

PFMA 2013-14



General report on the provincial audit outcomes of **KWAZULU-NATAL**



AUDITOR-GENERAL  
SOUTH AFRICA



# General report on audit outcomes

## KWAZULU-NATAL 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



Nine auditees (24%) achieved clean audits

Regression in audit outcomes

The departments of education, health and arts and culture were qualified during the year, thus need the most attention

Increased levels of unauthorised, irregular as well as fruitless and wasteful expenditure



Material non-compliance with legislation by 75% of auditees

Little progress made toward improving reliability and usefulness of annual performance report



There were no auditees that received disclaimed or adverse opinions, however, there were six qualified opinions

Fifty-eight per cent of financial statements submitted for audit contained material misstatements

Fifteen auditees avoided qualified opinions as a result of correcting material misstatements identified during the auditing process

There has been no improvement in the quality of financial statements submitted for auditing

No improvement in the quality of performance reports submitted for auditing



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

HR management practices, vacancies and instability in key positions are affecting audit outcomes

Indications of going concern issues were common at three public entities



Financial statement analyses show continuing risks that affect auditees' financial health

Confidentiality, integrity and availability of information at risk

Little improvement in the ICT controls

Little progress in addressing root causes of poor audit outcomes

Key role players provided some assurance to improve controls

Implementation and impact of commitments and initiatives of role players



Key role players – all key assurance providers, including management/leadership; the executive and oversight bodies should strengthen their contributions



Audit outcomes of portfolios of MECs and commitments made for improvement

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# KWAZULU-NATAL

# CLEAN AUDITS 2013-14



## DEPARTMENT

KwaZulu-Natal Provincial Treasury



## PUBLIC ENTITY

Amafa AkwaZulu-Natali

Dube Tradeport Company

KwaZulu-Natal Growth Fund Managers (Pty) Ltd

Ithala Development Finance Corporation Ltd

Ithala Limited

Natal Joint Municipal Pension Fund (Provident)

Natal Joint Municipal Pension Fund (Retirement)

Natal Joint Municipal Pension Fund  
(Superannuation)



# EXECUTIVE SUMMARY 7

## Executive summary

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

The total budgeted expenditure of the province was R91,77 billion in 2013-14. The following were main areas of budgeted expenditure:

- Employee cost R54,62 billion
- Goods and services R18,11 billion
- Capital expenditure R8,38 billion
- Transfer payments R10,66 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 laws and regulations governing financial matters.

### 8 Financially unqualified opinion 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 abovementioned aspects. This is commonly referred to as a 'clean audit'. This year the audit outcomes for clean audits show a regression of 13% with nine auditees (24%) attaining clean audit outcomes compared to 14 (37%) in the 2012-13 financial year.

The regressions were primarily due to the failure to maintain basic controls such as reconciliations and reviews over financial information. This led to breakdowns in internal controls and material misstatements in financial statements, which were identified during the auditing process.

The clean audit outcomes are the result of a concerted effort and responsiveness by the political and administrative leadership, audit committees and provincial treasury. Accounting officers/authorities and senior management, as the first line of defence, successfully implemented basic internal controls and accounting disciplines, which ensured that an effective control environment was maintained, and exercised rigorous oversight and support in driving clean audit outcomes.

#### Financially unqualified opinion with findings

Twenty-one auditees (55%) received a **financially unqualified audit opinion with findings** on either their performance information or compliance with

legislation, or both of these aspects (depicted in yellow in this report). These are auditees that have passed the critical test of fair presentation of financial statements, which means that they have accounted accurately for the financial transactions they have carried out.

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 non-compliance with key legislation. Auditees in this category were unable to fully apply best practices, leading to shortcomings in their control environment.

The accounting officers/authorities need to make sure that the basic disciplines of preparing and reviewing regular 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

Six auditees (16%) 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.

The number of auditees with qualified audit opinions has remained unchanged. It is not desirable that the two key basic service delivery departments, namely Health and Education, again obtained qualified audit opinions. The Department of Transport also regressed from a previous clean audit to a qualified audit opinion. It is notable however that the Housing Fund improved from the disclaimed audit opinions of previous years to a qualified audit opinion.

The administrative leadership must be decisive and act in a timely manner to implement effective and sustainable internal controls and disciplines for provincial audit outcomes to improve further, especially for key service delivery departments in the province. These controls should support the preparation of reliable and credible financial and performance information, and prevent non-compliance with legislation.

#### 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.

The Royal Household Trust was the only entity that did not submit its annual performance report for auditing on time. Fifteen auditees (48%) submitted annual performance reports that did not contain material misstatements compared to 18 auditees (60%) in 2012-13, resulting in a 12% regression. Auditees are still largely relying on the auditing process to identify and correct misstatements in their performance information.

These auditees need to adopt the best practices in the province 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 of the performance audit report on the readiness of the auditees to report on its performance.

### ***Non-compliance with laws and regulations***

There has been an increase in compliance findings from 23 auditees (66%) in 2012-13 to 27 auditees (75%) in the current year. It is still of concern that 21 auditees (58%) in the current year had findings relating to the quality of their financial statements submitted for auditing as opposed to 15 (43%) in the previous year. Findings on supply chain management were reported at 12 auditees (33%) in the current year, mainly due to the lack of basic controls and non-compliance with supply chain management legislation, and this matter was also raised at 12 auditees (34%) in the previous year. There is therefore little movement in compliance with supply chain management.

Many financial statements are prepared by consultants that may not be fully aware of public sector specific legislation or updates to the legislation affecting the particular auditee, thus giving rise to material compliance audit findings. Regular monitoring of compliance is not performed on an on-going basis by senior management thus non-compliance is often identified during the audit as opposed to during the year when corrective measures should have been instituted. Due to high vacancy rates within auditees and a lack of understanding of supply chain management prescripts, these policies and procedures are often not complied with.

### ***Irregular expenditure***

As a result of breakdown in controls and the lack of proper systems to prevent, detect and record irregular expenditure, auditees entered into transactions that were not carried out in accordance with regulations and other prescripts. We have classified these as irregular expenditure, which totalled R4,33 billion for the period under review. We determined, through our normal audits, that R4,32 billion of this amount represented goods and services that were received despite the normal processes governing procurement not being followed. The balance of R11 million was not audited and we could therefore not specifically confirm that goods and services had been received.

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 the supply chain management legislation. There is an on-going need for oversight role players to ensure that accounting officers and senior management are kept accountable for providing the desired level of assurance that will continue the momentum towards improved audit outcomes.

### **Financial health**

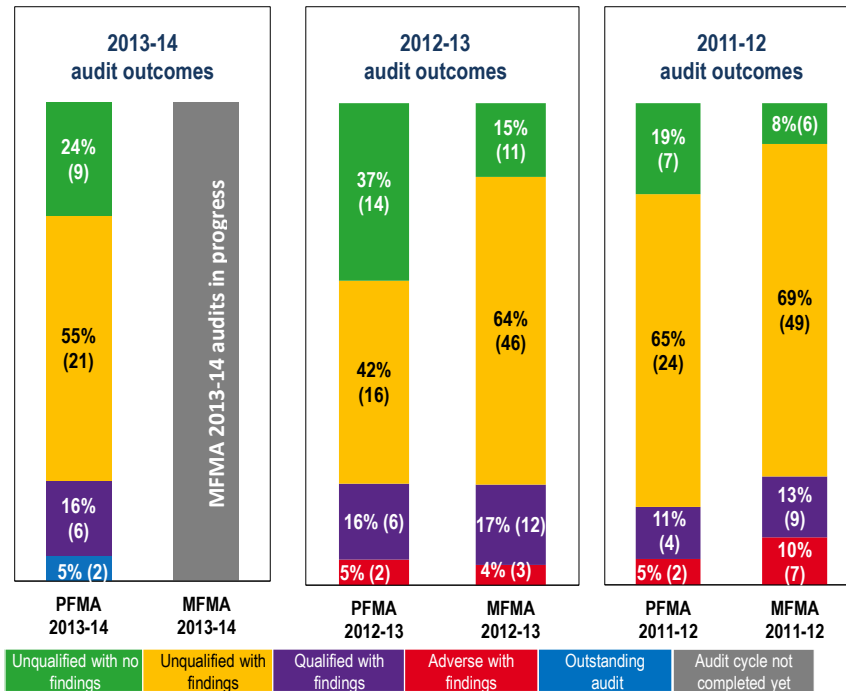
Most auditees in the province have maintained good practices regarding financial health, a trend which was sustained when compared to the previous year. Three public entities reported financial sustainability problems. Financial health findings at departments mainly related to the following:

- Twelve departments were in a bank overdraft position at year-end, due to weaknesses in cash flow planning.
- Six departments had debts outstanding in excess of 90 days, mainly due to adverse economic conditions that impacted on the ability of certain citizens to pay
- Five departments underspent their capital budgets by more than 10% due to delays in tender processes and project implementation.

### **Comparison of provincial and local government audit outcomes**

The KwaZulu-Natal 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**



Given the province's emphasis on clean administration, local government has improved over the two years ended 2012-13 and obtained 11 clean audits (15%). The improvement was as a result of dedicated and disciplined efforts by the leadership and management at these auditees to produce quality financial statements that are free from material misstatement and better quality annual performance reports. Furthermore, accounting officers were able to exercise oversight of proper record management by coordinating the processes to ensure that relevant and accurate information was accessible and available to support financial and performance reporting. The municipal councils, mayors, accounting officers/authorities committed to improving the local government outcomes even further for 2013-14.

The provincial treasury, provincial Department of 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 an improved level of assurance. The provincial legislature provides oversight through its speaker's forum and oversight committees. The premier and members of the executive council for cooperative governance and traditional affairs and treasury further forged partnerships in the local government space to improve basic financial management skills and support at rural and struggling municipalities.

The status of provincial government outcomes for completed audits reflects five improvements, five regressions and 25 unchanged opinions compared to the previous year. The results exclude the opinion of the provincial legislature that was outstanding at 31 August 2014, which was the cut-off date for audits included in this report. The opinion of the provincial legislature was outstanding due to a new financial system implementation challenge which delayed the submission of the financial statements. The movements signify that the pace of progress in the province is slow, therefore, political and administrative leadership require marked, robust, informed and decisive efforts to bridge these setbacks to achieve improved and sustainable audit outcomes. Additionally, assurance providers need to play a key role in improving risk management and oversight for marked and sustainable improvements to be realised.

It is also important that the National Treasury and national Department of Cooperative Governance and Traditional Affairs play a key role in formulating policies and key decisions that increase synergies between provincial and local government. These policies and decisions should be fully aligned to the national development plan to enable provincial and local government to develop robust and realisable strategic plans and annual performance plans that are integrated as an all-inclusive public service for the benefit of citizens.

#### ***Provincial treasury, legislature and Office of the Premier***

Committees of the legislature and the coordinating departments, namely the provincial treasury, the provincial legislature and the Office of the Premier, that have supported departments and entities need to continuously intensify their oversight roles and assurance provided to improve results sustainably. The political landscape of the province did not change significantly after the May 2014 elections – the premier, majority of members of the executive council and chairs of committees remained the same. This has the effect of political stability in the province and it is expected that the audit outcomes will show progress in the coming year under their continued oversight.

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

The Cooperative Governance and Traditional Affairs aims to develop, promote and monitor mechanisms, systems and structures to enable integrated service delivery and implementation within government. The department provided technical support to the municipalities that received a qualified audit opinion in the previous year. These initiatives need to be intensified in partnership with the provincial treasury. The training and empowering of municipal public accounts committees by the Department of Cooperative Governance and Traditional Affairs need attention as this is a pivotal instrument in the assurance cycle, which if improved can bring upon marked improvements.

### **Key leadership actions**

Those auditees that advanced towards clean audit opinions were commonly characterised by the following, which can be replicated as best practices for auditees that need to improve.

- a) Accounting officers/authorities 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.
- b) Stability at senior management level and within finance units, with the required level of technical competence and experience.
- c) Accounting officers/authorities and senior management successfully implemented basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which enabled governance structures to play an effective review role.
- d) Improved performance and consequence management by incorporating the requirements of preparing credible and regular financial reports and performance reports into senior management's performance agreements, and holding senior management accountable.
- e) Internal audit units and audit committees had sufficient time to review annual financial statements and performance reports.
- f) The leadership understood and appreciated the importance of combined assurance as a risk mitigation strategy.

In our partnership with the provincial leadership, it is possible to swiftly and sustainably drive the outcomes in a positive direction. This requires the continued support and dedication of political and administrative leadership with an ethos above reproach that displays the highest standard of professional behaviour and ethics, strategic direction and commitment towards transparency and competence. The institutionalisation of this behaviour by the provincial leadership will set the province on a route to improved public confidence in the administration.

We are encouraged by the commitment and spirit of cooperation of the newly elected premier who has committed himself and the full executive to accountability and consequence management. A strong foundation has been laid by the premier in his state of the province address, where he also committed not only to drive the implementation of the province's planned actions and targets, but also to subject the executive to the regular oversight by the members of the provincial legislature.

Should this positive attitude and commitment be adopted by all levels of staff and filter into the daily oversight responsibilities of the executive, we will see a marked

and sustainable improvement in the drive towards an accountable and exemplary administration within the province.

The provincial treasury, in partnership with the Department of Cooperative Governance and Traditional Affairs, has a significant role to play in improving the audit outcomes; and this could be achieved by carrying out the following:

- These oversight bodies must be held accountable for the performance and outcomes of local and provincial government; especially where support is being provided.
- Key audit issues should be understood and audit opinions should be reasonably predicted through the use of monitoring tools and deeper insight and analysis before the annual audit is performed.
- More focus and resources need to be directed to supply chain management.
- Consultants appointed by the treasury and Department of Cooperative Governance and Traditional Affairs to assist local and provincial government need to be closely monitored in terms of their outputs and deliverables.
- Continued guidance and support should be provided to local and provincial government on the production of useful and reliable performance information.

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 into, 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 all 16 departments (including the legislature) and 22 of the public entities 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 also 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 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 council (MECs), 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, and we specifically audit these so that we can report on the status thereof: ■ 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 MECs, the premier and the 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 of the province.

The overall audit outcome in figure 2 shows our opinion per auditee on their 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 struggled 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 were material misstatements in their financial statements, which they could not correct before the financial statements were published.
  - 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 amounts 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 and disclaimed 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 about figure 2 and other figures and when reading 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 MEC. 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

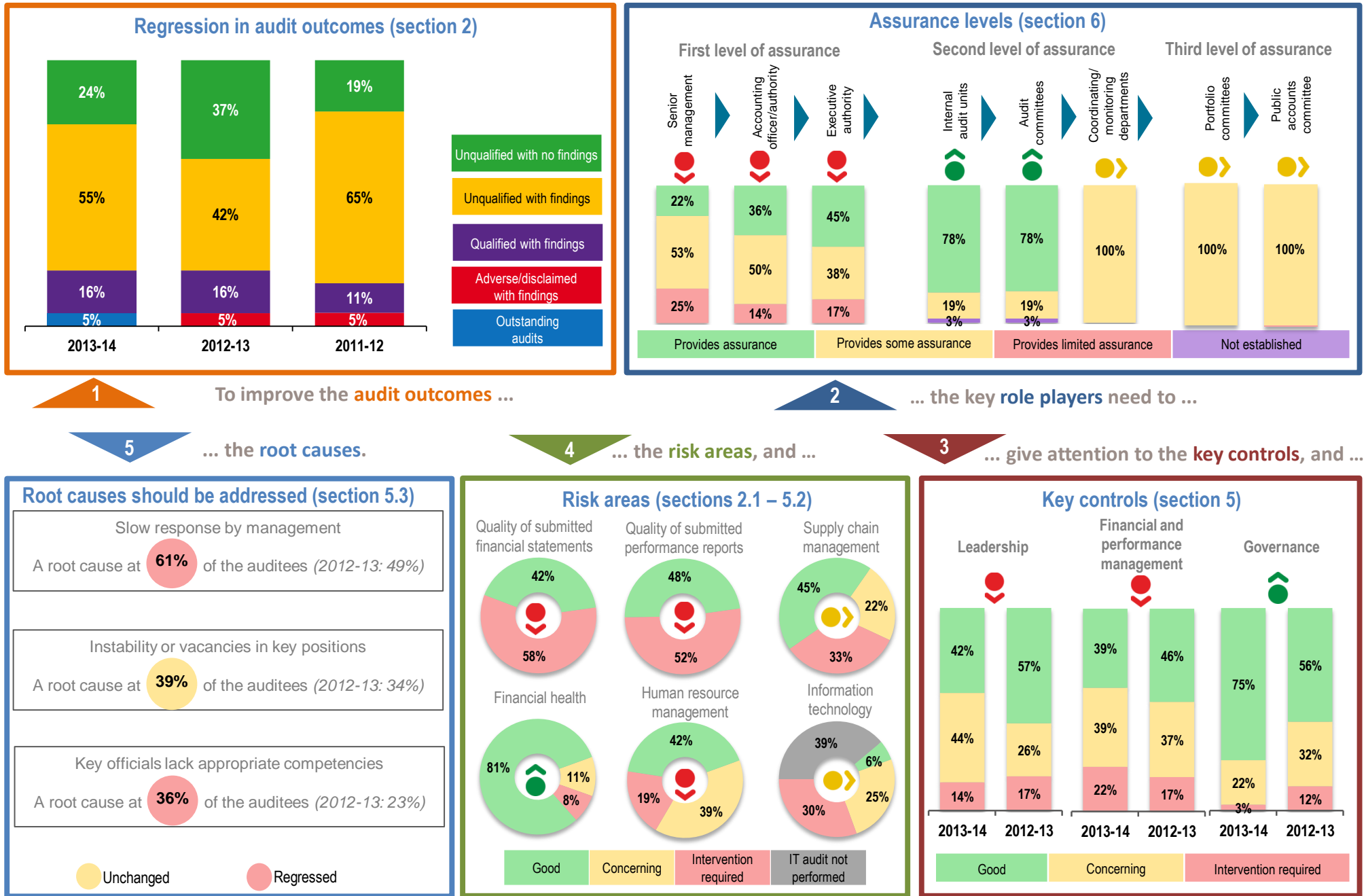



Figure 3: Movements in audit outcomes

	Movement 				
Audit outcome 	5 Improved	25 Unchanged	5 Regressed	1 New auditee	2 Outstanding
Unqualified with no findings = 9	<ul style="list-style-type: none"> <li>Ithala Ltd</li> <li>Ithala Development Finance Corporation Ltd</li> </ul>	<ul style="list-style-type: none"> <li>Provincial treasury</li> <li>Amafa AkwaZulu-Natali</li> <li>Dube Tradeport Company</li> <li>Growth Fund Managers (Pty) Ltd</li> <li>Natal Joint Municipal Pension Fund (Provident)</li> <li>Natal Joint Municipal Pension Fund (Retirement)</li> <li>Natal Joint Municipal Pension Fund (Superannuation)</li> </ul>			
Unqualified with findings = 21	<ul style="list-style-type: none"> <li>Social Development</li> <li>Nature Conservation Board</li> </ul>	<ul style="list-style-type: none"> <li>Agriculture, Environmental Affairs and Rural Development</li> <li>Community Safety and Liaison</li> <li>Cooperative Governance and Traditional Affairs</li> <li>Economic Development and Tourism</li> <li>Human Settlements</li> <li>Office of the Premier</li> <li>Public Works</li> <li>Sport and Recreation</li> <li>The Royal Household</li> <li>Agri-Business Development Agency</li> <li>Liquor Authority</li> <li>Mjindi Farming (Pty) Ltd</li> <li>Provincial Pharmaceutical Supply Depot</li> <li>Royal Household Trust</li> </ul>	<ul style="list-style-type: none"> <li>Gaming and Betting Board</li> <li>Sharks Board</li> <li>Tourism Authority</li> <li>Trade and Investment</li> </ul>	<ul style="list-style-type: none"> <li>Film Company</li> </ul>	<ul style="list-style-type: none"> <li>Provincial legislature (2012-13)</li> <li>Business Rehabilitation Trust Fund (2012-13)</li> </ul>
Qualified with findings = 6	<ul style="list-style-type: none"> <li>Housing Fund</li> </ul>	<ul style="list-style-type: none"> <li>Arts and Culture</li> <li>Education</li> <li>Health</li> <li>Traditional Levies and Trust Account</li> </ul>	<ul style="list-style-type: none"> <li>Transport</li> </ul>		
Disclaimed with findings = 0					

The colour of the auditee's name indicates the audit opinion from where the auditee has moved.  
 The previous year opinions for the current outstanding audits are indicated by the colour of the auditee's name.

## Overall audit outcomes

Provincial government consists of 16 departments (including the legislature) and 35 public entities. The number of public entities has increased from 34 to 35 in the current year, due to the addition of the KwaZulu-Natal (KZN) Film Company. As provided for in the Public Audit Act, 2004 (Act No. 25 of 2004), we do not audit 13 of the public entities. The audit outcomes of these public entities are not included in this report, except in the annexures to this report. The legislature and the Business Rehabilitation Trust Fund are not included in this report as they submitted their financial statements late and their audit reports were not finalised at the cut-off date for this report. The delays in the submission of the financial statements for the legislature were due to new system implementation challenges and the management of the Business Rehabilitation Trust Fund was not committed to ensure timely submission of the financial statements. Furthermore, the KwaZulu-Natal Provincial Revenue Fund is also excluded in this report.

Figure 2 indicates that there had been a net regression in the overall audit outcomes when compared to the previous year. Financially unqualified opinions with no findings had decreased from 14 to nine while financially unqualified opinions with findings increased by five from 16 over the year. Figure 3 analyses the movement in the audit outcomes of the different auditees since the previous year for completed audits. Five improvements were offset by five regressions, resulting in no net movement in the audit outcomes of the province for these audits. It further shows the previous year audit opinions of the audits that had not been completed by 31 August 2014, which is the cut-off date we set for inclusion of audit outcomes in this report. It is notable that no auditees had disclaimed or adverse opinions in the province for 2013-14.

It is evident in figure 3 that the majority of auditees received an unqualified audit opinion with findings, but it is also a point at which most auditees stagnate. This is an indication that there is a greater focus by auditees to obtain an unqualified audit opinion, but they do not have the same drive to address findings on the annual performance report and compliance with legislation. The significant irregular expenditure incurred in the province caused by non-compliance with supply chain management (SCM) requirements is one of the main reasons why auditees are unable to improve to clean audit outcomes (refer to section 2.3). Another reason is that findings on the quality of financial statements and annual performance reports are not addressed due to a lack of competencies and systems to support the collation and reporting of financial and performance information (refer to sections 2.1 and 2.2).

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

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

### 2.1 Financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof 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

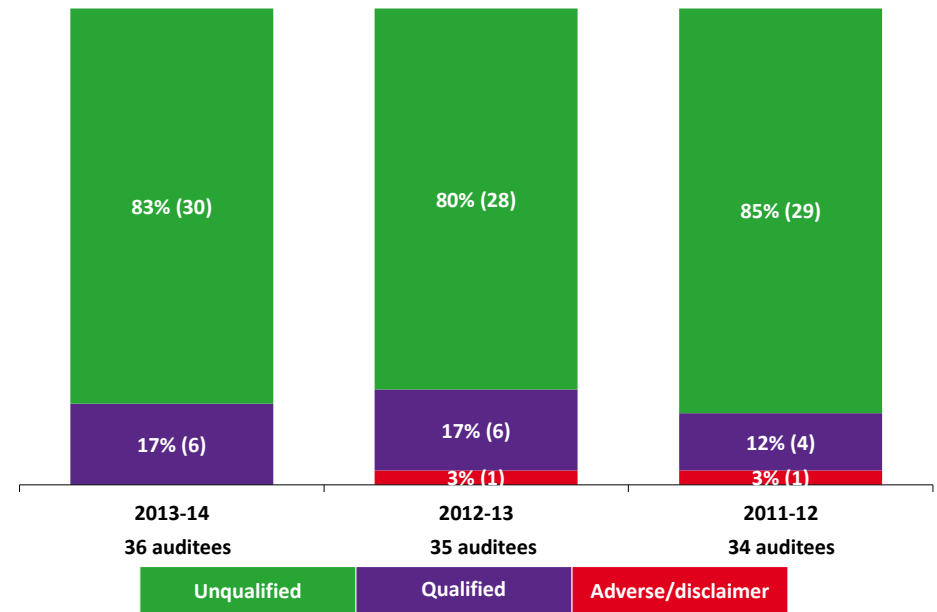


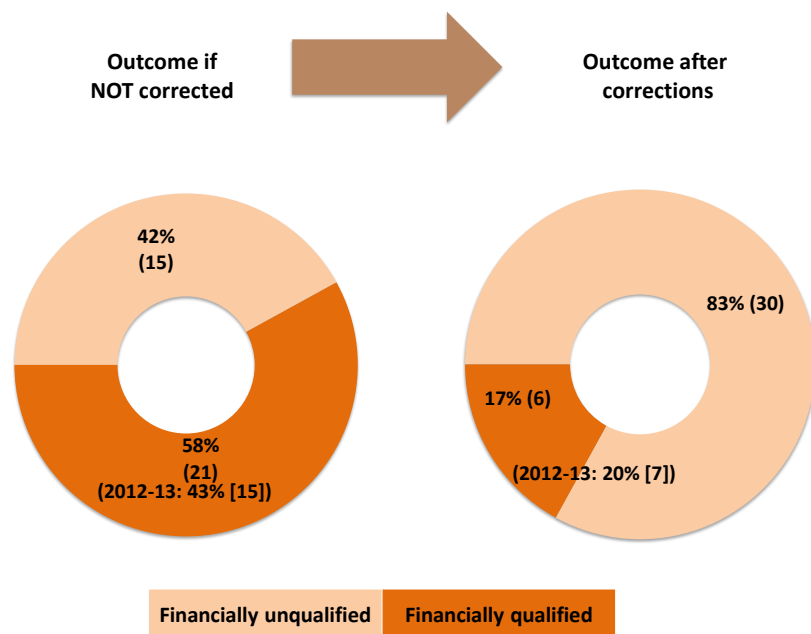
Figure 4 shows that audit opinions on financial statements remained unchanged at unqualified opinions. Noticeable movements for provincial departments pertain to the KZN Transport, which regressed from a clean audit to a qualified opinion and Social Development that improved from a qualified to an unqualified opinion with findings.

Public entities showed an improvement of 3% at an overall level. The KZN Housing Fund improved to a qualified opinion from historically disclaimed/adverse opinions and the KZN Nature Conservation Board resolved previous qualifications. Ithala Ltd and Ithala Development Finance Corporation Ltd achieved clean audits, while KZN Gaming and Betting; Sharks Board; Tourism Authority; and Trade and Investment regressed from clean audit to unqualified opinions with findings. The regressions at public entities were largely due to material misstatements that were not prevented and detected in good time by internal controls.

In 2013-14, the budgeted expenditure of the departments of Education, Health and Public Works contributed 74,6% of the total in the province. The departments of Education and Health remained qualified and represented half (50%) of the departments with qualified audit opinions.

## The quality of the financial statements submitted for auditing

Figure 5: Quality of financial statements submitted for auditing



While most auditees submitted their statements for auditing on time, figure 5 shows that only 15 auditees (42%) submitted financial statements that did not contain material misstatements. These included five departments (Agriculture Environmental Affairs and Rural Development, Community Safety and Liaison,

Economic Development and Tourism, provincial treasury and Office of the Premier) and 10 public entities.

Figure 5 also shows that 30 auditees (83%) received a financially unqualified opinion with findings, of which 15 of these auditees (42%) received a financially unqualified opinion with findings only because they were allowed to make corrections in their submitted financial statements. This is a regression when compared to the previous year, where 20 auditees (six departments and 14 public entities) submitted financial statements that did not contain material misstatements.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material compliance finding, as it also constitutes 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 statements we received for auditing included material misstatements which could have been prevented or detected if the auditee had an effective internal control system. 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 which was identified after the financial statements had been submitted. Four public entities (Gaming and Betting board, Liquor Authority, Tourism Authority and Trade and Investment) would have received a clean audit outcome if it were not for this particular compliance finding.

The most common areas which auditees corrected in order to achieve unqualified audit opinions were on disclosure items and expenditure. The most widespread reasons were due to inadequate reviews by management to ensure that the submitted financial information was complete and accurate. Additionally, regular reconciliations and adequate checks and balances were not performed with diligence. Where reviews were performed by governance structures and weaknesses were detected, management was slow to address these deficiencies.

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 fees.

## Financial statement areas qualified

Even though we reported the material misstatements to management for correction, six auditees (2012-13: seven) could not make the necessary corrections to the financial statements, which resulted in financially qualified audit opinions. The major reasons for not making the corrections were due to the unavailability of information or documentation required to determine the correct amounts to be reflected in the financial statements as well as a slow response by management in monitoring action plans to address previous year's qualifications.



Systems and controls that were not designed to prevent, detect and address risks that impact on financial reporting as well as significant deficiencies in the communication and consistent application of policies and procedures and related controls were additional contributors.

**Figure 6: Top three financial statement qualification areas**

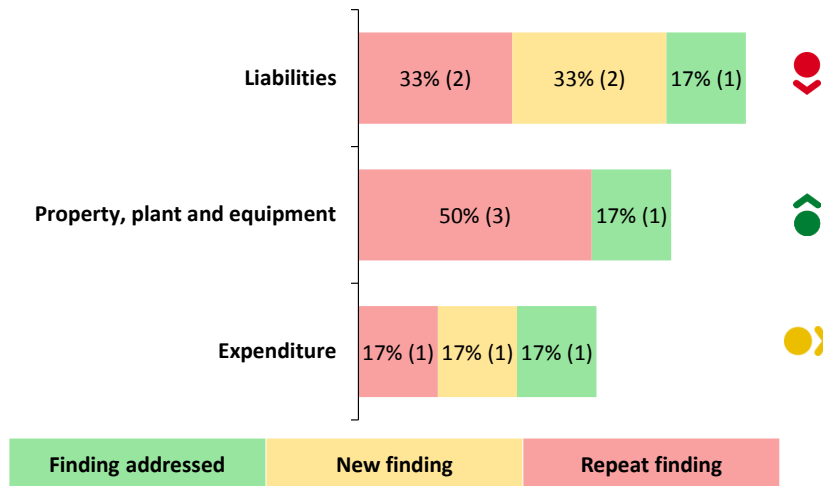


Figure 6 indicates the three most common financial statement qualification areas and the auditees' progress in addressing these since the previous year. Four departments (Arts and Culture, Education, Health and Transport) and two public entities (Housing Fund and Traditional Levies and Trust Account) received a financially qualified opinion in the areas as highlighted above.

The reasons for the most common qualifications are as follows:

### Liabilities

Qualifications in this area were common at four departments, namely Arts and Culture, Health, Education and Transport. Health and Education, two of the high spending departments with direct service delivery mandates, had repeat qualifications in this area. Details of the qualifications were as follows:

- The personnel and salary system at the Department of Education was not accurately updated with capped leave balances at year-end.
- Leave balances used in the calculation of the leave entitlement liability were misstated at the Department of Health due to the delays in the capturing of leave forms.

- The Department of Arts and Culture did not have adequate procedures and systems in place to maintain records of leave included in the leave entitlement and capped leave employee benefits. This was not a qualification in the previous year.
- Transport regressed from an unqualified audit opinion with no findings to a qualified audit opinion. The department did not maintain adequate records of accruals, impacting on the completeness thereof.

### Property, plant and equipment

- We reported repeat qualifications on assets at two departments (Arts and Culture as well as Health) and at one public entity (Housing Fund).
- The Department of Health did not fully account for nor accurately value its movable assets. Additionally, the department did not implement and maintain adequate systems for the recording of assets in terms of prescribed accounting requirements.
- The Department of Arts and Culture did not value its library book assets in terms of the prescribed reporting requirements.
- The Housing Fund did not comply with the accounting requirements for impairment of assets (when the recorded value of the assets is greater than the higher of the future cash flows associated with the asset or the selling price of that asset) and revaluation of assets.

### Expenditure

- The Department of Health did not implement adequate processes and procedures for the review and classification (the account to where the expense should have been recorded) of conditional grant expenditure. This was not a qualification in the previous year.
- The Housing Fund did not account for expenditure relating to employee compensation in accordance with accounting requirements. This was a repeat finding.
- The Department of Social Development addressed its previous year's qualification relating to transfer payments.

### Recommendations

Auditees that received a qualified opinion and those that submitted poor quality financial statements for auditing should strengthen their processes and controls to create a control environment that supports reliable reporting. For such auditees, we recommend the implementation of the following key controls and best practices that are in place at other auditees.



- Action plans prepared to address key audit findings should be regularly monitored by the internal auditors and audit committees.
- Policy and procedure implementation should be assessed regularly and updates must be communicated in time to achieve control objectives.
- Daily disciplines such as the review and approval process and the monthly reconciliations of key accounts should be a normal practice. This will empower officials to prepare credible monthly management accounts and meaningful analysis and forecasts.
- The setting up of a dedicated registry for the safeguarding of records with access controls of the movement of source documents is of prime importance.
- The continuous training and empowering of officials is very important as technical changes are a common reality in the accounting environment.
- The implementation of an effective performance management system, which ensures that there is consequence management, also contributed to the audit outcomes.

## 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 results on annual performance reports are based on 31 auditees (15 departments and 16 public entities). In this regard, the Traditional Levies and Trust Account, as well as three pension funds, the Natal Joint Municipal Pension; provident; and retirement funds, have been excluded from the analysis due to the absence of entity-specific legislation governing performance reporting for these institutions. The Royal Household Trust has also been excluded because it did not submit the performance report for auditing.

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 for 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 the 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**

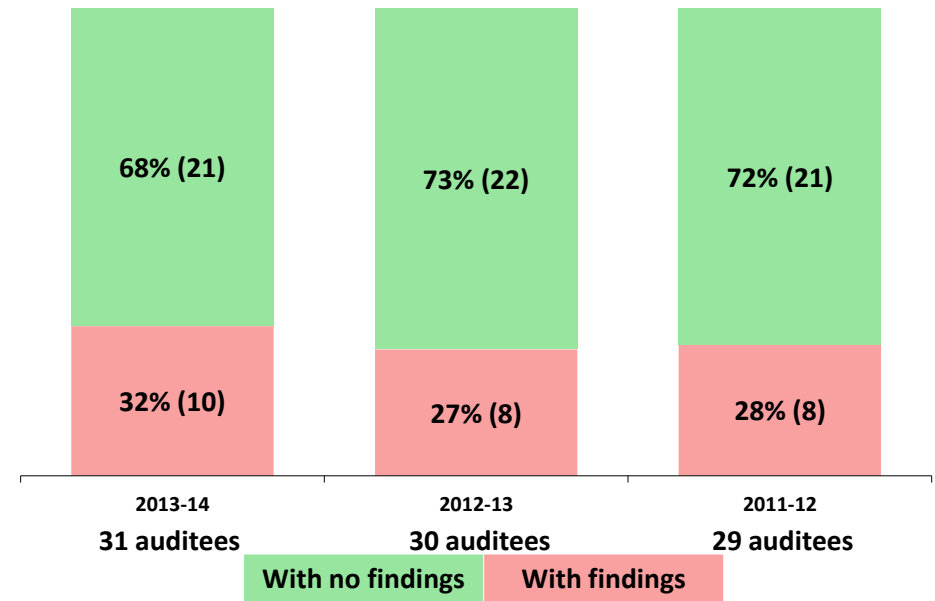


Figure 7 shows that there had been insignificant movements over the three years analysed regarding the usefulness and reliability of annual performance reporting.

Annual performance reports of eight departments (53%) and 13 public entities (81%) did not have material findings on usefulness and/or reliability.

Five departments and one public entity did not provide information that was reliable enough to support the validity, accuracy and completeness of the information contained in the annual performance reports. The movements in departments from the previous year indicated that six (40%) of them, Cooperative Governance and Traditional Affairs; Economic Development and Tourism; provincial treasury; Public Works; Social Development; and the Royal Household, remained unchanged with no findings, while four (27%), namely Community Safety and Liaison, Education, Health and premier, remained unchanged with findings on their annual performance reports. Two (13%) of the departments (Human Settlements and Sport and Recreation) improved to no findings, while

another three (20%), Agriculture, Environmental Affairs and Rural Development; Arts and Culture; and Transport regressed from no findings to having findings on their performance reports. Public Works had material adjustments to its submitted performance report.

Eleven public entities (69%) remained unchanged with no findings on the quality of annual performance reports compared to the previous year. Additionally, two public entities (13%), namely Liquor Authority and Housing Fund, resolved their previous material findings on their annual performance report. The Agri-business Development Agency and Mjindi Farming (Pty) Ltd regressed from having no findings in the previous year to material findings on their annual performance report. The new public entity, KZN Film Company, also had findings on both usefulness and reliability of its annual performance report for the current year.

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

Figure 2 (risk areas) shows that only 15 auditees (48%) submitted annual performance reports that did not contain material misstatements; this is a regression of 12% as 18 auditees had submitted annual performance reports that did not contain material misstatements in the previous year.

One department (Sport and Recreation) and one public entity (Growth Fund Managers) retained their status of having material misstatements in their submitted annual performance reports in the current year. One department (Public Works) and three entities (Ithala Development Finance Corporation Ltd, Tourism Authority and Trade and Investment) regressed from having no material misstatements in the previous year to having material misstatements in the current year.

Figure 8: Quality of submitted annual performance reports

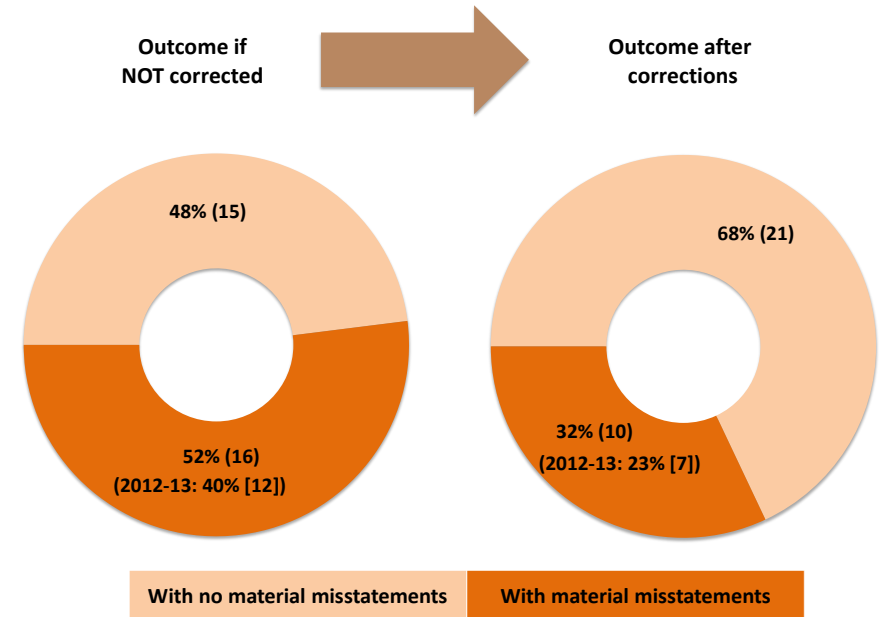


Figure 8 shows that six auditees (19%) did not report any material findings on their annual performance report (16 with material misstatements before correction and 10 with material misstatements after correction) only because they corrected all the misstatements we identified during the audit.

Two departments (Sports and Recreation and Public Works) and four public entities (Growth Fund Managers, Ithala Development Finance Corporation Ltd, Tourism Authority and Trade and Investment) corrected all material misstatements identified during the audit in their submitted annual performance reports.

Seven departments, namely Agriculture, Arts and culture, Education, Health, Transport, Community Safety and Liaison and premier, and three public entities, namely Agri-business Development Agency, Film Company and Mjindi Farming (Pty) (Ltd), which had material misstatements in their submitted annual performance reports, did not make all the necessary adjustments.

Poor record management controls implemented at these auditees resulted in information not being available or incomplete for auditing. Furthermore, there was inadequate review and monitoring of the preparation of the annual performance report by these auditees to ensure that the report is valid and accurate.

## Findings on usefulness and reliability of annual performance reports

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

Auditee	Programme	Not useful	Not reliable
Agriculture, Environmental Affairs and Rural Development	Programme 2: Agricultural development services		x
Arts and Culture	Programme 2: Cultural affairs		x
	Programme 3: Library and archive services		x
Community Safety and Liaison	Programme 2: Provincial civilian secretariat		x
Education	Programme 2: Public ordinary schools	x	x
	Programme 8: Infrastructure development	x	x
Health	Programme 2: District health services		x
	Programme 4: Regional and specialised hospitals		x
	Programme 5: Central and tertiary hospitals		x
Agri-Business Development Agency	Programme 3: Technical support		x
	Programme 4: On and off farm infrastructure		x
Mjindi Farming (Pty) Ltd	Infrastructure and water services	x	x
Premier	Programme 1: Administration	x	x
	Programme 2: Institutional development	x	x
Transport	Transport infrastructure		x

Auditee	Programme	Not useful	Not reliable
Film Company	Programme 1: Administration	x	x

The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability.

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

- Indicators and measures not well defined.
- Performance targets not specific.
- Reported performance information not consistent with planned objectives, indicators, measures and targets.

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source.

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

- Reported performance information not valid.
- Reported performance information not accurate.
- Reported performance information not complete.

Auditees are required to report on their achievement of budgeted service delivery indicators and targets. It is our responsibility to determine whether the information in these reports is reliable and useful. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of the persons who read and use the annual performance report. It is thus imperative that auditees report performance information that can be traced to source documents and that can be validated by the audit team.

A common shortcoming of reported budgeted performance indicators and targets in the annual performance plan is the fact that they are not well defined as a result it is difficult to measure actual performance against these budgeted indicators and targets.

As custodians of public funds, the accounting officers and authorities of state departments and entities as well as MECs are responsible for ensuring that funds are spent in accordance with budgets and plans. These budgets and plans are blueprints for service delivery and the welfare of citizens. Education, Health, and Transport are key departments that drive the economic well-being, potential, literacy, mobility and stability of the province. Additionally, the safety and food security aspects of communities are driven by the departments of Community and

Safety Liaison and Agriculture, Environmental Affairs and Rural Development, respectively. The oversight of the province is further derived from the overarching role that the premier plays in ensuring that key priorities of government as per the state of the province address and, to a large extent, the state of the nation address are met. The credibility and reliability of reported performance information of these key departments are therefore of prime importance to enable citizens to actively determine whether the funds spent are aligned with the extent to which their service delivery needs have been met.

## Findings on compliance with key legislation on strategic planning and performance management

The PFMA prescribes the manner in which strategic planning and performance management should be performed. We report material non-compliance with this legislation in the audit reports of auditees (also refer to section 2.3).

Repeat findings at Health were noted whereas three other departments, Arts and Culture; Community Safety and Liaison; and Education, regressed to having material compliance findings on strategic planning and performance management. In addition, the Royal Household Trust had a repeat finding and the new entity, Film Company, had material findings on strategic planning and performance management in the current year.

The following were the most common findings:

- The KZN Film Company and Royal Household Trust did not have a strategic plan. Therefore, the actual achievement of targets could not be measured against budgeted performance. Without a strategy, the spending priorities are not aligned to a long-term goal, which could hamper the sustainability of these entities.
- The departments of Education, Health, Arts and Culture and Community Safety and Liaison did not have adequately documented and approved internal policies and procedures to address the collection, recording, processing, monitoring and reporting of performance information, thereby resulting in unreliable performance reporting.

## 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 a control environment that supports useful and reliable reporting on performance. For such auditees we recommend the implementation of the

following best practices that are in place at other auditees that did not have any material findings on usefulness and/or reliability:

- The implementation of standard operating procedures for the inclusion of indicators and targets into the annual performance report so that all targets and indicators are consistent with the mandate of the entity, measurable and are presented in a manner that will allow a comparison of actual achievement with budgeted performance.
- Key performance indicators and targets should be clear enough to enable management to collect data and report on them.
- A portfolio of evidence should be put in place to support reported performance. The portfolio of evidence should be systematic and organised; the documents in the portfolio of evidence should relate to the indicator and target; documents must be dated and referenced to supporting evidence where applicable; documents must be signed; and a tracking schedule should be on file on the different documents that are included.
- The introduction of a designated monitoring and evaluation unit that is empowered with competent and capable individuals, who understand the requirements for performance reporting, should be considered. This unit should review the portfolio of evidence on quarterly basis. The report should be submitted to the leadership so that a follow-up action can be implemented to resolve shortcomings.
- The leadership should give attention to internal audit findings and recommendations on the quality of reported performance.
- A reliable recording system should be implemented to ensure that all source documents in support of actual achievement of targets are filed in a systematic way such that they are readily available for verification.
- Institutionalised policies and procedures should be adhered to and monitored, followed by the sanction of disciplinary action and consequences against errant officials.

## 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 9: Three-year trend – compliance with key legislation

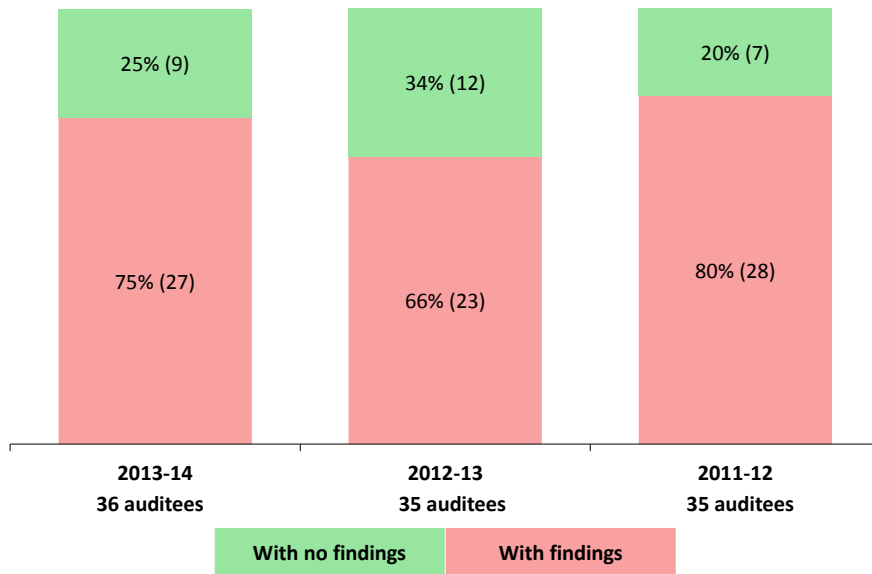


Figure 9 shows that there was a decrease in auditees with no material findings on compliance with key legislation when compared to the previous year, resulting in an overall regression of 9%. We identified material compliance findings at 14 departments and 13 public entities. With the exception of the provincial treasury, we reported material compliance findings at all departments. The largest service delivery departments (Education, Health and Public Works) remained unchanged with material repeat compliance findings being reported. Ithala Development Finance Corporation and Ithala Ltd addressed their previous year's compliance findings.

Figure 10: Trends in findings on compliance with legislation

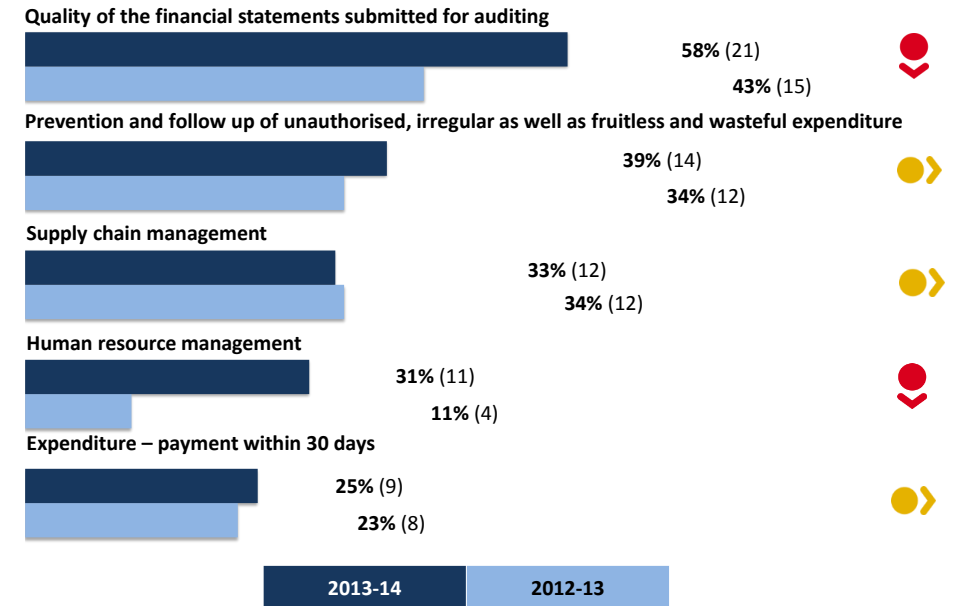


Figure 10 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. There was an increase in non-compliance relating to material misstatements in the submitted financial statements by 15% compared to the previous year and this finding was common at 21 auditees (58%). This included 10 departments and 11 public entities. Fourteen auditees (39%), consisting of eight departments and six public entities, had recurring findings on material misstatements. One department, Community, Safety and Liaison, improved to having no findings and 13 auditees (36%), four departments and nine entities, retained a status of having no findings. The Department of Cooperative Governance and the Department of Transport did not retain their status of no findings in this area. The new public entity, KZN Film Company, did not have findings on material misstatements.

There was an overall lack of improvement in addressing findings on the prevention of unauthorised, irregular as well as fruitless and wasteful expenditure. Ten auditees (28%), consisting of seven departments and three entities, had recurring findings in this area. One department, Community Safety and Liaison, and one entity, KZN Provincial Pharmaceutical Supply Depot, addressed their material findings and 20 auditees (56%), which included four departments and 16 entities (including KZN Film Company), did not have material findings in this focus area.

SCM was stagnant as four departments (11%) did not successfully prevent a recurrence of findings in this area, with an additional eight auditees (22%), four



departments and four entities, which could not maintain a status of no findings. Eight auditees (22%), five departments and three entities, resolved the previous year's findings and no material findings were reported for 16 auditees (44%), two departments and 14 public entities (including the KZN Film Company).

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

- There were material misstatements or limitations in the financial statements submitted for auditing, as mentioned in section 2.1.
- Unauthorised/irregular/fruitless and wasteful expenditure was not prevented (refer to section 2.3.2 for more detail).
- SCM legislation was not complied with (refer to section 2.3.1 for more detail).
- HR management findings were reported at 22 auditees (61%).
- 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 628 contracts (with an approximate value of R4,7 billion) and 2 896 quotations (with an approximate value of R258 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 11: Status of supply chain management

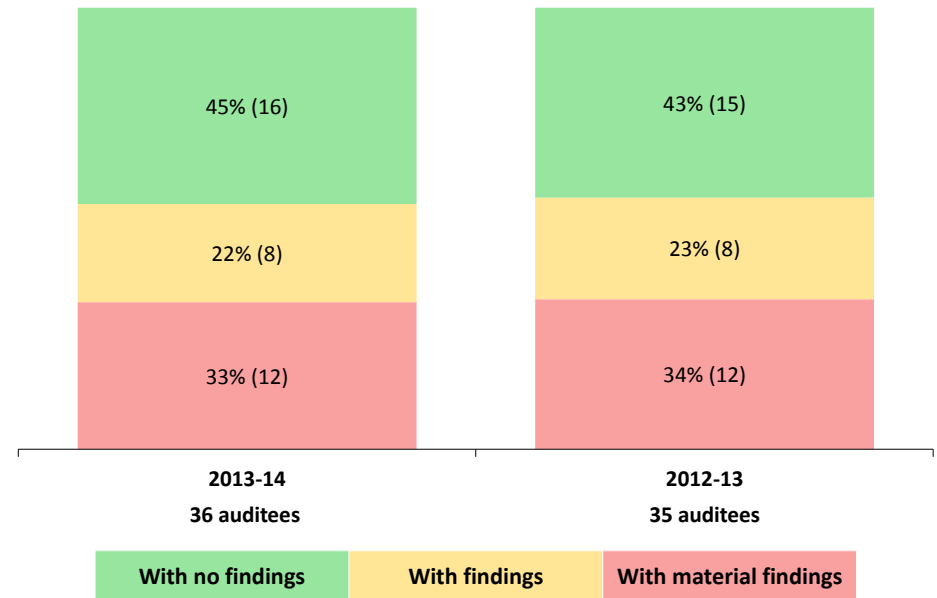


Figure 11 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous years. It shows that there was no improvement when compared to the previous year. Overall, 45% of auditees did not have findings on SCM compared to 43% in 2012-13. Material findings and management report findings showed little movement at 33% and 22% respectively in 2013-14 compared to 34% and 23% in 2012-13. The lack of overall improvement in this key risk area could slow progress towards good audit outcomes and weaken public's confidence in the integrity and transparency of state procurement processes.

**Figure 12: Findings on supply chain management**

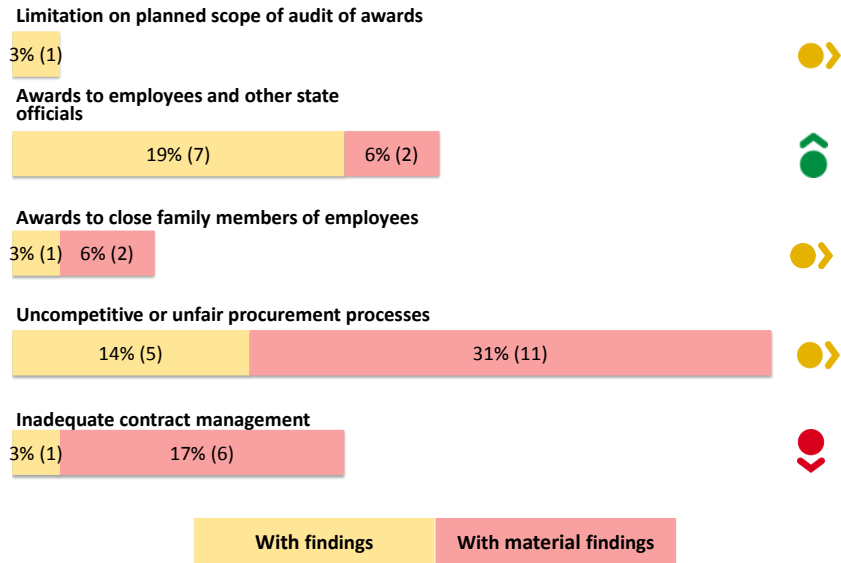


Figure 12 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year we again experienced limitations in auditing SCM. We could not audit awards with a value of R10,5 million at one auditee, Department of Health, as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. This was a new finding at the department. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular. The main reason for the limitations was an inadequate record management system for the filing and safeguarding of tender documents and contracts. Consequently, assurance could not be obtained as to whether there were further irregularities.
- There were 50 instances of awards with an overall value of R17,2 million to suppliers in which employees of the auditees had a financial interest, a slight improvement from the previous year. In 98% of these instances, the supplier did not declare the interest, while the employee did not declare the interest in 2% of the instances. The persons involved were junior employees at three departments (Education, Social Development and Transport). Public Works addressed its previous year finding and Education had a recurring finding in this focus area.

- There were 93 instances of awards with an overall value of R45,1 million made to suppliers in which close family members of employees of the auditees had an interest, stagnation from the previous year. In 96% of these instances, the supplier did not declare the interest, while the employee did not declare the interest in 2% of the instances. The persons involved were senior management and other employees at three departments (Arts and Culture; Education; and Agriculture, Environmental Affairs; and Rural Development). Repeat findings were identified at Agriculture, Environmental Affairs and Rural Development and Education, with a new finding being reported at Arts and Culture. Transport addressed its previous year's finding in this area.
- The following were the most common findings on uncompetitive and unfair procurement processes:
  - Three written quotations not invited – deviation was not approved at 19% of auditees.
  - Awards to providers who are in service of other state institutions – provider did not declare interest (false declaration) at 19% of auditees.
  - Competitive bids not invited – approved deviation not reasonable/justifiable at 17% of auditees.
- The following were the most common findings on contract management:
  - Construction – project was not registered with the Construction Industry Development Board within 21 working days at 14% of auditees.
  - Contracts were amended or extended without approval by a delegated official at 8% of auditees.

The following internal control deficiencies identified at auditees should be addressed to improve the status of SCM in the province:

- Systems and processes to ensure that interests are declared before transacting.
- Monitoring adherence to SCM legislation as defined by policies and procedures.
- Formulation of a plan to address audit findings on SCM and monitoring of adherence to the plan.
- Empowering SCM units to facilitate detailed reviews of documentation and adherence to SCM processes.
- Focused training interventions on SCM.

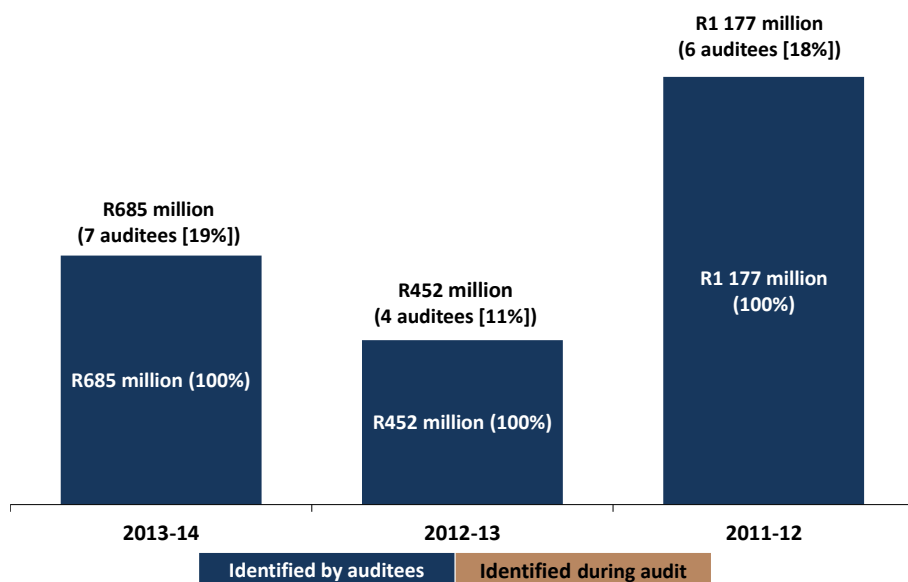


## 2.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

### 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 13: Trend in unauthorised expenditure



Unauthorised expenditure decreased from R1 177 million in 2011-12 by 62% to R452 million in 2012-13, however, there was a subsequent increase in the current year by 52% from R452 million to R685 million. Education and Health contributed the highest proportion to the unauthorised expenditure, incurring R260 million and R323 million, respectively. The intense fluctuation in this

expenditure, noted over the three-year period, highlights auditees' inability to steadily monitor and control their spending.

The leading service delivery departments incurred the most unauthorised expenditure, which places pressure on the cash flow constraints of the province as detailed in section 4 on financial health.

It is of concern that management can detect but does not prevent unauthorised expenditure.

On a positive note, no unauthorised expenditure was identified by the auditors over the past three years as depicted in figure 13. This highlights that auditees had implemented processes to identify any unauthorised expenditure that was incurred and ensured the appropriate disclosure of these amounts in the financial statements.

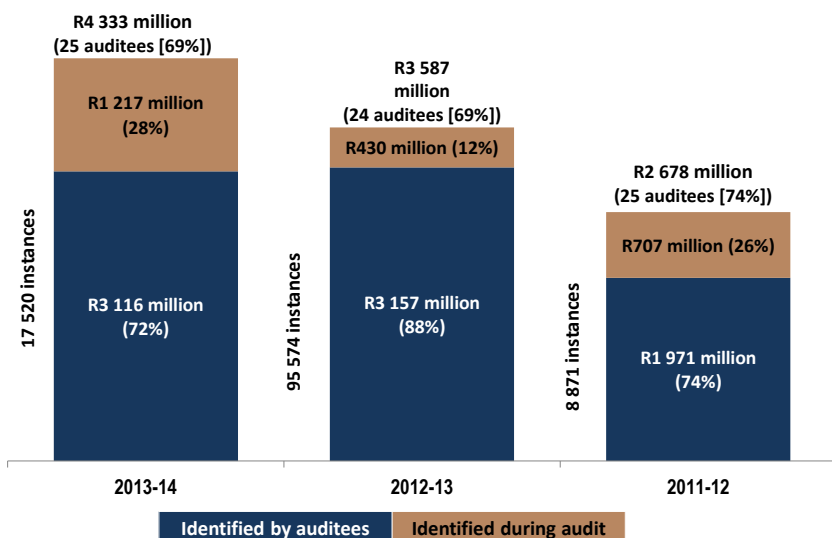
One hundred per cent of the unauthorised expenditure incurred in 2013-14 arose from overspending on votes. The primary cause of unauthorised expenditure at Education and Health was ascribed to overspending on employee costs for the carry-through effects of the occupation specific dispensation allowances and wage agreements for the previous years that had not been fully funded. Additionally, at Health, overspending on antiretroviral drugs (ARVs) and medical supplies as a result of increased public demand also contributed to the unauthorised expenditure. This has a multiplier effect as the cost needs to be funded from future budget allocations.

### 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 14: Auditees incurring irregular expenditure



The 62% of irregular expenditure incurred and the high number of instances thereof over the past three years is a matter that requires swift and decisive actions to contain this trend. The amount of irregular expenditure incurred and identified by auditees' systems and processes of R3 116 million depicts a decrease of R41 million (1%) in the current year. The crux of the increase in irregular expenditure incurred lies in the R1 217 million (28%) identified through auditing processes, which indicates that systems and controls were not designed and implemented or were failing to detect irregular expenditure proactively at most auditees.

Education, Health, and Arts and Culture incurred the majority (93%) of irregular expenditure with these departments incurring R2 680 million; R1 220 million; and R145 million respectively. At Health, the completeness of irregular expenditure could not be confirmed as the full extent thereof had not been determined owing to a lack of preventive and detective processes. Consequently, the amount of the irregular expenditure was materially misstated by an undeterminable amount. At Education, management did not exercise adequate oversight responsibility in that there was no monitoring of compliance with SCM legislation, while at Arts and Culture management failed to implement controls timeously to prevent and detect non-compliance with laws and regulations.

The R4 333 million incurred in the current year constitutes an estimated 5% of the total expenditure budget in the province or 16% excluding employee cost or transfer payments.

Figure 15: Previous year irregular expenditure identified in the current year

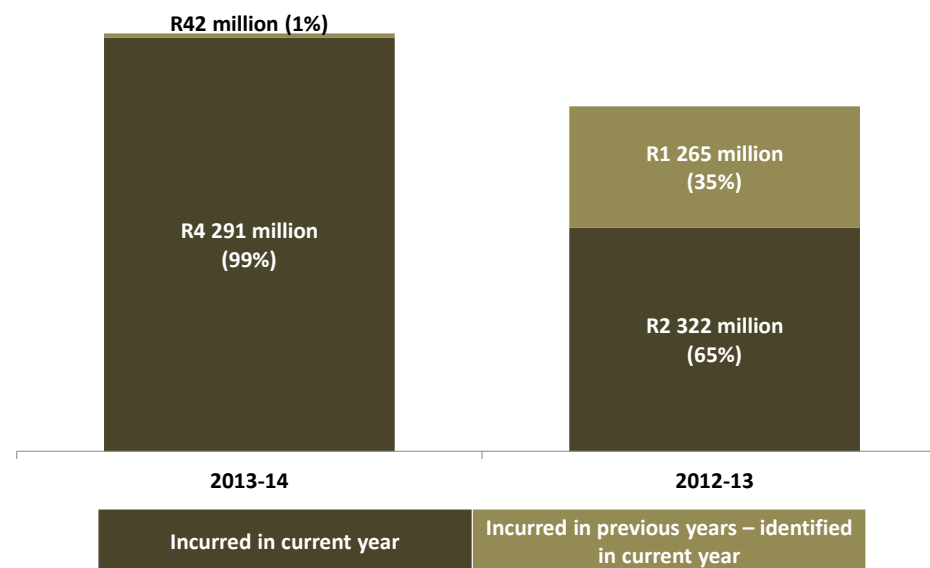


Figure 15 shows that 99% of the expenditure was the result of acts of non-compliance in 2013-14; the remainder was expenditure resulting from transgressions in previous years. In the previous year, 35% of the irregular expenditure identified related to irregular expenditure incurred in the previous years.

Of the R4 333 million of irregular expenditure incurred in 2013-14, most (52%) was as a result of non-compliance with SCM legislation. The following were the main areas of non-compliance, as disclosed by the auditees in their financial statements, with an indication of the estimated value of the expenditure:

- Non-compliance with procurement process requirements – R 1 972 million (87%).
- Procurement without a competitive bidding or quotation process – R 227 million (10%).
- Non-compliance with legislation on contract management – R 69 million (3%).

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 auditees' financial statements until it is recovered if liability is proven, or written-off as not recoverable or condoned by a relevant authority (mostly the National 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 R5 005 million. It is concerning that in 2013-14 only R2 638 million (28%) of this was dealt with as required by legislation, the remaining cases still being investigated, leaving a balance of R6 700 million at the end of the 2013-14 financial year.

At year-end the auditees were still investigating the remaining irregular expenditure balance before determining the appropriate action to be taken.

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 audit procedures we determined that goods and services were received for R4 322 million (99%) of the irregular expenditure despite the correct processes governing procurement not being followed.

We could not determine whether goods and services were received for only R11 million (1%) of irregular expenditure due to a lack of supporting documents. No specific instances were identified where goods and services were not received, which were identified as irregular expenditure. There is a risk that Health was qualified on the expenditure amount shown in their financial statements as a result of payments for goods that were not received or services that were not rendered.

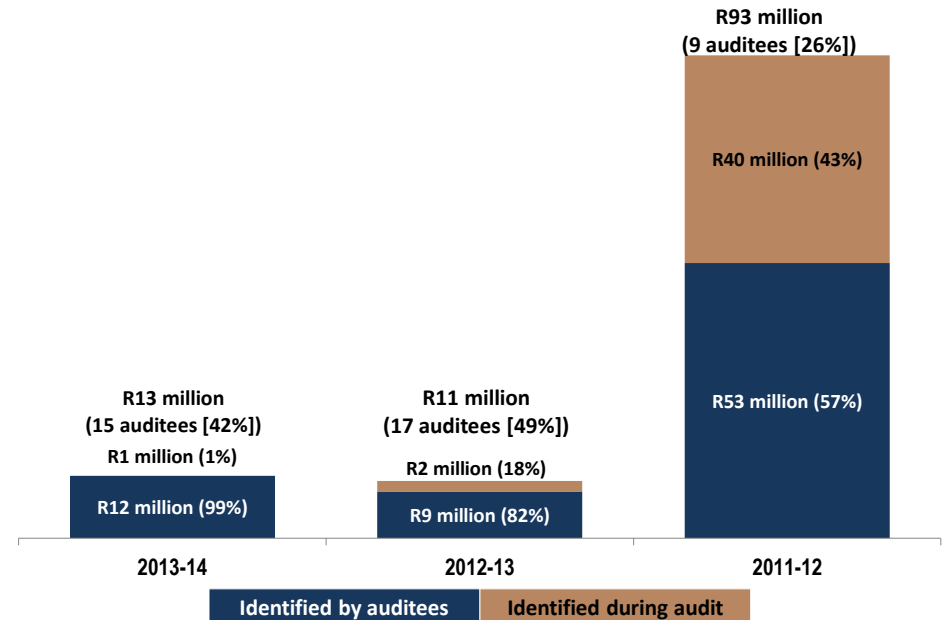
The increasing trend in irregular expenditure over the three-year period is unsatisfactory. Furthermore, as the PFMA views it a criminal offence for an accounting officer to make or permit irregular expenditure or to fail in his/her obligations to prevent and report irregular expenditure, the leadership should ensure that these transgressors are held accountable for their actions. As SCM non-compliance often leads to most irregular expenditure being incurred, the leadership should set the tone by demonstrating a low tolerance for such transgressions.

### 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 16: Trend in fruitless and wasteful expenditure



Fruitless and wasteful expenditure decreased by 88% from R93 million in 2011-12 to R11 million in 2012-13. However, it increased by 18% in 2013-14.

Over the three-year period there has been an improvement in the auditees' ability to appropriately identify fruitless and wasteful expenditure as in the current year 99% of this expenditure was identified by the auditees. Education incurred 75% of the fruitless and wasteful expenditure. Public Works, Cooperative Governance and Traditional Affairs as well as Human Settlements incurred the largest proportion of fruitless and wasteful expenditure at R83 million (90%) in 2011-12.

The nature of the fruitless and wasteful expenditure incurred:

- An amount of R12 million (93%) was incurred due to interest and penalties. The auditee contributing the largest portion of this balance was Education (R10 million [75%]) where it was identified that this expenditure was incurred due to invoices not being paid timeously.

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.

No findings on consequence management emanated from the audit because at year-end the auditees were still investigating the irregular expenditure incurred before determining the appropriate action to be taken.

### 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 a control environment that supports compliance. For such auditees we recommend the implementation of the following key controls and best practices that are in place at auditees that include Dube Tradeport, KZN Growth Fund Managers, Ithala Development Finance Corporation Ltd and provincial treasury.

- Stricter monitoring controls should be implemented to ensure that all requirements with legislation have been complied with in order to prevent unauthorised, irregular as well as fruitless and wasteful expenditure.
- Oversight roles of the MEC and accounting officer need to be strengthened to ensure that persons who incur unauthorised, irregular as well as fruitless and wasteful expenditure are appropriately dealt with.
- Compliance with applicable laws and regulations must be reviewed and monitored regularly through internal compliance checklists.
- Senior management and governance structures should take ownership of the compliance requirements and regularly monitor and track the progress on action plans and obtain assurance that key matters have been addressed.
- The risk assessment should pay critical attention to key compliance issues.

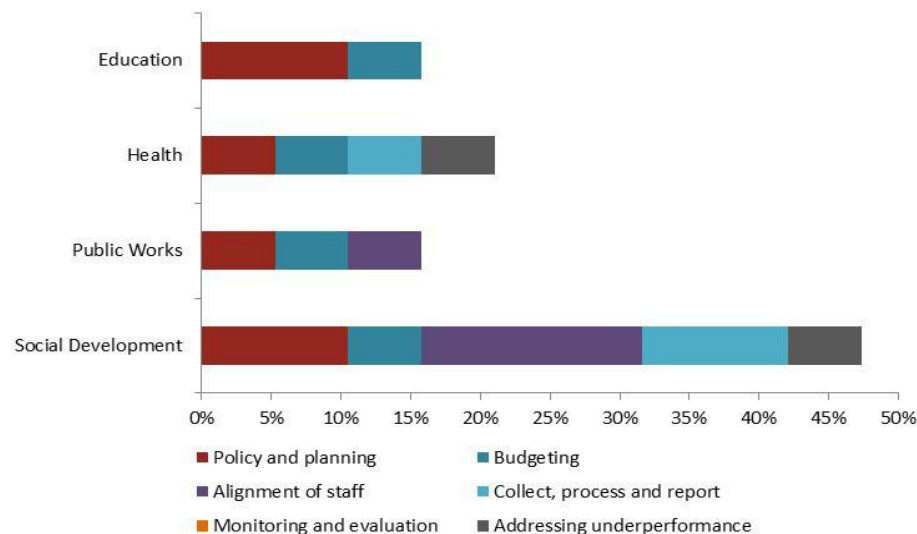
#### Best practices:

- A dedicated compliance officer is appointed who reports to a director responsible for compliance. A compliance document is prepared and an evaluation is performed of all key compliance impacting on the auditee.
- Compliance audits are performed and the reports are tabled at the audit committee.
- The compliance officer is required to sign that he/she has reviewed compliance with SCM requirements.
- Management has a key objective to maintain the ‘world’s best practices’ in their administration and compliance procedures.

- Performance management plays a key role in sustaining the clean administration as individual staff members are accountable for any findings that may arise from the audit.
- The internal audit unit reviewed all key areas of compliance with the PFMA in the entity during the year giving some assurance on the risk appetite of the entity.
- Transgressions of laws and regulations are taken seriously.

## 3. Performance audit of the readiness of government to report on its performance

Figure 17: Distribution of performance audit findings



At present we perform an annual audit of reported actual performance against predetermined objectives of public institutions per our mandate, to provide assurance to Parliament, legislatures, members of the public and other relevant parties that actual performance information is useful and reliable. Performance auditing on the other hand focuses on whether goods and services have been acquired economically, applied efficiently and managed effectively towards achieving the desired goals. We do not report on the economic and efficient use of resources by public institutions. However, in recent years performance auditing has been gaining momentum such that in the future we will be required to report on whether public institutions have used their resources in the most effective and efficient way. As a result of this, we undertook an audit to identify whether these

public institutions were ready to report on their performance information. Figure 17 shows the distribution of findings that emanated from this audit.

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. We performed the audit at the following oversight departments:

#### **Oversight departments**

- Office of the Premier
- Provincial treasury

The audit indicated that the provincial oversight institutions did not provide performance management and reporting guidance and oversight. This was due to their unclear performance management and reporting guidance and oversight roles and responsibilities.

#### **Departments**

- Department of Education
- Department of Health
- Department of Public Works
- Department of Social Development

Except for the Department of Social Development, we identified limited findings at the other audited departments. We only identified the following common findings at the departments:

- Some departments did not have approved and/or comprehensive policies and procedures for reporting on performance.
- Staff were not always held accountable for 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.
- Action plans were not always developed to ensure prompt corrective action where underperformance occurred and/or where performance reporting shortcomings were identified.

The Department of Social Development has, since the audit, implemented a number of corrective measures. This has resulted in the Department of Social Development not having material findings on the usefulness and reliability of their 2012-13 and 2013-14 annual performance reports.

## 4. 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.

We also performed procedures to assess whether there were any events or conditions that might cast significant doubt on a public entity's ability to continue as a going concern.

**Figure 18: Status of financial health**



Figure 18 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 (shown as 'intervention required'). There has been a reduction in the number of auditees that had financial risk indicators when compared to the previous year. The assessment of financial health includes all completed audits for 15 departments and 21 public entities.

Auditees that had two or less financial risk indicators improved by 6%. The following six auditees improved on their financial health status of having findings

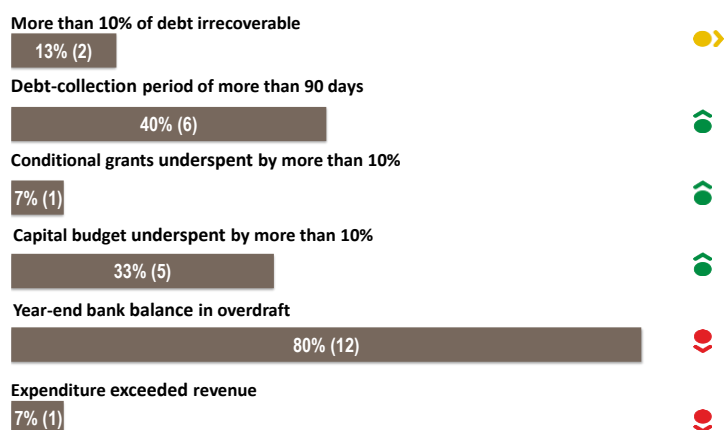


to no findings, Agriculture, Environmental Affairs and Rural Development; Health; Public Works; Tourism Authority; Ithala Ltd; and Provincial Pharmaceutical Supply Depot.

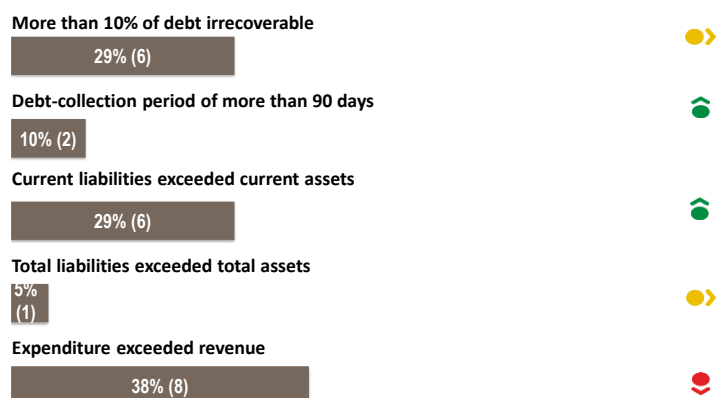
Arts and Culture, Royal Household Trust, Housing Fund and Mjindi Farming (Pty) Ltd regressed from not having findings on financial health in the previous year, to having findings.

Three public entities displayed going concern issues in the current year, namely Growth Fund Managers, Royal Household Trust and Ithala Ltd. Growth Fund Managers and Ithala Ltd had repeat findings regarding the going concern assumption.

**Figure 19: Areas of financial health concerns – departments**



**Figure 20: Areas of financial health concerns – public entities**



Figures 19 and 20 show the number of auditees with indicators and the movement since the previous year. These indicators are discussed 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 analysis, 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.

All departments, with the exception of Human Settlements, would have reported an accrual adjusted net surplus had the accrual basis of accounting been used in the preparation of their financial statements. The accrual adjusted expenditure of Human Settlements would have exceeded its revenue, therefore resulting in an accrual adjusted deficit.

There has been no improvement in cash management at departments as there has been an increase in the number of departments relying on short-term finance to fund their day-to-day operations via an overdraft facility since the previous year. In the current year 12 departments (80%) used an overdraft facility to manage their cash resources, while in the previous year only eight (53%) used an overdraft facility.

Community Safety and Liaison; Economic Development and Tourism; provincial treasury; and Social Development and Sport and Recreation relied on short-term borrowings to fund their operating requirements in the current year whereas in the previous year they did not.

### Underspending by departments of capital budgets and conditional grants received

Community Safety and Liaison underspent on its conditional grants and five other departments comprising Arts and Culture; Human Settlements; provincial treasury; Office of the Premier; and Sport and Recreation underspent on the approved capital budget. Underspending on grant income and capital expenditure has a negative impact on service delivery as this source of income would have been ear marked for service delivery projects. Community, Safety and Liaison underspent on the social sector incentive grant due to late recruitment of volunteers. This was due to lengthy security checks done on all prospective volunteers and verification of districts and areas that needed volunteers prior to

the grant being provided. Arts and Culture underspent on its capital budget as a result of the non-delivery of musical instruments at the end of the financial year. Human Settlements underspent on its capital expenditure as a result of ongoing forensic investigations being carried out on the social and economic amenities programme; therefore, all expenditure on this programme was suspended until the finalisation of the investigations. The under expenditure on capital assets at the Office of the Premier was mainly attributed to the 150-year commemoration of the Indian indentured labourers that was not finalised at year-end.

## Debt management

Six departments (40%), namely Agriculture, Environmental Affairs and Rural Development; Arts and Culture; Education; Health; Human Settlements and Royal Household Trust could not collect amounts due by their debtors within 90 days. This was an improvement of 7% from the previous year.

The following were the primary reasons for excessive debt balances:

- Health: Patient fees remain outstanding for long periods of time due to many citizens not being able to afford services, as well as delays in the processing of medical aid claims.
- Education: Staff debt arising from salary payments after termination and rental from state-owned properties not being collected in good time.
- Human Settlements: Rentals remain outstanding for long periods of time due to citizens not being able to pay.

Two departments (Agriculture, Environmental Affairs and Rural Development; and Transport) had a debt impairment provision of more than 10% of their accrued departmental revenue, which is an indication that a large amount of disclosed debts may not be fully recoverable. At Agriculture, Environmental Affairs and Rural Development inadequate revenue collection processes were the primary root cause of the debt impairment provision being more than 10% of accrued departmental revenue. However, at Transport, the non-recoverability of traffic fines, which was assessed and disclosed in the financial statements the first time in the current year, contributed to the high debt impairment provision.

## Financial health risks at public entities

Overall, public entities remained stagnant regarding financial health risks. Eight public entities experienced a net deficit for the year as a result of expenditure exceeding revenue. Five of these entities, namely Trade and Investment; Nature Conservation Board; Royal Household Trust; Mjindi Farming (Pty) Ltd; and Housing Fund moved from a net surplus to a deficit compared to the previous year. Six auditees, namely Natal Joint Municipal Pension Fund: Provident; Natal Joint Municipal Pension Fund: Retirement; Natal Joint Municipal Pension Fund: Superannuation; Liquor Authority; Royal Household Trust; and Mjindi Farming

(Pty) Ltd were in a position at year-end where their current liabilities exceeded their current assets. Two auditees, namely Mjindi Farming (Pty) Ltd and Housing Fund were not able to collect debts owed to them within 90 days. At Housing Fund, management did not develop and implement debt management policies, while at Mjindi Farming (Pty) Ltd these policies though approved were not followed. Four entities, namely Gaming and Betting Board; Royal Household Trust; Ithala Ltd and Provincial Pharmaceutical Supply Depot improved their debt-collection periods when compared to the previous year.

## 5. 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 2 shows the status of the different areas of internal control and the overall movement since the previous year.

Overall, there was a regression in the key controls relating to leadership (15%) and financial and performance management (7%) and an improvement in the key controls relating to governance (19%).

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.

Figure 21: Key controls focused on in the current year

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	27	8	1	30	5	1	27	8	1
Oversight responsibility	13	13	10	17	9	10	14	15	7
Human resource controls	12	18	6	22	10	4	14	15	7
ICT governance and controls	0	36	0						
Audit action plans	16	19	1	21	12	3	16	19	1
Proper record keeping	17	12	7	26	4	6	18	13	5
Daily and monthly controls	16	14	6	23	7	6	19	11	6
Review and monitor compliance	12	19	5	21	11	4	10	16	10

Good
Concerning
Intervention required
Not assessed



## Effective leadership

The element of effective leadership requires both the political and administrative leadership to be exemplary. We noted some improvement in the assessment of leadership culture with respect to creating awareness and communication of the code of ethics and code of conduct, and constantly driving high performance, clean administration and accountability. We assessed 28 auditees (78%) as good and having key controls which were operating effectively. Although the improvements are encouraging, their impact must be sustainable to contribute to clean administration and improvement in audit outcomes.

### The following key controls are of particular concern:

#### Oversight responsibility

Oversight responsibility means accepting responsibility for guiding and directing the development, implementation and monitoring of the system of internal control to ensure credible financial and performance reporting and compliance with legislation. Oversight by the leadership is critical in ensuring that the systems of internal control function as designed and are able to produce financial, performance and compliance information that is credible and reliable. Effective oversight includes holding management accountable for implementing and monitoring the policies and procedures and action plans designed by the leadership. There has been stagnation in the effectiveness of leadership's oversight responsibilities in the province when compared to the previous year. Forty-one per cent of auditees have effectively implemented this control relative to 25% that display deficiencies, and 34% are still in the process of addressing these deficiencies. It is of concern that 25% of the auditees continue to have a significant deficiency in exercising oversight of internal controls, which requires immediate intervention. Structures in place to support oversight and delegation did not have the desired impact due to vacancies and deficiencies in HR processes. As a result there was ineffective oversight of the compilation of the financial statements and performance reports before submission for auditing. The leadership did not take ownership of the control environment and did not exercise oversight by enforcing and maintaining accountability of management for addressing internal control deficiencies in good time.

#### Human resource controls

HR management, as an element of leadership, requires that the organisation provides the mentoring and training needed to attract, develop and retain sufficient and competent personnel. Management and the accounting officers are also required to establish mechanisms to communicate and hold individuals accountable for internal control responsibilities, including the adherence to standards of conduct and expected levels of competence, and to provide rewards or exercise disciplinary actions as appropriate. Critical to the success of HR

management is succession planning and timely filling of key vacancies. Effective HR management practices have regressed to 44% from 52% in the previous year. HR management practices were not at the desired levels at 56% of auditees. Instability and vacancies in key positions also contributed to leadership's ineffectiveness. Where vacancies existed and were filled with acting positions, individuals did not possess the required experience and ability to enforce accountability. More detail relating to HR management is provided in section 5.1. Management should ensure that key vacancies are filled as a matter of urgency by appropriately skilled staff members. Where existing staff lack appropriate skills there should be a development needs analysis conducted to identify shortcomings in skills that can be addressed by focused training interventions. Performance of staff members should be reviewed frequently so that consequences for poor performance and transgressions are implemented.

#### Audit action plans

Sustainable improvements in outcomes are only possible with audit action plans that are realistic and credible. The leadership should implement and monitor these plans at frequent intervals. Effective monitoring includes accountability and consequence management where action plans have not been adhered to. This is demonstrated by the number and nature of repeat findings identified by internal and external audit. At 51% of the auditees, action plans were not effectively designed and implemented and appropriately assessed for effectiveness. Action plans were not effectively monitored by the appropriate level of management to ensure that all issues had been addressed. Had the responsible management been held accountable for the implementation and monitoring of action plans, repeat findings would have been addressed sustainably. The quality of action plans was assessed as good at 49% of auditees, however, implementation of action plans was not closely monitored and progress not reported on in good time, to impact on the achievement of improved and sustainable audit outcomes.

#### Proper record keeping

Management should implement a system of internal control over recordkeeping, which should result in credible and reliable information being available to support financial and performance reporting. There has been no movement in the implementation of good controls relating to proper records management. Fifty-six per cent of auditees had adequate filing systems in place. Of concern is the 17% of auditees whose document management processes were poor and 27% was assessed as concerning. Management of source documentation was inefficient as evidenced by the length of time taken to respond to requests for information. This is attributed to the instability within finance and HR departments. This had an impact on management's ability to establish responsibility and accountability for control activities with designated persons within the units. Outdated and inadequate standard operating procedures contribute to weaknesses in record keeping as these do not facilitate record keeping in formats that support access to credible source documentation in an organised and timely manner. Management must ensure that there is a proper filing system in place so that all

reported information is supported by valid, accurate and complete records that can be retrieved for auditing purposes.

### Daily and monthly controls

Daily and monthly controls should be designed, implemented and monitored for effectiveness on a regular basis, so that the financial and performance information generated by the financial system at the end of the year is credible. The regular and proper review and monitoring of these controls will result in management preparing regular, accurate and complete financial and performance reports. There was a regression in the implementation of daily and monthly controls as 17% of auditees required intervention; and daily and monthly controls at 30% of auditees were not functioning effectively. This is attributed to the lack of processes to ensure that sufficient and reliable evidence is constantly maintained throughout the year to support financial reporting and performance achievements as monthly and periodic reconciliations and reviews are not conducted. Controls were implemented and operating effectively at 53% of auditees. Proper controls over daily and monthly processing and reconciling of transactions will ensure that complete, relevant and accurate information is accessible and available to support financial reporting and the preparation of quality financial statements.

### Review and monitor compliance

Auditees should have processes in place that ensure that they comply with all legislation. Forty per cent of the auditees had implemented good sustainable controls in this area, which is a 7% regression when compared to the previous year. At 43% of the auditees, actions to address deficiencies in this control were still in progress and 17% required significant intervention. This is one of the key issues preventing improvements in audit outcomes as checklists are not yet designed or not properly implemented and monitored. Vacancies and instability at the SCM departments directly contributed to ineffective compliance monitoring as resources needed to attain the desired operations in financial and compliance monitoring were not always allocated in terms of the departments' objectives. Management must implement well-designed and appropriate controls to facilitate compliance with legislation. Controls must include procedures that should be followed for every transaction. Regular quality reviews and monitoring will enable management to identify non-compliance quickly, and correct possible deficiencies.

The controls requiring the most attention are leadership's oversight effectiveness, monitoring of compliance with laws and regulations and effective HR management.

Sections 5.1 and 5.2 provide further information on the status of the HR controls and the information and communication technology (ICT) governance and controls. The effectiveness of internal control is significantly impacted on by root causes. Section 5.3 describes the most common root causes that should be addressed.

## 5.1 Human resource management

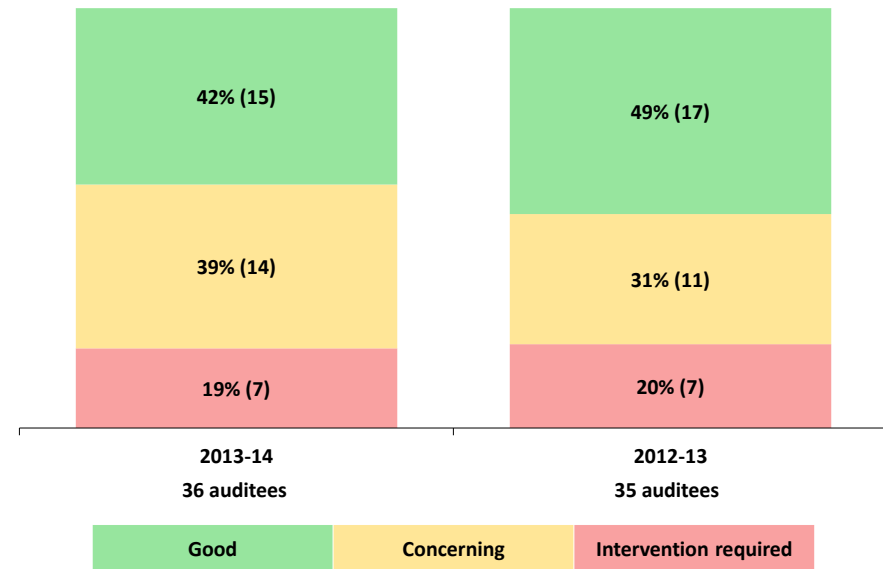
HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

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 ■ competency of key officials

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 22: Status of human resource management



The assessment of HR includes all completed audits for 15 departments and 21 public entities.

Figure 22 shows that there has been a regression in the status of HR management controls when compared to the previous year. The number of auditees that implemented good HR controls decreased from 17 in the previous year to 15, resulting in a 7% regression. Additionally, auditees with HR management controls requiring intervention remained constant since the previous year, while the number of auditees with concerning HR controls increased by 8% from 11 to 14 in the current year.

Based on our assessment on HR management, there were two auditees (6%) whose HR key control assessment regressed since the previous year from good to concerning.

Based on our assessment over the two-year period, we noted that HR management practices were not at the required levels. This trend is concerning as poor HR management practices have been cited as one of the main root causes continuing to hamper the rate of clean audits. Accordingly, if this trend continues we cannot expect further improvements in audit outcomes.

### Management of vacancies and acting positions

Figure 23: Vacancies in key positions

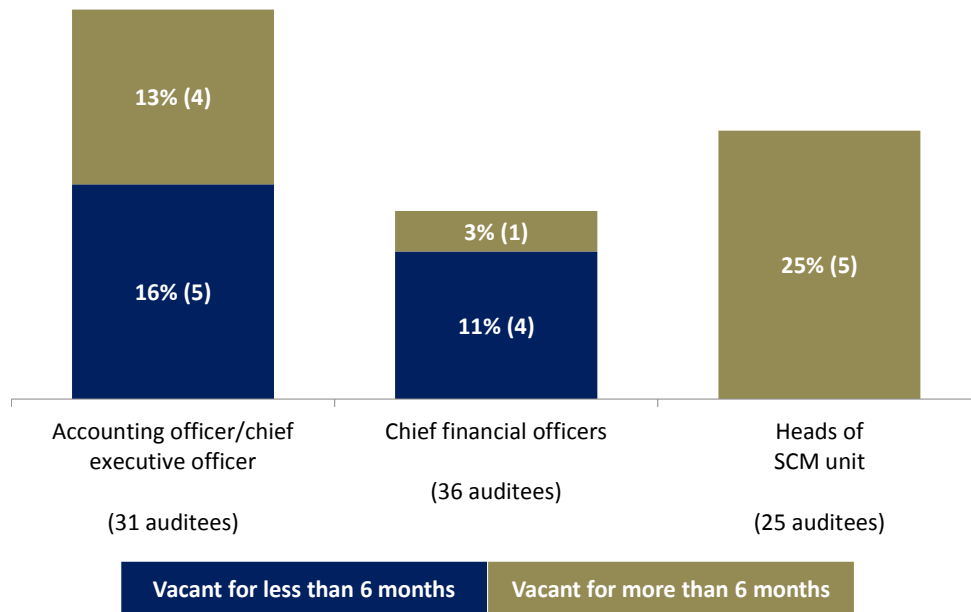


Figure 24: Stability in key positions (average number of months in position)

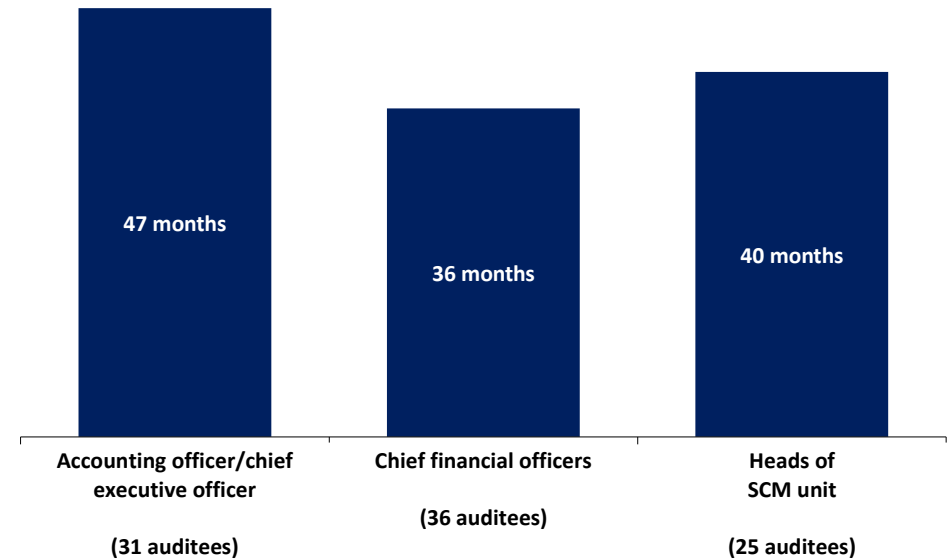


Figure 23 shows the number of auditees where the positions of the accounting officer (head of department or chief executive officer), chief financial officer and heads of SCM unit were vacant at year-end and also indicates the period that the positions had been vacant. Figure 24 shows the average number of months key officials had been in their positions.

The number of auditees upon which our analysis was conducted for each of the positions is different as at some auditees these positions had not been established due to the auditee being either too small in size and/or the nature of the entity as such did not require this position. One of the key root causes contributing to the regression in audit outcomes during the year was instability and vacancies in key positions. Based on our assessment of vacancy rates at year-end, the average vacancy rate for senior management and finance department positions increased to 23,1% and 16,4% from 17,2% and 16,3%, respectively, in the current year.

The positions of accounting officer/chief executive officer and chief financial officer were vacant at nine (29%) and five (14%) auditees, respectively. The accounting officer/chief executive officer and chief financial officer positions were filled for an average of 47 and 36 months, respectively.

Although the average number of months (36) in which the position of chief financial officer was filled is acceptable, a regression of three months since the previous year was noted. This is still concerning as the institutional knowledge of

the auditee is lost when the incumbent of the post changes. At five auditees (20%), the position of head SCM unit was vacant for a period of more than six months. This impacted the average number of months that the position was filled in such a way that the post was filled for 40 months from the date that the position was first filled to the date it became vacant, compared to 42 months in the previous year.

The impact of the instability and vacancy rate for the head of SCM unit position can be linked to the regression in compliance with laws and regulations reported in section 2.3 (compliance with key legislation) and section 2.3.1 (stagnation in SCM findings).

Not advertising key vacant positions in the required six-month period was cited as one of the reasons behind positions remaining vacant for longer periods than expected.

Ten auditees (28%) had findings on the management of vacancies. Additionally, this was also reported as a root cause of the audit outcome received.

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

- Senior management and finance department – positions vacant for more than 12 months.
- Senior management – vacant positions not advertised within six months.
- Employees acted in positions for more than 12 months.

## 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.

Our assessment of the findings on performance management indicates an increase in the incidence of material audit report findings since the previous year. In the current year two auditees had material audit report findings whereas in the previous year this only occurred at one auditee.

At three auditees (8%), we noted that senior managers' performance management contracts had not been signed early enough. Additionally, 15% of the chief executive officers in the province and 14% of the chief financial officers did not have performance contracts in place for the current year.

The impact of this could be severe as managers cannot be held accountable for their actions and therefore no consequences for transgressions can be taken against these individuals.

Other findings on performance management were the following:

- No performance management system was in place for employees other than senior managers.

## Competencies of key officials/consequences for transgressions

We assessed the competencies and skills of key officials in order to identify whether officials possessed the desired skills and competencies. During the audit we assessed whether key officials had the requisite knowledge from a financial reporting, performance reporting and compliance with legislation perspective. We discovered that at 13 auditees (36%) key officials lacked appropriate competencies and skills.

We noted instances where key officials did not display an adequate understanding of the financial reporting frameworks and certain legislation, the impact of which can be seen in the regression of the quality of financial statements submitted for auditing and the increase in compliance findings. Furthermore, we identified instances where new employees did not always go through the proper verification checks upon appointment at six (17%) of the auditees. Consequently, new appointees did not always meet the job requirements, resulting in a longer than expected learning curve and greater costs to improve skills levels.

Inadequate training initiatives and consistent performance management are the main drivers behind these findings, as auditees were not regularly providing training to key officials on any updates or changes to either legislation or the reporting frameworks. Employers sometimes found it difficult to penalise officials for non-performance due to inconsistencies in the evaluation of performance or because portfolios of evidence were not maintained to demonstrate the unsuccessful efforts that were undertaken to improve performance. Additionally, verification checks did not always take place for new employees as appropriate policies or procedures regarding new appointments did not exist.

We cannot expect any improvement in audit outcomes if these findings continue to occur and therefore vigorous efforts are required in order to ensure that employees in the public sector meet the desired level of competency and skills. Furthermore, if auditees implement an all-encompassing performance management process which is clear, visible and which involves regular individual analysis this will help auditees to identify the competencies and skills gaps and therefore identify individual training and development plans, proactively.

## Other common human resource findings

The other most common HR findings were the following:

- Employees received overtime compensation in excess of more than the maximum hours allocated.
- Written authorisation was not provided in advance for overtime to be worked.
- An HR plan based on strategic plan was not always in place.
- Medical certificates were not submitted for sick leave.
- Employees received more than entitled sick leave.

## Effective use of consultants by departments

Provincial departments spent an estimated total of R1 520 million on consultancy services in 2013-14 to supplement their HR. Consultancy services are services of an intellectual or advisory nature. The amount was spent on the following areas:

- Assistance in the preparation of annual financial statements and financial reporting (R27 million)
- IT-related assistance (R12 million)
- Other services (R1 481 million)

Other service relates to the remaining consultancy costs that do not relate to financial services, preparation/review of performance information and IT services.

Consultants were predominately appointed by departments where vacancies and skills deficiencies were common.

Our audits included an assessment of the management of the consultants at 15 of the departments.

The following were our key findings on the **planning and appointment processes**:

- As with all other procurement, consultants should be contracted based on a needs assessment. Such assessment should consider cost, type and extent of service, the deliverables and whether internal capacity exists and/or there is an opportunity for the transfer of skills. At three auditees (20%) the consultants were appointed without conducting a needs assessment.
- As part of the bidding process, there should be terms of reference that clearly define what will be required from the consultant and state the required experience and qualifications. At four auditees (27%) the consultants were appointed without the terms of reference.

We identified shortcomings in the **management and monitoring of performance** of the consultants. The measures to monitor the performance of the consultants were either not defined or implemented at four auditees (27%). At two auditees (13%) where the contract performance measures and methods were monitored, the monitoring proved to be inadequate as it failed to detect under-performance of the consultants. Of greater concern was the payment of consultants without signed contracts at two auditees (13%).

Although the most common reason for appointing consultants was a lack of skills, we found that the contracts at five auditees (33%) did not include any conditions or objective in terms of the **transfer of skills** from the consultants to the employees. At two auditees (13%) the transfer of skills was a requirement but we could not obtain evidence that skills were transferred. This is partly because the measures to monitor the transfer of skills were not always implemented at three auditees (20%).

In addition to poor project management, the root cause of these findings was that the leadership did not provide strategic guidance on the development of a policy that specifically addressed internal controls over the decisions to use, the procurement, monitoring and assessment of the work performed by consultants. A policy or strategy should be in place that defines the main purpose and objectives of appointing consultants and should include measures to prevent over-reliance on consultants.

## 5.2 Information technology controls

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

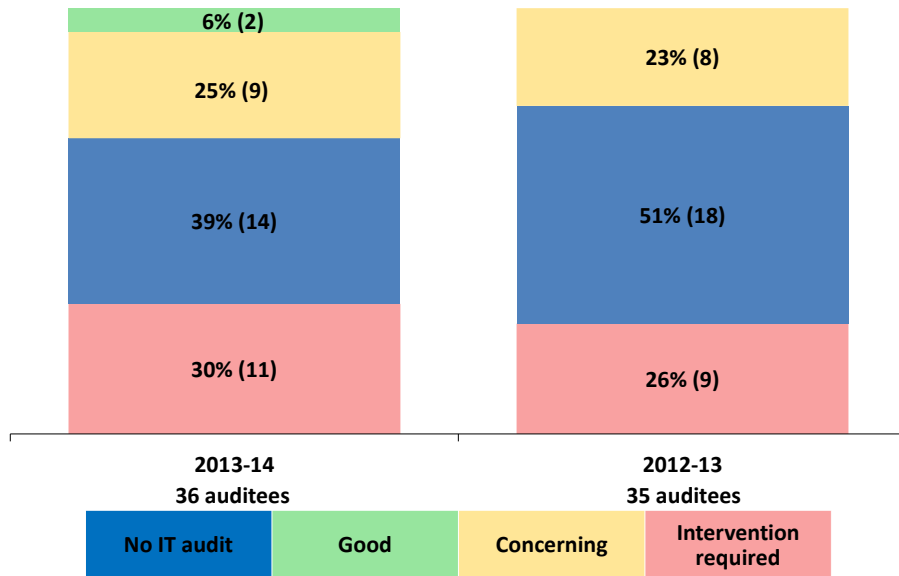
Effective **information technology governance** is essential for the overall well-being of an organisation's IT function and ensures that the organisation's IT control environment functions well and enables service delivery. All state departments and public entities are therefore required to adopt and implement good IT governance principles. For this purpose, the Department of Public Service and Administration (DPSA) developed an IT governance framework and guidelines for implementation 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 would be evaluated in the following audit cycle to determine whether good IT governance principles have been implemented. In the 2014-15 financial year, the accounting officers and governance champions should prioritise the implementation of phase 2.



As the legislatures have opted to develop their own IT governance frameworks, management should prioritise the implementation of these customised governance frameworks. The most common findings for the legislatures were the following:

- The legislature implemented Systems, Applications and Products (SAP) during the previous financial year and did not have adequate project assurance in place.
- The legislature did not implement adequate controls to manage the segregation of duties adequately.

**Figure 25: Status of information technology**



During our information systems audit we primarily focused on IT controls over financial systems. Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. Figure 25 shows that there has been no change in the number of auditees that had audit findings on IT controls since the previous year

Majority of the departments did not make adequate progress in addressing previous findings as risks remained in all of the focus areas, even though some corrective measures had been instituted. The Department of Transport, provincial treasury and Office of the Premier made progress with resolving previous year issues.

The lack of progress at other departments could be attributed to a lack of monitoring and tracking of the issues to resolution. Further to this, we noted a lack of consequences for not resolving issues.

**Figure 26: Status of information technology controls**

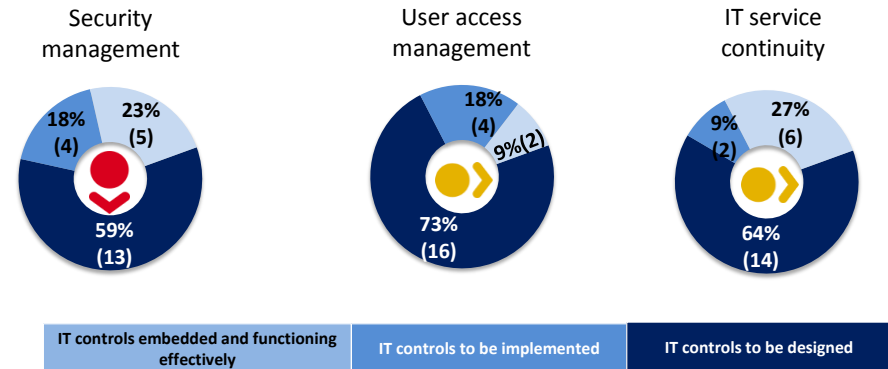


Figure 26 indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls were not in place (i.e. not designed), not implemented, or not functioning effectively.

The majority of auditees did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity. The most common findings were the following:

**• Security management**

- The auditees failed to design adequate policies and procedures to manage information security. We noted significant findings relating to the configuration of password settings and configuration of security parameters. The auditees that made use of enterprise resource planning (ERP) systems did not have adequate security parameters in place and were exposed to known risks.
- Management was not in a position to review the performance of service providers as they did not receive reports on performance timeously. In addition, regular IT steering committee meetings did not take place.

- **User access management**

- The design of user account management processes (documented and approved procedures) for the transversal systems has been centralised at the Office of the Premier. However, most of the auditees did not consistently implement the requirements of the user approved account management procedures.
- We noted that the departments did not monitor the access of system administrators and users with access to process significant transactions.

- **IT service continuity**

- The auditees did not develop IT service continuity policies such as business continuity plan, disaster recovery plan and an adequate backup policy. This has resulted in the departments and entities not adequately managing IT service continuity. The auditees will not be in a position to verify that the organisations can recover from a system failure or disaster timeously.
- Additionally, the custodians of service level agreements did not ensure that adequate and valid service level agreements were in place, resulting in a lack of consequences for non-performance.

Management should prioritise the design and implementation of the security management, user access management and IT service continuity controls to mitigate the risk of unauthorised access to, and unavailability of, IT systems or incompleteness of data in the event of major system disruptions or data loss.

## 5.3 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), many auditees produced financial statements and annual performance reports of a poor quality and did not comply with key legislation. The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls and provides recommendations to address the root causes.

Overall, the percentage of auditees at which the above root causes were identified increased in the year under review. The root causes continue to prevent improved audit outcomes in the province and contributed to regressions in audit outcomes.

### *Slow response by management in addressing internal control deficiencies*

We identified slow response by management in addressing internal control deficiencies as a critical root cause at 22 auditees (61%). This was a common root cause at 49% of auditees in the previous year. The slow response by management was attributable to the lack of rigorous monitoring of action plans to address key audit matters. Detailed action plans were developed, however, these were not adequately followed up and allocated to process owners, to facilitate timely implementation, monitoring and reporting thereof. The slow response was further influenced by the lack of understanding of policies and inadequate details being included in standard operating procedures to ensure that activities were conducted in a consistent and effective manner. Governance structures fulfilled their roles and responsibilities; however, management was slow to respond to their recommendations. Additionally, a lack of focused training interventions to improve skills of management and vacancies in key positions also contributed to this root cause.

### *Recommendations*

The following actions should be taken to address the root cause:

- Regular monitoring and reporting of progress on action plans by the leadership and oversight structures and detailed explanations and an audit improvement strategy for lack of progress.
- Performance of staff should be closely monitored and there should be consequences for poor performance.
- Focused training programmes should be conducted regularly to address deficiencies in skills and to pro-actively address new changes in financial and performance reporting, including new legislative requirements.
- Policies and standard operating procedures should be reviewed regularly and workshops on them be conducted to enable understanding and consistent application thereof.

### *Instability or vacancies in key positions*

The number of vacancies and instability in leadership in the province also contributed to leadership's ineffectiveness, which was a root cause at 14 (39%) of auditees, compared to the previous year's 34%. Delays in the filling of funded key vacant posts contributed to this root cause. Vacancies in key management positions, the use of acting positions and key staff being rotated within critical posts had emanated from leadership's inability to appoint key officials in good time. Vacancies in key positions at finance, HR and SCM units also contributed to breakdowns in the system of internal control relating to HR management. This in



turn has a multiplier effect on all other activities, seeing that HR management is the base of business activity. Unless this underlying root cause is addressed, leadership's action plans will not produce improved and sustained results.

## Recommendations

The following actions should be taken to address the root cause:

- Accounting officers and accounting authorities must report to the executive authorities on the root causes of continued vacancies in key positions and their actions to address these.
- Timely filling of key positions must be included as a key performance area in the performance contracts of the leadership.
- Succession planning measures, talent development and the continuous up-skilling of officials should be improved to allow for continuity in the event of vacancies.
- The leadership should prioritise the filling of funded key vacant posts to enable effective oversight.

## Key officials lack appropriate competencies

We identified key officials who did not have appropriate competencies and were not appropriately skilled to perform their duties effectively at 13 (36%) of the auditees, a deterioration from the previous year's 23%. Lack of appropriate competencies has a negative impact on the drive towards clean audits as inappropriately skilled staff may not be able to perform their duties with the requisite care and diligence. Over the past three years this root cause has been identified by more auditees, preventing them from achieving clean audits.

There was a general lack of understanding and application of the accounting frameworks and the different laws and regulations applicable to the auditee by key officials. In many instances, the officials responsible for the preparation of the annual financial statements did not display adequate understanding and application of the requirements of the accounting frameworks and performance management requirements.

## Recommendations

The following actions should be taken to address the root causes:

- New appointees should undergo rigorous and uniform induction and competency assessments before appointments.
- Training specific to the application of the principles of the relevant financial and performance reporting frameworks should be conducted.

- On-the-job training effectiveness should be assessed by means of organisational surveys.
- Training interventions should be conducted by support departments to achieve consistency in the application of the principles across departments, entities and sectors.

## 6. Impact of key role players

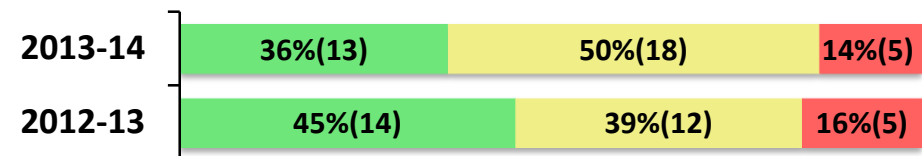
The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial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

Based on our assessment as shown in figure 2, all role players have not yet provided the necessary assurance. Below is an overview of the assurance provided by each of the assurance providers.

The following legend applies to the assessment of key role players.



### Senior management



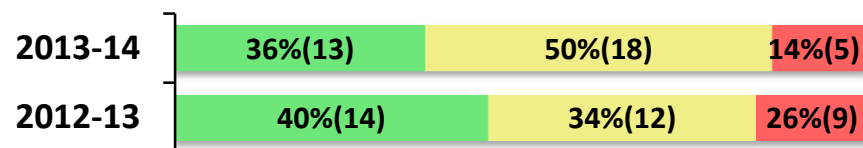
Senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, provides assurance by implementing basic financial and performance controls.

The assurance provided by senior management decreased from 45% to 36% in the current year. Fifty-three per cent of senior management provided some assurance, while 25% provided limited assurance.

The underlying reasons for the reduced levels of assurance were the lack of monitoring and review processes in addressing key internal control deficiencies. Delays in implementing commitments relating to financial management and internal controls resulted in action plan timelines not being met. Inadequate policies and procedures and unavailability of senior management during the auditing process also contributed to the assessments of providing some or limited assurance. Owing to the lack of detailed reviews, material deficiencies in controls were not identified through the review process. Instability and vacancies in key

positions also contributed to senior management's ineffectiveness. Where vacancies existed and were filled with acting positions, individuals did not possess the required skills to impact on the assurance provided. The effectiveness of the assurance provided by senior management can be improved if they take responsibility for the day-to-day controls over financial, performance and compliance requirements. Monitoring processes for compliance with laws and regulations should be intensified to achieve sustainable clean audit outcomes.

### Accounting officer or accounting authority

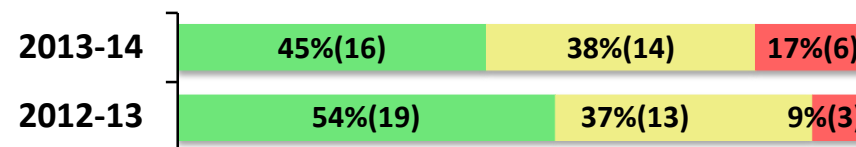


Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance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

The assurance provided by accounting officers and authorities dropped from 40% to 36% in the current year. Fifty per cent of accounting officers and authorities provided some assurance, while 14% provide limited assurance.

The reasons for these levels of assurance were that some posts were filled by acting incumbents who did not have sufficient personnel resources to implement sustainable improvements. Inadequate oversight of the monitoring of action plans and commitments and slow progress to honour commitments is an additional contributor. Their very high level involvement in operations had the result that they were unable to provide strong support to their senior management teams. The effectiveness of the accounting officer and accounting authority can be improved by regular feedback to the executive authority on oversight and monitoring, including reporting on the implementation of the performance management system where individual performance agreements of staff are aligned to action plans addressing audit findings in their area of responsibility. Regular follow up and reporting on action plans and commitments will prevent repeat findings and improve the assurance levels of the accounting officers and authorities. Accounting officers and authorities need to be more persuasive in their quest for credible financial and service delivery information, thereby reducing the material corrections required to financial statements and performance reports.

### Member of executive council

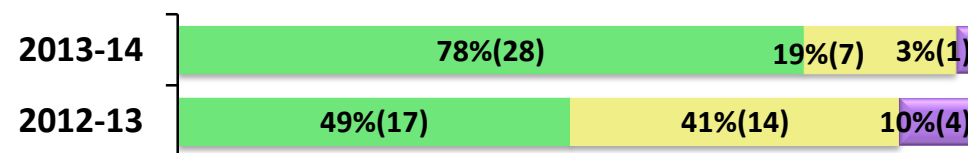


MECs have a monitoring and oversight role at both the departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. 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.

The level of assurance provided decreased from 54% to 45% in the current year. Thirty-eight per cent of MECs provided some assurance and 17% provided limited assurance, which shows a regression from 9% in the previous year

For the higher levels of assurance, the executive authority sets the tone at the top and holds officials and senior management accountable for poor performance and transgressions. The lower levels of assurance can be attributed to the lack of involvement by the executive authority and difficulty in securing meetings. Although there were structures in place for regular reporting and feedback to the MEC, this did not have the desired impact as required controls had not been implemented. Slow progress was made on commitments and commitment dates were not honoured. Frequent interaction and submission of detailed reports should be requested by the executive authority to be appraised on key issues, progress on action plans and commitments, challenges and emerging risks affecting the department.

### Internal audit unit



The internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The results of the assurance obtained from internal audit units show an overall improvement of 29% compared to the previous year. The internal audit units at 78% of auditees provided assurance, while some assurance was provided at 19% of auditees. The Provincial Internal Audit Services (PIAS)

component of the provincial treasury supports all provincial departments as well as some public entities.

The reason for the improved assessment is that the internal audit unit was assessed as suitably qualified, objective and independent. Although they had capacity constraints this was supplemented by the use of consultants. The following was achieved by the internal audit units during the current year:

#### Assurance services

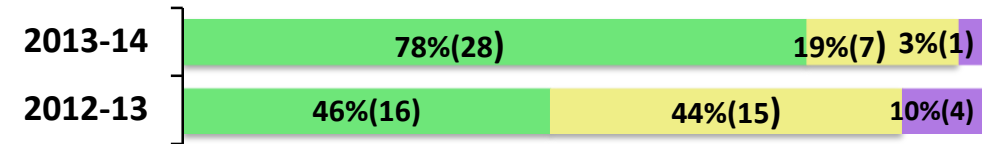
- Assurance services provided management at departments and public entities with an advisory function on the appropriate design and effective implementation of internal controls over various areas of operations by issuing 257 audit reports during the 2013-14 financial year. These audit reports covered various focus areas such as SCM, asset management, HR management and predetermined objectives.
- A strong focus area was financial audits where the units reviewed key financial controls at eight provincial departments and two public entities.
- The units continued to conduct audit reviews on transversal IT systems such as the biometrics system, Personnel and Salary System (PERSAL) and Basic Accounting System (BAS). These IT audit reviews have now been extended to the IT systems that complement the departments' core business activities.

#### Risk and advisory services

- The unit assisted provincial departments, public entities and municipalities with the facilitation of risk assessments. For the past financial year, the unit facilitated over 60 risk assessments at these institutions.
- For provincial departments, the unit also reported, on a quarterly basis, to the provincial audit and risk committee on progress made by provincial departments on the implementation of agreed-upon risk mitigation strategies.

Other contributors to the high level of assurance provided were the assistance and supervision by internal audit unit in the risk assessment process by auditing of significant focus areas with the internal audit plans being agreed with management, value for money audits being conducted and majority of the planned audits were completed. Eighty per cent of internal audit departments were fully constituted and functional during the year with timely robust meetings taking place. Additionally, internal audit reports were presented to the audit committees and a report on the feedback on implementation of corrective action was requested. For the lower levels of assurance provided at 20% of the auditees, the unavailability of officials and the vacancies at auditees contributed to this issue. Management should appreciate the importance of this key role player and implement its recommendations in good time.

## Audit committee



An audit committee is an independent body that advises the accounting officer or authority and senior management on matters such as internal controls, risk management, performance management as well as evaluation and compliance with legislation. The committee is required to provide assurance to the accounting officer or authority on the adequacy, reliability and accuracy of financial reporting and information. The results of the assurance obtained from the audit committee show an overall improvement of 32% compared to the previous year. Audit committees at 78% of auditees provided assurance, while 19% provided some assurance. Similar to the internal audit function, the audit committee in the province is a shared function for departments and most public entities, which is housed at the KZN Provincial Treasury. The role of the provincial audit and risk committee is to assist the provincial government in fulfilling its oversight responsibilities for the integrity of the financial reporting process, system of internal controls over financial reporting, auditing process, system for monitoring compliance with laws and regulations and the code of conduct in public service, fraud prevention, the risk management process and any other good governance processes.

The reason for the increased level of assurance was because the audit committee oversaw the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation of the province. The following are some key highlights that resulted in the increased assurance levels.

- The audit committee, on a quarterly basis, oversaw the risk assessments of departments and entities and called on all accounting officers and authorities as well as key staff to participate in this process.
- Quarterly meetings to which the Auditor-General of South Africa (AGSA) was also invited, to present dashboard reports. These were used as basis to influence corrective actions at auditees and to identify risks.
- Internal audit reports were reviewed and constant follow ups made on the progress.
- The effectiveness of the internal audit was assessed regularly.
- The levels of analysis of information and business expertise of audit committee members made them more relevant and persuasive in getting to the root of issues.

- Engagements were held with the AGSA, departments and entities to review their audit outcomes and accounting officers were called upon to account in this regard.

Other contributors to the high level of assurance provided by audit committees were the constant engagement between the accounting officer and the audit committee to keep abreast of key changes that required attention and continuous assessment of the status of the progress made on action plans. The audit committee members attended other management meetings to understand the business and operations of the auditees. Departments responded positively to the oversight function, however, audit recommendations were subject to implementation by management and delays were encountered. Detailed reviews on the financial statements and performance report were done; however, management was sometimes slow to implement the changes that had been requested. Audit committees should still rigorously follow up on action plan progress in terms of the set time frames and report to the accounting officer and/or authority as well as the executive authority on problems encountered. The audit committees and internal audit units are providing direction and recommendations in which governance structures can have impact and be effective. It is for management to leverage on this strength to create an effective control environment. This would advance to a higher level of maturity in the governance processes provincially.

### *Provincial treasury*

The role of the provincial treasury, based on its mandate, is to ensure equitable resource allocation for the province, analyse and monitor government revenue and expenditure and instil prudent financial management and good governance.

The provincial treasury was assessed as providing assurance after considering the effectiveness of the support from the following constituencies within the treasury:

- Economic analysis and infrastructure
- Public finance
- Municipal finance
- Asset and liability management
- Private public partnerships
- Provincial SCM
- Financial reporting
- Norms and standards

### **The economic analysis and infrastructure unit**

- It undertook the training and implementation of the infrastructure report management (IRM) tool at the departments of Education, Health and Transport to reduce the extent of unauthorised expenditure.
- It was responsible for the infrastructure crack team and successfully deployed resources at the departments of Agriculture, Environmental Affairs and Rural Development; Public Works; Education; Cooperative Governance and Traditional Affairs; Human Settlements; Arts and Culture; Agri-Business Development Agency; and Nature Conservation Board. The infrastructure crack team is a team consisting of experts in asset management, who mitigate key risks at these departments on asset management, where possible.

### **Public finance management**

- Provided training and technical support to the departments with regard to the preparation of the annual budget and the adjustments budget.
- Prepared the provincial medium-term and expenditure framework for the year.
- Monitored spending for departments and the public entities.
- Developed provincial cost-cutting measures.

### **Municipal finance**

- Provided assistance and guidance on the implementation of budgets at municipalities.
- Held bilateral meetings with 54 municipalities to discuss findings on the draft budgets.
- Conducted a high level assessment of the 2013-14 final budgets of municipalities with a view to establish whether treasury's comments and recommendations provided had been considered.
- Submitted consolidated budget reports on municipalities to the National Treasury, as legislated.
- Provided training and technical support to all delegated municipalities in terms of a training plan.

### **Asset and liability management**

- Conducted site visits at all provincial departments as an ongoing support initiative to assist with enhancing asset management in provincial departments.



- The banking section provided a support function to 15 departments regarding bank-related suspense accounts and by liaising with departments on a monthly basis.
- Submitted the 2014 annual tax reconciliations to the South African Revenue Service before the deadline for each department.

#### **Private public partnerships**

- Developed a framework on the exit strategy from the public private partnership at the Inkosi Albert Luthuli Central Hospital.
- Managed a process of reviving the legislature project and negotiating with the public private partnership transaction adviser to update the feasibility study.

#### **Provincial supply chain management**

- Interventions at the Department of Sport and Recreation, Uthukela District Municipality and Ugu District Municipality were still ongoing due to lack of capacity at their SCM components. The interventions were in the form of direct assistance by managing the procurement process.
- SCM compliance assessments were done at all provincial departments and municipalities.
- The provincial treasury started with the development of an e-Procurement tool, which would assist in limiting instances of fraud and corruption in the SCM process.
- SCM staff were deployed to departments to assist with the procurement processes in terms of section 19(2) of the PFMA.

#### **Financial reporting**

- The treasury assisted the Department of Public Works, Royal Household Trust and the Department of Social Development with resolving key previous year audit issues to ensure an unqualified audit opinion in the 2013-14 financial year.
- The treasury adopted a 'back to basics' financial management approach to address audit risks and negative audit outcomes. This programme achieved great success for the 2012-13 financial year as majority of the municipalities had prepared the annual financial statements internally, with the assistance from the treasury's financial reporting officials.

#### **Norms and standards**

- The unit provided support on finance-related policies to 11 municipalities.
- A compliance monitoring and evaluation exercise was undertaken to assess financial management compliance within provincial departments. Questionnaires were developed, which departments were required to complete on a quarterly basis and provide reasons for non-compliance.

- The unit assisted the National Treasury in the review of the upgraded diagnostic compliance tool, that is, the financial management capability maturity model.

The following were some of the challenges experienced by the provincial treasury, which could be areas of improvement:

- Support and assistance were provided, however, management was not always available for skills to be transferred and/or there was a lack of commitment. Greater discipline is required at auditees.
- The oversight of spending by public entities should be strengthened to ensure that greater focus is directed to service delivery.
- To reduce the extent of unauthorised expenditure in the province, the treasury should implement a process of budget blocking.
- Stricter monitoring of spending as well as the achievement of service delivery targets on a monthly basis for largest three service delivery departments should be institutionalised.

Although the provincial treasury had not implemented a plan for the monitoring of the Instruction note 01 of 2013-14 (Cost-cutting measures) in the province, they, with the support of Cabinet, have developed and implemented their own cost-cutting measures to help curb increasing spending patterns by provincial departments.

The following commitment as at year-end was in progress:

- A vigorous and proactive approach to reduce irregular expenditure will be implemented in the current year and this includes application of section 18 of the PFMA.

The following commitments were made by the MEC of finance after year-end:

- The accounting officer of treasury will intervene at the Department of Education with regard to excessive irregular expenditure pertaining to the nutrition school programme grant.
- The MEC and accounting officer of treasury will analyse the root causes of the slow response from management and submit a detailed report to Cabinet for further action.
- The treasury will draft a memorandum to Cabinet to remind them of the requirements of SCM for the procurement of events.
- Engage with the MEC of the Department of Economic Development to discuss issues on oversight with respect to public entities in terms of their financial reporting.

## Premier's office

The premier provided some assurance as there was a stagnation in the outcomes of the Office of the Premier. Additionally, the department of the Royal Household and the public entity, the KwaZulu-Natal Royal Household Trust, under the premier's portfolio had key vacant positions which were only filled late in the year.

The following sector audit finding was noted for the Office of the Premier with respect to the anti-corruption hotline as follows:

### National anti-corruption hotline

Indicators and targets relating to the anti-corruption hotline were not included in the annual performance plan or the annual report.

With respect to the sector mandate and the role of oversight played by the Office of the Premier, there was some assurance provided as there were many forums, which were chaired by officials from the Office of the Premier, dealing with matters affecting service delivery at both provincial and local government levels. A better understanding of the oversight role should be communicated to the officials of the Office of the Premier and all aspects of the oversight function should form a significant part of the strategic plan and the outcomes reported on in the annual performance report. The premier viewed the regression in the audit outcomes in a very serious light and requested the intervention of the MECs of the treasury and Cooperative Governance and Traditional Affairs to play a key role in addressing the key root causes affecting the province. In this regard, the following commitments were made by the premier:

- Treasury will perform a detailed analysis of the most problematic departments based on the 2013-14 outcomes. This will drive a work-shopping engagement with provincial leadership and key officials.
- Attendance is compulsory for all accounting officers and authorities, chief financial officers and heads of SCM unit. The aim of this session is to focus on where the challenges are and how these can be sustainably mitigated. The root causes and combined assurance assessments will form a key theme for this engagement.
- The workshop will clarify in advance the key deliverables which need to be tracked and reported upon. A similar follow-up session will be conducted six months thereafter to assess progress and key emerging matters that need attention.
- Empowerment and skilling of SCM officials will be a topical area of deliberations with a view to bring about sustainable reforms on procurement.
- The premier, MEC of the treasury and Cooperative Governance and Traditional Affairs will coordinate the workshop to ensure the vibrancy of discussions and challenge thinking.

- Officials attending the workshop will be required to undergo a competency assessment to ensure that they are adequately equipped with the tools of trade to perform with excellence in the public service.

## Cooperative Governance and Traditional Affairs

The Department Cooperative Governance and Traditional Affairs (CoGTA) derives its mandate from chapters 3 and 7 of the Constitution. CoGTA defines its primary mandate as follows:

- To develop and monitor the implementation of national policy and legislation seeking to transform and strengthen key institutions and mechanisms of governance to fulfil their developmental role.

To promote sustainable development by providing support to provincial and local government.

### Measures implemented by CoGTA

CoGTA implemented the following initiatives to support and/or exercise oversight of provincial government:

- Supported municipalities to fill vacancies in municipal senior manager posts in compliance with the Municipal Systems Act, 2000 (Act No. 32 of 2000).
  - Developed an Electronic Legislative Compliance Monitoring System to assist municipalities, provinces and the department to monitor all legislative compliance requirements and to take corrective measures where non-compliance has been identified.
  - Municipalities were advised on the corrective measures concerning non-compliance and a report with recommendations for MECs was tabled to the minister and members of executive council (MinMEC).
- Conducted workshops to roll out the revised intergrated development plan framework for municipalities to improve development planning capacity at municipalities outside metros and secondary cities.
- Provided support to municipalities to improve the delivery of free basic services to indigent households. The support mechanism's targets were aimed at empowering municipal officials and councillors responsible for free basic services to increase their knowledge on developing, improving and implementing their own tailor-made indigent policies.
- Commenced with the initial processes to develop a monitoring and reporting system for local government as required by the *Framework for managing programme performance information* (FMPPI).
- Supported municipalities to develop and implement a performance management system framework.

- Convened workshops and obtained inputs from the municipalities on the core set of local government performance indicators.
- Improved expenditure reporting on the municipal infrastructure grant (MIG) and municipal systems improvement grant (MSIG) by –
  - monitoring monthly expenditure reports
  - commencing with the development of a new MIG policy.

### Assessment of assurance

The level of assurance provided by CoGTA for the 2013-14 financial year was assessed as providing some assurance.

Furthermore, the assessment was based on the provincial support, monitoring and intervention (SMI) initiatives being challenged by the fragmentation of SMI responsibility among sector departments, the complexity of the legislative framework and limited provincial capacity to support municipalities to secure long-term sustainability. Coordination between key role players, i.e. CoGTA, provincial treasury and the South African Local Government Association (SALGA) should be improved to identify and address the key needs of the municipalities.

The initiatives to support provincial government had not been implemented to such a degree that the advantages of such were leveraged and ultimately noted in the cooperative governance sector outcomes and audit outcomes of municipalities. The following were noted:

- National CoGTA did not determine and provide customised indicators to the provincial cooperative governance sector for 2013-14. As the primary objective of customised indicators is to ensure consistent service delivery by all provincial departments within the cooperative governance sector, the absence of these customised indicators can have a negative impact on the delivery of key services in the provinces as well as in the sector.
- The approval of the guidelines on provincial monitoring of municipalities as well as non-performance and maladministration in terms of sections 105 and 106 of the Municipal Systems Act was not achieved in 2013-14. This was due to the pending MinMEC approval.
- Provinces could not be supported to develop and implement a performance management system framework as there were delays in the appointment of a service provider and thus training could not be provided to the municipalities.
- The core set of local government performance indicators was not approved by March 2014 as per the planned target.
- Although CoGTA did have mechanisms in place to monitor the spending of the MIG and MSIG, the following shortcomings were noted:
  - The MIG Management Information System (MIS) was not effectively used, thus resulting in the use of excel spreadsheets for the capturing of

information. This mainly resulted from inadequate training of relevant officials and municipalities located in the rural areas could not access this system.

- Even though the spending was monitored through the monthly reports, which made provision for the analysis of variances as well as the remedial action to address the areas of concern, submitted by the provincial departments to national, this process proved to be ineffective in ensuring that:
  - the funds transferred were fully spent
  - where the funds were spent, the spending was in line with the intended purpose.
- Monthly reports were also not always submitted to the national department by the municipalities through the provincial departments for MIG and directly to national CoGTA for MSIG, thus not enabling the national CoGTA to conduct meaningful analyses and to timely identify weaknesses. Where reports were submitted, it was only to ensure compliance and these received reports were sometimes inaccurate and incomplete and not aligned to actual spending.
- Monthly spending reports received from municipalities also often differed from the reports submitted to the National Treasury, creating significant challenges in ensuring accurate and effective monitoring of these grants during the quarterly reporting processes.
- Support intervention, which includes, but is not limited to, meetings or coordinating meetings at the municipalities, work sessions by the department with the municipalities and development of action plans to outline interventions did not yield the required results in addressing the shortcomings of the challenges in ensuring appropriate and effective spending of the grants.
- The above shortcomings were mainly due to the following two key reasons:
  - CoGTA did not have sufficient capacity to adequately monitor the spending of these grants and to ensure that meaningful analysis was performed on the reports, which should have enabled the department to adequately track the spending of these grants in ensuring that they were being spent in line with the intended purpose.
  - CoGTA also did not have sufficient funding to address the lack of resources/capacity constraints at the monitoring unit.

### Recommendations

In order for CoGTA to enhance the level of assurance it provides as an oversight and support institution, it must focus on the following areas:

- Improve coordination with the national CoGTA. Develop tools and mechanisms to strengthen support, monitoring and intervention initiatives by



the sector departments. Initiatives should be clearly articulated in the strategic plans and must have measurable targets, goals and adequate funding to ensure effective implementation of efforts.

- CoGTA, provincial treasury and SALGA should coordinate efforts to determine key needs at municipal level and formulate action plans to address these needs in a coordinated manner. Furthermore, these role players should work together to determine the best service providers to address these specific needs.
- KZN CoGTA should communicate with national CoGTA to expedite the approval of the guidelines on provincial monitoring of municipalities as well as non-performance and maladministration in terms of sections 105 and 106 of the Municipal Systems Act and ensure such is implemented without further delay.
- Provide adequate support initiatives to municipalities to implement the *Regulations for municipal senior managers*. Ensure such support initiatives are clearly defined in its annual performance plan.
- CoGTA must implement additional measures, i.e. project milestones and effective implementation thereof, to ensure that all targets not met during 2013-14 are on track and achieved.
- There should be better communication between KZN CoGTA and national CoGTA to expedite the development of the monitoring and reporting system for local government, as required by the FMPPI, to ensure that the planned target for implementation of the system is achieved by 31 March 2015.
- Consult timely with all relevant stakeholders to ensure the core set of local government performance indicators is approved by the target date.
- Conduct meaningful analysis of the MIG and MSIG reports to adequately track and monitor the spending of the MIG and MSIG and to identify municipalities that require intervention.
- National and KZN CoGTA should ensure that the MIG MIS is effectively and efficiently used so that information is readily available on the system for monitoring processes. Officials responsible for capturing information on the MIG MIS should be trained. Non-utilisation of the system should be escalated to the relevant MEC for action and this process should be communicated to the minister.
- Develop action plans to ensure that spending trends at the municipalities are improved.
- Monitor the performance of the MSIG to ensure that progress is made with capacity building to eliminate continuous funding for the same initiatives, thereby improving on the effectiveness of the grant.

## Provincial legislature

The legislature provided some assurance in the province and also did not lead by example in that its financial statements were not submitted on time. Some assurance was also provided because the legislature found that it had to request additional time to cope with rescheduled hearings, resulting from unavailable officials or ill-prepared officials. The areas still requiring attention include the following:

- Time allocated to issues of oversight.
- Oversight of the MECs for CoGTA and treasury.
- Legislature recommendations and follow up on progress.
- Monitoring of the municipal public accounts committees (MPACs) and quality of support regarding MPAC training interventions.
- Portfolio committees need to improve their efficiency on accountability reports by examining departments and municipal reports, holding of hearings and producing recommendation reports.
- Greater oversight is required of the action plans of departments and municipalities.

In this regard, the following commitments were made by the speaker to address the key areas requiring attention:

- A higher level of diligence will be applied when reviewing financial and performance reports of departments and municipalities.
- Greater oversight will be implemented of the monitoring and follow up of action plans of problematic departments and municipalities.
- The holding of key officials to account for transgressions of key SCM laws and regulations.
- Attention will be directed to improving the level of training provided to MPACs and portfolio committees.
- Improving relationships with the media and the public.
- The building of capacity of the members of the legislature.

The legislature adopted the legislature oversight model and the secretary of the legislature was tasked with the implementation thereof. The provincial Standing Committee on Public Accounts (SCOPA) took a firm stand on non-performance by public officials, for example, it resolved that no bonuses would be paid at municipalities with poor audit outcomes.

With respect to the sector mandate and the role of oversight played by the legislature, there were no significant issues that emanated from the audit of the following specific focus areas:

- Law-making
- Oversight
- Public participation

### *Portfolio committees and public accounts committees*

We have had good interactions with the provincial public accounts committee (PPAC) and we continue to play a vital role in the committee's hearings during which it extracts responses from executive authorities to take corrective actions on our findings. Resolutions passed by the committee were followed up in writing by the secretariat and when required, follow-up hearings were held to resolve outstanding matters. A number of the resolutions passed by the committee were of a transversal nature and the committee addressed such matters as irregular expenditure and reporting on predetermined objectives.

The legislature's oversight was further strengthened by the operation of the portfolio committees together with the PPAC. The collaboration between portfolio committees and the PPAC ensured that there was no duplication of efforts and relevant information was shared to strengthen oversight. The chairs of portfolio committees continued to attend the PPAC meetings, which assisted them to address matters arising during their regular portfolio committee meetings. Some committee chairs were also members of the PPAC. This also placed them in a position to provide context to matters, when needed, and obtain a greater understanding of the audit outcomes and responses from the departments within their portfolio. Overall, the provincial portfolio committees and PPAC continued to provide some level of assurance. However, there was still an opportunity for more meaningful interactions that would result in an improved level of assurance. More comprehensive assessments of the assurances given by these committees are included in the individual MEC portfolios.

Our attendance of portfolio committee meetings had been on invitation where we had limited actual interactions or discussions. We will nonetheless continue to seek more regular opportunities at which we will share the key control dashboards of departments and public entities, highlighting weakness in internal controls as well as progress with the implementation of our recommendations. We held meetings with the speaker of the legislature and chairs of chairs and portfolio committees to discuss outcomes, status of internal controls as well as commitments and actions. These meetings create a platform to indicate where further dialogues and workshops are required.

Although briefings are conducted prior to PPAC hearings, a need continues to exist to spend more time with the PPAC to ensure that they have a deep understanding of outcomes and the root causes thereof. Commitments are regularly followed up by the AGSA leadership in the province.

## **7. Initiatives and commitments of key role players**

We 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 had meetings with all of the MECs and the premier during 2013-14. The 44 meetings with the 10 MECs, speaker and premier were assessed for impact and two were found to be excellent, 37 were good and five interactions were concerning as the desired level of impact was not achieved. The executive authorities in the province, namely the MECs, need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. They can bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities. Our assessment is that most MECs were providing the required level of assurance; however, better results could only be achieved by disciplined efforts towards oversight and monitoring.

The PPAC hearings into the audit outcomes of departments and entities; predominantly during October each year, are effective and the impact is expected to be seen in the subsequent audit outcomes. Specific resolutions, for a particular department or entity, or transversal resolutions, aimed at common findings such as irregular expenditure, are passed by the committee. These resolutions are followed up by the secretariat but owing to the hearings being schedule at specific times of the year, the responses are only discussed later during subsequent hearings. During the current year, responses were received from the majority of departments and entities, however, those outstanding issues were being followed up.

Responses were received in respect of 26 individual resolutions and all transversal resolutions in respect of seven departments. Four of the seven transversal resolutions in respect of two departments and four individual resolutions in respect of three departments had not been responded to prior to hearings in October 2014. All outstanding matters were still being followed up by the committee, which places a strong emphasis on responses and corrective action by the auditee leadership.

As part of the committee's commitment to assisting in the capacity building MPACs, the hearings held on 15 October 2013 were held at the Uthungulu District Municipality at the Umhlathuze Local Municipality offices. The hearings at

Umhlathuze were well attended by district and local MPACs. The chairperson of the district MPAC stated that the hearings had been a good learning opportunity for MPAC members.

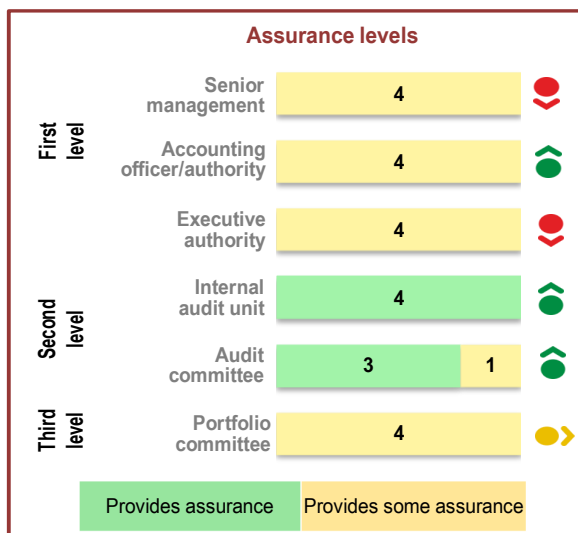
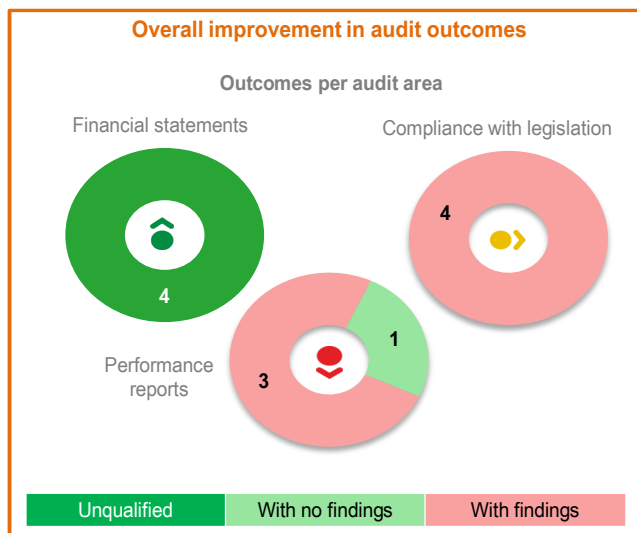
Throughout the year, we monitor the commitments and initiatives of MECs, the premier, the PACs and the portfolio committees to implement initiatives that can improve audit outcomes. The progress of such commitments and the initiatives of the MECs in response to the previous year's audit outcomes and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

In the past year we had continued to meet regularly with accounting officers and authorities. During these interactions the key controls and dashboards were discussed with the purpose of highlighting deficiencies in controls and to influence audit outcomes. Commitments to improve audit outcomes were obtained and followed up. Where accounting officers and authorities had applied recommendations and monitored their action plans to address audit findings, audit outcomes have and will continue to improve. The political landscape of the province did not change significantly after the May 2014 elections. Of the 10 MECs, eight continued to serve in the same portfolios for which they were responsible before the elections. Those who had taken up the remaining two portfolios have many years of experience. The premier who had acted in this position before the elections, owing to the redeployment of the previous premier, was the elected premier for the 2014 – 19 term of office. Many chairs of committees remained unchanged. This has the effect of stability in the province and it is expected that the audit outcomes will show progress in the coming year under the continued oversight of the political leadership.



# AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

# MEC: Agriculture, Environmental Affairs and Rural Development



### Key controls

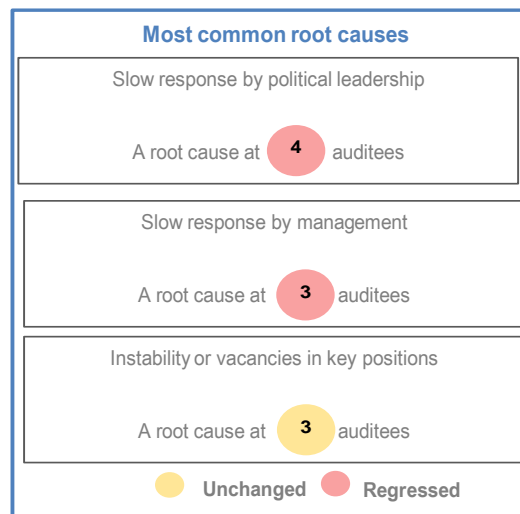
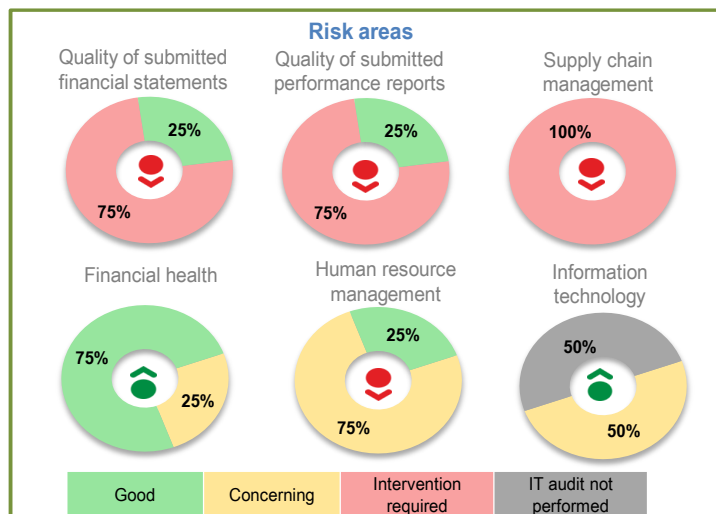
Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	3	1	0	3	1	0	2	2	0
Oversight responsibility	0	3	1	1	2	1	0	3	1
Human resource controls	0	4	0	2	2	0	1	3	0
ICT governance and controls	0	4	0						
Audit action plans	1	3	0	2	2	0	1	3	0
Proper record keeping	1	3	0	2	2	0	1	3	0
Daily and monthly controls	0	4	0	2	2	0	1	3	0
Review and monitor compliance	0	4	0	2	2	0	0	4	0

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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

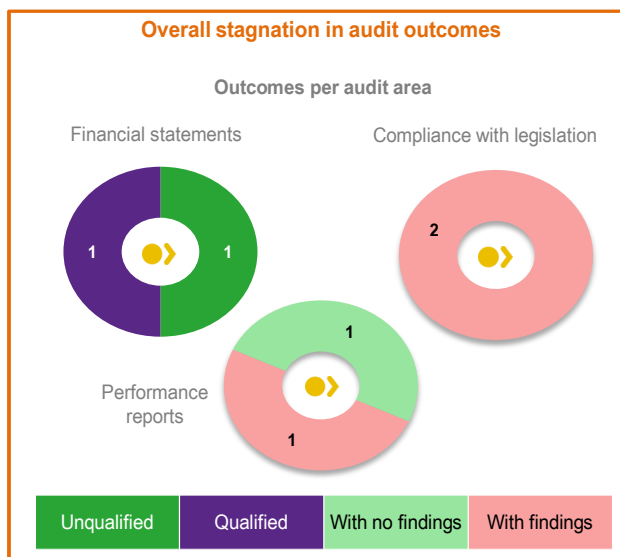


### Status of key commitments by MEC

- To speed up the filling of vacancies in key positions and establish continuity and structure.
- To focus oversight on interactions which will improve the system of planning for, and reporting against, predetermined objectives and the facilitation of service delivery.
- To escalate the tracking of high-level action plans to improve audit outcomes and consequence management for non-compliance with laws and regulations.

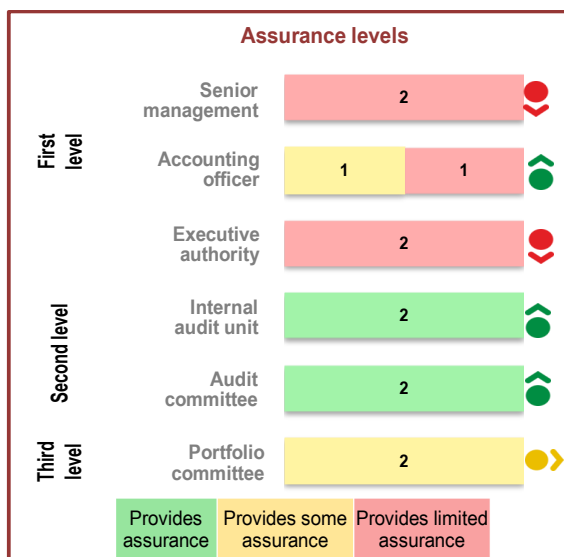
In progress

# MEC: Arts and Culture, Sports and Recreation



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

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

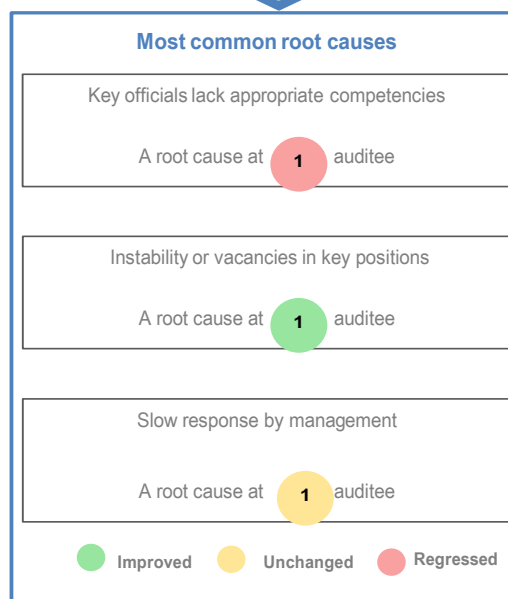
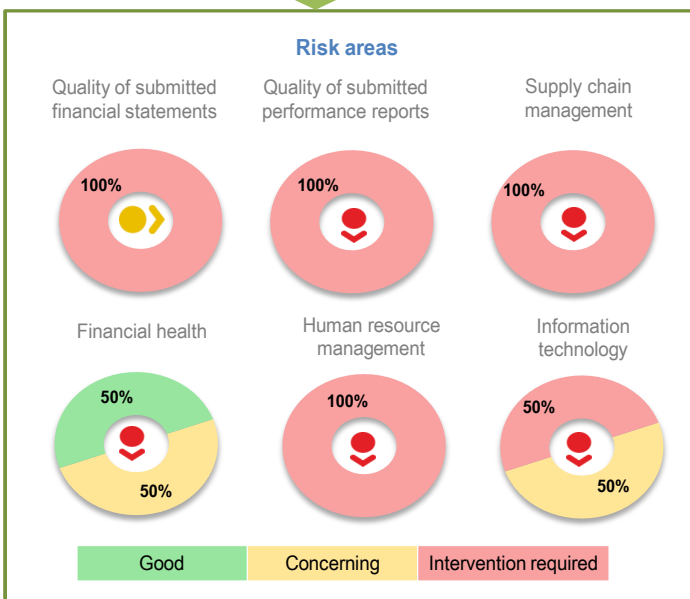
5

Key controls	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	1	1	0	1	1	0	1	1	0
Oversight responsibility	0	0	2	0	0	2	0	0	2
Human resource controls	0	0	2	1	0	1	0	0	2
ICT governance and controls	0	2	0						
Audit action plans	0	2	0	1	1	0	0	2	0
Proper record keeping	0	2	0	1	0	1	1	1	0
Daily and monthly controls	0	0	2	0	0	2	0	0	2
Review and monitor compliance	0	1	1	1	0	1	0	1	1

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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

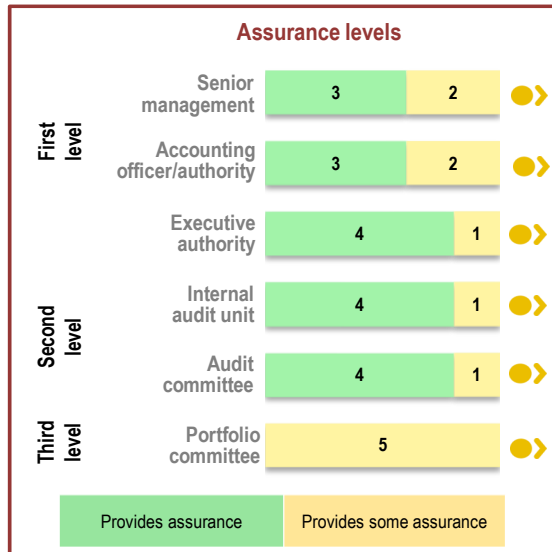
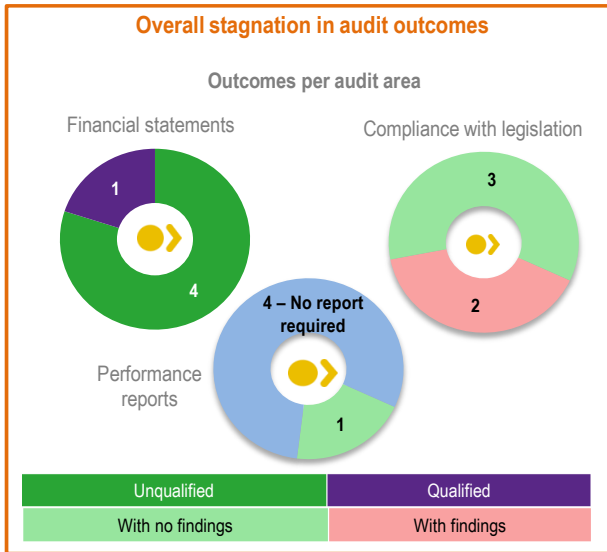
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- ### Status of key commitments by the MEC
- |   |                 |
|---|-----------------|
| <ol style="list-style-type: none"> <li>Finalise the filling of critical posts.</li> <li>Ensure strict monitoring of the implementation of the SCM policy.</li> </ol>  | Not implemented |
| <ol style="list-style-type: none"> <li>Finalise the appointment of the HoD and CFO for the Department of Arts and Culture.</li> <li>Declaration of interest forms are completed by all employees and information is verified by HR.</li> </ol>  | Implemented     |
| <ol style="list-style-type: none"> <li>Monitoring the implementation of action plans.</li> <li>Establishment of laws and regulations register inclusive of all required policies with monitoring of adherence thereto by the internal control unit.</li> <li>Quality of performance reporting to be improved through quarterly reviews.</li> </ol>  | In progress     |
| <ol style="list-style-type: none"> <li>Staff will be adequately trained on the library book inventory system at arts and culture and supervisors will be retrained to monitor capturing of information onto this system.</li> <li>Persal reports will be drawn weekly, analysed and reconciled with the leave control register. Late submission of leave will be noted and reported to Exco through the senior HR manager.</li> </ol> | New             |
- Legend: Not implemented (Red), Implemented (Green), In progress (Yellow), New (Blue)



# MEC: Cooperative Governance and Traditional Affairs



### Key controls

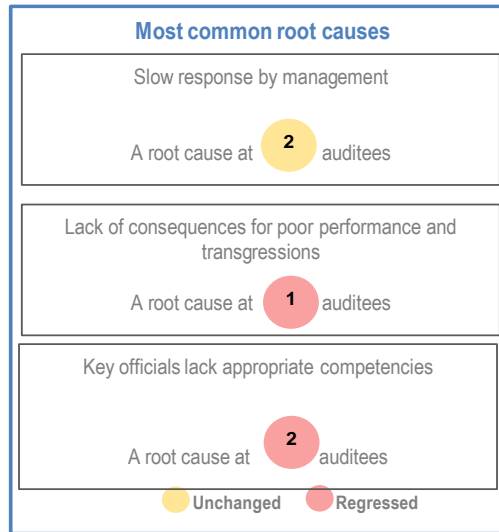
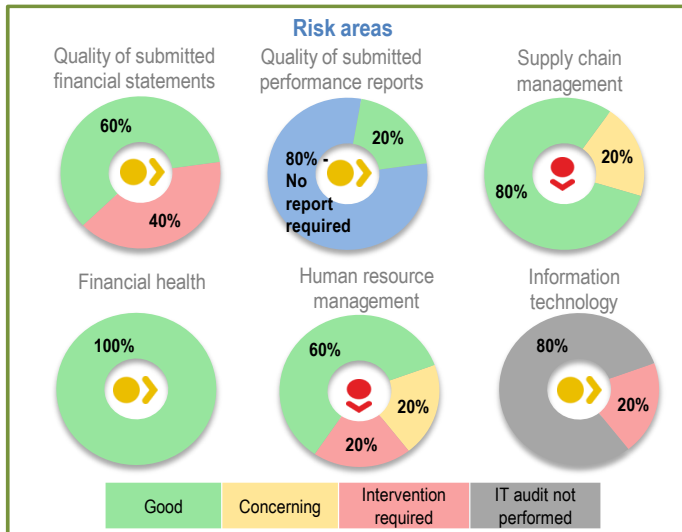
Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	5	0	0	5	0	0	5	0	0
Oversight responsibility	3	2	0	3	2	0	3	2	0
Human resource controls	3	2	0	3	2	0	3	1	1
ICT governance and controls	0	5	0						
Audit action plans	4	1	0	5	0	0	5	0	0
Proper record keeping	3	1	1	5	0	0	3	1	1
Daily and monthly controls	4	1	0	5	0	0	4	1	0
Review and monitor compliance	3	2	0	3	2	0	3	2	0

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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

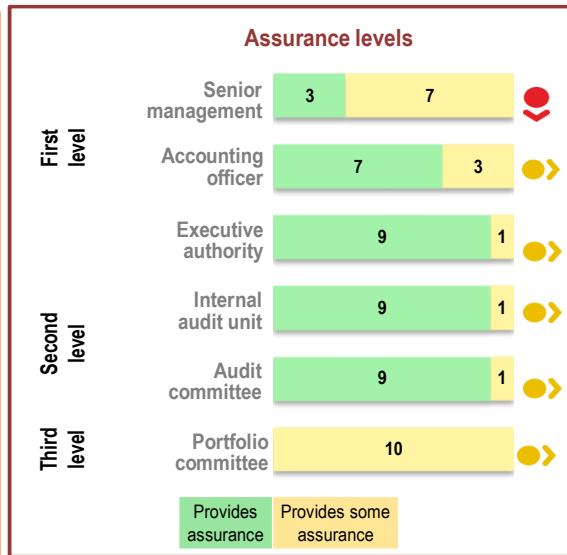
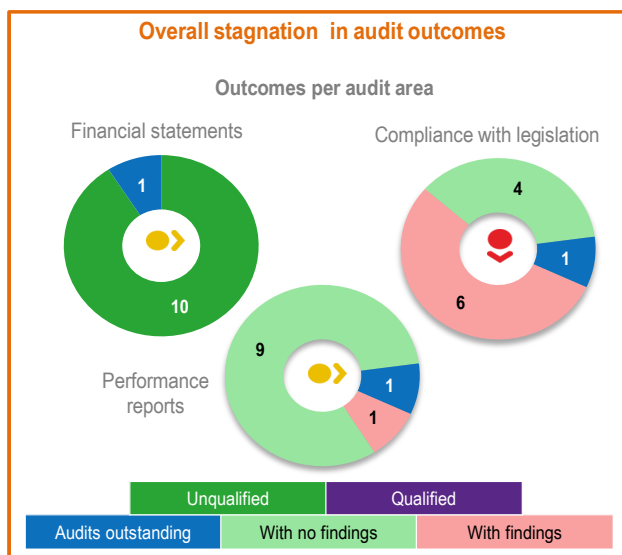
2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
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3  
... attention is given to the **key controls** and ...  
... and the **commitments** are honoured.  
6



- ### Status of key commitments by the MEC
- Stricter monitoring of transfers to municipalities to be implemented and matched against service delivery.
  - Consider options on how revenue management can be improved.
- Vacancies in key management positions were filled.
  - Monthly monitoring of all transfer payments to municipalities,
  - Monitoring controls to prevent and detect irregular expenditure were implemented.
- The MEC and HoD will investigate the circumstances giving rise to the reported internal control deficiencies.
  - The CFO will roll out training on finance-related issues.
- Legend: In progress (Yellow), Implemented (Green), New (Black)

# MEC: Economic Development and Tourism



### Key controls

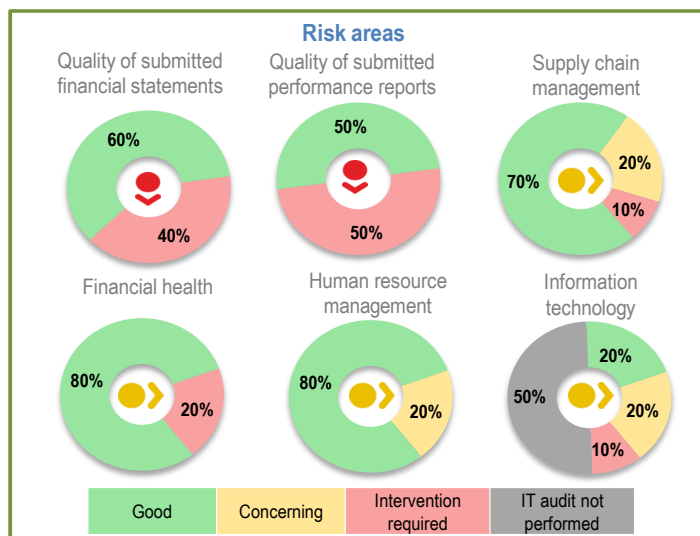
### Audit areas

Key controls	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	8	2	0	9	1	0	9	1	0
Oversight responsibility	6	4	0	8	2	0	7	3	0
Human resource controls	6	4	0	9	1	0	8	2	0
ICT governance and controls	0	10	0						
Audit action plans	8	2	0	8	2	0	7	3	0
Proper record keeping	9	1	0	10	0	0	9	1	0
Daily and monthly controls	7	3	0	9	1	0	7	3	0
Review and monitor compliance	4	6	0	8	2	0	5	3	2

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To improve the **audit outcomes** ...  
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... the key role players need to **assure** that ...  
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6



### Most common root causes

Slow response by management	A root cause at 6 auditees
Key officials lack appropriate competencies	A root cause at 3 auditees
Slow response by oversight	A root cause at 2 auditees

● Regressed

### Status of key commitments by the MEC

1. The CEO and CFO to align the supply chain management policy and processes to the PFMA, Treasury regulations and supply chain management practice notes to address procurement issues.	Not implemented
1. The chief information officer and boards to oversee the implementation of an IT governance framework.	In progress
1. Risk assessments and the management thereof by public entities to be comprehensive and effective.	Implemented
1. The analysis of accounting records to be performed monthly to reduce incidents of misstatements. 2. Training of officials on an on-going basis to improve skills levels. 3. Clean administration to form part of the CEO performance contracts. 4. The quality of performance reporting is to be improved to reduce risks of material misstatement.	New

# MEC: Education

### Overall stagnation in audit outcomes

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

### Assurance levels

Level	Entity	Assurance Level
First level	Senior management	Provides limited assurance
	Accounting officer	Provides limited assurance
	Executive authority	Provides limited assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

### Key controls

Audit area	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Oversight responsibility	Concerning	Concerning	Concerning
Human resource controls	Concerning	Concerning	Concerning
ICT governance and controls	Concerning	Not assessed	Not assessed
Audit action plans	Concerning	Intervention required	Concerning
Proper record keeping	Concerning	Intervention required	Concerning
Daily and monthly controls	Concerning	Intervention required	Concerning
Review and monitor compliance	Concerning	Concerning	Intervention required

F = Financial P = Performance C = Compliance

Good Concerning Intervention required Not assessed

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

2  
... the key role players need to **assure** that ...  
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6

### Risk areas

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

No findings Material findings Concerning

### Most common root causes

Slow response by management (Unchanged)
Instability or vacancies in key positions (Unchanged)

### Status of key commitments by the MEC

- Perform a 100% audit on the capped leave balances and update Persal with audited balances by 31 March 2014. All capped leave balances were audited by 31 March 2014, however, there was a delay in the updating of Persal. This was still in progress at 31 July 2014.
- Implement processes and procedures to validate the accuracy and completeness of reported performance information.
- Establish a comprehensive compliance checklist and implement regular monitoring controls to ensure compliance with applicable laws and regulations.
- Closely monitor the SCM deviations through regular monthly reporting from management.

- Instability or vacancies will be addressed by reviewing performance management, the budget and the organisational structure.
- The budget of the department will be monitored, specifically regarding unauthorised spending.

In progress New

# MEC: Finance

**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**

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	Provides some assurance

**Key controls**

Key controls	Audit area		
	F	P	C
Effective leadership	Good	Good	Good
Oversight responsibility	Good	Good	Good
Human resource controls	Concerning	Good	Concerning
ICT governance and controls	Concerning	Not assessed	Not assessed
Audit action plans	Good	Good	Good
Proper record keeping	Good	Good	Good
Daily and monthly controls	Good	Concerning	Good
Review and monitor compliance	Good	Concerning	Concerning

F = Financial P = Performance C = Compliance  
 Good Concerning Not assessed

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

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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

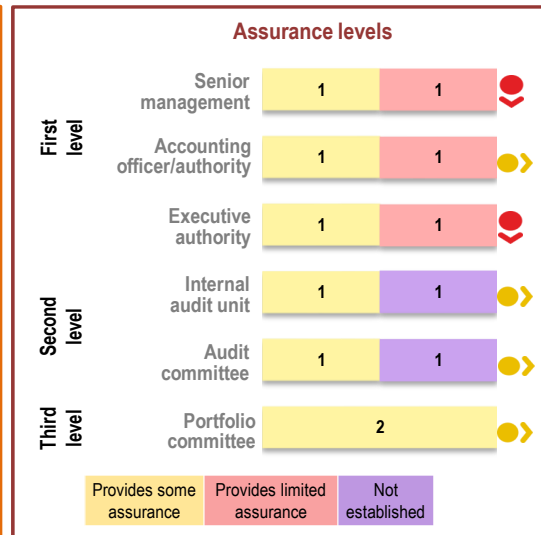
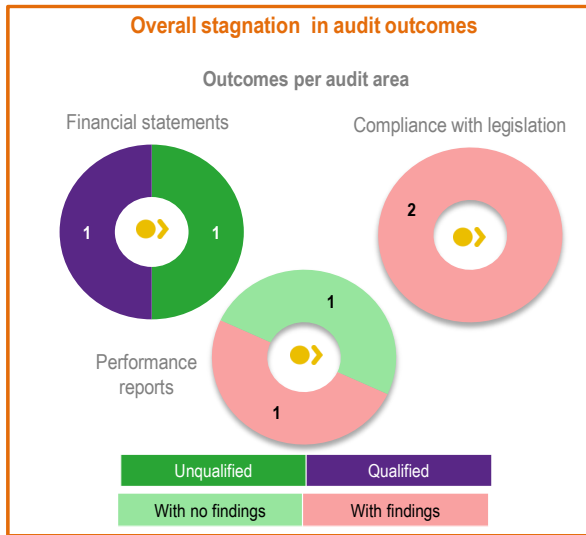
No findings Concerning

**Most common root causes**

None

- Status of key commitments by the MEC**
- The MEC will draft a memo to the Cabinet with respect to the compliance with SCM processes regarding events management.
  - Engage the Gaming and Betting entity on its qualification areas.
  - The annual performance plan for treasury will be corrected to ensure the targets of programme 5: Growth and development are specific.
  - The MEC of treasury will engage with the MEC of the Department of Economic Development to discuss oversight issues with respect to public entities in terms of their financial reporting.
- New

# MEC: Health



### Key controls

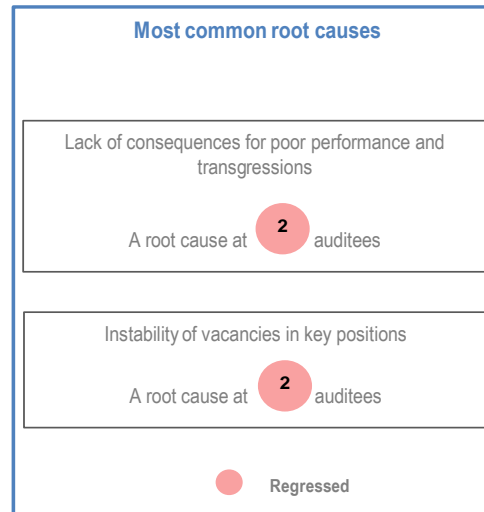
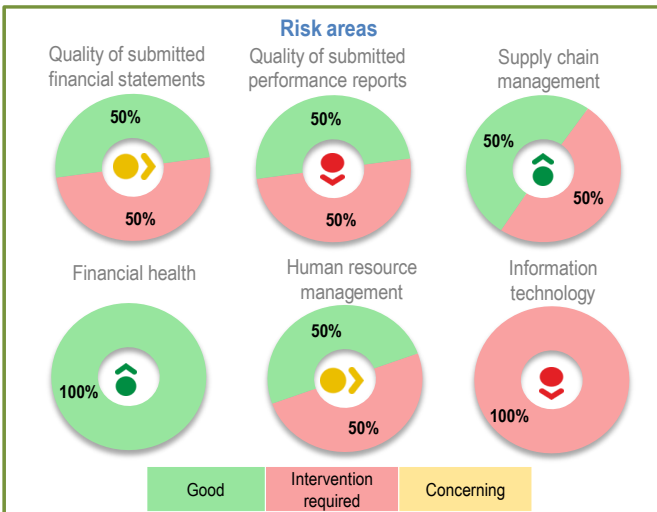
Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	0	2	0	1	1	0	0	2	0
Oversight responsibility	0	0	2	1	0	1	0	0	2
Human resources controls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

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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

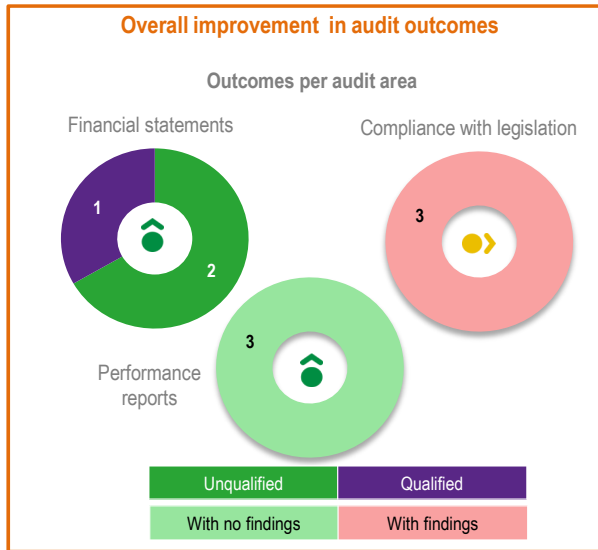
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... and the **commitments** are honoured.  
6

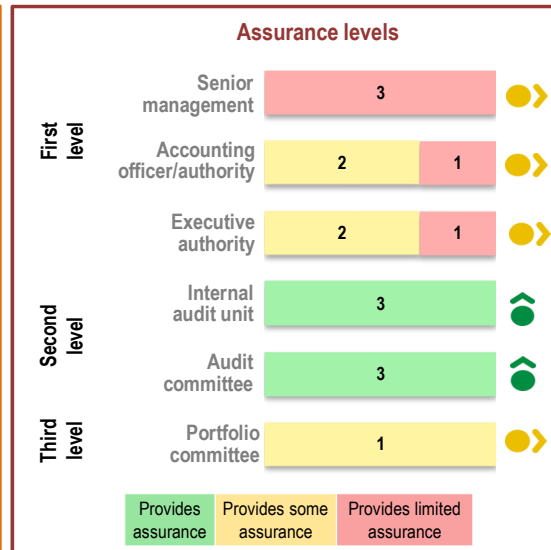


- ### Status of key commitments by the MEC
- Implement effective leave management procedures to ensure that leave is accurately and timeously captured.
  - Implement stricter monitoring controls over compliance with key legislation, specifically human resource management, SCM and expenditure on conditional grants.
  - Ensure that processes and procedures are implemented to validate the accuracy of performance information reported at hospitals.
  - Asset management project to be implemented to eradicate the qualification on assets and implement a proper asset management system within the department.
- Legend: In progress (Yellow box), New (Blue box)

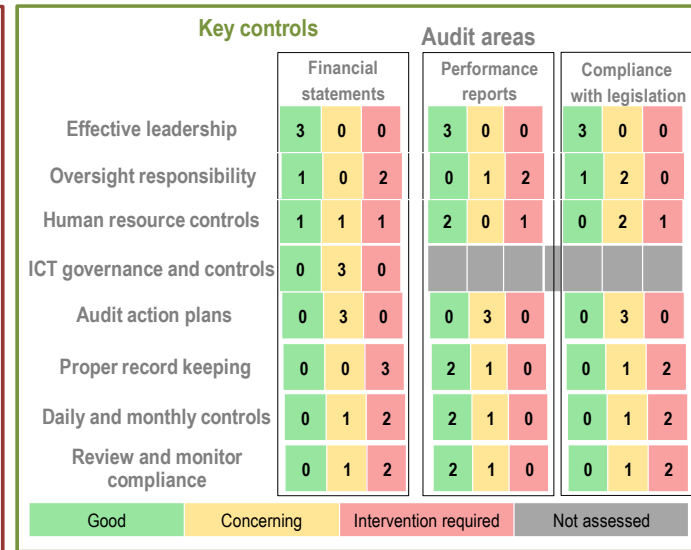
# MEC: Human Settlements and Public Works



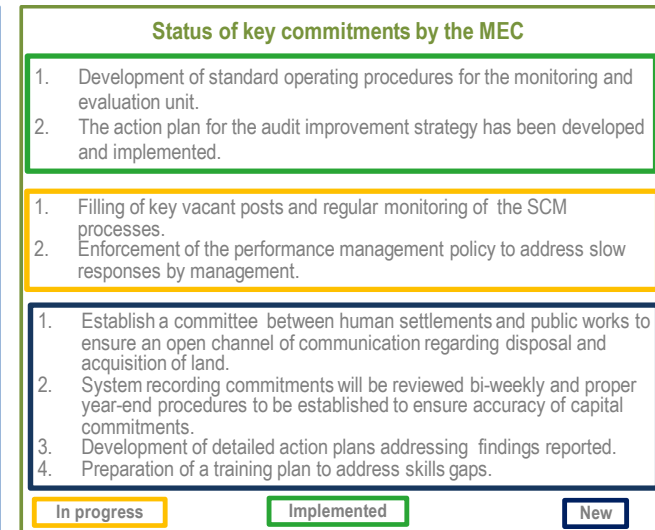
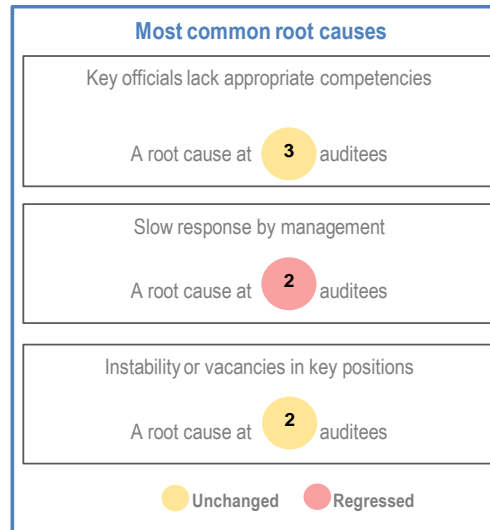
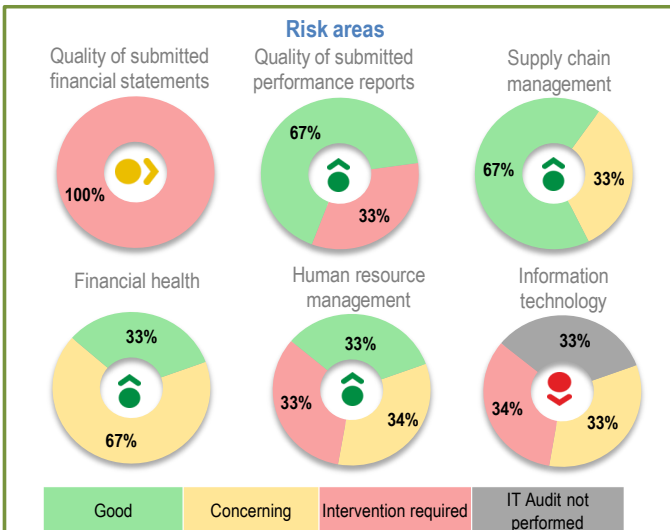
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To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4



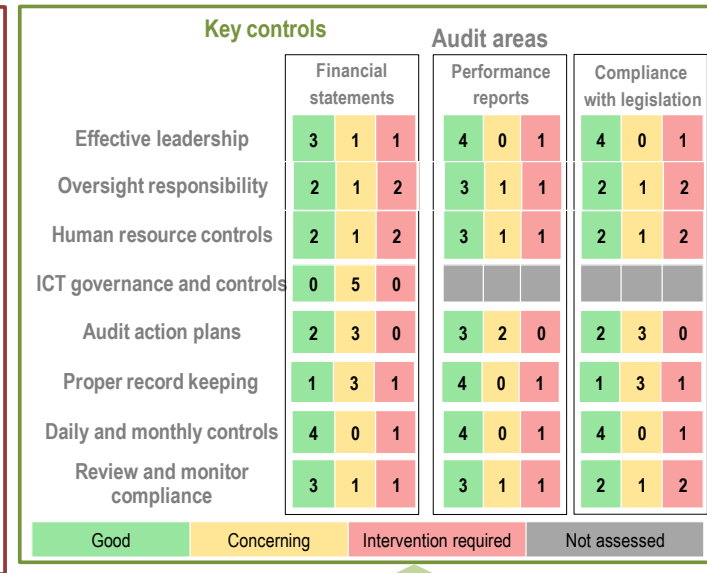
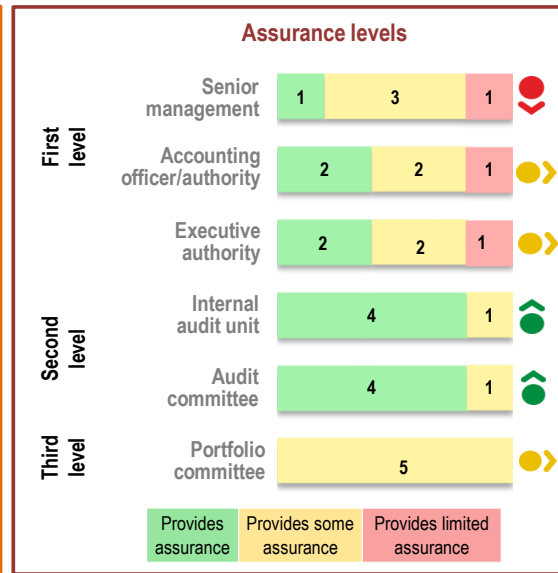
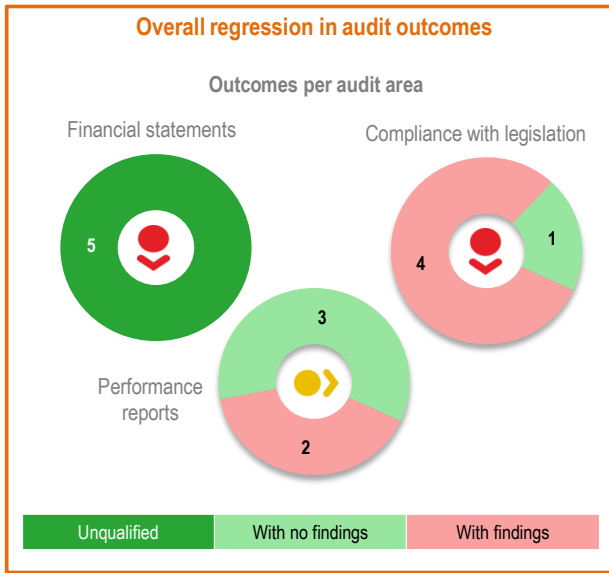
2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5



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



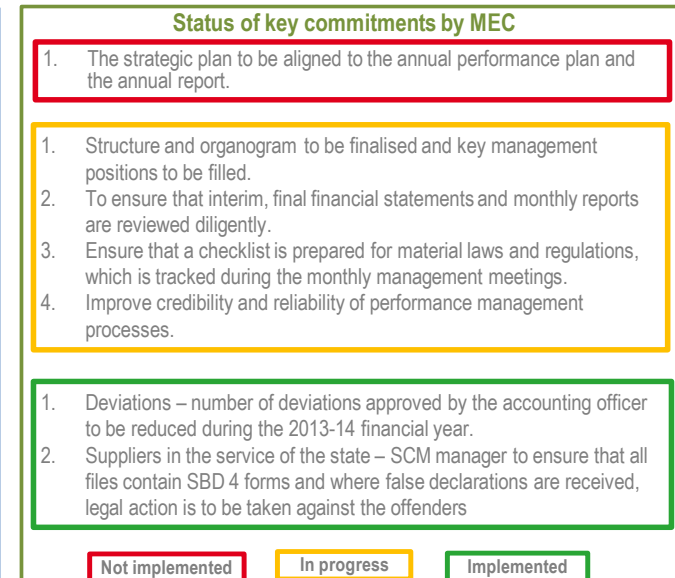
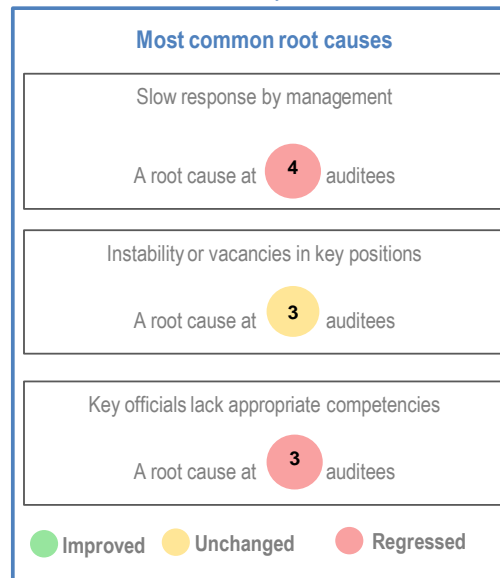
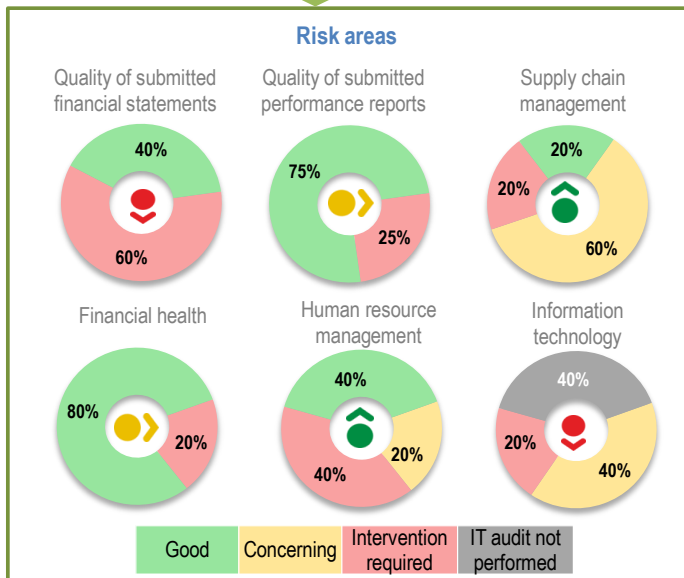




1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...

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.



# MEC: Social Development

**Overall improvement 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	Icon
First level	Senior management	Provides limited assurance	🔴
	Accounting officer/authority	Provides some assurance	🟡➡️
	Executive authority	Provides some assurance	🟡➡️
Second level	Internal audit unit	Provides some assurance	🟡➡️
	Audit committee	Provides assurance	🟢⬆️
Third level	Portfolio committee	Provides some assurance	🟡➡️

**Key controls**

Audit area	Audit area		
	F	P	C
Effective leadership	🟡	🟡	🟡
Oversight responsibility	🟡	🟡	🟡
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 Not assessed

**1**  
To improve 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.

**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

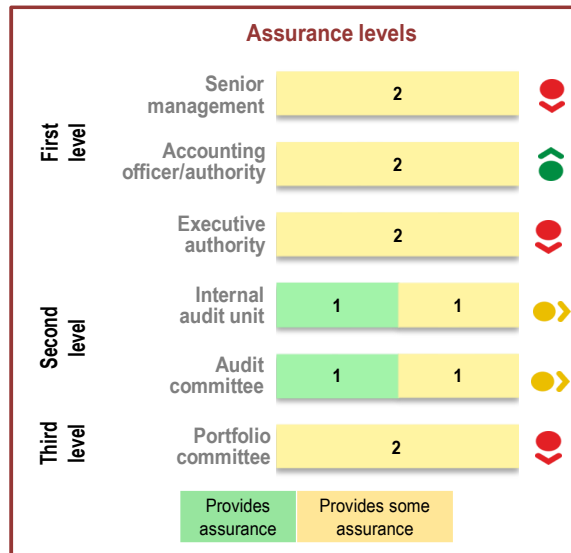
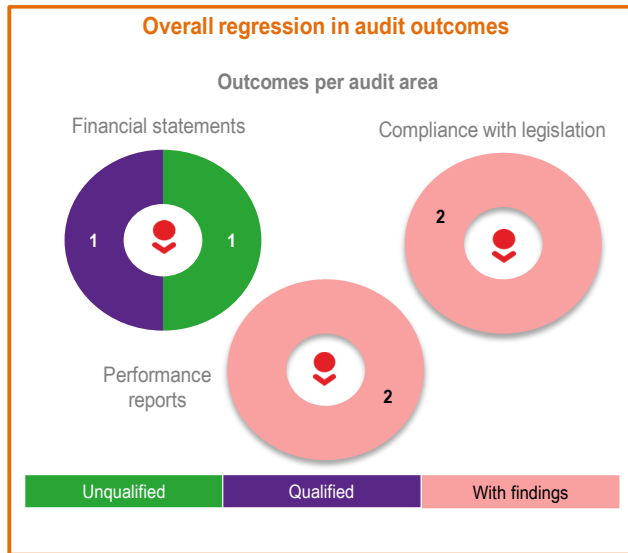
**Most common root causes**

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

**Status of key commitments by MEC**

<ul style="list-style-type: none"> <li>1. The general managers shall ensure that all performance and financial information submitted is reviewed for validity, accuracy and completeness.</li> <li>2. Training to be provided to address the lack of competencies.</li> <li>3. Reconciliations for assets, inventory and transfer payments will be done on a quarterly basis.</li> </ul>	Not implemented
<ul style="list-style-type: none"> <li>1. Management will develop and implement a compliance checklist for uniform record keeping and enhance human resource controls in terms of performance management and appointment processes.</li> <li>2. Appointment of a task team to review the process for funding and monitoring of transfer payments and full implementation of the standard operating systems on transfer payments made to NPOs.</li> </ul>	In progress

# MEC: Transport, Community, Safety and Liaison



### Key controls

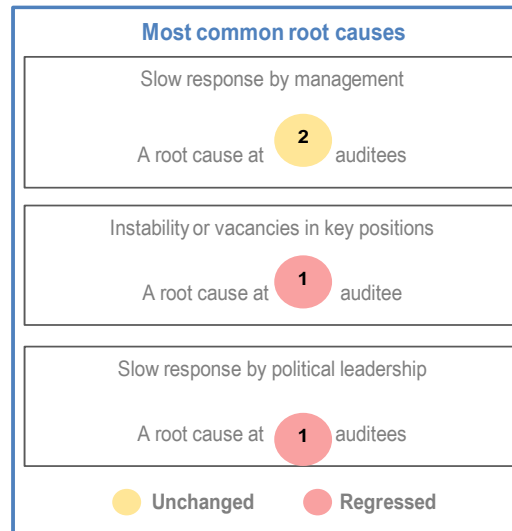
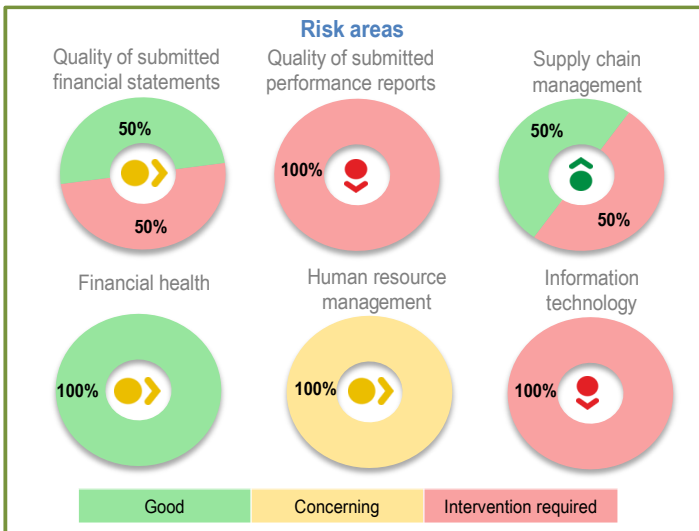
Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	2	0	0	2	0	0	1	1	0
Oversight responsibility	0	2	0	0	0	2	0	2	0
Human resource controls	0	2	0	0	2	0	0	2	0
ICT governance and controls	0	2	0						
Audit action plans	0	2	0	0	1	1	0	2	0
Proper record keeping	1	0	1	0	0	2	1	1	0
Daily and monthly controls	0	2	0	0	1	1	1	1	0
Review and monitor compliance	1	1	0	1	0	1	0	2	0

Legend: Good (Green), Concerning (Yellow), Intervention required (Red), Not assessed (Grey)

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



- ### Status of key commitments by MEC
- Establish processes to effectively monitor SCM compliance for all expenditure in order to prevent and detect irregular expenditure. **Implemented**
  - Establish effective policies, procedures and processes for the recording, reporting and monitoring of performance information. **In progress**
  - The filling of key vacant positions in senior management with suitably qualified staff in line with the approved structure. **In progress**
  - Improve the record management system to ensure that all documentation is properly controlled. **In progress**
  - Implementation of an IT enterprise architecture framework to address all weaknesses identified in the IT systems. **In progress**
- Legend: Implemented (Green), In progress (Yellow)

# ANNEXURES

## Annexure 1: Auditees' five-year opinions

Number	Auditee	Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10		
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
<b>Departments</b>																
1	Agriculture, Environmental Affairs and Rural Development	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified		
2	Arts and Culture	Qualified			Qualified			Unqualified with no findings			Unqualified with no findings			Unqualified with no findings		
3	Community Safety and Liaison	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings		
4	Cooperative Governance and Traditional Affairs	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
5	Economic Development and Tourism	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
6	Education	Qualified			Qualified			Qualified			Qualified			Unqualified with findings		
7	Health	Qualified			Qualified			Qualified			Qualified			Qualified		
8	Human Settlements	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
9	KwaZulu-Natal Provincial Treasury	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with no findings		
10	Office of the Premier	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
11	KwaZulu-Natal Provincial Legislature	Audit not finalised at legislated date			Unqualified with no findings			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
12	Public Works	Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified			Qualified		
13	Social Development	Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings			Qualified		
14	Sport and Recreation	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
15	The Royal Household	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
16	Transport	Qualified			Unqualified with no findings			Unqualified with findings			Unqualified with no findings			Unqualified with findings		

Number	Auditee	Audit outcome 2013-14		Audit outcome 2012-13		Audit outcome 2011-12		Audit outcome 2010-11		Audit outcome 2009-10			
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
<b>Public entities</b>													
17	Agri-Business Development Agency	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
18	Amafa Akwazulu-Natali	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with findings		Qualified
19	Dube Tradeport Company	Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
20	KwaZulu-Natal Gaming and Betting Board	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
21	KwaZulu-Natal Growth Fund Managers (Pty) Ltd	Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
22	KZN Housing Fund	Qualified			Disclaimer			Adverse			Qualified		Qualified
23	Ithala Development Finance Corporation Ltd	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
24	Ithala Limited	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
25	KwaZulu-Natal Sharks Board	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
26	KwaZulu-Natal Business Rehabilitation Trust Fund	Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer		Qualified
27	KZN Film Company	Unqualified with findings			New auditee			New auditee			New auditee		New auditee
28	KZN Liquor Authority	Unqualified with findings			Unqualified with findings			New auditee			New auditee		New auditee
29	KwaZulu-Natal Nature Conservation Board	Unqualified with findings			Qualified			Qualified			Qualified		Qualified
30	KwaZulu-Natal Tourism Authority	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		Unqualified with no findings
31	Mjindi Farming (Pty) Ltd	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		Unqualified with findings
32	Natal Joint Municipal Pension Fund (Provident)	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with no findings		Unqualified with no findings
33	Natal Joint Municipal Pension Fund (Retirement)	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with no findings		Unqualified with no findings
34	Natal Joint Municipal Pension Fund (Superannuation)	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with no findings		Unqualified with no findings
35	KwaZulu-Natal Provincial Pharmaceutical Supply Depot	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		Unqualified with no findings
36	The KwaZulu-Natal Royal Household Trust	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		New auditee
37	Trade and Investment KwaZulu-Natal	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Unqualified with no findings		Unqualified with findings
38	Traditional Levies and Trust Account	Qualified			Qualified			Qualified			Qualified		Qualified



## Annexure 2: Assessment of auditees' key controls at time of audit

Legend				
Good		In progress		Intervention required
Improved	↑	Unchanged	↔	Regressed
Financial	F	Performance	P	Compliance
				C

Auditee	Leadership							Financial and performance							Governance																														
	Movement			Effective leadership culture		Oversight responsibility		HR management		Policies and procedures		Action plans			IT governance		Movement			Proper record keeping		Processing and reconciling controls		Reporting		Compliance			IT system controls			Movement			Risk management		Internal audit unit		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	F	P	C
<b>Departments</b>																																													
Agriculture, Environmental Affairs and Rural Development	↔	↓	↓																																										
Arts and Culture	↓	↓	↓																																										
Community Safety and Liaison	↑	↔	↔																																										
Cooperative Governance and Traditional Affairs	↓	↓	↓																																										
Economic Development and Tourism	↔	↑	↔																																										
Education	↑	↔	↔																																										
Health	↓	↓	↓																																										
Human Settlements	↑	↑	↑																																										
KwaZulu-Natal Provincial Treasury	↔	↔	↔																																										
Office of the Premier	↑	↔	↑																																										
Public Works	↓	↓	↓																																										
Social Development	↑	↑	↑																																										
Sport and Recreation	↓	↓	↓																																										
The Royal Household	↑	↑	↑																																										
Transport	↓	↓	↓																																										









# GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS



*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 & 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.

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## *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 & 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>







AUDITOR - GENERAL  
SOUTH AFRICA

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