



GENERAL REPORT

ON THE PROVINCIAL AUDIT OUTCOMES

KWAZULU-NATAL PFMA 2011-12



GENERAL REPORT ON THE PROVINCIAL AUDIT OUTCOMES KWAZULU-NATAL 2011-12

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Our reputation promise/mission



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.



AUDITOR-GENERAL: TERENCE NOMBEMBE

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



Foreword

12



Nature and cause of qualification areas (Section 2.2.2)

33



Overall audit outcomes (Section 2.1.1)

23

Reliability of service delivery information (Section 2.3)

37

Improvements and regressions in audit outcomes (Section 2.1.2)

25

Readiness of government departments to report on their performance (Section 2.3.4)

42

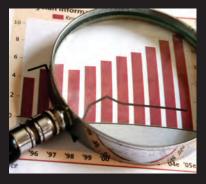
No backlog in audit reports (Section 2.1.5)

28



Compliance with laws and regulations (Section 2.4)

44



Quality and correction of financial statements (Section 2.2.1)

31



Findings arising from the audit of supply chain management (Section 2.4.3)

48



Unauthorised, irregular as well as fruitless and wasteful expenditure (Section 2.4.4)

52

Overall status of internal control (Section 3.1)



Information Technology management (Section 3.3

66

61

Audit committees and internal audit units (Section 3.4)





Impact of key role players on audit outcomes (Section 4)

77



Commitments of role players (Section 4.2)

83

The AGSA's key initiatives to encourage clean audits (Section 4.4)

91



Other current and emerging matters that require attention (Section 5.1)



Financial health indicators (Section 5.2)

98

97

Table of contents

2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES37
2.3.1 Overall outcomes from the audit of reporting on predetermined objectives
2.3.2 Findings on predetermined objectives38
2.3.3 Root causes and best practice recommendations 41
2.3.4 Key messages from the performance audits on the readiness of government departments to report on their performance
2.4 FINDINGS ARISING FROM THE AUDIT OF
COMPLIANCE WITH LAWS AND REGULATIONS44
2.4.1 Overall outcomes from the audit of compliance with laws and regulations
2.4.2 Findings on compliance with laws and regulations
2.4.3 Findings arising from the audit of supply chain management 48
2.4.3.1 Limitations on planned scope of audit of awards48
2.4.3.2 Awards to state officials and close family members 49
2.4.3.3 Uncompetitive or unfair procurement processes50
2.4.3.4 Inadequate contract management51
2.4.3.5 Inadequate supply chain management controls52
2.4.4Unauthorised, irregular as well as fruitless and wasteful
expenditure incurred52
2.4.5 Root causes and best practice recommendations56

SEC	CTION 3: AUDITEES' SYSTEMS OF INTERNAL CONTROL61	4.3 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS
3.1	OVERALL STATUS OF INTERNAL CONTROL61	4.4 INITIATIVES OF THE AUDITOR-GENERAL OF SOUTH AFRICA TO ENCOURAGE CLEAN AUDITS 9
	HUMAN RESOURCE MANAGEMENT	SECTION 5: EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH
	3.3.1 Summary of overall identified weaknesses in the management of financial information systems67	INDICATORS
	3.3.2 Audit of performance information systems68	THAT REQUIRE ATTENTION
	3.3.3 Status of addressing management commitments	5.2 FINANCIAL HEALTH INDICATORS
3.4	management weaknesses	5.2.2 Revenue and expenditure management
SEC	CTION 4: IMPACT OF KEY ROLE PLAYERS ON	GLOSSARY OF TERMS 108
	AUDIT OUTCOMES77	ANNEXURE 112
	COMBINED ASSURANCE MODEL	

KWAZULU-NATAL CLEAN AUDITS 2011-12

DEPARTMENT

Arts and Culture
KwaZulu-Natal Provincial Treasury

PUBLIC ENTITY

Amafa aKwaZulu-Natali

KZN Political Parties' Fund

Natal Joint Municipal Pension Fund (Provident)

Natal Joint Municipal Pension Fund (Retirement)

Natal Joint Municipal Pension Fund (Superannuation)

FOREWORD









FOREWORD

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

The province was unable to build momentum on the clean audit outcomes previously reported due to provincial efforts to respond to prior year commitments revealing additional risk that first needed attention in order to sustain the internal control environment and accountability. With a greater effort in this direction, the 26 (67%) unqualified reports can be converted to clean audits.

Following the 2010-11 audit outcomes, the provinvcial leadership committeed to

the following: The leadership across the board pledged intensified regular monthly reporting, validation of reported financial, service delivery and compliance information and constant monitoring, with specific emphasis on a vigorous and proactive approach to eliminate irregular expenditure. The leadership also pledged to ensure effective internal audit units and audit committees to continuously verify the credibility of internal controls supporting monthly reports. To give effect to these commitments, key vacant positions will need to be filled with suitably skilled persons.

In addition, the provincial treasury would play a coordinating role in monitoring, providing technical support, compiling manuals and providing training. To sustain these, the legislature committed to strengthen its oversight collaboration between the portfolio committees, public accounts committee and members of the executive council as well as regular interactions with heads of department and chief executive officers of public entities to provide quarterly assurance on the status of internal controls, at the level of root causes. Furthermore, the premier and the executive would review progress quarterly and ensure the adequacy provided by the coordinating role players.

We are encouraged by the enthusiastic willingness of the provincial leadership to engage on the risks and status of internal controls that were revealed by the contributions of the provincial treasury, internal audit units, audit committees and the Auditor-General of South Africa in the risk evaluation process. Now that most of the significant risks have been diagnosed, of particular urgency is the need for the leadership to revive the implementation of the remaining clearly defined commitments made in the prior year, relating to the stability of human resource capacity and credibility of reported information.

The credibility of reports would also improve the ability of the province to effectively manage service delivery and cash flow results. In this regard the province would be better positioned to respond to the reported situation where 50% of departments and 35% of public entities achieved less than 80% of service delivery targets. The province would also be able to respond to the situation where six departments incurred liabilities in excess of available budgeted funds.

As part of our contribution towards clean administration, the leadership and all levels of staff of the Auditor-General of South Africa have committed to enhance the organisation's visibility and provide proactive insights into the root causes and the status of internal controls with clarity and simplicity. Dialogue will also include matters that are not being resolved in a timely manner together with accountability and

consequences thereof. The highly intensified interactions and commitment of all levels of staff will indeed be a brand that can be associated with the Auditor-General of South Africa in KwaZulu-Natal, which will contribute to sustainable, positive outcomes in our province.

I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling the Auditor-General of South Africa's constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership

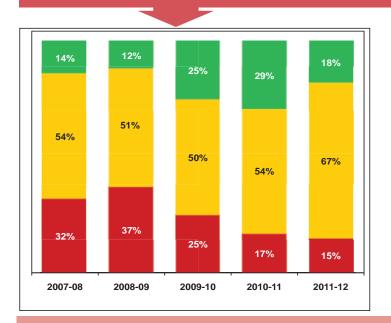
As members of this house and the executive, we are ready to support, we are ready to respond, to make the work of the Auditor-General easier.

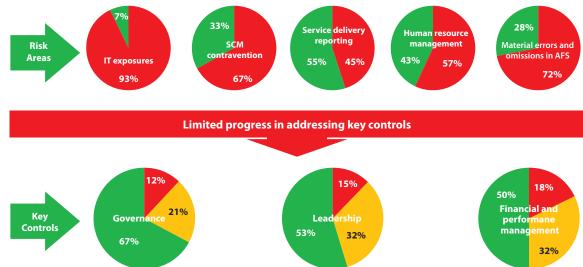
- Dr Zweli Mkhize

of the provincial portfolios.

Auditor- General

Auditor-General Pretoria March 2013 The province was unable to build momentum on the increase in the clean audit outcomes reported over the past three financial years





Way forward

First level of assurance: Management assurance

Human resource capacity and productivity

Timeous filling of vacancies with right skills

Effective performance management

Maintaining leadership stability

Effective operation of daily controls (checks and balances)

Monthly reporting (financial, service delivery, compliance and IT controls)

Attention to key controls

Validating credibility of management information

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

Effectiveness of assurance providers

Management to implement action plans and report thereon

Effective monitoring of commitments by oversight

Strong independent assurance

EXECUTIVE SUMMARY







EXECUTIVE SUMMARY

Significant aspects of audit outcomes are summarised in the table below, while sections 2 and 3 provide 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
		One (4%) public entity improved to a clean audit (financially unqualified with no findings on predetermined objectives (PDOs) and/or compliance with laws and regulations) opinion. One (6%) department improved to financially unqualified with findings on PDOs and compliance with laws and regulations. Two (13%) departments and four (17%) public entities remained unchanged as clean audits.
Overall audit outcomes		Eight (50%) departments and 13 (57%) public entities remained financially unqualified with findings on PDOs and/or compliance with laws and regulations. Two (13%) departments and two (9%) public entities remained qualified and one (4%) public entity retained a disclaimer of audit opinion.
		Three (19%) departments and one (4%) public entity regressed from a clean audit opinion to financially unqualified with findings on PDOs and/or compliance with laws and regulations and one (4%) public entity regressed from qualified to an adverse audit opinion.

Aspect	Indicator	Key outcomes and trends
		All 16 departments, including the legislature, and 18 (78%) out of 23 public entities submitted financial statements by the legislated date of 31 May 2012. Fourteen (88%) departments and 13 (81%) out of 17 public entities that require reporting on PDOs, submitted the annual performance reports by 31 May 2012.
Submission of financial statements and annual performance reports for audit		Five (22%) out of 23 public entities submitted financial statements after 31 May 2012, the audits of which have been completed and the results included in this report. The financial statements of the KwaZulu-Natal Provincial Revenue Fund and the consolidated financial statements of the departments and public entities were received on 14 September 2012 and 1 October 2012, respectively, but the audits had not been completed in time for inclusion in the analysis in this report.
		Two (13%) departments and four (24%) public entities did not submit their performance reports for audit.
		Two departments and five public entities obtained clean audit opinions.
Opinions on financial statements		Twelve departments and 14 public entities obtained financially unqualified with findings on PDOs and/or compliance with laws and regulations audit opinions.
		Two departments and two public entities were qualified and one public entity obtained an adverse audit opinion and one obtained a disclaimer of audit opinion.

Aspect	Indicator	Key outcomes and trends
		• There was a slight improvement in the PDO findings in respect of public entities as 41% in 2011-12 compared to 56% in 2010-11 had findings. Overall, the reliability of information has improved by 12%, the usefulness of information improved by 4%.
Reporting on PDOs		There has been a regression in the PDO findings for departments as 50% of departments in 2011-12 compared to 31% in 2010-11 had findings. The reporting on PDOs remained an area which was receiving attention and contributed to the regression in audit outcomes for 2011-12. Non-compliance with laws and regulations regressed by 30%
Findings on non- compliance with laws and		Two public entities, namely Amafa aKwaZulu-Natali and uMsekeli Municipal Support Services improved to no findings on compliance with laws and regulations. Two departments, namely Arts and Culture and the KwaZulu-Natal Provincial Treasury; and four public entities, namely Political Parties' Fund and the three pension funds retained their status of no findings on compliance with laws and regulations.
regulations		Three departments, namely Transport, Office of the Premier and KwaZulu-Natal Provincial Legislature; and one public entity, namely Trade and Investment KwaZulu-Natal regressed to findings on compliance with laws and regulations.

Aspect	Indicator	Key outcomes and trends				
		There has been a reduction in findings with regard to uncompetitive or unfair procurement processes.				
Supply chain management (SCM)		Internal control deficiencies resulted in an increase in findings pertaining to inadequate contract management.				
		Limitations on the planned scope of audit of awards were still present in the current year.				
		Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control relating to leadership, financial and performance management and governance.				
Internal controls		Overall, there was a marked regression in the implementation, operation and monitoring of key controls adopted by the departments and public entities in KwaZulu-Natal. Most of the qualifications point to the leadership not monitoring, reviewing and ensuring compliance with the relevant requirements of the financial reporting framework and good financial management.				
		The regression in key controls or auditees having received negative audit outcomes can be attributed to not implementing and monitoring the fundamentals of internal controls. A concerted effort is required to stem the downward trend.				

Aspect	Indicator	Key outcomes and trends			
		The overall HR management improved in the following focus areas:			
		HR planning and organisation			
		Management of vacancies			
		Appointment processes			
			Performance management		
Human		Management of leave, overtime and suspensions			
resource (HR) management				Attention should be focused on the following areas to ensure better audit outcomes in future:	
		Appointment processes			
					Management of leave, overtime and suspensions which, although it has improved, is still a matter of concern.
		Acting positions remain an issue that still needs intensified attention to avoid any regressions in future.			

Aspect	Indicator	Key outcomes and trends				
		At the provincial treasury, the department designed user access management policies for the Basic Accounting System (BAS) and Hardcat system. Personnel were equipped with the necessary skills and knowledge to implement processes in compliance with policies.				
Management of information technology (IT)		There was inadequate progress in implementing management's commitments. While some commitments had been resolved, the majority had either been partially resolved or not resolved. Leadership intervention is required to ensure that commitments are honoured.				
		The IT governance framework developed by the Office of the Premier was not approved. As a result IT policies and procedures were not adequately designed, service level agreements (SLAs) were not adequately designed and service providers' performance in terms of the existing SLAs was not monitored.				
Audit committees and internal audit units		The new shared provincial audit committee was appointed for all departments. The KwaZulu-Natal (KZN) Provincial Legislature appointed its own audit committee. The shared provincial internal audit unit was in place for all the departments. Ninety-one per cent of auditees had internal audit units and audit committees in place. Eighty-eight per cent of audit committees were fully compliant.				
uduit dints		Eighty-two per cent of internal audit units evaluated reliability/integrity of financial information.				
		Only 79% of internal audit units and 82% of audit committees proved to have had a positive effect on audit outcomes.				

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





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 auditees' systems of internal controls in section 3 of this report. Section 4 records the commitments received from the provincial executive leadership and oversight structures and other 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 provincial government comprises 40 auditees – 16 departments (including the legislature), the provincial revenue fund and 23 public entities audited by Auditor-General of South Africa (AGSA).

The public entities include 13 provincial public entities, one trading entity and nine other entities. The number of public entities has decreased from 24 to 23 since the 2010-11 financial year due to the closure of one public entity, KwaZulu-Natal Planning and Development Commission.

The audit outcomes of a further 12 public entities not audited by the AGSA, are summarised in section 2.1.6.

2.1.1 Summary of overall audit outcomes

The audits of 16 (100%) departments, including the legislature, and 18 (78%) public entities that submitted financial statements by 31 May 2012, as well as five (22%) public entities that submitted financial statements late were completed within the legislated time frame of two months from receipt by the AGSA of their financial statements. The audit of the provincial revenue fund was finalised after the cut-off date of 15 October 2012 for inclusion in the analysis due to late submission of financial statements for audit.

The audit outcomes and outstanding audit reports (current and prior years) are summarised in the following table. Where applicable, audit opinions relate to the consolidated financial statements of auditees. 'With findings' denotes findings on PDOs and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified with no findings on PDOs and compliance with laws and regulations.

Table 2: Summary of audit outcomes for current and prior years

A dia	Departments*		Public entities		То	tal
Audit outcomes	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	2	6	5	6	7	12
Financially unqualified with findings	12	8	14	14	26	22
Financially unqualified financial statements	82%	82%	83%	83%	82%	83%
Qualified opinion, with findings	2	3	2	3	4	6
Adverse opinion, with findings	0	0	1	0	1	0
Disclaimer of opinion, with findings	0	0	1	1	1	1
Number of audit reports not issued by 15 October 2012	1	0	0	0	1	0
Outstanding audits and financially qualified financial statements	18%	18%	17%	17%	18%	17%
Total number of audits in the province	17	17	23	24	40	41

^{*} Including legislature and provincial revenue fund

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 years.

Figure 1: Summarised movement in overall audit outcomes

Movement in audit outcome from 2011-12 – all auditees								
Audit opinion	Improvement	Unchanged	Regressed	New auditees	Total auditees reported on	Outstanding audits prior year opinion		
Financially unqualified with no findings	1	6			7	1		
Financially unqualified with findings	1	21	4		26			
Qualified, with findings		4			4			
Disclaimer/Adverse, with findings		1	1		2			
Total	2	32	5	0	39	1		

The two improvements were Amafa aKwaZulu-Natali from financially unqualified with findings to a clean audit opinion and the Department of Public Works, which moved from qualified to financially unqualified with findings.

The Office of the Premier, KZN Provincial Legislature, Transport and Trade and Investment KZN, which received clean audits in 2010-11, regressed to financially unqualified with findings. The KZN Housing Fund regressed from a qualified to an adverse audit opinion.

The Department of Arts and Culture, KwaZulu-Natal Provincial Treasury, KZN Political Parties' Fund, Natal Joint Municipal Pension Fund: Provident, Natal Joint Municipal Pension Fund: Retirement and Natal Joint Municipal Pension Fund: Superannuation remained financially unqualified with no findings.

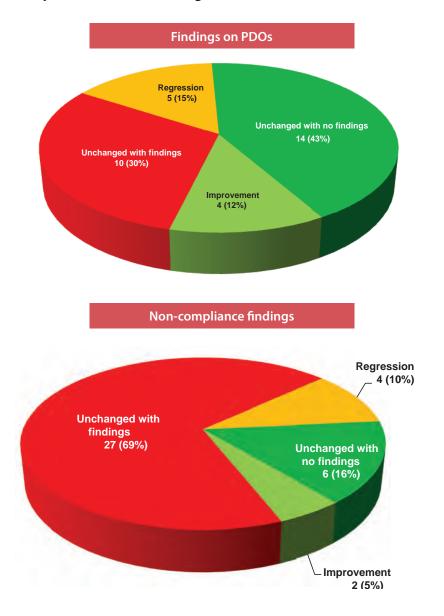
Agriculture, Environmental Affairs and Rural Development, Community Safety and Liaison, Cooperative Governance and Traditional Affairs (CoGTA), Economic Development and Tourism, Human Settlements, Social Development, Sport and Recreation, KwaZulu-Natal Royal Household Trust, Agri-Business Development Agency, Dube TradePort Company, KwaZulu-Natal Gaming and Betting Board, KwaZulu-Natal Growth Fund Managers (Pty) Ltd, Ithala Development Finance Corporation Ltd, Ithala Limited, Kwanaloga, KwaZulu-Natal Sharks Board, KwaZulu-Natal Tourism Authority, Mjindi Farming (Pty) Ltd, KwaZulu-Natal Provincial Pharmaceutical Supply Depot, and uMsekeli Municipal Support Services remained financially unqualified with findings.

Education, Health, KZN Nature Conservation Board and Traditional Levies and Trust Account remained qualified and the KZN Business Rehabilitation Trust Fund retained a disclaimer of audit opinion.

The audit of the KZN Provincial Revenue Fund had not been completed at the cut-off date of 15 October 2012, for inclusion in this report. The consolidated financial statements in respect of the provincial departments and the provincial public entities were received for audit on 1 October 2012 (section 2.2.4).

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

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

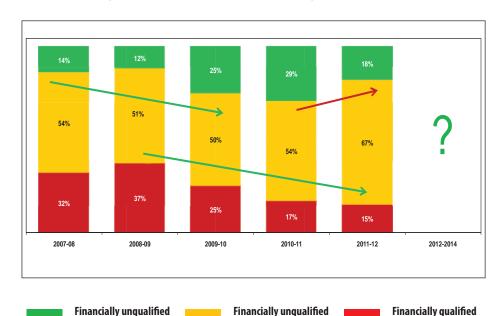


The two public entities where improvements were noted in non-compliance findings were Amafa aKwaZulu-Natali and uMsekeli Municipal Support Services. Regressions were recorded at three departments, namely Office of the Premier, KwaZulu-Natal Provincial Legislature and Transport. The one public entity with a regression in non-compliance findings was Trade and Investment KwaZulu-Natal.

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 shown in the following figure.

Figure 3: Five-year progress towards financially unqualified audit reports



It is disappointing to note a regression in clean audits since 2010-11 with only 4% improvement compared to 2007-08. It is nonetheless encouraging to note an improvement as modified audit opinions (qualified, adverse or disclaimer)

with findings

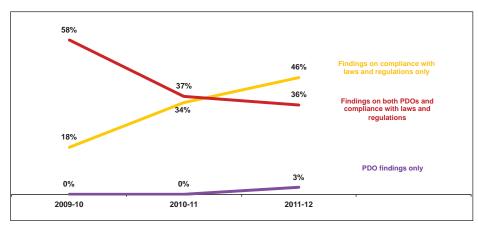
with no findings

have reduced by 2% since 2010-11 and by 17% over the five years since 2007-08. For the 2011-12 year, it is further noted that the number of audits with financially unqualified with findings audit opinions have increased by 13% since the previous year but this is in part the result of the reduction in clean audits. The reduction in qualified audits also positively contributed to this improvement. The findings on PDOs and compliance with laws and regulations will need to be urgently addressed if clean audits are to be achieved or at least significant improvements are made by 2014.

2.1.4 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 shown below.

Figure 4: Three-year progress in addressing findings on predetermined objectives and compliance with laws and regulations

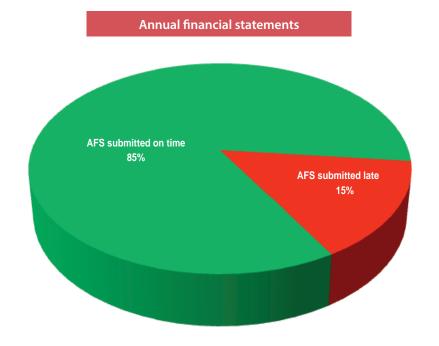


Findings on PDOs have steadily decreased over the past three years from 23 auditees in 2009-10 to 15 auditees in 2011-12. Findings on compliance with laws and regulations have remained almost the same from 30 auditees in 2009-10, 29 auditees in 2010-11 and 32 auditees in 2011-12. Unless these areas of findings are addressed, the target of *Clean audit 2014* will not be achieved.

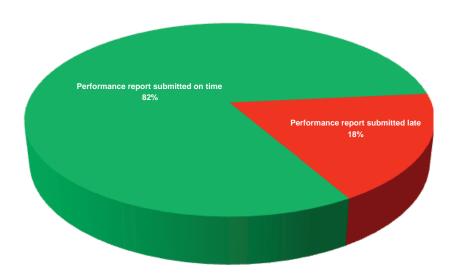
2.1.5 Status and outcomes of audits not finalised by 15 October 2012

The timeliness of completion of audits is two months from the date of receipt by the AGSA of auditees' financial statements. The KZN Provincial Revenue Fund submitted annual financial statements (AFS) on 14 September 2012 and the audit was still in progress as at 15 October 2012.

Figure 5: Timeliness of submission of financial statements and annual performance reports for audit



Annual performance reports



Between 15 October 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, and the date of this report, one further audit was finalised, but its outcome is not included in the analysis contained in this report. Detail of the audit outcome is presented in the following table.

Table 3: Outcomes of audits finalised after 15 October 2012

Auditee	2011-12 audit opinion	2010-11 audit opinion	Movement from 20101-11 audit opinion		
Departments					
KZN Provincial Revenue Fund	Financially unqualified with no findings	Financially unqualified with no findings	←→		

2.1.6 Outcomes of audits not conducted by the Auditor-General of South Africa

In terms of section 25(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the AGSA elected not to audit the following 12 public entities:

- Banzi Pan Devco (Pty) Ltd
- Cowslip Investments (Pty) Ltd
- Durban Wharfside Trust
- La Mercy Property Investment (new entity)
- Mabibi Development Company (Pty) Ltd
- Moses Kotana Institute
- Nongoma Plaza Ltd
- Richards Bay Industrial Development Zone (Pty) Ltd
- Rocktail Bay Devco (Pty) Ltd
- Sibaya Conservation Projects (Pty) Ltd
- Sundumbili Plaza
- Ubiciko Twines and Fabric (Pty) Ltd

These entities were permitted to appoint their own auditors, in consultation with the AGSA. The 2011-12 audit outcomes of 12 (100%) public entities completed by the legislated date of 31 July 2012 are shown in the following figure.

Figure 6: Summary of audit outcomes – audits not conducted by the Auditor-General of South Africa

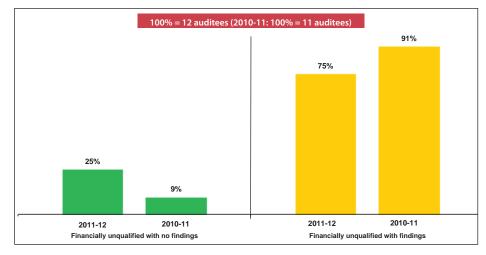
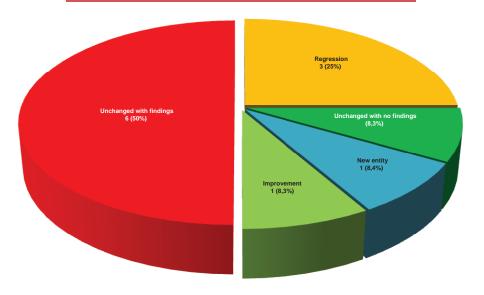


Figure 7: Findings on predetermined objectives – audits not conducted by the Auditor-General of South Africa



Movement in number of auditees with findings on PDOs

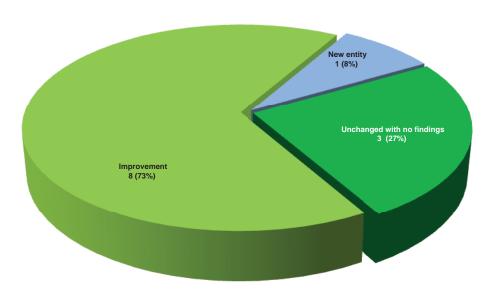


One improvement was noted at the Richards Bay Industrial Development Zone (Pty) Ltd and three regressions at Banzi Pan Devco (Pty) Ltd, Mabibi Development Company (Pty) Ltd and Rocktail Bay Devco (Pty) Ltd. Nine auditees did not submit annual performance reports resulting in the findings on PDOs. No other findings were reported on PDOs.

Figure 8: Findings on compliance with laws and regulations – audits not conducted by the Auditor-General of South Africa



Movement in number of auditees with findings on compliance



All 12 auditees received no findings on compliance with laws and regulations, with eight improvements, three remaining unchanged with no findings and La Mercy Property Investment being new.

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 present fairly, 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

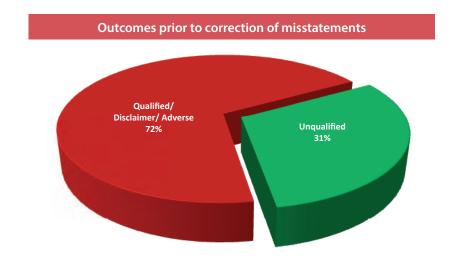
2.2.1 The quality of financial statements submitted for auditing

As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only 11 (28%) auditees submitted financial statements that required no material adjustments, compared to 12 (31%) auditees in the prior year.

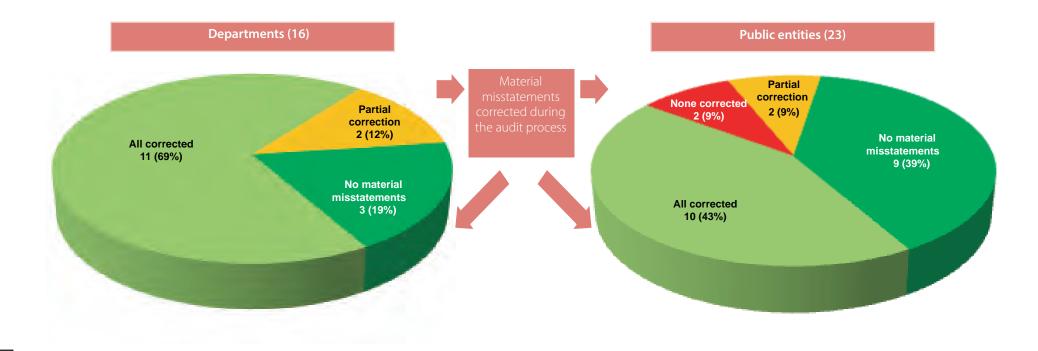
Twenty-two (57%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. Some auditees were unable to correct all of the misstatements and therefore could not avoid the qualification of their financial statements.

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

Figure 9: Material misstatements in financial statements submitted for auditing



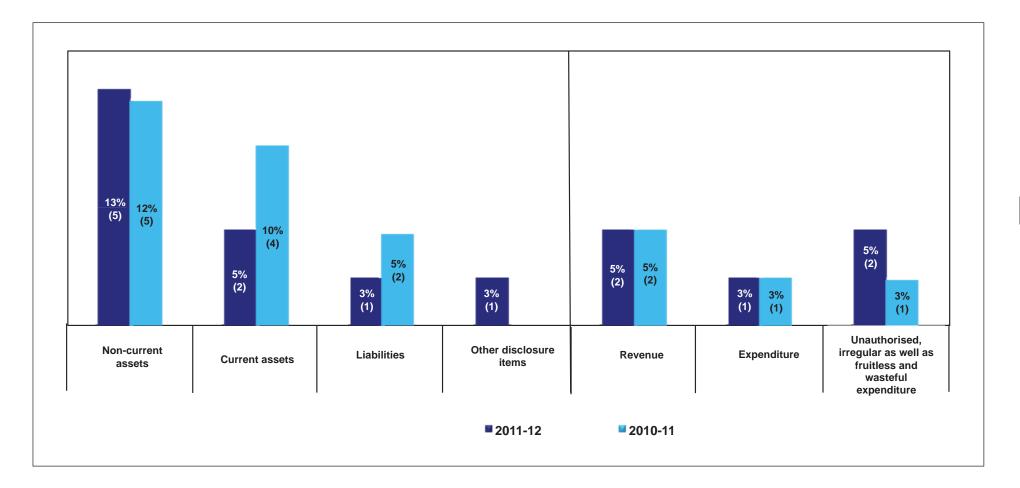




2.2.2 Financial statement qualification findings

The following figure shows the areas that were materially misstated (qualified) in the financial statements of the six (15%) auditees [2010-11: seven (18%)] that received disclaimed, adverse or qualified audit opinions. In order to avoid a possible distortion in the comparative figures, the prevalence of qualifications in audits outstanding is also shown.

Figure 10: Financial statement qualification areas



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

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

		Movement in addressing 2010-11 financial statement qualification areas								
Auditee	2010-11 audit opinion	2011-12 audit opinion	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Departments										
Department of Health	Qualified	Qualified	Repeat						New	Repeat
Department of Education	Qualified	Qualified			Repeat					
Department of Public Works	Financially unqualified with findings	Qualified	Addressed							
Public entities										
KZN Nature Conservation Board	Qualified	Qualified	Repeat	Addressed	Addressed		New			New
KZN Housing Fund	Adverse	Qualified	Repeat	Repeat		New				
Traditional Levies and Trust Account	Qualified	Qualified	Repeat	Addressed				Repeat		
KZN Business Rehabilitation Trust Fund	Disclaimer	Disclaimer	Repeat	Repeat		Repeat		Repeat		

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

Table 5: Nature of qualifications

Financial statement qualification areas	Basis for qualification	Reason for qualification
Non-current assets Property Infrastructure Plant and equipment	Completeness of assets reflected in financial statements	 No/incomplete asset register. Register was not updated on a timely basis. Register did not reconcile to the general ledger.
	Values at which assets are reflected	 Incorrect application of accounting policy. No/incorrect assessment of impairment. Poor record maintenance, therefore cost could not be determined.
	Existence of assets	Assets were not identifiable/ could not be physically verified.
	Rights and obliga- tions relating to assets	Asset was not registered in the name of public entity.
Unauthorised, irregular as well as fruitless and wasteful expenditure	Completeness	Not all disclosures were made.

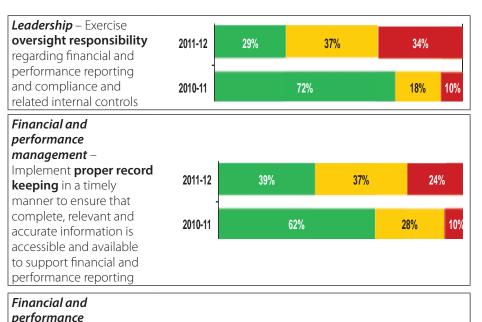
2.2.3 Root causes and best practice recommendations

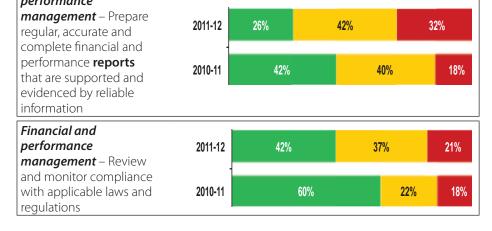
The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; 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 the leadership to improve the audit outcomes.

Figure 11: Assessment of key drivers of internal control over financial reporting





Identified root causes which 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
	Management oversight and the processing of information were inadequate, while sound internal control was not achieved due to the lack of staff commitment and discipline.
	Compliance with legislation governing financial reporting was not adequately monitored.
	Way forward
Information and processes relied on by the leadership	Financial information should be reported on monthly for the leadership to make more informed decisions based on accurate, reliable and timely reporting.
	The leadership must hold all components involved in the financial reporting process accountable for the accuracy and completeness of the information used for financial reporting.
	Information should flow via the established hierarchy in order for each level of leadership and oversight to assess the credibility and reliability of information produced by the financial systems.
	The leadership should exercise oversight responsibility regarding financial and performance reporting and compliance, as well as the related internal controls on a daily and monthly basis.

Aspect	Identified root causes and way forward
Limitations of information systems used	Departments and public entities still need to do a significant amount of work on information technology (IT) governance, which needs to be driven by the leadership. Management systems rely heavily on the output of these systems. If these systems do not process correctly or are accessed by unauthorised individuals, inaccurate and invalid data could be processed.
	Adequate systems to support the reporting process were not always available and the skills to drive the systems and use them to their full potential were lacking.
by auditees	Way forward
	The processing of monthly information and the reconciliation thereof are imperative to ensure the quality of monthly management information and, ultimately, year-end financial statements.
	An IT governance framework and controls should be established that support and enable accurate and secure financial reporting, deliver value and improve performance.
	Finance staff were not adequately skilled to perform accounting functions properly and prepare financial statements in compliance with the National Treasury framework and GRAP.
Performance management and skills acquisition	There were a number of vacancies and persons in acting positions and that limits accountability for actions.
	Way forward
	Management should seek to grow their own skills through recruitment and the development of existing personnel.
	Effective HR management should be implemented to ensure that adequate and sufficiently skilled resources are in place, vacancies are timeously filled and that performance is monitored.

Aspect	Identified root causes and way forward
	Although progress has been made by the leadership, those charged with governance and management to improve the audit opinions, this was not the case in all instances. Initiatives to deliver on commitments have not yet proven to be effective, as not all areas were addressed.
Commitment to obtain	Way forward
to obtain financially unqualified reports	The AGSA stakeholder interactions have to be intensified and sustained so as to bring about positive improvement in all audit outcomes until clean administration is achieved, as reflected by unqualified audit reports.
	The auditees should perform self-assessments on the issues affecting clean administration through their oversight mechanisms during the year.
Monitoring by audit committees and internal audit units	Though the provincial internal audit unit worked well and the centralised audit committee for the province improved its oversight effectiveness, the credibility of financial information and performance reporting remains a challenge.
	Way forward
	The internal audit unit and audit committee should play a significant role in ensuring that the information produced by systems is indeed valid, accurate and complete.

2.2.4 Consolidated financial statements

For accountability purposes the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) requires each province to prepare and publish a consolidated financial report on the 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) the departments, (ii) public entities under the ownership control of the provincial executive of the province and (iii) the provincial legislature. The PFMA further requires the auditor-general to audit the consolidated financial

statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the financial statements.

Due to the difference in the basis of accounting and modified cash versus accrual, this is however not feasible. At September 2012 the minister of Finance had not approved a deviation from this requirement of the PFMA. This matter was therefore reported 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	
Qualified	No audit opinion expressed – agreed upon procedures performed	Financially unqualified with findings on PDOs and/or compliance with laws and regulations	No audit opinion expressed – agreed upon procedures performed	

The consolidated financial statements of departments and public entities for the 2011-12 year were received for audit on 1 October 2012.

2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The PAA requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. This is not an audit of service delivery but only the reporting thereon.

2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

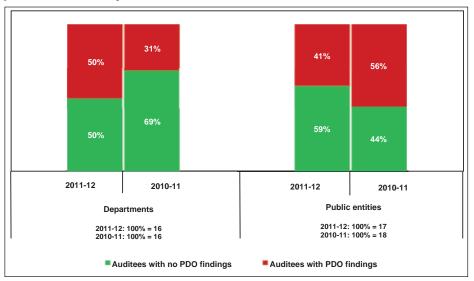
Auditees are required to submit their performance report for auditing by 31 May annually. Two (13%) departments did not submit their reports in time for audit, while all the departments had submitted their reports in time for audit for the

2010-11 financial year. Four (17%) public entities did not submit their reports for audit for the 2011-12 financial year, while four public entities had not submitted their reports for audit for the 2010-11 financial year.

Auditees submitted performance reports that contained material misstatements in one or more areas. One department (Public Works) and two public entities (Ithala Development Finance Corporation Ltd and Agri-Business Development Agency) were able to avoid audit report findings on PDOs because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. For the rest of the departments and public entities, performance reports did not require material adjustments.

Movement in the number of auditees with findings on their reporting against PDOs are shown in the following figure. The auditees exclude the KZN Housing Fund, KZN Political Parties' Fund, Traditional Levies and Trust Account, Natal Joint Municipal Pension Fund (Provident), Natal Joint Municipal Pension Fund (Retirement), and Natal Joint Municipal Pension Fund (Superannuation), which do not require reporting on PDOs.

Figure 12: Overall movement in number of auditees with findings on predetermined objectives



2.3.2 Findings on predetermined objectives

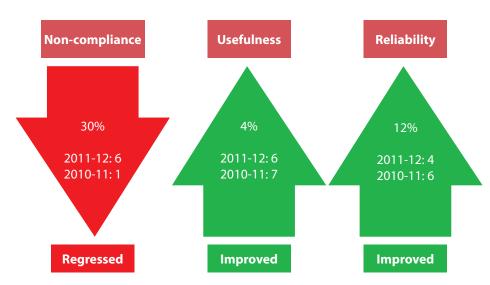
PDO findings are classified under the main audit areas of usefulness and reliability of information.

the criteria of presentation, consistency, measurability and relevance. Findings are on: • reported performance information not being consistent with the objectives and targets • targets not clearly linked to the mandate and objective of the institution • targets not being specific, not clearly identifying the nature and required level of performance, and not measurable and time bound. Findings on whether the reported information on		
 with the objectives and targets targets not clearly linked to the mandate and objective of the institution targets not being specific, not clearly identifying the naturand required level of performance, and not measurable and time bound. Findings on whether the reported information on 		
 targets not clearly linked to the mandate and objective of the institution targets not being specific, not clearly identifying the naturand required level of performance, and not measurable and time bound. Findings on whether the reported information on 	Usefulness	
and required level of performance, and not measurable and time bound. Findings on whether the reported information on	<i>Userumess</i>	 targets not clearly linked to the mandate and objective of the institution
Reliability 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.	Reliability	performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in

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

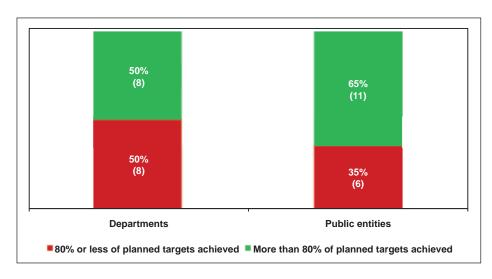
The following figure shows overall movement in the different areas of PDO findings.

Figure 13: Overall movement in findings on predetermined objectives [32 auditees (2010-11:34)]



The following figure shows overall achievement of targets by both departments and public entities.

Figure 14: Planned targets not achieved



Departments only achieved 50% and public entities 65% of their planned targets. The non-achievement of 50% and 35% of planned targets for departments and public entities, respectively, (planned targets not achieved also includes "partially achieved") impacts on service delivery and is an indication of the extent of the continuing challenges within the province, which need to be addressed. The foregoing results should be considered together with the quality of reporting on PDOs and compliance with the relevant laws and regulations as detailed in this report.

The table that follows shows 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

	Movem	ent in addressi	ng 2010-11 PDO	findings
Auditee	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
Departments				
Cooperative Governance and Traditional Affairs		Addressed		
Economic Development and Tourism		Repeat		
Health		Repeat		
Human Settlements			New	
Social Development	Addressed	Repeat		

	Movemo	ent in addressi	ing 2010-11 PDO	findings
Auditee	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
Public entities				
Ithala Development Finance Corporation Ltd	Repeat	Addressed		
Ithala Limited	Repeat			
KwaZulu-Natal Sharks Board	Addressed			
KwaZulu-Natal Nature Conservation Board	Addressed			
KwaZulu-Natal Royal Household Trust				Repeat
KwaZulu-Natal Tourism Authority	Addressed			
KZN Business Rehabilitation Trust Fund				Repeat
Kwanaloga				Repeat
Umsekeli Municipal Support Services				Repeat

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

Table 9: Nature of findings on predetermined objectives

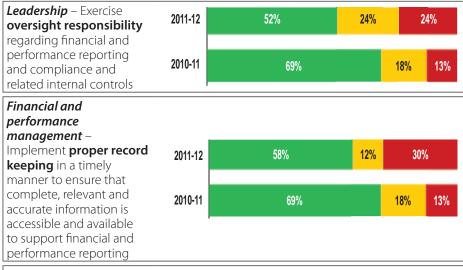
PDO findings category	Specific PDO findings	Nature of findings
	ConsistencyRelevanceMeasurability	Reported performance information not consistent with planned objectives, indicators and targets (departments and entities)
		Indicators/measures do not relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives (departments)
Reported information not useful		Changes to planned performance information not approved (entities)
		Indicators/measures not verifiable (entities)
		Indicators/measures not well defined (entities)
		Performance targets not measurable (departments and entities)
		Performance targets not specific (departments and entities)
	Accuracy Validity	Reported indicators not accurate – inadequate supporting source information (departments)
Reported information not reliable		Reported indicators not accurate – no supporting source documentation (departments)
		Reported indicators not valid – inadequate supporting source information (departments)

2.3.3 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 (service delivery) 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 15: Assessment of drivers of internal control – reporting on predetermined objectives



Financial and performance				
management – Prepare regular, accurate and complete financial and	2011-12	49%	18%	33%
performance reports that are supported and evidenced by reliable	2010-11	53%	29%	18%
information				

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
	Sections that are responsible for performance management were not adequately resourced.
	Officials involved in the performance management were not sufficiently skilled.
Capacity and	Way forward:
skills	The leadership must ensure that the performance management unit has a properly funded structure and such unit must have warm bodies as per the structure.
	Adequate and ongoing training should be given to the officials in the performance management unit.
	Roles and responsibilities for all role players in the performance management and reporting were not adequately defined.
	Way forward:
Defined roles and responsibilities	Roles and responsibilities must be defined for all role players in the performance management and reporting.
	Timelines for the roles must be monitored regularly.
	Quality must be stressed as one of the key elements in discharging the assigned roles.

Aspect	Identified root causes and way forward		
	Lack of in-depth analysis by the leadership of the performance progress throughout the year.		
	Monthly/quarterly performance reports were not submitted timeously to the leadership for information and decision- making purposes. In some cases, these reports were not submitted at all.		
Monitoring by	Way forward		
Accountability and consequence for inaction	Monthly/quarterly performance reports must be submitted to the leadership timeously. Reports must be informative and must contain relevant and accurate information that will be useful in the decision-making process by the leadership.		
	The leadership must carefully analyse the performance reports in order to identify areas requiring improvement in achieving the desired service delivery.		
	Management did not hold officials accountable for not delivering on their assigned mandate.		
	Little or no action was taken for failure to perform the task assigned to the officials.		
	Way forward		
	Performance management and reporting must be included in the performance agreements for the role players.		
	The leadership must devise mechanisms of dealing swiftly with officials performing below the expected standard.		
	Good performance must also be duly rewarded in order to further improve the performance by the officials.		

2.3.4 Key messages from the performance audits on the readiness of government departments to report on their performance

The performance audit focussed on the following provincial departments:

- Department of Education (reporting department)
- Department of Health (reporting department)
- Department of Social Development (reporting department)
- Department of Public Works (reporting department)
- Provincial treasury (oversight institution)
- Office of the Premier (oversight institution)

The following shortcomings (refer to table 11) identified during the performance audits are similar to the root causes identified during the regularity audit of performance information.

Table 11: Shortcomings identified during the performance audits

No.	Shortcoming/deficiency
1	The Kwazulu-Natal Provincial Treasury and/or the Office of the Premier (oversight institutions) did not provide performance reporting guidance and oversight to provincial departments (reporting institutions) owing to the following:
	 Oversight institutions not having legislated responsibilities to perform performance oversight functions on the performance information reporting and performance of provincial departments.
	Oversight institutions not having approved policies and procedures for monitoring and evaluating the provincial departments' management of performance. Therefore, defined processes for the collection, storing, monitoring, evaluation of and feedback on the performance information of provincial departments did not exist. The responsibilities of the staff members involved in the monitoring and evaluation process were also not documented.
	 Oversight institutions did not have the human resource capacity in terms of numbers and skills to perform performance oversight activities.
	The following are examples of performance reporting guidance and oversight that were not provided by the KwaZulu-Natal Provincial Treasury and/or Office of the Premier:
	 Inputs were not provided towards the identification and selection of performance indicators.
	Training on performance information management and reporting was not provided to reporting institutions.
	 Accountability documents such as annual performance plans were not reviewed and/or corrective steps were not recommended after reviews had been performed.
2	Approved policies and procedures which, among others, describe how the department's performance information management system should be operating, were not always in place, while roles and responsibilities relating to performance information management were not formally assigned.
3	Reporting institutions experienced capacity constraints in managing and reporting on performance due to capacity needs that had not been determined as well as vacancies in key positions relating to performance management.

No.	Shortcoming/deficiency
4	Officials were not held accountable in all instances for under performance in terms of reporting on performance as well as the achievement of performance targets. This was, among others, due to individual performance evaluation systems that had not been implemented, individual performance contracts not including measures on performance reporting as well as performance evaluations that had not been performed at the end of the performance period.
5	Staff with the core responsibility of managing and reporting on performance, were not always trained and the training needs assessment to evaluate the training requirements of the staff was not performed.
6	The link between the budgets of reporting institutions and their measurable performance objectives was not always clear. Provincial departments could therefore not monitor actual expenditure against budgeted expenditure per performance objective. In certain instances departments indicated that performance targets were not achieved due to insufficient budgets.
7	Reported performance information was not reliable as the reporting institutions did not have approved processes and system documentation for the collection, collation, verification, storing and reporting of actual performance information.
8	Reporting institutions did not have formal processes and procedures to ensure that corrective action was planned and implemented where deviations indicating under performance had been identified. As a result, action plans were not developed that indicated the planned corrective action, desired outcomes, responsibilities and target dates.
9	Executive authorities did not hold accounting officers accountable for shortcomings in the reporting on performance and under performance as formal performance evaluations were not performed.

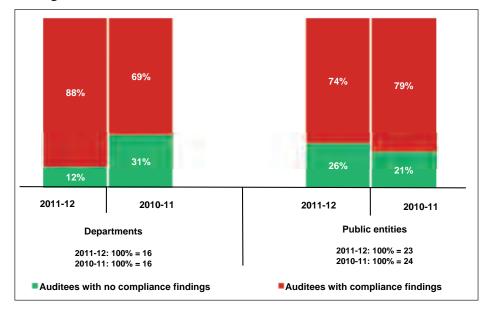
2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

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

Movement in the number of auditees with findings on compliance with laws and regulations is shown in the following figure.

Figure 16: Overall movement in number of auditees with compliance findings



There were two departments, namely the KwaZulu-Natal Provincial Treasury and Arts and Culture, which maintained their status of no non-compliance findings; three that regressed from the prior year, namely Office of the Premier, KwaZulu-Natal Provincial Legislature and Transport; and 11 remained unchanged

with findings. Two public entities improved their status to achieving no non-compliance findings, namely Amafa aKwaZulu-Natali and uMsekeli Municipal Support Services; one regressed, namely Trade and Investment KwaZulu-Natal; four remained unchanged with no findings, namely KZN Political Parties' Fund, Natal Joint Municipal Pension Funds (Provident), Natal Joint Municipal Pension Funds (Retirement) and Natal Joint Municipal Pension Funds (Superannuation), while 16 remained unchanged with non-compliance findings.

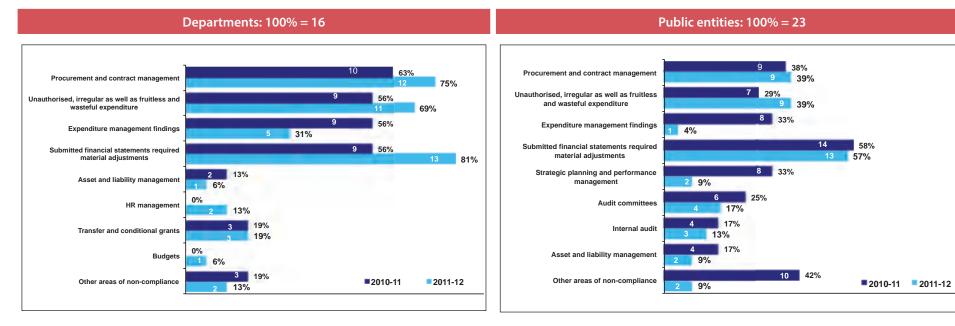
2.4.2 Findings on compliance with laws and regulations

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

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

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

Figure 17: Overall movement in findings on compliance with laws and regulations



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

Figure 18: Progress made by auditees in addressing prior year non-compliance findings

			Movement in	addressing 201	0-11 non-comp	liance areas		
Auditee	Material misstatement/ limitations in submitted annual financial	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement	HR management	Expenditure management	Asset and liability management	Internal audit	Other areas of non-compliance
Departments								
Agriculture, Environmental Affairs and Tourism	Repeat	Repeat	Repeat					
Community, Safety and Liaison	Repeat	Repeat	Repeat					
Cooperative Governance and Traditional Affairs	New	Repeat	Repeat		New			Repeat
Economic Development and Tourism	Repeat	Repeat	Repeat	New	Repeat			New
Education	Repeat	New	Repeat		New			Repeat
Health	New	Repeat	Repeat		Addressed	Repeat		New
Human Settlements	Repeat	Repeat	Repeat					Addressed
Office of the Premier	New	New	New		New			
KZN Provincial Legislature	New							
Public Works	Repeat	New	Repeat			Addressed		
Social Development	Repeat	Repeat	Repeat					Repeat
Sport and Recreation	Repeat	Addressed	Repeat					
Royal Household	Repeat	Repeat	New	New				
Transport					New			

			Movement in	addressing 201	0-11 non-compl	iance areas		
Auditee	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement	HR management	Expenditure management	Asset and liability management	Internal audit	Other areas of non-compliance
Public entities								
Agri-Business Development Agency	Repeat	Repeat	Repeat				Repeat	Repeat
Amafa aKwaZulu-Natali	Addressed							
Dube Tradeport Company	Repeat		Repeat					
KwaZulu-Natal Gaming and Betting Board	New							Addressed
KwaZulu-Natal Growth Fund Managers (Pty) Ltd	Repeat	Repeat	Addressed					New
KZN Housing Fund	New							Repeat
Ithala Development Finance Corporation Ltd	Repeat	Addressed	Addressed		New			Repeat
Ithala Limited	Addressed		Addressed					Repeat
Kwanaloga		Repeat	New					Repeat
KwaZulu-Natal Sharks Board	Repeat	Repeat	Repeat					
KwaZulu-Natal Nature Conservation Board	Repeat	New	New		Addressed	Repeat		Addressed
KwaZulu-Natal Tourism Authority	Repeat	New	Repeat					Addressed
Mjindi Farming (Pty) Ltd	Repeat						Addressed	Addressed
KZN Business Rehabilitation Trust Fund	Repeat					Repeat		
KwaZulu-Natal Provincial Pharmaceutical Supply Depot	New	Repeat	Repeat				New	New
KwaZulu-Natal Royal Household Trust	Repeat	Repeat	Repeat				Repeat	Repeat
Trade and Investment KwaZulu-Natal	New	New	New					
Traditional Levies and Trust Account	Addressed	Addressed				Repeat		Addressed
uMsekeli Municipal Support Services	Addressed						Addressed	Addressed

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

Table 12: Nature of findings on non-compliance with laws and regulations

Compliance findings category	Nature of findings
Material misstatements	Financial statements submitted for auditing included material misstatements.
Irregular expenditure	Irregular expenditure was not prevented.
Procurement management	Three quotes not obtained for procurement less than R500 000. Competitive bids were not invited for procurement exceeding R500 000.

2.4.3 Findings arising from the audit of supply chain management

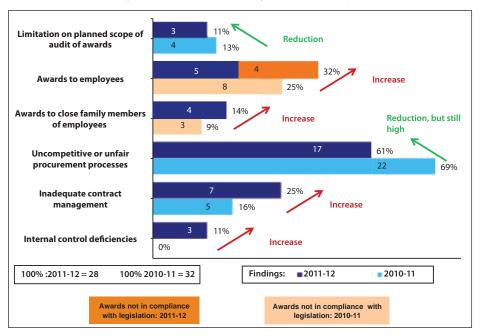
Audits conducted by the AGSA included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood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

Findings arising from the audit were reported in the management reports of 22 (79%) out of 28 auditees, where SCM audits were conducted, all of these auditees had some findings that 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 R2,3 billion were tested. Awards to the value of R100,7 million that were selected for audit could, however, not be audited due to the required information or documentation not being made available by auditees.

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

Figure 19: 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 three (11%) auditees sufficient appropriate audit evidence could not be provided that awards had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The detail on the limitations is shown in the table below. The scope limitation was also experienced in the previous year at the Department of Health.

Table 13: Limitations experienced

Auditee	Number of awards	Amount
Departments		
Department of Health	73	R96,8 million
Public entities		
KZN Nature Conservation Board	10	R3,7 million
KZN Provincial Pharmaceutical Supply Depot	5	R0,2 million
Total	88	R100,7 million

The reason for the limitation was documentation not being available due to an inadequate document management system. 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 offcials 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 officials 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 is shown in the table below. In all instances, awards to officials and close family members were also identified in the previous year.

Table 14: Awards to officials employed by auditees and their close family members

	Awards made to						Non-compliance with regard to awards made					
Auditee		Officials			Close family members of officials		Supplier not declare interest		Official did not declare interest		Other remunerative work not approved	
		Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount	
Departments	Departments											
Agriculture, Environmental Affairs and Rural Development	6	R316 544	Other employees	7	R1 471 757	6	R316 544			7	R357 813	
Education	267	R60 439 865	Other employees			267	R60 439 865			523	R152 415 602	
Office of the Premier	2	R37 500	Other employees									
Social Development			1	R109 200			1	R109 200				
Transport	6 R689 379 Other employee		Other employees	8	R5 505 740	6	R689 379					
Total	281	R61 483 288		16	R7 086 697	279	R60 756 409	1	R109 200	530	R152 773 415	

^{*} 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 507 contracts (R2,1 billion) and 1 481 quotations (R200 million) were tested at 15 departments and 13 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 previous year.

Table 15: Summarised findings on uncompetitive or unfair procurement processes

Finding	DP	PE	Nature of finding
Three price	6 (40%)	7 (54%)	A price-quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000.
quotations not obtained/ deviations not approved or justified			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.
Competitive bids not invited/	6 (40%)	2 (15%)	A competitive bidding process should be followed for the procurement of goods and services above R500 000.
deviations not approved or justified			Competitive bids were not always invited and the deviations were not approved by a properly delegated official.

Finding	DP	PE	Nature of finding
Tax clearance not obtained from SARS	4 (27%)	1 (8%)	Awards were made to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.
No declaration of interest submitted by provider	2 (13%)	2 (15%)	Awards were made to suppliers that did not submit a completed declaration of interest (SBD4 form).
Competitive bids not invited – approved deviation not reasonable/ justifiable	1 (7%)	2 (15%)	Competitive bids were not always invited and the deviations approved by a delegated official were not reasonable or justifiable.
Preference point system not applied	1 (7%)	1 (8%)	The preference point system was not applied in all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.
Bids not advertised through media	2 (13%)	0	Bids were not advertised through media, for example, newspapers, Government Tender Bulletin, as prescribed.

Finding	DP	PE	Nature of finding
			Other findings include the following:
			Quotations were not obtained from listed prospective suppliers/suppliers meeting listing requirements.
			Bids were advertised for shorter period no approval of deviation.
			Bids were not adjudicated by a properly constituted adjudication committee.
			Award of bid to supplier other than recommended by adjudication committee – accounting officer not notified/no ratification by accounting officer.
			Awards to prohibited suppliers (as listed by the National Treasury).
Other findings at the departments			Bids were advertised for shorter period no justification for deviation.
and/or public entities			Construction – awards made to contractors not registered with the Construction Industry Development Board.
			Final approval/recommendation to accounting officer/accounting accounting authority for winning bid/ quotation not made by delegated official/committee.
			No prospective supplier list for inviting price quotations.
			Points incorrectly allocated/calculated incorrect supplier won contract.
			Quotations not obtained from listed prospective suppliers/suppliers meeting listing requirements.
			Winning supplier bid received after closing date.

DP = departments, PE = public entities

2.4.3.4 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastages and fruitless expenditure, which in turn impact directly on service delivery.

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

Table 16: Summarised findings on contract management

Finding	DP	PE	Nature of findings				
Contracts extended or renewed to circumvent competitive bidding processes	3 (20%)	1 (8%)	It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.				
Payments made in excess of approved contract price (with further approved extensions)	1 (7%)	1 (8%)	A contract prescribes the prices, terms and maximum values, which can be increased through approved extensions and variations. Instances were identified where payments were made to suppliers in excess of these approved contract prices.				
Other findings at the departments and/or public entities			 Contract price was more than the tendered price. Contracts amended or extended without approval by a delegated official. No signed contract/contract not signed by a delegated official. 				

DP = departments, PE = public entities

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 previous year.

Table 17: Summarised findings on supply chain management controls

Finding	DP	PE	Nature of findings			
	1 (7%)	0	The controls at some auditees were inadequate to ensure that:			
Inadequate controls to ensure interest is declared			officials declare whether they or their close family members, partners and associates have interests in suppliers to the auditee			
			suppliers declare any connections to persons in service of the auditee or other state institutions.			
No SCM policy	1 (7%)	0	There was no SCM policy in place to confirm that officials involved in SCM processes were aware of their roles and responsibilities in connection with the SCM system.			
Code of conduct for ethical behaviour in SCM process not adopted	1 (7%)	0	Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.			
Employees without interest in auditee suppliers – additional remunerative work not approved	2 (13%)	0	Employees were performing additional remunerative work at other organisations without the prior written authorisation to do so from the relevant department.			

DP = departments, PE = public entities

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

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

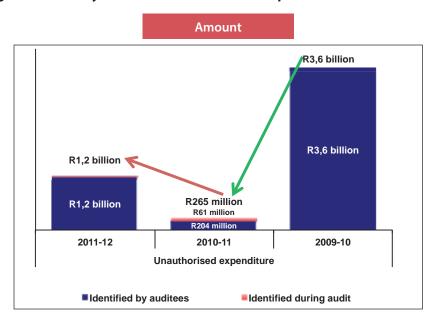
Twenty-seven (69%) of 39 auditees incurred unauthorised, irregular or fruitless and wasteful expenditure. The audits further revealed that the accounting officers of six (15%) out of 39 auditees did not ensure that reasonable steps were taken to prevent this type of expenditure. This was reported in the auditor's reports as material non-compliance.

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

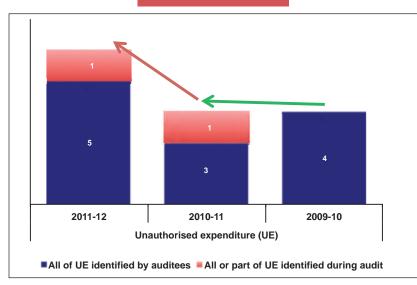
Nature of and overall trends in unauthorised expenditure (departments only)

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

Figure 20: Three-year trend in unauthorised expenditure



Number of auditees



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

Table 18: Nature of and current year movement in unauthorised expenditure

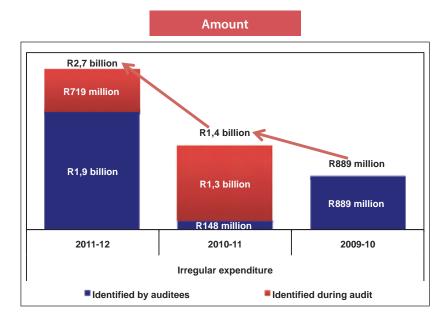
Compensation of employees related	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Overspending of votes/main division within votes	5	25%	R1,177 million	346%
Expenditure not in accordance with votes	1	100%	R24 000	100%

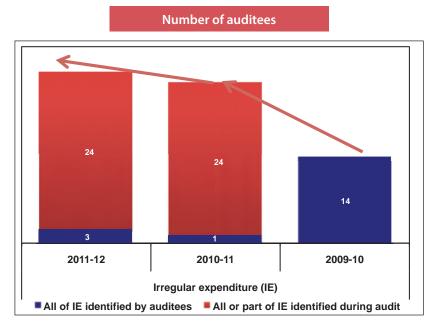
Unauthorised expenditure increased substantially from the prior period; however, this did not reach the high overspending incurred in 2009-10. The bulk of the unauthorised expenditure resulted from overspending with the main contributor being the Department of Education with R954 million.

Nature of and overall trends in irregular expenditure

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

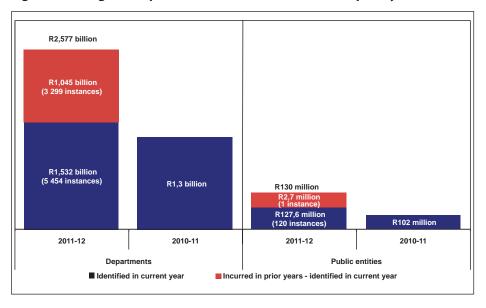
Figure 21: Three-year trend in irregular expenditure





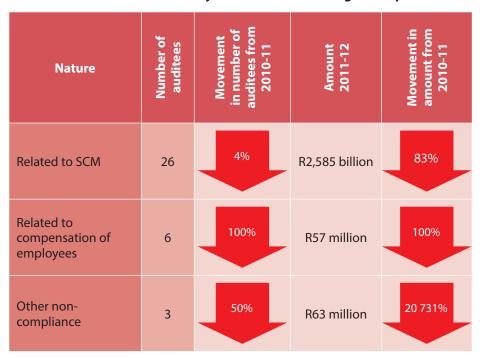
The following figure shows the extent of the irregular expenditure that occurred as a result of transgressions in the current and previous years and those that occurred in previous years but had only been recently discovered.

Figure 22: Irregular expenditure incurred – current and prior years



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

Table 19: Nature of and current year movement in irregular expenditure

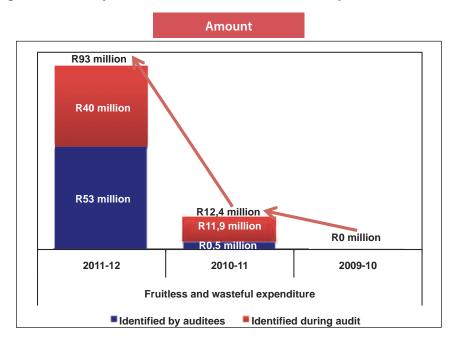


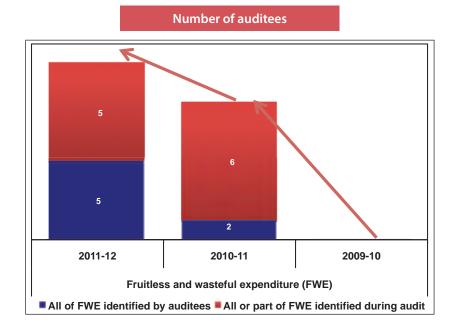
Irregular expenditure almost doubled from the prior year and more than 90% of this relates to SCM. There has been a steady increase in irregular expenditure from 2009-10, which does not bode well for the province and preventative measures will have to be instituted for the province to improve in the future.

Nature of and overall trends in fruitless and wasteful expenditure

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

Figure 23: Three-year trend in fruitless and wasteful expenditure





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

Table 20: Analysis of fruitless and wasteful expenditure

Nature	Number of auditees	Amount	
Incurred to prevent irregular/loss/further fruitless and wasteful expenditure	6	R45 million	
Actual fruitless and wasteful expenditure	4	R48 million	

The province has shown an upward trend from no fruitless and wasteful expenditure in 2009-10 to R93 million in 2011-12. There is an almost 50:50 split between actual fruitless and wasteful expenditure and that incurred to prevent irregular/further fruitless and wasteful expenditure.

In the future, more detail regarding fruitless and wasteful expenditure will be obtained to enhance the reporting thereof.

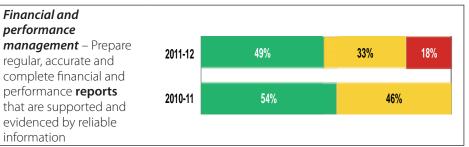
2.4.5 Root causes and best practice recommendations

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 require attention from the leadership to improve the audit outcomes.

Figure 24: 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 21: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward
	Accurate and complete financial information is not prepared and reviewed on a monthly basis resulting in material misstatements to the financial statements submitted for audit.
	Monthly reports on compliance with laws and regulations were not prepared and reviewed.
	Way forward
Reporting	Complete and accurate financial statements should be prepared on a monthly basis and this should be reviewed at the appropriate levels for compliance with the applicable accounting framework. Reviews of the monthly financial statements should also be performed by the internal audit unit with regular follow-up reviews to allow for accurate and complete financial statements to be submitted at year-end.
	Monthly reporting should also incorporate compliance with laws and regulations and these should also be reviewed by the internal audit unit for accuracy.
	The leadership did not exercise oversight responsibility regarding compliance with laws and regulations.
	Compliance with laws and regulations was not adequately monitored.
Oversight and	Way forward
monitoring	Monthly reporting should include compliance with applicable laws and regulations. Leadership intervention is required to ensure credible and reliable reporting. Clean administration can be achieved by focusing on weaknesses within the auditee and through dedicated and regular self-assessments.
	This should be monitored against a checklist.

SECTION 3

AUDITEES' SYSTEMS OF INTERNAL CONTROL

- 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 UNITS





SECTION 3

AUDITEE'S SYSTEMS OF INTERNAL CONTROL

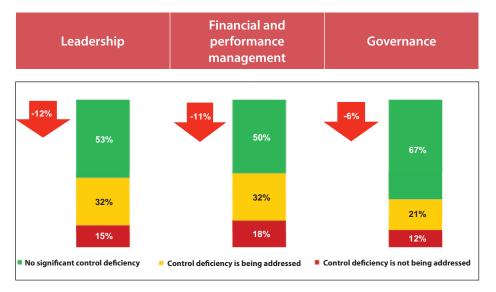
This section of the general report provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on HR management (section 3.2), IT management (section 3.3), audit committees and internal audit units (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 auditee's system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, financial and performance management and governance. These are termed the drivers of internal control.

The figure below provides 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 25: Overall assessment of drivers of internal control



The above figure shows the extent of control deficiencies at financial year-end as an average across all departments and public entities within KwaZulu-Natal in the three areas of internal control, namely leadership, financial and performance management and governance. The percentage of areas where no deficiencies were measured is indicated in green, where control deficiencies are being addressed is indicated in yellow and where control deficiencies are not being addressed is in red.

Urgent intervention is required where control deficiencies are not being addressed and even where they are being addressed, efforts will need to be accelerated to ensure that clean administration becomes the norm and does not remain the exception.

Overall, there has been a marked regression in the implementation, operation and monitoring of key controls adopted by departments and public entities in KwaZulu-Natal. A decrease in the number of auditees with no significant deficiencies in leadership, financial and performance management and in governance is noted. The above graph highlights the extent of further attention

required by the leadership, those charged with governance and management to improve the audit opinions of auditees, ultimately to clean audit opinions.

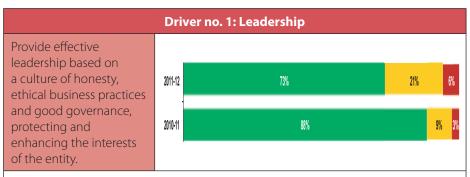
Most of the qualifications point to the leadership not monitoring, reviewing and ensuring compliance with the relevant requirements of the financial reporting framework and good financial and performance management. Governance structures in place should ensure and attest to the credibility, accuracy and completeness of information over financial reporting processes. Vacant positions should be filled to prevent the situations where acting staff do not have the necessary authority to drive the quality of financial statements as well as to ensure continuity and accountability of key positions.

The AGSA stakeholder interactions have to be intensified and sustained so as to influence positive improvements in all audit outcomes and, more so, on compliance with laws and regulations and reporting of PDOs, until clean administration is achieved.

Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to not implementing and monitoring these fundamentals of internal control.

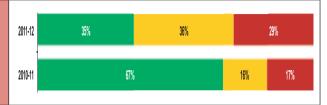
The status of the internal control elements underlying leadership, financial and performance management and governance and movement in the implementation thereof, is presented in the following table.

Table 22: Status of internal control



Effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity has regressed since 2010-11. Good practices have not been maintained and the previous progress has been reversed.

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

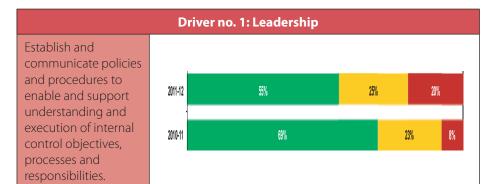


The monitoring of compliance with laws and regulations needs to be improved to ensure that all regulations affecting financial statements are complied with by the various entities through the use of compliance checklists. In most cases inadequate systems are in place to ensure that entities are aware of the legislation that they have to comply with, and inadequate systems are in place to ensure compliance.

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



Section 3.2 provides an analysis of human resource management



Policies and procedures implemented to guide the day-to-day activities for record keeping and preparation of financial statements, as and when required, have regressed since 2010-11 resulting in 20% of auditees requiring intervention.

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

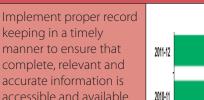


There has been regression in the development and monitoring of implementation of action plans to address internal control deficiencies. As can be seen from the above graph, auditees requiring intervention and those still in process have increased from 40% in 2010-11 to 52% in 2011-12.

Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.



Section 3.3 provides an analysis of the management of information technology





Auditees that implemented proper record keeping in a timely manner, thus ensuring that complete, relevant and accurate information is accessible and available to support financial and performance reporting, have decreased from 70% to 53% since 2010-11.

Driver no. 2: Financial and performance management

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

to support financial and

performance reporting.



The processing of monthly information and the reconciliation thereof are imperative to ensure the quality of the monthly management information and, ultimately, the year-end financial statements.

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



Driver no. 2: Financial and performance management

The staff that prepare financial reports must be adequately trained in the requirements of the applicable financial reporting framework and the principles of good financial management to support reliable financial reporting.

In the normal course of business monthly management reports have to be monitored and year-end financial statements have to be reviewed by the leadership as well as the internal audit unit and the audit committees prior to being used for informed decision-making or being submitted for auditing, thus ensuring credible information.

Review and monitor compliance with applicable laws and regulations.



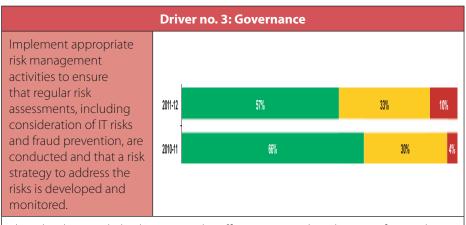
Controls to ensure review and monitoring of compliance with applicable laws and regulations have decreased from 57% in 2010-11 to 40% in 2011-12. This can be seen from the decrease of auditees obtaining clean audits compared with the prior year.

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).



Section 3.3 provides an analysis of the management of information technology



There has been a slight decrease in the effectiveness and application of controls regarding implementation of 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.

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



3.2 HUMAN RESOURCE MANAGEMENT

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

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

Figure 26: Summary of findings on human resource management

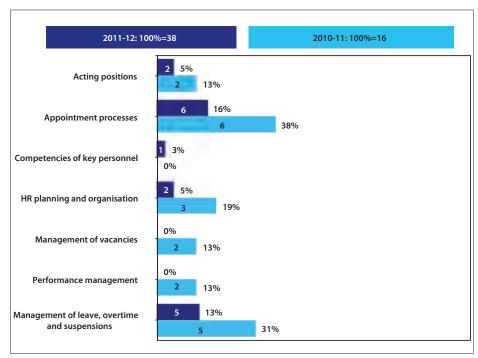


Table 23: Nature of key findings

Findings	Key findings			
Management of vacancies and acting positions	A significant improvement is noted regarding the management of vacancies. During the previous year, 13% of the departments had findings relating to management of vacancies versus no findings for the current year.			
	 The situation regarding acting positions remained the same in that two departments (Education and Public Works) had findings on staff acting in key positions. 			
Competencies of key personnel	Social Development is the only department where the competency of key personnel was an issue. This related mainly to the asset management department and SCM department as they were still unable to operate without the KwaZulu-Natal Provincial Treasury's assistance.			
Performance management	Performance management improved from prior year in that no findings were noted.			

Conclusion

In general, HR management improved in the following areas:

- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Management of leave, overtime and suspensions

Attention should be focused on the following areas to ensure better audit outcomes in future:

- Acting positions
- Appointment processes
- Management of leave, overtime and suspensions

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

Effective IT systems management



Security, integrity and availability of financial and performance information

IT in the province is important to enable the responsibilities of ensuring operational integrity of financial statement and performance information reports and enable the facilitation and monitoring of service delivery.

An IT process should be in place to enable service delivery and to safeguard the provincial information.

	Confidentiality	Integrity	Availability				
Status of state information	The necessary level of secrecy is enforced for all state information. This will be ensured by auditing the following focus areas: • Security management • User access controls • IT governance	All state information is authentic, remains unaltered until authorised to change and is Complete. This will be ensured by auditing the following focus areas: User access controls Program change controls Data analysis	All state information is ready for use when expected. This will be ensured by auditing the following focus areas: IT continuity Security management				
	Good governance Effective management						
Status of key enabling controls							
controls	Secure architecture/infrastructure						

IT controls for financial systems were evaluated at 16 departments and three public entities and controls for performance information were evaluated at three sectoral departments, i.e. Health, Education and Human Settlements.

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

Figure 27: Summary of information system control weaknesses – departments

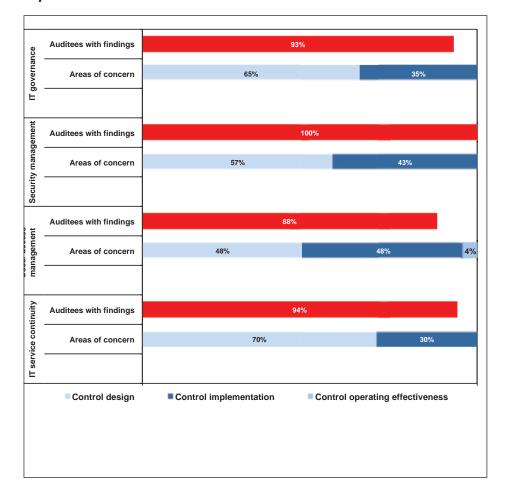
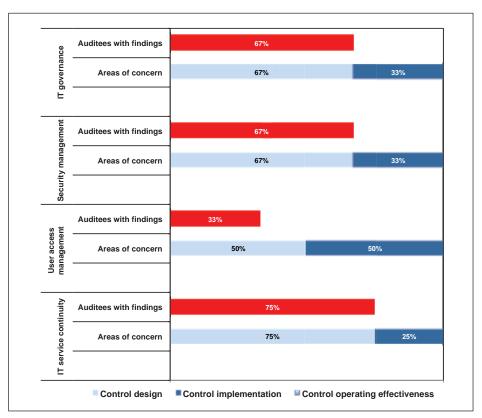


Figure 28: Summary of information system control weaknesses – public entities



Key information technology findings

Information technology governance

IT governance framework developed by the Office of the Premier was not approved. As a result, IT policies and procedures were not adequately designed, service level agreements (SLAs) were not adequately designed and service providers' performance in terms of existing SLAs was not monitored.

Security management

IT security policies had not been adequately designed. As a result, security parameter settings were not always adequately set or configured and the responsibility for IT security was not formally delegated to a specific person. These weaknesses could affect the confidentiality and integrity of information.

User access control

Guidelines regarding user account management were available from the Office of the Premier for Persal and from KwaZulu-Natal Provincial Treasury for BAS and Hardcat. However, most departments (with the exception of the KwaZulu-Natal Provincial Treasury) did not implement guidelines, as a result the appropriateness of users' access rights and system controller activities were not periodically reviewed, access request documentation was not adequately completed and terminated users' access was not timeously revoked from the system.

Information technology service continuity

Disaster recovery plans (DRPs) and backup procedures had not been adequately designed and this resulted in inadequate control over backups, which could affect the availability of information and systems.

Internal control deficiencies

People

There was a lack of adequate and competent personnel due to vacancies.

There was ineffective management oversight.

Accountability

There was lack of accountability and consequences for non-implementation of management commitments.

Sustainability

There was lack of IT daily, weekly and monthly disciplines.

3.3.2 Audit of performance information systems

The audit focused on compliance with National Treasury 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 performance information. Three departments, namely Human Settlements, Health and Education were reviewed for the existence of IT controls to govern application systems and the compliance of the provincial departments with these controls. Drivers of IT control weaknesses and the summary are shown below.

Figure 29: Comparison between national and provincial implementation of IT controls over performance systems

	Human Settlements		Education			Health			
Development of controls by National									
Implementation of controls by Provincial									
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 Interver								

Department of Human Settlements

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 of the IT controls with the exception of user access controls. This has resulted in excessive access granted and no periodic monitoring and review.

Department of Education

Intervention is required due to the fact that the national and provincial departments did not fulfil 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). This lack of a designed guideline could be attributed to the national department's lack of accountability in terms of complying with the NationalTreasury's framework. The provincial department also did not proactively request adequate guidance from the national department.

Department of Health

The national department had developed guidance for the implementation of all the systems used for PDOs, namely the District Health Information System (DHIS), the Electronic Tuberculosis Register (ETR.Net) and the Electronic Drugresistant Tuberculosis Register (EDR.Net). However, the provincial department had not complied.

3.3.3 Status of addressing management commitments

Table 24: Progress in addressing management commitments – departments

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture, Environmental Affairs and Rural Development				
Arts and Culture				
Community Safety & Liaison				
Cooperative Governance and Traditional Affairs (COGTA)				
Economic Development and Tourism				
Education				
Health				
Human Settlements				
Finance (provincial treasury)				
Office of the Premier				
KZN Provincial Legislature				
Public Works				
Social Development				
Sport and Recreation				
The Royal Household				
Transport				
Total	15	15	15	15
Not addressed	14	15	14	15
Addressed	1		1	

Table 25: Progress in addressing management commitments – public entities

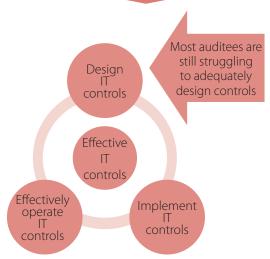
Auditee	IT governance	Security management	User access controls	IT service continuity
Amafa aKwaZulu-Natali				
Gaming and Betting Board – KZN				
Ithala Development Finance Corporation Ltd				
KZN Nature Conservation Board				
Mjindi Farming (Pty) Ltd				
Provincial Pharmaceutical Supply Depot – KZN				
Total	1	1	1	1
Not addressed	1	1	1	1

Adequate progress had not been made in addressing previous findings as the risks still remained in all the focus areas even though some corrective measures were taken. This is due to inadequate oversight by those charged with governance, lack of consequences for not implementing the resolution on repeat findings, IT findings were not always included in the auditees' action plans and internal audit units and audit committees did not continuously monitor progress made with the implementation of management commitments.

3.3.4 Key information technology concerns

Key audit findings on IT controls namely:

- IT governance framework developed but not yet approved and implemented
- Security management controls inadequately designed and/or implemented
- Lack of adequate design of IT service continuity controls
- User access management controls inadequately designed and/or implemented



Key root causes that impact negatively on the province IT environment

- Lack of oversight responsibility by those charged with governance
- There was also a lack of accountability for the design and implementation of appropriate key controls (policies and procedures) regarding security management, user account management, IT service continuity
- Lack of consequences for nonperformance of tasks such as resolution of repeat findings
- IT not properly capacitated to fulfill their IT control obligations adequately due to shortages of skills
- IT findings not included in auditee's action plans
- DPSA did not finalise the IT Governance framework for government
- IT controls regarding performance information systems at Education and Health were inadequate due to a lack of guidance from the national department (Education) and non compliance with guidelines from the national department (Health)

3.3.5 Quick wins in resolving information technology management weaknesses

The IT governance framework for the province should be approved and implemented. The departments should implement and adhere to user account management guidelines of the provincial treasury for BAS and Hardcat and those of the Office of the Premier for Persal. The departments should liaise with the provincial treasury and Office of the Premier for assistance regarding IT controls and knowledge sharing between departments.

- Perform performance monitoring of IT services provided
- Monitoring adherence to policies and procedures such as user access control policies
- Daily, weekly and monthly reviews of user access controls
- Daily monitoring of access controls

Continuous monitoring and review

IT policies and procedures

- Performance of IT risk assessment, development and approval of IT policies in the foucs areas, specifically IT security policies and disaster recovery plans
- Designing the embedded IT controls in line with approved policies
- Approval and implementation of IT governance framework, other provinces such as the Western Cape can also be consulted in this regard

- Ensuring that the internal audit unit is continuosly monitoring IT controls and tracking progress made with the implementation of management commitments
- Audit committees should follow up on management commitments regarding IT findings

Combined assurance

IT skills

Employing staff with competencies to implement controls

3.4 AUDIT COMMITTEES AND INTERNAL AUDIT UNITS

Effective governance is a driver of audit outcomes and audit committees and internal audit units 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 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. The internal audit units should provide assurance on governance, risk management and control. The figures that follow show the assessed effectiveness of audit committees and internal audit units for the year under review.

Figure 30: Effectiveness of audit committees

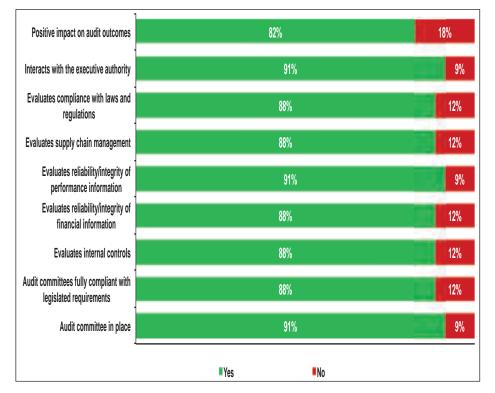
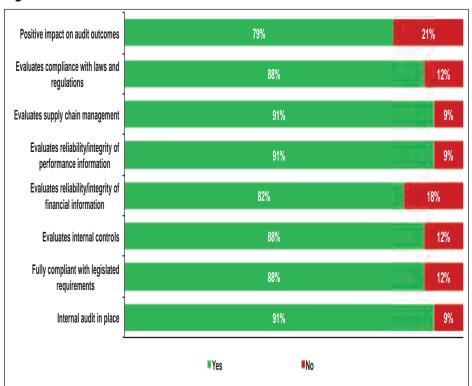


Figure 31: Effectiveness of internal audit units



The audit committee should be an active liaison between external and internal audit units. Its focus and responsibilities should be that of ensuring that the leadership uses credible, relevant and reliable information for decision-making purposes. These decisions are ultimately made by the users of the financial information and include the role players, namely the executive, legislature, public accounts committee and the public themselves, who depend on credible information and reports to base their decisions. Hence the role of the committee has evolved to one whereby the members need to be actively involved in this task of ensuring that financial and non-financial information is valid, accurate and complete. The province has made remarkable progress in that the majority of the entities had audit committees that were fully compliant with the legislated requirements and were focusing on internal controls.

Although processes were in place to evaluate integrity and reliability of financial, performance and compliance information and responsibilities as per the charter, there is a need to take stock of how these processes need to be intensified to achieve the desired results. The provincial audit committee revisited their approach and put on record that they expected to receive annual financial statements at least one month earlier (30 April), which would give them adequate time for the reviews as well as time to ensure that all matters raised are resolved adequately. The audit committee also requested that we discuss our quarterly dashboard reports at the cluster meetings.

The effectiveness of audit committees and internal audit functions must be strengthened through the employment of competent persons to effectively discharge the responsibilities as set out in the PFMA, to promote independent accountability to the executive authority on all matters of risk relating to financial management and service delivery. The role of internal audit units would then be invaluable in attesting to the credibility of financial information produced either monthly or quarterly for decision-making purposes and annually for the external auditors. This would further be strengthened by the audit committees' review of monthly, quarterly and annual information. Risk assessment must be improved through the establishment of risk management strategies, including fraud prevention, with reporting by the audit committee to the executive on the residual risks and how such risks should be mitigated.

Again the province is doing well in terms of having internal audit units that are fully compliant with legislated requirements and focussing on internal controls at the majority of the entities. Internal audit only focuses on controls during all the audits as per their audit plan. This process can be intensified if these audits can also include a finance element to the audit plans, especially with the entities now at least preparing quarterly financial statements and monthly management accounts. Dialogue will continue around this to emphasise the gains that can be achieved from this change. Furthermore, internal audit units need to improve the timing of their reports to impact positively on audit outcomes. The IT audits

done by the provincial internal audit unit and the work used by our offices are a prime example of the gains achieved that impact on audit costs. The internal audit unit should also position itself to proactively manage non-compliance and do assessments on what prevents entities from non-compliance that results in irregular expenditure.

SECTION 4

IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

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





SECTION 4

IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section of the general report provides details of the combined assurance model, 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 COMBINED ASSURANCE MODEL

The AGSA's combined assurance model below was developed based on the

combined assurance methodology and practices used in the private and public sectors, taking into account the objectives of the AGSA in promoting the model and the unique role players in public sector.

The mandate of the AGSA, through the PAA, is providing assurance that risks in respect of the following have been managed:

- Credible annual financial statements
- Credible reporting of performance against PDOs
- Compliance with key laws and legislation

The AGSA's combined assurance model focuses on these three objectives and demonstrates the level of assurance to be provided by each assurance provider at an overall level. The model and the current required assurance levels have been adjusted to 'extensive' due to the current situation amongst auditees. It is demonstrated by means of the following diagram:



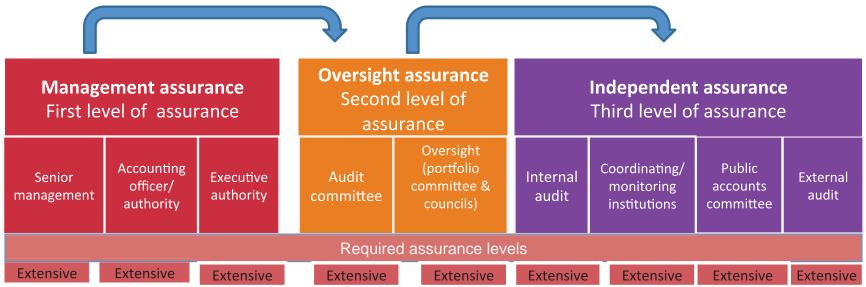


Table 26: Assessment of level of combined assurance

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)
	Required assurance levels	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
			Auditee le	vel					
1	Agriculture, Environmental Affairs and Rural Development								
2	Arts and Culture								
3	Community Safety and Liaison								
4	CoGTA								
5	Economic Development and Tourism								
6	Education								
7	Health								
8	Human Settlements								
9	KwaZulu-Natal Provincial Treasury								
10	Office of the Premier								
11	KZN Provincial Legislature								
12	KwaZulu-Natal Provincial Revenue Fund - See provincial treasury								
13	Public Works								
14	Social Development								
15	Sport and Recreation								
16	The Royal Household								

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	Extensive	Extensive	Extensive	Extensive	Extensive
17	Transport								
18	Agri-Business Development Agency								
19	Amafa aKwaZulu-Natali								
20	Banzi Pan Devco (Pty) Ltd								
21	Cowslip Investments (Pty) Ltd								
22	Dube TradePort Company								
23	Durban Wharfside Trust								
24	Ithala Development Finance Corporation Ltd								
25	Ithala Limited								
26	Kwanaloga								
27	KwaZulu-Natal Business Rehabilitation Trust Fund								
28	KwaZulu-Natal Gaming and Betting Board								
29	KwaZulu-Natal Growth Fund Managers (Pty) Ltd								
30	KwaZulu-Natal Nature Conservation Board								
31	KwaZulu-Natal Provincial Pharmaceutical Supply Depot								
32	KwaZulu-Natal Sharks Board								
33	KwaZulu-Natal Tourism Authority								
34	KZN Housing Fund								

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	Extensive	Extensive	Extensive	Extensive	Extensive
35	KZN Political Parties' Fund								
36	La Mercy Property Investment								
37	Mabibi Development Company (Pty) Ltd								
38	Mjindi Farming (Pty) Ltd								
39	Moses Kotana Institute								
40	Natal Joint Municipal Pension Fund (Provident)								
41	Natal Joint Municipal Pension Fund (Retirement)								
42	Natal Joint Municipal Pension Fund (Superannuation)								
43	Nongoma Plaza Ltd								
44	Richards Bay Industrial Development Zone (Pty) Ltd								
45	Rocktail Bay Devco (Pty) Ltd								
46	Sibaya Conservation Projects (Pty) Ltd								
47	Sundumbili Plaza								
48	The KwaZulu-Natal Royal Household Trust								
49	Trade and Investment KwaZulu-Natal								
50	Traditional Levies and Trust Account								
51	Ubiciko Twines and Fabric (Pty) Ltd								
52	uMsekeli Municipal Support Services								

No.	Auditee	Senior management	Accounting officer/authority	Executive	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	Extensive	Extensive	Extensive	Extensive	Extensive
Ove	rsight level								
1	KZN SCOPA								
2	Portfolio committee – Finance								
3	Portfolio committee – Transport								
4	Portfolio committee – Public Works								
5	Portfolio committee – Economic Development and Tourism								
6	Portfolio committee – Community Safety and Liaison								
7	Portfolio committee – Social Development								
8	Portfolio committee – Agriculture & Environmental Affairs								
9	Portfolio committee – Education								
10	Portfolio committee – Premier and Royal House								
11	Portfolio committee – Sport and Recreation								
12	Portfolio committee – Health								
13	Portfolio committee – Cooperative Governance and Traditional Affairs								
14	Portfolio committee – Human Settlements								
15	Portfolio committee – Conservation and Environment								
16	Portfolio committee – Economic Development and Tourism								

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	Extensive	Extensive	Extensive	Extensive	Extensive
Cod	ordinating/monitoring institutions								
1	KwaZulu-Natal Provincial Treasury								
Ove	erall BU/provincial assessment								
1	Assess assurance providers overall for the business unit (BU)/ province								
	Significantly lower than required level of assurance		vides some le uired level of a				quired level o surance	f	

At an overall level, the key role players in the province are providing some assurance. However, significant strides will have to be made if the required level of assurance is to be provided for credible decision-making.

The foundation for setting up processes to provide assurance involves skills, competence, ethics, embedded systems of control and an understanding of the roles and responsibilities by all role players, together with a strictly enforced performance management system.

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

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

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

4.2 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 include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

Table 27: 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
	Initiatives to improve audit ou MEC: Finance – Departments should conduct their own self- assessment of their finances and administration during the year, in order to prevent surprises in the year-end audit outcomes.	All areas	In progress	Limited impact
Members of provincial executive council (MECs)	MEC: Finance – Monitor the filling of all senior manager positions by the end of 2012-13. The appointment of senior management should lessen the continual movement of leadership between departments, thereby creating stability and accountability.	HR	In progress	No impact
	MEC: Finance – Monitor the implementation of IT controls.	IT	In progress	Limited impact
	MEC: Education – Closely monitor any SCM deviations through regular monthly reporting from management.	SCM	In progress	Not yet able to assess
	MEC: Education – Address the resource shortages required to clear the leave qualification with financial assistance from the provincial treasury.	HR	In progress	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
	MEC: Economic Development and Tourism – Assist the applicable entities with converting from section 21 companies to schedule 3C public entities.	All areas	In progress	Not yet able to assess
	MEC: Economic Development and Tourism – Ensure that the boards of all DEDT entities are fully capacitated.	HR	In progress	Limited impact
Members of	MEC: Human Settlements – Fast-track the filling of senior posts within the department. Monitor the filling of vacancies on a monthly basis.	HR	In progress	Not yet able to assess
executive	Prior year commitments			
council (MECs)	MEC: Education – To perform a 100% audit on the capped leave balances and update Persal with audited balances by 31 April 2012.	Leave	Not implemented	No impact
	MEC: Education – Address the accuracy of leave records through the four-phase approach.	Leave	In progress	No impact
	MEC: Finance – Finance should play a prevalent role with regard to oversight at public entities.	All areas	In progress	Limited impact
	MEC: Cooperative Governance – All key vacant positions will be filled by 31 March 2012.	HR	In progress	Limited 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
Members of provincial executive council (MECs)	MEC: Transport – All key vacant management positions will be filled by 31 March 2012.	HR	In progress	Limited impact
	The adoption of a sector oversight model which will address resource allocation and support structures for each committee to have a dedicated committee coordinator, researcher, content adviser and budget analyst.	All areas	Not implemented	No impact
	The premier again committed himself and his executive to achieving clean audit by 2014. A commitment was made and supported by the MEC: Finance regarding investigating and addressing the high incidence of irregular expenditure, particularly the large amounts discovered during audit.	All areas	In progress	Limited impact
	SITA service level agreements should be reviewed to ensure improvements in their information technology-related issues.	All areas	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
	New commitments			
	MEC: Arts and Culture – Finalise the appointment of the HoD and CFO for the department.	All areas	New	Not yet able to assess
Members of provincial executive council	MEC: Agriculture – Appoint a new fully compliant board for the KZN conservation board (Ezemvelo Wildlife) by January 2013.	All areas	New	Not yet able to assess
(MECs)	MEC: Arts, Culture, Sport and Recreation – Ensure that the IT as well as HR weaknesses noted during the audit are addressed and tracked by the department on a monthly basis and discussed with the AGSA during our quarterly meetings.	All areas	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
	MEC: Cooperative Governance and Traditional Affairs, KZN – Review the legislation for the Trust Account. The legislation has been drafted and is currently being reviewed by the MEC.	All areas	New	Not yet able to assess
	MEC: Cooperative Governance will exercise effective oversight over the department and commits to working closely with management to meet the dashboard commitments.	All areas	All areas New	
Members of provincial executive council (MECs)	MEC: Cooperative Governance is committed to achieving clean audit within her dept and leading by example in the province.	All areas	New	Not yet able to assess
	MEC: Health has committed to meeting regularly with management in tracking their progress in clearing the qualification issues.	All areas	New	Not yet able to assess
	MEC: Transport has committed that the issue regarding the monitoring of Zimbambele Contractors will be cleared and the department will move back to a clean audit.	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
	MEC: Education – Monitor monthly progress made by management on action plans to address audit outcomes.	Quality of AFS	New	Not yet able to assess
Members of provincial	MEC: Education – Monthly meetings with the AGSA to assess the progress made on actions committed to by management.	Quality of AFS	New	Not yet able to assess
executive council (MECs)	MEC: Economic Development and Tourism – Approach the courts to finalise the transfer of shares from the KZN Business Rehabilitation Trust Fund to the department.	All areas	New	Not yet able to assess
	Challenges with regard to performance, performance assessment, consolidation of information and reporting to be addressed with vigour.	PDOs	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
Members of provincial	Ensure that the DG finalises transversal issues relating to the province before March 2013 IT governance framework – and all SITA issues Integrity management unit to become fully operational SCM issues relating to state employees transacting with the province Cut down on emergency procurement within the department and province when in fact no emergency was noted.	All areas	New	Not yet able to assess
executive council (MECs)	More focussed approach towards driving clean administration at all levels.	All areas	New	Not yet able to assess
	MEC: Public Works –Address the inadequacies relating to sector performance indicators based on report from national department.	PDOs	New	Not yet able to assess
	MEC: Public Works –Monitor the filling of critical vacant positions. Monitor the cost-cutting measures relating to training as well as the nationwide service delivery focus driven at national level.	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
Members of provincial	MEC: Public Works –Monitor progress made in respect of commitments made to address audit findings relating to employees contracting with the state.	SCM	New	Not yet able to assess
executive Council (MECs) MEC: Human Settlements – Monitor the progress made in respect of commitments made to the AGSA on a monthly basis through interactions with the HoD.		All	New	Not yet able to assess
	Initiatives to improve audit ou	itcomes		
Provincial	Provide support in the form of training, funding and capacity to those departments previously receiving qualified audit opinions		In progress	Limited impact
treasury	Monitoring of action plans		In progress	Limited impact
	Take action on non-compliance with SCM, analyse deviations and follow-up on inflated prices.	SCM and financial management	In progress	Limited 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
	Set up a province - wide performance management system, and monitor performance regarding service delivery and against budgets.	Predetermined objectives and financial management	Not implemented	No impact
	Prior year commitments			
	Assisting the Department of Education on leave management and accruals.	Financial Management and turn- around plan	Not implemented	No impact
Provincial treasury	A vigorous and proactive approach to irregular expenditure, which will include an analysis of basic financial management processes and procedures that include the identification of what risk areas and key control measures to mitigate potential risk. This will be accomplished by ensuring sustainable skills transfer, training and the monitoring of key controls and practices to address audit risks and key control deviations.	SCM and financial management	Not implemented	No impact
	New commitments			
	Internal audit and supply chain management to play a greater role to prevent non-compliance with laws and regulations.	SCM	New	Not yet able to assess
	Training of staff on asset management and related controls.	Assets	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
	Initiatives to improve audit ou	tcomes		
	Getting departments and entities to account for non-compliance with supply chain management regulations and irregular expenditure incurred.	All areas	In progress	Limited impact
Provincial	To engage with the chair of audit committee to discuss progress with action plans set up by departments and entities to address audit findings and to obtain an update on the status of internal controls for departments and public entities.	All areas	In progress	Limited impact
public	Prior year commitments			
accounts committees	A workshop to be convened for chairs of portfolios in order to educate them on interpretation of reports presented by the AGSA.	All areas	Complete	Significant Impact
	Ensure that all SCOPA resolutions are followed up to finality.	All areas	In progress	Moderate impact
	New commitments			
	Interventions with municipal public accounts committees to strengthen oversight.	All areas	New	Not yet able to assess
	Further collaboration with chairs of portfolio committees as well as continuous engagements with the audit committee.	All areas	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
	New commitments Chairs of the portfolio			
Provincial portfolio	committees to meet with the AGSA for half an hour before their portfolio meetings to discuss status of quarterly dashboard commitments as well as action plans.	All areas	New	Not yet able to assess
committees	Audit committee to make themselves available for the meeting with the portfolio committee or alternatively do a write-up of material matters from their cluster meetings for submission.	All areas	New	Not yet able to assess

The collaboration between portfolio committees and the provincial public accounts committee (PPAC) is ensuring that there is no duplication of efforts and there is sharing of relevant information to strengthen oversight. The chairs of portfolio committees also attend the PPAC meetings, which assists them to address matters arising during their regular portfolio committee meetings. It also places them in a position to provide context to matters, when needed, and obtain a greater understanding of the audit outcome and responses from their specific departments.

The audit committee chair in the province had, for the first time, been attending PPAC meetings. She provided useful information with regard to the regularity of attendance of officials, their responses to the committee as well as key risk areas identified. We have identified a need for closer collaboration and to bring the audit committee closer to the portfolio committees. It had been suggested to the chairs of the portfolio committees that on a quarterly basis we should meet with them for 30 minutes before their portfolio meetings to discuss the status of the quarterly dashboard commitments as well as action plans to address audit

outcomes. In addition to this, it was suggested that the audit committees avail themselves or alternatively do a write-up of material matters from their cluster meetings.

Quarterly interactions with the chair of committees and chairs of portfolio committees will continue whereby outcomes and commitments are extensively discussed. These meetings create a platform to indicate where further dialogues and workshops are required to capacitate committees to perform their roles more efficiently. In addition to this, we have suggested that the status of audit plans as well as commitments be included on portfolio committee agendas to ensure regular follow up and reporting.

Interactions with the members of the executive council (MECs) were intensified to the extent that previous quarter's commitments were presented to them so that they could get an indication of exactly how long have their actions been outstanding as well as the tone of the interactions (refer to table 30 below). They could then deal with whether the commitments were achievable or not and what the consequences were for the responsible officials in the case of non-achievement. MEC interactions are indeed a success in the province. This is evident in that all of them give us the opportunity to meet with them on a quarterly basis and they are very motivated to achieve clean audits. We have identified that where some MECs receive monthly reports or alternatively attend the management committee meetings; they are more hands-on and well informed when it comes to deliberating during the interactions.

The focus of the interactions with the provincial treasury has been on a collective and coordinated approach, which requires collaboration within the key treasury officials as well as other stakeholders, namely the Office of the Premier, audit committee and internal audit unit. A further driver has been the capacitating of portfolio committees. The provincial treasury has agreed to these commitments but they have not been formalised in terms of a process to take these matters forward, specifically pertaining to a strategic focus in driving the initiative of clean audit 2014 in the province. This will assist in a proactive approach in fixing root causes of findings in a sustainable manner and not just quick fixes that

create a room for regressions in outcomes.

The measures of the success of these initiatives lie in the fact that there is consistency in the understanding of outcomes, the key drivers or root causes as well as the solutions to respond to these areas with all stakeholders involved. Furthermore, the content of the dialogue has elevated to the extent that there is greater participation coupled with relevant questions. Opportunities are also identified of where capacitating of oversight is required.

We will continue to ensure that interactions at all levels take place, that our fruitful discussions lead to strengthened cooperation and that root causes of audit outcomes are understood so that they can be addressed.

4.3 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

The following table reflects the status, at March 2012, of implementation by auditees of public accounts committee (PAC) resolutions relating to specific auditees in the province.

Table 28: Status of implementation of public accounts committee resolutions

	Nun	nber of	resolut	ions	Target area of resolutions			
Auditee	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
Departments								
Agriculture, Environmental Affairs and Rural Development	3	1	2		•			
Arts and Culture	3	2			•			
Cooperative Governance and Traditional Affairs	1			1				•
Economic Development and Tourism	3	3						•
Education	5	3	1	1	•	•		•
Health	7	6		1				•
Human Settlements	3	3			•			•
Joint resolution with Finance PC	1	1						•
Office of the Premier	1			1				•

	Nun	nber of	resolut	ions	Targe	t area c	of resolu	utions
Auditee	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
Public Works	5	5						•
Royal Household	2	1		1	•			
Social Development	3	1		2	•			•
Transport	1	1			•			
Transversal	10	4			•		•	•
KwaZulu-Natal Provincial Treasury	1							•
Treasury and Premier	1		1					•
Public entities								
Agri-Business Development Agency	1	1						•
Amafa aKwaZulu-Natali	2	2						•
Traditional Levies and Trust Account	3	2	1		•			•
KZN Nature Conservation	1	1						•
Ithala Development Finance Corporation	1	1						•
KZN Business Rehabilitation Trust Fund	2	2						•
KZN Growth Fund Managers	1	1						•

	Number of resolutions					
Auditee	Passed	Implemented	In progress	Not actioned		
Mjindi Farming Pty (Ltd)	1	1				
Royal Household Trust	1	1				
Total	63	43	13	7		

Target area of resolutions						
Financial management	PDOs	Compliance	Other			
			•			
			•			

Of the 63 resolutions passed, 43 had been implemented, 13 were in progress and seven had not yet been sanctioned. Some of the resolutions indicated as implemented by the PAC have been referred to the various portfolio committees for follow up.

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

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 29: Key initiatives of the Auditor-General of South Africa to encourage clean audits

Nature	Outline of AGSA initiatives
Interactions with the political and administrative leadership	Meetings were held quarterly with MECs to discuss the overall outcomes of the province as well as the way forward to achieve clean administration. During these meetings "red flags" or matters needing attention were raised and elevated to the correct levels. Quarterly snapshots of the status of internal controls specifically to departments or overall in the province, were given. Meetings were held with the speaker of the legislature and chairs of chairs and portfolio committees to discuss outcomes, status of internal controls as well as commitments and actions. A need to spend more time with the Standing Committee on Public Accounts (SCOPA) was identified to ensure that they have a deep understanding of outcomes and the root causes of the outcomes. This relationship, together with the receptive tone of the leadership within the province, resulted in an improvement in the understanding of the audit findings and their root causes. As a result, the MEC for Finance has influenced operation clean audit meetings with the relevant stakeholders to encourage positive outcomes strategically. Furthermore, she has encouraged the provincial treasury to assist in capacitating other portfolio committees to strengthen oversight.
Stakeholder interactions and audit outcome roadshows	Meetings are scheduled with the premier, MEC: Finance and MEC: CoGTA (TROICA) to discuss specific matters. The speaker of the legislature, chairs of chairs and SCOPA are engaged at meetings to discuss outcomes and quarterly interactions are held and where there is a necessity for more interactions, these are also held. Commitments are also discussed on a quarterly basis. As at 31 July 2012, the AGSA's leadership in the province had met with the MECs for all departments to discuss the 2012 outcomes of the PFMA audits. This initiative served to enlighten the MECs of their portfolios and to discuss the outcomes and key controls required of the departments and public entities under their jurisdiction.
Quarterly interactions on status of key controls	Discussions of key controls on a quarterly basis have proven to be an opportune time to address audit findings, clarify the audit process and to address findings raised in the previous year's audit and management reports. Where needs for more frequent interactions are identified, it is ensured that these also take place.

Nature	Outline of AGSA initiatives
Promoting understanding of PDO requirements	Reporting on PDOs is an item on the agenda for audit steering committee meetings where an understanding of PDO requirements is promoted and discussed. The presentation as provided by Audit Research and Development unit of the AGSA was given to all clients consistently as well as to the chairs of chairs.
Involvement at forums and meetings related to provincial government financial affairs	The AGSA's engagement at forums such as the risk management forum, premier's coordinating forum and monthly chief financial officers' forum has focused on the simplicity, clarity and relevance of the message to gain an understanding, get buy-in and influence clean administration. Weekly meetings were held with the provincial accountant-general leading up to the reporting on the audits to discuss early trends and possible outcomes as well as cross-cutting matters such as irregular expenditure and performance information. The fraud and corruption committee meeting was also attended.

Nature	Outline of AGSA initiatives
Further initiatives	In support of an ultimate audit outcome of unqualified audit opinions with no reported findings on PDOs or compliance with laws and regulations, the AGSA's leadership in the province has continued to enhance its visibility with the objective of improving the effectiveness of the audit process and engaging with all role players that can influence clean administration. Time has been spent with the internal audit units and audit committees to successfully implement the combined assurance model.
Promoting an understanding of IT risks and controls	Arising from the audit of IT at departments, the AGSA had an opportunity to promote an understanding of IT risks and controls and during the discussion of findings elaborated on key issues and findings.
Contributing to the effectiveness of oversight structures	The AGSA also engaged with the centralised audit committee for departments in the province to discuss matters arising from the draft audit reports prior to the audit reports being signed off.

Table 30: Analysis of impact of interactions with the executive

				Impact of interaction with th		e executive	
	umber actions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings	
Auditee	Total number of interactions	Opinion	Opinion	Evaluation	Evaluation	Evaluation	
Agriculture, Environmental Affairs and Rural Development	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Unchanged	Improved	
Arts and Culture	4	Financially unqualified with no findings	Financially unqualified with no findings	Remain with no misstatement	Remain with no findings	Remain with no findings	
Community Safety and Liaison	2	Financially unqualified with findings	Financially unqualified with findings	Regressed	Regressed	Regressed	
Economic Development and Tourism	3	Financially unqualified with findings	Financially unqualified with findings	Remain with no misstatement	Unchanged	Unchanged	
Education	8	Qualified	Qualified	Improved	Regressed	Remain with no findings	
Health	3	Qualified	Qualified	Regressed	Unchanged	Unchanged	
Human Settlements	3	Financially unqualified with findings	Financially unqualified with findings	Regressed	Improved	Regressed	
Cooperative Governance and Traditional Affairs	3	Financially unqualified with findings	Financially unqualified with findings	Regressed	Regressed	Improved	
Office of the Premier	4	Financially unqualified with findings	Financially unqualified with no findings	Regressed	Regressed	Regressed	
KwaZulu-Natal Provincial Legislature	2	Financially unqualified with findings	Financially unqualified with no findings	Regressed	Regressed	Regressed	
KwaZulu-Natal Provincial Treasury	5	Financially unqualified with no findings	Financially unqualified with no findings	Remain with no misstatement	Remain with no findings	Remain with no findings	
Social Development	3	Financially unqualified with findings	Financially unqualified with findings	Regressed	Regressed	Improved	
Sport and Recreation	2	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Remain with no findings	
The Royal Household	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Regressed	
Transport	3	Financially unqualified with findings	Financially unqualified with no findings	Remain with no misstatement	Remain with no findings	Remain with no findings	
Public Works	3	Financially unqualified with findings	Qualified	Improved	Improved	Remain with no findings	

The table above details the interactions held with the MECs of departments. The table does not include the many additional interactions that were held with the heads of department (HoDs) and chief financial officers (CFOs). Also excluded are escalations which were made to the speaker of the legislature, portfolio committees and the premier.

As can be seen from the table, the number of interactions was fairly intensive. The main driver behind the interactions was the quarterly key controls after assessments of the status of internal controls through walkthroughs and discussions with management, visits, as well as additional escalation interactions to highlight areas requiring the intervention of the executive authorities in trying to improve or at the very least maintain the audit outcomes of the departments.

Although we had intensified our interactions, the return on that time investment did not yield the required results, which ultimately resulted in outcomes that either regressed or remained unchanged from the prior year's audit. MECs tend to rely on accounting officers to address internal control deficiencies. Where MECs have been involved either through monthly meetings or attendance of the management committee meetings, the dialogue had been more beneficial and rewarding through this hands-on process. In instances where MECs relied on accounting officers without getting the necessary supporting information or tangible evidence to be assured that the matters were indeed resolved, they had to accept the harsh reality of the status of internal controls.

It is imperative that the AGSA's quarterly interactions are prioritised and continuously attended by the relevant MEC, HoD/chief executive officer, CFO, internal audit units and chairpersons of the audit committees 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 by 2014. This would enhance the alignment of political and administrative leadership, which is imperative in enforcing accountability and effective financial and performance management.

SECTION 5

EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

- 5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION
- 5.2 FINANCIAL HEALTH INDICATORS





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 provincial government audit requirements/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 31: Current and emerging matters that require attention

Area of	change	Summary of expected changes
Matters affecting	g government aud	itees in all provinces
		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.
Accounting	Readiness of departments for the eventual inclusion of	A review conducted of departments' inventory management processes requiring to be addressed, for the affected departments, include the following:
matters	inventory in the financial statement	Adequate policies and processes over the management of inventory should be finalised and implemented.
	disclosures	The internal controls over the management of inventory should be strengthened and monitored.
		A proper system for the recording and reconciliation of inventory should be in place.

Area of	change	Summary of expected changes
PDOs	Implementation of the Framework for strategic plans and annual performance plans	In terms of the Framework for strategic plans and annual performance plans and National Treasury's Instruction Note No. 33, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA, must be compiled in accordance with the principles as per the framework. Audits of PDOs (for the 2012-13 PFMA audit cycle and going forward) will thus be conducted considering the principles of the Framework for strategic plans and annual performance plans in addition to the applicable laws and regulations and Framework for managing programme performance information (as per the AG Directive) for the said auditees.
Matters specific	to KwaZulu-Nata	
Provincial treasury practice notes	Human resources	The Office of the Premier in KwaZulu-Natal is tasked with developing provincial policy frameworks and procedures for HR-related matters in the province. Therefore, six provincial treasury practise notes relating to human resources have been repealed with effect from 1 October 2012. Once these policies are revised by the Office of the Premier, departments should ensure that processes are amended to comply with the revised regulatory documents.

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.

The AGSA analysed certain aspects of matters that related to the management of budgets, expenditure, conditional grants (applicable only to departments), revenue, assets and liabilities.

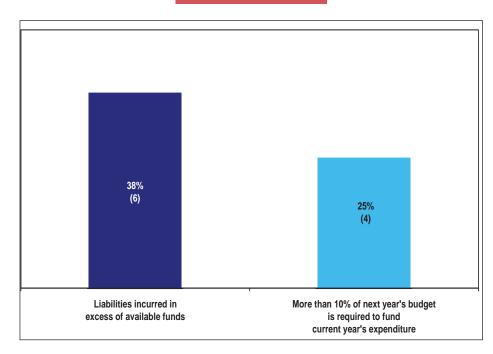
The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province.

5.2.1 Budget management and conditional grants

The spending of 10 (63%) departments was within the approved budget. However, the annual financial statements (AFS) of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the annual financial statements, and used to assess actual expenditure versus 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.

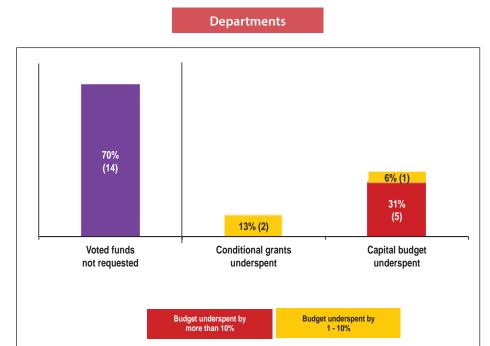
Figure 33: Budget management by departments

Departments



The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. The approved budget (voted funds) of departments is requested from the provincial revenue funds only as required. The figure below shows the number of departments that underspent on capital budgets and conditional grants and those that did not request all their voted funds in the year, which led to the funds being surrendered to the revenue fund.

Figure 34: Underspending by departments

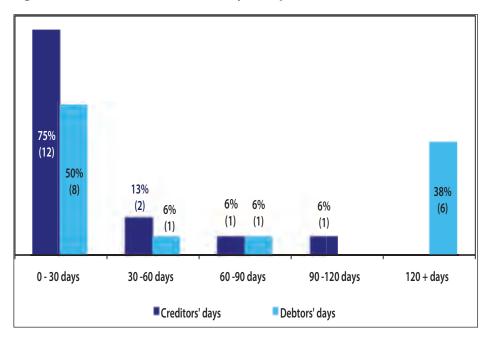


No department underspent its conditional grants by more than 10%, however, two departments out of 16 underspent their conditional grants by 1%.

5.2.2 Revenue and expenditure management

The figure below shows the average debtors' and creditors' days. Debtors' days refer to the number of days it takes for the auditee to recover the money owed to them by persons/institutions. Creditors' days are the number of days on average it takes for an auditee to pay those they owe money to.

Figure 35: Creditors and debtors' days – departments



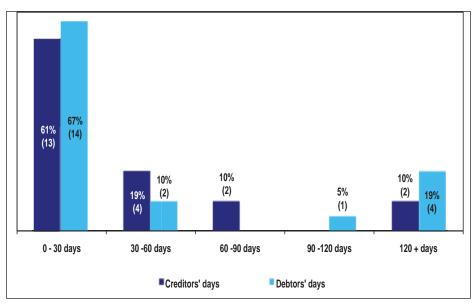
The majority of departments paid their creditors within 30 days of receipt of invoices. Twelve out of 16 departments (75%) paid creditors within this time period and two departments (13%) between 30 to 60 days. Only one department, Sport and Recreation, had creditors outstanding for 120 days.

Eight departments (50%) recovered their outstanding debts within 30 days, two departments (12%) between 30 and 90 days and six departments (38%) out of 16 departments had debtors outstanding for more than 120 days, which could impact on the possibility of their recoverability. Departments with unrecovered debts outstanding for over 120 days are as follows:

- Agriculture, Environmental Affairs and Rural Development
- Economic Development and Tourism
- Education

- Health
- Transport
- Public Works

Figure 36: Creditors' and debtors' days - public entities



The majority of public entities' creditors (61% or 13 of the 21 analysed) were paid between 0 and 30 days from receipt of invoices. A further 29% (six out of 21 analysed) were paid between 30 and 90 days. The following two public entities of the 21 analysed had creditors (10%) outstanding for over 120 days:

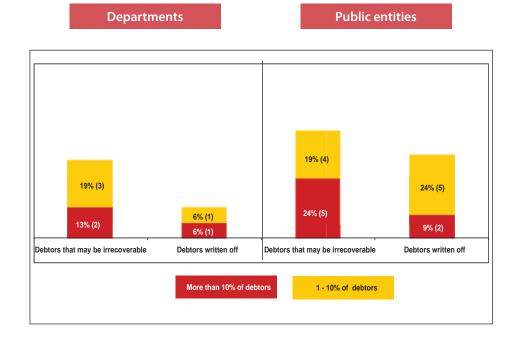
- Dube TradePort Corporation
- Trade and Investment KZN

The public entities' debtors (67% or 14 of the 21 analysed) were mostly recovered within the 30-day period; however, the following five of the 21 analysed had debtors (24%) in the 120 and 120+ days period, which could impact on the possibility of their recoverability:

- Housing Fund
- Ithala Development Finance Corporation Ltd
- KZN Tourism Authority
- Mjindi Farming (Pty) Ltd
- Kwanaloga

The weakness in recovering amounts 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 37: Status of state debtors



Two out of 16 departments wrote off more than 10% of their debtors, namely:

- Agriculture, Environmental Affairs and Rural Development
- Health

The following two public entities out of 21 analysed had debtors in the red category that might be irrecoverable:

- Mjindi Farming (Pty) Ltd
- Housing Fund

The following five public entities out of 21 wrote off more than 10% of their debtors:

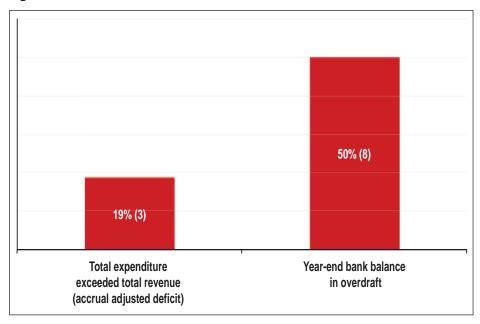
- KZN Nature Conservation Board
- Housing Fund KZN
- Ithala Development Finance Corporation Ltd
- Mjindi Farming (Pty) Ltd
- Kwanaloga

5.2.3 Asset and liability management

The analysis depicted below would, in the private sector, be indicators of a possible going concern problem at an entity, i.e. that the entity would not have sufficient funds to continue in business. It is however uncommon for the operational existence of a public sector auditee to cease 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 following figure shows the number of departments that incurred deficits in the current year and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments, the amounts on the annual financial statements were adjusted to the accrual basis of accounting.

Figure 38: Deficits and overdrafts



The expenditure of the following three out of 16 departments would have exceeded their total revenue should they have been on an accrual basis of accounting:

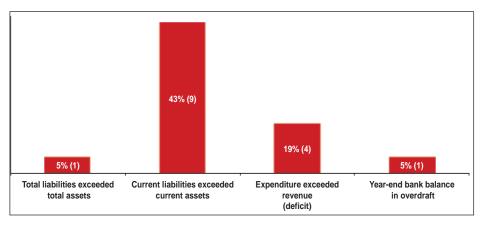
- Education
- Office of the Premier
- KwaZulu-Natal Royal Household Trust

The following eight out of 16 departments had year-end bank balances in overdraft:

- Agriculture, Environmental Affairs and Rural Development
- Arts and Culture
- Education
- Health
- Human Settlements
- Social Development
- KwaZulu-Natal Royal Household Trust
- Transport

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

Figure 39: Funding of continued operations – public entities



The total liabilities of one public entity, the KwaZulu-Natal Royal Household Trust, exceeded its total assets.

The current liabilities of the following nine public entities of the 21 public entities analysed exceeded their current assets:

- Dube TradePort Corporation
- KZN Nature Conservation Board
- Agri-Business Development Agency
- Mjindi Farming (Pty) Ltd
- Natal Joint Municipal Pension Fund: Provident
- Natal Joint Municipal Pension Fund: Retirement
- Natal Joint Municipal Pension Fund: Superannuation
- Kwanaloga
- KwaZulu-Natal Royal Household Trust

The following four public entities of the 21 public entities analysed showed a deficit for the year under review:

- KZN Nature Conservation Board
- Ithala Ltd
- Kwanaloga
- Kwazulu-Natal Royal Household Trust

The Agri-Business Development Agency had a year-end bank balance in overdraft.

GLOSSARY OF TERMS

ANNEXURE









GLOSSARY OF TERMS

Accounts payable/ accruals/ liabilities	Money owed by the entity to those who have supplied goods and services.
Accounts receivable (debtor)	Money owed to the entity by those who have received goods or services from the entity.
Accruals	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
Adverse audit opinion	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
Asset	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
Asset impairment	The reduction in value of an asset below its normal realisable value.
Balance sheet	Summary of an entity's financial status, including assets, liabilities and equity.
Carrying value	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.
Cash flow	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.
Clean audit outcome	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.
Commitments (financial)	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.

Comparative figures	The figures recorded in the previous year which correspond to the figures for the same item in the current year.
Consolidated financial statements	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
Contingent liability	A potential liability, the amount of which will depend on a future event.
Current assets	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.
Disclaimer of audit opinion	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.
Financial and performance management	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.
Financially unqualified audit opinion	The financial statements contain no material misstatements.
Fruitless and wasteful expenditure	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.
General ledger	A record of all financial transactions undertaken by an entity.

Governance	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.
Information technology (IT)	Computer systems used for recording and reporting financial and non-financial transactions.
IT service continuity	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.
IT security management	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
IT user access management	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
Internal control (key controls)	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.
Inventory	Goods held for resale or for internal use.
Irregular expenditure	Expenditure incurred without complying with applicable laws and regulations.

Leadership	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.
Leading department	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.
Material finding	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.
Material misstatement	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.
Misstatement	Incorrect information in or information omitted information from the financial statements or annual performance report.
Modified opinion	Qualified, adverse or disclaimer of opinion.
Payroll	A list of employees and their wages.
Pervasive findings	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
Property, plant and equipment	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
Qualified audit opinion	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.

Reconciliation	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.
Reporting against predetermined	Reporting by auditees on their actual service delivery achievements against their annual objectives performance plans.
Residual value	The estimated scrap or salvage value at the end of the asset's useful life.
Root causes	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.
Supply chain management	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
Transversal findings	Findings that are cross-cutting or occurring in a number of entities.
Unauthorised expenditure	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.
Useful lives	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.

		:	2011-	12	:	2010	-11			l stateme ation area		Findir	igs on p	redetern tives	nined	Findin	gs on area	s of noi	n-comp	liance	
Number	Auditee	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Unauthorised, irregular, and fruitless and wasteful expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, Irregular, Fruitless wasteful and losses	Expenditure management	Audit committees	Procurement management	Other
Dep	artments					ı													Í		
1	Agriculture, Environmental Affairs and Rural Development															R	R			R	
2	Arts and Culture																				
3	Community Safety and Liaison											N	N			R	R			R	
4	Co-operative Governance & Traditional Affairs												А			N	R	N		R	R
5	Economic Development and Tourism												R			R	R	R		R	N
6	Education										R					R	N	N		R	R
7	Health							R		R	N		R			N	R	Α		R	N
8	Human Settlements											А	А	N		R	R			R	Α
9	KwaZulu-Natal Provincial Treasury																				
10	Office of the Premier											N				N	N	N	N	N	
11	KwaZulu-Natal Provincial Legislature											N				N					
12	Provincial Revenue Fund																				
13	Public Works							А								R	N			R	
14	Social Development											А	R			R	R			R	R
15	Sport and Recreation															R	Α			R	
16	The Royal Household													N		R	R			N	N
17	Transport																	N			
	Financially unqualified with no findings Disclaimer Qualified Adversarially unqualified with findings Audit outstanding Closed Find		Lege (Driv	end Good ers) Causin concer		Significa deficien Interver required	ant control cy ntion		ndings)	ddressed A	Repeat	R	Legend Movements)	Reduction Increase	↑ Unch	anged	Legend (Ro cause)	oot root c	tributing	A ma	ajor cause

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Movement	Amount R	Movement	Amount R	Movement	Amount R	Limitation on planne of audit of awar	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair processes	Inadequate contract management	Internal control deficiencies	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT system controls	Risk management	Internal audit	Audit committee	Appointment processes	Acting positions	Management of leave, overtime and suspensions	Other	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls Effectiveness of assurance	providers
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		:	2011-	12	7	2010	-11			l stateme ation area		Findir	ngs on p objec	redetern ctives	nined	Findin	gs on area	s of no	n-comp	liance	
Number	Auditee	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Unauthorised, irregular, and fruitless and wasteful expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, Irregular, Fruitless wasteful and losses	Expenditure management	Audit committees	Procurement management	Other
Pub	lic entities																				
18	Agri-Business Development Agency															R	R		R	R	R
19	Amafa Akwazulu-Natali															А					
20	Dube Tradeport Company															R				R	
21	KwaZulu-Natal Gaming and Betting Board											N				N			А		
22	KwaZulu-Natal Growth Fund Managers (Pty) Ltd															R	R		N	А	R
23	KZN Housing Fund							R	R		N					N					R
24	Ithala Development Finance Corporation Ltd											R	А			R	А	N		А	R
25	Ithala Limited											R				А				А	R
26	Kwanaloga														R	А	R			N	R
27	KwaZulu-Natal Sharks Board											Α				R	R			R	
28	KwaZulu-Natal Business Rehabilitation Trust Fund							R	R		R					R					R
29	KwaZulu-Natal Nature Conservation Board							R	Α	N	R	Α				R	N	А		N	Α
30	KZN Political Parties' Fund																				
31	KwaZulu-Natal Tourism Authority											Α				R	N			R	Α
32	Mjindi Farming (Pty) Ltd															R			А		Α
33	Natal Joint Municipal Pension Fund (Provident)																				
	gend with no findings Disclaimer Qualified Adversarially unqualified with no findings Advit outstanding Closed Findings		Lege (Driv		g n	Significa deficien Interver required	-/		egena	ddressed A ew N	Repeat	R	Legend (Movements)	Reduction Increase	Unch	anged	Legend (Ro cause)	oot root o	gnificant cause ntributing cause	A ma	ajor cause

				egular, and penditure ir			Р	rocu		t and o	contrac nt	t				ı	Orive	ers o	f interr	nal con	trol							n resou igemer		te	orma chno	logy	y	Roo	t causes	S
	nautho xpendi			rregular penditure		uitless and wasteful xpenditure	d scope ds	rees	mily yees	infair esses	act	iencies		Le	adeı	rship			1	Financi perforr nanag	mano	ce	G	overr	nance	ı w	S	ave, nsions			nent	ment	nent	uctivity	ntrols ırance	
Movement	Amo		Movement	Amount R	Movement	Amount R	Limitation on planned s of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair processes	Inadequate contract management	Internal control deficiencies	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT system controls	Internal audit	Audit committee	Appointment process	Acting positions	Management of leave, overtime and suspensions	Other	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls Effectiveness of assurance	providers
			.	R55,7 mil						R	N																									
										Α																										
			•	R14,5 mil			Α			R																										
			•	R547 701						R																										
			•	R6,9 mil																																
			•	R6,8 mil	1	RO	Α			Α																										
			•	R3 061	1	RO				Α																										
			•	R9,6 mil	•	R78 000				N																										
			•	R4,5 mil						Α	A																									
			₹	R1,3 mil	•	R997 000	N			N																				R	R	R	R			
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			₹	R376 817						R																										
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(Au	Legend dit outcome:	with no	findir ally un	igs gualified	sclaim udit ou	ner utstanding	Qualifie Closed	d	Adverse Finding		(Drivers)	Good Causing concern	defici	ficant cont ency vention red	rol S	Leger (Findin	na)	ldresse ew		Repeat	R	Lege (Mover		Reduction Increase	= -	Unchai	nged		Le	egend (cause	Root	root ca	ributing		A major root cause	2

			2011-	12	:	2010	-11			Il stateme ation area		Findir	ngs on p objec	redetern tives	nined	Findin	gs on area	s of no	n-comp	oliance	
Number	Auditee	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Unauthorised, irregular, and fruitless and wasteful expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/ limitations in submitted annual financial statements	Unauthorised, Irregular, Fruitless wasteful and losses	Expenditure management	Audit committees	Procurement management	Other
34	Natal Joint Municipal Pension Fund (Retirement)																				
35	Natal Joint Municipal Pension Fund (Superannuation)																				
36	KwaZulu-Natal Provincial Pharmaceutical Supply Depot															N	R		N	R	N
37	The KwaZulu-Natal Royal Household Trust														N	R	R		R	R	R
38	Trade and Investment KwaZulu-Natal															N	N			N	
39	Traditional Levies and Trust Account							R	Α		R						Α		Α		R
40	uMsekeli Municipal Support Services														R	Α			Α		А
Pub	lic entities (Not audited by the AGSA)																				
41	Banzi Pan Devco (Pty) Ltd														N						
42	Cowslip Investments (Pty) Ltd														R						Α
43	Durban Wharfside Trust														R						А
44	La Mercy Property Investment																				
45	Mabibi Development Company (Pty) Ltd														N						Α
46	Moses Kotana Institute																Α			Α	Α
47	Nongoma Plaza Ltd														R						Α
48	Richards Bay Industrial Development Zone (Pty) Ltd																				Α
49	Rocktail Bay Devco (Pty) Ltd														N						Α
50	Sibaya Conservation Projects (Pty) Ltd														R						
51	Sundumbili Plaza														R						Α
52	Ubiciko Twines and Fabric (Pty) Ltd														R						
	gend With 110 Hildings	erse ling	Lego (Driv		ng m	Significa deficien Interver required	ant control cy ntion		egena	ddressed A ew N	Repeat	R	Legend (Movements)	Reduction Increase	Unch	anged	Legend (R cause)	oot root o	gnificant cause ntributing cause	A ma	ajor cause

Unauthorised, irregular, and fruitless and wasteful expenditure incurred						P	Drivers of internal control														resou gemer		Information technology management				Root causes									
	Unauthorised expenditure		Irregular expenditure		uitless and wasteful penditure	d scope ds	/ees	mily gyees	unfair esses	act	iencies	Leadership						Financial and performance management					Governance			esses	SI	ave, nsions		a)	nent	ment	ment	uctivity	ntrols ırance	
Movement	Amount R	Movement	Amount R	Movement	Amount R	Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT system controls	Risk management	Internal audit	Audit committee	Appointment processes	Acting positions Acting positions Management of leave, overtime and suspensions	Other	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls Effectiveness of assurance	providers	
																														_			_			
		1	R21,4 mil			N			N	R																							_			
		•	R5,2 mil						N							4																	_		+	
		•	R1,3 mil							N												4					_					-	_			
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	Legend with n		unqualified Di	Disclaimer		Qualified	ied Adverse			Legend_	Good		inficant control S Legend Addressed A Legend Reduction 1 Unchanged Legend								gend (Root _	No sig	it												
			inqualified A	Audit outstanding		Closed		Finding		(Drivers)	Causing concern		ention ed		(Findings) New			N	Repeat	R		ments								cause		A cont root ca	tributin ause	ng	A major root caus	

