



AUDITOR - GENERAL
SOUTH AFRICA



GENERAL REPORT
ON THE PROVINCIAL AUDIT OUTCOMES

NORTHERN CAPE
PFMA 2011-12



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Our *reputation promise/mission*

2



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

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

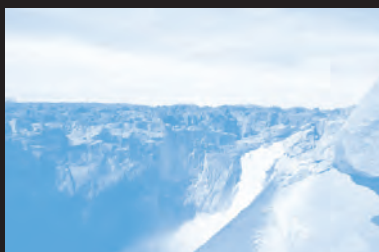
This publication also captures the commitments that leaders have made to improve audit outcomes.



AUDITOR-GENERAL: TERENCE NOMBEMBE

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

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FOREWORD



AUDITOR - GENERAL
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FOREWORD

It is with pleasure that I present to the Northern Cape Provincial Legislature my 2011-12 general report summarising the audit outcomes of the provincial government for the financial year ended 31 March 2012.

The audit outcomes for the province as a whole have regressed and none of the 13 departments or nine public and other entities reported on, received a financially unqualified opinion with no findings (clean audit).

During the 2010-11 financial period the provincial leadership made the following commitments:

The provincial leadership has reflected on the lack of visible progress in implementing commitments made in the previous year. They have pledged that the basic principles of monthly reporting, validation of reported information and constant monitoring would be the pillars on which the commitments for the coming year are based. This informed the new commitments, ranging from enhancing the monitoring and oversight capacity of the legislature and its committees, with provincial treasury improving its capacitating role, to taking full ownership of key control assessments.

Notwithstanding the fact that the Auditor-General of South Africa has intensified its interactions with key role players in the province and stressed the importance of effective internal controls during these meetings, very little progress has been made in strengthening internal controls in the province. With the exception of the Department of Social Development, the submitted financial statements for audit purposes required material amendments to avoid qualification. To this effect, 95% of audit outcomes would



***“The Northern Cape provincial leadership remain committed to achieving clean audits in 2014”-
Griezelda Cjiekella
(Acting Premier)***

have been either qualified or disclaimed had the adjustments not been effected as part of the audit process. The reasons for this and the regression in audit outcomes were the lack of regular credibility checks on financial information, lack of consequences for non-performance by the head of department, chief financial officer and staff and failure by the political leadership to take the Auditor-General’s message seriously and to take ownership of the key controls.

The lack of credible reports on financial and performance information compromises the ability of the province to effectively manage service delivery and cash flows. Notably, 92% of departments either achieved fewer than 80% of their service delivery targets or were disclaimed in their management reports on predetermined objectives. This includes the major service delivery departments of Health and Education, which represent 68% of the provincial budget. In addition, 54% of departments and 38% of entities incurred expenditure in excess of their revenue.

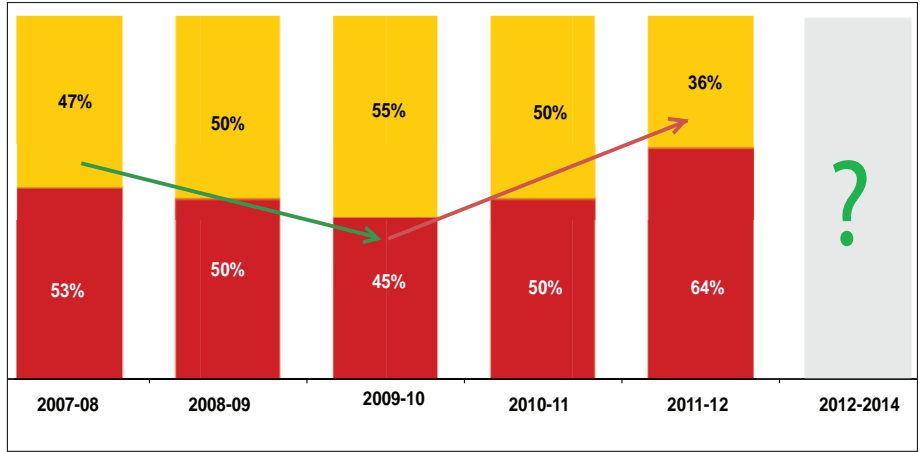
The appointment and effective functioning of the departmental audit committees during the last three months of the 2011-12 financial period and the filling of critical vacancies in the internal audit unit after year-end are important steps towards achieving better audit outcomes. As undertaken in the previous year’s general report, my office remains committed to actively supporting the leadership of the province in its effort to achieve clean audits by 2014.

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

Auditor-General

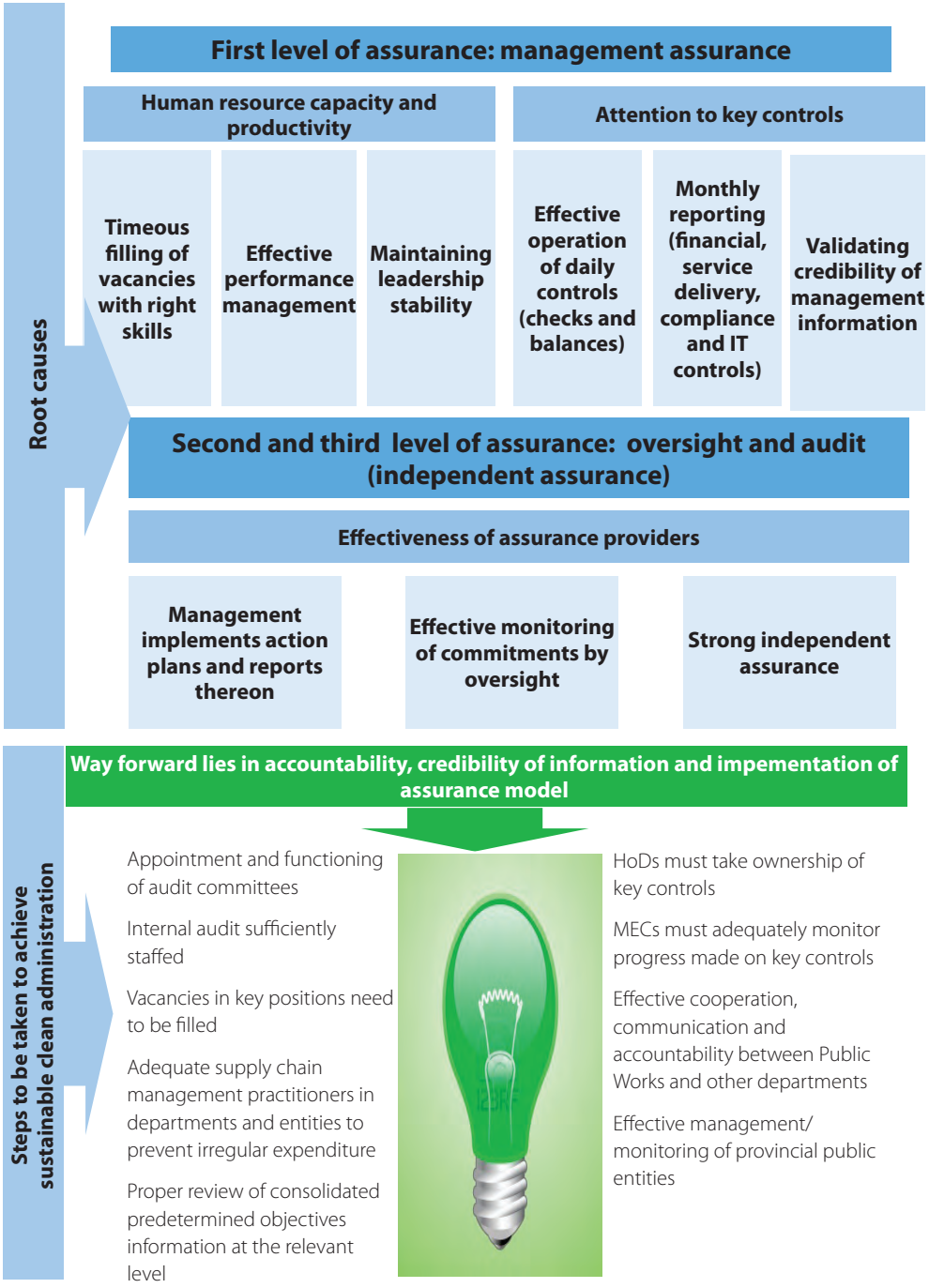
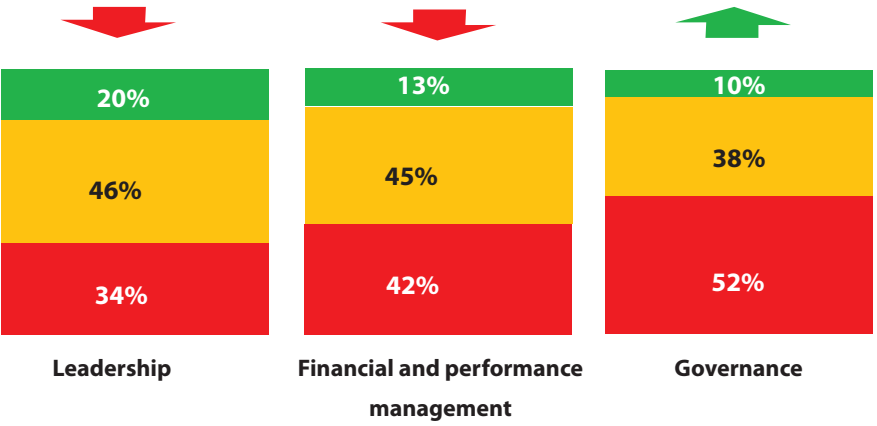
**Auditor-General
Pretoria
March 2013**

Regression in provincial audit outcomes is of great concern



Focus areas	Supply chain management	Predetermined objectives	HR	IT controls
	Stagnation	Regression	Stagnation	Stagnation

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



SECTION 1

EXECUTIVE SUMMARY






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SECTION 1




EXECUTIVE SUMMARY





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




Table 1: Significant aspects of the audit outcomes



Aspect	Indicator	Key outcomes and trends
Overall audit outcomes		<ul style="list-style-type: none"> Two (9%) auditees progressed to financially unqualified audits with findings on predetermined objectives and/or compliance, while one (5%) auditee progressed to a qualified opinion.
		<ul style="list-style-type: none"> Five (22%) auditees retained their prior financially unqualified audit opinions.
		<ul style="list-style-type: none"> Four (18%) auditees regressed from being financially unqualified to qualified. Seven (32%) auditees failed to address their 2010-11 qualification findings. <p>This overall regression in the province is mainly due to lack of accountability for poor performance, vacancies in key positions, over-reliance on consultants, lack of regular checks and balances on reported information and compliance and poor information systems.</p>



Aspect	Indicator	Key outcomes and trends
Submission of financial statements and annual performance reports for audit		<ul style="list-style-type: none"> Twenty-two auditees (85%) submitted their annual financial statements on time. All departments submitted their financial statements on time. Seventeen of the 19 auditees (89%) that were required by legislation to report on their performance against predetermined objectives were able to submit their annual performance reports on time.
		<ul style="list-style-type: none"> Four (15%) auditees were unable to meet the legal requirement for timely submission of financial statements. <p>The non-submission of financial statements by the legislated date by the entities is due to poor oversight by the controlling departments.</p>
Quality of financial statements		<ul style="list-style-type: none"> One (4%) auditee submitted financial statements that required no material adjustments and achieved a financially unqualified audit outcome.
		<ul style="list-style-type: none"> Seven (32%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all material misstatements identified during the audit.
		<ul style="list-style-type: none"> Fourteen auditees (64%) were not willing and/or able to correct all of the misstatements and therefore could not avoid the qualification of their financial statements, including one adverse and one disclaimer of opinion <p>Adequate reviews were not performed on the financial statements before submission thereof for audit purposes, which resulted in a poor quality of financial statements.</p>

Aspect	Indicator	Key outcomes and trends
Reporting on predetermined objectives		<ul style="list-style-type: none"> Three departments were able to maintain their good performance by preventing findings on predetermined objectives for the third consecutive year, while one department improved since the prior year and had no findings on predetermined objectives.
		<ul style="list-style-type: none"> Three newly listed public entities that reported on predetermined objectives for the first time in the current year, had findings. Included in the 26 auditees for the province, are six other entities which are not required to report on predetermined objectives or compliance with laws and regulations, as they are non-listed entities.
		<ul style="list-style-type: none"> Regressions were noted at three departments (23%) and one (33%) public entity. Two (67%) public entities did not submit their annual performance reports for audit. <p>The regressions were largely due to a lack of formal review processes over predetermined objectives and failure by leadership to hold officials accountable for poor performance.</p>

Aspect	Indicator	Key outcomes and trends
Findings on non-compliance with laws and regulations		<ul style="list-style-type: none"> Despite all auditees having findings in total, two (15%) departments and one (33%) public entity showed some improvement in that they had non-compliance findings in fewer focus areas than in the prior year
	 	<ul style="list-style-type: none"> All auditees (19) had findings on compliance with laws and regulations, as in the prior year. There was also some regression, as 10 (77%) departments and two (67%) public entities had non-compliance findings in more focus areas than in the prior year. <p>Not all auditees had assigned specific officials to monitor compliance, which led to a lack of accountability for non-compliance with laws and regulations.</p>
Supply chain management		<ul style="list-style-type: none"> Sixteen (84%) auditees had findings arising from the audit of supply chain management. Fourteen (74%) auditees had findings on uncompetitive or unfair procurement processes Awards to the value of R318 million that were selected for audit at four (21%) auditees could not be audited due to the required information or documentation not being made available by auditees. <p>Leadership did not take appropriate action with regard to a lack of controls in the supply chain management units.</p>

Aspect	Indicator	Key outcomes and trends
Internal controls		<ul style="list-style-type: none"> The poor audit opinions reflect that leadership is ineffective in producing quality annual reports. Management has still not fully implemented basic daily and monthly disciplines as a control over financial and performance reporting and compliance to laws and regulations. <p>The leadership of departments did not exercise oversight responsibility to ensure that proper internal control procedures are developed and implemented.</p>
Human resource management	 	<ul style="list-style-type: none"> Nine (69%) departments had findings on unfair appointment processes, which reflects a regression when compared to six (46%) in the prior year. Generally there was no improvement in human resource management, with particular emphasis on the management of vacancies, for which findings were reported at nine (69%) departments in both years. <p>Ineffective management of vacancies remains the greatest contributing factor to human resource findings.</p>

Aspect	Indicator	Key outcomes and trends
Management of information technology (IT)	 	<ul style="list-style-type: none"> There was a lack of adequate and competent personnel due to vacancies [department government information technology officer (DGITO) and information security officer (ISO)] and inadequate skills (IT managers). Inadequately skilled personnel resulted in the inadequate design and/or implementation of policies and procedures such as the IT governance framework and disaster recovery plan. All the departments had partially addressed 2010-11 findings, while most of the departments had designed controls but either the design was inadequate or the controls were not implemented as designed. <p>Departments in general do not view IT as a critical focus area. This is evident from the fact that most prior year IT findings were not addressed.</p>

Aspect	Indicator	Key outcomes and trends
<p style="text-align: center;">Audit committees and internal audit</p>		<ul style="list-style-type: none"> The internal audit function was not fully functional at any departments except the provincial legislature during the year, which can be attributed to vacancies within the unit. Internal audit units were not established at any of the public entities.
		<ul style="list-style-type: none"> The audit committee did not function throughout the year at the 13 departments (including the provincial legislature), while at most public entities audit committees were not established. The provincial departments responsible for oversight of public entities did not prioritise the establishment of audit committees at these public entities. <p>Three shared audit committees for the departments were established in December 2011, three months before the financial year-end. Should they continue to operate effectively, it is anticipated that the province will improve on their audit outcomes.</p>

SECTION 2

OVERVIEW OF AUDIT OUTCOMES

- 2.1 OVERALL AUDIT OUTCOMES
- 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS
- 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES
- 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS



SECTION 2

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 against predetermined objectives (PDOs) (section 2.3) and compliance with laws and regulations (section 2.4).

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

2.1 OVERALL AUDIT OUTCOMES

Provincial government comprises 26 auditees, 14 departments (including the provincial legislature and the provincial revenue fund) and 12 public entities.

The public entities include five provincial public entities, one trading entity and six other entities that are not subject to the Public Finance Management Act (PFMA). The number of public entities has increased from nine to 12 since the 2010-11 financial year due to the establishment of three new public entities.

2.1.1 Summary of overall audit outcomes

None of the audits of departments and public entities were completed within the legislated time frame of two months from receipt by the AGSA of their financial statements. This was due to our additional internal quality processes not having been finalised by the legislative reporting deadline.

As a result of late submission of financial statements for audit (including backlog audits), the audits of three (25%) public entities had not been finalised as at 30 September 2012, which is the cut-off date set by the AGSA for inclusion of their audit outcomes in this general report. Due to the late finalisation of the PFMA audits, the audit of the provincial revenue fund was also not completed by 30 September 2012 and is therefore not included in this report. The financial statements of the Northern Cape Liquor Board were submitted late, but the audit was still completed in time for inclusion of that entity in this report.

The audit outcomes and outstanding audit reports (current and prior year) are summarised in the following table. The term 'with findings' denotes findings on predetermined objectives and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of reporting on predetermined objectives or compliance with laws and regulations.

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

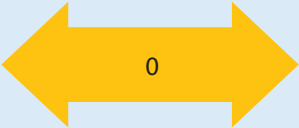

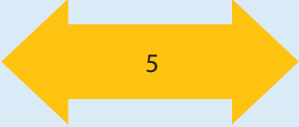
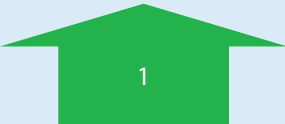

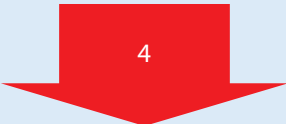
Audit outcomes	Departments*		Public entities		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	0	0	0	0	0	0
Financially unqualified with findings	5	9	3	1	8	10
Financially unqualified financial statements	36%	64%	25%	11%	31%	43%
Qualified opinion, with findings	7	4	5	3	12	7
Adverse opinion, with findings	0	0	1	0	1	0
Disclaimer of opinion, with findings	1	1	0	2	1	3
Number of audit reports not issued by 30 September 2012	1	0	3	3	4	3
Outstanding audits and financially qualified financial statements	64%	36%	75%	89%	69%	57%
Total number of audits in the province	14	14	12	9	26	23

* Including legislature and the provincial revenue fund

2.1.2 Improvements and regressions in audit outcomes

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

Table 3: Summarised movements in overall audit outcomes

Movement in audit outcomes from 2010-11						
Audit opinion	Improvement	Unchanged	Regressed	New auditees	Total auditees reported on	Outstanding audits - prior year opinion
Financially unqualified with no findings					0	0
Financially unqualified with findings				1	8	1
Qualified, with findings				2	12	0
Adverse/ Disclaimer, with findings					2	0
No prior audit outcome yet						3
Total	3	12	4	3	22	4

The three entities with no prior audit outcomes are detailed in table 4. The following figure provides an analysis of findings on predetermined objectives and compliance with laws and regulations.

Figure 1: Summarised movements in findings on predetermined objectives and compliance with laws and regulations for departments (100% = 13)

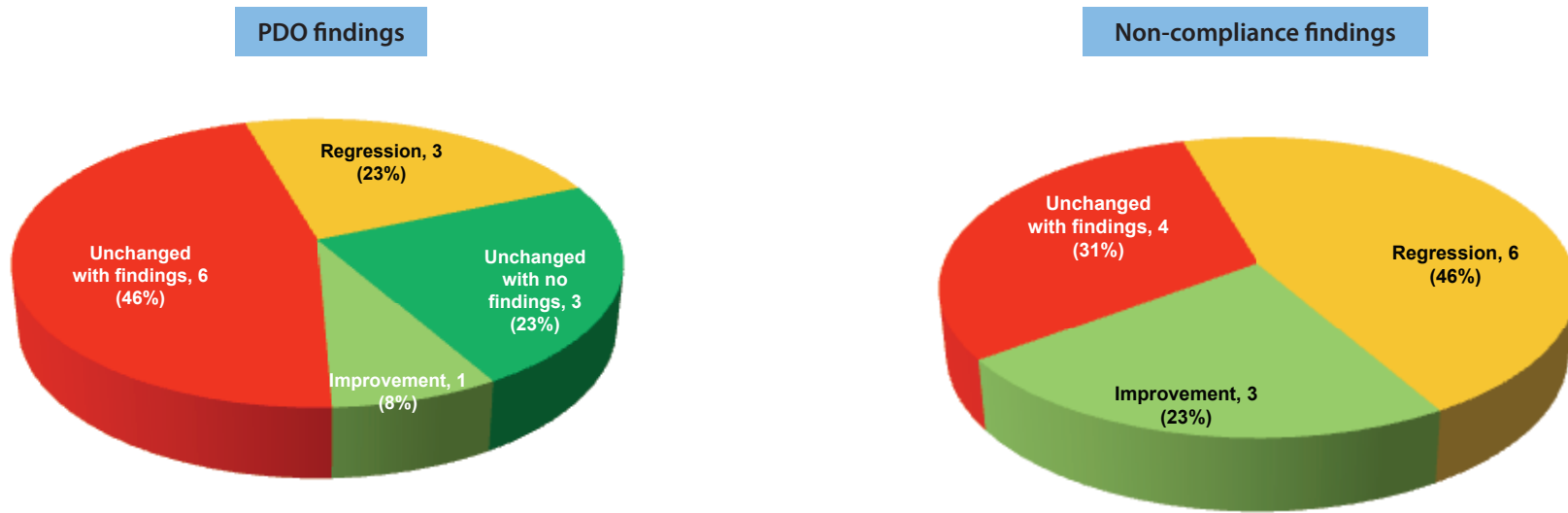
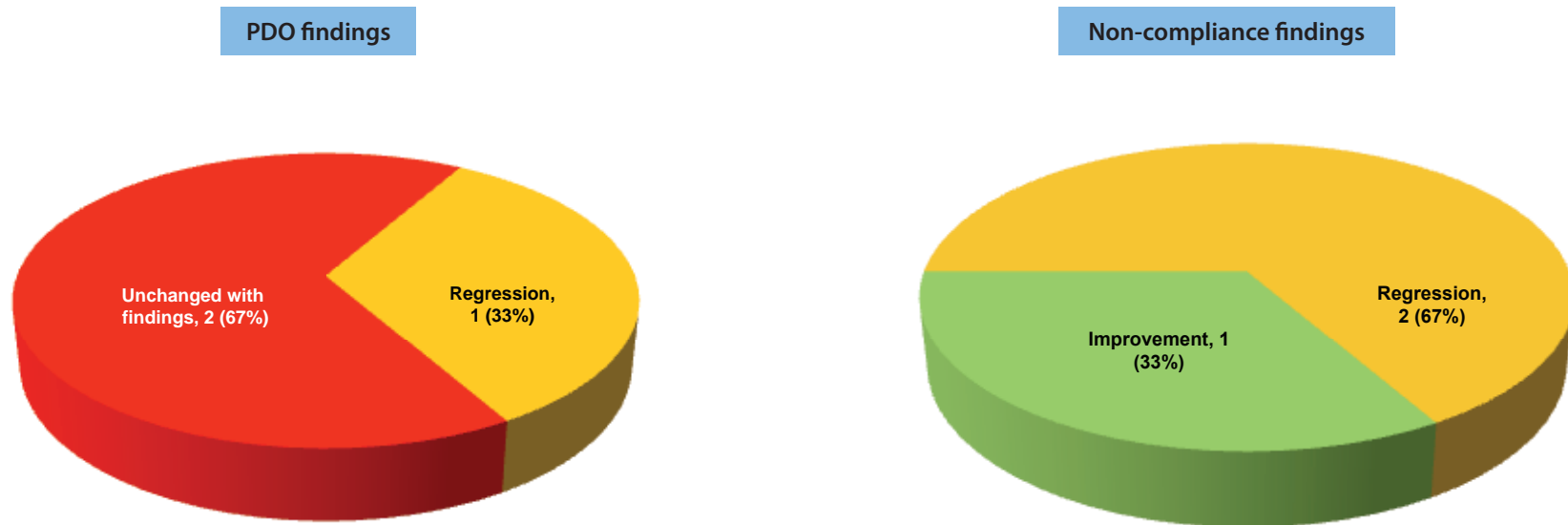


Figure 2: Summarised movements in findings on predetermined objectives and compliance with laws and regulations for public entities (100% = 3)



Of the six entities to which PDOs and compliance with laws and regulations are applicable, three are new entities with no comparative information.

The combined audit outcomes (departments and public entities) show a regression since the prior year with eight entities being unqualified with other findings compared to 10 in 2010-11. The main concern here is the four departments that regressed from unqualified with other findings to a qualified opinion. The departments that showed a regression are:

- Roads and Public Works
- Agriculture, Land Reform and Rural Development
- Provincial legislature
- Economic Development and Tourism.

The only department that improved is the department of Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA).

The improvement at CoGHSTA can be attributed to improved financial discipline due to controls being implemented by the newly appointed head of department (HoD), including the following:

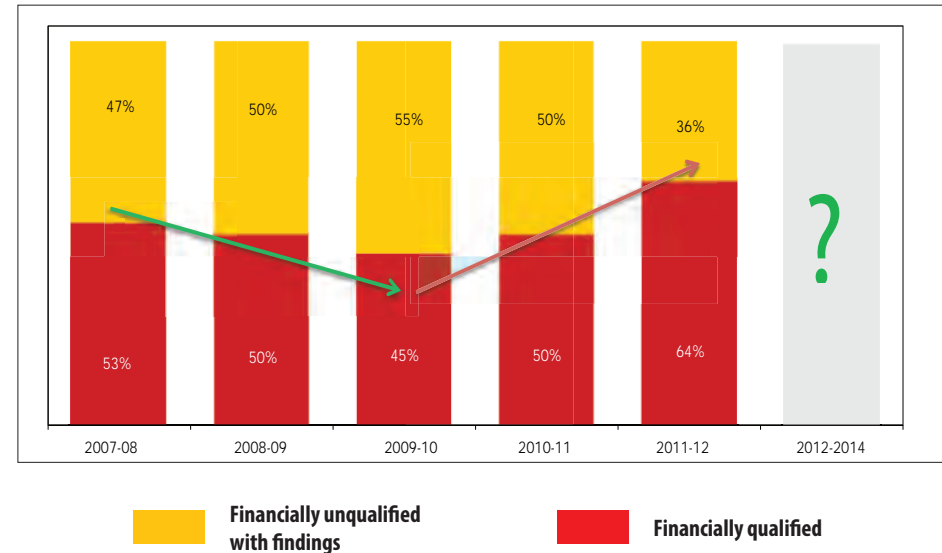
- Senior managers were held accountable for their respective responsibilities
- High-level reviews of financial reports
- Implementing immediate corrective action where needed.

The three entities that were unqualified in 2011-12 are the Northern Cape Economic Development Trade and Investment Promotion Agency (NCEDA), Northern Cape Gambling Board and Northern Cape Tourism Authority (NCTA). NCEDA improved from a qualified opinion to financially unqualified with findings. Entities that were reported on for the first time in 2011-12 are the Northern Cape Liquor Board (qualified), Gambling Board (financially unqualified with findings) and Kalahari Kid (qualified). The Northern Cape Fleet Management Trading Entity (NCFMTE), formerly known as the Roads Capital Account, moved from a disclaimer to an adverse opinion, while the Housing Fund improved from a disclaimer to a qualified opinion.

2.1.3 Province's progress towards producing unqualified financial statements

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

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



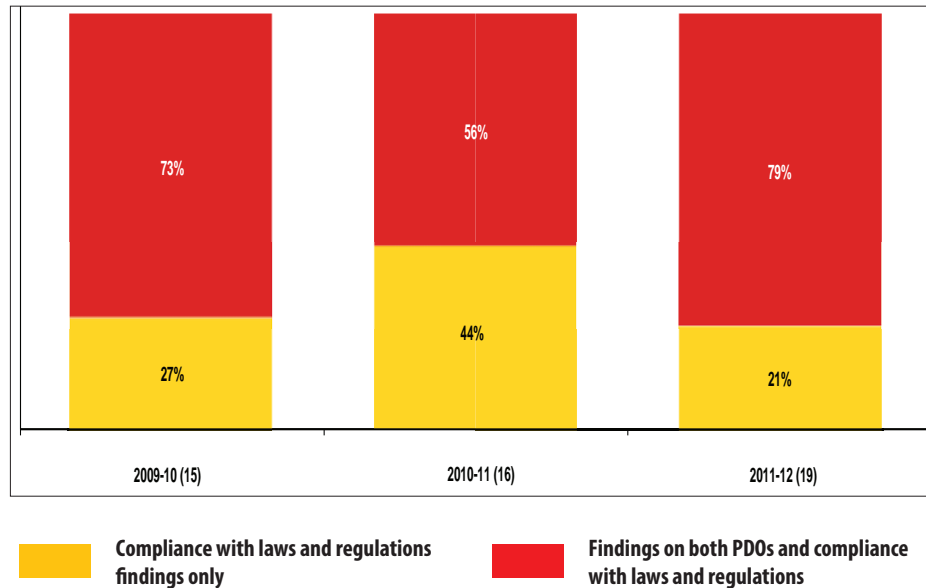
None of the Northern Cape departments and public entities have received an unqualified audit opinion with no findings on PDOs and compliance with laws and regulations for the past five years from 2007-08 to 2011-12.

Eight of 22 (36%) departments and public entities (2010-11: 50%) in the Northern Cape received an unqualified audit opinion with findings on PDOs and/or compliance with laws and regulations.

2.1.4 Province’s rate of addressing findings on predetermined objectives and compliance with laws and regulations

The movement of the province over the past three years in addressing audit findings on PDOs and compliance with laws and regulations is depicted below.

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

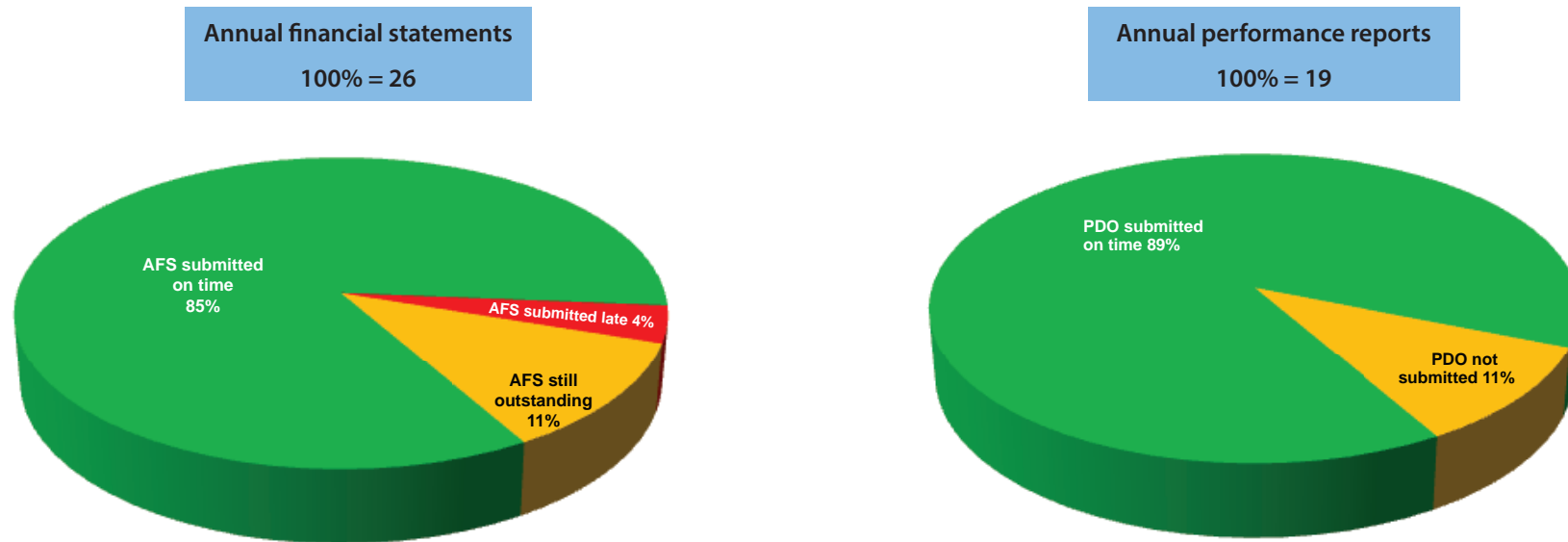


All auditees have for the last three years had findings on non-compliance with laws and regulations. Three departments (Economic Development and Tourism, the provincial treasury and Environment and Nature Conservation) and one entity (NCFMTE) regressed by receiving findings on PDOs for 2011-12. Three additional public entities were established during 2011-12 and all of them received findings on PDOs and compliance with laws and regulations.

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

The timeliness of completion of audits is primarily influenced by the date on which the AGSA receives auditees’ financial statements and the efficiency with which the audits proceed thereafter. As can be seen in the following figure, a total of four (15%) auditees were unable to meet the legal requirement for timely submission of financial statements. Seventeen of the 19 auditees that were required by legislation to report on their performance against PDOs were able to submit their annual performance reports on time, with two entities not submitting their performance reports at all.

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



All 14 departments submitted their annual financial statements on time and all 13 departments submitted their annual performance reports on time. (The provincial revenue fund is not required to report on their performance against PDOs.)

All five public entities, with the exception of the Northern Cape Liquor Board, submitted their annual financial statements on time. Four of the six public entities submitted their annual performance report on time, while the other two entities did not submit their performance reports at all.

Included in the 26 above for timely submission of annual financial statements are six other entities which are not required to report on their performance against PDOs as they are non-listed entities. Of these six other entities, three entities submitted on time, while the other three did not submit their annual financial statements at all.

The following table depicts the reasons for the remaining audits being outstanding at the date of this report. The table further indicates the prior audit outcomes of these outstanding audits.

Table 4: Prior outcomes of audits outstanding at the date of this report

Auditee	Reason not finalised			Audit outcome of audit last finalised				
	AFS not yet received	Late receipt of AFS	Audit in progress due to other reasons	Adverse/Disclaimer	Qualified	Financially unqualified with findings	Financially unqualified with no findings	No prior year audit outcome
Departments								
Provincial revenue fund			•			2010-11		
Public entities								
Ngwao Boswa Kapa Bokone	•							•
Northern Cape Arts and Culture Council	•							•
Northern Cape Political Party Fund	•							•
Total	3	0	1	0	0	0	0	3

30

The provincial revenue fund submitted their annual financial statements by the legislated deadline of 30 June 2012. However, due to the late finalisation of the audits of the other departments, the audit of the provincial revenue fund will not be completed by the legislated deadline of 30 September 2012. It is expected that this audit will be finalised by 15 February 2012.

The audit of the Northern Cape Arts and Culture Council for the 2009-10 financial year, which yielded a disclaimed opinion, is the last completed audit for this entity. No subsequent annual financial statements were submitted by this entity.

The audit of Ngwao Boswa Kapa Bokone for the 2007-08, 2008-09, 2009-10 and 2010-11 years is currently in progress. The entity has not yet submitted annual financial statements for the 2011-12 financial year.

Since the Northern Cape Political Party Fund was established in 2010, no annual financial statements were submitted by this entity for audit.

2.2 FINDINGS FROM THE AUDIT OF FINANCIAL STATEMENTS

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

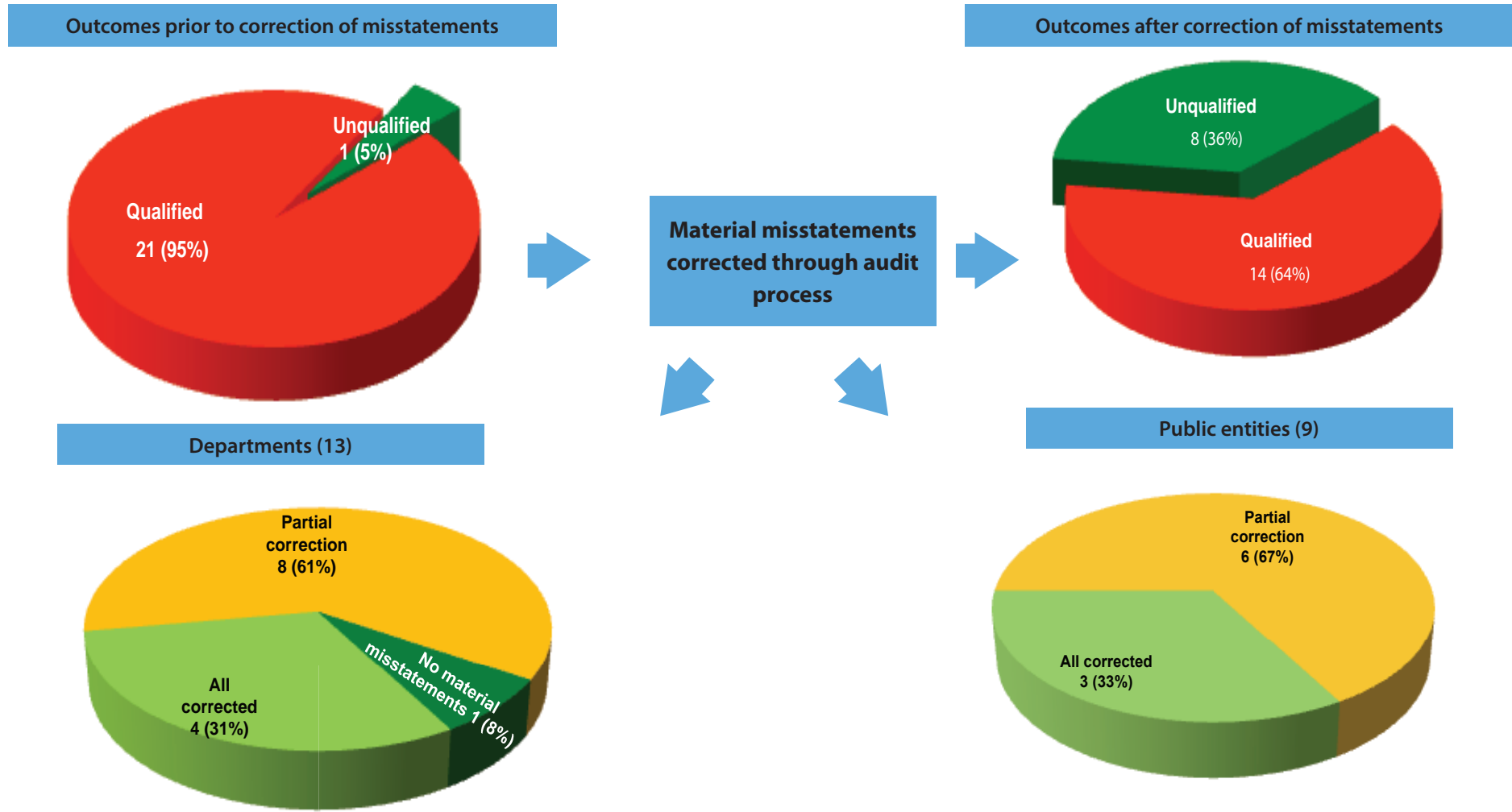
2.2.1 The quality of financial statements submitted for audit

As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only one (4%) auditee submitted financial statements that required no material adjustments, compared to four (20%) auditees in the prior year.

Seven (32%) 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. Fourteen auditees (64%) were not willing and/or able to correct all of the misstatements and therefore could not avoid the qualification of their financial statements.

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

Figure 6: Material misstatements in financial statements submitted for audit

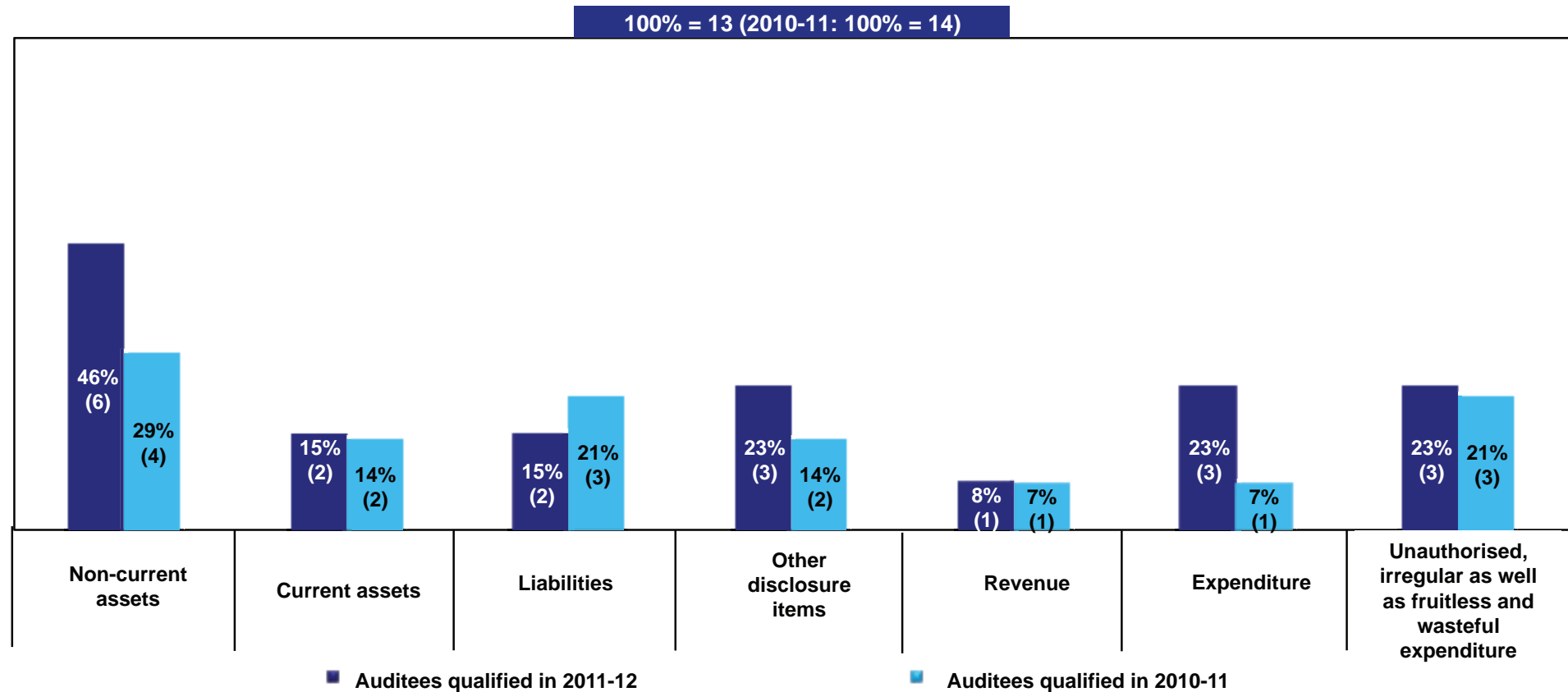


2.2.2 Financial statement qualification findings

The following figures depict the areas that were materially misstated (qualified) in the financial statements of the eight departments (62%) and six public entities (67%) [2010-11: five departments (36%) and five public entities (83%)] which received disclaimed, adverse or qualified audit opinions.

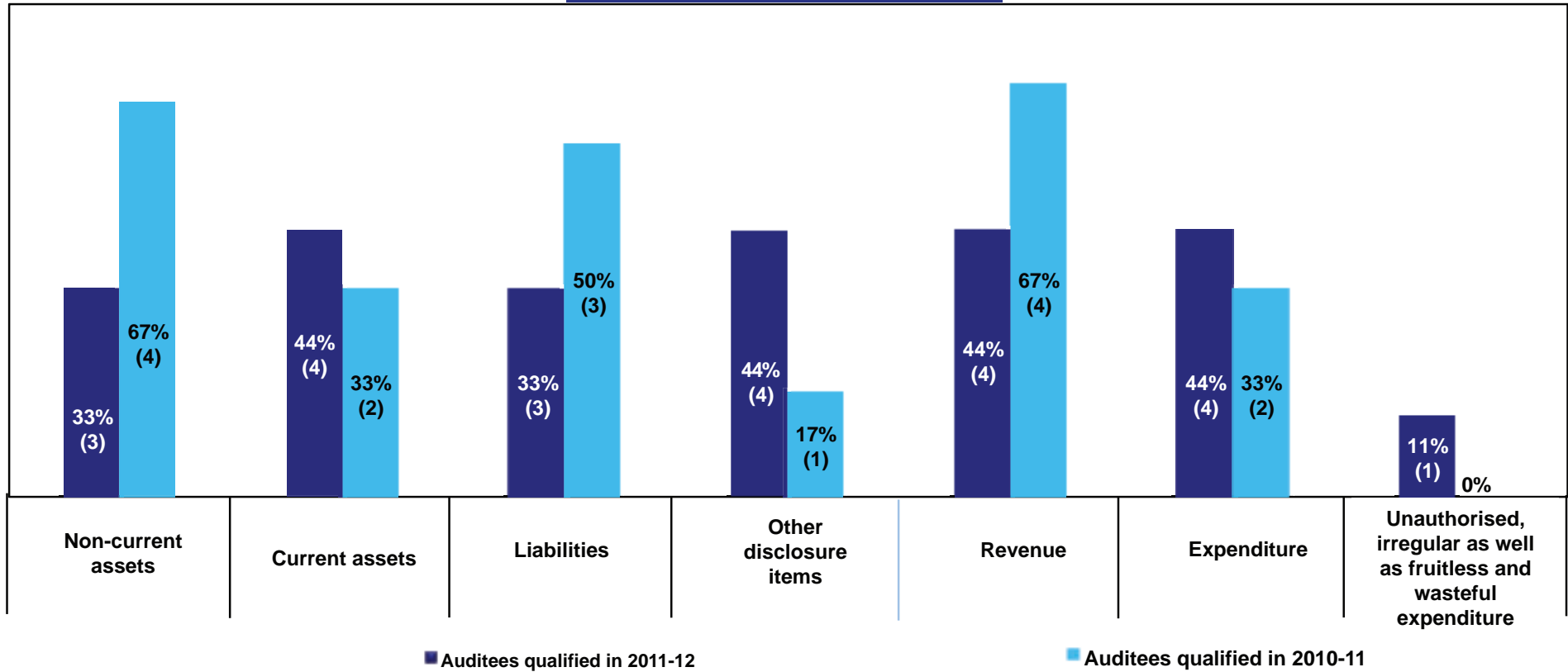
Figure 7: Financial statement qualification areas

Departments



Public entities

100% = 9 (2010-11: 100% = 6)



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

Table 5: Progress made by auditees in addressing prior year financial statement qualifications

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement in addressing 2010-11 financial statement qualification areas						
			Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Departments									
Agriculture, Land Reform and Rural Development	Qualified	Financially unqualified with findings	New					New	
Co-Operative Governance, Human Settlements and Traditional Affairs	Financially unqualified with findings	Qualified	Addressed		Addressed				Addressed
Economic Development and Tourism	Qualified	Financially unqualified with findings	New		New				New
Education	Qualified	Qualified	New						Addressed
Health	Disclaimer	Disclaimer	Repeat	Repeat	Repeat	Repeat	New	Repeat	Repeat
Provincial Legislature	Qualified	Financially unqualified with findings		New		New		New	
Roads and Public Works	Qualified	Financially unqualified with findings	New						New
Sport, Arts and Culture	Qualified	Qualified	Repeat						
Transport, Safety and Liaison	Qualified	Qualified	Addressed	Addressed	Addressed	Repeat	Addressed		
Public entities									
Northern Cape Housing Fund	Qualified	Disclaimer	Addressed	Repeat	Addressed		Repeat	Addressed	
McGregor Museum	Qualified	Qualified	New	New	Repeat	New	Repeat	New	

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement in addressing 2010-11 financial statement qualification areas						
			Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Northern Cape Economic Development, Trade and Investment Promotion Agency	Financially unqualified with findings	Qualified	Addressed		Addressed		Addressed	Addressed	
Northern Cape Fleet Management	Adverse	Disclaimer	Repeat	Repeat		New	Repeat	Repeat	
Northern Cape Premier Education Trust Fund	Qualified	Qualified	Addressed	New		Repeat			
Kalahari Kid Corporation	Qualified	New public entity	New		New	New		New	
Northern Cape Gambling Board	Financially unqualified with findings	New public entity							
Northern Cape Liquor Board	Qualified	New public entity			New		New	New	New
Northern Cape Tourism Authority	Financially unqualified with findings	Financially unqualified with findings							

Table 6: Nature of qualifications

Departments

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	<ul style="list-style-type: none"> • Lack of/ incomplete asset register • Register not updated on timely basis • Register does not reconcile to the general ledger • Assets could not be traced to the asset register
	Values at which assets are reflected	<ul style="list-style-type: none"> • Values of immovable assets on the register did not agree with the respective values on the valuation rolls
	Existence of assets	<ul style="list-style-type: none"> • No asset register
Other disclosure items	Completeness	<ul style="list-style-type: none"> • Accruals and commitments not disclosed • Leave not captured on system • Reconciliations for receivables of departmental revenue not performed
	Existence	<ul style="list-style-type: none"> • Commitments not supported by audit evidence • Leave liability could not be substantiated • Reconciliations for receivables of departmental revenue not performed

Financial statement qualification areas	Basis for qualification	Reason for qualification
Irregular and unauthorised expenditure	Completeness	<ul style="list-style-type: none"> • Opening balance of irregular expenditure not complete • Some irregular expenditure not identified and disclosed • Procurement documentation not provided to test completeness of irregular expenditure • Some unauthorised expenditure not identified and disclosed

Public entities

Financial statement qualification areas	Basis for qualification	Reason for qualification
Other disclosure items	Completeness Finance leases	<ul style="list-style-type: none"> Finance leases were incorrectly classified as the auditee incorrectly applied the accounting standards
	Accuracy Related parties	<ul style="list-style-type: none"> Accuracy of related parties affected due to incorrect classification of finance leases
	Classification Finance leases	<ul style="list-style-type: none"> Finance leases were incorrectly classified as the auditee incorrectly applied the accounting standards
Current assets • Receivables	Completeness of receivables	<ul style="list-style-type: none"> Limitation of scope on the opening balance of receivables Amounts disclosed could not be supported by the system
	Existence of debtors	<ul style="list-style-type: none"> Insufficient documentation to substantiate receivables at year end Limitation of scope on the opening balance of receivables Fleet vehicles incorrectly classified as assets of the entity
Expenditure • Goods and services • Depreciation	Occurrence	<ul style="list-style-type: none"> Supporting documentation could not be provided to substantiate amounts disclosed

2.2.3 Root causes and best practice recommendations

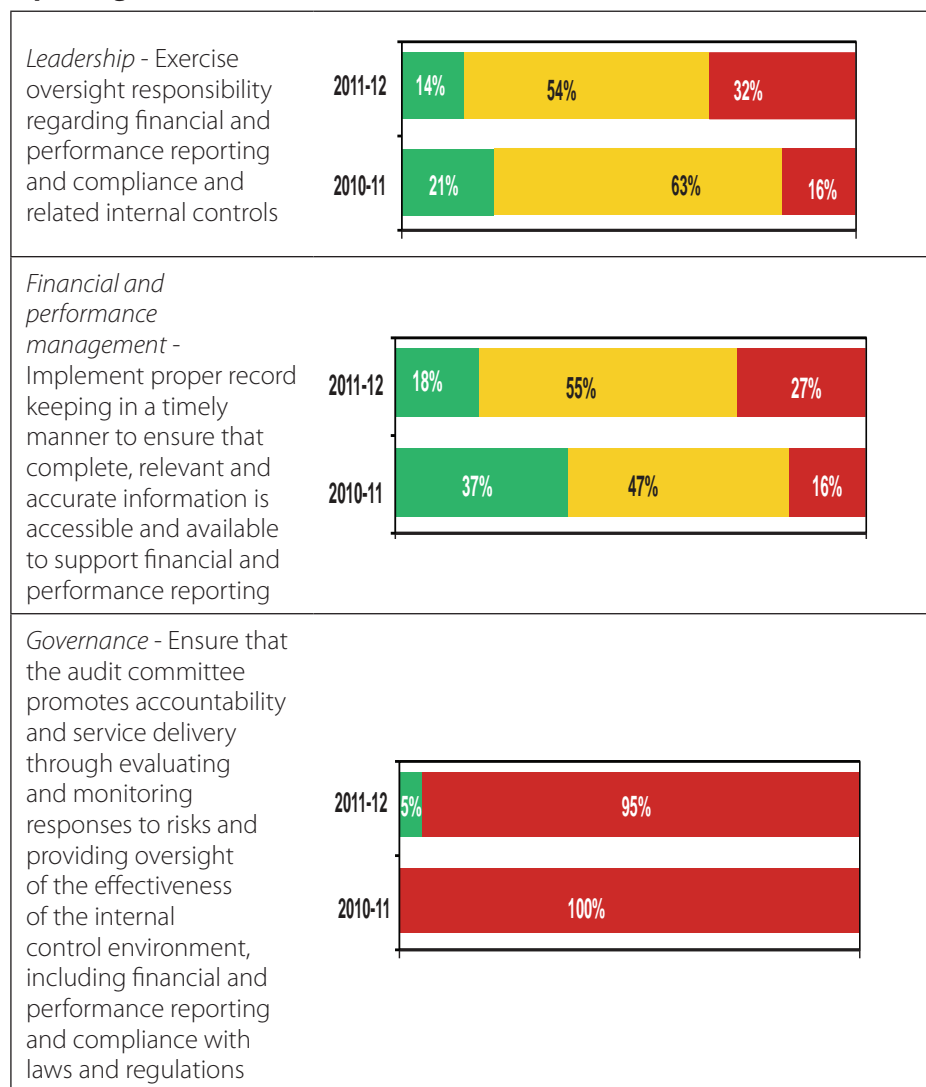
The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of

- (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 require attention from leadership to improve the audit outcomes.

Figure 8: 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 7: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward
<p>Information and processes relied on by leadership</p>	<p>The systems of some of the departments and public entities were not documented in policy and procedure manuals that were approved and the results of the monitoring process were not routinely communicated to all managers and staff.</p>
	<p>Leadership did not ensure that adequate controls were implemented to prevent the reported qualifications.</p> <p><u>Way forward</u></p> <p>Leadership should be held accountable as they had not ensured that the necessary controls were implemented.</p>
<p>Limitations of information systems used by auditees</p>	<p>Departments did not have adequate financial systems in place to ensure compliance with the modified cash basis of accounting. As a result, information relating to the disclosure notes to the financial statements was not identified and captured in a form and time frame to support financial and performance reporting.</p>
	<p><u>Way forward</u></p> <p>Leadership should implement alternative systems until the transversal accounting system is updated. Leadership should also communicate with the departments where clean audits were obtained to adopt some of their good practices.</p>

Aspect	Identified root causes and way forward
Performance management and skills acquisition	<p>Job descriptions and performance agreements did not specifically include measures on compliance with the policies, procedures and regulations related to an individual's area of responsibility. The performance management systems of the department were not utilised to keep officials accountable for non-adherence to departmental policies, procedures and regulations.</p> <p>Supply chain management units were insufficiently staffed, resulting in irregular expenditure not being prevented and detected.</p>
	<p><u>Way forward</u></p> <p>The accounting officer/ accounting authority should hold leadership responsible for not taking appropriate action against officials who do not adhere to policies and regulations.</p>
Commitment to obtain financially unqualified reports	<p>Departments and public entities failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately address the root causes. This has resulted in prior year findings being repeated in the current year.</p>
	<p><u>Way forward</u></p> <p>The accounting officer/ accounting authority should hold leadership accountable for not addressing and implementing commitments made.</p>

Aspect	Identified root causes and way forward
Monitoring by audit committees and internal audit	<p>The internal audit function was not fully functional during the year, which can be attributed to vacancies within the function and the fact that a fully functioning audit committee was not established.</p> <p>Committee members were only appointed in December 2011, three months before year-end. Consequently, the committee could not fulfil all their roles and responsibilities for the year under review.</p> <p>Only one public entity (Gambling Board) had a functioning audit committee, while no public entities had established internal audit units.</p>
	<p><u>Way forward</u></p> <p>Subsequent to year-end the internal audit unit appointed some key officials and contracted out the internal audit function of some departments. Internal audit presented the annual internal audit plans for 2012-13 to the audit committee. The annual internal audit plan should ensure a risk-based approach to internal audit work at departments.</p> <p>Audit committees have been established for the 2012-13 financial year and are performing their duties.</p> <p>Oversight departments should prioritise the establishment of internal audit units and audit committees at public entities.</p>

2.2.4 Consolidated financial statements

For accountability purposes the PFMA requires each province to prepare and publish a consolidated financial report on the utilisation of its resources to achieve its objectives. To this end, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of (i) departments, (ii) public entities under the ownership control of the provincial executive of the province and (iii) the provincial legislature. The PFMA further requires that the Auditor-General audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the financial statements.

Due to the difference in the basis of accounting, modified cash vs. accrual, however, this was not feasible. As at 30 September 2012 the Minister of Finance had not approved a deviation from this requirement of the PFMA. This matter is therefore reported in the AGSA's audit reports as non-compliance with the PFMA.

Table 8: Status of the audit of consolidated financial statements for the province

Departments		Public entities	
2011-12	2010-11	2011-12	2010-11
Audit outstanding	Completed	Audit outstanding	Completed

Consolidated financial statements of departments and public entities were submitted on 30 June 2012 to ensure compliance with the PFMA requirements. Treasury is currently in the process of revising the consolidated financial statements as adjustments were made during July and August to the financial statements of the various departments and public entities. The audit will commence once the revised consolidated financial statements are submitted. It is anticipated that the revised consolidated financial statements will be submitted early in November 2012, after which the AGSA has three months to audit and report thereon.

2.3 FINDINGS FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The Public Audit Act, 2004 (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs.

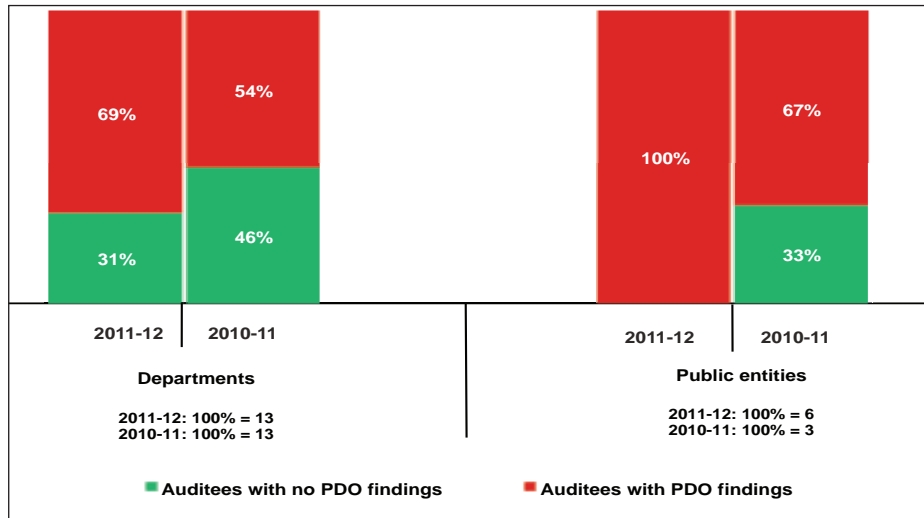
2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

Auditees are required to submit their performance report for auditing by 31 May annually. All departments submitted their performance reports timeously (2010-11: 92%); however, two (33%) public entities did not submit their performance reports for audit purposes.

Auditees submitted performance reports that contained material misstatements in one or more areas (non-compliance, usefulness and reliability). Only four (21%) auditees did not have to make material adjustments to their annual performance reports.

Movements in the number of auditees with findings on their reporting against PDOs are depicted in the following figure. The auditees exclude the Northern Cape Housing Fund, McGregor Museum and the Northern Cape Premier Education Trust Fund which are not required to report on PDOs.

Figure 9: Overall movement in number of auditees with findings on predetermined objectives



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Three departments were able to maintain their good performance by preventing PDO findings for a third year in a row. A proper manual system of internal control for performance information was implemented in all of these departments. Detailed reviews performed timeously by senior management were also common at these departments.

It is commendable that Agriculture, Land Reform and Rural Development improved since the prior year and had no PDO findings for 2011-12. The key driver of this improvement was the effective implementation and monitoring of an action plan to resolve prior year PDO findings.

When compared to the prior year, regressions were noted at three departments and one public entity. An additional three new public entities were reported on for the current year and this led to an overall increase in the percentage of findings reported for public entities on usefulness, reliability and compliance with PDOs.

The regressions and unchanged audit outcomes in departments and public entities were largely due to formal review processes not being in place to ensure validity, accuracy and completeness of quarterly and annual reporting. Failure

by leadership to exercise oversight and officials not being held accountable contributed to these regressions.

2.3.2 Findings on predetermined objectives

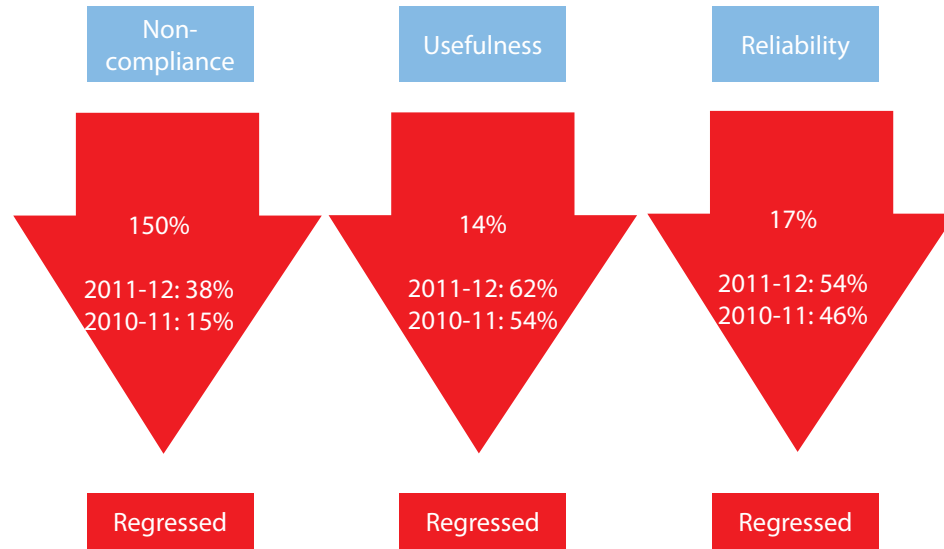
PDO findings are classified under the main areas of usefulness and reliability of information.

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

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

The following figures depict overall movement in the different areas of PDO findings for departments and public entities.

Figure 10: Overall movement in findings on predetermined objectives for departments [13 auditees reported on (2010-11: 13)]



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

Figure 11: Overall movement in findings on predetermined objectives for public entities [6 auditees reported on (2010-11: 3)]

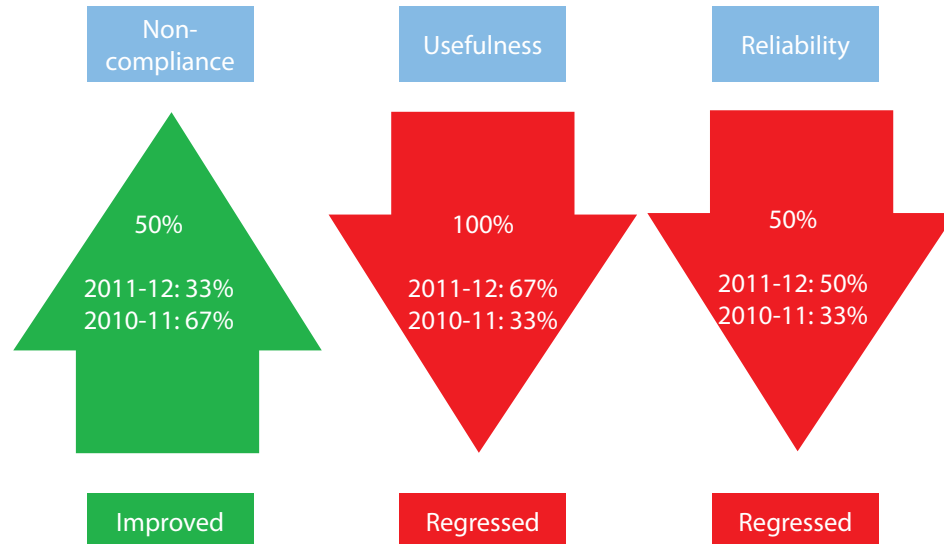


Table 9: Progress made by auditees in addressing prior year findings on predetermined objectives

Auditee	Movement in addressing 2010-11 predetermined objective findings			
	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
Departments				
Agriculture, Land Reform and Rural Development	Addressed	Addressed		
Cooperative Governance, Human Settlements and Traditional Affairs	Repeat	New	Addressed	
Economic Development and Tourism	New	New		
Education	Addressed	Repeat		
Environment and Nature Conservation	New			
Health	Repeat	Repeat		
Office of the Premier				
Provincial legislature	Repeat	Repeat		
Provincial treasury	New			
Roads and Public Works	Repeat	Repeat		
Social Development				
Sport, Arts and Culture				
Transport, Safety and Liaison	Repeat	Repeat		
Public entities				
Kalahari Kid Corporation				New
Northern Cape Economic Development, Trade and Investment Promotion Agency	Repeat	Repeat		
Northern Cape Fleet Management				Repeat
Northern Cape Gambling Board	New	New		
Northern Cape Liquor Board	New	New		
Northern Cape Tourism Authority	New			

The lack of progress in addressing prior year findings, as well as the new entities which had PDO findings, indicates that auditees are still not prioritising corrective action in the area of PDOs.

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

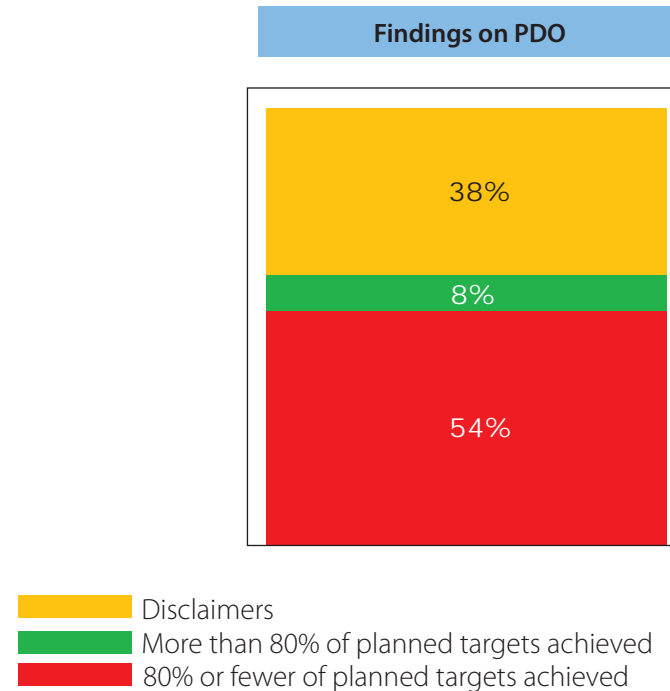
Table 10: Nature of findings on predetermined objectives

PDO findings category	Specific PDO findings	Nature of findings
Reported information not useful	<ul style="list-style-type: none"> Consistency Relevance Measurability 	<ul style="list-style-type: none"> Indicators/measures not well defined Reasons for major variances not explained Reported performance information not consistent with planned objectives, indicators/measures and targets
Reported information not reliable	<ul style="list-style-type: none"> Accuracy Completeness Validity 	<ul style="list-style-type: none"> Reported performance information not accurate - inadequate supporting source information Source information for reported performance information not complete Reported performance information not valid - inadequate supporting source information Reported performance information not valid - no supporting source information

2.3.3 Planned targets not achieved

Although the non-achievement of targets did not constitute a PDO finding, it was reported as an additional matter under the PDO section of the audit reports. The following figure depicts auditees where more than 20% of the planned targets were not achieved during the financial year.

Figure 12: Planned targets not achieved – departments (100% = 13)



The five departments disclaimed in their management reports on PDOs include the major service delivery departments of Health and Education. We were therefore not able to assess whether these five departments had achieved more than 20% of their planned targets.

The fact that 54% of departments achieved less than 80% of their planned targets is of concern, indicating serious service delivery problems within the province.

2.3.4 Root causes and best practice recommendations

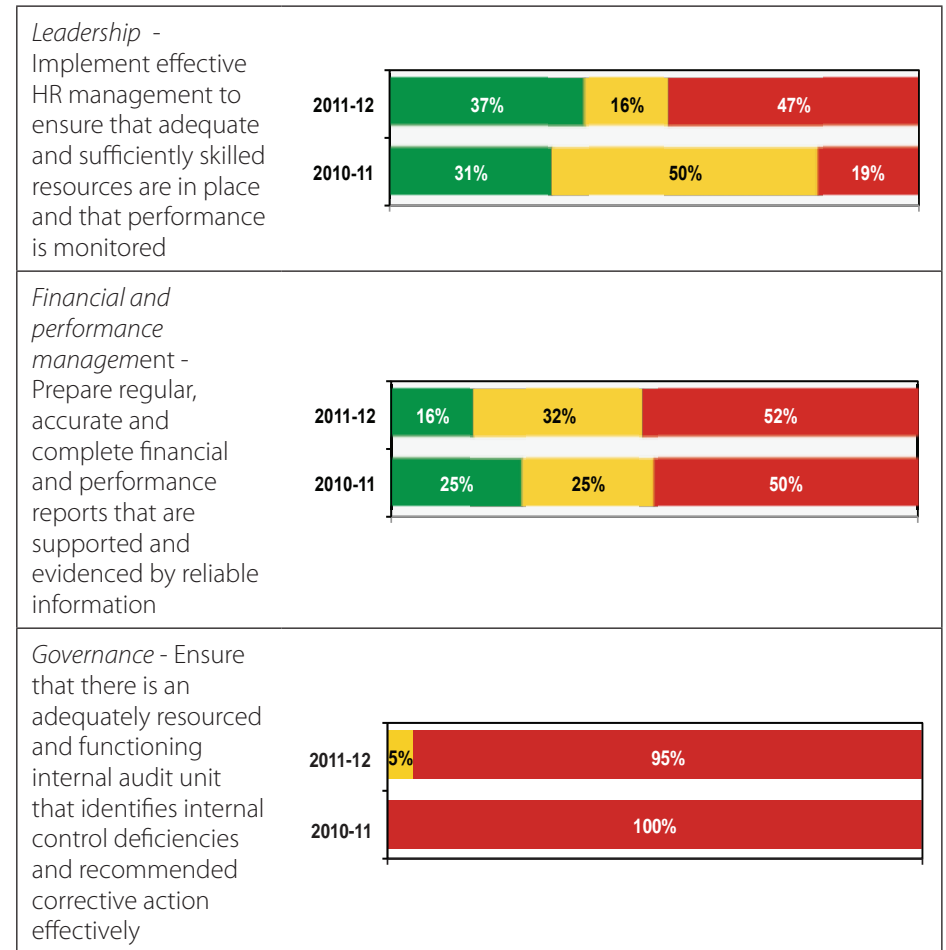
The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (reporting on service delivery) is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles 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 internal control that require attention from leadership to improve the audit outcomes.

Figure 13: Assessment of drivers of internal control – reporting on predetermined objectives



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

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

Aspect	Identified root causes and way forward
Systems and processes	<p>Formal review processes were not in place to ensure validity, accuracy and completeness of quarterly reporting and annual reporting as the results reported did not correspond to supporting documents. Reports from programme managers were consolidated without proper review of the entire quarterly and annual performance report by senior management.</p> <p>Management failed to implement policies and procedures to address changes to the annual performance plan, which further contributed to the significant control deficiencies noted within the province.</p> <p>Indicators reported in the annual performance report were also found to be inconsistent with the indicators as per the approved annual performance plan in some departments. These inconsistencies were not approved by the executive authority, which was mainly due to limited review of the annual performance report.</p>
	<p><u>Way forward:</u></p> <p>A policy and planning unit responsible for the collection, collation, processing, monitoring and verification of the annual report on its performance against the indicators and measures, should be established. A detailed procedure manual should be established and implemented which assigns specific roles and responsibilities to relevant officials, such as data collection, verification, reporting and detailed reviews. Senior managers of the relevant programmes should be held accountable for the accuracy, validity and completeness of the quarterly reports presented.</p>

Aspect	Identified root causes and way forward
Performance management and skills acquisition	<p>Lack of training for programme managers on the National Treasury <i>Framework for managing programme performance information</i> (FMPPI).</p> <p>Lack of guidance to programme managers on how to report on performance information.</p>
	<p><u>Way forward:</u></p> <p>Adequate internal training should be provided by departments to ensure that officials fully understand the requirements for reporting on PDOs. Policies and procedures should be reviewed annually to address internal control deficiencies and this should be communicated formally to all employees.</p>
Monitoring by internal audit	<p>A functional internal audit unit was not established for the majority of the auditees in the province to ensure monitoring of predetermined objectives.</p>
	<p><u>Way forward:</u></p> <p>Subsequent to year-end a shared internal audit function was established. The annual internal audit plan should ensure that work is performed by internal audit to ensure the accuracy, completeness and validity of PDOs.</p>

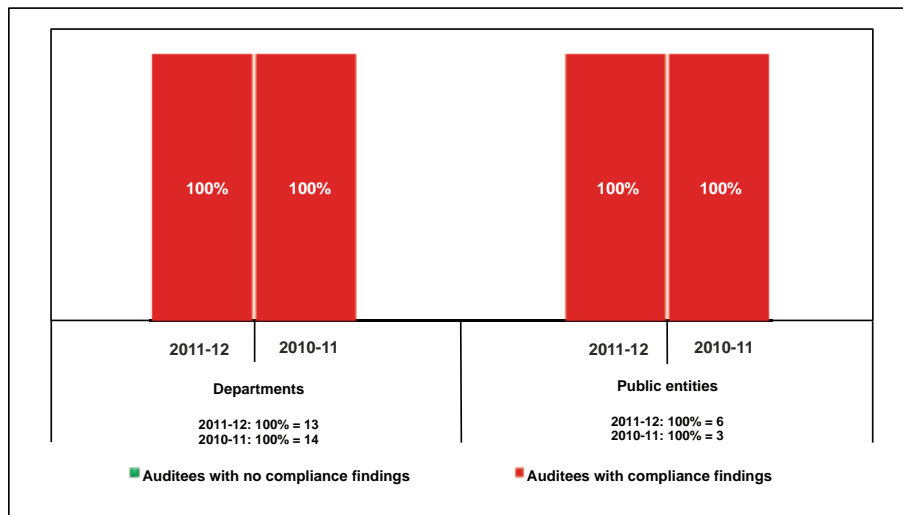
2.4 FINDINGS FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

Figure 14: Overall movements in number of auditees with findings on compliance with laws and regulations



The overall picture of the province with regard to compliance with laws and regulations remained unchanged compared to the prior year. An additional three new public entities were reported on for the current year and, as indicated above, these three entities also had findings on compliance with laws and regulations.

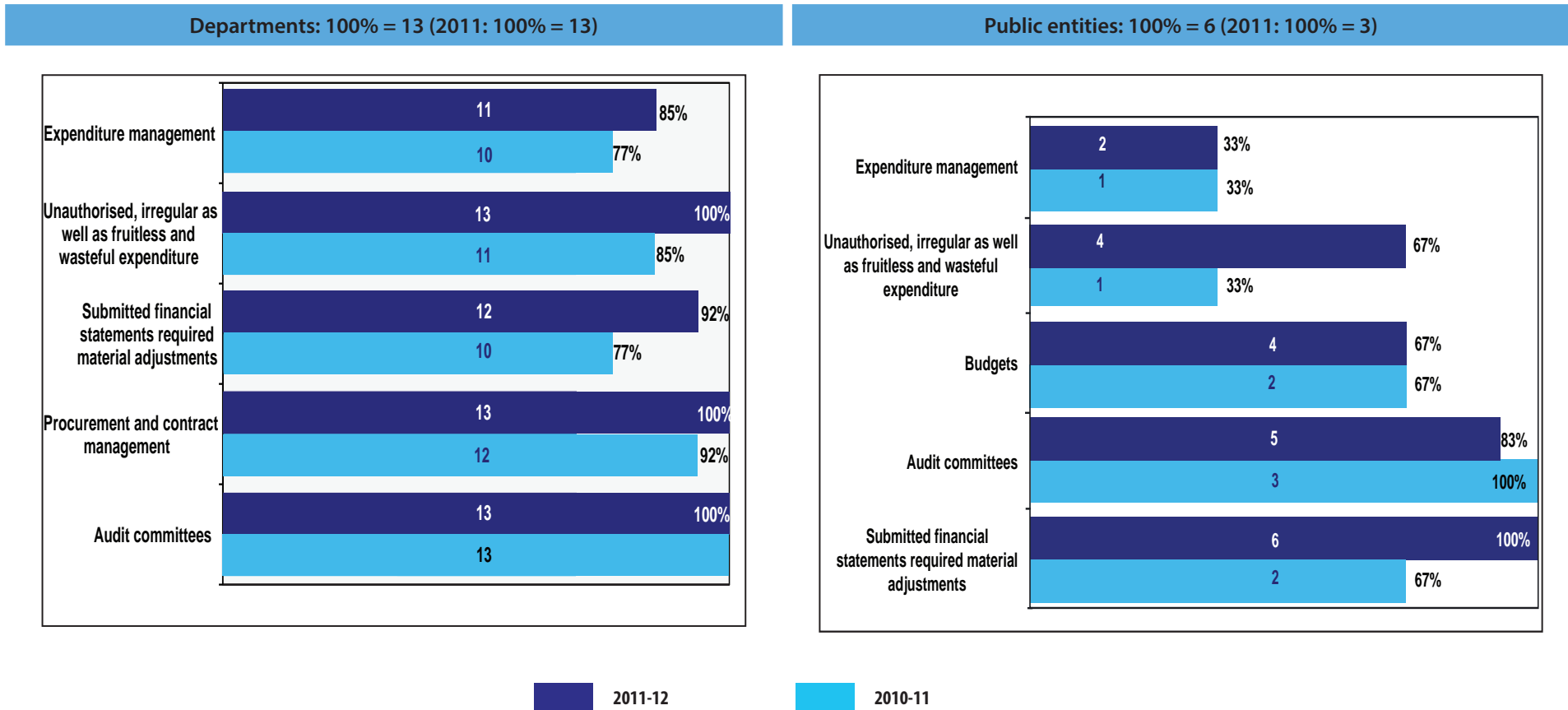
2.4.2 Compliance with laws and regulations findings

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

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

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

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



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

Table 12: Progress made by auditees in addressing prior year findings on compliance with laws and regulations

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit	Other areas of non-compliance
Departments								
Agriculture, Land Reform and Rural Development	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	
Cooperative Governance, Human Settlements and Traditional Affairs	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
Economic Development and Tourism	New	Repeat	Repeat	New	New	New	Repeat	
Education	Repeat	Repeat	Repeat	Repeat	Repeat	New	Repeat	
Environment and Nature Conservation	Repeat	Repeat	Repeat	Repeat	Addressed	Addressed	Repeat	
Health	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	
Office of the Premier	Repeat	Repeat	Repeat	Repeat	Addressed		Repeat	
Provincial legislature	New	Repeat	New	Addressed	Repeat		Repeat	
Provincial revenue fund								
Provincial treasury	Repeat	New	Repeat	New	New	Addressed	Repeat	
Roads and Public Works	Repeat	Repeat	Repeat	New	Repeat	Repeat	Repeat	
Social Development		New	Repeat		New	Addressed	Repeat	
Sport, Arts and Culture	Repeat	Repeat	Repeat	Addressed	Repeat	Repeat	Repeat	
Transport, Safety and Liaison	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit	Other areas of non-compliance
Public entities								
Kalahari Kid Corporation	New				New	New		
Northern Cape Economic Development, Trade and Investment Promotion Agency	Repeat	Repeat	Repeat	Addressed	Addressed	Repeat	Repeat	
Northern Cape Fleet Management	Repeat	New		New	New	Addressed	Repeat	
Northern Cape Gambling Board	New	New				New		
Northern Cape Liquor Board	New	New	New			New	New	
Northern Cape Tourism Authority	New		Addressed	New		New	Repeat	

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

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

Compliance findings category	Nature of findings
Procurement management	<p>The most common finding was that three written quotations were not always invited and/or deviations were not justified (10 instances), or in the case of tenders, competitive bids were not always invited and/or deviations were not justified (eight instances).</p> <p>Also, the preference point system was not always applied in awarding of contracts to suppliers (seven instances).</p>
Material misstatements adjusted	<p>All but one auditee had material misstatements/ limitations in the financial statements they submitted for auditing:</p> <ul style="list-style-type: none"> • Seven auditees managed to correct/address all the errors, resulting in an unmodified opinion. • Eleven auditees were able to correct/address some, but not all of the errors, resulting in a modified opinion. <p>Most adjustments made to the financial statements were in the disclosure notes. The reason for this is that most departments and entities do not have proper controls in place to ensure the accuracy and completeness of information included in the disclosure notes. Registers are not kept or are not updated frequently in many instances.</p>
Unauthorised, irregular and fruitless and wasteful expenditure	<p>Unauthorised expenditure, which is expenditure in excess of the approved budget or not in accordance with the purpose for which the budget was allocated, was not prevented at four auditees.</p> <p>Irregular expenditure was identified at 15 auditees. The root cause of most of these findings relates to supply chain management (SCM) regulations that were not followed.</p> <p>Fruitless and wasteful expenditure, which could have been avoided had due care been exercised, was not prevented at 10 auditees.</p>

Compliance findings category	Nature of findings
Internal audit and audit committee	<p>As a result of shared audit committees for the departments only being established and functional for the last three months of the financial year, the following are the most common functions they did not perform:</p> <ul style="list-style-type: none"> – No review of compliance with legal and regulatory provisions (13 auditees) – No review of effectiveness of internal control systems (13 auditees) – No review of activities of internal audit function (13 auditees) – No review of coordination between internal and external auditors (13 auditees) – No review of effectiveness of internal audit function (13 auditees) – No review of risk areas of institution’s operations to be covered in scope of internal and external audits (13 auditees) – No review of management’s responses to specific recommendations by the internal audit unit (12 auditees) – No review of accounting and auditing concerns identified by internal and external audits (12 auditees). <p>On this point it is also important to note that most auditees had not established an internal audit unit (14 instances), therefore the audit committee would not have been able to perform the above-mentioned six duties had they been established for a greater part of the year.</p>
Asset and liability management	<p>The most common finding was that proper control systems were not implemented for the safeguarding and maintenance of assets (11 auditees).</p>

Compliance findings category	Nature of findings
Expenditure management	A prevalent finding was that payments to creditors were not always made within 30 days from receipt of an invoice (10 auditees). This is cause for concern as it places significant pressure on the cash flow and liquidity of small and medium-sized enterprises that do business with government.

2.4.3 Findings from the audit of supply chain management

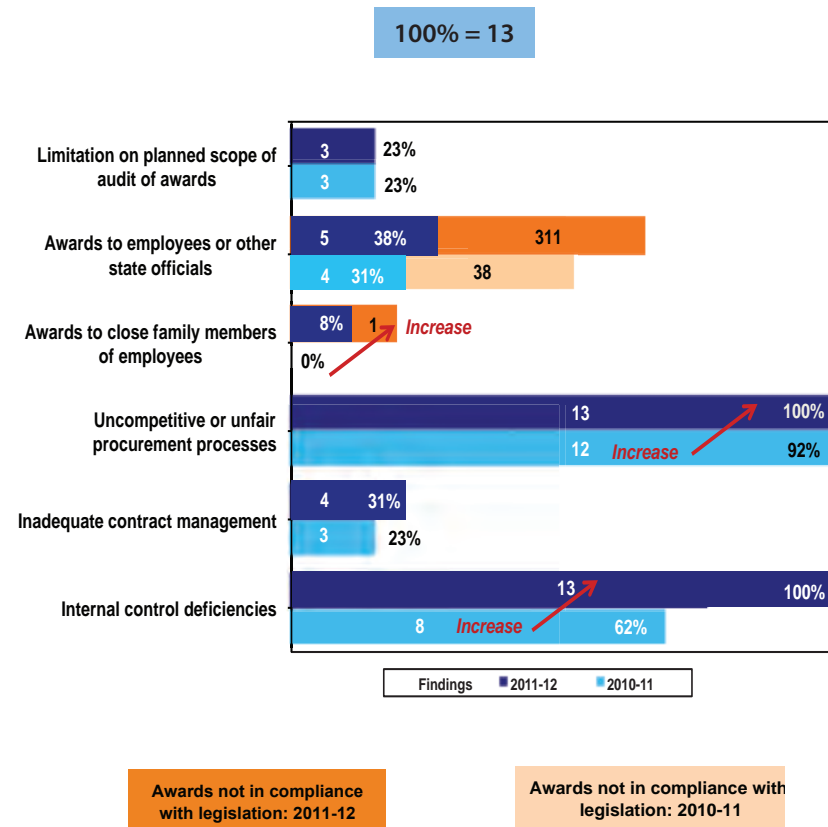
Audits conducted by the AGSA included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood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

Thirteen (100%) departments had findings on SCM, which was material enough to warrant reporting in the audit report.

Contracts awarded and price quotations accepted (referred to as “awards” in the remaining sections of this report) to the value of R2,7 billion were selected for auditing. Awards to the value of R318 million were, however, not audited due to the required information or documentation not being made available by auditees.

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

Figure 16: Summary of findings on supply chain management



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 four (21%) auditees sufficient appropriate audit evidence could not be provided that awards had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The detail on the limitations is depicted in the table below. The name of the auditee is highlighted in red in instances where the scope limitation was also experienced in the previous year.

Table 14: Limitations experienced

Auditee	Number of awards	Amount
Departments		
Health - NC	37	R263 million
Roads and Public Works - NC	14	R35 million
Cooperative Governance, Human Settlements and Traditional Affairs - NC	5	R19 million
Public entities		
Northern Cape Liquor Board	5	R1 million
Total	61	R318 million

indication that decisions or recommendations were unlawfully and improperly influenced.

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

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The reason for these limitations was a lack of a proper record management system for SCM. Due to these limitations, the findings reported in the remainder of this section might not reflect the full extent of irregularities and SCM weaknesses at the auditees.

2.4.3.2 Awards to state officials and close family members

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

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

Where interests were identified, compliance with SCM legislation and the policies of the auditee was tested. The awards identified were also tested with a view to identifying possible non-compliance or irregularities that could be an

Table 15: Awards to officials in the employ of auditees and their close family members

Auditee	Awards made to					Non-compliance with regard to awards made					
	Officials			Close family members of officials		Supplier did not declare interest		Official did not declare interest		Non-compliance/irregularity in procurement process	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
Departments											
Economic Development and Tourism - NC				1	R41 000	1	R41 000	1	R41 000		
Education - NC	9	R1 million	Directors, heads of departments, senior managers and other employees					9	R1 million		
Health - NC	173	R4 million	Directors, heads of departments and employees			173	R4 million	173	R4 million	173	R4 million
Total	182	R5 million		1	R41 000	174	R4 million	183	R5 million	173	R4 million

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 294 contracts (R2,5 billion) and 1 288 quotations (R174 million) were tested at 13 departments and six public entities. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table - similar findings were identified in the province in the prior year.

Table 16: Summarised findings on uncompetitive or unfair procurement processes

Finding	Department	Public entity	Nature of finding
Three price quotations not obtained/ deviations not approved or justified	8 (62%)	1 (17%)	A price quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000. Three price quotations were not in all instances obtained from prospective providers.
Competitive bids not invited/ deviations not approved or justified	6 (46%)	0 (0%)	A competitive bidding process should be followed for the procurement of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.
Tax clearance not obtained from SARS	6 (46%)	1 (17%)	Awards were made to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.

Finding	Department	Public entity	Nature of finding
Other findings	13 (100%)	1 (17%)	Other findings include the following: No declaration of interest submitted by provider Competitive bids not invited - approved deviation not reasonable/ justifiable Preference point system not applied Construction - Awards made to contractors whose CIDB grading was not suitable for the value of the contract Bid documentation/ request for quotation did not include evaluation criteria Bid not advertised through media (e.g. newspaper, GTB) as prescribed.

2.4.3.4 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which in turn 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 prior year.

Table 17: Summarised findings on contract management

Finding	Department	Public entity	Nature of findings
No action taken against non-performing contractors	1(8%)	0(0%)	No action was taken against contractors that did not perform in accordance with the signed contracts
Contract not prepared in accordance with general conditions of contract (prescribed by National Treasury)	1(8%)	0(0%)	Contract not prepared in accordance with general conditions of contract (prescribed by National Treasury)
Other findings	2(15%)	0(0%)	Contracts amended or extended without approval by a delegated official Payments made in excess of approved contract price (with further approved extensions)

2.4.3.5 Inadequate supply chain management controls

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

Table 18: Summarised findings on supply chain management controls

Finding	Department	Public entity	Nature of findings
Audit committee review of compliance with laws and regulations did not include SCM	13(100%)	5(83%)	The audit committee did not review the following as required by Treasury Regulation 3.1.10(a), (b), (c), (e) and (g): Effectiveness of the internal control systems
Internal audit did not evaluate SCM controls/processes and compliance with laws and regulations	13(100%)	6(100%)	The departments utilised a shared internal audit division within the provincial treasury. The unit was not sufficiently staffed to serve all departments and did not fulfil its responsibilities.
Other controls	8(62%)	0(0%)	Inadequate controls to ensure interest is declared Risk assessment did not address SCM Employees performing additional remunerative work without approval Fraud/ ethics hotline not established No actions taken to address SCM risk identified

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

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

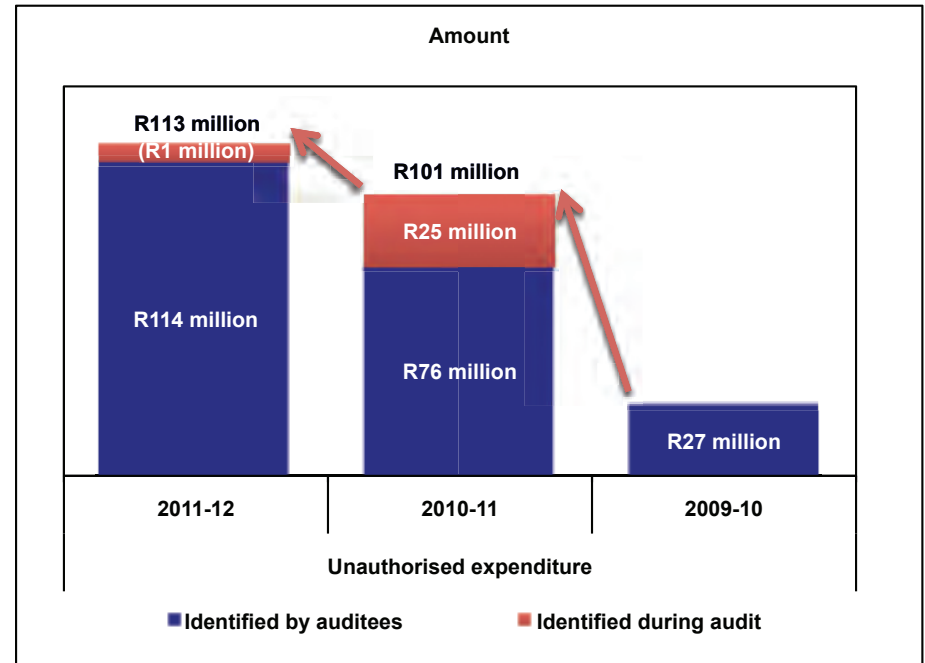
Unauthorised, irregular or fruitless and wasteful expenditure was incurred by 16 (84%) of the auditees due to the accounting officers of these auditees not ensuring that reasonable steps were taken to prevent this type of expenditure. This was reported in the auditor's reports as material non-compliance with laws and regulations.

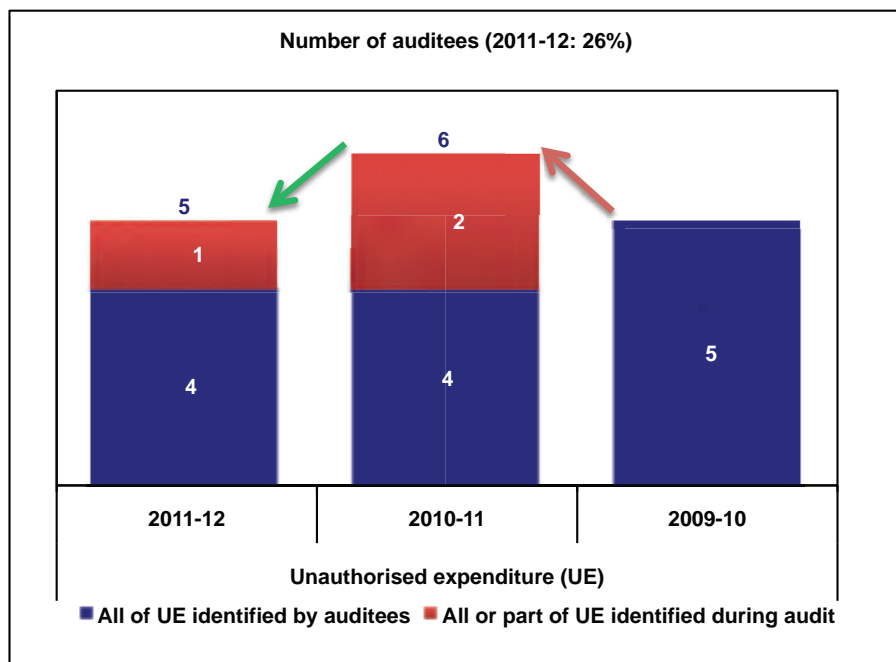
The extent of this expenditure and non-compliance with laws and regulations by the accounting officers is indicative of an environment where incurring unauthorised and irregular expenditure has become the norm and not the exception. Reasonable steps are not taken to prevent such expenditure, while the occurrence thereof is also 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 17: Three-year trend in unauthorised expenditure





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

Table 19: Nature of and current year movements in unauthorised expenditure

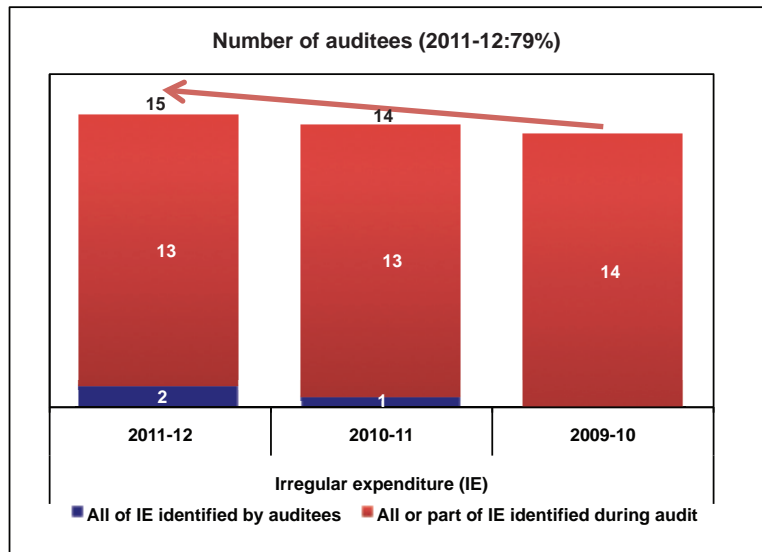
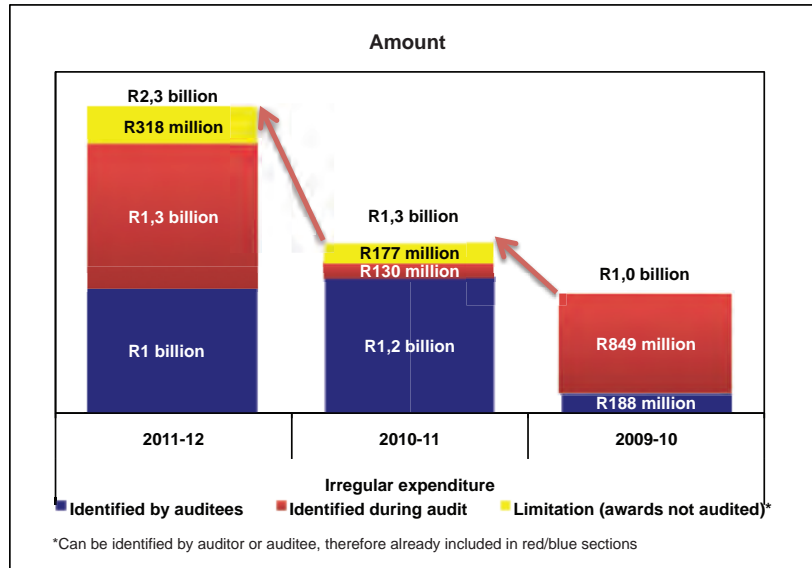
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Overspending of votes/ main division within votes	5	↓ 17%	R112,9 million	↑ 11%
Expenditure not in accordance with votes	1	↑ 100%	R0,1 million	↑ 100%

The department of Health incurred unauthorised expenditure of R78 million, which represents 69% of the province's unauthorised expenditure.

Nature of and overall trends in irregular expenditure

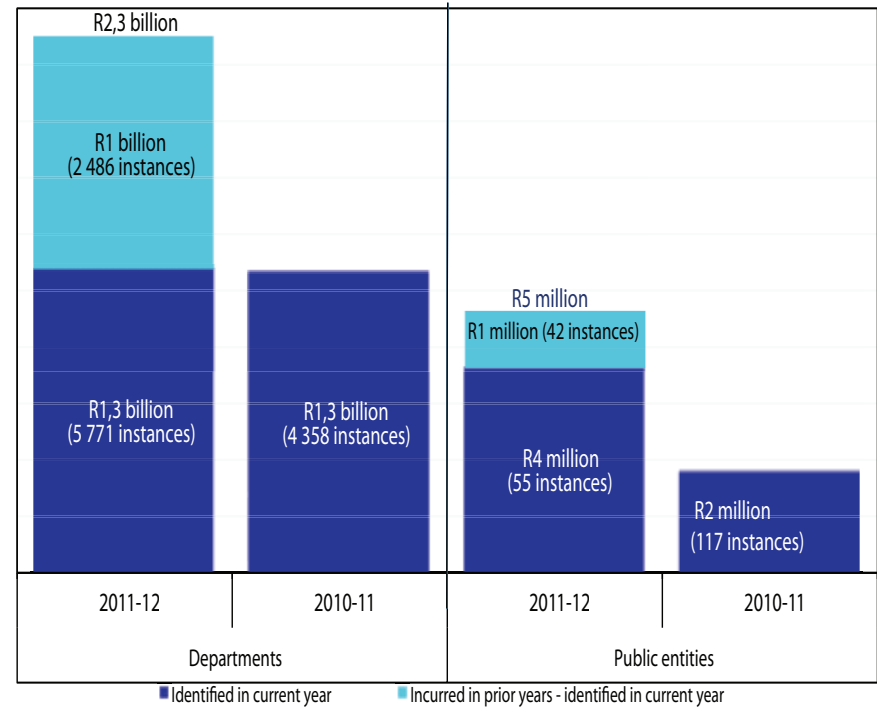
The figure that follows reflects the three-year trend in irregular expenditure.

Figure 18: Three-year trend in irregular expenditure



occurred as a result of transgressions in the current and previous year and those that occurred in previous years but were only recently discovered.

Figure 19: Irregular expenditure instances – current and prior years



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

The following figure depicts the extent of the irregular expenditure that

Table 20: Nature of and current year movements in irregular expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11	Number of instances	Movement in instances from 2010-11
SCM related	13	7%	R2,253 million	54%	8 354	87%
Compensation of employees related	7	0%	R97 million	54%		
Other non-compliance	3	25%	R18 million	98%		

All 13 departments (2010-11:13) and one entity (2010-11:0) incurred irregular expenditure, with a 79% increase in the amount of irregular expenditure incurred. Department of Health (41%), CoGHSTA (29%) and Department of Education (16%) incurred a total of R2 billion in irregular expenditure.

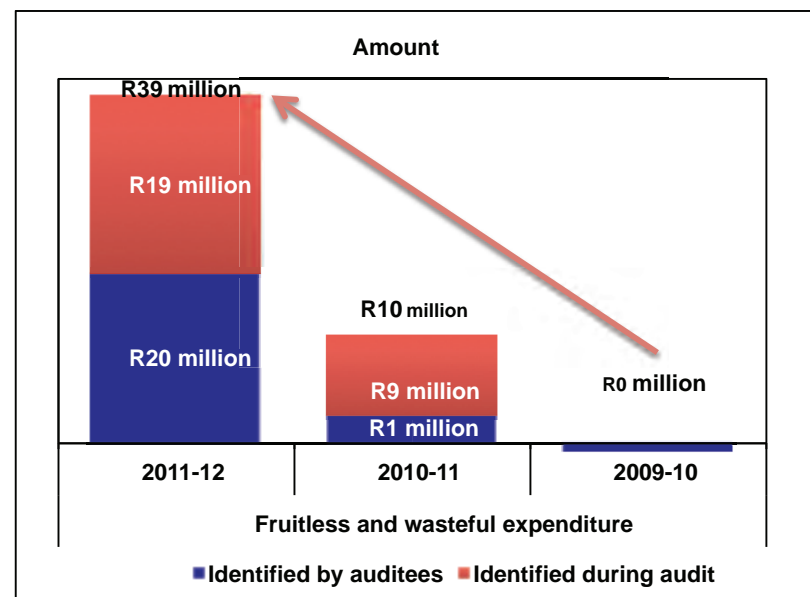
The Department of Health had contravened numerous laws and regulations as well as their own delegations, which led to irregular expenditure. More than half of their irregular expenditure related to infrastructure projects where SCM processes were not followed. These projects were procured by the Department of Roads and Public Works.

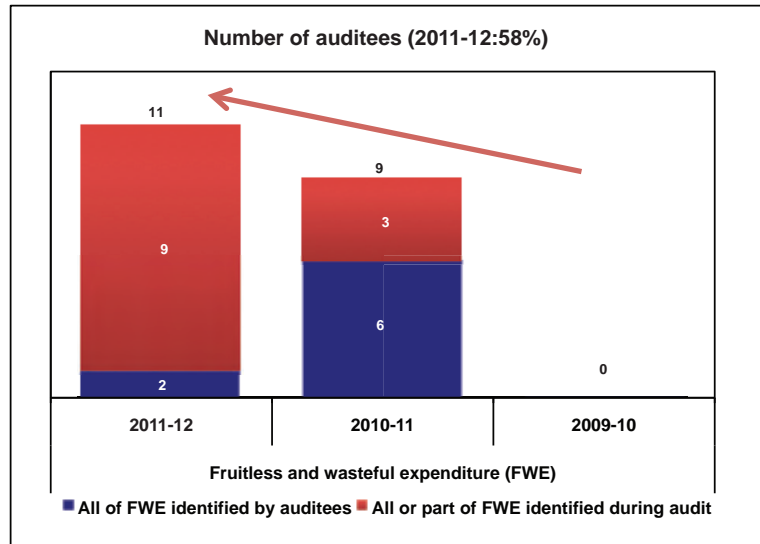
The majority of Department of Education and CoGHSTA's irregular expenditure relates to the contravention of SCM regulations for procurement on learner transport and housing projects, respectively, for which both departments were qualified on completeness in the prior year because they had not disclosed all the related irregular expenditure. This year both departments went through an exercise to identify all the remaining irregular expenditure of this nature. The investigations covered the period since inception of the SCM regulations, which resulted in a significant increase in the irregular expenditure disclosed in the current year.

Nature of and overall trends in fruitless and wasteful expenditure

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

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





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

Table 21: Analysis of fruitless and wasteful expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11	Number of instances	Movement in instances from 2010-11
Incurred to prevent irregular/ loss/ further fruitless and wasteful expenditure	7	↑ 100 %	R27 million	↑ 100 %	305	↓ 21 %
Actual fruitless and wasteful expenditure	5	↓ 44 %	R12 million	↑ 28 %		

For the 2011-12 financial year there were 11 (2010-11: 9) auditees that incurred fruitless and wasteful expenditure, with a 290% increase in the amount of fruitless and wasteful expenditure. Eighty-four per cent of the fruitless and wasteful expenditure was incurred by the Department of Health (56%) and CoGHSTA (28%). The main reason for the fruitless and wasteful expenditure is a lack of proper monitoring to ensure quality on housing projects at CoGHSTA and proper project management at the Department of Health (new mental health facility).

2.4.5 Root causes and best practice recommendations

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of:

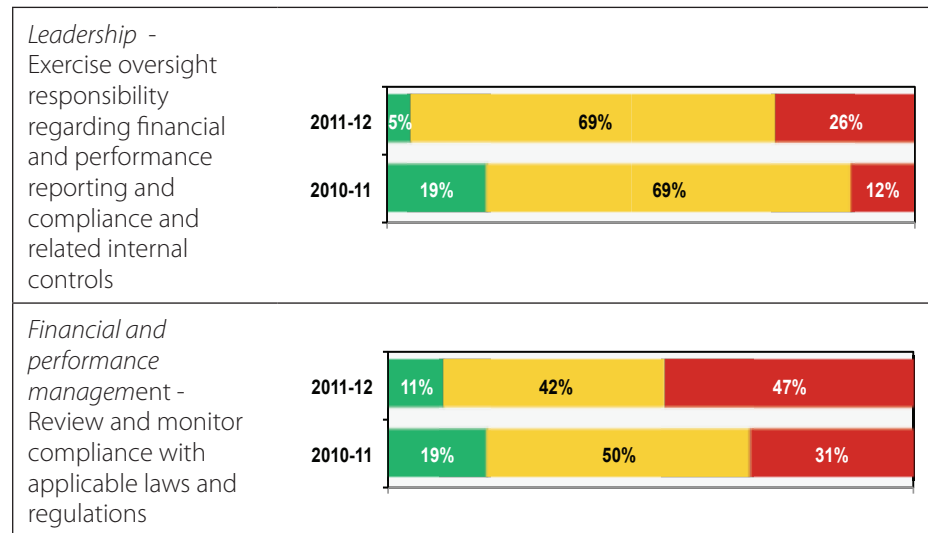
- (i) leadership;

- (ii) financial and performance management; and
- (iii) governance.

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

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

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



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



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

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

Aspect	Identified root causes and way forward
Systems and processes	Lack of monitoring and review of SCM processes by management.
	Leadership did not take appropriate action with regard to a lack of controls in the finance and SCM directorates, resulting in non-compliance with laws and regulations.
	<u>Way forward</u> A compliance unit should be established at each auditee, which would be responsible for monitoring and review of compliance with laws and regulations.

Aspect	Identified root causes and way forward
Oversight and monitoring	<p>Effective leadership is not being displayed in the province with regard to adherence to best practices in provincial government. This is evident from the amount of irregular and unauthorised expenditure being incurred by auditees, the practice of which has become a norm rather than the exception.</p> <p><u>Way forward</u></p> <p>A more stringent approach needs to be followed by the leadership. The leadership needs to drive the culture of accountability and departmental officials need to be held accountable for non-compliance with laws and regulations.</p>
Effective governance measures	<p>The internal audit function was not fully functional at any departments except the provincial legislature during the year, which can be attributed to vacancies within the unit. Internal audit units were not established at any of the public entities.</p> <p>The audit committee did not function throughout the year at the 13 departments (including the provincial legislature). At most public entities audit committees had not been established. At the departments members were only appointed late in the year, resulting in the committee not being able to fulfil their responsibilities</p> <p><u>Way forward</u></p> <p>The internal audit unit filled a number of vacancies, including the chief internal audit position, subsequent to year-end. Contracts were awarded to two audit firms to strengthen the internal audit unit. This should positively impact on the effectiveness of the internal audit unit and a better outcome is expected next year.</p> <p>Three audit committees were appointed and a fourth is planned. All these committees are fully functional and frequent meetings take place between the audit committee and departments. An improved audit outcome is therefore expected during the next round of audits.</p>

SECTION 3

AUDITEES' SYSTEMS OF INTERNAL CONTROL

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



SECTION 3

AUDITEES' SYSTEMS OF INTERNAL CONTROL AND AUDIT FOCUS AREAS

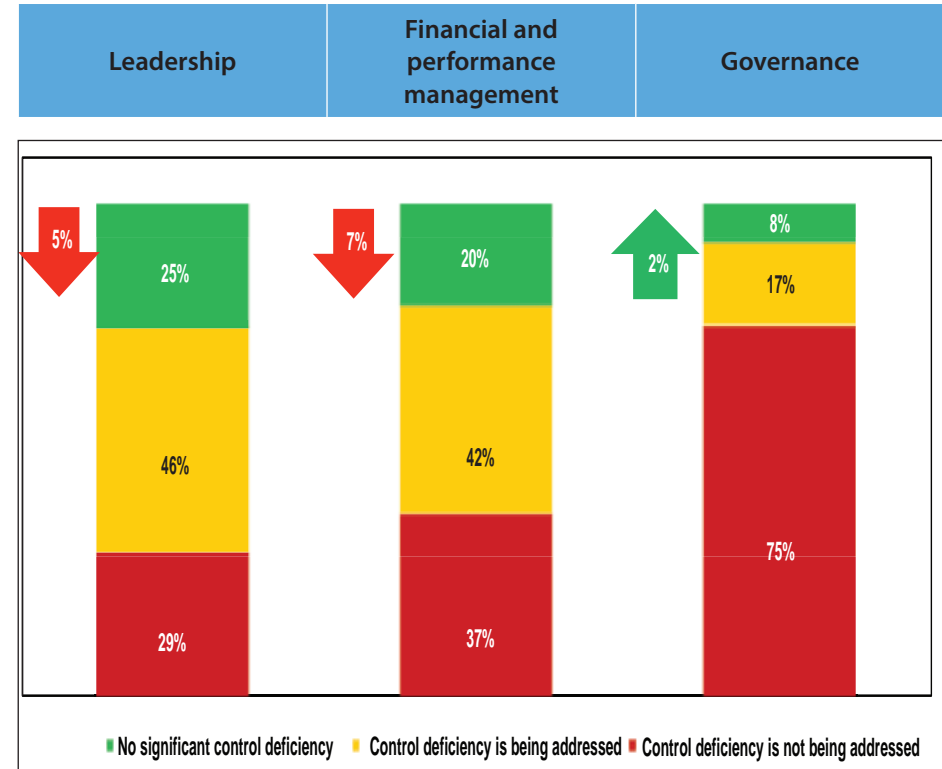
This section of the general report provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on human resource management (section 3.2), information technology management (section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

3.1 OVERALL STATUS OF INTERNAL CONTROL

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

The figure below provides 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 compliance with laws and regulations.

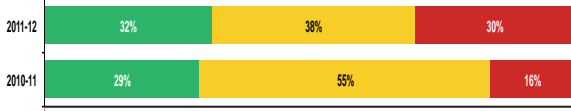
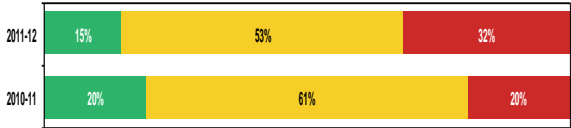
Figure 22: Overall assessment of drivers of internal control

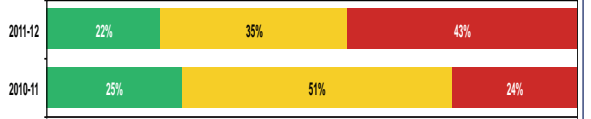


As indicated in the above graph, there has been a decrease in the number of auditees with no significant deficiencies in leadership and financial and performance management, which is also reflected in the poor audit outcomes and four regressions from financially unqualified to qualified audit opinions. The status of governance in the province improved due to the establishment of audit committees during the financial year. It is expected that this indicator will further improve due to key appointments in the internal audit unit as well as the contracting out of some internal audit responsibilities.

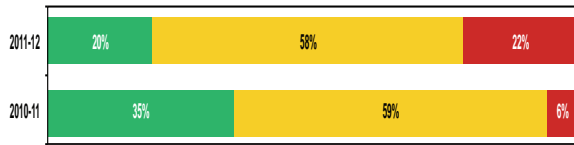
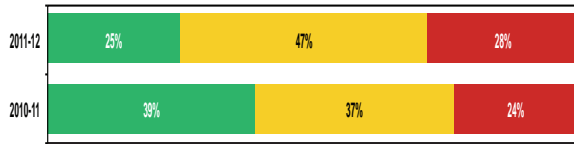
The status of the internal control elements underlying leadership, financial and performance management and governance and movements in the implementation thereof is presented in the following table.

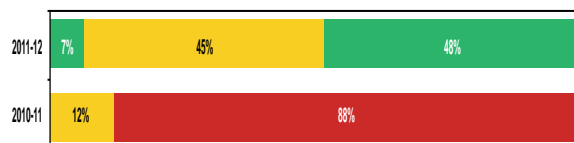
Table 23: Status of internal control

Driver no. 1: Leadership													
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity	 <table border="1"> <caption>Data for Driver no. 1: Leadership - Provide effective leadership</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>32%</td> <td>38%</td> <td>30%</td> </tr> <tr> <td>2010-11</td> <td>29%</td> <td>55%</td> <td>16%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	32%	38%	30%	2010-11	29%	55%	16%
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2011-12	32%	38%	30%										
2010-11	29%	55%	16%										
<p>The poor audit opinions reflect that leadership is ineffective in producing quality annual reports. Possible fraud was also identified at two departments, which is indicative of unethical conduct and dishonesty.</p> <p>At most of the departments a formal code of conduct was not communicated to all the staff. The leadership of the departments did not exercise oversight responsibility to ensure that proper internal control procedures are developed and implemented to enable the departments to produce accurate and complete annual financial statements.</p>													
Exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations and related internal controls	 <table border="1"> <caption>Data for Driver no. 1: Leadership - Exercise oversight responsibility</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>15%</td> <td>53%</td> <td>32%</td> </tr> <tr> <td>2010-11</td> <td>20%</td> <td>61%</td> <td>20%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	15%	53%	32%	2010-11	20%	61%	20%
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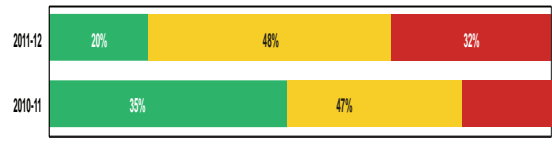
Driver no. 1: Leadership													
Oversight ability has improved slightly, mainly due to the establishment of audit committees. The effect of this oversight is yet to be seen in the next financial year, as these newly established audit committees were functional for only three months of the year.													
Leadership did not communicate and enforce management assertions (completeness, accuracy and validity) related to the disclosures in the financial statements and performance reports of the department. This caused the departments to have material misstatements in the annual financial statements.													
Most departments did not have sufficient documented and approved internal policies and procedures to address the process of collecting, recording, processing, monitoring and reporting of performance information.													
Changes in legislation are not adequately discussed at the appropriate forums to ensure consistent implementation within the province. Issues related to updates in legislation are not sufficiently discussed between departments and with the relevant body that issued the legislation to ensure a proper understanding and consistent implementation.													
The departments that used consultants over-relied on them, which created a perception of a shift in accountability away from leadership. In a number of instances consultants were required to respond to findings raised by the auditors.													
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	 <table border="1"> <caption>Data for Driver no. 1: Leadership - Implement effective human resource management</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>22%</td> <td>35%</td> <td>43%</td> </tr> <tr> <td>2010-11</td> <td>25%</td> <td>51%</td> <td>24%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	22%	35%	43%	2010-11	25%	51%	24%
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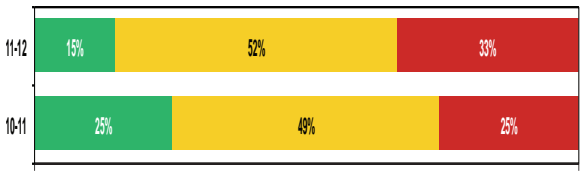
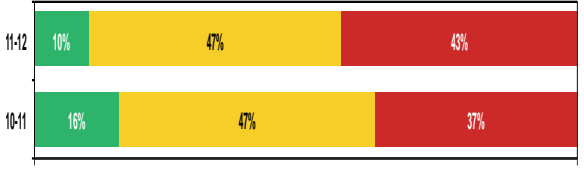
Section 3.2 provides an analysis of human resource management

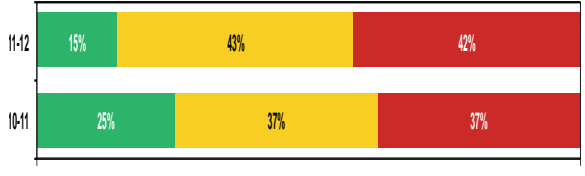
Driver no. 1: Leadership													
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities	 <table border="1"> <caption>Data for Driver no. 1: Leadership - Establish and communicate policies and procedures</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>20%</td> <td>58%</td> <td>22%</td> </tr> <tr> <td>2010-11</td> <td>35%</td> <td>59%</td> <td>6%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	20%	58%	22%	2010-11	35%	59%	6%
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2011-12	20%	58%	22%										
2010-11	35%	59%	6%										
Leadership did not document and approve internal policies and procedures to address planning, implementation, monitoring and reporting processes.													
Most accounting officers did not ensure that adequate controls were designed and implemented to monitor departmental compliance with internal policies and procedures.													
The accounting officers of some of the departments did not address the findings raised in the previous audit, resulting in repeat findings. Officials were generally not held accountable for non-adherence to policies and procedures and in most cases no action was taken against officials to address poor performance and/or unethical conduct.													
Develop and monitor the implementation of action plans to address internal control deficiencies	 <table border="1"> <caption>Data for Driver no. 1: Leadership - Develop and monitor the implementation of action plans</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>25%</td> <td>47%</td> <td>28%</td> </tr> <tr> <td>2010-11</td> <td>39%</td> <td>37%</td> <td>24%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	25%	47%	28%	2010-11	39%	37%	24%
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The departments had developed plans to address internal and external audit findings (including financial, performance and compliance related findings), but the action plans were not implemented in some cases. There were, however, also departments that successfully implemented the action plans.													

Driver no. 1: Leadership													
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Also establish an IT governance framework that supports and enables the business, delivers value and improves performance	 <table border="1"> <caption>Data for Driver no. 1: Leadership - Develop and monitor the implementation of action plans in IT</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>7%</td> <td>45%</td> <td>48%</td> </tr> <tr> <td>2010-11</td> <td>12%</td> <td>0%</td> <td>88%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	7%	45%	48%	2010-11	12%	0%	88%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	7%	45%	48%										
2010-11	12%	0%	88%										

Section 3.3 provides an analysis of the management of information technology

Driver no. 2: Financial and performance management													
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	 <table border="1"> <caption>Data for Driver no. 2: Financial and performance management - Implement proper record keeping</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>20%</td> <td>48%</td> <td>32%</td> </tr> <tr> <td>2010-11</td> <td>35%</td> <td>47%</td> <td>18%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	20%	48%	32%	2010-11	35%	47%	18%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	20%	48%	32%										
2010-11	35%	47%	18%										
As indicated in our engagement letters, we agreed that all information requested for purposes of the audit would be submitted within five working days of the request by the auditors. Despite this agreement, management in some cases did not supply the documentation requested, e.g.													
<ul style="list-style-type: none"> • expenditure batches • supporting documentation for adjustments made between the Basic Accounting System (BAS) and the financial statements • employee files and supporting documentation for expenditure relating to employee cost. 													

Driver no. 2: Financial and performance management													
Implement controls over daily and monthly processing and reconciling of transactions	 <table border="1"> <tr> <th>Period</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>11-12</td> <td>15%</td> <td>52%</td> <td>33%</td> </tr> <tr> <td>10-11</td> <td>25%</td> <td>49%</td> <td>25%</td> </tr> </table>	Period	Green (%)	Yellow (%)	Red (%)	11-12	15%	52%	33%	10-11	25%	49%	25%
Period	Green (%)	Yellow (%)	Red (%)										
11-12	15%	52%	33%										
10-11	25%	49%	25%										
Management did not implement the following daily and monthly controls as designed for the entity's business processes:	<ul style="list-style-type: none"> • Creditor reconciliations were not prepared • Payments to creditors were not properly authorised by agreeing the payment to the detailed creditor statements • Contracts and the commitments relating to these contracts were not reconciled • Reconciliations were not performed on suspense accounts • Fixed asset registers of departments were not updated on a monthly basis as regular asset counts were not performed to ensure the completeness and existence of assets recorded • Listings to support disclosure notes were not prepared and reviewed on a monthly basis to ensure that officials acquire the necessary skills to prepare complete and accurate disclosure notes at year-end • Compliance checklists were not prepared and reviewed on a monthly basis to enable the entity to prevent and detect non-compliance. 												
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	 <table border="1"> <tr> <th>Period</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>11-12</td> <td>10%</td> <td>47%</td> <td>43%</td> </tr> <tr> <td>10-11</td> <td>16%</td> <td>47%</td> <td>37%</td> </tr> </table>	Period	Green (%)	Yellow (%)	Red (%)	11-12	10%	47%	43%	10-11	16%	47%	37%
Period	Green (%)	Yellow (%)	Red (%)										
11-12	10%	47%	43%										
10-11	16%	47%	37%										

Driver no. 2: Financial and performance management													
Leadership of the departments did not exercise their oversight responsibility to ensure that proper internal control procedures are developed and implemented to enable departments to produce accurate and complete annual financial statements.	<p>Most departments did not compile complete and accurate quarterly financial statements and performance reports with reliable supporting documentation for review by the CFO for accuracy and completeness.</p> <p>The departments did not have reliable information systems for recording and reporting on disclosure notes.</p> <p>The financial reporting framework and performance information was not understood by all staff members of the departments, resulting in many misstatements identified and corrected during the audit process.</p> <p>Inadequate planning in the preparation of financial statements impacts on the quality of financial statements submitted for audit. CFOs often did not perform a proper review of the financial statements, resulting in audit adjustments that could have been avoided if a proper review had been done.</p>												
Review and monitor compliance with applicable laws and regulations	 <table border="1"> <tr> <th>Period</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> <tr> <td>11-12</td> <td>15%</td> <td>43%</td> <td>42%</td> </tr> <tr> <td>10-11</td> <td>25%</td> <td>37%</td> <td>37%</td> </tr> </table>	Period	Green (%)	Yellow (%)	Red (%)	11-12	15%	43%	42%	10-11	25%	37%	37%
Period	Green (%)	Yellow (%)	Red (%)										
11-12	15%	43%	42%										
10-11	25%	37%	37%										
Departments did not have sufficient monitoring controls to ensure that laws, regulations, policies and procedures were adhered to through implementing internal policies and taking corrective action when deviations were identified.	<p>Non-compliance with laws and regulations could have been prevented had compliance been properly monitored. Most departments did not have delegated officials with the responsibility of ensuring that the departments comply with all the relevant laws and regulations and any new legislative changes.</p>												

Driver no. 2: Financial and performance management

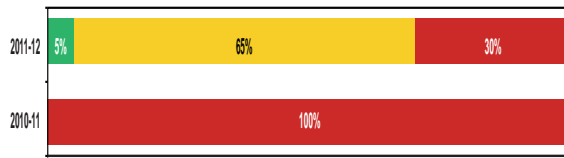
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (information systems)



Section 3.3 provides an analysis of the management of information technology

Driver no. 3: Governance

Perform 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



Driver no. 3: Governance

There was a lack of adequate and competent personnel due to vacancies (DGITO and ISO) and inadequate skills (IT managers). Vacancies contributed to the lack of segregation of duties as the same personnel were performing strategic and operational duties.

Inadequately skilled personnel led to the inadequate design and/or implementation of policies and procedures such as the IT governance framework and disaster recovery plan.

Responsibility for commitments was not taken seriously as progress in addressing prior year IT findings has been minimal.

Accountability was not accepted for actions and outcomes as the IT controls are still not adequately designed and implemented within the province. Furthermore, only a draft memorandum of understanding is in place to define clear roles and responsibilities to enforce accountability between the Office of the Premier and the departments.

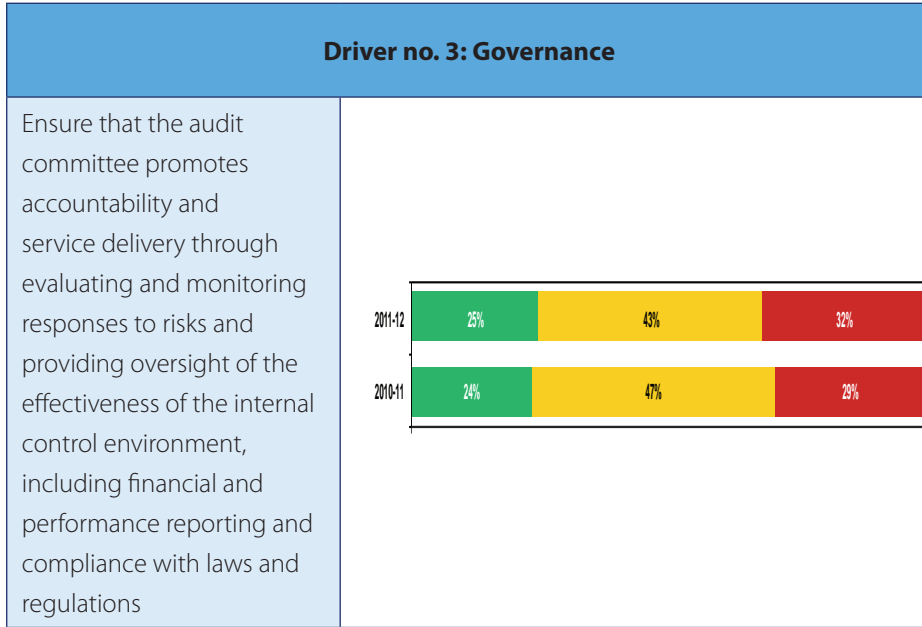
There was inadequate discipline in terms of tracking the progress made in addressing audit findings by the following:

- Management, regarding implementation of IT commitments
- Internal audit, as they currently do not have IT capacity.

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



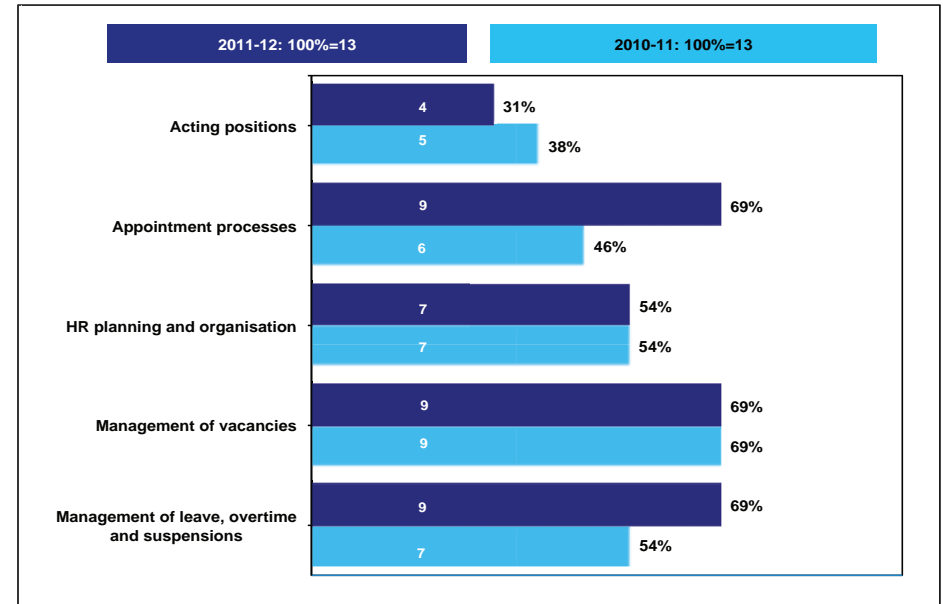
Section 3.4 provides an analysis of audit committees

3.2 HUMAN RESOURCE MANAGEMENT

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

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

Figure 23: Summary of human resource management findings - departments



Although public entities are not subject to the PSA and public sector regulations, the audit of HR management was nevertheless performed at these entities as a mechanism to monitor good governance. The following figure depicts the outcome of an assessment of HR management at entities.

Figure 24: Summary of HR management findings – public entities

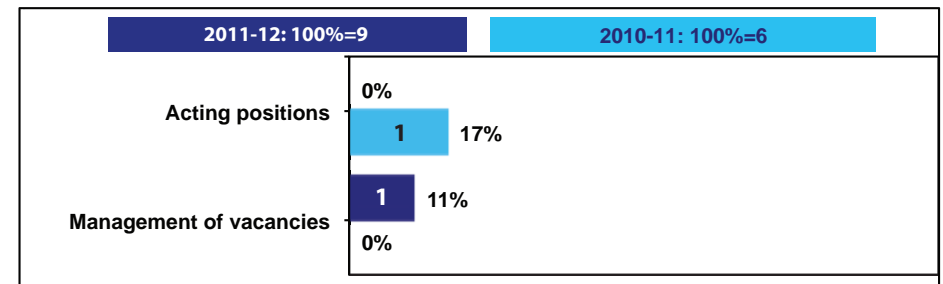


Table 24: Nature of key findings

Findings	Key findings
Management of vacancies and acting positions	<p>Funded vacant posts were not filled within 12 months (five auditees).</p> <p>Employees acted in higher vacant posts for more than 12 months (three auditees).</p> <p>Vacant positions in the various departments were not advertised within six months as a result of posts being unfunded (two auditees).</p> <p>Advertisements for posts did not always specify the inherent requirements of the job (three auditees).</p>
Appointment processes	<p>It was not possible to confirm that the verification process for new appointments had taken place or whether the process covered criminal record checks, citizenship verifications, financial record checks, qualification verifications and reference checks (nine auditees).</p> <p>Sufficient appropriate audit evidence could not be obtained that appointments were made in posts that were advertised (three auditees).</p> <p>Sufficient appropriate audit evidence could not be obtained that all appointments were made at the recommendation of a selection committee which was properly constituted (three auditees).</p>

Findings	Key findings
Management of leave, overtime and suspensions	<p>Due to capacity constraints no review was performed to ensure that written authorisation was obtained in advance for the overtime to be worked (one instance).</p> <p>Suspended officials were paid for more than 30 days and up to a year due to prolonged periods required to deal with the matters (one instance).</p> <p>The accounting officer did not ensure that all leave taken by employees was recorded accurately and in full (four auditees).</p> <p>A written policy on overtime was not in place (two auditees).</p> <p>Employees received overtime compensation in excess of 30% of their monthly salaries (one instance).</p>
Human resource planning and organisation	<p>A human resource plan was not in place (five auditees).</p> <p>Management did not implement the recommendations of the prior year, resulting in repeat findings as the current departmental organisational structure did not make provision for the position of a DGITO and ISO (one instance).</p> <p>An organisational structure based on the department's strategic plan (three auditees) was not in place.</p> <p>Job descriptions were not established for posts in which appointments were made in the current year (two auditees).</p>

3.3 MANAGEMENT OF INFORMATION TECHNOLOGY

3.3.1 Information technology management as a specific key driver of audit outcomes



IT processes that ensure the confidentiality, integrity and availability of data need to be in place to enable service delivery and to safeguard provincial information. In enabling these processes, it is essential to have good IT governance, effective management and a secure IT infrastructure.

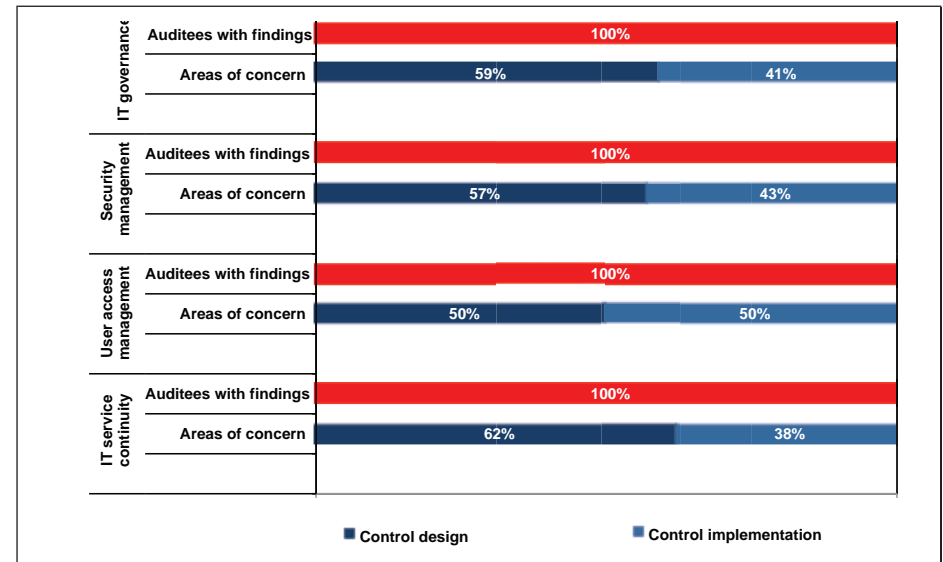
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Status of state information	CONFIDENTIALITY	INTEGRITY	AVAILABILITY
	<p>The necessary level of secrecy is enforced for all state information. This will be ensured by auditing the following focus areas:</p> <ul style="list-style-type: none"> • Security management • User access controls 	<p>All state information is authentic, remains unaltered until authorised to change and is complete. This will be ensured by auditing the following focus areas:</p> <ul style="list-style-type: none"> • User access controls • Programme change controls • Key automated control testing • Data analytics 	<p>All state information is ready for use when expected. This will be ensured by auditing the following focus areas:</p> <ul style="list-style-type: none"> • IT continuity • Security management
Status of key enabling controls	GOOD GOVERNANCE		
	EFFECTIVE MANAGEMENT		
	SECURE ARCHITECTURE/INFRASTRUCTURE		

IT controls for financial systems were evaluated at 13 departments and controls for performance information were evaluated at three sectoral departments, i.e. Health, Education and Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) where only the housing programme was assessed. No systems were developed or customised for any of the departments.

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

Figure 25: Summary of information system control weaknesses



Information technology governance

Although the *Control objectives for information and related technologies* framework (COBIT) was adopted late in 2011-12 by the province, none of the departments approved and implemented the framework. Fifty-nine per cent of the departments did not have a DGITO and ISO, while 41% of the departments had appointed the latter internally. However, the individuals appointed did not always have adequate IT management skills and were still performing operational duties. Lack of IT leadership skills and IT not being viewed as a strategic priority within the departments have resulted in failure to adequately design and implement IT governance controls.

Security management

IT security policy had been developed by the provincial government IT officers (PGITO); however, 57% of the departments had not adopted the IT security policy, or had adopted the policy but did not approve the policy for implementation. Forty-three per cent of the departments did not adequately implement the IT security policy. Furthermore, all the departments installed firewall devices; however, the firewalls were not configured to prevent external/internal network intrusions. PGITO and management at the departments did not monitor the implementation of provincial policies. Additionally, the finding was due to a lack of IT leadership skills and IT not being viewed as a strategic priority within the departments, which resulted in failure to adequately design and implement security management controls.

User access management

Provincial treasury adequately designed and approved policies and procedures for BAS and Persal; however, the implementation of monitoring controls was a challenge at 50% of the departments. The latter cannot be reported for Logis policies and procedures as they were not in place at the 50% of departments that use it. Provincial treasury did not document the provincial user access management procedures for Logis. Additionally, the finding was due to Logis being rolled out in the province in the beginning of the financial period.

Information technology service continuity

The disaster recovery plan framework developed by the PGITO was found to be inadequate, which had a direct impact on 62% of the departments as they had adopted the framework. Furthermore, none of the departments had approved the above-mentioned disaster recovery plan. Thirty-eight per cent of the departments had inadequately implemented IT service continuity controls as the disaster recovery plan was not tested. Additionally, the finding was due to the departments awaiting the implementation of the provincial IT plan which would make provision for IT service continuity for the province as a whole.

3.3.3 Audit of performance information systems

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

Figure 26: Comparison between national and provincial implementation of information technology controls

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

Department of Cooperative Governance, Human Settlements and Traditional Affairs

The national department had achieved its mandate by designing adequate IT policies and procedures to govern the housing subsidy system (HSS). Provincial departments had implemented IT controls besides user access controls to manage access to the HSS.

User access for users who were granted access to create and approve transactions was not actively monitored to ensure that the access corresponds with roles and responsibilities. This is due to lack of accountability at provincial management level where no policies are in place that make provision for regular review of user access.

Department of Education

Intervention is required because the national and provincial departments are not meeting 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 National Treasury's framework. The provincial department also did not proactively request adequate guidance from the national department.

Department of Health

Good progress was made by the national department as they had developed guidance for the implementation of all the systems used for predetermined objectives, namely the district health information system (DHIS), the electronic tuberculosis register (ETR.Net) and the electronic drug-resistant tuberculosis register (EDR.Net). However, intervention is required as the provincial department did not implement guidance principles, indicating non-compliance as they failed to comply with the guidance provided by the national department. This could be attributed to a lack of leadership accountability at the provincial departments.

3.3.4 Status of addressing management commitments

Table 25: Progress in addressing management commitments - departments

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture, Land Reform and Rural Development				
Cooperative Governance, Human Settlements and Traditional Affairs				
Economic Development and Tourism				
Education				
Environment and Nature Conservation				
Health				
Office of the Premier				
Provincial legislature				
Transport, Safety and Liaison				
Provincial treasury				
Roads and Public Works				
Social Development				
Sports, Arts and Culture				
Total	13	13	13	13
		Partially implemented		Not implemented

Within each focus area some departments have started to implement the IT controls; however, this is not adequate to mitigate IT risks, therefore all of the IT findings remain unresolved.

Internal audit is not following up on IT management commitments to ensure that the findings are resolved as it does not have IT audit capacity and IT findings are not included in action plans. Accounting officers also lack an understanding of IT issues, while no DGITO and ISO had been appointed.

3.3.5 Key information technology concerns

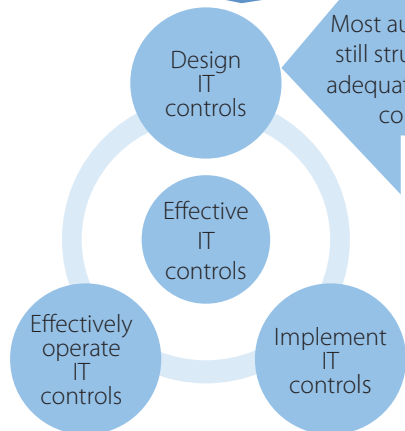
Key audit findings on IT controls:

- None of the departments approved and implemented the adopted IT governance framework.
- IT security had been developed by the provincial government IT officers (PGITO); however not all the departments had adopted the IT security policy. The departments that did adopt it, did not approve the policy for implementation.
- The Disaster Recovery Plan (DRP) framework developed by the PGITO was found to be inadequate and this had a direct impact on all departments as most of them had adopted the framework. None of the departments took part in the national testing at SITA of transversal systems.
- Provincial treasury adequately designed and approved policies and procedures for BAS and Persal; however, the implementation of monitoring controls was a challenge at some of the departments. The latter cannot be reported for Logis policies and procedures as they are not in place.

Key root causes that can impact negatively on the province IT environment

- Vacant positions of departmental government IT officers (DGITO) and information on security officers. The latter contributed to a lack of segregation of duties as the same personnel were performing strategic and operational duties.
- Existing IT personnel were not sufficiently skilled in IT management/governance.
- Lack of ownership of commitments as progress in addressing previous year IT findings has been minimal. Furthermore, there are no consequences for not honouring commitments.
- IT findings not included in auditees' action plans.
- IT is not viewed as a strategic priority.
- Inadequate discipline in terms of tracking the progress made in addressing IT audit findings by management and internal audit.

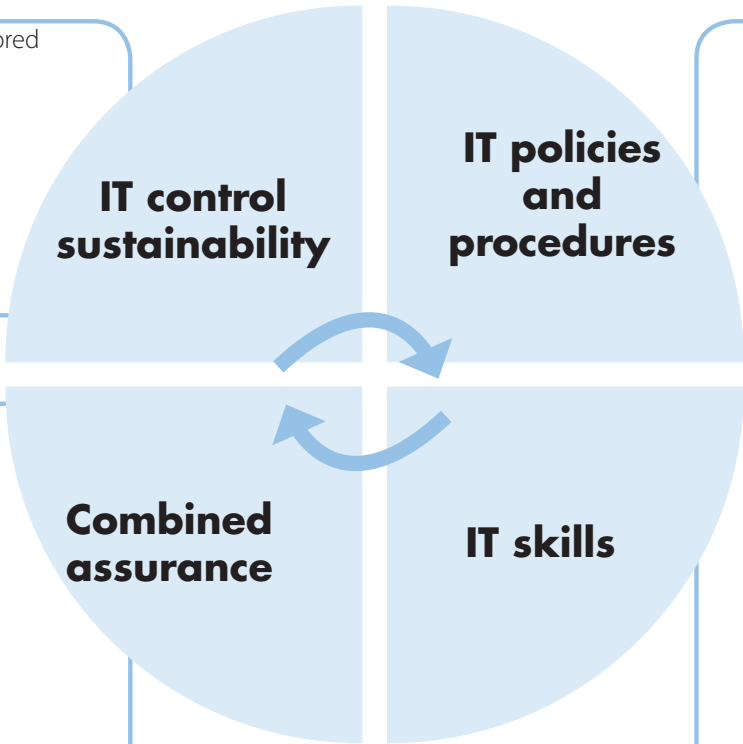
Most auditees are still struggling to adequately design controls



3.3.6 Way forward in resolving information technology management weaknesses

Accounting officers need to appoint a DGITO to implement the approved IT governance framework. The user access management procedures for Logis will need to be developed by the provincial treasury for roll-out to all departments. The PGITO must update disaster recovery plans with recovery procedures and distribute it to the departments for adoption and implementation. Each department will need to ensure that all provincial policies and procedures are adopted, approved and fully implemented.

- Ensure that IT services provided are monitored
- Weekly reviewing of access control
- Half-year testing of disaster recovery plan
- Annual review of policies
- Perform risk assessments
- IT to be viewed as a strategic priority



- Adoption, approval and implementation of all provincial policies
- Designing the embedded IT controls in line with approved policies
- Provincial treasury to develop provincial policies/procedures for Logis
- Update disaster recovery plans by documenting recovery procedures

- Ensuring that internal audit is capacitated with IT skills to continuously monitor IT controls and track progress made with the implementation of management commitments
- Audit committees to follow up on management commitments regarding IT findings
- Operation Clean Audit committee to monitor progress made in resolving IT findings

- Employing staff with IT management/governance competencies to implement controls
- Ensure segregation between staff members who perform operational duties and those who perform strategic duties

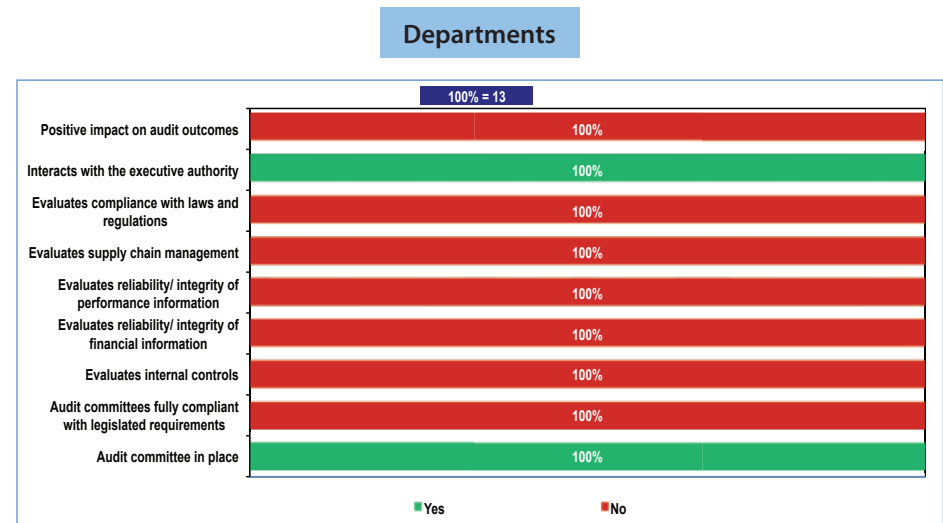
3.3.7 Good information technology practices

Provincial treasury had adequately designed and approved policies and procedures regarding BAS and Persal for implementation within all departments. They also fulfil a monitoring role which contributed to the fact that seven of the departments did not have findings on BAS and five departments did not have findings on Persal. Furthermore, the PGITO adequately designed a provincial IT security policy for adoption by all departments. The IT plan for the province, which is based on the shared services model where key IT activities would be performed from a central point, was approved by all HoDs.

3.4 AUDIT COMMITTEES AND INTERNAL AUDIT

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

Figure 27: Effectiveness of audit committees



Three audit committees were established in December 2011, three months before the financial year-end.

The respective audit committees are responsible for the following departments:

- Provincial treasury and Education
- Office of the Premier and Health
- Shared audit committee (shared among the remaining eight departments)

The provincial legislature shared an audit committee with the Free State Provincial Legislature. This committee was only established during February 2012.

Due to the late establishment of the audit committees, they could not fulfil all their responsibilities as required by legislation. The audit committees reviewed the annual internal audit plans, risk assessments and action plans subsequent to year-end. The financial statements of all 13 departments (including the provincial legislature) were reviewed before submission for audit and meetings were held between the audit committees and departments to discuss the audit outcomes of the various departments.

Public entities

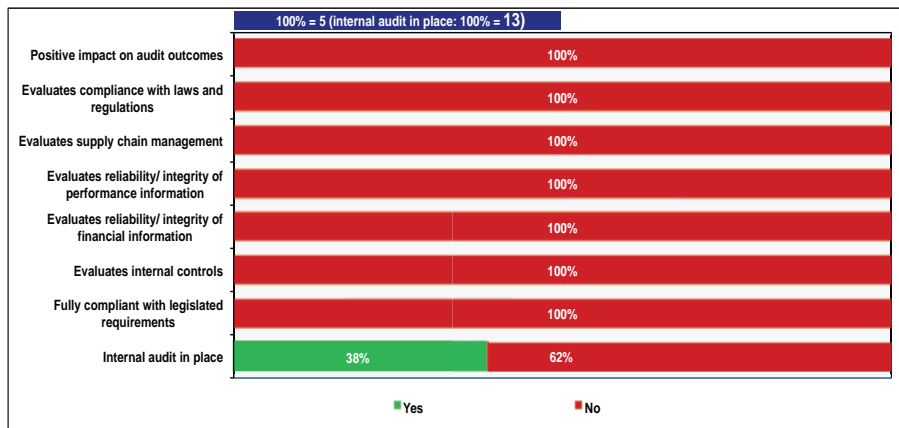


Only three of six (50%) public entities had audit committees, two of which were established near year-end. The other three public entities have not yet established audit committees.

The provincial departments responsible for oversight of these public entities should prioritise the establishment of audit committees.

Figure 28: Effectiveness of internal audit units

Departments



Five out of 13 (38%) departments had established an internal audit function in the year under review.

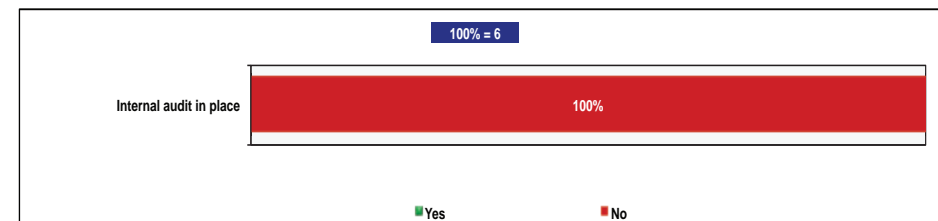
Internal audit units were established for the following departments:

- Department of Health
- Department of Education
- Provincial treasury
- Office of the Premier
- Provincial legislature

As in the past, the internal audit unit struggled to fill vacancies within the unit. This impacted negatively on the unit's ability to function in an effective way.

Key positions within this unit were subsequently filled and external auditors were appointed to assist the internal audit unit on a contract basis. This should positively impact on the effectiveness of this unit.

Public entities



None of the public entities had established internal audit units. This contributed to internal control deficiencies not being detected and corrected, resulting in various findings at these public entities.

The provincial departments responsible for oversight of these public entities should prioritise the establishment of internal audit units.

SECTION 4

IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

- 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES
- 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS
- 4.3 AGSA INITIATIVES TO ENCOURAGE CLEAN AUDITS



SECTION 4

IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

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

The following figure and table depict the risk assessment process towards combined assurance as achieved in the province. All of these assurance providers should work collectively in addressing all the related risks. The required level and actual level of assurance are indicated below.

Figure 29: Combined assurance providers

Management assurance First level of assurance			Oversight assurance Second level of assurance			Independent assurance Third level of assurance		
Senior management	Accounting officer/ authority	Executive authority	Coordinating/ monitoring institutions	Internal audit	Audit committee	Oversight (portfolio committee and councils)	Public accounts committee	External audit
Required assurance levels								
Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive

Table 26: Combined assurance providers per auditee

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)
	Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
Auditee								
Agriculture, Land Reform and Rural Development	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Cooperative Governance, Human Settlements and Traditional Affairs	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Economic Development and Tourism	Red	Yellow	Red	Yellow	Light Blue	Red	Light Blue	Light Blue
Education	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Environment and Nature Conservation	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Health	Red	Red	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Office of the Premier	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Provincial legislature	Red	Red	Red	Yellow	Light Blue	Yellow	Light Blue	Light Blue
Provincial revenue fund	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Provincial treasury	Red	Yellow	Red	Yellow	Light Blue	Red	Light Blue	Light Blue
Roads and Public Works	Red	Yellow	Red	Yellow	Light Blue	Red	Light Blue	Light Blue
Social Development	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Sport, Arts and Culture	Yellow	Yellow	Yellow	Yellow	Light Blue	Red	Light Blue	Light Blue
Transport, Safety and Liaison	Red	Yellow	Green	Yellow	Light Blue	Red	Light Blue	Light Blue
Kalahari Kid Corporation	Red	Red	Yellow	Red	Light Blue	Red	Light Blue	Light Blue
McGregor Museum	Red	Red	Yellow	Red	Light Blue	Red	Light Blue	Light Blue
National Institute for Higher Education	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Ngwao Boswa Kapa Bokone	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Northern Cape Arts and Culture Council	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Northern Cape Economic Development, Trade and Investment Promotion Agency	Yellow	Yellow	Green	Red	Light Blue	Red	Light Blue	Light Blue
Northern Cape Fleet Management	Red	Red	Red	Red	Light Blue	Red	Light Blue	Light Blue
Northern Cape Gambling Board	Green	Yellow	Yellow	Green	Light Blue	Red	Light Blue	Light Blue

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)
	Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
Northern Cape Housing Fund								
Northern Cape Liquor Board								
Northern Cape Political Party Fund								
Northern Cape Premier Education Trust Fund								
Northern Cape Tourism Authority								
William Humphreys Art Gallery								
Oversight level								
Public Accounts Committee								
Portfolio Committee on Education, Sport, Arts and Culture								
Portfolio Committee on Finance, Economic Development and Tourism								
Portfolio Committee on Safety, Liaison, Transport, Roads and Public Works								
Portfolio Committee on Health and Social Development								
Portfolio Committee on Cooperative Governance, Human Settlements and Traditional Affairs								
Portfolio Committee on Agriculture, Land Reform, Rural Development, Environment and Conservation								
Coordinating/ monitoring institutions								
Office of the Premier								
Provincial treasury								
Provincial legislature								
Overall BU/ provincial assessment								
Assess assurance providers overall for the business unit/ province								

It should be noted that the combined assurance provided by the internal audit unit and audit committee does not always correlate with the key control assessment as they were not able to have the desired impact on the risks affecting the audit outcomes.

4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of 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 with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

Table 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
Provincial executive leadership	Initiatives to improve audit outcomes			
	An information sharing session for all departments on predetermined objectives will be held, preferably before 31 December 2011.	PDO		No impact
	Procuring departments (Health and Education) would conclude cooperation agreements with the Department of Roads and Public Works for them to have closer involvement in procurement processes to prevent non-compliance to SCM.	SCM		No impact
	The MEC for Health will appoint regional financial managers to deal with accruals and capturing to be done in Kimberley bi-monthly. A records manager will also be appointed to deal with disclaimer issues.	HR		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
Provincial executive leadership	Prior year commitments			
	Budget offices will be strengthened in order to eliminate unauthorised expenditure.	SCM	In progress	No impact
	The Director-General will form a task team, coordinated by the HoDs of Provincial Treasury, Public Works and the Office of the Premier to assist at the Department of Health and the task team will also monitor and manage the effectiveness of consultants at Health.	SCM, PDO	In progress	No impact
	The Director-General will ensure that the IT Department which resides in the Office of the Premier will assist all provincial departments and accountability for the improvement of audit outcomes will be elevated to the level of the executive.	IT	In progress	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
Provincial executive leadership	New commitments			
	Consequences for leadership of departments where audit outcomes are not improving. Accounting officers will be held personally responsible if this goal is not achieved.	Audit outcomes	New	Not yet able to assess
	Critical vacancies will be addressed within the available budgets, especially in key positions and areas that resulted in audit findings, such as PDOs and SCM.	HR	New	Not yet able to assess
	The risk of IT fraud will be mitigated by the implementation of a system that will restrict unauthorised access.	IT	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Provincial executive leadership	The strengthened internal audit unit to communicate their findings in a timely manner. Departments to implement corrective action to ensure these findings do not result in limitations/ misstatements that will lead to audit findings.	Internal audit	New	Not yet able to assess
	CFOs to develop a strategy/ tool to address the high number of misstatements on disclosure notes. Progress to be reported at every second HoDs forum.	Financial management	New	Not yet able to assess
	Deadlines on action plans need to be structured in such a way that progress can be confirmed by PT and Internal Audit.	Action plans	New	Not yet able to assess
Members of Provincial Executive Councils ('MECs')	Initiatives to improve audit outcomes			
	Formation of two committees (OPCA and TROIKA) to enhance oversight in the province. The Premier, MEC: Finance and MEC: COGHSTA are the members of this committee	Oversight	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 Councils ('MECs')	Prior year commitments			
	Procuring departments (Health and Education) would conclude cooperation agreements with Roads and Public Works in terms of which they would be more closely involved in procurement processes to prevent non-compliance with SCM policies and regulations.	SCM	In progress	No impact
	The MEC: Finance undertook to ensure that any department that had regressed (in audit outcomes) would be called to account by Exco and the same would apply to the departments whose financial statements are submitted late for audit purposes.	Financial management	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
Members of Provincial Executive Councils ('MECs')	MECs acknowledged that disclosure notes were not only the responsibility of the CFOs and pledged to ensure that all directorates within the departments would work jointly towards clean reports	Financial management	In progress	No impact
	The MEC for Health will appoint regional financial managers to deal with accruals while capturing will be done in Kimberley bi-monthly. A records manager will also be appointed to deal with disclaimer issues.	Financial management	In progress	Limited impact
	The Premier and MEC: Finance undertook to address all IT issues affecting departments in the province and the Director-General (DG) would be facilitating the solution	IT	In progress	Limited impact
	MECs will address the vacancies in key positions and the deficiencies in records management systems	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 Councils ('MECs')	New commitments			
	The MEC: Health committed to reshuffle staff in the Finance and SCM unit to ensure better productivity in these units	HR	New	Not yet able to assess
	The MEC: Health committed to ensure that the CFO position is filled by a person that is sufficiently skilled to address the issues the department is experiencing.	HR	New	Not yet able to assess
	The MEC: Roads and Public Works to address issues raised by the auditors pertaining to immovable assets	Financial management	New	Not yet able to assess
	The Premier committed to form a task team consisting of experienced employees from the Office of the Premier and Provincial Treasury to assist Health in implementing a recovery plan that will focus on issues raised during the 2011-12 external audit.	Financial management	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
Provincial Treasury	Initiatives to improve audit outcomes			
	The Office of the PAG will distribute all SCM practice notes issued by National Treasury to all CFOs through the CFO Forum so that all practice notes are implemented to avoid dissemination challenges experienced around the SBD4 (suppliers declaration of interest) practice note.	SCM		No impact
	Provincial Treasury will review annual financial statements before submissions in future.	Quality of AFS		No impact
	Prior year commitments			
All vacant HOD positions where there are acting HoDs, i.e. Health, COGHSTA and Education, will be filled with permanent appointments as a matter of urgency.	HR	Complete	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
Provincial Treasury	MECs acknowledged that disclosure notes were not only the responsibility of the CFOs and they pledged to ensure that all directorates within the departments would work jointly towards clean reports.	Quality of AFS	Not implemented	No impact
	The chief internal auditor will be appointed and report directly to the audit committee. All appointments into the four vacant internal audit positions will be completed shortly.	HR	In progress	No impact
	The audit committees will increase their sittings e.g. monthly for the rest of the financial year, to meet at least 4 times in the financial year and will review the scope of the internal audit and monitor their work.	Governance	In progress	Limited impact
	New commitments			
Incorporated as part of provincial executive leadership's commitments			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 outcomes				
Provincial Public Accounts	The oversight responsibility of the Standing Committee on Public Accounts (SCOPA) and Portfolio Committees (PCs) will extend beyond the review of annual reports. They will also monitor the departments' implementation of action plans.	Oversight	Not implemented	No impact
	Follow up on the Premier's commitments regarding the drive for clean administration for improved audit outcomes.	Monitoring	In progress	No impact
	Obtain bi-monthly progress reports from the MECs on the issues raised by the AGSA.	Monitoring	Not implemented	No impact
	Make unannounced visits to departments and political heads to monitor administration.	Monitoring	Not implemented	No impact
	Liaise with MECs and endeavour to meet them on a monthly basis.	Oversight	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	
Provincial Public Accounts	Hold a strategic session with the AGSA in the first quarter of the 2012 calendar year.	Oversight	Not implemented	No impact	
	Hold quarterly meetings with the AGSA to provide feedback on the legislature commitments regarding the departments and public entities.	Oversight	Not implemented	No impact	
	Prior year commitments				
	Identify short-term and longer-term issues to be addressed in the drive for clean administration for improved audit outcomes.	Oversight	Not implemented	No impact	
	Invite the AGSA to SCOPA and /or Portfolio Committee meetings at least once a month.	Co-operation	In progress	No impact	
	New commitments				
None					
Provincial Portfolio Committees	Initiatives to improve audit outcomes				
	Call all departments on a quarterly basis to report on progress made on AGSA's findings and SCOPA resolutions.	Accountability	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
Provincial Portfolio Committees	Prior year commitments			
	None			
	New commitments			
	None			

Predetermined objectives

A commitment was made that an information-sharing session on best practices in performance reporting against predetermined objectives would be held for all provinces. This commitment was honoured, but did not have the intended impact as evident from the increase in the number of departments with PDO findings from 54% in 2010-11 to 69% in 2011-12.

All six (2010-11: two or 67%) public entities that are required by legislation to report performance against predetermined objectives had material findings. The provincial executive leadership did not make any commitments in this regard and a new approach to address PDO findings needs to be formulated. This approach should include the public entities in the province.

Supply chain management

The commitment made by the provincial leadership that the procuring departments (Health and Education) would conclude cooperation agreements with Roads and Public Works in terms of which they would be more closely involved in procurement processes to prevent non-compliance with SCM policies and regulations, was not honoured. This is evidenced by the fact that Health and Education again incurred irregular expenditure as a result of the agency function performed by Roads and Public Works. It should be noted that irregular expenditure for the province increased by 77%, from R1,3 billion in 2010-11 to R2,4 billion in 2011-12.

Financial management/ Material misstatement

Members of the Executive Council (MECs) acknowledged that disclosure notes were not the sole responsibility of the CFOs and undertook to ensure that all directorates within the departments would work jointly towards clean reports.

Only one (8%) department and no public entities had no material misstatements in their financial statements submitted for audit. As in the past, most audit adjustments required were in respect of disclosure notes, indicating that this undertaking did not have an impact on the quality of disclosure notes included in the annual financial statements.

Human resource management

A commitment was made that a statement would be issued to the effect that MECs would address the vacancies in HoD positions and appoint a chief internal auditor. Vacancies in other positions in the internal audit unit were also to be addressed.

The filling of the three vacant HoD positions had limited impact on audit outcomes, with only CoGHSTA recording an improvement in their audit outcome.

Subsequent to year-end, the chief internal auditor position was filled and external audit firms were contracted in to address vacancies in this unit.

Information technology controls

Based on the audit outcomes of IT in the province, it is evident that adequate progress had not been made to address the findings raised during the prior year. The commitment to address IT findings was not honoured in that a detailed action plan was not prepared; therefore actions to address IT findings did not materialise.

Governance structures

The three audit committees were only established in December 2011 and therefore did not meet four times during the financial year. Due to their late establishment, the audit committees did not have a notable impact on the audit outcomes.

As mentioned in the HR section, vacancies in the internal audit unit were only addressed subsequent to year-end.

4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

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

Table 28: Status of implementation of public accounts committee resolutions

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	PDO	Compliance	Other
Departments								
Office of the Premier	11	2	5	4			●	●
Roads and Public Works	7		6	1	●		●	
Economic Development and Tourism	4	2	2				●	●
Social Development	8	4	3	1	●		●	●
Cooperative Governance, Human Settlements & Traditional Affairs	9	3	6		●	●	●	
Sport, Arts and Culture	10	3	7		●		●	●
Environment and Nature Conservation	6	3	3		●		●	
Health	12		4	8	●	●	●	●
Transport, Safety and Liaison	6		6		●	●	●	
Provincial legislature	2			2	●		●	
Provincial treasury	7		7		●		●	●
Agriculture, Land Reform and Rural Development	10	2	6	2	●	●	●	●
Education	8	2	6		●		●	
Total	100	21	61	18	85%	31%	100%	54%

As at 31 March 2012, only 18 resolutions out of a total of 89 had been implemented, while 54 were in progress and 17 were not actioned.

The efficient and effective implementation of resolutions has not been evaluated and will only be followed up during the next audit cycle.

4.3 AGSA INITIATIVES TO ENCOURAGE CLEAN AUDITS

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

The AGSA continued to enhance the visibility of its leadership and to implement the above initiatives during the past year, but more emphasis was placed on effective monitoring and oversight and the need to achieve and sustain clean administration.

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

Table 29: Impact of AGSA interactions

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Departments						
Agriculture, Land Reform and Rural Development	3	Qualified	Financially unqualified with findings	Regressed	Unchanged	Improved
Economic Development and Tourism	1	Qualified	Financially unqualified with findings	Regressed	Unchanged	Regressed
Education	1	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Health	4	Disclaimer	Disclaimer	Improved	Unchanged	Unchanged
Office of the Premier	1	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Remain with no findings

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Provincial legislature	2	Qualified	Financially unqualified with findings	Regressed	Regressed	Unchanged
Provincial treasury	0	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Regressed
Transport, Safety and Liaison	3	Qualified	Qualified	Improved	Unchanged	Unchanged
Social Development	2	Financially unqualified with findings	Financially unqualified with findings	Remain no misstatement	Unchanged	Remain with no findings
Sport, Arts and Culture	2	Qualified	Qualified	Unchanged	Unchanged	Remain with no findings
Environment and Nature Conservation	2	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Regressed
Roads and Public Works	4	Qualified	Financially unqualified with findings	Regressed	Unchanged	Unchanged
COGHSTA	3	Financially unqualified with findings	Qualified	Improved	Unchanged	Unchanged

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Public entities						
Northern Cape Housing Fund	3	Qualified	Disclaimer	Improved	n/a	n/a
McGregor Museum	2	Qualified	Qualified	Regressed	n/a	n/a
Northern Cape Arts and Culture Council	0	Audit not finalised at legislated date	Audit not finalised at legislated date	n/a	n/a	n/a
Northern Cape Premier Education Trust Fund	0	Qualified	Qualified	Improved	n/a	n/a
Northern Cape Tourism Authority	1	Financially unqualified with findings	Financially unqualified with findings	Regressed	Improved	Regressed
Northern Cape Fleet Management	4	Adverse	Disclaimer	Improved	Unchanged	Regressed
Northern Cape Economic Development, Trade and Investment Promotion Agency	2	Financially unqualified with findings	Qualified	Improved	Unchanged	Unchanged
Kalahari Kid Corporation	2	Qualified	New	New audit	New audit	New audit
Northern Cape Political Party Fund	0	Audit not finalised at legislated date	Audit not finalised at legislated date	n/a	n/a	n/a

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Ngwao Boswa Kapa Bokone	0	Audit not finalised at legislated date	Audit not finalised at legislated date	n/a	n/a	n/a
Northern Cape Gambling Board	0	Financially unqualified with findings	New	New audit	New audit	New audit
Northern Cape Liquor Board	0	Qualified	New	New audit	New audit	New audit

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

As can be seen from the table, the rate of interactions was fairly low, considering the fact that MECs were invited to attend at least the four quarterly key control discussions. In instances where specific and more serious issues were identified, the MECs were also invited to attend these meetings. The aim of these interactions was to highlight areas requiring the intervention of executive authorities to improve or, at the very least, maintain the audit outcomes of departments and entities.

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

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

Table 30: The AGSA's key initiatives to encourage clean audits

Nature	Outline of AGSA initiatives
Interactions with the political and administrative leadership	<p>Quarterly feedback to TROIKA (the premier, director-general, MEC Finance, the provincial accountant-general and HoD Finance) on the AGSA's assessment of key control discussions.</p> <p>Ad hoc interaction with the provincial accountant-general and HoD Finance on accounting issues and emerging risks.</p> <p>Quarterly feedback to the speaker of the provincial legislature on the AGSA's assessment of key control discussions.</p> <p>Emphasised to auditee leadership the importance of reporting on performance against predetermined objectives.</p> <p>Enhanced visibility by engaging with all role players that can influence clean administration through quarterly key control visits.</p> <p>Conduct an annual audit and produce a management report, audit report and general report that details the findings, root causes and suggested action.</p> <p>Weekly audit steering committee meetings during the audit cycle to track audit and discuss findings</p> <p>Regular engagements with oversight and coordinating departments and bodies to share emerging risks and recommendations for mitigation, as well as the role we can play to assist.</p> <p>Encouraged auditee leadership to set the tone at the top by ensuring that the AGSA's recommendations are implemented.</p>

Nature	Outline of AGSA initiatives
Stakeholder interactions and audit outcome roadshows	<p>Audit outcome briefing meetings with the HoD, CFO and MEC of individual departments.</p> <p>Audit outcome briefing meetings with TROIKA.</p> <p>Audit outcome briefing meetings with the speaker of the provincial legislature, the chairperson of SCOPA, the chair of chairs and the chairpersons of portfolio committees and SCOPA.</p> <p>Briefing to all MECs, the premier, director-general, HoDs, CFOs, members of the provincial legislature and chairpersons of audit committees and internal audit.</p>
Quarterly interactions on status of key controls	<p>Quarterly assessment of key controls and discussion with the accounting officer.</p> <p>Shared consolidated picture with those charged with governance and oversight, such as the OPCA, TROIKA, the legislature, as well as the transversal risk identified.</p> <p>Quarterly interactions with oversight and coordinating departments and bodies to share emerging risks and recommendations for mitigation, as well as the role we can play to assist.</p>
Promoting understanding of PDO requirements	<p>Encourage departments which are doing better to share best practices with others.</p>
Involvement in forums and meetings related to provincial government financial affairs	<p>Interact on a regular basis with the provincial accountant-general by sharing insights and providing key inputs.</p> <p>Participate on a monthly basis in OPCA forum.</p> <p>Attend and make an input at CFO and audit committee forums, only when invited.</p>

Nature	Outline of AGSA initiatives
Collaboration with National Treasury and the Accounting Standards Board	The AGSA does collaborate with these institutions, especially on technical issues, a recent example being “accounting for leases”.
Promoting an understanding of IT risks and controls	<p>IT risks and controls are specifically discussed with the accounting officer during key control discussions.</p> <p>The AGSA makes a presentation of province-wide IT findings through ISA on ad hoc basis.</p> <p>IT risks and controls are discussed on a quarterly basis with TROIKA, as IT forms part of key focus areas.</p>
Assisting with fraud risk assessment	During quarterly key control discussions with the accounting officer, the AGSA strongly emphasises governance issues, such as internal audit and audit committees and, more importantly, the risk management strategy and fraud detection plan.
Contributing to the effectiveness of oversight structures	<p>The AGSA participates in an advisory capacity in monthly OPCA meetings.</p> <p>During every key control discussion, the AGSA raises the establishment/effectiveness of governance structures and, now that they are in place, provides input on audit committees.</p> <p>The AGSA participates in all activities relating to oversight in the province, e.g. SCOPA, portfolio committees and the National Council of Provinces.</p>

SECTION 5

EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

5.2 FINANCIAL HEALTH INDICATORS



AUDITOR - GENERAL
SOUTH AFRICA

SECTION 5

EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

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

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on the provincial 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 government auditees in all provinces	
<p>Accounting matters</p>	<p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and consequently no audit findings were raised in the auditor's reports in this regard.</p> <p>A review of the departments' inventory management processes revealed the following:</p> <p>Most departments are not yet ready to disclose inventory in their annual financial statements since inventory policies and a system of internal control pertaining to inventory are still lacking. Such systems will be especially important in maintaining control over inventory in the regional offices. There also seems to be a lack of understanding and skills in certain departments regarding the valuation of and accounting for inventory.</p> <p>The departments that appear to be ready to disclose inventory can attribute this largely to the fact that they have an immaterial amount of inventory on hand and a limited number of locations where inventory is kept.</p> <p>A department that will be impacted significantly by the inclusion of inventory in their annual financial statements is the Department of Health, which stocks significant amounts of medical supplies in the hospitals and clinics throughout the province.</p>

Area of change		Summary of expected changes
Predetermined objectives	Implementation of the <i>Framework for strategic plans and annual performance plans</i>	In terms of the <i>Framework for strategic plans and annual performance plans</i> 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 predetermined objectives (for the 2012-13 PFMA audit cycle and going forward) will thus be conducted bearing in mind the principles of the <i>Framework for strategic plans and annual performance plans</i> in addition to the applicable laws and regulations and the <i>Framework for managing programme performance information</i> (as per the AG Directive) for the said auditees.

Area of change		Summary of expected changes
Matters specific to the Northern Cape		
Accounting matters	Leases	The Northern Cape Fleet Management Trading Entity (the Fleet) is responsible for the fleet of vehicles used by all departments in the province. This function was transferred to the Fleet during the past year. Accounting for these vehicles by both the Fleet and user departments remains a contentious issue. National Treasury granted the province approval to deviate from the financial reporting framework in the 2011-12 annual financial statements. This matter should receive urgent attention at the appropriate level to avoid the possibility of qualifications during the next audit cycle.
	Immovable assets	The Department of Roads and Public Works received a qualification on the completeness of their immovable assets for the past year. This department is the custodian of immovable assets in the province, and therefore needs to ensure that controls around immovable assets are developed and implemented. The lack of controls over immovable assets impacted other departments in a negative way. This could have been avoided had the Department of Roads and Public Works effectively fulfilled their custodian role and implemented the relevant controls.

5.2 FINANCIAL HEALTH INDICATORS

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

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

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

5.2.1 Budget, asset and liability management and conditional grants

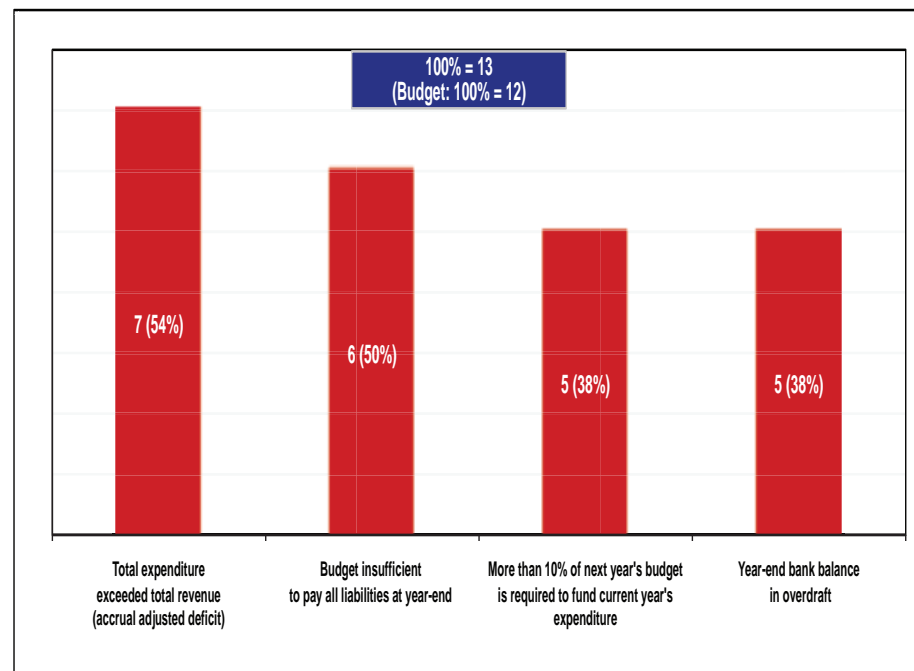
The analysis depicted below would in the private sector be indicators of a possible going concern problem at an entity, i.e. that the entity would not have sufficient funds to continue in business. It is, however, uncommon for the operational existence of a public sector auditee to cease as a result of an inability to finance its operations. In these instances additional funding from central government is normally required to enable the auditee to continue its service delivery responsibility.

The following figure shows the number of departments that incurred deficits in the current year, had insufficient budgets to pay liabilities, require more than 10% of the next year's budget to fund the current year's operations and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments, the amounts in the annual financial statements were adjusted to the accrual basis of accounting.

The spending of eight (62%) departments was within the approved budget.

However, the annual financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the financial statements and used to assess actual expenditure vs. budget is merely the amount 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 30: Budget management, deficits and overdrafts - departments



After adjusting for accruals, seven (54%) departments no longer achieved a surplus for the year. Instead their total revenue was exceeded by total expenditure. The impact thereof would be that had these departments already been on the accrual basis of accounting, they would also have incurred unauthorised expenditure. This situation is expected to be less common once departments have moved over to the accrual basis of accounting.

The above graph indicates that five (38%) departments do not have all their

budgeted resources fully available to fund the coming year's expenditure. Had the departments been on the accrual basis of accounting, whereby they would account for expenditure when incurred and not only when it is actually paid, many of them may well have incurred unauthorised expenditure. This situation is not ideal as it indicates that departments have actually spent more money than was allocated to them according to their budgets, although they had not paid all these expenses at year-end. Service delivery in the coming year may be negatively impacted as the available resources for service delivery have already been used to fund the activities of the current year to some extent.

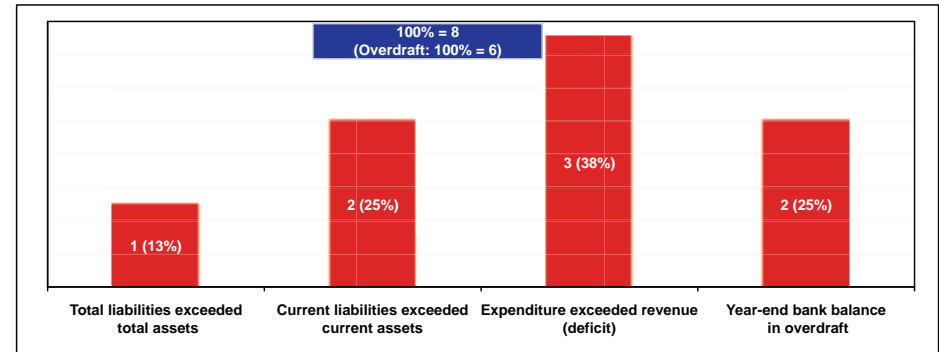
We were unable to perform the calculations for the "budget insufficient to pay all liabilities at year-end" graph above in instances where scope limitations occurred and therefore the Department of Health was excluded from this graph. The Department of Health had a scope limitation on the completeness of accruals.

It is also worth mentioning that the Department of Transport, Safety and Liaison has a mere 12% of their 2012-13 budget available for spending in the next year. This can be attributed to significant commitments on the learner transport programme.

To improve this situation, departments have to move to the accrual basis of accounting, where they would account for expenditure when incurred and not when it is actually paid. In this way it will be easier to determine when they have exceeded their budgets with expenditure incurred, even though they had not actually made the payments as yet.

The year-end bank balances of five departments were in overdraft at year-end. In addition to the non-compliance with the PFMA which this overdraft represents, it is also strongly indicative of difficulties experienced by these departments in managing their daily cash flows. The way forward would be to improve their planning for and control over daily cash flows so as not to go into overdraft.

Figure 31: Funding of continued operations - public entities



One public entity was found to be technically insolvent at year-end, with their total liabilities exceeding their total assets.

Two public entities are not liquid as at year-end their current assets were not sufficient to settle their current liabilities.

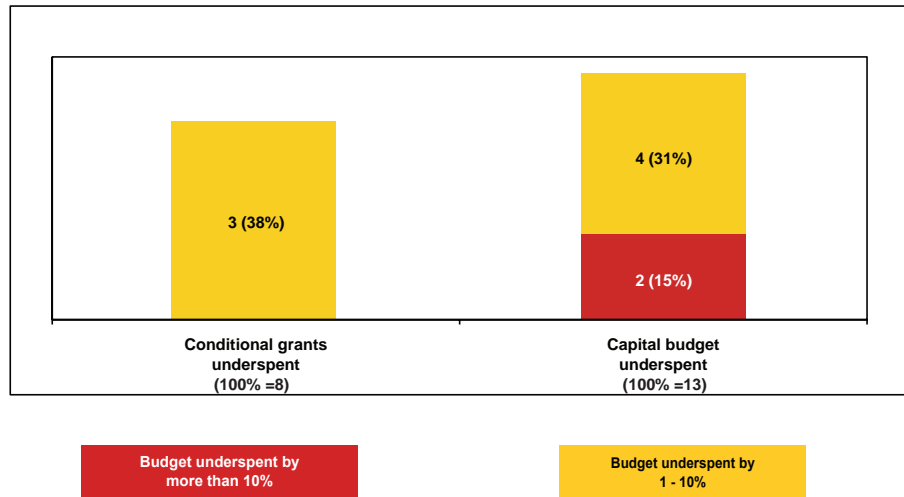
Additionally, three entities incurred a deficit for the year under review. Two entities' bank balances were in overdraft at year-end.

Considering all of the above, it is doubtful whether the province can be considered financially healthy. This is, however, a situation which can be remedied through effective management of revenue, expenditure, assets and liabilities, as well as a more rigorous budgeting process. Although the above information is not apparent from the annual financial statements of the public entities, the information used in the calculations is available to the users of the financial statements. The annual financial statements of the departments, however, have to be adjusted for accruals in order for the users thereof to draw meaningful conclusions regarding their financial health. The situation depicted in the various figures above highlights the need for departments to move on to the accrual basis of accounting.

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 or utilise all their voted funds in the year, which resulted in such funds being surrendered to the revenue fund.

Figure 32: Underspending by departments



Conditional grants were received by eight departments in the province, three of which underspent on these grants. The underspending was less than 4% in all cases and is therefore not considered to be a significant problem.

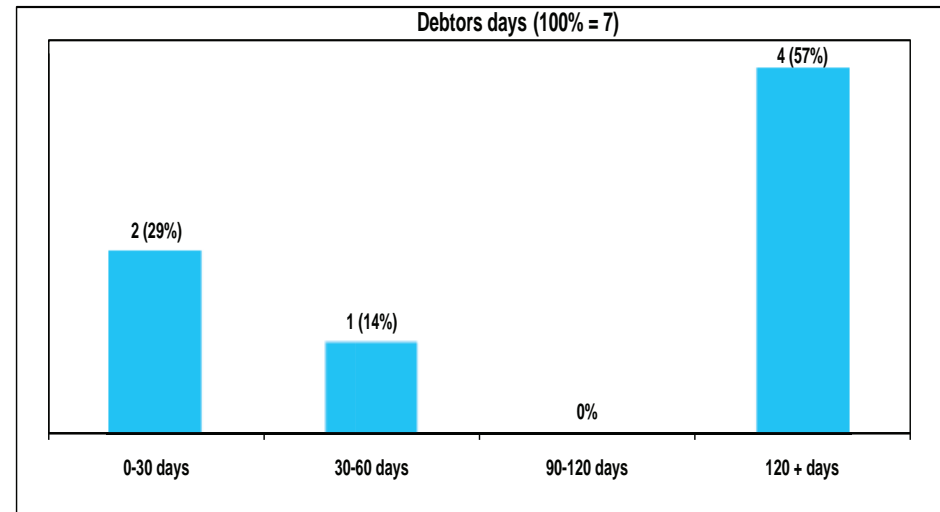
It is commendable that seven departments did not underspend on their capital budgets. However, of the six departments that did not fully utilise their capital budgets, it is of concern that CoGHSTA and the provincial treasury underspent by 49% and 35%, respectively.

This underspending can be attributed to poor implementation of planned service delivery objectives relating to capital expenditure and conditional grants. The impact thereof is that fewer people received services than originally planned. In the case of CoGHSTA, it resulted in fewer people receiving housing than the number planned by the department. The only way to improve this is by implementing better controls over the performance management system, or implementing a performance management system where no system is in place.

5.2.2 Revenue and expenditure management

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

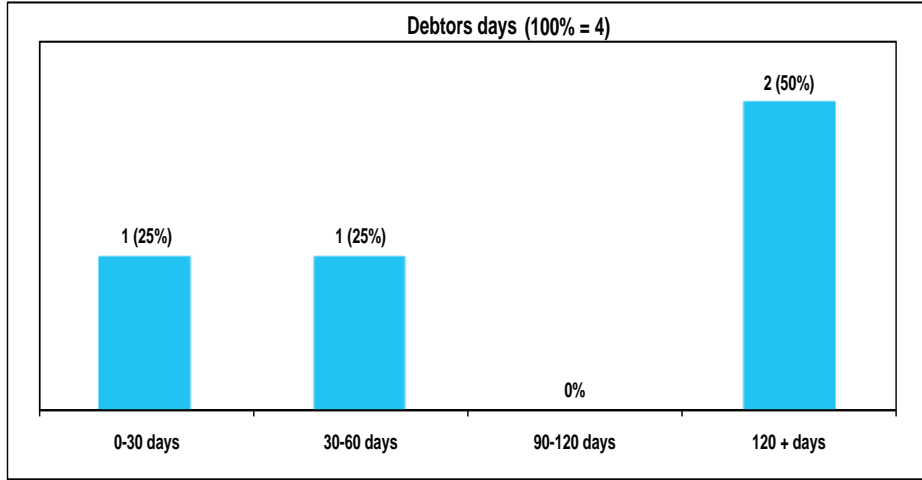
Figure 33: Departments



It is important to note that the above graph is an averaged calculation of the days taken to collect amounts due from debtors throughout the year, and therefore not an exact ageing analysis of outstanding amounts at year-end.

Only seven departments had debtors, three of which were able to collect these amounts within at least 60 days. Of the four departments included in the category of 120+ days, it is most notable that the Department of Transport, Safety and Liaison took an average of 1 100 days to collect amounts due to them. This can be attributed to vehicle licences income not being collected on a timely basis.

Figure 34: Public entities

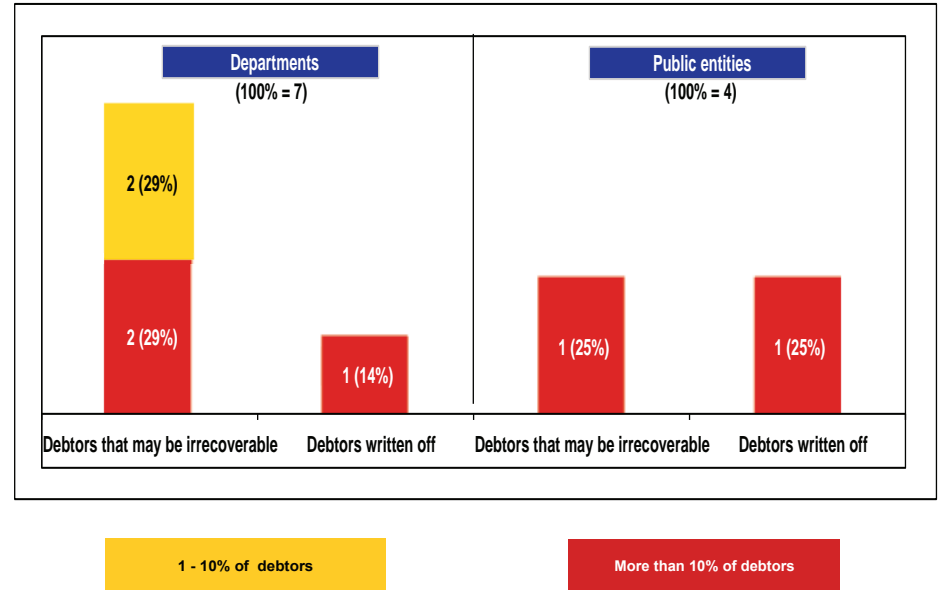


The calculation of debtors days was performed at only four public entities that had trade debtors. Included in the category of 120+ days is the Fleet, which does not pay its own suppliers as it does not have its own bank account. Payments are made by the Department of Roads and Public Works. This relates to an insignificant amount receivable from the Department of Roads and Public Works.

For both of the above graphs, the long time taken to collect debtors indicates poor controls over revenue collection, which impacts negatively on the cash flow of the department or entity. It also results in non-compliance with the PFMA as the accounting officer is not taking all reasonable steps to collect revenue due to the entity. This should be rectified by implementing a better system of internal control over debtors.

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

Figure 35: Status of state debtors



In the figure above are four departments whose debtors may be irrecoverable at year-end, the most notable of which is the Department of Health with 50% of their remaining debtors doubtful at year-end after 27% had already been written off during the past year.

The Northern Cape Tourism Authority is the only public entity which impaired their debtors, with 15% of their debtors being doubtful at year-end. The Fleet is the only entity where debtors were found to be irrecoverable, with 32% of their debtors written off during the past year.

GLOSSARY OF TERMS

ANNEXURE



AUDITOR - GENERAL
SOUTH AFRICA



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 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.

<i>Useful lives</i>	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.
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ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Number	Auditee	Province	2011-12			2010-11			Financial statement qualification areas						Findings on predetermined objectives				Findings on areas of non-compliance								
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	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, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management		
Departments																											
1	Agriculture, Land Reform and Rural Development	NC							N					N		A	A			R	R	R	R	R	R		
2	Cooperative Governance, Human Settlements and Traditional Affairs	NC							A		A				A	R	N	A		R	R	R	R	R	R		
3	Economic Development and Tourism	NC							N		N				N	N	N			N	R	R	N	N	N		
4	Education	NC							N						A	A	R			R	R	R	R	R	N		
5	Environment and Nature Conservation	NC														N				R	R	R	R	A	A		
6	Health	NC							R	R	R	R	N	R	R	R	R			R	R	R	R	R	R		
7	Office of the Premier	NC																		R	R	R	R	A			
8	Provincial Legislature	NC								N		N		N		R	R			N	R	N	A	R			
9	Provincial revenue fund	NC																									
10	Provincial treasury	NC														N				R	N	R	N	N	A		
11	Roads and Public Works	NC							N						N	R	R			R	R	R	N	R	R		

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

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

Unauthorised, irregular, and fruitless and wasteful expenditure incurred						Procurement and contract management						Drivers of internal control										Human resource management				Information technology management				Root causes												
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees and other state officials	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership					Financial and performance management					Governance			HR planning and organisation	Management of vacancies	Appointment processes	Management of leave, overtime and suspensions	IT governance	Security management	User access management	IT service management	HR capacity & productivity	Attention to key controls	Effectiveness of assurance providers							
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit												Audit committee	R	R	R	R	R	R
		↓	R10m	↓	R2m		A		R		N																								R	R	R	R				
↑	R6m	↓	R680m	↓	R11m	R	N		R	R	R																								R	R	R	R				
		↓	R53m				N	N	R		R																								R	R	R	R				
		↓	R388m	↓	R1m				R	R	R																								R	R	R	R				
		↓	R24m						R		N																								R	R	R	R				
↓	R78m	↑	R942m	↓	R22m	R	R		R	R	R	S	S	S	S	S	S	S	S	S	S	S	S												R	R	R	R				
		↓	R9m						R		R																								R	R	R	R				
	R0m	↓		↓	R1m						N																								R	R	R	R				
		↓	R55m						R		N																									R	R	R	R			
↓	R27m	↓	R77m	↓	R1m	R			R	N	R																									R	R	R	R			

Legend (Audit outcomes): Financially unqualified with no findings Financially unqualified with findings Disclaimer Audit outstanding Closed Finding

Legend (Drivers): Good Causing concern Significant control deficiency Intervention required S

Legend (Findings): Addressed New A N Repeat R

Legend (Movements): Reduction Increase Unchanged ↑ ↓

Legend (Root cause): No significant root cause A contributing root cause A major root cause Green Yellow Red

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

Number	Auditee	Province	2011-12			2010-11			Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance							
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	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, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management		
12	Social Development	NC																		N	R		N				
13	Sport, Arts and Culture	NC								R										R	R	R	A	R	R		
14	Transport, Safety and Liaison	NC								A	A	A	R	A			R	R			R	R	R	R	R		
Public entities																											
15	Northern Cape Housing Fund	NC								A	R	A		R	A												
16	Kalahari Kid Corporation	NC								N		N	N		N					N	N				N	N	
17	McGregor Museum	NC								N	N	R	N	R	N												
18	Ngwao Boswa Kapa Bokone	NC																									
19	Northern Cape Arts and Culture Council	NC																									
20	Northern Cape Economic Development, Trade and Investment Promotion Agency	NC								A		A		A	A		R	R			R	R	N	A	A	R	
21	Northern Cape Fleet Management	NC								R	R		N	R	R					R	R	N		N	N	A	
22	Northern Cape Gambling Board	NC															N	N			N	N				N	

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

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Unauthorised, irregular, and fruitless and wasteful expenditure incurred						Procurement and contract management				Drivers of internal control										Human resource management				Information technology management				Root causes											
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees and other state officials	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies					Leadership					Financial and performance management					Governance			HR planning and organisation	Management of vacancies	Appointment processes	Management of leave, overtime and suspensions	IT governance	Security management	User access management	IT service management	HR capacity & productivity	Attention to key controls	Effectiveness of assurance providers
Movement	Amount R	Movement	Amount R	Movement	Amount R						Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee	HR planning and organisation	Management of vacancies	Appointment processes	Management of leave, overtime and suspensions											
		↓	R45m				N	R		R																						R	R	R	R				
↑	R0m	↓	R10m	↓	R1m			R		R																					R	R	R	R					
↓	R2m	↓	R19m	↔	R0.1m		A	R		N																				R	R	R	R						
		↓	R5m	↑	R0.005m			R		A																													
				↓	R0.2m																																		
		↓	R1m	↓	R0.009m																																		

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

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23	Northern Cape Liquor Board	NC								N		N	N	N	N	N			N	N	N				N	
24	Northern Cape Political Party Fund	NC																								
25	Northern Cape Premier Education Trust Fund	NC							A	N		R														
26	Northern Cape Tourism Authority	NC													N				N		A	N			N	

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

