



AUDITOR - GENERAL  
SOUTH AFRICA



**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES

**GAUTENG**  
PFMA 2011-12



AUDITOR - GENERAL  
SOUTH AFRICA

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ON THE PROVINCIAL AUDIT OUTCOMES  
**GAUTENG**  
2011-12

PR07/2013  
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# Our *reputation promise/mission*

2



**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*

# overview



**Foreword**

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# GAUTENG CLEAN AUDITS 2011-12

## **PUBLIC ENTITY**

**AIDC Development Centre**

**Cradle of Humankind Trading Entity**

**Dinokeng World Heritage Trading Entity**

**Gauteng Partnership Fund**

**Greater Newtown Development  
Company**

**Industrial Development Zone**

**The Innovation Hub**

# FOREWORD



AUDITOR - GENERAL  
SOUTH AFRICA









# FOREWORD

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

These outcomes show a regression from previous years, with the exception of seven public entities that achieved clean audits because the leadership at these entities consistently monitored the monthly financial disciplines, such as reconciliations through clearly defined processes.

My message for the 2010-11 financial period confirmed the following commitments by the provincial leadership "The preparation of complete monthly financial statements, accompanied by a review and validation process, the coordination of guidance and support on IT, SCM, predetermined objectives and HR management by the provincial treasury, the extension of the quarterly key control discussions to include portfolio committee chairpersons and internal audit, and the continued leadership influence to ensure approval of the organisational structures to ensure that critical positions are filled timeously."

The majority of these commitments were not implemented, which led to a regression of the province's audit outcomes. While 73% of auditees are financially unqualified with findings on compliance with laws and regulations and/or predetermined objectives, the audit outcomes of 45% of the auditees would have been qualified had the adjustments to the financial statements not been effected as part of the audit process. This highlights the lack of progress made in implementing and sustaining the key internal controls required to ensure the credibility of information and support improvements towards clean administration.



***We acknowledge the province's results as presented by the auditor-general and we commit that we will hold people accountable for their actions or lack thereof. We also commit to take ownership of the key controls.***  
– Speaker Lindiwe Maseko

The commitment to engage with the AGSA on a quarterly basis was not always honoured by the members of the executive council. Regrettably, even where we were able to meet the executive, the desired impact of the agreed actions was not realised, with the exception of the departments of Education, Local Government and Housing and Economic Development where visible improvements in internal controls were recorded as a result of the leadership taking ownership of the implementation of the commitments and action plans.

The lack of credible financial and performance information compromises the ability of the province to effectively manage service delivery and cash flows. In this regard, 83% of departments as compared to 27% of entities achieved less than 80% of their service delivery targets, while 45% of departments incurred liabilities in excess of budgeted funds.

My office will continue to seek meaningful interaction on a quarterly basis with the provincial Operation Clean Audit team, heads of department and chief financial officers, the provincial executive, audit committees, as well as committees of the legislature on the implementation and effectiveness of the key controls and commitments to achieve clean administration at each department and entity. In this regard we are encouraged by the efforts of the public accounts committee, which could be better enhanced with improved collaboration with the portfolio committees.

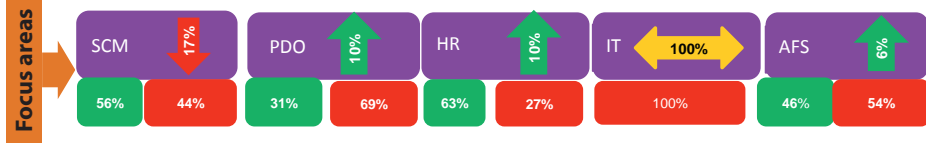
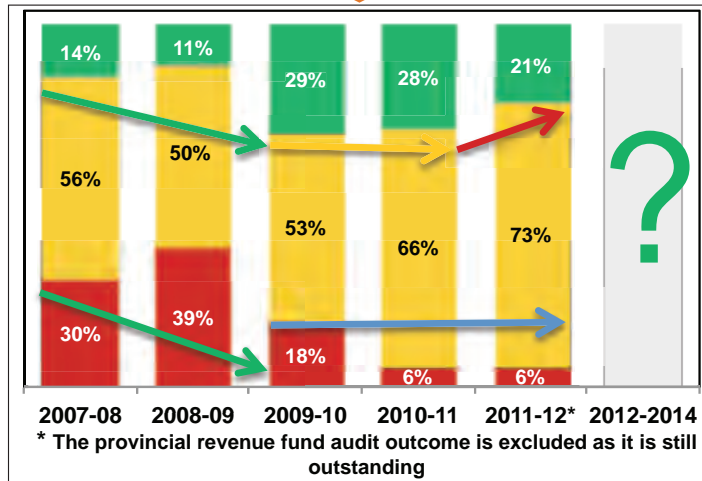
I want to thank the audit teams from my office and the audit firms that assisted with the audit of the provincial government for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the province.

*Auditor-General*

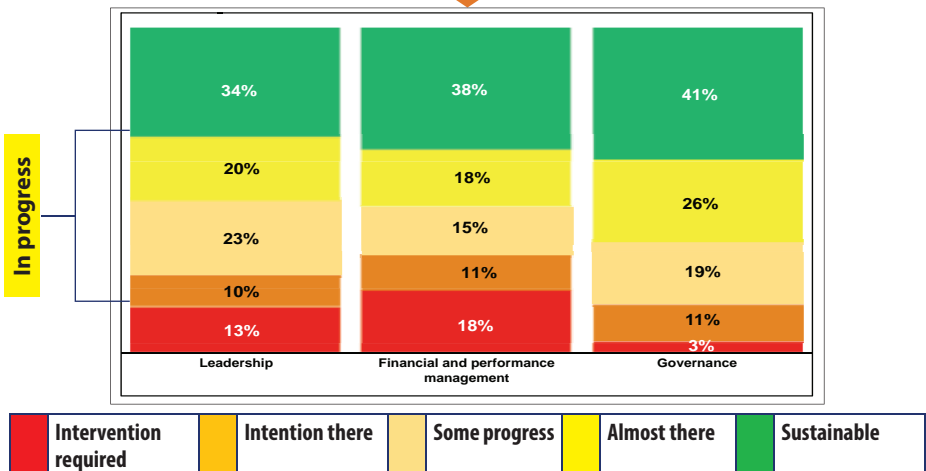
**Auditor-General  
Pretoria  
March 2013**



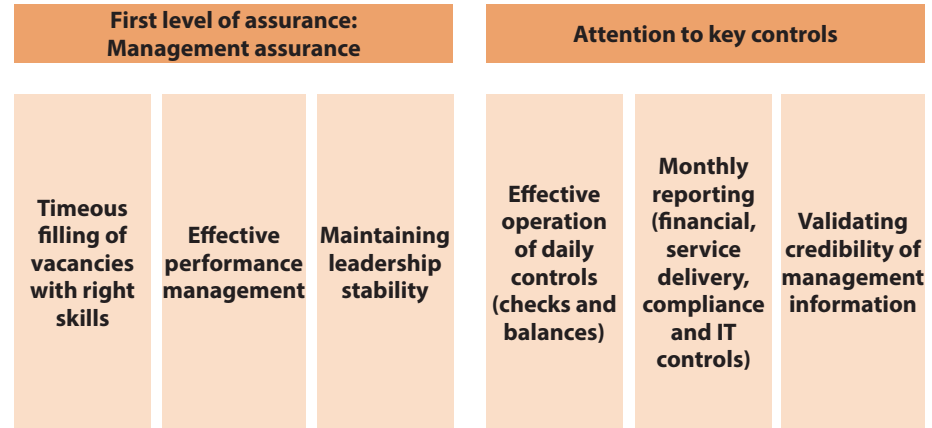
Stagnant nature of outcomes in the province is of great concern. Improvement is slow and nullified by regression



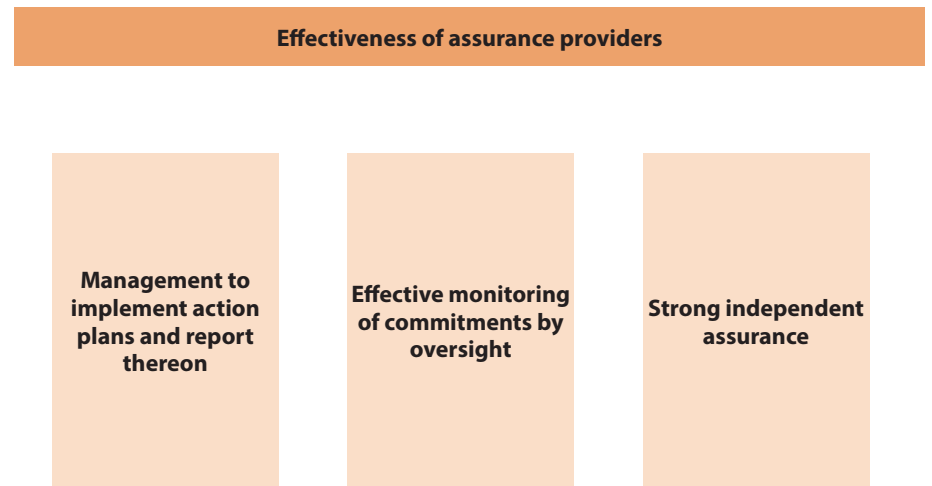
A key responsibility of leadership is to implement and maintain effective and efficient systems of internal control. Of concern is the slow movement towards sustainable implementation of internal control



### First level of assurance: Management assurance



### Second and third levels of assurance: Oversight and audit (independent assurance)



Way forward



# SECTION 1

## EXECUTIVE SUMMARY



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# SECTION 1

## EXECUTIVE SUMMARY




Significant aspects of audit outcomes are summarised in the table below, while sections 2 to 3 provide a more detailed analysis of findings, trends and root causes. Commitments received from role players are outlined in section 4.



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

Aspect	Indicator	Key outcomes and trends
<b>Overall audit outcomes</b>		The leadership of the province is committed to improving audit outcomes; however, this is not evident in the year-on-year analysis of the audit outcomes. In the current year, there was no positive trend towards clean audit opinions. More auditees are financially unqualified with findings on compliance with laws and regulations and/or reporting on predetermined objectives (PDOs). None of the departments received clean audit outcomes in the current financial period, with two having regressed from clean outcomes in 2010-11. A contributing factor to this trend is the commitments made at quarterly key control discussions not being timeously implemented and monitored and a lack of institutionalisation of financial disciplines to ensure that financial statements with proper supporting documents are prepared on a regular basis to ensure that clean audits are sustained.

Aspect	Indicator	Key outcomes and trends
<b>Overall audit outcomes</b>		<ul style="list-style-type: none"> <li>Five (15%) auditees progressed to clean audits, while only one (3%) auditee sustained its clean audit status from the previous year and one new entity achieved a clean audit outcome. This resulted in seven (21%) public entities in total receiving clean audit outcomes. Auditees lack the systems to sustain and progress to clean audit outcomes due to inadequate controls to ensure compliance with laws and regulations and PDOs.</li> </ul>
		<ul style="list-style-type: none"> <li>Seventeen (50%) auditees remained financially unqualified with findings, only one (3%) auditee improved to this category, while seven (21%) auditees regressed to this category due to a lack of adequate monitoring and implementation of controls.</li> </ul>
		<ul style="list-style-type: none"> <li>One public entity regressed from being financially unqualified to being financially qualified, due to failure to design and implement adequate systems on revenue management. One department remained qualified in 2011-12 due to inadequate controls to address all prior year qualification findings.</li> </ul>
<b>Submission of financial statements and annual performance reports for audit purposes</b>		<ul style="list-style-type: none"> <li>All auditees submitted their annual financial statements and annual performance reports for audit purposes within the legislated deadline.</li> </ul>






Aspect	Indicator	Key outcomes and trends
<b>Opinions on financial statements</b>		Material misstatements in the financial statements detected and corrected during the audit remain a challenge in the province, due to a lack of implementation of commitments made to address prior year audit findings. The key areas of misstatements are capital assets, current assets, revenue, unauthorised, irregular, and fruitless and wasteful expenditure and other disclosure notes.
		<ul style="list-style-type: none"> <li>One entity improved from being qualified to being financially unqualified.</li> </ul>
		<ul style="list-style-type: none"> <li>In the current financial period there was a trend towards receiving financially unqualified with findings opinions. The number of auditees receiving this opinion increased from 23 (66%) in 2010-11 to 25 (71%). The quality of the financial statements received for audit purposes was not at the appropriate level, as 44% of the financial statements received for auditing still contained material misstatements that were identified and corrected during the audit. The effectiveness of the review by internal audit and audit committees in the review of the financial statements is not evident and can be intensified if management takes ownership of recommendations and implements them. These corrections resulted in findings on non-compliance with laws and regulations.</li> </ul>
		<ul style="list-style-type: none"> <li>One department and one entity were financially qualified. The entity regressed from financially unqualified with compliance findings in the prior period, while the department did not adequately address prior year qualifications.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Reporting on predetermined objectives (PDOs)</b>		There was an improvement in the area of PDOs from 2010-11, indicative of the impact of interventions from the prior period. However, concerted effort is required to ensure that these disciplines are sustained.
	 	<ul style="list-style-type: none"> <li>There was an improvement in reporting on PDOs from 13 auditees (41%) in the previous year to 10 (31%).</li> <li>Public entities showed a reduction in the level and number of PDO findings, while departments remained unchanged.</li> <li>Two (6%) auditees had findings on non-compliance with PDO-related legislation.</li> <li>Ten (31%) auditees had findings on the usefulness and three (9%) on reliability of the information in their annual performance reports.</li> <li>Fourteen (44%) auditees did not achieve planned targets for the year due to the fact that indicators and targets were not suitably developed during the strategic planning process.</li> </ul>
		The reportable findings on PDOs were mainly due to a limited oversight role by the leadership, internal audit and audit committees in ensuring that performance plans and reports are aligned to the specific, measurable, attainable, realistic and timely (SMART) principles and National Treasury guidelines.

Aspect	Indicator	Key outcomes and trends
<b>Findings on non-compliance with laws and regulations</b>		Compliance with laws and regulations remains a challenge for the province as there was an increase in the number of auditees with findings, when compared to the previous period.
		<ul style="list-style-type: none"> <li>The number of auditees with findings on material non-compliance with laws and regulations increased from 24 (69%) in the previous year to 26 (76%).</li> <li>Departments showed an increase in the level and number of non-compliance findings, while entities remained unchanged.</li> <li>The most prevalent findings on non-compliance pertain to unauthorised, irregular, and fruitless and wasteful expenditure, material amendments to financial statements and payments not made within 30 days.</li> <li>Overall, the province incurred less unauthorised, irregular, and fruitless and wasteful expenditure. This indicates a positive trend in the implementation of controls.</li> <li>Unauthorised expenditure was due to expenditure that was not in accordance with the purpose of the vote and irregular expenditure was mainly due to supply chain management (SCM) policies not being followed and overspending on compensation of employees.</li> <li>At 11 (32%) of the auditees payments were not made to suppliers within 30 days from receipt of the invoice, which was due to poor budgeting and cash flow management.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>SCM contraventions</b>		Findings in the area of SCM have increased as compared to the prior period. This is indicative of the lack of adequate controls that are in place to address findings in this area.
		<ul style="list-style-type: none"> <li>The number of auditees with findings on SCM increased from nine (26%) in the previous year to 15 (44%).</li> <li>Findings are mainly due to contravention of procurement policies, poor contract management processes, inadequate SCM controls, awards to employees and close family members.</li> <li>Unfair or uncompetitive procurement processes were not followed at 15 (44%) of the auditees as a result of unjustifiable deviations from procurement processes and original tax clearance certificates not being obtained.</li> <li>Contracts were awarded to employees at two (6%) of the auditees, while there were inadequate contract management and SCM controls at four (12%) of the auditees.</li> <li>The main reasons for the findings on SCM were a lack of discipline, disregard for laws and inadequate controls to prevent and detect non-compliance with laws and regulations, and it was exacerbated by the lack of consequences for poor performance and transgressions.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Human resource management findings</b>		Overall, there has been a reduction in the number of findings on human resources (HR); however, greater effort still needs to be made to further eradicate these findings since human resources are the driving force of the activities and controls processes.
	  	<ul style="list-style-type: none"> <li>The number of auditees with findings on HR management decreased from 16 (52%) in the previous year to 13 (43%).</li> <li>Inadequate management of vacancies and acting positions was identified at seven (23%) of the auditees.</li> <li>Inadequate management of leave and overtime was identified at eight (27%) of the auditees.</li> <li>Appointment processes were not adequately followed at five (17%) of the auditees.</li> <li>Another challenge for the province is that the organisational structures of the departments are pending approval from the Department of Public Service and Administration (DPSA).</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Management of risks related to IT</b>		No progress was made in addressing exposure in the information technology (IT) environment reported at auditees in the prior year.
		<ul style="list-style-type: none"> <li>The findings related to planning for the optimal use of IT, recovery in the event of a disaster and restricting access to computers were not adequately addressed from the prior period.</li> <li>All 12 (75%) departments and four (25%) public entities audited had findings on the lack or inadequacy of IT governance.</li> <li>There were nine (56%) departments and four (25%) public entities where security management controls were not adequately designed or implemented in the organisation.</li> <li>User access management and IT service continuity controls were found to be lacking in either design, implementation or operating effectiveness at 11 (69%) departments and four (25%) public entities.</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 general 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).

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 this general report. Section 4 records the commitments received from the provincial executive leadership and oversight structures and 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 Gauteng Provincial Government comprises 35 auditees, 13 departments (which include the legislature and the revenue fund) and 22 public entities.

The public entities include 15 provincial public entities and seven trading entities. Overall, the number of public entities remained unchanged since the 2010-11 financial year. However, one new public entity was established and one public entity was deregistered.

#### 2.1.1 Summary of overall audit outcomes

All the departments and public entities submitted financial statements for audit purposes by 31 May 2012, which is within the legislated time frame for receipt of the financial statements by the AGSA. The audit outcomes of all these audits are analysed in this general report.

The audit outcomes and outstanding audit reports (current and prior year) are summarised in the following table. 'With findings' denotes findings on predetermined objectives 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)	0	3	7	7	7	10
Financially unqualified with findings	11	9	14	14	25	23
Financially unqualified financial statements	85%	92%	95%	95%	91%	94%
Qualified opinion, with findings	1	1	1	1	2	2
Adverse opinion, with findings	0	0	0	0	0	0
Disclaimer of opinion, with findings	0	0	0	0	0	0
Number of audit reports not issued by 30 September 2012	1	0	0	0	1	0
Outstanding audits and financially qualified financial statements	15%	8%	5%	5%	9%	6%
<b>Total number of audits in the province</b>	<b>13</b>	<b>13</b>	<b>22</b>	<b>22</b>	<b>35</b>	<b>35</b>


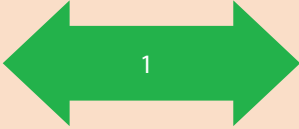

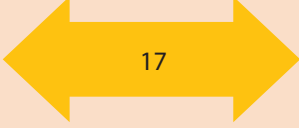



\* Including legislature and provincial revenue fund

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

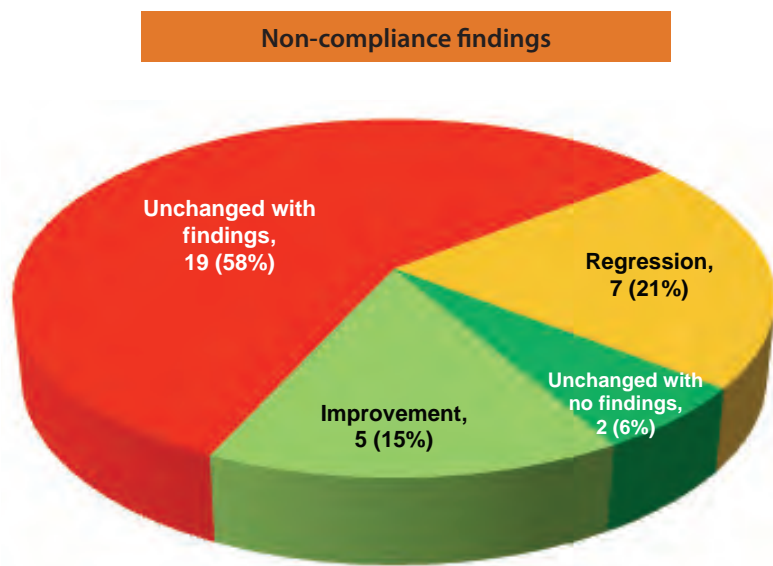
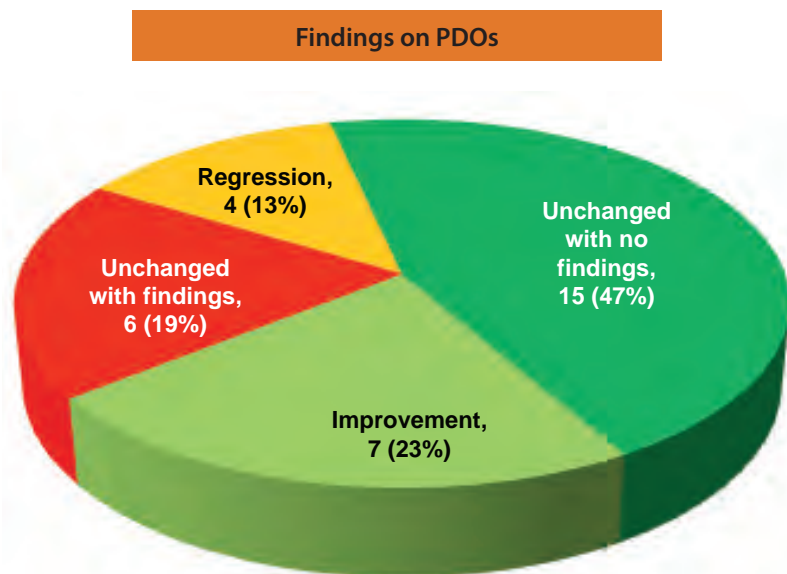
The following figure analyses the overall movement in provincial government audit outcomes between the current and previous financial year.

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

Movement in audit outcomes from 2010-11						
Audit opinion	Improvement	Unchanged	Regressed	New	Total auditees reported on	Outstanding audit - prior year opinion
Financially unqualified with no findings	 5	 1		1	7	1
Financially unqualified with findings	 1	 17	 7		25	
Qualified, with findings		 1	 1		2	
Adverse/Disclaimer, with findings					0	
<b>Total</b>	<b>6</b>	<b>19</b>	<b>8</b>	<b>1</b>	<b>34</b>	<b>1</b>

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

**Figure 2: Summarised movements in findings on PDOs and compliance with laws and regulations**



### Regression in audit outcomes

The clean audit outcomes of seven auditees (2010-11: 10), including the Office of the Premier and the provincial legislature, regressed, with an increasing trend towards financially unqualified audit outcomes with findings. Seventeen (50%) auditees remained in the financially unqualified with findings category. The regression and stagnation of audit outcomes are mainly due to:

- a lack of adequate monitoring and implementation of controls to ensure that the clean audits are sustained
- a lack of institutionalising financial disciplines to ensure that the financial statements with proper supporting documentation are prepared on a regular basis
- disregard for and inadequate controls to prevent and detect non-compliance with laws and regulations, mainly contravention of SCM processes
- limited oversight role in ensuring that performance plans are aligned to the SMART principles
- a lack of consequences for poor performance and transgressions
- a lack of discipline and diligence in performing the responsibilities by officials
- limited value added by audit committees and internal audit units in the review of the financial statements, PDOs and compliance reports prior to submission for audit purposes.

### Sustained and improved audit outcomes

One (3%) public entity sustained its clean audit outcome from the prior year. The audit outcomes of five (15%) entities improved from financially unqualified with findings to clean outcomes. The sustained and improved audit outcomes in entities are mainly attributable to the following:

- Three of the entities that had non-compliance findings due to material misstatements in the financial statements in the prior year prepared and reviewed monthly financial statements in 2011-12 and the implementation

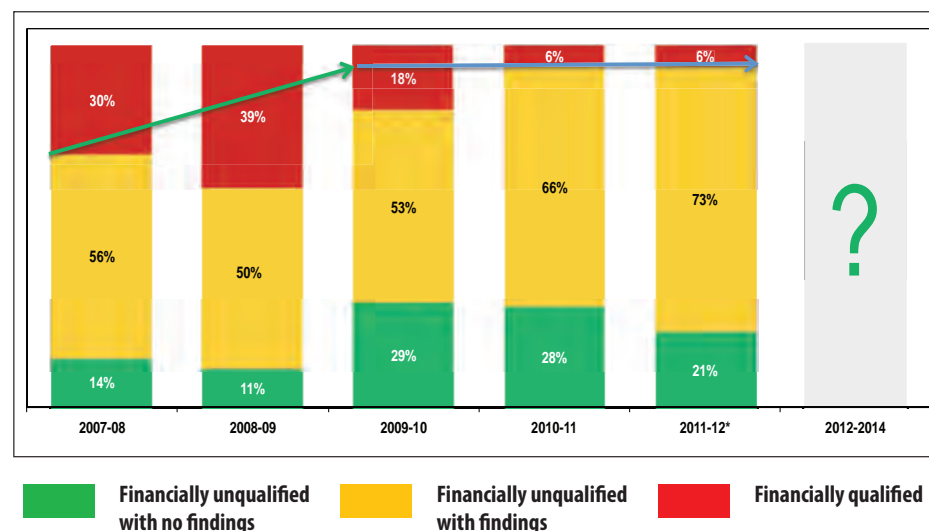
of this discipline resulted in improved audit outcomes.

- The finance units being adequately staffed with officials possessing the required skills and competencies.
- The discipline of implementing and monitoring effective action plans to address prior year audit findings.
- Implementation and continuous monitoring of key controls ensured that clean audits are sustained.

### 2.1.3 Province's progress towards producing unqualified financial statements

Obtaining financially unqualified audit reports is an important milestone towards clean audits. 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 audit reports**



\*The provincial revenue fund audit outcome is excluded from the outcomes.

There was a regression in the number of clean audit outcomes over the past three years (2009-10 (29%), 2010-11 (28%) and 2011-12 (21%)) and there is an increasing trend of audit opinions that are financially unqualified with findings.

Only one public entity sustained its clean audit outcome from the prior year, the one new entity that was established during the year received a clean audit outcome and five entities improved from financially unqualified with findings to clean audit outcomes. None of the departments received clean audit outcomes, with two having regressed from the clean outcomes that they received in the prior year.

The leadership of the province is committed to improving audit outcomes; however, this is not evident in the year-on-year analysis of the audit outcomes. Commitments made in the prior period to overcome the stumbling blocks of clean audit outcomes were tracked, yet, despite this, there was no progress towards clean audits in the province.

As mentioned above, there was no notable progress in implementing the following leadership commitments of the prior year:

- Preparation and review of monthly financial statements, PDOs and compliance reports.
- Quarterly submission of unauthorised, irregular, and fruitless and wasteful expenditure reports to the audit committee and portfolio committees.
- Internal audit units are not adequately capacitated.
- MECs meet quarterly with audit committee chairs to obtain assurance that the quarterly financial, PDO and compliance reports are accurate and complete.
- MECs and portfolio committees meet quarterly with the AGSA to track prior year commitments made and quarterly key controls.
- Training on SCM, financial statements and PDOs.

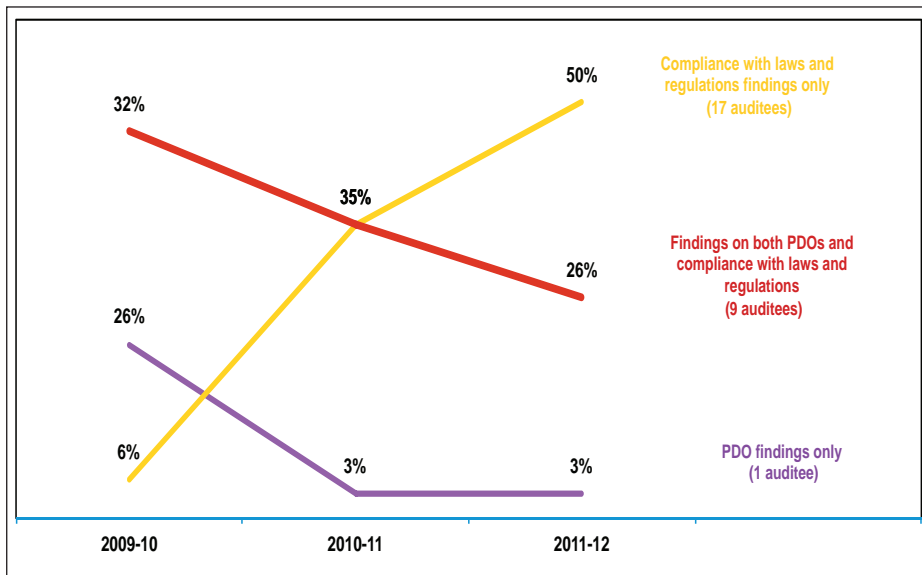
Provincial treasury interventions aimed at implementing the above leadership commitments were also not effective.

In order to improve the audit outcomes for the 2011-12 and to achieve and sustain clean audits by 2013-14 the executive leadership needs to take ownership and accountability in ensuring that the commitments aimed at addressing the outcomes are implemented and that key control deficiencies are addressed.

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

The progress made 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 findings on predetermined objectives and compliance findings**



Findings on compliance with laws and regulation have increased by a greater margin over the three years analysed. Findings of this nature are preventing the province's outcomes from improving.

However, it is commendable to note that the findings on PDOs have improved over the same period. This indicates that the initiatives undertaken by the auditees and training conducted through the provincial treasury and the AGSA in this area are yielding positive results.

In order to improve this position, the provincial leadership needs to enhance the

controls over compliance with laws and regulations and PDOs. The reasons for the auditees having findings on PDOs and compliance with laws and regulations are the following:

- Deliberate disregard of laws and regulations and efforts not directed at ensuring that there is compliance with the relevant legislation.
- Inadequate document management system in place as no evidence can be retrieved for budget and actual information reported, and no support for the reasons for major variances.
- Inadequate understanding of the financial reporting frameworks and the National Treasury framework for reporting PDOs.
- Limited inputs provided by the audit committee in the planning process on whether objectives and targets meet the SMART principles.
- Limited or no training of SCM officials and PDO units.
- Absence of effective reviews by the internal audit units.

Further details on findings arising from the audit of the financial statements, reporting by auditees against their PDOs and compliance by auditees with laws and regulations are included in sections 2.2 to 2.4, after which section 2.5 provides an analysis of auditees' financial health.

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

### 2.1.5 Status and outcomes of audits not finalised by 30 September 2012

Between 30 September 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, and the date of this report, one audit was finalised, but the outcome is not included in the analysis contained in this report. The audit outcome is presented in the following table.

**Table 3: Outcomes of audits finalised after 30 September 2012**

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement from 2010-11 audit opinion
<b>Departments</b>			
Provincial revenue fund	Outstanding*	Financially unqualified with no findings	

\*The provincial revenue fund audit is still outstanding.

## 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 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 audit purposes

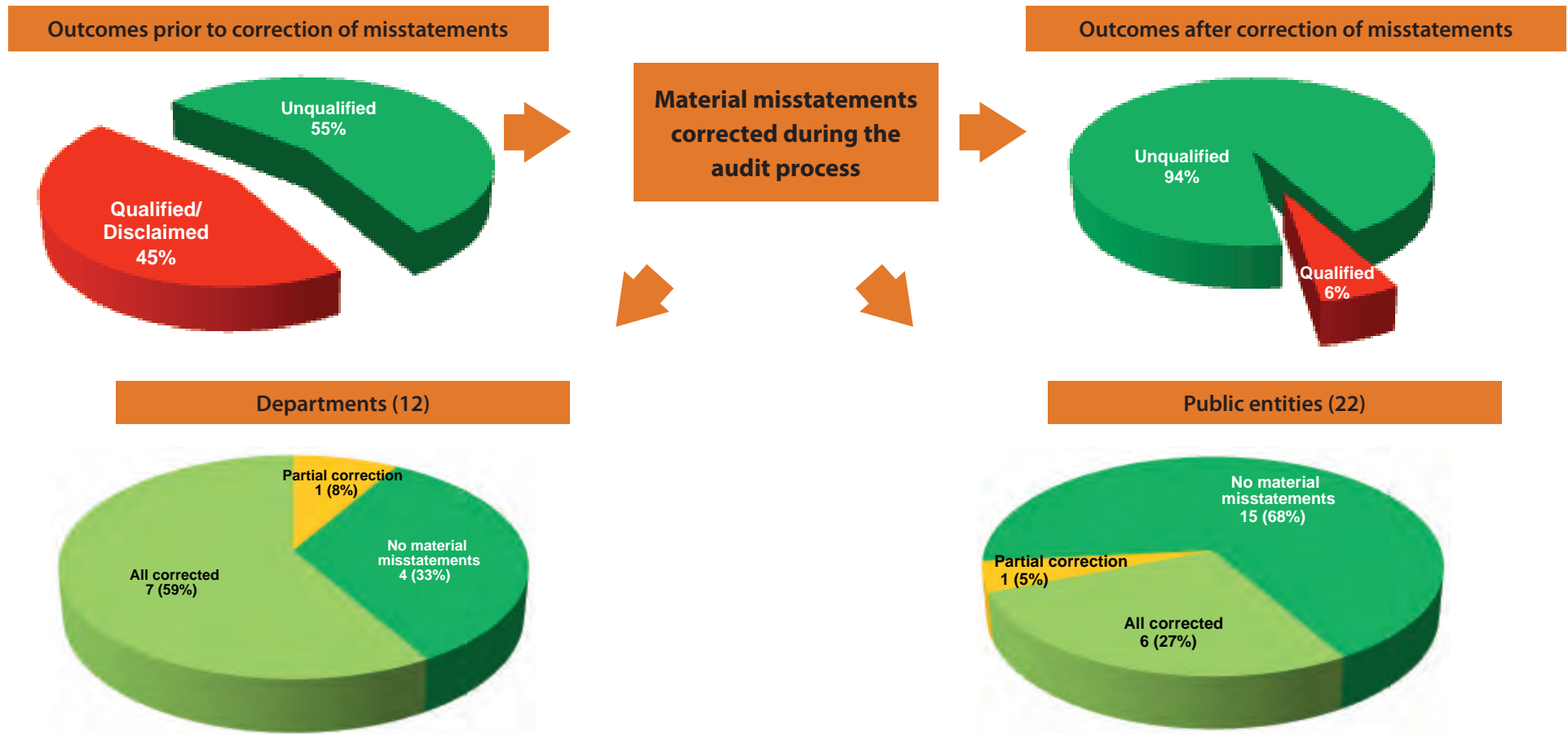
As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Nineteen (55%) auditees submitted financial statements that required no material adjustments, compared to seventeen (49%) auditees in the prior year.

The quality of financial statements received for audit purposes is currently still not at the appropriate level. Thirteen (39%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit; however, this practice is not sustainable.

Some auditees were not able to correct all the misstatements and therefore could not avoid the qualification of their financial statements.

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

**Figure 5: Material misstatements in financial statements submitted for audit purposes**



Material misstatement corrections made to financial statements submitted for audit purposes marginally improved from 17 (50%) to 15 (44%). This was mainly due to improved financial disciplines at auditees that ensured that the financial statements submitted for audit purposes were adequately supported and were prepared on a regular basis, together with effective reviews conducted by the audit committee prior to submission.

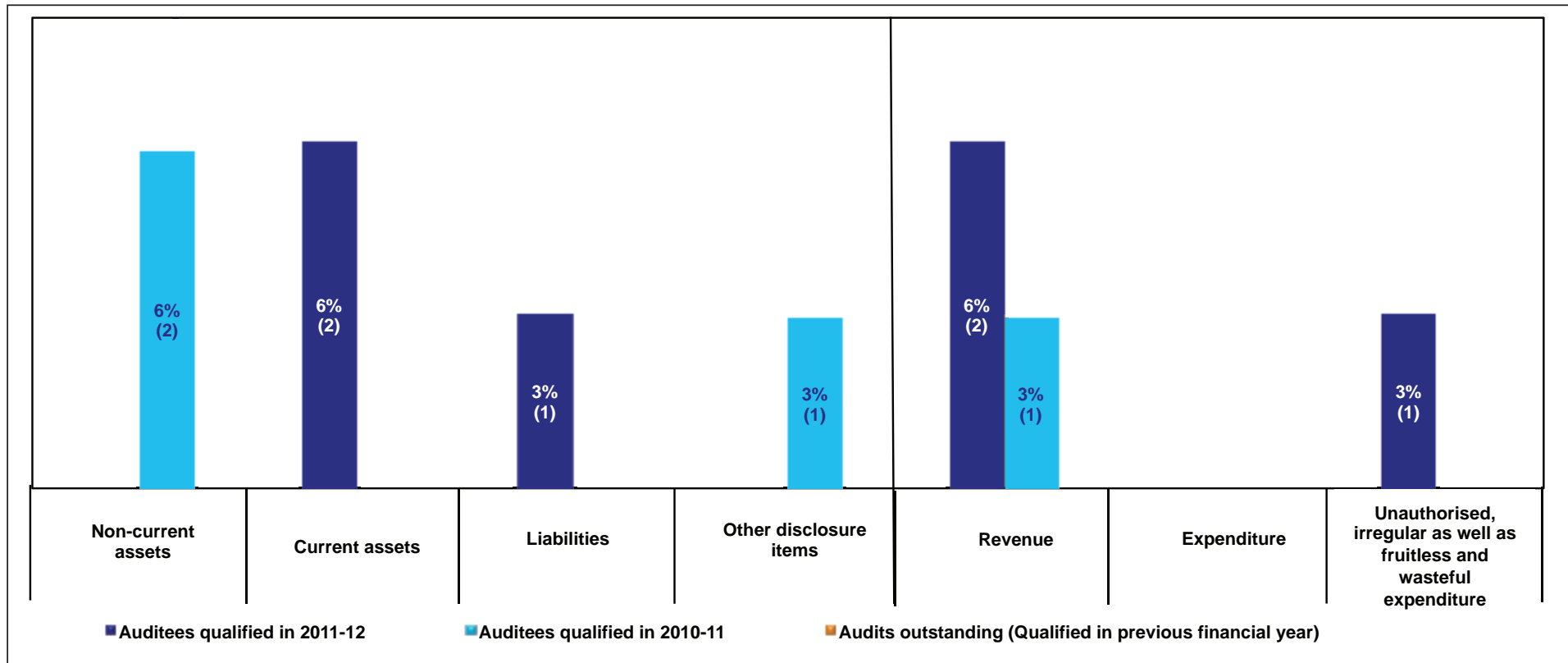
Material misstatements in the financial statements still remain a concern in the province and the key areas of misstatements are mainly capital assets, current assets, revenue, unauthorised, irregular, and fruitless and wasteful expenditure, and other disclosure notes, mainly accruals, commitments and leases.



## 2.2.2 Financial statement qualification findings

The following figure depicts the areas that were materially misstated (qualified) in the financial statements of the two (6%) auditees (2010-11: 2(6%)) which received qualified audit opinions.

**Figure 6: Financial statement qualification areas**



The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year financial statement qualifications. Only completed audits are depicted.

**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	Unauthorised, irregular as well as fruitless and wasteful expenditure
<b>Departments</b>								
Department of Health and Social Development	Qualified	Qualified	Addressed	New	New	Addressed	Repeat	New
<b>Public entities</b>								
Gauteng Liquor Board	Qualified	Financially unqualified with findings		New			New	
Gauteng Housing Fund	Financially unqualified with findings	Qualified	Addressed					

The table that follows provides detail of the financial statement qualification areas, the basis for qualification and the reason for qualification.

The Department of Health and Social Development was unable to correct some of the prior year material misstatements in their financial statements. The qualification findings were due to inadequate record-keeping controls, resulting in a lack of sufficient documentation to support the balances and transactions in the financial statements.

The lack of financial systems and controls to record revenue and receivables from liquor licensing resulted in a qualification at the Gauteng Liquor Board.

The qualification findings were appropriately addressed by the Gauteng Housing Fund as the leadership played an active role in addressing the prior year qualification findings.

**Table 5: Nature of qualifications**

Financial statement qualification areas	Basis for qualification	Reason for qualification
<b>Revenue</b>	Completeness of recorded revenue	<ul style="list-style-type: none"> <li>Revenue at health institutions (sub-system) did not reconcile with that at head office and the general ledger</li> <li>System down times and capturing backlogs were experienced during the year, resulting in revenue not being fully accounted for</li> <li>Lack of adequate financial systems and controls to ensure that all revenue from liquor licensing was recorded</li> </ul>
	Accuracy of amounts	<ul style="list-style-type: none"> <li>Revenue tariffs on the system were not updated timeously or were updated incorrectly</li> <li>Monthly reconciliations were prepared inaccurately</li> <li>Incorrect application of accounting framework and revenue recognition</li> <li>Amounts to be received from liquor licensing could not be determined due to the lack of systems in place to record and account for the revenue accurately</li> </ul>
	Occurrence	<ul style="list-style-type: none"> <li>Patients' billing information could not be extracted from the system and/or was not available for audit purposes</li> <li>Patient files were not available for audit purposes</li> <li>Inaccurate monthly reconciliations were performed</li> <li>Liquor licensing revenue arising could not be determined with certainty due to the lack of a proper financial system and controls</li> </ul>
	Classification	<ul style="list-style-type: none"> <li>Patients were not billed per the correct category</li> </ul>

Financial statement qualification areas	Basis for qualification	Reason for qualification
<b>Current assets (Receivables)</b>	Value at which receivables are stated in the financial statements	<ul style="list-style-type: none"> <li>No interest was charged on long-outstanding debts</li> <li>No/ineffective processes to collect receivables</li> <li>The amount receivable at year-end from liquor licensing could not be determined due to insufficient documentation</li> </ul>
	Completeness of receivables (all accounted for)	<ul style="list-style-type: none"> <li>Receivables listing did not reconcile with the annual financial statements and the general ledger</li> <li>Not all revenue receivable was billed</li> <li>Lack of adequate financial systems and controls to ensure that all receivables raised for liquor licensing were recorded</li> </ul>
	Existence of receivables	<ul style="list-style-type: none"> <li>No debtors follow-ups were done</li> <li>Debts were written off without approval</li> <li>Debtors files were not available for audit purposes</li> <li>Reconciliations were not always performed and/or were not accurate</li> <li>Reconciling items were not adequately supported</li> <li>Liquor licensing receivables arising could not be determined with certainty due to the lack of a proper financial system and controls</li> </ul>

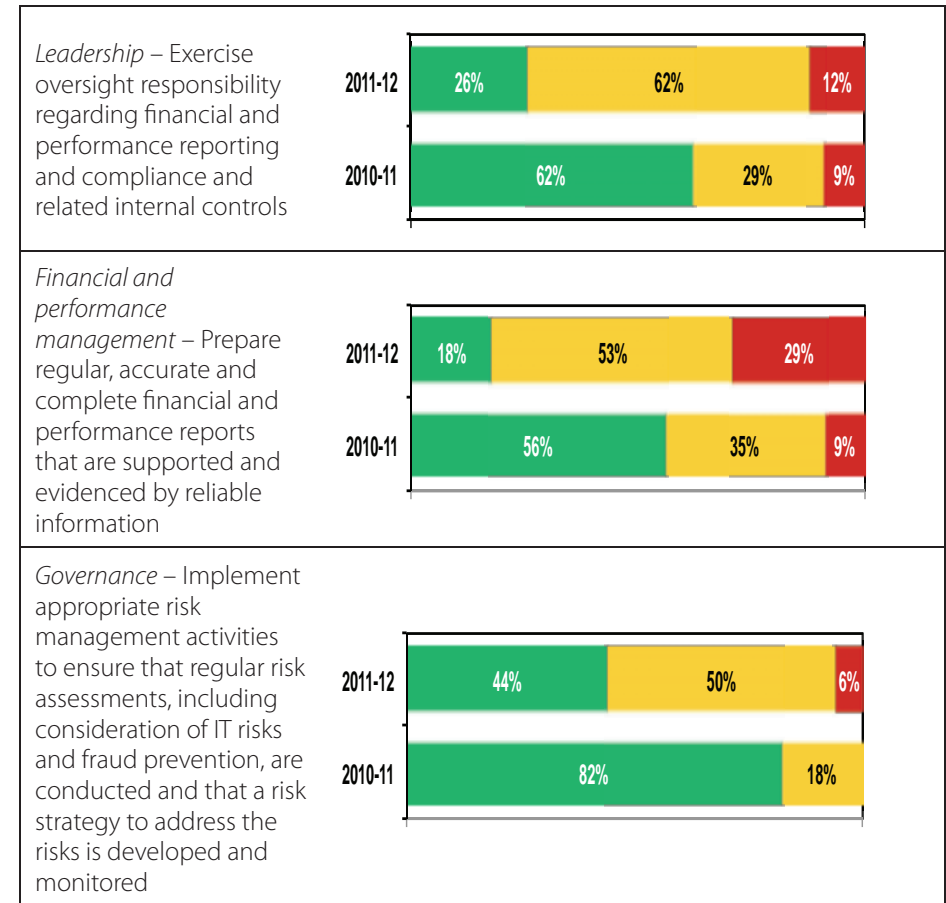
Financial statement qualification areas	Basis for qualification	Reason for qualification
<b>Disclosure notes (Leave accrual)</b>	Completeness of leave	<ul style="list-style-type: none"> <li>Backlogs in capturing of leave</li> </ul>
	Accuracy	<ul style="list-style-type: none"> <li>Leave was captured incorrectly</li> </ul>
	Existence of leave	<ul style="list-style-type: none"> <li>Leave per the leave forms differed from the leave per the system</li> <li>Late approval of leave</li> <li>Leave forms not available for audit purposes</li> </ul>
<b>Disclosure notes (Irregular expenditure)</b>	Completeness of irregular expenditure	<ul style="list-style-type: none"> <li>Ineffective policies, procedures and controls in place to identify, detect and account for irregular expenditure</li> </ul>

### 2.2.3 Root causes and best practice recommendations

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 these controls are classified under the fundamental principles of (i) leadership, (ii) financial and performance management and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from leadership to improve the audit outcomes.

**Figure 7: Assessment of key drivers of internal control over financial reporting**



Identified root causes that gave rise to this assessment and the recommended way forward, are summarised as follows.

**Table 6: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Proper record keeping</b>	Inadequate understanding of the value and importance of the financial statements as a management decision-making tool, resulting in financial statements that are only prepared for compliance purposes and are not supported by appropriate documentation. The fact that the financial statements with accompanying disclosure notes are also not prepared monthly creates a challenge at year-end.
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• The leadership must demonstrate an understanding of the purpose of the preparation of financial statements and the use thereof</li> <li>• Financial statements which are adequately supported by adequate documentation should be prepared and reviewed on a monthly basis</li> <li>• Internal audit must perform quality reviews on the accuracy and completeness of the financial statements and supporting schedules</li> <li>• Quarterly reviews of the financial statements by the audit committee could also add value as opposed to it just being done at year-end</li> </ul>

Aspect	Identified root causes and way forward
<b>Sound discipline of financial statement preparation process</b>	Chief financial officers and accounting officers/authorities did not adequately review or take ownership of the financial statements to ensure compliance with the financial reporting frameworks. Commitments made by the leadership in addressing the issues of preparation of monthly financial statements were not fully implemented and there is a lack of consequences for officials not taking on the responsibility for preparing financial statements.
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• The internal audit unit and audit committees have committed to review and monitor quarterly financial statements and the implementation of the commitment</li> <li>• Executive authorities should monitor and enhance oversight over the regular preparation of financial statements with accompanying disclosures which are adequately supported. They should also ensure that corrective action is taken where this is not being done</li> </ul>
<b>Vacancies and inadequate skills</b>	Vacancies in key positions and inadequately skilled staff in finance units contribute to the poor quality of financial statements submitted for audit purposes. Inadequate monitoring and insufficient transfers of skills where consultants are used to prepare financial statements.
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Filling of budgeted vacant positions with suitably skilled officials should be prioritised and where the services of consultants are used, processes should be implemented to monitor their work and ensure the skills are transferred</li> <li>• Ongoing training is necessary due to the changes in accounting standards</li> </ul>

Aspect	Identified root causes and way forward
<b>Performance management and lack of accountability for financial statements</b>	Management did not adequately review or take ownership of the financial statements to ensure compliance with financial reporting framework. There was a lack of consequences for transgressions and non-performance pertaining to preparation of financial statements
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Policies and procedures should be implemented that reflect expectations for the financial statement process and to hold individuals accountable for poor performance thereof</li> </ul>
<b>Monitoring by audit committees and internal audit</b>	Value added by the audit committees and internal audit units in reviewing the financial statements is not evident. Inputs from audit committee reviews on the financial statements are not always taken into account by management in the preparation of financial statements prior to submission for audit purposes
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Audit committees, with the assistance of internal audit, have committed to enhance their oversight role over the financial statement preparation process and ensure that financial statements submitted are credible</li> <li>• Ongoing evaluations and monitoring should take place to ensure that the controls are in place and functioning throughout the financial year</li> </ul>

## 2.2.4 Consolidated financial statements

For accountability purposes the PFMA requires each province to prepare and publish a consolidated financial report on the utilisation 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 (i) departments, (ii) public entities under the ownership control of the provincial executive of the province and (iii) the provincial legislature. The PFMA further requires that the Auditor-General audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months after receipt of the financial statements.

However, due to the difference in the basis of accounting, modified cash vs accrual, this is not feasible. As at September 2012 the minister of Finance has not yet approved a deviation from this requirement of the PFMA. This matter is therefore reported in the AGSA's audit reports as non-compliance with the PFMA in the auditor's report.

**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>Audit outstanding</b>	No audit opinion expressed – Agreed upon procedures conducted	<b>Audit outstanding</b>	No audit opinion expressed – Agreed upon procedures conducted

The consolidated financial statements of departments and public entities for the 2011-12 year were received on 30 August 2012. The audit had not been finalised at the date of this report.

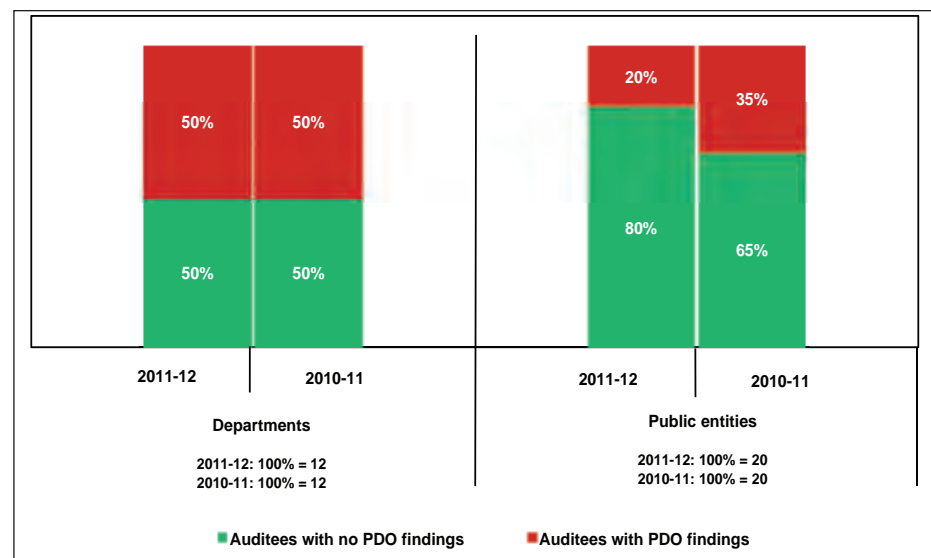
## 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The Public Audit Act, 2004 (PAA), requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. However, this audit does not constitute service delivery auditing.

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

Movements in the number of auditees with findings on their reporting against PDOs are depicted in the following figure. The analysis below excludes the Cost Recovery Trading Entity and Gauteng Housing Fund whose PDOs were reported by the parent departments and the revenue fund, which does not require reporting on PDOs due to the nature of its operations.

**Figure 8: Overall movements in number of auditees with findings on predetermined objectives**



The reporting on PDOs has improved slightly for public entities (15%) and remained the same for departments. Six (50%) departments and four (20%) entities had findings in this area.

The improvements in the number of auditees with no findings are attributable to:

- auditees implementing a structure of internal control based on the AGSA's recommendations
- the leadership's commitment and availability for quarterly key controls interactions
- performance information training provided by the AGSA to all auditees, audit committee members and internal audit members.

However, of concern are the departments and the public entities that have regressed and those that remained unchanged with PDO findings as this indicates insufficient or unsustainable controls implemented to prevent the PDO findings. Lack of adequately skilled staff in the performance reporting units also intensifies this trend. The focused involvement of audit committees and internal audit units is required in order to reverse this position.

### 2.3.2 Findings on predetermined objectives

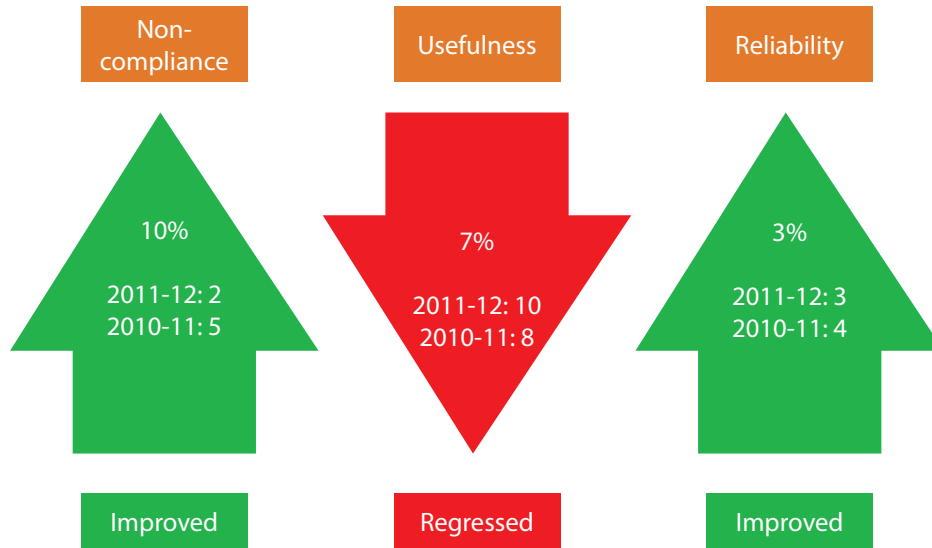
PDO findings are classified under the main audit areas of usefulness and reliability of information.

<b>Usefulness</b>	<p>The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings are on:</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 that are not SMART</li> </ul>
<b>Reliability</b>	<p>Findings on 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>

Audit work was also focused on compliance with laws and regulations relevant to performance planning, management and reporting.

The following figure depicts overall movements on the different areas of PDO findings.

**Figure 9: Overall movements in findings on predetermined objectives – 31 auditees reported on**



The improvement in non-compliance and reliability of reported predetermined objectives are mainly attributable to keen interest taken by the leadership at the departments and entities in addressing the prior period findings also complimented by the training that was held by the office of the AGSA, in conjunction with the provincial treasury.

The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year PDO findings. It does not include the non-compliance findings which are detailed in section 2.4.

**Table 8: Progress made by 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
<b>Departments</b>		
Department of Agriculture and Rural Development	Repeat	New
Department of Health and Social Development	New	Repeat
Department of Infrastructure Development	Repeat	Addressed
Department of Roads and Transport		Addressed
Department of Economic Development	Addressed	
Department of Finance	New	
Department of Housing and Local Government	Repeat	
Office of the Premier	New	
<b>Public entities</b>		
G-fleet Management	Repeat	Repeat
Gauteng Enterprise Propeller	New	
Gauteng Gambling Board	New	
Gauteng Liquor Board	Addressed	
Gauteng Tourism Authority	Repeat	
Gauteng Medical Supplies Depot	Addressed	



The table that follows details the nature of the most common findings on PDOs.

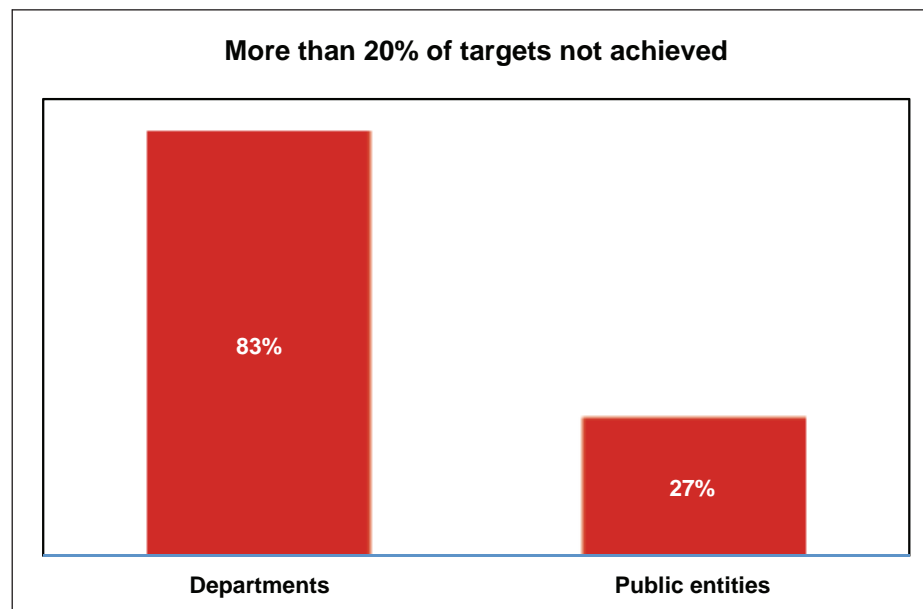
**Table 9: Nature of findings on predetermined objectives**

PDO findings category	Specific PDO findings	Nature of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>• Consistency</li> <li>• Relevance or</li> <li>• Measurability</li> </ul>	<ul style="list-style-type: none"> <li>• Reported information not consistent with planned objectives, indicators and targets</li> <li>• Performance indicators not well defined</li> <li>• Planned and reported performance measures are not time bound in specifying time period or deadline for delivery</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 not accurate – inadequate supporting source information</li> <li>• Reported indicators not accurate – actual reported performance not verified and the reported information not accurate</li> </ul>

### 2.3.3 Target not achieved

The graphic below depicts auditees that did not achieve more than 20% of their targets.

**Figure 10: More than 20% of targets not achieved**



Eighty-three per cent and 27% of the departments and entities, respectively, failed to achieve more than 20% of their targets due to inadequate planning, usage of the current financial period’s budget to settle prior years’ commitments and accruals, resulting in plans that are not sufficiently funded and inadequately defined objectives, i.e. lack of SMART objectives.

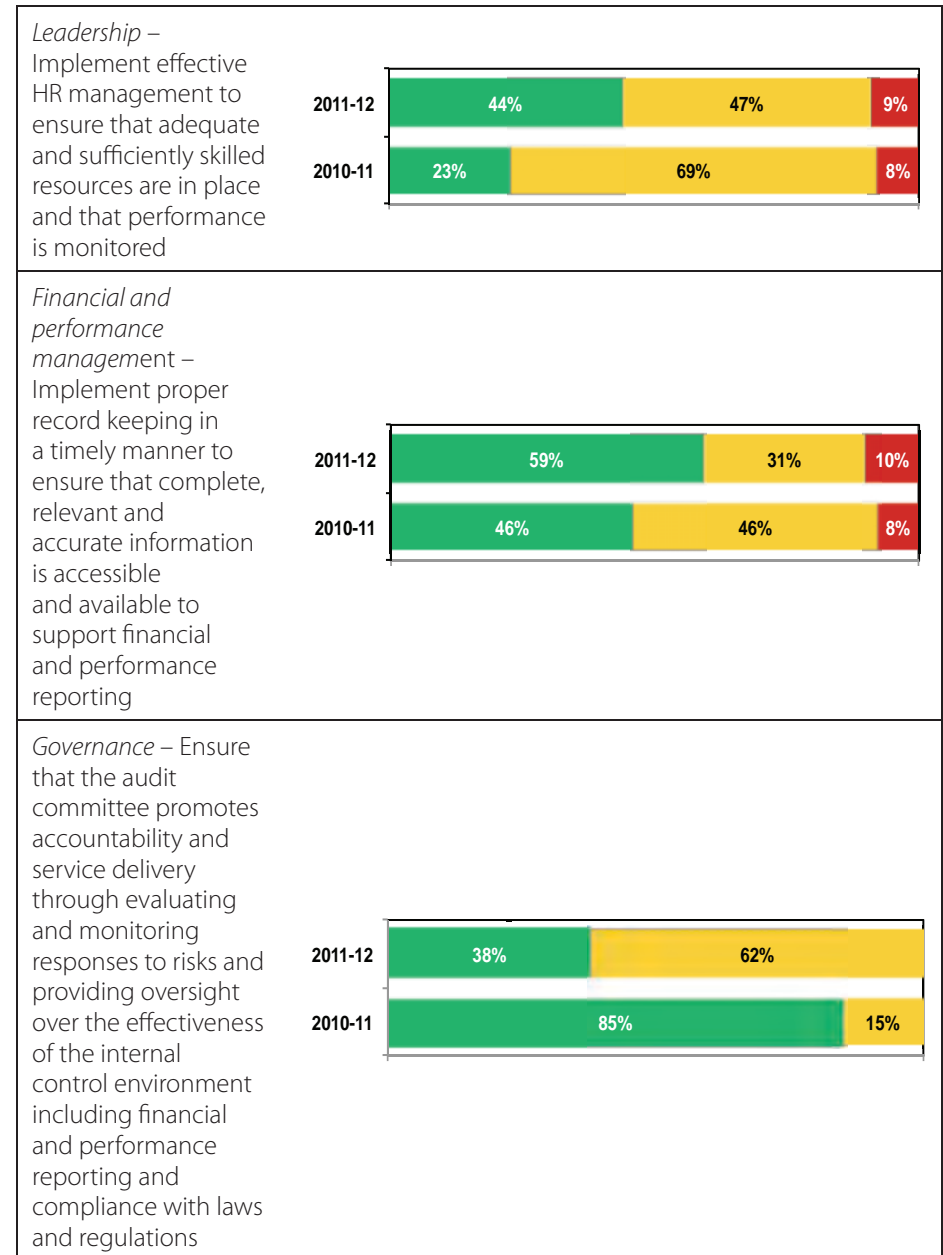
Inadequate monitoring by the office of the Premier also contributes to the lack of movement in achieving the predetermined objectives by the departments. The departments need to be held to account for the lack of attainment of objectives in order for this position to be improved.

### 2.3.4 Root causes and best practice recommendations

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

The figure that follows indicates the significant deficiencies in the internal control that require attention from leadership to improve the audit outcomes.

**Figure 11: Assessment of drivers of internal control – reporting on predetermined objectives**



Identified root causes which gave rise to this assessment and the recommended way forward, are summarised as follows.

**Table 10: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Formal planning for predetermined objectives and performance reporting</b>	Monitoring of performance reporting is not embedded in the auditees' reporting programmes or controls. PDO reporting is treated as an event towards year-end rather than a continuous process, which should be addressed by regular controls.
	<p><u>Way forward</u></p> <p>Auditees should integrate performance reporting into the regular activities in order to ensure that there are sufficient controls to address the gaps that are created by treating the performance reporting as an event rather than a continuous process.</p>
<b>Inadequate document management system</b>	Due to inadequate controls over documentation, information that is reported is not supported by appropriate documentation. Performance reported is also not corroborated by verifying what was reported, resulting in performance reports that are not reliable.
	<p><u>Way forward</u></p> <p>Proper documentation systems and controls should be implemented and all reported performance information should be verified prior to finalisation of the quarterly reports submitted for auditing and to portfolio committees. Review of the annual reports and supporting documentation should be performed by the auditees prior to submission for audit purposes.</p>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	Staff members are not adequately trained in the management and reporting of performance information in accordance with the reporting framework. In other instances, policies and procedures in place were not adhered to by the responsible staff.
	<p>A lack of monitoring of adherence to policies contributes to this trend and roles and responsibilities were not adequately defined, resulting in a lack of accountability for PDO reporting.</p> <p><u>Way forward</u></p> <p>Training must be given on how to report on the information as required by the framework. Clear definition of roles and responsibilities is an imperative to ensure that staff are held accountable for reporting on PDOs. The provincial executive has committed to hold all the staff responsible for reporting accountable for the outcomes.</p>
<b>Monitoring by audit committees and internal audit</b>	A lack of adequate quarterly reviews of reports by internal audit and the audit committees contributed to some of the findings on PDOs. Internal audit monitoring and review of the implementation of action plans to address prior findings are also a vital area that has not been successfully explored by the internal audit departments.
	<p><u>Way forward</u></p> <p>Audit committees and the internal audit unit must assist by providing an independent review and inputs on whether the objectives and targets meet the SMART principles, prior to the tabling of annual performance plans. The internal audit unit must provide assurance on quarterly reports, training was given by the AGSA's office to enhance understanding of the internal audit units to improve their efficiency and effectiveness in reviewing the PDO reports.</p>

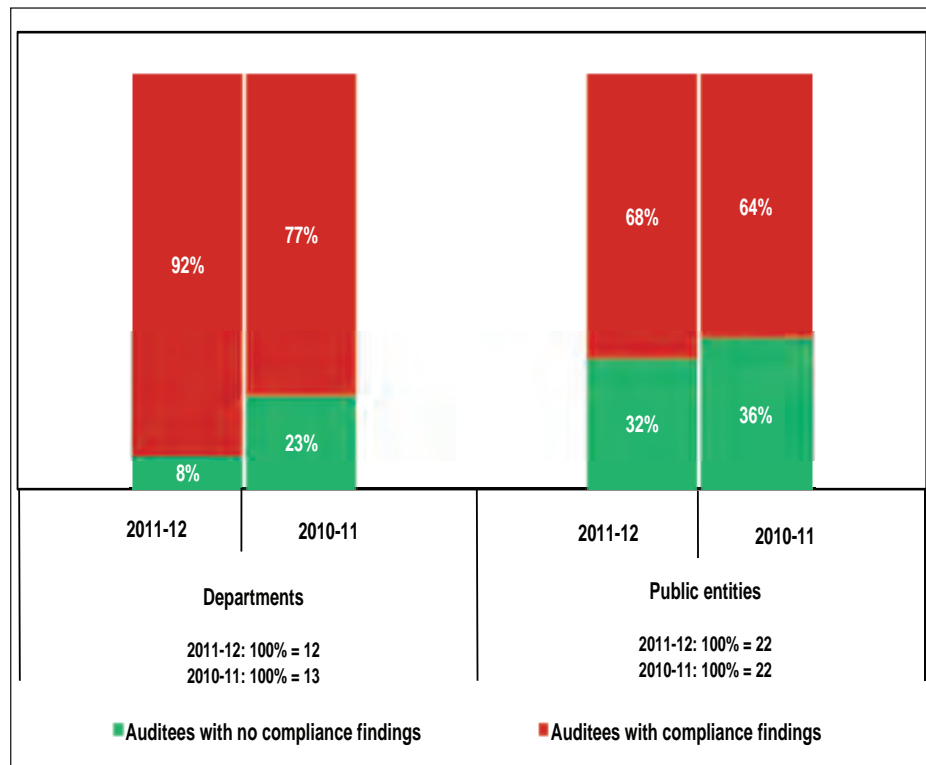
## 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

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

Movements in the number of auditees with findings on compliance with laws and regulations are depicted in the following figure.

**Figure 12: Overall movements in number of auditees with compliance findings**



There was an increase in the number of entities and departments that have findings on compliance with laws and regulations. This prevalence indicates that processes that are in place to detect and prevent instances of non-compliance with laws and regulations are not effective. The leadership needs to enhance their oversight responsibilities to ensure a reduction in the extent of non-compliance with laws and regulations.

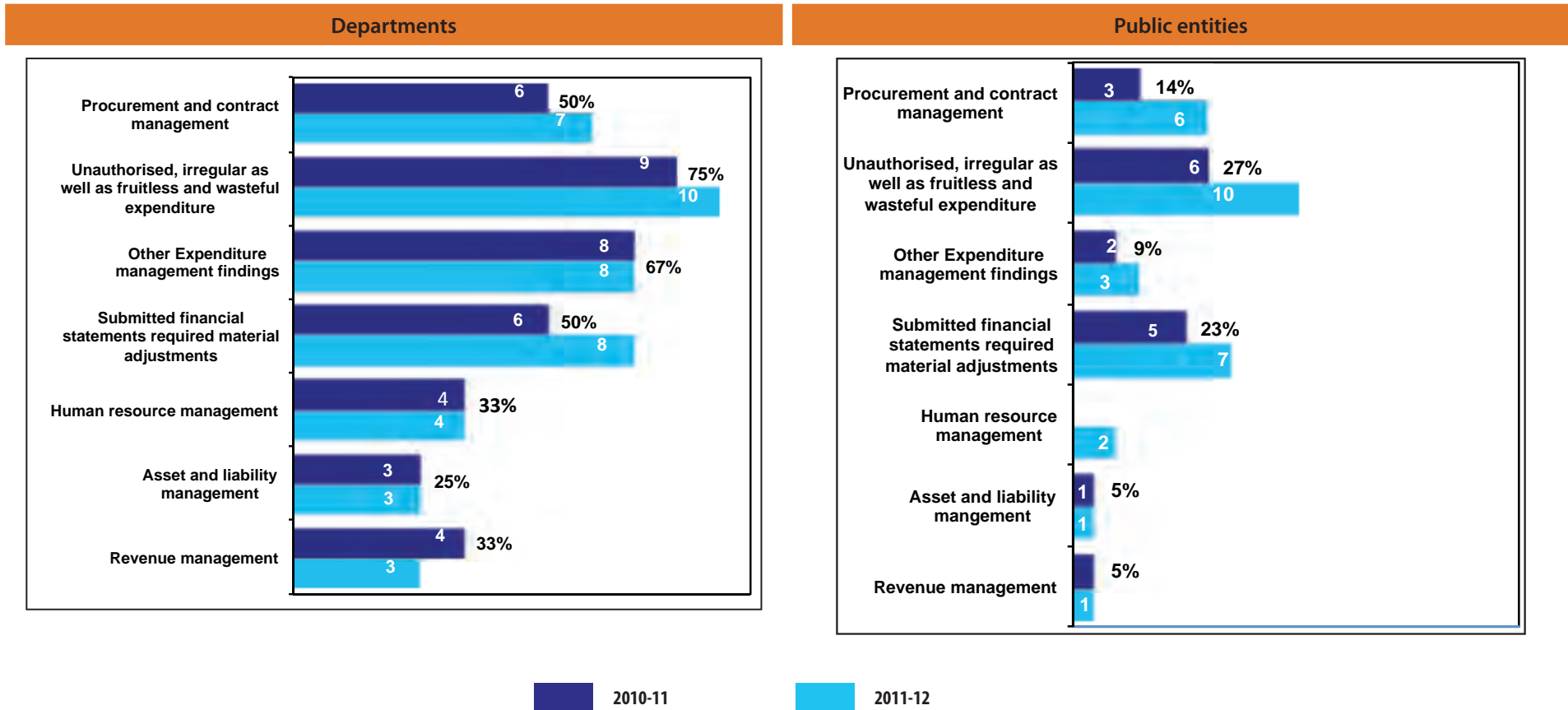
### 2.4.2 Compliance with laws and regulations findings

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 and 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
- Human resource management and compensation

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

**Figure 13: Overall movement in findings on compliance with laws and regulations**



The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year compliance findings.

**Figure 14: Progress made by auditees in addressing prior year non-compliance findings**

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Revenue management	Other areas of non-compliance
<b>Departments</b>								
Department of Community Safety	New	Repeat	New					
Department of Agriculture and Rural Development	Repeat	Repeat	New		Addressed		Addressed	
Department of Health and Social Development	Repeat	Repeat	New	Repeat	Repeat	Addressed	Repeat	Repeat
Department of Infrastructure Development	Addressed	Repeat	New	New	Repeat	Repeat	Repeat	
Department of Roads and Transport	Repeat	Repeat	New	New	Repeat	New	Repeat	New
Department of Economic Development	New	Repeat			New			
Department of Education	Addressed	Repeat			Repeat			
Department of Finance	New	Repeat	New	New	Repeat			New
Department of Housing and Local Government	Repeat	Addressed			Repeat	Repeat		Addressed
Provincial legislature	New	New	New					
Department of Sports, Arts, Culture and Recreation		New			Repeat			

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Revenue management	Other areas of non-compliance
<b>Public entities</b>								
AIDC Development Centre	Addressed							
Blue IQ Investment Holdings (Pty) Ltd	Addressed	New	New					
Constitutional Hill Development Company		Repeat	New					Addressed
Cost Recovery Trading Entity	Repeat	Repeat						Addressed
g-FleeT Management	Repeat	Repeat			Repeat		Addressed	Addressed
Gauteng Economic Development Agency	New	New						
Gauteng Enterprise Propeller	New	New	New				New	
Gauteng Film Commission								New
Gauteng Fund Project Office	New	Addressed		New				
Gauteng Gambling Board		New						
Gauteng Housing Fund	New							Addressed
Gauteng Liquor Board	New	Addressed			New			
Gauteng Tourism Authority		New						
Gautrain Management Agency			New					
Gauteng Medical Supplies Depot	Addressed	New			Repeat	Repeat		Addressed
Supplier Park Development Co		Repeat	New					

The table that follows details the nature of the most common findings on non-compliance with laws and regulations.

**Table 11: 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. The findings are due to a lack of regular preparation of financial statements, including schedules and key reconciliations and inadequate review of the financial statements prior to submission for audit purposes.
<b>Unauthorised, irregular as well as fruitless and wasteful expenditure</b>	Findings on unauthorised, irregular as well as fruitless and wasteful expenditure are a result of a lack of processes to detect and prevent non-compliance with laws and regulations and a lack of adequate budget monitoring controls, which results in departments being over-committed to the creditors.
<b>Procurement and contract management</b>	<p>The most significant findings on procurement and contract management relate to unfair and uncompetitive procurement processes.</p> <ul style="list-style-type: none"> <li>• Not obtaining three quotations for amounts less than R500 000</li> <li>• Competitive bidding processes not having been followed for contracts greater than R500 000</li> <li>• Non-submission of tax clearance certificates and declarations of past bidding practices</li> </ul> <p>Refer to section 2.4.3 below for further details on procurement and contract management.</p>
<b>Expenditure management</b>	Expenditure management findings relate mainly to the payment of suppliers later than the 30 days.
<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.

Category of compliance findings	Nature of findings
<b>Asset and liability management</b>	The most prevalent findings on asset and liability management relate to a lack of processes to record revenue and inadequate controls to collect money owed to the departments and entities.

### 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 the related controls in place. 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.

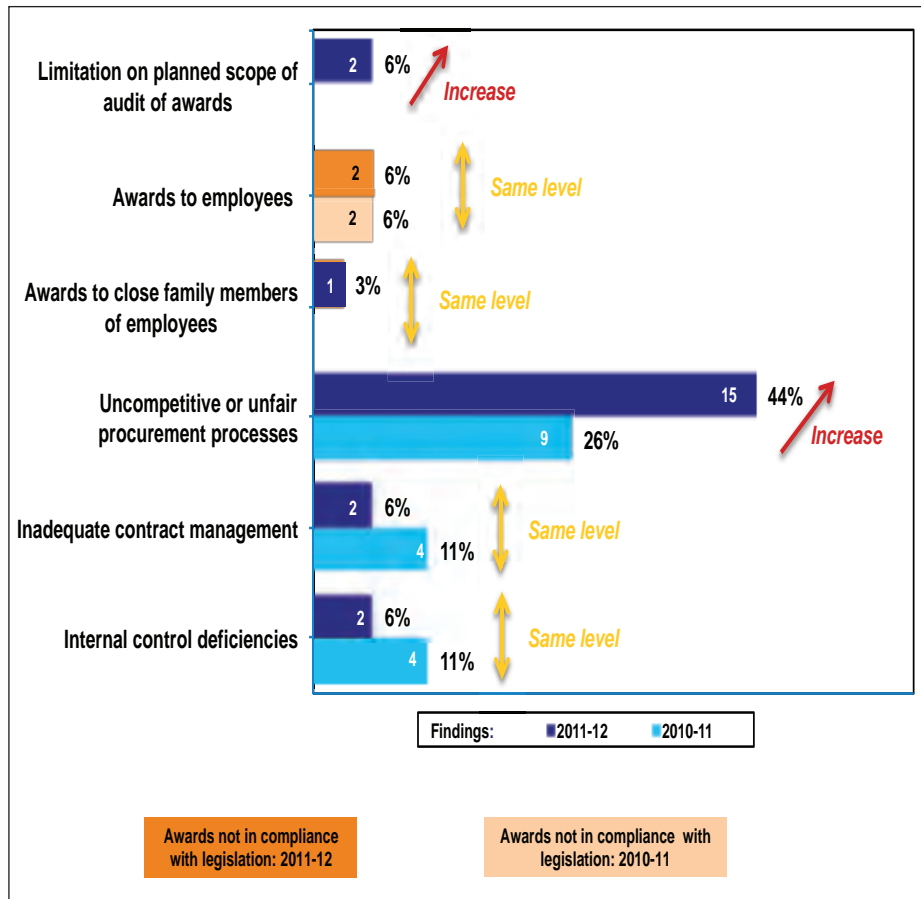
Findings arising from the audit were reported in the management reports of 29 (85%) of the auditees, while at 21 (62%) of these auditees the findings were material enough to warrant reporting thereof in the auditor’s report.

Contracts awarded and price quotations accepted (referred to as “awards” in the remaining sections of this report) to the value of R61,8 billion were tested. However, awards to the value of R64 million that were selected for auditing could not be audited due to auditees not making available the required information or documentation.

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 15: Summary of findings on supply chain management**



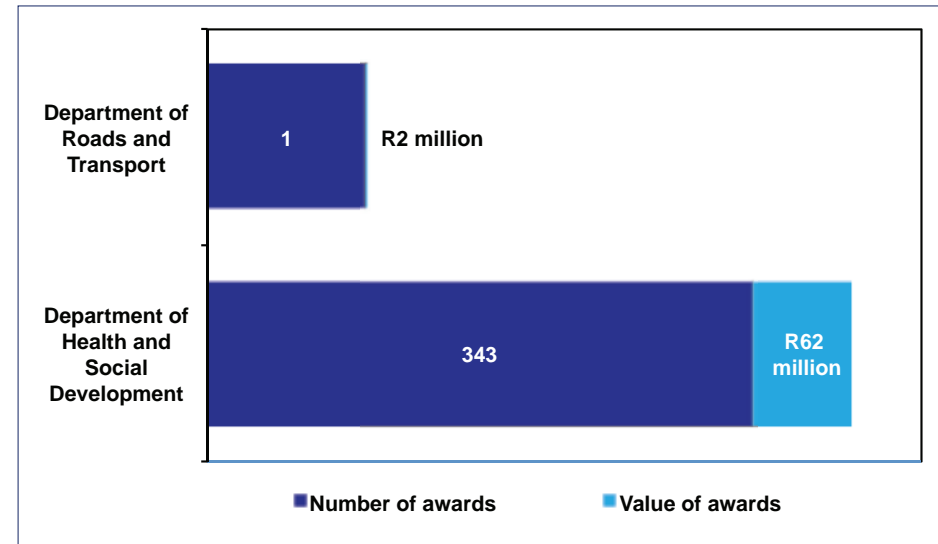
Details of the most prevalent findings are provided in the paragraphs that follow.

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

At two (6%) 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. The detail

on the limitations is depicted in the table below. The name of the auditee is highlighted in red in instances where the scope limitation was also experienced in the previous year.

**Table 12: Limitations experienced**



The reasons for these limitations were due to inadequate document management processes at the auditees. Due to these limitations, 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 audit 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 there are policies and legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or 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 policies of the auditee was tested. The awards identified were also tested with the view to identifying possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

The detail on 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 13: Awards to officials in the employ of auditees and their close family members**

Auditee	Awards made to					No-compliance with regard to awards made							
	Employees			Close family members of employees		Supplier not declare interest		Employee did not declare interest		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
<b>Departments</b>													
Department of Infrastructure Development	3	R1,3 million	Architect, provisioning administration clerk, works inspector					3	R1,3 million				
Office of the Premier				1	R29 000	1	R29 000						
<b>Public entities</b>													
G-fleet	1	R706 000	Driver instructor					1	R706 thousand				
<b>Total</b>	<b>4</b>	<b>R2 million</b>		<b>1</b>	<b>R29 000</b>	<b>1</b>	<b>R29 000</b>	<b>4</b>	<b>R2 million</b>	<b>1</b>	<b>R0 million</b>	<b>0</b>	<b>R0 million</b>

\*Number: indicates number of instances

### 2.4.3.3 Uncompetitive or unfair procurement processes

Our audits also focus 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 does 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 682 contracts (R2 billion) and 384 quotations (R59,8 billion) were tested at 12 departments and 22 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 14: Summarised findings on uncompetitive or unfair procurement processes**

<b>Finding</b>	<b>DP</b>	<b>PE</b>	<b>Nature of finding</b>
<b>Three price quotations not obtained/ deviations not approved or justified</b>	5 (42%)	2 (9%)	A price quotation process is prescribed for procurement of goods and services valued at 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.
<b>Competitive bids not invited/ deviations not approved or justified</b>	4 (33%)	2 (9%)	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>No declaration of interest</b>	3 (25%)	1 (5%)	Awards were made to suppliers that did not declare their interests.
<b>Tax clearance not obtained from SARS</b>	4 (33%)	3 (14%)	Awards were made to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.
<b>Other findings</b>	4 (33%)	1 (5%)	Other findings included the following: <ul style="list-style-type: none"> <li>• Quotations not obtained from listed prospective suppliers/suppliers meeting listing requirements.</li> <li>• Bids advertised for shorter period – no approval of deviation.</li> </ul>

DP = departments, PE = public entities

#### 2.4.3.4 Inadequate contract management

Inadequate controls on contract management resulted in irregular expenditure due to contracts having been awarded without following the SCM processes and fruitless and wasteful expenditure as a result of work being redone due to insufficient project management.

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

**Table 15: Summarised findings on contract management**

Finding	DP	Nature of findings
<b>Contract extended or renewed to circumvent competitive bidding process</b>	1 (8%)	It is normal business practice to extend or renew contracts where circumstances warrant within legislated limits.  However, at one department it was done with regular frequency to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.
<b>Inadequate contract performance measures and monitoring</b>	1 (8%)	Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract.

DP = departments

#### 2.4.3.5 Inadequate supply chain management controls

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

**Table 16: Summarised findings on supply chain management controls**

Finding	DP	Nature of findings
<b>Inadequate controls to ensure interest is declared</b>	2 (17%)	The controls at some auditees were inadequate to ensure that: <ul style="list-style-type: none"> <li>officials declare whether they or their close family members, partners and associates have interests in suppliers to the auditee</li> <li>suppliers declare any connections to persons in service of the auditee or other state institutions.</li> </ul>
<b>Remunerative work not approved</b>	2 (17%)	Employees at the departments were engaging in remunerative work without necessary approval.
<b>SCM officials not adequately trained</b>	1 (8%)	Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.
<b>No controls to monitor performance of contractors</b>	1 (8%)	Measures applied to monitor the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract as the department did not have a system in place to record all the payments and monitor the budget of all the contracts they had entered into.
<b>No action taken to address identified risk</b>	1 (8%)	SCM is generally an area of considerable risk at most auditees. However, no action was taken against this risk that was identified.

DP = departments

## 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 recovery of monies from liable officials.

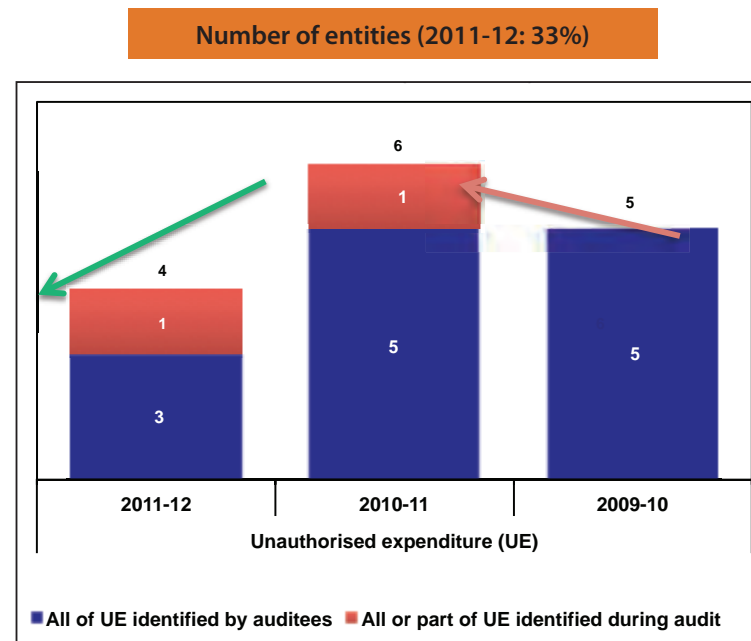
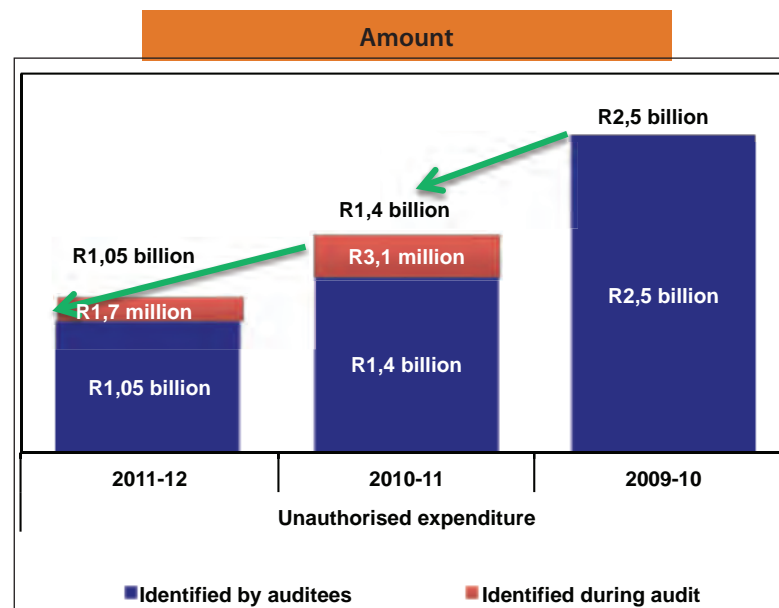
Unauthorised, irregular, or fruitless and wasteful expenditure was incurred by 21 (62%) auditees, which is an improvement from 30 (86%) auditees in 2010-11. There is a positive trend in the province to implement controls over unauthorised, irregular, and fruitless and wasteful expenditure. However, greater efforts still need to be put in place by the leadership to address the following shortcomings:

- Poor monitoring of actual expenditure against budgets, which results in accruals that reduce the prior year's allocated budget
- Poor planning, resulting in deviations which are not justifiably emergency cases
- Lack of compliance officers or checklists to prevent non-compliance
- Lack of training and vacancies in the SCM unit
- Interest and penalties arising from late payments
- Rectification of poor performance by contractors
- Poor monitoring of adherence to the overtime policy

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

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

Figure 16: Three-year trend in unauthorised expenditure



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

**Table 17: Nature of and current year movements in unauthorised expenditure**

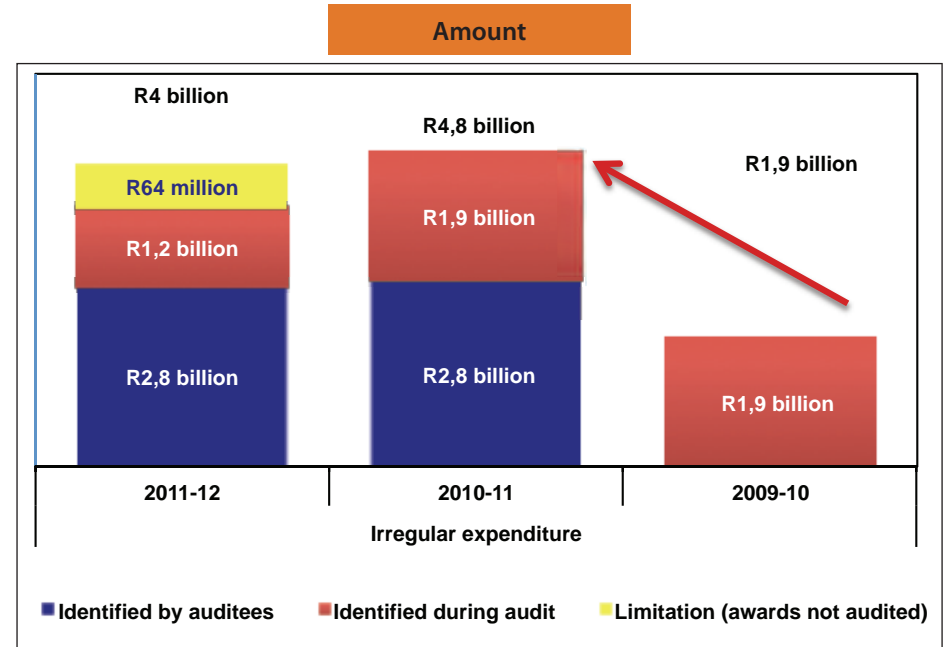
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
<b>Unauthorised expenditure (applicable to departments only)</b>				
Overspending of votes/main division within votes	4	↑ 33%	R1,05 billion	↑ 25%

The unauthorised expenditure incurred in the current period was less than in the previous financial year. However, the amount incurred is still high, overspending resulting from poor budgetary controls is the main driver of this expenditure. Of concern is that, if the accruals at year-end were settled timeously, budgets in most departments would have been exceeded and further exacerbated the incurring of unauthorised expenditure.

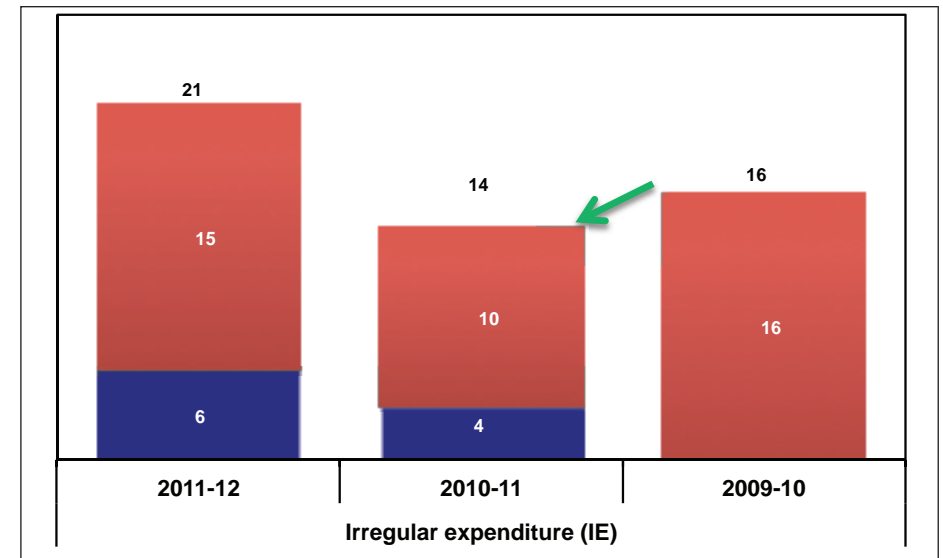
**Nature of and overall trends in irregular expenditure**

The figure that follows reflects the three-year trend for irregular expenditure.

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

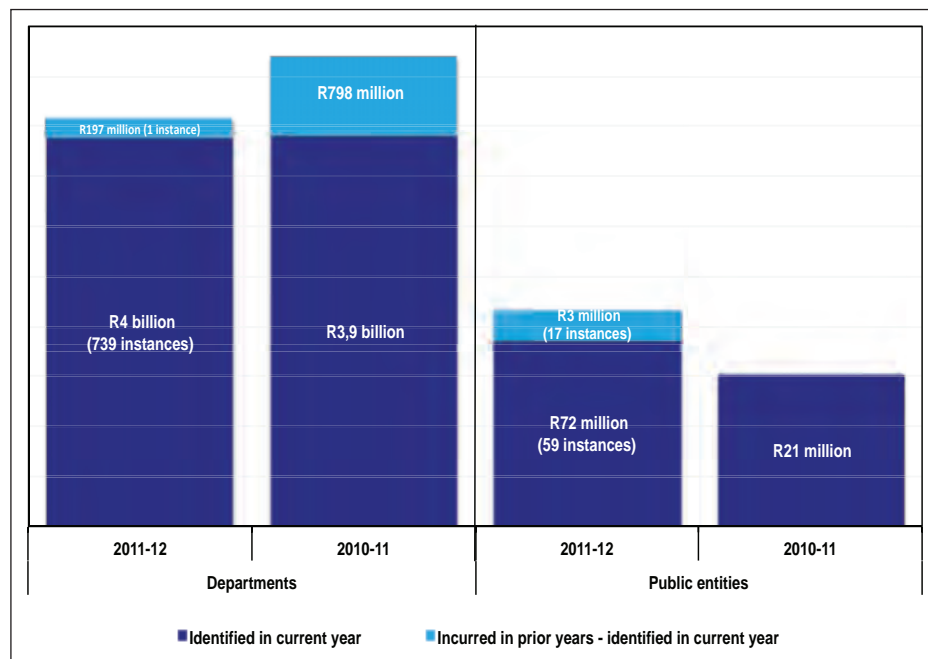


**Number of auditees (2011-12: 62%)**



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

**Figure 18: Irregular expenditure incurred – current and prior years**



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

**Table 18: Nature of and current year movements in irregular expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
<b>Irregular expenditure</b>				
Related to SCM	19	58% ↓	R2,9 billion	3% ↑
Related to compensation of employees	2	50% ↑	R835 million	36% ↑
Other non-compliance	4	50% ↓	R154 million	63% ↑

The increase and prevalence of irregular expenditure continued unabated, with the highest contributing factor being non-compliance with SCM legislation. For SCM-related irregular expenditure the amount has increased compared to the previous year. Of the total irregular expenditure of R2,9 billion, R2,4 billion was incurred by the Department of Roads and Transport as a result of the legacy contracts for bus subsidies. The DPSCA had not approved the organisational structures of the departments and the filling of these unfunded positions contributed to the majority of the irregular expenditure on compensation of employees. This was despite the AGSA's specific focus on this area and the commitments made and action plans drawn up to address it after the prior year outcomes.

Irregular expenditure does not necessarily mean that money had been wasted or that fraud had been perpetrated – the impact is only determined after investigations had been done by the department. It is, however, a measure

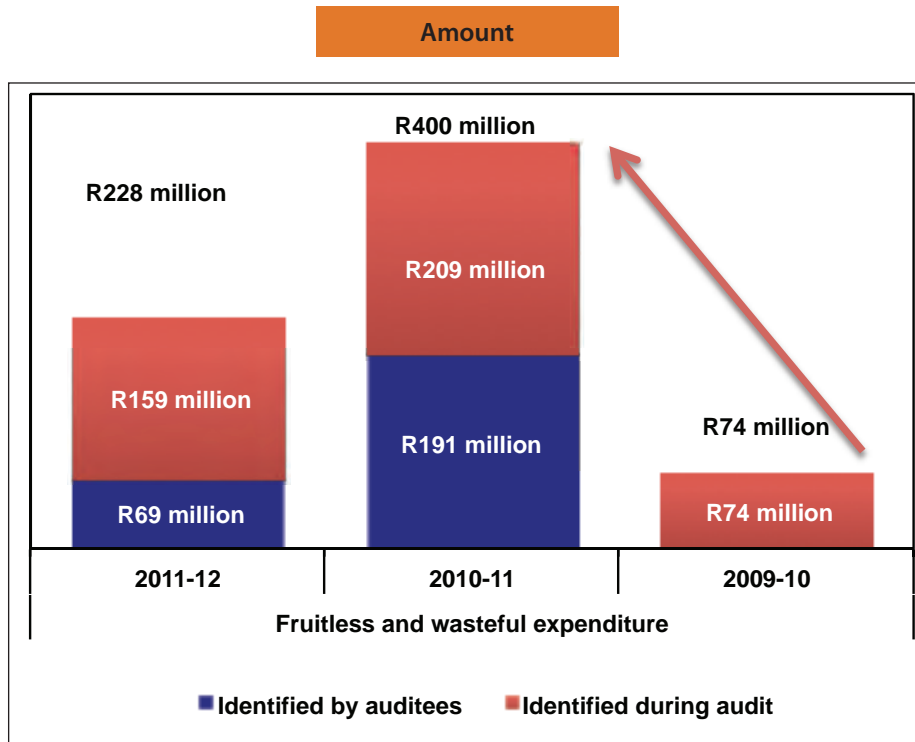


of an auditee’s ability to comply with laws and regulations as it relates to expenditure and SCM. The prevalence thereof, high values and continued increases demonstrate the inability of the provincial government to comply with the laws and regulations which protect public money against fraud, waste and uneconomical procurement.

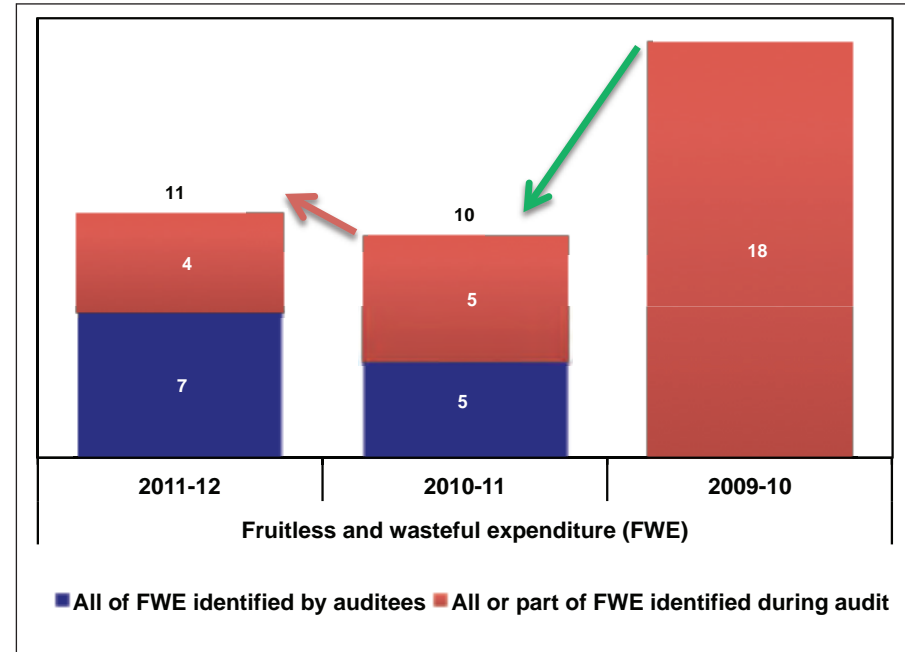
**Nature of and overall trends in fruitless and wasteful expenditure**

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

**Figure 19: Three-year trend in fruitless and wasteful expenditure**



**Number of auditees**



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

**Table 19: 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
<b>Fruitless and wasteful expenditure</b>				
Incurred to prevent irregular/loss/ further fruitless and wasteful expenditure	4	100%	R152 million	100%
Actual fruitless and wasteful expenditure	11	37%	R76 million	81%

The late payment of creditors, which was also raised as a material and prevalent non-compliance finding, was the reason for most of the fruitless and wasteful expenditure. However, the rectification of poor performance by contractors and the contractors that had to redo the work at the Department of Infrastructure Development also contributed to the fruitless and wasteful expenditure for the province.

Although the amounts are significantly lower than those for unauthorised and irregular expenditure, it does mean that payments were made in vain and without the public having received any value. In most cases this stemmed from the disregard of compliance with laws and regulations and the lack of consequences from past contraventions.

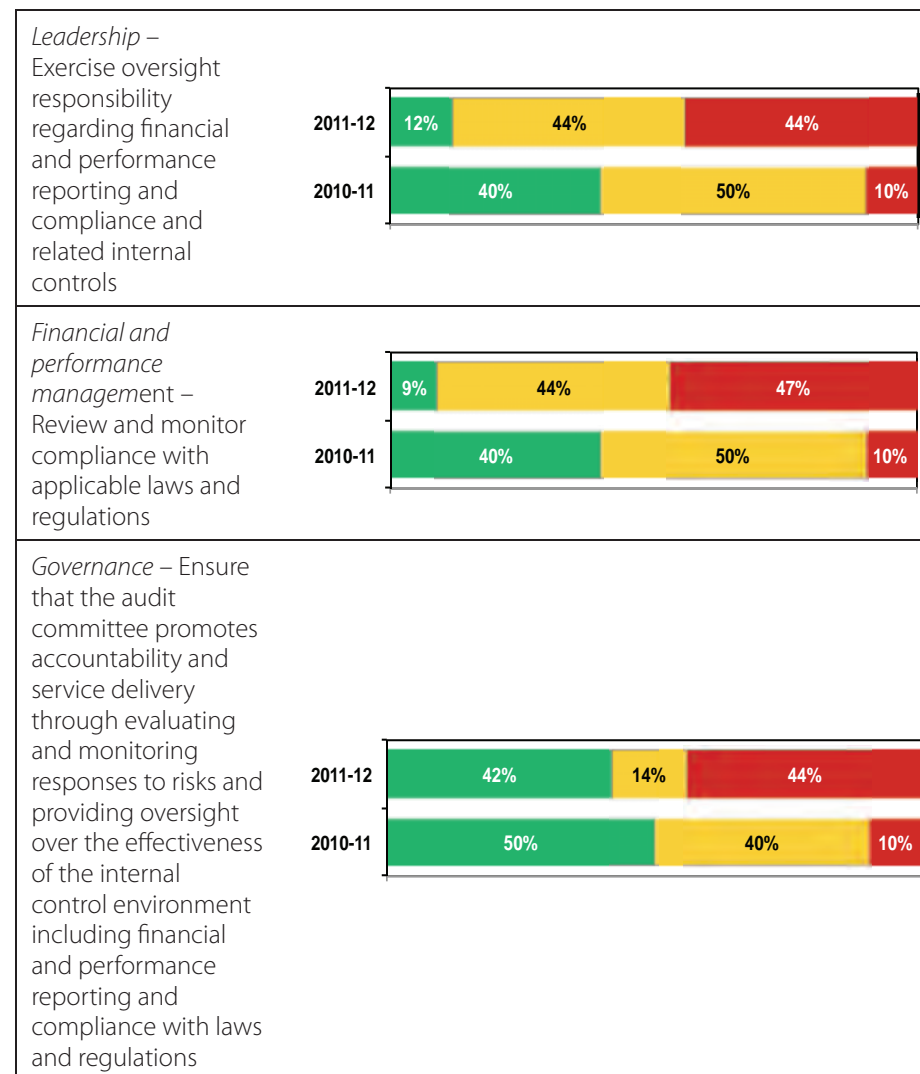
### 2.4.5 Root causes and best practice recommendations

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 these controls are classified under the fundamental principles of (i) leadership, (ii) financial and performance management and (iii) governance. More information on the specific drivers of

internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from the leadership to improve the audit outcomes.

**Figure 20: Assessment of drivers of internal control over reporting on compliance with laws and regulations**



Identified root causes which gave rise to this assessment and the recommended way forward, are summarised as follows.

**Table 20: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership to set the tone</b>	Although there are policies and procedures in place to support compliance with laws and regulations, particularly SCM, there is lack of consequences for transgressions or non-compliance, leading to repeat findings and regressions.
	<p><u>Way forward</u></p> <p>The leadership needs to enhance their oversight responsibilities to ensure that actions are taken against transgressors and that internal control deficiencies action plans are assessed for effectiveness, implemented and monitored.</p>
<b>Systems and processes</b>	Systems and processes at auditees lack prevention and detection controls to ensure that non-compliance with laws and regulations prevented, detected and fully disclosed.
	<p><u>Way forward</u></p> <p>Oversight should be strengthened over preparation of financial statements, embedding a culture of full disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the financial statements.</p> <p>Proper budget monitoring mechanisms should be implemented on a monthly basis to avoid incurring unauthorised expenditure.</p> <p>Proper performance management processes should be implemented and regularly monitored, deterring employees from adherence to required responsibilities.</p> <p>The development and implementation of a compliance checklist which is adequately and regularly monitored could assist auditees in reducing compliance findings and building a strong stance in ensuring that the organisation complies with key legislation.</p> <p>Continuous awareness and training on relevant laws and regulations to curb the instances of non-compliance resulting from lack of awareness.</p>

Aspect	Identified root causes and way forward
<b>Oversight and monitoring</b>	The legislative oversight and audit committees have improved their interactions and oversight; however, the challenge lies with management taking ownership and accountability for implementing these committees' recommendations. In most instances, the quarterly financial and non-financial reports and financial statements submitted to these committees and provincial treasury are not always complete and accurate, especially with regard to reporting on unauthorised, irregular and fruitless and wasteful expenditure.
	<p><u>Way forward</u></p> <p>A deliberate oversight system or process should be established to monitor the commitments made by the leadership and management to address internal control deficiencies. This oversight must reside and be coordinated within the Office of the Premier and should seat and issue quarterly reports on the status of such commitments.</p>
<b>Effective governance measures</b>	Risk assessments at auditees are significantly flawed as it is in most instances not performed at least annually or performed much too late into the year, rendering the risks outdated or irrelevant to the risk management process.
	<p><u>Way forward</u></p> <p>Strengthened oversight from the executive leadership in ensuring that these risk assessments do take place regularly and timeously to add value to the auditees and to improve risk intelligence, thereby improving achievement of objectives.</p>

# SECTION 3

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

- 3.1 OVERALL STATUS OF INTERNAL CONTROL
- 3.2 HUMAN RESOURCE MANAGEMENT
- 3.3 INFORMATION TECHNOLOGY MANAGEMENT AS A SPECIFIC KEY DRIVER OF AUDIT OUTCOMES
- 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT





# SECTION 3

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

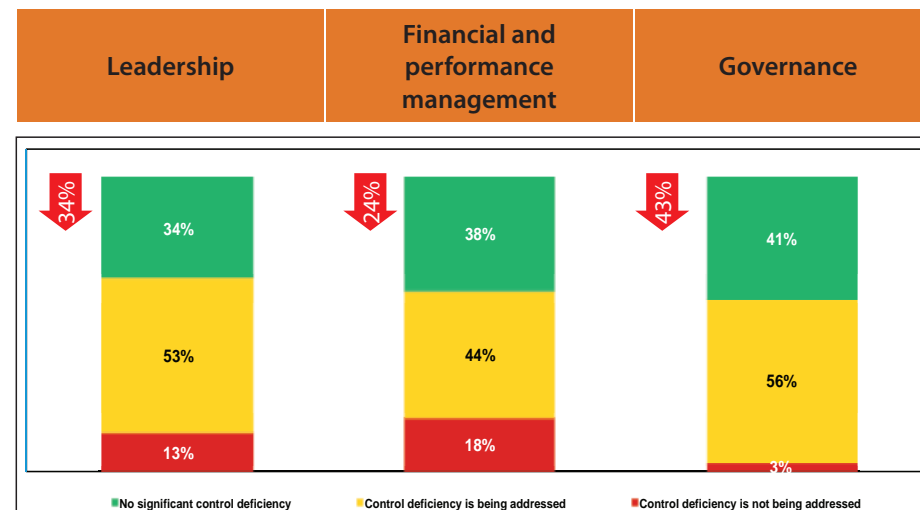
This section of the general report provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on human resource management (section 3.2), information technology management (section 3.3), audit committees and internal audit (section 3.4).

### 3.1 OVERALL STATUS OF INTERNAL CONTROL

A key responsibility of accounting officers/authorities and 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, finance and performance management and governance. These are termed the drivers of internal control.

The figure below provides the 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 21: Overall assessment of drivers of internal control**

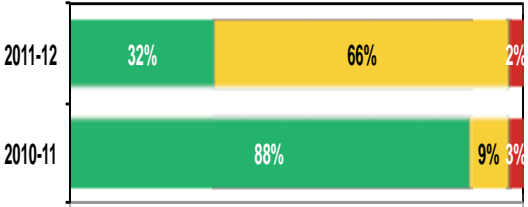
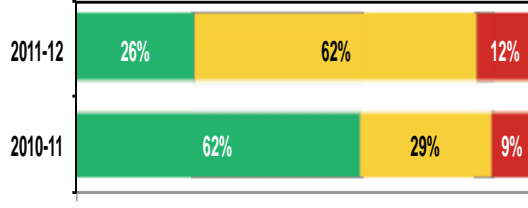


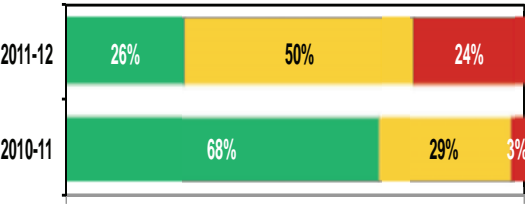
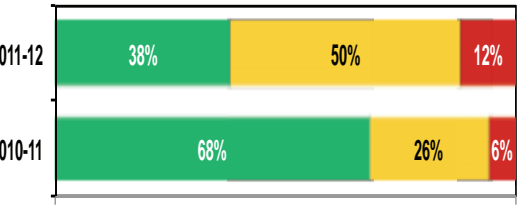
As depicted above there was an overall regression in the drivers of the audit outcomes underpinning leadership, financial and performance management and governance fundamentals. Although some improvements were noted in certain drivers, the drivers of internal controls are not yet the norm nor are they operating effectively throughout the year.

The executive leadership has committed to meet the AGSA quarterly to discuss the status of the key controls as well as progress on commitments in order to achieve clean audit outcomes. At a minimum, this required a commitment from the executive authority of one hour every 90 days. Where there was limited interaction with the executive leadership, the correlation between audit outcomes and failure to derive benefits from key controls was evident. The institutionalisation of controls resulting from the interactions between the MEC and AGSA yielded notable improvements for the Department of Education. The executive leadership is urged to; be available for interactions; take full ownership of key controls and follow up on the implementation of commitments aimed at improving the outcomes.

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

**Table 21: 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"> <caption>Data for Driver no. 1: Leadership (top)</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>32%</td> <td>66%</td> <td>2%</td> </tr> <tr> <td>2010-11</td> <td>88%</td> <td>9%</td> <td>3%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	32%	66%	2%	2010-11	88%	9%	3%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	32%	66%	2%										
2010-11	88%	9%	3%										
Effective leadership quality over business practices, governance, protecting and enhancing the interest of the auditees are not followed. However, to improve audit outcomes the following should be addressed:	<ul style="list-style-type: none"> <li>Restructuring of MEC portfolios should be minimised</li> <li>A culture of implementing effective controls to prevent repeat qualifications, audit findings, material amendments to the financial statements, findings on predetermined objectives and compliance with laws and regulations should be prevalent in the province</li> <li>There should be consequences against transgressors</li> <li>MECs are encouraged to obtain credible feedback on progress made in implementing commitments to address control deficiencies</li> </ul>												
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	 <table border="1"> <caption>Data for Driver no. 1: Leadership (bottom)</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>26%</td> <td>62%</td> <td>12%</td> </tr> <tr> <td>2010-11</td> <td>62%</td> <td>29%</td> <td>9%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	26%	62%	12%	2010-11	62%	29%	9%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	26%	62%	12%										
2010-11	62%	29%	9%										

Driver no. 1: Leadership													
Financial statements are a vital decision-making tool for the leadership, namely the MECs and accounting officers, therefore credible, accurate and complete financial information should be prepared by the CFOs and performance information by those responsible for this purpose. The accuracy and credibility of this information should be verified through internal processes, namely by accounting officers, internal audit members and audit committees prior to submission for audit purposes as well as to the MECs. The financial statements and performance information should be assessed against the required outcomes and risks of the department/entity and necessary measures implemented where applicable. Corrective measures should be implemented where it is identified that the information supplied is not credible.													
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	 <table border="1"> <caption>Data for Driver no. 1: Leadership (middle)</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>26%</td> <td>50%</td> <td>24%</td> </tr> <tr> <td>2010-11</td> <td>68%</td> <td>29%</td> <td>3%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	26%	50%	24%	2010-11	68%	29%	3%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	26%	50%	24%										
2010-11	68%	29%	3%										
<b>Section 3.2 provides an analysis of human resource management</b>													
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.	 <table border="1"> <caption>Data for Driver no. 1: Leadership (bottom)</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>38%</td> <td>50%</td> <td>12%</td> </tr> <tr> <td>2010-11</td> <td>68%</td> <td>26%</td> <td>6%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	38%	50%	12%	2010-11	68%	26%	6%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	38%	50%	12%										
2010-11	68%	26%	6%										
Policies and procedures in draft should be prioritised for approval and immediate implementation. In addition, all policies with procedures should be stored at a central repository for easy access and enhanced awareness. Regular monitoring of compliance with these policies and procedures should be institutionalised.													



Driver no. 1: Leadership													
Develop and monitor the implementation of action plans to address internal control deficiencies.	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2011-12</td><td>26%</td><td>62%</td><td>12%</td></tr> <tr><td>2010-11</td><td>76%</td><td>18%</td><td>6%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	26%	62%	12%	2010-11	76%	18%	6%
	Year	Green (%)	Yellow (%)	Red (%)									
2011-12	26%	62%	12%										
2010-11	76%	18%	6%										
<p>Action plans developed to address the external and internal audit findings should be clear, precise, time bound and responsibilities should be assigned with monitoring mechanisms to ensure effectiveness. Internal audit should provide assurance on the effective implementation of the action plans.</p> <p>All departments should establish an Operation Clean Audit Committee (OPCA) chaired by the accounting officer that will monitor effectiveness of implemented controls and results must be reported to the audit committees and the MECs.</p> <p>The progress in addressing control deficiencies hampering the attainment of clean administration should be tabled and discussed quarterly with the portfolio committees.</p>													
	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2010-11</td><td>76%</td><td>18%</td><td>6%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2010-11	76%	18%	6%				
Year	Green (%)	Yellow (%)	Red (%)										
2010-11	76%	18%	6%										
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.	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2011-12</td><td>24%</td><td>67%</td><td>9%</td></tr> <tr><td>2010-11</td><td>65%</td><td>32%</td><td>3%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	24%	67%	9%	2010-11	65%	32%	3%
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2011-12	24%	67%	9%										
2010-11	65%	32%	3%										
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	Year	Green (%)	Yellow (%)	Red (%)									
2010-11	65%	32%	3%										

Section 3.3 Provides an analysis of the management of information technology													
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.	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2011-12</td><td>26%</td><td>59%</td><td>15%</td></tr> <tr><td>2010-11</td><td>76%</td><td>21%</td><td>3%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	26%	59%	15%	2010-11	76%	21%	3%
	Year	Green (%)	Yellow (%)	Red (%)									
2011-12	26%	59%	15%										
2010-11	76%	21%	3%										
Document management systems should be implemented to enable management to access information when required and provide sufficient evidence of all business activities around the financial, performance reporting and compliance to ensure information is available within the agreed turnaround time of five days.													
	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2010-11</td><td>76%</td><td>21%</td><td>3%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2010-11	76%	21%	3%				
Year	Green (%)	Yellow (%)	Red (%)										
2010-11	76%	21%	3%										
Implement controls over daily and monthly processing and reconciling of transactions.	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2011-12</td><td>29%</td><td>50%</td><td>21%</td></tr> <tr><td>2010-11</td><td>65%</td><td>32%</td><td>3%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	29%	50%	21%	2010-11	65%	32%	3%
	Year	Green (%)	Yellow (%)	Red (%)									
2011-12	29%	50%	21%										
2010-11	65%	32%	3%										
To support monthly financial statements and month-end procedures, controls should be implemented to ensure that reconciliations are prepared, including journal entries which are reviewed and approved by the CFO or appropriate level. Where consultants are appointed to assist in the financial statement preparation process, the departments should include in the service level agreements the transfer of skills to officials. Reconciliations should also be prepared to streamline the quarterly reporting processes with supporting documents.													
	<table border="1"> <tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr> <tr><td>2010-11</td><td>65%</td><td>32%</td><td>3%</td></tr> </table>	Year	Green (%)	Yellow (%)	Red (%)	2010-11	65%	32%	3%				
Year	Green (%)	Yellow (%)	Red (%)										
2010-11	65%	32%	3%										

**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 (%)	Red (%)
2011-12	18%	53%	29%
2010-11	56%	35%	9%

Departments and some entities have not institutionalised the preparation of quality monthly financial statements, including notes and disclosures with supporting documents and key reconciliations. Audit outcomes of the entities that have implemented this discipline have improved.

The recurring IT findings should be addressed to enhance the credibility of both financial and non-financial data.

Review and monitor compliance with applicable laws and regulations.

Year	Green (%)	Yellow (%)	Red (%)
2011-12	35%	38%	27%
2010-11	71%	24%	5%

Lack of compliance monitoring and review by the auditees results in the challenge experienced. Other root causes resulting in this trend are as follows:

- Deliberate disregard for laws and regulations
- Lack of consequences for those who transgress/those who are not performing exacerbates the non-compliance with laws and regulations
- Efforts not directed to ensuring that there is compliance with the relevant legislations
- Contract registers detailing contracts awarded are not maintained and monitored, resulting in unwarranted extension of contracts and use of deviations

Leadership must create and drive a culture of ethical behaviour encouraging compliance. Compliance officers should be appointed to develop a compliance checklist and continually assess and monitor compliance with all laws and regulations.

**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 susceptible to compromised data integrity (Information systems).

Year	Green (%)	Yellow (%)	Red (%)
2011-12	18%	76%	6%
2010-11	62%	29%	9%

**Section 3.3 provides an analysis of the management of information technology**

**Driver no. 3: Governance**

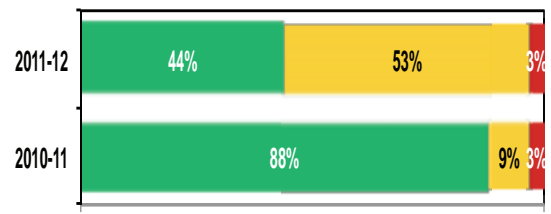
Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Year	Green (%)	Yellow (%)	Red (%)
2011-12	44%	50%	6%
2010-11	82%	18%	0%

Risk assessments are not conducted effectively thus plans and controls implemented are not adequately addressing the deficiencies. This is evidenced by the regressed audit outcomes and recurring findings on IT, business continuity, human resources, compliance with laws and regulations and PDOs.

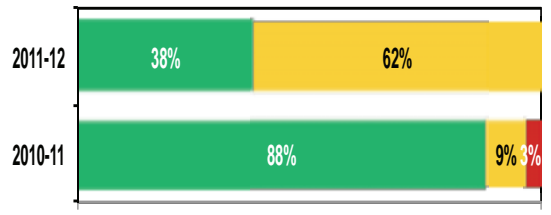
**Driver no. 2: Financial and performance management**

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**

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**

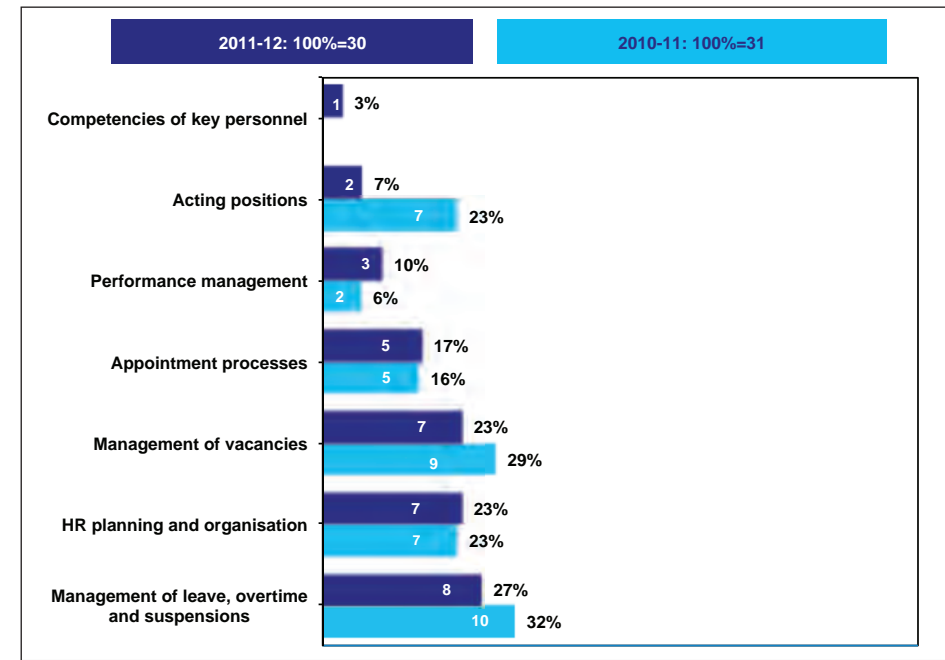
**3.2 HUMAN RESOURCE MANAGEMENT**

Effective human resource (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.

The HR findings were identified at all 12 departments and 10 public entities.

**Figure 22: Summary of human resource management findings**



**Table 22: Nature of key findings**

Findings	Key findings
<b>Management of vacancies and acting positions</b>	<ul style="list-style-type: none"> <li>Organisational structures which are not approved timeously by the DPSA contributed to the vacant and acting positions, especially at the finance and SCM units</li> <li>Vacancies and acting positions for long periods impair the internal controls and implementation of action plans to enhance the control environment, and does not allow for effective accountability and performance management</li> </ul>
<b>Competencies of key personnel</b>	<ul style="list-style-type: none"> <li>The human resource weaknesses impact negatively on the improvement in key controls at all levels. It also results in the activities not being effectively executed during the preparation of the financial statements, which leads to material amendments thereto</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>The poor performance management system lead to a lack of consequences for employees who do not perform as required. This leads to a total disregard of whether organisational objectives are met, quality financial statements are prepared and compliance with key legislation is achieved, and consequently to repeat audit findings year after year</li> </ul>
<b>Management of leave, overtime and suspensions</b>	<ul style="list-style-type: none"> <li>Poor management of leave and overtime within auditees has contributed sufficiently to the incurring of irregular expenditure in some departments and the qualification on the leave accrual at the Department of Health</li> </ul>

In order for internal control deficiencies to be addressed, the following measures should be considered by the leadership:

- Key vacancies must be filled with suitably skilled and qualified officials and functions must be separated so that incompatible tasks are not performed by the same person.
- A performance measurement tool linked to the objectives of the auditee should be developed, implemented and documented.
- Human resource policies and procedures should be communicated to all officials especially new officials.

### 3.3 INFORMATION TECHNOLOGY MANAGEMENT AS A SPECIFIC KEY DRIVER OF AUDIT OUTCOMES

As can be seen in figure 23, 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 23: Link between information technology and financial and performance information**



The following figure highlights the areas of focus during the IT audits

**Figure 24: Focus areas of information technology audits**

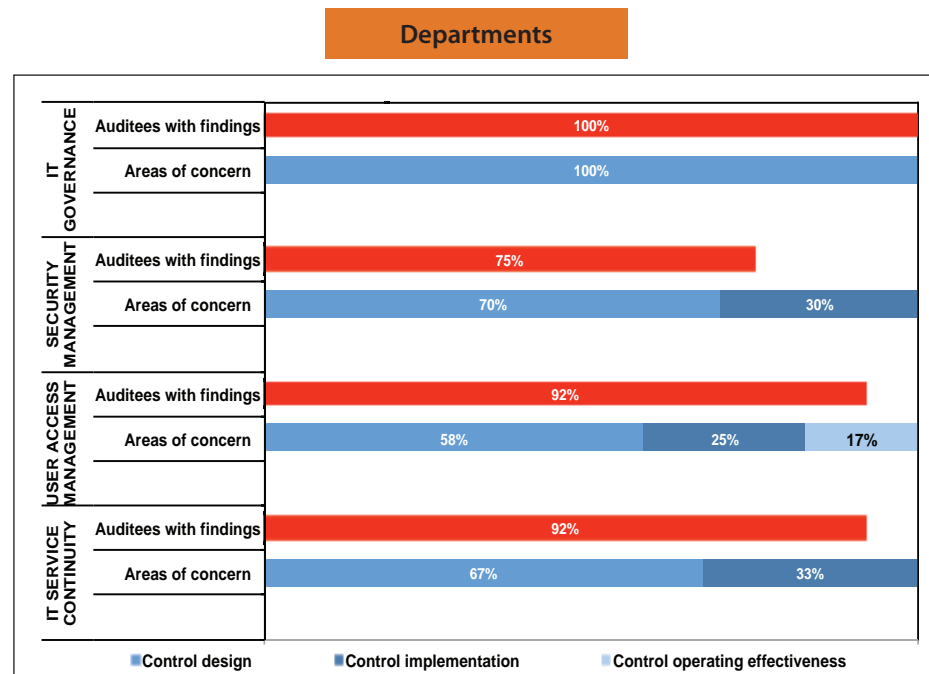
	CONFIDENTIALITY	INTEGRITY	AVAILABILITY
<b>Status of state information</b>	The necessary level of secrecy is enforced for all state information.	All state information is authentic, remains unaltered until authorised to change and is complete.	All state information is ready for use when expected.
<b>Status of key enabling controls</b>	<b>GOOD GOVERNANCE</b>		
	<b>EFFECTIVE MANAGEMENT</b>		
	<b>SECURE ARCHITECTURE/INFRASTRUCTURE</b>		

IT controls for financial systems were evaluated at 12 departments and four public entities, and controls for performance information were evaluated at three sectoral departments, i.e. Health and Social Development, Education and

Local Government and Housing. Where systems were developed or customised, project governance was assessed at the various phases of the project to ensure that controls were built into the systems prior to implementation.

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

**Figure 25: Summary of information system control weaknesses**



#### IT governance

A provincial IT governance framework had not been implemented. As a result, the following governance processes were not implemented in the majority of the departments:

- Policies and procedures were not adequately developed.
- Service level agreements between the Department of Finance and the other departments were not approved.

- Risks identified by Gauteng Audit Services were not addressed by accounting officers with the help of chief information officers.
- Steering committees were not functioning effectively.
- IT strategic plans were not approved.
- Key IT vacancies mainly at the Department of Health and Social Development and Department of Roads and Transport were not filled.

The weaknesses above resulted in IT goals not being aligned to overall business objectives and as a result IT functions were not able to adequately support business functions such as financial and performance reporting.

#### Security management

The Department of Infrastructure Development, Department of Road and Transport and the Provincial Legislature have adopted IT security standards developed by the Department of Finance. Nine (75%) departments had findings regarding security management, six of which (70%) have not adopted these policies for implementation and three (30%) of these departments did not adequately implement the IT security policies. Consequentially, the following occurred:

- Password settings were inadequate.
- Security systems were not always updated.

These deficiencies could lead to unauthorised access to the network, operating systems and ultimately application systems, thereby jeopardising integrity of data.

### User access control

The Department of Finance has fulfilled its responsibility of developing user access policies for the transversal systems. The Department of Sport, Arts, Culture and Recreation had developed and implemented user account management procedures, which were operating effectively.

Eleven (92%) departments had findings regarding user access management due to the non-implementation of policies by the Department of Finance for transversal systems resulting in:

- users having been created without supporting evidence
- terminated employees not timeously removed from the system
- lack of monitoring of powerful user access.

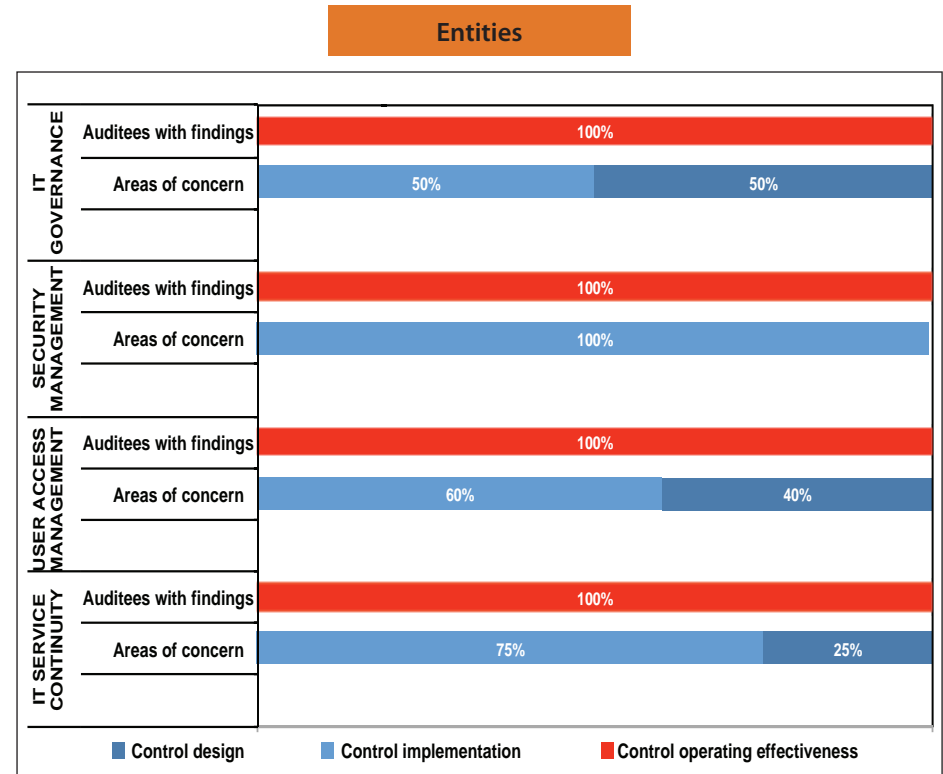
Where departments had the responsibility of developing user access policies and procedures for non-transversal systems, 58% of departments utilising systems such as BAUD and Assetware, had not formalised the policies. As a result formal processes to ensure that terminated accounts are timeously removed and processed to ensure that employees' access is in line with job responsibilities did not exist and reviews of unauthorised access to the application did not take place.

### IT continuity

With the exception of the Department of Roads and Transport, all departments did not have disaster recovery plans (DRP). Of the 11 departments, seven had either not developed DRPs or had outdated DRPs, while four departments' DRPs were not tested and had no alternate recovery site data and system restoration in the event of a disaster.

The deficiency noted could render departments unable to continue operations during disasters, which could negatively impact service delivery and financial reporting.

Figure 26: Summary of information system control weaknesses



The prevalent IT findings for entities are as follows:

- IT governance framework was not developed.
- Security policies were not in place.
- Lack of formal user account management policies.
- No formal disaster recovery plans.

The deficiencies above could have the following impact:

- IT goals which are not aligned with overall business objectives resulted in IT functions that were unable to adequately support business activities such as financial and performance reporting.
- Unauthorised access to the network, operating systems and ultimately

application systems, thereby jeopardising integrity of financial and performance data.

- Inability to continue operations in the event of a disaster, which could significantly hamper service delivery and financial reporting.

### 3.3.2 Audit of predetermined objectives

The audit focused on compliance with the National Treasury (NT) Framework 86 of 2007, for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the application systems used by the provincial departments to manage predetermine objectives.

Three departments, namely the Departments of Local Government and Housing, Health and Education, were reviewed for the existence of IT controls to govern application systems and the compliance of the provincial departments to these controls. Drivers of IT control weaknesses and the summary are depicted below:

**Figure 27: Comparison between national and provincial implementation of IT controls over performance systems**

	Local Government and Housing			Education			Health		
Development of controls by national	Good			In progress			Intervention required		
Implementation of controls by province	Good			In progress			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

	Good		In progress		Intervention required
--	------	--	-------------	--	-----------------------

#### Department of Local Government and Housing

The national department had fulfilled its mandate by designing adequate IT policies and procedures to govern the Housing Subsidy System (HSS). The provincial department had implemented some IT controls, with the exception of user access controls, to manage access to the HSS. As a result users were granted access to create and approve transactions. Such access was not actively monitored and reviewed.

#### Department of Education

Intervention is required due to the fact that the national and provincial departments are not fulfilling their responsibilities. The national department had not designed adequate IT controls as no guidelines were available for the implementation of IT controls for the Education Management Information



System (EMIS). The risk of lack of national guidelines is further increased by the lack of proactiveness by the province in designing controls that will ensure the integrity and confidentiality of data.

### Department of Health

Good progress was made by the national department as they had developed guidance for the implementation of all the systems used for predetermined objectives, namely the District Health Information System (DHIS), the Electronic Tuberculosis Register (ETR.Net) and the Electronic Drug-resistant Tuberculosis Register (EDR.Net).

### 3.3.3 Status of addressing management commitments

**Figure 28: Progress in addressing management commitments – departments**

Auditee	IT governance	Security management	User access controls	IT service continuity
Gauteng Department of Agriculture and Rural Development				
Gauteng Department of Community Safety				
Gauteng Department of Economic Development				
Gauteng Department of Education				
Gauteng Department of Finance				
Gauteng Department of Health and Social Development				
Gauteng Department of Housing and Local Government				
Gauteng Department of Infrastructure Development				
Gauteng Office of the Premier				
Gauteng Provincial Legislature				
Gauteng Department of Roads and Transport				
Gauteng Department of Sport, Arts, Culture and Recreation				
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
Not addressed	12	9	11	11
Addressed	0	3	1	1

**Figure 29: Progress in addressing management commitments – public entities**

Auditee	IT governance	Security management	User access controls	IT service continuity
G- Fleet				
Gauteng Tourism Authority				
Medical Supplies Depot				
Gauteng Enterprise Propeller				
<b>Total</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
Not addressed	3	3	3	3
New commitments	1	1	1	1
Addressed	0	0	0	0

As depicted in the tables above, the province has not taken a serious stance in driving IT commitments and this is therefore indicative of the unchanged current status of IT findings.

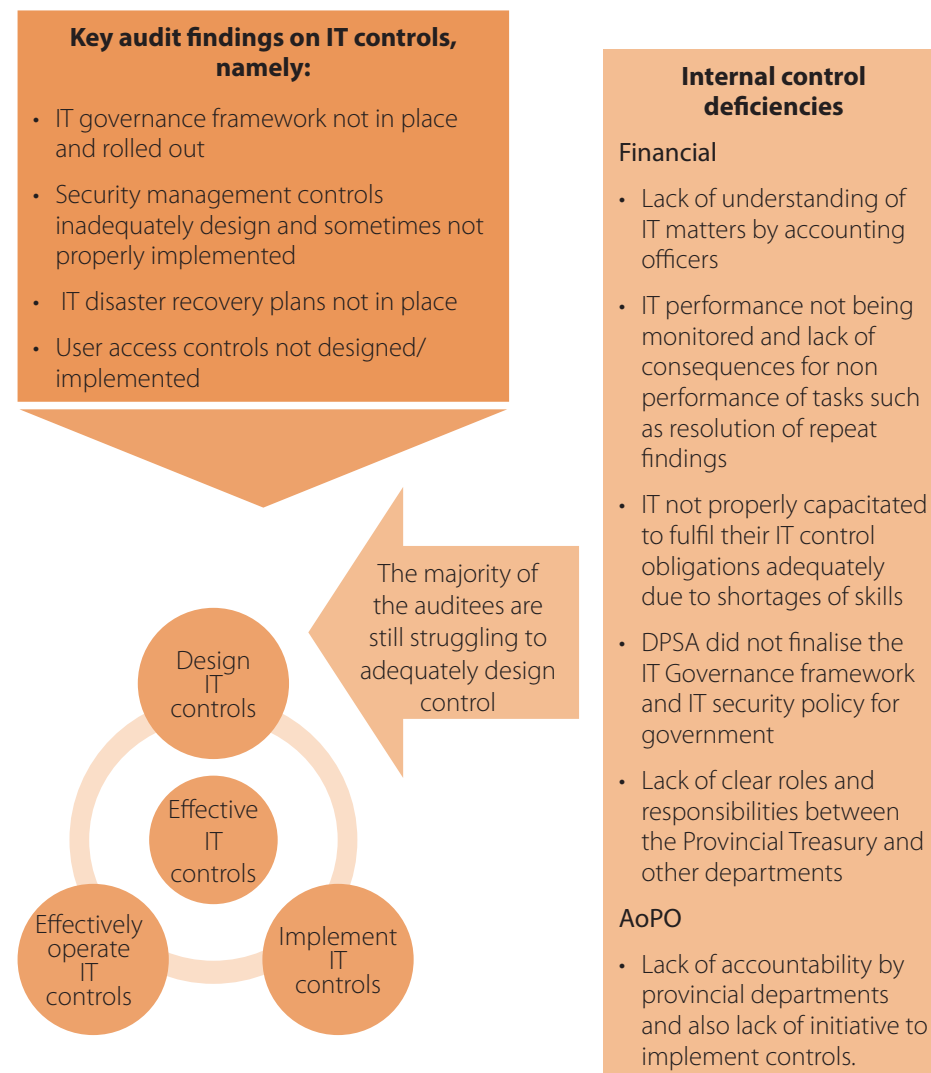
Accounting officers did not implement agreed commitments within the specified timelines and adequate tracking of the implementation of these commitments by the executive leadership was absent. The resolutions to implement commitments were left with chief information officers and IT managers; hence there was lack of accountability and consequences for no IT improvement within the province.

Internal audit was not proactive in following up on IT management commitments to ensure that the findings are resolved, this was due to a lack of skills within the units as well as being under capacitated.

The accounting officers/authorities were also found not to have been sufficiently implementing and tracking the audit committee recommendations on IT management where provided.

### 3.3.4 Key information technology concerns

**Figure 30: Key information technology concerns**



### 3.3.5 Good information technology practices

The Department of Finance has developed and approved user account management policies and procedures for transversal systems for implementation by themselves, together with security baseline standards for adoption by departments. These would minimise the risk of manipulation and unauthorised access to data and systems.

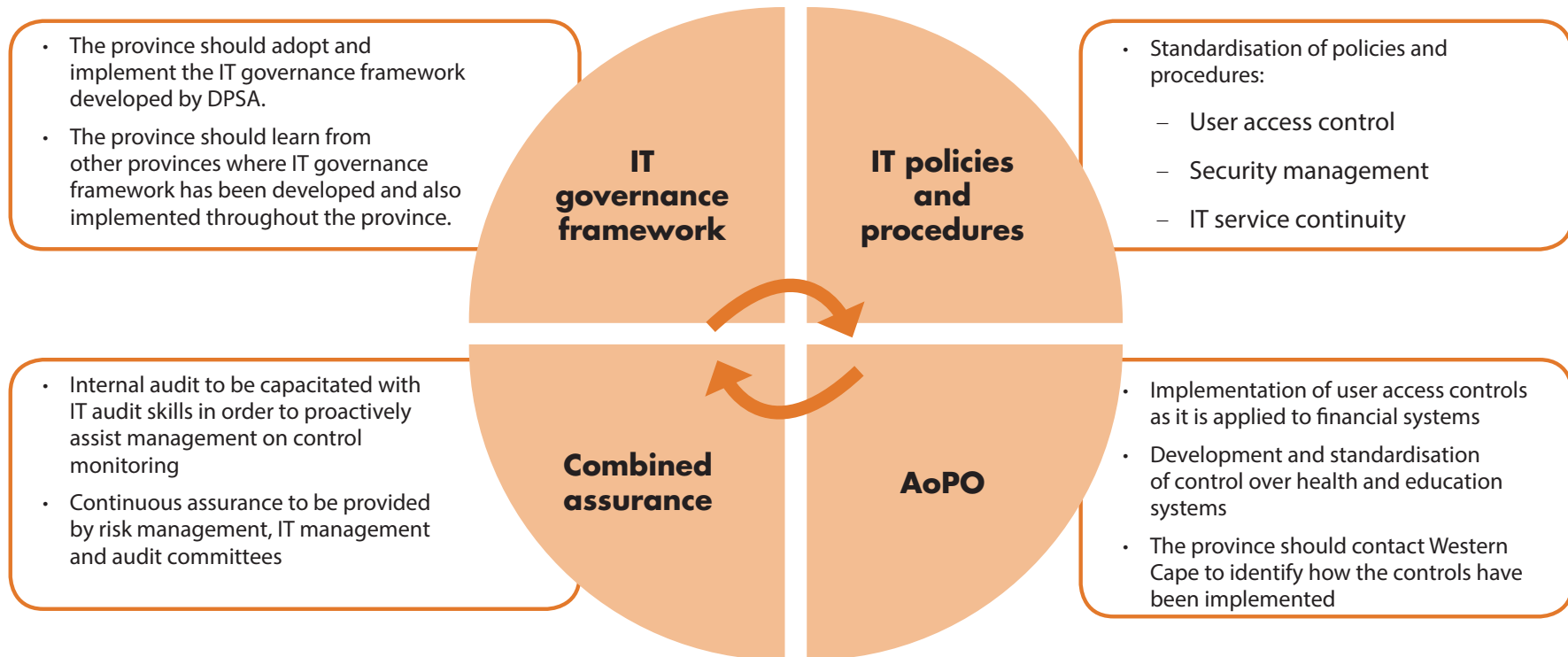
The Department of Local Government and Housing had developed and implemented user account management procedures for debtors (non-transversal system), thus protecting the integrity of data and systems.

The Department of Roads and Transport has developed a disaster recovery plan and is now in a position to recover and restore all financial and performance data and systems with limited disruption to operations.

Furthermore, in collaboration with the Department of Finance, the Department of Roads and Transport has implemented adequate IT controls such as IT continuity and security management. They were also able to utilise limited resources available to focus on key IT matters (doing more with less).

### 3.3.6 Quick wins in resolving information technology management weaknesses

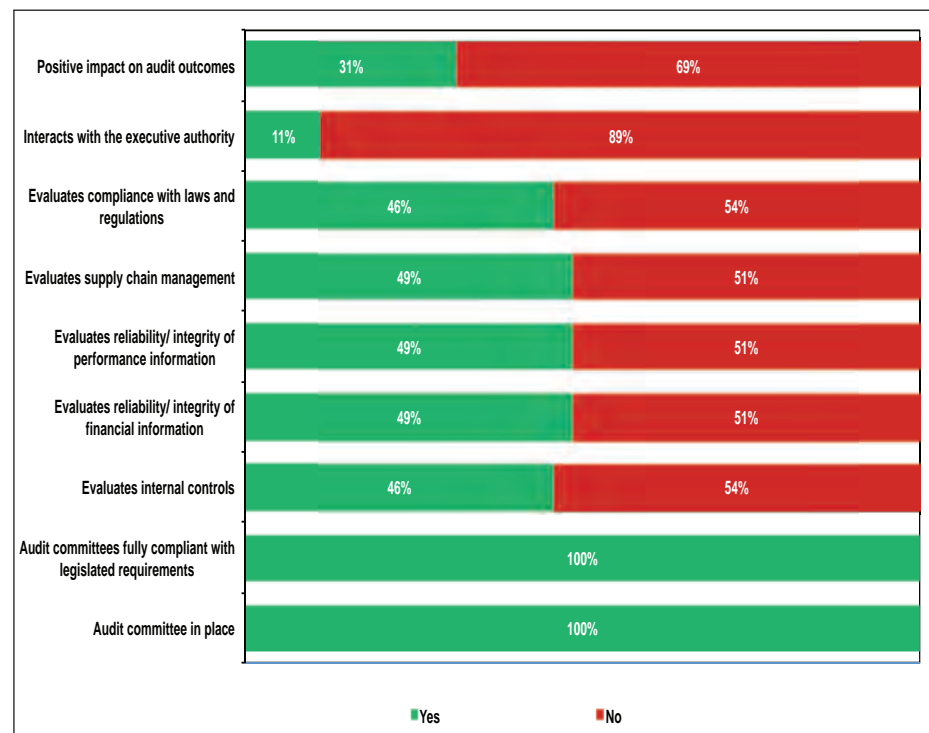
**Figure 31: Quick wins in resolving information technology management weaknesses**



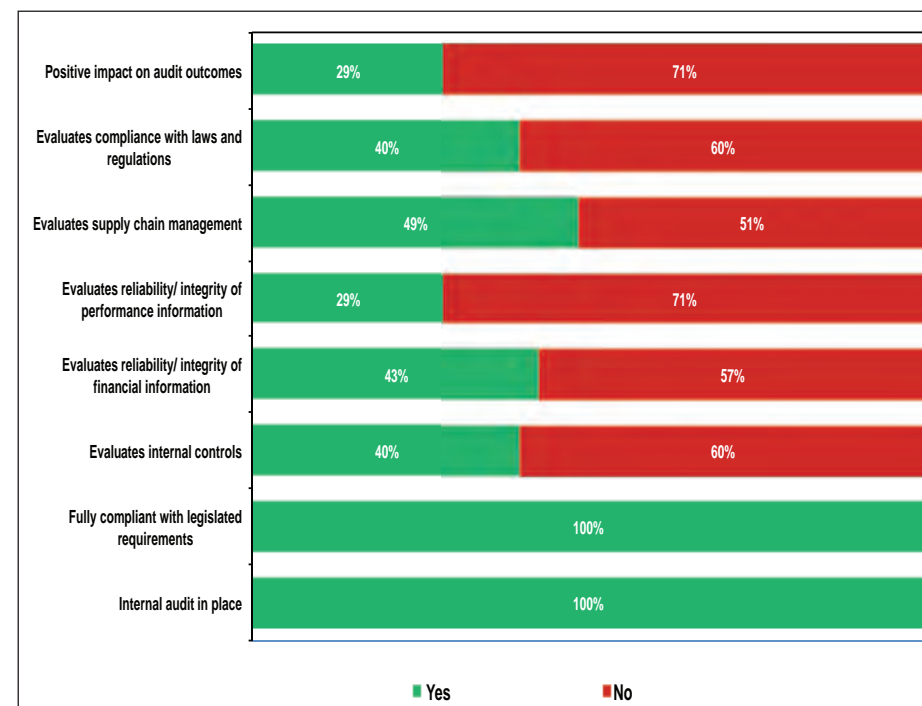
### 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT

Effective governance is a driver of audit outcomes, and audit committees and internal audit are 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/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 32: Effectiveness of audit committees**



**Figure 33: Effectiveness of internal audit units**



It is clear from the above that audit committees in provincial government are not yet operating at the desired level of effectiveness. In order to promote effective interaction and exchange of reporting and internal control-related information between internal audit units (via audit committees) it is recommended that chairpersons of audit committees should heed the invitation to meet with the executive leadership. The effectiveness of these structures is hindered by the accounting officers/authorities not taking ownership of internal controls and implementing the recommendations sufficiently. The provincial executive has committed to ensure that the internal audit units are capacitated and to meet the chairpersons of the audit committees quarterly.



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

- 4.1 ASSESSMENT OF COMBINED ASSURANCE IN THE PROVINCE
- 4.2 STATUS OF IMPLEMENTATION OF PROVINCIAL PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS
- 4.3 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES
- 4.4 AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS







# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section of the general report provides details of the initiatives and commitments of key provincial role players to improve audit outcomes, the status of implementation of public accounts committees' oversight resolutions and an overview of the AGSA's continuing initiatives to encourage clean audits.

### 4.1 ASSESSMENT OF COMBINED ASSURANCE IN THE PROVINCE

**Table 23: Assessment of combined assurance**

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (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>Auditee level</b>									
1	Department of Agriculture and Rural Development	Red	Yellow	Yellow	Yellow	Light	Yellow	Light	Light
2	Department of Community Safety	Yellow	Yellow	Yellow	Yellow	Light	Yellow	Light	Light
3	Department of Economic Development	Yellow	Yellow	Yellow	Yellow	Light	Yellow	Light	Light
4	Department of Finance	Red	Yellow	Yellow	Yellow	Light	Yellow	Light	Light
5	Department of Health and Social Development	Red	Red	Red	Red	Light	Red	Light	Light
6	Department of Housing and Local Government	Yellow	Yellow	Yellow	Yellow	Light	Yellow	Light	Light
7	Department of Infrastructure Development	Yellow	Red	Yellow	Yellow	Light	Yellow	Light	Light

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
Required assurance levels:		Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
8	Department of Roads and Transport								
9	Department of Sports, Arts, Culture and Recreation								
10	Education								
11	Office of the Premier								
12	Provincial Legislature								
13	Provincial Revenue Fund								
14	AIDC Development Centre								
15	Blue IQ Investment Holdings (Pty) Ltd								
16	Constitutional Hill Development Company								
17	Cost Recovery Trading Entity								
18	Cradle of Humankind Trading Entity								
19	Dinokeng World Heritage Trading Entity								
20	Gauteng Economic Development Agency								
21	Gauteng Enterprise Propeller								
22	Gauteng Film Commission								

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (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
23	Gauteng Fund Project Office	Yellow	Yellow	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
24	Gauteng Gambling Board	Red	Red	Red	Yellow	Light Orange	Yellow	Light Orange	Light Orange
25	Gauteng Housing Fund	Yellow	Yellow	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
26	Gauteng Liquor Board	Red	Yellow	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
27	Gauteng Medical Supplies Depot	Yellow	Yellow	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
28	Gauteng Partnership Fund	Green	Green	Green	Green	Light Orange	Green	Light Orange	Light Orange
29	Gauteng Tourism Authority	Red	Red	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
30	Gautrain Management Agency	Yellow	Yellow	Green	Yellow	Light Orange	Yellow	Light Orange	Light Orange
31	g-FleeT Management	Yellow	Yellow	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
32	Greater Newtown Development Company	Green	Green	Yellow	Green	Light Orange	Green	Light Orange	Light Orange
33	Industrial Development Zone	Green	Green	Yellow	Green	Light Orange	Green	Light Orange	Light Orange
34	Supplier Park Development Co	Yellow	Yellow	Yellow	Yellow	Light Orange	Yellow	Light Orange	Light Orange
35	The Innovation Hub	Green	Green	Yellow	Green	Light Orange	Green	Light Orange	Light Orange
<b>Oversight level</b>									
1	Local Government and Housing	Light Orange	Light Orange	Light Orange	Light Orange	Yellow	Light Orange	Yellow	Light Orange
2	Infrastructure Development	Light Orange	Light Orange	Light Orange	Light Orange	Yellow	Light Orange	Yellow	Light Orange
3	Community Safety	Light Orange	Light Orange	Light Orange	Light Orange	Red	Light Orange	Yellow	Light Orange

No.	Auditee	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight - Portfolio committees (not applicable at auditee level)	Internal audit	Public accounts committees (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
4	Agriculture and Rural Development								
5	Roads and Transport								
6	Health and Social Development								
7	Finance								
8	Education								
9	Legislature and Premier								
10	Sports, Arts, Culture and recreation								
11	Economic Development								
<b>Coordinating/ monitoring institutions</b>									
1	Gauteng Provincial Legislature								
2	Office of the Premier								
3	Department of Finance								
<b>Overall BU/ provincial assessment</b>									
	Assess assurance providers overall for the business unit/ province								

The assessment depicted above, evidences how well the different key role players within the assurance model, perform functions in the province and direct the organisations with regard to:

- the skills competencies that exist or are required
- current level of ethics and integrity
- the embedded system of internal controls, underpinned by policies and procedures
- roles and responsibilities and the level of assurance provided and that which is required.

The current lack of institutionalisation of fundamental key controls such as the lack of adequately skilled staff, inadequate policies and procedures and the lack of understanding of roles and responsibilities is also compromising the potential assurance that could be provided by various assurance providers. This is illustrated by the assessment of the level of assurance in the table above. The three assurance providers and assessment are discussed in detail below:

### **Management assurance**

The overall assessment of the combined assurance indicates that there is a need for improvement from all assurance providers.

The first and second providers, being the senior management and accounting officers/authorities at the forefront of the organisation, need to start taking ownership and accountability for their actions while setting the correct tone at the top with an ability to provide the highest level of assurance required. Through more serious and stricter monitoring and involvement by the MECs, as evidently required from the table above, senior management and the accounting officers/authorities need to be held accountable for transgressions. The limited interactions held at the executive and inadequate performance management can be correlated to the poor audit outcomes across the province. The Department of Education has shown a steady improvement during the current period, this is an indication of dedicated interest that is exhibited by the executive leadership at the department.

### **Oversight assurance**

The assessment for the province clearly indicates that the audit committees, coordinating/monitoring ministries such as the treasury, premier and legislature are not yet operating at the desired level. Audit committees are called upon to add financial statements as well as PDO and compliance reporting in their review quarterly. Effectiveness of the audit committees can be intensified if management do their part by taking ownership of the recommendations and implementing them. The coordinating/monitoring ministries need to provide a more robust and interactive oversight function in order to promote consistency and adequately support the departments and entities on challenges faced.

The public accounts committee is providing an appropriate level of assurance in carrying their responsibilities. This is evidenced by the robust interactions when holding the departments accountable for the outcomes at the hearings. Portfolio committees should complement this effort by training the implementation of resolutions.

The portfolio committees are providing a significantly lower than expected level of assurance and need to start exercising the continuous oversight of departments and its entities throughout its financial year. This function should be engaging on a continuous basis and the departments should be held accountable where there is lack of progress in attaining the desired results. Portfolio committees are also encouraged to meet with the AGSA on a quarterly basis so as to intensify their oversight responsibilities.

### **Audit assurance**

The shared internal audit function used by the provincial departments was found lacking at most departments throughout the financial year. The Gauteng Audit Services (GAS) was not adequately capacitated in terms of staffing as well as availability of budgets to counter this constraint, resulting in planned audits not being performed and postponed. The accounting officers/authorities further hindered the effectiveness of this structure by not taking ownership for internal controls and not implementing recommendations sufficiently.

However, it should be noted that the provincial executive has committed to

ensure that the shared internal audit function is capacitated and to meet quarterly with the chairperson of the audit committees.

## 4.2 STATUS OF IMPLEMENTATION OF PROVINCIAL PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

The status of implementation of provincial public accounts committee (PPAC) resolutions relating to specific auditees in the province, as at 31 March 2012, is reflected in the next table.

**Table 24: Status of implementation of PPAC resolutions**

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	HR management	Compliance	Other
<b>Departments</b>								
Department of Education	8	8			•	•		•
Department of Agriculture and Rural Development	1	1						•
Department of Local Government and Housing	10	1	8	1	•			•
Department of Sports, Arts, Culture and Recreation	3	3			•			•
Department of Infrastructure Development	7	1	6		•	•		•
Department of Finance	6	3	3		•			•
<b>Public entities</b>								
Gauteng Management Agency	1	1			•			
G-fleet Management	10	7	3		•	•		•
Dinokeng Trading Entity	5	5			•	•		
Cradle of Humankind	5	5			•	•		
<b>Total</b>	<b>56</b>	<b>35</b>	<b>20</b>	<b>1</b>				

As depicted in the table above, 63% (35) of the total resolutions were implemented by auditees. Auditees that implemented these resolutions have not regressed

in audit outcomes except for Gautrain Management Agency (GMA). It can be determined that GMA was not entirely successful in sustaining the implemented requirements of the PPAC around financial management disciplines.

The most prominent area targeted by the PPAC resolutions is financial management, which is consistent with the trend of the lack of institutionalisation of financial disciplines in the province.

The previous table demonstrates that enhanced oversight over compliance with laws and regulations should be encouraged by the PPAC due to the fact that this area, together with PDOs, appears to be the contributing factor to auditees not achieving clean audit outcomes.

### 4.3 INITIATIVES AND COMMITMENTS MADE BY 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 actions to be taken. The commitments were made by the executive leadership of the departments and entities. The Provincial treasury is responsible for coordination and monitoring of the process of implementation of commitments in the province, a progress report is prepared on a quarterly basis. The MEC of Finance then tables the progress report on a quarterly basis to the provincial executive. The commitments which are specific to only certain departments are highlighted in a separate section of the table below. The commitments included those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

**Table 25: Key initiatives and commitments by provincial role players**

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>Initiatives to improve audit outcomes</b>			
	Provincial executives must drive the approval of organisational structures by the DPSA and the filling of key positions at senior management level.	HR	New	Not yet able to assess
	Track, review and monitor the departmental OPCA reports as part of the state of finances report quarterly and where there is no progress with holding accounting officers accountable for progress towards achieving clean audit outcomes.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
	MECs must ensure that OPCA is established for each department.	Quality of AFS, compliance, PDO	Not implemented	No impact
	All commitments made by the provincial executives to be included in their signed performance agreements and be cascaded down to all responsible officials.	Quality of AFS, compliance, PDO	Not implemented	No impact



Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>Prior year commitments</b>			
	MECs' quarterly meetings with the AGSA on the effectiveness of internal controls (key controls), including internal audit and the quality of financial statements should include the audit and portfolio committee chairpersons.	Quality of AFS, SCM, PDO, IT, HR	Not implemented	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
	<b>New commitments</b>			
	The MEC of Finance must meet with the AGSA quarterly, on the implementation of key controls by the Gauteng provincial government departments.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
	A compliance checklist will be developed and implemented by each department and its entities, which will be monitored continuously, to avoid non-compliance findings.	Compliance	New	Not yet able to assess
	The MEC must ensure that quarterly key controls of their departments and entities are done and discussions between the MEC and the AGSA take place on a quarterly basis.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of Provincial Executive Council (MECs)</b>	<b>Office of the Premier</b>			
	Enhance leadership through the Forum for Heads of Departments (FOHOD) in Gauteng.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
	<b>MEC Health and Premier's Office</b>			
	Ensure that the health task team headed by the DG in the premier's Office takes place and functions as desired.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
	Coordinate and collaborate with the national Health Ministry to address audit qualifications areas at the Department of Health.	Quality of AFS, SCM, PDO, IT, HR	In progress	No impact
	<b>MEC of Finance</b>			
	Support Gauteng Audit Services' internal audit unit to ensure that there is sufficient budget to fill vacancies and enhance staff establishment capacity to enable the units to conduct effective audits.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
Track the progress of IT Road Map development and implementation.	IT	New	Not yet able to assess	

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>HoDs and CEOs</b>	<b>Initiatives to improve audit outcomes</b>			
	Drive consistency in confirmation of interdepartmental balances and financial statement disclosures.	Quality of AFS, PDO	New	Not yet able to assess
	HoDs and CEOs must establish departmental and entity OPCAs. HoDs will submit OPCA quarterly reports to the provincial treasury for their departments and departmental entities.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
	Ensure that the automated ordering process is used at their departments in order to ensure that accurate information is available to the MECs to curb unauthorised expenditure.	Compliance	New	Not yet able to assess
	Monthly reporting of departmental irregular, fruitless and wasteful expenditure, and reporting on disciplinary action taken against those who were responsible for incurring the irregular, fruitless and wasteful expenditure.	Compliance	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>HoDs and CEOs</b>	HoDs and CEOs must ensure that their departments take ownership of assessing quarterly key controls and that these are reviewed by chief risk officers and/or internal audit. In addition, the HoD must review the action plans and or progress of implementation to address deficiencies. The HoD must arrange quarterly meetings with the AGSA to discuss key controls before presentation at quarterly MEC meeting	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess
	HoDs and CEOs must report on progress with the implementation of action plans relating to both internal and external audit findings at quarterly audit committees.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	<b>Initiatives to improve audit outcomes</b>			
	Enhance the review of quarterly and annual financial statements, including disclosure notes, supporting schedules and key reconciliations, PDOs and compliance reports and provide feedback to the departments and the provincial executive.	Quality of AFS, compliance and PDO	In progress	Limited impact
	Provide training on PDO requirements to provincial executives and management, in collaboration with the AGSA.	PDO	New	Not yet able to assess
	Set up/review the technical support structure to support the departments and entities in the fields of HR, finance and SCM and drive consistency in provincial reporting.	Quality of AFS, compliance, HR	New	Not yet able to assess
Monitor departmental OPCA feedback reports on action plans approved by the accounting officer, quarterly and report to the MECs.	Quality of AFS, compliance, PDO	New	Not yet able to assess	

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	Provide support in the form of training and capacity to the departments.	Quality of AFS, HR, SCM, PDO, Compliance, IT	In progress	No impact
	All commitments made by the provincial treasury should be included and it should be ensured that the applicable officials signed performance agreements and it should be cascaded down to all other responsible officials.	Quality of AFS, compliance, PDO	New	Not yet able to assess
	Monitoring of departments to fill critical vacancies and the provincial treasury will assist with capacity-building initiatives to enhance skills in required functional areas	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	<b>Prior year commitments</b>			
	A provincial road map will be developed and implemented to address IT deficiencies.	IT	In progress	No impact
	The provincial treasury will assist departments by tracking the implementation of the following targeted interventions:	Quality of AFS, SCM, PDO	In progress	Limited impact
	Monthly reporting of departmental irregular, fruitless and wasteful expenditure, and reporting on disciplinary action taken against those who were responsible for incurring the irregular, fruitless and wasteful expenditure.			
	Continuous training and development of staff in offices of the chief financial officers.	Quality of AFS, compliance, PDO	Not implemented	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial public accounts committee</b>	<b>New commitments</b>			
	Finalise recommendations to the legislature on unauthorised expenditure within one year of the annual report referred to the PAC.	Compliance	New	Not yet able to assess
<b>Provincial portfolio committees</b>	<b>Initiatives to improve audit outcomes</b>			
	Attend audit committee meetings and drive the monitoring of the departments' key controls and addressing audit findings.	Quality of AFS, compliance, PDO, IT, HR	In progress	Limited impact
	Portfolio committee chairpersons must engage with MECs and report back on the effectiveness of their oversight at quarterly key controls discussions.	Quality of AFS, compliance, PDO	New	Not yet able to assess
	Track the progress of implementation by the departments of public accounts committee resolutions and report on this progress to the legislature.	Quality of AFS, compliance, PDO, IT	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial portfolio committees</b>	Engage with the audit committee chairpersons to discuss the progress of the OPCA feedback reports.	Quality of AFS, compliance, PDO	New	Not yet able to assess
	<b>New commitments</b>			
	The portfolio committees will extend an invitation to the AGSA for participation in the committee; this is aimed at ensuring effective oversight.	Quality of AFS, compliance, PDO, IT	In progress	Limited impact
<b>Audit committees</b>	<b>New commitments</b>			
	The audit chair must meet the MEC on a quarterly basis to provide assurance on the effectiveness of internal controls, including internal audit and the quality of financial statements.	Quality of AFS, SCM, PDO, IT, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Internal audit</b>	<b>New commitments</b>			
	Review quarterly AFS to prevent and detect material misstatements.	Quality of AFS, compliance	New	Not yet able to assess
	Review annual performance report for consistency to annual performance plan (APP)	PDO	New	Not yet able to assess
	Follow up on implementation of action plans to address findings on PDOs in each department and/or entity	PDO	New	Not yet able to assess
	Review quarterly key controls dashboards to provide assurance on their credibility	Quality of AFS, compliance, PDO, IT, HR	New	Not yet able to assess

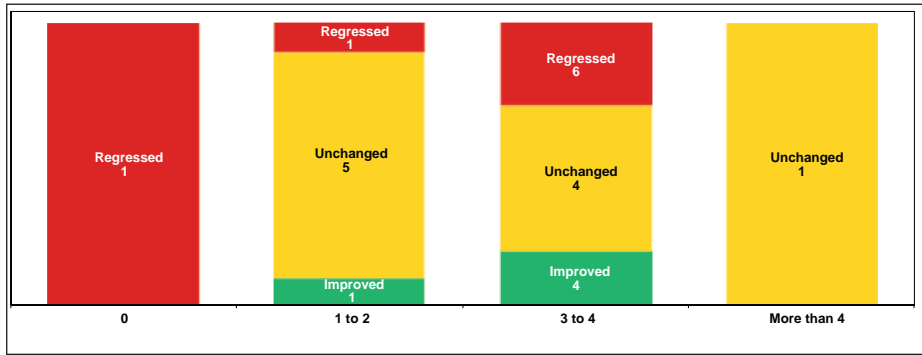
#### 4.4 AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS

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 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 the 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 figure depicts the impact of the AGSA's interactions with the executive.

**Figure 34: Impact of interactions with the executive**



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, CEOs and CFOs. Also excluded are escalations to the speaker of the legislature, portfolio committees and the premier of the province.

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As can be seen from the table, the number 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. The leadership’s commitment and availability for the interaction is a key ingredient for the success of these interactions. In other more serious cases, the number of interactions was increased to facilitate the necessary intervention to improve the audit outcomes in the province.

However, the reality of the situation is that although the AGSA intensified its interactions, the return on that investment did not yield the required results, and outcomes either regressed or remained unchanged from the prior year. It is imperative that the AGSA quarterly interactions are attended by the relevant MEC, HoD/CEO and CFO in order to foster a common understanding of the matters requiring attention to move the relevant department/entity swiftly towards the goal of clean administration. 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 embarked on to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

**Table 26: The AGSA’s key initiatives to encourage clean audits**

Nature	Outline of AGSA initiatives
<b>Interactions with the political and administrative leadership</b>	Continue to enhance the visibility of the AGSA leadership with the provincial executive and portfolio committees on a quarterly basis. Quarterly interactions must include discussions on key controls deficiencies and resulting commitments to achieve clean administration, contentious and emerging accounting matters, financial and cash flow positions and strategic projects of the province. Engagement with the MEC of the Department of Health will be a priority to improve the audit outcome.
<b>Stakeholder interactions and audit outcome roadshows</b>	All stakeholders, particularly accounting officers and accounting authorities, will be met at least quarterly to discuss deficiencies in controls, implementation of action plans and commitments. Roadshows will be conducted by the AGSA leadership on the audit outcomes for the province.
<b>Quarterly interactions on status of key controls</b>	Although the evaluation of key controls are performed by the auditees the AGSA will continue to interact on a quarterly basis with the auditees, MECs, audit committees and portfolio committees to get assurance on the implementation of the key controls.
<b>Promoting understanding of PDO requirements</b>	Collaborate with the Provincial treasury regarding workshops on PDOs aimed at the executive and management. Raise awareness among auditees of the correlation between predetermined objectives and effective service delivery.
<b>Involvement in forums and meetings related to provincial government financial affairs</b>	Actively play a role at the provincial HoD and CFO forums and provincial OPCA to improve effective oversight.

Nature	Outline of AGSA initiatives
<b><i>Understanding of why the financial statements are prepared</i></b>	Discussions will be held with accounting officers and CFOs on the importance of preparing quality monthly, quarterly and annual financial statements that are used as a vital decision-making tool. Interim audits at some auditees to allow them time to resolve significant findings before the final audit commenced.
<b><i>Promoting an understanding of IT risks and controls</i></b>	<p>The IT issues are discussed with the HoDs and CEOs, in addition to the CIOs. This is to ensure that the HoDs and CEOs drive the implementation of controls to address deficiencies.</p> <p>The information systems audit team is involved in the key control discussions with the MECs to ensure that IT issues are elevated at that level so that the MECs can influence the implementation of appropriate controls.</p> <p>IT issues are also discussed at audit committee level as the audit committees can influence the implementation of appropriate controls to mitigate IT risks.</p>
<b><i>Assisting with fraud risk assessment</i></b>	Working closely with internal auditors to improve combined assurance. Also performing fraud risk assessments at key departments and providing feedback to the leadership.
<b><i>Contributing to the effectiveness of oversight structures</i></b>	Attend portfolio committee meetings on a quarterly basis to drive an environment of proactively monitoring the departments' key controls and addressing audit findings. Will bring to the attention of the speaker and portfolio committee chairs the importance of inviting the AGSA to the meetings to enhance oversight and contribute to clean administration. Attend all audit committee meetings. Will debrief PPACs, prepare debriefing documents and attend hearings.





# 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 general report provides information on emerging matters that may 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 the provincial audit outcomes in the 2012-13 financial year. Appropriate measures should therefore be timeously implemented to ensure that these do not negatively impact on audit outcomes.

**Table 27: Current and emerging matters that require attention**

Area of change		Summary of expected changes
<b>Matters affecting government auditees in all provinces</b>		
<b>Accounting matters</b>	Readiness of departments for the eventual inclusion of inventory in the financial statement disclosures	<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 are not maintained for all institutions.</li> <li>• Formal written instructions and procedures for inventory counts have not been prepared.</li> <li>• Inventory counts do not agree with figures presented in the annual financial statements or accounting records, and no reconciliations or investigations are conducted in this regard.</li> <li>• There is a lack of physical safeguarding of inventory stores.</li> <li>• Bin cards or proper records are not kept in all cases to control stock movement and issues.</li> <li>• The value of the provinces' learner support material on hand could not be determined due to limitations placed on the audit process.</li> </ul>
<b>Matters specific to Gauteng</b>		
<b>Stability of leadership</b>	All areas	Restructuring of MECs' portfolios without an appropriate handover process.
<b>Splitting of departments</b>	All areas	Merger and demerger of the departments and entities may result in issues relating to financial, predetermined objectives and compliance.
<b>Vacant positions</b>	All areas	Prolonged vacancies in key positions filled in an acting capacity, impacting on accountability.

## 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. AGSA 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 of matters related to the management of budgets, expenditure, conditional grants (applicable only to departments), revenue, assets and liabilities were analysed.

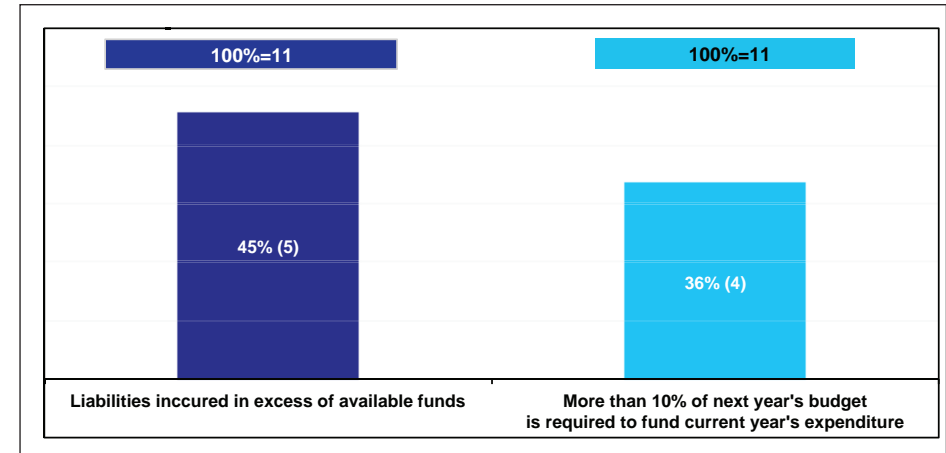
The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province overall.

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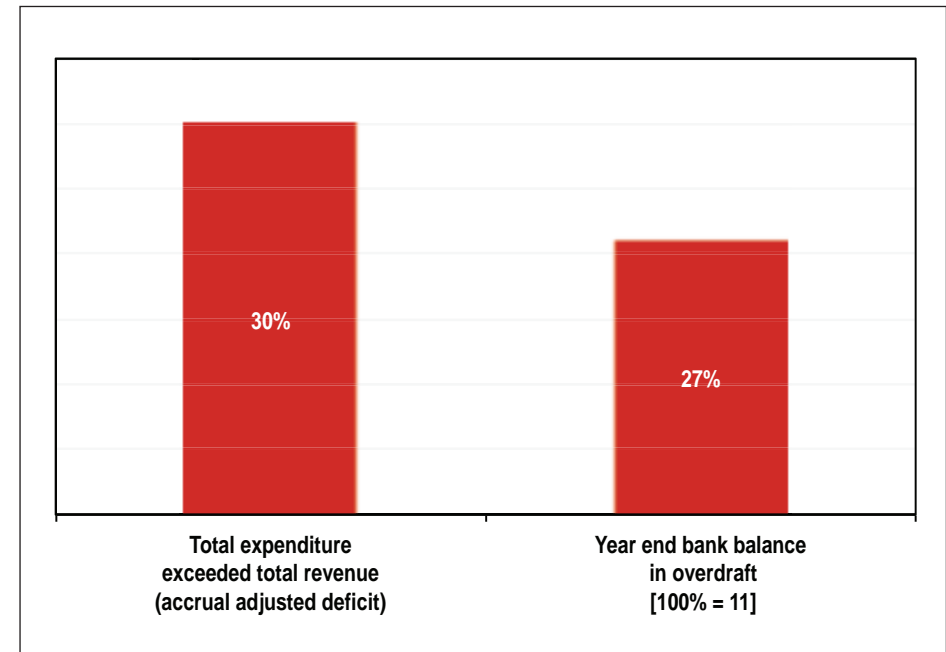
### 5.2.1 Budget management and conditional grants

The spending of seven (64%) departments was within the approved budget. However, the financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the financial statements and used to assess actual expenditure vs 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 in the province:

**Figure 35: Budget management by departments**



**Figure 36: Deficits and overdrafts**



There is overreliance on overdrafts to cover deficits and operational activities of the departments. This trend results mainly from:

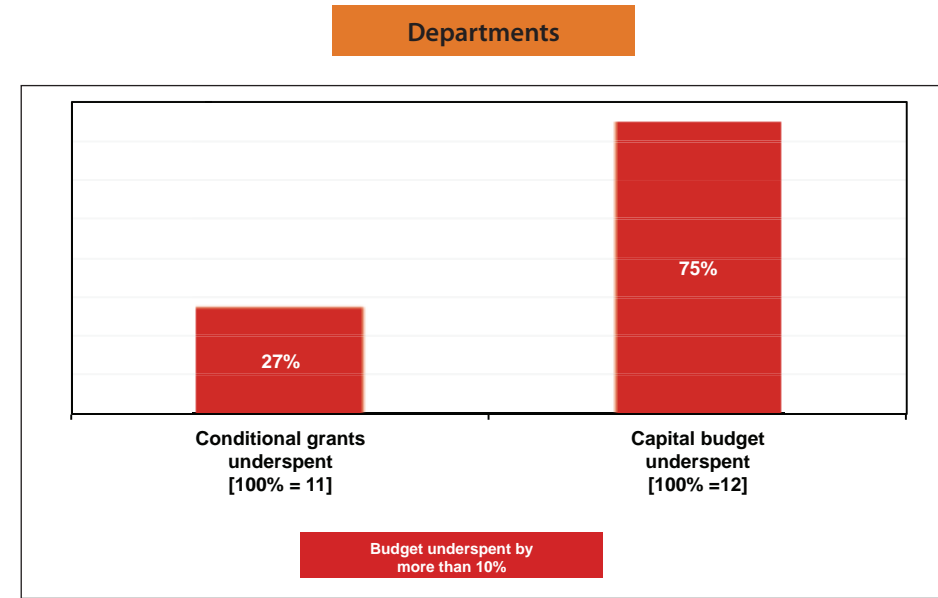
- departments that are spending more than what has been approved and allocated
- prior year commitments and accruals funded by current year budget allocation
- unauthorised expenditure condoned without funding.

If this position remains unattended, service delivery will continue to be negatively impacted and the departments will not change their current position of not paying creditors within the required 30 days.

Budgeting needs to take into account all commitments and accruals for the departments and proper monitoring of the budget and cash flow needs to be in place throughout the financial period to ensure that the departments do not spend in excess of what has been budgeted.

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

**Figure 37: Underspending by departments**



The underspending of capital budgets and conditional grants has an impact 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 funds only as and when it is required. The figure above shows the number of departments that underspent on capital budgets and conditional grants.

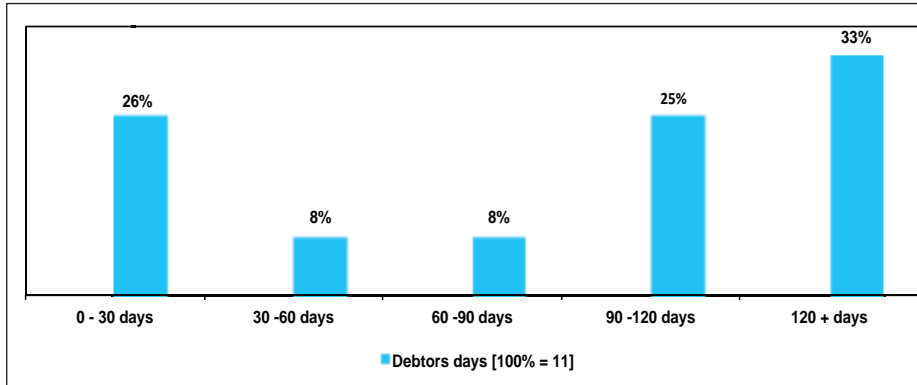
The graphic depicts that 75% of the departments did not deliver on all the service delivery objectives or carried out all the capital development projects. Reasons for this trend is due to a lack of adequate planning and budgeting monitoring to ensure that planned activities are delivered on.

Departments need to ensure that performance monitoring units are fully capacitated to ensure that there is adequate monitoring of performance against planned deliverables on a regular basis and to ensure that the departments meet their objectives and performance targets.

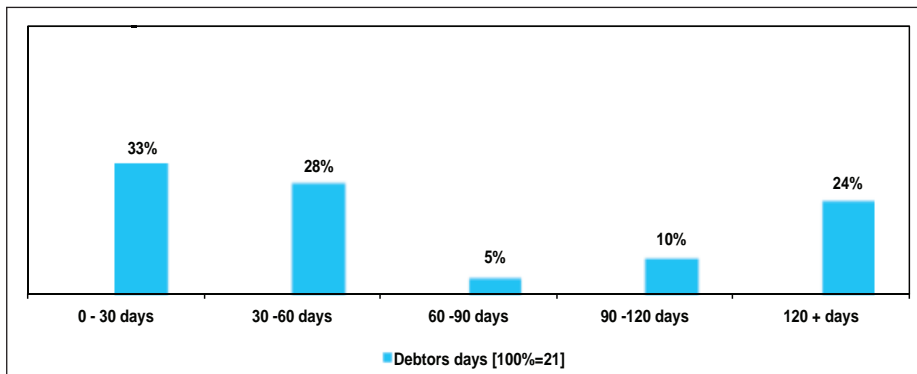
## 5.2.2 Revenue and expenditure management

The figures below show the average debtors days. Debtors days refer to the average number of days it takes for the auditee to recover the money owed to them by persons/institutions.

**Figure 38: Debtors days – Departments**



**Debtors days – Public entities**

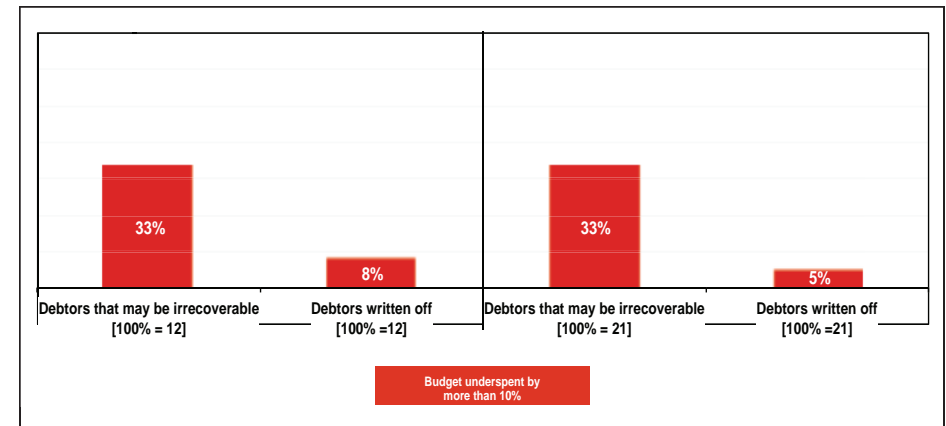


Overall in the province, most of the debtors balances are in the 30-60 days category; however, departments show 33% of debtors which have been outstanding for more than 120 days. A lack of systems and processes in place to record revenue and debtors at the departments is the reason why the debtors remain outstanding for long periods of time. Lack of documents or evidence

that revenue has been earned further makes it difficult to enforce collection of the money owed to the departments and public entities.

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

**Figure 39: Status of state debtors**



Inadequate controls and mechanisms in place to ensure revenue collection resulted in excessive long-outstanding debtors and reduced the likelihood of debt recovery. Lack of timeous collection of debtors balances is a non-compliance with the PFMA.

The establishment of proper systems and processes is required to ensure that revenue is adequately recorded and timeous collection of debtors is required to ensure that the current position is reversed or that the recoverability of debtors is improved.

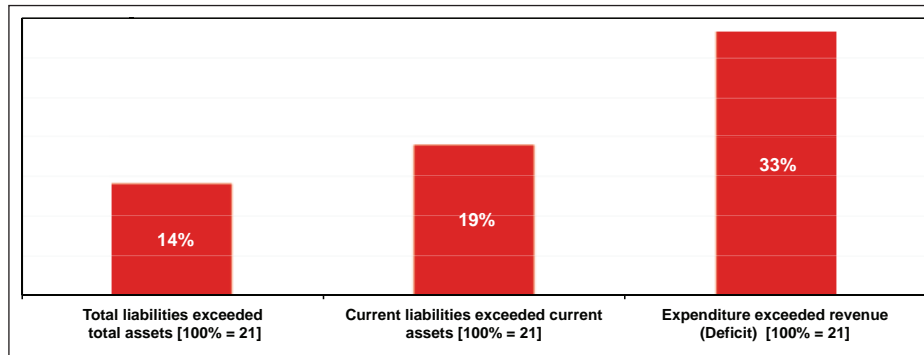
## 5.2.3 Asset and liability management

In the private sector the analysis depicted below would be an indicator of a possible going concern problem at an entity, i.e. that the entity would not have sufficient funds to continue operating. However, it is uncommon for a public sector auditee to cease existing as a result of an inability to finance its operations, as these departments normally constitute the delivery of service 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 40: Funding of continued operations – Public entities**



The trend of the public entities indicates that 14% of the entities are technically insolvent, with the majority not being in a position to settle debts. The entities also evidence a discipline of good cash flow management practices with no reliance on overdrafts. The position depicted above is as a result of inadequate budgetary processes at the entities and in other instances parent departments withhold the funds that were supposed to be transferred to the entities. Provincial mandates are not delivered on as a result of this and suppliers to these entities are not paid within 30 days as required by the legislation. The budget of the new financial period will be spent if these shortfalls are not sufficiently provided for.

Proper budgeting and monitoring of the budget is required to ensure that the entities change the current technically insolvent position.

### **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.

It is imperative that the provincial leadership, together with the governance structures, take 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 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, audit committees and root causes

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	Current assets	Liabilities	Revenue	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, irregular, fruitless wasteful and losses	Asset and liability management	Budget	Expenditure management	Financial misconduct	Revenue management	Strategic planning and performance management	Procurement management	HR management	Other	
<b>Departments</b>																									
1	Community Safety																								
2	Department of Agriculture and Rural Development																								
3	Department of Health and Social Development																								
4	Department of Infrastructure Development																								
5	Department of Roads and Transport																								
6	Economic Development																								
7	Education																								
8	Finance																								
9	Housing and Local Government																								
10	Office of the Premier																								
11	Provincial Legislature																								
12	Provincial Revenue Fund																								
13	Sport, Arts, Culture and Recreation																								

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	Increase	↓								



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

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<b>Public entities</b>																								
14	AIDC Development Centre	Green			Yellow		Blue							A										
15	Blue IQ Investment Holding (Pty) Ltd	Yellow		Blue		Blue								A	N								N	
16	Constitution Hill Development Company	Yellow		Blue		Blue									R					A		N		
17	Cost Recovery Trading Account	Yellow		Blue		Blue								R	R									
18	Cradle of Human Kind World Heritage Site	Green			Yellow	Blue														A				
19	Dinokeng Trading Account	Green			Yellow	Blue														A				
20	G- Fleet	Yellow	Blue	Blue	Yellow	Blue					R	R	N	R		R			A	A	N	N		
21	Gauteng Economic Development Agency	Yellow		Blue	Green									N	N									
22	Gauteng Enterprise Propeller	Yellow	Blue	Blue	Green						N		N	N					N			N		
23	Gauteng Film Commission	Yellow		Blue	Green															N				
24	Gauteng Fund Project Office	Yellow		Blue	Yellow	Blue								N	A								N	
25	Gauteng Gambling Board	Yellow	Blue	Blue	Green						N			N										
26	Gauteng Housing Fund	Yellow		Blue	Purple	Blue								N										
27	Gauteng Liquor Board	Purple		Blue	Yellow	Blue	Blue		Blue					N	A		N							
28	Gauteng Partnership Fund	Green			Green																			

Legend (Audit outcomes)	Financially unqualified with no findings	Green	Disclaimer	Red	Qualified	Purple	Adverse	Pink	Legend (Drivers)	Good	Green	Significant control deficiency	S	Legend (Findings)	Addressed	Green	A	Legend (Movements)	Reduction	Green	Up arrow	Unchanged	Yellow arrow	Legend (Root cause)	No significant root cause	Green	
	Financially unqualified with findings	Yellow	Audit outstanding	Grey	Closed	Blue	Finding	Blue		Causing concern	Yellow	Intervention required	Red		New	Yellow	N	Repeat	Red	Increase	Red	Down arrow		A contributing root cause	Yellow	A major root cause	Red



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

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	Current assets	Liabilities	Revenue	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, irregular, fruitless wasteful and losses	Asset and liability management	Budget	Expenditure management	Financial misconduct	Revenue management	Strategic planning and performance management	Procurement management	HR management	Other	
29	Gauteng Tourism Authority																								
30	Gautrain Management Agency																								
31	Greater Newtown Development Agency																								
32	Industrial Development Zone (Pty) Ltd -GP																								
33	Medical Supplies Depot																								
34	Supplier Park Development Co																								
35	The Innovation Hub																								

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		Increase	↓								





