



Auditing to build public confidence

MEDIA RELEASE

12 March 2013

North West Gambling Board bears clean administration torch as the rest of the provincial auditees remain the same and in some instances, regress

MMABATHO – The North West Gambling Board has improved its previous year's audit outcomes to receive the province's only clean audit opinion for 2011-12.

The Board's exemplary results, Auditor-General Terence Nombembe says, are commendable as they prove beyond doubt that clean administration is achievable where there is leadership commitment.

The Board's management made a concerted effort to resolve audit matters raised in the previous year's audit report. This resulted in the Board's (audit) outcomes moving from an audit verdict of unqualified with findings in the previous year to a clean audit opinion in the current year. The Board furthermore ensured that they submitted a complete set of financial statements that required no material adjustments during the audit process.

Regrettably, for the rest of the province the results are not that exemplary. Overall, the provincial audit outcomes have regressed, with 64% of departments and 76% of entities receiving either a qualified or a disclaimed audit opinion.

Auditor-General (AG) Terence Nombembe said although his office was aware of the provincial government's efforts in removing impediments to total clean administration, he had hoped Premier

Thandi Modise would use her 2013 State of the Province Address to highlight the internal control measures already put in place and rally public servants to improve governance systems.

Chief amongst the impediments that have seen the provincial administration failing again to move closer to the desired blanket clean audit opinion are the same as those flagged in the previous year's audit reports.

These include leadership instability; slow filling of critical leadership vacancies; inadequate competencies and skills at key levels; non-implementation of action plans and recommendations made by internal and external auditors; poor performance management at the departments; and failure to prepare monthly financial statements. To rectify these, there needs to be proactive leadership and vigilant oversight mechanisms.

Amongst other commitments made in response to the 2010-11 audit recommendations, the provincial leadership undertook to conduct a skills audit and fill all key vacancies with competent personnel; ensure monthly preparation of financial statements and performance information; review policies and procedures; set up quarterly engagements between the members of the executive council (MECs), portfolio committee chairpersons and audit committees; and ensure that MECs attend monthly meetings aimed at addressing internal key controls in their portfolios.

Nombembe says while the commitment to meet monthly with officials from his office (to address internal controls) was honoured, the impact of these meetings was limited due to the late or non-implementation of key interventions committed to in 2010-11.

Despite provincial leadership's commitment to attract and retain key skills in the province, the lengthy process of finalising employee suspensions and the lack of implementation of recommendations arising from the skills audit hampered these efforts.

The five biggest departments (Education, Public Works, Health, Human Settlements and Social Development) received qualifications. The Office of the Premier, which is meant to set the benchmark in the province in terms of good governance and to lead by example, also remained qualified.

The departments and entities that received qualified opinions represent 91% (R22 billion) of the total expenditure of the province.

The AG reiterated his office's commitment to assisting auditees, highlighting that following the launch of government's *Operation Clean Audit* in July 2009, he had introduced regular engagements with municipal, provincial and national political leaders to share his office's

assessment of key controls in the areas mentioned above and to identify threats to clean audits. These engagements helped to create greater awareness of matters that require urgent attention to realise clean administration in all spheres of government.

Auditor-General of South Africa

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Media note:

The complete *General report on the PFMA audit outcomes of North West* is available on www.agsa.co.za

About the AGSA:

The AGSA is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.

ADDITIONAL MEDIA INFORMATION

About the North West government

The North West Provincial Government comprises 35 auditees: 14 departments (which include the legislature and the revenue fund) and 21 public entities.

Summary of overall audit outcomes

The AGSA completed the audits of 13 (100%) departments and seven (33%) public entities that submitted financial statements. The audits of the provincial revenue fund and 14 (67%) public entities had not been finalised as at 15 October 2012, which is the cut-off date set by the AGSA for inclusion of their audit outcomes in this general report.

This was mainly due to non-submission or late submission of financial statements for audit purposes.

Some notable highlights

- Overall, the provincial audit outcomes have regressed, with 64% (57% prior year) of departments and 76% (62% prior year) of public entities receiving either a qualified or disclaimed audit opinion.
- The Department of Health regressed from being financially unqualified to qualified. Mafikeng Industrial Development Zone (MIDZ) regressed from qualified to a disclaimer. Eight (40%) auditees failed to address their 2010-11 qualification findings.
- The lack of improvement at most of the big departments in the province implies that audit opinions on 91% of the provincial budget are either disclaimed or qualified.
- Nine (45%) auditees retained their prior financially unqualified audit opinions but did not address their findings on predetermined objectives (PDOs) and/or compliance in order to obtain clean audits.
- There was an increase in irregular expenditure, mainly related to supply chain management (SCM). The departments with the most irregular expenditure were as follows:
 - Department of Health – R1,7 billion
 - Department of Public Works, Roads and Transport – R1,3 billion
 - Department of Social Development – R265 million





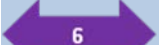

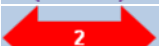

- The provincial treasury should make sure that processes are put in place to ensure credibility, completeness and accuracy of information and that all non-compliance is escalated to the executive leadership.
- The Department of Public Works, GLR and MIDZ received disclaimed audit opinions.
- Seven other departments received qualified opinions.
- Ten auditees (50%) could not correct any or all of the material misstatements identified during the audit, with the result that the annual financial statements received qualified or disclaimed opinions.
- Nine (45%) auditees retained their prior financially unqualified audit opinions but did not address their findings on PDOs and/or compliance with laws and regulations in order to obtain clean audits.
- Five auditees (50%) managed to obtain financially unqualified opinions because they were allowed to make corrections to material misstatements identified by the AGSA.
- Irregular expenditure of R3,5 billion was incurred during the year. The AGSA could not audit awards amounting to R470 million due to the lack of supporting documentation (scope limitation).
- Although most governance structures were in place, they had little or no impact on the audit outcomes for the year under review. These structures did not provide adequate assurance regarding PDO reporting, SCM, compliance with laws and regulations as well as internal controls during the year under review.

Summary of audit outcomes for current and prior years

Audit outcomes	Departments*		Public entities		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	0	0	1	1	1	1
Financially unqualified with findings	5	6	4	7	9	13
Financially unqualified financial statements	36%	43%	24%	38%	29%	40%
Qualified opinion, with findings	7	6	0	5	7	11
Adverse opinion, with findings	0	0	0	0	0	0
Disclaimer of opinion, with findings	1	1	2	1	3	2
Number of audit reports not issued by 15 October 2012	1	1	14	7	15	8
Outstanding audits and financially qualified financial statements	64%	57%	76%	62%	71%	60%
Total number of audits in the province	14	14	21	21	35	35

*Including the legislature and provincial revenue fund

Summarised movement in overall audit outcomes

Movement in audit outcomes from 2010-11					
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on	Outstanding audits – prior year opinion
Financially unqualified with no findings				1	1
Financially unqualified with findings				9	2
Qualified, with findings				7	4
Adverse/Disclaimer, with findings				3	0
Total	1	17	2	20	7

End.