



General report on the provincial audit outcomes of **NORTH WEST**



AUDITOR-GENERAL  
SOUTH AFRICA



# General report on audit outcomes

## NORTH WEST 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



Only one auditee achieved a clean audit

Overall improvement in audit outcomes

Audit outcomes of departments improved, but public entities remained unchanged

The departments of public works, local government and public entities need the most attention



Material non-compliance with legislation by 97% of auditees

Continuing high levels of unauthorised, irregular as well as fruitless and wasteful expenditure

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

Four auditees received disclaimed opinions and eight qualified opinions



49% with financially unqualified audit opinions

Six audits were not completed by the general report cut-off date

Qualified opinions avoided by 42% of auditees correcting material misstatements identified during auditing process

No improvement in the quality of financial statements submitted for auditing

Audit findings avoided by correcting material misstatements identified during auditing process

Regression in the quality of performance reports submitted for auditing

Limitation on planned scope of awards

Uncompetitive and unfair procurement processes



No improvement in supply chain management

Increased unauthorised expenditure of R343,6 million – 74% of the amount was incurred by the Department of Education

Irregular expenditure of R1 193 million, 79% of which relates to specific requirements of the procurement process not followed

Increased fruitless and wasteful expenditure of R59 million

Vacancies and instability in key positions continue to affect audit outcomes

Some improvement in HR management controls



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

Nine public entities (34%) had serious concerns on their financial health

Confidentiality, integrity and availability of information at risk

No improvement in the ICT controls

Little progress in addressing root causes of poor audit outcomes



Key role players did not provide adequate assurance to improve controls

Despite positive attitude and eagerness displayed implementation of commitments and initiatives of role players remains slow



Audit outcomes of portfolios of MECs and commitments made for improvement

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# NORTH WEST

# CLEAN AUDITS 2013-14



## DEPARTMENT

North West Provincial Treasury



## PUBLIC ENTITY

None



# EXECUTIVE SUMMARY 7

## Executive summary

This general report summarises the audit outcomes of the North West provincial government for the financial year ended 31 March 2014.

Provincial government consists of 13 departments and 22 public entities. The total budgeted expenditure of the province was R31,5 billion in 2013-14. The following were main areas of expenditure:

- Employee cost R17,7 billion (56%)
- Goods and services R6,3 billion (20%)
- Capital expenditure R2,9 billion (9%)
- Transfers and subsidies R4,6 billion (15%)

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.

It is encouraging to note that there has been an improvement in the province, in particular with the departments' outcomes, as only two departments (15%) received qualified opinions with findings.

### Financially unqualified audit opinion with no findings

Auditees that received a **financially unqualified audit 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'. The provincial treasury has led by example and is the first department to obtain a clean audit outcome. This was the only clean audit for 2013-14. In the previous year Agribank Creditors Settlement Trust obtained a clean audit and, at the time of this report, its audit was not completed as the financial statements were submitted late for auditing in 2013-14.

Clean audit outcomes are the result of a concerted effort and responsiveness by the political and administrative leadership. The accounting officer of the provincial treasury 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. There is however much more

improvement required in the province to ensure that these best practices can be implemented at all of the other departments and entities.

### Financially unqualified audit opinion with findings

Sixteen auditees (46%) received **financially unqualified audit opinions with findings** on their performance information, compliance with legislation, or both 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.

A diligent effort is required from the senior management, which includes the chief financial officers and accounting officers at departments and the accounting authorities at public entities, to provide assurance on the credibility and reliability of information that is recorded, classified, reconciled and monitored. This is evident in the quality of financial statements and annual performance reports submitted for auditing, where the auditees continue to rely on the auditors to identify material misstatements for correction. The vacancies in key positions, the lack of competencies and the internal control deficiencies in leadership and financial and performance management should be addressed along with the risk areas and root causes that are currently preventing the achievement of sustainable clean administration.

### Qualified audit opinion

Eight auditees (23%) 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 Department of Public Works and the Department of Local Government were the only two departments with qualified audit opinions. 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. These controls should support the preparation of reliable and credible financial and performance information, and prevent non-compliance with legislation. The stability of the administrative leadership and key senior management through succession planning remains critical to ensuring that institutional knowledge is not lost. The leadership needs to continue their example of zero tolerance for non-performance and holding staff accountable for achieving a strong control environment.

## Disclaimed audit opinion

Four auditees (11%) received a **disclaimed audit opinion**. All of these public entities could not provide us with evidence for most of the account balances and disclosures presented in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

While there was an improvement from 10 (28%) to four (11%) auditees with disclaimed audit opinions, these opinions remain a major concern. The negative audit outcomes at entity level were as a result of instability at board level, prolonged suspension of key employees and lack of capacity to deal with financial and performance reporting, as required by legislation and the accounting framework. Considering the nature and importance of the mandate of these entities, it is critical that the executives and the provincial leadership deal with these governance deficiencies and shortcomings experienced at these entities.

## Audits outstanding

There has been an improvement in the number of outstanding audits compared to the previous year; however, the audits of six public entities (17%) were not concluded at the time of this report. This includes the audit of the North West Tribal and Trust funds that has not been audited for more than 10 years. The remaining entities did not submit financial statements on time for auditing and the audits were currently in progress at the time of this report.

## 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. However, most auditees (77%) had material findings on the usefulness and reliability of reported performance information. The three largest service delivery departments in the province (Health, Education and Public Works) had material findings on their reporting against predetermined objectives.

The quality of the performance reports submitted for auditing remained poor. Although six auditees (23%) had no findings, only two auditees submitted performance reports that did not contain material misstatements. The other four auditees had to correct misstatements in the submitted performance reports to have no findings.

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. These auditees need to adopt the best practices that already exist 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 their performance.

### *Compliance with key legislation*

All auditees (97%), with the exception of provincial treasury, had material findings on compliance with key legislation when compared to the previous year. The two most common compliance findings remained the material misstatements in the financial statements submitted for auditing and unauthorised, irregular as well as fruitless and wasteful expenditure that was not prevented or adequately dealt with.

Appropriate action should be taken against officials who continue to transgress and not comply with policies and legislation. If auditees can address these key areas, their audit outcomes will improve. Addressing compliance findings is ultimately the final step that most auditees will have to take to get to a clean administration.

### *Unauthorised expenditure*

The increased unauthorised expenditure of R343,6 million for the year was as a result of overspending the approved budgets by departments. The Department of Education was responsible for incurring 74% of this amount. The departments did not adequately monitor spending in terms of the budget throughout the year, as required. The increase was also due to the slow response by the political leadership to deal with previous year's unauthorised expenditure as well as not taking action against those departments that continuously overspend.

### *Irregular expenditure*

Although there was a decrease in irregular expenditure compared to the previous year, most of the R1 193 million (96%) of irregular expenditure incurred was a result of auditees incurring expenditure not in accordance with the prescripts of supply chain management. In 79% of the cases it was because a specific requirement of the procurement process was not adhered to, while in 19% of cases no competitive bidding or quotation process was followed. The other cases related to non-adherence to contract management requirements. Although we did not perform any investigations into the irregular expenditure as this is the role of the accounting officer and oversight body, through our normal audit procedures we determined that goods and services were received for R1 192 million (99%) of the irregular expenditure despite the correct processes governing procurement not being followed. We could not audit the balance due to a lack of supporting documents but, based on our audit, no specific instances were identified where goods and services were not received.

As in the previous year, auditees did not adequately investigate the irregular expenditure identified. At 15 auditees (52%) investigations of the irregular expenditure in the previous year were not initiated by the accounting officer or oversight body. At almost all other auditees the investigations were initiated but not yet completed at year-end. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any losses were suffered that should be

recovered from responsible officials. All allegations of financial misconduct, transgressions of supply chain management legislation and unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated. Once investigations are complete, disciplinary actions should be taken where transgressions were confirmed.

### Financial Health

The financial health concerns in the province improved slightly since the previous years, with nine auditees (34%) (2012-13: 43%) having serious concerns relating to financial sustainability.

Although we identified a few concerns at provincial departments, the following matters were noted:

- At 31 March 2014, the bank balances for departments as disclosed in the financial statements were in overdraft to an amount of R282,7 million.
- At 31 March 2014, funds to be surrendered amounted to R522 million.
- Accruals older than 30 days amounted to R287,4 million. Of this amount, R237,1 million (82%) relates to accruals for the Department of Health.
- Taking into account the overdrafts, funds to be surrendered and long-outstanding accruals, the province requires R1 billion to clear the backlog.
- The total provincial budget for 2014-15 is R31,8 billion. Of this, R18,3 billion (58%) is for salaries. Therefore only R13,5 billion remains for goods and services and other service delivery such as capital expenditure.
- Since R1 billion of the remaining budget would need to be used to fund the backlog, only R12,5 billion (39%) of the total provincial budget would be available for service delivery in the 2014-15 financial year.

Departments should address these concerns by implementing rigorous cash flow mechanisms to ensure that critical projects and services are prioritised. Spending on items that do not relate to critical services and programmes should be kept to an absolute minimum. All new contracts entered into by departments should be properly evaluated to ensure that goods and services are procured in the most economical way possible and that value for money is received.

At 10 entities (71%), the total expenditure incurred during the year exceeded the total revenue, resulting in a deficit for the year. At nine entities (64%), the current liabilities exceeded the total current assets. At three entities (21%), the total liabilities exceeded the total assets, indicating that these entities were insolvent. If we take into account the cases where a complete analysis of the financial health concerns could not be confirmed because of the disclaimed audit opinions and a further six entities that were excluded from the analysis due to the late or non-submission of financial statements, it is clear that the provincial leadership should pay close attention to financial health risk at public entities.

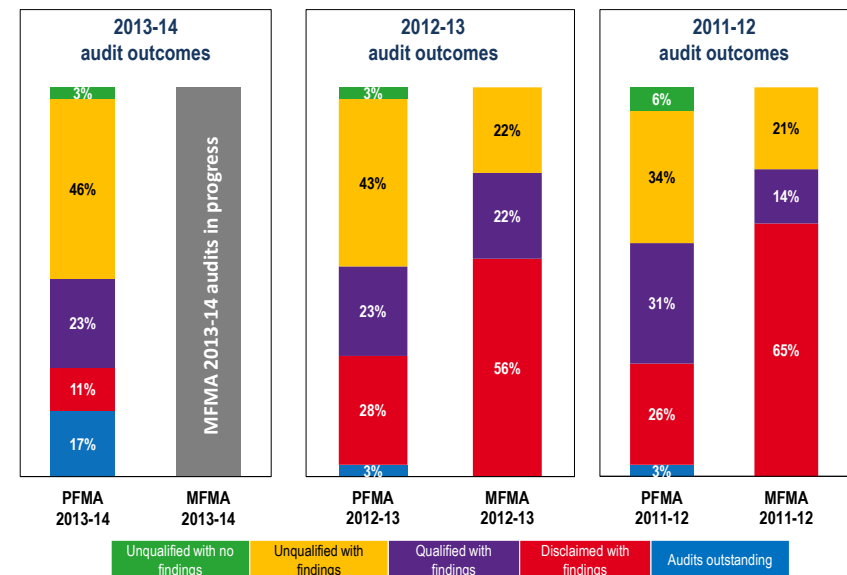
The provincial leadership is urged to implement the commitment made in the previous year to reconsider the viability of all public entities in the province, non-alignment of their mandates as well as lack of effectiveness of the boards appointed at these entities.

### Comparison of provincial and local government audit outcomes

The North West 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.

The following figure 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 drive towards clean administration, much more effort is required to improve the audit outcomes in the province. While there has been some progress in the submission of financial statements on time for auditing and reduction of the number of auditees with disclaimed audit opinions, 34% of auditees regulated by the Public Finance Management Act, 1999 (Act No. 1 of 1999) and 78% of auditees regulated by the Municipal Finance Management Act, 2003 (Act No. 56 of 1999) still have qualified or disclaimed opinions.

Over the last few years our focus has been on continual engagement with the leadership to ensure that appropriate actions are taken against poor performance and continued transgressions of the laws and regulations.

Our message, going forward, with the new leadership will still be around capacitating the departments and entities with the requisite skills and holding people accountable for their actions or the lack thereof. Senior management should ensure that the root causes of the continued poor audit outcomes are addressed and the executives should be closely involved in the monitoring of the actions taken as these areas are vital in driving an environment that can produce and sustain clean administration at provincial departments and public entities. The root causes to be addressed include the following:

- Lack of consequences for poor performance and transgressions.
- Key positions vacant or key officials lacking appropriate competencies.
- Slow response by management to address the root causes of poor audit outcomes.

Although the provincial treasury assisted municipalities to clear the backlogs relating to late submission of financial statements for auditing, the assistance provided had not yet translated to improved audit outcomes. In addition, there was a lack of monitoring of submission of reports by municipalities, as required in terms of the Municipal Finance Management Act. The role of the Department of Local Government is that of coordination between provincial and local government and monitoring and oversight at the municipalities. The department did not fulfil its coordinating responsibility and did not provide sufficient monitoring and oversight, specifically relating to municipalities' action plans to address audit findings. The department also did not appropriately monitor municipal infrastructure grant and municipal systems improvement grant allocations to municipalities to ensure that the allocations were only used for the purposes intended in the grant framework.

The role of the Office of the Premier relates more to the specific governance, oversight and monitoring responsibilities of the departments. We identified the lack of appropriate information technology governance as well as monitoring of human resource planning and evaluation of performance information as areas needing improvement. The coordinating institutions (specifically the provincial treasury) should continue to improve the assistance and guidance they provide to departments and public entities to address previous year audit findings, implement action plans and address internal control deficiencies. The appointment of competent and experienced officials in positions that have been vacant for long periods and establishing appropriate and effective accounting authorities at all public entities are matters requiring intervention by these coordinating institutions, namely the provincial treasury, Office of the Premier and Department of Local Government.

## Key leadership actions

The positive attitude and eagerness displayed by some executive authorities to address the underlying reasons for audit findings at their departments as well as monitoring the implementation of action plans and commitments are encouraging. It is however important that the provincial leadership ensures that the following key actions are also implemented at the other auditees:

- All vacant positions of accounting officers and chief financial officers as well as other senior management vacancies should be filled by officials with the necessary competencies and experience as a matter of urgency, with the assistance of the provincial leadership.
- The internal audit units should be established and capacitated at those public entities where no such units exist by the responsible accounting authorities. Where required, the provincial internal audit unit should assist these public entities.
- Vacant positions in the board of directors at some public entities and in audit committees should be addressed with immediate effect, with the intervention of the provincial leadership.
- The members of the executive council should be actively involved in the monitoring of the implementation of actions plans and commitments made by departments and entities, to address the root causes of poor audit outcomes by management.
- The members of the executive council should ensure that performance and consequence management is improved by incorporating the requirements for preparing credible and regular financial reports into performance agreements of accounting officers/authorities and holding them accountable. The accounting officers/authorities should then make sure that these requirements are cascaded to the performance agreements of all senior management.
- The portfolio committees should ensure that appropriate performance indicators and targets set by the auditees are aligned to the mandates of these auditees.
- The provincial public accounts committee and the provincial legislature should hold accounting officers that continue to underperform and transgress laws and regulations accountable for their actions. This specifically includes investigation of previous years' unauthorised, irregular as well as fruitless and wasteful expenditure and taking the necessary disciplinary steps against transgressors.

We will continue to invest in stakeholder interactions despite the slow progress made. We will intensify these interactions and share our insights into the status of key controls and track progress made in implementing the commitments with the executive authorities, the governance structures (including audit committees) and the coordinating institutions. These interactions are meant to contribute to the improvement of the provincial audit outcomes.



# AUDIT OUTCOMES, RECOMMENDATIONS AND ROLE PLAYERS' COMMITMENTS

# 1. Our auditing and reporting process

We audit every department and all 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 this **provincial general report**, in which we analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the 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 members of the executive council, the premier, the provincial treasury, as we are convinced that their involvement and oversight should play – 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 that follows 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.
2. Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without material misstatements but are struggling to:
  - align their performance reports to the predetermined objectives they committed to in their annual performance plans
  - set clear performance indicators and targets to measure their performance against their predetermined objectives
  - report reliably on whether they achieved their performance targets
  - determine which legislation they should comply with and implement the required policies, procedures and controls to ensure they comply.

This audit outcome is also commonly referred to as a 'clean audit'.



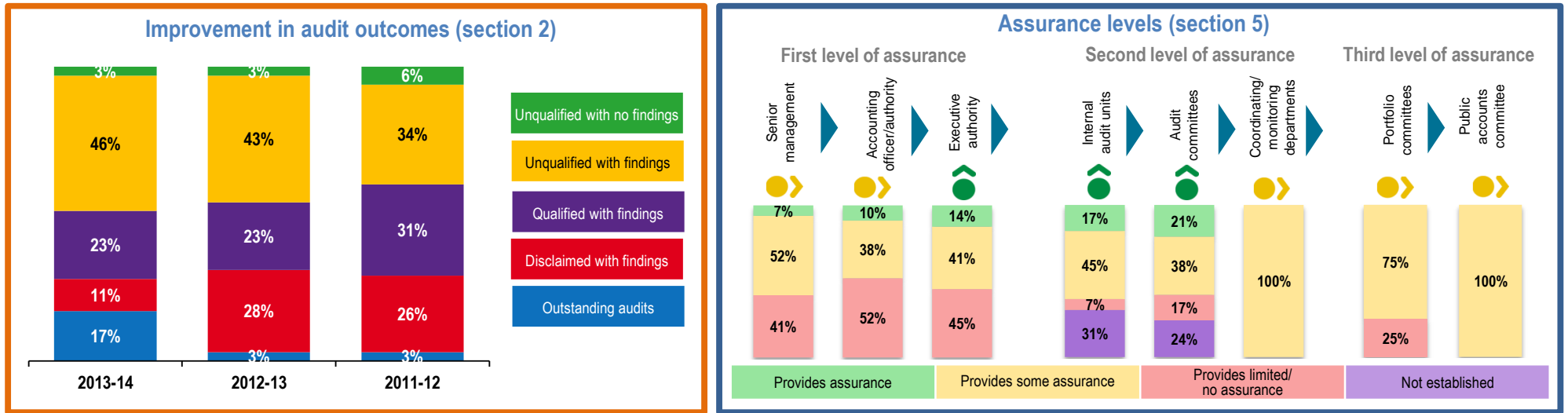
3. Auditees that received a **financially qualified audit opinion with findings** have the same challenges as those that received an unqualified opinion with findings but, in addition, they could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.
4. The financial statements of auditees that received 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 that received a **disclaimer of audit opinion** could not provide us with evidence for most of the account balances and disclosures presented in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements. Auditees that received adverse or disclaimer of opinions are typically also:
  - unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
  - not complying with key legislation.

Please note 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:



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

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



**Root causes should be addressed (section 4.3)**

- Lack of consequences for poor performance and transgressions  
A root cause at **83%** of the auditees (2012-13: 65%)
- Key positions vacant or key officials lacking appropriate competencies  
A root cause at **55%** of the auditees (2012-13: 71%)
- Slow response by management to address the root cause of poor audit outcomes  
A root cause at **41%** of the auditees (2012-13: 38%)

Legend: Improved (Green), Unchanged (Yellow), Regressed (Red)

**Risk areas (section 2.1 – 4.2)**

Risk Area	Good	Concerning	Intervention required
Quality of submitted financial statements	17%	83%	
Quality of submitted performance reports	8%	92%	
Supply chain management	16%	24%	60%
Financial health	7%	34%	59%
Human resource management	31%	21%	48%
Information technology	17%	31%	52%

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

**Key controls (section 4)**

Area	Year	Good	Concerning	Intervention required
Leadership	2013-14	21%	36%	43%
	2012-13	20%	33%	47%
Financial and performance management	2013-14	17%	37%	46%
	2012-13	17%	31%	52%
Governance	2013-14	20%	38%	42%
	2012-13	14%	39%	47%

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

Figure 3: Movements in audit outcomes

Movement Audit outcome	9 Improved	18 Unchanged	2 Regressed	6* Outstanding
Unqualified with no findings = 1	Provincial treasury			Agribank Creditors Settlement Trust
Unqualified with findings = 16	Office of the Premier; Provincial legislature; Sport, Arts and Culture; Education; Social Development	Health; Public Safety; Economic Development; Humans Settlements; Agriculture; Invest North West; Gambling Board; Kgama Wildlife; Directorate of Entrepreneurial Development in Natural Resources (DED); North West Star; Atteridgeville Bus Services		Agribank
Qualified with findings = 8	Public Works; Housing Corporation; Mafikeng Industrial Development Zone	Aids Council; Youth Development Trust; North West Transport Investments	Local Government; NW Development Corporation	
Adverse or disclaimer with findings = 4		Madikwe River Lodge; Golden Leopard Resorts; Provincial Arts and Culture Council; Signal Developments		Mmabana Arts, Culture and Sport Foundation; Parks Board; Dirapeng

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

\*Of the 6 outstanding audits, 5 are outstanding only for 2013-14. The North West Tribal and Trust Fund has not been audited for more than 5 years.

## Overall audit outcomes

Figure 2 indicates that there has been an improvement in the overall audit outcomes when compared to the previous year. Figure 3 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the overall improvement in the audit outcomes of the province. It further shows the previous year audit opinions of the six 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. Overall, there were nine improvements and two regressions.

The provincial treasury was the first department to obtain a clean audit in the province. This was also the only clean audit of the 29 auditees that we report on in this report. At the time of this report, the audit of one entity (Agribank Creditors Settlement Trust) that had received a clean audit in the previous year had not yet been completed as the financial statements had only been received during September 2014. There was some progress in reducing the number of auditees that received a disclaimer of opinion, with three auditees able to improve from a disclaimer of opinion to a qualified opinion with findings. However, the four public entities that remained unchanged with a disclaimer of opinion are concerning.

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

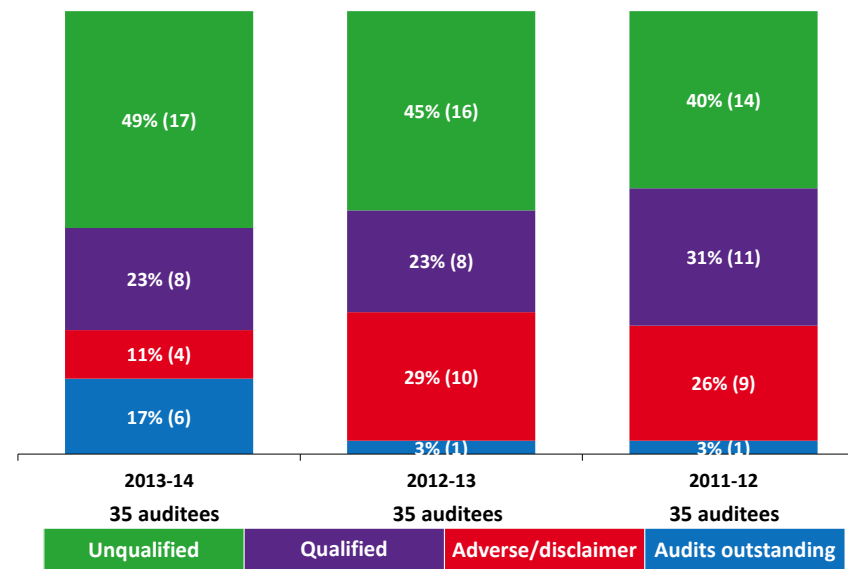
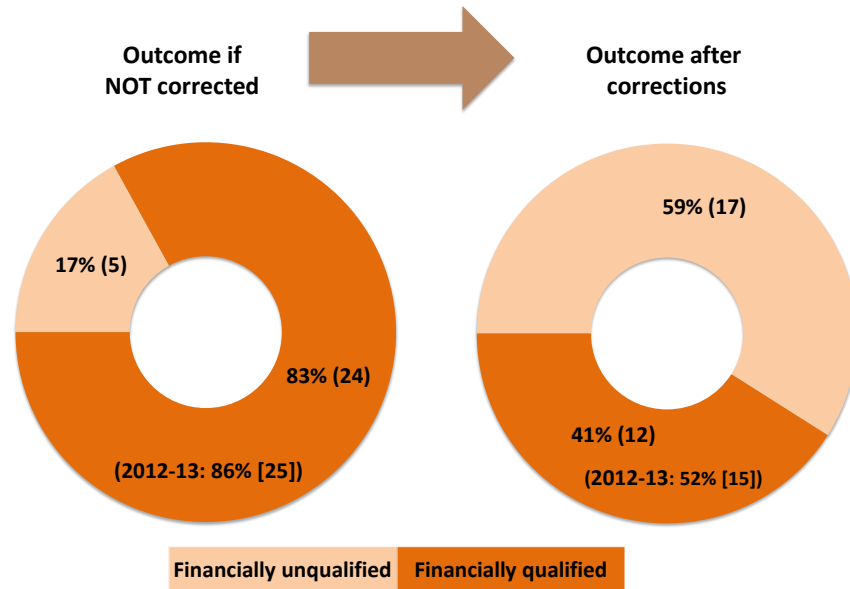


Figure 4 shows that there has been a slight improvement in the audit opinions on financial statements when compared to the previous year. Eleven of the departments received unqualified opinions on the financial statements, and only the departments of Public Works and Local Government received qualified opinions. However, all four disclaimed opinions, six of the qualified opinions and all six outstanding audits were at the public entities in the province. The instability at board of directors' level undermined governance and oversight of the performance of the public entities, and the lack of capacity contributed to their inability to prepare accurate and reliable financial statements on time.

In 2013-14, the budgeted expenditure of the departments of Education, Health and Public Works contributed 75% of the total in the province. The opinion for Education improved from qualified to unqualified, the opinion for Public Works improved from a disclaimer to a qualified opinion and Health maintained its unqualified opinion.

## The quality of the financial statements submitted for auditing

Figure 5: Quality of financial statements submitted for auditing



While most auditees submitted their financial statements for auditing on time, figure 5 shows that only five auditees (17%) submitted financial statements that did not contain material misstatements. These auditees were the departments of Sport, Arts and Culture, provincial treasury and Agriculture, as well as North West Star and Atteridgeville Bus Services. Figure 5 also shows that 12 auditees (42%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. Only 17% of the auditees would have had an unqualified audit opinion as a result of the quality of the initial submission of financial statements if no misstatements were corrected. Overall, there was little improvement in the quality of the submitted financial statements compared to previous years despite commitments made by key role players in this regard.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material finding on compliance with the Public Finance Management Act of South Africa, 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 and review processes.

We do not report where the misstatement resulted from an isolated incident or where it related to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure that was identified after the financial statements had been submitted. Invest North West and North West Gambling Board would have received clean audit outcomes if it were not for this particular compliance finding. The most common areas which auditees corrected in order to achieve unqualified audit opinions are:

- disclosure notes at departments like accruals, commitments and contingent liabilities
- the disclosure of irregular expenditure identified during the course of the audit.

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. Some auditees used consultants to assist them in the preparation of their financial statements, refer to section 4.1 for more details.

### Financial statement areas qualified

Seven of the auditees were able to correct some of the material misstatements identified during the audit, but still received qualified or disclaimed audit opinions. Five auditees did not even attempt to correct the material misstatements identified during the auditing process. The main reasons why auditees were not able to correct all misstatements were the lack of proper controls and monitoring throughout the year and the lack of skills to understand the reasons for the misstatements and translate them into appropriate amendments to the financial statements. The preparation of financial statements is not a one-off process after the financial year-end, but reconciliation and control disciplines should be implemented during the year to ensure credible and accurate reporting.

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

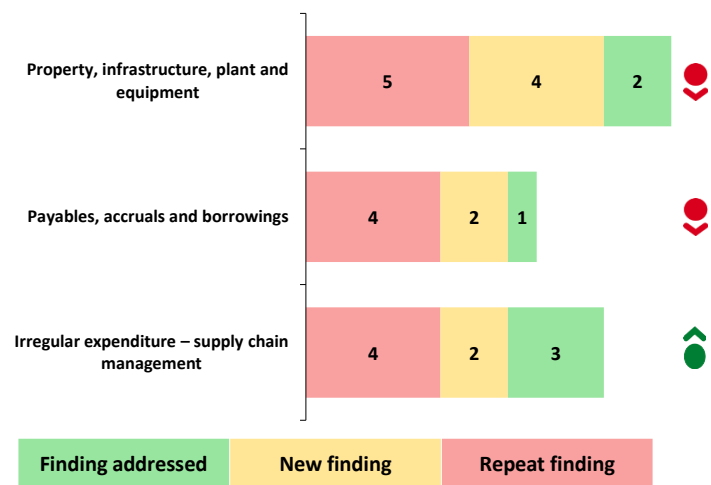


Figure 6 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year.

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

### Property, infrastructure, plant and equipment

- The Department of Public Works still had challenges with its immovable capital asset register mainly on roads and non-residential buildings. The published road proclamations as well as documents to support the values of the roads in the register were not available. Title deeds to support the ownership of non-residential buildings were also not available. In addition, the immovable and moveable asset registers were not appropriately reconciled with the financial statements.
- The North West Transport Investments and North West Development Corporation also had problems confirming ownership of buildings and other investment properties due to title deeds not being available. In addition, appropriate explanations for some of the fair value calculations of these properties could not be provided.
- The remaining six auditees (all public entities) that received a qualified opinion did not have appropriate asset registers in place. Due to the lack of asset registers or material unreconciled differences between the asset register and the financial statement, the assets disclosed in the financial statements could not be confirmed. Senior management did not ensure that these basic controls and

reconciliations were in place to ensure that only reliable financial information was reported.

### Payables, accruals and borrowings

- The North West Development Corporation was unable to provide appropriate evidence for unspent portions of government projects in respect of small, medium and micro enterprise (SMME) business development due to the status of the accounting reports and lack of audit trail of transactions relating to these projects. Consequently, we could not confirm whether the balances of related unspent grants and payables were stated at the correct amounts.
- The remaining five auditees that received a qualified opinion on payables, accrual and borrowings were public entities. These entities did not maintain proper accounting records for amounts payable to suppliers or passed material journals against these balances for which no appropriate evidence could be provided.

### Irregular expenditure – supply chain management

- At four auditees (including Public Works) payments made in contravention of the supply chain management (SCM) requirements were not disclosed as irregular expenditure in the notes to the financial statements, as required by the PMFA. In addition, at Public Works we were unable to audit the awarding of some contracts to determine whether the awards were made in terms of SCM requirements as the information required for auditing was not available, resulting in a limitation to determine whether all irregular expenditure incurred was disclosed.
- At four entities (including two of the ones mentioned above), no adequate evidence was available for the amounts disclosed by the entity as irregular expenditure in the notes to the financial statements, we could therefore not confirm that the amounts disclosed actually represented valid irregular expenditure incurred by the entity.

### Recommendations

Auditees that received qualified or disclaimers of opinions and those that submitted poor quality financial statements for auditing should create a control environment that supports reliable financial reporting and strengthen their review processes. For such auditees, we recommend the implementation of the following key controls that are in place at auditees such as the Department of Sport, Arts and Culture, provincial treasury and the Department of Agriculture, as well as North West Star and Atteridgeville Bus Services:

- Develop and implement proper action plans to address all internal control deficiencies and previous year qualification areas. The action plans should be

credible, with actions addressing root causes and set clear time frames and assign responsibilities appropriately. The management and leadership should monitor these action plans on a regular basis.

- Daily and monthly processing and reconciliation of transactions should be in place. These controls should ensure that regular, accurate and complete financial reports are supported by reliable information. This includes timeously approving adjusting journal entries, where required, and training staff members on the requirements of the applicable financial reporting framework.

The auditees that managed to address previous year’s qualification areas implemented the following best practices:

- Vacant chief financial officer and other key finance unit positions were filled by competent and experienced officials.
- Interim financial statements were prepared during the year (including disclosure notes) to ensure that systems were in place that could produce financial information throughout the year.
- Regular asset counts were performed during the year and reconciliations between the financial statements and asset registers were done on a monthly basis. Other registers like irregular expenditure and accrual registers were prepared and updated throughout the year.

If the remaining auditees can address the root causes of the findings by implementing the key controls and best practices as described, the quality of the financial statements will improve and all auditees can receive financially unqualified opinions.

## 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. Three of the total auditees reported on in this report (Invest North West, North West Housing Corporation and Directorate of Entrepreneurial Development of Natural Resources ) were not required to report on predetermined objectives as they closed down or were in the process of closing down during the year.

We audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports was 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 reports, we reported findings from the audits that were material enough to be brought to the attention of these users.

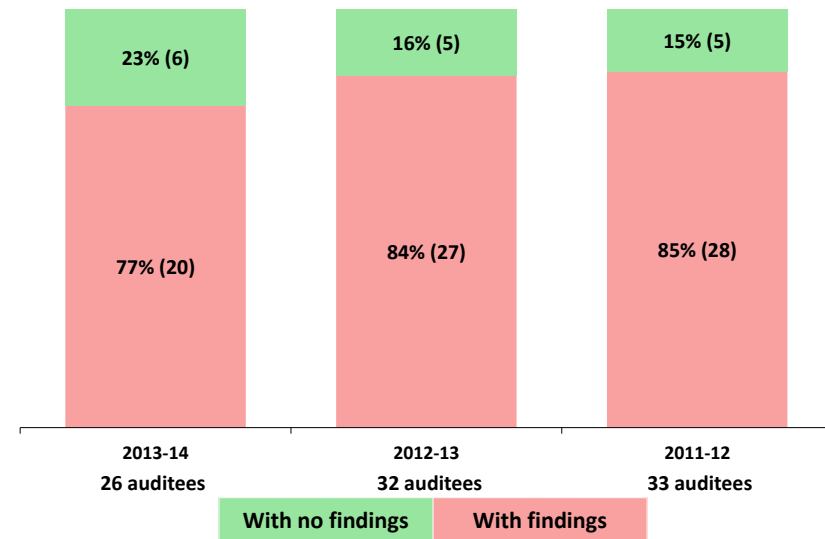
We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees’ planned objectives as defined in their strategic plans

and annual performance plans. We also assessed whether the performance indicators and targets that were set to measure achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

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

Figure 7 shows that there has been a net increase of only one auditee with no material findings on the quality of their annual performance reports compared to the previous year.

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



Five of the 13 departments (38%) had no material findings, which is an improvement from three (23%) in the previous year. The North West Gambling Board was the only public entity with no findings, compared to the two entities with no findings in the previous year. Three entities (North West Youth Development Trust, Signal Developments and Mafikeng Industrial Development Zone) did not report against predetermined objectives at all as they did not have approved strategic plans in place, while Madikwe River Lodge, Golden Leopard Resorts and Provincial Arts and Culture Council did not submit their annual performance reports timeously for auditing.

The three largest service delivery departments in the province (Health, Education and Public Works) had material findings on their reporting against predetermined objectives.

The departments of Economic Development and Human Settlements were the only auditees that maintained the status of having no findings on predetermined objectives.

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

While most auditees submitted their annual performance reports for auditing on time, figure 8 shows that only two auditees (8%) submitted annual performance reports that did not contain material misstatements. The auditees were the provincial treasury and North West Gambling Board, this is a regression compared to the previous year when five auditees submitted annual performance reports that did not contain material misstatements.

**Figure 8: Quality of submitted annual performance report**

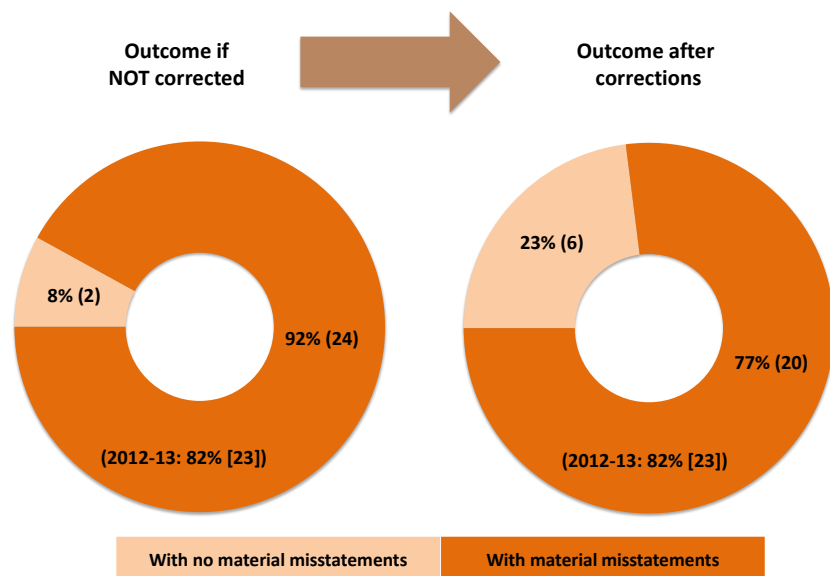


Figure 8 shows that four auditees (15%) did not have any material findings only because they corrected all the misstatements we had identified during the audit. This is a regression from the previous year when all five auditees without findings achieved this without requiring correction of material misstatements. This is mainly due to the lack of implemented controls at most entities to review reporting against predetermined objectives throughout the year and ensuring that the evidence to support the reported performed is appropriately checked and filed.

## Findings on usefulness and reliability of annual performance reports

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

Auditee	Programme/objective	Not useful	Not reliable
Agriculture	Programme 2: Agriculture		X
Education	Programme 2: Public ordinary schools		X
Health	Programme 2: District Health Services		X
	Programme 4: Provincial hospitals		X
	Programme 5: Central and tertiary hospitals		X
Local Government	Programme 2: Local governance	X	X
	Programme 3: Development and planning	X	X
	Programme 4: Traditional affairs	X	X
Office of the Premier	Programme 2: Institutional development	X	
	Programme 3: Policy and governance	X	
Public Safety	Programme 3: Transport regulation		X
Public Works	Programme 2: Public works infrastructure	X	X
	Programme 3: Transport infrastructure	X	X
	Programme 4: Transport operations	X	X
	Programme 5: Community-	X	X



Auditee	Programme/objective	Not useful	Not reliable
	based programmes		
Sport, Arts and Culture	Programme 2: Cultural affairs		X
	Programme 3: Libraries and archives		X
	Programme 4: Sport and recreation	X	X
Kgama Wildlife Operations	Objective 1: To maximize revenue	X	
Atteridgeville Bus Services	Strategic goal 1: To improve and expand the operational and technical capacity of the company to be self-sustaining	X	X
Golden Leopard Resorts (Pty) Ltd	Programme 2: Resorts and lodge operations		Not audited
Madikwe River Lodge	Programme 2: Lodge operations		Not audited
NWDC	Programme 3: SMME support	X	X
	Programme 4: Property management	X	
Provincial Aids Council	Programme 1: Administration	X	X
	Programme 2: Social mobilisation, coordination and partnership	X	X
PACC	Programme 1: Management	X	Not audited
	Programme 2: Performing arts	X	Not audited
	Programme 3: Film and visual arts	X	Not audited
North West Star	Strategic goal 1: To improve and expand the operational and technical capacity of the company to be self-sustaining	X	X

Auditee	Programme/objective	Not useful	Not reliable
North West Transport Investments (NTI)	Strategic goal 1: Develop six new sustainable ventures to extend the services of NTI	X	X
	Strategic goal 3: To ensure organisational excellence by adhering to good corporate governance and in the process improve systems, comply with legislation and build capacity	X	X

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

- Consistency: Reported information was not consistent with the planned objectives, indicators and targets.
- Measurability: Performance indicators were not verifiable and well defined and performance targets were not measurable, specific and time bound.
- Presentation: Reasons for variances between planned and actual performance were not explained.

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

- Auditees were unable to provide supporting documents to confirm the accuracy, validity and completeness of the reported achievements.
- The reported achievements for the majority of reported targets or for significantly important targets differed materially from the supporting documents.
- No supporting documents for explanations of material variances between planned and actual performance or material differences between supporting documents and explanations of material variances reported.

The auditees need to address the above-mentioned findings, specifically on the programmes/objectives listed in the table, to ensure that the quality of the reported information in their performance reports improves and information is useful and reliable.

### **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). The following were the most common findings:

- Public entities not reporting against predetermined objectives at all.
- Accounting officers/authorities not ensuring that the auditee had and maintained an effective, efficient and transparent system of internal control regarding performance management.
- Accounting officers/authorities not ensuring that procedures were established for quarterly reporting to the executive authorities.
- Accounting authorities of public entities not submitting the strategic/corporate/annual performance plans to the executive authorities for approval.

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

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

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

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

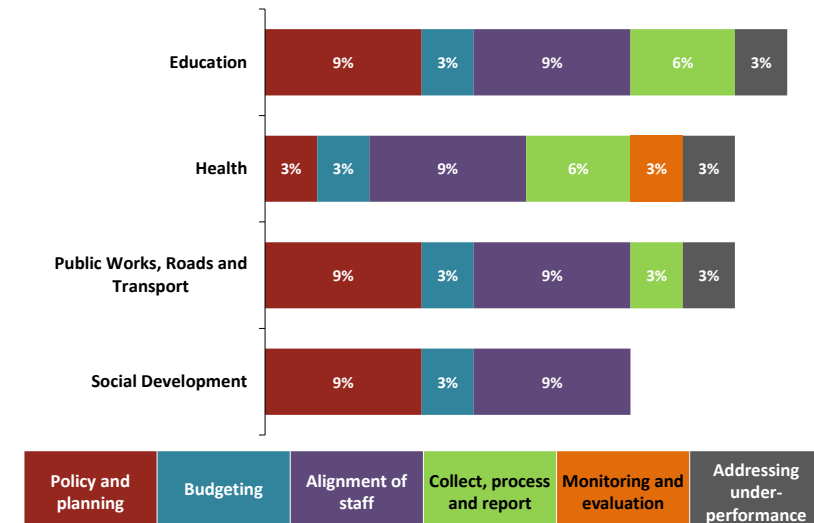
- **Oversight institutions**
  - Office of the Premier
  - Department of Finance
- **Departments**
  - Department of Education
  - Department of Health
  - Department of Public Works, Roads and Transport
  - Department of Social Development

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

The most common findings identified at the departments were the following:

- Some departments did not have approved and/or comprehensive policies and procedures for reporting on performance.
- Some performance indicators were not well defined, not verifiable or did not measure whether resources were used efficiently, effectively and economically to produce the desired outputs and outcomes.
- Performance targets did not always comply with the SMART criteria and/or were not realistic. Targets were not realistic as they were not selected based on accurate baseline information or research and evaluations.
- Insufficient skilled staff to manage and report on performance.
- Some departments did not hold their staff accountable for underperformance in reporting on performance and/or achieving performance targets.
- At some departments approved processes and system documentation for collecting, collating, verifying, storing and reporting on actual performance did not exist.
- Action plans were not always developed to ensure prompt corrective action where underperformance occurred and/or where performance reporting shortcomings were identified.

Figure 9: Distribution of performance audit findings



## 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 key controls that are in place at auditees such as the provincial treasury and North West Gambling Board:

- Develop and implement proper action plans to address all control deficiencies and internal and external audit findings. The action plans should be credible, with actions addressing root causes and set time frames and should assign responsibilities appropriately. These action plans should be monitored on a regular basis.
- Processing and reconciling controls are in place to ensure that quarterly reporting against predetermined objectives is accurate and complete and supported by reliable information. This includes training officials on the requirements of the National Treasury's *Framework for managing programme performance information* (FMPPI) and comparing reported information to the source documents on a quarterly basis.

The auditees that addressed previous year's findings or maintained their status of having no findings implemented the following best practices:

- Making sure that specific officials are appointed that are responsible for strategic planning and monitoring and evaluation of reported performance information.
- Submitting annual performance plans for interim review by internal and external audit to ensure that performance indicators and targets are well defined, measureable, specific, time bound and verifiable.
- Comparing quarterly performance reports to source documents and investigating and correcting any differences.

If the remaining auditees can address the root causes of the findings by implementing the key controls and best practices as described, the quality of the annual performance reports will improve and all auditees can produce reports that are useful and reliable.

## 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 the oversight bodies and the public.

### Status of, and findings on, compliance with key legislation

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

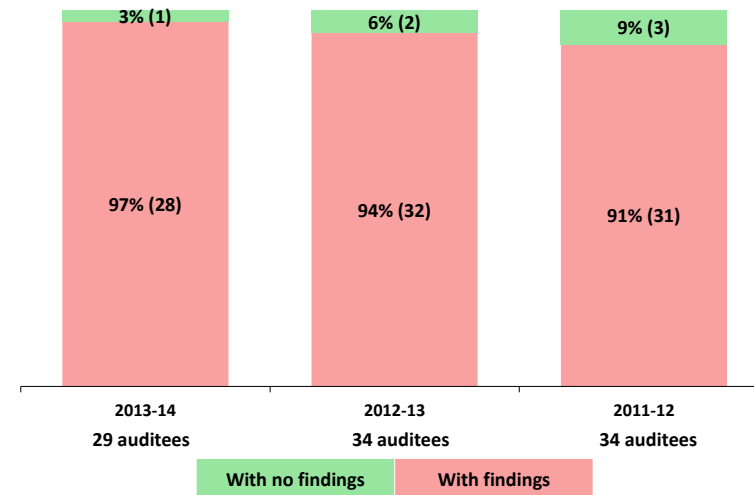


Figure 10 shows that there has been a net decrease in auditees with no material findings on their compliance with key legislation when compared to the previous year. The provincial treasury was the only auditee without material findings on compliance.

## 2.3.1 Supply chain management

As part of our audits of SCM, we tested 260 contracts (with an approximate value of R1,8 billion) and 1 429 quotations (with an approximate value of R143 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 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: Trends in findings on compliance with legislation

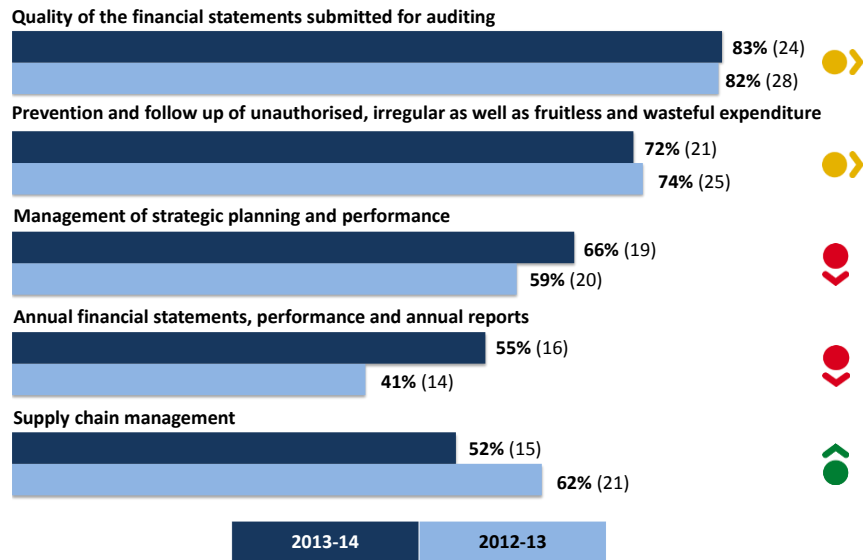


Figure 11 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. It is concerning to note that in most compliance focus areas there was no improvement in the number of auditees with findings compared to the previous years.

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

- There were material misstatements in the financial statements submitted for auditing, as mentioned in section 2.1.
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with (refer to section 2.3.2 for more detail).
- Findings on compliance with key legislation on strategic planning and performance management, as mentioned in section 2.2.
- Annual reports not being tabled in the provincial legislature or written explanations for failure to table the annual reports timeously not being provided to the secretary of the provincial legislature.
- SCM legislation was not complied with (refer to section 2.3.1 for more detail).

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.

Figure 12: Status of supply chain management

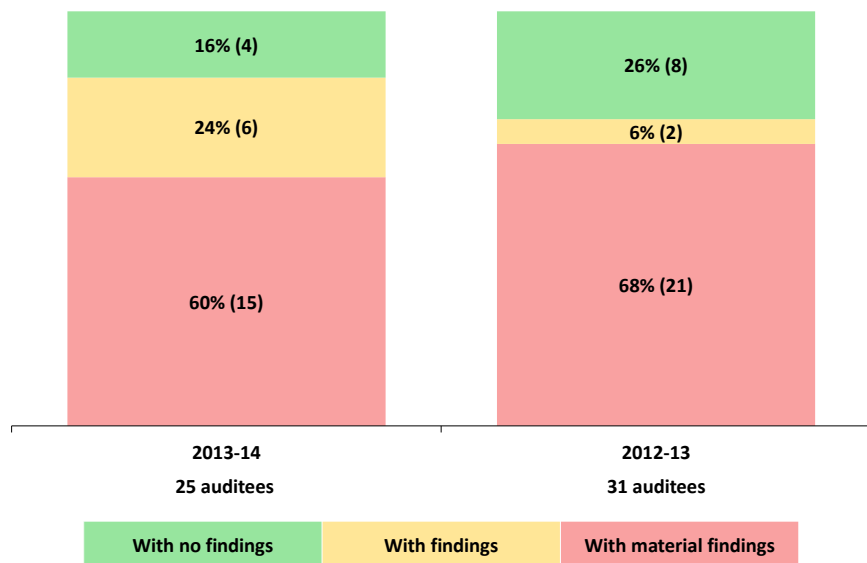


Figure 12 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous years. It shows that there has been an increase in the number of auditees with findings compared to the previous year. No audit was performed at four entities as these entities had no procurement during the financial year. All departments had findings on SCM, however, at four departments the findings were not material enough to be included in the audit report. Four public entities (Invest North West, North West Gambling Board, North West Transport Investments and Atteridgeville Bus Services) had no findings on SCM.

Figure 13: Findings on supply chain management

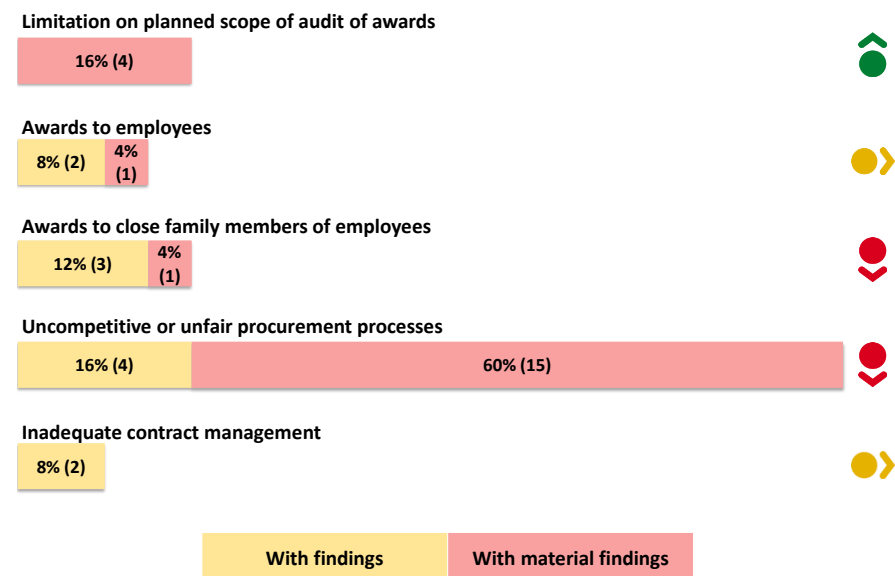


Figure 13 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year we again experienced limitations in auditing SCM. We could not audit awards with a value of R506 million at four auditees (2013: R1 846 million at eight auditees), as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. 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 the lack of adequate record management systems at these auditees to ensure that the tender documentation is appropriately filed. Auditees could also withhold documents intentionally to hide possible fraud or other irregularities.
- There were 12 instances of awards with an overall value of R1,2 million to suppliers in which employees of the auditees had a financial interest. In all of these instances, the employee did not declare the interest, while the supplier did not declare the interest in 50% of the cases. The persons involved included other officials not part of the procurement process.
- There were 38 instances of awards with an overall value of R19,6 million to suppliers in which close family members of employees of the auditees had an interest. In 95% of these instances, the employee did not declare the interest. In 71% of these instances the supplier did not submit a declaration of interest,

while in one instance the supplier submitted a false declaration. The persons involved were other officials not involved in the procurement process

- The following were the most common findings on uncompetitive and unfair procurement processes:
  - Not obtaining three written quotations with no approved deviation or with an approved deviation that was not reasonable/justified (52%).
  - Competitive bids not invited without an approved deviation or with an approved deviation that was not reasonable/justified (36%).
  - Preference point systems as required by the Preferential Procurement Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) not applied (36%).
- The following were most common findings on contract management:
  - Inadequate contract performance measures and monitoring in place (4%).
  - Contracts amended or extended without approval by a delegated official (4%).

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

- No or inadequate actions taken to address SCM risks identified.
- Allegations not investigated within a reasonable time and no action taken against transgressors.
- Employees with interest in entities which are not auditee suppliers/additional remunerative work no approved.
- No or inadequate record keeping.

Due to inadequate action taken against officials who transgressed SCM requirements in the past, the trend of non-compliance continues from previous years. Only when all allegations are appropriately investigated and when appropriate action is taken against those responsible will there be an improvement, especially relating to uncompetitive and unfair procurement processes.

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

### Unauthorised expenditure

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

Figure 14: Trend in unauthorised expenditure

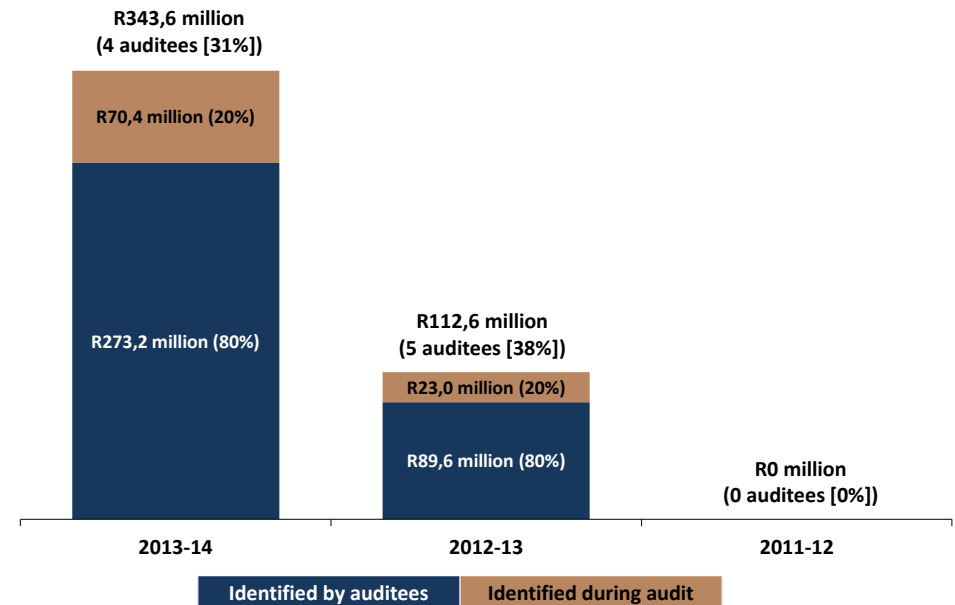


Figure 14 indicates that there was a significant increase in the amount of unauthorised expenditure, although fewer auditees were involved. The highest amount of unauthorised expenditure was at the Department of Education at R255,9 million. Similar to the previous year, 80% of the unauthorised expenditure was identified by auditees and only 20% was identified during the audit.

Of the R343,6 million of unauthorised expenditure incurred in 2013-14, all (100%) was as a result of overspending the approved budget. Of the amount incurred by

Education, the majority was as a result of a prepayment of R145 million in the previous year that was expensed in the current year. The department should ensure that it correctly budgets for prepayments. The remaining unauthorised expenditure was as a result of the departments not adequately monitoring spending in terms of the budget throughout the year, as required. This was also due to the slow response by the political leadership to deal with previous year's unauthorised expenditure as well as not taking action against those departments that continuously overspend their budgets.

### Irregular expenditure

Irregular expenditure is expenditure that was incurred that was not in accordance with the prescribed 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, disclose the amounts in the financial statements. Irregular expenditure is required to be reported when it is identified – even if such expenditure was from a previous financial year.

**Figure 15: Auditees incurring irregular expenditure**

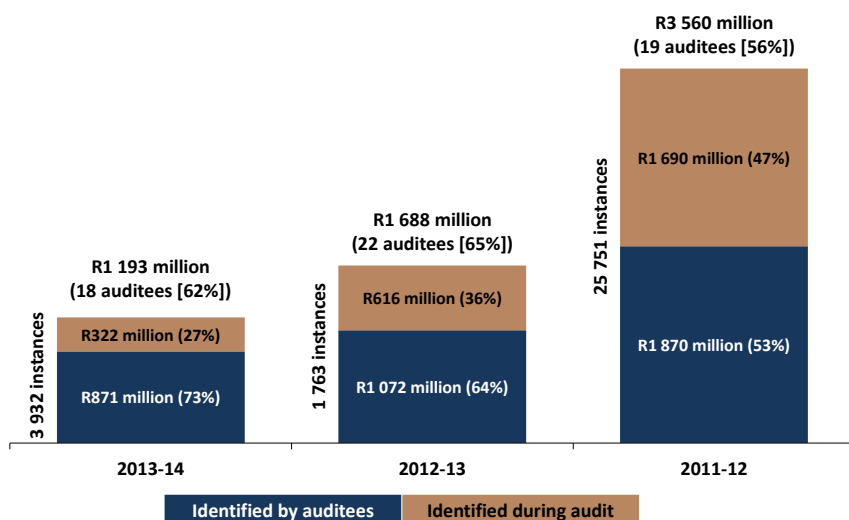


Figure 15 indicates that there has been a decrease in the amount of irregular expenditure incurred, which includes irregular expenditure disclosed in the financial statements as well as that which was identified during the audit. This should however be considered taking into account the limitation on the auditing of awards as explained in 2.3.1 above.

The departments of Health and Public Works incurred the highest amounts of irregular expenditure of R725 million and R161,1 million, respectively. There was an increase in the number of instances making up the total irregular expenditure from 1 762 instances to 3 932 instances in 2013-14. The auditees' ability to identify and disclose the irregular expenditure improved, with 73% of irregular expenditure identified by auditees. Twenty-seven per cent, which still represented the significant amount of R322 million, was only identified during the audit.

**Figure 16: Previous year irregular expenditure identified in the current year**

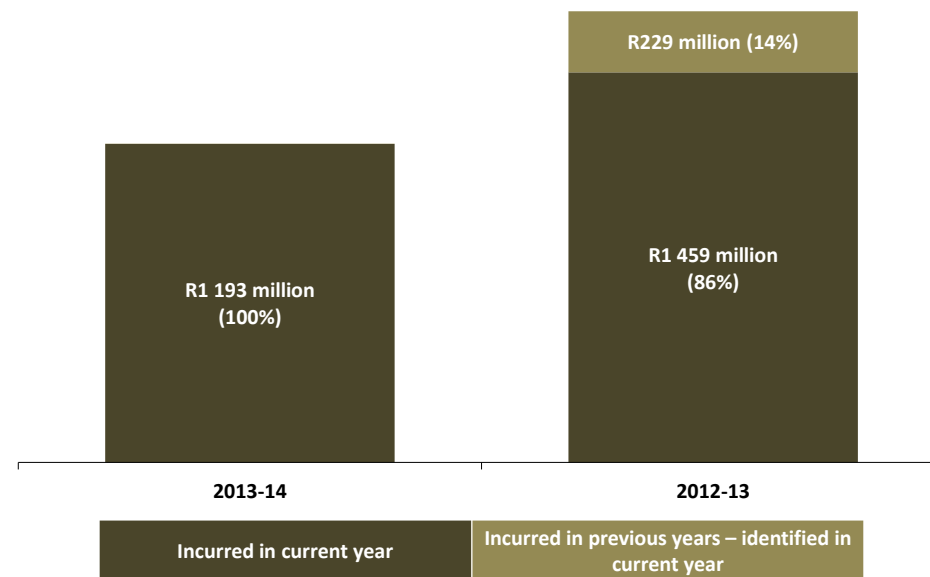


Figure 16 shows that all of the irregular expenditure identified in the current year related to irregular expenditure incurred in the current year. In the 2012-13 financial year, 14% of the irregular expenditure identified related to irregular expenditure incurred in the previous years.

Of the R1 193 million of irregular expenditure incurred in 2013-14, most (96%) 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:

- Procurement where no competitive bidding or quotation process was followed – R222,9 million (19%).
- A specific requirement in the procurement process not adhered to – R905,7 million (79%).
- Non-compliance with legislation on contract management – R20 million (2%).

The majority of the rest of the irregular expenditure was related to compensation of employees, including overspending on employee cost and payment of overtime without prior approval.

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

At 31 March 2013 the balance of irregular expenditure in the province that required action to be taken was R7 080 million. It is of concern that during 2013-14 only R528,6 million was dealt with as required by legislation, leaving a balance of R8 801 million at the end of the 2013-14 financial year.

Our audits also identified that at 15 auditees (52%) investigation of the irregular expenditure in the previous year, to determine if any person was liable for the expenditure, had not even been initiated by the accounting officer or oversight body. At almost all other auditees the investigations had been initiated but not yet completed at year-end. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any losses were suffered that should be recovered from responsible officials.

We did not perform any investigations into the irregular expenditure as this 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 R1 192 million (99%) of the irregular expenditure despite the correct processes governing procurement not being followed, although not necessarily in the most economical way. We could not determine whether goods and services were received for only R1 million (1%) of irregular expenditure due to a lack of supporting documents and resulting disclaimer of opinion at the North West Provincial Arts and Culture Council. No specific instances were identified where goods and services were not received.

It is clear that irregular expenditure is a matter of serious concern for the province. The correct process to investigate irregular expenditure and taking appropriate actions against transgressions should be followed as a matter of urgency.

## 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 17: Trend in fruitless and wasteful expenditure

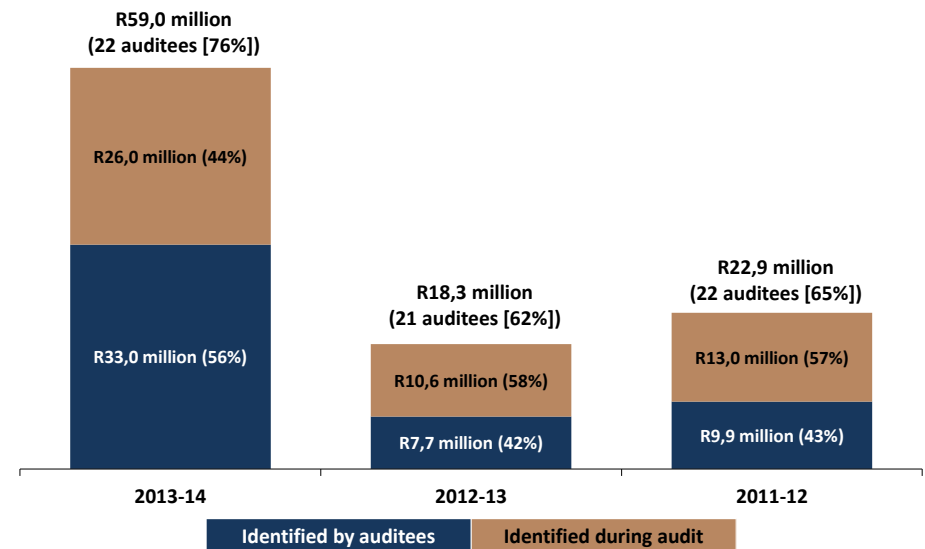


Figure 17 shows an increase in fruitless and wasteful expenditure compared to the previous years. Most (56%) of the fruitless and wasteful expenditure was identified by the auditees and disclosed in the financial statements that were submitted for auditing. The Office of the Premier incurred the highest amount of R22,8 million, followed by the Directorate of Entrepreneurial Development in Natural Resources with R14,8 million and the Department of Health with R8,8 million. Almost all of these amounts were for litigation and claims against the departments and entities and this represents 78% of the fruitless and wasteful expenditure in the province.



The nature of the majority of the remaining fruitless and wasteful expenditure incurred was as follows:

- Payment of salaries to suspended employees of R7,2 million (12%) at three auditees.
- Interest paid to suppliers and the South African Revenue Service (SARS) for late payments of R4,7 million (8%) by 20 auditees.

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.

Like with irregular expenditure, our audits identified that most auditees did not investigate the fruitless and wasteful expenditure of the previous year to determine if any person was liable for the expenditure.

Accounting officers/authorities should make sure that they implement controls as far as possible to prevent fruitless and wasteful expenditure from being incurred.

### 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 that are in place at auditees like the provincial treasury:

- Review and monitor compliance with applicable laws and regulations on a regular basis by ensuring that the officials understand the requirements of legislation and by developing checklists to monitor compliance.
- Taking appropriate action against officials who continue to disregard policies and legislation. This specifically includes initiating investigations for unauthorised, irregular as well as fruitless and wasteful expenditure and taking disciplinary actions where required.

The auditees that managed to reduce the number of compliance findings or that did not incur any unauthorised, irregular as well as fruitless and wasteful expenditure implemented the following best practices:

- Development of compliance checklists, for example on SCM, which should be signed off by a senior official before a procurement process is initiated.
- Investigation of all previous year irregular expenditure, including revisiting the population to identify other similar transgressions.
- Conducting forensic investigations where required and taking appropriate actions against those found to be responsible, including disciplinary action and recovery of amounts where persons are found liable in law.

If auditees can implement the key controls and best practices as described and take appropriate action against officials that transgress, they will improve. Addressing compliance findings is the final step that most auditees will have to take to obtain clean administration.

## 3. Financial health

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

This assessment was not performed at two public entities which were in the process of closing down during the year.

Figure 18: Status of financial health

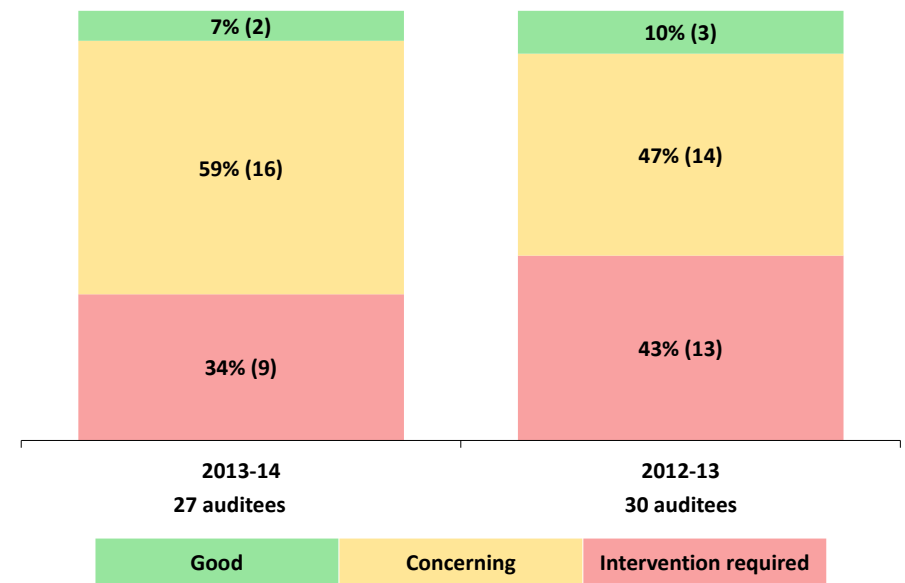


Figure 18 indicates the number of auditees that had more than two of the financial risk indicators (shown as ‘concerning’) and auditees with material going concern uncertainties or disclaimed audit opinions, which resulted in their financial statements not being reliable enough to analyse (shown as ‘intervention required’).

There was an increase in the number of auditees that had financial risk indicators when compared to the previous year.

Figure 19: Areas of financial health concerns – departments

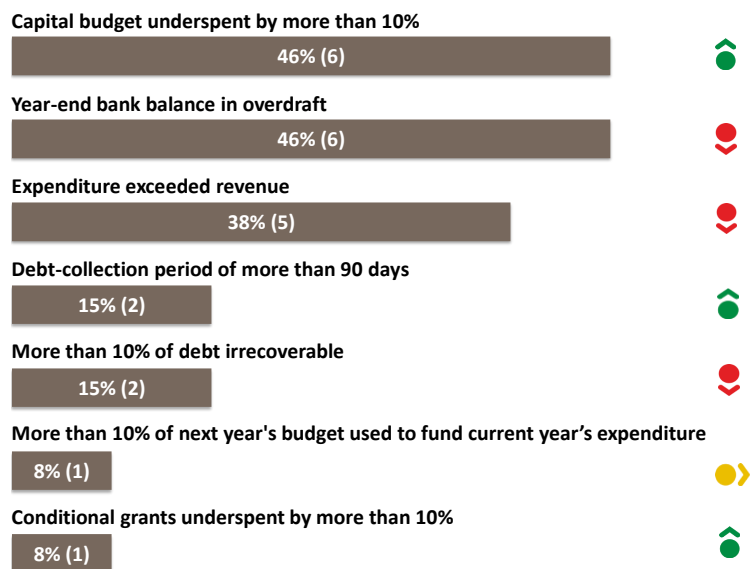
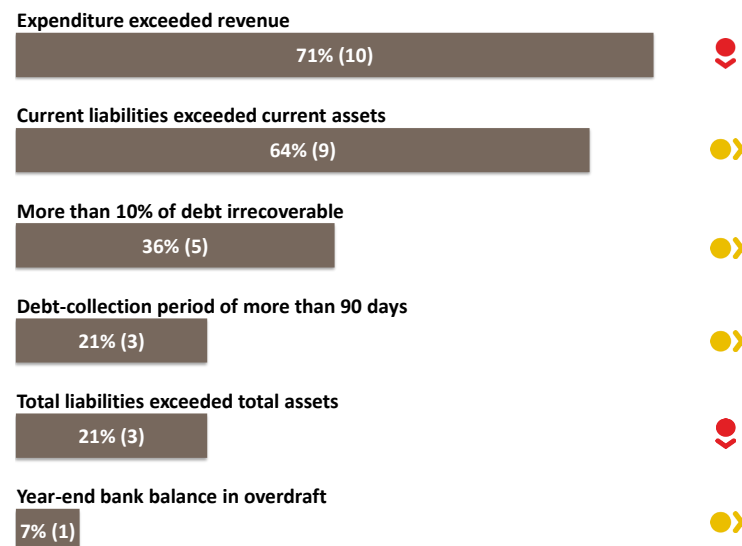


Figure 20: Areas of financial health concerns – public entities



Figures 19 and 20 show the number of auditees with the 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 in accordance with the *Modified cash standards* prescribed by the National Treasury. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. As part of the financial health analyses, we reconstructed the financial statements to determine whether these departments would still have had surpluses for the year had all of the expenses they incurred during the year been included in their financial statements. We also assessed the impact of the unpaid expenses at year-end on the following year's budget.

We identified that at five departments (38%) the accrual-adjusted expenditure exceeded the total revenue. The year-end bank balances of six departments (46%) were in overdraft. Both of these indicators regressed compared to the previous year. In one instance more than 10% of the following year's budget would be required to fund expenditure already incurred in the current year.

Most of this was as a result of the overspending of the budgets by the departments in the current and previous years and poor budgetary controls. All of these indicators reflect the pressure on the departments in the upcoming year to have

finances available to fund their operations if unauthorised expenditure is not approved with funding.

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

Six departments (46%) underspent their capital budgets by more than 10%, while the Department of Sport, Arts and Culture also materially underspent its conditional grants received. This was an improvement compared to previous years. As the capital and conditional grant budgets of departments are usually directly related to service delivery, this could be an indicator of not achieving the planned objectives. The reason for the underspending was mainly the lack of systems in place to track capital projects.

On a positive note, none of the underspending occurred at the departments of Health, Education and Public Works. The capital budgets of these three departments amount to 93% of the provincial departmental capital budgets. The capital spending at these departments exceeded 99% of the budgets.

### *Debt management*

Debt management continues to be a concern at some departments and entities. We identified a debt-collection period of more than 90 days at two departments and three entities, while more than 10% of debt was irrecoverable at two departments and five entities. At the Department of Health more than 89% of debts were deemed to be irrecoverable. The lack of appropriate debt management, especially at departments and entities where main operations include managing significant debts (like the outstanding patient fees of the Department of Health), places additional risk on the financial health of these auditees.

### *Financial health risks at public entities*

Public entities are highly exposed to financial health risks because of the limited funding source and not always being able to generate own revenue. At 10 entities (71%), the total expenditure incurred during the year exceeded the total revenue, resulting in a deficit for the year. There has been no improvement in this regard, resulting in some entities with accumulated deficits for two or more consecutive years.

At nine entities (64%), the current liabilities exceeded the total current assets. This indicates the possibility that the entities might not be able to settle their short-term liabilities. At three entities (21%), the total liabilities exceeded the total assets, indicating that these entities were insolvent. If taking into account the cases where a complete analysis of the financial health concerns could not be confirmed because of the disclaimed audit opinions and a further six entities that were not analysed at all in this report due to the late or non-submission of financial

statements, it is clear that financial health risk at public entities is a big concern in the province.

The provincial leadership is urged to implement the commitment made in the previous year to reconsider whether it is necessary to have all the public entities in the province and if the purpose would not be better served if some of these entities were consolidated or closed down. This is due to redundant services undertaken by multiple entities in similar portfolios and non-alignment of their mandates as well as lack of effectiveness of the boards appointed at these entities.

The premier's office, together with the relevant MECs, is already revisiting the public entities to determine their relevance in the public sector environment and looking at refining and aligning their mandates with the current requirements of the province. The plans to reconfigure the mandates of the provincial departments have already been announced and are expected to impact on next year's audits.

## 4. Internal controls and root causes

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

Figure 2 shows the status of the different areas of internal control and the overall movement since the previous year. There was an improvement in the key controls relating to the governance, however, the key controls relating to leadership and financial and performance management remain largely unchanged from previous years. Overall, close to 50% of key controls still required serious intervention.

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 requiring the most attention**

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	10	9	10	8	10	11	7	10	12
Human resource controls	11	6	12	7	9	13	9	7	13
ICT governance and controls	9	28	21	11	20	27	13	20	25
Audit action plans	5	13	11	3	13	13	3	13	13
Proper record keeping	7	11	11	5	8	16	9	10	10
Daily and monthly controls	5	14	10	4	12	13	7	10	12
Review and monitor compliance	5	11	13	4	10	15	2	11	16

Good	Concerning	Intervention required
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Figure 21 reflects the status of the key controls requiring the most attention under each audit area. The information and communication technology (ICT) governance and controls reflect the status of both the information technology (IT) governance control (under leadership) and the IT system controls (under financial and performance management). The instability in political leadership and ineffective administrative leadership continues to negatively affect the audit outcomes of some

auditees. The leadership did not always adequately address the matters that prevented auditees from progressing towards clean audits. Once the audits have been finalised, management should develop appropriate action plans to address external and internal audit findings and the root causes of poor audit outcomes. These action plans should be updated and monitored to avoid similar findings in the future.

Proper record keeping is an essential step towards achieving clean audits in the province as it ensures that the information reported can be substantiated and verified. It also empowers management to hold staff accountable for their actions. Lack of appropriate record keeping continues to result in limitations on our audits and the repeat disclaimed opinions at some entities. Auditees that improved or sustained their positive audit outcomes were effectively monitoring daily and monthly processing controls and reconciling transactions. Monthly reconciliations and in-year financial reporting provide the platform for early detection of errors and omissions in financial and performance reporting.

Management should conduct regular monitoring to ensure appropriate controls are in place for consistent compliance with all applicable laws and regulations and that common areas of non-compliance are specifically reviewed. Appropriate actions should be taken against officials that continue to transgress and not perform their duties according to expected levels.

Sections 4.1 and 4.2 provide further information on the status of the HR controls and the ICT governance and controls. The effectiveness of internal control is significantly impacted on by root causes. Section 4.3 describes the most common root causes that should be addressed.

### 4.1 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.

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 resources management

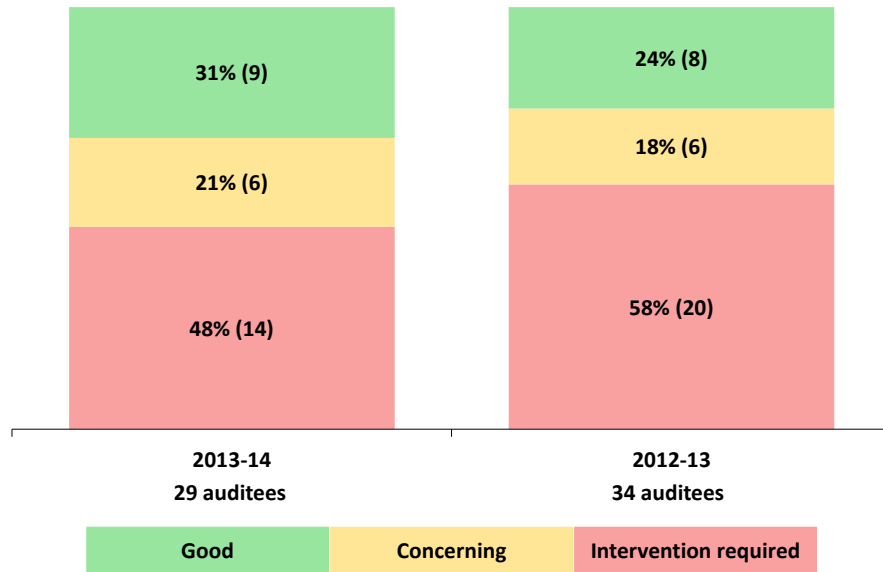


Figure 22 shows that there has been some improvement in the status of HR management when compared to the previous year.

### Management of vacancies and acting positions

Figure 23: Vacancies in key positions

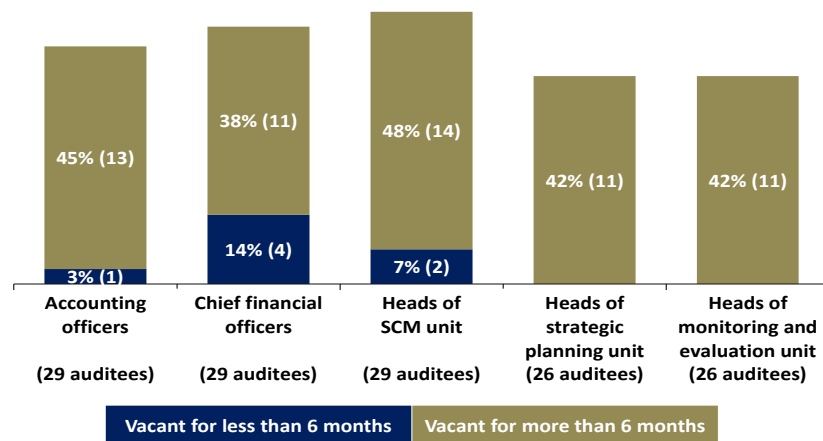


Figure 24: Stability in key positions (average number of months in position)

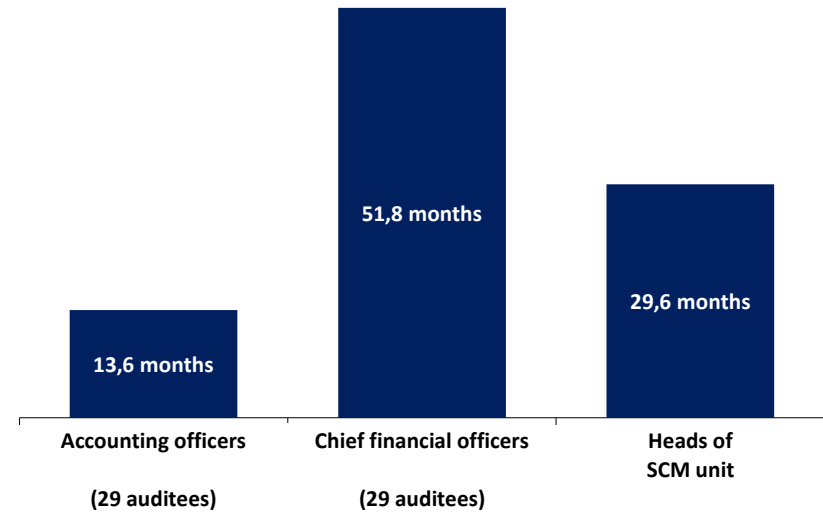


Figure 23 shows the number of auditees where the positions of the accounting officer (head of department or chief executive officer), chief financial officer as well as heads of the SCM and strategic planning or monitoring and evaluation units were vacant at year-end. This figure also indicates the period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

Overall, the vacancy rate of key positions remained high, while in most cases the positions had been vacant for more than six months and in most cases for more than one year. While officials fill these positions in acting capacities, it is important that the positions are filled permanently by competent and experienced people. When there is stability in senior management, the likelihood of implementing sustainable best practices and key controls to address findings increases. This ultimately strengthens the assurance on the relevance and reliability of information produced by auditees.

The most common findings on the management of vacancies and acting positions were the vacancies in other senior management positions, prolonged acting periods in such positions and the increase in overall vacancy rate compared to previous years.

## 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.

At four departments, senior managers did not all have signed performance agreements or contracts had not been signed early enough. In addition, two heads of department and five chief financial officers did not have performance agreements. We identified one instance where a performance bonus had been paid to a head of department without a performance evaluation having been performed.

## Competencies of key officials/consequences for transgressions

Officials appointed in key positions as well as other officials at the finance units should have the appropriate competencies and experience to perform their duties. While most key officials had the minimum competencies required, they sometimes lacked the specific knowledge and experience to perform at the right level. Some did not understand the specific requirements of the applicable financial reporting framework or the FMPPI. The lack of competencies was most evident at public entities with more complicated requirements prescribed by the financial reporting framework. Lack of capacity at finance units to support the appointed chief financial officers also remained a concern.

In order to improve the performance and productivity of officials, 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. As discussed above, most of the permanently appointed key officials had performance agreements in place. However, many of these positions were only filled in an acting capacity and those officials did not have performance agreements for the positions in which they acted. As a result, their performance in these positions could not be managed and they were not held accountable for poor performance. As the example was not set by the leadership at the auditees, there were also no consequences for poor performance or transgressions by other staff. Over the years this resulted in a culture of non-compliance with SCM requirements and other legislation.

When an official negligently or deliberately fails to comply with the basic policies and procedures or legislation applicable to the auditee, the necessary disciplinary steps should be taken against the official.

## Other common human resource findings

The other most common HR findings were the following:

- A proper verification process for new appointments did not always take place or did not cover all requirements.
- Appointments were made in posts that had not been advertised or approved.
- Approved or updated organisational structures and HR plans were not always in place.
- Employee received paid overtime in excess of the maximum hours or the overtime work was not approved in advance.

## Effective use of consultants by departments

Provincial departments spent an estimated total of R837,9 million on consultancy services in 2013-14 to supplement their human resources. Consultancy services are services of an intellectual or advisory nature. The amount was spent on the following areas:

- Financial reporting – R13,5 million
- IT-related service – R9,7 million
- Other consultant cost – R814,7 million

The most common reasons for departments to appoint consultants were both the lack of skills and vacancies. Only three departments and three public entities used consultants to assist with the preparation of financial statements during the 2013-14 financial year.

Our audits included an assessment of the management of the consultants at 13 of the departments. The key findings were as follows:

- Transfer of skills was not always monitored as the requirements for the transfer of skills were not included in the contracts or terms of reference of these appointments.
- Adequate measures were not always in place to monitor delivery on the consultancy projects or the performance and delivery goals were not defined in the agreements.

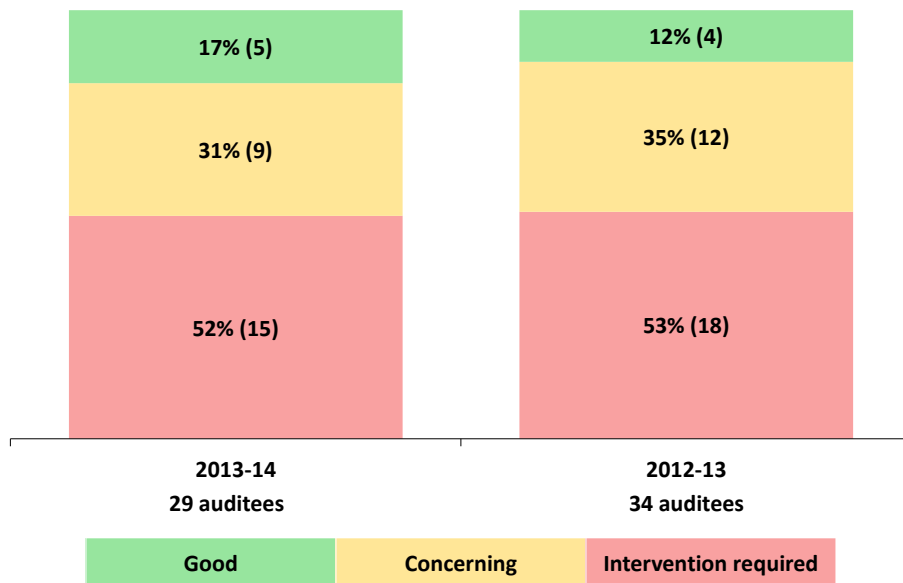
We did not identify any specific issues in the procurement process followed for the appointment of these consultants.

## 4.2 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 **IT 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 departments and public entities are therefore required to adopt and implement the IT governance framework and guidelines developed by the Department of Public Service and Administration 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 Department of Public Service and Administration 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. In the 2014-15 financial year the implementation of phase 2 should be prioritised.

**Figure 25: Status of information technology**



Our audit included an assessment of the specific IT controls that focus on security management, user account management and IT service continuity. Figure 25 shows little progress made by auditees to address IT findings compared to previous years.

Although some progress was made in 2013-14 in addressing material findings, risks remained in all of the focus areas, despite the corrective measures instituted. Improvements can be attributed to effective oversight by management, the assistance of the government information technology officer (GITO) forum and the involvement of internal audit.

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

- An IT governance framework had not been designed to serve as a basis for defining IT processes, managing IT process risks and mapping the processes against defined standards and policies.
- An updated and approved IT strategy was not in place to structure the use of technology at the legislature as part of the overall business strategy.

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

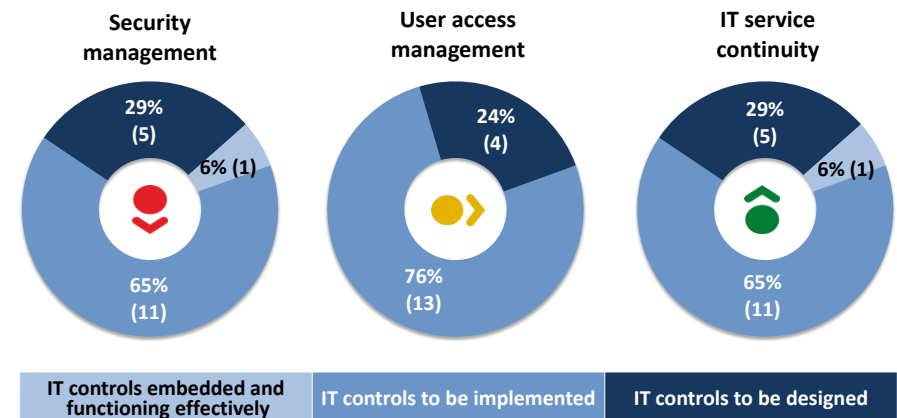


Figure 26 indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls were not in place (i.e. not designed), not implemented or functioning effectively.

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**

Firewall security was ineffectively managed, network infrastructure was ageing and outdated, external service providers had unrestricted access to privileged user accounts and critical software patches and security updates had not been applied to the network environment. The Office of the Premier, as the central provider of IT services, had not established formal policies and procedures to manage the deployment of antivirus software. As a result, most departments and entities had problems that could be attributed to vulnerabilities related to antivirus deployment.

- **User access management**

The access of users with privileged security access rights was not periodically reviewed to determine whether they still needed the levels of access granted to them. As a result, multiple inactive user IDs and unused user accounts remained on the financial systems. Some departments had not implemented controls within their applications to prevent staff from performing functions that fall outside their level of authority.

There was a high incidence of interface errors on the Basic Accounting System (BAS) and the e2Walker application due to the capturing of inaccurate data. This could be attributed to the lack of a proper policy for managing one-time vendors. Data input controls on the e2Walker application were not properly reviewed to prevent erroneous data from being entered. Most of the errors were due to the use of one-time vendors, who were not vetted or captured in the supplier database. In 2013-14, expenses amounting to more than R538 million were processed for one-time suppliers. The controls were not sufficient to prevent regular payments from being made under the facility of 'one-time vendor'. This facility was consequently abused to pay ordinary vendors.

- **IT service continuity**

The Office of the Premier had not established sufficient facilities for restoring systems at a secondary site should the provincial data centre become unavailable. The IT disaster recovery arrangements were poorly defined in operating-level agreements between the Office of the Premier and the departments.

The Office of the Premier had not liaised with the departments to complete a business impact analysis or risk assessment to assist the sector departments

in developing disaster recovery plans. The disaster recovery plans and adequate backup mechanisms had consequently not been developed for the performance systems of sector departments, such as Social Development, Health and Human Settlements, to ensure that they could recover critical systems in the event of a disaster. In the case of departments, the data hosted on their transversal systems is available on BAS at the disaster recovery site of the State Information Technology Agency (SITA).

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.

## 4.3 Summary of root causes

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

As reported in section 2 (overall audit outcomes), 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.

### *Lack of consequences for poor performance and transgressions*

We identified the lack of consequences for poor performance and transgressions as a root cause at 83% of the auditees. We also identified this as a root cause last year (65%), but there has been a regression in this regard.

Auditees did not take appropriate action against under-performance and transgression of policies and legislation. Leaders and officials that deliberately or negligently ignore their duties and disobey legislation should be decisively dealt with through performance management and by enforcing the legislated consequences for transgressions. If they are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated.

In section 2.3 of this report we reported that we once again raised findings at many auditees on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure. There were also weaknesses in dealing with allegations of financial misconduct or investigations into unauthorised, irregular as well as fruitless and



wasteful expenditure. The low level of action in response to the high levels of non-compliance, poor audit outcomes, SCM transgressions and unauthorised, irregular as well as fruitless and wasteful expenditure clearly shows a lack of consequences for transgressions.

Refer to section 4.1 where more detail on this root cause is given as part of HR management.

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

- All members of senior management should have signed performance agreements and these should contain objectives and targets linked to the audit outcome. Performance evaluations should be done on a regular basis to address poor performance.
- All allegations of financial misconduct, transgressions of SCM and unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated. Once investigations are complete, disciplinary actions should be taken where transgressions were confirmed.
- The provincial leadership and the provincial public accounts committees (PPAC) should hold the leadership and key officials at the auditees responsible for continued poor audit outcomes. Actions should be taken against those that did not institute investigations and disciplinary action against officials at their auditees, where required.

### *Key positions vacant or key officials lacking appropriate competencies*

We identified key positions being vacant or key officials lacking appropriate competencies as a root cause at 55% of the auditees. We also identified this as a root cause last year (71%), which means that there has been an improvement in this regard.

Key positions at auditees should be filled by officials with appropriate competencies. Critical skills and capacity shortages are some of the key issues at the finance units. Preparation of credible and complete financial and performance reports requires officials to attend regular technical updates to keep abreast of any changes. Appropriate recruitment and skills development strategies must be developed and implemented to ensure that the required capacity is available within the auditee without requiring the use of consultants.

The main reason for this was the difficulty to attract appropriately skilled people to the province. The instability in political leadership also continued to impact the stability at these key positions. Refer to section 4.1 where more detail on this root cause is discussed as part of HR management.

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

- All vacant positions of accounting officer and chief financial officer as well as other senior management vacancies should be filled by officials with the necessary competencies and experience as a matter of urgency.
- The internal audit units should be established and capacitated at those public entities where no such units exist. Where required, the provincial internal audit unit should assist these public entities.
- Other vacant governance positions like in the board of directors at some public entities and in audit committees should be addressed with immediate effect, with the intervention of the provincial leadership.

### *Slow response by management to address the root causes of poor audit outcomes*

We identified slow response by management to address the root causes of poor audit outcomes as a root cause at 41% of the auditees. We also identified this as a root cause last year (38%), but there has been little improvement in this regard.

The key officials and senior management at the auditees should make sure that they understand the root causes of poor audit outcomes as well as internal control deficiencies and weaknesses that should be addressed. Only when they fully understand and commit themselves to implement recommendations made by internal and external audit will the audit outcomes improve. The continued instability at the level of key officials also impacted on management's ability to address the root causes at their auditees.

The status of the key controls is assessed on a quarterly basis and discussed with the accounting officers and key senior management officials. We specifically audit these risk areas annually. We report all our audit findings to them in a management report that includes the root causes of the findings and our recommendations. Our message has been consistent for a number of years, but management's slow response to this message is hindering improvements in audit outcomes.

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

- Management should make themselves available to meet with the AGSA on a regular basis to understand the root causes of poor audit outcomes, the recommendations made and the required actions to address these.
- The executive authorities (MECs) should be actively involved in the monitoring of the implementation of actions plans and commitments made by them to address the root causes of poor audit outcomes by management.
- The MECs should investigate the reasons for lack of response by management at public entities within their portfolios as well as poor performance by appointed boards to address root causes and reasons for late or non-submission of financial statements. This should specifically include those public entities with continued repeat disclaimer of opinions.

## 5. Impact of key role players

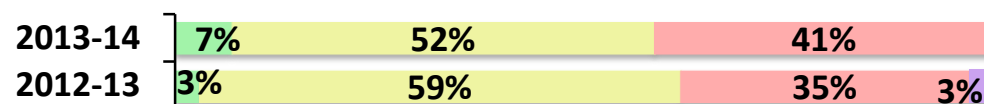
The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial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

Based on our assessment as shown in figure 2, all role players are not yet providing 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.

Provides assurance	Provides some assurance	Provides limited/ no assurance	Not established/ vacant
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### Senior management



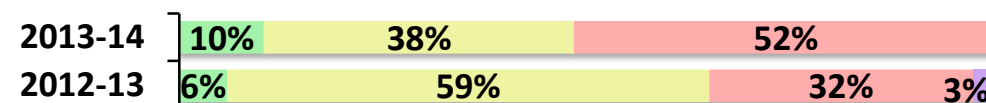
Senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, provides assurance by implementing basic financial and performance controls.

There has been little progress made in the assurance provided by senior management, a lot more improvement is needed to strengthen the first level of assurance. The implementation of basic financial and performance management controls is the responsibility of senior management. These controls include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable laws and regulations.
- Design and implement formal controls over IT systems.

As explained in section 4, the majority of these controls still caused concern or required intervention. The poor quality of the submitted financial statements and the quality of the performance reports confirm the need for improved assurance by senior management. The HR challenges highlighted in section 4.1, in terms of management of vacancies and competencies of key officials, should be addressed to improve the required level of assurance provided by senior management.

### Accounting officer or accounting authority

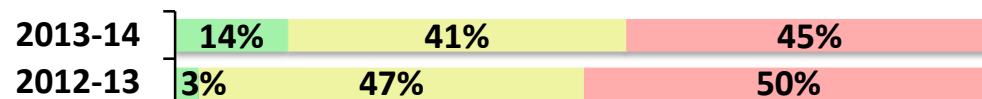


Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance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

- Provide effective and ethical leadership, and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

There has been little progress in the assurance provided by accounting officers or authorities as only 10% of the required level of assurance was provided.

## Member of the executive council

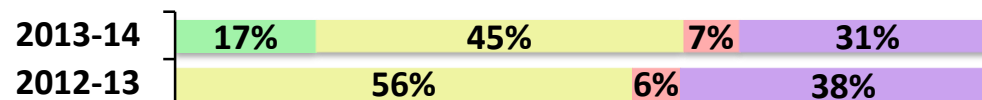


MECs have a monitoring and oversight role at both the departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved.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

There has been some progress in improving the assurance provided by the MECs. Certain MECs are actively involved in monitoring outcomes stemming from the audit process at their departments and entities. The continued political instability and rotation of MECs however adversely impacted on the assurance provided. The limited involvement of MECs at public entities in their portfolios remained a concern. Refer to section 6 for some more detail on the progress of initiatives and commitments made by the MECs.

This can be improved if the MECs continue to honour their promise to make themselves available to meet with the AGSA on a regular basis and they are actively involved and engaging with the management at their portfolios to address the root causes of poor audit outcomes.

## Internal audit unit

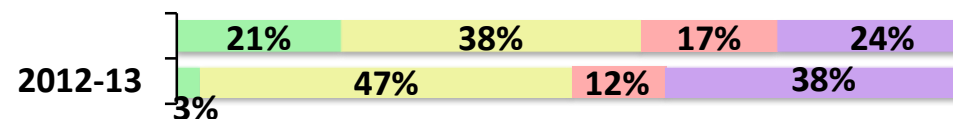


The internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

There has been marked improvement in the assurance provided by the internal audit units, especially at departments, compared to the previous year. The internal audit units were in place at all departments and these units were fully compliant with legislation. They contributed positively to the improved audit outcomes at some of the departments, unfortunately at eight departments (61%) some of the recommendations they had made to address weaknesses in key controls were not fully implemented by management.

However, nine (56%) of the 16 public entities reported on did not have internal audit units. Of the seven that had internal audit units, only two (13%) were fully compliant with legislation. This is a matter that should seriously be addressed as without operational internal audit units that can review the entities' internal controls relating to financial and performance reporting and compliance with legislation throughout the year and making recommendations to address weaknesses identified, these entities will continue to struggle to improve their audit outcomes.

## Audit committee



An audit committee is an independent body that advises the MEC, 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.

There was also an improvement in the assurance provided by the audit committees compared to the previous year. Audit committees were established for all departments and all, except one, were fully compliant with legislation. The audit committee at the legislature did not consist of at least six members, as required by section 52(2) (b) of the North West Provincial Legislature Management Act, 2007 (Act No. 3 of 2007). However, seven (44%) of the 16 public entities did not have audit committees. Of the nine audit committees that were in place, only four (25%) were fully compliant with legislation.

As audit committees play a critical role in the governance of auditees, these matters should be urgently addressed at these auditees to ensure that the audit committee can positively impact the auditee's progress to achieving a clean audit.

## Provincial treasury, the premier's office and the department of local government

The assurance provided by the provincial treasury, Office of the Premier and Department of Local Government remained unchanged from the previous year as indicated in figure 2. These coordinating departments play a significant role in providing support, coordinating and monitoring the implementation of government programmes and driving a consistent message around clean administration. They set an example for other departments and entities in the province by ensuring that best practices are shared between auditees. It is positive to note that the provincial treasury has set the example by being the first department to achieve a clean audit opinion. While the audit outcome of the Office of the Premier has also improved, the outcome of the Department of Local Government has regressed. The

Department of Local Government plays a bigger role in the assistance provided to municipalities in the province. The commitments made by the provincial leadership in the previous year were mostly not implemented. The new provincial leadership decided to replace the previous commitments made with the following new commitments made by the premier for the province as a whole:

- All forensic investigation reports commissioned by provincial government be made available to the Office of the Premier for monitoring and tabling in the legislature.
- Provincial government to implement a process to quantify and verify all debts in order to facilitate settlement of all accounts owed to municipalities by the next financial year.
- To revisit the mandates of the newly reconfigured departments and entities. Furthermore, the transferring departments and recipients will specify, through the premier's delegation, what aspects of the departments will move (asset/liabilities/unauthorised, irregular as well as fruitless and wasteful expenditure/people). This will be documented in a memorandum of understanding that will be submitted to the AGSA by 30 September 2014 for auditing purposes.
- Revisiting all performance agreements with senior management at departments and public entities to ensure that negative audit outcomes will be reflected in their performance assessments.
- To establish a clean administration forum by 30 September 2014 aimed at actioning drastic steps to improve future audit outcomes. The forum should at least consist of the MEC: Finance, director-general, chairperson of the PPAC, chairperson of the central audit committee and a representative from the AGSA.

The following new commitments were made by the speaker of the North West Provincial Legislature:

- The Legislative Review and Implementation of Resolutions of the House Standing Committee to submit a report on the status of the implementation of the 2013 adopted resolutions by 30 November 2014.
- The portfolio committees shall invite the audit committee and internal audit during the oversight process of the 2014 annual reports for a comprehensive briefing.

During our audit we also looked at specific areas which form part of the mandates of these coordinating institutions. The findings at provincial treasury relate to the lack of support given to municipalities. Although the treasury assisted municipalities and backlogs relating to late submission were cleared, the assistance provided has not yet translated to improved audit outcomes. In addition, there was a lack of monitoring of submission of reports by municipalities, as

required in terms of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

The role of the provincial Department of Local Government is that of coordination between provincial and local government and monitoring and oversight at the municipalities.

The main findings included the following:

- Coordinating role: The department lacked capacity for the oversight, monitoring and support functions it is supposed to provide. This was evident in that only 57% of the planned output and targets relating to oversight, monitoring and support were achieved by the department during the year.
- Monitoring and oversight: The department's action plan to address weakness at municipalities did not address all problem areas identified per municipality. The action plans developed by the municipalities to address AGSA findings were not assessed and also non-implementation thereof was not tracked by the department. Municipalities where maladministration, fraud, corruption or other serious malpractices occurred were not timeously identified and interventions not timeously reviewed and progress reported to the relevant authorities. In addition, no formal agreements had been entered into with municipalities to build the capacity for efficient, effective and transparent financial management.
- The municipal infrastructure grant (MIG) and municipal systems improvement grant (MSIG): The department did not appropriately monitor these allocations to municipalities to ensure that the allocations were only used for the purposes intended in the grant framework. The performance of the municipal project management units was not monitored and relevant sanctions for under-performance were not recommended to the national Department of Cooperative Governance and Traditional Affairs (CoGTA). In addition, the final sign off of registered project on the MIG-MIS was not done by the department.

The role of the Office of the Premier relates more to the specific governance, oversight and monitoring responsibilities of the departments. The main findings were as follows:

- Intergovernmental forum: The intergovernmental forum met once during the financial year and did not report to the president's coordinating council on the progress with the implementation of national policy and legislation within the province during the period under review.
- Anti-corruption hotline: The hotline cases were not reported to the user departments and the Department of Performance Monitoring and Evaluation adequately and the anti-corruption planned performance targets were not met.
- IT governance: A permanent government information technology officer was not appointed.

- HR planning: The organisational development, HR policy management and performance monitoring directorates responsible for monitoring the credibility of departmental HR plans, vacancies and performance information in the province had a vacancy rate of 67%, 50% and 44% respectively, as a result the effectiveness of the functions of the directorates was compromised. No evidence could be provided that provincial policies were in place to guide HR planning for the province.
- Monitoring and evaluation of provincial performance information: Policies and procedures for the monitoring and evaluation of performance information of provincial departments were not in place. In addition, the Office of the Premier did not monitor the quality of provincial performance information. There was also no provincial capacity building strategy in place and assistance was not provided to provincial departments that under-performed or had performance reporting shortcomings.

These coordinating institutions (specifically the provincial treasury) should continue to improve the assistance and guidance they provide to departments and public entities to address previous year audit findings, implement action plans and address internal control deficiencies.

### *Portfolio committees and public accounts committees*

We had limited interactions with the provincial portfolio committees and our observation was that the oversight engagement had limited impact on audit outcomes. We did not obtain any specific commitments from the portfolio committees. We will seek more regular interactions, at which we will add value to the oversight process by sharing the key controls dashboards of departments and public entities, highlighting weakness in internal controls and review of annual reports, as well as progress with the implementation of our recommendations.

The independent oversight provided some or limited assurance, which remained mainly unchanged from previous years. The PPAC should continue with the public hearings, specifically on outstanding financial statements, and should focus on the actions taken by management to address the previous year's poor audit outcomes as well as consequence management and actions taken against transgressors.

Of the 159 resolutions in place from the previous year only 40 (25%) were fully implemented, the remaining resolutions were still in progress or had not yet been implemented.

## 6. Initiatives and commitments of key role players

We shared our key message on the actions needed to improve audit outcomes with the 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. We did experience difficulties in arranging these meetings in certain instances as meetings were rescheduled or cancelled at the last minute. In most cases these engagements with the MECs were well received, but in some instances these interactions have not yet had a significant impact on the audit outcomes.

Throughout the year, we monitor the commitments and initiatives of MECs, the premier, the PPAC 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.

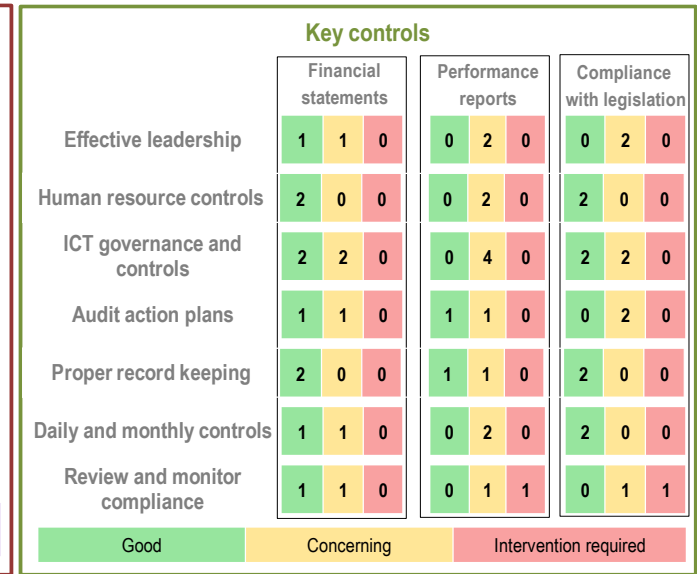
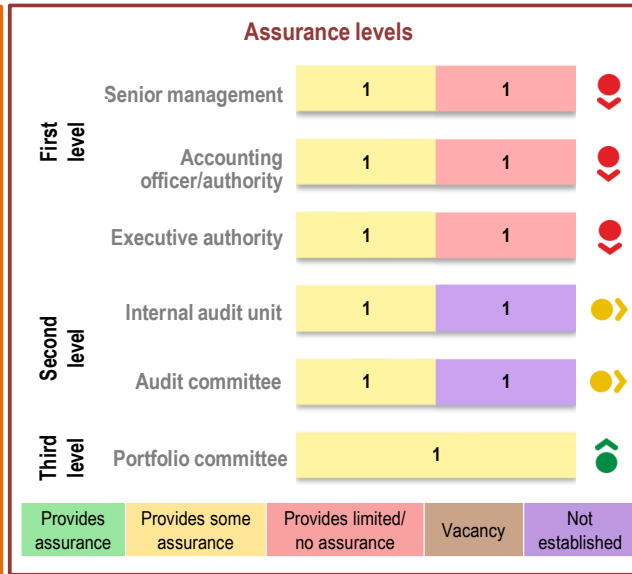
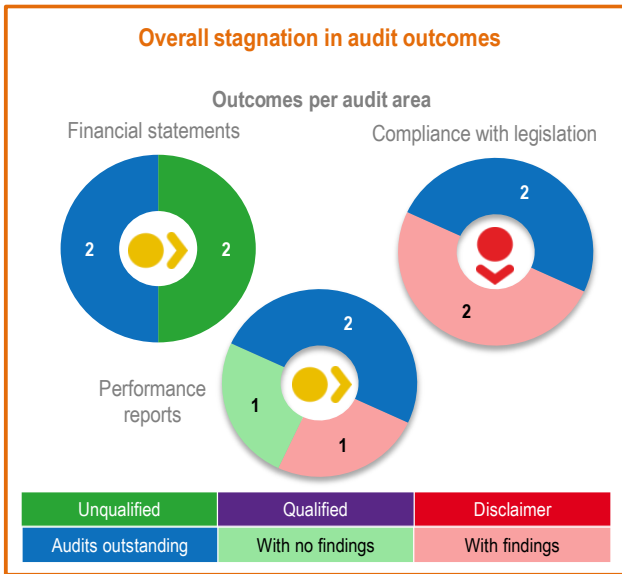
Overall, the key role players had limited impact on improving the audit outcomes in the province. They were willing to make commitments to address the root causes of audit outcomes but most of the previous year's commitments made were still in progress.

The key role players should continue with their initiatives to improve audit outcomes and should make every possible effort to ensure that the commitments made by them are regularly followed up and implemented. Only with the assistance of these key role players, as well as committed senior management at each auditee, will there be a major improvement in future audit outcomes.



# AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

# MEC for Agriculture and Rural Development

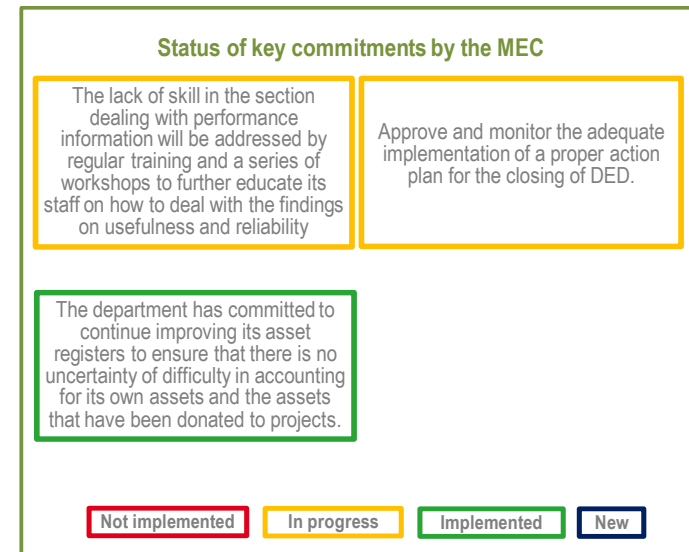
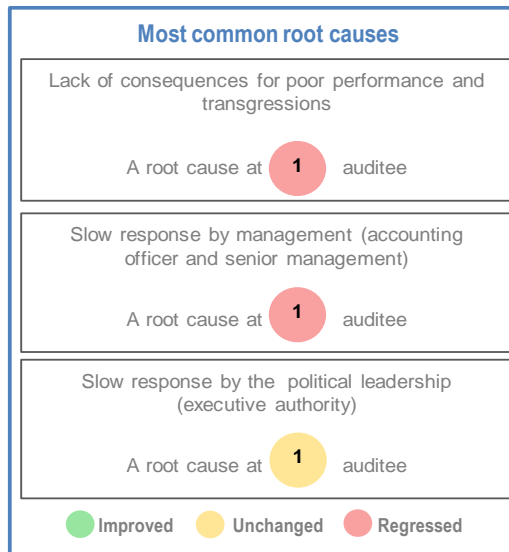


46

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

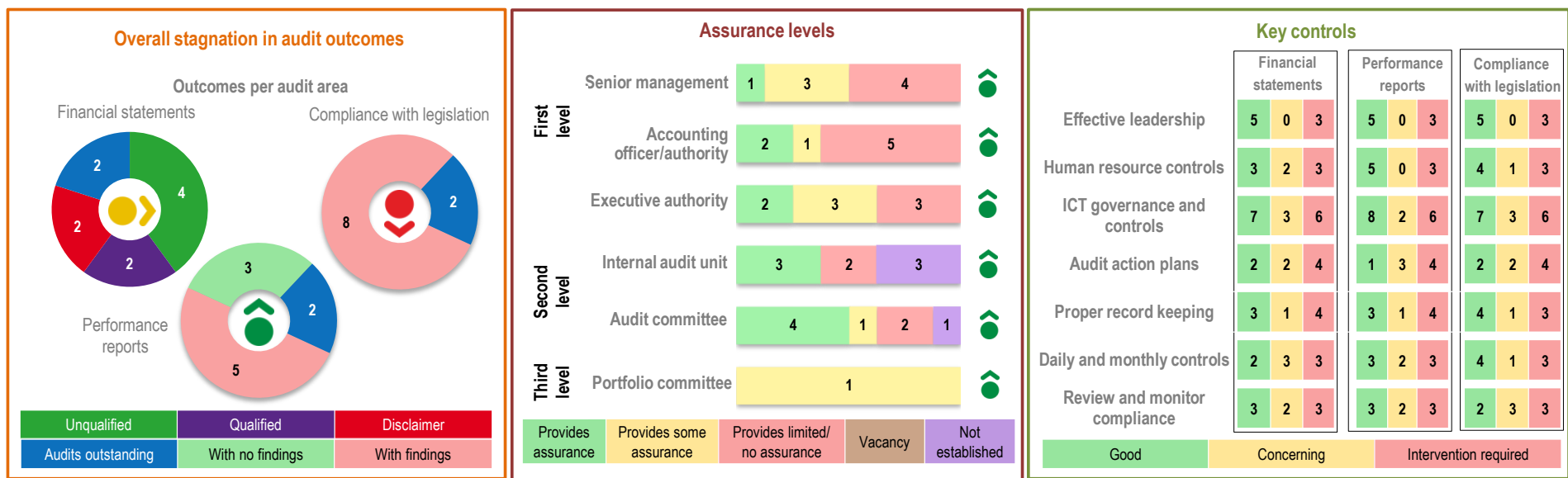
2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

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





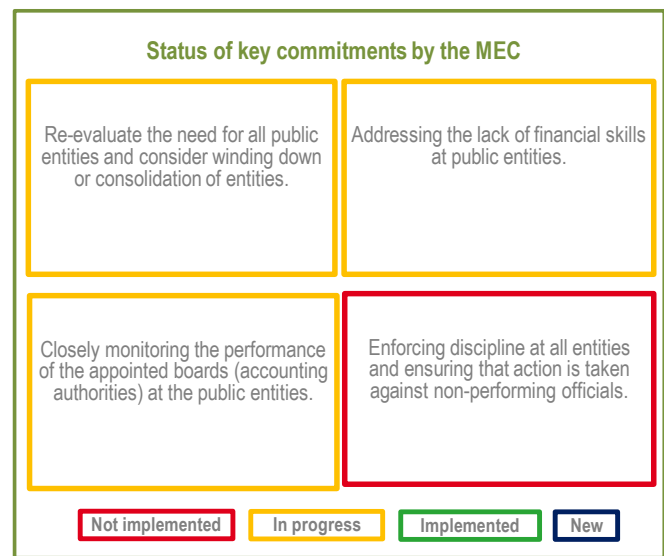
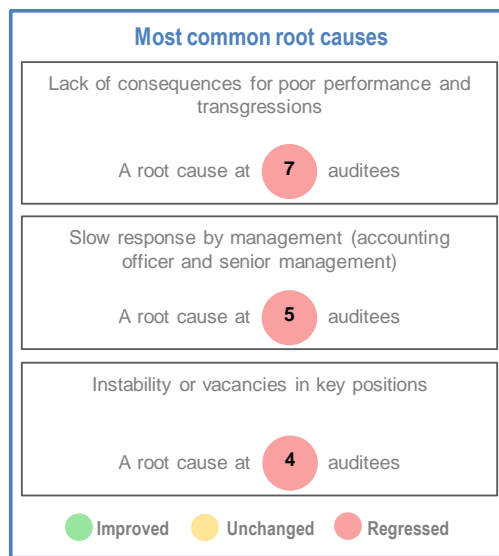
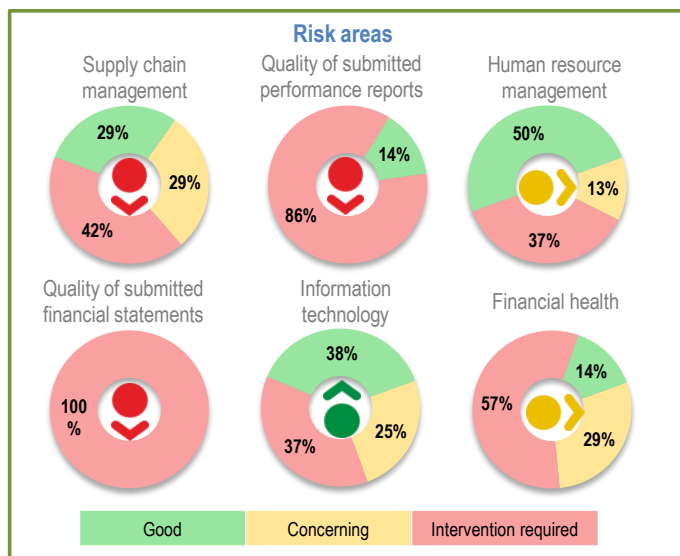
# MEC for Economic Development, Tourism, Conservation and Environment



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



# MEC for Education

**Improvement in audit outcome**

Audit area	Audit outcome
Financial statements	Unqualified
Performance reports	Material findings
Compliance with legislation	Material findings

**Assurance levels**

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

**Key controls**

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To improve/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

**Risk areas**

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

Good Concerning Intervention required

**Most common root causes**

Lack of consequences for poor performance and transgressions
Instability or vacancies in key positions
Slow response by management (accounting officer and senior management)

**Status of key commitments by the MEC**

To reduce the number of key management vacancies and fill them with competent staff.	To liaise on a frequent basis with members of the audit committee and implement recommendations.
Disciplinary steps will be taken against officials who do not comply with set policies and who do not perform their responsibilities as set out in their performance agreements and job descriptions.	To compile an action plan and ensure that the action plan forms part of the performance agreements of officials. To ensure that officials report monthly on the measures listed in the action plan.

Not implemented In progress Implemented New

# MEC for Health

**Stagnation in audit outcome**

Audit area	Audit outcome
Financial statements	Unqualified
Performance reports	Material findings
Compliance with legislation	Material findings

**Assurance levels**

First level	Senior management	Provides some assurance
	Accounting officer	Provides some assurance
	Executive authority	Provides some 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	Concerning	Intervention required
Human resource controls	Concerning	Intervention required	Intervention required
ICT governance and controls	Concerning	Concerning	Concerning
Action plans	Concerning	Concerning	Concerning
Proper record keeping	Concerning	Intervention required	Intervention required
Daily and monthly controls	Concerning	Intervention required	Intervention required
Review and monitor compliance	Intervention required	Intervention required	Intervention required

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To improve/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

**Risk areas**

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

Good Concerning Intervention required

**Most common root causes**

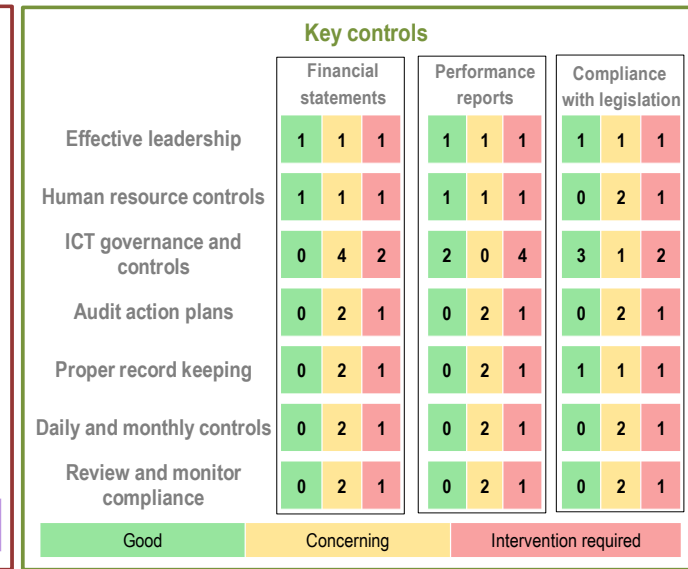
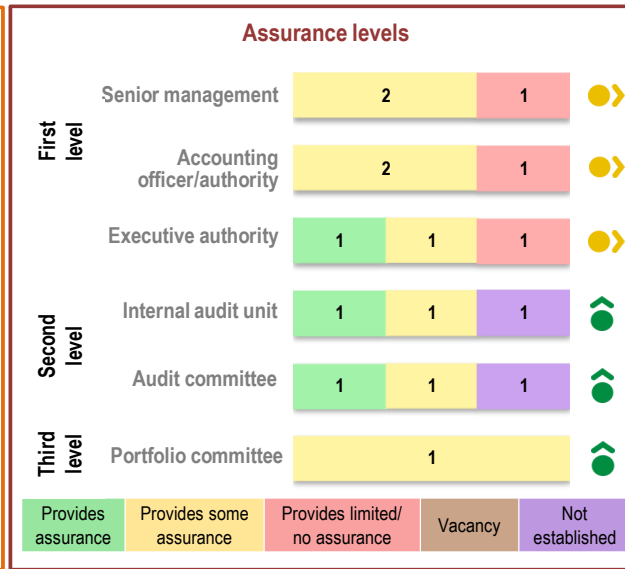
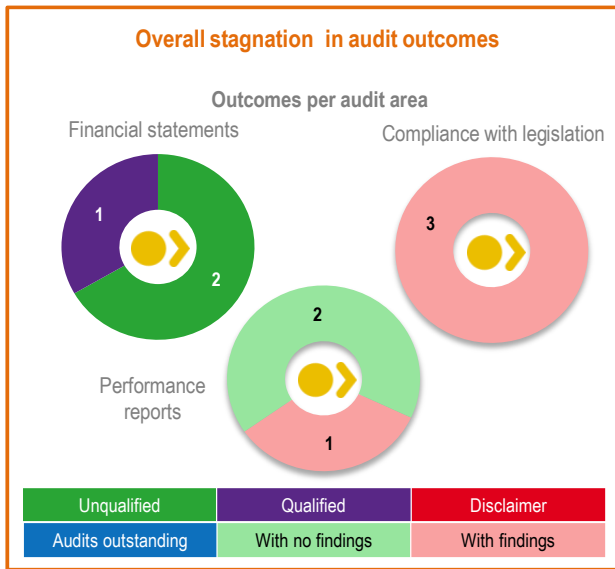
- Lack of consequences for poor performance and transgressions
- Instability or vacancies in key positions
- Slow response by management (accounting officer and senior management)

**Status of key commitments by the MEC**

Appoint permanent senior manager/director at the Performance Management unit that will be directly responsible for reporting on predetermined objectives.	Develop and implement department specific standard operating procedures for reporting on predetermined objectives to ensure appropriate recording, processing and reporting of performance against predetermined objectives.
Draft and monitor an action plan to address findings on predetermined objectives and compliance with laws and regulations.	Take disciplinary steps against officials who do not comply with prescribed legislation and policies and procedures, with main focus on recurring non-compliances, findings on predetermined objectives, service delivery issues and increasing irregular expenditure.

Not implemented In progress Implemented New

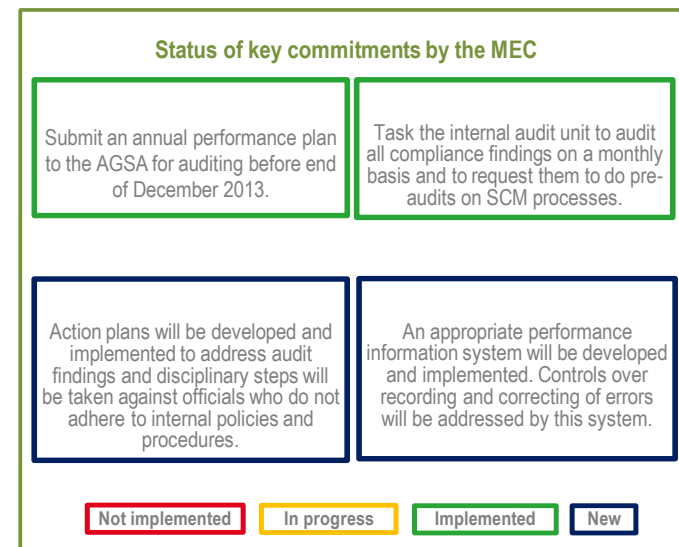
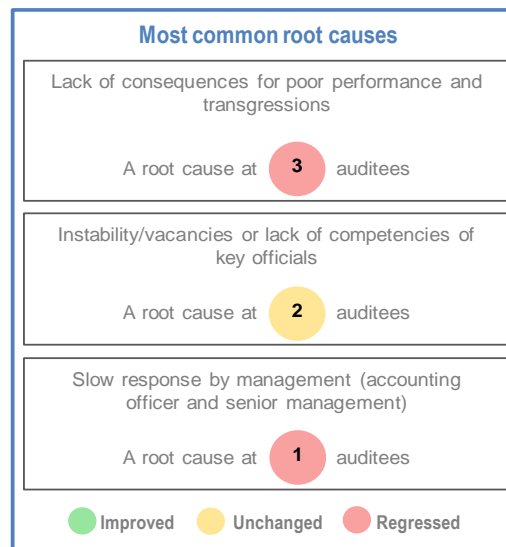
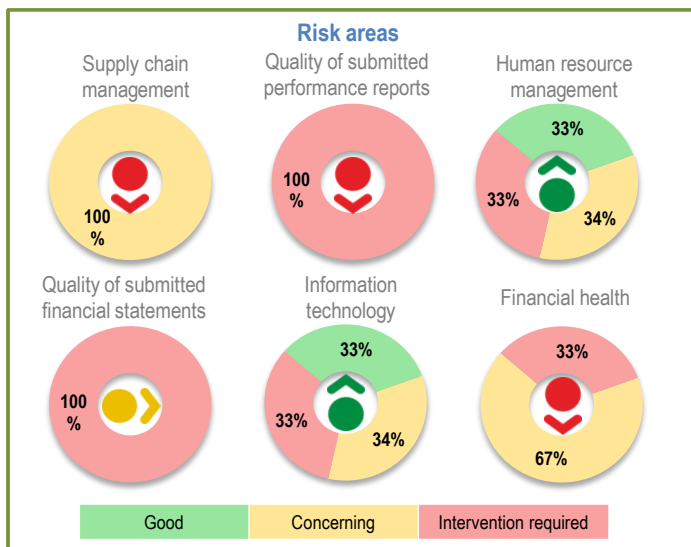
# MEC for Human Settlements and Public Safety



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



# MEC for Local Government and Traditional Affairs

**Regression in audit outcome**

Audit area	Audit outcome
Financial statements	Qualified
Performance reports	Material findings
Compliance with legislation	Material findings

**Assurance levels**

Level	Entity	Assurance Level
First level	Senior management	Provides limited/no assurance
	Accounting officer	Provides limited/no assurance
	Executive authority	Provides limited/no assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides limited/no assurance

**Key controls**

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To improve/maintain 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

**Risk areas**

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

Good Concerning Intervention required

**Most common root causes**

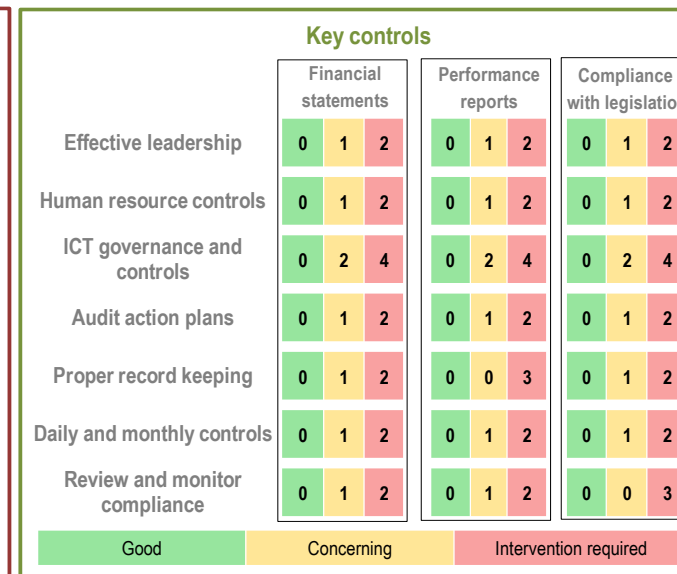
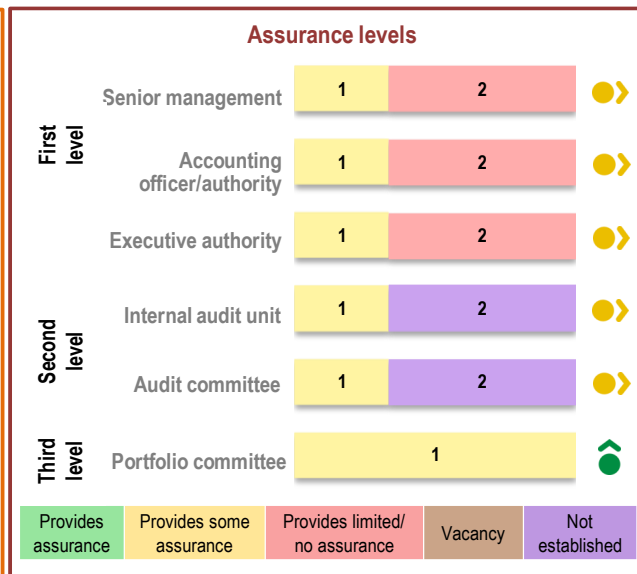
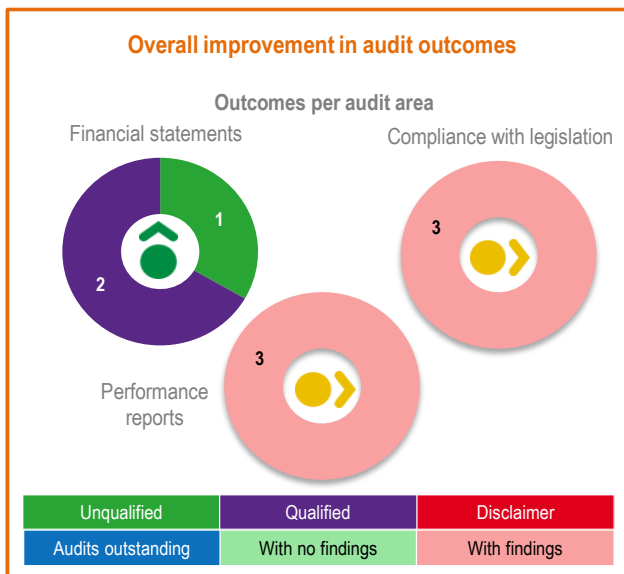
- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies
- Slow response by political leadership (executive authority)

**Status of key commitments by the MEC**

Filling of vacant positions (implementing effective HR management).	The department will monitor all grants/payments made to municipalities, including supporting documentation for expenditure incurred by municipalities.
Develop and monitor the implementation of action plans to address all audit findings.	Appropriate action will be taken against officials who transgress or do not perform (consequence management).

Not implemented In progress Implemented New

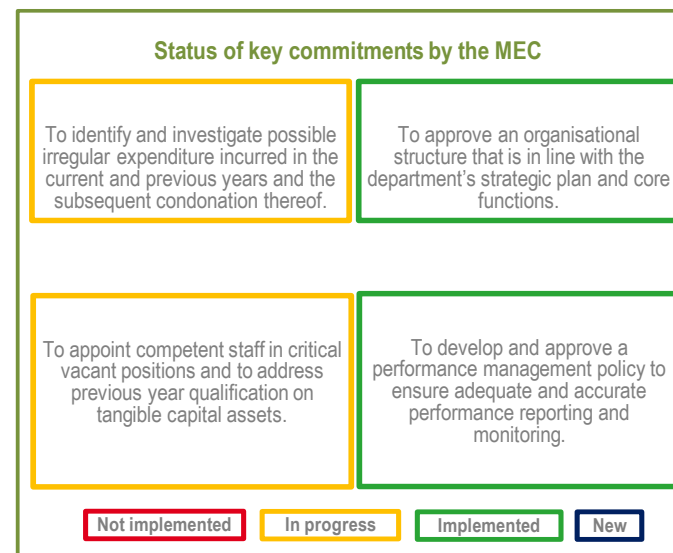
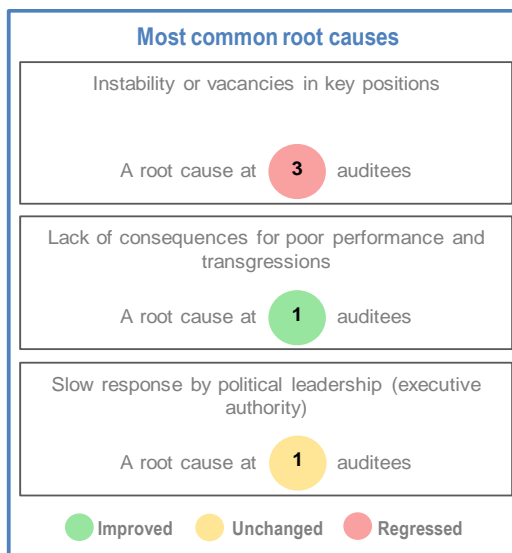
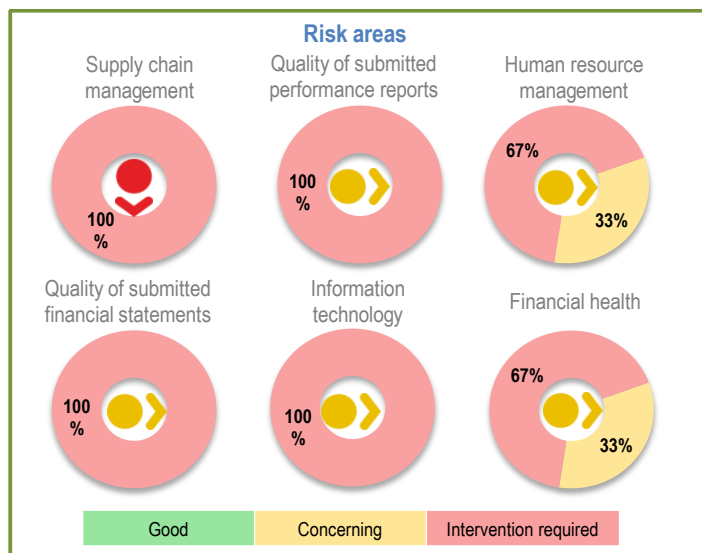
# The premier



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



# The speaker of the provincial legislature

**Improvement in audit outcome**

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

**Assurance levels**

First level	Senior management	Provides some assurance
	Accounting officer	Provides some assurance
	Executive authority	Provides some 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			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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

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

Good Concerning Intervention required

**Most common root causes**

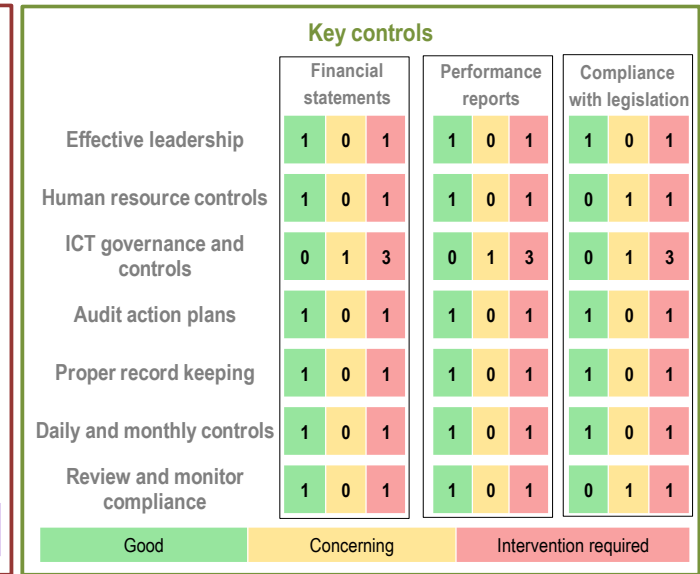
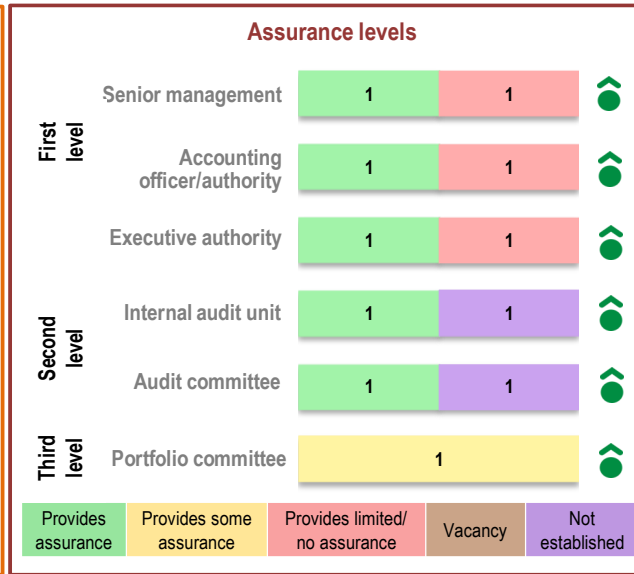
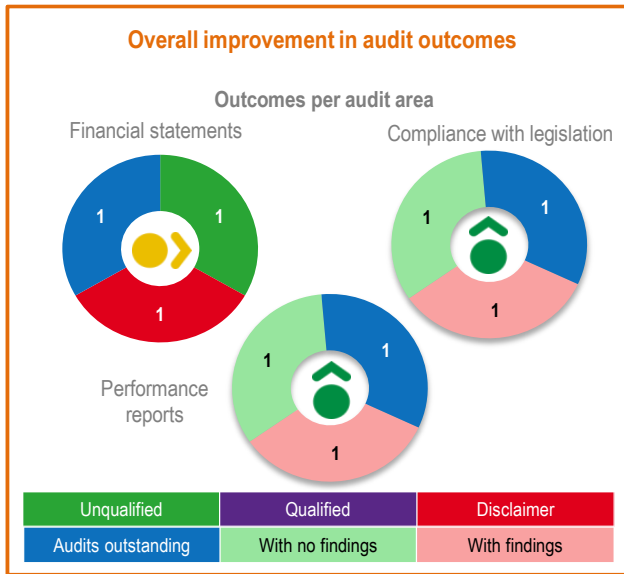
Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies

**Status of key commitments by the MEC**

Review reported performance information on a quarterly basis.	Draft and implement an action plan to address previous year findings.
Draft and implement a compliance checklist.	Establish a Political Party Fund and comply with the requirements of the North West Political Party Fund Act, 2010 (Act No. 03 of 2010).

Not implemented In progress Implemented New

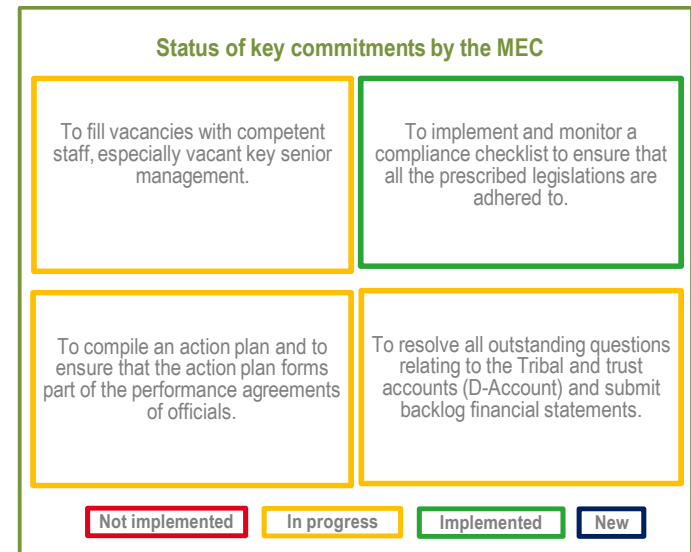
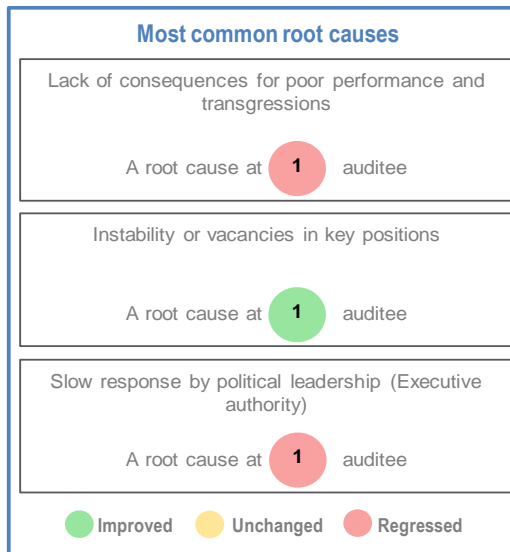
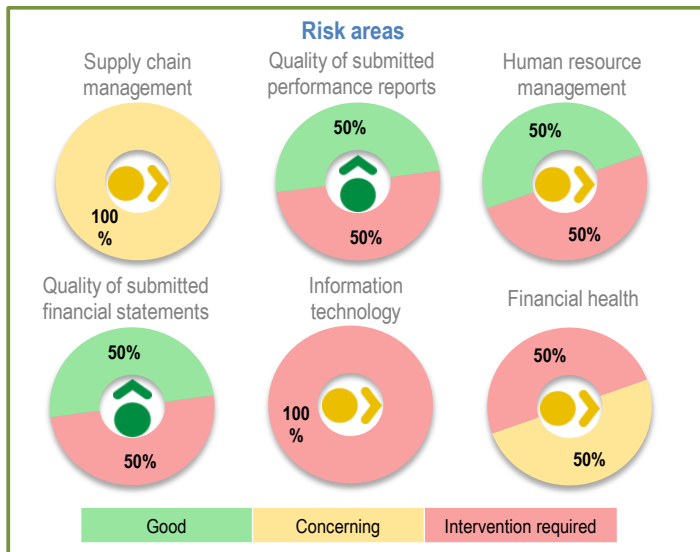
# MEC for Finance



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

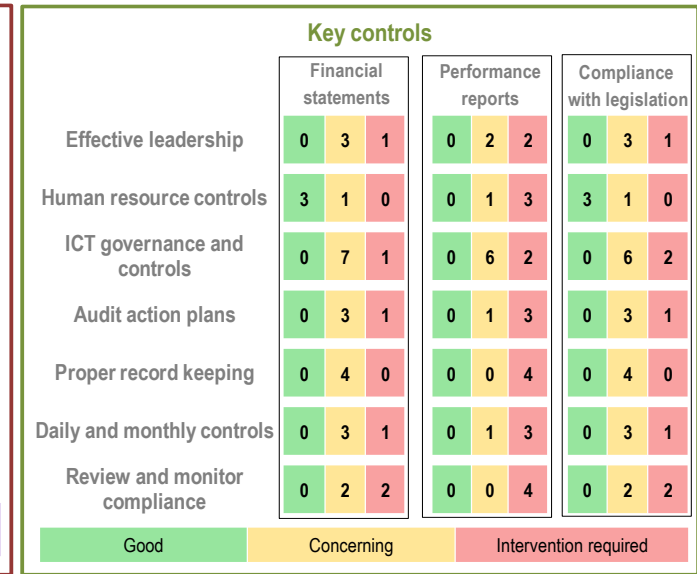
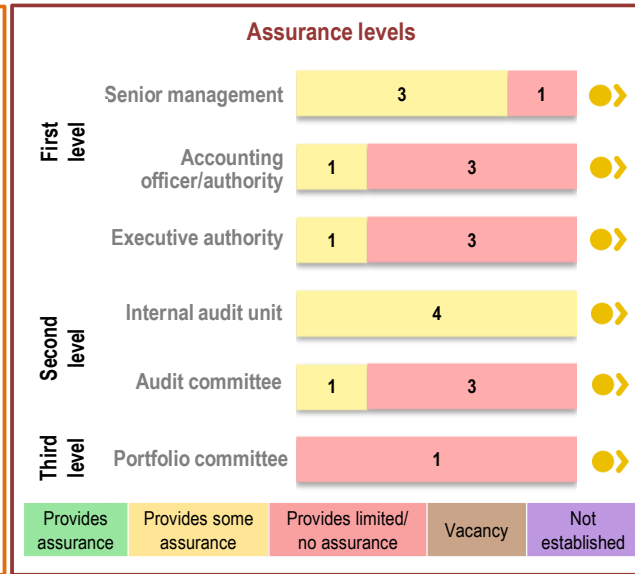
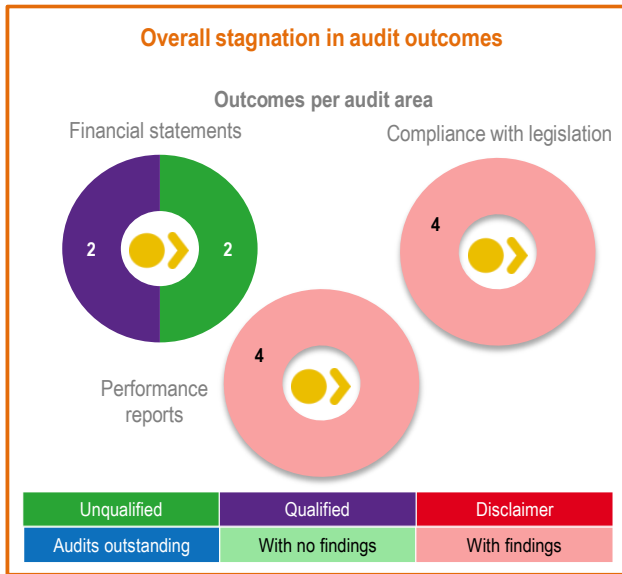
2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5

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





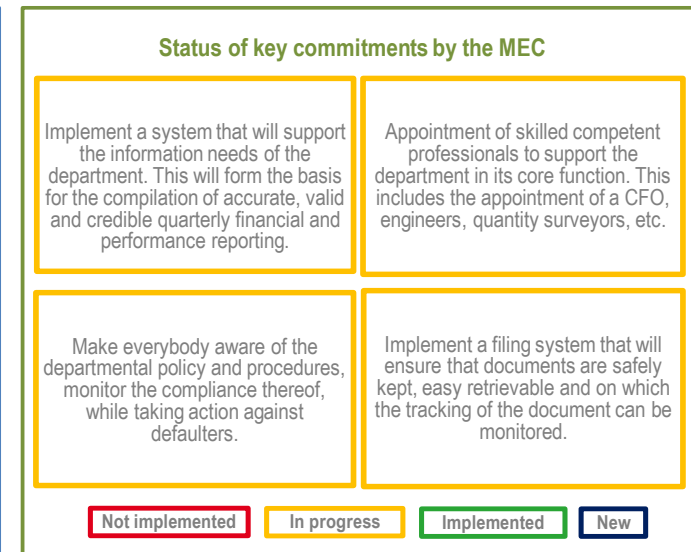
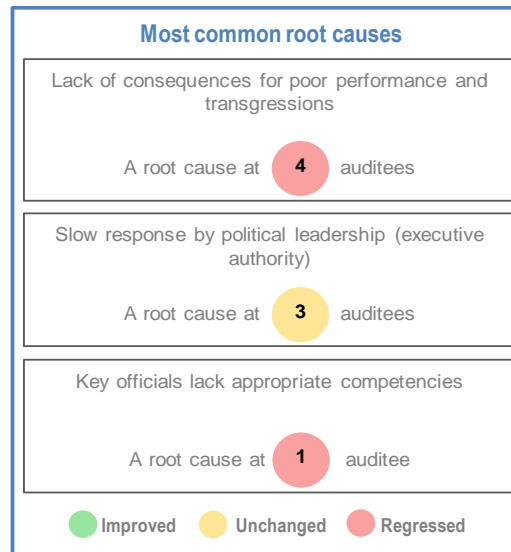
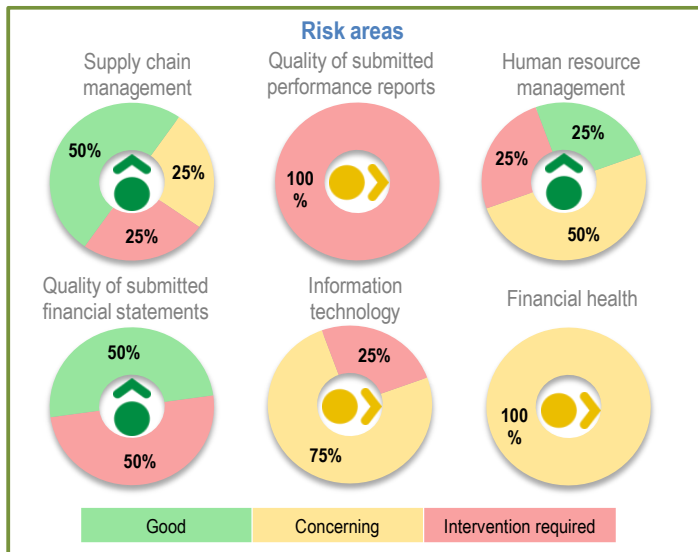
# MEC for Public Works, Roads and Transport



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



# MEC for Social Development

**Improvement in audit outcome**

Audit area	Audit outcome	
Financial statements	Unqualified	⬆️
Performance reports	No material findings	⬆️
Compliance with legislation	Material findings	⬆️

**Assurance levels**

First level	Senior management	Provides some assurance	⬆️
	Accounting officer	Provides some assurance	⬆️
	Executive authority	Provides some 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	Concerning	Intervention required
Human resource controls	Intervention required	Concerning	Intervention required
ICT governance and controls	Concerning	Intervention required	Intervention required
Action plans	Concerning	Concerning	Intervention required
Proper record keeping	Good	Good	Good
Daily and monthly controls	Good	Good	Intervention required
Review and monitor compliance	Good	Good	Intervention required

F = Financial P = Performance C = Compliance

Good Concerning Intervention required



56

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

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

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

**Risk areas**

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

Good Concerning Intervention required

**Most common root causes**

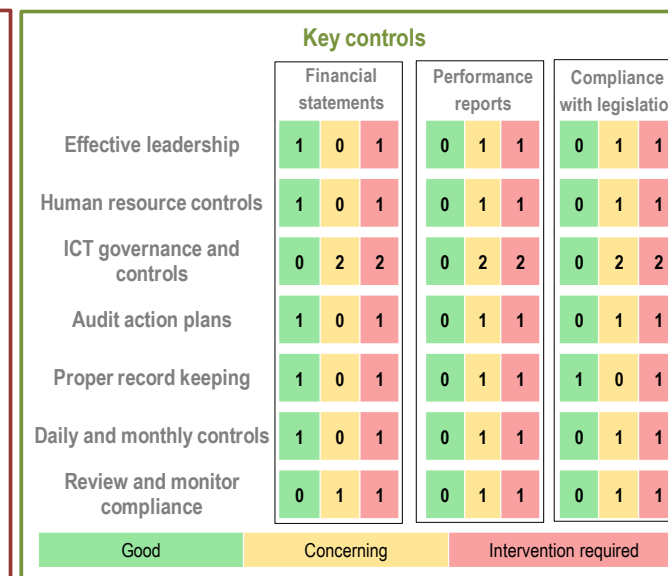
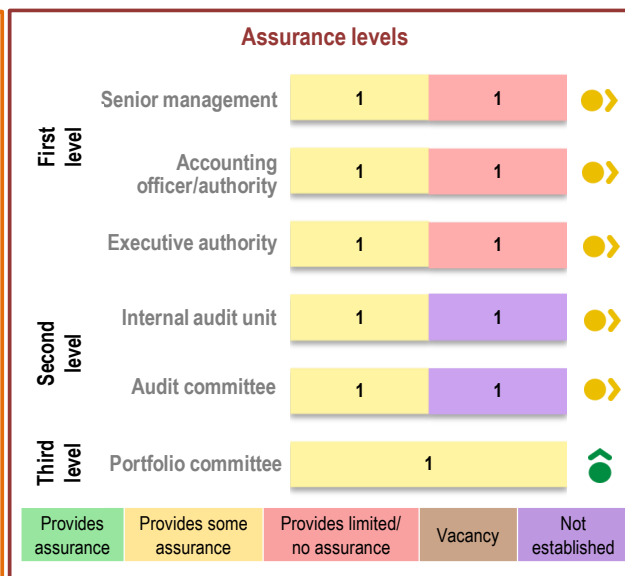
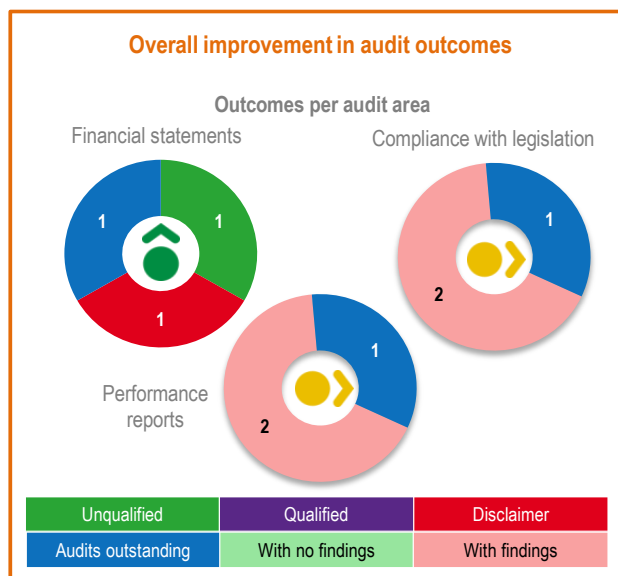
Lack of consequences for poor performance and transgressions
Slow response by management (accounting officer and senior management)

**Status of key commitments by the MEC**

To implement a compliance checklist, which will be completed monthly, to ensure that all the prescribed legislation is adhered to.	Regular meetings with the HoD to discuss internal audit findings relating to performance, non-compliance issues and internal audit findings relating to performance information.
To compile an action plan and ensure that the action plan forms part of the performance agreements of officials.	To take sufficient disciplinary steps against officials who do not execute their responsibilities as set out in their performance agreements and job descriptions.

Not implemented In progress Implemented New

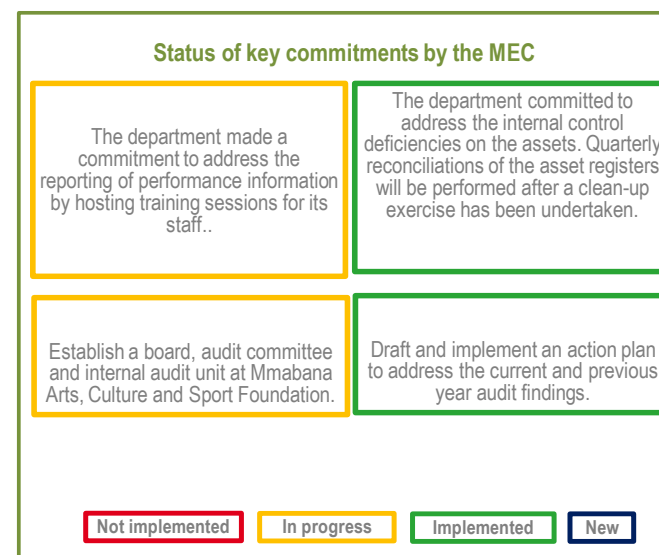
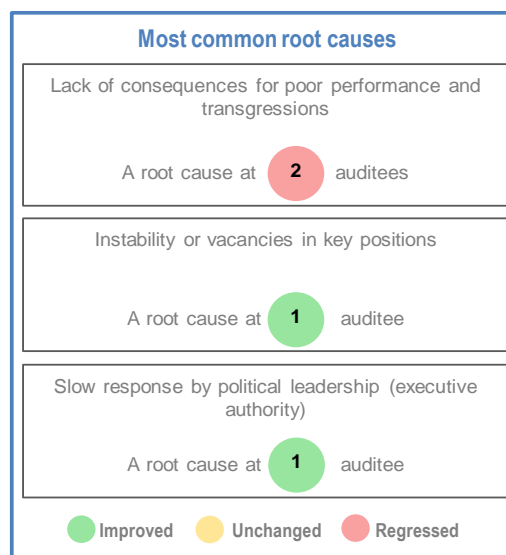
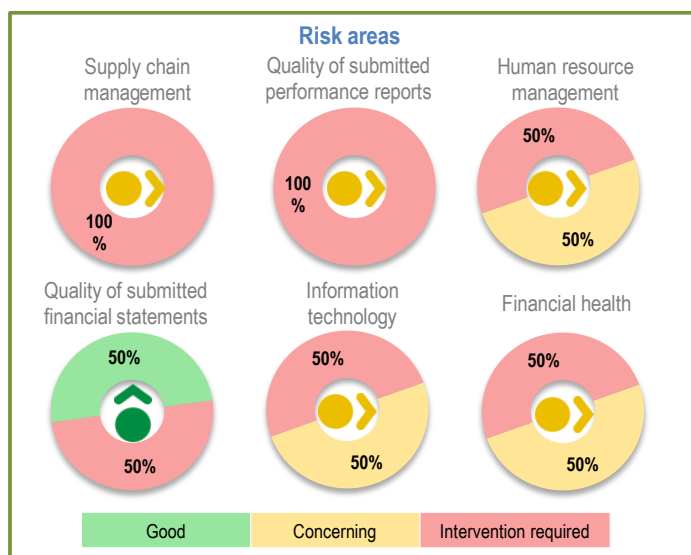
# MEC for Sport, Arts and Culture



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





# ANNEXURES





## Annexure 2: Auditees' five-year audit 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 and Rural Development	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
2	Economic Development, Tourism, Conservation and Environment	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
3	Education	Financially unqualified with findings			Qualified			Qualified			Qualified			Disclaimer		
4	Health	Financially unqualified with findings			Financially unqualified with findings			Qualified			Financially unqualified with findings			Financially unqualified with findings		
5	Human Settlements	Financially unqualified with findings			Financially unqualified with findings			Qualified			Qualified			Qualified		
6	Local Government and Traditional Affairs	Qualified			Financially unqualified with findings			Qualified			Qualified			Qualified		
7	Office of the Premier	Financially unqualified with findings			Qualified			Qualified			Qualified			Qualified		
8	Provincial legislature	Financially unqualified with findings			Qualified			Financially unqualified with findings			Financially unqualified with findings			Qualified		
9	Provincial treasury	Financially unqualified with no findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
10	Public Safety	Financially unqualified with findings			Financially unqualified with findings			Qualified			Qualified			Qualified		
11	Public Works, Roads and Transport	Qualified			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
12	Social Development	Financially unqualified with findings			Qualified			Qualified			Qualified			Qualified		
13	Sport, Arts and Culture	Financially unqualified with findings			Qualified			Financially unqualified with findings			Financially unqualified with findings			Financially 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		Audit opinion	Findings	
			PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
<b>Public entities</b>																
14	Agribank Creditors Settlement Trust	Audit not finalised at legislated date			Financially unqualified with no findings			Financially unqualified with no findings			Financially unqualified with no findings			Financially unqualified with findings		
15	Atteridgeville Bus Services	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Qualified			Financially unqualified with findings		
16	Dirapeng	Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
17	Golden Leopard Resorts	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
18	Invest North West	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
19	Kgama Wildlife Operations	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
20	Madikwe River Lodge	Disclaimer			Disclaimer			Disclaimer			Disclaimer			New auditee		
21	Mafikeng Industrial Development Zone	Qualified			Disclaimer			Disclaimer			Qualified			Disclaimer		
22	M mabana Arts, Culture and Sport	Audit not finalised at legislated date			Disclaimer			Qualified			Qualified			Financially unqualified with findings		
23	Agribank	Audit not finalised at legislated date			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
24	North West Development Corporation	Qualified			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
25	North West Directorate of Entrepreneurial Development in Natural Resources	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings		
26	North West Gambling Board	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with no findings			Financially unqualified with findings			Financially unqualified with findings		
27	North West Housing Corporation	Qualified			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
28	North West Parks and Tourism Board	Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer			Financially unqualified with findings		
29	North West Provincial Aids Council	Qualified			Qualified			Qualified			Qualified			Financially unqualified with findings		
30	North West Provincial Arts and Cultural Council	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
31	North West Star	Financially unqualified with findings			Financially unqualified with findings			Financially unqualified with findings			Qualified			Financially unqualified with findings		
32	North West Transport Investments	Qualified			Qualified			Qualified			Qualified			Financially unqualified with findings		
33	North West Youth Development Trust	Qualified			Qualified			Qualified			Financially unqualified with findings			Qualified		
34	Signal Developments	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
35	North West Tribal and Trust Fund	Audit not finalised at legislated date			Audit not finalised at legislated date			Audit not finalised at legislated date			Audit not finalised at legislated date			Audit not finalised at legislated date		

### Annexure 3: Assessment of auditees' key controls at the time of the audit

Number	Auditee	Leadership															Financial and performance															Governance																										
		Movement			Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems controls			Movement			Risk management			Internal audit 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	F	P	C									
<b>Departments</b>																																																										
1	Agriculture and Rural Development	↔	↔	↑																																											↑	↔	↔									
2	Economic Development, Tourism, Conservation and Environment	↓	↓	↓																																														↓	↑	↔						
3	Education	↑	↑	↔																																														↔	↔	↔						
4	Health	↔	↔	↓																																														↓	↓	↓						
5	Human Settlements	↓	↑	↔																																														↔	↔	↔						
6	Local Government and Traditional Affairs	↓	↓	↓																																														↑	↔	↑						
7	Office of the Premier	↔	↔	↔																																														↑	↑	↔						
8	Provincial legislature	↑	↑	↔																																														↑	↑	↑						
9	Provincial treasury	↔	↓	↔																																														↑	↑	↑						
10	Public Safety	↓	↔	↑																																														↓	↓	↑						
11	Public Works, Roads and Transport	↔	↔	↔																																														↔	↔	↔						
12	Social Development	↔	↑	↔																																														↔	↑	↑						
13	Sport, Arts and Culture	↑	↑	↔																																														↑	↑	↔						





# GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

## Glossary of key terminology used in this report

*Adverse audit opinion (on financial statements)*

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

*Asset (in financial statements)*

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

*Assurance & assurance provider*

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

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

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

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

*Capital budget*

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

*Cash flow (in financial statements)*

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

*Clean audit*

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

*Commitments from role players*

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

*Conditional grants*

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

*Contingent liability*

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

## *Creditors*

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

## *Current assets (in financial statements)*

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

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

The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.

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

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

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

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

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

## *Fruitless and wasteful expenditure*

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

## *Going concern*

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

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

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

## *Human resource management*

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

## *Information technology (IT)*

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

### *IT controls*

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

### *IT governance*

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

### *IT security management*

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

### *IT service continuity*

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

### *IT user access management*

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

### *Internal control / key controls*

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

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

### *Irregular expenditure*

Expenditure incurred without complying with applicable legislation.

### *Key drivers of internal control*

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

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

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

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

### *Liability*

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

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

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



### *Material misstatement*

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

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

### *Misstatement*

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

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

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

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

### *Operational budget / operating budget*

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

### *Oversight structures & 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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