AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

2014-15

PFMA

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

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

General report on the audit outcomes of the NORTHERN CAPE PFMA 2014-15

The information and insights presented in this flagship publication are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with key legislation.

This publication also captures the commitments that leaders have made to improve audit outcomes.

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

Auditor-General

Kimi Makwetu
Auditor-General

HIGHLIGHTS

The departments of Education, Health and Public Works still require attention (Section 1, 2.2.2 & 3)

16 auditees had material non-compliance with legislation, some of which could lead to financial loss (Section 2.2.1)

63% of auditees received financially unqualified audit opinions, some by correcting material misstatements identified during the audit process (Section 2.1.1)

Supply chain management remains the largest contributor to irregular expenditure of R1 472 million (Section 2.2.2)

Steady progress towards improving the reliability and usefulness of annual performance reports
(Section 3)

Inadequate consequences for poor performance and transgressions
(Section 5.3.3)

Leadership, audit action plans, and daily and monthly reconciliations require improvement
(Section 5.1)

Improved audit outcomes are only possible through improved assurance by key role players
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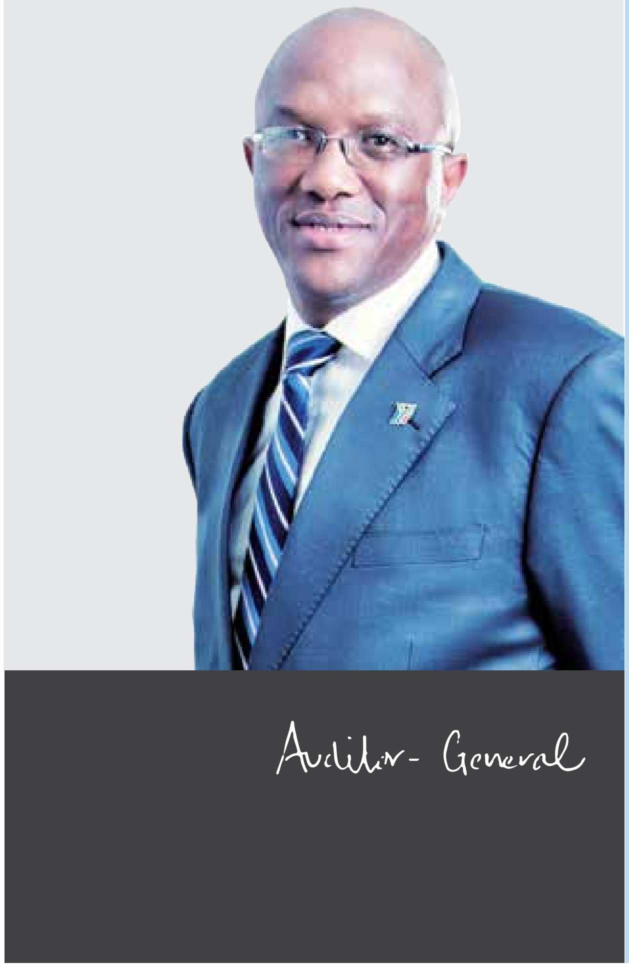
FOREWORD



It is with pleasure that I present to the Northern Cape provincial legislature my 2014-15 general report on 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 significantly improving their overall audit outcomes. The provincial executive leadership then committed to appoint competent staff to fill vacancies, improve the status of compliance with legislation, ensure an improvement in the quality of performance information and intensify oversight of public entities to further improve audit outcomes. In addition, they committed to focusing on the quality of financial statements submitted for auditing and intensifying the legislature's oversight by increasing the frequency of their engagements with accounting officers and chief financial officers. These commitments were either not implemented or are still in progress, which contributed to the regression in audit outcomes for the current year.

The percentage of auditees that received unqualified audit opinions with no findings decreased to 15% from 30% in the previous year. Unqualified audit opinions with findings stagnated at 45%, while the results for qualified audit opinions with findings increased from 25% in 2013-14 to 35% in 2014-15

The movement in audit opinions between 2013-14 and 2014-15 on completed audits indicates six regressions, one improvement and 12 unchanged audit opinions. It is, however, pleasing to note that the province did not have adverse or disclaimed audit opinions.

We assessed both the usefulness and reliability of performance information during our audits, which reflects an improvement of 13% since the previous year. While this improvement is encouraging, the fact that eight auditees (40%), representing 86% of the provincial budget, still had material findings with regards to their performance reports is of concern. As reporting on performance information is rapidly gaining prominence, self-assessment tools and measures to enhance the quality and credibility of annual performance reports need to be solidified.

Non-compliance with legislation was evident at 80% of auditees. There has been a regression since the previous year from six (30%) to three (15%) auditees with no material findings on their compliance with key legislation. Leadership should change their focus by striving not only towards unqualified opinions on their financial statements, but also towards addressing findings on compliance with legislation as a part of clean administration.

The quality of financial statements submitted for auditing remains a challenge with only seven auditees (37%) (2013-14: six, 32%) submitting financial statements not requiring material adjustments. Five auditees (2013-14: nine) made material adjustments to their financial statements as part of the audit process, enabling them to avoid matters being raised and confirming that the picture for the province would have looked worse if audit adjustments were not allowed. This indicates that even at some of the auditees that received unqualified audit opinions, concerns relating to internal controls continue to exist.

The area of supply chain management continues to be problematic with 16 auditees (84%) having findings in this area. Non-compliance with supply chain management requirements is a key issue that has continued to cause irregular expenditure. Leadership should focus on preventing irregular expenditure by using stricter supply chain management controls, by monitoring and by holding officials to account.

The irregular expenditure incurred in the province is not necessarily indicative of fraud and corruption, and we have not done specific work to ascertain this. However, the essence of the matters giving rise to irregular expenditure still requires leadership to investigate further to ascertain the underlying causes for these transgressions. This will enable the appropriate steps to be taken to prevent a recurrence and hold accountable those that may be systematically circumventing control.

The results of financial health reflect an improvement of 26% since the previous year. The human resource management assessment highlights a regression since last year. Only three auditees (16%) (2013-14: four [21%]) did not have findings in this area. We raised human resource findings on managing vacancies, officials' competencies, performance and consequence management. Effective human resource management is an essential ingredient that influences every process at auditees and, if managed well, will promote excellence in public administration.

The status of information technology reflects an improvement of 11%, but the number of auditees with findings in this area remains high at 16 (84%). Auditees need to implement an information technology governance framework and focus on information technology governance and security management to ensure that risks are managed and data is protected.

The main root causes that hindered progress were the slow response by management (13 auditees: 68%), the slow response by the political leadership (12 auditees: 63%) and a lack of consequences for poor performance (nine auditees: 47%). None of these root causes improved from the previous year. Slow response by management, which was the most significant root cause, regressed since the previous year. Senior manangement's level of assurance therefore declined as key internal controls and financial management practices were not institutionalised. This, in turn, contributed to increased findings on some of the six risk areas, and regressed audit outcomes. The absence of internal audit units at 21% of auditees and audit committees at 16% of auditees (2013-14: 16% for both), remains a concern. As this problem relates only to public entities, we urge their oversight bodies to intervene and find a solution.

We recently shared with key stakeholders our assessment of the critical matters hampering progress. At this engagement the premier committed to implementing consequences for poor performance. She reconfirmed her commitment to implement a process to improve the quality of financial statements submitted for auditing and to address the high number of instances of non-compliance with legislation. The speaker committed to improving the quality of the annual reports through vigorous oversight and to implementing mechanisms to track the progress on resolutions made to the public accounts committee. To successfully honour these commitments, leadership needs to implement a system that continuously tracks progress on the commitments they have made.

In an attempt to improve the level of oversight that they provide, the portfolio committees planned to implement a sector oversight model. Although this model was piloted in the previous year, it had not been rolled out to the province. While the portfolio committees and public accounts committees held meetings and hearings to extract various commitments from auditees, most of their previous year's resolutions (89%) were not fully implemented. The speaker needs to prioritise implementing the sector oversight model and mechanisms to ensure that a dedicated unit monitors, tracks and follows up on resolutions issued by the public accounts committee.

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

Auditor-General

Pretoria

November 2015

OVERVIEW

Summary of our message

Figure 1a: Overview of the audit message

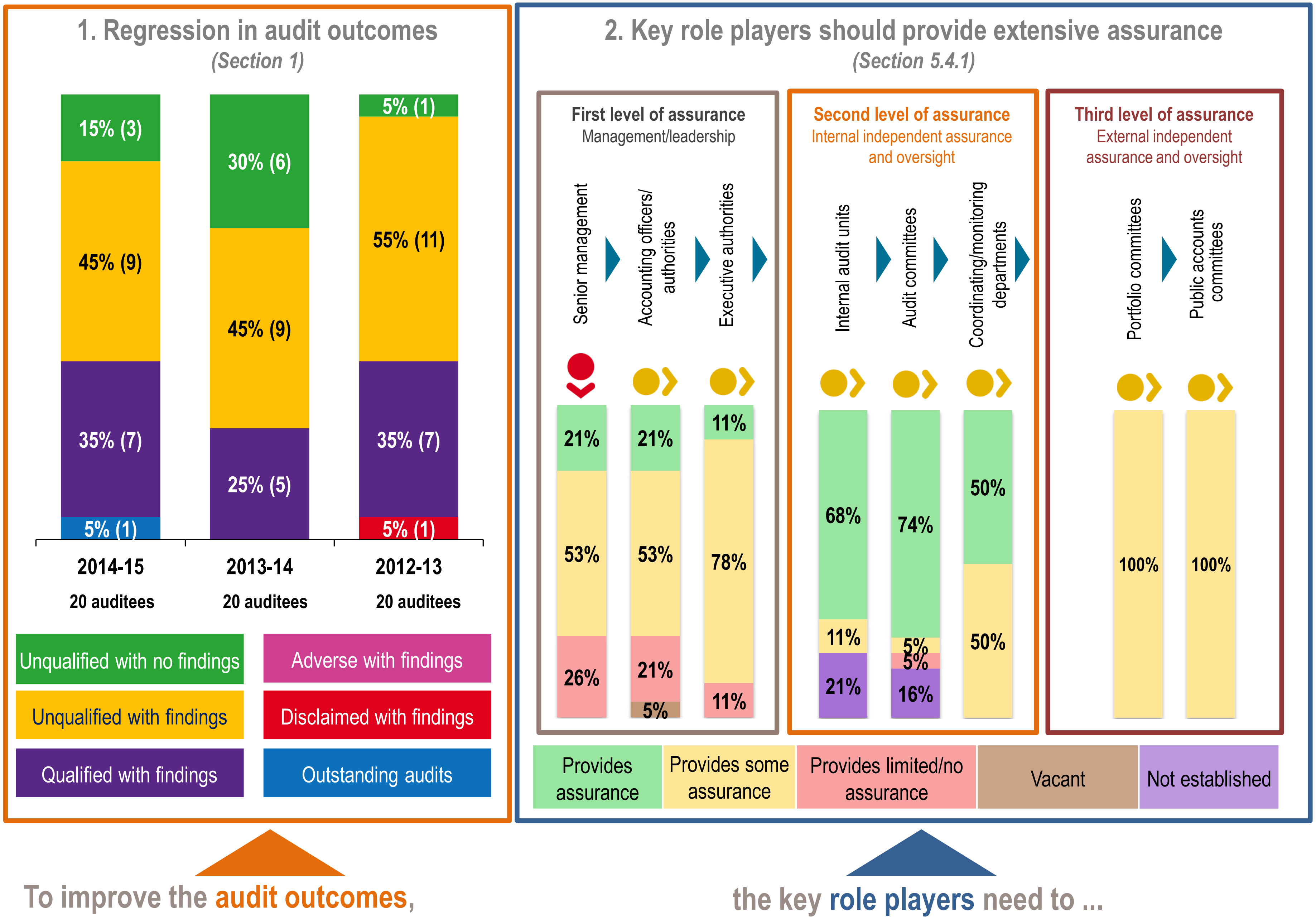
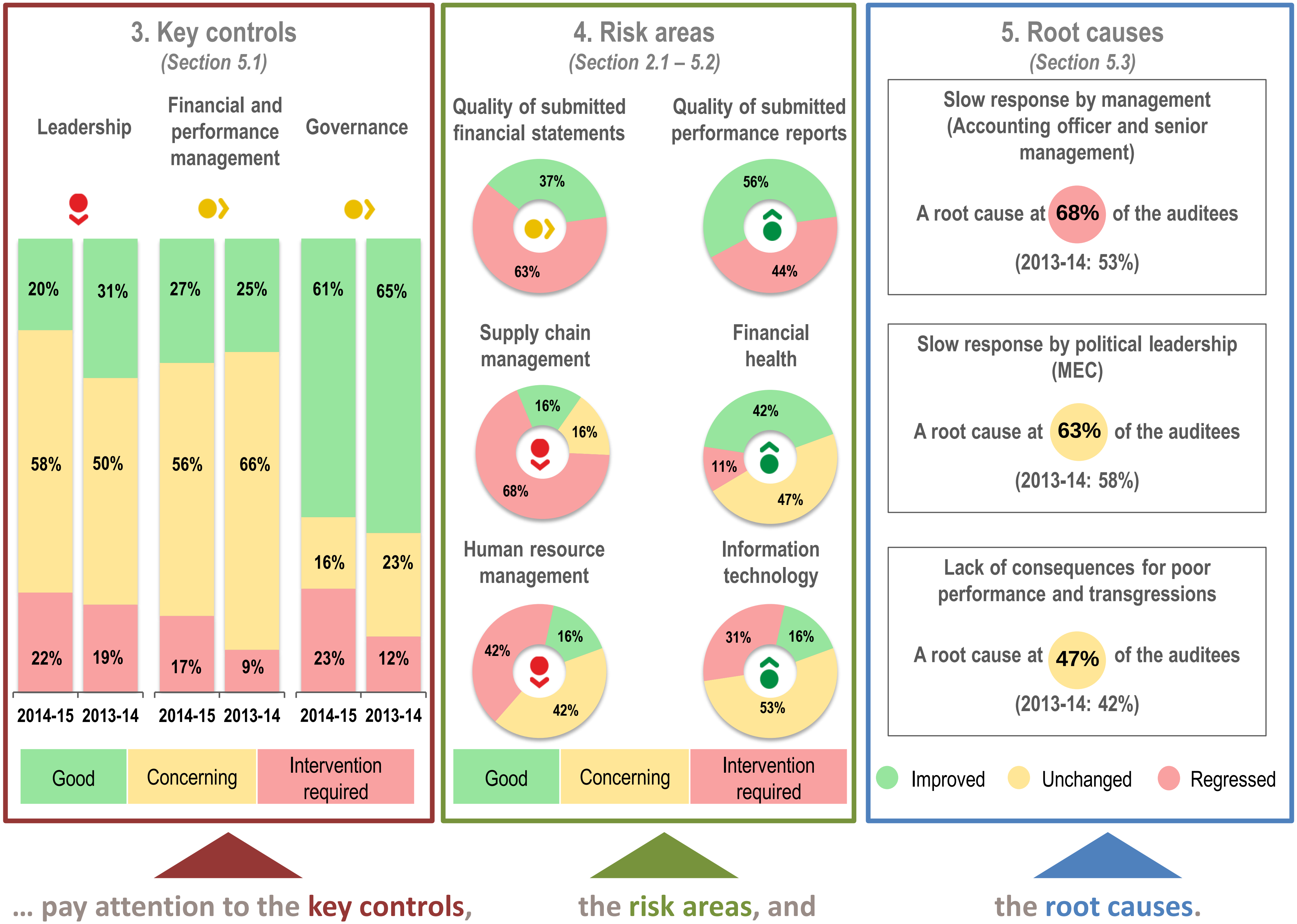


Figure 1b: Overview of the audit messages



Our audit and reporting process

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

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

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

Over the past few years, we have intensified our efforts to assist 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 management (including the use of consultants).

During the audit 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 members of the executive councils (MECs), the premier and the provincial treasury, as we are convinced that their involvement and oversight should play – and 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 b give an overview of our message on the 2014-15 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province. The figures show our opinion on auditees' financial statements and whether we had identified material audit findings on the quality of their annual performance report and compliance with key legislation.

The overall audit outcomes fall into the following categories:

1. Auditees that received a **financially unqualified opinion with no findings** were able to:

- produce financial statements free from material misstatements (material misstatements means errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
- measure and report on their performance against the predetermined objectives in their annual performance plan in a manner that is useful and reliable
- comply with key legislation.

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

2. Auditees that received a **financially unqualified opinion with findings** were able to produce financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their annual performance plans
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they had achieved their performance targets
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure that they comply.

3. Auditees that received a **financially qualified opinion with findings** have the same challenges as those that received financially unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements. There were material misstatements in their financial statements, which they could not correct before the financial statements were published.
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:

Improved Stagnant or little progress Regressed

The rest of the report summarises the audit outcomes, including our key recommendations for improvement and role players' impact and initiatives. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal control at the auditees, and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in our general reports.

Characteristics of each of the categories of audit outcomes

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

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

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

Area	Best practices for clean audits (3)	Unqualified with findings (9)	Qualified with findings (7)
Financial statements	These auditees produced financial statements **free from material misstatements**.	Five auditees (56%) produced financial statements **with material misstatements**, but **corrected** these during the audit process. The most common areas in which auditees made corrections were: • irregular expenditure • other non-current assets.	These auditees produced financial statements **with material misstatements**, which they **could not correct** before the audit report was signed. The most common areas in which they could not make corrections were: • commitments • property, infrastructure, plant and equipment • irregular expenditure.
Annual performance report	These auditees measured and reported on their performance in the annual performance report against the predetermined objectives in their strategic plan and/or annual performance plan, and in a manner that was **useful and reliable**.	The annual performance reports of two auditees (22%) were **not useful and/or reliable**. One auditee (11%) obtained good outcomes only because it **corrected the misstatements** identified during the audit.	One auditee (14%) **did not prepare** an annual performance report. Of the six that submitted annual performance reports, five (83%) were **not useful and/or reliable**.
Compliance with key legislation	These auditees **complied** with key legislation.	All nine auditees (100%) **did not comply** with key legislation.	All seven auditees (100%) **did not comply** with key legislation.
Controls	These auditees had good controls or were working on the areas that needed further attention to ensure that their clean audit status was maintained: • The **leadership** created an environment that contributed to internal control and oversight (100%). • Senior management ensured that controls were in place for **robust reporting systems for financial and performance management** (100%). • Auditees focused on **governance** through risk management activities and effective internal audit units and audit committees (100%).	These auditees had good controls in some areas but should pay more attention to the basic controls, as the number of auditees with good basic controls was limited: • Effective ICT controls – 2 (22%) • Effective audit action plans – 3 (33%) • Proper record keeping – 5 (56%) • Strong daily and monthly controls – 3 (33%) • Review and monitor compliance – 1 (11%).	There were no auditees with good controls in the overall areas of leadership and financial and performance management.

Area	Best practices for clean audits (3)	Unqualified with findings (9)	Qualified with findings (7)
	Their continued focus on these **basic controls** contributed to their success: • The leadership established a culture of **ethical behaviour, commitment** and **good governance** (67%). • **Good human resource practices** ensured that adequate and sufficiently skilled officials were in place and that their performance was managed (100%). • **Attention to information and communication technology (ICT)** ensured that it supported objectives and processes, and maintained the confidentiality, integrity and availability of information (33%). • **Audit action plans** were used to address internal control weaknesses (100%). • **Proper record keeping** ensured that information was accessible and available to support financial and performance reporting (100%). • **Basic disciplines and controls** were in place for daily and monthly processing and reconciling of transactions (100%). • Mechanisms were in place to identify applicable legislation, changes and processes to ensure and monitor **compliance with legislation** (100%).		
Assurance providers	**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. These auditees understood that assurance on the **credibility of the information in the financial statements and performance reports** came primarily from the **actions of management/leadership and their governance partners -** internal audit units and audit committees. Their political leadership provided **strong monitoring and oversight** and held the administration to account.	**All role players did not provide the required level of assurance**. As a result, 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. The internal audit units and the audit committees did not add to the credibility of these reports, while monitoring and oversight by the political leadership did not have the desired impact. These role players also did not insist on strong controls to ensure compliance with key legislation and to prevent, or detect and correct, material	None of the accounting officers/accounting authorities and executive authorities provided the required assurance. Five (71%) of the internal audit units and audit committees provided assurance. All accounting officers/accounting authorities and executive authorities provided **some or limited to no assurance**. Internal audit units and audit committees had not been established at two (29%) of these auditees.

Area	Best practices for clean audits (3)	Unqualified with findings (9)	Qualified with findings (7)
	The number of auditees where role players provided full assurance was: • senior management – 3 (100%) • accounting officers/authorities – 3 (100%) • executive authorities – 2 (67%) • internal audit units – 3 (100%) • audit committees – 3 (100%).	misstatements. The auditees where role players provided full assurance were limited: • senior management – 1 (11%) • accounting officers/authorities – 1 (11%) • internal audit units – 5 (56%) • audit committees – 6 (67%).	
Key officials	There were **limited vacancies** in key positions at these auditees, with the following vacancy at year-end: • Head of the SCM unit – 1 (33%) There was **stability** at the level of the accounting officer or authority, chief financial officer and head of the SCM unit - officials had been in these positions **between three to almost nine years.**	The **vacancies** in key positions were **noted as:** • chief financial officer – 1 (11%) • head of the SCM unit – 1 (11%) There was **less stability**, with key officials being in these positions for **just under three years on average.**	The vacancies in key positions were at the **same level** as those of auditees with unqualified opinions with findings: • chief financial officer – 1 (14%) • head of the SCM unit – 2 (29%) There was **even less stability,** with chief financial officers and heads of SCM units being in these positions for **less than two years.**
Use of consultants	**None** of these auditees **made use** of consultants for financial reporting.	These auditees **used** consultants for financial reporting services, but **most could not produce financial statements without material misstatements** – these material misstatements were corrected through the audit process. Four (44%) of these auditees were assisted by consultants for financial reporting to the amount of R15 million. The following practices to **manage consultants (used for financial and/or performance reporting purposes) need attention**: • No transfer of skills at 29% of auditees • Poor performance management and monitoring at 29% of auditees • Inadequate planning and appointment processes at 29% of auditees.	Four auditees (57%) were assisted by consultants for financial reporting to the amount of R3 million. These auditees had **poor financial audit outcomes** despite using consultants, mainly due to the following: • One auditee (25%) could not provide the records and documents consultants needed to perform their services. • The ineffectiveness of the auditee itself resulted in material misstatements at one auditee (25%). At two of these auditees (50%) the material misstatements were not in the financial areas where the consultants assisted. The following poor practices in **managing consultants (not limited to financial reporting) were widespread**: • No transfer of skills at 50% of auditees • Poor performance management and monitoring at 50% of auditees • Inadequate planning and appointment processes at 33% of auditees.

Area	Best practices for clean audits (3)	Unqualified with findings (9)	Qualified with findings (7)
Supply chain management and irregular expenditure	These auditees had **no material instances of non-compliance** with SCM legislation; 67% had good SCM practices but 33% still needed to improve in one area of SCM. These auditees **did not incur any irregular expenditure.**	In total, **78% of these auditees had material instances of non-compliance** with SCM legislation. Only one auditee (11%) had good SCM practices. Their **irregular expenditure levels were high** as a result of their poor SCM practices. They incurred 30% of the total irregular expenditure in the province. At two auditees (22%), the accounting officer **did not investigate the irregular expenditure of the previous year** to determine whether anyone was liable for the expenditure.	In total, **86% of these auditees had material instances of non-compliance** with SCM legislation. Their **irregular expenditure levels were high** as a result of their poor SCM practices. They contributed the most to irregular expenditure at 70% of the total irregular expenditure in the province, while being responsible for only 43% of the departmental budget. The lack of investigations was more pronounced. At five auditees (71%), the accounting officer **did not investigate the irregular expenditure of the previous year** to determine whether anyone was liable for the expenditure.

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

1. Overall audit outcomes

Provincial government consists of 13 departments, six listed (in part C of schedule 3 of the PFMA) public entities, one trading entity, four unlisted entities and the revenue fund. The number of public entities has increased from five in the previous year to six with the listing of the McGregor Museum. Comparative information on the McGregor Museum is included in this report as the entity was previously audited by us.

The audit outcomes of the four unlisted entities (Northern Cape Housing Fund; Ngwao Boswa Kapa Bokone; Northern Cape Arts and Culture Council and Northern Cape Political Party Fund) are excluded from this report as these auditees are considered insignificant for inclusion in this report. The revenue fund was also excluded from this report.

The total budgeted expenditure of the province was R13 390 million in 2014-15. The following were the main areas of expenditure:

	Departments	Public entities
• Employee costs	R7 267 million	R30 million
• Goods and services	R3 246 million	R33 million
• Capital expenditure	R1 411 million	R1 million
• Transfer payments	R1 464 million	R0 million

Figure 1a indicates that there has been a regression in the overall audit outcomes when compared to the previous year. Table 2 analyses the movement in the audit outcomes of the different auditees since the previous year that resulted in the net regression in the audit outcomes of the province. It further shows the previous year's audit opinion of the audit that was not completed by 14 August 2015, which is the cut-off date for the inclusion of audit outcomes in this report. Figure 2 reflects the budgeted expenditure administered by the auditees in the different categories of audit outcomes.

The regression in the overall audit outcomes of the year under review follows two years of significant improvements and reversed a substantial portion of the gains that were made in previous years. This regression includes two departments that received clean audit opinions in the previous year, but were not able to maintain this status due to a regression in their compliance with legislation.

The management of the four auditees that regressed to a qualified audit opinion were not able to respond to concerns that in most instances were highlighted as risk factors during the previous audit (the departments of Agriculture, Land Reform and Rural Development; Cooperative Governance, Human Settlements and Traditional Affairs; Transport, Safety and Liaison; and the McGregor Museum). These auditees were able to avoid qualified opinions in the previous year by making material amendments to their financial statements. However, this was not possible in the year under review since their management was not able to compile complete and accurate information in a timely manner.

The fact that the three auditees that achieved a clean audit opinion had done so for the past two consecutive years indicates that a culture of proper internal control and compliance with prescripts and legislation were instilled at these auditees. This can be attributed to leadership that identifies and responds to risk in a proactive way.

The Fleet Management Trading Entity submitted their financial statements on time, but the execution of the audit was delayed due to a revaluing process that involved the use of a management expert. The revaluation process was initiated after the year end and resulted in the auditors not being able to conclude their audit by the legislated deadline. The audit outcomes of this auditee were therefore excluded from this report.

Table 2: Movement in audit outcomes

	1 Improved	12 Unchanged	6 Regressed	1 Outstanding audits
Unqualified with no findings = 3		• Department of Environment and Nature Conservation • Department of Social Development • Northern Cape Tourism Authority		
Unqualified with findings = 9	• Department of Education	• Office of the Premier • Provincial Legislature • Department of Roads and Public Works • Kalahari Kid Corporation • Northern Cape Gambling Board • Northern Cape Liquor Board	• Department of Economic Development and Tourism • Provincial Treasury	
Qualified with findings = 8		• Department of Health • Department of Sport, Arts and Culture • Northern Cape Economic Development, Trade and Investment Promotion Agency	• Department of Agriculture, Land Reform and Rural Development • Department of Co-Operative Governance, Human Settlements and Traditional Affairs • Department of Transport, Safety and Liaison • McGregor Museum	• Northern Cape Fleet Management

Figure 2: Audit outcomes per budgeted expenditure (departments)

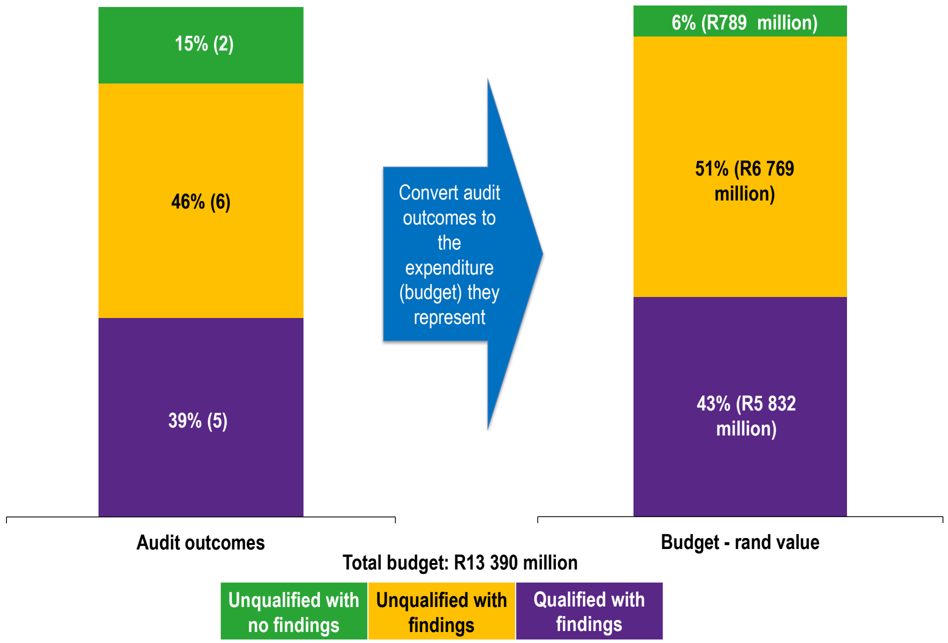


Figure 2 shows that the two departments (15%) that achieved a clean audit opinion represented only 6% of the provincial budget. This confirms the trend that smaller departments find it easier to achieve a clean audit than the larger departments. The six departments (46%) that achieved an unqualified opinion represented 51% of the provincial budget. This can be attributed to the Department of Education, which is the largest department in the province, having improved to an unqualified audit opinion with findings in the year under review.

In 2014-15, the budgeted expenditure of the departments of Education, Health and Roads and Public Works made up 72% of the total budget of the province. The improvement in the audit outcome of the Department of Education resulted in two of the three departments receiving financially unqualified audit opinions (departments of Education, and Roads and Public Works). These two departments make up 61% of the budget of the three largest departments, which aligns to the overall picture of the province.

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

Figure 3: Three-year trend – financial statements

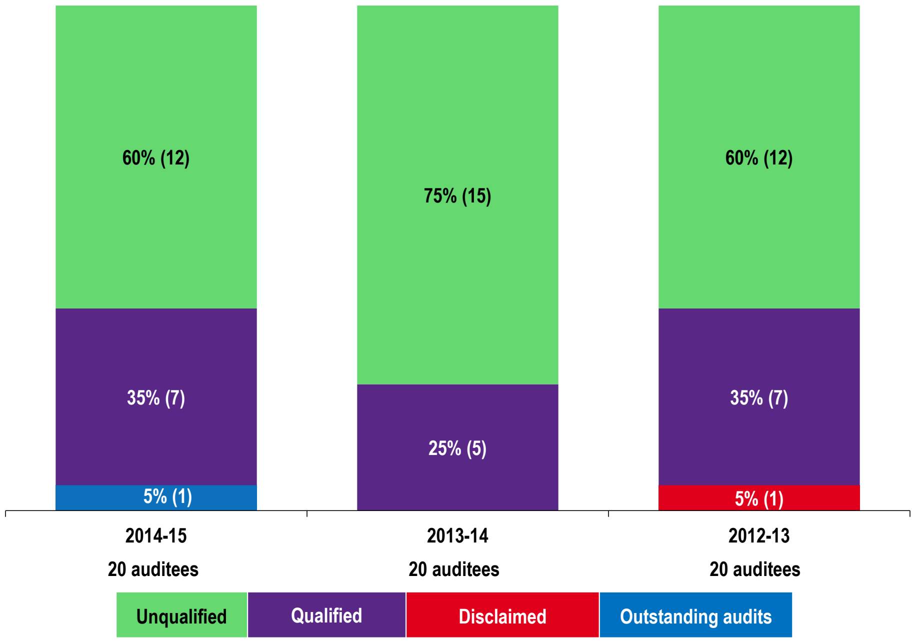
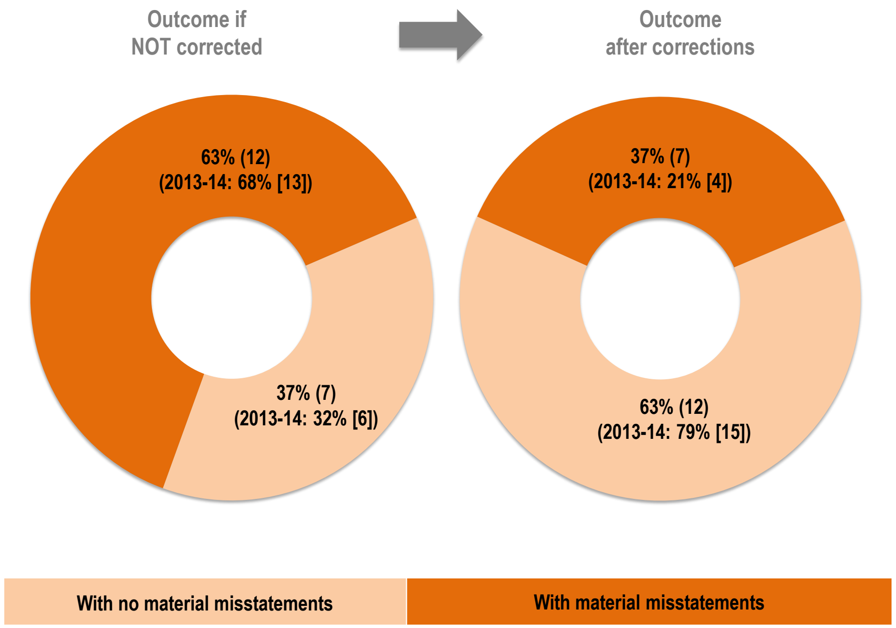


Figure 3 shows that there has been a regression in the audit opinions on financial statements when compared to the previous year. Although the Department of Education improved to a financially unqualified audit opinion, three departments and one public entity regressed to a financially qualified audit opinion. The main drivers of the regression in the audit outcomes of these auditees are matters raised on disclosure notes (commitments, irregular expenditure and accruals) and property, infrastructure, plant and equipment. The root causes of these matters raised will be discussed in section 5.3.

2.1.1 The quality of the financial statements submitted for auditing

Figure 4: Quality of financial statements submitted for auditing



While most auditees submitted their financial statements for auditing on time, figure 4 shows that only seven auditees (37%) submitted financial statements that did not contain material misstatements. These auditees were:

- Environment and Nature Conservation
- Office of the Premier
- Provincial Treasury
- Social Development
- Northern Cape Gambling Board
- Northern Cape Liquor Board
- Northern Cape Tourism Authority

Figure 4 also shows that five auditees (26%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The number of auditees that made material adjustments to their financial statements and avoided a qualified opinion decreased from nine (47%) in the previous year to five (26%) in the current year. This is because some auditees were not able to correct all the material misstatements in their financial statements, resulting in qualified audit opinions.

Only 37% of auditees would have received an unqualified audit opinion had it not been for the material adjustment made during the audit. There has been almost no change since the previous year when only 32% of auditees would have received an unqualified audit opinion had the auditors not allowed material misstatements to be corrected.

We report on the poor quality of the financial statements we receive for auditing in the auditees' audit reports as a material compliance finding, as this constitutes non-compliance with the Public Finance Management Act (PFMA). Although the Northern Cape Provincial Legislature is included in figure 4 as having made material adjustments to its financial statements, it did not have a finding on compliance in its audit report because it is not governed by the PFMA.

The most common misstatements corrected related to irregular expenditure and other non-current assets. Although irregular expenditure is highlighted as an area where material adjustments were common, disclosure notes as a whole tended to often require adjustments or resulted in qualified opinions where the entity was not able to make the required adjustments.

The reason for the misstatements in the disclosure notes was that the registers supporting the disclosure notes were prepared manually and did not form part of the financial system. These registers were not maintained throughout the year, but only after year-end as part of the process to compile financial statements. This often resulted in completeness and accuracy concerns. There is a need for an improved and more formal documentation system, especially in the larger departments. Finance staff need to pay more attention to compiling and reviewing the registers for disclosure notes to avoid misstatements.

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

2.1.2 Financial statement areas qualified

Although we reported the material misstatements to management for correction, five departments and two public entities (2013-14: three departments and one public entity) could not make the necessary corrections to avoid qualified opinions on their financial statements (refer to table 2). The three most common areas in which matters were raised and the reasons they occurred were:

Commitments

Four departments (Agriculture, Land Reform and Rural Development; Cooperative Governance, Human Settlements and Traditional Affairs; Health; and Transport, Safety and Liaison) received qualified opinions on commitments in the year under review (2013-14: one department, Health). The reasons for the qualified opinions were that:

- sufficient, appropriate audit evidence could not be provided for commitments disclosed in the financial statements

- the department did not have adequate systems to maintain proper records of commitments at year-end
- the definitions of commitments in the modified cash standard were not consistently applied, resulting in the incomplete disclosure of commitments in the financial statements.
- the review of commitment registers before the financial statements were submitted for audit was insufficient.

Irregular expenditure

Three auditees (Cooperative Governance, Human Settlements and Traditional Affairs; Health; and Transport, Safety and Liaison) received qualified opinions on irregular expenditure in the year under review (2013-14: three, Health, Northern Cape Economic Development, Trade and Investment Promotion Agency and Sport, Arts and Culture). The qualified opinions were because management did not implement a system of internal control to ensure the complete reporting of irregular expenditure. The reason for the irregular expenditure was that these departments did not follow procurement processes.

Property, infrastructure, plant and equipment

Three departments (Agriculture, Land Reform and Rural Development; Health; and Sport, Arts and Culture) (2013-14: three, Education, Health and Sport, Arts and Culture) received qualified opinions on property, infrastructure, plant and equipment in the year under review. The reasons for the qualified opinions were that:

- some machinery included in the accounting records could not be verified
- the systems for proper records of movable assets were not adequate
- sufficient, appropriate audit evidence relating to the disposal of immovable assets, and movable assets in general, was not kept.
- fixed asset registers were not updated and maintained and the departments did not undertake regular physical counts

2.1.3 Recommendations

Auditees that submitted financial statements with material misstatements should strengthen their processes and controls to create and sustain a control environment that supports reliable reporting. These auditees should implement at least the following key controls and best practices that are in place at the auditees that achieved unqualified audit opinions:

- Management needs to respond promptly by addressing matters that have been identified during the audit. These matters were often included in the auditees' action plans, but were not adequately addressed.
- Prepare reliable quarterly financial statements, and daily and monthly reconciliations, to ensure that transactions, balances and disclosures are complete and accurately recorded.
- Implement a performance management system with clear consequence management for poor performance and transgressions.
- Improve the process of record keeping to ensure sufficient and appropriate audit evidence is available for all financial statement items.

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)
- Human resource management and compensation.

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

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

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

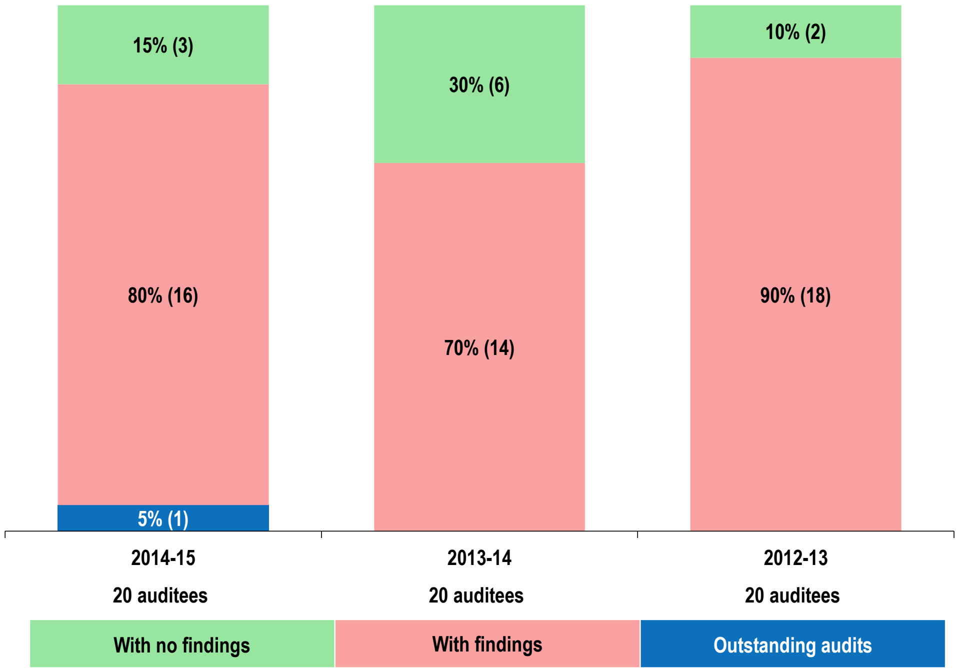


Figure 5 shows that there has been a decrease in the number of auditees with no material findings on their compliance with key legislation since the previous year. The overall regression in compliance was due to the following two departments and one public entity regressing in the year under review:

- Economic Development and Tourism
- Provincial Treasury
- McGregor Museum

That the audit reports of 80% of auditees contain significant findings on compliance is of concern. Capacity needs to be built within departments and public entities to ensure compliance with legislation.

In addition, the largest service delivery departments in the province (Education; Health; and Roads and Public Works) all had material findings on compliance. Together, these three departments had material findings in nine of the fifteen compliance areas that we audit.

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

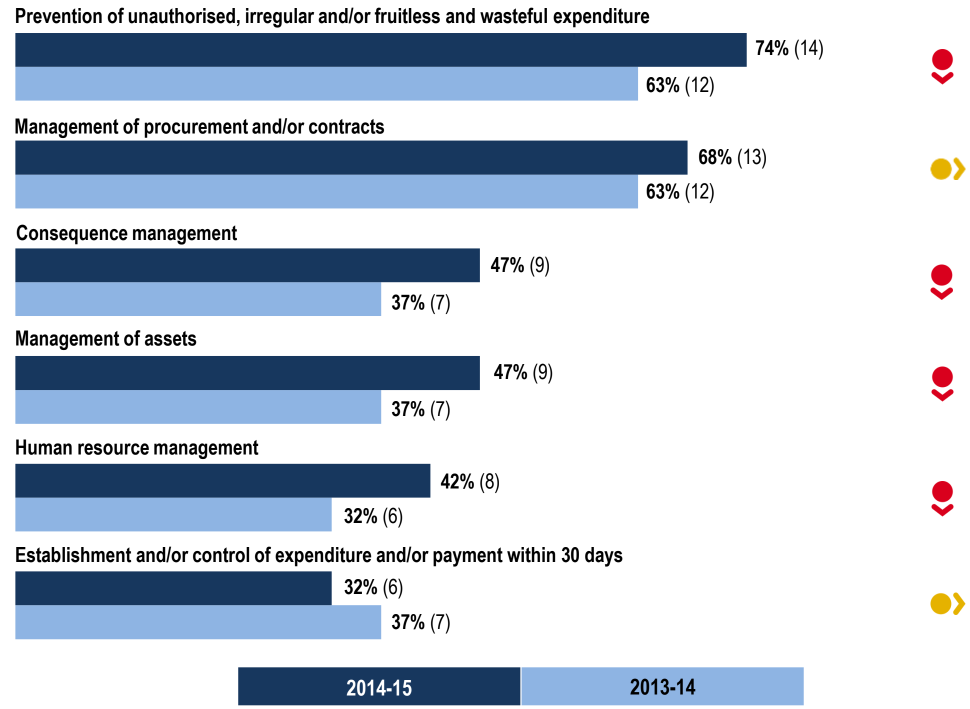


Figure 6 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. It is clear that there has been an increase in findings on most areas of compliance. Some of these findings had actual or potential financial loss implications estimated to be at 88% of the 16 auditees with findings. These include not preventing unauthorised, irregular as well as fruitless and wasteful expenditure.

The reasons relate to the responsibility for compliance not being allocated to a dedicated person at most auditees. The focus of most auditees remained on avoiding qualified opinions on financial statements and the area of compliance did not receive adequate attention.

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

- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with, as discussed in sections 2.2.2-4.
- Auditees did not comply with SCM legislation, as detailed in section 2.2.2.

- Unauthorised, irregular and fruitless and wasteful expenditure was not investigated to determine whether a responsible official was liable.
- Proper control systems were not implemented for safeguarding and maintaining assets.
- A proper verification process for new appointments did not always take place as discussed in section 4.1.
- Payments to creditors were not settled within 30 days from the receipt of an invoice

Sections 2.2.2-4 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 197 contracts (with an approximate value of R2 525 million) and 893 quotations (with an approximate value of R79 million), also referred to as awards in this report.

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

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

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

Figure 7: Status of supply chain management

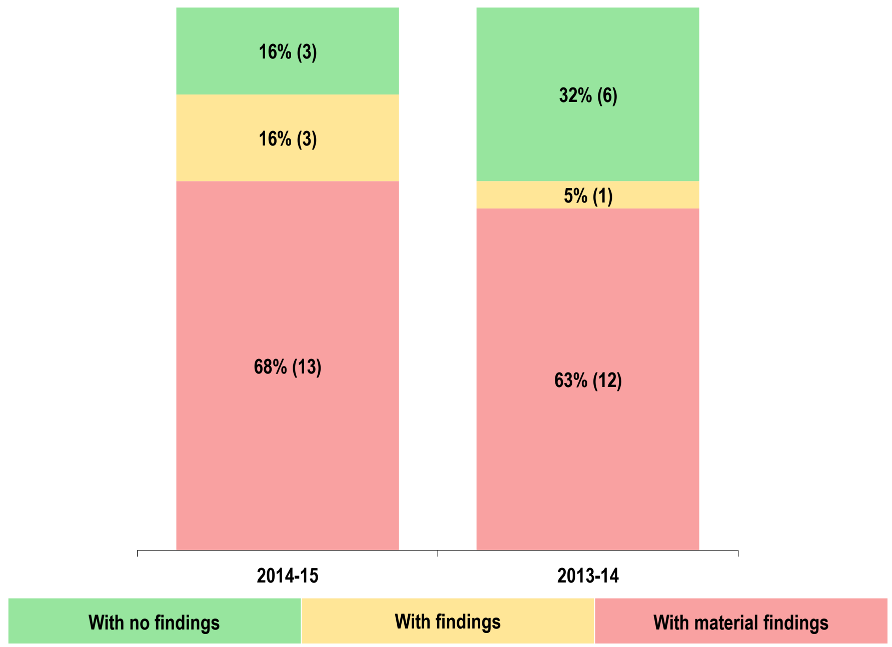


Figure 7 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report for the current and previous year. There has been a regression in SCM since the previous year, mainly because three auditees had no findings in 2013-14 while all had findings in 2014-15.

Eighty-four per cent of auditees had findings on SCM, whether material or not, which was attributable to the internal controls in their SCM environment not being monitored regularly to prevent these findings.

Figure 8: Findings on supply chain management

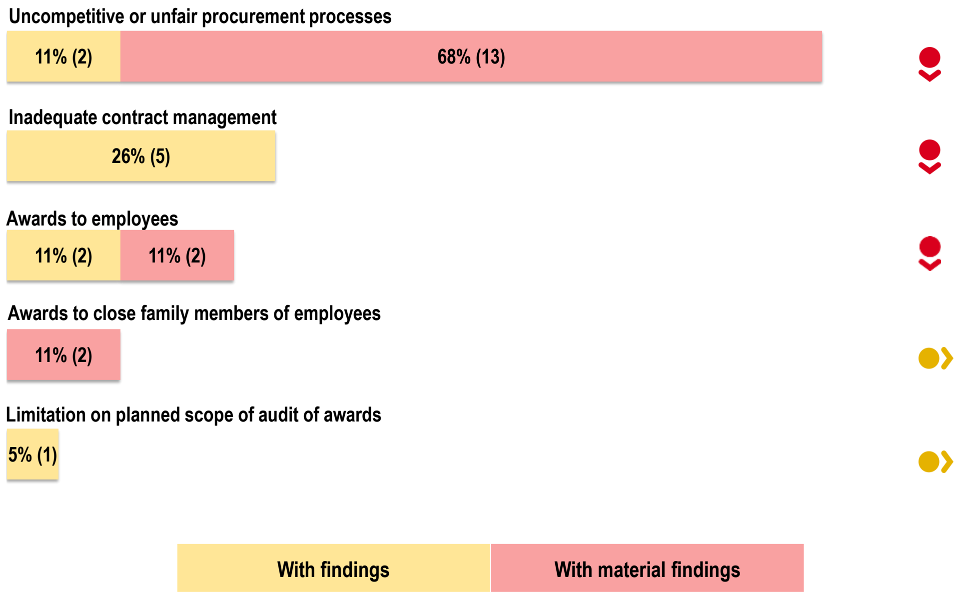


Figure 8 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year we again experienced limitations in auditing SCM at the Department of Cooperative Governance, Human Settlements and Traditional Affairs. We could not audit awards with a value of R137 million at this auditee (2013-14: R9 million at two auditees) as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We also could not perform any alternative audit procedures to obtain assurance that the expenditure was not irregular. The main reason for the limitations was that the department could not obtain the tender documentation from the municipalities that procured the housing projects to ensure that proper procurement processes were followed.
- There were 14 instances of awards, with an overall value of R4 million, to suppliers in which employees of the auditees had a financial interest. In 29% of these instances the supplier did not declare the interest, while the employee did not declare the interest in 71% of the cases. The officials involved were not appointed in key positions.
- There were 28 instances of awards, with an overall value of R8 million, to suppliers in which close family members of employees of the auditees had an interest. In 46% of these instances the supplier did not declare the interest, while the employee did not declare the interest in 54% of the cases. The officials involved were not appointed in key positions.

The most common findings on uncompetitive and unfair procurement processes were as follows:

- Three written quotations were not invited and/or deviations not justified at 10 auditees (53%)
- Competitive bids were not invited and/or deviations not justified at seven auditees (37%)
- Six auditees (32%) procured from suppliers without a valid tax clearance certificate from the South African Revenue Services.

The most common findings on contract management were as follows:

- No/inadequate contract performance measures and monitoring were evident at three auditees (16%)
- Two auditees (11%) had instances where contracts were amended or extended without approval by a delegated official
- Two auditees (11%) failed to register projects with the Construction Industry Development Board within 21 working days.

SCM transgressions that arose were driven by conflicts of interest and non-adherence to SCM controls. These transgressions were characterised by the political and administrative leadership not leading by example or not setting the right tone, which created an environment where controls could be circumvented with no consequences for transgressions.

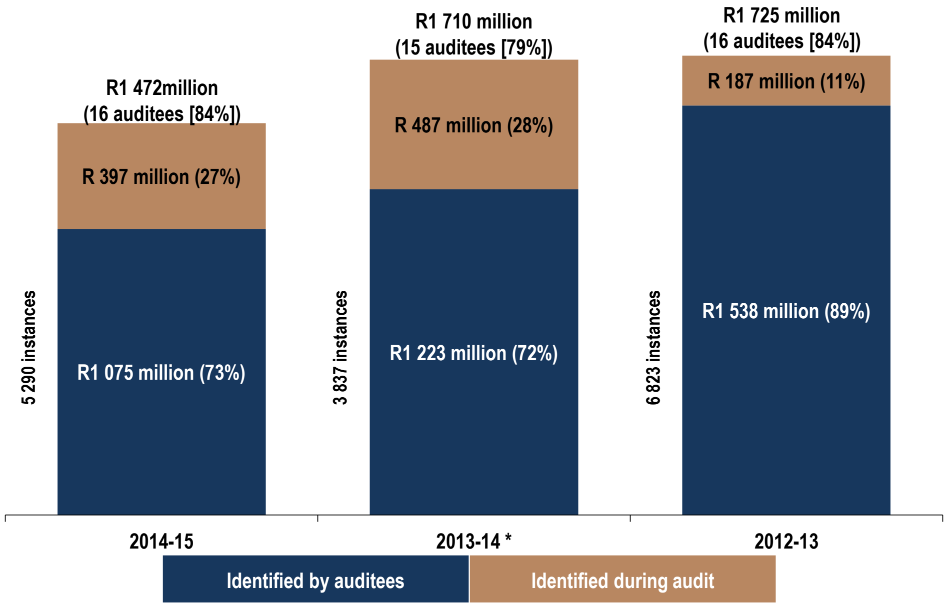
The political and administrative leadership should set a tone of zero tolerance for transgressions of legislation and conflict of interest. Decisive action should be taken against those that fail to meet the requirements of legislation.

Irregular expenditure

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

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

Figure 9: Trend in irregular expenditure



* The 2013-14 figures in the GR has been restated in line with the restated irregular expenditure figures in the financial statements of auditees

Although the irregular expenditure reported during 2014-15 decreased since 2013-14, it is of concern that auditees are still incurring irregular expenditure. Eight auditees disclosed in their financial statements that they still have to investigate the whole population to determine the full extent of their irregular expenditure. These auditees are:

- Agriculture, Land Reform and Rural Development
- Cooperative Governance, Human Settlements and Traditional Affairs
- Economic Development and Tourism
- Education
- Roads and Public Works
- Sport, Arts and Culture
- McGregor Museum
- Northern Cape Economic Development, Trade and Investment Promotion Agency.

As these auditees are still investigating the full extent of the irregular expenditure, the amounts reflected as irregular expenditure may not reflect the complete picture and may increase as and when irregular expenditure is confirmed.

The departments of Health, Education and Cooperative Governance, Human Settlements and Traditional Affairs incurred R622 million (2013-14: R1 003 million), R346 million (2013-14: R319 million) and R223 million (2013-14: R108 million) respectively in irregular expenditure, which was 81% (2013-14: 84 %) of the total amount incurred by the province.

The departments of Cooperative Governance, Human Settlements and Traditional Affairs; Health; and Transport, Safety and Liaison could not avoid the qualification on irregular expenditure because they did not investigate the irregular expenditure to identify the full extent of the error. This can only be achieved by implementing proper controls. In addition, proper records of their irregular expenditure were not kept.

The irregular expenditure of R1 472 million incurred in the current year constitutes an estimated 11% of the total expenditure in the province.

In total, 84% of the expenditure was the result of instances of non-compliance in 2014-15, while the remainder was expenditure resulting from transgressions in previous years.

While the amount of irregular expenditure identified by the auditors has decreased since the previous year, the following are worth noting:

- The Department of Cooperative Governance, Human Settlements and Traditional Affairs failed to identify 85% of its irregular expenditure amounting to R223 million.
- The Department of Roads and Public Works incurred irregular expenditure amounting to R75 million. Of this, 59% related to the previous year.
- At the Department of Transport, Safety and Liaison, 36% of the irregular expenditure of R155 million was identified by the auditors.

Of the irregular expenditure of R1 472 million incurred in 2014-15, most (99,7%) was a result of non-compliance with SCM legislation. The following main areas of non-compliance, with an indication of the estimated value of the expenditure, were disclosed by the auditees in their financial statements:

- Procurement without a competitive bidding or quotation process – R882 million (60%)
- Non-compliance with procurement process requirements – R586 million (40%).

The PFMA provides steps for accounting officers to investigate irregular expenditure to determine whether any officials were 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 on goods and services that were not received or had not been procured at the best price. Irregular expenditure remains 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 National Treasury).

At 31 March 2015, the auditees' financial statements showed that the balance of irregular expenditure in the province that required action was R8 209 million.

Our audits also revealed that at seven auditees (37%), the accounting officer or oversight body did not investigate the irregular expenditure of the previous year to determine whether any person was liable for the expenditure. This was reported as material non-compliance, as discussed under section 2.2.1. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any money had been wasted. This indicates that no effective steps were being taken to remedy the situation at these auditees.

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

We determined through our normal audits that goods and services were received for R939 million (64%) of the irregular expenditure despite the normal processes governing procurement not having been followed. However, we cannot confirm that these goods and services had been procured at the best price and that value was received for the money spent.

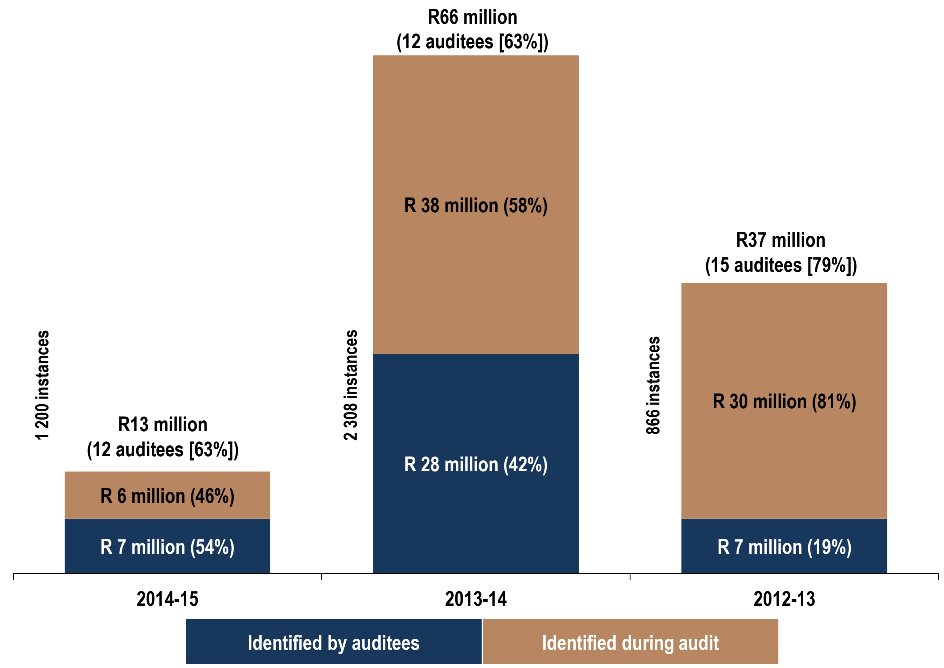
For the remainder of the irregular expenditure (R529 million; 36%), we could not specifically confirm that goods and services had been received, as this part of the population was not subject to our audits.

2.2.3 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken.

The PFMA requires accounting officers to take all reasonable steps to prevent fruitless and wasteful expenditure. The auditee should have processes 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 incurred in a previous financial year.

Figure 10: Trend in fruitless and wasteful expenditure



There has been a decrease of R53 million (80%) in fruitless and wasteful expenditure since 2013-14. The number of instances decreased from 2 308 to 1 200, a decrease of 48%, indicating that the internal controls and systems to prevent and detect fruitless and wasteful expenditure had improved significantly.

Despite a decrease in the amount of fruitless and wasteful expenditure, as well as the number of instances, the number of auditees that incurred fruitless and wasteful expenditure remained the same at 12 (63%).

The departments of Health, and Roads and Public Works incurred R10,6 million, in fruitless and wasteful expenditure, which was 82% of the R13 million incurred in the province.

The fruitless and wasteful expenditure reported in the current year was due to the following:

- Penalties and interest amounting to R2,7 million (21%) were reported at 11 auditees, with the Department of Health incurring R2,3 million (85%) of the total amount.
- Litigation and claims at the Department of Health contributed R3,8 million (29%) to the fruitless and wasteful expenditure of the province.
- The Department of Roads and Public Works made a R4,2 million (32%) overpayment to a supplier that resulted in fruitless and wasteful expenditure.

- The Department of Cooperative Governance, Human Settlements and Traditional Affairs incurred costs of R1,5 million (12%) to rectify reconstruction and development programme (RDP) houses.

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

Our audits also revealed that at seven auditees (37%), the accounting officer or oversight body did not investigate the fruitless and wasteful expenditure of the previous year to determine whether any person was liable for the expenditure. This was reported as material non-compliance as discussed under section 2.2.1.

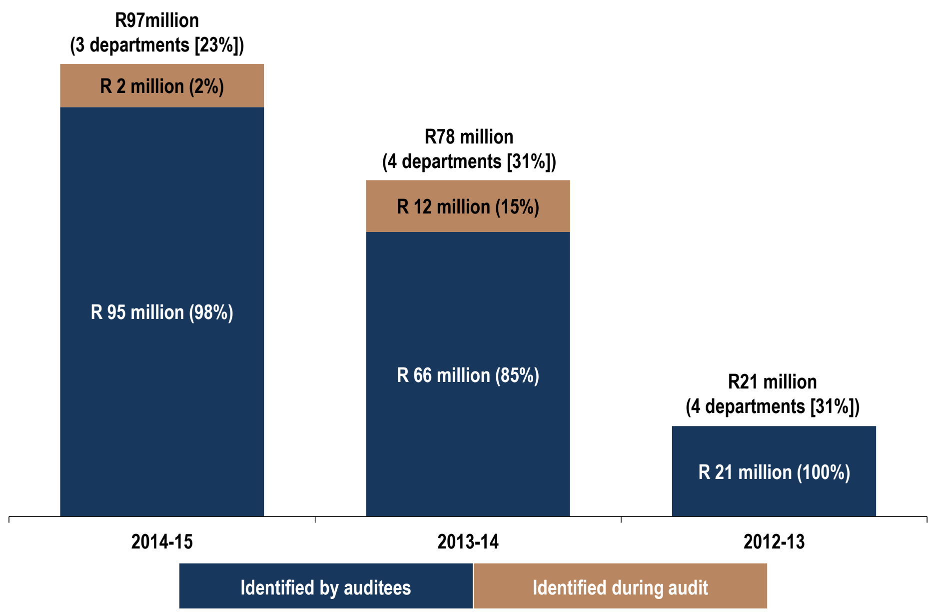
2.2.4 Unauthorised expenditure

Unauthorised expenditure is expenditure that was not incurred in line 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 and must disclose these amounts in the financial statements.

The PFMA also includes the steps for accounting officers and oversight bodies to investigate unauthorised expenditure to determine whether any officials were liable for the expenditure, and to recover the money if liability is proven.

Figure 11: Trend in unauthorised expenditure



Although only three departments incurred unauthorised expenditure, the amount increased by R19 million since 2013-14. These departments are:

- Health – R91 million
- Cooperative Governance, Human Settlements and Traditional Affairs – R4 million
- Transport, Safety and Liaison – R2 million.

Of the unauthorised expenditure of R97 million in 2014-15, the entire amount (100%) was incurred as a result of overspending of their annual appropriation.

Ninety-four per cent of the unauthorised expenditure of the province was incurred by the Department of Health and related largely to goods and services, and household transfers. The department overspent on these two categories of expenditure for the following reasons:

- The department overspent on goods and services because of cash flow constraints caused by accruals from the previous financial year. This negatively affected payments to suppliers and resulted in further unauthorised expenditure. The main items on which the department overspent were travel costs, operating leases, fleet services, maintenance costs, cleaning materials and uniform/clothing materials.
- Overspending on household transfers was due to transfers made to the Cuban programme and local universities to improve skills within the health sector. The department is over-committed on bursaries due to the inability to attract and retain skilled personnel.

At two auditees (11%), the accounting officer or oversight body did not investigate the unauthorised expenditure of the previous year as required by legislation to determine whether any person was liable for the expenditure. This was reported as material non-compliance as discussed under section 2.2.1.

2.2.5 Recommendations

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

- The political leadership should change their focus by striving not only towards unqualified opinions on their financial statements, but also towards addressing findings on compliance with legislation as a part of clean administration. In addition they should set a tone of zero tolerance for non-compliance with legislation and decisive action should be taken against those who fail to meet the requirements of legislation.
- Human resource management in the compliance units should be improved as follows:

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

- Controls to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure should be improved. The auditees should implement strict processing and reconciling controls. Compliance should be monitored and reviewed regularly.
- All instances of unauthorised, irregular and fruitless and wasteful expenditure should be investigated to identify the responsible person and consequences should be put in place for incurring this type of expenditure. Funds should be recovered from the person held liable in law, and disciplinary action taken against people who incur or permit this expenditure.
- Record keeping should be improved to enable officials to produce the required supporting documents when requested.
- The centralised audit committees and internal audit units should assist by proactively identifying breaches of legislation and reporting these to the leadership for action to be taken against those responsible.

Remaining up-to-date with legislation and regularly monitoring of compliance are important steps in ensuring that non-compliance with legislation is avoided. By having good internal controls for compliance the auditee will avoid compliance findings. The three auditees that were able to obtain clean audit opinions had adhered to these best practices.

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.

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

Figure 12: Status of financial health

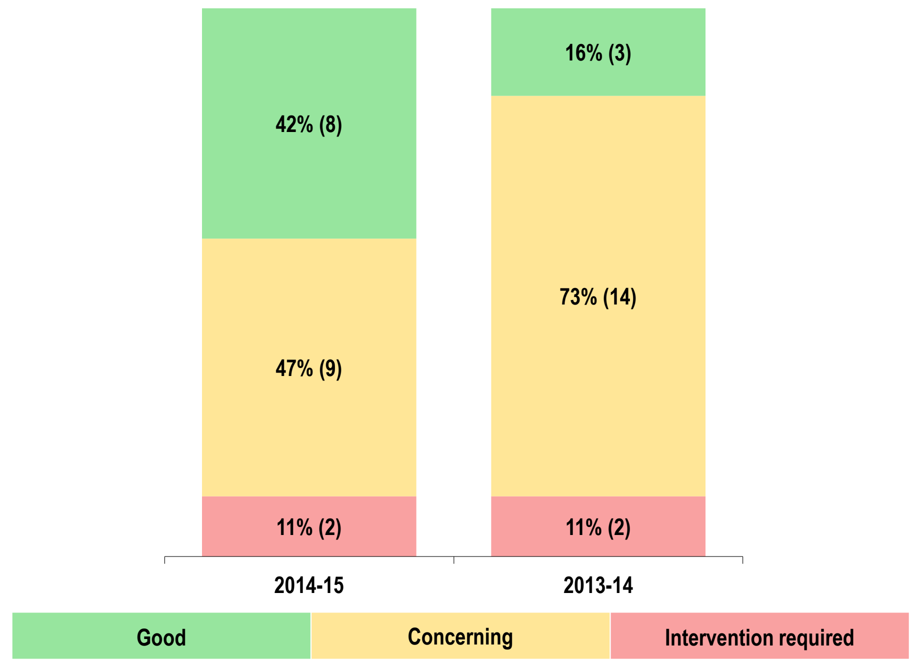


Figure 12 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning') and auditees with material going-concern uncertainties, which resulted in their financial statements not being reliable enough to analyse (shown as 'intervention required'). Since the previous year there has been a reduction in the number of auditees that had financial risk indicators.

The improvement in the overall status of financial health can be attributed to the improved financial health of five auditees:

- Education
- Provincial legislature
- Social Development
- Northern Cape Economic Development Trade and Investment Agency
- Northern Cape Liquor Board.

The financial health of the above auditees improved due to a decrease in the number of financial risk indicators (to less than three). The number of financial risk indicators at these auditees decreased due to improved debt management, expenditure management and better controls around the budgeting process at these auditees.

The improvement in financial risk indicators at the Northern Cape Liquor Board was commendable as these indicators had improved to such an extent that the going-concern emphasis of matter reported in the previous year's audit report was no longer required..

Figure 13: Areas of financial health concerns – departments

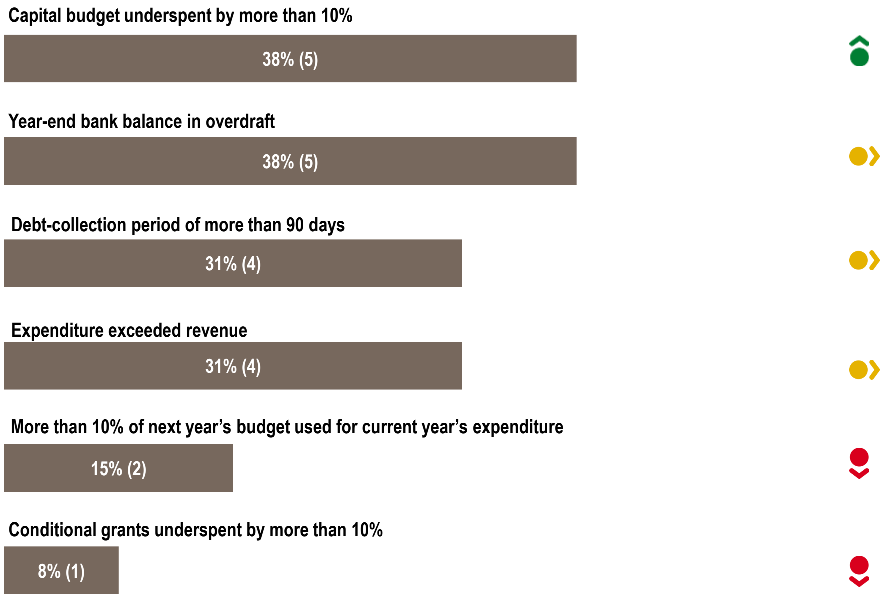
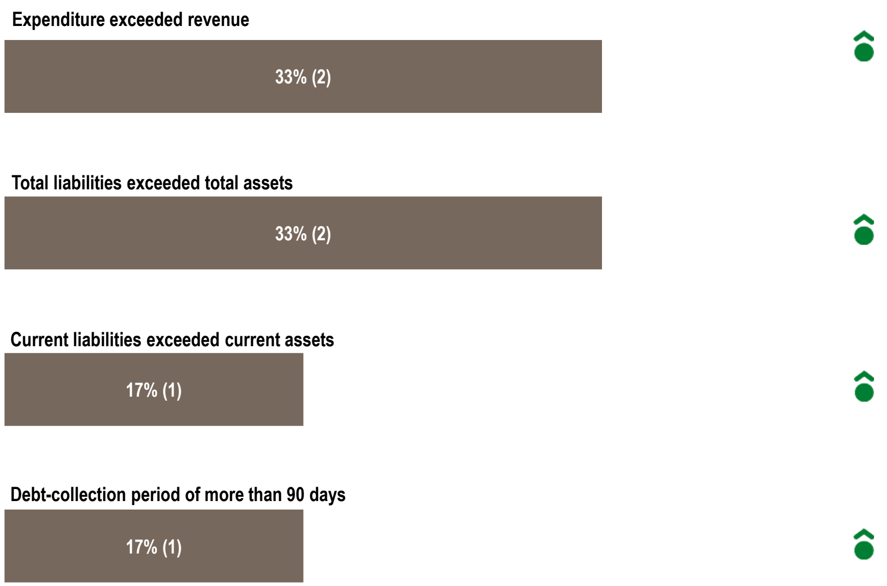


Figure 14: Areas of financial health concerns – public entities



Figures 13 and 14 show the number of auditees with financial health risk indicators and the movement since the previous year. 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 analyses, we reconstructed the financial statements to determine whether these departments would still have had surpluses for the year had these expenses been included in their financial statements. We also assessed the impact of the unpaid expenses at year-end on the following year's budget.

The accrual adjusted deficit for departments remained the same as in the previous year, with four departments (31%) having findings in this area.

The Department of Roads and Public Works had the largest accrual-adjusted deficit. Their deficit amounted to R340 million, mainly because of the extent of their accruals. Accruals amounted to R536 million and related mainly to amounts owed to municipalities for rates and taxes that are in arrears.

Thirty-eight per cent (2013-14: 38%) of departments (Cooperative Governance Human Settlements and Traditional Affairs; Education; Environment and Nature Conservation; Health; and Office of the Premier) had bank overdrafts at year-end.

The Department of Health had the largest bank overdraft, amounting to R109 million, relating mainly to the previous year's unauthorised expenditure that had not yet been condoned.

2.3.2 Underspending by departments of capital budgets

The underspending of capital budgets by departments improved from six (46%) in the previous year to five (38%) in the current year. The departments that underspent most were the Department of Sport, Arts and Culture (55%), provincial treasury (26%) and Transport, Safety and Liaison (21%). This underspending relates to the following:

- The underspending by the Department of Sport, Arts and Culture relates to projects to build new public libraries. These projects were delayed by the process of obtaining land from municipalities on which to build the libraries.
- The largest portion of underspending at the provincial treasury relates to the cost of restructuring the asset management unit. This expense was budgeted for in the year under review, but due to restructuring in the asset management unit, these positions will only be filled in the next financial year.

- The Department of Transport, Safety and Liaison budgeted to purchase capital goods to the value of R2,5 million. These goods were ordered, but not received, resulting in the underspending in the year under review.

2.3.3 Debt management

The number of departments and public entities experiencing problems in collecting debt improved from 32% in 2013-14 to 26% in 2014-15. These included the departments of Health; provincial treasury; Roads and Public Works; and Transport, Safety and Liaison, and the McGregor Museum. Most of the outstanding debt at departments relates to patient debt at the Department of Health (57%) and outstanding motor vehicle licence fees at the Department of Transport, Safety and Liaison (39%). The controls to ensure the timely collection of debt need to be reassessed to ensure that they function effectively.

2.3.4 Financial health risks at public entities

The only regression in terms of going concern was at the McGregor Museum, where an emphasis of matter was raised on their ability to continue as a going concern. The reasons can be summarised as follows:

- The Department of Sport, Arts and Culture previously covered any shortfall on the entity's budget. Uncertainty exists as to whether this practice will continue as the museum has been listed in the year under review. As such, the entity's appropriation will now be allocated in terms of the Division of Revenue Act.
- A private sector funder that had supported the museum for a number of years discontinued their support.
- The entity incurred losses in the current and previous financial years.

As in the previous year, the Kalahari Kid Corporation again had an emphasis of matter on going concern. This was because the entity has incurred losses for a number of years and remains dependent on grants for its existence, although the intention was that it should be a self-sustainable business.

The number of entities whose liabilities exceeded their assets decreased from three (50%) in 2013-14 to two (33%) in 2014-15. This can be attributed to an improvement in the level of financial support that departments provided to entities.

2.3.5 Recommendations

Auditees should implement at least the following key controls and best practices that are in place at the auditees that have sound financial indicators:

- Cash flow mechanisms should be implemented to ensure that critical projects and services are prioritised.
- Improved expenditure management and controls around budgeting processes will further assist with auditees that have significant bank overdrafts.
- Management must implement effective controls for the prompt collection of debt. This is especially applicable to the departments of Health and Transport, Safety and Liaison that need to improve their debt management.

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 de-racialisation of the economy.

In support of these goals, grants are provided to the province to:

- reduce the concentration of people in urban areas (comprehensive agricultural support programme grant and human settlements development grant)
- diversify the economy (technical secondary schools recapitalisation grant),
- ensure adequate infrastructure (education infrastructure grant, provincial roads maintenance grant and health facility revitalisation grant)
- improve skills (national tertiary services grant, public transport operations grant, comprehensive HIV and Aids grant, expanded public works programme, integrated grant for provinces and the social sector, expanded public works programme, incentive grant for provinces).

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.

Grants totalling R3 473 million were allocated to the province, with most of the provincial grants being allocated to the following departments:

- Department of Health: R1 203 million
- Department of Roads and Public Works: R683 million
- Department of Education: R548 million
- Department of Agriculture and Rural Development: R463 million

- Department of Cooperative Governance, Human Settlements and Traditional Affairs: R375 million
- Department of Sports, Arts and Culture R155 million.

We raised the following findings at the departments that received grant allocations:

- The reported performance/achievement of targets was not correct at the Department of Cooperative Governance, Human Settlements and Traditional Affairs and the Department of Transport, Safety and Liaison.
- Planned targets (key milestones) for the selected project were not achieved at the Department of Cooperative Governance, Human Settlements and Traditional Affairs.
- The desired impact of the project was not achieved at the Department of Cooperative Governance, Human Settlements and Traditional Affairs.

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

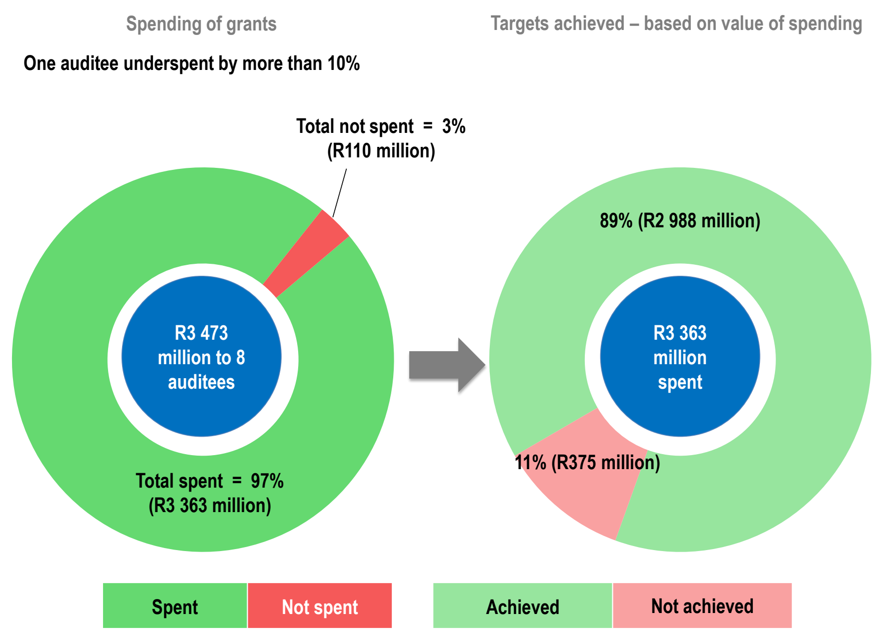


Figure 15 shows that the province had underspent grants by 3% (R110 million). The Department of Sport, Arts and Culture was the only department to underspend by more than 10%, for the following reasons:

- The two expanded public works programme grants were underspent because of delays in appointing staff
- One of the main projects under the community library services grant was not finalised at year-end due to delays in the bidding processes and a general shortage of building material in the greater Kimberley area.

This underspending could have a negative impact on the department's ability to deliver services to the public.

Furthermore, the 97% (R3 363 million) that was spent by departments only achieved 89% of the planned targets. The other 11% relates to the Department of Cooperative Governance, Human Settlements and Traditional Affairs grant. This highlights the possible risks that the planned targets may not have been appropriate, that progress towards achieving targets was not properly monitored during the year and that services were acquired without applying the prescripts that result in an economical acquisition of goods and services or value for money. The inability of the department to achieve the set targets prevents them from receiving the full benefit and impact of the grant.

2.4.3 Recommendations

The following key controls should be implemented to ensure sound grant management:

- Proper planning, adequate project management and in-year monitoring and follow-up should be implemented to ensure projects are completed within the set time frames.
- Management must ensure that appropriate planned targets are set in the beginning of the year and the achievement of these targets is monitored throughout the year.

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.

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 arising 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 – material findings on annual performance reports

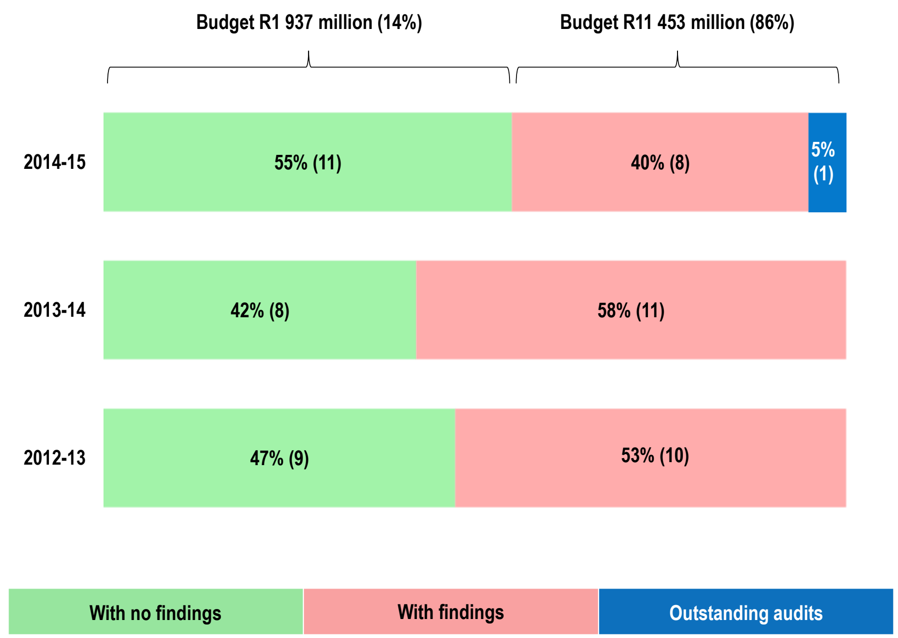


Figure 16 shows that there has been an improvement in the number of auditees with no material findings on their annual performance reports compared to the previous year.

Overall, more than half the departments in the province did not have material findings on their performance reports, while four of the six listed public entities being reported on did not have material findings on theirs.

Despite the improvement in performance reporting, the credibility and quality of performance reports have a direct impact on the effective, efficient and economical allocation of resources to service delivery initiatives by the auditee. Figure 16 shows that the departments that could not provide credible performance reports managed R11 453 million (86%) of the total provincial government budget. The departments of Health; Education; and Roads and Public Works are the three biggest departments in the province that could not provide credible performance reports, and they accounted for R9 690 million (72%) of the total provincial government budget.

3.1 The quality of the annual performance reports submitted for auditing

While most auditees submitted their annual performance reports for auditing, with the exception of the McGregor Museum, figure 17 shows that only 10 auditees (56%) submitted annual performance reports that did not contain material misstatements. These auditees were:

- Department of Economic Development and Tourism
- Department of Environment and Nature Conservation
- Office of the Premier
- Provincial Treasury
- Department of Social Development
- Department of Sports, Arts and Culture
- Kalahari Kid Corporation
- Northern Cape Gambling Board
- Northern Cape Liquor Board
- Northern Cape Tourism Authority.

This is an improvement compared to the previous year when only six auditees submitted quality annual performance reports. The improvement is solely attributable to the four public entities listed above. The six departments again submitted quality annual performance reports with no material findings as in the previous year.

Figure 17: Quality of submitted annual performance reports

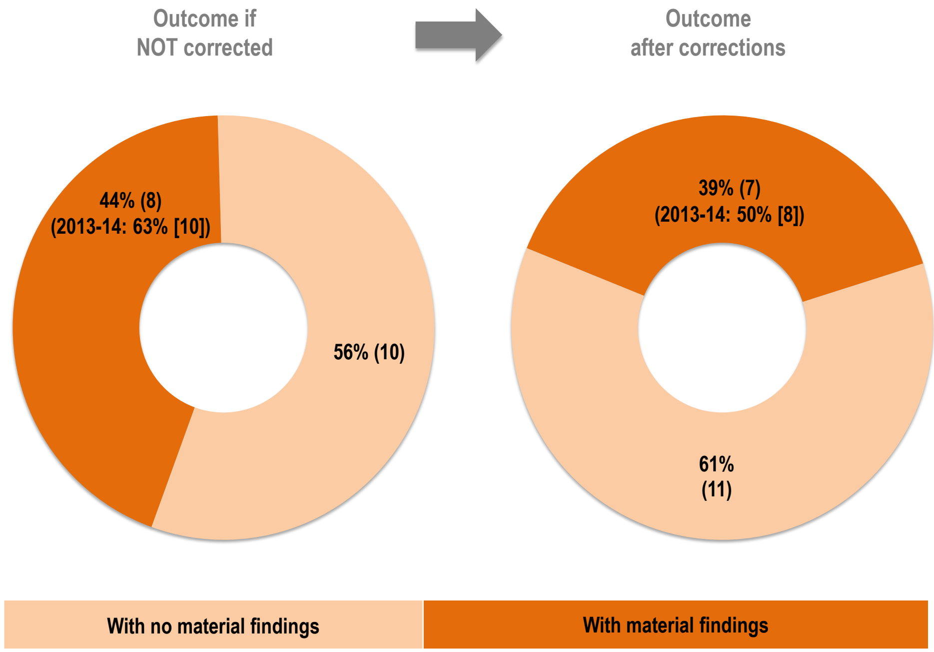


Figure 17 shows that 11 auditees (61%) did not have any material findings. Only the provincial legislature made material adjustments to their annual performance report and avoided material findings on their annual performance report. In the previous year, the Department of Agriculture, Land Reform and Rural Development and the Northern Cape Tourism Authority had made material adjustments to avoid material findings.

3.2 Findings on the usefulness and reliability of annual performance reports

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

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

Auditee	Programme/objective	Not useful	Not reliable
Department of Health	District health services		x
	Tertiary hospital services		x
Department of Education	Auxiliary and associated services		x
Department of Roads and Public Works	Community-based programme	x	x
Department of Cooperative Governance, Human Settlements and Traditional Affairs	Human settlements	x	x
	Cooperative governance	x	x
Department of Agriculture, Land Reform and Rural Development	Sustainable resource management		x
	Veterinary services		x
Department of Transport, Safety and Liaison	Transport operations	x	x
	Transport regulations	x	x
Northern Cape Economic Development, Trade and Investments Promotions Agency	Trade and investment unit	x	
	Special economic zone project management unit	x	

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

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

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

- Reported performance information was not valid when compared to source documentation
- Reported performance information was not accurately calculated
- Reported performance information was not complete; therefore, reported performance information against targets set in the annual performance reports was understated.

Overall, it is imperative that the usefulness of the planned programmes, indicators and targets, as contained in the strategic plan and annual performance plan, receive urgent attention as they provide the foundation for measuring the auditees' performance. There is a risk that the in-year monitoring, oversight and decision-making processes of these auditees could have been based on information that was not credible. This could have had a negative impact on the manner in which services were delivered.

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

The PFMA prescribes the manner in which strategic planning and performance management should be performed. We raised material findings on compliance with legislation in the audit reports. The most common findings were the following:

- The accounting officer/accounting authority of seven auditees did not ensure an effective, efficient and transparent system of internal control over performance management. This resulted in the auditees not having formal systems to govern performance management, which is the root cause of their findings.
- The Department of Cooperative Governance, Human Settlements and Traditional Affairs; Roads and Public Works; Transport, Safety and Liaison; and the public entity, McGregor Museum, did not have strategic plans for the 2014-15 financial year. Without a strategic plan, there is a risk that the annual performance plan drawn up for the year will not correlate with the strategic objectives set out by the auditee. This could have had a negative impact on the manner in which services were delivered.

3.4 Recommendations

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 create and sustain a control environment that supports useful and reliable reporting on performance. These auditees should implement at least the following key controls and best practices to ensure that their performance information is reported in a useful and reliable manner:

- Many departments have long-standing issues with record keeping relating to performance information. Management should respond to this matter in a way that will ensure proper record keeping and reviews. A good example is the Department of Social Development, where record keeping processes include the necessary checks to ensure accurate and complete record keeping. People are held accountable; therefore, each person makes sure they do what is required of them.
- Regular and accurate reporting is also very important. At many auditees, quarterly reporting takes place but is not reviewed properly against the strategic plan and supporting documents. Information from different districts is usually collated quarterly, but no supporting documentation is requested and reviewed during the year. This results in issues only being identified after year-end, when it is too late. These issues will only be addressed if the year-end processes of obtaining supporting documentation and review take place quarterly.
- The employees responsible for performance information at the auditees that submitted accurate performance reports were individuals who understood what was required of them and took their responsibility to monitor and evaluate performance information seriously.
- Departments need to support public entities under their control by assisting them with their quarterly reports and reviewing their annual performance report.

4. Resource management

4.1 Human resource management

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

Our audits included an assessment of human resource management that focused on the following areas:

- Human resource planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Management of leave, overtime and suspensions.

Our audits also looked at stability in key positions, competencies of key officials 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 human resource management controls as follows:

Figure 18: Status of human resource management

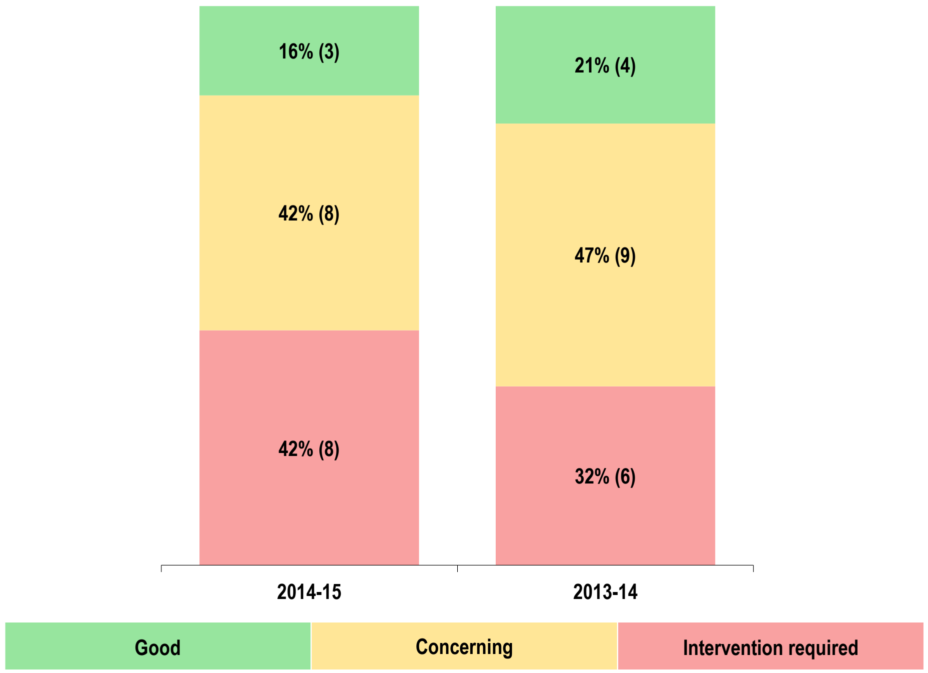


Figure 18 shows that human resource management has regressed since the previous year. Two of the five auditees that received a clean audit opinion in the previous year regressed due to material findings on human resource management. In addition, all but three auditees continued to have findings on human resource management. This is an indication that the accounting officers did not exercise adequate leadership by ensuring that basic daily and monthly controls were implemented and monitored and that staff knew and understood their roles and responsibilities. They also failed to implement adequate performance and consequence management to hold staff accountable where staff did not meet their responsibilities or performed poorly.

4.1.1 Management of vacancies and acting positions

Figure 19: Vacancies in key positions

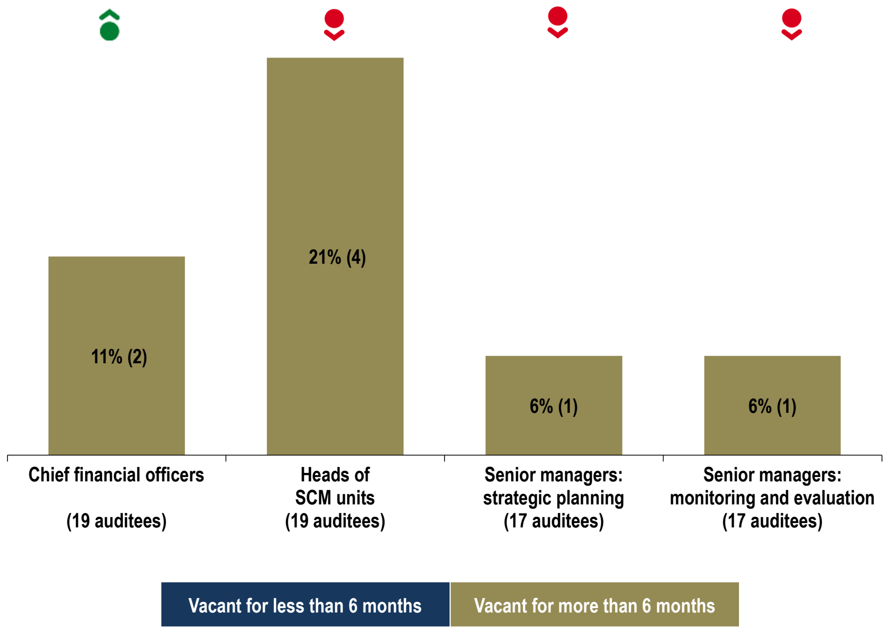


Figure 20: Stability in key positions (average number of months in position)

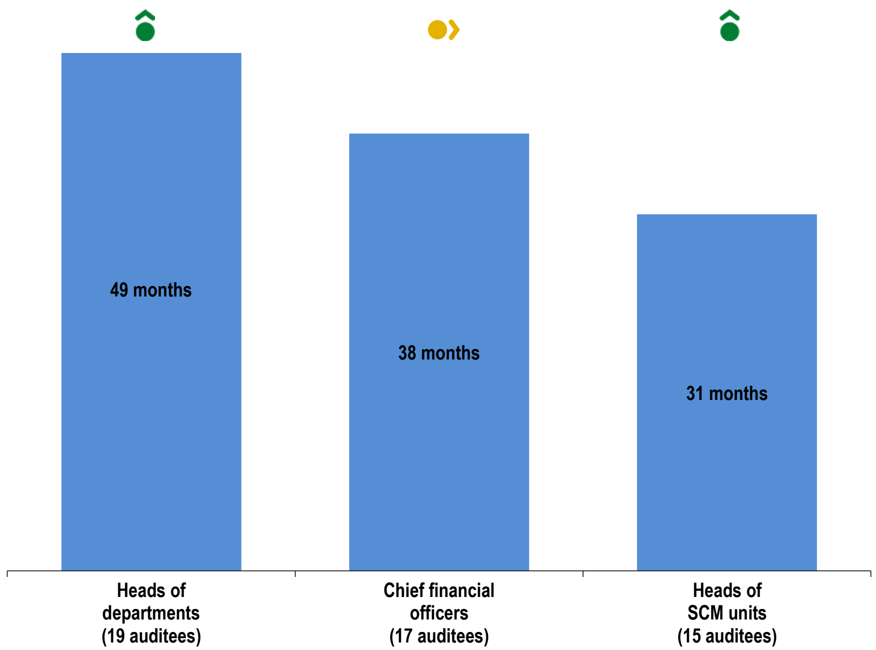


Figure 19 shows the number of auditees where the positions of chief financial officer and heads of the SCM and the strategic planning, monitoring and evaluation units were vacant at year-end. The position of accounting officer (head of department or chief executive officer) was also assessed, but no vacancies existed in this position at year-end. The figure also indicates the period that these positions had been vacant. Figure 20 shows the average number of months key officials had been in their positions.

Although not many vacancies existed at year-end, the continued absence of permanent officials, for example chief financial officers and heads of SCM, to lead and guide auditees compromised the effectiveness and stability of their control environment. The time taken to fill vacancies at SCM units was a contributing factor to the high level of irregular expenditure incurred by auditees.

The average number of months that key officials had been in their positions improved, which showed a positive trend of improved stability in key positions for the province. However, the improvement in stability did not correlate with the overall regression in audit outcomes. This is a result of slow responses from key officials to issues raised and a lack of consequences for officials who failed in their responsibilities or performed poorly.

The most common findings on the management of vacancies were positions of senior managers being vacant for more than 12 months and the increase in overall vacancy rates since the previous year.

4.1.2 Performance management and consequences for transgressions

Although the majority of auditees did have performance contracts for senior management, they were not actively and regularly monitored or used as a tool to drive good performance. This was evident in the lack of consequences for poor performance and transgressions, which was found to be a root cause of the audit outcomes at 47% of auditees.

Specifically with regard to compliance, unauthorised, irregular, and fruitless and wasteful expenditure was not investigated to determine whether any person was liable for the expenditure at 37% of auditees. When officials are not held accountable for their actions, the perception is created that poor performance and unacceptable behaviour and the results thereof are acceptable and tolerated.

4.1.3 Other common human resource findings

The other most common human resource findings were the following:

- Proper verification processes for new appointments did not always take place and, in instances where they did take place, did not cover all the verifications prescribed.
- Senior management vacancy rates increased compared to the previous year and vacant positions were not advertised within six months.
- Critical positions responsible for financial reporting and compliance with legislation were vacant for more than 12 months.

4.1.3 Recommendations

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

- 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.
- Performance management processes should be implemented in line with the staff development process where officials have been equipped with the relevant qualifications and competencies.
- Where a shortage of skills was identified as the cause for poor performance, appropriate training should be given to empower staff to perform their duties effectively.

4.2 Effective use of consultants

Our audit included an assessment of the work performed by consultants. 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.

To supplement their human resources during the year, eight auditees (42%) used consultants at a cost of R18,1 million (2013-14: R15,5 million) for financial reporting and R8,3 million (2013-14: R2,7 million) for performance reporting. Of the R26,4 million spent on consultant services related to financial and performance reporting in the province, R19,7 million (75%) came from two of our largest service delivery departments: Education and Roads and Public Works.

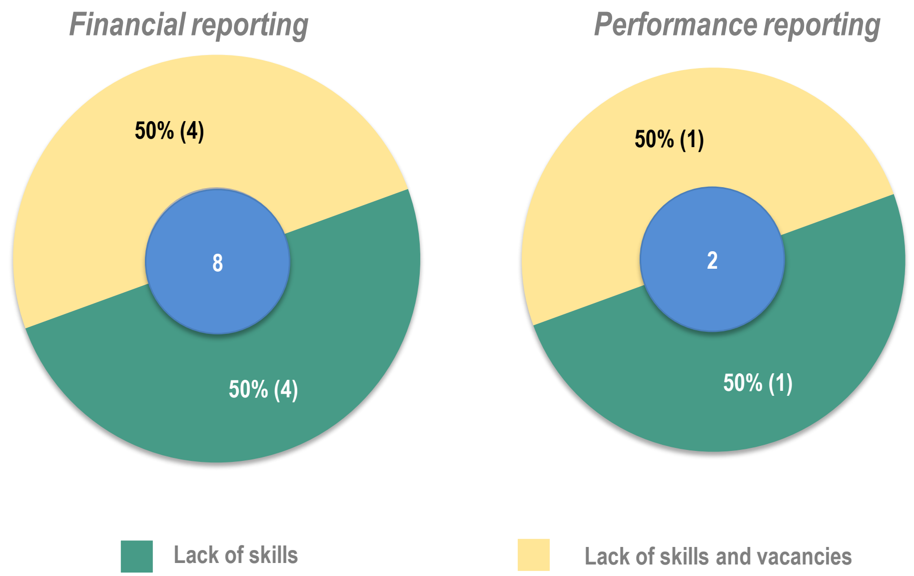
The consultants appointed for financial reporting performed the following duties:

- Prepared financial statements
- Prepared or updated asset registers
- Addressed previous year's audit findings.

The consultants appointed for performance reporting performed the following duties:

- Assisted with preparing the annual performance reports
- Implemented controls to improve the system of performance reporting.

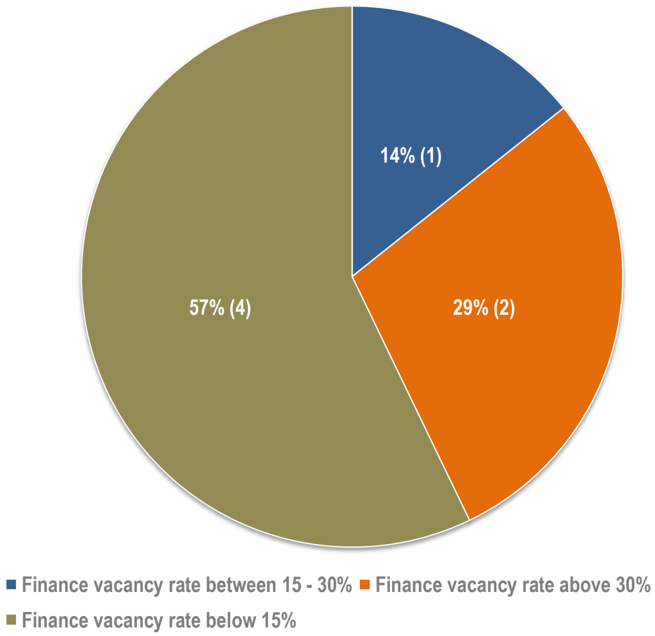
Figure 21: Reasons for consultants



As indicated in figure 21, the main reasons for the use of consultants are a lack of skills and vacancies at the auditees for both financial and performance reporting.

Eight auditees (42%) used consultants for financial reporting purposes. Seven of these (88%) had a chief financial officer at year-end. Considering that preparing financial statements is one of the core responsibilities of a chief financial officer, it is of concern that consultants were still used to discharge the functions of the chief financial officers. This does not promote the efficient and effective use of public funds as the chief financial officer and the consultants are all paid for the same service.

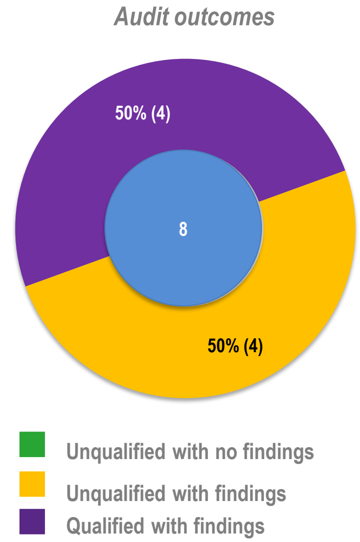
Figure 22: Vacancies in finance units of auditees that used consultants



*All these auditees had chief financial officers

Figure 22 analyses the vacancies within the finance units of auditees where consultants were used (only for financial reporting purposes). The finance vacancy rates above 15% at auditees are of concern as they have a negative impact on the control environment and financial reporting processes. The organograms of these units should be reviewed to ensure that they are still relevant. If they are still relevant, the chief financial officers should address their high vacancy rates and take the time to fill these vacant posts.

Figure 23: Impact of consultants



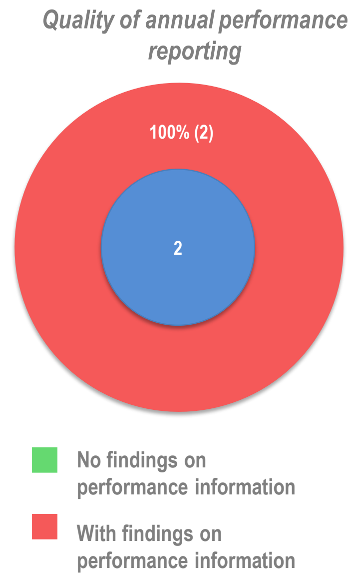


Figure 23 shows the impact where consultants were used. While four auditees (50%) were able to record unqualified audit opinions with findings, it is of concern that four (50%) of the eight auditees that used consultants still received qualified opinions. A further concern is that both auditees that used consultants for performance reporting still had findings on their performance reports.

Based on these results, auditees need to do more to ensure the effectiveness of consultants in instances where they are used. The reasons for the ineffective use of the consultants are documented in table 4.

Table 4: Reasons for the lack of impact of consultants

Reason for lack of impact	Financial reporting	Performance reporting
Other auditee ineffectiveness	75%	50%
Lack of records and documents	25%	0%
Poor project management by the auditee	0%	50%
Total	**100%**	**100%**

As indicated in table 4, the largest contributor to the ineffective use of consultants is the ineffectiveness of the auditees themselves. If consultants are appointed and fail to render a positive result because of ineffectiveness of the auditees, then the criteria followed to appoint the consultant as well as the monitoring processes for service delivery should be questioned. The lack of project management indicates that auditees cannot plan adequately for the efficient and effective use of consultants.

At five auditees (38%), we raised findings relating to poor performance management and monitoring of consultants. In addition, at the same five auditees (38%) skills were not transferred. This was a result of contracts not specifying the transfer of skills as a requirement. We also raised a finding at four auditees (31%) relating to inadequate planning and appointment processes.

4.2.1 Recommendations

The following should be addressed to use consultants more effectively and gain the most from their appointment:

- The accounting officer should ensure that adequate and effective processes are in place to effectively manage the use of consultants.
- Transfer of skills should be included as a requirement in all contracts with consultants. This should be monitored to ensure that skills are transferred in terms of the contract and that sufficient time and resources are allocated to enable the transfer of skills.
- Consultants should be appointed with a terms of reference to enable effective monitoring by auditees.

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.

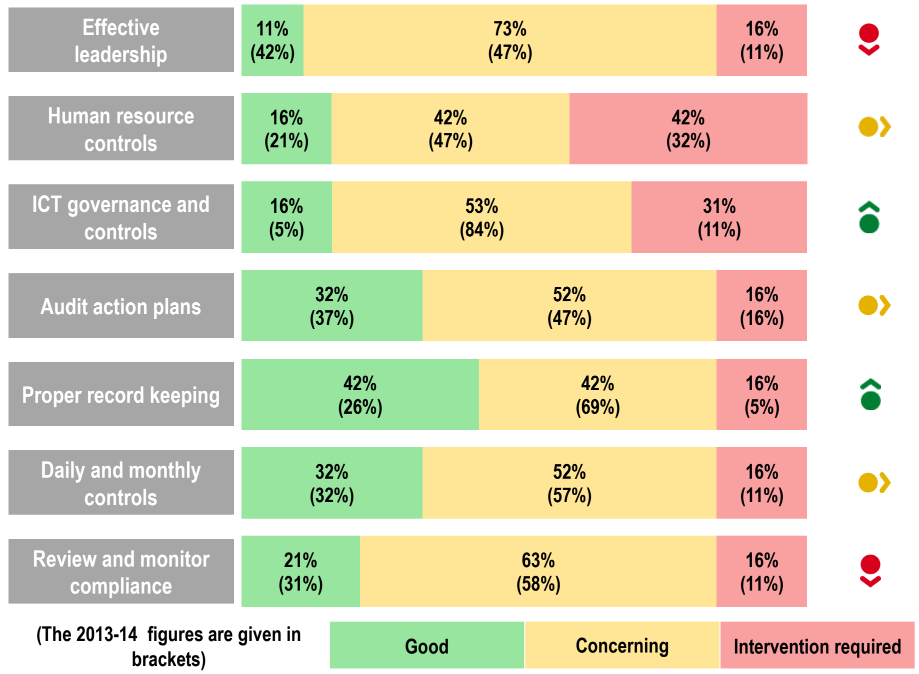
Figure 1(b) shows the status of the different areas of internal control and the overall movement since the previous year. In line with the movement in audit outcomes, our assessment of the leadership regressed. Leadership needs to refocus its attention on implementing and monitoring controls in the areas of financial and performance reporting and compliance with key legislation.

The controls over financial and performance management have stagnated. The assessment of this area was based on the regression in the financial outcomes being offset by the improvement in the area of performance management.

The assessment of stagnation in governance was due to the shared internal unit and audit committee providing assurance at the required level. The only movement in the year under review was a slight regression in our assessment of the internal audit unit and audit committee at the Northern Cape Gambling Board. The audit committee of this entity resigned during the last quarter, which had an impact on the way the internal audit unit functioned.

In sections 2.1 (financial statements), 2.2 (compliance with legislation) and 3 (annual performance reports), we commented broadly on those key controls that should receive attention to improve poor audit outcomes or sustain good audit outcomes. Figure 24 shows the status of the controls requiring the most attention.

Figure 24: Key controls requiring the most attention



The key controls in figure 24 generally require attention from leadership, as the green (good) area shows a low percentage of controls in most cases. Political leadership, accounting officers and, in particular, senior management need to work harder to ensure that controls are implemented and/or better monitored.

As reported in the previous year, consequences did not always follow when staff did not perform their duties as expected. Management was also not held accountable where the necessary reviews were not done. This contributed to a weak control environment as indicated in figure 24.

An approach where the focus is on implementing and monitoring the basic controls needs to be followed for an improvement in the current status of key controls.

The following recommendations have been made to improve the status of key controls in the province:

- Senior management should set the tone by implementing sound performance management processes, evaluating and monitoring performance and consistently demonstrating that poor performance has consequences.
- Accounting officers/accounting authorities should ensure that recommendations made by internal audit units and audit committees are developed into actions plans, which are adequately implemented and monitored to ensure improved outcomes.
- Accounting officers/accounting authorities should intensify their efforts to produce credible, regular (at least quarterly) and accurate financial and performance reports, which are quality assured by internal audit.
- Risk assessments should focus on key compliance shortcomings and a response plan should be developed to prevent repetitive findings

Sections 4.1 and 5.2 provide further information on the status of human resource controls as well as ICT governance and controls. As root causes have a significant impact on the effectiveness of internal controls, section 5.3 describes the most common root causes that should be addressed.

5.2 Information technology controls

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

Effective **IT governance** underpins the overall well-being of an organisation's IT function, 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. Figure 25 shows a slight improvement since the previous year in the number of auditees that had audit findings on IT controls.

An analysis of the audit outcomes indicated that most of the auditees still experienced challenges with the design of IT controls, especially in respect of IT service continuity. The overall IT control environment showed a regression at three departments since last year. Public entities' audit outcomes showed that there were still challenges with the lack of IT governance processes. Two auditees received clean audit outcomes.

Figure 25: Status of information technology

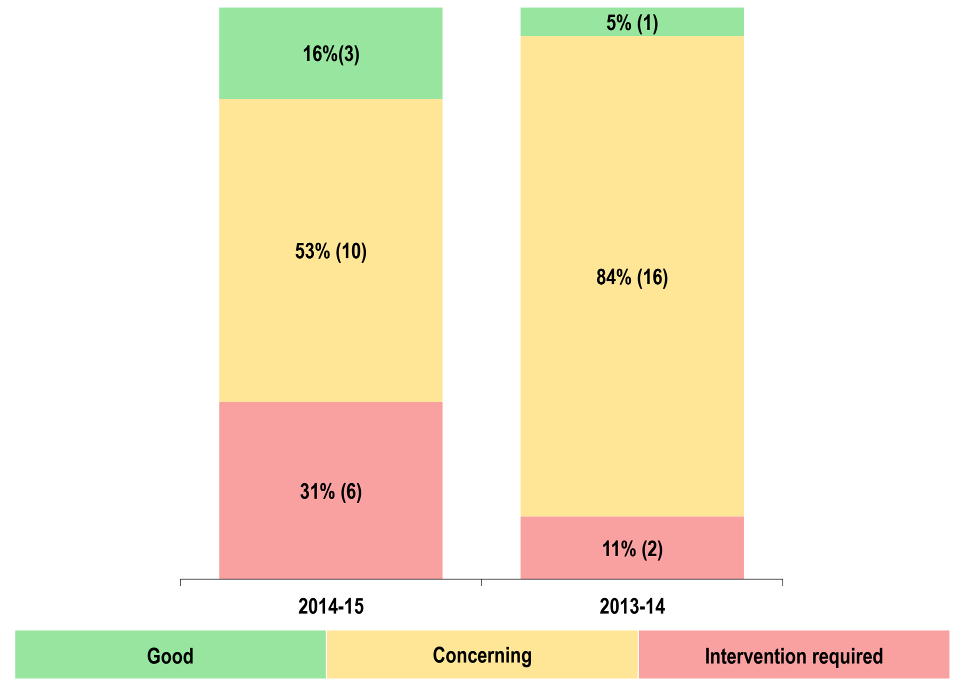


Figure 26: Status on the information technology focus areas

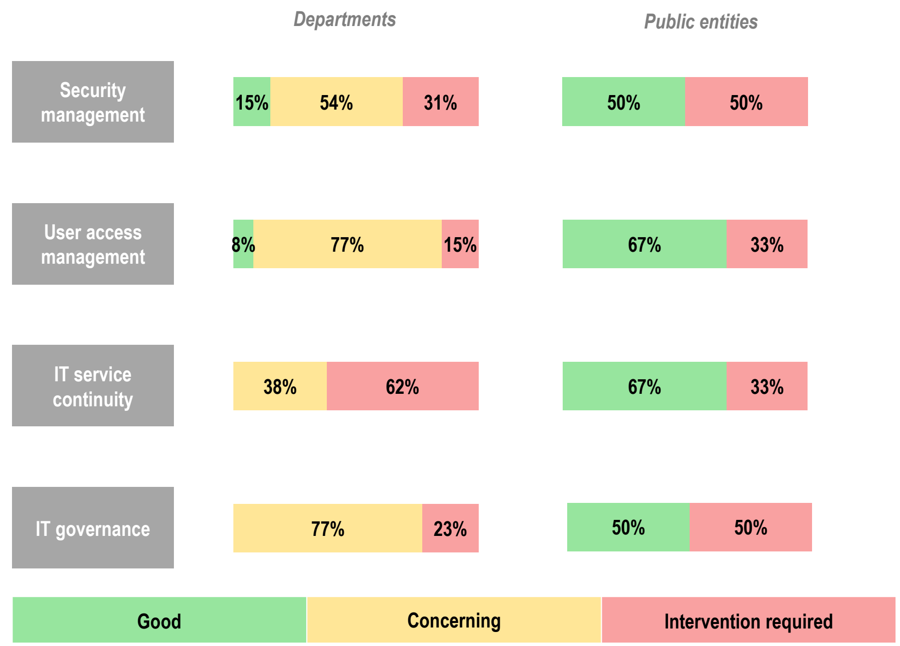


Figure 26 outlines the status of controls in the areas we audited. It indicates whether the IT controls at departments and public entities are good, concerning, or require intervention. Overall, more than 50% of public entities have fully implemented the IT controls, compared to departments which are challenged by the design and implementation of controls.

Figure 27 indicates the progress made in addressing areas of concern since the previous year.

Figure 27: Progress made in improving findings

Information technology focus areas	*Departments*	*Public entities*
Security management		
User access management		
IT service continuity		
IT governance		

The most common findings were the following:

- A lack of compliance with, and implementation of IT policies for user access and security management. These policies assist in ensuring that the systems are adequately secured and that confidentiality, integrity and availability of information are safeguarded. This also resulted in security parameter settings not always being adequately configured.
- The appropriateness of users' access rights and system controller activities was not periodically reviewed; access request documentation was not adequately completed; and terminated users' access was not promptly removed.
- Disaster recovery plans (DRPs) and backup procedures had not been adequately designed. This resulted in inadequate control over backups which could affect the availability of information and systems.

A lack of adequately implemented IT controls could compromise the confidentiality, integrity and availability of financial information.

Correspondence between transversal internal control audit findings and audit outcomes

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

For three of the departments that had qualified audit outcomes, most of the findings related to expenditure, procurement, assets and human resource. Two of the departments that had qualified audit outcomes also obtained poor outcomes on IT due to the inadequate design of IT controls. However, none of the departments or public entities' findings was as a result of inadequate IT systems. The financial audit outcomes were due to the failure in manual processes.

Status of electronic funds transfer controls

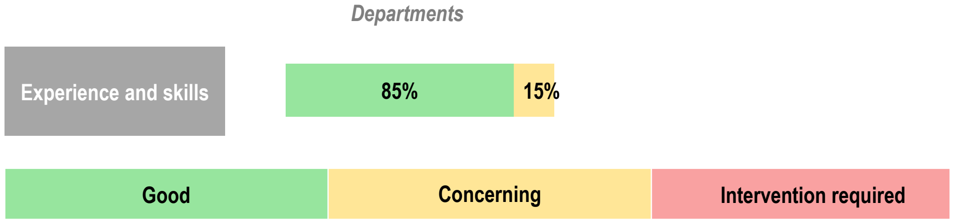
The assessment of electronic funds transfer (EFT) controls indicates that the status EFT controls for the province is good. EFT controls refer to controls built into a system for transferring money from one bank account to another without any paper money changing hands.

The Northern Cape Provincial Treasury oversees the process of payments made by all provincial departments. The control processes surrounding the payment transactions at the Northern Cape Provincial Government were implemented adequately and operating effectively. This assessment was only conducted for provincial departments, not public entities.

Evaluation of experience and skills

Figure 28 indicates that the experience and skills of the chief information officers/ IT managers in the province were good, especially at provincial departments. Their qualifications, skills and experience were relevant to IT roles. Departments had the appropriate skills to implement IT governance processes and improve the IT control environment within the province. However, this is not reflected in the IT audit outcomes as most departments' improvements were slow and steady, even though they had adequate skills, resources and support from the Office of the Premier. The exception was the two departments where the IT manager positions were vacant for the financial year under review. Public entities were not assessed for IT skills during the year under review.

Figure 28: Provincial status of experience and skills



Evaluation of tenders at the province

In the Northern Cape, the IT tenders were centrally managed by the State Information Technology Agency (SITA), not by individual departments. No control weaknesses were noted at individual departments.

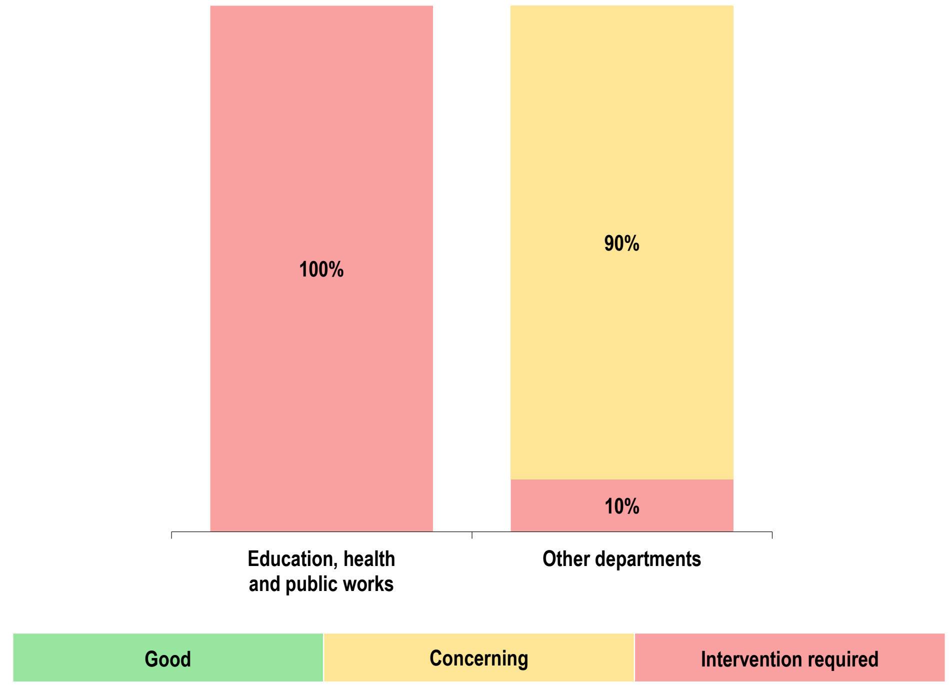
Status of controls at the departments of Education, Health, and Roads and Public Works versus that of other departments

Figure 29 indicates the status of the controls in the areas we audited at the departments of Education, Health, and Roads and Public Works compared to that of other departments. It shows the number of auditees at which the IT controls require intervention.

The three departments had not completed customisation of their IT governance framework processes. IT controls were weak because the departments lacked IT policies, procedures and performance systems. The departments also had not addressed the findings of the previous year. This is further reflected in the overall audit outcomes of the financial and performance information areas.

Other departments had designed their IT controls; however, they were still experiencing challenges in implementing the designed controls.

Figure 29: Status of information technology – Education, Health and Roads and Public Works versus other departments

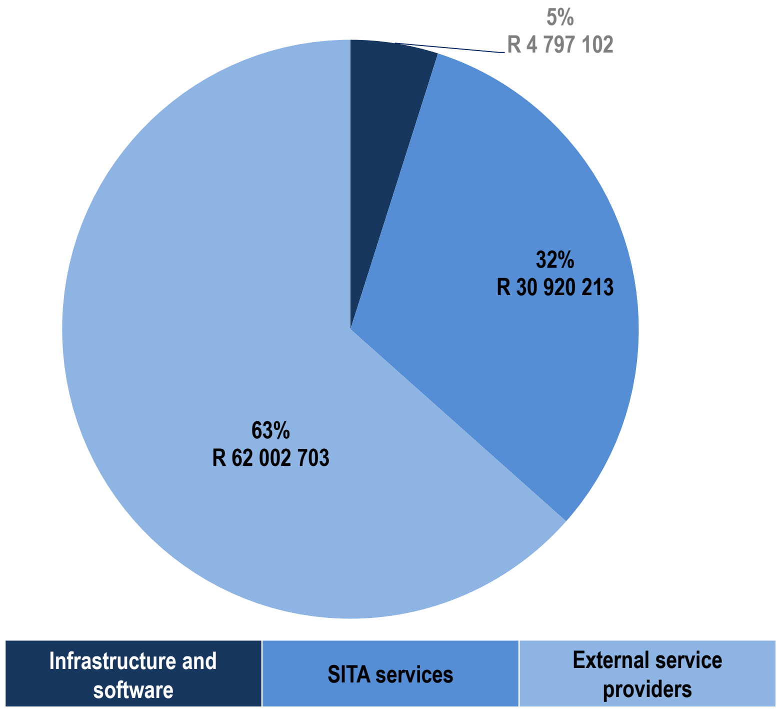


Expenses related to information technology at provincial departments

Figure 30 provides a breakdown of IT-related expenditure on infrastructure and software, SITA services, external service providers and project developments.

The analysis of IT spending in the province highlighted the fact that most of the budget (63%) at provincial departments was spent on external service providers and 32% on SITA support services. Nothing was spent on new system development. These outcomes are contrary to the skills and qualification assessment, which reflected that the province had sufficient skills. A detailed assessment and comparison of the two will be performed during 2015-16.

Figure 30: Expenses related to information technology at provincial departments



5.2.2 Most common root causes and the actions taken to address them

- The departmental management's oversight was inadequate to ensure that policies and procedures were developed and implemented.
- Minimal support was provided to adopt and implement policies and procedures developed by the provincial government information technology officer (PGITO).
- A few departments still fail to take ownership of commitments and to make progress in addressing their prior year IT findings. Furthermore, there are no consequences for not honouring commitments.
- The Office of the Premier was still in the process of acquiring the provincial disaster recovery site. This exercise took longer than expected as the budget was not adequate.

The following actions have been taken to address the root causes:

- The PGITO will continue facilitating the process to approve and implement the provincial DRP and disaster recovery site across all departments.
- Departments will continue working together with the PGITO to address challenges in the IT environment.
- Operation clean audit will continue monitoring the action plans for provincial departments; this should also be reviewed at public entities.

5.2.3 Recommendations

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

- Ensure that internal audit continuously monitors IT controls and tracks the progress of implementing management commitments.
- Periodically review user access and security management controls.
- Annually review policies and perform risk assessments.
- Management should monitor adherence to policies and procedures such as user access control policies.
- Monitor the performance of IT services provided by both vendors and IT staff.
- Auditees should expedite implementation of the IT governance framework to gain a broader understanding of the IT internal controls prescribed for effective IT governance and put in place the proper processes and structures for developing adequate and effective IT internal controls.

5.3 Summary of root causes

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

As reported in section 1 on the overall audit outcomes, many auditees produced financial statements and annual performance reports of a poor quality and failed to comply with key legislation. The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls, and provides recommendations to address the root causes shown in figure 1(b).

5.3.1 Slow response by management to the previous year's audit findings and internal control deficiencies (accounting officer, authority and senior management)

Thirteen (68%) of the 19 auditees had slow responses by management to the previous year's audit findings and internal control deficiencies as a root cause. This is of concern as it has increased by 15% compared to the previous year, when this was a root cause of findings at 10 (53%) auditees.

The regression in the financial audit outcomes reported in section 2.1 (from 75% down to 60% of auditees receiving financially unqualified opinions), as well as the regression in the area of compliance with legislation reported in section 2.2.1 (30% down to 15% of auditees with no material compliance findings), supports the significance of this root cause.

Other factors that contributed to this assessment included the fact that only 16% of auditees had no findings on supply chain management (2013-14: 32%), while only 16% had no findings on IT management (2013-14: 5%) and 16% had no findings on human resource management (2013-14: 21%).

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

Recommendations

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

- Performance of staff should be closely monitored and consequence management should be implemented for poor performance.
- Focused training programmes should be conducted regularly to address deficiencies in skills and to proactively address new changes in financial and performance reporting, including new legislative requirements.
- Policies and standard operating procedures should be regularly reviewed and work-shopped to enable understanding and consistent application.

5.3.2 Slow response by political leadership (MEC) to the previous year's commitments

Of the 19 auditees, 12 (63%) experienced slow responses from political leadership as a root cause. This has increased by 5% (2013-14:58%).

As with section 5.3.1, the regression in financial audit outcomes and compliance with legislation supports the high rate of occurrence of this root cause. The status of initiatives and commitments reported in section 5.4.2 confirms the significance of this root cause as a key contributor to the status of audit outcomes.

Political leadership needs to be informed about significant issues impacting their departments and should insist that their accounting officers communicate concerns as they transpire. This is not taking place at all departments, thus hampering the political leadership's ability to respond to risks faced by their departments.

One of the results of the concern raised above is that political leadership is often not informed timeously of audit issues that will impact the department.

The political leadership therefore needs to hold accounting officers/ accounting authorities accountable for their audit outcomes by tracking the effective functioning of key management controls and implementation of corrective action, thereby influencing improved audit outcomes.

Recommendations

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

- Regularly monitor progress on key actions included in the department/public entity's action plan, requesting explanations for a lack of progress.
- When making commitments to address findings, focus on fewer areas/findings but in such a way that the commitment made results in a tangible improvement that will impact the department or public entity in a positive way.

5.3.3 Lack of consequences for poor performance and transgressions

A lack of consequence management for poor performance and transgressions of the prior remained unchanged and was a common root cause at 47% of auditees (2013-14: 42%). Not holding people accountable creates the perception that such behaviour is acceptable, which, in turn, creates a platform for the lack of discipline in financial and performance reporting and compliance with legislation.

Recommendations

The political and administrative leadership need to be proactive in conducting performance reviews and following up poor performance. This will enforce a culture of accountability.

5.4 Initiatives and impact of key role players

5.4.1 Assurances provided by key role players

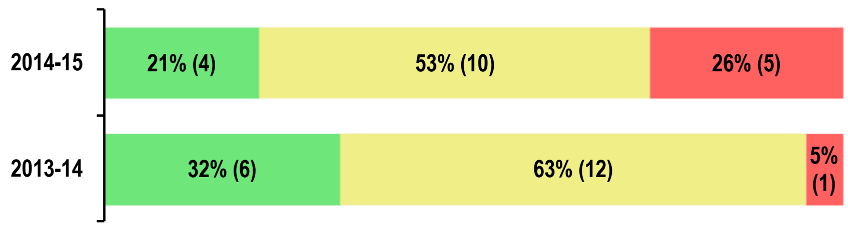
The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas. This will provide assurance on the quality of the financial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

Based on our assessment in figure 1(a), all role players are not yet providing the necessary assurance. Below is an overview of the assurance offered by each of the assurance providers.

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

Senior management

Figure 31: Assurance provided by senior management



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

The assurance provided by senior management has decreased from 32% to 21% compared to the previous year. Some assurance is provided by 53% and limited assurance is provided by 26% of senior management.

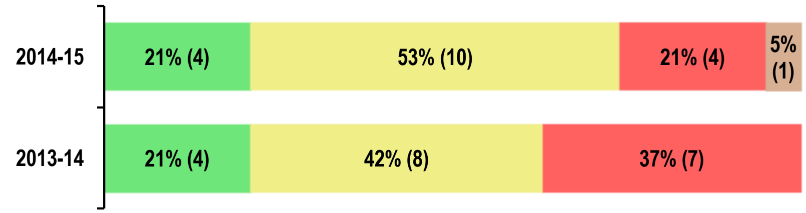
The underlying reasons for the reduced levels of assurance are the lack of monitoring and review processes when addressing key internal control deficiencies, and management's slow response to addressing findings raised by the auditors.

Inadequate policies and procedures have contributed to the assessments of providing some or limited assurance. The lack of detailed reviews means that material deficiencies in controls are not identified through the review process. The effectiveness of senior management's assurance can be improved if they take responsibility for the day-to-day controls over financial, performance and compliance requirements. Processes to monitor compliance with legislation should be intensified to achieve sustainable clean audit outcomes.

Auditees' action plans need to prioritise addressing audit findings and the accounting officers/accounting authorities need to track the progress made in addressing audit findings.

Accounting officer or accounting authority

Figure 32: Assurance provided by the accounting officer or accounting authority



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

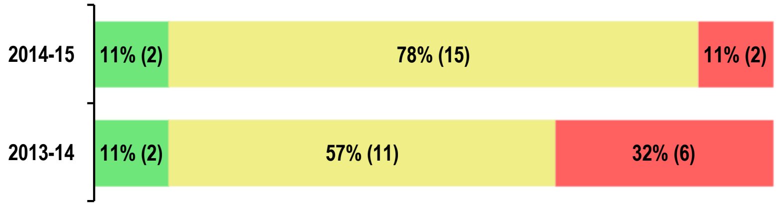
The assurance provided by accounting officers and authorities remained at 21% since the previous year. Some assurance is provided by 53% of accounting officers and authorities and 21% provide limited assurance. The gambling board had no accounting authority as the board had resigned during the year. A new board was appointed after year-end.

Inadequate oversight of monitoring action plans and commitments, and slow progress in honouring commitments are the main reasons for the current low level of assurance provided by accounting officers and accounting authorities.

The effectiveness of the accounting officer and accounting authority can be improved by regular feedback to the executive authority on oversight and monitoring. This includes reporting on implementation of the performance management system where staff's individual performance agreements are aligned to action plans addressing audit findings in their area of responsibility. Regular follow-up and reporting on action plans and commitments will prevent repeat findings and improve the assurance levels of the accounting officers and authorities.

Member of executive council

Figure 33: Assurance provided by the member of executive council



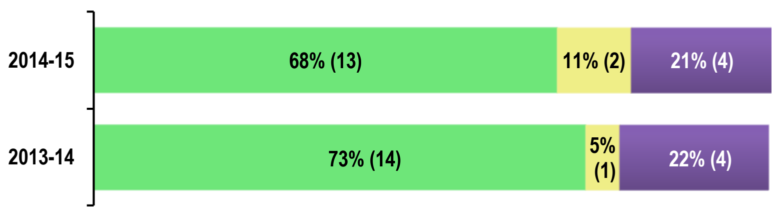
MECs have specific monitoring and oversight responsibilities at both departments and public entities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to mandates and that objectives are achieved. MECs can bring about improvements in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

The level of assurance provided by MECs stagnated at 11% since the previous year. Some assurance is provided by 78% of MECs and 11% provide limited assurance.

MECs have to set the tone at the top and hold officials and senior management accountable for poor performance and transgressions. We have observed that some MECs are not fulfilling their oversight role as they are often not actively involved in key interventions (meetings/discussions) impacting their departments and public entities. Although there are structures for regular reporting and feedback to the MEC, this did not have the desired impact as the required controls were not implemented. Progress made with commitments is slow and commitment dates are not honoured. The executive authority should have frequent interaction and request detailed reports to keep informed on key issues, as well as progress made with action plans and commitments, the challenges and emerging risks affecting the department/entity.

Internal audit unit

Figure 34: Assurance provided by internal audit



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

The assurance provided by internal audit units stagnated when compared to the previous year. Some assurance is provided by 11% of the auditees, while an internal audit unit was not established at 21% of auditees.

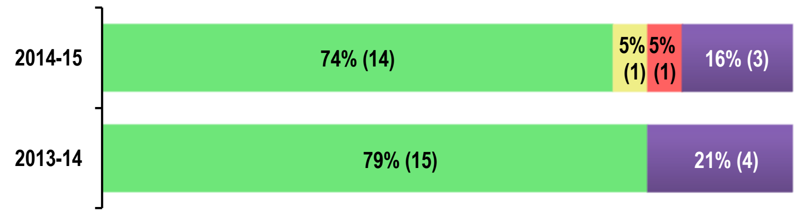
The province (all departments excluding the Northern Cape Provincial Legislature) used the shared internal audit unit based at the Northern Cape Provincial Treasury. This shared internal audit unit discharged its mandate and met its responsibilities outlined in the PFMA and treasury regulations. The shared unit was recently selected by the Institute of Internal Auditors as the best internal audit unit in public sector.

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

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

Audit committee

Figure 35: Assurance provided by the audit committee



An audit committee is an independent body that advises the accounting officer or authority and senior management on matters such as internal controls, risk management, performance management, and 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 assurance provided by audit committees regressed by 5% since the previous year. One audit committee provided some and one provided limited assurance. Entities where audit committees were not established decreased from 21% to 16%.

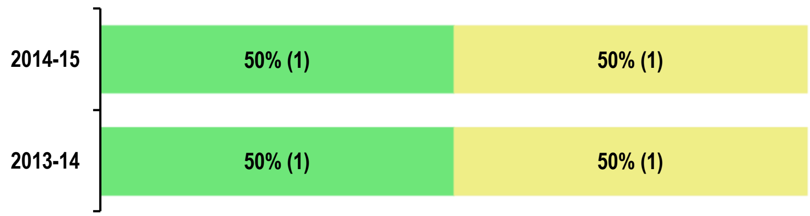
In line with internal audit, the province also uses shared audit committees (expansion in the year under review from three to four committees for the 12 departments, excluding the Northern Cape Provincial Legislature). The three-year term of the audit committees ended during the year and new committees were appointed. The process of appointing new committees was relatively smooth and did not have a significant impact on the assurance provided by the audit committees.

The audit committees discharged all the responsibilities outlined in the PFMA, treasury regulations and the audit committee charter. As a result, no audit committee-related findings were reported for any of the 12 departments covered by the shared audit committees.

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

Provincial treasury and premier's office

Figure 36: Assurance provided by provincial treasury and premier's office



Provincial treasury was assessed as providing assurance, while the Office of the Premier was assessed as providing some assurance.

We focused on the following sector procedures that impact oversight as part of the audit of the provincial treasury:

- IGR forum exists in the province
- Review the financial sustainability of municipalities with no or extremely weak revenue bases and develop proposals on what needs to be done
- Determined how many municipalities in the province do have functioning ward committees
- Mid-year reports to the effect that mid-year budget and performance assessments had been conducted and communicated
- Monitoring of the municipalities' audit action plans
- Determined whether municipalities had been assessed using the Local Government Management Improvement and financial management capability maturity model scorecards.

No material findings were raised on the above sector procedures.

We focused on the following sector procedures that impact oversight as part of the audit of the Office of the Premier:

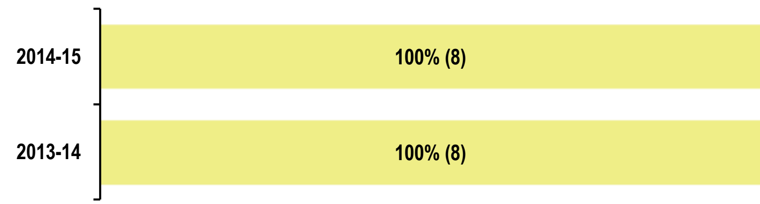
- Support provided to municipalities to strengthen the intergovernmental and democratic governance arrangements
- human resource management in the province
- human resource performance agreements
- IGR forum exists and functioning
- human resource qualifications.

The following findings were raised when the support provided to municipalities to strengthen the intergovernmental and democratic governance arrangements and the existence and functioning of the IGR forum at the Office of the Premier was assessed:

- The premier, MECs and mayors of municipalities were not always present at the premier's intergovernmental forum meetings
- The forum did not meet every quarter and some MECs did not attend the premier's intergovernmental meetings.

Portfolio committees and public accounts committees

Figure 37: Assurance provided by portfolio committees and public accounts committees



As reported in the previous year, the portfolio committees were unable to fully implement their adopted sector oversight model during the year under review due to budget constraints. The model was previously piloted, but no progress was made subsequently on this initiative. The provincial legislature is in the process of contracting with the other provincial departments to agree on the nature of the oversight that will be provided.

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

The provincial standing committee on public accounts (Scopa) provided some assurance by conducting hearings at which it extracted commitments from executive authorities and accounting officers to take corrective action on our findings. We had 16 interactions with Scopa (2013-14: 13), which continued to structure its oversight engagements with departments and public entities based on the insight gained from our briefings. All Scopa hearings focused on the root causes of key audit findings, which resulted in 55 resolutions for implementation by departments and public entities (2013-14: 33). Six (11%) of the resolutions were implemented [2013-14: 14(42%)], while the remaining 49 (89%) were either not implemented or only partially implemented. In conclusion, the speaker of the Northern Cape Provincial Legislature should implement mechanisms to ensure that there is a dedicated unit monitoring, tracking and following up on the resolutions. The fact that resolutions were issued to all departments in the year under review is noted, but there should be more focus on tracking these commitments.

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

Legislature

The Financial Management of Parliament and Legislatures Act (FMPPLA) became effective on 1 April 2015 and introduced 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 to 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 conducted a high-level assessment to determine the readiness of the Northern Cape Provincial Legislature, which covered the following aspects:

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

Based on our assessment, the following require attention:

- The establishment and implementation of systems to facilitate financial and compliance reporting are still in progress, but the existing system supporting performance information is considered adequate for reporting under the new framework.
- The provincial legislature received a financially unqualified opinion with one finding on compliance in the year under review. The GRAP framework, which will be applied by the legislature, is more complex than the modified cash standard that they apply and the risk of a regression in the audit outcome needs to be considered.
- It is recommended that a GRAP implementation plan be used to ensure that accounting records will facilitate GRAP reporting without the need for substantial manual intervention when financial reporting takes place. The quality of quarterly financial statements needs to be emphasised to ensure that the necessary reviews take place on the required level.

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.

We had meetings with most of the MECs and the premier during 2014-15. The 25 meetings with seven MECs, the speaker and the premier were assessed as having had a positive impact at some departments, while at other departments the impact was limited. This assessment is based on the audit outcomes of the province, considering financial outcomes as well as the outcomes on performance information and compliance with legislation.

The premier previously committed to strengthening the financial management capacity of the province by appointing competent people in vacant positions. She promised that vacant positions at departments will be filled on the basis of competency by focusing on “the right person for the specific position”. She also committed to the following:

- Improving the status of compliance with legislation in the province
- Up-skilling employees working with performance information in the departments through workshops
- Intensifying her oversight of public and other entities and managing their expenditure
- Focusing on ensuring the quality of financial statements by in-year monitoring and making a greater effort to ensure that the quality of performance reports improves
- Establishing a task team to guide the province on SCM compliance.

As is evident from this report, the commitments made by the premier are still in progress and a lot needs to be done to achieve the objectives.

The speaker undertook during the previous year to intensify the legislature’s oversight by engaging more frequently with accounting officers and chief financial officers. This commitment was not honoured as the meetings between the legislature and accounting officers/ chief financial officers were limited to the annual Scopa meetings. The initiative to enhance oversight (sector oversight model) was not rolled out to the province.

Obtaining feedback on the commitments made in the previous year was challenging. This was due to difficulties in securing meetings with the key stakeholders (oversight departments). The key stakeholders often delegated the task of providing feedback to lower-level staff, creating doubt over leadership's commitment to implementing and tracking the commitments they had made.

We recently met with the provincial leadership to discuss the 2014-15 audit outcomes. The premier made the following commitments during this meeting:

- Improving the status of compliance with legislation in the province
- Improving the quality of financial statements though the implementation of a process that will ensure proper review and monitoring
- Consequences will follow where leaders or officials are not performing as expected.

We also met with the speaker who undertook to improve the quality of the annual reports by vigorous oversight and to implement mechanisms to track progress on resolutions made at the public accounts committee.

6. Conclusion

The government's ability to achieve its desired outcomes as set out in its medium- and long-term strategies depends on regular and credible feedback from each department and public entity. This feedback usually comes in the form of the annual performance report, which measures government's success in implementing planned objectives, and the financial statements, which measures the effective use of allocated funds. It is important that the requirements of legislation governing these institutions, as approved by Parliament and the provincial legislature, are observed during these processes. This makes the reliability of these reports critical as they will assist to improve transparency and allow effective oversight at these institutions.

We maintain that for the provincial government to improve the reliability of its reports for transparency, and to improve its audit outcomes, the administrative and political leaders need to respond to our messages and begin to implement our recommendations.

ANNEXURES

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

Auditee	2014-15 audit outcomes			2013-14 audit outcomes			Financial statement qualification areas									Findings on predetermined objectives			
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
Departments																			
Agriculture, Land Reform and Rural Development		N	R			R	N				N				N		N		
Cooperative Governance, Human Settlements and Traditional Affairs		R	R		R	R					N			N		R	R		
Economic Development and Tourism			N			A													
Education		R	R		R	R	A										R		
Environment and Nature Conservation						A													
Health		R	R		R	R	R	R	R		R		R	R		A	R		
Office of the Premier			R			R													
Provincial Legislature		A	R		R	R										A	A		
Provincial Treasury			N			A													
Roads and Public Works		R	R		R	R										R	R		
Social Development																			
Sport, Arts and Culture			R			R	R	A					A	A					
Transport, Safety and Liaison		R	R		R	R		N	N		N		N	N		R	R		
Public entities																			
Kalahari Kid Corporation		A	R		R	R													A
McGregor Museum		N	N				N												N
Northern Cape Economic Development, Trade and Investment Promotion Agency		R	R		R	R						R		A		N			A
Northern Cape Fleet Management					R	R													
Northern Cape Gambling Board		A	R		N	R											A		
Northern Cape Liquor Board		A	R		R	R											A		
Northern Cape Tourism Authority						A													

Auditee	Findings on compliance																Findings on specific risk areas					Unauthorised, irregular as well as fruitless and wasteful expenditure		
	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	Human resource management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Departments																								
Agriculture, Land Reform and Rural Development	R	R		R			R	N				N		R	R		R	R				-	9.0m	0.002m
Cooperative Governance, Human Settlements and Traditional Affairs	R	R	N		R	A	R	R				R	R	R			R	R	F			3.9m	222.7m	1.5m
Economic Development and Tourism	N	N												N	N			N	F			-	22.3m	-
Education	R	R		R			R	R				N		R	R		R	R				-	345.9m	0.29m
Environment and Nature Conservation																		N				-	-	-
Health	R	R		R	A	A	R	R			R	R	A	R	R		R	R	F			91.6m	622.5m	6.3m
Office of the Premier	A	R			A									R	A			R	F			-	1.5m	-
Provincial Legislature														R			R	R				-	0.8m	0.002m
Provincial Treasury															N							-	0.07m	0.04m
Roads and Public Works	R	R		R				A			R	R		R	R		R	R	F			-	74.7m	4.3m
Social Development																						-	-	-
Sport, Arts and Culture	R	R		R	A		R	R					A	R	R			R	F			-	14.4m	0.02m
Transport, Safety and Liaison	R	R		N			R	N			N	N	A	R	N		R	R	F			1.8m	155.2m	0.44m
Public entities																								
Kalahari Kid Corporation	R	R	A	R	N			N	R	R		A		A			A	R	M			-	0.22m	0.02m
McGregor Museum	N	N	N	N				N	N	N		N		N			N	R	M			-	0.46m	-
Northern Cape Economic Development, Trade and Investment Promotion Agency	R	R	A	R				R	R	R	R	N					R	N				-	0.65m	0.03m
Northern Cape Fleet Management																						-	-	-
Northern Cape Gambling Board	A	R					A							R			A	R	F			-	0.41m	0.001m
Northern Cape Liquor Board	A	R						A	R	R				R			A	R				-	0.82m	-
Northern Cape Tourism Authority																	A		F			-	-	-

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	New auditee

Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)

Financial health findings	Material unfavourable indicators	Unfavourable indicators	No unfavourable indicators

Legend (Expenditure)	Improved	Regressed

Annexure 2: Comparison of audit outcomes over five years

Auditee	Audit outcome 2014-15			Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11		
		Findings			Findings			Findings			Findings			Findings	
	Audit opinion	Predetermined objectives	Compliance	Audit opinion	Predetermined objectives	Compliance	Audit opinion	Predetermined objectives	Compliance	Audit opinion	Predetermined objectives	Compliance	Audit opinion	Predetermined objectives	Compliance
Departments															
Agriculture, Land Reform and Rural Development	Qualified			Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings		
Cooperative Governance, Human Settlements and Traditional Affairs	Qualified			Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified		
Economic Development and Tourism	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Qualified			Unqualified with findings		
Education	Unqualified with findings			Qualified			Qualified			Qualified			Qualified		
Environment and Nature Conservation	Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Health	Qualified			Qualified			Qualified			Disclaimed			Disclaimed		
Office of the Premier	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Provincial Legislature	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Unqualified with findings		
Provincial Treasury	Unqualified with findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
Roads and Public Works	Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings		
Social Development	Unqualified with no findings			Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings		
Sport, Arts and Culture	Qualified			Qualified			Qualified			Qualified			Qualified		
Transport, Safety and Liaison	Qualified			Unqualified with findings			Unqualified with findings			Qualified			Qualified		

Legend (Findings)	Findings	No findings

Annexure 2: Comparison of audit outcomes over five years (continued)

Auditee	Audit outcome 2014-15			Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11		
	Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance
Public entities															
Kalahari Kid Corporation	Unqualified with findings			Unqualified with findings			Qualified			Qualified			New auditee		
McGregor Museum	Qualified			Unqualified with no findings			Qualified			Qualified			Qualified		
Northern Cape Economic Development, Trade and Investment Promotion Agency	Qualified			Qualified			Disclaimed			Unqualified with findings			Qualified		
Northern Cape Fleet Management	Audit not finalised at legislated date			Qualified			Qualified			Adverse			Disclaimed		
Northern Cape Gambling Board	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			New auditee		
Northern Cape Liquor Board	Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified			New auditee		
Northern Cape Tourism Authority	Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		

Legend (Findings)	Findings	No findings

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

Auditee	Leadership																											Financial and performance																							Governance														
	Movement			Effective leadership culture				Oversight responsibility				Human resource management				Policies and procedures				Action plans				IT governance				Movement			Proper record keeping				Processing and reconciling controls				Reporting				Compliance				IT systems controls				Movement			Risk management				Internal audit				Audit committee			
	F	P	C	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	F	P	C	O	F	P	C	O	F	P	C	O
Departments																																																																	
Agriculture, Land Reform and Rural Development	↓	↓	↓																									↓	↓	↓																					↔	↔	↔												
Cooperative Governance, Human Settlements and Traditional Affairs	↔	↔	↔																									↔	↔	↔																					↔	↔	↔												
Economic Development and Tourism	↓	↔	↓																									↓	↔	↓																					↔	↔	↔												
Education	↔	↑	↔																									↑	↑	↑																					↔	↔	↔												
Environment and Nature Conservation	↔	↔	↔																									↔	↔	↔																					↔	↔	↔												
Health	↓	↑	↓																									↔	↔	↓																					↔	↓	↓												
Office of the Premier	↔	↔	↔																									↔	↔	↔																					↔	↔	↔												
Provincial Legislature	↑	↑	↔																									↑	↑	↑																					↔	↔	↔												
Provincial Treasury	↔	↔	↔																									↔	↔	↔																					↔	↔	↔												
Roads and Public Works	↓	↔	↔																									↔	↔	↔																					↔	↔	↔												
Social Development	↔	↔	↔																									↔	↔	↔																					↔	↔	↔												
Sport, Arts and Culture	↔	↔	↔																									↔	↔	↔																					↑	↔	↔												
Transport, Safety and Liaison	↓	↔	↔																									↓	↓	↔																					↑	↔	↔												
Public entities																																																																	
Kalahari Kid Corporation	↑	↑	↑																									↑	↑	↔																					↔	↑	↔												
McGregor Museum	↓	↔	↔																									↓	↔	↔																					↓	↔	↔												
Northern Cape Economic Development, Trade and Investment Promotion Agency	↓	↔	↔																									↔	↔	↔																					↓	↔	↔												
Northern Cape Gambling Board	↔	↑	↔																									↑	↑	↑																					↓	↓	↓												
Northern Cape Liquor Board	↔	↔	↔																									↑	↑	↑																					↑	↔	↔												
Northern Cape Tourism Authority	↑	↑	↑																									↔	↔	↑																					↔	↔	↔												

Legend (key control)	Good	Concerning	Intervention required

Legend (movements)	↑	Improved	↔	Unchanged	↓	Regressed

Legend (aspects)	F	Financial	P	Performance	C	Compliance	O	Overall

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)	The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.
Asset (in financial statements)	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
Assurance & assurance provider	As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject. Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation. There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units. Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.
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.
Cash flow (in financial statements)	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
Clean audit	The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.

Commitments from role players	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
Conditional grants	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
Configuration	The complete technical description required to build, test, accept, install, operate, maintain and support a system.
Contingent liability	A potential liability, the amount of which will depend on the outcome of a future event.
Creditors	Persons, companies or organisations that auditees owe money to for goods and services procured from them.
Current assets (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Data integrity	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.
Disaster recovery plan (DRP)	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).
Disclaimed audit opinion (on financial statements)	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
Financial and performance management (as one of the drivers of internal control)	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.
Financially unqualified audit opinion (on financial statements)	The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.

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.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.
Going concern	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Human resource management	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.
Information technology (IT)	The computer systems used for capturing and reporting financial and non-financial transactions.
IT controls	Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.
IT governance	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.
IT infrastructure	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.
IT security management	The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.
IT service continuity	The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.
IT user access management	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

Internal control / key controls	The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with key legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
Irregular expenditure	Expenditure incurred without complying with applicable legislation.
Key drivers of internal control	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)
Leadership (as one of the drivers of internal control)	The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management. It can also refer to the political leadership or the leadership in the province, such as the premier.
Liability	Short-term and long-term debt owed by the auditee.
Material finding (from the audit)	An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of its amount, its nature, or both its amount and its nature, to be reported in the audit report.
Material misstatement (in the financial statements or annual performance report)	An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.
Misstatement (in the financial statements or annual performance report)	Incorrect or omitted information in the financial statements or annual performance report.
Net deficit (incurred by auditee)	The amount by which an auditee's spending exceeds its income during a period or financial year.
Operational budget / operating budget	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

Oversight structures & coordinating and monitoring departments

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

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	*Auditor-General of South Africa (the institution)*
BAS	*basic accounting system*
DRP	*disaster recovery plan*
FMPPLA	*Financial Management of Parliament and Legislatures Act*
GRAP	*generally recognised accounting practice*
ICT	*information and communication technology*
IGR	*inter-governmental relations*
IT	*information technology*
LOGIS	*logistical information system*
MEC	*member of the executive council of a province*
NC	*Northern Cape*
Persal	*personnel and salary system*
PFMA	*Public Finance Management Act, 1999 (Act No. 1 of 1999)*
PGITO	*provincial government information technology officer*
SCM	*supply chain management*
SITA	*State Information Technology Agency*

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