

PFMA 2013-14



General report on the provincial audit outcomes of the **NORTHERN CAPE**



AUDITOR-GENERAL  
SOUTH AFRICA



# General report on audit outcomes

## NORTHERN CAPE 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



Five auditees achieved clean audits

Improvement in audit outcomes

The departments of Education and Health need the most attention

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



Material non-compliance with legislation by 74% of auditees

No progress made toward improving reliability and usefulness of annual performance report

Five auditees received qualified opinions

74% financially unqualified audit opinions



Qualified opinions avoided by correcting material misstatements identified during audit process

Little improvement in the quality of financial statements submitted for audit

Audit findings avoided by correcting material misstatements identified during audit process

No improvement in the quality of performance reports submitted for audit

Uncompetitive and unfair procurement processes



Some improvement in supply chain management

Little improvement in HR management controls



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

Indications of financial health issues at some departments and public entities

Confidentiality, integrity and availability of information at risk

No improvement in the ICT controls

Some progress in addressing root causes of poor audit outcomes



Key role players provided inadequate assurance to improve controls

Implementation and impact of commitments and initiatives of role players

The political and administrative leadership should strengthen their contributions



Audit outcomes of portfolios of MECs and commitments made for improvement

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# NORTHERN CAPE

# CLEAN AUDITS 2013-14



## DEPARTMENT

Northern Cape Provincial Treasury  
Environment and Nature Conservation  
Economic Development and Tourism  
Social Development



## PUBLIC ENTITY

Northern Cape Tourism Authority

# EXECUTIVE SUMMARY

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## Executive summary

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

The province's total budgeted expenditure was R12,9 billion in 2013-14. The following were main areas of expenditure:

- Employee cost R6,8 billion
- Goods and services R3 billion
- Capital expenditure R1,4 billion
- Transfer payments R1,7 billion

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

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

### Financially unqualified with no findings

Auditees that received a **financially unqualified opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the areas mentioned above. This is commonly referred to as a 'clean audit'. The 2013-14 audit outcomes show a commendable improvement, with five of the 19 auditees (26%) attaining clean audit opinions compared to the one (5%) obtained in 2012-13.

The clean audit opinions and improvements are the result of management's efforts to proactively address risks and implement consequence management where performance was not at the required level. In addition, these auditees implemented best practices to ensure ongoing progress in maintaining clean audit opinions. Best practices included controls to ensure accurate financial reporting and good administration, processes to ensure compliance in general and, specifically, compliance with supply chain management requirements.

The overall improvement in the province's audit outcomes can be attributed to progress with the commitments received from the political and administrative leadership in the previous year, such as filling key vacancies. To ensure sustainable and further improvements requires robust, informed and decisive efforts from the political and administrative leadership. The provincial leadership

and oversight bodies need to refocus and intensify their efforts to ensure that more auditees follow the example set by the five that obtained clean audit opinions in 2013-14.

The auditees that achieved clean audit opinions are commended and encouraged to continue tightening internal controls on compliance with legislation and the basic discipline of financial management to ensure that their clean audit opinions are sustained.

### Financially unqualified with findings

Nine (48%) auditees received **financially unqualified audit opinions with findings** on their performance information, compliance with legislation, or both of these aspects (depicted in yellow in this report). These auditees have passed the critical test of fair presentation of financial statements, which means that they have accounted accurately for their financial transactions.

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

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

### Qualified audit opinion

Five auditees (26%) received a **qualified audit opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Although qualified audit opinions decreased from six (32%) to five (26%) in the current year, it is of concern that the two largest departments, Education and Health (making up 62% of the provincial budget), have repeated last year's qualified audit opinions. These departments remained the largest contributors to unauthorised and irregular expenditure in the province, which indicates that the

concerns raised about basic controls at these departments in the previous year have still not been addressed.

These two departments and the Department of Roads and Public Works were the main contributors to the province's consultant costs, and contributed 74% of the consultant cost relating to financial reporting.

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

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

## **Other significant audit observations**

### *Annual performance reports*

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

It is commendable that 89% of auditees submitted their annual performance reports for auditing on time, compared to 84% in the previous year. However, auditees that submitted annual performance reports without material misstatements regressed from eight (42%) in 2012-13 to six (32%) in the current year. Auditees are still relying on the audit process to identify and correct misstatements in their performance information. The regression is mainly due to auditees becoming complacent and not applying the level of diligence that was exercised in the previous year when reporting on predetermined objectives in the current year.

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

## *Non-compliance with laws and regulations*

In the current year auditees with no material findings on their compliance with key legislation significantly improved, from one (5%) auditee to five (26%) auditees when compared to the previous year. It is, however, of concern that 14 (74%) auditees still had findings on compliance with laws and regulations, 13 (68%) of which related to the quality of financial statements and the absence of steps to prevent and deal with unauthorised, irregular and fruitless expenditure. Irregular expenditure was reported at 16 (84%) auditees, mainly due to the lack of basic controls and non-compliance with supply chain management legislation. The value of these controls cannot be emphasised enough as an important mechanism to narrow the space for widespread abuse of the public resources required to provide services to citizens.

### *Irregular expenditure*

As a result of the lack of proper systems to prevent, detect and record irregular expenditure, auditees entered into transactions that were not conducted in accordance with regulations and other prescripts. The major contributors, responsible for 78% of the total irregular expenditure, were the departments of Health and Education.

Of the R1 743 million in irregular expenditure incurred in 2013-14, 97% (R1 691 million) was a result of non-compliance with supply chain management legislation. Our normal audits determined that R778 million (45%) of this amount represents goods and services that were received despite the normal processes governing procurement not being followed. We could not determine whether goods and services were received for R9 million (0,5%) of irregular expenditure due to a lack of supporting documents, while the balance of R956 million in irregular expenditure did not form part of our audit sample and was not audited. We could therefore not specifically confirm that goods and services had been received.

This significant irregular expenditure is one of the main reasons for auditees being unable to improve to clean audit outcomes. Irregular expenditure was incurred mainly due to the lack of basic controls to prevent this expenditure and an inability by most auditees to keep track of changing supply chain management legislation. In most cases, the auditees did not have a dedicated compliance officer.

Furthermore, there is an increasing trend of auditees delegating their functions to another entity, appointing them as implementing agents. However, once payments are made, the auditees do not monitor further to ensure that the implementing agents follow fair, equitable and transparent procurement processes and pay the best price when they spend money on behalf of the auditee. In addition, the auditee pays management fees to the implementing agent while more than half (53%) the provincial budget has already been spent on employee costs. These government employees were expected to perform the duties delegated to implementing agents.

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

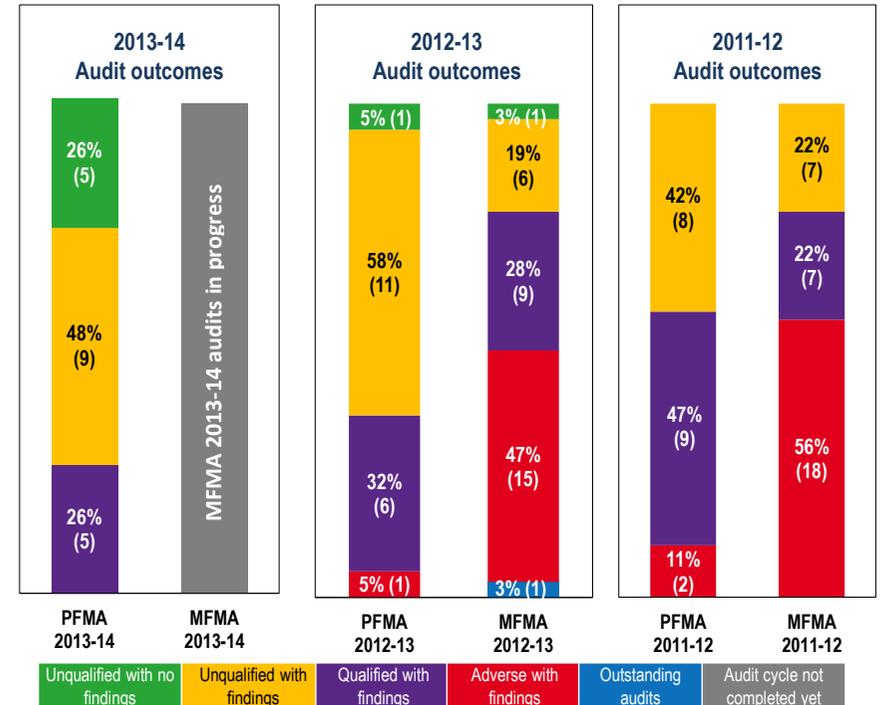
### Financial health

The financial health of the province has improved when compared to the previous year, which can be attributed to an improvement in the financial health of three public entities. The reasons for this improvement were the significant increase in transfer payments received from controlling departments and the improved budget controls within these entities.

### Comparison of provincial and local government audit outcomes

The Northern Cape provincial government, through coordinating departments and oversight structures, supports both provincial and local government by setting standards of accountability, transparency, clean government and integrity across all institutions of government in the province. Although these two spheres of government operate autonomously, improvement in the administration and audit outcomes will benefit the province as a whole. Figure 1 compares the results of the two spheres of government over the last three financial years.

Figure 1: Comparison of provincial and local government audit outcomes



A comparison of the provincial audit outcomes for the past three years reveals a significant improvement and reflects the effort made by the provincial leadership to address the issues identified by the auditors and to implement or improve controls where necessary. These efforts resulted in the province's first clean audit in 2012-13 and were followed by five clean audits in 2013-14, showing that the province is moving in the right direction with regard to provincial administration.

The improvement in provincial audit outcomes was due to the political and administrative leadership building on a firm foundation from previous years and their continued commitment to achieving clean administration, together with the oversight role played by various assurance providers and oversight structures.

However, progress towards clean audits has been comparatively slower in the local government sphere, with only one (3%) of the auditees attaining a clean audit opinion in 2012-13. More needs to be done by the provincial oversight structures to ensure that the trend of improvements in audit outcomes within provincial government is replicated at the level of local government. All coordinating departments need to be appropriately positioned to play a bigger role in ensuring that all spheres of government work together to serve the public.

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

## *Provincial Department of Cooperative Governance, Human Settlements and Traditional Affairs*

The Department of Cooperative Governance, Human Settlements and Traditional Affairs provided some support to municipalities, but were not able to influence accountability by ensuring that municipal managers addressed findings raised in the our audit and management reports.

The efforts of this department need to be intensified and progress adequately monitored because the main goal of support initiatives is to ensure clean administration in the province. Furthermore, the department should ensure that the annual consolidated report on the performance of municipalities in the province is submitted to the Northern Cape legislature to enable oversight through the portfolio committee of local government.

### **Key leadership actions**

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

- Accounting officers/authorities were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- Executive authorities and accounting officers/authorities that set a tone of zero tolerance for non-performance and held staff accountable for keeping quality financial and performance information and complying with key legislation.
- Audit committee and internal audit functions that were robust and proactive on matters relating to the implementation and monitoring of action plans to address recurring findings and commitments made.
- Accounting officers/authorities and senior management successfully implementing basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which in turn enabled governance structures to play an effective review role.
- Improved performance and consequence management by incorporating the requirements of preparing credible and regular financial reports into senior management's performance agreements, and holding them accountable.

- Stability at senior management level and within finance units, with the required level of technical competence and experience.

Both the executive and oversight leadership need to play a more prominent role. The following actions are recommended to ensure an improvement in the overall outcomes:

- The executive leadership needs to provide strategic direction to the department(s) and any public entities within their portfolio through frequent communication with the accounting officer/authority.
- Consequence management should be implemented from an executive level rather than relying on administrative leadership to ensure accountability.
- Oversight departments need to cooperate more effectively to avoid duplication of efforts.
- Oversight departments should be proactive in tracking their commitments and should put more effort into making sure that commitments translate into actions.
- The speaker needs to ensure that SCoPA's resolutions are implemented and monitored.
- There should be proper oversight of public entities. The fact that only one of the six public entities was able to submit quality performance reports is of concern and the relevant oversight departments need to understand the root causes of this finding and implement the necessary remedial actions.

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

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



# AUDIT OUTCOMES, RECOMMENDATIONS AND ROLE PLAYERS' COMMITMENTS

# 1. Our auditing and reporting process

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

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

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

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

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

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

We also continue to strengthen our relationships with the members of the executive council, the premier, the Northern Cape Provincial Treasury, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

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

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

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

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

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

 Improved  Stagnant or little progress  Regressed

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

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

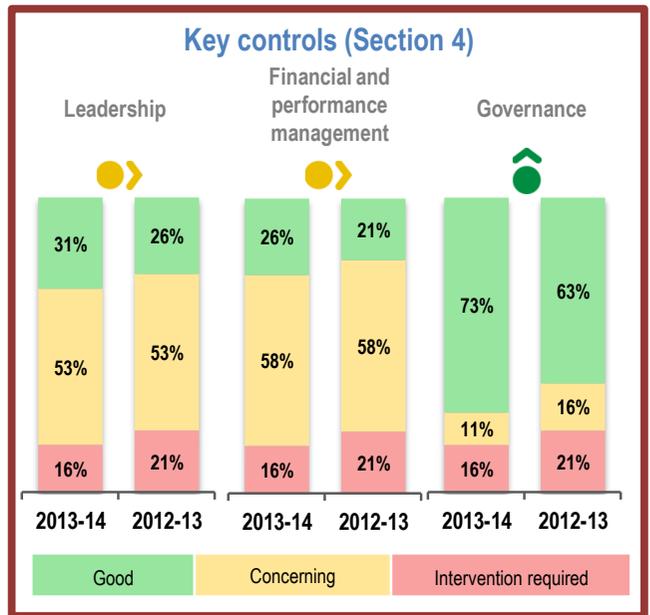
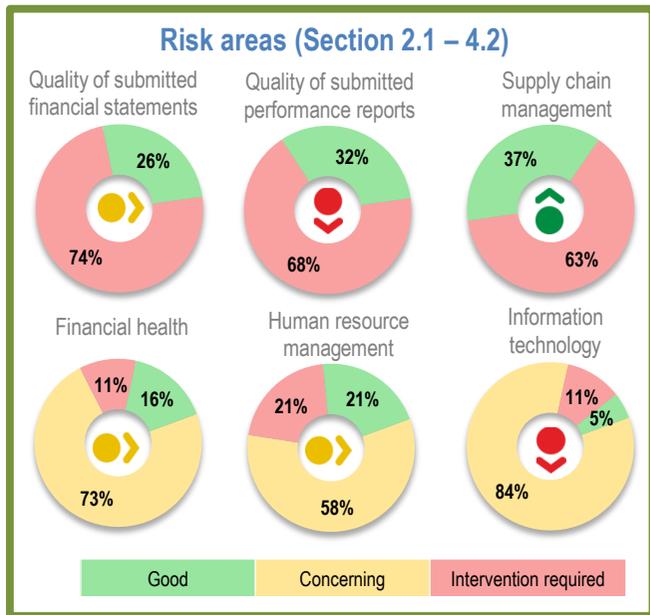
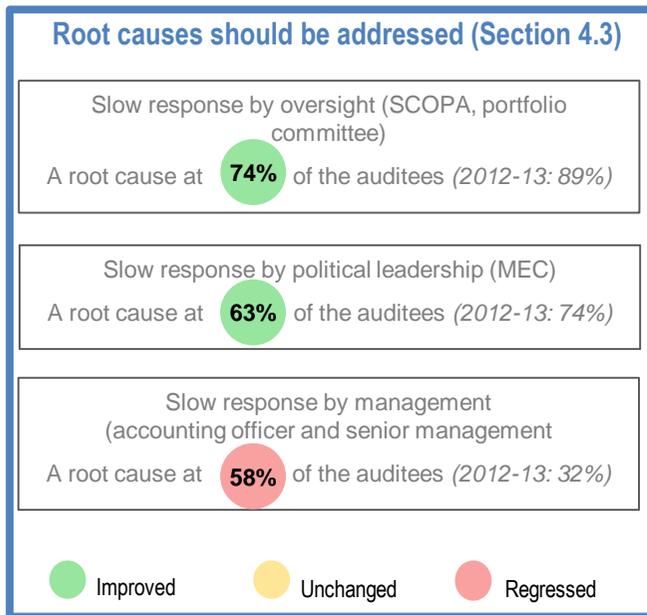
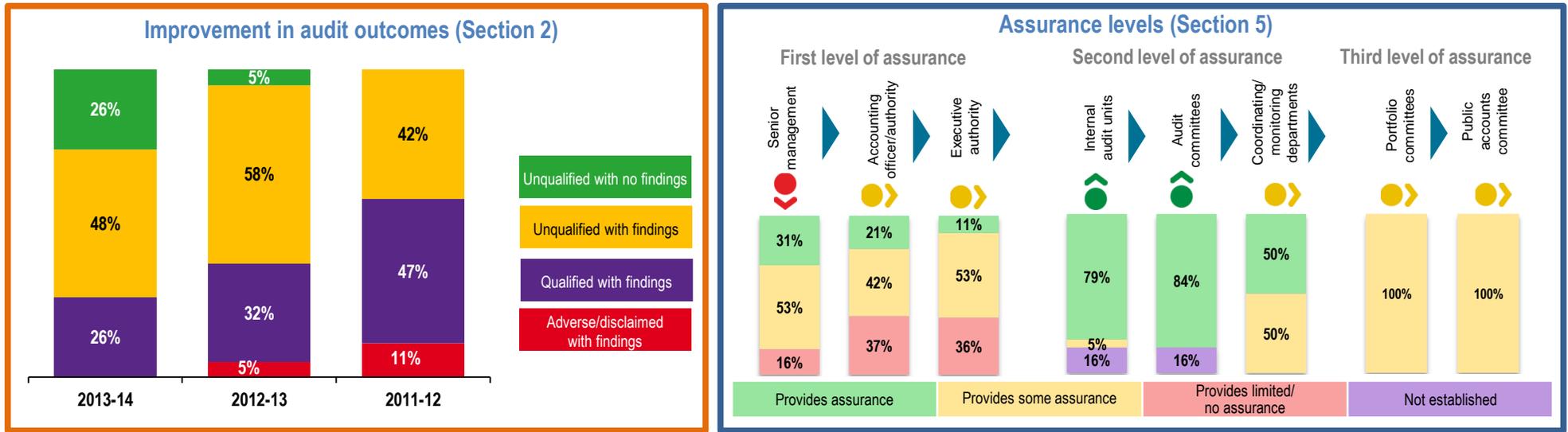


Figure 3: Movements in audit outcomes

 Movement  Audit outcome	 Improved	 Unchanged	 Regressed	 Outstanding
Unqualified with no findings = 5	<ul style="list-style-type: none"> <li>Northern Cape Provincial Treasury</li> <li>Environment and Nature Conservation</li> <li>Economic Development and Tourism</li> <li>Northern Cape Tourism Authority</li> </ul>	<ul style="list-style-type: none"> <li>Social Development</li> </ul>		
Unqualified with findings = 9	<ul style="list-style-type: none"> <li>Northern Cape Provincial Legislature</li> <li>Kalahari Kid Corporation</li> </ul>	<ul style="list-style-type: none"> <li>Agriculture, Land Reform and Rural Development</li> <li>Cooperative Governance, Human Settlements and Traditional Affairs</li> <li>Office of the Premier</li> <li>Roads and Public Works</li> <li>Transport, Safety and Liaison</li> <li>Northern Cape Gambling Board</li> <li>Northern Cape Liquor Board</li> </ul>		
Qualified with findings = 5	<ul style="list-style-type: none"> <li>Northern Cape Economic Development, Trade and Investment Promotion Agency</li> </ul>	<ul style="list-style-type: none"> <li>Health</li> <li>Education</li> <li>Sport, Arts and Culture</li> <li>Northern Cape Fleet Management Trading Entity</li> </ul>		
Adverse or disclaimer with findings = 0				

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

## Overall audit outcomes

Provincial government consists of 13 departments, five listed public entities and one trading entity. The audit outcomes of the six unlisted entities (Northern Cape Housing Fund, McGregor Museum, Ngwao Boswa Kapa Bokone, Northern Cape Arts and Culture Council, Northern Cape Political Party Fund and Northern Cape Premier Education Trust Fund) are excluded from this report. The provincial revenue fund is also not included in the report.

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 resulted in the net improvement in the audit outcomes of the province. The common factor at auditees that showed an improvement in their audit outcomes was the application of good consequence management, specifically in the area of compliance with legislation. The number of auditees that moved to a clean audit opinion in the current year creates hope for the province. The challenge to auditees that did not receive a favourable audit opinion would be to replicate the efforts made by the five auditees that obtained clean audit opinions. It is of further concern that many auditees still made material adjustments to their financial statements to avoid qualifications. This is an indication that these auditees rely on the auditors to identify material misstatements and use a reactive approach in their financial statements. The root causes relating to the quality of the financial statements will be discussed in section 4.3 of this report.

We also continued to strengthen our relationships with the members of the executive councils (MECs), the premier and the Northern Cape Provincial Treasury. We are convinced that their involvement and oversight have, to some extent, played – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

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

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

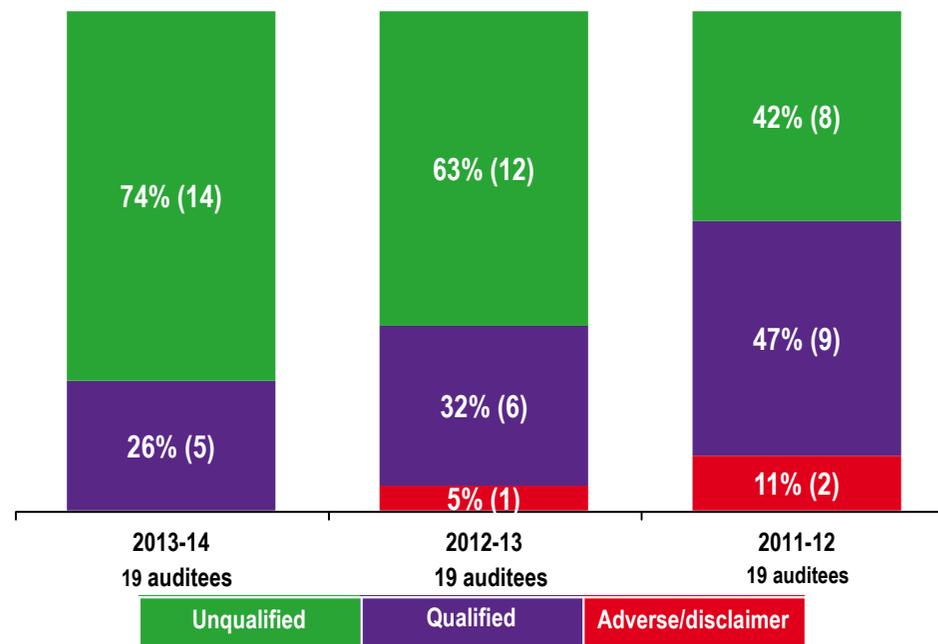


Figure 4 shows that there has been an improvement in the audit opinions on financial statements when compared to the previous year.

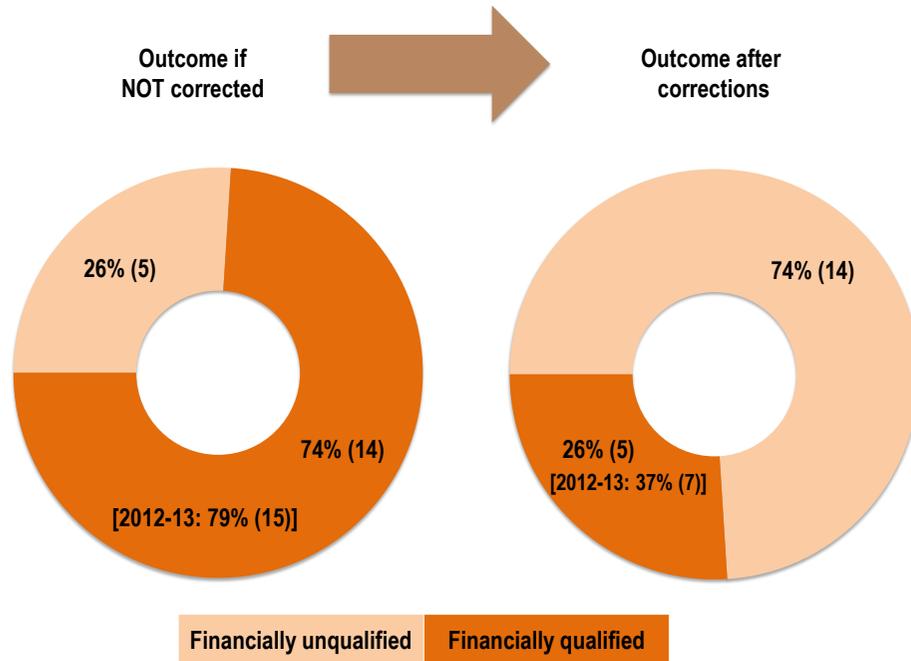
Both departments and public entities contributed to the improvement in audit outcomes. That no auditees received a disclaimer of opinion or adverse opinion in the current year is commendable. The three-year trend reflects a positive movement for which the province should be commended.

Four departments (2012-13: 1) and one public entity (2012-13: nil) improved to attaining clean audit opinions. This improvement can be attributed to the good tone set from the top that drove the management of these auditees to proactively implement and monitor controls to ensure that risks are addressed.

Of concern was the inability of the two largest service delivery departments in the province (Health and Education), which make up 62% of the provincial budget, to improve to an unqualified opinion. Both the political leadership and the management of these departments need to reflect on why these two significant role players in the provincial public service remain qualified.

## The quality of the financial statements submitted for auditing

Figure 5: Quality of financial statements submitted for auditing



While all auditees submitted their financial statements for auditing on time, figure 5 shows that only five auditees (26 %) submitted financial statements that were free from material misstatements. The auditees were:

- Social Development
- Environment and Nature Conservation
- Economic Development and Tourism
- Northern Cape Provincial Treasury
- Northern Cape Tourism Authority

These are also the five auditees that received clean audit opinions in the province, confirming the correlation between accurate financial reporting and good administration.

Figure 5 also shows that nine auditees (48%) received a financially unqualified audit opinion only because they corrected all the material misstatements we had identified during the audit. Only 26% of the auditees would have had an unqualified audit opinion had we not identified the misstatements and allowed them to make the corrections. The departments of Environment and Nature Conservation as well as Economic Development and Tourism submitted quality financial statements for the first time. While the Office of the Premier submitted accurate financial statements in the previous year, it regressed as material corrections relating to disclosure notes were made in the current year, mainly due to weakened review processes.

There is a notable difference in the quality of the financial statements submitted by the departments when compared to that of the public entities. There were five departments whose financial statements did not require any material corrections, while the Northern Cape Tourism Authority was the only entity that submitted financial statements not requiring any material adjustments. A contributor to the better quality of financial statements at departments is the departments' review process of the financial statements. All departmental financial statements are reviewed by the internal audit unit and audit committee before submission. This good practice should be replicated at all public entities.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material compliance finding, as it constitutes non-compliance with the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) (refer to section 2.3). However, although the Northern Cape Provincial Legislature is included in figure 5 as having made material adjustments to its financial statements, it did not have a finding of non-compliance for material adjustments in its audit report. The reason is that although the department made material misstatements, it is not required to comply with the PFMA.

The finding is only reported if the financial statements we received for auditing included material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report non-compliance if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure which was identified after the financial statements were submitted. None of the auditees were prevented from having a clean audit opinion by this particular compliance finding. This clearly indicates that internal control deficiencies result not only in misstatements in the financial statements, but also in non-compliance matters in other areas.

The most common area that departments corrected to achieve unqualified audit opinions related to disclosure notes: for example, unauthorised and irregular expenditure, fruitless and wasteful expenditure, commitments, contingent liabilities, accruals and employee benefits disclosure notes. This was due to a lack of proper processes being implemented, management not performing thorough reviews and poor record management.

At the public entities, more areas had to be corrected to achieve unqualified audit opinions including current assets, current liabilities, finance leases, revenue from exchange and non-exchange transactions, irregular expenditure, biological assets, related parties, cash flow statement and disclosure of events after the reporting date. To a great extent, this can be attributed to a lack of understanding of the Generally Recognised Accounting Practice (GRAP), which is a more complex accounting framework than the Modified Cash Standard that departments report on.

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

## Financial statement areas qualified

Even though we reported the material misstatements to management for correction, five auditees (2012-13: seven) could not make the necessary corrections to the financial statements, which resulted in qualified audit opinions. The major reason for not making the corrections was a lack of proper records to make corrections from, as adequate processes were not in place to prepare and review financial information.

Figure 6: Top three financial statement qualification areas

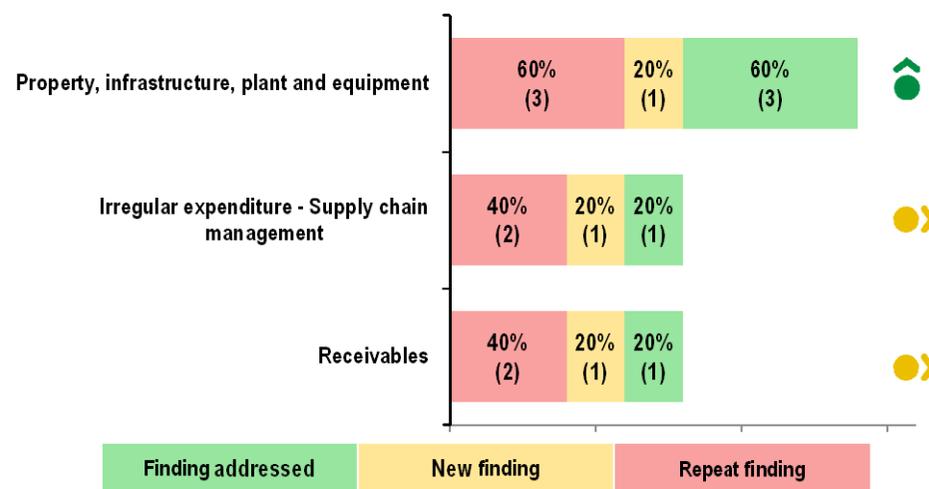


Figure 6 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year.

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

### Property, infrastructure, plant and equipment

The process of preparing supporting schedules and registers for capital projects started late in the financial year at the Department of Education. This can be attributed to the fact that some key appointments were only made towards the end of the financial year. Consultants were appointed to assist in this regard, but the schedules and registers prepared by the consultants were not properly reviewed, resulting in differences between the auditee's records and the registers prepared by the consultants. Additionally, not all projects were included in the assets register, moveable assets were incorrectly valued at R1 instead of fair value, assets identified during physical verifications could not be traced to the asset register and assets in the asset register could not be physically verified.

Both the departments of Health and Education could not submit support for immovable assets transferred to the Department of Roads and Public Works. The Department of Health also had no supporting documentation in general for both immovable and moveable assets, as their fixed asset register was incomplete.

Some asset values at the Department of Sport, Arts and Culture could not be confirmed. In addition, there was no evidence that all projects completed in the current year were transferred to the immovable asset register. This was caused by incorrect and incomplete asset registers that did not reconcile to the general ledger. The assets limitations in the current year extended to all non-current assets, whereas in the previous year the assets limitations were limited to library materials.

The Northern Cape Fleet Management Trading Entity could not supply evidence that the vehicles used to maintain the provincial road infrastructure were properly valued. The reason is the inadequate systems to ensure proper record keeping.

The Northern Cape Provincial Legislature addressed the asset qualification from the previous year by taking the findings raised by the auditors seriously and implementing an audit action plan. The asset unit was capacitated and, because the staff appointed had the required skills, the department was able to avoid this qualification in the current year.

The asset manager at Kalahari Kid Corporation attended GRAP training and this, in combination with the application of his newly obtained knowledge, enabled the entity to address their previous year's qualification on assets.

### *Irregular expenditure*

The departments of Health and Sport, Arts and Culture understated irregular expenditure due to payments made in contravention of supply chain management (SCM) requirements. These departments did not supply audit evidence that all irregular expenditure had been disclosed, as the departments did not have systems in place to detect and prevent irregular expenditure.

Similarly, the Northern Cape Economic Development, Trade and Investment Promotion Agency did not have systems to identify and report on all irregular expenditure in the previous year. During the current audit, undisclosed irregular expenditure relating to the previous year was identified, and the entity was not able to substantiate whether all irregular expenditure had been disclosed in the previous year. This was because controls around record keeping were lacking and accounting records were inadequately reviewed.

The same audit action plan that was implemented at the Northern Cape Provincial Legislature and discussed under the property, plant and equipment section above assisted the department in addressing the previous year's qualification on irregular expenditure. The skill level of the newly appointed staff in the financial department ensured that record management improved and that supporting documentation could be provided when requested by the auditors.

The high prevalence of irregular expenditure in the province is of concern and demonstrates that the political leadership is slow to respond to our recommendations.

## *Receivables*

The receivables at the Department of Health were misstated as overtime and allowances were overpaid and not recovered from the relevant employees as some financial controls within the department were not functioning effectively. In addition, accrued departmental revenue was understated as controls over the money received from patients were inadequate.

The Department of Sport, Arts and Culture made prepayments without goods and services being received in return. This was caused by a lack of controls to ensure that payments were only made for goods and services actually received.

The Northern Cape Provincial Legislature was also qualified on receivables in the previous year, but addressed this qualification in the current year. As explained under the two previous sections, the implementation and monitoring of an audit action plan and the appointment of skilled individuals contributed to the department's ability to avoid this qualification in the current year. Supporting documentation was provided for receivable balances, which can be attributed to improved record keeping and a better review of information before submission to the auditors.

## *Recommendations*

Auditees that received qualified opinions and those that submitted poor quality financial statements for auditing should strengthen their processes and controls to create a control environment that supports reliable reporting. For such auditees, we recommend the implementation of at least the following key controls:

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

At the departments of Health and Education the qualifications on assets can be strongly linked to vacancies and instability in the asset department and instability at chief financial officer (CFO) level. We found that the regional officials in charge of assets are not properly managed and monitored. The John Taolo Gaetsewe District is especially problematic and the following challenges relating to asset managers were experienced:

- Commitment to assist the auditors
- Knowledge of the location of assets
- Understanding of the audit process
- Skill level of staff.

A proper assets process, including frequent asset counts, needs to be implemented at all regional offices and the accounting officer needs to hold staff accountable for ensuring complete and accurate asset record keeping.

The Northern Cape Fleet Management Trading Entity should improve its record keeping and controls of the leased vehicles the entity uses to maintain the provincial road infrastructure. The human resource (HR) management of this entity should be improved by separating the entity completely from the department to ensure accountability. Currently the Northern Cape Fleet Management Trading Entity does not have clear lines of responsibility because the Department of Roads and Public Works' staff is also responsible for managing the trading entity. The staff shared by the two auditees tends to prioritise responsibilities relating to the department, resulting in the entity's accounting records often not being up to date.

### *Irregular expenditure*

There is a general **slow response by management** to addressing matters we have identified previously, resulting in repeated misstatements on the financial statements they submit.

The inability to obtain audit evidence is proof of a general reactivity by many auditees, as proper controls and monitoring of those controls are not in place and they attempt to correct errors only when identified by the auditors. Controls need to be implemented and monitored to ensure accurate and complete financial reporting throughout the year. This is particularly important at the larger departments, where it is often not possible to obtain all supporting documentation at year end due to the number of transactions they process daily.

It is recommended that controls are strengthened by implementing SCM compliance checklists, which should be attached to all payment vouchers and signed off by a preparer and a reviewer. Furthermore, regular training on SCM developments should be rolled out to all staff involved in procurement processes.

### *Receivables*

The receivables qualifications at the departments of Health and Sport, Arts and Culture are direct results of inadequate controls. At the Department of Health, controls over cash received from patients were insufficient mainly due to the lack of a uniform system to record patient fees. As a result, we were unable to obtain assurance that all these amounts were paid into the department's bank account. At the Department of Sport, Arts and Culture, controls over payments were insufficient as the department made payments on quotations, without any goods and services being received in return. For both these departments, stricter controls over payments and receipts are needed to ensure proper accounting for receivables and the related receipts and payments.

## 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.

We audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable for oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select are those that are important for the delivery by the auditee on its mandate. In the audit 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: Three-year trend in annual performance reports**

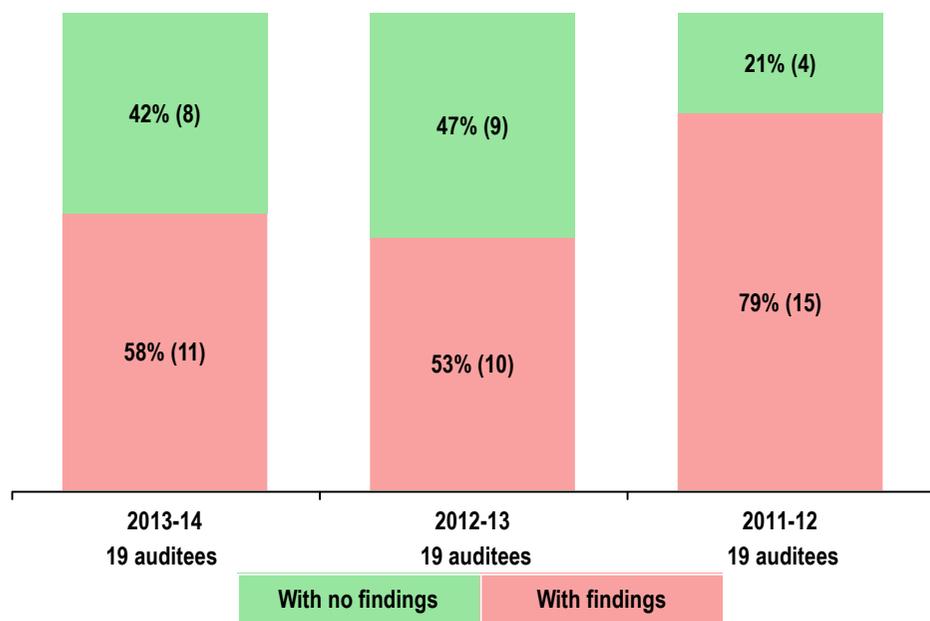


Figure 7 shows that there has been a regression in the number of auditees with material findings on the quality of their annual performance reports when compared to the previous year. Overall, almost half the departments in the province did not have material findings on their performance reports, while only one of the six listed public entities obtained this. This can be attributed to many public entities not prioritising the reporting of performance information, resulting in some entities not submitting performance information while others submit performance information that is not well supported. The accounting authorities of these entities are not doing enough to ensure accountability, specifically relating to performance management.

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

While most auditees, with the exception of the Department of Cooperative Governance, Human Settlements and Traditional Affairs and the Northern Cape Liquor Board, submitted their annual performance reports for auditing on time, figure 2 shows that only six auditees (32%) submitted annual performance reports that did not contain material misstatements. The Northern Cape Liquor Board submitted its annual performance report three weeks late, while the

Department of Cooperative Governance, Human Settlements and Traditional Affairs only submitted its annual performance report on 4 July, as it did not consolidate and review its performance information in time. The auditees that submitted quality performance reports were four of the five that obtained clean audit opinions, as well as the Department of Sport, Arts and Culture and the Office of the Premier.

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

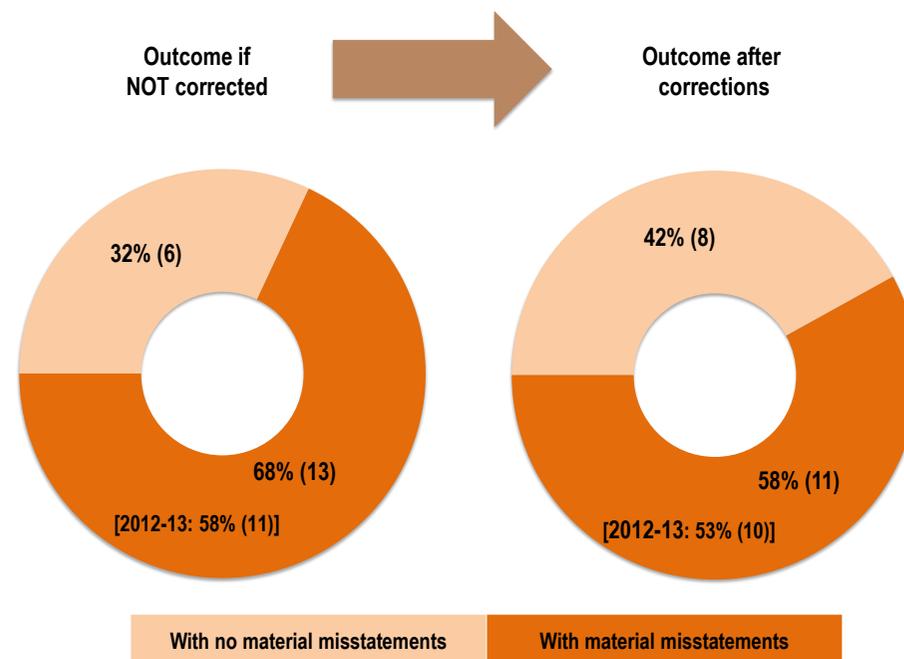


Figure 8 shows that eight auditees (42%) did not have any material findings. This is only because certain auditees corrected all the misstatements we had identified during the audit. The Department of Agriculture, Land Reform and Rural Development and the Northern Cape Tourism Authority had no findings on the reliability of performance information as they were allowed the opportunity to make the necessary adjustments.

## Findings on usefulness and reliability of annual performance reports

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

Auditee	Programme/objective	Not Useful	Not reliable
Health	Programme 2: District health services	x	x
	Programme 4: Provincial hospital services	x	x
	Programme 5: Provincial tertiary hospital services	x	x
The Northern Cape Provincial Legislature	Programme 3: Parliamentary services	x	x
Cooperative Governance, Human Settlements and Traditional Affairs	Programme 2: Human settlements	x	x
	Programme 3: Cooperative governance	x	x
Education	Programme 2: Public ordinary school education		x
Transport, Safety and Liaison	Programme 4: Transport operations	x	x
Roads and Public Works	Programme 4: Community based programme	x	x
Northern Cape Liquor Board	Programme 4: Awareness programmes, compliance and enforcement on pages 30 to 34		x
Northern Cape Gambling Board	Programme 2: Gaming control		x

The table above does not include findings on the Northern Cape Economic Development, Trade and Investment Promotion Agency, Kalahari Kid Corporation and the Northern Cape Fleet Management Trading Entity, which did not submit performance reports at all.

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

- Three auditees had performance targets in their strategic plans that were not measurable.
- Three auditees had indicators/measures that were not verifiable.
- The indicators/measures in the strategic plans of three auditees were not well defined.

The auditees are still struggling to ensure the usefulness of information, mainly due to a combination of department-specific complexities, competency and capacity challenges. Moreover, systems are lacking to properly collate information collected.

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

- Reported performance information was not valid when compared to source documentation in the performance reports of seven auditees.
- Reported performance information was not accurate in the performance reports of six auditees. This means that although there was support for the reported performance, it was not accurately calculated.
- Seven auditees did not report on all their planned targets as per their strategic plans, resulting in their performance information not being complete.

To improve on the reporting of performance information, auditees should ensure the right tone from the top, prioritising reporting on performance reports. There should be effective oversight, consequence management for poor performance and proper record keeping.

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

The performance audit on the readiness of government to report on its performance was conducted during the 2010-11 to the 2012-13 financial years at:

- selected central performance oversight institutions
- selected national departments with concurrent functions
- provincial oversight institutions (provincial treasuries and offices of the premier) at all nine provinces

- identified provincial departments (the audit focused on the four sectors that had the highest total government expenditure, namely education, health, public works and social development).

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

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

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

- **Oversight institutions**
  - Office of the Premier
  - Provincial Treasury

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

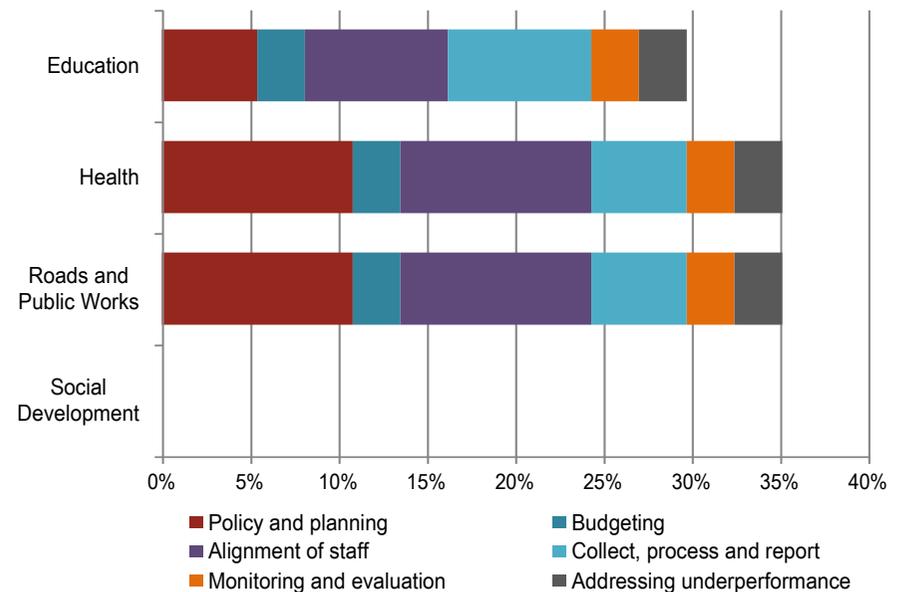
- **Departments**
  - Department of Education
  - Department of Health
  - Department of Roads and Public Works
  - Department of Social Development

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

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

- Staff was not always held accountable for underperformance in reporting on performance and/or achieving performance targets.
- At some departments approved processes and system documentation for collecting, collating, verifying, storing and reporting on actual performance did not exist.
- Internal audit sections of some departments did not perform annual reviews of performance information, or their reviews did not focus on the usefulness and reliability of reported performance information.
- Material deviations between planned and actual performance were not explained by some departments. In addition, evidence to support explanations was not maintained or explanations were not reviewed by management.
- Action plans were not always developed to ensure prompt corrective action where underperformance occurred and/or where performance reporting shortcomings were identified.

**Figure 9: The distribution of findings for the Northern Cape**



Although the province made significant strides in reporting performance information in the past three years, the leadership at some departments have still not realised the importance of accurate reporting on the usefulness and

reliability of their performance information. This should coincide with enforcing accountability where officials do not take their responsibility of ensuring accurate performance reporting seriously.

## 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:

- The heads of department (HoDs) of the departments of Health, Roads and Public Works and Cooperative Governance, Human Settlements and Traditional Affairs did not ensure effective, efficient and transparent systems of internal control regarding performance management. This resulted in these departments not having formal systems to govern performance management, which is the root cause of their findings. The most common findings on compliance with key legislation in strategic planning and performance management were:
  - the lack of specific and appropriate information systems to enable targets and core objectives to be monitored as per the strategic/annual performance plan.
  - the HoD/board did not establish procedures for quarterly reporting to the MEC.
  - the HoD/board did not ensure that the auditee had, and maintained, an effective, efficient and transparent system of internal control regarding performance management.
- The HoD of the Department of Cooperative Governance, Human Settlements and Traditional Affairs as well as the board of Kalahari Kid Corporation did not establish procedures for quarterly reporting to the MEC, resulting in the political leadership of these auditees not being regularly updated on the status of performance information.
- The annual performance reports of Kalahari Kid Corporation, the Northern Cape Fleet Management Trading Entity as well as Northern Cape Economic Development, Trade and Investment Promotion Agency, were not prepared.
- The Department of Education avoided material findings on usefulness in their audit report because they corrected all the misstatements we identified during the auditing process. They did not originally have reasons for variances, but subsequently inserted these when the auditors identified this issue. This issue should have been identified during the review of the annual performance report.

## Recommendations

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

For such auditees we recommend the implementation of at least the following key controls, and some **best practices**, which are in place at auditees that submitted quality performance reports separately:

- Leadership should set the tone, emphasising that submitting and accurately reporting performance information is just as important as the reporting of financial information, and should hold their HoDs accountable for performance information. The current lack of accountability stems from the lack of consequences for unreliable performance reports. We noted that the employees responsible for performance information at the six departments that submitted accurate performance reports were motivated individuals taking their responsibility to monitor and evaluate performance information seriously.
- Effective oversight of district offices should be exercised. There should be a consistent format for information collected from district offices. The information received by the head office should also be reviewed monthly against supporting records and schedules.
- There should be proper oversight of public entities. The fact that only one of the six public entities was able to submit a quality performance report is of concern. The relevant oversight departments need to understand the root cause for this and implement the necessary actions.
- Many departments have long-standing issues with record keeping relating to performance information. Management should respond to this matter with a system that will ensure that proper record keeping and review are implemented. A good example is the Department of Social Development, where record keeping processes contain the necessary checks to ensure accurate and complete record keeping. People are held accountable; therefore, each person makes sure they do what is required of them.
- Regular and accurate reporting is also very important. At many auditees, the quarterly reporting is done, but not reviewed properly against the strategic plan and supporting documents. Collation of information from different districts usually happens quarterly, but no supporting documentation is requested and no review takes place during the year. This results in issues only being identified after year-end, when it is too late. These issues will only be addressed if the year-end processes of obtaining supporting documentation and review are done quarterly.

## 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 management and compensation.

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

### Status and findings on compliance with key legislation

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

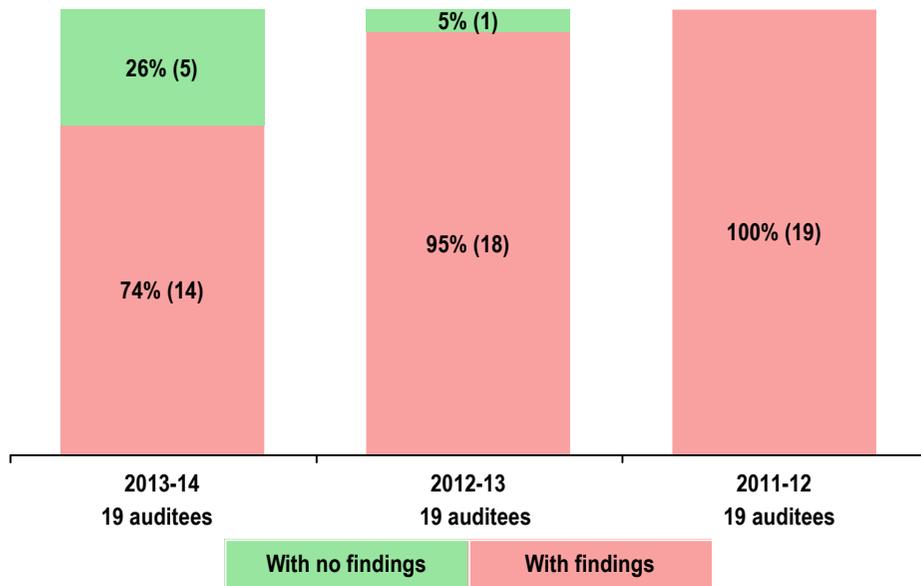


Figure 10 shows that there has been an improvement in the number of auditees with no material findings on their compliance with key legislation when compared to the previous year. The overall improvement in compliance was due to the following three departments and one public entity, which addressed their past findings on compliance:

- Environment and Nature Conservation
- Economic Development and Tourism
- Northern Cape Provincial Treasury
- Northern Cape Tourism Authority.

The largest service delivery departments in the province, Education, Health and Roads and Public Works, all had material findings on compliance.

Figure 11: Trends in findings on compliance with legislation

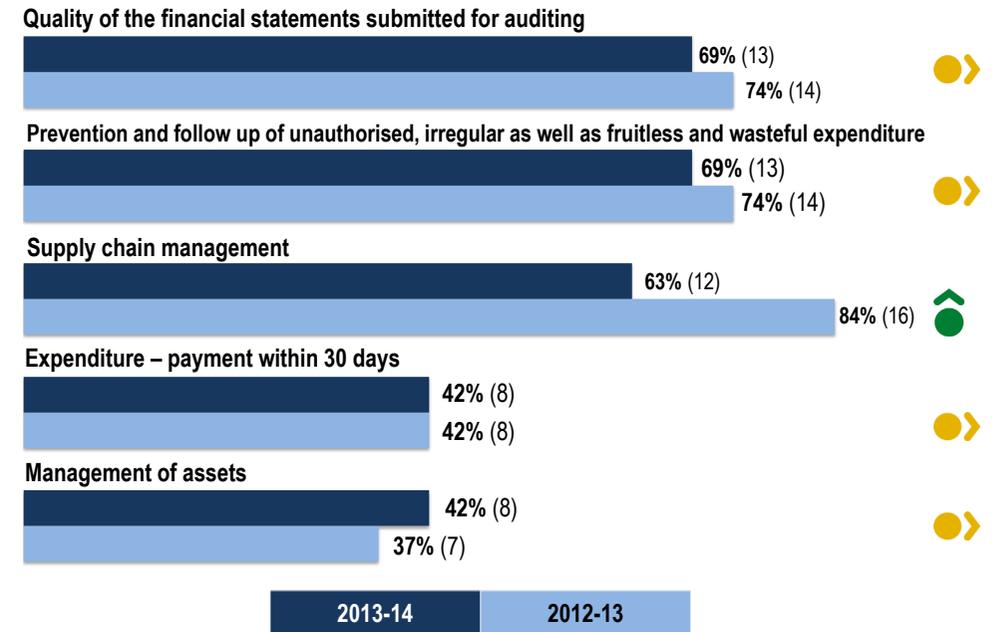


Figure 11 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. The most common findings across these compliance areas were the following:

- Material misstatements or limitations in the financial statements submitted for auditing, as mentioned in section 2.1.

- Unauthorised/irregular/fruitless and wasteful expenditure was not prevented or adequately dealt with (refer to section 2.3.2 for more detail).
- Non-compliance with SCM legislation (refer to section 2.3.1 for more detail).
- Contractual obligations and money owed by the department was not paid within 30 days or an agreed period.
- Adequate asset management systems were not in place to safeguard assets.

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

## 2.3.1 Supply chain management

As part of our audits of SCM, we tested 286 contracts (with an approximate value of R848 million) and 1 525 quotations (with an approximate value of R189 million), also referred to as *awards* in this report.

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

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

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

**Figure 12: Status of supply chain management**

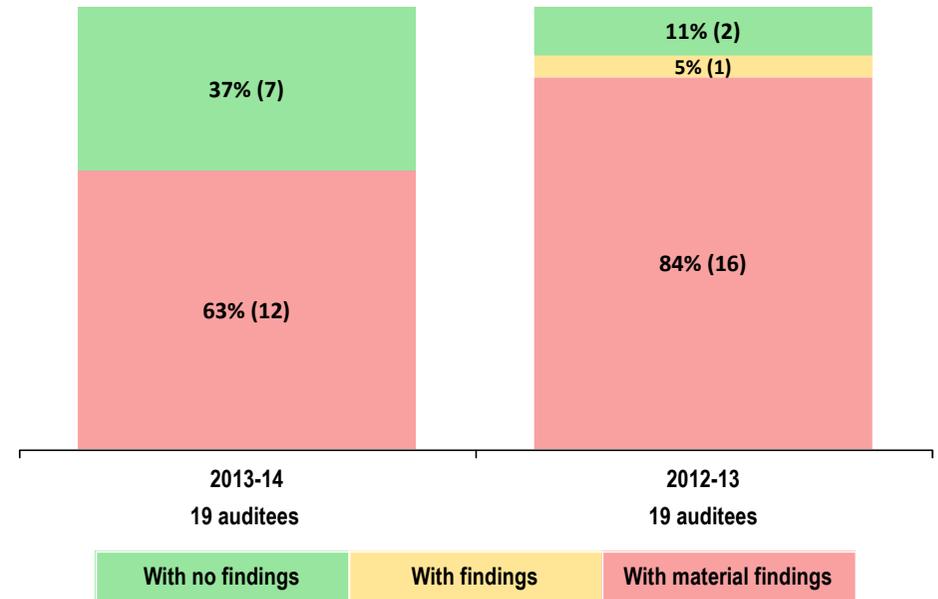


Figure 12 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous years. It shows that there has been an improvement when compared to the previous year. The overall improvement in SCM was also due to the following four departments and one public entity:

- Social Development
- Environment and Nature Conservation
- Economic Development and Tourism
- Northern Cape Provincial Treasury
- Northern Cape Economic Development, Trade and Investment Promotion Agency.

There was a definite improvement in the SCM controls at the four additional auditees that received clean audit opinions, as well as the Department of Social Development, which sustained its clean audit opinion. For many of these auditees, compliance with SCM requirements was the only finding that prevented them from obtaining a clean audit opinion in the past. The desire and commitment to obtain/sustain a clean audit opinion ensured that they improved their internal controls in the SCM environment, which were implemented and

monitored regularly. The best practices of these auditees are shared in the recommendations in section 2.3.3.

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

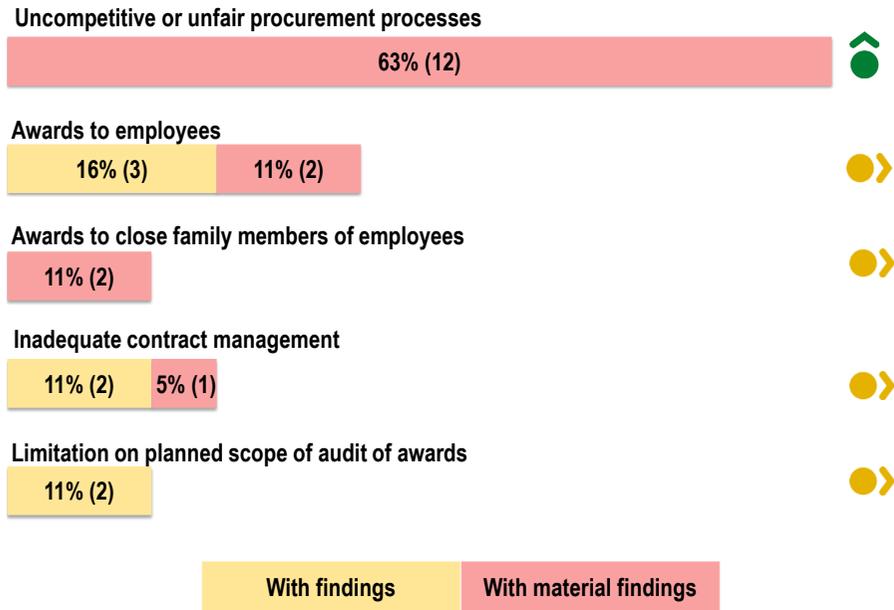


Figure 13 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year we again experienced limitations in auditing SCM. We could not audit awards with a value of R8,5 million at 2 auditees, the departments of Sport, Arts and Culture and Cooperative Governance, Human Settlements and Traditional Affairs, as they could not provide us with evidence that awards were made according to the requirements of SCM legislation. We also could not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular. The financial statements of the Department of Sport, Arts and Culture were qualified due to this limitation and the lack of supporting documents. Five auditees disclosed all amounts identified by auditors as irregular expenditure under investigation, thereby avoiding a qualification.
- The most common findings on uncompetitive and unfair procurement processes were:

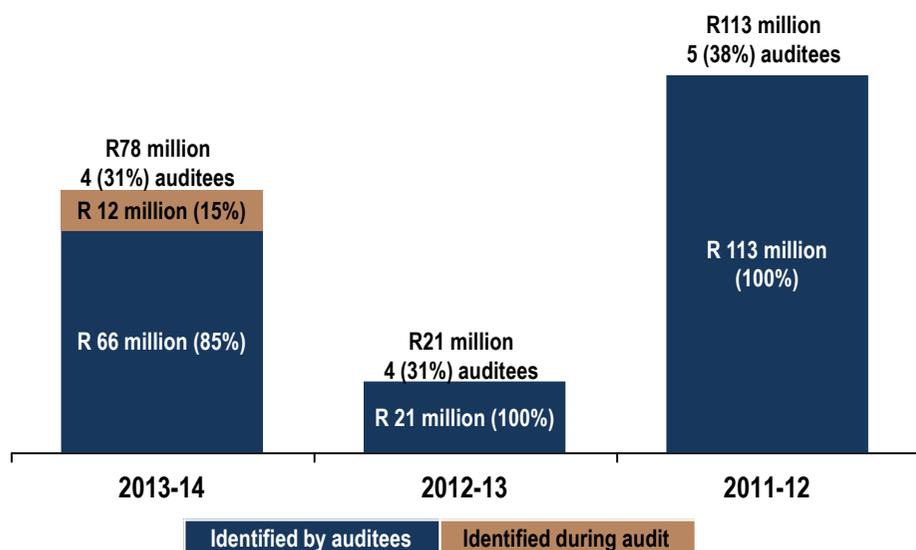
- Seven departments and three public entities did not always invite three written quotations for purchases; neither did they approve deviations in this regard.
- Six departments and one public entity made purchases from suppliers without obtaining tax clearance certificates.
- Three auditees awarded tenders without inviting competitive bids, and no deviations were approved for this.
- The most common findings on contract management were:
  - The departments of Sport, Arts and Culture and Roads and Public Works amended or extended tenders without obtaining the relevant approval.
  - The tenders awarded by the Kalahari Kid Corporation were not signed by the relevant official, and evidence that contract performance measures were in place could not be obtained.

## 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**



The departments of Education, Health and Cooperative Governance, Human Settlements and Traditional Affairs, incurred a total of R77 million in unauthorised expenditure, which was 99% of the total amount incurred in the province.

- Education - R38 million
- Health - R27 million
- Cooperative Governance, Human Settlements and Traditional Affairs - R12 million

At the Department of Cooperative Governance, Human Settlements and Traditional Affairs, none of the unauthorised expenditure was identified by the department; all unauthorised expenditure was identified by the auditors, which was also the main source of the material corrections to their financial statements.

Of the R78 million in unauthorised expenditure incurred in 2013-14, the entire amount (100%) was as a result of overspending provincial budget estimates.

- At the Department of Education, the over expenditure related to an intervention programme for grade 12 learners held in the John Taole Gaetsewe District. This was actually an unplanned extension of the initial programme for the grade 11 learners due to the strikes during the 2012-13 and 2013-14 financial years. The department was unable to reprioritise

funding to prevent the programme from overspending. There was also over expenditure on learner support material due to an unplanned increase in learner numbers, transfers and subsidies due to the payment of leave gratuities and a shortfall on section 21 norms for funding to schools.

- At the Department of Cooperative Governance, Human Settlements and Traditional Affairs, the overspending was related to both the compensation of employees as well as goods and services. Overspending on goods and services was made up of fixed monthly operating expenditure not properly planned and budgeted for, as well as subsistence and travel expenditure, and consumable supplies. The over expenditure on employee costs related to the appointment of more community development workers at municipalities than was budgeted for.
- At the Department of Health, unauthorised expenditure was not limited to employee costs. A large amount of the overspending related to goods and services. This was because of poor planning, as most of it came from the Kimberley Hospital Complex, which is a tertiary facility that should only treat referrals and provide limited primary health services. However, while it functioned as a tertiary hospital, it also offered more primary services than budgeted, resulting in unauthorised expenditure.

At three auditees (23%) the unauthorised expenditure of the previous year was not investigated by the accounting officers, as required by legislation, to determine if any person was liable for the expenditure. These three auditees were:

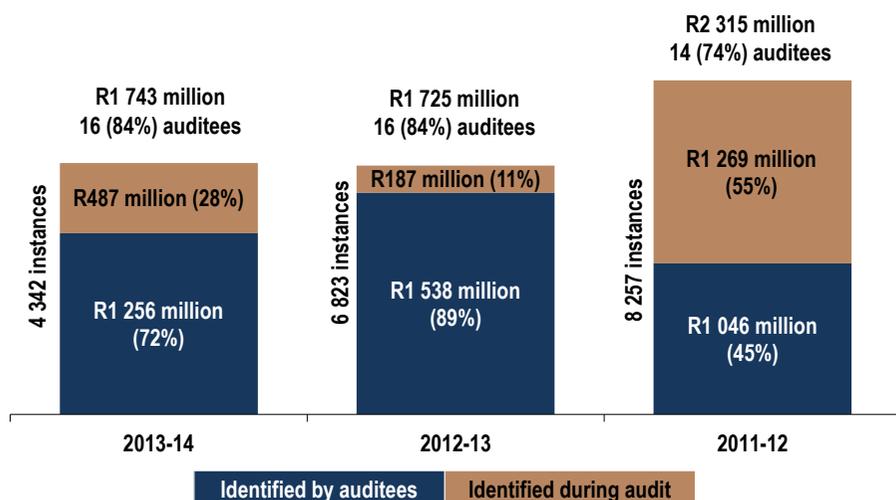
- Education
- Health
- Cooperative Governance, Human Settlements and Traditional Affairs

### *Irregular expenditure*

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

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

**Figure 15: Auditees incurring irregular expenditure**



The departments of Health and Education incurred R1 003 million (2012-13: R1 064 million) and R349 million (2012-13: R393 million) respectively in irregular expenditure, which was 78% (2012-13: 85%) of the total amount incurred by the province.

The increase is primarily related to irregular expenditure that was incurred in previous years and identified in the current year. The reason is that auditees' internal controls did not always detect the irregular expenditure in a timely manner, as most auditees' systems are too weak to identify irregular expenditure throughout the year. They also do not always stay up to date with changes in legislation, and therefore cannot identify additional sources of irregular expenditure. In most cases the auditees do not have a dedicated compliance officer.

- The Department of Health failed to identify 39% of its irregular expenditure, which suggests that it relied on the auditors to identify further instances of irregular expenditure.
- The Department of Roads and Public Works incurred irregular expenditure worth R156 million. Of this, 73% related to the previous year.
- At the Department of Cooperative Governance, Human Settlements and Traditional Affairs, 43% of the irregular expenditure of R49 million was identified by the auditors.

- The Northern Cape Provincial Legislature is not required to adhere to any procurement-related legislation except for the Preferential Procurement Policy Framework Act, which significantly reduces the scope of their SCM compliance requirements. Compliance with the Preferential Procurement Policy Framework Act requirements was, however, still a challenge for this department as irregular expenditure of R5,9 million relating to SCM was again incurred.

Auditees do not have an adequately designed system to record and disclose irregular expenditure and often rely on the auditors to identify it. However, relying on auditors to assist in identifying irregular expenditure is imprudent as we audit on a sample basis.

The departments of Health and Sport, Arts and Culture, as well as the Northern Cape Economic Development, Trade and Investment Promotion Agency could not avoid the qualification on completeness because they did not investigate the irregular expenditure to identify the full extent of the error, which they will only do effectively by implementing proper controls.

The above departments did not keep proper records of their irregular expenditure. Testing done on the previous year's irregular expenditure indicated that departments still do not implement controls to identify irregular expenditure and that irregular expenditure is not investigated as it should be.

Poor oversight by departments of both implementing agents and entities, as well as poor oversight by the political leadership of their departments, often resulted in irregular expenditure.

- The Department of Health is responsible for causing 58% of the provincial irregular expenditure. However, neither the leadership's investigation of the irregular expenditure, nor consequences for officials was apparent.
- At the Department of Education, most of the irregular expenditure resulted from expenditure where the Independent Development Trust was the implementing agent. This indicates that the department did not properly monitor the performance of the implementing agent.
- Similarly, the Department of Cooperative Governance, Human Settlements and Traditional Affairs' irregular expenditure related primarily to poor oversight of municipalities that are the implementing agents for building low cost houses.
- The learner transport programme was transferred from the Department of Education to the Department of Transport, Safety and Liaison, as an existing irregular contract. This contract was the main source of the Department of Transport, Safety and Liaison's irregular expenditure.

The R1 743 million of irregular expenditure incurred in the current year constitutes an estimated 14% of the total expenditure budget of the province.

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

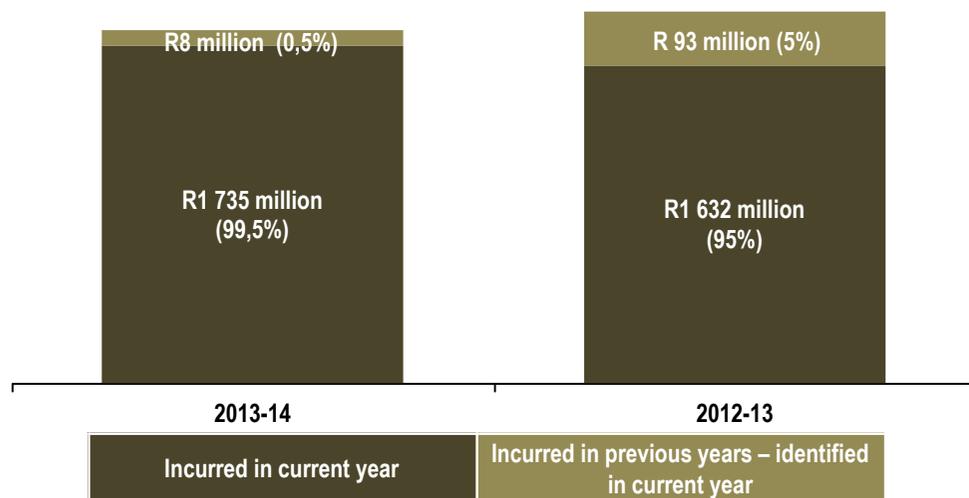


Figure 16 shows that 99,5% of the expenditure was the result of acts of non-compliance in 2013-14, while an insignificant 0,5% relates to 2012-13.

Of the R1 743 million incurred in irregular expenditure in 2013-14, most (97%) was 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 without a competitive bidding or quotation process – R748 million (43%)
- Non-compliance with legislation on contract management – R6 million (0,4%)
- Non-compliance with procurement process requirements – R937 million (54%)

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

At 31 March 2013, the auditees' financial statements showed that the balance of irregular expenditure in the province that required action to be taken was R5 625 million. It is of concern that in 2013-14, only R586 million was dealt with as required by legislation, leaving a balance of R6 782 million at the end of the 2013-14 financial year.

At 10 auditees (53%) the irregular expenditure of the previous year was not investigated by the accounting officer or oversight body to determine whether any person was liable for the expenditure. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any money was wasted. This clearly indicates that no effective steps are being taken to remedy the situation at these auditees.

We did not perform any investigations into the irregular expenditure as that is the role of the accounting officer and oversight body.

However, through our normal audits we determined that goods and services were received for R778 million (45%) of the irregular expenditure despite the normal processes governing procurement not being followed. We could not determine whether goods and services were received for R9 million (0,5%) of irregular expenditure due to a lack of supporting documents at the departments of Sport, Arts and Culture, as well as Cooperative Governance, Human Settlements and Traditional Affairs.

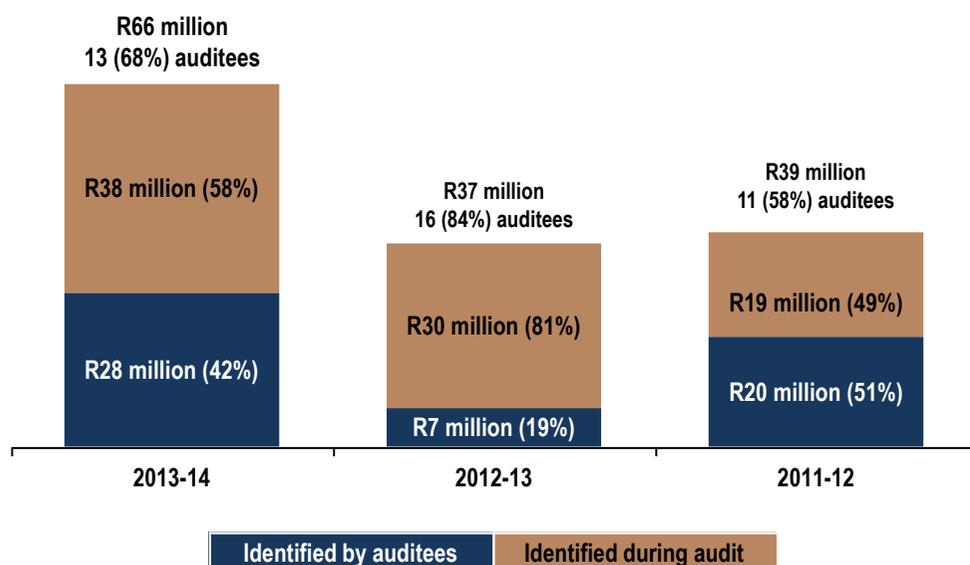
For the remainder of the amount (R956 million; 55%) of irregular expenditure we could not specifically confirm that goods and services had been received.

### *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**



The departments of Health and Cooperative Governance, Human Settlements and Traditional Affairs incurred R64 million, in fruitless and wasteful expenditure, which was 97% of the R66 million incurred in the province.

- The Department of Cooperative Governance, Human Settlements and Traditional Affairs made payments of R44 million to rectify reconstruction and development programme houses. Some of this money was spent to prevent further losses; e.g. to avoid civil claims. The department did not identify 69% of this amount as fruitless expenditure as its systems were inadequate to prevent and detect fruitless and wasteful expenditure.
- The Department of Health made payments of R9 million in interest charged on overdue payments as payments to suppliers were not made within the legislated 30 days. The department also paid R11 million in litigation and claims instituted against the department for negligence and unfair dismissals.

The PFMA provides steps that accounting officers should take to investigate fruitless and wasteful expenditure, to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

At 10 auditees (53%) the fruitless and wasteful expenditure of the previous year was not investigated by the accounting officer or oversight body to determine if any person was liable for the expenditure.

Fruitless and wasteful expenditure is a particularly sensitive topic for the public, as it is taxpayers' money that would not have been spent had the departments exercised due care in the first place. There should be harsh consequences where gross negligence or malicious intent can be proven.

### 2.3.3 Recommendations – compliance

Auditees that had findings on compliance with key legislation and SCM, and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure should strengthen their processes and controls to create and sustain a control environment that supports compliance. For such auditees we recommend the implementation of at least the following key controls and best practices:

- The political leadership should change their focus by striving not only towards unqualified financial statements, but also towards addressing findings on compliance with legislation as a part of clean administration.
- Controls to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure should be improved, as many auditees had undisclosed amounts in their financial statements. The auditees should implement strict processing and reconciling controls. Compliance should be reviewed regularly and existing contracts on which irregular expenditure is being incurred should be cancelled and re-advertised in compliance with SCM regulations.
- All instances of unauthorised, irregular and fruitless and wasteful expenditure should be investigated to identify the responsible person and consequences should be put in place for incurring this type of expenditure. Funds should be recovered from the person held liable in law, and disciplinary action taken against people who make or permit this expenditure.
- Oversight of entities and implementing agents should be improved as these are a primary source of irregular expenditure. Departments should strengthen oversight of their entities, assist the entities in terms of funds and hold the entities accountable for implementing action plans.
- Record keeping should be improved, because some departments are not able to produce the required supporting documents when requested.
- HR management in the compliance units should be improved as follows:

- A specific person should be assigned the responsibility of overseeing all compliance and reporting on this section of the auditees' action plan. The tone set by leadership in monitoring this responsibility is important. The task should be assigned to the CFO or someone working closely with the CFO, as many non-compliance matters can result in material errors in the financial statements.
- The staff in the compliance units should receive regular training and be held accountable for remaining up to date with all applicable legislation.

Staying up to date with legislation and regularly monitoring compliance are important steps in ensuring that non-compliance with legislation is avoided. Having good internal controls for compliance will also avoid compliance findings. The five auditees that were able to obtain clean audit opinions implemented these best practices, which enabled one auditee to sustain, and four to improve their audit outcome. Without proper controls an auditee may address a specific issue in a particular year, but will often see the finding recurring at a future date.

### 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 are any events or conditions that may cast significant doubt on a public entity's ability to continue as a going concern.

Figure 18: Status of financial health

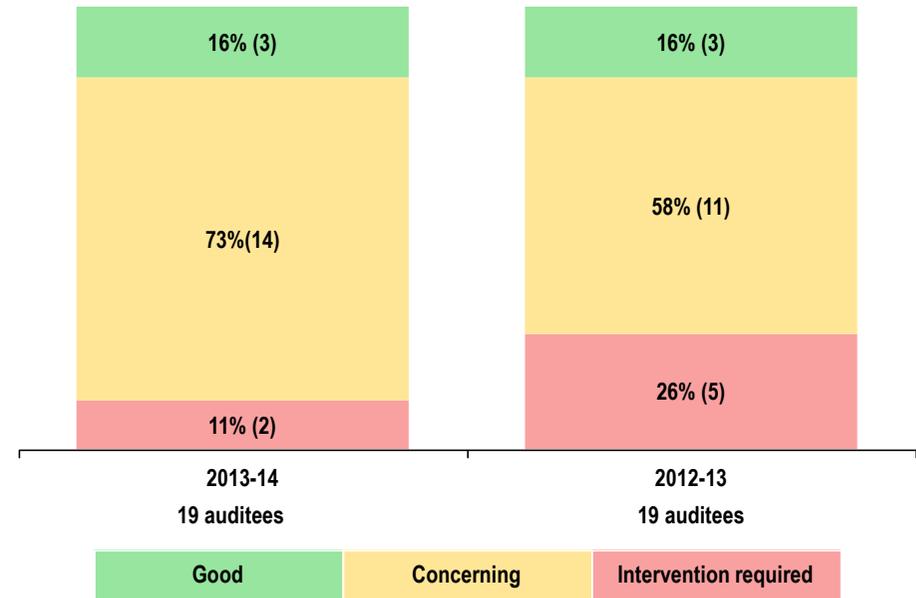


Figure 18 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning') and auditees with material going concern uncertainties or adverse or disclaimed audit opinions, which resulted in their financial statements not being reliable enough to analyse (shown as 'intervention required'). There has been a reduction in the number of auditees that had financial risk indicators when compared to the previous year.

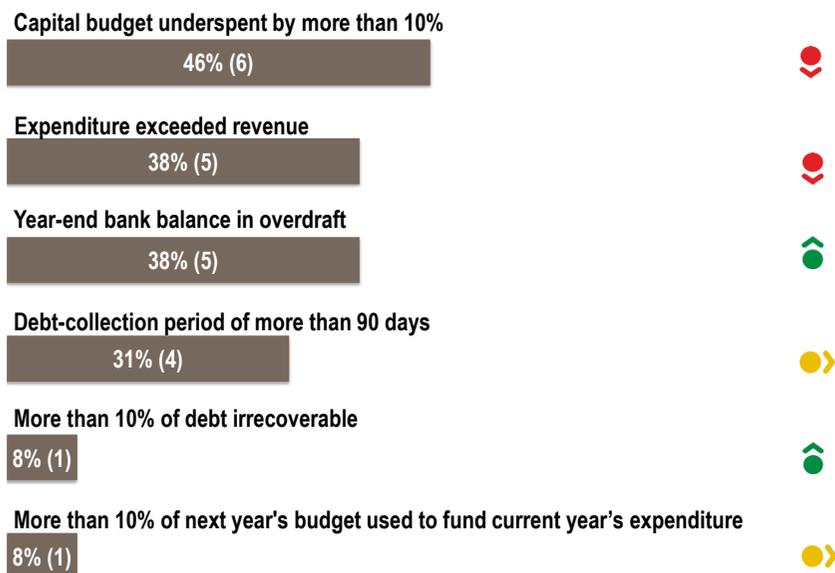
The improvement in the overall status of financial health can be attributed to the improved financial health of three public entities:

- Northern Cape Economic Development Trade and Investment Agency
- Northern Cape Gambling Board
- Northern Cape Tourism Authority.

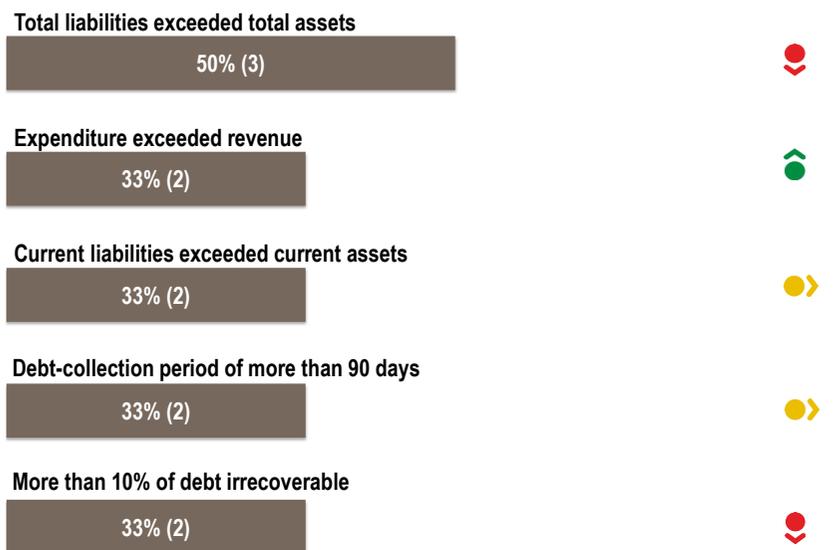
The reasons for the improvement in the financial health of these entities were significant increases in transfer payments received from controlling departments and improved budget controls within these entities.

To put this improvement in context, the combined budget of the three entities listed makes up less than half a per cent of the budget of the province.

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



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



Figures 19 and 20 show the number of auditees with indicators and movements since the previous year. These indicators are discussed in the rest of this section.

### *Financial management by departments*

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

The accrual adjusted deficit for departments showed a slight regression (7%). The most significant movement was the Department of Health, which had not had a finding in this area in the previous year, but did have a finding in the current year. The root cause was the significant payments in the current year that related to the previous year's accruals. This was also the case at most other departments that overspent their allocated budgets.

Thirty-eight per cent of departments (Agriculture, Land Reform and Rural Development, Cooperative Governance Human Settlements and Traditional Affairs, Education, Environment and Nature Conservation and Health) had bank overdrafts at year end. This is a slight improvement from the previous year (46%), but still a high percentage of departments. The main reason for this relates to the previous year's unauthorised expenditure that was not condoned. Moreover, this impacts the auditees' ability to collect debt, which compounds the issue of paying creditors within the legislated 30 days.

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

All underspending by departments related to capital budgets. None of the departments significantly underspent on conditional grants received. In the current year, 15% more departments underspent on capital budgets. The departments that showed the largest underspending were the Northern Cape Provincial Treasury (73%), Office of the Premier (43%) and Cooperative Governance, Human Settlements and Traditional Affairs (38%). This underspending related to the following:

- A municipal support programme (programme focussing on capacity building at municipalities) that was budgeted for by the Northern Cape Provincial Treasury, but no expenditure was incurred during the year due to irregularities in procurement processes that were proactively identified by the auditees.

- The Office of the Premier budgeted for the purchase of a new ministerial vehicle in the current year, but the vehicle was only purchased after year end, resulting in underspending in the current year.
- The Department of Cooperative Governance, Human Settlements and Traditional Affairs received additional funding in their adjustment budget to be spent on housing projects. The department did not plan for this additional funding and therefore was not able to spend the additional amount by year end.

## Debt management

The number of departments and public entities experiencing problems in collecting debt remained stagnant at 31% (2012-13: 31%) and included Health, Northern Cape Provincial Legislature, Roads and Public Works, Transport, Safety and Liaison, Kalahari Kid Corporation and the Fleet Management Trading Entity. Most departments' debtors relate to non-routine transactions; for example, staff debt that amounted to R141 million. The fact that departments often take a long time to recover this debt is an indication that proper controls are often not in place to deal with these transactions.

At 8% of departments (Health) (2012-13: 15%) and 33% of public entities (Northern Cape Economic Development, Trade and Investment Promotion Agency and Northern Cape Tourism Authority) (2012-13: 17%) debt was impaired by more than 10%. The total debt impaired by Health and the two public entities was R62 million. The Department of Health again wrote off the largest percentage of their debt (69%) and most of these write-offs related to patient debt.

## Financial health risks at public entities

The number of entities with going concern problems decreased significantly, from five (83%) in the previous year to two (33%) in the current year; the two are Kalahari Kid Corporation and Northern Cape Liquor Board. The reasons for this were discussed in the financial management by departments section above. Although the number of entities with a deficit decreased, the number of entities whose liabilities exceeded their assets remained high at 50%. This can be attributed to the fact that in the past many entities did not receive sufficient funding from their oversight departments and operated at a loss as these entities are not self-sustainable.

## 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 has been little improvement in the area of effective leadership. This is an area of concern that is specifically discussed below.

The controls of financial and performance management have stagnated. Even though there was an improvement in the overall audit outcomes, this is primarily due to four additional clean audit opinions. These auditees had already started improving on their internal controls in the previous year and reaped the rewards in the current year.

The improvement in governance controls is due to four auditees that have either established or increased the level of assurance provided by their internal audit units and their audit committees.

In sections 2.1 (quality of financial statements), 2.2 (quality of annual performance reports and 2.3 (compliance with legislation) we commented in detail 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	7	11	1	10	6	3	8	6	5
Human resources controls	3	15	1	6	9	4	4	9	6
ICT governance and controls	0	11	8	3	10	6	3	11	5
Audit action plans	6	12	1	7	6	6	6	10	3
Proper record keeping	6	10	3	6	8	5	6	11	2
Daily and monthly controls	5	10	4	6	8	5	5	11	3
Review and monitor compliance	5	10	4	8	5	6	5	9	5

Good	Concerning	Intervention required
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Figure 21 shows the status of the controls requiring the most attention. As illustrated, the controls relating to effective leadership require attention. An

ethical leadership culture should not only be contained in a code of conduct and written into policies and procedures, but should also be practiced diligently. Leadership should set the tone to ensure that high quality financial statements and performance reports are embedded in their culture.

HR controls are a matter of concern at most auditees. This is discussed in detail in section 4.1.

Information technology (IT) governance and controls is an area requiring intervention at oversight level, as this is not fully within the control of departments in the province. The Office of the Premier employs the Provincial Government Information Technology Officer (PGITO) and is therefore responsible for the management of the basic accounting system (BAS), the personnel salary system (PERSAL) and the logistical information system (LOGIS), which are the operating systems at all departments. The Northern Cape Provincial Treasury runs the main server of these three operating systems. Our information systems auditors have continually found the general controls of these operating systems to be unreliable, which meant that application controls were not tested. To improve IT governance and controls at all departments, the Office of the Premier must work together with the Northern Cape Provincial Treasury in an oversight capacity to ensure the reliability of operating systems in the province. Further IT issues are discussed in section 4.2.

Audit action plans should not be a list of responses to audit findings reported to management. An action plan should be restricted to the key issues that resulted in audit findings. By implication, auditees should aim for a one page action plan that clearly confers responsibility for each section of the plan. The action plan should also have predetermined time frames so that those responsible can report on their progress and be held accountable for it. Management and the audit committee's monitoring of the audit action plan is very important and will determine the impact of the action plan to a large extent.

Proper record keeping and daily and monthly controls are two very important processes in ensuring accurate and complete reporting of financial statements. This was discussed in detail in section 2.

Leadership should set the tone for compliance with legislation to be embedded in the entity's values and have zero tolerance for irregular expenditure. The MECs and HoDs should lead their departments and entities not only by their words, but more importantly, by their example.

Sections 4.1 and 4.2 provide further information on the status of the HR controls and IT 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**

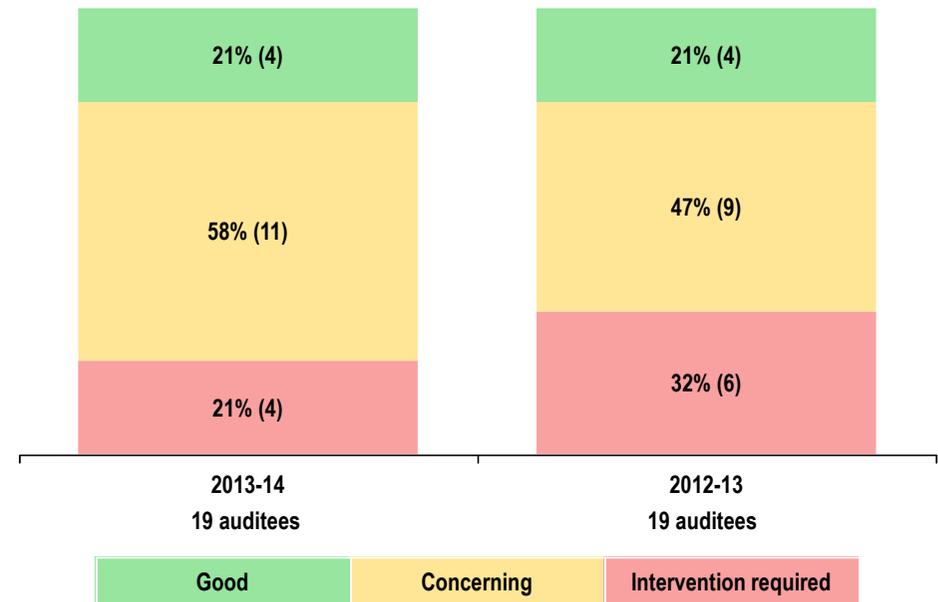


Figure 22 shows that there has been a slight improvement in the status of HR management when compared to the previous year. Four of the five auditees with clean audit opinions have fully capacitated and effectively managed HR units. Although the Northern Cape Tourism Authority obtained a clean audit

opinion for the first time this year, we are concerned that its HR unit is not fully capacitated, which resulted in control findings on HR management. This should be addressed to avoid a regression in their audit outcome.

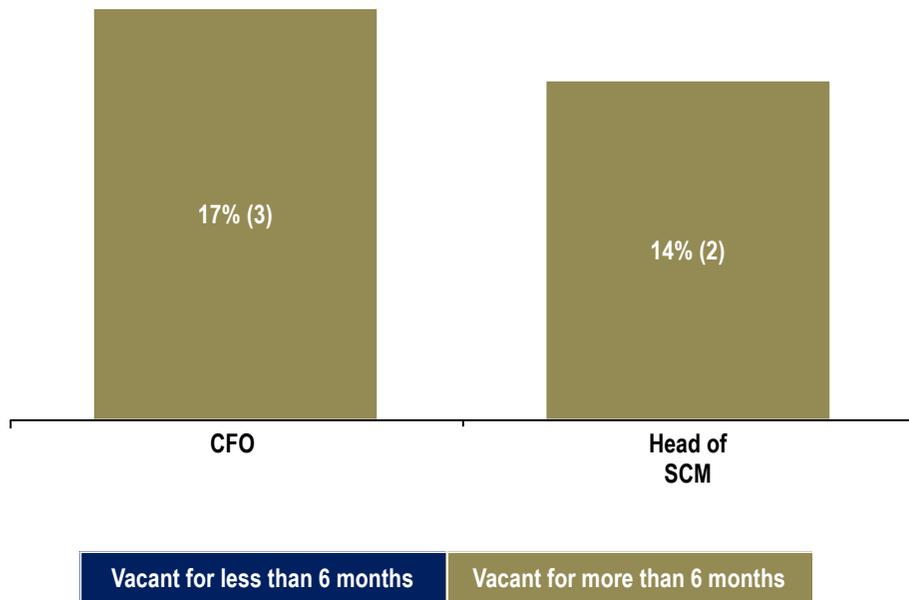
### Management of vacancies and acting positions

Figure 23 shows the number of auditees where the positions of the CFO and heads of the SCM units were vacant at year-end. It also indicates the period that the positions had been vacant. We only performed the calculation where the position was applicable and existed on the auditee's organogram.

There were no vacancies at the level of HoD (accounting officer of the department or trading entity) or the board (accounting authority of public entity) which contributed to the overall improvement of audit outcomes. Not many vacancies existed at year-end at the level of CFO or heads of SCM. It was, however, noted that vacancies at lower levels, for example asset managers, often created capacity problems at auditees. This resulted in asset qualifications and/or findings on performance information at these auditees.

The CFO position of the Department of Sport, Arts and Culture was vacant for the entire year under review, and this played a significant role in the regression of financial and some non-financial controls at this department.

**Figure 23: Vacancies in key positions**



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

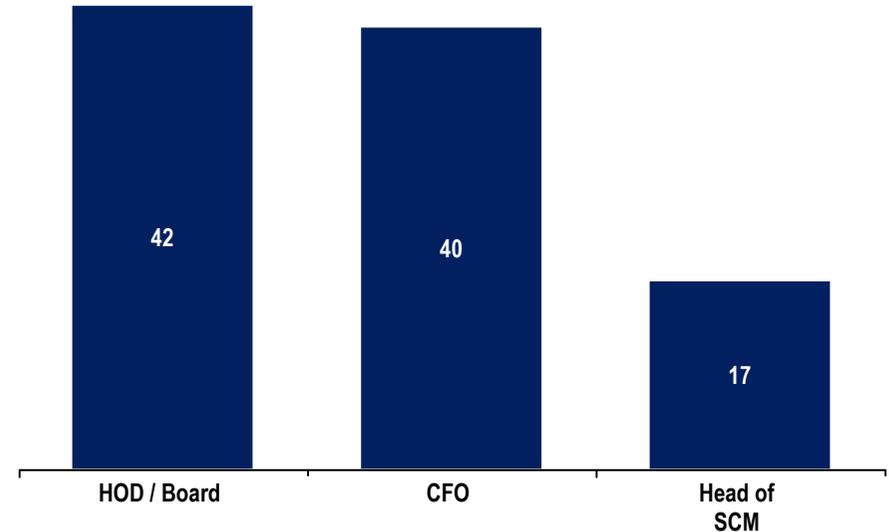


Figure 24 shows the average number of months the HoD (accounting officer of department) or the board (accounting authority of public entity), CFOs and heads of the SCM units had been in their positions.

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

- Overall vacancy rate increased from previous year (two auditees)
  - Education
  - Roads and Public Works
- Senior managers acted in positions for more than 6 months (two auditees)
  - The Northern Cape Provincial Legislature
  - Roads and Public Works
- Positions in service delivery departments were vacant for more than 12 months (three auditees)
  - Health
  - Roads and Public Works
  - Northern Cape Tourism Authority

## Performance management

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.

Six (32%) of the HoDs/boards in the province did not have performance contracts. Only two auditees did not have performance agreements for senior managers, one of which paid performance bonuses without having measured performance.

Keeping staff accountable for audit outcomes is a critical step towards improving financial reporting. This will also impact positively on service delivery.

## Competencies of key officials

The lack of competencies in key officials were found to be a root cause of the audit outcomes at six (32%) of the auditees.

Proper verification of new appointees' qualifications, experience and background did not take place at four auditees.

The financial reporting units of two auditees were found to have inadequate competencies of key finance personnel. Competencies in financial reporting should be closely linked to the quality of submitted financial statements.

## Consequences for transgressions

The lack of consequences for poor performance and transgressions was found to be a root cause of the audit outcomes at nine (64%) of the auditees that did not achieve clean audit opinions. This indicates a serious deficiency in performance management and a need to implement consequences for poor performance.

Specifically on compliance, effective and appropriate disciplinary steps were not taken against officials who made or permitted unauthorised/ irregular/fruitless and wasteful expenditure at eight (57%) auditees that did not achieve clean audit outcomes.

At some auditees, the lack of improvement is not due to vacancies or a lack of skills, but rather to officials' lack of commitment, which is aggravated by them not being held accountable for their responsibilities.

Where proper consequence management was in place, staff was held accountable in terms of their performance contracts and proper performance processes (warning letters and disciplinary steps).

## Effective use of consultants by departments and the trading entity

Provincial departments and the trading entity spent an estimated R141 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 - R17 million
- Performance reporting - R3 million
- IT-related services - R22 million
- Other consultants such as legal consultants, engineers, quantity surveyors and outsourcing some internal audit work - R99 million.

Consultants were most commonly appointed by the departments and the trading entity to assist with financial and performance reporting.

Our audits included an assessment of the management of the consultants at eleven departments and the trading entity. The following were the key findings on the **planning and appointment processes**:

- As with all other procurement, consultants should be contracted based on a needs assessment. Such assessments should consider cost, type and extent of service, the deliverables and whether internal capacity exists and/or there is an opportunity for the transfer of skills. At the departments of Health, Education, Roads and Public Works and the Northern Cape Fleet Management Trading Entity, the consultants were appointed without conducting a needs assessment. The procurement processes followed to appoint all these consultants did not comply with SCM processes.
- As part of the bidding process, there should be terms of reference that clearly define what will be required from the consultant and that state the required experience and qualifications. At the Department of Roads and Public Works and the Northern Cape Fleet Management Trading Entity, the consultants for financial reporting were appointed without terms of reference, even though R7,2 million was paid to these consultants.

We also identified shortcomings in the **management and monitoring of performance** of the consultants.

- The measures to monitor the performance of consultants were either not defined or not implemented at the four auditees above, as well as the Department of Sport, Arts and Culture. This impacted the effectiveness of consultants and, in some instances, resulted in the consultants not achieving the objective for which they were appointed.

- At three auditees where the contract performance measures and methods were monitored, the monitoring proved to be inadequate as it failed to detect the underperformance of the consultants. Of greater concern was the payment of consultants without signed contracts at the Department of Roads and Public Works and the trading entity.

Although the most common reason for appointing consultants was a lack of skills, we found that the consultants' contracts at four of the auditees mentioned above did not include conditions or objectives in terms of the **transfer of skills** from the consultants to the employees of the auditees.

## 4.2 Information technology controls

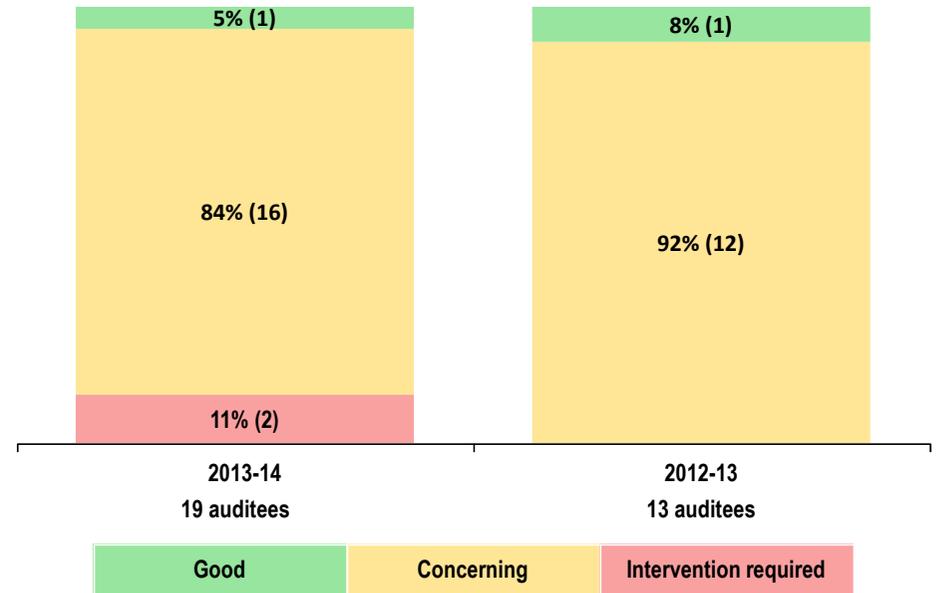
IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

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 state 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 (DPSA) in phases over a period of three years. Phase 1 was due for implementation by the end of the 2013-14 financial year and the DPSA moderated the Management Performance Assessment Tool (MPAT) self-assessment results to monitor implementation progress. The implementation of phase 1 will be evaluated in the following audit cycle. In the 2014-15 financial year, the implementation of phase 2 should be prioritised by the accounting officers and governance champions.

As the Northern Cape Provincial Legislature opted to develop its own IT governance framework, management should prioritise the implementation of this customised IT governance framework. The most significant IT governance findings for the Northern Cape Provincial 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 Northern Cape Provincial Legislature as part of the overall business strategy.
- The Northern Cape Provincial Legislature had still not developed and adopted a formal IT risk and control framework, as previously reported.

Figure 25: Status of information technology



Our audit included an assessment of the IT controls that focus on security management, user account management and IT service continuity. Figure 25 shows that there has been no movement in the number of auditees that had audit findings on IT controls since the previous year.

Furthermore, there has been a regression in the security management and IT service continuity focus areas. The regression in the security management focus area was due to one auditee that did not consistently implement and monitor the controls during the year, which led to findings. In addition, the regression in IT service continuity resulted from the provincial disaster recovery plan and recovery site, which were not finalised in a timely manner by the Office of the Premier due to budget constraints.

Figure 26: Status of information technology controls

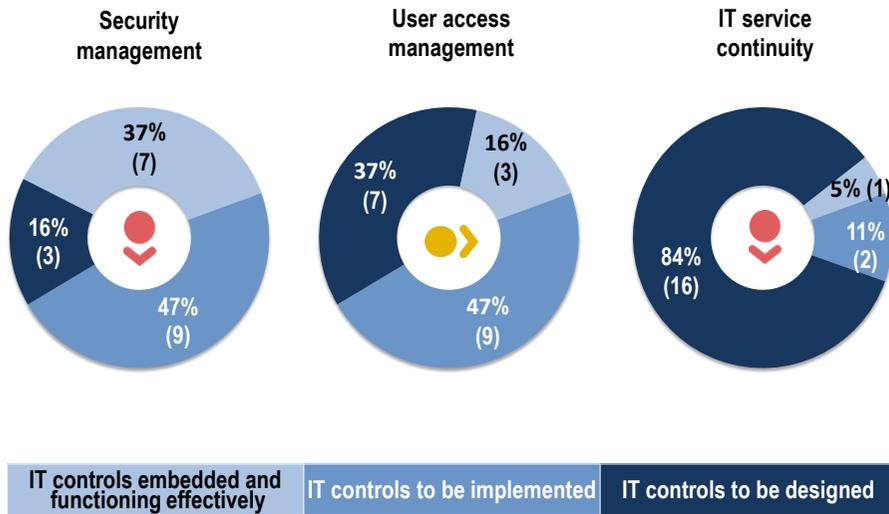


Figure 26 above indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where IT controls are functioning effectively, and where the IT controls are not in place (i.e. not designed) or not implemented. The majority of auditees did not have adequately implemented IT controls for security management and user access management, and IT service continuity controls had not been adequately designed. The most common findings were the following:

- **Security management:**

IT policies were either not implemented or not complied with to secure systems and to ensure the confidentiality, integrity and availability of the information on the systems. Security parameter settings were consequently not always adequately set or configured and the responsibility for IT security was not formally delegated to a specific person.

- **User access management:**

User account management policies and procedures had not been adequately designed and implemented to safeguard the integrity and confidentiality of information. In the non-transversal systems, for example, there was no central point of control to ensure that these policies and procedures would be adequately designed and implemented.

The appropriateness of users' access rights and system controllers' activities were not periodically confirmed, access request documentation was not adequately completed and former users' access was not removed on time.

- **Information technology service continuity:**

Disaster recovery plans and backup procedures had not been adequately designed. Backups were therefore inadequately controlled, which could affect the availability of information and systems. In the case of departments, the data hosted on their transversal systems would be available at the State Information Technology Agency's (SITA's) disaster recovery site.

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 the 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/some 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 audit outcomes and inadequate controls and provides recommendations to address the root causes.

#### *Slow response by management (HoD, board and senior management)*

Eleven (58%) of the 19 auditees had slow responses by management as a root cause. This is of concern as only 32% of auditees had this root cause in the previous year. The provincial administration needs to realise that the increase in this root cause is due to management not fully implementing the recommendations and the commitments from the previous years.

It is evident that management has failed to adequately respond to key areas of concern that were highlighted to them by the auditors. Management's over-reliance on the audit process to identify misstatements is in itself proof of management's slow response to addressing key areas of concern.

With only five auditees obtaining a clean audit opinion, it is clear that more has to be done to ensure an improvement for the next financial year. The auditees have the ability to do what is required to improve, but their unwillingness to address previous root causes hampers efforts to improve audit outcomes.

To address this root cause the oversight bodies, together with the political leadership in the province, must hold management accountable for their slow response. This will set the tone from the top and ensure that discipline is instilled within the auditees.

### Slow response by political leadership (MEC) & Slow response by oversight (SCoPA, portfolio committee)

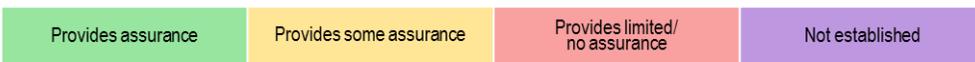
Of the 19 auditees, 74% had slow response by oversight and 63% had slow response by political leadership as a root cause. This improved from 89% and 74% respectively in the previous year, mainly due to the better audit outcomes that were attained in the current year. However, proper oversight by executive and political leadership in the province requires more attention and improvement.

## 5. Impact of key role players

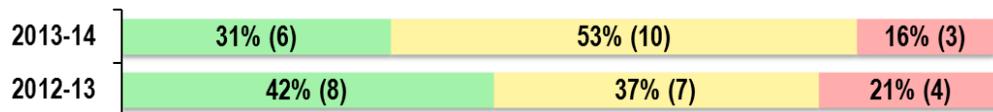
The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial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

### Legend



### Senior management



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

The assurance provided by senior management has decreased from 42% in the previous year to 31%. Some assurance is provided by 53% and limited assurance is provided by 16% of senior management.

With the general improvement in audit outcomes for the province, the impact of senior management was expected to have also improved. However, this was not the case as the senior management of some auditees failed to maintain their momentum in implementing and monitoring controls that were evident in the previous year.

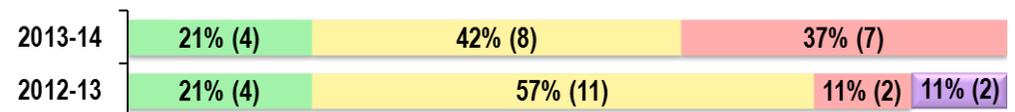
The regression in auditees that provided assurance can be attributed to the senior management of the Department of Transport, Safety and Liaison and the Northern Cape Liquor Board, which was only able to provide some assurance in the current year. This was due to these two auditees not implementing controls to ensure the sustainability of their improved 2012-13 audit outcomes. Material adjustments were required to a number of areas in their financial statements to avoid a regression in their audit outcomes.

The improvement in the number of auditees that provide some assurance relates to the two auditees discussed in the previous paragraph, as well as the Department of Health's senior management that improved from providing limited assurance. Although this department again received a qualified audit opinion, a consideration of the nature and quantity of qualification paragraphs reveals that some improvement is evident at this department, which can be attributed to the efforts made by senior management.

The majority of auditees (53%) fall within the "provide some assurance" category. This corresponds to the fact that the majority of auditees, although mostly financially unqualified, still have findings on compliance with legislation and performance information. For example, the fact that only 26% of auditees were able to prepare quality financial statements that did not require adjustment, while only 32% of auditees were able to prepare quality performance reports, also reflects the fact that many senior managers are not performing proper reviews before information is submitted to the auditors. Although large strides have been made in capacitating SCM units, the administrative leadership should still be cautious of non-compliance issues that may cause the audit outcomes to regress.

Senior management needs to take responsibility for programmes by ensuring that programmes are properly run in their entirety (financial, compliance and performance information). This should be the level from where accountability is enforced and senior management needs to ensure the desired culture is installed in all employees working within a specific programme.

### Accounting officer or accounting authority



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

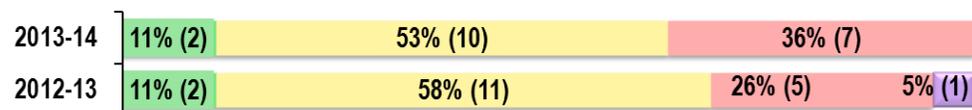
The assurance provided by accounting officers and accounting authorities stagnated at 21% when compared to the previous year. Some assurance is provided by 42% and limited assurance is provided by 37% of accounting officers and accounting authorities.

The most significant movement from the previous year is that the two vacancies at the level of accounting officer were filled during this year. This ensured more stability in this position. However, the new incumbents did not provide assurance at the desired level.

The accounting officer and accounting authority are ultimately responsible for the performance of the department and public entity, and needs to provide direction by ensuring that policies and procedures are implemented and performance is monitored.

The accounting officer/authority needs to set the tone in the way they hold senior management accountable, thereby cascading a culture of consequence management to the entity as a whole. The accounting officer's daily behaviour needs to lead by example in highlighting the entity's desired values to the senior management.

### Member of executive council



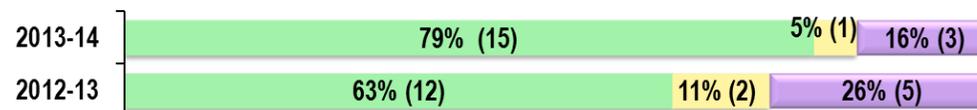
MECs have a monitoring and oversight role at both the departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved.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

The assurance provided by MECs stagnated at 11% when compared to the previous year. Some assurance is provided by 53% and limited assurance is provided by 36% of MECs.

The vacancy from the previous year was filled in the current year. However, the assurance provided remains the lowest of the three assurance providers assessed under the first level of assurance.

The active involvement of MECs, especially at departments that receive qualified opinions or those not able to address material findings on performance information and compliance with legislation, needs to receive attention. It is not the visibility of these MECs that is important, but rather their actions to address the various issues at these departments.

### Internal audit unit



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

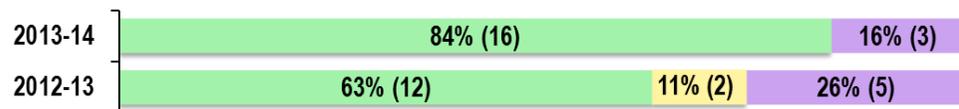
The assurance provided by internal audit units improved by 16% when compared to the previous year. Some assurance is provided at 5% of the entities and an internal audit unit was not established at 16% of entities.

The province (all departments excluding the Northern Cape Provincial Legislature) used the shared internal audit unit based at the Northern Cape Provincial Treasury. This unit has grown over the past three years from a small unit with very little impact to a unit of about 40 employees. The unit services 12 departments, focussing on the areas of financial reporting, performance reporting and compliance with legislation as required by the audit plan. In addition, the unit also performed work on information systems. Although the unit contracted some work out in the past year, these contracts were recently cancelled and the unit is in the process of appointing additional staff. The unit will have a staff establishment of about 60 after these appointments. Our assessment is that this shared internal audit unit discharged its mandate and achieved the responsibilities outlined in the PFMA and Treasury Regulations.

We met with the internal auditors on a six monthly basis to discuss the risks identified and other audit-specific matters. This assisted in creating a good working relationship between the internal and external auditors.

The number of public entities where no internal audit unit exists decreased from five to three, but this remains a concern. The possibility of using the shared internal audit model, similar to the one used by the departments, needs to be considered by the provincial leadership and oversight.

## Audit committee



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

The assurance provided by audit committees improved by 21% when compared to the previous year. Entities where audit committees were not established decreased from 26% to 16%.

In line with internal audit, the province also uses shared audit committees (three committees for the twelve departments, excluding the Northern Cape Provincial Legislature). The three-year term of the audit committees recently ended and the committees should be commended for the oversight role they played over the past three years.

The MEC of finance is in the process of appointing the audit committees for the next three years. This will include the expansion of the audit committees from three to four committees. This process should be concluded by early October 2014.

The audit committees discharged all the responsibilities outlined in the PFMA, Treasury Regulations and the Audit Committee Charter. As a result, there were no audit committee-related findings reported for any of the 12 departments covered by the shared audit committees.

The number of public entities where no audit committees were established decreased from five to three in the current year. The fact that half of the public entities still do not have audit committees is of concern and, similar to our recommendation on internal audit, provincial leadership and oversight need to investigate the possibility of forming a shared audit committee for the public entities.

## Provincial treasury, premier's office and cooperative governance, human settlements and traditional affairs

We are aware that the premier's office held regular meetings with MECs and accounting officers; however, their oversight role could be improved to show tangible involvement in further improving the provinces' audit outcomes.

The premier previously committed to strengthening the financial management capacity of the province by appointing competent people in vacant positions. She promised that vacant positions at departments will be filled on the basis of competency by focusing on "the right person for the specific position." She also committed to providing decisive leadership to the province and to focus on accounting deficiencies by implementing monthly reporting requirements. This commitment was partially addressed during the 2013-14 financial year.

The following findings were identified during the Northern Cape Provincial Treasury and Office of the Premier sector audits:

### Provincial treasury sector findings

The monthly consolidated statement of municipalities' budget was not submitted to the national treasury.

The quarterly consolidated statement of municipalities' budget was not submitted to the Northern Cape Provincial Legislature.

### Office of the Premier sector findings

Operation Clean Audit was discussed in this forum but no resolutions were taken in this regard.

The forum did not report annually to the president's coordinating council on progress with the implementation of national policy and legislation in the province.

## Cooperative Governance, Human Settlements and Traditional Affairs

Although an audit was performed, the Department of Cooperative Governance, Human Settlements and Traditional Affairs were not assessed as an assurance provider.

The role of the Department of Cooperative Governance, Human Settlements and Traditional Affairs is to ensure that the MEC for local government annually compiles and submits a consolidated report on the performance of municipalities in the province to the Northern Cape Provincial Legislature and the minister responsible for local government. A copy of the report on the performance of

municipalities in the province must be submitted to the National Council of Provinces.

Based on the results of the sector audit, the role of the Department of Cooperative Governance, Human Settlements and Traditional Affairs, can be strengthened by ensuring that it focuses on the following key areas:

- Ensure that there is an agreement to assist municipalities in building their capacity for efficient, effective and transparent financial management.
- Ensure that the municipalities that did not address their audit findings are reported to the Northern Cape Provincial Legislature.
- Ensure that the assessment of the seriousness of the financial problem/s is submitted to the municipality and minister at the legislated deadlines and/or within a reasonable period.
- Ensure that the consolidated report on the performance of municipalities in the province is compiled and submitted to relevant authorities.
- Ensure that the municipalities in the province are monitored for compliance with the provisions of the Municipal Property Rates Act.

### *Portfolio committees and public accounts committees*

Due to budgetary and capacity constraints, these committees were unable to fully implement their adopted Sector Oversight Model during the year under review. In 2012-13, the Northern Cape Provincial Legislature piloted the Sector Oversight Model at three departments, Agriculture, Land Reform and Rural Development, Education and Health. This issue was raised and discussed with the new speaker and intervention is imminent.

We did not meet with the joint public accounts committee and portfolio committees to set and agree on basic principles of how their effectiveness will be measured as no invitation to attend such a meeting has been received.

The public accounts committee and portfolio committees did not fully implement their own commitments from the previous year. It is therefore recommended that the speaker track the two committees' implementation of their commitments quarterly.

The provincial standing committee on public accounts (SCoPA) provided some assurance by conducting hearings at which it extracted commitments from executive authorities and accounting officers to take corrective actions based on our findings. We had 13 interactions with SCoPA, which continued to structure its oversight engagements with departments and public entities based on the insight gained from our briefings. All SCoPA hearings focused on the root causes of key audit findings, which resulted in 33 resolutions for implementation

by departments and public entities. Fourteen (42%) resolutions were implemented, while the remaining 19 (58%) were either not implemented or partially implemented.

In conclusion, the speaker of the Northern Cape Provincial Legislature should put mechanisms in place to ensure that there is a dedicated unit monitoring, tracking and following up on the resolutions that were issued by the House. The fact that resolutions were issued to all departments in the current year is noted, but there should be more focus on tracking these commitments.

The speaker should further ensure that the Sector Oversight Model is implemented in full for the benefit of the province. This will directly influence the improvement of audit outcomes across the province.

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

We shared our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature through our reports and interactions with them.

We had meetings with most of the MECs and the premier during 2013-14. The 43 meetings with nine MECs, the speaker and the premier were assessed as having had a positive impact at some departments, while at other departments the impact was limited. This assessment is based on the audit outcomes of the province and the fact that positive strides were made with regards to financial reporting. The areas of compliance with legislation (74% findings) and performance information (58% findings) remained stagnant from the previous year and these are areas to which the political leadership will have to give more attention going forward.

The political leadership committed to appointing competent people to fill vacancies, improving the status of compliance with legislation in the province, providing employees working with performance information with the necessary skills and ensuring that the executive council manages the performance of non-performing departments. The outcomes of the 2013-14 audits confirmed that some progress was made, but none of these commitments were fully addressed and hard work is still required to achieve the commitments set by oversight.

Subsequent to the year end the premier committed to intensifying her oversight over entities and managing the expenditure (specifically unauthorised expenditure and irregular expenditure) of the province in a more prudent way. Her commitment included a greater focus on ensuring the quality of financial statements by in-year monitoring and more effort to ensure that the quality of performance reports improves. She further committed to establish a task team to guide the province on SCM compliance. The legislature added their

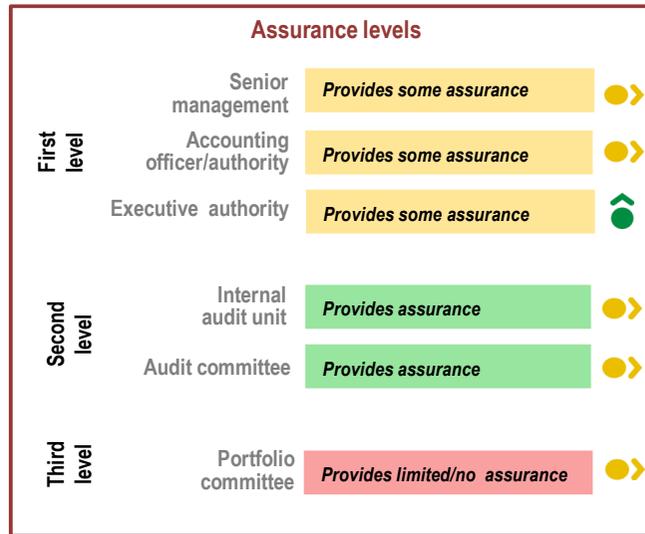
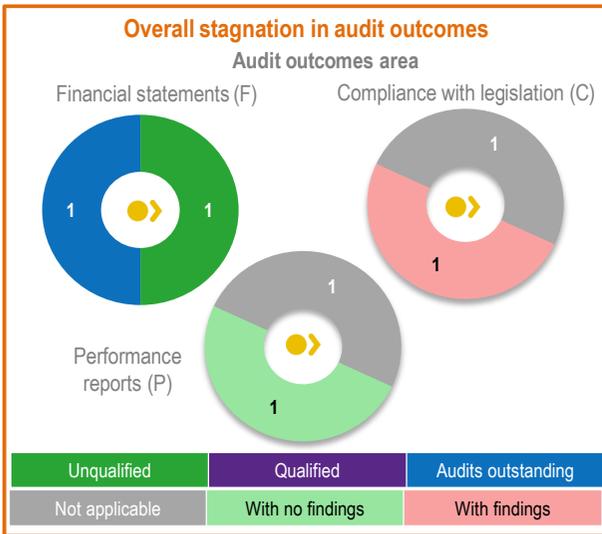
commitment to intensify their oversight by increasing the frequency of their engagements with accounting officers and CFOs and to be more visible at local government.

Obtaining feedback on the commitments that were made in the previous year was challenging. This was due to difficulties in securing meetings with the key stakeholders (oversight departments). The key stakeholders often delegated the task of providing feedback to lower level staff, creating doubt about the leadership's commitment to implement and track the commitments they have made.

The province is currently making good progress in terms of audit outcomes and the key role players need to ensure that this trend continues. The province currently has five clean audits and this number will increase if the good practices implemented by these auditees are replicated by other departments. Attention should be given to the two largest service delivery departments (Health and Education) to ensure that these two departments are able to resolve the issues that resulted in findings on their audit reports (both financial and other matters).

# AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

# Office of the Premier



### Key controls

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

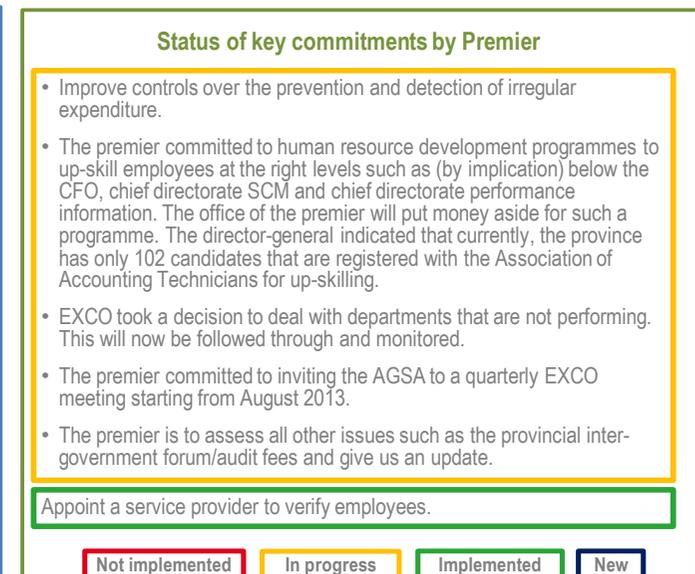
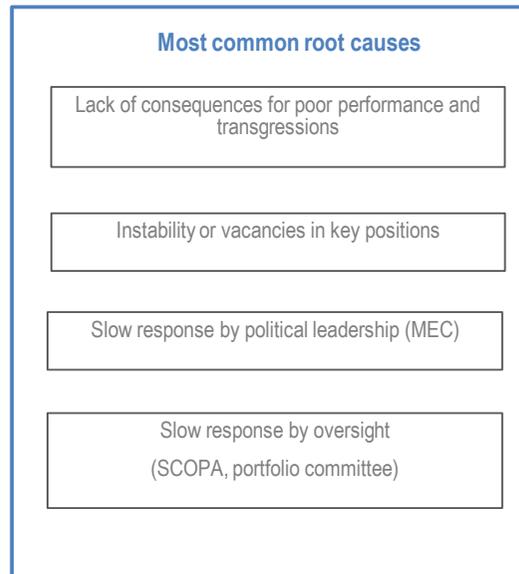
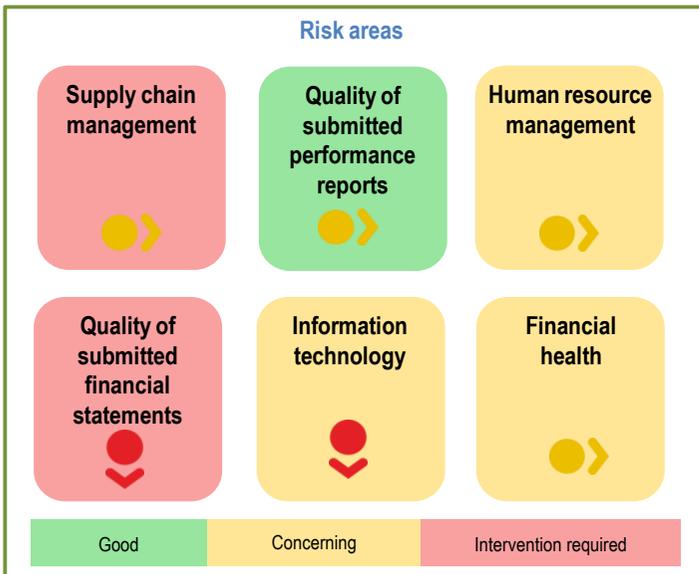
F = Financial      P = Performance      C = Compliance

Good      Concerning      Intervention required

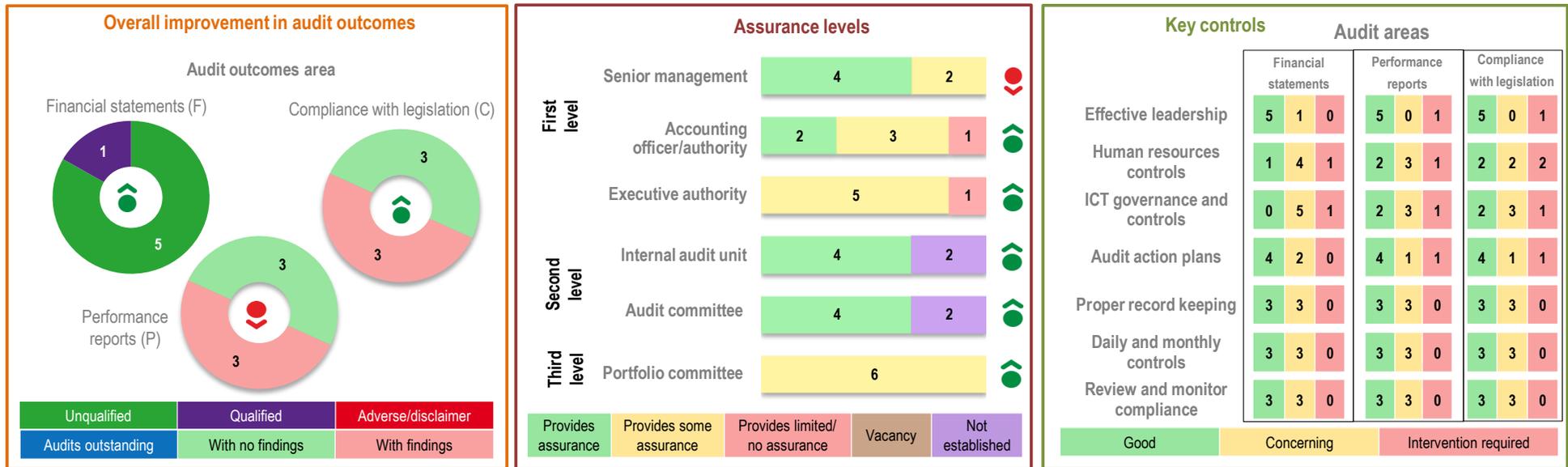
1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4

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



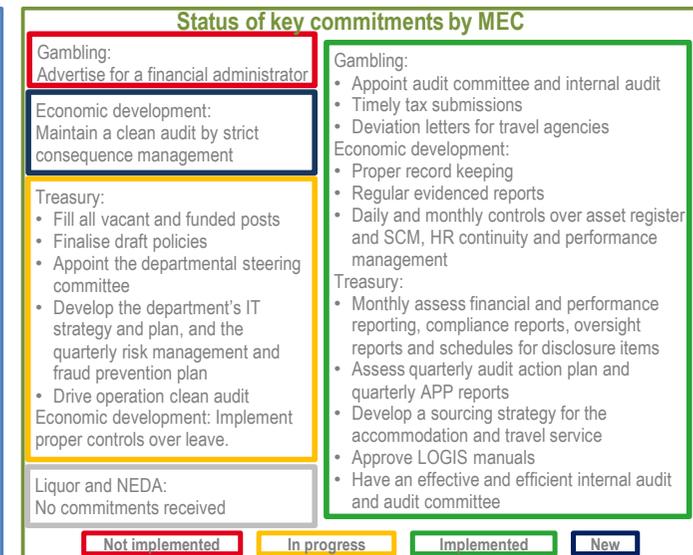
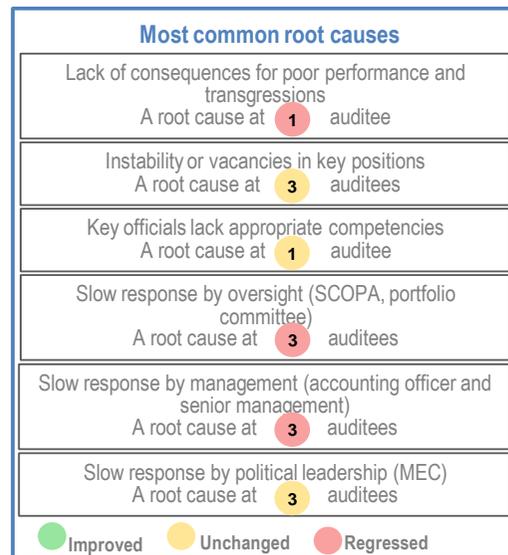
# Finance, Economic Affairs and Tourism



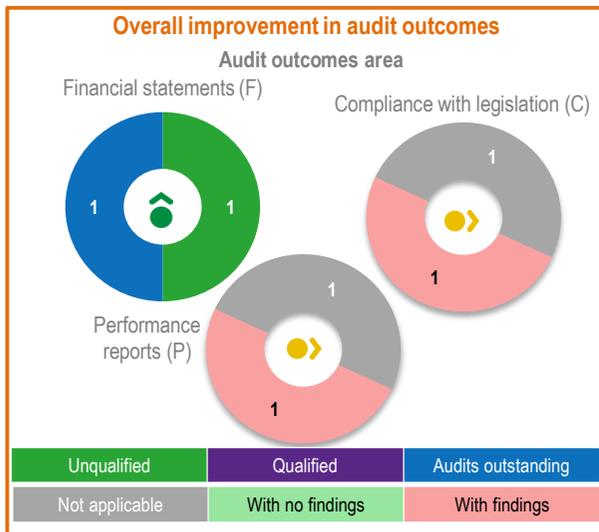
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5

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



# Northern Cape Provincial Legislature



### Assurance levels

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

### Key controls

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

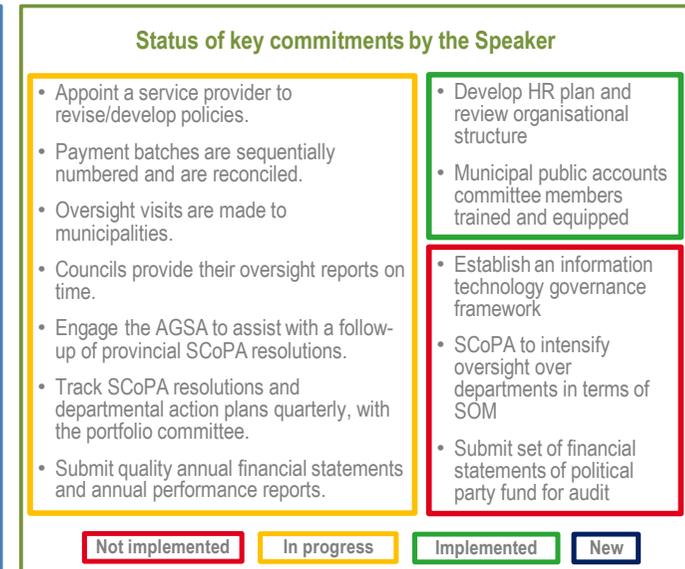
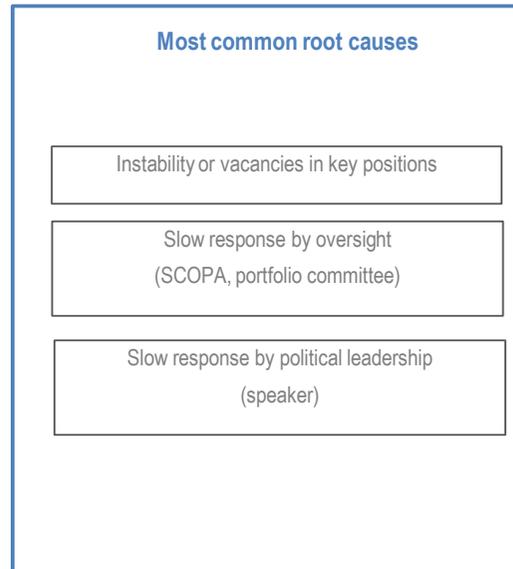
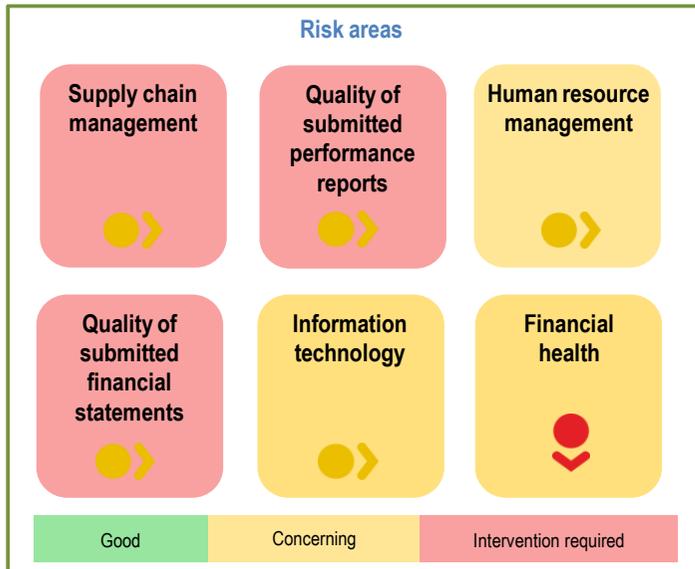
F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
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2  
... the key role players need to **assure** that ...  
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5

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



# Health

**Overall stagnation in audit outcomes**

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

**Assurance levels**

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

**Key controls**

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

F = Financial P = Performance C = Compliance

Good (🟢) Concerning (🟡) Intervention required (🔴)

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

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

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

**Risk areas**

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
- Key officials lack appropriate competencies
- Slow response by management (accounting officer and senior management)
- Slow response by political leadership (MEC)
- Slow response by oversight (SCOPA, portfolio committee)

**Status of key commitments by MEC**

An action plan will be drawn up and tracked by the department.

Not implemented (🔴) In progress (🟡) Implemented (🟢) New (🟦)

### Overall stagnation in audit outcomes

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

### Assurance levels

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

### Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required



### 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 management (accounting officer and senior management)
- Slow response by political leadership (MEC)
- Slow response by oversight (SCOPA, portfolio committee)

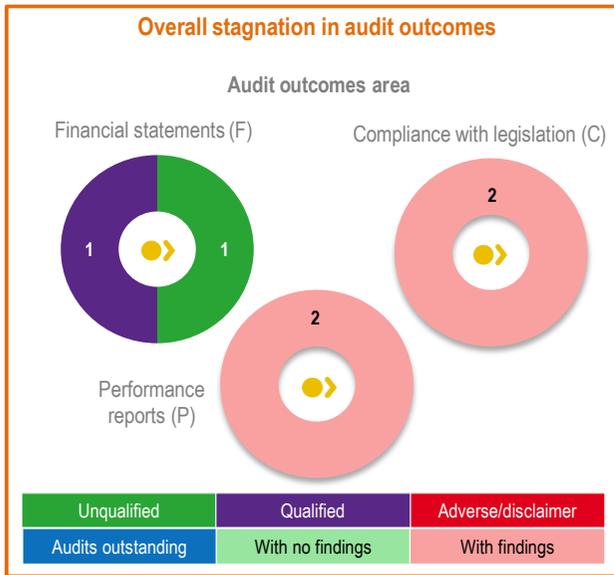
### Status of key commitments by MEC

- Educator posts will be filled as per the post allocation prescripts.
- IT champion to be appointed in the office of the HoD.
- 2014-15 registers for irregular and fruitless and wasteful expenditure will be updated monthly.
- Develop a complete performance management system including the process and filing of documentation.
- Training will be provided to the relevant people involved with performance information to enable them to determine what information should be stored.

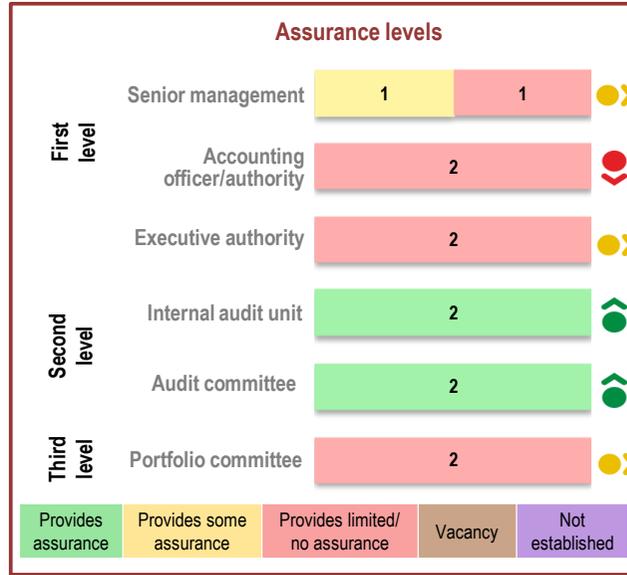
Supply chain officials will sign the code of conduct for SCM officials as contained in Treasury Regulation 16A8. In addition the department will have a road show where the code of conduct will be discussed and presented to staff.

Not implemented In progress Implemented New

# Roads and Public Works



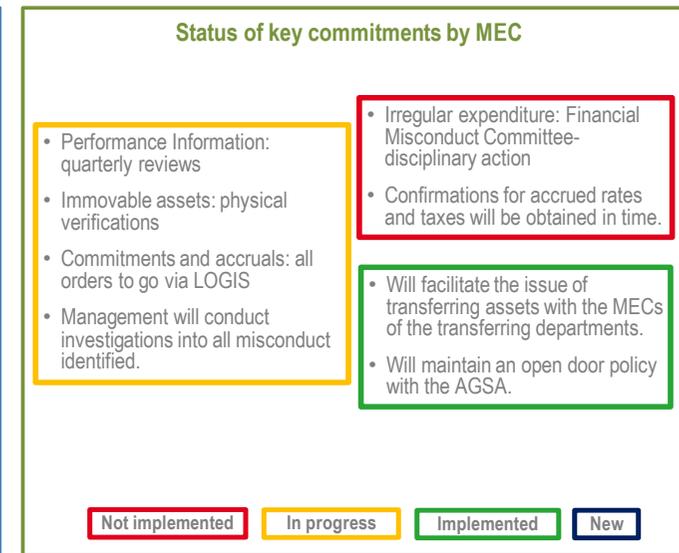
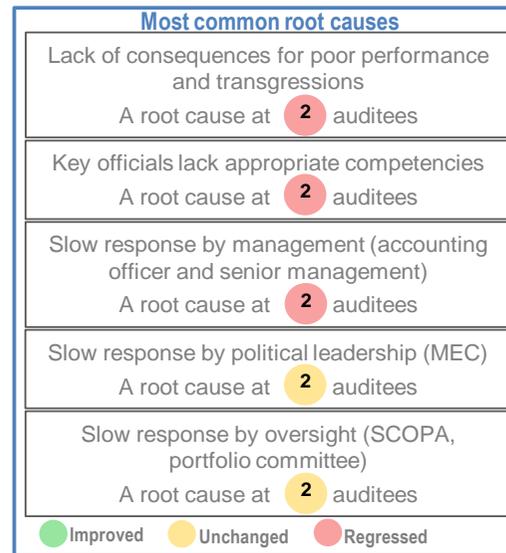
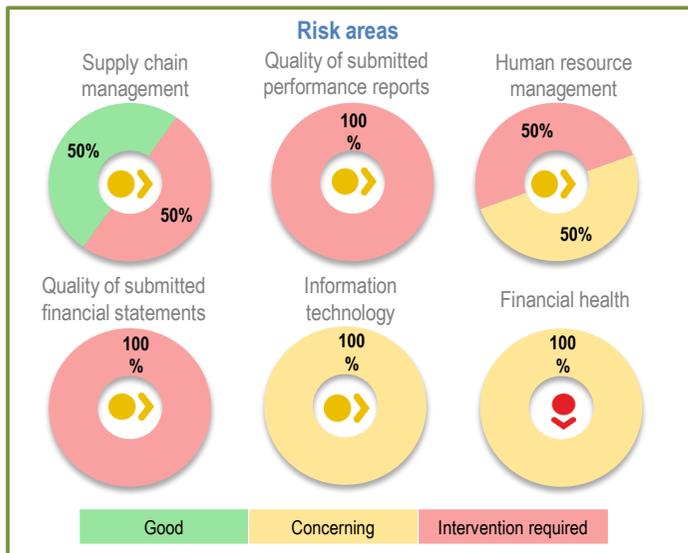
1  
To improve the **audit outcomes** ...  
... the **risk areas** and ...  
4



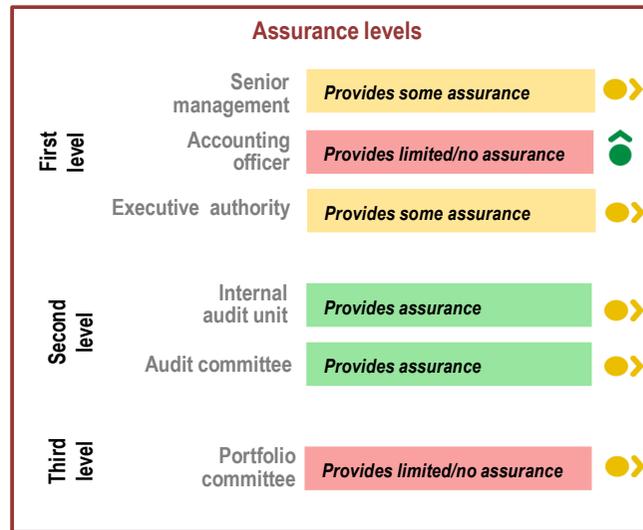
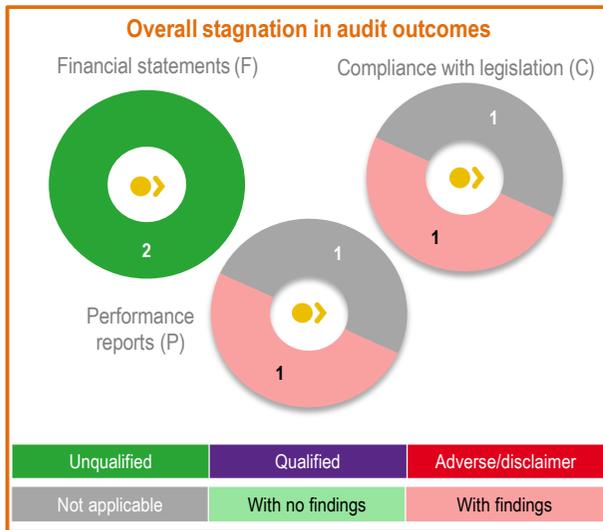
2  
... the key role players need to **assure** that ...  
... the **root causes** are addressed ...  
5



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



# Cooperative Governance, Human Settlements and Traditional Affairs



### Key controls

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

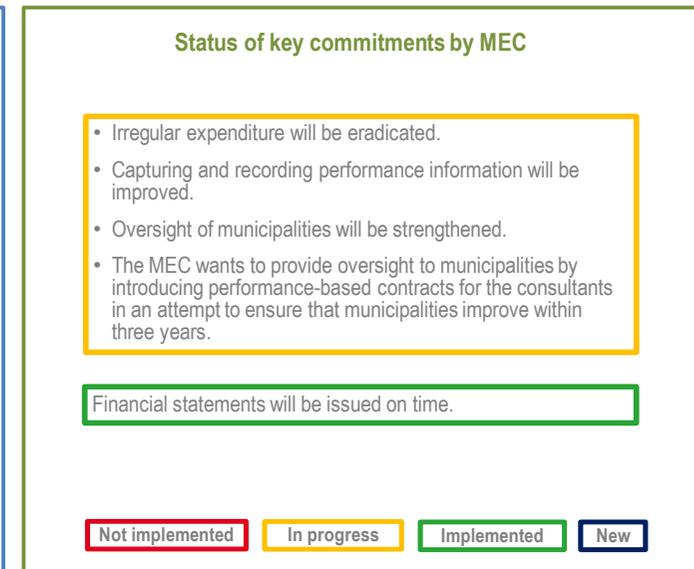
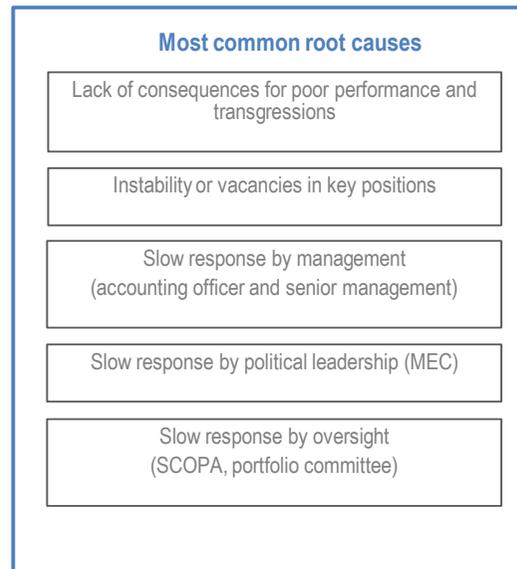
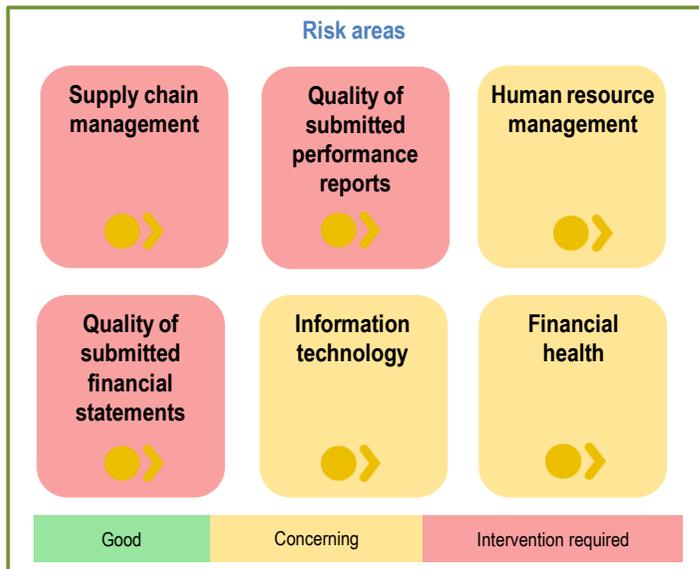
F = Financial P = Performance C = Compliance

Good	Concerning	Intervention required
------	------------	-----------------------

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



# Transport, Safety and Liaison

**Overall stagnation in audit outcomes**

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

**Assurance levels**

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

**Key controls**

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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

**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**

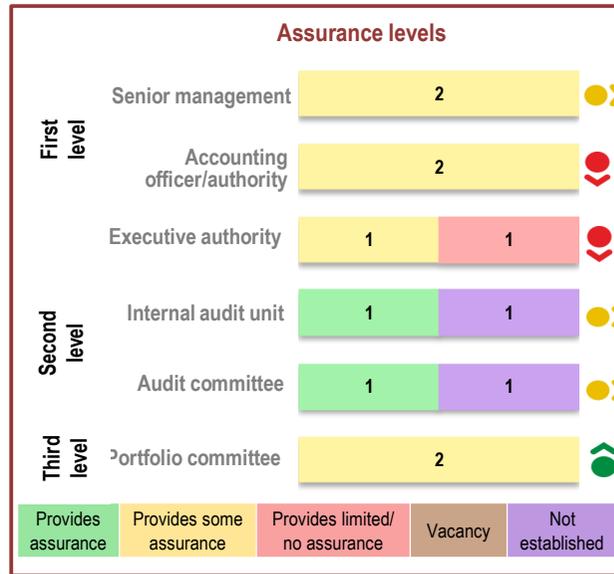
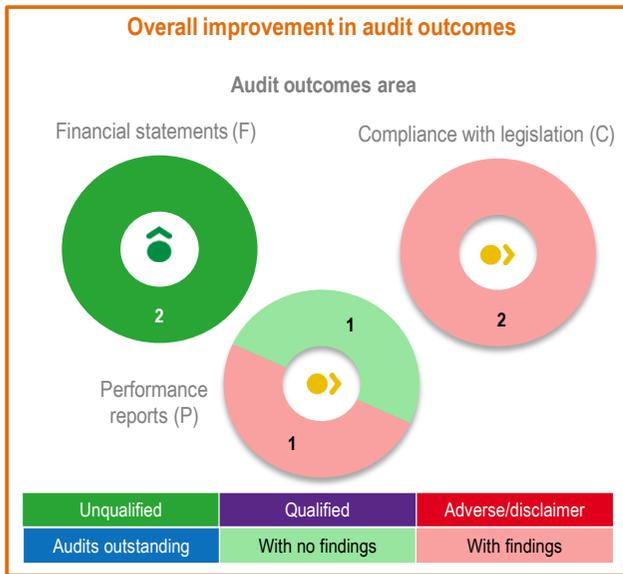
Lack of consequences for poor performance and transgressions
Slow response by management (accounting officer and senior management)
Slow response by oversight (SCOPA, portfolio committee)

**Status of key commitments by MEC**

- Develop an action plan and re-engineer processes to address internal control deficiencies that were discovered during previous audits, especially in the following units: SCM, predetermined objectives and financial management.
- Maintain monthly revenue reconciliations, supporting documentation that substantiates figures in the financial statements and supporting documentation for performance outcomes.
- Conduct appropriate risk management activities to ensure that risks are assessed regularly, including consideration of IT risks and fraud prevention, and a risk management strategy is in place.

Not implemented In progress Implemented New

# Agriculture, Land Reform and Rural Development



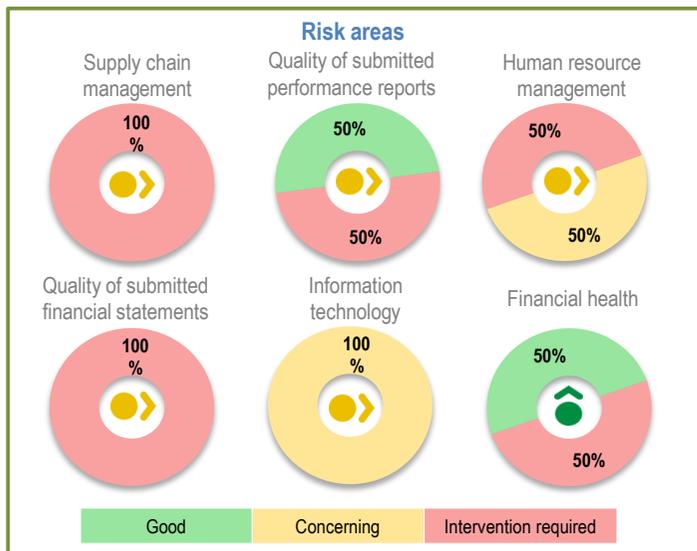
	Key controls			Audit areas					
	Financial statements	Performance reports	Compliance with legislation	Financial statements	Performance reports	Compliance with legislation			
Effective leadership	0	2	0	0	2	0	0	2	0
Human resources controls	0	2	0	0	1	1	0	1	1
ICT governance and controls	0	2	0	0	2	0	0	2	0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

Good      Concerning      Intervention required

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



### Most common root causes

Instability or vacancies in key positions A root cause at <b>1</b> auditee
Slow response by management (accounting officer and senior management) A root cause at <b>1</b> auditee
Slow response by oversight (SCOPA, portfolio committee) A root cause at <b>2</b> auditees
Key officials lack appropriate competencies A root cause at <b>1</b> auditee
Slow response by political leadership (MEC) A root cause at <b>1</b> auditee

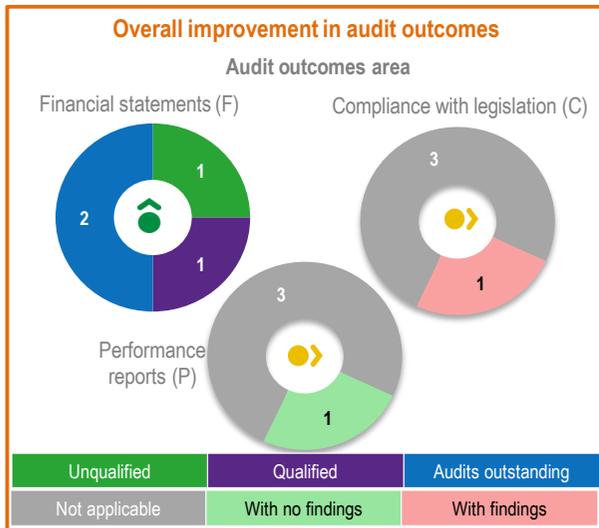
Improved      Unchanged      Regressed

### Status of key commitments by MEC

<p><b>Agriculture:</b></p> <ul style="list-style-type: none"> <li>The accounting officer is to make the signed and approved organisational structure and human resource plan available by 30 April 2013.</li> <li>Improve liaison between SCM and the budget office to ensure correct classification of expenditure.</li> <li>Management to ensure at least 80% of all invoices received are paid within 30 days.</li> <li>The executing authority will ensure that all acting positions are filled on or before the end of the 2nd quarter of the 2013-14 financial year.</li> </ul>	<p><b>Agriculture:</b></p> <ul style="list-style-type: none"> <li>The accounting officer and provincial treasury is to ensure that the audit committee has regular meetings.</li> <li>Decentralise asset management by ensuring the appointment of an asset controller at different cost centres, including the research station.</li> </ul>
<p><b>Kalahari Kid Corporation:</b></p> <ul style="list-style-type: none"> <li>Management will submit the annual performance report on 31 May 2014.</li> <li>The internal audit unit and audit committee should be a shared service with the department.</li> </ul>	

Not implemented      In progress      Implemented      New

# Sport, Arts and Culture



### Assurance levels

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

### Key controls

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

F = Financial P = Performance C = Compliance

Overall Status
Good
Concerning
Intervention required

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

### Risk areas

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

Overall Status
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)
- Slow response by political leadership (MEC)
- Slow response by oversight (SCOPA, portfolio committee)

### Status of key commitments by MEC

- The accounting officer should strengthen and enforce supply chain management policies at all times. Officials who are found to disregard laws and regulation must be disciplined.
- The department should implement measures to prevent irregular expenditure. In addition, the accounting officer must ensure adequate planning and conduct regular checks, as required in terms of sec 38(1) of the PFMA, to minimise the risk of incurring irregular expenditure.
- Irregular expenditure will be assessed by experts and recommendations shall be implemented by 2015.
- Library material asset registers will be prepared and ready by 30 November. The AGSA will perform an early audit on these for the year ending 31 March 2014.
- The department should put proper and effective systems in place to guarantee the credibility of performance information.
- Contingent assets will be evaluated for all possibilities of recovery and the results should be reported accordingly for the year ending 31 March 2014. Prepayments would be cleared by ensuring that expected services take place.

Status
Not implemented
In progress
Implemented
New

# Environment and Nature Conservation

**Overall improvement in audit outcomes**

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

**Assurance levels**

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

**Key controls**

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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

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

Clean audit, therefore none of the root causes are applicable.

**Status of key commitments by MEC**

Source additional funding from the provincial treasury and embark on a recruitment drive to address the high vacancy rate.

- Accounting to ensure an adequate review and monitoring of compliance with laws and regulations.
- Internal controls are to be strengthened and corrective actions to be instituted against officials who do not comply with legislation.

Not implemented In progress Implemented New

# Social Development

**Sustained a clean audit outcome**

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

**Assurance levels**

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

**Key controls**

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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

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

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

**Risk areas**

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**

Clean audit, therefore none of the root causes are applicable.

**Status of key commitments by MEC**

Maintain a clean audit outcome.

Not implemented In progress Implemented New



# ANNEXURES



Auditee	2013-14 audit outcomes		2012-13 audit outcomes		Financial statement qualification areas					Findings on predetermined objectives				Findings on compliance										Findings on specific risk areas				Unauthorised, irregular as well as fruitless and wasteful expenditure																			
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure	Amount R	Irregular expenditure	Amount R	Fruitless and wasteful expenditure	Amount R	
<b>Public entities</b>																																															
Kalahari Kid Corporation		R	R		R	R	A			A	A			A	A				R	R	N	N	R	A			R	R		N		R			R	R	M				-	0.47m	0.01m				
Northern Cape Economic Development, Trade and Investment Promotion Agency		R	R		R	R	A	A		A	R	A	R						R	R	R	N	R	A		A	R	R	R			A			R	A	F				-	0.57m	0.03m				
Northern Cape Fleet Management		R	R		R	R	N	R		R	A	R	R						R	R	R	N	N		R		A	A	R							R		F				-	0.2m	0.05m			
Northern Cape Gambling Board		N	R		A	R													R	R					N		A	A			R			R	R	F				-	0.07m	-					
Northern Cape Liquor Board		R	R		R	R													R	R											R			R	R	M				-	0.21m	0.02m					
Northern Cape Tourism Authority			A		A	R																					A	A							N		F				-	-	-				
<b>Other entities</b>																																															
Northern Cape Housing Fund																																															
McGregor Museum																																															
Ngw ao Bosw a Kapa Bokone																																															
Northern Cape Arts and Culture Council																																															
Northern Cape Political Party Fund																																															
Northern Cape Premier Education Trust Fund																																															

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)	Financial health findings	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Controls (human resource and information technology management)	Good	Concerning	Intervention required	Legend (expenditure)	Improved	Regressed
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## Annexure 2: Auditees' five year opinions

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>Financial Audits</b>																
<b>Departments</b>																
Agriculture, Land Reform and Rural Development	Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings			
Cooperative Governance, Human Settlements and Traditional Affairs	Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings			
Economic Development and Tourism	Unqualified with no findings			Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings			
Education	Qualified			Qualified			Qualified			Qualified			Qualified			
Environment and Nature Conservation	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			
Health	Qualified			Qualified			Disclaimer			Disclaimer			Disclaimer			
Office of the Premier	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			
Provincial Legislature	Unqualified with findings			Qualified			Qualified			Unqualified with findings			Unqualified with findings			
Provincial Revenue Fund	Audit not finalised at legislated date			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			
Provincial Treasury	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			
Roads and Public Works	Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings			Disclaimer			
Social Development	Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			
Sport, Arts and Culture	Qualified			Qualified			Qualified			Qualified			Qualified			
Transport, Safety and Liaison	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Unqualified with findings			

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									
<b>Public entities</b>															
Kalahari Kid Corporation	Unqualified with findings			Qualified			Qualified			New auditee			New auditee		
Northern Cape Economic Development, Trade and Investment Promotion Agency	Qualified			Disclaimer			Unqualified with findings			Qualified			New auditee		
Northern Cape Fleet Management	Qualified			Qualified			Adverse			Disclaimer			Adverse		
Northern Cape Gambling Board	Unqualified with findings			Unqualified with findings			Unqualified with findings			New auditee			New auditee		
Northern Cape Liquor Board	Unqualified with findings			Unqualified with findings			Qualified			New auditee			New auditee		
Northern Cape Tourism Authority	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
<b>Other entities</b>															
Northern Cape Housing Fund	Unqualified			Unqualified			Qualified			Disclaimer			Disclaimer		
McGregor Museum	Unqualified			Qualified			Qualified			Qualified			Qualified		
Ngwao Boswa Kapa Bokone	Audit not finalised at legislated date			Audit not finalised at legislated date			Audit not finalised at legislated date			Audit not finalised at legislated date			Qualified		
Northern Cape Arts and Culture Council	Audit not finalised at legislated date			Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer		
Northern Cape Political Party Fund	Audit not finalised at legislated date			Audit not finalised at legislated date			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Northern Cape Premier Education Trust Fund	Audit not finalised at legislated date			Qualified			Qualified			Qualified			Qualified		

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	New auditee
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# 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.

<i>Contingent liability</i>	A potential liability, the amount of which will depend on the outcome of a future event.
<i>Creditors</i>	Persons, companies or organisations that auditees owe money to for goods and services procured from them.
<i>Current assets (in financial statements)</i>	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.
<i>Disclaimed audit opinion (on financial statements)</i>	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.
<i>Financial and performance management (as one of the drivers of internal control)</i>	<p>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.</p> <p>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.</p>
<i>Financially unqualified audit opinion (on financial statements)</i>	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.
<i>Fruitless and wasteful expenditure</i>	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.
<i>Going concern</i>	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.
<i>Governance (as one of the drivers of internal control)</i>	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
<i>Human resource management</i>	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.
<i>Information technology (IT)</i>	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>
DPSA	<i>Department of Public Service and Administration</i>
GRAP	<i>Generally Recognised Accounting Practice</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>
ICT	<i>information and communication technology</i>
IFMS	<i>Integrated Financial Management System</i>
IT	<i>information technology</i>
K (after an amount)	<i>R'thousand (rand)</i>
LOGIS	<i>Logistical Information System</i>
m (after an amount)	<i>R'million (rand)</i>
MEC	<i>member of the executive council of a province</i>
PERSAL	<i>Personnel and Salary System</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
PPAC	<i>provincial public accounts committee</i>
SAP	<i>Systems, Applications and Products System</i>
SCM	<i>supply chain management</i>
SCOPA	<i>standing committee on public accounts</i>









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