ensuring that departments are not supported haphazardly.

### *Gauteng Provincial Legislature*

We are encouraged by the continued efforts of the speaker in enforcing a sound control environment governed by principles of accountability. We met with the speaker twice in the past year, and these interactions had a significant impact on the audit outcomes as she was very responsive to our messages.

The Legislature, through its portfolio committees of the provincial departments, plays a critical oversight role. Accordingly, the speaker needs to continuously ensure that oversight committees such as the portfolio committees and public accounts committee collaborate and coordinate their oversight activities to ensure effective oversight in Gauteng.

The speaker and the MECs of finance and CoGTA need to work together in ensuring that portfolio committees oversee the local government reports that are submitted to the Legislature.

### *Concluding remarks*

We aspire to a public service characterised by strong political leadership and effective oversight structures, working together to make the end state better.

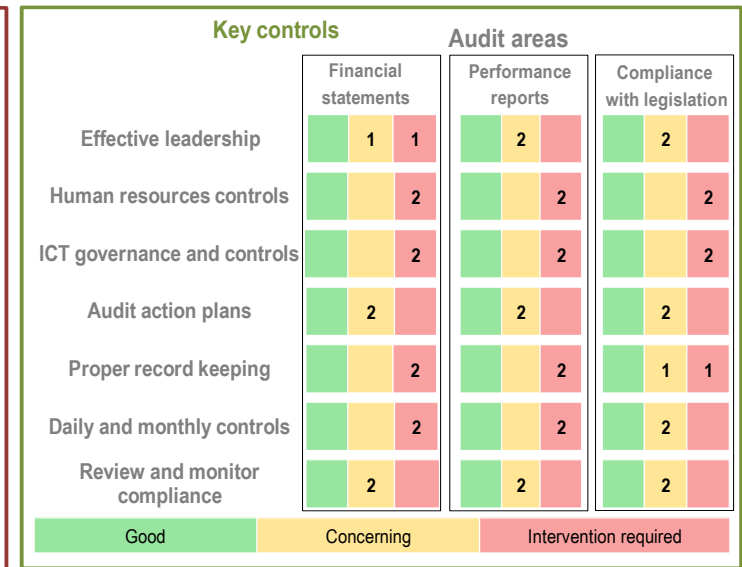
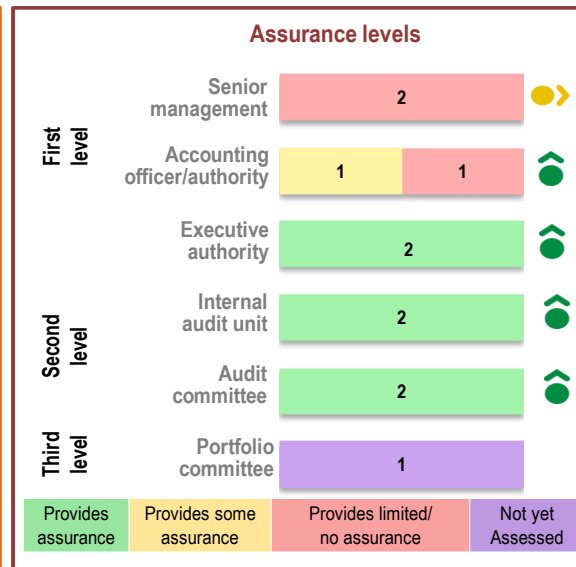
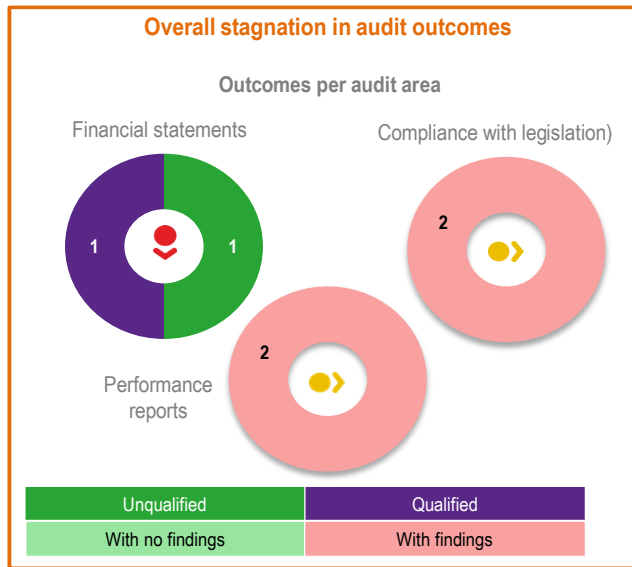
It is critical that the premier, as the head of executive in the province, sets the right tone. It was encouraging to see the premier leading by example and setting the scene for the new financial year and term of the new administration. At our handover function, the premier reiterated the importance of not losing sight of the clean audit target. It is reassuring that, as the head of the province, the premier is aligned to overcoming the clean audit hurdles quickly so that the real business of government - service delivery - can get the necessary attention, as he put it in his own words.

In support of the premier's enthusiasm, commitments made by various departments and entities need to be honoured. We are encouraged by the ownership taken by the premier, provincial treasury and the MECs on accountability and oversight in the province. We remain firmly committed to walking this journey with the Gauteng leadership.



# AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

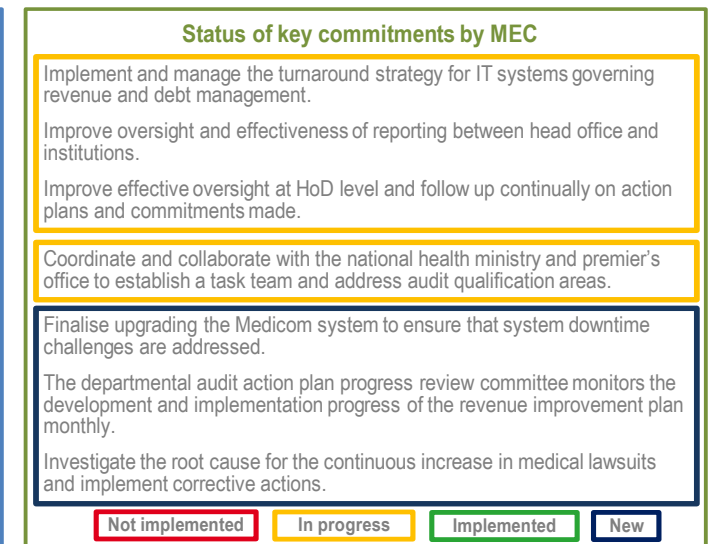
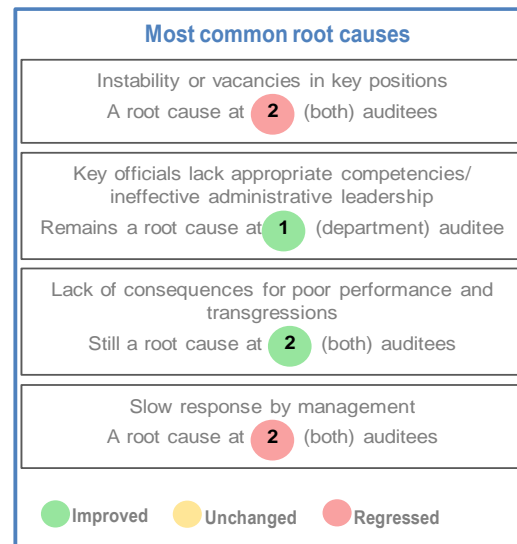
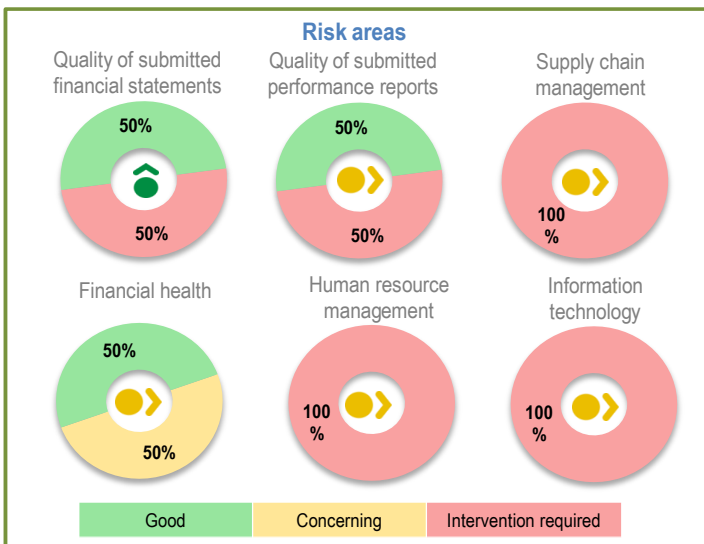
# Department of Health and its entity



1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4

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... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6





# Department of Education

**Overall stagnation in audit outcomes**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

**Assurance levels**

Level	Entity	Assurance
First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Not yet assessed

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Concerning	Intervention required
Human resource controls	Concerning	Concerning	Concerning
ICT governance and controls	Concerning	Concerning	Concerning
Audit action plans	Concerning	Good	Concerning
Proper record keeping	Intervention required	Concerning	Concerning
Daily and monthly controls	Concerning	Concerning	Concerning
Review and monitor compliance	Intervention required	Concerning	Intervention required

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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To improve the **audit outcomes** ...  
... the **risk areas** and ...  
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**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Financial health	Human resource management	Information technology

Good Concerning Intervention required

**Most common root causes**

- Lack of consequences for poor performance and transgressions
- Inadequate review of compliance with legislation
- Management's lack of adequate oversight when preparing the annual financial statements and annual performance report

**Status of key commitments by MEC**

- Executive authority and accounting officer to implement sound performance and consequence management, to avoid findings of non-compliance in the department.
- Adequate processes and systems to be implemented to manage financial records supporting the financial statements.

Not implemented In progress Implemented New

# Department of Infrastructure Development

**Stagnation in audit outcomes**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

**Assurance levels**

Level	Entity	Assurance
First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Not yet assessed

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Concerning	Concerning	Concerning
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Concerning	Concerning	Concerning
Proper record keeping	Intervention required	Intervention required	Intervention required
Daily and monthly controls	Concerning	Concerning	Concerning
Review and monitor compliance	Concerning	Concerning	Concerning

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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**Risk areas**

Supply chain management Good	Quality of submitted performance reports Concerning	Human resource management Good
Quality of submitted financial statements Concerning	Information technology Concerning	Financial health Concerning

Good Concerning Intervention required

**Most common root causes**

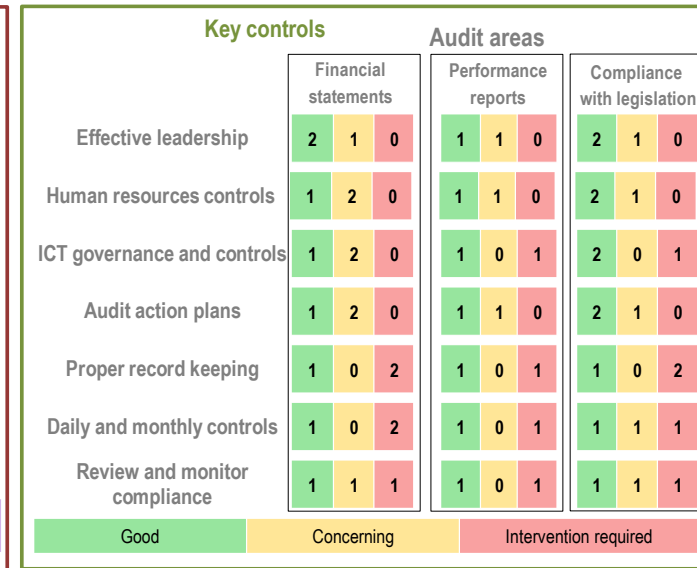
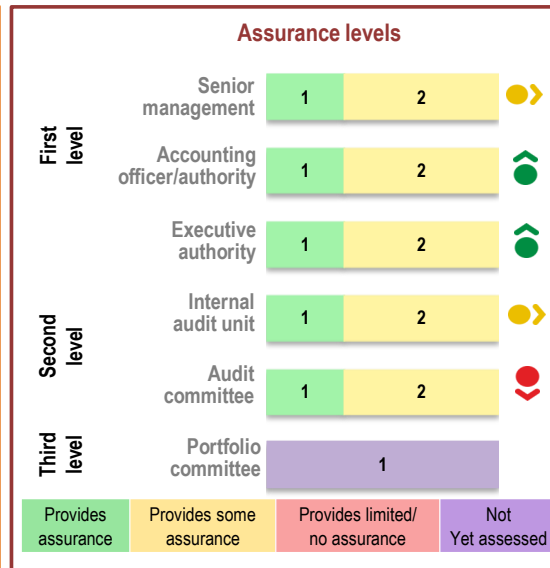
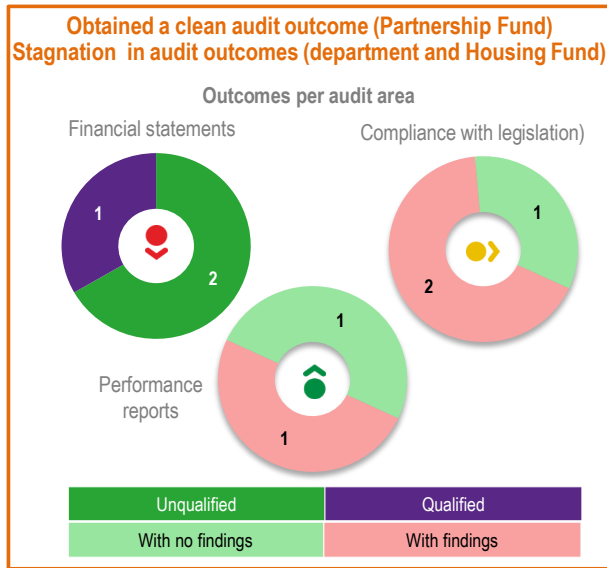
- Adequate policies and procedures were not established. These would enable and support the understanding and execution of internal control objectives, processes and responsibilities.
- Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- The regular, accurate and complete financial and performance reports prepared were not supported and evidenced by reliable information.

**Status of key commitments by MEC**

Implement a document management system to easily retrieve procurement documents, contract management and other documents. Supporting evidence must be reconciled to financial performance reports quarterly.	Not implemented
Implement an IT system to manage capital projects undertaken on behalf of client departments.	In progress
Fill the key position of the chief financial officer, review the financial policies and procedures and coordinate Gauteng's immovable assets as delegated by the premier.	Implemented
Redesign the organisational structure in line with the implementation of the Infrastructure Delivery Management System (IDMS).	New

Not implemented In progress Implemented New

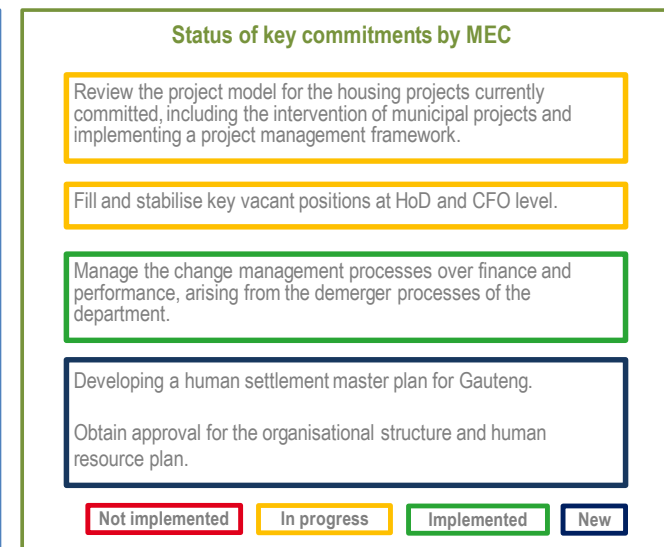
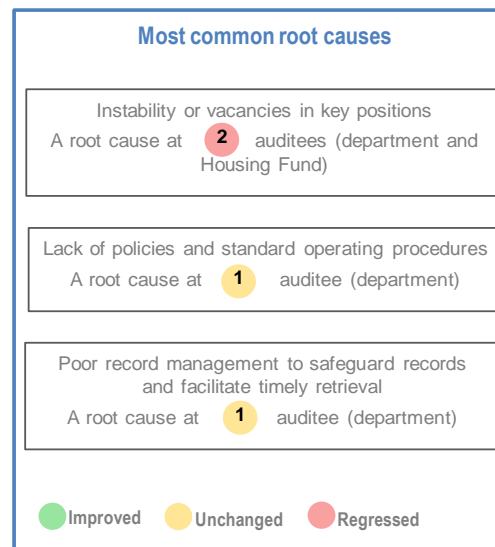
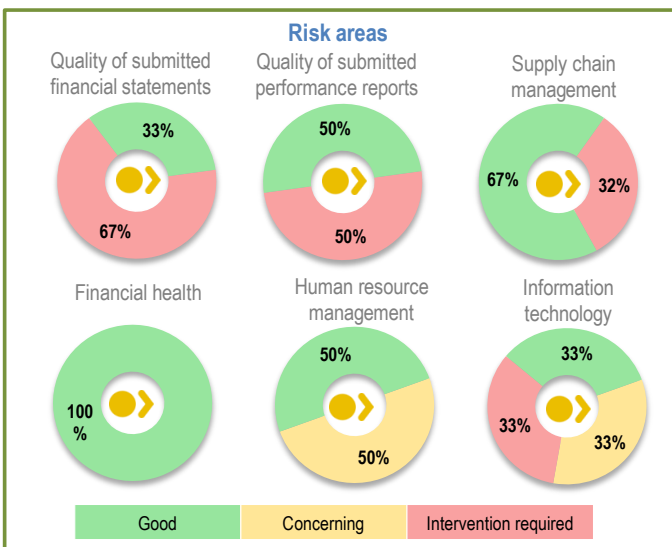
# Department of Human Settlements and its two entities



**1**  
To improve and maintain the **audit outcomes** ...  
... the **risk areas** and ...

**2**  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...

**3**  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.



# Department of Community Safety

### Stagnation in audit outcomes

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

### Assurance levels

Level	Entity	Assurance Level
First level	Senior management	Provides some assurance
	Accounting officer	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Not yet assessed

### Key controls

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Concerning	Intervention required
Human resource controls	Concerning	Concerning	Concerning
ICT governance and controls	Concerning	Concerning	Concerning
Audit action plans	Concerning	Concerning	Concerning
Proper record keeping	Concerning	Concerning	Concerning
Daily and monthly controls	Concerning	Concerning	Concerning
Review and monitor compliance	Concerning	Concerning	Concerning

F = Financial    P = Performance    C = Compliance

Good    Concerning    Intervention required

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### Risk areas

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Financial health	Human resource management	Information technology

Good    Concerning    Intervention required

### Most common root causes

- Lack of consequences for poor performance and transgressions.
- Key officials lack appropriate competencies.
- Slow response by management (accounting officer and senior management).

### Status of key commitments by MEC

- Implement a document management system for the easy retrieval of key documents. The supporting documents must be reconciled quarterly to the financial and performance reports.
- Quarterly meetings with the AGSA on the effectiveness of internal controls over the quality of financial statements and PDOs.
- Eliminate paying excessive overtime, especially relating to the traffic officials.
- Implement consequence management to improve the department's administrative function.
- MEC will initiate lifestyle audits, especially within the supply chain and traffic functions of the department, to identify irregularities.
- Develop and implement a turnaround strategy for negative financial health.

Not implemented    In progress    Implemented    New

# Department of Cooperative Governance and Traditional Affairs (new department)

Overall audit outcome	
Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	No material findings

Assurance levels		
First level	Senior management	Provides assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Not yet assessed

Key controls	Audit area		
	F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Audit action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial    P = Performance    C = Compliance

Good    Concerning    Intervention required

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To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
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... the key role players need to **assure** that ...  
... the **best practices to maintain** ...  
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... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
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Risk areas		
Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Financial health	Human resource management	Information technology

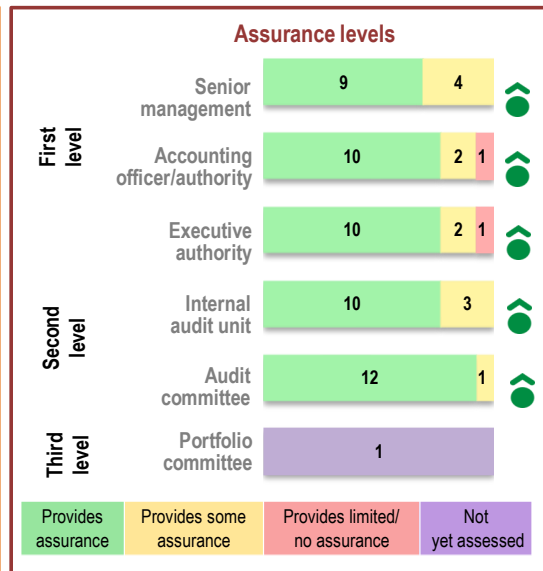
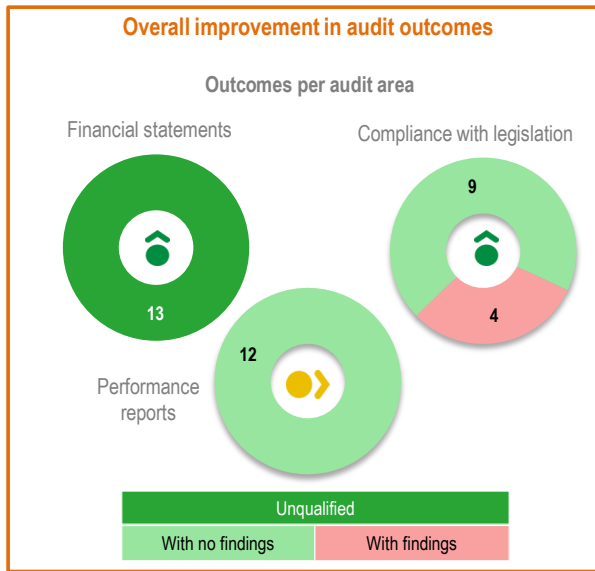
Good    Concerning    Intervention required

Best practices
Effective leadership, implementation and monitoring of key controls ensured that the department obtained a clean audit.
The finance, and performance monitoring and evaluation units are staffed with officials possessing the required knowledge, skills and competencies. The units also work effectively together to ensure that reported information is accurate and complete.
Effective oversight by all governance structures of financial and performance information, and compliance with legislation.

Status of key commitments by MEC
Obtain approval for the organisational structure and human resource plan speedily (demerged 1 April 2013).
Finalise the department-specific policies and procedures speedily (demerged 1 April 2013).
The MEC is to work closely with the MEC of Finance, the speaker and portfolio committees on quarterly oversight reports of the performance of local government around revenue and debt management processes, progress on achieving conditions of grants and other performance areas.
Provide support to the local government sphere where concerns are raised based on our reports. When doing this, collaborate with provincial treasury to maximise the initiatives of the provincial government.
Prepare and submit an annual consolidated report on the performance of municipalities in the province to the Gauteng Provincial Legislature as required by section 47 of the Municipal Systems Act .

Not implemented    In progress    Implemented    New

# Department of Economic Development and its 12 entities



### Key controls

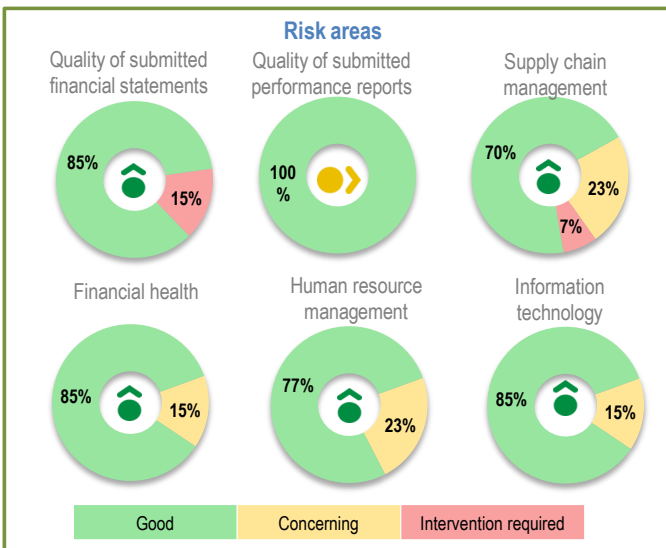
Key controls	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	12	1	0	11	2	0	12	1	0
Human resources controls	7	6	0	11	2	0	7	6	0
ICT governance and controls	11	2	0	11	1	0	11	1	0
Audit action plans	8	5	0	11	2	0	7	6	0
Proper record keeping	7	6	0	12	1	0	11	2	0
Daily and monthly controls	6	6	1	11	2	0	8	5	0
Review and monitor compliance	7	6	0	11	2	0	4	9	0

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To improve and maintain the **audit outcomes** ...  
... the **risk areas** and ...  
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### Best Practices

- Discipline of implementing and monitoring effective action plans to address the previous year's audit findings
- Finance, performance monitoring and compliance units adequately staffed with required skills & competencies.

### Most common root causes

- Instability of leadership and vacancies  
A root cause at **3** auditees (department, Enterprise Propeller & Liquor Board)
- Slow response by management  
A root cause at **1** auditee (department)
- Lack of consequences for poor performance and transgressions  
A root cause at **1** auditee (Gambling Board)

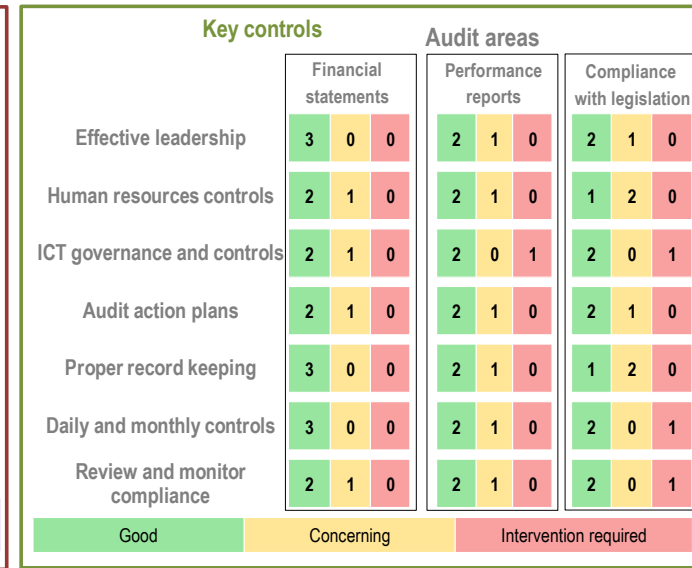
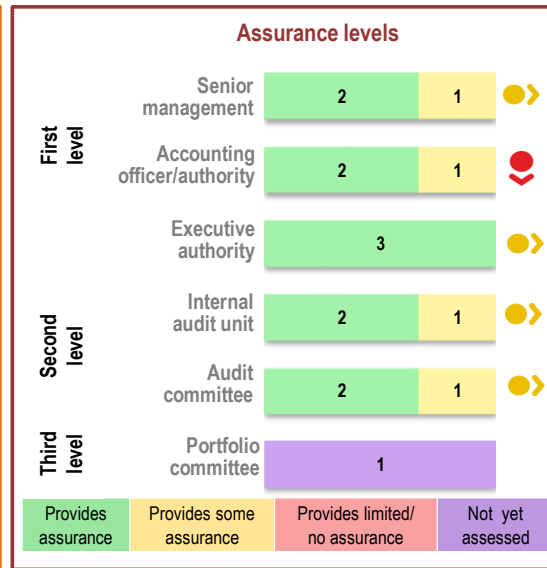
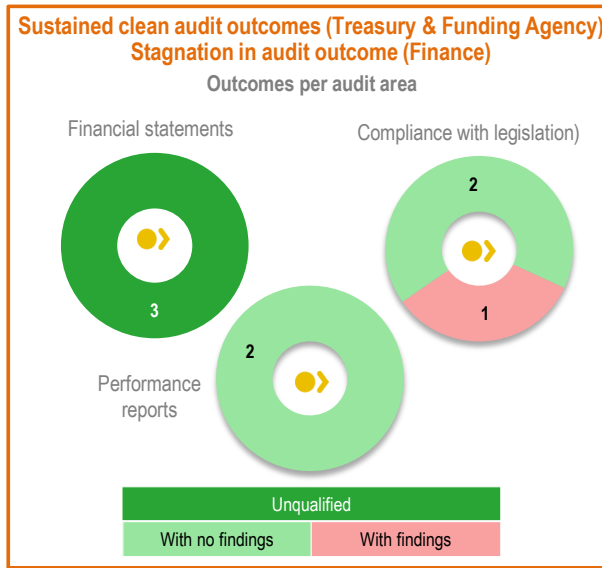
Legend: ● Improved (green), ● Unchanged (yellow), ● Regressed (red)

### Status of key commitments by MEC

- Hold the accounting officer at DED accountable for progress towards achieving clean audit outcomes. The vacancy in the accounting officer position meant that accountability could not be enforced, which negatively impacted the control environment.
- Stabilise the administrative leadership across the portfolio. Implement action plans to maintain a financially unqualified opinion.
- To sustain clean audit outcomes, the political and administrative leadership must sustain good internal control disciplines and request status updates quarterly to curb any regression.
- Replicate good practices across the group and look for a permanent solution for the Liquor Board, including reviewing the business and organisational model.

Legend: Not implemented In progress Implemented New

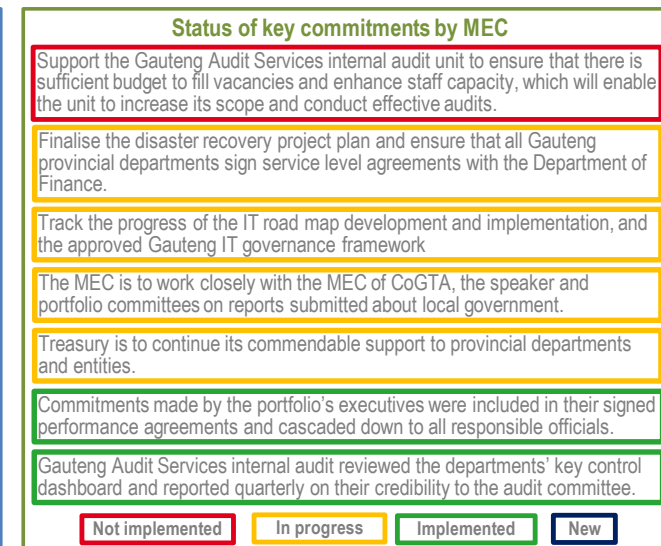
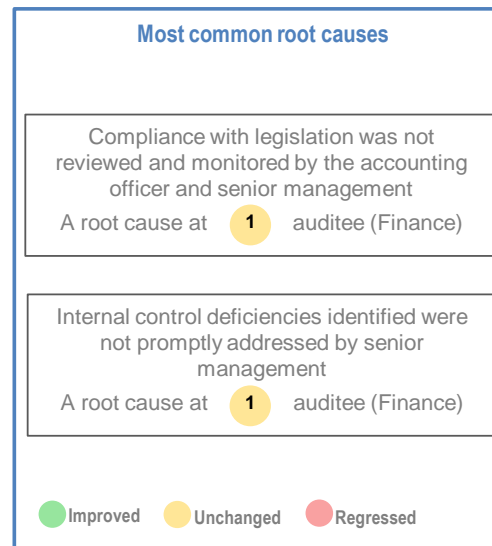
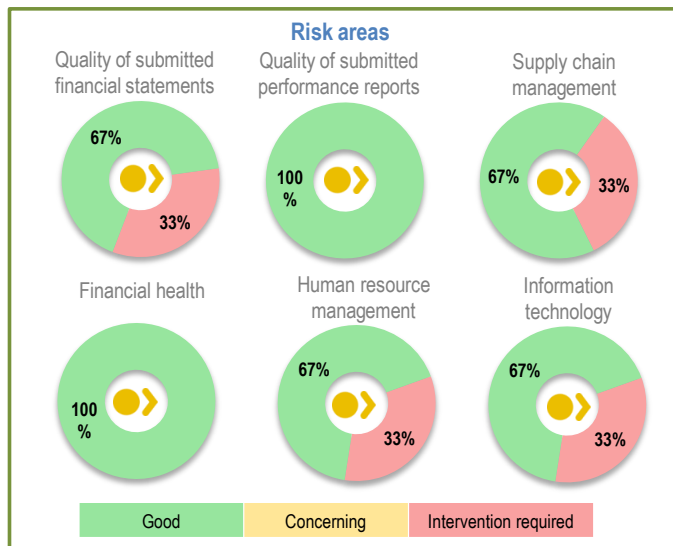
# Department of Finance; Provincial Treasury and its entity



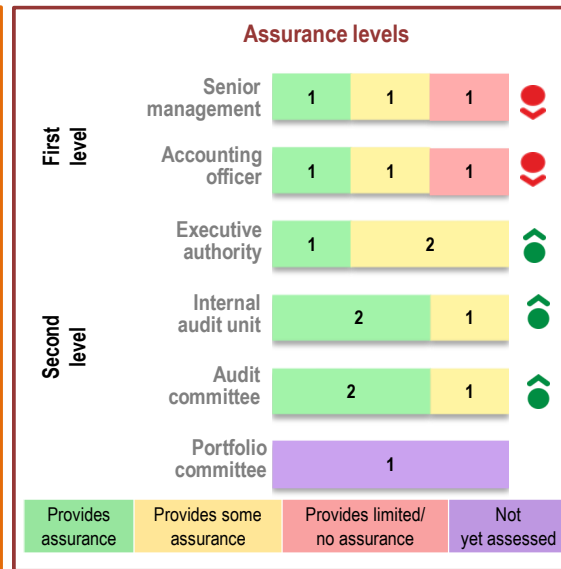
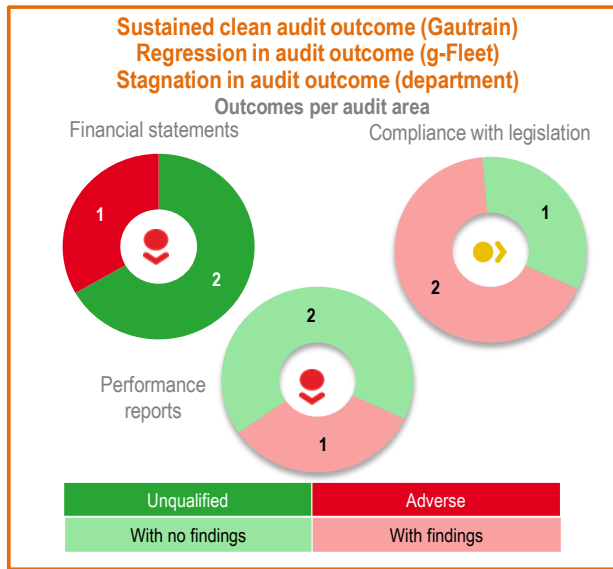
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# Department of Roads and Transport and its two entities

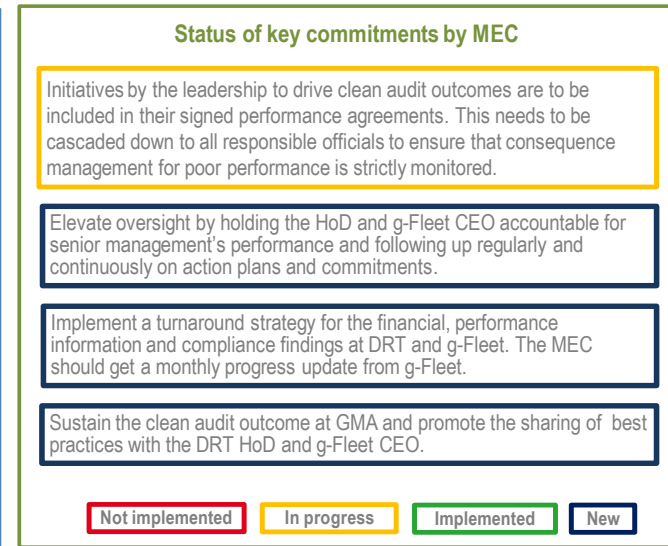
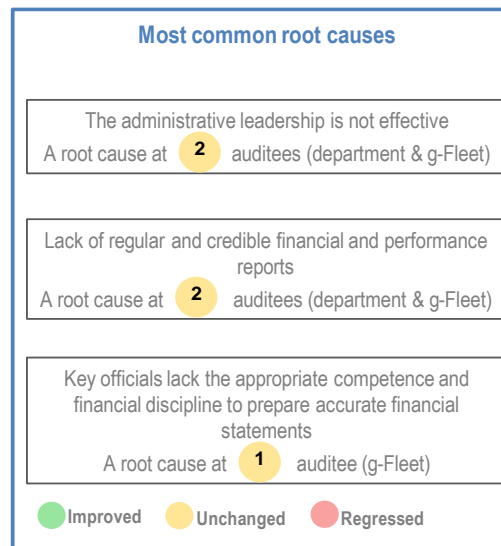
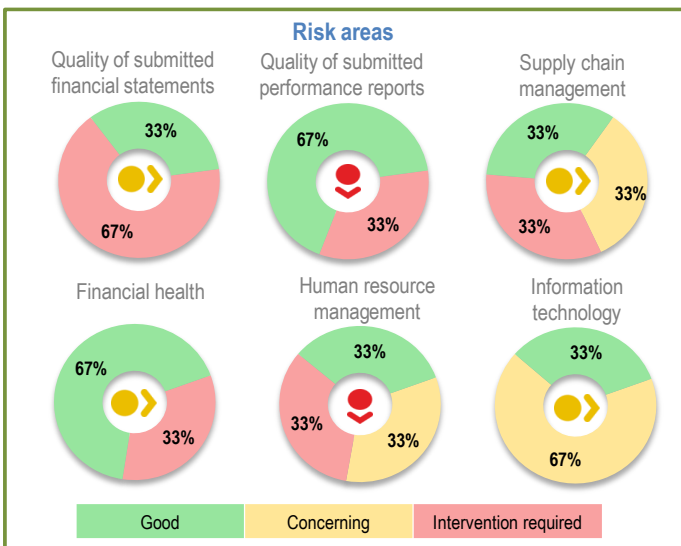


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To improve and maintain the **audit outcomes** ...  
... the **risk areas** and ...

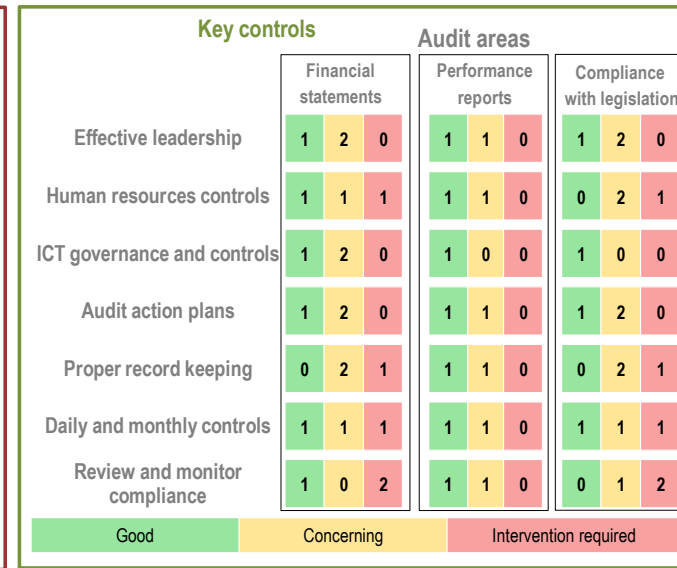
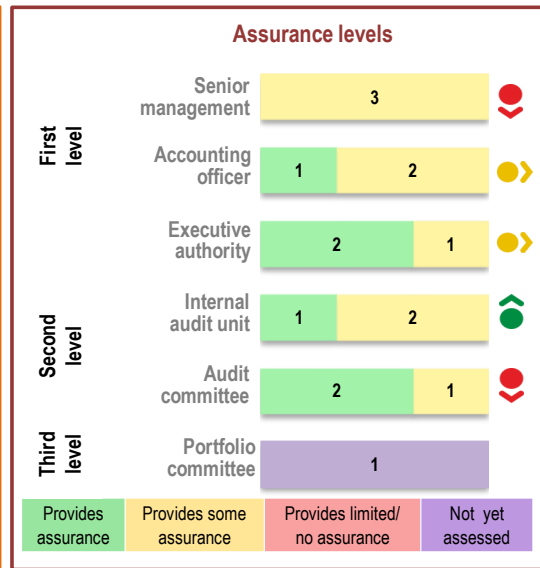
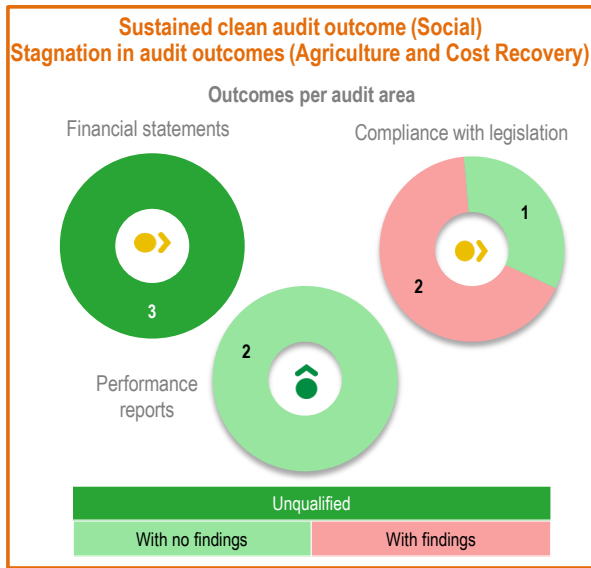
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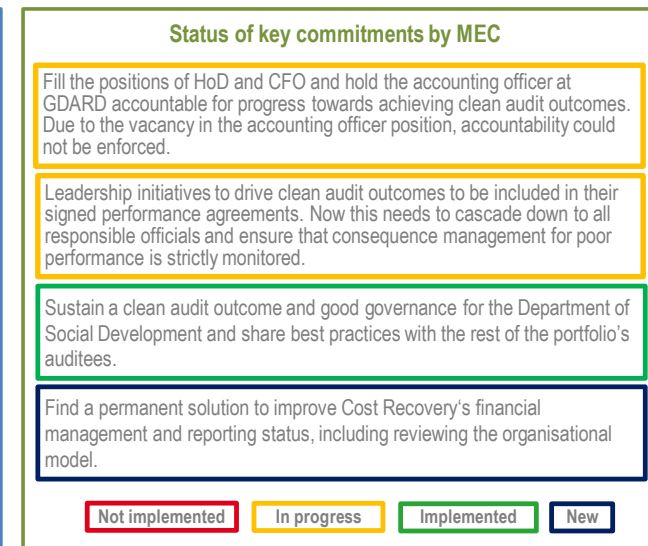
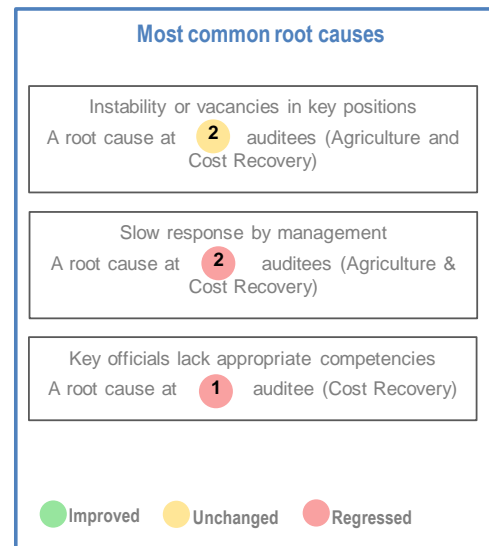
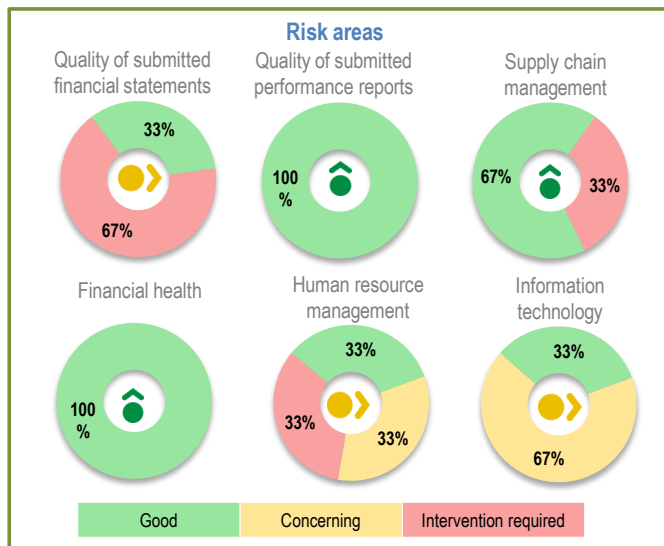
# Departments of Social Development and Agriculture; and Rural Development and its entity



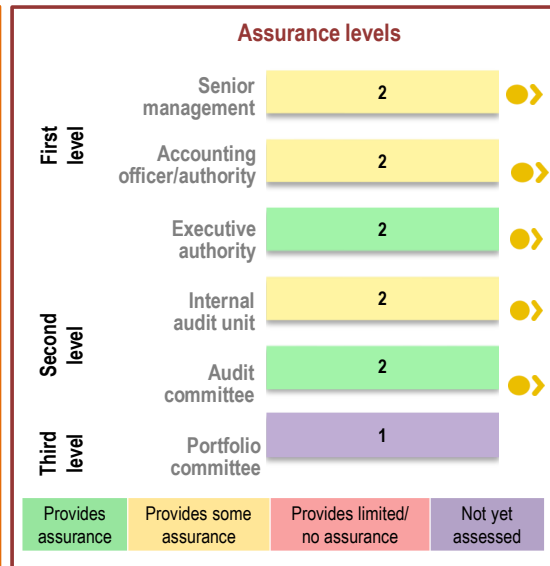
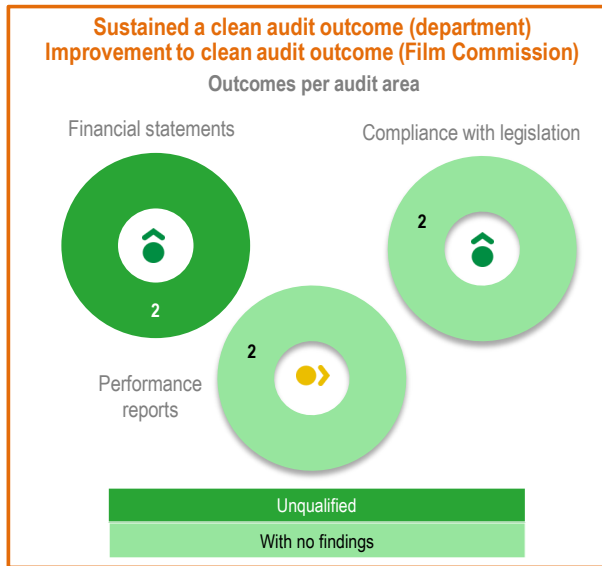
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 To improve and maintain the **audit outcomes** ...  
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 4

2  
 ... the key role players need to **assure** that ...  
 ... the **root causes** are addressed ...  
 5

3  
 ... attention is given to the **key controls** and ...  
 ... and the **commitments** are honoured.  
 6



# Department of Sports, Arts, Culture and Recreation and its entity



**Key controls**

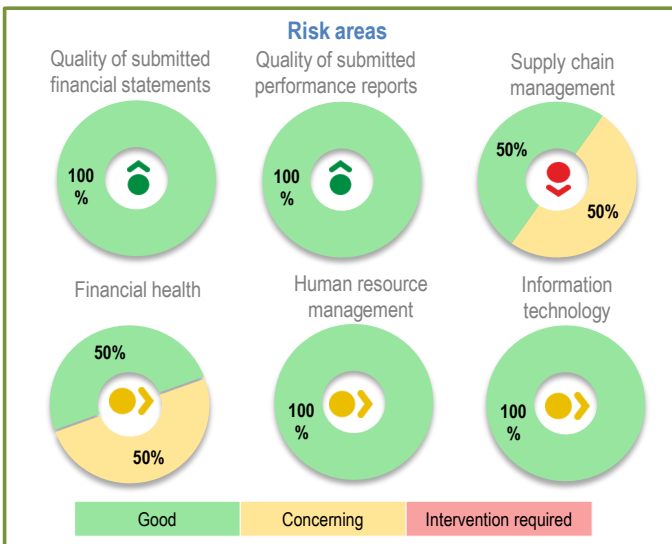
Key Control	Financial statements			Performance reports			Compliance with legislation			
	Score	Assessment	Assessment	Score	Assessment	Assessment	Score	Assessment	Assessment	
Effective leadership	2	Good	0	0	2	Good	0	0	2	Good
Human resources controls	2	Good	0	0	2	Good	0	0	1	Concerning
ICT governance and controls	2	Good	0	0	2	Good	0	0	2	Good
Audit action plans	2	Good	0	0	2	Good	0	0	1	Concerning
Proper record keeping	2	Good	0	0	1	Concerning	1	0	1	Concerning
Daily and monthly controls	2	Good	0	0	2	Good	0	0	2	Good
Review and monitor compliance	2	Good	0	0	2	Good	0	0	1	Concerning

Legend: Good (Green), Concerning (Yellow), Intervention required (Red)

**1**  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...

**2**  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...

**3**  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.



**Best Practices**

- Governance structures regularly review financial, performance and compliance reports.
- Clean administration is part of the department's key performance indicators on the annual performance plan. This is cascaded down, with clear targets being set out in the senior manager and accounting officer's performance agreements to keep them accountable.
- Leadership of the department owned the prior commitments and honoured them.

**Status of key commitments by MEC**

- MEC to ensure that the clean audit outcomes are sustained through quarterly status updates on the control environment by the HoD.
- Establish a compliance monitoring unit within the department that will work closely with the risk unit to ensure compliance with applicable laws and regulations and enhance controls over the approval of expenditure payments. This will assist in sustaining the clean audit outcomes.

Legend: Not implemented (Red), In progress (Yellow), Implemented (Green), New (Blue)

# Office of the Premier

**Sustained a clean audit outcome**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

**Assurance levels**

Level	Entity	Assurance
First level	Senior management	Provides assurance
	Accounting officer/authority	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Portfolio committee	Not yet assessed

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Human resource controls	Good	Good	Good
ICT governance and controls	Good	Good	Good
Audit action plans	Good	Good	Good
Proper record keeping	Good	Good	Good
Daily and monthly controls	Concerning	Good	Good
Review and monitor compliance	Good	Good	Good

F = Financial    P = Performance    C = Compliance

Good    Concerning    Intervention required

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **best practices to maintain** ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Financial health	Human resource management	Information technology

Good    Concerning    Intervention required

**Best practices**

- Stability in leadership, especially in key strategic positions responsible for monitoring and oversight.
- Appointment of competent and disciplined officials in senior management positions.
- Leadership owning and honouring commitments made in the previous year.
- Clean administration is a key performance indicator and target of the office of premier's annual performance plan and is included in the DG's performance agreement to keep him accountable.

**Status of key commitments by Premier**

- Sustain the clean audit outcome status through training and by enhancing controls over financial and performance reporting.
- Facilitate the training and implementation of new transversal policies impacting the province
- Implement control mechanisms for officials doing business with the GPG by providing training on the requirements of the Public Service Act and regulations
- Support provincial treasury initiatives in driving clean audits and ensure consequence management is taking place.
- Facilitate the training and implementation of new transversal policies impacting the province.

Not implemented    In progress    Implemented    New

# Provincial Legislature

**Sustained a clean audit outcome**

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	No material findings

**Assurance levels**

Level	Role	Assurance
First level	Senior management	Provides assurance
	Accounting officer	Provides assurance
	Speaker	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Oversight committee (OCPOL)	Not yet assessed

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Concerning	Intervention required
Human resource controls	Concerning	Concerning	Concerning
ICT governance and controls	Concerning	Concerning	Concerning
Audit action plans	Good	Good	Good
Proper record keeping	Good	Good	Good
Daily and monthly controls	Good	Good	Good
Review and monitor compliance	Good	Good	Good

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To maintain the **audit outcomes** ...  
... the **risk areas** and ...  
4

2  
... the key role players need to **assure** that ...  
... the **best practices to maintain** ...  
5

3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6

**Risk areas**

Quality of submitted financial statements	Quality of submitted performance reports	Supply chain management
Financial health	Human resource management	Information technology

Good Concerning Intervention required

**Best practices**

- Effective leadership oversight and implementation, and continuous monitoring of key controls, ensured that the clean audit outcome is sustained.
- Implementing and monitoring effective action plans to address the previous year's audit findings (the AGSA's message was taken seriously).
- The finance and performance monitoring units are adequately staffed with officials possessing the required skills and competencies.
- Effective oversight by all governance structures of financial, PDO and compliance reporting.

**Status of key commitments by Speaker**

- Sustain the clean audit status of the Legislature by enhancing good internal controls
- Approve draft policies and communicate these to staff of the Legislature
- Ensure oversight of Gauteng activities by working closely with the MECs of Finance and CoGTA, and with portfolio committees
- The public accounts committee continues its robust interaction by regularly monitoring and following up their resolutions, and departments' commitments, to ensure that the implementation rate of resolutions is improved.
- Support provincial treasury initiatives in driving clean audits and ensure consequence management
- Ensure oversight of Gauteng local government by working closely with the MECs of Finance and CoGTA, and with portfolio committees

Not implemented In progress Implemented New

# ANNEXURES





## Annexure 2: Auditees' five year audit opinions

	Auditee	Province	Audit opinions				
			2013-14	2012-13	2011-12	2010-11	2009-10
<b>Departments</b>							
1	Department of Community Safety	GP					
2	Cooperative Governance and Traditional Affairs	GP					
3	Department of Agriculture and Rural Development	GP					
4	Department of Infrastructure Development	GP					
5	Department of Roads and Transport	GP					
6	Department of Economic Development	GP					
7	Education	GP					
8	Department of Finance	GP					
9	Health	GP					
10	Human Settlements	GP					
11	Office of the Premier	GP					
12	Provincial Legislature	GP					
13	Gauteng Provincial Treasury	GP					
14	Social Development	GP					
15	Department of Sports, Arts, Culture and Recreation	GP					

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Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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	Auditee	Province	Audit opinions				
			2013-14	2012-13	2011-12	2010-11	2009-10
<b>Public entities</b>							
16	Constitutional Hill Development Company	GP					
17	Cost Recovery Trading Entity	GP					
18	Cradle of Humankind Trading Entity	GP					
19	Dinokeng World Heritage Trading Entity	GP					
20	g-FleeT Management	GP					
21	Gauteng Enterprise Propeller	GP					
22	Gauteng Film Commission	GP					
23	Gauteng Funding Agency	GP					
24	Gauteng Gambling Board	GP					
25	Gauteng Growth and Development Agency	GP					
26	Gauteng Housing Fund	GP					
27	Gauteng Liquor Board	GP					
28	Gauteng Partnership Fund	GP					
29	Gauteng Tourism Authority	GP					
30	Gautrain Management Agency	GP					
31	Greater Newtown Development Company	GP					
32	Industrial Development Zone	GP					
33	Gauteng Medical Supplies Depot	GP					
34	Supplier Park Development Co	GP					
35	The Innovation Hub	GP					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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# Annexure 3: Assessment of auditees' key controls at the time of the audit

Auditee	Leadership							Financial and performance							Governance																											
	Movement			Effective leadership culture		Oversight responsibility		HR Management		Policies & procedures		Action plans		IT governance		Movement			Proper record keeping		Processing and reconciling controls		Reporting		Compliance		IT Systems controls		Movement			Risk management		Internal audit		Audit committee						
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
<b>Departments</b>																																										
Department of Community Safety	↔	↔	↔																																							
Cooperative Governance and Traditional Affairs	↑	↑	↑																																							
Department of Agriculture and Rural Development	↑	↔	↔																																							
Department of Infrastructure Development	↔	↓	↓																																							
Department of Roads and Transport	↔	↓	↔																																							
Department of Economic Development	↔	↔	↔																																							
Education	↓	↓	↓																																							
Department of Finance	↔	↓	↓																																							
Health	↑	↑	↑																																							
Human Settlements	↔	↔	↔																																							
Office of the Premier	↔	↔	↓																																							
Provincial Legislature	↔	↔	↔																																							
Gauteng Provincial Treasury	↑	↑	↑																																							
Social Development	↑	↑	↑																																							
Department of Sports, Arts, Culture and Recreation	↔	↔	↔																																							

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Legend (root causes)
Concerning
Good
Intervention required
Not assessed
Legend (root causes)
↑ Improved
↔ Unchanged
↓ Regressed
F = Financial
P = Performance
C = Compliance

# GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

## Glossary of key terminology used in this report

*Adverse audit opinion (on financial statements)*

The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

*Asset (in financial statements)*

Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.

*Assurance and assurance provider*

As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject.

Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation.

There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units.

Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.

*Capital budget*

The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long-expected lives and that are required to provide services, produce income or support operations.

*Cash flow (in financial statements)*

The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).

*Clean audit*

The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.

*Commitments from role players*

Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.

*Conditional grants*

Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.

*Contingent liability*

A potential liability, the amount of which will depend on the outcome of a future event.

## *Creditors*

Persons, companies or organisations that auditees owe money to for goods and services procured from them.

## *Current assets (in financial statements)*

These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.

## *Disclaimed audit opinion (on financial statements)*

The auditee provided insufficient evidence in the form of documentation on which we could 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.

## *Financial and performance management (as one of the drivers of internal control)*

The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee.

These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.

## *Financially unqualified audit opinion (on financial statements)*

The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.

## *Fruitless and wasteful expenditure*

Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.

## *Going concern*

The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

## *Governance (as one of the drivers of internal control)*

The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.

## *Human resource management*

The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.

## *Information technology (IT)*

The computer systems used for capturing and reporting financial and non-financial transactions.

### *IT controls*

Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.

### *IT governance*

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.

### *IT security management*

The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.

### *IT service continuity*

The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.

### *IT user access management*

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

### *Internal control / key controls*

The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with key legislation.

It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

### *Irregular expenditure*

Expenditure incurred without complying with applicable legislation.

### *Key drivers of internal control*

The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)

### *Leadership* (as one of the drivers of internal control)

The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management.

It can also refer to the political leadership or the leadership in the province, such as the premier.

### *Liability*

Short-term and long-term debt owed by the auditee.

### *Material finding* (from the audit)

An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of its amount, its nature, or both its amount and its nature, to be reported in the audit report.

### **Material misstatement**

*(in the financial statements or annual performance report)*

An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

### **Misstatement**

*(in the financial statements or annual performance report)*

Incorrect or omitted information in the financial statements or annual performance report.

### **Net deficit** *(incurred by auditee)*

The amount by which an auditee's spending exceeds its income during a period or financial year.

### **Operational budget / operating budget**

A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

### **Oversight structures and coordinating and monitoring departments**

National and provincial role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

### **Property, infrastructure and equipment**

*(in financial statements)*

Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

### **Qualified audit opinion** *(on financial statements)*

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

### **Receivables / debtors** *(in financial statements)*

Money owed to the auditee by companies, organisations or persons who have procured goods or services from the auditee.

### **Reconciliation** *(of accounting records)*

The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

### **Root causes** *(of audit outcomes being poor or not improving)*

The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.

### **Supply chain management**

Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

## Acronyms and abbreviations

AGSA	<i>Auditor-General of South Africa</i>
BAS	<i>Basic Accounting System</i>
bn (after an amount)	<i>R'-billion (rand)</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CIO	<i>chief information officer</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
DPISA	<i>Department of Public Service and Administration</i>
GRAP	<i>Generally Recognised Accounting Practice</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>
ICT	<i>information and communication technology</i>
IFMS	<i>Integrated Financial Management System</i>
IT	<i>information technology</i>
K (after an amount)	<i>R'thousand (rand)</i>
LOGIS	<i>Logistical Information System</i>
m (after an amount)	<i>R'million (rand)</i>
MEC	<i>member of the executive council of a province</i>
PERSAL	<i>Personnel and Salary System</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
PPAC	<i>provincial public accounts committee</i>
SAP	<i>Systems, Applications and Products System</i>
SCM	<i>supply chain management</i>
SCOPA	<i>standing committee on public accounts</i>







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SOUTH AFRICA

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