

Aloe Pillansii



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2010-11

GENERAL REPORT

on the provincial audit outcomes of the **NORTHERN CAPE**



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



100 YEARS
1911-2011



GENERAL REPORT
ON THE OUTCOMES OF THE
NORTHERN CAPE PROVINCIAL GOVERNMENT
2010-11

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This flagship publication of my office is a tool that gives simple and handy insights. These insights empower users to focus on those issues that will lead to improved audit outcomes. This publication also captures the commitments that leaders have made to address audit outcomes.

Auditor-General: Terence Nombembe

Our reputation promise/mission

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



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SECTION 1: FOREWORD

It is with pleasure that I present to the Northern Cape Provincial Legislature my 2010-11 general report summarising the audit outcomes of the provincial departments, legislature, revenue fund, public entities and other entity types for the financial year ended 31 March 2011.

Not one of the 14 departments reported on received a financially unqualified opinion with no findings on predetermined objectives and/or compliance with laws and regulations (clean audit). Nine departments and one public entity received unqualified audit reports with other findings. Qualified audit opinions were issued for four departments and two public entities, while one department and two public entities received a disclaimer of opinion. Overall, 53% of the auditees reported on (constituting 24% of the budget) received a financially unqualified audit opinion. The balance of 47% (representing 76% of the budget) had a negative audit outcome. Audit qualifications were mainly in the areas of capital assets, current assets, liabilities, other disclosure items, as well as unauthorised, irregular and fruitless and wasteful expenditure.

Only one department improved on its 2009-10 audit outcome, while two regressed. The audit outcomes of the other 11 (79%) departments remained unchanged. It is commendable that Roads and Public Works improved from a disclaimer to financially unqualified with findings. The key drivers for this improvement were the effective use of consultants to resolve prior year qualifications and the transfer of skills to staff. The MEC also held the head of department (HoD) and chief financial officer (CFO) accountable for the audit outcome. On the other hand, two departments (14%), namely Cooperative Governance, Human Settlements and Traditional Affairs (COGHSTA) and Transport Safety and Liaison, regressed from financially unqualified with findings to qualified audit opinions. Most public entities remained qualified or regressed in 2010-11. The regressions and unchanged audit outcomes in departments and public entities were largely due to the failure of leadership to implement and monitor key controls. This was in spite of assurances to the contrary given to our staff during the quarterly key control evaluations and discussions. The continued ineffectiveness of the governance structures (internal audit and audit committees) also contributed to the stagnation of audit outcomes in the province. The reason for the overall regression in audit outcomes in the province is that the MECs and HoDs did not adequately review the

implementation of key controls and audit outcome improvement plans between key control engagements. Audit outcome action plans need to be more specific, with a deeper diagnosis of issues and with clear milestones. The top item in the action plan should be the proper functioning of internal audit. Human resource capacity needs to be addressed within departments. The controls that need to be intensified relate to supply chain management, predetermined objectives (service delivery reporting), human resources and information technology. The chairpersons of the audit committees should be part of the Auditor-General's quarterly briefing sessions with the Premier to share insights.

The provincial leadership has reflected on the lack of visible progress in implementing commitments made in the previous year. They have pledged that the basic principles of monthly reporting, validation of reported information and constant monitoring would be the pillars on which the commitments for the coming year are based. This informed the new commitments, ranging from enhancing the monitoring and oversight capacity of the legislature and its committees, with provincial treasury improving its capacitating role, to taking full ownership of key control assessments.

The Premier and the MEC: Finance undertook to ensure that vacant positions are filled urgently on the basis of proper recruitment processes and with appropriate executive oversight. The approved Health and Education audit committees would be made fully functional, while the other departments would fully utilise the shared audit committee. The separate internal audit units for the departments of Health and Education and the shared internal audit unit will be fully capacitated and the HoD Forum would be tasked to address ways of improving audit outcomes. The provincial treasury will in future review financial statements before submission, while accountability for the improvement of audit outcomes will be elevated to the level of the executive. The Director-General will report quarterly to the Premier on progress made in implementing action plans, and the provincial leadership will deal with these issues soon after the quarterly feedback sessions. The legislature undertook to follow up on SCOPA resolutions and the Premier's commitments to drive clean administration and to obtain bi-monthly progress reports from the MECs on issues raised by the AGSA. Other commitments were also made by MECs specific to their departments.

The executive authority and oversight structures have committed to quarterly monitoring and evaluation of the status of the key controls and commitments in order to achieve sustainable clean audit outcomes. At a minimum, this will require a commitment of one hour every 90 days from the executive authority, possibly followed by the sharing of the consolidated picture with the Premiers and legislatures on a quarterly basis. This will require the enhancement of the oversight model, which will include effective coordination between public accounts committees and portfolio committees. If all these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, provincial governance will be raised to a higher level, which will contribute greatly towards sustainable, positive outcomes.

The AGSA leadership will, as part of its contribution towards clean administration, continue to enhance its visibility and thereby provide proactive insights on the root causes of the status of internal controls. These engagements will include timely feedback and inputs towards the adequacy of guidance provided by coordinating role players such as the provincial treasuries.

In this centenary year of the AGSA, I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the provinces. It is particularly pleasing to note that both audit groups have understood that in addition to producing audit opinions and findings, our purpose is to provide useful and relevant information and insights that promote oversight and accountability in government, thereby strengthening public confidence in our democracy.

Auditor-General

Auditor-General
Pretoria
December 2011



SECTION 2: AUDIT OUTCOMES

The Northern Cape Provincial Government comprises 13 provincial departments (including the provincial legislature), the Provincial Revenue Fund and 11 public entities. This report presents the 2010-11 audit outcomes of 14 departments (including the Provincial Revenue Fund) and five public entities, of which the audits were performed by the AGSA.

2.1 Audit opinions on financial statements

2.1.1 Audit outcomes for the year ended March 2011

The audits of 11 departments (2009-10: 13) and four public entities (2009-10: three) that had submitted financial statements on time were completed within the legislated time frame after receipt of the financial statements by the AGSA. The three departments that submitted financial statements late were Transport, Safety and Liaison, COGHSTA and Sport, Arts and Culture, while the public entity that submitted late was Housing Fund. The audits in respect of the financial statements that were submitted late were completed by the cut-off date of this report, namely 30 September 2011.

The audits of the National Institute for Higher Education, Ngoa BOSWA Kapa Bokone (BOSWA), Northern Cape Arts and Culture Council, Northern Cape Premier Education Trust Fund, Kalahari Kid Corporation and Northern Cape Political Party Fund had not been finalised as at 30 September since financial statements were not submitted within the legislative time frame. The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below, while a three-year history of audit outcomes for the province is given under section 2.1.2 of this report.

Table 1: Summary of audit outcomes

Audit outcomes	Audits conducted by the AGSA			
	Departments*		Public entities**	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	10	1	1
Financially unqualified financial statements	64%	72%	20%	17%
Qualified opinion	4	2	2	2
Adverse opinion	0	0	0	1
Disclaimer of opinion	1	2	2	2
Financially qualified financial statements	36%	28%	80%	83%
Total number of audits reported on	14	14	5	6
Number of audit reports not issued by 30 September 2011	0	0	6	3
Total number of audits	14	14	11	9
Total number of auditees where findings arose from the AGSA's other legal reporting responsibilities:				
Predetermined objectives findings only	0	0	0	1
Compliance with laws and regulations findings only	7	5	3	2
Findings on both predetermined objectives and compliance with laws and regulations	7	9	2	3

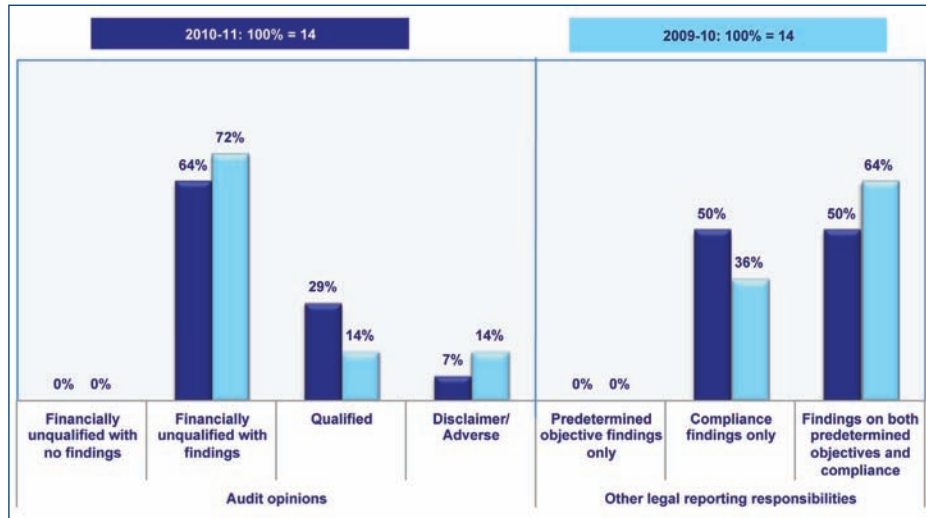
* Including legislature and provincial revenue fund ** Including trading and other types of entities

The financial statements of departments and public entities that were financially qualified contained material misstatements that caused them not to fairly present the financial position at March 2011 or the financial results for the year then ended in respect of one or more areas. Financial statements were disclaimed when the information or documentation required by the auditors was not provided to enable them to reach an opinion on the financial statements.

Figures 1 to 4 provide additional statistics relating to the three facets of audit outcomes, namely (i) audit opinions on financial statements, (ii) findings on predetermined objectives, and (iii) departments' and public entities' compliance with laws and regulations.

The extent to which the audit outcomes of departments have changed compared to the previous financial year is depicted in figure 1 below.

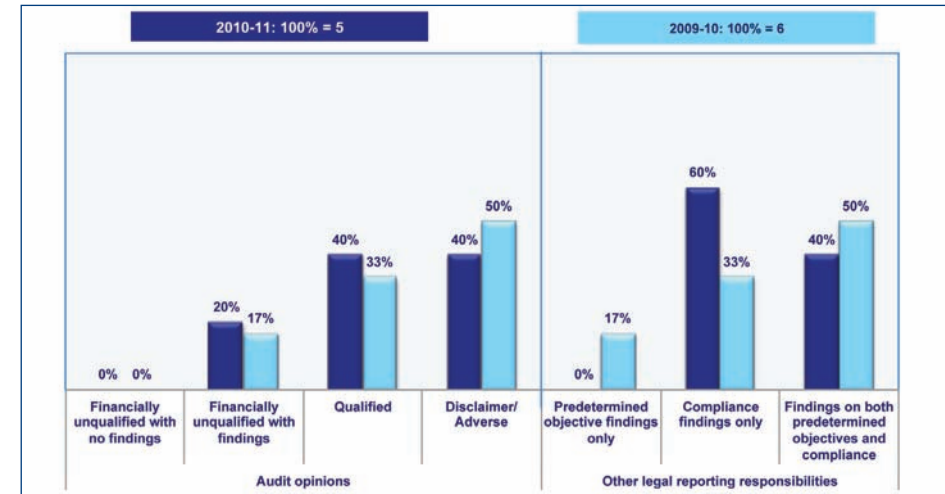
Figure 1: Audit outcomes of departments – current year vs. prior year



Note: In this report, 'with findings' or 'with no findings' refers to findings on predetermined objectives and/or compliance with laws and regulations.

The extent to which the audit outcomes of public entities have changed compared to the previous financial year is depicted in figure 2 below.

Figure 2: Audit outcomes of public entities – current year vs. prior year



Figures 3 and 4 depict findings arising from the audit of reporting on predetermined objectives and compliance with laws and regulations for departments and public entities, respectively.



Figure 3: Departments with findings on predetermined objectives and/or compliance with laws and regulations

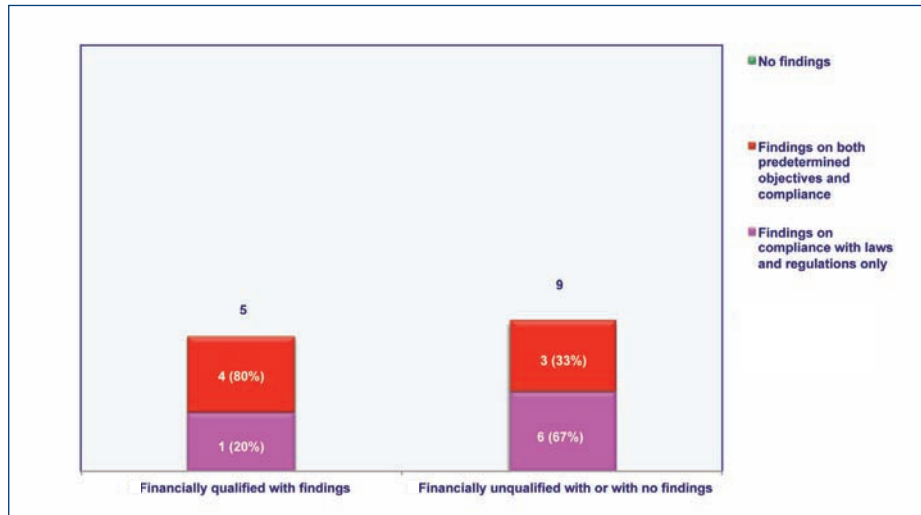
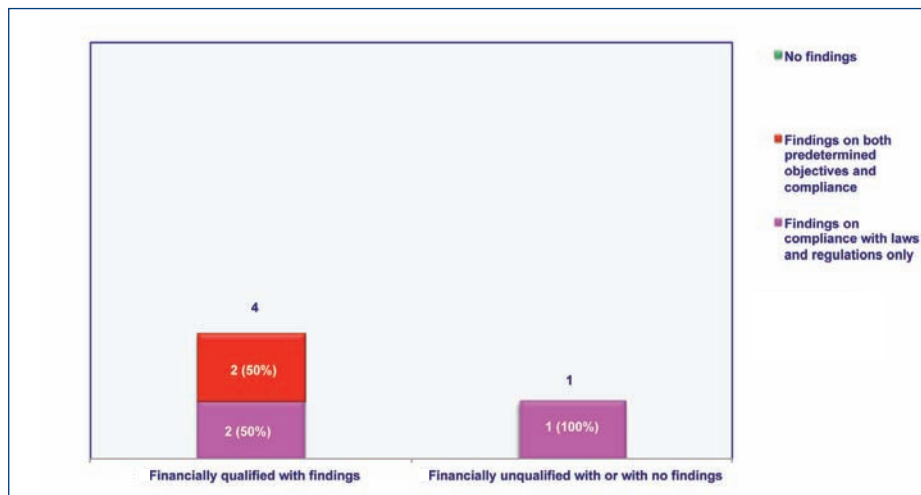


Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations

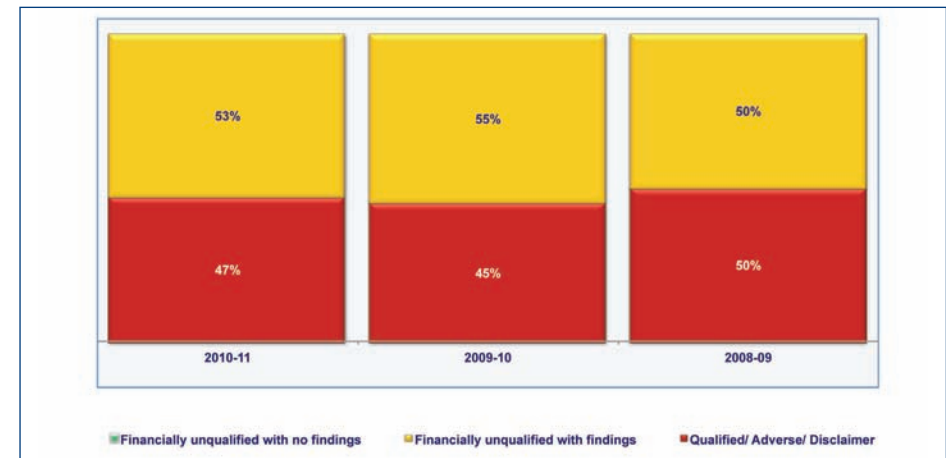


Findings on predetermined objectives are broadly analysed under section 2.3, while an overview of auditees' compliance with laws and regulations is presented under section 2.4 of this report.

2.1.2 Three-year history of audit outcomes for the province

The audit outcomes for the province (departments and public entities) over the past three years are depicted below.

Figure 5: Three-year audit outcomes for the province



Northern Cape departments and public entities have not received an unqualified audit opinion with no findings on predetermined objectives and compliance with laws and regulations for the past three years from 2008-09 to 2010-11.

Ten of 19 (53%) departments and public entities (2009-10:55%) in the Northern Cape received unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations.

The reasons why the departments and entities in the province failed to progress to financially unqualified with no findings were their failure to implement SCOPA resolutions, inadequate capacity and vacancies in key management positions,

failure to monitor the implementation of key controls and audit outcome improvement plans, and the ineffectiveness of internal audit and non-functioning audit committees.

SCOPA resolutions were tabled mid-November 2010 after which members were on recess until the end of January 2011. This did not leave much time for SCOPA to monitor the implementation of the resolutions and no compensating measures were put in place to ensure that departments implemented the resolutions during the remaining months of the 2010-11 financial year. The SCOPA monitoring and review process must be a continuous process, performed quarterly, to ensure that inaction by departments and entities is identified early and addressed. Likewise, SCOPA should submit the progress reports on the resolutions to Exco on a quarterly basis. Exco should hold departments accountable where they do not make adequate progress. The audit outcome improvement action plans should also be monitored by the legislature's portfolio committees.

The reason given by the leadership for the high level of vacancies in key positions is the difficulty in attracting suitable candidates.

The MECs and HoDs did not adequately review the implementation of key controls and audit outcome improvement plans. Progress communicated to leadership was not validated by internal audit, CFOs and financial inspectorates (i.e. departmental staff responsible for checking internal controls at NGOs and municipalities performing services on behalf of the departments).

MECs did not address Exco's decisions relating to the establishment of internal audit units and audit committees within reasonable time frames, as difficulty was experienced in attracting suitable candidates to fill the vacancies.

2.1.3 Improvements and regressions in audit opinions on financial statements for year under review

Tables 2 and 3 depict the movements in audit opinions for departments and public entities respectively. Highlights of audit outcomes for the year under review are presented thereafter.

Table 2: Movements in audit outcomes of departments



Movement in audit outcome over 2009-10 - Departments						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits finalised in 2010-11
Financially unqualified with no findings		0			0	0
Financially unqualified with findings		8			9	1
Qualified	1	2			4	0
Disclaimer/Adverse		1			1	0
Total	1	11	2	0	14	1



Table 3: Movements in audit outcomes of public entities

Movement in audit outcome over 2009-10 - Public entities						
Audit opinion	Improvement	Unchanged	Regressed	New public entities	Total reported on	Prior year opinion on audits finalised in 2010-11
Financially unqualified with no findings		0			0	0
Financially unqualified with findings		1			1	0
Qualified		1		1	2	1
Disclaimer / Adverse		2			2	1
Total	0	4	0	1	5	2

Highlights and major trends in audit opinions on the financial statements for the year under review, with comparisons to the previous financial year, are presented below. Annexure 1 to this report lists the auditees together with their 2010-11 audit outcomes and the audit outcomes of the previous financial year.

Overall trends	<p>Roads and Public Works improved from a disclaimer to financially unqualified with findings on predetermined objectives and compliance with laws and regulations. Two departments (COGHSTA and Transport, Safety and Liaison) regressed from financially unqualified with findings on predetermined objectives and compliance with laws and regulations to a qualified audit opinion. Thus overall, there was a regression in the audit outcomes of the departments in the province.</p> <p>Overall, the audit outcomes of the public entities in the province remained unchanged. However, the Northern Cape Economic Development, Trade and Investment Promotion Agency (NCEDA) was listed as a new public entity and received a qualified audit opinion.</p> <p>The Roads Capital Account moved from an adverse audit opinion to a disclaimer.</p>
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Notable improvements	<p>The Roads and Public Works improved from a disclaimer to financially unqualified with findings.</p> <p>According to section 13 of the Government Immovable Asset Management Act (GIAMA), the department is required to conduct conditional assessments of all immovable assets every five years. The first conditional assessment was conducted in 2009, thus the next conditional assessment is due in 2014. The department must be mindful of the interim internal milestones that need to be achieved between now and 2014 and ensure that these are met. Government immovable assets must be properly vested with Public Works and accurately recorded and valued in the department's immovable assets register by 2014, to comply with GIAMA and avoid audit findings.</p> <p>The key drivers for the audit outcome improvement were the monitoring of the implementation of SCOPA resolutions by the MEC, HoD and CFO; implementation of the audit outcome improvement plans and dashboard on the drivers for key internal controls; implementation of a proper record management and filing system; effective use of consultants to resolve prior year qualifications and to transfer skills to staff, and the MEC holding the HoD and CFO accountable for the audit outcome. Public Works must continue with effective oversight, monitoring and control and retain the skills levels that were built up in the department through skills transfer by the consultants.</p>
Disclaimed, adverse or qualified audit opinions	<p>Health received a disclaimer of audit opinion.</p> <p>Four departments (Education; Transport, Safety and Liaison; Sport, Arts and Culture; and COGHSTA) received a qualified audit opinion.</p> <p>Two public entities (Housing Fund and Roads Capital Account) received a disclaimer of audit opinion.</p> <p>Two public entities (McGregor Museum and Northern Cape Economic Development, Trade and Investment Promotion Agency) received a qualified audit opinion.</p>

<p>Notable regressions</p>	<p>COGHSTA had findings on capital assets, liabilities and unauthorised, irregular, fruitless and wasteful expenditure, which resulted in a qualified audit opinion, from unqualified. .</p> <p>Transport, Safety & Liaison had findings on capital assets, current assets, liabilities, other disclosures and revenue, which resulted in a qualified audit opinion, from unqualified.</p> <p>The root causes of these regressions were as follows:</p> <ul style="list-style-type: none"> • Key controls were not implemented and monitored for the major account balances, classes of transactions and disclosure notes to the financial statements. • Audit outcome improvement plans submitted to SCOPA on the prior year audit outcomes were not monitored or reviewed by the leadership within the department to track progress towards achieving clean administration. • Progress reported in the audit outcome improvement plans was not validated by internal audit to provide assurance to leadership that such progress had actually been made. • Financial statements and working paper files were not adequately reviewed by the HoD and CFO prior to submission for audit. • Monthly financial reporting was not performed and adequate quarterly financial statements were not compiled or properly reviewed. • Monthly/quarterly asset counts were not performed and asset registers were not properly maintained.
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<p>Repeatedly qualified auditees</p>	<p>Health retained a disclaimer of audit opinion. Of concern is that Health has adopted a mindset that the AGSA must resolve legacy qualification matters, instead of themselves compiling and implementing a comprehensive audit outcome action plan to resolve all audit findings. This is of concern as the leadership of Health does not take responsibility for achieving clean administration in respect of the legacy issues.</p> <p>Education and Sport, Arts and Culture retained a qualified audit opinion.</p> <p>McGregor Museum retained a qualified audit opinion.</p> <p>Roads Capital Account moved from an adverse to a disclaimer of audit opinion.</p> <p>Housing Fund retained a disclaimer of audit opinion.</p> <p>The root causes of the lack of progress made by these departments and entities towards clean administration were as follows:</p> <ul style="list-style-type: none"> • Key controls were not implemented and monitored for the major account balances, classes of transactions and disclosure notes to the financial statements. • Audit outcome improvement plans submitted to SCOPA on the prior year audit outcomes were not monitored or reviewed by the leadership within the department to track progress towards achieving clean administration. • Progress reported in the audit outcome improvement plans was not validated by internal audit to provide assurance to leadership that such progress had actually been made. • Financial statements and working paper files were not adequately reviewed by the HoD and CFO prior to submission for audit. • Monthly financial reporting was not performed and adequate quarterly financial statements were not compiled or properly reviewed. • Monthly/quarterly asset counts were not performed and asset registers were not properly maintained.
<p>Financially unqualified, with findings</p>	<p>Nine departments (Roads and Public Works, Agriculture, Land Reform and Rural Development, Economic Development and Tourism, Environment and Nature Conservation, Office of the Premier, Provincial Legislature, Provincial Treasury, Provincial Revenue Fund and Social Development) received financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations.</p> <p>The Northern Cape Tourism Authority remained financially unqualified with findings on compliance with laws and regulations.</p>



No further progress towards clean administration	<p>Eight departments (Agriculture and Land Reform, Economic Development and Tourism, Environment and Nature Conservation, Office of the Premier, Provincial Legislature, Provincial Treasury, Provincial Revenue Fund and Social Development) remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.</p> <p>Northern Cape Tourism Authority remained financially unqualified with findings on compliance with laws and regulations.</p> <p>The underlying reasons for not moving towards clean administration are as follows:</p> <p>Financial statements</p> <p>Departments did not adequately monitor the implementation of the audit outcome improvement plans, which resulted in material misstatements in the financial statements.</p> <p>Findings on predetermined objectives</p> <p>Seven departments did not have officials specifically responsible for reporting on predetermined objectives and/or senior officials did not review quarterly reports for reliability and completeness prior to these being submitted for audit purposes.</p> <p>Findings on compliance with laws and regulations</p> <p>Departments did not monitor and review compliance with laws and regulations by using compliance checklists. Also, departments did not scan the legislation for changes that needed to be incorporated into current policies and procedures.</p> <p>Departments used the shared internal audit unit which was not adequately staffed. The shared audit committee did not function during the 2010-11 year.</p> <p>A reason provided by the provincial leadership for the lack of action in implementing the recommendations made by AGSA and the commitments made by provincial leadership is that the province is in a poor financial position and has cash flow constraints. Appointments cannot be made to fill all vacancies or to engage consultants in all instances where required to assist in solving legacy issues and to transfer the necessary skills to the departmental and entity employees.</p>
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2.1.4 Audit outcomes history of auditees that received financially qualified audit opinions for the year ended March 2011

The history of audit outcomes of those auditees whose financial statements were modified (disclaimed, adverse or qualified audit opinions) for the year under review, is depicted in the table below.

Table 4: History of audit opinions of auditees with modified audit opinions

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Health	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Education	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Sport, Arts and Culture	Qualified	Qualified	Qualified	Financially unqualified with findings	Qualified
COGHSTA	Qualified	Financially unqualified with findings	Qualified	Financially unqualified with findings	Financially unqualified with findings
Transport, Safety & Liaison	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified	Qualified
Housing Fund	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Roads Capital Account	Disclaimer	Adverse	Qualified	Qualified	Financially unqualified with findings
McGregor Museum	Qualified	Qualified	Qualified	Qualified	Qualified
Northern Cape Development, Trade and Investment Promotion Agency	Qualified	New entity in 2011	New entity in 2011	New entity in 2011	New entity in 2011

The main reasons why departments and public entities had not made progress or failed to sustain their financially unqualified audit outcomes are the following:

- Key controls were not implemented and monitored for the major account balances, classes of transactions and disclosure notes to the financial statements, in spite of the leadership's commitments during their quarterly interactions with AGSA staff to do so.
- Audit outcome improvement plans submitted to SCOPA on the prior year audit outcomes were not monitored or reviewed by the leadership within

the department to track progress towards achieving clean administration. Furthermore, SCOPA did not monitor the progress made by departments on the SCOPA resolutions during the year

- Progress reported in the audit outcome improvement plans was not validated by internal audit to provide assurance to leadership that such progress had actually been made, due to vacancies in internal audit, resulting in the units not being able to perform all audit work required..
- Financial statements and audit files were not adequately reviewed by the HoD and CFO prior to submission for audit given a lack of time for a proper review due to delays resulting from vacancies in the finance units, and a lack of proper filing and accounting systems to ensure the required financial information is readily available.
- Monthly financial reporting was not performed due to vacancies in the finance units or failure to implement and maintain this basic accounting discipline because of inadequate management control and monitoring.
- Adequate quarterly financial statements were not compiled or properly reviewed as quarterly financial statements were not agreed to supporting documentation and shortcomings in disclosure notes were not addressed.
- Monthly/quarterly asset counts were not performed and asset registers were not properly maintained as the persons responsible for these tasks did not have the necessary skills, or had too many other responsibilities to perform the tasks adequately. Furthermore, CFOs and HoDs did not adequately monitor the asset counts and reconciliations and assist where needed.

2.1.5 Timeliness of the submission and auditing of financial statements.

Departments and public entities are required by the PFMA to submit their financial statements for auditing by 31 May annually. The Provincial Revenue Fund deadline was 31 July 2011. The AGSA is required to complete an audit within two months of receipt of the financial statements and the Provincial Revenue Fund audit must be completed within three months of receipts of financial statements

By the deadline of 31 May 2011, 10 (77%) departments [2009-10: 12 (92%)] and four (36%) public entities (2009-10: three (33%)) had submitted their financial statements for auditing, while the Revenue Fund had submitted their financial statements by the legislative deadline of 30 June 2011. Forty percent of auditees were still unable to meet the legislative requirement of timely submission for the

2010-11 financial year. The main reasons for the late submission/non- submission of financial statements by departments and public entities were vacancies in the finance unit, lack of proper filing and accounting systems to ensure the required financial information is readily available, and poor oversight during the preparation and review of the financial statements by senior management, CFOs and HoDs.

The reasons why 10 audits were not completed by the due date are as follows:

- AGSA internal quality assurance and monitoring processes: 0 (00%)
- Financial statements submitted after legislated deadline: 4 (40%)
- Financial statements not yet submitted for auditing: 6 (60%)

Table 5 below provides details of audits that had not been finalised by the cut-off date of this general report.

Table 5: Audits not finalised by general report cut-off date

Auditee	Latest financial year audit finalised	Reason for audit outstanding or not finalised at GR cut-off date			Expected date of finalisation
		Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	
NC Premier Education Trust Fund	2009-10				Not known
NC Arts and Culture Council	2009-10				Not known
National Institute for Higher Education	2008-09				Not known
Ngoa BOSWA Kapa Bokone					Not known
Northern Cape Political Fund					Not known
Kalahari Kid Corporation					Not known

The audit outcomes of the above-listed auditees are not included in the trend analyses and comparisons presented in this general report. The MECs were informed about the late/ non-submission by the AGSA; however, no intervention is required from them as yet as the accounting officers are making the necessary progress.



- Kalahari Kid Corporation was listed as a public entity in December 2010 and financial statements have not yet been submitted for 2010-11. The AGSA informed the accounting officer and CFO of Agriculture, Land Reform and Rural Development that the financial statements did not comply with the PFMA as they had not been prepared in accordance with GRAP. The AGSA will engage further with the department to plan the way forward regarding the submission of a properly prepared set of financial statements.
- National Institute for Higher Education has not submitted financial statements because of the 2009-10 and 2008-09 backlog audits which are currently in progress as the financial statements for both years were submitted simultaneously. The backlog audits and the current financial year audit will be completed by 31 March 2012.
- Northern Cape Premier Education Trust Fund has not indicated the date for submission of its financial statements.
- Ngoa BOSWA Kapa Bokone has not submitted financial statements because of the 2009-10 and 2008-09 backlog audits which are currently in progress as these financial statements were submitted simultaneously. The backlog audits and the current financial year audit will be completed by 31 March 2012.
- Northern Cape Arts and Culture Council has not indicated the date for submission of its financial statements. Northern Cape Political Fund is a new entity and this is the second financial year for which it has not submitted financial statements. This was discussed with the Speaker and approval for procurement of an accounting package was granted to the finance unit of the legislature in order to capture transactions relating to the Fund. The Finance manager is in the process of evaluating available software to procure the most suitable package.

The establishment and funding of entities must be considered to ensure that they can appoint an adequate staff establishment, render the required services and pay suppliers as required by the PFMA, report on predetermined objectives, and implement and monitor the necessary controls to ensure a sound control environment.

2.1.6 Outcomes of audits finalised after the cut-off date of the 2010-11 general report

Table 6: Outcomes of audits finalised after the general report cut-off date

Auditee	Audit opinion 2010-11	Audit opinion 2009-10
NC Premier Education Trust Fund	Not yet finalised	Qualified
NC Arts and Culture Council	Not yet finalised	Disclaimer/ Adverse
National Institute for Higher Education	Not yet finalised	Not yet finalised
Ngoa BOSWA Kapa Bokone	Not yet finalised	Not yet finalised
Political party Fund	Not yet finalised	Not yet finalised
Kalahari Kid Corporation	Not yet finalised	New entity

2.2 Findings on financial management, including defects in financial statements

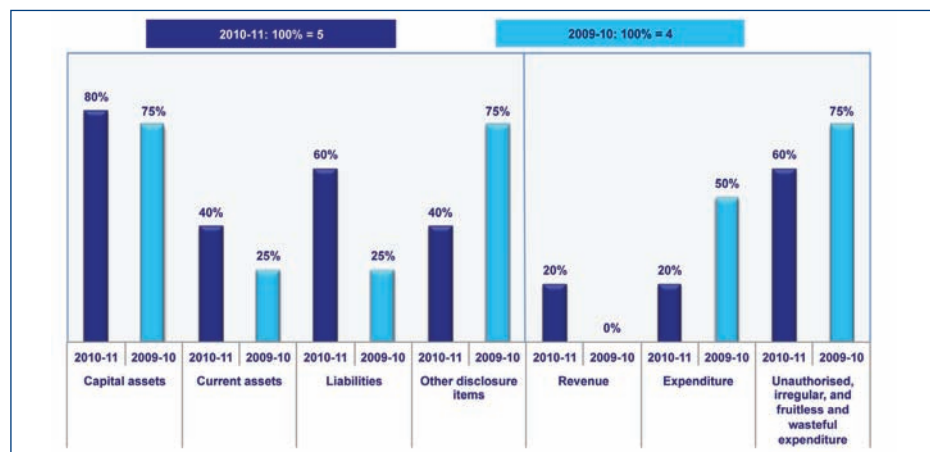
Matters relating to financial management presented in this analysis include the progress (or lack thereof) by departments and public entities in addressing prior year financial statement qualification findings, material errors and omissions in financial statements submitted for auditing, material losses incurred by auditees, underspending by auditees against their votes or conditional grants, and auditees facing financial sustainability concerns.

2.2.1 Auditees' progress in addressing prior year financial statement qualifications

Of the audits completed at 30 September 2011, three of the 14 (21%) departments had not addressed all their 2009-10 qualification findings in order for their 2010-11 financial statements to be financially unqualified. Two departments regressed from financially unqualified with findings to a qualified opinion, which brings the total qualifications to five.

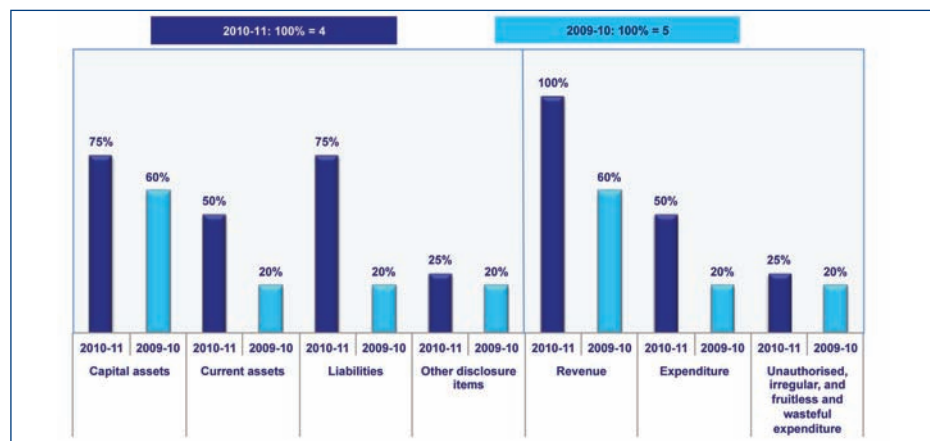
Figures 6 and 7 depict those financial statement areas attracting qualification findings at departments and public entities, respectively. Corrective action taken by management to address prior year qualification findings is outlined in section 2.2.2, while details of current year qualifications are provided under section 2.2.3 of this report.

Figure 6: Transversal financial statement qualification areas – departments



Of the audits completed at 30 September 2011, three of the five (60%) public entities had not addressed all their 2009-10 qualification findings in order for their 2010-11 financial statements to be financially unqualified. Included in the five completed public entity audits, is one newly listed public entity which received a qualified audit opinion.

Figure 7: Transversal financial statement qualification areas – public entities



Tables 7 and 8 depict the movements in the financial statement qualification areas of those departments and public entities that received disclaimed, adverse or qualified audit reports.

Table 7: Progress made by departments in addressing financial statement qualification findings

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
COGHSTA	Qualified	New		New				New
Education	Qualified				Addressed			Repeat**
Health	Disclaimer	Repeat**	Repeat**	Repeat**	Repeat**		Repeat**	Repeat**
Sport, Arts and Culture	Qualified	Repeat**						
Transport, Safety and Liaison	Qualified	New	New	New	New	New		

* Unauthorised, irregular and/or fruitless and wasteful expenditure

** Denotes area also qualified in years prior to 2009-10, i.e. qualification not addressed for three years or longer

With regard to liabilities, departments did not have adequate systems in place to ensure that the disclosure notes for accruals in the financial statements were accurate and complete. The reasons for the deterioration in capital assets are as mentioned in section 2.1.4 above.



Table 8: Progress made by public entities in addressing financial statement qualification findings

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Northern Cape Housing Fund	Disclaimer	Repeat**	New	Repeat**		Repeat**	New	
McGregor Museum	Qualified	Addressed		New		Repeat**		
NCEDA	Qualified	New		New	New	New		New
Roads Capital Account	Disclaimer	Repeat**	Repeat**		Addressed	Repeat**	Repeat**	Addressed

* Unauthorised, irregular and/or fruitless and wasteful expenditure

** Denotes area also qualified in years prior to 2009-10, i.e. qualification not addressed for three years or longer

The worse deterioration in qualification areas relates to liabilities, which includes payables, provisions and contingent liabilities and revenue recognition. The qualifications overall were primarily due to the fact that the preparers of the financial statements did not have an adequate understanding of GRAP reporting requirements, especially with regard to revenue recognition, leases, assets, provisions and contingencies and intangible assets. The responsible officials should be sent on GRAP training and update seminars so that they are all adequately capacitated and remain knowledgeable regarding the current requirements of the standards that become effective and the basic GRAP accounting issues, e.g. accrual based accounting.

2.2.2 Outline of corrective action taken by management to address 2009-10 qualification findings

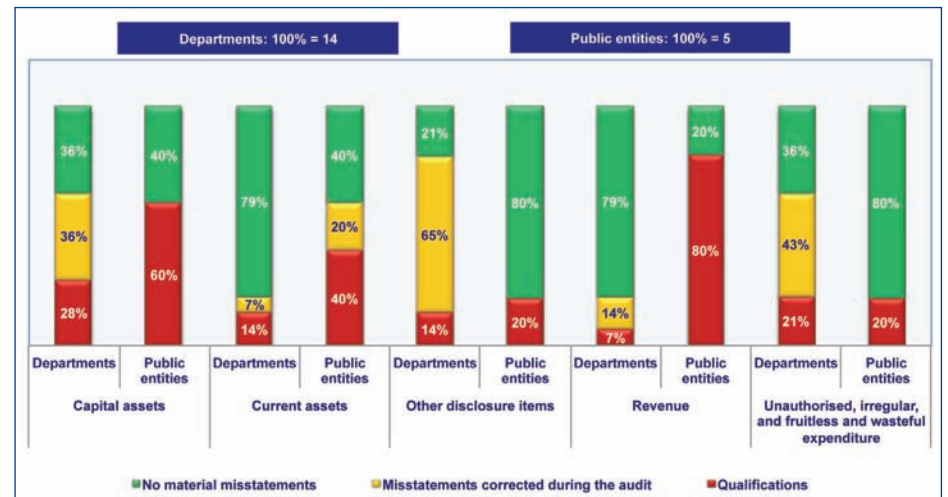
As can be seen in tables 7 and 8, limited progress has been made in addressing qualification areas. The initiatives taken by auditees that were able to successfully address their 2009-10 qualification findings, with a view to highlighting good practices, are listed below. These good practices should be replicated by auditees that still need to address qualification areas. Improvements in audit outcomes can be attributed to corrective action taken by the leadership and management, which included the following specific actions:

- The filling of key positions.
- Improved communication between the accounting officer and CFO.
- Monitoring the implementation of SCOPA resolutions.
- Implementation of the audit outcome improvement plans.
- Implementation of drivers for key internal controls by leadership as discussed with the AGSA during the quarterly reviews.
- Implementation of a proper record management and filing system.
- Effective use of consultants to resolve prior year qualifications and to transfer skills to staff.
- MEC holding the HoD and CFO accountable for the audit outcome.

2.2.3 Analysis of areas in financial statement containing material misstatements

As in prior years, most departments and public entities submitted financial statements for audit that contained material misstatements in one or more areas of their financial statements. The Provincial Revenue Fund, Economic Development and Tourism and the NC Tourism Authority had no material corrections to their financial statements and were unqualified. The areas misstated for the year under review are depicted in figure 8 below.

Figure 8: Areas of material misstatements in financial statements (corrected and uncorrected)



Uncorrected material misstatements (defects) in financial statements attract modified audit opinions, which are outlined under section 2.2.3, while the incidence of material misstatements corrected by management during the audit is analysed under section 2.2.4 and 2.2.5 of this report.

2.2.4 Defects in current year financial statements of departments resulting in disclaimed, adverse or qualified audit opinions

Some auditees did not or were unable to correct all of the identified material misstatements in their financial statements. Below is a summary of the areas that resulted in financial statements receiving disclaimed, adverse or qualified audit opinions for not fairly presenting in all material respects the financial position as at 31 March 2011 or the financial results for the year then ended.

Capital assets

Capital assets principally consist of tangible capital assets and software and other intangible assets. Common matters attracting qualifications included the following:

- The existence of assets could not be physically verified.
- Asset registers did not contain unique asset numbers, location or designated asset holders, making asset verification impossible.
- Assets selected from their physical location could not be traced to the fixed asset register.
- An asset register could not be provided for some asset categories.
- Sufficient, appropriate audit evidence could not be provided for moveable tangible assets.

Current assets

Current assets principally consist of unauthorised expenditure, cash and cash equivalents, prepayments and advances, and receivables. Common matters attracting qualifications included the following:

- Receivables disclosed in the financial statements did not agree to the receivables list.

- Sufficient appropriate audit evidence could not be obtained for receivables.
- Unauthorised expenditure was overstated due to the calculations being performed at sub-programme and economic classification levels instead of at programme level.
- Contrary to departmental records, debtor confirmations indicated that the respective debtors had no amounts outstanding.

Liabilities

Liabilities principally consist of voted funds to be surrendered to the Revenue Fund, Departmental Revenue and National Revenue Fund (NRF) receipts to be surrendered to the Revenue Fund, bank overdraft, payables and aid. Common matters attracting qualifications included the following:

- No supporting documentation could be obtained for liabilities.
- The financial statements reflect an amount surrendered to the Revenue Fund during the year, but a lower amount was confirmed as received by the Revenue Fund.
- Sufficient and appropriate audit evidence for accruals disclosed in the financial statements could not be obtained.
- The accrual balance disclosed in the financial statements was overstated as certain payments made before year-end were also disclosed as accruals.

Other disclosure items

Other disclosure items principally consist of accruals, commitments, contingent liabilities, lease commitments, related party transactions, key management personnel and employee benefits. Common matters attracting qualifications included the following:

- The lease commitments balance disclosed in the financial statements did not agree to the total lease contracts balance.
- Sufficient appropriate audit evidence could not be obtained for patient debts due to the absence of a properly maintained patient debt system.
- The total commitments balance disclosed in the financial statements did not agree to the total of all commitments. Sufficient and appropriate audit evidence for capital commitments disclosed in the financial statements could not be



obtained. Sufficient and appropriate audit evidence for lease commitments disclosed in the financial statements could not be obtained.

- Employee benefits disclosed in the financial statements were understated. The leave entitlement reports that were used were drawn after year-end, resulting in inaccurate leave days used to calculate the leave entitlement for the current and prior year.
- Finance leases were disclosed as operating leases in the financial statements.

Revenue

Revenue principally consists of annual appropriation, departmental revenue and aid. Common matters attracting qualifications included the following:

- The departmental revenue to be surrendered stated in the financial statements did not agree to the trial balance. The department did not reconcile the difference.

Expenditure

Expenditure principally consists of current expenditure and transfers and subsidies. Common matters attracting qualifications included the following:

- Appropriate audit evidence for current expenditure relating to goods and services disclosed in the financial statements could not be obtained.
- Appropriate audit evidence for transfer payments disclosed in the financial statements could not be obtained.

Unauthorised, irregular as well as fruitless and wasteful expenditure

The qualification findings stemmed mainly from the inability to verify the accuracy and completeness of amounts disclosed in the financial statements.

Annexure 1 to this report lists the audit outcomes, including qualification areas, of all auditees in the province.

Section 2.2.10 covers the root causes of the deficiencies in the 2010-11 annual financial statements of departments (and entities) that resulted in disclaimed, adverse or qualified audit opinions.

2.2.5 Defects in current year financial statements of public entities resulting in disclaimed, adverse or qualified audit opinions

Capital assets

- Public entities had problems with the implementation of GRAP reporting requirements. The values of non-current assets held for sale were not calculated accurately and were therefore overstated (GRAP 100). These public entities also did not review the residual values, useful lives and depreciation methods of property plant and equipment (GRAP 17) and did not determine the fair value of assets acquired at a nominal cost at acquisition date (GRAP 17).
- Property, plant and equipment could not be physically verified since the asset register did not contain adequate descriptions, serial numbers, locations and conditions of items included in the register.
- There was a limitation in that a material amount of assets could not be traced from the floor to the register.
- The entity did not provide for depreciation on all assets ready for use in accordance with South African Statement of Generally Accepted Accounting Practice (GAAP).

Current assets

- Irreconcilable differences between the financial statements and underlying records resulted in limitation on the scope of the audit to verify receivables disclosures.
- All debtors circulated for confirmation of balances indicated that they do not have any outstanding balance with the entity. The records of the entity did however indicate balances for these debtors.
- An impairment loss has not been recognised in accordance with GAAP.

Liabilities

Liabilities principally consist of bank overdraft, payables and aid assistance. Common matters attracting qualifications included the following:

- The comparative amount for trade and other payables was reclassified to trade and other receivables. The disclosure note for the correction of the prior year error was incomplete.

- The completeness, valuation and existence of special funds disclosed in the financial statements could not be verified as no contracts could be provided.

Other disclosure items

Other disclosure items principally consist of accruals, commitments, contingent liabilities, lease commitments, related-party transactions, key management personnel and employee benefits. Common matters attracting qualifications included the following:

- Finance leases were disclosed as operating leases in the financial statements. The entity did not adjust its financial statements as management did not agree with the finding raised due to a misinterpretation of the GRAP standard by management.

Revenue

Revenue principally consists of grants and subsidies received and revenue generated through the rendering of services. Common matters attracting qualifications included the following:

- Adequate supporting documents for revenue were not provided as evidence for journal entries.
- Grant income was not recognised as and when the conditions were met.
- There were inadequate controls over conditional grants received, as the public entities did not familiarise themselves with the recognition requirements of the grants.

Expenditure

Expenditure principally consists of current expenditure. Common matters attracting qualifications included the following:

- The completeness and accuracy of rebates disclosed in the statement of financial performance could not be confirmed as there was a difference between the amounts in the financial statements and in the sale agreements. The entity has no control over the rebates (expenditure on water and electricity

for RDP home owners) that they pay, as the standard rate of 35% was not used and no reconciliations were performed for the year under review as a control mechanism. The extent of the misstatement could not be determined and therefore no amendment could be made to the financial statements.

- Included in the repairs to machinery expense account was a component of machinery. The expenditure was for replacements and should have been capitalised as part of the asset. The misallocation resulted in the overstatement of expenditure. The entity did not adjust its financial statements as management did not agree with the finding raised because they had misinterpreted the GRAP standard.

Unauthorised, irregular as well as fruitless and wasteful expenditure

Payments were made in contravention of the SCM requirements and were not disclosed as irregular expenditure in the financial statements.

Annexure 1 to this report lists the audit outcomes, including qualification areas, of all auditees in the province.

Section 2.2.10 covers the root causes of the deficiencies in the 2010-11 annual financial statements of entities (and departments) that resulted in disclaimed, adverse or qualified audit opinions.

2.2.6 Material misstatements in financial statements submitted for auditing

The PFMA directs that departments and public entities submit for auditing financial statements that fairly present their state of affairs and their financial position as at the end of the financial year. Financial statements submitted for auditing are therefore required to be free from material misstatements (that is, contain no material errors or omissions).

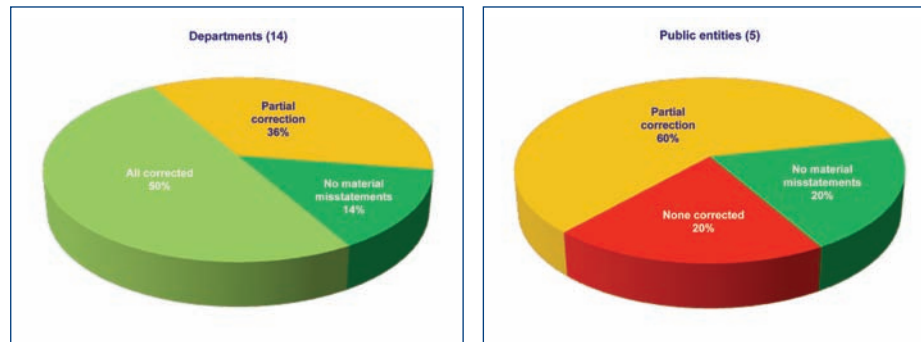
As in previous financial years, many of the financial statements submitted for auditing were of a poor quality and had to be materially corrected during the audit process. Auditees had significant deficiencies in the design and implementation of internal control in respect of financial reporting. There were material misstatements in the financial statements submitted for audit in the case of 12 departments (86%) and four public entities (80%). The corresponding number of departments that



submitted financial statements with material misstatements in 2009-10 amounted to 12 (86%) and six (100%) public entities. Seven (58%) of the 12 departments corrected all their reported material misstatements during the 2010-11 financial year audit and the other five (42%) departments partially corrected their financial statements. Three (75%) of the four public entities partially corrected their financial statements and the other one (25%) elected not to correct any of its reported material misstatements. The main reason why auditees did not correct the material misstatements is that they did not have sufficient time to do so. The respective financial statements were consequently qualified.

Areas misstated in the financial statements submitted for audit are listed under section 2.2.3. The figure below indicates the extent of pervasive material misstatements in the financial statements submitted for auditing, some of which were subsequently corrected by management as a result of audit findings.

Figure 9: Material misstatements in financial statements submitted for auditing



The following internal control deficiencies resulted in the material misstatements in the financial statements not being prevented or detected timeously:

- The preparers of the financial statements did not have an adequate understanding of the disclosure requirements, as determined by National Treasury, and of the GRAP reporting requirements, especially with regard to GRAP 9, 13, 17, 19 and 102 which relate to revenue recognition, leases, assets, provisions and contingencies, and intangible assets respectively. Officials did not read the preparation guide or undergo GRAP training to ensure that

they are knowledgeable and up to date regarding the standards that become effective and the basic GRAP accounting issues.

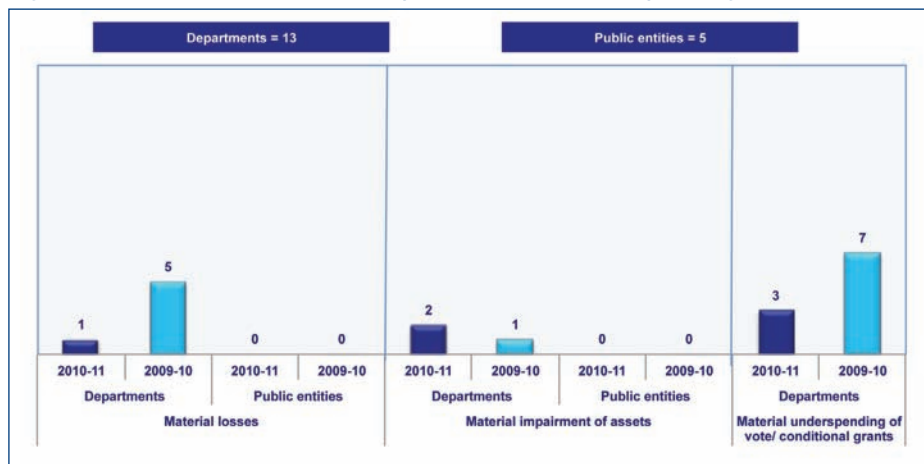
- Departments did not have adequate systems in place to ensure that the disclosure notes to the financial statements were accurate and complete.
- The quarterly and year-end financial statements were not properly reviewed by senior management due to lack of coordination in compiling the financial statements and in the subsequent review thereof. Members of senior management did not communicate with one another during the preparation phase. There was insufficient time to perform proper reviews due to vacancies in the finance unit and inadequate filing and accounting systems to ensure that the required financial information is readily available during the financial statement preparation phase.
- The provincial treasury did not perform an effective review of the quarterly financial statements due to capacity constraints.
- As the audit committee did not function, it failed to review the financial statements.
- As internal audit work was not performed on all high-risk areas, risks were not identified throughout the year to ensure that the financial statements were accurate and complete.
- SCOPA resolutions were not adequately addressed, and the MECs did not take action against HoDs who failed to implement SCOPA's prior year resolutions.
- Audit outcome improvement plans to address the prior year audit findings were not adequately implemented and monitored by HoDs and MECs, resulting in many repeat findings. Many of the matters in the audit outcome improvement action plans relate to commitments made by the executive leadership of the province and therefore many of the commitments were not fulfilled.
- Daily, weekly and monthly controls relating to the compilation of financial statements and related disclosures were not developed, implemented and monitored.
- All the above deficiencies in key controls were highlighted during the AGSA's quarterly key control visits to the leadership (i.e. MECs, DG, Premier and the legislature) and in spite of commitments made to improve key controls, no visible action was taken by the leadership to address these deficiencies in a timely manner.

The MEC: Finance noted during an engagement with the AGSA that there had been some interventions at a political level; however, there were shortcomings at the administrative level. Accountability will therefore be elevated to the executive level.

2.2.7 Material losses, impairment of assets and material underspending of votes or conditional grants

Details of material losses, asset impairments and underspending of the vote or conditional grant as disclosed in the financial statements of departments and public entities for the year ended March 2011 are depicted below.

Figure 10: Material losses, asset impairments and underspending



Material losses

Material losses (R6,8 million) were incurred in the current year at Health. The Department of Health also had material losses in the prior year (R21 million) due to legal claims relating to patients suing the department for medical malpractice. The reduction in departments incurring material losses was not due to specific corrective actions taken by the department. Health should investigate these material losses by looking at those instances where patients sue the department to determine the root cause and must then implement measures to prevent future claims against the department.

Impairment of assets

Patient debt accounts written off by the Department of Health (R112,2 million) represent the majority of material impairments of assets. The department appointed consultants during the 2010-11 year to undertake a 'debtor clean-up' assignment to address the prior year qualification on receivables for departmental revenue. Part of the clean-up entailed compiling and implementing a debt write-off policy. All debtors for which no supporting documentation could be obtained to conduct follow-ups for recovery were then written off. The remaining impairment amount comprises old debtor accounts written off by the Department of Education (R20,4 million).

Underspending of vote/conditional grants

Underspending on construction and maintenance projects by the Department of Roads and Public Works resulted in backlogs in the construction and maintenance of roads in the province. The underspending can be attributed to projects that started later than planned during the first two quarters of the year, resulting in the National Treasury not releasing funds, which meant that payments could not be processed. Furthermore, the district municipalities did not comply with the service level agreement, therefore payments could not be processed to the district municipalities.

This was also the case in the prior year in respect of the service level agreements. The underspending worsened due to the department spending at a slower rate than planned this year, which resulted in the unspent amount increasing by 476% from R23,8 million to R137 million.

Underspending of conditional grants at Health was due to a material portion of the hospital revitalisation grant not being spent. The unspent portion of this grant increased by 22%, from (R72 million to R88 million). The underspending related mainly to the building of the Mental Health Facility that was on hold due to the ongoing court case and backlog work required at the De Aar hospital.

Underspending of conditional grants at Sport, Arts and Culture was due to the fact that the building of a provincial archive repository and the completion of upgrades to the Northern Cape Theatre had not materialised, and the incomplete



transfers of the library services grant to municipalities. The unspent portion of these grants increased by 7%, from R27 million to R28,9 million. The reasons for this underspending are as follows:

- Library services grant to municipalities could not be processed due to the delay by municipalities in submitting the required documents for the payments to be processed.
- When construction had to begin on the provincial archive repository, the department noted that part of the land did not belong to Public Works and therefore the construction could not start during the 2010-11 financial year.
- The department was awarded the bid on 2 November 2010 for the upgrading of the Northern Cape Theatre. An amount of R7 million was allocated to the department for the upgrading. At year-end, R1,2 million had been spent on such upgrading, which is still in progress.

2.2.8 Auditees in the process of disestablishment/ incorporation

The Housing Fund is in the process of disestablishment. Current indications are that the fund would be disestablished after all assets currently accounted for within the fund have been correctly transferred to the various relevant authorities.

Table 9: Reasons for disestablishment/ incorporation

Auditee	Liquidation/ Disestablishment	Incorporation with another entity	High reliance on grants/ Own revenue generated not sufficient to cover operating costs	Current liabilities exceed current assets	Significant financial challenges	Number of matters per auditee
Housing Fund	1	1	0	0	0	2
Total	1	1	0	0	0	2

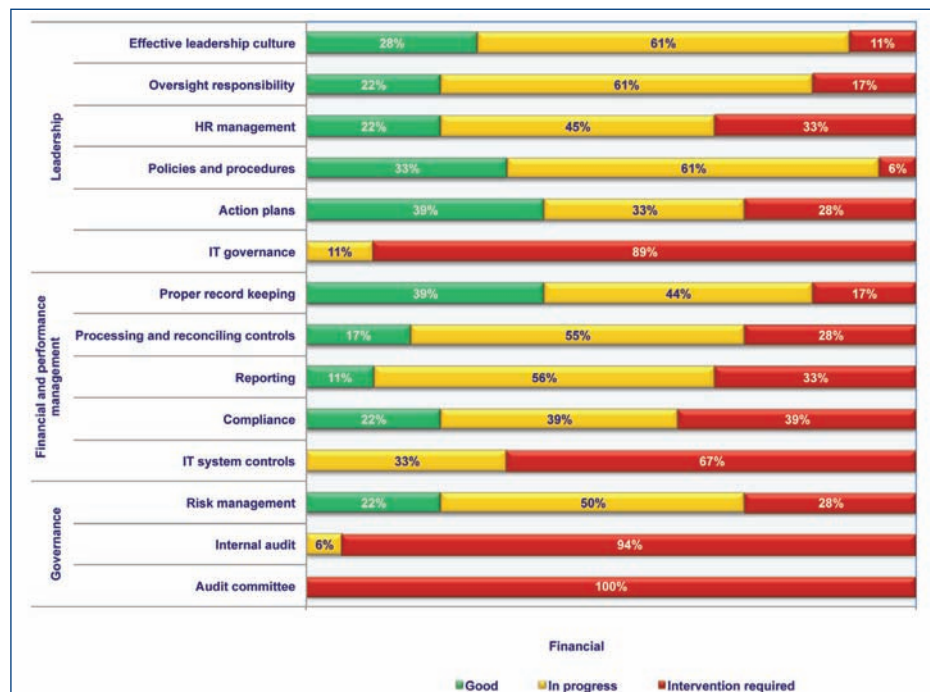
A national decision was made by Human Settlements five years ago to disestablish the Housing Fund in all provinces. All properties/houses registered in the name of the Housing Fund must be transferred to the individuals occupying the properties/houses. Currently, there are only 61 properties registered in the name of the Housing Fund. When these 61 properties/houses have been transferred to the individuals occupying the properties/houses, the records will be empty and the

fund will be disestablished (five of the nine provinces have already disestablished their funds). The rate at which the houses are transferred to the individuals occupying the properties/houses depends on the Deeds Office and attorneys; however, the process to disestablish the Fund is being executed as fast as possible.

2.2.9 Assessment of drivers of internal control over financial management and reporting

The ability of auditees to produce financially unqualified financial statements is determined by the operation of key drivers of internal control. These drivers are classified under (i) leadership, (ii) financial and performance management and (iii) governance. Figure 11 provides an assessment, at the time of the 2010-11 audits, of the key drivers of internal control that should be in place at auditees to achieve their financial management and financial reporting objectives and to meet their legislated obligations.

Figure 11: Assessment of auditees' key controls over financial management and reporting



When compared to the prior year, the status of key controls over financial management and reporting remained the same. The main reasons for this are still the lack of senior management involvement in adequately reviewing financial information and monitoring the related processes and controls throughout the year, high level of vacancies, a lack of proper systems to ensure the accuracy and completeness of disclosure notes, the absence of a properly functioning internal audit unit to verify that controls are operating effectively, and the lack of a properly functioning audit committee to assist with oversight. These issues contributed to the late submission of financial statements by three departments and one public entity reported on.

2.2.10 Best practices, root causes of findings and the way forward on financial statement qualifications and financial management

Best practices

The following best practices were identified at departments that had improved or maintained good audit outcomes:

- Monthly, weekly and daily controls functioned and were reviewed and monitored by the relevant line manager.
- Good records management processes were in place.
- Plans to address SCOPA resolutions and audit outcomes were in place and were monitored on a regular basis.
- Some departments had a formal plan to compile the financial statements, with different sections of the financial statements being compiled by delegated officials. These officials also compiled the financial statements/notes/sections on a monthly basis. In these departments, CFOs performed detailed reviews on the individual sections prior to the submission of financial statements to the provincial treasury / AGSA.
- CFOs had relevant experience and/or appropriate qualifications.
- There were dedicated officials to provide the auditors with information and management responses to audit findings.
- There was open and ongoing discussion with the auditors on complex matters to prevent audit findings which impact on the audit opinion.
- There was willingness to make corrections to the financial statements during the audit process.
- The HoD and CFO were involved in the audit process and effectively monitored the work performed by consultants.
- The MEC implemented the annual performance plan as well as the budget speech implementation plan. Progress made with the implementation of the aforementioned plans was monitored through discussions at management meetings on a monthly basis. The MEC followed up on these matters and other pressing issues relating to internal control and good governance.
- HR policies and delegations were signed and implemented to enhance controls.
- All bid committees had been revamped and training provided to all the members.



- A workshop was conducted with all employees on new/revised policies and delegations to ensure common understanding and adherence.

The following were the root causes of financial statement qualifications in the current year:

- Leadership in the province in some instances did not set the right tone at the top by impressing on staff the importance of quality, accurate and complete financial and performance reporting.
- Plans to address SCOPA resolutions and audit outcome improvement plans were not reviewed and monitored by HoDs, resulting in repeat findings.
- The implementation, review and monitoring of key controls did not take place on a daily, weekly and monthly basis.
- High level of vacancies in key positions and an inappropriate organisational structure to facilitate the implementation of key controls.
- Inadequate review of the work performed by junior officials.
- Improper record keeping and the absence of record management processes.
- The internal audit unit was inadequately staffed and a number of internal audits planned for the 2010-11 financial year did not materialise.
- The audit committee did not function during the year under review, resulting in the absence of this important oversight function.

The way forward

The provincial treasury should ensure that the quarterly financial statements submitted are signed by the CFOs and HoDs as proof of their review, and Treasury's feedback on the findings on the financial statements should be submitted to each department. The provincial leadership is committed to compiling and implementing audit outcome improvement plans. However, some of these audit outcome improvement plans have not yet been received by the AGSA. The HoDs and senior management will report to the executive authorities on progress made with the implementation of audit improvement plans and key controls.

The operation clean audit committee (OPCA) should also intensify its oversight of departments to assist them in migrating towards clean administration.

2.3 Findings arising from the audit of auditees' reporting on predetermined objectives

2.3.1 Overview of the AGSA's approach to the audit of reporting on predetermined objectives

Departments and public entities are required to report against their predetermined objectives (service delivery) and to submit such annual performance reports for auditing, together with the financial statements. The objective of an audit of predetermined objectives is to enable the auditor to conclude whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

The AGSA has since the 2005-06 financial year gradually been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined objectives, has been included in the management report. However, these conclusions have not yet been elevated to the level of the auditor's report.

2.3.2 Overall findings arising from the audit of reporting on predetermined objectives

Progress by auditees in addressing prior year findings on predetermined objectives is depicted in figure 12 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 12: Movements in findings on reporting on predetermined objectives

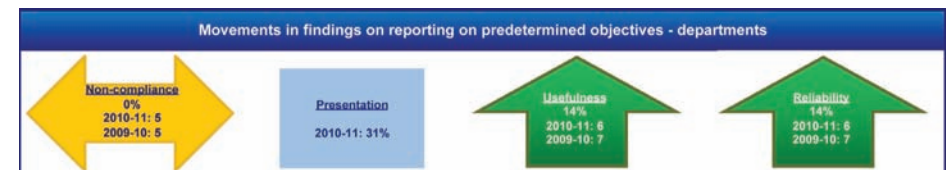
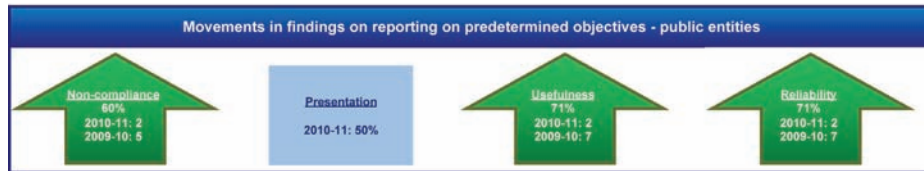


Figure 13: Predetermined objectives – extent of findings on usefulness and reliability



2.3.3 Summary of regulatory requirements or criteria not met by auditees as well as trends in findings

Key trends in findings related to reporting on predetermined objectives are as follows.

Annual performance report was not received in time for audit purposes

The decrease in the percentage of public entities not submitting performance reports is due to the fact that two entities had not submitted performance reports during the 2009-10 year. These two entities did not submit their 2010-11 financial statements for audit and therefore do not form part of this report. McGregor Museum submitted an annual performance report, but did not submit in the previous year. The reason for submission in the 2010-11 financial year was that the overseeing department, Sport, Arts and Culture, was monitoring the public entity's reporting on predetermined objectives.

Non-compliance

The submission rate of performance reports for departments was high in the current year, with only COGHSTA not submitting an annual report on time. The employee previously responsible for the performance report was moved to the finance department to assist with the preparation of the financial statements, which resulted in the performance report being neglected.

Most of the non-compliance findings were due to major variances of actual performance against targets not being explained in the annual report of departments and public entities since senior management had not performed an

adequate review on the actual performance against predetermined objectives reported.

Usefulness

The findings related to objectives not being measurable against indicators and targets and to the absence of clear and logical links between the objectives, outcomes, outputs, indicators and performance targets.

The number of departments with findings on usefulness decreased slightly compared to the prior year. This can be attributed to senior officials being more involved in the performance management process. Consultants were also used to train employees on the performance process with a focus on setting specific, measurable, achievable, relevant and time-bound (SMART) performance targets.

Senior management of the departments and public entities that received findings on reliability did not perform a proper review on performance information when the information was consolidated quarterly and submitted to the provincial treasury.

A number of departments were able to repeat their good performance by preventing findings on usefulness for a second year in a row. A proper manual system of internal control for performance information was implemented in most of these departments. Detailed review by senior management was also common at these departments.

Reliability

Findings on reliability included instances where the actual reported performance could not be verified.

The number of departments/public entities with findings on usefulness increased slightly from the prior year. Six departments and two public entities were not able to provide supporting documentation for information reported in the annual performance report, resulting in the information not being reliable.

Insufficient supporting documentation and an inadequate review by senior managers were common at departments/public entities that had regressed since the 2009-10 financial year. A lack of proper review by senior management was one of the main reasons for findings at many departments.

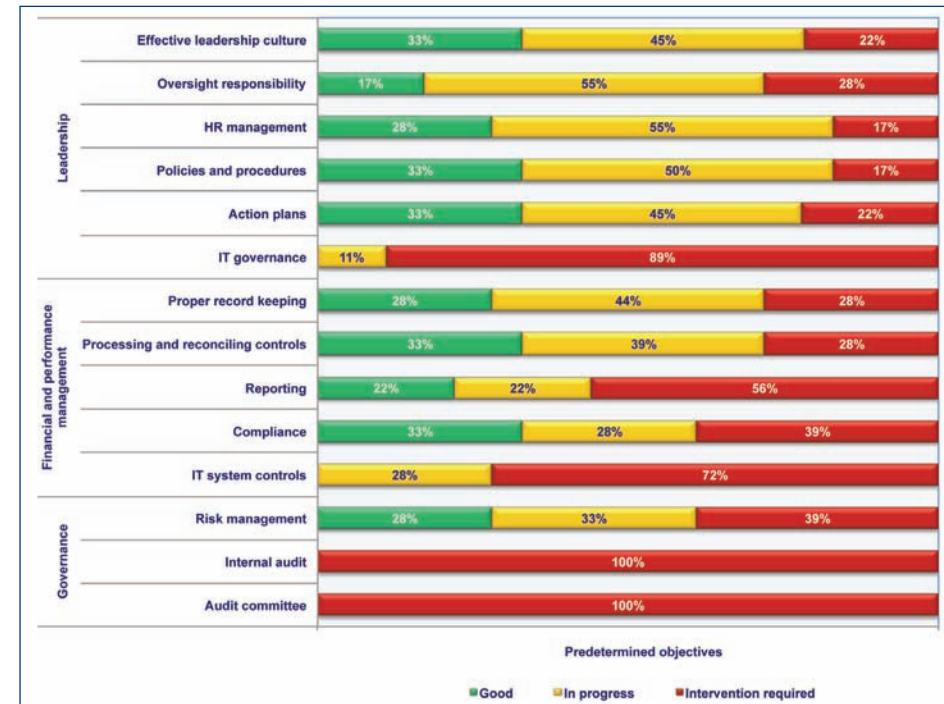


Seven departments retained their status of having no findings in the area of reliability. These departments generally had good controls to manage performance reporting, including proper monitoring and review. The more in-depth involvement of senior managers in the performance process at these departments was also more common.

2.3.4 Assessment of drivers of internal control over reporting on predetermined objectives

Figure 14 provides an assessment at the time of the audit of the key drivers of internal control that should be in place to ensure auditees produce performance reports that are useful, reliable and meet the regulatory requirements, including that of presentation.

Figure 14: Assessment of drivers of internal control over reporting on predetermined objectives



As usefulness of predetermined objectives findings remained unchanged with the predetermined objectives not being reliable, and given that findings had increased compared to the prior year, the overall conclusion is that the province regressed in respect of reporting on predetermined objectives. The reason for the regression is that senior management of departments and public entities that received findings on reliability and usefulness did not perform a proper review on performance information when the information was consolidated quarterly and submitted to provincial treasury, in the absence of a proper functioning internal audit unit and audit committee. The usefulness and reliability of information to support predetermined objectives are the main drivers to ensure valid, accurate and complete annual performance reports.

When the AGSA's head office arranged a training session on the reporting of predetermined objectives for departments during the 2010-11 financial year, only four departments attended the training session. This casts doubt on leadership's commitment to enhancing the understanding of predetermined objectives within departments.

However, mention must be made of Social Development which had again received no findings on predetermined objectives. The control environment and monitoring regarding predetermined objectives at Social Development is so sound that the national Department of Social Development had invited the provincial Social Development to share their best practices with the national and other provincial social development departments. The best practices are indicated below in section 2.3.5.

2.3.5 Best practices, root causes of findings and the way forward on predetermined objective reporting by auditees

The following good practices were identified at departments that had improved or retained good audit outcomes in relation to predetermined objectives:

- The department ensured complete and accurate data by having all data and reports reviewed at programme manager level prior to submission.
- Even though the department did not have a dedicated unit for predetermined objectives, the CFO and programme managers performed detailed reviews and monitoring to ensure proper reporting.
- The department had dedicated officials to monitor, review and oversee the compilation of predetermined objectives at programme level. These officials were properly capacitated to perform detailed reviews of information and to ensure that all performance reported was supported by valid and complete supporting documentation.
- The department followed a proactive approach to amending their systems and processes to ensure compliance with the predetermined objectives framework and National Treasury guidelines.
- The department requested their financial inspectorate, internal audit and the AGSA to perform interim work on quarterly reports to ensure that reporting is complete and accurate.
- Prior year audit findings were addressed by hosting a workshop attended by key officials of the department, provincial treasury, the AGSA and consultants.

The audit findings were discussed and controls put in place to prevent repeat findings.

The following were the root causes of most findings in the current year:

- The system to account for performance information was inadequate.
- Audit outcome improvement plans were not reviewed and monitored by HoDs, resulting in repeat findings.
- Senior management did not validate quarterly results against supporting documentation.
- There were vacancies in the positions responsible for performance information.
- Departments still did not have a unit responsible for performance information.
- There was no functioning audit committee.
- The internal audit unit had a high vacancy rate.

As a way forward, management made the following commitments to improve the situation:

- The risks relating to accurate and complete reporting on performance against predetermined objectives will be included in the annual risk assessment process.
- The collation and verification of performance information will be assigned to a specific staff member or unit. This person will ultimately be held accountable for poor reporting.
- Provision will be made in the audit outcome improvement plan to address the audit findings.
- Progress made with the implementation of the audit outcome improvement plan and the key controls will be monitored by the HoD and senior management and reported to the executive authority on a regular basis.

2.4 Findings on compliance with laws and regulations

2.4.1 Overview of the AGSA's approach to auditing compliance with laws and regulations by auditees

As part of the annual audit of financial statements, the AGSA audits and reports on compliance with laws and regulations by auditees. Broadly, such laws and regulations set out:



- the activities that auditees must perform for the citizens
- any limits or restrictions on such activities
- the overall objectives to be achieved
- how due process rights of individual citizens are protected.

Compliance refers to adherence by auditees to the laws and regulations to which they are subject. Conversely, non-compliance refers to acts of omission or commission by auditees, either intentional or unintentional, which are contrary to such laws and regulations.

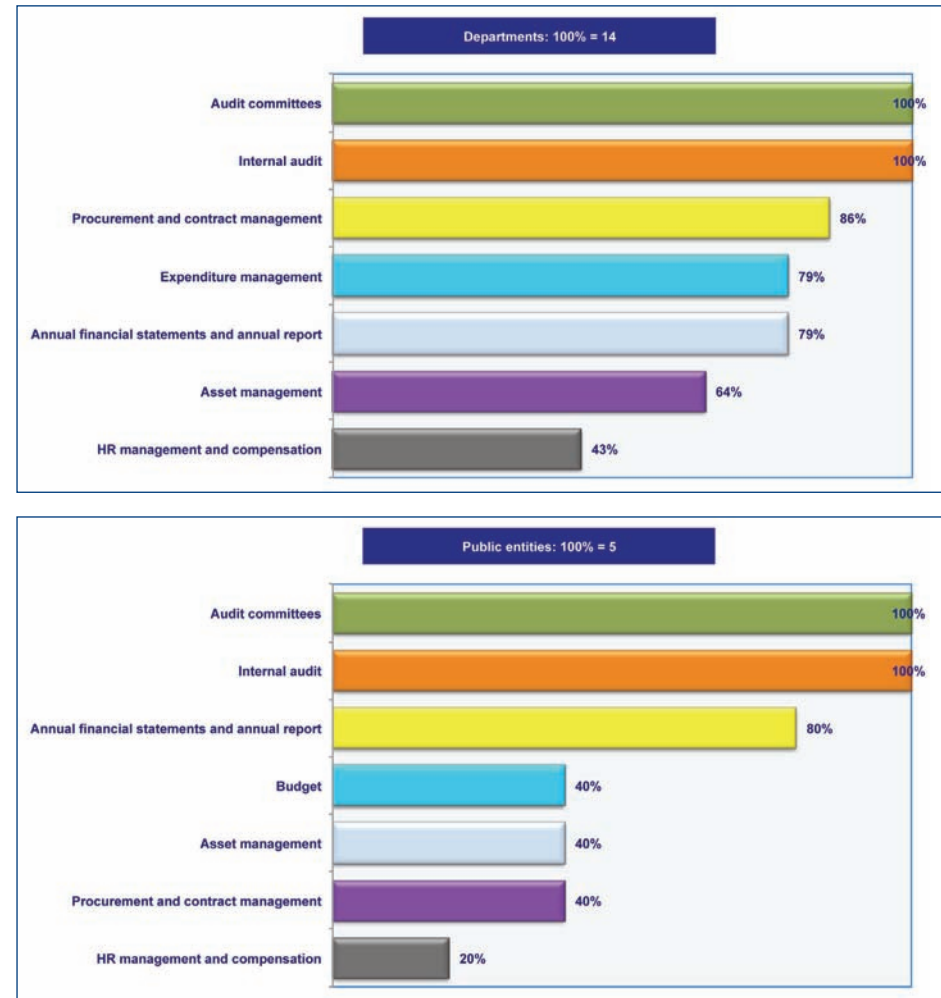
The audit of compliance is being phased in by the AGSA and details of identified instances of material non-compliance are included in the auditor's reports. The AGSA specifically focused on legislative requirements relating to the following areas for the financial year ended March 2011:

- Financial statements, performance report and annual report
- Asset management
- Audit committees
- Budgets and budgetary processes
- Expenditure management
- Financial misconduct
- Internal audit
- Revenue management
- Strategic planning and performance management
- Transfer of funds and conditional grants
- Procurement and contract management
- HR management and compensation

2.4.2 Transversal findings on compliance with laws and regulations

The figure below depicts areas of material non-compliance that were most prevalent at departments and public entities. As the focus areas and legislative requirements audited differ from those of the previous year, the figure does not include comparisons to the previous year.

Figure 15: Summary of findings arising from the audit of compliance with laws and regulations



Common non-compliance findings relating to the AGSA's focus areas are summarised below.

Table 10: Common non-compliance findings relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	Public entities
Prevalent non-compliance areas: All auditees			
Revenue management	Effective and appropriate steps not taken to timeously collect all revenue due	36%	20%
Expenditure management	Irregular expenditure not prevented	71%	0%
	Payments to creditors not settled within 30 days from receipt of invoice	57%	20%
HR management and compensation	Payroll certification did not always take place	43%	0%
	Senior management positions vacant for more than 12 months	43%	0%
	Senior managers did not sign performance agreements for current performance period	43%	0%
	Senior managers acted in positions for more than six months	14%	20%
Financial statements and annual report	Submitted AFS not prepared in accordance with prescribed practices	71%	60%
Procurement and contract management	No declaration of interest submitted (e.g. SBD4)	64%	40%
	Internal audit did not evaluate SCM controls/ processes and compliance	100%	0%
Internal audit	Internal audit not under control and direction of audit committee	100%	40%
	Rolling three-year strategic internal audit plan not approved by audit committee	100%	20%
	No internal audit function in place	7%	60%
Audit committees	No review of effectiveness of internal control systems	0%	20%
	No audit committee in place	100%	80%
Asset management	Proper control systems not implemented for safeguarding and maintenance of assets	64%	60%
Budget	Surpluses accumulated without a prior approval from National Treasury	0%	40%

Annexure 2 to this report lists all auditees where non-compliance was identified through the AGSA's focus area audits.

Section 2.2.4 of this report provides details on the financial statements submitted by accounting officers for auditing which had not been prepared, in all material aspects, in accordance with generally recognised accounting practice (and were supported by full and proper records), as required by the PFMA.

Details of non-compliance findings relating to auditees' performance reports are provided in section 2.3.2, while section 2.4.3 further details findings related to unauthorised, irregular as well as fruitless and wasteful expenditure.

Findings arising from the audit of procurement and contract management are analysed under section 2.4.4, while section 3.2 provides further details on non-compliance findings related to HR management at departments.

2.4.3 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees

The PFMA requires accounting officers or authorities to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented and detected. Unauthorised expenditure results from overspending a vote or a main division within a vote or refers to expenditure that is not in accordance with the purpose of a vote or main division.

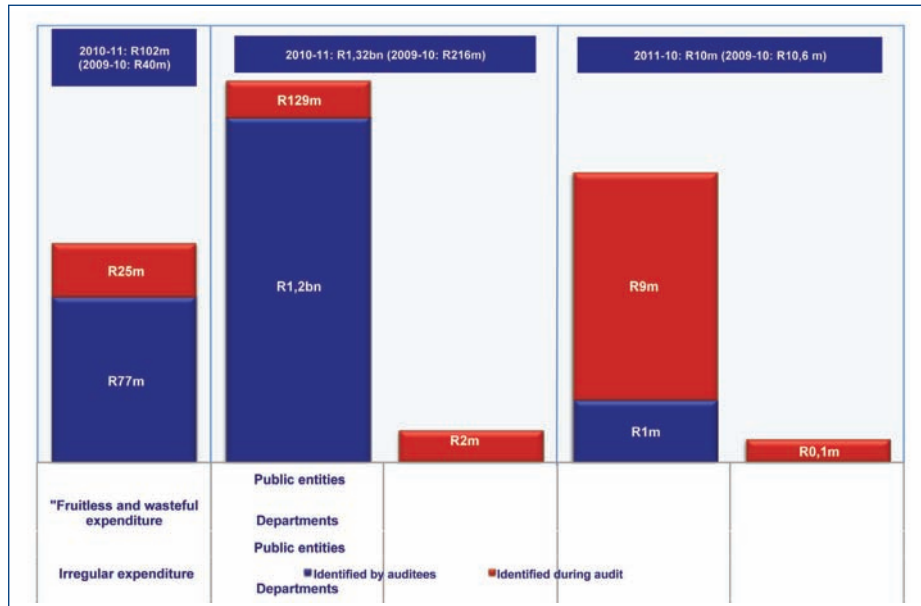
Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, the State Tender Board Act, 1968 (Act No. 86 of 1968) and any provincial legislation providing for procurement procedures in a provincial department.

Fruitless and wasteful expenditure refers to expenditure that was made in vain and would have been avoided had reasonable care been exercised.

It is compulsory for departments and public entities to disclose such expenditure in their financial statements. The figure below depicts the extent of such expenditure and the portion thereof that was identified during the audit and not detected by the auditees.



Figure 16: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and public entities



Irregular expenditure consisted of the following: SCM R349 million (26%); compensation of employees R21 million (2%); delegations of authority for approvals inadequate R952 million (72%). These are actual figures and not projected amounts.

The nature of the expenditure and significant trends are presented in the table below.

Table 11: Movements in unauthorised, irregular as well as fruitless and wasteful expenditure

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Unauthorised expenditure (applicable to departments only)						
Number of departments incurring	6	R101,8m	50%			
Identified during the audit - not detected by auditee	2	R25,3m	100%			
Incurring for two or more successive financial years	3					
Nature of unauthorised expenditure incurred						
Overspending of votes/main division within votes	6	R101,8m	50%			
Expenditure not in accordance with votes	N/A	N/A	N/A			
Irregular expenditure						
Number of auditees incurring	12	R1,32bn	9%	1	R1,8m	100%
Identified during the audit - not detected by auditee	11	R128,5m	10%	1	R1,8m	100%
Incurring for two or more successive financial years	11			0		
Nature of irregular expenditure incurred						
Supply chain management	12	R348,9m	9%	1	R1,8m	100%
Compensation of employees	7	R21m	575%			
Other non-compliance	4	R951,9m	100%	0		

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Fruitless and wasteful expenditure						
Number of auditees incurring	8	R9,7m	↑ 300%	1	R0,1m	↑ 100%
Identified during the audit - not detected by auditee	2	R8,7m	↔	1	R0,1m	↑ 100%
Incurred for two or more successive financial years	2			0		

The table above includes public entities which incurred irregular expenditure and fruitless and wasteful expenditure in the 2010-11 year; there were none in the 2009-10 year. For this reason an arrow indicating a 100% increase over the prior year was used to demonstrate the increase.

The same applies to irregular expenditure "Other non-compliance", in respect of which no departments had findings in the prior year, but four in the 2010-11 year.

Annexure 3 to this report provides a full listing of auditees that incurred the expenditure summarised in the above table.

2.4.4 Summary of findings arising from the audit of SCM conducted by the AGSA

The audits conducted by the AGSA included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings were raised during the audit of SCM at 14 (88%) of the 16 auditees relating to contracts that had been awarded and quotations that had been accepted (referred to as "awards" in the rest of this report).

Significant findings relating to SCM are depicted in the figures that follow.

Figure 17: Summary of findings on SCM

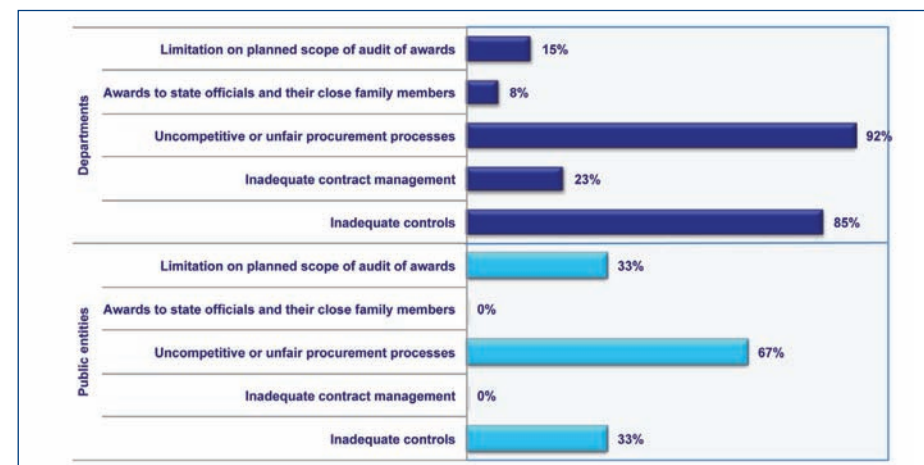
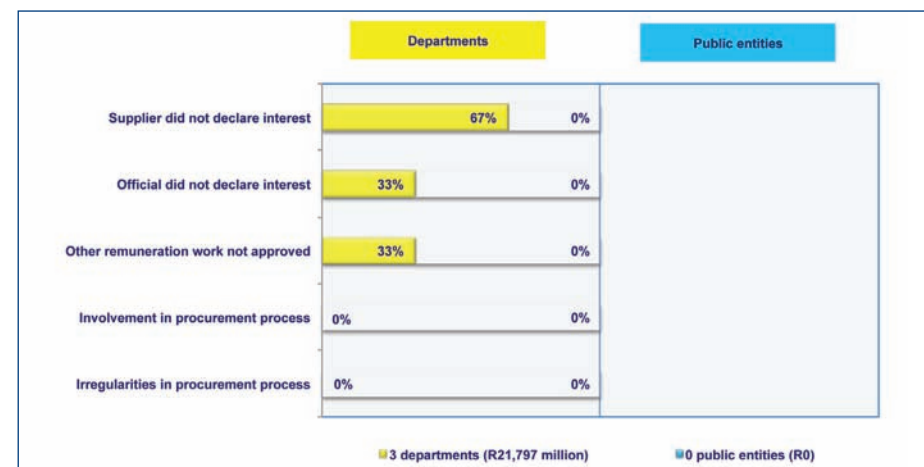


Figure 18: Awards to state officials and/or their close family members





A summary of the significant findings is provided below. Detailed findings are presented under section 5 of this report. The names of auditees with SCM findings are listed in annexure 5 to this report.

Aspect audited	Summarised findings
Limitations on planned scope of audit of awards	SCM record management systems were not in place at the departments. Departments that outsourced procurement to Public Works did not perform sufficient monitoring to ensure that Public Works followed the correct SCM procedures.
Awards to state officials and their close family members	Some officials did not declare their interests and some officials disregarded the SCM procedures in place.
Uncompetitive or unfair procurement processes	Leadership did not fulfil their responsibility of ensuring that the supply chain units were staffed with an adequate number of skilled individuals.
Inadequate contract management	Some departments did not adequately monitor the performance of suppliers.
Inadequate controls	Leadership did not ensure that the control weaknesses identified in SCM in the prior year were sufficiently addressed.

The above findings were as a result of a lack of leadership oversight and monitoring of key controls. The situation in the Northern Cape did not improve in relation to the prior year and it is clear that the control environment of most departments needs to improve.

Leadership in the Northern Cape did not make a noteworthy effort to address the inadequate control environment at the departments. The controls at departments were unable to prevent circumvention of the procurement processes.

The provincial treasury did not roll out all new legislation timeously, resulting in non-adherence to SCM requirements. Inadequate communication between Public works, Health and Education contributed to the high number of SCM findings that could not be quantified accurately. It was also evident that where departments used agents to perform procurement on their behalf, monitoring was not performed by the department to ensure compliance with the SCM regulations.

The high number of findings in the Northern Cape can be attributed to the fact that leadership failed to staff the supply chain units with trained, competent individuals as committed in the prior year. The limited financial resources available to the public entities also limited their ability to attract sufficiently skilled financial staff.

SCM staff and HoDs should be held accountable for non-compliance with SCM policies and regulations.

2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

There has been a 129% increase in the number of investigations commissioned by departments and public entities compared to the previous financial year. Table 12 lists the investigations in progress or completed by March 2011. Not all of the investigations were conducted by the AGSA.

Table 12: Investigations completed or in process as at 31 March 2011

Auditee	SCM related	Fraud	Other financial misconduct	Number of investigations per auditee
Provincial Legislature	1			1
Economic Development and Tourism			1	1
Office of the Premier		1		1
Sport, Arts and Culture			1	1
Health	3			3
Education			1	1
COGHSTA	1			1
Roads and Public Works	6			6
Environment and Nature Conservation		1		1
Total	11	2	3	16

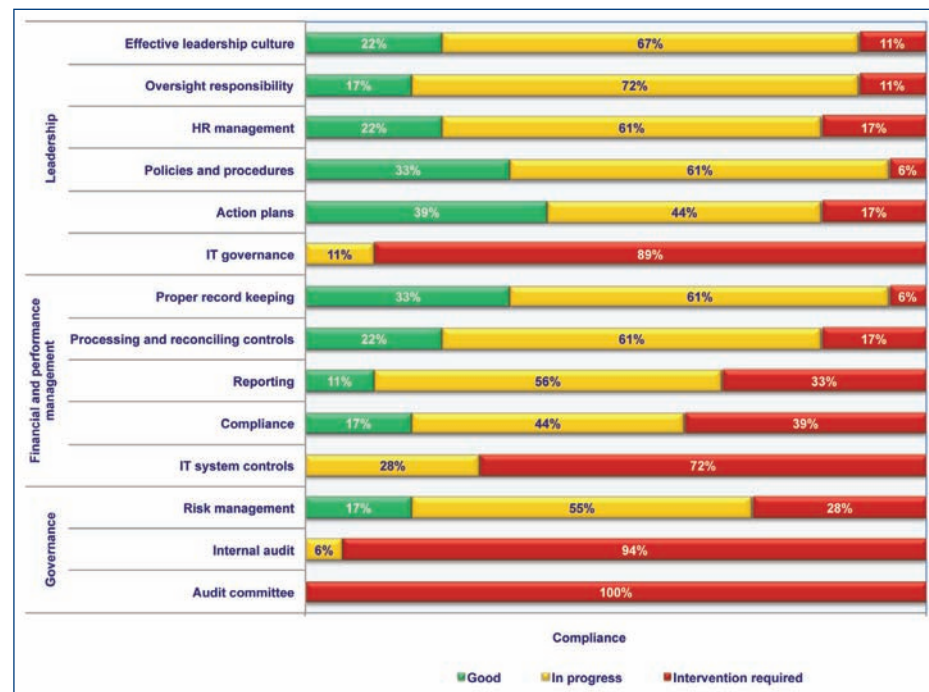
Investigations affecting nine of the 13 departments are as a result of inadequate control environments. Not all these investigations had been finalised at the cut-off date of this report, 30 September 2011. Nine of the 16 investigations commenced in the current financial year. The remaining seven commenced in prior years. The leadership should prioritise and finalise investigations within reasonable time and individuals should be held accountable if found guilty.

Leadership in the province did not take decisive action to improve the control environment by ensuring that SCM units are strengthened and that appropriate policies and procedures are implemented and monitored.

2.4.6 Assessment of drivers of internal control over compliance with laws and regulations

Figure 19 provides an assessment of the key drivers of internal control that should be in place to ensure compliance with laws and regulations.

Figure 19: Assessment of drivers of internal control – compliance with laws and regulations



The reasons for the significant findings on non-compliance with laws and regulations were as follows:

- Leadership did not exercise effective oversight responsibility regarding compliance with laws and regulations.
- Leadership did not track the implementation of SCOPA resolutions, audit outcome improvement plans or risk identification plans.
- Compliance checklists were not used effectively by all departments.
- Existing policies and procedures were not amended timeously with changes to SCM requirements. Failure to amend policies generally is evident from the prior year's pervasive findings relating to IT procurement and the current year SBD4 issue.
- Risk assessment did not include SCM weaknesses.
- The province did not have a proper functioning internal audit unit and audit committee.

2.4.7 Best practices, root causes of findings and the way forward on compliance with laws and regulations by auditees

The following best practices were identified at the entities that had improved or had retained an unqualified audit opinion:

- The CFO and HoD ensured through hands-on involvement that laws and regulations were adhered to.
- The department used checklists to ensure compliance with the most important SCM requirements.
- The HoDs emphasised the need for quality and compliance with laws and regulations.

The following root causes of findings and way forward on compliance with laws and regulations were prevalent at auditees:

Audit committee

The audit committee did not function for the entire year under review. This is as a result of the executive leadership's failure to implement its commitment to strengthen the shared audit committee in order for the committee to play a key role in the monitoring of audit outcome improvement plans and key controls.

The MEC: Finance must monitor the progress made in strengthening and improving the effectiveness of the shared audit committee, while the HoD: Finance must establish audit committees for Health and Education, as approved by Exco.



Internal audit

The internal audit unit was still not optimally capacitated to assist departments to identify deficiencies in their internal control environment, even though the internal audit unit was moved from the Premier to Treasury. This is as a result of the executive leadership's failure to implement commitment to fill the vacancies, as well as budgetary constraints.

Internal audit should be adequately staffed to effectively service all departments. The MEC: Finance must monitor the progress made in the implementation of the shared internal audit unit, while the HOD: Finance must establish internal audit units to serve Health and Education, as approved by Exco.

Procurement and contract management

The most prevalent finding related to the failure to submit SBD4 declarations of interest. Departments did not proactively monitor compliance with SCM requirements. Existing policies and procedures were not amended timeously with changes to SCM requirements, as is evident from the prior year's pervasive findings relating to IT procurement and the current year SBD4 issue.

The accounting officer must ensure that SCM requirements are updated and addressed timeously. The executive leadership must ensure that an audit committee monitors compliance with SCM controls/processes and that the internal audit unit covers SCM in its scope and includes SCM in its audit plans.

Expenditure management

The most prevalent finding related to the failure to detect irregular expenditure. The departments incurred most of their irregular expenditure through non-compliance with SCM regulations, except for Health which incurred irregular expenditure of R948 million relating to delegations.

Effective ways to prevent irregular expenditure are as follows:

- The accounting officer must ensure that the entire department understands what constitutes irregular expenditure, and how it should be prevented, detected and disclosed.
- The accounting officer must implement a SCM checklist containing the most important SCM requirements.

Another notable finding was the non-payment of creditors within 30 days. The main reason for this was the absence of adequate creditor systems.

Monthly creditor reconciliations must be performed and more effective use should be made of Logis.

Financial statements and annual report

The most prevalent finding was that financial statements were not prepared in accordance with the prescribed framework and therefore required material corrections. Leadership did not exercise effective oversight responsibility regarding financial and performance reporting. Leadership did not track the implementation of SCOPA resolutions, audit outcome improvement plans or risk identification-related audit outcome improvement plans. Financial statements were not reviewed in detail prior to submission for audit to ensure that working papers support all disclosures in the financial statements. Procedure manuals and policies did not exist or were not adequate to ensure complete and accurate disclosure notes as is evident from the material misstatements corrected and reported on.

Departments should implement adequate systems to ensure that disclosure notes to the financial statements are accurate and complete. The quarterly and year-end financial statements should be properly reviewed by senior management. Provincial treasury should review quarterly financial statements. Audit outcome improvement plans to address the prior year audit findings should be implemented and monitored. Daily, weekly and monthly controls relating to the compilation of financial statements and related disclosures should be developed, implemented and monitored.

Asset management

Monthly/quarterly asset counts were not performed and asset registers were not properly maintained.

Asset counts must be performed monthly and asset reconciliations must be performed between the physical assets, the asset register and the accounting records.

HR management and compensation

Senior management positions were vacant for more than 12 months. This was due to MECs' failure to honour their commitment to fill vacancies timeously.

All HoD positions had been filled at the time of this report; however, there were still senior management positions vacant in the province.

Performance agreements could not be obtained for audit purposes.

Performance agreements should be managed in accordance with the records management processes.

2.5 Outline of the way forward to improve audit outcomes

As is evident from the analysis of the audit outcomes presented in this section of the report, there are a number of areas that require focus and, in some instances, intervention to achieve clean administration. Such intensified focus and intervention are required principally from the following parties:

- Accounting authorities, accounting officers, chief financial officers, and auditee management (analysed in section 3.1)
- Provincial executive leadership (analysed in section 4.1)
- National role players (analysed in section 4.2)

The AGSA's continuing initiatives to encourage clean administration is discussed under section 4.3 of this general report, while other emerging matters that require attention to prevent a negative impact on future audit outcomes are discussed under section 4.4.



SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS

3.1 Overview of key controls as drivers of the three facets of audit outcomes

The AGSA has identified three categories of drivers of improved audit outcomes through interactions on audit outcomes with auditees over the past several years. These categories have been used to formally document the results of quarterly key control visits by the AGSA to the provincial leadership.

These drivers (key controls) are categorised into the fundamental areas of internal control, namely:

- leadership
- financial and performance management
- governance

Deficiencies in some or all of these controls can be directly linked to:

- audit opinions on the financial statements
- findings on predetermined objectives
- findings on compliance with laws and regulations

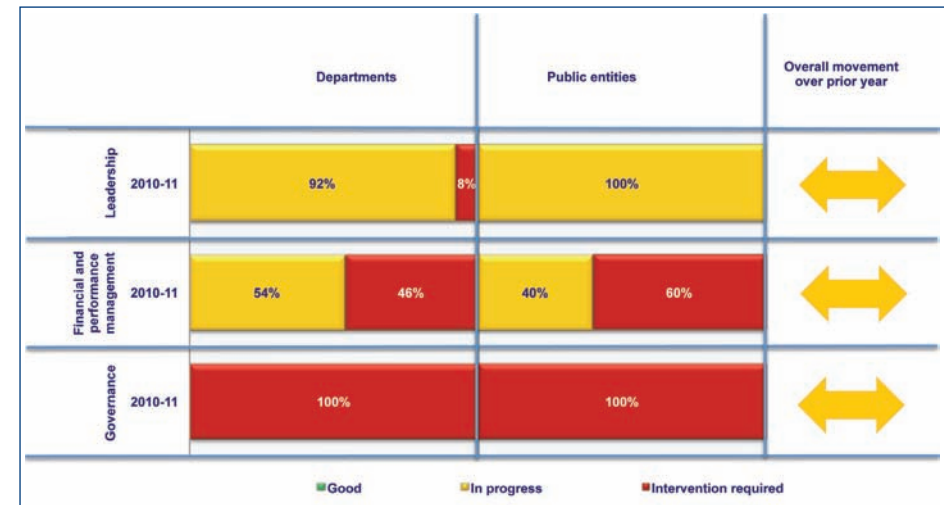
Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to a failure to implement and monitor these fundamentals of internal control.

Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit. An assessment of these drivers over financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided under sections 2.2.9, 2.3.3 and 2.4.6, respectively.

Sections 3.2 and 3.3 provide an assessment of HR management and information technology management as specific drivers of audit outcomes.

An overall assessment of progress made by departments and public entities in implementing key controls is depicted in figure 20.

Figure 20: Progress made in implementing key controls (all auditees)



Overall analysis: No progress had been made since last year due to the following:

Leadership

- SCOPA resolutions were not adequately addressed as the MECs and HoDs did not adequately monitor the implementation of the resolutions.
- Leadership did not hold personnel accountable for poor performance, non-compliance with laws and regulations and non-adherence to internal controls.
- The MECs and HoDs did not adequately review the implementation of key controls and audit outcome improvement plans. Progress communicated to leadership was not validated by internal audit and financial inspectorates (i.e. departmental staff responsible for checking internal controls at NGOs and municipalities performing services on behalf of the dept).
- Audit outcome improvement plans to address the prior year audit findings were not adequately implemented and monitored by HoDs and MECs, resulting in many repeat findings. Many of the audit actions plan matters also relate to

commitments made by the executive leadership of the province and therefore the commitments were not fulfilled.

- Vacancies in key positions were not timeously filled by the HoDs/ MECs, the main reason for this being budgetary constraints
- MECs did not address Exco decisions relating to the establishment of internal audit units and audit committees within reasonable time frames, as difficulty was experienced in attracting suitable applicants for the vacancies.
- Deficiencies in key controls were highlighted during the AGSA's quarterly key control visits to the leadership (i.e. MECs, DG, Premier, legislature) and in spite of commitments made by the leadership to implement or improve key controls, no visible action in implementing or improving key controls where necessary was apparent.

Financial and performance management

- The preparers of the financial statements did not have an adequate understanding of the disclosure requirements, as determined by National Treasury, and of the GRAP reporting requirements, especially with regard to GRAP 9, 13, 17, 19 and 102 relating to revenue recognition, leases, assets, provisions and contingencies, and intangible assets, respectively. Officials did not read the preparation guide or undergo GRAP training to ensure that they are knowledgeable and up to date regarding the standards that become effective and the basic GRAP accounting issues.
- Departments did not have adequate systems in place to ensure that the disclosure notes to the financial statements were accurate and complete.
- Unauthorised and irregular expenditure was incurred due to management override of controls, as goods and services were procured urgently or without proper planning.
- The quarterly and year-end financial statements were not properly reviewed by senior management due to lack of coordination in compiling the financial statements and in the subsequent review thereof. Members of senior management did not communicate among one another during the preparation phase. There was insufficient time to perform proper reviews due to vacancies in the finance unit and inadequate filing and accounting systems to ensure that the required financial information is readily available during the financial statement preparation phase.

- Daily, weekly and monthly controls were not designed, implemented and monitored.
- Provincial treasury did not perform an effective review of the quarterly financial statements due to capacity constraints.
- Vacancies in the unit responsible for performance information were not filled.
- A number of departments still did not have a unit responsible for performance information.
- Regressions in some departments were mainly due to an inadequate understanding of the *Framework for the managing of programme performance*.
- There was insufficient supporting documentation, because senior management did not properly validate the quarterly and year-end performance reports against supporting documentation.

Governance

- Resolutions and audit outcome audit outcome improvement plans were not adequately tracked for progress by SCOPA, while MECs did not take action against HoDs who did not implement SCOPA's prior year resolutions.
- The audit committee did not function for the entire year under review. This is as a result of the executive leadership's failure to implement its commitment to strengthen the shared audit committee in order for the committee to play a key role in the monitoring of audit outcome improvement plans and key controls. The MEC: Finance must monitor the progress made in strengthening and improving the effectiveness of the shared audit committee. The MECs for Health and Education must establish audit committees for their respective departments, as approved by Exco.
- The internal audit unit was still not optimally capacitated to assist departments in identifying deficiencies in their internal control environment. This is as a result of the executive leadership's failure to implement its commitment to fill the vacancies as well as budgetary constraints. Internal audit should be adequately staffed to effectively service all departments. The MEC: Finance must monitor the progress made in implementing the shared internal audit unit. The MECs for Health and Education must establish internal audit units for their respective departments, as approved by Exco.

The status of auditees' key controls is listed in annexure 4 to this report.



3.2 Effective HR management as specific driver of audit outcomes

Effective HR management is a key driver of all three facets of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and performance is monitored.

The AGSA's assessment of HR management focuses on the following areas:

- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions.

This assessment was performed at departments in the previous year and was introduced at some public entities for the year under review.

3.2.1 Overall findings arising from the assessment of HR management

The figures below depict the extent of weaknesses in each focus area for departments (with a comparison to the previous year) and public entities (without a comparison).

Figure 21: Identified HR management weaknesses – departments

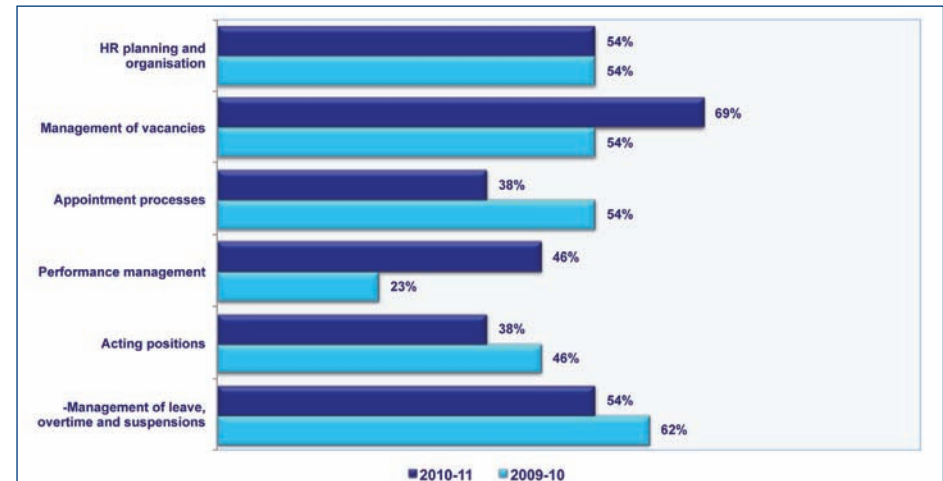
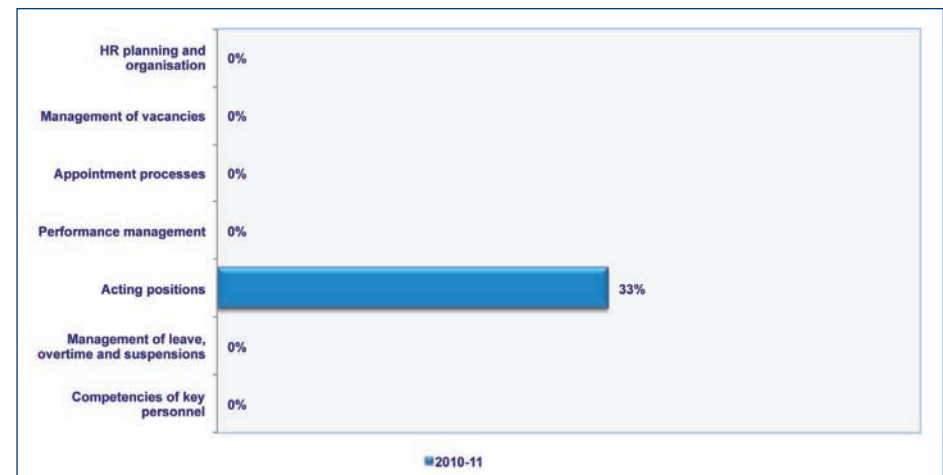


Figure 22: Identified HR management weaknesses – public entities



Common findings arising from the AGSA's focus areas are summarised below. Prior year statistics are given for departments.

Table 13: Common findings arising from the AGSA's focus areas

Focus area	Summary of common findings	Departments		Public entities
		2010-11	2009-10	2010-11
HR planning and organisation	Approved organisational structure not in place	25%	50%	0%
	HR plan did not adequately determine gap between existing and required HR and actions necessary to address gap	25%	40%	0%
Management of vacancies	Senior management - positions vacant for more than 12 months	50%	50%	0%
	Overall vacancy rate increased from previous year	25%	20%	0%
Appointment processes	Appointments made in posts that had not been advertised	17%	30%	0%
	Appointments made in posts that had not been approved and/or funded	17%	10%	0%
Performance management	Senior managers did not sign performance agreements for current performance period	50%	20%	0%
	Performance bonuses paid to employees without signed performance agreements for applicable period	17%	10%	0%
Acting positions	Senior managers acted in positions for more than six months	17%	30%	100%
	Employees acted in positions for more than 12 months	33%	20%	0%
Management of leave, overtime and suspensions	Medical certificates not submitted for sick leave	33%	40%	0%
	Employees received more than entitled annual leave	25%	10%	0%
Capacity of key personnel	Compliance with legislation - capacity of key personnel inadequate	8%	0%	0%
	Financial reporting - capacity of key personnel inadequate	8%	0%	0%

3.2.2 Impact of staff vacancies on internal control

Positions should be timeously filled with staff who have and maintain a level of competence that allows them to accomplish their assigned duties and who understand the importance of developing and implementing sound internal control.

Control activities performed by staff at all levels form an integral part of planning, implementation and review and accountability for stewardship of government resources managed by auditees and for achieving results.

Such control activities include a wide range of diverse tasks related to the three facets of audit outcomes, for example:

- Maintaining sound financial management, adequate record keeping and the preparation of financial statements
- Setting of performance targets and indicators, monitoring recording and validating performance against predetermined objectives, investigating variances from set targets and taking corrective action for deviations identified
- Enforcing compliance by officials with laws and regulations and ensuring obligations imposed by legalisation on the organisation are timeously and fully discharged.

Such activities include but are not limited to • approvals • authorisations • verifications • reconciliations • performance reviews • maintenance of security • creating and maintaining records and appropriate documentation.

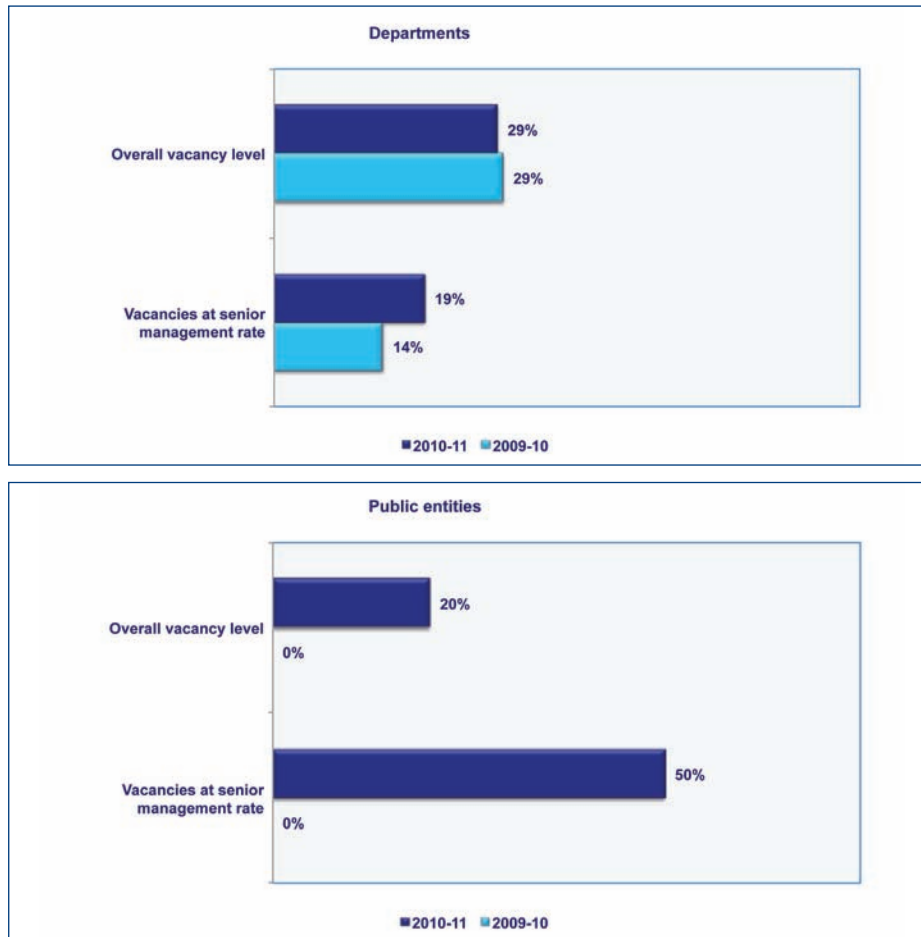
Control activities that may be neglected should key positions not be timeously filled with the requisite levels of qualifications and experience, include the following:

- Top-level reviews of actual versus planned performance
- Reviews by management at the functional or activity level
- Controls over information processing
- Physical control over vulnerable assets
- Establishing and reviewing performance measures and indicators
- Segregating incompatible duties, including the initiation, processing and approval of transactions
- Proper execution of transactions
- Accurate and timely recording of transactions and events
- Access restrictions to, and accountability for, resources and records
- Maintaining appropriate documentation of transactions
- Enforcing compliance with policies, procedures, laws and regulations
- Maintaining internal control.



Progress made by auditees since the audit of their 2009-10 financial statements in filling vacancies is depicted below. The vacancy rate depicted is an average rate based on the year-end vacancy rates at the auditees.

Figure 23: Progress in filling vacancies



3.2.3 Root causes of findings and the way forward on HR management

Root causes

HR planning and organisation

- HR policies and practices had not been designed or were not implemented to facilitate effective recruitment, orientation, training, evaluation, compensation, disciplining and supervising of personnel.
- Officials were inconsistent in the performance of their duties.
- Exception reports were not generated or followed up on a regular basis.

Management of vacancies

- Management was not successful in filling the organisational structure with skilled individuals. Education is still reliant on consultants to assist in their HR department.
- Management did not take adequate steps to fill positions or had experienced difficulty in attracting suitably qualified staff to fill the vacant positions.
- Supporting documents relating to recruitment processes followed were not properly filed and easily retrievable, particularly at Health.

Appointment processes

- Job descriptions were not prepared for all posts established due to a capacity shortage in the HR department.
- HR policies and practices had not been designed or were not implemented to facilitate effective recruitment, orientation, training, evaluation, compensation, disciplining and supervising of personnel.

Performance management

- Inadequate records management for the filing of signed performance agreements.

Acting positions

- Leadership indicated that suitable candidates could not be found to fill vacancies. In the case of HoD and senior manager vacancies, MECs committed to have the positions filled. The vacant HoD positions were filled subsequent to year-end.

Management of leave, overtime and suspensions

- Inadequate records management resulted in the required leave documents not being filed in the employees file.
- The overtime policy was not adhered to and there were no consequences for non-compliance.

The way forward

- Vacancies should be filled and staff retention strategies devised and implemented.
- HR plan and organogram should be reviewed and approved on an annual basis.
- Controls should be implemented to ensure that appointment processes followed are in line with approved HR policies and procedures.
- Records management processes should be implemented to safeguard all HR-related documents.
- Audit outcome improvement plans should be implemented and monitored by HoDs.

3.3 Information technology management

3.3.1 Computer systems in use and the management of information technology

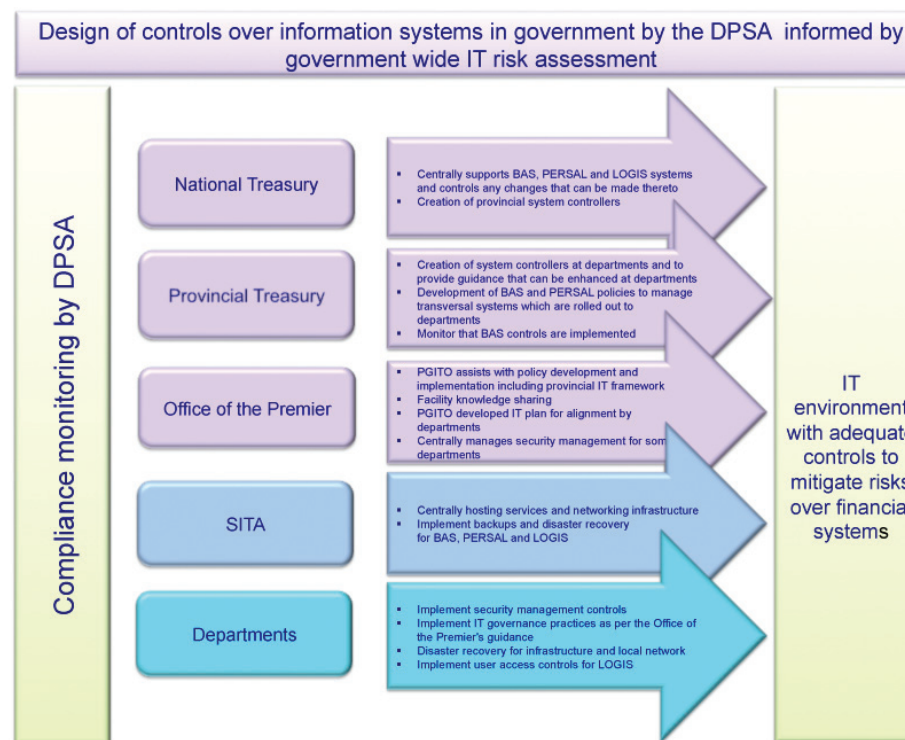
As in all other provinces, departments and public entities are heavily reliant on IT systems to perform their statutory financial management, reporting and administrative functions. Furthermore, these systems enable the automation of business processes and transaction processing, which contributes to effective internal control. The information processed and stored on IT systems is vital to the accuracy and reliability of the financial information used by management for planning, monitoring and reporting.

Departments

All 13 departments in the Northern Cape Province utilise transversal systems, e.g. the Basic Accounting System (BAS) and Personnel Administration System (Persal) to perform functions for managing financial information. In addition, seven departments are using the Logistical Information System (Logis) for asset management. Logis has not been rolled out to the rest of the departments and they are currently using Microsoft Excel spreadsheets for their asset management.

Design of IT management

Roles and responsibilities in terms of support and usage of systems to ensure a controlled environment are depicted below:





It was against the roles and responsibilities outlined above that the following focuses areas were set for audit of IT in the province:

- IT governance
- Security management
- User access control
- IT service continuity

The following focus areas are transversally performed and were audited at National Treasury and State Information Technology Agency (SITA).

- Program change management
- Facilities management
- Data centre

3.3.2 Deficiencies identified in information technology management

Information technology management for financial systems was evaluated at 13 departments in the province.

Key areas in the management of IT where deficiencies were identified are summarised in the table below.

Table 14: Identified control deficiencies in management of information technology

Focus area	Outline of aspects audited	Incidence of control weaknesses identified	
		Departments	
		Number audited	Percentage
IT governance	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	13	100%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generates and prepares financial information	13	100%

Focus area	Outline of aspects audited	Incidence of control weaknesses identified	
		Departments	
		Number audited	Percentage
User access management	Procedures through which the departments and public entities ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system	13	100%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable departments to recover or establish information system services in the event of a disaster	13	100%

Note: Provincial revenue fund was audited as part of the provincial treasury.

Key issues within the province can be summarised as follows:

IT governance

No IT governance framework was adopted by the province due to the delayed development and roll-out of a government-wide IT governance framework by the Department of Public Service and Administration (DPSA). The following governance processes have not been established:

- 38% of the departments had not established IT steering committees
- 76% of the departments had not developed their own IT strategic plans
- 61% of the departments did not have a position within IT to focus on strategic initiatives, which led to IT managers for the province operating at different levels
- 84% of the departments had inadequate risk management processes.

The Provincial Government Information Technology Officer (PGITO) had developed an IT plan for the province which is based on the shared services model where certain key activities would be performed from a central point; however, the plan has not yet been approved. As a result, the Office of the Premier had not formalised the services it renders to the provincial departments through a service level agreement nor was this relationship monitored by the departments.

IT security management

Although a draft IT security policy has been developed by DPSA as part of the IT governance framework, it was awaiting approval and had not been rolled out to the departments for implementation. This has resulted in the lack of review of the logon and access violations. Audit trails on the domain controller had not been enabled. Firewalls that would ensure the safety of the network had been installed at all the departments but were not operational.

User access management

Guidelines for user access management were issued by the provincial treasury for BAS and Persal. The Logis guideline, which is available on the National Treasury website, is used by the departments as their user access management procedures for Logis. The guidelines for Persal and Logis were inadequate as they did not address monitoring of key IT activities. This has resulted in the lack of monitoring of the actions of the system controllers and periodic checks to ensure that employees' access is commensurate with their job responsibilities.

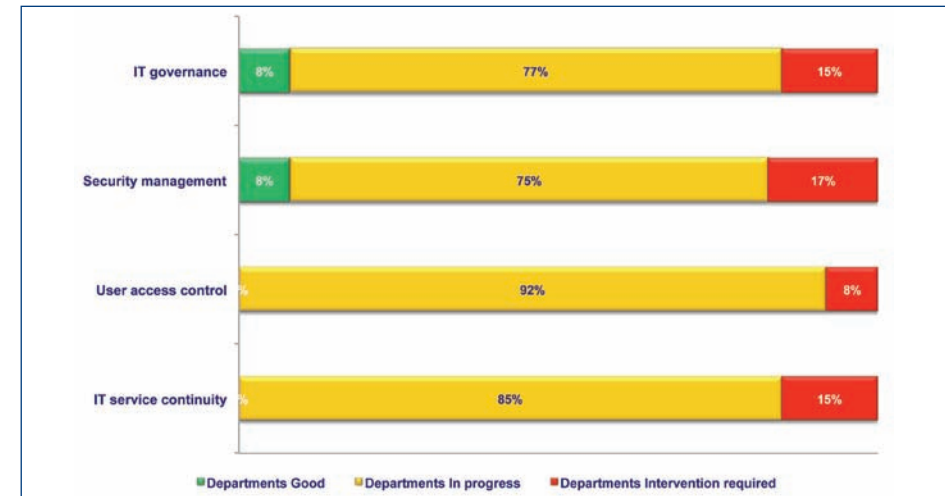
IT service continuity

Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP) have not been established at all the departments to enable connection to SITA for the resumption of business operations in the event of a disaster.

Some of the audit focus areas were also assessed in the 2009-10 financial year. The following figure depicts progress made by departments in addressing the issues raised.

Note: No IT audit was performed on public entities due to their size.

Figure 24: Progress in addressing prior year IT findings



Progress in addressing previous year findings has been minimal as management had not fully addressed or resolved the findings that were raised. However, management at the departments had showed progress regarding the implementation of key controls per focus area. Findings that require immediate management intervention as they are repeated findings can be summarised as follows:

IT governance – PGITO adopted an IT governance framework while awaiting formal adoption of the IT governance framework; however, implementation is still in progress. Certain IT governance practices were implemented within the departments; however, this still requires management's attention. The implementation of the IT governance framework which will address good IT practices will be monitored through the PGITO forums, which have already been introduced in the province.

Security management - Good progress was made within the Office of the Premier regarding security management at the network level, which has an impact on the province as it is centrally managed by Office of the Premier.



User access management – In the BAS environment, management had designed controls that were adequate to mitigate the financial risks. User access management procedures for Persal and Logis were developed, but monitoring functions were omitted.

IT service continuity – Although the Office of the Premier developed an IT plan which will address IT service continuity for the province, it is still awaiting buy-in and approval from the head of departments.

3.3.3 Root causes of findings and the way forward on information technology management

Root causes

The overall root cause is that management did not agree with the findings raised in the previous audit and did not commit to rectifying the findings. There was also a lack of clearly defined roles and responsibilities in terms of addressing the findings due to the departments' dependency on the Office of the Premier and the provincial treasury. In addition, there is no system for monitoring the implementation of commitments.

- IT governance – The key root cause of findings within IT governance is the failure by the DPSA to develop and roll out an IT governance framework.
- Security management – The firewalls are not operational as the departments still have to define the rules that apply for their environments. The PGITO wants to align to the DPSA information security policy, which will form the basis for the information security policy for the province. The province's information security policy will be approved once DPSA's information security policy has been approved.
- User access management – Inadequate design of the user account management procedures rolled out to the departments for Persal and Logis - the monitoring aspects were omitted.
- IT service continuity – The development of the BCPs and DRPs for the connection to SITA is dependent on the approval of the IT plan.

The way forward

- Due to the lack of skills, internal audit does not support and monitor the implementation of IT controls. Internal audit should be more involved in tracking the progress made with the implementation of management commitments, proactively and continuously.
- The PGITO should assist the departments to implement good IT governance practices while awaiting the approval and rollout of the IT governance framework by DPSA.
- The HoDs should consider the approval of the provinces' IT plan.
- Provincial treasury should ensure that the good practices and controls implemented in the BAS environment are also implemented in the Persal and Logis environments.
- Accounting officers should ensure that BCPs and subsequent DRCs to connect to the SITA network are established for each department.

Commitments

- As approval of the IT governance framework is still outstanding, PGITO will in the interim provide guidance to the departments to enable them to implement good governance practices.
- PGITO will, in consultation with the HoDs, finalise the IT plan for the province. The plan will be presented and approved by the HoDs and thereafter implemented.
- Provincial treasury will amend the user account management procedures for Persal and Logis to include the monitoring requirements. Thereafter, the amended procedures will be rolled out to the departments for implementation.

Overall assessment of the design and implementation of IT management controls at provincial level

In the BAS environment, management had designed controls that were adequate to mitigate the financial risks. This was mainly due to the major role that provincial treasury plays in providing guidelines as well as its responsibility for monitoring to ensure that the controls are implemented by the departments. Thanks to these controls, no findings were raised for BAS. Provincial treasury is also responsible for the design of the Persal user account management procedures. As per the

Logis guideline, each department is responsible for the design of their own user account management procedures. Due to the inadequate design of the Persal and Logis user account management procedures, certain key monitoring controls were not implemented by the departments. Furthermore, although the IT plan for the province had been designed by PGITO, the plan was not approved by the HoDs of the province. This resulted in the province's failure to implement adequate IT governance practices.

SECTION 4: INITIATIVES AND COMMITMENTS BY KEY PROVINCIAL AND NATIONAL ROLE PLAYERS

4.1 The function of key provincial role players in audit outcomes

4.1.1 Assessment of monitoring capacity and focus areas of provincial role players at the time of the audit

The AGSA has since August 2011 engaged provincial role players on seven specific focus areas where their contributions to improve audit outcomes can be further enhanced. An assessment of the monitoring capacity and effectiveness of the role players in relation to these focus areas at the time of the audit is depicted in the table below.

Table 15: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Oversight accountability	Provincial executive leadership (Premier and MEC Finance)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	In progress	Intervention required
	Coordinated provincial oversight (provincial standing committees and provincial speaker's forum)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	In progress	Intervention required
		Accounting officers, accounting authorities, CFOs and senior officials						
		Administrative accountability						

■ Good progress
 ■ In progress
 ■ Intervention required

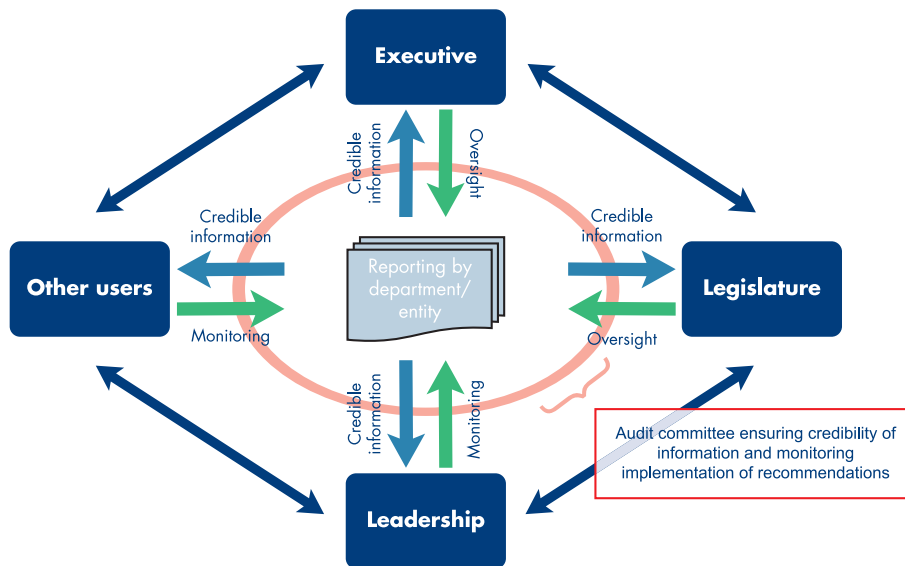
Note: Responsibility for these focus areas varies amongst the role players



4.1.2 Audit committees

An audit committee is established in terms of the PFMA legal framework to serve as an independent governance structure whose function is to play an oversight role on the systems of internal control, compliance with legislation, risk management and governance. In performing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of achieving the organisation's objectives. The role of the audit committee worldwide is evolving and audit committees need to look wider than the actual prescript duties and focus on the intent of legislation rather than the written word. In the public sector this means that audit committees need a level of maturity in order to serve society as a whole.

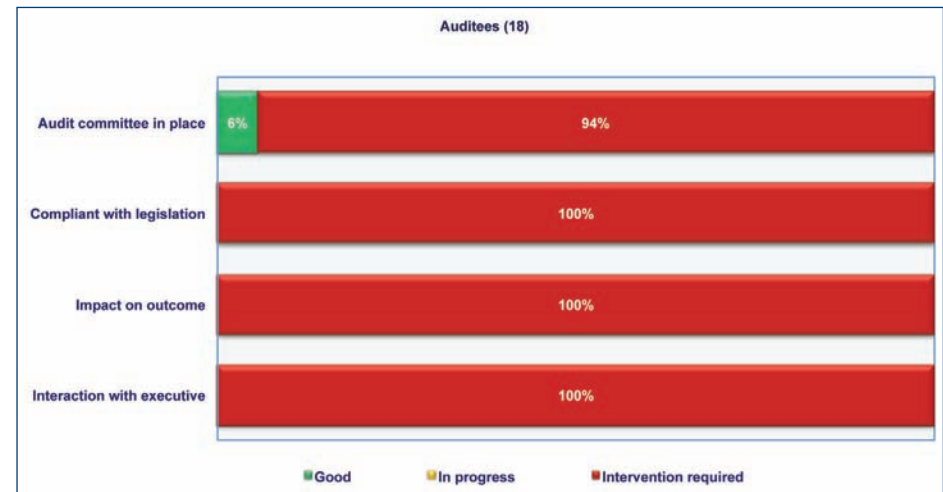
Figure 25: Role of the audit committee in reporting



The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision-making and accountability.

Should the audit committee fail to execute this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable. Figure 26 below depicts the current status and effectiveness of audit committees within the Northern Cape provincial administration, while individual status per auditee is indicated in annexure 7 to this report.

Figure 26: Effectiveness of audit committees



Only one public entity (6%) out of the 13 departments and five public entities reported on had an audit committee in place for the period under review as prescribed by the PFMA and related treasury regulations. The audit committee did not comply with the letter of the law and therefore had no impact on the audit outcome of the auditee.

Reporting by the audit committees

The PFMA requires the accounting officer to appoint an audit committee which reports and makes recommendations to the accounting officer. This leads to a situation where the very same person who presents the status and effectiveness of systems of internal control, compliance with legislation and risk management is also the recipient of the recommendations.

Although the legislation clearly assigns the responsibility for implementation to the accounting officer and not the audit committee, the process creates a circular effect not conducive to accountability and transparency. At public entities this effect is compensated for by a Board of Directors consisting of more than one person as the accounting authority.

The natural and most effective means to address this matter at provincial departments is for the audit committees to have frequent interaction with the respective portfolio executives (MECs) as well as with the legislature's portfolio committees.

The audit committees for Health and Education, respectively, were approved by Exco during the financial year ended 31 March 2011; however, no appointments had been made before year-end. Appointments to the audit committees have subsequently been made and the induction of the committee members has commenced.

Implementation of recommendations

The implementation of recommendations is core to the distinction between an audit committee being compliant or operational and being effective. The implementation of recommendations rather than the recommendation as such drives improved systems of internal control, monitoring and supervision and, ultimately, improved outcomes.

The effectiveness of audit committees is dependent on the support and respect received from the leadership of the province. Leadership should ensure that the audit committees are afforded sufficient time as well as financial and other resources to effectively fulfil their responsibilities. An effective audit committee will, in turn, assist the province by ensuring, through appropriate interactions, that it is able to produce credible reports on performance and financial management which will enhance oversight and transparency, thereby building public confidence.

In addition, the effectiveness of an audit committee is mostly dependent on a properly resourced and skilled internal audit function that produces timely, relevant and quality reports focused on systems of internal control.

It is recommended that a provincial audit committee forum be established within the same parameters as the internal audit forum, coordinated and driven by the provincial treasury.

4.1.3 Commitments and actions by provincial executive leadership and oversight

Responses and commitments emanating from the July/November interactions and the roadshows are outlined below.

Table 16: Responses and commitments by the provincial executive leadership

Outline of role player commitment/ proposed action plans October 2011	Focus areas targeted by commitments and action plans						
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
Provincial executive leadership							
1	Procuring departments (Health and Education) would conclude cooperation agreements with the Department of Roads and Public Works for them to have closer involvement in procurement processes to prevent non-compliance to SCM.						
2	The executive leadership will strengthen the audit committees in order for them to play a key role in the monitoring of action plans and key controls.						
3	MECs will address vacancies and the lack of document management systems.						
4	MECs acknowledged that disclosure notes were not only the responsibility of the CFOs and they pledged to ensure that all directorates within the departments would work jointly towards clean reports.						
5	Budget offices will be strengthened in order to eliminate unauthorised expenditure.						
6	Six-monthly interim financial statements will be prepared as at 30 September 2010; thereafter quarterly financial statements will be prepared from December 2010.						



Outline of role player commitment/ proposed action plans October 2011	Focus areas targeted by commitments and action plans						
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
7 The MEC for Health will appoint regional financial managers to deal with accruals and capturing to be done in Kimberley bi-monthly. A records manager will also be appointed to deal with disclaimer issues.							
8 There will be a dedicated internal audit unit for Health.							
9 SITA would be engaged to address the challenges and shortcomings specific to the listed service providers.							
10 Vacant positions will be filled on the basis of proper recruitment processes and with appropriate executive oversight.							
11 Health will appoint its own engineer as well as the Independent Development Trust (IDT) to take charge of its project management.							
12 Follow-up will be made on the approved Health and Education audit committees to ensure that they become fully functional, and the other departments will fully utilise the shared audit committee.							
13 All departments that submitted financial statements late will appear before EXCO to account.							
14 All vacant HOD positions where there are acting HoDs, i.e. Health, COGHSTA and Education, will be filled with permanent appointments as a matter of urgency.							
15 The lack of budgeting competence within the Legislature will be addressed.							
16 There will be an interaction between Transport and Provincial Treasury to find a suitable CFO for the Department of Transport.							
17 The HOD Forum will be tasked to address ways of improving audit outcomes.							

Outline of role player commitment/ proposed action plans October 2011	Focus areas targeted by commitments and action plans						
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
18 Provincial Treasury will review annual financial statements before submissions in future.							
19 Exco will meet with AGSA to obtain details of audit outcomes before meeting with HoDs and CFOs.							
20 The Director-General will ensure that the IT Department which resides in the Office of the Premier will assist all provincial departments and accountability for the improvement of audit outcomes will be elevated to the level of the executive.							
21 The Premier will hold one-on-one sessions with MECs in November 2011 to see what they plan to do to improve outcomes							
22 The headhunting exercise for the appointment of an HOD for the Department of Health will be expedited.							
23 The Director-General will form a task team, coordinated by the HoDs of Provincial Treasury, Public Works and the Office of the Premier to assist at the Department of Health and the task team will also monitor and manage the effectiveness of consultants at Health.							
24 A two-day workshop will be held in November 2011 where each department will unpack their audit findings and the steps they will take to address the findings and the new audit committee members and the provincial Auditor-General Office will attend this workshop as well.							
25 Audit committee chairpersons will be part of the quarterly key control discussions and the Director-General will report to the Premier quarterly on progress being made in implementing action plans.							
26 The provincial leadership will deal with issues soon after the quarterly feedback sessions.							

Outline of role player commitment/ proposed action plans October 2011	Focus areas targeted by commitments and action plans						
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
27 An information sharing session for all departments on predetermined objectives will be held, preferably before 31 December 2011.							
28 The Office of the PAG will distribute all SCM practice notes issued by National Treasury to all CFOs through the CFO Forum so that all practice notes are implemented to avoid dissemination challenges experienced around the SBD4 (suppliers declaration of interest) practice note.							
Provincial Treasury							
1 The Premier and MEC Finance committed to address all IT issues affecting departments in the province and the Director General (DG) will be facilitating the process.							
2 MEC Finance committed that any departments that regressed will be called to account at EXCO and the same would apply to the departments whose annual financial statements are submitted late for audit purposes.							
3 The audit committees will increase their sittings e.g. monthly for the rest of the financial year, to meet at least meet 4 times in the financial year and will review the scope of the internal audit and monitor their work.							
4 The chief internal auditor will be appointed and report directly to the audit committee. All appointments into the four vacant internal audit positions will be completed shortly.							
Provincial public accounts committee							
1 The oversight responsibility of the Standing Committee on Public Accounts (SCOPA) and PCs will extend beyond the review of annual reports. They will also: Monitor the departments' implementation of action plans.							

Outline of role player commitment/ proposed action plans October 2011	Focus areas targeted by commitments and action plans						
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
2 Make unannounced visits to departments and political heads to monitor administration.							
3 Hold quarterly meetings with the AGSA to provide feedback on the legislature commitments regarding the departments and public entities.							
4 Identify short-term and longer-term issues to be addressed in the drive for clean administration for improved audit outcomes.							
5 Follow up on the Premier's commitments regarding the drive for clean administration for improved audit outcomes.							
6 Invite the AGSA to SCOPA and /or Portfolio Committee meetings at least once a month.							
7 Obtain bi-monthly progress reports from the MECs on the issues raised by the AGSA.							
8 Liaise with MECs and endeavour to meet them on a monthly basis.							
9 Hold a strategic session with the AGSA in the first quarter of the 2012 calendar year.							
Other							
1 Commitments were obtained from all MECs on what they will do to improve the current situation in their respective departments to ensure that the departments progress towards clean administration and consequently clean audit reports.							

Post-audit commitment/initiative (new)
 Commitment/initiative from prior year

None of the above commitments had a multi-financial year implementation time frame, although many of these commitments will remain commitments in the years to come as they need to be implemented yearly.



The provincial executive and the legislature made the following commitments in 2010 to drive the province towards clean administration:

At a meeting held on 21 July 2011 between the Premier, MEC: Finance, the provincial Director-General and the AGSA, progress on the prior commitments was reviewed and assessed.

The latest assessments of the status of implementing commitments will be confirmed at meetings to be held with the executive and legislative leadership in the coming weeks.

Supply chain management

- Procuring departments (Health and Education) would conclude cooperation agreements with Roads and Public Works in terms of which they would be more closely involved in procurement processes to prevent non-compliance with SCM policies and regulations.
 - This did not materialise as Health and Education again incurred irregular expenditure as a result of the agency function performed by Roads and Public Works. Health started a process to substitute Roads and Public Works with the Independent Development Trust (IDT) to perform the infrastructure development project management service, which includes SCM. However, subsequent discussions held with the three departments jointly yielded a commitment from Public Works to improve the agency function by providing supporting documentation on request since their document management has vastly improved.
- SITA would be engaged to address the challenges and shortcomings specific to the listed service providers.
 - This was done during the year, except that a few more minor new challenges arose that need to be addressed.

Predetermined objectives

- No commitments were made by the executive leadership within the province relating to predetermined objectives.

- This is of concern because more than 50% of entities again had findings on predetermined objectives. Leadership should make firm commitments towards improving the situation.

Financial management

- The MEC: Finance undertook to ensure that any department that had regressed (in audit outcomes) would be called to account by Exco and the same would apply to the departments whose financial statements are submitted late for audit purposes.
 - To date the AGSA has not received any feedback on whether the departments which had regressed or submitted late were held accountable by Exco. SCOPA oversight is planned to take place during October 2011. During July 2011, the MEC: Finance reconfirmed to the AGSA that all departments that had submitted financial statements late or whose audit outcome had regressed would be called to account by Exco. In addition, the MEC: Finance instructed the departmental MECs to interact with the HoDs to ensure the timely submission of financial statements; however, three departments still submitted financial statements late for audit purposes.
- MECs acknowledged that disclosure notes were not only the responsibility of the CFOs and pledged to ensure that all directorates within the departments would work jointly towards clean reports.
 - Based on the number of material amendments to the financial statements, this did not occur. The responsibility for preparing the different components of the financial statements was not assigned to the relevant directorates/officials to ensure that the delegated official is held accountable. The high level of vacancies and the inappropriate structure of organogram did not facilitate the preparation of accurate and complete financial statements.

Turnaround plans

- Six-monthly interim financial statements will be prepared at 30 September 2010; thereafter, quarterly financial statements will be prepared from December 2010.
 - This was done. However, proper reviews were not performed by the HoD and CFO of the respective departments before the financial statements

were submitted to the provincial treasury. Treasury also did not perform an adequate review on the quarterly financial statements.

- Budget offices will be strengthened in order to eliminate unauthorised expenditure.
 - This was not done and unauthorised expenditure was again incurred for the year under review, increasing from R40 million to R102 million.
- The oversight responsibility of SCOPA and portfolio committees will extend beyond annual reports. They will also monitor the departments' implementation of audit outcome improvement plans.
 - SCOPA and portfolio committees did not monitor the implementation of audit outcome improvement plans adequately.
- The MEC for Health will appoint regional financial managers to deal with accruals while capturing will be done in Kimberley bi-monthly. A records manager will also be appointed to deal with disclaimer issues.
 - The department did appoint some regional financial managers; however, resignations in other positions necessitated the use of consultants to assist with the financial management functions. There was no proper coordination between the units within the department, with the result that these commitments did not materialise – accruals and capturing were not performed bi-monthly in Kimberley and a records manager was not appointed to deal with disclaimer issues.

IT controls

- The Premier and MEC: Finance undertook to address all IT issues affecting departments in the province and the Director-General (DG) would be facilitating the solution.
 - Based on the current status of IT in the province, it is evident that adequate progress had not been made to address the findings raised during the prior year. The commitment to address IT findings was not followed by the preparation of a detailed action plan and therefore actions to address IT findings did not materialise. The province is in the process of drafting and implementing an IT governance framework that would address most of the transversal IT findings.

HR management

- MECs will address the vacancies in key positions and the deficiencies in records management systems.
 - Even though certain key positions were filled during the year, vacancies in certain senior management positions prevailed for the year under review. Subsequent to year-end, key positions were filled, including that of HoDs i.e. Education and COGHSTA.

Governance structures

- To establish a fully functional audit committee in the province.
 - The shared audit committee was established during the year; however, the committee did not function during the year under review as the vacancies on the audit committee were filled late in the financial year.

The MEC: Finance indicated that an audit committee had been established to serve all departments in the province, excluding the departments of Health and Education which would establish their own audit committees.

The audit committees for Health and Education, respectively, were approved by Exco during the financial year ended 31 March 2011; however, no appointments had been made before year-end.

Appointments to the audit committees have subsequently been made and the induction of the committee members has commenced.

- A dedicated internal audit unit would be established for Health.
 - Exco approved the establishment of a dedicated internal audit unit for Health and Education. The process to staff the units is in progress but the treasury is experiencing difficulty in attracting suitably qualified staff.

No commitments were made with regard to filling of vacancies in the shared internal audit unit.

The unit was not optimally staffed to serve departments as required. The establishment of dedicated internal audit units for Health and Education would release some capacity to service the remaining departments.



However, the leadership still needs to evaluate the required capacity for the shared unit to service departments optimally.

Certain commitments did not materialise due to the following:

- Difficulty in attracting suitable qualified staff
- Budgetary constraints
- Campaigning by the leadership of the province for municipal elections
- Failure by the leadership to implement actions in line with the commitments.

Quarterly key control discussions were held with the leadership. The commitments made during the annual general report process will be specifically followed up during key control discussion and other stakeholder engagements.

4.1.4 Status of SCOPA oversight resolutions

At year-end, 12 SCOPA resolutions out of a total of 65 had been resolved, 32 were in progress and 21 were not actioned. The provincial treasury assists SCOPA in the evaluation of replies submitted by departments and public entities. The resolutions listed below as being outstanding are based on the evaluation by the provincial treasury on feedback received from departments and public entities. The efficient and effective implementation of resolutions has not been evaluated and will only be followed up during the following audit cycle.

Table 17: Status of implementation of SCOPA resolutions

Auditee	Total number of resolutions	Number of resolutions resolved during 2010-11	Number of resolutions in progress	Number of resolutions not actioned
Economic Development and Tourism	1	1		
Social Development	3	2	1	
COGHSTA	7	1		6
Environment and Nature Conservation	4	1	3	
Provincial Treasury	5		3	2
Office of the Premier	5		4	1
Health	10		3	7
Education	4	1	3	

Auditee	Total number of resolutions	Number of resolutions resolved during 2010-11	Number of resolutions in progress	Number of resolutions not actioned
Provincial Legislature	4	1	3	
Agriculture and Land Reform	6	1	5	
Transport, Safety and Liaison	4	1	3	
Roads and Public Works	6	2	2	2
Sport, Arts and Culture	6	1	2	3
Total	65	12	32	21

An estimated 39%, 12% and 49% of these resolutions are directly or indirectly related to financial management, predetermined objective reporting and compliance with laws and regulations respectively. Public entities were not subject to any SCOPA resolutions for 2010-11.

4.2 Initiatives taken by the AGSA to encourage clean administration

Initiatives taken

- Participated in OPCA meetings.
- Emphasised to auditee leadership the importance of reporting of information on predetermined objectives.
- Enhanced visibility by engaging with all role players that can influence clean administration through quarterly key control visits.
- Reviewed audit outcome improvement plans of the auditee leadership which support commitments made regarding key controls.
- Reports to auditees included real root causes that gave rise to poor audit outcomes and recommendations to inform corrective actions.
- Regular audit steering committee meetings were held to address high-risk areas.
- Discussed emerging accounting matters with the PAG and assisted auditees.
- Encouraged auditee leadership to set the tone at the top by ensuring that the AGSA's recommendations are implemented.
- Participated in HoD forum meetings and reflected on key controls and corporate governance (King III).

The way forward

- Continue monitoring the implementation and functioning of key controls on a quarterly basis in order to verify compliance.
- Report to the Premier on a quarterly basis on the progress made by departments and public entities in relation to the implementation and functioning of key controls.
- Continued participation in OPCA meetings, HoD forums, CFO forums, PAG meetings and TROIKA.

4.3 Emerging matters that require attention to prevent a negative impact on future audit outcomes

This section deals with matters that did not have an impact in the current year but have the potential to result in misstatements in the ensuing year if they do not receive attention.

Accounting and compliance matters

In terms of the National Treasury reporting guide, departments will be required to report inventory in the disclosure notes to the financial statements as from 2011-12.

New legislation

The Financial Management Act for the Northern Cape Provincial Legislature, which is still in the process of being passed, will require the legislature to prepare its financial statements in accordance with Standard of Generally Recognised Accounting Practice (GRAP).

A notice in terms of section 1(iii) of the Preferential Procurement Policy Framework Act (PPPFA) (Act No. 5 of 2000) was published in the regulation *Gazette 95444 of 8 June 2011* and requires implementation by 7 December 2011. This notice impacts on a broad range of SCM principles and would require existing policies and procedures to be updated or amended. This legislation will be applicable to all departments.

The National Treasury instruction note on enhancing compliance monitoring and improving transparency and accountability in SCM was authorised to be effective as of 31 May 2011. This notice impacts on a broad range of SCM principles and would require existing policies and procedures to be updated or amended. This legislation will be applicable to all departments.



SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT

5.1 Background

The audits conducted by the AGSA at departments (including Parliament and legislatures), trading entities, constitutional institutions and listed public entities included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. This assessment was not performed at the following auditees:

- Northern Cape Housing Fund: The entity does not perform its own procurement processes as these are performed by COGHSTA.
- Roads Capital Account: The entity does not perform its own procurement processes as these are performed by the Department of Roads and Public Works.

As is evident from the analysis of irregular expenditure (section 2.4.3), R349 million (26%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation, while 10% of the irregular expenditure was identified during the audit process. At the majority of the auditees, the incomplete identification of SCM irregular expenditure was as a result of:

- failure by the leadership to exercise sufficient oversight of the procurement processes.
- lack of understanding of applicable legislation by the SCM units.
- lack of adequate monitoring processes to detect contravention of legislation.

The figure below presents a summary of SCM findings. Details of the most prevalent findings are provided further down under the headings as depicted in the figure. The percentages are based on the number of auditees where findings were identified. The SCM findings are included in annexure 5.

Figure 27: Summary of findings on SCM



5.2 Limitations on planned scope of audit of awards

Sufficient appropriate audit evidence could not be provided by all the auditees that awards had been made in accordance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. Table 18 depicts the limitations experienced.

Table 18: Limitations experienced

Auditee	Number of awards	Value of awards R'000	Reason for limitation
Departments			
Department of Health	19	174 303	The department did not have a proper record management system for SCM. Inadequate communication between Health and Public Works resulted in supporting documentation not being submitted for audit purposes.

Auditee	Number of awards	Value of awards R'000	Reason for limitation
Department of Education	17	1 101	The department did not have a proper record management system for SCM. Inadequate communication between Education and Public Works resulted in supporting documentation not being submitted for audit purposes.
Public entities			
Northern Cape Economic Development, Trade and Investment Promotion Agency	7	1 776	The entity does not have procedures in place to identify irregular expenditure incurred as a result of non-adherence to SCM requirements. In addition, this is a very small entity established 1 April 2010. The entity therefore does not have an SCM unit and did not receive sufficient training to apply SCM requirements.
Total	43	177 180	

As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses at the auditees where the limitations were identified.

5.3 Awards to state officials and their close family members

The audit included an assessment of the interests of officials of the auditee and their close family members in suppliers to the auditee.

Legislation does not prohibit such awards but endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation and policies of the auditee was tested. The awards identified were also tested to identify non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

The table below depicts the audit findings relating to awards to state officials and their close family members.

Table 19: Awards to state officials and their close family members

Auditee	Awards made to				Non-compliance with regard to awards made					
	Officials		Close family members of officials		Supplier did not declare interest		Official did not declare interest		Other remunerative work not approved	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments										
Department of Education	7	1 528			7	1 528	3	1 060		
Department of Agriculture	3	20 200			3	20 200				
Department of Health	7	70	1	132					8	
Department of Transport, Safety & Liaison			1	10			1	10		
Total	17	21 797	2	142	10	21 728	4	1 070	8	
Percentage of auditees tested	19%		13%		13%		13%		6%	

5.4 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective come from our Constitution. Legislation, most notably the PFMA and Treasury Regulations, prescribes the processes and rules to be followed by departments and public entities in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of providing preference to the previously disadvantaged in the allocation of work by the public sector.

Our audits also focus on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and did not favour some suppliers above others.

It is important that the prescribed processes be followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and goods and services are procured at competitive and economical prices.



The procurement processes of 356 contracts (R1 billion) and 590 quotations (R69 million) were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the table below.

Table 20: Findings on uncompetitive or unfair procurement processes

Auditee	Preferential point system not applied		Deviations above R1m not reported to AGSA		SDB4 not submitted		SDB8 not submitted		Competitive bids not invited		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments												
COGHSTA - NC	8	206			325	17 919			4	23 583	5	272
Sport, Arts and Culture - NC					73	10 281			1	1 300	13	1 039
Department of Agriculture & Land Reform			2	3 533	4 036	20 126						
Economic Development and Tourism									2	1 103		
Social Services & Population Development - NC					2 213	29 145			3	1 859		
Environment and Nature Conservation					230	3 953			1	342		
Provincial Treasury - NC					30	2 137			2	7 297		
Roads and Public Works - NC					6	229 744						
Office of the Premier - NC					1 105	14 766					19	69
Transport, Safety and Liaison - NC					1 046	15 724			1	1 184		
Department of Health											5	1 296
Department of Education	16	2 350	2	28 791	57	43 579	28	40 336			51	13 721

Auditee	Preferential point system not applied		Deviations above R1m not reported to AGSA		SDB4 not submitted		SDB8 not submitted		Competitive bids not invited		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Public entities												
Northern Cape Economic Development, Trade and Investment Promotion Agency							350	1 833			6	1 608
Northern Cape Tourism Authority							31	5 771				
Total	24	2 556	4	32 324	9 502	394 979	28	40 336	20	38 276	94	16 565
Percentage of auditees tested	13%		13%		75%		6%		50%		38%	

Further details regarding legislation not complied with are as follows:

Finding	Detail
Preference point system not applied in the procurement of goods and services	The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act. Many departments and public entities forget about this requirement because, when three quotations are obtained, the procedures are not as detailed and not adequately monitored as is the case when tender processes are required and followed.
Deviations above R1 million not reported to the AGSA	Treasury Regulation 16A6.4. requires that accounting officers report within 10 working days to the relevant treasury and the AGSA all cases where goods and services were procured for more than R1 million (VAT included). The supply chain sections of the departments were not aware of this requirement and therefore did not inform the AGSA of these cases.
No declaration of interest submitted (Standard Bidding Document 4)	Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers who had not submitted the required declaration. Most departments in the Northern Cape were not aware of this requirement as it was not rolled out by the provincial treasury.

Finding	Detail
No declaration of past SCM practices (Standard Bidding Document 8)	As a measure to prevent the abuse of the SCM system, prospective suppliers are required to declare their past SCM practices, including previous fraud convictions or under-performance on state contracts. Awards were made to suppliers who failed to declare their past SCM practices as the supply chain section of Education was not aware of this requirement.
Competitive bids not invited	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Instances were identified of deviations from the competitive bidding process being approved although it was not impractical or impossible to follow such a process as the procurement process had been outsourced to entities that failed to adhere to the memorandum of understanding with the department. The departments did not monitor the processes to ensure that the entities met all the requirements as existing contracts were extended without following a tender process.
Other findings	<p>The other findings identified which resulted in uncompetitive or unfair procurement processes are the following:</p> <ul style="list-style-type: none"> • Three price quotations not obtained. • Quotations were obtained from suppliers who were not on the list of accredited prospective providers. • Awards were made without proof of tax clearance certificates. • Competitive bid not evaluated by appropriately constituted evaluation committee. • Bid specifications were not compiled by appropriately composed specifications committees. • Certificate of independent bid determination (Standard Bidding Document 9) was not submitted. • Required information was not submitted as per tender requirements. <p>The main reason for the above findings is that senior management did not perform adequate reviews to ensure that all compliance requirements were met before accepting quotations or tenders from potential service providers or selecting and contracting with service providers.</p>

5.5 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which in turn impact directly on service delivery to the citizens.

Findings on contract management are summarised in the table below.

Table 21: Findings on contract management

Auditee	Contracts extended or renewed to circumvent competitive bidding process		Inadequate contract performance measures and monitoring		No signed contract / Not signed by delegated official	
	Number	R'000	Number	R'000	Number	R'000
COGHSTA	2	910				
Department of Health					10	87 238
Department of Education			30	113 031		
Total	2	910	30	113 031	10	87 238
Percentage of auditees tested	6%		6%		6%	

Further details of the findings are as follows:

Finding	Detail
Contracts extended or renewed to circumvent competitive bidding processes	A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Instances were identified of deviations from the competitive bidding process being approved even though it was not impractical or impossible to follow such a process. The departments did not monitor the processes to ensure that the entities met all the requirements as existing contracts were extended without following a tender process.
Inadequate contract performance measures and monitoring	Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract as the department did not have a system in place to record all the payments and monitor the budget of all the contracts that they had entered into.
No signed contract or contract not signed by delegated official	Goods and services were received and payment was made to suppliers without written, signed contracts as the department had disregarded the SCM requirements. The reason for this is that senior management did not perform adequate reviews to ensure that all compliance requirements were met before accepting or entering into agreements with potential service providers. Moreover, inadequate filing systems resulted in documentation not being available for audit purposes.



5.6 Inadequate SCM controls

Findings on deficiencies in fundamental SCM controls are summarised in the table below.

Table 22: Findings on SCM controls

Auditee	Inadequate controls to ensure interest is declared	Risk assessment did not address SCM	Inadequate segregation of duties in procurement	No process to report any breach or failure to comply SCM system	SCM officials not adequately trained	Other controls
Departments						
Department of Health	Red	Red	Green	Green	Green	Red
Roads and Public Works	Green	Green	Green	Green	Green	Red
Sport, Arts and Culture	Red	Red	Red	Red	Green	Red
Transport, Safety and Liaison	Green	Green	Green	Green	Green	Red
Legislature	Green	Green	Green	Green	Green	Red
Department of Agriculture	Green	Green	Green	Green	Green	Red
Department of Education	Red	Red	Green	Green	Red	Red
COGHSTA	Green	Green	Red	Green	Red	Red
Public entities						
Northern Cape Economic Development, Trade and Investment Promotion Agency	Green	Green	Green	Red	Green	Red
McGregor Museum	Green	Green	Red	Green	Green	Red
Total	3	3	3	2	2	10
Percentage of auditees tested	19%	19%	19%	13%	13%	63%

Further details of the findings are as follows:

Finding	Detail
Inadequate controls to ensure that interest is declared	The controls were inadequate to ensure that officials declare whether they or their close family members, partners and associates have interests in suppliers or in a contract to be awarded and that they withdraw from the process involving such contract. The listed departments were not aware of this requirement as it was not rolled out by provincial treasury.
Risk assessment did not address supply chain management	SCM is generally an area of considerable risk at most of the auditees. However, the risk was not recognised in the risk assessments performed at these auditees, since leadership did not compare the risk register to the audit improvement action plan in the absence of a proper functioning internal audit unit.
Inadequate segregation of duties in procurement	Inadequate segregation of duties in the SCM systems was identified, which may result in a failure to detect irregular conduct in the procurement and payment process. Segregation of duties should exist between those individuals involved in making awards to suppliers and those approving and making payments to the suppliers. Senior management did not perform adequate review before accepting or entering into agreements with potential service providers.
No process to report any breach or failure to comply with the supply chain management system.	Leadership failed to ensure that the SCM policies and procedures provide for measures to prevent the circumvention of the SCM system. Senior management did not perform adequate reviews to ensure that all compliance requirements were met.
SCM officials not adequately trained	Leadership failed to ensure that officials involved in the implementation of the SCM policy were adequately trained to perform their duties effectively. Senior management did not perform adequate reviews to ensure that all compliance requirements were met.
Other findings	<p>Other deficiencies in fundamental SCM controls are the following:</p> <ul style="list-style-type: none"> • Leadership did not take action to identify SCM risks. • Payments were made by officials without delegated authority or where the delegation of authority was inadequate. • The internal audit unit did not evaluate SCM controls, processes and compliance with SCM policies and regulations. • The SCM officials were not aware of SCM policies and did not understand their roles and responsibilities. • A code of conduct for ethical behaviour in the SCM process was not adopted. • A fraud/ethics hotline was not effectively utilised. • There was no separate SCM unit reporting to the CFO. • Allegations were not investigated within reasonable time frames. • Controls in place to ensure that people with interests withdrew from procurement processes were inadequate. • No controls were in place to monitor performance of contractors. • Roles and responsibilities for management and coordination of the SCM unit were not clearly assigned. <p>Senior management did not perform adequate reviews to ensure that all compliance requirements were met.</p>

5.7 Overall conclusion on SCM matters

The above findings were as a result of a lack of leadership oversight and monitoring of key controls. The situation in the Northern Cape did not improve compared from the prior year and it is clear that the control environment of most departments needs to improve.

Leadership in the Northern Cape did not make a noteworthy effort to address the inadequate control environment at the departments. The controls at departments were unable to prevent the circumvention of the procurement processes.

Provincial treasury did not roll out all new legislation timeously, resulting in non-adherence to SCM requirements. Inadequate communication between Public works, Health and Education contributed to the high number of SCM findings which could not be quantified accurately. It was also evident that where departments used agents to perform procurement on their behalf, monitoring was not performed by the department to ensure compliance with the SCM regulations.

The high number of findings in the Northern Cape can be attributed to the fact that leadership failed to staff the supply chain units with trained, competent individuals as committed in the prior year. The limited financial resources available to the public entities also limited their ability to attract proficiently skilled financial staff.

SCM staff and HoDs should be held accountable for non-compliance with SCM policies and regulations.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

In terms of section 19 of the PFMA, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of departments, public entities and the provincial legislature. At the time of this report, the provincial treasury had not yet been able to prepare the required consolidation. The provincial treasury continues to prepare separate financial statements which aggregate the financial results of the departments and the provincial legislature, and another set which aggregates the financial results of the public entities. This practice does not conform to the PFMA and the provincial treasury is urged to ensure that processes are put in place to address this non-compliance.

Given the above, the AGSA is not able to issue an auditor's report on the fair presentation of the financial statements but instead separate factual finding auditor's reports are issued for the departments and the legislature, and for the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in table 23 below.

Table 23: Status of the audit of consolidated financial statements

Departments - audits completed		Public entities - audits completed	
2010-11	2009-10	2010-11	2009-10
Y / N	Y / N	Y / N	Y / N
Y	Y	Y	Y

The Revenue Fund's consolidated financial statements of departments and public entities for the 2010-11 financial year were received on 30 June 2011. The agreed-upon procedures were completed on 30 September 2011. An aggregation rather than a standard consolidation was performed by the province, and a non-compliance finding was raised to this effect, as was the case in the previous year. As from next year, this will lead to a qualification, and not just non-compliance, if a consolidation of the province is not performed.

In order to obtain a consolidated view of the financial position of the province, the financial position of the Provincial Revenue Fund and that of the various departments and entities must be looked at together. The Provincial Revenue Fund had a net



liability position at the 2010-11 year-end of R339,1 million (2010: R332 million), indicating that no progress had been made in the 2010-11 financial year to address the net liability position, whilst the cumulative balance of all bank accounts (inclusive of the Exchequer account) had dropped to a R61,7 million overdraft (2010: R5,5 million overdraft). Unauthorised expenditure for the province stands at R795,3 million (2010: R718,8 million). Accruals for the province stand at R354,1 million (2010: R115,4 million). Unauthorised expenditure can only be approved if there is a saving/ surplus in the province. Therefore, this is major challenge for the province as it does not have savings/ surplus against which to approve unauthorised expenditure, yet the province continues to incur expenditure year-on-year. With the sharp increase in accruals of R238,7 million, the province will continue to experience financial difficulty. These difficulties will increase unless strict controls are implemented and monitored and individuals are held accountable for mismanagement of funds.

To redeem this position in which the province finds itself, the leadership will have to ensure that unauthorised expenditure is prevented going forward. Irregular expenditure, unauthorised expenditure and fruitless and wasteful expenditure must be investigated and decisively dealt with in terms of the legislation. Debtor amounts in respect of revenue of Health and Transport, Safety and Liaison must be recovered. Controls must be tightened for the respective departments to avoid losses being written off, and to ensure that debtors are properly recognised and that complete and accurate records are maintained to enable action to be taken against non-paying debtors as and when needed.

Leadership in the province has indicated that the cash flow problem prohibits the filling of vacancies and the appointment of adequately skilled staff. As a consequence of the cash flow constraints, many commitments that were made by the provincial leadership in the previous year were not fulfilled.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments or public entities to table in the provincial legislature an annual report, financial statements and auditor's report relating to the financial statements. Such reports must be tabled within one month of the auditor's report having been received by the executive authorities.

A summary of the tabling of annual reports is provided below.

Table 24: Annual reports tabled by departments, public entities and other entities

Auditee type	Percentage of reports tabled at 30 September 2011	
	2010-11	2009-10
Departments	77%	100%
Public entities	50%	50%
Other entities	0%	33%
Total	61%	76%

Details of the annual reports not tabled are listed in the table below.

Table 25: Annual reports not tabled

Auditee	Reason (s)	Expected tabling date
Departments		
Economic Development and Tourism	Leadership did not monitor the finalisation of the annual reports	Was tabled on 3 October 2011
Health	Leadership did not monitor the finalisation of the annual reports	Was tabled on 3 October 2011
Provincial Treasury	Leadership did not monitor the finalisation of the annual reports	Was tabled on 3 October 2011

Auditee	Reason (s)	Expected tabling date
Public entities		
Northern Cape Tourism Authority	Leadership did not monitor the finalisation of the annual reports	Was tabled on 3 October 2011
Northern Cape Development, Trade and Investment Promotion Agency	Leadership did not monitor the finalisation of the annual reports	Was tabled on 17 October 2011
McGregor Museum	Leadership did not monitor the finalisation of the annual reports	Unknown
Northern Cape Housing Fund	Housing Fund annual report was not included in COGHSTA annual report.	Unknown

The leadership did not monitor finalisation of the annual reports. In many instances printer's proofs were only submitted to the AGSA for review on or after 31 August 2011.

CONCLUSION TO THE 2010-11 GENERAL REPORT

The AGSA has embarked on a drive to positively support the audit outcomes of departments and public entities by promoting the practice of institutionalising, on a daily basis, the three fundamentals of decisive leadership, quality financial and performance management and strong governance.

The matters highlighted throughout this report relate to the three fundamentals which should be addressed to achieve sustained clean administration. Particular emphasis has been placed on the four focal (high-risk) areas of predetermined objective reporting, procurement /SCM, human resources and IT management. Root causes of audit findings and the way forward to address the shortcomings are provided.

Leadership

The tone set by the provincial leadership in emphasising the implementation of audit outcome improvement plans, SCOPA resolutions and the monitoring of key controls is key to improved audit outcomes. This tone should include holding accounting officers, CFOs and senior management accountable, monitoring progress made on a monthly basis, and taking decisive action when planned interventions do not yield the required improvement in financial administration to avoid modified qualified opinions. Deficiencies in the financial statements in respect of the existence, completeness and valuation of capital assets, both movable and immovable, should be addressed, including proper maintenance of asset registers. The focus should also be on deficiencies relating to the accuracy and completeness of current assets, liabilities and expenditure, disclosure notes and revenue, as well as the high incidence of unauthorised, irregular, and fruitless and wasteful expenditure.

Leadership, both MECs and HoDs, should make a concerted effort to ensure that matters regarding the measurement and reporting of predetermined objectives and compliance with laws and regulations are given attention to prevent recurring findings on these matters. HoDs should actively seek to improve audit outcomes by fully cooperating with the key role players, i.e. the executive leadership (Premier and MEC Finance) and the coordinated provincial oversight bodies (SCOPA and the legislature) who had committed to the goal of clean audits. The HoDs should



conscientiously participate in operation clean audit and implement and monitor the audit outcome improvement plans and the dashboards of key controls.

Leadership should also be mindful of, and guide the departments and entities in preparing for the forthcoming changes in financial reporting. These changes relate to the reporting of inventory in the disclosure notes of departments as from 2011-12, the requirement that the legislature must prepare financial statements in terms of GRAP, and planned legislative changes and related administrative focus on enhancing compliance monitoring and improving transparency and accountability for SCM.

Financial and performance management

The financial management systems in departments and public entities should be enhanced where required to enable management to produce regular financial statements to ensure that possible material misstatements are detected before audits commence. Monthly reconciliations and reporting should become an embedded discipline for all account balances and disclosure notes. This, as well as the other key controls, should be monitored at the appropriate level.

The quality and completeness of financial information depend on well-designed and secure computerised systems. There are still pervasive general control weaknesses in IT systems of departments and public entities. The province should expedite the current process of drafting and implementing an IT governance framework that would address most of the transversal IT findings. The relevant structures should be capacitated with the necessary skilled personnel, and detailed action plans to address the deficiencies in IT controls should be developed and implemented.

Departments and public entities should also ensure that the necessary systems and controls are in place which will result in accurate reporting, continuous monitoring of achievement of the measurable objectives and overall compliance with the reporting requirements in respect of predetermined objectives. Deficiencies in the other two focal (high-risk) areas of concern, i.e. procurement /SCM and HR management (besides predetermined objectives reporting and IT management), should likewise be addressed.

The net liability position of the Provincial Revenue Fund must be addressed by Exco, as this will assist the province in implementing their commitments towards attaining clean administration.

Governance

Regular risk assessments should be conducted at departments and entities and strategies should be in place to address the risks identified. A fully operational internal audit function is crucial in assisting management to establish a sound internal control environment and to perform ongoing evaluation and monitoring of compliance with predefined controls and progress made in implementing the action plans. It is therefore imperative that the shared internal unit in the province be adequately staffed and made fully functional without further delay. Furthermore, to ensure its objectivity and effectiveness, the internal audit unit should be closely questioned and monitored by the audit committee to ensure its objectivity. The audit committee should consist of competent members who can discharge their oversight responsibilities effectively. Thus, the shared audit committee must also be made fully functional and the dedicated audit committees for Health and Education, as approved by Exco, must be established and become active forthwith.

In conclusion

To reiterate the underlying message of this report to oversight bodies, those charged with governance and management: it is possible to obtain an unqualified audit report if the fundamentals of internal control are institutionalised and constantly monitored by the leadership. The challenges are not insurmountable. To this end, AGSA senior staff will continue to conduct key control assessments on a quarterly basis, which include discussions with MECs and HoDs to influence the achievement of sustainable clean administration.

We remain committed to assisting in the process of identifying and communicating good practices to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

ANNEXURES TO THE GENERAL REPORT

ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

No.	Auditee	2010-11 audit year		2009-10 audit year		Financial statement qualification areas										Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
Departments																			
1	Agriculture and Land Reform	Financially unqualified with findings			Financially unqualified with findings														
2	Cooperative Governance, Human Settlements and Traditional Affairs	Qualified			Financially unqualified with findings														
3	Economic Development and Tourism	Financially unqualified with findings			Financially unqualified with findings														
4	Education	Qualified			Qualified														
5	Environment and Nature Conservation	Financially unqualified with findings			Financially unqualified with findings														
6	Health	Disclaimer			Disclaimer														
7	Office of the Premier	Financially unqualified with findings			Financially unqualified with findings														
8	Provincial Legislature	Financially unqualified with findings			Financially unqualified with findings														
9	Provincial Revenue Fund	Financially unqualified with findings			Financially unqualified with findings														
10	Provincial Treasury	Financially unqualified with findings			Financially unqualified with findings														



No.	Auditee	2010-11 audit year		2009-10 audit year		Financial statement qualification areas										Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
11	Transport, Roads and Public Works	Financially unqualified with findings			Disclaimer														
12	Social Services and Population Development	Financially unqualified with findings			Financially unqualified with findings														
13	Sport, Arts and Culture	Qualified			Qualified														
14	Transport, Safety and Liaison	Qualified			Financially unqualified with findings														
Public entities																			
15	Northern Cape Housing Fund	Disclaimer			Disclaimer														
16	Kalahari Kid Corporation	Audit not finalised at legislated date			New public entity														
17	McGregor Museum	Qualified			Qualified														
18	National Institute for Higher Education	Audit not finalised at legislated date			Audit not finalised at legislated date														
19	Ngwao Boswa Kapa Bokone	Audit not finalised at legislated date			Audit not finalised at legislated date														
20	Northern Cape Arts and Culture Council	Audit not finalised at legislated date			Disclaimer														
21	Northern Cape Economic Development, Trade and Investment Promotion Agency	Qualified			New public entity														
22	Northern Cape Political Party Fund	Audit not finalised at legislated date			Audit not finalised at legislated date														
23	Northern Cape Premier Education Trust Fund	Audit not finalised at legislated date			Qualified														
24	Northern Cape Tourism Authority	Financially unqualified with findings			Financially unqualified with findings														
25	Road Capital Account	Disclaimer			Adverse														

ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

Number	Auditee	Areas of non-compliance											
		Annual financial statements and annual report	Asset management	Audit committees	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management
Departments													
1	Agriculture and Land Reform												
2	Co-Operative Governance, Human Settlements and Traditional Affairs												
3	Economic Development and Tourism												
4	Education												
5	Environment and Nature Conservation												
6	Health												
7	Office of the Premier												
8	Provincial Legislature												
9	Provincial Revenue Fund												
10	Provincial Treasury												
11	Roads and Public Works												
12	Social Services and Population Development												
13	Sport, Arts and Culture												
14	Transport, Safety and Liaison												
Public entities													
15	Northern Cape Housing Fund												
16	McGregor Museum												
17	Northern Cape Economic Development, Trade and Investment Promotion Agency												
18	Northern Cape Tourism Authority												
19	Road Capital Account												



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets

No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure (R)	Material losses (R)	Material impairment of assets (R)	Material under-spending of vote/ conditional grant (finding only) (R)
		Overspending (R)	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total (R)	SCM related (R)	Compensation of employees related (R)	Other (R)	Total (R)				
Departments													
1	Agriculture and Land Reform	93 000			93 000	2 578 529	327 000		2 905 529	27 000			
2	Cooperative Governance Human Settlements and Traditional Affairs	33 153 000			33 153 000	27 236 000	772 000		28 008 000	7 358 000			
3	Economic Development and Tourism					1 103 000			1 103 000	39 000			
4	Education					111 460 203	5 332 000		116 792 203	236 000		20 392 000	
5	Environment and Nature Conservation	118 920			118 920	382 750			382 750				
6	Health	60 179 000			60 179 000	116 405 000	10 401 000	948 054 000	1 074 860 000	1 508 000	6 800 000	112 200 000	88 000 000
7	Office of the Premier					69 000	3 159 000		3 228 000				
8	Provincial Legislature	783 000			783 000					52 000			
9	Provincial Revenue Fund												
10	Provincial Treasury					7 297 000	797 000		8 094 000				
11	Transport Roads and Public Works					68 533 000	223 000	16 000	68 772 000	257 999			136 918 000
12	Social Services and Population Development					1 859 150		1 795 000	3 654 150	206 000			
13	Sport Arts and Culture	7 428 000			7 428 000	10 998 000			10 998 000				28 899 000
14	Transport Safety and Liaison					987 797		2 000 000	2 987 797				
Public entities													
15	Northern Cape Housing Fund												
16	McGregor Museum												
17	Northern Cape Economic Development Trade and Investment Promotion Agency					1 775 831			1 775 831	99 592			
18	Northern Cape Tourism Authority												
19	Road Capital Account												



Annexure 5: Auditees with key findings on supply chain management

No.	Auditee	Limitation on planned scope of audit of awards	Awards to state officials and their close family members	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls
Departments						
1	Agriculture and Land Reform					
2	Cooperative Governance, Human Settlements and Traditional Affairs					
3	Economic Development and Tourism					
4	Education					
5	Environment and Nature Conservation					
6	Health					
7	Office of the Premier					
8	Provincial Legislature					
9	Provincial Revenue Fund					
10	Provincial Treasury					
11	Transport, Roads and Public Works					
12	Social Services and Population Development					
13	Sport, Arts and Culture					
14	Transport, Safety and Liaison					
Public entities						
15	Northern Cape Housing Fund					
16	McGregor Museum					
17	Northern Cape Economic Development, Trade and Investment Promotion Agency					
18	Northern Cape Tourism Authority					
19	Road Capital Account					

Annexure 6: Auditees with key findings on information technology focus areas

No.	Auditee	Focus areas			
		IT governance	Security management	User access management	IT service continuity
Departments					
1	Agriculture and Land Reform				
2	Cooperative Governance, Human Settlements and Traditional Affairs				
3	Economic Development and Tourism				
4	Education				
5	Environment and Nature Conservation				
6	Health				
7	Office of the Premier				
8	Provincial Legislature				
9	Provincial Treasury				
10	Transport, Roads and Public Works				
11	Social Services and Population Development				
12	Sport, Arts and Culture				
13	Transport, Safety and Liaison				



Annexure 7: Effectiveness of audit committees

No.	Auditee	Province	Audit committees				
			Audit committee in place	New audit committee appointed during the year (disbanding of shared service)	Compliant with legislation	Impact on outcome	Interaction with executive
Departments							
1	Agriculture and Land Reform	NC		NA			
2	Cooperative Governance, Human Settlements and Traditional Affairs	NC		NA			
3	Economic Development and Tourism	NC		NA			
4	Education	NC					
5	Environment and Nature Conservation	NC		NA			
6	Health	NC					
7	Office of the Premier	NC		NA			
8	Provincial Legislature	NC		NA			
9	Provincial Treasury*	NC		NA			
10	Transport, Roads and Public Works	NC		NA			
11	Social Services and Population Development	NC		NA			
12	Sport, Arts and Culture	NC		NA			
13	Transport, Safety and Liaison	NC		NA			
Public entities							
14	Northern Cape Housing Fund	NC		NA			
15	McGregor Museum	NC		NA			
16	Northern Cape Economic Development, Trade and Investment Promotion Agency	NC		NA			
17	Northern Cape Tourism Authority	NC		NA			
18	Road Capital Account	NC		NA			
* An audit committee does not exist for the provincial revenue fund, as the responsibility for the revenue fund rests with provincial treasury.							

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