



AUDITOR - GENERAL  
SOUTH AFRICA



PFMA 2011-12

## Audit outcomes of the Northern Cape province

CONSOLIDATED GENERAL REPORT  
on NATIONAL and PROVINCIAL audit outcomes



# Our reputation promise/mission

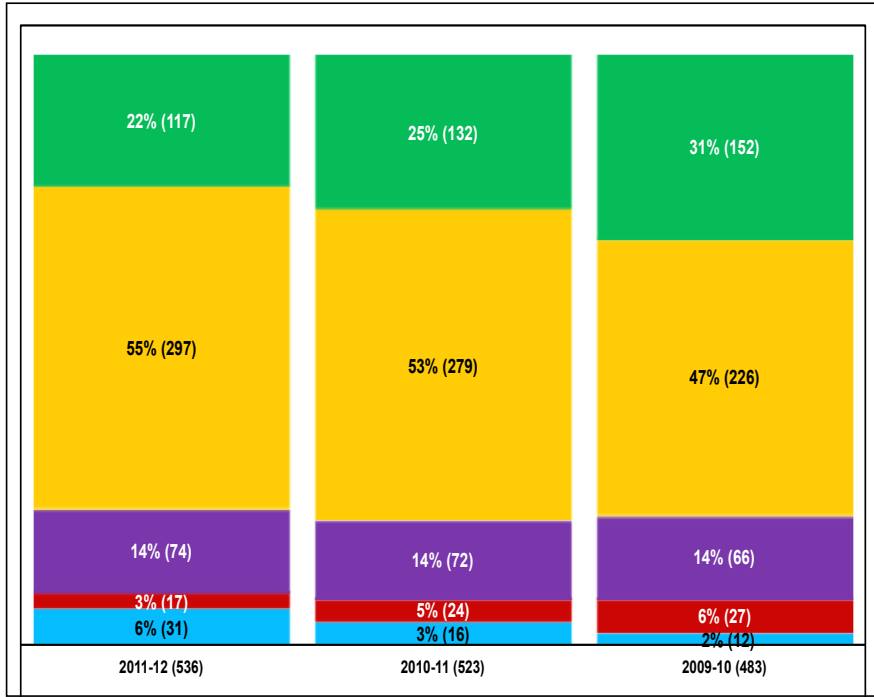
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.





FOREWORD

**Slow progress towards clean audits with slightly more regressions than improvements**

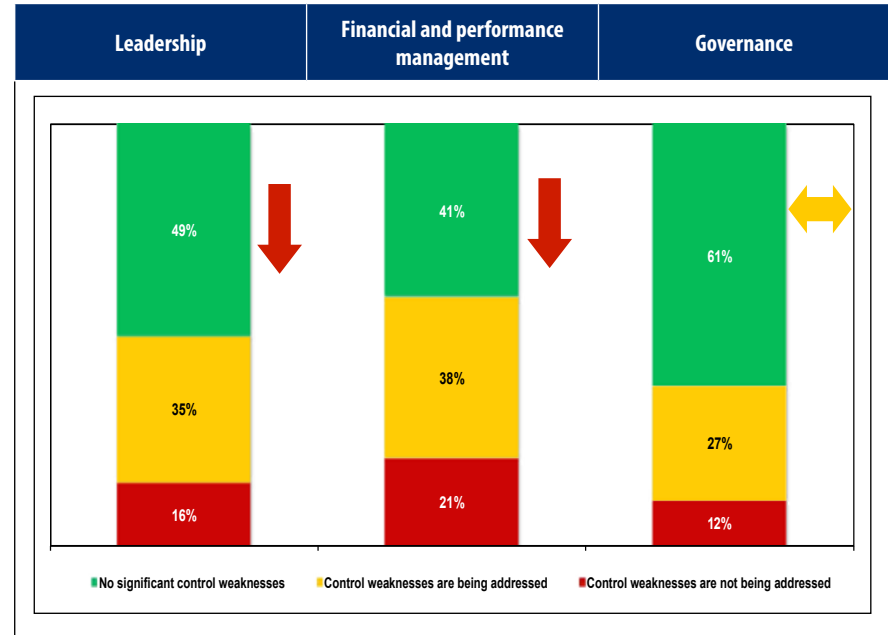


**Limited progress made in addressing five key risk areas and regression in overall status of key controls**

5 risk areas



Key controls



Pervasive root causes

- Vacancies in key positions, leadership instability and ineffective performance management
- Internal controls not effective – checks and balances not performed
- Not all role players are providing the level of assurance required

# 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*


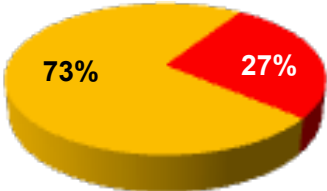
**Auditor-General  
Pretoria  
March 2013**



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.


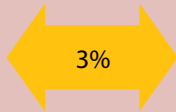
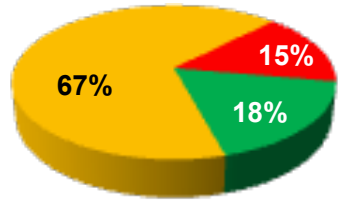
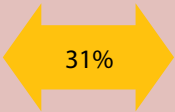
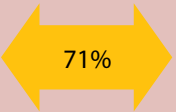


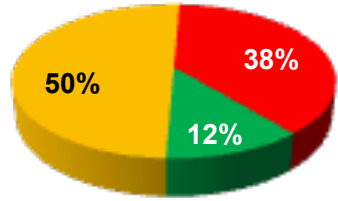


Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	<b>Eastern Cape</b>	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 ↓



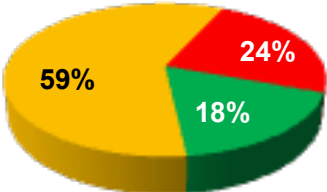
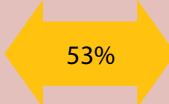
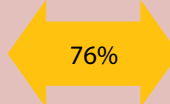


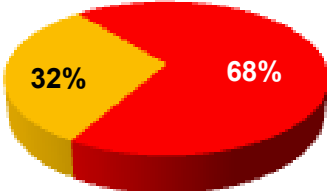




Provinces	Summary of movement in audit outcomes	Progress towards financially unqualified			
		Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
 <p><b>Free State</b></p>	<p><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</p> <p>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.</p>	<p>8%</p>		<p>50%</p>	<p>71%</p>
 <p><b>Gauteng</b></p>	<p><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</p> <p>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.</p>	<p>1%</p>		<p>29%</p>	<p>79%</p>



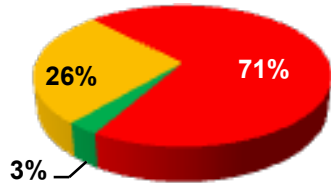
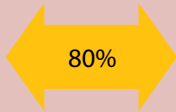
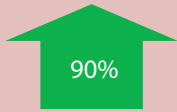


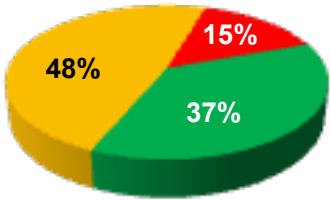
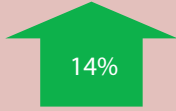
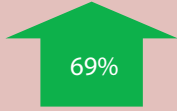
Legend (Movements) Improvement ↑ Unchanged ↔ Regression ↓

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>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 ↓

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%

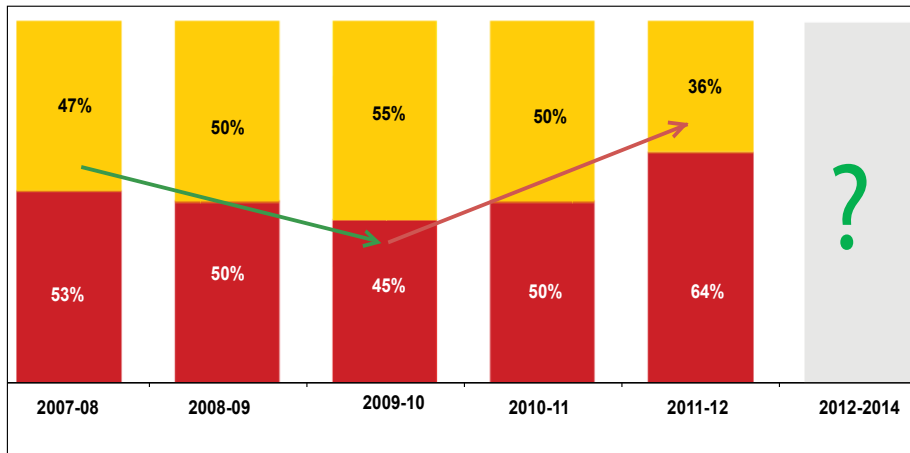
Legend (Movements) Improvement ↑ Unchanged ↔ Regression ↓

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
	<b>North West</b>	<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>				
	<b>Western Cape</b>	<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>				

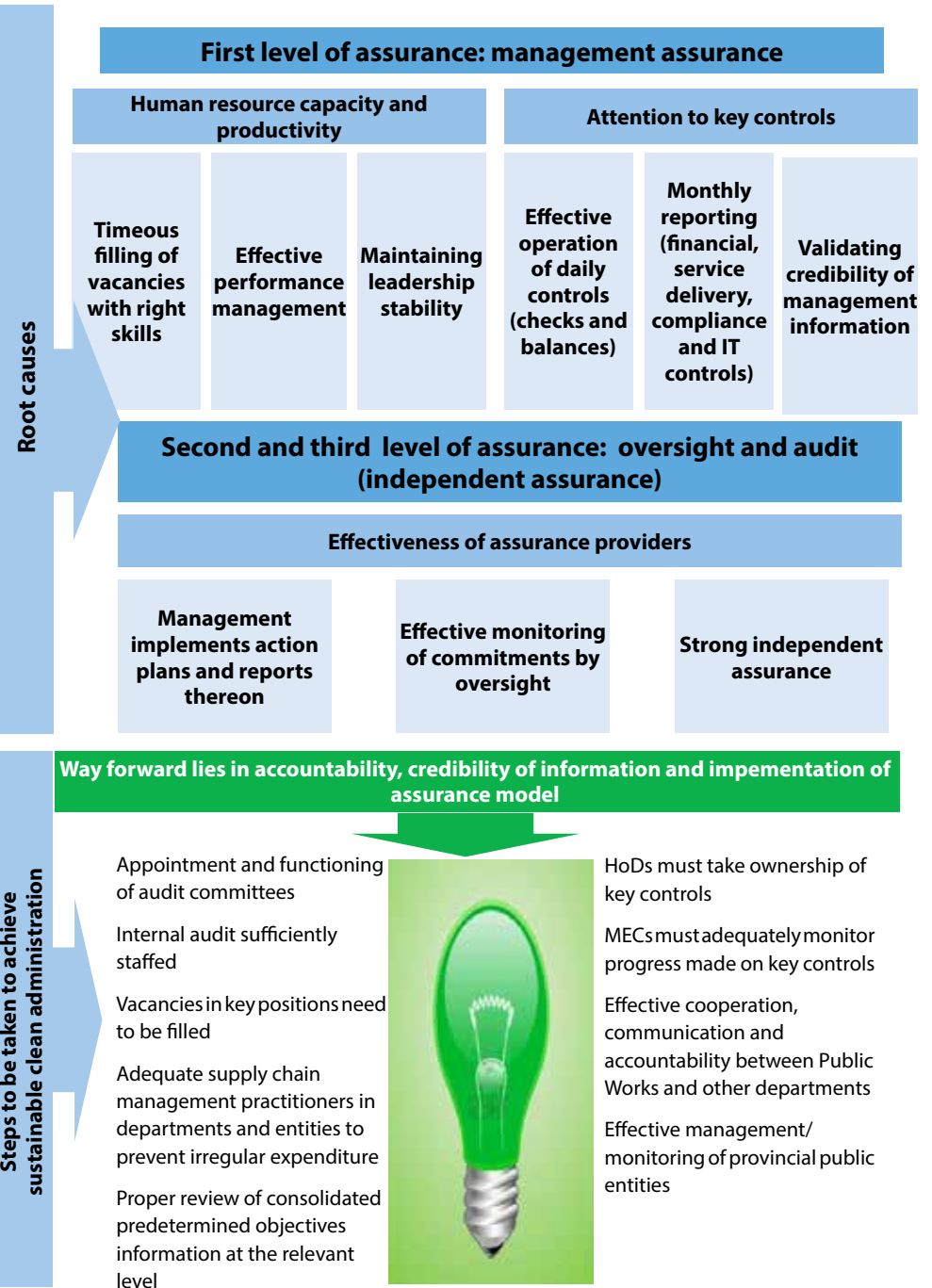
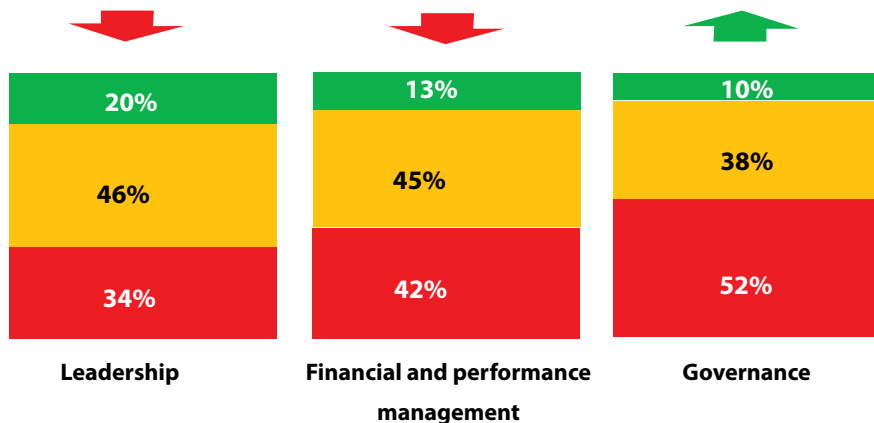
Legend (Movements) Improvement ↑ Unchanged ↔ Regression ↓



**Regression in provincial audit outcomes is of great concern**



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)



## AUDIT OUTCOMES OF THE NORTHERN CAPE

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). The departments of Health and Education constituted 68% of the provincial budget and were disclaimed on their PDOs, which indicates that service delivery within the province is being severely hampered.

All the departments received findings on compliance with laws and regulations. With the exception of one department, the submitted **financial statements for audit purposes required material amendments** to avoid qualification, which indicated that weaknesses in the area of financial management disciplines remain. Of great concern is the lack of progress that has been made in the **status of internal controls**, which resulted in an increase in the number of auditees that had **PDO** findings, while there was **no improvement in the area of supply chain management**. This is evident from the significant increase in irregular expenditure incurred. Weaknesses identified in the management of **information technology** were for the most part only partly addressed. Overall, 36% of the auditees reported on (constituting 14% of the budget) received a financially unqualified audit opinion with findings. The balance of 64% (representing 86% of the budget) had a negative audit outcome.

Over the past few years my office has intensified interactions and stressed that the leadership at all levels should take a keen interest in the administration of their portfolios. The leadership should ensure that basic controls are in place and are monitored with conviction, and that applicable legislation is adhered to in order to sustain good Financial and performance management practices. Despite these focused efforts, it appears that this message has not been taken to heart. In addition, the commitments received from the legislature, provincial executive and provincial treasury relating to the prior year audit outcomes were not implemented. Unfortunately this creates the impression that the province does not 'walk the talk' when it comes to implementing the commitments required to address its audit outcomes and that the current status quo has been accepted as the norm for the province. Progress has been hampered by a lack of commitment to change, the matters dealt with during the interactions not being viewed seriously and the political executive leadership not consistently making themselves available for quarterly key control interactions. We are also concerned that the engagements at executive level do not appear to filter through to and trigger appropriate action from all levels in the organisations under their leadership. As the AGSA, we will continue to sharpen our messages to trigger the desired actions from

the provincial leadership to drive the province towards the goal of clean audits in 2014.

The reasons for the overall regression in audit outcomes in the province were **vacancies within the departments** which resulted in the over-reliance on consultants to assist with the financial information, lack of Internal audit capacity, lack of regular credibility checks on financial information prepared by the departments, lack of consequences for non-performance by the HoD, CFO and staff, and failure by the political leadership to take the Auditor-General's message seriously and to take ownership of the key controls.

In order to address these concerns the primary custodians (political executive leadership and auditee officials led by HoDs) should focus their efforts on strengthening the HR capacity of the province by appointing individuals with the right skills timeously and holding these individuals accountable through effective Performance management. The provincial leadership, through the CFO and senior managers, must pay attention to the key controls which will assist with the effective operation of daily controls, monthly reporting and validating credibility of management information. If this is done, quality annual financial statements will be submitted for audit which require no material amendments. The assurance providers in the province must provide strong independent assurance by ensuring effective monitoring of commitments by oversight and that management implements action plans and reports thereon. Provincial leadership should hold regular joint progress meetings that include all the assurance providers so as to encourage collaborative and synergistic interaction among all key role players in monitoring progress that is made. Good practices were identified at some departments during the audits and these good practices need to be highlighted to all departments and replicated throughout the province.

The acting Premier emphasised the continued commitment of the political leadership towards achieving the goal of clean audits in 2014. Furthermore, she gave the assurance that the concerns raised by the auditors during the 2011-12 audit process would be addressed. She added that initiatives to assist the Department of Health, which received a disclaimer, were already under way and that the Office of the Premier and the provincial treasury would assist the Department of Health in implementing their newly drafted recovery plan. Provincial leadership further undertook to fill critical vacancies within the provincial administration, to implement a more sophisticated IT solution to ensure better access control and to address the high occurrence of misstatements in the disclosure notes to provincial financial statements.

The leadership also committed to personally bear the consequences if their departments' audit outcomes do not improve during the coming year.

# overview of full report



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