

# Western Cape



AUDITOR - GENERAL  
SOUTH AFRICA

## General report

on the audit outcomes of provincial government

PFMA 2012-13



## Our reputation promise/mission

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



The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with laws and regulations.

This publication also captures the commitments that leaders have made to improve audit outcomes.

**Terence Nombembe**  
**Auditor-General**

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Our responsibility extends to citizens who trust us to make a contribution towards a better South Africa



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

# Overview



Message from the auditor-general

Improvement in audit outcomes  
(Section 2.1)

12 auditees achieved clean audits  
(Section 2.1)



Material non-compliance with legislation by 50% of auditees  
(Section 2.3)

Regression in the reliability and usefulness of annual performance reports  
(Section 2.2)



Some improvement in the quality of financial statements submitted for audit  
(Section 3.1)

Some improvement in supply chain management  
(Section 3.2)

No improvement in human resource management  
(Section 3.3)



Indications of financial health issues at some departments and public entities  
(Section 3.5)

Some improvement in the ICT controls  
(Section 3.4)

Key role players provided inadequate assurance to improve controls  
(Section 5)



Key role players (senior management, accounting officers and executive authorities, internal audit, provincial treasury, premier's office, portfolio committees and public accounts committee) should strengthen their contributions  
(Section 5)

Implementation and impact of commitments and initiatives of role players  
(Section 5)



Audit outcomes of portfolios of MECs and commitments made for improvement  
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# WESTERN CAPE CLEAN AUDITS 2012-2013

6



## DEPARTMENT

Agriculture  
Community Safety  
Cultural Affairs and Sport  
Economic Development and Tourism  
Transport and Public Works



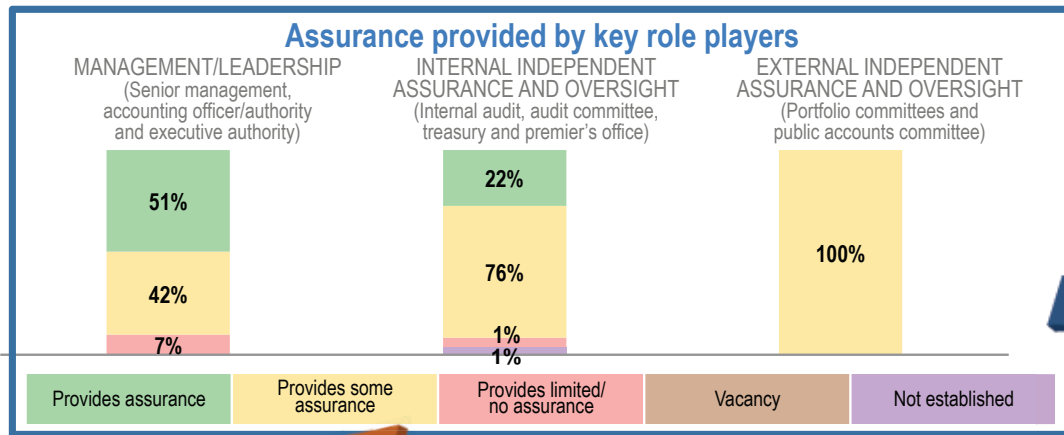
## PUBLIC ENTITY

Destination Marketing Organisation  
(T/a Cape Town Routes Unlimited)  
Western Cape Gambling and Racing Board  
Government Motor Transport  
Western Cape Liquor Authority  
Western Cape Cultural Commission  
Western Cape Investment and Trade  
Promotion Agency  
Western Cape Language Committee



# FOREWORD



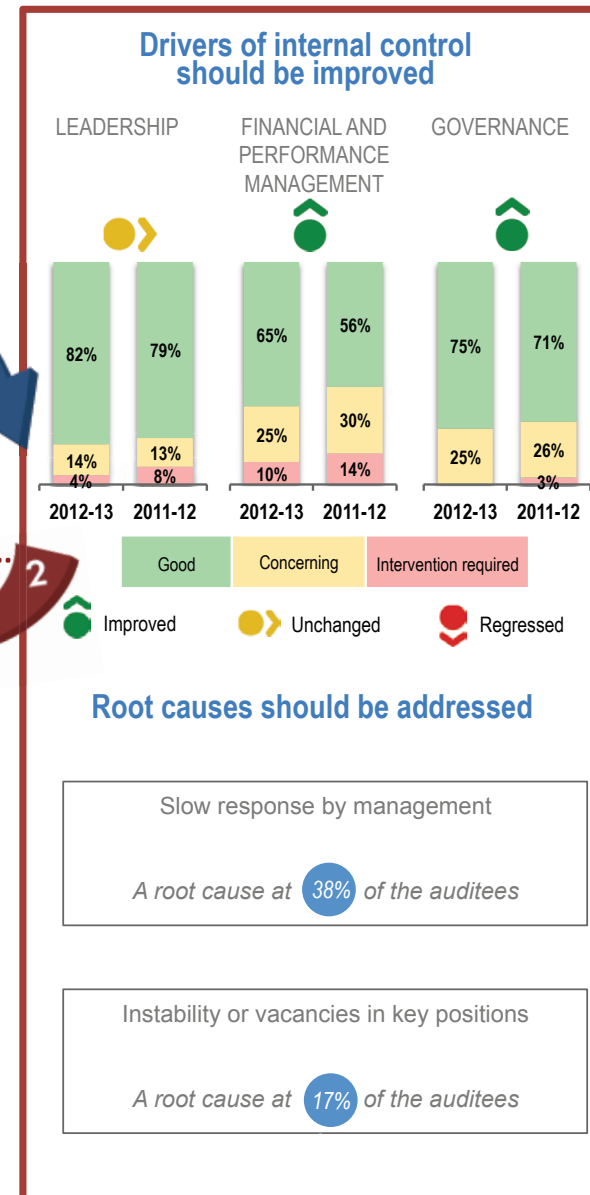
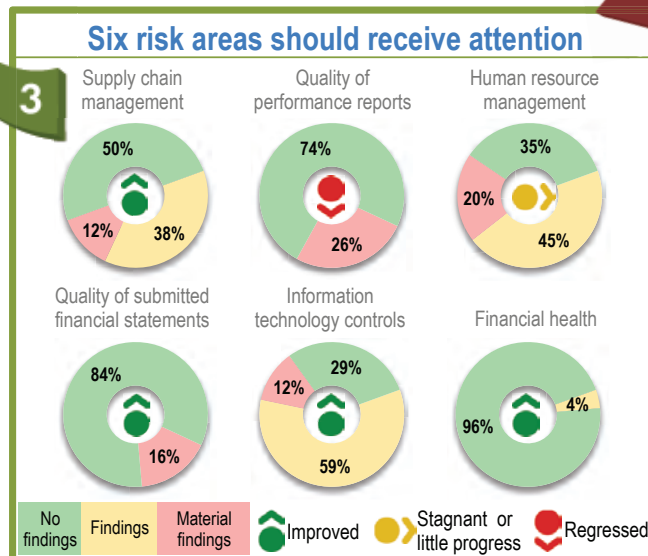
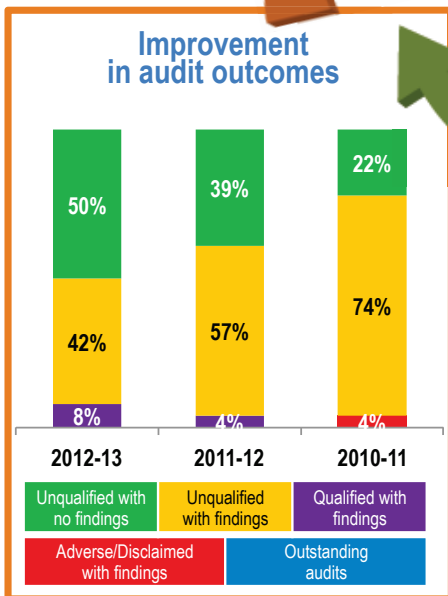


THE KEY ROLE PLAYERS NEED TO ...

... TO ENSURE IMPROVED RESULTS.

... TAKE SOME VITAL ACTIONS ...

... IN KEY AREAS ...



# FOREWORD

I hereby present to the legislature of the Western Cape my 2012-13 general report summarising the results of the audit outcomes of provincial government for the financial year ended 31 March 2013.

There has been an overall improvement in the provincial audit outcomes. Twelve (50%) auditees achieved a clean audit outcome, including five that sustained their clean audit outcomes of the prior year. More public entities than departments have migrated to clean audit outcomes. The improvement in audit outcomes was driven by the leadership taking ownership of key controls to address internal control deficiencies, thereby creating an effective and sustainable control environment.

The move towards clean audit outcomes for the past three years has been steady but slow because some leaders did not fully own and monitor action plans as captured in the provincial governance and review outlook plans to improve audit outcomes, as committed to in the prior year. In this regard the main root causes, such as the slow response by management at 38% of auditees and instability or vacancies in key positions at 17% of auditees, have led to inadequate checks and balances for some key processes, monthly reporting and validation processes to ensure the credibility of service delivery reporting and compliance matters, which continue to slow down progress towards sustainable clean audit outcomes.

There has been an improvement in focus areas such as supply chain management, quality of financial statements, information technology controls and financial health. The leadership has set the correct tone in monitoring key controls and action plans and collaborating with provincial treasury and the department of the Premier to address past audit findings and identified risks through the provincial governance and review outlook process. However, the quality of annual performance reports has regressed due to inadequate skills, systems and processes which impacted on some auditees' ability to effectively monitor and report on performance information.

The ability of auditees to produce reliable, credible and accurate financial and performance reports and to ensure compliance with laws and regulations in a manner that is sustainable and predictable, is influenced by the existence of a sound system of internal control. This will ensure a sustainable positive shift in all focus areas and in the audit outcomes. The establishment and maintenance of effective and efficient systems of internal controls must become a key requirement for the provincial government, which the executive leadership and legislature should consider formalising in legislation or regulations to establish the importance of internal controls in driving accountability for performance.



Terence Nombembe  
**Auditor-General**

The management of those auditees that failed to obtain clean audit outcomes should accept full accountability for the implementation of key controls and work more closely with governance and oversight structures. Management should also intensify their monitoring of internal controls on a daily, monthly and quarterly basis to ensure credible performance reporting and compliance with laws and regulations, with particular reference to supply chain management.

My assessment is that not all role players are providing the level of assurance required to create the momentum towards improved audit outcomes. The monitoring functions vested in leadership should be better exercised so that audit outcomes and service delivery issues are dealt with through self-monitoring, while external audit provides an external validation. Internal audit and audit committees, as part of internal independent assurance oversight, can be better utilised by auditees to ensure improved evaluation and monitoring of management's responses, including better oversight of the effectiveness of internal controls to address risks in predetermined objective and compliance matters. An analysis of the root causes for some auditees that have not yet progressed to clean audit outcomes, revealed a need for more guidance, support and monitoring by provincial treasury and the Department of the Premier to assist them in their move towards sustainable clean audit outcomes. This will require enhancement of the oversight model, including effective coordination between public accounts committees and portfolio committees. If all these governance and oversight structures work collectively to monitor internal controls on a quarterly basis, it will contribute greatly to sustainable clean audit outcomes.

The accessibility of the executive leadership and the legislature to reflect with my office on challenges and solutions towards achieving sustainable clean audits should continue to be the cornerstone for constructive engagements so as to improve audit outcomes and further strengthen accountability and governance. As undertaken in the previous year's general report, my office remains committed to supporting the efforts of the provincial leadership in working towards sustainable clean audit outcomes.

I wish to thank the audit teams from my office and the audit firms that assisted with the audits for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of provincial portfolios.

*Auditor-General*

**Auditor-General  
Pretoria  
November 2013**

# SECTION 1: EXECUTIVE SUMMARY

# Executive summary

## Our audit and reporting process

We audit every department and 10 of the public entities in the province, also referred to as *auditees* in this report, in order to report on the quality of their financial statements and annual performance reports and on their compliance with legislation. We also assess the root cause of any error or non-compliance, based on the internal control that failed to prevent or detect it. We include these aspects in the following three types of reports:

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

Over the past few years, we have intensified our efforts to assist provincial government to improve their audit outcomes by identifying the key controls that should be in place at auditees, assessing these on a quarterly basis and sharing the assessment results with members of the executive council, accounting officers or authorities and audit committees.

We further identified the following six key risk areas that need to be addressed to improve audit outcomes and financial and performance management. We specifically audit these so that we can report on the status thereof.

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

In the audit process we work closely with the accounting officers and authorities, senior management, the audit committee and internal audit as they are key role players in providing assurance on the credibility of the financial statements, performance report as well as the auditees' compliance with legislation. We also continue to strengthen our relationships with the premier, members of the executive council, the treasury and provincial parliament as we are convinced that their involvement and oversight have played and will continue to play a crucial role in the performance of departments and public entities in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

The rest of the section provides a summary of the audit outcomes for 2012-13 and our key recommendations for improvements.

## Audit outcomes improved

There has been an overall improvement in the provincial audit outcomes. The significant aspects of the 2012-13 audit outcomes of 24 auditees are listed below:

- Twelve (50%) auditees out of 24 analysed in this report have achieved a clean audit outcome, while five of the 12 have maintained this status since the prior year.
- Two (8%) auditees regressed from financially unqualified with findings to a qualified outcome.
- Transport and Public Works improved to a clean audit outcome, while Education improved from financially qualified to unqualified with findings.



- There has been a regression in the quality of annual performance reports submitted, from only two (9%) auditees having findings in the prior year to six (26%) in the current year.
- Five (21%) auditees had findings on the reliability of information reported in their annual performance reports where the reported information did not agree to source data or documentation.
- Eleven (48%) of auditees did not achieve 20% or more of planned targets.
- There has been an improvement in the number of auditees with findings on compliance with legislation, from 14 (61%) auditees in the prior year to 12 (50%) in the current year.
- The most common findings on compliance with legislation are irregular expenditure that was not prevented, verification processes not followed before making appointments and material misstatements or limitations in the financial statements submitted for audit.
- With the exception of one department that incurred unauthorised expenditure in the 2011-12 year, no unauthorised expenditure was incurred over the past three years.
- Irregular expenditure has increased marginally over the previous two years, with a slight decrease in 2012-13.
- Fruitless and wasteful expenditure has declined steadily over the past three years to only R1 million for the province in 2012-13.

## ***The six risk areas should continue to receive attention***

Our audit of the six risk areas shows that our recommendations to address these risks to financial and performance management have not yet been fully implemented. Significant aspects of five of the risk areas are listed below, while reflections on the quality of performance information were included as part of the audit outcomes above.

### ***Quality of submitted financial statements***

The quality of the financial statements submitted for audit purposes has improved since the prior year, with only four (16%) auditees submitting financial statements with material misstatements. Two (8%) auditees received a financially unqualified audit opinion only because they had corrected all the misstatements we identified during the audit. The auditees that could not correct the misstatements received qualified audit opinions.

### ***Supply chain management***

There is an improvement in the extent and nature of findings on supply chain management. Material findings decreased significantly from eight (35%) auditees in 2011-12 to three (12%) in 2012-13. The extent of awards to employees increased; however, the instances of employees and suppliers not declaring their interests remained unchanged since 2012.

### ***Human resource management***

The number of auditees with material findings on human resource management remained unchanged at 20% since the prior year. The only material finding reported relates to verification processes not being followed. Other findings on the management of leave, overtime, suspensions and vacancies have decreased since the prior year.

### ***Information technology***

Progress was made in addressing findings relating to information technology governance, continuity and security management, which includes implementation of the information technology governance framework, security policies as well as disaster recovery and backup procedures. Minimal progress was made in the design of user access management controls, specifically with regard to non-transversal systems across auditees.

### ***Financial health***

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. The number of auditees where concerns were identified decreased from five (22%) to one (4%) in the current year.

## ***The significant deficiencies in internal controls and the root causes should be addressed to improve audit outcomes***

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. There has been an overall improvement in the drivers of internal control in financial and performance management and governance, with drivers remaining the same for leadership due

to their commitment to accept full accountability for the implementation and monitoring of key controls.

The most common root causes affecting the auditees that did not receive a clean audit outcome need to be addressed. These were identified as a slow response by management and instability or vacancies in key positions.

### **All role players should increase the level of assurance they provide**

The management and leadership of the auditee and those who perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring an improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation. Based on our assessment, these role players can improve their level of assurance.

The level of assurance provided by senior management, the accounting officer or authority and the executive authority can be improved by taking full ownership of the evaluation of key controls and addressing the identified deficiencies in a timely manner. Accounting officers or authorities continue to drive improved controls; however, the implementation thereof is not always effectively monitored. Members of the executive council rely on information provided by senior management and accounting officers or authorities without always ensuring the credibility of information through the use of internal control units or internal audit.

In some instances, effective internal audit units have helped to improve internal controls, which had a positive impact on audit outcomes. The assurance levels for internal audit, however, also reflect the fact that the internal audit unit was not adequately resourced with the relevant specialist skills and budget required to audit information systems. Audit committees were in place at all auditees and the work of most of the committees included all the required aspects. The level of assurance was also enhanced by interactions which audit committees had with members of the executive council and accounting officers or authorities to share information and risks.

Provincial treasury has partnered with auditees on the corporate governance and review outlook (CGRO), a process to identify and address any gaps between the current status of the auditee and a clean audit outcome. The premier mainly uses the premier's coordinating forum to coordinate and monitor provincial oversight, as well as her interactions with members of the executive council, on a monthly basis to monitor progress towards clean administration. Commitments made in

previous years to influence the achievement of clean administration are in progress albeit at a slower-than-expected pace.

We acknowledge the current efforts of the portfolio committees and the public accounts committee to follow through on findings identified by the AGSA, but encourage further effective oversight and follow-through on critical areas. These committees need to intensify their oversight role by holding auditees with recurring findings accountable.

### **The initiatives and commitments of all role players should continue to have a positive impact on future audit outcomes**

We have shared our key message on the actions needed to improve audit outcomes with every accounting officer or authority and members of the executive council through our reports and interactions with them. All members of the executive council met with us and the engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes. However, the building blocks are now in place for further improvements in key controls, which should lead to improved outcomes.

During our roadshow in October 2013, we shared the audit outcomes with the provincial parliament, premier and members of the executive council. We confirmed the progress of commitments made by all these role players in response to the previous year's audit outcomes.

All role players have made progress with prior year commitments, which had some impact on the 2012-13 audit outcomes; however, action is not always taken in a timely manner.

Continued commitment from all role players to address deficiencies in controls and attend regular key control engagements as well as important technical engagements will contribute to even more auditees achieving a clean audit outcome.

Section 6 of this report lists the audit outcomes of the departments and public entities in the portfolios of individual members of the executive council and also includes details of the frequency and impact of our meetings with these members and the status of their prior year and new commitments. We shared these portfolio outcomes with them and include the commitments in this general report to enable and encourage ongoing oversight and monitoring of their portfolios.

## SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 2.1.1: Audit outcomes over the past five years

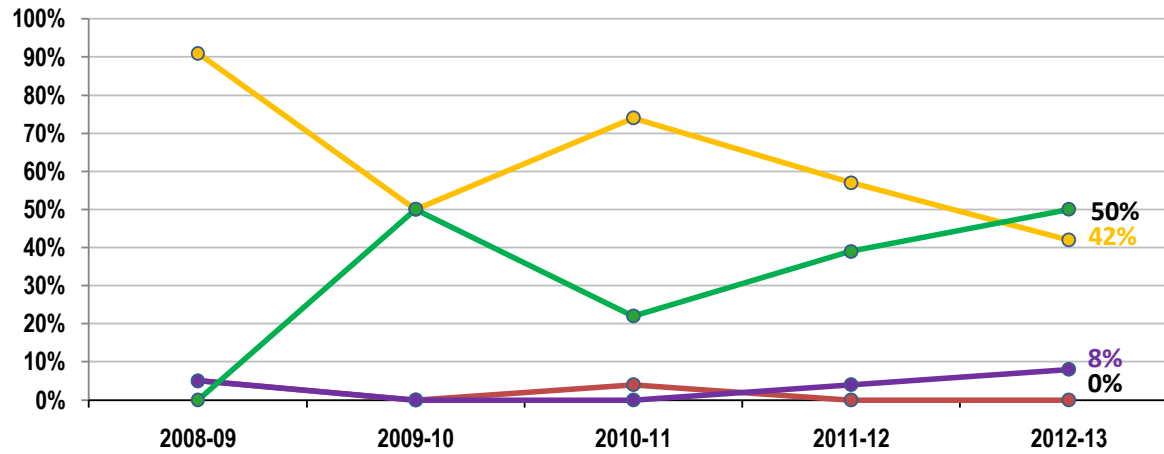


Figure 2.1.2: Audit outcomes for past two years

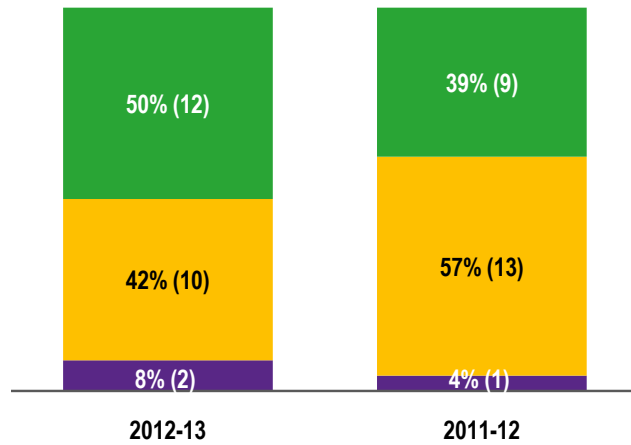
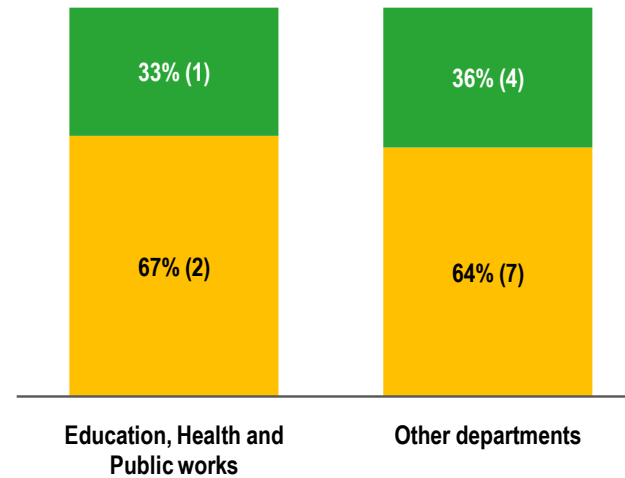


Figure 2.1.3: Education, Health and Public works vs. other departments for 2012-13



## 2.1 Overall audit outcomes

Provincial government consists of 14 departments and 11 public entities. The public entities include eight provincial public entities, one trading entity and two other entities, one of which is not subject to the Public Finance Management Act (PFMA). The number of public entities has decreased from 12 to 11 since the previous year, a net movement of one due to the incorporation of one entity into a department, the closure of one and the establishment of a new public entity.

One public entity was not audited by the AGSA; therefore its outcomes are not included in this report, except in the portfolio outcomes of Agriculture (section 6.3) and in the annexures to this report.

Please note the following when reading the rest of the report:

- Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either predetermined objectives (PDOs) or non-compliance with legislation.
- 'With findings' refers to findings on either reporting on PDOs or non-compliance with legislation, or findings on both these aspects.
- A movement of more than 5% is regarded as an improvement or regression.

### Audit outcomes

Figure 2.1.1 shows the five-year audit outcomes of provincial government. Over the last three of the five years, there has been slow, but steady progress towards clean audits from five in 2010-11 to nine in 2011-12, and thereafter to 12 (50% of auditees) in 2012-13. Figure 2.1.2 confirms the progress towards clean audit outcomes from the prior to the current year. It must be noted that public entities with clean audit outcomes continue to outnumber departments responsible for the larger portion of the province's budget. Although the sharp drop in auditees with 'financially unqualified with findings' audit outcomes from 91% in 2008-09 to 42% in 2012-13 is encouraging, inadequate controls in relation to performance information and compliance matters continue to slow down progress towards achieving sustainable clean audit outcomes. Certain auditees need to embed the first level of assurance provided (management assurance) and should work more closely with the providers of internal and external independent assurance and oversight in order to improve the leadership and management response rate to emerging risks that may prevent clean audit outcomes if realised.

### Education, Health and Public Works

In 2012-13, the expenditure of the departments of Education, Health and Transport and Public Works accounted for 86% to the total spending by provincial departments. Figure 2.1.3 shows that the outcomes for these three departments are similar to those of other provincial departments. Transport and Public Works achieved a clean audit outcome in the 2012-13 financial year, while Education improved from qualified in the prior year to an unqualified opinion with findings because the accounting officers of these departments accepted accountability for past audit findings and related internal control deficiencies reported by the auditors. Health continues to show a decrease in findings due to the ongoing initiatives driven by the accounting officer to address internal control deficiencies. Education and Health remain with findings on compliance with laws and regulations only, while some of the other departments with findings had findings on PDOs and/or compliance matters.

### Movement in audit outcomes

Figure 2.1.4 analyses the movement in audit outcomes of the different auditees since the previous year which had resulted in the net improvement in the audit outcomes of the province.

The improved audit outcomes included those of auditees that progressed to clean audit outcomes by addressing control deficiencies in respect of PDOs and/or compliance with laws and regulations reported in the prior year. Education progressed to unqualified with findings by addressing the prior year's qualification relating to mobile classrooms, which is noteworthy.

Five auditees sustained their clean audit outcomes, while another five remained unqualified with material findings on PDOs and/or compliance, failing to move towards clean audit status in the last five years.

Four auditees regressed from clean audits to unqualified with findings, including two auditees (provincial treasury and provincial parliament) responsible for coordination and oversight in the province. Two public entities (Western Cape Housing Development Fund and Western Cape Nature Conservation Board) that were unqualified with findings in the prior year regressed to qualified with findings.

Annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 2 provides the audit outcomes for the past five years.

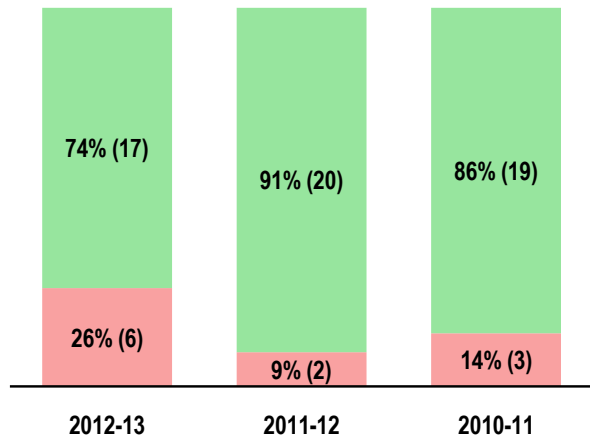
Figure 2.1.4: Movement of the 24 auditees reported on

		Unqualified with no findings	Unqualified with findings	Qualified with findings
7	Improved	Agriculture Cultural Affairs and Sport Economic Development and Tourism Transport and Public Works Government Motor Transport WC Investment and Trade Promotion Agency	Education	
10	Unchanged	Community Safety Destination Marketing Organisation WC Gambling and Racing Board WC Cultural Commission WC Language Committee	Health Human Settlements Local Government Premier Social Development	
6	Regressed		Environmental Affairs and Development Planning Provincial parliament Provincial treasury Heritage WC	WC Housing Development Fund WC Nature Conservation Board
1	New auditees	WC Liquor Authority		

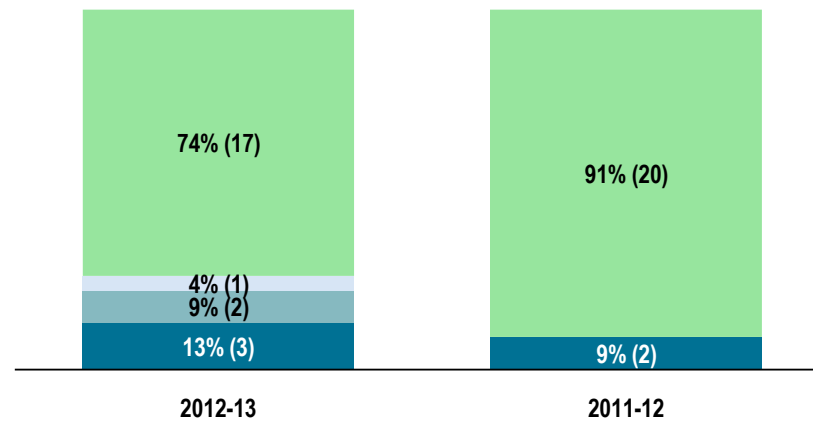




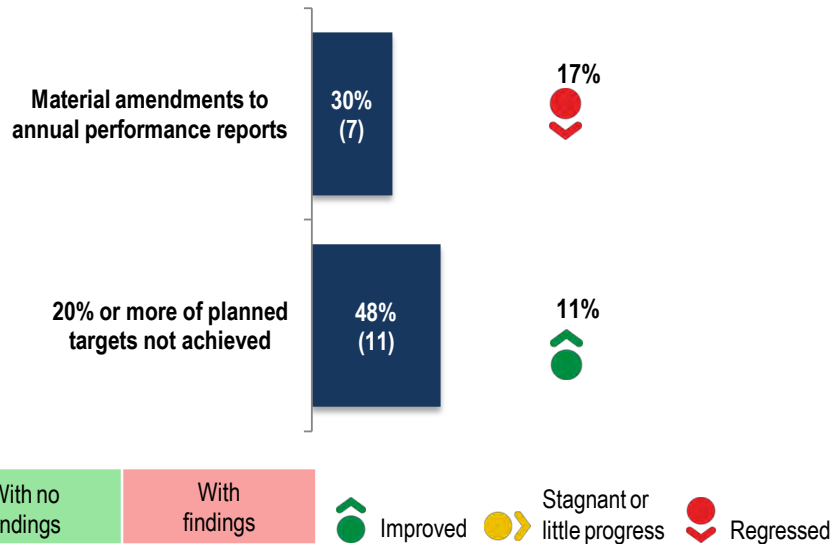
**Figure 2.2.1: Status of quality of annual performance reports**



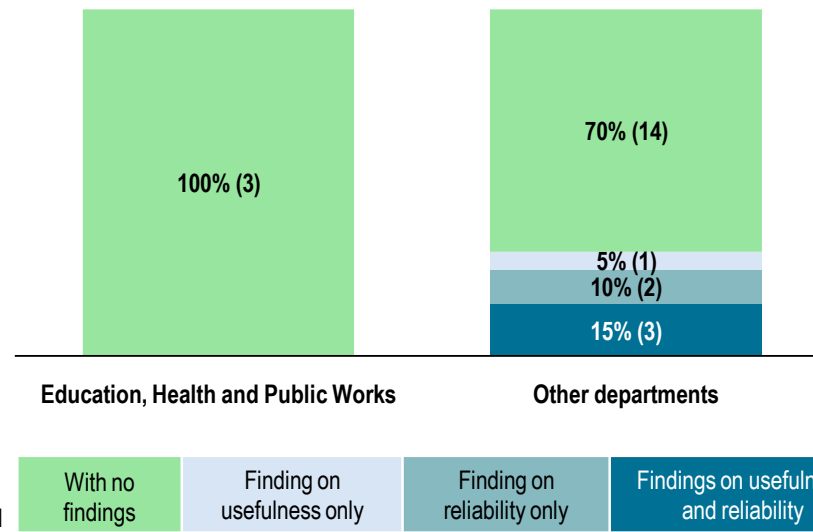
**Figure 2.2.2: Findings on quality of annual performance reports**



**Figure 2.2.3: Other performance-related outcomes**



**Figure 2.2.4: Findings on annual performance report – Education, Health and Public Works vs. other departments**



## 2.2 Quality of annual performance reports

Auditees annually report on their performance against PDOs. In the annual performance reports, auditees are required to measure their service delivery against the performance indicators and targets set for each objective.

The Public Audit Act (PAA) requires us to audit the annual performance reports to determine whether the information in these reports is reliable and useful. In the audit report, we reported findings arising from the audit that were material enough to be brought to the attention of the persons who read and use the annual performance report.

### *Status of auditees with findings on annual performance reports*

Figure 2.2.1 shows the number of auditees in the province with material findings in this regard over the past three years. The Western Cape Housing Development Fund is not required to report on their PDOs and is excluded from the analysis above. The relatively low number of auditees with material findings on usefulness and reliability of their annual performance reports in 2010-11 and 2011-12 was expected to decrease further in 2012-13; however, this positive trend was reversed in 2012-13 with four auditees, including some responsible for national outcomes such as Social Development and Human Settlements, as well as those responsible for coordination, such as the premier, showing a regression or stagnation. This was the result of a failure to address identified internal control deficiencies in planning, oversight and monitoring processes, which included a gap in the understanding and implementation of the National Treasury's *Framework for managing programme performance*, as well as deficiencies in systems, processes and record keeping to ensure the accuracy and reliability of reported performance targets.

### *Findings on the quality of the annual performance reports*

Figure 2.2.2 shows the nature of material findings in the current and previous year and the progress made by auditees in addressing these findings.

It is encouraging to note that all auditees continue to submit their performance information in time for audit. The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. Three auditees have regressed and one retained their findings in this area, as the information contained in their performance reports did not meet the usefulness criteria.

The most common finding on usefulness was that indicators/measures were not well defined at three of the four auditees with findings to ensure that the required performance could be meaningfully measured.

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. Three auditees regressed in this area, which is a sign of significant deficiencies in the ability of these auditees to plan, manage and report on performance.

The most common findings on reliability were the following:

- Reported performance information not accurate when compared to supporting documentation (four auditees)
- Reported performance information not complete (three auditees)
- Reported performance information not valid when compared to supporting documentation (three auditees).

As shown in figure 2.2.4, the departments of education, health and public works (100%) had no material findings on their annual performance reports compared to 70% of the other departments. It is encouraging that these large departments had no findings and it is a sign of their ability to adequately plan, manage and report on their performance.

Annexure 1 details the auditees with material PDO findings and the nature of the findings.

### *Other performance-related outcomes*

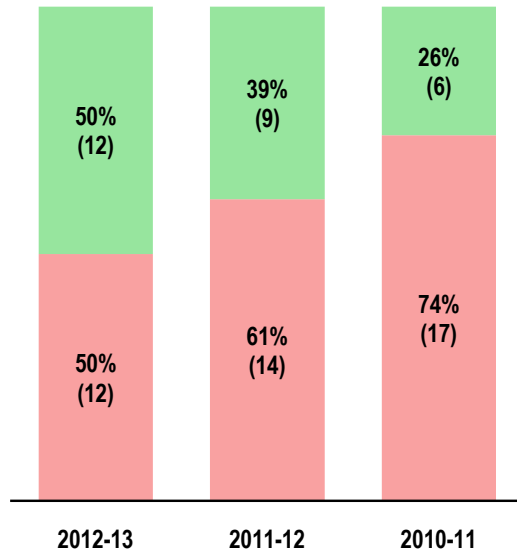
Figure 2.2.3 shows the number of auditees which in the current and previous year:

- made amendments to the annual performance report submitted for auditing to correct material misstatements identified in the audit process
- did not achieve 20% or more of the planned targets reported in their annual performance reports.

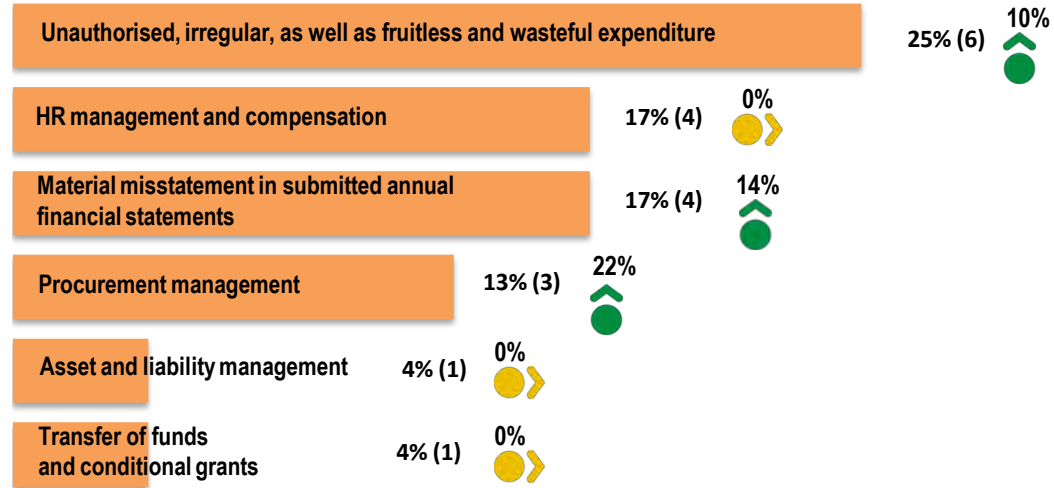
It is encouraging to note that there has been no material non-compliance relating to strategic planning and performance management for the past two years.

It is of concern that material amendments to annual reports had regressed, affecting seven auditees, as shown in figure 2.2.3. Three auditees (13%) were able to avoid findings on presentation and reliability of the annual performance reports, because they corrected all misstatements identified during the audit. The other four auditees could only correct some misstatements and could therefore not avoid findings on presentation and/or reliability of the reported PDOs. Reliance on auditors to identify corrections to be made to the annual performance reports is a practice that should be discouraged. Based on their annual performance reports, 11 auditees did not achieve 20% or more of their planned performance targets for the year under review, mainly because they failed to consider relevant systems and evidential requirements during the strategic planning process. Some indicators were also demand-driven, which does not facilitate the setting of accurate targets.

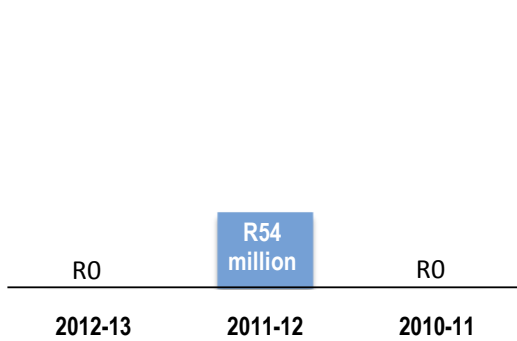
**Figure 2.3.1:**  
Status of compliance  
with legislation



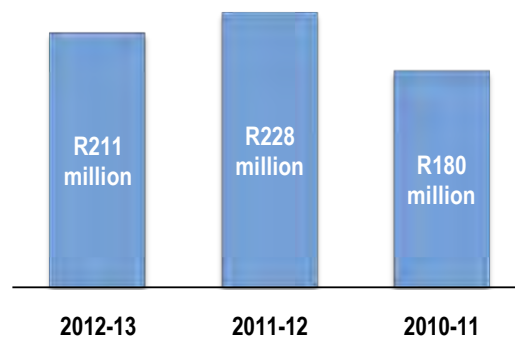
**Figure 2.3.2:**  
Findings on non-compliance with legislation



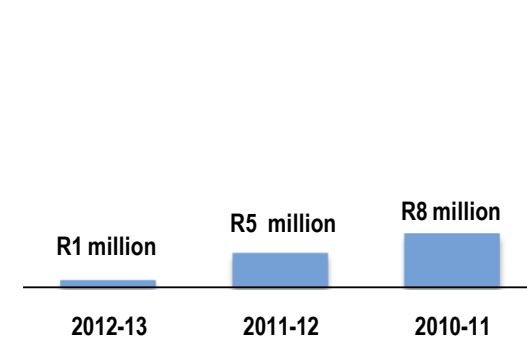
**Figure 2.3.3:**  
Unauthorised expenditure



**Figure 2.3.4:**  
Irregular expenditure



**Figure 2.3.5:**  
Fruitless and wasteful expenditure



With no findings
With findings
↑ Improved
 → Stagnant or little progress
 ↓ Regressed

## 2.3 Compliance with legislation

The PAA requires us annually to audit compliance with legislation applicable to financial matters, financial management and other related matters. We focused on the following areas in our compliance audit:

■ Material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committees ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ financial misconduct ■ internal audit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, supply chain management) ■ human resource management and compensation

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

### *Status of auditees with findings on compliance with legislation*

Figure 2.3.1 shows the number of auditees in the province with material findings in this regard over the past three years. There has been a steady improvement in auditees with findings on compliance over the past three years, with 50% (12) remaining with findings in 2012-13. We noted further that eight of the 12 auditees that had findings on compliance have only one finding for the 2012-13 year.

### *Findings on compliance with legislation*

Figure 2.3.2 shows the compliance areas with the most material findings in the current and previous year and the progress made by auditees in addressing these findings.

The most common non-compliance findings across these compliance areas were the following:

- Irregular expenditure was not prevented
- The proper verification process was not always followed before appointments were made
- Three written quotations not invited and/or deviations not justified

- Competitive bids not invited and/or deviations not justified
- Material misstatements or limitations in the financial statements submitted for auditing (refer to section 3.1 for more detail in this regard)
- Appropriate measures were not taken to ensure that transfers made were applied by the receiving entity for their intended purpose
- Proper control systems not implemented for safeguarding and maintenance of assets.

Annexure 1 details the auditees with material non-compliance findings and the nature of such findings.

### *Unauthorised expenditure*

Unauthorised expenditure refers to expenditure that was not made in accordance with the approved budget. Figure 2.3.3 reflects the three-year trend in unauthorised expenditure. Except for one department that incurred unauthorised expenditure in the 2011-12 year, no unauthorised expenditure was incurred over the past three years.

### *Irregular expenditure*

Irregular expenditure refers to expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of an auditee's ability to comply with legislation relating to expenditure and procurement management. Figure 2.3.4 reflects the three-year trend in irregular expenditure. Irregular expenditure has increased marginally over the previous two years, with a slight decrease in 2012-13. Three departments, namely Education, Health and Transport and Public Works, account for 92% of the province's irregular expenditure.

### *Fruitless and wasteful expenditure*

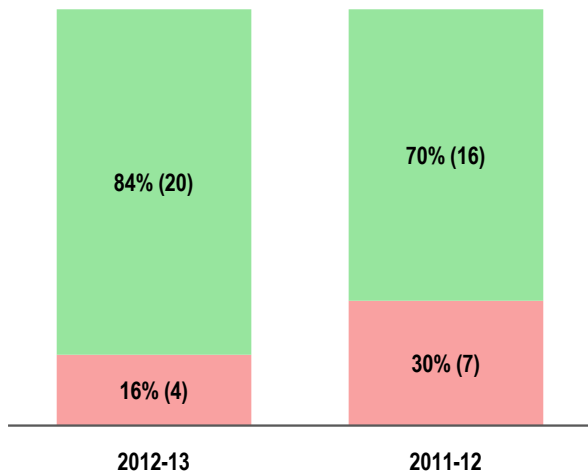
Fruitless and wasteful expenditure refers to expenditure that was made in vain and that would have been avoided had reasonable care been taken. Figure 2.3.5 reflects the three-year trend in fruitless and wasteful expenditure. Fruitless and wasteful expenditure has declined steadily over the past three years to only R1 million for the province in 2012-13.



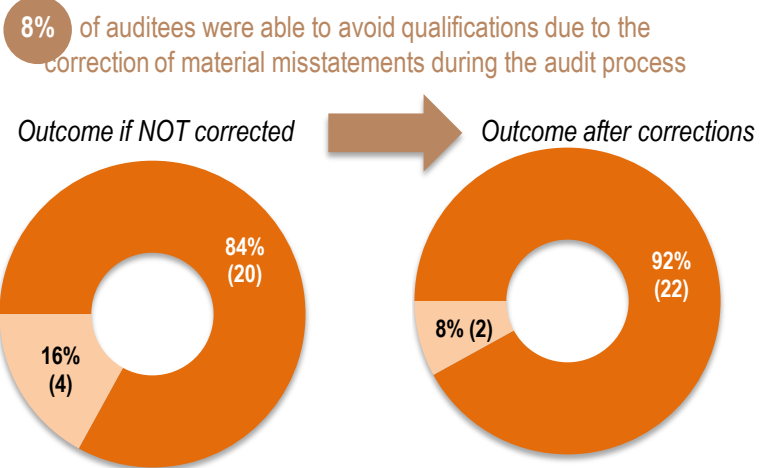


## SECTION 3: RISK AREAS

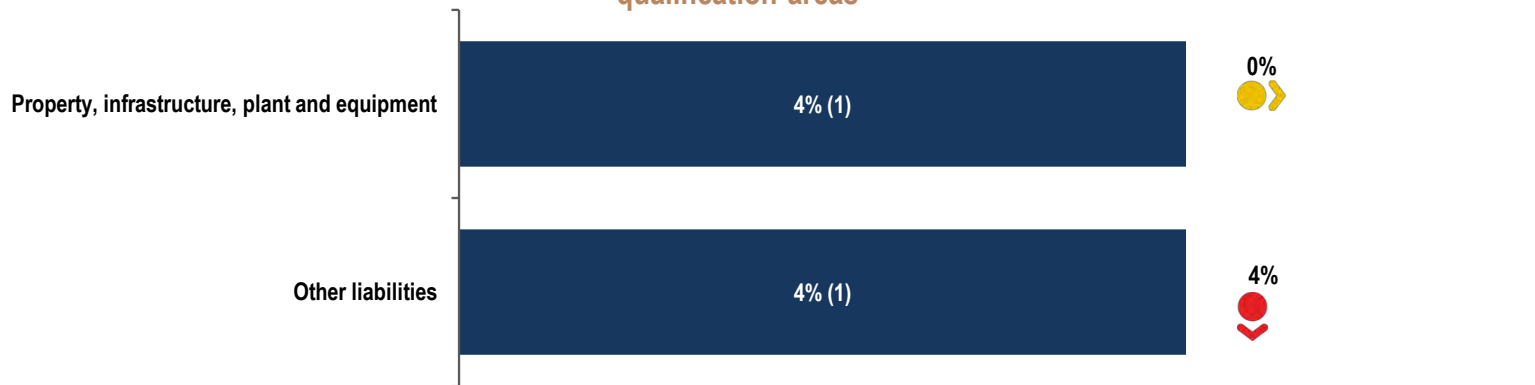
**Figure 3.1.1: Status of submitted financial statements**



**Figure 3.1.2: Quality of submitted financial statements**



**Figure 3.1.3: Top two financial statement qualification areas**



### 3. Risk areas

We identified six key risk areas that need to be addressed to improve audit outcomes and financial and performance management. Five risk areas are discussed in this section, while the quality of performance information is included in section 2.

#### 3.1 Quality of submitted financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's financial performance (statement of financial results) and cash flows for the reporting period, in accordance with the applicable financial reporting framework and the requirements of the applicable legislation.

The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatements* to refer to such material errors or omissions.

#### *The quality of the financial statements submitted for auditing*

All auditees submitted financial statements for auditing by the legislated deadline of 31 May 2013. As can be seen in figure 3.1.1, 20 auditees (84%) submitted financial statements with no material misstatements. The one new entity for 2013, together with three auditees that had improved, submitted financial statements with no material misstatements, representing an improvement from 16 to 20.

Figure 3.1.2 shows that two auditees (8%) received a financially unqualified audit opinion, only because they corrected all the misstatements we had identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Senior managers and accounting officers/authorities, assisted by internal audit units and audit committees, should accept full responsibility to ensure that the financial information presented for audit is accurate, valid and complete on the basis that adequate controls over daily and monthly processing and reconciliation of transactions were implemented. Those charged with governance and oversight should confirm with management that credibility checks were performed on all the information submitted for the compilation of the financial statements.

#### *Uncorrected material misstatements*

Although we reported the material misstatements to management for correction, two auditees could not make the corrections to the financial statements, which resulted in qualified audit opinions. In one instance the corrections could not be made due to a limitation of scope (absence of supporting documentation) and in the other instance the auditors identified misstatements in the asset register. The auditee was provided with an opportunity to determine the correct adjustment to be made, but could not identify all the misstatements for correction.

Figure 3.1.3 indicates the two financial statement qualification areas and auditees' progress in addressing these since the previous year. The reasons for the qualifications are as follows:

#### *Property, infrastructure, plant and equipment*

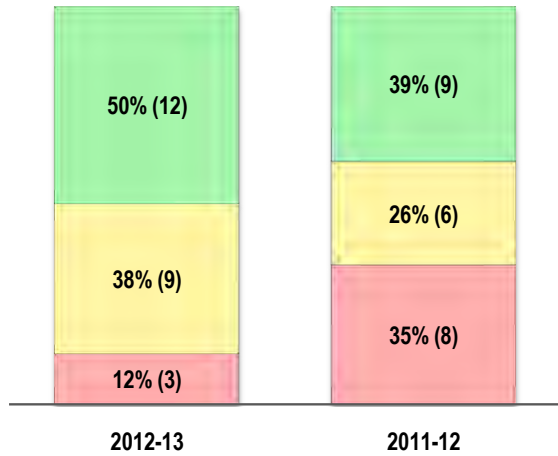
The Western Cape Housing Development Fund did not correctly value open spaces and road remainders with no service potential because of inadequate review to ensure that properties recorded in the asset register were valid and accurate, resulting in the overstatement of property, plant and equipment and the revaluation reserve.

#### *Other liabilities*

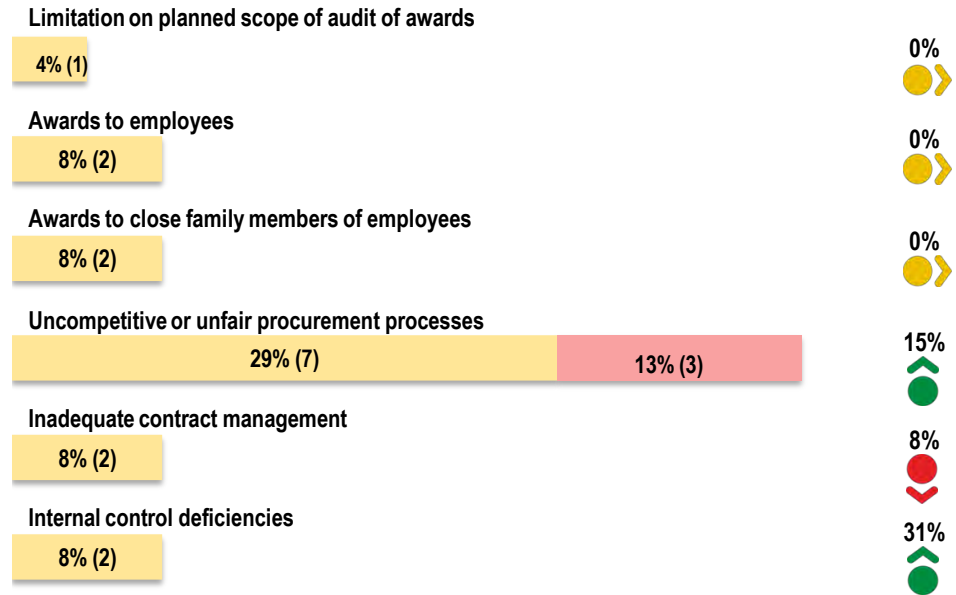
The Western Cape Nature Conservation Board could not furnish the required audit evidence or supporting documentation to confirm that the unspent conditional grants liability was accounted for accurately and completely due to inadequate review by management to ensure accurate financial reporting.

Those charged with governance and oversight of the affected entities should obtain confirmation from the entities that credible action plans are in place and that they are being monitored by the accounting authorities to ensure the timely resolution of audit qualification issues.

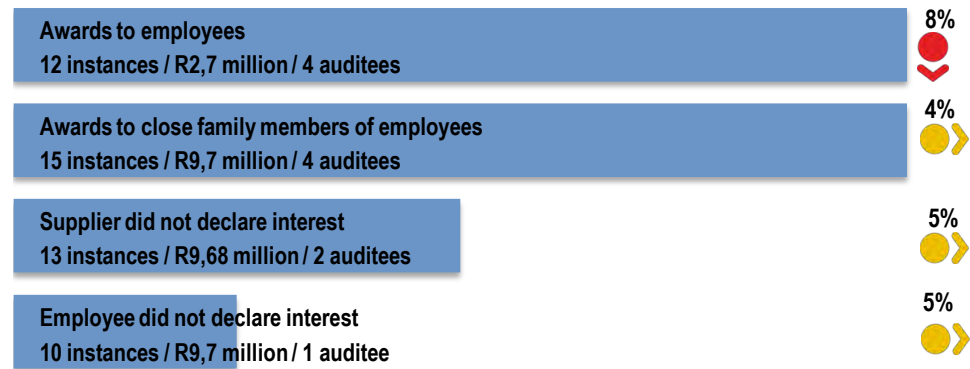
**Figure 3.2.1: Status of supply chain management**



**Figure 3.2.2: Findings on supply chain management**



**Figure 3.2.3: Awards to employees and close family members**



With no findings
With findings
With material findings
↑ Improved
 ➔ Stagnant or little progress
 ↓ Regressed

## 3.2 Supply chain management

We tested 359 contracts (with a value of R1 617 million) and 1 490 quotations (with a value of R88 million) (referred to as *awards* in the rest of the report) to determine whether the prescribed procurement processes had been followed to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers to the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare such interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process. Lastly, we assessed whether sufficient internal controls had been implemented to prevent, detect or correct irregularities in the supply chain management (SCM) processes.

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

Figure 3.2.1 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. Overall, there has been an improvement in the extent and nature of SCM findings. The number of auditees with material findings decreased significantly from eight auditees in 2011-12 to three auditees in 2012-13. Figure 3.2.2 indicates the extent of findings in the areas we report on and the movement since the previous year. These findings are discussed in the rest of this section.

### *Limitations on planned scope of audit of awards*

We were unable to audit awards to a total value of R79 664 at the one auditee that could not provide us with evidence that awards had been made in accordance with SCM legislation. We could also not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. This was due to the documentation being with the forensic investigations unit.

### *Awards to employees and close family members*

Figure 3.2.3 shows the extent of awards to employees and family members and whether the required declarations had been made. The first two bars indicate the total extent of awards to employees and family members of employees that was identified. These awards do not automatically result in findings, provided that appropriate declarations were made by employees/family members. The last two bars in this graph indicate the extent of findings related to the awards. The extent of awards to employees has increased; however, the instances of employees and suppliers not declaring their interest remained unchanged since 2012.

### *Uncompetitive or unfair procurement processes*

There has been a significant improvement in this area, with material findings reported in the audit report decreasing from seven in 2012 to three in 2013.

The following were the most common findings:

- Three written quotations not invited - deviation not approved
- Procurement from suppliers without SARS tax clearance
- Preference point system not applied
- Points incorrectly allocated/calculated - incorrect supplier won contract
- Competitive bids not invited and/or deviations not justified.

### *Inadequate contract management*

This area regressed with findings reported at two auditees, while no auditees had findings in the prior year.

The following were the findings for 2012-13:

- Contracts were extended or renewed to circumvent competitive bidding processes at one auditee
- Lack of or inadequate contract performance measures and monitoring at one auditee.

### *Inadequate supply chain management controls*

Given the improvement in findings as mentioned above, there was also a reduction in findings on inadequate SCM controls.

## *Effective management of consultants*

Some of the departments and entities appoint consultants/contractors to execute certain projects. SCM regulations contain specific guidelines for the appointment and management of consultants. Our audits revealed a number of deficiencies in the management of consultants and the need for decisive corrective actions.

Although most findings were identified in relation to the planning for and appointment of consultants, shortcomings were also identified in the following areas:

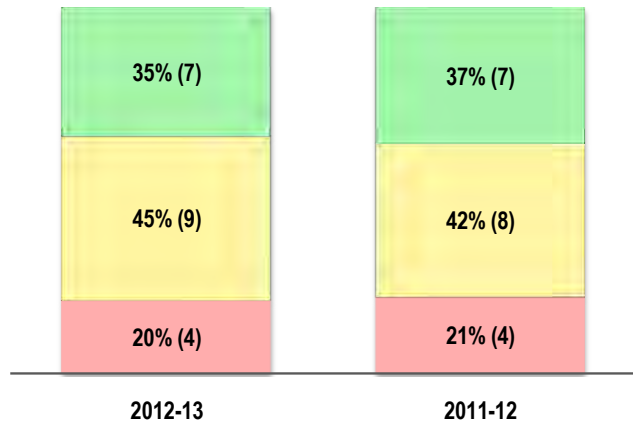
- Transfer of skills
- Performance management and monitoring
- Closing and finalisation of project.

While the improvements in the extent and nature of SCM findings are encouraging, we urge those charged with governance and oversight to intensify their monitoring of the action plans of all entities to address SCM risks and other risks of non-compliance, including unauthorised and irregular expenditure and, at the same time, enforce appropriate consequences when officials fail to comply with the applicable laws and regulations

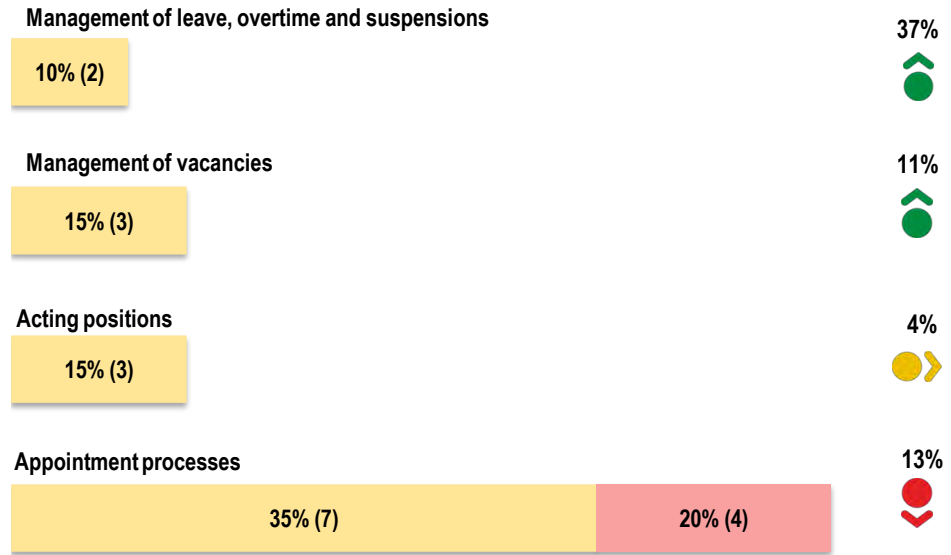




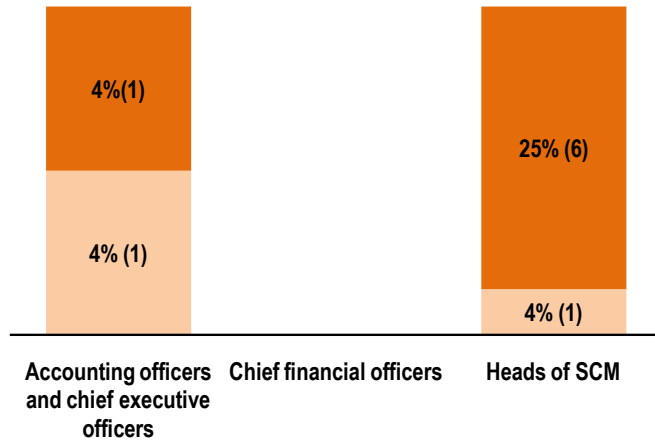
**Figure 3.3.1: Human resource management findings**



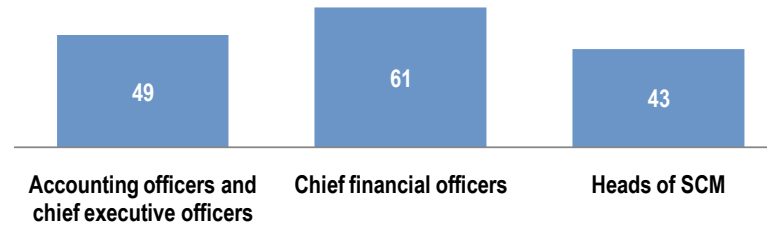
**Figure 3.3.2: Weakness in human resource focus areas**



**Figure 3.3.3: Vacancies in key positions**



**Figure 3.3.4: Stability in key positions (Average number of months filled)**



With no findings
With findings
With material findings
Vacant less than 6 months
Vacant more than 6 months
↑ Improved
 → Stagnant or little progress
 ↓ Regressed

### 3.3 Human resource management

Human resource (HR) management is effective if adequate and sufficiently skilled resources (in other words, staff) are in place and if staff performance and productivity are properly managed. Our audits included an assessment of HR management which focused on the following areas:

■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions

We reported all findings arising from the audit to management in a management report, while we reported the material non-compliance findings in the audit report. The auditees analysed in this section exclude four public entities where the HR function is performed by their respective oversight departments.

Figure 3.3.1 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. Although the number of auditees with material findings on HR management remained unchanged since the prior year, the total number of material findings across the four auditees affected has decreased from eight to four in the current year.

Figure 3.3.2 indicates the extent of findings in the areas we report on and the movement since the previous year. The number of auditees with findings on the management of leave, overtime and suspensions improved; however, the extent of findings regressed for Education. The number of auditees with findings on appointment processes has increased.

#### *Management of vacancies and acting positions*

The average overall vacancy rate in the province was 12% at year-end, while that of senior management was 9% and that of the finance units 17%. Figure 3.3.3 shows the number of vacancies at the level of accounting officer or chief executive officer (CEO), chief financial officer (CFO) and head of the SCM unit at year-end and indicates the period during which the positions were vacant. Figure 3.3.4 shows the average number of months that these key officials have been in their positions.

An improvement in the management of leave and vacancies has been noted in the province due to the improved monitoring process in place; however, the

appointment process remains a challenge. This has resulted in key vacancies in certain areas such as supply chain management and performance management units not being filled in a timely manner. This also resulted in insufficient monitoring and review of compliance with legislation and performance reports as well as people acting in positions for longer than 12 months, which created some instability in management oversight.

#### *Performance management*

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

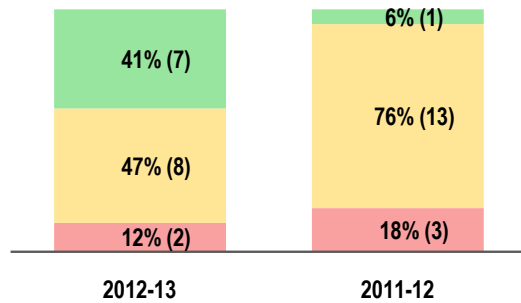
It is pleasing to note that, as in the previous year, there were no significant findings in the current year relating to non-compliance with performance management requirements, indicating that the improvement in the prior year was sustainable. We are concerned, however, about the length of time it takes to finalise investigations at some auditees where officials failed to comply with laws and regulations or where they failed to discharge their legislated duties. Those charged with governance and oversight should ensure that accountability is enforced and that appropriate consequences are implemented when officials intentionally do not comply with the applicable prescripts, especially with regard to supply chain management

#### *Other common human resource findings*

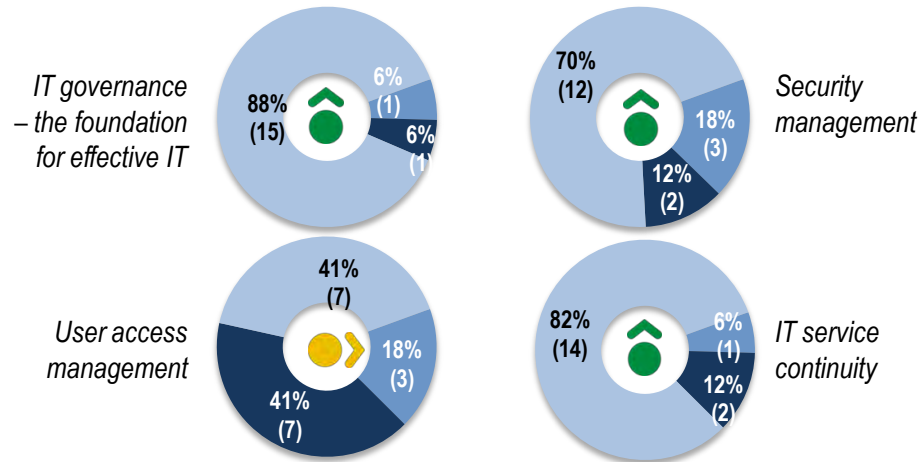
The other most common HR findings were the following:

- A proper verification process for new appointments was not always implemented
- Employees received more family responsibility leave than they were entitled to
- Medical certificates were not submitted for incapacity leave
- Medical certificates were not submitted for sick leave.

**Figure 3.4.1: Status of information technology controls**



**Figure 3.4.2: Findings on information technology controls**



**Figure 3.4.3: Status of information and controls**

	Confidentiality	Integrity	Availability
Status of provincial government information	<p>The necessary level of secrecy is enforced for all provincial government information. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>Security management</li> <li>IT governance</li> <li>User access controls</li> </ul>	<p>All provincial government information is authentic, remains unaltered until authorised to change and is complete. This was assessed by performing data analytics and auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>Security management</li> <li>User access controls</li> </ul>	<p>All provincial government information is ready for use when expected. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> <li>Security management</li> <li>IT service continuity</li> </ul>
Status of key enabling controls	Good governance		
	Effective management		
	Secure architecture or infrastructure		

With no findings	With findings	With material findings	IT controls embedded and functioning effectively	IT controls to be implemented	IT controls to be designed	Good	Concerning	Intervention required	Improved	Stagnant or little progress	Regressed
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## 3.4 Information technology

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

In the assessment of findings on IT controls (figure 3.4.2) the criteria are determined by the stage of development reached and are grouped into three categories:

**When IT controls are designed**, management should ensure that the controls would mitigate risks and threats to IT systems.

**When IT controls are implemented**, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.

**Where IT controls have been embedded and are functioning effectively**, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

The status of IT controls (figure 3.4.1) demonstrates that there have been improvements since the previous financial year. However, some auditees are still experiencing challenges in all areas, excluding IT governance, and should therefore prioritise the design and implementation of the required controls.

### IT governance

Effective IT governance ensures that the organisation's IT control environment functions well and enables service delivery.

All departments and entities are required to adopt and implement the cabinet-approved IT governance framework and guidelines within the next three financial years. The legislature has opted to develop its own IT governance framework and therefore management should prioritise the development and implementation of such a framework. The Department of the Premier's Centre for e-Innovation (Ce-I) has implemented the Western Cape Government (WCG) IT governance framework and its supporting structures across all of provincial departments. Ce-I should, however, prioritise the review and alignment of the WCG IT governance framework to the cabinet-approved framework to ensure compliance. An IT governance framework was not approved and adopted for the Western Cape Nature Conservation Board (WCNCB). The entity may therefore not be able to effectively manage and support its IT environment to meet business requirements.

### Security management

A secure IT environment ensures confidentiality, integrity and availability of critical IT systems and business processes.

Ce-I has established policies and procedures to address transversal IT security risks. Challenges were identified in departments where non-transversal systems were managed internally by the departments or third party vendors, and therefore did not fall within the scope of Ce-I's security management processes. Management should ensure that the Ce-I IT security-related policies are implemented for all non-transversal systems.

### User access management

User access controls are measures designed by management to prevent and detect unauthorised access to and the creation or amendment of financial and performance information stored in the application systems.

In addition to the Ce-I guidelines for managing user access, provincial treasury established policies and procedures to address user access risks relating to the transversal financial systems. Challenges were identified in departments where access to non-transversal systems was managed internally by the departments and did not fall within the scope of these policies and processes. Management should ensure that Ce-I policies and guidelines are implemented for all non-transversal systems.

### IT service continuity

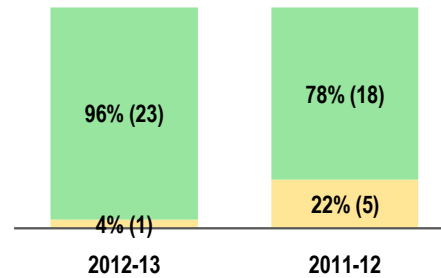
IT service continuity controls enable institutions to recover the critical business operations and application systems affected by disasters or major system disruptions within reasonable time frames.

All departments were represented in the disaster recovery test of the State Information Technology Agency (SITA). However, inadequate backup and recovery processes were found at the legislature, public entities and departments with non-transversal systems that are not managed by Ce-I. Management should align the non-transversal systems' IT service continuity controls to the WCG policies and procedures implemented by Ce-I to mitigate the risk of unavailability or incompleteness of data in the event of major system disruptions or data loss.

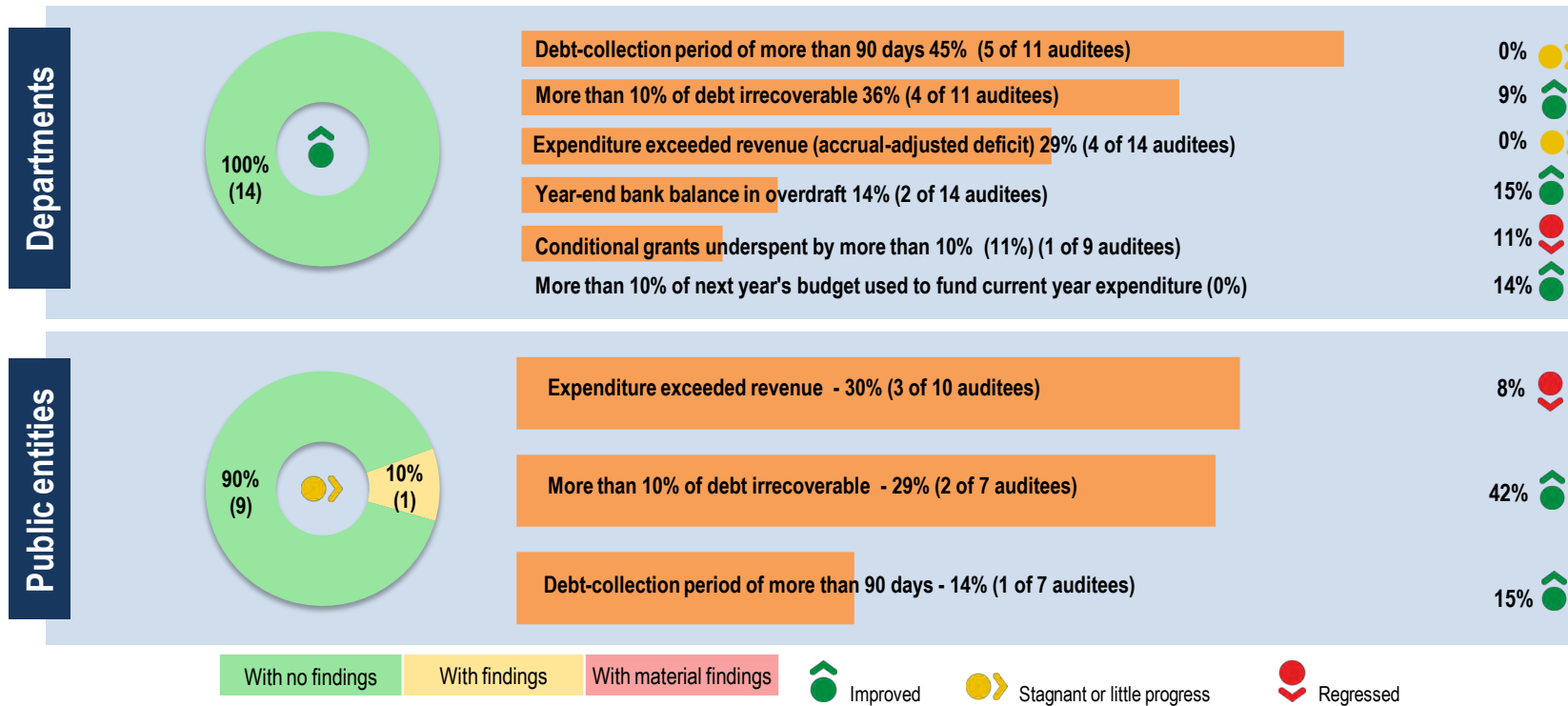
While the improvements in the implementation of controls in the areas of IT governance, security management and IT service continuity are encouraging,

we urge management to focus especially on user access management and the implementation of policies and guidelines for non-transversal systems where weaknesses remain.

**Figure 3.5.1:**  
Number of auditees with indicators of financial health risks (all auditees)



**Figure 3.5.2:** Number of auditees with indicators of financial health risks



## 3.5 Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk.

Figure 3.5.1 and figure 3.5.2 indicate auditees as having material findings where the auditee had more than two of the indicators depicted in figure 3.5.3.

In 2011-12 two of the departments with findings had concerns in four areas. The other two departments and one entity with findings for 2011-12 had three areas of concern, which showed an improvement in the number of auditees with more than two indicators.

Figure 3.5.3 shows the number of auditees with these indicators and movement since the previous year. The indicators are discussed in the rest of this section.

### *Financial management by departments on the modified cash basis of accounting*

Departments prepare their financial statements on the modified cash basis of accounting. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. As part of the financial health analysis, we reconstructed the financial statements to determine whether the departments' surpluses at year-end would also be evident in an accrual-based environment. We also assessed the impact of the unpaid expenses at year-end on the following year's budget.

Two departments had year-end bank overdraft balances compared to four in 2011-12. Four departments had an accrual-adjusted deficit for the year (total expenditure exceeded total revenue), which remained unchanged since 2011-12.

This is an indication that the department technically spent more than their allocated budget. The payments will be made from the next year's appropriation. This could result in some service delivery targets not being met in the following year due to less cash being available or possible unauthorised expenditure in the following year.

### *Debt management*

The indicator is not applicable at six of the 24 auditees analysed. The debtor balances at three of the six auditees (five departments and one public entity) identified with indicators on debt management were insignificant. At the remaining three auditees the nature of the debtors makes them difficult to recover as the debtors are not easily traceable in certain instances and not in a financial position to pay (housing debtors, licence fee debtors and patient debtors).

### *Underspending by departments of capital budgets and conditional grants received*

One department underspent by 17% on conditional grants received. The funds were ring-fenced for the Khayelitsha Commission of Inquiry and could not be used due to an application brought against the province with regard to whether the commission had been lawfully and constitutionally established.

### *Financial health risks at public entities*

Three entities realised a deficit for the year (total expenditure for the year exceeded total revenue). It should be noted that none of these entities had a year-end bank overdraft balance or a net current liability position.





## **SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES**

Figure 4.1.1: Movement of drivers of internal control

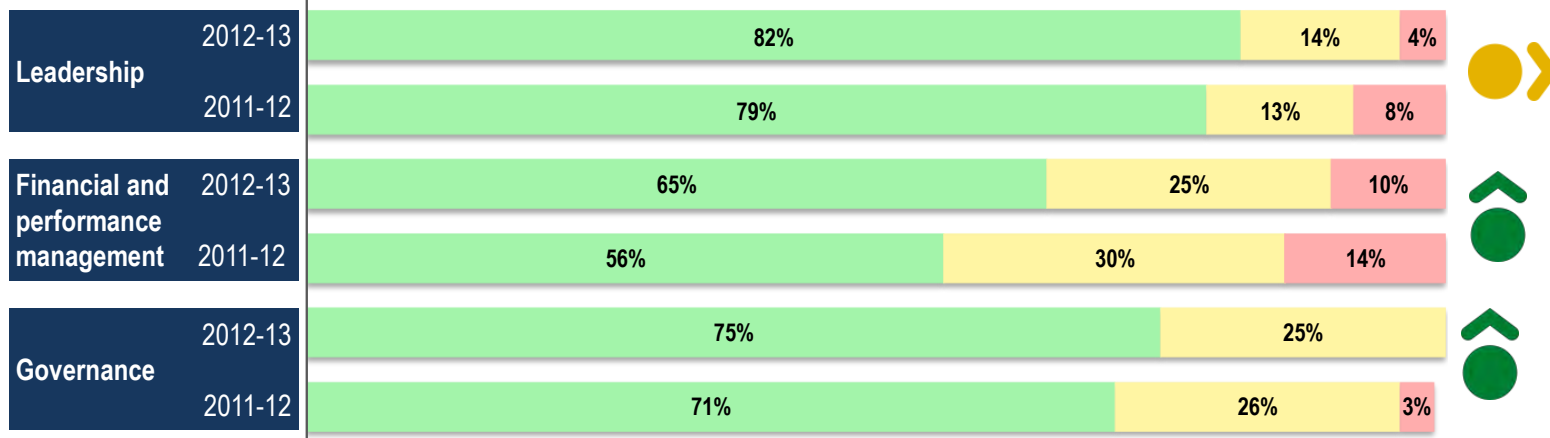
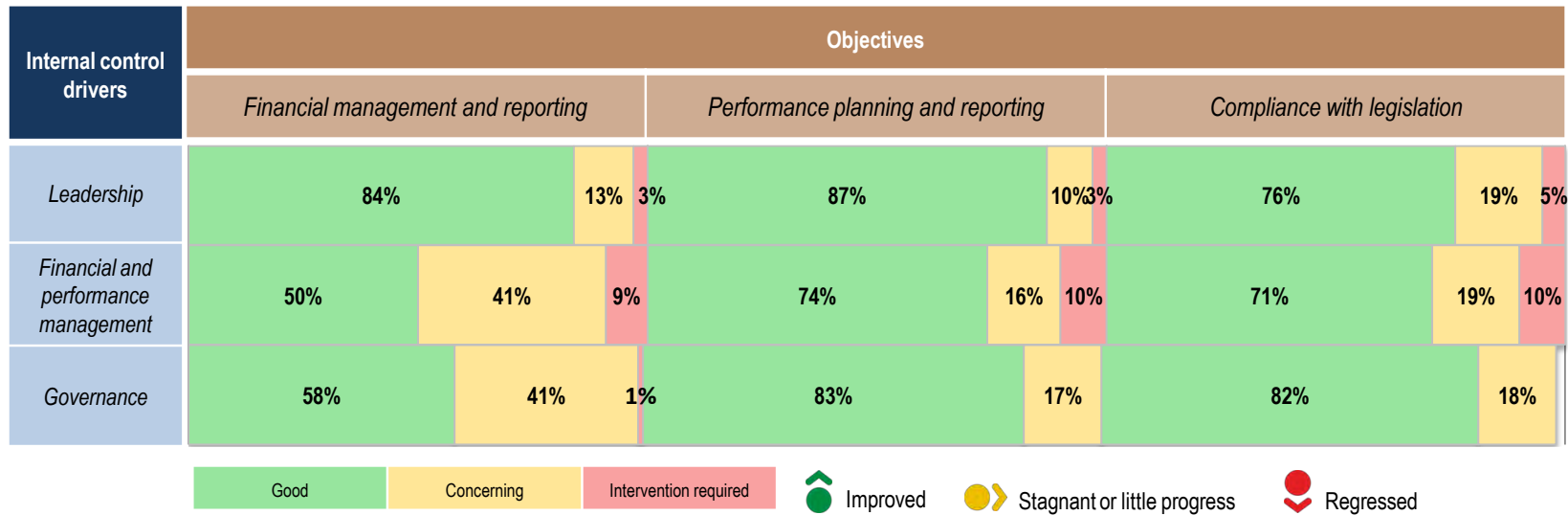


Figure 4.1.2: Objectives on which drivers of internal control have an impact



## 4.1 Significant deficiencies in internal controls

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

### Status of drivers of internal control

Figure 4.1.1 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits which had resulted in material misstatements in the submitted financial statements, performance reports of a poor quality as well as findings on non-compliance with legislation.

Figure 4.1.2 separately assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

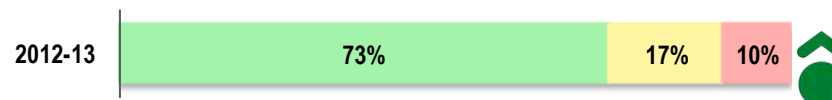
Based on this assessment, we highlight the following:

- There has been an overall improvement in the drivers of internal control in financial and performance management and governance. The fact that drivers remained the same for leadership is attributable to their commitment to accept full accountability for the implementation and monitoring of key controls.
- Daily processing and regular accurate reporting are the major concerns for financial and performance management, which have resulted in material misstatements in the financial statements and annual performance reports identified during the audit.
- Regular, complete and accurate reporting is the biggest concern relating to reporting on PDOs as can be seen from the extent of material corrections that were required to the annual performance reports as a result of misstatements identified during the audit.
- The drivers for compliance with legislation seem more favourable as the challenges are focused around the review and monitoring of compliance as opposed to financial management and reporting where the challenges are spread across proper record keeping, processing and reconciling

controls and regular, complete and accurate reporting. Compliance with HR legislation remains a concern. There has, however, been an improvement in the area of supply chain management which requires ongoing guidance and training of staff involved in the procurement processes.

Auditees should attend to the following elements of internal control underlying leadership, financial and performance management as well as governance to improve their internal controls:

### Exercise oversight responsibility



Although there has been an improvement in this key control, there are still concerns that MECs, accounting officers and authorities do not adequately focus on the weaknesses identified in key control interactions at six auditees. In some instances, there was a lack of oversight to ensure regular and accurate reporting on financial and performance information and that adequate policies and procedures were developed and implemented for reporting on PDOs and the review and monitoring of compliance. Where MECs and/or accounting officers have taken full responsibility for key controls, as in the case of Transport and Public Works, Education and Health, we have seen improvements in the audit outcomes.

### Regular, complete and accurate reporting



Management's responsibility to account for auditees' finances and performance is not limited to the annual financial statements and performance report. Management should also prepare regular (monthly and quarterly), accurate and complete financial and performance reports for the accounting officer or authority, the MEC (where required) and monitoring institutions, such as the treasuries. In-year reporting helps to prevent misstatements in the year-end reports and to detect non-compliance with legislation. It also ensures proper financial and performance management throughout the year.

There has been a remarkable improvement in this key control, resulting in a decrease in auditees with material misstatements in their financial statements submitted for audit. However, a concern has been raised at seven auditees where this control has not yet been institutionalised, in particular for financial reporting and reporting on PDOs. Line managers do not always accept responsibility for reported information and do not perform adequate reviews to ensure that the information is valid, accurate and complete. At Social Development, this was due to instability in key positions.

## Review and monitor compliance



Management should implement appropriate internal controls to ensure effective monitoring of compliance with legislation.

The evaluation includes monitoring of compliance with financial reporting, reporting on PDOs and other legislation. The main area of concern is the prevention of irregular expenditure, deficient HR management and material misstatements in the financial statements submitted for audit. The irregular expenditure is mostly as result of contravention of SCM legislation. Management has to review and monitor compliance with the SCM regulations before claims are approved for payment and also ensure that all the required SCM documents are properly filed and available in support of the procurement of goods and services. There has, however, been a remarkable improvement in the monitoring of compliance with procurement and contract management legislation. Non-compliance relating to HR management relates to verification checks that were not performed before appointments were made. This and other routine HR transactions should be monitored in conjunction with shared corporate services, resorting under the Department of the Premier, which renders the service on behalf of the department in terms of a service level agreement.

Annexure 3 details the status of auditees' key controls and the movement since the previous year.

## 4.2 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect errors or non-compliance. The root causes were confirmed with management and discussed with the provincial political leadership. We also included the root causes of material findings as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance. Section 4.1 provides more information on the specific drivers of internal control.

As reported in section 2, some auditees failed to receive a clean audit outcome as their financial and performance reports were not of the required quality and they had findings of non-compliance with legislation. The information that follows summarises the three most common root causes of the audit outcomes, provides recommendations to address such root causes and identifies the role players responsible for addressing such root causes.

### *Slow response by management*

#### *Detail of root cause*

We identified the slow response by management as the root cause at 38% of auditees, which relates mostly to the rate at which findings on compliance with relevant legislation are addressed.

Action plans were developed too late in the financial year to resolve matters by year-end and the action plans did not, in most instances, address the root causes of the audit findings despite inputs from the AGSA in this regard and therefore did not prevent repeat findings in the area of financial and performance reporting and compliance with legislation.

The monitoring of responsibilities assigned to address the effective implementation of internal controls in a timely and sustainable manner was not effective.

#### *Recommendations*

The following actions should be taken to address the root cause:

- The accounting officer/authority and the executive authority should ensure that action plans are developed in a timely manner and that responsibility

is assigned to the relevant members of management to implement and monitor progress made with actions included in the plan.

- The accounting officer/authority and the executive authority should validate progress reported on implementation of action plans.
- The accounting officer/authority and the executive authority should accept accountability for ensuring the credibility of information provided to them through the use and/or establishment of internal control units and internal audit.

### *Vacancies in key positions*

#### *Detail of root cause*

We identified instability and vacancies in key positions to be a root cause of poor audit outcomes at 17% of the auditees.

There has been an improvement in the management of vacancies overall; however, key vacancies in certain areas such as supply chain management and performance management units were not filled in a timely manner.

The prolonged vacancies at the level of heads of SCM units affected the pace at which the action plans to address SCM weaknesses could be implemented. Section 3.3 details the status and impact of vacancies.

#### *Recommendations*

The following actions should be taken to address the root cause:

- The accounting officer/authority and the executive authority of the affected auditees should ensure that actions are taken timeously to fill vacancies that have an impact on the effective management of financial and performance reporting, monitoring of compliance and service delivery.

## Formal control over IT systems

### Detail of root causes

Securing the cooperation of all departments and entities in designing and implementing controls to regulate security management, user access management and IT service continuity remains a challenge. This challenge is exacerbated by the following inefficiencies:

- Accountability for the implementation of IT controls to ensure that all systems comply with the standards, policies and procedures developed by Ce-I and the provincial treasury is lacking in some departments. Management also did not prioritise the design and implementation of controls for non-transversal systems due to a lack of understanding of the associated risks and the lack of consequences for not addressing prior audit findings.
- Ce-I does not own or maintain non-transversal systems within departments and therefore has limited influence on the implementation of user access and security controls for these systems. The limited security functionality of the non-transversal systems in use has also contributed to the lack of compliance with the security standards and policies of Ce-I.
- The high turnover of IT management staff at the legislature and the high vacancy rate in key IT positions at entities for the entire audit period resulted in minimal progress being made with the design and implementation of IT controls.
- Capacity constraints in terms of IT resources have resulted in IT staff being more focused on day-to-day operational tasks than on the design and implementation of IT controls. There is also a lack of accountability among provincial system controllers in departments where national systems are used, as well as a lack of understanding of their roles and responsibilities in implementing IT controls.

### Recommendations

The following actions have been taken to address the root causes:

- Ce-I within the office of the premier is actively engaging with departments as part of the GCRO initiative to strengthen IT governance and improve the IT control environment within the province.

- Ce-I is spearheading the IT governance improvement programme that is being implemented in all provincial departments.
- Ce-I has initiated the development and revision of user account management policies and procedures, which will be accompanied by implementation guidelines. Existing policies and procedures will be aligned with these policies and procedures, which will also be applicable to all non-transversal systems.
- The Western Cape ICT managers' forum was re-established in July 2013 to provide direction, guidance and knowledge sharing in respect of IT-related matters. This forum will meet on a quarterly basis.

The following actions should be taken to address the root causes:

- Ce-I should continue to track and monitor the implementation and improvement of the IT control environment as part of the CGRO process within the Western Cape government. Ce-I should also assist in clarifying the roles and responsibilities of national and provincial IT staff, as well as those of the management of departments. Consequences for not resolving repeat audit findings should be enforced.
- Executive management should regard IT as a strategic enabler and should implement controls to ensure compliance with all Ce-I's IT-related policies, standards and procedures.
- Manual processes and compensating controls should be implemented to enforce compliance with IT security policies and standards for non-transversal systems that have limited security functionality. Consequences for non-compliance with approved policies, standards and procedures should be enforced.
- The departments and entities should make sure that IT departments are adequately staffed to ensure that IT roles and responsibilities are executed.
- Departments and entities should leverage the IT policies and procedures that have already been developed by Ce-I and the provincial treasury and should tailor these policies and procedures to their needs and IT environment.

## **SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES**



Figure 5.1: Assurance provided by key role players

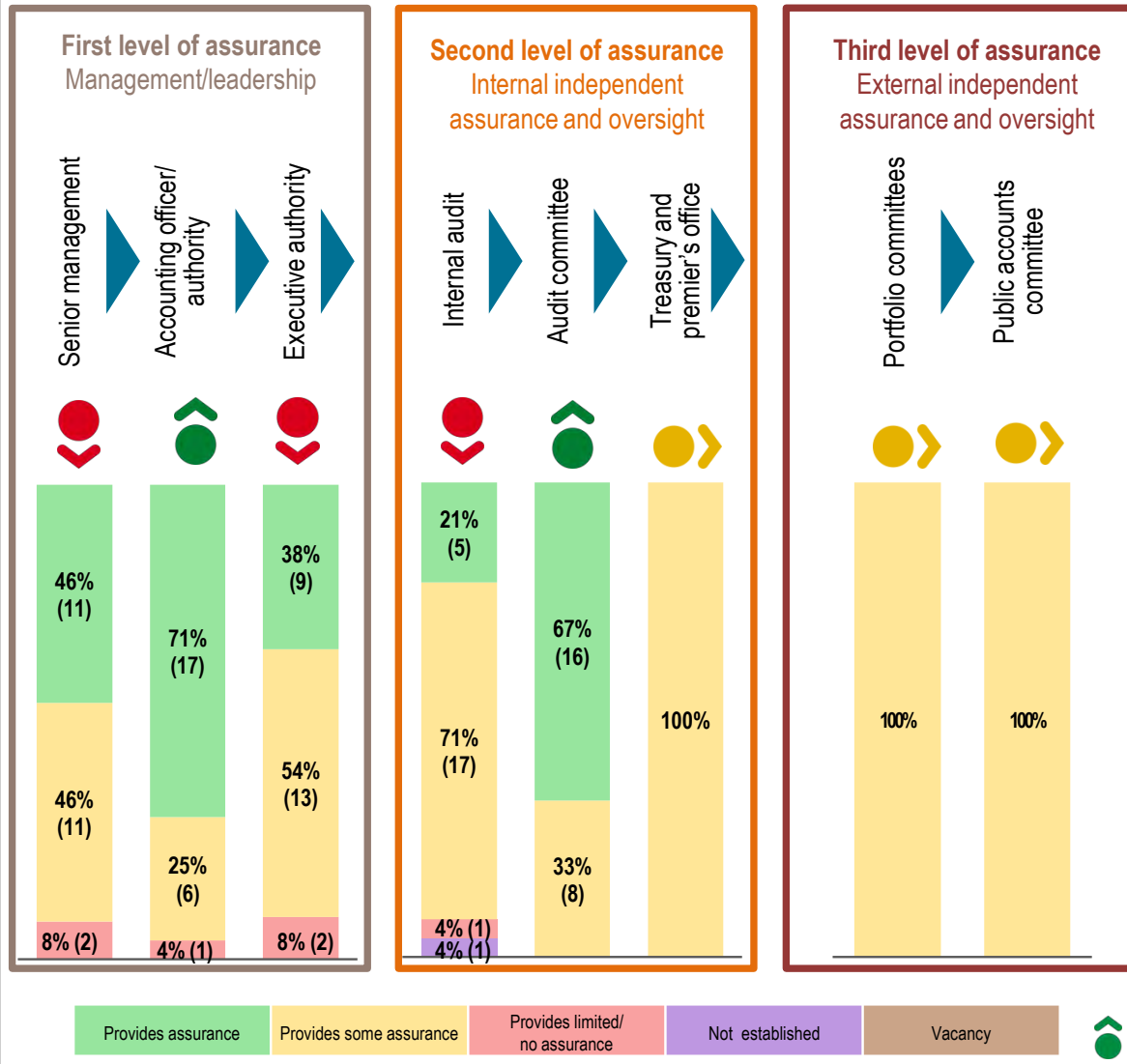
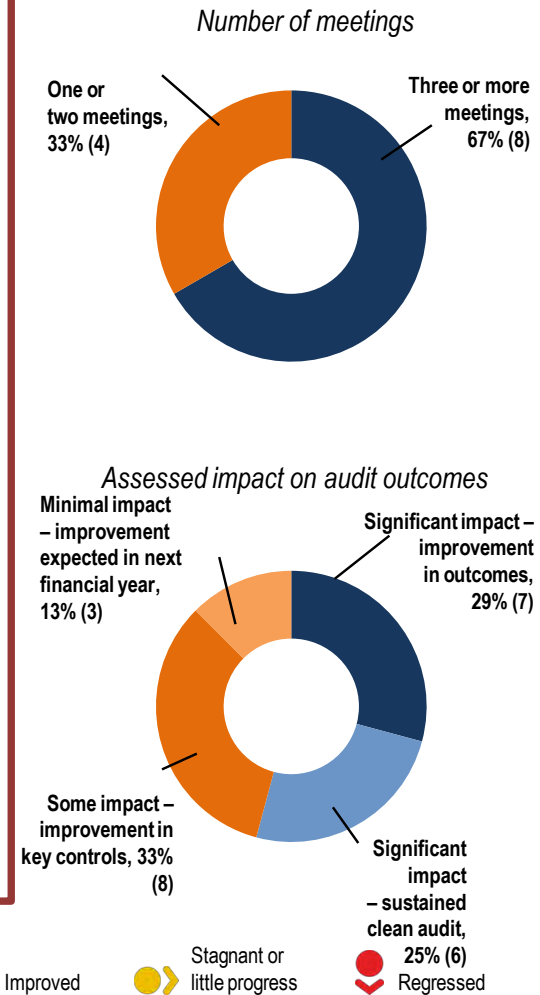


Figure 5.2: Interactions with MECs and assessed impact thereof



## 5. Initiatives and impact of key role players on audit outcomes

MECs, accounting officers and accounting authorities use the annual report to report on their departments and/or entities' financial position, their performance against PDOs and overall governance, while one of the important oversight functions of legislatures is to consider auditees' annual reports. To perform their oversight function they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements and the annual performance report as well as the auditees' compliance with legislation.

Besides the AGSA, other role players also contribute to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

These role players are discussed in the rest of this section and have been categorised as follows: (1) those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment in the Western Cape, which is characterised by some improvement in internal controls, a reduction in material misstatements in financial statements and findings on non-compliance with legislation, particularly supply chain management, all role players are encouraged to provide an extensive level of assurance.

Figure 5.1 shows the assessed level of assurance provided by key role players.

### **First level of assurance: Management/leadership**

#### *Senior management*

Accounting officers/ authorities and MECs are relying on senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, etc. to implement the basic financial and performance management controls. These controls include the following:

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

The need to improve the status of drivers of internal control, as reported in section 4.1, is a reflection of the inadequate assurance provided by senior management. This can be achieved by senior management taking full ownership of key controls to address deficiencies, especially in the regular preparation of credible financial and performance information, and by implementing appropriate controls to ensure effective monitoring of compliance with laws and regulations. It highlights the risk that decisions taken by MECs, accounting officers or accounting authorities could be based on incomplete and incorrect information provided by senior management. Going forward, auditees have been developing governance action plans (GAPs) to address identified risks and audit findings, as part of the province's CGRO with the assistance of provincial treasury and the Department of the Premier. The objective is to improve financial management maturity levels through the CGRO initiative by institutionalising internal control measures that will address internal control deficiencies in respect of PDOs, compliance with laws, supply chain management, asset management, as well as material misstatements. Auditees were required to conduct their own internal monitoring of the CGRO process and engage with provincial treasury to address any shortcomings.

#### *Accounting officer or accounting authority*

The level of assurance provided by the accounting officers/ authorities is assessed higher than that of senior management, mostly because more public entities contribute to the higher level of assurance.

Although accounting officers/authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to further improve such controls by focusing on the following:

- Provide effective and ethical leadership and exercise oversight of financial and performance reporting and compliance with legislation
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to
- Support the audit committee and ensure that its reports are responded to.

We encourage accounting officers/authorities to continue increasing their ownership of key controls so that a greater impact on creating a more effective control environment becomes more evident at all auditees as their leadership, planning, risk management, oversight and monitoring are critical to sustainable practices that translate into improved audit outcomes. In addition, to have assurance that posts of accounting officers in the process of retiring will be filled with people who are able to ensure the future success of auditees, it is important that the executive authorities use a variety of strategies that will help build the continuity of talent at that level. At an overall level, the implementation of the CGRO process will continue to be monitored by the accounting officers on a regular basis in order to address these and other risks.

### *Executive authority*

The executive authorities in the province are the MECs. They have a monitoring and oversight role in their portfolios and play a direct role in departments as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. They can bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of accounting officers and authorities. Our assessment is that most MECs are not yet providing the required level of assurance and that the impact of MECs on audit outcomes, as observed through our regular interactions with them, is yet to be fully realised.

During the past three years we have increasingly engaged with MECs on how they can bring about improvements in the audit outcomes of their portfolios. At these interactions, we discuss the status of key controls and MECs' commitments to improve audit outcomes, while also sharing identified risks. The meetings improve the MECs' understanding of the audit outcomes and messages and also

address the progress made with interventions to ensure a positive impact on these audit outcomes.

As shown in figure 5.2, most of the MECs met with us. The engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes in terms of a move towards clean audit opinions. However, the building blocks are now in place for further improvements in key controls, which should lead to improved outcomes (section 6 provides more detail on the interactions with the MECs).

We undertake to continue with general and key control engagements. Our aim is, however, to place more emphasis on quality conversations with a view to greater impact. This is because of the following:

- The political leadership has undertaken to drive clean audit outcomes, but we see a lack of effective oversight in some instances to ensure that management develops and implements credible action plans in a timely manner to address past audit findings and internal control deficiencies.
- Some members of the political leadership have not always taken full ownership of the key controls and do not consistently focus on the weaknesses identified in the key controls environment. As a result, corrective action taken is inconsistent. In other words, execution does not always match intention.

The executive authorities will continue to improve their monitoring of the implementation of the CGRO process.

### ***Second level of assurance: Internal independent assurance and oversight***

#### *Internal audit*

Internal audit units assist accounting officers/ authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. Although internal audit units are in place at 96% of auditees, they are not providing sufficient assurance in the areas they are required by legislation to audit and report on. For example, the operations of 48% of internal audit units were not fully compliant with the requirements of the PFMA on account of not having evaluated the effectiveness and efficiency of internal controls in the information systems environment and/or the reliability and integrity of financial and performance information although the work of most of the units covered the required aspects.

In some instances, effective internal audit units have helped to improve internal controls, which had a positive impact on audit outcomes as evidenced by auditees that had fewer findings compared to the prior financial year on compliance matters and PDOs. Some 87% had a positive impact on audit outcomes, while the lack of impact of the remaining units was as a result of management not addressing the internal audit findings and internal audit not always completing their approved annual work plans due to limited resources.

Internal audit units can only be effective if they are adequately resourced, if audit committees oversee and support their operations and if accounting officers and senior management cooperate and respond to their advice and recommendations. The leadership should continue to strengthen the internal audit units by addressing the resource constraints faced by certain units, especially at provincial department level, while internal audit should be more proactive in reviewing compliance with laws and regulations, in particular supply chain management, and intensify their review of PDOs, as these areas remain a critical obstacle to achieving clean administration.

While we have not obtained specific commitments from internal audit to influence the achievement of clean audit outcomes, we encourage them to review the CGROs to ensure that they include credible actions and clear milestones, as well as regularly monitor the implementation thereof to address the range of audit findings and related internal control deficiencies in a sustainable manner.

## *Audit committee*

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

Audit committees were in place at all auditees and they are assessed at a higher level of assurance, because the work of most of the committees covered all the required aspects. However, exceptions are the 17% of committees that did not evaluate compliance with laws and regulations, particularly supply chain management, and the 21% that did not evaluate the information systems environment.

Overall, 92% of the audit committees had a positive impact on the audit outcomes as evidenced by auditees that had fewer findings compared to the prior financial year on compliance matters and PDOs and as can be seen from the higher levels of assurance provided in the current and previous year. Assurance was also enhanced by the interactions that all audit committees had with their MEC and

accounting authority/ boards of entities at least once in the past year to share information and risks. More frequent and candid interactions between audit committees and executive authorities are *encouraged* as it provides a basis for progress towards clean administration because executive authorities are in a position to objectively assess the merits of audit committee recommendations as well as the authority and power to address obstacles that audit committees may face in executing their mandate to promote sound governance, risk management and control.

Some audit committees are not yet effective because their scope of work in some instances does not include evaluating the reliability, adequacy and accuracy of financial and performance information and/or compliance with laws and regulations. In addition, for audit committees to provide the required level of assurance as second-level assurance providers, the level of assurance provided by senior management and internal audit units should increase considerably. Audit committees need to better utilise the internal audit units to ensure compliance with laws and regulations and should also focus more on the financial statement preparation process and PDO reporting requirements to ensure that more credible financial and performance reports are submitted for audit.

While we have not obtained specific commitments from audit committees to influence the achievement of clean audit outcomes, we encourage them to meet frequently with the executive authorities and the legislature and to provide them with assurance, at least on a quarterly basis, regarding the implementation of the CGROs.

## *Provincial treasury and premier's office*

The provincial treasury carries out a number of interventions in the province, ranging from budgetary control to monitoring of monthly reports and principles of financial management. The provincial treasury has reassessed its roles and responsibilities in terms of assurance and has now partnered with departments in the form of the CGRO process. This process looks at all aspects of the first level of assurance and is driven to ensure that all achieve clean administration, which in turn will result in clean audit outcomes.

The premier uses mainly the premier's coordinating forum to coordinate and monitor provincial oversight, as well as her interactions with MECs, on a monthly basis to monitor progress made towards clean administration. The forum, which meets bi-annually, is attended, among others, by the premier, all MECs, accounting officers and provincial treasury in the province and has a standing agenda item focusing on progress made towards clean administration.

The premier has embarked on a process with the provincial legislature that will see a change to SCM legislation relating to instances of state employees

conducting business with the state. However, this process is still underway and has not yet had an impact on the audit outcomes and reported compliance findings. To further strengthen compliance with supply chain management, the provincial treasury assisted with the following:

- Provincial treasury instructions, standard operating procedures, checklists and procurement templates have been issued and implemented at auditees
- The Western Cape supplier database has been upgraded to reflect all compliance requirements relating to suppliers
- The supplier database is compared with the HR database to identify conflict of interest and feedback is given to departments on a continuous basis.

Both provincial treasury and the premier have made advances in implementing the commitments made in previous years to influence the achievement of clean administration, albeit it at a slower-than-expected pace, as seen in the marginal improvement in audit outcomes. The progress made in implementing the commitments relating to improved financial management and better quality performance reporting, as well as ongoing improvement in compliance with procurement and contract management, is expected to be more evident in upcoming years.

We are encouraged by the reduction in findings on the quality of the financial statements and the extent of procurement and contract management findings due to the implementation and monitoring of action plans to address past internal control deficiencies. The PDOs of departments, in particular, require ongoing focus to address the identified risks and internal control deficiencies in planning, managing and reporting on PDOs.

The challenge remains for provincial treasury and the premier's office responsible for provincial oversight to improve their monitoring of the implementation of the CGRO process to ensure that control measures to sustain clean administration are institutionalised.

The AGSA undertakes to continue with general and key control engagements as well as important technical engagements in support of the provincial treasury's efforts.

## **Third level of assurance: External independent assurance and oversight**

### *Portfolio committees and public accounts committee*

The role of portfolio committees and the public accounts committee remains critical in the province. They are tasked with effective oversight of all departments and public entities and **must** hold first-level assurance accountable for their actions.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives.

We acknowledge the current efforts of the committees to follow through on the findings raised by the AGSA, but encourage further effective oversight and follow-through on critical areas identified above. The initiative of the public accounts committee to make internal audit and audit committees a standing feature during hearings is contributing towards enhancing its financial oversight through the assurance provided by these structures although such assurance is not yet at the required level. While we have not received specific commitments from the portfolio committees and the public accounts committee to influence the achievement of clean audit outcomes, we encourage them to:

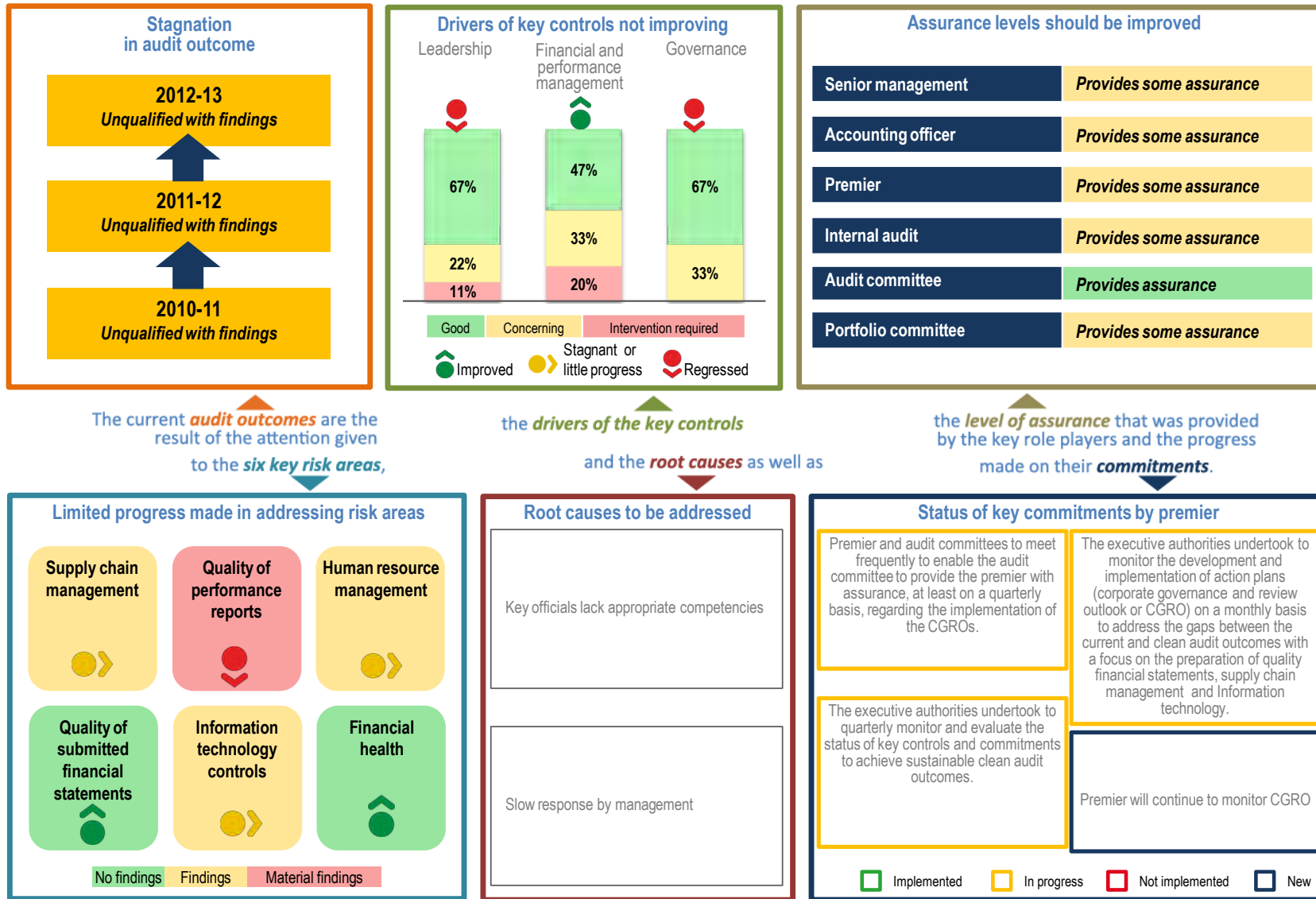
- intensify their oversight role by holding auditees with recurring findings on the financial statements, PDOs and compliance accountable through the CGRO process
- renew endeavours to further strengthen oversight by improving the working relationship between the portfolio committees and the public accounts committee to ensure holistic oversight of financial management and performance information.

The senior members of the AGSA teams will increase their engagements with the portfolio committees and the public accounts committee (directly or through the chairpersons), while being more readily if they are needed for briefings or insights on matters serving before the committees. It has become standard practice to brief the public accounts committee before hearings in order to assist them in focusing on the most important matters to be addressed. Portfolio committees have started to request briefings to assist them in carrying out their oversight responsibilities more effectively.

## SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS



# 6.1 Premier





## Auditees included in the portfolio

### ■ Department of the Premier

## Stagnation in audit outcome

The stagnation in the department's audit outcomes was caused by a regression in the usefulness and reliability of performance information and a non-compliance finding on irregular expenditure that was not prevented.

## Six key risk areas

The overall status of the six key risk areas reflects limited progress made in addressing these risk areas. Progress was made in improving the quality of the financial statements submitted for audit, but there was a regression in the quality of performance reports. The auditee should focus on both the measurability and reliability of performance information to address the material findings in the performance report. The financial health analysis of the department shows improvement; however, the department used 4% of the next year's budget as a result of high accruals at year-end, which also resulted in a calculated net deficit position if payables and accruals were to be settled in the year to which they relate. This could result in unauthorised expenditure or the department not being able to realise all its service delivery commitments due to a lack of funds.

## Key controls and root causes

The key control drivers regressed in respect of leadership and governance controls and showed an improvement in financial and performance management. The improvement in financial and performance management is due mainly to the quality of the financial statements received in the current year, as material adjustments were not required. The movement in leadership relates mainly to the lack of policies and procedures not being in place to understand and identify the processes for collecting, collating, verifying and storing information to support the performance information being reported. The regression in governance was mainly due to the fact that not all risks relating to the evaluation of performance information and information systems had been adequately addressed. The auditee should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Leadership: policies and procedures must be in place to ensure that management understands and identifies clearly the process for collecting, collating, verifying and storing information relating to reporting on performance information

- Financial and performance management: make sure that sufficient monitoring takes place to ensure the accuracy, validity and completeness of reported information in the annual performance report.

Leadership and management should address the root causes of stagnant audit outcomes and inadequate controls as follows:

- Key officials lack the appropriate competencies to compile the annual performance plan to adequately describe the indicators in a clear and unambiguous manner - these officials must be up-skilled in this area
- Political leadership must act on the audit findings of previous years in a timely manner to ensure that they are not repeated and negatively impact the audit outcomes, e.g. irregular expenditure that was not prevented
- Management must ensure that compliance with laws and regulations is strictly monitored, especially with regard to procurement and contract management, to prevent irregular expenditure.

## Impact of key role players on audit outcomes

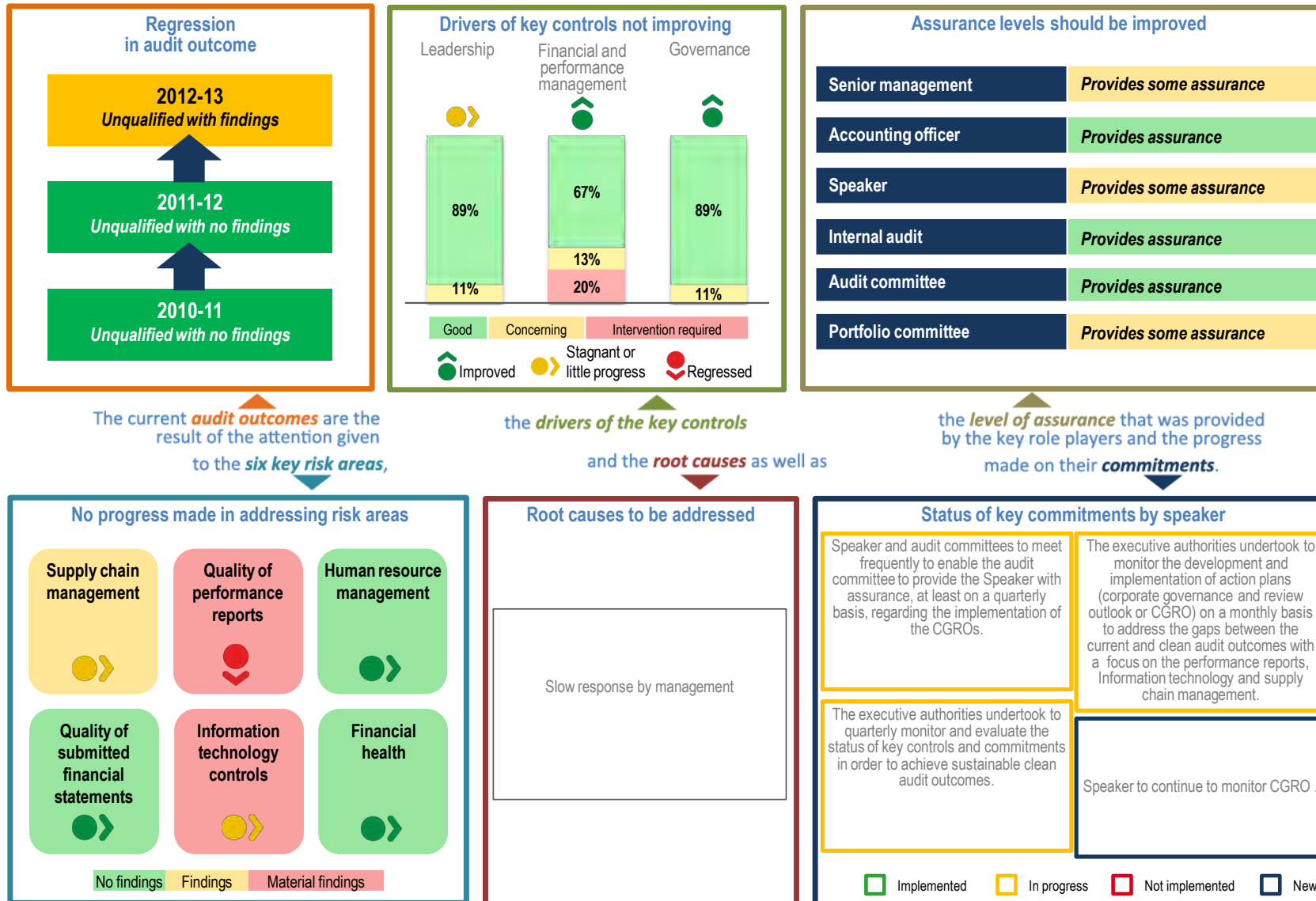
Senior management should improve assurance levels by implementing the recommendations of external audit.

We met with the premier four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that the premier has been active in monitoring the implementation of action plans to address past audit findings and identified risks. Through the premier's coordinating forum, the premier also monitors progress made in addressing audit-related matters with the view to achieving clean administration. This assessment, the impact of the premier on the auditee's controls, as well as the status and impact of the commitments contributed to the assessed assurance provided by the premier.

The assurance levels for internal audit reflects the fact that the internal audit unit was not adequately resourced with the relevant specialist skills and budget required to audit information systems.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

## 6.2 Provincial parliament



## Auditees included in the portfolio

### ■ Provincial parliament

## Significant movement in audit outcome

The regression in the audit outcomes of the provincial parliament was caused by findings relating to the usefulness of the performance information and a non-compliance finding on irregular expenditure that was not prevented.

## Six key risk areas

The overall status of the six key risk areas has remained static except in the area of the quality of performance reports which regressed. Although there were no findings in some key risk areas such as the quality of the financial statements submitted for audit and supply chain management, management should attend to this to ensure that no regression occurs in these areas. The status of supply chain management remains unsatisfactory because the auditee failed to comply with the requirement to obtain tax clearance certificates. The auditee should focus on the measurability of the performance information to address material findings on the usefulness of its performance report.

## Key controls and root causes

The key control drivers stagnated in respect of leadership controls and improved because some of the governance weaknesses had been addressed. The auditee should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The political leadership and management must act on the audit findings and emerging risks of the prior year in a timely manner so that the audit outcomes are not negatively affected, e.g. the use of the new framework for strategic and annual performance plans to consider the criteria for good performance targets and to ensure they are specific, as well as implementing best practices relating to the SMART principles.
- Leadership: Policies and procedures: The leadership must monitor the implementation of standard operating procedures that are fully documented for performance reporting purposes.
- Financial and performance management: Compliance monitoring – management must ensure that tax clearance certificates are obtained in all cases and monitor this requirement.

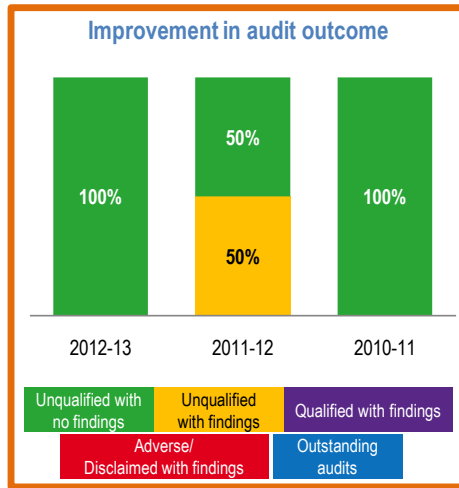
## Impact of key role players on audit outcomes

Senior management should improve assurance levels by implementing the recommendations of external audit.

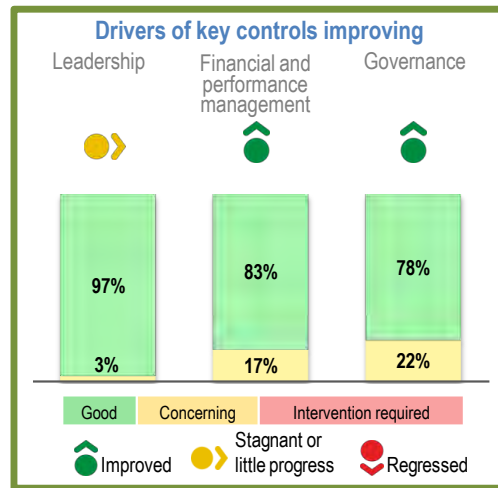
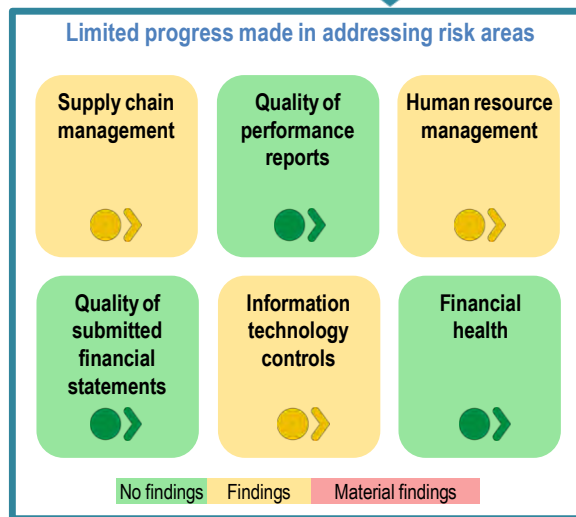
We met with the speaker once in the past year and this interaction had some impact on the audit outcomes. The reason for our assessment is the overall regression in audit outcomes where the emerging risks relating to performance information were not adequately monitored and addressed

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

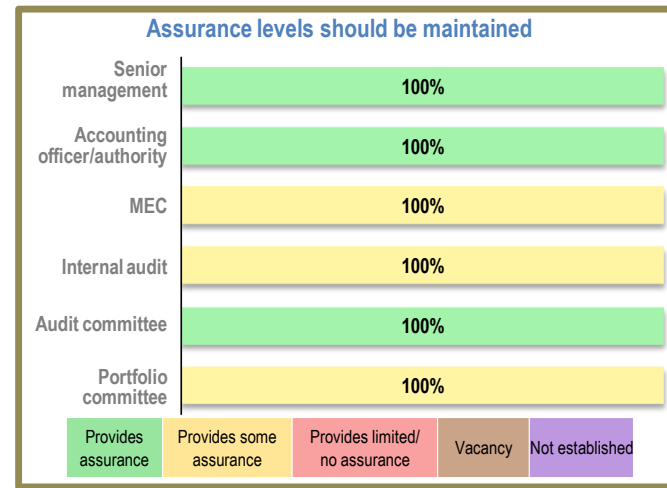
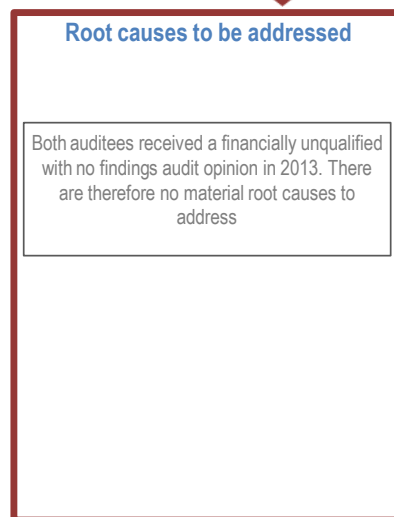
# 6.3 Agriculture



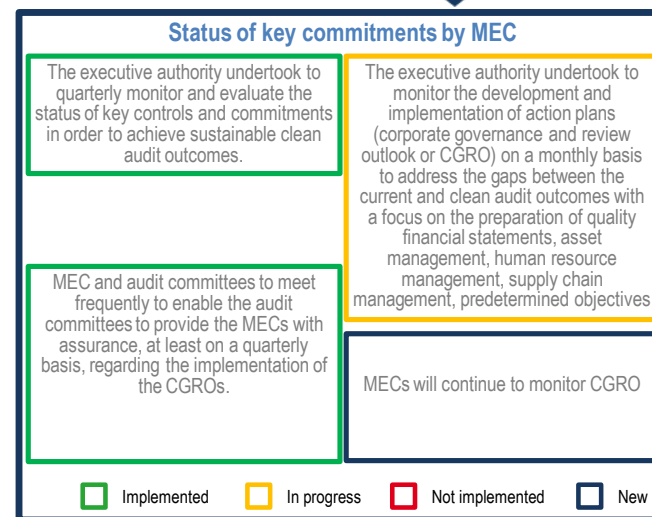
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



the **drivers of the key controls** and the **root causes** as well as



the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.



## Auditees included in the portfolio audited by the Auditor-General of South Africa

### ■ Agriculture

### Significant movement in audit outcome

The improvement in the audit outcomes of the auditee from unqualified with findings in 2011-12 to unqualified with no findings in 2012-13 was mainly due to management addressing the non-compliance finding of the prior year relating to the documentation of reasons for not obtaining three written price quotations and the approval thereof.

### Six key risk areas

Agriculture's overall status in the six key risk areas remained unchanged since the prior year. Although there were still findings on supply chain management, there were no material findings in the current year as was reported in the prior year. Other areas that require further improvement are HR management and IT controls.

### Key controls and root causes

The improvement in the key controls of Agriculture was due to an improvement in financial and performance management controls and partly addressing governance weaknesses. The department should strengthen the following controls to create a control environment that will continue to support reliable financial and performance reporting and compliance with legislation:

- Financial and performance management: Compliance monitoring of key routine HR matters, such as verification checks when appointing staff
- Financial and performance management: Design and implementation of formal control over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management should address the root causes of inadequate controls as follows:

- Compliance relating to key routine HR transactions should be monitored in conjunction with shared corporate services, resorting under the

department of the premier, which deliver the service on behalf of the department in terms of a service level agreement

- Management should communicate the documented IT procedures to all users within the department and implement monitoring controls to ensure adherence to the procedures.

### Impact of key role players on audit outcomes

The accounting officer and senior management should maintain the assurance levels.

We met with the MEC once in the past year and the interaction contributed to an improvement in audit outcomes. The impact of the MEC on the auditee's controls as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

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

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

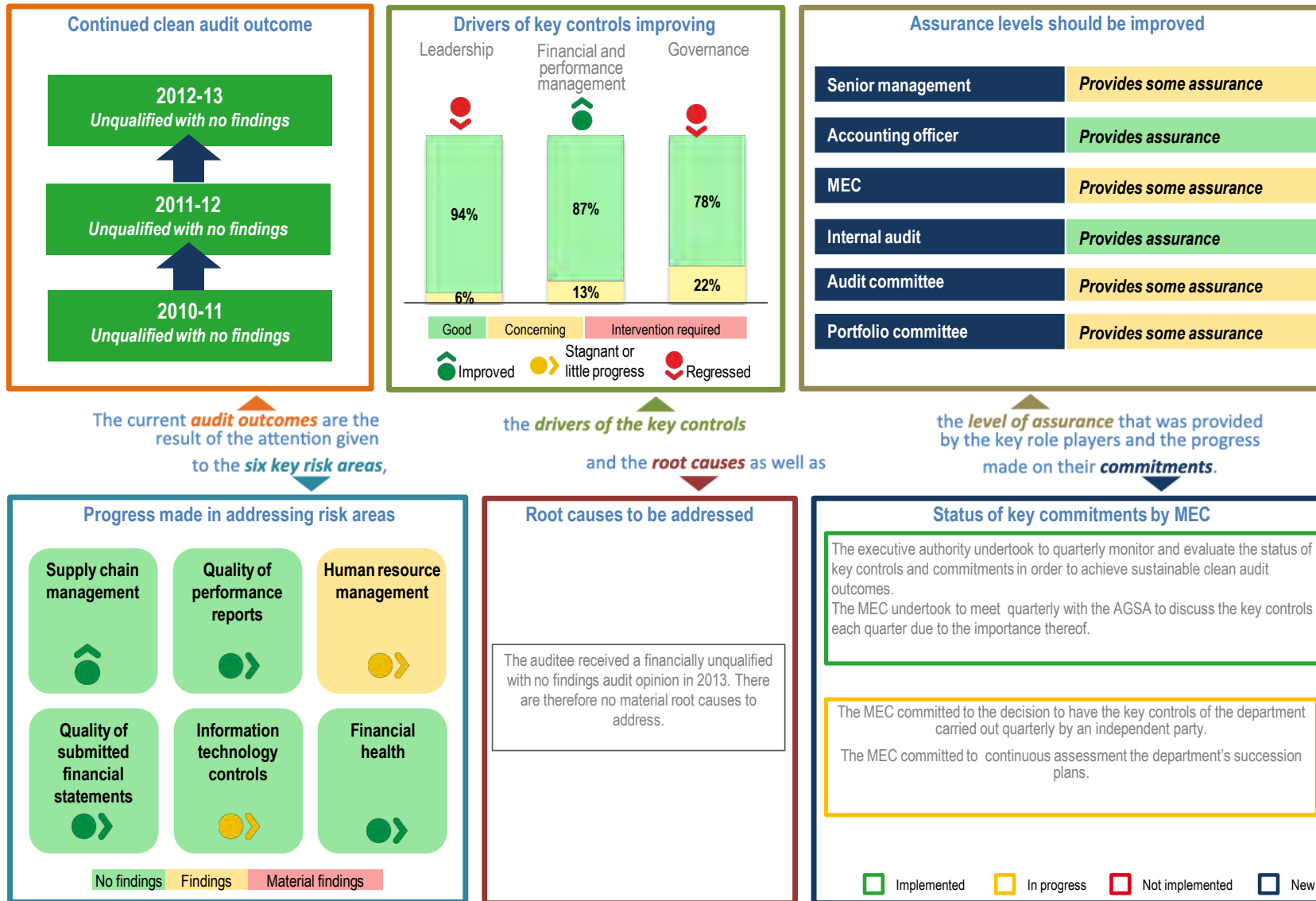
#### ■ Casidra (SOC) Pty

The audit outcomes of this entity have remained the same as in the previous year. The audit outcome was as follows:

- An unqualified opinion with no findings – unchanged since the previous year.

The entity has maintained its clean audit outcome over the past three years.

# 6.4 Community Safety





## *Auditees included in the portfolio*

### ■ Community Safety

## *Continued clean audit outcome*

The department's audit outcomes remained unchanged since the prior year and it has maintained its clean audit outcome through continuous drive from leadership.

## *Six key risk areas*

The department has maintained its clean audit outcome over the past three years. There have, however, been challenges in HR management, particularly with respect to leave management and verification checks prior to appointment. Although leave management has improved, the department should continue to monitor the functioning of the centralised services in relation to their requirements. A solution to the time delays in the verification checks prior to appointment needs to be sought in consultation with the key role players.

The prior year findings in relation to errors in the performance report submitted for auditing and supply chain management have been fully addressed.

## *Key controls and root causes*

Overall the key controls reflect a slight regression although it did not impact on maintaining a clean audit outcome. The main impact on governance was due to

internal audit not assessing information systems as required by the treasury regulations. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

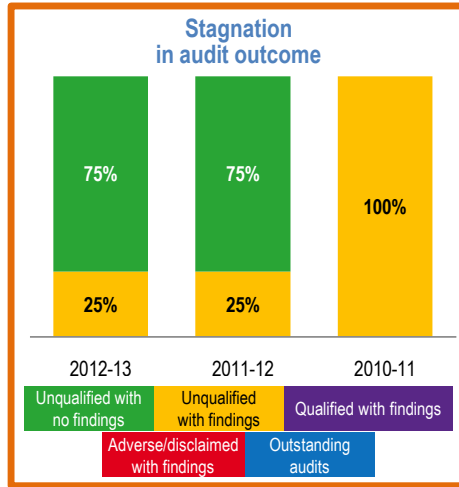
- The review controls over HR functions should be strictly monitored to ensure adequate implementation thereof.

## *Impact of key role players on audit outcomes*

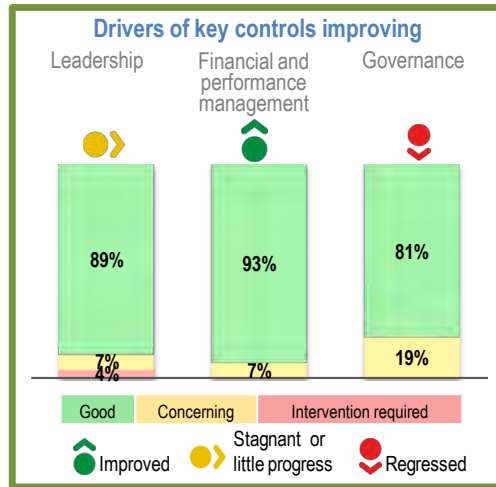
Assurance levels should be improved. We met with the MEC four times in the past year and these interactions had a significant impact on sustained clean audit outcomes. The reason for our assessment is that the MEC actively monitors progress made by the department; however, monitoring of controls relating to HR management should be improved.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

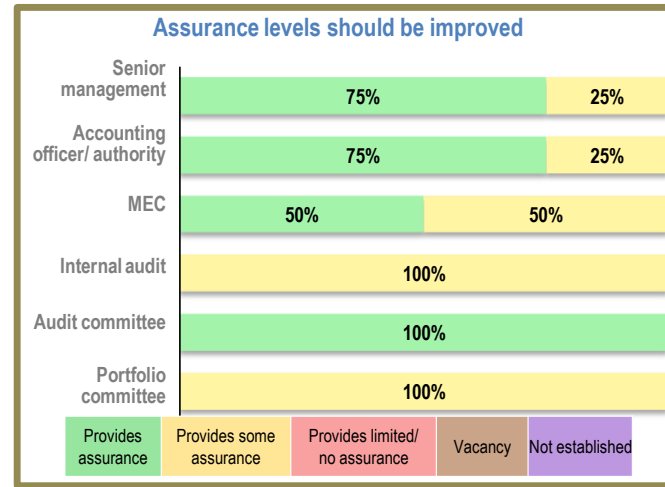
# 6.5 Cultural Affairs and Sport



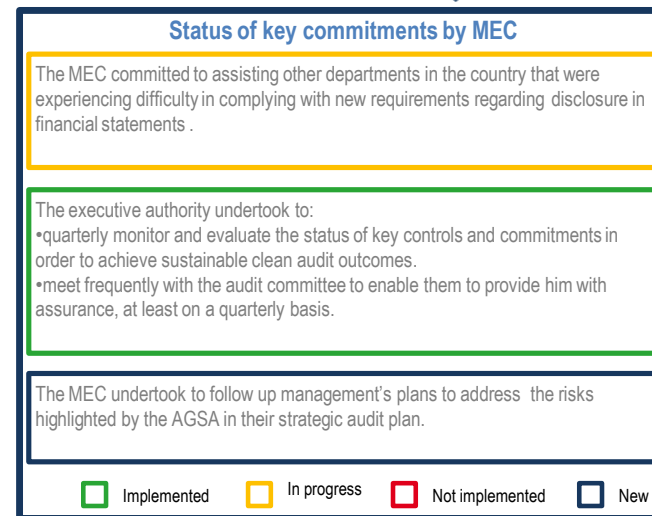
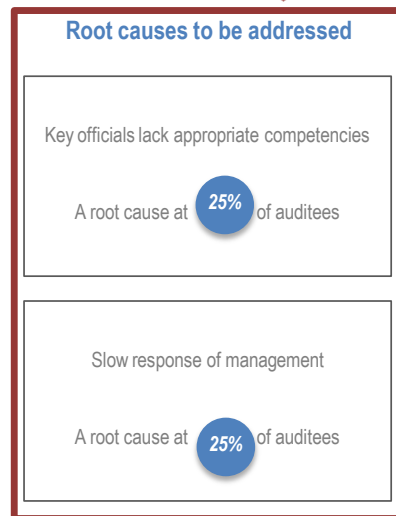
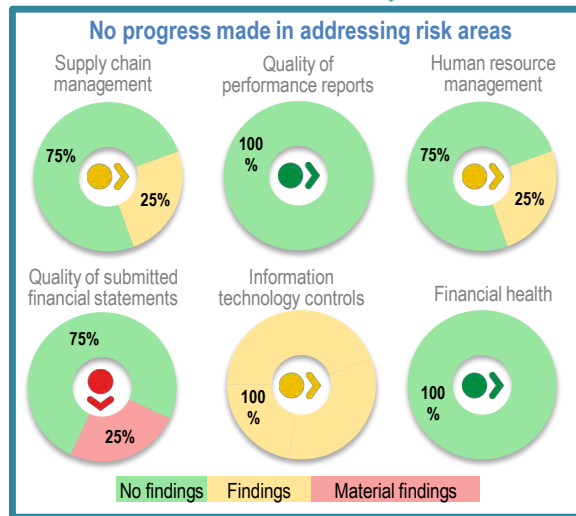
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



the **drivers of the key controls** and the **root causes** as well as



the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.





## *Auditees included in the portfolio*

■ Cultural Affairs and Sport

■ Heritage Western Cape

■ Western Cape Cultural Commission

■ Western Cape Language Committee

## *Significant movement in audit outcomes*

The overall audit outcome of the portfolio remained unchanged since the prior year. Cultural Affairs improved since the prior year by addressing non-compliance relating to HR management. Heritage Western Cape regressed due to material errors in the financial statement, resulting in related non-compliance.

## *Six key risk areas*

The concern highlighted in respect of HR management relates to the verification checks to be performed prior to appointments and was also raised in the prior year. A solution to the time delays in these verification checks needs to be sought in consultation with the key role players.

The controls around the preparation and review of the financial statements at Heritage Western Cape should be improved to ensure that all relevant GRAP requirements are addressed. Where guidance is required on the interpretation of accounting standards, this should be obtained prior to the financial statements being submitted for auditing. Where the interpretation is in doubt, the intended treatment of an account balance or transaction should be confirmed timeously with the relevant stakeholders.

The department and the entities should ensure that the internal audit unit is sufficiently staffed with the specialist skills required to audit information systems.

## *Key controls and root causes*

The improvement in the department's financial and performance key controls was brought about by the department accepting accountability and improved monitoring of HR functions performed by shared services.

The regression in the outcomes of Heritage Western Cape was as a result of ineffective review of the financial statements by the leadership of the entity prior to

the submission thereof to auditors, resulting in failure to identify material misstatements.

HR processes in the department were not effective in preventing the appointment of officials in acting positions for longer than the permitted continuous periods.

The department was faced with unique challenges because library material was accounted for as property, plant and equipment for the first time during the 2012-13 year. The department has started with actions to prepare for the new requirements during previous years; however, written guidance on the accounting treatment of library material was not obtained in a timely manner and there are still inefficiencies in tracking the movement of library material.

The library material database was found to require improvement in respect of security management and user access controls.

## *Impact of key role players on audit outcomes*

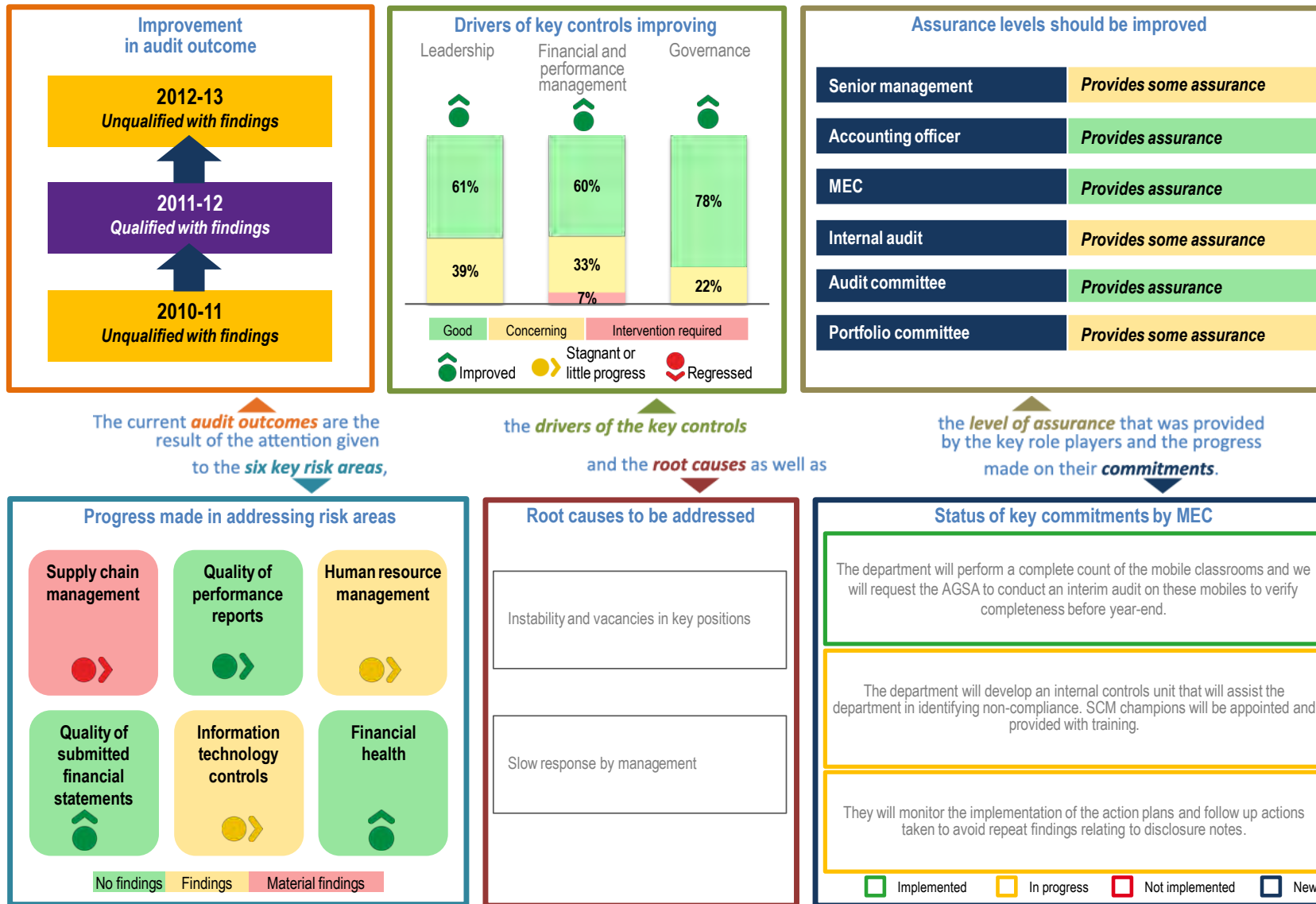
The assurance levels provided by most role players should be improved. Leadership should continue to monitor the implementation of key controls and that of corrective actions if and when required, whether identified by internal audit, external audit or the quarterly key controls reviews performed by the department and the entities. This responsibility rests largely with the CFO, assisted by the accounting officer, the accounting authorities and senior management.

We met with the MEC four times in the past year and these interactions provided significant assurance towards the audit outcomes. The MEC is well informed of the operations of the department and public entities and the outcomes thereof, providing influential oversight of the activities of management.

The levels of assurance provided by internal audit and the audit committee as well as the portfolio committee should be maintained. Internal audit implemented prior year commitments by ensuring that all planned internal audits were completed for the year under review.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

## 6.6 Education



## Auditees included in the portfolio

### ■ Education

### *Significant movement in audit outcome*

The improvement in audit outcomes was mainly due to the department correctly accounting for mobile classrooms in their financial statements. A major improvement has also been seen in the number of compliance findings reported for supply chain management.

### *Six key risk areas*

The overall status of the six key risk areas has improved at the department. There are still concerns in the areas of HR management and information systems which remained unchanged. Supply chain management remains the biggest challenge even though the extent of findings has decreased since the prior year. The department has a challenge when it comes to procurement at school level, which is an integral part of its service delivery function. The department must consider ways of assisting the districts to improve monitoring of supply chain management compliance for procurement at school level.

### *Key controls and root causes*

The key controls drivers improved for the department as a whole but the following key controls still need to be addressed in order to achieve clean administration:

Leadership should monitor the timely implementation of action plans designed and the department should ensure that these are fully effective in preventing instances of non-compliance with the supply chain management processes. The newly established internal control unit within the department was, however, assisting the department in identifying instances of non-compliance with supply chain management processes and is reporting accordingly to the department.

Financial and performance management: The SCM directorate, as well as all other procuring directorates, should review and monitor compliance with supply chain management legislation and regulations for the procurement of goods and services with values between R10 000 and R500 000. The SCM unit must also assist all other directorates involved in the procurement function.

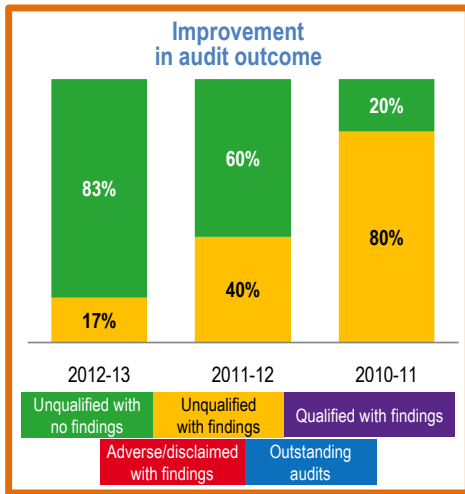
### *Impact of key role players on audit outcomes*

The improvement of audit outcomes was mainly as result of the efforts of the accounting officer driving the challenges that led to the qualification in the prior year. Senior management has only provided some assurance due to the lack of adequate implementation of daily controls. The assurance levels for internal audit reflect the fact that in the case of the departments, the internal audit unit was not resourced with the relevant specialist skills required to audit information systems. The audit committee's level of involvement and follow-up has also had a positive impact on the department's audit outcomes.

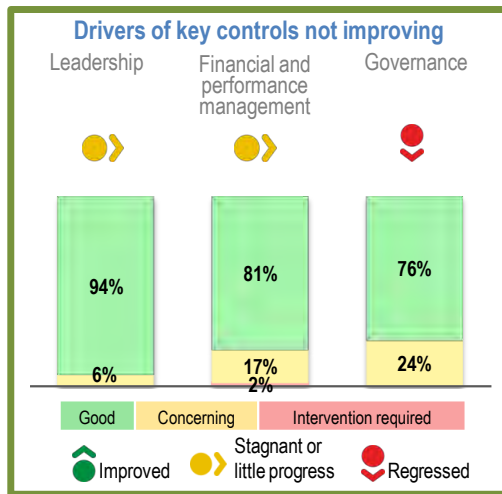
We met four times with the MEC and the MEC's involvement in these meetings has had a significant impact on the audit outcome. He gave sound commitments and provided feedback on progress during all interactions. The level of interaction between the MEC and the audit committee will also assist the MEC in monitoring the outcomes.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

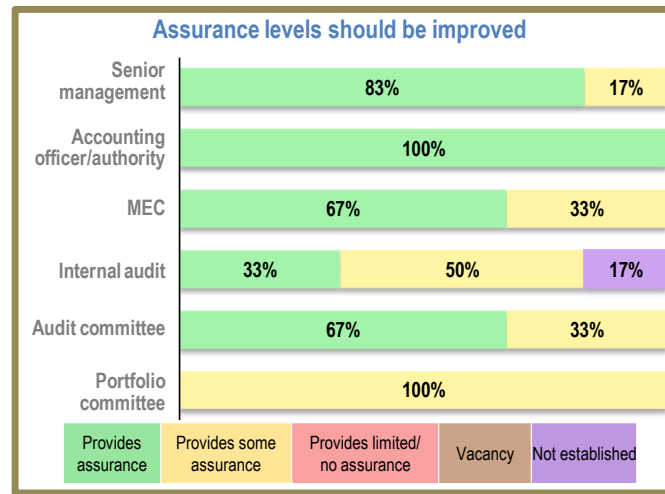
# 6.7 Finance, Economic Development and Tourism



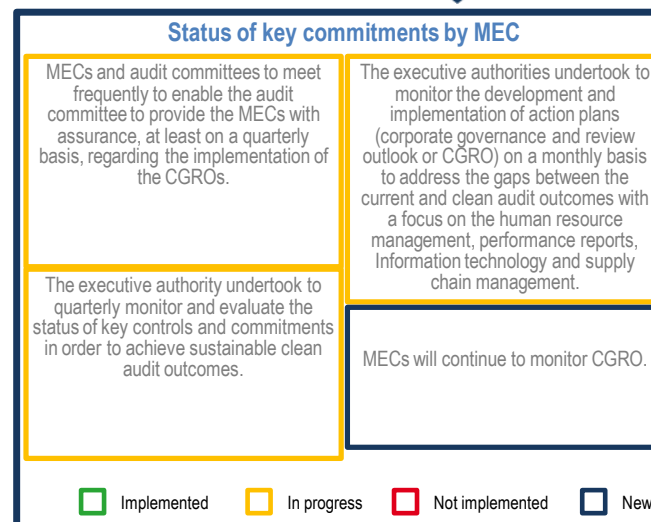
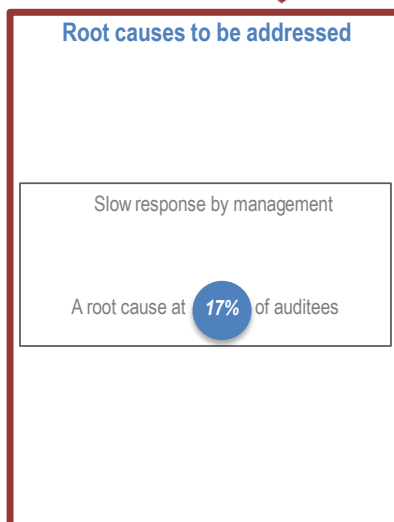
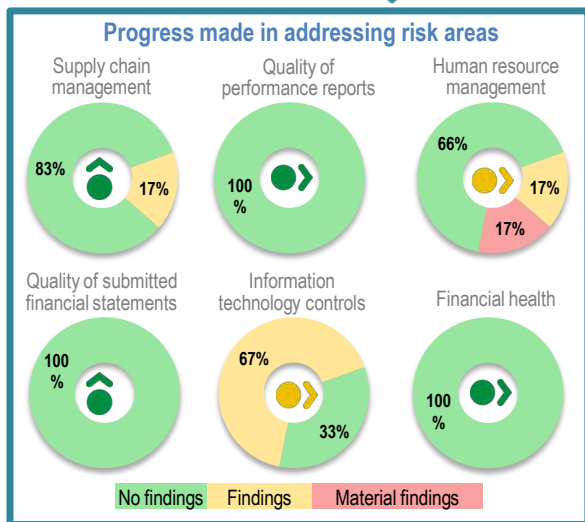
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



the **drivers of the key controls** and the **root causes** as well as



the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.



## Auditees included in the portfolio

- Economic Development and Tourism (DEDAT)
- Provincial treasury (PT)
- Destination Marketing Organisation (trading as Cape Town Routes Unlimited)
- Western Cape Gambling and Racing Board
- Western Cape Investment and Trade Promotion Agency (Wesgro)
- Western Cape Liquor Authority (established with effect from 1 April 2012)

## Significant movement in audit outcome

The improvement in the audit outcomes of the MEC's portfolio since the previous year was as a result of DEDAT addressing the non-compliance findings of the prior year relating to irregular expenditure and supply chain management. Furthermore, the leadership of Wesgro implemented controls to ensure that its financial statements submitted for auditing were not materially misstated. Two of the entities maintained their clean audit status, i.e. Cape Town Routes Unlimited and Western Cape Gambling and Racing Board, while the newly formed public entity, Western Cape Liquor Authority, received a clean audit report.

## Six key risk areas

The overall status of the six key risk areas indicates that the department is generally well managed. Progress has been made in addressing the key risk areas, most notably in the area of supply chain management and the quality of financial statements submitted by all auditees. However, HR management at departments requires further attention, as certain routine controls were not in place, mainly verification checks before appointing staff and proper record keeping of leave. The provincial treasury should also address IT controls as well as the quality of the performance reports that required material amendments.

## Key controls and root causes

Although overall the key control drivers reflect no improvement, in the case of DEDAT management had addressed the prior year non-compliance finding relating to failure to document and approve reasons for not obtaining three written price quotations. With regard to the provincial treasury, leadership and management should address the root causes of the audit outcomes and inadequate controls as follows:

- Political leadership must act on the audit findings of previous years in a timely manner to ensure that they are not repeated and negatively impact the audit outcomes, e.g. non-compliance matters relating to appointments
- Management must ensure that compliance with laws and regulations is strictly monitored, especially in relation to HR management, to prevent material non-compliance
- Financial and performance management: The control and maintenance of assets must be adequately monitored by the responsible official
- Financial and performance management: Perform adequate monitoring and review of performance reports to ensure the accuracy, validity and completeness of reported information in the annual performance report.

In respect of DEDAT the head of department as well as the head of corporate shared services (residing under the premier) should address the root causes of inadequate controls as follows:

- Controls need to be enhanced and monitored to ensure that verification checks are performed on a timely basis before staff are appointed
- Monitoring controls need to be implemented to ensure that appointment and leave files are updated on a regular basis and are complete.

The CFO of Wesgro should also address the following with regard to financial and performance management:

- Implement adequate controls to ensure that purchase orders are captured and approved in a timely manner
- Continue to review and monitor financial information regularly for accuracy and completeness
- Monitor publication on its website of the information required by National Treasury instruction note 32, paragraph 3.2.1, relating to the awarding of bids.

## Impact of key role players on audit outcomes

The assurance levels provided by leadership should be maintained to sustain the clean audit outcomes achieved during the current year. Provincial treasury's senior management should improve assurance levels by implementing the recommendations of external audit.

We met with the minister four times in the past year and the interaction had some impact on the audit outcomes. The reason for our assessment is the clean audit outcomes achieved by one department and the four public entities. For one department, however, a compliance finding was raised in their audit report. This

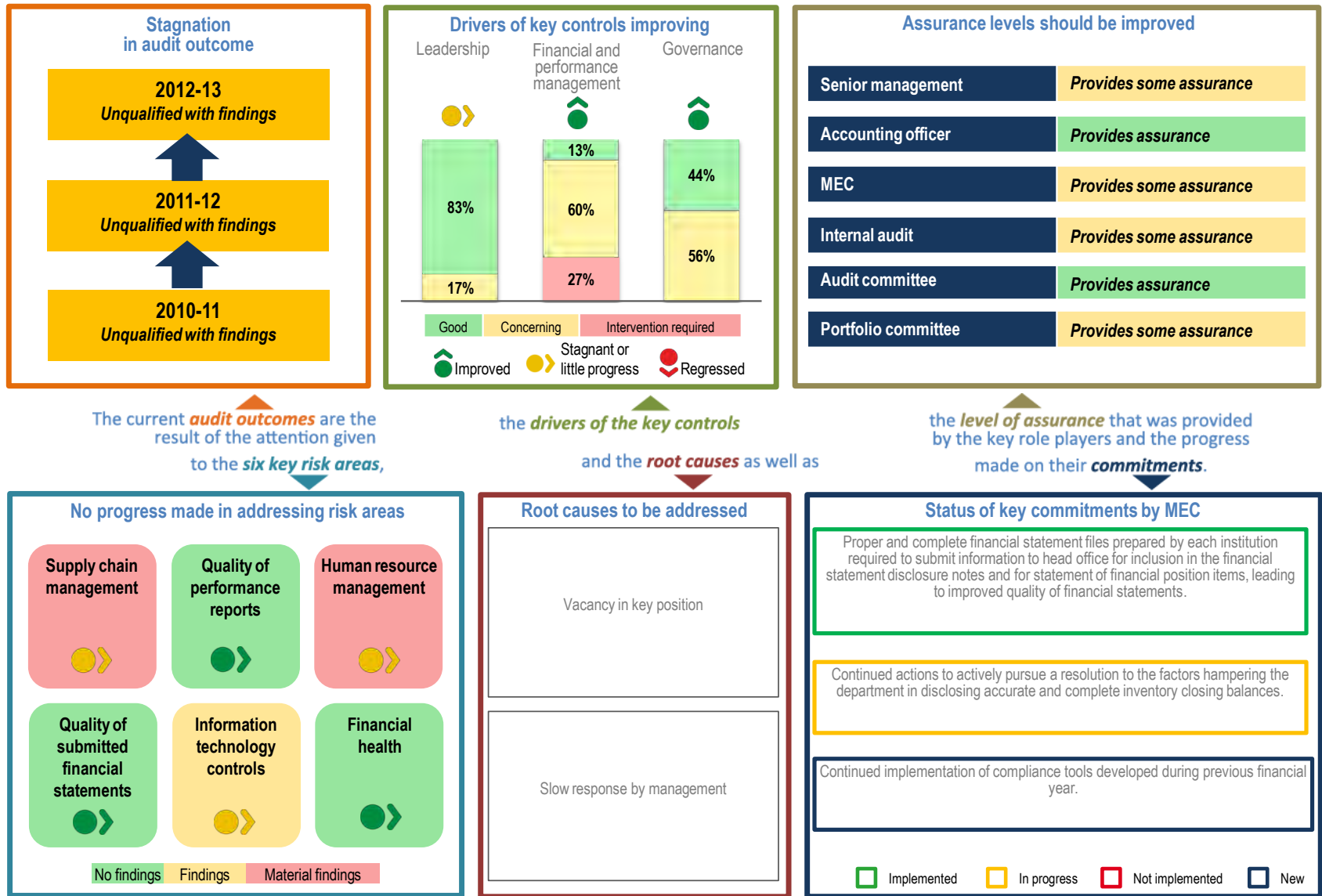
assessment, the impact of the minister on the auditee's controls as well as the status and impact of the commitments, contributed to the assessed assurance provided by the minister.

The assurance levels for internal audit reflect the fact that in the case of the departments, the internal audit unit was not resourced with the relevant specialist skills required to audit information systems. In the case of the provincial treasury, the internal audit unit was not able to satisfactorily complete all audits planned for the year under review, while the Liquor Board did not have an internal audit unit for the full year under review.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.



# 6.8 Health





## Auditee included in the portfolio

### ■ Health

## Stagnation in audit outcome

There has been no movement in the audit outcomes of the department. Findings were again raised on material non-compliance with laws and regulations. For the 2012-13 financial year these findings related to procurement and contract management, expenditure management, HR and compensation management and service delivery matters, of which only the finding on expenditure management is a repeat finding.

## Six key risk areas

Although financial health is assessed as adequate, there are concerns regarding debt management given the nature and timely collectability of patient fee debt. Supply chain management compliance remains a challenge for the department and contributed to the annual situation where the department was unable to prevent irregular expenditure. HR management also remains a concern, mostly as a result of non-compliance relating to appointment processes.

## Key controls and root causes

Key controls at Health relating to leadership controls remained positively unchanged. Overall there has been an improvement in financial and performance management-related controls, mainly due to improved processes around financial management. Governance weaknesses were partly addressed, with improvements in all three areas, i.e. financial, performance and compliance management.

Health should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement controls over daily and monthly processing and reconciling of transactions
- Review and monitor compliance with applicable laws and regulations

- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Leadership and senior management should address the root causes of inadequate controls preventing an improvement in audit outcomes as follows:

- The challenge for the department remains institutionalising the implementation and monitoring of the compliance monitoring instrument so that it can contribute to sustainable processes which will continue to reduce the instances of non-compliance and improve audit outcomes
- Although the department focused extensively on compliance with laws and regulations, it should enforce full adherence to the compliance monitoring instrument
- The department must analyse guidance given by the provincial treasury relating to SCM processes to ensure a positive impact on good practices that had already been established by the department.

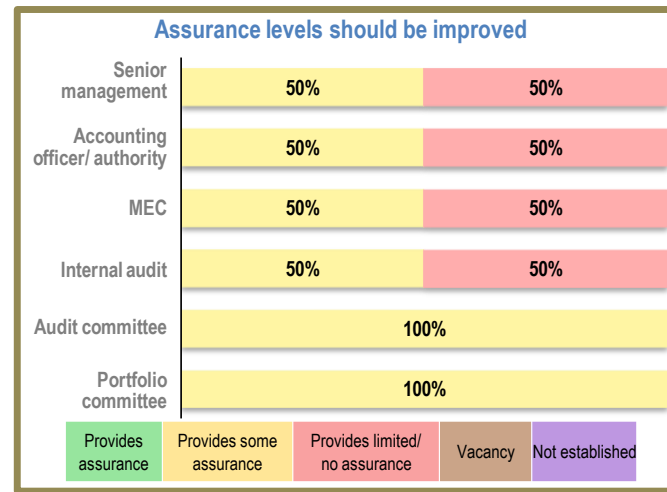
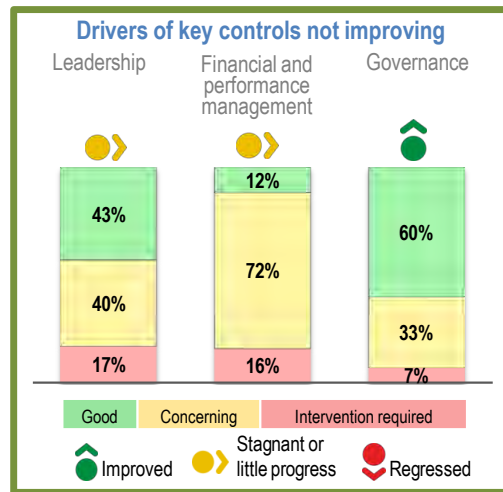
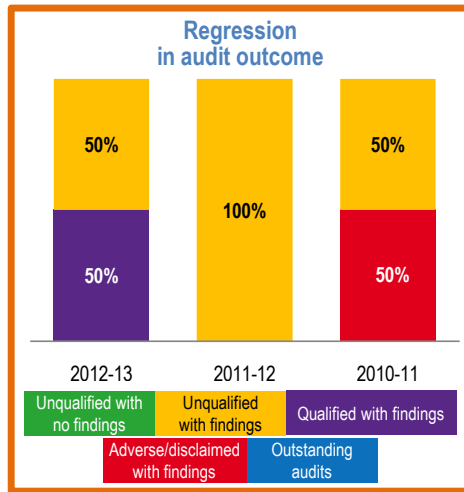
## Impact of key role players on audit outcomes

Assurance levels should be maintained by the accounting officer and further improved by senior management, e.g. monthly evaluation of and reporting on compliance.

We met with the MEC four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that the MEC responds positively and timeously to matters brought to his attention. This assessment, the impact of the MEC on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

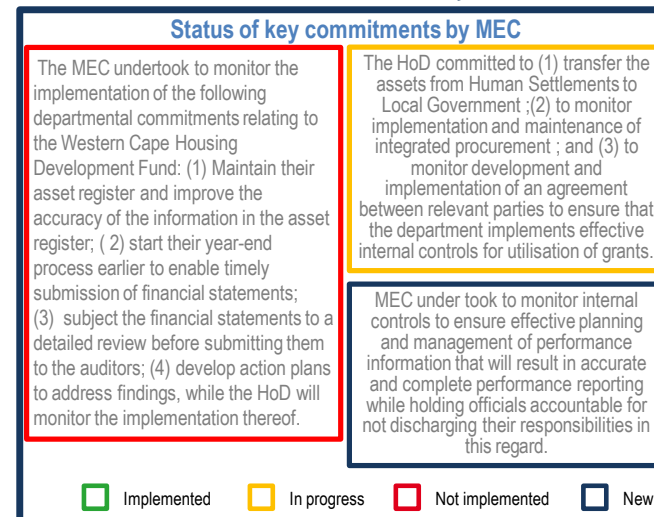
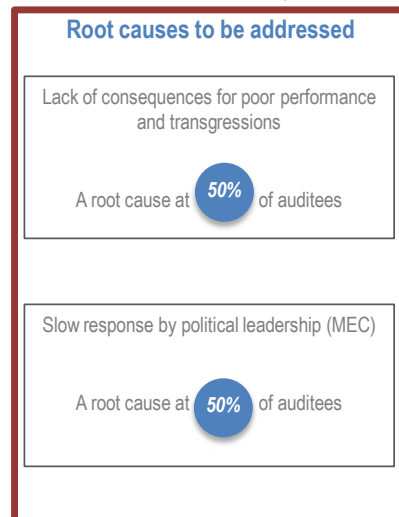
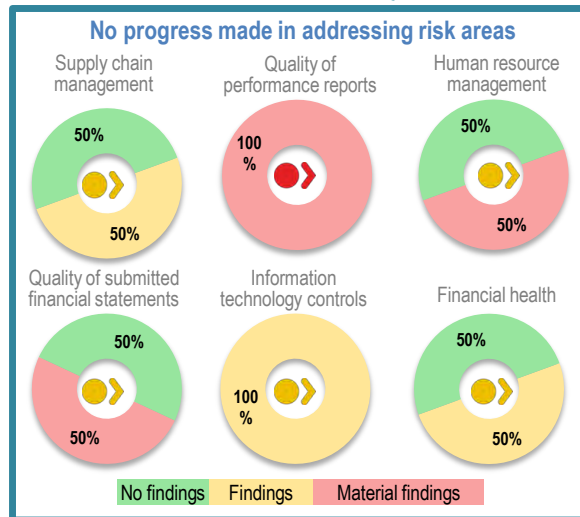
# 6.9 Human Settlements



The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

the **drivers of the key controls** and the **root causes** as well as

the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.



## Auditees included in the portfolio

### ■ Human Settlements

### ■ Western Cape Housing Development Fund

## Significant movement in audit outcome

The regression in the portfolio's audit outcomes was due to the qualification received by the Housing Development Fund for not adequately assessing the credibility of title deed information from the deeds office, which resulted in a number of properties being incorrectly valued. The audit outcome of Human Settlements remained unchanged as the department was unable to make significant progress in addressing the deficiencies identified in the audit of their report on predetermined objectives. There were, however, improvements in the area of compliance with laws governing supply chain management.

## Six key risk areas

There has been very little improvement in addressing key risk areas within the portfolio. The quality of the annual performance report requires immediate attention, which should focus on the measurability of the performance information, the consistency of collecting information and verification of the accuracy of data to address material findings on the usefulness and reliability of the performance report.

The quality of the Housing Development Fund's financial statements requires immediate attention, which should focus on the continued verification of property information and improving the system of managing properties to ensure that the information in the property register remains current. The low collection rates of rental and housing debt and the high accruals at year-end (exceeding 30 days) remain a concern as there was no improvement in these areas. There has been a notable improvement in compliance with procurement regulations as no material findings were reported in the current year compared to the previous year as a result of steps taken by Human Settlements to address the root causes of previous audit findings.

## Key controls and root causes

There has been progress in addressing the key control drivers; however, management failed to establish sufficient and appropriate monitoring controls to ensure that verification checks are performed

prior to the appointment of an employee, as well as verification of reported information against sources when preparing performance reports to facilitate understanding of what must be reported and accuracy of information reported.

The Housing Development Fund did not prepare financial and asset management reports on a quarterly basis, which resulted in the financial statements being materially misstated at year-end and, due to the significance of the control deficiency, not being corrected during the audit.

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

- Institute consequences for poor performance and transgressions
- Implement monitoring controls to ensure effective compliance monitoring
- Implement controls over daily and monthly processing and reconciling of transactions
- Monitor the preparation of regular performance and financial reports and steps taken to improve the credibility of performance reports and asset management.

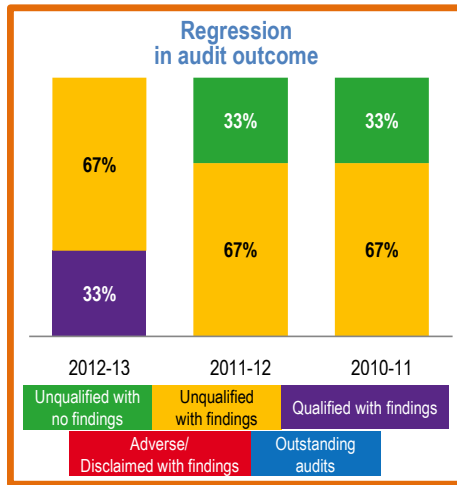
## Impact of key role players on audit outcomes

Assurance levels should be improved through continued monitoring of the accounting officer's commitment to improve the status of key controls and by ensuring that steps are taken to address key risk areas with a view to improving the department's audit outcomes.

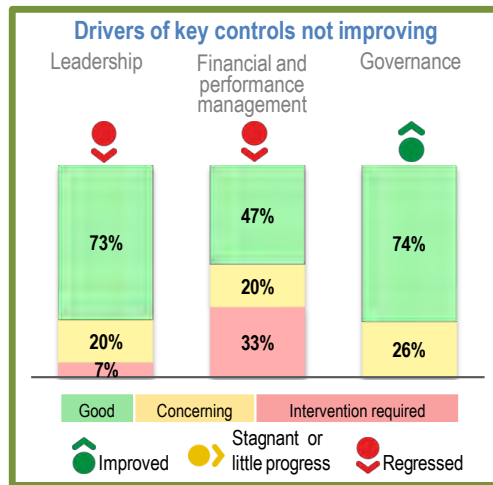
We met once with the MEC in the past year. His oversight has had some impact on the overall audit outcomes, particularly in the areas of non-compliance in respect of supply chain management and transfer payments.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

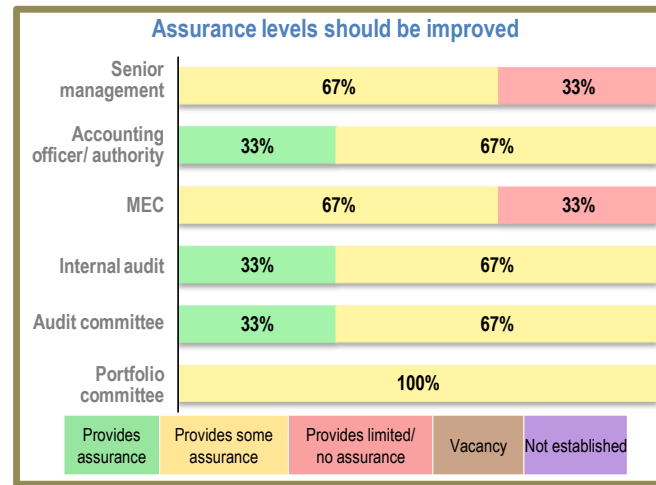
# 6.10 Local Government, Environmental Affairs and Development Planning



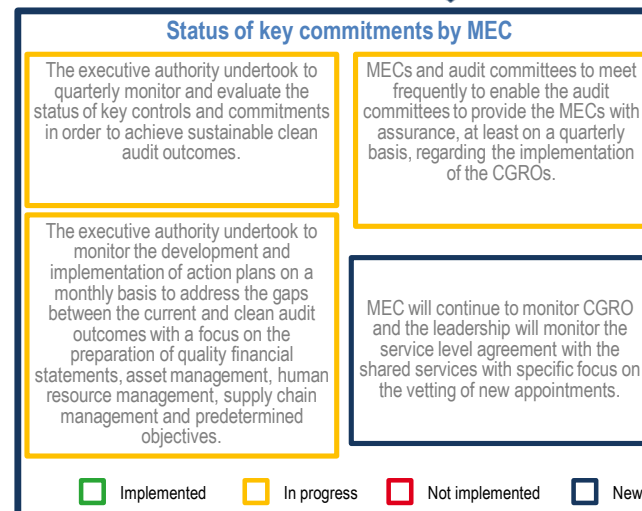
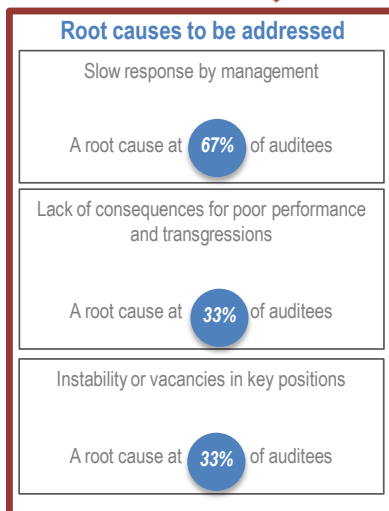
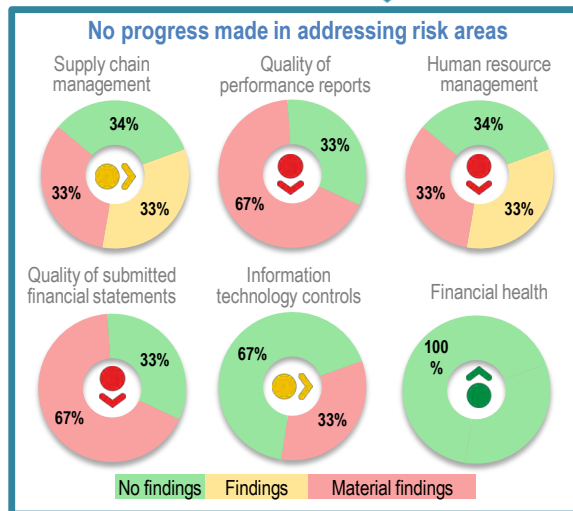
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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## Auditees included in the portfolio

### ■ Environmental Affairs and Development Planning (DEADP)

### ■ Local government

### ■ Western Cape Nature Conservation Board

## Significant movement in audit outcomes

Western Cape Nature Conservation Board's audit outcomes regressed, with the qualification relating to a limitation of scope on unspent conditional grants due to lack of sufficient appropriate audit evidence to account for it. In addition, findings were raised on the usefulness and reliability of PDOs as well as non-compliance.

The audit outcome of DEADP regressed from a clean audit outcome in the prior year due to findings on PDOs as well as non-compliance in various areas.

Although the audit outcome of local government remained unchanged, the extent of findings decreased due to the auditee addressing the prior year non-compliance finding relating to procurement and contract management and asset management.

## Six key risk areas

No progress has been made in addressing risk areas for Western Cape Nature Conservation Board and DEADP and there are still concerns regarding the quality of the financial statements and performance reports, as material misstatements of assets and commitments were identified in the financial statements and subsequently corrected. HR management concerns relate to verification checks that were not performed before appointments were made.

## Key controls and root causes

The regression in the key controls of Western Cape Nature Conservation Board and DEADP since the previous financial year was as a result of the following shortcomings in key controls:

- Lack of adequate oversight by the accounting authority/officer of financial and performance reporting as well as compliance with laws and regulations
- Lack of standard operating procedures for performance reporting and supply chain management

- Leadership failed to develop and monitor adequate action plans to address the previous year's internal control deficiencies in the case of Western Cape Nature Conservation Board
- Inadequate staffing of the supply chain and performance management units in the case of DEADP
- Management did not prepare regular, accurate and complete financial and performance reports supported by reliable information
- Inadequate controls over financial and performance reporting and reconciling of transactions
- Inadequate review and monitoring of compliance with laws and regulations, especially with regard to supply chain management, as well as HR management in respect of verification checks before appointing employees at the departments. The latter was also applicable in local government.

The accounting authority/officers and senior management should strengthen the relevant controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation as follows:

- Institute consequences for poor performance and transgressions
- Implement controls to ensure effective compliance monitoring.

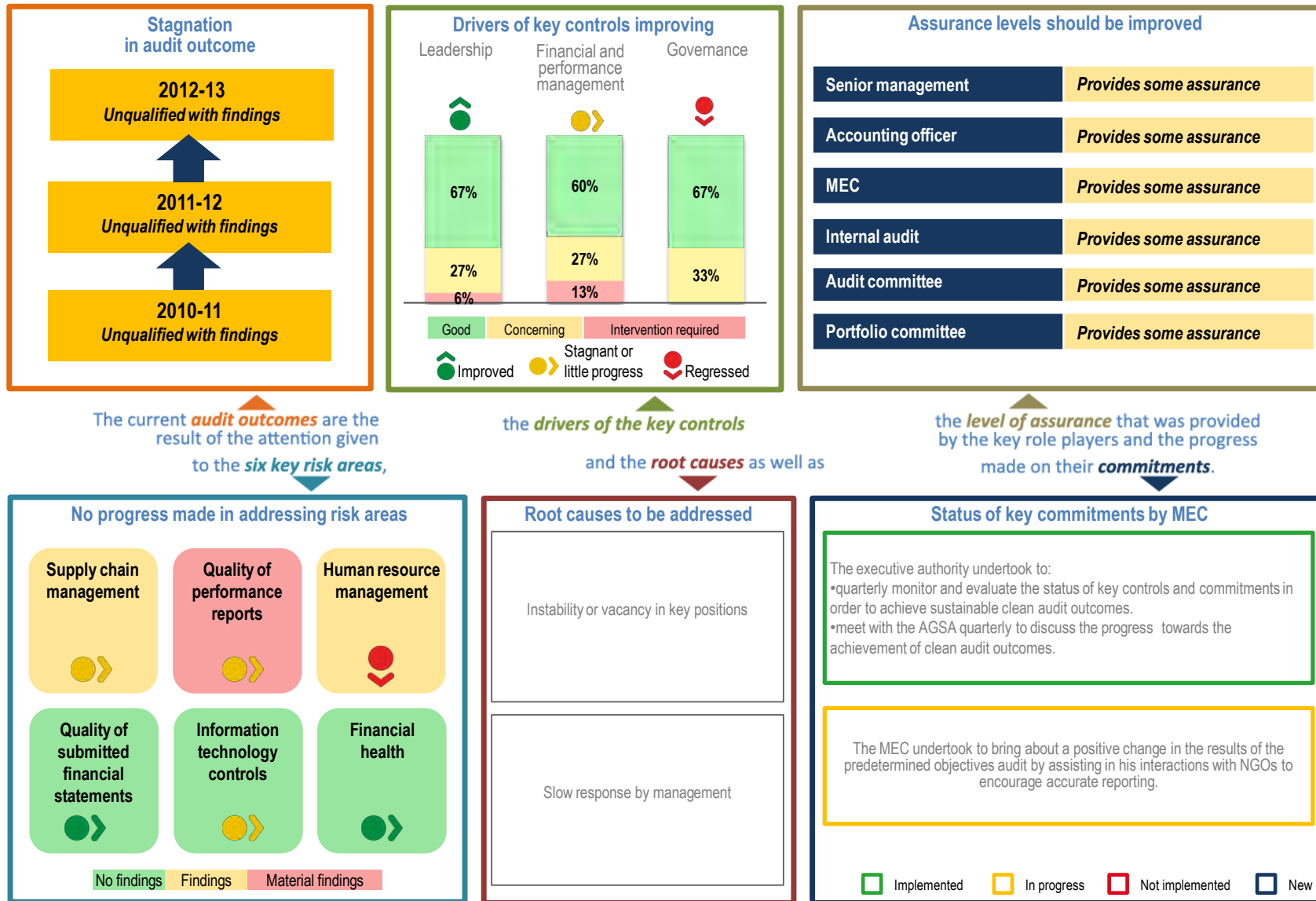
## Impact of key role players on audit outcomes

The assurance levels provided by the various role players of all three auditees should be improved and the shortcomings as identified above in the key controls should be addressed by the accounting authority/officers in consultation with their senior management.

We met once with the MEC in the past year. The impact of his oversight had some impact on the audit outcomes of local government, but did not contribute to improved audit outcomes for Western Cape Nature Conservation Board and DEADP.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

# 6.11 Social Development





## Auditee included in the portfolio

### ■ Social Development

## Stagnation in audit outcome

There has been stagnation in the audit outcome. The department achieved an unqualified audit opinion with findings on compliance and PDOs in both the current and prior years. The extent of the PDO findings has, however, decreased.

## Six key risk areas

No progress has been made in addressing the six key risk areas.

The department has strong supply chain management controls and policies but should improve on contract management to be able to procure goods and services before the existing contracts with suppliers expire.

The quality of the annual performance reports remained a challenge and the department should focus on the validity, accuracy and completeness of performance information to address material findings and the reliability of its performance report.

The department should focus on HR resource management to improve internal controls around timely capturing of leave and ensure that verification checks are performed before appointments are made.

## Key controls and root causes

While key controls in respect of leadership have improved, attention is required to address internal control deficiencies in the areas of financial and performance management and governance. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Leadership policies and procedures must be in place to ensure that management understands and identifies clearly the process for collecting, collating, verifying and storing information relating to reporting on performance information

- Financial and performance management: sufficient monitoring must take place to ensure the accuracy, validity and completeness of reported information in the annual performance report
- Proper record keeping to support information reported in the annual performance report
- Internal audit and the audit committee should enhance their evaluation and review of plans to address internal control deficiencies in the area of PDOs and check the credibility of quarterly and annual PDO reports.

The MEC should address the following root causes of poor audit outcomes and inadequate controls which were also identified in the prior financial year:

- Instability in the position of accounting officer
- Slow response by management to prior year audit findings.

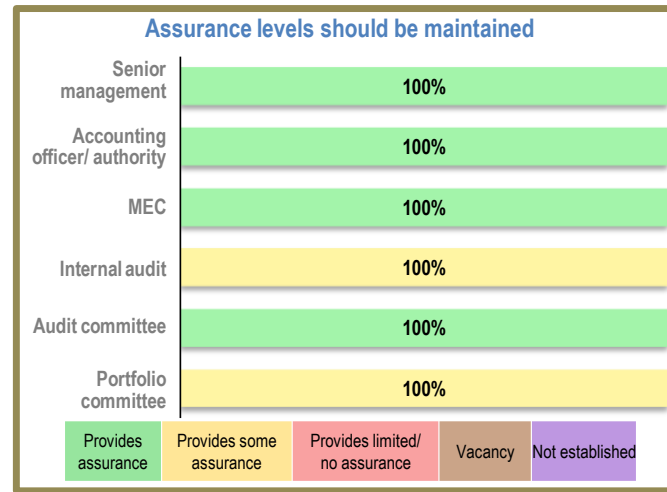
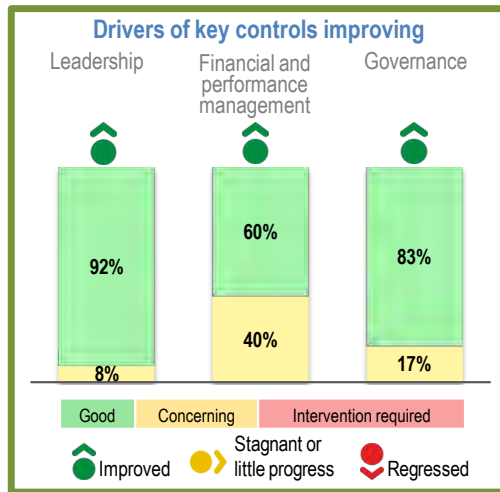
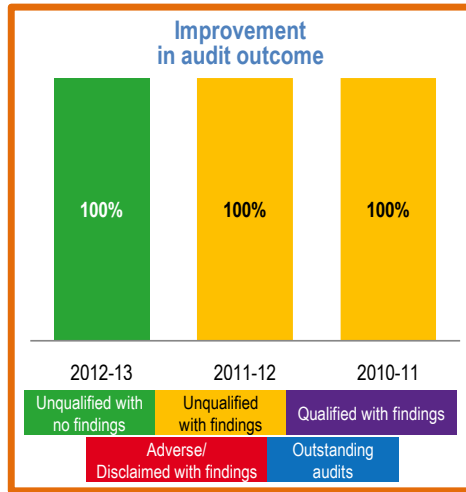
## Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of accounting officer and senior management by implementing the recommendations of internal audit and by directing the work of the audit committee towards evaluating performance information.

We met with the MEC four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is the robust discussion of key controls that followed and the communicated desire to improve the outcomes of the department. This assessment of the impact of the MEC on the department's controls as well as the status and impact of commitments contributed to the assessed assurance provided by the MEC.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.

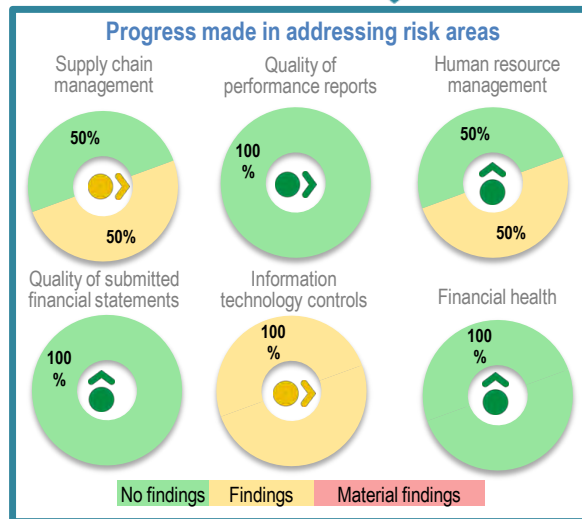
# 6.12 Transport and Public Works



The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

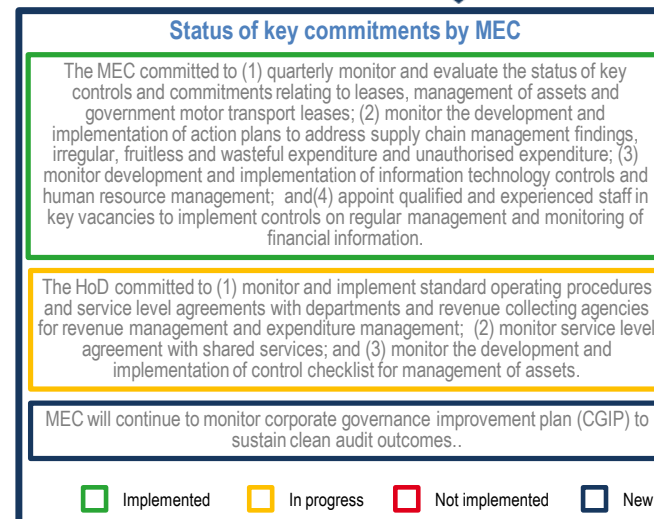
the **drivers of the key controls** and the **root causes** as well as

the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.



### Root causes to be addressed

Both auditees received a financially unqualified with no findings audit opinion in 2013. There are therefore no material root causes to address.





## Auditees included in the portfolio

- Transport and Public Works
- Government Motor Transport

## Significant movement in audit outcome

The improvement in the audit outcome of the portfolio was due to all relevant stakeholders providing assurance and addressing previous weaknesses and risks identified within the department and trading entity. This was achieved by drawing up action plans and adequate implementation and monitoring thereof. Regular meetings were held between the audit team and management, which resulted in findings being resolved earlier.

## Six key risk areas

Both auditees under the MEC's portfolio moved from unqualified with findings to a clean audit outcome. Although progress has been made in the six key risk areas, management should focus on maintaining current internal controls implemented and should also address prior year actions plans and design and implement actions for new control weaknesses identified during the current audit.

## Key controls and root causes

The improvement in key controls was due to an improvement in leadership controls, which in turn resulted in improved oversight of financial and performance management. In order to maintain the outcome, auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- High finance department vacancy rates and positions in the SCM directorate being vacant for more than 12 months resulted in inspections not being conducted on time
- HR management appointed a service provider late in the year under review to accelerate processing of the back login verifications for new appointments
- Inadequate daily and monthly processing and reconciliations for fleet finance debtors and vehicles' remaining useful lives and insufficient review of performance reports
- As reported last year, adequate controls had not been designed and implemented to manage user access to the eNatis, RPM and eWorks

applications, and although IT service continuity controls have been adequately documented they were not implemented in all respects.

The MEC and head of department should address the root causes of inadequate controls as follows:

- An assessment should be performed to identify the reasons for not being able to fill post and processes need to be put in place to ensure that posts are filled within a reasonable time
- The progress made by the service provider on backlogs should be evaluated to ensure that all new appointments are verified within a reasonable time
- Inadequate daily and monthly processing and reconciliations for fleet finance debtors and vehicles' remaining useful lives
- An action plan and timelines for implementation of the user access controls and IT service continuity should be monitored regularly.

## Impact of key role players on audit outcomes

Assurance levels should be maintained by ensuring stability at the level of accounting officer and senior management.

We met with the MEC twice in the past year and the interactions had a significant impact on the audit outcomes. The reason for our assessment is the improvement from unqualified with findings to clean audit outcomes for both auditees under the MEC's portfolio.

The impact of the portfolio committees and public accounts committee, as independent assurance providers on the internal controls of the auditees, was mainly assessed on the basis of the AGSA's interactions with the chairpersons of the committees, commitments made and honoured and the impact of their resolutions, actions and initiatives. Portfolio committees have started to request briefings in order to assist them in focusing on the most important matters to be addressed.



# ANNEXURES





## Annexure 2: Auditees' five-year audit opinions

Number	Auditee	Audit opinions						
		2012-13	2011-12	2010-11	2009-10	2008-09		
<b>Departments</b>								
1	Agriculture	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
2	Community Safety	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
3	Cultural Affairs and Sport	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
4	Economic Development and Tourism	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
5	Education	Qualified with findings	Unqualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
6	Environmental Affairs and Development Planning	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
7	Health	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
8	Human Settlements	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
9	Local Government	Qualified with findings	Qualified with findings	Qualified with findings	Disclaimer with findings	Disclaimer with findings		
10	Premier	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
11	Western Cape Parliament	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
12	Western Cape Provincial Treasury	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
13	Social Development	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
14	Transport and Public Works	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Unqualified with findings		
<b>Public entities</b>								
15	Destination Marketing Organisation (T/a Cape Town Routes Unlimited)	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
16	Western Cape Gambling and Racing Board	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
17	Government Motor Transport	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
18	Heritage Western Cape	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
19	Western Cape Cultural Commission	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
20	Western Cape Housing Development Fund	Unqualified with findings	Qualified with findings	Disclaimer with findings	Qualified with findings	Disclaimer with findings		
21	Western Cape Investment and Trade Promotion Agency	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
22	Western Cape Language Committee	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
23	Western Cape Liquor Authority	Qualified with findings	Disclaimer with findings	Disclaimer with findings	Disclaimer with findings	Disclaimer with findings		
24	Western Cape Nature Conservation Board	Unqualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings		
<b>Public entities (not audited by the AGSA)</b>								
25	Cassidra (Pty) Ltd	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Disclaimer with findings		
<b>Legend (Audit opinions)</b>		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee

### Annexure 3: Assessment of auditees' key controls at the time of the audit

Number	Auditee	Leadership												Financial and performance												Governance																										
		Movement			Effective leadership culture			Oversight responsibility			Human resource management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems controls			Movement			Risk management			Internal audit			Audit committee		
		F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
<b>Departments</b>																																																				
1	Agriculture	↔	↔	↑																																																
2	Community Safety	↔	↔	↓																																																
3	Cultural Affairs and Sport	↑	↔	↑																																																
4	Economic Development and Tourism	↑	↔	↑																																																
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24	Western Cape Nature Conservation Board	↔	↓	↓																																																
25	Cassidra (Pty) Ltd	↔	↔	↔																																																

Legend (root causes) Good Concerning Intervention required Not assessed Legend (root causes) Improved ↔ Unchanged ↓ Regressed F = Financial P = Performance C = Compliance





# **GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS**

## Glossary of terms

### *Accounts payable (also referred to as creditors)*

Money owed by the auditee to companies, organisations or persons who have supplied goods and services.

### *Accounts receivable (also referred to as debtors)*

Money owed to the auditee by companies, organisations or persons who have received goods or services from the auditee.

### *Adverse audit opinion*

The financial statements contain misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

### *Asset*

Any item belonging to the auditee, including property, plant, cash, and debt.

### *Asset impairment*

The reduction in value of an asset below its normal value at which it can be converted into cash through sale or other means.

### *Assurance*

A positive declaration that is intended to give confidence. Through the audit report, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with legislation. Other role players in the public sector also contribute to assurance and confidence by ensuring that internal controls are implemented. Such assurance providers include various auditee officials, committees and internal audit units, oversight structures as well as coordinating or monitoring departments.

### *Audit outcome*

The audit opinion on an auditee's financial statements, together with any material findings on that auditee's annual performance report and/or material findings on non-compliance by the auditee with applicable legislation.

### *Capital budget*

The estimated amount planned to be spent on capital items in a particular financial period; for example, fixed assets such as land and buildings with long expected lives and that produce income or support operations.

### *Cash flow*

The flow of money from operations: incoming funds are revenue and outgoing funds are expenses.

### *Clean audit outcome*

The financial statements of the auditee are free of material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.

### *Commitments (from role players)*

Initiatives communicated to us by role players to improve audit outcomes.

### *Commitments (in financial statements)*

The cost of goods and services to be received in the following year, which the auditee has already contractually agreed to purchase in the current year.

<i>Conditional grants</i>	Money transferred from one sphere of government to another, subject to certain services being delivered or on compliance with specified requirements.
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a department and those of the entities under its control.
<i>Contingent liability</i>	A potential liability, the amount of which will depend on the outcome of a future event.
<i>Current assets</i>	These assets are made up of cash and other assets, such as inventory or debt, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
<i>Disclaimer of audit opinion</i>	The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management</i>	The management of resources to achieve the financial and service delivery objectives of the auditee. (This is one of the three key overall drivers of internal control that should be addressed to improve audit outcomes or to sustain good audit outcomes.)
<i>Financially unqualified audit opinion</i>	The financial statements contain no material misstatements. Unless we express a clean audit opinion, material findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.
<i>Fruitless and wasteful expenditure</i>	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments as well as payments for services not utilised or goods not received.
<i>General ledger</i>	A record of all the financial transactions of the auditee.
<i>Going concern</i>	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For this to happen, the auditee must be able to raise enough resources to stay operational.
<i>Governance</i>	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee. (This is one of the three key overall drivers of internal control that is required to improve audit outcomes or to sustain good audit outcomes.)
<i>Human resource (HR) management</i>	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled resources as well as the adequate management of employee performance and productivity.
<i>Information technology (IT)</i>	The computer systems used for recording, processing and reporting financial and non-financial transactions.

### *IT governance*

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives.

### *IT security management*

The controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial information.

### *IT service continuity*

The processes of managing the availability of computer hardware, system software, application software (computer programmes) and data to enable auditees to recover or establish information system services in the event of a disaster.

### *IT user access management*

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

### *Internal control (also referred to as key controls)*

The process designed and implemented by those charged with governance, management and other employees to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

### *Inventory*

Goods held for resale or for internal use.

### *Irregular expenditure*

Expenditure incurred without complying with applicable legislation.

### *Key drivers of internal control*

The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)

### *Leadership*

The administrative leaders of an auditee, such as accounting officers and senior management. (This is one of the three key overall drivers of internal control required to improve audit outcomes and to sustain good audit outcomes.) It can also refer to the political leadership (including the members of the executive council) or the leadership in the province (such as the premier).

### *Liability*

Short-term and long-term debt owed by the auditee.

### *Material finding*

An audit finding on reporting on predetermined objectives or non-compliance with legislation that is significant enough in terms of its value, its nature or both its value and its nature that it requires to be reported in the audit report.

<i>Material misstatement</i>	A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.
<i>Misstatement</i>	Incorrect or omitted information in the financial statements or annual performance report.
<i>Modified opinion</i>	A qualified, adverse or disclaimer of opinion.
<i>Net current liability</i>	The amount by which the sum of all money owed by an auditee and due within one year exceeds amounts due to the auditee within the same year.
<i>Net deficit</i>	The amount by which an auditee's spending exceeds its income.
<i>Operational budget</i>	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as administration and salaries.
<i>Payroll</i>	Data relating to employees' earnings.
<i>Property, plant and equipment</i>	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
<i>Qualified audit opinion</i>	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
<i>Reconciliation</i>	The process of matching one set of data to another; for example, the bank statement to the cash book or the accounts payable balances to the corresponding general ledger account balance.
<i>Reporting against predetermined objectives (PDOs)</i>	Reporting by auditees in their annual performance plans on their actual achievements against the performance objectives they had set at the beginning of the period. The performance objectives relate mostly to service delivery.
<i>Root causes</i>	The underlying causes or drivers of audit findings; in other words, why the problem had occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, as opposed to simply providing a temporary or short-term fix.
<i>Supply chain management (SCM)</i>	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

## Acronyms and abbreviations

<b>AFS</b>	<i>annual financial statements</i>
<b>AG</b>	<i>auditor-general (the person)</i>
<b>AGSA</b>	<i>Auditor-General of South Africa (the institution)</i>
<b>APAC</b>	<i>Association of Public Accounts Committees</i>
<b>bn (after an amount)</b>	<i>R'billion (rand)</i>
<b>BAS</b>	<i>Basic Accounting System</i>
<b>BCP</b>	<i>business continuity plan</i>
<b>CEO</b>	<i>chief executive officer</i>
<b>CFO</b>	<i>chief financial officer</i>
<b>CIDB</b>	<i>Construction Industry Development Board</i>
<b>CIO</b>	<i>chief information officer</i>
<b>CoGTA</b>	<i>Department of Cooperative Governance and Traditional Affairs</i>
<b>DoRA</b>	<i>Division of Revenue Act</i>
<b>DPSA</b>	<i>Department of Public Service and Administration</i>
<b>DRP</b>	<i>disaster recovery plan</i>
<b>FMS</b>	<i>Financial Management System</i>
<b>GAAP</b>	<i>Generally Accepted Accounting Practice</i>
<b>GITO</b>	<i>government information technology officer</i>
<b>GRAP</b>	<i>Generally Recognised Accounting Practice</i>
<b>HoD</b>	<i>head of department</i>
<b>HR</b>	<i>human resources</i>

<b>IDP</b>	<i>integrated development plan</i>
<b>IT</b>	<i>information technology</i>
<b>K (after an amount)</b>	<i>R'thousand (rand)</i>
<b>Logis</b>	<i>Logistical Information System</i>
<b>m (after an amount)</b>	<i>R'million (rand)</i>
<b>MEC</b>	<i>member of the executive council of a province</i>
<b>NCOP</b>	<i>National Council of Provinces</i>
<b>NT</b>	<i>National Treasury</i>
<b>PAA</b>	<i>Public Audit Act, 2004 (Act No. 25 of 2004)</i>
<b>PDO</b>	<i>predetermined objective</i>
<b>Persal</b>	<i>Personnel and Salary System</i>
<b>PFMA</b>	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
<b>PPPFA</b>	<i>Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)</i>
<b>PSA</b>	<i>Public Service Act, 1994 (Act No. 103 of 1994)</i>
<b>SALGA</b>	<i>South African Local Government Association</i>
<b>SARS</b>	<i>South African Revenue Service</i>
<b>SCM</b>	<i>supply chain management</i>
<b>SCOPA</b>	<i>Standing Committee on Public Accounts</i>
<b>SITA</b>	<i>State Information Technology Agency</i>
<b>SLA</b>	<i>service level agreement</i>
<b>VAT</b>	<i>value-added tax</i>







AUDITOR - GENERAL  
SOUTH AFRICA

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