PFMA 2013-14

General report on the provincial audit outcomes of the EASTERN CAPE

AUDITOR-GENERAL
SOUTH AFRICA

General report on audit outcomes

EASTERN CAPE
PFMA 2013-14

Our reputation promise/mission

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

AUDITOR-GENERAL
SOUTH AFRICA

The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and 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.

I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of provincial government 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

Kimi Makwetu
Auditor-General

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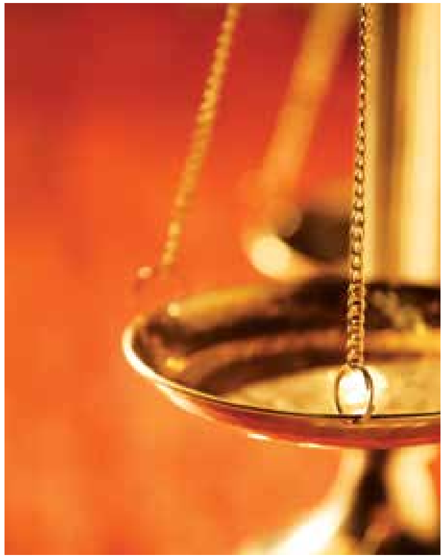

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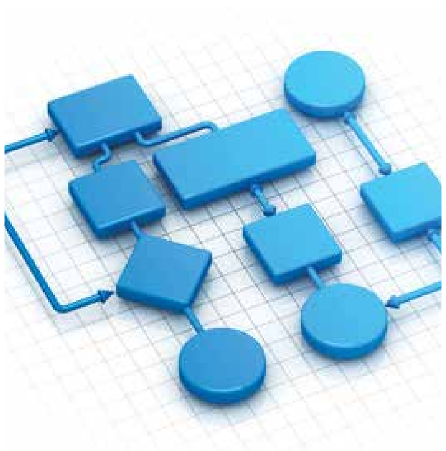

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EXECUTIVE SUMMARY

Executive summary

This general report summarises the audit outcomes of the Eastern Cape provincial government for the 2013-14 financial year.

The total budgeted expenditure of the province was R61,4 billion in 2013-14. The following were the main areas of expenditure:

- Employee cost R38,8 billion
- Goods and services R10,8 billion
- Capital expenditure R3,7 billion
- Transfer payments R8,1 billion

It is important to note that our annual audits have once again examined the following three areas:

1. Fair presentation and absence of material misstatements in financial statements.
2. Reliable and credible performance information for purposes of reporting on predetermined performance objectives.
3. Compliance with all laws and regulations governing financial matters.

Financially unqualified audit opinion with no findings

Auditees that received a **financially unqualified audit opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the above-mentioned areas. This is commonly referred to as a 'clean audit'.

Four auditees (16%) achieved a clean audit status, with the Department of Local Government and Traditional Affairs (DLGTA) achieving this status for the first time during the year under review.

We are encouraged that the three provincial oversight departments (DLGTA, Office of the Premier and Provincial Treasury) led by example and achieved unqualified opinions with no findings. These critical departments are now in a position to concentrate on and enhance their oversight and coordinating responsibilities so that they can make a sustainable impact on provincial and local government audit outcomes and ultimately improve service delivery to the citizens of the province. As the only remaining oversight department without an unqualified audit outcome with no findings, we challenge the Provincial Legislature to learn from the best practices of these departments and strive towards achieving this important milestone.

The clean audit outcomes are the result of a concerted effort and responsiveness by the political and administrative leadership, audit committees and the Provincial Treasury. The province's audit outcomes are beginning to reflect the benefits of an ideal combined assurance model where all assurance providers play their roles effectively and in a well-coordinated manner. Accounting officers or authorities and senior management, as the first line of defence, successfully implemented basic internal controls and accounting disciplines, which ensured that an effective control environment was maintained, and exercised rigorous oversight and support in driving clean audit outcomes.

Financially unqualified audit opinion with findings

Fourteen auditees (56%) received **financially unqualified audit opinions with findings** on their performance information, compliance with legislation, or both these aspects (depicted in yellow in this report). These are auditees that have passed the critical test of fair presentation of their financial statements, which means that they have accounted accurately for the financial transactions they have carried out.

We are concerned about those auditees that have achieved an unqualified audit outcome for a number of consecutive years but are still plagued by findings on the quality of their annual performance reports or compliance with key legislation, or both these aspects. Their failure to address the internal control deficiencies causing these findings poses a risk that a culture of tolerance towards these unacceptable practices is created. This is hampering the province's move towards the objective of achieving clean administration.

Included in this category are auditees that submitted financial statements and performance reports that were initially unreliable and incorrect. These auditees placed too much reliance on the audit process to detect and correct errors that they should have identified and corrected before submission. The accounting officers or authorities need to make sure that the basic disciplines of preparing and reviewing regular financial and performance reports are improved and sustained. Internal audit units and audit committees should continue to support the work of oversight committees by confirming the credibility of information used for accountability purposes. In turn, the committees of the Provincial Legislature should collaborate and coordinate their oversight initiatives to derive optimal benefit from their oversight work.

Qualified audit opinion

Six auditees (24%) received a **qualified audit opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Two of the auditees (Roads and Public Works as well as Mayibuye Transport Corporation) that received qualified audit opinions improved from the disclaimed category in the previous year. These improvements can be attributed to the use of consultants at Roads and Public Works and the appointment of skilled finance staff at the Mayibuye Transport Corporation.

The Eastern Cape Development Corporation regressed from the unqualified with findings category to the qualified category as a result of transactions relating to former President Nelson Mandela's funeral that were not adequately supported.

The outcomes of a further three auditees (Eastern Cape Government Fleet Management Services, Education and Health) remained unchanged from the previous year.

It is concerning that Education, Health, and Roads and Public Works, which represent 79% of the provincial budget, still received qualified opinions.

In the previous year, we were encouraged by the positive momentum displayed by Education and Health in addressing challenges in respect of financial and performance management and compliance with key legislation. This momentum seems to have slowed down, as these departments still have a number of significant deficiencies within their control environments that are preventing them from moving towards an unqualified outcome with no findings on compliance or performance reporting.

The auditees in this category should strengthen their control environments through entrenching financial and performance disciplines by instilling the basic principles of daily, weekly and monthly monitoring and reporting. This should be supported by a well-defined and robust performance management system that will assist in applying appropriate consequence management for poor performance. Reported information should be validated to eliminate the potential risk that information used for decision-making is not credible and the possible impact this could have on the quality of the decision-making processes.

Disclaimed audit opinion

One public entity (4%), namely the Eastern Cape Appropriate Technology Unit, received a **disclaimed audit opinion** (depicted in red in this report). This outcome was unchanged from the previous year. A disclaimed opinion is issued when a number of components that make up the financial statements are not adequately supported by the accounting records and other evidence. This entity has been absorbed into Rural Development and Agrarian Reform and will not exist during the next audit. If the significant control weaknesses at this entity that had led to the disclaimed opinion are not attended to, they might have an impact on the future outcomes of the department.

Other significant audit observations

Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives and to report on this in their annual performance reports.

It is commendable that all auditees submitted their annual performance reports for auditing on time.

It is also encouraging that the number of auditees with no findings on the usefulness or reliability of their annual performance reports increased to 17 (68%) from eight (32%) in the previous year. This improvement was achieved by implementing control systems and in-year reporting that was subjected to credibility testing.

The remaining eight auditees (32%) that had findings on their annual performance report should adopt the best practices followed by those auditees without findings. They should also implement proper record-keeping measures to ensure that complete, relevant and accurate information is available to support reported performance.

In addition, auditees need to continue implementing the recommendations of the performance audit on the readiness of government to report on its performance.

Compliance with key legislation

Compliance with legislation, particularly laws and regulations dealing with supply chain management (SCM), requires significant leadership attention. Of particular concern is the ever-increasing amount of irregular expenditure resulting from a disregard of SCM legislation, which amounted to R2,39 billion in the financial year under review. A total of 80% of this amount can be attributed to Roads and Public Works – the department responsible for all the infrastructure development in the province.

Only four auditees had no material findings on their compliance with key legislation. Although a further eight auditees made progress in reducing the number of focus areas reported on, progress has been very slow. This can be attributed to the leadership not responding appropriately to our messages relating to the implementation of controls over compliance with laws and regulations.

The most common areas we reported on included the submission of financial statements that contained material errors, the failure to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, and non-compliance with SCM legislation. The leadership should build the ethical culture required to ensure sustained compliance with legislation by setting an appropriate tone and dealing decisively with those who deliberately or negligently transgress the applicable requirements.

Irregular expenditure

The province incurred irregular expenditure of R2,45 billion, of which R2,39 billion can be attributed to auditees transgressing the legislation governing SCM processes. We determined through our normal audits that R1,6 billion of this amount represented goods and services that were received despite the normal processes governing procurement not having been followed. The balance of R790 million was not audited and we could therefore not specifically confirm that goods and services had been received in this regard. Beyond not receiving goods or services for the amounts paid out, the risk remains that these transgressions happened as a result of either a lack of competence or an incentive to award contracts to related parties where the benefit of the goods and services may not be fully realised. The high incidence of non-compliance findings on uncompetitive or unfair procurement processes (12 auditees had material findings) is particularly concerning in this regard and should be further investigated.

Roads and Public Works incurred most of the irregular expenditure (R1,95 billion on its own procurement and R57 million as a procurement agent on behalf of other departments). This was the result of a lack of capacity, both within the SCM unit and at managerial level, as well as a lack of enforcement of consequences for transgressions in this department.

This lack of capacity resulted in Education, Health and even Roads and Public Works itself increasingly transferring funds to the Coega Development Corporation and the Independent Development Trust (IDT) for the procurement of provincial infrastructure. This is concerning, as the transferring departments exercised limited control over the amounts transferred and the goods and services procured. In addition, both the Coega Development Corporation and the IDT charge management fees for performing this function on behalf of provincial government, whereas Roads and Public Works, given its constitutional mandate to handle procurement on behalf of others, would handle this function free of such charges.

Accounting officers and authorities, with the support of the Provincial Treasury, can effectively address the widespread irregular expenditure in the province by continuing to investigate allegations that officials have failed to comply with SCM legislation. Severe consequences should be enforced where these investigations establish accountability.

The oversight role players must ensure that accounting officers or authorities and senior management are kept accountable for providing the desired level of assurance to continue the momentum towards improved audit outcomes.

It is critical that the above-mentioned controls are implemented to restore public confidence in the provincial government's ability to use the resources at its disposal in an effective, efficient, transparent and economical manner.

Financial health

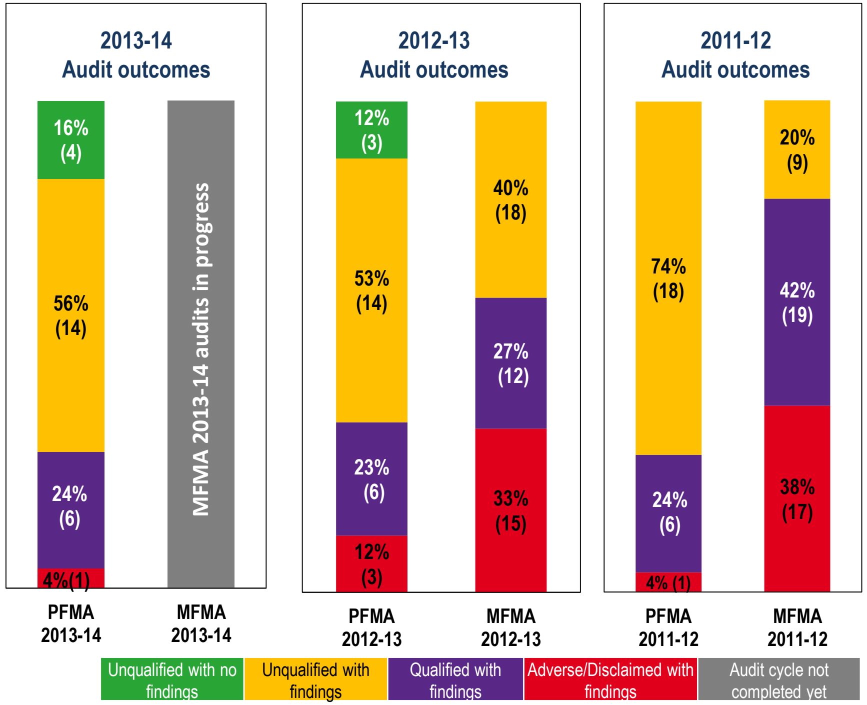
Our assessment of the provincial government's financial health has improved over the past year, partly as a result of the reduction in the number of adverse and disclaimed opinions, which enabled a more appropriate assessment of this focus area; and partly as a result of improved in-year budget monitoring by the Provincial Treasury. As a result, the financial health of 92% of the auditees was assessed as being good.

Two public entities were in an overall net liability position at year-end, while a further four public entities reported net current liability positions at year-end.

Comparison of provincial and local government audit outcomes

The Eastern Cape provincial government, through coordinating departments and oversight structures, supports both provincial and local government by setting standards of accountability, transparency, clean government and integrity across all institutions of government in the province. Although these two spheres of government operate autonomously, improvement in the administration and audit outcomes will benefit the province as a whole. Figure 1 compares the results of these two spheres of government over the previous three financial years.

Figure 1: Comparison of the audit outcomes of provincial and local government



We are encouraged by the significant improvement in audit outcomes at the provincial government level, as demonstrated by a reduction in the adverse/disclaimed opinions and an increase in the number of clean audits. This is the first time since the dawn of democracy that no department obtained an adverse or disclaimed audit outcome in the province.

The improvements were achieved by auditees responding to our messages around the improvement of basic disciplines. This was done through the leadership setting the correct tone at the top, a more focused approach towards accountability and governance, stability in leadership positions, and the fulfilment of the commitment to address vacant posts and improve the skills of officials.

We encourage the leadership to further enhance this approach by ensuring that the financial, performance and compliance disciplines are entrenched within the control environment so that errors can either be prevented or identified and corrected by applying appropriate key controls – and not through the audit process as is currently the case.

Progress towards clean administration at the local government level has been slower than that at the provincial government level, with no auditees having achieved a clean audit status yet and a significant portion (33%) of the auditees remaining in the adverse/disclaimed category in the 2012-13 financial year. This lack of movement can be attributed to the slow response to our messages that reinforced a culture of tolerance for the inadequate execution of controls and a general disregard for legislative requirements, especially in the area of SCM.

We are encouraged by the initiatives implemented and the commitments provided by both the provincial executive and the DLGTA relating to the provision of coordinated and structured support for municipalities as well as the establishment of forums that will drive accountability at local government level within the province.

The collective effort of all role players, including the provincial executive, Office of the Premier, Provincial Treasury, DLGTA and district municipalities, is required to ensure good governance underpinned by sound financial management and accountability at local government level in the province.

Provincial Department of Local Government and Traditional Affairs

The clean audit status achieved by the DLGTA should allow it to focus on its core mandate of supporting and monitoring the performance of the municipalities in the province. In addition, the best practices applied and the lessons learnt to achieve this status must be shared with the municipalities in the province.

The department should also intensify the support already provided to municipalities with regard to oversight, internal audit, contract management, SCM, environmental management, human resource (HR) management and financial management. This support should be monitored and progress measured against the ultimate objective of clean administration at local government level in the province.

Furthermore, the department should ensure that the annual consolidated report on the performance of municipalities in the province is submitted to the Provincial Legislature to enable oversight through the portfolio committee responsible for local government.

Key leadership actions

We remain hopeful that the progress towards clean administration by the provincial government, although slow, can be matched in the local government sphere. The common characteristics of those auditees that achieved a clean audit status included the following:

- Accounting officers or authorities were proactive in driving action plans to improve the financial control environment and to instil a culture of good financial governance and compliance with legislation.
- Executive authorities and accounting officers or authorities set a tone of zero tolerance for non-performance, and held staff accountable for keeping quality financial and performance information and complying with key legislation.
- Robust and proactive audit committees and internal audit units dealt effectively with matters regarding the implementation and monitoring of action plans to address recurring findings and the commitments made.
- Accounting officers or authorities and senior management successfully implemented basic internal controls and accounting disciplines, by preparing regular and accurate financial statements, which enabled governance structures to play an effective reviewing role.
- Improved performance and consequence management by incorporating the requirements of preparing credible and regular financial reports into senior management's performance agreements, and holding them accountable.
- Stability at senior management level and within finance units, with the required level of technical competence and experience.

In our partnership with the province, we are optimistic about a future in which the public service will be characterised by transparent financial and performance reporting. This will be led by accounting officers and authorities that appreciate ethical and professional behaviour, and have a low tolerance for the indecisive execution of controls and the deviation from legislation. Auditees will be supported by strong internal audit capabilities that contribute to a culture of good internal controls, and accurate and empowering financial and performance reporting, to enable effective oversight by audit committees and legislative oversight structures.

We are encouraged by the commitment and spirit of cooperation of the newly elected office-bearers and the public commitment to accountability and consequence management. The premier has laid a strong foundation in his state of the province address regarding these matters and his commitments have already been operationalised into signed performance agreements with his members of the executive council (MECs). This is further enhanced by the development of the provincial audit intervention plan that will be monitored by the provincial executive.

Should this positive attitude and commitment be adopted by all levels of staff and filter into the daily oversight responsibilities of the executive, we will see a marked and sustainable improvement in the drive towards an accountable administration within the province.

Challenges in the way of effective oversight by the legislature's committees continue to be the timeliness of resolutions, monitoring the implementation of these resolutions as well as ensuring the credibility of information provided to the committees. Going forward, it is critical that resolutions are tabled timeously and are followed up each quarter. The most effective means to address the credibility of information and transparency is for audit committees to have frequent interactions with the relevant committees, during which the audit committees should inform the portfolio committees of the status of the following:

- Departments' systems for performance monitoring, recording and reporting.
- The implementation of audit committee recommendations.
- The verification of all submissions as credible, relevant and transparent.

We remain committed to working with the provincial leadership to further improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

AUDIT OUTCOMES, RECOMMENDATIONS AND ROLE PLAYERS' COMMITMENTS

1. Our auditing and reporting process

We audit all 14 departments and 11 public entities in the province, also called *auditees* in this report, so that we can report on the **quality of their financial statements** and **annual performance reports** and on their **compliance with key legislation**.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the MECs and audit committees.
- Our opinion on the financial statements, material findings on the annual performance report and compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee's annual report and dealt with by the public accounts committees and portfolio committees as applicable.
- Annually we report on the audit outcomes of all auditees in a **provincial general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the Provincial Legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist with the improvement in audit outcomes by identifying **the key controls** that should be in place at auditees; assessing these on a regular basis; and sharing the assessment with members of the executive, accounting officers and authorities, as well as audit committees.

We further identified the following **key risk areas** that need to be addressed to improve audit outcomes as well as financial and performance management, and we specifically audit these so that we can report on the status thereof: ■ quality of submitted financial statements and performance reports ■ SCM ■ financial health ■ information technology (IT) controls ■ HR management (including the use of consultants).

During the auditing process, we work closely with the accounting officer or authority, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of the auditee's financial statements and performance report as well as on compliance with legislation.

We also continue to strengthen our relationships with MECs, the premier and the Provincial Treasury, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figure 1 that follows gives an overview of our message on the 2013-14 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province.

The overall audit outcomes in figure 2 show our opinion per auditee on their financial statements and whether we identified material audit findings on the quality of their annual performance report and compliance with key legislation. The overall audit outcomes fall into four categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that were able to:
   - produce financial statements free from material misstatements (material misstatements are errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
   - measure and report on their performance in accordance with the predetermined objectives in their annual performance plan in a manner that is useful and reliable
   - comply with key legislation.

   This audit outcome is also commonly referred to as a 'clean audit'.
2. Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without material misstatements but are struggling to:
   - align their performance reports to the predetermined objectives they committed to in their annual performance plans
   - set clear performance indicators and targets to measure their performance against their predetermined objectives
   - report reliably on whether they achieved their performance targets
   - determine which legislation they should comply with and implement the required policies, procedures and controls to ensure that they comply.

3. Auditees that received a **financially qualified opinion with findings** have the same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements. There are material misstatements in their financial statements, which they could not correct before the financial statements were published.
4. The financial statements of auditees with an **adverse opinion** include so many material misstatements that we basically disagree with almost all the amounts and disclosures in the financial statements. Those auditees with a **disclaimed opinion** could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements. Auditees with adverse and disclaimed opinions are typically also:
   - unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
   - not complying with key legislation.

Please note when looking at figure 2 and other figures in this report and when reading the rest of the report that only a movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:

Improved Stagnant or little progress Regressed

The rest of the report summarises the overall audit outcomes, reflects on the three areas that we audit and report on, looks at the financial health of auditees in the province, discusses internal controls and root causes, and details the impact as well as initiatives and commitments of key role players. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal control at the auditees, and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in this report.

Figure 2: Overview of audit outcomes and key recommendations for improvement

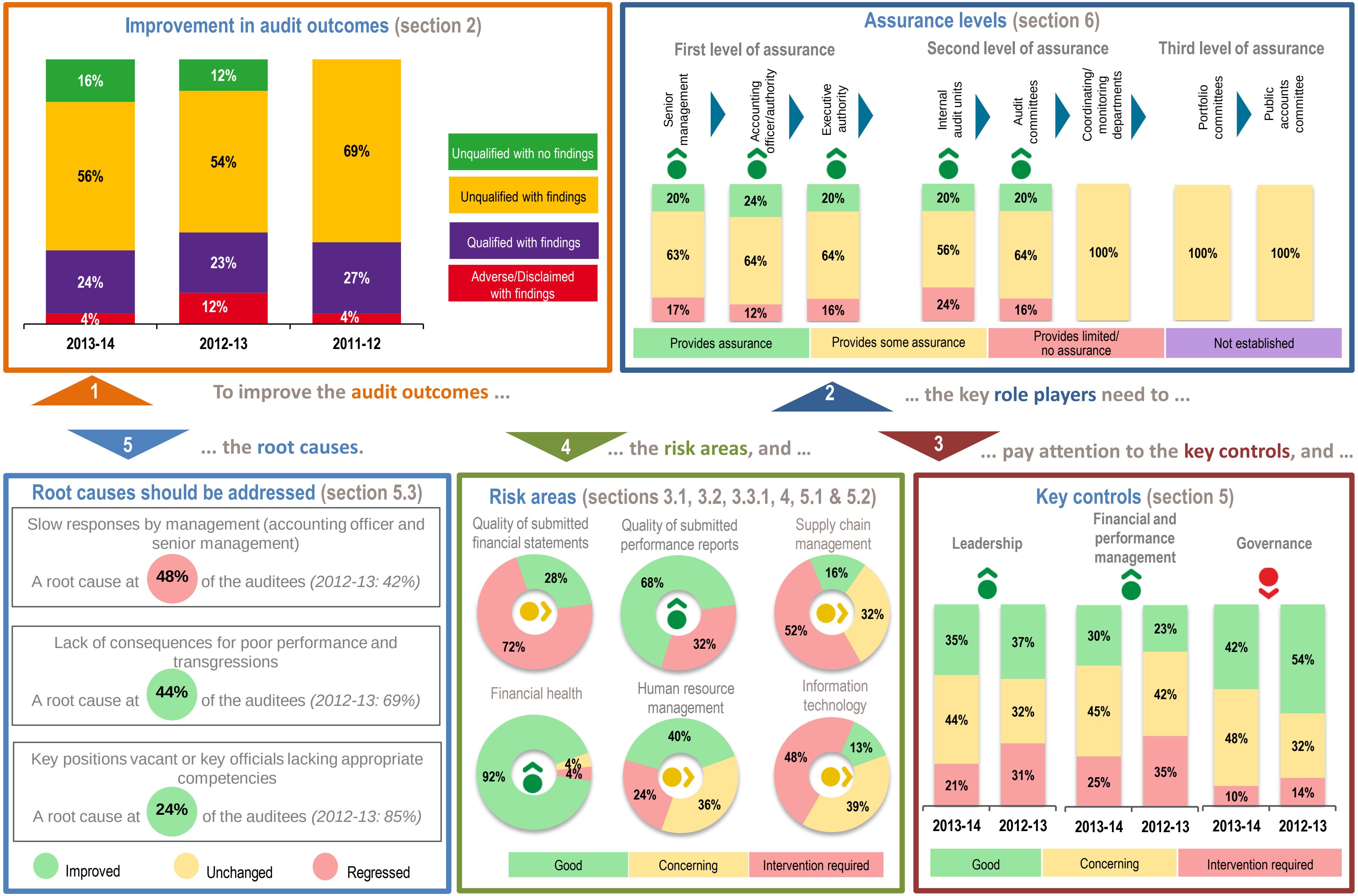


Figure 3: Movement in audit outcomes

Movement → / Audit outcome ↓ (25)	6 Improved	18 Unchanged	1 Regressed
Unqualified with no findings = 4	Local Government and Traditional Affairs	Office of the Premier; Provincial Treasury; EC Socio-Economic Consultative Council	
Unqualified with findings = 14	Sport, Recreation, Arts and Culture; Rural Development and Agrarian Reform; East London Industrial Development Zone Corporation	Economic Development, Environmental Affairs and Tourism; Human Settlements; Safety and Liaison; Social Development and Special Programmes; Transport; Provincial Legislature; EC Gambling and Betting Board; EC Liquor Board; EC Parks and Tourism Agency; EC Provincial Arts and Culture Council; EC Rural Development Agency	
Qualified with findings = 6	Roads and Public Works; Mayibuye Transport Corporation	Health; Education; EC Government Fleet Management Services	EC Development Corporation
Adverse or disclaimed with findings = 1		EC Appropriate Technology Unit	

The colour of the auditee's name indicates the audit opinion from where the auditee has moved.

2. Overall audit outcomes

Provincial government in the Eastern Cape consists of 14 departments and 11 public entities. As a result of the Provincial Legislature no longer using the Eastern Cape Provincial Legislature Political Party Fund to transfer payments to political parties, the number of public entities has decreased from 12 to 11 since the previous year. All transfers are now done through the Provincial Legislature.

Figure 3 reflects the 2013-14 audit outcomes for the Public Finance Management Act (PFMA) cycle and indicates the movement of the outcomes from the previous year. It is encouraging that the province reflects a net improvement of five audit outcomes – made up of six improvements and one regression. It is the first year that no department obtained an adverse or disclaimed audit outcome, while one public entity, namely the Eastern Cape Appropriate Technology Unit, is reflected in this category. Seeing that the entity will be merged into Rural Development and Agrarian Reform during the 2014-15 financial year, the province essentially finds itself with no auditee in the adverse/disclaimed category at the start of the 2014-15 financial year.

The achievement of a financially unqualified audit outcome with no findings by three oversight departments, being the Office of the Premier, Provincial Treasury and DLGTA, is a positive milestone for the province. These departments can now lead by example in the drive towards an accountable and administratively sound provincial administration. This achievement also increases the credibility of their provincial coordinating and oversight responsibilities. This now puts them in a position to concentrate on fulfilling these responsibilities so that they can make a sustainable impact on provincial and local government audit outcomes and ultimately improve service delivery to the citizens of the province. Of concern, however, is the Provincial Legislature that is lagging behind the other oversight departments, due to its inability to produce credible financial and performance information and adhere to all legal prescripts. This department should learn from the best practices of the other oversight departments and strive towards achieving this important milestone.

The strides the province has made in improving its audit outcomes are largely as a result of the respective departments and entities taking our messages more seriously, with a more focused approach towards accountability during the year. It is particularly pleasing that the province met its commitment to address the root cause relating to the filling of vacancies and the appointment of competent officials. The 56% reduction in the number of auditees where this root cause was previously reported is one of the main reasons for the overall improvement in the audit outcomes of the province.

We encourage the leadership to further enhance this approach by ensuring that these practices of financial, performance and compliance disciplines are entrenched within the control environment and daily operations of the auditees.

In addition, we urge the provincial leadership with the support of the Provincial Treasury and the Office of the Premier to enhance their oversight and support interventions at those departments allocated the biggest portion of the provincial budget. These include the social service departments of Education and Health as well as the infrastructure service department of Roads and Public Works. These departments still have a number of significant deficiencies within their control environment. If they do not address these, it could affect the sustainability of their current audit outcomes and their ability to move towards clean administration.

Analysing the movement in the 2013-14 audit outcomes

Sustained clean administration

With the leadership setting the appropriate tone at the top, the Provincial Treasury, Office of the Premier and Eastern Cape Socio-Economic Consultative Council sustained their unqualified audit outcome with no other findings. This leadership tone was entrenched by applying appropriate accountability and governance practices, supported by a sound internal control environment. This was further enhanced by transparent and stable reporting systems that were monitored by the various assurance providers.

Improvements in audit outcomes

A focused drive by both the executive and the accounting officer to address previous material findings on its annual performance report and compliance with legislation, led to the DLGTA improving its outcome from unqualified with findings to unqualified with no findings. However, this outcome will not yet be sustainable unless the department ensures that all daily, weekly and monthly financial and performance disciplines are executed throughout the financial year and embedded within the control environment.

Rural Development and Agrarian Reform as well as Sport, Recreation, Arts and Culture improved from qualified to unqualified audit outcomes, due to the leadership implementing action plans to address prior year audit findings as well as the appointment of permanent chief financial officers (CFOs). Of concern, however, is the sustainability of these audit outcomes, as both these auditees would have been qualified if audit adjustments identified during the audit process had not been processed. This was as a result of these auditees not implementing the required daily, weekly and monthly financial and performance disciplines.

Roads and Public Works improved from a disclaimed to a qualified audit outcome. This improvement was mainly the result of the deployment of a large consultancy pool that assisted the department with aspects relating to the retrieval of supporting documentation, financial processing and reporting.

Unfortunately, this means that the leadership did not improve its control environment, as the control deficiencies that led to previously reported findings still existed. As a result, the outcome is not sustainable. Going forward, competent staff will have to be appointed to fill the positions that were managed by consultants, while the leadership will have to implement adequate monitoring and oversight controls.

Regarding the public entities, the improvement at the Mayibuye Transport Corporation from a disclaimed to a qualified audit outcome was mainly the result of the employment of skilled individuals in the finance section as well as the appropriate leadership tone of the acting accounting authority. This improvement is sadly also not considered sustainable, as the control environment has not improved significantly and the entity has not yet achieved stability at the leadership level.

On the other hand, the improvement at the East London Industrial Development Zone is considered sustainable, due to the leadership taking ownership of the control environment and embedding processes that promote good accountability and governance. We encourage this entity to take the final steps towards addressing its isolated compliance finding to achieve an unqualified audit outcome with no findings.

Unchanged audit outcomes

The outcomes of 10 auditees remained unchanged on unqualified with findings. These auditees have sustained unqualified outcomes for a consecutive number of years but still lack momentum to improve to unqualified with no findings on performance reporting or compliance. A lack of accountability, consequence management and year-round financial disciplines is evident in the ever-present compliance findings, especially in respect of SCM. In addition, heavy reliance on the audit process for the identification and correction of material misstatements (which is an allowable practice in terms of the auditing standards) is common at all these auditees.

These auditees are encouraged to take the final steps in entrenching daily financial and performance management disciplines and compliance with legislation to finally eliminate all findings, thereby laying the foundation for effective, transparent and sustainable service delivery.

It is concerning that the two biggest departments (Health and Education) have stagnated on qualified opinions with findings. In the previous year, we noted the positive momentum displayed by these departments in addressing challenges in respect of financial and performance management. Unfortunately, this momentum was not maintained in the year under review to reduce the number of qualifications and improve their audit outcomes. These two departments are analysed in more detail further on in this section.

The Eastern Cape Appropriate Technology Unit received a disclaimed audit outcome – the only auditee in this category. As previously indicated, this entity will cease to exist in the next financial year. The significant internal control deficiencies that existed in the practices of the entity can, however, not be ignored. If not addressed, it could have a negative impact on the outcome of Rural Development and Agrarian Reform, with which it is merging.

The merger of the entity could potentially result in the province being in a position where it has no disclaimed or adverse audit outcomes. However, this can only be realised if the leadership sustains the good audit outcomes, improves the poor audit outcomes and builds on the current practices by further enhancing governance and accountability.

It is also very important that the oversight and coordinating departments execute their roles in a manner that ensures a noticeable impact by insisting on transparent and stable reporting systems, the application of consequences for transgressions and poor performance, and the promotion of ethical behaviour and professionalism by all role players.

Regression in audit outcomes

The regression in the outcomes of the province was due to a breakdown in internal controls surrounding the procurement processes at the Eastern Cape Development Corporation and the entity's inability to provide supporting documentation for expenditure for the funeral of the former president of the country.

Impact of Education, Health as well as Roads and Public Works

Education, Health as well as Roads and Public Works contributed 79% of the total expenditure in the province. These departments play a critical role in service delivery within the province, but yet they lag behind in terms of creating a solid control environment that promotes sound administration that enables the effective execution of their mandate.

These departments are struggling to produce credible and reliable financial statements and performance reports. In addition, they also fail to comply with the requirements of key legislation due to a lack of accountability and year-round financial disciplines.

We do acknowledge the improvement in audit outcomes over the past few years. The sustainability of these outcomes is still questionable, however, as the basic key controls that enhance the credibility of information used for enforcing accountability have not been institutionalised. In addition, these departments do not yet fully appreciate the important role of applying consequences for transgressions and poor performance. A low tolerance for inappropriate behaviour will go a long way in building public confidence and restoring the integrity of the system of public administration.

Coega Development Corporation

In the past year, we have taken back the audit of the Coega Development Corporation, given the critical positioning of the entity in economic development in the province. Previously this audit was dealt with outside our direct audit portfolio, in terms of section 4(3) of the Public Audit Act. This section allows us to opt not to perform the audit of certain entities, where the enabling legislation of those entities allow them the right to appoint auditors in own right.

In the 2013-14 year, the audit outcome of the Coega Development Corporation regressed from unqualified with no findings to unqualified with one finding on compliance relating to procurement. This outcome is not reflected in the analysis of audit outcomes earlier on in this report.

In its annual report, the Coega Development Corporation acknowledges the Department of Trade and Industry as its ultimate executive authority on the strength of it holding a class A share in the corporation, which gives it the majority voting control in dealing with matters of the corporation. Upon enquiry, though, the department does not acknowledge the Coega Development Corporation as a national public entity. This contention is contradicted by the fact that the corporation's budget and annual report are handled in the Provincial Legislature of the Eastern Cape. This does not present an ideal and clear situation when it comes to defining accountability and structuring effective oversight. Seeing that the provincial executive is rethinking its portfolio of economic development investments, we strongly suggest that the leadership clarifies this situation to a point where accountability can be pinpointed within the province and where there is one confirmed point of oversight in the Provincial Legislature.

Way forward

As already mentioned, the province now has a solid foundation at the leadership level within the coordinating departments of the Provincial Treasury and the Office of the Premier to assist all auditees to achieve clean administration. These role players should work together with auditees by, for example, assisting the leadership with institutionalising the best practices that they have implemented. This should pave the way for the improved administration of public funds allocated to them and, ultimately, sustainable improved audit outcomes.

3. Status of the three areas that we audit and report on

3.1 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 key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term 'material misstatement' to refer to such material errors or omissions.

The quality of the financial statements submitted for auditing

Figure 4: Three-year trend – quality of financial statements

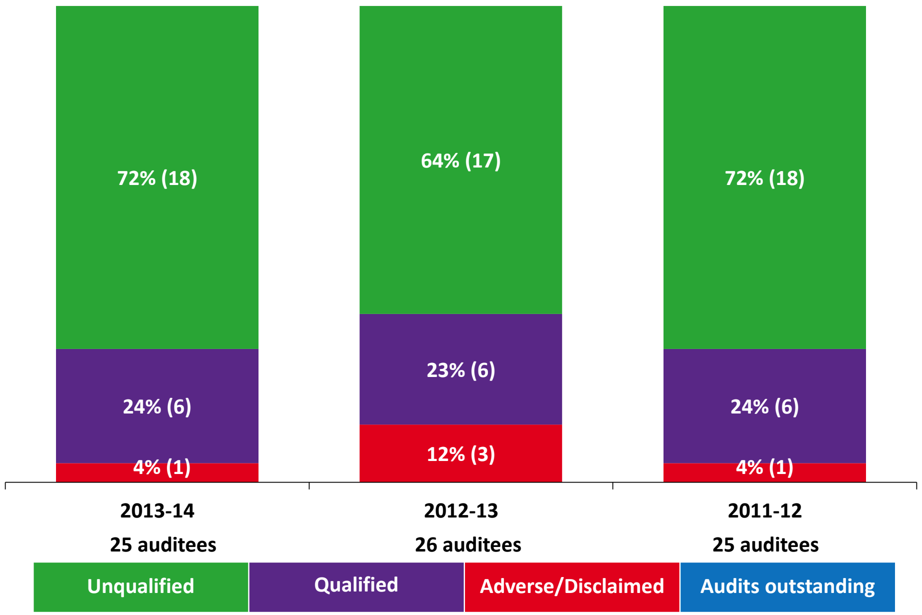


Figure 4 illustrates that there has been an improvement in the audit outcomes on financial statements since the previous year. These five improvements are not considered sustainable, however, as they were as a result of material adjustments identified during the audit process and subsequently corrected by management in line with the requirements of the auditing standards.

While all 25 auditees submitted their financial statements for auditing on time, only eight auditees (32%) (2012-13: 27%) submitted financial statements that did not contain material misstatements, while the remaining 17 submitted financial statements that were not accurate. The poor quality of financial information was the result of inadequate financial disciplines throughout the year, which did not promote a system of transparent financial reporting.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material compliance finding, as it also constitutes non-compliance with the PFMA. The finding is only reported if the financial statements we received for auditing contained material misstatements that could have been prevented or detected if the auditee had an effective internal control system.

Figure 5: Quality of financial statements submitted for auditing

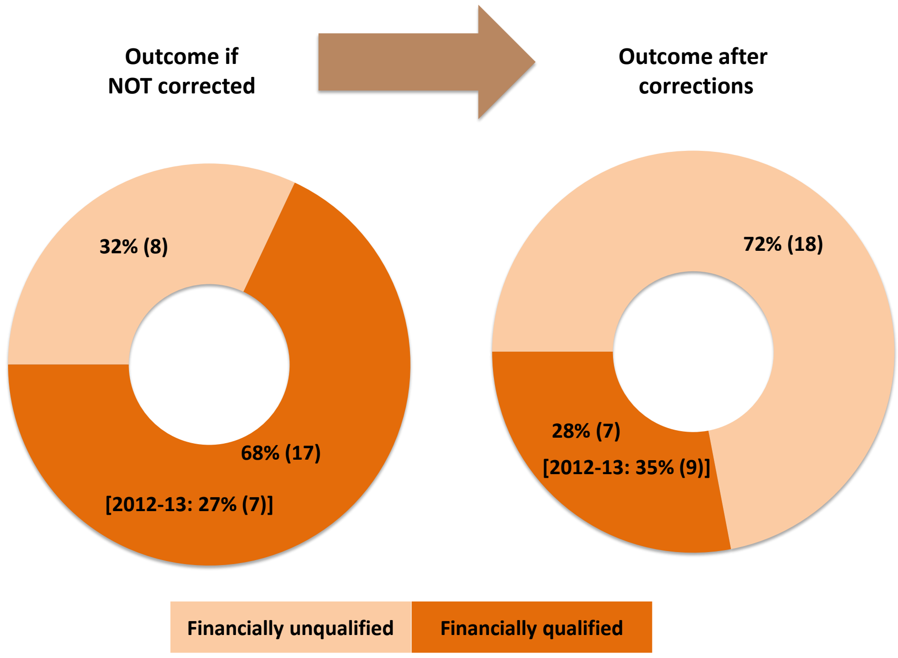


Figure 5 shows that 10 auditees (40%) received a financially unqualified audit opinion with findings, only because they corrected all the misstatements we had identified during the audit. A total of 17 auditees (68%) would have received qualified audit opinions with findings if we had not identified the misstatements for them and allowed them to make the corrections, in accordance with the requirements of the auditing standards. The two most common areas that were corrected during the audit process to avoid qualifications were the following:

- Other disclosures – this was due to disclosures that had not been prepared accurately in accordance with the requirements of the reporting framework of the auditee.
- Completeness of irregular expenditure – not all irregular expenditure incurred as a result of non-compliance with SCM regulations was disclosed in the financial statements.

Material adjustments that were corrected can be split as follows between public entities and departments:

- Public entities – four (40%)
- Departments – six (60%)

The slight improvement in the number of auditees that submitted financial statements with no material misstatements indicates the slow response to our message to implement effective daily, weekly and monthly financial disciplines. Furthermore, eight departments used consultants to assist them to prepare their financial statements. The use of these consultants is further analysed in section 5.1 of this report. The continued use of consultants and the reliance on the auditors to identify corrections to be made to the financial statements to obtain unqualified audit opinions are not a sustainable practice.

Financial statement areas qualified

Even though we reported the material misstatements to management for correction, seven auditees (28%) (2012-13: 35%) could not make some of the necessary corrections to the financial statements, which resulted in qualified and disclaimed audit outcomes. The main reasons for not making the corrections were:

- a lack of effective and adequate systems to identify and accurately record all transactions in the appropriate accounts
- the general lack of effective monthly reporting
- the unavailability of supporting documentation for transactions and balances recorded in the financial statements.

Figure 6: Three most common financial statement qualification areas

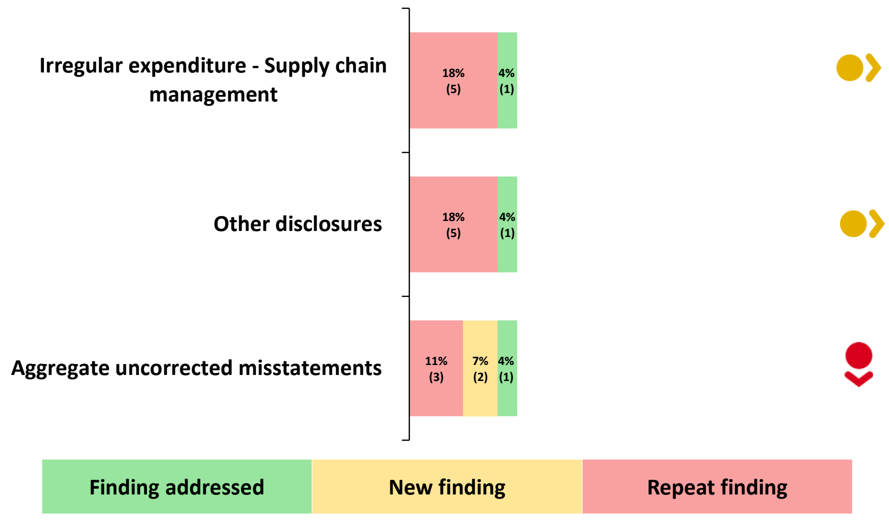


Figure 6 indicates the three most common financial statement qualification areas for departments and public entities, and their progress in addressing these since the previous year. We discuss these in more detail below.

Irregular expenditure

The most common qualification item for both departments and public entities related to the completeness of irregular expenditure incurred as a result of non-compliance with SCM regulations. This was due to auditees not having sufficient financial controls to prevent or detect, and subsequently report, all irregular expenditure incurred.

We also highlighted this area in the previous year. It has not been adequately addressed, as a result of the slow response by the leadership to instil the required SCM practices and disciplines and to take corrective action against officials who do not comply with SCM legislation. We further analyse the nature and categories of irregular expenditure incurred by auditees in section 3.3.2 of this report.

Other disclosures notes

This qualification item was more common at departments than at public entities. The main reason why departments were qualified on this area was a lack of adequate monthly financial reporting in respect of disclosure notes relating to employee benefits, immovable and movable assets, accruals and comm itments. As a result, these balances were only accounted for at year-end during the preparation of the financial statements. This does not contribute towards a control environment that prevents, identifies and corrects errors in a timely manner. In respect of public entities, the identified misstatements were as a result of non-compliance with the reporting framework for entities.

We also highlighted this area in the previous year. It has not been addressed, due to a slow response to our message of institutionalising the culture of monthly financial disciplines that promote transparent and credible financial reporting, which must be supported by adequately skilled individuals.

Aggregate misstatements

Aggregate misstatements are misstatements that are not material individually but are material when accumulated with other uncorrected misstatements. We also highlighted this area in the previous year. It has not been addressed, due to the slow response by the leadership to implement adequate financial processes to identify and record all required transactions. Further contributing factors were the lack of financial disciplines in respect of monthly reconciliations and the inadequate review and monitoring of financial reporting processes.

Way forward

The following need to be strengthened to address the findings analysed above:

- Ensure that the control environment is strengthened through the introduction of key oversight controls that will ensure the accurate and complete recording of transactions, balances and disclosures through the preparation of reliable monthly or quarterly financial statements as well as daily and monthly reconciliations.
- Implement proper consequence management for poor performance and transgressions for all officials as part of a performance management system.
- Develop and implement appropriate compliance reporting policies and procedures, clearly defining roles and responsibilities for reporting on compliance, regularly reviewing reported compliance against supporting documents, and frequently reporting on compliance.
- Appoint competent officials at the seven auditees where this challenge has not been addressed yet, to assist and manage the financial reporting responsibilities of the auditee. Also train officials in the new Modified Cash Standard (for departments) or Generally Recognised Accounting Practice (for public entities) to ensure awareness of their reporting responsibilities.

3.2 Annual performance reports

To enable transparency, responsiveness and accountability, government should have an effective performance reporting system. The public should have access to performance information, indicating whether taxpayers' money had been well spent and what has been achieved. Legislators also use performance information to track progress of government departments and institutions, identify scope for improvement, and better understand the underlying issues experienced by institutions.

Based on this, auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives, and to report on this in their annual performance reports. When auditing reporting on predetermined objectives, we do not evaluate if the auditees delivered on their mandate in an economical, efficient and effective way. The purpose is simply to evaluate the process auditees followed to set objectives and how they reported on these objectives.

In previous years, the results of our annual regularity audits on how government reports on predetermined objectives, highlighted the concern that many government institutions were not ready to report on their performance. The extent of the shortcomings prompted us to conduct a performance audit, in addition to our annual regularity audit, to determine the underlying causes of shortcomings in reporting on performance. The aim was to assist government in accelerating its readiness and effectiveness to report on its performance.

Performance audit of the readiness of government to report on its performance

The performance audit on the readiness of government to report on its performance was conducted at:

- selected central performance oversight institutions
- selected national departments with concurrent functions
- provincial oversight institutions (provincial treasuries and offices of the premier) in all nine provinces
- identified provincial departments (the audit focused on the four sectors that had the highest total government expenditure, namely education, health, public works and social development).

With regard to the provinces, we performed the audit transversally across the provinces, and focused on:

- the performance reporting guidance and oversight that government departments have received
- the systems and processes that government departments have put in place to report on their performance.

The audit found that departments continued to produce annual performance reports that were not useful and reliable. In the Eastern Cape, we performed the audit at the following oversight institutions and departments:

Oversight institutions – Office of the Premier and Provincial Treasury

The audit indicated that the provincial oversight institutions did not provide performance management and reporting guidance and oversight, due to unclear roles and responsibilities in this regard. However, the province has been able to enhance support and guidance to departments. The current status of the oversight role of the Office of the Premier and the Provincial Treasury is reflected in section 6 of this report.

Departments – Departments of Education, Health, Roads and Public Works as well as Social Development and Special Programmes

The most common findings identified at the departments were the following:

- Some departments did not have approved or comprehensive policies and procedures for reporting on performance.
- Some performance indicators were not well defined or verifiable, or did not measure whether resources had been used efficiently, effectively and economically to produce the desired outputs and outcomes.
- Performance targets did not always comply with the SMART criteria, or were not realistic as they were not selected based on accurate baseline information or research and evaluation.
- Staff were not sufficiently skilled to manage and report on performance.
- Some departments did not hold their staff accountable for underperformance in reporting on performance or achieving performance targets.
- Approved processes and system documentation for collecting, collating, verifying, storing and reporting on actual performance did not exist.
- Some departments did not explain material deviations between planned and actual performance. In addition, evidence to support explanations was not maintained or explanations were not reviewed by management.
- Action plans were not developed to ensure prompt corrective action where underperformance occurred or where performance reporting shortcomings were identified.

Over the past three years, both regularity and performance audit teams intensified interactions with role players at both provincial executive and auditee leadership level. The status at the end of the 2013-14 financial year, reflected below, clearly indicates that these interventions resulted in a number of departments being able to address the identified weaknesses. We specifically note the Department of Social Development and Special Programmes that addressed all matters to the extent that we reported no finding on performance reporting in their 2013-14 audit report.

2013-14 regularity audit on the quality of annual performance reports

We audited selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports was useful and reliable for oversight bodies, the public and other users of the reports to assess the performance of the auditee. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of these users. The programmes and objectives we select are those that are important for the delivery of the auditee's mandate.

We audited the usefulness of the reported performance information by determining whether it was presented in the annual report in the prescribed manner, and was consistent with auditees' planned objectives as defined in their strategic plans and annual performance plans. We also assessed whether the performance indicators and targets that were set to measure the achievement of objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We audited the reliability of the reported information by determining whether it could be traced back to the source data or documentation, and was accurate, complete and valid.

Figure 7: Three-year trend – quality of annual performance reports

Figure 7 shows that there has been an increase in auditees with no material findings on the quality of their annual performance reports when compared to the previous year. This shows that progress has been made since the interactions with role players based on prior year outcomes and the findings contained in the previously mentioned performance report. Seven auditees were able to sustain their previous year's outcome of having no findings, while 10 auditees (40%) managed to address prior year findings to such an extent that we did not report any findings for the current year. This was achieved by the leadership:

- implementing performance reporting systems that were managed by competent personnel
- preparing accurate monthly performance reports that enabled monitoring and oversight functions
- enforcing consequences for poor performance where necessary.

In so doing, these auditees made good on a commitment that originated two years ago to deal decisively with this area and which required a solid investment from the provincial leadership. It proves the value of such a focused intervention, which should also be extended to areas around the quality of the financial statements (to prevent material adjustments) and compliance with legislation (dealing with SCM non-compliance).

The remaining 24% had no findings on their performance reports, due to adjustments made as part of the audit process. This is analysed in more detail in figure 8.

In contrast, the Eastern Cape Parks and Tourism Agency regressed from having no findings to having findings on the usefulness of its reported information, while seven auditees had repeat findings as they were unable to effectively address prior year findings.

Included in these seven auditees were Education, Health as well as Roads and Public Works, representing 79% of the provincial budget. It is clear that these departments have not sufficiently attended to prior recommendations, which included implementing systems, capacitating performance reporting sections, and the leadership and governance structures effectively monitoring and overseeing performance information throughout the year. These departments need to focus on the recommendations discussed further on and adopt highlighted best practices of other departments.

The quality of the annual performance reports submitted for auditing

While all 25 auditees submitted their annual performance reports for auditing on time, figure 8 shows that only 10 auditees (40%) submitted annual performance reports that did not contain material misstatements. These auditees had sustainable systems, which laid the foundation for in-year monitoring to be performed effectively.

Figure 8: Quality of submitted annual performance reports

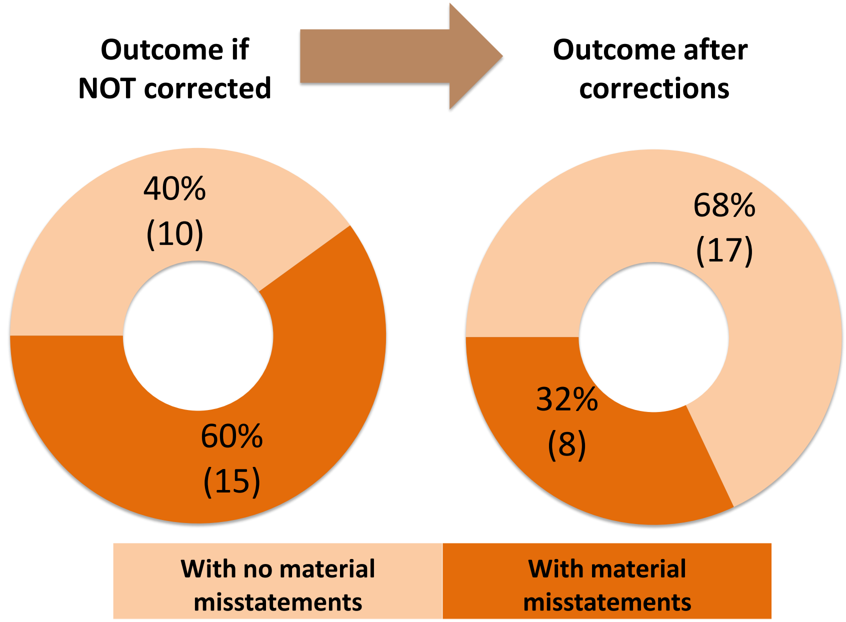


Figure 8 shows that seven auditees (28%) did not have any material findings only because they corrected all the misstatements we had identified during the audit. This highlights the risk that in-year monitoring, oversight and decision-making processes could have been based on information that was not credible.

This furthermore re-enforces the importance of internal audit units and audit committees ensuring the credibility of information during the year.

Findings on the usefulness and reliability of annual performance reports

Some main programmes or objectives of auditees are material in relation to their budget and mandate. The following are the programmes and objectives we selected for auditing and for which we reported material findings on usefulness and reliability, as highlighted in red:

Auditee	Programme/Objective	Not useful	Not reliable
Health	Programme 2: district health services		
	Programme 4: provincial hospital services		
	Programme 5: tertiary hospital services		
Sport, Recreation, Arts and Culture	Programme 2: cultural affairs		
	Programme 4: sport and recreation		
Transport	Programme 2: transport operations		
Education	Programme 2: public ordinary schools		
Roads and Public Works	Programme 2: public works		
	Programme 3: road infrastructure		
	Programme 4: community based public works programme		
Eastern Cape Appropriate Technology Unit	Programme 2: research and development		
	Programme 3: business development		
Eastern Cape Parks and Tourism Agency	Programme 1: operations		
Eastern Cape Rural Development Agency	Programme 5: rural finance and investment		

The most common findings on usefulness were the following:

- Corroborating evidence for the reasons for differences between planned and actual performance could not be provided.
- Indicators and targets were not well defined in all instances.
- Performance targets were not always measurable.

Findings on reliability relate to whether the reported information could be traced back to the source data or documents and whether the reported information was accurate, complete and valid when compared to the source. Auditees with findings in this regard did not sufficiently consider the evidence required to prove performance and were unable to provide evidence to support the performance information reported on. The most common finding on reliability related to the accuracy, validity and completeness of actual reported performance.

Way forward

The improvement in outcomes indicates that those who did not have findings now have the necessary systems to track and monitor their predetermined objectives. It remains critical, however, that auditees focus on monitoring throughout the year to ensure that the whole process has a noticeable impact on the auditees delivering on their mandates.

The best practices highlighted above as the key elements that had led to improvements and that formed the foundation for sustained favourable outcomes, should be adopted by those auditees whose reporting on predetermined objectives is not yet at the required standard.

It should also be noted that the objectives in the annual performance plan are mostly input-driven and not necessarily focused on measuring the impact of these objectives on service delivery. Going forward, the leadership should focus on setting measurement criteria that encourage output or the impact on the delivery of the mandate. This initiative should further be enhanced by the various portfolio committees when approving performance plans as well as during budget debates.

Those auditees who still have findings should strengthen their processes and controls to create, and then sustain, a control environment that supports credible, useful and reliable reporting. To make significant strides in improving the outcomes in this area, the provincial leadership, with assistance from the Office of the Premier and the Provincial Treasury, should address each of the elements discussed below.

Formal planning for service delivery and reporting

The strategic or corporate plans, supplemented at a more detailed level with operational plans, should form the basis of service delivery execution and reporting. The provincial leadership, the Office of the Premier, the Provincial Treasury and the Provincial Legislature should ensure that processes for the development of planning documents include enough time for robust review by the leadership and the governance structures (namely the audit committee and the internal audit unit).

The leadership and the Provincial Legislature, through its portfolio committees, should rigorously review planning documents to ensure that service delivery is aligned to government priorities, and can be measured and reported on.

Planning documents may be changed during the year should the need arise or priorities change, but any changes should be approved by the relevant executive authority and supported by the relevant portfolio committee. Changes should also be properly disclosed in the annual performance report.

Implementation of appropriate systems and processes

The provincial leadership should align their reporting systems to be able to report accurately on the objectives, indicators and targets contained in planning documents, as follows:

- Align the organisational structures to the requirements of performance reporting and ensure that all staff involved in this process have the necessary skills.
- Develop and implement appropriate performance reporting policies and procedures.
- Clearly define roles and responsibilities for performance reporting.
- Regularly reconcile reported performance to supporting documents.
- Regularly report on performance, and review performance reports.
- The leadership, governance structures and portfolio committees should interrogate performance information to ensure its credibility.

Performance management

The indicators and targets contained in planning documents should form the basis for the signed performance agreements of heads of departments (HoDs) and chief executive officers (CEOs), and should be filtered down to senior management and all levels of staff. These agreements should contain requirements relating to valid, accurate and complete reporting on performance. Appropriate consequences for poor performance should be implemented to hold all officials accountable for the work that they do every day.

Monitoring by audit committees and internal audit units

Legislation requires the internal audit unit to evaluate the processes through which objectives, indicators and targets are established and communicated, and through which achievements are monitored. This implies that audit committees should review internal audit reports and reports on predetermined objectives. Audit committees and internal audit units did not pay sufficient attention to predetermined objective reporting during the year under review to ensure sustainable improvement in systems and procedures. This points to a risk that internal audit units and audit committees are not empowered with the necessary performance management specialists.

Audit committees and internal audit units should ensure that all relevant risks are included in risk management strategies, and should provide assurance to the leadership that the strategies implemented to lessen predetermined objective reporting risks are adequate. This means that internal audit units should scrutinise, and that audit committees should consider, in-year reports on predetermined objectives.

In-year oversight

The provincial leadership, the Office of the Premier, the Provincial Treasury and portfolio committees should insist on regular and credible in-year reports. These reports should be monitored during the year, while oversight actions should be taken and recommendations made where actual delivery is falling behind schedule.

In addition, portfolio committees should interrogate the strategic planning documents and processes that auditees used in developing their indicators and targets, to ensure that they meet the usefulness criterion and are output-based, before the annual budgets and strategic plans are approved.

3.3 Compliance with key legislation

We annually audit and report on compliance with key legislation applicable to financial matters, financial management and other related matters.

We focused on the following areas in our compliance audits: ■ material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committee ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ internal audit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, SCM) ■ HR management and compensation.

In the audit report, we reported findings from the audits that were material enough to be brought to the attention of oversight bodies and the public.

Status and findings on compliance with key legislation

Figure 9: Three-year trend – compliance with key legislation

Figure 9 shows the number of auditees with material compliance findings over the past three years. The slight improvement can be attributed to the DLGTA addressing its compliance findings from the previous year. Three auditees (Provincial Treasury, Office of the Premier and Eastern Cape Socio-Economic Consultative Council) retained their status of having no findings on compliance from the previous year.

It is encouraging that three of the coordinating departments (Provincial Treasury, Office of the Premier and DLGTA) are leading by example with no compliance findings. This status was achieved through solid in-year compliance monitoring by both the leadership and the audit committee, as well as the enforcement of proper governance and accountability practices. These practices include compliance with legislation being assessed as a key risk during the risk-assessment processes, subjecting compliance to in-year reviews by the audit committee and internal audit unit, and holding officials accountable for their actions by instituting disciplinary action where necessary.

Eight auditees that received unqualified audit opinions have made some progress towards eliminating findings on compliance by reducing the number of compliance focus areas reported on. However, progress is very slow considering that we have reported on these areas for more than five years.

At the remaining 13 auditees, the number of compliance focus areas reported on has either stagnated or regressed. The regressions include Education, Eastern Cape Appropriate Technology Unit, Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board and Eastern Cape Provincial Arts and Culture Council. This lack of positive movement was due to the slow response by the leadership to implement consequence management for those that did not adhere to the prescripts of the law. This further contributed to a weak control environment that did not support a culture of compliance with legislation.

Figure 10: Trends in findings on compliance with legislation

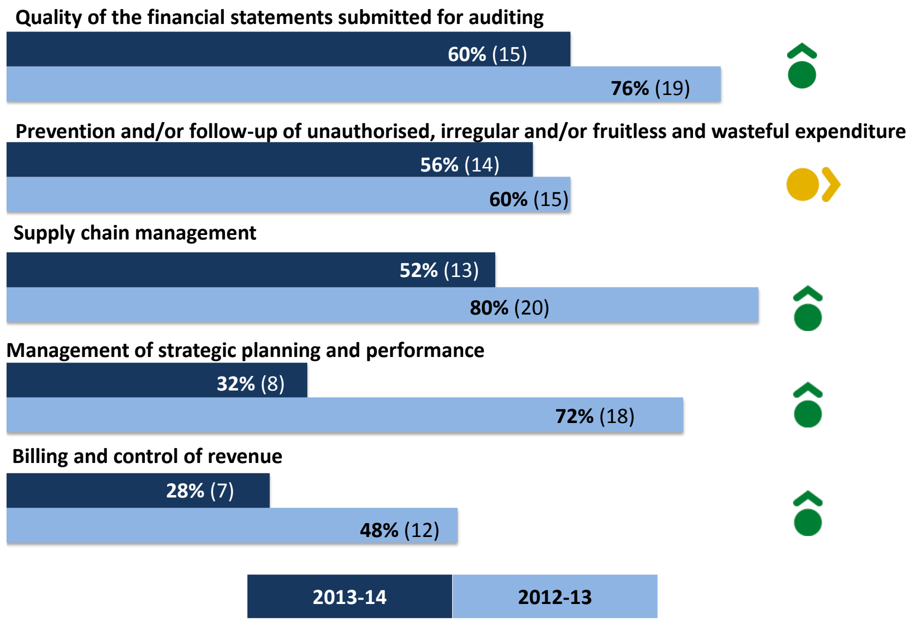


Figure 10 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. The reduction in the number of auditees with findings across the areas reported on is encouraging. The best practices relating to in-year monitoring of compliance together with the related accountability and governance practices should be shared with those auditees where findings are still common.

Sections 3.3.1 and 3.3.2 below provides more information on the areas of SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations to address compliance findings.

3.3.1 Supply chain management

As part of our audits of SCM, we tested 439 contracts (with an approximate value of R7,4 billion) and 1 271 quotations (with an approximate value of R109 million), also referred to as 'awards' in this report.

We tested whether the prescribed procurement processes had been followed. These processes should ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others, which could result in the procurement of goods or services in a manner that was not economic, efficient and effective. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers to the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare their interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process.

We reported all the findings from the audit to management in a management report, while we reported the material compliance findings in the audit report.

Figure 11: Status of supply chain management

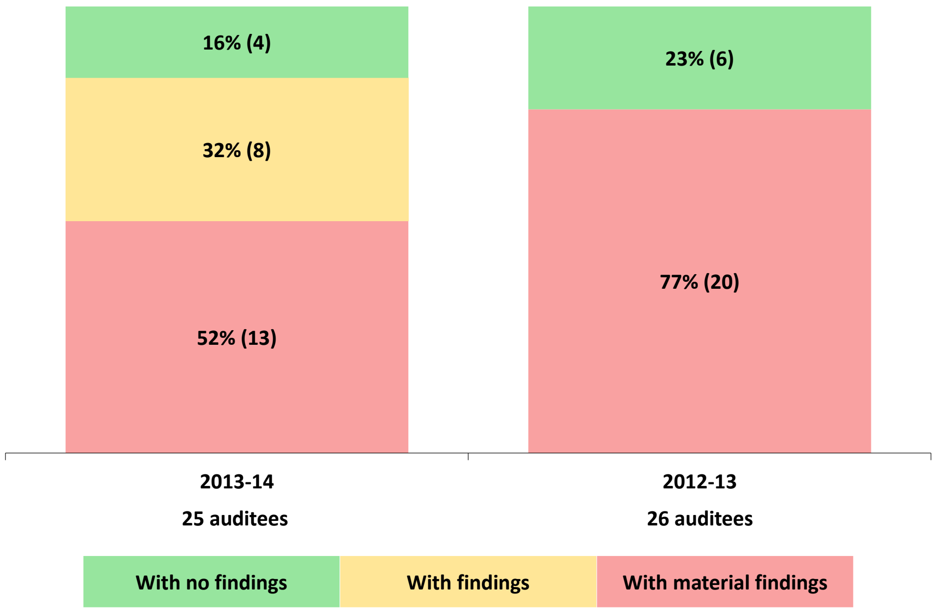


Figure 11 shows the number of auditees that had findings on SCM and those where we reported material compliance findings in the audit report in the current and previous year. Material findings are those findings that were considered sufficiently important to be included in the audit report. Non-material findings are those findings that were reported only in the management report; but if not addressed, could result in material findings in future.

Although the number of auditees with material findings on SCM non-compliance decreased, irregular expenditure in value terms increased. This was mainly due to the amount incurred by Roads and Public Works, which is analysed in more detail in section 3.3.2 below.

Figure 12: Findings on supply chain management

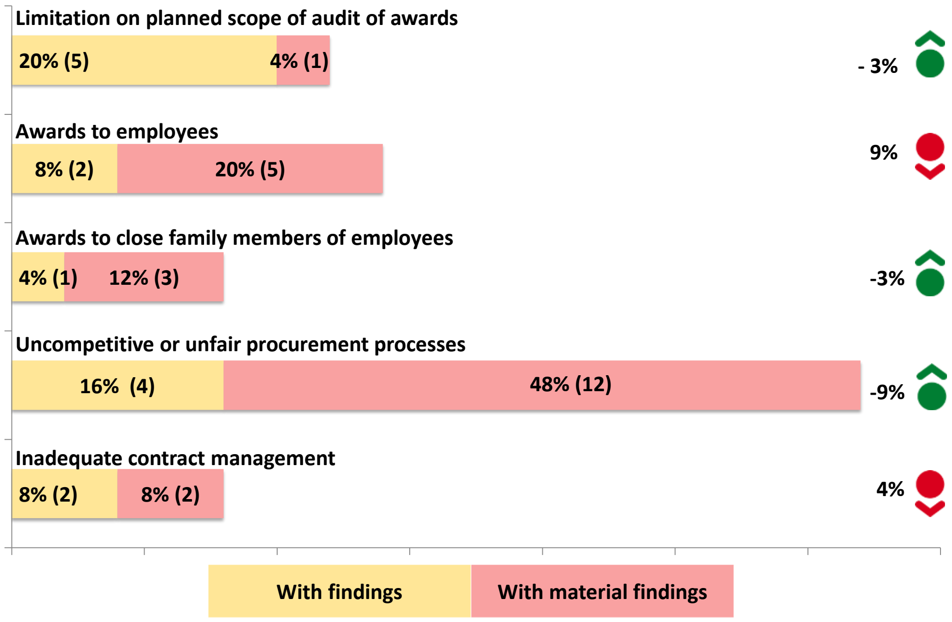


Figure 12 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- **Limitations** were once again experienced in the SCM audits. We could not audit awards with a value of R68 million at five auditees, as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular. The main reason for the limitations was **poor record keeping** that prevented the auditees from retrieving the required documents for audit purposes. The possibility that the required documentation was withheld deliberately to conceal fraudulent activities can also not be excluded. Accounting officers should investigate all instances where documentation could not be submitted and should take appropriate action against those officials who failed to submit the required documentation.
- Legislation does not prohibit transactions with employees, their close family members or other officials employed by the state, but requires disclosure of the interest by both the employee and the provider, non-participation by the affected employee in the procurement processes, and the employee obtaining permission for the additional remunerative work. These processes are necessary to ensure fair, transparent and cost-effective procurement processes that guarantee the effective, efficient and economical use of resources. During our audits, the following were noted in respect of **awards to employees and their close family members**:
  - There were 71 instances of awards with an overall value of R7 million to suppliers in which **employees** of the auditees **had an interest**. For 42% of these awards, the supplier did not declare the interest, while the employee did not declare the interest in 23% of the cases. In 14% of these cases, the employees did not obtain permission to perform additional remunerative work. The persons involved included senior managers and accounting officers.
  - There were 242 instances of awards with an overall value of R27 million to suppliers in which **close family members of employees** of the auditees **had an interest**. For 10% of these awards, the supplier did not declare the interest, while the employee did not declare the interest in 17% of the cases.
  - There were 89 instances of awards with an overall value of R23,6 million to suppliers in which **other state officials had an interest**. In 31% of these cases, the supplier did not declare the interest.

  Consequently, we could not always determine whether the procurement processes applied in the acquisition of goods and services from employees, their family members or other state officials to the value of R58 million resulted in the transparent, effective, efficient and economical use of state resources. It is the accounting officer's responsibility to implement systems and processes that ensure compliance with ethical business practices. The continued repeat findings in this area show that much work has to be done to build the ethical culture required to ensure sustained compliance with SCM prescripts.
- Findings on **unfair and uncompetitive processes** relate to specific procurement processes that should have been followed by auditees, and exclude the findings on awards to employees, their families and other state officials as reported above. These processes often result in incorrect suppliers being awarded contracts, usually at prices that are above market-related rates. This then has a negative impact on the economical use of resources by government. The most common findings on uncompetitive and unfair procurement processes were as follows:
  - Three **written price quotations** were not invited, or deviations were not approved or justifiable: 11 auditees (68%).

- **Competitive bids** were not always invited and the required deviations were either not approved or justifiable: eight auditees (50%).
- Procurement took place without **tax clearance certificates** from the South African Revenue Service: eight auditees (50%).

- The most common finding on **contract management** related to signed **contracts not being available** for auditing or **contracts not being signed** by an appropriately delegated official at two auditees (50%). This may result in suppliers disputing the terms and conditions of their appointment, especially where they do not perform as required.

The most significant **internal control deficiencies** identified during our audits included the following:

- Management **not taking appropriate action** to address the SCM risks identified during the risk assessment process (seven auditees).
- Management **not implementing appropriate processes and systems** to ensure that interests are declared and validated (six auditees). The processes implemented should assist the leadership in ensuring that ethical business practices become entrenched in the day-to-day activities of all auditees in the province.

Although we are encouraged by the significant reduction in material SCM findings, the leadership should continue to focus on instilling SCM practices and disciplines to eliminate these findings altogether.

In the previous year, role players responded to our SCM message by providing commitments to address the SCM non-compliance and related irregular expenditure. Unfortunately, these commitments were not all implemented. This slow response to our SCM message was due to neither the political nor the administrative leadership taking ownership and accountability for the implementation of our recommendations. We challenge all oversight bodies, including the Office of the Premier and the Provincial Treasury, to lead by example in this area by driving a zero-tolerance approach to SCM malpractices and taking action against those officials who do not adhere to SCM prescripts. We will continue to hold workshops to discuss these findings and provide useful and relevant insights to the leadership. This should enable them to address the weaknesses identified and restore the public's confidence in their ability to manage the resources entrusted to them.

Way forward

The following need to receive attention to address the findings analysed above:

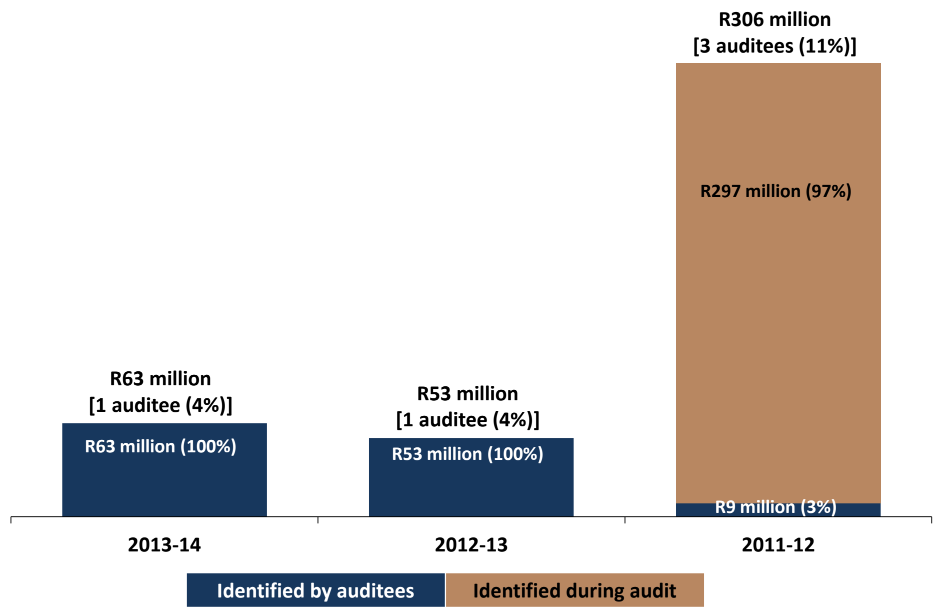
- All role players and governance structures should ensure that SCM malpractices are eliminated. This must be supplemented with appropriate consequences for breaches in SCM compliance.
- The Provincial Treasury should assist auditees to reduce their overall level of non-compliance by developing and rolling out an SCM tool that could assist auditees in identifying transactions that would potentially result in non-compliance before they are approved, and that provides appropriate monitoring mechanisms to prevent non-compliance.

3.3.2 Unauthorised, irregular as well as fruitless and wasteful expenditure

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. The PFMA requires accounting officers to take all reasonable steps to prevent unauthorised expenditure. The auditee should have processes in place to identify any unauthorised expenditure incurred and disclose the amounts in the financial statements. The PFMA also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

Figure 13: Three-year trend – unauthorised expenditure



All of the 2013-14 unauthorised expenditure was incurred by Education, as a result of overspending the budget. This overspending was due to inadequate in-year reporting and budget management. Systems and processes that result in proper service delivery planning, implementation, reporting, monitoring and oversight should be put in place to eliminate unauthorised expenditure in the province.

We commend the province for reducing its unauthorised expenditure from R306 million in 2011-12 to R63 million in 2013-14. This reduction correlates with the overall improvement in the financial health of the province as a whole. The Provincial Treasury instituted the following measures to effectively manage unauthorised expenditure:

- Executive authorities, accounting officers and authorities, CFOs and programme managers were required to sign an accountability pledge whereby they undertook to manage their budgets and to not over- or underspend.
- The Provincial Treasury reported on its perceptions of financial management at individual departments to the relevant executive authorities and accounting officers on a monthly basis. In addition, regular feedback letters were provided to departments that highlighted areas of concern to enhance the extent of spending of departmental budgets.
- The executive authority of the Provincial Treasury held quarterly one-to-one meetings with the leadership of individual departments.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, but indicates that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It also points to a significant breakdown in controls at some auditees.

The PFMA requires accounting officers to take all reasonable steps to prevent irregular expenditure. Auditees should have processes in place to detect non-compliance with legislation that result in irregular expenditure and, if incurred, are required to disclose the amounts in the financial statements. Irregular expenditure must be reported when it is identified – even if such expenditure was from a previous financial year. The PFMA also requires accounting officers to investigate all irregular expenditure to determine if anyone can be held liable for its incurrence. Where liability can be proven, the accounting officer must take disciplinary and/or criminal action against the liable employees and must also institute procedures for the recovery of the irregular expenditure.

Figure 14: Three-year trend – irregular expenditure

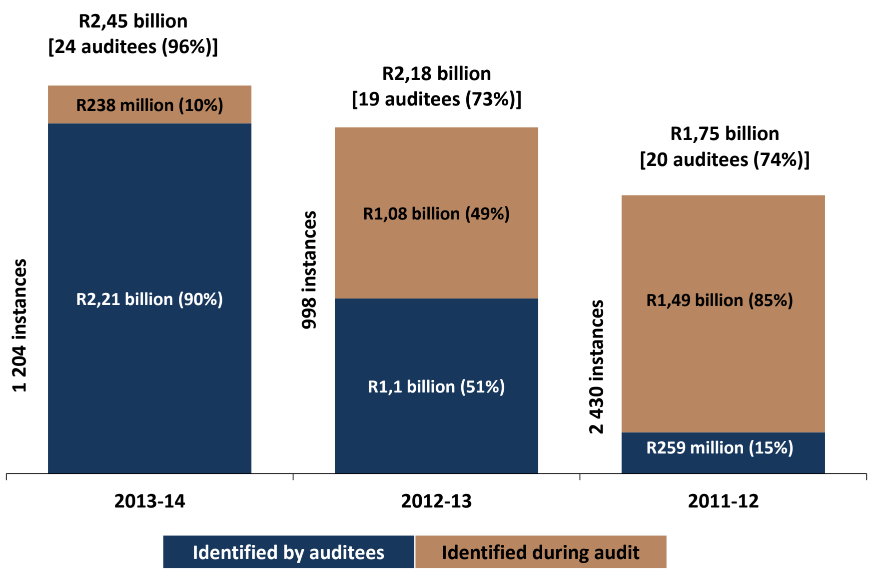
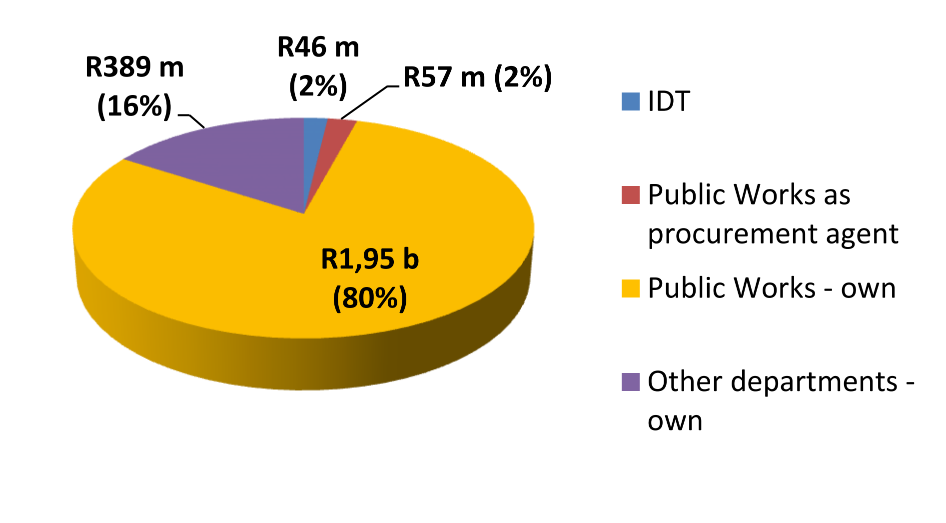


Figure 15: Irregular expenditure related to supply chain management by procurement agents



The total irregular expenditure incurred amounted to 4,1% of the budget allocated to the province for the 2013-14 financial year. In total, 98% of the irregular expenditure related to non-compliance with SCM legislation, while the remaining 2% related to non-compliance with legislation dealing with the compensation of employees. The main areas of non-compliance with SCM legislation are analysed in section 3.3.1 above.

The upward trend in irregular expenditure remains a concern. Of even greater concern is that Roads and Public Works was responsible for R1,95 billion (80%) of the irregular expenditure incurred in the province. Immediate intervention by the provincial leadership is needed to address this matter.

The department's disregard for SCM legislation and processes did not only affect its own procurement but also the procurement of Health, Education as well as Social Development and Special Programmes, where it acts as an implementing agent for infrastructure projects. A significant portion of the irregular expenditure incurred by these three departments was due to procurement processes not followed by Roads and Public Works. All departments that use Roads and Public Works as their procurement agent should actively monitor the procurement processes applied to their infrastructure projects to ensure compliance with SCM legislation.

Figure 15 compares the SCM irregular expenditure incurred by the procurement agents used by the province and the departments and entities themselves to the overall irregular expenditure incurred by the province. This graphic emphasises the amount attributable to Roads and Public Works in respect of both its own procurement and procurement as an agent for the provincial infrastructure programmes. The irregular expenditure was incurred due to a lack of capacity within management and the SCM unit of Roads and Public Works and the lack of mitigating controls to address this risk.

The province used three procurement agents, namely Roads and Public Works, the Coega Development Corporation and the IDT, to assist in the development of provincial infrastructure. Roads and Public Works has the constitutional mandate to perform this function on behalf of other provincial institutions, from which it derives no fees. The IDT and the Coega Development Corporation charge a management fee for performing this function on behalf of provincial institutions.

Of the total amount of irregular expenditure, R57 million was incurred by Roads and Public Works and R46 million by the IDT as procurement agents acting on behalf of provincial departments. The lack of capacity within Roads and Public Works resulted in Education, Health and Roads and Public Works transferring increasing amounts to the Coega Development Corporation and the IDT for the procurement of provincial infrastructure. This is concerning, as limited controls are exercised by the transferring departments over the amounts transferred.

As much as 92% of the irregular expenditure reported in the province can be attributed to five auditees, namely Roads and Public Works (R1,95 billion), Health (R149 million), Education (R55 million), Sport, Recreation, Arts and Culture (R49 million), and Eastern Cape Development Corporation (R47 million).

As shown in figure 14 above, most of the irregular expenditure was identified by the auditees. This expenditure could have been prevented if the processes used to identify irregular expenditure had been applied before the awards were granted to suppliers, and if management had displayed the necessary willingness to act on known transgressions.

On a positive note, Health, Education and Human Settlements managed to reduce their irregular expenditure by more than 51%, 91% and 96%, respectively. This was achieved through improved monitoring during the year and the enforcement of consequences for transgressions. If these larger departments with regional and decentralised spending could reduce their irregular expenditure, all other auditees can do the same.

Figure 16: Prior year irregular expenditure identified in the current year

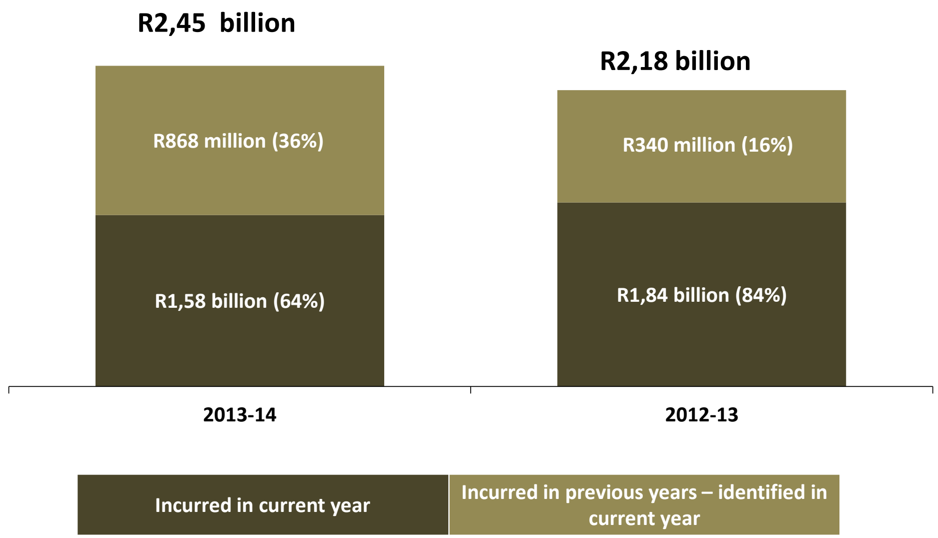


Figure 16 shows that 64% of the irregular expenditure was the result of acts of non-compliance in 2013-14. The remaining amount (36%) related to irregular expenditure incurred on contracts that had been awarded in previous years, with the related SCM transgressions occurring in the years that the contracts had been awarded. All payments made on such contracts during the year under review are classified as irregular, as the awarding of these contracts had been irregular.

The following were the main areas of non-compliance relating to the irregular expenditure incurred during 2013-14, as disclosed by the auditees in their financial statements, with an indication of the estimated value of the expenditure:

- Procurement without a competitive bidding or quotation process – R575 million (24%).
- Non-compliance with procurement process requirements – R1,77 billion (73%).
- Non-compliance with legislation on contract management – R46 million (2%).

The PFMA provides steps that accounting officers can take to investigate irregular expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The investigation should also determine whether fraud has been committed or whether money has been wasted through goods and services that were not received or that were not procured at the best price. Irregular expenditure remains on the auditee's financial statements until it is recovered if liability is proven, or written off as irrecoverable or condoned by a relevant authority (mostly the National Treasury).

At 31 March 2013, the balance of irregular expenditure that required action to be taken was R4,4 billion. It is of concern that in 2013-14, only R3,4 billion was dealt with as required by legislation, leaving a balance of R1 billion at the end of the 2013-14 financial year pertaining to irregular expenditure incurred in the previous year. Our audits also identified that at six auditees (24%), the accounting officer or oversight bodies did not investigate the irregular expenditure of the previous year to determine if any person was liable for the expenditure. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any money had been wasted.

We did not perform any investigations into the irregular expenditure, as that is the role of the accounting officer and oversight bodies. However, through our normal audits, we determined that goods and services amounting to R1,6 billion (67%) of the irregular expenditure were received despite the normal processes governing procurement not having been followed.

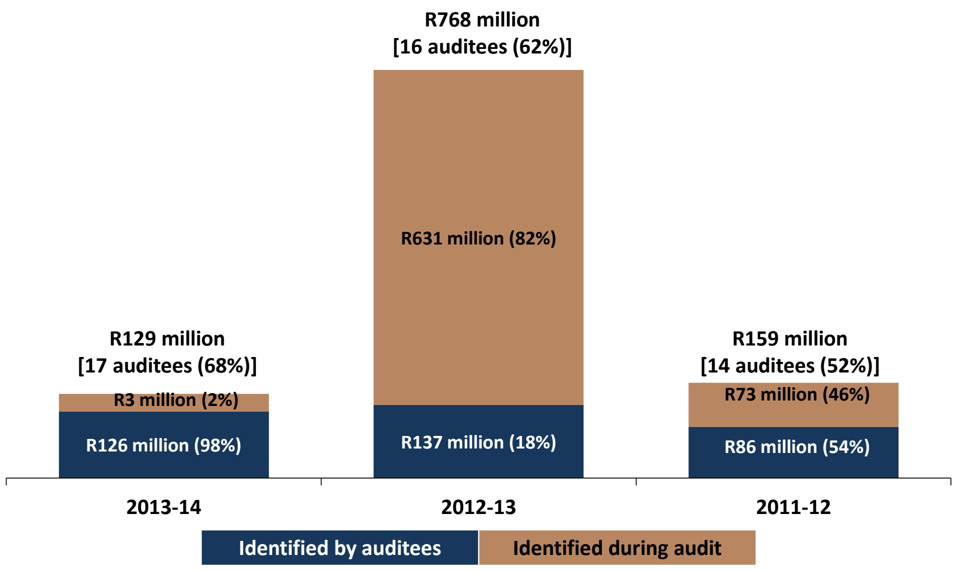
For the remainder of the amount (R790 million, or 33%), we could not specifically confirm that goods and services had been received, but our financial audits at 23 of the auditees did not identify any specific risks or material instances of payment for goods not received or services not rendered. There is a risk, though, that at the two auditees where we qualified the expenditure amount shown in the financial statements, payments could have been made for goods and services not received or rendered.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken.

The PFMA requires accounting officers to take all reasonable steps to prevent fruitless and wasteful expenditure. The auditee should have processes in place to detect fruitless and wasteful expenditure and, if incurred, to disclose the amounts in the financial statements. Fruitless and wasteful expenditure must be reported when it is identified – even if the expenditure was from a previous financial year.

Figure 17: Three-year trend – fruitless and wasteful expenditure



The reduction in fruitless and wasteful expenditure is encouraging. This is aligned to the overall improvement in compliance with legislation, a renewed focus by management on implementing controls, and enhanced oversight by the Provincial Treasury.

Although the auditees identified 98% of the fruitless and wasteful expenditure themselves, similar items of fruitless and wasteful expenditure are reported every year. This points to an unwillingness on the part of management to address the root causes of the matters that gave rise to such expenditure.

Despite the reduction, fruitless and wasteful expenditure is still at an unacceptably high amount. Education (R69 million) and Health (R51 million) incurred 93% of the fruitless and wasteful expenditure in the province.

The amount at Education related mainly to the settlement of R66,5 million in legal claims and interest of R2,5 million on the late payment of suppliers. The amount at Health was made up of R45 million in medical malpractice claims and R6 million in interest payments on the late settlement of supplier accounts.

The fruitless and wasteful expenditure incurred in the previous year was mostly made up of overpayments by Education to section 21 schools that inflated their pupil numbers as well as medical malpractice claims paid by Health. While it is encouraging that only a small portion of the overall amount of fruitless and wasteful expenditure is administrative in nature, appropriate performance-management processes and proper supervision of all staff should be implemented to eliminate this type of expenditure.

The PFMA provides steps that accounting officers can take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

Our audits identified that at six auditees (24%), the accounting officer or oversight bodies did not investigate fruitless and wasteful expenditure amounting to R123,8 million in the previous year, as required by the PFMA, to determine if any person was liable for the expenditure.

3.3.3 Recommendations – compliance

- The findings reported above relating to compliance with legislation, SCM and unauthorised, irregular as well as fruitless and wasteful expenditure were due to weak control environments. The following recommendations should be implemented to strengthen the control environments in the province, thus ensuring that government resources are utilised in an economic, effective and efficient manner for the benefit of citizens:
- The Office of the Premier, Provincial Treasury and DLGTA should lead by example and represent the ethical culture required to ensure sustained compliance with legislation. Decisive actions should be taken and severe consequences enforced for those who breach the requirements of applicable legislation (especially relating to SCM).
- Systems and processes should be implemented to ensure that breaches of legislative prescripts are identified and appropriate actions taken to correct them. This includes developing and implementing appropriate policies and procedures (including checklists), clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation, and reporting regularly on compliance.
- Audit committees and internal audit units should respond appropriately to the non-compliance risks identified, and should provide assurance to the provincial leadership that in-year compliance reports are credible.
- Oversight bodies, including the standing committee on public accounts (SCOPA), portfolio committees, the executive, Office of the Premier, audit committees and Provincial Treasury, should insist on credible in-year reports on compliance to monitor progress, make recommendations and take appropriate action during the year.
- The Provincial Treasury should assist auditees to meet their compliance obligations by providing appropriate systems, tools and training.

4. Financial health

Our audits included a high-level analysis of auditees' financial health indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also performed procedures to assess whether there are any events or conditions that may cast significant doubt on an auditee's ability to continue as a going concern.

Figure 18: Number of auditees whose financial health was assessed

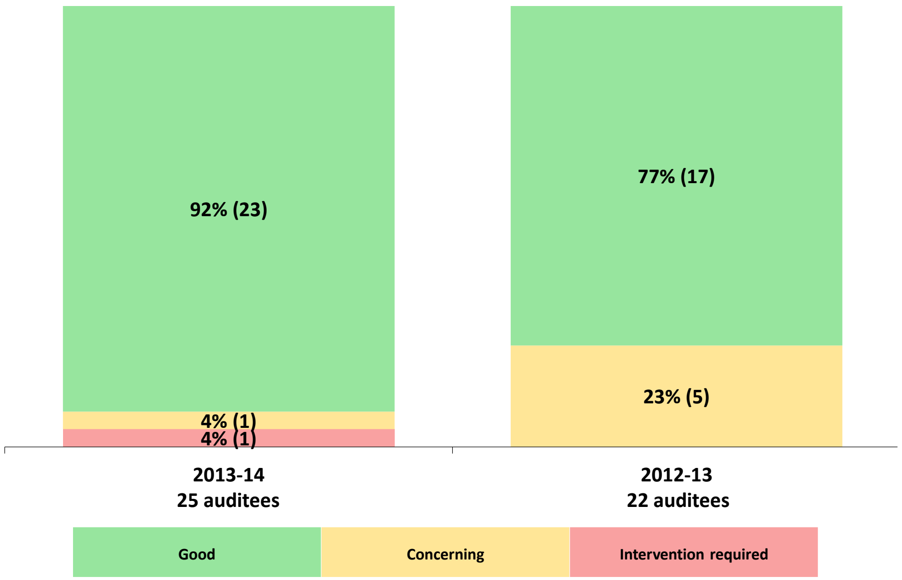


Figure 18 shows the number of auditees that were assessed for financial health indicators. Auditees with two or more indicators assessed as not satisfactory are shown as 'concerning', while auditees with material going concern uncertainties or adverse or disclaimed audit opinions, which resulted in their financial statements not being reliable enough to analyse, are shown as 'intervention required'.

The above figure illustrates that the financial health of 23 of the auditees (92%) was assessed as 'good', while one (4%) was assessed as 'concerning' and one (4%) was assessed as 'intervention required'.

The improvement in the financial health of the province can be attributed to the reduction in the number of adverse and disclaimed opinions, as we could now assess financial health at these auditees. The interventions of the Provincial Treasury to improve the financial health status of the province also contributed, as discussed in section 6 of this report.

Figure 19: Areas of financial health concerns

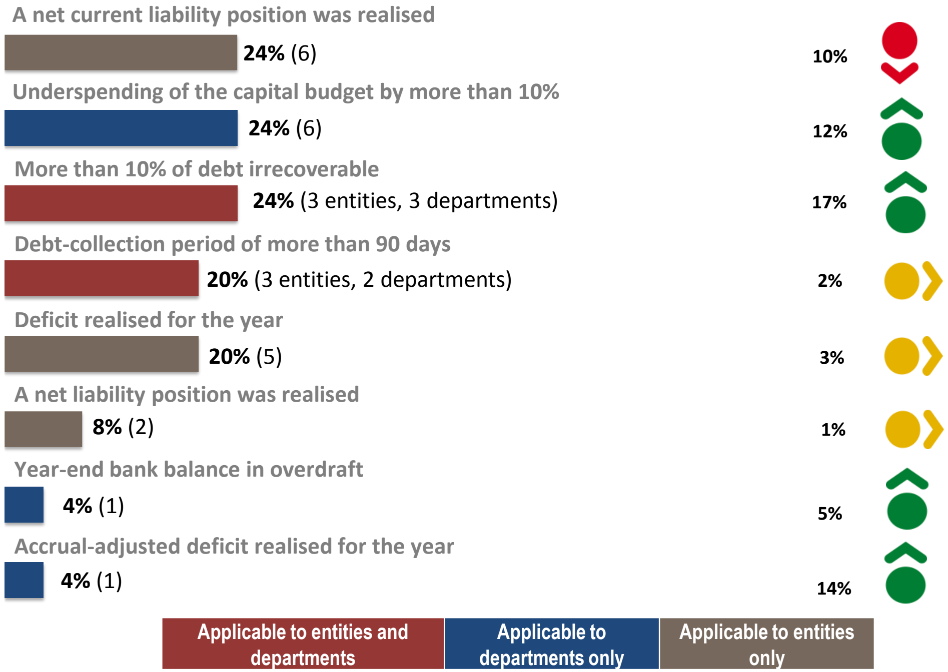


Figure 19 depicts the different financial health indicators and the number of auditees that had findings on these indicators. It also analyses the movement from the previous year. These indicators are discussed in the rest of this section.

Financial management by departments on the modified cash basis of accounting

Departments prepare their financial statements on the modified cash basis of accounting. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end.

As part of the financial health analysis, we reconstructed the financial statements to determine whether the departments' surpluses at year-end would also be evident in an accrual-based environment. We furthermore assessed the impact of the unpaid expenses at year-end on the following year's budget.

Sport, Recreation, Arts and Culture was the only department that still had expenditure exceeding the budgeted amount for the year after taking accruals into account. The reduction in the number of auditees with this finding can be attributed to enhanced oversight by the Provincial Treasury as well as improved in-year budget monitoring by the relevant departments.

Education was the only department that had an overdraft at year-end, which amounted to R248 000 and was cleared after year-end.

Section 3.3.2 of this report shows that Education incurred unauthorised expenditure of R63 million as a result of overspending on its public schools programme. Although the total budget was not overspent, the overspending highlights the risk of inadequate budget monitoring and service delivery planning. Both these critical areas need urgent attention at this department.

It is important to note that no department required more than 10% of its 2014-15 budget to fund unpaid expenses at year-end.

Underspending by departments of capital budgets and conditional grants

The most common financial health indicator across all auditees was the underspending of capital budgets by 10% or more. This indicator was identified at six departments. The average underspending at these six departments was 25%. We are concerned about the impact of the underspending on service delivery at these departments.

We are particularly concerned about Education's underspending on social development infrastructure. This underspending had a significant impact on the rebuilding of schools previously destroyed by floods and on the provision of water and sanitation infrastructure to schools. Poor procurement planning and reliance on procurement agents to procure the required infrastructure contributed to the underspending.

We are also concerned about the underspending by the Office of the Premier on phase 1 of the roll-out of the IT governance framework. Refer to section 5.2 of this report that deals with the provincial impact of this underspending.

As the provincial leadership closely monitored the utilisation of conditional grants, no department underspent received grants by more than 10%.

Management of debt

The collection of amounts owed to various departments and entities still remained poor, as the debt-collection period was more than 90 days (after impairment for irrecoverable debt) at 20% of the auditees.

At three departments and three entities, more than 10% of the debt recorded in their financial statements was not considered to be recoverable. This finding also applies to Health, which has the largest departmental debtor's book in the province.

Increased focus on collections at these auditees may result in additional cash flow for the province. Effective debt-management and debt-collection systems and processes should be implemented at all affected auditees.

Financial health risks at public entities

Two public entities (Eastern Cape Appropriate Technology Unit and Eastern Cape Provincial Arts and Culture Council) were in an overall net liability position at year-end. This means that it is unlikely that these entities will be able to settle their liabilities when they fall due, and they may require additional funding from the revenue fund.

A further four public entities reported net current liability positions, while three public entities incurred deficits for the year under review. This highlights that the budget allocated to these entities together with the revenue they generated was less than their total expenditure. The leadership should investigate if this was due to these entities being underfunded or if they were not using their available funding economically, effectively and efficiently. In addition, the budgets of these entities should be closely monitored to ensure financial sustainability and avoid the going concern challenges faced by the Eastern Cape Provincial Arts and Culture Council.

Way forward

The following should be implemented to further improve the province's financial health indicators:

- Budgetary disciplines and controls should be strengthened to ensure that expenditure is within approved budgets.
- Controls over debt collection should be enhanced to ensure that debt owed to the province is collected.
- The provincial leadership should continue the initiatives that have been implemented by the Provincial Treasury in assisting auditees to implement sound financial management disciplines.

5. Internal controls and root causes

A key responsibility of accounting officers and authorities, senior management and officials is to implement and maintain effective and efficient systems of internal control. As part of our audits, we assessed auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation. To make it easier to implement corrective action, we have categorised the principles of the different components of internal control under *leadership*, *financial and performance management*, and *governance*.

Figure 20: Status of internal control

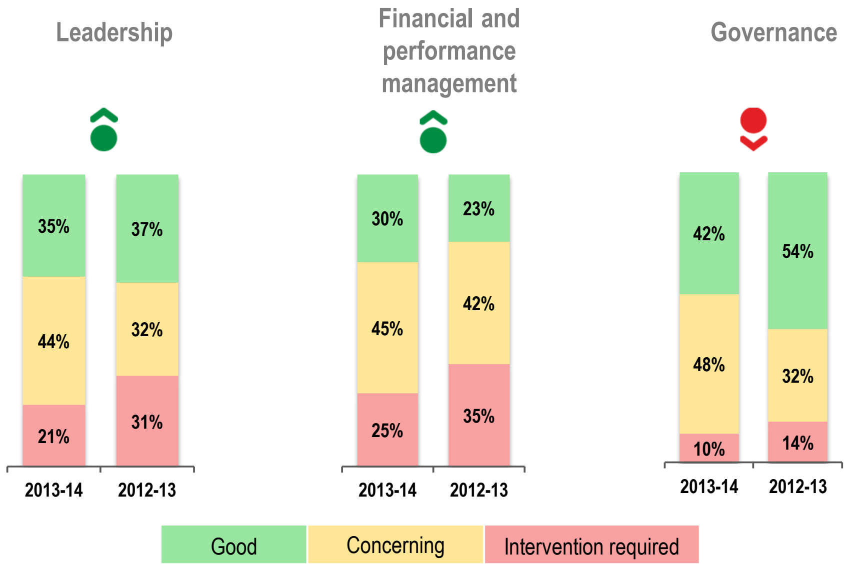


Figure 20 provides an overall assessment of the drivers of key controls and the movement since the previous year, based on the significant internal control shortcomings identified during the audits that had resulted in material misstatements in the submitted financial statements, performance reports of a poor quality as well as findings on non-compliance with legislation.

The above figure illustrates that there has been only a marginal improvement in key controls, which is in contrast with the 26% improvement in audit outcomes. The reason for this is that the audit outcomes are driven by year-end reconciliations and audit adjustments, rather than a control environment that promotes in-year financial and performance disciplines. This means that there is still room for further improvement in the implementation and monitoring of the required daily, weekly and monthly financial and performance controls. The challenge remains to achieve sustainability and increase momentum in this area.

On an encouraging note, the DLGTA and East London Industrial Development Zone responded very positively to our previous messages to take corrective action, address previous findings and instil a culture of accountability. This had a direct impact on the improvement of some of their key controls. It is very important to note that the entrenchment of these controls is necessary to ensure that the improvement in audit outcomes is sustainable.

When assessing the overall controls, it becomes clear that most of the key controls still need a lot of attention, as the majority of them are within the categories of 'concerning' and 'intervention required'. These weak controls have been the main contributing factor in respect of the poor quality of the financial statements and performance reports and the inability of auditees to prevent non-compliance with legislation. This slow progress in addressing internal control deficiencies may create a culture that tolerates these inappropriate practices, which does not promote good governance and accountability.

The leadership must drive the improvement in accountability and consequence management. They should also take responsibility to ensure that key controls are implemented throughout the auditee, operate as intended, and are entrenched in the daily activities of all staff.

Without a significant improvement in the three fundamental areas of key controls at most of the auditees, including those that have improved their audit outcome, auditees might not be able to sustain their audit outcome – and there might even be a risk of regression.

We discuss each of these fundamental areas of key controls in more detail below.

Leadership

The key controls over leadership have improved marginally. The sustainability of this improvement and any future improvement depend on the continued drive by the leadership to entrench a culture of accountability throughout the auditee and ensuring that skilled employees are retained or appointed.

The main concern is that 65% of the auditees did not have good leadership controls in place, which led to inadequate oversight and accountability practices at these auditees. In addition, the leadership had not ensured that effective action plans were in place to address deficiencies in the control environment. This contributed to unfavourable control environments in which implemented controls could not prevent or detect errors or inappropriate actions.

Financial and performance management

Controls over daily and monthly processing and record keeping have improved slightly since the previous year. This was as a result of the awareness created around an effective control environment, the need to retain documents in support of transactions, and the requirement to accurately process these transactions.

However, having noted this marginal improvement, it is still concerning that 70% of auditees had not yet implemented good controls over the basic functions of financial and performance management and compliance. One of the main challenges was still the lack of consequence management for those who did not adequately initiate and monitor transactions relating to financial and performance information. Transactions were processed and approved that were incorrect, or supporting documentation was not properly filed. This also contributed to the poor quality of the financial statements and performance reports and the high level of non-compliance at auditees.

Governance

Internal audit units and audit committees assist the leadership in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. Although internal audit units and audit committees were in place at all auditees and their operations complied with relevant legislation, not all these structures had a positive impact on the audit outcomes or the underlying control environment.

At the auditees where there was no positive impact, the internal audit units and audit committees were not effective in dealing with the financial and performance challenges that these auditees faced. As a result, the assessment of the impact of these governance structures on the control environment regressed. Internal audit units and audit committees can only be effective if their work plans focus on the challenges faced by auditees, they have the support of all other role players, and their recommendations are appropriately implemented.

Repetitive findings and the failure to address root causes also raise the question whether internal audit units and audit committees are focusing their efforts on improving the control environment or are just plastering the cracks already apparent.

In sections 3.1 (financial statements), 3.2 (annual performance reports) and 3.3 (compliance with key legislation) we commented in detail on those specific key controls that should receive attention to improve poor audit outcomes and sustain good audit outcomes.

Figure 21: Key controls requiring the most attention

	Audit areas								
	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	11	12	2	13	9	3	11	9	5
Human resource controls	8	10	7	12	10	3	9	7	9
ICT governance and controls	4	12	9	9	10	6	7	11	7
Audit action plans	4	17	4	10	11	4	4	15	6
Proper record keeping	10	12	3	12	8	5	7	15	3
Daily and monthly controls	9	11	5	10	10	5	8	11	6
Review and monitor compliance	5	12	8	10	9	6	2	15	8

Good | Concerning | Intervention required

Figure 21 above shows the status of the controls requiring the most attention. We discuss those that have the least amount of controls assessed as 'good' in more detail below.

- ***Information and communication technology (ICT) governance and controls***

  The effective management of IT environments is concerning, with only 27% of the auditees having good controls over this area. This was largely due to the minimal involvement of the leadership in IT governance and the lack of adequate staff, skills and budgets. This resulted in a vulnerable IT environment, which affected the credibility of data used in financial and performance reporting.

- ***Audit action plans***

  Audit action plans implemented by auditees did not address the root causes of findings or prevent the recurrence of findings. Only 24% of the auditees were assessed as having good controls over these plans. The leadership should develop, implement and monitor the action plans to ensure that they address prior year issues so that sustainable improved outcomes are achieved.

- ***Review and monitor compliance***

  It is concerning that only 23% of the auditees had good controls over the reviewing and monitoring of compliance with legislation. Most of the auditees struggled to clear recurring compliance findings in all areas of control. Compliance with legislation requires a sound knowledge of laws and regulations as well as regular monitoring to ensure that all key legislation is complied with.

Sections 5.1 and 5.2 provide further information on the status of HR management controls and ICT governance and controls.

To effectively improve the internal controls, it is important to understand the root causes underlying the weaknesses. Section 5.3 therefore describes the most common root causes that should be addressed.

Way forward

To improve the status of internal control in a sustainable manner, the leadership must:

- take ownership of key controls and ensure that adequate daily, weekly and monthly controls and reconciliations are effectively implemented and monitored
- show an appreciation of the role that consequence management plays in restoring accountability, integrity and public confidence in the system of provincial government
- guide the work plans of internal audit units and audit committees to focus on the key internal control challenges faced by auditees, to provide the leadership with focused and timely feedback on the sustainable addressing of these shortcomings
- ensure that recommendations from internal audit units and audit committees are developed into action plans, which are adequately implemented and monitored to ensure improved outcomes.

5.1 Human resource management

HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, competencies of key officials, performance management as well as consequences for transgressions. These matters have a direct bearing on the quality of auditees' financial and performance reports and on their compliance with legislation.

Based on the results of these audits, we assessed the status of HR management controls as follows:

Figure 22: Status of human resource management

Although figure 22 shows a reduction in the number of auditees where intervention was required, the movement is not significant. The leadership should urgently address our findings on HR management to improve audit outcomes and enhance the effective, efficient and economical use of resources.

As highlighted in section 7 of this report, the Office of the Premier assisted departments to deal with HR matters. However, the effect of these interventions has not yet had a visible impact on the control environment and outcomes. Where auditees have implemented their own interventions, this too has not had the desired impact on the audit outcomes or key controls.

Management of vacancies and acting positions

Figure 23: Vacancies in key positions

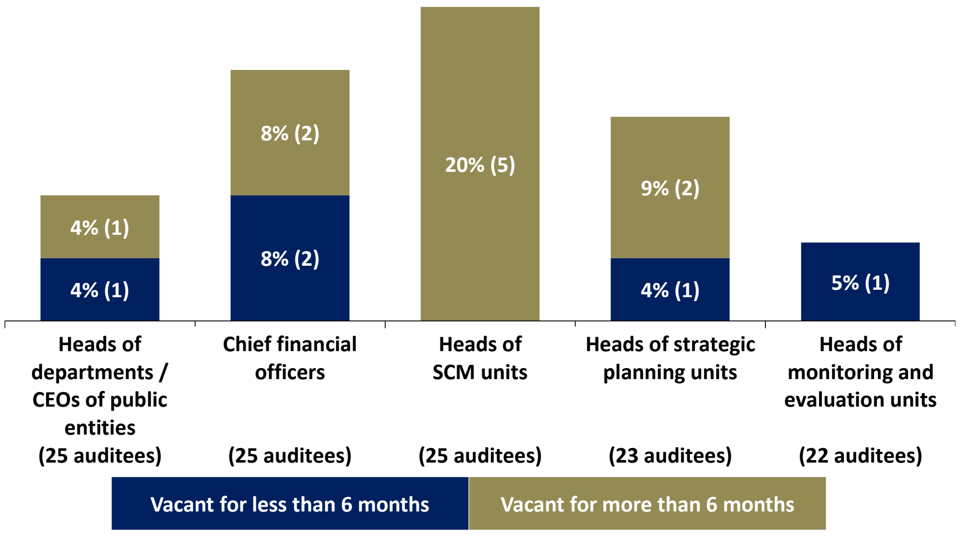


Figure 23 shows the number of auditees where the positions of the accounting officer (HoD or CEO), CFO and heads of SCM, strategic planning as well as monitoring and evaluation units were vacant at year-end. It also indicates whether these positions had been vacant for less or more than six months. The vacancy rates have declined when compared to 2012-13, which correlates with the improved audit outcomes.

The CEO position at the Mayibuye Transport Corporation was vacant for six months, while this position remained vacant for three years at the Eastern Cape Appropriate Technology Unit. This lack of leadership resulted in a lack of accountability within these entities, which contributed towards their qualified (Mayibuye Transport Corporation) and disclaimed (Eastern Cape Appropriate Technology Unit) outcomes.

The vacant positions of heads of SCM units remain a cause for concern. This position was vacant at five auditees (20%), with all but one of the positions being vacant for more than six months. At 80% of the auditees with vacancies, we reported findings on compliance that had resulted in irregular expenditure. It is therefore important that these vacancies are filled urgently to enable the province to address the SCM challenges.

Of grave concern is the fact that Roads and Public Works acts as implementing agent for infrastructure and thus many departments rely on their SCM processes for infrastructure development. While the position of head of the SCM unit was filled, the rest of the unit was understaffed. The resultant ineffectiveness of this critical unit in the province is evident in the SCM findings highlighted in section 3.3 of this report and, in particular, the amount of irregular expenditure incurred.

The MEC responsible for the department, supported by the Provincial Treasury and the Office of the Premier, should intervene immediately to empower the department with skilled individuals. Without skilled individuals managing this process, departments will continue to incur excessive amounts of irregular expenditure.

The position of head of the strategic planning unit was vacant at three auditees. At two of these auditees, the position remained vacant for more than six months. In order for auditees to effectively deliver on their mandate, it is essential that this function be filled. This will enhance auditees' capacity to effectively plan, monitor and evaluate performance as well as report on the achievement of predetermined objectives.

Two departments and three entities had vacancies of more than 10% in their finance sections, with the most significant being at the Eastern Cape Parks and Tourism Agency (67%) and Roads and Public Works (34%). This had an impact on the financial disciplines within these sections and resulted in reliance on the audit process to identify and correct material misstatements.

Figure 24: Stability in key positions (average number of months in position)

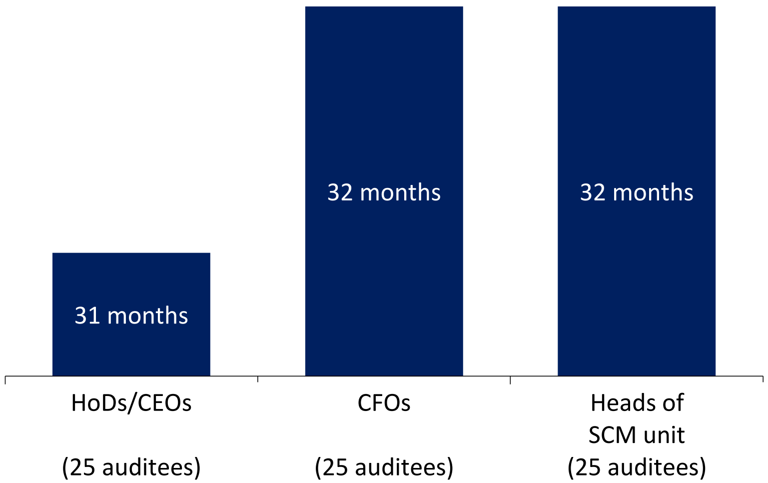


Figure 25: Stability in key positions per audit outcome (average number of months in position)

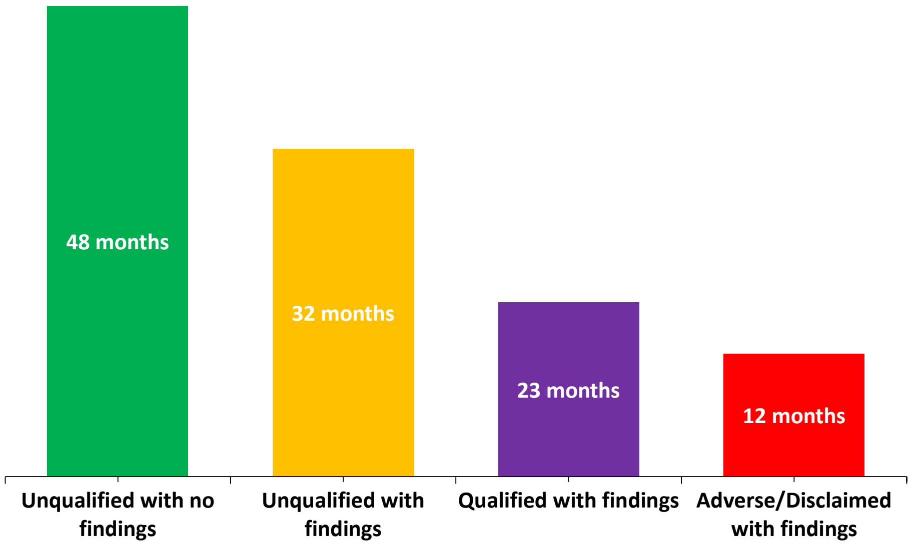


Figure 24 shows the average number of months key officials (namely HoDs or CEOs, CFOs and heads of SCM units) had been in their positions, while figure 25 shows the same information per audit outcome.

The average period that HoDs had been in their position was 31 months. The provincial executive's decision to extend employment contracts at this level to provide stability in the provincial departments has paid dividends in this respect. In analysing the period that HoDs had been in their position versus the audit outcomes, it is clear that HoDs whose departments received an unqualified opinion with no findings were in office for an average of more than 30 months. In contrast, the average period that an HoD whose department received a qualified opinion was in office was less than 24 months. This underlines the importance of stability at the leadership level, and the impact this has on the audit outcome.

The average length of service at CFO level was just over two and a half years, indicating a high turnover rate for this critical position. When analysing the period that CFOs had been in their position versus the audit outcomes, it is evident that stability correlates directly to the implementation of financial disciplines, as can be seen below:

- Unqualified opinion with no other findings – the CFO was in the position for an average of 61 months.
- Unqualified opinion with other findings – the average length of service at CFO level was 30 months.
- Qualified and disclaimed audit outcomes – the average length of service was 13 months at CFO level.

Performance management

To improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance-management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences and that good performance is rewarded.

Findings were reported at Economic Development, Environmental Affairs and Tourism, Health and Mayibuye Transport Corporation. Senior management did not sign performance contracts for the current performance year at any of these auditees. In addition, performance bonuses were paid to senior management and staff of the Mayibuye Transport Corporation, even though they were not entitled to receive such bonuses.

The audits focused on the compliance aspect only in terms of whether performance agreements were in place and whether performance was assessed against the agreements. We did not evaluate the contents of the performance agreements.

Consequences for transgressions

Legislation prescribes how cases of financial misconduct as well as improper conduct in respect of SCM processes should be dealt with. This legislation also deals with the steps to be taken by the accounting officer where unauthorised, irregular as well as fruitless and wasteful expenditure is incurred.

The slow response by accounting officers and authorities to implement consequences for transgressions remains a cause for concern. MECs should prioritise this to restore the integrity of government systems and processes. While in many cases the processes had been initiated, cases were not resolved or little action was taken after the process had been initiated. Officials continued to incur unauthorised, irregular as well as fruitless and wasteful expenditure, as they were not held accountable for their actions.

The following illustrate the continued lack of consequences for transgressions at auditees:

- Allegations of fraud, corruption, improper conduct and/or failure to comply with SCM processes were not investigated at 24% of the auditees.
- Investigations were not conducted where financial misconduct was suspected, or disciplinary hearings into confirmed cases of financial misconduct did not take place, at 24% of the auditees.

- Other instances of non-compliance with legislation relating to financial misconduct occurred at 10% of the auditees.

If employees are not held accountable for their transgressions, it promotes a culture of non-accountability and increases the risk of fraudulent practices. The required culture of accountability should be created by enforcing consequences for poor performance and transgressions relating to all aspects of financial and performance reporting and compliance with legislation. Improved accountability across all areas will assist in improving audit outcomes and ensure that these are sustained.

Other common human resource findings

The other most common HR findings were the following:

- A proper verification process for the appointment of officials did not take place at 36% of the auditees. This could have resulted in employees being appointed who have a criminal record or who do not possess valid qualifications.
- At 20% of the auditees, written authorisation was not provided in advance for overtime to be worked, which might have resulted in irregular expenditure.
- The organisational structure of 16% of the auditees was not aligned to the strategic plan. This made it more difficult for auditees to deliver on their mandates, as resources were not aligned to the strategic focus.

Good HR management is critical for all auditees, as it forms the foundation for creating a sound control environment that in turn fosters accountability. It is essential that the issues mentioned above are addressed as a matter of urgency in order for the auditees to move forward and create a platform where they can deliver on their mandate and obtain good audit outcomes.

Effective use of consultants by departments

Our audit included an assessment of the work performed by consultants at departments. Although we acknowledge the need to appoint consultants to assist the public service, this must be needs-driven with an emphasis on value for money, proper planning and monitoring, as well as the transfer of skills.

To supplement their human resources, departments spent a total of R248,7 million on consultancy services in 2013-14. This represents a 30% decrease in the overall spending on consultants compared to the 2012-13 financial year. The areas of spending on consultants were as follows:

- Assistance with financial reporting – R49,1 million spent by eight auditees.
- Assistance with performance reporting – R11,3 million spent by two auditees.
- Assistance with IT-related services – R22,7 million spent by five auditees.
- The remaining R165,6 million was spent on other consulting services connected with the line functions of departments as part of them delivering on their mandate.

Figure 26: Audit outcomes where departments were assisted by consultants

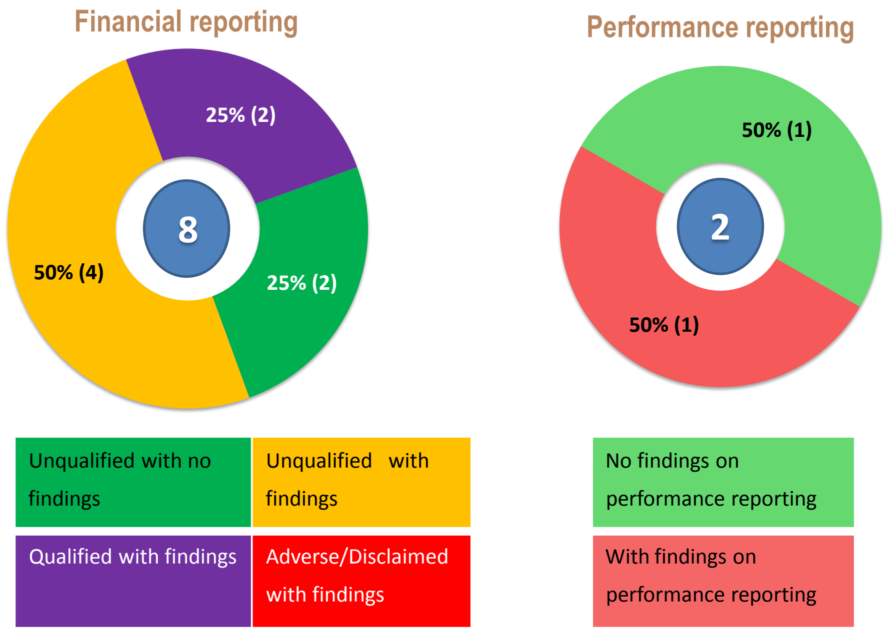


Figure 26 analyses the audit outcomes of the eight auditees (57%) assisted by consultants with financial reporting and the two auditees (14%) assisted by consultants with performance reporting.

Figure 27: Impact of consultants on the audit outcomes

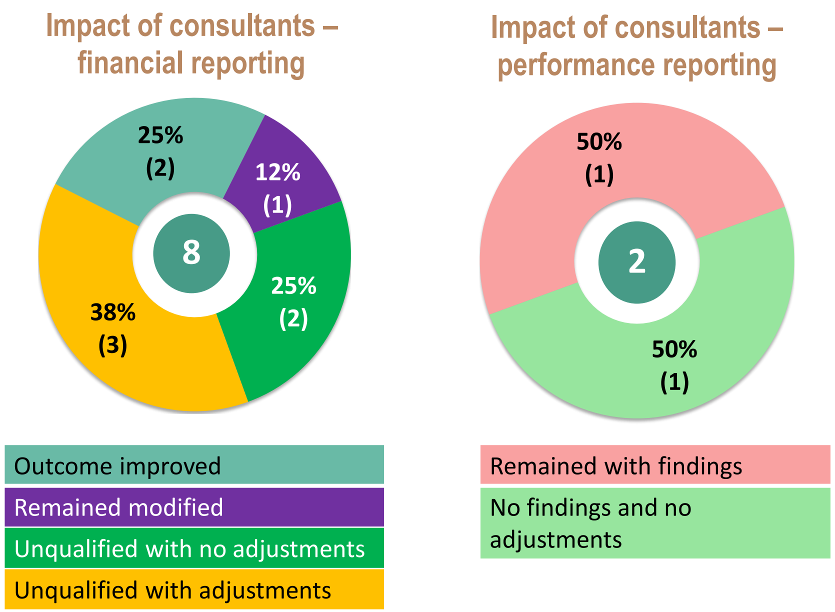


Figure 27 further analyses the impact that consultants had on the outcomes of departments. The most common reason why departments appointed consultants was a lack of appropriate skills or vacancies.

Of the R49,1 million spent on consultants for financial reporting, R5 million resulted in unqualified audit opinions with no findings, while R20 million resulted in improved audit outcomes. Inadequate project planning at Health resulted in consultants being appointed too late in the financial year to have a significant impact on the audit outcome. The department remained on a qualified opinion and had material misstatements in their financial statements.

A total of R10 million of the R11,3 million spent on consultants to assist with performance reporting at Roads and Public Works did not yield tangible results, as material findings were identified on predetermined objectives. The weak control environment and the poor quality of information provided to the consultants limited their potential impact.

Departments need to ensure that consultants are appointed in a timely manner to obtain value for the money spent. In addition, the leadership must ensure that skills are adequately transferred to reduce the future reliance on consultants.

Our audits included an assessment of the management of consultants at departments. The following are our key findings on the **planning and appointment processes**:

- At three auditees (21%), the consultants were appointed without conducting a needs assessment that considered the cost, type and extent of service; the deliverables; whether internal capacity existed; and whether there was an opportunity for the transfer of skills.
- At Roads and Public Works, prescribed processes were not always followed in the procurement of consulting services, and the terms of reference did not always clearly define the deliverables or state the required experience and qualifications to meet the requirements of the appointment.
- At Education, some consultants were appointed without any agreed-upon terms of reference.

We also identified shortcomings in the **management and monitoring of the performance** of consultants. Measures to monitor the performance of consultants were either not defined or not implemented at five auditees (36%). At three auditees (21%) where the contract performance measures and methods were monitored, the monitoring proved to be inadequate, as it failed to detect the under-performance of the consultants.

Although the most common reason for appointing consultants was a lack of skills, we found that some contracts at four auditees (29%) did not include any conditions or objectives in terms of the **transfer of skills** from the consultants to the employees. Of these, Education, Health as well as Roads and Public Works also failed to include a requirement for the transfer of skills in the terms of reference. Where a requirement for the transfer of skills was included, no evidence could be provided that the actual transfer of skills was evaluated.

Way forward

The province must make the most of its most vital resource, namely its people, by addressing the following:

- Reduce the turnover rate at the levels of HoD, CFO and head of the SCM unit, as more experienced individuals yield positive audit outcomes.
- Reduce the high vacancy rate of heads of SCM units.
- Implement adequate consequence-management processes to hold individuals accountable for their actions.
- Develop a provincial policy or strategy that defines the main purpose and objectives of appointing consultants, including measures to prevent the over-reliance on consultants. This policy should also include mechanisms to monitor the performance of consultants and hold them accountable where the required deliverables are not met, so that value for money is received.

5.2 Information technology controls

IT controls ensure the confidentiality, integrity and availability of state information. It also enables service delivery and promotes national security. It is thus essential to have good IT governance, effective IT management and a secure IT infrastructure in place.

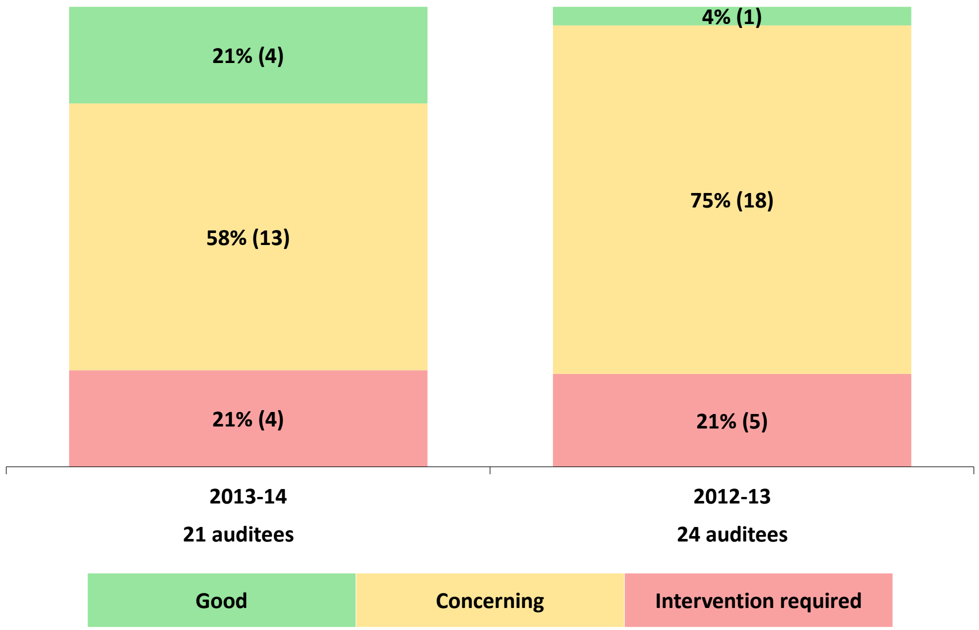
All state departments and public entities are required to adopt and implement good IT governance principles. For this purpose, the national Department of Public Service and Administration developed an IT governance framework and guidelines, to be implemented in phases over a three-year period. Phase 1 was due for implementation by the end of the 2013-14 financial year. However, phase 1 was delayed due to delays in procurement processes at the State Information Technology Agency and the Office of the Premier. This delay further resulted in the underspending of the ICT budget for the 2013-14 financial year. As a result of the delayed implementation, we will only evaluate phase 1 of the framework during the next audit cycle.

The lack of IT governance means that auditees are not aligning their IT goals to business goals, due to the leadership not taking ownership of the IT environment and adequately managing risks. Legislatures have opted to develop their own IT governance frameworks; however, the Provincial Legislature in the Eastern Cape did not have such a framework.

The status of IT controls reflected in figure 28 and the assessment of IT controls depicted in figure 29 were determined by the stage of development, which can be grouped into one of the following three categories:

- Where IT controls are being designed, management should ensure that the controls will lessen the risks and threats to the IT systems.
- Where IT controls are being implemented, management should ensure that the designed controls are implemented and embedded in IT systems and processes. Particular attention should be paid to ensuring that staff members are aware of, and understand, the IT controls being implemented, as well as their roles and responsibilities in this regard.
- Where IT controls have been embedded and function appropriately, management should monitor adherence to these controls. Management should sustain these controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

Figure 28: Status of information technology controls



Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. These audits were conducted at 24 auditees. An IT audit was not conducted at the Eastern Cape Appropriate Technology Unit, as it was in the process of being absorbed into Rural Development and Agrarian Reform.

Figure 28 indicates the status of IT controls in the province. Red in this figure represents auditees that had control design findings in two or more of the IT focus areas detailed further on in this section. Orange represents auditees that had design findings in at least one of the focus areas and auditees that had inadequate IT controls. Green means that we assessed the IT controls at these auditees as good.

Although there were fewer auditees with IT control findings, the root causes of control weaknesses in the IT environment had not been adequately addressed. These root causes included a lack of skilled resources, a lack of fully capacitated IT sections, budget constraints and a lack of meaningful involvement by the leadership in IT governance.

Figure 29: Assessment of information technology controls

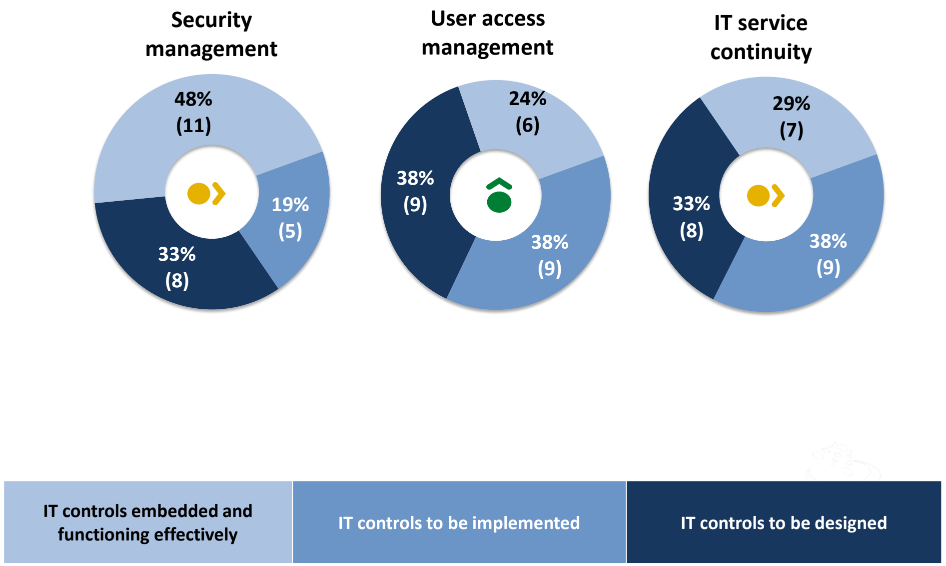


Figure 29 indicates the status of the controls in the areas we audited and the movement since the previous year. Most auditees did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity.

The most common findings were the following:

Security management

IT security policies were not comprehensively documented and therefore did not fully address critical security-related risks and the measures that should be instituted to lessen them. Where IT security policies were adequately documented, these policies were either not regularly reviewed to ensure continued adequacy, or not approved by top management.

User access management

User access management procedures were not consistently implemented, as the user accounts of terminated employees were not removed in a timely manner. Furthermore, user account profiles on both transversal and non-transversal systems were not periodically reviewed.

Information technology service continuity

Auditees under the leadership of the Office of the Premier are designing a consolidated IT disaster recovery plan. However, they had not instituted adequate interim controls to ensure IT service continuity until such time as the consolidated IT disaster recovery plan was implemented. In the case of departments, the data hosted on their transversal systems would be available at the disaster recovery site of the State Information Technology Agency.

Way forward

Management should prioritise the design and implementation of the security management, user access management and IT service continuity controls to lessen the risk of unauthorised access to, and the unavailability of, IT systems as well as the incompleteness of data in the event of major system disruptions or data loss.

Furthermore, the government information technology officers' council in the province needs to discuss and formulate action plans to address root causes as part of its agenda, such as a lack of skilled resources, inadequately capacitated IT sections, and IT budget constraints within departments. These action plans should be monitored regularly and appropriate steps taken where implementation is behind schedule.

All action plans formulated in this council need to be communicated to the government and administration cluster, which is attended by all HoDs. A collective oversight commitment needs to be put in place, while HoDs and members of the council need to ensure that action plans are implemented and monitored to ensure that IT-related risks within departments are lessened and that IT is efficiently and effectively utilised across all departments.

5.3 Summary of root causes

Figure 30: Root causes of audit outcomes

Slow responses by management (accounting officer and senior management)
A root cause at **48%** of the auditees *(2012-13: 42%)*

Lack of consequences for poor performance and transgressions
A root cause at **44%** of the auditees *(2012-13: 69%)*

Key positions vacant or key officials lacking appropriate competencies
A root cause at **24%** of the auditees *(2012-13: 85%)*

Improved Unchanged Regressed

Figure 30 highlights the most common root causes that underlie unfavourable audit outcomes, which are discussed in more detail below.

Slow response by management to our messages

We interact regularly with the province's leadership. At these interactions, we provide feedback through our audit reports, management reports, quarterly key control dashboards and communications of audit findings. We also discuss the root causes in respect of our findings and the related outcomes, and make recommendations on the way forward. Despite these interactions, the accounting officers or authorities and senior management did not take appropriate and timely action to address audit findings and related root causes at 44% of the auditees (2012-13: 42%).

As much as there have been improvements in a number of areas in the province, the pace of these improvement has been very slow, which reinforces a culture of tolerance for the inadequate execution of controls and non-compliance with the required legislation. The increase in auditees with this root cause is alarming and points to the leadership not being serious about obtaining sustainable solutions for the findings raised in our audit reports. This lack of response to our messages, as reflected in the slow pace of movement towards the ultimate audit outcome of unqualified with no findings, has resulted in repeat findings in the areas of financial statements, performance reporting and compliance with legislation, as reported in sections 3.1, 3.2 and 3.3 of this report.

Recommendations

It is very important that the MECs and accounting officers oversee the implementation of our messages by making appropriate commitments and translating these commitments into action plans that are appropriately resourced. These plans should be monitored regularly to ensure that progress is made. Corrective action should be taken against those employees who do not perform the necessary actions to adequately implement these plans.

Audit committees, internal audit units, portfolio committees, the provincial executive and SCOPA should regularly monitor these action plans throughout the year to ensure that progress is being made in addressing our findings and recommendations.

The Office of the Premier and the Provincial Treasury should continue to lead by example in this area and inspire all departments and entities to do the same. In addition, they should implement processes that can monitor the progress of the provincial government in addressing their reported challenges and audit findings. This should also include appropriate consequence management to assist in holding the relevant leadership at the various auditees accountable.

Lack of consequences for poor performance and transgressions

We identified a lack of consequences for poor performance and transgressions at 48% (2012-13: 69%) of the auditees. If employees are not held accountable for their actions, it creates the perception that inappropriate behaviour is acceptable and tolerated.

As a result, we continue to see the poor outcomes as outlined in section 2 of this report. Without a change in behaviour, outcomes will remain unsatisfactory. In addition, the continued increase in irregular expenditure is the result of employees knowing that there are no consequences for ignoring the required SCM processes. This negatively affects the credibility of the province.

Recommendations

Auditees need to ensure that a robust performance management system is implemented, which is linked to strategic planning documents. It is very important that political heads, boards, executives, management and line supervisors are proactive in implementing performance reviews and following up poor performance. Clear guidelines and procedures need to be drawn up, and the consequences of poor performance must be detailed.

Where necessary, policies should be amended to support robust performance management and the implementation of consequences for poor performance. In addition, accounting officers should ensure that appropriate action is taken against poor performers and transgressors. The national Department of Public Service and Administration should be approached for assistance in implementing the above actions, where necessary.

Key positions vacant or key officials lacking appropriate competencies

Key positions were vacant or officials occupying key positions did not have the minimum competencies or skills to perform their duties at 24% of the auditees (2012-13: 85%). The dramatic decrease was due to vacant posts being filled by competent officials, the permanent appointment of key personnel, and a focus on training existing staff members and improving their skills. We commend the 14 auditees that addressed this root cause during the year under review for implementing the commitments made during the previous audit cycle.

We also commend the role played by the Office of the Premier and the Provincial Treasury in addressing this root cause. The Office of the Premier ensured that departmental HR plans were aligned to the strategic priorities of the province and that the province prioritised the filling of leadership posts. The Provincial Treasury took a keen interest in the appointment of CFOs and took part in the recruitment processes for filling these positions. The Provincial Treasury also provided financial management short courses to all departments in the province to improve the skills of existing staff members.

At the auditees where this root cause was still a problem, employees were appointed that did not have the required minimum competencies, current employees did not keep up with the changing environment through ongoing training and development, and vacant critical positions resulted in a skills gap.

Recommendations

At auditees who still have vacant key positions or key officials lacking appropriate competencies, the executive and accounting authorities should ensure that the organisational structures are updated to support the implementation of strategic plans. Critical positions with an impact on service delivery or the improvement of key controls should be filled by appropriately qualified and experienced individuals.

The executive authorities should also ensure that processes are in place to ensure that appointments are made after the minimum competency requirements have been verified and the necessary background checks completed.

In addition, accounting officers and authorities should implement processes to identify skills and competency gaps, and should plan interventions to address the identified gaps.

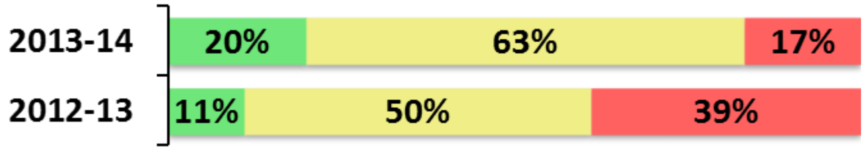
6. Impact of key role players

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

Based on our assessment and in correlation with the improvement in audit outcomes, we take note of the improvement in the level of assurance provided. This comes at the hand of our focused messages on the importance of providing assurance and the response by the provincial leadership to these messages. However, the improvement is not significant enough and it is clear that not all role players are providing the necessary assurance yet. It is critical to all decision-making and planning processes that credible information is available to the relevant role players throughout the year and not only after the audit process.

Below is an overview of the assurance provided by each of the assurance providers.

Senior management



Senior management, which includes the CFO, chief information officer and head of the SCM unit, provides assurance by implementing basic financial and performance controls.

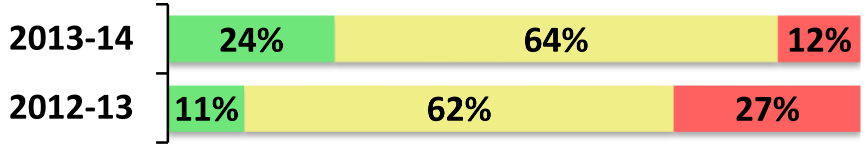
Only a limited number of role players at the first level of assurance were fully providing the required level of assurance and, as the foundation of assurance, this needs the most improvement. Accounting officers and MECs rely on senior management for implementing basic financial and performance management controls. These controls include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with legislation.
- Design and implement formal controls over IT systems.

The status of these internal controls, as reported in section 5, shows that inadequate assurance is provided. It highlights the risk that decisions taken by accounting officers and MECs could be based on incomplete and incorrect information provided by senior management.

HR management challenges, as highlighted earlier in this report, should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior management members should be held accountable for the execution of their responsibilities through a strict system of performance management.

Accounting officer or accounting authority



Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring.

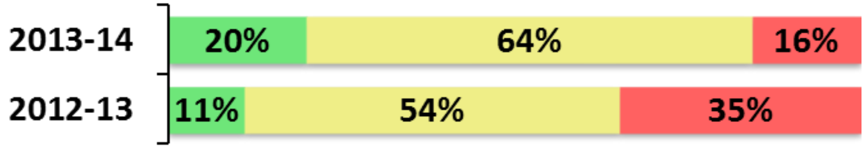
The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities is marginally better than that of senior management, but their impact on creating an effective control environment is not evident at many auditees. The recurring weaknesses in effective leadership, planning, risk management as well as oversight and monitoring functions do not support sustainable practices that will lead to credible information throughout the year.

While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls in the following way:

- Provide effective and ethical leadership, and oversee financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed.
- Set the correct tone to improve the performance and productivity of staff by implementing sound performance-management processes, evaluating and monitoring performance, and imposing proper consequences for poor performance.

- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Implement and monitor an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

Member of executive council



MECs have a monitoring and oversight role at both departments and public entities. They have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. MECs can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of the accounting officers and authorities.

Over the past number of years, the cooperation and actions of MECs based on our recommendations have grown to the level where the impact is becoming visible. The platform we had with the previous dispensation and the commitment of that political leadership are evident in the improved outcomes reflected in this report. The commitment of the new executive leadership as well as the continuity of office-bearers highlighted in section 7 of this report will enable a natural and easy continuance of our initiatives. We are very encouraged by the commitment and spirit of cooperation that the MECs displayed at the recent cabinet meetings and the individual interactions. Going forward, this positive attitude and commitment must be consistently reinforced in the daily oversight responsibilities in their portfolios. Only then will there be a marked and sustainable improvement in the drive towards credible and accurate information.

With specific reference to the assurance provided by the MECs, our assessment is that most MECs are not yet providing the required level of assurance. However, this cannot be attributed to a lack of commitment on the part of the political leadership. The status of the leadership controls (as detailed in section 5) as well as the level of assurance provided by senior management, accounting officers, internal audit units and audit committees hampers the ability of MECs to provide assurance at the next level.

Internal audit unit and audit committee

Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. In addition, internal audit reports provide the audit committee with a key source of information on the auditee's performance risk management and control environment.

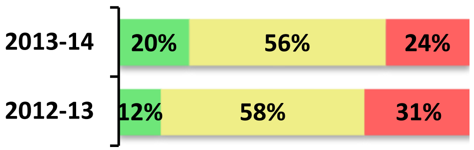
An audit committee is an independent body that advises the accounting officer or authority, senior management and MEC on matters such as internal controls, risk management, performance management as well as the evaluation of, and compliance with, legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial reporting and information.

As an independent adviser and specialist in the control environment, the committee is in a position to not only evaluate the credibility of information but also robustly report to the executive on the leadership tone and leadership's response to recommendations of the internal audit unit and the audit committee. This can provide the executive with assurance and empower them to enforce focused accountability. The success of this depends on the degree to which the MEC interacts with and supports the audit committee.

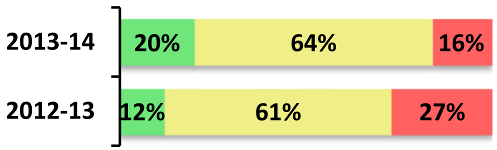
For audit committees to provide the required level of assurance as second-level assurance providers, they depend mainly on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are being reduced.

The assessment of the assurance provided by both the internal audit units and the audit committees indicates a slight – but not significant – improvement.

Internal audit



Audit committee



Although internal audit units and audit committees were in place at all auditees and their operations complied with relevant legislation, not all these structures had a positive impact on the audit outcomes.

At the auditees where there was no positive impact, the work of internal audit units and audit committees was not effective and/or management did not implement their findings and recommendations. Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations, and the leadership responds to their advice and recommendations. Similarly, audit committees can only be effective if they have the support of all other role players and their recommendations are implemented. It is critical that all levels of leadership realise and enforce a return on the considerable investment in internal audit units, and not only accommodate them to 'maliciously' comply with legislation.

Repetitive findings and the failure to address root causes also raise the question whether internal audit units and audit committees are focusing their efforts on improving the systems to enhance the credibility of information through implementing the necessary controls. Going forward, risk assessments should ensure that the proper weighting is assigned to this area, while responses to those risk assessments should be focused on systems and controls that entrench the credibility of information in the daily operations of the auditee.

Portfolio committees and public accounts committees

It is evident from the above that these committees do not receive the required assurance from other role players and as a result their own contribution to the assurance process is limited. Although the committees adhered to their roles and functions, their impact on the audit outcomes and underlying control environment is not apparent.

The most effective means to address the credibility of information and transparency is for audit committees to have frequent interactions with the relevant portfolio committees. During these interactions, the audit committees should inform the portfolio committees of the status of the departments' systems for performance monitoring, recording and reporting as well as the status of the implementation of audit committee recommendations. The last critical element is that both the internal audit unit and the audit committee must verify all submissions as credible, relevant and transparent before these are considered in further detail. Section 7 below explains the role of the legislature's committees in more detail and provides recommendations.

7. Initiatives and commitments of key role players

We continued to engage with the political leadership and elected members of the legislature as our constitutional stakeholders and as the enabling role players in government's ambition to provide citizens with appropriate services and, in so doing, giving effect to the promises of our Constitution.

The year 2014 marked the 5th democratic elections of our country and the resultant inauguration of the new premier, MECs, speaker, and members of the provincial legislature. In addition, the legislature elected its new committees and chairpersons. In the Eastern Cape, the outcome of the elections and associated appointments are encouraging, as we see a balance of strong continuity, new appointments and interaction between the executive political sphere and the legislative or oversight political sphere. This provides a very strong platform which will ensure that pre-election momentum, progress and initiatives to improve accountability and oversight will not be lost but rather be enhanced and developed.

Members of the executive council

As in the past number of years, we have increasingly engaged with these role players – both the previous and current leadership – and have forged relationships that encourage meaningful, impact-driven and robust interactions. At these interactions, we discuss the status of key controls, drive commitments to improve audit outcomes, and share identified risks. The interactions improve the understanding of the audit outcomes and messages and also address the progress of interventions to ensure a positive impact on these audit outcomes. The engagements were well received and resulted in a positive impact on the audit outcomes where MECs were holding their accounting officers accountable and were taking action. However, this has not yet filtered down to the senior management group and lower levels of staff.

We are encouraged by the commitment and spirit of cooperation of the newly elected office-bearers and the public commitment to accountability and consequence management. A very strong foundation has been laid by the premier in his state of the province address on these matters, and his commitments have already been operationalised into signed performance agreements with his MECs. Should this positive attitude and commitment be adopted by all levels of staff and filter into the daily oversight responsibilities of the executive, we will see a marked and sustainable improvement in the drive towards an accountable administration within the province.

Way forward

Going forward, it is critical for the MECs, individually and collectively, to monitor the progress made by all departments in addressing the weaknesses identified in this report.

The current initiatives implemented to improve the weak control environment and ultimately the audit outcomes of Education, Health as well as Roads and Public Works should be intensified and monitored at the highest level.

Oversight functions of coordinating departments

With reference to the PFMA audit cycle, the Office of the Premier and the Provincial Treasury not only have an oversight function but are also responsible to provide support to departments and entities in specific fields. Looking at their sustained clean administration and their ability to lead by example, these departments have a strong foundation to execute their oversight functions. As previously reported, in executing their oversight role, the Office of the Premier and the Provincial Treasury aligned their mandate to the strategic objectives in their annual performance plans.

In our 2012-13 general report, we reported that the Provincial Treasury and the Office of the Premier strengthened and enhanced their oversight role by focusing specifically on Health and Education. Considering the nature and depth of the challenges experienced at these departments, the Office of the Premier and the Provincial Treasury took a hands-on approach and assisted by equipping the departments with appropriate skills and improving internal controls. This support was continued in the current year. Unfortunately, the effectiveness of the support is not as apparent as in the previous year, as both departments failed to significantly reduce the number of matters reported in the audit report, and appear to be stagnating.

The positive impact of the enhanced oversight by the Provincial Treasury and the Office of the Premier in relation to budget management is evident in the decrease in unauthorised expenditure highlighted earlier in this report. In addition, the development of the provincial audit intervention plan that will be monitored by the provincial executive can further contribute towards the improvement of the audit outcomes in the province.

Office of the Premier

The support and oversight functions of the Office of the Premier are focused on capacity building (HR management), IT management, monitoring and evaluation of performance information, and monitoring of the anti-fraud and corruption hotline.

Human resource management

The Office of the Premier made the following contributions towards the HR planning of provincial departments:

- Formulated HR policies for implementation going forward. In addition, set up a forum to track consequence management on a quarterly basis.
- Ensured that performance agreements were in place for HoDs.
- In cases where there was a lack of capacity, intervened to find appropriate solutions. This included prioritising the filling of critical leadership posts.
- Ensured that policies and procedures address the coordination of training of senior management, performance agreements for HoDs, monitoring of provincial vacancies as well as monitoring of departmental HR plans and the HR function.

Although the Office of the Premier executed its coordinating functions in this regard, section 5.3 of this report again highlights the lack of consequences for poor performance and transgressions. As this root cause relates to HR management, it is clear that the Office of the Premier must further empower itself and enhance the current practices and focus areas to address this root cause at a provincial level. A further contributing factor to the lack of progress in respect of HR management within the province was the slow response by the accounting officers to the messages of the Office of the Premier, including consequence management. Going forward, the premier has placed additional emphasis on this area, which includes getting the whole executive leadership group involved in addressing this challenge.

Performance information management

The Office of the Premier monitored and evaluated performance information of the provincial departments in the following ways:

- Provided assistance to departments that underperformed or had performance reporting shortcomings.
- Ensured that policies and procedures for the monitoring and evaluation of performance information of provincial departments were in place.
- Included the monitoring and evaluation of performance management and reporting in its annual performance plan.

We take note of the significant improvement in reporting on performance information, as discussed in section 3.2 of this report. However, the lack of capacity in the monitoring and evaluation unit of the Office of the Premier prevented the appropriate monitoring of the quality of provincial performance information by the Office of the Premier on a level where it would have a sustainable impact. In addition, the outcomes of the three critical service delivery departments (Education, Health as well as Roads and Public Works) remain reason for concern and point to the need for the Office of the Premier to implement decisive interventions to correct the current status.

The premier addressed this matter in his state of the province address on 27 June 2014, when he indicated that he intends to strengthen the interface between the National Planning Commission of South Africa and the Office of the Premier to improve oversight and monitoring of government priorities. However, this will only have an impact if the monitoring and evaluation unit of the Office of the Premier is properly empowered and its initiatives are output- or impact-based instead of input-based. The Office of the Premier is in a strong position to influence departments to enhance their objectives to the level where they have a positive effect on the delivery of their mandate.

Information technology management

We have identified IT governance as a high risk to proper financial and performance management in the province for some time now. As indicated in section 5.2 of this report, a corporate governance of information and communication technology policy framework was rolled out on a national basis. Although the Office of the Premier provided assistance to departments with the implementation of the framework, the departments only partially conformed to the phase 1 deliverables that should have been completed by 31 March 2014. This is concerning and poses a significant risk to the province in so far as staying on target with the roll-out of the rest of the phases is concerned.

To address the emerging risks relating to IT governance, the provincial government information technology officer should:

- perform a root cause analysis to identify why the province has not yet implemented its phase 1 deliverables
- determine the required resources to enable the achievement of the outstanding phase 1 deliverables
- establish the ICT corporate governance as well as phase 2 deliverables
- ensure strategic alignment between business and ICT by 31 March 2015
- implement proper budget management practices to ensure that ICT priorities are appropriately implemented (this is further explained in section 4).

Monitoring of the national anti-fraud and corruption hotline

National anti-fraud and corruption cases, as reported to the Office of the Premier by the national Department of Monitoring and Evaluation, are distributed to the relevant departments. The Office of the Premier's target for resolving cases was not met, as various departments could not timeously follow up and resolve cases, due to inadequate capacity within these departments.

Improved coordination in assisting departments with capacity building for the resolution of anti-fraud and corruption cases is needed. This would assist the province in meeting the premier's strategic priority 5, namely fighting crime and corruption, as highlighted during his state of the province address and in line with the national development plan.

Provincial Treasury

In relation to the PFMA cycle, the oversight and monitoring functions of the Provincial Treasury mainly revolve around preparing and monitoring provincial budgets, compliance monitoring and enforcement as well as providing guidance and support to departments and entities in relation to the compilation and submission of financial statements.

Preparing provincial budgets and monitoring their implementation

The following processes and actions of the Provincial Treasury in relation to the budget process indicate the effectiveness of this function:

- Budget guidelines and templates were issued to assist departments in preparing budgets for the year under review as well as the next financial year.
- These provincial budget guidelines and templates were in line with those issued by the National Treasury.
- Training and workshops were provided to empower provincial departments with information on budget preparation.
- The budget documents received from departments were reviewed to identify shortcomings or errors, while feedback and recommendations on shortcomings noted from the review were provided to the departments.

Compliance monitoring and enforcement (PFMA)

The Provincial Treasury has various systems in place in this regard, while departments and entities have to submit various reports to enable the treasury to monitor compliance. Unfortunately, these systems and reports are not having the desired impact, as evidenced by the 84% of auditees that still have matters of material non-compliance in their audit reports. If the province is serious about turning around the status of non-compliance and ill-discipline of officials, these systems should be re-evaluated to ensure that they are output- and not input-based.

The provincial executive has identified the need for a centralised procurement system to reduce irregular expenditure. This will be complemented by the Provincial Treasury regularly monitoring irregular expenditure.

Guidance and support on the compilation of financial statements

The Provincial Treasury has to ensure that the financial statements of departments and entities are compiled in terms of the applicable accounting and reporting frameworks. Although numerous processes are in place, guidance is issued and support is provided, only nine auditees (36%) submitted financial statements that did not require material adjustments during the audit process. At the core of this is HoDs not responding to matters highlighted by the treasury. This illustrates the need to enhance the effectiveness of the current systems and to strengthen the enforcement capacity of the HoD of the treasury over other HoDs.

In its role of coordinating and supporting financial reporting and managing the budget of the province, the Provincial Treasury has set up various forums to provide guidance and address provincial financial risks. The impact of these forums must be evaluated and processes implemented to ensure that the province receives the full benefit of these forums. In addition, the Provincial Treasury has provided capacity to some of the finance units that lacked the required skills.

Local Government and Traditional Affairs

As indicated in section 2 of this report, the focused drive by both the executive and accounting officer to address previous material findings on its annual performance report and compliance with legislation, led to the department improving its outcome from unqualified with findings to unqualified with no findings. However, this does not truly reflect the impact of the department as a coordinating and oversight department on the concerning outcomes and status of accountability in the municipal sphere.

We take note of the initiatives the department has put in place to improve the status of municipalities. It should be noted, however, that the objectives in the annual performance plan of the department are mostly input-driven and not necessarily focused on measuring the impact of these objectives on delivering on the mandate of the department. The leadership should focus on setting measurement criteria that encourage output and would have a positive impact on the delivery of its mandate. This initiative should further be enhanced by the portfolio committee when approving performance plans as well as during the budget debates.

Way forward in respect of coordinating departments

Going forward, the Office of the Premier and the Provincial Treasury need to further enhance and strengthen their current provincial initiatives. This must be done with the assistance and support of the premier and his executive council. In addition, this must be supplemented with processes of accountability to ensure that their messages and recommendations are implemented by all auditees. This will ensure that they have a greater impact in their oversight role.

Oversight functions of the Provincial Legislature

The processes and enforcement of accountability for the actions, performance, financial management and compliance with legislation of all involved in government serve as a cornerstone of democratic governance in South Africa. One of the most important oversight functions of the Provincial Legislature is considering auditees' annual reports as well as in-year monitoring reports.

Section 3.2 read with section 5 of this report highlights the risk that in-year monitoring, oversight and decision-making processes could be based on information that is not credible. These decisions could have an impact on service delivery, accountability and consequences for poor performance.

The timelier hearings held by SCOPA undoubtedly had an impact on accountability in the province. The hearings focused on the individual members of the executive and their respective leadership teams accounting for their outcomes as well as on producing action plans to improve the audit outcomes. The challenge with both the portfolio committees and SCOPA remains the timeliness of resolutions as well as the fact that the implementation of these resolutions is not monitored and enforced. Although the hearings were held during October 2013 and the impact of the hearings was evident, the actual resolutions were only tabled in March 2014. As a result, the auditees were not able to implement the resolutions before the financial year-end. Going forward, it is critical that the resolutions are tabled timeously and are followed up on a quarterly basis.

During the year under review, members from both SCOPA and the relevant portfolio committee were sometimes represented in joint hearings. We view this as a very positive step and should, at least annually, become the norm rather than the exception. In this format, all areas can be addressed and the situation is eliminated where critical issues are not dealt with as one committee believes that it is being dealt with by the other. This promotes a platform where holistic oversight can take place that covers financial, performance and policy matters.

Our initiatives will be intensified with a drive to enhance the understanding of committees with regard to our role, the audit findings and their causes and effects, as well as how we can add value to the work of the committees.

Way forward

The most effective means to address the credibility of information and transparency is for audit committees to have frequent interactions with the relevant portfolio committees. During these interactions, the audit committees should inform the portfolio committees of the status of departments' systems for performance monitoring, recording and reporting as well as the status of the implementation of audit committee recommendations. The last critical element is that both the internal audit unit and the audit committee must verify all submissions as credible, relevant and transparent before these are considered in further detail.

AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

Education

Overall stagnation in audit outcome

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	*Provides limited/no assurance*
	Accounting officer	*Provides limited/no assurance*
	Executive authority	*Provides limited/no assurance*
Second level	Internal audit unit	*Provides limited/no assurance*
	Audit committee	*Provides limited/no assurance*
Third level	Portfolio committee	*Provides limited/no assurance*

Key controls

Key controls	F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

Audit area: F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcome** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

- Key officials lack appropriate competencies.
- Lack of consequences for poor performance and transgressions.
- Slow response to AGSA messages by oversight (SCOPA and portfolio committee), political leaders (MEC) and management (accounting officer and senior management).

Status of key commitments by MEC

- IT will be restructured and enhanced to ensure connectivity at all institutions for improved data and record management.
- No new commitments received.

In progress | New

Health

Overall stagnation in audit outcome

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides limited/no assurance
	Accounting officer/authority	Provides limited/no assurance
	Executive authority	Provides limited/no assurance
Second level	Internal audit unit	Provides limited/no assurance
	Audit committee	Provides limited/no assurance
Third level	Portfolio committee	Provides limited/no assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1 To improve the **audit outcome** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

… the **risk areas** and … 4

… that the **root causes** are addressed … 5

… and the **commitments** are honoured. 6

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good Concerning Intervention required

Most common root causes

- Slow response by the political leadership (MEC) and management (accounting officer and senior management) to AGSA messages (repeat findings).
- Lack of consequences for poor performance and transgressions.
- Lack of regular and credible in-year reporting for financial and performance information.

Status of key commitments by MEC

Critical key appointments will be made , including HoD, DDG: clinical, CFO and head of IT.

Expertise from support department will be solicited to assist with SCM and asset reforms.

The SCM control environment will be strengthened through reforms.

All irregular expenditure will be investigated and reported completely.

Independent data verification checks will be performed prior to information being captured on the DHIS system.

Consistent record keeping and retention will be enforced to ensure that performance information is accurate and supported.

IT will be restructured and enhanced to ensure connectivity at all institutions for improved data and record management.

SCM reforms will be implemented to ensure compliance with legislative requirements.

Internal audit will be capacitated to ensure that it provides value-added recommendations to the department.

The audit intervention plan will be monitored to ensure that all current year qualifications are addressed.

Regular meetings will be held with the audit committee to ensure that it provides assurance that all oversight recommendations have been addressed.

Implemented New In progress

Human Settlements

Overall stagnation in audit outcome

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcome** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

- General lack of effective monthly reporting (financial statements, performance reporting and compliance).
- Slow response to AGSA messages by management (accounting officer and senior management).
- Audit action plans were in place but not always implemented and/or monitored.

Status of key commitments by MEC

- Key controls will be continuously monitored and all areas requiring intervention will be followed up.
- Management information and a payment voucher system to be introduced.
  An integrated delegation of authority framework to be developed and implemented.
  The human resource plan will be implemented.
- Consequence management will be implemented.
  AGSA findings will be resolved through interactions with the audit committee.
  Key controls will be implemented and monitored.

In progress | Implemented | New

Local Government and Traditional Affairs

Overall improvement in audit outcome

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	No material findings

Assurance levels

First level	Senior management	*Provides assurance*
	Accounting officer/authority	*Provides assurance*
	Executive authority	*Provides assurance*
Second level	Internal audit unit	*Provides assurance*
	Audit committee	*Provides assurance*
Third level	Portfolio committee	*Provides assurance*

Key controls

Key controls	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To maintain the **audit outcome** …

2 … the key role players **provided assurance** …

3 … attention was given to the **key controls** and …

4 … the **risk areas** and …

5 … **best practices** were displayed …

6 … and the **commitments** were honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Best practices followed to achieve a professional public service

The executive authority displayed an appropriate tone and responded rapidly to AGSA messages.

The executive authority and accounting officer continuously drove consequence management.

An audit improvement plan based on prior year AGSA findings was implemented and monitored by the leadership throughout the year.

Status of key commitments by key role players

Compliance with legislation will be monitored.
Control weaknesses identified by internal and external auditors will be addressed timeously.

Processes will be put in place to ensure that the annual performance report is credible.
Financial statements will be properly reviewed prior to them being audited.
Management will ensure that SCM process are followed and transgressors are dealt with.
Processes will be put in place to ensure that accruals and commitments are accurately and completely recorded.

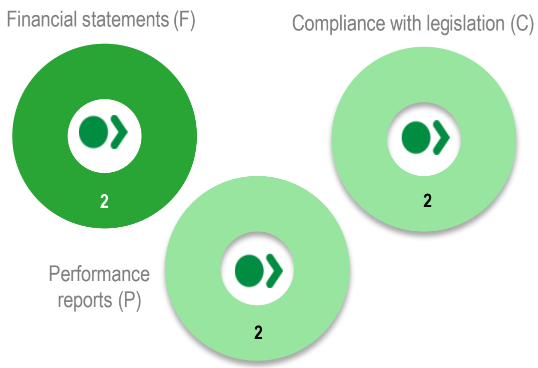
Output-based performance objectives, indicators and targets will be developed and reported on.

In progress | Implemented | New

Office of the Premier

Sustained clean audit outcomes

Audit outcome areas



Unqualified	Qualified	Adverse/Disclaimed
Audits outstanding	With no findings	With findings

Assurance levels

First level	Senior management	2
	Accounting officer/authority	2
	Executive authority	2
Second level	Internal audit unit	2
	Audit committee	2
Third level	Portfolio committee	2

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	2	0	0	2	0	0	2	0	0
Human resource control	2	0	0	2	0	0	2	0	0
ICT governance and controls	2	0	0	2	0	0	2	0	0
Action plans	2	0	0	2	0	0	2	0	0
Proper record keeping	2	0	0	2	0	0	2	0	0
Daily and monthly controls	2	0	0	2	0	0	2	0	0
Review and monitor compliance	2	0	0	2	0	0	2	0	0

Good | Concerning | Intervention required

1 To maintain the **audit outcomes** …

2 … the key role players **provided assurance** …

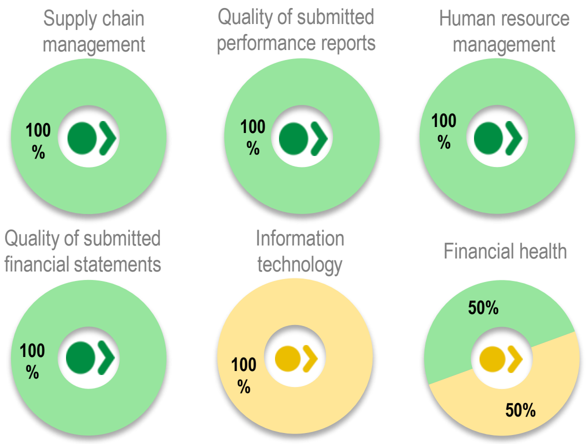
3 … attention was given to the **key controls** and …

4 … the **risk areas** …

5 … and **best practices** were displayed …

6 … and the **commitments** were honoured.

Risk areas



Good | Concerning | Intervention required

Best practices followed to achieve clean administration

The executive authority displayed the correct leadership tone and responded rapidly to AGSA and internal audit messages.

Stability of leadership and appointment of competent and skilled key officials.

Implemented and monitored the daily and monthly financial and performance disciplines.

Status of key commitments by the premier

New measures to combat fraud and corruption in government institutions will be implemented by instituting revised provincial priorities and procedures.

Strengthening the interface between the planning commission and the department to improve oversight and monitoring of government priorities.

Leading by example in achieving clean administration through implementing action plans to address internal audit findings, and the monitoring thereof.

Centralising the procurement processes for the province by revising provincial policies and procedures.

In progress | Implemented | New

Provincial Legislature

Overall stagnation in audit outcome

Audit area	Audit outcome
Financial statements (F)	Unqualified with findings
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides some assurance
	Accounting officer/authority	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcome** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

- Lack of consistent adherence to controls relating to compliance with SCM regulations, applying best practice in the preparation of the financial statements, and keeping evidence for performance information.
- Lack of consequences for poor performance and transgressions.

Status of key commitments by MEC

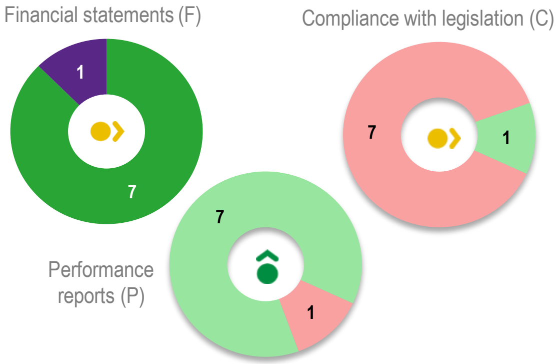
- Awareness to be created relating to the framework for managing performance information.
  The audit committee will meet on a regular basis and review internal reports.
- No new commitments received.

Implemented | New

Provincial Planning, Finance and Economic Development

Provincial Treasury sustained clean audit while others stagnated

Audit outcome areas



Unqualified	Qualified	Adverse/Disclaimed
Audits outstanding	With no findings	With findings

Assurance levels

		Provides assurance	Provides some assurance
First level	Senior management	3	5
	Accounting officer/authority	3	5
	Executive authority	4	4
Second level	Internal audit unit	3	5
	Audit committee	3	5
Third level	Portfolio committee	4	4

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	4	3	0	5	2	0	4	2	1
Human resource control	2	4	1	6	1	0	3	3	1
ICT governance and controls	3	4	0	5	2	0	4	2	1
Action plans	1	6	0	5	2	0	2	4	1
Proper record keeping	2	5	0	5	2	0	1	5	1
Daily and monthly controls	4	3	0	5	2	0	4	2	1
Review and monitor compliance	1	5	1	5	2	0	0	6	1

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

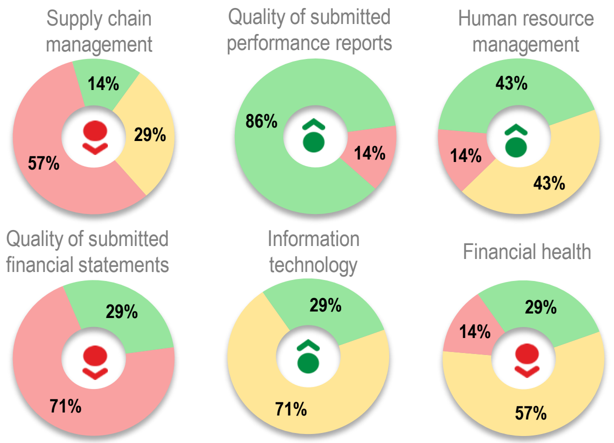
3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas



Good | Concerning | Intervention required

Most common root causes

Key officials lack appropriate competencies.

A root cause at 3 auditees.

Compliance with legislation not reviewed and monitored.

A root cause at 4 auditees.

Lack of regular and credible financial and performance reports.

A root cause at 3 auditees.

Improved | Unchanged | Regressed

Status of key commitments by MEC

Procedures and process for transfer payments, especially those related to the ECDC, will be re-assessed and formalised.

Dashboard to be "good" for all areas.

SCM units to be capacitated.

Implemented | In progress

Roads and Public Works

Overall improvement in audit outcome

Audit area	Audit outcome
Financial statements (F)	Qualified
Performance reports (P)	Material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides limited assurance
First level	Accounting officer/authority	Provides limited assurance
First level	Executive authority	Provides limited assurance
Second level	Internal audit unit	Provides limited assurance
Second level	Audit committee	Provides limited assurance
Third level	Portfolio committee	Provides limited assurance

Key controls

Key controls	F	P	C
Effective leadership	Concerning	Intervention required	Intervention required
Human resource controls	Intervention required	Intervention required	Intervention required
ICT governance and controls	Intervention required	Intervention required	Intervention required
Action plans	Intervention required	Intervention required	Intervention required
Proper record keeping	Intervention required	Intervention required	Intervention required
Daily and monthly controls	Intervention required	Intervention required	Intervention required
Review and monitor compliance	Intervention required	Intervention required	Intervention required

F = Financial P = Performance C = Compliance

Good | Concerning | Intervention required

1 To improve the **audit outcome** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good | Concerning | Intervention required

Most common root causes

- Lack of consequences for poor performance and transgressions.
- Instability or vacancies in key positions.
- Slow response by management (accounting officer and senior management) to AGSA messages.

Status of key commitments by MEC

In progress:

The organogram will be finalised by the end of the second quarter ending 30 September 2014.

A skills audit will be completed by the end of the second quarter. In addition, the department will focus on recruiting skilled staff.

The turnaround plan for the 2014-15 financial year will be finalised after the 2013-14 audit.

An investigation into the service delivery model of the department will be conducted to determine the best way to deliver services to government.

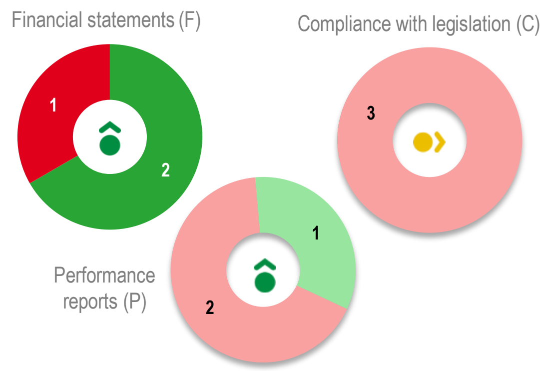
New:

The internal control unit to be re-established to help improve the control environment.
An adequate document management system will be implemented to improve record keeping and audit outcomes.

In progress | New

Rural Development and Agrarian Reform

Overall improvement in audit outcomes



Unqualified	Qualified	Adverse/Disclaimed
Audits outstanding	With no findings	With findings

Assurance levels

		Provides assurance	Provides some assurance	Provides limited/ no assurance
First level	Senior management		2	1
First level	Accounting officer/authority		2	1
First level	Executive authority		2	1
Second level	Internal audit unit		2	1
Second level	Audit committee	1	1	1
Third level	Portfolio committee		2	1

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	0	2	1	0	3	0	1	1	1
Human resource control	0	1	2	0	3	0	0	1	2
ICT governance and controls	0	1	2	0	1	2	0	1	2
Action plans	0	2	1	1	2	0	0	2	1
Proper record keeping	2	0	1	1	2	0	0	3	0
Daily and monthly controls	1	1	1	0	3	0	0	2	1
Review and monitor compliance	0	2	1	1	2	0	0	2	1

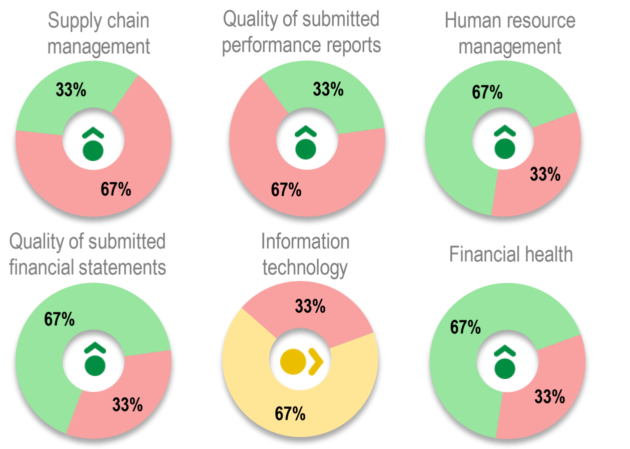
Good | Concerning | Intervention required

1 To improve the **audit outcomes** … … the **risk areas** and … 4

2 … the key role players need to **assure** that … … that the **root causes** are addressed … 5

3 … attention is given to the **key controls** and … … and the **commitments** are honoured. 6

Risk areas



Good | Concerning | Intervention required

Most common root causes

Slow response by management (accounting officer and senior management) to AGSA messages.

A root cause at 2 auditees.

Key officials lack appropriate competencies.

A root cause at 2 auditees.

Lack of consequences for poor performance and transgressions.

A root cause at 1 auditee.

Improved | Unchanged | Regressed

Status of key commitments by MEC

Audit outcome of ECATU to improve.

ECRDA to monitor its entity to improve the audit outcome.

DRDAR to align policies to its procurement needs and ensure sound financial management, compliance with SCM and good corporate governance.

Finalise the organogram and appoint a permanent CFO at DRDAR.

Successfully integrate ECATU into DRDAR.

Develop a combined assurance plan for the portfolio.

Not implemented | In progress | Implemented | New

Social Development and Special Programmes

Overall stagnation in audit outcome

Audit area	Audit outcome
Financial statements (F)	Unqualified
Performance reports (P)	No material findings
Compliance with legislation (C)	Material findings

Assurance levels

First level	Senior management	Provides some assurance
First level	Accounting officer/authority	Provides some assurance
First level	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides some assurance
Second level	Audit committee	Provides some assurance
Third level	Portfolio committee	Provides some assurance

Key controls

Key controls	Audit area F	P	C
Effective leadership			
Human resource controls			
ICT governance and controls			
Action plans			
Proper record keeping			
Daily and monthly controls			
Review and monitor compliance			

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1 To improve the **audit outcome** …

2 … the key role players need to **assure** that …

3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas

- Supply chain management
- Quality of submitted performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology
- Financial health

Good Concerning Intervention required

Most common root causes

Slow response by management (accounting officer and senior management) to AGSA messages.

Lack of consequences for poor performance and transgressions.

Status of key commitments by MEC

Funded NGOs will be subjected to a compliance audit.

Capacity within the department will be built to ensure that financial statements are reviewed and analysed to eliminate misstatements.

Each entity will be expected to develop and submit a financial management and internal control document. This document will be submitted prior to the injection of funds.

The department will put processes in place to ensure that all funded projects become self-sustainable.

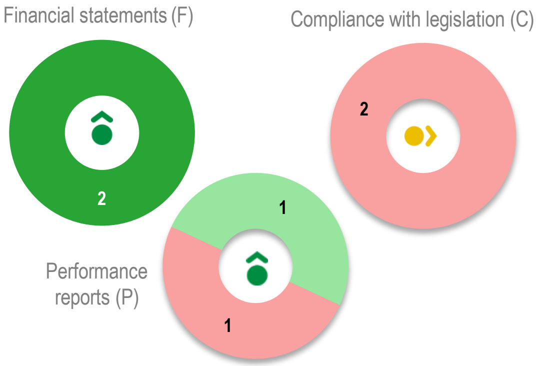
NGOs and NPOs will be monitored to ensure that they are performing their functions as required by their funding requests.

In progress Implemented New

Sport, Recreation, Arts and Culture

Overall improvement in audit outcomes

Audit outcome areas



Unqualified | Qualified | Adverse/Disclaimed
Audits outstanding | With no findings | With findings

Assurance levels

First level	Senior management	2
First level	Accounting officer/authority	2
First level	Executive authority	2
Second level	Internal audit unit	1 / 1
Second level	Audit committee	2
Third level	Portfolio committee	2

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	1	1	0	1	1	0	1	1	0
Human resource control	0	1	1	1	1	0	0	0	2
ICT governance and controls	1	1	0	1	0	1	1	1	0
Action plans	0	2	0	0	1	1	0	1	1
Proper record keeping	0	2	0	1	0	1	1	1	0
Daily and monthly controls	0	1	1	0	1	1	0	2	0
Review and monitor compliance	0	1	1	0	1	1	0	1	1

Good | Concerning | Intervention required

1 To improve the **audit outcomes** …

2 … the key role players need to **assure** that …

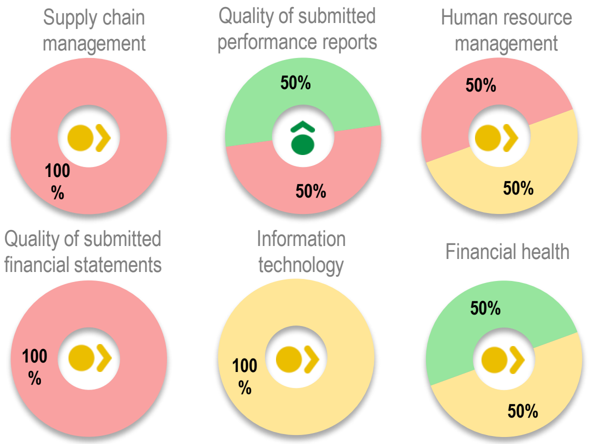
3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … that the **root causes** are addressed …

6 … and the **commitments** are honoured.

Risk areas



Good | Concerning | Intervention required

Most common root causes

Internal control deficiencies identified not addressed in action plan.

A root cause at 2 auditees.

Lack of consequences for poor performance and transgressions.

A root cause at 1 auditee.

Slow response by management to AGSA messages.

A root cause at 1 auditee.

Improved | Unchanged | Regressed

Status of key commitments by MEC

Irregular expenditure to be prevented by ensuring proper application of SCM prescripts.

Entity's budget to be aligned to the performance plan.

Management will perform monthly reviews of the general ledger to confirm that income and expenses are recorded and classified correctly.

SCM policy to be aligned to the procurement laws and regulations.

Implement sound systems and administration that are measured by audit outcomes.

Re-assess the department's organogram.

Re-assess the internal audit plan.

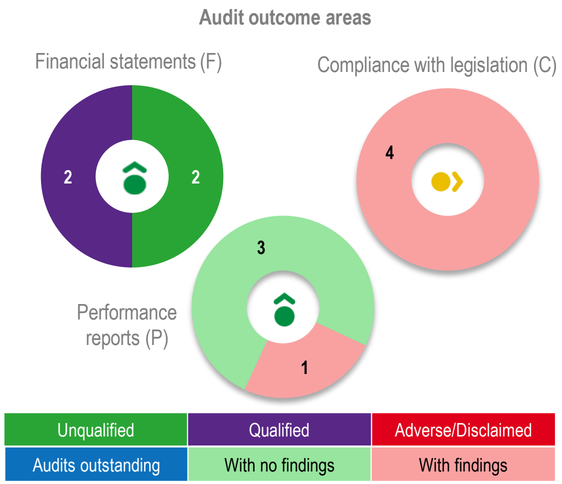
Address prior year qualification items.

Implement an action plan to address the root causes of all audit findings.

Not implemented | In progress | Implemented | New

Transport, Safety and Liaison

Overall improvement in audit outcomes



Assurance levels

		Good	Concerning	Intervention required	
First level	Senior management	1	2	1	
	Accounting officer/authority	1	1	2	
	Executive authority		2	2	
Second level	Internal audit unit		3	1	
	Audit committee		3	1	
Third level	Portfolio committee		3	1	

Provides assurance | Provides some assurance | Provides limited/ no assurance | Vacancy | Not established

Key controls

	Financial statements			Performance reports			Compliance with legislation		
Effective leadership	1	3	0	2	1	1	1	2	1
Human resource control	1	2	1	1	2	1	1	1	2
ICT governance and controls	0	3	1	1	2	1	0	2	2
Action plans	1	2	1	2	1	1	0	3	1
Proper record keeping	2	2	0	2	1	1	2	2	0
Daily and monthly controls	1	1	1	2	1	1	1	1	2
Review and monitor compliance	0	2	2	1	2	1	0	2	2

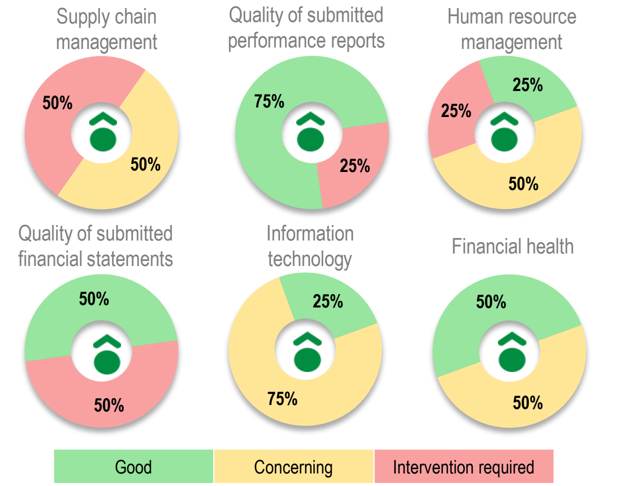
Good | Concerning | Intervention required

1 To improve the **audit outcomes** … … the **risk areas** and … 4

2 … the key role players need to **assure** that … … that the **root causes** are addressed … 5

3 … attention is given to the **key controls** and … … and the **commitments** are honoured. 6

Risk areas



Most common root causes

Slow response by management (accounting officer and senior management) to AGSA messages.

A root cause at 3 auditees.

Lack of consequences for poor performance and transgressions.

A root cause at 2 auditees.

Key officials lack appropriate competencies.

A root cause at 1 auditee.

Improved | Unchanged | Regressed

Status of key commitments by MEC

Processes to be implemented to prevent irregular as well as fruitless and wasteful expenditure.

A comprehensive, well-defined service delivery model and strategy to be developed and implemented.

The organisational structure will be reviewed. An appropriate governance and delegation of authority framework will be implemented to ensure an efficient level of accountability and transparency.

Action plans to address queries raised by internal and external auditors to be implemented.

In progress | Implemented

ANNEXURES

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Annexure 1: Auditees' audit outcomes and areas qualified as well as findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2013-14 audit outcomes			2012-13 audit outcomes			Financial statement qualification areas									Findings on predetermined objectives				Findings on non-compliance																Findings on specific risk areas					Unauthorised, irregular as well as fruitless and wasteful expenditure		
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	Human resource management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Departments																																											
Economic Development, Environmental Affairs and Tourism			R		A	R														R	R				A	A	N			R			R	R		R	R				0.00	55.70	3.00
Health		R	R		R	R					R		R	R	R	A	R			R	R					A	R			A	R	A	R	R		R	R				0.00	149.30	5140
Human Settlements		A	R		R	R											A			R	A	A				R				A	R	A	A	A	A	R	R				0.00	13.00	0.46
Local Government and Traditional Affairs		A	A		R	R											A			A											A		A	A		A	R				0.00	17.90	0.07
Rural Development and Agrarian Reform		A	R		R	R					A						A			R	R					A				R	A		R	R		A	R				0.00	12.60	0.47
Safety and Liaison		A	R		N	R											A			R	A	N	N			R					A		R	A		A	R				0.00	0.44	0.01
Social Development			R			R														A	N	N										R	A	A			R				0.00	26.50	0.09
Sport, Recreation, Arts and Culture		R	R		R	R	A							A		R	R			R			A			R	A			R	A	N	R	R		R	R				0.00	48.70	0.09
Transport		R	R		R	R										A	R			A	R								R	A	A		A	A		R	R				0.00	27.00	0.30
Education		R	R		R	R	R		R		R		A	R	R	R	R			R	R	N	R			R	R	N	R	R	R	R	R	A		R	R				62.80	55.10	69.40
Office of the Premier						A																															N						
Provincial Legislature		A	R		R	R										A	A			R	R												A			R	A				0.00	0.64	160
Provincial Treasury						A																																			0.00	0.05	0.00
Roads and Public Works		R	R		R	R	A	A			R		A	R	R	R	R			A	A	N	A			R	R			R	R	R	R	A		R	R				0.00	195170	0.00

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	New auditee

Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)	Financial health findings	Material unfavourable indicators	Unfavourable indicators	No unfavourable indicators

Legend (Expenditure)	Improved	Regressed

Auditee	2013-14 audit outcomes			2012-13 audit outcomes			Financial statement qualification areas									Findings on predetermined objectives				Findings on non-compliance																Findings on specific risk areas					Unauthorised, irregular as well as fruitless and wasteful expenditure		
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful	Aggregate misstatements	Reported information not	Reported information not	Information not submitted in time for auditing	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional	Procurement management	Human resource management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Public entities																																											
East London Industrial Development Zone Corporation		A	R		R	R									A	A				R			R						A		A		A			A	R				0.00	5.80	0.91
Eastern Cape Appropriate Technology Unit		R	R		R	R	R	N	R	R	R	N	R	R	N	R	R			R	R	N	R		A	N	A	N			R		R			R	R	M			0.00	3.30	0.00
Eastern Cape Development Corporation		A	R		R	R							N				A			R	N										R		N			R	N				0.00	47.00	0.00
Eastern Cape Gambling and Betting Board			R		A	R														N											A		N			A	N				0.00	0.56	0.01
Eastern Cape Government Fleet Management Services		A	R		R	R	A	R				R			N				A	R	R	A	A						R	R	A		A	N		R	R				0.00	99.30	0.42
Eastern Cape Liquor Board		A	R		R	R											A				N						N				A		R			A	R				0.00	0.69	0.62
Eastern Cape Parks and Tourism Agency		N	R			R										N				R	R				N								A			R	R				0.00	1180	0.00
Eastern Cape Provincial Arts and Culture Council		A	R		R	R											A			N	R				A		N		N	A	R		R			R	R	F			0.00	150	0.00
Eastern Cape Rural Development Agency		R	R		R	R										A	R			A	A								R	A	R		A			R	A				0.00	190	0.14
Eastern Cape Socio-Economic Consultative Council						A																																			0.00	0.00	0.00
Mayibuye Transport Corporation			R		A	R	A	A	A	A	R	R	A	R						R	R		R							R	A		R				R				0.00	2110	0.23

Annexure 2: Assessment of auditees' key controls at the time of the audit

Auditee	Leadership																					Financial and performance management																		Governance											
	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit			Audit committee		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Departments																																																			
Economic Development, Environmental Affairs and Tourism	↓	↔	↔																			↔	↓	↔																↓	↓	↓									
Health	↑	↑	↑																			↔	↔	↔																↔	↔	↔									
Human Settlements	↔	↑	↑																			↔	↑	↔																↓	↓	↓									
Local Government and Traditional Affairs	↑	↑	↑																			↑	↑	↑																↑	↑	↑									
Rural Development and Agrarian Reform	↑	↑	↑																			↑	↑	↔																↔	↑	↑									
Safety and Liaison	↓	↔	↓																			↓	↑	↓																↓	↔	↓									
Social Development	↑	↓	↔																			↑	↔	↓																↓	↔	↓									
Sport, Recreation, Arts and Culture	↓	↔	↔																			↓	↔	↔																↓	↓	↓									
Transport	↑	↑	↑																			↑	↑	↑																↑	↑	↑									
Education	↓	↑	↑																			↓	↓	↔																↓	↓	↔									
Office of the Premier	↓	↔	↑																			↔	↑	↑																↔	↔	↔									
Provincial Legislature	↑	↑	↑																			↑	↑	↑																↓	↓	↓									
Provincial Treasury	↓	↔	↔																			↔	↔	↓																↔	↔	↔									
Roads and Public Works	↑	↔	↔																			↔	↔	↔																↔	↔	↔									
Public entities																																																			
East London Industrial Development Zone Corporation	↑	↑	↑																			↑	↑	↑																↑	↑	↑									
Eastern Cape Appropriate Technology Unit	↔	↑	↔																			↔	↑	↔																↑	↑	↓									
Eastern Cape Development Corporation	↓	↓	↓																			↑	↔	↓																↓	↓	↓									
Eastern Cape Gambling and Betting Board	↓	↑	↓																			↓	↑	↔																↔	↑	↓									
Eastern Cape Government Fleet Management Services	↔	↔	↔																			↔	↔	↔																↔	↔	↔									
Eastern Cape Liquor Board	↔	↑	↔																			↔	↑	↔																↔	↔	↔									
Eastern Cape Parks and Tourism Agency	↑	↓	↑																			↑	↓	↑																↑	↑	↑									
Eastern Cape Provincial Arts and Culture Council	↓	↓	↓																			↓	↓	↔																↓	↓	↓									
Eastern Cape Rural Development Agency	↑	↔	↔																			↑	↑	↔																↑	↑	↑									
Eastern Cape Socio-Economic Consultative Council	↔	↑	↔																			↔	↑	↔																↔	↔	↔									
Mayibuye Transport Corporation	↑	↑	↑																			↔	↑	↑																↑	↑	↑									

Good | Concerning | Intervention required

↑ Improved ↔ Unchanged ↓ Regressed

F Financial P Performance C Compliance

Annexure 3: Auditees' five-year audit opinions

Auditee	Province	Audit opinions				
		2013-14	2012-13	2011-12	2010-11	2009-10
Departments						
Economic Development, Environmental Affairs and Tourism	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified with findings	Qualified with findings
Health	EC	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Disclaimed with findings
Human Settlements	EC	Unqualified with findings	Unqualified with findings	Qualified with findings	Qualified with findings	Qualified with findings
Local Government and Traditional Affairs	EC	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Rural Development and Agrarian Reform	EC	Unqualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Unqualified with findings
Safety and Liaison	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Social Development	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Sport, Recreation, Arts and Culture	EC	Unqualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Unqualified with findings
Transport	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Education	EC	Qualified with findings	Qualified with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings
Office of the Premier	EC	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Provincial Legislature	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with findings
Provincial Treasury	EC	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Roads and Public Works	EC	Qualified with findings	Disclaimed with findings	Qualified with findings	Unqualified with findings	Unqualified with findings
Public entities						
East London Industrial Development Zone Corporation	EC	Unqualified with findings	Qualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with no findings
Eastern Cape Appropriate Technology Unit	EC	Disclaimed with findings	Disclaimed with findings	Unqualified with findings	Unqualified with findings	Qualified with findings
Eastern Cape Development Corporation	EC	Qualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Eastern Cape Gambling and Betting Board	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Eastern Cape Government Fleet Management Services	EC	Qualified with findings	Qualified with findings	Unqualified with findings	New auditee	New auditee
Eastern Cape Liquor Board	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Eastern Cape Parks and Tourism Agency	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	New auditee
Eastern Cape Provincial Arts and Culture Council	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified with findings
Eastern Cape Rural Development Agency	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Eastern Cape Socio-Economic Consultative Council	EC	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with no findings
Mayibuye Transport Corporation	EC	Qualified with findings	Disclaimed with findings	Qualified with findings	Qualified with findings	Qualified with findings

Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	New auditee

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)
The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

Asset (in financial statements)
Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.

Assurance & assurance provider
As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject.

Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation.

There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units.

Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.

Capital budget
The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long-expected lives and that are required to provide services, produce income or support operations.

Cash flow (in financial statements)
The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).

Clean audit
The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.

Commitments from role players
Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.

Conditional grants
Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.

Contingent liability
A potential liability, the amount of which will depend on the outcome of a future event.

Creditors	Persons, companies or organisations that auditees owe money to for goods and services procured from them.
Current assets *(in financial statements)*	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Disclaimed audit opinion *(on financial statements)*	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. 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 *(as one of the drivers of internal control)*	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.
Financially unqualified audit opinion *(on financial statements)*	The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.
Going concern	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.
Governance *(as one of the drivers of internal control)*	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Human resource management	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.
Information technology *(IT)*	The computer systems used for capturing and reporting financial and non-financial transactions.

IT controls	Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.
IT governance	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.
IT security management	The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.
IT service continuity	The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.
IT user access management	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
Internal control / key controls	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, the effectiveness and efficiency of operations, and compliance with key legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
Irregular expenditure	Expenditure incurred without complying with applicable legislation.
Key drivers of internal control	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)
Leadership (as one of the drivers of internal control)	The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management. It can also refer to the political leadership or the leadership in the province, such as the premier.
Liability	Short-term and long-term debt owed by the auditee.
Material finding (from the audit)	An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of its amount, its nature, or both its amount and its nature, to be reported in the audit report.

Material misstatement *(in the financial statements or annual performance report)*	An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.
Misstatement *(in the financial statements or annual performance report)*	Incorrect or omitted information in the financial statements or annual performance report.
Net deficit (incurred by auditee)	The amount by which an auditee's spending exceeds its income during a period or financial year.
Operational budget / operating budget	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.
Oversight structures & coordinating and monitoring departments	National and provincial role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).
Property, infrastructure and equipment *(in financial statements)*	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
Qualified audit opinion (on financial statements)	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
Receivables / debtors (in financial statements)	Money owed to the auditee by companies, organisations or persons who have procured goods or services from the auditee.
Reconciliation (of accounting records)	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
Root causes (of audit outcomes being poor or not improving)	The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.
Supply chain management	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Acronyms and abbreviations

AGSA	Auditor-General of South Africa
BAS	Basic Accounting System
bn (after an amount)	R’billion (rand)
CEO	chief executive officer
CFO	chief financial officer
CIO	chief information officer
CoGTA	Department of Cooperative Governance and Traditional Affairs
DPSA	Department of Public Service and Administration
GRAP	Generally Recognised Accounting Practice
HoD	head of department
HR	human resources
ICT	information and communication technology
IFMS	Integrated Financial Management System
IT	information technology
K (after an amount)	R’thousand (rand)
LOGIS	Logistical Information System
m (after an amount)	R’million (rand)
MEC	member of the executive council of a province
PERSAL	Personnel and Salary System
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PPAC	provincial public accounts committee
SAP	Systems, Applications and Products System
SCM	supply chain management
SCOPA	standing committee on public accounts

EASTERN CAPE CLEAN AUDITS 2013-14

DEPARTMENT

Local Government and Traditional Affairs

Office of the Premier

Provincial Treasury

PUBLIC ENTITY

Eastern Cape Socio-Economic Consultative Council

AUDITOR-GENERAL
SOUTH AFRICA

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