



AUDITOR - GENERAL
SOUTH AFRICA



PFMA 2011-12

Audit outcomes of the Western Cape province

CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes



Our reputation promise/mission

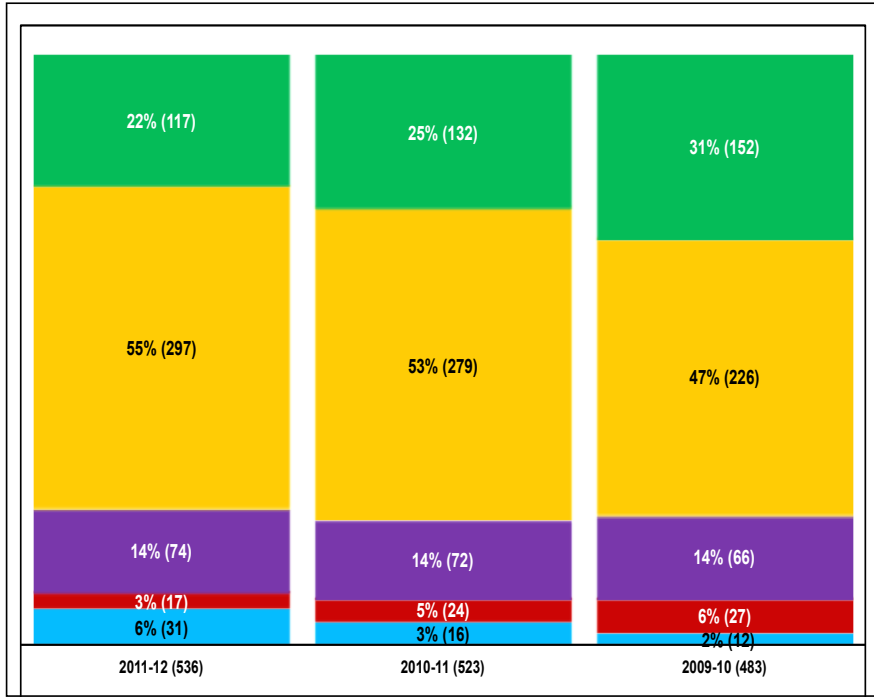
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.





FOREWORD

Slow progress towards clean audits with slightly more regressions than improvements

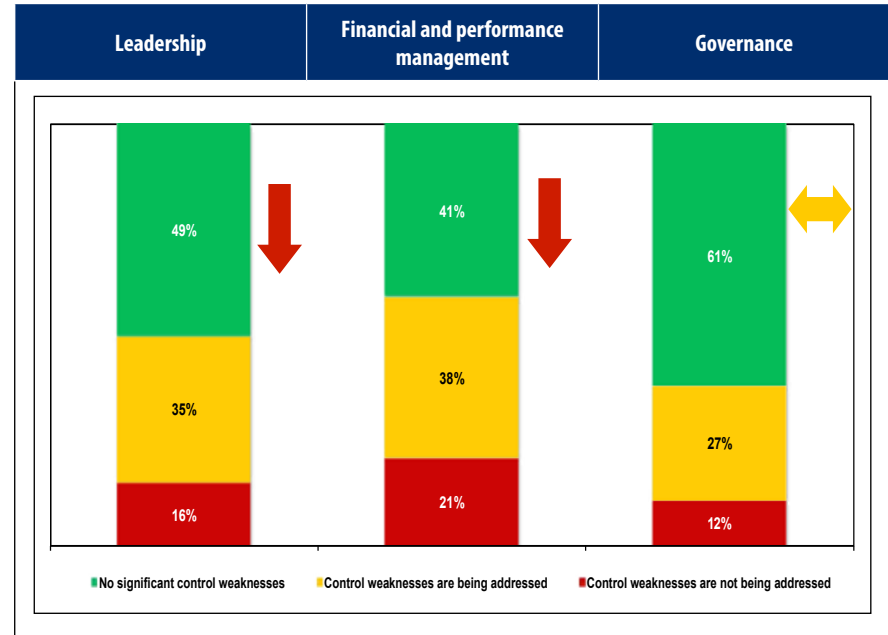


Limited progress made in addressing five key risk areas and regression in overall status of key controls

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

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


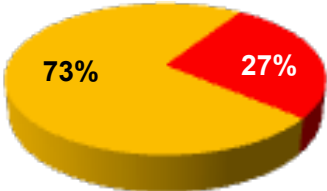
**Auditor-General
Pretoria
March 2013**





HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES

HIGHLIGHTS OF PROVINCIAL AUDIT OUTCOMES


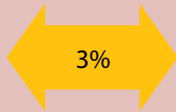
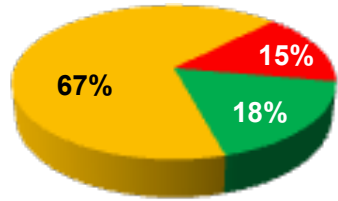
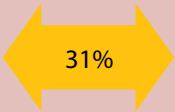
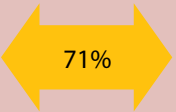


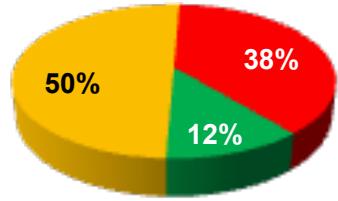


This section of the general report is a high-level summary of the 2011-12 audit outcomes of the nine provinces. The table below provides a summary of the progress made by provinces towards obtaining clean audit reports.

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% →



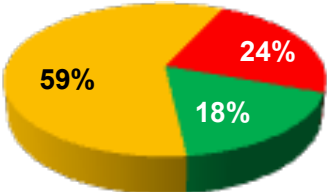
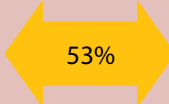
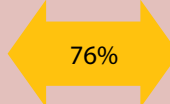


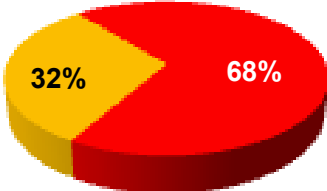




Provinces	Summary of movement in audit outcomes	Progress towards financially unqualified			
		Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	<p>Free State</p> <p><i>Clean audit reports:</i> 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>Gauteng</p> <p><i>Clean audit reports:</i> 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>				



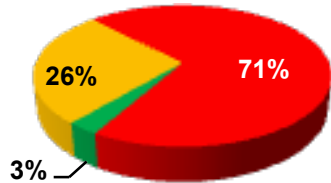
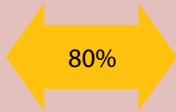
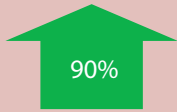


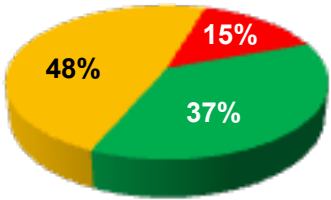
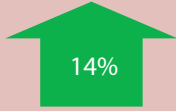
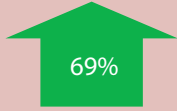
Legend (Movements) Improvement Unchanged Regression

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
 KwaZulu-Natal	<p>Clean audit reports: 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%
 Limpopo	<p>Clean audit reports: 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 ↓

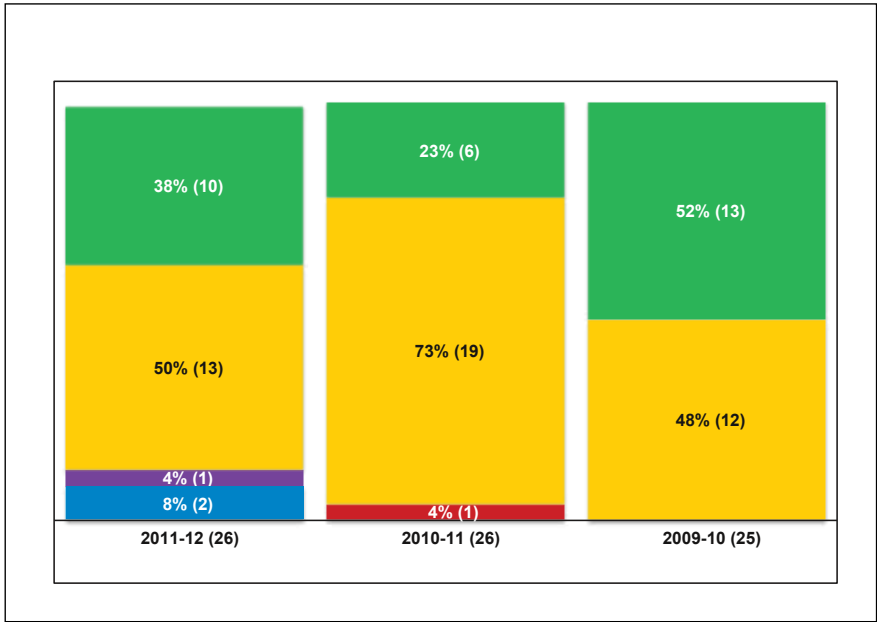
Provinces		Summary of movement in audit outcomes	Progress towards financially unqualified			
			Direction of movement from 2010-11 financially unqualified reports	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
	Mpumalanga	<p>Clean audit reports: 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>	 <p>13%</p>		 <p>53%</p>	 <p>76%</p>
	Northern Cape	<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>	 <p>8%</p>		 <p>65%</p>	 <p>100%</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
	North West	<p>Clean audit reports: 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>				
	Western Cape	<p>Clean audit reports: 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 ↓

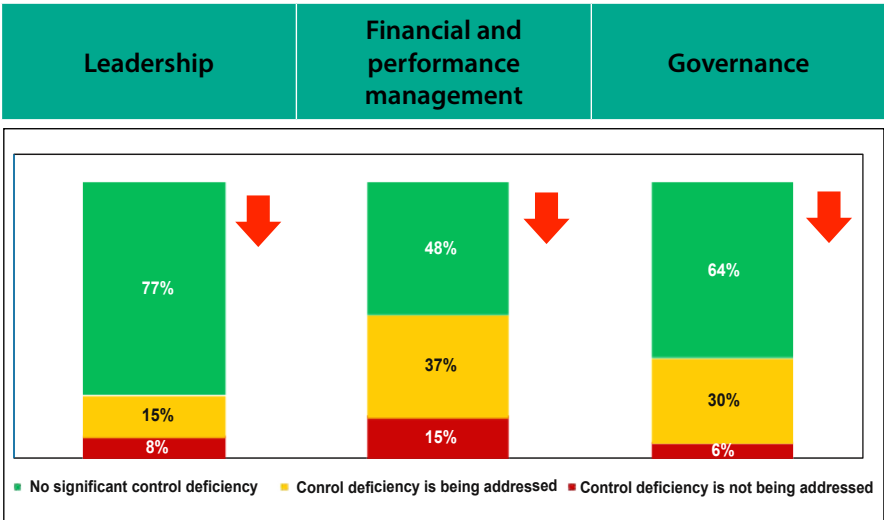




5 risk areas

Supply chain management No improvement	Predetermined objectives No improvement	HR No improvement	IT controls Some improvement	Material errors/ omissions in AFS Some improvement
-------------------------------------------	--------------------------------------------	----------------------	---------------------------------	-------------------------------------------------------

Key controls



Financially unqualified with no findings | Financially unqualified with findings | Qualified with findings | Adverse, disclaimer with findings | Audits outstanding

Root causes

- Accounting officers need to take ownership of key controls
- Lack of consequences for non-adherence/lack of accountability
- Inadequate discipline of credible monthly reporting on financials, performance and compliance

AUDIT OUTCOMES OF THE WESTERN CAPE

At a point where, based on the previous year's commitments, there was an expectation of significant improvement overall towards clean administration of the Western Cape province, these outcomes show progress only for entities and some improvement for departments.

While 23 (96%) auditees achieved financially unqualified opinions on their financial statements, the overall regression in the **drivers of internal control** (leadership, Financial and performance management, and governance) is a concern. Eight (57%) departments and seven (70%) public entities submitted financial statements that required no **material adjustments**, compared to seven and five, respectively, in the prior year. As in the prior year, two departments had findings on **predetermined objectives** while none of the 10 public entities reported on had any. Ten (42%) auditees had no findings on supply chain management. While there has been an overall reduction from 84% to 54% in auditees with uncompetitive or unfair **procurement processes**, these types of findings remain unchanged at 86% for departments. The **HR management** areas that showed improvement were planning and organisation, Performance management and management of leave, mainly due to improved monitoring. Overall the management of vacancies regressed compared to the prior year, with three departments reflecting increased findings in this area compared to two departments in the prior year. Notable progress was made in improving auditees' **IT** governance. However, little or no progress has been made in security management, user access controls and IT service continuity.

My message for the 2010-11 financial period confirmed leadership's pledge, namely that the basic principles of monthly reporting, validation of reported information by Internal audit units and Audit committees, and constant monitoring will be the pillars on which the commitments for the coming year need to be based. This informed the new commitments, which included enhancing the monitoring and oversight capacity of the legislature and its committees; the development and support of entity-specific action plans to address Financial and performance management, with provincial treasury capitalising on the FMIP initiative to monitor the quality of departments' action plans and their implementation. To give effect to these commitments, officials

will need to be monitored to ensure that they perform their responsibilities in line with their job requirements.

None of the commitments made in the 2010-11 general report have been fully realised with the result that management, governance and oversight structures are not working collectively on monitoring internal controls on a daily, monthly and quarterly basis to drive the achievement of sustainable positive audit outcomes. Even though progress has been made in some areas, the major limitation was the lack of detailed and specific target dates for implementation. In addition, our office did not consistently highlight shortcomings in the rate of implementation of the action plans to management and oversight structures during the regular interactions that were held with the leadership.

With improved internal controls, the province would be better positioned to manage the reported cash flow and service delivery results, which reflect that 57% of departments incurred liabilities in excess of the allocated budget, while 62% of departments and 50% of public entities achieved fewer than 80% of their service delivery targets.

It is pleasing to see the improvement in outcomes at those auditees whose leadership have taken accountability for the internal control deficiencies highlighted in the prior year audits as well during the quarterly key control interventions.

In addition to the four departments that achieved clean audit status, special mention must be made of the Department of Health whose findings have decreased significantly as a result of the accounting officer taking accountability for the internal control deficiencies highlighted by the auditors.

overview of full report



Message from
the
Auditor-
General

12

Slow progress towards clean
audits with more regressions than
improvements
(Part 1)

38



117 auditees achieved clean audits
(Part 1)

39



Some progress
made towards
improving the
reliability and
usefulness of
service
delivery reporting
(Part 1)

69



Continuing
high level
of non-
compliance
with laws
and
regulations
(Part 1)

79



High levels of unauthorised,
irregular as well as fruitless and
wasteful expenditure
(Part 1)

91

Auditees' internal control systems are not improving (Part 1)

106



HR and IT management needs further attention (Part 1)

115



Executive leadership, coordinating institutions and legislative oversight should strengthen their contributions (Part 1)

138



Indications of financial health issues at some departments and public entities (Part 1)

168

Audit outcomes of ministerial portfolios and commitments made for improvement (Part 2)

178



Audit outcomes and weaknesses in implementation of key national programmes in Health, Human Settlements, Education, Social Development and Public Works sectors (Part 3)

428



The audit outcomes of 3 provinces regress (Part 4)

470

Visit our website,
www.agsa.co.za,
to view the complete

Consolidated general report on the 2011-12 national and provincial audit outcomes.

RP07/2013

ISBN: 978-0-621-41523-0