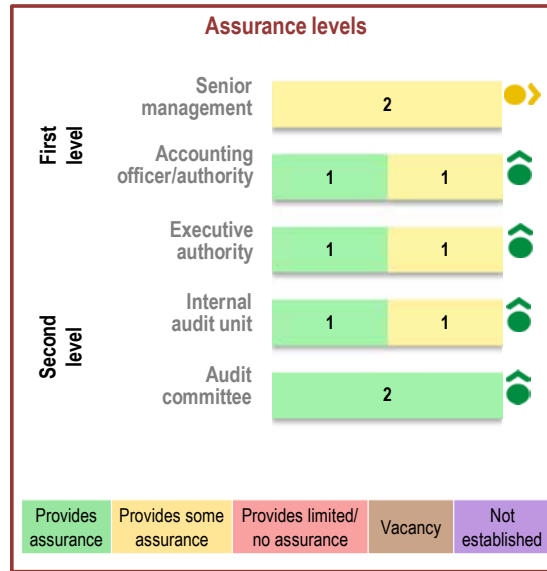
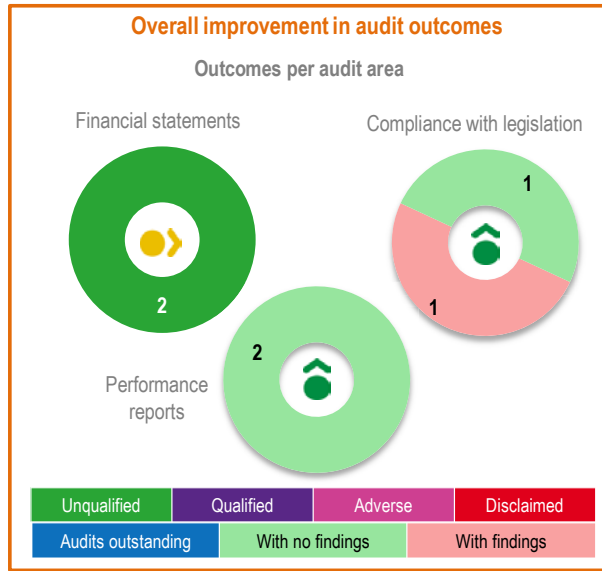


SECTION 9: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

Vote 1: The Presidency



Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	2	0	0	2	0	0	2	0	0
Human resource controls	0	2	0	1	1	0	0	2	0
ICT governance and controls	0	2	0	2	0	0	2	0	0
Audit action plans	0	2	0	1	1	0	1	1	0
Proper record keeping	1	1	0	0	2	0	1	1	0
Daily and monthly controls	1	1	0	1	1	0	1	1	0
Review and monitor compliance	0	2	0	2	0	0	0	2	0

Legend: Good (green), Concerning (yellow), Intervention required (red).

1
To improve the **audit outcomes** ...

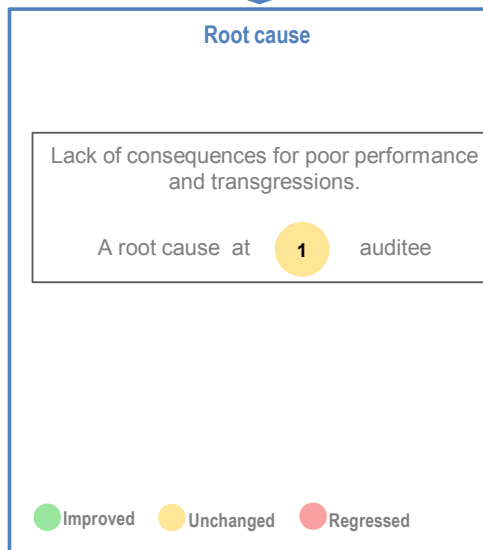
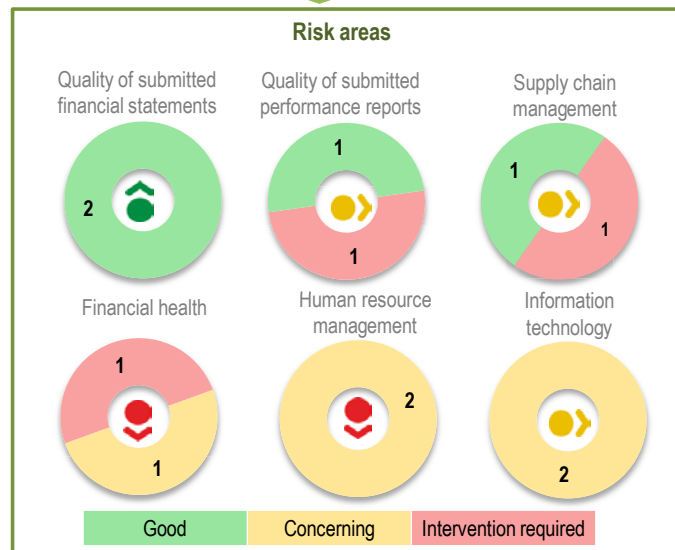
2
... the key role players need to **assure** that ...

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

4
... the **risk areas** and that ...

5
... the **root causes** are addressed ...

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



Status of key commitments by minister

- Improve quarterly and annual controls to ensure accurate and complete performance reporting.
- Request the department and entity to do frequent financial reporting to assist with proper governance and to ensure clean administration.
- Sustain the clean audit outcome in the portfolio by training and continued focus on the implementation of controls over financial and performance reporting and compliance with legislation.

Legend: Not implemented (red), In progress (yellow), Implemented (green), New (blue).

Auditees included in the portfolio

■ *The Presidency*

■ *Brand SA*

The department's total budgeted expenditure for the 2014-15 financial year was R657,6 million. The main areas of expenditure were compensation of employees of R305,4 million, transfer payments of R169,2 million and goods and services of R168,3 million.

Brand SA will form part of the Communication portfolio from 2015-16.

Overall audit outcome

There was an improvement in the audit outcomes within the portfolio, as the Presidency progressed to a clean audit outcome, while Brand SA again received a financially unqualified opinion with findings on compliance with legislation.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the Presidency and Brand SA for submitting financial statements that were free from material misstatements. The following controls should be strengthened to sustain a control environment that supports reliable financial reporting:

- Continue to prepare regular, accurate and complete financial statements that are supported by reliable information.
- The leadership and internal audit units should continue to review financial reporting processes and the audit committees should continue to oversee these processes.

Annual performance report

The Presidency submitted APRs for auditing that contained material misstatements. The Presidency avoided material findings in its audit report only because it corrected all the misstatements which we identified during the auditing process.

The following controls should be strengthened to create a control environment that will eliminate the risk of repeat material misstatements in the performance reports:

- Improve record keeping processes to ensure that complete, relevant and accurate information is readily accessible to support actual performance reported.
- Management and internal audit units should enhance their review processes of the reported achievements per the quarterly and APRs against adequate source documents, to ensure that actual reported performance information is adequately supported.

Compliance with legislation

We identified material non-compliance with legislation at Brand SA in the area of SCM. Invitations for competitive bidding were not always advertised for a required minimum period, as required by treasury regulations.

The following control should be strengthened to create a control environment that supports compliance with legislation:

- Management should implement processes to adequately monitor and review compliance with legislation.
- Communication of role and responsibilities in respect of SCM policies and procedures and have regular training provided to officials that oversee SCM activities.

Root causes

Leadership within the Presidency implemented best practices such as effective oversight and prompt corrective actions, resulting in a clean audit.

The leadership and senior management should address the root causes and inadequate controls that impacted the audit outcomes as follows:

- Improve oversight by the accounting officer and senior managers in implementing systems to facilitate the adequate preparation and proper review of the APR prior to submission for auditing.
- Management should closely monitor and review compliance with legislation and hold officials accountable for transgressions.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by:

- providing effective leadership and exercising oversight of financial and performance reporting and compliance with legislation
- monitoring the proper implementation of action plans to address remaining internal control deficiencies

- supporting the internal audit unit and the audit committee by ensuring that all reports issued by these functions are adequately addressed.

The two interactions with the director-general within the Presidency assisted the achievement of a clean audit outcome for the Presidency, especially in the areas of preparing quality financial statements and complying with legislation relating to human resource management and SCM.

The two interactions with the minister of Communication had minimal impact as there were no changes in the audit outcome of Brand SA.

The Presidency does not have an oversight committee.

Risks to financial health and information technology

Financial health

The main concern on financial health is the bank overdraft at the Presidency as a result of previous years' unauthorised expenditure, which was approved with funding by SCoPA during the 2014-15 financial year. The funding would only be received through the 2015-16 annual appropriation.

Brand SA had accumulated deficits due to an increase in the organisational structure in the previous financial year with the aim of reducing outsourced work. The negative indicator raised concerns about the financial viability and the pressure to acquire additional funding from government. The financial turnaround strategy should be monitored closely in the next financial year.

Information technology management as a specific cause of audit outcomes

The Presidency had challenges in resolving previously reported IT matters relating to the design of IT security and IT service continuity controls. These were due to inadequate firewall configuration standards for guidance in protecting the network from attacks, either internally or from the external environment. The disaster recovery plan had also not been developed, which could provide challenges to the entities' ability to recover information quickly in the event of a disaster.

The following controls should be strengthened to create a sound IT environment that supports the mandate of the Presidency:

- Develop and implement a disaster recovery plan.
- Develop and implement adequate firewall configuration standards.

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Vote 2: Parliament of the Republic of South Africa

Overall improvement in audit outcomes

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

Assurance levels

Level	Role	Assurance
First level	Senior management	Provides some assurance
	Accounting officer	Provides assurance
Second level	Internal audit unit	Provides assurance
	Audit committee	Provides assurance
Third level	Presiding officers	Provides assurance

Key controls

Audit area	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 outcomes** ...

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

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.

Risk areas

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

Good Concerning Intervention required

Best practices

Continue to focus on implementing and monitoring the action to plan to address identified internal control deficiencies and audit findings.

Prioritise finalising and implementing the performance monitoring and evaluation framework to eliminate repeat findings on the accuracy, validity and completeness of performance information

Status of key commitments by the executive authority

Establish Marang work flow to ensure that the invoices were captured timely and paid within 30 days and inclusion of this compliance in the performance contracts of the responsible personnel.
Fill key management positions and institutionalise the practice of monitoring of key controls by the accounting officer and internal audit.
Monitoring to ensure timely implementation of action plan to address past audit findings and identified internal control deficiencies.

Fill the position of chief information officer.	Establish Parliament's oversight mechanism in line with the requirements of the FMPPLA.
---	---

Not implemented In progress Implemented New

Auditees included in the portfolio

■ Parliament of the Republic of South Africa

The total budgeted expenditure by auditees in the portfolio for the 2014-15 financial year was R1 989 million. The main expenditure was in the following areas:

- Compensation of employees and members R1 156 million
- Transfers to non-profit institutions R353 million
- Goods and services R475,8 million
- Payment for capital assets R4 million.

Overall audit outcome

The improvement in Parliament's audit outcome, to unqualified with no findings in the 2014-15 financial year compared to unqualified with findings in the previous year, was due to the leadership's increased focus on monitoring the implementation of the action plan to address past audit findings and internal control deficiencies.

The main findings from our audit, which should be addressed to sustain the overall audit outcomes, are as follows:

Financial statements

While the financial statements submitted for audit were free from material misstatements, the following controls should be strengthened to sustain a control environment that supports reliable financial reporting

- Management has adopted the practice of preparing quarterly financial statements. Management should ensure that reconciliations are performed in a timely manner between the fixed asset register and the quarterly financial statements and reviewed by the delegated official. These reconciliations were not performed, as the misstatements of the previous year were not corrected in time; they were only addressed during the preparation of the current year's financial statements.
- Management should strengthen the implementation and monitoring of action plans to ensure that financial reporting and related controls prevent misstatements and enhance the controls to detect misstatements prior to the audit, especially in the area of assets.

Annual performance report

Despite the action plans and commitments implemented, Parliament submitted an APR for auditing that contained material misstatements. They avoided material findings in their audit report only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to sustain a control environment that supports useful and reliable reporting on the performance of the auditee.

- As previously reported, management should strengthen monitoring the action plans to implement a proper record management system that ensures that documentation to support the reported predetermined objectives in the APR is readily available.
- Strengthen monitoring the implementation of re-engineering the predetermined objective process, which commenced in the 2014-15 financial year to ensure that internal controls to sustain good predetermined objective audit outcomes are institutionalised.

Compliance with legislation

We did not identify any material findings relating to non-compliance with legislation by Parliament.

The following controls should be strengthened to create and sustain a control environment that supports compliance with legislation:

- Enforce adherence to workflow processes to ensure invoices are paid within 30 days of receipt. Parliament should take action against line managers who do not adhere to the timelines of the work flow approvals included in their performance agreements. The challenge for Parliament therefore remains that it should continuously monitor compliance.
- SCM regulations became effective from 1 April 2015. Management should take steps to ensure that employees are adequately trained to deal with the more stringent SCM processes.

Best Practices

The secretary to Parliament and senior management should continue with the following practices:

- Ensure that the other important matters included in the management report are adequately addressed. If not properly addressed, these may result in the material findings in the following year.

- Prioritise finalising and implementing the performance monitoring and evaluation framework to eliminate the constant challenges to accurate, valid and complete performance information.

The successes and lessons learnt in implementing the FMPPLA (previously referred to FMPA), can be shared in the following ways with provincial legislatures to assist with their implementation for 2015-16:

- The Speakers' Forum should develop appropriate mechanisms to monitor the implementation of readiness plans to respond to the FMPPLA requirements.
- Establish a consultative relationship between Parliament, provincial legislatures and the treasuries concerning financial management, performance management and compliance with legislation.
- Develop a coordinated legislative sector approach to implementing the FMPPLA.
- Provide assistance to review governance and oversight models to establish appropriate oversight mechanisms.

Impact of key role players on audit outcomes

The first levels of assurance should be improved. The secretary to Parliament should adequately monitor the timely implementation of action plans by senior management and take corrective action where performance is not being achieved.

We met with the executive authority once in the past year and this interaction had some impact on the audit outcomes. While the executive authority performed their oversight functions, actions should be implemented to ensure that information such as quarterly financial and performance reports are submitted by the accounting officer within the legislated time frames to allow the executive authority to perform their oversight function effectively.

The previous commitments made by the executive authority were honoured, resulting in no findings on compliance previously reported in the audit report. The accounting officer's continued monitoring of commitments on actions to address previous audit findings and key controls is required to ensure that the audit outcome is sustained.

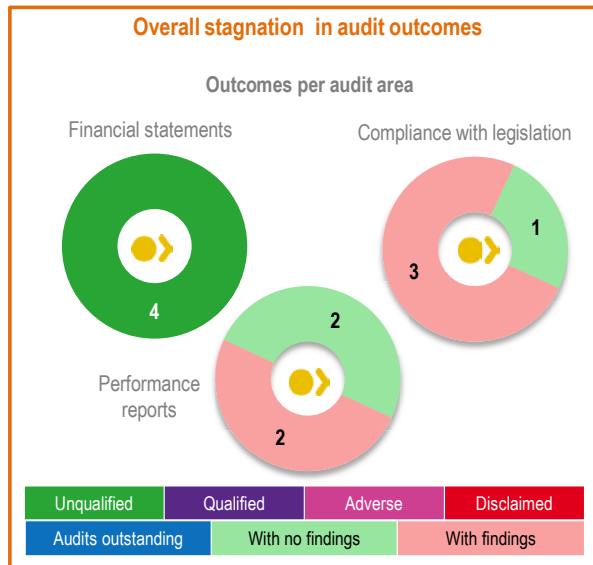
Risks to financial health

Although there were no significant risks to financial health the accounting officer and senior management should address the following matters that could, in future, affect the financial health of Parliament:

- Parliament again incurred a deficit for the 2014-15 financial year, owed more than it had, and overspent on the approved operating expenditure budget. Management should measure and monitor Parliament's financial position to determine whether generally, this financial position is acceptable and specifically, whether future cash flows and budgeted funds would be sufficient to meet Parliament's employee retirement benefit obligations, which is the main reason for Parliament's liabilities continuing to exceed its assets.

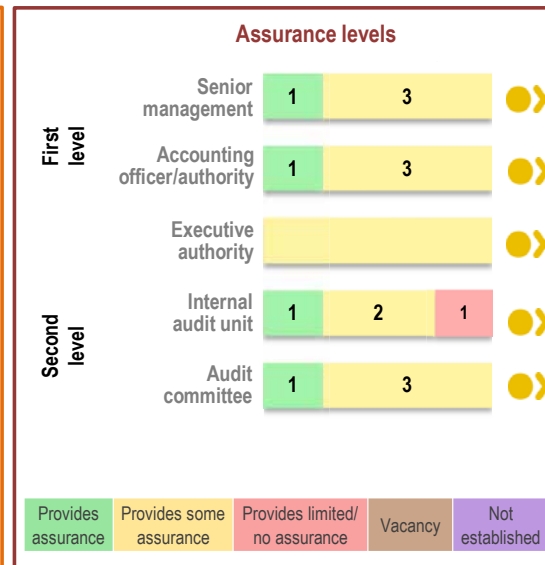
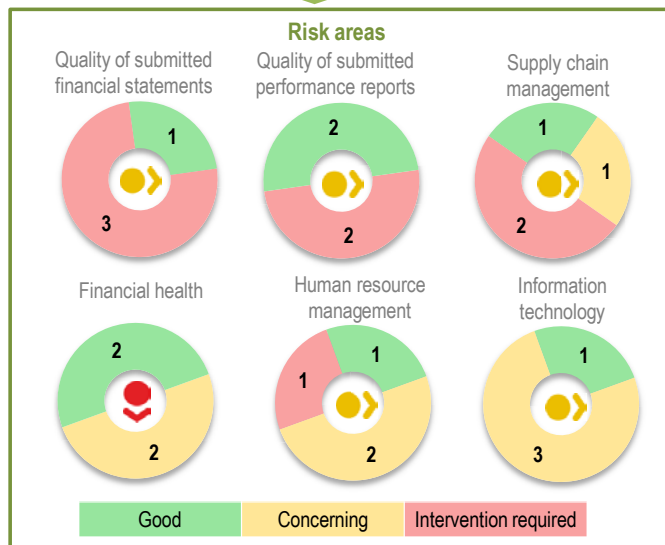
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Vote 3: Cooperative governance and traditional affairs (including the Municipal Demarcation Board and the Commission for the Promotion and Protection of Cultural, Religious and Linguistic Communities, which are constitutional institutions)



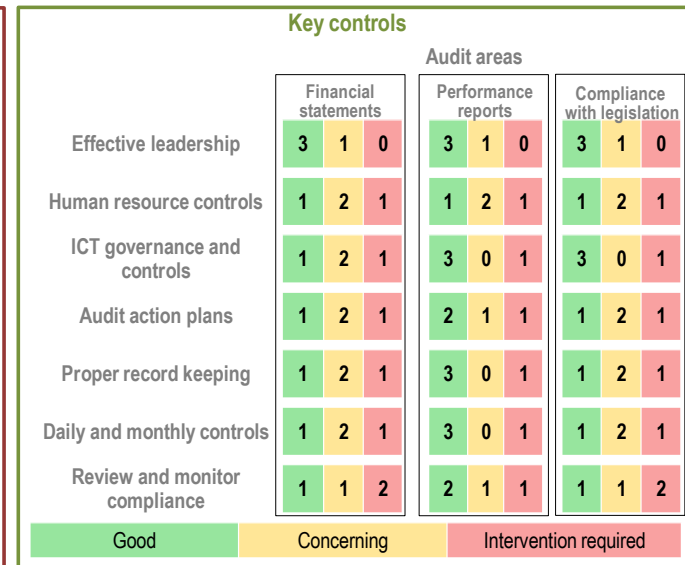
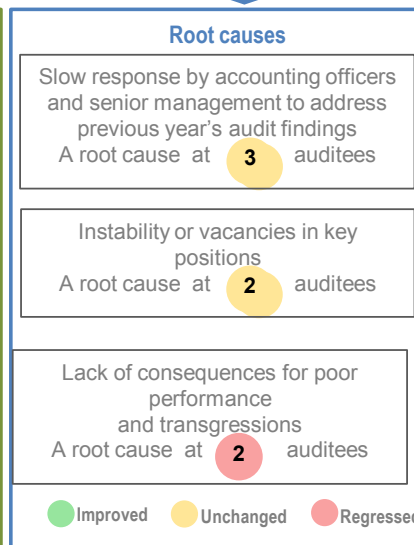
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4 ... the **risk areas** and that ...



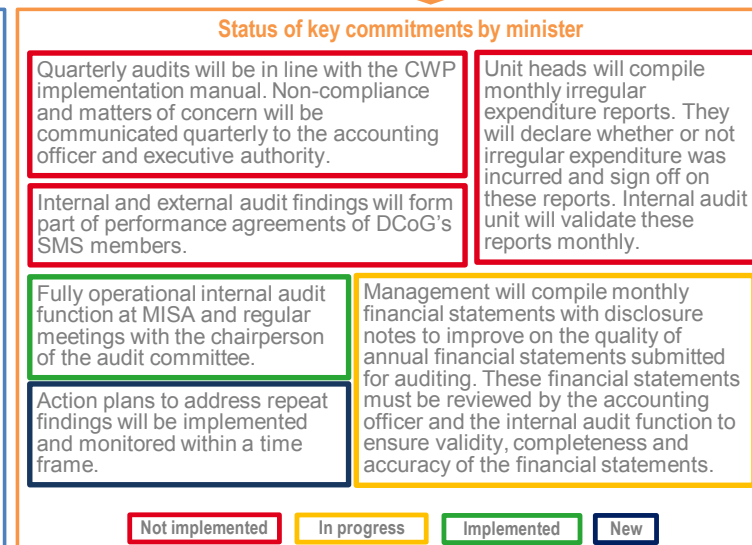
2 ... the key role players need to **assure** that ...

5 ... the **root causes** are addressed ...



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

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



Auditees included in the portfolio

- *Department of Cooperative Governance (DCoG)*
- *Department of Traditional Affairs (DTA)*
- *Municipal Infrastructure Support Agent (MISA)*
- *South African Local Government Association (SALGA)*

The departments' total budgeted expenditure for the 2014-15 financial year was R63,5 billion. The main areas of expenditure were transfer payments to municipalities and entities of R60,8 billion, goods and services of R2,4 billion (including the community work programme [CWP] of R2 billion) and employee cost of R247 million.

Overall audit outcome

The overall audit outcomes have not moved significantly since the previous year, as DCoG and MISA did not address past material findings on their APR and compliance with legislation, and did not implement daily and monthly processes. The DTA was audited for the first time as a separate department and received a financially unqualified audit opinion with material findings on compliance with legislation. SALGA remained unchanged, receiving an unqualified audit opinion with no material findings (clean audit) for the third consecutive year.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The DCoG, DTA and MISA submitted financial statements for auditing that contained material misstatements. The DCoG corrected misstatements in the areas of receivables, payables, goods and services, transfers and subsidies, assets and commitments. The DTA had misstatements in payables, goods and services, unauthorised expenditure, accruals, commitments and lease commitments. MISA's areas of receivables, fixed assets, revenue, general expenses, and payroll expense contained material misstatements.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- MISA should perform regular account balance reconciliations. Furthermore, all the auditees should implement and maintain monthly financial systems and controls to ensure that regular, accurate and complete financial statements with disclosure notes are compiled.
- The finance unit at MISA and internal audit units at the DCoG and DTA should be adequately capacitated to enable the finance unit at MISA to

properly prepare and review the monthly, quarterly and annual financial statements and supporting schedules in good time. The capacity created at the internal audit units of the DCoG and DTA is required to validate the process to ensure that the financial statements and supporting schedules are complete, accurate and reliable.

Annual performance report

The published APR of the DCoG and MISA included information on their performance against predetermined objectives that was not useful or reliable for the following programmes we had selected for audit:

Auditee	Programme	Not useful	Not reliable
DCoG	Programme 2: Policy, research and knowledge management		x
	Programme 3: Governance and intergovernmental relations (G&IGR)		x
	Programme 5: Provincial and municipal government support (PMGS)	x	x
	Programme 6: Infrastructure and economic development (community works programme)		x
MISA	Programme 2: Municipal and sectoral technical support programme	x	x
	Programme 3: Capacity development programme	x	x

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- The DCoG should ensure that complete, reliable and accurate supporting evidence for actual achievements is uploaded on the performance management system. The system should be adequately and regularly reviewed. The DCoG should also implement proper record keeping and quarterly audits with regards to the reported performance of the CWP.
- The DCoG and MISA should ensure that all indicators have technical indicator descriptions that are documented in sufficient detail as required by the *Framework for managing programme performance information* (FMPPI). The level of actual performance regarding the support to be provided or the activity required should be clearly specified.

- MISA should implement proper performance management systems and processes, i.e. standard operating procedures, to allow for complete, accurate and reliable performance reporting.

Compliance with legislation

We identified material non-compliance with legislation by the DCoG, DTA and MISA in the following areas:

- MISA did not always evaluate its bids through committees composed according to the prescribed regulations.
- The design and operational effectiveness of the DCoG, DTA and MISA internal controls could not prevent irregular expenditure. The DTA and MISA also did not take reasonable steps to prevent unauthorised expenditure.
- The internal controls for processing and approving payments at the DCoG and MISA were ineffective, resulting in payments being made without actual services being received. The DTA and MISA did not pay creditors within 30 days of the date of receiving some invoices.
- MISA did not have an authorised human resource plan; appointments were made to posts that were not approved and funded in the organisational structure; and funded vacant posts were not filled within 12 months.
- MISA did not have an effective, efficient and transparent system of risk management and internal control for performance information and management. As a result, material findings were reported on credible and reliable performance information.
- The DTA increased its budget for compensation for a specific programme without the approval of the National Treasury.
- DTA's internal audit function did not evaluate certain compliance with legislation matters, as prescribed by law and their internal audit scope.

We identified material non-compliance with legislation by the DCoG and MISA in the following areas, which may have resulted in financial loss:

- The DCoG did not always follow competitive bidding processes or request three quotations as prescribed. The DCoG awarded contracts to bidders based on points given for criteria that differed from those in the original invitation for bidding.
- MISA did not always apply the preferential procurement points system when awarding contracts, nor did it advertise invitations for competitive bids for at least 21 days.
- MISA did not take effective steps to prevent losses arising from criminal conduct.

The DTA and MISA incurred unauthorised expenditure of R2,3 million and R6,7 million respectively, as a result of overspending on the budget, which was identified during the audit in both instances. The DCoG, DTA and MISA incurred irregular expenditure of R235,1 million as a result of non-compliance with SCM prescripts. Fifty-five per cent (R129,7 million) of this amount relates to non-compliance with SCM prescripts by the DCoG in implementing the CWP. The DCoG and DTA were able to identify all irregular expenditure, while MISA only identified 56% of its irregular expenditure during the year.

The status of SCM remains unsatisfactory at the DCoG and MISA due to the high number of repeat material findings on compliance.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Management at all entities must implement prompt and adequate consequence management for employees who continuously fail to comply with legislated prescripts.
- The DCoG should ensure that proper procurement processes are implemented by the implementing agents when procuring goods and services for the CWP.

Root causes

The accounting officers, chief financial officers and chief audit executives should address the root causes of poor audit outcomes and inadequate controls as follows:

- The accounting officer of DCoG should monitor audit action plans and the CWP implementation plan regularly to ensure that the identified deficiencies are addressed to avoid repeat findings and continued non-compliance.
- Monitor internal control processes consistently and ensure that all employees adhere to them. Management should regularly assess the status of internal controls, especially on preparing financial statements and implementing the CWP, to address deficiencies as and when they arise.
- The accounting officers of the DCoG and MISA should provide quarterly feedback to the executive authority on the progress made in filling vacancies at key management level.
- The accounting officers should focus on ensuring that transgressors are held accountable and that action is taken, as required by the PFMA. Action should be taken against repeat transgressors in a timely manner, to eliminate repeat findings.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring that action plans and commitments to address previous years' findings are implemented and monitored throughout the year to prevent repeat findings. Furthermore, accounting officers should adequately oversee and monitor the CWP and compliance with legislation.

The internal audit unit at the DCoG as well as the CWP unit must be sufficiently staffed to perform quarterly audits, and to monitor and oversee the implementation of the programme monthly and quarterly. Shortcomings should be followed up and corrected immediately. The DTA's internal audit function should be capacitated to ensure its effective operation.

We met with the minister three times in the past year. These interactions had minimal impact on the audit outcomes due to material repeat findings on the departments' APRs, compliance with legislation and financial statements being reported. However, the minister implemented significant strategic projects such as the back-to-basics programme at the departments.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to information technology

Information technology management as a specific cause of audit outcomes

The IT governance controls at the DCoG and DTA were adequately designed and implemented, indicating alignment of the IT department with the business strategy. The security and user access management control designs were adequate; however, the implementation of these controls was ineffective. IT service continuity controls were inadequately designed, increasing the risk of the organisation being unable to recover business operations in the event of a disaster. We further noted that the municipal infrastructure grant management information system (MIG-MIS) was not used by the provinces to administer the

MIG. The project registration module was used in some provinces; however, the MIG-MIS was not used for overall reporting as this was done on spreadsheets.

Adequate backup procedures need to be developed to ensure that the DCoG is able to recover its critical data in the event of a disaster. In addition, user access monitoring functions were not assigned to the relevant process owners.

Constitutional institutions

- *Commission for the Promotion and Protection of Cultural, Religious and Linguistic Communities (CRL rights commission)*
- *Municipal Demarcation Board (MDB)*

The CRL rights commission and the MDB are included in the portfolio but are not under the authority of the minister.

Overall audit outcome

The lack of improvement in the overall audit outcome was due to the CRL rights commission and the MDB not addressing past material findings on compliance with legislation. The CRL rights commission, however, addressed its material findings on the usefulness of its performance information and MDB had no findings on performance information.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

Both entities submitted financial statements for auditing that contained material misstatements, which were corrected to receive financially unqualified audit opinions. The CRL rights commission had misstatements in the areas of assets, provisions, creditors and expenses and the MDB in the areas of related parties and commitments disclosure notes.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Enhance completeness, accuracy and reliability of monthly financial statements through adequate review processes by senior management and assurance providers, to eliminate material adjustments to the financial statements.

Compliance with legislation

We identified material non-compliance with legislation by the MDB in the following areas, which may have resulted in financial loss:

- Contracts were extended without the approval of a properly delegated official and deviations were approved by the accounting officer at MDB even though it was not impractical to invite competitive bids.
- The accounting officer also did not take effective steps to prevent irregular expenditure. Irregular expenditure amounted to R3 million, all of which was identified during the audit.

The status of SCM remained unsatisfactory at the MDB as repeat material findings were reported. The CRL rights commission had no material SCM findings reported for the 2014-15 financial year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The accounting officer of the MDB should ensure that all deviations are adequately documented and aligned to the SCM prescripts before approval.

Root causes

The accounting officer, senior management and those charged with governance should address the root causes of poor audit outcomes and inadequate controls as follows:

- Regularly monitor the implementation and adherence to the action plans to address external audit findings regarding SCM compliance.

Impact of key role players on audit outcomes

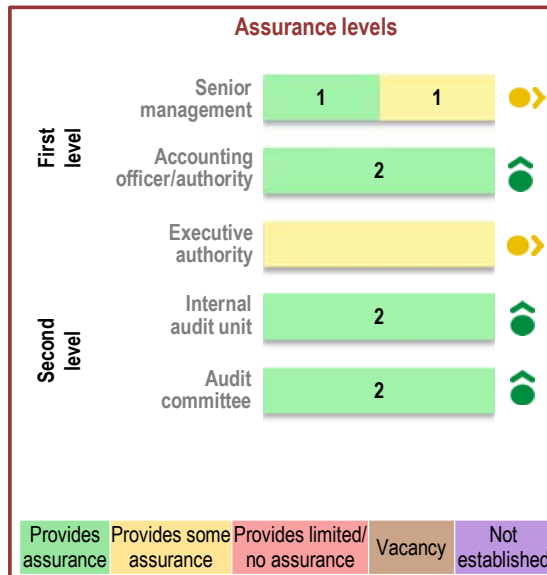
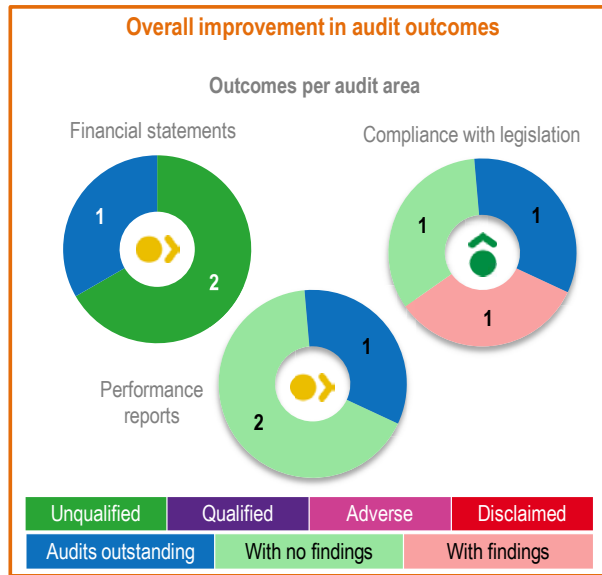
The first and second levels of assurance should be improved by ensuring stability at the level of accounting officer at the MDB, adequately overseeing and monitoring compliance with legislation, and implementing previous commitments.

We met with the executive authority of the MDB four times in the past year and these interactions had no impact on the audit outcomes as MDB had repeat material non-compliance findings.

We were unable to secure a meeting with the executive authority of the CRL rights commission. The lack of impact of the executive authorities on the auditees' controls, and the status and impact of the commitments, contributed to the assessed assurance provided by the executive authorities.

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Vote 4: Home affairs



Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Score	Status	Notes	Score	Status	Notes	Score	Status	Notes
Effective leadership	2	Concerning		2	Improved		2	Improved	
Human resources controls	2	Concerning		2	Improved		2	Improved	
ICT governance and controls	0	Not established		1	Improved		1	Improved	
Audit action plans	1	Concerning		2	Improved		1	Improved	
Proper record keeping	1	Concerning		2	Improved		2	Improved	
Daily and monthly controls	1	Concerning		1	Improved		1	Improved	
Review and monitor compliance	1	Concerning		2	Improved		0	Not established	

Overall Status: Good (green), Concerning (yellow), Intervention required (red)

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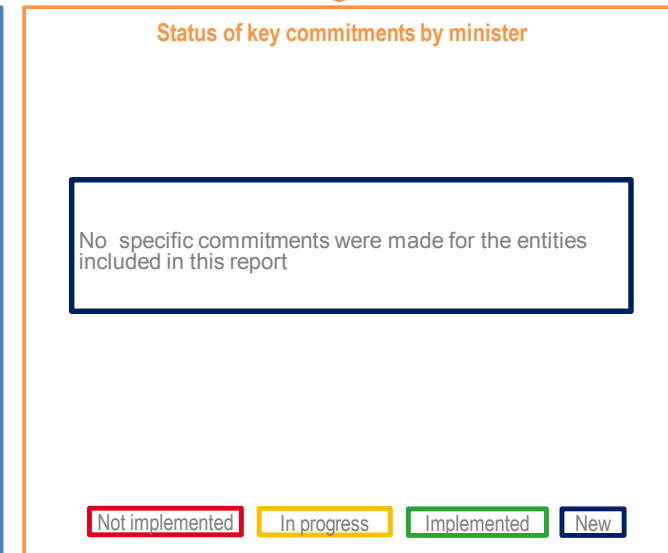
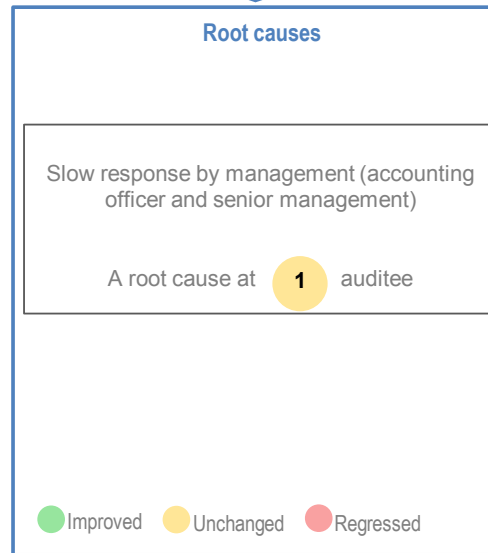
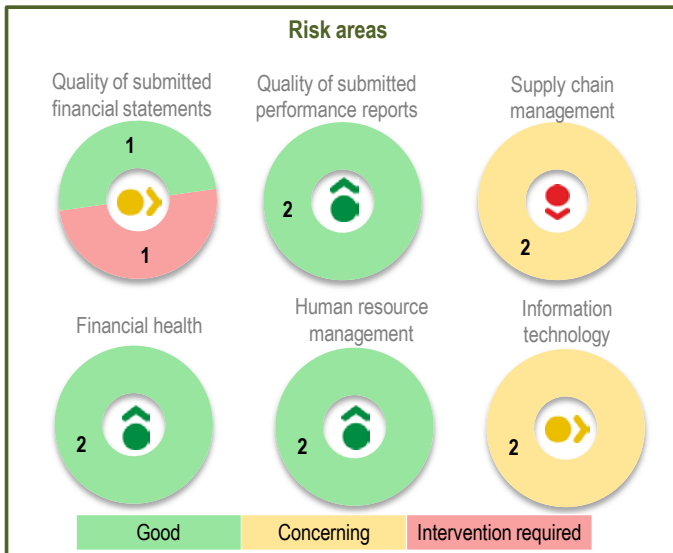
2 ... the key role players need to **assure** that ...

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

4 ... the **risk areas** and that ...

5 ... the **root causes** are addressed ...

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



Auditees included in the portfolio

- *Department of Home Affairs (DHA)*
- *Government Printing Works (GPW)*
- *Film and Publication Board (FPB)*

The department's total budgeted expenditure for the 2014-15 financial year was R7,2 billion. The main areas of expenditure were in employee costs of R2,7 billion, goods and services of R2,8 billion, transfer payments of R1,8 billion and capital expenditure of R10,9 million.

The audit outcome of the DHA is not included. Due to unresolved matters pertaining to procurement findings, we had not finalised the audit by 14 August 2015, which was the cut-off date for including audit outcomes in the general report.

The FPB will form part of the communications portfolio from 2015-16 as per the presidential proclamation.

Overall audit outcome

The improvement in the overall audit outcome was due to the GPW moving from an unqualified opinion with findings to an unqualified opinion with no findings (clean audit).

The audit outcome of the FPB was unchanged from the previous year as it failed to implement controls to ensure compliance with legislation and to prepare financial statements free from material misstatements.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the GPW for submitting for auditing annual financial statements that were free from material misstatements.

The FPB submitted for auditing financial statements that contained material misstatements in the irregular expenditure disclosure note. It received an unqualified audit opinion only because it corrected the misstatements identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting. Some of these controls have been mentioned in the previous financial year's report, but remain unaddressed:

- Regularly reconcile account balances to provide assurance that all valid transactions were accurately recorded in a timely manner and are presented and disclosed in accordance with stipulated requirements.
- Properly review the annual financial statements prior to submission for auditing to avoid material adjustments and to ensure that all the amounts disclosed are appropriately supported by accounting records.
- Use quality monthly and quarterly reporting to governance structures to monitor management's actions to address internal and external audit recommendations.

Annual performance report

The GPW and FPB submitted APRs for auditing that were free from material misstatements and had no material findings on the usefulness and reliability of their performance information.

Compliance with legislation

We identified material non-compliance with legislation in the following area:

- The FPB did not take reasonable steps to prevent irregular expenditure.

Irregular expenditure amounting to R6,5 million was incurred by the FPB due to non-compliance with SCM legislation. This represents a R5,4 million increase from the previous year, and 52% of this expenditure was identified by the auditee.

The FPB's irregular expenditure was caused by the preferential procurement point system used in the evaluation of quotes not being stipulated when requesting quotations.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The leadership and governance structures should use compliance checklists that must be signed off by the appropriate levels of management to review and monitor compliance with applicable legislation.
- Action plans to address compliance deviations must contain the specific management action required to address compliance deviations.
- Implement consequence management for employees who fail to comply with the legislated prescripts to avoid recurring non-compliance.

Root causes

The leadership and senior management of the entity should address the root causes of poor audit outcomes and inadequate controls as follows:

- Identify the causes of slow responses by management to improving the control environment so that corrective action can be taken to address the previous year's findings being repeated.
- Improve the organisational culture to increase the speed of management responses and timeous availability of information required for auditing, and to ensure compliance with policies, procedures and legislation.

Impact of key role players on audit outcomes

The accounting authority of the FPB should monitor whether management adequately addresses the audit findings with credible action plans.

We met with the minister four times in the past year and these interactions had some impact on the audit outcomes. All the actions proposed by the minister were not implemented during the 2014-15 financial year; however, we anticipate that the proposed actions will improve future audit outcomes. This assessment, coupled with the minister having had a limited impact on the daily controls of the auditee and the status and impact of the commitments made at the end of the previous financial year, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks relating to information technology

The accounting officer/authority should address the following matters, which could affect the service delivery monitoring and oversight responsibilities of the portfolio:

Information technology management as a specific cause of audit outcomes

Key outcomes

- It was noted that most IT control weaknesses at the FPB and GPW were on implementing controls for security management, user access management and IT service continuity.
- At GPW, the weaknesses identified related to issues on user account management and IT service continuity that had not been resolved from the previous year. This was a result of not complying with, or not implementing, formally approved processes and policies, and not testing the disaster recovery plans.

Highlights

- Most auditees in the portfolio have attempted to address the findings and notable progress has been made. Many findings are now on implementing controls/policies and procedures.
- Generally, accounting officers and information technology managers are willing to address the findings, which is evident in the progress that has been made.
- The GPW had no findings on IT governance.
- All the entities had findings on user access management.
- The GPW was the only entity without findings on IT security management.
- The FPB was the only entity without findings on IT service continuity.

Challenges

- Auditees had a process to ensure that individuals were held accountable for not addressing audit findings; as a result, most of the findings raised in 2013-14 were partially addressed in the 2014-15 audit cycle.
- Most findings were on implementing controls. There were no clear roles and responsibilities between IT and the business to ensure that controls were implemented adequately.

Constitutional institutions

■ Electoral Commission (EC)

The Electoral Commission is included in the portfolio, but is not under the authority of the minister. The audit outcome of the Electoral Commission remained unchanged from the previous year as it failed to implement controls to

ensure compliance with legislation and to prepare financial statements that are free from material misstatements.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The Electoral Commission submitted financial statements for auditing that contained material misstatements in numerous classes of transactions, account balances and disclosure notes. It received an unqualified audit opinion only because it corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
- Improve the review of manual processes outside the SAP system to support the figures on their annual financial statements.

Annual performance report

The Electoral Commission submitted an APR for auditing that contained material misstatements. These misstatements were not adequately corrected by the auditee, resulting in the information on their performance against predetermined objectives not being reliable.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance against predetermined objectives:

- Improve and strengthen the processes and controls supporting quarterly performance reporting. Currently, there is no verification procedure to ensure the validity, accuracy and completeness of the actual performance reported quarterly.
- The individuals responsible for the objectives should be held accountable for actual performance that is supported and evidenced by reliable information.

Compliance with legislation

Other than the quality of financial statements submitted for auditing, we identified material non-compliance with legislation in the following areas:

- Irregular expenditure was not prevented.
- Quarterly reporting procedures to the chairperson of the Electoral Commission were not established.
- A person working for the Electoral Commission participated in the process of awarding a contract to a bidder in which his business partner had an interest.

The Electoral Commission incurred R40,8 million in irregular expenditure, of which R2,7 million relates to the previous year's expenditure identified in the current year. The irregular expenditure relates mainly to non-compliance in the procurement and contract management environment.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Effective oversight to ensure accountability and consequences for non-compliance.

Root causes

The commissioners of the Electoral Commission should address the root causes of poor audit outcomes and inadequate controls as follows:

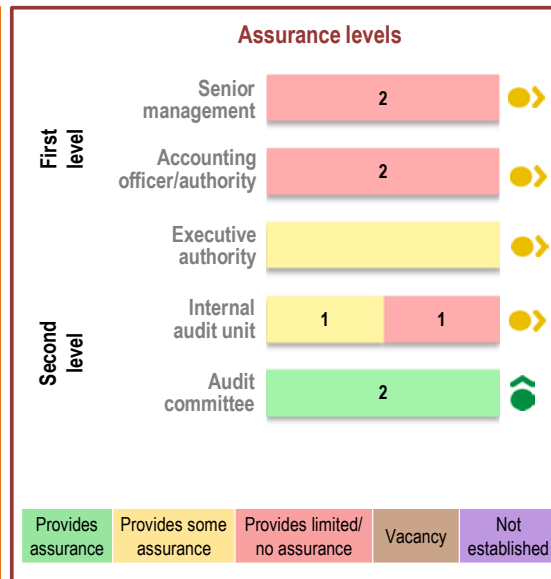
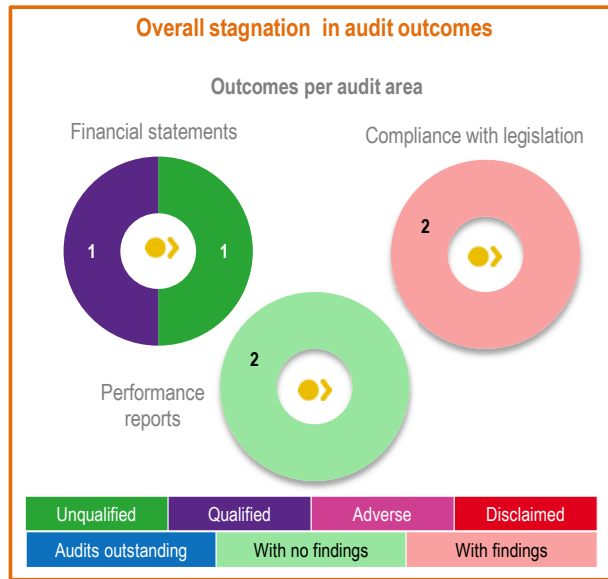
- Hold Individuals accountable for not adhering to internal controls and not complying with the applicable legislation.
- Ensure leadership stability at the Electoral Commission.

Information technology management as a specific cause of audit outcomes

The weaknesses identified were related to the disaster recovery plan that had not been tested and which was not based on the business continuity requirements of the Electoral Commission as the business continuity plan had not yet been finalised. The IT management team also had not ensured that the firewall policy was reviewed.

The Electoral Commission had no findings on IT governance and user access management.

Vote 5: International relations and cooperation



Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	1	0	1	1	0	1	1	0	1
Human resources controls	0	1	1	1	1	0	0	1	1
ICT governance and controls	0	1	0	0	0	0	0	0	0
Audit action plans	0	0	2	1	0	1	0	1	1
Proper record keeping	0	0	2	2	0	0	0	0	2
Daily and monthly controls	0	0	2	1	1	0	0	0	2
Review and monitor compliance	0	0	2	1	0	1	0	0	2

Legend: Good (Green), Concerning (Yellow), Intervention required (Red)

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To improve/maintain the **audit outcomes** ...

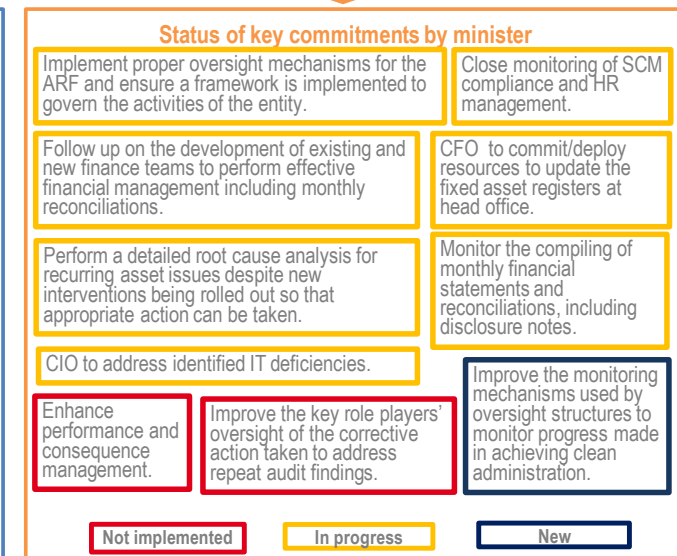
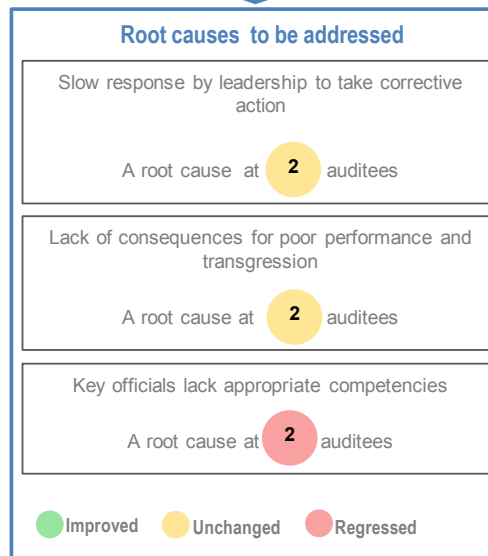
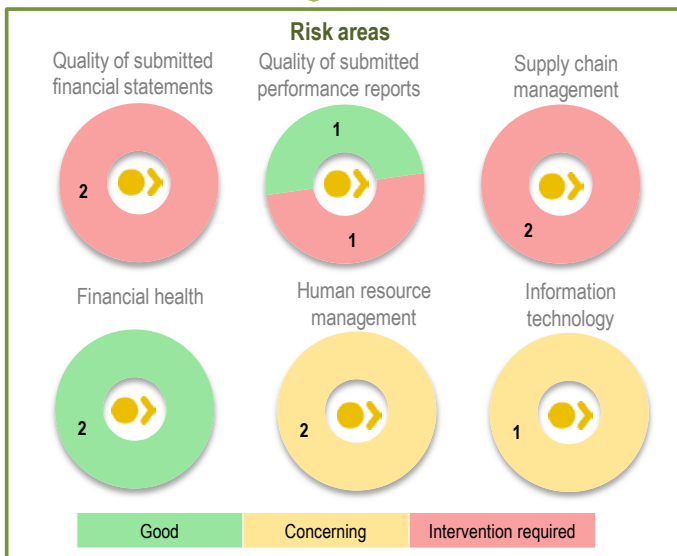
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... the key role players need to **assure** that ...

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... attention is given to the **key controls** and ...

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... the **risk areas** and that ...

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... the **root causes** are addressed ...

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



Auditees included in the portfolio

- *Department of International Relations and Cooperation (DIRCO)*
- *African Renaissance and International Cooperation Fund (ARF)*

The portfolio's budget (voted funds) for the 2014-15 financial year was R6,1 billion. The main areas of expenditure were employee costs of R 2,5 billion, goods and services of R2,4 billion, transfers and subsidies of R833 million and payment for capital assets of R273 million.

Overall audit outcome

The lack of improvement in the overall audit outcomes was due to DIRCO receiving a qualified audit opinion on its financial statements for a second consecutive year. The ARF's audit opinion remained unqualified with findings on compliance with legislation.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of DIRCO included the following material misstatements:

- Tangible capital assets and minor capital assets were materially understated. This was due to the department not maintaining an updated asset register and enhancing the entire asset management process.
- DIRCO did not assess their works of art and paintings to determine whether the modified cash standard's heritage asset criteria had been met. As a result, we were unable to determine the impact on the classification of these assets. Further, works of art and paintings acquired prior to 1 April 2002 were not measured according to the requirements of the modified cash standard.

The financial statements submitted for auditing by DIRCO and the ARF contained material misstatements in the areas of immovable assets, movable tangible capital assets, irregular expenditure, fruitless and wasteful expenditure, related parties, payables, expenditure, commitments and contingent liabilities. The ARF received an unqualified audit opinion only because it corrected all the misstatements we had identified during the audit process. DIRCO could not make all the corrections as it lacked a credible asset register and failed to assess works of art and paintings.

The following controls should be strengthened to create a control environment that supports reliable financial reporting.

- All personnel responsible for preparing the financial statements should be trained on the application of the modified cash standard to ensure that valid, accurate and complete financial statements are compiled and are supported by appropriate documentation, including proper reconciliations. Financial reporting discipline, including mandatory controls over these key reconciliation processes and reviewing compliance matters, should be enforced.
- The asset management strategy should include the following:
 - Mandatory asset verification
 - Disposal of old or obsolete assets, including those in storage facilities, if a decision has been made that these assets are surplus to business needs
 - Investigate missing assets and write these assets off if they cannot be located after a proper investigation and approval process had been followed
 - Promptly update the asset register for additions, disposals and retirements/scraping

Perform an assessment of the works of art to determine if they meet the criteria to be classified as heritage assets in terms of the Modified Cash Standard.

- Implement quality assurance processes to ensure that a credible asset register is produced.
- The oversight provided by key role players of the financial reporting process, including detailed reviews of the financial reports, and corrective action taken to address audit findings, including the functioning of the asset task team, should be strengthened and the monitoring mechanisms used by these role players in monitoring progress and the enforcement of consequence management should be improved.

Annual performance report

The APR submitted for auditing by the ARF contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we had identified during the auditing process.

The following control should be strengthened to create and sustain a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Strengthen the ARF's quality assurance processes to ensure that detailed reviews of the annual and quarterly performance reports are performed.

Compliance with legislation

We identified material non-compliance with legislation by DIRCO and the ARF in the following areas:

- DIRCO did not adequately implement proper control systems to safeguard and maintain assets.
- Both these auditees did not always follow competitive bidding processes or request three quotations when procuring goods and services.
- Neither of the auditees took effective steps to prevent irregular and fruitless and wasteful expenditure. This resulted in both auditees reporting a combined irregular expenditure of R103,5 million. DIRCO reported R363 000 in fruitless and wasteful expenditure.
- Neither of the auditees took effective and appropriate disciplinary steps against officials who caused or permitted irregular, fruitless and wasteful expenditure, while non-compliance with SCM prescripts was not investigated.
- Neither of the auditees took effective and appropriate steps to collect all money due on time. The delay in collecting the appropriated funds resulted in the ARF not promptly investing surplus funds.
- DIRCO did not ensure that oversight and governance of the ARF's performance reporting processes were effective.
- DIRCO transferred funds to the ARF without rendering the transfer of the funds subject to the ARF establishing effective, efficient and transparent financial management and internal control systems.
- The ARF was unable to provide evidence that the proposed strategic plan had been submitted to the executive authority within the legislated time frames.
- The ARF did not develop and document policies and procedures without delay to strengthen operational activities.

DIRCO incurred R102,3 million in irregular expenditure, which represents an increase of R68,1 million compared to the previous year. Only 2% of the amount was identified by the auditee. All the irregular expenditure in the portfolio related to transgressions of SCM regulations.

Procurement, contract management and the related controls were not always effective in ensuring a fair, equitable, transparent, competitive and cost-effective process. The SCM system, which includes the processes, controls and key SCM personnel's knowledge of legislative requirements, needs to be strengthened to comply with legislation.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Train staff and senior management involved in procurement on SCM legislative requirements and performance management to ensure compliance.

- Consequence management should be implemented against employees who continuously fail to comply with legislation and to address previously reported deficiencies.
- Compliance with legislation should be monitored.

Root causes

The accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Commit to and promptly implement the AGSA's recommendations to avoid repeat findings, particularly those recommendations related to asset register clean-up and regularly reviewing financial statements.
- Strengthen the oversight of financial reporting and compliance processes.
- Implement consequences for repeated poor performance and transgressions.
- Implement effective human resource processes to ensure that adequate and sufficiently skilled finance resources are in place.

Impact of key role players on audit outcomes

The accounting officer and senior management levels of assurance should be improved by ensuring that the AGSA's recommendations are implemented. The tone at the top should create a culture of compliance with applicable legislation and zero tolerance for repeat findings.

The audit committee should sustain its oversight of the effectiveness of the internal control environment for financial reporting and compliance with legislation. The issues reported previously regarding the audit committee's oversight of the ARF's risk management processes have been addressed.

We met with the minister once in the past year and this interaction had some impact on the audit outcomes. Our assessment of the impact is based on the effort to address some of the ARF's compliance issues. This assessment, the impact of the minister on the auditees' controls, and the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The

assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health

While there are no significant financial health indicators of concern relating to the 2014-15 audit, the fluctuation in the value of the rand against major currencies might have a negative impact on DIRCO's ability to function effectively, and to deliver and execute South Africa's foreign policy.

The accounting officer and senior management should continue engaging with the National Treasury on long-term proactive measures to counter the negative effects of fluctuations in the value of the rand, in addition to appropriation adjustments.

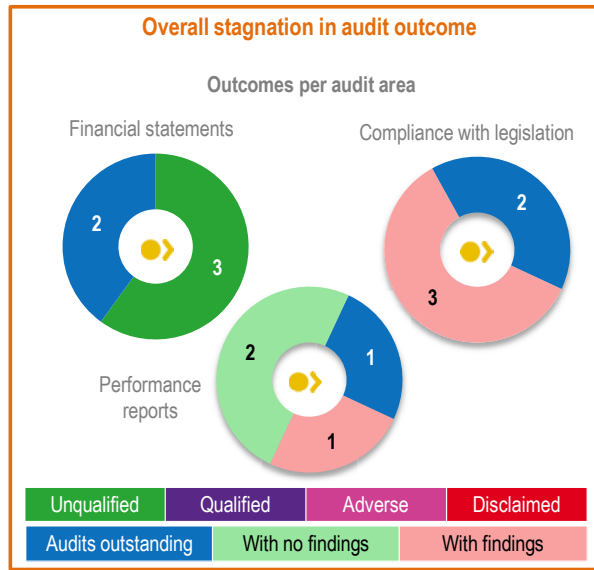
Risks related to information technology

Information technology management as a specific cause of audit outcomes

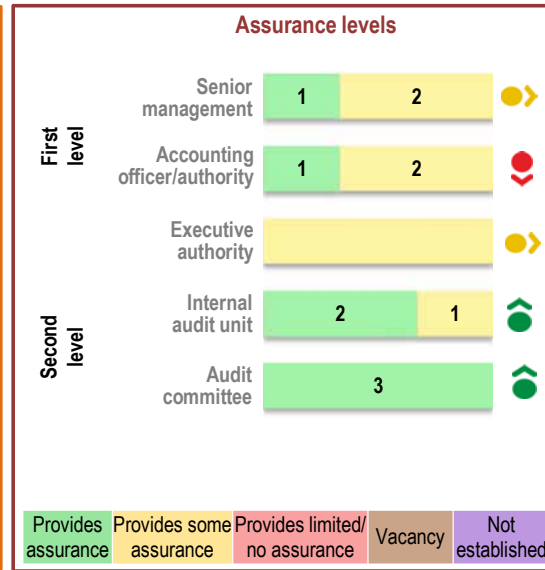
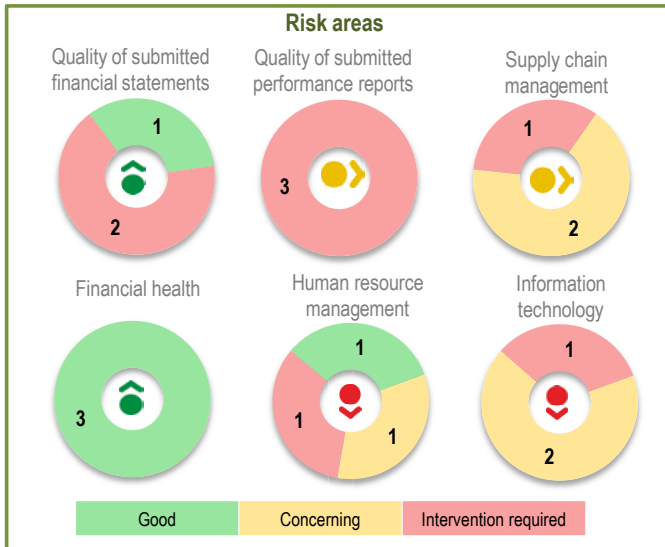
The following controls should be strengthened to create a sound IT control environment:

- Enhance the monitoring and implementation of the previous year's action plans to ensure improvement in the IT environment.
- Fully implement IT governance framework processes to address the weaknesses in IT policies and procedures. This will ensure effective IT internal controls.

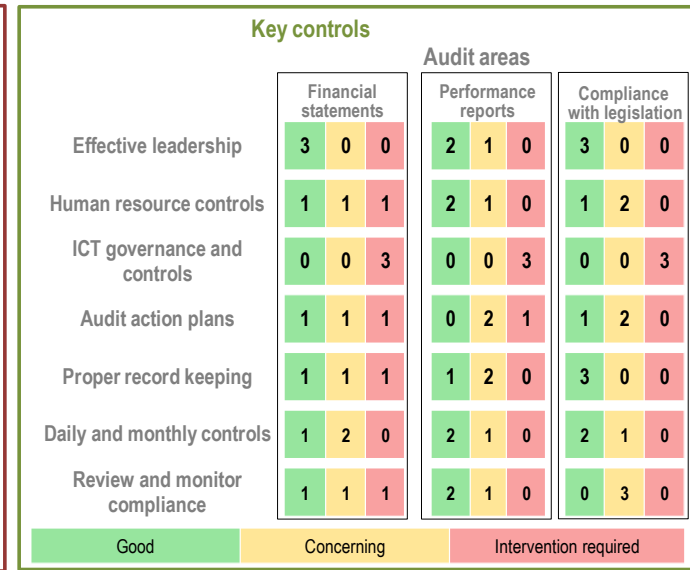
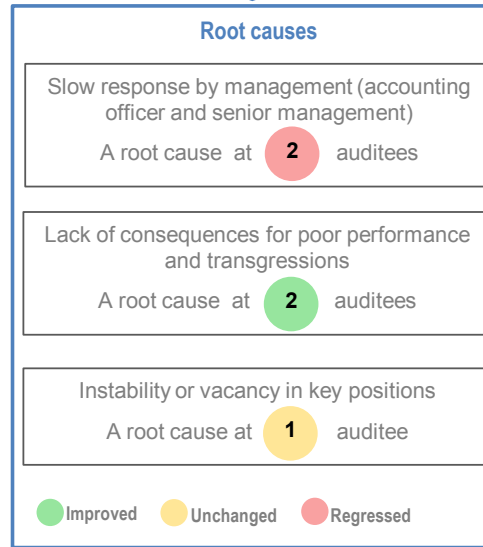
Vote 7: Public works



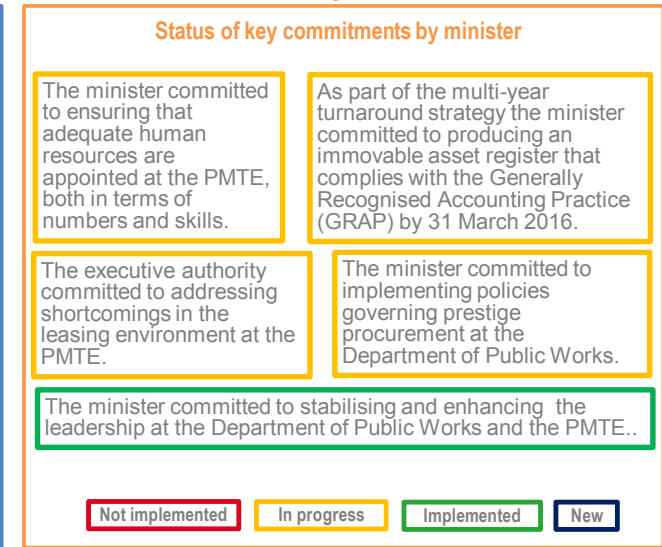
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To improve the **audit outcomes** ...
... the **risk areas** and that ...
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2
... the key role players need to **assure** that ...
... the **root causes** are addressed ...
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... attention is given to the **key controls** and ...
... and the **commitments** are honoured.
6



Auditees included in the portfolio

- *National Department of Public Works (DPW)*
- *Construction Industry Development Board (CIDB)*
- *Council for the Built Environment (CBE)*
- *Independent Development Trust (IDT)*
- *Property Management Trading Entity (PMTE)*

The department's total budgeted expenditure for the 2014-15 financial year was R6,1 billion. The main areas of expenditure were as follows:

- Employee costs R1,7 billion
- Goods and services R1,4 billion
- Transfer payments R2,6 billion
- Capital expenditure R530 million

The audit outcome of Parliamentary Village Management Board is not included due to its backlog of submitting financial statements for auditing. The last audit completed relates to the 2012-13 financial year. In addition, the audit reports for the PMTE and the IDT were only finalised after 14 August 2015; therefore, the audit outcomes for these entities have been excluded from this report.

Overall audit outcome

The audit opinions of the DPW, CIDB and CBE remained financially unqualified with findings.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the CIDB for having submitted for auditing financial statements that did not contain material misstatements. The DPW and CBE received unqualified audit opinions only because they corrected the material misstatements that we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Current controls that enable preparing financial information and statements should be enhanced to ensure the accuracy and completeness of financial information presented throughout the year.

- CBE and DPW should ensure that quarterly financial statements are subjected to a robust review process by all role players, including management, leadership, internal audit units and audit committees. This is also of particular importance for the year-end financial statements which are submitted for audit purposes. Year-end close procedures and reporting timelines must be formalised and cater for enough time for the review process. In-year monitoring and reviews of monthly financial information should also be enhanced. This will significantly reduce the risk of submitting financial statements for auditing that contain material misstatements. Pay specific attention to non-routine transactions during the review process.

Annual performance report

The published APR of the DPW included information on its performance against predetermined objectives that was not reliable for the following programme we had selected to audit:

Auditee	Programme	Not useful	Not reliable
DPW	Programme 3: Expanded public works programme (EPWP)		x

The DPW, CBE and CIDB submitted for auditing APRs that contained material misstatements. The CBE and CIDB avoided material findings in their audit reports only because they corrected all the material misstatements that we identified during the auditing process. The DPW only corrected some of the material misstatements, which resulted in the material finding on the reliability of the actual performance reported for programme 3: EPWP in the audit report.

The following controls should be strengthened to create a control environment that supports reliable reporting on the performance of the portfolio:

- The DPW must strengthen its guidelines on document retention and records management for the EPWP and strictly monitor and control its implementation. Oversight must also be improved to ensure that EPWP payments are only made to valid beneficiaries.
- The internal audit unit must review the evidence supporting the quarterly performance reports. Any errors should be rectified immediately to ensure the validity, accuracy and completeness of the quarterly reports, which form the basis of the APR.
- Management should properly review the APR before submission for audit to ensure that the report is free from material misstatements.

Compliance with legislation

We identified material non-compliance with legislation by the DPW, CBE and CIDB in the following areas:

- All auditees did not take reasonable steps to prevent irregular expenditure.
- The CBE did not implement a proper control system to safeguard and maintain assets. Assets were not physically verified throughout the year, which resulted in material misstatements being identified during the audit process. These were subsequently corrected by management.
- The DPW did not always take effective disciplinary steps against officials who created or permitted irregular expenditure.
- The internal audit unit at the DPW did not assess the operational procedure and monitoring mechanism of transfers made in terms of the annual DoRA. These transfers related to the EPWP where material findings were identified with regards to the reliability of achievements reported.
- The DPW did not implement effective, efficient and transparent systems of risk management and internal controls for performance information.
- The DPW did not implement specific and appropriate information systems to monitor progress made towards achieving the goals, targets and core objectives as indicated in the strategic plan and annual report.
- Funded vacant posts at the DPW were not filled within 12 months. This was mainly due to a delay in finalising the updated organisational structure for the DPW and PMTE, considering the transfer of functions from the DPW to PMTE.

We identified material non-compliance with legislation by the CBE, which may have resulted in financial loss in the following area:

- The CBE did not advertise bids for the required minimum period and did not compose the bid adjudication committee in line with its policies. The preferential procurement point system was not applied in all instances where it was required.

The DPW incurred R55,3 million in irregular expenditure, of which 36% was not detected by the department's monitoring processes, but was identified during the auditing process. Contravention of SCM legislation contributed to 80% of the irregular expenditure identified. A further R162 000 incurred in previous years was also identified.

A significant portion of the irregular expenditure disclosed by the department in the year under review relates to multi-year contracts, which were identified as irregular during previous years. Costs relating to these contracts were still incurred during the year under review.

The CBE incurred irregular expenditure of R4,1 million, all relating to SCM contraventions, of which 91% was identified during the auditing process. This occurred due to a lack of effective prevention and detection controls. Checklists were not used to ensure that all SCM requirements were met and that irregularities within the SCM division were identified. The chief procurement officer was suspended during the year under review based on allegations that he colluded with suppliers.

The CIDB incurred irregular expenditure of R5,9 million, all of which relates to contraventions of SCM legislation. Only R347 445 (6%) of this irregular expenditure was identified during the auditing process.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Reviewing and monitoring compliance must be strengthened. The focus must shift to preventing non-compliance. Relevant action plans must be compiled and enforced to address shortcomings. Risk management and internal audit units must form an integral part of this process.
- The DPW must prioritise implementing the planned information system for EPWP. Policies and procedures must be crafted and enforced to ensure the availability of reliable, accurate and complete audit evidence which supports actual performance reported. This includes strengthening communication with implementing bodies regarding the retention and hand over of relevant documentation.
- Compliance with all relevant SCM legislation must be confirmed before finalising procurement transactions.
- Consequence management must be strengthened to discourage continued transgressions, given the lack of improvement regarding compliance in the portfolio. We noted that the DPW had a significant number of allegations to investigate; however, these must be expedited so that the implicated individuals can be held accountable. The CBE and DPW leadership should, however, primarily focus on preventing transgressions to eliminate the need to apply consequence management.

Root causes

The accounting officer, accounting authorities and senior management should address the root causes of inadequate controls as follows:

- Slow response by management was a concern at the CBE and CIDB. Management must ensure that an appropriate audit action plan is promptly implemented to sustain the unqualified audit opinion and resolve the findings on compliance.

- The lack of consequences for poor performance and transgressions at the CBE should be addressed without delay and speedy disciplinary action should be taken when the need arises. Despite the volume of transactions involved, the DPW should make every effort to ensure that all irregular expenditure reported is timeously investigated and appropriate action taken, where required.
- The DPW should continue appointing appropriate individuals with relevant qualifications, skills and experience in vacant key positions. Ongoing mentoring and training should ensure that skills are maintained or improved, where necessary.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing internal and external audit's recommendations by developing and implementing comprehensive audit action plans without delay. The status of implementation must be audited by the internal audit unit and monitored by the audit committee on an ongoing basis. Internal and external audit findings must also be considered during the risk assessment process and adequate prevention strategies must be formulated.

We met with the minister five times in the past year and these interactions had some impact on the audit outcomes as financially unqualified audit opinions were sustained by the DPW, CBE and CIDB. Non-compliance with legislation and the reliability of reported performance on the EPWP remained of concern.

This assessment, the impact of the minister on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to information technology and financial health

Information technology

Key outcomes

The national department did not appoint a permanent chief information officer and the acting chief information officer was responsible for implementing the ICT portion of the turnaround strategy. This issue had been raised in the year under review and in previous financial years. Management had committed to appointing a chief information officer by 31 March 2015. At the time of this report, the matter had still not been addressed and remained a major risk due to the department's dependence on the acting chief information officer for the successful implementation of the information and communication technology (ICT) portion of the turnaround strategy. Progress reports were requested to track the actual expenditure and execution against the planned deliverables related to the turnaround strategy; however, the progress documentation was not provided.

The general control status at all the provinces required improvement, with most of the findings related to a lack of adequate controls for user management, disaster recovery, IT security and IT governance controls. The lack of a disaster recovery process remained a significant risk to the department as, in the event of a disaster, key business processes may remain unavailable for an undefined period.

Highlights

We noted through our operating system and database review of the DPW that the number of high risks had decreased due to the infrastructure upgrade projects that were in progress. This highlighted the fact that the projects being implemented were yielding some positive results.

Challenges

A key challenge noted at the department was that cost versus benefit analyses were not adequately performed prior to a new system being acquired or developed. As a result, the department was replacing systems implemented within a short space of time or the systems were not being used in line with their intended purposes.

Examples of such instances included the following:

- The IE-Works system was rolled out nationwide to manage the department's assets; however, most of the provinces were still using spreadsheets to capture and report on their assets.

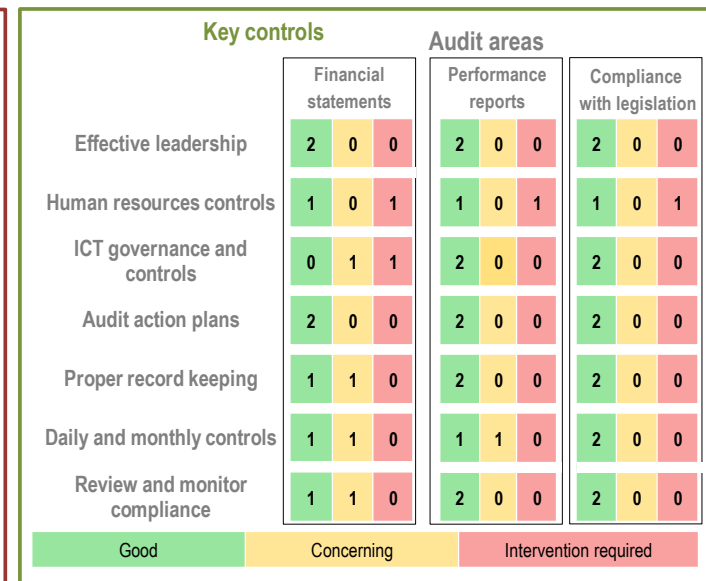
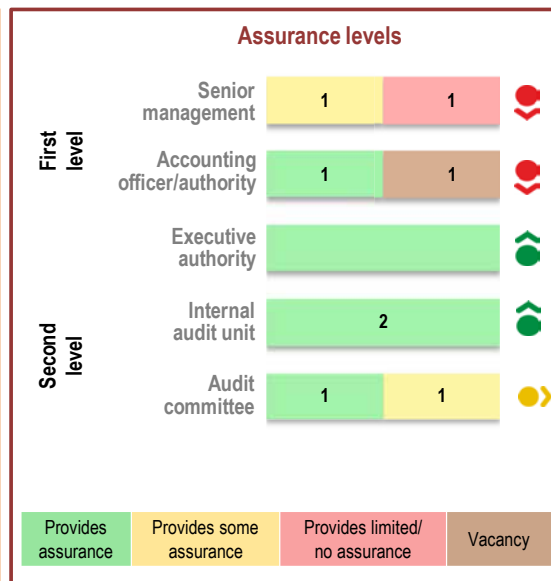
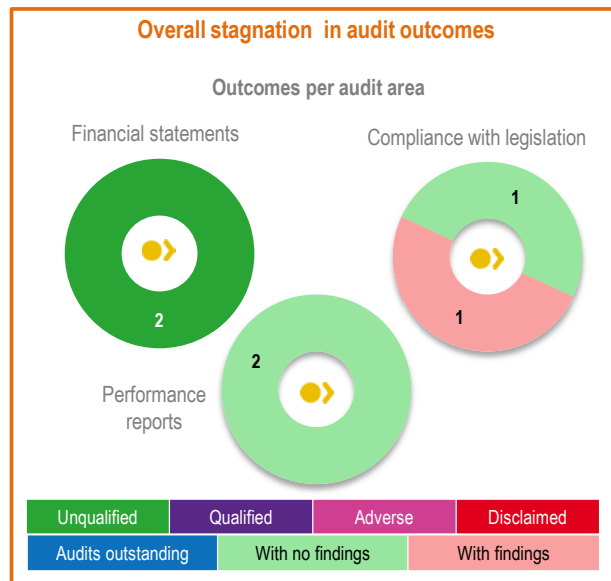
- The department was in the process of implementing a new system (phase 3) for reporting on EPWP to address the weaknesses in the IRS. The IRS was recently implemented to replace the old MIS, which was not meeting the department's needs. Spreadsheets were still being used to report to the DPW on EPWP projects, rendering the system ineffective.

Financial health

The continued underspending of the capital budget at the DPW remained a concern and had a negative impact on infrastructure delivery.

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Vote 9: Government communications and information systems



1 To improve/maintain the **audit outcomes** ...

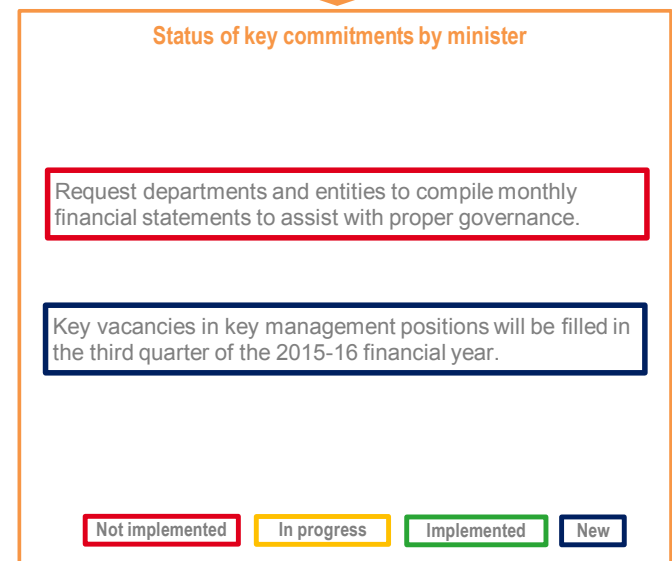
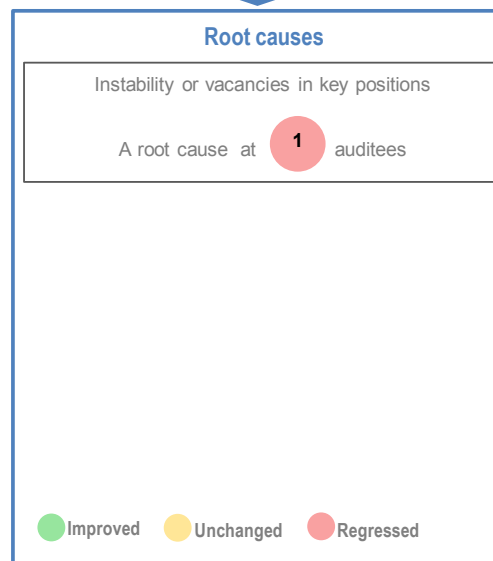
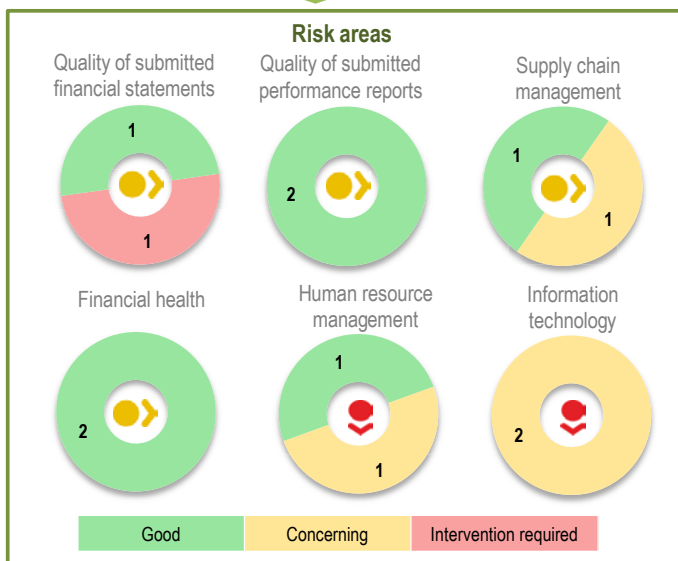
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Government Communication and Information System (GCIS)*
- *Media Development and Diversity Agency (MDDA)*

The department's total budgeted expenditure was R425 million for the 2014-15 financial year. The main areas of expenditure were employee costs of R208 million, goods and services of R182 million, transfer payments of R23 million and capital expenditure of R12 million.

Previously, the auditees in this portfolio were reported under the Presidency portfolio. The president announced a new ministerial portfolio of communications, which came into effect on 1 April 2015. Auditees in this portfolio will, therefore, form part of the new communications portfolio from the 2015-16 general report.

Overall audit outcome

Although the overall audit outcome of the portfolio was stagnant, the opinions of both the auditees had changed from the previous year.

- GCIS received a clean audit opinion, compared to the previous year when it had obtained a financially unqualified opinion, with findings on compliance
- MDDA received a financially unqualified opinion, with findings on compliance, compared to the clean audit in the previous year.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The MDDA submitted financial statements for auditing that contained material misstatements on non-current assets and expenditure. The MDDA avoided a qualified opinion only because it corrected all the misstatements identified during the auditing process.

Compliance with legislation

We identified material non-compliance with legislation by the MDDA in the following areas:

- Quarterly reports were not submitted on time to the Department of Communications, as required by treasury regulations.
- The financial statements submitted for audit were not prepared in line with the prescribed financial reporting framework.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Vacancies in senior management must be filled to ensure sufficient monitoring and control of non-compliance with legislation.

Root causes

The accounting authority of the MDDA must ensure that vacancies in senior management are filled to implement adequate oversight of material non-compliance with legislation.

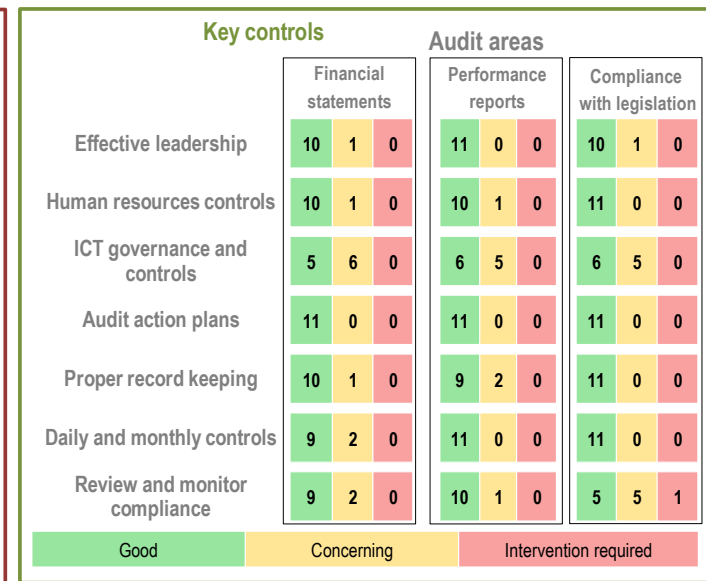
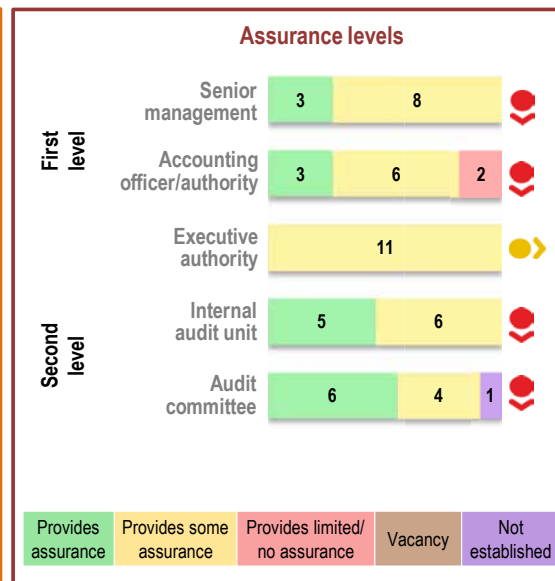
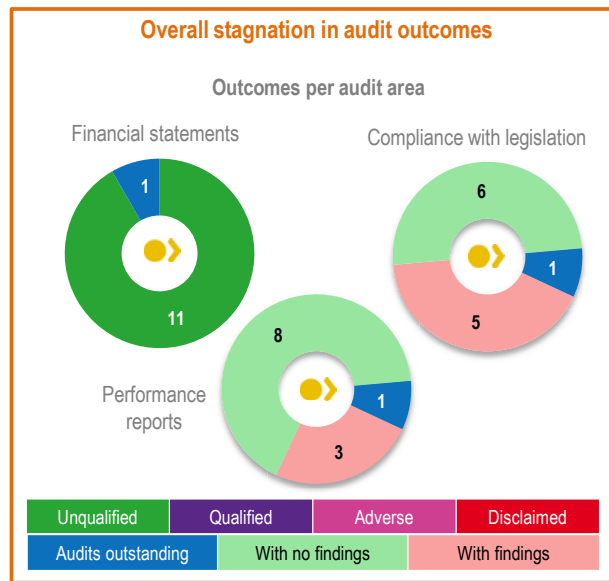
Impact of key role players on audit outcomes

The first and second levels of assurance of the MDDA should be improved by appointing members of senior management (especially a chief executive officer and a chief financial officer), while the audit committee should strengthen the financial statement review process.

We met with the minister twice in the past year, and these interactions had a minimal impact on the audit outcomes. While one auditee improved to a clean audit, the other regressed from a clean audit to an unqualified opinion with findings. Oversight was not fully provided.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Vote 10: Finance (National Treasury)



1
To improve the **audit outcomes** ...

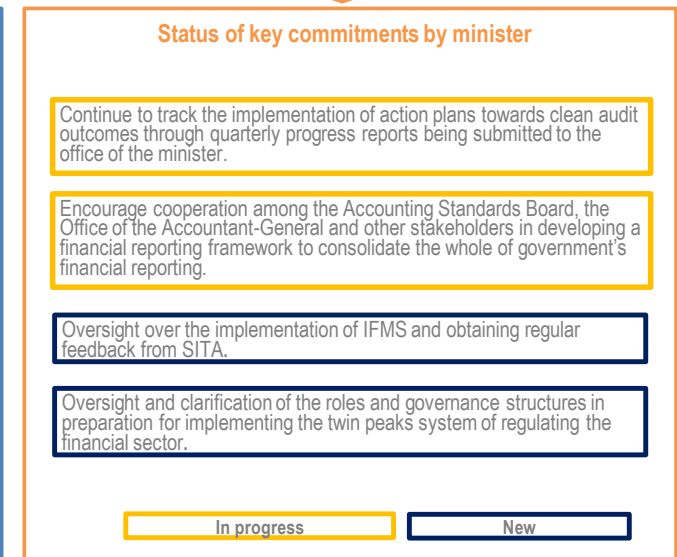
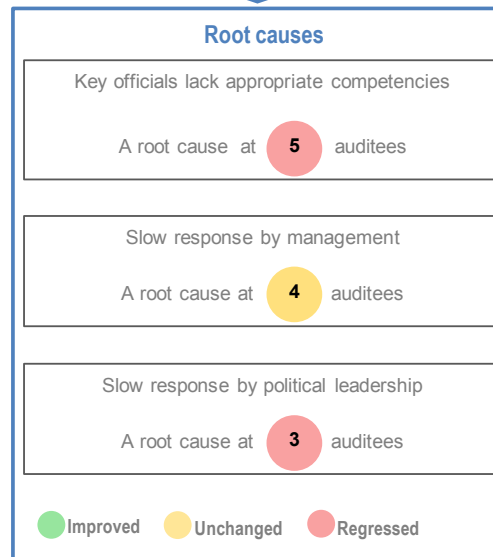
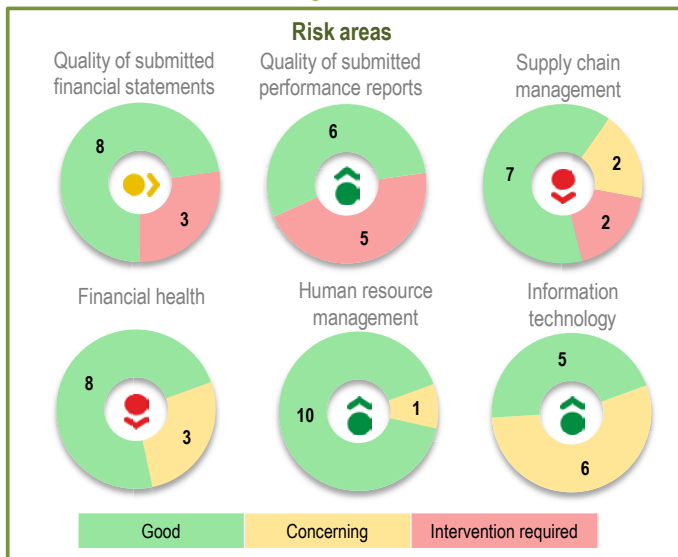
2
... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *National Treasury*
- *Cooperative Banks Development Agency (CBDA)*
- *Financial Intelligence Centre (FIC)*
- *Financial Services Board (FSB)*
- *Government Pensions Administration Agency (GPAA)*
- *Government Technical Advisory Centre (GTAC)*
- *Independent Regulatory Board for Auditors (IRBA)*
- *Land and Agricultural Development Bank of South Africa (Land Bank Group)*
- *Office of the Ombud for Financial Services Providers (FAIS Ombud)*
- *Office of the Pension Funds Adjudicator (PFA)*
- *Public Investment Corporation (SOC) Limited (PIC)*
- *South African Revenue Service (SARS)*

The National Treasury's budget (voted funds) for the 2014-15 financial year was R26,7 billion. The main areas of expenditure were transfer payments of R21,4 billion and payments for financial assets of R3,6 billion.

Overall audit outcomes

The portfolio's overall audit outcomes have not improved due to changes in the audit outcomes of the PFA and the FAIS Ombud, which had regressed and improved respectively.

GTAC is a newly formed entity that absorbed the functions of the Technical Assistance Unit (TAU) and the Project Development Facility (PDF). TAU and PDF received unqualified audit outcomes with findings on predetermined objectives in the 2013-14 financial year and ceased to exist in that year. GTAC received an unqualified audit opinion with findings on compliance with legislation and predetermined objectives.

PFA regressed from an unqualified audit opinion with no findings to unqualified with findings on compliance with legislation due to its failure to monitor commitments made to sustain the audit outcomes. FAIS Ombud honoured the commitments and addressed past material findings on compliance with legislation, resulting in an improvement in its audit outcome from unqualified with findings on compliance with legislation to unqualified with no findings.

National Treasury, CBDA, FIC, FSB and PIC remained unchanged as they received unqualified audit opinions with findings on compliance with legislation

and predetermined objectives. This is due to the slow response by their management to implement corrective actions to improve audit outcomes and a failure to implement commitments to address the previous year's audit findings. IRBA, Land Bank Group and SARS sustained unqualified audit outcomes with no findings by maintaining and monitoring systems of internal controls.

The audit outcome of GPAA is not included because the audit report had not been finalised by 14 August 2015, which was the cut-off date for inclusion of audit outcomes in the general report.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The financial statements submitted for auditing by CBDA, FIC and GTAC contained material misstatements in the areas of expenditure, lease liabilities and certain disclosure notes. They received unqualified audit opinions only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to improve a control environment that supports reliable financial reporting:

- Key officials involved in financial reporting should be trained on the financial reporting framework, while adequate and timely, quality reviews should be performed before financial statements are submitted for audit.
- Proper record keeping should be implemented for information supporting disclosure notes, which are only finalised at year-end.
- Key commitments made to implement the AGSA's recommendations to address the root causes should be promptly implemented.

Annual performance report

The published APRs of National Treasury, GTAC and FSB included information on performance against predetermined objectives that was not useful or reliable for the following programmes and strategic objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
National Treasury	Programme 2: Economic policy, tax, financial regulation and research	x	x
	Programme 4: Asset and liability management	x	x
	Programme 8: Technical support and development finance	x	x

Auditee	Programme/objective	Not useful	Not reliable
Government Technical Advisory Centre	Sub-programme 1: Technical support and development finance programme management	x	x
	Sub-programme 2: Government technical advisory centre	x	x
	Sub-programme 3: Local government financial management support	x	x
Financial Services Board	Strategic goal 1 – Informed and protected consumers: Achieve the deliverables per the TCF road map by overall end date of 2014-15 year-end, subject to “Twin Peaks” legislative timelines	x	x
	Strategic goal 1 – Informed and protected consumers: Living the TCF framework by end 2014	x	x
	Strategic goal 3 – Sound financial institutions: Enhanced regulatory framework in line with international standards	x	x

The APRs submitted by the Land Bank Group and PFA contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to sustain a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Improve technical indicator descriptions, as well as planned indicators and targets, to be measurable.
- Adequately train key officials in performance reporting in line with the requirements of the FMPPI.
- Improve the quality and timing of reviewing performance information used to prepare performance reports.

Compliance with legislation

We identified material non-compliance with legislation by the CBDA, FIC, GTAC, PFA and PIC in the following areas:

- The CBDA did not establish and manage a cooperative banks deposit insurance fund, as prescribed.
- The FIC did not establish an audit committee for the greater part of the reporting period, which also resulted in internal audit not fully complying with the requirements of the treasury regulations.
- The GTAC did not prepare a strategic plan for the period 2014 to 2016, as legislated. In addition, it did not submit its strategic plan and annual performance plan to Parliament to facilitate the annual discussion, as legislated.
- The PFA did not always obtain three quotations or invite competitive bids, as legislated. The accounting authority of the PFA did not take effective and appropriate steps to prevent irregular expenditure.
- A member of the accounting authority and a person in the service of the PIC failed to disclose business interests in contracts, with the result that the PIC awarded contracts to their close family members.

The following controls should be strengthened to sustain a control environment that supports compliance with legislation:

- Review and monitor compliance with procurement regulations and apply their interpretation consistently.
- Adequately train key officials in all aspects related to SCM and always encourage disclosure of interests.

Root causes

The minister, accounting officer and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Adequately train and develop key officials in financial and performance reporting, as well as compliance with legislation.
- Monitor the implementation of action plans to improve internal controls and implement the recommendations of internal and external auditors.
- Improve the monitoring mechanisms for implementing commitments towards improving the audit outcomes of the whole portfolio.

Impact of key role players on audit outcomes

The assurance provided by the accounting officer, accounting authorities and senior management should be improved to avoid repeat findings on financial and performance reporting, and compliance with legislation. The accounting officer and accounting authorities should improve their monitoring of the implementation of audit action plans and commitments, and should direct the audit committee to include evaluating performance information.

The audit committees should strengthen their oversight for effective internal control of financial and performance reporting, as well as compliance with legislation.

The internal audit units should direct more of their work towards detecting and correcting misstatements in financial and performance information, as well as compliance with legislation.

We met with the minister twice in the past year and these interactions had minimal impact given the lack of improvement in audit outcomes. The key commitments provided by the minister in the previous year are still in progress, while response has been slow to ensuring that the audit outcomes of the portfolio improve. This assessment, as well as the slow pace at which commitments made by the minister are addressed, is of concern and has contributed to our assessment of the assurance provided by the minister.

The assurance provided by the standing committee on finance was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks related to information technology

Information technology management as a specific cause of audit outcomes

The IT control environment assessment indicates a lack of improvement as most auditees did not implement the necessary controls for security management and user access. IT policies and procedures were designed, but not fully

implemented. This could impact the confidentiality and integrity of financial information.

The following controls should be strengthened to improve the control environment to support reliable financial reporting:

Expedite implementing the national IT governance framework to gain a broader understanding of the IT internal controls prescribed for effective IT governance. In addition, improve the monitoring of the previous year's commitments.

Constitutional institutions

■ *Financial and Fiscal Commission*

The Financial and Fiscal Commission is included in the portfolio, but was excluded from our analyses as the commission does not fall under the authority of the minister. The commission retained its unqualified audit opinion with findings on compliance with legislation. The previous year's findings on compliance with legislation were addressed. In the 2014-15 financial year, findings were raised on compliance with treasury regulation 16A.6.3(a) and preferential procurement regulations. Sufficient and appropriate audit evidence could not be obtained that the preferential procurement points system was stipulated in the original invitations for quotations. This was due to a lack of understanding of procurement prescripts. Management should ensure that key officials involved in procurement process are adequately trained.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

- *Accounting Standards Board (ASB)*
- *Development Bank of Southern Africa (DBSA)*
- *South African Airways SOC Limited (SAA)*
- *South African Special Risk Insurance Association Limited (SASRIA)*

The overall audit outcomes of these entities remained the same as in the previous year, with the financial statements of all these entities receiving an unqualified audit opinion with no findings on compliance with legislation or predetermined objectives.

The audit of SAA, as in the previous year, had not been finalised by 14 August 2015, which was the cut-off date to include the audit outcomes in the general report.

Vote 11: Public enterprises



Auditees included in the portfolio

- *Department of Public Enterprises (DPE)*
- *South African Express Airways SOC Limited (SA Express)*
- *South African Forestry Company SOC Limited (SAFCOL)*

The department's total budgeted expenditure for the 2014-15 financial year was R319,5 million. The main areas of expenditure were employee costs of R147,1 million and goods and services of R105 million.

The audit outcome of SA Express is not included as the audit was not finalised by 14 August 2015, which was the cut-off date for including audit outcomes in the general report.

Overall audit outcome

The regression in the portfolio's overall audit outcome was due to the DPE moving from a clean audit to an unqualified opinion with findings on compliance with legislation. SAFCOL retained its unqualified opinion with findings on compliance with legislation from the previous year.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the DPE for submitting for auditing annual financial statements that were free from material misstatements. The processes implemented by the department should be shared throughout the portfolio.

SAFCOL submitted for auditing financial statements that contained material misstatements in the area of intangible assets. SAFCOL received an unqualified opinion only because it corrected the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Entrench daily, weekly and monthly financial disciplines into financial activities, systems and processes to promote a culture of clean administration at all times.
- Prompt response by management to prevent matters reported in the previous year from recurring.
- Fill vacancies in key positions promptly to positively contribute to action plans developed to improve audit outcomes.

Annual performance report

The DPE again submitted an APR that was useful and reliable. We recommend that the DPE sustain this outcome and assist the entities in its portfolio to achieve the same.

SAFCOL submitted an APR for auditing that contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to sustain a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Regularly prepare performance reports supported by reliable information, which are reviewed by senior management as the first level of assurance.
- Include the technical indicator descriptions for monitoring the completeness of source documentation in support of actual achievements in the shareholder's compact and corporate plan that is concluded with the executive authority.

Compliance with legislation

We identified material non-compliance with legislation by the DPE and SAFCOL in the following areas:

- The DPE appointed employees and paid performance bonuses without following proper processes.
- The DPE and SAFCOL did not always follow competitive bidding processes as prescribed and did not apply the treasury regulations and the Preferential Procurement Policy Framework Act (PPPFA) in awarding contracts.
- The DPE and SAFCOL did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure.

The DPE incurred R10,98 million in irregular expenditure from procurement processes (an increase from the R711 thousand incurred in 2013-14), which was identified by the auditors. In similar non-compliance, SAFCOL incurred R72,2 million in irregular expenditure (an increase from the R17,9 million incurred in 2013-14), of which the majority was identified by the entity.

The DPE incurred R260 thousand in fruitless and wasteful expenditure (a decrease from the R530 thousand incurred in 2013-14) for travel-related costs where employees did not take up their bookings. Further, the DPE paid bonuses to employees who did not qualify for such performance bonuses.

Interest and penalties incurred by SAFCOL to the extent of R366 thousand were in vain (a decrease from the R1,8 million incurred in 2013-14). This was disclosed as fruitless and wasteful expenditure.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Officials who contravene the relevant legislation and policies should be subjected to the appropriate consequences.
- The leadership of each entity must fully enforce the requirements of its SCM policies and procedures, which should be continuously aligned to all applicable legislation while maintaining the ability of the entity to be a profitable business.
- Senior management's daily and monthly oversight processes and sign offs should include key monitoring and evaluation of compliance with legislation, with a specific focus on SCM, which tends to be a weakness within the portfolio.

Root causes

The executive and accounting officer and authorities should address the root causes of the regression in audit outcomes and inadequate controls as follows:

- Senior management should take immediate action and hold officials accountable for not adhering to the implemented internal controls.
- Performance management measures should be implemented to ensure that action is taken against individuals for poor performance and transgressions experienced at the DPE and SAFCOL.
- The vacancies should be filled with appropriately qualified individuals who are held accountable for their responsibilities.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by enhancing the level of oversight of areas of financial and performance management and compliance with legislation provided by the accounting officer and senior management. Assurance can be obtained from the recommendations of the audit committee and internal audit function, which provided adequate oversight to enable discipline in daily and monthly control activities.

We met with the minister five times in the past year and these interactions had some impact on the audit outcomes. At these interactions, commitments were made to address improvements in the internal control environment with the objective of achieving clean audit outcomes across the portfolio. The assessment of assurance providers, the progress of the impact of the minister on the controls of the auditees in the portfolio as well as the status and impact of

the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks relating to information technology

Information technology management as a specific cause of audit outcomes

Key outcomes

The DPE had not resolved IT matters as previously reported. The primary items repeated were related to information security, user account management and IT service continuity. SAFCOL implemented a new financial system but internal control deficiencies were similar to those reported in the previous year for security management, user account management and IT service continuity.

Good IT control practices across the portfolio

Overall there were no specific good practices identified at the DPE. However, SAFCOL showed an improvement in its IT control environment and did not have findings in the IT governance focus area.

The senior management in the portfolio together with the minister should address the following matters, which were identified as drivers of control weaknesses:

- The DPE did not have adequate expertise and governance structures to implement adequate controls in the IT environment.
- SAFCOL did not adopt proper project management and/or governance processes when implementing the new systems, which resulted in policies and procedures being developed after the system was implemented.

The portfolio should improve IT risk management and governance by better understanding the IT risk landscape and applying appropriate controls to mitigate those risks.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

- *Alexkor SOC Limited*
- *Broadband Infraco SOC Limited*
- *Denel SOC Limited*
- *Eskom Holdings SOC Limited*
- *Transnet SOC Limited*

During the financial period, South African Airways SOC Limited (SAA) was transferred to directly reporting to the executive authority of the National Treasury and Broadband Infraco SOC Limited was moved to the Department of Telecommunications and Postal Services (DTPS).

The overall audit outcomes of the rest of the entities regressed when compared to the previous year. The audit outcomes were as follows:

- Only Denel (20% of the entities) received an unqualified opinion with no findings – a regression from the two auditees that achieved this category in the previous year.
- Alexkor, Eskom Holdings and Transnet (60% of the entities) received unqualified opinions with material findings on compliance with legislation – unchanged from the three auditees in this category in the previous year.
- Transnet (20% of the entities) had material findings on the usefulness of some of its performance against predetermined objectives – a regression from the previous year.

Irregular, fruitless and wasteful expenditure

Alexkor, Eskom and Transnet incurred fruitless and wasteful expenditure of R1,4 million, R51 million and R23 million respectively. In addition, Eskom's and Transnet's irregular expenditure was R713 million and R32,2 million respectively.

The audit outcome of Broadband Infraco SOC Limited is not included above as the audit was not finalised by 14 August 2015, which was the cut-off date for including audit outcomes in the general report.

Performance audit on the oversight and governance systems of the Department of Public Enterprises over its state-owned companies

Scope of the performance audit

The performance audit sought to answer the following key questions covering the period 1 April 2008 to 31 March 2011:

- Is the department's oversight role in terms of ensuring that good governance takes place properly defined?
- Are the business activities relating to the department's oversight role economically, efficiently and effectively carried out?
- Does an environment of accountability and transparency exist?

The detailed findings of the performance audit were included in a comprehensive management report which was submitted to the department in February 2012. The Presidential Review Committee on state-owned companies (PRC) published its outcomes in its report, *Growing the Economy – Bridging the Gap*, in 2013. The extended time needed to analyse the performance audit and the PRC review, as well as engaging with the department, caused a time lapse in making the report items available.

The PRC was appointed to review all state-owned companies and make recommendations on aligning these entities in all spheres of government to achieve the developmental objectives of South Africa. It was tasked with making recommendations that would ensure that state-owned companies are more efficient and effective in accelerating the country's growth and development. The PRC's terms of reference covered 21 focus areas. Common to both our performance audit and the PRC review were the following focus areas:

- Standardisation of accounting and reporting processes for state-owned companies
- Owner/shareholder oversight and governance of state-owned companies
- Recruitment, selection and appointment of boards and executive management to state-owned companies.

The department was engaged in November 2014 and August 2015 on the performance audit management report where the department indicated that it had embarked on a process to review the recommendations made by the PRC as well as the recommendations from the performance audit management

report. The outcome of this performance audit was presented to the minister of public enterprises in August 2015.

Key findings from our performance audit

Key findings

The deficiencies identified during the performance audit related to:

- high vacancy rates in the teams responsible for the oversight and governance of state-owned companies
- ineffective channels of communication between the department and its state-owned companies
- inconsistent review, analysis and feedback by the department to its state-owned companies,
- lack of independent evaluation of directors appointed to boards of state-owned companies
- certain information requested by the audit team not being provided by the department and some of the state-owned companies.

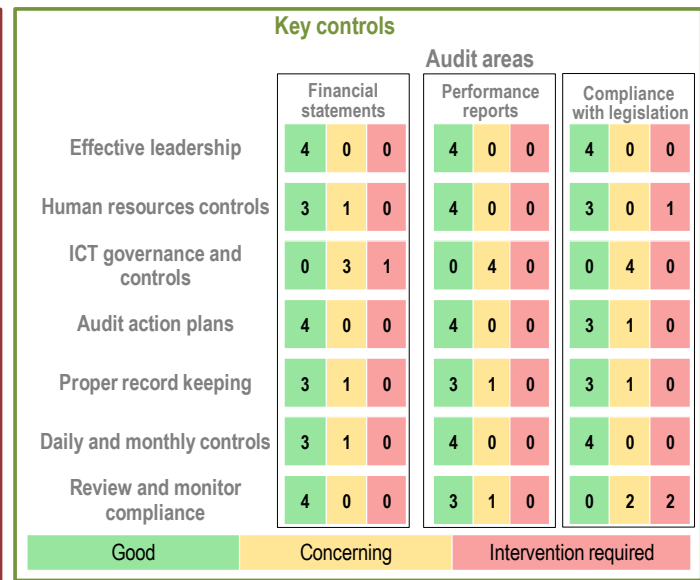
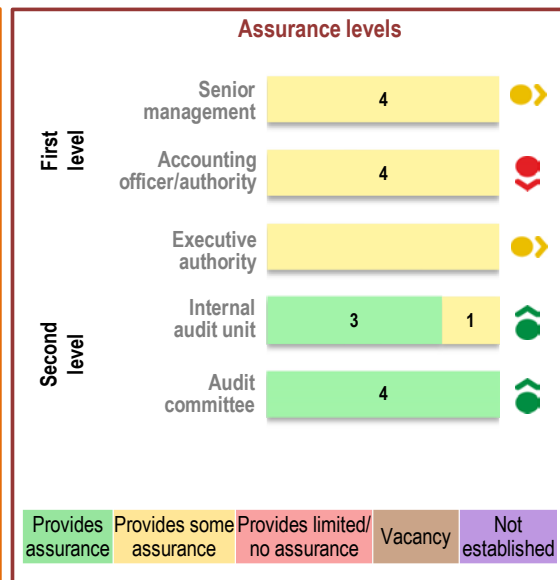
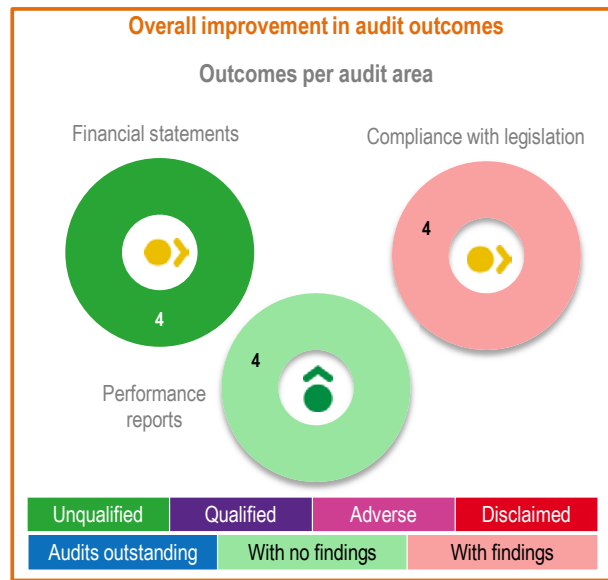
Department's commitment

During discussions with the department in August 2015, the acting director-general indicated that the department had begun to implement certain corrective actions to address the findings of the performance audit. These included the following:

- Improving communication with state-owned companies and processes to manage information and documentation.
- Presenting the government shareholder management model to the Presidency, and to cabinet, in the near future.
- Working with the National Treasury on the recommendations made by the PRC.

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Vote 12: Public service and administration



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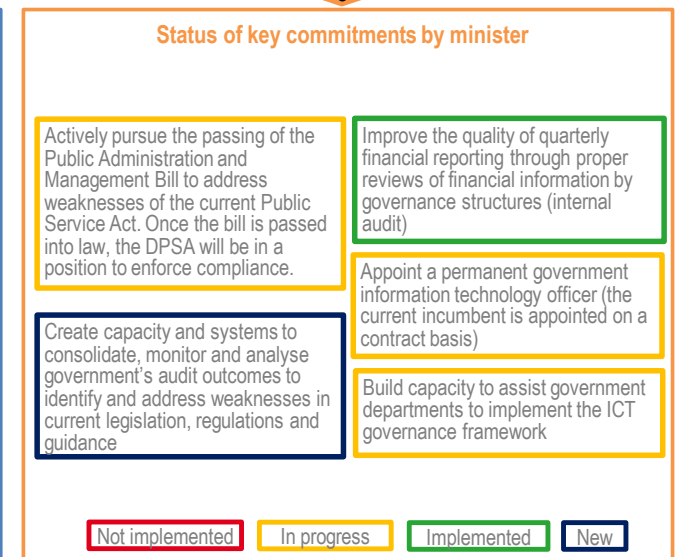
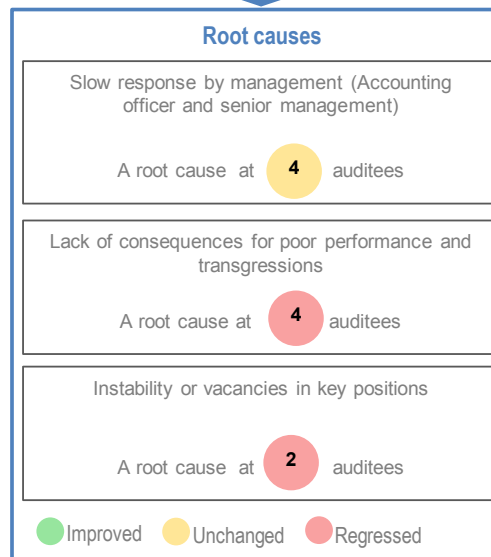
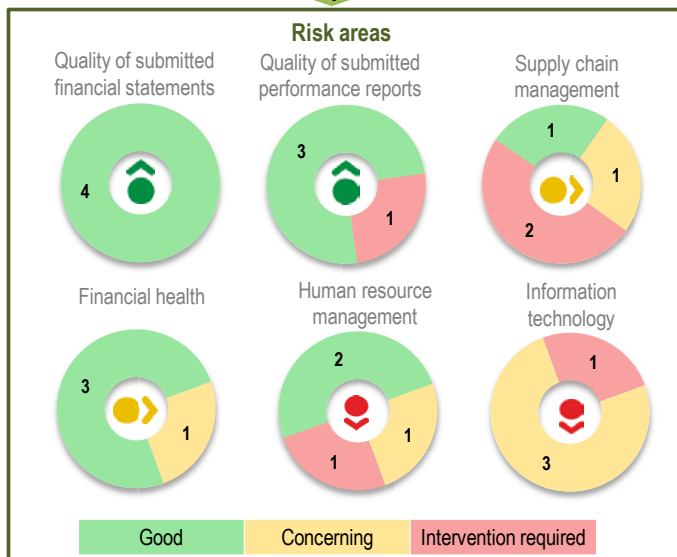
2 ... the key role players need to **assure** that ...

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

4 ... the **risk areas** and that ...

5 ... the **root causes** are addressed/ **best practices** are maintained ...

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



Auditees included in the portfolio

- *Department of Public Service and Administration (DPSA)*
- *National School of Government (NSG department)*
- *National School of Government (NSG trading entity)*
- *State Information Technology Agency SOC Ltd (SITA)*

With regard to section 97 of the Constitution of South Africa, SITA's administration, powers and functions, entrusted by the specified legislation and all amendments, were transferred by the president to the minister of Telecommunication and Postal Services, in Government Gazette no. 37839 on 15 July 2014.

The DPSA's budgeted expenditure for the 2014-15 financial year was R875,1 million. The main expenditure was in respect of goods and services of R204,3 million, employee cost of R246,5 million and transfer payments of R417,2 million.

Overall audit outcome

The overall audit outcome remains unchanged for the portfolio due to a failure to implement controls to ensure compliance with legislation in the procurement, contract management and human resources environments.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the entities in the portfolio for submitting financial statements that were free from material misstatements.

Annual performance report

The DPSA, NSG department, NSG trading entity and SITA submitted APRs that included both useful and reliable information on their performance against predetermined objectives. The actions implemented by the entities within this portfolio to improve their audit outcomes are acknowledged and we commend the portfolio for improving from the previous year.

SITA, however, submitted for auditing an APR that contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Fully align the APR to the results and evidence from the respective divisions that are responsible for driving the targets.
- Management should ensure that there is consistency between the annual performance plan and the annual report with all the necessary information, as per the National Treasury's Annual report guide

Compliance with legislation

We identified material non-compliance with key legislation by the DPSA, the NSG department, NSG trading entity and SITA in the following areas:

- The DPSA's human resource plan was not in place during 2014-15.
- The NSG department procured goods and services with a transaction value below R500 000 without obtaining the required price quotations, as required by treasury regulation 16A6.1.
- SITA procured goods and services with a transaction value above R500 000 without obtaining the required price quotations, as required by treasury regulation 16A6.1.
- SITA could not provide sufficient and appropriate audit evidence that two contracts and one quotation were awarded according to the legislative requirements.
- The NSG department, NSG trading entity and SITA did not take reasonable steps to prevent irregular expenditure.

The total irregular expenditure by the portfolio amounted to R16,9 million, with SITA being the largest contributor, incurring R13,98 million due to non-compliance with SCM legislation. This represents a 56% reduction in the irregular expenditure from the previous financial year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The impact of non-compliance with legislation should be clearly explained and internalised by all involved in the procurement and human resource environment.
- The leadership and governance structures should review and monitor compliance with applicable legislation using compliance checklists that must be signed off.
- The internal audit units must focus on delivering high impact audits on the entity's implemented processes to ensure that the process is effective in achieving its intended objectives.

Root Causes

The leadership and senior management of the entities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Accounting officers and senior management must ensure that proper disciplinary steps are taken against employees for poor performance and transgressions, and that measures are put in place to recover any losses by the department.
- Performance agreements of senior staff should include measures that are linked to the audit outcome.
- Action plans should be specific, measurable and time bound. Management should regularly monitor progress made against action plans and, where appropriate, take action against employees.
- A less tolerant approach should be taken by all parties to enforce accountability and consequences for those who intentionally fail to comply with legislation.
- Fill key vacancies in the portfolio as acting individuals are likely to take on less than the full responsibility, functions and powers of the higher position and are less committed to the deliverables due to the temporary nature of the position.

Impact of key role players on audit outcomes

The first and second levels of assurance should be maintained in the financial statement environment but improved for the compliance with legislation environment. This should be done by promptly implementing internal and external audit recommendations to strengthen the control environment. The internal audit units and audit committees should implement an effective and consistent method to follow up on actions taken to address audit findings relating to internal control weaknesses.

We met with the executive authority twice in the past year and these interactions had little to some impact on the portfolio's audit outcomes for the year. We anticipate that the current audit status will not change due to leadership instability at executive authority level.

The previous year's commitments are still in progress. The slow pace at which these commitments are implemented has contributed to the non-compliance with legislation in the portfolio. However, the leadership should be commended for increasing the momentum and striving towards fully implementing these commitments by the end of 2015-16 financial year.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

Financial health

The accounting authority and senior management of SITA should address the following matters, which could affect service delivery in the portfolio:

- The entity has significantly underspent its capex budget (83%). This, coupled with an aging infrastructure and the fact that no formal replacement plan is in place, is of concern. A lack of adequate investment in this area could have a negative impact on service delivery. A detailed replacement plan should be implemented to replace and enhance existing infrastructure aligned to service delivery and customer's needs.
- It takes an average of 92 days for SITA to collect their debt, which is a slight improvement from the previous year. If debt is not collected in time it could impact on SITA's cash flow.

Information technology management as a specific cause of audit outcomes

Key outcomes

The DPSA had not resolved previously reported IT issues. This has resulted in many repeat issues over the last three years. The issues related to IT governance, information security and IT service continuity. The DPSA has struggled to implement effective IT governance mechanisms for three financial years.

The NSG department and SITA had designed IT controls; however, they were still struggling with implementing the controls.

Overall SITA has made progress in rectifying the exceptions reported in the previous information systems review. However, it was noted that action plans

and recommendations from the previous year were not fully implemented. This resulted in some repeat findings on the lack of controls on IT service continuity and IT security.

Causes of IT control weaknesses

- Ineffective governance structures have resulted in a lack of accountability for resolving issues arising from the previous year's reports.
- A lack of integration between the IT unit and other business units resulted in IT risk assessments not being managed as part of enterprise-wide risk management.
- The lengthy approval and consultative process has resulted in policies not being reviewed and approved in time for implementation.

Constitutional institution

■ *The Office of the Public Service Commission (PSC)*

The Office of the Public Service Commission (PSC) is included in the portfolio and reports to the Public Service Commission as the executive authority. The PSC obtained an unqualified opinion with no findings on compliance with legislation and no findings on the APR.

Financial statements

The PSC is commended for preparing financial statements that were free of material misstatements. This is an improvement from the previous year and enabled the PSC to achieve a clean audit.

Annual performance report

The PSC's published APR was useful and reliable in all material respects.

Compliance with legislation

We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Vote 13: Statistics South Africa

Sustained a clean 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

Level	Role	Assurance Level
First level	Senior management	Provides assurance
	Accounting officer	Provides assurance
	Executive authority	Provides assurance
Second level	Internal audit unit	Provides some assurance
	Audit committee	Provides assurance

Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

1
To improve/maintain the **audit outcomes** ...
... the **risk areas** and that ...
4

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

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

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

Good Concerning Intervention required

Best practices

Continuous monitoring progress of the action plans implemented

Status of key commitments by minister

The minister committed to discuss with management and National Treasury the matter of Statistics SA's unfunded mandates.

The minister, together with management, committed to the implementation of a corrective action plan which will monitor and track the corrective actions taken.

The minister committed to follow up on performance and consequence management.

The minister committed to follow up on the investigation into procurement of goods and services.

Management undertook to hold executive managers accountable for the quality of performance reports through the performance management system.

Not implemented In progress

Auditees included in the portfolio

■ *Statistics South Africa (Statistics SA)*

The department's budget (voted funds) for the 2014-15 financial year was R2 242 billion. The main areas of expenditure were:

- Employee cost R1,216 billion
- Goods and services R547 million
- Transfers and subsidies R17 million
- Capital expenditure R461 million.

Overall audit outcome

Statistics SA's sustained unqualified audit opinion with no findings was due to management continuously monitoring the implementation of controls and the previous year's action plans.

The matters raised during our audit should be addressed to ensure that the overall audit outcomes are sustained. These are as follows:

Financial statements

The financial statements submitted by Statistics SA for auditing were free from material misstatements. The implementation of action plans was monitored and tracked monthly by the leadership. The following controls should be upheld to sustain a control environment that supports reliable financial reporting:

- The effectiveness of controls already implemented to collate information required for disclosure notes (accruals and commitments) to ensure that the monthly disclosure notes prepared are valid, accurate, complete and supported by reliable information.
- The effectiveness of the review processes and controls over disclosure notes to ensure that the misstatements/errors in disclosure notes (accruals and commitments) are detected and corrected prior to the audit process.

Annual performance report

The APR submitted for audit by Statistics SA contained material misstatements. This has been a recurring matter over the past three consecutive financial years and is due to management's slow response to honour their previous year's commitments and lack of consequences for poor performance. The department avoided material findings in its audit report only because it corrected all the misstatements identified during the auditing process.

The following controls should be strengthened to create a control environment that ensures that the reported performance is supported by evidence:

- Strengthen performance and consequence management by holding executive managers accountable for the quality of performance reports through the performance management system to avoid repeat findings.
- Strengthen performance reporting and related controls by providing training to key officials responsible for preparing and reviewing quarterly and APRs.
- Strengthen record keeping to ensure that complete, relevant and accurate supporting documents are readily available and accessible to support performance achievements reported in the APR.

Best practices

Management sustained an unqualified audit opinion with no findings by implementing action plans and internal controls that addressed the matters raised by the auditors in respect of financial statements and compliance with legislation. Measures were implemented to monitor the effectiveness of these plans and also to hold the relevant role players accountable for the audit outcomes. Consequence management relating to financial statements and compliance with applicable legislation was included in the staff performance contracts, and this has driven the desired audit outcomes.

Notwithstanding the sustained audit outcomes and best practices, management should implement similar measures to improve the quality of the performance reports. This would be achieved by:

- implementing the previous year's commitment of holding executive managers accountable for the quality of performance reports through the performance management system.
- providing training to key officials responsible for preparing and reviewing quarterly and APRs.
- enhancing performance and consequence management by taking action against officials who fail to execute their responsibilities or repeat transgressors to avoid repeat findings.

Impact of key role players on audit outcomes

The first level of assurance has sustained the audit outcomes by ensuring that the AGSA's recommendations are implemented. Improvement is required in the assurance provided on the reliability of performance reporting by ensuring that commitments are honoured and consequence management is implemented.

The second level of assurance should be enhanced by improving the performance and oversight role of the internal audit function.

We met with the minister once in the past year. The key commitments provided by the minister in the previous year are still in progress. To sustain the audit outcome, the minister should closely monitor action plans to address the previous year's commitments and ensure that there is progress on bringing finality to the procurement irregularities investigation that has been ongoing for the past four years. This assessment, as well as the impact of commitments made in the previous year, has contributed to our assessment of the assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

R46,8 million. The minister undertook to discuss the funding matter with management and the National Treasury.

Risks related to information technology

Information technology management as a specific cause of audit outcomes

Key audit outcome

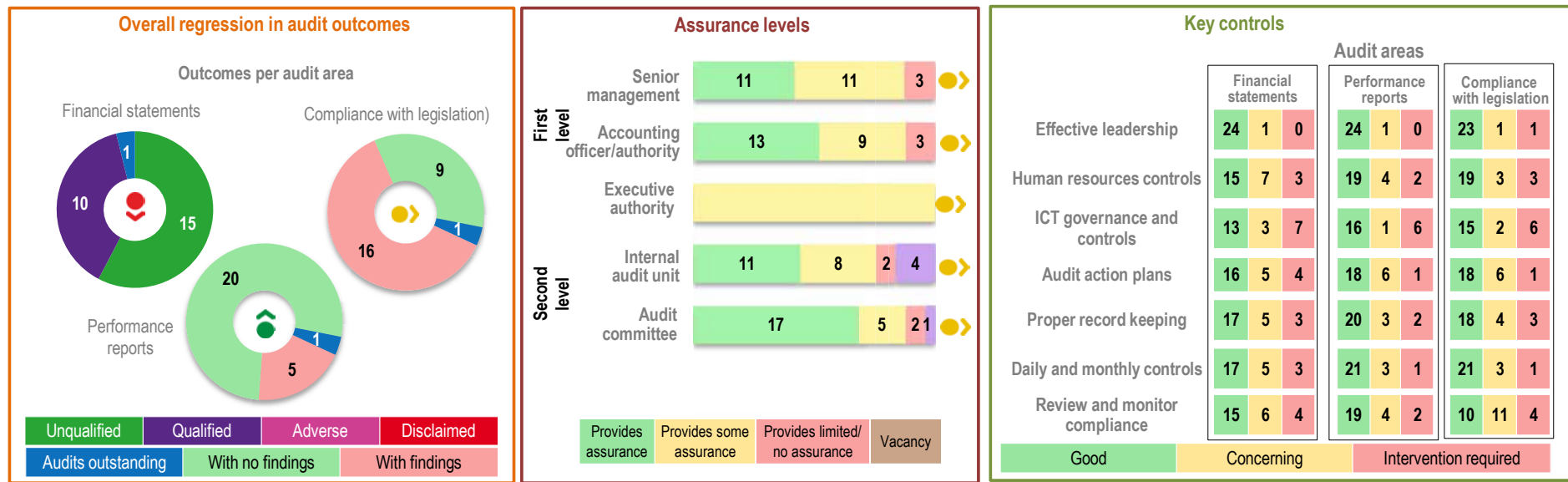
Expedite the full implementation of IT governance processes to ensure that all milestones are achieved, thus ensuring that the IT control environment is operating effectively as per the designed IT policies and procedures.

Risks to financial health and service delivery

Although there are no unfavourable indicators for Statistics SA, unfunded mandates (master sample survey and living conditions survey) may strain the finances of the department and prevent it from delivering on its mandate. In the 2014-15 financial year, the master sample survey was funded from the vacancy savings. This could become problematic in future when all the vacancies have been filled. The overall vacancy rate is currently 9,5% and the actual expenditure for the master sample survey and living conditions survey in 2014-15 was R66,4 million, while the estimated cost for both mandates in 2015-16 is

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Vote 14: Arts and culture



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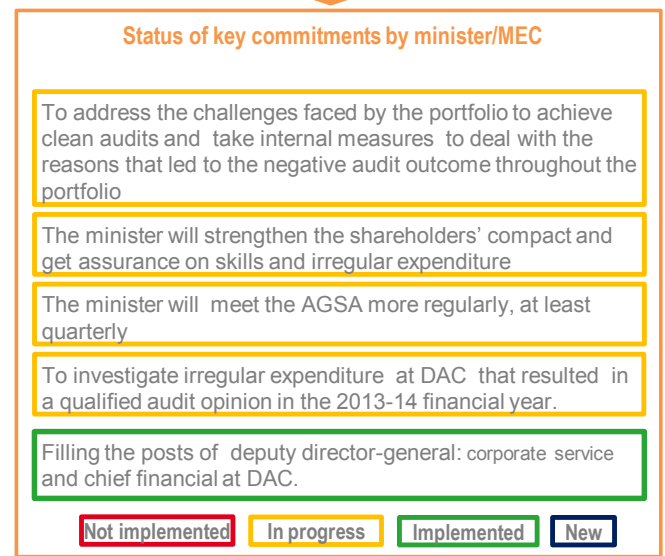
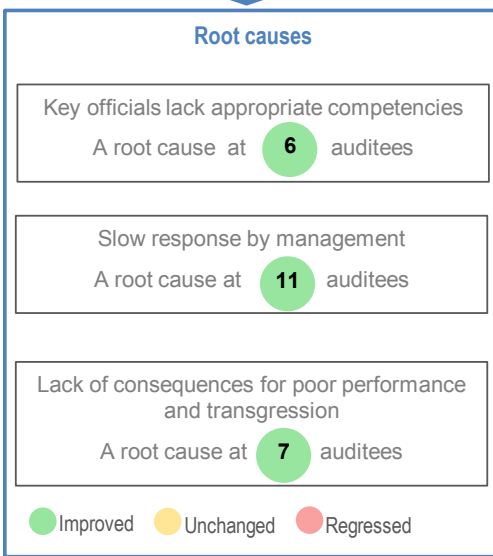
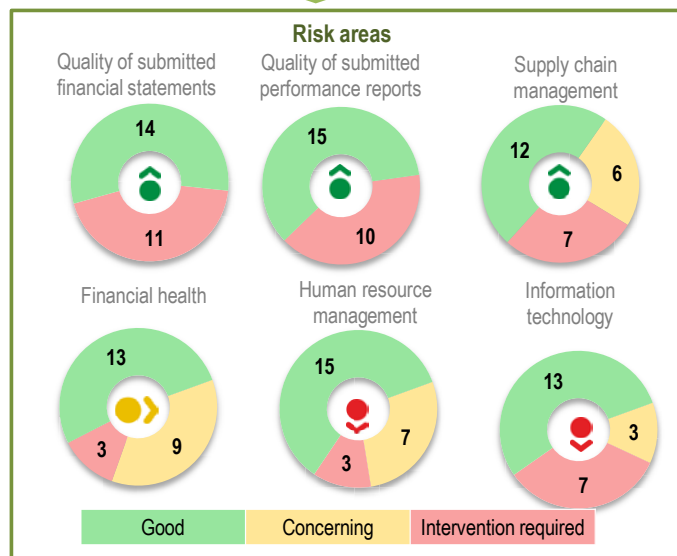
2 ... the key role players need to **assure** that ...

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

4 ... the **risk areas** and that ...

5 ... the **root causes** are addressed ...

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



Auditees included in the portfolio

- *Department of Arts and Culture (DAC)*
- *Artscape*
- *Die Afrikaanse Taalmuseum*
- *Ditsong Museums of South Africa*
- *Iziko Museums of Cape Town*
- *Freedom Park*
- *KwaZulu-Natal Museum*
- *Luthuli Museum*
- *Market Theatre Foundation*
- *Msunduzi/Voortrekker Museum*
- *National Heritage Council of South Africa*
- *National Arts Council of South Africa*
- *National Film and Video Foundation of South Africa*
- *National Library of South Africa*
- *Nelson Mandela National Museum*
- *National Museum*
- *National English Literary Museum*
- *Performing Arts Centre of the Free State*
- *Robben Island Museum, Cape Town*
- *South African Library for the Blind*
- *South African Heritage Resources Agency*
- *South African State Theatre*
- *The Playhouse Company*
- *War Museum of the Boer Republics*
- *William Humphreys Art Gallery*
- *Windybrow Theatre*

The DAC's total budgeted expenditure for the 2014-15 financial year was R3,5 billion. The main areas of expenditure were employee cost of R201 million, goods and services of R399 million, and transfers and subsidies of R2,9 billion.

The audit outcome of the Performing Arts Centre of the Free State is not included, as we had not finalised the audit by 14 August 2015, which was the cut-off date for the inclusion of audit outcomes in the general report.

Overall audit outcome

The following five auditees regressed and only four improved in the portfolio, which led to the regression in the overall audit outcome:

- The DAC improved from receiving a qualified audit opinion to an unqualified audit opinion with findings. The National Museum and Die Afrikaanse Taalmuseum improved from receiving an unqualified audit opinion with findings to an unqualified audit opinion with no findings. The National Arts Council of South Africa improved from receiving a qualified audit opinion to an unqualified audit opinion with no findings.
- The Iziko Museums of Cape Town and the KwaZulu-Natal Museum regressed from unqualified audit opinions with no findings to qualified audit opinions. The Luthuli Museum, the South African State Theatre and the William Humphreys Art Gallery regressed from unqualified audit opinions with findings to qualified audit opinions.
- The annual financial statements of the Performing Arts Centre of the Free State were submitted late.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

A total of 44% of the auditees (11) submitted for auditing financial statements that contained the following material misstatements in the areas of heritage assets; property, plant and equipment; and irregular expenditure:

- The Ditsong Museums of South Africa, Iziko Museums of Cape Town, KwaZulu-Natal Museum, Msunduzi/Voortrekker Museum, National English Literary Museum, National Library of South Africa, Nelson Mandela National Museum and William Humphrey Art Gallery did not determine the cost or fair values of heritage assets that should have been included in their annual financial statements.
- The Ditsong Museums of South Africa, National English Literary Museum and Windybrow Theatre did not have proper systems to identify, detect and record irregular expenditure.
- The asset register of the South African State Theatre was not complete; the reassessment of the useful lives of assets at the National Library of South Africa was not done in line with the entity's accounting policy; and new

values recorded in the fixed asset register were not properly supported at the Msunduzi/Voortrekker Museum.

- The DAC and the South African Heritage Resources Agency received an unqualified audit opinion only because they corrected all the misstatements we had identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement proper record keeping to ensure that matters affecting the financial statements are supported by appropriate documents.
- Review and monitor daily and monthly transaction processing regularly to ensure compliance with applicable policies and procedures.
- Fill vacant key management positions with adequately skilled personnel in time to ensure stability.

Annual performance report

The published APR of five of the auditees (19%) included information on their performance against predetermined objectives that was not useful or reliable for the following programmes or objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
DAC	Programme 3: Arts, culture and development Programme 4: Heritage preservation and promotion		X
Ditsong Museums of South Africa	Programme 2: Business development	X	X
Msunduzi/Voortrekker Museum	Objective 1: Administration Objective 2: Business development Objective 3: Public engagements	X	N/A
National Heritage Council of South Africa	Programme 2: Heritage promotions	X	N/A
National Library of South Africa	Programme 2: Business development	X	X

Auditee	Programme/objective	Not useful	Not reliable
	Programme 3: Community engagements	X	N/A

Artscape, the Iziko Museums of Cape Town, the Luthuli Museum, the Nelson Mandela National Museum and the South African Heritage Resources Agency submitted for auditing APRs that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the audit process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Implement proper record keeping to ensure that all matters affecting the APRs are adequately supported by valid supporting evidence.
- Review and monitor monthly and daily information processing to ensure that it complies with applicable legislation.
- Review annual performance plans for all entities in the portfolio before they are approved to ensure that the targets and indicators meet the SMART criteria.

Compliance with legislation

We identified material non-compliance with legislation in the following areas:

Area of non-compliance	Auditees that did not comply
Three quotations not obtained and motivation not approved Three quotations not obtained and motivation provided not reasonable	DAC, Ditsong Museums of South Africa, National Library of South Africa and South African State Theatre
Preferential procurement points not applied	DAC and Nelson Mandela National Museum
Bids advertised for shorter period with no justification	Msunduzi/Voortrekker Museum, National Heritage Council of South Africa and National Library of South Africa
Contract extended without prior approval	National Heritage Council of South Africa and National Library of South Africa
Procurement from suppliers without valid tax	Nelson Mandela National Museum and National English Literary Museum

Area of non-compliance	Auditees that did not comply
clearance certificates from SARS	
Ten (40%) of the auditees did not take reasonable steps to prevent fruitless and wasteful as well as irregular expenditure	DAC, Ditsong Museums of South Africa, Market Theatre Foundation, Msunduzi/Voortrekker Museum, National Heritage Council of South Africa, National Library of South Africa, Nelson Mandela National Museum, South African State Theatre, National English Literary Museum and Windybrow Theatre

The DAC, National Heritage Council of South Africa, National Library of South Africa and South African State Theatre contributed R156 million to the total irregular expenditure in the portfolio (2013-14: R145 million). This was a significant 87% (2013-14: 36%) of the total amount incurred in the portfolio:

- DAC R121 million
- National Heritage Council of South Africa R6,4 million
- National Library of South Africa R13 million
- South African State Theatre R16,1 million.

A total of 86% was identified by the auditees, with 73% of the irregular expenditure relating to transgressions of SCM regulations.

The status of SCM remained unsatisfactory, mostly as a result of auditees not complying with the requirements of SCM regulations. This had the impact of further contributing to the overall regression as a number of auditees received compliance findings in their respective audit reports,

The following controls should be strengthened to sustain a control environment that supports compliance with legislation:

- Review and monitor compliance with legislation, including those relating to SCM.
- Implement procedures for consequence management and action to be taken against officials who transgress legislation.

Root causes

Although we noted an improvement in the root causes from the previous year, the minister and accounting officer or authorities should continue to address the root causes of poor audit outcomes and inadequate controls as follows:

- Adequate action plans should be developed and consistently monitored by senior management and those charged with governance to address significant deficiencies identified by internal and external audit.
- Investigate and take disciplinary steps against non-performance and non-compliance with the prescribed legislation, including those relating to SCM.
- Provide relevant training to existing key officials and recruit adequately skilled personnel for all key positions.
- Implement adequate daily and monthly internal controls that are continuously reviewed and supervised.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at the level of accounting officer or authority and senior management at auditees whose audit outcomes have regressed. Action plans to address control weaknesses should be implemented and monitored, while audit committees should be directed towards evaluating compliance with legislation as well as performance against predetermined objectives.

We met with the minister three times in the past year and these interactions had an impact on some of the audit outcomes in the portfolio. Though there were no material findings on the minister's oversight responsibility, our assessment is based on the overall regression in the portfolio's audit outcomes. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year

Risks to financial health and service delivery

The minister and the accounting officer should address the following matters that could affect the financial health and service delivery of the portfolio:

- The DAC again engaged consultants to assist with financial reporting, IT-related services and other consultancy services. This was due to a lack of skilled personnel at the DAC. The total costs paid to consultants was R51 million (2013-14: R146 million) and was made up of R11 million for financial reporting, R3 million for IT-related services, R1,5 million for performance information, and R35,6 million for other services. Our review of consultants indicated that their work was not monitored by employees with sufficient skill and experience to ensure effective contract management, skills were not transferred and consultants were appointed to perform tasks on a permanent basis.
- Budget management at the DAC should be improved to ensure that funds appropriated for special projects and infrastructure projects are used in good time.

Constitutional institutions

■ *Pan South African Language Board (PanSALB)*

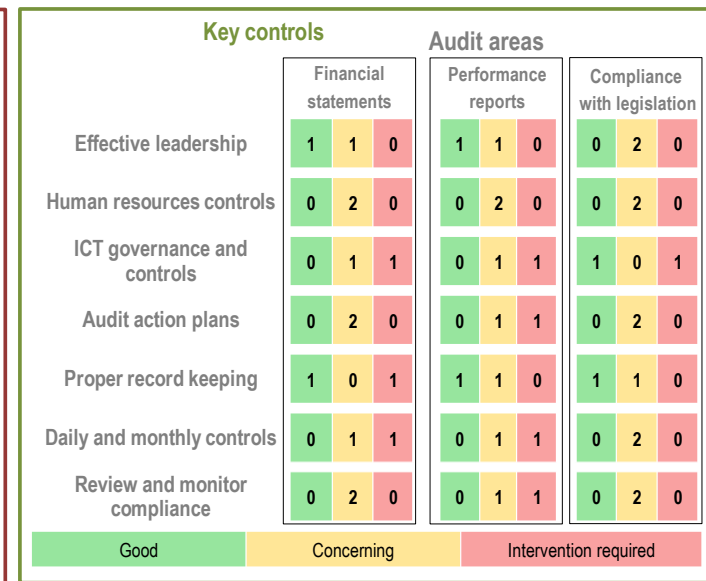
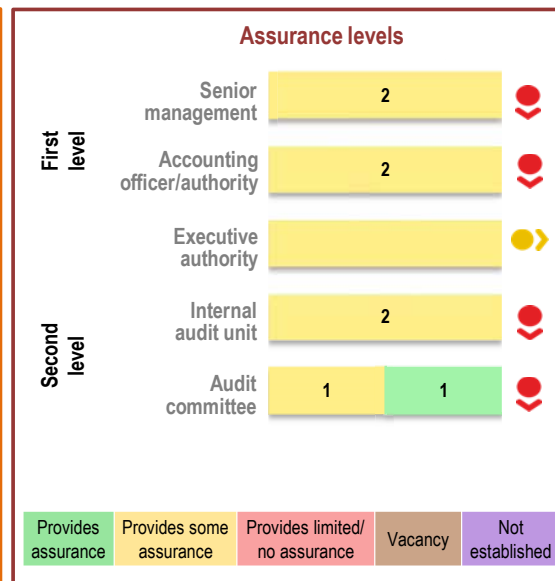
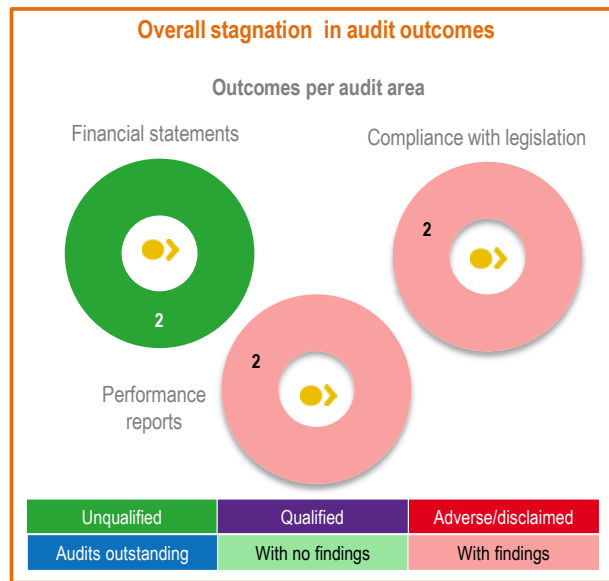
PanSALB is included in the portfolio but is not under the authority of the minister and reports to Parliament. There has been no improvement from the previous year's disclaimed audit opinion on the annual financial statements with material findings on compliance with legislation and the annual performance plan. This was caused by vacancies in key positions (the senior management vacancy rate was 54%), inadequate skills as well as a lack of adequate internal controls to address the previous year's qualifications.

The chief executive officer, appointed on 1 July 2015, should appoint a skilled and experienced chief financial officer. The accounting authority should address the following root causes to improve the audit outcome:

- Implement consequence management for non-performance and non-compliance with legislation.
- Design and implement an action plan with target dates to address all the shortcomings.
- Implement adequate controls (checks and balances) to provide accurate and reliable information supporting the financial statements and the APR.
- The assurance providers (management, executive authority and audit committee) should ensure the prompt and adequate review of the annual financial statements and APR against supporting documentation.

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Vote 15: Basic education



1 To improve/maintain the **audit outcomes** ...

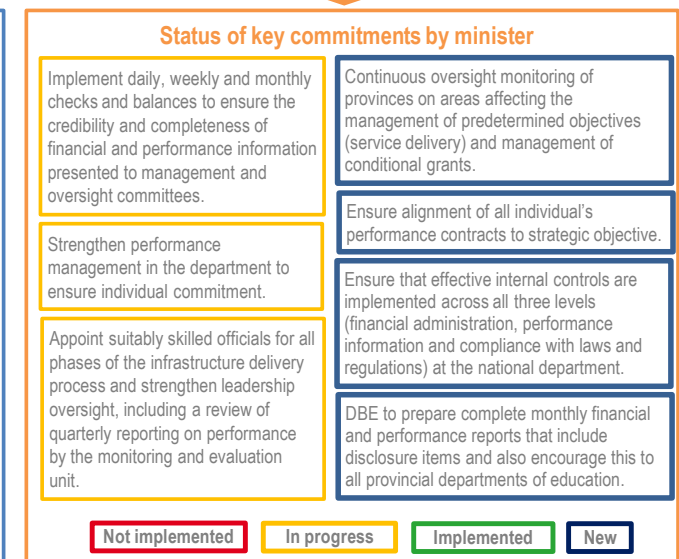
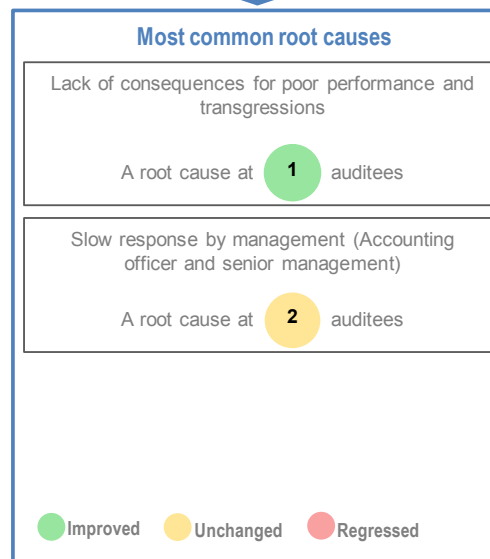
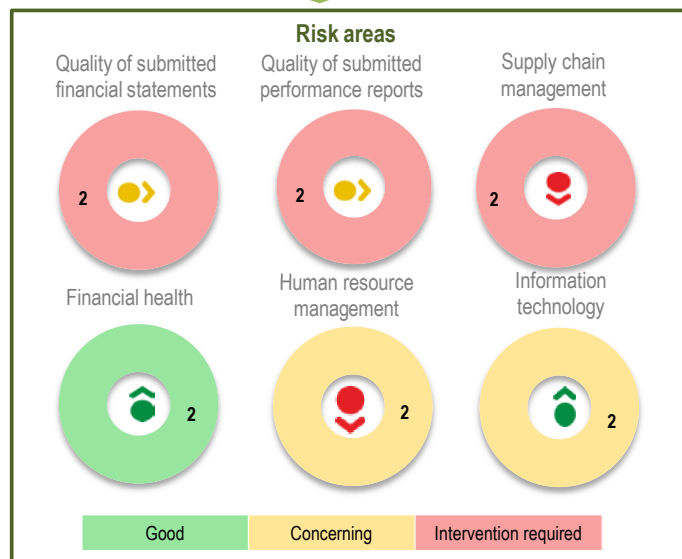
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Basic Education*
- *Education Labour Relations Council*

The department's total budgeted expenditure for the 2014-15 financial year was R19,6 billion. The main areas of expenditure were goods and services of R2 billion, payment for capital assets of R2,5 billion, transfer payments of R14,7 billion and compensation of employees of R414 million.

Overall audit outcome

The Department of Basic Education (DBE) and the Education Labour Relations Council (ELRC) management did not address past material audit findings and identify internal control deficiencies in a timely manner. This resulted in a lack of improvement in the overall audit outcomes of these institutions for their financial reporting, APR and compliance with legislation. Furthermore, consequence management was implemented too late in the year to yield the desired results.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

Both the DBE and the ELRC submitted for auditing financial statements that contained material misstatements. The DBE financial statements contained misstatements in the areas of immovable tangible capital assets, accruals and payables, commitments and accrued departmental revenue. The ELRC financial statements contained misstatements in the areas of property, plant and equipment; trade and other payables; cash flow statement; previous period's error note, commitments and irregular expenditure. The DBE and the ELRC received unqualified audit opinions only because they corrected all the misstatements identified through the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement monthly disciplines of record keeping, reconciling and reviewing transactions to ensure the credibility and completeness of monthly financial information and quarterly information presented to oversight committees.
- Enhance the skills and resources in the infrastructure and internal audit units to address capacity challenges in record keeping and financial reporting. This will also limit the dependency on the implementing agents appointed (applicable to the DBE only).
- Management must monitor progress on implementing the action plans on an ongoing basis to ensure that milestones and deliverables are achieved.

Annual performance report

The published APRs of DBE and ELRC included information on their performance against predetermined objectives that was not useful or reliable for the following programmes and objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
Department of Basic Education	Programme 2: Curriculum policy support and monitoring		x
	Programme 3: Teachers, education human resources and institutional development	x	x
	Programme 4: Planning, information and assessment		x
	Programme 5: Education enrichment services		x
Education Labour Relation Council	Objective 2: Dispute management services	x	
	Objective 3: Collective bargaining	x	

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Reconcile reported performance results to documentary evidence and against the technical indicator descriptions monthly to provide assurance regarding the credibility of the evidence supporting performance reporting.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reported.
- Develop action plans to address control deficiencies identified by external audit. These should relate to the planning, credibility and completeness of the performance information reported (including performance information of the provincial education department which is reported in the APR of the DBE). The plans should be implemented within one month from the audit report date to enforce management's commitment to improving performance reporting (applicable to the DBE only).

Compliance with legislation

We identified material non-compliance with legislation by the DBE and the ELRC in the following areas:

- The DBE and the ELRC did not take reasonable steps to prevent irregular and fruitless and wasteful expenditure. In addition, the DBE did not take reasonable steps to prevent unauthorised expenditure. The finding was also reported in the previous year.

The DBE's irregular expenditure was R728 million, which was 100% of the total amount incurred by the portfolio. This represents a decrease of 12% from the previous year. Of this irregular expenditure, 95% is a result of non-compliance with SCM requirements when appointing agents to manage the infrastructure programme of the department. The remaining 5% was a result of non-compliance with SCM policies during the competitive bidding process when acquiring goods and services. Contracts were awarded to bidders based on preference points that were not allocated according to the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and its regulations. Furthermore, some expenditure was not in line with the requirements of the school infrastructure backlog grant.

The ELRC incurred R145 302 in irregular expenditure, which was a fraction of the total amount incurred in the portfolio. This irregular expenditure was a result of non-compliance with SCM requirements as the ELRC selected suppliers without obtaining the necessary number of quotations.

The extent of non-compliance by the DBE and the ELRC is indicative of a high deficiency in monitoring compliance with legislative requirements for procurement.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Recruit personnel that will oversee and monitor performance, particularly of appointed implementing agents' adherence to the terms and conditions agreed.
- Monitor and enforce compliance with procurement processes when appointing implementing agents and ensure that the procurement processes followed by implementing agents are aligned to the department's SCM policies.
- Management must continuously monitor the progress of implementing the action plans to ensure that internal controls are able to prevent non-compliance with applicable legislation.

Root causes

The accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Strengthen the performance management system of the DBE to align employees' performance contracts to the department's annual performance plan. Performance reviews must focus on officials being held accountable for not achieving their performance targets and any transgressions. This will improve accountability and minimise the environment where poor performance and transgressions continue.
- Strengthen monitoring and evaluation processes, particularly with regard to implementing the audit action plans to address the previous year's matters that remain unresolved, through frequent monitoring by dedicated staff that can detect, or preferably prevent, the slow response from management.
- Ensure that all significant risks related to the infrastructure programme are audited by internal audit, as required by legislation, to improve controls and manage these risks. Strengthen monitoring across all phases of the infrastructure programme to ensure that the programme's service delivery objectives are achieved.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by directing the work of management, the internal audit unit and the audit committee towards evaluating and addressing all significant risks impacting the DBE and ELRC. This is mainly with regard to the infrastructure programme (DBE), performance information and compliance with legislation.

We met with the minister three times in the past year. Although these interactions did not yield the desired outcomes for the DBE and the sector, there was a notable improvement with regard to the extent of findings reported. We expect an increase in monitoring milestones, set on a timely basis by the appropriate level of management and in particular the newly appointed accounting officer, will ensure that the DBE and the sector achieves the desired audit outcome.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year..

Risks to financial health, service delivery and information technology

Financial health

The accounting officer should address the following matters, which could affect the financial health in the portfolio:

- The DBE should improve the cash flow management of infrastructure budgets and projects to mitigate the potential risk that the money appropriated for infrastructure projects are not overspent.

Information technology management as a specific cause of audit outcomes

The DBE is commended for ensuring that IT governance controls were adequately maintained for the 2014-15 financial year. We nevertheless noted findings on user access management controls within the performance information systems and the network security controls environment. The latter was mainly a result of capacity constraints at SITA, while the former was a result of the workload on the system administrators as only ad-hoc reviews were performed to determine unauthorised access and logon violations.

The following controls should be strengthened to create a sound IT environment that supports the department's mandate:

- The IT unit must evaluate the adequacy of the existing capacity required to perform the IT function.
- Action plans must be developed to address the root causes that lead to the findings to prevent a recurrence and support credible reporting.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

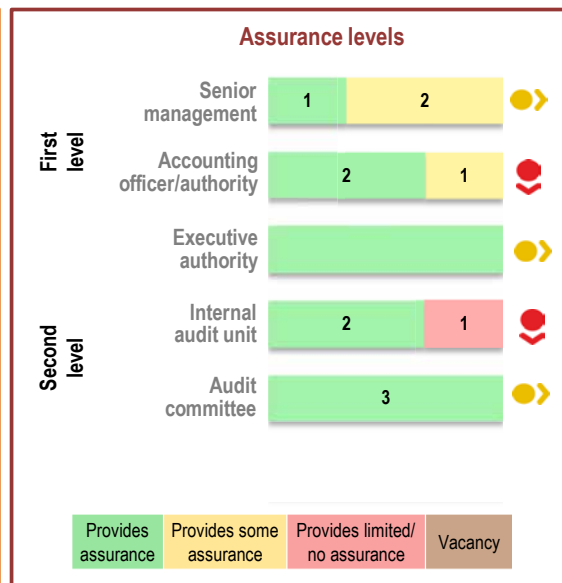
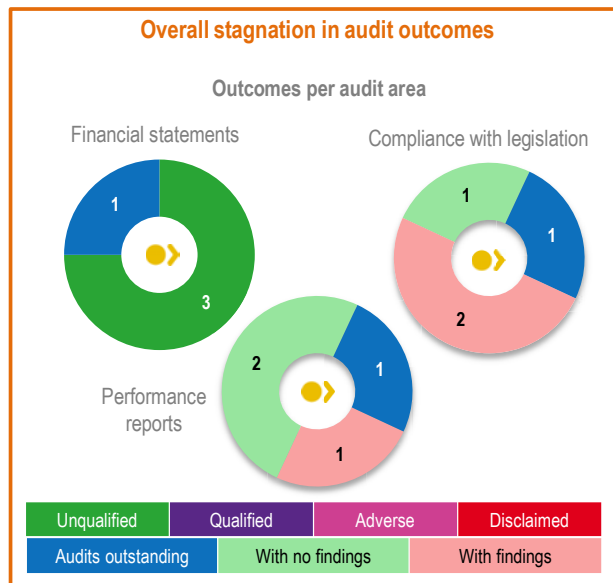
We did not audit the following entities which form part of the minister's portfolio:

- *Umalusi*
- *South African Council of Educators*

The overall audit outcomes of these entities have remained the same as the previous year. The audit outcomes were as follows:

- The financial statements of both auditees received an unqualified opinion.
- Umalusi had material findings on the quality of the APR relating to usefulness of indicators, which was a regression from the previous year, when it had no findings on its APR.
- Umalusi had no material findings on compliance with legislation, which is the same result as in the previous year. SACE had material findings on compliance with legislation, which was a regression from the previous year.

Vote 16: Health



Key controls

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	3	0	0	3	0	0	3	0	0
Human resources controls	3	0	0	3	0	0	3	0	0
ICT governance and controls	1	1	1	1	2	0	1	2	0
Audit action plans	3	0	0	2	1	0	2	1	0
Proper record keeping	3	0	0	2	1	0	2	1	0
Daily and monthly controls	3	0	0	2	0	1	2	1	0
Review and monitor compliance	1	2	0	2	1	0	0	3	0

1 To improve/maintain the **audit outcomes** ...

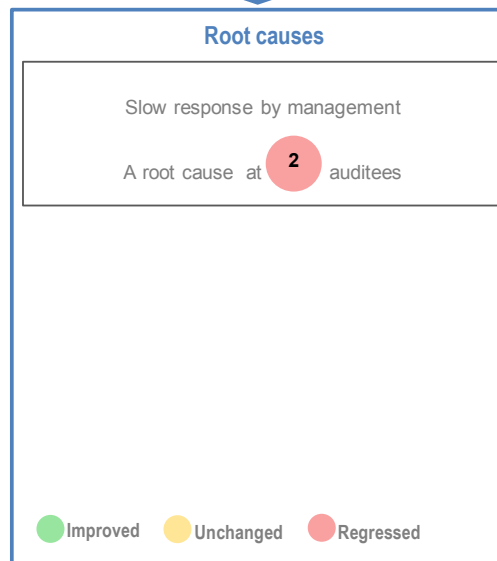
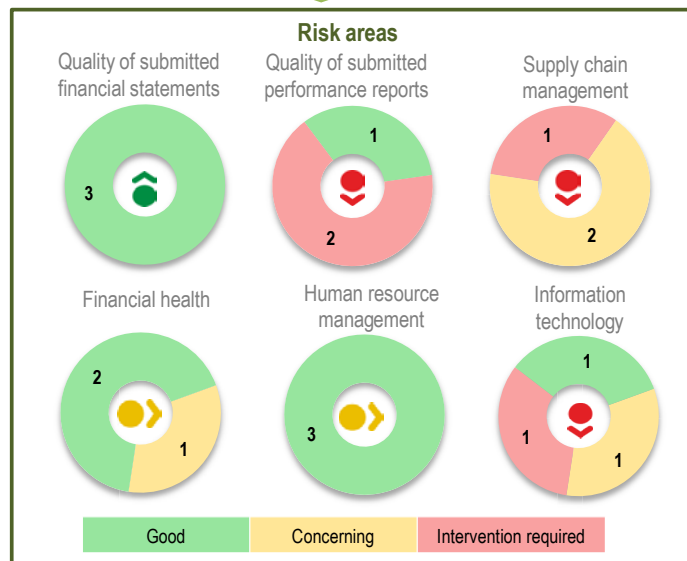
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Status of key commitments by minister

Controls will be strengthened to review and monitor compliance with legislation.

A qualified chief financial officer will be recruited at CCOD.

A health electronic registration system will be designed and implemented to support the reliable recording of health data.

Legend: Not implemented (Red), In progress (Yellow), Implemented (Green), New (Blue)

Auditees included in the portfolio

- *National Department of Health (NDoH)*
- *Compensation Commissioner of Occupational Diseases (CCOD)*
- *Council for Medical Schemes (CMS)*
- *South African Medical Research Council (MRC)*

The NDoH's total budgeted expenditure for the 2014-15 financial year was R33,9 billion. The main areas of expenditure were transfer payments of R31,2 billion, employee costs totalling R604,6 million, goods and services of R1,61 billion and capital assets totalling R488,9 million.

The audit outcome of the CCOD is not included as the entity did not submit annual financial statements for auditing from the 2011-12, to 2014-15 financial years. The entity experienced a breakdown in internal controls and was unable to submit credible financial statements. The audit report for the 2010-11 financial year has not yet been tabled, and the CCOD has not committed to a date for tabling the audit report or submitting the outstanding annual financial statements.

Overall audit outcome

The overall audit outcome for the portfolio has remained stagnant. However, improvements were noted in compliance with legislation, as the NDoH reduced its compliance findings to one matter related to ineffective systems and manual processes at provincial departments for reporting on predetermined objectives. The CMS did not completely address control weaknesses around SCM processes during the year. The MRC continued its positive trend, with another clean audit for the year under review.

Our main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the NDoH, the CMS and the MRC for submitting for auditing annual financial statements that were free from material misstatements and for their receiving unqualified opinions.

The CCOD had not submitted financial statements for four consecutive years. While a commissioner had been appointed during the year, the position of chief financial officer had been vacant throughout this period and management must fill this vacancy urgently. The following controls should be strengthened further to create a control environment that supports reliable financial reporting:

- The leadership must develop an appropriate action plan to address the control weaknesses identified during the last audit and to commit to definite dates to submit all outstanding financial statements.

- Adequate daily and monthly processing and reconciling of transactions should be implemented.
- The NDoH should effectively review and monitor the action plan to ensure adherence to the plan.

Annual performance report

We commend the CMS for submitting performance reports that were free from material misstatements. No material findings were reported for this entity.

The NDoH's published APR included information on its performance against predetermined objectives that was not reliable for the following programme we had selected to audit:

Auditee	Programme	Not useful	Not reliable
NDoH	Programme 3: HIV/Aids, tuberculosis and maternal and child health		X

The findings on reliability for this programme related to information collected at facilities reporting to provincial departments of Health. The NDoH approved policies and procedures for reporting performance information where information was derived from provincial departments of Health. The provincial departments were implementing these policies and procedures.

The NDoH and the MRC submitted for auditing APRs that contained material misstatements. The MRC avoided material findings in its audit report only because it corrected all the misstatements we identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable reporting on the performance of the auditees:

- The provincial departments of Health should adequately implement policies and procedures approved by the NDoH
- Develop and implement an electronic patient information system in all provinces to support the collection of reliable data.

Compliance with legislation

We identified material non-compliance with legislation by the NDoH and the CMS in the following areas:

- Systems and processes to report on information originating at provincial departments were not effective in reporting reliable information at the NDoH and eight provincial departments of Health.
- The CMS did not take reasonable steps to prevent irregular expenditure, as declarations of interest were not always obtained as prescribed, while a

deviation was approved even though it was not impractical to invite a competitive bid.

The NDoH incurred R398 million (2013-14: R0,18 million) in irregular expenditure, which represented 98% (2013-14: 1%) of the total irregular expenditure of R407,4 million (2013-14: R1,8 million) incurred in the health portfolio. Only 1% (R4,1 million) of this irregular expenditure was identified by the NDoH in the year under review. All the irregular expenditure identified in the previous year had been identified by the auditors.

In total, 96% (R391 million) of the current year's irregular expenditure related to non-compliance with the DoRA payment schedule for the comprehensive HIV and Aids grant. The irregular payments were recovered by the NDoH during the year. The irregular expenditure by the CMS of R8,4 million (2013-14: R1,4 million) and the MRC of R0,73 million (2013-14: R0,22 million) related to non-compliance with SCM legislation.

All entities in the portfolio must strengthen their review and monitoring of compliance with SCM legislation.

Root causes

The minister and the accounting officer should address the following root causes to improve the audit outcomes and internal controls:

- Appoint an appropriately qualified chief financial officer at the CCOD.
- Develop and implement an electronic patient information system to support the reliable recording of health data.
- Strengthen controls over the review and monitoring of compliance with legislation, especially in the area of SCM.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by assisting the provincial departments to strengthen internal controls over the extensive manual processes currently in place to collect health information at facilities across the country. This is necessary to fill the gap, as the NDoH is in the process of developing and implementing a suitable electronic patient system to support the collection of information.

We met with the minister four times in the past year, and these interactions had a positive impact on the auditees. All entities audited were unqualified, with only two auditees still addressing concerns around compliance and/or predetermined objectives. However, we remain concerned about the long-outstanding annual financial statements of the CCOD.

The internal audit unit at the NDoH was not effective due to reports being issued late. Audit risks were not highlighted to management in a timely manner prior to the external audit. An external assessment of the unit as required by the Institute of Internal Auditors was long outstanding.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year. The committee also committed to engage with the department to address the audit concerns raised.

Risks to financial health and service delivery

The accounting officer should address the following matter, which could affect the financial health and service delivery in the portfolio:

- The department underspent the health infrastructure grant (indirect) by R312 million and the NHI grant (indirect) by R305 million, which contributed to the underspending of Programme 2: Health planning and system enablement. The department should improve the management of budgets and projects to ensure that the money appropriated for infrastructure projects is used timeously.

Risks to information technology

Progress had been made in designing adequate policies and procedures for IT governance, security management and user access management in the NDoH environment, but weaknesses were noted in their implementation. Control weaknesses in the design of IT controls for the business continuity plan were still a challenge in the department.

Control weaknesses related to the design of IT controls were noted at the CMS across three of the four focus areas, namely, security management, user access management and IT continuity. Policies had not been adequately designed, as they did not address all the key elements. This resulted in a regression for the portfolio.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

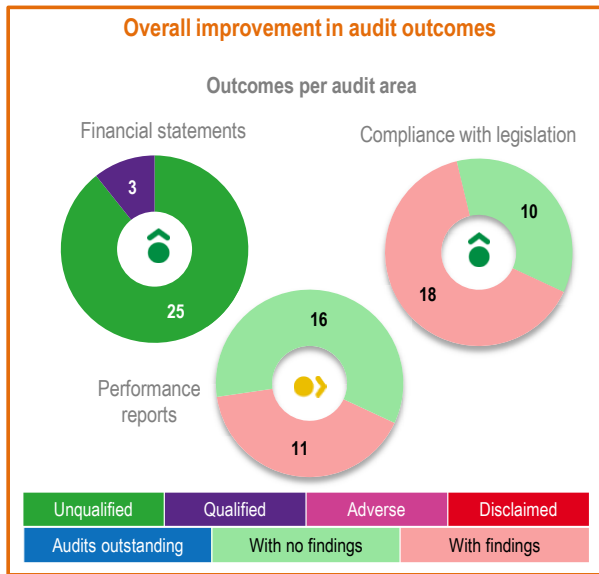
We did not audit the following entity included in the portfolio of the minister:

■ *National Health Laboratory Service (NHLS)*

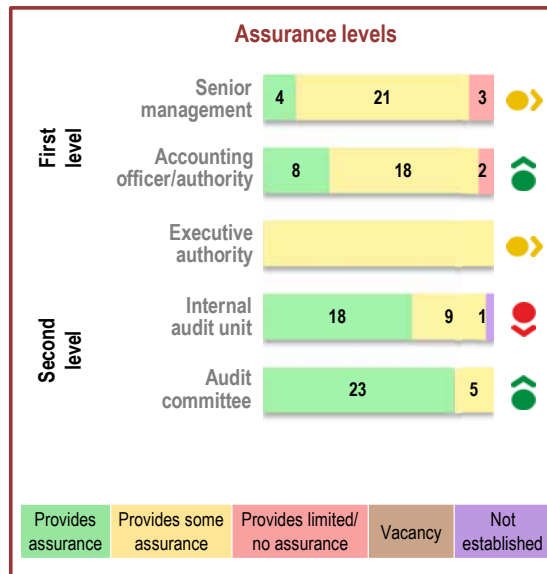
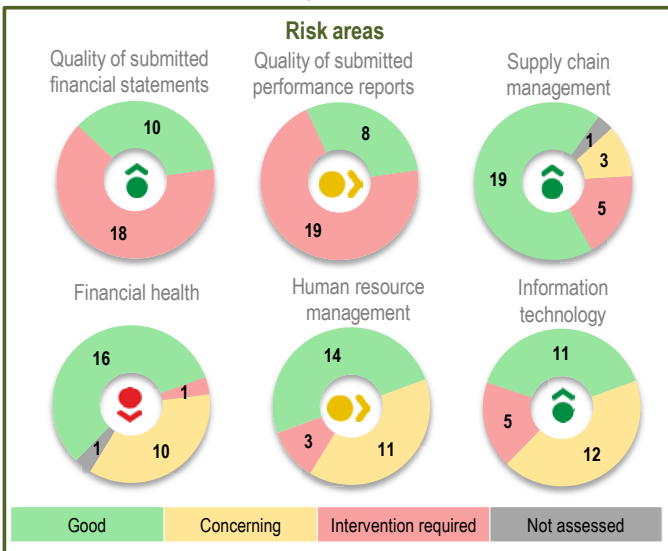
The overall audit outcome of the NHLS remained the same as in the previous year, as follows:

- The financial statements were unqualified.
- There were no material findings on the usefulness and reliability of the APR.
- The following material findings were reported on compliance with legislation:
 - A repeat finding was raised relating to properties belonging to the NHLS not being registered in its name, resulting in non-compliance with the NHLS Act.
 - The NHLS did not implement proper control systems to safeguard and maintain its assets.
 - The NHLS incurred material irregular expenditure as a result of the accounting authority not taking effective steps to prevent irregular expenditure amounting to R341,1 million (2013-14: R7,9 million). The irregular expenditure related to non-compliance with SCM legislation.

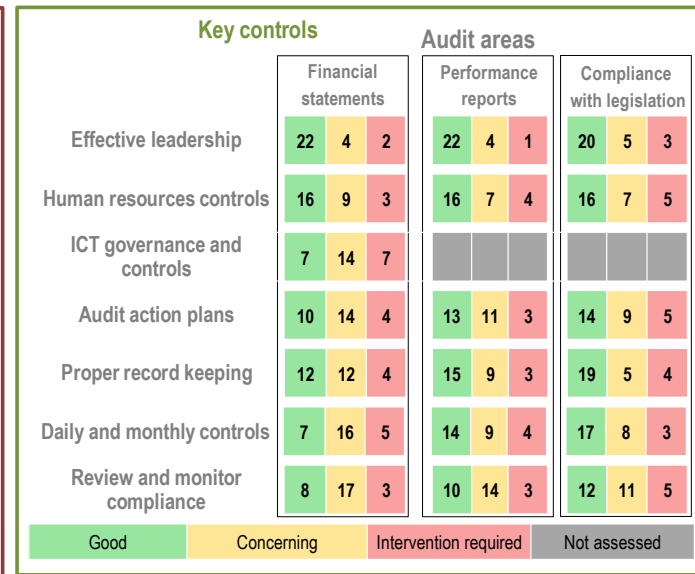
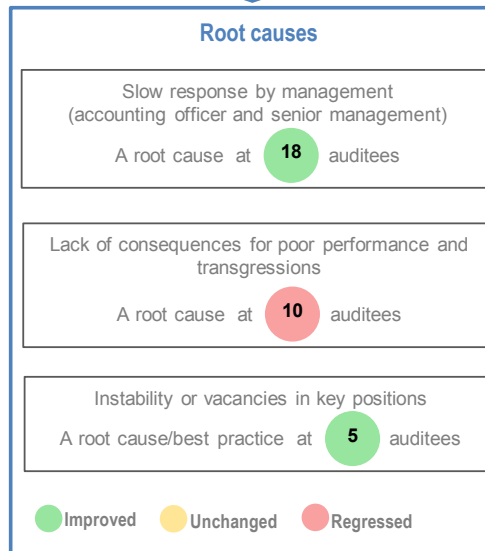
Vote 17: Higher education and training (excluding TVET colleges and universities)



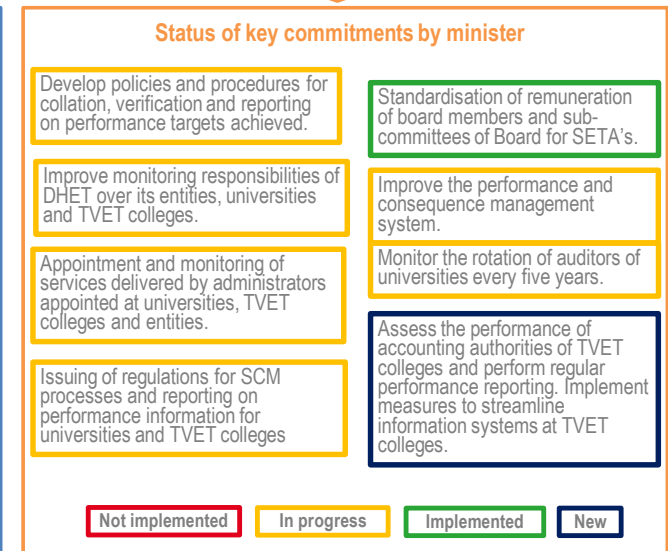
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To improve/maintain the **audit outcomes** ...
... the **risk areas** and that ...
4



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



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



Auditees included in the portfolio

- Department of Higher Education and Training (DHET)
- Agriculture Sector Education and Training Authority (AGRSETA)
- Banking Sector Education and Training Authority (BANKSETA)
- Chemical Industries Education and Training Authority (CHIETA)
- Construction Sector Education and Training Authority (CETA)
- Council on Higher Education (CHE)
- Culture, Arts Tourism, Hospitality and Sport Education and Training Authority (CATHSSETA)
- Education, Training and Development Practices (ETDPSETA)
- Energy and Water Sector Education and Training Authority (EWSETA)
- Fibre Processing and Manufacturing Sector Education and Training Authority (FP&MSETA)
- Financial and Accounting Services Sector Education and Training Authority (FASSET)
- Food and Beverages Sector Education and Training Authority (FOODBEV)
- Health and Welfare Sector Education and Training Authority (HWSETA)
- Insurance Sector Education and Training Authority (INSETA)
- Local Government Sector Education and Training Authority (LGSETA)
- Manufacturing, Engineering and Related Services Sector Education and Training Authority (MERSETA)
- Media, Information and Communication Technologies SETA (MICTS)
- Mining Qualifications Authority (MQA)
- National Institute for Higher Education: Northern Cape (NIHE - NC)
- National Skills Funds (NSF)
- National Student Financial Aid Scheme (NSFAS)
- Public Services Sector Education and Training Authority (PSETA)
- Qualification Council for Trades and Occupations (QCTO)
- Safety and Security Sector Education and Training Authority (SASSETA)
- Services Sector Education and Training Authority (SERVICES SETA)
- South African Qualifications Authority (SAQA)
- Transport Education and Training Authority (TETA)
- Wholesale and Retail Sector Education and Training Authority (W&R SETA)

The department's total budgeted expenditure for the 2014-15 financial year was R50,1 billion. The main areas of expenditure were:

- | | |
|-----------------------|----------------|
| • employee cost | R432,6 million |
| • goods and services | R188 million |
| • transfer payments | R49,4 billion |
| • capital expenditure | R3,6 million. |

Overall audit outcome

The improvement in the overall audit outcome was as a result of CHIETA, CHE, ETDP SETA, QCTO and Services SETA improving to clean audit outcomes by addressing past material findings on their APRs and compliance with legislation. Furthermore, CATHSSETA and LGSETA improved from qualified opinions on irregular expenditure, discretionary project administration expenses, discretionary grant commitments and property, plant and equipment to unqualified opinions with findings. W&R SETA, however, regressed from an unqualified opinion with findings to a qualified opinion while SAQA regressed from an unqualified opinion with no findings to an unqualified opinion with findings, mainly due to daily and monthly processing of transactions not taking place throughout the year.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of NIHE - NC, PSETA and W&R SETA included the following material misstatements:

- NIHE – NC
 - We could not obtain sufficient appropriate audit evidence to confirm adjustments made to revenue during the current and previous year and operating expenditure for the current year because the entity did not maintain proper accounting records and related documents for journals.
 - We could not obtain sufficient appropriate audit evidence to confirm adjustments made to trade and other receivables and trade and other payables during the previous year, which had an impacted on the comparability of the current period's figures. This was a result of the entity not maintaining proper accounting records and related documents.
- PSETA
 - We could not obtain sufficient appropriate audit evidence regarding conditional grant expenses and the related conditional grant liability disclosed. This was as a result of the entity not maintaining proper accounting records and related documents and constitutes a recurring finding.
- W&R SETA
 - Discretionary grant commitments were materially overstated as the entity did not accurately determine the amounts that met the definition of a contractual commitment as per the grant regulations to the Skills Development Act. This had an impact on the provision for uncommitted

funds due to the NSF, surplus for the period and the accumulated discretionary grant reserves.

DHET, AGRISSETA, CETA, CATHSSETA, EWSETA, FP&MSETA, FOODBEV SETA, INSETA, LGSETA, MERSETA, MQA, NIHE – NC, NSF, NSFAS, PSETA, SASSETA, SAQA and W&R SETA submitted financial statements for auditing that contained material misstatements in the areas of revenue, expenditure, receivables, payables, deferred expenditure, property, plant and equipment, accruals, provisions, commitments, contingent liabilities, irregular expenditure, related party disclosures, cash flow statement and statement of budget comparison.

DHET, AGRISSETA, CETA, CATHSSETA, EWSETA, FP&MSETA, FOODBEV SETA, INSETA, LGSETA, MERSETA, MQA, NSF, NSFAS, SASSETA and SAQA received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

NIHE – NC and PSETA could not make the corrections because of a lack of accounting records to support the corrections. W&R SETA could not make accurate corrections to the population of discretionary grant commitments due to inadequate project management of discretionary grant contracts.

The following controls should be strengthened to create and sustain a control environment that supports reliable financial reporting:.

- Daily and monthly processing and reconciling of transactions should take place throughout the year to ensure that accurate financial statements are prepared.
- Action plans to address internal control deficiencies identified by internal and external audit should be developed and implemented within one month of receipt of audit reports. Progress in implementing the action plans should be monitored monthly.
- Consequence management should be implemented for poor performance. The staff performance management system should include holding individuals accountable for addressing internal control deficiencies relevant to financial reporting.
- Management should improve its record management systems to ensure that appropriate records supporting the financial statements are readily available.

Annual performance report

The Higher Education Act does not require the NIHE-NC to report on achievements against the strategic plan of the institute. This area was, therefore, not audited.

The published APR of DHET, AGRISSETA, CETA, CATHSSETA, EWSETA, LGSETA, NSF, NSFAS, PSETA, SASSETA and TETA included information on

their performance against predetermined objectives which was not useful and reliable for the following programmes and objectives we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
DHET	Programme 4: Vocational and continuing education and training		x
	Programme 5: Skills development		x
AGRISSETA	Strategic goal 3: Strengthening the agricultural and rural development processes and strategies to promote food security and growth of the rural economy	x	
CETA	Objective 2: Increasing access to occupationally directed programmes in the construction sector		x
CATHSSETA	Programme 1: Coordinate research and skills planning for the sector	x	
	Programme 2: Address sector middle level skills	x	x
	Programme 5: Address sector high level skills	x	x
	Programme 11: Provision of quality training for employed	x	
	Programme 13: Support for small and emerging businesses through skills development	x	x
EWSETA	Programme: Quality assurance and compliance	x	
	Programme: Skills delivery	x	
	Programme: Discretionary projects	x	
LGSETA	Programme 1: Administration	x	x
	Programme 4: Education training quality authority	x	
NSF	Programme 1: Effective and efficient programme / project preparation	x	x
	Programme 2: Effective and efficient		x

Auditee	Programme/objective	Not useful	Not reliable
	project management		
NSFAS	Programme 2: Student centred financial aid	x	
PSETA	Programme 1: Skills planning and research		x
	Programme 7: Projects	x	
SASSETA	Programme 4.1: Skills development and administration		x
	Programme 4.2: Skills implementation and monitoring		x
TETA	Programme 2: Occupationally directed programmes	x	
	Programmes 3: Quality assurance systems	x	
	Programme 4: Youth development and progression for further access and workplace training and experience	x	

BANKSETA, FOODBEV SETA, INSETA, MERSETA, MICTS, MQA, SERVICES SETA and W&R SETA submitted APRs for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we identified during the auditing process.

The following controls should be strengthened to create and sustain a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Processes should be developed and implemented to collect, collate and verify performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets as required by the FMPPI. This includes daily and monthly processing and reconciling of performance information throughout the year, and maintaining a proper record management system.
- Action plans to address internal control deficiencies identified by internal and external audit should be developed and implemented within one month of receipt of audit reports. The progress made on implementing the action plans should be monitored monthly. Management should be held accountable for implementing and monitoring the effectiveness of action plans.

- The staff performance management system should include holding individuals accountable for addressing internal control deficiencies relevant to performance planning, monitoring and reporting. Consequence management should be implemented for poor performance.
- Processes should be developed and implemented to monitor compliance with laws and regulations impacting on performance management.

Compliance with legislation

We identified material non-compliance with legislation by DHET, AGRISSETA, CETA, CATHSSETA, EWSETA, INSETA, LGSETA, NIHE – NC, NSF, NSFAS, PSETA, SASSETA and W&R SETA in the following areas:

- DHET, LGSETA and SASSETA did not always request 3 quotations for procurement below R500 000.
- CATHSSETA, LGSETA and SASSETA did not always follow a competitive bidding process. SASSETA could not provide evidence that it was impractical to invite competitive bids.
- DHET awarded contracts to bidders based on a preferential procurement points system that were not correctly allocated and/or calculated.
- CATHSSETA and EWSETA did not always request tax clearance certificates before making awards to suppliers.
- DHET awarded construction contracts to contractors that did not qualify for the contract in accordance with Construction Industry Development Board Act and regulations.
- CATHSSETA, EWSETA, LGSETA, NSF, PSETA, SASSETA and W&R SETA did not take effective steps to prevent irregular, fruitless and wasteful expenditure.
- EWSETA exceeded its legislative administration expenditure limit without prior approval from the minister of Higher Education and Training.
- SASSETA did not investigate allegations of financial misconduct against members of the accounting authority.
- AGRISSETA did not take effective and appropriate disciplinary steps against officials who incurred or permitted irregular, fruitless and wasteful expenditure,
- DHET, AGRISSETA, CETA, CATHSSETA, INSETA and NSF did not maintain an effective system of internal controls over performance management.
- DHET did not always initiate and complete the required verification checks prior to the appointment of new staff.
- SASSETA did not maintain adequate controls over asset management.

- NSFAS did not take effective and appropriate steps to collect all money due to them
- NIHE – NC did not keep complete accounting records of all assets, liabilities, income and expenses and any other financial transactions of the institute as required. Furthermore, the institute's annual report did not include reports and statements on governance, operations, an annual financial review and supplementary financial data and financial performance indicators. With the Sol Plaatje University having started operations in September 2013, the institute was disestablished on 31 December 2014 as it no longer had a role to fulfil.

SASSETA incurred R126 million in irregular expenditure and CATHSSETA incurred R124 million in irregular expenditure, which was 71% of the total amount of R351 million in irregular expenditure incurred by the national portfolio. The amount of irregular expenditure incurred by SASSETA and CATHSSETA has increased significantly compared to the R2,8 million incurred by SASSETA in the previous year. CATHSSETA did not disclose irregular expenditure during the previous year resulting in a qualified audit opinion. Adjustments to the previous year's irregular expenditure were only made in the current year. The irregular expenditure was incurred as a result of non-compliance with SCM legislation, exceeding the legislative administration expenditure limit, discretionary project contracts not signed by all parties and approval of discretionary project contracts not in accordance with delegation of authority. 84% of the irregular expenditure incurred was identified by the auditee's own processes of internal controls.

SASSETA incurred R25,6 million in fruitless and wasteful expenditure which was 96% of the total amount of R26,7 million incurred by the national portfolio. The fruitless and wasteful expenditure was incurred as a result of projects awarded at higher rates than approved per discretionary grant policy of the entity, scheduled staff training not being attended and movement of learners to a different training provider. SASSETA did not incur fruitless and wasteful expenditure during the previous year.

Of the audit outcomes for compliance with legislation 44% related to procurement and contract management and irregular expenditure. Controls should be implemented to monitor compliance with SCM processes.

The following controls should be strengthened to create and sustain a control environment that supports compliance with legislation.

- Processes should be in place to monitor compliance with laws and regulations to prevent irregular expenditure.
- Action plans to address internal control deficiencies identified by internal and external audit should be developed and implemented within one month of receipt of audit reports. The progress made with implementation of the action plans should be monitored on a monthly basis.

- The staff performance management system should incorporate holding individuals accountable for addressing internal control deficiencies relevant to compliance. Consequence management should be implemented for poor performance.

Root causes

The minister, accounting officer and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Slow response by management should be addressed through timely compilation of action plans arising from audits, regular monitoring of progress made to address internal control deficiencies and communicating the action plan to address internal control deficiencies to all levels of staff. Internal audit should perform quarterly reviews of progress on the implementation of actions plans which, will provide an independent assurance on whether satisfactory progress is being made by management in addressing internal control deficiencies.
- The performance management processes of staff should be strengthened to incorporate internal controls responsibilities in the performance contracts for all staff. Consequence management should be implemented for non-performance.
- All funded vacant positions should be filled as a matter of urgency with individuals who have the appropriate qualifications and skills. In addition, a gap analysis should be performed in relation to the current level of skills and competencies. An action plan should be put in place to address the gaps identified.

Impact of key role players on audit outcomes

The first levels of assurance should be improved by implementing the recommendations of external and internal audit to strengthen the internal control environment. Consequence management should be implemented to hold staff accountable for improvement and maintenance of internal controls. Regular self-assessment of the status of key controls should be performed. The second level of assurance can be strengthened by focusing the internal audit unit and directing the work of the audit committee towards evaluating reliability of progress against action plans, status of key controls, monthly financial statements, performance information and compliance with legislation that has a direct impact on the department and entities.

We met with the minister three times in the past year and these interactions had a limited impact on the audit outcomes. Slow progress was made to address the commitments made by the minister due to the large number of entities and

institutions in the higher education portfolio and limited funding and human resources capacity within the department. The slow pace at which commitments made by the minister are addressed remains a concern and has contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We agreed on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year. The portfolio committee also confirmed its commitment to drive improved audit outcomes by ensuring service delivery through the following initiatives:

- Monitoring of the status of key controls.
- Tracking the effective implementation of audit action plans to address weaknesses in internal controls on a quarterly basis.
- Requesting independent assurance from internal audit through the audit committee regarding the status of action plans and key controls presented by management.
- The portfolio committee performing a self-assessment to determine its impact on the higher education portfolio.

Risks to financial health, oversight responsibilities and information technology

Financial health and oversight responsibilities

The minister of Higher Education and Training together with the minister of Finance should address the following matters, which could affect the financial health and monitoring and oversight responsibilities in the portfolio:

- The department is unable to perform all required verification and monitoring functions for its entities and higher education institutions (approximately 100 entities in the minister's portfolio) due to, in some instances, a lack of appropriate skills within the department and insufficient human resource capacity because of funding constraints. As a result, the reliability of reported

achievements by the department's entities and institutions, which are consolidated into the achievements reported by the department, is not always validated.

- Had it been assessed on the accrual basis of accounting (all expenses incurred in the financial year), the department would, given its funding constraints, not have had sufficient funds to cover accruals, resulting in possible unauthorised expenditure. Furthermore, on the accrual basis of accounting, the department would have moved from a net asset position to a net liability position.
- SASSETA and EWSETA approved discretionary grant projects that exceeded their available discretionary grant reserves. Key financial controls should be improved, such as budget analysis prior to project approval.
- NSFAS should implement controls to improve its recoverability of student loans receivable.

Information technology management as a specific cause of audit outcomes

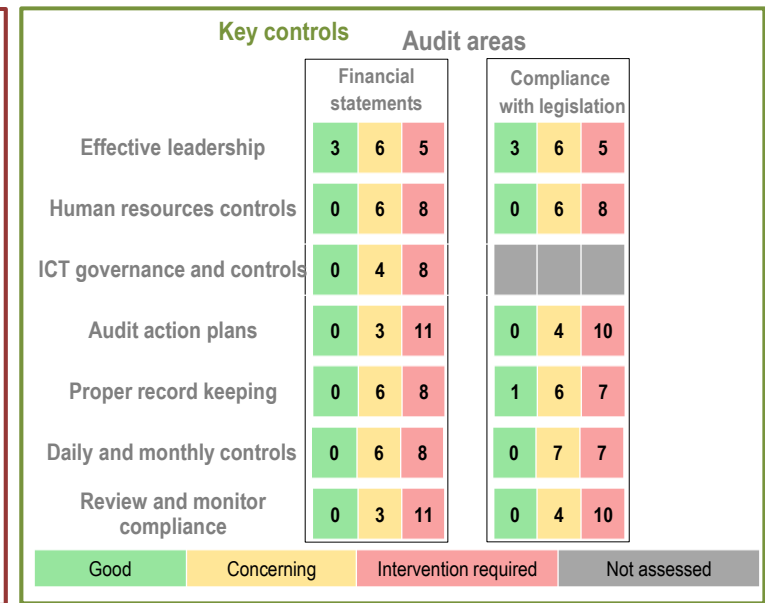
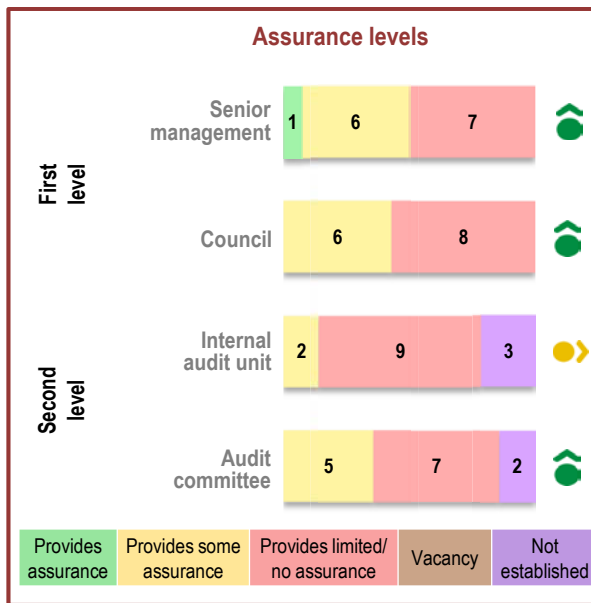
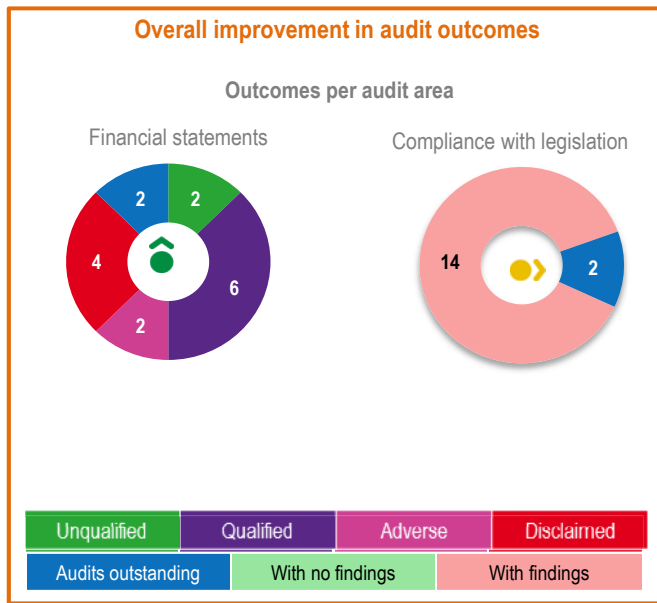
At the national department, most controls over the financial systems are generally well designed and implemented and operated effectively. However weaknesses were identified in performance information systems. The internal audit function is performing some information system audits at the national department to ensure that all risks are covered in the IT environment using a combined assurance approach.

Controls at FASSET, INSETA and CHIETA were well designed and implemented and operated effectively, with no major audit findings being raised in any of the focus areas. This was as a result of a good governance structure. MERSETA made improvements in the areas of IT governance and security management.

Nine of the SETAs made good progress since the previous year. At the NSF weaknesses were identified in the implementation of the controls relating to user access management.

Management should prioritise the design and implementation of the IT governance, security management, user access management and IT service continuity controls to prevent unauthorised access to, and unavailability of, IT financial and performance management systems or incompleteness of data in the event of major system disruptions or data loss.

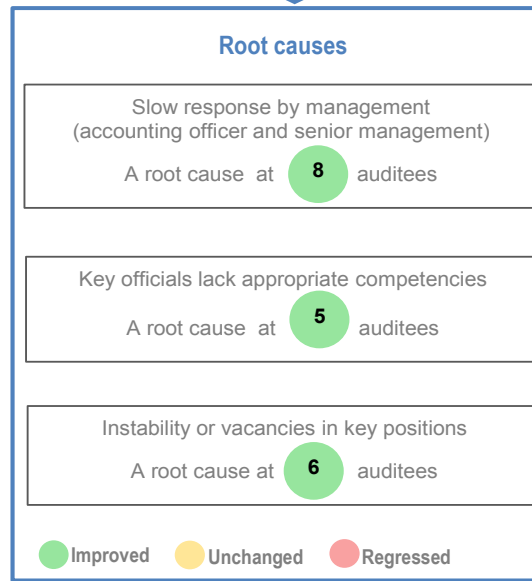
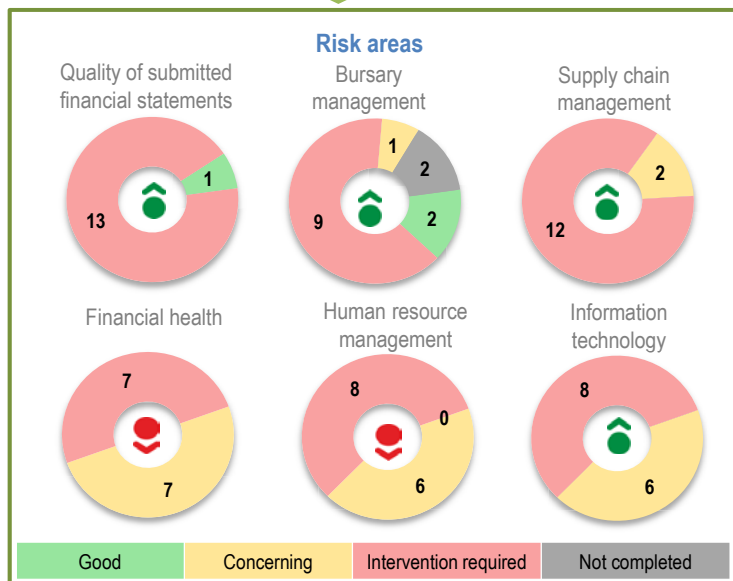
Technical and Vocational Education and Training (TVET) colleges audited by the AGSA



1
To improve the **audit outcomes** ...
... the **risk areas** and ...

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

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



Technical and vocational education and training colleges audited by the Auditor-General of South Africa

- *Central Johannesburg College*
- *Esayidi TVET College*
- *Ikhala TVET College*
- *King Hintsa TVET College*
- *Letaba TVET College*
- *Lovedale TVET College*
- *Maluti TVET College*
- *Mnambithi TVET College*
- *Northern Cape Urban TVET College*
- *Orbit TVET College*
- *South West Gauteng TVET College*
- *Tshwane South TVET College*
- *Western College for TVET*

The TVET colleges were previously called further education and training (FET) colleges. The name change was introduced when the name of the applicable legislation was changed from the FET Colleges Act to the Continuing Education and Training Act. The audit outcomes of East Cape Midlands TVET College, Northlink TVET College and Tshwane North TVET College are not included. Due to non-submission of financial statements (East Cape Midlands and Tshwane North) and disagreements with management (Northlink), we had not finalised the audits by 14 August 2015, which was the cut-off date for inclusion of audit outcomes in this report.

Overall audit outcome

The improvement in the overall audit outcome was caused by South West Gauteng receiving an unqualified opinion on its financial statements, and Lovedale and Maluti receiving qualified opinions on their financial statements having received disclaimers of audit opinion in the previous year. It should be noted that this overall improvement excludes the audit outcome of the three TVET colleges that are still outstanding and their audit outcomes might alter the picture.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows

Financial statements

The financial statements of the colleges that received an adverse opinion, a disclaimed opinion or a qualified opinion included the following material misstatements:

- Property, plant and equipment (PPE) – Nine (69%) colleges had qualifications on the balance of PPE. The majority of these qualifications arose from the colleges not correctly applying the requirements of the applicable accounting standard in accounting for their PPE due to incorrect understanding or interpretation of the requirements of the standard. Furthermore, the auditors could not physically verify selected PPE items at some of the colleges, due to poor accounting records.
- Current assets – Ten (77%) colleges had qualifications on current assets. This mainly related to the provision for impairment of doubtful student debt which was not in accordance with the applicable accounting standard due to incorrect understanding or interpretation of the requirements of the standard.
- Liabilities – Eight (62%) colleges had qualifications on liabilities. These qualifications were mainly as a result of colleges not being able to provide the necessary documentation to substantiate the recorded balances.
- Revenue – Eight (62%) colleges had qualifications on revenue. These qualifications were mainly as a result of the colleges not being able to provide the necessary documentation to substantiate the recorded revenue. In some instances, the colleges also did not correctly apply the requirements of the applicable standard in accounting for their revenue.
- Expenditure – Nine (69%) colleges had qualifications on expenditure. These qualifications were mainly as a result of colleges not being able to provide the necessary documentation to substantiate the recorded expenditure and/or not meeting the requirements of the applicable standards in accounting for the expenditure.
- Other disclosure items – Six (46%) colleges had qualifications on other financial statement components and/or disclosure items such as the cash flow statement, commitments, related parties and previous period errors.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Lack of or inadequate ICT governance and controls contributed towards the poor quality of financial statements at most colleges. Urgent attention should be given to addressing the weaknesses identified and reported to the colleges.

- Implementation of action plans should be monitored on a regular basis and corrective actions should be taken timeously where insufficient progress is being made towards their implementation.
- Controls over the review and monitoring of compliance with the applicable financial reporting framework should be enhanced. This can be achieved by ensuring that the finance units of the colleges are adequately staffed with suitably qualified personnel.
- Processing, reconciling controls and record keeping are also areas where major improvements are required. In this regard, colleges should ensure that properly documented policies and procedures are in place to guide staff and that proper training is provided where necessary.

Annual performance report

The FET College Act does not require the FET colleges to report on achievements against the strategic plans of the colleges. As a result, there were no APRs to audit. The minister still has to indicate when the colleges will be required to produce APRs.

Compliance with legislation

We identified material non-compliance by the colleges in the following areas with the Continuing Education and Training Act:

- Internal audit – Central Johannesburg, Letaba, Lovedale, Maluti, Mnambithi, South West Gauteng, Tshwane South and Western College did not implement internal audit and risk management systems.
- Conflicts of interest - Central Johannesburg, Ikhala, King Hintsa and Lovedale did not keep proper record of declarations of interest made by members of council/interim council before assuming office, or commercial or financial activities undertaken for financial gain that may raise a conflict or possible conflict of interest with the college. Furthermore, Ikhala failed to comply with several other procedural matters in relation to a conflict of interest of a member of council, such as informing the chairperson of council before a meeting of the conflict of interest and recusing the member from the discussion and decision-making on the matter where the conflict of interest existed.
- Code of conduct - Central Johannesburg, Ikhala and Mnambithi did not adopt a code of conduct to which all the members of council, committees of council and other persons who exercise functions of council in terms of delegated authority must subscribe.
- Strategic planning – Lovedale and Maluti did not incorporate planning for funding of the college in their strategic plans. Lovedale, Maluti and Northern Cape Urban did not include safety measures for a safe learning environment for students, lecturers and support staff. Furthermore, Maluti did not

incorporate the mission, vision and goals of the college in its strategic plan, while neither Maluti nor Northern Cape Urban addressed past imbalances on gender and disability matters. Ikhala did not submit its strategic plan to the minister at least 30 days before the start of its financial year as required.

- Value-added tax – Maluti did not register as a vendor although it received income in excess of the threshold for registration.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Controls over the review and monitoring of compliance with legislation should be strengthened. This responsibility should be allocated to specific and suitably qualified individuals who should be equipped with adequate resources to fulfil this responsibility effectively. The establishment and/or resourcing of internal audit units will address the most common area of non-compliance currently reported, and once these units are operating optimally they can assist in reviewing and monitoring other compliance.
- Implementation of action plans to address previously reported compliance findings should be monitored on a regular basis and corrective actions should be taken timeously where insufficient progress is being made towards their implementation.

Root causes

The councils and audit committees should address the root causes of poor audit outcomes and inadequate controls as follows:

Slow response by management – incorporate the implementation of action plans to address reported findings in the performance agreement of staff and ensure that lack of, or inadequate, implementation of the action plans is reflected in the performance assessments.

Instability or vacancies in key positions – key positions such as those of chief financial officer should be permanently filled with suitably qualified personnel.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring that vacancies are filled and stability exists at senior management level. Internal audit units should be established at all colleges and suitably qualified personnel should be appointed to fill the positions. Audit committees should be established at all colleges and should exercise effective oversight of the functioning and effectiveness of internal audit and implementation of recommendations made by internal and external auditors.

Both the minister and the portfolio committee have played an active role in the TVET college environment in order to change the status of the internal control environment and service delivery. This should be maintained.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the *National Institute for Higher Education – Mpumalanga* (NIHE - Mpumalanga), the 25 universities (including the two new universities) and 34 of the 50 TVET colleges which are included in the portfolio of the minister.

The outcome of the NIHE – Mpumalanga remained the same as in the previous year.

Universities

The overall audit outcomes of the universities for the year ended 31 December 2014 have regressed when compared to the previous year.

- The regression is caused by the University of Limpopo and University of South Africa, together making up 8% of the universities, receiving qualified opinions after being unqualified in the previous year.
- Seventeen (68%) universities received an unqualified opinion with no findings, which is the same as in the previous year.
- Four (16%) universities – Sol Plaatje University (SPU), University of Kwazulu-Natal (UKZN), University of Mpumalanga (UMP) and the University of the Witwatersrand (WITS) - obtained an unqualified opinion with findings on compliance with laws and regulations, which is an overall improvement compared to eight (32%) universities in the previous year. For SPU, UKZN and UMP this is the same outcome as in the previous year, and for WITS it

is a regression. The Mangosuthu University of Technology, the University of Zululand and the Vaal University of Technology addressed past material findings on compliance with legislation resulting in the three universities improving to being unqualified with no findings.

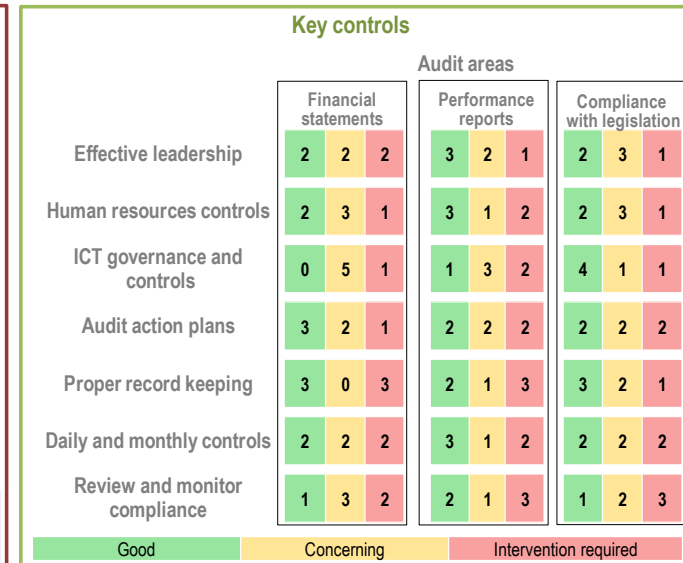
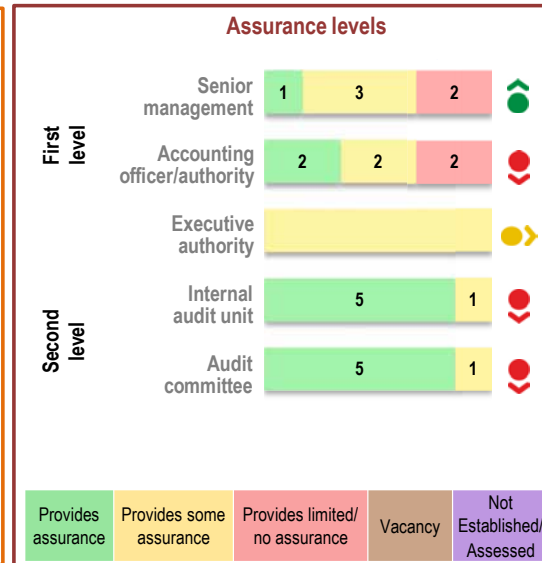
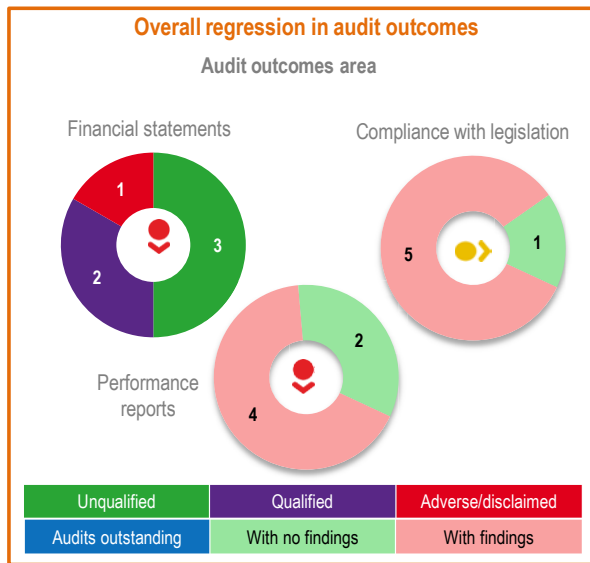
- The audit outcomes of two (8%) universities, namely University of Fort Hare (UFH) and Walter Sisulu University (WSU) are not included. Due to delays in the submission of information by the universities, the audits of the UFH and WSU had not been finalised by 14 August 2015, which was the cut-off date for the inclusion of audit outcomes in the general report.

Thirty-four TVET colleges not audited by the AGSA

- The financial statements of Gert Sibande TVET college received a disclaimer of opinion – a regression compared to the previous year.
- The financial statements of Goldfields TVET college received a qualified opinion with no findings – a regression compared to the previous year.
- Flavius Mareka, Nkangala and Thekwini TVET colleges received unqualified opinions with material findings on compliance with legislation. For Flavius Mareka and Thekwini this is a regression compared to the previous year, while for Nkangala it is the same outcome as in the previous year.
- The financial statements of Boland, Buffalo City, College of Cape Town, Ekurhuleni West, False Bay, Northern Cape Rural and West Coast TVET colleges received unqualified opinions with no findings on compliance with legislation. For Ekurhuleni West and Northern Cape Rural this is an improvement since the previous year, while for the other aforementioned colleges it is the same outcome as in the previous year.

The audit outcomes of the remaining 22 TVET colleges had not been finalised or received as at 14 August 2015, the cut-off date for the inclusion of audit outcomes in this report.

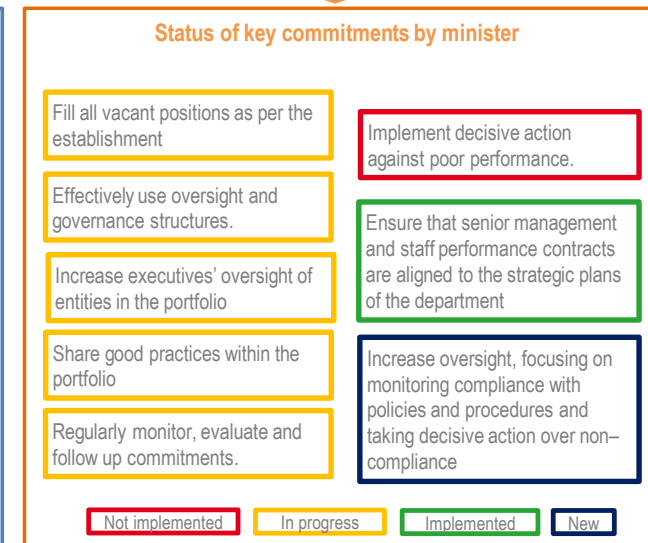
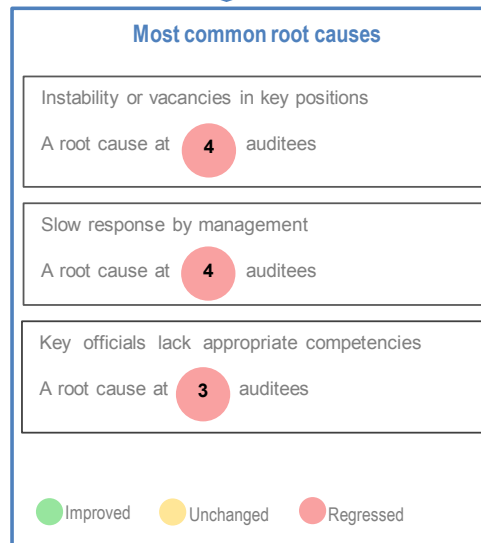
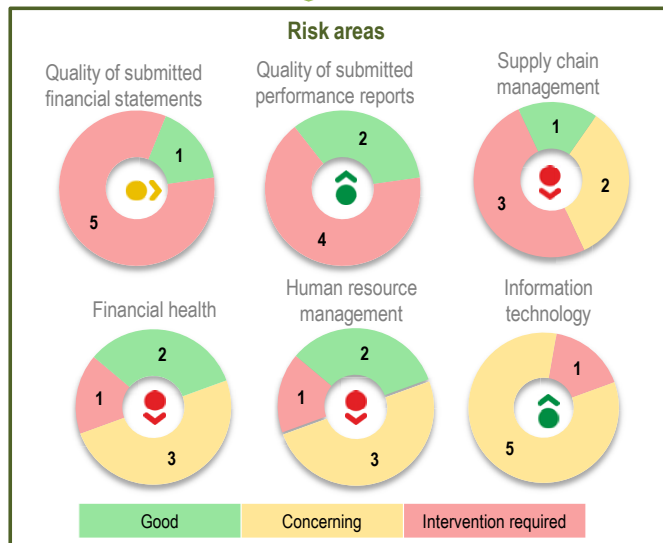
Vote 18: Labour



1
To improve the **audit outcomes** ...
... the **risk areas** and ...

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

3
... attention is given to the **key controls**, ...
... and that **commitments** are honoured.



Auditees included in the portfolio

- *Department of Labour (DoL)*
- **Compensation Fund (CF)**
- *Council for Conciliation Mediation and Arbitration (CCMA)*
- *National Economic Development and Labour Council (NEDLAC)*
- *Sheltered Employment Factories (SEF)*
- *Unemployment Insurance Fund (UIF)*

The total budgeted expenditure by auditees in the portfolio for the 2014-15 financial year was R20 494 million. (DoL: R2 527 million, CF: R5 209 million, UIF: R11 830 million, SEF: R192 million, NEDLAC: R34 million, and CCMA: R702 million)

The main budgeted expenditures were payments to beneficiaries of R4 251 million for CF, payments to beneficiaries of R7 558 million for UIF, and employee costs of R1 008 million for DoL.

Overall audit outcome

The regression in the overall audit outcome was a result of the SEF and NEDLAC receiving qualified audit opinions on their financial statements, a regression from the unqualified opinions in the previous year. The UIF also regressed as it had findings on predetermined objectives where it had none in the previous year.

The main findings from our audit are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of the CF, SEF and NEDLAC included the following material misstatements:

- We could not obtain sufficient appropriate audit evidence that the information reported in the financial statements of the CF for the current and previous years is accurate and credible for the following areas:
 - revenue and receivables from non-exchange transactions
 - allowance for impairment
 - revenue and receivables from exchange transactions
 - benefits paid
 - provision for outstanding claims and decrease in the provision for outstanding claims

- capitalised value of pensions and pension actuarial adjustments
 - payables from exchange transactions
 - payables from non-exchange transactions
 - employee-related costs
 - lease rentals on operating leases
 - commitments
 - irregular expenditure.
- The CF, NEDLAC and SEF did not comply with the requirements of the applicable accounting standards for some of the following areas:
 - revenue and receivables from exchange transactions
 - revenue and receivables from non – exchange transactions
 - cost of sales
 - fair value adjustments
 - contingencies
 - related party transactions
 - property, plant and equipment
 - leased assets.
 - The financial statements of the CF, SEF and NEDLAC were also materially misstated due to the cumulative effects of numerous individually immaterial, uncorrected misstatements in some of the following areas:
 - commitments
 - accruals
 - intangible assets
 - trade and other payables
 - non-current portion of the finance lease liability
 - cash and cash equivalents
 - operating expenses
 - finance costs
 - provisions
 - receivables from exchange transactions
 - payables from exchange transactions.

- The CF, SEF and NEDLAC further did not provide sufficient appropriate audit evidence for some of the following areas:
 - previous period errors
 - contingencies
 - cash flow statements
 - property, plant and equipment.

The DoL and CCMA submitted financial statements for auditing that contained material misstatements in some of the following areas: non-current assets, receivables, clearing accounts, lease commitments ommittments.

The DoL and CCMA received unqualified audit opinions only because they corrected all the misstatements that we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Human resource processes for filling vacancies and appointing adequately skilled staff should be improved
- Proper record keeping processes should be designed and implemented to ensure that complete and accurate information is available.
- Internal monitoring controls should be improved and implemented by exercising effective leadership to ensure credible financial reporting.

Annual performance report

The published APR of the DoL, CF, SEF and UIF included information on their performance against predetermined objectives that was not useful or reliable for the following programmes and objectives that we had selected to audit.

Auditee	Programme/objective	Not useful	Not reliable
DoL	Inspection and enforcement services	x	x
	Public employment services	x	x
	Labour policy and industrial relations	x	x
CF	Operations management	x	x
	Human resource directorate	x	x
SEF	Decent employment through inclusive growth	x	
UIF	Promote UIF services	x	

Auditee	Programme/objective	Not useful	Not reliable
	Fund poverty alleviation scheme		x

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Implement processes and procedures, and assign responsibilities to individuals, to collate and verify source documentation, quarterly reports and reasons for variances on performance against predetermined objectives.
- Design and implement adequate system controls and enhancements to ensure that data is accurately recorded, stored and reported.

Compliance with legislation

We identified material non-compliance with legislation in the following areas:

- The DoL did not clear all suspense accounts as required by treasury regulations.

The material non-compliance with legislation, below was identified in the current and previous period:

- The DoL, CF, NEDLAC, CCMA and SEF did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure.
- The CF, NEDLAC and SEF did not always follow competitive bidding processes or did not request three quotations as prescribed. The CF did not always advertise invitations for competitive bidding in the government tender bulletin as prescribed and did not maintain the required effective and efficient SCM system for acquiring goods and services. NEDLAC made awards to bidders that did not submit a declaration on whether they were employed by the state or connected to any person employed by the state.
- The DoL, CF, and NEDLAC did not take effective and appropriate disciplinary steps against officials who incurred or permitted irregular expenditure.
- The CF, NEDLAC and SEF did not establish systems, procedures and processes to ensure efficient and effective cash management. This included collecting revenue when it was due and pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable were collected. At the CF, employers were not correctly assessed according to the tariff of assessment. Penalties incurred for late submissions and interest due on all arrears accounts were not levied according to the requirements of the compensation of injury and deceased act (COIDA).
- The CF issued loans to service providers without the approval of the minister of finance or an official authorised by the minister.

The main contributor to the total irregular expenditure of the portfolio of R448 million (R19 million identified by entities in the portfolio and the balance was

identified through the audit process) is CF who incurred R414 million. This irregular expenditure was a result of contravening supply chain legislation, overpaying claims and loans issued by the CF.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Processes and procedures to monitor compliance with legislation should be developed and implemented, including establishing a compliance framework.
- Relevant training interventions should be developed and facilitated to ensure understanding of the legislative requirements.
- Daily and monthly controls should be implemented to hold officials accountable and pro-actively track and prevent non-compliance with legislation and irregular expenditure.

Root causes

The executive authority, accounting officer and senior management should address the following root causes of poor audit outcomes and inadequate controls as follows:

- Implement effective human resource management processes to ensure that key management vacancies are filled with appropriately skilled and qualified personnel. This will enable the portfolio to develop a strong and effective control environment and workforce.
- Incorporate consequence management, and develop and implement adequate action plans in a timely manner to address control deficiencies and ensure compliance with relevant standards at all entities. This will ensure that staff is held accountable for non-performance, transgressions of legislation, and the failure to implement internal and external audit recommendations.

Impact of key role players on audit outcomes

The first and second level of assurance should be improved by implementing consequence management for poor performance and addressing relevant internal control deficiencies.

We met with the minister four times in the past year and these interactions had no impact on the overall audit outcomes. An action plan was developed late in the year and a task team was established to assist with the turnaround strategy at the CF. Decisive action for poor performance had not been implemented. This assessment, as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We agreed on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and IT Concerns

Financial health

The accounting officer and senior management should address the following matter, which could affect the financial health and service delivery monitoring in the portfolio:

- The CF, NEDLAC and SEF should tighten their revenue collection and manage their debtor collection period to ensure that money due and owed is collected in a timely manner and that impairments are reduced.

Information technology management as a specific cause of audit outcomes

The design and implementation of controls, mainly in the focus areas of security management, user access management and IT service continuity is still a challenge. Furthermore, the information system implemented at CF did not support the entity's operations and financial functions and manual procedures were not effective to ensure that credible and reliable information is available resulting in the material misstatements to the financial statements, performance information and non-compliance with laws and regulations. The most urgent intervention required to address some of the shortcomings is ensuring that the users' access rights are compatible with their functions.

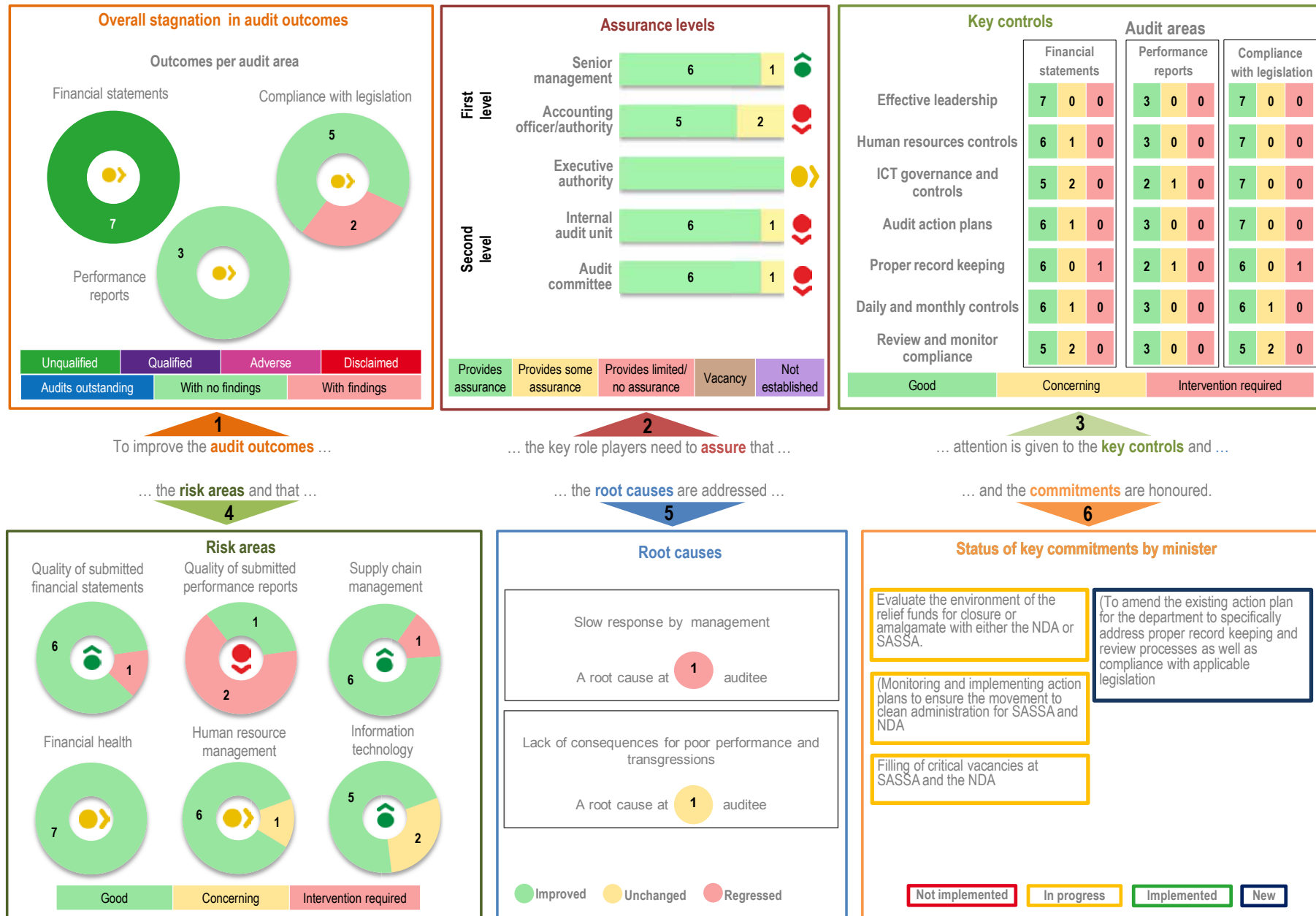
Entities included in the portfolio, but not audited by the Auditor-General of South Africa

Productivity South Africa (PSA) is included in the minister's portfolio.

The entity has maintained its overall audit outcome from the previous year.

- The auditee received an unqualified audit opinion, with material findings on the quality of the APRs and compliance with legislation.

Vote 19: Social development



Auditees included in the portfolio

- *Department of Social Development (department)*
- *Disaster Relief Fund*
- *National Development Agency (NDA)*
- *Refugee Relief Fund*
- *Social Relief Fund*
- *South African Social Security Agency (SASSA)*
- *State President Fund*

The total budgeted expenditure of the department for the 2014-15 financial year was R128,6 billion. The main areas of expenditure were as follows:

• Employee cost	R380,1 million
• Goods and services	R386,2 million
• Transfer payments:	
- Social assistance grant expenditure	R120,7 billion
- Other transfers and subsidies	R7,1 billion
• Capital expenditure	R17,8 million

Overall audit outcome

The audit outcome of the portfolio remained the same as in the previous year. The department retained its unqualified opinion with no findings, while SASSA and the NDA retained their unqualified opinions with findings. The department and SASSA (the agent of the department for the social assistance grant value chain) maintained the processes for, and controls over, social assistance grants expenditure and debtors. Furthermore, the Disaster Relief, Refugee Relief, Social Relief and State President Funds retained their unqualified opinions with no findings on compliance.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

SASSA submitted financial statements for auditing that contained material misstatements in the area of operating leases. SASSA received an unqualified audit opinion only because they corrected the misstatements identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement proper record keeping and review processes.
- Review and monitor compliance with the reporting framework in compiling annual financial statements that are free from material misstatements.

Annual performance report

SASSA and the NDA submitted APRs for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the audit process. The Disaster Relief, Refugee Relief, Social Relief and State President Funds are not subject to the PFMA, which means that reporting on predetermined objectives is not a legal requirement and was therefore not audited nor reported on. As such, the key controls relating to predetermined objectives were not assessed for the four funds.

The following control should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditees:

- Implement proper record keeping and review processes that assist in the preparation of performance reports that are supported by reliable information.

Compliance with legislation

We identified material non-compliance with legislation by SASSA and the NDA in the following areas:

- The NDA did not provide sufficient and appropriate audit evidence to confirm that a contract had been awarded to bidders based on points scored on criteria stipulated in the original invitation; and did not always apply the preferential procurement point system in the procurement of goods and services.
- SASSA did not take reasonable steps to prevent irregular expenditure and take appropriate disciplinary steps against those responsible for it.
- SASSA did not implement adequate controls to ensure the proper management of payments to a service provider for additional work performed on the social grants re-registration.
- SASSA's internal audit unit did not evaluate the reliability and integrity of financial and operational information.

SASSA incurred R40,8 million in irregular expenditure, of which R33,5 million was identified by SASSA's management. This represented 68% of the total amount incurred by the portfolio and is a decrease of 42% in irregular expenditure compared to the previous year. The irregular expenditure related mainly to SCM processes, which included procurement without competitive

bidding or quotation processes and non-compliance with procurement process requirements and legislation on contracts.

The NDA incurred R1,7 million in irregular expenditure, of which R1,6 million was identified by the NDA's management. This represented 3% of the total amount incurred by the portfolio and is a decrease of 63% in irregular expenditure compared to the previous year. The irregular expenditure related mainly to unfair or uncompetitive procurement processes in SCM.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The accounting authority of SASSA must implement proper record keeping and review processes to ensure that applicable legislation and internal controls are adhered to and supported by appropriate documentation.
- The accounting authorities of SASSA and the NDA must ensure the adequate and regular review and monitoring of compliance with applicable legislation.

Root causes

The accounting officer and authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Consequences for poor performance and transgressions should be appropriately managed.
- Management, supported by internal audit, should be more responsive in overseeing the quality of the submitted financial statements and performance reports. The accounting authority of the NDA must ensure that performance indicator descriptions are well defined according to the criteria of being specific, measurable, achievable, relevant and time bound (SMART). The reports should be reviewed by the appropriate level of management.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring stability at accounting authority level at the NDA and at senior management level at SASSA. The NDA and SASSA accounting authorities and SASSA senior management should effect improvements by implementing the recommendations and addressing the root causes noted by the internal and external auditors to avoid repeat findings on the financial statements, performance reporting as well as procurement and contract compliance.

We met with the minister three times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that the minister had succeeded in maintaining the portfolio's audit outcomes. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

The chairperson of the portfolio committee committed to improving the audit outcome of the portfolio and made the following commitments:

- Monitor the implementation of action plans to ensure the movement to clean administration for SASSA and the NDA as well as sustaining the audit outcome of the department.
- Monitor the filling of critical vacancies in the portfolio.

Risks to financial health and information technology

Financial health

We reported no matters relating to risk indicators of financial health in the audit reports; however, the Disaster Relief, Refugee Relief, Social Relief and State President Funds all had going concern issues that were emphasised at year-end, due to the department's intention to restructure the operations of the funds. These going concern issues did not relate to financial health indicators.

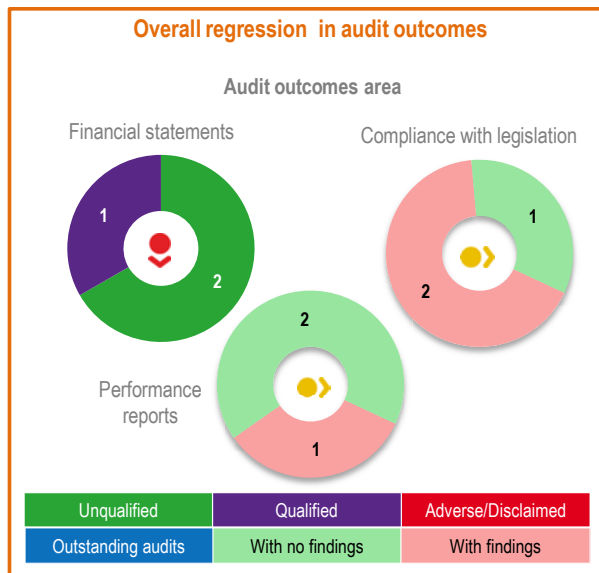
Information technology

Although the IT outcome of the portfolio improved, further improvement is still needed in some areas, as outlined below:

- Although SASSA and the NDA had improved audit outcomes, a chief information officer must be appointed..

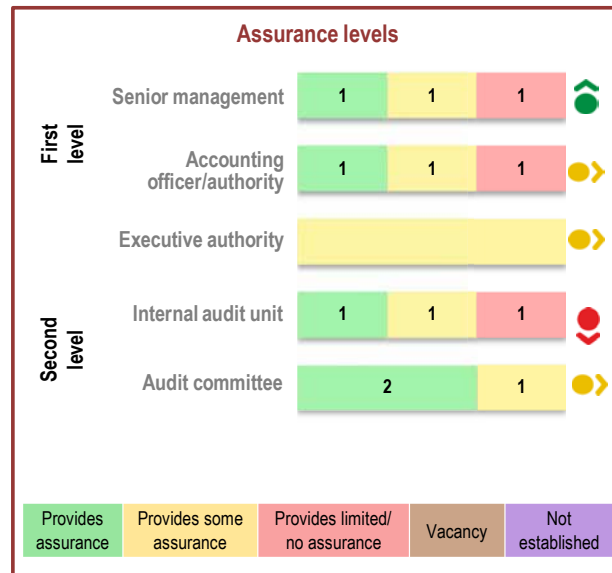
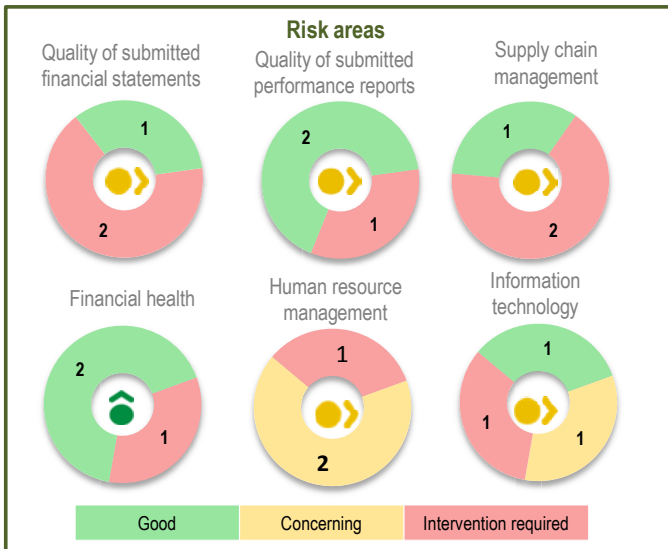
- Furthermore, SASSA had not implemented adequate controls around IT security management.
- The appointment of the new chief information officer at the department has elevated the implementation of proper IT controls.
- The management team of SASSA and the NDA has committed to implementing corrective measures to ensure that IT controls are adequately designed and implemented.
- Although the department implemented a system with adequate controls to capture, approve and assure the quality of information on non-profit organisations, reporting on key indicators was still done manually.
- SASSA had a high number of IT security management vacancies.

Vote 20: Sport and recreation



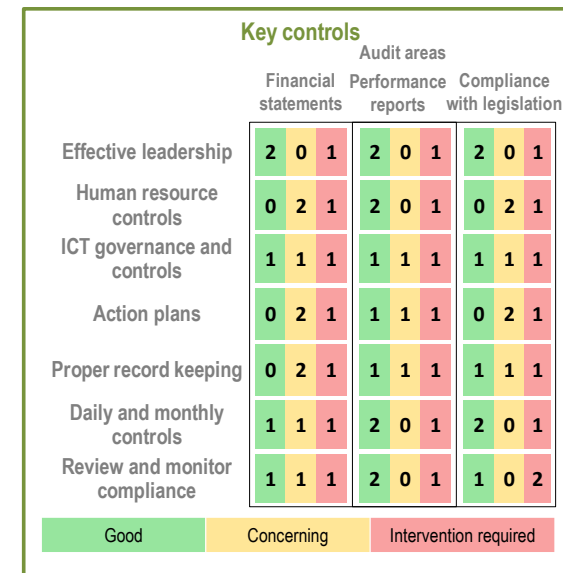
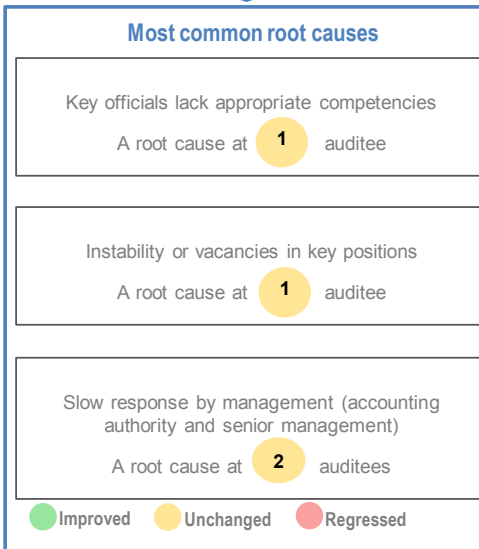
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... the **risk areas** and that ...



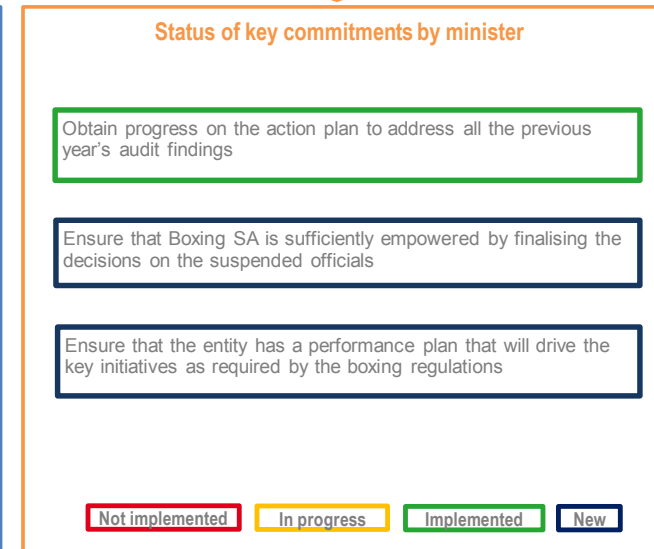
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... the key role players need to **assure** that ...

... the **root causes** are addressed ...



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

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Department of Sport and Recreation South Africa (SRSA)*
- *Boxing South Africa (BSA)*
- *South African Institute for Drug-Free Sport (SAIDS)*

The total budgeted expenditure of the department in the portfolio for the 2014-15 financial year was R970,4 million. The main areas of expenditure were:

- Transfer payments R698,8 million
- Goods and services R181,2 million
- Employee cost R88,2 million
- Capital expenditure R2,2 million

Overall audit outcome

The regression in the overall audit outcome was caused by the BSA receiving a qualified audit opinion due to a lack of adequate systems to record expenditure and revenue. The SRSA maintained its clean audit status, while the SAIDS received an unqualified opinion with findings on compliance with laws and regulations – as was the case in the previous year.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of the BSA included the following material misstatements:

- The BSA disclosed sanctioning fees as revenue but we could not obtain evidence to support the value at which the revenue and its respective receivables balance was disclosed in the financial statements. This was as a result of a lack of systems to record revenue and collect receivables due.
- The BSA had inadequate systems for recording and monitoring payments to suppliers, and we could not obtain evidence to support the value of payables disclosed in the financial statements.

The SAIDS submitted financial statements for auditing that contained material misstatements in the areas of irregular expenditure and commitments. The SAIDS received an unqualified audit opinion only because they corrected the misstatements. The BSA could not make the necessary corrections because supporting documents to determine the understatement of revenue and payables were not available.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Proper record keeping and review processes should be implemented.
- The leadership must oversee the financial statements and internal controls.

Annual performance report

We raised no material findings on the APR of the SRSA and the SAIDS.

The APR of the BSA included information on their performance against predetermined objectives that was not reliable for the following programmes selected for auditing:

Auditee	Programme	Not useful	Not reliable
BSA	Governance and administration		X
	Marketing, branding, communication and event coordination		X

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the BSA:

- Proper record keeping and review processes should be implemented.
- Performance reports should be prepared that are supported by reliable information.
- The leadership should oversee performance reporting.

Compliance with legislation

We identified material non-compliance with legislation at the BSA and the SAIDS in the following areas:

- Both awarded contracts to suppliers who had not submitted tax clearance certificates or who had not declared their interest in the client.
- The BSA did not submit a strategic plan covering the period 2012-13 to 2016-17 to the board for approval.
- The BSA procured goods and services with a value between R10 000 and R500 000 without obtaining at least three quotations.
- The BSA did not have an approved human resource plan.
- The internal audit unit at the BSA did not evaluate financial and performance information.

- The audit committee at the BSA did not review compliance with legal and regulatory requirements.

The BSA incurred R1 920 million in irregular expenditure, which is an increase of 108% since the previous year; and R386 343 in fruitless and wasteful expenditure, which is an increase of 117% since the previous year. This represents 65,8% and 100%, respectively, of the total amount incurred by the portfolio.

The SAIDS incurred irregular expenditure of R995 000, which is an increase of 6% since the previous year. This amount represents 34,2% of the total amount incurred by the portfolio.

In total, 89% of the irregular expenditure reported by the BSA was identified during the audit process, while 100% of the irregular expenditure reported by the SAIDS was identified by the auditors. Furthermore, 97% of the fruitless and wasteful expenditure reported by the BSA was identified during the audit process, while 3% of the fruitless and wasteful expenditure reported was identified by the entity.

All (100%) of the irregular expenditure incurred by the BSA and the SAIDS related to SCM. The root cause of this was a lack of adequate controls to ensure compliance with a procurement process aligned to the National Treasury's requirements. The picture remains the same as in the previous year and will not change until the entities have implemented adequate controls relating to the supply chain.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The accounting authority should oversee compliance with applicable laws and regulations as well as internal control.
- Senior management should review and monitor compliance with all applicable laws and regulations.
- The internal audit unit should identify and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

Root causes

The accounting officer and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Action plans should be developed that will address the audit findings; and the oversight committees should enforce the action plans.
- Management should be more responsive in overseeing the quality of the submitted financial statements and performance reports to ensure that

performance indicator descriptions are reviewed by the appropriate level of management.

- An organisational review process was undertaken and the SRSA committed to completing this process before filling posts. However, the process took longer than anticipated, due to consultations with organised labour and the Department of Public Service and Administration. The SRSA has now resolved to lift the moratorium and to start filling all post.

Impact of key role players on audit outcomes

The first and second level of assurance providers at the SRSA provided the appropriate level of assurance and this should be maintained.

The first and second levels of assurance at the BSA and the SAIDS should be improved by ensuring stability at the level of chief executive officer and chief financial officer. The chief executive officer and senior management must implement the recommendations and address the root causes noted by the external and internal auditors to avoid repeat findings on the financial statements, performance reporting as well as procurement and contract management.

We met with the minister once in the past year and this interaction had some impact on the audit outcomes. The reason for our assessment is the SRSA maintaining its clean audit status and the facilitating of action to address internal control deficiencies at the BSA. However, these actions did not improve the audit outcome of the entity, while there was no movement in the audit outcome of the SAIDS.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

The portfolio committee chairperson made the following commitments:

- Monitor the progress made by the BSA in appointing a chief executive officer.
- Review the strategic plan of the BSA and ensure that it is aligned to the available budget.
- Obtain the action plan to address audit findings for the BSA and the SAIDS.

Risks to financial health and information technology

Financial health

The BSA and the SAIDS should improve the management of their working capital to ensure that creditors are paid within the agreed time frames to avoid interest being charged. Furthermore, they should implement controls to ensure that money owed to them is collected timeously. The BSA should improve the management of budgets to ensure that expenditure does not exceed the budget.

Information technology management as a specific cause of audit outcomes

IT controls surrounding the financial systems were generally well designed, implemented and operating effectively at the SRSA.

The BSA had repeat findings on the lack of implementing controls relating to IT service continuity and IT security.

The following controls should be strengthened to create a sound IT environment that supports the mandate of the entity:

- An IT governance framework should be implemented.
- Action plans must be developed to address the previous year's findings.
- Formal controls over IT service continuity management should be implemented to ensure the reliability of the system and the availability, accuracy and protection of information.

Vote 21: Correctional services

Overall stagnation in audit outcomes

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

Assurance levels

Level	Role	Assurance level
First level	Senior management	Provides limited/no assurance
	Accounting officer	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides limited/no assurance
	Audit committee	Provides some assurance

Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

246

1
To improve the **audit outcomes** ...
... the **risk areas** and that ...
4

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

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

Risk areas

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

Good Concerning Intervention required

Most common root causes

Instability or vacancies in key positions	●
Key officials lack appropriate competencies	●
Lack of consequences for poor performance and transgressions	●

● Improved ● Unchanged ● Regressed

Status of key commitments by minister

The minister committed to be available for all the quarterly key control meetings and also to drive the implementation process of his commitments as well as to report to AGSA on quarterly basis

Commitments by previous minister:

- Ensure that all long-outstanding debtors are prioritised and paid timeously
- Strengthen internal controls
- Address internal control deficiencies in IT, Performance reporting and human resources
- Enhance the impact on service delivery

Commitments by current minister:

- Track on the progress made on implementing action plans to address prior year audit findings
- Implement a system for performance information

Not implemented In progress Implemented New

Auditee included in the portfolio

■ Department of Correctional Services

The total budgeted expenditure of the department for the 2014-15 financial year was R19,7 billion. The main areas of expenditure were as follows:

- Employee cost R13,3 billion
- Goods and services R5,3 billion
- Transfer payments R82,6 million
- Capital expenditure R1,1 billion

Overall audit outcome

There has been no improvement in the overall audit outcome since the previous year. While the department did not receive any qualification on assets in the current year, it was qualified on contingent liabilities.

The main findings arising from our audit as reported in the audit report, which should be addressed to improve the overall audit outcome, are as follows:

Financial statements

The published financial statements included the following material misstatement:

- Contingent liabilities: The department did not have an adequate system and processes to record and maintain a register for claims against the department. No confirmation was obtained from the state attorney regarding the completeness and accuracy of closing balances.

The department submitted financial statements for auditing that contained material misstatements relating to the appropriation statement, receivables, goods and services, commitments and irregular expenditure as well as contingent liabilities. With the exception of contingent liabilities, the department could correct the misstatements identified by the auditors. The department's inability to provide supporting records for contingent liabilities resulted in the financial statements receiving a qualified audit opinion.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Develop and monitor the implementation of action plans to address internal control deficiencies.

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Annual performance report

The published APR included information on performance against predetermined objectives that was not useful and/or reliable for the following programmes we had selected to audit:

Auditee	Programme	Not useful	Not reliable
Department of Correctional Services	Incarceration		X
	Rehabilitation	X	X

The department submitted an APR for auditing that contained material misstatements.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the department:

- Develop and monitor the implementation of action plans to address internal control deficiencies in performance reporting.
- Implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of performance information.
- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that staff members are trained on the requirements of the FMPPI.

Compliance with legislation

We identified material non-compliance with legislation in the following areas, which were also reported in the previous year:

- The accounting officer did not ensure that the department had and maintained effective, efficient and transparent systems of risk management and internal control with regard to performance information and management.
- Specific and appropriate information systems were not adequately implemented and operational to enable the department to monitor the progress made towards achieving the goals, targets and core objectives indicated in the strategic or annual performance plan.

- The internal audit function did not assess the operational procedure and mechanisms for monitoring transfers made and received.
- The audit committee was not properly constituted, as it consisted of only two members for six months of the financial year. The committee did also not review the department's compliance with legal and regulatory provisions.
- Effective steps were not taken to prevent irregular expenditure.
- Effective and appropriate steps were not always taken to collect all money due.
- Funded vacant posts were not filled within 12 months.
- Persons in the service of the department whose close family members, partners or associates had a private or business interest in contracts awarded by the department failed to disclose such interest.

The department incurred R164 million in irregular expenditure and R27 million in fruitless and wasteful expenditure in the current year.

Irregular expenditure resulted from the contravention of SCM legislation and only 1% of this irregular expenditure was identified by the auditee, while 99% (72% in the previous year) was identified during the audit process and not detected by the department's monitoring processes. All irregular expenditure was incurred as a result of non-compliance with SCM legislation.

The fruitless and wasteful expenditure was as a result of payments for sub-standard and incomplete work. A total of 98% of this fruitless and wasteful expenditure was identified by the auditee, while 2% (91% in the previous year) was identified during the audit process and not detected by the department's monitoring processes.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Develop and monitor the implementation of action plans to address compliance with applicable legislation including a process to timely identify irregular expenditure incurred.
- Establish an IT governance framework that supports and enables the department to deliver value as well as improves performance and compliance with legislation.
- The audit committee must ensure that an adequately resourced and functioning internal audit unit is in place, which identifies internal control deficiencies and recommends corrective action effectively.

Root causes

Management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Further investigate and take action against officials found guilty of transgressions.
- Performance agreements of senior staff should include measures that are linked to the audit outcome.
- Develop an action plan and retention strategies to address the vacancy rate.
- Conduct regular training for key officials to ensure that they are competent and up to date with new developments that affect financial and performance information as well as compliance with laws and regulations.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing our recommendations and directing the work of the audit committee and internal audit unit towards evaluating performance information.

We met with the minister twice during the past year and these interactions had some impact on the audit outcome. The minister has adequate insight into the department and oversees the implementation of the department's strategic objectives. The department received an unqualified opinion on assets for the first time in 10 years. The impact that the minister had on the auditee's controls as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister. Furthermore, these engagements with the minister resulted in a national commissioner and a chief financial officer being appointed after year-end.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

The following new commitments were made by the chairperson of the portfolio committee:

- Follow up on how the department is ensuring that the strategic plan and annual performance plans are monitored on a quarterly basis.
- Obtain feedback on management commitments and progress on audit action plans implemented on a quarterly basis.
- Follow up on the progress of, and reporting on, performance information on a quarterly basis.
- Establish an IT governance framework that supports and enables business, delivers value and improves performance.

Risks to financial health and information technology

Financial health

The department's financial health is of concern due to its accrual-adjusted net current liability position as well as a cash shortfall of 1,8% (5,6%, excluding compensation of employees) and a resultant inability to settle all accruals at year-end.

Information technology management as a specific cause of audit outcomes

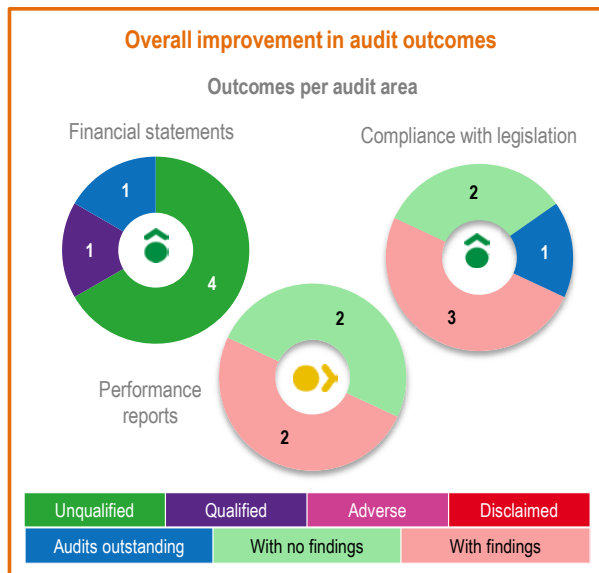
IT controls surrounding the financial systems were generally well designed, implemented and operating effectively. However, little progress had been made with regard to the use of the performance information system. Due to the unavailability of a system, users used manual processes to capture offender information. The government IT officer was involved with the implementation of corrective measures and IT controls.

The department experienced challenges in implementing IT service continuity management and IT governance controls. The department had not developed a disaster recovery plan (DRP) due to the decentralised architecture of the IT environment as well as budgetary constraints that affected the DRP implementation process. Although the department had made improvements in empowering the IT function, there was a high degree of reliance on service providers for IT functions, such as project management of the integrated inmate management system (IIMS) project, application management of admission and release (A&R) as well as IT governance. The department did not have enough skilled IT personnel to conduct the functions currently being performed by the service providers.

The following controls should be strengthened to create a sound IT environment that supports the mandate of the department:

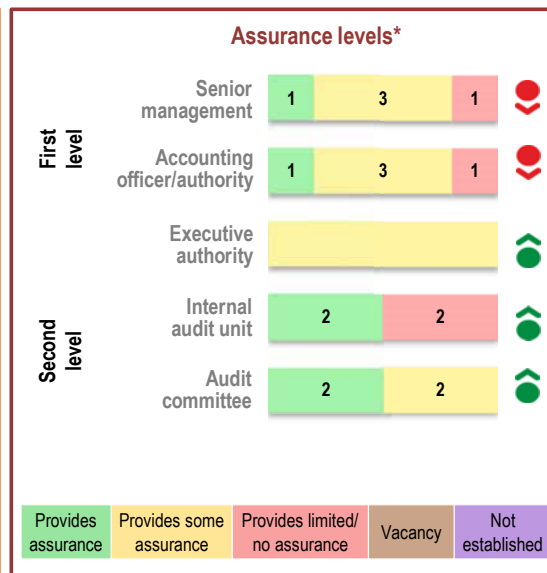
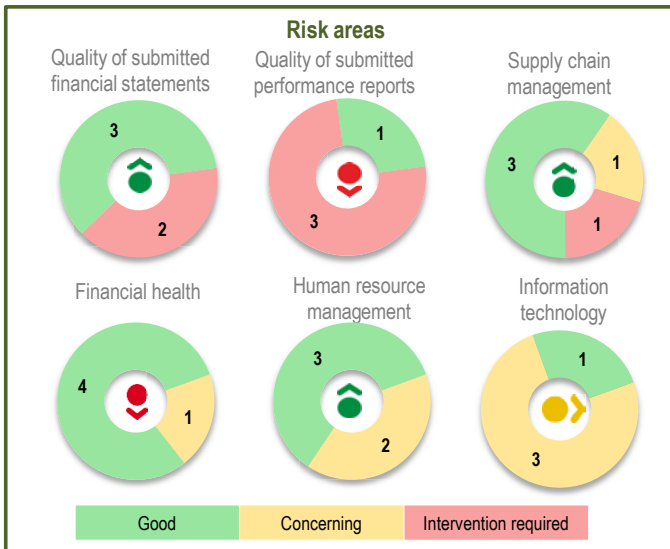
- Implement formal controls over IT service continuity management to ensure the reliability of the systems and the availability, accuracy and protection of information.

Vote 22: Defence and military veterans



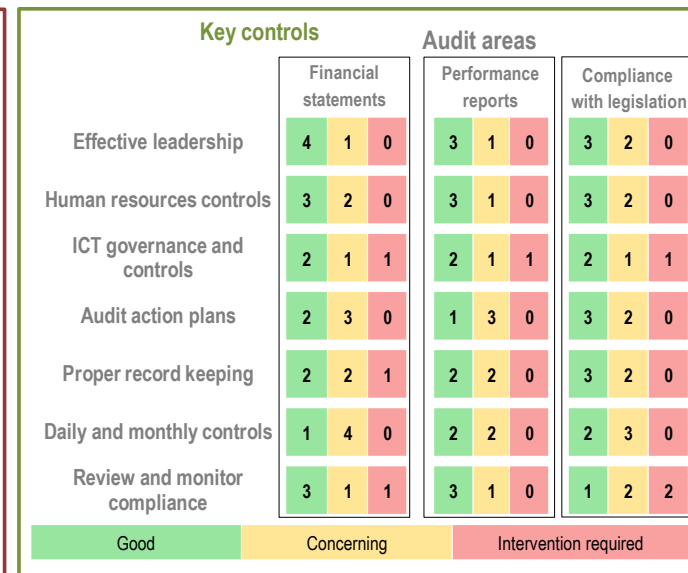
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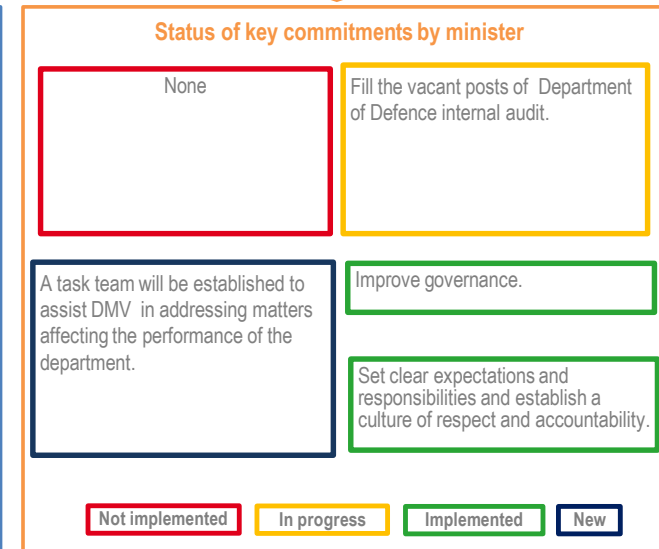
2 ... the key role players need to **assure** that ...

... the **root causes** are addressed ...



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

... and the **commitments** are honoured.



Auditees included in the portfolio

- Department of Defence (DoD)
- Department of Military Veterans (DMV)
- Armaments Corporation of South Africa (Armscor)
- Castle Control Board (CCB)
- South African National Defence Force Fund (SANDF)

The total budgeted expenditure of the department for the 2014-15 financial year was R42,9 billion. The main areas of expenditure were:

- Compensation of employees R22,5 billion
- Goods and services R12 billion
- Transfer payments R7,9 billion
- Capital expenditure R521,9 million

Included in the total budgeted expenditure was R504,1 million for the DMV.

The audit outcome of the Special Defence Account (SDA) is not included. While the audit has been finalised, the impact of the sensitive activities was still under consideration to determine the impact on the audit opinion. As a result, the audit report was not finalised by 14 August 2015, which was the cut-off date for including audit outcomes in this report. This therefore has an impact on the comparability of the information in the graphics, as the SDA has been included in the comparative graphics.

Overall audit outcome

The improvement in the overall audit outcome was caused by the DoD moving from a qualified to an unqualified opinion with findings. The DMV moved from a disclaimed opinion to a qualified opinion. Armscor and the SANDF received clean audit reports, which is an improvement from the previous year.

The main findings from our audits are reported in the audit reports and should be addressed to improve the overall audit outcome. These are as follows:

Financial statements

The published financial statements of the DMV included the following material misstatements:

- We could not obtain enough audit evidence that the department had properly accounted for movable tangible capital assets due to the absence of an accurate and complete asset register. This was a repeat finding.

- The department did not classify payments for goods and services still to be received as prepayments, but incorrectly classified these as transfer payments.

The DMV submitted financial statements for auditing that contained material misstatements in irregular expenditure, assets, goods and services, accruals, commitments and the annual appropriation. Some of these material misstatements were corrected, but the uncorrected misstatements resulted in the department obtaining a qualified opinion.

The DoD received an unqualified audit opinion because it corrected the material misstatements we had identified during the audit process relating to tangible capital assets, goods and services, and irregular expenditure.

These were repeat findings.

The following controls should be strengthened to sustain a control environment that supports reliable financial reporting at both departments:

- Review and monitor compliance with all required laws and regulations.
- Review financial statements and supporting schedules (including the asset register) in time.
- Keep proper records to ensure that accurate and complete financial information is submitted for auditing and that documentation is available on time during the audit.

Annual performance report

The published APRs of the DMV and the CCB included information on their performance against predetermined objectives that was not useful or reliable for the following programmes we selected to audit:

Auditee	Programme	Not useful	Not reliable
DMV	Programme 2: socio-economic support	X	X
	Programme 3: empowerment and stakeholder management	X	X
CCB	Programme 2 : preservation, interpretation and showcasing of the history of the castle	X	
	Programme 4: increased public profile and positive perception across all sectors of the community	X	

The APR submitted by the DoD for auditing contained material misstatements in the reported performance information for the force employment programme. Management avoided material findings on usefulness and reliability by correcting all the misstatements identified during the audit.

The **South African National Defence Force Fund (SANDF)** is not subject to the PFMA, which means that reporting on predetermined objectives is not a legal requirement and was therefore not audited nor reported on.

The Special Defence account does not report separately on predetermined objectives as it falls under DoD.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Develop, implement and monitor action plans to address internal control deficiencies as well as internal and external audit findings.
- Implement effective human resource management to ensure that resources are adequate and sufficiently skilled and that performance is monitored.
- Establish technical indicator data sheets and communicate these to staff at the lower levels to enable them to understand and execute internal control objectives, processes and responsibilities.

Compliance with legislation

We identified material non-compliance with legislation by the DoD, the DMV and the CCB in the following areas:

- The DMV did not have efficient and transparent systems of risk management and internal control for performance information and management.
- The DMV and the DoD did not take reasonable steps to prevent irregular expenditure.
- The DMV did not practise effective asset management, expenditure management, procurement and contract management, consequence management and human resource management.
- The DMV transferred an amount not originally budgeted without the approval of the National Treasury.
- The internal audit unit of the DMV did not perform all the duties required by laws and regulations.
- The internal audit unit of the CCB did not have a three-year strategic plan and the internal audit charter was not signed.

Most of the above were repeat findings.

The DoD incurred R559 million (2013-14: R1,3 billion) in irregular expenditure, a 57% decrease from the previous year. Of this amount, the auditee identified 96%, while 100% related to SCM (not complying with the procurement process).

The DMV incurred R29 million (2013-14: R21,2 million) in irregular expenditure, a 34% increase from the previous year. Of this amount, the auditee identified 0%, while 96% related to SCM (not complying with the procurement process) and 4% related to other irregular expenditure.

The remaining entities in the portfolio (excluding the SDA) incurred R35 million (2013-14: R69 million) in irregular expenditure, of which R34,5 million related to Armscor – a 49% decrease from the previous year. Of this amount, 100% related to SCM.

The defence portfolio (excluding the SDA) incurred R868 790 (2013-14: R304 million) in fruitless and wasteful expenditure, a 99,71% decrease from the previous year. Of this amount, 45% was identified by the auditee, 16,13% related to interest and penalties, and 83,87% related to other matters such as damages and losses, payment of prices above market value and excess purchases of diaries. The DMV incurred 92% of the total fruitless and wasteful expenditure in the portfolio.

All auditees in the portfolio should implement controls to prevent and detect irregular as well as fruitless and wasteful expenditure.

The following controls should further be strengthened to create a control environment that supports compliance with legislation:

- Adequate review and monitoring should take place to ensure compliance with all required legislation.
- Policies and procedures should be updated, communicated and implemented throughout the organisation, including consequence management.

Root causes

The accounting officers or accounting authorities should address the root causes of significant audit findings as follows:

- The accounting officers should ensure that there is stability in key positions to facilitate the adequate review of financial statements before their submission for auditing.
- Consequence management should be implemented to prevent non-compliance with laws and regulations.
- Management should timeously respond to internal and external audit findings, and develop and implement proper record keeping.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring that the accounting officers of the departments and the accounting authority of the CCB develop and monitor action plans to address external audit's recommendations. These plans should be implemented by senior management. Internal audit vacancies should be filled to provide the required assurance to management and those charged with governance. Internal audit should be capacitated to enable them to focus on the review of financial systems and financial information, compliance with laws and regulations and performance reporting.

We met with the minister once in the past year. This interaction had some impact on the audit outcomes, as the minister followed up on the progress with regard to the intangible capital assets of the DoD.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

The chairperson of the portfolio committee made a commitment to obtain audit action plans, obtain and review quarterly financial and performance reports, and monitor consequence management for the departments each quarter.

Risks to financial health and information technology

Financial health

The DMV underspent the appropriation and had an accrual-adjusted net current liability position, which are indicators of financial health concern.

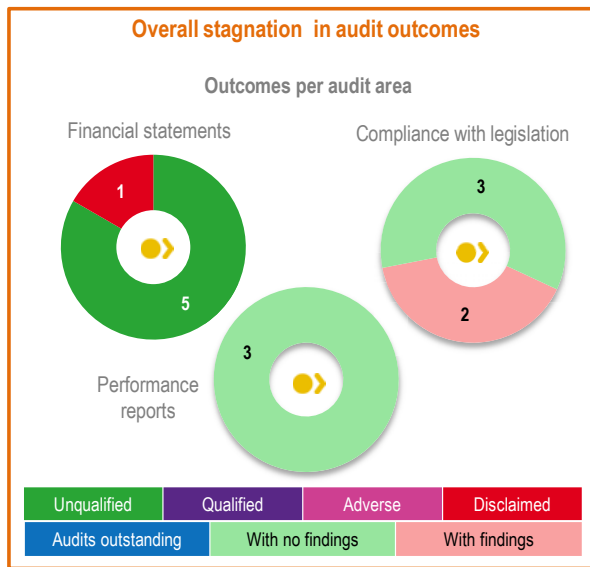
Information technology management as a specific cause of audit outcomes

The DoD established several councils relating to IT. However, it is not clear which of the existing ICT governance councils are responsible for the facilitation and implementation of ICT governance across the department, as the ICT governance policy has not been approved. Furthermore, the position of government IT officer has been vacant since 2010.

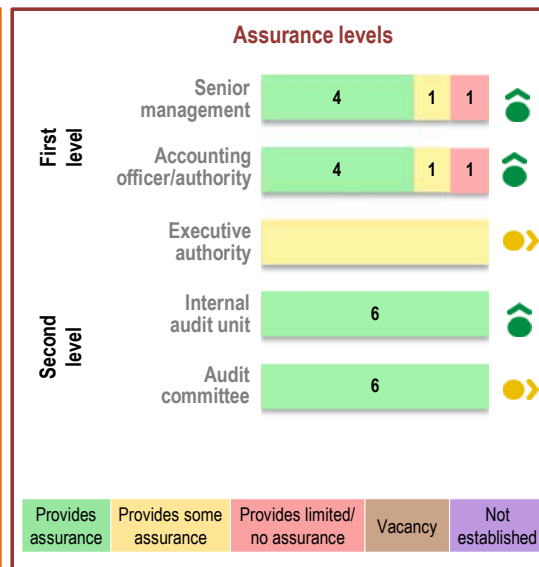
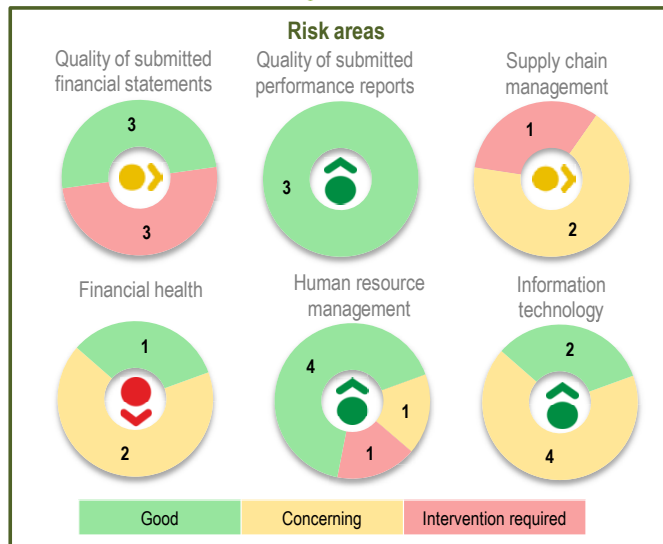
The following controls should be strengthened to create a sound IT environment that supports the mandate of the department:

- The roles, responsibilities and service requirements for ICT should be adequately defined.
- Management should develop action plans to address findings.

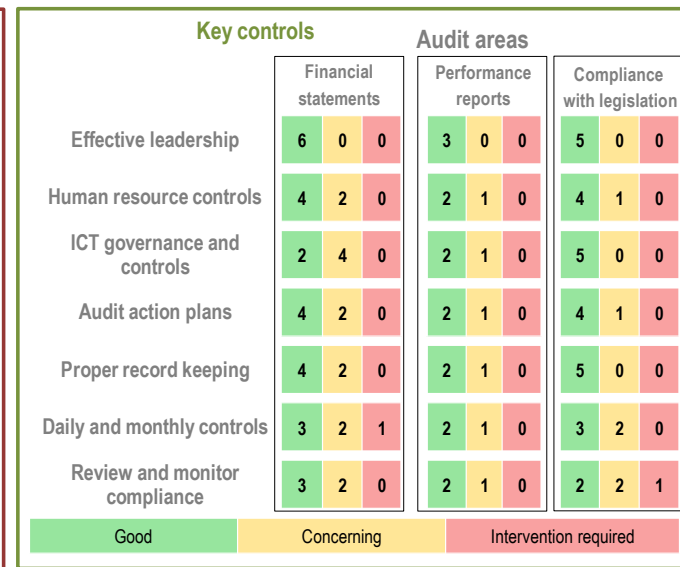
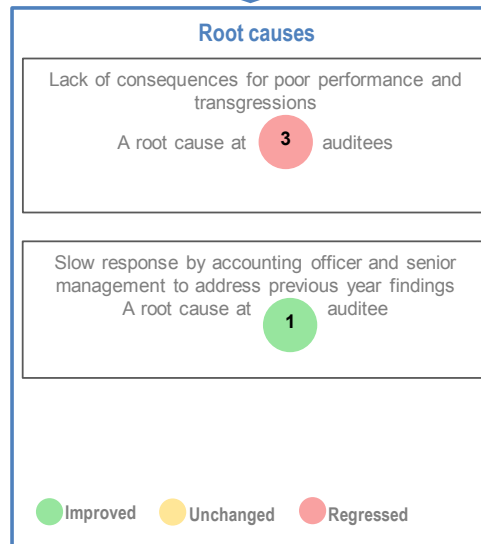
Vote 24: Justice and constitutional development



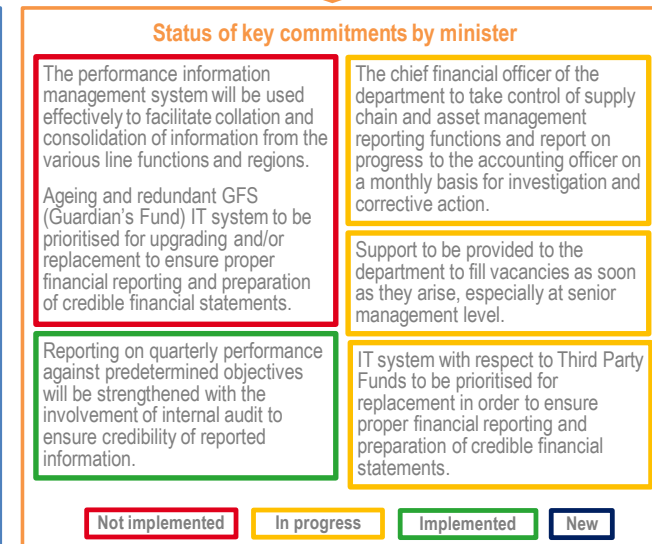
1
To improve the **audit outcomes** ...
... the **risk areas** and that ...
4



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



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



Auditees included in the portfolio

- *Department of Justice and Constitutional Development (DoJ&CD)*
- *Guardian's Fund (GF)*
- *Legal Aid South Africa (LASA)*
- *President's Fund (PF)*
- *Special Investigating Unit (SIU)*
- *Third Party Funds (TPF)*

The DoJ&CD's budgeted expenditure for the 2014-15 financial year was R17,9 billion. The main expenditure was:

- Employee cost R7,4 billion
- Statutory payments R2,7 billion (salaries for judges and magistrates)
- Goods and services R4,3 billion
- Transfer payments R2,3 billion
- Capital expenditure R1,2 billion

The transfer payments were made to LASA, SIU, Public Protector South Africa (PPSA) and the South African Human Rights Commission (SAHRC).

Overall audit outcome

The stagnation in the overall audit outcome was a result of the auditees not addressing some of the material findings raised in the past on compliance with legislation and the continued disclaimer on the TPF.

The GF, LASA and PF maintained their unqualified audit opinion with no other findings. The DoJ&CD and SIU maintained their unqualified audit opinions with findings in the area of compliance with legislation. The TPF continued to receive a disclaimer of audit opinion.

SCM, performance reporting and financial health are not applicable to the GF, PF and TPF, as these are funds administered by the DoJ&CD and these areas are not relevant to these funds.

The National Prosecuting Authority (NPA), which is a programme within the DoJ&CD, was reported separately in previous years. It is now included in the reporting of the DoJ&CD in line with the instruction received from the National Treasury. Exemption was previously granted by the National Treasury allowing the NPA to prepare separate financial and performance reports and to be audited on its own. However, the exemption was only until the 2013-14 financial year.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of the TPF included the following material misstatements:

- The TPF did not have adequate information systems and proper record keeping processes and reconciliations to support the financial results presented in its financial statements to facilitate compliance with the financial reporting framework applicable to the entity. These misstatements resulted in a disclaimer of audit opinion.

The GF, LASA and PF should be commended for the submission of financial statements not requiring material changes. The DoJ&CD and SIU submitted financial statements for auditing that contained material misstatements. The DoJ&CD had corrections in areas of contingent liabilities and expenditure for capital assets. The SIU had material misstatements in the areas of non-current assets, current liabilities, statement of budget comparison and disclosure items. The TPF's submitted financial statements contained material misstatements in the areas of current assets and current liabilities. The DoJ&CD and SIU received an unqualified audit opinion only because they corrected all the material misstatements we identified during the auditing process. The TPF could not make the corrections because of information systems limitations and inadequate record keeping.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The TPF requires a financial reporting system to replace the current administrative system, which currently limits management's ability to supervise and oversee daily reconciliations to support reliable financial reporting.
- The DoJ&CD and the SIU must implement sufficient monitoring controls to ensure compliance with all applicable legislation.
- The DoJ&CD and SIU senior management should establish proper processes to assist in the compilation and preparation of reliable financial statements and to review them prior to submission for auditing.

Annual performance report

All the entities in the portfolio submitted APRs for auditing that did not contain material misstatements.

Compliance with legislation

We identified material non-compliance with legislation by the DoJ&CD and SIU in the following areas:

- The DoJ&CD did not take effective steps to prevent irregular expenditure resulting from non-compliance with SCM prescripts.
- The SIU did not comply with SCM prescripts regarding the various monetary thresholds when issuing invitations to quote and bid. In some instances deviations were approved by the accounting authority even though it was not impractical to invite competitive bids.
- The DoJ&CD did not always settle its creditors within the prescribed period of 30 days from receiving an invoice.
- The DoJ&CD did not fill funded vacant posts within 12 months, as required by legislation.

The majority of the irregular expenditure in the portfolio was incurred by the DoJ&CD for an amount of R45 million. Of the total amount disclosed as irregular expenditure, 99,7% was identified by the auditee. The irregular expenditure incurred was mainly as a result of non-compliance with the prescripts governing the requirements for procurement of items within the various monetary thresholds. Irregular expenditure decreased in 2014-15 year when compared to R84 million incurred in the previous year.

Non-compliance with SCM prescripts remains a risk, specifically at the DoJ&CD and the SIU that had recurring audit findings in that area. The combined amount of the resulting irregular expenditure was, however, less than that of the previous year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management should enhance the current compliance processes and monitor compliance with all applicable legislation, specifically in the area of SCM.
- Officials should be held accountable for transgressions and disciplinary action should be taken against repeat transgressors.
- Tracking registers should be implemented by the DoJ&CD to track the movement of invoices across the various line functions from the date of receipt until date of payment to identify the reasons for delayed payments to suppliers.

Root causes

The leadership and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Greater oversight by accounting officers or accounting authorities and senior managers in implementing systems to facilitate preparing and reviewing annual financial statements prior to submission for auditing.
- Replacing the information systems used to manage third party funds.
- Management should closely monitor and review compliance with legislation and hold officials accountable for transgressions.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing consequence management with respect to repeat audit findings. The development, implementation and monitoring of action plans should be prioritised to ensure that the root causes of findings raised by both internal and external audit are addressed. In this way, repeat audit findings will be avoided and effective corrective actions can be implemented in time.

We met with the minister twice in the past year and these interactions had no impact on the audit outcomes, which remained unchanged from the previous year. The assessment of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

Financial health

The leadership and senior management of the DoJ&CD and the SIU should address the following matters, which could affect the financial health of the respective auditees:

- The DoJ&CD should implement more effective cash flow management to eliminate incurring a bank overdraft and to manage the accruals and payments of creditors, specifically at year-end. This is to address the situation whereby liabilities exceed assets, after taking into account invoices for goods and services received but not yet paid at year-end.
- The SIU should improve its debt-collection rate on debtors to ensure that all amounts billed will be recovered. Non-recovery of debts could put a financial strain on the entity's ability to meet its liabilities in the future.

Information technology management as a specific cause of audit outcomes

The controls over IT security management at the DoJ&CD were inadequate in the areas of patch management and firewalls to protect the network from attacks either internally or from the external environment, thus making data integrity vulnerable to unauthorised changes.

With regards to the GF, the information system is inadequate in servicing the business needs of the GF, which restricts management's ability to exercise oversight of ensuring that reliable financial statements are prepared and that interest and beneficiary liabilities calculations are correct. This results in manual processes being undertaken to mitigate the risks created by the limitations of the information system.

The PF and TPF have challenges in the area of user access management. These are as a result of weaknesses identified in controls surrounding the access rights of users, password controls and administration of user accounts, which would ensure that only authorised users are allowed to access the IT system and only for the rights assigned to their specific positions, thereby minimising the risk of unauthorised changes to information. Furthermore, the disaster recovery plan and controls over back up of information are inadequate for the PF. This could provide challenges in its ability to recover information quickly in the event of a disaster.

Constitutional institutions

The Public Protector South Africa (PPSA) and the *South African Human Rights Commission (SAHRC)* are included in the portfolio, but are not under the authority of the minister.

Overall audit outcome

The PPSA and SAHRC retained their unqualified audit opinions with findings on compliance with legislation.

The main findings from our audits which were reported in the audit reports and need to be addressed to improve the overall audit outcomes are as follows:

Financial statements

The SAHRC should be commended for the submission of financial statements not requiring material changes. The PPSA submitted financial statements for auditing that contained material misstatements in the areas of disclosure items and current liabilities. The PPSA received an unqualified audit opinion only because they corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Senior management should establish proper processes to assist in the compilation and preparation of financial statements, and to review them prior to submission for auditing.

Annual performance report

The PPSA submitted APRs for auditing that contained material misstatements. They avoided material findings in their audit report only because they corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee.

- Management should adequately review the APRs to ensure completeness and accuracy of the information reported prior to submission for auditing.

Compliance with legislation

We identified material non-compliance with legislation at the PPSA and SAHRC in the following areas:

- The PPSA did not submit the 2013-2014 annual report to Parliament within one month after receipt of the audit report.
- The PPSA and SAHRC did not always settle their creditors within the prescribed period of 30 days from receiving an invoice.
- The accounting officer of the PPSA did not ensure that the internal audit function was established for the entire financial year.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The accounting officer of the PPSA should institute processes to monitor compliance with all applicable legislation in order to address the non-compliance identified and to prevent similar findings from recurring in the future.
- Tracking registers should be implemented by the entities to track the movement of invoices across the various line functions from the date of receipt until the date of payment to identify the reasons for delays in payments to suppliers.

Root causes

The leadership and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Greater oversight by the accounting officer and senior managers at the PPSA in implementing systems to facilitate preparing and reviewing the annual financial statements and the APR prior to submission for auditing.
- Management should closely monitor and review compliance with legislation and hold officials accountable for repeat transgressions.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by the development, implementation and monitoring of action plans to ensure that root causes of the findings raised by both internal and external audit are addressed. This will avoid repeat audit findings and allow effective corrective actions to be implemented on time.

We met with the executive authority of the SAHRC three times in the past year and the interactions had some impact on the audit outcome. We met with the executive authority of the PPSA twice in the past year and the interaction had some impact on the audit outcome. The assessment of the executive authorities on the controls of the auditees as well as the status and impact of the

commitments contributed to the assessed assurance provided by the executive authorities.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

Financial health

The PPSA's leadership and senior management should address the following matter, which could affect the financial health of the auditee:

- The institution reported an accumulated deficit at the end of the financial year under review and its cash resources in the short term may be inadequate to meet its commitments to creditors.

Information technology management as a specific cause of audit outcomes

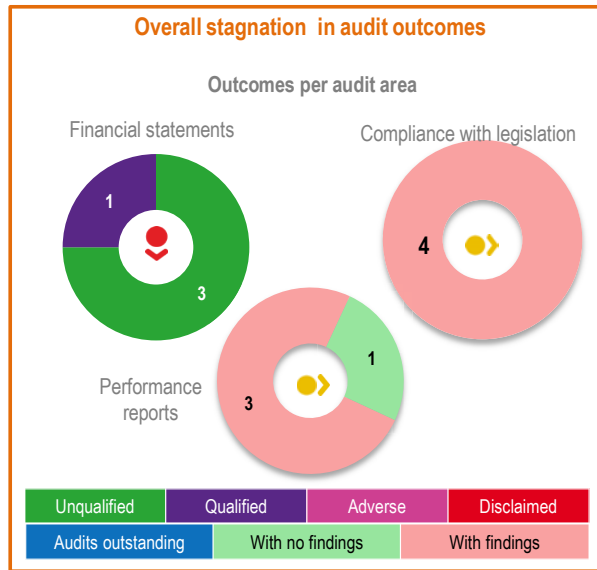
Both the PPSA and SAHRC had challenges in the areas of IT governance, IT security, user access management and IT service continuity. These were due to policies being in draft for a while, which limits the effectiveness of internal controls and the determination of accountability over key business processes. Weaknesses were also identified in controls surrounding the access rights of users, password controls and administration of user accounts, which would ensure that only authorised users are allowed to access the IT system and only for the rights assigned to their specific positions, thereby minimising the risk of unauthorised changes to information. This could lead to security breaches and financial information being compromised due to unauthorised users exploiting the security weaknesses. Furthermore, the disaster recovery plans and controls over back up of information were inadequate, which could provide challenges in the entities' ability to recover information quickly in the event of a disaster.

Entities included in the portfolio but not audited by the Auditor-General of South Africa

We did not audit the *South African Board for Sheriffs* included in the portfolio of the minister.

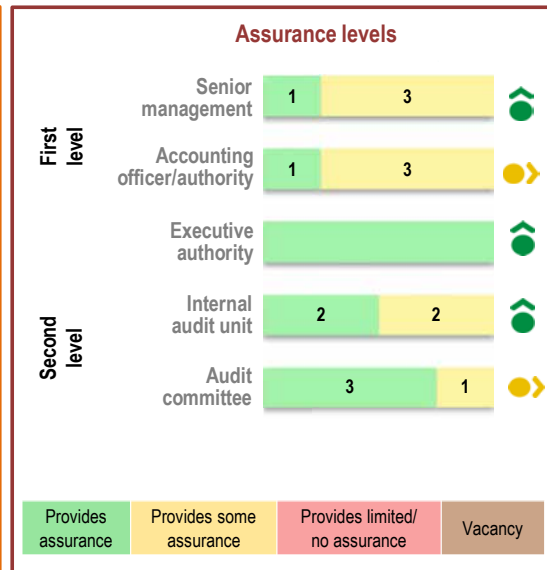
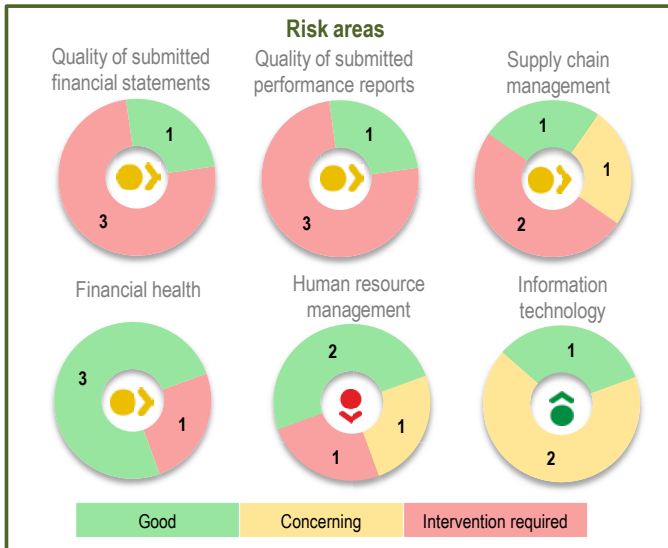
The overall audit outcome of this entity improved to an unqualified report with no other findings.

Vote 25: Police



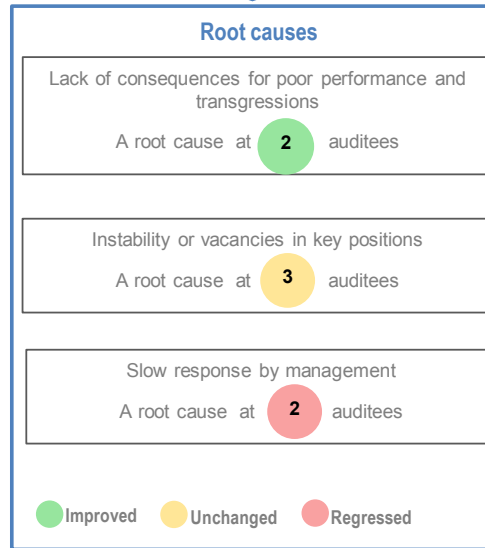
1 To improve/maintain the **audit outcomes** ...

4 ... the **risk areas** and that ...



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

5 ... the **root causes** are addressed ...



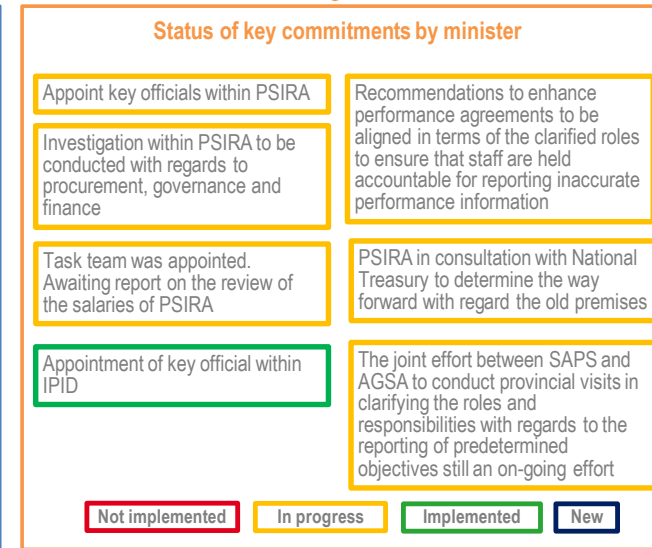
Key controls

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	3	1	0	3	1	0	3	1	0
Human resources controls	2	2	0	2	1	1	2	2	0
ICT governance and controls*	1	2	0	1	2	0	1	2	0
Audit action plans*	1	2	0	1	2	0	1	2	0
Proper record keeping	1	2	1	0	3	1	1	2	1
Daily and monthly controls	3	0	1	1	2	1	3	0	1
Review and monitor compliance	2	2	0	1	1	2	1	2	1

Legend: Good (green), Concerning (yellow), Intervention required (pink).

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

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



Auditees included in the portfolio

- *Department of Police (DOP)*
- *Civilian Secretariat of Police (CSP)*
- *Independent Police Investigative Directorate (IPID)*
- *Private Security Industry Regulatory Authority (PSIRA)*

The total budgeted voted funds of the auditees in the portfolio for the 2014-15 financial year were R73 billion. The main expenditure was employee cost totalling R54,5 billion, goods and services totalling R14,3 billion, expenditure for capital assets totalling R3 billion and transfers to the amount of R899 million.

The CSP had always formed part of the DOP, but became a designated department from the 2014-15 financial year.*

Overall audit outcome

The lack of improvement in the overall audit outcome of the DOP and PSIRA was caused by the complex nature of performance information in this environment. The lack of improvement in the overall audit outcome of the IPID was caused by inadequate implementation of the action plans, leading to inadequate controls and vacancies, which were subsequently addressed.

The qualified audit outcome of the CSP was caused by the fact that it was a newly designated department, and the CSP's own internal controls had not yet been implemented effectively to substantiate commitments, accruals and employee benefits mainly due to the instability of the chief financial officer position.

Our main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of the CSP included the following material misstatements:

- The CSP disclosed the same amount for both commitments and accruals in its first submitted set of financial statements. Due to inadequate internal controls and processes for recording and monitoring commitments and accruals, we could not obtain sufficient appropriate audit evidence that all commitments and accruals had been properly disclosed.
- The CSP could not provide sufficient audit evidence to support the amount disclosed as employee benefits in the financial statements. This was due to

inadequate internal controls and processes for recording and monitoring employee benefits.

The IPID and PSIRA submitted financial statements for auditing that contained material misstatements in the areas of commitments, accruals and the disclosure notes relating to key management personnel and intangible assets, trade and other receivables, trade and other payables, bad debts recovered, provisions, employee costs, operating expenditure, bad debts and contingent liability. The IPID and PSIRA received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit process.

The CSP submitted financial statements for auditing that contained material misstatements in the areas of current assets, cash and cash equivalents, receivables and the disclosure note on key management personnel, which were subsequently corrected. However, the CSP could not make the necessary corrections to commitments, accruals and employee benefits because of a lack of internal controls and systems to support financial statement reporting.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The different levels of assurance providers (management, accounting officer or authority and audit committee) should timeously and adequately review the financial statements and compare them to the supporting documentation.
- Skilled staff members should be appointed in critical posts in the finance sections.
- PSIRA should ensure that its debtors' IT system agrees with the financial system per individual debtor.

Annual performance report

The published APR of the DOP, the CSP and PSIRA included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes we had selected to audit:

Auditee	Programme	Not useful	Not reliable
DOP	Programme 2: Visible policing		x
CSP	Programme 3: Legislation and policy development	x	
	Programme 4: Civilian oversight, monitoring and evaluation		x
PSIRA	Programme 3: Communication, registrations (CRM) and training	x	x

The IPID submitted APRs for auditing that contained material misstatements. It avoided material findings in its audit reports only because it corrected all the misstatements we identified during the audit process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Adequate record-keeping controls should be implemented over the information reported in the APR.
- Management, the accounting officer or authority and the audit committee should timeously and adequately review the information reported in the APR against the supporting documentation.
- Approved policies and procedures should be implemented and monitored and actions taken in cases of non-adherence.

Compliance with legislation

We identified material non-compliance with legislation by the DOP, the CSP, the IPID and PSIRA in the following areas:

- PSIRA did not apply the preferential procurement points system in awarding contracts or quotations.
- The DOP, the CSP and PSIRA did not maintain effective and efficient internal controls regarding performance management, which described and represented how their processes of performance monitoring, review and reporting would be conducted, organised and managed.
- The CSP's audit committee was not in place for the first seven months of the financial year.
- The internal audit function at the CSP did not assess the operational procedure and monitoring mechanisms relating to the transfer of assets received, while the internal audit function at the IPID did not evaluate the reliability and integrity of financial and operational information.
- The IPID's contractual obligations and money owed were not settled within 30 days.
- At the CSP, some employees were appointed without following a proper process to verify the information provided in their applications.
- The CSP did not have an implemented human resource plan.
- PSIRA did not take effective and appropriate disciplinary steps against officials who incurred or permitted irregular expenditure.
- The CSP awarded quotations to suppliers who did not submit original tax clearance certificates.

- PSIRA did not take reasonable steps to prevent irregular as well as fruitless and wasteful expenditure.
- PSIRA did not take effective steps to collect all money due.

The National Treasury ruled on two possible irregular expenditure contracts at the DOP. One contract to the amount of R281 million was deemed to be irregular and was subsequently disclosed as such in the financial statements, while the other was deemed not to be irregular.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management vacancies should be filled at PSIRA.
- The CSP should implement and monitor effective internal controls and processes.
- Oversight of non-compliance should be enhanced.
- Consequence management should be implemented, specifically relating to performance information.

Root causes

The IPID showed an improvement in consequences for poor performance. This included issues that had been resolved in the year under review (steps to prevent irregular expenditure). Although there were still some issues, they had decreased in quantity, as steps had been taken to ensure accountability and instil some measure of consequence management.

Instability and vacancies in key positions were still seen at the CSP, such as an acting accounting officer, chief financial officer and chief director: civilian oversight monitoring and evaluation. At the IPID, although there had been an improvement with regard to the provincial heads and the director: internal audit being appointed, there was still a lack of capacity for most of the year in the internal audit section. The PSIRA still needed to be appointed a chief financial officer.

Management's slow response had regressed within PSIRA and at the CSP.

The accounting officer or authority should address the root causes of the lack of improvement within the DOP, the IPID and PSIRA and the qualification on CSP as follows:

- Staff should be held accountable for non-performance or non-adherence to policies and procedures.
- All key funded vacancies should be filled with skilled staff.

- Effective and efficient internal controls and processes should be implemented and monitored and corrective action taken, where applicable.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by the accounting officer or authority – specifically internal audit at the IPID and the CSP as well as the audit committee at the CSP. Senior management at the DOP, the IPID and the CSP should implement our recommendations and monitor the effectiveness of internal controls. The focus should also be on appointing an accounting officer at the CSP and ensuring stability in the position in the IPID. The accounting authority at PSIRA was appointed recently and should focus on monitoring action plans by management and keeping to their commitments. The accounting officer at the DOP implemented internal controls to address the issues raised; the concern, however, is senior management not adhering to those internal controls.

We met with the minister twice in the past year, and these interactions had limited impact on the audit outcomes. The minister's oversight role was visible at all entities within the portfolio. The nine provincial heads for the IPID had been appointed before year-end, and governance assistance at PSIRA was evident in the appointment of the chair of the accounting authority.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR and the review of the annual performance plan. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

Financial health

The accounting officer or authority should address the following matters, which could affect the financial health and service delivery monitoring and oversight responsibilities in the portfolio:

- The IPID should improve the management of creditor payments to ensure that suppliers are paid on time.
- The PSIRA should improve its management of debt collection to ensure that money owed to the entity is collected on time.

Information technology

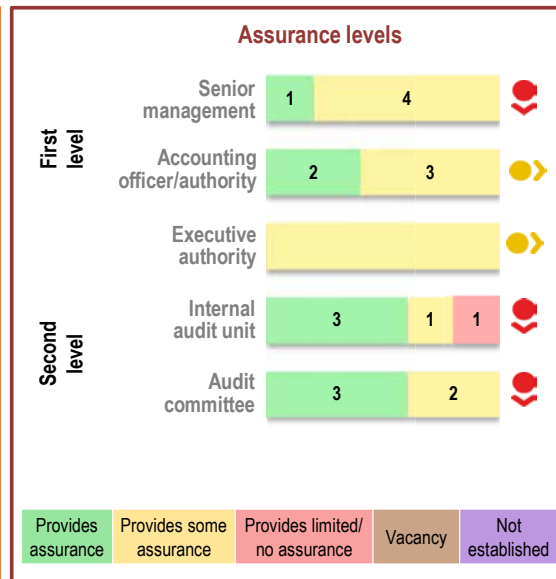
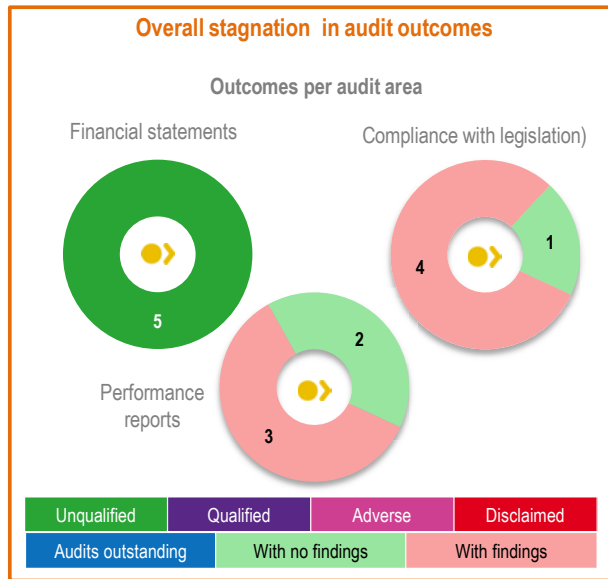
We evaluated IT controls relating to the financial systems of the police portfolio at the DOP, the IPID and PSIRA. Management should focus on the following key findings:

- The DOP's information security policy was out of date, and the review could not be finalised in the 2014-15 financial year.
- The IPID experienced challenges with the implementation of IT controls. Adequate progress had not been made in addressing previous findings, as risks remained in most of the focus areas, even though some corrective measures had been instituted.
- PSIRA was subject to an assessment of internal controls by means of questionnaires. It had made minimal progress in addressing previously raised findings. As a result, risks associated with user access management and IT governance remained. However, PSIRA did review and approve the IT strategic plan and the IT governance charter by the accounting authority during March 2015.

Management should focus on the following challenges:

- Policies had to be presented to the national executive committee, as there was no management approval framework.
- Consultation processes to review and finalise SLAs took long due to the various levels of consultations required.
- User access reviews were not performed periodically due to management not allocating this responsibility to an independent person who also did not have conflicting roles.
- Inadequate internal controls specific to the processes to review and approve policies and procedures .

Vote 26: Agriculture, forestry and fisheries



1 To improve the **audit outcomes** ...

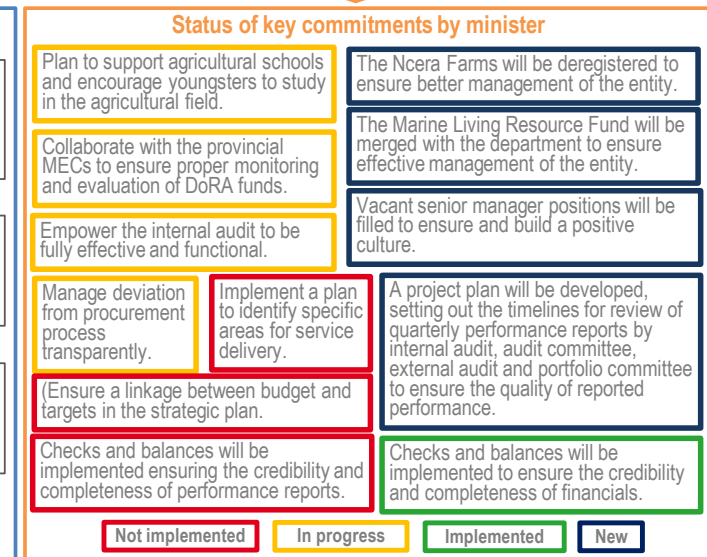
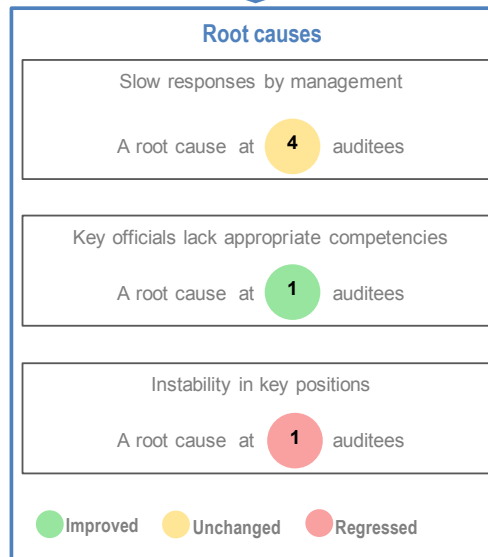
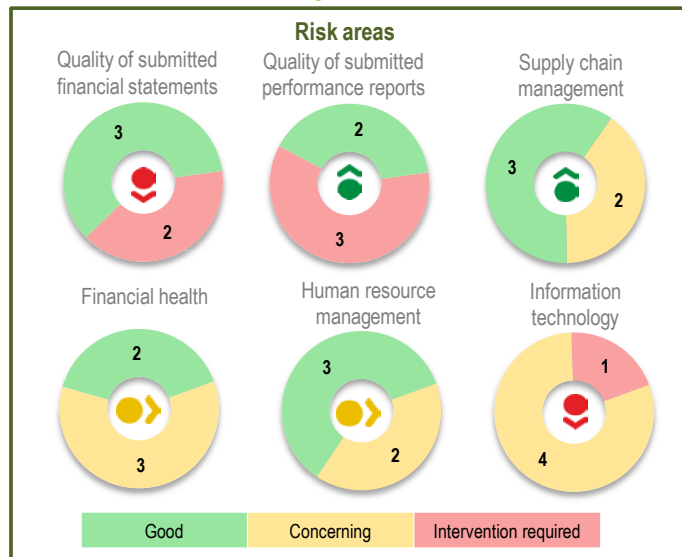
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Department of Agriculture, Forestry and Fisheries (DAFF)*
- *Agricultural Research Council (ARC)*
- *Marine Living Resource Fund (MLRF)*
- *National Agricultural Marketing Council (NAMC)*
- *Onderstepoort Biological Products (OBP)*

The department's budgeted expenditure for the 2014-15 financial year was R6,7 billion. The main areas of expenditure were as follows:

- Transfer payments R4,1 billion
- Employee costs R1,7 billion
- Goods and services R809,5 million
- Payments for capital assets R135,4 million

Overall audit outcome

The lack of improvement in the overall audit outcomes was caused by the DAFF, ARC, NAMC and OBP not addressing past material findings on their APRs and/or compliance with legislation. The MLRF did however address the previous year's audit findings which resulted in an improvement on non-compliance matters.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the DAFF, MLRF and OBP for maintaining the quality of their financial statements.

The ARC and NAMC submitted financial statements for auditing that contained material misstatements in the areas of intangible assets, property, plant and equipment, trade and other receivables, inventory, trade and other payables, exchange revenue, related parties, commitments and deferred revenue. The ARC and NAMC received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The ARC should implement daily and monthly controls to complement the new financial system to ensure complete and accurate information that is easily accessible and available to support financial reporting.

- The NAMC should develop and continuously monitor a financial framework checklist to assist employees to prepare the financial statements so that they comply with the requirements of the framework.

Annual performance report

The published APR of the DAFF, NAMC and OBP included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and/or objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
DAFF	Programme 3: Food security and agrarian reform		x
	Programme 5: Forestry and natural resource management	x	x
NAMC	Programme 3: Statutory measures	x	
	Programme 5: Agri-business development	x	
OBP	Objective 2: Improve business processes and management practices	x	x
	Objective 5: Contribute to government priorities with respect to food security and economic growth	x	

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- The DAFF should strengthen coordination with the provincial departments to ensure that all supporting documentation relating to achievements is collected and reported on.
- The OBP and NAMC should monitor compliance with the National Treasury's FMPP1) by ensuring that targets are specific and supported by documented processes when compiling the annual performance plan. This will enable proper record keeping by the OBP, thus ensuring that reliable information is reported. The NAMC has already addressed the shortcomings in the 2015-16 annual performance plan.
- The DAFF and OBP should develop action plans and monitor progress monthly. Furthermore, DAFF's internal audit unit should be trained on the audit of predetermined objectives to provide assurance on the quarterly review of action plans and quarterly monitoring reports.

Compliance with legislation

We identified material non-compliance with legislation by DAFF, ARC and OBP in the following areas:

- DAFF still did not monitor the expenditure funded by the comprehensive agricultural support programme grant in accordance with legislation. This finding was also raised in the previous year.
- DAFF's internal audit unit did not evaluate the reliability of reported performance information and the mechanisms for monitoring transfers made. The finding was also raised in the previous year. The OBP's internal audit unit did not evaluate the financial and performance information and compliance with legislation.
- DAFF and the OBP did not establish a system of effective performance monitoring and evaluation. These findings were also raised in the previous year. DAFF also did not establish procedures for reporting quarterly performance reports to the executive authority.
- DAFF and the ARC did not always take reasonable steps to prevent irregular expenditure. These findings were also raised in the previous year.

The MLRF incurred R144,5 million in irregular expenditure, which constituted 98% of the total amount of R148,65 million incurred by the national portfolio. The amount of irregular expenditure increased compared to last year's R134,9 million. The irregular expenditure was a result of non-compliance with SCM legislation in that deviation was approved in 2013-14 even though it was not impractical to invite competitive bids. The irregular expenditure was condoned. The detection rate of irregular expenditure identified by auditees through their own processes of internal controls improved drastically from 2% to 98%; however, controls should be further enhanced to prevent irregular expenditure.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Compliance should be monitored by management to ensure that key governance functions (internal audit) within DAFF and the OBP are fully skilled and functional.
- DAFF should ensure proper record keeping by implementing a formal central database to keep track of, and monitor, projects that are funded by conditional grants. Adequate human resources should also be provided.
- The implementation of action plans should be monitored to ensure adequate daily and monthly controls over compliance with all relevant legislation and to enable a proper performance management system.

Root causes

The minister, accounting officer, accounting authorities and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Slow responses by management at DAFF, ARC, NAMC and OBP and a lack of ownership by DAFF employees, and both employees and management of the ARC in the areas of compliance with legislation and the quality of performance reports. This must be improved through timeous development of action plans with clear milestones and deadlines.
- The competencies of key officials and employees at DAFF should be improved by providing them with both formal and on-the job training. NAMC addressed the root cause by ensuring employees responsible for SCM adhere to required legislation.
- Key positions at DAFF must be filled timeously with competent and experienced personnel.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved. Furthermore the internal audit of the DAFF and the OBP should be empowered to be fully effective and functional. The audit committee should also evaluate the quality of reported performance information. The accounting officer must ensure that adequate human resources are provided to directorates responsible for monitoring and reporting of performance information.

We were only able to meet once with the minister after the audit was finalised and therefore this interaction had no impact on the audit outcomes. The majority of commitments made were still in progress or not yet implemented. This assessment, the lack of impact of the minister on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We agreed on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and service delivery monitoring and oversight responsibilities

Financial health and managing conditional grants

The accounting officer, accounting authorities and senior management of DAFF, MLRF and OBP should address the following matters which could affect financial health and/or service delivery monitoring and oversight responsibilities in the portfolio:

- DAFF should carefully monitor and manage its working capital, particularly the debt-collection period relating to the agricultural debt account.
- DAFF should ensure that conditional grants are managed in accordance with legislation and monitored to ensure that grants are used for their intended purposes, thereby ensuring that service delivery is achieved.
- The MLRF should improve the management of its operating cash flows and expenditure. The spending on conditional grants received should be accelerated to ensure that service delivery is not compromised.
- The OBP should accelerate its production processes by prioritising the upgrading of equipment to resolve the backlog of orders for the entity to achieve its planned annual revenue. The entity should also improve the management of its operating cash flows.

Information technology management as a specific cause of audit outcomes

At DAFF an analysis of the audit outcomes indicated that some progress had been made in addressing previous findings. However, risks remained in the focus area of IT service continuity regarding the design of controls. The entities still experienced challenges with the design and implementation of controls in all focus areas.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

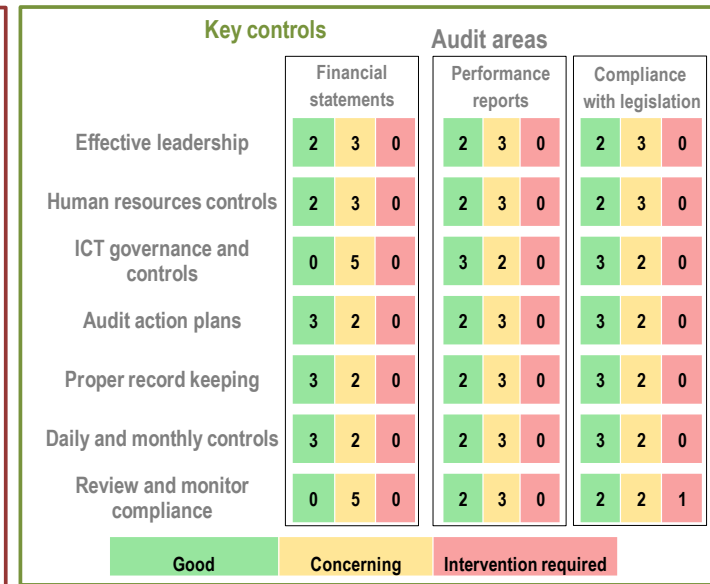
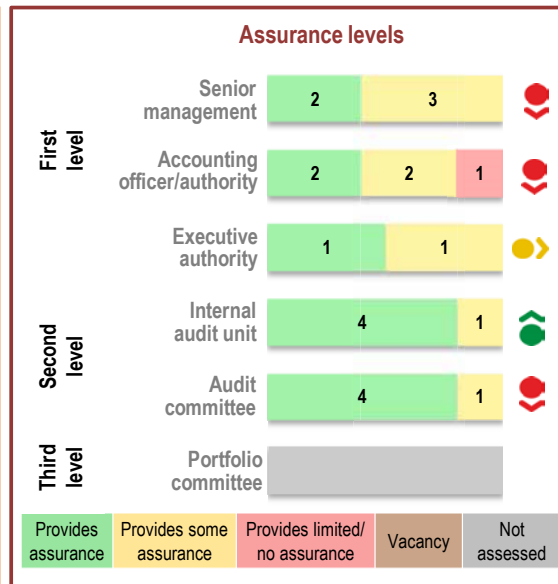
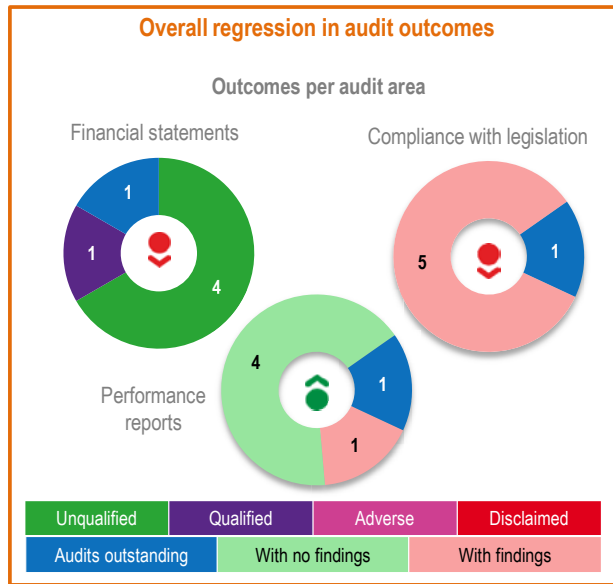
- *Perishable Products Export Control Board (PPECB)*
- *Ncera Farms SOC (Pty) Ltd*

The overall audit outcomes of these entities have remained the same as in the previous year. The audit outcomes were as follows:

- The financial statements of both auditees received an unqualified opinion – the same result as in the previous year.
- Both auditees had no material findings on the quality of the APRs - the same result as in the previous year.

The PPECB had no material findings on compliance with legislation – the same result as in the previous year, while Ncera Farms did not address past material findings on compliance with legislation relating to internal audit and the audit committee.

Vote 27: Communications



1 To improve the **audit outcomes** ...

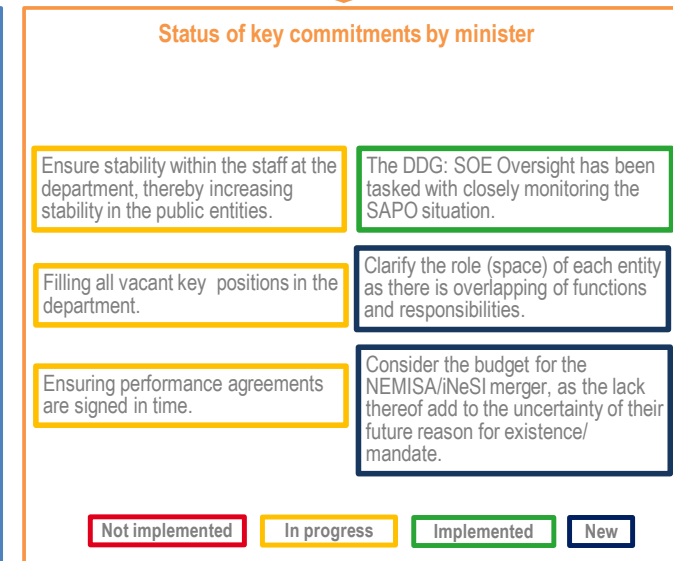
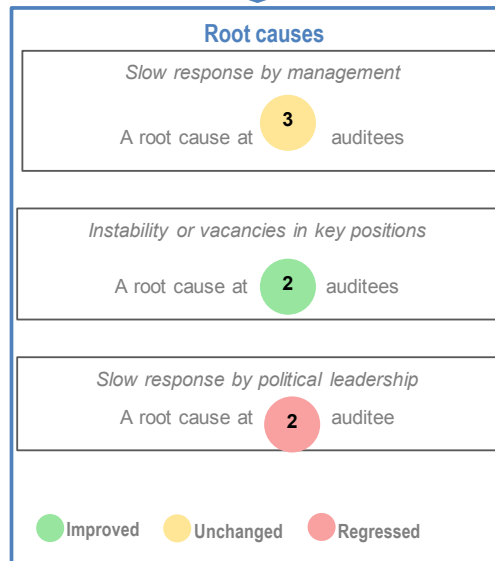
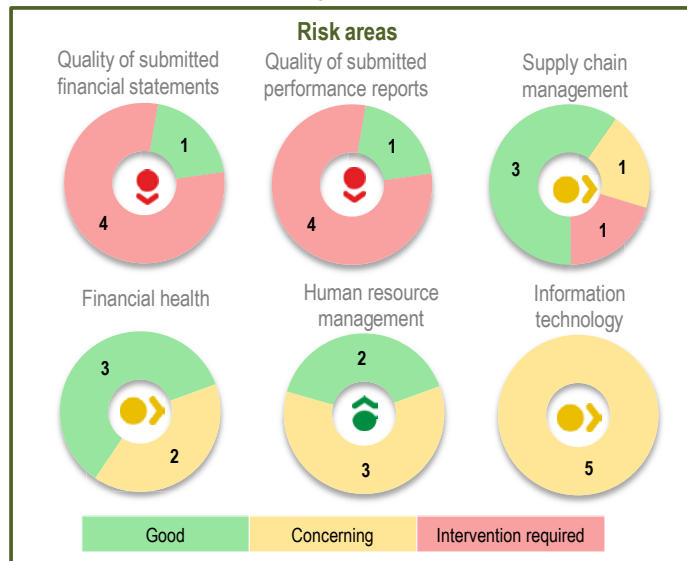
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Department of Communications (DOC)*
- *National Electronic Media Institute of South Africa (NEMISA)*
- *South African Broadcasting Corporation (SABC)*
- *South African Post Office (SAPO)*
- *Universal Service and Access Agency of South Africa (USAASA)*
- *Universal Service and Access Fund (USAF)*

The department's total budgeted expenditure for the 2014-15 financial year was R2,24 billion. The main expenditure was split between transfer payments of R1,76 billion, compensation of employees of R203 million, goods and services of R261 million and capital assets of R10 million.

The audit outcome of SAPO is not included, as the audit had not been finalised by 14 August 2015, which was the cut-off date for including audit outcomes in the general report.

During the year, the department became the Department of Telecommunications and Postal Services, a new department with a different vote. A new Department of Communications was also created. This change meant that some of the entities included in this portfolio were transferred to another portfolio and, therefore, reported to another minister and portfolio committee. For general report purposes, all auditees have been reported under Vote 27, as this was the allocation of the vote at the beginning of the year. The new votes for the new departments of Communications and of Telecommunications and Postal Services have only been allocated for the 2015-16 financial year.

Overall audit outcome

The regression in the overall audit outcome was as a result of USAF regressing from financially unqualified with no other findings in the previous year to financially unqualified with findings in the year under review. This was due to a lack of adequate project management. In addition, the SABC, which had not been included in the previous year due to the late completion of the audit, was included in the 2014-15 year and received a qualified audit opinion; the same audit opinion as in the previous year after finalisation of the audit. For the other three auditees, the opinion remained financially unqualified with findings in the current year.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of the SABC included the following material misstatements:

- The entity incorrectly recognised TV licence fees on the cash basis instead of the accrual basis. Furthermore, there were inadequate internal controls on the system used for customer billing, which compromised the integrity and credibility of information on the database. We, therefore, could not obtain sufficient and appropriate audit evidence for the licence fee revenue and the related receivables.
- The entity recognised a 100% provision for doubtful debt on licence fee receivables. The practice of SARS is to allow a 25% deduction on the provision amount, unless certain conditions as stipulated by SARS are satisfied to claim more than the norm. The entity could not provide objective evidence to satisfy all the stipulations; and as a result, we could not obtain sufficient and appropriate audit evidence for the 100% deduction claimed.
- Due to the inadequate systems, we were unable to obtain sufficient and appropriate audit evidence to determine whether the irregular and fruitless and wasteful expenditure disclosed ought to have been adjusted.

The DOC, USAASA and USAF were the only auditees who submitted financial statements for auditing that contained material misstatements in the areas of expenditure, receivables, current assets and certain disclosures items. All three of these auditees received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The chief financial officer position within the department should be filled.
- Management should develop and implement processes to ensure that adequate supporting documentation is kept and stored safely.
- Management should ensure that the annual financial statements are prepared in terms of relevant accounting standards and reviewed adequately before submission.

Annual performance report

The published APR of the SABC included information on its performance against predetermined objectives that was not useful or reliable for the following objectives selected for auditing:

- Ensuring a financially sustainable organisation through revenue growth and cost containment

- Retaining and growing audience share by meeting the needs and expectations of multicultural mass and niche audiences in all official South African languages
- Acquiring and scheduling compelling and quality programming spanning a range of genres and meeting mandate objectives across traditional and emerging broadcast and digital media platforms

NEMISA, USAASA and USAF submitted APRs for auditing that contained material misstatements. Material findings in their audit reports were only avoided because all the misstatements identified were corrected during the audit process. The department submitted an APR that did not contain material misstatements.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditees:

- Management should ensure that there are adequate documented processes for the collection, collation, monitoring and reporting of performance information.
- Management should ensure that APRs are adequately reviewed.

Compliance with legislation

We identified material non-compliance with legislation at the DOC, NEMISA, the SABC, USAASA and USAF in the following areas:

- Financial statements submitted were not prepared in accordance with the prescribed financial reporting framework (the DOC, USAASA, USAF, and the SABC).
- Payments to creditors were not settled within 30 days (the DOC).
- A human resource plan was not in place (the DOC).
- There was a lack of an effective, efficient and transparent system of internal control regarding performance management (NEMISA).
- Irregular and fruitless and wasteful expenditure was not prevented (the SABC).
- Effective steps were not taken to collect all money due (the SABC).
- Proper control systems to safeguard and maintain assets were not implemented (the SABC).
- Effective and appropriate disciplinary steps were not taken against officials who made or permitted unauthorised, irregular or fruitless and wasteful expenditure (the SABC).
- Goods, works or services were not procured through a procurement process that was fair, equitable, transparent and competitive (the SABC).

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior officials should be held accountable for transgressions for which they are responsible.
- Policies and procedures to detect non-compliance should be implemented and continuously improved.
- Management should develop and implement adequate processes to ensure that all financial matters are addressed timeously to enable complete and accurate financial statements.

The SABC incurred R389,2 million (2013-14: R24,5 million) in irregular expenditure, with 100% (2013-14: 100%) of this irregular expenditure being identified by the auditee. The lack of processes to determine the completeness of this amount led to the SABC obtaining a qualification on irregular expenditure. The irregular expenditure by the DOC of R1,1 million and NEMISA of R0,63 million related to non-compliance with supply chain legislation.

Root causes

Senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Responses to implement corrective actions should be enhanced and tracked by management. Although action plans were generally in place, their implementation was not done effectively to ensure that the issues were resolved within time.
- Stability within the portfolio should be increased by filling key vacant positions. Although there had been a great improvement, there were still vacant key positions within the portfolio, and this had a negative impact on the outcomes.
- Interventions regarding operations of public entities should be implemented within a reasonable time to allow optimal functioning of the public entity in meeting its mandate.

Impact of key role players on audit outcomes

Although there was an improvement on the assurance by internal audit, the first and second levels of assurance should still be improved by ensuring stability at the level of the accounting officer and senior management. This will ensure that the department and its entities function optimally on a day-to-day basis and achieve their objectives as per the strategic plan.

We met with the minister three times in the past year, and these interactions had some impact on the audit outcomes. The minister implemented processes to turn around the entities and ensure stability in the department. This assessment, the impact of the minister on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR and the review of the annual performance plan. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Information technology

Control weaknesses were identified, mostly regarding the implementation of IT controls in the portfolio. The auditees did not have adequate IT structures, as there were vacancies. However, the entities had made strides in ensuring that they could recover data in case of emergency, although the disaster recovery plans had not been tested yet.

Adequate progress had not been made in addressing previous findings, as risks remained in most of the focus areas.

The department displayed noticeable improvement in implementing IT controls, as there were no findings on IT security management and user account management. This was due to an active internal audit unit and audit committee. Furthermore, executive management was involved in the design and implementation of IT controls.

The control weaknesses were made worse by a lack of expertise and skills at the auditees, while the involvement of external parties in recruiting IT personnel delayed the process.

Constitutional institutions

Independent Communications Authority of South Africa (ICASA)

ICASA is included in the portfolio, but is not under the authority of the minister. The overall audit outcome of the entity did not change, as the entity was still financially unqualified, with findings on predetermined objectives and compliance.

ICASA's published APR included information on its performance against predetermined objectives that was not useful.

The following control should be strengthened to create a control environment that supports useful reporting on the performance of the auditee:

- Management should ensure that there is a proper record management system to maintain information that supports the reported performance information.

Material non-compliance by the institution was identified in the following areas:

- There was a lack of effective steps to prevent irregular and fruitless and wasteful expenditure.
- Awards were made to suppliers without tax clearance certificates, and preferential procurement points were incorrectly calculated or allocated.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management should exercise adequate oversight of laws and regulations relating to SCM.
- Vacant positions within the SCM unit should be filled.

ICASA incurred R8,1 million (2013-14: R7 million) in irregular expenditure, with 53% (0%) of this irregular expenditure being identified by the auditee in the current year. The irregular expenditure was a result of non-compliance with supply chain legislation.

The management level of assurance was adequate, except for the assurance provided on the APR and compliance with legislation, which should be enhanced as stated above.

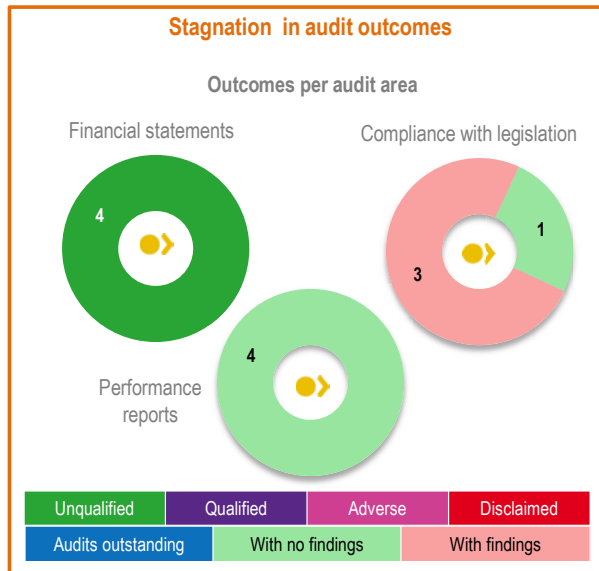
Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister:

- *Sentech*
- *Telkom*

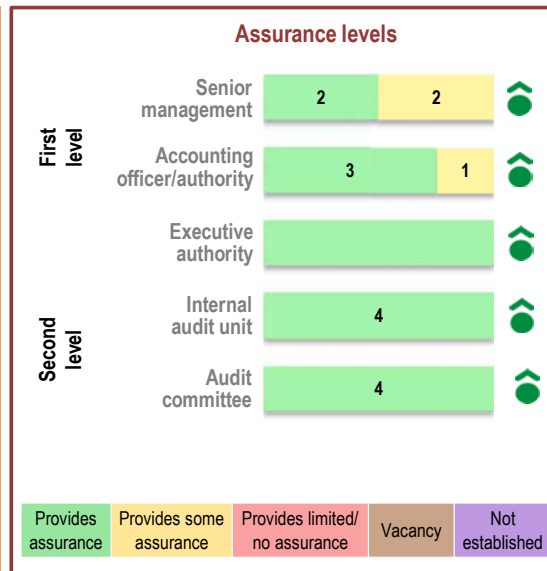
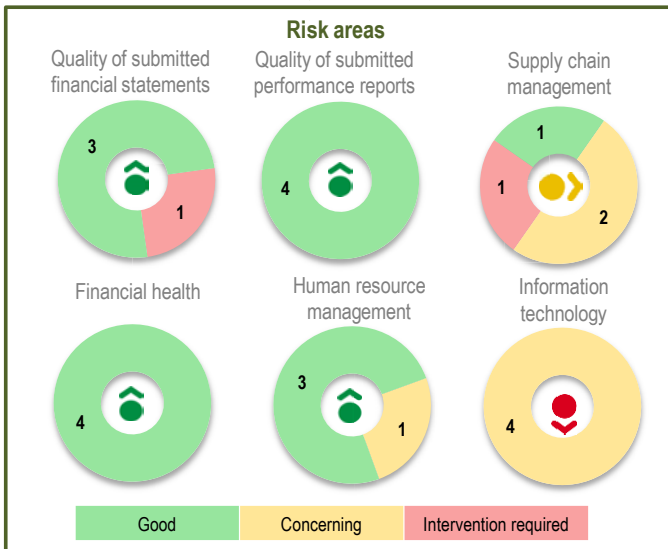
The audit outcomes of Sentech and Telkom remained the same as in the previous year, with both entities sustaining a clean audit outcome.

Vote 28: Economic development



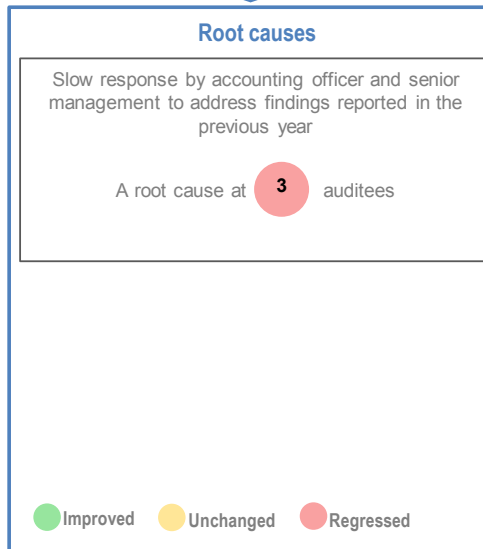
1 To improve/maintain the **audit outcomes** ...

... the **risk areas** and that ...



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

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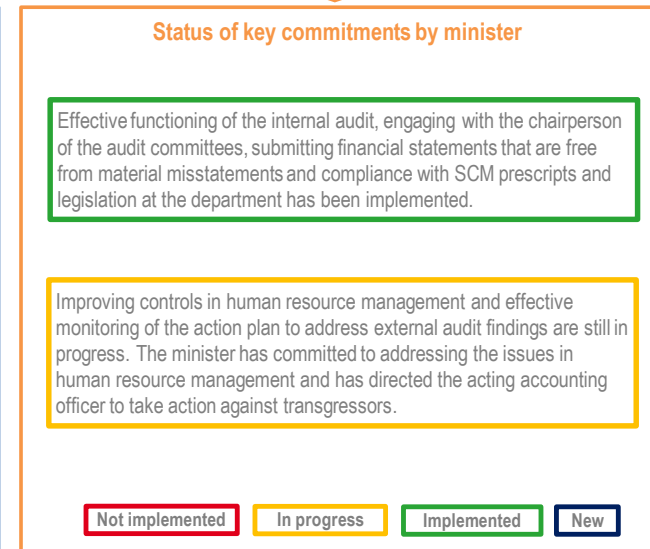
Key controls

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	4	0	0	4	0	0	4	0	0
Human resources controls	4	0	0	4	0	0	3	1	0
ICT governance and controls	1	2	1	1	2	1	1	2	1
Audit action plans	3	1	0	4	0	0	3	1	0
Proper record keeping	2	2	0	4	0	0	4	0	0
Daily and monthly controls	3	1	0	4	0	0	4	0	0
Review and monitor compliance	1	3	0	4	0	0	0	3	1

Legend: Good (Green), Concerning (Yellow), Intervention required (Red)

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

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Economic Development Department (EDD)*
- *Competition Commission (CC)*
- *Competition Tribunal (CT)*
- *International Trade Administration Commission (ITAC)*

The total budgeted expenditure of the department for the 2014-15 financial year was R696,8 million. The main areas of expenditure were transfer payments of R560,4 million, employee cost of R76,9 million, goods and services of R55 million and capital expenditure of R4,4 million. The transfer payments include transfers made to the CC, CT, ITAC, Industrial Development Corporation of SA (IDC) and Small Enterprise Finance Agency (SEFA).

Overall audit outcome

There was one improvement and one regression in the audit outcomes; however, the overall audit outcome for the portfolio remained unchanged when compared to the previous year. The CC improved to financially unqualified audit opinion with no findings due to proper implementation and monitoring of action plans to address the previous year's issues. The CT regressed from a financially unqualified audit opinion with no findings to financially unqualified with findings on compliance with legislation due to ineffective review and monitoring of compliance with legislation in certain instances. The lack of improvement in the rest of the portfolio was due to management not adequately addressing past material findings on compliance with legislation.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

ITAC submitted financial statements for auditing that contained material misstatements in the areas of liabilities, expenditure and disclosure items. ITAC received an unqualified audit opinion only because it corrected all the material misstatements, which we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Management should establish proper systems to facilitate the preparation of reliable, accurate and complete financial statements.
- A detailed review of the financial statements must be conducted by senior management, internal audit and audit committee before submission for auditing.

Compliance with legislation

We identified material non-compliance with legislation by the EDD in the following area:

- The EDD appointed employees without following a proper process to verify the claims made in their applications.

We identified material non-compliance with legislation by the CT which may have potentially resulted in financial loss in the following areas:

- The CT did not, in all instances, obtain the required price quotations when procuring goods and services below R500 000. By not inviting quotations as required, it cannot be determined if the entity procured the goods and services at an economical price.
- The steps taken by the CT to prevent irregular expenditure were, in certain instances, not effective.

Non-compliance with SCM prescripts remained a risk. This resulted in irregular expenditure; however, it decreased from R7 million in the previous year to R0,7 million for the portfolio. All of this irregular expenditure was identified by the auditors.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior management should enhance the current compliance processes to prevent non-compliance and irregular expenditure.
- Senior management should also enhance the monitoring of compliance with all applicable legislation, specifically in the area of SCM.

Root causes

Those charged with governance and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- The accounting officer and senior management should improve on the proper monitoring and review of the action plan to timeously address audit findings.

Impact of key role players on audit outcomes

The first level of assurance should be improved by implementing the recommendations and addressing the real root causes of internal and external auditors, in order to prevent repeat findings.

We met with the minister three times in the past year and these interactions had some impact on the audit outcomes, as there was an improvement in the internal control environment. The impact of the minister on the controls of the entities as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to information technology

Information technology management as a specific cause of audit outcomes

274

Economic Development Department

The status of IT controls in the portfolio remained the same as in the previous financial year, as policies and standard operating procedures were not consistently implemented by the CC, CT and ITAC. However, in comparison to previous years, more emphasis was placed on IT matters and as a result, IT was discussed at meetings of the management executive committees and audit committee at the department. The CC and ITAC had adequately maintained IT service continuity controls, while the CC, CT and ITAC adequately maintained security management controls during the financial year. Furthermore, there was no clear IT strategy in place at the department that defines the roles and responsibilities of IT. The department is dependent on the Department of Trade and Industry (dti) to provide IT infrastructure and services and thus has no influence over the strategic direction of IT at the dti. Management at the CC, CT and ITAC had not prioritised the implementation of existing policies and standard operating procedures. The leadership should address the root causes of IT audit outcomes and inadequate IT controls by defining the strategic role of IT within the department through design and implementation of an IT strategic plan. Management must also ensure that IT controls are implemented at the entities. Management should continually track and monitor the implementation of these IT controls.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

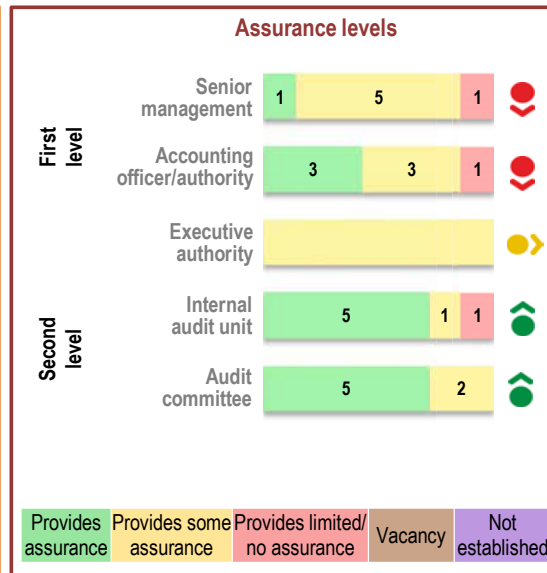
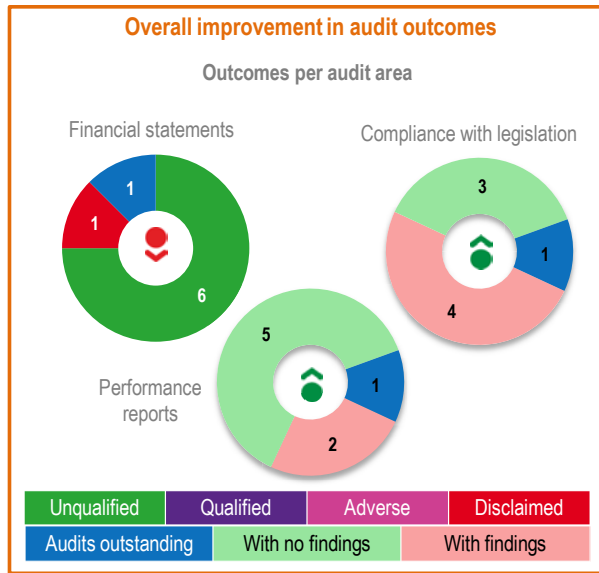
We did not audit the following entities included in the portfolio of the minister:

- *Industrial Development Corporation of SA (IDC)*
- *Small Enterprise Finance Agency (SEFA)*

The overall audit outcomes of these entities remained the same as in the previous year. Both these entities received financially unqualified audit reports with no findings on compliance with legislation and predetermined objectives.

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Vote 29: Energy



Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	6	0	1	4	3	0	4	2	1
Human resources controls	5	2	0	4	2	1	5	2	0
ICT governance and controls	1	6	0	1	6	0	1	6	0
Audit action plans	3	3	1	4	2	1	5	2	0
Proper record keeping	3	2	2	5	1	1	5	0	2
Daily and monthly controls	3	3	1	6	0	1	5	2	0
Review and monitor compliance	3	2	2	3	2	2	4	2	1

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1 To improve/maintain the **audit outcomes** ...

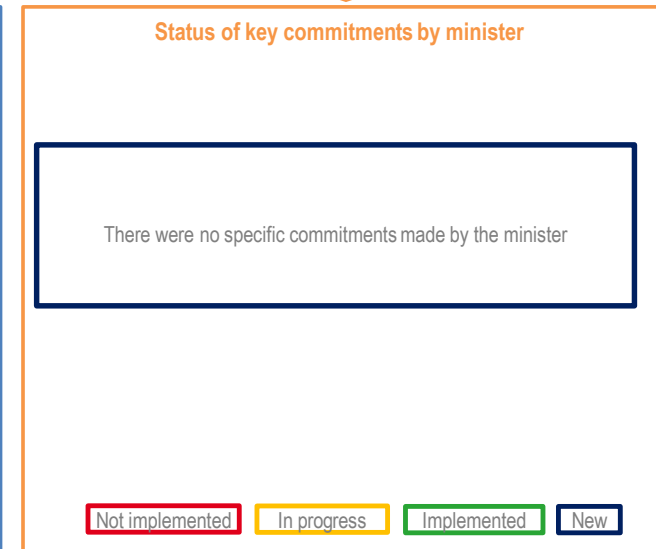
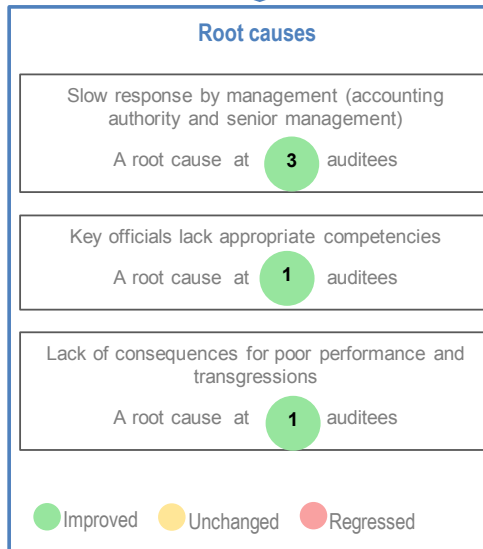
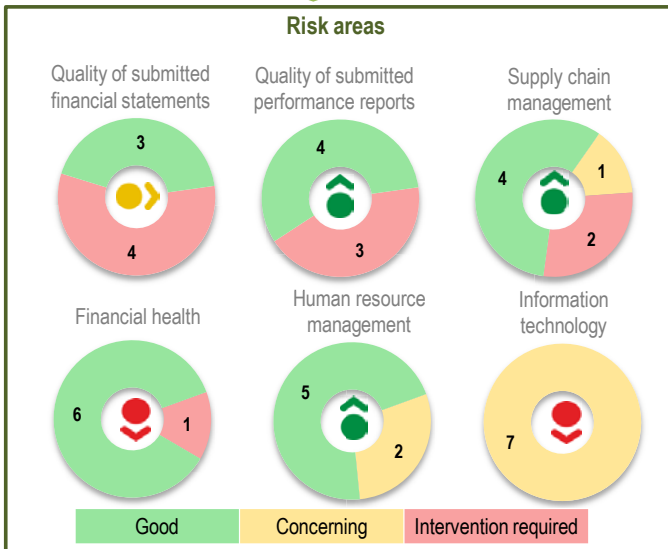
2 ... the key role players need to **assure** that ...

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

4 ... the **risk areas** and that ...

5 ... the **root causes** are addressed ...

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



Auditees included in the portfolio

- *Department of Energy (DOE)*
- *CEF SOC Limited (CEF)*
- *Equalisation fund (EQF)*
- *National Energy Regulator of South Africa (NERSA)*
- *National Nuclear Regulator (NNR)*
- *The National Radioactive Waste Disposal Institute (NRWDI)*
- *The South African National Energy Development Institute (SANEDI)*
- *The South African Nuclear Energy Corporation SOC Limited (NECSA)*

The department's total budgeted expenditure for the 2014-15 financial year was R7,4 billion. The main areas of expenditure were employee cost of R286 million, goods and services of R244,7 million and transfer payments of R6,9 billion.

The audit outcome of the NRWDI is not included as the entity did not submit annual financial statements for auditing.

Overall audit outcome

The portfolio had one improvement and one regression. The DOE moved from an unqualified audit opinion with findings to a clean audit.

NECSA moved from an unqualified audit opinion with findings to a disclaimer of opinion. This was due to its failure to prepare financial statements supported by sufficient and appropriate audit evidence.

The stagnation of the rest of the portfolio was caused by their failure to adhere to implemented controls that ensure compliance with legislation and to prepare annual financial statements that were free from material misstatements.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

We commend the DOE, NERSA and NNR for submitting financial statements that were free from material misstatements.

The CEF, EQF, NECSA and SANEDI submitted for auditing financial statements that contained material misstatements in non-current assets, current assets, revenue, expenditure and disclosure notes. The CEF, EQF and SANEDI received an unqualified audit opinion only because they corrected all the misstatements we identified during the auditing process.

NECSA did not make these corrections and the annual financial statements submitted for auditing were not supported by reliable information. They had limitations in property, plant and equipment and provisions and, as a result, we were unable to obtain sufficient and appropriate audit evidence to confirm whether it was appropriate to prepare the financial statements on a going concern basis. These limitations resulted in the financial statements receiving a disclaimer of opinion.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Oversight responsibilities should be strengthened by the accounting authority and shareholder to ensure that corrective action is taken to prevent a recurrence of findings. They should also implement controls to ensure that financial statements are reliable and supported by sufficient and appropriate information.
- Implement a proper system of record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial reporting in a timely manner.
- Review financial statements thoroughly before they are submitted for auditing to ensure that they are free from material misstatements.

Annual performance report

The DOE, CEF, NERSA and NECSA submitted APRs for auditing that were free from material misstatements and had no material findings on usefulness and reliability. We commend the CEF and NECSA for the improvement from the previous year and recommend that they sustain this outcome.

The EQF did not submit a performance report for auditing. The entity did not set any strategic objectives as it was still waiting for clarity from National Treasury on whether or not they should prepare performance information.

The NNR submitted an APR for auditing that contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we identified during the auditing process.

SANEDI's published APR included information on its performance against predetermined objectives that was not useful and reliable for the following objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
SANEDI	Applied energy research	x	x
	Energy efficiency	x	x

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- Performance reporting systems should be implemented by the leadership and managed and led by competent personnel with strong technical skills.
- Quarterly reports should be thoroughly reviewed by senior management to satisfy themselves that the information is credible.

Compliance with legislation

We identified material non-compliance with legislation by the CEF, EQF, NECSA and SANEDI in the following areas:

- NECSA awarded contracts and quotations to bidders based on points given for criteria that were not clearly stipulated in the original invitation for bidding and quotations, in contravention of the preferential procurement regulations.
- NECSA awarded construction contracts to contractors that did not qualify for the contract according to Construction Industry Development Board regulation 17.
- We could not obtain sufficient and appropriate audit evidence that the CEF awarded quotations and contracts to suppliers whose matters have been declared to be in order by the South African Revenue Service, as required by preferential procurement regulation 14.
- The CEF did not procure goods, works or service through a fair, equitable, transparent and competitive procurement process, as required by the Public Finance Management Act (PFMA), section 51(1)(a)(iii).
- The members of the CEF audit committee were not all directors of the company, as required by section 94(4)(a) of the Companies Act.
- The CEF, SANEDI and NECSA did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.

The portfolio's total irregular expenditure amounted to R56,3 million, and 33% of this irregular expenditure was identified by the auditees. The largest contributors were the CEF and NECSA groups, incurring R20,4 million and R33,8 million respectively due to non-compliance with SCM legislation. The NECSA group's total irregular expenditure has not been quantified as management is investigating the total amount of expenditure incurred to determine the full extent of the irregular expenditure.

The CEF group's irregular expenditure decreased since the previous year due to an exemption from the prescripts of the Preferential Procurement Policy Framework Act (PPPFA). This exemption was in respect of procurement directly linked to the core business activities of subsidiary the Petroleum Oil and Gas Corporation SOC Limited (PetroSA). These activities included:

- exploration and production of natural gas and oil

- participation in and acquisition of local and international upstream petroleum ventures
- production of synthetic fuels from offshore gas
- cost of sales expenditure for refining, storing and distributing hydrocarbons for resale
- marketing and trading oil and petrochemicals and any other goods and services procured for sale.

The portfolio's fruitless and wasteful expenditure amounted to R4,9 million, and 72% of this expenditure was identified by the auditees. The fruitless and wasteful expenditure was mainly a result of interest and penalties incurred due to late payments.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Implement adequate controls to properly review and monitor compliance with legislation, mainly in the area of SCM, to ensure that irregular expenditure is prevented. Appropriate and prompt action must be taken against transgressors.
- Align procurement policies and procedures with the relevant legislation, and include monitoring controls.
- Monitor auditees' action plans for implementation to address the previous year's audit findings.

Root causes

The executive authority and accounting officer/authority should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement a proper system for record keeping to address slow responses by management and to ensure that information is available when requested for audit purposes.
- Hold individuals accountable for not adhering to internal controls and not complying with the applicable regulations, Action must be taken in the case of known transgressions.
- Fill all vacancies with people with requisite skills, and provide training to address developmental gaps of existing staff.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by ensuring that the internal control deficiencies identified are addressed. Internal audit effectively communicated to the audit committee the significance and impact of management not adhering to internal controls. The audit committee monitored risks, the implementation of management's commitments on corrective action and quarterly progress on action plans.

We met with the minister once in the past year and the interaction had little impact on the portfolio's audit outcomes. The energy portfolio is subject to intense scrutiny due to the current energy shortages and corresponding load shedding, as well as the planned nuclear programme. Several entities in the portfolio are undergoing investigations relating to corporate governance and management issues by board members and management. There are also vacancies in key positions at the DOE, PetroSA and NRWDI. This contributed to the assessed assurance provided by the minister.

It is imperative for the energy portfolio to better its audit outcomes and strengthen its governance structures before the country embarks on the nuclear build programme.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a budgetary review and recommendation report (BRRR). We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

The senior management in the portfolio and the minister should address the following matters, which could affect the IT and financial health in the portfolio:

Financial health

The accounting authority should engage with the shareholder to communicate NECSA's insolvent position and possible reckless trading.

PetroSA has an obligation to rehabilitate and abandon its offshore and onshore operations valued at R9,3 billion, which is currently not fully funded. In terms of the recently promulgated National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), PetroSA is required to have a fully funded rehabilitation liability within the next 12 months from year end. There are currently challenges with the funding gap from equity due to PetroSA's weakened financial position. The CEF has committed to assisting PetroSA through various support and oversight mechanisms to close the funding gap. In addition PetroSA is working closely with the regulator (Petroleum Agency of South Africa) to ensure that they discharge their responsibilities as required by NEMA. The company is also considering a variety of financial instruments to bridge this funding gap.

Information technology management as a specific cause of audit outcomes

Key outcomes

The portfolio has resolved the majority of the findings that were previously reported under IT governance and IT security. However, the user account administration and IT service continuity have repeat findings.

In the 2014-15 review, there was a significant increase in the number of issues reported for user administration and disaster recovery planning/backup management. It is encouraging that the NNR has improved its IT control environment; however, it did not improve its user account management as previous issues had not been resolved for this focus area.

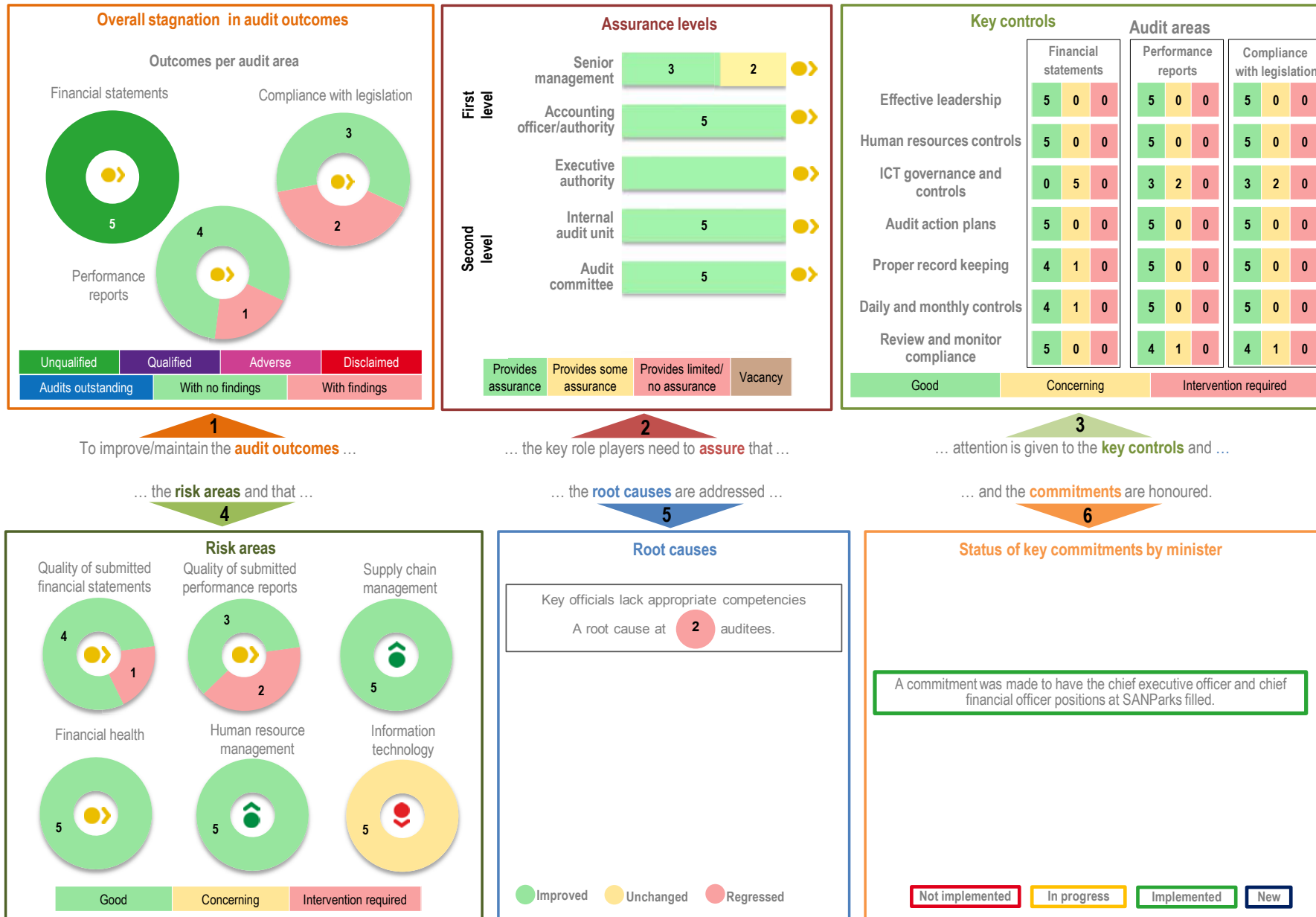
Highlights

The portfolio did not have IT security management findings. The NNR showed a huge improvement on their IT control environment as findings were noted in one of the four focus areas audited.

Challenges

Due to the size of some of the auditees, IT was not viewed as of strategic importance, which resulted in the formal structures not overseeing IT organisation to ensure that adequate IT processes were implemented. Some auditees did not implement a process to hold people accountable for not addressing audit findings. As a result, some of the findings raised were also raised in the 2013-14 audit cycle. Where there were challenges with implementing controls, there were no clear roles and responsibilities between IT and business to ensure that adequate controls were implemented, especially for IT service continuity and user account management.

Vote 30: Environmental affairs



Auditees included in the portfolio

- *Department of Environmental Affairs (DEA)*
- *iSimangaliso Wetland Park Authority*
- *South African National Biodiversity Institute (SANBI)*
- *South African National Parks (SANParks)*
- *South African Weather Service (SAWS)*

The DEA's total budgeted expenditure for the 2014-15 financial year was R5,6 billion. The main expenditure was employee cost (R798 million), goods and services (R1 billion), transfer payments (R3,7 billion) and capital expenditure (R133 million).

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by SANParks not preventing material findings on its APR and compliance with legislation; however, leadership was stabilised at SANParks after the appointment of the chief executive officer and chief financial officer. The regression in the audit outcome of SANBI was due to the institute receiving material findings on compliance with legislation. The SAWS received a clean audit opinion by addressing past material findings on compliance with legislation. The DEA and iSimangaliso Wetland Park Authority maintained their clean audit opinions. National Treasury has exempted the department from applying the Modified Cash Standard in respect of infrastructure development assets in the current and previous year. The DEA and National Treasury are in the process of resolving the matter.

Our main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

SANBI submitted financial statements for auditing that contained material misstatements in the area of disclosure notes. SANBI received an unqualified audit opinion only because it corrected all the misstatements we identified during the audit process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Management at SANBI should perform an adequate review of the annual financial statements before submission.

Annual performance report

The published APR of SANParks for the current year included information on its performance against predetermined objectives that was not useful and reliable for the following objectives we had selected to audit (a repeat finding from the previous year had not been addressed due to the absence of a CEO for the greater part of the year):

Auditee	Programme/objective	Not useful	Not reliable
SANParks	Objective 3: Integrating strategy implementation	x	x
	Objective 4: Promoting effective management of national parks	x	x

SANBI submitted an APR for auditing that contained material misstatements. It avoided material findings in its audit report only because it corrected all the misstatements we identified during the audit process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of SANParks and SANBI:

- Management should regularly attend training to equip them to adequately review the APR for usefulness and reliability.

Compliance with legislation

We identified material non-compliance with legislation by SANParks in the following areas:

- SANParks did not maintain an effective, efficient and transparent system and internal controls regarding performance management.
- SANParks incurred R3 million in fruitless and wasteful expenditure that was identified by the auditee and that related to interest, penalties, cash embezzlement and stock losses.

Root causes

The minister should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that staff members at SANBI and SANParks are adequately trained in financial and performance management.

The chief executive officers and chief financial officers should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that key officials at SANBI and SANParks have the appropriate competencies to accurately report on financial and performance information.

Impact of key role players on audit outcomes

The level of assurance at senior management level at SANBI and SANParks should be improved by ensuring that management members are well trained in financial and performance areas.

We met with the minister three times in the past year, which had an impact on the audit outcomes, as the SAWS improved, while the DEA and iSimangaliso Wetland Park Authority maintained their clean audit outcome.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR and the review of the annual performance plan. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to information technology

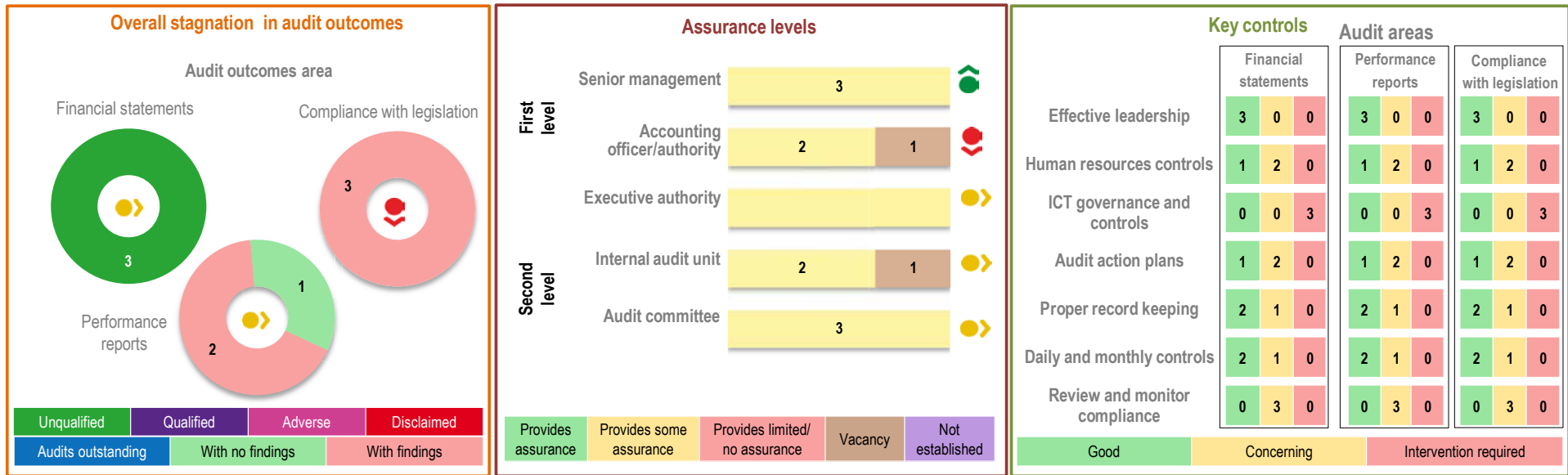
The control weaknesses in the environmental affairs portfolio mostly related to the design of IT controls. The auditees were still struggling with designing policies and procedures for the four focus areas, namely, IT governance, security management, user access controls, and IT service continuity. Minimal progress had been made in addressing previous findings, as risks remained in all the focus areas.

The control weaknesses were driven by a lack of expertise and skills within the department and entities, as IT was mostly outsourced to vendors.

The SAWS implemented an IT governance framework by customising the framework to its environment. This was done with the involvement of the managing director and the chief financial officer.

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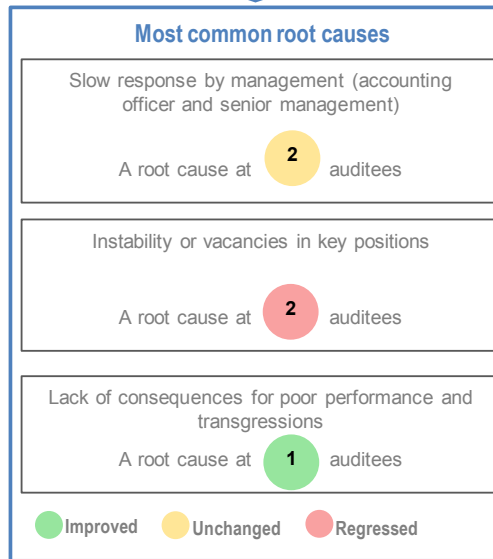
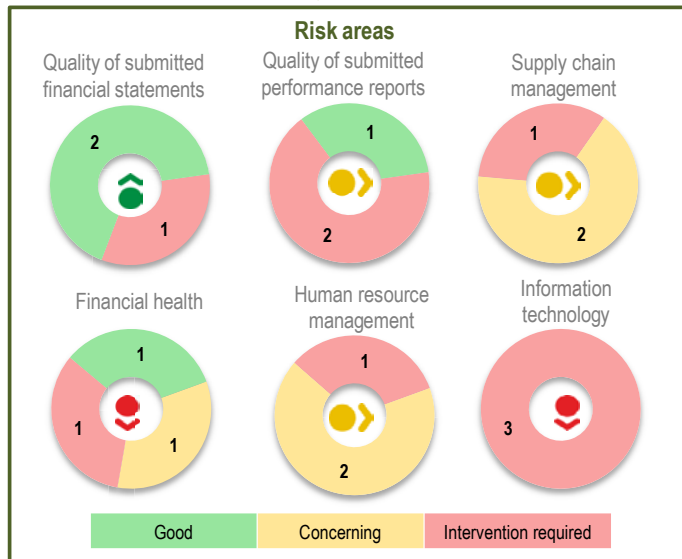
Vote 31: Human settlements



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To improve the **audit outcomes** ...
... the **risk areas** and that ...
4

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

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



Auditees included in the portfolio

- National Department of Human Settlements (NDHS)
- Community Scheme Ombud Service (CSOS)
- National Home Builders Registration Council (NHBRC)

The total budgeted expenditure by the department for the 2014-15 financial year was R29 418 million. The main areas of expenditure were employee cost of R329 million, goods and services of R368 million, transfer payments of R28 710 million and capital expenditure of R10 million.

Overall audit outcome

The stagnation in the overall audit outcome was caused by the NDHS and NHBRC as past material findings on their APR and compliance with legislation were not entirely addressed.

The CSOS was audited on the areas of performance information reporting and compliance with legislation for the first time in the current period. The entity obtained a financially unqualified opinion with no findings on predetermined objectives; however, material findings on compliance with legislation were reported.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The NDHS submitted financial statements for auditing that contained material misstatements in the areas of accruals, lease commitments and current assets. The NDHS received an unqualified audit opinion only because it corrected all the material misstatements we identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Financial systems and controls should be implemented and maintained on a monthly basis to ensure that regular, accurate and complete financial statements with full disclosure notes can be compiled. This system should include a detailed review of the schedules and registers prepared in support of the financial statements by the responsible manager prior to submission thereof.
- Oversight of financial reporting processes must be strengthened, including detailed reviews of the financial reports and monitoring of the implementation of the audit findings action plan by the accounting officer and audit committee.

- The NDHS must prioritise the filling of the vacancy at chief financial officer level.

Annual performance report

The published APR of the NDHS and NHBRC included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes we had selected to audit.

Auditee	Programme/objective	Not useful	Not Reliable
NDHS	Programme 3: Delivery support		x
NHBRC	Programme 2: Regulation	x	x
	Programme 3: Consumer protection	x	x

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Vacancies in key positions within the strategy and planning unit at NDHS should be filled by individuals with the necessary competencies.
- Management should ensure that planned targets and indicators are measurable and that performance reports are reviewed and supported by sufficient, appropriate audit evidence.
- The internal audit unit must review the portfolio of evidence that supports information contained in quarterly performance reports. Any errors should be rectified immediately to ensure the validity, accuracy and completeness of these quarterly reports that form the basis of the APR.

Compliance with legislation

We identified material non-compliance with legislation by the NDHS, CSOS and NHBRC in the following areas:

- The NDHS, CSOS and NHBRC did not maintain effective, efficient and transparent systems of internal control with respect to performance information.
- The CSOS did not prepare and submit to the minister of Human Settlements two of the required quarterly performance reports.
- The audit committee was unable to adequately perform its duties of reviewing and directing the work of internal audit as this function was not established by the CSOS during the period under review.

- Human resource planning, based on the strategic plan of the NDHS with a view to meeting the human resource needs, was not completed and approved.
- The NHBRC did not take reasonable steps to prevent irregular expenditure.
- The procurement processes of the NHBRC were not always fair, transparent and equitable, as required by legislation.

The status of the SCM risk remained unsatisfactory at the NHBRC and resulted in material non-compliance with legislation and significant amounts of irregular expenditure.

The NHBRC incurred R54 million of irregular expenditure, which was 99% of the total amount incurred by the Human Settlements portfolio. A total of R 1,8 million (3%) of this irregular expenditure was identified during the auditing process. The root cause of this lack of effective prevention and detection was due to insufficient compliance monitoring.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The NHBRC should use a SCM compliance checklist to ensure that all applicable legislation has been adhered to prior to the procurement process being finalised for all contracts and transactions.
- Condonement and, where applicable, disciplinary processes should be expedited, particularly regarding multi-year contracts where irregular expenditure will continue to be incurred until such time this process is finalised.
- Vacancies in key positions within the strategy and planning unit at the NDHS should be filled by individuals with the necessary competencies.
- CSOS leadership and the audit committee must ensure that the internal audit function is sufficiently capacitated and that the internal audit plan is adequately monitored throughout the year.

Root causes

The leadership and senior management of the entities should address the root causes of poor audit outcomes and inadequate controls as follows:

- The leadership should take immediate action and hold officials accountable for not adhering to the implemented internal controls.
- Ensure that the portfolio has adequate skills and resources to report appropriately and effectively in terms of financial and performance information.

- Fill all key vacancies with people with the requisite skills and provide training to address development gaps of existing staff.

Specific areas where internal audit units and audit committees can jointly make significant contributions to the audit outcomes include the following:

- Monitor the implementation of the auditees' action plans in respect of previous year audit findings.
- Monitor action taken in the case of known transgressions.
- Thoroughly review the auditees' quarterly reports to satisfy themselves that the information contained therein is credible.

Impact of key role players on audit outcomes

The first level of assurance should be improved by ensuring stability at the level of accounting officer at the NDHS and NHBRC. Accounting officers must hold poor performing employees and suppliers as well as transgressors accountable. Furthermore senior management should monitor the implementation of the recommendations of the internal audit and external audit.

The filling of the Head of Internal Audit posts at the NDHS and CSOS must be prioritised to improve the second level of assurance.

We met with the minister twice in the past these interactions had some impact on the audit outcomes. Although the overall outcomes of the portfolio did not improve, there was a decrease in the number of material compliance findings identified in the portfolio as well as the amount of irregular expenditure incurred. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The previous year's commitments of the minister to meet with the audit committee chairperson including the chairpersons of the public entities were partially implemented.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR and the review of the annual performance plan. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

Financial health

The funding of the CSOS's operations is in part reliant on the community schemes levies and other funding sources as provided in section 22 (1) of the CSOS Act. Delays in the approval of the enabling legislation may have an impact on the entity achieving its planned objectives for the 2015-16 period.

The minister should review the proposed funding model in a timely manner to ensure that the financial health and service delivery of the entity is not negatively affected.

Information technology management as a specific cause of audit outcomes

The status of IT controls in the portfolio, demonstrated that there has been a regression since the previous financial year. The department and NHBRC experienced challenges with the design and implementation of IT controls, and should therefore prioritise the design and implementation of the required controls. The department still needed to design IT governance and IT service continuity controls such as an adequate IT governance framework and disaster recovery process. Furthermore, the department still had to implement security management controls such as an adequate firewall. With regard to the NHBRC, the leadership did not prioritise the design of the IT governance framework and related IT strategy, policies and procedures due to prioritising the SAP implementation and related processes.

The following controls should be strengthened to create a sound IT environment that supports the mandate of the entities

The leadership should prioritise the design of the IT governance framework and related IT strategy, policies and procedures in order to strengthen the NHBRC's internal control environment.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the portfolio of the minister

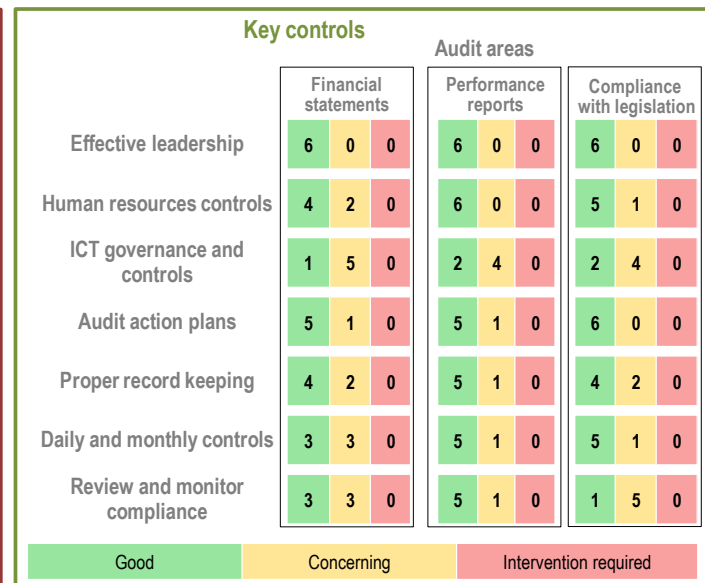
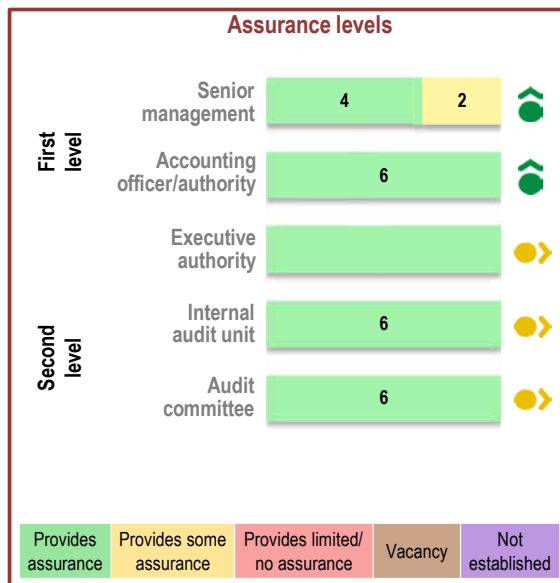
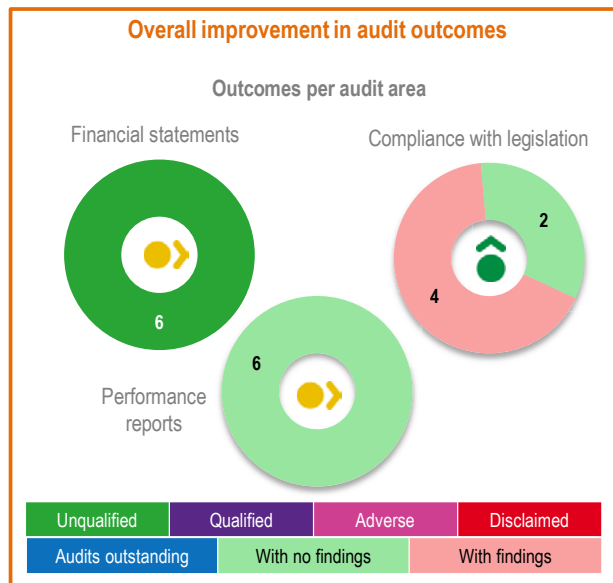
- Estate Agency Affairs Board (EAAB)
- Housing Development Agency (HDA)
- National Housing Finance Corporation Ltd (NHFC)
- National Urban Reconstruction and Housing Agency (NURCHA)
- Rural Housing Loan Fund (RHLF)
- Social Housing Regulatory Authority (SHRA)

The overall audit outcomes of these entities remained the same as in the previous year. The audit outcomes were as follows:

- The financial statements of six auditees (EAAB, HDA, NHFC, NURCHA, RHLF and SHRA) (100%) received an unqualified opinion in both the current and the previous years.
- Five (HDA, NHFC, NURCHA, RHLF and SHRA) auditees (83%) had no material findings on the quality of the APRs in both the current and the previous years.
- Three auditees (HDA, NHFC and RHLF) (50%) had no material findings on compliance in both the current and the previous years.
- The EAAB, NURCHA and SHRA had received repeat findings on material compliance with legislation.

The Social Housing Foundation (SHF) and Servcon Housing Solutions (Pty) Ltd (Servcon) were not finalised by 31 August 2015 for inclusion of their audit outcomes in this report, as they were in the process of liquidation. The liquidation process was prolonged and required urgent attention to conclude. The SHF, Servcon and Thubelisha Homes are dormant entities and have not been included in our assessment.

Vote 32: Mineral resources



1 To improve/maintain the **audit outcomes** ...

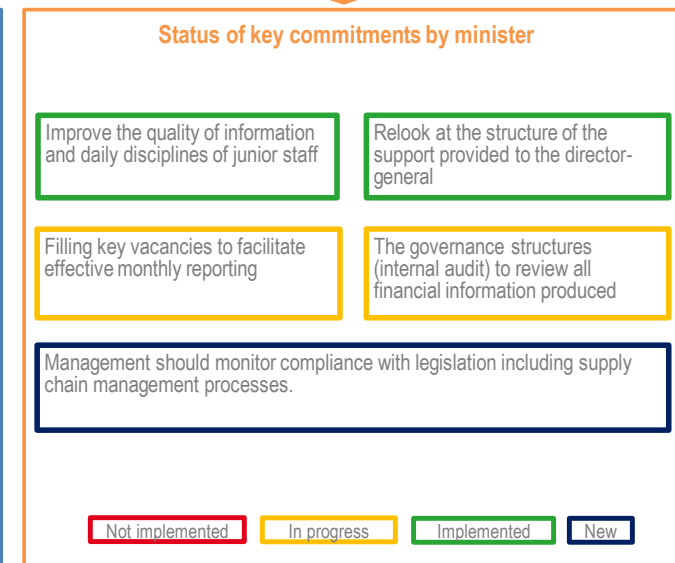
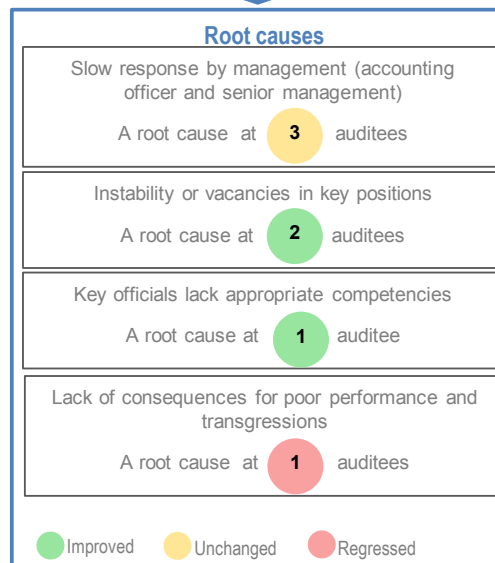
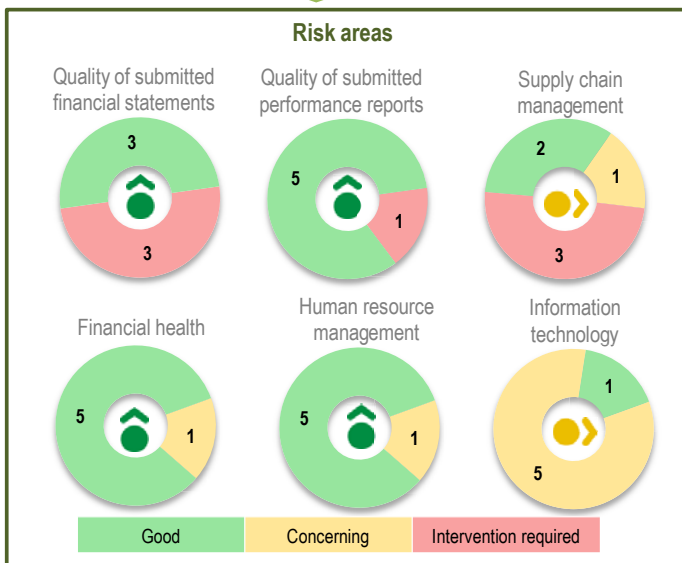
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Department of Mineral Resources (DMR)*
- *Council for Geoscience (CGS)*
- *Council for Mineral Technology (MINTEK)*
- *Mine Health and Safety Council (MHSC)*
- *South Africa Diamond and Precious Metals Regulator (SADPMR)*
- *State Diamond Trader (SDT)*

The department's total budgeted expenditure for the 2014-15 financial year was R1,48 billion. The main expenditure was personnel costs of R492 million, goods and services amounting to R252 million and transfer payments amounting to R719 million.

Overall audit outcome

The portfolio improved significantly as the SDT and MINTEK moved from an unqualified opinion with findings to an unqualified opinion with no findings (clean audit). The audit opinions of the remaining auditees in the portfolio were unchanged due to their failure to implement controls that would ensure compliance with legislation, and to prepare financial statements free of material misstatements.

All entities in the portfolio sustained good results for their audit of predetermined objectives

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The DMR, CGS and SADPMR submitted financial statements for auditing that contained material misstatements. They received an unqualified audit opinion only because they corrected all the misstatements we identified during the audit.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Prepare quarterly financial statements with relevant disclosure notes evidenced by reliable information.
- Adequate senior management review of the financial statements before they are submitted for auditing to ensure that they are free from material misstatements.
- Apply the requirements of the financial reporting framework correctly.

- Establish proper record keeping so that records supporting financial information can be made available when required for auditing purposes.
- Tailor IT systems to the needs of the business to assist in compiling accurate financial statements and reducing the reliance on manual processes to support the figures in the financial statements.

Annual performance report

The published APRs of all entities in the portfolio included information on their performance against predetermined objectives that was useful and reliable. Although the CGS submitted an APR for auditing that contained material misstatements, it avoided material findings in its audit report as it corrected all the misstatements we identified during the audit.

The following control should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Management should verify all the information included in the APR to ensure that all information has evidence.

Compliance with legislation

We identified material non-compliance with legislation in the following areas:

- The DMR did not apply the preferential procurement point system when procuring some goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and treasury regulation 16A6.3.
- The DMR awarded contracts to bidders that did not declare whether they were employed by the state or connected to any person employed by the state, which is prescribed to comply with treasury regulation 16A8.3
- The CGS procured goods and services with a transaction value below R500 000 without obtaining the required price quotations, as required by treasury regulation 16A6.1.
- The CGS awarded a contract to a bidder who did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and preferential procurement regulations.
- Persons in service of the MHSC whose close family members, partners or associates had a private or business interest in contracts awarded by the public entity, failed to disclose such interest, as required by treasury regulation 16A8.4
- The DMR, CGS and MHSC did not take reasonable steps to prevent irregular expenditure.

Irregular expenditure in the portfolio amounted to R12 million, with MINTEK contributing the most at R9,8 million. The irregular expenditure increased since the previous year and was a result of non-compliance with SCM legislation, identified during the audit.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Review and monitor compliance with applicable legislation by using compliance checklists that must be signed off by management.
- Clearly explain the impact of non-compliance with legislation to all involved in the SCM environment. Changes in legislation should be adequately identified and the impact addressed as soon as the legislation is promulgated.
- Perform independent reviews on all strategic procurement projects to ensure compliance to legislation and policies.
- Improve record keeping to ensure that SCM decisions can be verified against the SCM policy. In addition, consequence management should be applied for all SCM transgressions.

Root causes

The executive authority, accounting officer or authorities of the auditees should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take immediate action and hold officials accountable for not adhering to the implemented internal controls.
- Fill all vacancies with people possessing the requisite skills, and provide training to address gaps in the development of existing staff.
- Ensure that the portfolio has adequate skills and resources to appropriately and effectively report on and monitor financial management and service delivery.

Impact of key role players on audit outcomes

The first level of assurance should be improved by ensuring stability at the level of senior management at the department. The internal audit units and audit committees should implement an effective and consistent method of following up on actions taken to address audit findings relating to internal control weaknesses. Adequately reviewing financial statements and monitoring compliance with legislation cannot be over-emphasised.

We met with the previous minister once in the past year and this interaction had a significant impact on the outcome of the DMR.

We have noted a slight improvement in the minister implementing the previous year's commitments. We are very encouraged by the commitment and spirit of cooperation that the minister has displayed. We recommend that the leadership strive towards fully implementing the remaining commitments by the end of the 2015-16 financial year.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks related to information technology

Information technology management as a specific cause of audit outcomes

Key outcomes

We identified control weaknesses in the control design and implementing controls within the IT focus areas audited (governance, security management, user access management and service continuity). These control weaknesses were not common across the mineral resource portfolio.

The department's weaknesses related to IT governance, security management and user account management. This involved:

- the department restructuring the IT function to align with an unapproved organogram
- the user account management policy not being reviewed
- inadequate password parameters
- inadequate reviews of the administrator activities
- user access rights on financial systems.

MINTEK's weaknesses included the administrator activities not being reviewed and configuration standards for the server environment not being defined. This

led to misconfiguration or a lack of compensating controls for certain services that could not be disabled due to business requirements.

SADPMR weaknesses related to the administrator activities and user access rights not being reviewed, as well as an inadequately documented disaster recovery plan.

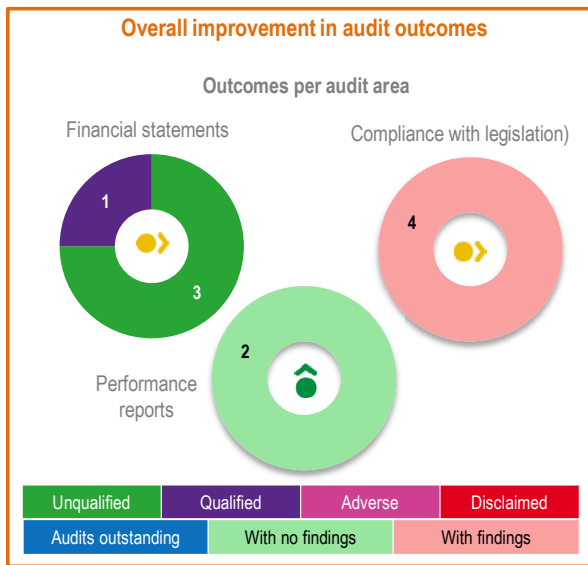
Good information technology control practices across the portfolio

SADPMR had good IT governance structures and IT security management processes. However, the entity did not maintain its clean IT controls environment from the previous year. On the other hand, MINTEK maintained consistent improvement in the IT control environment with good and clearly defined IT governance structures and the drive to implement compensating controls in areas where formal controls had not been defined or were inadequate.

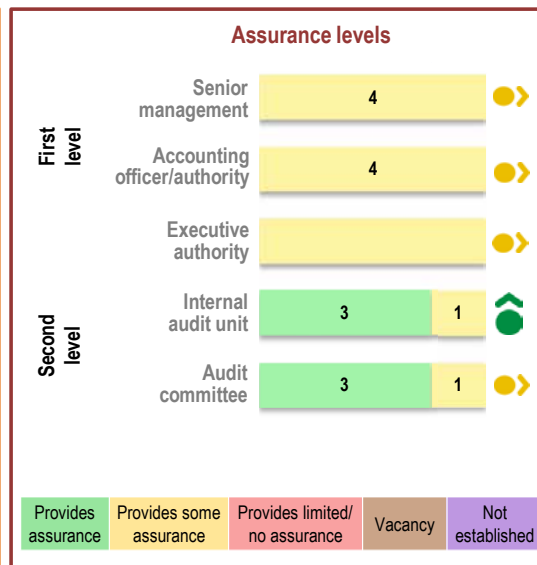
Causes for information technology control weaknesses

The control weaknesses identified were driven by the limited resources at both the department and the entities.

Vote 33: Rural development and land reform



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To improve the **audit outcomes** ...
... the **risk areas** and that ...
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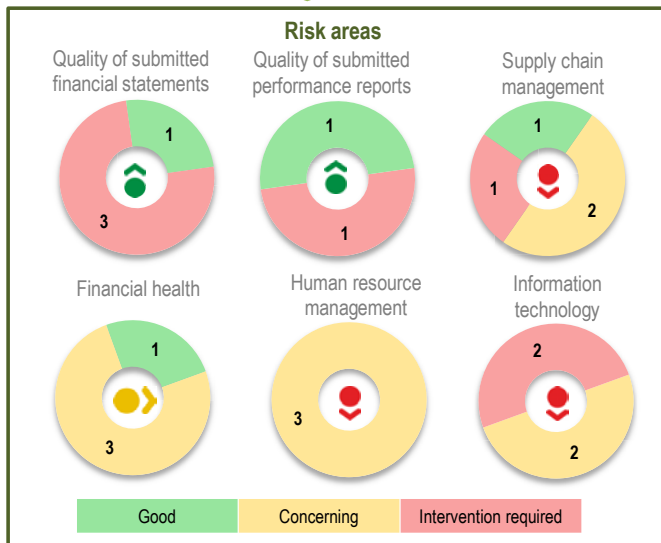
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... the key role players need to **assure** that ...
... the **root causes** are addressed ...
5

Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	2	2	0	1	1	0	1	3	0
Human resources controls	0	3	0	1	1	0	1	2	0
ICT governance and controls	0	2	2	0	1	1	0	4	0
Audit action plans	0	3	1	1	1	0	0	3	1
Proper record keeping	1	3	0	1	1	0	2	2	0
Daily and monthly controls	1	3	0	1	1	0	1	3	0
Review and monitor compliance	0	3	1	1	1	0	0	4	0

Legend: Good (green), Concerning (yellow), Intervention required (red).

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



Root causes

Slow response by management	A root cause at 3 auditees
Instability/vacancies of key management	A root cause at 2 auditees
Key officials lack appropriate competencies	A root cause at 3 auditees
Slow response by political leadership	A root cause at 1 auditee

Legend: Improved (green), Unchanged (yellow), Regressed (red).

Status of key commitments by minister

Ensure that internal audit function is fully staffed. This will also assist to ensure credibility checks were performed on all financial and performance information submitted by management to the different stakeholder.	Develop action plans to address weaknesses in internal controls and to sustain existing controls.
Develop the strategic plans for 2011-2015 financial years using the new planning framework, ensuring that the department wide objectives are clearly defined, risks associated with each objective will be defined, and it will be controlled throughout the financial year.	Implement effective project management in order to ensure proper process is being followed to avoid deterioration of service delivery.
Reduce vacancy rate by filling in vacancies of key management positions	Identify proper root causes for repeat audit findings. Develop appropriate action plans to address those root causes and ensure that the implementation of action plans are monitored.

Legend: Not implemented (red), In progress (yellow), Implemented (green), New (blue).

Auditees included in the portfolio

- *Department of Rural Development and Land Reform (DRDLR)*
- *Agricultural Land Holding Account (ALHA)*
- *Ingonyama Trust Board (ITB)*
- *Deeds Registration Trading Account (Deeds)*

The department's budgeted expenditure for the 2014-15 financial year was R9,5 billion. The main areas of expenditure budgeted for were:

- Transfer payments R5,7 billion
- Goods and services R1,7 billion
- Compensation of employees R2,0 billion
- Payments for capital assets R58 million

Overall audit outcome

The overall outcome for the portfolio remain unchanged even though the Ingonyama Trust Board addressed the past material findings on its performance report.. All four auditees did not address past material findings on compliance with legislation.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of ITB included the following material misstatements that were not corrected:

ITB did not recognise the land held as investment property and land owned at fair values as at the date of acquisition. We could not determine the correct fair value of lands as it was impractical to do so.

The entity incorrectly recognised royalties received from the mining operators as revenue.

The entity recognised a provision for distribution to beneficiaries which should not have been recognised.

The ITB did not correct the financial statements mainly because it did not properly manage the fair valued land register. As a result, the manner in which royalties revenue and provision was recognised in the financial statements does not comply with the Standard of Generally Recognised Accounting Practice (GRAP).

ALHA submitted financial statements that are free from material misstatement, while the DRDLR and Deeds submitted financial statements for auditing that contained material misstatements in the areas of immovable assets; property, plant and equipment; commitments; budget disclosure and other disclosure requirements. DRDLR and Deeds received an unqualified audit opinion only because it corrected all the misstatements we identified during the auditing process. The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Exercise oversight responsibility over financial statement reporting by improving the implemented internal monitoring controls to ensure the accuracy and credibility of the reported financial information.
- Design and implement daily controls to enable the preparation of credible monthly financial statements with disclosure notes.

Annual performance report

The DRDLR submitted an APR for auditing that contained material misstatements. The department avoided material findings in its audit report only because it corrected all the misstatements we identified during the auditing process. The annual performance targets of Deeds and ALHA were reported and audited under the department's annual performance plan.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Draft, implement and monitor action plans for the implementation of internal controls over the collation of information so that quarterly and annual reporting on performance against predetermined objectives is complete, accurate and verifiable.
- Pay specific attention to IT governance and IT related controls as we had identified several material information system weaknesses.

Compliance with legislation

We identified the following material non-compliance in the portfolio:

- ITB did not always follow a competitive bidding process when procuring goods and/or services.

The material non-compliance with legislation below was identified in the current and previous period:

- The DRDLR did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure.
- ALHA did not take effective and appropriate steps to collect all money due to the entity.

The DRDLR incurred R25 million in irregular expenditure in the 2014-15 financial year, which represents 93% of the total amount incurred by the portfolio. The irregular expenditure incurred was as a result of the contravention of SCM legislation and Treasury regulations relating to payments made without approval and deviation from internal policies without valid reasons. Ninety-seven per cent of this irregular expenditure was identified by the department. In 2013-14, the department incurred irregular expenditure of R12,65 million that related to contravention of SCM legislation and payments without approval, which was 68% of the total amount incurred by the portfolio.

The ITB did not comply with the prescribed SCM procurement processes by not following competitive bidding. This resulted to the entity incurring irregular expenditure of R2,02 million in the year under review compared to no irregular expenditure incurred in 2013-14.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Develop processes and procedures to monitor and identify non-compliance with legislation.
- Hold officials accountable for not complying with legislation.
- Identify the correct root causes of the repeat audit findings and develop appropriate action plans to address the control deficiency relating to the preparation of financial statements. Progress on the implementation of these action plans should be monitored on a quarterly basis.

Root causes

The executive authority, accounting officer and senior management should address the root causes of the audit outcomes and inadequate controls:

- Slows response by management on monitoring of action plans to address repeat control deficiencies on the preparation of financial statements, performance reports as well as IT-related controls for DRDLR, Deeds and ITB should be improved. Reasons for not implementing these actions plans within the agreed time frame should be followed up and adequate consequence management should be implemented for not adhering to time frames.
- Implement effective human resource management processes to ensure that key management position within the finance unit are sustainable in order to improve the quality of financial statement submitted.
- Training on legislation and accounting framework requirements provided to the officials was inadequate, resulting in material findings on financial

statement, performance reports and human resource management were identified during the audit.

Impact of key role players on audit outcomes

Some assurance was provided by first and second level assurance providers. This can however be improved by management addressing root causes and internal control deficiencies identified by internal and external audit

We met with the minister two times in the past year and these interactions had limited impact on the audit outcomes. Our assessment is based on the fact that some of the areas improved even though the overall audit outcomes of the portfolio remained largely unchanged. The areas in the portfolio that improved are the ITB's APR and the quality of the financial statement submitted by the Agricultural Land Holding Accounts. The impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We agreed on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

Financial health

The accounting officer should address the following matters, which could affect the financial health in the portfolio:

- The DRDLR has a R5,05 billion commitment relating to the land claims approved by the minister as at 31 March 2015. The department should ensure that there is an adequate process of monitoring the budgeted voted funds.
- The DRDLR and ITB should ensure that they monitor the budget for expenditure and the related accruals, as the accrual-adjusted net current

liabilities exceeded the net current assets for the department, while the ITB overspent its approved operating expenditure budget by 42%.

- The DRDLR, ALHA and ITB should improve their debt-collection period to ensure that impairment of debtors is minimised.

Information technology management as a specific cause of audit outcomes

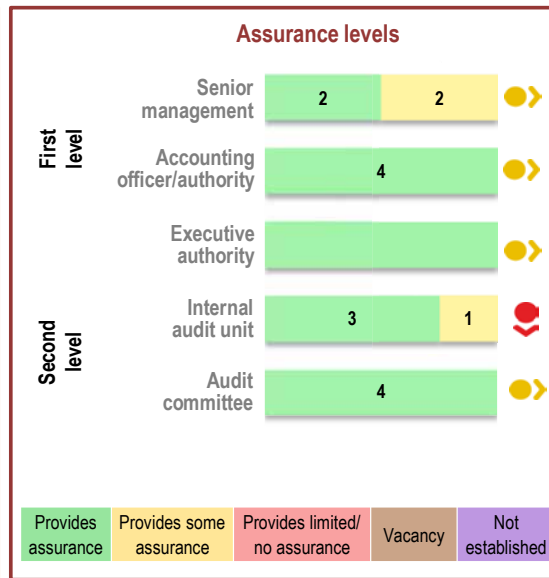
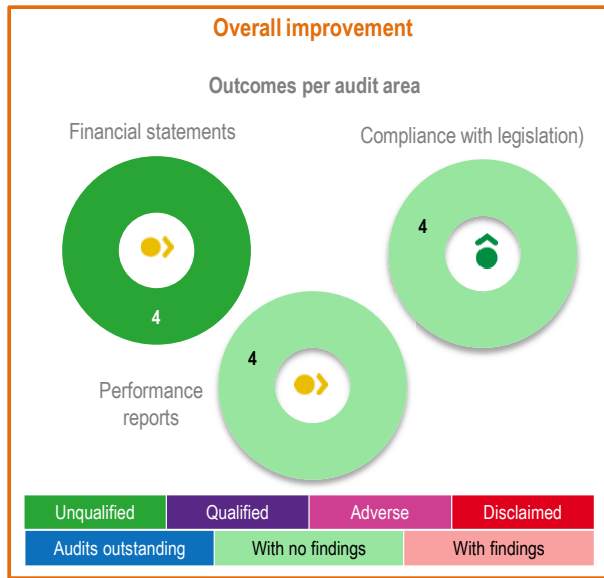
The national department provides IT services to ALHA and Deeds.

An analysis of the audit outcomes indicated that adequate progress had not been made in addressing previous findings as risks remained in all of the focus areas. Many previously raised findings had not been adequately addressed specifically in the areas of user access management and IT service continuity where controls had not been adequately designed and implemented.

This could mainly be attributed to infrastructure changes still taking place at the national department, inadequately designed policies and procedures, a lack of monitoring and review of access rights and activities and a lack of adequate human resources to design and implement certain controls.

We therefore recommend that governance structures should be strengthened to ensure accountability for resolving issues arising from previous year's reports.

Vote 34: Science and technology



Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Level	Issues	Findings	Level	Issues	Findings	Level	Issues	Findings
Effective leadership	4	0	0	4	0	0	4	0	0
Human resources controls	4	0	0	4	0	0	4	0	0
ICT governance and controls	3	1	0	3	1	0	3	1	0
Audit action plans	4	0	0	4	0	0	3	1	0
Proper record keeping	4	0	0	4	0	0	4	0	0
Daily and monthly controls	4	0	0	4	0	0	4	0	0
Review and monitor compliance	4	0	0	4	0	0	2	2	0

Legend: Good (green), Concerning (yellow), Intervention required (red)

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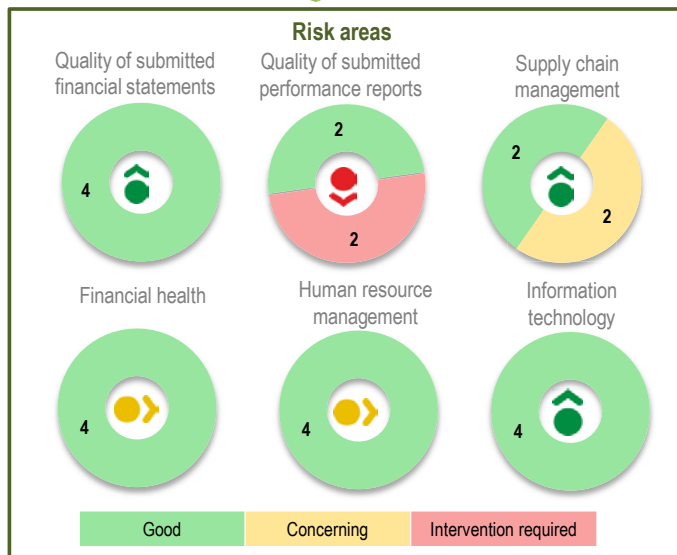
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3
... attention is given to the **key controls** and ...

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Best practices

Senior management's positive attitude and commitment must be consistently reinforced in their daily responsibilities.

In order to sustain audit outcomes, the auditees must ensure effective leadership that is based on a culture of honesty, ethical business practice and good governance.

Status of key commitments by minister

Management monitors the dashboard monthly and updates the minister quarterly on improvements and the actions taken to improve the controls.	The minister will address ASSAF matters reported with the chairperson of the ASSAF board to ensure that a turnaround strategy is implemented.
The SCM process checklist was implemented and must be completed for all tenders, quotations and deviations. Internal audit will audit the process to ensure compliance.	The DST will provide necessary support to its public entities to ensure compliance with its mandate and PFMA.
The SCM process checklist was implemented and must be completed for all tenders, quotations and deviations. Internal audit will audit the process to ensure compliance.	The minister will require a detailed plan addressing the audit findings, and quarterly updates on the progress and implementation of the plan.

Legend: Not implemented (red), In progress (yellow), Implemented (green), New (blue)

Auditees included in the portfolio

- *Department of Science and Technology (DST)*
- *Council for Scientific and Industrial Research (CSIR)*
- *Human Sciences Research Council (HSRC)*
- *National Research Foundation (NRF)*

The total budgeted expenditure for the department for 2014-15 was R6,4 billion. The main areas of expenditure were:

- | | |
|------------------------------|---------------|
| • Compensation for employees | R285 million |
| • Goods and services | R210 million |
| • Transfer payments | R5,98 billion |
| • Capital assets | R2,3 million |

Overall audit outcome

The overall audit outcome improved as a result of the DST receiving its first clean audit opinion in three years by addressing past material findings on compliance with legislation. The NRF, the CSIR and the HSRC retained their clean audit outcome status.

It should be noted that the Council for the African Institute of South Africa (AISA) was incorporated into the HSRC with effect from 1 April 2014 and currently operates as a programme under the HSRC.

The main findings from our audit, which should be addressed to sustain the improved overall audit outcomes are as follows:

Annual performance report

The APR of the DST and NRF submitted for auditing contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements identified during the audit process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- The APR should be properly reviewed against the annual performance plan to ensure consistent reporting.
- The APR should be properly reviewed and monitored to ensure that the reported performance information is supported by reliable information to confirm validity and accuracy.

Compliance with legislation

The auditees in the portfolio incurred R25 million in irregular expenditure. Of this irregular expenditure, 22% was identified by the auditees. Irregular expenditure decreased by 52% from the previous year. The irregular expenditure incurred in the current and previous year was a result of non-compliance with SCM regulations.

Management within the portfolio increased the level of review to enhance compliance with legislation. As a result, there was no material non-compliance reported in the audit report.

The following are some of the non-compliance that resulted in irregular expenditure:

- The DST and the NRF did not always obtain three written quotations and deviations were not approved.
- The DST evaluated a tender by applying evaluation criteria different from originally specified.
- The NRF advertised a bid for a shorter period without approval.

The following control should be strengthened to create a control environment that supports compliance with legislation:

- Management should adequately oversee compliance and related internal controls in the area of SCM to further reduce irregular expenditure.
- Officials should be held accountable for non-compliance with legislation, irregular expenditure should be tracked, and proactive preventative measures should be implemented.

Best practices

Senior management should maintain the following best practices:

- Senior management's positive attitude and commitment must be consistently reinforced in their daily responsibilities.
- In order to sustain the good audit outcomes, the auditees must ensure effective leadership that is based on a culture of honesty, ethical business practice and good governance.

Impact of key role players on audit outcomes

The first and second levels of assurance should be maintained, ensuring stability at the level of accounting officer and senior management.

We met with the minister three times in the past year and these interactions had a significant impact on the audit outcomes as the minister's commitment improved the audit outcomes of the entire portfolio.

In response to the audit outcomes, the minister undertook to implement the previous year's commitments.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

The chairperson of the portfolio committee made the following commitments:

- Obtain feedback on the implementation of action plans to address audit weaknesses identified.
- Exercise oversight during the committee's quarterly reviews with regard to compliance and performance reporting.

Risk to information technology

Key outcomes

The portfolio showed a huge improvement with no significant matters noted at the DST, the CSIR and the NRF. At the HSRC weaknesses relating to IT governance, as defined processes were not implemented for the establishment of an IT governance framework and for having an effective IT steering committee.

Causes of IT control weaknesses

The control weaknesses identified were due to officials failing to adhere to defined policies and procedures.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the minister's portfolio:

- *Academy of Science of South Africa (ASSAF)*
- *South African National Space Agency (SANSA)*
- *Technology Innovation Agency (TIA)*

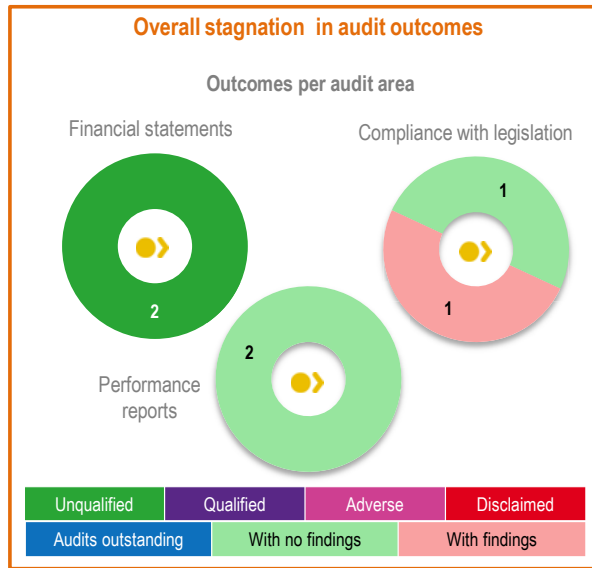
The overall audit outcomes of these entities regressed compared to the previous year. The audit outcomes were as follows:

- The financial statements of three auditees (100%) received an unqualified opinion – the same result as in the previous year.
- Two auditees (66,7%) had no material findings on the quality of the APRs.
- Two auditees (66,7%) had no material findings on compliance with legislation.

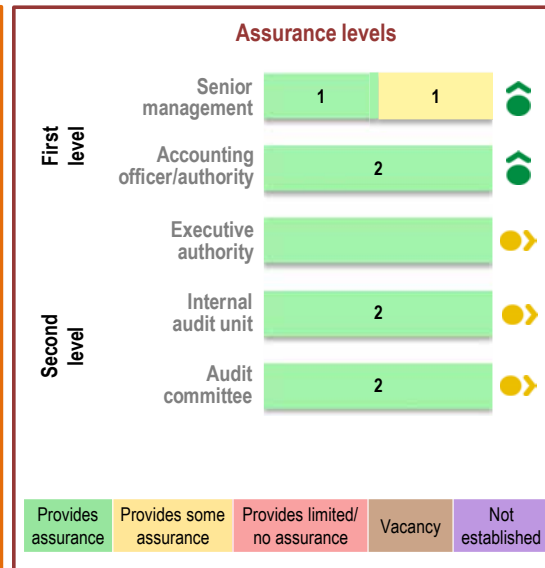
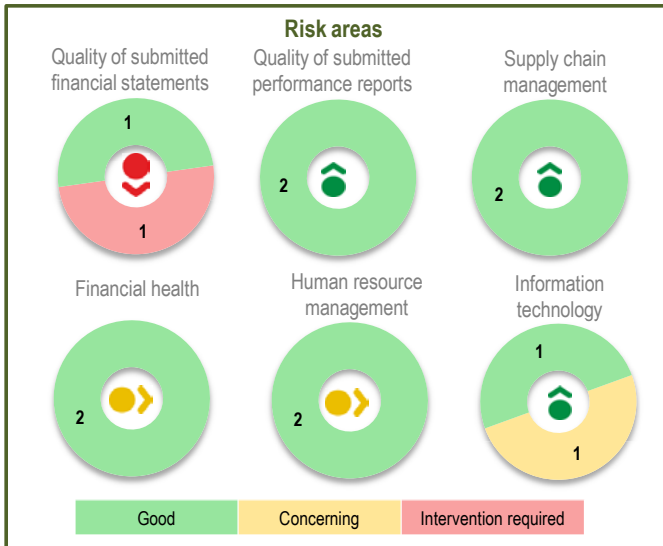
ASSAF had findings on its performance information and compliance with legislation. They were previously audited only their financial statements and not on its performance information and compliance with legislation. The current year's audit process changed, as section 2 (2) of the ASSAF Act requires ASSAF to comply with the provisions of the PFMA.

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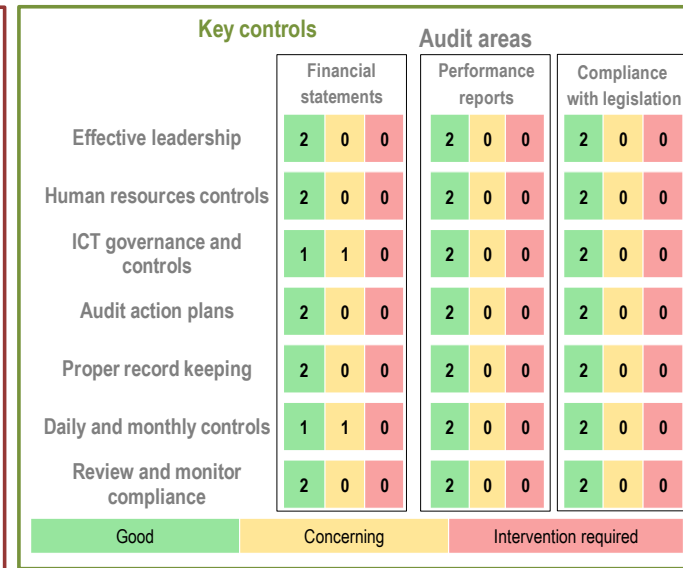
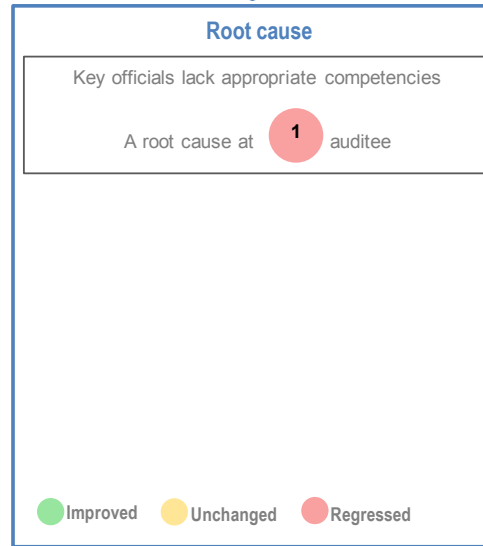
Vote 35: Tourism



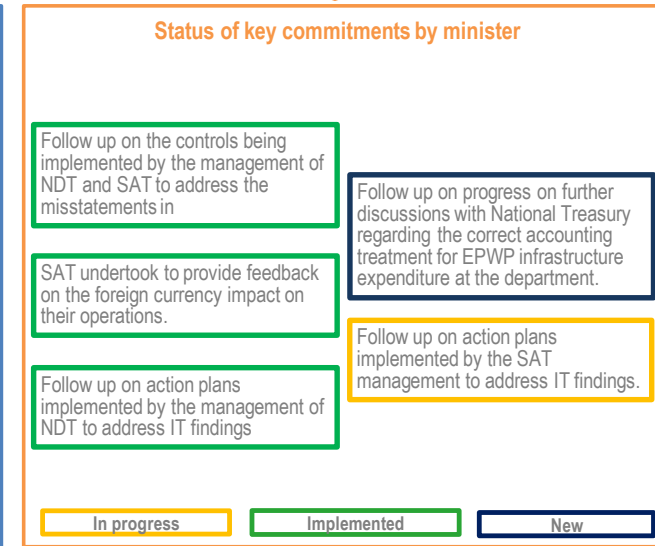
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To improve/maintain the **audit outcomes** ...
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4



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



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



Auditees included in the portfolio

- *National Department of Tourism (NDT)*

- *South African Tourism (SAT)*

The total budgeted expenditure by auditees in the portfolio for the 2014-15 financial year was R1,583 billion. The main areas of expenditure were in respect of the following:

- Employee cost R229 million
- Goods and services R144 million
- Transfer payments R1,199 billion
- Capital expenditure R10 million.

Overall audit outcomes

There has been a lack of improvement in the overall audit outcomes of the portfolio compared to the previous year. The department has regressed from an unqualified audit opinion with no findings in the previous year to unqualified with findings on compliance with legislation due to failure to monitor commitments to sustain the audit outcome. SAT management honoured its previous year's commitments by implementing controls to ensure compliance with legislation, resulting in an improvement from unqualified with findings on compliance to unqualified with no findings.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The financial statements submitted for auditing by NDT contained material misstatements in the area of disclosure notes (commitments). The department received an unqualified audit opinion only because they corrected the material misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Strengthening financial reporting and related controls to prevent misstatements.
- Enhance oversight to detect misstatements prior to commencement of the audit process.
- Proper record keeping should be implemented for the collection and consolidation of information supporting disclosure notes, which are only finalised at year-end.

Root causes

Leadership at NDT should address the root causes of poor audit outcomes and inadequate controls as follows:

- Key officials should be trained to gain appropriate competencies relating to preparation of disclosure notes.
- The department should put controls in place to ensure that EPWP's infrastructure assets for the 2015-16 financial year are treated in terms of the accounting framework.

Impact of key role players on audit outcomes

Senior management at NDT should improve the first level of assurance by implementing the AGSA's recommendations. Management should proactively deal with EPWP's commitment in consultation with National Treasury and SAT should continuously engage NT on the foreign currency impact on their budget and operations.

We met with the minister once in the past year and this interaction had an impact on the audit outcomes. This assessment, the impact of the minister on the controls of the auditees, as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided through the oversight of the portfolio committee should be maintained. This assessment is based on active engagement between the portfolio committee and the minister on clean administration.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks related to information technology

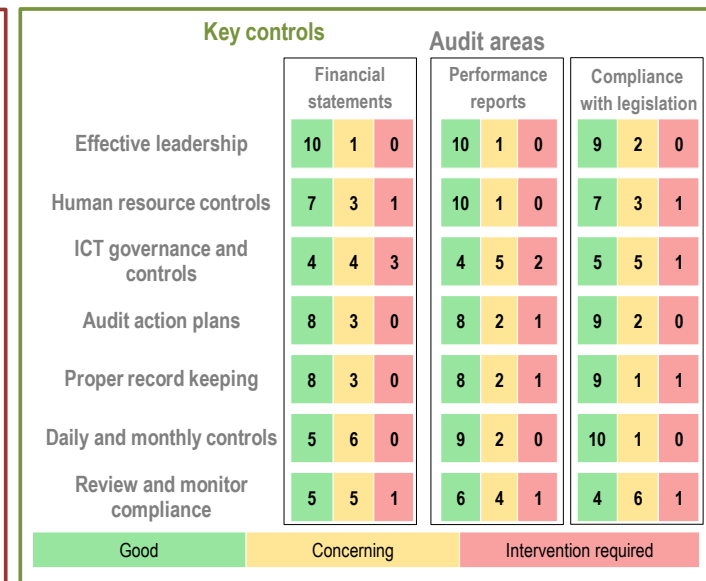
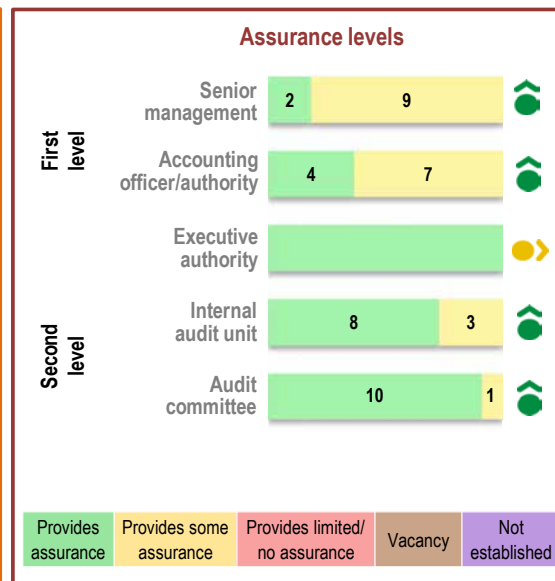
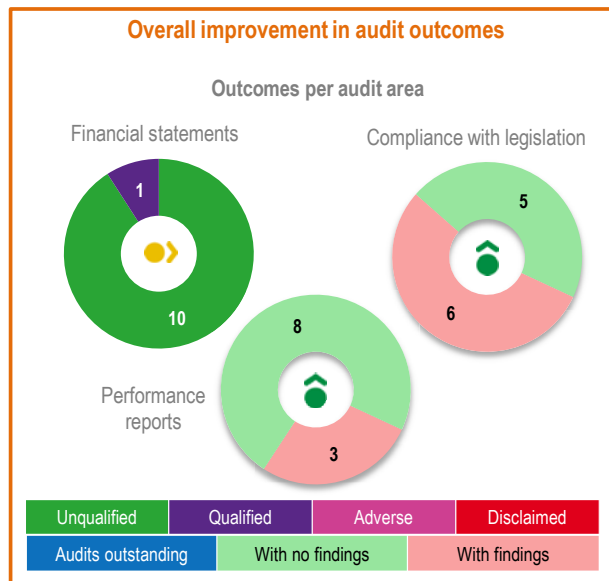
Information technology management as a specific cause of audit outcomes

Key outcomes

Significant improvement was noted in the IT controls environment, as NDT's management had implemented the previous year's commitments. Improvements are still required at SAT in terms of full implementation of IT governance processes, which will ensure the adequate implementation of IT controls.

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Vote 36: Trade and industry



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To improve the **audit outcomes** ...

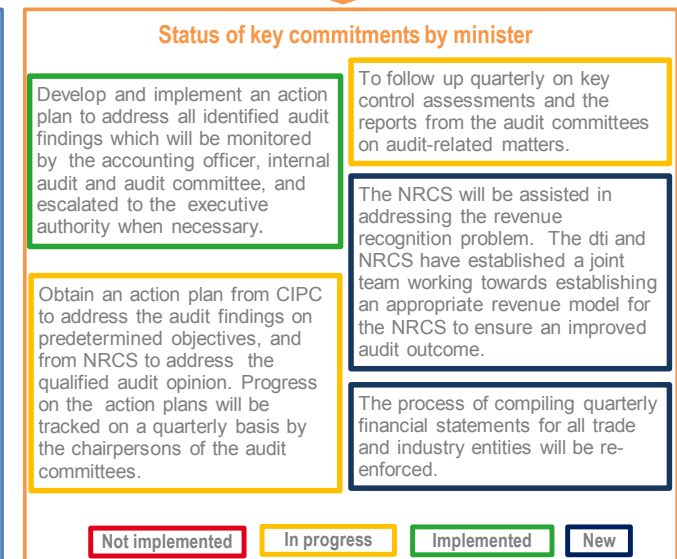
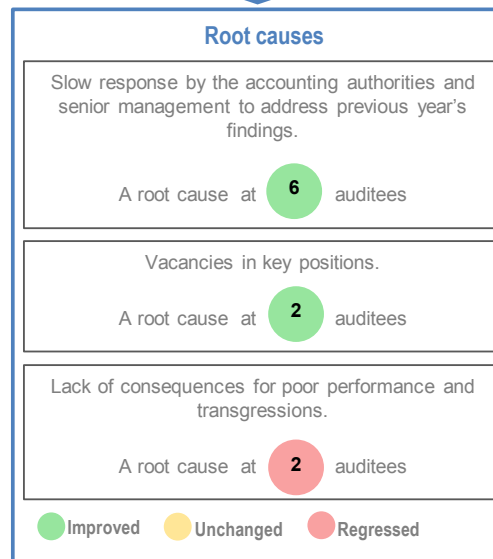
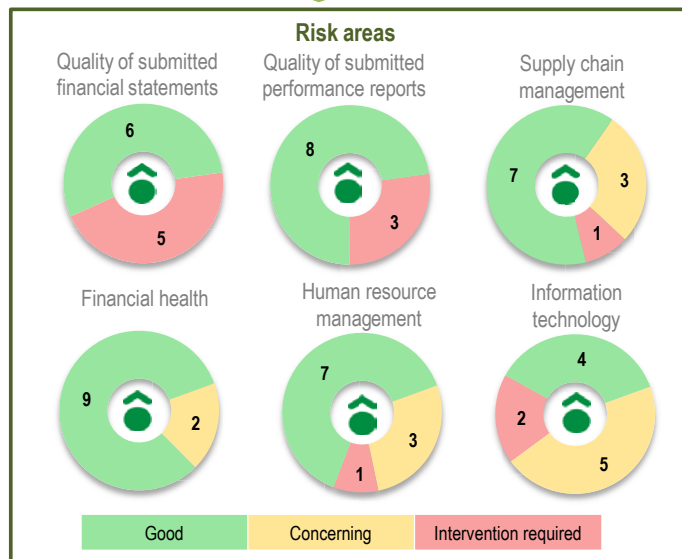
2
... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *Department of Trade and Industry (dti)*
- *Companies Intellectual Property Commission (CIPC)*
- *Companies Tribunal (CT)*
- *National Consumer Commission (NCC)*
- *National Consumer Tribunal (NCT)*
- *National Credit Regulator (NCR)*
- *National Gambling Board (NGB)*
- *National Lotteries Board (NLB)*
- *National Regulator for Compulsory Specifications (NRCS)*
- *Small Enterprise Development Agency (SEDA)*
- *South African Bureau of Standards (SABS)*

The department's approved expenditure budget for the 2014-15 financial year was R9,9 billion. The main categories of budgeted expenditure were:

- employee costs R941,4 million,
- goods and services R733,7 million,
- transfer payments and subsidies R8,2 billion and
- capital expenditure R37,8 million.

The Department of Small Business Development was formed on 8 July 2014. SEDA became part of the Department of Small Business Development portfolio from 1 April 2015.

Overall audit outcome

The improvement in the overall audit outcome was due to the dti and NCR receiving clean audit opinions by addressing past material findings on non-compliance with legislation.

The audit outcomes for the rest of the portfolio remained unchanged. The NRCS' audit opinion remained financially qualified with findings on predetermined objectives and compliance with legislation. The other entities remained financially unqualified with findings on compliance with legislation and/or predetermined objectives, except for the SABS and the NCT which maintained unqualified audit opinions with no findings on all three areas of financial reporting, compliance with legislation and predetermined objectives.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements of the NRCS included the following material misstatements:

- The NRCS generates revenue from levies for compulsory specifications. The completeness of revenue and receivables could not be confirmed due to the accounting records not being adequate.

The following auditees submitted financial statements for auditing that contained material misstatements and received unqualified audit opinions only because they corrected all the misstatements we identified during the auditing process:

Auditee	Areas in which material misstatements were identified and corrected
CT	Non-current assets, cash flow statement
NGB	Current liabilities, disclosure notes
NLB	Current assets, disclosure notes
SEDA	Disclosure notes

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The revenue information systems as well as automated and manual controls at the NRCS should be improved to ensure that all revenue due to the NRCS is recognised in the correct financial period.
- Controls over the preparation of accurate and complete financial statements should be strengthened to ensure that financial statements are of high quality. This includes the implementation and maintenance of financial processes to ensure that regular, accurate and complete financial statements are compiled on a monthly basis.

Annual performance report

The published APRs of the CIPC, NCC and NRCS included information on their performance against predetermined objectives that was not useful or reliable for the following programmes and objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
CIPC	Business regulation and reputation		x
	Service delivery and access		x
NCC	To promote compliance with the Consumer Protection Act		x
NRCS	To maximise compliance with all specifications and technical regulations	x	x

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Improve and maintain IT systems and controls to ensure uninterrupted operations and to enable the generation of complete, accurate and valid data to use in the compilation of the quarterly and APRs.
- Implement proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.
- Action plans to address material findings should include greater senior management involvement and in-depth review of the annual performance plan prior to approval.

Compliance with legislation

We identified material non-compliance with legislation by the CT, NCC, NGB, NLB, NRCS and SEDA in the following areas:

- The CT, NGB, NLB, NRCS and SEDA submitted financial statements that contained material misstatements.
- The NCC, NGB and NRCS did not take reasonable steps to prevent irregular expenditure.
- The NGB did not investigate the circumstances of monies confiscated from illegal gambling in terms of the National Gambling Act; and some board members served on the board after their term expired, without the appropriate approval.
- The NGB did not always award contracts and quotations to suppliers whose tax matters were in order.

We identified material non-compliance with legislation by the NGB, NLB and NRCS which may have potentially resulted in financial loss in the following areas:

- The NGB did not always follow prescribed procurement processes in the following areas:
 - Competitive bidding process.
 - Obtaining the required three price quotations, as prescribed. By not inviting quotations as required, it cannot be determined if the entity procured the goods and services at an economical price.
 - Contracts extended or modified with the approval of a properly delegated official.
- The NLB did not always take effective and appropriate steps to collect all money from entities that did not fulfil the conditions under which the grants were transferred to them.
- The NRCS did not take effective and appropriate steps to collect money due to it and maintain an effective, efficient and transparent system of risk management and internal controls with respect to performance information and management.

Although irregular expenditure was incurred within the portfolio, it has decreased since the previous year. A significant portion of irregular expenditure was incurred by the following entities:

- NCC incurred irregular expenditure of R7,3 million which constitutes an increase from the R6,9 million reported in the previous year. The irregular expenditure incurred was as a result of inadequate monitoring and review of SCM legislation. This represents 18% of the total irregular expenditure incurred within the portfolio. All irregular expenditure reported by the NCC was identified by management.
- The NGB incurred irregular expenditure of R3 million, a decrease from R3,9 million incurred in the previous year. The irregular expenditure incurred was as a result of inadequate monitoring and review of SCM legislation. This represents 8% of the total irregular expenditure incurred within the portfolio. Ninety percent of the irregular expenditure reported by the NGB was identified by management.
- The NLB incurred irregular expenditure of R20,7 million, an increase compared to the R20,1 million reported in the previous year. The irregular expenditure incurred was as a result of inadequate monitoring and review of SCM legislation relating to contracts entered into in the previous years, which were still active in the 2014-15 financial year. This represents 52% of the total irregular expenditure incurred within the portfolio. One hundred percent of the irregular expenditure reported by the NLB was identified by management.

- The NRCS incurred R7,2 million in irregular expenditure which is an increase from R5,8 million incurred in the previous year. The irregular expenditure incurred was as a result of the contravention of SCM legislation and inadequate contract management. This represents 18% of the total irregular expenditure incurred within the portfolio. One hundred per cent of the irregular expenditure reported by the NRCS was identified by management.
- Although there was an improvement in the audit outcomes, the overall risk of non-compliance with SCM prescripts still remained. The NCC, NGB, NLB and NRCS should implement adequate processes to ensure compliance with all SCM legislation in order to improve the audit outcome.

The monitoring and review of SCM prescripts should be improved to create a control environment that supports compliance with legislation.

Root causes

The leadership should address the root causes of audit outcomes and inadequate controls as follows:

- The leadership should ensure that internal and external audit recommendations are implemented in a timely manner and all identified internal control deficiencies are addressed.
- Vacancies in key positions should be filled as soon as possible, with individuals who possess the necessary competencies.
- The leadership must ensure that staff who transgress internal control policies and procedures face consequences and performance assessments must be conducted frequently.

Impact of key role players on audit outcomes

The first level of assurance should be improved by filling vacancies in key senior management positions. The accounting officer or authority should implement and maintain controls to ensure that irregular expenditure is prevented and appropriate action is taken against employees who incur irregular expenditure. Furthermore, IT systems which meet the record keeping needs of entities should be implemented as soon as possible.

We met with the minister two times and corresponded in writing two times in the past year. These interactions had a positive impact on the audit outcomes. The audit outcome of the dti and NCR moved from financially unqualified with findings on non-compliance with legislation to financially unqualified with no findings on compliance or performance information (clean) as a result of the minister's intervention. Furthermore, the minister monitored the progress of the portfolio's performance through the quarterly reporting process using the

information supplied by the entities. This assessment, the impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR session, which incorporated a capacity building session, and the review of the annual performance plan. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks related to information technology

The DTI and CIPC did not implement designed IT controls, such as policies and standard operating procedures. The NRCS and NCC experienced challenges with the design and implementation of IT controls, and should therefore prioritise the aforementioned.

The leadership should address the root causes of IT audit outcomes and inadequate IT controls as follows:

- All entities within the portfolio should establish a dashboard to report on the effectiveness of IT controls.
- The leadership should ensure that policies and standard operating procedures are implemented and that all staff comply with them.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

We do not audit the following entities included in the portfolio of the minister:

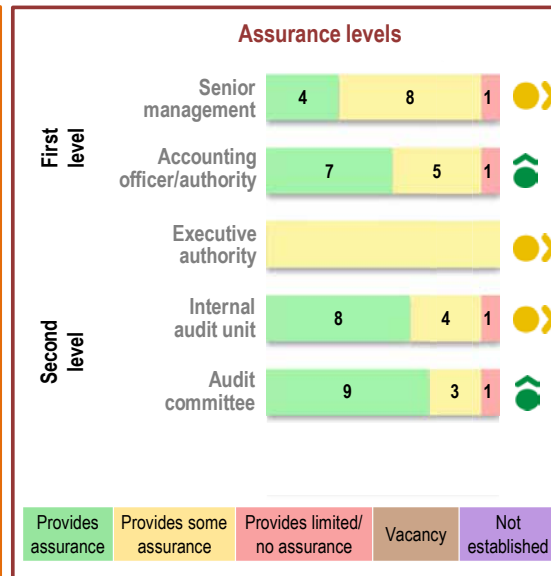
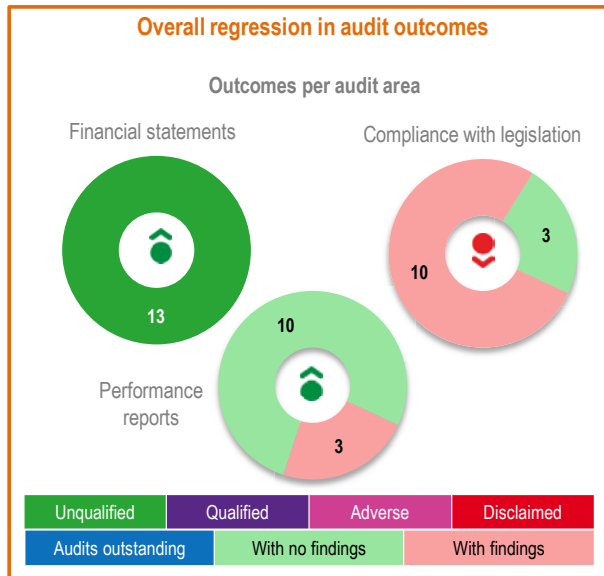
- *Export Credit Insurance Corporation of South Africa (ECIC)*
- *National Empowerment Fund (NEF)*
- *National Metrology Institute of South Africa (NMISA)*
- *South African National Accreditation System (SANAS)*

The overall audit outcomes of these entities regressed in the year under review. The audit outcomes were as follows:

- The financial statements of four auditees (100%) received an unqualified opinion – the same result as in the previous year.
- Three auditees (75%) had no material findings on the quality of the APRs – a regression from the four (100%) in the previous year.
- Three auditees (75%) had no material findings on compliance with legislation – a regression from the four (100%) in the previous year.

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Vote 37: Transport



Key controls

Key Control	Financial statements			Performance reports			Compliance with legislation		
	Good	Concerning	Intervention required	Good	Concerning	Intervention required	Good	Concerning	Intervention required
Effective leadership	11	1	1	12	0	1	10	1	2
Human resources controls	7	5	1	11	2	0	9	2	2
ICT governance and controls	4	7	2	5	7	1	5	7	1
Audit action plans	9	3	1	10	2	1	9	2	2
Proper record keeping	8	4	1	7	4	2	9	1	3
Daily and monthly controls	6	7	0	8	4	1	7	5	1
Review and monitor compliance	6	4	3	9	1	3	1	5	7

Legend: Good (Green), Concerning (Yellow), Intervention required (Pink)

1 To improve/maintain the **audit outcomes** ...

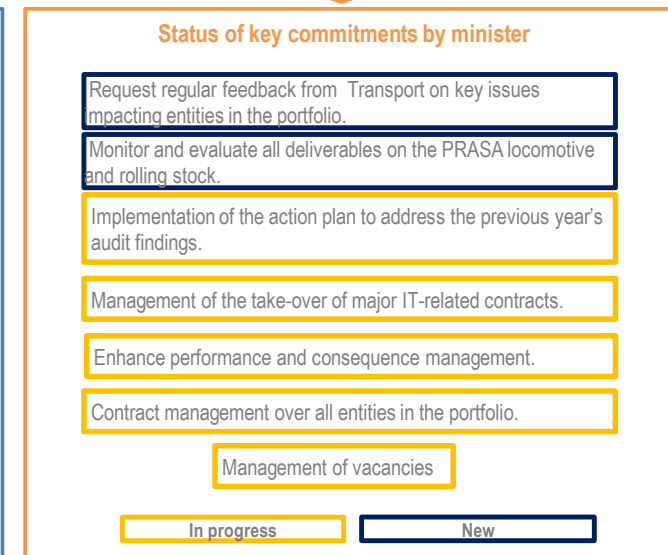
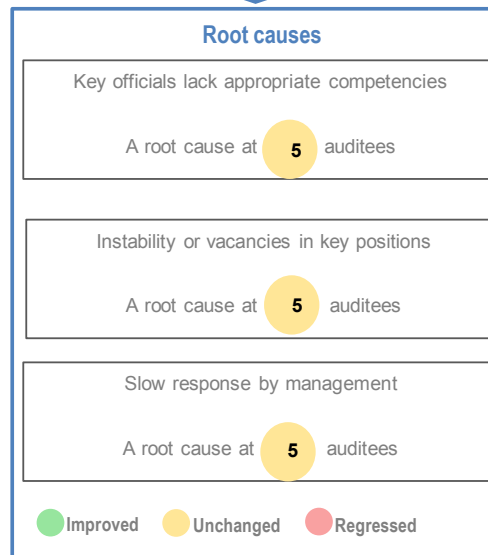
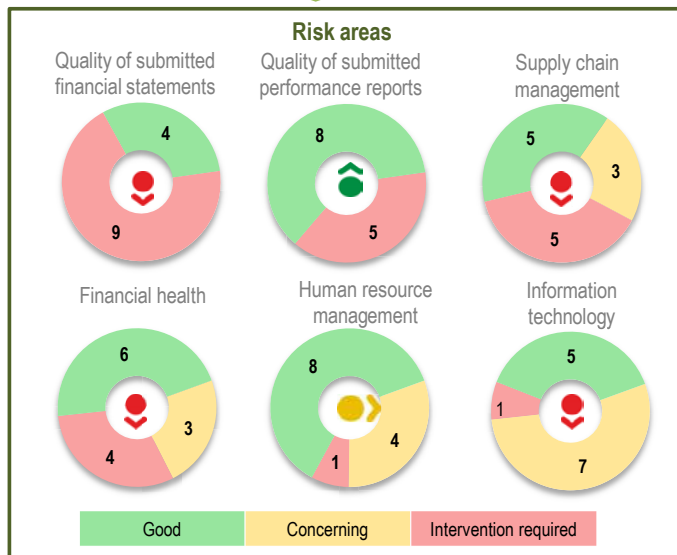
2 ... the key role players need to **assure** that ...

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

4 ... the **risk areas** and that ...

5 ... the **root causes** are addressed ...

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



Auditees included in the portfolio

- *Department of Transport (Transport)*
- *Airports Company South Africa SOC Limited (ACSA)*
- *Cross Border Road Transport Agency (CBRTA)*
- *Driving Licence Card Account (DLCA)*
- *Passenger Rail Agency of South Africa (PRASA)*
- *Ports Regulator of South Africa (Ports Regulator)*
- *Railway Safety Regulator (RSR)*
- *Road Accident Fund (RAF)*
- *Road Traffic Infringement Agency (RTIA)*
- *Road Traffic Management Corporation (RTMC)*
- *South African Civil Aviation Authority (SACAA)*
- *South African Maritime Safety Authority (SAMSA)*
- *South African National Roads Agency SOC Limited (SANRAL)*

The department's budget (voted funds) for the 2014-15 financial year was R48,771 billion. The main expenditure was in respect of the following:

- | | |
|-----------------------|-----------------|
| • Transfer payments | R47,756 billion |
| • Goods and services | R624 million |
| • Employee costs | R383 million |
| • Capital expenditure | R8,4 million. |

Overall audit outcome

The regression in overall audit outcomes was caused by DLCA and RTIA which regressed from unqualified with no findings in the previous year to unqualified with findings on compliance with legislation and/or predetermined objectives.

ACSA, which was audited by the AGSA for the first time in the 2014-15 financial year, received an unqualified audit opinion with findings on compliance with legislation and predetermined objectives compared to unqualified with no findings in the previous year. PRASA's audit outcomes are included in this general report as the annual financial statements were submitted timeously, while their 2013-14 outcomes were excluded from the previous year's general report as the audit had not been finalised by 31 August 2014. PRASA received an unqualified audit opinion with findings on compliance with legislation and predetermined objectives, as was the case in the previous year.

Transport, CBRTA, RSR, SAMSA and SANRAL remained unchanged as they received an unqualified audit opinion with findings on their APR and/or compliance with legislation. RTMC improved from a qualified audit opinion to an unqualified audit opinion with findings on compliance with legislation. RTMC management honoured their previous year's commitments by improving asset management processes and credibility of the asset register.

The Ports Regulator improved its audit outcomes as it submitted financial statements that were free from material misstatements, resulting in an unqualified audit opinion with no findings on its APR and compliance with legislation. Management honoured their previous year's commitments by improving controls over accounting for revenue and disclosure notes. RAF and SACAA sustained their unqualified audit opinion with no findings by maintaining and monitoring their systems of internal control.

Our audit's main findings are reported in the audit reports and should be addressed to improve the overall audit outcomes. These are as follows:

Financial statements

The published financial statements in the portfolio included the following material misstatements:

- The financial statements submitted for auditing by Transport, ACSA, DLCA, PRASA, RSR, RTIA, RTMC, SAMSA and SANRAL contained material misstatements in the areas of assets, revenue, expenditure and certain disclosure notes. All these entities received an unqualified audit opinion only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- Staff involved in financial reporting should be trained on the financial reporting framework and the review process should be enhanced to detect and correct errors prior to submitting financial statements for audit.
- Proper record keeping should be implemented for the collection and consolidation of information supporting disclosure notes which are only finalised at year-end.
- Key commitments made to implement the AGSA's recommendations to address the root causes should be promptly implemented.
- Vacancies in key positions should be filled timeously with competent personnel.

Annual performance report

The published APR of Transport, SAMSA and ACSA included information on their performance against predetermined objectives that was not useful and/or reliable for the following programmes and objectives we had selected to audit:

Auditee	Programme/objective	Not useful	Not reliable
Transport	Road transport		x
SAMSA	Maritime safety		x
	Maritime security		x
ACSA	Entrench and deepen partner relationship	x	
	Enhance returns (Identify and secure new business)	x	x
	Good governance	x	
	Continually re-engineer and align business operations and processes		x
	Inclusive infrastructure capacity planning and development	x	

The APRs submitted for auditing by PRASA and SANRAL contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements we had identified during the auditing process.

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- Staff involved in the preparation of APRs should be trained on the FMPPi.
- Proper record keeping of evidence to support the achievement/ non-achievement of targets.
- Quality reviews should be performed in a timely manner prior to submission of such reports for audit.

Compliance with legislation

We identified material non-compliance (excluding non-compliance with PFMA due to the submission of financial statements that contained material misstatements) with legislation by Transport, ACSA, CBRTA, PRASA, RTIA, RTMC, SAMSA and SANRAL in the following areas:

- Transport did not fill funded vacant posts within 12 months, which is in contravention of public service regulation 1/VII/C.1A.2. The overall vacancy rate for the department was 22%. A five-year strategic plan that covers the current financial year (2014-15) was not prepared as required by treasury regulation 5.1.1.
- ACSA did not always follow competitive bidding processes. Some invitations for competitive bidding were not advertised for a minimum period as prescribed by the SCM policy. Certain contracts were awarded to and quotations were accepted from suppliers whose tax matters had not been declared by the South Africa Revenue Services to be in order. The corporate plan does not cover the affairs of the subsidiaries, as required by section 52(b) of the PFMA and National Treasury practice note 4 of 2009-10.
- PRASA did not notify the National Treasury of an award of an unsolicited bid proposal as required by National Treasury practice note 11 of 2008-09.
- PRASA did not consistently apply its discretion to disqualify bidders based on conflict of interest, as required by section 51(1)(a)(iii) of the PFMA, in awarding a contract relating to the Broad-Based Black Economic Empowerment (BBBEE) equity partners to the fleet renewal programme (new rolling stock). The attendance register for the adjudication committee for the invitation to participate (ITP) and supplementary ITP process in respect of the BBBEE tender for rolling stock could not be provided; consequently we were unable to confirm receipt of all appointment letters.
- RTIA and RTMC procured goods and services with a transaction value above R500 000 without inviting competitive bids. The procurement of goods and services was split into parts or items of a lesser value to circumvent competitive bidding, resulting in non-compliance with practice note 8 of 2007-08.
- SAMSA did not comply with treasury regulation 27.2, which led to ineffective functioning of the internal audit function. This resulted in the internal audit unit not having the required three-year rolling and annual audit plan; not evaluating reliability and integrity of financial, operational information and compliance with laws and regulations; and not submitting reports directly to the audit committee. Internal audit did not report directly to the accounting authority.
- SAMSA did not comply with treasury regulation 27.1, which led to ineffective functioning of the audit committee, resulting in the audit committee not reviewing the effectiveness of the internal audit unit and the adequacy, reliability and accuracy of the financial information; and not reviewing the entity's compliance with legal and regulatory provisions. Furthermore, the audit committee did not meet at least twice a year, as required by section 77(b) of the PFMA.
- SANRAL procured goods and services with a transaction value below R500 000 without obtaining the required price quotations. Invitations for

competitive bidding were not always advertised in at least the government tender bulletin, as required by the Treasury Regulations, and the CIDB website for construction contracts, as required by CIDB requirements. Contracts were awarded to bidders based on preferential procurement points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and its regulations. Bidders did not submit valid B-BBEE status level verification certificates or certified copies thereof.

- RTIA and SANRAL awarded contracts to bidders who had not disclosed past supply chain practices, as prescribed in order to comply with treasury regulation 16A9.2.
- Transport, CBRTA, SAMSA, PRASA, ACSA and SANRAL did not take effective and appropriate steps to prevent irregular expenditure. Transport, SAMSA, PRASA and ACSA did not take effective and appropriate steps to prevent fruitless and wasteful expenditure. Transport did not take effective and appropriate steps to prevent unauthorised expenditure. Furthermore, SAMSA did not take effective and appropriate disciplinary action against officials who incurred and/or permitted irregular, fruitless and wasteful expenditure.

The transport portfolio incurred a total of R2,4 billion (95%) in irregular expenditure as a result of non-compliance with SCM. R1,6 billion of the total irregular expenditure was incurred by SANRAL and this expenditure by SANRAL increased by 4% compared to the previous year. Ninety-two per cent (92%) of the irregular expenditure was identified by SANRAL while the remainder was identified through the audit process. SANRAL should exercise oversight of contract management to ensure compliance with the PPPFA and its regulations.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Stricter monitoring controls and training of staff on the SCM practice notes and regulations.
- Review and monitoring of compliance with applicable legislation to ensure adherence to procurement processes.
- Implement consequence management for staff members who fail to comply with applicable legislation.

Root causes

The accounting officer and accounting authorities should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that key officials involved in the preparation of the financial statements and performance reports receive adequate training on the relevant applicable legislation and standards.

- Auditees within the portfolio should expedite the implementation of the IT governance framework and IT controls, such as the development of policies and procedures, which will ensure improvement of the IT control environment.
- Ensure that vacancies in key positions are filled with appropriately skilled and competent people in a timely manner to address instability in leadership.
- Monitor implementation of key commitments made by management to address the identified root causes in a timely manner to prevent a recurrence of matters that gave rise to unfavourable audit outcomes.

Impact of key role players on audit outcomes

The first level of assurance should be improved further by management taking immediate action to address specific findings and recommendations. The second level of assurance should be improved by ensuring stability in senior management and more stringent oversight of consequence management.

We met with the minister twice in the past year and these interactions had minimal impact given the regression in audit outcomes. The key commitments made by the minister in the previous year are still in progress, while responses to ensure that the audit outcomes of the portfolio are improving are slow. This assessment, the lack of impact of the minister on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

- Monitoring of contract management at all entities in the portfolio.
- Monitoring of vacancy management in the portfolio to ensure that all key posts are filled timeously with appropriately skilled and competent people.
- Enhance performance and consequence management.

Risks related to financial health, service delivery and information technology

Financial health and service delivery

Transport has to date incurred unauthorised expenditure of R2,4 billion. Of this amount R1,2 billion relates to expenditure on bus subsidies incurred in the 2008-09 and 2009-10 financial years, while the balance relates to payments made on a contract extended from 1 May 2010 which was not included in the department's budget. A decision is still to be made as to whether the expenditure will be condoned with or without funding. If this expenditure is condoned without funding, the department will need to institute cost-saving measures to fund the expenditure. The implementation of the cost-saving measures in future years could compromise service delivery.

The accounting officer and accounting authorities should address the following matters, which could affect the financial health of the portfolio:

- Monitoring of the turnaround strategies of CBTRA, SANRAL, SAMSA, RAF and PRASA to improve their asset and liability management and cash management.

Information technology management as a specific cause of audit outcomes

Key outcomes

Overall assessment of the IT environment in the portfolio reflects a regression in the areas of IT governance, security management, user access management and IT service continuity, which could compromise the confidentiality, integrity and availability of financial information.

Entities included in the portfolio, but not audited by the Auditor-General of South Africa

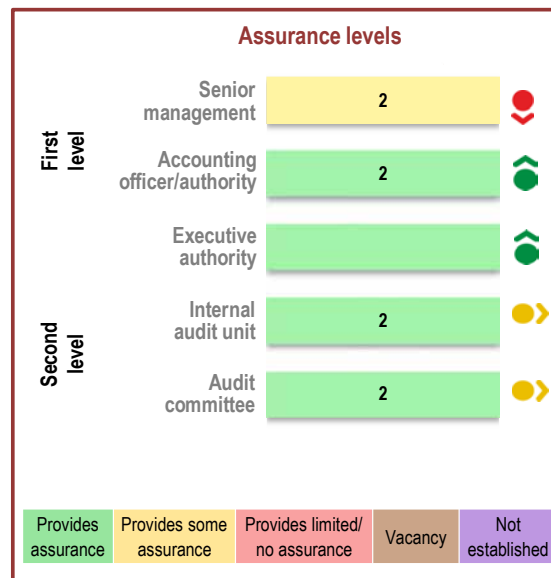
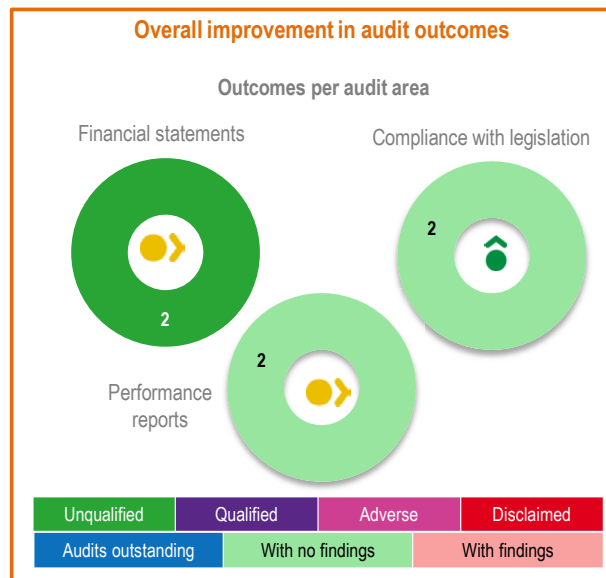
We did not audit the following entity included in the portfolio of the minister:

- *Air Traffic Navigation Services (ATNS)*

The overall audit outcome of this entity has remained the same as in the previous year, namely an unqualified audit opinion with no findings on predetermined objectives and compliance with laws and legislation.

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Vote 39: Planning, monitoring and evaluation



Key controls

Control Area	Financial statements			Performance reports			Compliance with legislation		
	Score	Concerning	Intervention required	Score	Concerning	Intervention required	Score	Concerning	Intervention required
Effective leadership	2	0	0	2	0	0	2	0	0
Human resource controls	2	0	0	2	0	0	1	1	0
ICT governance and controls	0	1	1	1	1	0	1	1	0
Audit action plans	2	0	0	1	1	0	2	0	0
Proper record keeping	1	1	0	0	2	0	1	1	0
Daily and monthly controls	1	1	0	0	2	0	2	0	0
Review and monitor compliance	2	0	0	2	0	0	1	1	0

Legend: Good (Green), Concerning (Yellow), Intervention required (Red)

1 To improve/maintain the **audit outcomes** ...

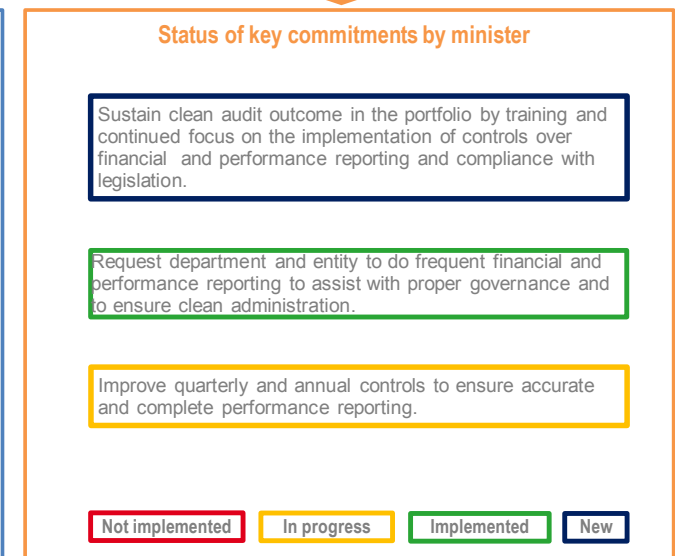
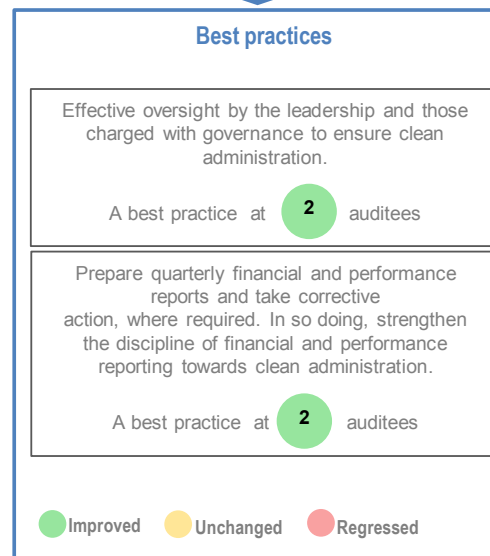
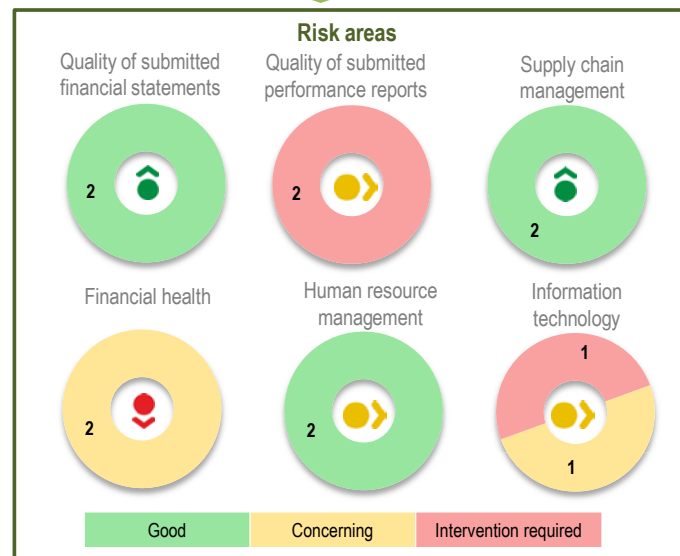
2 ... the key role players need to **assure** that ...

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

... the **risk areas** and that ...

... the **root causes** are addressed ...

... and the **commitments** are honoured.



Auditees included in the portfolio

- *The Department of Planning, Monitoring and Evaluation (DPME)*
- *National Youth Development Agency (NYDA)*

The total budgeted expenditure for the department for the 2014-15 financial year was R734 million. The main areas of budgeted expenditure were transfer payments of R410 million, goods and services of R158 million and compensation of employees of R157 million.

Overall audit outcome

There was an improvement in the audit outcomes within the portfolio, as the NYDA progressed to a clean audit outcome, while DPME maintained its clean audit outcome status.

The controls that must be maintained to sustain the overall audit outcomes are as follows:

Financial statements

We commend the DPME and NYDA for submitting financial statements that were free from material misstatements. The following controls must be maintained to ensure the sustainability of the clean audit outcomes:

- Prepare regular, accurate and complete financial statements that are supported by reliable information.
- The leadership, internal audit should continue reviewing financial reporting processes, and the audit committees should continue to exercise sufficient oversight of these processes.

Annual performance report

The DPME and NYDA submitted APRs for auditing that contained material misstatements. They avoided material findings in their audit reports only because they corrected all the misstatements which we identified during the auditing process.

The following controls should be strengthened to create control environments that will eliminate the risk of repeat material misstatements in the performance reports:

- Improve record keeping processes to ensure that complete, relevant and accurate information is readily accessible to support actual performance reported.

- Management and internal audit units should enhance their review processes of the reported achievements against adequate source documents, to ensure that actual reported performance is adequately supported.

Compliance with legislation

We commend the DPME and NYDA for observing, and complying with, key legislation as no material non-compliance was reported. The following controls should be maintained to ensure the sustainability in the current control environments that supports compliance with legislation:

- Continue to maintain mechanisms which identify applicable legislation as well as changes thereto. Sustain the implementation of processes that ensure proper monitoring of compliance with legislation.

Best practices

The accounting authority, accounting officers and chief financial officers should maintain the following controls in the portfolio as follows:

- Effective oversight by leadership and those charged with governance to ensure clean administration.
- Prepare quarterly financial and performance reports and take corrective action where required. This will strengthen the discipline of financial and performance reporting in maintaining the clean administration.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by:

- providing effective leadership and exercise oversight over performance reporting
- ensuring that action plans to address remaining internal control deficiencies, are properly implemented.
- supporting the internal audit unit and audit committee by ensuring that all reports issued by these functions are adequately responded to.

We met with the deputy minister three times in the past year and these interactions had a significant impact, as the NYDA received a clean audit outcome for the first time. These interactions also contributed to the sustained audit outcome for the DPME.

The oversight over DPME and NYDA is provided by the Portfolio Committee of Public Service and Administration. Going forward we will agree with the committee on specific commitments that will be tracked and used as a basis for the assessment on assurance provided.

Risks to financial health and information technology

Financial health

The main concern on financial health was the slow recovery of the NYDA's loan book and we recommend that the NYDA review its debt recovery strategy to ensure speedy recovery of the remaining loan book.

Information technology management as a specific cause of audit outcomes

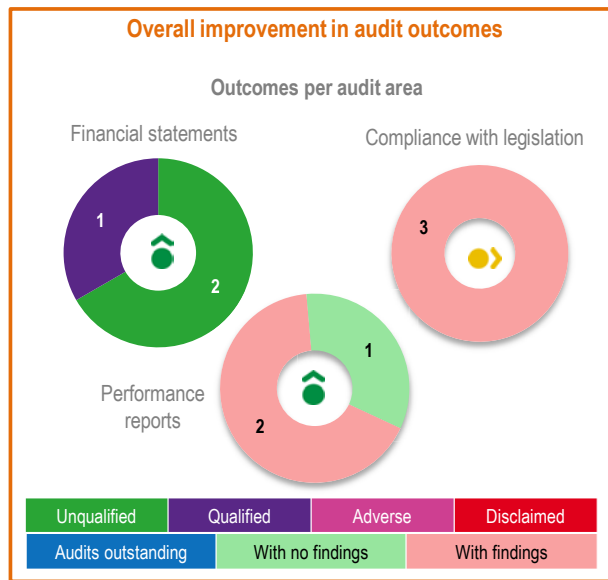
The NYDA had not resolved IT matters as previously reported. This resulted in a majority of repeat IT findings. These related to IT governance, information security and IT service continuity. The NYDA has continuously struggled to implement effective IT governance mechanisms for three consecutive financial years.

The following controls should be strengthened to create a sound IT environment:

- Governance structures should be strengthened to ensure accountability for resolving issues arising from previous year's reports.
- The IT unit and other business units should work together to ensure that the IT risk assessment is part of the enterprise-wide risk management process.
- The process to improve policies should be shortened to improve efficient implementation thereof.

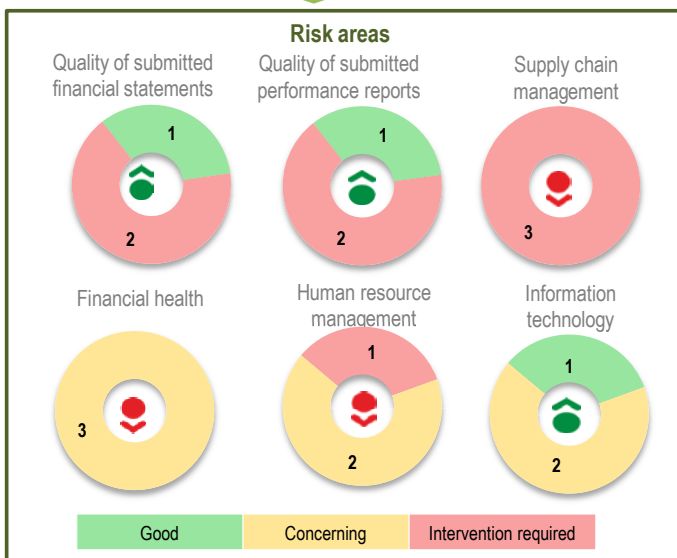
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Vote 42: Water and sanitation

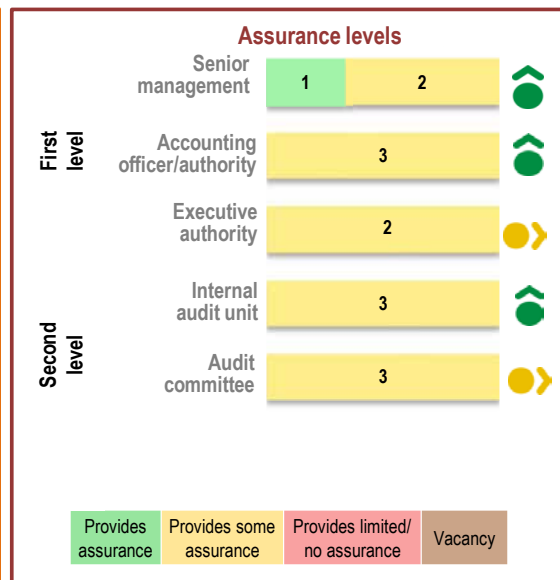


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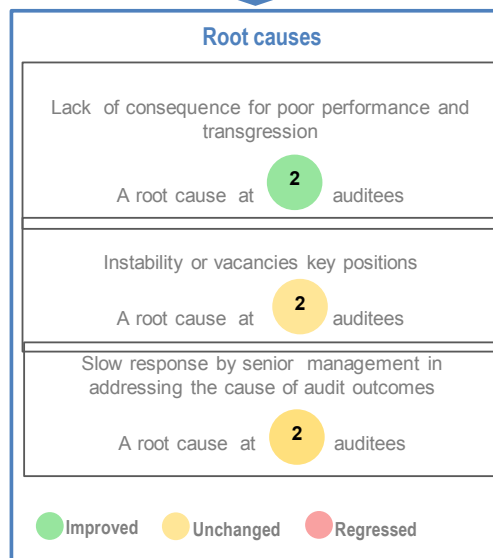


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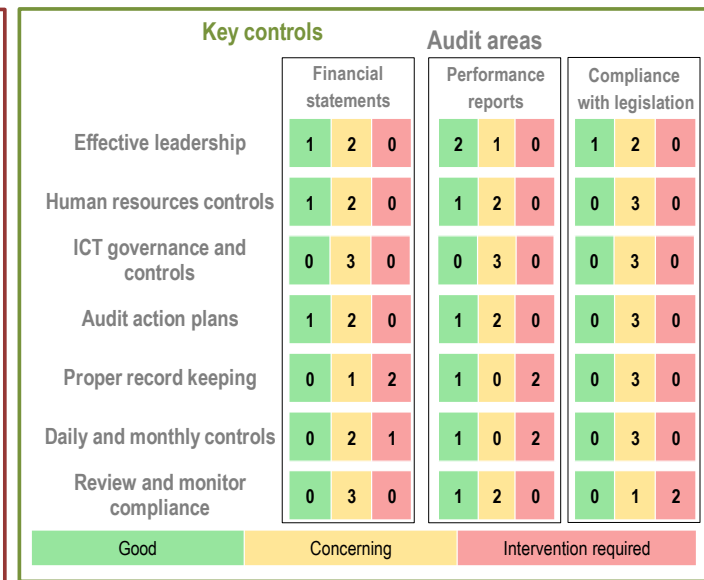


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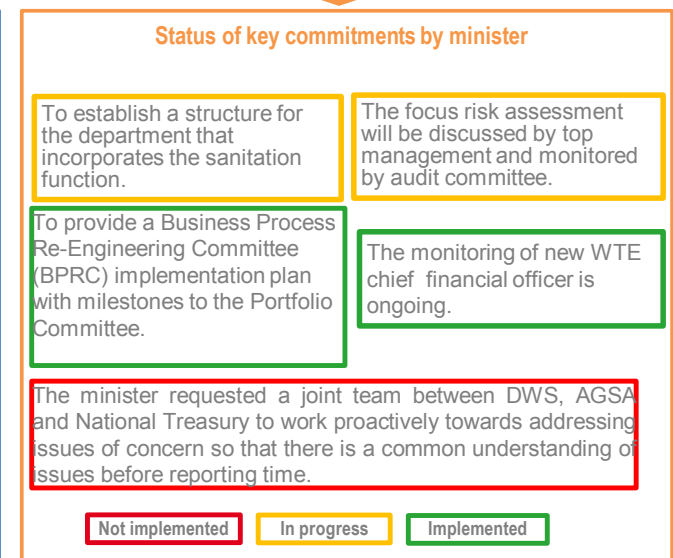


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... attention is given to the **key controls** and ...

... and the **commitments** are honoured.



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Auditees included in the portfolio

- *Department of Water and Sanitation (DWS)*
- *Water Research Commission (WRC)*
- *Water Trading Entity (WTE)*

The DWS's total budgeted expenditure for the 2014-15 financial year was R13,6 billion. The main areas of expenditure were transfer payments of R4,6 billion, capital expenditure of R6 billion, goods and services of R1,7 billion and employee cost of R1,3 billion.

Overall audit outcome

The improvement in the overall audit outcome was caused by the auditees' ability to address their qualification areas: trade and other receivables at the WRC and revenue from exchange transactions and accounts receivable at the WTE.

Our main audit findings are reported in the audit reports and should be addressed to improve the overall audit outcome. These are as follows:

- At the DWS, the material misstatements that we identified in the financial statements were not adequately corrected and supporting records could not be provided. This resulted in the financial statements receiving a qualified opinion on grant-related commitments and accruals.
- There were instances of material non-compliance in key legislation, mainly relating to expenditure management, and procurement and contract management, at all entities.

Financial statements

The DWS's published financial statements included the following material misstatements:

- The department did not have adequate systems to maintain records of infrastructure projects where the procurement of goods and services had been approved or contracted, but where no delivery had taken place at year-end. This resulted in infrastructure project commitments being misstated.
- The system of controls were inadequate for grant projects to maintain records of goods and services received but not yet paid for at the end of the financial year. There were no satisfactory audit procedures to obtain reasonable assurance that all outstanding invoices had been included in accruals.

The DWS and the WRC submitted financial statements for auditing that contained material misstatements in the areas of commitments, accruals,

irregular expenditure, immovable tangible assets and contingent liabilities. The WRC received an unqualified audit opinion only because they corrected all the misstatements identified during the audit process. DWS could not make the corrections because the misstatements related to the previous year's qualification areas that were not corrected. However, the department was only ready for this audit during the final audit period and consequently did not have enough time to revisit all the misstated items.

The following controls should be strengthened to create a control environment that supports reliable financial reporting:

- The different levels of assurance providers should regularly and adequately review the annual financial statements.
- Skilled key staff should be appointed in critical financial posts.
- A checklist should be designed to ensure the review and monitoring of compliance with applicable legislation.

Annual performance report

The published APR of the DWS and the WTE included information on their performance against predetermined objectives that was not useful and reliable for the following programmes we had selected to audit:

Auditee	Programme	Not useful	Not reliable
DWS	Programme 4: Regional implementation and support	X	X
	Programme 5: Water sector regulation	X	X
WTE	Programme 3: Water infrastructure management	X	X
	Programme 4: Regional implementation and support		X

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the portfolio:

- The targets set should be independently examined against the SMART criteria to ensure that they express the specific nature and level of performance the department aims to achieve within the predetermined period.
- The indicators should be well-defined using technical indicator descriptions to ensure that they have clear, unambiguous definitions and that data can be collected consistently and is easy to understand.
- Communication between the head office and regional offices should be improved to ensure consistency and a common understanding of the performance information reported.

- Proper records should be kept to support the actual achievements reported.
- Senior staff should regularly review and monitor the daily and monthly processing of information to ensure that performance information is credible.

Compliance with legislation

We identified material non-compliance with legislation by the DWS, the WRC and the WTE in the following areas:

- The accounting officer did not ensure that the department maintained an effective, efficient and transparent system of internal control regarding performance management. Such a system would describe and represent the department's processes of organising and managing performance planning, monitoring, measurement, review and reporting.
- The WTE and the WRC did not always follow competitive bidding processes or did not request three quotations as prescribed. The DWS did not apply the preferential procurement points system in awarding contracts.
- The DWS, the WTE and the WRC did not take reasonable steps to prevent irregular as well as fruitless and wasteful expenditure. The DWS incurred irregular expenditure of R87 million (R77,6 million relates to one specific contract), the WRC R3,2 million and the WTE R2,9 million. The DWS and the WTE incurred fruitless and wasteful expenditure of R1,5 million.
- The verification process for new appointments did not cover criminal record checks, citizenship verifications, financial record checks, qualification verifications and reference checks.
- The DWS, WRC and WTE management did not take effective and appropriate disciplinary steps against officials who had incurred or permitted irregular expenditure in the previous year.
- The DWS management had not implemented proper control systems for maintaining the asset register and for safeguarding assets.

The SCM risk was significant as all entities had findings on compliance with SCM legislation, which resulted in irregular expenditure.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Senior officials should be held accountable for non-compliance with legislation by following consequence management processes.
- Staff should be trained on the applicable legislation and be made aware of the consequences of non-compliance.
- Vacancies should be filled, especially in critical positions such as director of SCM at the DWS and chief financial officer at the WRC.

- Continuous monitoring and improvement of business processes should be implemented through regular workshops.

Root causes

The minister, accounting officer and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Proper record keeping should be implemented to ensure that the annual financial statements are supported by complete and proper records.
- Senior personnel should regularly review and monitor daily and monthly transaction processing to ensure compliance with applicable policies and procedures.
- All critical positions must be filled.
- The audit committee should engage with the internal audit unit and strengthen action plans to ensure that financial reporting and related controls prevent misstatements.
- The finance directorate should hold regular discussions and workshops on the interpretation and application of accounting standards.
- Training should be provided to all officials on the application and interpretation of legislation and the consequences of non-compliance.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved to move towards clean audit outcomes. Although we noted improvements in internal controls, certain weaknesses still need to be addressed. The accounting officer, accounting authority and senior management should ensure that financial statements and performance reports are properly reviewed and are credible before submission for auditing. Compliance with laws and regulations should be continuously monitored. The accounting officer should take appropriate action against poor performance and transgressions by staff.

During the past year we met with the minister two times, with the portfolio committee six times, with the director general three times and with the audit committee four times. These interactions had some impact on the audit outcomes. Our assessment is primarily a result of the overall improvement in audit outcomes. This assessment, the lack of positive impact of the minister on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new

members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR and the review of the annual performance plan. The new portfolio committee made a commitment to monitor focus areas and risk assessments at the DWS, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to financial health and information technology

The accounting officer and senior management should address the following matters, which could affect financial health and IT in the portfolio:

Financial health

There were no material findings on grants management, but the department underspent the vote by 15% (R2 billion), which poses a risk to service delivery commitments.

Information technology

The WRC was subjected to an assessment of internal controls using questionnaires, which yielded good results on the design of controls. We identified control weaknesses relating mostly to the design and implementation of IT controls within the portfolio.

The auditees were also vulnerable to attacks from external sources as they did not have adequate firewall configurations, security settings and a comprehensive disaster recovery plan. Furthermore, the IT governance framework had not been implemented fully at all the auditees, while user access rights and administrator activities were not reviewed regularly.

Adequate progress had not been made in addressing previous findings, as risks remained in most of the focus areas.

Entities included in the portfolio but not audited by the Auditor-General of South Africa

We did not audit the following entities included in the water and sanitation portfolio:

- *Breede-Gouritz Catchment Management Agency (BGCMA)*
- *Inkomati-Usuthu Catchment Management Agency (IUCA)*
- *Trans-Caledon Tunnel Authority (TCTA)*

The overall audit outcomes of these entities remained the same as in the previous year:

- All three entities (100%) received an unqualified opinion.
- One auditee (33%) had no material findings on compliance with legislation. TCTA had material compliance findings on irregular expenditure and the audit committee and BGCMA had material compliance finding on annual financial statements.

Vote 43: Women

Stagnation in audit outcomes

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

Assurance levels

Level	Role	Assurance Level
First level	Senior management	Provides some assurance
	Accounting officer	Provides some assurance
	Executive authority	Provides some assurance
Second level	Internal audit unit	Provides limited/no assurance
	Audit committee	Provides some assurance

Key controls

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

F = Financial P = Performance C = Compliance

Good Concerning Intervention required

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To improve the **audit outcomes** ...
... the **risk areas** and that ...
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... the key role players need to **assure** that ...
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... attention is given to the **key controls** and ...
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6

Risk areas

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

Good Concerning Intervention required

Root causes

Slow responses by the accounting officer and senior management to address previous year's findings
Vacancies in key positions

Status of key commitments by minister

The minister committed to create capacity in key areas such as finance, human resources, internal audit and information technology.	Not implemented
The focus would also be on performance management to ensure that frequent assessments are undertaken.	In progress
The minister should have regular interactions with the audit committee.	Implemented
	New

Not implemented In progress Implemented New

Auditees included in the portfolio

■ Department of Women (DoW)

The total budgeted expenditure of the department for the 2014-15 financial year was R185 million. The main areas of expenditure were transfer payments of R69 million (inclusive of amount transferred to the Commission for Gender Equality), employee cost of R64 million and goods and services of R48 million.

Overall audit outcome

The stagnation in the overall audit outcome was caused by senior management not addressing past material findings on compliance with legislation. During the 2014-15 financial year, functions related to support for people with disabilities and children were transferred to the Department of Social Development. This was announced by the President on 25 May 2014 resulting in the Ministry of Women, Children and People with Disabilities now being the Ministry of Women, which is located in the Presidency.

The main findings from our audit, as reported in the audit report, which should be addressed to improve the overall audit outcome, are as follows:

Financial statements

The department submitted financial statements for auditing that contained material misstatements in the areas of the appropriation statement, current assets, current liabilities and disclosure items. The department received an unqualified audit opinion only because it corrected all the misstatements which we identified during the auditing process.

The following control should be strengthened to create a control environment that supports reliable financial reporting:

- Senior management should be more involved in establishing proper review systems to facilitate the preparation of reliable, accurate and complete financial statements before submission for auditing.

Annual performance report

The published APR of the DoW included information on its performance against predetermined objectives that was not useful for the following programme we had selected to audit:

Auditee	Programme	Not useful	Not reliable
Department of Women	Programme 2: Social, political economic participation and empowerment	x	

The following controls should be strengthened to create a control environment that supports useful and reliable reporting on the performance of the auditee:

- Management should ensure that planned targets and indicators are measurable.
- The department should employ sufficiently skilled officials who possess the required competencies to prepare annual performance plans that are useful.

Compliance with legislation

We identified material non-compliance with legislation by the department in the following areas:

- Employees were appointed without verifying the claims made in their applications.
- Not all senior managers signed performance agreements for the year under review.
- The DoW's internal audit unit did not always submit a quarterly report to the audit committee detailing the performance against the annual internal audit plan.
- The DoW's internal audit unit did not assess the operational procedure over all transfers made, nor did the internal audit unit evaluate the effectiveness and efficiency of these controls.
- The DoW's internal audit unit did not evaluate all compliance with legislation that was applicable to the department.

The department incurred R2,9 million of irregular expenditure which represented a decrease of 15% from the previous year. The irregular expenditure that was incurred was as a result of non-compliance with SCM prescripts.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- The accounting officer and senior management must enhance monitoring and review processes to prevent non-compliance with SCM legislation.
- Functions and duties of an adequately capacitated internal audit function must be properly monitored to ensure that it covers all the key areas in line with its approved plan.

Root causes

The accounting officer, senior management and those charged with governance should address the root causes of poor audit outcomes and inadequate controls as follows:

- Enhanced oversight by the accounting officer and senior management to facilitate the preparation and review of the annual financial statements before submission for auditing. This will ensure reliable, accurate and complete financial statements. Monitoring and review of compliance with legislation should be improved, with focus on the prevention of irregular expenditure and compliance with the Public service regulations.
- Consequence management must be enforced and action taken against transgressors.
- Vacancies in key positions should be filled.
- There should be an adequately resourced and functioning internal audit unit that identifies and recommends corrective action effectively.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations of the external audit unit.

We met with the executive authority once in the year under review and this interaction had no impact on the audit outcomes. The status of the key control assessment remained largely unchanged and non-compliance matters continue to be reported. This assessment, the lack of impact of the minister on the internal controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the minister.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to information technology

Information technology management as a specific cause of audit outcomes

The overall status of IT controls at the department remained the same as that of the previous financial year. The department has however, made headways in the implementation of key IT governance controls relating to service level agreements with service providers at the end of the financial year. The department further maintained adequate user access and IT service continuity controls during the year under review, but experienced challenges with the implementation of security management controls relating to the firewall.

The department must empower its IT staff with necessary skills to enable them to implement adequate IT internal controls.

The following control should be strengthened to create a sound IT environment that supports the mandate of the department:

- IT controls should be prioritised by ensuring that action plans to address audit findings are timeously developed and tracked.

Constitutional institutions

■ *Commission for Gender Equality (CGE)*

The Commission for Gender Equality (CGE) is included in the portfolio but not under the authority of the minister.

Overall audit outcome

The lack of improvement in the overall audit outcome was caused by the CGE not addressing past material findings on compliance with legislation.

The main findings from our audit, as reported in the audit report, which should be addressed to improve the overall audit outcome, are as follows:

Compliance with legislation

We identified material non-compliance with legislation by the CGE in the following areas:

- The CGE did not always procure goods and services with a transaction value of above R500 000 by inviting competitive bids and did not always

advertise invitations for competitive bidding in the government tender bulletin.

- Effective steps to prevent irregular expenditure were not taken by the CGE.

Non-compliance with SCM prescripts remained a risk and resulted in key reported non-compliance matters in the audit report and in irregular expenditure. The amount, however, decreased from R1,8 million in 2013-14 to R1 million in 2014-15.

The following control should be strengthened to create a control environment that supports compliance with legislation:

- Implementation of appropriate compliance checklists and ongoing monitoring by senior management and the accounting officer to ensure compliance with all applicable legislation. The focus should be on the prevention of irregular expenditure.

Root causes

The accounting officer, senior management and those charged with governance should address the root causes of poor audit outcomes and inadequate controls as follows:

- Timely development, implementation and monitoring of action plans to address internal and external audit findings and root causes.
- Develop and implement compliance checklists which can be monitored by senior management and the accounting officer to ensure compliance with all applicable legislation.
- Management should implement consequence management and action should be taken against transgressors.

Impact of key role players on audit outcomes

The first and second levels of assurance should be improved by implementing the recommendations of the internal and external auditors.

We met with the executive authority three times in the year under review and these interactions had no impact on the audit outcome. The status of the key control assessment remained largely unchanged and the non-compliance matters continue to be reported.

The assurance provided by the portfolio committee was not assessed in the 2014-15 financial year as the 5th Parliament, which included many new members, was in its first year of oversight. The portfolio committee nevertheless focused on predetermined objectives and engaged with the AGSA to understand the key controls, specifically in areas of oversight requiring their attention. The

AGSA also assisted the committee to understand the audit process by holding a capacity-building session and structured engagements throughout the year. The assistance included providing the committee with a BRRR and the review of the annual performance plan. We will also agree on specific commitments with the committee, which will be tracked and used as a basis for the assessment on their assurance in the next financial year.

Risks to information technology

Information technology management as a specific cause of audit outcomes

The overall status of IT controls at the CGE regressed in the year under review. The CGE experienced challenges in designing adequate user access and IT service controls as administrator accounts on the network were shared, while the backup and disaster recovery processes were not in place. This was due to inadequate skills required to design and implement adequate IT controls.

The CGE should empower its staff with the necessary skills to enable them to develop and implement adequate IT controls in order to address the IT audit outcomes.