



AUDITOR - GENERAL  
SOUTH AFRICA



**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES

**EASTERN CAPE**  
**PFMA 2011-12**



AUDITOR - GENERAL  
SOUTH AFRICA

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**EASTERN CAPE**  
2011-12

PR12/2013  
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# *Our reputation promise/mission*

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

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

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



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**AUDITOR-GENERAL: TERENCE NOMBEMBE**

*Our responsibility extends to citizens who trust us to make a contribution towards a better South Africa*





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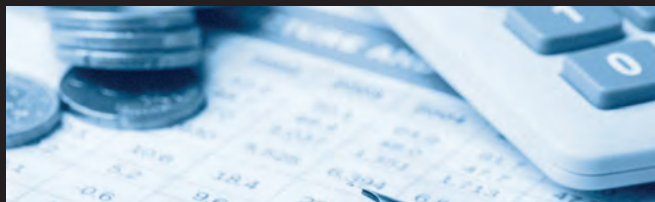
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# FOREWORD



AUDITOR - GENERAL  
SOUTH AFRICA









# FOREWORD

I hereby present to the legislature of the Eastern Cape province my 2011-12 general report summarising the results of the audit outcomes of provincial government for the financial year ended 31 March 2012.

At a point where, based on the previous year's commitments, there was an expectation of an improvement towards clean administration, these outcomes show a regression from previous years.

My message for the 2010-11 financial period confirmed the following commitments:

The leadership across the board pledged that the basic principles of monthly reporting, validation of reported information and constant monitoring would be intensified. To give effect to these commitments, key positions will need to be filled, or remain staffed, with personnel that possess the required skills. In addition, the provincial treasury would play a coordinating role with emphasis on supply chain management, service delivery reporting, human resource management and information technology management. To sustain these, all committees of the legislature should collaborate with members of the executive council, heads of department and audit committees to quarterly provide assurance on the status of internal controls, at the level of root causes. As a final step, the premier and the legislature would review progress quarterly and take appropriate action.

Very little progress has been made in strengthening internal controls in the province. This is especially evident in the fact that most of the financial statements reported on still required material adjustments before finalisation. To illustrate, 81% of the audit outcomes would have been either qualified or disclaimed had the adjustments not been effected as part of the audit process. At the heart of the regression in



***Accountability will be pursued with more vigour during 2012-13.***  
**– Honorable Phumulo Masualle**

audit outcomes is a clear pattern of slow and very reactive responses to the audit messages as contained in the prior year's general report and as reinforced in the quarterly engagements following that report. This happened despite the efforts of my audit teams to inspire the key role players to action these messages and related commitments, both at the level of individual departments and entities, and at the level of cabinet and coordinating departments.

Over and above these internal control weaknesses, the following key statistics were reported in the province: 86% of the departments and 60% of the public entities only achieved 80% or less of their service delivery targets, while at 50% of the departments and public entities, expenditure exceeded revenue. In addition, 64% of the departments incurred liabilities in excess of available funds at year-end.

The Department of Social Development stands out as a single example to other departments and entities on how enthusiastic leadership as well as working in harmony and with sincerity can effect a move towards clean administration in a focused and sustainable way. I have also noted the public accounts committee's efforts to catch up and intensify its work.

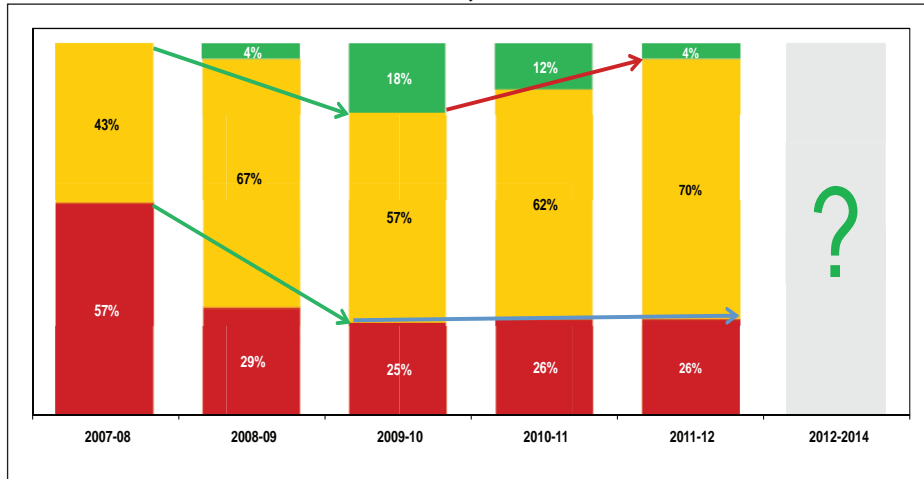
As committed in the previous year's general report, my office remains dedicated to support the commitments made in that report.

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

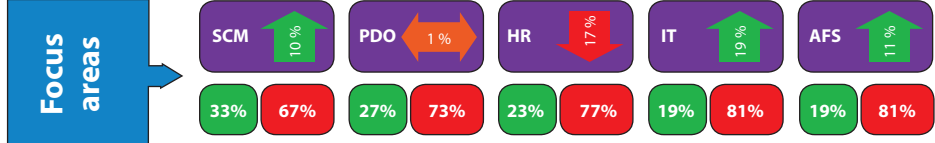
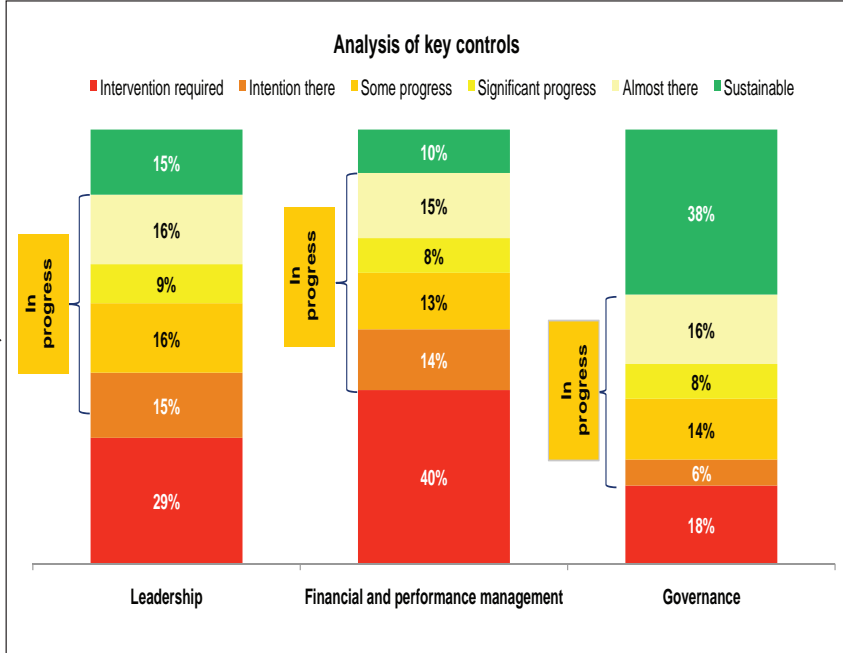
*Auditor-General*

**Auditor-General  
Pretoria  
March 2013**

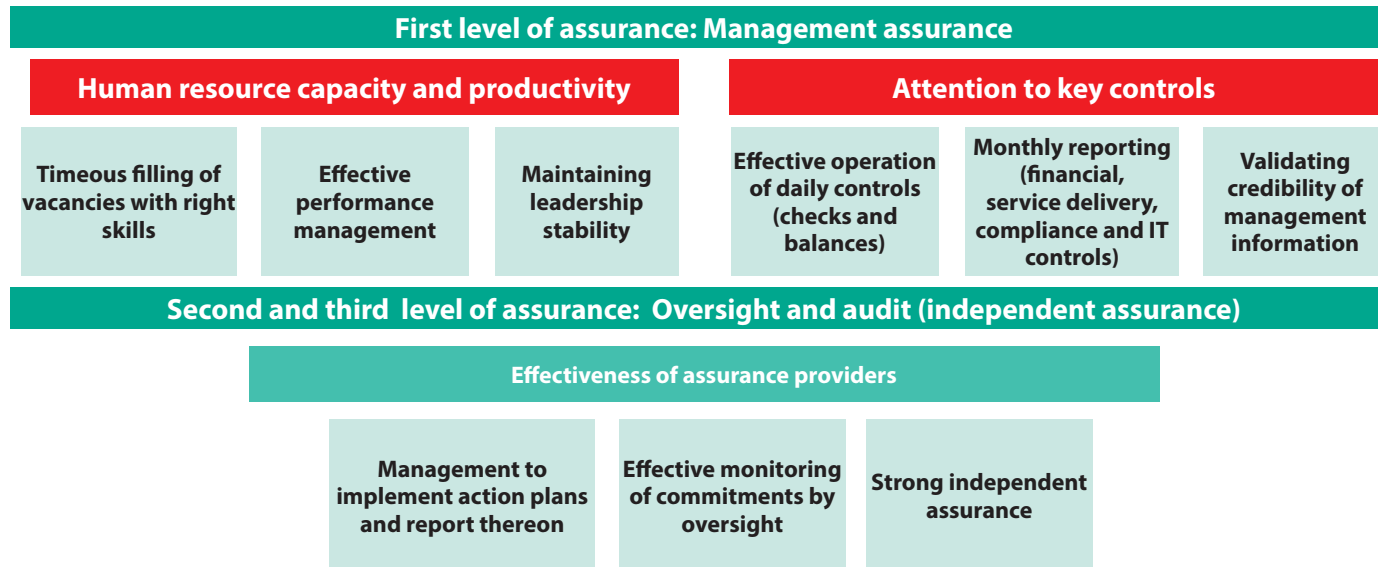
Stagnation of outcomes in the province is of great concern. Improvement is slow and nullified by regressions



A key responsibility of leadership is to implement and maintain effective and efficient systems. Of concern is the slow movement towards sustainable implementation of internal control



Root causes and interventions required to sustain clean administration





# SECTION 1

## EXECUTIVE SUMMARY



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# SECTION 1





## EXECUTIVE SUMMARY



Table 1 in this section summarises significant aspects of audit outcomes, while sections 2 and 3 provide more detailed analysis of findings, trends and root causes. Section 4 outlines commitments received from role players.




**Table 1: Significant aspects of the audit outcomes**






Aspect	Indicator	Key outcomes and trends
Overall audit outcomes		<ul style="list-style-type: none"> <li>At an overall level, the outcomes of the province have remained stagnant, which is of great concern. With only one improvement and three regressions, it is evident that the commitments made by the provincial leadership during the 2010-11 roadshow of the auditor-general (AG) in the legislature, as captured in the prior general report, had not been fulfilled.</li> </ul>
		<ul style="list-style-type: none"> <li>The lack of movement by the two biggest departments in the province, namely Health and Education, implies that more than 70% of the provincial budget is either disclaimed or qualified.</li> </ul>
		<ul style="list-style-type: none"> <li>It is abundantly clear that the sustainability of positive movements and outcomes holds the key to achieving the 2014 clean administration targets. It has become the norm within the province that improvements in financial and performance management are not sustainable, as evidenced by the regressions at three auditees. The reality is that practices that promote clean administration are not entrenched within the daily, weekly and monthly activities of auditees.</li> </ul>

Aspect	Indicator	Key outcomes and trends
Overall audit outcomes		<ul style="list-style-type: none"> <li>Concern is also raised over the lack of movement of the financially unqualified outcomes with other matters to that of financially unqualified with no other matters. This is evidenced by the high prevalence of auditees with findings on predetermined objectives (PDOs) and compliance with laws and regulations. Fifteen auditees (56%) have been grouped in this category for a number of years and have not addressed the matters that give rise to their compliance and PDO findings.</li> </ul>
		<ul style="list-style-type: none"> <li>Only 33% of all the unqualified audit outcomes are sustainable. Therefore, further regressions and only limited improvements are expected should drastic action not be taken.</li> </ul>



Aspect	Indicator	Key outcomes and trends
<b>Overall audit outcomes</b>	  	<ul style="list-style-type: none"> <li>The only positive elements to the audit outcomes are that the provincial revenue fund maintained its clean audit outcome and that Economic Development, Environmental Affairs and Tourism improved from a qualified to an unqualified opinion.</li> <li>The leadership should set the correct tone and take ownership of sound financial and performance management disciplines. To ensure favourable sustainable outcomes, the emphasis should move from focusing on audit outcomes during the audit process, to year-round clean administration through entrenching a strong control environment and regular, accurate reporting throughout the financial year.</li> </ul>
<b>Submission of financial statements and annual performance reports for auditing</b>	  	<ul style="list-style-type: none"> <li>As required by legislation, all departments and public entities submitted financial statements by 31 May 2012, while all the applicable audits were completed by the Auditor-General of South Africa (AGSA) within the legislated time frame of two months from receipt of the financial statements.</li> <li>As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only five (19%) auditees submitted financial statements that required no material adjustments. The fact that certain departments and entities produced financial statements that did not require material adjustments indicates that the root cause does not lie in the accounting framework, but rather in the daily, weekly and monthly financial and reporting disciplines of the individual auditees.</li> </ul>






Aspect	Indicator	Key outcomes and trends
<b>Submission of financial statements and annual performance reports for auditing</b>	  	<ul style="list-style-type: none"> <li>The extent of the audit adjustments processed signifies that auditees rely heavily on the audit process to identify and correct misstatements. The inability to produce accurate, complete and credible financial statements is so pervasive that 12 (44%) of the auditees were able to achieve a financially unqualified audit outcome only because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. This report indicates that 74% of the auditees are grouped in the unqualified category while 26% fall within the modified category. Had audit adjustments not been effected, the statistic would have been reversed with 19% of the auditees being unqualified and 81% modified.</li> <li>In addition, a lack of proper planning and project management relating to the compilation and submission of financial statements creates an environment where audit committees do not have sufficient time to review the financial statements and effectively discharge one of their critical responsibilities.</li> </ul>





Aspect	Indicator	Key outcomes and trends
<b>Submission of financial statements and annual performance reports for auditing</b>		<ul style="list-style-type: none"> <li>Two entities did not prepare and submit performance reports for audit purposes as required by legislation.</li> </ul>
		<ul style="list-style-type: none"> <li>The provincial treasury is currently not effective in complying with its mandate relating to the implementation of the provincial budget and the promotion and enforcement of transparent and effective management in respect of revenue, expenditure, assets and liabilities. Although processes and procedures are in place to get information from the departments to enable monitoring, this information is not credible and complete. In most cases, the compilation of the information and interim financial statements by departments and entities results in 'malicious' compliance and not accurate reporting. As a result, the information sent to the executive leadership, on which decisions are based, is not credible and could result in inappropriate decisions being taken.</li> </ul>
		<ul style="list-style-type: none"> <li>The provincial treasury should make sure that processes are put in place to ensure credibility, completeness and accuracy and that all non-compliance is escalated to the executive leadership.</li> </ul>








Aspect	Indicator	Key outcomes and trends
<b>Opinions on financial statements</b>		<ul style="list-style-type: none"> <li>The provincial revenue fund is the only auditee that maintained a clean audit for the 2011-12 financial year, which makes it the only representative of clean administration in the province.</li> </ul>
		<ul style="list-style-type: none"> <li>Although Economic Development, Environmental Affairs and Tourism improved to an unqualified opinion, the improvement was mainly due to audit adjustments and not as a result of improved internal controls. The sustainability of this improvement is thus uncertain.</li> </ul>
		<ul style="list-style-type: none"> <li>Fifteen (56%) auditees retained their financially unqualified audit opinions but had not addressed their findings on PDOs and/or compliance.</li> </ul>
		<ul style="list-style-type: none"> <li>Five (19%) auditees failed to address their 2010-11 qualification findings and remained on a qualified opinion, while one (4%), namely Education, retained its disclaimer of opinion.</li> </ul>
		<ul style="list-style-type: none"> <li>Two (7%) auditees, namely the provincial legislature and Accelerated Shared Growth Initiative (AsgiSA), regressed from being financially unqualified with no findings to being unqualified with findings on PDOs and/or compliance. Roads and Public Works regressed from unqualified to qualified.</li> </ul>











Aspect	Indicator	Key outcomes and trends
<b>Opinions on financial statements</b>		<ul style="list-style-type: none"> <li>Historically, all success stories are based on three elements having been implemented by the leadership of the departments and entities, namely a leadership tone depicting a willingness to accept accountability for financial management throughout the financial year, creating a control environment that is conducive to accountability and oversight, and decisive action plans with clear time frames to address the root causes of qualifications and the continuous monitoring thereof. These success stories should be embraced and become the everyday culture within all auditees.</li> </ul>
		<ul style="list-style-type: none"> <li>Social Development is such a case in point. They embraced the three elements under a strong and committed leadership, where the head of department (HoD) facilitated an improved culture of accountability. Although they have not moved in terms of their audit opinion (unqualified with findings), they have made significant strides in reducing non-compliance by almost 70%, eliminated all PDO matters and had no material adjustments to the financial statements. To round this off, their momentum seems to be sustainable.</li> </ul>




Aspect	Indicator	Key outcomes and trends
<b>Sustainability of audit outcomes</b>		<ul style="list-style-type: none"> <li>In the light of ever-present regressions in outcomes and the pervasive nature of material adjustments that have to be made every year, the sustainability of improvements and outcomes is questionable.</li> </ul>
		<ul style="list-style-type: none"> <li>The 2011-12 outcomes once again show that, despite a number of interventions by the AGSA, auditees are not addressing the root causes when attending to audit findings but are rather addressing symptoms at a reporting level to achieve a better audit outcome for that year.</li> </ul>
		<ul style="list-style-type: none"> <li>This report indicates in section 2.2.3 that although the province in total addressed eight of the 2010-11 qualifications, only four (50%) have been addressed at a level where the improvement is sustainable.</li> </ul>
		<ul style="list-style-type: none"> <li>When considering material misstatements, adequate record keeping and financial discipline, it is evident that only 33% of the unqualified outcomes are deemed sustainable, 39% are deemed possibly sustainable, and 28% are deemed not sustainable and at a high risk of regressing.</li> </ul>
		<ul style="list-style-type: none"> <li>For an improved outcome to be sustainable, it is vital that all root causes are analysed in detail to ensure that the actual cause and not the symptom is addressed. This must be done to strengthen the control environment in such a way that all errors will be prevented or detected timeously and throughout the financial year.</li> </ul>






Aspect	Indicator	Key outcomes and trends
<b>Reporting on PDOs</b>		<ul style="list-style-type: none"> <li>Two departments (the provincial treasury and Social Development) and the Eastern Cape Socio Economic Consultative Council (ECSECC) eliminated their PDO findings. A further two departments (Office of the Premier and Safety and Liaison) and the Eastern Cape Parks and Tourism Agency (ECPTA) retained their status of no PDO findings. These positive results are attributed to management conducting proper planning and monitoring as well as governance structures providing support.</li> </ul>
		<ul style="list-style-type: none"> <li>The provincial legislature and AsgiSA regressed from no findings in the previous year to having PDO findings during the year under review. The regressed result at the legislature is attributed to a relaxation of monitoring by management and oversight by the governance structures. The regression at AsgiSA is due to the uncertainty surrounding its merger with the Eastern Cape Rural Finance Corporation (ECRFC). As a result, no operational plan or budget was prepared for the 2011-12 financial year and consequently no reporting of actual performance against a plan took place for the year under review.</li> </ul>
		<ul style="list-style-type: none"> <li>Despite the tremendous efforts that went into PDO reporting in the previous year, nine departments and nine entities did not make sufficient progress towards addressing the requirements of PDO reporting. This is attributed to an inappropriate attitude towards performance planning and a lack of control systems.</li> </ul>
		<ul style="list-style-type: none"> <li>In total, 86% of the departments and 60% of the public entities only achieved 80% or less of their service delivery targets.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Findings on non-compliance with laws and regulations</b>		<ul style="list-style-type: none"> <li>Three departments (the provincial treasury, Office of the Premier and Social Development) and the Eastern Cape Liquor Board (ECLB) reduced the extent of their compliance findings by between 30% and 70% and are making progress towards clean administration. This is mainly due to a culture change at these auditees that promotes discipline, accountability and oversight.</li> </ul>
		<ul style="list-style-type: none"> <li>All departments and entities had compliance findings in their audit reports.</li> </ul>
		<ul style="list-style-type: none"> <li>The provincial legislature and AsgiSA relinquished their 'clean' status with findings on compliance during the current year.</li> </ul>
		<ul style="list-style-type: none"> <li>With the exception of the departments and entity mentioned above, the extent of findings on compliance with laws and regulations increased in the province.</li> </ul>
		<ul style="list-style-type: none"> <li>An inappropriate leadership tone and a lack of enforcement of consequences for non-compliance contributed to a situation where non-adherence to the applicable legislative prescripts has become the norm. As a result, the upward trend of reported amounts of unauthorised, irregular as well as fruitless and wasteful expenditure is continuing.</li> </ul>
		<ul style="list-style-type: none"> <li>An ethical culture is required to ensure sustained compliance with applicable laws and regulations. In order to build this culture, the zero-tolerance approach to breaches of legislative prescripts preached by the executive must be implemented.</li> </ul>
	<ul style="list-style-type: none"> <li>The leadership and governance structures must regularly monitor compliance to identify and act on breaches in order to build a control environment conducive to compliance with laws and regulations.</li> </ul>	

Aspect	Indicator	Key outcomes and trends
<b>Supply chain management (SCM)</b>		<ul style="list-style-type: none"> <li>The audit included an assessment of SCM processes at all departments and public entities. SCM findings were reported at 18 auditees (2011: 18).</li> </ul>
		<ul style="list-style-type: none"> <li>The most significant findings related to limitations of R851 million at Education, Health as well as Roads and Public Works; awards to officials and close family members; and unfair or uncompetitive procurement processes.</li> </ul>
		<ul style="list-style-type: none"> <li>Four hundred and twelve awards (2010-11: 698) to the value of R30,8 million (2010-11: R999 million) were made to officials and/or their close family members. Declarations of interest were not made in any of these cases.</li> </ul>
		<ul style="list-style-type: none"> <li>This blatant disregard of the SCM legislative framework has an impact on all spheres of service delivery in the province.</li> </ul>
		<ul style="list-style-type: none"> <li>Both the political and the administrative leadership should adopt a zero-tolerance approach in addressing this non-compliance. It is imperative that all transgressions are decisively dealt with and individuals are held accountable.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Internal controls</b>		<ul style="list-style-type: none"> <li>There has been a slight improvement in governance in the province, with more auditees having sustainable governance practices. However, additional intervention is still required to ensure that it gains momentum in the following year and that the audit committees become effective in discharging their duties.</li> </ul>
		<ul style="list-style-type: none"> <li>Both the categories of leadership and of financial and performance management have regressed slightly from the last reporting period, with more auditees now requiring intervention to improve these drivers of internal control. Most auditees whose drivers were cause for concern in the prior year have made little or no progress during the year under review.</li> </ul>
<b>Human resource (HR) management</b>		<ul style="list-style-type: none"> <li>The number of HR management findings has increased from the previous year. In particular, findings relating to appointment processes, management of vacancies as well as HR planning and organisation have increased. This was due to a lack of monitoring and oversight as well as an unwillingness to enforce existing HR prescripts and policies. It is imperative that the commitment made in the previous year relating to the provincial HR action plan be implemented in order to eliminate these findings and improve service delivery in the province.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Management of information technology (IT)</b>		<ul style="list-style-type: none"> <li>Human Settlements designed and implemented controls over IT governance and IT service continuity. Although the provincial IT governance framework had not been rolled out, the department took the initiative to develop and implement their IT controls in line with best practice.</li> </ul>
		<ul style="list-style-type: none"> <li>IT controls were not adequately designed and/or implemented at the rest of the departments to ensure the integrity, security and availability of financial and performance information.</li> </ul>
		<ul style="list-style-type: none"> <li>The leadership of the province, in particular the Office of the Premier and the provincial treasury, should take ownership of the current status and drive departments and entities to regularly monitor the implementation of action plans and report on the progress made.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Audit committees and internal audit</b>		<ul style="list-style-type: none"> <li>Most auditees have fully established audit committees and internal audit units, which complied with legislative requirements.</li> </ul>
		<ul style="list-style-type: none"> <li>Although most governance structures are in place, they have had little or no impact on the audit outcomes for the year under review. These structures did not provide adequate assurance over PDO reporting, SCM, compliance with laws and regulations as well as internal controls during the year under review.</li> </ul>
		<ul style="list-style-type: none"> <li>The effectiveness of audit committees depends on the support and respect received from the provincial executive and the leadership. The leadership should ensure that the audit committees are afforded sufficient time as well as financial and other resources to effectively fulfil their responsibilities. It is critical that audit committees interact with the provincial executive on a regular basis to ensure that the executive is kept abreast of challenges, strategies and success stories at all times. This will effectively enable the executive to play a more supportive role in relation to the audit committees.</li> </ul>
<b>Financial health indicators</b>		<ul style="list-style-type: none"> <li>At 50% of the departments and public entities, expenditure exceeded revenue.</li> </ul>
		<ul style="list-style-type: none"> <li>In total, 64% of the departments incurred liabilities in excess of the available funds at year-end.</li> </ul>





# SECTION 2

## OVERVIEW OF AUDIT OUTCOMES

2.1 OVERALL AUDIT OUTCOMES

2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS



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# SECTION 2

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## OVERVIEW OF AUDIT OUTCOMES

This section of the report provides the province's overall audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their PDOs (section 2.3), and compliance by auditees with laws and regulations (section 2.4).

The root causes of audit findings and recommended best practices are also analysed in the respective sections. This should be read together with an analysis of the drivers of audit outcomes in section 3 of the report. Section 4 records the commitments received from the provincial executive leadership and oversight structures as well as other national and provincial role players in response to the 2011-12 audit outcomes. Section 5 highlights other current and emerging matters and the financial health of the province, requiring attention from the leadership.

### 2.1 OVERALL AUDIT OUTCOMES

The Eastern Cape provincial government comprises 27 auditees, consisting of 15 departments (which include the provincial legislature and the provincial revenue fund) and 12 public entities.

The public entities consist of 11 provincial public entities and one trading entity. The number of public entities has increased from 11 to 12 since the 2010-11 financial year, due to the establishment of Government Fleet Management Services (GFMS), a trading entity under the control of the Department of Transport.

#### 2.1.1 Summary of overall audit outcomes

As required by legislation, all departments and public entities submitted financial statements by 31 May 2012 and all applicable audits were completed by the AGSA within the legislated time frame of two months from receipt of the financial statements.

The audit outcomes are summarised in the following table. Where applicable, audit opinions relate to the consolidated financial statements of auditees. 'With findings' denotes findings on PDOs and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either reporting on PDOs or compliance with laws and regulations.

**Table 2: Summary of audit outcomes for current and prior year**

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)	1	2	0	1	1	3
Financially unqualified with findings	8	7	11	9	19	16
Financially unqualified financial statements	60%	60%	92%	91%	74%	73%
Qualified opinion, with findings	5	5	1	1	6	6
Adverse opinion, with findings	0	0	0	0	0	0
Disclaimer of opinion, with findings	1	1	0	0	1	1
Financially qualified financial statements	40%	40%	8%	9%	26%	27%
<b>Total number of audits in the province</b>	<b>15</b>	<b>15</b>	<b>12</b>	<b>11</b>	<b>27</b>	<b>26</b>

\* Including legislature and provincial revenue fund

Annexure 1 to this report lists the current and prior year audit outcomes of all auditees.

## 2.1.2 Improvements and regressions in audit outcomes

The following figure analyses the overall movement in provincial government audit outcomes between the current and previous financial year.

**Figure 1: Summarised movement in overall audit outcomes**

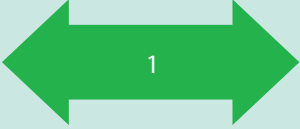


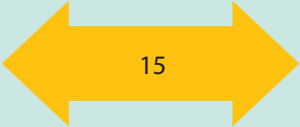



Movement in audit outcomes from 2010-11					
Audit opinion	Improvement	Unchanged	Regressed	New auditees	Total auditees reported on
Financially unqualified with no findings		 1	 2		1
Financially unqualified with findings	 1	 15	 1	1	19
Qualified, with findings		 5			6
Adverse/Disclaimer, with findings		 1			1
<b>Total</b>	1	22	3	1	27

Table 3 provides reasons for the improvements or lack thereof.

**Table 3: Summary of audit outcomes for current and prior year**

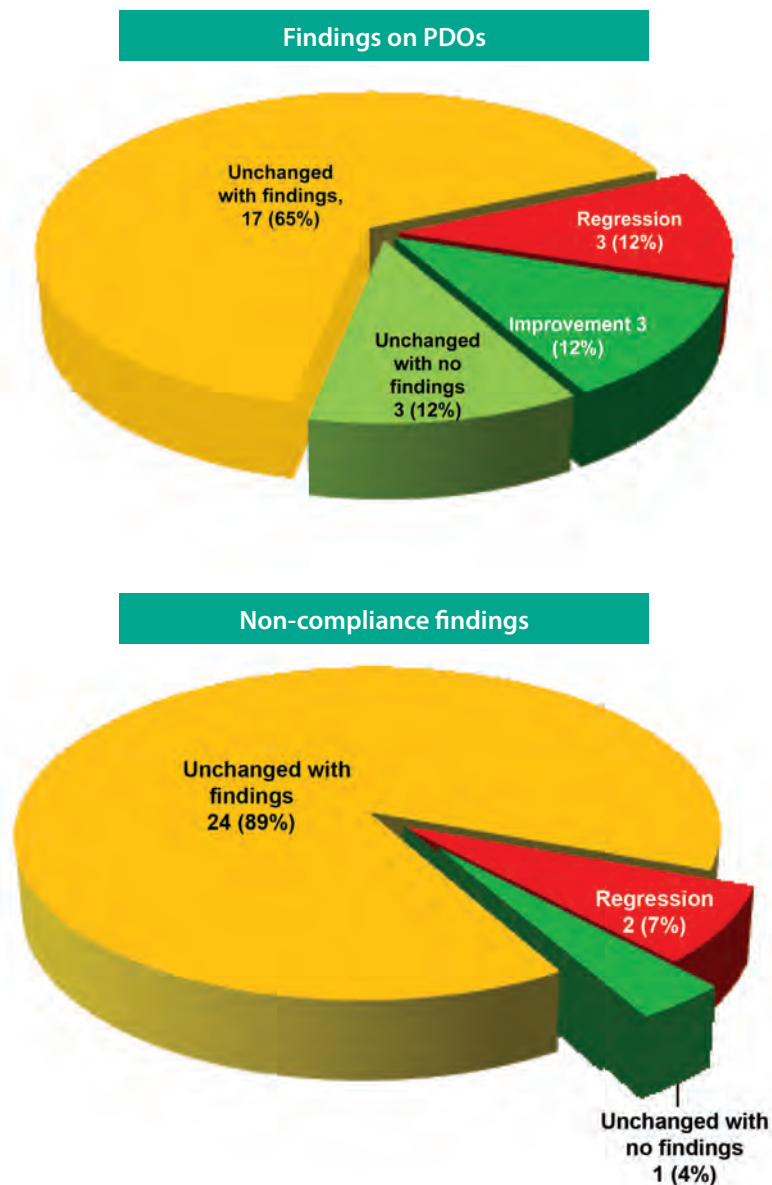
Movement	Narrative
Improvements	<ul style="list-style-type: none"> <li>The improvement of Economic Development, Environmental Affairs and Tourism from a modified opinion to an unqualified opinion with findings is mainly due to audit adjustments and not as a result of improved internal controls. The sustainability of the improved audit outcome is uncertain until such time as the leadership takes ownership of the key controls and instils a culture of accountability in its workforce.</li> <li>Although Social Development has not moved in terms of the audit opinion (unqualified with findings), they have made significant strides in reducing the number of non-compliance and PDO matters reported. In addition, they did not have any material adjustments to their financial statements. This improvement appears to be sustainable and further improved outcomes are expected if the leadership maintains the current culture within the department. The improvement is mainly due to an improved culture of accountability.</li> </ul>
Regressions	<ul style="list-style-type: none"> <li>The provincial legislature regressed from an unqualified opinion with no findings to an unqualified opinion with findings on compliance and PDOs. The main reason for the regression is a lack of effective monitoring as a result of management becoming complacent in the way that matters are addressed and monitored.</li> <li>The regression of AsgiSA from an unqualified opinion with no findings to a qualified opinion with findings on non-compliance and PDOs is due to the uncertainty surrounding its merger with the ECRFC, which should have taken place with effect from 1 April 2011 but was postponed to 1 April 2012. As a result, no operational plan or budget was prepared for the 2011-12 financial year. Thus, there was no reporting of actual performance against a plan for the year under review.</li> <li>The regression at Roads and Public Works is as a result of a lack of financial discipline and monitoring throughout the financial year. In addition, there is a culture of non-accountability and a lot of reconciliations and processing are done after year-end instead of during the year.</li> </ul>

Movement	Narrative
Unchanged audit outcomes	<p>The overall root causes for a lack of change in the province are as follows:</p> <ul style="list-style-type: none"> <li><b>The leadership at the top is not taking ownership of the key controls.</b> The auditees in the category of 'financially unqualified with other matters' have become complacent and are not taking ownership of the key controls and creating a culture of high performance and accountability.</li> <li><b>There is no proactive leadership</b> and, instead, most actions are reactive to crises that arise. The top leadership must enforce a culture of proactively managing risks.</li> <li><b>A culture of daily accountability is not prevalent.</b> As a result, the daily and monthly financial disciplines are not entrenched within the departments and entities, and the progress towards clean administration has stagnated. Consequently, the auditees wait for the AGSA to identify and correct errors. To illustrate, only five (19%) auditees submitted financial statements that required no material adjustments, while 12 (44%) would not have obtained unqualified outcomes if material adjustments were not made to their financial statements during the audit process.</li> <li>The lack of accountability is largely due to <b>a lack of supervision and monitoring</b> of the daily and monthly tasks and, as a result, no punitive action is taken for poor performance and audit outcomes are not sustainable.</li> <li>The leadership of the province, including the executive, does not take an active enough interest in, and insist on, <b>credible monthly reporting on all areas</b>. They also do not adequately use the audit committee and internal audit unit to provide assurance on the credibility thereof.</li> <li><b>The provincial treasury and the Office of the Premier do not adequately monitor and enforce compliance</b> and provide financial and other support to departments and entities to ensure that the level of compliance in the province is improved. The action plans drawn up by the auditees are not always relevant in addressing the issues raised by the AGSA. In addition, action plans are drawn up merely as a compliance issue and are not used as a tool towards improvement.</li> </ul> <p>The largest consequence of the above root causes is the lack of processes to verify the credibility of information. As a result, information used for decision-making and oversight is not necessarily credible, which impairs the effectiveness of oversight and limits the progress towards clean administration.</p>



The following figure provides an analysis of findings on PDOs and compliance with laws and regulations.

**Figure 2: Summarised movement in findings on predetermined objectives and compliance with laws and regulations**



At an overall level, the number of departments and entities that had no PDO findings remained the same as in 2010-11, while those with findings on non-compliance with laws and regulations increased. This is largely due to the culture within the provincial government of not prioritising compliance with laws and regulations and ensuring a zero-tolerance approach towards non-adherence.

There are two reasons for non-compliance, namely a lack of understanding and deliberate non-adherence.

The provincial legislature and AsgiSA regressed from the previous year from no findings to findings on PDOs and non-compliance. Furthermore, non-compliance increased by more than 50% at three departments (Economic Development, Environmental Affairs and Tourism, Roads and Public Works, and Transport) and three public entities (Eastern Cape Gambling and Betting Board (ECGGB), East London Industrial Development Zone (ELIDZ) and ECRFC).

Education and Health, who are allocated the majority of the provincial budget, have not made progress in addressing their PDO and compliance findings. These two departments had PDO findings relating to both usefulness and reliability and their categories of non-compliance have remained the same. This is largely due to the culture within the provincial government described above, combined with an ingrained culture of non-performance in the officials of the departments. As a result, high performance is not a priority, and there are no consequences for non-performance or fraudulent and negligent behaviour.

Social Development and the ECLB both managed to reduce their number of non-compliance categories by 50% and neither of them had findings on PDOs. This is mainly due to a culture change within the auditees that promotes accountability and oversight.

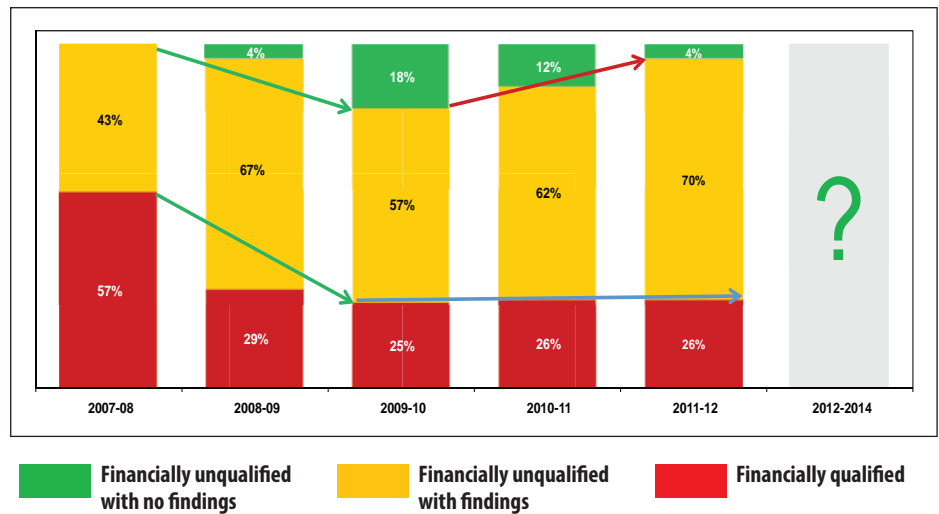
The provincial treasury and the Office of the Premier have made progress in addressing their own PDO and compliance findings. Neither of these departments had PDO findings and they managed to reduce their categories of non-compliance by 71% and 33%, respectively. This improvement is encouraging as these departments should be setting the example for others. These improvements were achieved through a stable leadership that introduced a leadership tone that promotes an effective internal control environment.

This includes holding officials accountable and taking swift action when poor performance is identified. In addition, processes have been put in place to ensure proper monitoring and the availability of credible management information for effective decision-making and oversight.

### 2.1.3 The province's progress towards clean audits

Obtaining financially unqualified auditor's reports is an important milestone towards clean administration. The province's five-year progress towards producing unqualified financial statements is depicted in the following figure.

**Figure 3: Five-year progress towards financially unqualified auditor's reports**



There is currently a lack of assertive leadership to drive and enforce good governance and accountability within the province.

The zero-tolerance approach that the top political leadership has been advocating has not filtered down into the implementation of the day-to-day running of departments and, as a result, has not had an impact on the audit outcomes and the strive towards clean administration.

In the prior year, a commitment was received that the executive leadership would improve its oversight and monitoring. This has, however, not been

institutionalised and therefore had very little impact on the audit outcomes. The root cause of this is that information sent through to cabinet is not credible and the executive leadership is not always aware of the real situation within the departments. It is thus important that processes are implemented to ensure that only credible information is used in executive leadership meetings, while action should be taken in instances where information does not meet this standard.

The culture within the provincial government and the current manner in which HR is managed are not conducive towards the attraction and retention of skills. This is largely due to the following:

- A lack of professionalism within the auditees and no accountability for poor performance.
- Performance punishment of the few high-performing individuals.
- Skills not being appropriately used in, and allocated to, relevant areas of expertise.
- HR divisions not being effective and the turnaround time on HR matters being too long.

Oversight should be refined and enforced and all information should be verified for credibility before it is used for decision-making.

In some cases, the political leadership and the administrative leadership are not aligned and they do not send out the same messages. In addition, they do not support each other when holding staff accountable for poor performance. This hinders a culture of accountability.

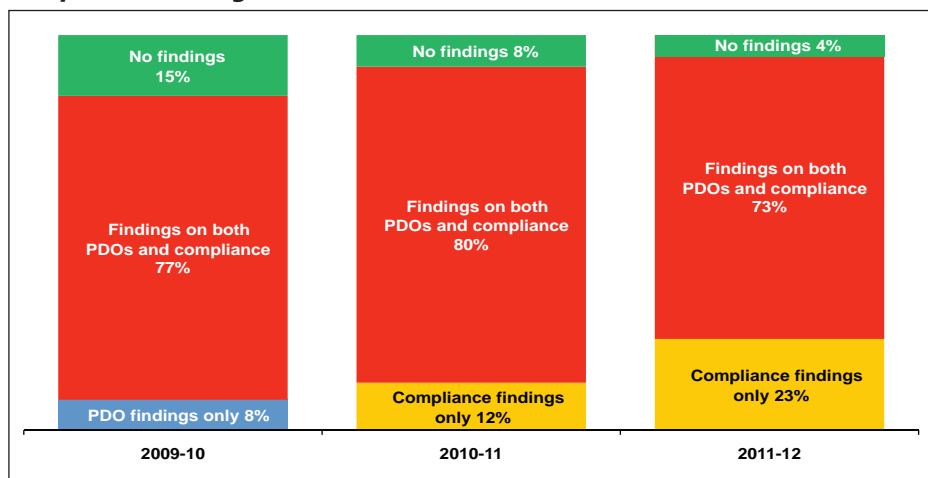
The huge capacity constraints within Education and Health have also depleted the provincial treasury's capacity, as they have seconded a large number of their staff to assist these departments. The result is that the provincial treasury does not have adequate resources to effectively monitor financial issues within the province. This is further compounded by a lack of credible management information that can be used by departments and entities for monitoring and oversight and by the provincial treasury in its oversight role.

As a result of these matters, the strive towards clean administration is slow and improvements are often not sustainable.

## 2.1.4 The province's rate of addressing findings on predetermined objectives and compliance with laws and regulations

The progress, or lack thereof, by the province over the past three years in addressing audit findings on PDOs and compliance with laws and regulations is depicted below.

**Figure 4: Three-year progress in addressing predetermined objective and compliance findings**



Although the AGSA had numerous interactions relating to PDO reporting with the provincial leadership in the prior year, there was no improvement in PDO reporting and compliance with laws and regulations. This lack of improvement, of which the root causes are discussed in sections 2.3.3 and 2.4.5, is of great concern.

As can be seen in the figure above, all departments and entities had findings on compliance during the year under review, while only four departments (Office of the Premier, provincial treasury, Safety and Liaison as well as Social Development) and two entities (ECPTA and ECSECC) had no findings on PDOs.

The increase in the compliance with laws and regulations category is due to only two departments (provincial treasury and Social Development) and one

public entity (ECSECC) addressing all of their PDO findings but not all of their compliance findings.

The lack of movement in both the PDO and compliance with laws and regulations categories, despite the mentioned two departments and one entity moving out of this category, was due to the regression of the provincial legislature and AsgiSA from having no findings to having findings on both PDOs and compliance with laws and regulations.

## 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and the results of an auditee's operations (statement of financial results) and cash flows for the period, in accordance with the applicable accounting framework and the requirements of the applicable legislation. The audit provides the users with assurance on the degree to which the financial statements are reliable and credible.

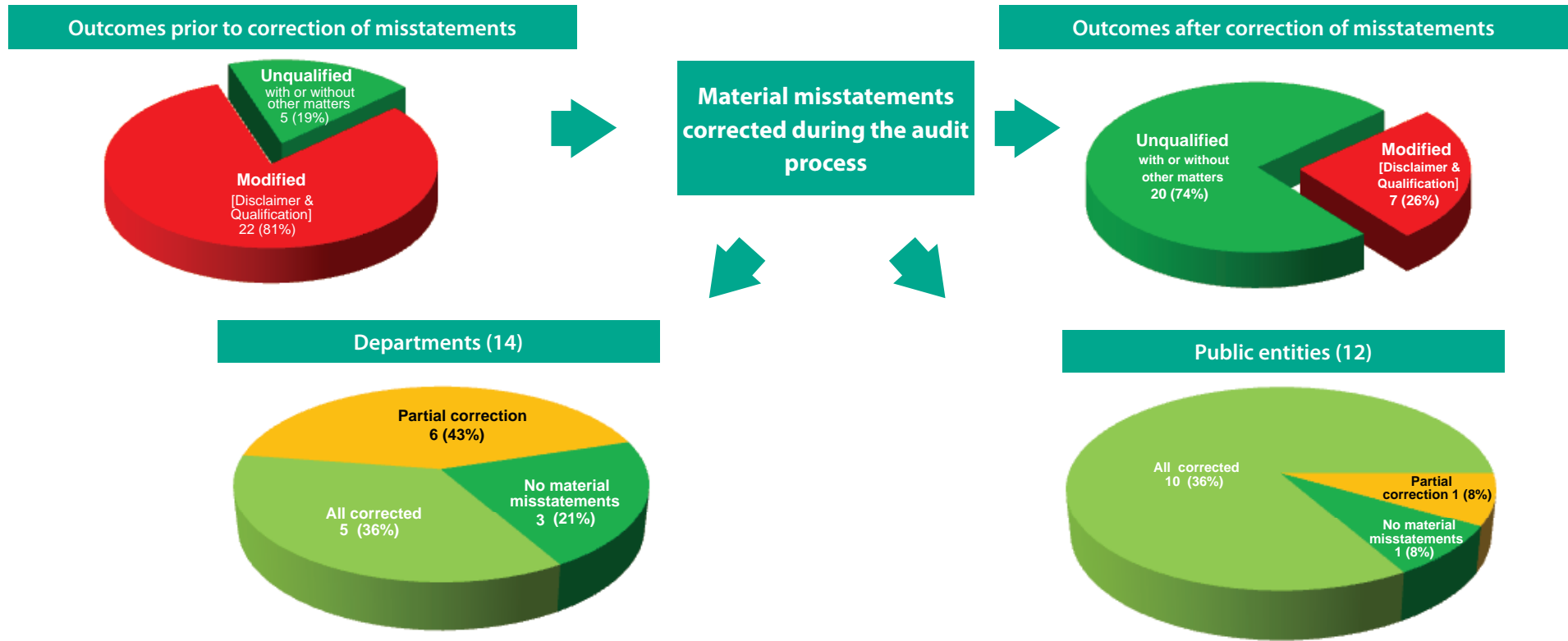
### 2.2.1 The quality of financial statements submitted for auditing

As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. In the current and prior year, only five (19%) auditees submitted financial statements that required no material adjustments.

Twelve (44%) auditees were able to achieve a financially unqualified audit outcome only because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. Some auditees were not willing or able to correct all of the misstatements and therefore could not avoid the qualification of their financial statements.

The extent of material misstatements in the financial statements submitted for auditing for the year under review is depicted in the following figure.

**Figure 5: Material misstatements in financial statements submitted for auditing**



**2.2.2 Financial statement qualification findings**

The following figure depicts the areas that were materially misstated (qualified) in the financial statements of the seven (26%) auditees (2010-11: seven [27%]) that received disclaimed, adverse or qualified audit opinions.

**Figure 6: Financial statement qualification areas**

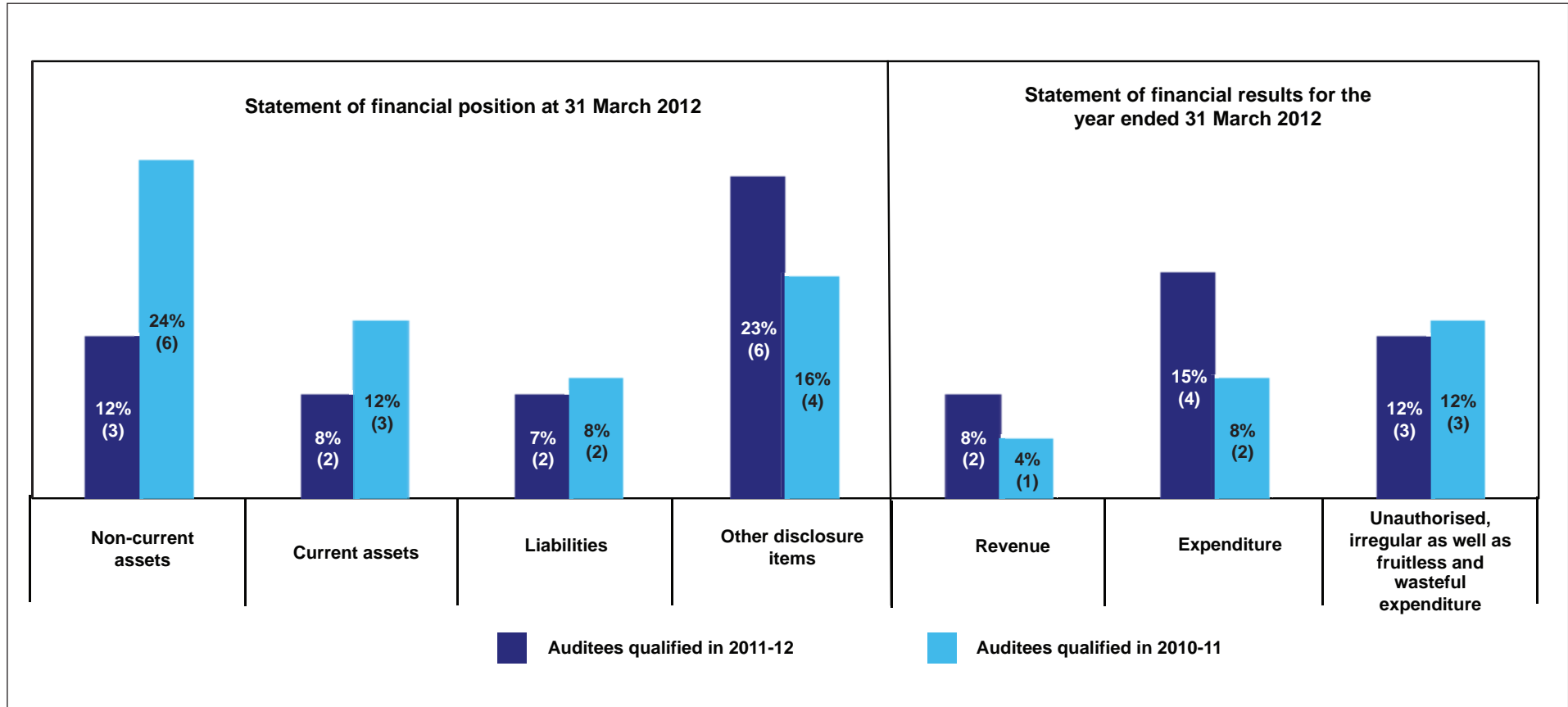


Table 4 depicts the progress, or lack thereof, of auditees in addressing their prior year financial statement qualifications.

**Table 4: Progress made by auditees in addressing prior year financial statement qualifications**

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement in addressing 2010-11 financial statement qualification areas							
			Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Aggregate misstatements
<b>Departments</b>										
Rural Development and Agrarian Reform	Qualified	Qualified				Repeat				
Economic Development, Environmental Affairs and Tourism	Financially unqualified with findings	Qualified	Addressed							
Education	Disclaimer	Disclaimer	Repeat	Repeat	Repeat	Repeat	New	Repeat	Repeat	New
Health	Qualified	Qualified	Repeat	Repeat	Repeat	Repeat		Repeat	Repeat	
Human Settlements	Qualified	Qualified	Addressed			Repeat				
Roads and Public Works	Qualified	Financially unqualified with findings	New			New		New	New	New
Sport, Recreation, Arts and Culture	Qualified	Qualified	Addressed			New		Addressed	Addressed	
<b>Public entities</b>										
Mayibuye Transport Corporation	Qualified	Qualified	Addressed	Addressed			Repeat	New		

The following table provides details of the financial statement qualification areas as well as the basis and reason for qualifications.

**Table 5: Nature of qualifications**

Financial statement qualification area	Basis for qualification	Reason for qualification
<b>Non-current assets</b> • Property • Infrastructure • Plant and equipment	Completeness of assets reflected in financial statements	<ul style="list-style-type: none"> <li>No or incomplete asset register</li> <li>Register not updated timeously</li> <li>Register does not reconcile to the general ledger</li> </ul>
	Values at which assets are reflected	<ul style="list-style-type: none"> <li>Incorrect application of accounting policy</li> <li>Depreciation incorrectly calculated</li> <li>No or incorrect assessment of impairment</li> <li>No or incorrect assessment of residual values or useful lives</li> </ul>
	Existence of assets	<ul style="list-style-type: none"> <li>Assets not identifiable or cannot be physically verified</li> <li>Duplication of assets in the register</li> </ul>
	Rights and obligations relating to assets	<ul style="list-style-type: none"> <li>Asset not registered in name of entity</li> </ul>
	Presentation and disclosure of asset information with reference to accounting and legislative requirements	<ul style="list-style-type: none"> <li><b>Occurrence and rights:</b> Events and transactions disclosed in the financial statements did not occur or does not pertain to the entity</li> <li><b>Completeness:</b> Not all disclosures that should have been made, have been made</li> <li><b>Classification and understandability:</b> Financial information has not been appropriately presented and described, and disclosures are not clearly expressed</li> <li><b>Accuracy and valuation:</b> Financial and other information was not disclosed fairly and at appropriate amounts</li> </ul>

Financial statement qualification area	Basis for qualification	Reason for qualification
<b>Current assets (Receivables)</b>	Completeness (all receivables accounted for)	<ul style="list-style-type: none"> <li>Aged receivables list does not reconcile to the general ledger</li> <li>Not all revenue due to be collected was billed</li> <li>Receivables sub-ledger does not reconcile to the general ledger</li> <li>Suspense accounts not reconciled and cleared in respect of consumer receivables</li> </ul>
	Value at which receivables are stated in financial statements	<ul style="list-style-type: none"> <li>No or ineffective policies and procedures for collection of receivables</li> <li>No or incorrect assessment of impairment</li> <li>No or incorrect discounting of receivables</li> <li>Debtors' confirmations do not agree to debtors' balances</li> </ul>
	Existence of debtors	<ul style="list-style-type: none"> <li>Insufficient documentation to substantiate debtors at year-end</li> <li>No response to confirmations and could not be tested by alternative means</li> <li>No payments received subsequent to year-end</li> <li>Debtors' confirmations do not agree to debtors' balances</li> </ul>



Financial statement qualification area	Basis for qualification	Reason for qualification
<b>Expenditure</b> <ul style="list-style-type: none"> <li>• Transfer payments</li> <li>• Employee costs</li> </ul>	Completeness of recorded expenditure	<ul style="list-style-type: none"> <li>• Not all expenses or costs recorded</li> <li>• Suspense account not reconciled and cleared</li> </ul>
	Accuracy of amounts	<ul style="list-style-type: none"> <li>• Expenses recorded at incorrect amounts or duplicated</li> <li>• Employee related costs incorrectly calculated</li> <li>• Incorrect rates used to calculate employee benefits</li> </ul>
	Occurrence	<ul style="list-style-type: none"> <li>• No or inadequate documentation to support recorded revenue</li> <li>• No or inadequate documentation to support recorded expenditure</li> <li>• Duplicate expenses recorded</li> <li>• No or inadequate supporting documents</li> <li>• Payments not properly authorised</li> <li>• Salary increases not authorised</li> </ul>

### 2.2.3 Sustainability of audit outcomes and qualification areas addressed

It is abundantly clear that the sustainability of positive movements and outcomes is the key to achieving the 2014 clean administration targets. History has also shown us that every year, as is the case with the current financial year, the province makes very positive and encouraging progress that is then immediately marginalised by ever-present regressions.

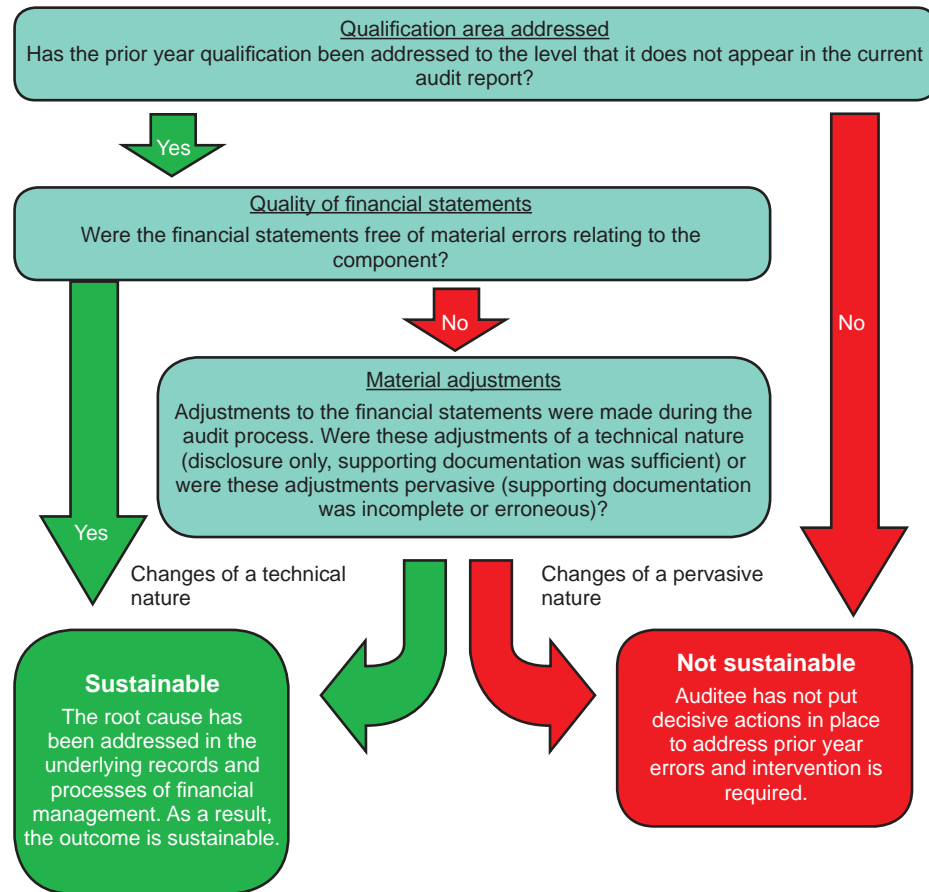
The AGSA goes the extra mile during the audit process by discussing all the risks prevalent at the auditees and providing recommendations on a way forward. Much effort goes into educating auditees on financial processes and they are afforded numerous opportunities to restate and adjust their financial

information. It is important, however, that the auditees take ownership of their financial processes and do not rely on the AGSA to identify errors and weaknesses during the audit, as this is not conducive to a sustainable environment of clean administration.

This raises the very important question of whether the auditees are actually addressing root causes when attending to audit findings or whether they are merely addressing symptoms at a reporting level to achieve an improved audit outcome for that year. For an outcome to be sustainable, it is vital that the root causes of findings be addressed at a source document, daily financial discipline and policy level to ensure that the control environment will prevent the errors and misstatements in the following years. As highlighted in the material misstatement section of this report, there is a tendency to 'manage the audit and not the department or entity'. As a result, the same issues will resurface in the next audit cycle.

The analysis of the sustainability of outcomes depicted in the figure below merges the statistical data relating to misstatements with the history of addressing areas qualified.

**Figure 7: Financial statement qualification areas**

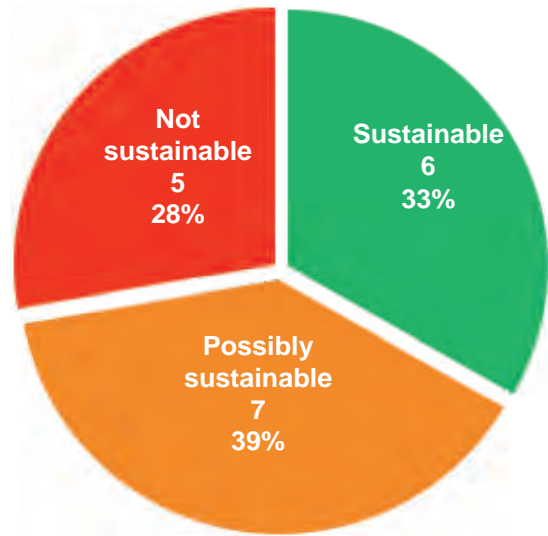


When applying the above criteria to the province, it is evident that the improved outcomes are not entrenched within practices that promote and enhance sustainability. This is evidenced by the fact that only 50% of the improvements in addressing prior year qualification areas have been addressed at a sustainable level.

The lack of movement from financially unqualified outcomes with other matters to that of financially unqualified with no other matters is also concerning. This is evidenced by the high prevalence of auditees with findings on PDOs and compliance with laws and regulations. The bulk of auditees has been grouped in this category for a number of years and it would have been reasonable to expect year-on-year progression towards clean administration to have gained more momentum. Departments and entities appear to be satisfied with unqualified opinions and do not address the matters that gave rise to compliance and PDO findings.

The application of the requirements for sustainability to those auditees who had achieved unqualified audit opinions revealed that only six of these results were sustainable, as illustrated in the figure below. This has a significant impact on the province's ability to achieve the 2014 objective of clean administration.

**Figure 8: Sustainability of unqualified audit opinions**



In the figure above, a sustainable outcome represents instances where auditees with an unqualified opinion had no material misstatements. This indicates that these auditees had adequate record keeping and reporting measures throughout the financial year. A possibly sustainable outcome represents the unqualified auditees that made only minor technical adjustments to their financial statements. In such cases, the adjustments were only on the face value of the financial statements, while the underlying records were complete and in order. The not sustainable outcome relates to those auditees where numerous and pervasive material adjustments had to be made to the financial statements as a result of incomplete or erroneous underlying records.

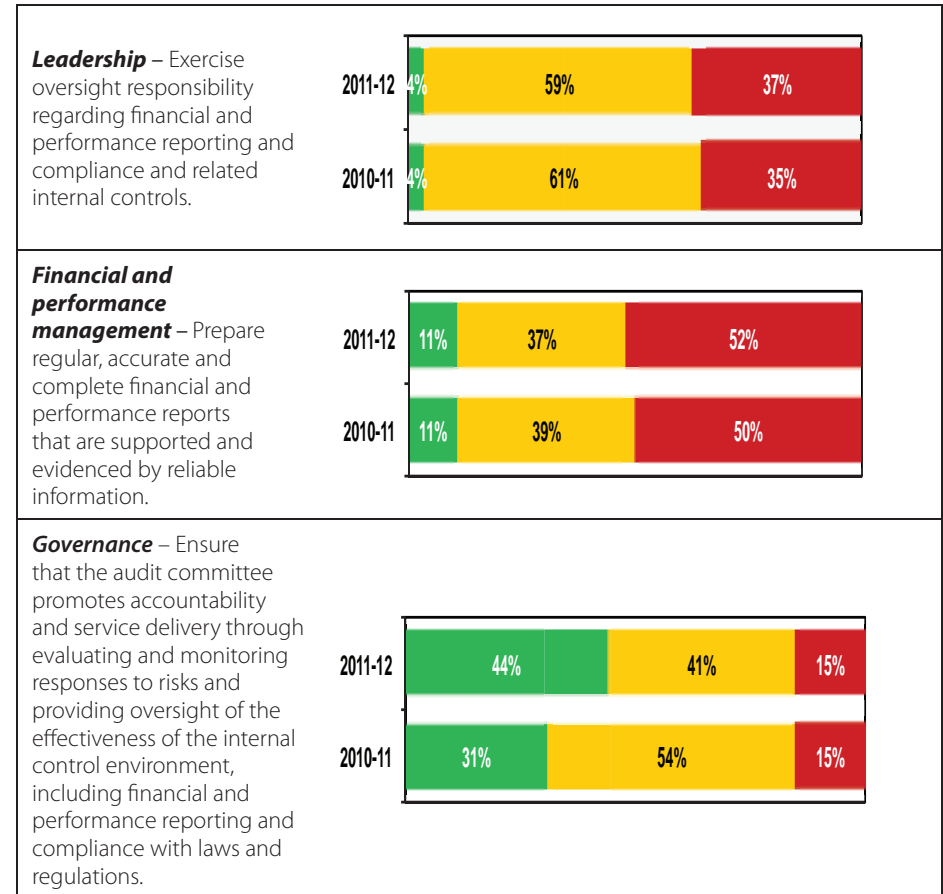
**2.2.4 Key drivers of internal control and related root causes**

The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of such a system of internal control are classified under the fundamental principles of leadership, financial and performance management,

and governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Figure 9 indicates the significant deficiencies in internal control that require attention from the leadership to improve the audit outcomes.

**Figure 9: Assessment of key drivers of internal control over financial reporting**



The identified root causes that gave rise to this assessment are summarised in table 6 below.

**Table 6: Identified root causes**

Aspect	Identified root causes
<b>People</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• Lack of professionalism</li> <li>• Skills not appropriately utilised or allocated in line with areas of expertise</li> <li>• HR divisions not effective and take too long to address issues and vacancies</li> <li>• Lack of knowledge or deliberate non-compliance with laws, regulations, policies and requirements</li> <li>• Leadership 'words' do not translate into a change in culture in a department or entity</li> </ul>
<b>Accountability</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• Lack of political will and/or misalignment between political and administrative leadership, leading to strained relationships</li> <li>• Leadership action does not translate into a positive change in culture that promotes accountability</li> <li>• Lack of assertive leadership, thus not taking accountability or ownership of issues</li> <li>• Executive and senior management not taking proactive actions</li> <li>• Lack of accountability for poor performance</li> <li>• Performance punishment for top performers</li> <li>• Top performers not valued and rewarded</li> <li>• Lack of oversight or monitoring by the executive</li> <li>• Ineffective portfolio committees</li> <li>• Culture of tolerance of inappropriate SCM practices</li> </ul>

Aspect	Identified root causes
<b>Sustainability</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• Short-term solutions to problems preferred</li> <li>• 'Managing the audit' rather than instilling daily disciplines during the financial year, or lack of basic financial and performance management disciplines</li> <li>• Malicious compliance</li> <li>• Depth of review and oversight by audit committees and internal audit units not adequate</li> <li>• Internal audit units and audit committees not being involved in in-year reporting</li> <li>• Poorly staffed internal audit functions</li> <li>• Ineffective portfolio committees</li> <li>• No appreciation of the value of clean audits</li> </ul>

### 2.2.5 Consolidated financial statements

For accountability purposes, the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) requires each province to prepare and publish a consolidated financial report on the use of its resources to achieve its objectives. To this end, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of departments, public entities under the ownership control of the provincial executive of the province, and the provincial legislature. The PFMA further requires the AG to audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the financial statements.

However, due to the difference in the basis of accounting (in other words, the modified cash basis versus the accrual basis), this is not feasible. By September 2012, the minister of finance had not approved a deviation from this requirement of the PFMA. The AGSA therefore reported this matter as non-compliance with the PFMA in the auditor's reports.

The table below indicates the status of the audit of consolidated financial statements for the province.

**Table 7: Status of the audit of consolidated financial statements for the province**

Departments		Public entities	
2011-12	2010-11	2011-12	2010-11
<b>Disclaimer</b>	No prior opinion. The prior audits were conducted as agreed upon procedures.	<b>Qualified</b>	No prior opinion. The prior audits were conducted as agreed upon procedures.

The consolidated financial statements of departments and public entities for the 2011-12 year were received on 24 August 2012 and the auditor's report was issued on 31 October 2012.

The disclaimer of opinion on the 2011-12 Eastern Cape provincial consolidated financial statements for departments is mainly attributed to the respective disclaimed and qualified outcomes of the Departments of Education and Health that represent 74% of the provincial budget. The misstatements and limitations of scope at these two departments were so material and pervasive that they carried forward into the consolidated financial statements.

In respect of the 2011-12 Eastern Cape provincial consolidated financial statements for entities, the material misstatements reflected in the qualified outcome of Mayibuye Transport Corporation proved to be material in the consolidated format as well, thus leading to the qualification of the said consolidated financial statements.

### 2.2.6 The way forward on the auditing of financial statements

Historically, all success stories are based on three elements having been implemented by the leadership of departments and entities, namely a leadership tone depicting a willingness to accept accountability for financial management

throughout the financial year, creating a control environment that is conducive to accountability and oversight, and decisive action plans with clear time frames to address the root causes of qualifications and the continuous monitoring thereof.

Although action plans are being used, the plans are not specific enough, not time bound and not executed with discipline. The monitoring of these plans is also not adequate. As a result, actions are taken too late in the financial year to have a direct impact on outcomes. This is further evidenced by role players losing momentum at the end of the audit process and only giving attention to areas of improvement once the next audit cycle starts. This, in turn, leads to situations where these auditees try to manage the audit process, instead of managing the financial performance of their institutions throughout the year.

Sound leadership principles, financial and performance management, and governance are the building blocks on which clean administration is built. It is evident that, despite sporadic improvements, the provincial sphere needs to intensify and accelerate initiatives to institutionalise these building blocks if clean administration is to be achieved in the foreseeable future. To this end, it is imperative that these principles are not only embedded at a leadership level, but also filter down to a grass-roots level through holding individuals accountable for their actions and responsibilities.

## 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires the AGSA to audit annually the reported information relating to the performance of auditees against their PDOs. Departments and public entities are required to report against their PDOs (service delivery) and to submit such annual performance reports for auditing, together with their annual financial statements. The objective of an audit of PDOs is to enable the auditor to conclude on whether the reported performance against PDOs is reliable, accurate and complete, in all material respects, based on predetermined criteria.

### 2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

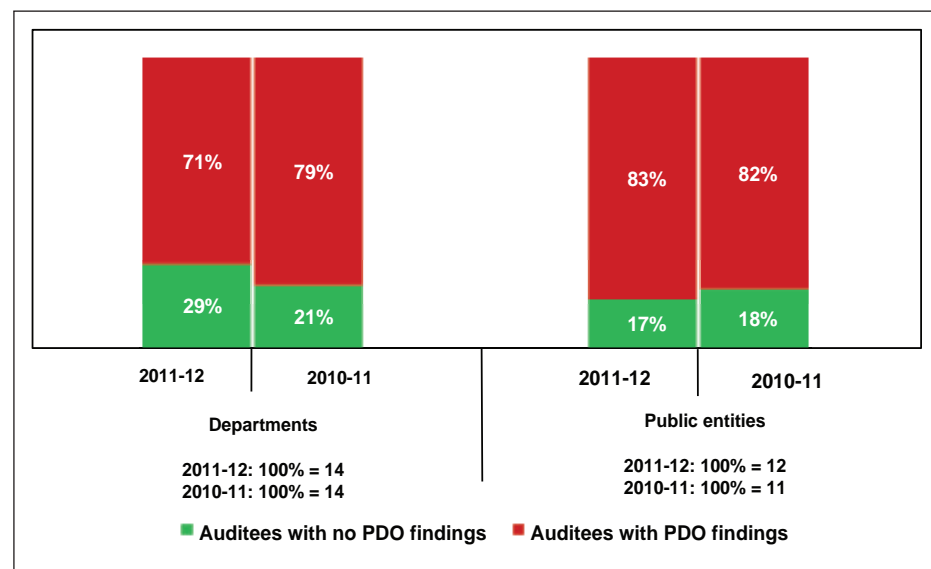
Auditees are required to submit their performance report for auditing by 31 May annually. Two (8%) auditees, namely the GFMS and AsgiSA, did not submit their reports in time for auditing. This represents an increase of 50% from the 2010-11 financial year.

Most auditees submitted performance reports that contained material misstatements in one or more areas. Only six (23%) auditees' performance reports required no material adjustments.

Four (15%) auditees were able to reduce their auditor's report findings on PDOs because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit.

The movement in the number of auditees with findings on their reporting against PDOs is depicted in the following figure. The auditees exclude the revenue fund, which does not have to report on PDOs.

**Figure 10: Overall movement in number of auditees with findings on predetermined objectives**



At an overall level, the total number of departments and entities with PDO findings remained the same as last year.

#### Auditees that maintained their status of no findings

- The Office of the Premier, Safety and Liaison as well as the ECPTA remained unchanged with no findings on PDOs.

#### Improvements

- The provincial treasury, Social Development as well as the ECSECC improved to having no findings on PDOs.

The unchanged positive and the improved results can be attributed to appropriate planning and monitoring of actual reported performance together with the oversight performed by the governance structures.

#### Regressions

- The provincial legislature and AsgiSA regressed from having no findings in the previous year.
- The regressed results at the legislature can be attributed to a relaxation of the monitoring by management and the oversight by governance structures.
- The regression at AsgiSA was due to the uncertainty surrounding its merger with the ECRFC, which should have taken place with effect from 1 April 2011 but was postponed to 1 April 2012. As a result, no operational plan or budget was prepared for the 2011-12 financial year. Consequently, there was no reporting on actual performance against a plan for the year under review.
- The GFMS, a new entity, did not prepare a report on PDOs as it was formed two months before year-end and its management was unaware of the requirement to prepare this report.

### 2.3.2 Findings on predetermined objectives

PDO findings are classified under the main audit areas of usefulness and reliability of information, as detailed in the table below.

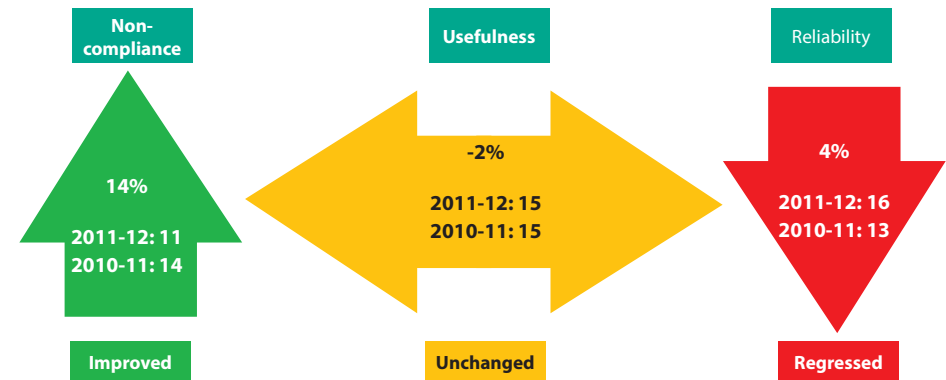
**Table 8: Classification of findings on predetermined objectives**

<b>Usefulness</b>	<p>The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings relate to:</p> <ul style="list-style-type: none"> <li>reported performance information not being consistent with the objectives and targets</li> <li>targets not clearly linked to the mandate and objective of the institution</li> <li>targets not being specific, clearly identifying the nature and required level of performance, measurable and time bound.</li> </ul>
<b>Reliability</b>	<p>Findings relate to whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.</p>

The audits also focus on compliance with laws and regulations relevant to performance planning, management and reporting.

The following figure depicts the overall movement in the different areas of PDO findings.

**Figure 11: Overall movement in predetermined objective findings (26 auditees reported on [2010-11: 25])**



The improvement in PDO compliance at the provincial treasury, Social Development and the ECSECC is attributed to the leadership and governance structures improving their monitoring of the PDO control systems.

The overall level of findings relating to usefulness is due to an inappropriate attitude towards performance planning. This attitude includes preparing planning documents to only comply with requirements (malicious compliance) and not with a view to directing institutional behaviour and outcomes.

The increase in the findings relating to reliability and the overall level of these findings are due to a lack, or relaxation, of control systems for the collection, collation and reporting of information about actual performance, including supervision and monitoring of daily, weekly and monthly activities, and a lack of oversight by the governance structures.

Table 9 depicts the progress, or lack thereof, of auditees in addressing their prior year PDO findings. It does not include the non-compliance findings that are detailed in section 2.4.



**Table 9: Progress of auditees in addressing prior year findings on predetermined objectives**

Auditee	Movement in addressing 2010-11 predetermined objective findings			
	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
<b>Departments</b>				
Agriculture and Rural Development	Repeat	Repeat		
Economic Development and Environmental Affairs	Repeat	Repeat		
Education	New	New	Addressed	
Health	Repeat	Repeat		
Human Settlements		Repeat		
Local Government and Traditional Affairs	Addressed	New		
Provincial Legislature	New	New		
Provincial Treasury	Addressed			
Roads and Public Works	Repeat	Repeat		
Social Development	Addressed	Addressed		
Sport, Recreation, Arts and Culture	Repeat	Repeat		
Transport	Repeat	Repeat		

Auditee	Movement in addressing 2010-11 predetermined objective findings			
	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
<b>Public entities</b>				
Accelerated Shared Growth Initiative of South Africa				New
East London Industrial Development Zone Corporation	Repeat	Repeat		
Eastern Cape Development Corporation	New			
Eastern Cape Government Fleet Management Services				New
Eastern Cape Appropriate Technology Unit	Repeat	Repeat		
Eastern Cape Gambling and Betting Board	Repeat	Repeat		
Eastern Cape Liquor Board	Addressed	Repeat		
Mayibuye Transport Corporation	Repeat	New		
Eastern Cape Provincial Arts and Culture Council	Repeat	Repeat		
Eastern Cape Rural Finance Corporation (Uvimba)	New			

Table 10 details the nature of the most common PDO findings.

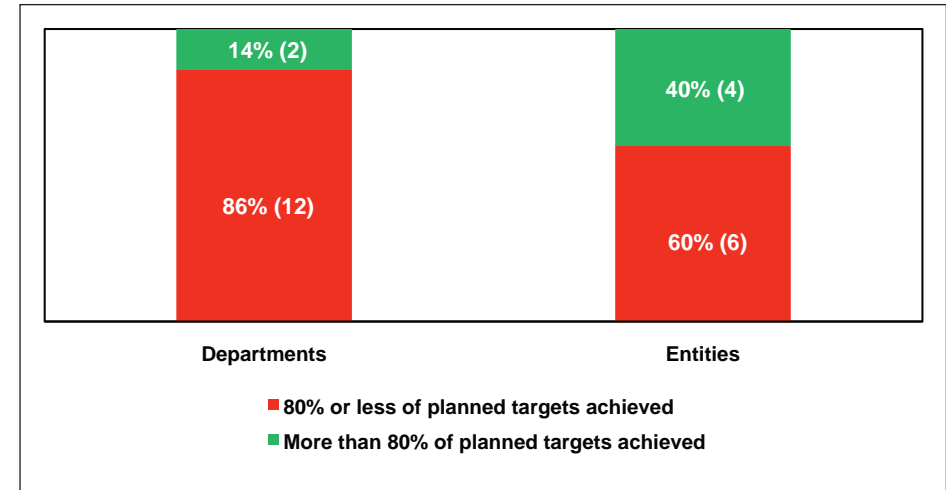
**Table 10: Nature of findings on predetermined objectives**

Category of PDO findings	Specific PDO findings	Nature of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>Consistency</li> <li>Relevance</li> <li>Measurability</li> </ul>	<ul style="list-style-type: none"> <li>Reasons for major variances were not provided or could not be corroborated against supporting documentation</li> <li>Reported performance information was not consistent with the planned indicators, objectives, measures and targets</li> <li>Indicators or measures were not well defined and the related targets were not measurable</li> </ul>
<b>Reported information not reliable</b>	<ul style="list-style-type: none"> <li>Accuracy</li> <li>Completeness</li> <li>Validity</li> </ul>	<ul style="list-style-type: none"> <li>Reported indicators were not accurate or valid when compared to supporting source information</li> <li>Supporting source information for reported performance was not complete</li> </ul>

### 2.3.3 Planned targets not achieved

Although the audit of PDOs focuses mainly on the usefulness and reliability of reported performance in the annual report and not the achievement of actual targets, the auditor’s reports highlighted those cases where more than 20% of the planned targets were not achieved. Figure 12 below summarises the situation in this regard in the province.

**Figure 12: Planned targets not achieved by departments and public entities**



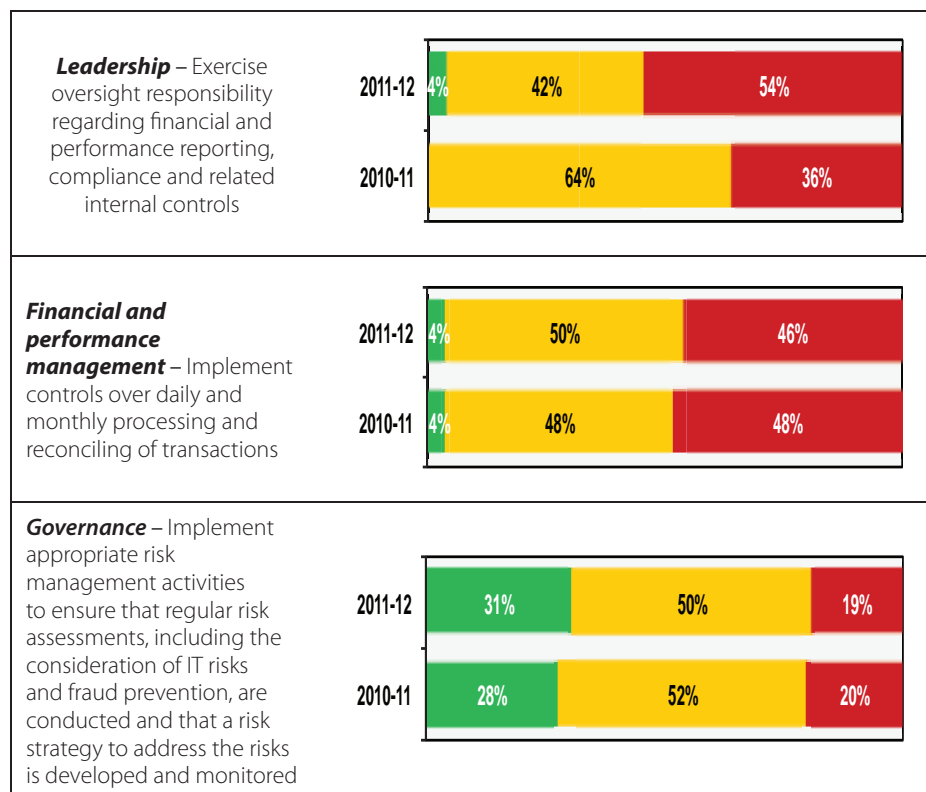
The non-achievement of planned targets does not correlate with the spending of approved allocations, which (after accruals) were mostly spent. This requires the attention of the provincial leadership if service delivery in the province is to be improved.

### 2.3.4 Key drivers of internal control and related root causes

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of such a system of internal control are classified under the fundamental principles of leadership, financial and performance management, and governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Figure 13 indicates the significant deficiencies in the internal control that require attention from the leadership to improve the audit outcomes.

**Figure 13: Assessment of key drivers of internal control over reporting on predetermined objectives**



The identified root causes that gave rise to this assessment and the recommended way forward are summarised in the table below.

**Table 11: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<p><b>Formal planning for service delivery and performance reporting</b></p>	<p><u>Root causes</u></p> <p>Strategic and annual performance plans form the basis of service delivery to be performed and reported on. The leadership did not pay sufficient attention to the development of objectives, indicators and targets and the evidence required to prove performance as contained in the plans.</p> <p>As a result, objectives, indicators and targets were excluded from the service delivery reports, because actual performance could not be measured or adequately proved by supporting evidence.</p>
	<p><u>Way forward</u></p> <p>The leadership should ensure that process plans for the development of planning documents include sufficient time for robust review and testing by the leadership and the governance structures (audit committee and internal audit unit).</p> <p>The provincial treasury and the oversight committees of the provincial legislature should also perform rigorous reviews of the planning documents to ensure that service delivery is aligned to government priorities and can be measured and reported on.</p>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p><u>Root causes</u></p> <p>The evidentiary requirements and processes required to collect, collate and report information about actual performance were not adequately considered during the planning process. As a result, performance was not reported on or reported performance could not be substantiated by appropriate evidence.</p>
	<p><u>Way forward</u></p> <p>The leadership should align the reporting systems to the service delivery requirements contained in the planning documents. This includes aligning the organisational structures to the requirements of PDO reporting and capacitating them, developing and implementing appropriate PDO reporting policies and procedures, clearly defining roles and responsibilities for PDO reporting, regularly reconciling reported performance to supporting documentation, reporting regularly on performance, and subjecting performance reports to review and interrogation by the leadership and governance structures to ensure their credibility.</p> <p>The provincial treasury together with the relevant legislative oversight committees should insist on regular and credible in-year reports in order to monitor service delivery and make recommendations where expectations are falling behind.</p>

Aspect	Identified root causes and way forward
<b>Performance management</b>	<p><u>Root causes</u></p> <p>There was a general lack of accountability and consequences for inadequate, or no, action. As a result, the officials responsible for reporting on PDOs were not held accountable for the quality of their work.</p>
	<p><u>Way forward</u></p> <p>The indicators and targets contained in the planning documents should form the basis of the signed performance agreements of senior managers. These agreements should contain requirements relating to valid, accurate and complete reporting on performance. Appropriate consequences for poor performance should be implemented in order to hold officials accountable for their performance.</p>
<b>Monitoring by audit committees and internal audit units</b>	<p><u>Root causes</u></p> <p>Risks to PDO reporting were not included in the risk management strategies of all provincial departments and public entities. As a result, the governance structures did not pay sufficient attention to PDO reporting.</p>
	<p><u>Way forward</u></p> <p>The audit committees and internal audit units should ensure that all relevant risks are included in the risk management strategies and should provide assurance to the leadership that the strategies implemented to mitigate PDO reporting risks are adequate.</p>

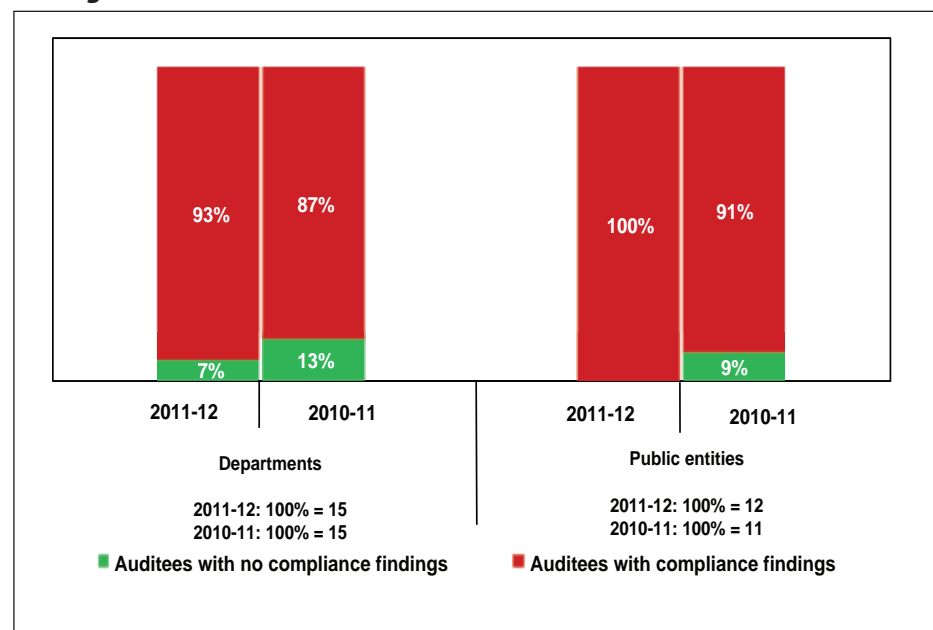
## 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

The PAA requires auditors of public sector entities to audit, on an annual basis, compliance with laws and regulations applicable to financial matters, financial management and other related matters.

### 2.4.1 Overall outcomes from the audit of compliance with laws and regulations

The movement in the number of auditees with findings on compliance with laws and regulations is depicted in the following figure.

**Figure 14: Overall movement in number of auditees with compliance findings**



With the exception of the provincial revenue fund, findings relating to compliance with laws and regulations were reported at all departments and provincial public entities during the year under review.

Regressions were noted at the provincial legislature and AsgiSA. The legislature submitted financial statements that were subjected to material amendments, while AsgiSA had findings relating to material amendments, planning and budgeting.

Complacency and a lack of effective monitoring contributed to the regression at the legislature. In addition, matters reported in the previous year, although not material then, were not adequately addressed. These matters escalated in the year under review to the extent that they became material, thus requiring the financial statements to be amended.

The findings on planning and budgeting at AsgiSA were due to the uncertainty surrounding the merger with the ECRFC. This uncertainty also affected the daily and monthly monitoring of financial information, which had an impact on the financial statements and resulted in audit adjustments.

### 2.4.2 Findings on compliance with laws and regulations

The procedures performed to obtain evidence that auditees had complied with applicable laws and regulations were limited to the following focus areas:

- material misstatements in submitted annual financial statements;
- asset and liability management;
- audit committees;
- budgets;
- expenditure management;
- prevention of unauthorised, irregular as well as fruitless and wasteful expenditure;
- financial misconduct;
- internal audit;
- revenue management;
- strategic planning and performance management;
- transfer of funds and conditional grants;
- procurement and contract management; and
- HR management and compensation.

The following figure depicts the overall movement in the different focus areas.

**Figure 15: Overall movement in findings on compliance with laws and regulations**

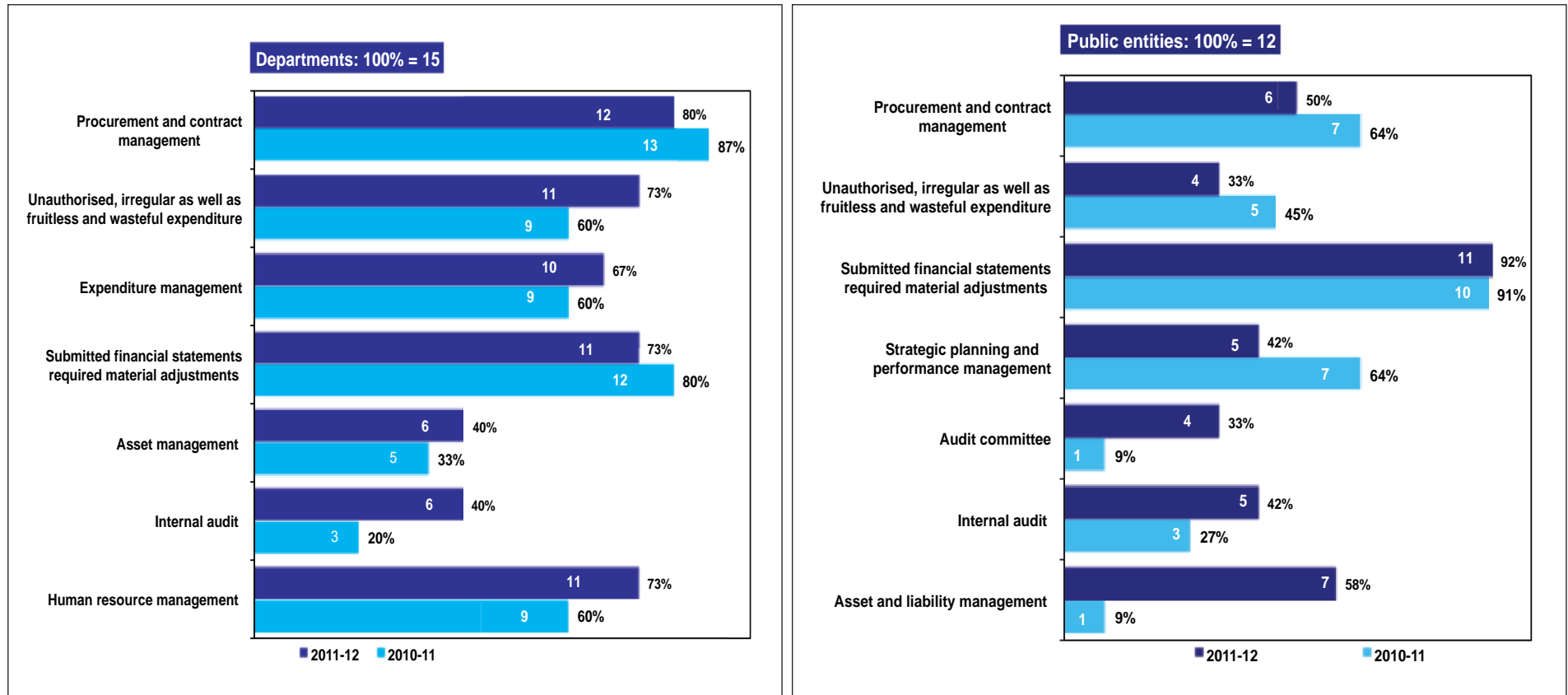




Table 12 depicts the progress, or lack thereof, of auditees in addressing their prior year compliance findings.

**Table 12: Progress of auditees in addressing prior year findings on non-compliance**

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement/ Limitations in submitted annual financial statements	Unauthorised, irregular, and fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit	Revenue management
<b>Departments</b>								
Rural Development and Agrarian Reform	Repeat	Repeat	Repeat	Repeat	Repeat			Repeat
Economic Development, Environmental Affairs and Tourism	Repeat	Repeat	Repeat	Repeat	Repeat			Repeat
Education	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
Health	Repeat	Repeat	Repeat	Repeat	New	Repeat		Repeat
Human Settlements	Repeat	Repeat	Repeat	Repeat	Repeat		New	
Local Government and Traditional Affairs	Repeat	Repeat	Repeat	Repeat	Addressed		Repeat	
Office of the Premier	Addressed	New	Repeat	New	Repeat			
Provincial Legislature	New						New	
Provincial Planning and Treasury			Addressed	Repeat			Addressed	
Roads and Public Works	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat		Repeat
Safety and Liaison	Repeat		Repeat	Addressed	Repeat	Repeat		
Social Development	Addressed	Addressed	Repeat	Addressed	New			Addressed
Sport, Recreation, Arts and Culture	Repeat	New	Repeat	New	Addressed	New		
Transport	Repeat	Repeat	Repeat	Repeat	New	New	New	Repeat

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement/ Limitations in submitted annual financial statements	Unauthorised, irregular, and fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit	Revenue management
<b>Public entities</b>								
Accelerated and Shared Growth Initiative of South Africa	New							
East London Industrial Development Zone	Repeat		Addressed				New	
Eastern Cape Development Corporation	Repeat					New		
Government Fleet Management Services	New					New	New	New
Eastern Cape Appropriate Technology Unit	Repeat	Repeat	Repeat				Repeat	
Eastern Cape Socio Economic Consultative Council	Repeat	Addressed	Repeat					Addressed
Eastern Cape Gambling and Betting Board	Repeat	Repeat	Repeat			New	Repeat	
Eastern Cape Liquor Board	Repeat		Addressed			New		
Mayibuye Transport Corporation	Repeat					Repeat	New	Repeat
Eastern Cape Parks and Tourism Agency	Repeat	Addressed	Repeat			New	Repeat	
Eastern Cape Provincial Arts and Culture Council	Addressed	Addressed	Repeat					Addressed
Eastern Cape Rural Finance Corporation (Uvimba)	Repeat	New	New			New	New	New

Table 13 details the nature of the most common findings on non-compliance with laws and regulations.

**Table 13: Nature of findings on non-compliance with laws and regulations**

Category of compliance findings	Nature of findings
<b>Material misstatements</b>	The financial statements submitted for auditing were subjected to material amendments. These findings are due to a lack of properly reconciled and regular financial reports. The provincial treasury is attempting to address this matter by requiring a full set of financial statements to be prepared every quarter from the beginning of the 2012-13 financial year.
<b>Unauthorised, irregular as well as fruitless and wasteful expenditure</b>	Findings on unauthorised, irregular as well as fruitless and wasteful expenditure relate to the accounting officers or accounting authorities either not detecting or preventing such expenditure.
<b>Procurement and contract management</b>	The most significant findings on procurement and contract management relate to unfair and uncompetitive procurement processes. These processes relate mostly to not obtaining three quotations for amounts less than R500 000, competitive bidding processes not having been followed for contracts greater than R500 000, non-submission of tax clearance certificates and declarations of past bidding practices, the incorrect application of preferential points, and awarding construction contracts to contractors who have been incorrectly graded by the Construction Industry Development Board (CIDB). Refer to section 2.4.3 below for further details on procurement and contract management.
<b>Expenditure management</b>	Expenditure management findings relate mainly to the payment of suppliers later than the 30 days prescribed by the PFMA. These findings are due to a lack of monitoring of invoice receipt and payment dates and a failure to take action against officials responsible for delayed payments.

Category of compliance findings	Nature of findings
<b>HR management</b>	The most significant HR management findings relate to the incorrect application of appointment processes. These findings are further detailed in section 3.2 of this report.
<b>Asset and liability management</b>	The most prevalent findings on asset and liability management relate to bank reconciliations not being prepared on a daily or weekly basis and proper controls not being exercised over the assets and asset registers. This is due to an inappropriate attitude towards monitoring and supervising the relevant daily, weekly and monthly processes and the enforcement of consequences for a lack of performance.

### 2.4.3 Findings arising from the audit of supply chain management

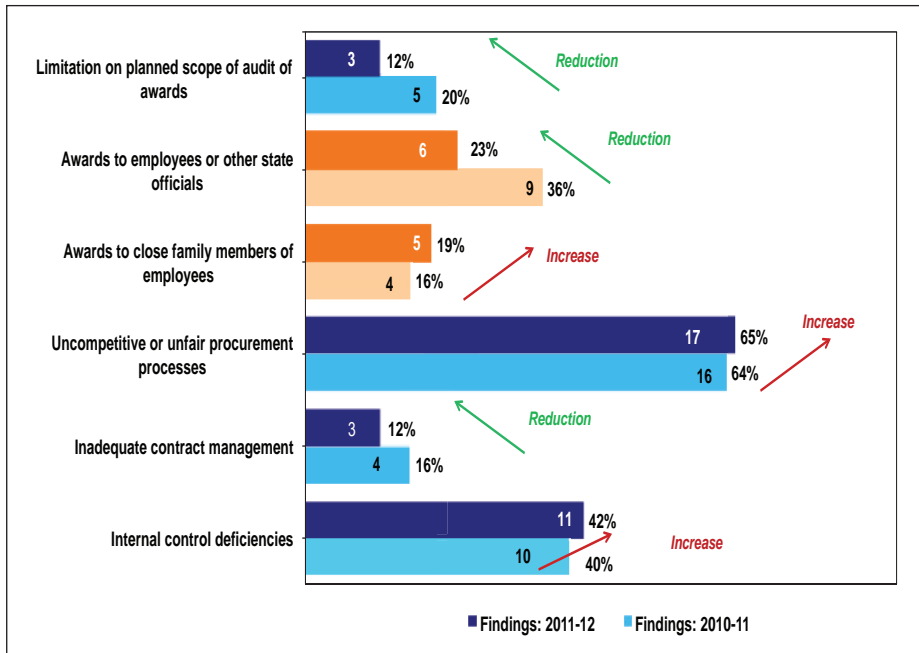
Audits conducted by the AGSA included an assessment of procurement processes, contract management and related controls. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings arising from the audit were reported in the management reports of 18 (69%) of the auditees. At all of these auditees, the findings were material enough to warrant reporting thereof in the auditor's report.

Contracts awarded and price quotations accepted (referred to as 'awards' in the rest of this report) to the value of R10,9 billion were tested. Awards to the value of R851 million that were selected for auditing could, however, not be audited due to the required information or documentation not being made available by auditees.

The following figure presents a summary of SCM findings, with a comparison to the audit results of the previous year. The percentages are based on the number of auditees reported on.

**Figure 16: Summary of findings on supply chain management**



**Awards not in compliance with legislation: 2011-12**      **Awards not in compliance with legislation: 2010-11**

Details of the most prevalent findings are provided in the paragraphs that follow.

**2.4.3.1 Limitations on planned scope of audit of awards**

At three (11%) auditees, sufficient appropriate audit evidence could not be provided that awards had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. Details of these limitations are depicted in the table below. The name of the auditee is highlighted in red if the scope limitation was also experienced in the previous year.

**Table 14: Limitations experienced**

Auditee	Number of awards	Amount
<b>Departments</b>		
Education	77	R377 million
Health	78	R469 million
Roads and Public Works	58	R5 million
<b>Total</b>	<b>213</b>	<b>R851 million</b>

These limitations were the result of documentation not being available for auditing. Due to the limitations experienced, the findings reported in the remainder of this section might not reflect the full extent of irregularities and SCM weaknesses at the auditees.

**2.4.3.2 Awards to state officials and close family members**

The audits included an assessment of the interest of officials of the auditee and their close family members in suppliers to the auditee.

Legislation does not prohibit such awards but policies and legislation exist to ensure that conflicts of interest do not result in the unfair awarding of contracts or the acceptance of unfavourable price quotations. Legislation also requires employees to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation and the policies of the auditee was tested. The awards identified were also tested to assess possible non-compliance or irregularities that could indicate that decisions or recommendations had been unlawfully and improperly influenced.

Details of the awards made and whether they complied with the legislated requirements are depicted in the table below. The name of the auditee is highlighted in red if awards to officials and close family members were also identified in the previous year.

**Table 15: Awards to officials employed by auditees and their close family members**

Auditee	Awards made to					Non-compliance with regard to awards made							
	Officials			Close family members of officials		Supplier did not declare interest		Official did not declare interest		Other remunerative work not approved		Non-compliance/ Irregularity in procurement process	
	Number*	Amount R'000	Position	Number*	Amount R'000	Number*	Amount R'000	Number*	Amount R'000	Number*	Amount R'000	Number*	Amount
<b>Departments</b>													
Rural Development and Agrarian Reform	1	15	Other employees			1	15	1	15				
Education	71	4,373	Other employees	206	2,824	177	7,197	178	7,197				
Health	90	2,093	Other employees			90	2,093	90	2,093				
Human Settlements			Other employees	1	919	1	919	1	919				
Roads and Public Works	37	19,534	Other employees	8	338	23	19,872	13	19,872	18	19,534		
Sport, Recreation, Arts and Culture	7	88	Other employees	3	69	6	157	6	157				
<b>Public entities</b>													
East London Industrial Development Zone			Other employees	2	550	1	550	2	550				
Mayibuye Transport Corporation	5	25	Other employees			5	25	5	25				
<b>Total</b>	<b>211</b>	<b>26,128</b>		<b>220</b>	<b>4,700</b>	<b>304</b>	<b>30,828</b>	<b>296</b>	<b>30,828</b>	<b>18</b>	<b>19,534</b>	<b>0</b>	<b>-</b>

\* Number: indicates number of instances

### 2.4.3.3 Uncompetitive or unfair procurement processes

The audits also focused on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process did not unfairly favour some suppliers above others.

It is important that the prescribed processes be followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and that those goods and services are procured at competitive and economical prices.

The procurement processes of 536 contracts (R10,75 billion) and 1 834 quotations (R153 million) were tested at 14 departments and 12 public entities. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table. Similar findings were identified in the province in the prior year.

**Table 16: Summarised findings on uncompetitive or unfair procurement processes**

Finding	DP	PE	Nature of finding
<b>Three price quotations not obtained or deviations not approved or justified</b>	6 (43%)	4 (33%)	A price quotation process is prescribed for the procurement of goods and services valued between R10 000 and R500 000.  Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee as required.

Finding	DP	PE	Nature of finding
<b>Competitive bids not invited or deviations not approved or justified</b>	5 (36%)	0 (0%)	A competitive bidding process should be followed for the procurement of goods and services above R500 000.  Competitive bids were not always invited and the deviations were not approved by a properly delegated official.
<b>Preference point system not applied or not correctly applied</b>	1 (7%)	3 (25%)	The preference point system was not applied in all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).
<b>Tax clearance not obtained from the South African Revenue Service</b>	3 (21%)	3 (25%)	Awards were made to suppliers without proof from the South African Revenue Service that their tax matters were in order.
<b>Other findings</b>	6 (42%)	4 (33%)	Other findings included the following: <ul style="list-style-type: none"> <li>• Quotations not obtained from listed prospective suppliers or suppliers meeting listing requirements.</li> <li>• Bids advertised for shorter period – no approval of deviation.</li> <li>• Bids not adjudicated by a properly constituted adjudication committee.</li> <li>• Bids not advertised in the prescribed media.</li> <li>• Construction contracts awarded to suppliers who were not registered with the CIDB.</li> </ul>

DP = departments, PE = public entities

### 2.4.3.4 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which – in turn – has a direct impact on service delivery.

The most prevalent findings on inadequate contract management are summarised in the following table. Similar findings were also identified in the prior year.

**Table 17: Summarised findings on contract management**

Finding	DP	PE	Nature of finding
<b>Inadequate contract performance measures and monitoring</b>	2 (14%)		Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract.
<b>Other findings</b>	2 (14%)		Other findings included the following: <ul style="list-style-type: none"> <li>Total payments under quotation exceeded the original quoted amount.</li> <li>Contracts extended or renewed to circumvent competitive bidding processes.</li> </ul>

DP = departments, PE = public entities

### 2.4.3.5 Inadequate supply chain management controls

Findings on the most prevalent deficiencies in fundamental SCM controls are summarised in the following table. Similar findings were also identified in the prior year.

**Table 18: Summarised findings on supply chain management controls**

Finding	DP	PE	Nature of finding
<b>Inadequate controls to ensure interest is declared</b>	4 (28%)	1 (7%)	The controls at some auditees were inadequate to ensure that: <ul style="list-style-type: none"> <li>officials declared whether they or their close family members, partners and associates had interests in suppliers to the auditee</li> <li>suppliers declared any connections to persons in the service of the auditee or other state institutions.</li> </ul>
<b>SCM officials not adequately trained</b>	4 (28%)	1 (7%)	Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.
<b>Other controls</b>	3 (21%)	0 (0%)	Roles and responsibilities for the management and coordination of the SCM unit had not been clearly assigned.

DP = departments, PE = public entities

### 2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred

Legislation requires accounting officers to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof, even if all reasonable steps had been taken. In those exceptional circumstances where it does occur, legislation makes it compulsory for auditees to disclose such expenditure in their financial statements and a detailed accountability process is prescribed, which could result in disciplinary processes and the recovery of money from liable officials.

Unauthorised, irregular or fruitless and wasteful expenditure was incurred by 21 (81%) auditees. The audits further revealed that the accounting officers of 15



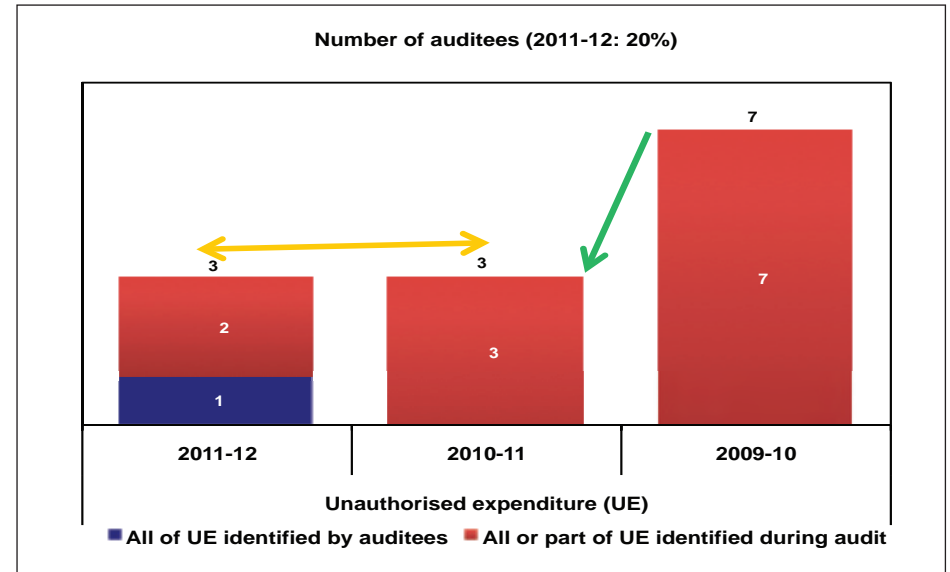
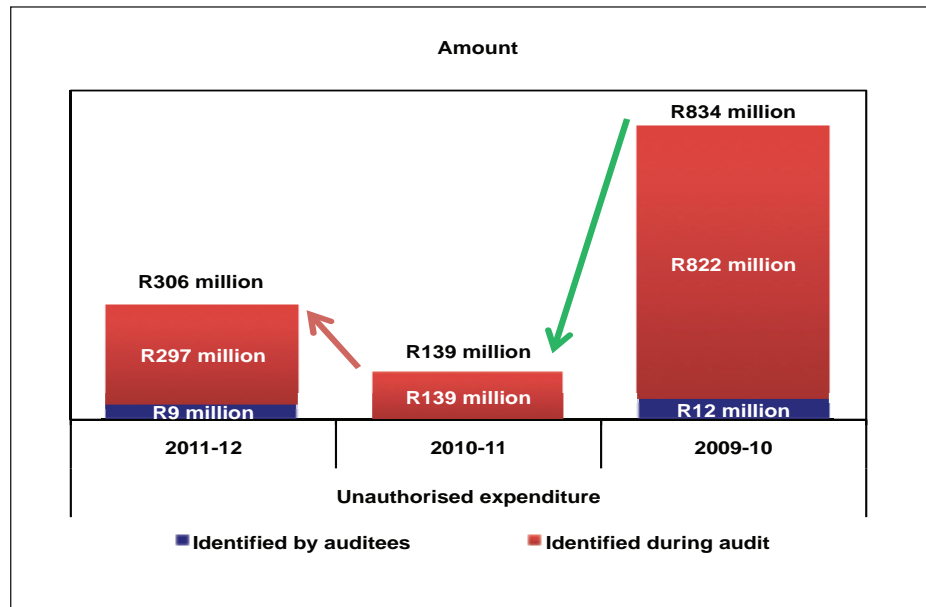
(58%) auditees did not ensure that reasonable steps had been taken to prevent this type of expenditure. This was reported in the auditor's reports as material non-compliance.

The extent of this expenditure and the non-compliance by accounting officers is indicative of an environment where unauthorised and irregular expenditure has become the norm and not the exception. Reasonable steps are not taken to prevent such expenditure, while the occurrence thereof is also not detected by auditees but most often identified through the AGSA's audit process.

#### 2.4.4.1 Nature of, and overall trends in, unauthorised expenditure (departments only)

The figure below reflects the three-year trend in unauthorised expenditure.

**Figure 17: Three-year trend in unauthorised expenditure**



The nature of the unauthorised expenditure incurred is analysed in the following table.

**Table 19: Nature of, and current year movement in, unauthorised expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Overspending of votes/main division within votes	3	0%	R306 million	120%

Note: 'Unchanged' denotes an increase/reduction of 5% or less in the level of findings compared to the previous financial year.

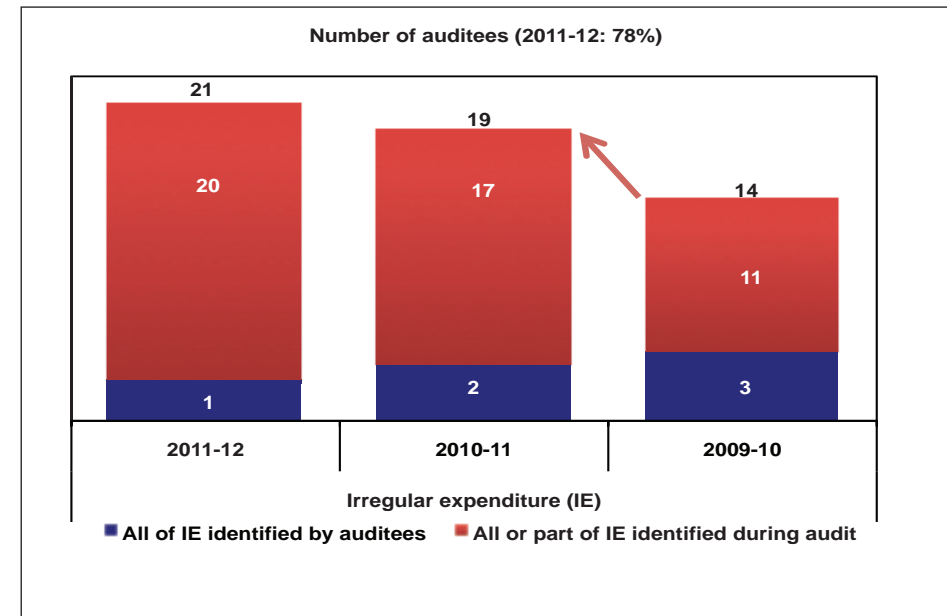
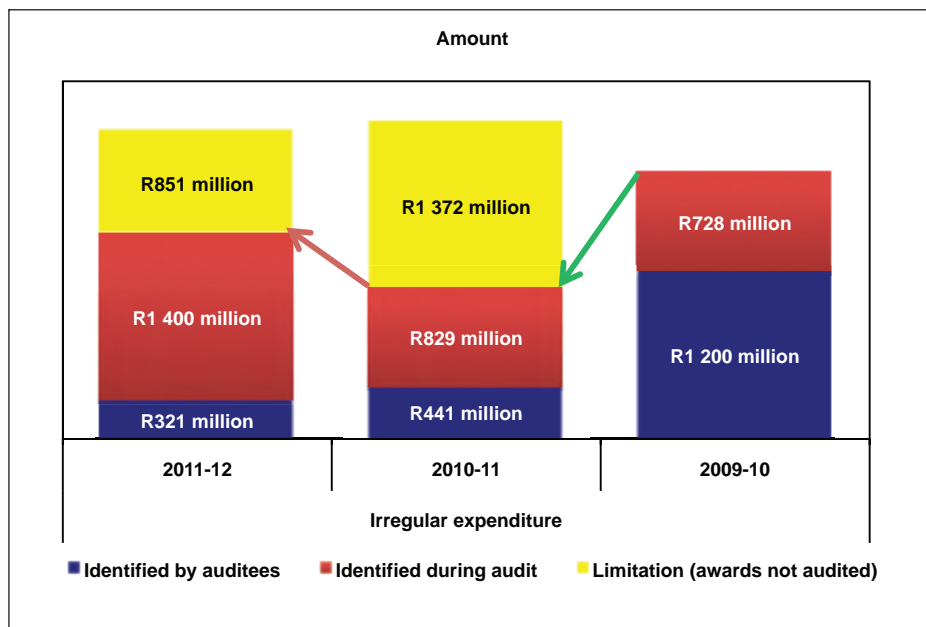
The number of departments incurring unauthorised expenditure has more than halved since 2009-10. The R306 million reported unauthorised expenditure is a result of overspending at Education (R297 million), Health (R9 million) and Roads and Public Works (R300 000). Appropriate monitoring processes had not

been implemented at these departments to ensure that the actual expenditure incurred was within the allocated budget. The unauthorised expenditure at Education together with the amount of its accruals at year-end has a significant impact on the budget it has available to finance its 2012-13 service delivery initiatives, as these amounts will be financed from the 2012-13 budget allocations.

#### 2.4.4.2 Nature of, and overall trends in, irregular expenditure

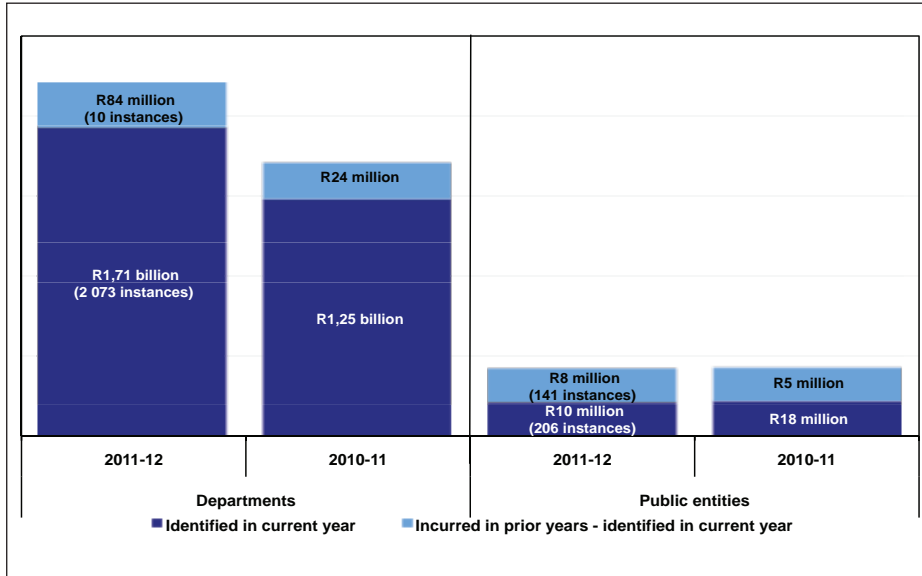
The figure below reflects the three-year trend in irregular expenditure.

**Figure 18: Three-year trend in irregular expenditure**



The following figure depicts the extent of the irregular expenditure that occurred as a result of transgressions in the current and previous year. It also shows irregular expenditure that occurred in previous years but was only discovered recently.

**Figure 19: Irregular expenditure incurred – current and prior years**



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The nature of the irregular expenditure incurred is analysed in the following table.

**Table 20: Nature of, and current year movement in, irregular expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11	Number of instances 2011-12
Related to SCM	19	46% ↓	R1,522 million	56% ↓	2 279
Related to compensation of employees	8	0% ↔	R162 million	41% ↑	
Other non-compliance	3	0% ↔	R37 million	74% ↓	

The comparative figures for irregular expenditure in the above figures and table have been restated from those disclosed in the 2010-11 general report. Irregular expenditure was previously reported at projected amounts, but in the current year it was decided to rather report on factual amounts identified during the audit. Accordingly, the comparative figures have been restated at actual amounts.

Education (R859 million), Health (R436 million) and Roads and Public Works (R250 million) account for 90% of the irregular expenditure incurred by the province. The limitations of R851 million reported in section 2.4.3.1 above were also experienced at these three departments.

Eighty-eight per cent of the irregular expenditure incurred during the year is the result of non-compliance with SCM prescripts, while 10% related to overtime and other compensation payments that were not in accordance with the requirements of the Public Service Regulations.

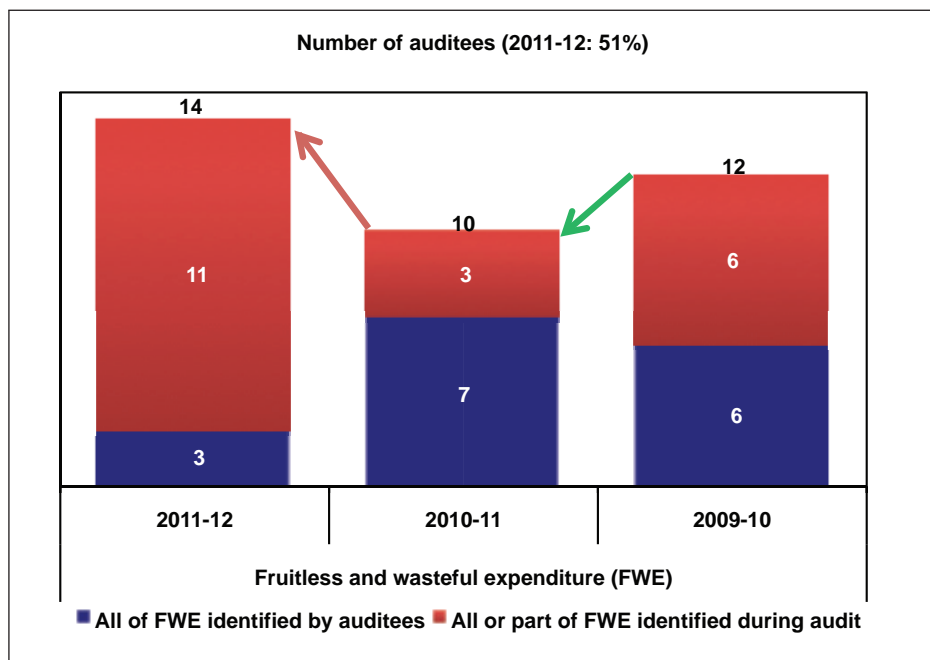
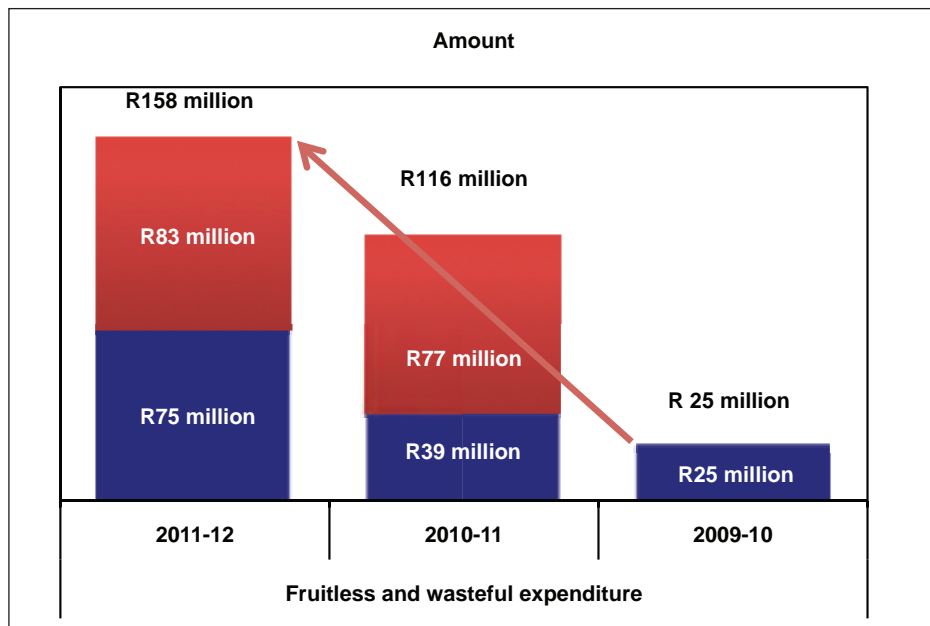
A lack of monitoring and enforcement of applicable legislation and policies, coupled with an inappropriate attitude to the enforcement of consequences for those that deliberately or negligently flout the applicable legislation, contributes to a situation where inappropriate practices are entrenched in the daily operations of the provincial government. Such practices erode public confidence in the provincial government’s ability to manage the resources allocated to it, and require urgent attention.

Very few, if any, consequences were evident in addressing the above weaknesses and contraventions of basic SCM requirements and practices.

**2.4.4.3 Nature of, and overall trends in, fruitless and wasteful expenditure**

The figure below reflects the three-year trend in fruitless and wasteful expenditure.

**Figure 20: Three-year trend in fruitless and wasteful expenditure**



The nature of the fruitless and wasteful expenditure incurred is analysed in the following table.

**Table 21: Analysis of fruitless and wasteful expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11	Number of instances 2011-12
Actual fruitless and wasteful expenditure	14	40%	R158 million	36%	1 445

The increase in fruitless and wasteful expenditure since 2009-10 is mostly due to Education and Health being responsible for R138 million (2011-12: R114 million) of the fruitless and wasteful expenditure incurred by the province during the year under review. This expenditure related mostly to the payment of employees who could not be verified, incorrectly calculated leave gratuity, payments to employees who did not report for work, and interest incurred on late payments.

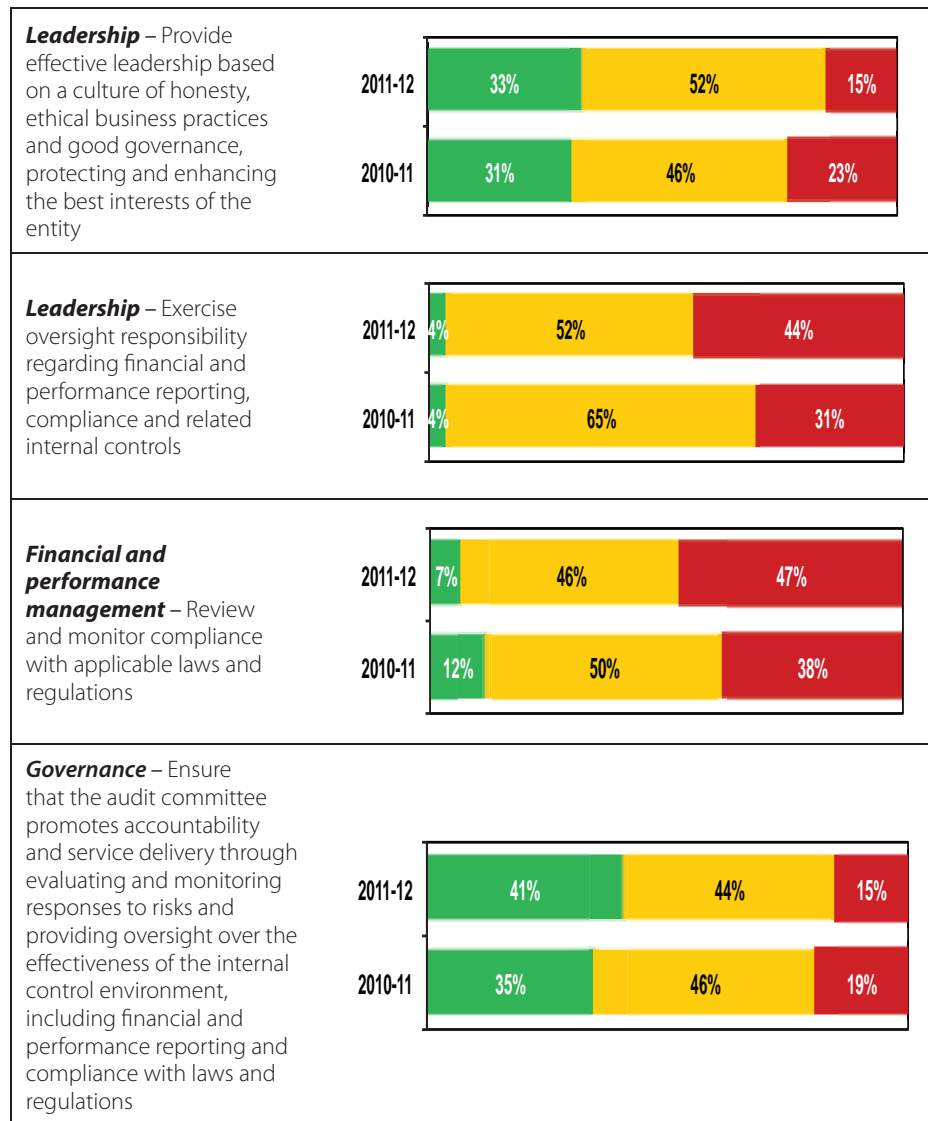
This expenditure was caused by a lack of monitoring and supervision of payment dates and payroll-related processes as well as incorrect employee data recorded on the payroll systems. A data-cleansing exercise is required in order to validate the existing data on the payroll systems, after which payroll processes should be closely supervised and monitored to ensure that the integrity of the data recorded on the payroll is maintained.

### 2.4.5 Key drivers of internal control and related root causes

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of such a system of internal control are classified under the fundamental principles of leadership, financial and performance management, and governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

Figure 21 indicates the significant deficiencies in the internal control that require attention from the leadership to improve the audit outcomes.

**Figure 21: Assessment of key drivers of internal control over reporting on compliance with laws and regulations**



The identified root causes that gave rise to this assessment and the recommended way forward are summarised below.

**Table 22: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership to set the tone</b>	<u>Root causes</u> The ethical culture required to ensure sustained compliance with laws and regulations does not exist in the province. The zero-tolerance approach advocated by the political leadership has not been implemented by the departments and entities, resulting in entrenched inappropriate practices and increasing non-compliance.
	<u>Way forward</u> Those charged with governance and oversight should ensure that accountability is enforced and severe consequences are implemented when officials intentionally do not comply with the requirements of applicable prescripts (especially with regard to SCM). In addition, the leadership should take responsibility for implementing actions to address the non-compliance findings reported by the AGSA.

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p><u>Root causes</u></p> <p>Poor record keeping, inadequate processing and reconciling of information, inadequate or poorly written policies and procedures and inadequate in-year reporting contributed to the non-compliance findings. This also amplified the material amendments that had to be made to the financial statements during the audit process.</p>
	<p><u>Way forward</u></p> <p>Systems and processes should be implemented to ensure that breaches of the legislative prescripts are identified and appropriate actions are taken to remedy them. This includes developing and implementing appropriate compliance reporting policies and procedures, clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation, and reporting regularly on compliance.</p> <p>The provincial treasury together with the relevant legislative oversight committees should insist on regular and credible in-year reports in order to monitor compliance, make recommendations and take action where non-compliance is identified.</p>

Aspect	Identified root causes and way forward
<b>Oversight and monitoring</b>	<p><u>Root causes</u></p> <p>Leadership monitoring and oversight were not adequate to ensure that all instances of non-compliance were identified and dealt with. This resulted in many compliance findings (including instances of unauthorised, irregular as well as fruitless and wasteful expenditure) being identified for the first time during the audit process.</p>
	<p><u>Way forward</u></p> <p>The leadership of the province, including the executive, should take an active interest in monitoring compliance with relevant laws and regulations. They should demand monthly reports on compliance with legislation and should use the audit committees and internal audit units to provide assurance on the credibility thereof.</p> <p>The provincial treasury and the Office of the Premier should also monitor compliance and provide financial and other support to departments and entities to ensure that the level of compliance in the province is improved.</p>

Aspect	Identified root causes and way forward
<p><b>Effective governance measures</b></p>	<p><u>Root causes</u></p> <p>The audit committees and internal audit units did not always respond effectively to the non-compliance risks identified, resulting in numerous instances of non-compliance (especially regarding SCM) being identified for the first time during the audit process.</p>
	<p><u>Way forward</u></p> <p>Audit committees and internal audit units should be used proactively to assist the province in building the ethical culture required to ensure sustainable compliance with laws and regulations. All procurement contracts above a threshold value should be vetted by the audit committee and internal audit unit before being awarded. In addition, these governance structures should provide assurance to the leadership of the province that financial, PDO and compliance reports are credible.</p>



# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

- 3.1 OVERALL STATUS OF INTERNAL CONTROL
- 3.2 HUMAN RESOURCE MANAGEMENT
- 3.3 INFORMATION TECHNOLOGY MANAGEMENT
- 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT UNITS





# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL AND AUDIT FOCUS AREAS

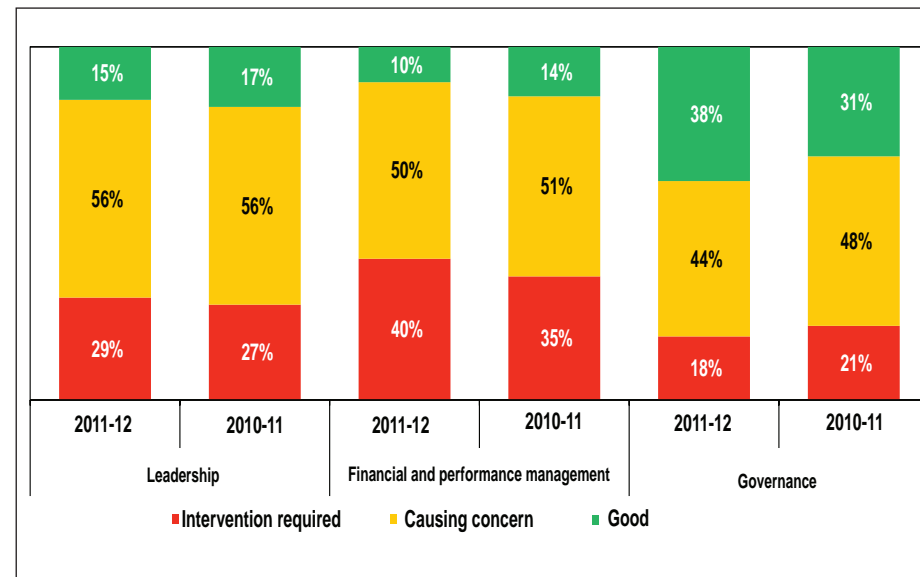
This section of the report provides a view of the status of the systems of internal control at the auditees at the time of the audit. The overall status is presented in section 3.1, followed by a specific focus on HR management (section 3.2) and IT management (section 3.3), concluding with audit committees and internal audit units in section 3.4.

### 3.1 OVERALL STATUS OF INTERNAL CONTROL

A key responsibility of accounting officers and authorities as well as other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits, the auditees' system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which – in turn – will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, financial and performance management, and governance. These are termed the drivers of internal control.

The figure below provides an overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control, which resulted in material misstatements in financial and performance reports and findings on non-compliance with laws and regulations.

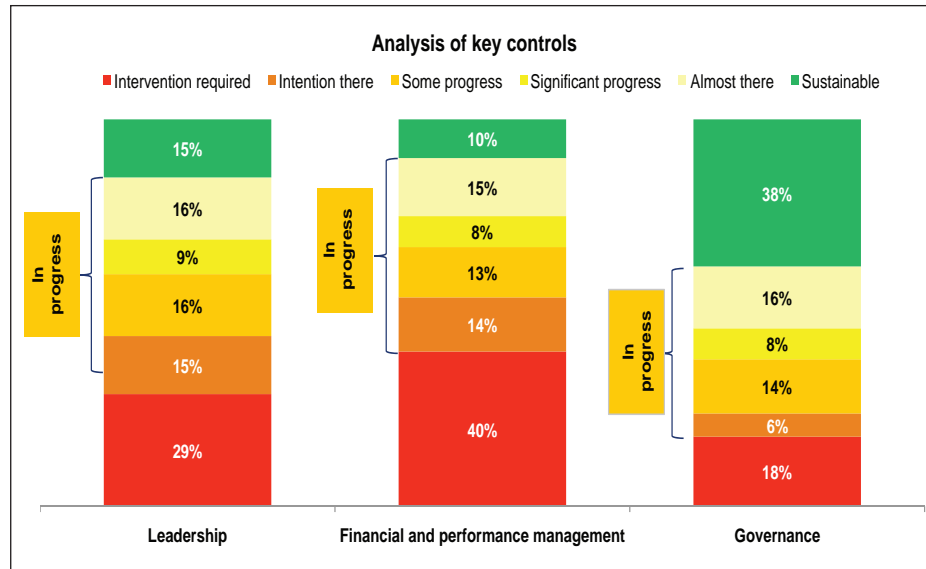
**Figure 22(a): Overall assessment of drivers of internal control**



The implementation of key controls relating to the leadership and the financial and performance management control fundamentals has regressed slightly, with a slight increase in the percentage of departments and entities moving into the intervention required category. In contrast, the governance structures have had a greater impact on the provincial control environment than in the previous year.

Of concern is the slow movement towards the sustainable implementation of internal controls. The figure below analyses the causing concern category, where most of the auditees find themselves, in more detail. The objective of this figure is to indicate the status of the movement towards good and sustainable internal controls.

**Figure 22(b): Overall assessment of drivers of internal control – analysis of causing concern category**



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In the above figure and the table that follows, green represents auditees who have implemented good and sustainable controls, light yellow represents auditees who have implemented controls but require tweaking to make them good and sustainable, yellow represents auditees who have made significant progress towards implementing good and sustainable controls, light orange represents auditees who have started the journey and have made some progress towards good and sustainable controls, orange represents those auditees who have started the journey but have not made any progress at the reporting date, and red represents those auditees who have not started the journey towards implementing good and sustainable controls and require intervention. The causing concern category was analysed for the year under review only, as the required data was not available for the 2010-11 year.

Light yellow and yellow represent potential quick wins which, with the right amount of leadership attention, can be moved to the good and sustainable category fairly easily. The auditees represented by light orange, orange and red require significant leadership attention in order to move to the good and sustainable category by 2014.

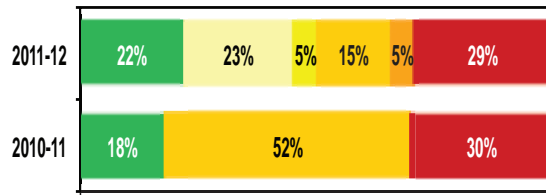
The detailed status of the internal control elements underlying leadership, financial and performance management as well as governance, and movements in the implementation thereof, is presented in the following table.

**Table 23: Status of internal control**

Driver no. 1: Leadership																						
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	<table border="1"> <thead> <tr> <th>Year</th> <th>Intervention required</th> <th>Intention there</th> <th>Some progress</th> <th>Significant progress</th> <th>Almost there</th> <th>Sustainable</th> </tr> </thead> <tbody> <tr> <td>2010-11</td> <td>22%</td> <td>45%</td> <td>33%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>2011-12</td> <td>14%</td> <td>16%</td> <td>22%</td> <td>3%</td> <td>17%</td> <td>29%</td> </tr> </tbody> </table>	Year	Intervention required	Intention there	Some progress	Significant progress	Almost there	Sustainable	2010-11	22%	45%	33%	0%	0%	0%	2011-12	14%	16%	22%	3%	17%	29%
Year	Intervention required	Intention there	Some progress	Significant progress	Almost there	Sustainable																
2010-11	22%	45%	33%	0%	0%	0%																
2011-12	14%	16%	22%	3%	17%	29%																
Ethical leadership practices in the province have improved slightly. However, further work is required to ensure that more auditees move from the requiring intervention and causing concern categories to the good category.																						
Exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.	<table border="1"> <thead> <tr> <th>Year</th> <th>Intervention required</th> <th>Intention there</th> <th>Some progress</th> <th>Significant progress</th> <th>Almost there</th> <th>Sustainable</th> </tr> </thead> <tbody> <tr> <td>2010-11</td> <td>31%</td> <td>67%</td> <td>2%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>2011-12</td> <td>46%</td> <td>13%</td> <td>6%</td> <td>10%</td> <td>22%</td> <td>3%</td> </tr> </tbody> </table>	Year	Intervention required	Intention there	Some progress	Significant progress	Almost there	Sustainable	2010-11	31%	67%	2%	0%	0%	0%	2011-12	46%	13%	6%	10%	22%	3%
Year	Intervention required	Intention there	Some progress	Significant progress	Almost there	Sustainable																
2010-11	31%	67%	2%	0%	0%	0%																
2011-12	46%	13%	6%	10%	22%	3%																
Oversight responsibility has regressed in the latest cycle as a result of political infighting, which led to a lack of accountability, the leadership not taking responsibility and ownership of the control environment, and an ineffective control environment. Finance sections continued to lack suitably qualified staff to perform various essential financial duties.																						

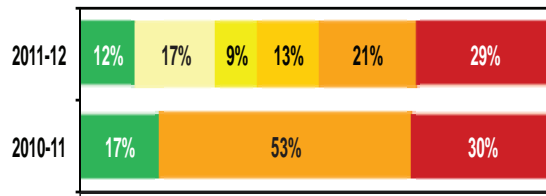
**Driver no. 1: Leadership**

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.



**Section 3.2 provides an analysis of HR management**

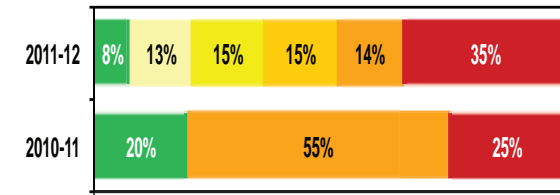
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.



This control driver has regressed slightly from the previous year. This is concerning, as implemented policies and procedures will contribute towards improvements in internal control objectives, processes and responsibilities.

**Driver no. 1: Leadership**

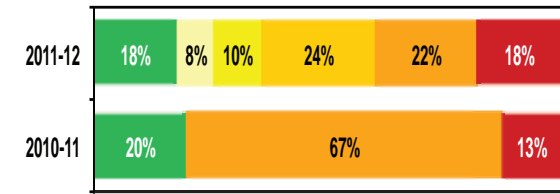
Develop and monitor the implementation of action plans to address internal control deficiencies.



The regression in this control driver was due to action plans that were not sustainable. Management did not maintain adequate documentation to support progress made and was also unable to ensure cohesion amongst those responsible for implementing the action plans. In addition, the leadership did not monitor own action plans on a regular basis and did not ensure that these action plans were effective in improving the subsequent audit outcomes.

Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment.

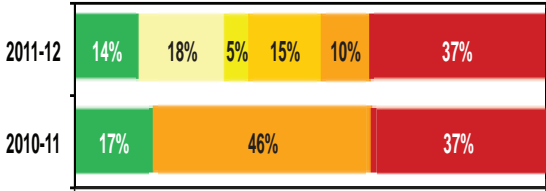
Establish an IT governance framework that supports and enables the business, delivers value and improves performance.



**Section 3.3 provides an analysis of IT management**

### Driver no. 2: Financial and performance management

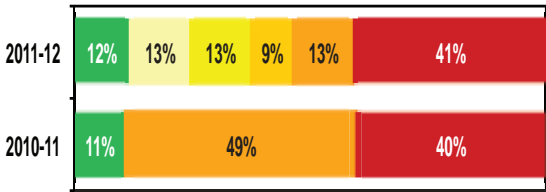
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.



Year	Green	Yellow	Light Yellow	Orange	Dark Orange	Red
2011-12	14%	18%	5%	15%	10%	37%
2010-11	17%	46%				37%

The slight regression in record keeping was due to the leadership not ensuring that all staff aligned themselves to the policies and procedures of the organisation and a lack of supervision and monitoring of staff responsible for processing and recording day-to-day transactions.

Implement controls over daily and monthly processing and reconciling of transactions.




Year	Green	Yellow	Light Yellow	Orange	Dark Orange	Red
2011-12	12%	13%	13%	9%	13%	41%
2010-11	11%	49%				40%

Even though there has been a slight improvement in this control driver, 41% of auditees still require intervention and a further 22% have not made significant progress towards good and sustainable controls. This was due to the various directorates working in isolation and a lack of the centralised management of projects and work flows within departments and entities. The large volume of documentation required to support PDO reporting was also not properly managed.

### Driver no. 2: Financial and performance management


Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.



Year	Green	Yellow	Light Yellow	Orange	Dark Orange	Red
2011-12	9%	17%	6%	9%	4%	55%
2010-11	10%	50%				40%

This control driver regressed in the current year with 55% of auditees requiring intervention, compared to 40% in the previous cycle. This was due to consultants being brought in at year-end to perform functions that should have been performed consistently throughout the year by employees. This also resulted in a large number of journal entries being processed at year-end and contributed to a culture where no monitoring took place and where there was no or very little accountability.

Review and monitor compliance with applicable laws and regulations.

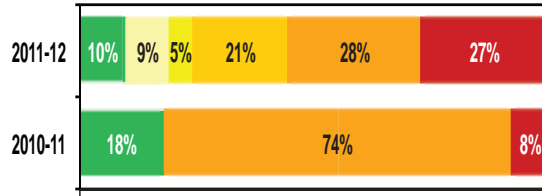


Year	Green	Yellow	Light Yellow	Orange	Dark Orange	Red
2011-12	5%	19%	9%	9%	17%	41%
2010-11	10%	53%				37%

The slight regression in this control driver was due to management not developing and implementing controls over the various financial statement items and not ensuring that the requirements of the existing SCM legislation were enforced. Furthermore, the responsibility for compliance with applicable laws and regulations was not assigned to a single individual or directorate who could take ownership thereof.

### Driver no. 2: Financial and performance management

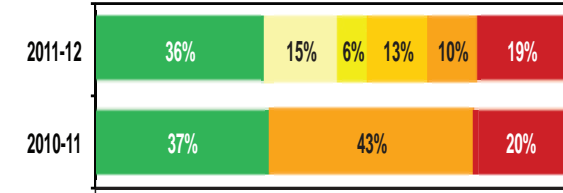
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems that are susceptible to compromised data integrity (information systems).



**Section 3.3 provides an analysis of IT management**

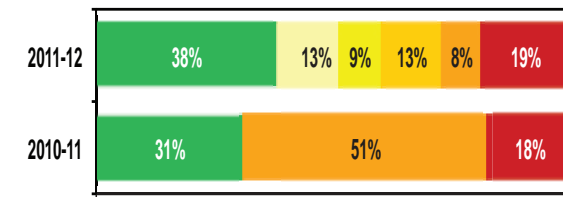
### Driver no. 3: Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.



The lack of movement in the risk management control driver is a cause for concern. An appropriate leadership tone towards risk management in the province is required to move the 19% of auditees requiring attention and the 45% of auditees in the causing concern category to the good and sustainable category.

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

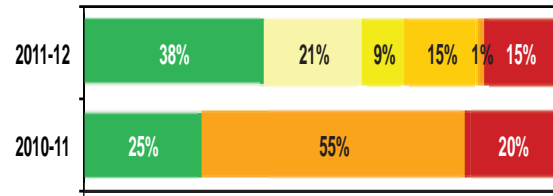


**Section 3.4 provides an analysis of internal audit units**



### Driver no. 3: Governance

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.



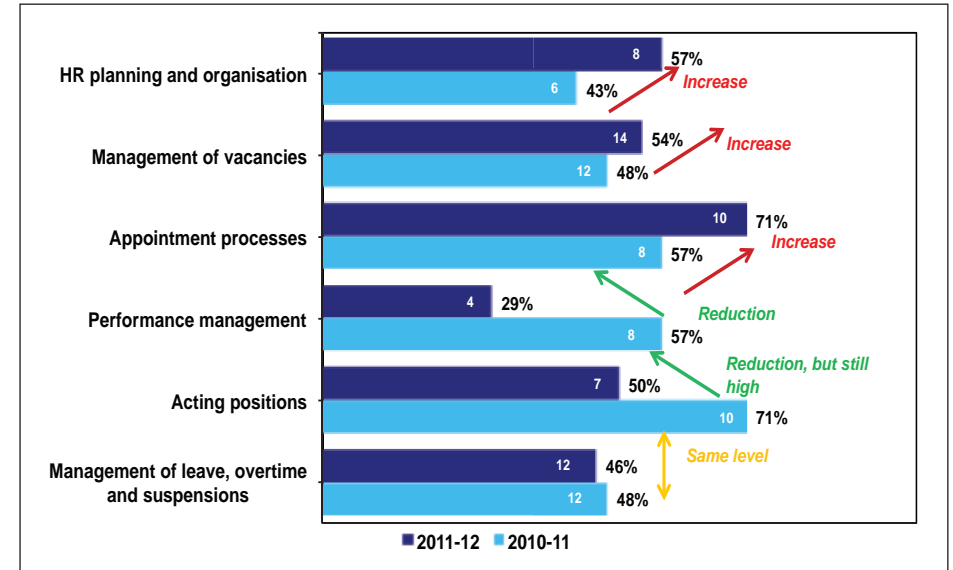
Section 3.4 provides an analysis of audit committees

## 3.2 HUMAN RESOURCE MANAGEMENT

Effective HR management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are managed. Auditees often identify a lack of capacity as the root cause of audit outcomes, which prompted the AGSA to specifically focus on HR management.

The following figure depicts the outcome of an assessment of HR management at auditees.

Figure 23: Summary of findings on human resource management



At an overall level, the number of departments and entities with HR findings has increased from the previous year. This can be attributed to a lack of oversight and monitoring of day-to-day HR management processes, an unwillingness to enforce existing HR policies, and the leadership not monitoring compliance.

The commitment obtained in October 2011 to prepare and implement a provincial action plan on HR management was still in progress at year-end. As a result, the structural HR weaknesses identified and reported in the prior year still remain. It is therefore evident that the commitment obtained had no impact on the HR findings during the year under review.

Table 24 lists the key findings under the different categories of HR management that were audited.

**Table 24: Nature of key findings on human resource management**

Category	Key findings
<b>Management of vacancies and acting positions</b>	Senior management and critical finance section posts were vacant for more than 12 months.
<b>HR planning and organisation</b>	HR plans were not based on strategic plans and organisational structures were not aligned to the strategic plans.
<b>Appointment processes</b>	Verification processes for new appointments did not always take place or did not cover all of the prescribed verifications.
<b>Performance management</b>	Senior managers did not sign performance agreements for the year under review.
<b>Acting positions</b>	Senior managers acted in positions for more than six or 12 months, while lower graded employees acted in positions for more than 12 months.
<b>Management of overtime, leave and suspensions</b>	Written authorisation was not granted prior to overtime being worked and employees were paid more overtime than the maximum allowed in terms of the applicable legislation. In addition, more leave was granted than what employees were entitled to.

### The way forward

The provincial leadership should create a culture of professionalism and effective HR management in order to achieve improved audit outcomes that are sustainable. The correct leadership tone is required to build this culture and to ensure that available skills in the public sector are effectively utilised. It is thus necessary that consequences are enforced for those who choose not to abide by the existing legislative prescripts and approved policies governing HR management. In addition, the commitment to prepare and monitor a provincial HR action plan agreed to in the previous year should be implemented as a matter of urgency.

The provincial treasury together with the Department of Public Service and Administration should monitor compliance with laws and policies applicable

to HR management and should provide assistance and guidance to those departments who do not comply with requirements.

### 3.3 INFORMATION TECHNOLOGY MANAGEMENT

As can be seen in figure 24, IT in the province is important to ensure the operational integrity of financial statements and performance information reports and to enable the facilitation and monitoring of service delivery.

**Figure 24: Link between information technology and financial and performance information**



The following figure highlights the areas focused on during IT audits.

**Figure 25: Focus areas of information technology audits**

	Confidentiality	Integrity	Availability
<b>Status of state information</b>	The necessary level of secrecy is enforced for all state information. This will be ensured by auditing the following focus areas: <ul style="list-style-type: none"> <li>• IT governance</li> <li>• Security management</li> <li>• User access controls</li> </ul>	All state information is authentic, remains unaltered until authorised to change and is complete. This will be ensured by auditing the following focus areas: <ul style="list-style-type: none"> <li>• User access controls</li> <li>• Data analytics</li> </ul>	All state information is ready for use when expected. This will be ensured by auditing the following focus areas: <ul style="list-style-type: none"> <li>• IT service continuity</li> <li>• Security management</li> </ul>
<b>Status of key enabling controls</b>	<b>Good governance</b>		
	<b>Effective management</b>		
	<b>Secure architecture/infrastructure</b>		

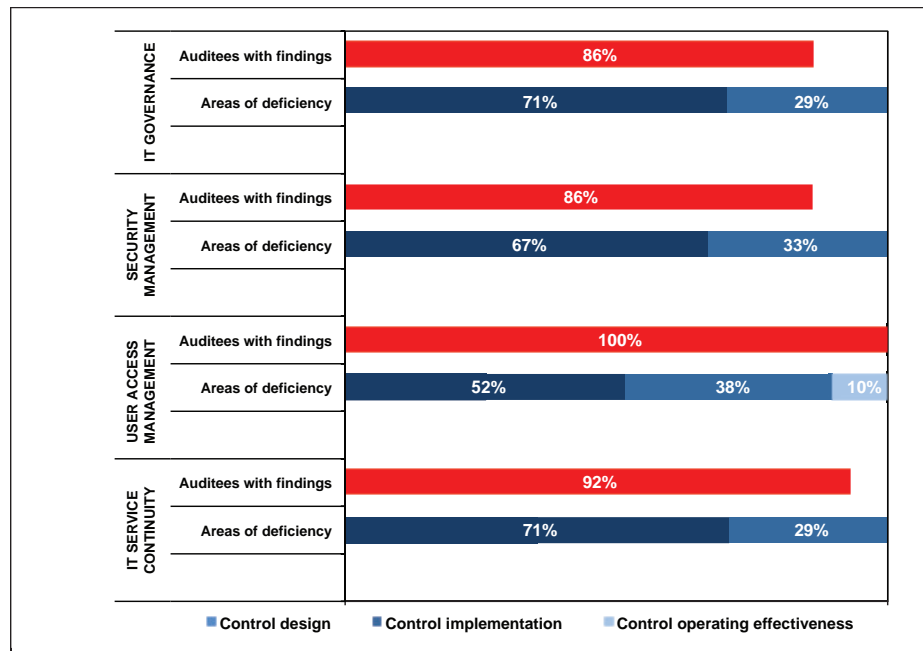
IT controls relating to financial systems were evaluated at 14 departments and three public entities, while IT controls relating to performance information were evaluated at three sectoral departments, namely Health, Education and Human Settlements.

### 3.3.1 Summary of overall information technology weaknesses in the management of financial information systems

#### Information technology control weaknesses at departments

The figure below summarises the IT control weaknesses at departments, which are then discussed in the paragraphs that follow.

**Figure 26: Summary of information technology control weaknesses – departments**



#### Information technology governance

Although the province adopted the Control Objectives for Information and Related Technologies (COBIT4.1) framework, 86% of the departments had

not refined the framework for their environment and it has thus not been implemented. As a result, IT governance practices and structures were inadequately designed at 71% of the departments, meaning that IT strategic plans were not developed and IT steering committees were not established. Although IT governance practices and structures were designed at 29% of the departments, they were not implemented. However, Human Settlements had developed and adequately implemented an IT governance framework.

A lack of an IT governance framework and good IT governance practices may lead to IT systems and processes not being aligned to business requirements. Furthermore, IT risks may not be identified and managed proactively, while value may not be derived from existing IT investments.

#### Security management

IT security policies and procedures governing access to systems had not been developed and implemented at all departments to ensure the confidentiality, integrity and availability of information. Such policies and procedures had been inadequately designed at 67% of the departments. Although 33% of the departments had policies, they had not been adequately implemented. As a result, password parameters were not configured to prevent the risk of unauthorised access.

If policies have not been defined, users will not have rules to follow and their actions may expose departments to unauthorised access, thereby compromising the confidentiality and integrity of data.

#### User access management

User access management policies and procedures had not been adequately designed and implemented at all of the departments. Fifty-two per cent of the departments had not developed their policies and procedures or they had been inadequately developed. Although 38% of the departments had adequately designed their policies and procedures, they were not adequately implemented. At 10% of the departments where controls had been properly designed and implemented, the controls were not monitored to ensure that they operated effectively throughout the period under review.

If policies and procedures are not defined, segregated access to initiate and approve transactions by valid and authorised users cannot be ensured.

### Information technology service continuity

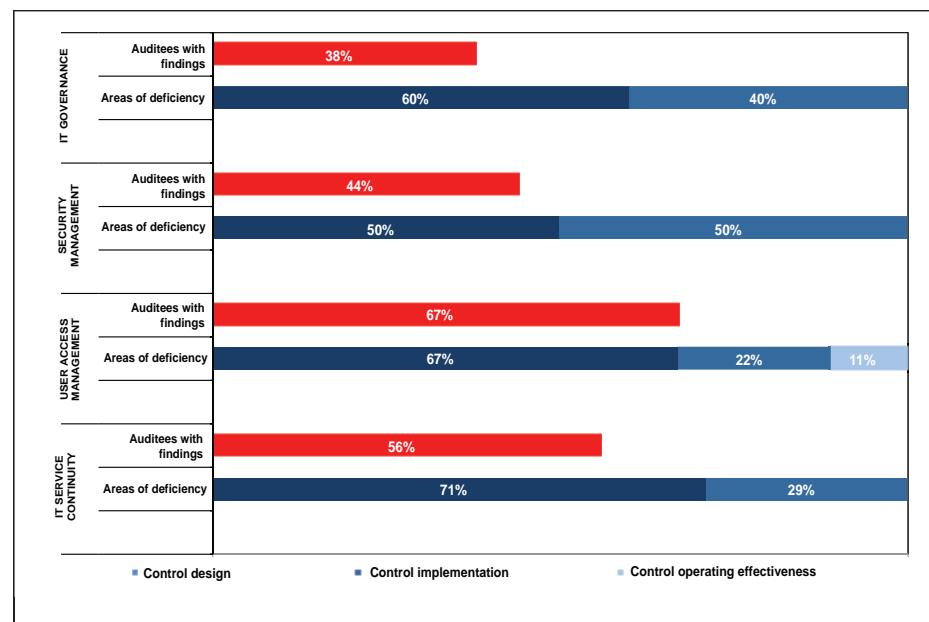
IT service continuity controls, such as business continuity, backups and disaster recovery plans (DRPs), had not been designed at 71% of the departments. Although 29% of the departments had DRPs, these plans had not been adequately tested. None of the departments participated in the annual Personnel and Salary System (Persal) and Logistical Information System (Logis) DRP testing conducted by the State Information Technology Agency (SITA).

In the event of an IT disruption or business disaster, departments may not be able to connect to the transversal systems at SITA.

### Information technology control weaknesses at public entities

The figure below summarises the IT control weaknesses at public entities, which are then discussed in the paragraphs that follow.

**Figure 27: Summary of information technology control weaknesses – public entities**



### Information technology governance

IT governance practices and structures were inadequately designed at 60% of the entities. Weaknesses ranged from IT strategic plans not having been developed and IT steering committees not having been established. Although IT governance practices and structures had been designed at 40% of the entities, they were not properly implemented.

A lack of an IT governance framework and good IT governance practices may lead to IT systems and processes not being aligned to business requirements. Furthermore, IT risks may not be identified and managed proactively, while value may not be derived from existing IT investments.

### Security management

IT security policies and procedures governing access to systems, to ensure the confidentiality, integrity and availability of information, had not been developed or had been inadequately designed at 50% of the entities. Although one entity recently approved IT policies and procedures, they had not been implemented.

If policies have not been defined and properly implemented, entities may be exposed to unauthorised access to the systems, thereby compromising the confidentiality and integrity of data.

### User access management

User access management policies and procedures had not been adequately designed and implemented at all of the entities. Sixty-seven per cent of the entities had not developed policies and procedures or they had been inadequately developed. Although 22% of the entities had controls that had been properly designed, they were not implemented.

If policies and procedures are not defined, segregated access to initiate and approve transactions by valid and authorised users cannot be ensured.

### Information service continuity

Although two entities had DRPs, one had not been approved and the other was not comprehensively documented. The third entity did not have a DRP.

In the event of an IT disruption or business disaster, public entities may not be able to recover information system services to enable the timely resumption of business.

### 3.3.2 Audit of performance information systems

The audit focused on compliance with *National Treasury framework 86 of 2007*, which deals with managing programme performance information. According to this framework, national departments have the overall responsibility for designing IT controls to govern the application systems used by the provincial departments to manage PDOs. Three departments, namely Human Settlements, Education and Health, were reviewed to determine the existence of IT controls to govern application systems and compliance with these controls by provincial departments.

Table 25 compares the national and provincial implementation of IT controls in this regard, after which the IT control weaknesses and their root causes are discussed.

**Table 25: Comparison of national and provincial implementation of information technology controls over performance systems**

	Human Settlements			Education			Health		
Development of controls by national	Good			Intervention required			Good		
Implementation of controls by province	Good			Intervention required			Intervention required		
IT weaknesses at provincial level	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity



### Human Settlements

Even though the provincial department had developed user access policies and procedures, these had not been finalised. Furthermore, the provincial department had not implemented controls to ensure that users with access to create and approve transactions on the Housing Subsidy System were verified in terms of their job roles and responsibilities. This could be attributed to the roles and responsibilities of the provincial and national departments not having been clearly assigned, as well as the provincial department failing to proactively clarify these roles and responsibilities and to assume accountability for implementing controls.

### Education

Due to the fact that the national department had not designed a framework, no guidelines were available for the implementation of IT controls for the Education Management Information System. This lack of a designed framework and guidelines could be attributed to the national department's lack of accountability in terms of complying with the National Treasury's framework. The provincial department did also not proactively request adequate guidance from the national department.

### Health

The national department had developed guidelines for the implementation of all the systems used for PDOs, namely the District Health Information System, the Electronic Tuberculosis Register and the Electronic Drug-resistant Tuberculosis Register. However, the guidelines were not complied with, which could be attributed to a lack of leadership accountability at the provincial department.

### 3.3.3 Status of addressing management commitments

Following the 2010-11 audits, management undertook to address identified weaknesses in the IT environments. The tables below reflect the status of these undertakings as determined during 2011-12.

**Table 26: Progress in implementing management commitments – departments**

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture and Rural Development	Red	Red	Red	White
Community Safety, Security and Liaison	Red	Green	Red	Red
Local Governance and Traditional Affairs	Red	Red	Red	Red
Culture, Sports and Recreation	Red	Red	Red	Red
Economic Development and Environment Affairs	Red	Red	Red	Red
Education	Red	Red	Red	Red
Treasury	Green	Red	Red	Red
Health	Red	Red	Red	Red
Human Settlements	Green	Green	Red	Green
Office of the Premier	Red	Red	Red	Red
Provincial Legislature	Red	Red	Red	Red
Public Works, Roads	Red	Red	Red	Red
Transport	Red	Red	Red	Red
Social Development	Red	Red	Red	Red
<b>Total</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>13</b>
Not resolved	<b>12</b>	<b>12</b>	<b>14</b>	<b>12</b>
Resolved	<b>2</b>	<b>2</b>		<b>1</b>

**Table 27: Progress in implementing management commitments – public entities**

Auditee	IT governance	Security management	User access controls	IT service continuity
East London Industrial Development Zone Corporation	Red	Red	Red	Red
Eastern Cape Development Corporation	Red	Red	Red	Red
Eastern Cape Government Fleet Management Services	Red	Red	Red	Red
EC Socio-Economic Consultative Council	Green	Green	Green	Green
Gambling and Betting Board	Green	Green	Green	Green
Liquor Board	Green	Green	Red	Red
Mayibuye Transport Corporation	White	Red	Red	Red
Provincial Arts and Culture Council	Green	Green	Red	Green
Uvimba Finance	Green	Green	Green	Green
<b>Total</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>9</b>
Not resolved	<b>3</b>	<b>4</b>	<b>6</b>	<b>5</b>
Resolved	<b>5</b>	<b>5</b>	<b>3</b>	<b>4</b>

Departments and entities had started addressing prior year findings, but in most instances they had not finalised the design and implementation of controls. Consequently, IT risks had not been adequately mitigated. This was mostly due to the leadership not treating IT as a strategic priority and not monitoring the implementation of action plans.

### 3.3.4 Key drivers of information technology control weaknesses

The following are the major reasons for IT control weaknesses in the province:

- IT is not treated as a strategic priority. This has contributed to a poor understanding of the importance of IT systems and the limited budget allocated to IT.

- IT sections are not adequately capacitated to fulfil their IT control obligations adequately, due to skills shortages and insufficient people to meet demands.
- There was inadequate oversight responsibility by provincial structures (provincial government IT officers and the provincial treasury) to ensure the development, implementation and monitoring of policies and procedures relating to security management, user access management and IT service continuity, to guarantee the consistent application of controls.
- The leadership did not adequately monitor the implementation of actions plans to ensure that IT weaknesses were resolved.

### 3.3.5 The way forward in resolving information technology management weaknesses

The leadership at both departments and entities should regularly monitor the implementation of action plans to address IT findings.

The Office of the Premier should:

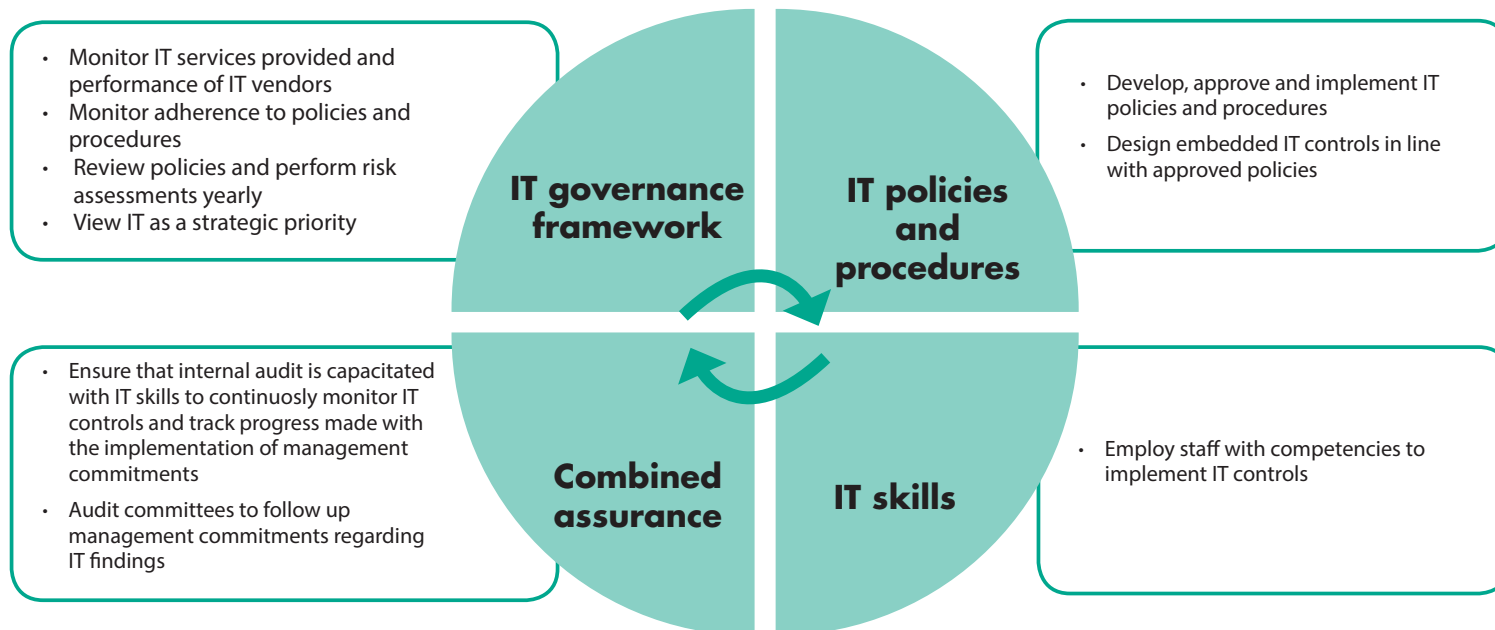
- provide documented guidelines and monitor the implementation of policies and procedures at provincial departments
- develop a memorandum of understanding, including the roles and responsibilities of the departments and the Office of the Premier
- ensure that the roll-out and implementation of the IT governance framework to the provincial departments are expedited.

The provincial treasury should develop, implement and monitor user access control procedures for the transversal systems at the various provincial departments.

Lastly, the departments and entities should take the actions as outlined in the figure below.

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**Figure 28: Actions to be taken to address information technology findings**





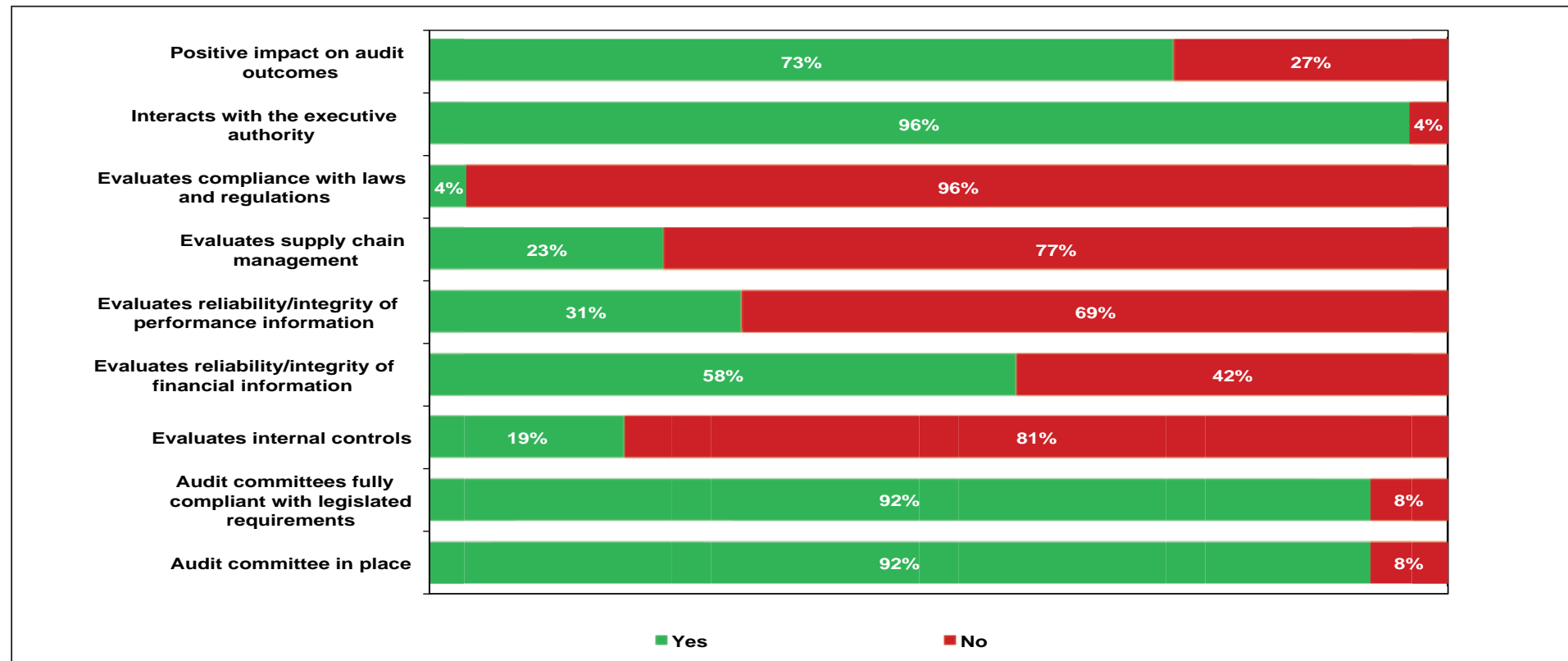
### 3.3.6 Good information technology practices

Human Settlements had designed and implemented controls over the IT governance and IT service continuity focus areas. Although the provincial IT governance framework had not been rolled out, the department took the initiative to develop and implement IT controls in line with best practice.

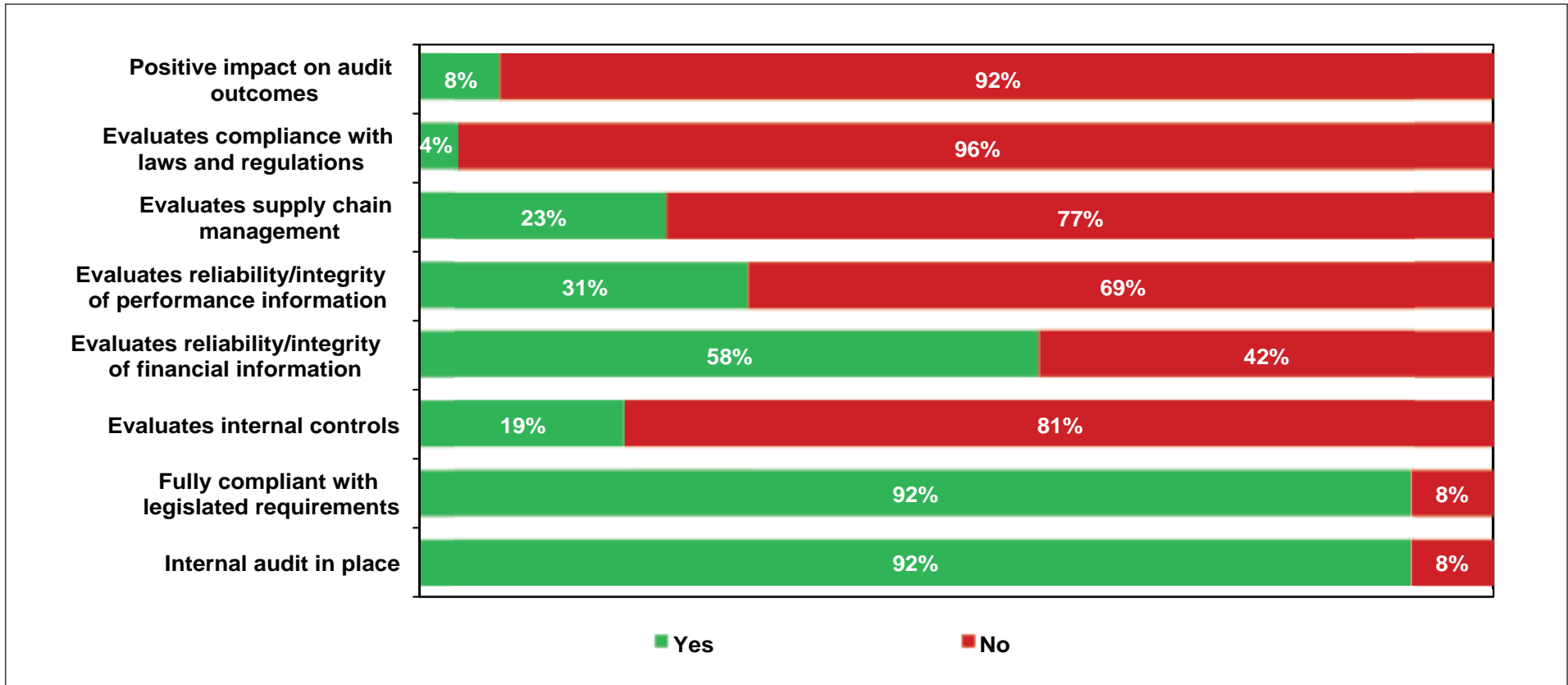
## 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT UNITS

Effective governance is a driver of audit outcomes, with audit committees and internal audit units being key elements of governance. In terms of legislation, an audit committee and internal audit unit must be established by all auditees. Audit committees must serve as an independent governance structure whose function it is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his or her responsibilities, with the ultimate aim of achieving the organisation's objectives. Internal audit units should provide assurances on governance, risk management and control. The figures that follow depict the assessed effectiveness of audit committees and internal audit units for the year under review.

**Figure 29: Effectiveness of audit committees**



**Figure 30: Effectiveness of internal audit units**



As can be seen from these figures, most auditees had audit committees and internal audit units and these committees and units were functioning in terms of the legislated requirements. Although there has been a slight improvement from the prior year in terms of governance, neither audit committees nor internal audit units have been effective in helping to improve the audit outcomes in the province.

Although most audit committees and internal audit units were fully compliant with legislation, they were not effective and a high percentage of auditees continued to have findings on PDOs and compliance. In addition, the audit committees and internal audit units were not effective in evaluating financial information, as numerous amendments were made to the financial statements submitted for auditing. This was often the result of the audit committees not being taken seriously, as auditees still consider their existence to be a compliance matter without understanding their importance and the value they can provide in improving the internal control environment. Consequently, management often does not present the audit committees with credible information. Furthermore, management does not implement the recommendations made by internal audit units and does not support these units by taking ownership of the findings raised.

Of great concern is that only 19% of the internal audit units effectively evaluated internal controls, largely as a result of management not using them for the correct purposes and the audit committee to whom they are supposed to report not being able to hold them accountable. The audit committee was often also not aware of the legislative requirements that govern the departments and entities.

Internal audit units and audit committees are an essential component of good governance and greater effort should be placed on ensuring that they discharge their duties effectively to assist in improving audit outcomes in the following financial year. In addition, the provincial executive needs to ensure that audit committees are taken more seriously and that they are capacitated with the knowledge required to effectively discharge their duties.



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

4.1 INITIATIVES AND COMMITMENTS OF KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

4.2 COMMITTEES OF THE PROVINCIAL LEGISLATURE

4.3 ASSURANCE PROVIDED BY ROLE PLAYERS

4.4 INITIATIVES OF THE AUDITOR-GENERAL OF SOUTH AFRICA TO ENCOURAGE CLEAN AUDITS



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section of the report provides details of the initiatives and commitments of key provincial role players to improve audit outcomes, the status of the implementation of oversight resolutions of the Standing Committee on Public Accounts (SCOPA) and an overview of the AGSA's continuing initiatives to encourage clean audits.

### 4.1 INITIATIVES AND COMMITMENTS OF KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of the provincial leadership and oversight to improve audit outcomes as well as further commitments made to the AGSA for additional actions. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

**Table 28: Key initiatives and commitments of provincial role players**

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial legislature and committees of the legislature</b>				
<b>Provincial legislature</b>	<b>Initiatives to improve audit outcomes based on 2010-11 commitments</b>			
	The speaker has committed to enhance accountability and strengthen proactive oversight through the revision of oversight functions and processes within the legislature. The governance subcommittee will be involved in the process of redesigning the oversight model.	Governance	In progress	Limited impact
	The working relationship between the portfolio committees and the executive will be strengthened by addressing the tensions between the two pillars within the legislative sphere and improving coordination to drive accountability.	Governance	In progress	Limited impact



Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Provincial legislature</i>	<b>Additional commitments made following the audit process during stakeholder engagements and PFMA roadshow</b>			
	The legislature will increase the number of house sittings to accommodate more regular and timely resolutions made by the committee.			
	Portfolio committees and SCOPA will ensure that their relationships with audit committees are strengthened and provide opportunities for briefings by audit committees.			
<i>SCOPA</i>	A task team is to be established to deal with critical vacancies and skill profiles for key positions.			
	<b>Initiatives to improve audit outcomes</b>			
	Speed up the process of SCOPA hearings and resolutions to ensure more timely oversight.	Governance	Complete	Significant impact
	Expand focus from financial outcomes to include PDO and compliance matters.	Governance	Complete	Limited impact
	<b>Additional commitments made following the audit process during stakeholder engagements and PFMA roadshow</b>			
SCOPA will execute its oversight over progress made on resolutions, recommendations and actions on a quarterly basis.				

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Provincial portfolio committees</i>	<b>Initiatives to improve audit outcomes</b>			
	An oversight workshop is to be held for the executive and portfolio committees to educate them on their oversight responsibilities.	Governance	New	Not yet able to assess
	Build a closer relationship with the AGSA and ensure that the AGSA gets the opportunity to brief the committees on relevant aspects.	Governance	New	Not yet able to assess
	<b>Additional commitments made following the audit process during stakeholder engagements and PFMA roadshow</b>			
The legislature will reconsider logistics and available funds to accommodate portfolio committees and SCOPA to sit more regularly.				

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive and administration</b>				
<b>Provincial executive leadership</b>	<b>Initiatives to improve audit outcomes based on 2010-11 commitments</b>			
	In order to strengthen oversight and accountability, a commitment was made to adopt a more consistent approach towards monitoring. This includes using the new internal audit divisions and audit committees to provide members of the executive council (MECs) with assurance on a monthly basis regarding all in-year monitoring reports. This will ensure that decisions are based on credible and reliable information. All MECs will also have to provide feedback on their department's performance at the monthly Exco meetings.	All	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	The province is drafting legislation that will prevent all government employees from doing business with government. The intention is to eliminate the vested interest that government employees have in the SCM process.	SCM	In progress	No impact
	The premier is busy appointing an IT specialist who can drive IT in the province.	IT	Not implemented	No impact
	As part of strengthening oversight, more attention will be given to the capacity of staff to perform their duties and the length of time that employees act in critical posts within the departments and entities.	SCM, PDOs, financial management, turnaround plans, HR	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Provincial treasury (MEC for planning and treasury)</i>	<b>Initiatives to improve audit outcomes based on 2010-11 commitments</b>			
	As part of the commitments received in the previous financial year, technical support units (TSUs) were set up for the Departments of Health and Education. These units comprise specialists in the fields of HR, finance and SCM. The focus of these units is to provide support to the departments in these fields and to assist in strengthening the control environment. The units will continue to function within these departments, but the terms of reference that define the roles and responsibilities of the TSU at Education will be redrafted. The revised terms of reference will allow the provincial treasury to be more involved and will include a plan to assist the department in improving service delivery within the key service delivery areas.	SCM, financial management, turnaround plans, HR	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Provincial treasury (MEC for planning and treasury)</i>	The provincial treasury will analyse the audit intervention plans set up by all departments in response to the 2010-11 audit findings. This analysis will evaluate the suitability and credibility of the plan.	Turnaround plans	Complete	Limited impact
	Continue to provide PDO training to departments and entities.	PDOS	In progress	Limited impact
	Facilitate a monthly chief financial officers' forum to discuss pertinent issues and turnaround plans.	SCM, financial management, turnaround plans	In progress	Limited impact
	The MECs for finance, health and education meet on a bi-weekly basis to monitor the audit intervention plans and to discuss any pertinent issues relating to the departments of health and education.	Financial management, turnaround plans	In progress	Limited impact
	The treasury, on a monthly basis, escalates issues of concern and non-compliance to all MECs within the province to allow them to take action. This is done per department.	SCM, financial management, turnaround plans, HR	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Provincial treasury (MEC for planning and treasury)</i>	<b>Additional commitments made following the audit process during stakeholder engagements and PFMA roadshow</b>			
	The provincial treasury will capacitate their department to ensure that they can execute their oversight responsibilities more effectively and improve monitoring.			
	The MEC committed that his department will pursue accountability with more vigour.			
<i>Education</i>	<b>Initiatives to improve audit outcomes based on 2010-11 commitments</b>			
	Finalise an action plan for implementation. In order to get the maximum impact, the department has committed to streamlining the plan to ensure that it focuses on the key aspects of the administration of education instead of trying to focus on everything.	All	In progress	No impact
	Implement preventative measures to limit exposure to fraudulent activities.	SCM, HR	In progress	No impact
	Implement systems that will support the preparation of disclosure information and the management of infrastructure projects and conditional grants.	SCM, financial management	In progress	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Education</i>	More effective and efficient use of information systems already in use or available to the department.	Financial management	Not implemented	No impact
	Ensure that each employee has a job description.	HR	In progress	No impact
	Instil a culture of accountability by taking action against those employees who do not perform in line with their responsibilities. In addition, stringent action will be taken against employees who are suspected of being involved in fraud and corruption.	HR	In progress	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Education</b>	The audit committee was restructured in order to provide effective oversight. Subcommittees have been formed to deal with the main focus areas of the department. In line with this commitment, the finance subcommittee has already deliberated over the audit implementation plan that addresses all the AGSA findings arising from the 2010-11 financial year audit.	Governance	Complete	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Education</b>	<b>Additional commitments made following the audit process during stakeholder engagements and PFMA roadshow</b>			
	Monitoring and accountability are the cornerstones of the MEC's commitments. There are key focus areas which include focusing on school functionality and the resourcing of schools both from a learner and teacher perspective as well as from an infrastructure perspective; increasing the quality of education being the core performance objective of the department.	All	New	Not yet able to assess
	As part of a drive to cleanse the department of a legacy of challenges with respect to HR, funding has been made available to execute an HR/Persal cleanup process.	HR, financial management	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Education</b>	The department has produced an audit rectification plan which aims to concentrate on those areas that the department can improve over both the short and long term.	All	New	Not yet able to assess
	In order for the above to be effective, the MEC is committed to ensuring that management members know and execute their responsibilities efficiently and with due care. He will strengthen his monitoring of management and hold them accountable for their actions or lack thereof. In order to ensure that the information he receives is credible, the MEC goes out into the field to verify the accuracy and authenticity of information provided to him.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Health</b>	<b>Initiatives to improve audit outcomes based on 2010-11 commitments</b>			
	Monitoring and oversight will be strengthened by the MEC through weekly meetings with the HoD.	SCM, PDOs, financial management, turnaround plans	In progress	Limited impact
	Have seconded HR experts from the Office of the Premier and also have the TSU from the provincial treasury to improve the control environment in respect of HR management.	HR	Not implemented	No impact
	In order to improve and monitor the implementation of action plans that address internal control deficiencies, the MEC will hold monthly meetings with the senior leadership of the department.	Turnaround plans	In progress	Limited impact
	The finance division has been strengthened by the appointment of a financial manager.	Financial management	Not implemented	No impact
Action will be taken against employees who do not comply with the applicable laws and regulations.	SCM, financial management, HR	In progress	Limited impact	

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Health</i>	In order to improve the governance structures, the current structure of the audit committee will be strengthened by appointing skilled committee members.	Governance	Complete	Limited impact
	The internal audit unit will be restructured to improve its effectiveness. The MEC will hold regular meetings with the unit and follow up their recommendations.	Governance	In progress	Limited impact
<i>Economic Development, Environmental Affairs and Tourism</i>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	Perform a financial management assessment and put a plan in place to address weaknesses, with specific focus on procurement and record management.	Financial management, SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<i>Economic Development, Environmental Affairs and Tourism</i>	Engage the National Treasury and the provincial treasury to address challenges at public entities within the portfolio of the department. This includes a viability assessment as well as the transformation and restructuring of activities.	Governance	In progress	Not yet able to assess
	Invest in HR and talent management processes with a strong emphasis on performance management systems.	HR	New	Not yet able to assess
	Enhance the role and functions of the governance structures.	Governance	New	Not yet able to assess
<i>Human Settlements as well as Safety and Liaison</i>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	<b>Safety and Liaison</b>			
	Make appointments in the key vacant funded positions.	HR	New	Not yet able to assess
	Take ownership of the quarterly key control assessment and keep a portfolio of evidence for evaluation.	Governance	In progress	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Human Settlements as well as Safety and Liaison</b>	Formulate departmental internal control policies and procedures and enhance the implementation thereof.	Governance	New	Not yet able to assess
	Review, monitor and evaluate audit intervention action plan activities so that they address internal control deficiencies.	Turnaround plans	In progress	Not yet able to assess
	<b>Human Settlements</b>			
	Implement control over daily and monthly processing and reconciling of transactions for commitments.	SCM, financial management, HR	In progress	Not yet able to assess
	Establish and communicate policies and procedures relating to procurement.	Governance	New	Not yet able to assess
	Support the understanding and execution of internal control objectives, processes and responsibilities.	SCM, financial management, HR	In progress	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Human Settlements as well as Safety and Liaison</b>	Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	Governance	New	Not yet able to assess
	Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place.	HR	New	Not yet able to assess
<b>Local Government and Traditional Affairs</b>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	Perform a gap analysis on PDOs and put actions in place to address weaknesses and shortcomings identified.	PDOs	In progress	Not yet able to assess
	Evaluate and address capacity constraints within the SCM unit.	HR, SCM	In progress	Not yet able to assess
<b>Roads and Public Works as well as Transport</b>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	<b>Roads and Public Works</b>			
	Perform detailed oversight and monitoring of the usage of consultants.	SCM	In progress	Not yet able to assess



Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes	
<b>Roads and Public Works as well as Transport</b>	Implement an action plan to address each qualification in the auditor's report.	Turnaround plans	In progress	Not yet able to assess	
	Ensure that staff receive training where necessary.	SCM, financial management, HR, PDOs	New	Not yet able to assess	
	Advertise and fill all vacant posts at senior management level.	HR	New	Not yet able to assess	
	Get involved with internal audit to ensure that the control environment is improved.	Governance	In progress	Not yet able to assess	
	<b>Transport</b>				
	Implement an approved performance management system to ensure the proper presentation, reliability and usefulness of the performance report.	PDOs	New	Not yet able to assess	
	Performance of staff to be measured and monitored.	HR	New	Not yet able to assess	
	Implement additional processes to prevent irregular as well as fruitless and wasteful expenditure.	Financial management, SCM	New	Not yet able to assess	

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Roads and Public Works as well as Transport</b>	Follow up on recoverability of eNatis receivables and registering authorities and improve debtor collection systems.	Financial management	New	Not yet able to assess
<b>Rural Development and Agrarian Reform</b>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	Stabilise and align the working relations between the offices of the MEC and the HoD.	Leadership	New	Not yet able to assess
	Stabilise the position of the chief financial officer.	Leadership	In progress	Not yet able to assess
	Align departmental operations to the national initiatives for rural development and agrarian reform. This includes a re-evaluation of the organogram.	PDOs	New	Not yet able to assess
	Enhance the method of work for all rural development and agrarian reform projects to enhance service delivery and accountability.	PDOs, financial management	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Social Development</b>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	Build on the method of work that led to the improvement of the management of the department, with specific focus on the enhancement, implementation and enforcement of policies and procedures.	All	In progress	Not yet able to assess
	Sustain the current momentum regarding eliminating extended vacancies in key positions.	All	In progress	Not yet able to assess
	Further enhance and strengthen the role of the internal audit unit and the audit committee in relation to the assurance of credible information.	All	In progress	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Sport, Recreation, Arts and Culture</b>	<b>Commitments by the responsible executive member to improve audit outcomes based on 2011-12 results</b>			
	The MEC will monitor progress and accountability on re-elevation and enhancement of the department's turnaround and action plans to address audit findings. The MEC will take ownership of status reporting to the respective committees of the provincial legislature on a quarterly basis.	Turnaround plans	In progress	Not yet able to assess
	Enhance the role of the internal audit unit and the audit committee with specific reference to their role in providing assurance on the credibility of information used in the oversight functions.	Governance	New	Not yet able to assess
	The MEC will allow the internal audit unit and the audit committee a platform to report on a quarterly basis on the status of the implementation of their recommendations by management.	Governance	In progress	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative or commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on audit outcomes
<b>Sport, Recreation, Arts and Culture</b>	The MEC will monitor process performance management with the focus on holding individuals responsible for poor performance.	HR	New	Not yet able to assess
<b>Other role players</b>				
<b>Other</b>	The internal audit forum has committed to take ownership of the key controls by influencing the use of key controls by departments and entities and by providing recommendations relating to key controls that will assist the process towards clean administration.	SCM, PDOs, financial management	Not implemented	No impact

## 4.2 COMMITTEES OF THE PROVINCIAL LEGISLATURE

### 4.2.1 Standing Committee on Public Accounts hearings on Public Finance Management Act outcomes for 2011-12

The 2010-11 Eastern Cape general report on the PFMA outcomes highlighted that the effectiveness of SCOPA was hampered by the timeliness of the hearings and the subsequent tabling of resolutions. This statement was addressed through a strategic session in August 2012 that involved the AGSA and focused on the enhancement of the effectiveness of the committee in the drive towards accountability and good governance. This session was deemed an outstanding success and it is evident that the members have taken up the challenge and are wholeheartedly committed to the oversight process in an aim to improve audit outcomes. This is evidenced by the following actions:

- The SCOPA resolutions are now up to date.
- History was made when the committee, for the first time since its inception, started its hearings in the same calendar year as the tabling of the annual reports. During the week of 16 to 19 October, all departments and entities with disclaimed or qualified outcomes appeared before the committee. Where deemed necessary, all auditees with unqualified opinions with other matters would have appeared before the committee by the end of November 2012.
- By instruction of the committee, all hearings are attended by the relevant executive, the provincial treasury as well as the director-general of the province to account for transversal matters and to provide more insight into the relevant auditee where necessary.
- Notwithstanding the fact that the committee has always been strong, dedicated and very committed, the level and intensity of questioning reached new heights. From the questions and comments posed by the members, it is evident that the committee is focused on unpacking the findings down to its root cause and does not tolerate superficial responses.

- The committee emphasised the role of internal audit units and audit committees in strengthening the control environment, providing assurance and enhancing credibility of information.
- The basic resolutions taken during the hearings are as follows:
  - Departments and entities are to re-elevate and enhance their turnaround and action plans to address audit findings and to submit these, after sign-off by the HoD and relevant MEC, to the committee within 30 days.
  - Identified departments and entities will appear before the committee on a quarterly basis to account for the progress made on these plans. The status submitted by the departments on a quarterly basis must be subjected to internal audit and signed off by the audit committee in order to provide assurance on the credibility of the submissions.
  - Accounting officers have 30 days to implement disciplinary action against all the officials responsible for the audit findings. Failure to do so will result in disciplinary action against the accounting officer.
  - In order to enhance the independence and transparency of the audit committee, audit committee chairs will be afforded the opportunity to brief the committee, *in camera*, prior to the actual hearing. In addition, internal audit units and audit committees will report on a quarterly basis on the status of implementation of their recommendations by management. Management will be held accountable for the non-implementation of recommendations.

The AGSA is confident that should the committee continue with the standard set during October 2012 and ensure that resolutions are tabled timeously and monitored throughout the year, the committee will not only deliver on its oversight mandate but will also have a direct and positive impact on future audit outcomes.

## 4.2.2 Status of implementation of Standing Committee on Public Accounts oversight resolutions

The status of the implementation of SCOPA resolutions relating to specific auditees in the province at March 2012 is reflected in the next table.

**Table 29: Status of implementation of Standing Committee on Public Accounts resolutions**

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
<b>Departments</b>								
Health	21	0	0	21	.	.	.	.
Social Development	9	0	0	9	.	.	.	.
Roads and Public Works	5	0	0	5	.	.	.	
Education	10	0	0	10	.	.	.	.
Local Government and Traditional Affairs	5	0	0	5	.	.	.	
Rural Development and Agrarian Reform	12	0	0	12	.	.	.	
Economic Development, Environmental Affairs and Tourism	10	0	0	10	.	.	.	
Human Settlements	9	0	0	9	.	.	.	.
Sport, Recreation, Arts and Culture	10	0	0	10	.	.	.	
General resolutions	5	0	0	5	.	.	.	
<b>Public entities</b>								
Eastern Cape Parks and Tourism Agency	4	3	1		.	.	.	
Mayibuye Transport Corporation	4		2	2	.		.	.
<b>Total</b>	<b>38</b>	<b>3</b>	<b>3</b>	<b>32</b>				

The SCOPA resolutions pertaining to the 2010-11 financial year were adopted with ATC 13 of 14 August 2012. As a result of the resolutions only being tabled in August of this year, virtually no resolutions (3%) had been actioned at the time of this report. It is expected that the resolutions pertaining to the 2011-12 financial year will be more timely, which should have a positive impact on the next financial year.

### 4.2.3 Effectiveness of portfolio committees

Although the AGSA did not perform specific procedures to assess the effectiveness of the various portfolio committees at the provincial legislature, the audit outcomes indicate the need for the portfolio committees to drastically enhance their effectiveness with regard to oversight to promote and enforce clean administration. The main area of concern, when considering the outcomes on reporting on PDOs, is the credibility of information submitted for oversight purposes. The risk that service delivery will suffer due to decisions and resolutions based on information that is not credible is ever present.

The AGSA is elevating its relationships with portfolio committees to the same level of excellence as the relationship with SCOPA.

The committees expressed the same sentiment during the AG roadshow on 25 October 2012. The AGSA attended a number of portfolio committee hearings during 2011-12 and provided briefings where requested. Matters of concern at problematic departments were escalated to the relevant portfolio committee chair, while quarterly interactions were conducted with the chair of chairs.

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

During the year under review, members from both SCOPA and the relevant portfolio committee were sometimes represented in a joint hearing. This is deemed as a very positive step and should, at least annually, become the norm rather than the exception. In this format, all areas can be addressed and the possible scenario is eliminated where critical issues are not dealt with as one committee believes that it is being dealt with by the other. This promotes a

platform where holistic oversight can take place that covers finances, PDOs and policy matters.

In addition, the most effective means to address the credibility of information and transparency is for audit committees to have frequent interactions with the relevant portfolio committees. During these interactions, the audit committees should enlighten the portfolio committees on the status of the departments' systems for PDO monitoring, recording and reporting as well as on the status of the implementation of audit committee recommendations. The last critical element is that all submissions must be vouched for by both the internal audit unit and the audit committee as credible, relevant and transparent.

The matters raised above culminate in the critical challenge of oversight of the golden thread that links policy, mandate, strategic plans, budget, monitoring in-year performance and financial management and finally year-end reporting through the respective annual reports and related oversight processes thereof. This golden thread can only be visible through a clear, well-documented and credible audit trail. Critical success factors that will make this holistic oversight a reality include the following:

- Strong, clear, credible and measurable strategic plans that not only contain goals and intended actions, but also clearly address criteria for measuring performance.
- Entrenching an oversight process of the alignment of the budget and PDOs.
- An early audit or a credibility and completeness exercise early in the financial year to ensure that the strategic plan and the aligned budget are on firm footing before spending and service delivery gains too much momentum.
- In-year oversight of both financial and performance management, based on certified credible information, to enhance timeliness and maximise the impact on outcomes and effectiveness.

The effectiveness and the efficiency of these matters are, however, entrenched in the integration of the diverse areas of focus, mandates and deliverables of the various committees of the legislature by means of joint sessions and hearings.

### 4.3 ASSURANCE PROVIDED BY ROLE PLAYERS

Table 30 assesses the level of assurance provided by each role player in the provincial government in respect of the production of credible financial and PDO reports as well as compliance with relevant laws and regulations. Essentially this measures the extent to which the various role players can guarantee that information produced and used for monitoring, oversight and decision-making is accurate and reliable.

Those role players who provided the required level of assurance are highlighted in green, thereby indicating that there are adequate processes to produce information that is credible. Those who provided some but not all of the required assurances are highlighted in orange, while those highlighted in red provided significantly lower assurance than expected and their information is not accurate or reliable.

At an overall level, the key role players in the province are providing some assurance. However, significant strides will have to be made if the required level of assurance is to be provided for credible decision-making. Furthermore, the assurance provided by the key role players of Education and Health is significantly lower than that required.

The foundation for setting up processes to provide assurance is skills, competence and ethics; embedded systems of controls; and an understanding of the roles and responsibilities by all role players, together with a strictly enforced performance management system. The establishment of this foundation within the province is hampered by the root causes analysed in section 2.2.4 of this report.

The assurance provided by senior management, accounting officers, internal audit units, audit committees and executive authorities is linked directly to the implementation of controls. Internal controls that are properly designed and implemented as intended will assist in ensuring compliance with laws and regulations and the production of credible performance reports and financial statements.

Similarly, the quality and credibility of information supplied to portfolio committees and coordinating role players has an impact on the assurance given by them. Currently, the quality of information is not at the required level, which influences the effectiveness of these monitoring and oversight bodies.

It is thus imperative that all role players take ownership of the implementation and monitoring of key controls in order to ensure that all information produced for oversight and decision-making is accurate and reliable, thereby enhancing credibility and accountability.

**Table 30: Assessment of combined assurance in the province**

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committee (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
Required assurance levels		Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
Auditee level									
1	Rural Development and Agrarian Reform	Red	Red	Red	Red		Yellow		
2	Economic Development, Environmental Affairs and Tourism	Red	Red	Red	Red		Red		
3	Education	Red	Red	Red	Red		Red		
4	Health	Red	Red	Red	Red		Red		
5	Human Settlements	Yellow	Yellow	Yellow	Yellow		Yellow		
6	Local Government and Traditional Affairs	Yellow	Yellow	Yellow	Yellow		Yellow		
7	Office of the Premier	Yellow	Yellow	Yellow	Green		Green		
8	Provincial Legislature	Yellow	Yellow	Yellow	Green		Green		
9	Provincial Revenue Fund	Yellow	Yellow	Yellow	Yellow		Yellow		
10	Provincial Planning and Treasury	Yellow	Yellow	Yellow	Yellow		Yellow		
11	Roads and Public Works	Red	Red	Red	Green		Green		
12	Roads and Transport	Red	Red	Red	Yellow		Red		
13	Safety and Liaison	Red	Red	Red	Yellow		Yellow		
14	Social Development	Yellow	Yellow	Yellow	Green		Green		
15	Sport, Recreation, Arts and Culture	Red	Yellow	Yellow	Yellow		Yellow		
16	Accelerated and Shared Growth Initiative for South Africa	Yellow	Yellow	Yellow	Yellow		Yellow		
17	East London Industrial Development Zone	Yellow	Yellow	Yellow	Green		Yellow		
18	Eastern Cape Appropriate Technology Unit	Yellow	Yellow	Yellow	Yellow		Red		
19	Eastern Cape Development Corporation	Yellow	Yellow	Yellow	Green		Green		
20	Eastern Cape Gambling and Betting Board	Yellow	Yellow	Yellow	Green		Green		
21	Government Fleet Management Services	Red	Red	Red	Red		Red		
22	Eastern Cape Liquor Board	Yellow	Yellow	Yellow	Green		Green		
23	Eastern Cape Parks and Tourism Agency	Yellow	Yellow	Yellow	Yellow		Yellow		
24	Eastern Cape Provincial Arts and Culture Council	Yellow	Yellow	Yellow	Green		Green		
25	Eastern Cape Rural Finance Corporation (Uvimba)	Yellow	Yellow	Yellow	Yellow		Yellow		
26	Eastern Cape Socio Economic Consultative Council	Yellow	Yellow	Yellow	Yellow		Yellow		
27	Mayibuye Transport Corporation	Red	Red	Red	Yellow		Green		



No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committee (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
<b>Required assurance levels</b>		Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
<b>Oversight level</b>									
	Provincial Legislature								
<b>Coordinating/monitoring institutions</b>									
	Office of the Premier								
	Provincial Planning and Treasury								
<b>Overall provincial assessment</b>									
	Assess assurance providers overall for the province								

**Meets required level of assurance**
 **Providers some of the required level of assurance**
 **Significantly lower than the required level of assurance**

Due to the situation the province finds itself in, the assurance required by each role player has been set at extensive. All role players are required to work together and put in considerable effort in order to achieve improved outcomes.

#### 4.4 INITIATIVES OF THE AUDITOR-GENERAL OF SOUTH AFRICA TO ENCOURAGE CLEAN AUDITS

Over the past two years, the AGSA has embarked on many initiatives to enhance accountability and to influence the process towards improving audit outcomes and clean administration. The main initiative was to further strengthen its relationship with the political and the administrative leadership to deepen their understanding of mechanisms relating to performance management, and ultimately accountability, thereby paving the way towards improving public confidence. This initiative included the increased visibility of the AGSA's senior leadership and continuous interactions to highlight possible challenges, audit findings and transversal risks.

The AGSA continued to enhance the visibility of its leadership and to implement the above initiatives during the past year, but more emphasis was placed on effective monitoring and oversight and the need to achieve and sustain clean administration. This included numerous interactions with the premier, speaker, deputy speaker, SCOPA, executive council, chair of chairs of portfolio committees, chief whip of the legislature, individual MECs and HoDs as well as the provincial treasury in its oversight role. These interactions also included the escalation of key controls, high-risk areas and possible regressions in audit outcomes.

The following table depicts the impact of the AGSA's interactions with the executive.

**Table 31: Impact of interactions with the executive**

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Rural Development and Agrarian Reform	4	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Economic Development, Environmental Affairs and Tourism	6	Financially unqualified with findings	Qualified	Improved	Unchanged	Unchanged
Education	12	Disclaimer	Disclaimer	Regressed	Unchanged	Regressed
Health	12	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Human Settlements	5	Qualified	Qualified	Improved	Unchanged	Unchanged
Local Government and Traditional Affairs	8	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Unchanged
Office of the Premier	7	Financially unqualified with findings	Financially unqualified with findings	Improved	Unchanged	Remain with no findings
Provincial Legislature	5	Financially unqualified with findings	Financially unqualified with no findings	Regressed	Remain with no findings	Regressed
Provincial Planning and Treasury	10	Financially unqualified with findings	Financially unqualified with findings	Remain no misstatement	Improved	Improved
Roads and Public Works	7	Qualified	Financially unqualified with findings	Regressed	Unchanged	Unchanged
Safety and Liaison	5	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Remain with no findings
Social Development	4	Financially unqualified with findings	Financially unqualified with findings	Remain no misstatement	Unchanged	Improved
Sport, Recreation, Arts and Culture	5	Qualified	Qualified	Improved	Unchanged	Unchanged
Transport	5	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Unchanged

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Accelerated and Shared Growth Initiative for South Africa	4	Financially unqualified with findings	Financially unqualified with no findings	Regressed	Remain with no findings	Regressed
Eastern Cape Development Corporation	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Remain with no findings	Regressed
Eastern Cape Appropriate Technology Unit	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Unchanged
Eastern Cape Socio Economic Consultative Council	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Improved
Eastern Cape Gambling and Betting Board	2	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Unchanged
Eastern Cape Liquor Board	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Improved	Improved
Mayibuye Transport Corporation	2	Qualified	Qualified	Improved	Remain with no findings	Regressed
Eastern Cape Provincial Arts and Culture Council	2	Financially unqualified with findings	Financially unqualified with findings	Improved	Unchanged	Unchanged
Eastern Cape Rural Finance Corporation (Uvimba)	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Regressed
East London Industrial Development Zone	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Improved	Unchanged
Eastern Cape Parks and Tourism Agency	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Remain with no findings
Government Fleet Management Services	4	Financially unqualified with findings	New audit	New audit	New audit	New audit

The table above details the interactions held with the MECs of departments and the boards of entities. The table does not include the many additional interactions held with HoDs, chief executive officers and chief financial officers. Also excluded are escalations to the speaker of the legislature, portfolio committees and the premier of the province.

As can be seen in the table, the rate of interactions was fairly intensive and included quarterly key control visits as well as additional escalation interactions. The aim of these interactions is to highlight areas requiring the intervention of executive authorities in trying to improve or, at the very least, maintain the audit outcomes of departments and entities. Where these interactions proved to be bearing fruit, they centred mostly on the improvement of critical internal control requirements. In other more serious cases, the number of interactions was increased to facilitate the necessary interventions to improve the audit outcomes in the province.

However, the reality of the situation is that although the AGSA intensified its interactions, this investment was not always matched by the executive and/or senior management, resulting in the return on that investment not yielding the required results, with outcomes either regressing or remaining unchanged. This cannot be ascribed to a lack of effort by the AGSA but rather to a lack of political will to change and the escalation processes not being taken seriously. The often poor working relationships between the MECs and HoDs also contributed to the low impact of these interactions. It is imperative that the AGSA's quarterly interactions are attended by the relevant MEC, HoD or chief executive officer as well as chief financial officer in order to foster a common understanding of the matters requiring attention to move the relevant department or entity swiftly towards the goal of clean administration by 2014. This would enhance the alignment of political and administrative leadership, which is imperative in enforcing accountability and effective financial and performance management.

Summarised below are some of the key initiatives the AGSA has undertaken to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

**Table 32: Key initiatives of the Auditor-General of South Africa to encourage clean audits**

Nature	Outline of the AGSA's initiatives
<p><i>Interactions with the political and administrative leadership</i></p>	<ul style="list-style-type: none"> <li>• The AGSA goes the extra mile by discussing all the risks prevalent at the auditees and providing recommendations on a way forward on a quarterly basis with all MECs, the premier and the speaker.</li> <li>• Over and above the quarterly interactions, additional interactions take place when any high risks are identified and then escalated to the political and administrative leadership.</li> <li>• Briefings to the provincial cabinet also take place on a regular basis, informing them of risks prevalent in the province and providing recommendations on what can be done to improve the situation.</li> <li>• Regular interactions take place with the provincial treasury on any transversal risk that may have an impact on its oversight role.</li> <li>• The AGSA creates an opportunity, within reasonable parameters, for auditees to correct misstatements, but NOT to reactively address neglected in-year management responsibilities during the year-end audit process.</li> <li>• A workshop was held with SCOPA, the chair of chairs of portfolio committees and the chairs of portfolio committees on the importance of effective oversight together with recommendations on what can be done to improve oversight.</li> <li>• The AGSA has increased its visibility and interactions with the portfolio committees.</li> <li>• The AGSA has driven the process to get SCOPA to enhance the timeliness of its oversight role in order to improve its relevance and effectiveness. A number of meetings took place that culminated in a workshop with the members to give effect to a changed approach and programme for SCOPA. This resulted in SCOPA conducting its hearings six months earlier than it did in the past and being in a position to adopt resolutions before the December recess.</li> </ul>

Nature	Outline of the AGSA's initiatives
<b>Interactions with the political and administrative leadership on problematic departments</b>	<ul style="list-style-type: none"> <li>The AGSA had numerous interactions with political and administrative leaders, including the portfolio committees and all other role players that have a monitoring or oversight role, in respect of the state of affairs within Health and Education.</li> <li>These interactions focused on securing commitments towards improvement. These interactions were also used to highlight the large number of fraud risk indicators prevalent within these departments.</li> </ul>
<b>Stakeholder interactions and audit outcome roadshows</b>	<ul style="list-style-type: none"> <li>All audit outcomes were discussed with the provincial executive as well as the provincial legislature executive, including the chair of chairs of the portfolio committees, prior to the roadshow.</li> <li>During the roadshow, the AG presented the audit outcomes and the root causes of these outcomes to all political and administrative role players.</li> </ul>
<b>Quarterly interactions on status of key controls</b>	<ul style="list-style-type: none"> <li>Departments and entities have been sensitised to the importance of implementing, maintaining and taking ownership of key controls around financial and performance management and compliance with laws and regulations, which is imperative for the drive towards clean administration. To this end, quarterly interactions have taken place with the premier, speaker, individual MECs, accounting officers and the provincial treasury regarding their oversight role.</li> <li>The AGSA's message is that the leadership must take ownership of the key controls and monitor them on a continuous basis. During key control visits, AGSA teams secure commitments on what will be done to improve controls and these commitments are then monitored. Many commitments are received; however, they are not monitored or are implemented ineffectively, which has an impact on the sustainability of audit outcomes.</li> </ul>
<b>Promoting understanding of PDO requirements</b>	<ul style="list-style-type: none"> <li>There have been numerous initiatives and interactions in respect of performance information. This information is detailed in section 2.3 of the report.</li> </ul>

Nature	Outline of the AGSA's initiatives
<b>Involvement in forums and meetings related to provincial government financial affairs</b>	<ul style="list-style-type: none"> <li>The AGSA played a leading role in influencing the establishment of the internal auditors' forum and the audit committee chairpersons' forum in the Eastern Cape. The purpose of establishing these forums was to educate them on their role within the provincial administration and for them to assume their responsibility of proactively making and following up recommendations to ensure that internal controls are implemented and monitored. The AGSA addressed these forums on more than one occasion.</li> <li>However, these forums will lose momentum and impact should the provincial treasury fail to take responsibility as coordinator and drive the efforts of the forums. The provincial treasury should also escalate the challenges and resolutions of the forums to the executive level and provide timely feedback on their activities.</li> </ul>
<b>Diagnostic tools rolled out or sponsored by the AGSA</b>	<p>During recent interactions, the AGSA identified the need for specific tools to address the needs of, and shortcomings at, auditees. The AGSA responded to these needs as follow:</p> <ul style="list-style-type: none"> <li>To address the need for a tool to assist office-bearers, those that make strategic decisions and those charged with governance and oversight, the AGSA developed a diagnostic tool for evaluating the credibility of information and the process flow of such information. This diagnostic tool has been rolled out to the majority of role players in the province and is already successfully being used by AGSA staff to assess the credibility evaluation of those concerned.</li> <li>The AGSA did the groundwork and initiated a tool to assist all parties involved in SCM to eradicate irregular expenditure. Local Government and Traditional Affairs has taken ownership of the final development. As the initiative started in the local government sphere, it will be piloted at municipalities before being converted for use by the provincial administration.</li> </ul>

The AGSA commits to continue building on the above initiatives by working closely with all spheres of government in an attempt to influence sustainable clean administration. This includes influencing the leadership to take ownership of the key control initiative, which will be monitored by the AGSA on a quarterly basis, and working closely with audit committees, internal audit units and all other role players to ensure that processes are put in place to provide the provincial leadership with credible information on which to base decisions and take action. Success can, however, only be achieved if all role players play their part, fulfil commitments, engage in robust debate and 'walk the talk' when it comes to entrenching a highly effective and accountable government.



# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

5.2 FINANCIAL HEALTH INDICATORS



AUDITOR - GENERAL  
SOUTH AFRICA





# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

This section of the report provides information on emerging matters that may have an impact on future audit outcomes as well as an analysis of auditees' financial health indicators.

### 5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on provincial government audit requirements and outcomes in the 2012-13 financial year. Appropriate measures should therefore be implemented timeously to ensure that these do not have a negative impact on audit outcomes.

**Table 33: Current and emerging matters that require attention**

Area of change	Summary of expected changes
<b>Matters affecting government auditees in all provinces</b>	
<p><i>Accounting matters</i></p>	<p>Readiness of departments for the eventual inclusion of inventory in the financial statement disclosures</p> <p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and consequently no audit findings were raised in the auditor's report in this regard.</p> <p>However, a review of departments' inventory management processes found that the following control deficiencies must still be addressed:</p> <ul style="list-style-type: none"> <li>• Inventory registers were not maintained for all institutions.</li> <li>• Formal written instructions and procedures for inventory counts had not been prepared.</li> <li>• Inventory counts did not agree to figures presented in the financial statements or accounting records, and no reconciliations or investigations were conducted in this regard.</li> <li>• There was a lack of physical safeguarding of inventory stores.</li> <li>• Bin cards or proper records were not kept in all cases to control stock movement and issues.</li> <li>• The value of the province's learner support material on hand could not be determined due to limitations placed on the audit process.</li> </ul>

Area of change		Summary of expected changes
<b>Matters specific to the Eastern Cape</b>		
<b>Accounting matters</b>	Government fleet management finance lease	The National Treasury exempted the departments in the province from classifying the government fleet management arrangement as a finance lease for the current year. The departments therefore disclosed expenditure relating to the fleet lease as operating lease expenditure and the lease commitments as operating leases. In the next financial year, this will have to be disclosed as finance leases, which will also require an adjustment to the comparative figures.
	Transfer of funds to public entities acting as agents	The National Treasury issued a departmental guide on agency/principal activities, which is effective for the 2012-13 financial year. All departments using public entities as agents will have to comply with disclosure and accounting requirements in this regard. The guide also needs to be considered when entering into service level agreements with entities for these arrangements.
	Entities to cease operating	The Eastern Cape Appropriate Technology Unit (ECATU) is due to be integrated into the Department of Rural Development and Agrarian Reform.

## 5.2 FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and to implement an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. The AGSA's audits included a high-level analysis of auditees' financial health indicators in order to provide management with an overview of selected aspects of auditees' current financial health and enable timely remedial action where financial health and service delivery may be at risk.

Certain aspects relating to the management of budgets, expenditure, conditional grants (applicable to departments only), revenue, assets and liabilities were analysed.

The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province overall.

### 5.2.1 Budget management and conditional grants

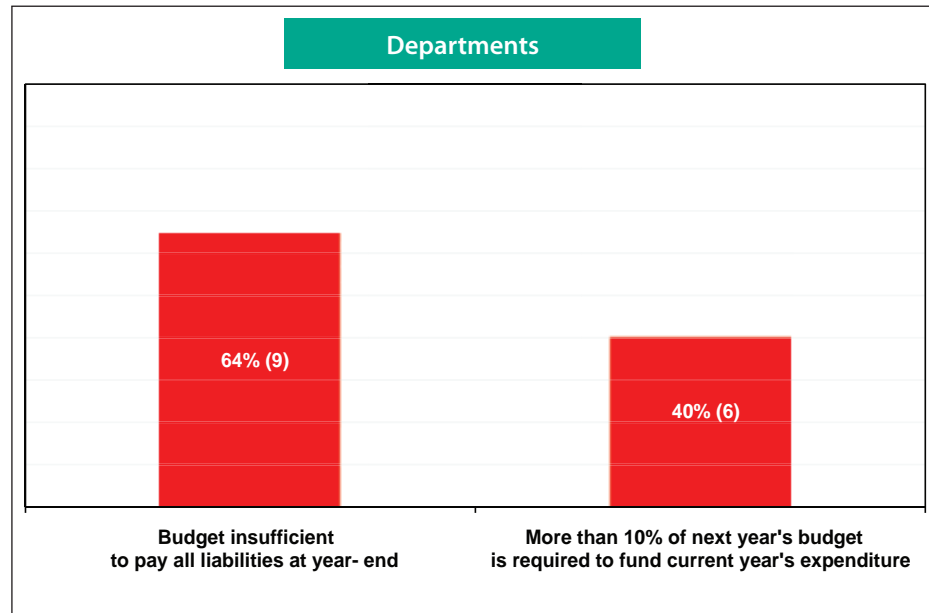
Only departments were analysed for the following section of the report dealing with budget management and conditional grants, as their budgets are approved by the provincial legislature and any overspending may result in unauthorised expenditure. In addition, the expenditure included in the statements of financial performance of departments is determined using the cash basis of accounting and requires a reconciliation to determine the actual expenditure incurred under the accrual basis of accounting. Thus, a greater level of analysis is required for departments.

The provincial public entities are funded on a break-even basis and, as a result, it is more useful to perform an analysis of those public entities whose expenditure exceeds their revenue. This analysis is performed in section 5.2.3 below.

#### 5.2.1.1 Budget management

The spending of 11 (78%) departments was within the approved budget, while three (22%) departments overspent their budgets and disclosed unauthorised expenditure in their financial statements. However, the annual financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the annual financial statements, and used to assess actual expenditure versus the budget, is only what was paid during the year and does not include the liabilities for unpaid expenses at year-end. Effectively these liabilities are paid from the following year's budget, which reduces the amount available for that year's activities. The following figure shows the impact of this in the province.

**Figure 31: Budget management by departments**



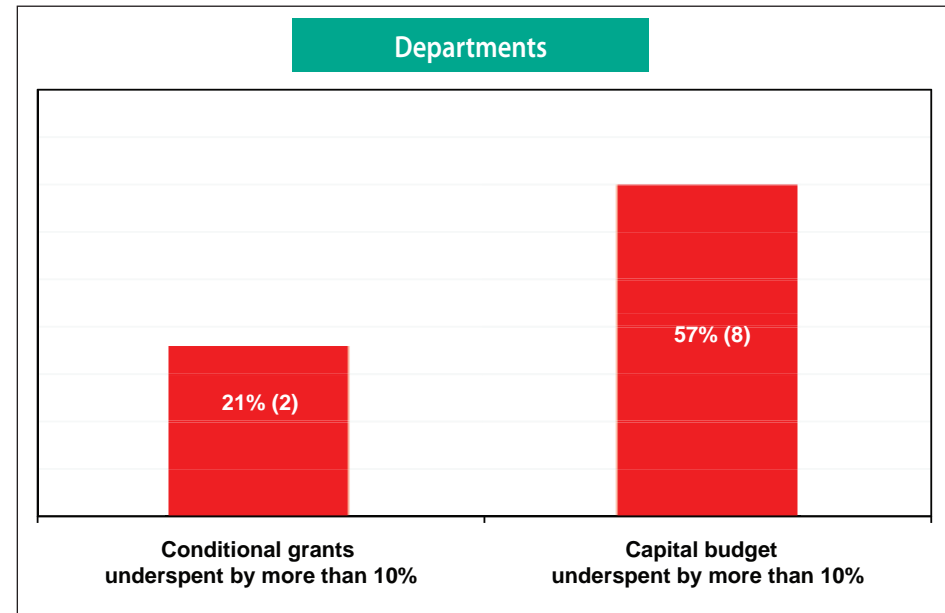
Although the spending, determined on a cash basis of accounting, of 11 departments was within their approved allocations, the budgets of nine departments were not sufficient to pay all of their liabilities, which were disclosed as accruals at year-end. As a result, a portion of their 2012-13 budgets will be used to pay for the current year's service delivery activities.

Six of the nine departments referred to above, including Education, Health, and Roads and Public Works, used more than 10% of their 2012-13 budgets to settle their outstanding liabilities at year-end. As a result, less than 90% of their budgets for 2012-13 are available to fund 2012-13 service delivery initiatives.

### 5.2.1.2 Underspending by departments

The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. The approved budget (voted funds) of departments is requested from the provincial revenue fund only as required. The figure below shows the number of departments that underspent on capital budgets and conditional grants.

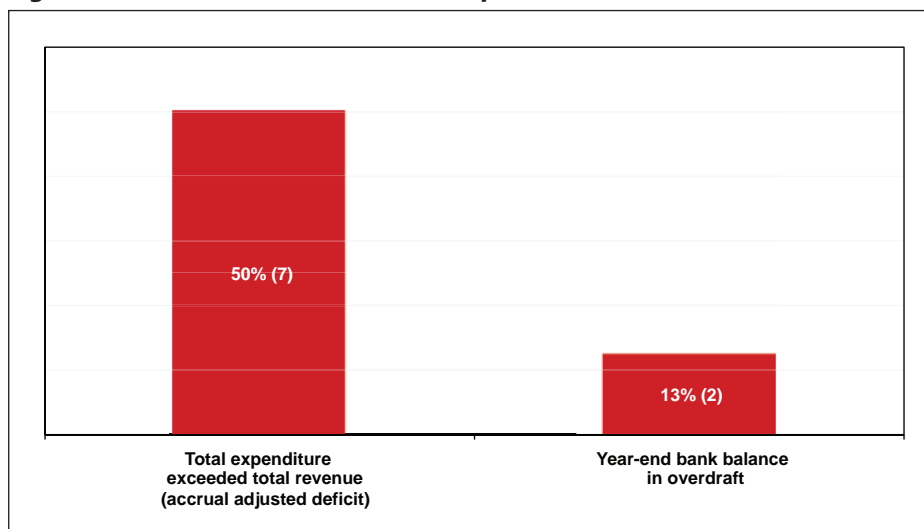
**Figure 32: Underspending by departments**



Education, Health as well as Sport, Recreation, Arts and Culture underspent their conditional grants by 10% or more, while Health, Human Settlements, and Local Government and Traditional Affairs were amongst those departments who underspent their capital budgets by 10% or more. These budgets are intended to enhance the relevant departments' service delivery capacity. Underspending has a negative impact on their ability to deliver services to the citizens of the Eastern Cape in future periods and should be given urgent leadership attention.

This underspending is due to a lack of credible reporting on the usage of conditional grants and capital budgets, a lack of monitoring by the leadership and governance structures, and a lack of institutional capacity to deliver on conditional grant and capital projects.

The following figure shows the number of departments that incurred deficits in the current year and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments, the amounts in the financial statements were reconstructed taking into consideration the accrual-related disclosure notes.

**Figure 33: Deficits and overdrafts – departments**

The figure on accrual adjusted expenditure exceeding revenue correlates with the figure and explanations relating to budget management in section 5.2.1 above. Education and Rural Development and Agrarian Reform are the two departments that were in overdraft at year-end. Education's overdraft of R425 million is the most concerning and is due to inadequate budget management.

### 5.2.1.3 The way forward

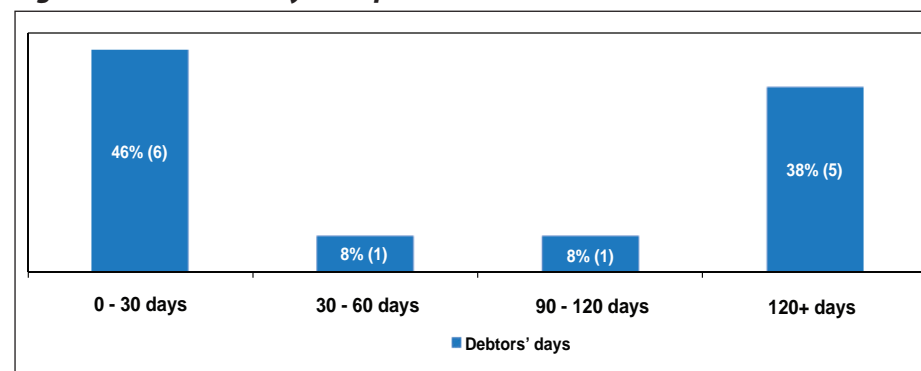
The provincial leadership should insist on credible monthly reports that measure actual expenditure against budgets and service delivery. The actual expenditure (capital and current) reported should be properly reconciled and should include amounts owing to suppliers for goods and services that have not been paid at the reporting date. These reports should be monitored on a regular basis and corrective actions taken where deemed necessary.

In addition, the province should identify the HR capacity it has to manage the major capital projects it has to implement, and measure the existing capacity against the number and value of budgeted capital projects. Where shortfalls in capacity are identified, it should be enhanced by appropriate appointments and/or outsourcing.

## 5.2.2 Revenue and expenditure management

### 5.2.2.1 Debtors

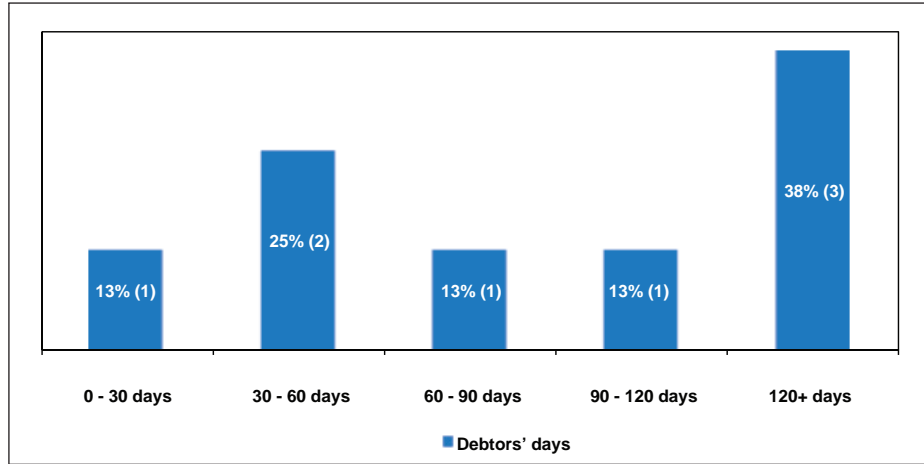
Figures 34 and 35 indicate the average debtors for departments and public entities, respectively. Debtors' days refer to the number of days it takes for the auditee to recover the money owed to them by persons or institutions. The PFMA requires that amounts due to creditors are settled within 30 days of receipt of an invoice. Refer to section 2.4 of this report where this requirement is reported on under compliance with laws and regulations.

**Figure 34: Debtors' days – departments**

The above figure shows that most departments collect amounts due to them within 30 days. Education is not included in the above graphic because the days taken to collect debtors could not be accurately calculated, due to limitations experienced during the audit.

The average collection period of Economic Development, Environmental Affairs and Tourism as well as Transport is more than four years. The five departments whose collection periods are in excess of 120 days are also the provincial departments who have the most significant amounts of own revenue. The late collection of amounts due by these departments has a significant impact on the revenue fund and is the result of incorrect recording as well as ineffective debt-collection systems and processes.

**Figure 35: Debtors' days – public entities**



The above figure shows that 38% of the amounts due to public entities are collected within 60 days. AsgiSA and ECATU have been excluded from the above analysis as AsgiSA merged into the ECRFC and ECATU merged into the Department of Rural Development and Agrarian Reform with effect from 1 April 2012.

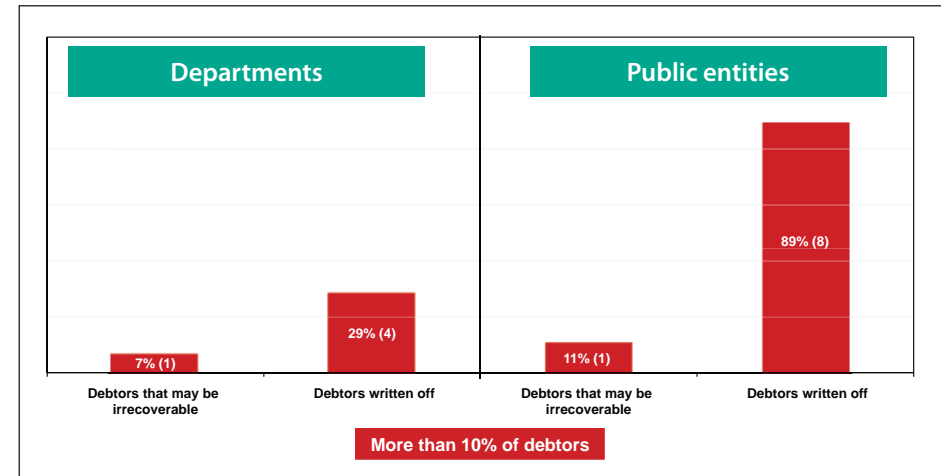
The average debtors' collection period of the four provincial public entities is longer than 90 days. The average collection period calculated for the Eastern Cape Development Corporation (ECDC), included in the four entities referred to above, is more than 10 years. This is due to the average collection period being calculated before provisions for impairments. These provisions have been built up over numerous years, but debts are not written off. As a result, the average collection period is skewed.

An average collection period of greater than 120 days places severe strain on the entities' cash flows and also increases their dependence on grants from the provincial government.

### 5.2.2.2 Status of state debtors

The weakness in recovering revenue owed by debtors is further highlighted in the following figure, which shows the extent of bad debts written off or provisions made for such write-offs.

**Figure 36: Status of state debtors**



The level of impairments and the level of provisions for impairments correlate with the previous figure on debt-collection periods; all of which are due to ineffective debt management and collection systems and processes.

### 5.2.2.3 The way forward

The provincial leadership should ensure that the debt management policies of departments and entities are updated, adequate capacity exists to implement them, and their requirements are strictly enforced.

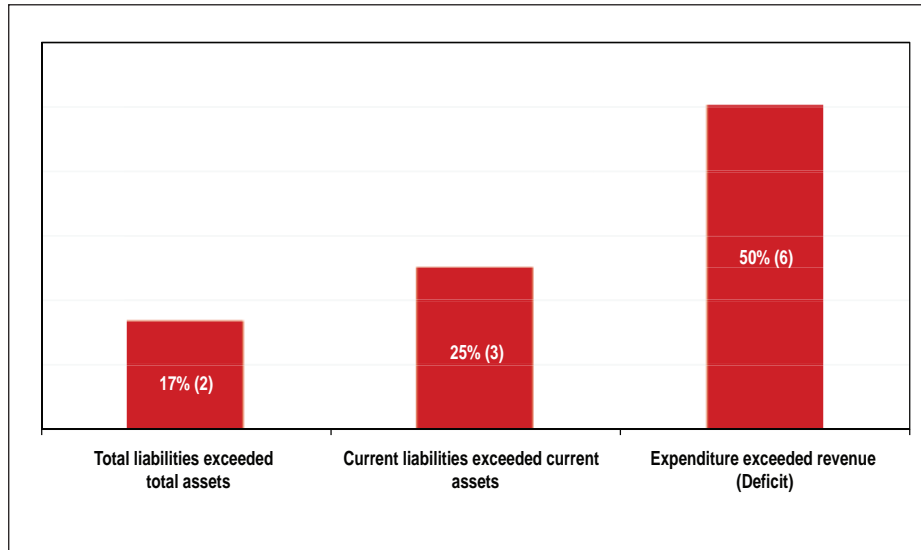
## 5.2.3 Asset and liability management – public entities

### 5.2.3.1 Going concern issues

The analysis in this section would in the private sector be indicators of a possible going concern problem at an entity, meaning that the entity does not have sufficient funds to continue in business. However, it is uncommon for the operational existence of a public sector auditee to cease as a result of an inability to finance its operations, as these auditees have to deliver services to the public. In these instances, additional funding from central government is normally required to enable the auditee to continue its operations.

The next figure shows the number of public entities that had negative indicators relating to the funding of their continued operations.

**Figure 37: Funding of continued operations – public entities**



The total liabilities of two entities exceeded their total assets. In addition, the current liabilities of these two entities and those of the ECGBB exceeded their current liabilities at year-end. These entities may require additional funding from the province in order to be able to settle their liabilities as they become due.

Six entities incurred deficits during the year under review. These deficits were due to inadequate budget monitoring and management. The deficits at the ECDC, the ECRFC and the Eastern Cape Provincial Arts and Culture Council (ECPACC) should be monitored closely as continuous deficits will result in net current liabilities and net liabilities.

### 5.2.3.2 The way forward

Accounting officers, accounting authorities and members of the executive should actively monitor their actual expenditure against budgets, based on credible monthly reports. They should also take effective action where it becomes apparent that deficits may be incurred, as this could place the financial sustainability of their institutions in doubt.

### 5.2.4 Overall conclusion

The financial management practices in the province are generally not adequate. Control environments incorporating accounting disciplines and budget management are weak and contribute significantly to the findings on the province's financial health.

It is imperative that the provincial leadership, together with the governance structures, takes effective steps to address the control environments at all departments and entities in order to improve the overall financial health of the province.

GLOSSARY OF TERMS

ANNEXURE



AUDITOR - GENERAL  
SOUTH AFRICA







# GLOSSARY OF TERMS

<b>Accounts payable/ accruals/ liabilities</b>	Money owed by the entity to those who have supplied goods and services.
<b>Accounts receivable (debtor)</b>	Money owed to the entity by those who have received goods or services from the entity.
<b>Accruals</b>	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
<b>Adverse audit opinion</b>	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
<b>Asset</b>	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
<b>Asset impairment</b>	The reduction in value of an asset below its normal realisable value.
<b>Balance sheet</b>	Summary of an entity's financial status, including assets, liabilities and equity.
<b>Carrying value</b>	Also referred to as book value - the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairment.
<b>Cash flow</b>	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.
<b>Clean audit outcome</b>	The financial statements of the auditee are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations.
<b>Commitments (financial)</b>	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.

<b>Comparative figures</b>	The figures recorded in the previous year which correspond to the figures for the same item in the current year.
<b>Consolidated financial statements</b>	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
<b>Contingent liability</b>	A potential liability, the amount of which will depend on a future event.
<b>Current assets</b>	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
<b>Disclaimer of audit opinion</b>	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.
<b>Financial and performance management</b>	Management of resources in order to achieve the financial and services delivery objectives of the auditee. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.
<b>Financially unqualified audit opinion</b>	The financial statements contain no material misstatements.
<b>Fruitless and wasteful expenditure</b>	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
<b>General ledger</b>	A record of all financial transactions undertaken by an entity.

<b>Governance</b>	In the context of this general report it refers to the governance structures (audit committees) and processes (internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<b>Information technology (IT)</b>	Computer systems used for recording and reporting financial and non-financial transactions.
<b>IT service continuity</b>	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
<b>IT security management</b>	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
<b>IT user access management</b>	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
<b>Internal control (key controls)</b>	Internal control is 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, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
<b>Inventory</b>	Goods held for resale or for internal use.
<b>Irregular expenditure</b>	Expenditure incurred without complying with applicable laws and regulations.

<b>Leadership</b>	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<b>Leading department</b>	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
<b>Material finding</b>	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
<b>Material misstatement</b>	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
<b>Misstatement</b>	Incorrect information in or information omitted information from the financial statements or annual performance report.
<b>Modified opinion</b>	Qualified, adverse or disclaimer of opinion.
<b>Payroll</b>	A list of employees and their wages.
<b>Pervasive findings</b>	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
<b>Property, plant and equipment</b>	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
<b>Qualified audit opinion</b>	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.



<b>Reconciliation</b>	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
<b>Reporting against predetermined</b>	Reporting by auditees on their actual service delivery achievements against their annual <i>objectives</i> performance plans.
<b>Residual value</b>	The estimated scrap or salvage value at the end of the asset's useful life.
<b>Root causes</b>	The underlying causes or drivers of audit findings, i.e. why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue or opportunity, thus preventing or reducing incidents of recurrence as opposed to simply providing a one-time or short-term fix.
<b>Supply chain management</b>	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
<b>Transversal findings</b>	Findings that are cross-cutting or occurring in a number of entities.
<b>Unauthorised expenditure</b>	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.
<b>Useful lives</b>	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating the depreciation of an asset.



# ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance specific focus areas

Number	Auditee	2011-12			2010-11			Financial statement qualification areas						Findings on predetermined objectives				Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatements/limitations in submitted financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Procurement	HR management	Expenditure management	Internal audit
<b>Departments</b>																								
1	Rural Development and Agrarian Reform																							
2	Economic Development, Environmental Affairs																							
3	Education																							
4	Health																							
5	Human Settlements																							
6	Local Government and Traditional Affairs																							
7	Office of the Premier																							
8	Provincial Legislature																							
9	Provincial Revenue Fund																							
10	Provincial Treasury																							
11	Roads and Public Works																							
12	Safety and Liaison																							
13	Social Development																							
14	Sport, Recreation, Arts and Culture																							
15	Transport																							

Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (Drivers)	Good	Significant control deficiency	S	Legend (Findings)	Addressed	A	Legend (Movements)	Reduction	↑	Unchanged	←	Legend (Root cause)	No significant root cause	Legend (Root cause)	A contributing root cause	Legend (Root cause)	A major root cause
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N	Repeat	R	Increase	↓							





# ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance specific focus areas

126

Number	Auditee	2011-12			2010-11			Financial statement qualification areas						Findings on predetermined objectives				Findings on areas of non-compliance						
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatements/limitations in submitted financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Procurement	HR management	Expenditure management	Internal audit
<b>Public entities</b>																								
16	Accelerated Shared Growth Initiative of South Africa																	N	N					
17	East London Industrial Development Zone Corporation													R	R				R		A			N
18	Eastern Cape Development Corporation													N					R					
19	Eastern Cape Government Fleet Management Services																N	N						N
20	Eastern Cape Appropriate Technology Unit													R	R				R	R	R			R
21	Eastern Cape Socio Economic Consultative Council																		R	A	R			
22	Eastern Cape Gambling and Betting Board													R	R				R	R	R	A		A
23	Eastern Cape Liquor Board													A	R				R		A			
24	Mayibuye Transport Corporation							A	A				R	N	R	N			R	N				
25	Eastern Cape Parks and Tourism Agency																		R	A	R			R
26	Eastern Cape Provincial Arts and Culture Council														R	R			A	A	R			
27	Eastern Cape Rural Finance Corporation (Uvimba)															N			R	N	N			N

<b>Legend (Audit outcomes)</b>	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	<b>Legend (Drivers)</b>	Good	Significant control deficiency	<b>S</b>	<b>Legend (Findings)</b>	Addressed	<b>A</b>	<b>Legend (Movements)</b>	Reduction	↑	Unchanged	↔	<b>Legend (Root cause)</b>	No significant root cause	↓	Increase	↓	A contributing root cause	↔	A major root cause
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N	Repeat	R					A contributing root cause					A major root cause	





