



AUDITOR - GENERAL  
SOUTH AFRICA



PFMA 2011-12

## Audit outcomes of the Gauteng province

CONSOLIDATED GENERAL REPORT  
on NATIONAL and PROVINCIAL audit outcomes



# Our reputation promise/mission

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) 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.

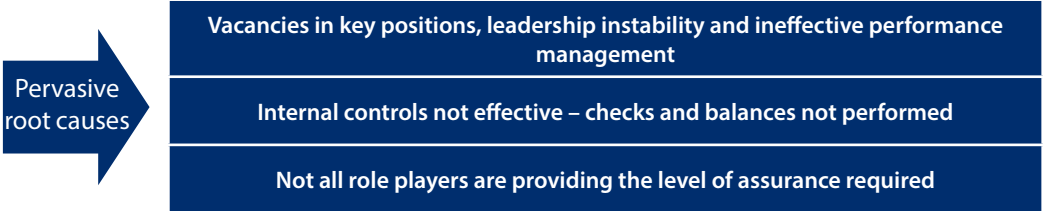
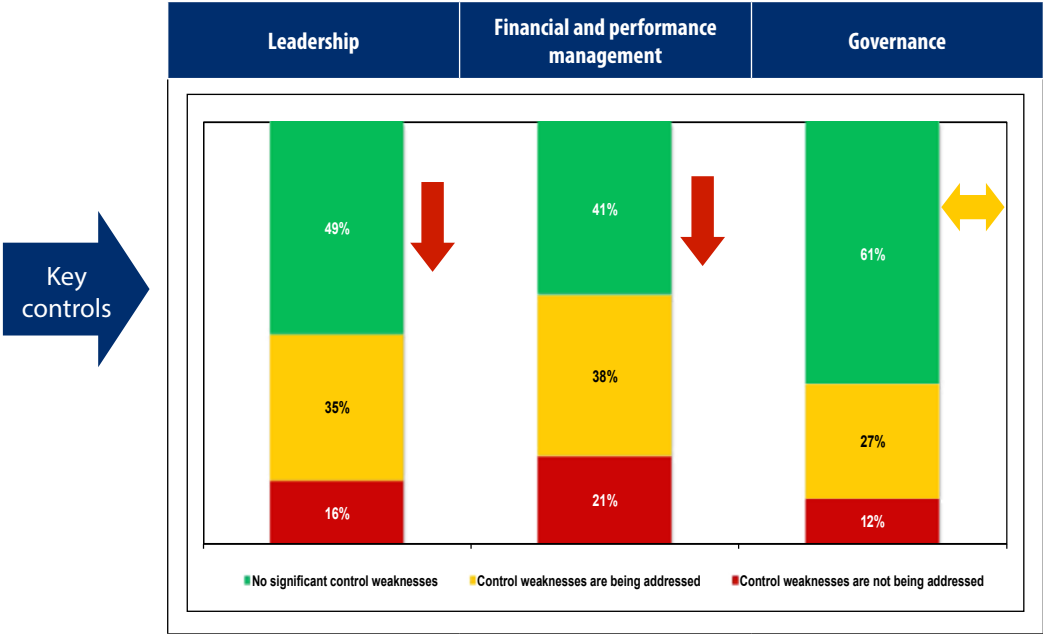
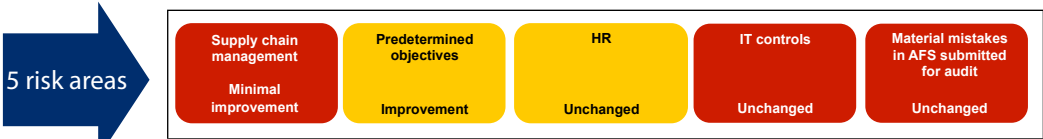
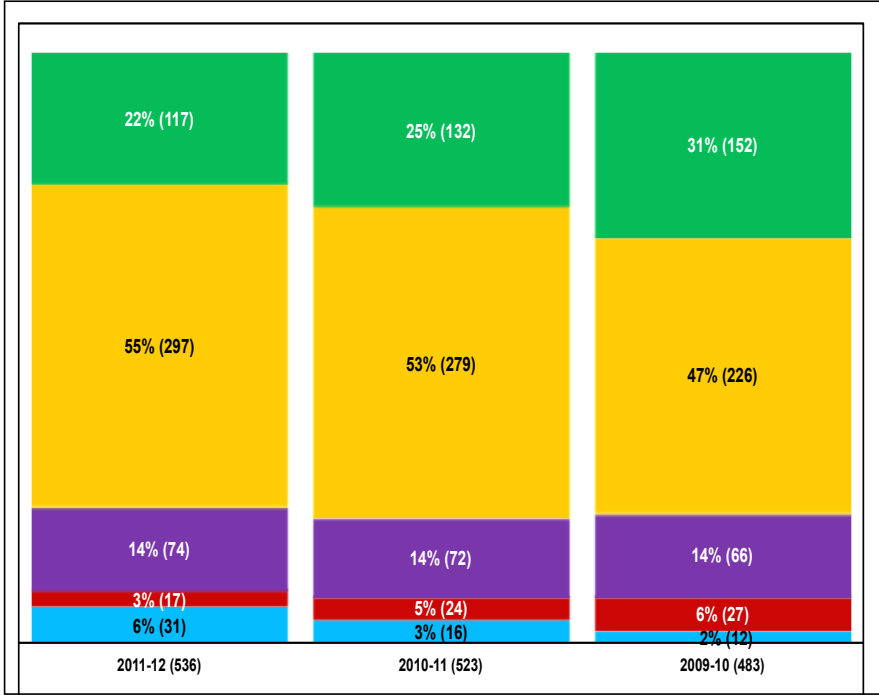




FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements

Limited progress made in addressing five key risk areas and regression in overall status of key controls





# FOREWORD

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It is a pleasure to present to Parliament my 2011-12 general report on audit outcomes of departments, legislatures, public entities and other entities in the national and provincial spheres of government.

In response to the 2010-11 audit outcomes, commitments were made by the executive and oversight bodies to intensify their efforts in bringing positive change within the administration.

Despite my expectation that these commitments would drive improvements towards clean audits, the audit outcomes for the year show a general stagnant trend, with less than a quarter of auditees obtaining clean audit opinions and 52 not able to sustain their prior year clean audit opinion. My report shows that many leaders did not own and drive these commitments, so the commitments are left to flounder until the next audit starts. In this regard, I single out two significant commitments made a year ago:

- The executive committed to meet with my office quarterly for at least an hour. About 78% of them have made time at least three times in the past year to meet and share the results of our assessment of the risks and controls and to consider the status of commitments made and make new commitments. Although the engagements were well received, only small movements in audit outcomes can be seen. This was due to frequent leadership changes resulting in disruption in the implementation of commitments, our message being ignored, or our conversation not being compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations leading to increased impact.



- Parliament and legislatures committed to improve the collaboration between their respective public accounts committees and portfolio committees. We have yet to see more concentrated efforts in this regard as an uncoordinated approach will continue to weaken the effectiveness of oversight.

Of special concern is the increase in auditees with material findings on non-compliance with legislation, bringing it to 74%. Even though I have stressed for the past three years the urgent need to address the quality of the financial statements submitted for audit and weaknesses in supply chain management, human resource management and information technology controls, there has been minimal improvement.

The usefulness and reliability of the annual performance reports continue to improve, which is gratifying. I am now able to make a clearer assessment of service delivery risks but not to the full extent necessary (as some key departments responsible for national outcomes, such as those in the health, education and human settlement sectors, continue to have material shortcomings). Based on the annual performance reports, about 42% of auditees achieved 80% or fewer of their planned service delivery targets, while some departments had significantly underspent their conditional grants and capital budgets. My report further highlights risks to the financial health of national and provincial government flowing from poor budget management, cash and debtors management of departments and the financial management of some public entities. These indicators reflect that the fiscus could be placed under further pressure if such risks are not addressed.

In this general report, I raise three areas that require corrective steps by those charged with governance to achieve improvements in the audit outcomes:

- **Vacancies in key positions** and **instability in leadership** positions affect the pace of sustainable improvements. **Ineffective performance management** is evident at some auditees, which means that officials who perform poorly are not dealt with decisively. A concerted effort is required to address the challenges in human resource capacity and productivity.

- **Effective internal controls** to prevent, detect and correct non-compliance with legislation and mistakes in the financial and performance reports are lacking. Overall the effectiveness of key controls has regressed, as they were not designed and implemented in a sustainable manner. Checks and balances for all key processes, monthly reporting and validation processes to ensure the credibility of all management information are basic controls which skilled professional should be able to implement.
- Governments should be monitored in a thorough, diligent and collaborative manner. My office only provides independent assurance on the credibility of financial and performance information and compliance with selected legislation. We are not the only **provider of assurance** to the citizens that government is delivering services in a responsible and accountable manner. The monitoring functions vested in **senior management, accounting officers, internal audit, audit committees and executive authorities** should be better exercised so that audit outcomes and service delivery issues are dealt with through self-monitoring, while audit provides an external validation. The **treasuries, offices of the premiers, public service administration and other coordinating/monitoring institutions** should fulfil their role envisaged in legislation to guide, support, coordinate and monitor government. The **legislatures and Parliament** should be scrupulous and courageous in performing their oversight function in order to make an impact on clean administration. My assessment (detailed in this report) is that not all of these role players are providing the level of assurance required to create the momentum towards improve audit outcomes.

A common reaction to the audit outcomes is the question posed by many about the need for officials to be accountable, and for there to be consequences for poor performance, misappropriation of state resources and fraud. In response, we have highlighted in a separate booklet, the range of legislation at the government's disposal that enables remedies to be applied where there has been transgression. These must be used where necessary to reverse the culture of "business-as-usual". It is my assessment that the full power of the law is yet to be activated, leading to commentators asking "What can be done?" or saying "There are no consequences".

Highlighting these remedies provides a starting point for our responsible leaders and the relevant legislatures and departments to take action. All parties have to play their part.

Although progress towards clean audits is slow, I am encouraged by examples of commitments by leaders and officials which translated into improved audit outcomes and I am confident similar results can be achieved by all auditees. In conjunction with various key role players, my office has provided input towards the development of solutions to the challenges highlighted in this report, and will in future share assessments of progress in joint sessions with the Head of Government Business and Parliament and through similar engagements in the provinces.

It is through all our efforts and the work of auditors that we will contribute towards strengthening our democracy through auditing.

*Auditor-General*

**Auditor-General**  
**Pretoria**  
**March 2013**




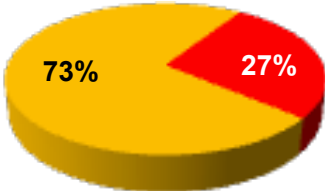


HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES



# HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES

This section of the general report is a high-level summary of the 2011-12 audit outcomes of the nine provinces. The table below provides a summary of the progress made by provinces towards obtaining clean audit reports.

Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	Eastern Cape	None of the 26 auditees reported on received clean audits. The overall audit outcomes in the province show a marginal regression (three auditees), with only one auditee improving from qualified in 2010-11 to financially unqualified with findings.	↔ 1%		↔ 72%	↔ 100%

Legend (Movements)

Improvement

↑



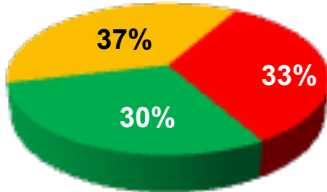

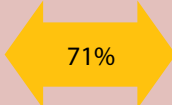

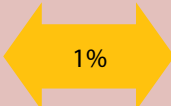
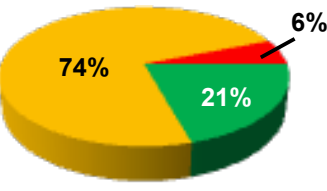
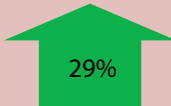

Unchanged

↔

Regression

↓



Provinces	Summary of movement in audit outcomes	Progress towards financially unqualified			
		Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	<b>Free State</b>  <b>Clean audit reports:</b> Office of the Premier, provincial legislature, the provincial treasury, James Robertson Bursary Fund, Nature Conservation Trust Fund, Private Patients Fund Trust, Recreation Fund Trust and Thomas Robertson Bursary Fund  One department successfully dealt with its prior year qualification and moved to an unqualified opinion with findings. There were two further improvements, where prior year qualifications on assets were addressed to move to unqualified opinions with findings. The only regression for the province was the Department of Human Settlements that received a qualified audit opinion.	 8%		 50%	 71%
	<b>Gauteng</b>  <b>Clean audit reports:</b> Cradle of Humankind Trading Entity, Dinokeng World Heritage Trading Entity, Gauteng Partnership Fund, Greater Newtown Development Company, AIDC Development Centre, The Innovation Hub and the Industrial Development Zone  The overall audit outcomes have regressed in the current year (eight auditees), with only six auditees improving - five being financially unqualified with findings in 2010-11 and one auditee that was qualified. Seven auditees that received clean audit opinions in the previous year regressed to financially unqualified with findings.	 1%		 29%	 79%

Legend (Movements)

Improvement


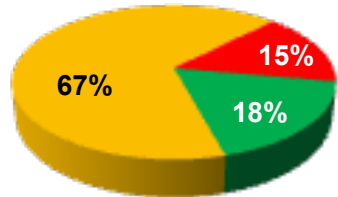

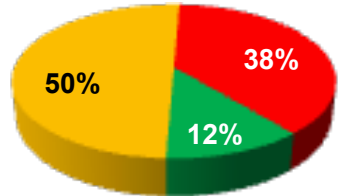


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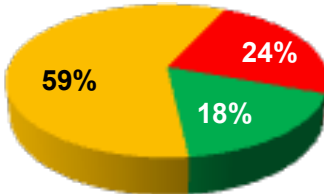
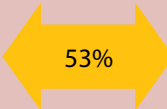
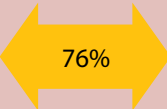


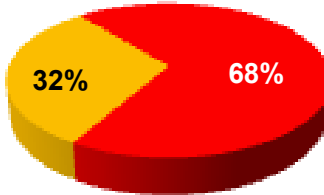

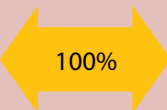


Regression





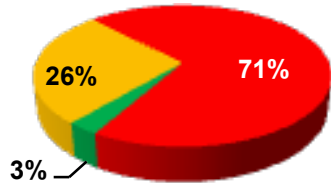
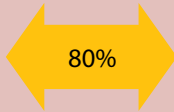
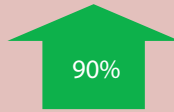

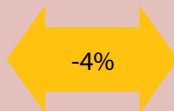
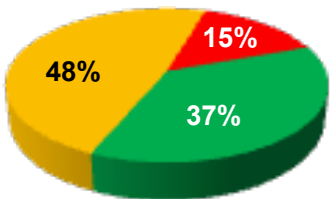
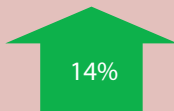
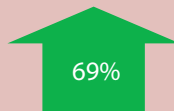
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			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	<b>KwaZulu-Natal</b>	<p><b>Clean audit reports:</b> Arts and Culture, the provincial treasury, Amafa Akwazulu-Natali, KZN Political Parties' Fund, Natal Joint Municipal Pension Fund (Provident), Natal Joint Municipal Pension Fund (Retirement) and the Natal Joint Municipal Pension Fund (Superannuation)</p> <p>The overall audit outcomes have stagnated in the current year, with only two auditees improving. Five regressed, with three departments regressing to financially unqualified with findings in 2010-11 after receiving a clean audit report in the previous year.</p>	3%		31%	71%
	<b>Limpopo</b>	<p><b>Clean audit reports:</b> Limpopo Housing Board, Mutale Agric Estate, Centennial Trading Company 145 and the Mukumbani Tea Estate</p> <p>The results reflect seven improvements while there were nine regressions. The provincial administration is moving further away from the desired clean audit outcomes. Five departments of the Limpopo provincial government (including the Provincial Treasury) were placed under administration during the financial year under review.</p>	7%		55%	89%

Legend (Movements)	Improvement	↑	Unchanged	↔	Regression	↓
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Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	<b>Mpumalanga</b>	<p><b>Clean audit reports:</b> Finance, Office of the Premier and the Mpumalanga Gambling Board</p> <p>Overall there was a regression in the audit outcomes. Only one department improved, while three departments regressed. The provincial legislature regressed from being clean in 2010-11 to qualified in the year under review.</p>	13% 		53% 	76% 
	<b>Northern Cape</b>	<p>None of the 22 audits reported on received clean audit reports. There was an overall regression in the audit outcomes. Two auditees progressed to financially unqualified audits with findings on predetermined objectives and/or compliance, while one auditee progressed to a qualified opinion. Four auditees regressed from financially unqualified to qualified.</p>	8% 		65% 	100% 

Legend (Movements)   Improvement    Unchanged    Regression 

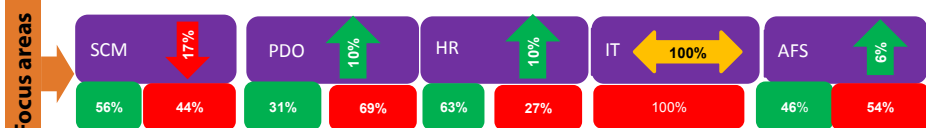
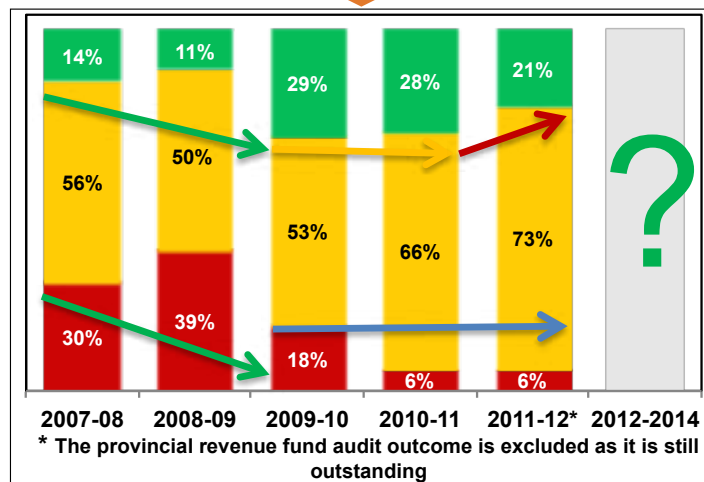


Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	North West	<p><b>Clean audit reports:</b> North West Gambling Board</p> <p>One department regressed from being financially unqualified to qualified and one public entity regressed from qualified to a disclaimer. Qualified or disclaimed audits represent in total 91% of the provincial budget, including all five of the largest departments. The audits of 14 auditees have not yet been finalised.</p>	12% 		80% 	90% 
	Western Cape	<p><b>Clean audit reports:</b> Environmental Affairs and Development Planning, Community Safety, Destination Marketing Organisation, provincial treasury, provincial legislature, Cape Medical Depot, Western Cape Gambling and Racing Board, The Heritage Western Cape, Western Cape Cultural Commission and the Western Cape Language Committee</p> <p>Eight auditees progressed to clean audits while five auditees regressed. Only two auditees (Education and the South Africa Heritage Resources Agency) were financially qualified in the year under review.</p>	-4% 		14% 	69% 

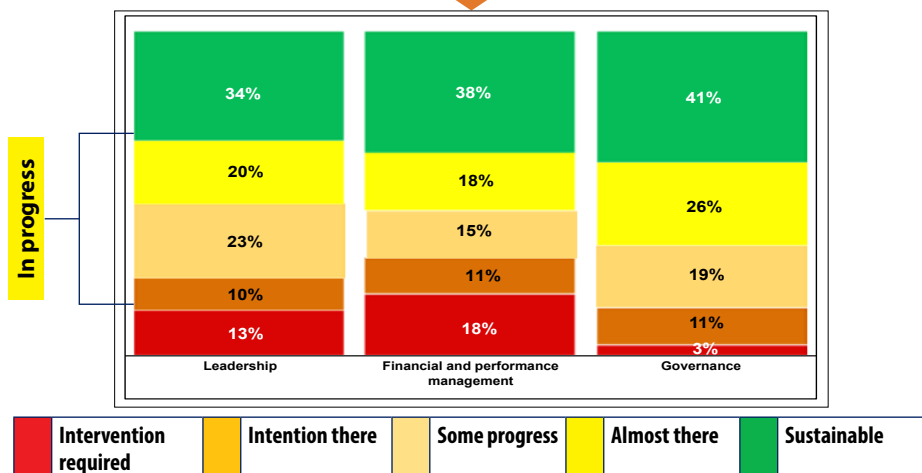
Legend (Movements)	Improvement 	Unchanged 	Regression 
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Stagnant nature of outcomes in the province is of great concern. Improvement is slow and nullified by regression



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



## First level of assurance: Management assurance

### First level of assurance: Management assurance

Timeous filling of vacancies with right skills

Effective performance management

Maintaining leadership stability

### Attention to key controls

Effective operation of daily controls (checks and balances)

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

Validating credibility of management information

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

### Effectiveness of assurance providers

Management to implement action plans and report thereon

Effective monitoring of commitments by oversight

Strong independent assurance



## AUDIT OUTCOMES OF GAUTENG PROVINCE

The audit outcomes for Gauteng have regressed in the current year. The province has achieved seven clean audit outcomes for public entities compared to nine clean audit outcomes in 2010-11. This included two departments. Seventy-three per cent (73%) of audit outcomes are financially unqualified with findings on compliance with laws and regulations and/or predetermined objectives.

The drivers of **internal control** for auditees in the province showed an overall regression. The audit outcomes of 45% of the auditees would have been qualified had the **adjustments to the financial statements** not been effected as part of the audit process, which is not sustainable. Other non-compliance with laws and regulations included **contravention of SCM regulations** and payments not being made within 30 days. Although there were no adverse or disclaimers of opinion, the Department of Health and one entity received a qualified audit opinion.

There has, however, been a marginal improvement in addressing prior year findings on **PDOs**, the most prominent findings being that reported performance against predetermined objectives is not useful and/or not reliable. In order to improve this situation Internal audit and Audit committees should intensify their review of the annual performance reports. Overall, there has been a reduction in the number of findings on **HR management**; however, a greater effort is still needed to further eradicate these findings since human resources are the driving force of the activities and control processes. No progress was made in addressing exposure in the **IT** environment reported at auditees in the prior year.

Following the 2010-11 audit outcomes, the provincial leadership committed to the following: 1) the preparation of complete monthly financial statements, accompanied by a review and validation process; 2) the coordination of guidance and support on IT, SCM, PDOs and HR management by the provincial treasury; 3) the extension of the quarterly key control discussions to include portfolio committee chairpersons and Internal audit; and 4) the continued leadership influence to ensure approval of the organisational structures to ensure that critical positions are filled timeously.

Other than the implementation of PDO commitments, which yielded an

improved outcome, the provincial executive commitments made and action plans formulated in the prior year were not fully implemented, notably the preparation of monthly financial statements and limited progress on the IT, SCM and HR management commitments. Not all MECs took ownership of quarterly key controls assessments through engagement with the audit and portfolio committee chairpersons. Furthermore, not all the quarterly key control discussions between the AGSA and MECs took place due to unavailability of some MECs. Although the provincial legislature continued to enhance coordination between the provincial public accounts committee and the portfolio committees during the year, the impact on the outcomes should be apparent in the coming financial year.

The political and administrative leadership must take ownership and prioritise the implementation of commitments. Reliable structures and systems should be put in place to enable the preparation of a set of accurate monthly financial statements, reports on predetermined objectives and a compliance checklist as a mechanism to curb instances of non-compliance. The provincial leadership should ensure that positions are filled with suitably skilled staff whose performance is adequately monitored and that there are consequences for transgressions and poor performance.

The AGSA will continue to interact on a quarterly basis with the provincial executive, Audit committees and portfolio committees on the implementation and effectiveness of key controls and progress made in implementing commitments to achieve clean administration.

# overview of full report



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