



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

2014-15
PFMA



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

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.



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General report on audit outcomes

EASTERN CAPE PFMA 2014-15

The information and insights presented in this flagship publication 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 key legislation.

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 in auditing national and 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 government.

Auditor-General

Kimi Makwetu
Auditor-General



HIGHLIGHTS



2 departments and 2 public entities achieved clean audit status (Section 1)



The departments of Education, Health and Public Works still require the most attention (Section 1)



Improvement in the quality of financial statements submitted for audit (Section 2.1)



Net improvement of one audit outcome (Section 1)



Material non-compliance with legislation by 20 auditees, some of which could lead to financial loss (Section 1)



Supply chain management is improving, but remains the largest contributor to irregular expenditure of R1,43 billion (Section 2.2.1)



Reduction in irregular expenditure (Section 2.2.1)



Usefulness of the annual performance reports is improving (Section 3.1)



Human resource management is improving, but instability or vacancies at the level of senior management require attention – (Section 4.1.1)



Auditees and key role players are slow to respond to recommendations (Section 5.3.1)

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EASTERN CAPE CLEAN AUDITS 2014-15



DEPARTMENTS

Eastern Cape Provincial Legislature
Safety and Liaison



PUBLIC ENTITIES

Eastern Cape Gambling and Betting Board
Eastern Cape Socio Economic Consultative Council



FOREWORD

FOREWORD



Auditor-General

Kimi Makwetu
Auditor-General

I hereby present to the provincial legislature of the Eastern Cape my 2014-15 general report analysing the results of the audit outcomes of the Eastern Cape Provincial Government for the financial year ended 31 March 2015.

In my previous general report I commended the province for its improvements and expressed my concern that the departments of Education, Health, and Roads and Public Works, which then represented 79% of the provincial budget, were unable to provide credible financial and performance reports.

During the year under review the province managed to register a further net improvement of one audit outcome, recording four improvements and three regressions. Although, the quality of annual financial statements had improved at an overall level, the departments of Education, Health and Roads and Public Works, which received most (77% or R50 billion) of the provincial budget of R65 billion, were once again unable to report transparently on how they had used the money allocated to them. All these departments received qualified audit outcomes and had findings on the reliability of their reporting on actual performance contained in their annual performance reports. They also had numerous findings on compliance with legislation, including legislation applicable to supply chain management. These auditees were responsible for incurring 84% of the irregular expenditure reported by the province. My message

from the previous general report is still relevant in that the province should focus on these departments to ensure a meaningful movement towards accurate, accountable and transparent financial and performance reporting. This should be underpinned by sound internal controls and good human resource management, including greater personal accountability and consequence management.

The regressions at the Office of the Premier and Cooperative Governance and Traditional Affairs were due to the control systems at these departments being over-reliant on key personnel. This resulted in the systems not detecting and correcting the non-compliance that took place during a period of leadership instability. Inadequate in-year reviews of compliance with legislation contributed to the regression at provincial treasury. These departments are urged to be vigilant to serve as an example to others.

I am encouraged by the improvement in the usefulness of the objectives, indicators and targets contained in the planning documents of the province's departments and public entities. The one notable exception, however, is the Department of Education whose budget of R28,2 billion makes up 43% of the total budget allocated to the province. Urgent leadership intervention is required to improve on service delivery planning at the Department of Education.

Even though irregular expenditure decreased considerably during the year under review, I remain concerned about the level of irregular expenditure which is mainly caused by supply chain management transgressions due to weaknesses in the control environment. The high level of supply chain management transgressions is driven by uncompetitive or unfair procurement processes, conflicts of interest and internal control failures. The prevailing risk is that higher prices or rates were paid for goods and services without additional value being received. Operational management, and especially procurement systems, should be improved to sufficiently address this risk.

The change in administration as a result of the 2014 elections brought about a balance between continuity and new appointments. This was evidenced by the provincial executive's decision to extend employment contracts of administrative leadership to provide leadership stability. The commitments obtained in response to the 2013-14 outcomes relating to stability of administrative leadership, the implementation of consequence management for poor quality reporting, and holding accounting officers responsible for irregular expenditure are currently being implemented and were in progress at year-end. The positive impact in respect of improved leadership stability can be seen in the following areas: ■ a reduction in the number of submitted financial statements requiring material amendments ■ an improvement in the quality of annual performance reports submitted for auditing ■ the elimination of irregular expenditure associated with the school nutrition programme administered by the Department of Education ■ the sustained avoidance of adverse or disclaimer opinions at departments. All of this was achieved while using fewer consultants to assist with the financial and performance reporting function. To ensure that this positive momentum is maintained, it is important that the leadership pay particular attention to the vacancies within senior management and the finance units.

The provincial leadership is still not placing sufficient emphasis on addressing the findings on compliance with legislation. Until such time as the whole provincial leadership starts holding people accountable and implements consequence management for non-compliance with legislation, the desired movement to accountable, accurate and transparent financial and performance reporting will not take place. This should be made a provincial priority. Failure to address the internal control deficiencies underlying these findings poses a risk that a culture of tolerance towards these unacceptable practices is encouraged.

This report also highlights the settlement of, and provision for, medical malpractice claims against the Department of Health as an emerging risk. This risk needs to be managed proactively as such claims are unbudgeted and have the potential of placing unnecessary pressure on the fiscus.

There are concerning financial sustainability risks at 40% of public entities in the province. The provincial leadership should determine whether the current levels of funding provided to these entities are sufficient to ensure delivery on their mandates and their viability.

The challenge remains for the province to build a public service characterised by transparent financial and performance reporting. This should be led by accounting officers with the support of all governance structures. The accounting officers must appreciate ethical and professional behaviour, and have zero tolerance for indecisive execution of controls and deviation from legislation.

In response to the outcomes the provincial role players have committed to implement processes that enforce accountability, enhance compliance with legislation, as well as improve the quality and credibility of in-year reporting and monitoring. If enforced, this will create a foundation for the province to move forward.

My staff and I remain committed to working with the provincial leadership to further improve governance and accountability, so as to build public confidence in the provincial government and in the province's ability to account for public resources in a transparent manner.

I wish to thank all the teams from my office in the province for their diligent efforts towards fulfilling our constitutional mandate and for the manner in which they continue to strengthen cooperation with the leadership of the province.

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Auditor-General

Auditor-General

Pretoria

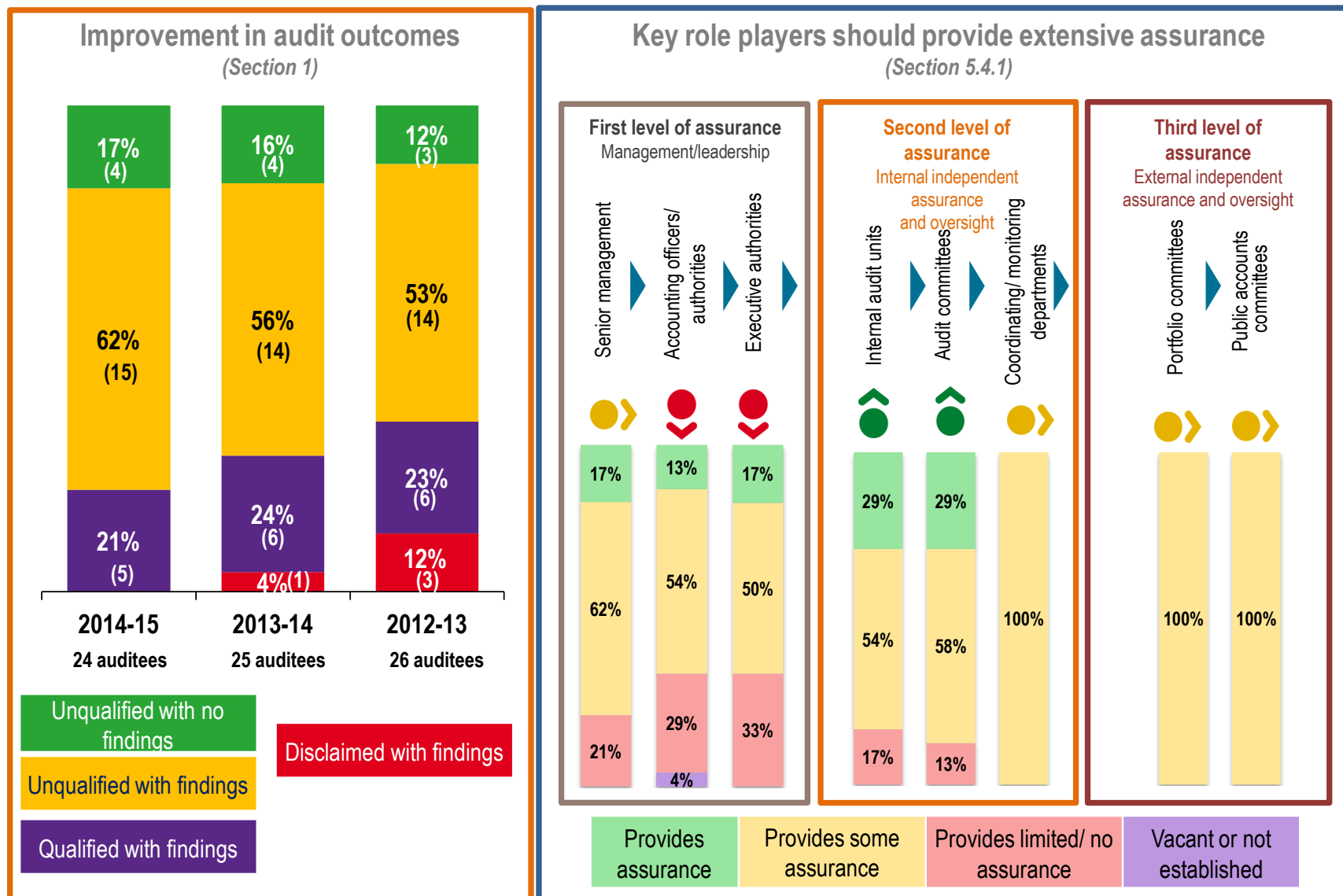
November 2015

OVERVIEW

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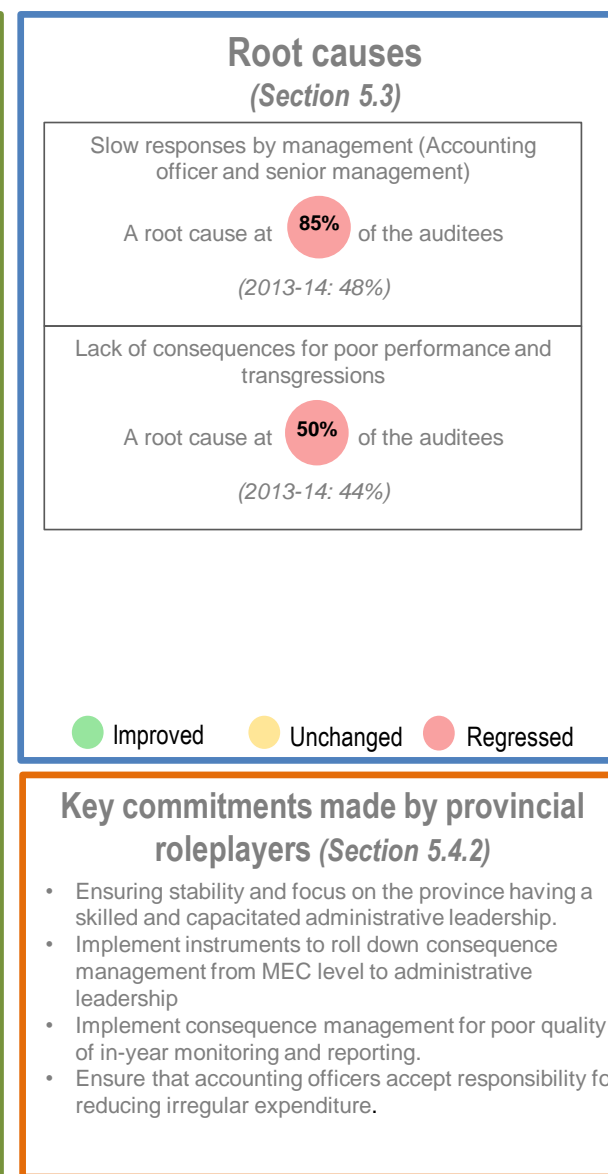
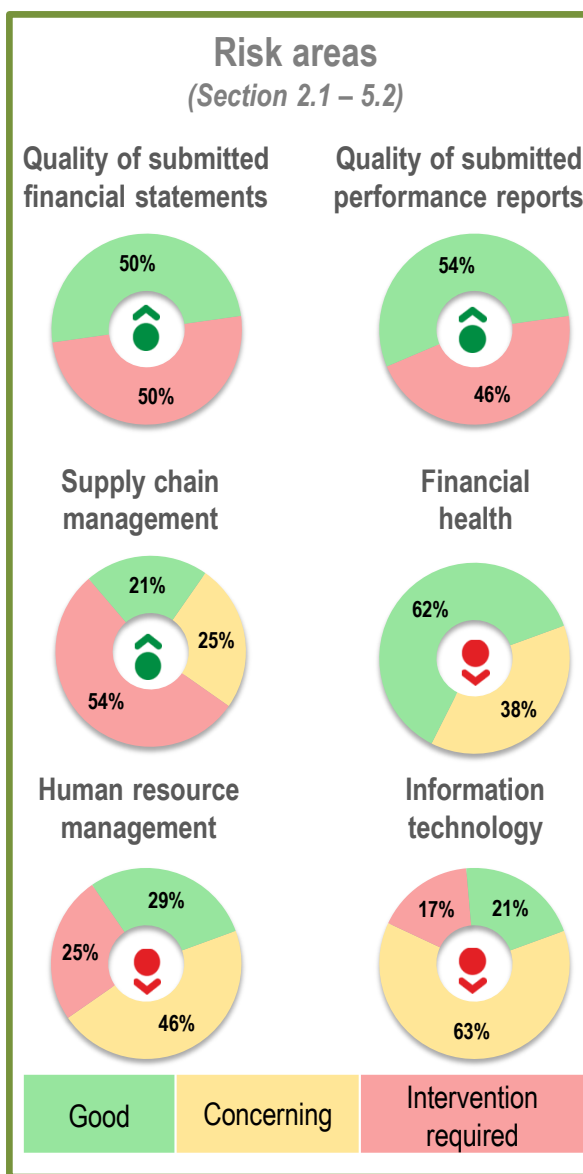
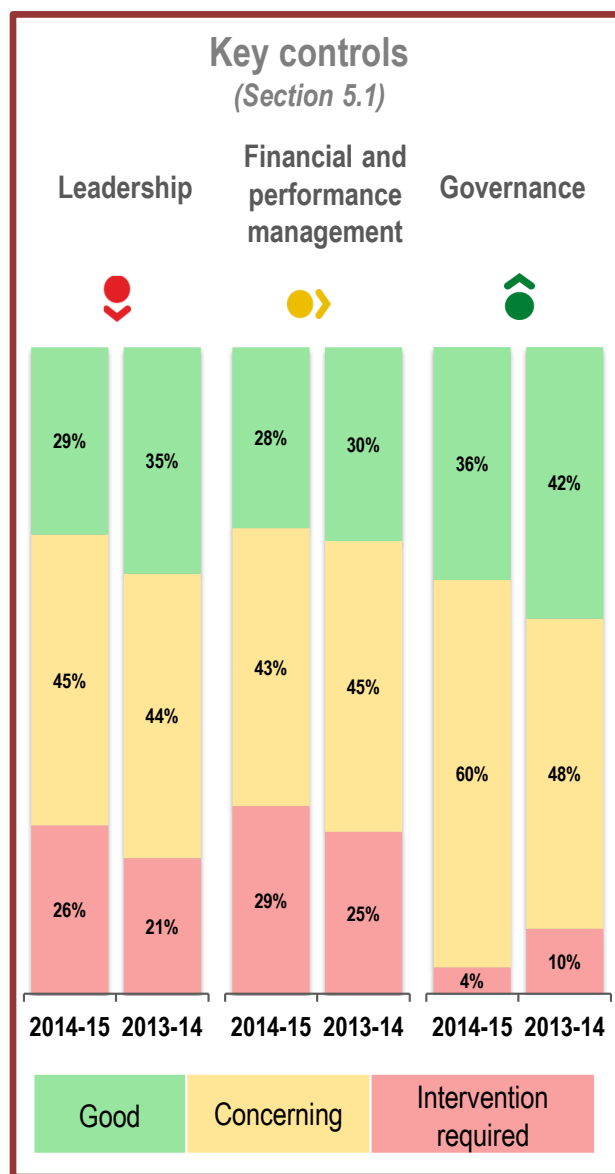
Summary of our message

Figure 1: Overview of the audit message



To improve the **audit outcomes** ...

... the **key role players** need to ...



... pay attention to the **key controls**, ...

... the **risk areas**, and ...

... the **root causes**.

Our auditing and reporting process

We audit all departments and public entities in the province, collectively 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 (MECs) and audit committees.
- Our opinion on the financial statements, material findings on the annual performance report and compliance with key 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 (PACs) and portfolio committees as applicable.
- Annually we report on the audit outcomes of all auditees in a **provincial general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the provincial legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving the audit outcomes by identifying **the key controls** that should be in place at auditees; regularly assessing these; 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 (SCM) ■ financial health ■ information technology (IT) 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 and performance report, as well as on their compliance with legislation.

We also continue to strengthen our relationships with the MECs, the premier and the provincial treasury, as we are convinced that their involvement and oversight should play – and will continue to play – a crucial role in the performance of

auditees in the province. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figures 1(a) and (b) give an overview of our message on the 2014-15 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 figures show our opinion on auditees' financial statements and whether we had identified material audit findings on the quality of their annual performance report and compliance with key legislation.

The overall audit outcomes fall into the following categories:

1. Auditees that received a **financially unqualified opinion with no findings** 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 against the predetermined objectives in their annual performance plan in a manner that is useful and reliable
 - comply with key legislation.

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

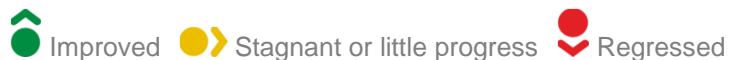
2. Auditees that received a **financially unqualified opinion with findings** were able to produce financial statements without material misstatements but struggled to:
 - align their performance reports to the predetermined objectives they committed to in their annual performance plans
 - set clear performance indicators and targets to measure their performance against their predetermined objectives
 - report reliably on whether they had achieved their performance targets
 - determine which legislation they should comply with and implement the required policies, procedures and controls to ensure that they comply.
3. Auditees that received a **financially qualified opinion with findings** face the same challenges as those that were financially unqualified with findings but, in addition, they could not produce credible and reliable financial statements. There were material misstatements in their financial statements, which they could not correct before the financial statements were published.
 - The financial statements of auditees with an **adverse opinion with findings** contained so many material misstatements that we disagreed with virtually all the amounts and disclosures.
 - Those auditees with a **disclaimed opinion with findings** could not provide us with evidence for most of the amounts and disclosures in the financial

statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

Auditees with adverse and disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
- not complying with key legislation.

Please note that when looking at the figures and the rest of the report, only a movement of more than 5% (in the number of auditees) is regarded as an improvement or a regression. Movement is depicted as follows:



The rest of the report summarises the audit outcomes, including our key recommendations for improvement and role players' impact and initiatives. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal control 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 our general reports.

Characteristics of each of the categories of audit outcomes

The table on the following pages summarises the characteristics of auditees that fall within the different categories of audit outcomes. We have included this summary to:

- assist the reader to understand the different audit outcomes
- highlight the good practices of auditees with clean audit opinions
- emphasise that auditees with an unqualified opinion with findings still have serious weaknesses that should be dealt with
- explain why auditees with qualified, adverse and disclaimed opinions are failing.

Table 1: Characteristics of auditees within the different categories of audit outcomes

Area	Unqualified with no findings (4)	Unqualified with findings (15)	Qualified with findings (5)
Financial statements	Produced financial statements that were free from material misstatements .	<p>A total of seven auditees (47%) produced financial statements with material misstatements, but corrected these during the auditing process.</p> <p>The most common areas in which auditees made corrections were:</p> <ul style="list-style-type: none"> irregular expenditure other disclosures relating to key personnel, budget information and fees paid to agents contingent liabilities and commitments accounting policies, changes in estimates and errors. 	<p>Produced financial statements with material misstatements, which they could not correct before the financial statements were published.</p> <p>The most common areas in which they could not make corrections were:</p> <ul style="list-style-type: none"> aggregate misstatements irregular expenditure contingent liabilities and commitments receivables other disclosures.
Annual performance report	Measured and reported on their performance in the annual performance report against the predetermined objectives in their integrated development plan and/or service delivery and budget implementation plan. This was performed in a manner that was useful and reliable .	<p>The annual performance reports of four auditees (27%) were not useful and/or reliable.</p> <p>In total, three auditees (20%) received good outcomes only because they corrected the misstatements identified during the audit.</p>	The annual performance reports of three auditees (60%) were not useful and/or reliable .
Compliance with key legislation	Complied with key legislation.	<p>Fifteen auditees (100%) did not comply with key legislation.</p> <p>For one auditee (7%) the only material instance of non-compliance related to their failure to prevent irregular expenditure, while for a further two auditees (13%) the only material instance of non-compliance we reported was their failure to meet the requirements of the legislation relating to procurement and contract management. They would have received a clean audit outcome had it not been for these compliance focus areas.</p>	<p>Five auditees (100%) did not comply with key legislation.</p> <ul style="list-style-type: none"> Poor quality of annual financial statements (100%) Strategic planning and performance management (60%) Failure to prevent irregular, unauthorised or wasteful expenditure (100%).

Area	Unqualified with no findings (4)	Unqualified with findings (15)	Qualified with findings (5)
Controls	<p>Had good controls or were working on the areas that needed further attention to ensure that their clean audit status was maintained. This was enabled by the following:</p> <ul style="list-style-type: none"> The leadership created an environment that contributed to internal control and oversight (88%). Senior management ensured that controls were in place for robust reporting systems for financial and performance management (75%). They focused on governance through risk management activities and effective internal audit units and audit committees (100%). <p>Their continued focus on these basic controls contributed to their success:</p> <ul style="list-style-type: none"> The leadership established a culture of ethical behaviour, commitment and good governance (100%). Good human resource practices ensured that adequate and sufficiently skilled officials were in place and that their performance was managed (75%). Audit action plans were used to address internal control weaknesses (100%). Basic disciplines and controls were in place for daily and monthly processing and reconciling of transactions (100%). Mechanisms were in place to identify applicable legislation, changes and processes to ensure and monitor compliance with legislation (100%). 	<p>Had good controls in some areas but should pay more attention to the basic controls, as the number of auditees with good controls in these areas was limited as follows:</p> <ul style="list-style-type: none"> Effective leadership culture (40%) Strong daily and monthly controls (40%) Good human resource controls (27%) Proper record keeping (27%) Good information and communication technology (ICT) governance and controls (27%) Effective audit action plans (13%) Review and monitoring of compliance (13%). 	<p>Very few auditees ranging from 0% to 20% had good basic controls. No auditees had good controls in the areas of audit action plans or the review and monitoring of compliance.</p>

Area	Unqualified with no findings (4)	Unqualified with findings (15)	Qualified with findings (5)
Assurance providers	<p>Key role players worked together to provide assurance on the credibility of the financial statements and performance reports and to ensure compliance with key legislation.</p> <p>These auditees understood that assurance on the credibility of the information in the financial statements and performance reports came primarily from the actions of management or leadership and their governance partners – internal audit units and audit committees.</p> <p>Their political leadership played a strong monitoring and oversight role and held the administration to account.</p> <p>The number of auditees where role players provided full assurance was as follows:</p> <ul style="list-style-type: none"> • Senior management (100%) • Accounting officers or chief executive officers (CEOs) (75%) • Executive authorities (100%) • Internal audit units (100%) • Audit committees (100%). 	<p>Role players provided some assurance; however, they did not provide the required level of assurance resulting in either findings on their annual performance reports and/or findings on compliance with legislation.</p> <p>Some internal audit units and audit committees did not add to the credibility of the annual performance reports and annual financial statements, while monitoring and oversight by the political leadership did not have the desired impact.</p> <p>These role players also did not insist on strong controls to ensure compliance with key legislation.</p> <p>Auditees where role players provided full assurance were limited as follows:</p> <ul style="list-style-type: none"> • Internal audit units (20%) • Audit committees (20%). 	<p>The role players at these auditees could provide no assurance or only some/limited assurance.</p>
Key officials	<p>One auditee had vacancies in the key positions of accounting officer and head of the SCM unit. The remaining auditees in this category had no vacancies in their key positions. There was a level of stability within the auditees and in most cases officials had been in their positions on average for slightly under four years.</p>	<p>The vacancies in key positions were more pronounced at these auditees:</p> <ul style="list-style-type: none"> • Accounting officer or CEO – 7 % • CFO – 13% • Head of the SCM unit – 7% <p>There was stability in key positions, with officials being in these positions for three and a half years on average.</p>	<p>The vacancies in key positions were more pronounced than those of auditees that received unqualified opinions with findings:</p> <ul style="list-style-type: none"> • Accounting officer or CEO – 20% • CFO – 0% • Head of the SCM unit – 20%. <p>There was less stability, with key officials being in these positions for slightly less than two years on average.</p>

Area	Unqualified with no findings (4)	Unqualified with findings (15)	Qualified with findings (5)
Supply chain management and irregular expenditure	<p>They had no material instances of non-compliance with SCM legislation; 75% maintained good SCM practices but 25% still needed to improve in some of the SCM areas.</p> <p>Their irregular expenditure levels were low as a result of their good SCM practices. They incurred less than 0,1% of the irregular expenditure of all auditees.</p>	<p>In total, 60% of these auditees had material instances of non-compliance with SCM legislation. Only 13% maintained good SCM practices.</p> <p>They incurred 13% of the irregular expenditure as a result of their poor SCM practices.</p> <p>At three auditees (20%), the accounting officer did not take action against officials who incurred or permitted irregular expenditure.</p>	<p>In total, 80% of these auditees had material instances of non-compliance with SCM legislation.</p> <p>Their irregular expenditure levels were high as a result of their poor SCM practices. They contributed the most to irregular expenditure at 87% of the total, while being responsible for 77% of the departmental budget.</p> <p>The lack of disciplinary action was more pronounced: At two auditees (40%), the accounting officer did not take action against officials who incurred or permitted irregular expenditure.</p>
Financial health and unauthorised expenditure	<p>They incurred no unauthorised expenditure. Only one (25%) auditee's financial health indicators were cause for concern.</p>	<p>Incurred less than 1% of the unauthorised expenditure; however, 33% of the auditees had financial health indicators that were of concern.</p>	<p>Auditees in this category were responsible for more than 99% of the unauthorised expenditure and 80% of these auditees had financial health indicators that were concerning.</p>

AUDIT OUTCOMES, ROOT CAUSES AND THE IMPACT OF KEY ROLE PLAYERS

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1. Overall audit outcomes

Section 195 of the Constitution of South Africa states that public administration must be governed by the democratic values and principles enshrined in the Constitution. It specifically highlights that public administration must be **accountable** and that **transparency** must be fostered by providing the public with **timely, accessible and accurate information**. The tabling of the annual report (which includes an annual performance report, annual financial statements, other information and the audit report) in the provincial legislature is the main instrument used to achieve these objectives.

To enable oversight processes we fulfilled our constitutional mandate by auditing the financial statements, the report on actual performance against predetermined objectives, and compliance with legislation for the 2014-15 financial year.

The Eastern Cape government consists of 14 departments and 10 public entities. The number of public entities decreased from 11 in the previous year to 10 after the Eastern Cape Appropriate Technology Unit was incorporated into the Department of Rural Development and Agrarian Reform with effect from 1 April 2014.

The total budgeted expenditure of the province was R65 billion in 2014-15, including R2,3 billion allocated to public entities. The following were the main areas of expenditure:

	Departments	Public entities
• Employee cost	R40,1 billion	R0,5 billion
• Goods and services	R10,8 billion	R1 billion
• Capital expenditure	R3,6 billion	R0,8 billion
• Transfer payments	R8,2 billion	

Figure 1 indicates that there has been an improvement in the overall audit outcomes when compared to the previous year, while figure 2 reflects these outcomes per budgeted expenditure administered by the auditees in the different categories of audit outcomes.

For the 2014-15 financial year the province reflects a net improvement of one audit outcome, i.e. four improvements and three regressions, which are dealt with in more detail below. While it is encouraging to note that three of the four improvements relate to auditees that progressed to the unqualified with no findings category, the stagnation within this category is due to the three regressions.

Our previous report highlighted the fact that for the first time, no department received an adverse or disclaimed outcome. It is pleasing to report that in addition to this, no provincial public entity received a disclaimed or adverse outcome for the first time. The elimination of adverse and disclaimed outcomes is evidence that the province is moving in the right direction, albeit slowly, when it comes to financial

reporting. The challenge is now for the province to sustain this status and ensure that measures are in place to avoid regressions.

The most concerning matter relating to the movement in outcomes is the fact that only one auditee was able to sustain its 'unqualified with no findings' status, while the three oversight departments regressed.

The outcomes also reflect a stagnation of five auditees in the category of qualified audits, including the three departments that constitute the largest portion of the provincial budget. Similarly, 11 auditees remained unqualified with findings in respect of predetermined objectives and/or non-compliance with legislation.

While cognisance is taken of the improvement in the quality of the financial statements submitted for auditing, the fact that 83% of auditees still had findings on compliance with legislation shows that the province needs to embed the disciplines required to ensure sustained compliance with legislation into its control environment. It is evident that non-compliance with legislation is an area that stands between the province only having 17% of the auditees in the 'unqualified with no findings' category and the province having nearly 50% of the auditees reflecting 'unqualified with no findings' outcomes. The challenge therefore remains for all levels of leadership to set the tone by dealing decisively with non-compliance with applicable legislation. This will build the ethical culture required to ensure sustained compliance with legislation and the economical, effective and efficient delivery of services to the citizens of the Eastern Cape. This drive should be led by accounting officers, executive oversight and all structures charged with governance.

Table 2 analyses the movement in the audit outcomes of the different auditees since the previous year which resulted in the net improvement in the audit outcomes of the province.

Table 2: Movement in audit outcomes

(The colour of the name indicates the category from which the auditee had moved)

	4 Improved	17 Unchanged	3 Regressed
Unqualified with no findings = 4 (17%)	<ul style="list-style-type: none"> Department of Safety and Liaison Provincial legislature Gambling and Betting Board 	<ul style="list-style-type: none"> Eastern Cape Socio-Economic Council 	
Unqualified with findings = 15 (62%)	<ul style="list-style-type: none"> Government Fleet Management Services 	<ul style="list-style-type: none"> Department of Economic Development Department of Human Settlements Department of Rural Development Department of Social Development Department of Sport, Recreation, Arts and Culture Department of Transport East London Industrial Development Zone Liquor Board Parks and Tourism Agency Provincial Arts and Culture Council Rural Development Agency 	<ul style="list-style-type: none"> Department of Cooperative Governance and Traditional Affairs Office of the Premier Provincial treasury
Qualified with findings = 5 (21%)		<ul style="list-style-type: none"> Department of Health Department of Education Department of Roads and Public Works Eastern Cape Development Corporation Mayibuye Transport Corporation 	

Improvements

A focused drive by both the relevant executive and the accounting officers to create the correct leadership culture and strengthen the control environment led to the Department of Safety and Liaison as well as the Eastern Cape Gambling Board improving their outcome from unqualified with findings to unqualified with no findings. The most notable impact of the good controls manifested by these auditees was the elimination of or significant reduction in irregular expenditure disclosed in their financial statements. We commend these auditees for reaching this milestone and encourage them to continue ensuring that all daily, weekly and monthly financial and performance disciplines are executed throughout the financial year and are embedded within the control environment. If this is done they should be in a position to continue reporting in an accurate, transparent and accountable manner, as required by the Constitution and Public Finance Management Act (PFMA).

The provincial legislature improved to unqualified with no findings. Only limited legislation applied to the financial management of the legislature during the year under review (refer to section 2.2 for more detail). The application of the new

legislation, the Financial Management of Parliament and Legislatures Act (FIMPLA), which is applicable to the financial management in the legislative sector with effect from 1 April 2015, is an emerging risk. The leadership of the legislature is urged to ensure that its policies and procedures effectively address the requirements of this legislation to prevent a regression in audit outcomes during the next audit cycle.

Eastern Cape Provincial Fleet Management Services managed to address all three of its prior year qualifications relating to receivables, revenue and aggregate misstatements and improved from qualified to an unqualified with findings. Of concern, however, is the sustainability of this outcome as this auditee would have been qualified if audit adjustments identified during the auditing process had not been corrected.

Unchanged audit outcomes

With the leadership setting the appropriate tone at the top, the Eastern Cape Socio-Economic Consultative Council sustained its unqualified audit outcome with no other findings. This leadership tone is entrenched by applying appropriate accountability and governance practices supported by a sound internal control environment. This is further enhanced by transparent and stable reporting systems that are monitored by the various assurance providers. Although this auditee has maintained its audit status for a number of years, there are risks to its financial health (refer to section 2.3 financial health). These risks are, however, being proactively managed to mitigate their impact.

The outcomes of 11 auditees remained unchanged on unqualified with findings. These auditees have sustained unqualified outcomes for a number of years but still lack momentum to improve to unqualified with no findings on performance reporting or compliance. A lack of accountability, consequence management and year-round financial disciplines resulted in the ever-present compliance findings. We encourage these auditees to take the final steps in entrenching daily financial and performance management disciplines and compliance with legislation to eliminate all findings, thereby laying the foundation for effective, transparent and sustainable financial reporting and service delivery.

Five auditees stagnated on qualified opinions. Of particular concern within this group are the three biggest departments, namely Health, Education and Roads and Public Works that are responsible for 77% of the provincial budget. The status of these three auditees is analysed in more detail in section 2.1.

Regressions

The achievement of a financially unqualified audit outcome with no findings by the three oversight departments, being the Office of the Premier, provincial treasury and Local Government and Traditional Affairs, was not sustained. All three departments regressed to an unqualified opinion with findings on compliance with legislation.

The regressions at Cooperative Governance and Traditional Affairs (CoGTA) and the Office of the Premier were due to the control systems at these departments being over-reliant on key individuals. This resulted in these systems not detecting and correcting the non-compliance that took place during a period of leadership instability in the year under review.

The regression at the provincial treasury was due to the leadership not conducting regular and adequate reviews to detect non-compliance with legislation, with the result that purchases between R500 000 and R1 million were made based on quotations instead of following a competitive bidding process, as required by procurement legislation.

Coega Development Corporation

In its annual report for the year ended 31 March 2015, the Coega Development Corporation acknowledges the Department of Trade and Industry as its ultimate executive authority based on the fact that it holds a class A share in the corporation, which gives it majority control in dealing with the matters of the corporation. Upon enquiry, however, the department did not acknowledge the Coega Development Corporation as a national public entity. This contention is supported by the fact that the corporation's budget and annual report are handled by the provincial legislature of the Eastern Cape. This is not ideal when it comes to defining accountability and structuring effective oversight. The provincial leadership, through the provincial treasury, has initiated a process to investigate the ownership and structural arrangements of this entity. The intended outcome of this process is to pinpoint accountability for this entity in the province and to confirm the ownership arrangements.

At the cut-off date for inclusion in the general report the audit of the Coega Development Corporation had not been finalised. These audit outcomes are therefore not included in this general report due to the provincial process referred to above not having been concluded and the audit process not having been finalised at the cut-off date for inclusion in this report.

Audit outcomes per budgeted expenditure

Figure 2: Audit outcomes per budgeted expenditure (departments)

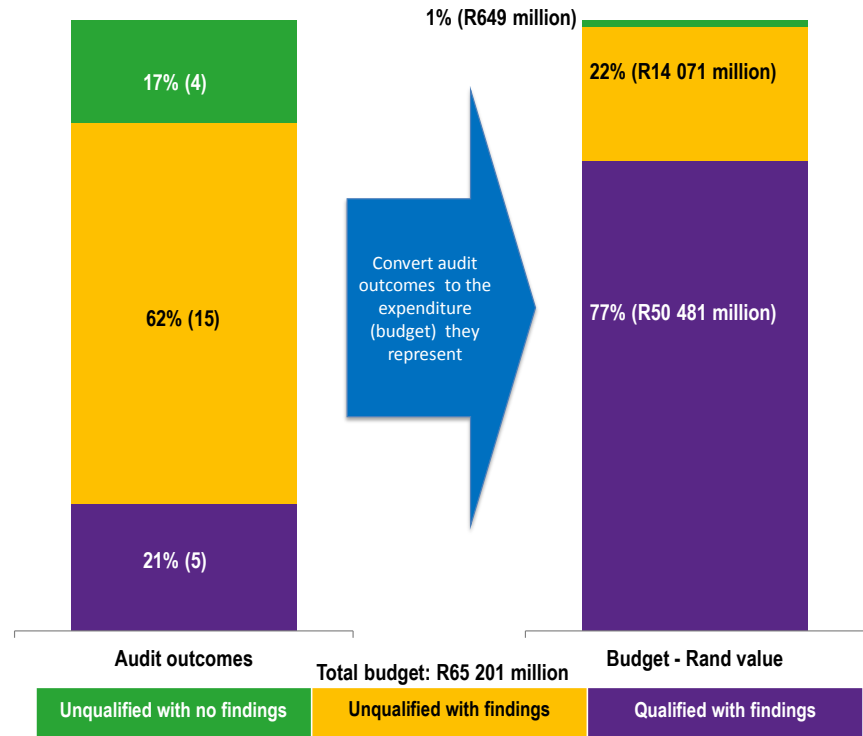


Figure 2 shows that while 79% of audit outcomes were **unmodified** (unqualified without findings or unqualified with findings on compliance or performance reporting), the auditees with qualified outcomes constitute 77% of the provincial budget.

It is of concern that the three departments (Education, Health and Roads and Public Works) that must deliver on the key provincial priorities of education, health and infrastructure could not produce credible financial statements.

These departments play a critical role in service delivery within the province, yet they lag behind in terms of creating a sound control environment that promotes sound administration and enables effective execution of their mandate.

Health

This department has for the past five years retained its status of financially qualified with other findings. However, it has maintained its momentum towards improvement as it continued to reduce the number of qualification paragraphs and compliance findings, mostly due to the heavy reliance placed on the auditing

process to correct misstatements in the financial statements submitted for auditing. Although the department implemented an action plan directed at its main challenges of record management and in-year reporting, it did not address all qualification areas and eliminate the audit adjustments during the auditing process. The department still had a number of areas that it should improve to create the platform required to move to a sustainable unqualified outcome. These include the following:

- Policies and procedures were not drafted with sufficient emphasis on the roles of monitoring and the isolation of responsibilities. This led to inconsistent understanding and implementation of policies and procedures by some officials, resulting in repeat financial, performance information and compliance findings. This also contributed to the lack of synergy and cooperation between the head office, district offices and hospitals which were critical for establishing a sound control environment in a decentralised environment.
- Accounting records, registers and reconciliations were still being updated during the preparation of the annual financial statements rather than on a daily, weekly and monthly basis.
- In addition, it is evident that certain individuals were relied on in relation to the control environment, especially financial reporting. This is deemed a high-risk area as all the improvements made could be reversed in the event that these individuals leave the department.
- The department continued to use consultants for the preparation of their financial statements and spent R17,7 million (an increase of R5,2 million compared to the previous year) on consultants due to vacancies and a lack of skills within the department.

Education

Financial and performance management practices at Education remain a concern. The weaknesses and deficiencies that undermined the control environment in previous years were not adequately addressed and the department had made no progress in this regard. As a result the sustainability of the qualified audit outcome is in doubt and if the current interventions do not have an immediate impact, the department is at a risk of regressing to an adverse or disclaimed audit outcome. These weaknesses, which require urgent remedial action, include the following:

- Lack of adequate oversight of the control environment by leadership and slow responses to our recommendations underpinned the inability of the department to establish a functioning control environment, with the result that the department was unable to produce credible and reliable financial and performance information. The risk of using inaccurate information for decision-making therefore increased. This matter was further compounded by the lack of effective record management systems, which are critical in an organisation of its size. This matter needs urgent attention. As stated in the medium-term strategic framework (MTSF), weak control environments, together with weak

management and poor systems of control, create space for corruption to occur, particularly in the area of SCM.

- Deficiencies in human resource and performance management, as well as a lack of implementation of policies and procedures, were once again common. At the core of the challenges is a lack of accountability and regular monitoring of the financial disciplines within the auditee, including at district and school levels. This is underpinned by a lack of coordination and role clarification on matters of financial management between head office, district offices and schools.
- The suspension of the head of department (HoD) for nine months at year-end resulted in temporary arrangements being made to ensure that the department functions optimally. These temporary arrangements included the provincial treasury removing the delegations per the PFMA from the acting HoD and seconding an accounting officer to execute these responsibilities. The acting HoD was then only responsible for matters relating to human resources and policy implementation. As a result, the department had an acting HoD and an accounting officer. Should this split not be managed properly and clear responsibilities defined, the department will regress further.

Roads and Public Works

Management has still not addressed fundamental control environment issues. In addition, the department still had not obtained concurrence from the Department of Public Service Administration or approval from the Office of the Premier for their staff establishment, which was one of the main contributors to its challenges. This had more specifically impacted the capacity of the roads and finance sections of the department and had the following implications:

- The lack of skills (technical and financial) remained a challenge. The lack of stability in critical positions contributed to leadership not providing effective oversight of the implementation and monitoring of internal controls. As a result, the required daily and monthly controls were not institutionalised.
- The over-reliance on consultants has been reported for a number of years and it is concerning to note that the cost of consultants is escalating. The department spent R24,8 million (an increase of R5 million) on consultants to assist in the preparation of financial statements and R11,7 million (an increase of R11,6 million) on consultants to assist with the reporting of actual performance against predetermined objectives. The use of consultants was due to a lack of skills within the department.

On a positive note, the accounting officer had introduced a comprehensive consequence management process stemming from the 2013-14 audit. As a result, irregular expenditure decreased significantly when compared to the 2013-14 financial year and the department did manage to remove the comparative qualification for irregular expenditure, although it remained qualified for the 2014-15 year.

2. Financial management

Sections 2 and 3 analyse the quality of the financial statements and annual performance reports as well as compliance with key legislation that contributed to the overall audit outcomes.

2.1 Annual financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

Figure 3: Three-year trend – financial statements

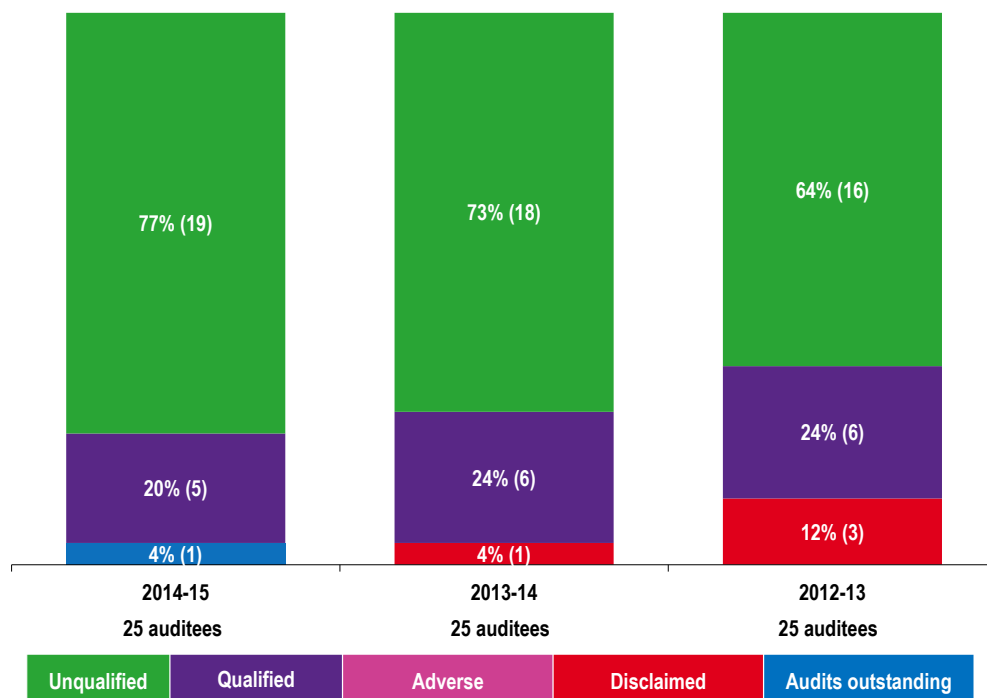
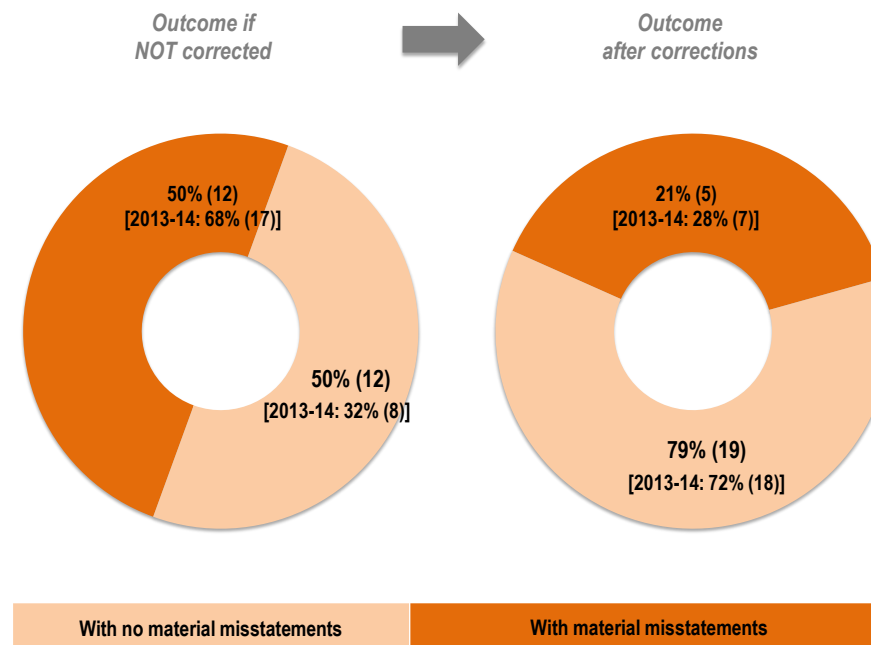


Figure 3 shows that there was an improvement in the audit opinions on financial statements when compared to the previous year. Section 2.2.1 analyses those auditees that were unable to correct their material misstatements and received qualified audit outcomes.

2.1.1 The quality of the financial statements submitted for auditing

Figure 4: Quality of financial statements submitted for auditing



We report the poor quality of the financial statements in the audit reports of auditees as a material compliance finding, as it also constitutes non-compliance with the PFMA. This 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 a finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements were submitted.

We commend the province for the significant improvement in the quality of financial statements compared to previous years. It is encouraging to note that six auditees managed to address their prior peer compliance finding to the level where no material corrections to their financial statements were required. This positive trend is extremely encouraging as only four auditees used consultants to assist them with the preparation of financial statements. This is indicative of the province

starting to stabilise with regard to in-house capacity and skills to prepare financial statements.

Having said this, not all auditees were at the required level and therefore this should remain a provincial priority. While all auditees submitted their financial statements for auditing on time, figure 4 shows that 12 auditees (50%) submitted financial statements that contained no material misstatements.

Seven auditees (29%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. Only 50% of the auditees would have received an unqualified audit opinion if we did not identify the misstatements and allowed them to make the corrections. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice.

2.1.2 Financial statement areas qualified

Even though we reported the material misstatements to management for correction, five auditees (2013-14: seven) could not make the necessary corrections to the financial statements, which resulted in qualified audit opinions. The main reasons for not making the corrections were:

- a lack of effective and adequate systems to identify and accurately record all transactions in the appropriate accounts
- the general lack of effective monthly reporting
- the unavailability of supporting documentation for transactions and balances recorded in the financial statements.

Credible financial statements support the constitutional requirement of providing the public with accurate, accountable and transparent information. In addition to this, if the underlying controls are in place and regular, accurate and credible monthly financial reports are prepared, decisions taken about spending on service delivery can be improved to the benefit of all citizens.

Table 3: Financial statement qualification areas

Auditee	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Irregular expenditure	Aggregate misstatements
Health				R		A	R	A
Education	R		R	R			R	R
Roads and Public Works		N		A		N	R	R
Eastern Cape Development Corporation		N				A		N
Mayibuye Transport Corp				A	R		A	

Addressed prior year qualification (A)	New qualification (N)	Repeat qualification (R)
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Table 3 indicates the most common financial statement qualification areas and auditees' progress in addressing these since the previous year. The reasons for the three most common qualifications and the auditees qualified are as follows:

Irregular expenditure

The most common qualification item for both departments and public entities related to the completeness of irregular expenditure incurred as a result of non-compliance with SCM regulations. This was due to auditees not having sufficient financial controls to prevent or detect, and subsequently report, all irregular expenditure incurred.

We had also highlighted this area in the previous year. It was not adequately addressed because of the slow response by the administrative leadership to instil the required SCM practices and disciplines and to take corrective actions against officials who do not comply with SCM legislation. We further analyse the nature and categories of irregular expenditure incurred by auditees in section 2.2.1 of this report.

Other disclosures notes

This qualification item was more common at departments than at public entities. The departments were qualified on this area mainly due to a lack of adequate monthly financial reporting in respect of disclosure notes relating to employee benefits, immoveable and moveable assets, accruals and commitments. As a result, these balances were only accounted for at year-end during the preparation of the financial statements.

Departments struggle with the other disclosure requirements because the accounting systems do not support the requirements of the modified cash basis of accounting. The records supporting the other disclosures are maintained outside of the accounting system, mostly by using spreadsheets. This does not contribute to a control environment that prevents, identifies and corrects errors in a timely manner. In respect of public entities, the identified misstatements were as a result of non-compliance with the reporting framework for entities.

We had also highlighted this area in the previous year. It was not adequately addressed due to a slow response to our message of institutionalising the culture of monthly financial disciplines required to support transparent and credible financial reporting.

Aggregate misstatements

Aggregate misstatements are misstatements that are not material individually but are material when accumulated with other uncorrected misstatements. We had also highlighted this area in the previous year. This was not addressed due to the slow response by the leadership to implement adequate financial processes to identify and record all required transactions. Further contributing factors were the lack of financial discipline in respect of monthly reconciliations and the inadequate review and monitoring of financial reporting processes.

2.1.3 Recommendations

Auditees that received qualified opinions and those that submitted financial statements of a poor quality for auditing should strengthen their processes and controls to create and sustain a control environment that supports reliable reporting.

These auditees should implement at least the following key controls and best practices that are in place at auditees that received financially unqualified opinions with no findings:

- Ensure that the control environment is strengthened through the introduction of key oversight controls that will ensure that daily, weekly and monthly reconciliations are prepared. Also ensure that reliable monthly or quarterly financial statements are prepared. This should include proper coordination, monitoring and oversight responsibilities at district offices.

- Train officials in the modified cash standard (for departments) or Generally Recognised Accounting Standards (for public entities) to ensure awareness of their reporting responsibilities.
- The requirement to produce regular and timeous financial information that is credible should be included in the performance agreements of accounting officers and their senior management.
- Implement proper consequence management for poor performance and transgressions for all officials as part of a performance management system.

In addition to the above controls, the provincial and national treasuries should investigate the feasibility of acquiring an accounting system that supports the modified cash basis of accounting without the need to maintain separate spreadsheets that are not part of the accounting system.

2.2 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 arising 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 5: Three-year trend – compliance with key legislation



Although we are encouraged by the pockets of improvement that we have seen in the 2014-15 audit outcomes, the improvement was very slow and the provincial leadership did not put enough emphasis on reducing and eliminating the findings on compliance with legislation. Until such time as the whole provincial leadership starts holding officials accountable for non-compliance with legislation, this will not be seen as a provincial priority and the desired wholesale movement to transparent and accountable financial and performance reporting will not take place.

Figure 5 shows that at an overall level the number of auditees with material findings on compliance with legislation remained at the same level as last year. The overall stagnation was due to three auditees (Safety and Liaison, the Gambling and Betting Board and the provincial legislature) improving their outcomes in this area while the outcomes of the three oversight departments (CoGTA, Office of the Premier and provincial treasury) regressed in this area during the year under review.

The improvements at Safety and Liaison and the Gambling and Betting Board were achieved through in-year compliance monitoring by both leadership and the audit committee, as well as the enforcement of proper governance and accountability practices. These processes include compliance with legislation being assessed as

a key risk during risk assessment processes, subjecting compliance to in-year reviews by the audit committee and internal audit unit, and holding officials accountable by subjecting them to disciplinary action where necessary.

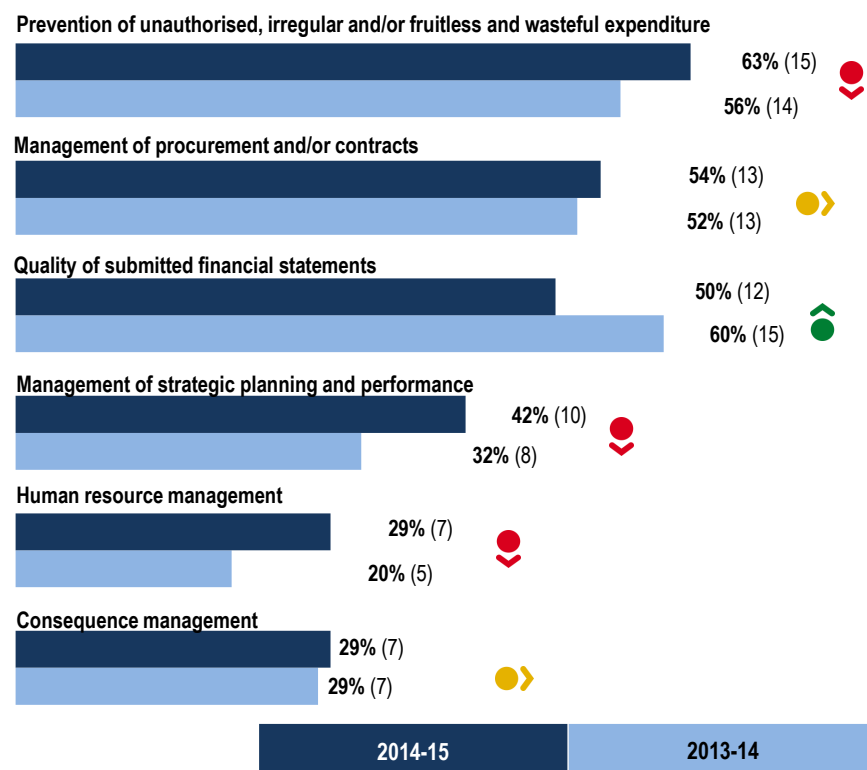
The reasons for the improvement at the provincial legislature and the regressions at CoGTA, the Office of the Premier and the provincial treasury have already been explained in section 1 of this report.

Four auditees (Rural Development and Agrarian Reform, Eastern Cape Government Fleet Management Services, Eastern Cape Liquor Board and Eastern Cape Rural Development Agency) that received unqualified audit opinions made some progress towards resolving their compliance findings by reducing the number of areas reported on by 40% or more.

At the remaining 13 auditees, the number of compliance focus areas reported on has either increased or remained relatively unchanged since the previous year. The lack of positive movement was due to a slow response by management to the implementation of consequence management for poor performance and transgressions of legislative prescripts. This inadequate tone of leadership further contributed to weak control environments that did not support a culture of compliance with legislation.

At an overall provincial level the number of compliance findings was still high and without the provincial leadership taking the necessary steps to rectify the situation, it would promote a culture that tolerates non-compliance and would not allow the province to move towards further improvements in transparent and accountable financial and performance reporting that is based on good internal controls and sound human resource management.

Figure 6: Trends in findings on compliance with legislation



Section 95 of the Constitution places a burden on the public administration to be **accountable** to the public by fostering **transparency** through the timely provision of accurate information relating to the administration, **effective, efficient and economic use** of resources and the provision of services that are **equitable, fair** and provided **without bias**. This can only be achieved through the various laws with which auditees are required to comply.

Figure 6 shows the compliance areas with the most material findings on the key aspects of legislation identified during the audit. It also shows the progress made by auditees in addressing these findings.

Weaknesses in controls that gave rise to the findings reported in the areas relating to failure to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, management of procurement and contracts and consequence management could result in financial losses for auditees. It is the legislated responsibility of the accounting officer and those charged with governance to investigate all irregularities to determine whether or not losses were suffered. Where losses were suffered the accounting officers are required to take appropriate action as prescribed.

Weaknesses in controls that gave rise to the findings in the areas relating to quality of financial statements, management of strategic planning and performance and human resource management might not result in financial losses but have an impact on the ability of auditees to deliver services to the citizens and on accountability and the transparency of reporting.

The mostly regressed and stagnated compliance findings across all areas were due to an inadequate tone of leadership regarding compliance with legislation and failure to implement consequences for poor performance and transgressions. This should be treated as a priority by provincial leadership.

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

- Unauthorised or irregular or fruitless and wasteful expenditure was not prevented or adequately dealt with and consequences were not implemented as required where such expenditure was incurred (refer to sections 2.2.1 to 2.2.3 for more detail). There is a risk that this type of expenditure might have been due to wastage and the acquisition of goods and services that were not cost-effective and economical. It is critical that this risk be mitigated to build a transparent and accountable administration that is able to manage the limited resources at its disposal in the best interests of the citizens and in accordance with the objectives and priorities contained in the MTSF.
- SCM legislation was not complied with (refer to section 2.2.1 for more detail). There is a risk that goods and services acquired without meeting SCM requirements might not be cost-effective, equitable and economical.
- Contrary to the requirements of the PFMA, the financial statements submitted for auditing contained material misstatements or limitations, as mentioned in section 2.1. Where credible financial records are maintained throughout the year, more informed decisions about service delivery can be made throughout the year. It will also promote transparent reporting as required by the Constitution and the MTSF.
- Verification processes followed in appointing staff members were not adequate (refer to section 4.1 that deals with human resource management findings for more detail). Where the proper verification processes are followed, people with the appropriate skill sets and who are the right fit for the organisational strategy are employed, thus increasing the likelihood that the organisation will achieve its objectives and the service delivery priorities as set by government.

Subsections 2.2.1 through to 2.2.3 that follow provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices.

2.2.1 Weaknesses in supply chain management as a cause of irregular expenditure

Supply chain management

As part of our audits of SCM, we tested 435 contracts (with an approximate value of R3,15 billion) and 945 quotations (with an approximate value of R86 million), also referred to as awards in this report.

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

Figure 7: Status of supply chain management

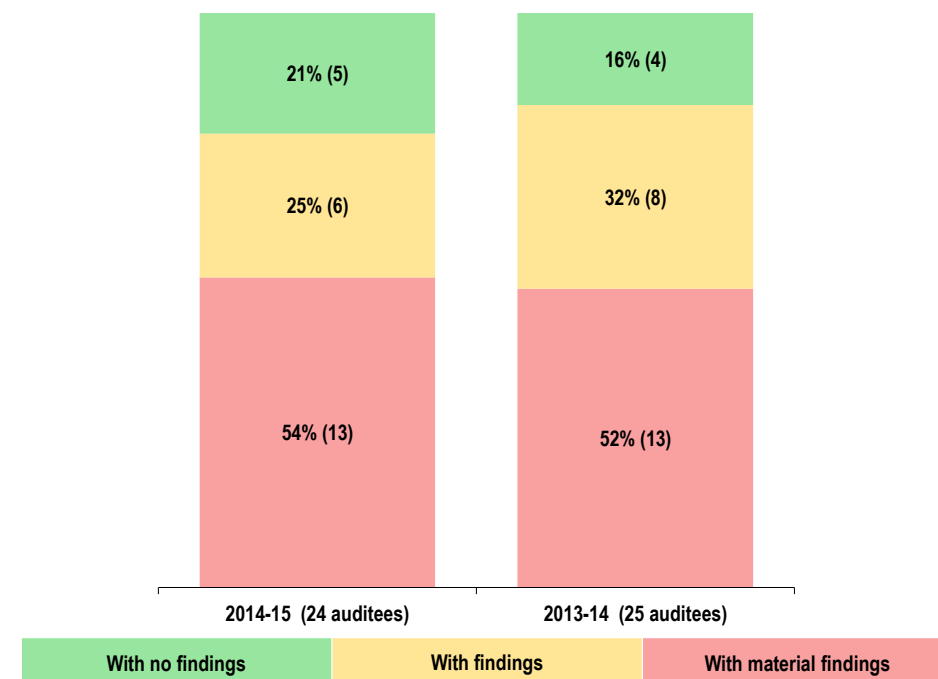


Figure 7 shows the number of auditees that had audit findings on SCM and those where we reported material findings on compliance in the audit report during the current and previous years. It shows that there was a slight regression in auditees with material SCM findings compared to the previous year. This net movement was due to six auditees (East London Industrial Development Zone, Eastern Cape Parks and Tourism Agency, Eastern Cape Rural Development Agency, Office of the Premier and Transport) regressing from having no material findings in the previous year and five auditees (Economic Development Environment and Tourism, Safety and Liaison, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board and Mayibuye Transport Corporation) addressing their material SCM findings of the previous year. This movement indicates that good SCM outcomes are not sustainable unless the SCM-related internal controls are embedded in the control environment and are regularly monitored.

Figure 8: Findings on supply chain management

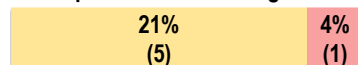
Uncompetitive or unfair procurement processes



Awards to close family members of employees and political office bearers



Inadequate contract management



Awards to employees and political office bearers

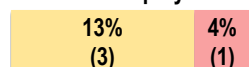


Figure 8 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- We commend the province for providing the required documentation to enable us to audit all of the SCM awards that were selected for auditing and **eliminating the limitations** that were experienced in the previous years. This is really encouraging and goes a long way towards enhancing accountability and transparency.
- The most common findings on **uncompetitive and unfair procurement processes** included procurement without obtaining three written price quotations, procurement without following a competitive bidding process and procurement from suppliers without proof that their tax affairs were in order. Unfair and uncompetitive practices do not only expose the auditees to litigation by aggrieved parties but may result in goods and services being acquired at prices that are higher than market price and delivery of services that are not cost-effective or economical. Cost-effective and economical acquisition of goods and services is especially relevant given that the economy is struggling and the government is finding it difficult to raise the funds needed to deliver services from its various sources of taxation.
- In 43 instances **awards** with an overall value of R4,4 million were made to suppliers in which **employees** of the auditees had a financial interest. In 60% of these instances, the employees had not declared their interests. In a further 37% of these instances the employees were involved in the procurement process. Furthermore, in 63% of instances, the employees involved did not have permission to perform additional remunerative work. The persons involved included senior managers and other employees. In addition to the

risks relating to litigation and cost-effective acquisition of goods and services, there is a risk that the employee may be focusing on his or her businesses during working hours and not on work-related duties.

- The most common findings on **contract management** were the amendment and/or the extension of contracts without the approval of the delegated official and a lack of adequate performance measures and monitoring. Poor management of contracts may result in service delivery delays due to project delays as well as in irregular and fruitless and wasteful expenditure.
- In 207 instances **awards** with an overall value of R16 million were made to suppliers in which **close family members of employees** of the auditees had an interest. In 95% of these instances, the employees displayed poor ethical behaviour by not declaring their interests. The persons involved included senior management and other employees. Awards to related parties such as employees (as mentioned in bullet three above) and close family members of employees not only poses the risk of litigation by aggrieved parties but can also result in the delivery of goods and services that are not cost-effective or economical.

It is essential that all departments and entities comply with the SCM legislative requirements in delivering services to the public to ensure that procurement supports broad-based black economic empowerment, supports local suppliers, results in better value for money and enables a reduction in corruption, as required by the MTSF. This will assist in ensuring that provincial government maximises its service delivery within the confines of the limited financial resources that are available to it.

In our previous general report we challenged the oversight bodies in the province, including the Office of the Premier and provincial treasury, to lead by example in this area by driving a zero-tolerance approach to SCM malpractices and taking action against those officials who do not adhere to SCM prescripts. This challenge is still relevant as the incidents of SCM malpractice highlighted above remain at unacceptably high levels.

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 and/or corruption 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. As documented in the MTSF, weak management and operating systems (controls) create the space for corruption to occur. Corruption impedes service delivery, compromises development and undermines confidence in the state.

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 must be reported when it is identified – even if such expenditure was incurred in a previous financial year.

Figure 9: Auditees incurring irregular expenditure

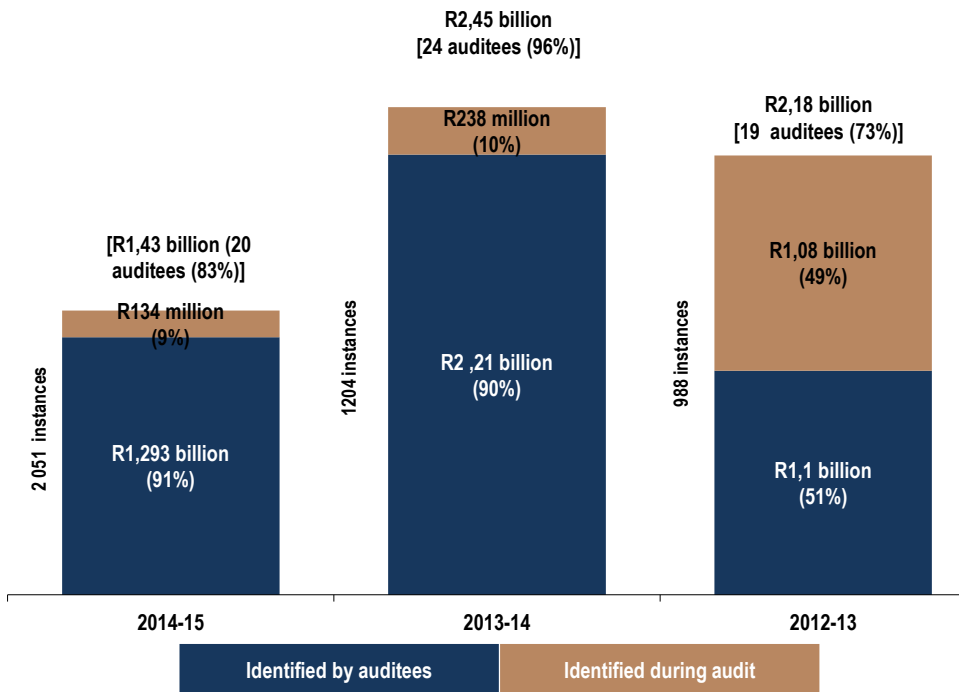
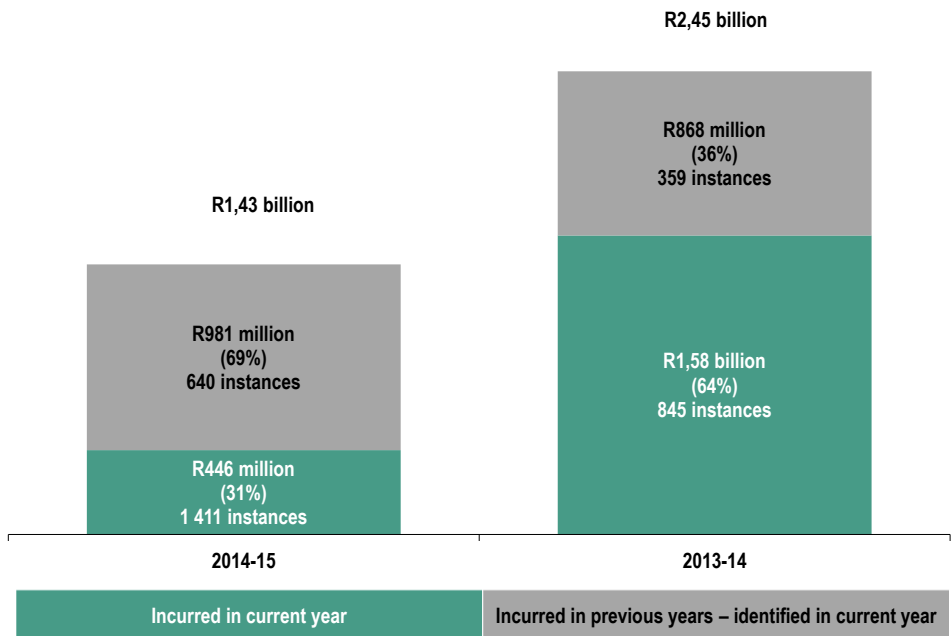


Figure 10: Prior year irregular expenditure identified in the current year



The leadership in the province has taken the first steps towards building the ethical culture required to ensure sustained compliance with SCM legislation and the elimination of irregular expenditure incurred by the province. This is evidenced by the dramatic decrease in the amount of irregular expenditure incurred in the current year. The steps taken included centralisation of the supplier database at the provincial treasury and implementation of consequence management processes at Roads and Public Works and Health, which were responsible for most of the irregular expenditure incurred in previous periods.

Figure 9 shows a reduction of R1 billion in irregular expenditure compared to the previous year. This is particularly encouraging given that figure 10 shows that R981 million of the amount disclosed in the current year relates to irregular expenditure that was incurred in the previous year but only identified in the current year as a result of efforts by Health, Roads and Public Works and the Eastern Cape Development Corporation to address prior period qualifications relating to irregular expenditure.

Although the amount of irregular expenditure has decreased, the number of instances of irregular expenditure has increased from 1 204 in the previous year to 2 051 instances in the year under review. There is risk that SCM transgressions are occurring more frequently in respect of awards of smaller values than in previous years. This risk needs to be addressed if irregular expenditure is to be eliminated in the province.

The total irregular expenditure incurred for the year should also be considered in the context of significant underspending of the capital and current budgets of

Health and Roads and Public Works (Health – R189 million underspending of its capital budget, and Roads and Public Works – R243 million underspending of its capital and current budgets). There is a risk that this underspending was driven by a desire not to contravene the SCM regulations. Furthermore, the audit reports of Education, Health and Roads and Public Works contained qualifications relating to the incomplete identification and disclosure of irregular expenditure. The amount reported in figure 9 and figure 10 may therefore not be the full amount of irregular expenditure incurred during the year under review.

The R1,43 billion incurred constitutes an estimated 2,1% of the total expenditure budget in the province. A total of R1,25 billion of this amount or 87% of all of the irregular expenditure incurred was incurred by the following four departments:

- Roads and Public Works – R663 million (includes R574 million incurred in the previous year but identified during the year under review).
- Health – R452 million (includes R389 million incurred in the previous year but identified during the year under review).
- Education – R87 million.
- Social Development – R48 million.

The auditees identified 91% of the irregular expenditure themselves, while only 9% of the amount disclosed was identified during the auditing process. Although there has been a reduction in the irregular expenditure reported on in the province and most of this irregular expenditure was identified by the auditees, it is concerning that the internal control systems were able to detect this type of expenditure after it occurred but could not fully prevent it. Preventative control systems should be put in place to eliminate this type of expenditure in the province.

Of the R1,43 billion in irregular expenditure incurred, most (94%) was as a result of non-compliance with SCM legislation. The detailed SCM findings have already been dealt with above. 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 – R103 million (8%)
- Non-compliance with procurement process requirements – R1,24 billion (92%).

The Constitution and the MTSF require **effective, efficient and economic use** of resources and **transparent** procurement systems that provide **value for money**. This implies that irregular expenditure should be prevented. Where it cannot be prevented, 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 that fraud has been committed or that money has been wasted because goods and services had not been received or 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 2015 the auditees' financial statements showed that the balance of irregular expenditure in the province that still required the above-mentioned action to be taken was R4,98 billion. This amount is reconciled as follows:

Accumulated irregular expenditure – 1 April 2014:	R4,82 billion
Irregular expenditure incurred during the year:	R1,43 billion
Less: Irregular expenditure condoned/ written off:	<u>(R1,27 billion)</u>
Accumulated irregular expenditure - 31 March 2015:	<u>R4,98 billion</u>

Furthermore, our audits revealed that at five auditees (21%) where the above-mentioned occurred, no disciplinary action was taken against those officials who incurred or permitted irregular expenditure.

We did not perform any investigations into the irregular expenditure as that is the role of the accounting officer and oversight bodies. Through our normal audits we determined that goods and services were received for R428 million (32%) of the irregular expenditure incurred despite the normal processes governing procurement not being followed. However, we cannot confirm that these goods and services had been procured at the best price and that value was received for the money spent.

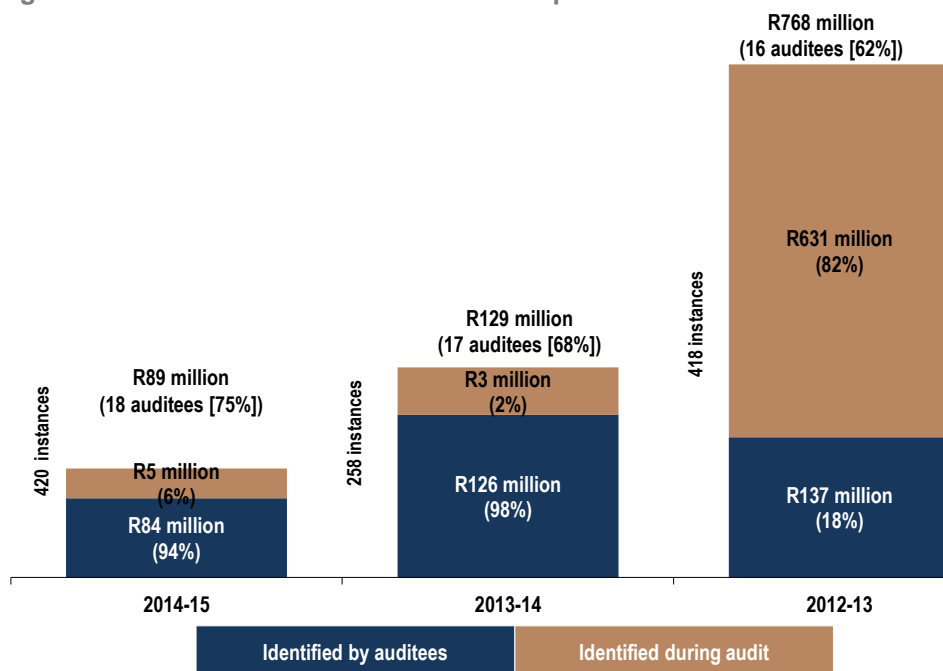
We did not specifically audit the remaining amount of R1 billion as our audit was conducted on a test basis and we did not examine all irregular expenditure transactions.

2.2.2 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 must be reported when it is identified – even if the expenditure was incurred in a previous financial year.

Figure 11: Trend in fruitless and wasteful expenditure



The reduction in this type of expenditure is encouraging and indicates that the focus placed on implementing controls and the enhanced oversight by the provincial treasury are starting to bear fruit.

Slightly more than 93% of the fruitless and wasteful expenditure disclosed by the province was incurred by Health (R74 million) and Education (R9 million).

Medical malpractice legal claims amounting to R72 million, and R2 million in interest payments on the late settlement of supplier accounts, made up the fruitless and wasteful expenditure incurred by Health. Salary payments amounting to R8 million to suspended officials and R1 million in interest payments on the late settlement of supplier accounts made up the amount incurred by Education.

This type of expenditure places pressure on the fiscus and should be prevented. Where it cannot be prevented, the PFMA provides for steps that accounting officers should take to investigate the fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. Our audits revealed that at four auditees (17%) no disciplinary action was taken against those officials who incurred or permitted fruitless and wasteful expenditure. The lack of consequences for actions or inaction that caused fruitless and wasteful expenditure creates a culture where this type of expenditure is accepted as part of the daily operations of departments and entities and should not be tolerated.

Although this type of expenditure has been reduced, the amount reported on for the province is still unacceptably high.

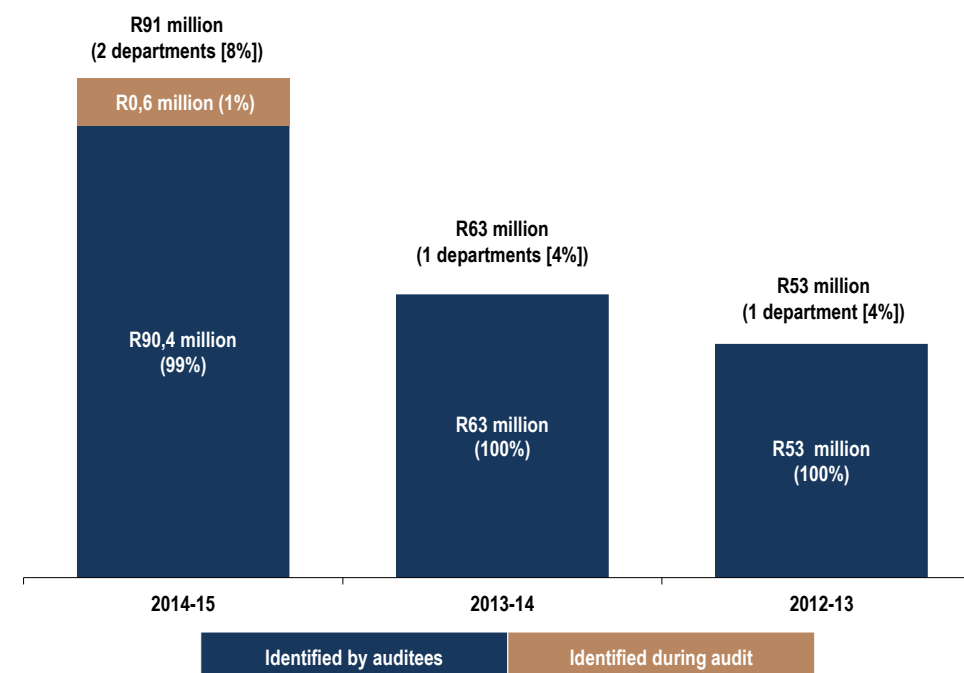
2.2.3 Unauthorised expenditure

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 12: Trend in unauthorised expenditure



The unauthorised expenditure disclosed in figure 12 is attributed to Health (R90,4 million) and Sport Art Recreation and Culture (R623 000). Both of these amounts were due to overspending of the budget. The overspending is attributed to the settlement of medical malpractice claims that were not budgeted for and inadequate in-year reporting and budget monitoring. This unauthorised expenditure will either impact on the revenue fund reserves (if approved with funding) or reduce

the amount of budget available for service delivery (if approved without funding) in future periods.

2.2.4 Recommendations

Auditees that had findings on compliance with key legislation and SCM and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure should strengthen their processes and controls to (create and/or sustain) a control environment that supports compliance. We recommend that such auditees implement at least the following key controls and best practices that are in place at auditees that include the Eastern Cape Gambling and Betting Board, Eastern Cape Socio-Economic Consultative Council and Safety and Liaison:

- Systems and processes should be implemented to ensure that breaches of legislative prescripts are identified and appropriate actions are taken to correct them. This includes developing and implementing appropriate policies and procedures (including checklists), clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation and regularly reporting on compliance to the leadership and the audit committee.
- The audit committees should regularly consider management and internal audit reports on compliance.
- Auditees should include non-compliance identified during the audit in the audit action plan and regularly monitor the implementation of the required actions to correct non-compliance identified.
- Auditees should implement consequences for those who negligently or deliberately contravene the applicable legislation.

In addition to the above, the following recommendations are made to key role players:

- All role players and governance structures should ensure that SCM malpractices are eliminated by monitoring compliance with SCM prescripts and ensuring that severe consequences are enforced where breaches are identified.
- The provincial treasury should assist departments and entities to address their SCM findings by creating awareness among all officials on the importance of compliance and the impact of non-adherence to SCM prescripts on service delivery in the province. It could further assist by developing and rolling out an SCM tool that warns them of transactions that will potentially result in non-compliance, before they are approved. This tool should also provide appropriate monitoring mechanisms that will assist in monitoring compliance.
- The accounting officers, MECs, council and oversight committees should monitor spending patterns relating to priority expenditure and capital expenditure, in particular, to ensure that underspending in an attempt to avoid breaching SCM prescripts is effectively addressed.

- The irregular expenditure balance of R4,98 billion must be investigated by the accounting officers or authorities and actions prescribed by the PFMA implemented. Progress reports relating to these investigations should be submitted to the relevant MEC, portfolio committee and Standing Committee on Public Accounts (SCOPA). The MEC must perform executive oversight and SCOPA its legislative oversight of the progress reports received.
- The accounting officers or authorities of departments and entities must investigate the causes of the fruitless and wasteful expenditure incurred (especially the medical malpractice claims) and implement decisive actions, including consequence management, to prevent it.
- Medical malpractice claims against Health appear to be increasing. It is recommended that this department investigate the root causes of these claims and put measures in place to mitigate its losses and exposure arising from such claims. Regular reports on the cases identified and the steps taken to prevent such claims should be submitted to the MEC and portfolio committee on health. The MEC must exercise executive oversight and portfolio committee its legislative oversight of the progress reports received.
- Education must investigate reasons for the delays in dealing with the disciplinary processes that continue to result in payments made to suspended officials, and must take appropriate action to reduce the amount of fruitless and wasteful expenditure disclosed. Progress reports should be submitted to the MEC and SCOPA in order for them to exercise executive and legislative oversight.
- Systems and process that result in proper service delivery planning, budget monitoring and oversight should be put in place to ensure that unauthorised expenditure is eliminated in the province. The provincial treasury should play a leading role in developing and implementing these systems and processes.
- The performance agreements of the MECs, accounting officers and senior management should include measures relating to the reduction or elimination of compliance findings.
- The Office of the Premier, provincial treasury and provincial CoGTA should lead by example by monitoring and ensuring stability required to sustain compliance with legislation. In addition, the provincial treasury should assist auditees to meet their compliance obligations by providing appropriate systems, tools and training.
- Oversight bodies, including SCOPA, portfolio committees, the executive, Office of the Premier, audit committees and provincial treasury should insist on credible in-year compliance reports to monitor progress, make recommendations and take appropriate action during the year.

2.3 Financial health

Our audits included a high-level analysis of auditees' financial health 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.

Figure 13: Status of financial health

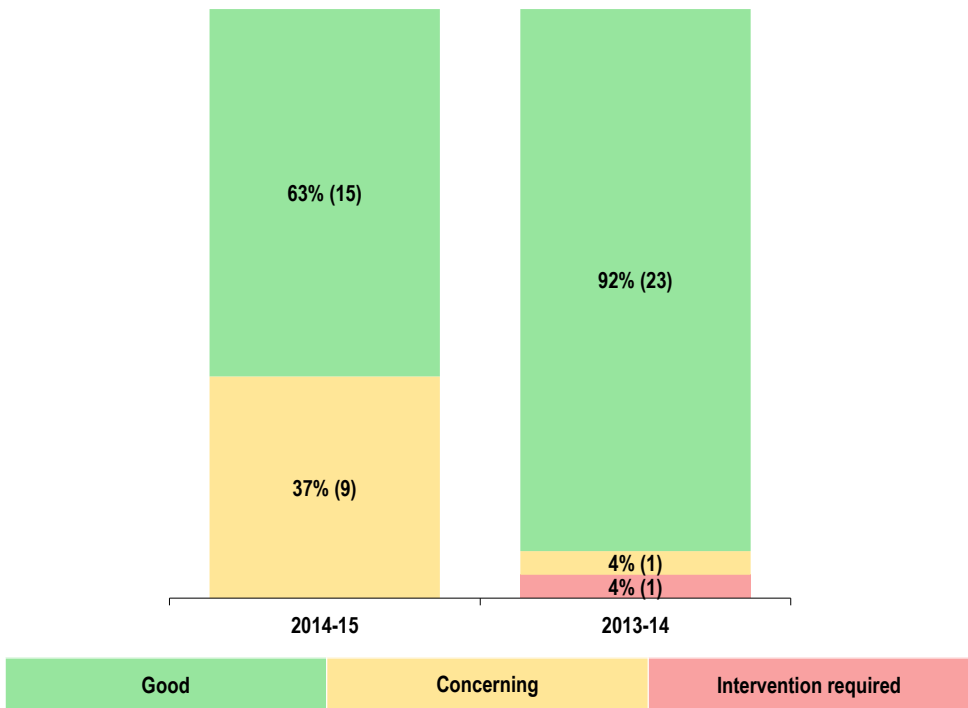


Figure 13 shows the number of auditees that were assessed for financial health indicators. Auditees with two or more indicators assessed as not being satisfactory are shown as 'concerning', while auditees with material going-concern uncertainties or adverse or disclaimed audit opinions, which resulted in their financial statements not being reliable enough to analyse, are shown as 'intervention required'.

Although there are no auditees with financial health risks requiring intervention, the number of auditees with concerning health risks has increased. The financial health risks at five departments (Education, Health, Human Settlements, Roads and Public Works, and Transport) and three public entities (East London Industrial Development Zone, Eastern Cape Development Corporation, and Eastern Cape Parks and Tourism Agency) regressed.

At seven of these auditees (departments and entities) the regression was due to a regression in the financial health indicators relating to management of capital

budgets and the implementation of inadequate debt management practices. This is attributed to management's inadequate monitoring of the financial health indicators and weak budgetary control practices during the year.

At Human Settlements the regression was due to contractual commitments to build housing units exceeding the grant amount as per medium-term revenue and expenditure budget allocation for the next three years.

Figure 14: Areas of financial health concerns – departments

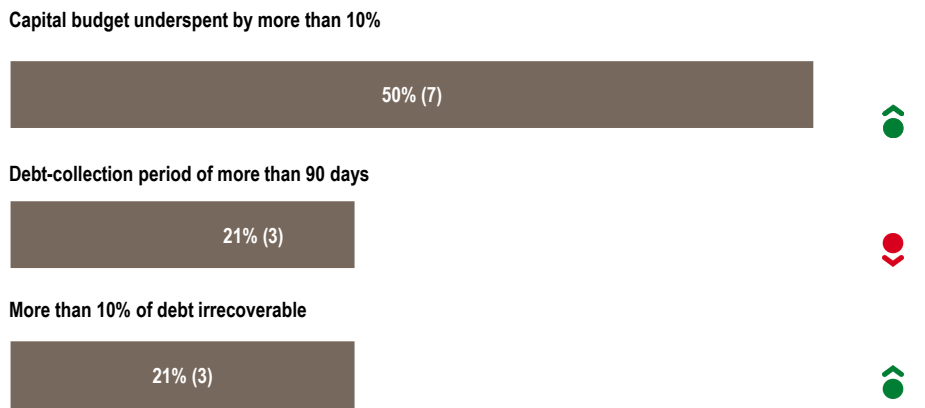
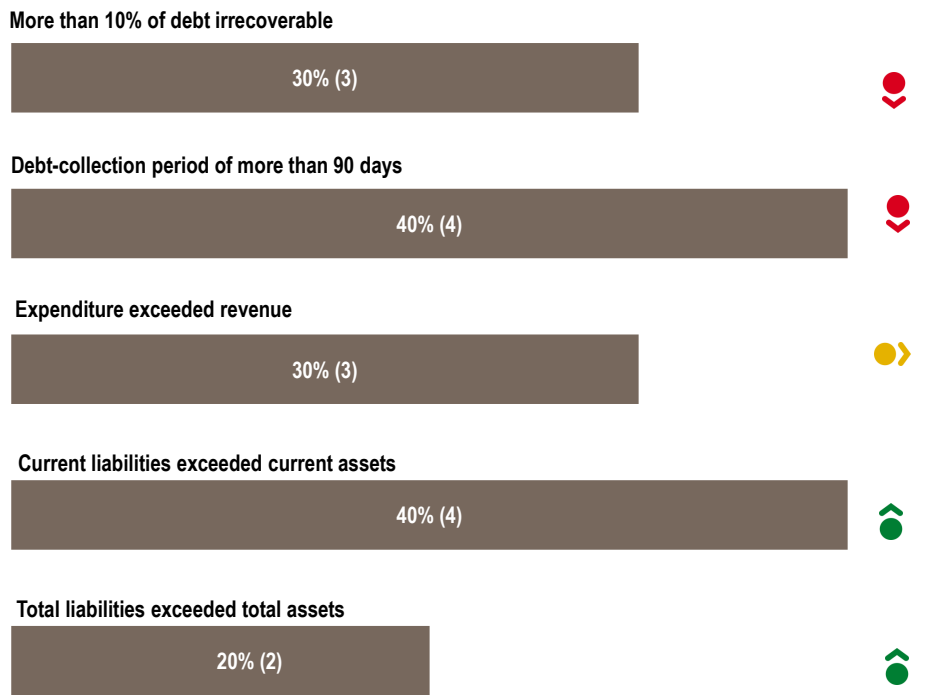


Figure 15: Areas of financial health concerns – public entities



Figures 14 and 15 illustrate financial health indicators and the movement since the previous year.

2.3.1 Financial health risks at departments

The Department of Human Settlements entered into contractual commitments for the delivery of housing units to the value of R11,7 billion over the next three years. This amount exceeds the value of the conditional grants to be made available over the same period according to the medium-term expenditure framework by an amount of R3 billion. There is a risk that this department will not be able to settle these contractual liabilities when they fall due if additional funding is not obtained from the revenue fund.

Health faced an increasing number of malpractice legal claims. During the year under review the settlement of these claims amounted to R72 million. There is a risk that these claims, which are not budgeted for, can impact negatively on service delivery if the root cause of such claims is not identified and effectively addressed.

2.3.2 Underspending by departments of capital budgets and conditional grants

The most widespread financial health risk indicator across all auditees was the underspending of capital budgets by 10% or more, which was identified at seven departments (or 50%, which is 8% less than in 2014). An **efficient, competitive and responsive infrastructure network** is one of government's core priorities as per the MTSF. Underspending of the approved capital budget compromises the maintenance and expansion of the infrastructure network.

The total amount of underspending by departments was R440 million. Education, Health and Roads and Public Works were responsible for R382 million or 86% of the capital underspending by the province.

In addition, Roads and Public Works underspent on the provincial road maintenance grant by R207 million. This has a negative impact on the province because the infrastructure projects that were not completed as planned will need to be completed in future periods at a higher cost.

This underspending is attributed to a lack of capacity within Roads and Public Works (as there were numerous positions on the staff establishment of the roads function that had not been filled), poor procurement planning at all departments, and inadequate project monitoring and supervision.

2.3.3 Debt management by departments

The controls over the collection of amounts due to three (Economic Development and Environmental Affairs and Tourism, Health and Roads and Public Works) of the four departments that have significant own revenues were weak. This is illustrated by debt-collection periods in excess of 90 days and large impairments (irrecoverable amounts) of the debtor's book.

Increased focus on collections at these departments may result in additional cash in-flows for the province. This additional revenue could be used to enhance service delivery in the province. It is thus imperative that effective debt-management and debt-collection systems and processes be implemented at all affected auditees.

2.3.4 Financial health risks at public entities

Although no public entities had bank overdrafts at year-end, three entities (Liquor Board, Mayibuye Transport Corporation and Parks and Tourism Agency) incurred a deficit because their expenditure exceeded their revenues for the year. Budgets at these entities should be closely monitored to ensure financial sustainability and liquidity and to avoid going-concern challenges.

Two public entities (Eastern Cape Socio-Economic Consultative Council (ECSECC) and Eastern Cape Provincial Arts and Culture Council (ECPACC) were in both a net liability and net current liability situation at year-end, while a further two public entities, namely the Liquor Board and East London Industrial Development Zone (ELIDZ), were in a net current liability situation at year-end.

The ECSECC owes the provincial revenue fund a large refund in respect of surpluses that have accumulated over time. This refund liability pushed this entity into a net liability situation. In previous years the ECPACC did not adequately manage its spending in accordance with its budget. This resulted in it using administered fund monies to finance its operations. As a result, its liabilities exceeded its assets even though it was able to generate a small surplus during the year under review.

The Liquor Board did not manage its spending in accordance with its budget in the current year, resulting in a deficit for the year under review. This deficit caused its current liabilities to exceed its current assets. The current portion of ELIDZ's deferred income is the main cause of its current liabilities exceeding its current assets. This is not a liability and will result in a reduction in expenditure in the next year. With the exception of ELIDZ, the above entities may require a cash injection to ensure their sustainability.

2.3.5 Debt management by public entities

Six (Eastern Cape Development Agency, Eastern Cape Provincial Arts and Culture Council, Eastern Cape Liquor Board, Eastern Cape Rural Development Agency, Eastern Cape Parks and Tourism Agency, and East London Industrial Development Zone) of the public entities that generate own revenues had unfavourable debt-collection financial health indicators (i.e. debt-collection period of more than 90 days and/or more than 10% of their debtors book was regarded as irrecoverable).

The non-collection of own revenue results in increased funding from the fiscus to cover the operating costs of the province's entities and also in less funding being available for other service delivery priorities.

These entities should review their debt-collection systems and processes to ensure that the collection of own revenues is prioritised.

2.3.6 Recommendations

It is recommended that the following be implemented to improve the financial health of the departments and entities in the province:

- Human Settlements, with the assistance of the provincial treasury, should investigate ways to manage Human Settlements’ commitments to ensure that they are settled within the limits of available funding.
- The root causes of the Health medical malpractice claims must be investigated and appropriate actions should be taken to mitigate the exposure to such claims.
- The leadership of the province, together with the oversight bodies – including the audit committee and portfolio committees – should demand regular, credible and accurate progress reports on the spending of capital budgets to monitor actual performance against what was planned. Where progress is behind schedule, appropriate corrective actions should be taken.
- The departments and entities with significant own revenues should improve their internal controls over the collection of revenue to enhance service delivery and relieve the pressure on the provincial fiscus.
- The leadership should investigate the financial position of the four public entities with financial health risks to determine whether these risks were due to them not using their available funding economically, effectively and efficiently and should also determine whether their current funding levels enable effective delivery on their mandates.
- The MECs, together with the relevant portfolio committees, should perform robust oversight of the viability and the effective delivery on mandates by all entities in the province.

2.4 Management of grants

2.4.1 Grants provided to provinces

Government’s vision and priorities are articulated in the MTSF, which focuses on placing the economy on a qualitatively different path that ensures more rapid, sustainable growth, higher investments, increased employment, reduced inequality and de-racialisation of the economy.

In support of these goals, grants are provided to the province to reduce the concentration of people in urban areas (comprehensive agricultural support programme grant and human settlements development grant) and diversify the economy (technical secondary schools recapitalisation grant), while ensuring adequate infrastructure (education infrastructure grant, provincial roads

maintenance grant and health facility revitalisation grant) and skills (national tertiary services grant, public transport operations grant, comprehensive HIV and Aids grant, expanded public works programme integrated grant for provinces and social sector expanded public works programme incentive grant for provinces) are in place.

These grants are conditional and may only be used for their stipulated purposes.

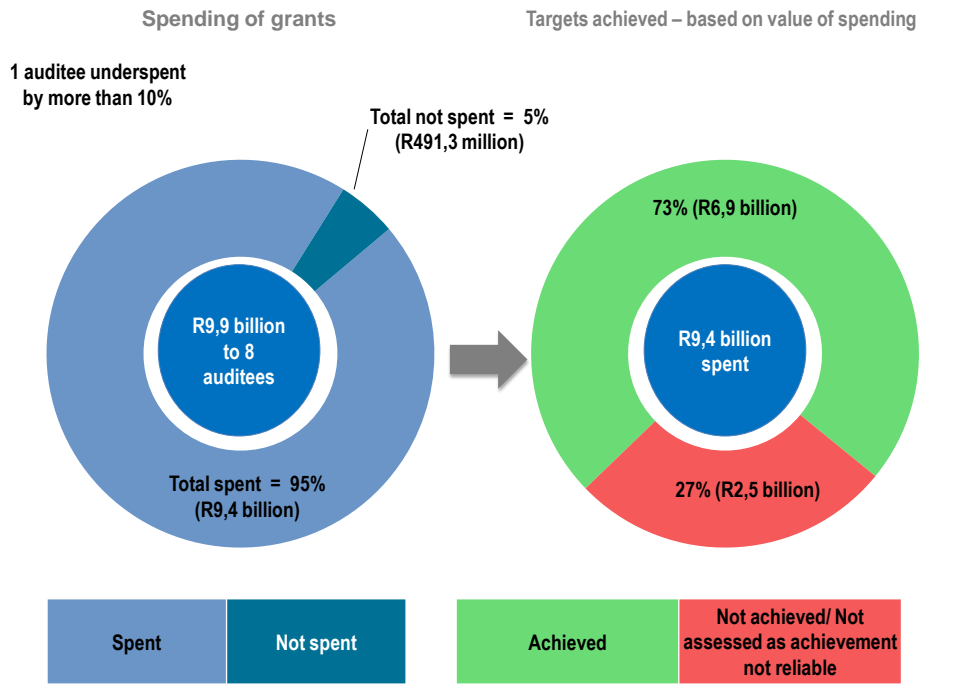
2.4.2 Findings on the use of conditional grants by departments

Grants represent a major portion of the funding allocated to departments within the province in pursuit of the goals of the MTSF, as listed above.

Grants totalling R9,9 billion were allocated to the province, with most of the provincial grants being allocated to the following departments:

- Department of Education: R2,6 billion
- Department of Health: R3 billion
- Department of Human Settlements: R2,2 billion
- Department of Roads and Public Works: R1,4 billion

Figure 16: Total conditional grants spent and set targets achieved



Approximately R418 million (85%) of the underspending on the conditional grants received by the province, as depicted in figure 16, was due to underspending by Education (R211 million) and Roads and Public Works (R207 million). The reasons for underspending at Roads and Public Works have already been discussed in section 2.3.2. At Education the underspending mostly related to the education infrastructure grant which was underspent as a result of delays caused by unresolved land disputes and labour unrest. This underspending, although not significant as a percentage of the total grant, impacted on the expansion and maintenance of the infrastructure network, which is a priority in terms of the MTSF.

The targets not achieved or not assessed depicted in figure 16 relate to the conditional grants paid to Education (99%) and Sports Art Recreation and Culture (1%). The annual performance report indicates that not all targets relating to the conditional grants were achieved. In addition, a proper assessment of whether these targets were achieved could not be performed because the reported performance of this department was not reliable. At Education the targets that were not assessed or were not reliable related mainly to the quality of basic education in public ordinary schools, which is also a national priority, refer to section 3.2.2 for more detail.

The failure to report adequately on the achievement of targets is attributed to inadequate monitoring of actual achievements and supporting records by the leadership of Education and a lack of coordination and monitoring of and support provided to schools by the 23 district offices.

This also highlights the possible risks that the planned targets might not have been appropriate, that the achievement of targets was not properly monitored during the year and that services were acquired without applying the prescripts that result in economical acquisition of goods and services or value for money. The inability of Education and Sports Art Recreation and Culture to achieve the set targets prevented them from receiving the full benefit and impact of the grants received.

2.4.3 Recommendations

It is recommended that the following be implemented by the departments that underspent on their conditional grants and those departments that did not meet the targets applicable to the grant funding received by them:

- Regular and credible progress reports on the spending of conditional grants should be prepared by all departments, especially by Education and Roads and Public Works. These reports should be subjected to credibility testing by the audit committees and internal audit units.
- The above-mentioned progress reports, together with the corrective actions taken, should be submitted to the MEC and portfolio committees for them to perform their executive and legislative oversight functions.
- The accounting officer of Education should monitor the oversight functions performed by its 23 district offices of schools in the districts and also monitor the level of support provided by the district offices to schools to ensure that the

targets contained in the conditions attached to the conditional grants received by the department are met.

- The accounting officer of Education should ensure that regular and accurate reports on the achievement of targets relating to the conditional grant funding are prepared and monitored. These reports should be subjected to credibility testing by the audit committee and internal audit unit and be used as the basis for monitoring performance and taking corrective action where actual achievements are behind target.
- The accounting officers of the departments receiving grants should ensure that the proper procurement process is followed for all goods and services paid for with the grants.

3. Performance management

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. .

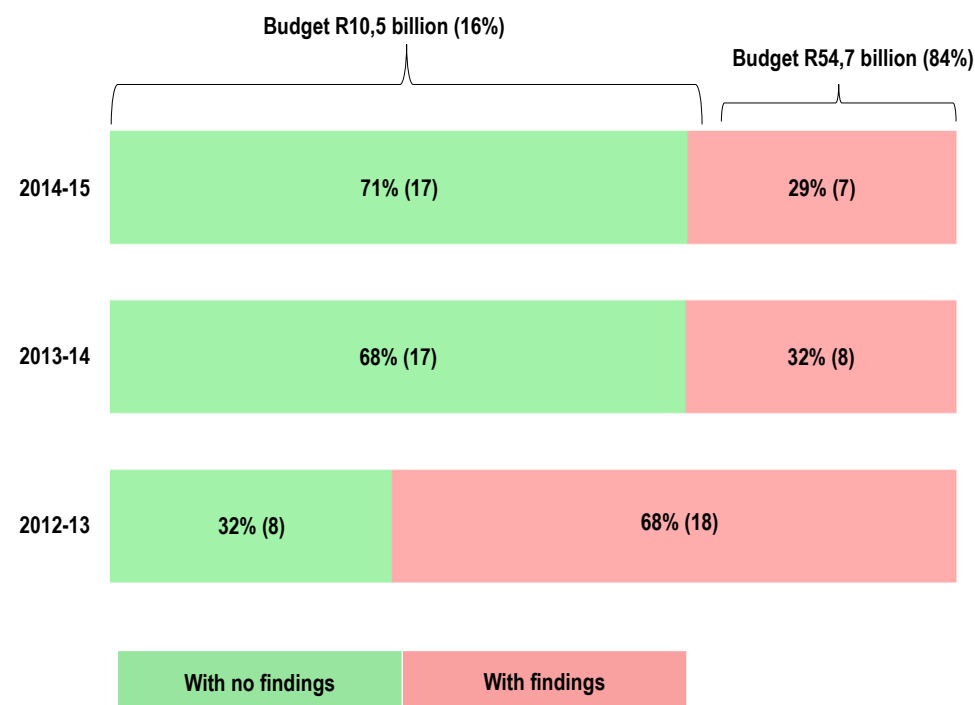
Service delivery by provincial government is informed by the priorities contained in the MTSF and state of the nation and state of the province addresses. These priorities should form the basis of the strategic, corporate and annual performance plans of departments and entities. Departments and entities are required to report on the implementation of these priorities in their annual performance reports.

We audited selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable for oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select are those that are important for the delivery by the auditee on its mandate. In the audit report, we reported findings arising from the audits that were material enough to be brought to the attention of these users. We do not conclude on the actual service delivery, but rather whether the planned objectives indicators and targets are useful and whether the actual performance reported against the planned indicators, objectives and targets is valid, accurate and complete.

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 17: Three-year trend – quality of annual performance reports



In terms of the MTSF, planning should be institutionalised in government, with a stronger focus on programme implementation, problem solving, and continuous improvement. Innovative approaches will be adopted where progress is required to overcome obstacles and achieve better results. It is thus important that auditees use their performance information as a critical tool for planning, managing and monitoring service delivery.

Figure 17 shows that at an overall level the quality of annual reports remained at a similar level as in the previous year. This net stagnation is due to the quality of the performance reports of the Eastern Cape Rural Development Agency and Eastern Cape Parks and Tourism Agency improving, while the quality of the performance reports of Social Development and Eastern Cape Provincial Arts and Culture Council had regressed.

The 15 auditees that retained their 'no findings' status and the two auditees that improved to this status achieved this by:

- implementing performance reporting systems that were managed by competent personnel
- preparing accurate in-year performance reports that enabled monitoring and oversight functions.

At the two auditees that regressed and at the five auditees whose outcomes in this area stagnated, the leadership did not use or regard reporting on predetermined objectives as a valuable tool for monitoring and managing service delivery.

Figure 17 also shows that the auditees that were unable to provide credible performance reports managed R54,7 billion (84%) of the provincial budget. There is a risk that these auditees' in-year monitoring, oversight and decision-making processes could have been based on information that was not credible. It is imperative that these auditees focus on implementing the recommendations contained further on in this report if their outcomes in this area are to improve and if they are to achieve the objectives of the MTSF.

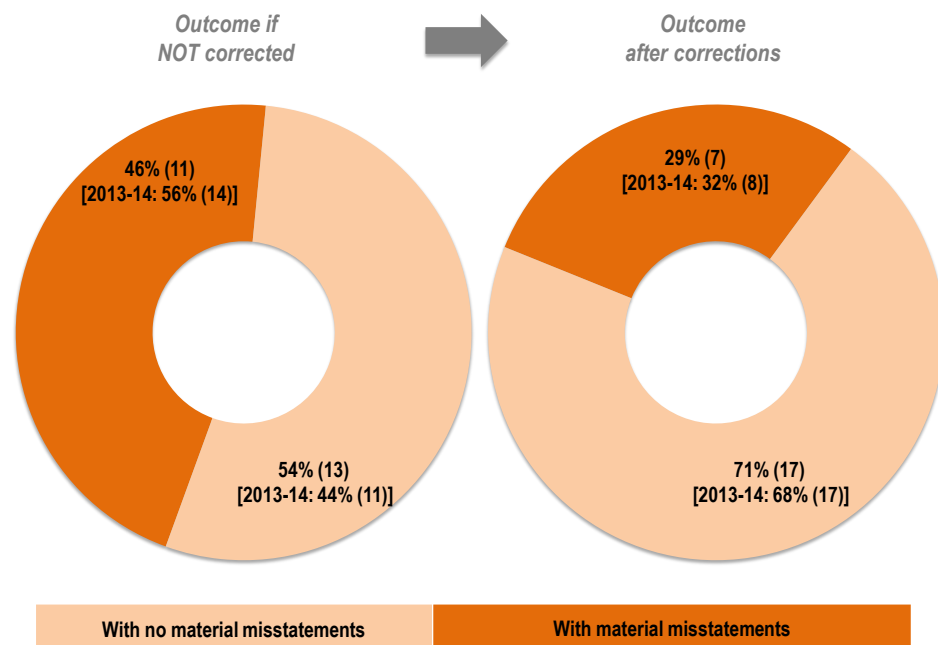
Usefulness: It is encouraging that planning for service delivery improved to such an extent that only three auditees had findings on usefulness of indicators and targets. There is a risk, however, that the auditees may be placing reliance on our interim testing of their annual performance plans to address their usefulness issues instead of addressing them by themselves.

It should also be noted that the three auditees with usefulness findings were responsible for spending R29 billion (45%) of the provincial budget. Included in these auditees is Education which was responsible for a budget of R28,3 billion and the implementation of the key national and provincial priority relating to the quality of basic education. The findings on usefulness are analysed in more detail in section 3.2.

Reliability : The province still had significant challenges with the monitoring and reporting of actual performance as evidenced by the reliability findings at the seven auditees which made up 84% of the provincial budget. This includes the three largest departments, namely Education, Health and Roads and Public Works, that are responsible for driving the three main strategic priorities of the province. Refer to section 3.2 for a more detailed analysis on the reliability findings.

3.1 The quality of the annual performance reports submitted for auditing

Figure 18: Quality of submitted annual performance report



While all auditees submitted their annual performance reports for auditing on time, figure 18 shows that 13 auditees (54%) submitted annual performance reports that contained no material misstatements.

This represents an improvement of two auditees (8%) compared to the previous year. These improvements were achieved through adequate in-year monitoring by the leadership and governance structures and through robust review of the annual performance reports, including an examination of the underlying supporting records, before they were submitted for audit.

3.2 Findings on usefulness and reliability of annual performance reports

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

Auditee	Programme/objective	Not Useful	Not reliable
Education	Programme 2: Public ordinary schools		
Health	Programme 2: District health services		
	Programme 5: Provincial tertiary hospital services		
Social Development	Programme 2: Social welfare services		
Sport, Recreation, Arts and Culture	Programme 2: Cultural affairs		
	Programme 3: Library and archive services		
	Programme 4: Sport and recreation		
Transport	Programme 3: Transport operations		
Roads and Public Works	Programme 2: Public works infrastructure		
	Programme 3: Transport infrastructure		
	Programme 4: Community based public works		
Eastern Cape Provincial Arts and Culture Council	Programme 4: Film and craft centre development		

With findings

No findings

Usefulness of reported performance

Usefulness refers to setting objectives, indicators and targets in the planning documents (strategic plan and annual performance or corporate plan), and how they are reported on in the annual performance report. We measured the usefulness of the reported information against the criteria of presentation, consistency, relevance and measurability.

The usefulness of targets and indicators also impact the auditees' ability to collect information about actual performance and the reliability of actual reported performance.

There is an improvement from the five auditees that had usefulness findings in the previous year to three in the current year and indicates that the province is on the right track in terms of setting useful indicators and targets.

Priority should, however, be given to Education, which constituted 43% of the budget. The indicators and targets set to measure the quality of basic education were not aligned to the national indicators and were not sufficiently useful to allow for data about actual performance to be collected consistently and also did not allow for reliable measurement of actual performance. As a result, the actual performance relating to a key national priority could not be accurately assessed.

The three auditees that still had findings on the usefulness of their indicators did not respond to our audit recommendations contained in our interim management report on the 2014-15 annual performance plans and/or did not respond to our recommendations on the usefulness of the reported performance information contained in our previous management reports.

The most common findings on the usefulness of information at the three auditees that had usefulness findings were the following:

- Indicators and targets were not well defined, verifiable or measurable.
- Changes to planned information were not approved.
- Reasons for variances were explained but were not reliable as they could not be verified.
- Reported performance information was not consistent with the planned objectives, indicators and targets contained in the planning documents.

Reliability of reported performance

Reliability refers to the accuracy, completeness and validity of the actual reported performance against the planned objectives, indicators and targets.

Annual financial statements record the financial consequences of the activities undertaken by the auditees during the year under review. Reliability findings do not only indicate that there may be a risk that the auditees have not reported on their activities undertaken during the year in an accurate, accountable and transparent manner, but also highlight the risk that expenditure reported in the financial

statements may have been incurred on activities that were not planned for when budgets were allocated.

Findings on reliability arose because departments and entities did not adequately consider the evidence required to prove actual performance when setting their objectives, indicators and targets and did not provide appropriate evidence to support their actual reported performance.

At an overall level, the number of auditees with findings on reliability regressed by one auditee. This was due to inadequate monitoring of the internal controls over record keeping and documentation required to prove actual performance.

It is of concern that the actual reported performance of Education, Health and Roads and Public Works, which together were responsible for 77 % of the provincial budget, was not reliable. This means that the actual achievements reported on by these departments were not credible and did not promote accurate and transparent reporting, as required by the Constitution.

The findings on reliability of information at the seven auditees that had reliability findings related to reported performance not being valid, accurate or complete when compared to source information or source information not supporting the reported performance. **Poor or inadequate record keeping and management** were the root causes of the reliability findings reported at the seven auditees reported on in the above table.

The credibility and quality of the performance reports have a direct impact on the effective, efficient and economical allocation of resources to the programmes listed in the above table.

3.3 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 2.2).

A lack of appropriate performance monitoring and reporting systems was the most common finding in this area. This finding was reported at 42% (10) of auditees. The lack of systems impacted on the reliability of reported performance of the seven auditees reported on above and also had an impact on those auditees whose annual performance reports were amended to avoid findings being reported on in their audit reports. This impacted negatively on the province's ability to report accurately on the priorities contained in the MTSF.

3.4 Recommendations

Auditees that had material findings and those that submitted poor quality annual performance reports for auditing should strengthen their processes and controls to

create and/or sustain a control environment that supports useful and reliable reporting on performance. For such auditees we recommend the implementation of at least the following key controls and best practices that are in place at auditees that had no findings on predetermined objectives:

Usefulness of reported information

- The provincial leadership must ensure that objectives, indicators and targets are aligned to the provincial and national priorities and that budgets are allocated according to these priorities.
- The strategic, corporate and annual performance plans of those auditees that had usefulness findings should be subjected to robust review by the leadership and governance structures. The leadership and provincial legislature, through portfolio committees, should ensure that service delivery is aligned to government priorities and can be measured and reported on before these plans are approved.

Reliability of reported performance

- The seven auditees that had reliability findings should clearly identify the evidence required to support the reported performance and should implement adequate record keeping processes that ensure that actual reported performance is supported by adequate records.
- The annual performance reporting and accounting systems used to prepare the annual performance report and the annual financial statements should be aligned as far as possible to eliminate duplication of effort and record keeping.
- Appropriate systems and processes should be implemented, including aligning the organisational structures to the requirements of performance reporting and ensuring that responsible staff are empowered with the necessary skills, developing performance reporting policies and procedures, regularly reconciling reported performance to supporting documentation, regularly reporting on performance and interrogating performance reports to ensure their credibility.
- Indicators and targets contained in the planning documentation should form the basis of the signed performance agreements of heads of departments and CEOs, and should be filtered down to senior management and all levels of staff. These agreements should contain requirements relating to valid, accurate and complete reporting on performance. Appropriate consequences should be implemented for poor performance to hold staff accountable for the work that they do every day.
- The audit committees and internal audit units should ensure that the risks relating to reporting on predetermined objectives are included in the risk management strategies and should provide assurance to the leadership that the strategies implemented to address these risks are appropriate.

4. Resource management

4.1 Human resource management

Human resource 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 human resource management that focused on the following areas: ■ human resource 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, 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 human resource management controls.

Figure 19: Status of human resources management

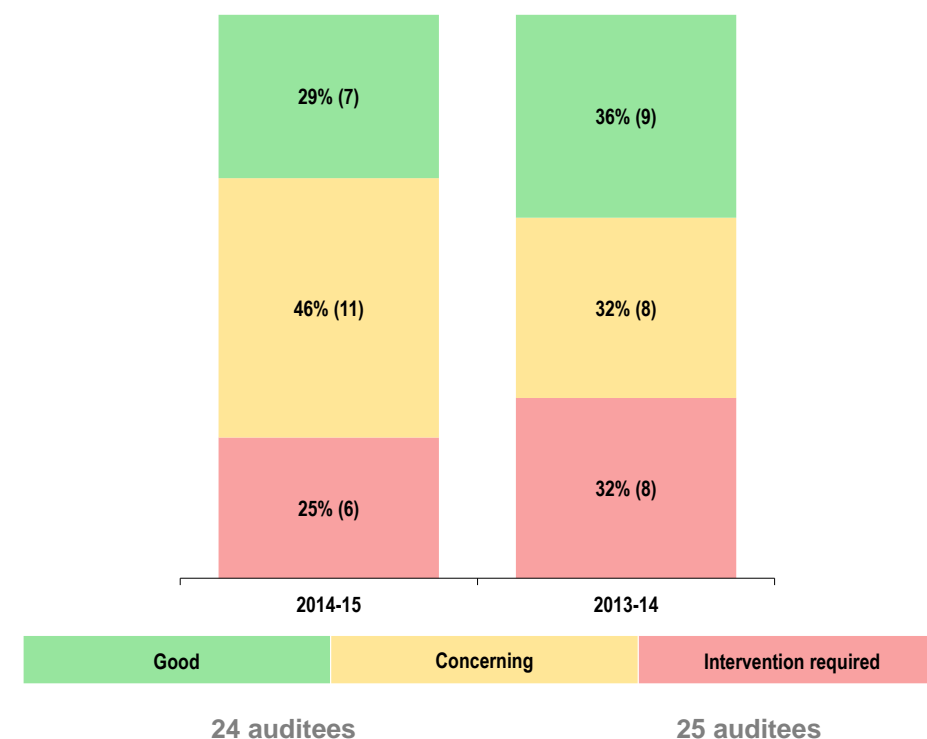


Figure 19 shows that there was a slight regression in the controls over human resource management. This regression and the lack of movement from ‘concerning’ to ‘good’ human resource management controls were due to inadequate monitoring and management of the vacancies at the finance sections and at senior management level during the year under review.

As highlighted in section 5.4 of this report, the premier’s office assisted departments to deal with their human resource matters. These interventions, together with the departments’ own interventions, have yielded positive results in that the turnover rates at head of department and CFO levels declined. The number of vacant head of SCM unit positions also decreased.

4.1.1 Management of vacancies and acting positions

Figure 20: Vacancies in key positions

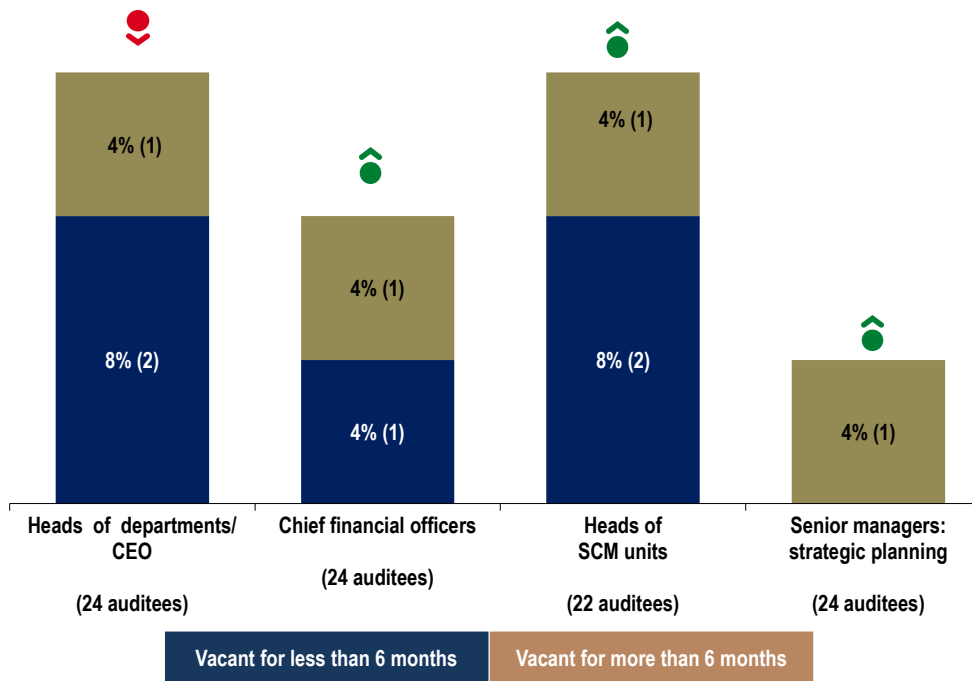


Figure 20 shows the number of auditees where the positions of the accounting officer (head of department or CEO), CFO, heads of the SCM and strategic planning units were vacant at year-end and also indicates the period that the positions had been vacant.

We commend the province for responding to our recommendations relating to vacancies in key positions contained in our previous general report as the management of these vacancies has improved. This resulted in improved stability and had a positive impact on achieving government’s priorities (refer to section 4.1.2).

The length of time taken to fill the vacancies in key positions reflected in table 4 should, however, be addressed to promote accountability and improve the control environments at the affected auditees.

Table 4: Vacancies in key positions not filled for extended periods

Auditee	Position	Period of vacancy	Audit outcome
Eastern Cape Development Corporation	CEO	12 months	Qualified with findings on compliance with legislation
Social Development	CFO	7 months	Unqualified with findings on both compliance with legislation and reporting on predetermined objectives
Education	Head of the SCM unit	27 months	Qualified with findings on compliance with legislation and reporting on predetermined objectives
Transport	Senior manager: Strategic Planning	24 months	Unqualified with findings on both compliance with legislation and reporting on predetermined objectives

At the Eastern Cape Development Corporation the vacancy at the level of CEO was managed by appointing a number of individuals to act in this position for short periods at a time. The instability in this position created by these temporary arrangements did not support accountability and had an impact on the audit outcome.

Those departments with vacancies of less than six months at year-end included the provincial legislature and Office of the Premier whose accounting officer positions were vacant at year-end. In addition, the Eastern Cape Parks and

Tourism Agency's CFO position was vacant at year-end. All these vacancies have subsequently been filled

In addition to the above vacancies, the accounting officer of Education was on suspension for more than nine months at year-end. Although an acting head of department was appointed and provincial treasury also seconded an official to act as accounting officer at Education, these temporary arrangements were not conducive to accountability and had little impact on the poor control environment at Education. This should be addressed urgently because, as stated in the MTSF, weak management and poor operating systems create the space for corruption to take place.

Table 5: Vacancies senior management of more than 20%

Auditee	Audit outcome
Cooperative Governance and Traditional Affairs	Unqualified with findings on compliance with legislation
Education	Qualified with findings on both compliance with legislation and reporting on predetermined objectives
Eastern Cape Parks and Tourism Agency	Unqualified with findings on compliance with legislation
Eastern Cape Government Fleet Management Services	Unqualified with findings on compliance with legislation
Eastern Cape Provincial Arts and Culture Council	Unqualified with findings on compliance with legislation and reporting on predetermined objectives
Health	Qualified with findings on both compliance with legislation and reporting on predetermined objectives
Social Development	Unqualified with findings on compliance with legislation and reporting on predetermined objectives
Safety and Liaison	Unqualified with no findings
Transport	Unqualified with findings on compliance with legislation and reporting on predetermined objectives

Table 5 shows the auditees with vacancies of more than 20% at senior management level. Senior managers are part of the senior leadership of the departments and entities and are required to drive the implementation of government priorities and programmes. Vacancies at this level impact on the monitoring, implementation and reporting of service delivery initiatives and also on the monitoring and enforcement of compliance with legislation.

All of these auditees either had material misstatements in their annual performance reports that were submitted for audit and/or had findings on compliance with legislation (including SCM legislation).

Table 6: Vacancies at finance sections of more than 20%

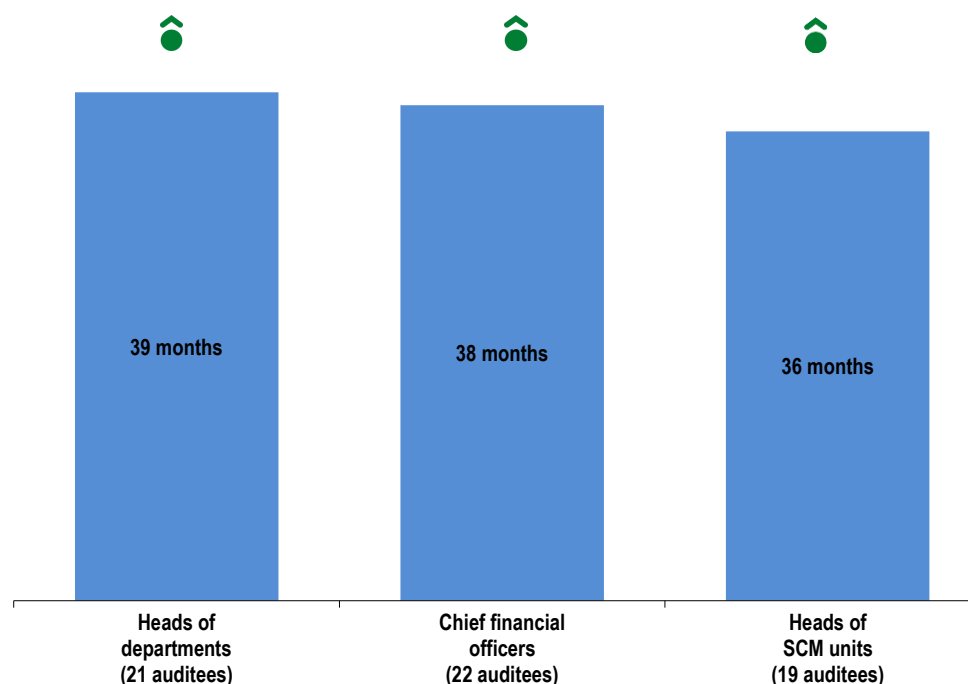
Auditee	Audit outcome
Education	Qualified with findings on both compliance with legislation and reporting on predetermined objectives
Economic Development and Environmental Affairs	Unqualified with findings on compliance with legislation
East London Industrial Development Zone	Unqualified with findings on compliance with legislation
Mayibuye Transport Corporation	Qualified with findings on compliance with legislation
Provincial Legislature	Unqualified with no findings

Table 6 shows auditees whose finance sections had vacancies of more than 20%. These vacancies have a negative impact on the accounting and record-keeping processes at the affected departments and entities and contributed to the material misstatements identified in the submitted financial statements at four (provincial legislature had no misstatements) of these auditees.

In addition to the above vacancies, there were numerous vacancies on the staff establishment of the finance and roads sections within Roads and Public Works that impacted on this department's ability to deliver on its mandate and priorities (refer to the underspending of the capital and conditional grants explained in section 2.3.2). These vacancies cannot be filled, however, until such time that the Department of Public Service and Administration and Office of the Premier concur with the staff establishment. This matter requires urgent leadership attention if the priorities relating infrastructure, as contained in the MTSF, are to be implemented effectively and efficiently.

4.1.2. Stability in key positions

Figure 21: Stability in key positions (average number of months in position)



Stability in key positions is the foundation required to build a sound financial and performance management control environment conducive towards effective oversight and accountability.

Figure 21 shows the average number of months key officials (namely heads of departments or CEOs, CFOs and heads of the SCM unit) had been in their positions. This graphic shows that the key positions in the province have been filled, on average, for more than three years. The province responded to our recommendations on stability and has started to see some benefit from this stability, including the following:

- Fewer auditees requiring audit adjustments
- A reduction in the number of usefulness findings relating to reporting on predetermined objectives
- A reduction in irregular expenditure
- The use of fewer consultants for financial and performance reporting purposes
- The elimination of adverse or disclaimer opinions.

Table 7: Audit outcomes and stability in key positions

Audit outcome	Accounting officer/ CEO – number of months in position	CFO – number of months in positions
Unqualified with no findings	56 months	32 months
Unqualified with findings on compliance with legislation and reporting on predetermined objectives	36 months	47 months
Qualified	12 months	20 months

Table 7 compares the audit outcomes to the length of time that accounting officers or CEOs have been in place to the audit outcome categories. It illustrates the importance of stability in leadership and the impact that it has on audit outcomes.

4.1.3 Consequences for transgressions

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.

As indicated in section 5.3.2 of this report, a lack of consequences for poor performance and transgressions was identified as a root cause of poor audit outcomes at 40% of auditees.

In addition, the PFMA places an obligation on the accounting officers or authorities to implement consequences for transgressions that give rise to unauthorised, irregular as well as fruitless and wasteful expenditure by requiring them to investigate all instances of such expenditure to determine whether liability for incurring the expenditure can be established. Where liability can be determined, the PFMA requires that action be taken against those who failed to prevent or incurred such expenditure.

At those auditees where consequence management was implemented, such as Roads and Public Works, there is a noticeable impact on the reduction of irregular expenditure reported when compared to the amount reported in the previous year.

Findings relating to the failure to implement appropriate consequences for incurring unauthorised, irregular as well as fruitless and wasteful expenditure were reported at seven auditees (29%). The most common findings related to failure to implement disciplinary action after investigations proved that officials could be held responsible for incurring such expenditure and failure to investigate allegations of fraud, corruption, unfair or irregular conduct against SCM role players.

When officials are not held accountable for their actions, the perception is created that poor performance and unacceptable behaviour and their results, including poor audit outcomes in the areas of financial and performance reporting and compliance with legislation, are acceptable and tolerated.

4.1.4 Other findings relating to human resource

The most common human resource finding besides the matters relating to vacancies referred to above was that the verification processes followed in appointing staff members were not adequate. Where the proper verification processes are followed, people with the appropriate skill sets and who are the right fit for the organisational strategy are employed, increasing the likelihood that the organisation will achieve its objectives and meet the service delivery priorities as set out by government.

4.1.5 Recommendations on human resource management

Effective human resource management is a key driver in building a sound financial and performance control environment that is conducive to oversight and accountability. It is therefore critical that the following areas be addressed:

- Filling of the vacancies in the key positions that have been vacant for more than 12 months should be prioritised.
- Filling of vacancies at senior management level and in the finance sections with competent staff should be prioritised.
- The matters that resulted in the suspension of the head of department of Education should be dealt with as a matter of urgency in the interest of accountability at Education. In the interim, the accountability arrangements that are in place should be monitored to ensure that they are achieving the desired outcome. In addition, the staff establishment should be examined to determine whether it is aligned to the delivery of Education priorities in the province.
- Road and Public Works must obtain the required concurrence from the Department of Public Service and Administration and Office of the Premier relating to its approved staff establishment. Once this is obtained the vacancies at the roads and finance sections within Roads and Public Works should be filled to ensure that this department is sufficiently resourced to carry out its mandated service delivery functions.
- Accounting officers or CFOs must make sure that proper vetting processes are followed when appointing staff to ensure that the right people with the right skill sets are appointed.

- With a view to meaningful and sustained improvement in the achievement of government priorities, departments and public entities should continue to ensure stability in key positions.
- The accounting officers and CEOs should ensure that the performance management system is rolled out to all levels of staff. Processes should be put in place to monitor performance. Poor performance and transgressions should be dealt with decisively and consequences enforced where necessary.

5. Governance and controls

5.1 Status of internal control

A key responsibility of accounting officers and authorities, senior management and officials is to implement and maintain effective and efficient systems of internal control. An established internal control environment with well-functioning key controls will lay the foundation for improved functioning of the auditees. This will enable them to deliver better on their mandate and improve their reporting and will assist them to achieve sustained improved audit outcomes. In terms of the MTSF, particular attention will be given to the service delivery and human resources management as well as financial management at provincial level.

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. On an encouraging note, the four auditees with clean audit outcomes had most of their key controls assessed as 'good', which contributed towards this achievement.

Figure 1 shows the overall assessment of the drivers of key controls and the movement since the previous year. This figure illustrates that there has been no noticeable overall movement in the key controls compared to the previous year.

The previously reported good controls around **leadership** have **regressed** slightly due to changes in key positions and a lack of follow-through by the leadership to address prior year findings and recommendations, particularly those on compliance with legislation.

The controls around **financial and performance management** were **stagnant**; while others that fell within the categories of 'concerning' and 'intervention required' have not improved since the previous year. This lack of movement in controls over basic functions is causing recurring findings, particularly on compliance with legislation. This also led to misstatements occurring in the financial statements and performance reports; however, the number of auditees that submitted these without requiring adjustments has improved.

There was a slight **improvement** in the key controls over **governance** which focus mostly on the internal audit units and audit committees. Although these units and committees were in place at all auditees, there were still auditees where their

impact was limited due to their recommendations not being effectively implemented by management.

This lack of improvement in the key controls is preventing auditees from delivering services and reporting on their progress in an effective and efficient manner and the overall slow progress in addressing internal control deficiencies is creating a culture that tolerates these inappropriate practices, and does not promote good governance and accountability. This indicates that there is a lack of seriousness about improving the administration of the province.

In sections 2.1 (quality of financial statements), 2.2 (compliance with legislation) and 3 (quality of annual performance reports) we commented broadly on those key controls that should receive attention to improve or sustain the audit outcomes.

Figure 23: Key controls requiring the most attention

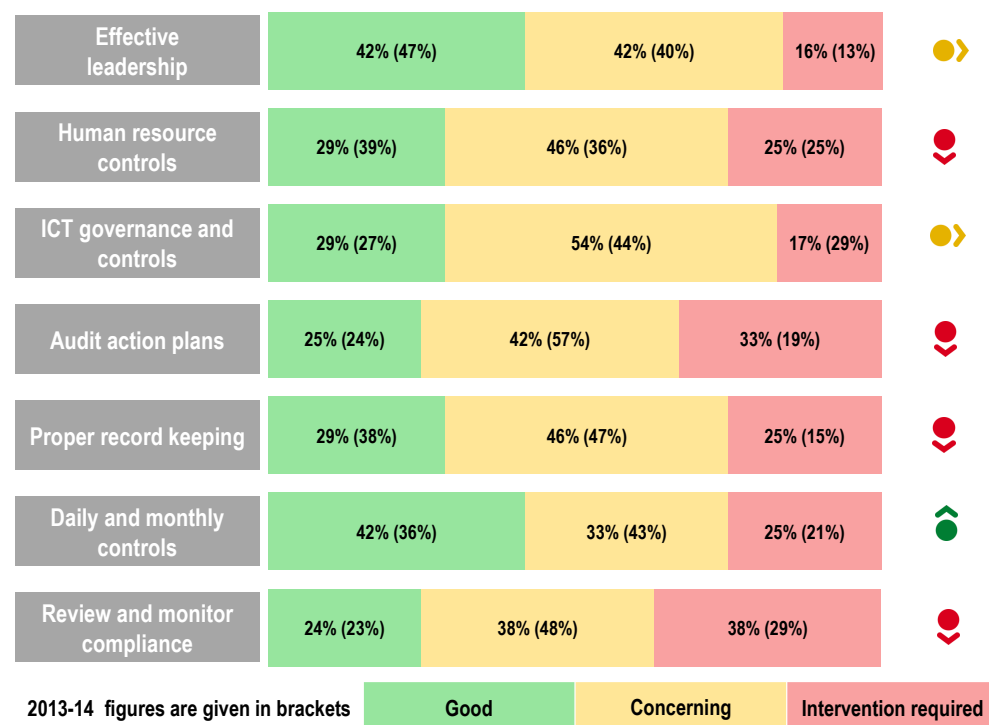


Figure 23 illustrates the status of the controls that require the most attention. It is concerning that most of the key controls in this figure have regressed since the previous year, especially those relating to compliance with legislation. The following **weaknesses** are responsible for the assessment in figure 23.

- There continues to be vacant and acting senior management positions that are not filled within a reasonable amount of time, as highlighted in section 4.1 on human resource management. This has an impact on the effective day-to-day

managing of staff and the consistent implementation and maintenance of key controls. Commitments made in the action plans were not sufficient to address the findings that were previously raised and action plans were not adequately monitored to ensure that they were having the desired impact, especially in respect of compliance.

- Inadequate record management systems caused delays in the submission of information required for auditing predetermined objectives and compliance with legislation and contributed to the regression in the reliability of the actual performance reported in the annual performance reports. In addition, the records used to support other disclosure items in the financial statements were not adequately maintained throughout the year. As a result, the amounts disclosed often contained errors that were either corrected during the auditing process or resulted in misstatements in the financial statements.
- Auditees did not proactively monitor compliance with legislation. As a result, the control systems in place only detected non-compliance once it occurred and had not been set up to prevent it.

On a more positive note, the key controls around processing and reconciling of transactions **improved** during the year under review. Auditees that contributed to this improvement had staff with strong skills in key finance positions, committed to improve these key controls in their action plans through good implementation and monitoring and performed these duties and functions on a regular basis. These characteristics were noted at the four auditees that achieved an unqualified opinion with no findings.

Sections 4.1 and 5.2 provide further information on the status of the human resource controls and the ICT governance and controls.

Root causes significantly impacted the effectiveness of internal control. Section 5.3 describes the most common root causes that should be addressed.

Recommendations

Going forward, the provincial administration and the leadership need to drive the focus on improving and sustaining the key controls. This is needed to ensure that there is an improvement in administration, service delivery and reporting in the province. To improve the status of internal control in a sustainable manner, the leadership must do the following:

- Take ownership of the key controls and ensure that adequate daily, weekly and monthly key controls are implemented, especially those affecting compliance with legislation. This will ensure that when changes occur in key positions or when vacancies arise, controls will continue to function and no material findings will arise from the auditing process
- Ensure that compliance with legislation is proactively monitored so that any possible non-compliance can be discovered before it occurs and the necessary safeguards can be put in place. This will ensure that compliance findings decrease and transparency in the functioning of auditees will improve.

- Ensure that adequate action plans are drafted from our recommendations and findings and that these action plans are implemented and monitored on a regular basis. This will ensure that the leadership focuses to enable the leadership to gauge their progress and identify areas where progress is slow and intervention is required.
- Show an appreciation for the role that consequence management plays by taking action against those who fail to comply with legislation and the requirements of policies, particularly those staff members who are responsible for ensuring compliance with legislation. This will assist in restoring accountability, integrity and public confidence in the provincial government.

5.2 Information technology controls

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

Effective **IT governance** underpins 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.

5.2.1 Overview of the status of information technology focus areas

Our audit included an assessment of the IT controls in the areas of IT governance, security management, user access management and IT service continuity. Detailed general control audits were conducted at 14 provincial departments and 10 public entities were subjected to an assessment of internal controls by means of questionnaires. Figure 24 shows that there had been little improvement in the number of auditees that had no audit findings on IT controls in the year under review.

An analysis of the audit outcomes indicated that the majority of auditees were still experiencing challenges with the design and implementation of IT controls.

Figure 24: Status of information technology



Figure 25: Status on the information technology focus areas

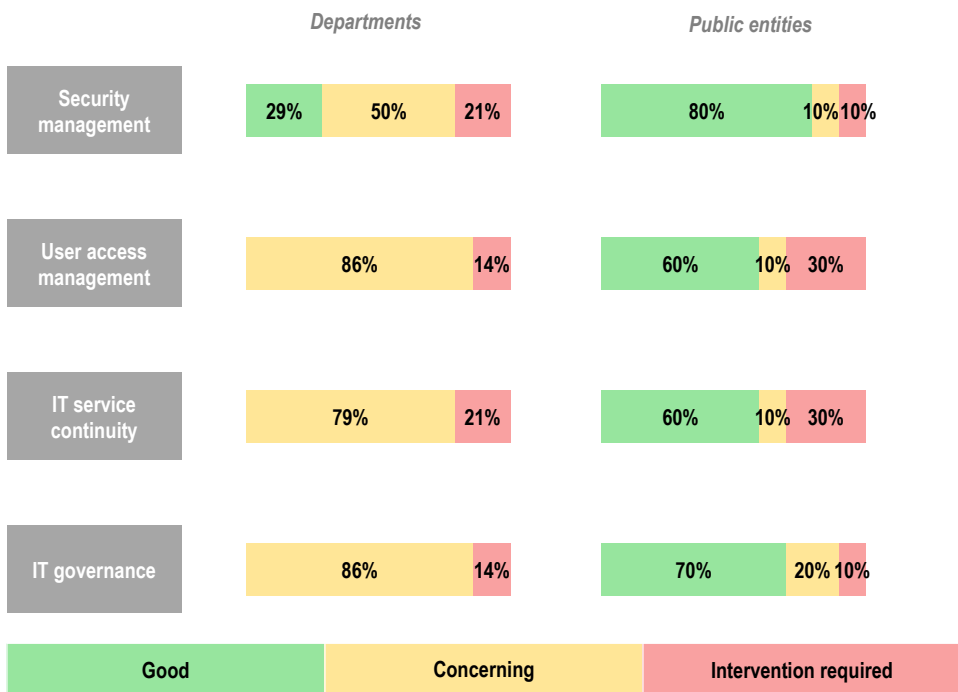
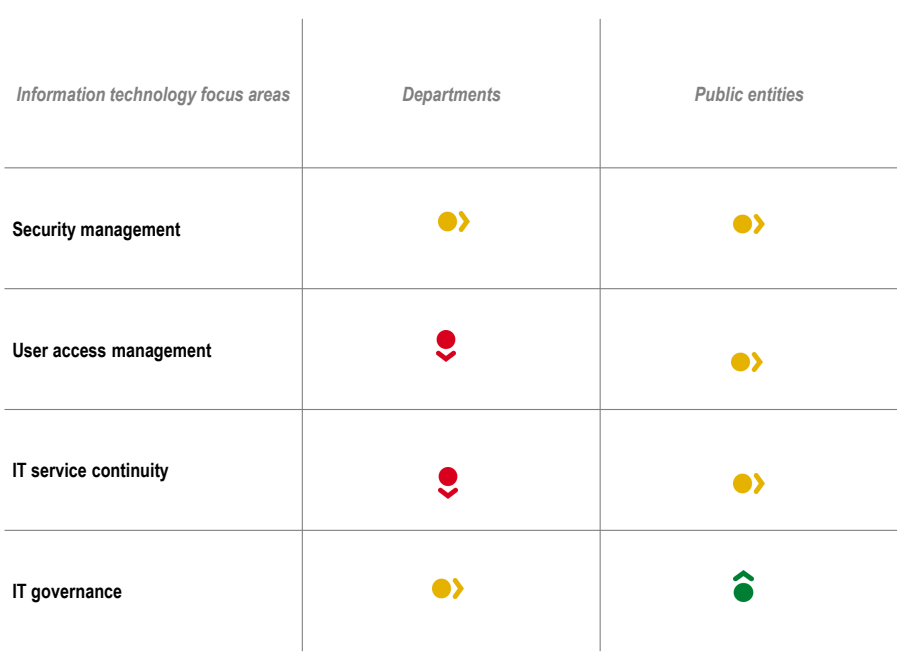


Figure 25 above outlines the status of the controls in the areas we audited and indicates whether the IT controls were good, concerning, or required intervention for departments and public entities.

The overall status of IT controls for departments was concerning compared to the entities as the majority of the departments were experiencing challenges with the design and implementation of controls. The majority of entities had good IT controls. This was largely attributed to the smaller sizes of the entities which were more manageable compared to the departments.

Figure 26 indicates the progress made in addressing areas of concern since the previous year.

Figure 26: Progress made in improving findings



The most common findings were the following:

- Departments were struggling with the implementation of IT governance controls. This was largely due to the misalignment that still existed between IT services and the users. There was limited collaboration between IT users and IT services to ensure that departments were ready for the implementation of IT governance principles. This was due to inadequate direction and support from key stakeholders within the departments. Departments had not recognised IT as a strategic enabler and consequently had not fully used IT to assist them in effectively and efficiently achieving departmental mandates.
- Although departments were still struggling with the implementation of adequate internal controls within their IT environments, there were some improvements in the design of security and user access management controls.

Where security and user access management controls are not sufficiently established, data integrity, confidentiality and availability may be compromised, which in turn may lead to disclosure of potentially sensitive departmental data. Departments, however, were still struggling with the implementation of adequate IT service continuity controls, more specifically with the documentation and testing of disaster recovery plans.

Data loss can be costly as departments would have to recreate information while also experiencing low productivity. Furthermore, a disruption of critical or support departmental operations due to IT system failures could result in disrupted service delivery to the Eastern Cape.

Correspondence between transversal internal control audit findings and audit outcomes

Provincial departments use transversal systems, which refer to systems centrally hosted, managed and maintained by government, such as the Basic Accounting System (BAS), Personnel Salary System (Persal) and Logistical Information System (Logis) to manage financial information.

We reviewed the financial audit outcomes of Education, Health and Roads and Public Works for the 2014-15 to determine whether these qualified opinions were due to weaknesses in the IT systems.

We noted that at all three of these departments the qualified audit opinions were mainly due to material misstatements not having been adjusted. Although these qualifications related to manual controls, these departments' IT controls also required intervention.

Status of electronic funds transfer controls

Electronic funds transfer (EFT) controls refers to controls built into a system for transferring money electronically from one bank account to another.

No findings were raised with regard to the EFT processes within the departments as EFT processing was centralised at the provincial treasury.

Evaluation of experience and skills

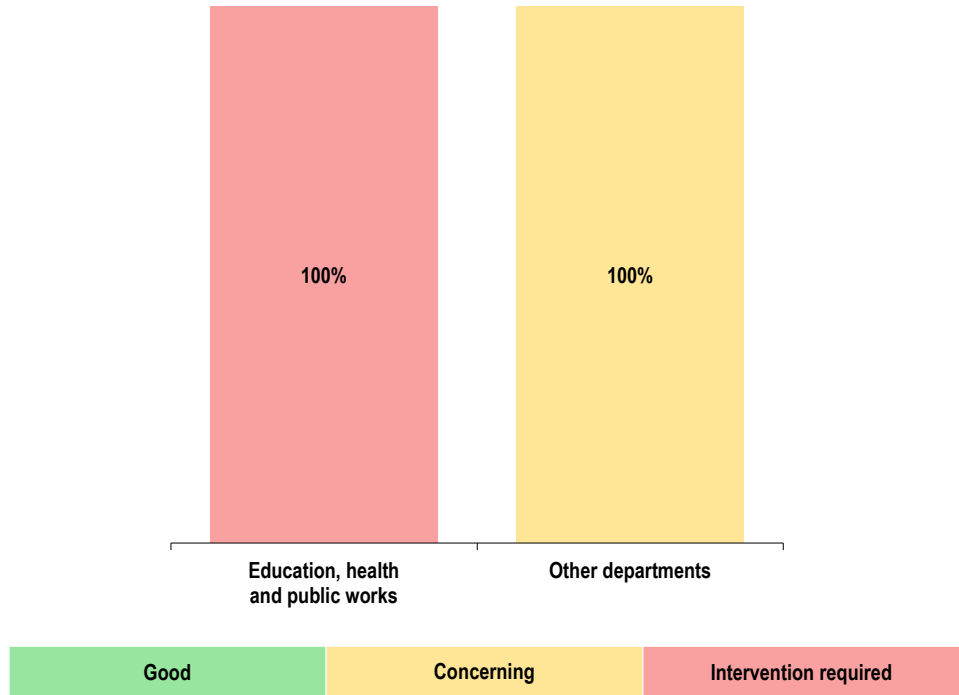
The experience and skills of the chief information officers (CIOs) or IT managers in the provincial departments and public entities were adequate as all of them had relevant qualifications coupled in most cases with six to 10 years of experience. Although the experience and skills were adequate, the overall IT environments were of concern as there was little improvement on the status of IT controls.

Status of controls at the departments of Education, Health and Public Works versus that of other departments

Figure 27 shows the status of the controls in the areas we audited at the departments of Education, Health and Public Works versus that of other departments. It shows that IT controls at Education, Health and Public Works required intervention.

The large departments within the province were struggling with the implementation of IT governance and internal controls within their IT environments. IT departments were not adequately capacitated to ensure that IT services were delivered in an efficient and effective manner.

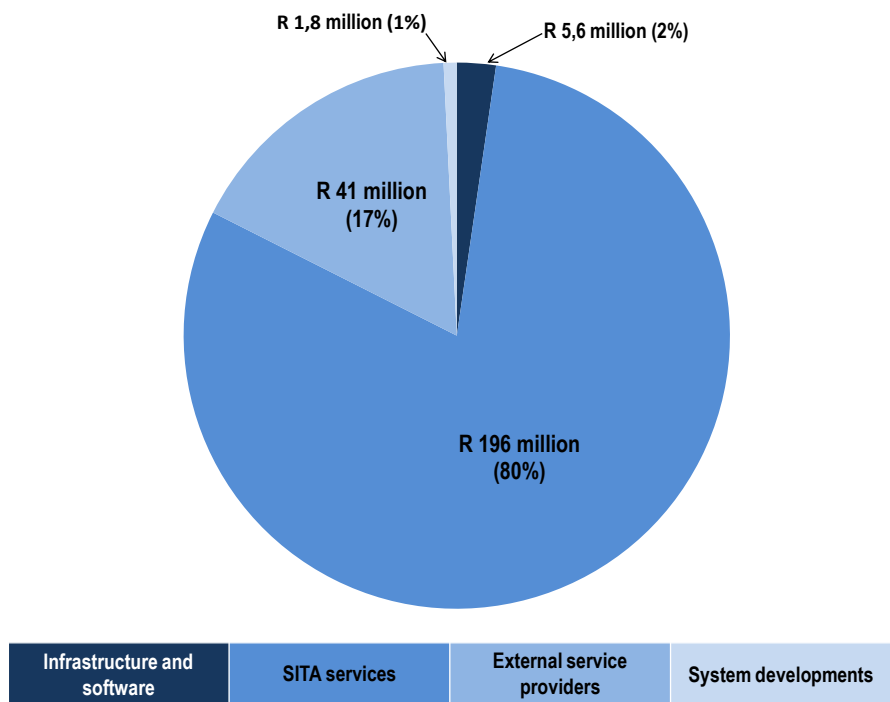
Figure 27: Status of information technology – Education, Health and Public Works vs. other departments



Expenses relating to information technology at the provincial departments

Figure 28 below provides a breakdown of IT-related expenditure in terms of infrastructure and software, State Information Technology Agency (SITA) services, external service providers and project developments. Approximately 97% of departments' IT spending related largely to SITA services and external service providers; however, there was little improvement in the status of IT controls.

Figure 28: Expenses related to information technology at provincial departments



Most common root causes

The main root cause was the lack of partnership between IT and the users. The departments did not understand how to use IT as a strategic enabler and IT governance initiatives were being driven using a bottom-up approach. This meant that the IT departments were the ones driving the implementation of IT governance principles without adequate support from the head of departments who are accountable for IT governance.

Departments were struggling to fully understand the impact of IT-related risks and therefore did not prioritise the implementation of action plans to mitigate the identified risks within IT environments.

5.2.2 Recommendations

Those charged with the responsibility of ensuring IT governance should collaborate to ensure a collective understanding of the role of IT, as well as IT risks and their impact on the departments in achieving their objectives, thus ensuring collective buy-in for addressing IT risks and creating an enabling environment for the implementation of IT governance initiatives.

5.3 Summary of root causes

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

As reported in section 1 (overall audit outcomes), 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 two most common root causes of poor audit outcomes and inadequate controls and provides recommendations to address them.

5.3.1 Slow response by management (accounting officers and senior management)

During our regular interactions with the accounting officers, accounting authorities and senior management we discuss our audit and management reports, audit findings and the status of the key control root causes. We also secure commitments from management and follow up on their action plans to address prior year audit findings. Despite these interactions, management at 85% of auditees did not respond sufficiently to prevent recurring findings in the control environment and audit outcomes.

- Relevant executives and accounting officers or authorities, as well as management, were requested to urgent prioritise improvement of the **control environment**, especially systems and processes around legislative prescripts. This included the daily, weekly and monthly financial and performance disciplines that are critical in ensuring credible and transparent reporting and compliance with legislation. We have noted a correlation between those auditees with good key controls in these areas and those auditees that can report transparently on their financial performance and service delivery and also comply with key legislation. If the political and administrative leadership is serious about improving the provincial administration, they must take the necessary actions and steps to ensure that key controls are improved.
- Properly monitored **action plans** were previously recommended as a mechanism to assist auditees to improve their audit outcomes by identifying specific actions that must be taken to address the root causes of their audit findings on financial statements, performance reports and compliance with legislation. Action plans were not effective as they either did not adequately address the findings raised in the previous year or they were not adequately monitored to ensure that the necessary actions were implemented.

As much as there have been improvements in some areas within the province, the pace of these improvements has been very slow, which reinforces a culture of tolerance for the inadequate execution of controls and non-compliance with legislation. The increase in auditees with this root cause is alarming and points to

accounting officers and senior management not being serious about finding sustainable solutions for the findings raised in our audit reports. This slow response in addressing weaknesses and ill-discipline has resulted in repeat findings in the areas of financial statements, performance reporting and compliance with legislation as reported in section 2, 3 and 4 of this report.

5.3.2 Lack of consequences for poor performance and transgressions

Accounting officers and authorities have failed to take disciplinary steps against officials who committed an act that undermines the internal control systems of a department or public entity, as required by sections 38(1)(h) and 51(1)(e) of the PFMA. As a result, there continues to be a lack of consequences for poor performance and transgressions at auditees. This was found at 50% of auditees. This failure to hold officials accountable for their actions creates the perception that this behaviour is acceptable and can continue without any consequences. In time it becomes the norm and is then difficult to reverse. This, in turn, creates a platform for the lack of discipline around financial and performance reporting and compliance with legislation. Poor performance by staff involved in delivering services will ultimately impact service delivery to the citizens and the efficiency with which this service is delivered.

The lack of consequences for poor performance has resulted in a lack of noticeable improvement in the control environment, especially with regard to compliance with legislation. This has ultimately had an impact on accountability, resulting in slow progress towards improved audit outcomes.

Recommendations

MECs and accounting officers must ensure that corrective action is taken in all areas highlighted as weaknesses by doing the following:

- Ensuring that impactful action plans are put in place to address these weaknesses. These action plans must be very specific in terms of action, time frame, clearly defined responsibilities as well as tracking measurements.
- Action plans must be reviewed by the structures of governance, while progress or lack thereof must be presented to the relevant executive in a written report format on a monthly basis and to the portfolio committee on a quarterly basis.
- Appropriate and measurable commitments that are in line with action plans must be made by the accounting officers and senior management. While commitments were solicited in the past, it is evident that these need to be tracked on a monthly basis to ensure impact and accountability.
- As previously reported, a robust performance management system is needed. This system should be linked to the auditee's strategic documents and implemented from the top down so that good performance is embedded at each auditee and becomes the norm in each person's day-to-day activities and duties.

- Where poor performance does not improve, accounting officers and management must be proactive in ensuring that it is managed and the necessary action is taken against the transgressors as prescribed by law.
- Implementation of consequence management must be monitored by the relevant executive as well as the respective committees of legislature.

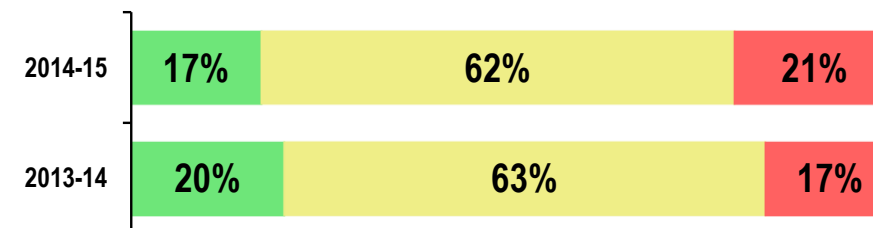
5.4 Initiatives and impact of key role players

5.4.1 Assurances provided by 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 1, all role players have not yet provided the necessary assurance. Below is an overview of the assurance provided by each of the assurance providers.

Senior management



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

The assurance obtained from senior management remained relatively unchanged during the year with only a limited number of role players providing the foundation of assurance that is urgently needed. Accounting officers and MECs rely on senior management for assurance through the sound implementation of the following controls:

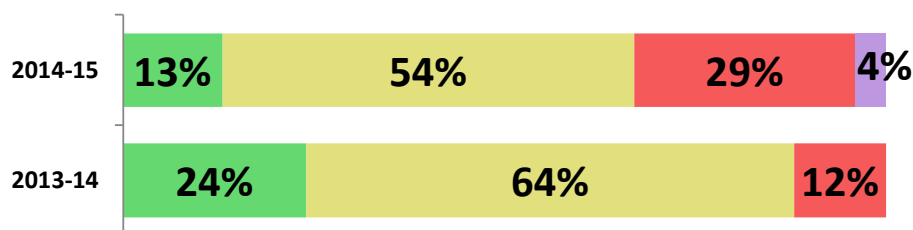
- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

- Review and monitor compliance with legislation.
- Design and implement formal controls over IT systems.

The status of these controls in figure 1 indicates that senior management was not providing the required assurance and that this has not improved since the previous year.

This is due to vacancies at a senior management level, as a well as failure by senior management to enforce consequences for those who had not complied with legislation or failed to address previous audit findings by implementing the action plans and recommendations. There is thus a significant risk that accounting officers and MECs are not being provided with credible information when executing their responsibilities. Senior management faces challenges to improve the key controls around daily, weekly and monthly processes and hold staff who do not perform accountable. Accounting officers are challenged in holding their senior managers accountable for the level of assurance provided and taking appropriate action where their senior managers do not provide the required levels of assurance.

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 as follows:

- Provide effective and ethical leadership, and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective human resource management to ensure that adequate and sufficiently skilled staff are employed.
- Set the correct tone to improve the performance and productivity of staff by implementing sound performance management processes, evaluating and monitoring performance, and imposing proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.

- Implement and monitor an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

Cognisance is taken of the improved stability in the accounting officer positions as well as the pockets of improvement in the areas of the quality of financial statements and reporting on performance management. At these auditees the accounting officers were able to provide assurance or some assurance.

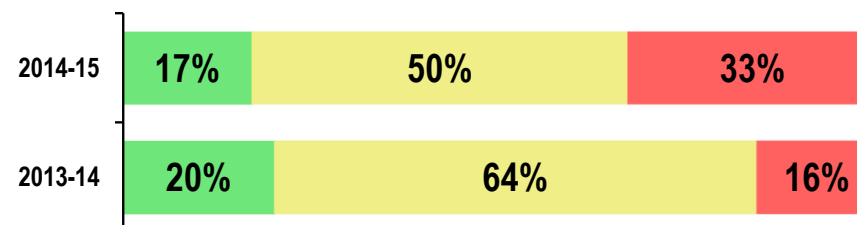
However, the regression in audit outcomes at the three oversight departments in the province, the long-standing CEO vacancy at Eastern Cape Development Corporation as well as the absence of an accounting authority at the Provincial Arts and Culture Council for the best part of the year led to a regression in assurance provided.

In addition:

- Failure to implement all commitments made during the year and to address prior year audit findings via action plans further impacted on these assessments. These commitments are specific to accounting officers and may differ from commitments made at other levels.
- Consequence management was not given the necessary priority to ensure that transgressions were not repeated and that these did not become factors in unfavourable audit outcomes.

To ensure that they improve the level assurance provided going forward, accounting officers are challenged to implement our recommendations and ensure that they enforce accountability throughout each auditee. Refer to the section below with regard to renewed commitment by the provincial executive to act on the performance of accounting officers.

Member of executive council



MECs have a monitoring and oversight role at both the departments and public entities and 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 play a pivotal role in transparent and reliable reporting by their auditees when they are actively involved in key governance matters and when they are managing the performance of accounting officers and authorities.

The status of leadership controls and the level of assurance provided by the accounting officers and authorities have had an impact on the ability of the MECs to provide assurance at their level. In addition, oversight did not always focus on ensuring that certain key controls remain in place during changing circumstances and that accountability is driven by the accounting officers and authorities throughout the organisation. The executive faces challenges in ensuring that its accounting officers/authorities provide the required level of assurance by engaging with stakeholders and exercising its oversight functions.

We continued with our approach during previous years to engage with the MECs on a regular basis to raise issues identified during the auditing process and to keep them abreast of progress made with the audit, as well as securing commitments from them and monitoring progress made with such commitments. We are encouraged by the commitments made and cooperation shown by the MECs and are confident that this will translate into better controls and improved assurance from the MECs going forward.

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.

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

There has been an improvement in the assurance provided by both the internal audit units and the audit committees. This is in line with the key controls over governance. As previously reported, internal audit units and audit committees were in place at all auditees; however, they continued to have a limited impact on the outcomes of the province. Although some of these units and committees had problems with resourcing and with support from other role players, the main reason for the lack of assurance is that management failed to implement their findings and recommendations.

To ensure that they are effective, the leadership and other assurance providers must address the findings raised by the audit committees and internal audit and implement their recommendations. Their findings should be developed into action plans that are implemented by management and these action plans should be properly monitored.

Audit committees and internal audit face challenges in communicating regularly on progress made by departments and entities to address their recommendations. The lack of progress should be escalated to the relevant MEC and portfolio committee.

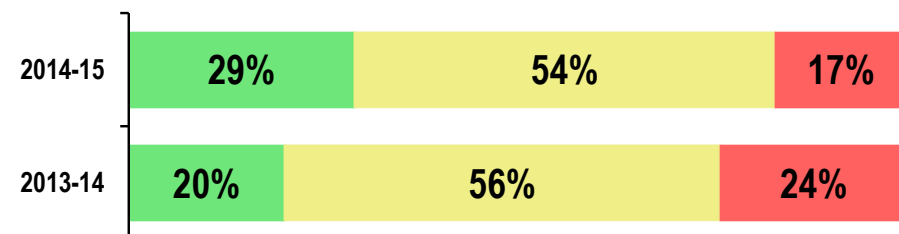
Provincial treasury, the premier's office, department of cooperative governance and the provincial legislature

Oversight functions of coordinating departments

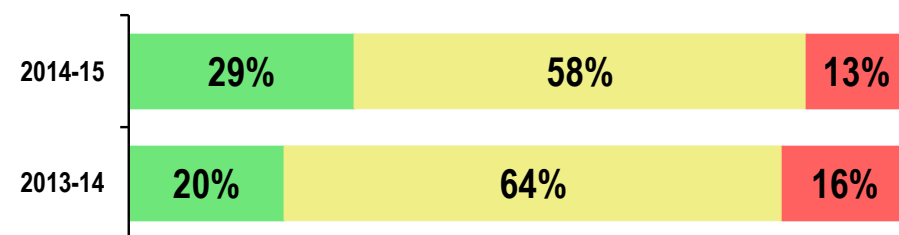
In our previous reports, we reported that the provincial treasury and the Office of the Premier had strengthened and enhanced their oversight role by focusing specifically on Health and Education. Considering the nature and depth of the challenges experienced at these departments, the Office of the Premier and the provincial treasury adopted a hands-on approach and assisted by equipping the departments with appropriate skills and improving internal controls. This support was continued in the current year. Unfortunately, the effectiveness of the support at the department of Education is not apparent, as the department failed to

Internal audit unit and audit committee

Internal audit



Audit committee



significantly reduce the number of matters reported in the audit report, while its audit outcome is stagnating.

Office of the Premier

The Office of the Premier once again adopted a hands-on approach and supported departments with human resource management. Health and Education were the departments focused on during the current year, as was the case in previous years. In addition, hands-on support was provided to departments to implement the performance management and development system. These departments included Health, Education, Transport, Social Development, and Rural Development and Agrarian Reform. The effectiveness of the support provided by the Office of the Premier is, however, not visible as audit outcomes of these departments have stagnated and do not reflect an improvement even with such hands-on support.

The support and oversight functions of the Office of the Premier focus on capacity building (human resource management) and contributing to the intergovernmental and democratic governance arrangements. The Office of the Premier is challenged in ensuring that the support provided by the coordinating departments to Health, Education, and Roads and Public Works is coordinated and effective.

Human resource planning

The Office of the Premier made the following contribution towards the human resource planning of the provincial departments:

- Ensured that a unit or directorate was in place to monitor the credibility of departmental human resource plans and vacancies in the province.
- Ensured that the unit or directorate responsible for monitoring departmental human resource plans and vacancies in the province does not have critical vacancies.
- Performed monitoring to ensure that performance agreements are in place for HoDs in the province
- In cases where there was lack of capacity at provincial departments, the Office of the Premier assisted in finding appropriate solutions.
- Ensured that policies and procedures address the monitoring of provincial vacancies, human resource plans as well as the coordination of training of senior management for the province.

Intergovernmental and democratic governance arrangements

The Office of the Premier made the following contribution towards the intergovernmental and democratic governance arrangements of the provincial department:

- Ensured that intergovernmental structures were established in the province.
- Ensured that the performance of intergovernmental structures at national, provincial and district levels was assessed.

Findings relating to human resource were addressed. The Office of the Premier put the necessary structures in place to enable coordination and monitoring in line with the role they need to play. In addition, all HoDs had signed performance contracts and interventions were taking place where there was a lack of capacity within departments.

Provincial treasury

Provincial treasury provided some assurance which is consistent with the previous year. This is in line with the slow improvement in audit outcomes. In relation to the PFMA cycle, the oversight and monitoring functions of the provincial treasury mainly revolve around preparing and monitoring provincial budgets, monitoring and enforcement of compliance, as well as providing guidance and support to departments and entities in relation to the compilation and submission of financial statements.

In the previous year, the provincial treasury undertook to centralise the supplier database and procurement systems. Such centralisation has started to bear fruit as there was a significant reduction in irregular expenditure during the year under review.

It is also important to note that no findings were identified in the sector audit. This means that the provincial treasury had performed its oversight function; however, its recommendations were not always implemented by the provincial departments and entities. The provincial treasury faces the challenge of intensifying its oversight function by ensuring that its recommendations are implemented.

Department of Cooperative Governance and Traditional Affairs

CoGTA was not assessed as an assurance provider for this cycle as their oversight is limited to the MFMA auditees. However, an audit was performed of the sector as part of a combined sector with treasury and Office of the Premier, where the focus was on support to local government for the relevant sub-outcomes and indicators as per outcome 9 (local government) of the MTSF 2014-2019. Based on our audit, it is evident that CoGTA did not have the necessary systems and processes in place to perform their oversight and monitoring function as required by the outcome 9 deliverables. CoGTA is challenged to strengthen its monitoring and oversight function through the implementation of adequate systems and processes.

Portfolio committees and public accounts committees

The processes and enforcement of accountability for the actions, performance, financial management and compliance with legislation of all involved in government serve as a cornerstone of democratic governance in South Africa. One of the most important oversight functions of the provincial legislature is to consider auditees' annual reports as well as in-year monitoring reports.

Section 2, read with section 3, of this report highlights the risk that in-year monitoring, oversight and decision-making processes could be based on information that is not credible.

The timeous hearings held by SCOPA undoubtedly had an impact on accountability in the province. The hearings focused on the individual members of the executive and their respective leadership teams accounting for their outcomes as well as focusing on producing action plans to improve the audit outcomes. The challenge with both the portfolio committees and SCOPA remained the timeliness of resolutions as well as the fact that the implementation of these resolutions was not monitored and enforced. The action taken by SCOPA to hold mid-year hearings for auditees to enable the committee to track progress made in implementing the resolutions is highly commended. This will definitely pay dividends in future.

During the year under review, members from both SCOPA and the relevant portfolio committee were sometimes represented in a joint hearing. We view this as a positive step and, at least annually, should become the norm rather than the exception. In this format, all areas can be addressed, eliminating the situation where critical issues are not dealt with as one committee believes that it is being dealt with by the other. This promotes a platform where holistic oversight can take place that covers financial, performance and policy matters.

Our initiatives will be intensified with a drive to enhance the understanding of committees with regard to our role, audit findings and their causes and effects, as well as how we can add value to the work of the committees.

Way forward

The most effective way to address the credibility of information and transparency is for audit committees to interact frequently with the relevant portfolio committees. During these interactions, the audit committees should inform the portfolio committees of the status of departments' systems for performance monitoring, recording and reporting as well as the status of the implementation of audit committee recommendations. The last critical element is that both the internal audit unit and the audit committee must verify all submissions as credible, relevant and transparent before these are considered in further detail.

In addition, oversight should pay particular attention to the usefulness and reliability of performance information as well as deal appropriately with the previous year's unauthorised and irregular expenditure.

5.4.2 Initiatives and commitments of key role players

We had numerous intensive interactions with both the political and administrative leadership during the year under review. Topics included the audit outcomes of their departments and entities, the root causes underpinning unfavourable outcomes and the need for a strong control environment that entrenches daily, weekly and monthly processes. During these engagements, our consistent message was that it is possible to obtain an unqualified opinion with no findings if there is a real will to change and if the leadership actively strives for quality and sustainability in executing their duties. This can be achieved by the following:

- **Ownership** – political and administrative leadership must take full ownership of the internal control environment.
- **Skills** – investment in appointing skilled staff.
- **Discipline** – daily disciplines must be instilled to ensure excellence in financial management, service delivery execution and compliance with legislation.
- **Credibility** – the leadership must set a tone and implement processes to ensure the credibility of all the auditees' reports.
- **Performance management systems** – implementing performance management systems with clear and decisive consequences for poor performance.
- **Governance** – internal audit units, audit committees and structures of governance and oversight need to ensure that all their activities are coordinated and contribute to the credibility of information.

The improvement in the financial statements and reporting on predetermined objectives serve as evidence that the executive and legislature leadership have heeded our messages and have given effect to commitments. However, the stagnation of key auditees and the pervasiveness of non-compliance with legislation indicate that not all commitments have been honoured.

Based on the prior year audit outcomes, the premier committed to deal with stability in key leadership positions and, at an executive level, ensure that the province addresses the matter of vacancies. It is evident from the current year outcomes that stability at the level of accounting officer/authority has improved. Attention is still required to address the vacancy rate at the senior management level as detailed in section 4.1.1 of this report.

The prior year commitment relating to ensuring that accounting officers take responsibility for reducing irregular expenditure is in progress and has resulted in consequence management processes at Health and Roads and Public works, in particular. These processes led to a marked reduction in irregular expenditure

during the year under review. They should be rolled out to all departments and entities to eliminate irregular expenditure in the province.

The MEC for Finance has honoured his commitment to raise the matter of poor quality in-year reporting by departments. To this effect the MEC engages on this matter with his executive colleagues. However, the departments are slow to address the matters raised by treasury.

Commitments from the provincial executive going forward

During the post-audit outcome interactions, the MEC for Finance said accountability remains a top priority at the provincial executive level. He indicated that the premier, at a recent cabinet meeting, had delegated the powers to hold accounting officers accountable, manage their performance and implement corrective action where required to the relevant MECs. The premier, in turn, will hold the MECs accountable for effecting these delegations.

In addition, the executive made the following commitments:

- Maintain momentum towards creating stability and focus on ensuring that the province has a skilled and empowered administrative leadership.
- With the assistance of the MEC for Finance and provincial treasury, implement consequence management for poor quality of in-year monitoring and reporting, also where a lack of monthly monitoring is evident.
- Ensure that accounting officers continue to take responsibility for a reduction in irregular expenditure.

Commitments from the provincial legislature going forward

In response to the commitments made by the executive, the provincial legislature undertook to enhance its oversight and to call the executive and accounting officers to account for the widespread non-compliance. This will ultimately lead to a focus not only on those auditees with qualified outcomes but also those that have remained at unqualified with findings.

In addition, SCOPA committed to continue to engage with the audit committees and internal audit units to ascertain whether management is implementing their recommendations and to hold management accountable where this is not being

done. In conclusion, the legislature undertook to drill their oversight down to the level where accounting officers have to account for what action has been taken against officials responsible for non-compliance and irregular expenditure.

Should all role players honour their commitments and align their initiatives, the province could make a significant breakthrough in enhancing accountability and improving audit outcomes, resulting ultimately in transparent and impactful administration as a whole.

6. Conclusion

In order for provincial government to achieve the goals and priorities set out in the MTSF, it is important that each role player diligently executes their roles as outlined in the legislation and takes full ownership of and accountability for the responsibilities assigned to them. In this manner the leadership can build a professionalised provincial government that embraces the concepts of transparency, accountability, and credible and reliable financial and performance reporting. This will also create an environment that promotes compliance with legislation. The enabling role of the accounting officer and the oversight functions of all governance structures will play a vital role in creating an environment where effective, efficient and economical service delivery and a clean audit outcome are a natural outflow of doing the right things at the right time.

ANNEXURES 61

Annexure 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, compliance and specific focus areas

Auditee				2014-15 audit outcomes			2013-14 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	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	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance	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	
Departments																																															
Cooperative Governance and Traditional Affairs						N		A	A																			N						N				R					0.00	22.10	0.03		
Economic Development, Environmental Affairs and Tourism						R			R												R	R						N	R		N	R	N	N	A	R		R	R					0.00	28.80	0.14	
Health					R	R		R	R					R		A	R	A		R								R				R		R	R		R	R	F				90.40	451.80	74.40		
Human Settlements						R		A	R												R	N						A				R				R	R		R	R	F				0.00	0.75	0.94
Rural Development and Agrarian Reform						R		A	R												A	R									A				R	R			R					0.00	5.00	0.56	
Safety and Liaison						A		A	R												A		A	A				A							A			N	R					0.00	1.20	0.01	
Social Development					N	R			R										N			R	A						N				N	R				N	R					0.00	48.10	0.06	
Sport, Recreation, Arts and Culture					R	R		R	R							R	R					A	N					A			A	N	A	R	R		R	R					0.62	18.70	0.20		
Transport					R	R		R	R									R				N	R					N				A		N			N	N		R	R	F			0.00	30.60	0.02
Education					R	R		R	R	R		R		R		R	R	R	R			R	R	A	R			A	R	R	R	R	R	R	R	R	N		R	R	F				0.00	87.00	8.60
Office of the Premier						N															N							N							N			R						0.00	1.50	0.00	
Eastern Cape Provincial Legislature						A		A	R												A	A													A									0.00	0.00	0.00	
Eastern Cape Provincial Treasury						N																														N			N					0.00	10.30	0.00	
Roads and Public Works					R	R		R	R		N		A		N	R	R	A	R			N	N	A				R	A			R	R	A	R			R	R	F					0.00	663.00	1.50
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	Material unfavourable indicators			Unfavourable indicators	No unfavourable indicators			Legend (Expenditure)	Improved	Regressed										

Annexure 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, compliance and specific focus areas (continued)

Auditee	2014-15 audit outcomes			2013-14 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	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	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance	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
Public entities																																											
East London Industrial Development Zone Corporation			R		A	R														R	N		A										N			R	F			0.00	3.30	0.47	
Eastern Cape Development Corporation			R		A	R		N				A		N						R	R	N					N			N	A		R		A	R	F			0.00	41.50	0.00	
Eastern Cape Gambling and Betting Board			A			R														A												A			A					0.00	0.00	0.01	
Eastern Cape Government Fleet Management Services			R		A	R		A				A		A						R	A							N		A	R			A		A	A				0.00	0.00	2.00
Eastern Cape Liquor Board			R		A	R															R							A					A			A					0.00	0.14	0.08
Eastern Cape Parks and Tourism Agency		A	R		N	R										A				A	R				A						N		N		R	R	F			0.00	3.00	0.00	
Eastern Cape Provincial Arts and Culture Council		N	R		A	R										N	N			R	R						A		R	R		R		R	R	F			0.00	0.75	0.01		
Eastern Cape Rural Development Agency		A	R		R	R												A											A	A		N		A	N				0.00	6.20	0.00		
Eastern Cape Socio Economic Consultative Council																																								0.00	0.00	0.00	
Mayibuye Transport Corporation			R			R					A	R		A						R	R		R					A		A			A			R				0.00	3.90	0.13	
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	Material unfavourable indicators	Unfavourable indicators	No unfavourable indicators	Legend (Expenditure)	Improved	Regressed																								

Annexure 2: Comparison of five-year audit outcomes

Auditee	GR Location	Audit outcome 2014-15			Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11		
		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
Financial audits																
Departments																
Cooperative Governance and Traditional Affairs	EC	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Economic Development, Environmental Affairs and Tourism	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified		
Health	EC	Qualified			Qualified			Qualified			Qualified			Qualified		
Human Settlements	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified			Qualified		
Rural Development and Agrarian Reform	EC	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Qualified		
Safety and Liaison	EC	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Social Development	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Sport, Recreation, Arts and Culture	EC	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Qualified		
Transport	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Education	EC	Qualified			Qualified			Qualified			Disclaimer			Disclaimer		
Office of the Premier	EC	Unqualified with findings			Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Provincial Legislature	EC	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings		
Eastern Cape Provincial Treasury	EC	Unqualified with findings			Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		
Roads and Public Works	EC	Qualified			Qualified			Disclaimer			Qualified			Unqualified with findings		

Legend

Material findings
No findings
N/A

Annexure 2: Comparison of five-year audit outcomes (continued)

Auditee	GR Location	Audit outcome 2014-15			Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11		
		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
Public entities																
East London Industrial Development Zone Corporation	EC	Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings		
Eastern Cape Development Corporation	EC	Qualified			Qualified			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Gambling and Betting Board	EC	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Government Fleet Management Services	EC	Unqualified with findings			Qualified			Qualified			Unqualified with findings			New auditee		
Eastern Cape Liquor Board	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Parks and Tourism Agency	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Provincial Arts and Culture Council	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Rural Development Agency	EC	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Eastern Cape Socio Economic Consultative Council	EC	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		
Mayibuye Transport Corporation	EC	Qualified			Qualified			Disclaimer			Qualified			Qualified		

Legend

Material findings
No findings
N/A

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

Auditee ID	Auditee	Province	Audit opinion			Leadership																		Financial and performance																		Governance														
						Predetermined objectives	Compliance with legislation	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit			Audit committee
			F	P	C			F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O									
Departments																																																								
230	Cooperative Governance and Traditional Affairs	EC				↓	↓	↓																		↔	↓	↓																↔	↔	↔										
104	Economic Development, Environmental Affairs and Tourism	EC				↓	↔	↔																		↓	↓	↓																↔	↔	↔										
175	Health	EC				↓	↔	↔																		↓	↔	↔																	↔	↔	↔									
187	Human Settlements	EC				↔	↑	↑																		↔	↔	↔																	↔	↔	↔									
6	Rural Development and Agrarian Reform	EC				↔	↔	↔																		↑	↔	↔																	↔	↔	↔									
444	Safety and Liaison	EC				↑	↔	↑																		↑	↔	↑																	↑	↔	↑									
457	Social Development	EC				↓	↓	↔																		↑	↓	↔																	↑	↓	↔									
482	Sport, Recreation, Arts and Culture	EC				↔	↔	↔																		↑	↔	↔																	↔	↔	↔									
515	Transport	EC				↓	↔	↔																		↓	↔	↔																	↔	↔	↔									
111	Education	EC				↔	↔	↔																		↔	↔	↔																↔	↔	↔										
309	Office of the Premier	EC				↓	↔	↓																		↓	↓	↓																	↓	↔	↓									
349	Eastern Cape Provincial Legislature	EC				↑	↑	↑																		↔	↑	↑																	↑	↑	↑									
372	Eastern Cape Provincial Treasury	EC				↔	↓	↑																		↔	↓	↔																	↔	↓	↓									
409	Roads and Public Works	EC				↔	↔	↔																		↔	↔	↔																↔	↔	↔										
Public entities																																																								
###	East London Industrial Development Zone Corporation	EC				↓	↔	↓																		↑	↔	↑																	↓	↔	↓									
100	Eastern Cape Development Corporation	EC				↓	↓	↓																		↓	↓	↓																	↓	↓	↓									
151	Eastern Cape Gambling and Betting Board	EC				↑	↔	↑																		↑	↔	↑																	↑	↔	↑									
###	Eastern Cape Government Fleet Management Services	EC				↑	↑	↑																		↑	↑	↓																	↑	↑	↑									
228	Eastern Cape Liquor Board	EC				↔	↔	↔																		↑	↔	↓																	↔	↔	↓									
###	Eastern Cape Parks and Tourism Agency	EC				↑	↑	↑																		↑	↑	↑																	↑	↔	↔									
347	Eastern Cape Provincial Arts and Culture Council	EC				↓	↓	↓																		↔	↔	↔																↑	↑	↑										
529	Eastern Cape Rural Development Agency	EC				↔	↑	↔																		↓	↑	↔																↑	↑	↑										
102	Eastern Cape Socio Economic Consultative Council	EC				↔	↔	↔																		↔	↔	↔																↔	↔	↔										
243	Mayibuye Transport Corporation	EC				↑	↑	↑																		↑	↑	↑																	↓	↔	↓									

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

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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.

Backups

In information technology, a backup, or the process of backing up, refers to the copying and archiving of computer data so it may be used to restore the original after a data loss event. The verb form is to back up in two words, whereas the noun is a backup. The primary purpose of a backup is to recover data after its loss, be it by data deletion or corruption.

Business continuity plan (BCP)

A business continuity plan is a plan to continue operations if a place of business is affected by different levels of disaster, which can be localised short-term disasters, to days-long building-wide problems, to a permanent loss of a building. Such a plan typically explains how the business would recover its operations or move operations to another location after damage by events like natural disasters, theft or flooding. For example, if a fire destroys an office building or data centre, the people and business or data centre operations would relocate to a recovery site.

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.

<i>Cash flow (in financial statements)</i>	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
<i>Clean audit</i>	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.
<i>Commitments from role players</i>	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
<i>Conditional grants</i>	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
<i>Configuration</i>	The complete technical description required to build, test, accept, install, operate, maintain and support a system.
<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>Data integrity</i>	Data integrity refers to the overall completeness, accuracy and consistency of data. This can be indicated by the absence of alteration between two instances or between two updates of a data record, meaning data is intact and unchanged.
<i>Disaster recovery plan (DRP)</i>	A disaster recovery plan is a documented process or set of procedures to recover and protect a business IT infrastructure in the event of a disaster. Usually documented in written form, the plan specifies the procedures that an organisation is to follow in the event of a disaster. It is a comprehensive statement of consistent actions to be taken before, during and after a disaster. The disaster could be natural, environmental or man-made. Man-made disasters could be intentional (e.g. the act of an attacker) or unintentional (i.e. accidental, such as the wall of a man-made dam breaking).
<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.

Financial and performance management

(as one of the drivers of internal control)

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

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

Financially unqualified audit opinion

(on financial statements)

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

Firewall

A security system used to prevent unauthorised access between networks (both internal /internal and internal/external). A firewall will allow only approved traffic in and/or out by filtering packets based on source/destination. The firewall inspects the identification information associated with all communication attempts and compares it to a rule set consistent with the organisation's security policy. Its decision to accept or deny the communication is then recorded in an electronic log.

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Fruitless and wasteful expenditure

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

Going concern

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

Governance (as one of the drivers of internal control)

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

Human resource management

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

Information technology (IT)

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

IT controls

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

<i>IT governance</i>	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.
<i>IT infrastructure</i>	The hardware, software, computer-related communications, documentation and skills that are required to support the provision of IT services, together with the environmental infrastructure on which it is built.
<i>IT security management</i>	The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.
<i>IT service continuity</i>	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.
<i>IT user access management</i>	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
<i>Internal control / key controls</i>	<p>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.</p> <p>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.</p>
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable legislation.
<i>Key drivers of internal control</i>	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.)
<i>Leadership</i> (as one of the drivers of internal control)	<p>The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management.</p> <p>It can also refer to the political leadership or the leadership in the province, such as the premier.</p>

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.

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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).

Password

In access control, confidential authentication information, usually composed of a string of characters, may be used to control access to physical areas and to data. Passwords have to comply with certain complexity rules to ensure that they are not easy to guess.

Patch management

A piece of programming code that is added to an existing program to repair a deficiency in the functionality of the existing routine or program. It is generally provided in response to an unforeseen need or set of circumstances. Patching is also a common means of adding a new feature or function to a program until the next major version of the software is released.

Platform

A platform consists of an operating system, the computer system's coordinating program, which in turn is built on the instruction set for a processor or microprocessor, and the hardware that performs logical operations and manages data movement in the computer.

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.

Vulnerability

In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an adverse impact.

Acronyms and abbreviations

AGSA	<i>Auditor-General of South Africa (the institution)</i>
Aids	<i>acquired immunodeficiency syndrome</i>
APP	<i>annual performance plan</i>
APR	<i>annual performance report</i>
ART	<i>anti-retroviral treatment</i>
ARV	<i>anti-retroviral</i>
ASIDI	<i>accelerated school infrastructure delivery initiative</i>
BAS	<i>basic accounting system</i>
BCP	<i>business continuity plan</i>
BI	<i>business intelligence</i>
bn (after an amount)	<i>billion (rand)</i>
BRRR	<i>budgetary review and recommendations report</i>
CAPS	<i>curriculum assessment policy statement</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CGICTPF	<i>Corporate governance of information and communication technology policy framework</i>
CIDB	<i>Construction Industry Development Board</i>
CIO	<i>chief information officer</i>
CIP	<i>continuous improvement plan</i>
COGHSTA	<i>Department of Cooperative Governance, Human Settlements and Traditional Affairs</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
CRL rights	<i>Commission for the Promotion and Protection of Cultural, Religious and Linguistic Communities</i>
CWP	<i>community work programme</i>
DBE	<i>National Department of Basic Education</i>
DHET	<i>Department of Higher Education and Training</i>
DoRA	<i>Division of Revenue Act</i>
DPISA	<i>Department of Public Service and Administration</i>
DRP	<i>disaster recovery plan</i>
EC	<i>Eastern Cape</i>
EIG	<i>education infrastructure grant</i>
EIS	<i>education information system</i>
EPWP	<i>expanded public works programme</i>

FMPPI	<i>Framework for managing programme performance information</i>
FMPPLA	<i>Financial Management of Parliament and Legislatures Act</i>
FS	<i>Free State</i>
GP	<i>Gauteng</i>
GIS	<i>geographical information system</i>
GRAP	<i>generally recognised accounting practice</i>
HEDCOM	<i>Heads of Education Committee</i>
HIV	<i>human immunodeficiency virus</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>
HSDG	<i>human settlement development grant</i>
ICT	<i>information and communication technology</i>
IFMS	<i>integrated financial management system</i>
IRS	<i>integrated reporting system</i>
IT	<i>information technology</i>
K (after an amount)	<i>thousand (rand)</i>
KZN	<i>KwaZulu-Natal</i>
LOGIS	<i>logistical information system</i>
LP	<i>Limpopo</i>
LTS	<i>learner transport scheme</i>
LTSM	<i>learner teacher support material</i>
LURTIS	<i>learner unit record information and tracking system</i>
m (after an amount)	<i>million (rand)</i>
MDB	<i>Municipal Demarcation Board</i>
MEC	<i>member of the executive council of a province</i>
MIG	<i>municipal infrastructure grant</i>
MIS	<i>management information system</i>
MP	<i>Mpumalanga</i>
MTSF	<i>Medium term strategic framework 2014-2019</i>
NAT	<i>national</i>
NC	<i>Northern Cape</i>
NDP	<i>National development plan 2030</i>
NEMA	<i>National Environmental Management Act, 1998 (Act No. 107 of 1998)</i>
NEMWA	<i>National Environmental Management Waste Act, Act No. 59 of 2008</i>
NHI	<i>national health insurance</i>

NHIS	<i>national health information system</i>
NW	<i>North West</i>
NSDA	<i>negotiated service delivery agreement</i>
NSDS III	<i>National skills development strategy III</i>
NSNP	<i>national school nutrition programme</i>
NSF	<i>National Skills Fund</i>
PED	<i>provincial education department</i>
Persal	<i>personnel and salary system</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
PMTE	<i>Property Management Trading Entity</i>
PPPFA	<i>Preferential Procurement Policy Framework Act</i>
PRC	<i>Presidential Review Committee on state-owned entities</i>
SALGA	<i>South African Local Government Association</i>
SAP	<i>systems, applications and products system</i>
SASA	<i>The South African Schools (Act 84 of 1996)</i>
SA-SAMS	<i>South African schools administration and management system</i>
SCM	<i>supply chain management</i>
SCoPA	<i>Standing Committee on Public Accounts</i>
SETA	<i>sector education training authority</i>
SITA	<i>State Information Technology Agency</i>
SLAs	<i>service level agreements</i>
SSP	<i>sector skills plan</i>
TVET	<i>technical, vocational, education and training</i>
UAMP	<i>user assessment management plan</i>
USDG	<i>urban settlements development grant</i>
WC	<i>Western Cape</i>



AUDITOR - GENERAL
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