



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

2014-15
PFMA



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

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

GAUTENG 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



Sustained the good audit outcomes from the previous year, with 54% (19) of auditees achieving clean audits – seven departments and 12 entities (Section 1)



91% (32) financially unqualified audit opinions, but some qualifications were avoided by correcting material misstatements identified during the audit process (Section 2.1.1)



Some improvement in supply chain management, but remains the largest contributor to irregular expenditure of R5,6 billion (Section 2.2)

Audit outcomes of departments improved, but entities regressed (Section 1)

The g-Fleet Management Trading Entity (disclaimed opinion) and Department of Health (qualified opinion) need the most attention (Section 1)



Material non-compliance with legislation by 43% (15) of auditees, some of which could lead to financial loss (Section 2.2)

Zero unauthorised expenditure in the current year (Section 2.2)



High level of irregular and fruitless and wasteful expenditure
(Section 2.2)



Slight regression in the status of the financial health
(Section 2.3)

Regression in the reliability and usefulness of annual performance reports
(Section 3)



Audit findings on performance reports avoided by correcting material misstatements identified during audit process
(Section 3)



Little improvement in human resource management, but instability and vacancies at heads of supply chain management unit remain a concern
(Section 4.1)



Further improvement in audit outcomes is only possible through improved and continued assurance by key role players
(Section 5.3 & 5.4)



Robust oversight by audit committees and coordinating departments, but accounting officers and senior management are slow to respond to recommendations
(Section 5.3 & 5.4)

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GAUTENG CLEAN AUDITS 2014-15



DEPARTMENTS

Cooperative Governance and Traditional Affairs
Economic Development
Finance
Office of the Premier
Provincial Legislature
Provincial Treasury
Social Development



PUBLIC ENTITIES

Constitutional Hill Development Company
Cradle of Humankind Trading Entity
Dinokeng World Heritage Trading Entity
Gauteng Film Commission
Gauteng Gambling Board
Gauteng Partnership Fund
Gauteng Tourism Authority
Gautrain Management Agency
Greater Newtown Development Company
Industrial Development Zone
Supplier Park Development Co
The Innovation Hub



FOREWORD

FOREWORD



Auditor-General

Kimi Makwetu
Auditor-General

It is with pleasure that I present to the Gauteng Provincial Legislature my 2014-15 general report summarising the audit outcomes of the provincial government for the financial year ended 31 March 2015.

In my previous year's report I applauded the province for a significant improvement in their overall audit outcomes. I am pleased to confirm that the province again received good audit outcomes in the year under review as 19 auditees (54%) achieved clean audits. I am particularly encouraged by the Department of Economic Development, Department of Finance and Gauteng Gambling Board. These auditees progressed to the clean audit outcome and joined 16 auditees that were able to sustain clean audit outcomes from the previous year.

Similar to the previous year, 13 auditees (37%) received financially unqualified audit opinions with findings on their performance information, compliance with legislation or both these aspects. I also commend the Department of Human Settlements on its efforts to deal with the previous year qualification areas and receiving a financially unqualified opinion with findings.

The above outcomes were as a result of the premier, member of the executive council for finance and provincial legislature being exemplary. They positively influenced other members of the executive council and key role players, and this

led to honouring of the majority of commitments from the previous year and institutionalising solid internal controls. In addition, the political leadership insisted on a culture of accountability, ethical conduct and sound financial management practices. Furthermore, stability at accounting officer and senior management levels, as well as the role played by the political leadership in holding the administrative leadership accountable, resulted in improvement in the implementation and monitoring of action plans to address recurring findings and maintain good practices.

I acknowledge the robust role played by audit committees, coordinating departments and external oversight structures in exercising their oversight responsibilities to improve the governance of provincial government. This was further complemented by support mechanisms that were institutionalised by the provincial treasury. This included strict cost containment and budget monitoring activities at departments, which contributed to zero unauthorised expenditure in the year under review. Furthermore, I was encouraged by the firm stance on consequence management taken where non-performance or unethical behaviour was evident.

Notwithstanding the overall positive audit outcomes, one department (Sports, Arts, Culture and Recreation) and two entities (Gauteng Funding Agency and Gauteng Growth and Development Agency) regressed from a clean audit outcome

to a financially unqualified audit opinion with findings. The administrative leadership and senior management of these auditees failed to institutionalise an internal control environment that was mature and responsive enough to promptly prevent and detect breaches. I am also concerned by the regression of the g-Fleet Management Trading Entity from an adverse opinion in the previous year to a disclaimed opinion in the year under review. This was mainly due to the administrative leadership not taking accountability and not acting with the urgency and due care required to ensure that the previous year's internal and external audit findings were adequately addressed. This was further worsened by the lack of consequences for poor performance and non-adherence to developed action plans.

Although the province was able to sustain the number of auditees that complied with key legislation, non-compliance hampered 43% of auditees to obtain clean audit outcomes. While the actual incidents triggering irregular expenditure improved compared to the previous year, the supply chain management transgressions and irregular expenditure still remained high. The amount of reported irregular expenditure remained at R5,6 billion. High irregular expenditure is indicative of significant weaknesses in internal controls and disregard for procurement and contract management legislation. With supply chain management findings largely concentrated on uncompetitive or unfair procurement processes, the risk of procuring goods and services at higher rates or prices than the value received by auditees is increased. Senior management, political leadership and oversight structures should continue to pay close attention to the frequency of irregular expenditure and supply chain management transgression. Furthermore, it is critical that oversight structures investigate the incidents of non-compliance and/or irregular expenditure, take appropriate corrective steps, and implement consequence management.

I note the regression in the quality of performance information which is in contrast to the province's commitment to improve and sustain better audit outcomes. Regrettably, auditees continued to rely on the auditing process to identify and correct misstatements in the performance information. Accounting officers and accounting authorities should hold heads of monitoring and evaluation unit accountable for ensuring that there are sound processes in place to ensure that performance information is supported by sufficient and credible evidence.

Information technology remains critical to ensure the confidentiality, integrity and availability of information to enable service delivery, national security and promote effective oversight. I am encouraged by the overall improvement in this area when compared to the previous years. However, more attention is required at 59% of the auditees in the areas of operating effectiveness of user access management, security management and information technology service continuity controls.

My analysis of financial viability indicates a slight regression in the status of the financial health of some auditees. The impacted auditees were not able to adequately manage their debtors and collect monies due to them. Furthermore, certain entities were unable to manage their spending against the budgets and as a result their expenditure exceeded their revenue, creating pressure on their ability to pay their creditors and liabilities. The provincial leadership should guard against the increased risk of legal lawsuits and claims, which contributed R407 million of fruitless and wasteful expenditure incurred in the year under review, as this will likely deplete funding for key service delivery and exert financial strain on the auditees affected.

The combined assurance model continued to show maturity. However, senior management, as the first line of defence in this model, should continue to strengthen internal controls as well as financial and compliance management practices. This will support the effectiveness of other assurance providers and limit the risk of a reversal of these positive outcomes. The province should

continue to build a public service characterised by transparent financial and performance reporting. Accounting officers, supported by senior management and other oversight structures, should play a prominent role in this regard.

I have witnessed the active participation of oversight committees. These committees should continue to collaborate with each other and continuously improve and standardise key oversight activities. The strengthening of oversight should include the timely tabling and regular follow up of key resolutions.

I have noted the premier's view and commitment that there must be firm leadership from the executive authorities in the province and consequences for poor performance on the part of accounting officers, with the aim to instil a high performance culture, ethical conduct and sound financial management in the provincial government. This was further supported by the speaker's commitment that the public accounts committee will continue with robust interactions and regular follow up of the committee's resolutions and commitments from the departments to ensure the implementation thereof.

I recognise the progress made by the leadership on their commitments, as shared during the presentation of the Gauteng provincial audit outcomes to the provincial legislature on 5 November 2015. I will continuously track these commitments to ascertain that they yield the desired impact in improving financial governance, reducing irregular expenditure and further improving overall audit outcomes of the province.

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

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

Auditor-General

Auditor-General

Pretoria

November 2015

OVERVIEW

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Summary of our message

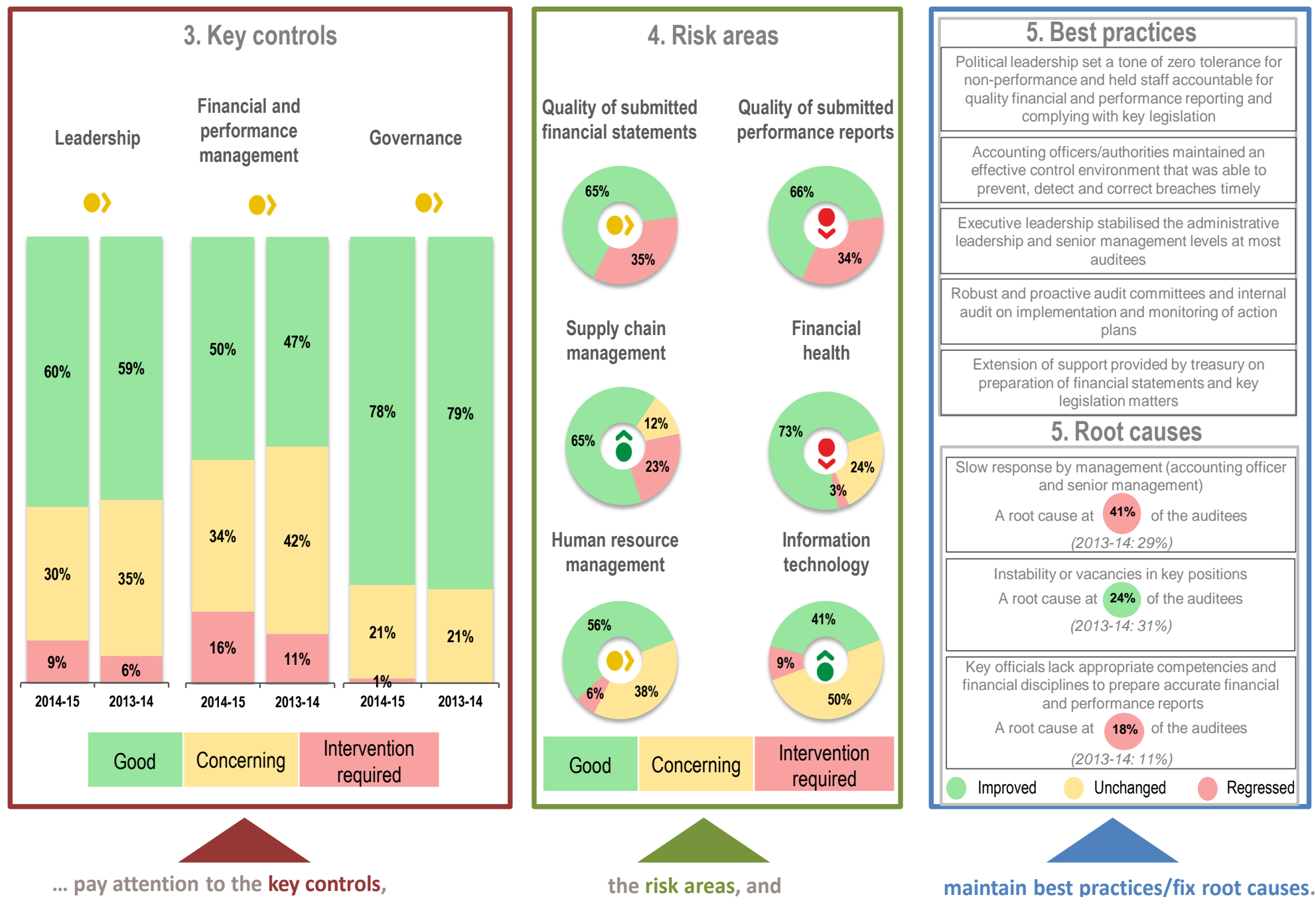
Figure 1a: Overview of the audit message



To improve the **audit outcomes**,

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

Figure 1b: Overview of the audit message



Our auditing and reporting process

We audit every department and public entity in the province, also 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 and the best practices that need to be maintained to further improve audit outcomes in the province. Before the general reports are published, we share the outcomes, best practices and root causes with the provincial leadership, the provincial legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist with 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 (HR) 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 Gauteng Provincial Treasury as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the

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

Figures 1a and 1b 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*.

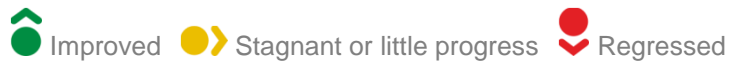
2. Auditees that received a **financially unqualified opinion with findings** struggled to:
 - produce financial statements without material misstatements and relied on auditors to detect errors and omissions, and subsequently corrected them.
 - align their performance reports to the predetermined objectives 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** have 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 submitted for audit and published.
4. The financial statements of auditees with an **adverse opinion with findings** included so many material misstatements that we disagreed with virtually all the amounts and disclosures in the financial statements.

5. 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

Table 1 summarises the characteristics of auditees that fall within the different categories of audit outcomes over the following pages. 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 and disclaimed opinions are failing.

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

Area	Best practices for clean audits (19)	Unqualified with findings (13)	Qualified with findings (1)	Disclaimed with findings (1)
<i>Financial statements</i>	<p>Produced financial statements that were free from material misstatements. These auditees' financial statements accurately reflected the resources allocated and that they were spent to deliver on their mandate, within the required legislation.</p> <p>In addition to the best practices highlighted under different sections, we noted the following good practices:</p> <ul style="list-style-type: none"> Stability at the chief financial officer (CFO) level, and CFOs identifying and responding to risks in a timely manner. Robust audit committees that insisted on accurate quarterly financial information. Prepared regular accurate financial statements and financial units instilled solid financial disciplines and controls. 	<p>A total of 10 auditees (77%) in this category produced financial statements with material misstatements, but corrected all of these during the auditing process.</p> <p>At six (46%) of these auditees, these findings were repeat findings.</p> <p>The most common areas in which auditees made corrections were:</p> <ul style="list-style-type: none"> disclosures relating to contingent liabilities and commitments disclosures relating accruals irregular expenditure relating to supply chain management (SCM) non-compliance. 	<p>Produced financial statements with material misstatements in receivables, which it could not correct before the financial statements were published.</p> <p>This auditee had received a qualified opinion on receivables for the past three years. The qualification is a result of incomplete and irreconcilable outstanding revenue.</p>	<p>Could not provide us with evidence for most of the material amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of its financial statements.</p> <p>The areas which this auditee could not correct included:</p> <ul style="list-style-type: none"> revenue receivables property, plant and equipment other disclosure items.
<i>Annual performance report</i>	<p>Auditees measured their performance against predetermined objectives and reported on it in the annual performance report in a manner that was useful and reliable. These auditees had implemented appropriate manual and information and technology (IT) systems to collect, collate, verify and store performance information.</p> <p>These auditees maintained proper measurement and reporting controls over their performance information, and were able to provide evidence to support the achievement of targets.</p>	<p>A total of 100% of these auditees that were required to report on their performance information prepared an annual performance report.</p> <p>Five of these auditees that are required to report on their annual performance did not provide annual performance reports that were useful and/or reliable, as their performance indicators and targets were not well defined and/or management could not provide evidence to support the reported performance information</p> <p>In addition, two auditees received good outcomes only because they corrected the misstatements we identified during the audit.</p>	<p>Prepared an annual performance report but this auditee's annual performance report was not useful and reliable.</p> <p>Not all performance indicators and targets were well defined and measurable, resulting in the reported performance information not being valid, accurate and complete when compared to the evidence provided.</p>	<p>Prepared an annual performance report but this auditee's annual performance report was not useful and reliable.</p> <p>For this auditee, not all performance indicators and targets were well defined and relevant to its mandate. The auditee was also not able to provide supporting evidence for all the targets achieved.</p>

Area	Best practices for clean audits (19)	Unqualified with findings (13)	Qualified with findings (1)	Disclaimed with findings (1)
Compliance with key legislation	<p>These auditees complied with key legislation. They had proper risk identification and preventative controls in place to ensure compliance with legislation.</p> <p>In addition, these auditees had processes in place to prevent and/or detect non-compliance with legislation that results in irregular expenditure. These controls were robust enough to attain and sustain a clean audit opinion, as where irregular expenditure was detected by the auditee it was disclosed properly. These auditees incurred 1% of the total irregular expenditure of the province.</p>	<p>All these auditees did not comply with key legislation.</p> <p>The following repeat material instances of non-compliance were reported:</p> <ul style="list-style-type: none"> • Procurement and contract management. • Irregular and fruitless and wasteful expenditure was not prevented and/or detected. • Expenditure management relating to not settling creditors within 30 days or agreed time frames. • Proper asset management control systems not implemented for safeguarding and maintenance of assets. <p>These instances of non-compliance are still the biggest obstacle for most of these auditees in achieving clean audit outcomes.</p>	<p>The auditee did not comply with key legislation and had repeat material findings in the areas of procurement and contract management; irregular and fruitless and wasteful expenditure; expenditure management; and revenue management.</p>	<p>The auditee did not comply with key legislation, including material instances of non-compliance in the areas of revenue management; procurement and contract management; expenditure management; and irregular and fruitless and wasteful expenditure.</p>

Area	Best practices for clean audits (19)	Unqualified with findings (13)	Qualified with findings (1)	Disclaimed with findings (1)
Controls	<p>Auditees had good controls or worked on the areas that needed further attention to ensure that the clean audit status was maintained or achieved.</p> <p>Their continued focus on these basic controls contributed to their success, including the following:</p> <ul style="list-style-type: none"> • The key role players, as part of the combined assurance model, created an environment conducive to robust internal controls and oversight of credible financial and performance reporting as well as compliance with key legislation. • Good HR practices ensured that adequate and suitably skilled officials were in place, who used audit action plans to address internal control weaknesses. The performance of these officials was managed and they were held accountable. • Attention to information and communication technology (ICT) ensured that it supported objectives and processes, and maintained the confidentiality, integrity and availability of information. • Mechanisms for proper record keeping and basic daily disciplines and controls ensured that information was accessible and available to support financial and performance reporting and monitor compliance with legislation. 	<p>There was the limited number of auditees with good controls. In addition to those basic controls in place at auditees with clean audits, these auditees should pay more attention to the following:</p> <ul style="list-style-type: none"> • Instil an effective leadership culture that establishes a solid internal control environment with good HR practices that supports effective performance management and accountability of officials. • Decisive and timely monitoring and implementation of audit action plans to address internal control weakness from the previous year, including manual and automated controls. • Proper record keeping, strong daily and monthly controls, as well as mechanisms to review and monitor compliance with legislation. 	<p>Although this auditee had a few good basic controls in the area of governance, the following controls were the weakest which needed intervention:</p> <ul style="list-style-type: none"> • Proper record keeping controls to ensure that financial and performance information is supported by readily available evidence. • Proper daily and monthly controls over manual and system reconciliations relating to departmental revenue and receivables, and the follow up of exceptions. • IT governance and IT system controls that support business processes, and accuracy and availability of information. • Robust financial and performance management reporting systems that require accurate and credible quarterly financial and performance reports. 	<p>The basic controls were in a very bad state. We assessed the status of controls at this auditee as requiring intervention, and includes the following:</p> <ul style="list-style-type: none"> • Lack of leadership that establishes a culture of ethical behaviour, commitment and good governance. • Senior management was not held accountable for their poor performance in 2013-14, which resulted in an adverse opinion. This resulted in repeat material misstatements and findings on performance information and compliance with legislation, which led to a disclaimed opinion in 2014-15. • Attention to ICT systems and controls that ensure confidentiality, integrity and availability of information to support credible financial statements. • Lack of proper record keeping ensuring that information is accessible and available to support financial and performance reporting, including no basic disciplines and controls in place for daily and monthly processing and reconciling of transactions.

Area	Best practices for clean audits (19)	Unqualified with findings (13)	Qualified with findings (1)	Disclaimed with findings (1)
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 first-level assurance providers doing their part and the effective oversight by the governance and coordinating structures of the second- and third-level assurance providers.</p> <p>Their political leadership provided a strong monitoring and oversight role and held the administration to account.</p>	<p>Not all role players provided the required level of assurance to ensure credible financial and performance reports, and compliance with key legislation.</p> <p>The financial statements and annual performance reports prepared, reviewed and signed off by the senior management and accounting officers or authorities of these auditees were materially misstated. This then limited the value that internal audit units and the audit committees could add to the credibility of these reports. The monitoring and oversight by the political leadership did not have the desired impact.</p> <p>The accounting officers or authorities and senior management responded slowly and/or failed to implement actions and close gaps in controls from previous years to ensure improvement.</p>	<p>For this auditee, the instability at the levels of accounting officer, CFO and head of the SCM unit contributed to them providing some or limited assurance, resulting in repeat material findings on the financial statements, performance report and compliance with legislation.</p> <p>Despite the support of the following role players that provided the required assurance, the assurance provided by senior management was not sufficient to improve its audit outcome:</p> <ul style="list-style-type: none"> Executive authority (MEC) followed up on most of the commitments from the previous year and improved the controls. The internal audit function provided accurate and regular reports that enabled the audit committee to have robust discussions. The audit committee recommended a task team to deal with the qualification areas and had regular monitoring meetings. The provincial treasury, as a coordinating department, allocated resources and extensive time as support, and improved some of the internal controls. 	<p>At this auditee the impact of the assurance providers was minimal.</p> <p>Despite the hands-on approach by the executive authority, audit committee and the support provided by coordinating departments, the senior management and the chief executive officer (CEO) provided no assurance as the first-level role players.</p>

Area	Best practices for clean audits (19)	Unqualified with findings (13)	Qualified with findings (1)	Disclaimed with findings (1)
Key officials	<p>There was stability at the level of the accounting officer or authority, CFO and head of the SCM unit for most of these auditees – officials had been in these positions between two and three years. There were also limited vacancies in these key positions, which contributed to the institutionalisation of controls and sustained clean audit outcomes.</p>	<p>The vacancies in key positions were more common at these auditees for the following positions:</p> <ul style="list-style-type: none"> • CFO – 15% of auditees. • Head of the SCM unit – 42% of auditees. <p>Except for the accounting officers or CEOs that were appointed for all these auditees at year-end there was less stability, with key officials being in these positions for under two years on average.</p>	<p>Because of the level of vacancies in key positions, the degree of instability was high at this auditee.</p> <p>The vacancies in key positions included the following:</p> <ul style="list-style-type: none"> • Accounting officer – vacant for seven months. • CFO – had only been appointed for one month by year-end. • Head of the SCM unit position was vacant for 24 months. 	<p>Although there were no vacancies in the positions of CEO, CFO and head of the SCM unit during the year at this auditee, these officials did not take accountability for their duties. This resulted in the auditee regressing from an adverse audit opinion in the previous year to a disclaimed audit opinion in the year under review.</p>
Supply chain management and irregular expenditure	<p>These auditees had no material instances of non-compliance with SCM legislation. Areas of good SCM practices were found at 95% (18) of these auditees, with one auditee still needing to improve in some of the SCM areas.</p> <p>Their irregular expenditure levels were relatively low as a result of their good SCM practices. They incurred 1% of the irregular expenditure in the province.</p>	<p>In total, 46% (6) of these auditees had material instances of non-compliance with SCM legislation. Only 54% (seven) had good SCM practices.</p> <p>Their levels of irregular expenditure were high as a result of their poor SCM practices. They incurred 97% of the total irregular expenditure, which amounted to R5,4 billion.</p> <p>At one auditee the accounting officer did not investigate the irregular expenditure of the previous year to determine if anyone was liable for the expenditure.</p>	<p>This auditee had material instances of non-compliance with SCM legislation.</p> <p>As a result of poor SCM practices this auditee contributed 2% of the total irregular expenditure, while being responsible for 37% of the provincial budget.</p> <p>The accounting officer did not investigate all the irregular expenditure of the previous year to determine if anyone was liable for the expenditure.</p>	<p>This auditee had material instances of non-compliance with SCM legislation.</p> <p>We also experienced limitations in performing the SCM audit at this auditee.</p> <p>The irregular expenditure of R3,6 million was the result of its poor SCM practices.</p>

Area	Best practices for clean audits (19)	Unqualified with findings (13)	Qualified with findings (1)	Disclaimed with findings (1)
Financial health, unauthorised expenditure and fruitless and wasteful expenditure	<p>The auditees in this category, and in all the other categories, through effective budgetary planning and monitoring, reduced their levels of unauthorised expenditure to zero for the year under review.</p> <p>They incurred a small fraction (less than 1%) of the total fruitless and wasteful expenditure.</p> <p>All auditees in this category displayed an overall favourable state of financial health. Their indicators were indicative of sound financial management, including:</p> <ul style="list-style-type: none"> • favourable bank balances that were not in overdraft • total expenditure that did not exceed their revenue • healthy debt management and debt collection • total assets of all public entities in this category exceeded their total liabilities. 	<p>These auditees incurred 61% of the total fruitless and wasteful expenditure at R257 million, mainly attributable to litigation and claims costs.</p> <p>Fifty-four per cent (seven) of the auditees had financial indicators, although not materially unfavourable, that required attention. The assessment of their financial health indicated the following:</p> <ul style="list-style-type: none"> • Eight of these auditees realised a deficit for the financial year, with total expenditure exceeding total revenue. • Four of these auditees had more than 10% of the debts owed to them written off as irrecoverable. • Four of these auditees took longer than 90 days (three months) on average to collect the debts owed to them. • Three of these auditees underspent the budget allocated for capital projects by more than 10%. 	<p>This auditee incurred 38% of the total fruitless and wasteful expenditure at R160 million. This was mainly due to litigation claims against the department.</p> <p>This auditee had financial health indicators that were unfavourable, which included:</p> <ul style="list-style-type: none"> • bank balance being in overdraft • an average debt-collection period of more than 90 days • an accrual-adjusted net current liability position, as total current liabilities exceed total current assets • underspending of the budget allocated for capital projects by more than 10%. 	<p>The auditee incurred fruitless and wasteful expenditure of R1,6 million due to penalties paid to law enforcement agencies.</p> <p>The auditee received a disclaimed audit opinion, therefore rendering its financial statements not reliable enough to analyse for the purposes of assessing its financial health status.</p>

AUDIT OUTCOMES, BEST PRACTICES AND THE IMPACT OF KEY ROLE PLAYERS

1. Overall audit outcomes

The Gauteng provincial government consists of 16 departments, including the Office of the Premier, provincial legislature and the provincial revenue fund, and 20 entities.

The number of departments and public entities has remained the same from the previous year. This report excludes the information of the Gauteng Enterprise Propeller and provincial revenue fund, as the audits were not completed by 14 August 2015, which is the cut-off date we had set for the inclusion of audit outcomes in this report.

Figure 1a indicates that similar to the previous year, the province sustained the good overall audit outcomes. Table 2 analyses the movement in the audit outcomes of the different auditees since the previous year. It further shows the previous year's audit opinion of the Gauteng Enterprise Propeller, which had not been completed by the cut-off date of this report.

Table 2: Movement in audit outcomes

Movement Audit outcome	4 Improved	26 Unchanged	4 Regressed	1 Outstanding audit
Unqualified with no findings = 19	<ul style="list-style-type: none"> Department of Economic Development Department of Finance Gauteng Gambling Board 	<ul style="list-style-type: none"> Office of the Premier Provincial legislature Provincial treasury Department of Cooperative Governance and Traditional Affairs Department of Social Development Constitution Hill Development Company Cradle of Human Kind Dinokeng Trading Account Gauteng Film Commission Gauteng Partnership Fund Gautrain Management Agency Gauteng Tourism Authority Greater Newtown Development Agency Industrial Development Zone (Pty) Ltd Supplier Park Development Company The Innovation Hub 		
Unqualified with findings =14	Department of Human Settlements	<ul style="list-style-type: none"> Department of Community Safety Department of Agriculture and Rural Development Department of Infrastructure and Development Department of Roads and Transport Department of Education Cost Recovery Trading Entity Gauteng Housing Fund Gauteng Liquor Board Gauteng Medical Supplies Depot 	<ul style="list-style-type: none"> Department of Sport, Arts, Culture and Recreation Gauteng Funding Agency Gauteng Growth and Development Agency (GGDA) 	Gauteng Enterprise Propeller
Qualified with findings = 1		Department of Health		
Adverse with findings = 0				
Disclaimed with findings = 1			g-Fleet	

Clean audit outcomes and improved audit outcomes

The provincial government sustained the good overall audit outcomes of the previous year in 2014-15, with 19 auditees (54%) (2013-14: 19 [54%]) obtaining clean audit outcomes. It is encouraging to see 16 auditees (46%) that sustained their clean audit status from the previous year, as this indicates institutionalised sustainable internal controls supported by sound and regular accounting disciplines.

Three new auditees joined this group of clean audits in the year under review and one auditee (Department of Human Settlements) improved from a qualified audit opinion in the previous year to an unqualified audit opinion with findings. The biggest contributing factor to the improvement was the administrative leadership monitoring and holding senior management accountable for implementing basic financial reporting controls and disciplines. This resulted in better quality financial

statements submitted for auditing. These improvements were also supported by auditees that strengthened monitoring disciplines over compliance with key procurement and contract management legislation.

The Department of Economic Development had shown a steady improvement over the last few years and was able to move into the clean audit space in the year under review, joining the majority of its entities that have, over the years, sustained clean audit outcomes. This is commendable as it is critical for the department to lead from the front. For the Department of Human Settlements the stability at key positions (CFO and head of department [HoD] appointed in the year under review), involvement of the Gauteng Provincial Treasury and implementation of routine basic internal controls to respond to changes in the ordinary course of business resulted in the improvement.

The overall sustained clean audit outcomes were due to the political and administrative leadership's continued commitment to achieving clean administration, complemented by the oversight role played by various assurance providers and oversight structures. The Gauteng Provincial Treasury's active initiatives to support auditees on the quality of their financial statements, compliance with legislation and budgetary disciplines, also contributed to the sustained clean audit outcomes and improvements in the province.

Best practices

The following are the main drivers of the sustained clean audit outcomes and improvements in audit outcomes. These should be maintained to sustain the good audit outcomes.

- The premier's direct and firm tone and commitment from the previous year to improve financial management and governance in the province. This was supported by the accounting officers or CEOs that continued with their efforts and responsiveness towards implementing, and delivering on, their commitments to institutionalise an effective and responsive control environment.
- Stabilising key senior positions with competent officials that supported the decisive and timely oversight set by the administrative leadership.
- Robust and proactive audit committees holding the administrative leadership and senior management accountable on matters regarding the implementation and monitoring of action plans to address recurring findings and commitments made.

Unchanged and regressed audit outcomes

Although the provincial government was able to sustain the good overall audit outcomes, it is of concern that financially unqualified audit opinions with findings of nine auditees (26%) and a qualified audit opinion of one auditee remained unchanged. The accounting officers and senior management of these auditees did not implement timely and decisive corrective actions that ensured that adequate

controls were in place for reliable performance reporting and compliance with key legislation to address gaps reported in the previous year.

One department (Sports, Arts, Culture and Recreation) and two entities (Gauteng Funding Agency and Gauteng Growth and Development Agency) regressed from a clean audit outcome to a financially unqualified audit opinion with findings. This was mainly due to a lack of understanding of SCM principles, vacancies and lack of discipline to continue institutionalising basic controls and best practices. The administrative leadership and senior management of the two entities did not implement a sustainable and stable internal control environment that was mature and responsive enough to prevent and detect internal control breaches timely. Additionally, the administrative leadership and senior management of the department that regressed did not ask for guidance from the Gauteng Provincial Treasury to ensure compliance with procurement processes.

It is concerning that g-Fleet regressed from an adverse audit opinion to a disclaimed audit opinion with findings in the year under review. The CEO did not oversee the implementation of corrective actions to ensure quality financial and performance information, and compliance with key legislation. Furthermore, the CEO did not set a tone of zero tolerance to non-performance and did not deal with previous year's non-performance and disregard of duties by senior officials. The CFO did not apply basic financial disciplines to prepare accurate and reliable financial statements. The entity regressed despite the fact that consultants were appointed to assist with preparing financial information and despite the support from the provincial treasury.

At the audit report handover function held on 7 August 2015, the premier stated that there must be firm leadership from the political leadership and consequences for poor performance on the part of accounting officers. The premier further committed to meet with all the MECs, HoDs and CEOs whose departments and entities did not obtain clean audit outcomes as they have to account for the undesirable audit outcomes and present a sound roadmap for 2015-16.

Areas of improvement

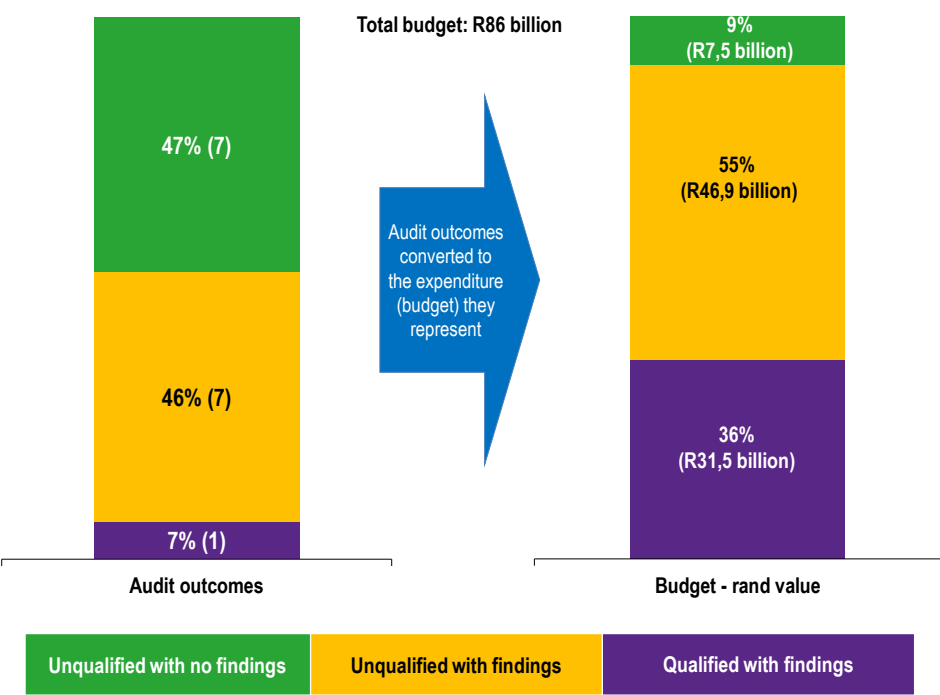
In addition to maintaining the best practices, to improve and sustain the positive trend, we recommend the following:

- Decisive and timely oversight interventions by the political and administrative leadership, setting a tone that ensures a transparent process of holding employees accountable for poor performance and non-adherence to key policies and procedures.
- Implement solid and effective operational procedures and an effective IT environment to produce reliable financial and performance reporting, and ensure compliance with key legislation.
- Honouring commitments, including the regular preparation and adequate review of in-year financial and performance reports. In addition, there should

be alignment and coordination between financial processes and the core business units' processes to support the credibility of these reports.

- Internal audit units must review the preparation process of financial and performance reports to assist with the credibility of these reports that are used by oversight functions such as the audit committees, public accounts and portfolio committees. In addition, internal audit and risk assessment units must integrate and coordinate their functions to ensure that internal audit plans are informed by a credible risk management process.

Figure 2: Audit outcomes per budgeted expenditure (departments only)



The total budgeted expenditure of the province was R86 billion in 2014-15. The following were the main areas of expenditure:

- Employee cost R47,7 billion
- Goods and services R17,3 billion
- Transfer and subsidy payments R16,3 billion
- Capital expenditure R4,7 billion

Figure 2 reflects the budgeted expenditure administered by the departments in the different categories of audit outcomes.

A total of R7,6 billion (9%) was overseen by auditees that were able to produce financially reliable and credible financial reports, and comply with key legislation. However, it is of concern that R78,4 billion of the budget (91%) was managed by auditees that received financially unqualified opinions with findings or that received qualified opinions. It is important that these auditees tighten their internal control environment and achieve clean audit outcomes so that they can ensure credible financial and performance reporting. It is worth emphasising that achievement of clean audits and good governance by all departments will be of much greater benefit to the province and its citizens as the departments are responsible for a large portion of the province's budget and key service delivery programmes.

Conclusion

Overall, the political leadership continued to implement action plans to address recurring audit findings, improve financial management capacity and practices, take corrective action against poor performance, and showed a strong political will to build a culture of accountability and excellence. The regular interactions between the executive council, audit committee chairpersons and our office must continue to address issues of mutual concern regarding sound financial, performance and resource management, as well as governance and controls.

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. Financial management

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 opinions

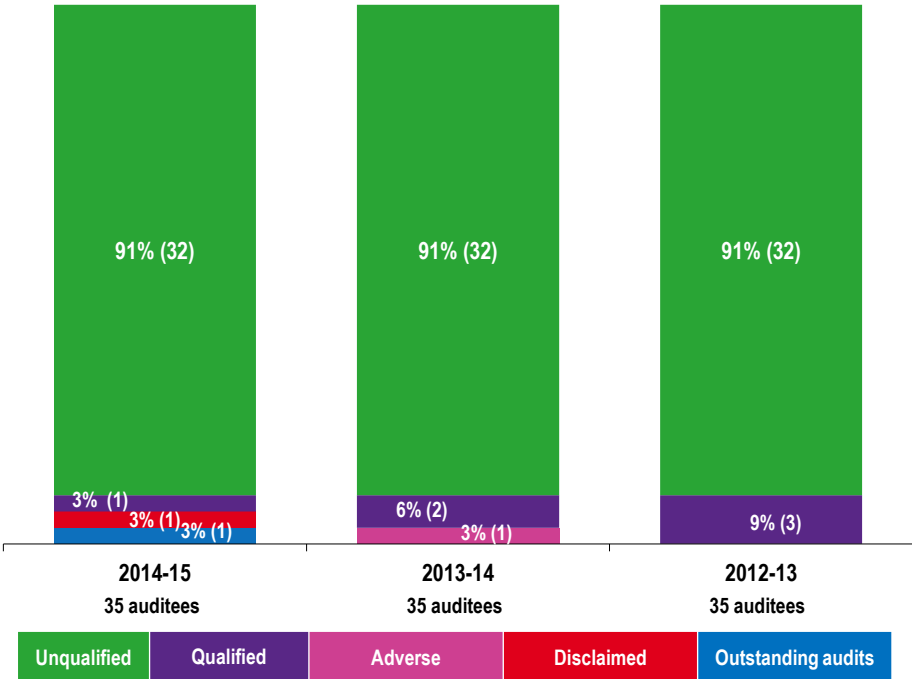


Figure 3 shows that the audit opinions on financial statements remained unchanged when compared to the previous years.

Continuing the good trend from the previous year, 14 departments and 18 entities received unqualified audit opinions on financial statements in the current financial year. The Department of Health and g-Fleet are the only exceptions with a qualified opinion and disclaimed opinion, respectively. The qualified and disclaimed opinions require the CFOs to be more disciplined throughout the financial year when preparing regular and accurate financial statements.

In 2014-15, the budgeted expenditure of the departments of Education, Health, Roads and Transport and Human Settlements made up 87% of the total in the province. These departments are the key drivers of service delivery in the province and it is critical that they lead the way regarding service delivery, supported by a strong financial control environment.

We are encouraged to see the qualified audit opinions reduced from two (6%) to one (3%) in the year under review as the Department of Human Settlements moved from a qualified audit opinion to a financially unqualified audit opinion on its financial statements. In the previous year the department received a qualified opinion on the completeness of its commitments and irregular expenditure. The MEC, following through on his commitments to fill and stabilise the key positions at accounting officer and CFO levels, laid the foundation for the department to

progress to an unqualified audit opinion. It is however not desirable that the Department of Health, as one of the key basic service delivery departments, retained a qualified audit opinion on its departmental revenue.

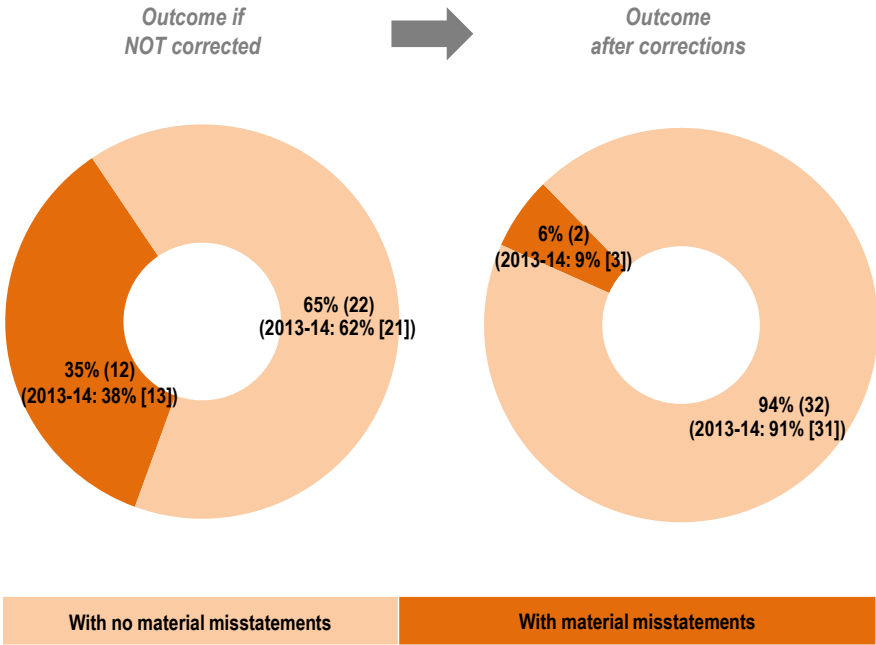
Similar to the previous year, the departments of Education and Roads and Transport received a financially unqualified audit opinion with findings. While the Department of Transport avoided material adjustments to its financial statements in the year under review, the Department of Education once again had material misstatements in its financial statements.

Regrettably, g-Fleet regressed from an adverse audit opinion to a disclaimed audit opinion in the year under review.

The qualification areas are discussed in detail in the sections that follow.

2.1.1 The quality of the financial statements submitted for auditing

Figure 4: Quality of financial statements submitted for auditing



While all auditees, except the Gauteng Enterprise Propeller, submitted their financial statements for auditing on time, figure 4 shows that only 22 auditees (65%) submitted financial statements that did not contain material misstatements. Of the 22 auditees, nine were departments and 13 were entities.

The quality of financial statements submitted for auditing remained the same as the previous year. This means the good financial discipline to prepare regular and accurate financial statements throughout the year was not intensified at all auditees.

However, it is commendable that the departments of Agriculture and Rural Development, Economic Development, Finance and Roads and Transport improved their financial reporting controls and submitted financial statements that contained no material misstatements. The improvement was due to these departments capacitating and stabilising their financial departments with competent and qualified staff. This resulted in an improved discipline of regular, accurate and complete reporting of financial information.

Figure 4 also shows that 10 auditees (29%) received a financially unqualified audit opinion only because they corrected all the misstatements we identified during the audit. This resulted in 32 auditees (94%) receiving a financially unqualified audit opinion. Only 22 (65%) of the auditees would have received an unqualified audit opinion if we had not identified 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. Furthermore, it places undue pressure on legislated deadlines, increases auditee inefficiencies and diminishes the value that can be achieved through the auditing process.

Five departments engaged consultants to assist them with preparing financial information in the year under review. Of these auditees, three submitted quality financial statements for auditing and the other two still had material misstatements, although not related to the areas where the consultants assisted. Refer to section 4.2 of this report for further analysis on the use of consultants.

The most common areas that auditees corrected to achieve unqualified audit opinions were:

- disclosures relating contingent liabilities and commitments
- disclosures relating accruals
- irregular expenditure relating to SCM (SCM non-compliance).

Although regular financial information was prepared, a reason for the corrections includes the lack of basic financial disciplines to ensure that these regular financial reports are accurately supported by reconciliations of key accounts. Another contributing factor was the instability at the level of accounting officer (four vacancies) and CFO (three vacancies), which negatively impacted on the continuity of a good financial control environment. Employees acting in positions usually had to perform the new acting responsibilities as well as their previous responsibilities, which led to the employees not being fully effective in the functions and powers of the acting position. In such instances the Gauteng Provincial Treasury should provide those auditees with sufficient and proactive technical and

financial reporting support to ensure that quality financial statements are compiled throughout the year.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material compliance finding, as it also constitutes non-compliance with the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) (refer to section 2.2 for a detailed discussion on auditees' compliance with key legislation).

The finding is only reported if the financial statements we received for auditing included material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report 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. The Gauteng Growth and Development Agency could have received a clean audit outcome if it had not been for this particular compliance finding.

2.1.2 Financial statement areas qualified

Even though we reported the material misstatements to management for correction, two auditees (2013-14: three) namely, the Department of Health and g-Fleet could not make the necessary corrections to the financial statements or provide sufficient appropriate audit evidence to support the figures presented in the financial statements, which resulted in the qualified audit opinion and a disclaimed opinion respectively.

Department of Health

The Department of Health again received a qualified opinion on accrued departmental revenue (receivables) due to material weaknesses identified in the receivable management system, inadequate record keeping and an ineffective computerised information system. Therefore, we were unable to confirm if the accrued departmental revenue amount was complete, valid and accurate. This is one of the revenue sources the department generates within its mandate to sustain service delivery and quality public healthcare.

The department significantly improved the manual controls over recording and capturing voluminous patient fees (during system down time periods) and amounts still due to the department. Although the manual controls improved, controls were not adequate to confirm the accuracy and quality of the captured information and thus resulted in duplicate and inaccurate data identified during the audit. Taking into account both manual and system controls, accrued departmental revenue was not properly reconciled and supported by appropriate evidence to identify long outstanding and invalid amounts.

While the information system is being upgraded as committed by the MEC for Health during her 2015-16 budget vote speech, the department must focus on first ensuring the integrity of data. Due to the volume of data and reliance on accurate system data, it is critical that formal controls over IT systems are implemented to

ensure the reliability of the patient fee receivable data and the accuracy of the reports generated.

Conclusion – Health

We remain positive about the premier's commitment to continue working closely with the Department of Health to ensure that revenue generated by health facilities, including patient fees, is properly accounted for. It is important to maintain stability in key positions to ensure that momentum in addressing the qualification is not lost.

We recommend that during the upgrading of the debt management system, stringent controls over data migration are implemented to ensure the integrity and continuity of data and financial reporting.

g-Fleet Management Trading Entity

g-Fleet regressed from an adverse audit opinion in the previous year to a disclaimed audit opinion with qualifications on revenue; receivables; expenditure; property, plant and equipment; and other disclosures. These are the main drivers of the entity as it is responsible for managing fleet vehicles by providing fleet services to other provincial auditees and using the revenue generated to service and maintain these vehicles.

The regression was due to the slow response and total lack of due care and urgency by the CEO and CFO to ensure that internal and external audit findings are addressed. In addition, the CEO did not take accountability and did not ensure that appropriate financial competencies and skills were applied to prepare accurate financial reports that are supported by reliable evidence. This included the late appointment of consultants to assist with the significant deficiencies in internal control as highlighted during the previous audit. This was despite the fact that the political leadership (premier, MECs for Transport and Finance) and the Gauteng Provincial Treasury had committed the resources to this entity as early as October 2014 to appoint consultant. The consultants only started their work after the financial year-end, in April 2015.

The material misstatements were across the majority of the line items in the financial statements and the entity could not provide sufficient and appropriate audit evidence due to the status of its accounting records and an inadequate system to record transactions. We could therefore not confirm that the amounts in the financial statements were correct.

Conclusion – g-Fleet

Based on the current status of affairs, it is clear that g-Fleet will not be able to return to a financially unqualified audit opinion without some drastic intervention. This includes the following:

- The MEC and HoD for Transport should hold the CEO and CFO accountable and implement consequences for the poor audit outcomes.

- Drastic intervention by the political leadership, with the support of the Gauteng Provincial Treasury, to close the gap in the required competencies and discipline to produce credible financial reports by management. This includes competencies and skills for maintenance and supervision of information systems used to record revenue and receivables data.
- The audit committee should ensure that the internal audit unit is allocated sufficient time to attend to g-Fleet issues, which will enable the committee to have robust discussions and timely interventions.

2.1.3 Best practices and recommendations – financial statements

Best practices

Twenty-two auditees (65%) prepared financial statements that were free from material amendments. This was mainly because they institutionalised a sustainable internal control environment that supports reliable financial reporting as overseen by the administrative leadership and enforced by senior management. In addition, the following best practices were sustained and/or applied:

- Accounting officers or authorities delivered on their commitment to provide stability at senior management level within finance units and insisted on regular monitoring to keep officials accountable for regular and accurate financial statements.
- Provincial treasury's active support to auditees, including high-level reviews of financial statements prior to submission to audit committees and for auditing.
- Audit committees held management accountable for implementing their action plans to address previous year findings, through robust interactions and demanding accurate financial reports.

Areas of improvement

Auditees that received qualified and disclaimed 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. We recommend that in addition to applying the best practices, they implement the following recommendations to attain unqualified audit opinions:

- Accounting officers or authorities should improve and elevate the status of IT systems and controls at the auditees to ensure that IT is effectively used as an enabler for credible financial reporting.
- CFOs should be proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance. In turn, accounting officers or authorities must demand, and hold CFOs accountable for, credible and reliable in-year financial reporting.

- Audit committees should continue to request monthly and ad-hoc update meetings from those auditees that need drastic improvement, i.e. g-Fleet, Health and Human Settlements.

Conclusion

With the increased assurance provided by executive authorities and audit committees, and the continued support of the provincial treasury, it is evident that a continued collaborative effort by all key role players is required to sustain and improve these financially unqualified audit outcomes.

The premier committed that the MEC and HoD for Transport and the g-Fleet CEO would appear before him and that the MEC must take a decisive direction about the leadership of g-Fleet. The MEC for Finance committed that the Gauteng Provincial Treasury would conduct extensive reviews of monthly, quarterly and annual financial statements, and provide targeted financial reporting training to departments and entities as part of a broader intervention to eliminate material amendments to the annual financial statements going forward.

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, SCM) ■ HR management and compensation.

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

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

Figure 5: Three-year trend – compliance with key legislation

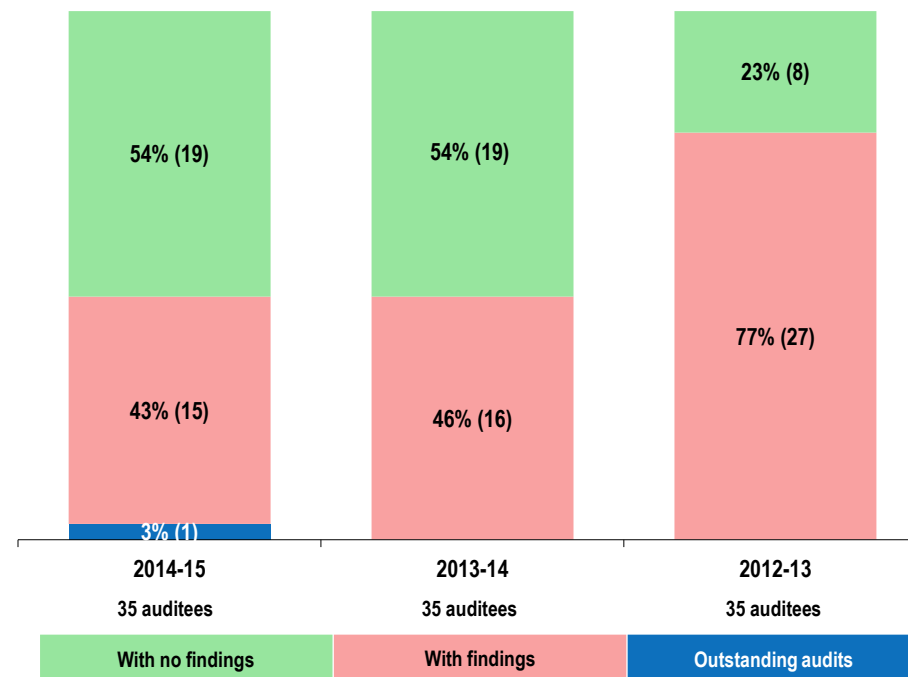


Figure 5 shows that there were 19 auditees (54%) (2013-14: 19 [54%]) that had no material findings on compliance with key legislation in the year under review. Although the province was able to sustain the number of auditees that complied with key legislation, it is of concern that there was no overall improvement with 15 auditees (43%) that still had findings on compliance with key legislation, which hampered their ability to obtain clean audit outcomes.

Vacancies in key positions, including heads of the SCM unit (seven vacancies), remained a root cause of the continuous findings on compliance with legislation. Furthermore, instability at the accounting officer level for some auditees resulted in a slow response by senior management to address compliance findings. This was because of the lack of accountability, decisiveness and timely implementation of actions plans to support strong ethical procurement disciplines.

Key service delivery departments

The key service delivery departments of Education, Health, and Human Settlements all had compliance findings on:

- material misstatements in submitted financial statements
- expenditure management
- irregular and fruitless and wasteful expenditure
- procurement management.

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

The Department of Roads and Transport also had new and repeat findings on:

- irregular and fruitless and wasteful expenditure
- procurement management
- transfers and conditional grants.

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

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

Figure 6: Most common areas of non-compliance with key legislation

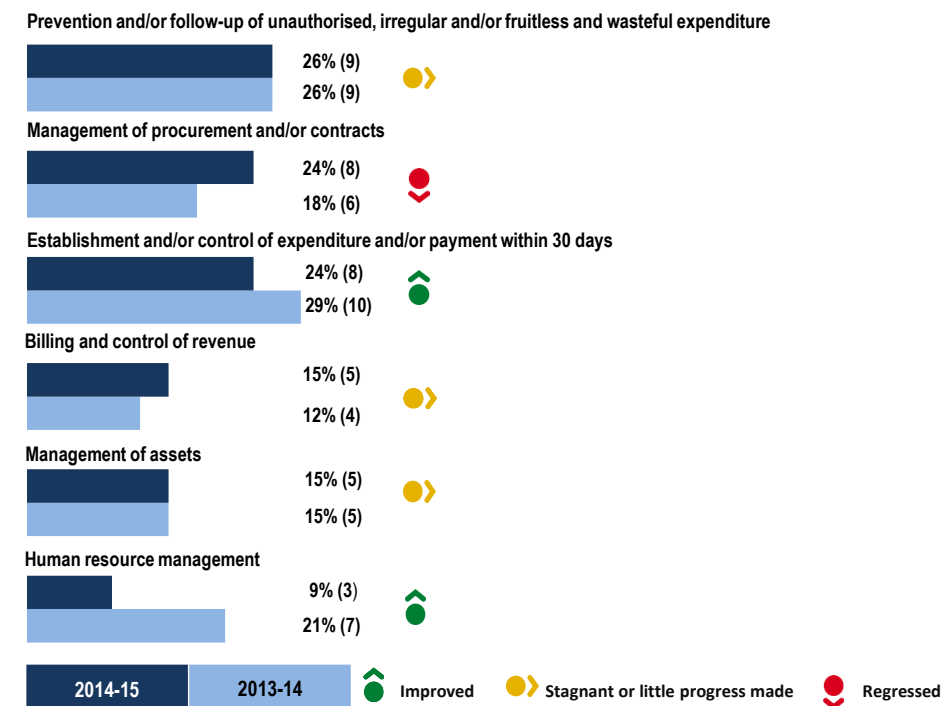


Figure 6 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. Findings on material misstatements or limitations in the financial statements submitted for auditing have been discussed in section 2.1 above and are not included here.

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

- Irregular and fruitless and wasteful expenditure was not prevented and/or detected (refer to section 2.2.2 and 2.2.3 for more detail).
- SCM legislation and prescripts were not complied with (refer to section 2.2.2 for more detail).
- Expenditure management relating to the settling of creditors within 30 days or agreed time frames on receipt of invoice.
- Proper asset management control systems were not implemented for safeguarding and maintenance of assets.
- Appropriate processes for identification, collection, recording, reconciliation and safeguarding of information about revenue were not in place, and effective and appropriate steps were not taken to collect all money due.

The above material compliance findings might lead to potential financial losses for auditees. It is the legislated responsibility of the accounting officer and those charged with governance to investigate all irregularities and take appropriate action. Other non-compliance areas, for example on human resource management, may not necessarily result in direct financial losses but have a negative impact on the ability of auditees to deliver services and produce accurate financial and performance reporting.

Overall, there was no progress in the compliance areas although there were improvements, as there were regressions in some of these individual compliance areas.

It is however encouraging to see some auditees enhancing their in-year monitoring of compliance relating to expenditure management and human resource management. This resulted in an improvement of the quality of human resource plans and payment of creditors within 30 days.

The regression in the area of material compliance with procurement and contract management and the inability to improve the other compliance areas remained a concern. This was due to the administrative leadership not monitoring compliance throughout the year and enforcing proper governance and accountability practices.

Conclusion – compliance

With the provincial government's developments on transformation, modernisation and re-industrialisation of the Gauteng City Region, supporting its ten-pillar plan, there will be a lot of new initiatives that will need to meet the requirements of legislation. This will require proper risk assessments, key competencies and skills,

and making use of specialised departments, for example the Department of Infrastructure Development.

Sections 2.2.2 to 2.2.4 provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices in section 2.2.5.

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

Supply chain management

As part of our audits of SCM, we tested 494 contracts (with an approximate value of R10 billion) and 1 357 quotations (with an approximate value of R150 million), also referred to as *awards* in this report.

We tested whether the prescribed procurement processes had been followed, which would have ensured that all suppliers were given equal opportunity to compete and that goods and services were procured in a transparent, equitable and effective manner. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

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

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

Figure 7: Status of supply chain management

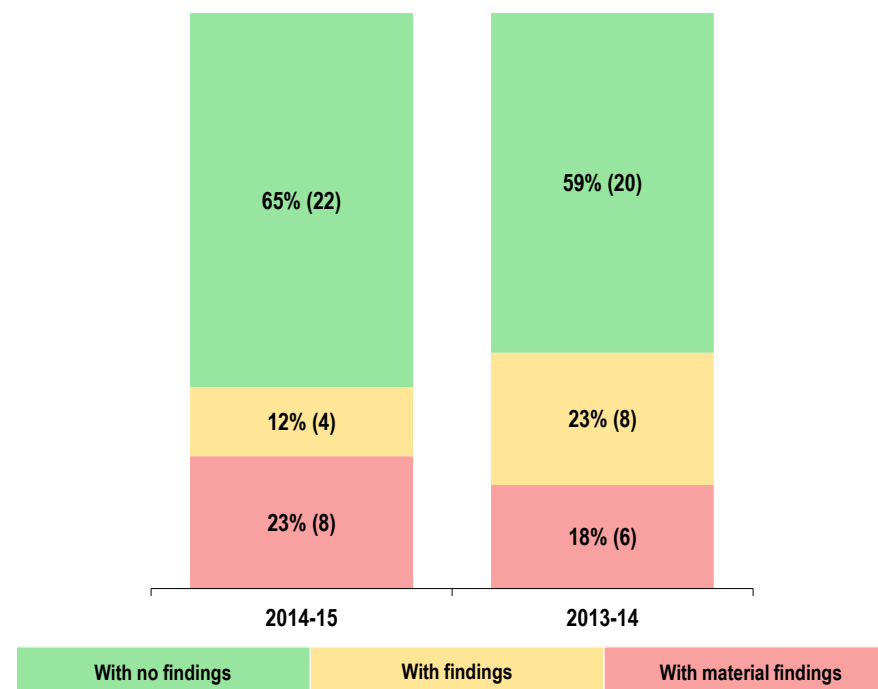


Figure 7 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous years. There has been an improvement in this area, with 22 auditees (65%) with no findings in the year under review, compared to 20 auditees (59%) in the previous year.

The reduction in the SCM findings and sustaining the achievements of the previous years were due to the political leadership's focus on transparency and accountability regarding procurement and contract management. This was supported by accounting officers or authorities strengthening oversight and consequence management.

Although there has been improvement over the last three years, the 12 auditees (35%) that did not resolve SCM findings remained a concern, especially the increase in auditees with material findings. These findings resulted from the slow response by accounting officers or authorities and their inability to implement adequate monitoring controls on SCM processes to prevent and detect non-compliance before the conclusion of the awards. With the increased vacancy rate in SCM officials there were no relevant and technically-skilled employees to manage the procurement processes.

Figure 8: Findings on supply chain management

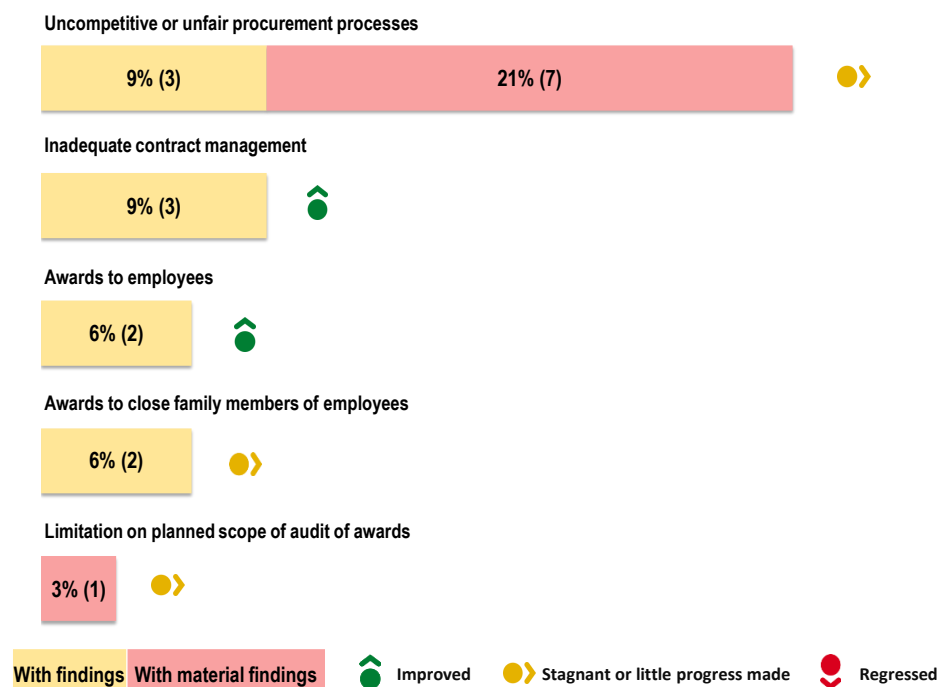


Figure 8 indicates the extent of findings in the key areas we report on and the movement since the previous year. The following were the most common findings:

- Findings on uncompetitive and unfair procurement process remained the most common in the province, with one more auditee that received a material finding in the year under review. At 10 auditees (30%) uncompetitive and unfair procurement processes were followed, mainly due to auditees not inviting competitive bids and not obtaining three written quotations when required. The resulting deviations were either not approved or not justifiable in terms of the PFMA.
- Auditees improved their contract management processes, with only three auditees in the year under review that had findings in this area, compared to six in the previous year. The most common finding related to auditees extending or amending contracts without approval by the delegated official.
- There was a decrease in the number of auditees with awards to suppliers in which employees of the auditees, and stagnation where close family members of employees of the auditees, had an interest. Although there was an improvement, it is of concern that there were still auditees that did not have basic controls to prevent these findings:
 - Awards with an overall value of R5 million were made to suppliers in which employees of the auditees had a financial interest at two auditees (6%).

The suppliers did not declare their interest at both auditees while the employees did not get approval to perform additional remunerative work at one auditee. Although none of the employees with a conflict of interest was at a senior management level, the number of instances and rand values remained a concern.

- Two auditees (6%) made awards of R20,6 million to suppliers in which close family members of employees of the auditees had an interest. The supplier did not declare the interest at both auditees. Although none of the employees with a conflict of interest was at a senior management level, the number of instances and rand values remained a concern.
- We again experienced limitations in auditing SCM in the year under review. At one auditee (g-Fleet) we could not audit the award of R5,6 million for procurement compliance as they could not provide audit evidence. The audit scope limitation where senior management fails to submit documents for audit highly increases the risk of:
 - opportunities for fraudulent activities where internal controls are weak
 - lack of accountability in how public resources are managed and applied
 - goods and services being procured at higher rates or prices than the value received by auditees.

It will be critical for the province to honour and implement their commitments and actions plans to address SCM non-compliance as a matter of urgency. To achieve the premier's desire of transparency and accountability regarding procurement and contract management, the accounting officers or authorities should produce detailed transparent reports on the status of SCM non-compliance matters as this will enable the executive authority and audit committee to provide effective and timely oversight, and intervene where necessary.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, however, the risk is high where management deliberately overrides procurement processes and does not avail procurement documents for auditing. This may compromise the objective of legislation of ensuring that procurement processes are competitive and fair. It is also an indicator of a significant breakdown in controls at some auditees.

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

Figure 9: Trend in irregular expenditure

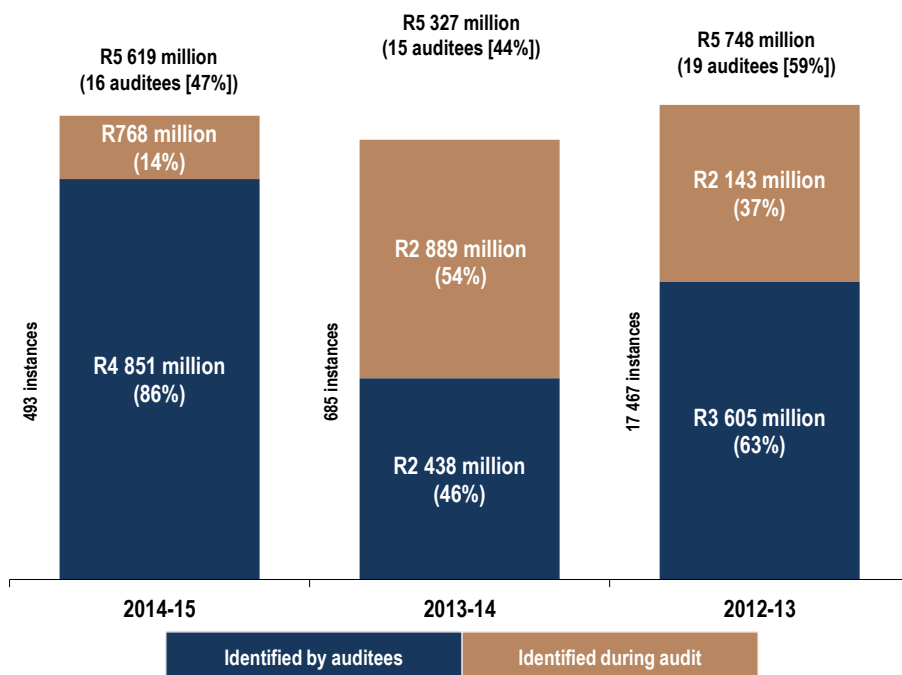


Figure 9 indicates that the irregular expenditure incurred has remained stagnant over the last three years, increasing from R5,327 billion in 2013-14 to R5,619 billion in the 2014-15 financial year. The number of auditees that incurred irregular expenditure remained the same as the previous years, while there is a continued decrease in the number of instances of irregular expenditure transactions.

It is commendable that some auditees improved their systems to detect and record irregular expenditure as 86% of the irregular expenditure was identified by the auditees compared to 46% identified by them in the previous year.

Of the R5,619 billion incurred in the year under review, 99% relates to non-compliance with SCM legislation. For the main areas of SCM non-compliance, refer to section 2.2.2. The R5,619 billion incurred in the year under review constitutes an estimated 6,5% of the total expenditure budget in the province. 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 – R5,385 billion (96%).
- Non-compliance with procurement process requirements – R217 million (3,9%).

- Non-compliance with legislation on contract management – R7 million (0,1%).

Through our normal audits we determined that goods and services were received for 100% of the irregular expenditure despite the normal processes governing procurement not being followed. However, we could not confirm that these goods and services had been procured at the best price and that the same value was received for the money spent.

The following departments contributed R5,117 billion (91%) of the total irregular expenditure incurred:

- Department of Roads and Transport (R1,943 billion).
- Department of Human Settlements (R1,928 billion).
- Department of Education (R1,246 billion).

For the Department of Transport, R1,9 billion relates to legacy matters on the extension of bus subsidy contracts, devolved from the National Department of Transport, including bus monitoring firms. The Department of Human Settlements addressed its previous year's qualification on the completeness of irregular expenditure and implemented detection controls, resulting in an increase in irregular expenditure identified by the auditee in the year under review. Additionally, a substantial amount of money meant for building new houses was instead spent on fixing asbestos roofs damaged by hailstorms and not in accordance with SCM legislation. The majority of the irregular expenditure at the Department of Education related to the extension of contracts without following proper SCM processes.

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

At 31 March 2015 the auditees' financial statements showed that the balance of irregular expenditure in the province that required action to be taken was R11,754 billion. Eight out of the 15 auditees disclosed in their financial statements that they still had to investigate all documents to determine the full extent of their irregular expenditure. It is of concern that in 2014-15 only R6,039 billion (50%) was dealt with, as required by legislation, leaving a balance of R6,135 billion (50%) from the opening balance at the end of the 2014-15 financial year.

Accounting officers or authorities, with the support of the provincial treasury, must continue to investigate any allegations against officials failing to comply with SCM legislation. We did not investigate any irregular expenditure, as that is the role of the accounting officer and oversight structures.

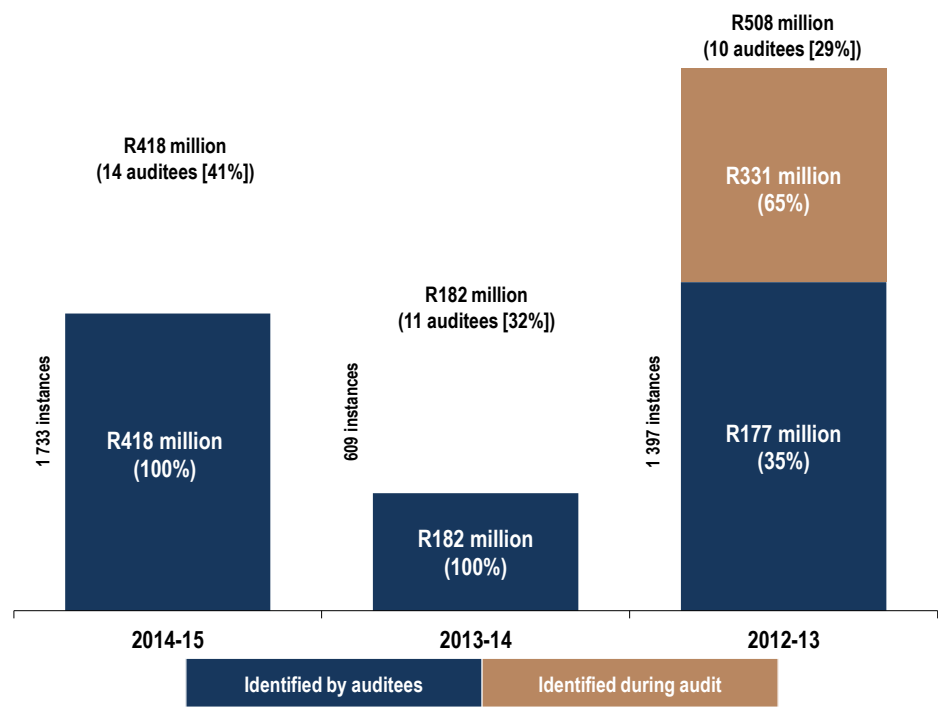
The premier committed that the MEC for Finance, in terms of the PFMA, would conduct urgent investigations with the aim of taking disciplinary against those officials whose actions resulted in irregular expenditure. We will monitor the implementation of consequence management as it is expected to curb instances of non-compliance and resultant irregular expenditure in the future.

2.2.3 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that could 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 to detect fruitless and wasteful expenditure and, if incurred, must disclose the amounts in the financial statements. Fruitless and wasteful expenditure must be reported when it is identified – even if the expenditure was from a previous financial year.

Figure 10: Trend in fruitless and wasteful expenditure



The fruitless and wasteful expenditure incurred over the last three years has been fluctuating from a high of R508 million in 2012-13 to the lowest amount of R182 million in 2013-14. Although auditees improved their controls to identify and record fruitless and wasteful expenditure, as auditees identified all the current and previous years' fruitless and wasteful expenditure, it increased drastically to R418 million in the year under review.

Of the R418 million, the departments of Roads and Transport (R251 million) and Health (R160 million) contributed to R411 million (98%). The main reasons for the increase in the year under review were litigation processes and court settlements at the Department of Roads and Transport to the amount of R250 million (99,9% of R251 million). Of the R160 million incurred by the Department of Health, R157 million (98%) was as a result of settlement of medical law suits.

Interest for late payments to creditors, penalties to legal authorities, business inefficiencies and expenditure incurred for goods not used before expiry date contributed R9 million (2%) of the fruitless and wasteful expenditure at various auditees.

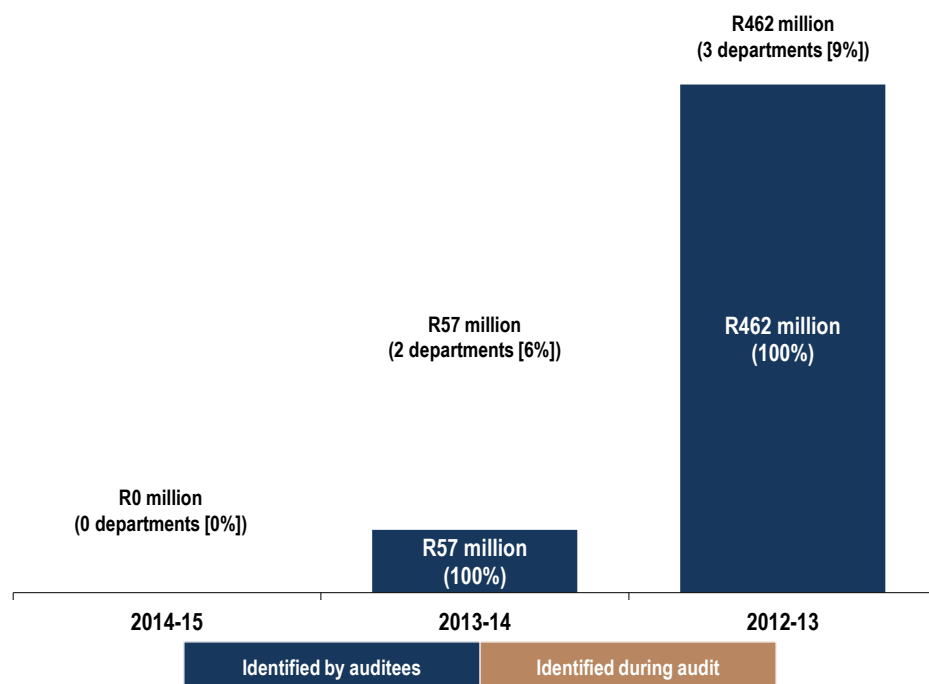
There is an increased risk of litigations and claims if the province does not improve business processes to reduce the likelihood of further medical and other law suits. This will deplete funding for key service delivery and poses a huge threat to the sustainability and financial health of auditees, including quality public healthcare services and budget of the provincial government shrinking to fund this shortfall.

The political and administrative leadership should ensure that fruitless and wasteful expenditure is properly investigated and recovered from officials where negligence is proven.

2.2.4 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 to identify any unauthorised expenditure incurred and must disclose these amounts in the financial statements. The PFMA also includes the steps that accounting officers and oversight structures 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. In terms of the PFMA unauthorised expenditure is only applicable to departments.

Figure 11: Trend in unauthorised expenditure



In the year under review the province did not incur any unauthorised expenditure, which is a remarkable improvement. There has been a steady decrease in unauthorised expenditure over the last three years from R462 million in 2012-13 to zero in the year under review. The province implemented controls as routine activities, which resulted in this improvement. These controls were over the basic monthly budget reviews, monitoring and spending resources on allocated programmes. Although there was no increase in auditees that received findings on payables that exceed the payment term of 30 days, the province must ensure that this is not manipulated to avoid what would have constituted unauthorised expenditure.

It is encouraging to note that the leadership's commitment to eradicate unauthorised expenditure in the province was realised, and similar disciplines can be duplicated in the areas of irregular and fruitless and wasteful expenditure.

2.2.5 Best practices and recommendations – compliance

Best practices

Auditees that were able to improve, continued to avoid material findings on compliance with legislation and reduced unauthorised, irregular as well as fruitless and wasteful expenditure by doing the following:

- Accounting officers or authorities set the right tone for strong ethical procurement disciplines with zero tolerance for non-compliance. They enhanced compliance capacity and developed a framework for compliance monitoring and reporting.
- The premier's commitment that there must be firm leadership from MECs and consequences for poor performance on the part of accounting officers instilled a high performance culture, ethical conduct and sound financial management in government.
- Senior management, overseen by the accounting officer and Gauteng Provincial Treasury, continued to focus on cash-flow management processes and budgetary controls to sustain the zero unauthorised expenditure and to reduce fruitless and wasteful expenditure.
- Implemented and maintained mechanisms, such as compliance register, to record and track the status of invoices and followed up regularly to ensure that creditors were paid within agreed time frames or suppliers were engaged where appropriate.
- The open tender system was piloted at the Department of Roads and Transport and provincial treasury, as committed by the premier in the previous year. We recommend that lessons learned and any best practices identified be shared with all auditees in the province.

Areas of improvement

The auditees that received findings on compliance with key legislation should implement the improvement areas in addition to those mentioned in the preceding sections to strengthen their processes and controls:

- Accounting officers or authorities should continue to intensify investigations with decisive and timely consequence management processes in terms of the PFMA.
- Senior management should promote compliance risk assessments and implement compliance registers to enhance in-year monitoring by the administrative leadership and audit committees.
- Accounting officers or authorities should fill vacancies at SCM units with competent and suitably skilled officials that are held accountable for their performance.

- The internal audit unit, with the support of the risk officer, should be involved in the evaluation of key stages in the procurement processes of high value contracts to ensure early identification and correction of potential compliance breaches in SCM activities.

Conclusion

Compliance with legislation remained an obstacle in the province. Those charged with governance should direct more efforts and resources to ensure improvements in this key area of reporting. Legislation exists to prevent potential abuse of state resources and to support effective service delivery. While government departments and entities execute their respective mandates, it is important that this is done within the ambit of the law.

In the previous year we received commitments from the different role players to address SCM findings. There has been a slower than expected response by the leadership to these commitments. As discussed in this section, the speed and effectiveness with which the leadership addresses the root causes will determine how quickly the province will be able to achieve its objective of 100% clean audit outcomes.

2.3 Financial health

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

Gauteng serves as the economic engine room of the country and the sub-continent. It contributes an estimated 34% of the country’s gross domestic product in terms of 2010-11 fiscal values. As it is the powerhouse of South Africa and the heart of commercial business and general government services, it is expected that the biggest spending will happen here. As stated by the MEC for Finance in her 2015-16 budget speech, challenging economic times have reduced government’s collection rate from revenue sources. This has had a negative effect on the money available at a time when there is demand for public services from an ever increasing population. It means more needs to be delivered with less money. The Gauteng population is rising faster than the national average due to interprovincial migration, and requires sensible use of the available financial resources.

The MEC for Finance committed to continue improving discipline in government spending and tighten cost containment measures on non-core items. The province already reaped some fruits of provincial treasury’s cost containment and budget monitoring initiatives, as it did not incur any unauthorised expenditure in the year under review.

Figure 12: Status of financial health

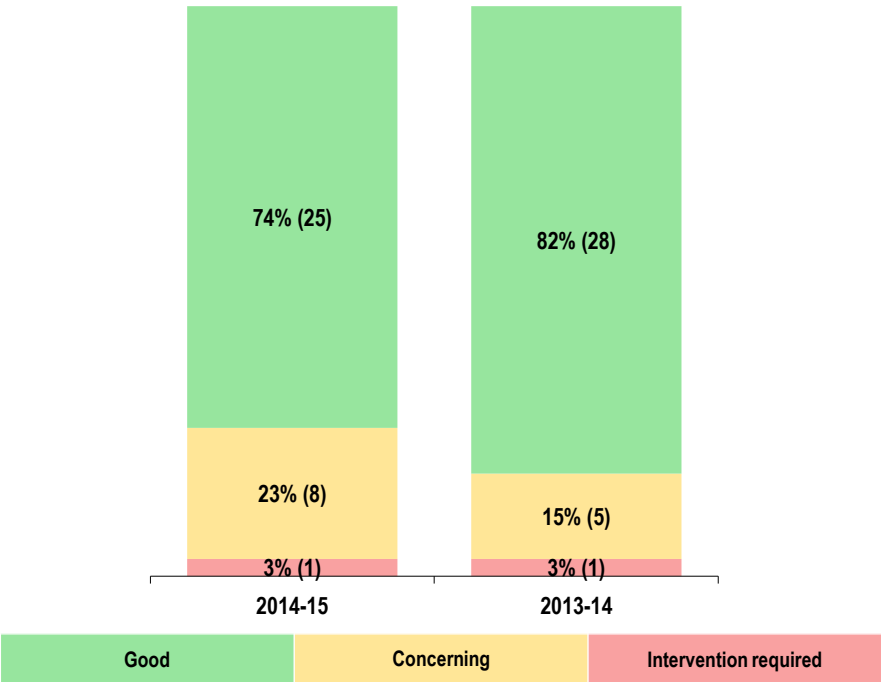
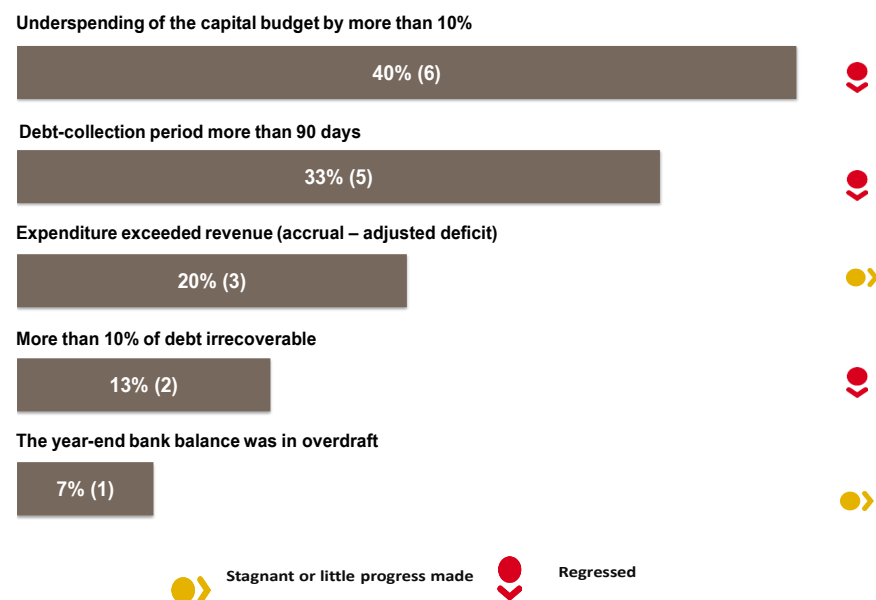


Figure 12 indicates eight auditees (22%) that had more than two of the financial risk indicators (shown as ‘concerning’) and one auditee (3%) with a disclaimed audit opinion (g-Fleet), which resulted in their financial statements not being reliable enough to analyse (shown as ‘intervention required’).

Overall, there was an increase from six auditees (18%) in the previous year to nine auditees (25%) in the year under review that had financial risk indicators. This regression was because the accounting officers or authorities did not institutionalise sustainable budget, debt and cash management controls and also did not monitor these, including departments of Community Safety and Human Settlements, as well as the Housing Fund and Liquor Board entities. Auditees were not able to adequately manage their debtors and collect monies due to them. In addition, these auditees did not have proper in-year budget monitoring controls. Consequently, budgets were underspent, fruitless and wasteful expenditure was incurred and suppliers were not settled within 30 days or the agreed period.

Figure 13: Areas of financial health concerns – departments



Figures 13 and 14 show the number of auditees with financial health risk indicators and the movement since the previous year. There was an overall increase in the number of departments and public entities that had indicators in the above areas of financial health concern in the year under review. These indicators are discussed in more detail below.

2.3.1 Financial health risks at departments

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

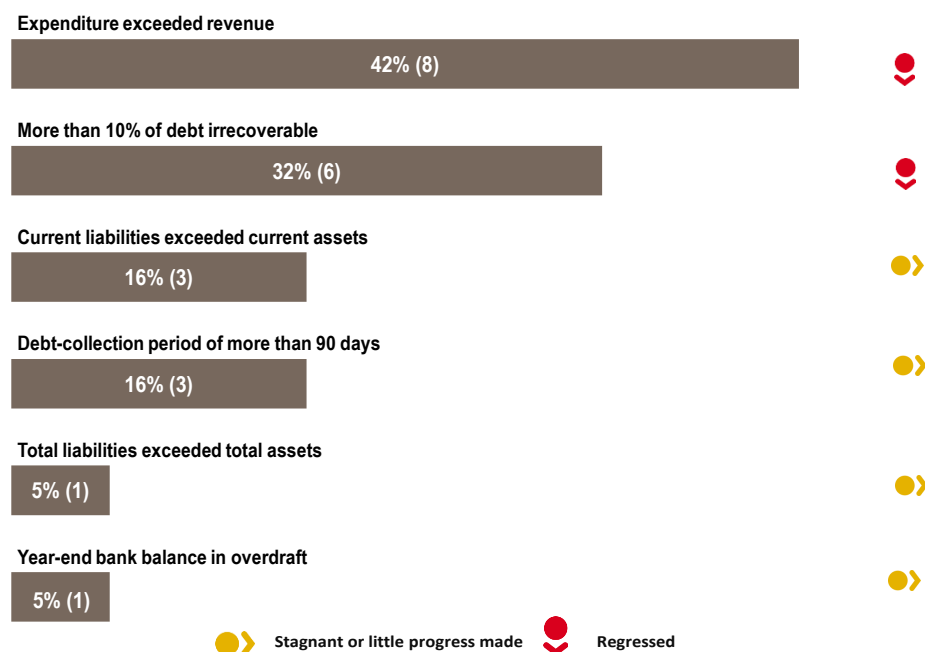
It is of concern that there has been a lapse or little progress in the adequate monitoring and oversight of the cash flow, expenditure and debt management processes at some departments. This resulted in all monies due to the province not collected, capital projects not properly managed, some suppliers not paid on time, and a cash shortfall to deliver on the current year service delivery targets.

Furthermore, at year-end, 20% of departments spent more than their revenue and resulted in an accrual-adjusted deficit. It is a reality that for certain departments (Health, Safety and Infrastructure Development) accruals remained a big challenge at year-end. This indicates that service delivery objectives for the next financial year might not be achieved. These auditees were not able to ensure that budget processes were tightened and that spending only occurred in line with a realistic assessment of the available budget. Although there was no unauthorised expenditure in the year under review and there was a decrease in auditees with findings on payables that exceed the payment term of 30 days, these three departments would have incurred unauthorised expenditure if all their accrued expenses were paid by year-end.

Departments need to guard against the increased risk of legal lawsuits facing the province. In the year under review the departments of Health and Roads and Transport together incurred R407 million of fruitless and wasteful expenditure due to litigations and legal claims. The provincial leadership should ensure that business processes are sound and improved to address the increasing contingent liabilities relating to medical law suits and defective SCM processes. The lawsuits deplete funding for key service delivery and pose a huge threat to the sustainability of departments.

The provincial treasury assisted departments with budget monitoring and the result was that unauthorised expenditure decreased to zero in 2014-15. The provincial treasury once again assisted with ring-fencing of funds to ensure that they were used for only their intended purposes.

Figure 14: Areas of financial health concerns – public entities



2.3.2 Departments underspending on capital budgets

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

At 40% (six) of the departments the budget allocated for capital projects was underspent by more than 10%, resulting in delays of some of these projects and inability to meet performance targets (also refer to section 2.4 for management of conditional grants). It is concerning that departments regressed on their management of the capital budget. Contributing factors included the increase in accruals, money not spent for intended purposes and poor project management with delays in capital projects. We encourage the leadership to ensure that there is an adequate project management process in place to deal with planning, monitoring and oversight of the capital projects and budget process.

2.3.3 Debt management

The indicator for the debt-collection period being more than 90 days for departments regressed in the year under review. The departments with this indicator included the departments of Health, Community Safety, Education, Infrastructure Development and Economic Development. Additionally, there were two departments that had more than 10% of their debt being irrecoverable.

Administering long-outstanding debt also has a negative impact on the effective use of human resources to attend to non-service delivery functions. This continued trend will have a negative impact on future cash flow for the province and the ability to deliver key services.

In the previous year we emphasised the importance to ensure improvement of debt-collection periods, and recommended that:

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

IT system controls over invoicing and payments received must be improved and monitored to act as an enabler and assist effective debt collection. The improvement in the debt-collection period will positively impact the overall cash flow of auditees. The money collected will add on the ever decreasing purse and can be further used to fund additional service delivery initiatives.

2.3.4 Financial health risks at public entities

We performed procedures to assess whether there were any events or conditions that may cast significant doubt on a public entity's ability to continue as a going concern. Based on our procedures and assessments performed there were no

significant concerns on the financial sustainability of the public entities to render services in the foreseeable future.

There was an overall regression in the public entities' financial health. This was because certain entities were unable to manage their debt-collection periods for long-outstanding debts and spending against the budgets. As a result, the expenditure of these entities exceeded their revenue and they could not pay all their creditors and liabilities due.

Entities should ensure that budgets are realistic, supported by credible assumptions and are properly monitored during the year. Key to this will be for accounting officers or authorities to ensure that controls are in place to monitor and manage the budget. Furthermore, entities should implement policies and procedures to ensure that debts are collected timely.

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

2.3.5 Conclusion

The MEC for Finance, as part of her 2015-16 budget, confirmed the province's commitment to continue cutting down on travel, catering, venues and advertising cost and tighten cost containment measures on non-core items, and also to find ways to increase own generated revenue. In addition, the province developed a provincial cost containment instruction note, with more stringent measures than the National Treasury Instruction Note 01 of 2013-14. This instruction note would be rolled out in terms of the Gauteng cost containment and reduction strategy. We will monitor the impact of the MEC for Finance's commitment to tighten cost containment to ensure funds allocated are not exceeded.

The provincial leadership should continue to monitor the implementation of revenue collection, effective budget and cash-flow management to ensure that funds are used for their intended purposes and all monies due are recovered. This will contribute to improved fiscal health and service delivery in the province.

2.4 Management of grants

2.4.1 Grants provided to provinces

Government's vision and priorities are articulated in the medium-term strategic framework, which focuses on placing the economy on a qualitatively different path that ensures more rapid, sustainable growth; higher investments; increased employment; reduced inequality; and the deracialisation of the economy.

In support of these goals, grants are provided to the province to reduce 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 medium-term strategic framework, as listed above. These grants were both of a capital and non-capital nature.

Grants totalling R17,035 billion were allocated to the province, with the majority (R16,632 billion [98%]) of the provincial grants being allocated to the following departments:

- Department of Health: R7,700 billion (45%)
- Department of Human Settlements: R4,431 billion (26%)
- Department of Roads and Transport: R2,335 billion (14%)
- Department of Education: R2,166 billion (13%)

Figure 15: Spending of total conditional grants and achievement of set targets

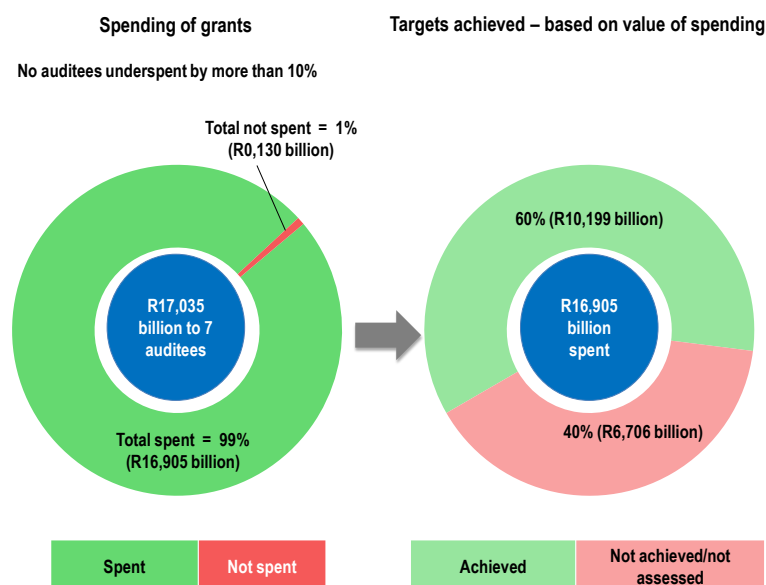


Figure 15 shows the spending of the total grants received and the relation to achievement of set targets for the projects. A total amount of R17,035 billion was allocated (including roll-over funds from previous year) to seven departments, namely Agriculture and Rural Development; Education; Health; Human Settlements; Sports, Arts, Culture and Recreation; Roads and Transport; and Infrastructure Development.

It is encouraging that of the total allocated amount, 99% (R16,905 billion) was spent with only 1% (R130 million) remaining unspent at year-end. These grants were used on various projects to deliver key services to the public in line with the mandate of the departments.

However, it is of concern that only 60% (R10,199 billion) of the targets (key milestones) relating to the selected programmes were achieved. We identified the following findings at two departments that received grant allocations that contributed to the 40% (R6,706 billion) of targets that were not achieved:

- At the Department of Human Settlements (26%: R4,4 billion) the allocation of the human settlements development grant was not spent for the intended purposes, in accordance with the applicable grant framework. The department spent a substantial amount, meant for building new houses, on fixing asbestos roofs damaged by hailstorms and other financial management needs. This resulted in planned targets and the desired impact of the projects not being achieved and also not correctly reported.
- The Department of Roads and Transport (14%: R2,3 billion) did not evaluate its performance and submit a performance report in respect of programmes or functions funded by some of the allocations, as required by the Division of Revenue Act. Key planned targets were also not achieved and reported achievements were not supported by valid, complete and correct supporting documents.

Conclusion – management of grants

It will be critical for the Gauteng government to ensure that there is increased oversight and monitoring by the portfolio committees, Gauteng Provincial Treasury and accounting officers of conditional grants received and the impact they have on service delivery. With the continuous pressure of urbanisation and migration trends, it is important that grants are used effectively for their intended purposes to support the objective of the political leadership to have a transformed, modernised and re-industrialised Gauteng City Region. This will in turn be a catalyst for sustainable growth, higher investments, increased employment, reduction in concentration of people and quality service delivery.

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. The analysis that follows excludes five auditees that did not report on predetermined objectives. The programmes and objectives for the Cost Recovery Trading Entity, Gauteng Liquor Board and the Gauteng Housing Fund are reported at a departmental level and are not included in the analysis. The Greater Newtown Development Company did not report on predetermined objectives as the entity was in the process of liquidation, while the Gauteng Film Commission was not required to report on predetermined objectives.

The national development plan envisages that by 2030 South Africa would be a state that is capable of playing a developmental and transformative role. In broad terms such a state intervenes to support and guide development in such a way that benefits accrue across society, with particular emphasis on the poor. This is done through service delivery at national, provincial and local government levels. The medium-term strategic framework serves as government's strategic plan for 2014-19. The medium-term strategic framework sets out the actions that government will take and targets to be achieved over the next five years. The strategic plan for auditees is informed by the medium-term strategic framework, the Gauteng province development plans as well as the provincial annual programme of action.

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

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner, and whether it 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 set to measure the achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

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

Figure 16: Three-year trend – quality of annual performance reports

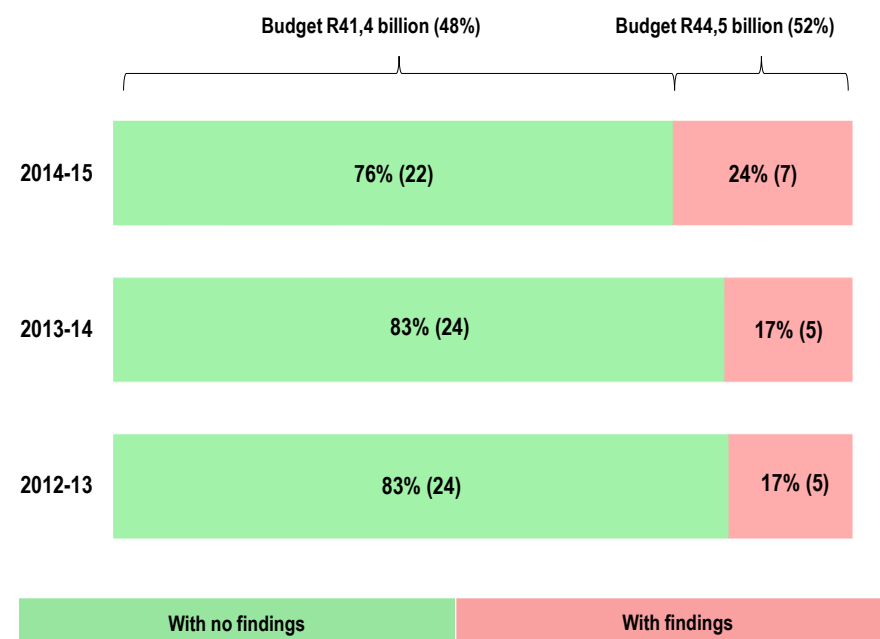


Figure 16 shows that there has been a decrease in the number of auditees with no material findings on the quality of their annual performance reports over the last three years. This negative trend is in contrast with the province's intentions and improvement of overall audit outcomes over the last three years. Auditees have become complacent and did not, as we reported in previous years, monitor and enforce policies and procedures on performance reporting on a quarterly basis with same vigour. The administrative leadership will need to be the facilitator of this turnaround strategy and keep the monitoring and evaluation staff accountable for useful and reliable performance information.

The seven auditees that had findings are made up of four departments (repeat findings) and three entities. The four departments contribute about R44,5 billion (52%) of the provincial budget, and are Health, Human Settlements, Infrastructure Development, and Roads and Transport. The three entities that had findings are the Gauteng Medical Supplies Depot (repeat findings), g-Fleet and the Gauteng Funding Agency.

Key service delivery departments

The departments of Health, Infrastructure Development, Human Settlements and Roads and Transport, and the Medical Supplies Depot received repeat findings on their annual performance reports due to slow response by management in addressing previous year findings and honouring their commitments. In addition, poor record and document management to validate reported targets and the instability or vacancies at accounting officer and senior management levels contributed to these undesired outcomes.

As reported in the previous year, the Department of Infrastructure Development did not have an adequate IT system for the collation and recording of audit evidence, while the IT system at the Department of Health lacked sufficient general controls to prevent management's override of controls. This resulted in reported performance information not being reliable.

The departments of Roads and Transport and Human Settlements had repeat findings on reliability. This was mainly due to lack of data validation procedures and review prior to submission for auditing. The Department of Roads and Transport managed to address findings on usefulness for programme 2 – transport infrastructure – that was reported in the previous year.

g-Fleet and Gauteng Funding Agency regressed from no findings in the previous year to findings on usefulness and/or reliability of reported performance information. This was due to the complacency by senior management in preparing accurate information and the lack of review of performance information prior to submission by the accounting officer. In addition, the g-Fleet's IT system was inadequate for the collation and recording of accurate audit evidence.

3.1 The quality of the annual performance reports submitted for auditing

While all auditees submitted their annual performance reports for auditing on time, figure 17 shows that 19 auditees (66%) submitted annual performance reports that did not contain material misstatements.

The quality of submitted performance reports regressed as 10 auditees (34%) submitted annual performance reports that contained material misstatements, compared to eight auditees (27%) in the previous year. This is indicative of complacency and a lapse of the diligence demonstrated in previous years.

Figure 17: Quality of submitted annual performance reports

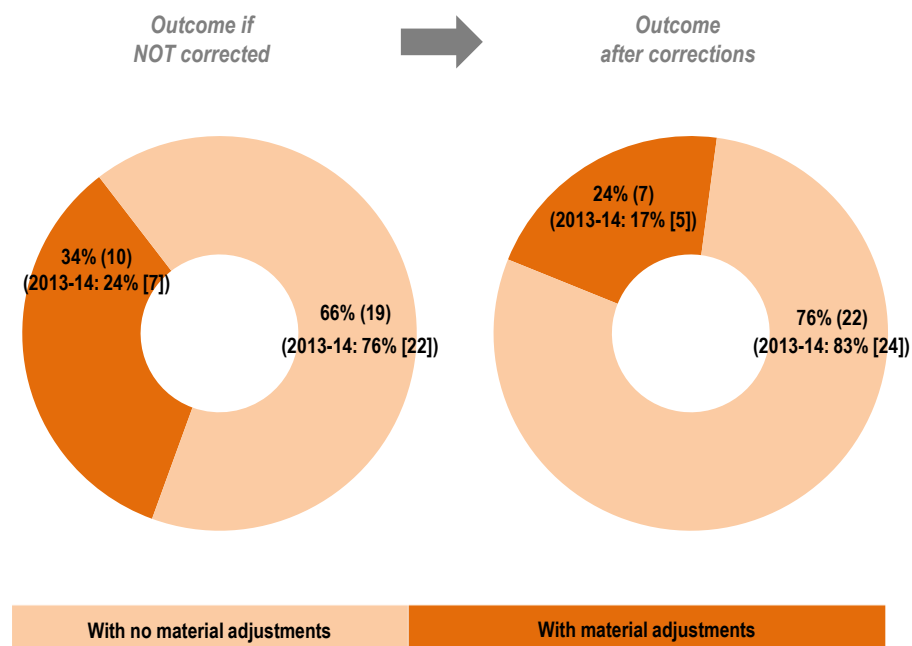


Figure 17 also shows that three auditees (10%) did not have any material findings only because they corrected all the misstatements we identified during the audit. These auditees were the departments of Education and Community Safety, and Gauteng Tourism Authority. These adjustments were due to inadequate record and document management processes and the lack of oversight and monitoring of performance reporting by the accounting officers or authorities.

Auditees are urged to pay attention to those issues that resulted in material misstatements in performance reports and deficiencies in the internal control systems that support the generation of their performance reports. There should be sufficient data validation procedures and proper collation of performance information.

3.2 Findings on the usefulness and reliability of annual performance reports

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

Table 3: Auditees with findings on the usefulness and reliability of their annual performance reports

Auditee	Programme/objective	Not useful	Not reliable
Department of Health	Programme 2: District health services		
	Programme 5: Central and tertiary hospital services		
Department of Human Settlements	Programme 3: Housing development		
	Programme 4: Housing asset management and property management		
Department of Infrastructure Development	Programme 2: Public works		
	Programme 3: Expanded public works programme		
Department of Roads and Transport	Programme 2: Transport infrastructure		
	Programme 3: Transport operations		
Gauteng Medical Supplies Depot	Objective: Medical supplies depot programme		
g-Fleet	Objective 2: Operational management services		
Gauteng Funding Agency	Objective 2: Structured finance		
	Objective 3: Administration		

	Material finding on annual performance report
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There was an increase in the number of auditees with findings on the usefulness of performance information. The most common findings on usefulness were the following:

- Management did not ensure that indicators or measures were well defined so that the actual performance can be measured.
- Performance targets were not clearly defined and were not specific to ensure that the actual performance was measured consistently.
- In presenting the reported information, management did not provide reliable supporting evidence for the variances between planned and actual performance.

These findings on usefulness were mainly due to monitoring and evaluation officials not ensuring that indicators and targets are verifiable and can be supported by valid, accurate and complete information. In addition, accounting officers did not effectively oversee the development and setting of indicators and targets to ensure that they are relevant and measurable.

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

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

These findings on reliability were mainly due insufficient review by the heads of performance and evaluation unit of the performance reports against source documentation. Furthermore, there were inadequate document management systems to support reported information. This includes IT systems that were not stable and secure to produce accurate and verifiable information.

3.3 Best practices and recommendations – performance information

Best practices – performance information

Nineteen auditees (66%) were able to prepare annual performance reports that were free from material misstatements. This was mainly because they applied the following best practices:

- Appropriate manual and IT systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements were implemented.
- Internal audit reviews were extended beyond just the control environment and included the audit of quarterly performance reports.

Areas of improvement – performance information

Auditees that had material findings and those that submitted annual performance reports of a poor quality for auditing should strengthen their processes and controls to enable them to produce quality performance information:

- Accounting officers or authorities should improve oversight by intervening decisively and in a timely manner to ensure quicker response to recommendations and action plans. They should hold the monitoring and evaluation officials accountable for preparing regular and credible performance reports.
- Implement proper record management to ensure that complete, relevant and accurate information is accessible and available to support performance reporting. Data validation procedures should be performed on supporting information to ensure that reported information is valid and accurate.
- Implement effective project management controls that are monitored by technical specialists in performance monitoring to ensure that reliable information is available when needed.
- The risk assessment units, based on the assessment of the environment, should ensure that the scope of internal audit units covers the evaluation of key risks that may impact the credibility of performance information reporting.

44

Conclusion

During the financial year, departments and entities aligned the performance focus to the strategic plans of the province, the ten pillar programme of transformation, modernisation and re-industrialisation aimed at a Gauteng City Region contributing to the achievement of the national development plan. These plans are bold and are in essence a social contract with the public, and the annual performance reports measure these service delivery achievements. It is therefore important that the auditees are swift in improving the areas that support effective and transparent service delivery reporting.

Quality planning must be institutionalised with an enhanced focus on programme implementation, problem-solving and continuous improvement. Innovative approaches need to be adopted where progress needs to be made to overcome obstacles. The ultimate goal of good governance and clean administration should be to ensure that citizens experience improved service delivery and a better quality of life.

4. Resource management

4.1 Human resource management

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

It is worth noting that 55% of the Gauteng budgeted expenditure in 2014-15 was for employee costs.

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

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

Based on the results of these audits, we assessed the status of HR management controls as follows:

Figure 18: Status of human resource management

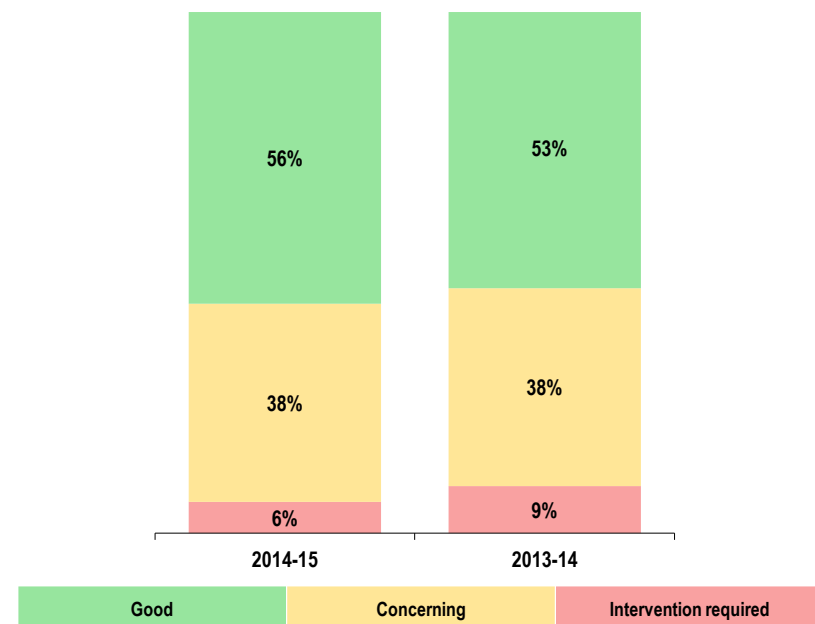


Figure 18 shows a similar trend to the previous year on the status of HR management. Auditees with weaknesses in HR controls improved slightly from 47% in the previous year to 44% in the year under review. In the year under review only two auditees (6%) had material HR control weaknesses.

The newly elected political leadership was able to fill key positions, thereby improving the vacancy rate. There is, however, a continued need to ensure that departments and entities improve their HR management systems. This should be done by ensuring proper planning, timely recruitment processes, verification of new appointments and the appointment of suitably qualified people.

Auditees remained under pressure to recruit and retain suitable candidates. The approval of organisational structures at certain departments by the Department of Public Service and Administration (DPSA), assisted in the filling of key vacancies. Financial constraints still contributed to vacancies at some of the smaller departments and public entities as a result of budget limitations. There were also concerns about candidates that could potentially not meet the required qualifications and experience as the most common finding on the appointment processes was that proper verification process for new appointments did not always take place.

4.1.1 Management of vacancies and acting positions

Figure 19: Vacancies in key positions

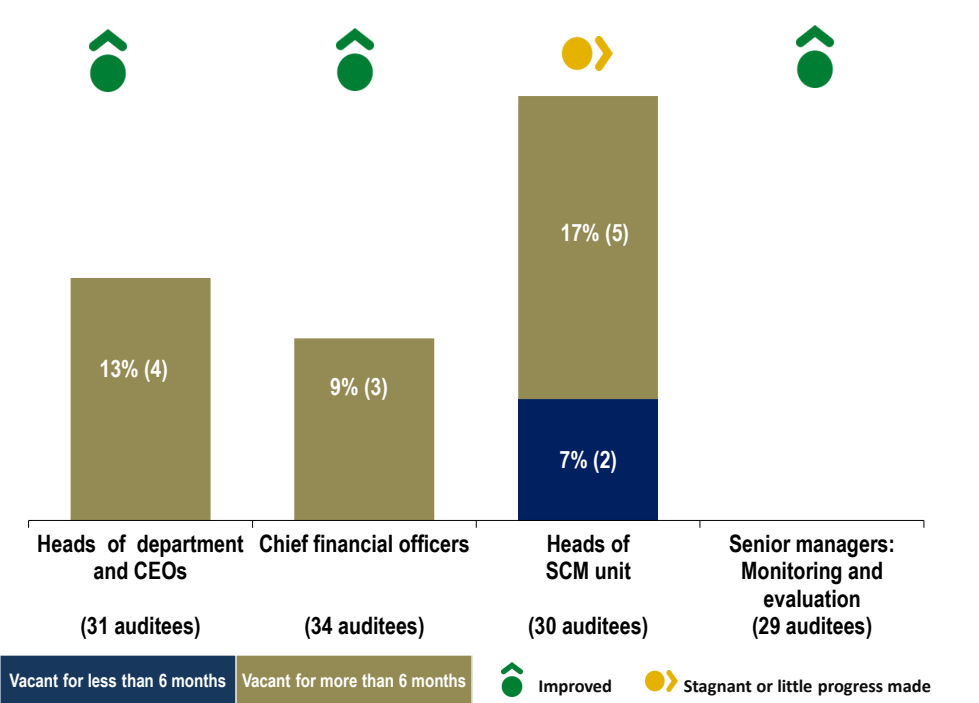


Figure 20: Stability in key positions (average number of months in position)



Figure 19 shows the number of auditees where the positions of the accounting officer (head of department or CEO), CFO and heads of the SCM, strategic planning as well as monitoring and evaluation units were vacant at year-end. The figure also indicates the period for which these positions had been vacant. Figure 20 shows the average number of months key officials had been in their positions. Despite the fact that HR management remained the same as the previous year, instability in key positions, vacancies and proper appointment processes not followed, remained a challenge in the provincial government.

It is encouraging to see an improvement in the vacancy rate and an increase in stability at the accounting officer level, as they were in the position for an average of 36 months. The benefit of this stability should be realised through improved audit outcomes in future, of which the Department of Human Settlements was an example in the year under review. This department improved from a qualified audit opinion to an unqualified opinion with findings.

Although there was an improvement in the vacancy rate at CFO level, the concern remained that there were still 35% of auditees that did not submit quality financial statements. The main reasons were that suitably skilled officials were not recruited timeously, leading to acting positions and at times permanent incumbents were not performing their tasks as required. In addition, accounting officers did not always enforce consequence management.

The vacancy rate at SCM units is a concern as it will put pressure on effective monitoring of compliance with SCM legislation at these auditees and contributes to the prevalence of SCM findings in the province (refer to section 2.2.2). The level of stability at the level of head of the SCM unit improved, as they were in their positions for an average of 29 months compared to 23 months in the previous year. There is, however, room for improvement considering the high vacancy rate (seven auditees).

During the year senior managers were given responsibility for strategic planning and monitoring and evaluation at all auditees, although they were not appointed in that position. Despite this positive picture, 34% of auditees were still struggling to provide performance information that is measurable and supported by reliable evidence. Senior managers responsible should be held accountable for their performance.

The findings relating to the management of vacancies and acting positions were that senior manager positions were vacant for more than 12 months, specifically at the departments of Infrastructure Development, Education and Health.

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

4.1.2 Performance management and consequences for transgressions

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

It is encouraging to see that for all accounting officer, CFO and heads of SCM positions that were filled, performance contracts were in place that were aligned to the organisational performance. This positively contributed to the sustained audit outcomes and improvement for some auditees, such as Human Settlements.

The province has the benefit of being able to attract and appoint competent staff due to its geographical location, being the economic hub of the country and the availability of skills in the province. It is however a concern that an increased root cause of auditees not improving was that key officials, specifically at senior management level, did not apply appropriate competencies and disciplines to prepare accurate financial and performance reports.

Over the last three years the root cause, lack of consequences for poor performances and transgressions, have improved from being root causes at 56% of the auditees in 2012-13 to only 9% in 2014-15. This turnaround was led by the premier and MECs, who committed to deal with non-performance in the province

decisively. This was evident at some auditees, including departments of Health, Finance and Economic Development, where officials were dismissed and/or suspended due to various investigations on allegations of fraud and financial misconduct.

Conclusion

Gauteng invests more than half of its budget in HR, which is the backbone of financial disciplines, service delivery and compliance with legislation. The provincial leadership should address the root causes of instability in key positions. They should also acquire skills and competencies that will assist with further improving audit outcomes and instil a culture of high performance, ethical conduct and sound financial management.

The premier, in driving accountability, committed to meeting with the MECs, HoDs and CEOs of those auditees that did not obtain clean audit outcomes or regressed to account for these audit outcomes and present a sound roadmap to 2015-16.

4.2 Effective use of consultants by departments

Our audit included an assessment of the work performed by consultants at provincial departments. Although we acknowledge the need to appoint consultants to assist the public service, this must be needs-driven, with an emphasis on value for money, proper planning and monitoring, and the transfer of skills.

Auditees engaged consultants to assist them with various services. The consultants were engaged for business advisory services, which included infrastructure planning, HR and finance, IT and health related services. Consultancy services are services of an intellectual or advisory nature. SCM regulations contain specific guidelines for the appointment and management of consultants.

Eleven provincial departments spent an estimated R868,2 million (2013-14: R442 million) on consultancy services in 2014-15 to supplement their human resources. The amount was spent on the following areas:

- Financial reporting services: R27,6 million (2013-14: R17 million)
- Performance information: R28,6 million (2013-14: zero)
- Information technology services: R453 million (2013-14: R15 million)
- Operational services: R359 million (2013-14: R410 million)

The most common reasons for departments to appoint consultants were a lack of technical skills, vacancies and specialist services. The most common use of consultants was due to lack of technical skills relating to specialised asset verification and valuations and IT services. Despite only 9% of auditees with CFO vacancies and no auditees with vacancies at their monitoring and evaluation units,

consultants were still appointed to assist with financial and performance reporting in the province.

Our audits included an assessment of the management of the consultants at these departments. Some of the findings identified relating to consultants were attributable to insufficient controls in place to manage the performance of consultants and the lack of proper transfer of skills to department employees.

Conclusion

Where consultants were appointed as a result of non-performance by officials, those officials must be held accountable and necessary performance consequence management implemented. For consultants to be effective it is crucial that they are appointed with a specific mandate and at the opportune time to support the accounting officers in taking accountability for the improvement of audit outcomes.

Administrative leadership should aim to derive as much value as possible from the use of consultants, without detracting from their primary responsibilities. This value should translate into enhanced internal processes, strengthening of existing skills and transferring of skills to employees. Established terms of reference that cater for more specific, risk-based services and regular monitoring should also assist in adding value and, ultimately, in improved service delivery.

5. Governance and controls

5.1 Status of internal control

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. To assist with corrective actions, we have categorised the principles of the different components of internal control under leadership, financial and performance management and governance.

Figure 1b shows the status of the different areas of internal control and the overall movement since the previous year. The overall status of the drivers of internal control was sustained from the previous year and contributed to the province also sustaining the improved audit outcomes from the previous year. The contributing factors to the sustained outcomes was the impactful involvement of those charged with governance as well as the strong leadership of the province.

During our in-year assessments of key controls and at year-end there was a positive trend of auditees being able to build on the improvement of these controls in the previous year. Auditees were typically able to institutionalise a sustainable internal control environment that was overseen by administrative leadership and enforced by senior management.

There is still a concern regarding the turnaround time and slow response from accounting officers or authorities and senior management of some auditees in implementing sustainable internal controls to support accurate financial and performance reporting and compliance with SCM legislation. Although the internal control improvements are encouraging, their impact must be improved by ensuring that the discipline of good practices is duplicated across the provincial government to further improve the audit outcomes.

Figure 21: Key controls requiring the most attention

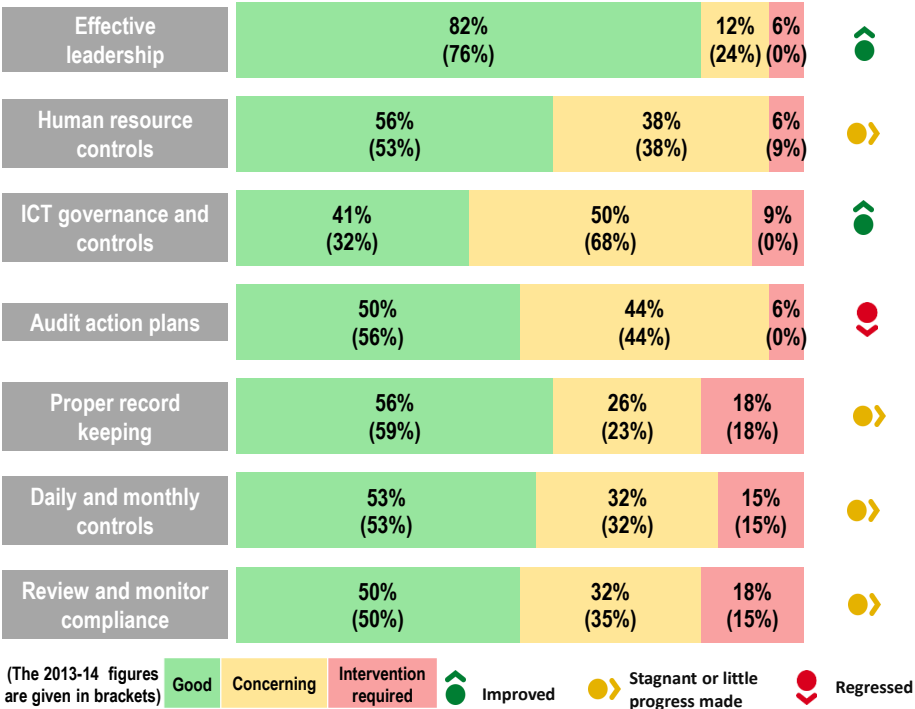


Figure 21 shows the status of the controls requiring the most attention.

The sustained internal control environment was driven by the effective administrative and political leadership that implemented controls to deal with stability in key positions, IT and manual record keeping processes and review and monitoring of compliance with legislation, notwithstanding the regression in the timely implementation of audit action plans.

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

Sections 4.1 and 5.2 provide further information on the status of HR controls as well as ICT governance and controls. Section 5.3 describes the most common root

causes that should be addressed, which have an impact on the effectiveness of internal controls.

Best practices – internal controls

Auditees with improved and strong internal control environments were able to implement and sustain the following key elements of internal control underlying leadership, financial and performance management, and governance. Other auditees are encouraged to apply these best practices to improve their audit outcomes.

Leadership

- Improved stability of political and administrative leadership contributed to effective oversight.
- Consistent with previous years, the entire political leadership of Gauteng continued to be available regularly to engage with the leadership of the Auditor-General of South Africa (AGSA) on the key control assessments, improving the culture of accountability. This is solid ground for mutually beneficial engagement-manager partner relationships.
- The political leadership, assisted by the accounting officers or authorities, led by example in setting a tone of zero tolerance for non-performance and holding senior management accountable for the achievement of a strong control environment and compliance with key legislation.
- In line with the previous year, accounting officers or authorities provided effective and timely oversight by implementing policies and procedures and monitoring the financial and performance reporting on a regular basis.

Financial and performance management

- Stringent financial and budget management during the year to ensure expenditure is in line with the allocated funds and in line with the provincial government's stricter austerity measures guideline. This resulted in zero unauthorised expenditure in 2014-15.
- Extensive support provided by the Gauteng Provincial Treasury to departments and entities. Auditees intensified their reviews on the interim and annual financial statements before submission to audit committees and external audit. They also intensified their monthly budget monitoring. Provincial treasury audit teams also sat at weekly audit steering committee meetings of auditees that needed the most attention, for example g-Fleet and Health, to provide support and guidance.
- Senior management, under the strict tone of accounting officers and audit committees, performed regular quality reviews and monitored compliance, which enabled them to identify internal control deficiencies and correct them quickly.

Governance

- Audit committees and internal audit functions were in place at all auditees. These structure were robust and proactive on matters regarding the implementation and monitoring of action plans to address internal control deficiencies, which had a positive impact on the audit outcomes.
- Consistent with the previous year, the audit committee chairpersons should continue to meet with, and/or report regularly to, the MECs during the year to share key information and risks as this enables the MECs to provide effective oversight.

Areas of improvement – internal controls

For auditees that had internal control deficiencies, which resulted in them not attaining clean audit outcomes, we recommend that in addition to the best practices above, they implement at least the following recommendations:

Leadership

- The political and administrative leadership must build on their action plans by institutionalising the controls that are already in place, which will enable mechanisms to react quickly to internal control breaches.
- Administrative leadership should react decisively and timely to honour their commitments and ensure that control deficiencies and risks are addressed early after audits are completed. We have noted that in some instances these action plans are not specific enough to address internal control deficiencies. The slow response by the administrative leadership and senior management was identified as a root cause at 41% of the auditees.
- Continue to solidify succession planning practices to provide stability at administrative leadership and senior management levels. This will promote accountability and safeguard institutional knowledge and disciplines.
- Accounting officers or authorities should hold senior officials accountable for implementing solid systems of internal control, including IT controls over record keeping, monthly processing and reconciling transactions. On a quarterly basis, senior officials should provide assurance and/or sign off of proper review and monitoring of these controls – this will result in reliable, quality assured information and systems and processes that are sustainable.
- Accounting officers, with the support of the provincial IT unit, should focus on updating their IT governance documentation and ensuring that business takes accountability for delivering on business requirements to comply with the IT governance framework and guidelines developed by the DPSA.

Financial and performance management

- Accounting officers or authorities should hold CFOs and heads of monitoring and evaluation unit accountable for the preparation of accurate quarterly financial and performance reports that are supported by relevant evidence. This will allow the provincial treasury and internal audit unit to perform timely reviews and enable governance structures to implement consequence management timely.
- The accounting officers or authorities should hold heads of the SCM unit accountable for performing adequate review and monitoring of compliance with legislation during the year. Furthermore, accounting officers or authorities should initiate reviews of this compliance by internal audit units.

Governance

- Audit committee chairpersons of departments that received disclaimed, qualified opinions and/or had repeat findings that prevented them from improving their outcomes, should propose a monthly status update report on the progress of action plan implementation. This report should similarly be shared with MECs to create alignment and effective oversight.
- Although individually functioning as structures, internal audit and risk units must improve working together to continuously highlight and prioritise areas with significant deficiencies and/or threats both for audit outcomes and business operations. This will elevate effective combined assurance to support audit committees and other oversight structures.

Conclusion – internal controls

For internal controls to be effective, the impact of this must be sustained by ensuring that these good practices are duplicated across all departments and entities. This will enable other auditees to join the ranks of those that have mastered these key internal control disciplines, thereby achieving improved audit outcomes. A sustainable control environment is one that is supported by daily, weekly and monthly disciplines such as preparing reconciliations, proper record keeping and review of financial and performance information.

There is a link between the audit outcomes and the key controls implemented and overseen by the assurance providers. The status of key controls is supposed to predict the audit outcomes. It is therefore important that the quarterly key control process is given sufficient attention, as this will identify areas that may negatively impact the audit outcomes early during the year. The implementation of action plans to address key controls that require attention and the regular monitoring thereof will assist in improving the control environment and audit outcomes.

Although quarterly reporting took place, this did not always include all areas of the financial statements and the necessary supporting schedules. As highlighted in the previous year, these reports were often prepared to ensure compliance with deadlines and not always reviewed by senior officials. The senior management and

accounting officers or authorities and those that perform an oversight or governance function, which include leadership or MEC, have worked collectively towards improving the key controls and ensured that the audit outcomes did not regress. The accounting officers or authorities must intervene decisively and timely to ensure that financial competencies and disciplines are applied to prepare accurate financial and performance reports.

5.2 Status of information technology

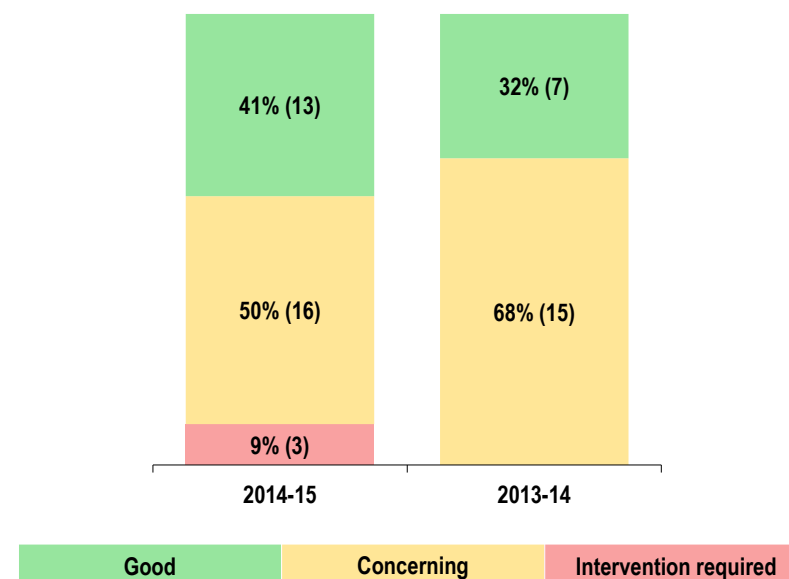
IT controls ensure the confidentiality, integrity and availability of state information. These controls enable service delivery and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

Effective **IT governance** 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. We did the assessment at 15 provincial departments and 17 public entities.

Figure 22: Status of information technology in the province



The overall assessment of the IT environment within Gauteng improved, as 41% of the auditees obtained clean IT audit outcomes and 59% still experienced challenges with the implementation of the designed controls in the areas of user access management, security management and IT service continuity controls. The improvement is due to the chief information officers (CIOs) that implemented and monitored basic IT environment controls that can detect breaches timeously. However, the slow response by the administrative leadership and senior management to the IT control weakness of the previous year contributed to 59% of auditees still having material IT control weaknesses.

During the 2013-14 financial year, all state departments, including the provincial legislature and public entities, were required to adopt and implement the IT governance framework and guidelines developed by the DPSA in phases over a period of three years. During our assessment for the 2014-15 financial year we noted that all auditees implemented the IT governance framework and commenced with the implementation of phase 3 of the process. Auditees were on track with the implementation phase to meet the requirements of the IT governance framework.

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

Figure 23: Status of the information technology focus areas

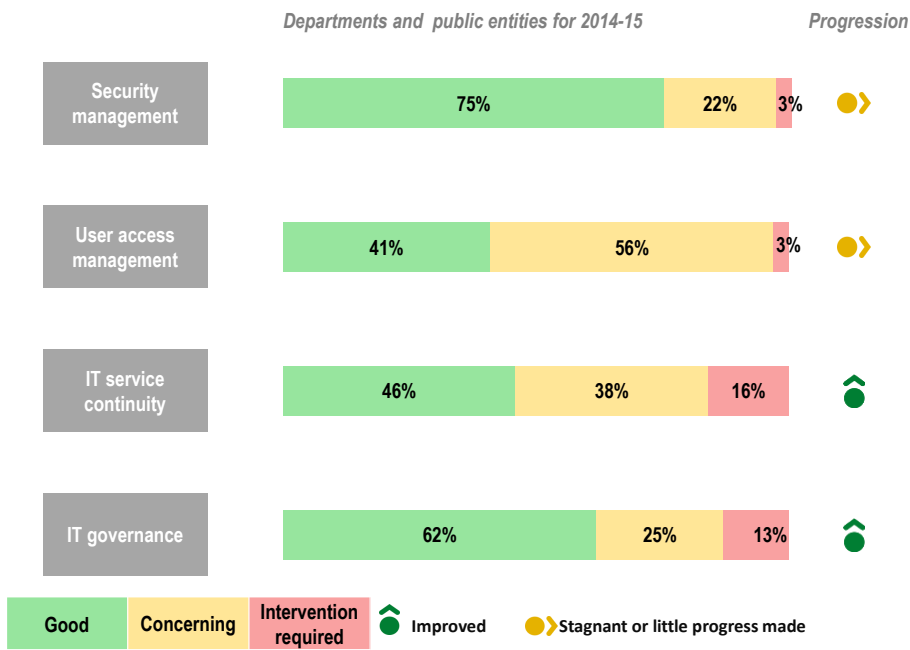


Figure 23 outlines the overall status of the controls in the areas audited at the auditees and indicates whether the IT controls were good, concerning, or required intervention. Some of the key findings that still needed to be addressed relate to the following:

- Although there were significant improvements in the security of systems in the province, there were still some concerns regarding security parameters that were not configured in accordance with the security policies and procedures developed, which increased the risk of unauthorised access being gained to financial information. Security updates were not consistently installed on operating systems. The auditees concerned were consequently exposed to security threats due to the potential manipulation of financial information.
- IT security and user access policies and procedures had been drafted that direct how users should be created, amended and deleted. However, these were not consistently implemented by senior management and not enforced during the financial period.
- Most departments developed the disaster recovery plans or backup processes and procedures, which was previously a challenge, to ensure that their financial systems could be recovered in the event of a disaster. Although not tested in the year under review, it is critical that there are disaster recovery plans to support IT as an enabler for business continuity.
- There was significant improvement in the IT governance focus area as most auditees adopted and developed IT governance processes and structures during the financial period. The process of implementing the designed IT governance processes commenced at most departments.

The weaknesses noted could potentially lead to financial losses being suffered or data integrity being compromised if the security and user access is not properly managed. In addition, the province is exposed to the loss of financial information, should a disaster occur due to lack of effective disaster recovery plans.

Status of electronic funds transfer controls

The status of electronic funds transfer (EFT) controls in the province was assessed for the provincial departments, and was found to be adequate. EFT controls are built into a system for transferring money from one bank account to another electronically. These controls are centrally managed at the National Treasury, and we did not raise findings in this regard. The other entities would be assessed during the 2015-16 financial period to ascertain if the controls have been adequately implemented.

Evaluation of experience and skills

Figure 24: Status of experience and skills in the province

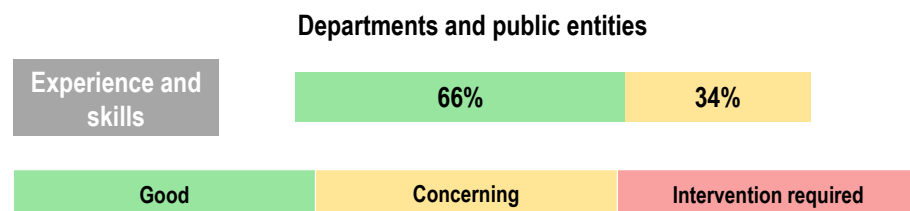


Figure 24 indicates that the CIOs or IT managers and IT officers had the necessary technical and managerial skills to manage their IT responsibilities. An evaluation of the qualifications of these officials revealed that 66% of the CIOs or IT managers at provincial departments and entities had the relevant IT qualifications and experience, whereas 34% either had the qualifications but not the experience or the experience without the relevant IT qualifications.

Although the assessment highlighted that there were sufficiently skilled IT resources in the province, the improvement of the IT audit control environment still remained a challenge. This is due to slow response by some of the CIOs and the accounting officers in addressing the recommendations made by the auditors. The action plans committed to were also not monitored on a regular basis.

Expenses relating to information technology at provincial departments

Figure 25: Expenses relating to information technology at provincial departments

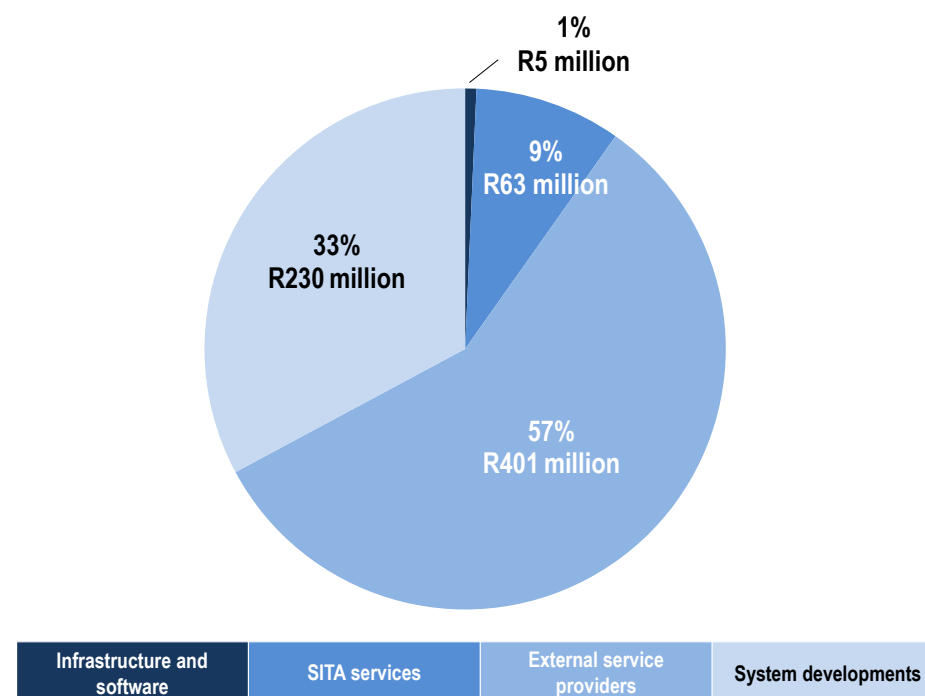


Figure 25 provides a breakdown of IT-related expenditure in terms of infrastructure and software, the services provided by the State Information Technology Agency (SITA) and external service providers, and project developments.

The expenditure relating to SITA services includes the cost of managing the network infrastructure and hosting services for the province. The main contributors to the costs incurred in respect of external service providers, infrastructure and software relate to tablets and connectivity at the Department of Education and the maintenance and support expenses at the Department of Health that relate to the Medical Enterprise Management System (Medicom) and network connectivity costs for medical facilities such as Baragwanath Hospital.

Most common root causes and the actions taken to address them

Management did not monitor adherence to designed controls on non-transversal systems. Furthermore, management did not view disaster recovery as a business or organisational concern but regarded it as an IT responsibility. IT is an enabler for business to perform its activities and assist in delivering on the mandate of the auditee.

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

- Departments and entities should focus on updating their IT governance documentation and ensuring that business takes accountability for IT delivering on business requirements.
- Adherence to the designed user access management, security and IT service continuity controls should be monitored regularly to ensure compliance.

5.2.2 Best practices and recommendations – information technology

Best practices

Auditees that had effective IT governance and IT controls in place were able to institutionalise the following internal controls, which should be applied as best practices by all other auditees:

- Accounting officers, risk management units and internal audit units at some departments and public entities played a proactive role in ensuring that IT controls were implemented.
- The hands-on approach of CIOs and their regular attendance at audit committee meetings assisted in resolving IT issues timely.

Areas of improvement

Although the assessment of the CIOs' skills and qualifications indicated that they were adequate, they still should enhance the monitoring of the IT environment controls to ensure that all weaknesses are addressed.

In addition, the CIOs and management should consider the following actions to address the findings and root causes:

- Auditees should properly assess risks on their IT environments. The policies and procedures should ensure that risks identified are mitigated by implementing adequate IT controls. Policies and procedures should be reviewed annually as IT is a fast changing environment.
- Controllers at the Department of Finance and Gauteng Provincial Treasury responsible for the Personnel and Salary System (Persal), Systems, Applications and Products System (SAP) and Basic Accounting System (BAS),

respectively, should liaise with departments to implement IT best practices in relation to the monitoring of user access rights.

- Risk management and internal audit departments should continuously track the implementation of recommendations and provide timely feedback to the governance structures to ensure effective oversight.
- Accounting officers should ensure that business continuity plans are developed, implemented and aligned to disaster recovery plans. Information owners should play an active role in BAS and Persal disaster recovery tests hosted by SITA.
- The CIO council forum formed in 2013-14 should be closely monitored and progress made in this forum should be discussed as an agenda point at the cluster audit committee meetings to ensure that the required improvement and consequence management are achieved within the province.

Conclusion

IT controls and governance remain essential to ensure the confidentiality, integrity and availability of state information. This enables service delivery and promotes national security. It is thus essential that good IT governance and a secure IT infrastructure are in place and continuously updated and monitored to ensure that IT remains relevant to business.

It is important that adherence to IT governance processes and accountability thereof are continuously monitored.

5.3 Summary of best practices and root causes

Our audits included an assessment of the root causes of audit findings and best practices applied by auditees, based on identifying the internal controls that had failed to prevent or detect the error or non-compliance, and those that worked. These root causes were confirmed with management and shared in the management reports with the accounting officers and the executive authorities.

As reported in section 1 on the 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 some of the best practises to be adopted, and the three most common root causes of poor audit outcomes and inadequate controls, and provides recommendations to address the root causes as shown in figure 1b.

5.3.1 Best practices

We remain confident that the advances towards clean audits will continue in Gauteng. The political and administrative leadership must capitalise on the good foundation that has been laid over the past two years to instil a high performance

culture, with ethical conduct and sound financial management. It is crucial to note that those auditees that advanced to clean audit outcomes were commonly characterised by the following best practices:

- Accounting officers or authorities were proactive in driving action plans and implementing commitments made, to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- The executive leadership stabilised the administrative leadership and senior management levels, and ensured succession planning to promote accountability and continuity. This will safeguard the auditees' institutional knowledge.
- Executive authorities and accounting officers or authorities set a tone of zero tolerance for non-performance and held staff accountable for keeping quality financial and performance information and complying with key legislation.
- Audit committees and internal audit functions were robust and proactive on matters regarding the implementation and monitoring of action plans to address recurring findings and implement commitments made.
- Accounting officers or authorities and senior management successfully implementing basic internal controls and accounting disciplines by preparing regular and accurate financial statements, which in turn enabled governance structures to play an effective review role.
- A maturing combined assurance model with majority of assurance providers playing their roles effectively and complementary. The Gauteng Provincial Treasury and the Office of the Premier continued to embrace and own the combined assurance initiatives, as they once again led the collective effort to sustain the good audit outcomes.

These best practices should be shared across the province to ensure sustainable control environments that will support clean administration for all auditees.

5.3.2 Root causes

This section aims at assisting political and administrative leadership, together with oversight structures, to address the internal control weaknesses identified during our audits and discussed in the previous sections. It summarises the three most common root causes of poor audit outcomes and inadequate controls. These root causes were also identified as the top three root causes in the previous year.

Slow response by administrative leadership and senior management

We identified the slow response by the administrative leadership and senior management as a root cause at 41% (2013-14: 29%) of auditees.

The effectiveness of accounting officers or authorities and senior management, as providers of the first level of assurance, is critical as they are responsible for embedding and sustaining a strong control environment. At these auditees there was a slower than expected response by the administrative leadership and senior management to honour and implement commitments and action plans relating to the quality financial statements, performance information and compliance with SCM legislation. There were still vacancies in key SCM positions and officials that did not have the suitable skills were held accountable for preparing accurate financial statements and performance reports.

Although the political and administrative leadership took our messages to address the root causes of audit outcomes seriously, the impact thereof did not reflect entirely on the unchanged overall audit outcomes in the year under review. As discussed in this section, the speed and effectiveness with which the leadership addresses the root causes, and adopt best practices will determine how quickly the province will be able to achieve its objective of 100% clean audit outcomes.

As in the previous year, we recommend that the following actions are implemented to address this root cause:

- The executive authority should continue to set the tone in creating a control environment that is conducive to accountability, ethical business practices and good governance. This will encourage the timely implementation of action plans with clear guidance on delivery time frames and responsible persons to address internal control deficiencies and the previous year's audit findings.
- The administrative leadership should ensure stability in key senior management positions, with suitable skills, as they are responsible for the implementation and monitoring of controls for credible financial and performance reporting and compliance legislation.
- The accounting officer or authority should review and provide transparent reporting on non-compliance and actions taken against those who did not comply, on a regular basis. Instances of non-compliance must be thoroughly investigated and addressed with a focus on reducing the lag time to finalise these processes.
- The administrative leadership should monitor operational business needs continuously to assist them in reacting in a timely manner to any changes and key messages. For example, training programmes should be conducted well in advance so that management is fully equipped to deal with operational changes and any new requirements of the Gauteng province's 10-pillar plan.
- Accounting officers or authorities should implement robust performance management controls and processes to ensure that senior management's support of governance structures is done with the same level of intensity as the oversight provided by these governance structures.

Instability or vacancies in key positions

There was an improvement in this root cause from 11 auditees (31%) in the previous year to eight (24%) in the year under review.

Retention strategies and succession planning in the province continued to improve due to the political and administrative leadership honouring their commitment to create stability and reduce the vacancy rate. This was evident in the reduced vacancy rate at accounting officer or CEO and CFO levels.

However, where this root cause remained common, it had a noticeable impact on the audit outcomes. The accounting officers or authorities should ensure that the positive trend of filling vacancies and retaining staff is maintained and improved, especially in the area of SCM where the vacancy rate increased in the year under review. This can be achieved by implementing the following recommendations:

- Auditees should take full advantage of the abundance of qualified professionals in the province. Proper succession planning at senior management level needs to take place to allow acting officials to adequately adapt to greater responsibilities.
- Continuous training of existing staff in key positions should be improved and the administrative leadership should start optimising the use of key controls and dashboards by objectively assessing internal control deficiencies.
- The political and administrative leadership should continue to play an effective role in driving the province's staff succession planning and retaining institutional knowledge.

Key officials lack appropriate competencies and discipline

We identified the lack of appropriate competencies and discipline by key official as a root cause at 18% (2013-14: 11%) of auditees. This is a regression compared to the previous year.

The political and administrative leadership's willingness to ensure that officials responsible for the implementation of the recommendations to address root causes, was not realised at all auditees. Vacancies in key positions and lack of suitable skilled and experienced officials contributed to the material findings on the quality of financial and performance reports and compliance with legislation.

The regular preparation of accurate financial and performance reports for audits was still the main challenge for most of the auditees that regressed or had unchanged audit outcomes.

The following recommendations should be implemented to address the root cause and further improve audit outcomes:

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

- Accounting officers should ensure that appointment processes in place will ensure that only officials with at least the minimum competency requirements are appointed after the verification of references and necessary background checks have been done to confirm experience and qualifications. New employees should complete relevant and robust competency assessments before appointments in any sphere of government.
- Ongoing capacity building of existing staff in key positions should be improved to ensure an improvement in the overall audit outcomes, especially in the areas of financial and performance reporting and SCM requirements.

5.3.3 Conclusion

The vacancies in the key positions of accounting officer or CEO, CFO and head of the SCM unit impacted the ability of senior management and the administrative leadership to respond decisively to internal control weaknesses and implement corrective actions. This was worsened by the lack of suitable skilled officials in the disciplines of financial and performance reporting, as well as monitoring compliance with SCM legislation.

5.4 Initiatives and impact of key role players

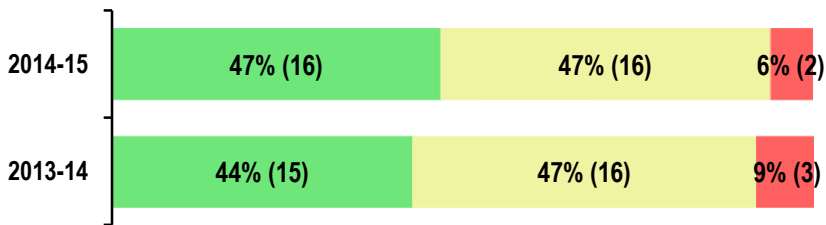
5.4.1 Assurance provided by key role players

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. This assurance will improve and maintain the quality of the financial statements and performance reports, as well as compliance with legislation.

Based on our assessment as shown in figure 1a, there was an improvement in the required level of assurance that contributed to the sustained audit outcomes. Below is an overview of the assurance provided by each of the key role players.

First level of assurance

Senior management



Senior management sustained the level of assurance they provided. It remained a concern that for 53% of the auditees the senior management was only able to provide some or limited assurance. Senior management provided sustainable solutions but must continue to take ownership of driving improved audit outcomes by intensifying their efforts to institutionalise their corrective actions.

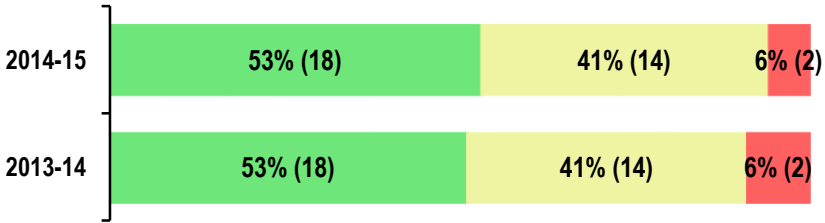
Senior management, which includes the CFOs, CIOs, and heads of the SCM, HR, strategic planning and monitoring and evaluation units, form the foundation of the combined assurance model as the first line of defence. They should therefore ensure that the basic disciplines of control activities are implemented, monitored and institutionalised as a backbone of running the auditees' business. This will automatically result in better financial and performance management, and compliance with legislation.

The accounting officers should ensure that they are satisfied with the competencies and disciplines of senior management at the finance, SCM, HR, strategic planning and monitoring and evaluation units and other supporting units, including regions, to ensure further improvements in overall audit outcomes. This is important because senior management and their timely response to our recommendations of implementing basic controls have been identified as one of the key root causes of the current audit outcomes.

Stability at senior management level is crucial for ensuring accountability for implementation and sustainability of these controls. This must be supported by a decisive system of performance management.

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

Accounting officer or accounting authority



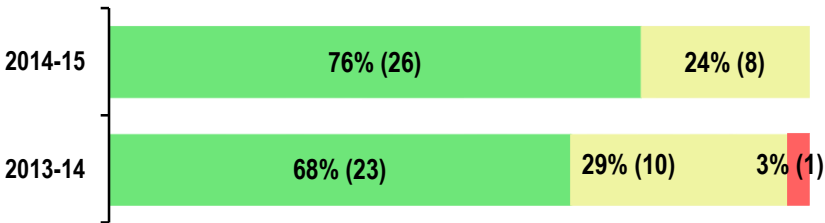
Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance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

The PFMA is very specific about the roles and responsibilities of the accounting officers or authorities. They therefore need to ensure that strategic and operational objectives are achieved through setting a tone of zero tolerance for non-

performance and corruption at their departments and entities. In addition, as the administrative leadership, they have a critical role of linking the oversight function of the political leadership and the implementing officials. It is therefore critical that they report transparently at all times and set an example of accountability for business function. They should further ensure that they provide credible information to internal audit units, audit committees, and public accounts and portfolio committees to allow for extensive oversight, especially in the area of accurate financial and performance reporting.

The level of assurance provided by the accounting officers and the accounting authorities was in line with overall sustained audit outcomes in the province as in the previous year. However, this level of assurance should be improved and this is possible as the province was able to make progress in filling of vacancies at accounting officer level.

Member of the executive council



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

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

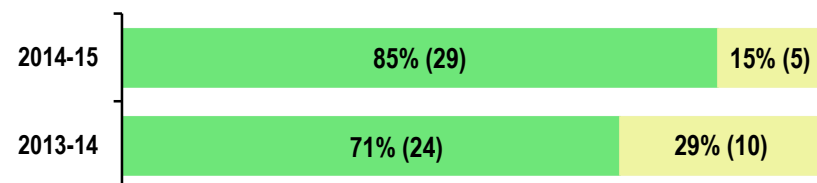
Through our regular interactions with the executive leadership, we encouraged them to continue improving audit outcomes by being actively involved in key governance matters and ensuring that the positions of accounting officers and authorities are filled timeously and that they are held accountable. The sustained positive audit outcomes prove the level of assurance that MECs provide by taking ownership of key controls and consistently focusing on monitoring of action plans to address shortcomings identified in the key control environment.

Consistent with the previous year, we met all MECs – including the premier and speaker – to discuss audit outcomes, key messages and the year-end audit. It is commendable that MECs took ownership of the audit outcomes and had shared their understanding of the obstacles and what needs to be done. Although not all environments are yet reflective of their intentions and commitments, we remain encouraged by the continuous commitment with visible progress.

The political leadership's position is clear in that there must be firm leadership from MECs that must instil a high performance culture, ethical conduct and sound financial management in the province through holding accounting officers responsible for performance and audit outcomes.

Second level of assurance

Internal audit unit



Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on the internal controls, financial information, risk management, performance management and compliance with legislation. In addition, internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations and accounting officers and senior management take the findings seriously, cooperate and respond to their recommendations.

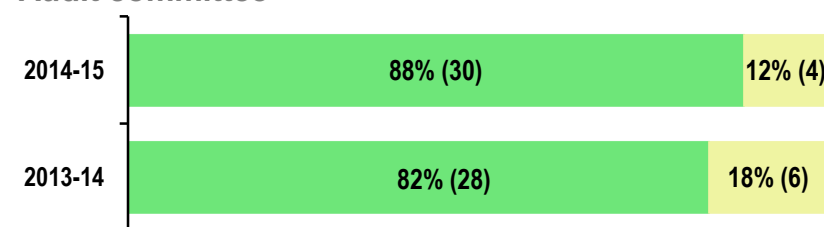
56 Gauteng uses a shared internal audit service for all departments and certain trading entities, while other entities have independent units.

There was a significant improvement in the level of assurance provided by internal audit units. Internal audit functions were vigorous and proactive, and engaged audit committees on matters regarding the implementation and monitoring of action plans to address recurring findings and implement the commitments made by management. In the past, although work was done by the shared internal audit unit, it was mostly following a plan that was at times behind schedule, without the right tone being set by audit committees.

In addition, the improvement in assurance was a result of a capacitated shared internal audit unit with the requisite resources and the internal audit unit aligning their audit plans to critical risk assessment areas, especially at department level. This had been a commitment of the MEC for Finance for the past two years and we thus applaud progress and honouring of this commitment.

Having a solid internal audit unit created an environment where internal audit units' recommendations and actions plans were taken seriously and implemented by the auditees' leadership. The internal audit unit also provided assurance on interim financial statements, the quarterly key controls and quarterly performance reports. This assurance contributed to sustained clean audit outcomes.

Audit committee

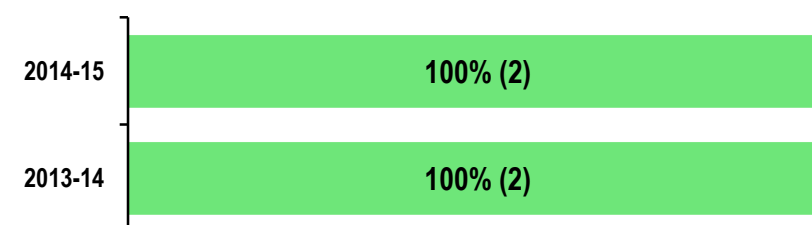


An audit committee is an independent body that advises the MEC, accounting officer or authority and senior management on matters such as internal controls; risk management; performance management; as well as the evaluation of, and compliance with, legislation. The committee is required to provide assurance to the accounting officer or authority on the adequacy, reliability and accuracy of financial reporting and information. The effectiveness of the audit committee depends on accounting officers and effectiveness of internal audit units as their extended arm. Gauteng has a shared audit committee for departments and trading entities. All public entities have their own audit committees.

Consistent with the solid functioning of Gauteng audit committees, there has been an improvement in the required level of assurance provided by the audit committees. In addition, audit committees discharged their responsibilities in terms of their audit committee charters and they were robust in their engagements with accounting officers to keep abreast of key changes that required attention. They continuously assessed the status of the progress made on action plans. The assurance level provided by audit committees was also enhanced through regular interactions with MECs and, where appropriate, key matters were escalated in writing to the MECs.

The audit committees performed detailed reviews of the annual performance reports and financial statements before submission to the external auditors. However, at certain auditees management did not always adequately factor the adjustment in these reports. Audit committees must continue to improve their oversight by demanding accurate and timely reports from the internal and external auditors. The chairs of the audit committees of the auditees that received disclaimed, qualified opinions and have repeat findings, should propose a monthly status update report on the progress of the implementation of action plans.

Coordinating and monitoring departments



Office of the Premier

Similar to the previous year, the Office of the Premier, working with the Gauteng Provincial Treasury, continued to embrace and own the combined assurance initiatives to drive clean administration. With the support of MECs, they led the collective effort to sustain the good audit outcomes for the province in the year under review.

The Office of the Premier continued to play a key role by keeping the executive authorities accountable for effective leadership and consequences for poor performance on the part of accounting officers. This was evident at a few auditees where officials were dismissed and/or suspended for financial and other misconducts.

The Office of the Premier took our messages seriously and was available for regular interactions between the executive authorities, audit committee chairpersons and our office to address matters of financial and performance management and good governance.

With the premier's view that the province must instil a high performance culture, ethical conduct and sound financial management, the Office of the Premier's interventions included the following:

- Setting up a provincial intervention task team to improve clean administration within the province by assisting the ailing departments and entities.
- Required the MEC for Finance to inform all departments that in line with sections 38 and 51 of the PFMA, urgent investigations must be conducted and disciplinary measures taken against those officials whose actions resulted in irregular expenditure, to ensure a clean administration that is accountable, responsive and transparent.
- Driving regular and impactful heads of department forums used to share best practices to ensure effective management of financial resources.
- Ensuring that the policy environment of the Gauteng provincial government is improved by developing, adopting and implementing required administrative policies to address the internal control, operational and governance weaknesses identified.

Provincial treasury

The provincial treasury continued to intensify its efforts to support auditees with adequate financial statement preparation for their interim and annual financial statements. The provincial treasury was very active through the provincial accountant-general in monitoring and assisting auditees with technical matters and audit queries.

Provincial treasury interventions included the following and contributed to the sustained good audit outcomes and improvement at specific auditees.

- The provincial treasury performed a high-level review of financial statements prior to submission to audit committees and for auditing.

- Provided training to auditees on financial management, financial reporting and predetermined objectives.
- Monitored the effective implementation of the AGSA's audit action plans, and provided resources and technical support to the ailing auditees, i.e. Human Settlements, Health and g-Fleet.
- Assisted departments with budget monitoring and ring-fencing of funds to be used only for their intended purposes and contributed to the zero unauthorised expenditure in 2014-15.
- Supported a transparent and fair procurement process by piloting the open tender system to improve SCM non-compliance at two departments.
- Allocated time and specific resource for struggling auditees, with the provincial accountant-general present at all shared audit committee meetings. The provincial treasury representatives were also part of key audit meetings with our office and management of auditees, to provide support and advice.

Provincial legislature

The Financial Management of Parliament and Legislatures Act (FMPPLA) was effective from 1 April 2015 and introduces a number of key requirements applicable to legislatures. These include the following:

- Implementation of the Standards of Generally Recognised Accounting Practice (GRAP) as an accounting framework.
- Changes to the preparation and submission of annual performance reports and annual budgets.
- Changes in other legislated requirements, especially to align or develop regulations, policies and procedures to comply with SCM and other related matters in terms of the act.

We did not assess the legislature as an assurance provider. However, we did a high-level assessment to determine the readiness of the Gauteng Provincial Legislature, which covered the following aspects:

- Financial reporting framework
- Reporting on predetermined objectives
- Other compliance matters relating to the FMPPLA

The legislature had fully implemented GRAP in the 2010-11 financial period and has since been reporting its financial statements in terms of GRAP. The legislature has also instilled a control environment that supported credible performance reporting and compliance with key legislation. This resulted in the legislature obtaining clean audit outcomes for the last three years.

Best practices

The following are some of the best practices implemented by the Gauteng Provincial Legislature to ensure accurate financial and performance reporting and compliance with key legislation:

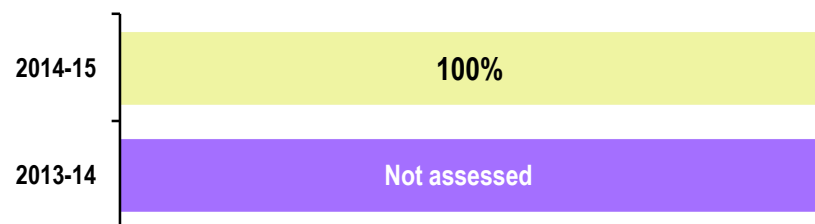
- Stability within senior management was key to the achievement of an effective control environment and full implementation of GRAP.
- Key officials had the required skills and competencies to provide accurate and credible financial and performance reports.
- The accounting officer set a strong tone at the top and ensured that senior management improved and maintained a strong internal control environment that was able to react to weaknesses identified during the GRAP implementation.
- Made use of a consultant in the first year of implementation (2010-11) with a knowledge-sharing clause in the contract, which assisted the provincial legislature with the continued operation and monitoring of GRAP thereafter.

In addition, the provincial legislature performed a proper risk assessment on its IT environments and ensured that these risks were mitigated by implementing adequate IT change controls. IT controls and governance remained essential to ensure the confidentiality, integrity and availability of state information. This enables service delivery and promotes national security. Therefore, the Gauteng Provincial Legislature should ensure that its IT management is effective and IT infrastructure secure as an enabler for effective and clean administration.

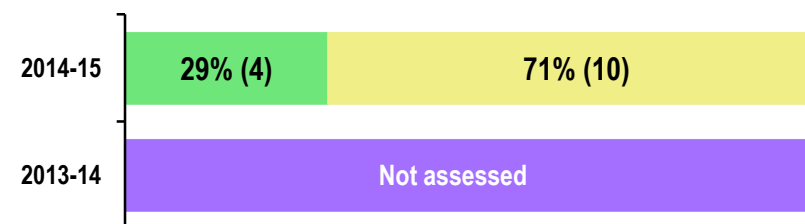
It is commendable that the province again did not have material findings, based on sector audits performed on the functions and activities of the Office of the Premier, provincial treasury, provincial legislature and the Department of Cooperative Governance and Traditional Affairs (CoGTA). All four of these coordinating departments were able to sustain their clean audit outcomes from the previous year, thus leading by example.

Public accounts committee and portfolio committees

Public accounts committee



Portfolio committees



The provincial public accounts committee, as a standing committee of the legislature, should oversee the provincial government to ensure prudent financial management, the accountable use of resources and to make recommendations to the legislature. On the other hand the portfolio committees provide oversight of the provincial executive's performance. The oversight model of the legislature, referred to as the programme evaluation and budget analysis, empowered committees to scrutinise the performance of executive authorities, by endorsing the annual performance plans and associated budgets, and then evaluating the actual performance and expenditure in accordance with these plans.

We did not assess the public accounts committee and portfolio committees' impact on the audit outcomes in the previous year due to the change in the committees' membership after the elections and our limited interactions as a result thereof.

Consistent with the previous year, the public accounts committee and portfolio committees were fully functional in the year under review and discharged majority of their responsibilities in terms of their approved charters and performance plans. Both these committees did hold their quarterly and annually oversight meetings and hearings with departmental executives and did their oversight visits and site inspections, which assisted in providing some level of assurance.

The public accounts committee, in aiming to provide an appropriate level of assurance in carrying out their responsibilities, should continue with robust interactions when holding the departments accountable for their outcomes at hearings. The timing of these hearings should ensure a positive and immediate impact on the following year's audit outcomes. In-year monitoring and regular following up of the previous year's resolutions and commitments from the auditees should be improved to ensure that the tracking and implementation rates of these resolutions are increased, as the impact of the resolutions did not always translate into improved audit outcomes.

We encourage the portfolio committees to continue aiming to provide effective oversight for relevant departments and associated public entities. They must hold MECs and their accounting officers accountable for their actions to ensure accurate performance reporting and improvement in attaining planned service delivery targets. We commend the portfolio committees for their contribution in sustaining and improving quality performance reporting and compliance with legislation at some auditees, through their focussed study intervention and oversight visits. These include the sectors of the premier and legislature, treasury,

economic development, and social development. As recommended in the previous year, CoGTA submitted the annual consolidated report on the performance of municipalities in the province to the Gauteng Provincial Legislature. Portfolio committees did not fully use these reports to focus on promoting clean governance and keeping administrative leadership accountable for credible performance reporting and delivery.

Oversight committees should insist on credible in-year reports to monitor progress, make recommendations and take appropriate action. In line with the legislature's sector oversight model for standardised oversight, it is critical that MECs ensure the committees, by keeping the accounting officer accountable, that quarterly submission are verified as credible, relevant and transparent before these are considered in further detail by the committees.

As recommended in the previous year there should be a continued collaboration between the public accounts committee and portfolio committees, whereby the portfolio committees compliment the public accounts committee in tracking resolutions on a regular basis and holding the auditees accountable. In order to enhance oversight, it is critical that resolutions are tabled timeously and are followed up on a quarterly basis. We applaud the already operational joint hearings (where the portfolio committee chairperson is invited into the public accounts committee hearing annually) as this promotes a platform where holistic oversight can take place that covers financial, performance and policy matters.

The public accounts committee and portfolio committees should leverage on their responsibility to develop good relationships with the media, by keeping the public informed of matters under investigation and/or site visits, why those matters are of concern and/or of excellence, and how they may be resolved or improved and/or used as best practices elsewhere. For this to be successful it is important that the media is kept abreast and educated to understand terms and references used and be neutral to the work done by public servants.

To support the objective of the Gauteng City Region, being one government, the oversight committees should continue to improve their public participation process and working relations between provincial and local government. Best practices should be shared between the provincial and local government oversight committees, including work done by the speaker of the legislature with speakers of municipalities. This sharing could be intensified at chair of chairs forums.

We have committed to seek more regular interactions with portfolio committees through which we will be able to add value to the oversight process by providing proactive insights into the root causes of weak and unsustainable internal control environments. Standing invitations for the AGSA to attend any portfolio committee meeting, where they require such detailed insight into an auditee's audit outcome, should be encouraged. Furthermore, consistent with previous years, our leadership and key legislature committees (chair of chairs, public accounts committee) have kept standing commitments to interact either quarterly or when required.

5.4.2 Initiatives and commitments of key role players

We shared our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature through our reports and interactions with them. During these interactions, we confirmed the progress of the commitments made by all the role players in response to the previous year's audit outcomes.

Throughout the year, we monitor the commitments and initiatives of MECs, the premier, the public account committees and the portfolio committees to implement initiatives that can improve audit outcomes.

The progress of such commitments and the initiatives of the key role players in response to the previous year's audit outcomes and new commitments will be discussed in this section.

Office of the Premier

We had four interactions with the premier in the year under review to drive the message of sustainability and achievement of clean audit outcomes for the Office of the Premier and the province.

The implementation of previous year commitments has yielded positive results, with clean audits sustained and four auditees improving their audit outcomes. Continuous, effective monitoring, driving sustainability of audit results and consistency in ensuring that commitments and resolutions are operationalised, are some of the reasons for the achievements in the province. The political leadership had settled into their roles and refocused efforts towards implementing the transformation, modernisation and re-industrialisation plan.

Key commitments are as follows:

- The Office of the Premier committed to monitoring the implementation of the transformation, modernisation and re-industrialisation plan through the different departments' quarterly and annual performance reporting on their annual performance plans. Facilitation of the training and implementation of new transversal policies impacting the province were still ongoing.
- The premier committed in various platforms that Gauteng would be a responsive government and in so doing established war rooms to respond to service delivery concerns by communities. These service delivery war rooms have been established, and the tracking and monitoring of instances of service delivery protests and government's rapid response is being monitored.
- The Office of the Premier established an Integrity Management Office in the previous year with the main aim to mitigate and eliminate incidences of unethical conduct by government officials. The premier has delivered on his commitment to have performance agreements in place for executives and accounting officer in the province. In addition, the premier and his MECs declared all their private business interests to the member's register of the legislature. Although this has been operationalised to improve good

governance, the impact will be effective in years to come, especially with the aim to track fraudulent and financial misconduct relating to SCM.

- The Office of the Premier remains committed to rooting out corruption and irregular expenditure due to SCM irregularities in the province, and the open tender system has been piloted at the Gauteng Department of Transport and treasury. The Office of the Premier, with the support of the treasury, is monitoring the implementation of the open tender system and wants to expand it across the entire provincial government. In addition, the provincial banking tender was also awarded through the open tender system.

Although, as promised in the previous year, the Office of the Premier set up a provincial intervention task team to improve clean administration and governance within the province by assisting the ailing departments and entities and has improved the state of governance at Human Settlements and Health, it did not have the desired impact on all auditees, e.g. at g-Fleet. The premier raised concerns about g-Fleet leadership, as the entity was not able to improve their audit outcomes despite the assistance provided by MECs of Finance and Transport and allocation of Gauteng Provincial Treasury resources,.

The premier, as the head of executive in the province, has set the right tone to achieve a public service characterised by strong political leadership and effective oversight structures. The premier has remained consistent in his message of achieving a clean state of audit outcomes and governance so as to focus on service delivery. He continues to communicate an ideal of a responsive government that is free of corruption.

Provincial treasury

The Gauteng Provincial Treasury continued to support the Office of the Premier with the implementation of the initiatives to increase good governance. Three impactful engagements were held with the MEC for Finance during the year. The engagements contributed to the sustained good overall audit outcomes, with particular improvements at the departments of Human Settlements and Economic Development.

Previous year interventions were ongoing, which would require a consistent commitment to the process in order for the impact to be realised and sustained:

- The Gauteng Provincial Treasury, through the MEC, committed to enhancing collaborative work within the province to capacitate officials at the finance units and provide targeted training to further improve audit results in the province.
- The Gauteng Provincial Treasury committed to intensifying its support and conducting extensive reviews of monthly, quarterly and annual financial statements, and performance and compliance reports, and providing feedback to the premier. These reviews were done at a high level in the year under review and should remain a focus in the following year till the gap has been closed.

- The MEC for Finance committed to implementing mechanisms to curb irregular expenditure in the province and continuing to improve disciplines in government spending and tightening cost containment measures on non-core items. In the year under review the province realised savings by cutting costs on administrative expenses such as catering, venues, travel and advertising. These savings were then earmarked for strategic project as part of the transformation, modernisation and re-industrialisation objectives of the Gauteng City Region to improve service delivery. The province reaped some benefits of Gauteng Provincial Treasury's cost containment and budget monitoring initiatives, as it did not incur any unauthorised expenditure in the year under review.

A forensic investigation unit was restructured to increase accountability of employees. The impact of the unit has not been realised yet and the focus should be on decisive and timely investigations and the rigour at which repeat transgressors are held accountable.

The MEC for Finance introduced further interventions, effective 1 April 2015, which would result in the restructuring of the functions at the treasury and Department of Finance to ensure even more coordinated and intensive support for the province. This includes the grouping of the shared procurement, investigation and internal audit services moved from the Department of Finance to the Gauteng Provincial Treasury, to drive the objective of an open and transparent Gauteng government with sound financial management and governance. In June 2015 the MEC for Finance launched the e-invoicing service to improve the waiting period for payment of suppliers from months to days and committed to rolling it out to all departments after piloting.

Gauteng Provincial Legislature

The legislature delivered on its commitments, but most of these are continuous commitments to support and capacitate oversight structures to sustain and improve audit outcomes:

- The speaker continued to encourage sound control environment governed by principles of accountability. The focus is on working with the MEC for Finance and CoGTA towards seamlessly collaborating and coordinating oversight activities through portfolio committees to ensure effective oversight. As recommended in the previous year, CoGTA submitted the annual consolidated report on the performance of municipalities in the province to the Gauteng Provincial Legislature. The legislature should use this report to perform its oversight role to enable the political and administrative leadership to focus on promoting clean governance, increasing their support in building integrity, sustainability and cohesion in local and provincial government.
- Monitoring the efforts of portfolio committees and speedily follow up of resolutions will ensure that there is impact. Two interactions were held with the speaker, which continued to be impactful as she remains responsive to our messages.

6. Conclusion

We acknowledge that the Gauteng provincial government has sustained the good audit outcomes from the previous year. As 2014-15 was the political leadership's first year in office, it was a year of transition with a focus on re-engineering many governance processes.

Although the audit outcomes have been sustained, it is important that the administrative and political leadership continue meeting their commitments to ensure that all auditees obtain the clean audit outcomes, as provincial government has all the resources and abilities it needs.

To spearhead the improvement in audit outcomes, on 16 October 2015, the premier and the MEC for Finance met with all the MECs and leadership of the departments and entities that did not obtain clean audit outcomes. The purpose of the meeting was for the MECs and leadership to account for the undesirable audit outcomes and present a roadmap for 2015-16 to institutionalise sound financial management supported by credible and accurate reporting that meet the legislative and accounting requirements.

We are encouraged by the premier, Gauteng Provincial Treasury and the MEC's consistent efforts in achieving accountability and effective oversight in the province through implementing initiatives that will bring to light the desired impact. The AGSA remains firmly committed to walking this journey with the provincial leadership.

ANNEXURES

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

No.	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 and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	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 unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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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
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No.	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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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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
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Annexure 2: Comparison of audit opinions over five years

No.	Auditee	Audit opinions				
		2014-15	2013-14	2012-13	2011-12	2010-11
Departments						
1	Department of Agriculture and Rural Development					
2	Department of Community Safety					
3	Department of Cooperative Governance and Traditional Affairs					
4	Department of Economic Development					
5	Department of Education					
6	Department of Finance					
7	Department of Health					
8	Department of Human Settlements					
9	Department of Infrastructure Development					
10	Department of Roads and Transport					
11	Department of Social Development					
12	Department of Sports, Arts, Culture and Recreation					
13	Office of the Premier					
14	Gauteng Provincial Legislature					
15	Gauteng Provincial Treasury					
Public entities						
16	Constitutional Hill Development Company					
17	Cost Recovery Trading Entity					
18	Cradle of Humankind Trading Entity					
19	Dinokeng World Heritage Trading Entity					
20	g-FleeT Management					
21	Gauteng Enterprise Propeller					
22	Gauteng Film Commission					
23	Gauteng Funding Agency					
24	Gauteng Gambling Board					

No.	Auditee	Audit opinions				
		2014-15	2013-14	2012-13	2011-12	2010-11
25	Gauteng Growth and Development Agency					
26	Gauteng Housing Fund					
27	Gauteng Liquor Board					
28	Gauteng Partnership Fund					
29	Gauteng Tourism Authority					
30	Gautrain Management Agency					
31	Greater Newtown Development Company					
32	Industrial Development Zone					
33	Gauteng Medical Supplies Depot					
34	Supplier Park Development Co					
35	The Innovation Hub					

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

No.	Auditee	Audit opinion			Leadership												Financial and performance												Governance																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
					Movement			Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit unit			Audit committee																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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Legend (root causes)				Not assessed	Legend (root causes)				Improved	↔	Unchanged	↓	Regressed	F = Financial	P = Performance	C = Compliance
Concerning	Good	Intervention required			↑											

No.	Auditee	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 unit			Audit committee																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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Legend (root causes)			Concerning	Good	Intervention required	Not assessed	Legend (root causes)			↑	Improved	↔	Unchanged	↓	Regressed	F = Financial	P = Performance	C = Compliance
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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

Material finding (from the audit)

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

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

Material misstatement

(in the financial statements or annual performance report)

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

Misstatement

(in the financial statements or annual performance report)

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

Net deficit (incurred by auditee)

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

Operational budget / operating budget

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

Oversight structures & coordinating and monitoring departments

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

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>
BAS	<i>basic accounting system</i>
bn (after an	<i>billion (rand)</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CIO	<i>chief information officer</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
DoRA	<i>Division of Revenue Act</i>
DPISA	<i>Department of Public Service and Administration</i>
FMPPLA	<i>Financial Management of Parliament and Legislatures Act</i>
GRAP	<i>generally recognised accounting practice</i>
HIV	<i>human immunodeficiency virus</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>
ICT	<i>information and communication technology</i>
IT	<i>information technology</i>
m (after an amount)	<i>million (rand)</i>
MEC	<i>member of the executive council of a province</i>
Persal	<i>personnel and salary system</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
SAP	<i>systems, applications and products system</i>
SCM	<i>supply chain management</i>
SCoPA	<i>Standing Committee on Public Accounts</i>
SITA	<i>State Information Technology Agency</i>



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