

Cape Town Waterfront



2010-11

GENERAL REPORT WESTERN CAPE

on the provincial audit outcomes of the



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



100 YEARS
1911-2011



GENERAL REPORT
ON THE OUTCOMES OF THE
WESTERN 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.



TABLE OF CONTENTS

| | |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------|
| SECTION 1: FOREWORD..... | 5 |
| SECTION 2: AUDIT OUTCOMES..... | 7 |
| 2.1 Audit opinions on financial statements..... | 7 |
| 2.1.1 Audit outcomes for the year ended March 2011..... | 7 |
| 2.1.2 Three-year history of audit outcomes for the province..... | 9 |
| 2.1.3 Improvements and regressions in audit opinions on financial statements for the year under review..... | 9 |
| 2.1.4 Audit outcomes history of the auditee that obtained a financially qualified audit opinion for the year ended March 2011..... | 11 |
| 2.1.5 Timeliness of the submission and auditing of financial statements..... | 11 |
| 2.1.6 Outcomes of audits finalised after the cut-off date of the 2010-11 general report..... | 11 |
| 2.2 Findings on financial management, including defects in financial statements..... | 11 |
| 2.2.1 Material misstatements in financial statements submitted for auditing..... | 12 |
| 2.2.2 Defects in current year financial statements of one public entity, resulting in a disclaimed audit opinion..... | 12 |
| 2.2.3 Analysis of areas in the financial statements containing material misstatements..... | 13 |
| 2.2.4 Material losses, impairment of assets and material underspending of votes or conditional grants..... | 14 |
| 2.2.5 Auditees with concerns regarding funding of operations, financial sustainability or going concern..... | 15 |
| 2.2.6 Assessment of drivers of internal control over financial management and reporting..... | 16 |
| 2.2.7 Best practices, root causes of findings and the way forward on financial statement qualifications and financial management..... | 16 |

| | | |
|------------|------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 2.3 | Findings from the audit of auditees reporting on predetermined objectives | 17 |
| | 2.3.1 <i>Overview of the AGSA's approach to the audit of reporting on predetermined objectives</i> | 17 |
| | 2.3.2 <i>Overall findings arising from the audit of reporting on predetermined objectives</i> | 17 |
| | 2.3.3 <i>Summary of regulatory requirements or criteria not met by auditees as well as trends in findings</i> | 17 |
| | 2.3.4 <i>Assessment of drivers of internal control over reporting on predetermined objectives</i> | 18 |
| | 2.3.5 <i>Best practices, root causes of findings and the way forward on predetermined objective reporting by auditees</i> | 19 |
| 2.4 | Findings on compliance with laws and regulations | 20 |
| | 2.4.1 <i>Overview of the AGSA's approach to auditing compliance with laws and regulations by auditees</i> | 20 |
| | 2.4.2 <i>Transversal findings on compliance with laws and regulations</i> | 21 |
| | 2.4.3 <i>Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees</i> | 22 |
| | 2.4.4 <i>Summary of findings from the audit of SCM conducted by the AGSA</i> | 23 |
| | 2.4.5 <i>Investigations into SCM irregularities, fraud or other financial misconduct</i> | 24 |
| | 2.4.6 <i>Assessment of drivers of internal control over compliance with laws and regulations</i> | 25 |
| | 2.4.7 <i>Best practices, root causes of findings and the way forward on compliance with laws and regulations by auditees</i> | 25 |
| 2.5 | Outline of the way forward to improve audit outcomes | 26 |
| | SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS | 26 |
| 3.1 | Overview of key controls as drivers of the three facets of audit outcomes | 26 |
| 3.2 | Effective human resource management as specific driver of audit outcomes | 28 |
| | 3.2.1 <i>Overall findings from the assessment of HR management</i> | 28 |



| | | |
|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-----------|
| 3.2.2 | <i>Impact of staff vacancies on internal control</i> | 31 |
| 3.2.3 | <i>Root causes of findings and the way forward in HR management</i> | 32 |
| 3.3 | Information technology management as specific driver of audit outcomes | 32 |
| 3.3.1 | <i>Computer systems in use and the management of information technology</i> | 32 |
| 3.3.2 | <i>Implementation of information technology management</i> | 34 |
| 3.3.3 | <i>Root causes of findings and the way forward on information technology management</i> | 35 |
| SECTION 4: INITIATIVES AND COMMITMENTS FROM KEY PROVINCIAL AND NATIONAL ROLE PLAYERS | | 37 |
| 4.1 | The function of key provincial role players in audit outcomes | 37 |
| 4.1.1 | <i>Commitments and actions by the provincial executive leadership and oversight</i> | 37 |
| 4.1.2 | <i>Assessment of monitoring capacity and focus areas of provincial role players at the time of the audit</i> | 38 |
| 4.1.3 | <i>Audit committees</i> | 39 |
| 4.1.4 | <i>Status of PAC oversight resolutions</i> | 41 |
| 4.2 | Areas that key national role players should focus on to address audit outcomes | 41 |
| 4.2.1 | <i>Assessment of monitoring capacity and focus areas of national role players at the time of the audit</i> | 41 |
| 4.2.2 | <i>Outline of recommended focus areas of national and provincial role players</i> | 42 |
| 4.3 | Initiatives taken by the AGSA to encourage clean administration | 42 |
| 4.4 | Emerging matters that require attention to prevent a negative impact on future audit outcomes | 43 |

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----|
| SECTION 5: SIGNIFICANT FINDINGS FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT | 44 |
| 5.1 Background | 44 |
| 5.2 Inadequate SCM controls | 44 |
| 5.3 Uncompetitive or unfair procurement processes | 45 |
| 5.4 Awards to state officials and their close family members | 47 |
| 5.5 Limitations on planned scope of audit of awards | 47 |
| 5.6 Overall conclusion on SCM matters | 48 |
| SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS | 49 |
| SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS | 49 |
| ANNEXURES TO THE GENERAL REPORT | 52 |
| Annexure 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives | 52 |
| Annexure 2: Auditees incurring findings related to compliance with laws and regulations | 55 |
| Annexure 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets | 57 |
| Annexure 4: Assessment of auditees' key controls at the time of the audit | 59 |
| Annexure 5: Auditees with key findings on supply chain management | 61 |
| Annexure 6: Auditees with key findings on information technology focus areas | 62 |
| Annexure 7: Audit committees | 63 |



SECTION 1: FOREWORD

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

Only the provincial parliament, the revenue fund, the Departments of Agriculture and Community Safety and three provincial public entities received unqualified audit opinions with no other findings (clean audits). Eleven departments and nine public entities received unqualified audit reports with other findings. Only one public entity received a disclaimer of opinion. Overall, 96% of auditees reported on (constituting 99,97% of the budget) received at least a financially unqualified audit opinion. The balance of 4% (representing 0,03% of the budget) had a negative audit outcome. The Western Cape Housing Development Fund (WCHDF) regressed to a disclaimer due to the late compilation and inadequate monitoring of the implementation plan to convert from the entity-specific basis of accounting to GRAP.

None of the departments improved on their 2009-10 audit outcomes while four regressed. The audit outcomes of the other 10 departments remained unchanged. The new Department of Local Government received an unqualified opinion with other findings. The overall audit outcomes have largely regressed or remained unchanged mainly due to increased findings on non-compliance with laws and regulations. The main underlying causes for the increased non-compliance in the province relate to supply chain management (SCM) and human resources (HR). In SCM, findings relating to uncompetitive or unfair procurement processes and a lack of supplier declaration of interest were most dominant and, in HR, findings relating to the management of leave, overtime and suspensions were dominant. SCM and HR require attention from the province, particularly because a part of the root cause stems from unclear roles and responsibilities between the provincial treasury for SCM, the Department of the Premier for HR and the individual departments. It is important to note that two of the prior year commitments at executive level started yielding appropriate results. The first of these relates to the extensive focus on implementing appropriate systems to collate and report on service delivery as well as extensive workshopping on service delivery reporting. This resulted in a reduction in departments with findings on predetermined objectives from four to two.

Secondly, the commitment made to focus on asset management has yielded positive results in that, except for the Department of Health, none of the other departments had material misstatements on capital assets. The stagnation in the audit outcomes of Education, Health, Public Works, Human Settlements and Social Development needs to be arrested as none of these departments achieved a clean audit opinion. In total, these sectors account for approximately 93% of annual provincial government spending. Therefore, by virtue of their combined size, compared to the other sectors, clean administration in the province will only be possible with significant improvements in their audit outcomes. These sectors are important contributors to the realisation of government's 12 national outcomes. The rising cost of procurement and human resources, and the escalating trend in irregular and fruitless and wasteful expenditure remain key concerns.

With the province having reflected on the limited progress on implementing commitments from the previous year, the leadership across the board has pledged that the basic principles of monthly reporting, validation of reported information by internal audit units and audit committees, and constant monitoring will be the pillars on which the commitments for the coming year need to be based. This informed the new commitments, ranging from enhancing the monitoring and oversight capacity of the legislature and its committees, the development and support of entity-specific action plans to address financial and performance management, the provincial treasury capitalising on the FMIP initiative to monitor the quality of departments' action plans and their implementation, to taking full ownership of key control assessments. To give effect to these commitments, officials will need to be monitored to ensure that they perform their responsibilities in line with their job requirements. In addition, the provincial treasury will need to play a co-coordinating role with enabling national role players, with emphasis on supply chain management and service delivery reporting. The Department of the Premier would refine the centralisation of human resource management that commenced in November 2010 as well as play a coordinating role in information technology management. Underpinning these, audit committees will be encouraged to interact regularly with the legislature and MECs to provide them with assurance on a quarterly basis regarding all in-year monitoring reports.

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 by the executive authority of one hour every 90 days. This can therefore be followed by the sharing of the consolidated picture with the Premier and the provincial parliament quarterly. This will require the enhancement of the oversight model that will include effective coordination between public accounts committees and portfolio committees. If all these governance and oversight structures work collectively on monitoring internal controls on a quarterly basis, this will place provincial governance at a higher level, and it will contribute greatly to sustainable positive outcomes.

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

In this centenary year of the AGSA, I wish to thank the audit teams from my Western Cape office and the audit firms that assisted in the province 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
December 2011



SECTION 2: AUDIT OUTCOMES

The Western Cape Provincial Government comprises 14 provincial departments (including the Provincial Parliament), the Provincial revenue fund and 13 public entities. This report presents the 2010-11 audit outcomes of 14 departments and 13 public entities that include all audits completed by 30 September 2011, the audits of which were performed by the AGSA or by auditors from the private sector. The audit of the Provincial revenue fund had not been finalised as at 30 September 2011, the cut-off date set by the AGSA for inclusion of audit outcomes in this analysis, as the financial statements were received on 22 September 2011. Although the AG has opted not to perform the audits of certain public entities, oversight processes have been put in place by the AGSA regarding the audit engagements at these entities. Specifically, the AG has prescribed certain processes that include the appointment and discharge of such auditors, their duties and powers, requirements regarding their audit reports, and actions to be taken where the requirements are not met.

2.1 Audit opinions on financial statements

2.1.1 Audit outcomes for the year ended March 2011

The audits of all 14 departments and 12 public entities (2009-10: 27 out of 27) that had submitted financial statements on time, were completed by 31 July 2011, within the legislated time frame of two months from receipt of the financial statements by the AGSA. One public entity, Western Cape Housing Development Fund, submitted financial statements on 30 June 2011. This audit was finalised on 31 August 2011, within two months of submission of the financial statements. The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below.

Table 1: Summary of audit outcomes

| Audit outcomes | Audits conducted by the AGSA | | | | Audits not conducted by the AGSA | |
|--------------------------------------------------------------------------------------------------------------------|------------------------------|-------------|-------------------|-------------|----------------------------------|-------------|
| | Departments* | | Public entities** | | Public entities | |
| | 2010-11 | 2009-10 | 2010-11 | 2009-10 | 2010-11 | 2009-10 |
| Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations | 3 | 8 | 2 | 5 | 1 | 0 |
| Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations | 11 | 6 | 9 | 7 | 0 | 1 |
| Financially unqualified financial statements | 100% | 100% | 92% | 100% | 100% | 100% |
| Qualified opinion | 0 | 0 | 0 | 0 | 0 | 0 |
| Adverse opinion | 0 | 0 | 0 | 0 | 0 | 0 |
| Disclaimer of opinion | 0 | 0 | 1 | 0 | 0 | 0 |
| Financially qualified financial statements | 0% | 0% | 8% | 0% | 0% | 0% |
| Total number of audits reported on | 14 | 14 | 12 | 12 | 1 | 1 |
| Number of audit reports not issued by 30 September 2011 | 1 | 0 | 0 | 0 | 0 | 0 |
| Total number of audits | 15 | 14 | 12 | 12 | 1 | 1 |
| Total number of auditees in which findings arose from the AGSA's other legal reporting responsibilities:*** | | | | | | |
| Predetermined objectives findings only | 1 | 1 | 0 | 1 | 0 | 1 |
| Compliance with laws and regulations findings only | 9 | 2 | 8 | 4 | 0 | 0 |
| Findings on both predetermined objectives and compliance with laws and regulations | 1 | 3 | 2 | 2 | 0 | 0 |

* Including legislature and provincial revenue fund

** Including trading and other types of entities

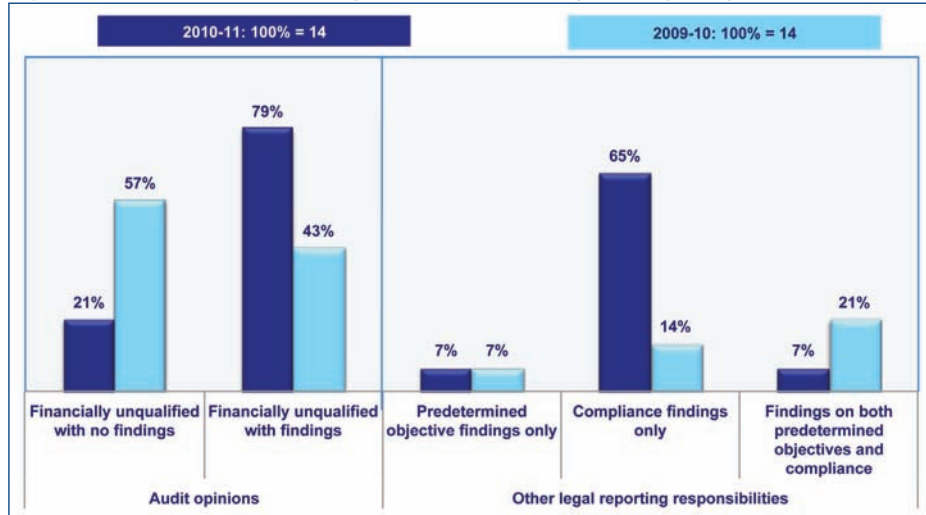
*** Comparatives of public entities have been restated to include non-compliance relating to material misstatements corrected in the financial statements that was not required to be reported in the prior year audit reports

The financial audit opinions of the province have maintained the unqualified audit opinions, with the exception of the Western Cape Housing Development Fund (WCHDF) which regressed to a disclaimer as the information provided did not enable the auditors to reach an opinion on the financial statements.

Although the financial audit opinion was sustained by the province, the overall audit outcomes regressed materially from 13 clean audits to six in the current year.

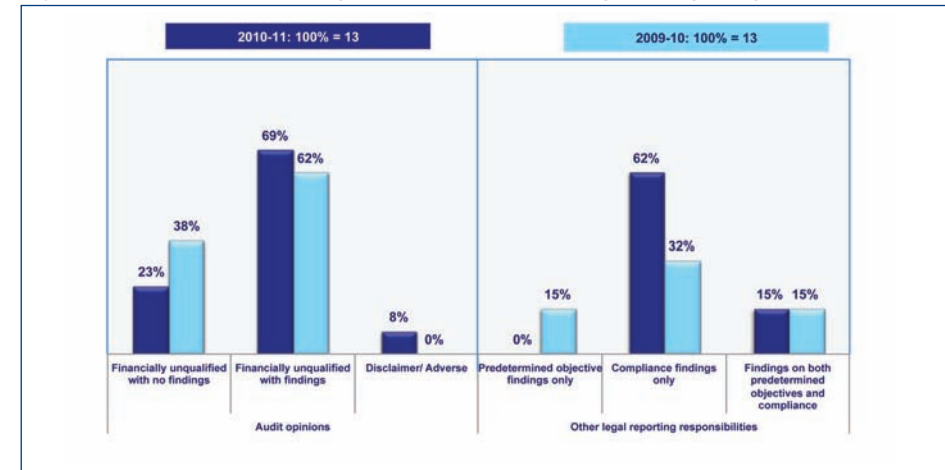
As can be seen in figures 1 and 2 below, the main driver of the regression was the sharp increase in non-compliance findings.

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



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

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



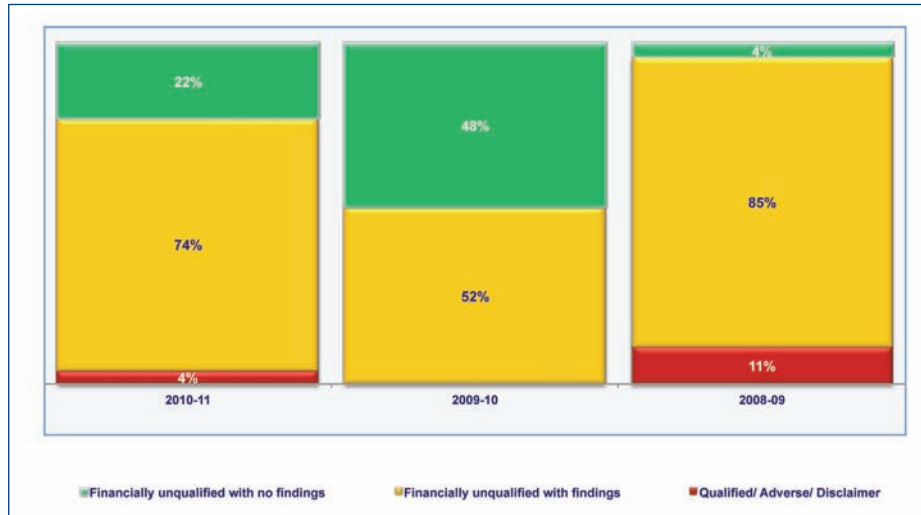
This regression is attributable to procurement and contract management findings on uncompetitive or unfair procurement processes (departments: 71% and public entities: 17%), no supplier declaration of interests (departments: 71% and public entities: 67%) and expenditure management (irregular expenditure not prevented and/or detected) (departments: 36% and public entities: 15%). Findings were mainly due to inadequate leadership oversight, as well as inadequate systems and processes to identify and report on non-compliance, inadequate guidance on the application of SCM regulations, inadequate monitoring of compliance with these regulations and inadequate risk management.

In contrast with the increase in non-compliance findings, predetermined objectives findings have remained fairly stable with improvement within the departments evidenced by the decline in departments with findings on both predetermined objectives and non-compliance.



2.1.2 Three-year history of audit outcomes for the province

Figure 3: Three-year audit outcomes for the province



The three-year history of the audit outcomes of the province showed a fairly erratic picture. The 2009-10 year reflected a conscious focus by the province on improving the outcomes by focusing on the root causes identified in 2008-09 audits, while the 2010-11 year reflects a marked deterioration in the outcome. The regression was as a result of inadequate guidance on the application of supply chain management regulations and insufficient monitoring of compliance with these regulations, as well as the ineffective mitigation of the risks and the untimely implementation of corrective actions to address non-compliance identified in the prior year.

The increase in disclaimers from 2009-10 is a result of the WCHDF which regressed due to the late compilation and inadequate monitoring of the implementation plan to convert from the entity-specific basis of accounting to GRAP. Please refer to section 2.2.2 for further analysis on the reasons for the regression.

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

Tables 2 and 3 depict the movements in audit opinions for departments and public entities, respectively.

Table 2: Movements in audit outcomes of departments

| Movement in audit outcome over 2009-10 – Departments | | | | | | Prior year opinion on audits outstanding 2010-11* |
|------------------------------------------------------|-------------|-----------|-----------|-----------------|-------------------|---------------------------------------------------|
| Audit opinion | Improvement | Unchanged | Regressed | New departments | Total reported on | |
| Financially unqualified with no findings | | 3 | | | 3 | 1 |
| Financially unqualified with findings | | 6 | 4 | 1 | 11 | 0 |
| Qualified | | 0 | | | 0 | 0 |
| Disclaimer/Adverse | | 0 | | | 0 | 0 |
| Total | 0 | 9 | 4 | 1 | 14 | 1 |

* Prior year audit opinions of audits outstanding as at 30 September 2011.

Table 3: Movements in audit outcomes of public entities

| Movement in audit outcome over 2009-10 – Departments | | | | | | |
|------------------------------------------------------|-------------|-----------|-----------|-----------------|-------------------|--------------------------------------------------|
| Audit opinion | Improvement | Unchanged | Regressed | New departments | Total reported on | Prior year opinion on audits outstanding 2010-11 |
| Financially unqualified with no findings | ↑ 1 | 2 | | | 3 | 0 |
| Financially unqualified with findings | | 6 | ↓ 3 | | 9 | 0 |
| Qualified | | 0 | | | 0 | 0 |
| Disclaimer/ Adverse | | 0 | ↓ 1 | | 1 | 0 |
| Total | 1 | 8 | 4 | 0 | 13 | 0 |

10

The 2010-11 audit outcomes are characterised by regressions with only one improvement. Annexure 1 to this report lists the auditees, together with their 2010-11 audit outcomes and those of the previous financial year.

| | |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Overall trends | There was an overall regression from the prior year in financially unqualified audit opinions with no findings to financially unqualified audit opinions with findings. |
| Financially unqualified audit opinions with no findings | <p>Three departments and two public entities had unchanged audit opinions: They are Agriculture, Community Safety, Provincial Parliament, Destination Marketing Organisation and Western Cape Nature Conservation Board.</p> <p>Four departments and three public entities regressed to financially unqualified audit opinions with findings: They are Cultural Affairs & Sport, Economic Development & Tourism, Environmental Affairs & Development Planning, Provincial Treasury, Gambling & Racing Board, Heritage Western Cape and Western Cape Provincial Development Council.</p> <p>An improvement in the public entity not audited by the AGSA was noted, Casidra (Pty) Ltd.</p> |

| | |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Notable improvements | <p>Casidra (Pty) Ltd improved from a financially unqualified audit opinion with findings on predetermined objectives to a financially unqualified audit opinion with no findings.</p> <p>There is a reduction in the number of departments with findings on predetermined objectives (four to two). (2010-11: 14%, 2009-10: 31%)</p> <p>There was a reduction in the number of public entities with findings on predetermined objectives (4 to 2). (2010-11: 17%, 2009-10: 33%)</p> |
| Disclaimed, adverse or qualified audit opinions | There was one regression from a financially unqualified audit opinion with findings on compliance with laws and regulations to a disclaimed audit opinion: Western Cape Housing Development Fund. |
| Financially unqualified audit opinion with findings | <p>Six departments and six public entities had unchanged audit outcomes. They are Education, Health, Human Settlements, Premier, Transport & Public Works, Social Development, Cape Medical Depot, Government Motor Transport, Liquor Board, Western Cape Cultural Commission, Western Cape Investment & Trade Agency and Western Cape Language Committee.</p> <p>Four departments and three public entities regressed from <i>financially unqualified audit</i> opinions with no findings. They are Cultural Affairs & Sport, Economic Development & Tourism, Environmental Affairs & Development Planning, Provincial Treasury, Western Cape Gambling & Racing Board, Heritage Western Cape and WC Provincial Development Council.</p> <p>One new department, Local Government, had a financially unqualified audit opinion with findings on compliance with laws and regulations.</p> <p>The following prevented these auditees from attaining clean audit outcomes:</p> <ul style="list-style-type: none"> – The systems relating to reporting on predetermined objectives were not adequately complied with or sufficiently detailed to ensure that the quality of evidence was adequately monitored through continuous credibility checks, therefore resulting in incomplete and inaccurate reporting. – Findings on non-compliance were mainly due to inadequate leadership oversight, as well as inadequate systems and processes to identify and report on non-compliance, inadequate guidance on the application of SCM regulations, inadequate monitoring of compliance with these regulations and inadequate risk management. |



2.1.4 Audit outcomes history of the auditee that obtained a financially qualified audit opinion for the year ended March 2011

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 |
| Western Cape Housing Development Fund | Disclaimer | Financially unqualified with findings | Disclaimer | Qualified | Qualified |

Please refer to section 2.2.2 for detailed analysis of the reasons for the regression.

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 AGSA is required to complete an audit within two months of receipt of the financial statements.

By the deadline of 31 May 2011, 14 (100%) departments (2009-10: 13 (100%)) and 12 (92%) public entities (2009-10: 13 (100%)) had submitted their financial statements for auditing.

The audit of the Western Cape Housing Development Fund was not completed by 31 July 2011 due to the late submission of the financial statements. The audit was, however, completed on 31 August 2011 before the cut-off date of 30 September and is included in this general report.

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 general report cut-off date | | Expected date of finalisation |
|-------------------------|---------------------------------------|------------------------------------------------------------------------------|--------------------------------------|-------------------------------|
| | | Financial statements not yet received | Late receipt of financial statements | |
| Provincial revenue fund | 2009-10 | | | 4-Nov-11 |

The audit of the Provincial revenue fund had not been finalised as at 30 September 2011, the cut-off date set by the AGSA for inclusion of audit outcomes in this analysis, as the financial statements were only received on 22 September 2011. The audit is expected to be completed by 4 November 2011. The reason for the delay in submission was the late finalisation of the WCHDF audit, audit adjustments that had to be effected for various departments and a new management team in control of the PRF.

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

From 30 September 2011 to the date of this report, the audit of one department was finalised. Its outcome is reflected in the table below.

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

| Auditee | Audit opinion 2010-11 | Audit opinion 2009-10 |
|-------------------------|------------------------------------------|------------------------------------------|
| Provincial revenue fund | Financially unqualified with no findings | Financially unqualified with no findings |

Please refer to paragraph 2.1.5 for the reasons for late finalisation.

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 material errors and omissions in financial statements submitted for auditing,

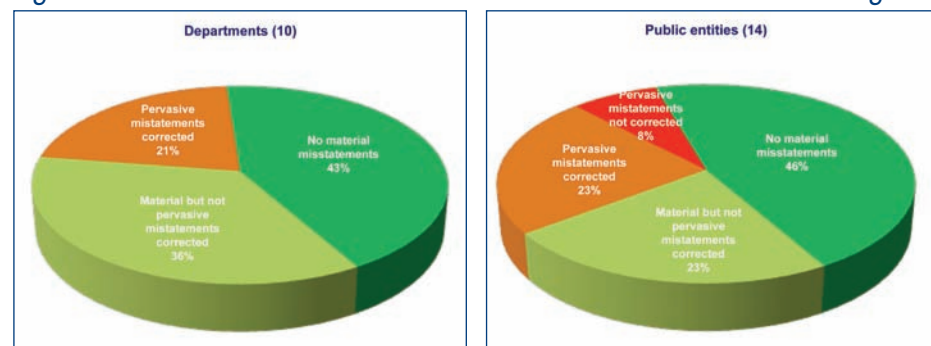
material losses incurred by auditees, underspending by auditees against their votes or conditional grants, and auditees facing financial sustainability concerns.

2.2.1 Material misstatements in financial statements submitted for auditing

The PFMA directs that departments and public entities must submit for auditing annual 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).

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

Figure 4: Material misstatements in financial statements submitted for auditing



Pervasive material misstatements in financial statements submitted for auditing were identified at a total of three departments (21%) and four public entities (31%) (2009-10: 23% and 67%, respectively).

Fifty-six per cent of the material misstatements identified at the departments related to disclosure and 44% to misclassification (2009-10: 42% and 58%, respectively). Of the material misstatements identified at public entities, 25% related to disclosure and 75% to misclassification (2009-10: 16% and 84%, respectively).

Departments produced six-monthly financial statements that were subjected to review by the provincial treasury, resulting in an improvement in the quality of the financial statements. While the improvement in the quality of the financial statements is not apparent when looking at the reduction in the number of departments with transversal material misstatements, there has been a reduction in the total number of material misstatements in financial statements submitted for auditing. The misstatements related to disclosure notes were not identified timeously due to the departments not including the disclosure notes in the financial statements submitted to the provincial treasury. Material misstatements relating to disclosure items included irregular expenditure as result of non-compliance with supply chain management regulations.

Two public entities' accounting (Liquor Board and the Western Cape Housing Development Fund) is maintained on a cash basis (using BAS), while the financial statements are prepared on an accrual basis. Although the leadership committed to implementing processes to ensure accurate and complete financial reports, the processes and monitoring of implementation thereof were inadequate. Regular financial statements and management accounts were not prepared to facilitate regular review and monitoring of the financial information.

2.2.2 Defects in current year financial statements of one public entity, resulting in a disclaimed audit opinion

The Western Cape Housing Development Fund (WCHDF) regressed from a financially unqualified audit opinion to a disclaimed audit opinion. The root causes for the regression are summarised below:

- Late compilation and implementation of the plan to convert from the entity-specific basis of accounting to Generally Recognised Accounting Practise (GRAP) by the leadership, even though the National Treasury indicated in the prior year that the entity will report using GRAP in the 2010-11 financial year.
- Complete and accurate financial reports, aligned to the GRAP reporting requirements, were not regularly prepared and reviewed by management.
- There was inadequate review of the underlying financial information and accounting records throughout the year, resulting in errors not being detected and/or corrected in a timely manner.



- Documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes did not exist.
- The WCHDF does not have its own accounting system. The WCHDF utilises the accounting system (BAS) of the Western Cape Department of Human Settlements which supports a cash basis of accounting, whereas the WCHDF is on an accrual basis of accounting, in terms of the GRAP reporting framework. Furthermore, the entity's manual and/or automated controls and processes were not adequate during the year under review to ensure accurate and complete financial reporting when converting information from a cash basis to an accrual basis of accounting for financial reporting purposes.
- Although the WCHDF employed consultants for accounting-related services, including the preparation of the financial statements submitted for auditing, it was not enough to offset insufficient capacity and skills within the finance unit of the entity.

The WCDHF has not consistently applied the applicable reporting framework. Annexure 1 to this report lists the financial statement qualification areas of the WCHDF.

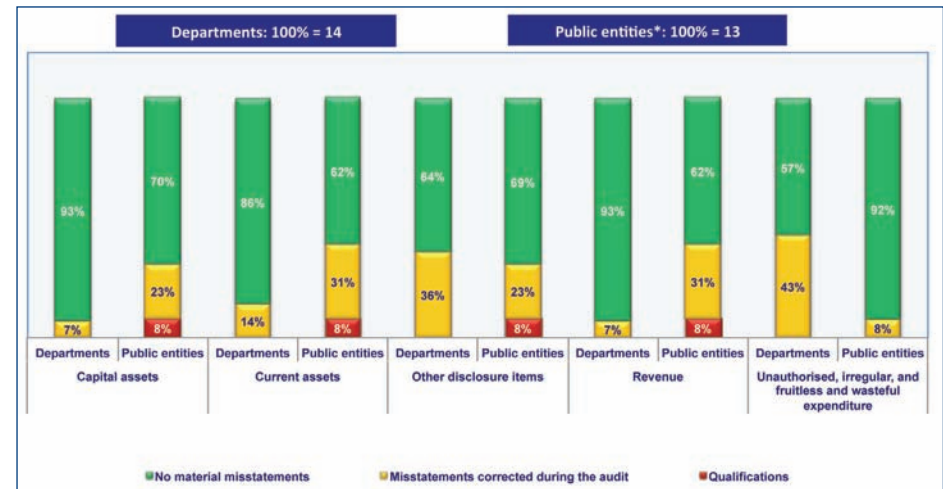
To address the root causes it is recommended that the leadership of the entity should address the following:

- Improve the skills of existing resources or acquire sufficiently skilled resources to effectively prepare regular GRAP-compliant annual financial statements.
- Develop, implement and monitor a GRAP implementation plan.
- Governance structure should review the annual financial statements.
- Assess the feasibility of acquiring appropriate IT systems to enable the production of GRAP-compliant annual financial statements.

2.2.3 Analysis of areas in the financial statements containing material misstatements

Departments and public entities submitted financial statements for auditing that contained material misstatements in one or more areas. The areas misstated for the year under review are depicted in figure 5 below.

Figure 5: Areas of material misstatements in financial statements (corrected and uncorrected)



* Including audits not conducted by the AGSA

Material corrections for departments mainly related to other disclosure notes and irregular expenditure with only one or two departments still struggling with the remaining areas. This is evidence of the focus by the province on these areas. Fixed assets for departments were a commitment by the province at the end of the 2009-10 financial year and the leadership of the province has made great strides in this regard. However, the issues at Health remain a concern that could result in a regression if not addressed.

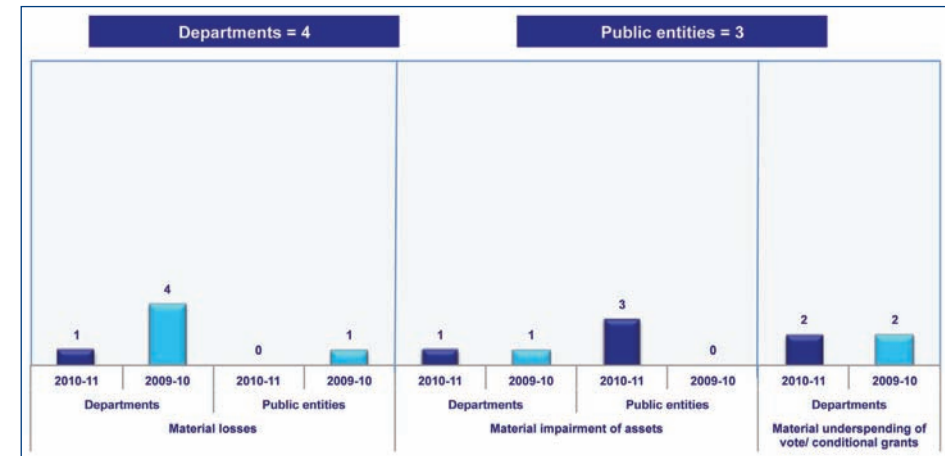
The material adjustments at Health were due to a lack of review and monitoring by management at the central hospitals to ensure that controls over monthly reconciling of transactions are implemented. The lack of performing monthly reconciliations between the asset registers and the financial accounting system continued throughout the 2010-11 financial year at the central hospitals and left the department in a situation where, at year-end, the differences between the asset registers and the financial accounting system could not be adequately reconciled and/or supported by sufficient appropriate evidence. The differences were subsequently reduced to an acceptable level to prevent a qualified audit opinion. This situation is, however, undesirable or unsustainable. Furthermore, processes relating to asset management have not yet been fully institutionalised throughout the department as various findings were again raised on the completeness of asset registers, the existence of assets, unique identification of assets and processes relating to the disposal of assets.

Public entities are still faced with challenges in most areas with the exception of unauthorised, irregular, and fruitless and wasteful expenditure. Public entities have not been the focus for the provincial treasury or the province and as a result are still lagging behind the departments. Going forward, the provincial treasury will concurrently analyse all the departments' and entities' audit reports for the 2010-11 financial year, together with the associated management reports and compile a provincial treasury action plan to deal with transversal issues and, where necessary, to assist departments and entities in improving their financial management capability rating.

Annexure 1 to this report lists the audit outcomes of all auditees in the province, together with their financial statement qualified areas.

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

Figure 6: Material losses, asset impairments and underspending



The details of the above were as follows:

Material losses

Assets valued at R5,3 million (initial purchase cost value) in the asset register could not be located by the Department of the Premier. This related mainly to IT assets which the department manages on behalf of the province and reoccurred from the prior year. The department is investigating these assets to determine whether they can be written off in accordance with the prescribed thefts and losses process.

Material impairments

An investment of R142 million, held by Economic Development and Tourism in the Cape Town International Convention Centre, has been impaired by R468 000 in the current financial year, resulting in an accumulated impairment of R1 16 468 000. This was due to the revised fair valuing of the entity based on its financial position and performance as at 30 June 2010.



At the Government Motor Transport the provision for doubtful debts amounted to R17,9 million as a result of lost documentation in prior years. Some of the debtors date back eight years. The entity envisages applying to the accounting officer to approve the write-off of these long-outstanding amounts.

The Western Cape Investments and Trade Promotion Agency had a material impairment amounting to R1,1 million as a result of a decrease in the fair value of the agency's investment in a local company. The impairment was as a result of uncertainties relating to future cash flows.

The provision for doubtful debts at the Western Cape Housing Development Fund amounted to R384 million at year-end as a result of non-payment by debtors. The provision decreased by R24 million from R408 million (2009-10) to R384 million.

Material underspending of the vote

Human Settlements materially underspent on programme 3: housing development and programme 4: housing asset management to the amounts of R12 684 000 and R12 348 000, respectively. The underspending on programme 3: housing development was due to a claim receivable from a service provider and the underspending on programme 4: housing asset management was due to municipal accounts not received timeously for payment processing by 31 March 2011. This did not have an impact on service delivery.

Transport and Public Works underspent its budget by R192 million. This was primarily due to vacancies not filled as planned, overestimation of capital requirements for the Enterprise Content Management System, delays in the review process of Integrated Transport Plans, uncertainty regarding the liability for the payment of property rates, longer than expected procurement lead times to complete projects for the repair of flood damage, the EPWP infrastructure sector targets that were not surpassed and, as a consequence no cash inflow emanated to finance the appropriated Expanded Public Works Programme (EPWP) Incentive Grant, a delay in the rollout of training interventions because of the conclusion of an overriding Training Strategy for Land Transport and the design of the Average Speed over Distance Infrastructure for which professional consultants needed to be procured that took longer than expected. The impact of the underspending on

service delivery is that repairs were made temporarily on road infrastructure until permanent repairs could be made to restore the infrastructure to its original state. However, fewer projects could be undertaken that would create job opportunities and existing staff carried an additional workload.

2.2.5 Auditees with concerns regarding funding of operations, financial sustainability or going concern

Concerns regarding the funding of operations or financial sustainability were identified at two auditees in the province (7%) (2009-10: 1). Table 7 depicts the main reasons for such concerns.

Table 7: Reasons for funding and financial sustainability concerns at auditees

| Auditee | Liquidation/De-establishment | 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 concerns per auditee |
|---------------------------------------|------------------------------|-----------------------------------|----------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------|--------------------------------|
| Western Cape Housing Development Fund | 1 | | | | | 1 |
| Provincial Development Council | | 1 | | | | 1 |
| Total | 1 | 1 | 0 | 0 | 0 | 2 |

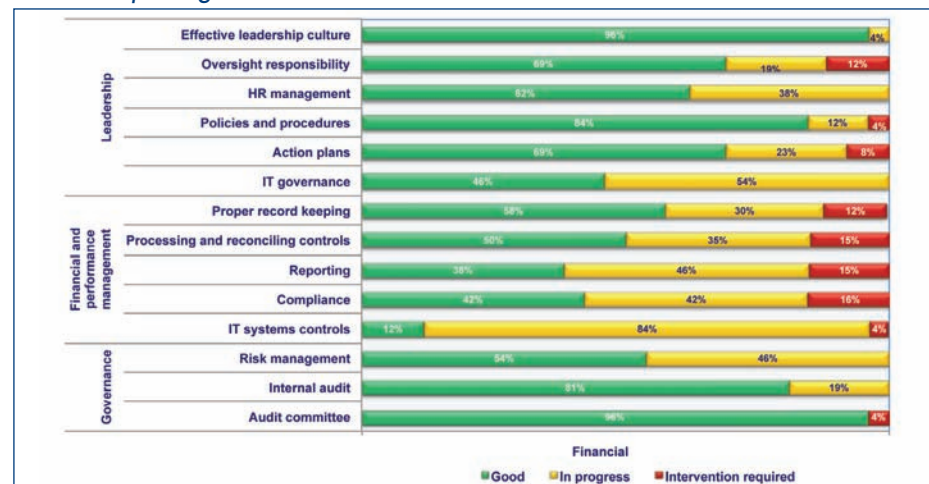
A national decision was taken to de-establish the housing funds in the provinces. However, the legislative changes to the National Housing Act, 1997 (Act No. 107 of 1997) have not yet been enacted to allow de-establishment of the funds. The fund aims to finalise the removing of properties that do not belong to them and transferring properties to rightful owners by March 2014.

The Cabinet announced its intention to repeal the Provincial Development Council (PDC) Act and the effect of the repeal of this legislation will result in the dissolution of the PDC. As at the date of this report this process has not been finalised.

2.2.6 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 7 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 7: Assessment of auditees' key controls over financial management and reporting



The main areas of concern for those provincial departments and public entities identified as in progress/intervention required included the deficiencies in key controls in the area of financial and performance management.

The oversight from the leadership should be maintained with specific focus on HR management, to ensure sustainable outcomes and to positively affect the drivers under financial and performance management.

This is impacted by key vacancies, information technology (IT) control findings in respect of financial, HR, and inventory and asset management systems, inadequate record keeping and controls over daily/monthly processing and reconciling of transactions, including systems and processes to account for disclosure notes in the case of departments, preparing regular and accurate financial and performance reports and inadequate risk management.

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

Departments and public entities that were able to submit for auditing financial statements that fairly present their state of affairs and their financial position as at the end of the financial year have processes in place to ensure accurate and complete monthly reporting and for reconciling manual records with transactions.

For the 2010-11 year, the departments committed to review the schedules supporting these disclosure notes before submission of the financial statements for auditing, however, in some instances these reviews proved to be inadequate, resulting in misstatements.

The leadership committed to submitting their interim six-monthly financial statements, including the disclosure notes to the financial statements. These financial statements will be reviewed by the provincial treasury as part of the red-flag initiative. Internal audit should also assist in assessing the credibility of information included in the financial statements assisted by oversight from the audit committees.

Preparation of financial statements should be an ongoing process starting on the first day of the financial year and should be complemented by the preparation of monthly management accounts and confirmation of the credibility of the reported financial information by the officials and Internal Audit. Capacity in terms of the right skills and experience in the finance units of entities is still a challenge, hence the use of consultants in the preparation of financial statements of some public entities. Service level agreements with consultants should provide for the transfer of skills to the staff in the finance units of the various entities.



2.3 Findings 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 annual financial statements. The objective of an audit of predetermined objectives is to enable the auditor to conclude on whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

Since the 2005-06 financial year the AGSA has gradually been phasing in the auditing of predetermined objectives and explaining to the leadership 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

It is encouraging to note the progress made by the province in the area of predetermined objectives. The province has sustained most of its outcomes and improvement from four to two departments with findings on predetermined objectives and three to two public entities in the 2010-11 financial year. This area was a specific commitment and focus area for the province, therefore improvement in this area is a compliment to the leadership and governance structures providing the appropriate oversight to this area.

Progress by auditees in addressing prior year findings on predetermined objectives is depicted in figure 8 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 8: Movements in findings on reporting on predetermined objectives

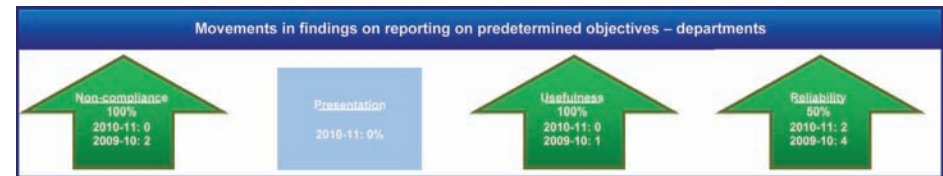
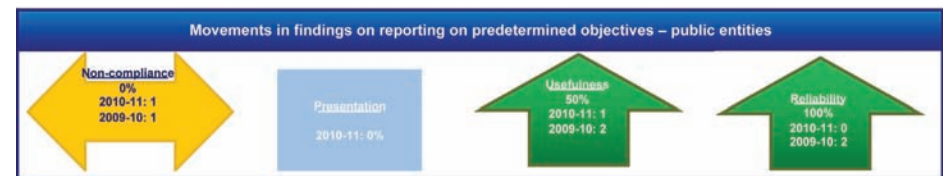


Figure 9: Predetermined objectives – extent of findings on usefulness and reliability



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 predetermined objectives reporting are analysed below.

Non-compliance

Non-compliance with regulatory requirements refers to the preparation of the annual performance plan, submission to those delegated for approval depending on the type of institution, the evaluation of the contents for achieving objectives and indicators and the subsequent reporting. Findings relate mainly to the lack of effective, efficient and transparent systems and internal controls regarding performance management.

Health and Social Development have improved and the findings did not recur; however, Western Cape Investment and Trade Promotion Agency still has findings, but these were less than in the prior year. The leadership did not adequately develop and implement documented and approved internal policies and procedures to address planning, monitoring and reporting processes pertaining to predetermined objectives.

Usefulness

Usefulness of information on performance against predetermined objectives refers to the reported information being consistent with the objectives and targets and whether the targets are clearly linked to the mandate and objective of the institution, specific and clearly identifying the nature and required level of performance, as well as measurable and time bound.

Health, Western Cape Language Committee and Cassidra (Pty) Ltd had findings on the usefulness of predetermined objectives in the prior year. This related to targets not being specific or measurable, and strategic plans that did not include indicators and targets for all programmes. The leadership of these entities addressed the audit findings through effectively implementing and monitoring their action plans.

The Western Cape Gambling and Racing Board regressed in 2010-11 as their targets were not specific and measurable due to ineffective monitoring and reviewing of reports on predetermined objectives by management and the board of directors.

Reliability

The audit focused on whether the reported information on performance against predetermined objectives could be traced back to source data or documentation and whether the reported information is accurate, complete and consistent in relation to the source data, evidence or documentation.

Health, Human Settlements, Social Development, Transport and Public Works, Western Cape Liquor Board and Casidra (Pty) Ltd had findings on the reliability of predetermined objectives in the prior year. The findings were in respect of information not being reliable when compared to source information, source documentation not presented for audit purposes and reasons for variances not adequately supported by source documentation.

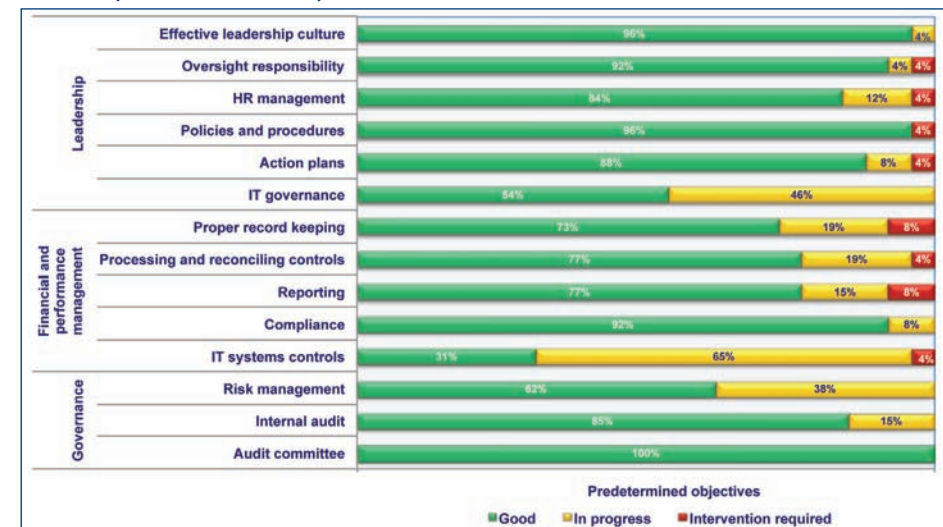
Health and Transport and Public Works improved, mainly as a result of the collection and availability of sufficient appropriate audit evidence for reported information.

Human Settlements and Social Development did not actively monitor and implement action plans, resulting in stagnation in relation to the reporting on predetermined objectives.

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

Figure 10 provides an assessment, at the time of the audits, of the key drivers of internal control that should be in place to ensure that auditees produce performance reports that are useful and reliable and that meet the regulatory requirements, including that of presentation.

Figure 10: Assessment of drivers of internal control over reporting on predetermined objectives



It is encouraging to note the decrease in audit findings on predetermined objectives as a result of addressing internal control deficiencies reported in the prior year, which indicates that the province is maturing in the areas of reporting on predetermined objectives. This was also achieved through appropriate focus from the accounting officer, supplemented by the audit committees monitoring the implementation of action plans.



This is testimony to the maturity of the province in the area of predetermined objectives, in line with our phased-in approach. However, in larger departments such as Health, Human Settlements and Social Development, we are carefully monitoring progress and the sustainability of processes implemented. Critical to maintaining the great strides made by the province will be the marked change in the institutionalisation of controls implemented thus far.

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

The departments and public entities who have managed to turn their findings on predetermined objectives around show sustainable outcomes on predetermined objectives due to the following:

- Adequately documented policies and procedures have been implemented assigning roles and responsibilities for the recording, compilation and reporting on predetermined objectives.
- Reports on predetermined objectives are reviewed by the appropriate level of management, internal audit and audit committees before submission to the AGSA.
- Commitments made by the Premier and ministers that were to address prior year findings on predetermined objectives have been implemented at department and entity level.
- Accounting officers and programme managers reviewed indicators and targets included in annual performance plans for adherence to the SMART principles.

The improvement in the number of departments with findings on predetermined objectives is attributable to the following:

- Health:
 - The leadership improved their monitoring and evaluation of reporting on predetermined objectives in the year under review.
 - A detailed action plan was compiled, implemented and monitored.
 - Detailed policies and procedures were implemented, and clear roles and responsibilities were assigned and rolled out within the entire department.

- Training on predetermined objectives was given to all line managers and the monitoring and evaluation directorate.

- Transport and Public Works:
 - The monitoring and evaluation directorate was established and in operation for the entire year under review.
 - Stricter monitoring of reported information by the leadership.
 - Training on predetermined objectives to all line managers and the monitoring and evaluation directorate.

The repeat findings on reliability for Human Settlements and Social Development were due to the following:

- Social Development:
 - The accounting officer did not take appropriate follow-up action to address inadequacies highlighted during the AGSA's quarterly key control interventions in the validation of performance data.
 - Oversight that should be performed by district managers over data validation did not occur in all instances due to managers relying on the information provided by the non-profit organisations without subjecting it to independent scrutiny and adequate quality control checks.
 - Roles and responsibilities were not adequately enforced by programme directors to ensure that accountability is taken to guarantee that performance data is valid, accurate and complete.
 - For the 2010-11 financial year, the performance contracts of senior management were not aligned to include responsibilities of validation of non-financial data.
 - Pertinent information was not identified and captured in a form and time frame that support performance reporting as the district office staff have different ways of capturing data that do not effectively and efficiently filter into the performance report.
 - Furthermore, documented processes were not sufficiently detailed to facilitate the preparation of the performance reports, resulting in data that did not accurately reflect actual outcomes.

To address the issues above a re-engineering of the performance management system is underway. A strategy document has been developed and the monitoring and evaluation unit has developed quality control templates to monitor the implementation. Roadshows by chief directors are being conducted in all districts to ensure that roles and responsibilities are adequately enforced. The quarterly reporting process will be subject to strict quality control before submission to the treasury and inclusion in the annual performance report.

- Human Settlements
 - The systems relating to reporting on predetermined objectives were not adequately complied with and the quality of evidence was not adequately monitored, therefore resulting in incomplete and inaccurate reporting.
 - Actions were not in all instances taken to address risks relating to the achievement of complete and accurate performance reporting.

The Western Cape Gambling and Racing Board regressed from *financially unqualified audit opinion with no findings* to *financially unqualified audit opinion with findings*. Management did not adequately exercise its responsibility to ensure that targets were measurable. The targets were not specific and measurable due to ineffective monitoring and reviewing of reports on predetermined objectives by management or the board of directors.

Specific focus should be placed on the Western Cape Investment and Trade Promotion Agency that has not yet implemented proposed interventions to address their previous audit findings. The rest of the public entities in the province have achieved a sustainable result.

All departments and public entities should focus on monthly credibility checks to ensure that information included in the performance reports submitted throughout the year is accurate and complete through the use of the internal audit function and audit committee. Management and the leadership should develop, implement and monitor action plans to address specific internal control deficiencies identified.

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 auditees are charged with carrying out 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 commission or omission 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:

- Annual 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

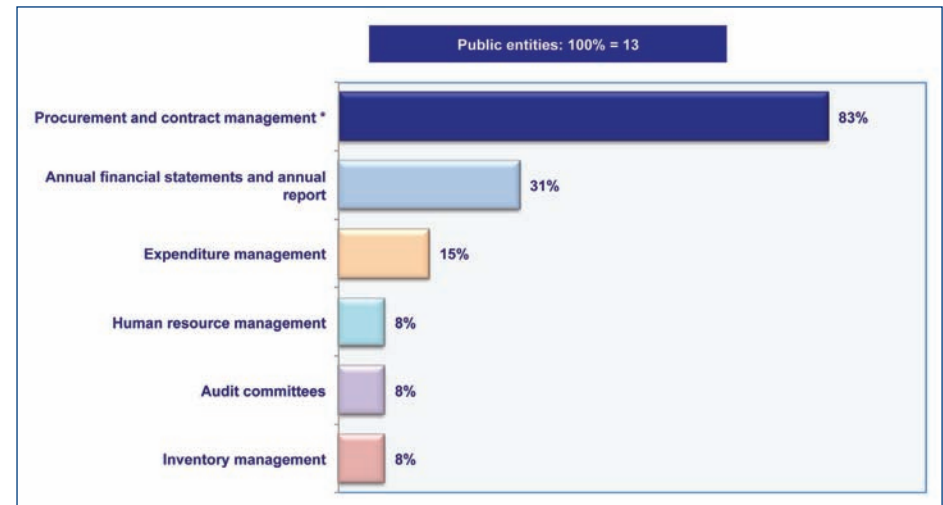
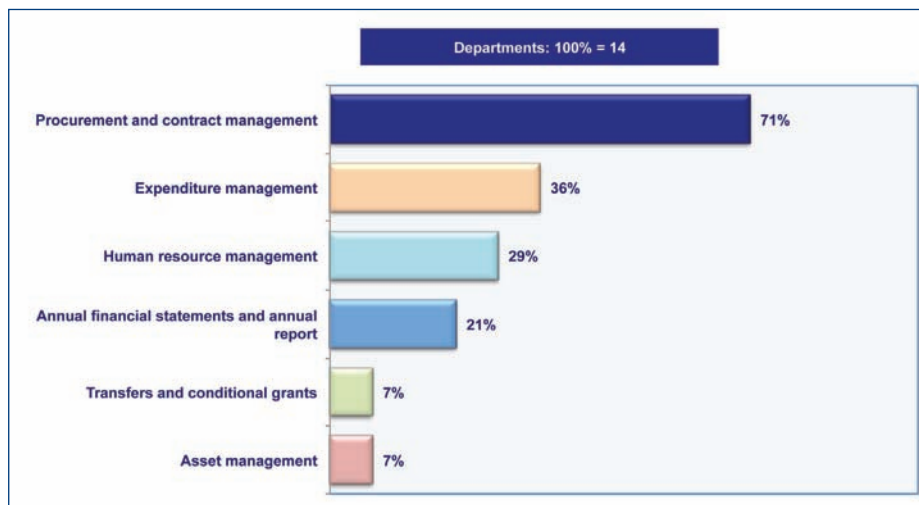


Audits not performed by the AGSA also included compliance auditing, though not all the focus areas were covered to the same extent.

2.4.2 Transversal findings on compliance with laws and regulations

Figure 11 below depicts areas of material non-compliance that were most prevalent at departments and public entities. As the focus areas and legislative requirements audited differed from the previous year, the figure does not include comparisons with the previous year.

Figure 11: Summary of findings arising from the audit of compliance with laws and regulations



* One public entity excluded due to procurement and contract management focus area not audited.

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

Table 8: 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 | | | |
| Procurement and contract management | No declaration of interest submitted | 64% | 62% |
| | Competitive bids not invited | 29% | 8% |
| | Three written price quotations not obtained | 29% | 0% |
| Expenditure management | Irregular expenditure not prevented | 29% | 15% |
| | Irregular expenditure not detected | 14% | 8% |
| Annual financial statements | Submitted AFS not prepared in accordance with the appropriate accounting framework | 21% | 23% |
| Human resource management | Verification process for new appointments did not always take place | 7% | 8% |

| Focus area | Summary of common findings | Departments | Public entities |
|---------------------------------------------------------|-----------------------------------------------------------------------|-------------|-----------------|
| Prevalent non-compliance areas: Departments only | | | |
| Human resource management | Processes/procedures not in place to monitor sick leave | 14% | |
| | Inadequate processes to ensure all leave taken is accurately recorded | 14% | |

Figure 11 above only reflects findings that were reported at audit report level and section 3.2: human resource management, and section 5: supply chain management, report on all findings (both audit and management report). Although the level of non-compliance appears to be low for human resources, there is an emerging trend with regard to the increasing number of findings as reported in section 3.2 which, if left unaddressed, could affect the audit outcomes in upcoming years.

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

Section 2.2.2 of this report provides details on the financial statements submitted by accounting officers for auditing that had not been prepared, in all material aspects, in accordance with appropriate accounting framework (and were not 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 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.

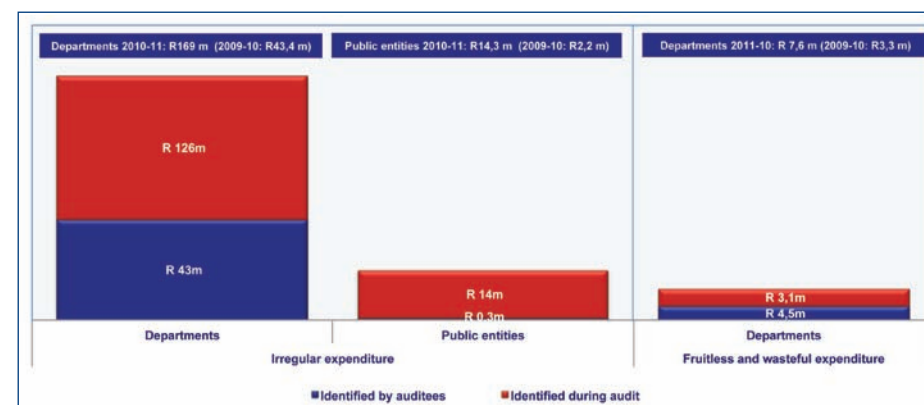
Unauthorised expenditure results from overspending on a vote or a main division within a vote or is expenditure that is not in accordance with the purpose of a vote or main division.

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is 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 is 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 12: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and public entities



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



Table 9: 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 | | | 100% | | | |
| Identified during the audit – not detected by auditee | | | 0% | | | |
| Incurring for two or more successive financial years | | | | | | |
| Nature of unauthorised expenditure incurred | | | | | | |
| Overspending of votes/main division within votes | | | 100% | | | |
| Expenditure not in accordance with votes | | | 0% | | | |
| Irregular expenditure | | | | | | |
| Number of auditees incurring | 12 | R169m | 33% | 4 | R14,3m | 50% |
| Identified during the audit – not detected by auditee | 7 | R126m | 250% | 3 | R14m | 100% |
| Incurring for two or more successive financial years | 9 | | | 1 | | |
| Nature of irregular expenditure incurred | | | | | | |
| Supply chain management | 11 | R146m | 22% | 4 | R14,3m | 50% |
| Compensation of employees | 2 | R17,5m | 100% | | | |
| Other non-compliance | 4 | R5,5m | 20% | | | |
| Fruitless and wasteful expenditure | | | | | | |
| Number of auditees incurring | 6 | R7,6m | 14% | | | 100% |
| Identified during the audit – not detected by auditee | 1 | R3,1m | 100% | | | |
| Incurring for two or more successive financial years | 2 | | | | | |

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

2.4.4 Summary of findings 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 21 (81%) of the 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 13: Summary of findings on SCM

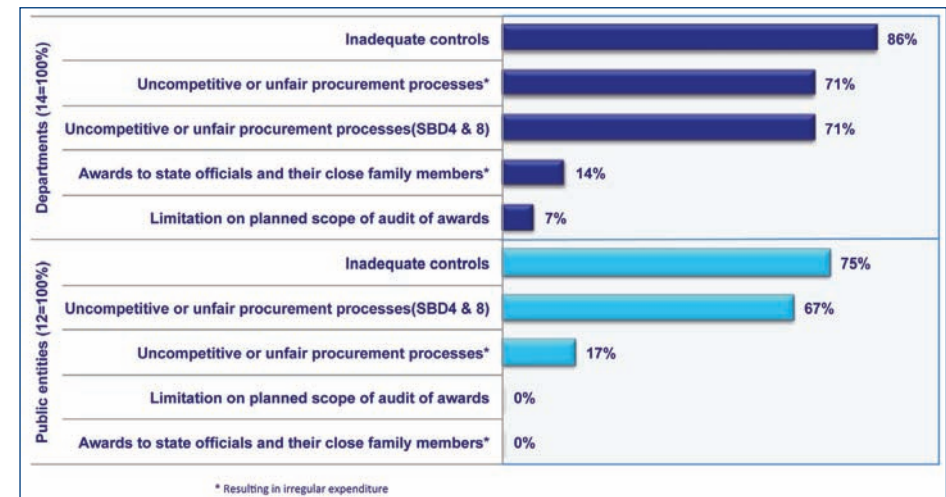
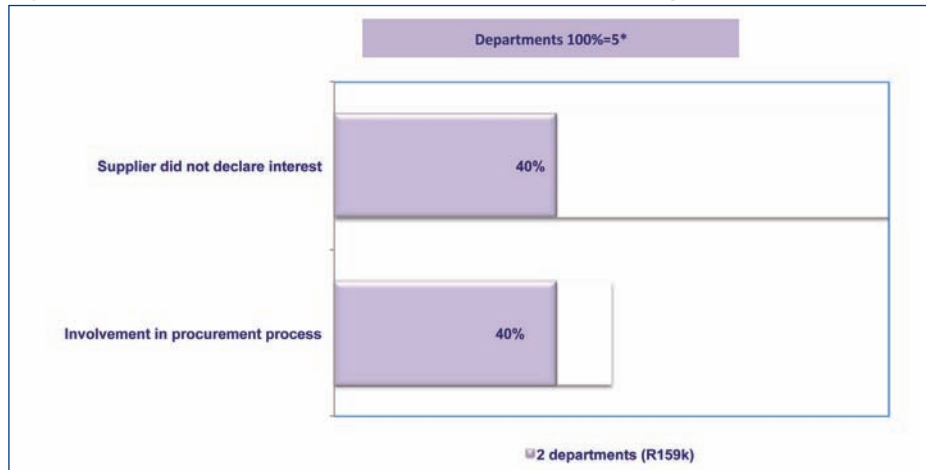


Figure 14: Awards to state officials and/or their close family members



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 |
|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inadequate controls | Findings on inadequate controls related mostly to issues already identified in other SCM focus areas, such as inadequate controls to ensure interests are declared, not using SCM checklists to ensure compliance, SCM officials not being aware of SCM policies or not understanding their roles and responsibilities, as well as not being adequately trained. |
| Uncompetitive or unfair procurement processes | Common findings on departments were competitive bids not invited and no deviation approved (29%), awards to persons without tax clearance certificates (50%), three written quotations not invited and no deviation approved (29%) and preference points system not applied for quotations above R30 000 (14%). |
| Uncompetitive or unfair procurement processes (SBD 4&8) | 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 that did not submit the required declaration (65% of auditees). 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 underperformance on state contracts. Awards were made to suppliers who failed to declare their past SCM practices (1.2% of auditees). |

| Aspect audited | Summarised findings |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Awards to state officials and their close family members | Awards to officials with an interest or close family members of officials with an interest were identified in five departments. In two of the five departments, the supplier did not declare the interest and the employee was involved in the procurement process, resulting in non-compliance. |
| Limitations on planned scope of audit of awards | A proper record-keeping system to ensure that complete, relevant and accurate information is accessible and available to support financial reporting was not implemented to track the movement of procurement documentation between officials, thereby ensuring that information is available in a timely manner. This resulted in the lack of sufficient appropriate evidence to substantiate that proper procurement processes were followed on two contract payments totalling R904 020. In addition, the procurement documentation relating to two contract payments and one quotation payment totalling R926 324 were in the possession of the forensic investigation unit. The relevant procurement documentation could therefore not be provided for audit verification. |

2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

Table 10: Investigations completed or in process as at 31 March 2011

| Auditee | SCM-related | Fraud | Other financial misconduct | Number of investigations per auditee |
|------------------------------------------------|-------------|-----------|----------------------------|--------------------------------------|
| Health | 17 | | 21 | 38 |
| Human Settlements | 2 | | 33 | 35 |
| Transport and Public Works | 17 | 1 | 3 | 21 |
| Social Development | | 4 | 17 | 21 |
| Education | 9 | | 11 | 20 |
| Agriculture | 1 | 2 | | 3 |
| Environmental Affairs and Development Planning | 1 | 2 | | 3 |
| Office of the Premier | 2 | 1 | | 3 |
| Western Cape Nature Conservation Board | 1 | 2 | | 3 |
| Local Government | 2 | | | 2 |
| Cultural Affairs and Sports | 1 | 1 | | 2 |
| Cape Medical Depot | 1 | | 1 | 2 |
| Western Cape Gambling and Racing Board | 1 | | | 1 |
| Total | 55 | 13 | 86 | 154 |



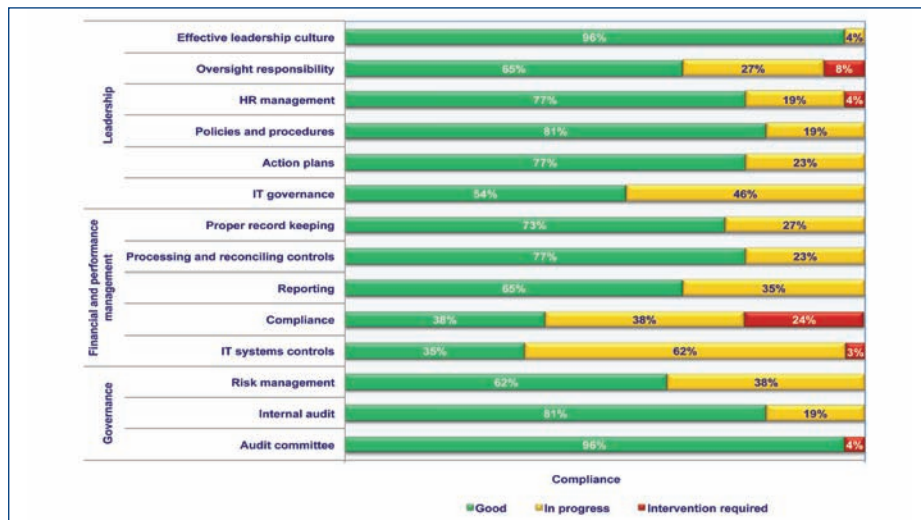
Various investigations were conducted during the year under review in response to the prevalence of supply chain management transgressions and suspected fraud and misconduct. This was mainly due to whistleblowers coming forward and auditees requesting investigations to ensure that suspected irregularities are investigated, indicating that fraud prevention plans are actively implemented.

This resulted in an increase of 114% in the number of investigations commissioned by departments and public entities from the previous financial year. Table 10 lists the investigations in progress or completed by March 2011. Investigations were conducted by other investigating institutions.

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

Figure 15 provides an assessment of the key drivers of internal control that should be in place to ensure compliance with laws and regulations.

Figure 15: Assessment of drivers of internal control – compliance with laws and regulations



Overall, the province is making progress in the area of key controls in respect of compliance. The culture appears to be supporting; however, work on oversight in respect of HR, policies and procedures, action plans and IT needs to be maintained to ensure the development and implementation of sustainable processes to reduce the root causes of non-compliance, thus reducing the findings in the next year.

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

The departments and public entities who have managed to attain no findings on compliance with laws and regulations related to SCM implemented the following:

- The leadership exercised oversight over SCM processes and practices.
- They proactively arranged to request SBD4 declarations from all suppliers when requesting quotations or bids.
- Stability in the SCM unit over the past few years as well as compliance monitoring by the CFO.

Findings were mainly in respect of supply chain management due to inadequate leadership oversight, as well as inadequate systems and processes to identify and report on non-compliance, inadequate guidance on the application of SCM regulations, inadequate monitoring of compliance with these regulations and inadequate risk management.

- There is a need to improve the effectiveness of the execution of the duties stipulated in the PFMA in relation to the accounting officers' and accounting authorities' duties to ensure an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective.
- Guidance from the provincial treasury in respect of supply chain management requirements should be provided in a timely manner for implementation by departments and public entities.
- In view of the extent of the findings in respect of supply chain management in the province we are concerned about the state of readiness of the province to effectively implement the Western Cape Procurement (Business Interests of Employees) Act, 2010 (Act No. 8 of 2010) as published in *Provincial Gazette Extraordinary 6832 of 10 December 2010* as it is more onerous than the current supply chain management regulations.

- Training should be provided to staff at all levels, including SCM officials, on exactly what the requirements are for each type of procurement. The implementation of checklists to facilitate compliance monitoring should be considered.

Going forward auditees should implement compliance checklists, as well as consider the good practices implemented successfully by those auditees with no findings on compliance. Identified instances of non-compliance should be reported on a monthly basis and the credibility and completeness of the reported non-compliance should be confirmed on a monthly basis. These reports should be used to further strengthen controls in the affected areas to avoid further non-compliance throughout the year. In response to the province's request for national treasury intervention in the clarification of the practice notes, a working group consisting of members from the provincial treasury and the National Treasury has been established and will be working through all the practice notes requiring clarification.

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, such as compliance (especially SCM), quality of financial statements, in particular that of the disclaimed entity, and the sustainability of the predetermined objective outcomes, that require focus and/or the intervention to achieve clean audit outcomes. 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 audit outcomes are discussed in 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 in 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 not implementing and monitoring these fundamentals of internal control.

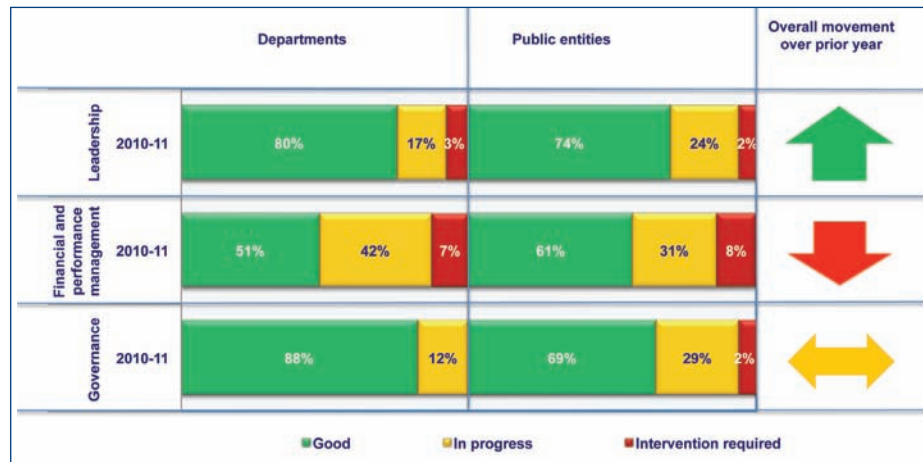
Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit. An assessment of these drivers over financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided in sections 2.2.9, 2.3.3 and 2.4.6, respectively.



Sections 3.2 and 3.3 provide an assessment of human resource 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 16 below.

Figure 16: Progress made in implementing key controls (all auditees)



Leadership

In general, the leadership has set the right tone and instilled a culture of ethical behaviour, ensured that sufficient human resources were in place and action plans were implemented. Of concern is that this has not had the expected effect on financial and performance management in terms of the extent to which leadership got the officials to do their work in the manner that it should be done. Going forward attention should be focussed on assessing the sufficiency and the effectiveness of the action plans through appropriate monitoring.

Intervention is required to specifically address oversight over SCM as accounting officers did not in all instances evaluate whether management has implemented effective internal controls to ensure that senior management had met its responsibilities related to compliance with laws and regulations.

The leadership enhanced their monitoring and evaluation of reporting on predetermined objectives through the implementation and monitoring of detailed action plans.

With regard to HR, monitoring controls should be implemented to address findings on leave management. Vacancies and skills shortages must be addressed as this can have a negative impact on all areas going forward.

Financial and performance management

The officials have not adequately assessed the credibility of information submitted to those charged with governance as well as external audit prior to submission resulting in adjustments to financial statements and to the reports of predetermined objectives as well non-compliance with laws and regulations.

Management has not ensured that proper guidance is provided to all staff involved in the procurement process and that sufficient training was given to ensure compliance with supply chain management (SCM) regulations. This is especially important for staff not in the centralised SCM units. Furthermore, the review and monitoring of compliance and monitoring of the daily and monthly procurement processes were not consistently effective.

Governance

Proactive risk management needs to be applied in respect of supply chain management so that systems and processes to identify and report on non-compliance can be sustainably addressed.

Internal audit and the audit committee should confirm the credibility of information and the effectiveness of internal controls related to financial, predetermined objectives and compliance on an ongoing basis as part of their normal focus.

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

3.2 Effective human resource management as specific driver of audit outcomes

Effective human resource management (HR) 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 from the assessment of HR management

Figures 17 and 18 below depict a comparison of the 2010-11 financial year against the 2009-10 financial year in each focus area for departments and public entities (without comparison). The figures show an overall improvement with a sharp deterioration in the management of leave and overtime. The area of management of leave, overtime and suspensions is particularly concerning, especially because it deteriorated in the same period as centralisation of the HR processes in the province took place. It is currently premature to conclude on whether there is a direct correlation between the centralisation and the deterioration. However, roles and responsibilities between departments and Department of the Premier need to be further clarified to prevent repeat findings.

Figure 17: Identified HR management weaknesses – departments

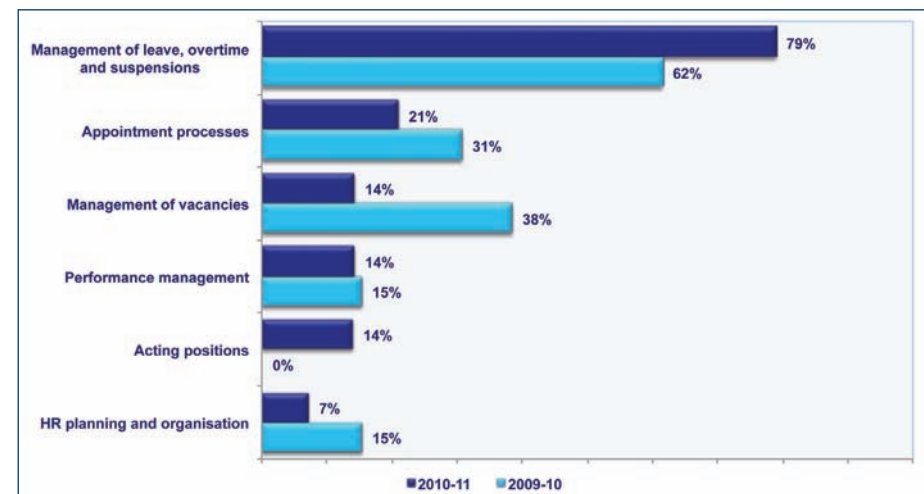
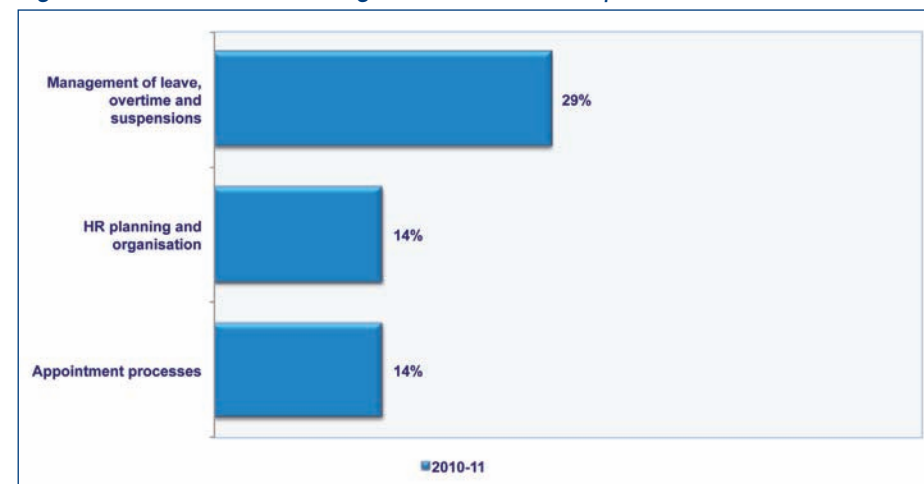


Figure 18: Identified HR management weaknesses – public entities



* Six entities are excluded as the HR management function is performed by the relevant department



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

Table 11: Common findings from the AGSA's focus areas

| Focus area | Summary of common findings | Departments | | Public entities |
|-----------------------------------------------|-----------------------------------------------------------------------------------|-------------|---------|-----------------|
| | | 2010-11 | 2009-10 | 2010-11 |
| Management of leave, overtime and suspensions | Leave: Medical certificates not submitted for sick leave | 36% | 25% | 0% |
| | Leave: Processes and procedures for monitoring sick leave not always applied | 36% | 25% | 0% |
| | Leave: Employees received more than entitled incapacity leave | 29% | 8% | 0% |
| | Leave: Employees received more than entitled annual leave | 21% | 17% | 14% |
| | Leave: Processes and procedures not in place to monitor sick leave | 21% | 8% | 0% |
| | Overtime: Written authorisation not provided in advance for overtime to be worked | 14% | 0% | 0% |
| | Leave: Employees received more than entitled family responsibility leave | 14% | 8% | 0% |
| | Leave: Employees received more than entitled special leave | 14% | 0% | 0% |
| | Overtime: Employees worked more than maximum hours overtime allowed | 7% | 17% | 0% |
| Appointment processes | Verification process for new employees did not take place | 21% | 25% | 14% |
| | Prescribed selection and approval process not followed for all appointments | 21% | 0% | 0% |
| | New appointments did not have required qualifications and experience for position | 7% | 0% | 0% |
| Management of vacancies | Positions vacant for more than 12 months | 14% | 33% | 0% |
| | Vacancy rate increased from previous year | 7% | 8% | 0% |
| Acting positions | Employee acted in positions for more than 12 months | 14% | 8% | 0% |
| Performance management | Performance contracts of senior managers were not signed | 7% | 0% | 0% |
| HR planning and organisation | Human resource plan not submitted and approved late | 7% | 17% | 0% |

Management of leave, overtime and suspensions

For the year under review, 11 departments were identified as having deficiencies with regard to leave administration in comparison to eight departments in the previous year. The eight departments of the previous financial year had recurring findings and the three additional departments, Economic Development and Tourism, Provincial Parliament and Local Government (which was a new department for year under review), incurred similar findings.

The findings were as follows:

Employees at the following six departments received more leave than they were entitled to for various categories of leave (annual/family responsibility/incapacity/special):

- Agriculture
- Economic Development and Tourism
- Education
- Health
- Human Settlements
- Local Government

In terms of PSR 1/V/F(c), the head of the department should ensure that sick leave is not abused. The seven departments listed below did not comply with the DPISA's *Determination on leave of absence in the public service* (leave determination), which requires that medical certificates must be submitted, and/or did not implement processes and procedures to monitor sick leave in order to prevent abuse thereof:

- Agriculture
- Community Safety
- Cultural Affairs and Sport
- Economic Development and Tourism
- Education
- Health
- Department of the Premier

Although Agriculture had findings on the appointments process, these were considered to be isolated and not material.

Appointment processes

For the year under review three departments were identified as having deficiencies in their appointment processes, three departments addressed their previous year's findings, while two new departments experienced a lapse in the controls over their appointment processes. The Department of Health remained unchanged from the previous financial period.

The recruitment and selection processes ensure that candidates with appropriate qualifications and experience as per the requirement of the specific post are appointed. A directive was issued by the MPSA (effective 1 January 2008) which states that a process should be followed to check criminal and financial/asset records and to verify citizenship, financial status, qualifications and previous employment for all new appointments. These processes were not effectively implemented at the following departments:

- Health
- Agriculture
- Cultural Affairs and Sport

In addition to the above, the following three departments did not apply the prescribed selection and approval processes for all appointments:

- Health
- Agriculture
- Cultural Affairs and Sport

Management of vacancies

While vacancies have improved from the previous year as a result of an increased focus from management, it should be noted that the vacancy rate at Transport and Public Works increased from 26% in 2009-10 to 31,3% in 2010-11 which had a negative impact on service delivery. Education had a new finding in the

current year due to the department freezing posts while they re-assessed their organisational structure.

Acting positions

Departments have the option to temporarily direct an employee to act in a higher vacant position for which the employee is then paid an acting allowance. PSR 1/VII/B5.3, however, restricts the acting period to 12 months to ensure that permanent appointment of a suitably qualified and experienced person is not delayed. The DPSA's *Determination on acting allowance for senior management service (SMS)* further restricts the period for acting in an SMS position to six months unless prior approval is obtained from the minister/MEC.

Instances were found at Health and Economic Development and Tourism where employees received acting allowances for more than 12 months. Health remained unchanged from the previous financial year, whereas the provincial treasury addressed the identified deficiency and therefore the finding did not recur in the current year.

Performance management

It was identified that at the provincial treasury and Agriculture SMS members did not sign performance contracts before 31 May for the relevant financial year as required by the Public Service Regulations. These contracts were signed during June 2011.

HR planning and organisation

Transport and Public Works regressed as a result of the findings identified, due to incomplete organisational structures as well as not approving and submitting their human resources plan to the DPSA.

Health and Education were reported on in the previous financial year, however, both departments addressed the identified deficiencies and showed an improvement.



Public entities HR

This is the first time public entities were subjected to an HR focus area. Of the 13 public entities in the Western Cape, six have been excluded from the HR focus area as the HR management function has been performed at the relevant department. Findings were identified at two public entities, namely Government Motor Transport (GMT) and Western Cape Nature Conservation Board (WCNCB).

GMT had findings on HR planning and organisation, the appointment process and leave administration. Management did not ensure that their HR plan was approved and submitted to the DPSA, specific information was not verified for new employees and management did not ensure that medical certificates accompanied sick leave taken by employees.

The WCNCB had various findings on leave administration as a result of manual and decentralised system of capturing leave. This was considered to be isolated and not material.

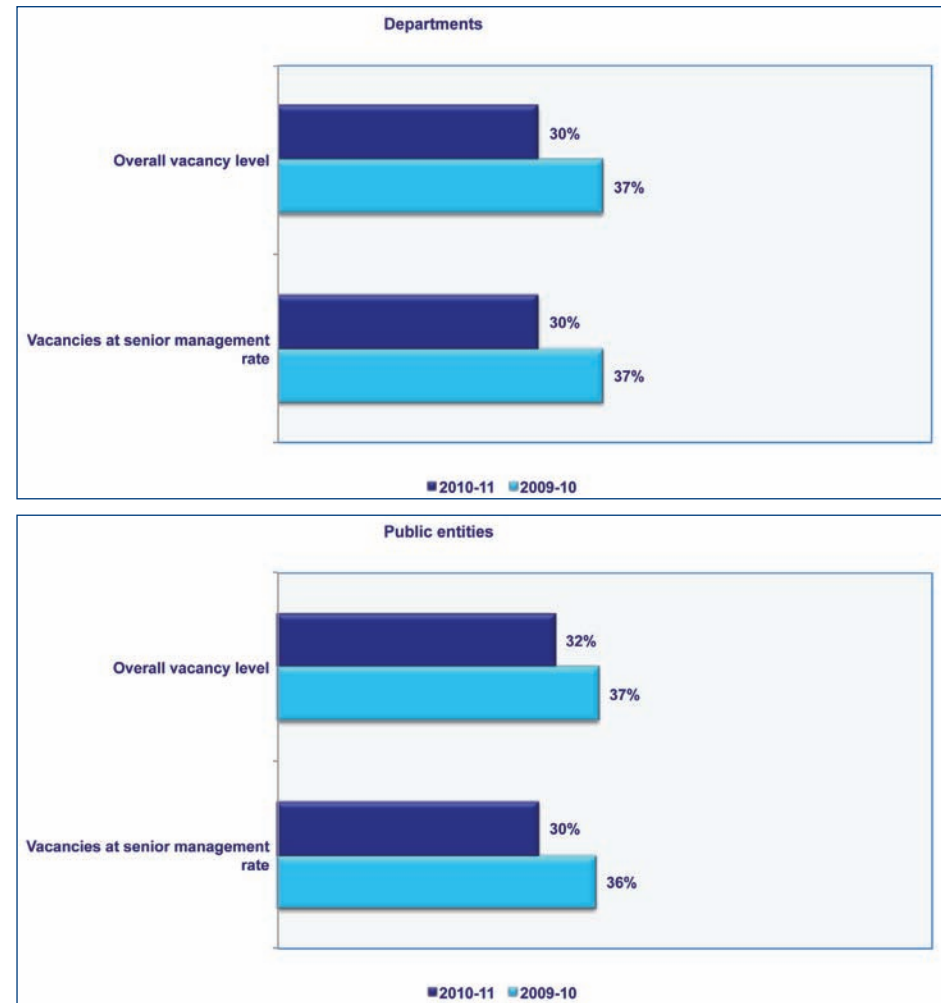
3.2.2 Impact of staff vacancies on internal control

Positions should be filled in a timely manner 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 are an integral part of planning, implementing, reviewing and accountability for stewardship of government resources managed by auditees and achieving results. Such activities include but are not limited to approvals, authorisations, verifications, reconciliations, performance reviews, maintenance of security, creating and maintaining records and appropriate documentation and may be neglected if key vacancies are not filled in a timely manner.

Progress 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 19: Progress in filling vacancies



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

Leave administration

The above deficiencies arose as a result of the departments not implementing sufficient monitoring controls to ensure adherence to all required HR policies and regulations. Management did not implement remedial actions to address all internal control deficiencies identified in the previous financial year.

Appointment process

These findings were as a result of human resource policies and practices not being designed and implemented to facilitate effective recruitment, orientation, training, evaluation and compensation of personnel. The human resource department of Health was not aware that verification checks should be done on appointments and that evidence of verification checks should be on the appointment file. There is a need to further clarify roles and responsibilities between some departments and the Department of the Premier regarding the centralisation of the human resource function. As a result of the centralisation, Agriculture, Cultural Affairs, and Sport and Economic Development and Tourism saw a regression from the previous year.

Acting allowances

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff.

Performance management

Management did not implement adequate controls to ensure compliance with the DPSA circular as no follow-up was performed to ensure that all the relevant SMS staff had signed performance contracts within the required time frames.

Public entities

Findings arose as a result of management not adequately reviewing and monitoring controls to ensure adherence to all required HR policies and regulations. The non-compliance was material.

Going forward

Auditees should implement sufficient monitoring controls to ensure adherence to all required HR policies and regulations and implement remedial actions to address all internal control deficiencies identified in the previous financial year. Human resource policies and practices should be designed and implemented to facilitate effective recruitment, orientation, training, evaluation and compensation of personnel. Checklists should be used to monitor compliance with key legislation aligned to operational processes within HR management. Roles and responsibilities should be further clarified between some departments and the Department of the Premier regarding the centralisation to prevent repeat findings and a potential impact on the employee-related balances.

3.3 Information technology management as specific driver of audit outcomes

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

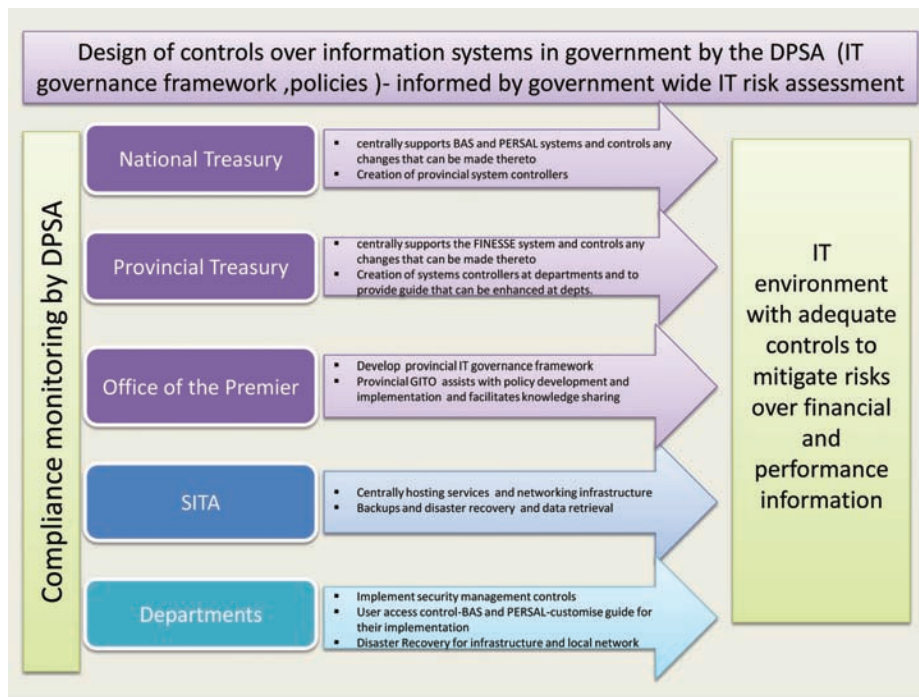
Fourteen departments in the province utilise transversal systems (e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal), and Logistical Information System (Logis) to process their financial information. CEMIS is utilised by the Department of Education for the management of pupil information and Clinicom, Syspro, JAC, Delta 9 and Ekapa by the Department of Health for financial and information management.



Design of IT management

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

Figure 20: Design of controls over information systems in government by the DPSA



It is against the roles and responsibilities outlined above that the following focus areas were set for auditing of IT in the province:

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

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

- Program change management
- Facilities management
- Data centre

The nature of the IT support and maintenance structure within the Western Cape necessitated the transversal auditing of some of the focus areas at the Department of the Premier and the provincial treasury and the separate auditing of some of the areas at departments where IT is managed independently to a larger degree, e.g. Provincial Parliament, Health, Education and Agriculture. Therefore a total number of 14 departments were audited for the respective focus areas and transversal findings that affect the departments have been reported to the Department of the Premier and the provincial treasury, respectively.

Public entities

Although the IT environment was only formally reviewed at five public entities, the IT environments at the remaining public entities were assessed during the key control assessment which is performed on a quarterly basis. The seven public entities that were audited in the Western Cape Province utilise Medsas, Oracle, Pastel, LLS application, Fleetman, GAMS application and BAUD to process their financial and information systems. These are off-the-shelf packages which have been customised. Maintenance of these systems is performed by the vendors through the service level agreements (SLA). The National Treasury and SITA do not play a role in providing maintenance to the systems. Management of the public entities is responsible for designing their own systems as they are not subjected to those designed by the DPSA.

The following focus areas were set for auditing of IT in public entities in the province:

- IT governance
- Security management

- User access control
- IT service continuity
- Program change management
- Facilities management
- Data centre

3.3.2 Implementation of information technology management

Information technology management for financial systems was evaluated at 14 departments and five public entities in the province.

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

Table 12: IT control weaknesses identified

| Focus area | Outline of aspects audited | Incidence of control weaknesses identified | | | |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------|-----------------|-----------------|
| | | Departments | | Public entities | |
| | | Number audited | % with findings | Number audited | % with findings |
| 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 | 14 | 100% | 5 | 60% |
| Security management | Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information | 14 | 100% | 5 | 100% |
| 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 | 14 | 93% | 5 | 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 | 14 | 100% | 5 | 100% |

Key issues within the Western Cape Province can be summarised as follows:

IT governance

In the absence of a government-wide IT governance framework that needs to be developed and rolled out by the DPSA, the Center of E-Innovation (Cel) in the Department of the Premier has developed a provincial IT governance framework, but it has not been fully implemented and there was minimal input into the risk identification from a department level. Although this area was only reviewed at two departments in the province, it does have a transversal impact on all 14 departments.

Security management

Security controls have not been consistently designed and implemented at five of the departments, one of which (Department of the Premier) represents transversal security controls for 10 of the departments and the remaining four departments relate to security controls specific to their information technology environment. The Western Cape Provincial Government is in the process of migration to Microsoft technology to address the weakness found within the security management process.

User account management

The provincial treasury has issued guidelines for the user account management at the departments, however, it was not adequately implemented due to the lack of monitoring by the provincial treasury and non-compliance with approved procedures by 13 departments.

IT service continuity

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 disruption.

Public entities

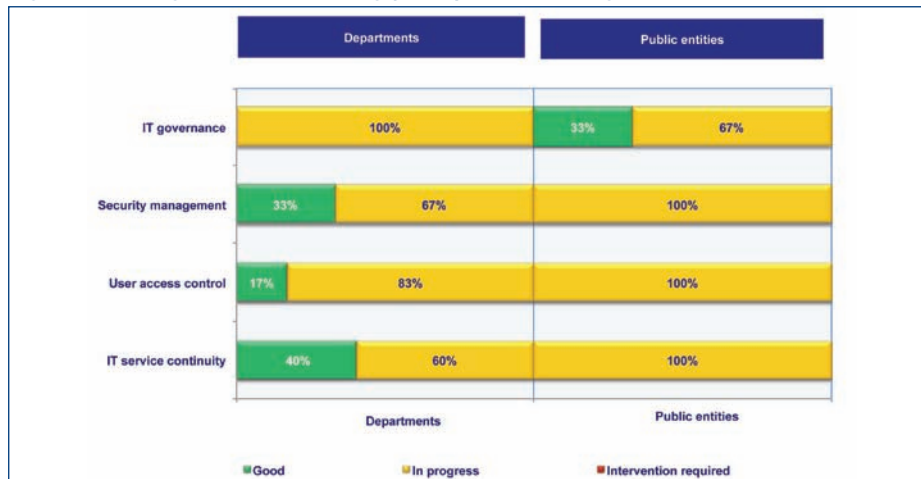
The public entities in the province do not subscribe to the IT governance framework of the Western Cape Government and therefore lack policies and procedures



to ensure the design and implementation of security management controls, user account management, change management and IT service continuity processes.

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.

Figure 21: Progress in addressing prior year IT findings



Significant progress has been made in addressing previous year findings with the centralisation of some controls within the user account management process with the provincial treasury and the Cel in the Department of the Premier providing guidance through the existing governance structures.

Findings that require immediate management intervention as they are repeat findings can be summarised as follows:

IT governance – The Cel in the Department of the Premier played a pivotal role in progress made with the implementation of an IT governance framework within the province. The adoption and approval of a holistic strategic plan (ICT Blueprint) and implementation through the effective operation of the provincial IT steering

committees (CITCOM), representative of all key players ensured the achievement of the objectives set out for the province.

Security management – It was also identified that operating system security parameters were inadequately defined due to management oversight in ensuring that security controls are implemented consistently. This has been achieved by departments where the Microsoft technology was successfully rolled out and the Cel was still in the process of rolling the project out to other sites within the province.

User access management – The provincial treasury has centralised the user access management and removed transversal system controller rights from a majority of the departments. This process requires further refinement through additional role communication and monitoring of compliance by departments.

IT service continuity – The Cel in the Department of the Premier ensured sufficient infrastructure capability in the event of a disruption. However, it is currently in the process of compiling an all-inclusive operational disaster recovery plan for departments.

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

Departments

IT governance – Risk management framework designed by the Department of the Premier was not fully rolled out to all the departments, therefore departments did not proactively identify IT risks within their environments due to capacity and skills shortages.

Security management – The different technology platforms utilised previously by departments and a lack of policies and processes contributed to inconsistent implementation of security controls at the various departments.

User account management – Departments did not adhere to comprehensive user account management procedures of the provincial treasury and there was no monitoring mechanism in place to identify possible role clarification gaps.

IT service continuity – The Department of the Premier did not ensure that the disaster recovery plan, reflective of their current infrastructure, is documented and implemented at the departments.

Public entities

The isolated nature of the structure of the provincial public entities contributed to various gaps within the information system environment with minimal guidance from the National Treasury and the provincial treasury. There are no prescriptions that the public entities have to comply with, resulting in the individual approaches to resolutions as reflected in the findings identified previously.

The way forward

The provincial internal audit unit should be more involved with proactively and continuously tracking the progress with regard to the implementation of IT management commitments.

The Cel within the Department of the Premier should present the IT governance framework at the CITCOM forum for implementation within all the departments and establish structures to ensure continued feedback from departments on IT risks.

The provincial treasury should monitor implementation of the user account management guidelines by the departments with the assistance of internal audit.

The Cel should ensure that operational disaster recovery plans are established for each department, rolled out and tested.

Public entities should prescribe to the policies of the DPSA as set out for the departments they report to and, in absence of that, utilise the existing best practices that Cel is in the process of implementing at departments. The Department of the Premier must also increase their advisory/knowledge-sharing capacity within the entities to ensure seamless implementation of departmental policies and procedures.

Commitments

The provincial GITO in the Department of the Premier has committed to resolving the transversal information systems findings for the province through the Center of E-Innovation.

The CFOs at the respective public entities committed to resolving the IT-related shortcomings.

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

The ICT Blueprint for the Western Cape, which had a holistic (e.g. people, process, technology) approach to the ICT challenges, has resulted in the centralisation of key processes and controls within the Department of the Premier and the provincial treasury. The strategic positioning of the provincial GITO on executive structures ensured proactive implementation of proposals made by the oversight committees (e.g. Provincial SCOPA) and executive management as outlined in the previous information systems audit reports of the Auditor-General of South Africa. In addition, the effective operation of audit committees and awareness of IT issues within the province also assist tremendously in driving accountability with those charge with governance.

This role must be further entrenched in the maturity of their processes by extending assistance to the provincial public entities that are linked to the departments.



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

4.1 The function of key provincial role players in audit outcomes

4.1.1 Commitments and actions by provincial executive leadership and oversight

Responses and commitments emanating from the September/October 2011 interactions and roadshows are outlined below.

Table 13: Responses and commitments by the provincial executive leadership
Prior year commitments

| Outline of role player commitment/ proposed action plans October 2010 | 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 The Cabinet delegated the monitoring of the FMIP to the MECs of the individual departments to monitor the progress of the FMIP. The FMIPs for 2010-11 were based on the prior year audit findings and PTs' red flags. | | | | | | | |
| 2 IT will be an area of focus and systems will be introduced (through the IT modernisation process) to address weaknesses in IT. The provincial GITO in the Office of the Premier committed to resolve the transversal information systems findings for the province through the Center of E-Innovation. | | | | | | | |
| Provincial treasury | | | | | | | |
| 1 The provincial treasury committed to maintain their focus on the areas of asset management, PDO and IT to ensure sustainable improvement. They committed to continuously enhance the IT process through the IT modernisation process to better respond to the changing needs of the departments. | | | | | | | |

| Outline of role player commitment/ proposed action plans October 2010 | Focus areas targeted by commitments and action plans | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|--------------------------|----------------------|------------------|-------------|---------------|-----------------------|
| | Supply chain management | Predetermined objectives | Financial management | Turnaround plans | IT controls | HR management | Governance structures |
| Other: Speaker | | | | | | | |
| 1 Per discussion with the Speaker various capacity-building interventions have been implemented to ensure that the members have the required knowledge to fulfill the full extent of their mandate and interact appropriately with the information provided to them. | | | | | | | |

Current year commitments

| 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 All officials will do their work the way it should be done. This includes monthly reporting on financial (including AFS disclosure notes), predetermined objectives and compliance and monthly validation of the credibility of the reported information. | | | | | | | |
| 2 Internal audit and audit committees will confirm the credibility of information related to financial, predetermined objectives and compliance as part of their normal focus. | | | | | | | |
| 3 Combined quarterly key controls sessions with the AGSA and all the role players that are crucial to the sustainability of clean administration. These role players include the executive, HOD, CFO, the officials responsible for financial, predetermined objectives and compliance, internal audit and audit committees. | | | | | | | |

| 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 |
| 4 To revise and strengthen its own set of prescripts and control measures for supply chain management, which includes the Business Interests of Employees Act and its supporting regulations and concomitant refinements to both Provincial Treasury and National Treasury's practice notes and instructions and re-issuing them as Provincial Treasury Instructions. | | | | | | | |
| Provincial Treasury | | | | | | | |
| 1 Accounting officers have been tasked with devising action plans to address the areas of deteriorations particularly as it relates to SCM, including uncompetitive and unfair procurement processes and forward these to Provincial Treasury to monitor progress to prevent a repetition of similar findings during the next audit cycle. | | | | | | | |
| 2 PT will concurrently analyse all the departments and entities' audit reports for the 2010-11 financial year, together with the associated management reports and compile a Provincial Treasury action plan to deal with transversal issues and where necessary to assist departments and entities to improve their financial management capability rating. | | | | | | | |
| 3 The departmental action plans and the Provincial Treasury's transversal action plan will be monitored by the Provincial Treasury through the Financial Management Improvement Programme (FMIP) on an on-going basis and departments will be required to provide a bi-annual report on progress against the plan. | | | | | | | |
| 1 Collaboration between the portfolio/ standing committees and SCOPA | | | | | | | |

| 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 Engage Chief Whips to spend complete days when discussing the annual reports to understand and contribute to positively influenced the audit outcomes | | | | | | | |
| 3 Recommend to the chairperson's forum the inclusion of a standing agenda item in their forum meetings, which includes the discussion of audit outcomes and progress made by the leadership in achieving their commitments. | | | | | | | |
| 4 Speaker to also liaise with Provincial Treasury red flag team to understand the key issues to ensure committee members focus on appropriate areas | | | | | | | |
| 5 Section 5 of the annual report should be interrogated more thoroughly than in the past. Speaker to engage chairs to alert them on the importance of HR management. | | | | | | | |
| 6 Developed governance legislation that will be incorporated into rules to improve procedural knowledge of committees. | | | | | | | |

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

Since August 2011 the AGSA has engaged provincial role players in 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 14: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

| Role players | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--------------------------------------------------------------------------------------------------|-------------------------|--------------------------|----------------------|------------------|-------------|---------------|-----------------------|
| | Supply chain management | Predetermined objectives | Financial management | Turnaround plans | IT controls | HR management | Governance structures |
| Oversight accountability Provincial executive leadership (Premier and MEC Finance) | Red | Green | Green | Yellow | Yellow | Yellow | Yellow |
| Coordinated provincial oversight (provincial standing committees and provincial speaker's forum) | Red | Green | Green | Yellow | Yellow | Yellow | Yellow |
| Accounting officers, accounting authorities, CFOs and senior officials | Red | Green | Green | Yellow | Yellow | Yellow | Yellow |
| Administrative accountability | | | | | | | |

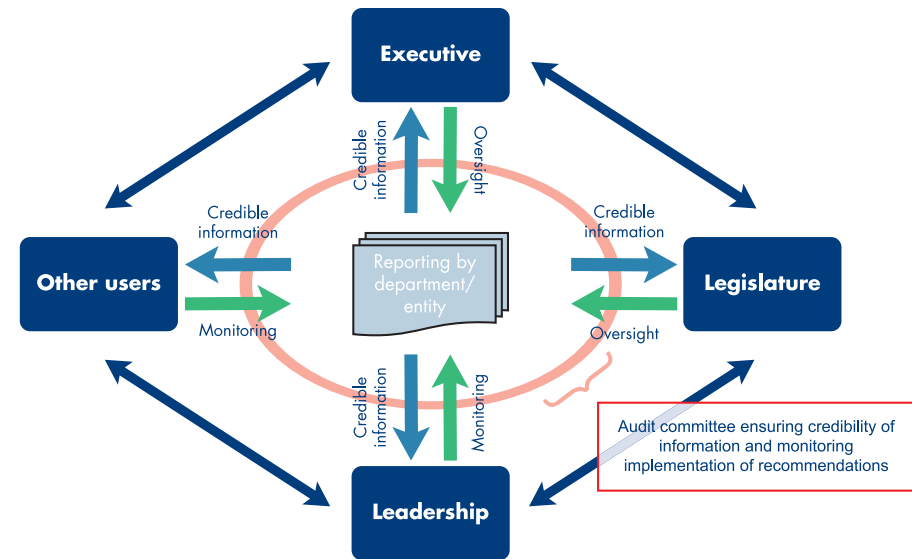
■ Good progress
 ■ In progress
 ■ Intervention required

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

4.1.3 Audit committees

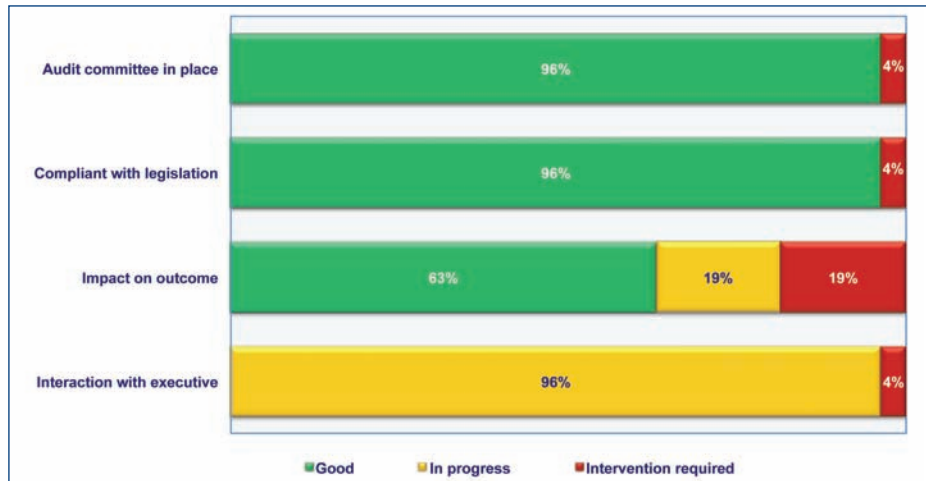
An audit committee is established in terms of the PFMA legal framework to serve as an independent governance structure whose function is to provide an oversight role on the systems of internal control, compliance with legislation, risk management and governance. In performing its duties, the audit committee assists the accounting officer/accounting authority 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 prescribed 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 22: 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 23 below depicts the current status and effectiveness of audit committees within the Western Cape provincial administration, while individual status per auditee is indicated in annexure 7 to this report.

Figure 23: Effectiveness of audit committees



All 14 departments and 12 of 13 public entities had audit committees in place for the period under review, as prescribed by the PFMA and related treasury regulations, while 26 (96%) of the audit committees complied with the letter of the law. There is a very distinct difference between being compliant and being effective. It is evident that 17 (63%) of the audit committees had a direct impact and five (19%) had a partial impact on the audit outcomes of their respective auditees.

Reporting by the audit committees

The PFMA requires the accounting officer/accounting authority 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 (ministers) as well as with the provincial parliament's portfolio committees. Our assessment of this interaction was rated as in progress as there was interaction between the audit committee chairs and the executive at least once a year.

Implementation of recommendations

The implementation of recommendations is core to the distinction between an audit committee being compliant or operational and being effective. Currently, and in the absence of regular interaction with the executive and portfolio committees, there are no mechanisms to oversee and monitor the implementation of recommendations by the accounting officer/accounting authority. It is the implementation of recommendations rather than the recommendation as such that 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. The 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.

The chair of the chairs' forum established within the province should continue engaging with the provincial treasury, focusing on ensuring that the recommendations are implemented uniformly within the province.



4.1.4 Status of PAC oversight resolutions

At year-end, 100 PAC resolutions out of a total of 207 had been resolved and 105 were in progress. The provincial treasury assists the PAC in the evaluation of replies submitted by departments and public entities. The resolutions listed below as being outstanding are based on evaluation during the 2010-11 audits by the AGSA. The resolutions not implemented were related to internal control deficiencies and monthly financial statements. The Cape Medical Depot did not prepare a credible action plan to address internal control deficiencies and the Western Cape Nature Conservation Board was not yet able to produce monthly financial statements as per a 2008-09 resolution.

Table 15: Status of implementation of PAC resolutions

| Auditee | Total number of resolutions | In progress from prior year | Number of resolutions resolved during 2010-11 | Number of resolutions in progress | Number of resolutions not actioned |
|------------------------------------------------|-----------------------------|-----------------------------|-----------------------------------------------|-----------------------------------|------------------------------------|
| Departments | | | | | |
| Agriculture | 8 | 1 | 5 | 2 | 0 |
| Community Safety | 6 | 0 | 3 | 3 | 0 |
| Cultural Affairs and Sport | 2 | 0 | 2 | 0 | 0 |
| Economic Development and Tourism | 6 | 1 | 2 | 3 | 0 |
| Education | 23 | 0 | 17 | 6 | 0 |
| Environmental Affairs and Development Planning | 14 | 2 | 8 | 4 | 0 |
| Health | 19 | 5 | 6 | 8 | 0 |
| Human Settlements | 17 | 1 | 2 | 14 | 0 |
| Local Government | 0 | 0 | 0 | 0 | 0 |
| Office of the Premier | 14 | 4 | 4 | 6 | 0 |
| Provincial Parliament | 12 | 0 | 8 | 4 | 0 |
| Provincial Treasury | 8 | 0 | 6 | 2 | 0 |
| Social Development | 5 | 1 | 2 | 2 | 0 |
| Transport and Public Works | 25 | 6 | 12 | 7 | 0 |
| Public entities | | | | | |
| Cape Medical Depot | 6 | 3 | 0 | 2 | 1 |
| Casidra (Pty) Ltd | 1 | 0 | 1 | 0 | 0 |

| Auditee | Total number of resolutions | In progress from prior year | Number of resolutions resolved during 2010-11 | Number of resolutions in progress | Number of resolutions not actioned |
|-----------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------------------------|-----------------------------------|------------------------------------|
| Destination Marketing Org (TA Cape Town Routes Unlimited) | 2 | 0 | 2 | 0 | 0 |
| Government Motor Transport | 3 | 0 | 2 | 1 | 0 |
| The Heritage Western Cape | 3 | 0 | 3 | 0 | 0 |
| Western Cape Cultural Commission | 2 | 0 | 2 | 0 | 0 |
| Western Cape Gambling and Racing Board | 4 | 0 | 2 | 2 | 0 |
| Western Cape Housing Development Fund | 9 | 5 | 0 | 4 | 0 |
| Western Cape Investment and Trade Agency | 4 | 0 | 0 | 4 | 0 |
| Western Cape Language Committee | 2 | 0 | 2 | 0 | 0 |
| Western Cape Liquor Board | 1 | 0 | 1 | 0 | 0 |
| Western Cape Nature Conservation Board | 9 | 1 | 6 | 1 | 1 |
| Western Cape Provincial Development Council | 2 | 0 | 2 | 0 | 0 |
| Total | 207 | 30 | 100 | 75 | 2 |

An estimated 83% of these resolutions directly or indirectly related to financial management, predetermined objectives reporting or compliance with laws and regulations.

4.2 Areas that key national role players should focus on to address audit outcomes

4.2.1 Assessment of monitoring capacity and focus areas of national role players at the time of the audit

Since August 2011 the AGSA has also engaged with national role players in 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 16: Assessment of monitoring capacity of key national role players to address audit outcomes at the time of the audit

| Role players | | Assessment of monitoring capacity and effectiveness at the time of the audit | | | | | | |
|--------------------------|------------------------------------------------------------|------------------------------------------------------------------------------|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | Supply chain management | Preetermined objectives | Financial management | Turnaround plans | IT controls | HR management | Governance structures |
| Political accountability | Executive leadership (National Treasury, DPSA, Presidency) | In progress | Intervention required | Intervention required | In progress | Good progress | Intervention required | In progress |
| | Legislative oversight (NCOP, NA Portfolio Committees) | Intervention required | In progress | In progress | Intervention required | Intervention required | Good progress | Intervention required |

■ Good progress
 ■ In progress
 ■ Intervention required

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

4.2.2 Outline of recommended focus areas of national and provincial role players

The main focus area should address findings related to SCM by implementing the initiatives as outlined in table 16 above. The National Treasury and the provincial treasury should provide additional guidance to clarify contentious matters related to the identification of non-compliance that results in irregular expenditure.

4.3 Initiatives taken by the AGSA to encourage clean administration

In the 2010-11 financial year the AGSA continued with its initiatives to enhance accountability in the province and to influence the process towards obtaining financially unqualified audit opinions with no findings in the areas of predetermined objectives and non-compliance with laws and regulations (clean audit reports). The main goal was to strengthen the relationship with the political and administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to the internal control model of leadership, governance, financial and performance management, and ultimately accountability, thereby paving the road towards improving public confidence.

These initiatives included the increased visibility of the AGSA's senior leadership and continuous interaction with management and those charged with governance with the objective of improving the effectiveness of the audit process and engaging with all role players that can influence clean audit outcomes. To this end, our engagements focused on simplicity, clarity and relevance of the message, secure buy-in and seek commitment that will influence clean audit outcomes. This relationship, together with the receptive tone of leadership within the province, resulted in an improvement in the understanding of the audit findings and their root causes. In addition, relevant documentation relating to the audit process and the audit of predetermined objectives was issued electronically to all stakeholders as a means of enhancing communication and contact.

During quarterly key control engagements, the AGSA visited the Premier and all ministers, including the Speaker of the provincial legislature, to discuss the key controls for the respective departments and to highlight those areas that they could influence to ensure clean audit outcomes. On 12 and 13 September 2011, the AGSA in the Western Cape met with key role players to discuss the 2010-11 PFMA audit outcomes and on 30 September 2011 a presentation on the outcomes was presented to the legislature. Further engagements by the CE and the AG with the total leadership of the province took place on 27 October 2011 and 10 November 2011, respectively. These initiatives by the AGSA serve to enlighten the executive leadership visited of their respective departments and/or entities and to discuss the outcomes and the key controls required of the departments and



entities under their influence. The results of this interaction were positive in more than one way as the ministers were able to assess the root causes of the findings on predetermined objectives and compliance with laws and regulations and findings for their respective portfolios.

The AGSA will continue with the quarterly assessments and engagements with all levels of leadership to track progress made by departments and entities to implement and improve key controls. The support to departments and entities requiring improvement to close all gaps in understanding, as well as the sustainability where good results have been achieved, will also be a focus point. Upfront discussions relating to non-compliance with laws and regulations will also take place.

4.4 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

- Inventory will be included as part of the financial statements for departments in the foreseeable future and will be subject to auditing. Departments should be proactive in managing the related risks to avoid regressions in this area.
- The province committed to revise and strengthen its own set of prescripts and control measures for supply chain management, which includes the Business Interests of Employees Act and its supporting regulations. Departments should proactively implement compliance checklists to avoid non-compliance.
- Entities will be required to account for library books as assets, where it was carried as inventory in the financial year reported on. There could be challenges in establishing ownership and the value of the library books.
- New guidance has been released for the preparation of strategic and annual plans.
- A new practice note has been issued by the National Treasury which further tightens regulations surrounding SCM.

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

5.1 Background

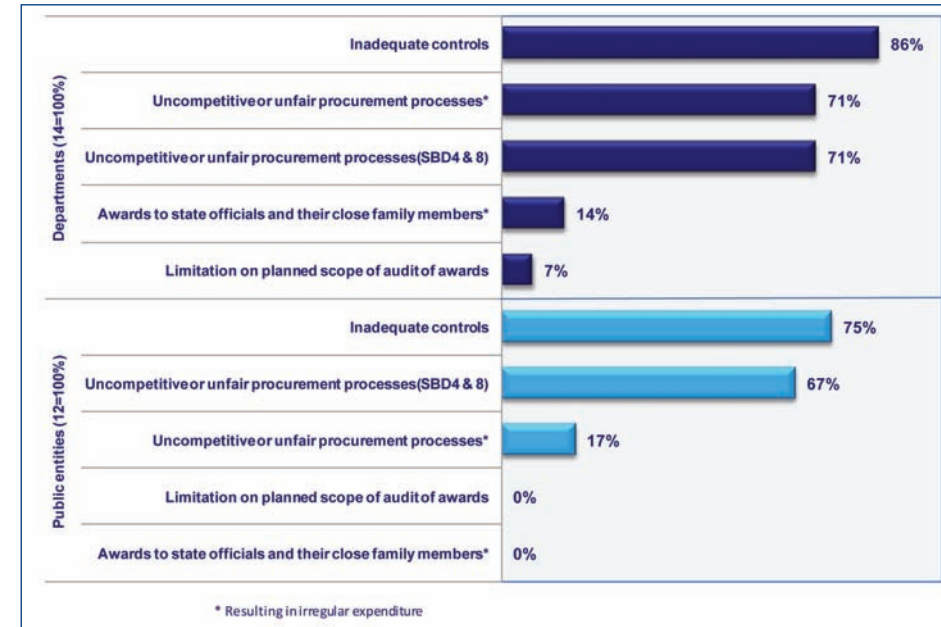
The audits conducted by the AGSA at departments (including Parliament and legislatures), trading entities, constitutional institutions and listed public entities included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

As is evident from the analysis of irregular expenditure (section 2.4.3), R157 million (86%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Seventy-six per cent 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:

- inadequate guidance on the application of SCM regulations and insufficient monitoring of compliance with these regulations. Inadequate guidance resulted in different interpretations of which contraventions represent irregular expenditure and which are non-compliance only
- the AGSA's phased-in approach to expressing an opinion on compliance with laws and regulations resulted in the AGSA sharpening its focus on SCM. Additional guidance was also developed to assist auditors to determine which non-compliance findings give rise to irregular expenditure.

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 24: Summary of findings on SCM



5.2 Inadequate SCM controls

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



Table 17: Findings on SCM controls

| Auditee | Inadequate controls to ensure interest is declared | Lack of monitoring controls/ not using compliance checklists | SCM officials not aware of SCM policies/ do not understand roles and responsibilities | SCM officials not adequately trained | Code of conduct for ethical behaviour in SCM process not adopted |
|----------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------|------------------------------------------------------------------|
| Departments | | | | | |
| Agriculture | | | | | |
| Cultural Affairs and Sport | | | | | |
| Economic Development and Tourism | | | | | |
| Education | | | | | |
| Environmental Affairs and Development Planning | | | | | |
| Health | | | | | |
| Human Settlements | | | | | |
| Local Government | | | | | |
| Office of the Premier | | | | | |
| Provincial Parliament | | | | | |
| Provincial Treasury | | | | | |
| Transport and Public Works | | | | | |
| Public entities | | | | | |
| Cape Medical Depot | | | | | |
| Gambling and Racing Board | | | | | |
| Government Motor Transport | | | | | |
| Heritage Western Cape | | | | | |
| Language Committee | | | | | |
| Liquor Board | | | | | |
| Provincial Development Council | | | | | |
| Western Cape Investment and Trade Promotion Agency | | | | | |
| Western Cape Cultural Commission | | | | | |
| Total | 19 | 10 | 8 | 4 | 2 |
| Percentage of auditees tested | 73% | 38% | 31% | 15% | 8% |

| Finding | Detail |
|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Inadequate controls to ensure that interest is declared</i> | The controls at some auditees 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. |
| <i>Lack of monitoring controls/not using compliance checklists</i> | Lack of monitoring controls and the use of checklists to verify compliance with applicable SCM regulations. |
| <i>SCM officials not aware of SCM policies or do not understand roles and responsibilities</i> | Officials involved in the implementation of the SCM policy were not always aware of, or did not understand, the SCM policy and their roles and responsibilities in connection with the SCM system. |
| <i>SCM officials not adequately trained</i> | Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively. |
| <i>Code of conduct for ethical behaviour in SCM process not adopted</i> | A code of conduct to regulate ethical behaviour in the SCM process was not adopted at all auditees. |

5.3 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 the Constitution of South Africa. Legislation, most notably the PFMA and the 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 it provided all suppliers equal opportunity to compete for public sector contracts and that the process does not favour some suppliers above others.

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

The procurement processes of 862 contracts (R2 374 million) and 512 quotations (R154 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 18: Findings on uncompetitive or unfair procurement processes

| Auditee | No declaration of interest submitted | | No valid SARS tax clearance | | Three price quotations not obtained | | Competitive bids not invited – no deviation approved/ deviation not justified | | No declaration of past SCM practices | | Other findings | |
|------------------------------------------------|--------------------------------------|--------|-----------------------------|--------|-------------------------------------|-------|-------------------------------------------------------------------------------|--------|--------------------------------------|---------|----------------|-------|
| | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 |
| Departments | | | | | | | | | | | | |
| Agriculture | | | 4 | 372 | | | | | | | | |
| Cultural Affairs and Sport | 7 | 437 | | | | | | | | | | |
| Economic Development and Tourism | 30 | 21 864 | | | | | | | | | | |
| Education | 1 | 292 | 17 | 1 270 | 4 | 267 | 1 | 4 329 | | | 2 | 400 |
| Environmental Affairs and Development Planning | 2 | 706 | 5 | 269 | | | | | 2 | 739 | | |
| Health | | | 13 | 45 885 | 6 | 1 311 | 12 | 32 763 | 33 | 152 300 | 6 | 6 495 |
| Human Settlements | 60 | 2 748 | | | 1 | 190 | 1 | 671 | | | | |
| Local Government | 19 | 1 910 | | | | | 1 | 913 | | | | |
| Office of the Premier | 132 | 5 530 | 3 | 314 | | | | | | | | |
| Provincial Parliament | | | 1 | 35 | | | | | | | | |
| Provincial Treasury | 2 283 | 10 402 | 26 | 1 428 | | | | | | | | |
| Transport and Public Works | 1 859 | 67 488 | | | 1 | 16 | | | | | | |
| Public entities | | | | | | | | | | | | |
| Cape Medical Depot | | | | | | | 10 | 2 498 | | | | |
| Gambling and Racing Board | 18 | 1 277 | | | | | | | | | | |
| Government Motor Transport | 294 | 2 555 | | | | | | | | | | |
| Heritage Western Cape | 37 | 18 906 | | | | | | | | | | |
| Language Committee | 2 | 102 | | | | | | | | | | |
| Liquor Board | 1 | 12 | | | | | | | | | | |

| Auditee | No declaration of interest submitted | | No valid SARS tax clearance | | Three price quotations not obtained | | Competitive bids not invited – no deviation approved/ deviation not justified | | No declaration of past SCM practices | | Other findings | |
|----------------------------------------------------|--------------------------------------|----------------|-----------------------------|---------------|-------------------------------------|--------------|-------------------------------------------------------------------------------|---------------|--------------------------------------|----------------|----------------|--------------|
| | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 |
| Provincial Development Council | 6 | 1 280 | | | | | | | | | | |
| Western Cape Housing Development Fund | 4 | 206 | | | | | | | | | | |
| Western Cape Investment and Trade Promotion Agency | 63 | 4 582 | 5 | 220 | | | | | 55 | 1 632 | 39 | 2 983 |
| Total | 4 818 | 140 297 | 74 | 49 793 | 12 | 1 784 | 25 | 41 174 | 90 | 154 671 | 47 | 9 878 |
| Percentage of auditees tested | 65% | | 31% | | 15% | | 19% | | 12% | | 12% | |

Findings resulting in irregular expenditure

| Finding | Detail |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Written price quotations not invited – no deviation approved</i> | A price quotation process should be followed for the procurement of goods and services of a lower value. The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee. |
| <i>Competitive bids not invited – no deviation approved</i> | A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Competitive bids were not always invited and the deviations were not approved by a properly delegated official or committee. |
| <i>Competitive bids not invited – deviations not reasonable or justifiable</i> | Instances (at one entity) were identified where deviations from the competitive bidding process were approved but evidence justifying the decision to apply sole supplier deviations could not be provided. |
| <i>Procurement from suppliers without SARS tax clearance</i> | Awards were made to suppliers who failed to provide written proof from SARS that their tax matters were in order. |
| <i>Other findings</i> | The other findings identified were as follows: 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 (one department and one entity). One instance at one department was noted where the procurement was deliberately split to avoid compliance with the three quotations requirement. |



Findings resulting in non-compliance

| Finding | Detail |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No declaration of interest submitted | 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 that did not submit the required declaration. |
| No declaration of past SCM practices | 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. |
| Other findings | The other findings identified were as follows: The prospective suppliers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective suppliers were not invited to apply for such listing at least once a year, as per the requirements of National Treasury Practice Note 8 of 2007-08 (one entity). Deviations above R1 million were not reported to the provincial treasury and the AGSA as required by National Treasury Practice Note 6 of 2007 (one department, six instances). |

5.4 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 was involved in making award | |
| | Number | R'000 | Number | R'000 | Number | R'000 | Number | R'000 |
| Departments | | | | | | | | |
| Agriculture | | | 2 | 5 445 | | | | |
| Economic Development and Tourism | 4 | 6 875 | | | | | | |
| Education | | | 8 | 9 158 | 1 | 12 | 1 | 12 |
| Environmental Affairs and Development Planning | 3 | 314 | | | | | | |
| Health | 24 | 2 854 | 12 | 282 | 1 | 140 | 1 | 7 |
| Total | 31 | 10 043 | 22 | 14 885 | 2 | 152 | 2 | 19 |
| Percentage of auditees tested | | | | | 40% | | 40% | |

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 there is legislation that 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 pick up non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

Awards to officials or close family members of officials were identified at five departments. Findings related to supplier interest not declared and officials involved in the award process were identified at two departments.

5.5 Limitations on planned scope of audit of awards

Sufficient appropriate audit evidence could not be provided at 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 17 depicts the limitations experienced.

Table 20: Limitations experienced

| Auditee | Number of awards | Value of awards R'000 | Reason for limitation |
|--------------------|------------------|-----------------------|----------------------------------------------------------------------------------------------------------------|
| Departments | | | |
| Health | 5 | 1 830 | Missing documentation (records management) and documentation in possession of the forensic investigations unit |
| Total | 5 | 1 830 | |

A proper record-keeping system to ensure that complete, relevant and accurate information is accessible and available to support financial reporting was not implemented to track the movement of procurement documentation between officials

and thereby ensuring that information is available in a timely manner. This resulted in the lack of sufficient appropriate evidence to substantiate that proper procurement processes were followed on two contract payments totalling R904 020.

In addition, the procurement documentation relating to two contract payments and one quotation payment totalling R926 324, were in the possession of the forensic investigation unit. The relevant procurement documentation could therefore not be provided for audit verification.

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

5.6 Overall conclusion on SCM matters

Findings were as a result of inadequate guidance on the application of SCM regulations and insufficient monitoring of compliance with these regulations. At Education, vacancies also hampered effective, ongoing monitoring. Accounting officers did not adequately evaluate whether management has met its responsibilities to ensure compliance with supply chain management (SCM) regulations.

Various departments and entities made use of a service provider to obtain three quotations. The provincial treasury communicated by means of a circular during December 2010 that departments and entities should obtain the required declarations of interest from suppliers and confirm that their tax affairs are in order prior to accepting quotations, because the service level agreement with the service provider did not address these legislative requirements.

While the communication from the provincial treasury could have been earlier, it remains the responsibility of accounting officers to ensure that all legislative requirements are complied with. The departments and entities that complied with the SBD 4 and tax clearance certificate requirements implemented their own processes and monitoring controls to ensure that the required documentation was obtained before quotations were accepted.

Training should be provided to all levels of staff, including SCM officials on exactly what the requirements are for each type of procurement. The implementation of checklists to facilitate compliance monitoring should be considered.

Findings on inadequate controls related mostly to issues already identified in other SCM focus areas, such as inadequate controls to ensure that interests are declared, not using SCM checklists to ensure compliance, SCM officials not being aware of SCM policies or not understanding their roles and responsibilities, as well as not being adequately trained. The performance audits performed at two departments resulted in similar findings and root causes as reported by regularity audit.

The leadership should exercise oversight over SCM processes and practices.

Accounting officers have been tasked with devising action plans to address the areas of deterioration, particularly as it relates to SCM, including uncompetitive and unfair procurement processes, and to forward these to the provincial treasury to monitor progress to prevent a repetition of similar findings during the next audit cycle.

The province was committed to revising and strengthening its own set of prescripts and control measures for supply chain management, which includes the Business Interests of Employees Act and its supporting regulations and concomitant refinements to both the provincial treasury and the National Treasury's practice notes and instructions and re-issuing them as Provincial Treasury Instructions. These initiatives include modification of the current SBD forms (SBD 4, 8 and 9) so that suppliers are only required to complete one consolidated form. Additionally, a revision of the current supplier database is in progress that will be utilised by the province as a management tool and a repository of supplier information and certification that meets and honours the intention of regulatory requirements. This is aimed at assisting by not only reinforcing internal control measures already in place, but ensuring robustness.



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 this time, the provincial treasury has 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 rectify this non-compliance.

Due to 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 21 below.

Table 21: 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 |
| N | Y | N | Y |

The consolidated financial statements of public entities for the 2010-11 year were received on 16 September 2011 and the consolidated financial statements for departments are still awaited as the audit of the Provincial revenue fund has not been finalised. The audit of the Provincial revenue fund is expected to be completed by 11 November 2011.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments or public entities to table in the National Assembly an annual report, annual 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 22: 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 | 93% | 100% |
| Public entities | 100% | 100% |
| Other entities | 100% | 100% |
| Provincial consolidation | 0% | 100% |
| Total | 93% | 100% |

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

Table 23: Annual reports not tabled

| Auditee | Reasons | Expected tabling date |
|--------------------------|--------------------|-----------------------|
| Departments | | |
| Provincial consolidation | Audit not complete | 30 November 2011 |
| Provincial revenue fund | Audit not complete | 30 November 2011 |

All the annual reports of departments and entities were tabled between 5 and 30 September 2011 in accordance with section 65(1)(a) of the PFMA.

CONCLUSION TO THE 2010-11 GENERAL REPORT

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

Although we are concerned with regression in audit outcomes in the province, we are confident that the remaining challenges in achieving clean audit outcomes are not insurmountable. It is critical that the internal control measures to sustain clean administrations are institutionalised. Furthermore, the executive leadership should renew their endeavours to ensure that findings in respect of compliance with laws and regulations (specifically supply chain management), information systems and transversal material misstatements corrected in the financial statements are effectively addressed through the financial management improvement plans.

Compliance with laws and regulations

It is disappointing to note the material regression in the area of non-compliance with laws and regulations. Overall, the province needs to work on oversight in respect of HR, policies and procedures, action plans to ensure the development and implementation of sustainable processes to reduce the root causes of non-compliance, thus reducing the findings in the next year.

Accounting officers must ensure that compliance is monitored on an ongoing basis through the use of compliance checklists and that risks related to non-compliance are proactively managed. Training should be provided to all levels of staff, including SCM officials, on the requirements for each type of procurement. Leadership should follow through on the commitment to revise and strengthen its own set of prescripts and control measures for supply chain management and improve the culture of compliance in view of the imminent implementation of the Business Interests of Employees Act and its supporting regulations. It is encouraging to note that the National Treasury and the provincial treasury have formed a working group to address the interpretations and refinements to both the provincial treasury and the National Treasury's practice notes.

Material corrections related to other disclosure notes and irregular expenditure were the main drivers affecting the quality of financial statements. The preparation of interim financial statements did not include disclosure notes and therefore the inclusion thereof will assist in the early identification and rectification of errors, thus improving the quality of financial statements submitted to the auditors. Leadership should use internal audit on an ongoing basis to monitor the implementation and/or use of compliance checklists, review of information on predetermined objectives and confirm the credibility of the financial statements. In addition, the leadership, in conjunction, with the provincial treasury, should take cognisance of the emerging risks such as inventory and prepare the departments and/or entities appropriately as these pose a risk of new qualifications going forward if not addressed.

Predetermined objectives

It is encouraging to note the progress made by the province in the area of predetermined objectives. The province has sustained most of its outcomes and improvements from four to two departments with findings on predetermined objectives and three to two public entities occurred in the 2010-11 financial year. This area was a specific commitment and focus area for the province, therefore improvement in this area is a compliment to the leadership and governance structures providing the appropriate oversight to this area.

It is, however, concerning that the root causes for the regression of Western Cape Gambling and Racing Board repeat findings in Western Cape Investment and Trade Promotion Agency, Human Settlements and Social development relate to the leadership inadequately monitoring and reviewing actions plans and reporting on predetermined objectives. Leadership must ensure that action plans address the root caused and are implemented, appropriate oversight is exercised over the reporting on predetermined objectives and the processes for assessing the credibility of information are in place and functioning effectively to avoid repeat findings.

Although the province has improved its outcomes on predetermined objectives it is critical that focus is maintained on continuous credibility checks to ensure through use of the internal audit function and audit committee that information included in the performance reports submitted throughout the year is accurate and complete.



Human resource management

There is an overall improvement with a sharp deterioration in the management of leave and overtime. Findings on the management of leave, overtime and suspensions are particularly concerning, especially because it deteriorated in the same period as the centralisation of the HR processes in the province took place. It is currently premature to conclude on whether there is a direct correlation between the centralisation and the deterioration, however, roles and responsibilities between departments and the Department of the Premier need to be further clarified to prevent repeat findings. The leadership should improve monitoring and review activities to ensure adherence to all required HR policies and regulations, specifically related to leave administration. Transport and Public Works should address vacancies to ensure that service delivery is not further negatively affected and Education should finalise the organisational structure before it has an effect on service delivery.

Information technology

The province has made significant progress in addressing the findings reported in the prior year. In the absence of a government-wide IT governance framework the Cel in the Department of the Premier has developed a provincial IT governance framework. The leadership should ensure that this framework is fully implemented and that auditees proactively identify IT risks within their environments. Capacity and skills shortages need to be addressed to ensure effective and sustainable implementation.

The province should continue with the red flag campaign to develop a holistic plan to address all findings raised in the current year with particular focus on non-compliance and emerging risks.

We remain committed to working with the legislature, executive leadership, provincial treasury and accounting officers and authorities to assist in the process of identifying and disseminating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

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 | Financially unqualified with no findings | | Financially unqualified with no findings | | | | | | | | | | | | | |
| 2 | Community Safety | Financially unqualified with no findings | | Financially unqualified with no findings | | | | | | | | | | | | | |
| 3 | Cultural Affairs and Sport | Financially unqualified with findings | | Financially unqualified with no findings | | | | | | | | | | | | | |
| 4 | Economic Development and Tourism | Financially unqualified with findings | | Financially unqualified with no findings | | | | | | | | | | | | | |
| 5 | Education | Financially unqualified with findings | | Financially unqualified with findings | | | | | | | | | | | | | |
| 6 | Environmental Affairs and Development Planning | Financially unqualified with findings | | Financially unqualified with no findings | | | | | | | | | | | | | |
| 7 | Health | Financially unqualified with findings | | Financially unqualified with findings | | | | | | | | | | | | | |
| 8 | Human Settlements | 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 |
| 9 | Local Government | Financially unqualified with findings | | | New department | | | | | | | | | | | | | | |
| 10 | Provincial Premier | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 11 | Provincial Parliament | Financially unqualified with no findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| 12 | Provincial revenue fund | Financially unqualified with no findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| 13 | Provincial Treasury | Financially unqualified with findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| 14 | Social Development | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 15 | Transport and Public Works | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| Public entities | | | | | | | | | | | | | | | | | | | |
| 16 | Cape Medical Depot | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 17 | Destination Marketing Org (TA Cape Town Routes Unlimited) | Financially unqualified with no findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| 18 | Western Cape Gambling and Racing Board | Financially unqualified with findings | | | Financially unqualified with no 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 |
| 19 | Government Motor Transport | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 20 | The Heritage Western Cape | Financially unqualified with findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| 21 | Western Cape Liquor Board | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 22 | Western Cape Housing Development Fund | Disclaimer | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 23 | Western Cape Provincial Development Council | Financially unqualified with findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| 24 | Western Cape Cultural Commission | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 25 | Western Cape Investment and Trade Promotion Agency | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 26 | Western Cape Language Committee | Financially unqualified with findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |
| 27 | Western Cape Nature Conservation Board | Financially unqualified with no findings | | | Financially unqualified with no findings | | | | | | | | | | | | | | |
| Public entities (not audited by the AGSA) | | | | | | | | | | | | | | | | | | | |
| 28 | Cassidra (Pty) Ltd | Financially unqualified with no findings | | | Financially unqualified with findings | | | | | | | | | | | | | | |



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

| No. | Auditee | Areas of non-compliance | | | | | | | | | | | | |
|------------------------|-----------------------------------------------------------|-----------------------------------------------|------------------------------|------------------|---------|------------------------|----------------------|----------------|--------------------|-----------------------------------------------|---------------------------------|-------|-------------------------------------|--------------------------------|
| | | Annual financial statements and annual report | Asset / inventory 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 | HR management and compensation |
| Departments | | | | | | | | | | | | | | |
| 1 | Agriculture | | | | | | | | | | | | | |
| 2 | Community Safety | | | | | | | | | | | | | |
| 3 | Cultural Affairs and Sport | | | | | | | | | | | | | |
| 4 | Economic Development and Tourism | | | | | | | | | | | | | |
| 5 | Education | | | | | | | | | | | | | |
| 6 | Environmental Affairs and Development Planning | | | | | | | | | | | | | |
| 7 | Health | | | | | | | | | | | | | |
| 8 | Human Settlements | | | | | | | | | | | | | |
| 9 | Local Government | | | | | | | | | | | | | |
| 10 | Provincial Premier | | | | | | | | | | | | | |
| 11 | Provincial Parliament | | | | | | | | | | | | | |
| 12 | Provincial Treasury | | | | | | | | | | | | | |
| 13 | Social Development | | | | | | | | | | | | | |
| 14 | Transport and Public Works | | | | | | | | | | | | | |
| Public entities | | | | | | | | | | | | | | |
| 15 | Cape Medical Depot | | | | | | | | | | | | | |
| 16 | Destination Marketing Org (TA Cape Town Routes Unlimited) | | | | | | | | | | | | | |
| 17 | Western Cape Gambling and Racing Board | | | | | | | | | | | | | |
| 18 | Government Motor Transport | | | | | | | | | | | | | |
| 19 | The Heritage Western Cape | | | | | | | | | | | | | |
| 20 | Western Cape Liquor Board | | | | | | | | | | | | | |
| 21 | Western Cape Housing Development Fund | | | | | | | | | | | | | |
| 22 | Western Cape Provincial Development Council | | | | | | | | | | | | | |
| 23 | Western Cape Cultural Commission | | | | | | | | | | | | | |

| No. | Auditee | Areas of non-compliance | | | | | | | | | | | | |
|--------------------------------------------------|----------------------------------------------------|-----------------------------------------------|------------------------------|------------------|---------|------------------------|----------------------|----------------|--------------------|-----------------------------------------------|---------------------------------|-------|-------------------------------------|--------------------------------|
| | | Annual financial statements and annual report | Asset / inventory 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 | HR management and compensation |
| Public entities | | | | | | | | | | | | | | |
| 24 | Western Cape Investment and Trade Promotion Agency | | | | | | | | | | | | | |
| 25 | Western Cape Language Committee | | | | | | | | | | | | | |
| 26 | Western Cape Nature Conservation Board | | | | | | | | | | | | | |
| Public entities (Not audited by the AGSA) | | | | | | | | | | | | | | |
| 27 | Cassidra (Pty) Ltd | | | | | | | | | | | | | |



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 | Material losses | Material impairment of assets | Material under-spending of vote/ conditional grant (finding only) |
|------------------------|-----------------------------------------------------------|-----------------------------------------------|------------------------------------------|----------------------------------------------------------|-------|--------------------------------------------|-----------------------------------|-----------|-------------|------------------------------------|-----------------|-------------------------------|-------------------------------------------------------------------|
| | | Over-spending | Expenditure unrelated to functional area | Spending not in accordance with conditions of allocation | Total | Supply chain management related | Compensation of employees related | Other | Total | | | | |
| Departments | | | | | | | | | | | | | |
| 1 | Agriculture | 0 | 0 | 0 | 0 | 372,000 | 0 | 520,000 | 892,000 | 80,000 | 0 | 0 | 0 |
| 2 | Community Safety | | | | | | | | | | | | |
| 3 | Cultural Affairs and Sport | 0 | 0 | 0 | 0 | 793,625 | 0 | 0 | 793,625 | 0 | 0 | 0 | 0 |
| 4 | Economic Development and Tourism | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 468,000 | 0 |
| 5 | Education | 0 | 0 | 0 | 0 | 18,729,000 | 14,000 | 0 | 18,743,000 | 0 | 0 | 0 | 0 |
| 6 | Environmental Affairs and Development Planning | 0 | 0 | 0 | 0 | 269,191 | 0 | 0 | 269,191 | 0 | 0 | 0 | 0 |
| 7 | Health | 0 | 0 | 0 | 0 | 101,859,000 | 17,335,000 | 0 | 119,194,000 | 0 | 0 | 0 | 0 |
| 8 | Human Settlements | 0 | 0 | 0 | 0 | 861,000 | 0 | 1,179,000 | 2,040,000 | 11,000 | 0 | 0 | 25,032,000 |
| 9 | Local Government | 0 | 0 | 0 | 0 | 912,953 | 0 | 0 | 912,953 | 0 | 0 | 0 | 0 |
| 10 | Provincial Premier | 0 | 0 | 0 | 0 | 482,746 | 0 | 0 | 482,746 | 17,000 | 0 | 5,360,157 | 0 |
| 11 | Provincial Parliament | 0 | 0 | 0 | 0 | 758,000 | 0 | 0 | 758,000 | 21,000 | 0 | 0 | 0 |
| 12 | Provincial Treasury | 0 | 0 | 0 | 0 | 1,746,000 | 0 | 0 | 1,746,000 | 8,000 | 0 | 0 | 0 |
| 13 | Social Development | 0 | 0 | 0 | 0 | 0 | 0 | 3,592,000 | 3,592,000 | 0 | 0 | 0 | 0 |
| 14 | Transport and Public Works | 0 | 0 | 0 | 0 | 19,236,742 | 0 | 20,258 | 19,257,000 | 7,565,000 | 0 | 0 | 192,210,000 |
| Public entities | | | | | | | | | | | | | |
| 15 | Cape Medical Depot | 0 | 0 | 0 | 0 | 2,498,148 | 0 | 0 | 2,498,148 | 0 | 0 | 0 | 0 |
| 16 | Destination Marketing Org (TA Cape Town Routes Unlimited) | | | | | | | | | | | | |
| 17 | Western Cape Gambling and Racing Board | | | | | | | | | | | | |
| 18 | Government Motor Transport | 0 | 0 | 0 | 0 | 8,196,000 | 0 | 0 | 8,196,000 | 0 | 17,922,000 | 0 | 0 |
| 19 | The Heritage Western Cape | | | | | | | | | | | | |
| 20 | Western Cape Liquor Board | | | | | | | | | | | | |
| 21 | Western Cape Housing Development Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 384,953,000 | 0 |

| No. | Auditee | Nature and extent of unauthorised expenditure | | | | Nature and extent of irregular expenditure | | | | Fruitless and wasteful expenditure | Material losses | Material impairment of assets | Material under-spending of vote/conditional grant (finding only) |
|--------------------------------------------------|----------------------------------------------------|-----------------------------------------------|------------------------------------------|----------------------------------------------------------|-------|--------------------------------------------|-----------------------------------|-------|-----------|------------------------------------|-----------------|-------------------------------|------------------------------------------------------------------|
| | | Over-spending | Expenditure unrelated to functional area | Spending not in accordance with conditions of allocation | Total | Supply chain management related | Compensation of employees related | Other | Total | | | | |
| Public entities | | | | | | | | | | | | | |
| 22 | Western Cape Provincial Development Council | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 23 | Western Cape Cultural Commission | 0 | 0 | 0 | 0 | 278,294 | 0 | 0 | 278,294 | 0 | 0 | 0 | 0 |
| 24 | Western Cape Investment and Trade Promotion Agency | 0 | 0 | 0 | 0 | 3,227,000 | 0 | 0 | 3,227,000 | 0 | 0 | 1,100,000 | 0 |
| 25 | Western Cape Language Committee | | | | | | | | | | | | |
| 26 | Western Cape Nature Conservation Board | | | | | | | | | | | | |
| Public entities (Not audited by the AGSA) | | | | | | | | | | | | | |
| 27 | Cassidra (Pty) Ltd | | | | | | | | | | | | |



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 | | | | | |
| 2 | Community Safety | | | | | |
| 3 | Cultural Affairs and Sport | | | | | |
| 4 | Economic Development and Tourism | | | | | |
| 5 | Education | | | | | |
| 6 | Environmental Affairs and Development Planning | | | | | |
| 7 | Health | | | | | |
| 8 | Human Settlements | | | | | |
| 9 | Local Government | | | | | |
| 10 | Provincial Premier | | | | | |
| 11 | Provincial Parliament | | | | | |
| 12 | Provincial Treasury | | | | | |
| 13 | Social Development | | | | | |
| 14 | Transport and Public Works | | | | | |
| Public entities | | | | | | |
| 15 | Cape Medical Depot | | | | | |
| 16 | Destination Marketing Org (TA Cape Town Routes Unlimited) | | | | | |
| 17 | Western Cape Gambling and Racing Board | | | | | |
| 18 | Government Motor Transport | | | | | |
| 19 | The Heritage Western Cape | | | | | |
| 20 | Western Cape Liquor Board | | | | | |
| 21 | Western Cape Housing Development Fund | | | | | |
| 22 | Western Cape Provincial Development Council | | | | | |
| 23 | Western Cape Cultural Commission | | | | | |
| 24 | Western Cape Investment and Trade Promotion Agency | | | | | |
| 25 | Western Cape Language Committee | | | | | |
| 26 | Western Cape Nature Conservation Board | | | | | |
| Public entities (not audited by the AGSA) | | | | | | |
| 27 | Cassidra (Pty) Ltd | | | | | |

ANNEXURE 6: Auditees with key findings on four IT focus areas

| No. | Auditee | Focus Areas | | | |
|------------------------|------------------------------------------------|----------------|---------------------|------------------------|-----------------------|
| | | IT governance* | Security management | User access management | IT service continuity |
| Departments | | | | | |
| 1 | Agriculture | | | | |
| 2 | Community Safety | | | | |
| 3 | Cultural Affairs and Sport | | | | |
| 4 | Economic Development and Tourism | | | | |
| 5 | Education | | | | |
| 6 | Environmental Affairs and Development Planning | | | | |
| 7 | Health | | | | |
| 8 | Human Settlements | | | | |
| 9 | Provincial Premier | | | | |
| 10 | Provincial Parliament | | | | |
| 11 | Provincial Treasury | | | | |
| 12 | Social Development | | | | |
| 13 | Local Government | | | | |
| 14 | Transport and Public Works | | | | |
| Public entities | | | | | |
| 13 | Cape Medical Depot | | | | |
| 14 | Western Cape Gambling and Racing Board | | | | |
| 15 | Government Motor Transport | | | | |
| 16 | The Heritage Western Cape | | | | |
| 17 | Western Cape Liquor Board | | | | |

* Office of the Premier is responsible for IT governance within the province. Although work was not done at all departments the findings are of a transversal nature for all departments except for provincial parliament as it is separate and not part of Office of the Premier.



Annexure 7: Audit committees

| No. | Auditee | 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 | | NA | | | |
| 2 | Community Safety | | NA | | | |
| 3 | Cultural Affairs and Sport | | NA | | | |
| 4 | Economic Development and Tourism | | NA | | | |
| 5 | Education | | NA | | | |
| 6 | Environmental Affairs and Development Planning | | NA | | | |
| 7 | Health | | NA | | | |
| 8 | Human Settlements | | NA | | | |
| 9 | Local Government | | NA | | | |
| 10 | Provincial Premier | | NA | | | |
| 11 | Provincial Parliament | | NA | | | |
| 12 | Provincial Treasury | | NA | | | |
| 13 | Social Development | | NA | | | |
| 14 | Transport and Public Works | | NA | | | |
| Public entities | | | | | | |
| 15 | Cape Medical Depot | | NA | | | |
| 16 | Destination Marketing Org (TA Cape Town Routes Unlimited) | | NA | | | |
| 17 | Western Cape Gambling and Racing Board | | NA | | | |
| 18 | Government Motor Transport | | NA | | | |
| 19 | The Heritage Western Cape | | NA | | | |
| 20 | Western Cape Liquor Board | | NA | | | |
| 21 | Western Cape Housing Development Fund | | NA | | | |
| 22 | Western Cape Provincial Development Council | | NA | | | |
| 23 | Western Cape Cultural Commission | | NA | | | |
| 24 | Western Cape Investment and Trade Promotion Agency | | NA | | | |
| 25 | Western Cape Language Committee | | NA | | | |
| 26 | Western Cape Nature Conservation Board | | NA | | | |
| Public entities (not audited by the AGSA) | | | | | | |
| 27 | Cassidra (Pty) Ltd | | NA | | | |

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