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2010-11

GENERAL REPORT EASTERN CAPE

on the provincial audit outcomes of the

EASTERN CAPE



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



100 YEARS
1911-2011



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

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

Auditor-General: Terence Nombembe

Our reputation promise/mission

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



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SECTION 1: FOREWORD

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

Only the legislature, the revenue fund and one provincial public entity received an unqualified audit opinion with no other findings (clean audits). Seven departments and nine public entities received unqualified audit reports with other findings. Qualified audit opinions were issued for five departments and one public entity. Only one department received a disclaimer of opinion. Overall, 73% of auditees reported on (constituting 16% of the budget) received at least a financially unqualified audit opinion. The balance of 27% (representing 84% of the budget) received a negative audit outcome. Audit qualifications were mainly in the areas of capital assets, other disclosure items, as well as irregular and fruitless and wasteful expenditure.

The legislature moved to a clean audit, which – as ultimate oversight body in the province – sets a good example for the remainder of departments and public entities. This movement is the direct result of a strong management commitment to require adherence to basic financial and performance management practices and personal accountability, backed by regular monitoring thereof. This very same leadership commitment to basic disciplines and regular monitoring allowed the provincial revenue fund and ASGISA to maintain their status of clean audits and underpinned the movement of the Eastern Cape Arts Council and ECATU from qualified to unqualified with other findings. Although it still faces huge challenges, the Department of Health's movement from a long history of disclaimers to a qualified audit opinion was also the result of the leadership's commitment to a specific course of action, accompanied by regular discipline and constant monitoring. The province suffered three regressions, namely by the departments of Agriculture and Sport, Recreation, Arts and Culture, as well ECSECC. A change in leadership and the resultant relaxation of supervision and monitoring exercised over the day-to-day financial processes contributed to these regressions. The newly established Eastern Cape Parks and Tourism Agency and the East London Industrial Development Zone (ELIDZ), which were audited by the AGSA for the first time, both obtained unqualified audit opinions with other findings. The audit outcomes of the

remainder of departments and public entities remained unchanged. Compliance with laws and regulations was generally weak and poses a challenge going forward. Although this may not have impacted on the current year's audit outcomes, it is important to note that two of the prior year commitments at executive level have started yielding appropriate results. The first of these relates to extensive workshopping on service delivery reporting, which has already reduced the number of findings in this regard. Secondly, the decentralisation of audit committees has now been completed and these structures are starting to play a role in influencing audit outcomes. While all auditees were exposed to regular key control insights, incorporation of these was generally slow and took place towards the end of the period.

The Department of Education retained the disclaimer of opinion received in previous financial years. Senior management at this department is not committed to addressing basic control issues and instilling financial discipline, which is evidenced by the increase in the number of findings over the past number of years, leaving the department exposed to fraud and corruption.

With the province having reflected on the lack of visible progress in implementing commitments made in the previous year, leadership across the board have pledged that the basic principles of monthly reporting, validation of reported information and constant monitoring should be the pillars on which the commitments for the coming year are based. This informed the new commitments, ranging from enhancing the monitoring and oversight capacity of the legislature and its committees, provincial treasury improving its supporting and capacitating role and the development and support of entity-specific actions plans to address financial and performance management, to taking full ownership of key control assessments. To give effect to these commitments, key positions will have to be filled and/or remain staffed with personnel who possess the required skills. In addition, the provincial treasury will need to play a coordinating role with enabling national role players, with the emphasis on supply chain management, service delivery reporting, human resource management and 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 key controls and commitments in order to achieve sustainable clean audit outcomes. At a minimum, this will require a commitment of an hour once every 90 days by the executive authority. This could be followed by sharing the consolidated picture with the Premier and the legislature on a quarterly basis. It will require the continued enhancement of the oversight model, which will include effective coordination between the public accounts committee and portfolio committees. If these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, it will raise provincial governance to a higher level and contribute greatly towards sustainable, positive outcomes.

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

In this centenary year of the AGSA, I wish to thank the audit teams from my office and the audit firms that assisted 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
November 2011**



SECTION 2: AUDIT OUTCOMES

The Eastern Cape Provincial Government comprises 14 provincial departments (including the provincial legislature), the revenue fund, and 11 public entities. This report presents the 2010-11 audit outcomes of these audits as performed by the AGSA.

2.1 Audit opinions on financial statements

2.1.1 Audit outcomes for the year ended March 2011

The AGSA received financial statements from 14 departments (including the legislature and revenue fund) and 11 entities within the legislated time frame. The Department of Education is the only auditee within the Eastern Cape portfolio that submitted financial statements after the prescribed date of 31 May 2011. In response, the audits of 14 departments and 11 public entities (2009-10: 100%) were completed by the AGSA within the legislated time frame.

The Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) directs that departments and public entities 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. These financial statements are then subjected to a financial audit with the aim of expressing an opinion that provides objective assurance as to the fair presentation of information contained in the financial statements.

An unqualified opinion is issued if the AGSA has obtained reasonable assurance through the audit that the financial statements present fairly, in all material respects, the financial position of the entity, and its financial performance and cash flows for the year ended in accordance with the applicable financial reporting framework.

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

The AGSA is driven by its mandate also to subject auditees' performance objectives and compliance with laws and regulations to scrutiny. This is referred to as "other reporting responsibilities". These matters are defined and commented on in more detail in sections 2.3 and 2.4 of this report.

The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below, while a three-year history of audit outcomes for the province is provided in section 2.1.2 of this report.

Table 1: Summary of audit outcomes

Audit outcomes	Audits conducted by the AGSA			
	Departments*		Public entites**	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	2	1	1	3
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	7	10	9	6
Financially unqualified financial statements	60.00%	73.30%	90.90%	66.70%
Qualified	5	2	1	3
Adverse	0	0	0	0
Disclaimer	1	2	0	0
Financially qualified financial statements	40.00%	26.70%	9.10%	33.30%
Total number of audits reported on	15	15	11	12
Number of audits not yet finalised at 31 August 2011	0	0	0	0
Total number of audits	15	15	11	12
Total number of auditees in which findings arose from the AGSA's other legal reporting responsibilities:				
Predetermined objectives findings only	1	0	0	2
Compliance with laws and regulations findings only	2	0	1	2
Findings on both predetermined objectives and compliance with laws and regulations	10	14	9	5

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

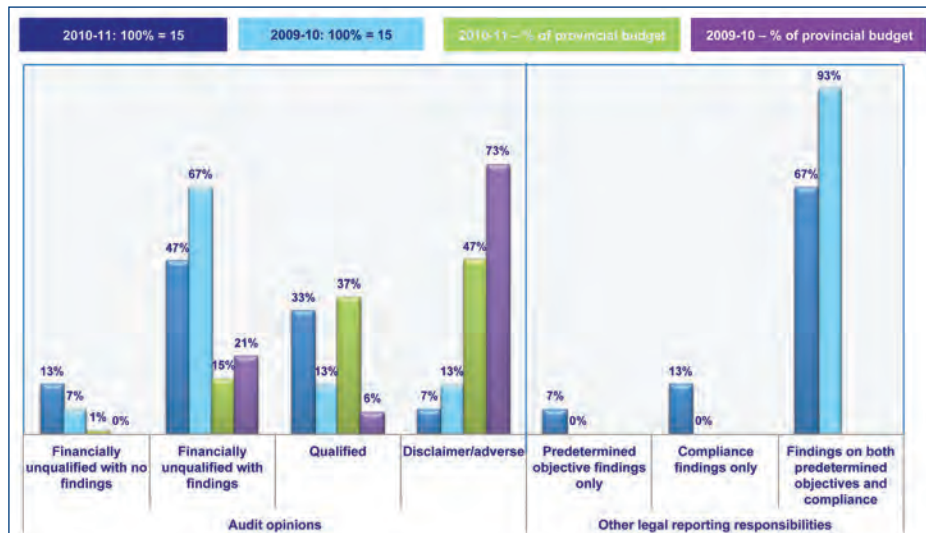
In respect of the comparative figures for public entities it should be noted that the difference in the number of audits is due to the closure of the Eastern Cape Youth Commission with effect from 31 March 2010. In similar vein, the Eastern Cape

Parks Board and Eastern Cape Tourism Board also ceased to exist as separate entities during the year under review. However, their functions were combined into the newly established Eastern Cape Parks and Tourism Agency. In addition to the entities above, the audit of the East London Industrial Development Zone (ELIDZ) was withdrawn from auditors of the private sector and audited by the AGSA for the first time during 2010-11.

Figures 1 to 4 provide additional statistics relating to the three facets of audit outcomes, namely:

- (i) audit opinions on financial statements;
- (ii) findings on predetermined objectives; and
- (iii) departments and public entities' compliance with laws and regulations.

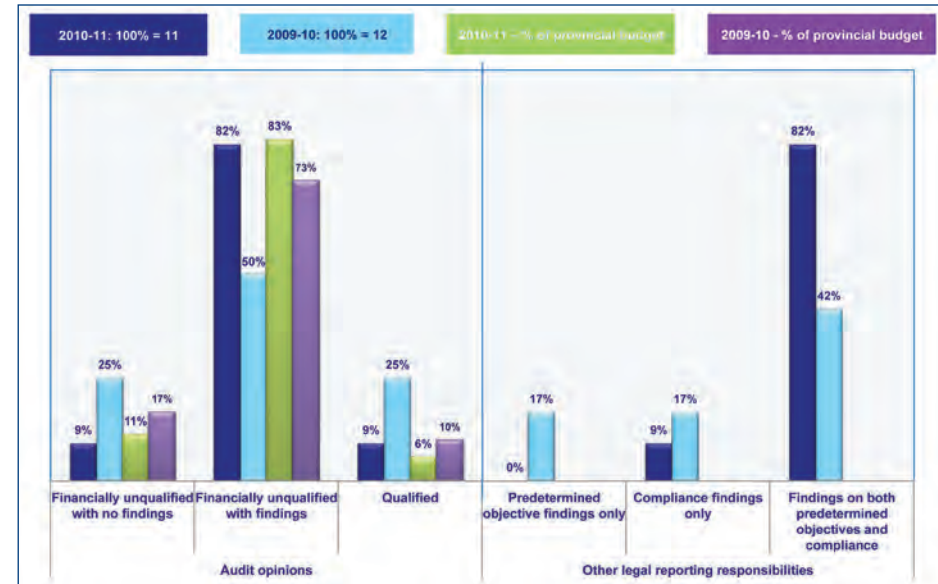
Figure 1: Audit outcomes of departments – current year versus prior year



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

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

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



It is encouraging to see that financially unqualified opinions with no other matters are starting to take root in the province. Figure 1 further highlights the positive trend with regard to the holistic monetary value relating to the outcomes. The most prominent move relates to the fact that for the 2009-10 financial year, 73% of the total provincial budget was disclaimed, while in the current year the figure decreased significantly to 47%. This is directly related to the improved Health audit outcome. It should be noted, however, that close to half of the provincial budget still remains disclaimed.

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



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

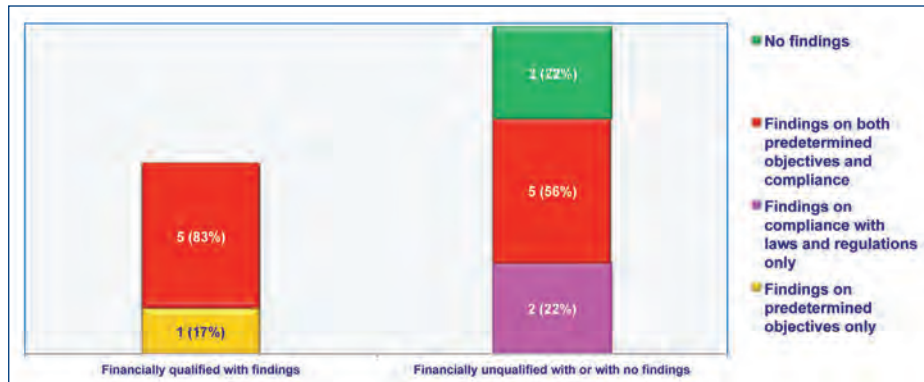
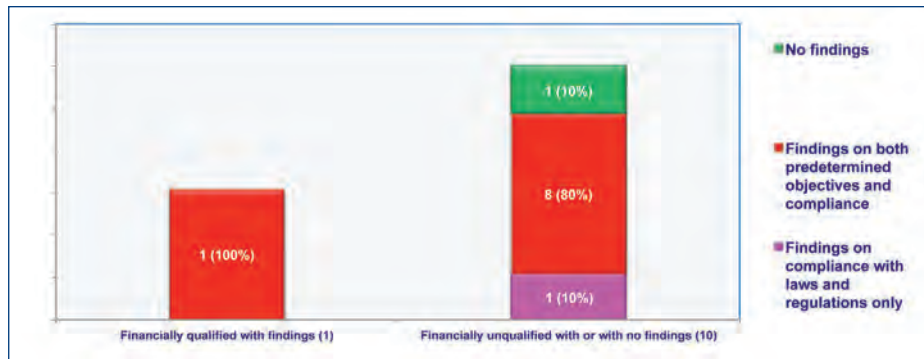


Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations

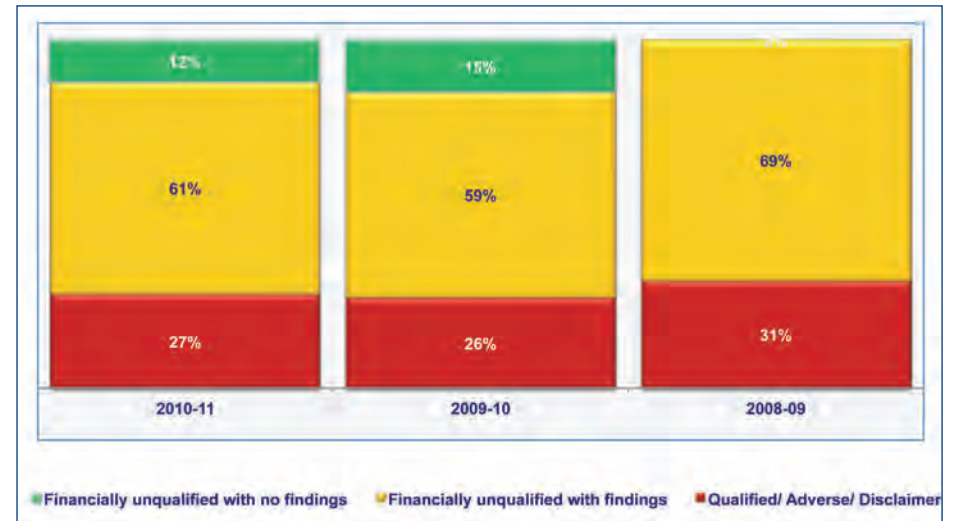


Findings on predetermined objectives are analysed in detail in section 2.3, while an overview of auditees' compliance with laws and regulations is presented in section 2.4 of this report.

2.1.2 Three-year history of audit outcomes for the province

The audit outcomes for the province over the past three years are depicted below.

Figure 5: Three-year audit outcomes for the province



It is evident that the provincial administration still has a very long road ahead towards achieving clean administration. While a marginal improvement in the audit outcomes in the 2010-11 financial year is evident, it is overshadowed by slow progress in most areas.

The reality is that improved outcomes are not entrenched within practices that promote and enhance sustainability. This is evident in the fact that although improvements were registered at four auditees, there were also three regressions, which is an indication that the progression towards clean administration is not sustainable.

Concern was also raised over the lack of movement of the financially unqualified outcomes with other matters to that of financially unqualified with no other matters. This is evidenced by the high prevalence of auditees with findings on predetermined

objectives and compliance with laws and regulations. The bulk of auditees had been grouped in this category for a number of years and one would expect year-on-year progression to clean administration to have gained more momentum. Departments and entities appear to be satisfied with unqualified opinions and do not address the matters that gave rise to compliance and PDO findings.

Leadership is not setting the correct tone and is not taking ownership of and responsibility for sound financial and performance management disciplines, as too much emphasis is placed on audit outcomes during the audit process, rather than on clean administration throughout the financial year. This impacts on the sustainability of outcomes.

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

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

Table 2: Movements in audit outcomes of departments






Movement in audit outcome over 2009-10 – Departments				
Audit opinion	Improvement	Unchanged	Regressed	Total reported on
Financially unqualified with no findings		1		2
Financially unqualified with findings	1	7		7
Qualified		2		5
Disclaimer/Adverse	1	1		1
Total	2	11	2	15

Table 3: Movements in audit outcomes of public entities

Movement in audit outcome over 2009-10 – Public entities					
Audit opinion	Improvement	Unchanged	Regressed	New public entities	Total reported on
Financially unqualified with no findings		1			1
Financially unqualified with findings		4		2	9
Qualified	2	1			1
Disclaimer/Adverse		0			0
Total	2	6	1	2	11

Highlights and major trends in audit opinions on the financial statements for the year under review, with comparisons to the previous financial year, are presented below.

Overall trends	Two departments (13%) and two entities (18%) registered improvements in audit outcomes while 10 departments (67%) and six entities (55%) remained unchanged. In contrast, the audit outcomes of two departments (13%) and one entity (9%) had regressed.
Notable improvements	Two departments (Premier and Safety), as well as one entity (Uvimba), have managed to address their PDO matters and now only have findings on compliance. All three institutions are on the brink of clean administration as leadership has taken ownership of their outcomes and are in the process of implementing a disciplined culture to instil clean administration. If maintained and implemented, this momentum should take them to the next level of outcomes. In addition, the Eastern Cape Arts Council and ECATU have proved their dedication to improving outcomes by eradicating historical qualification areas to find themselves in the financially unqualified category for the first time in five years.



Financially unqualified audit opinions with no findings	<p>The Eastern Cape Legislature set an example for all departments and entities in achieving an audit outcome that reflects clean administration. In addition, the backlog of the provincial revenue fund has been eradicated and financially unqualified opinions with no other matters were expressed during the year for both the 2009-10 and 2010-11 financial years.</p> <p>It is of concern, however, that of the three entities in this category in the previous year, only ASGISA managed to sustain this status.</p> <p>The main driver of the improvement in the legislature's audit outcome was effective performance management and entrenched financial management discipline where individuals are held accountable for their actions and responsibilities.</p>
Financially unqualified, with findings/with no findings	<p>Five departments and five entities retained their financially unqualified with other matters status. This status was only maintained because errors identified during the audit were corrected. The move towards clean administration at these departments and entities appears to have stalled as the leadership has not implemented controls over financial management, compliance and PDO reporting.</p> <p>ECSECC regressed due to findings on PDO and compliance. In addition, a large number of material adjustments had to be made during the audit process as the financial controls during the year were not adequately monitored.</p>
Notable regressions	<p>The departments of Agriculture and Sport Art Recreation and Culture regressed. A change in leadership and the resultant relaxation of supervision and monitoring exercised over the day-to-day financial processes contributed to the regressions at these auditees.</p>
Disclaimed, adverse or qualified audit opinions	<p>The key movement here relates to the progression of Health from disclaimer to qualified. This is a great achievement and an indication that the leadership is starting to take financial management and accountability more seriously. It has to be mentioned, however, that many adjustments had to be made during the audit process. This outcome will not be sustainable without a committed plan of action and continuous monitoring thereof by the department.</p> <p>Mayibuye Transport remains a serious point of concern. Not only did the entity fail to address the prior year qualification items, but two additional areas have now been qualified.</p>
Prior year qualification findings	<p>Human Settlements and Economic Development failed to address prior year qualifications and are once again qualified on the same issues as in the previous year.</p>

Repeatedly qualified auditees	<p>The Department of Education remains the only department disclaimed and although not apparent in the outcome, the situation within the department has deteriorated over the past year, with a higher number of qualifications and instances of non-compliance. This further deterioration is largely due to the initial uncertainty created around the roles and responsibilities of the various role players after the department was placed under administration following the national executive decision to intervene in terms of section 100(1)(b) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996). Roles and responsibilities have subsequently been clarified and the department has made commitments to improve going forward. Refer to section 4 for a more detailed analysis.</p>
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Annexure 1 to this report lists the auditees together with their 2010-11 audit outcomes and those of the previous financial year.

2.1.4 Audit outcomes history of auditees that obtained financially qualified audit opinions for the year ended March 2011

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

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

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Education	Disclaimer	Disclaimer	Adverse	Adverse	Adverse
Agriculture	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings
Economic Development and Environmental Affairs	Qualified	Qualified	Qualified	Qualified	Qualified
Health	Qualified	Disclaimer	Adverse	Adverse	Adverse
Housing	Qualified	Qualified	Financially unqualified with findings	New	New
Mayibuye Transport Corporation	Qualified	Qualified	Financially unqualified with findings	Qualified	Qualified

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Sport, Recreation, Arts and Culture	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified

Outcomes achieved in prior periods are not always sustainable as departments and entities tend to address concerns raised during the audit by fixing the financial statements rather than addressing the systemic issues that gave rise to the findings.

Although the Department of Education retained its disclaimer of opinion, the number of findings had increased over the past number of years. This is due to a lack of leadership and discipline demonstrated by its senior management and the lack of respect shown by the senior management to the accounting officer.

The inability of Human Settlements, Economic Development and Mayibuye Transport to address historical areas of qualification is a reason for serious concern and is the result of a lack of commitment from leadership to take action and ownership. None of the qualifications at these three institutions are of a highly technical nature and all relate to day-to-day operations not underpinned by sound financial management.

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 (93%) departments [2009-10: 15 (100%)] and 11 (100%) public entities [2009-10: 12 (100%)] had submitted their financial statements for auditing. The Department of Education is the only auditee within the Eastern Cape portfolio that submitted financial statements after the prescribed date. One audit, that of Sports, Arts and Culture, was not completed within two months of the receipt of financial statements due to the AGSA's internal quality assurance and monitoring processes.

It should be noted, however, that the 93% submission rate of the departments and entities is not indicative of sound practices with regard to the timely compilation and review of financial statements and underlying records. As discussed in more depth in section 2.6.6 of this report, the financial statements submitted are generally

of poor quality and littered with misstatements. Auditees do not comply with the legislated submission requirements and rely heavily on the audit process to identify and correct misstatements. In addition, a lack of proper planning and project management for the compilation and submission of financial statements creates an environment where audit committees do not have sufficient time to review the financial statements and effectively discharge their responsibilities.

2.2 Findings on financial management, including defects in financial statements

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

2.2.1 *Auditees' progress in addressing prior year financial statement qualifications*

Of the audits completed on 20 September 2011, one department (25%), Health, had not addressed all of its 2009-10 qualification findings, while three (75%), namely Education, Economic Development and Human Settlements, had not addressed any of their 2009-10 qualification findings. Mayibuye Transport had also not addressed any of its 2009-10 qualification findings.

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



Figure 6: Transversal financial statement qualification areas – departments

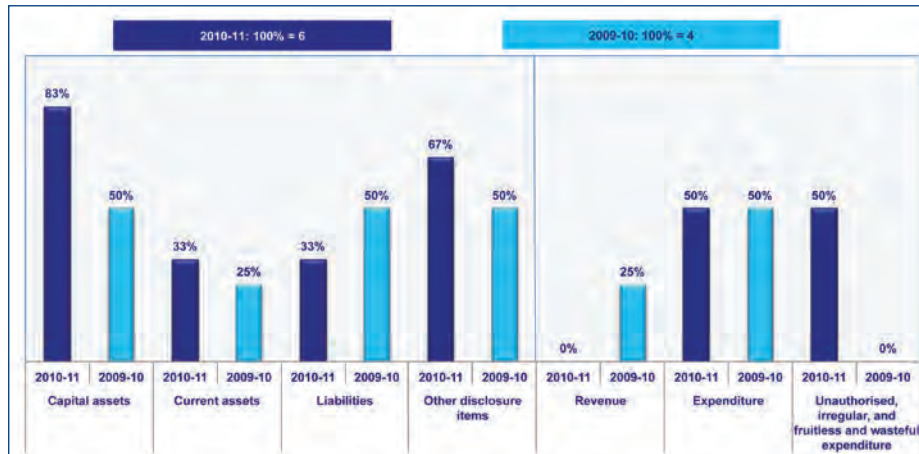
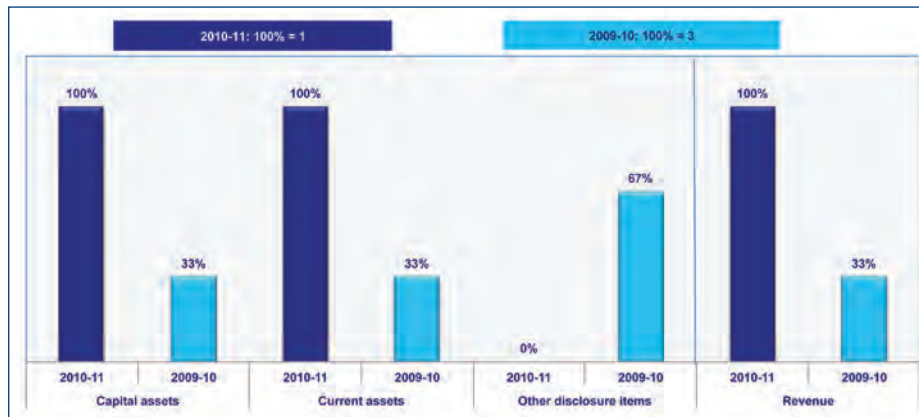


Figure 7: Transversal financial statement qualification areas – public entities



Tables 5 and 6 depict the movements in the financial statement qualification areas of those departments and public entities that obtained disclaimed, adverse or qualified audit opinions.

Table 5: Progress made by departments in addressing financial statement qualification findings

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Education	Disclaimer	New	Repeat**	Repeat**	Repeat**		Repeat**	Repeat**
Agriculture	Qualified				New			
Economic Development and Environmental Affairs	Qualified	Repeat**						
Health	Qualified	Repeat**	Repeat**	Repeat**	Repeat**	Addressed	Repeat**	Repeat**
Housing	Qualified	New			Repeat			
Sport, Recreation, Arts and Culture	Qualified	New			New		New	

* Unauthorised, irregular as well as fruitless and wasteful expenditure

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

Table 6: Progress made by public entities in addressing financial statement qualification findings

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Mayibuye Transport Corporation	Qualified	Repeat**	New			Repeat**		
Eastern Cape Appropriate Technology Unit	Financially unqualified with findings				Addressed			

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Eastern Cape Provincial Arts and Culture Council	Financially unqualified with findings		Addressed		Addressed			

* Unauthorised, irregular as well as fruitless and wasteful expenditure

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

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

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

Legislature, ASGISA, ECATU and Arts Council effectively set up action plans to address the prior year findings. In addition, the leadership at these auditees has displayed an effective leadership culture that is conducive towards accountability. Should this momentum be maintained, the audit outcomes will be sustained going forward.

2.2.3 Analysis of areas in financial statement containing material misstatements

As in prior years, departments and public entities submitted for audit financial statements that contained material misstatements. The lack of monthly reporting contributed to the repeat misstatements further analysed below. The areas misstated for the year under review are depicted in figure 8 below.

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



Uncorrected material misstatements (defects) in financial statements attract modified audit opinions, as reflected in section 2.2.3. The incidence of material misstatement corrected by management during the audit is analysed in section 2.2.5.

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

Some auditees did not or were unable to correct all of the identified material misstatements in their financial statements. Below is a summary of the areas that resulted in financial statements being subject to disclaimed, adverse or qualified audit opinions for not fairly presenting, in all material respects, the financial position as at 31 March 2011 or the financial results for the year then ended. Only those common areas where the findings comprise more than 50% of total qualifications in the province are discussed further below.



Capital assets – 86% (six departments and one entity)

Capital assets principally consist of land, buildings, roads, motor vehicles, computer equipment, software, furniture and other equipment. Common matters attracting qualifications included the following:

- Asset registers used to support the amounts and disclosures in the financial statements did not include all assets. In addition, assets included in the asset registers could not be physically verified. Assets included in the asset registers were also not correctly valued.
- These findings are due to a lack of regular reconciliation and verification by those officials responsible for maintaining asset records, a lack of monitoring by the leadership and management, and failure to hold those responsible for maintaining appropriate records accountable for their poor performance.

Other disclosure items – 59% (four departments)

Other disclosure items resulting in qualifications relate mainly of incorrect disclosure of contingent liabilities and commitments.

- These findings are due to a lack of appropriate systems to generate the information required for disclosure in the financial systems and a lack of supervision, monitoring and review of the day-to-day processes of gathering information, and recording and reporting on commitments by the leadership of the affected departments.

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

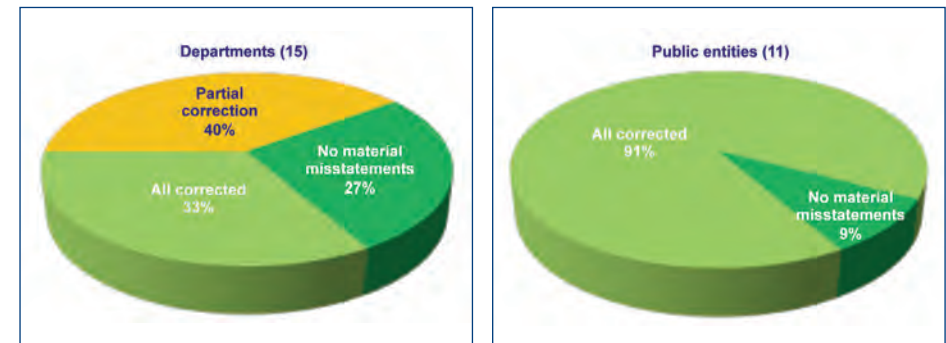
2.2.5 Material misstatements in financial statements submitted for auditing

The PFMA directs that departments and public entities 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).

As in previous financial years, the financial statements submitted for auditing were of a poor quality and had to be materially adjusted during the audit process. Auditees had significant deficiencies in the design and implementation of internal control in respect of financial reporting, which resulted in material corrections to the financial statements during the audit in the case of 11 departments (74%) and 11 public entities (91%). The corresponding level of pervasive material misstatements for 2009-10 was 100% for departments and 100% for public entities.

The figure below indicates the extent of pervasive material misstatements in the financial statements submitted for auditing, some of which were subsequently corrected by management as a result of audit findings. Where material misstatements were not corrected, the financial statements were qualified.

Figure 9: Material misstatements in financial statements submitted for auditing



The provincial legislature, provincial treasury, provincial revenue fund and social development and ASGISA are the only auditees that did not have material adjustments made to their financial statements (AFS).

Internal control deficiencies that failed to prevent or timeously detect material misstatements in the financial statements included the following:

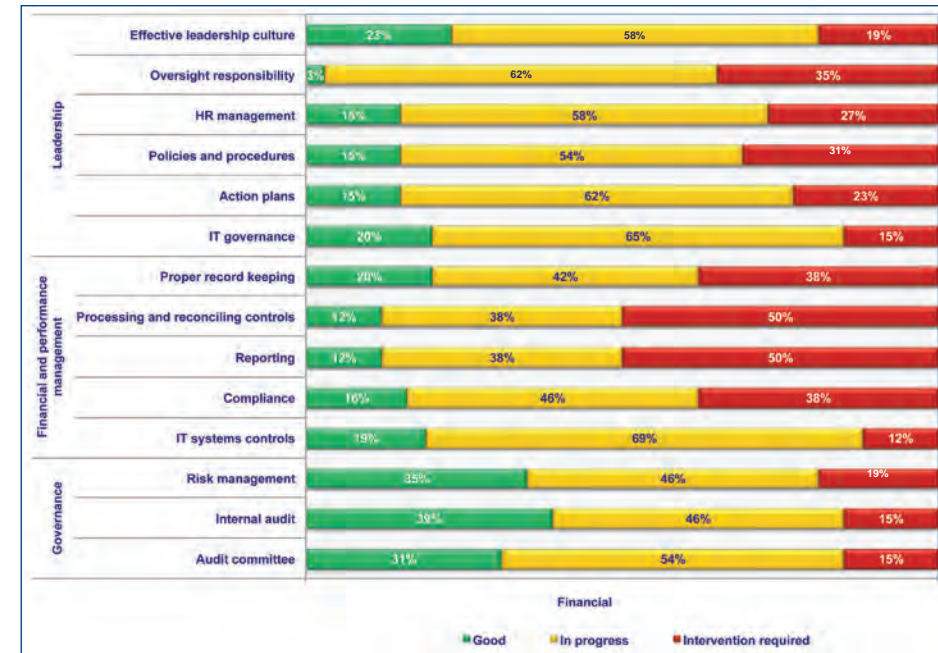
- Departments and entities do not implement systems and processes to allow them to report in accordance with the accounting framework. This leads directly to the high prevalence of misstatements on “other disclosure items”.

- There is a tendency of devious compliance in submitting annual financial statements with the expectation that corrections would be identified by the audit team and corrected during the audit process. In addition, the monthly in-year monitoring reports on financial information are not effective as errors and shortfalls are not identified by management.
- Treasury, as the custodian of AFS in the province, does not roll out its own best practices to the rest of the province.

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 strength of key drivers of internal control. These drivers are classified under (i) leadership; (ii) financial and performance management; and (iii) governance. Figure 10 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 for them to achieve their financial management and financial reporting objectives and to meet their legislated obligations.

Figure 10: Assessment of auditees' key controls over financial management and reporting



It is evident that a concerted effort is required to assist the departments and entities in moving towards clean administration by implementing the key controls above. The sustainability of the positive movements in outcomes is a concern as a significant portion of the key controls is either in progress or still requires intervention. If the province does not move swiftly to implement the key controls its audit outcomes may be in danger of regressing.

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

- The Eastern Cape Provincial Legislature, Accelerated Growth Initiative (ASGISA), Eastern Cape Development Corporation, Eastern Cape Appropriate Technology Unit, Eastern Cape Gambling and Betting Board and the Eastern



Cape Provincial Arts and Culture Council have made significant strides in implementing the key controls around the financial management and reporting component. This can be ascribed to the hands-on approach of the leadership at these departments as well as the commitment shown in the drive towards clean administration. This positive approach towards the key controls is clearly evidenced in the audit outcomes of these departments and entities.

- The Eastern Cape Provincial Legislature, ASGISA and Eastern Cape Appropriate Technology Unit serve as examples to the rest of the departments and entities within the province. The leadership and oversight shown by the management and governance structures in getting the correct, effective systems in place have produced the positive results required to achieve clean administration and serve as confirmation that successes can be achieved by applying the key controls.
- The financial management findings at the remaining departments and entities are attributed to the following:
 - Ineffective leadership culture and oversight by the leadership of the departments and entities. The irregular expenditure due to SCM breaches and conflicts of interest, in particular, raises questions about the integrity and honesty of leadership.
 - Senior management did not always supervise and monitor basic accounting disciplines such as daily record keeping and the preparation of monthly management accounts that are reconciled to the general ledger and are supported by appropriate schedules that had been reconciled to the underlying accounting records.
 - Senior management did not ensure that existing policies relating to SCM and HR management were correctly applied and enforced, which resulted in irregular expenditure being detected during the audit process. This resulted in either material amendments to the financial statements submitted for audit or a qualification in the audit reports. In addition, consequences for poor performance/breaches of applicable policies were virtually non-existent.
 - Action plans to address prior year findings were either not prepared or not implemented and monitored on a regular basis.
 - Poor IT governance and IT system controls which have a direct impact on findings related to misstatements in the financial statements. Data-cleansing exercises should be conducted on the payroll data of the departments of Education and Health. Numerous instances were noted at these departments where employees could not be physically verified at the locations indicated on the payroll or could not be verified at all. Furthermore, the leave recorded on the payroll system could not be verified against supporting information.

After this exercise is completed, all changes to payroll data should be monitored and checked against supporting evidence to ensure that the data integrity is maintained.

- Leadership did not support their governance structures in order to strengthen their control environments. In most cases these structures have complied with the legislative requirements; however, information is not always provided to internal audit to enable them to conduct their audits. Internal audit reports are not responded to at all or are responded to too late for appropriate actions to be implemented, while recommendations are not implemented, resulting in repeat findings during follow-up audits.

The way forward

Historically, all success stories are based on three elements implemented by the leadership of the respective departments and entities, namely a leadership tone depicting a willingness to accept accountability for financial management throughout the financial year, creating a control environment that is conducive to accountability and oversight, and decisive action plans with clear time frames to address the root cause of qualifications and the continuous monitoring thereof.

Unsurprisingly, these very same best practices that formed the foundation of the move to clean administration were not evident at the departments that were qualified. Although action plans are being used, the plans are not specific enough, not time bound and not executed with discipline. As a result, actions are taken too late in the financial year to have a direct impact on outcomes. This is further evidenced by role players losing momentum at the end of the audit process and only giving attention to areas of improvement once the next audit cycle starts. This, in turn, leads to situations where these auditees try to manage the audit process instead of managing the financial performance of their institutions throughout the year.

Sound leadership principles, financial and performance management, and governance are the building blocks on which clean administration is built. It is evident that, despite the sporadic improvements, the provincial sphere needs to intensify and accelerate initiatives to institutionalise these building blocks if they are to achieve clean administration in the foreseeable future. To this end, it is imperative that these principles are not only embedded at a leadership level, but also filter down to grassroots level through holding individuals accountable for their actions and responsibilities.

In addition, auditees that consistently maintained unqualified reports with findings on predetermined objectives and/or compliance with laws and regulations over the past two years should be targeted by the provincial leadership for assistance as these should be able to move to reports with no findings on predetermined objectives and/or compliance with laws and regulations in the near future.

2.3 Findings arising from the audit of predetermined objectives

2.3.1 Overview of the AGSA's approach to the audit of 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 whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

The AGSA has, since the 2005-06 financial year, gradually been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined objectives, has been included in the management report. However, these conclusions have not yet been elevated to the level of the auditor's report. Initiatives undertaken during 2010-11 by the AGSA to raise the profile of reporting against predetermined objectives and to support and enable improved implementation thereof include extensive workshops and training sessions held with the executive, heads of department, senior management of individual departments and public entities, chief financial officer forums and internal audit.

2.3.2 Overall findings arising from the audit of predetermined objectives

Progress made by auditees in addressing prior year findings on predetermined objectives is depicted in figures 11 and 12 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 11: Movements in findings on reporting on predetermined objectives



Figure 12: 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

The movement since the prior year in each of the categories of PDO findings is depicted in tables 7 (departments) and 8 (provincial public entities) below.

Table 7: Predetermined objectives – movement analysis for departments

AoPI outcome	Non-compliance		Presentation	Usefulness			Reliable
	Lack of systems	Inadequate quarterly reporting	Presentation	Consistent	Relevant	Measurable	
Repeat finding	9	2	1	5	0	3	6
New finding	0	4	3	1	2	4	1
Prior year finding addressed	3	3	4	4	0	3	2
Not submitted for audit	-	1	1	1	1	1	1
No previous findings	2	4	5	3	11	3	4
Total reported on	14	14	14	14	14	14	14



Table 8: Predetermined objectives – movement analysis for public entities

AoPI outcome	Non-compliance		Presentation	Usefulness			Reliable
	Lack of systems	Inadequate quarterly reporting	Presentation	Consistent	Relevant	Measurable	
Repeat finding	3	0	0	0	0	2	1
New finding	1	1	2	1	2	2	4
Prior year finding addressed	2	2	2	4	0	1	1
Not submitted for audit	0	0	0	0	0	0	0
No previous findings	5	8	7	6	9	6	5
Total reported on	11	11	11	11	11	11	11

Key trends in findings related to PDO reporting are discussed below.

Annual performance report not submitted for audit

General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010 requires all departments and public entities to submit their PDO reports, which are to be included in their annual report together with their financial statements, on 31 May 2011.

- The uncertainty relating to responsibilities of the head of department arising from the intervention by the national Department of Basic Education conducted in terms of section 100 of the Constitution, together with a lack of monitoring of the daily, weekly and monthly activities required to measure and report on actual performance against predetermined objectives, resulted in Education being unable to submit its PDO report in time for auditing.

Non-compliance

- The overall improvement in this outcome is due to a greater awareness of the legislative requirements by departments and entities, and the leadership of the province placing greater emphasis on PDO reporting.
- The most common non-compliance findings relating to predetermined objectives were a lack of effective, efficient and transparent performance management

systems and quarterly reports that did not facilitate effective monitoring of performance.

Performance management systems

- This prior year finding was addressed by the Office of the Premier, the provincial legislature, Safety and Liaison, Eastern Cape Development Corporation and Mayibuye Transport Corporation. The leadership of these departments, with the assistance of their audit committees and internal audit units, should continuously monitor the systems implemented to ensure that this improvement is sustainable.
- The lack of performance management systems was again raised at Economic Development and Environmental Affairs, Education, Health, Human Settlements, Local Government and Traditional Affairs, Public Works, Social Development, Sport (Sport, Arts, Recreation and Culture), Transport, Gambling and Betting Board (G&BB), Liquor Board (ECLB) and the Provincial Arts and Culture Council (PACC), and as a new finding at East London Industrial Development Zone (ELIDZ).
- The repeat findings are due to the leadership of these departments and entities not implementing action plans to address their findings on predetermined objectives.
- ELIDZ was audited by the AGSA for the first time during the year under review. Predetermined objectives had not been audited at this entity in the prior year.

Quarterly reports

- The Office of the Premier, the legislature, provincial treasury, G&BB and ECDC had addressed their prior year findings relating to quarterly performance reports. The leadership of these departments and entities, together with their audit committees and internal audit units, should continuously monitor the credibility of these reports to ensure that this improvement is sustainable.
- Findings relating to inadequate quarterly reports were again raised at Agriculture and Social Development, while new findings in this regard were raised at Economic Development, Sport, Transport and ELIDZ.
- These repeat and new findings are due to lack of monitoring by the leadership of the day-to-day processes of collecting, collating and reporting on information about actual performance.

Usefulness

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

The usefulness criteria deal with the consistency, relevance and measurability of the objectives, indicators and targets reported in the annual report.

The overall improvement in usefulness is due to the leadership of the province elevating the status of the report on predetermined objectives and implementation of the AGSA's recommendations made in the prior year reports and during the various interactions with the provincial leadership. The findings on usefulness are further analysed as follows:

Consistency

All the objectives, indicators and targets set in the strategic/corporate and annual plans of the departments and public entities are consistently reported on in their annual reports.

- The Office of the Premier, Human Settlements, the provincial legislature, provincial treasury, ECDC, G&BB, ECLB and PACC had addressed their prior year findings relating to consistency. Regular monitoring of reported and planned targets, indicators and objectives by the leadership, management and governance structures is required to ensure sustainability of these improvements.
- Consistency findings were raised again at Agriculture, Social Development, Public Works, Health, and Sport. New findings on consistency were reported at Economic Development and Environmental Affairs and ELIDZ. These repeat and new findings are due to a lack of monitoring by the leadership and intentionally reporting on those activities that were actually performed instead of those activities that had been planned.
- The new findings at Economic Development and Environmental Affairs were also attributed to a change in leadership during the year. ELIDZ was audited for the first time by the AGSA during the year under review.

Relevance

Targets and indicators are considered relevant where there is a clear and logical link to the objective being measured.

- New findings relating to relevance were reported at Agriculture, Local Government and Traditional Affairs, G&BB, and PACC. No findings relating to the relevance criteria were raised and reported on during the previous audit cycle. This finding is attributed to a lack of, or insufficient review of the planning documents by leadership, management and governance structures.

Measurability

Planned objectives, indicators and targets are measurable where they are specific, measurable, time bound, well defined and verifiable.

- Human Settlements, the provincial legislature, provincial treasury and ECLB had addressed their prior year findings on measurability. This was achieved due to an improved understanding of the requirements and implementing processes to ensure alignment of objectives, targets and indicators. It is imperative that the effectiveness of these processes be monitored on an ongoing basis to ensure that this improvement is sustainable.
- Findings on measurability were again raised at Sport, Economic Development and Traditional Affairs, Health, Mayibuye Transport Corporation and PACC. New findings were reported at Agriculture, Public Works, Social Development, Transport, G&BB, and ELIDZ. The new and repeat findings on measurability are also attributed to a lack of, or insufficient review of the planning documents by leadership, management and governance structures.

Reliability

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

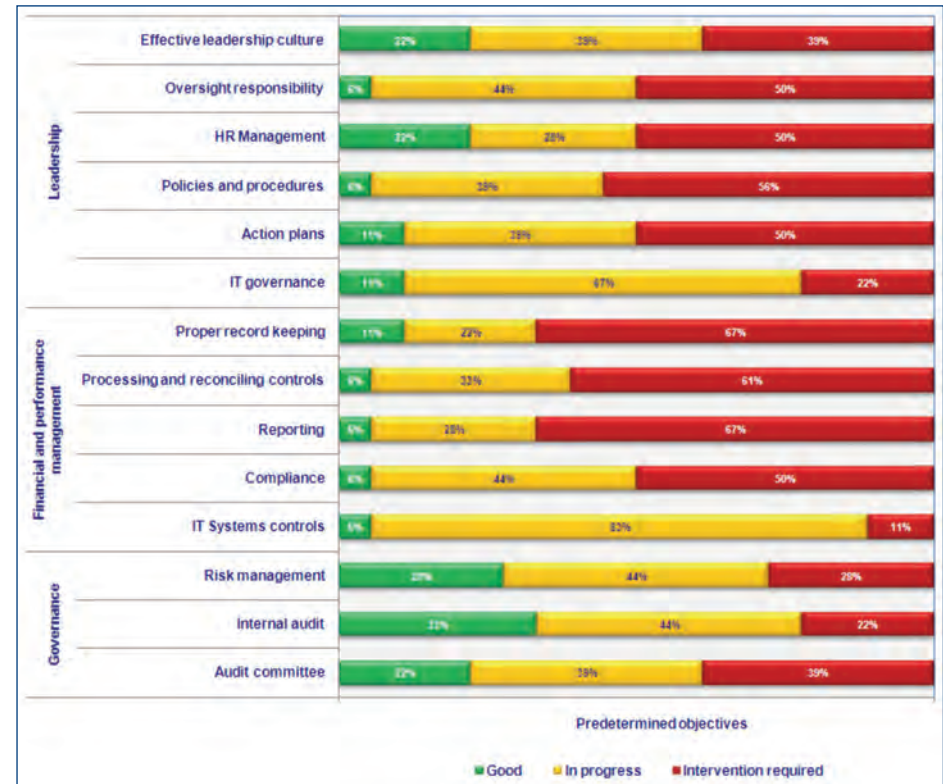
Actual reported performance is reliable when it can be verified to supporting evidence and all of the actual performance recorded in the supporting evidence is correctly recorded in the annual performance report.



- The Office of the Premier, the provincial legislature and Mayibuye Transport Corporation had addressed their prior year findings on the reliability of reported performance. This was achieved by implementing appropriate processes and systems, including supervision and regular monitoring of performance reports by the leadership and management.
- Although compliance with applicable legislation and the usefulness of information reported have improved, the province has regressed on the reliability of actual performance reported.
- Repeat findings on the reliability of actual reported performance were reported at Economic Development, Health, Human Settlements, Social Development, Sport, Transport and ECLB. New reliability findings were reported at Agriculture, ECATU, ELIDZ, G&BB and PACC.
- The repeat findings are due to a lack of systems for collecting, recording and reporting actual performance against predetermined objectives, the failure of leadership to supervise and monitor the day-to-day processes of collecting and retaining information and supporting documentation about performance, and a lack of attention given by governance structures (audit committee and internal audit) to reporting on predetermined objectives.
- The new findings are due to a relaxation of supervision and monitoring by the leadership, management and governance of the systems used to generate and report on performance information.

2.3.4 Key controls as a driver of improved outcomes on predetermined objectives

Figure 13: Predetermined objectives – implementation of key controls



There is a direct correlation between the implementation of key controls and the findings already discussed above. It is critical that departments and entities move swiftly to implement key controls in the areas detailed in figure 13 in preparation for the conclusion on predetermined objectives to be issued by the AGSA and with a view to achieving the objective of clean administration by 2014.

2.3.5 Root causes of findings and the way forward on PDO reporting by auditees

- The provincial legislature, Office of the Premier, Safety and Liaison, ASGISA, ECSECC, Eastern Cape Rural Finance Corporation and the Parks and Tourism Agency had no material findings on their PDO reports, which is attributed to the implementation of recommendations made by the AGSA in its prior year management reports, the reaction of the leadership at these departments and entities, as well as a workshop held with the executive during the period under review. The systems implemented by the Parks and Tourism Agency, together with monitoring conducted by its management and oversight performed by the governance structures, serve as best practice for the province.
- The PDO findings reported at the remaining departments and entities relate to the following:
 - Organisational structures that are not aligned to the requirements for reporting on predetermined objectives. Only a handful of departments have strategic planning, and monitoring and evaluation units in place. Furthermore, even where these structures are in place, they are not appropriately capacitated.
 - A lack of policies and procedures for determining objectives, indicators and targets and reporting against them.
 - Indicators and targets contained in the planning documents do not always form the basis of the performance agreements of senior managers and their subordinates. In some cases senior management had not signed any performance agreements at all.
 - The roles and responsibilities relating to reporting against predetermined objectives are not properly defined and documented. As a result, in-year reporting does not take place or takes place too late for corrective action to be taken.
 - A lack of systems which ensure that actual reported performance is reconciled to supporting documentation and approved by appropriate officials.
 - A lack of monitoring by the leadership of the reported information. In many cases the quarterly reports are not reviewed and interrogated by the leadership to ensure their credibility.
 - A general lack of accountability and consequences for actions/inaction. The officials responsible for reporting on predetermined objectives are not held accountable for the quality of their work.

- A lack of oversight of the reports on actual performance against predetermined objectives performed by the governance structures. The governance structures do not provide the leadership with assurance that the reported performance is credible.

The way forward

In order to promote clean administration within the Eastern Cape provincial administration, the AGSA undertook the following initiatives to raise awareness of the profile of the audit of predetermined objectives:

- Discussion of key controls to be implemented over PDO reporting during the key control visits with the relevant members of the executive council, heads of department (departments) and board members (public entities).
- Raising awareness among audit committees of the role they could play with regard to predetermined objectives and conducting workshops on the subject for provincial departments and public entities.

After implementing some of these initiatives, it became evident that the leadership of the province disregarded audit of predetermined objectives and failed to understand the correlation between predetermined objectives and service delivery. This view was escalated to the Premier, who invited the AGSA to make presentations at an extended cabinet workshop, which included MECs and heads of department, held on 6 April 2011. The AGSA's presentation outlined the legislative framework and related guidance, backed by an extensive practical case study. The Premier confirmed that reporting on predetermined objectives had not received sufficient attention in the past and committed herself and her cabinet to improving this situation. As a result of this commitment, a number of follow-up workshops were held with individual departments and provincial public entities.

These initiatives contributed to the improved reporting on predetermined objectives by the Office of the Premier and the Eastern Cape Provincial Legislature.

The status of reporting against predetermined objectives should be elevated by the leadership of the province. An appropriate attitude towards reporting against predetermined objectives, which includes holding those officials accountable for their actual performance and reporting thereof and capacitating departments and entities to meet their PDO obligations and implement appropriate policies and



systems, is required to improve in this area. Furthermore, the risks related to PDO reporting should be included in the risk management strategies of all departments and entities. The audit committees, together with their internal audit units, should provide assurance to the leadership that the strategies implemented to mitigate the risks identified are adequate.

The leadership of the National and provincial treasuries should implement mechanisms to assist departments with PDO reporting and should monitor service delivery levels against the budgets submitted to them.

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

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

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

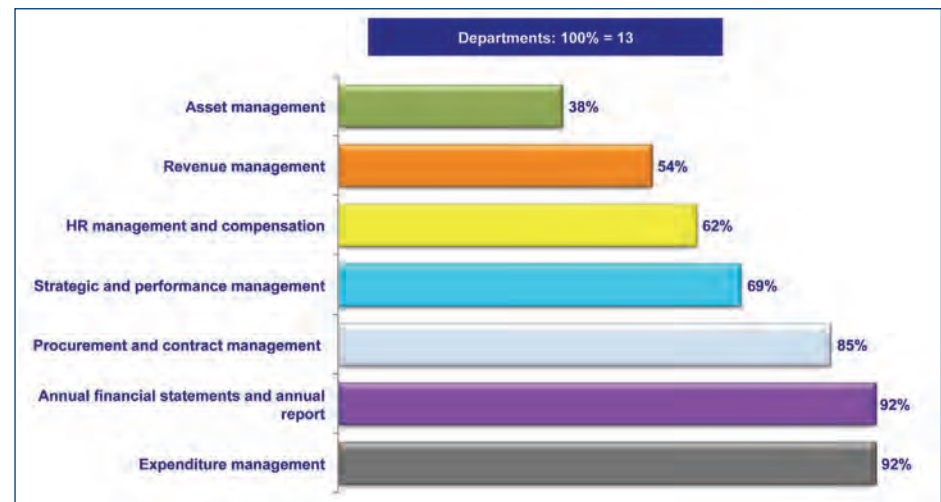
- Strategic planning and performance management
- Annual financial statements, performance report and annual report
- Audit committees
- Internal audit

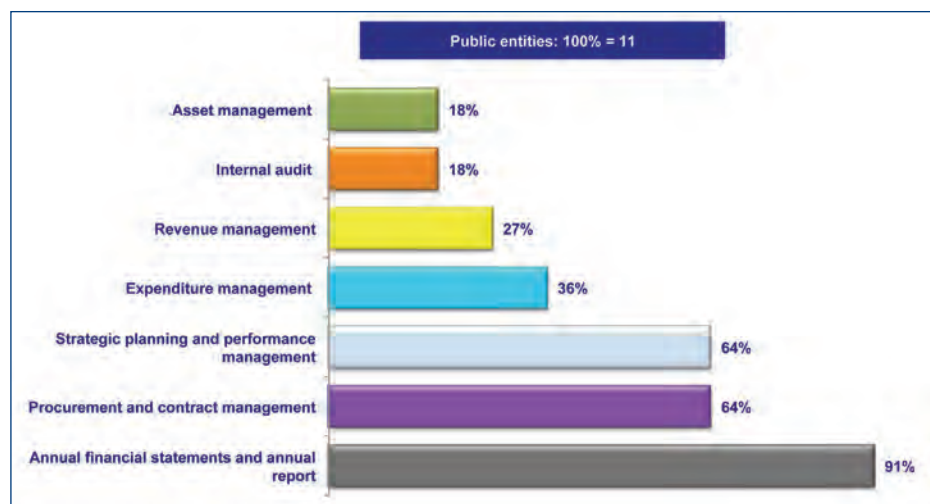
- Procurement and contract management
- HR management and compensation
- Expenditure management
- Budgets and budgetary processes
- Transfer of funds and conditional grants
- Revenue management
- Asset management
- Financial misconduct

2.4.2 Transversal findings on compliance with laws and regulations

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

Figure 14: Summary of findings arising from the audit of compliance with laws and regulations





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

Table 9: 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			
Expenditure management	Creditors not paid within 30 days of receipt of invoice	69%	0%
	Irregular expenditure not prevented	69%	50%
Annual financial statements and annual report	Submitted financial statements not prepared in accordance with prescribed accounting practices and/or not supported by full and proper records	92%	100%
Procurement and contract management	Awards to officials in the employment of the state or their close family members	69%	10%
	Competitive bids not invited for procurement above R500 000 and three written price quotations not obtained for procurement between R30 000 and R500 000. Deviations not approved or not justifiable	46%	40%

Focus area	Summary of common findings	Departments	Public entities
Strategic planning and performance management	Lack of effective, efficient and transparent performance management systems	69%	20%
	Inadequate quarterly reporting	46%	10%
Revenue management	Effective and appropriate steps not taken to timeously collect all revenue due	31%	20%
Asset management	Interest charged on debts owing to the state not at a rate determined by the Minister of Finance	31%	0%
	Proper control systems not implemented for safeguarding and maintenance of assets	31%	20%
Prevalent non-compliance areas: Departments only			
Human resource management and compensation	Human resource plans based on the strategic plan not in place or organisational structure not aligned to the strategic plan	75%	
	Written authorisation not provided in advance for overtime to be worked	75%	

Focus areas where the findings are greater than 60% are analysed further below:

Annual financial statements and annual reports

The findings on the annual financial statements and annual report relate to material amendments that were made to the financial statements submitted for audit.

- The findings on material corrections to the financial statements are due to a lack of monthly financial reporting. The preparation of monthly management accounts, which are properly reconciled to supporting schedules and appropriate reconciliations, should go a long way towards addressing the need for material corrections to financial statements that are submitted for audit.

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



Expenditure management

The findings on expenditure management relate the late payment of creditors (>30 days) and the failure to prevent irregular expenditure.

- The late payment of creditors is attributed to a lack of monitoring of invoice receipt and payment dates and failure to hold officials who cause payment delays accountable.
- The failure to prevent irregular expenditure is directly related to deliberate non-adherence by officials to the procurement and contract management processes and legislation and a lack of enforcement by management and leadership of the existing SCM legislation and policies, together with the failure to hold those responsible for supply chain breaches to account.

Section 2.4.3 further details findings related to unauthorised, irregular as well as fruitless and wasteful expenditure.

Procurement and contract management

Findings arising from the audit of procurement and contract management are analysed in section 2.4.4.

Strategic and performance management

The findings on strategic and performance management relate mainly to the lack of effective, efficient and transparent performance management systems and quarterly performance reports that did not facilitate effective performance management. Further details of non-compliance findings relating to auditees' reporting against predetermined objectives are provided in section 2.3.3.

HR management and compensation

Section 3.5.1 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

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.

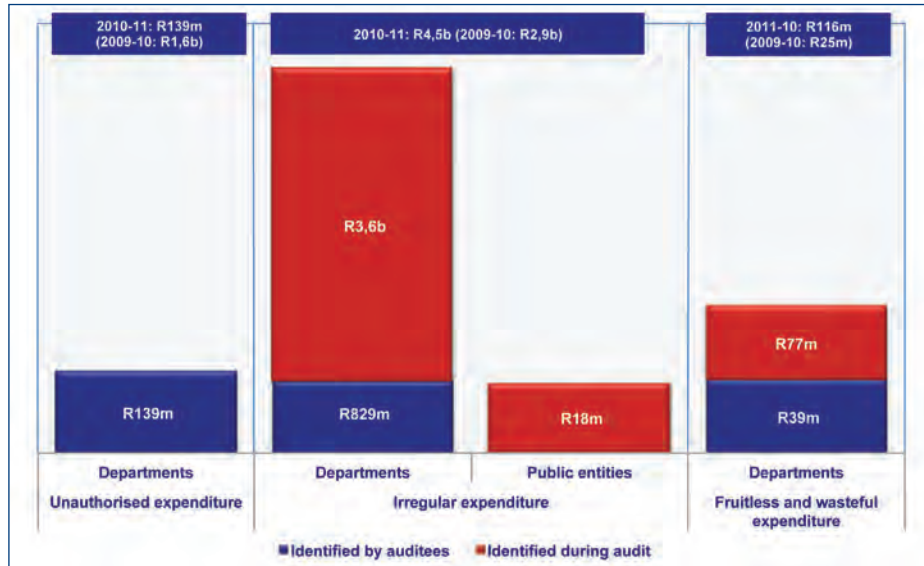
Unauthorised expenditure stems from overspending on a vote or a main division within a vote or refers to expenditure that is not in accordance with the purpose of a vote or main division.

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, the State Tender Board Act, 1968 (Act No. 86 of 1968) and any provincial legislation providing for procurement procedures at 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 15: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and entities



Unauthorised expenditure

- The decrease in unauthorised expenditure is due to improved monitoring of actual expenditure against the budget. The R139 million in unauthorised expenditure reported for the province is the result of overspending at Agriculture, Health and Social Development. These departments had also overspent their budgets in the prior year and have not implemented adequate processes to ensure that their expenditure is incurred in accordance with their budgets.

Irregular expenditure

- The irregular expenditure incurred was mostly the result of non-compliance with SCM legislation (R2 300 million) and legislation related to the compensation of employees (R2 200 million).

- The irregular expenditure relating to non-adherence to SCM legislation comprises almost 5% (R2 300 million) of the total budget allocated to the province for 2010-11. The nature and cause of this expenditure are detailed in section 5 of this report. It is imperative that the province act decisively to root out SCM malpractices that destroy the public's confidence in its ability to manage the resources entrusted to it by its citizens.
- Compensation of employees-related non-compliance (R2 200 million) was the most significant contributor to the increase in irregular expenditure over the previous year. This irregular expenditure was due to occupation-specific dispensation payments that were not budgeted for and other HR-related non-compliance, which is further explained in section 3.2 of this report.

Fruitless and wasteful expenditure

- Education and Health incurred R114 million of the fruitless and wasteful expenditure reported in the province. This expenditure related mostly to the payment of employees who could not be verified, incorrectly calculated leave gratuity payments and the payment of employees who did not report for work. This was caused by a lack of monitoring and supervision of payroll-related processes and incorrect employee data recorded on the payroll system. A data-cleansing exercise should be undertaken in order to validate the existing data on the payroll system, after which payroll processes should be closely supervised and monitored to ensure that the integrity of the data on the payroll system is maintained.

Table 10: 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	3	R139,3m	67%			
Identified during the audit - not detected by auditee						
Incurring for two or more successive financial years	3					



Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Nature of unauthorised expenditure incurred						
Overspending of votes/main division within votes	3		67%			
Expenditure not in accordance with votes						
Irregular expenditure						
Number of auditees incurring	13	R4,5b	15%	6	R17m	50%
Identified during the audit - not detected by auditee	11	R3,7b	18%	7	R17m	71%
Incurred for two or more successive financial years	11			2		
Nature of irregular expenditure incurred						
Supply chain management	13	R2,3b	23%	4	R15,5m	50%
Compensation of employees	8	R2,2b	50%			
Other non-compliance	3	R18,4m	33%	3	R2,2m	33%
Fruitless and wasteful expenditure						
Number of auditees incurring	10	R116,9m	10%			300%
Identified during the audit - not detected by auditee	3	R77,4m	33%			
Incurred for two or more successive financial years	9					

Note: Unauthorised expenditure does not apply to public entities as they are not votes as defined in the PFMA.

- Irregular expenditure was incurred by 12 departments and seven entities due to contravention of or non-adherence to the SCM regulations and compensation of employee and other requirements. This represents an increase of 102%.
- The mere occurrence of irregular expenditure is reason for concern. The material amount and steep increase go against the drive for clean administration and are indications of the collapse of the SCM control environment and a blatant disregard for laws and regulations.

- Of particular concern is that 79% (R3 700 million of R4 700 million) of the unauthorised, irregular as well as fruitless and wasteful expenditure incurred was not reflected in the financial statements submitted for auditing but was identified during the audit process. This again highlights the fact that auditees rely on the audit process to identify and correct errors instead of implementing a control environment that should detect and rectify these matters.
- Although irregular and fruitless and wasteful expenditure was recorded at most auditees, Education incurred 88% of such expenditure in the province (R2 billion of SCM-related irregular expenditure, R1,9 billion of compensation-related irregular expenditure and R91 million of fruitless and wasteful expenditure).
- An element which cannot be ignored within the SCM process and needs additional attention is the risk of employees having self-serving interests in the process.
- A further contributing factor is that no one is held accountable for such non-adherence. As a result, employees continue with these practices, which then become entrenched as part of the daily operations.

2.4.4 Summary of findings arising from the SCM audit 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 raised during the SCM audit at 18 (72%) of the auditees related to contracts awarded and quotations accepted (referred to as 'awards' in the rest of this report).

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

Figure 16: Summary of SCM-related findings

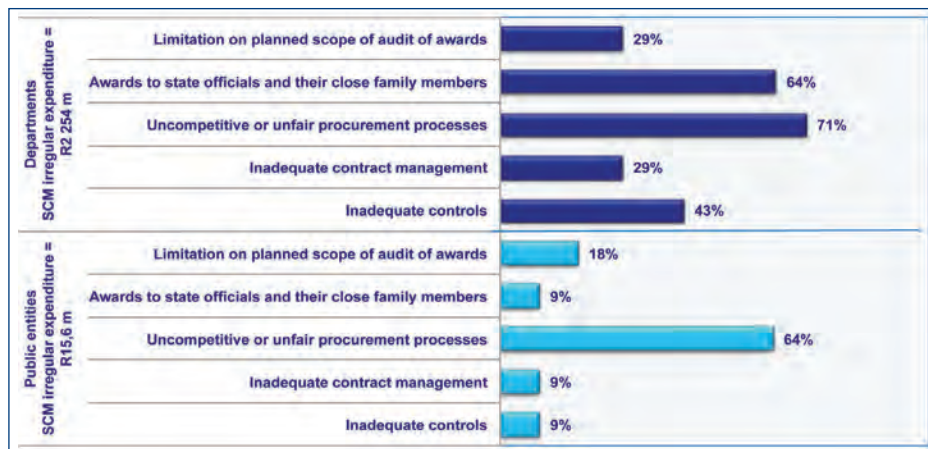
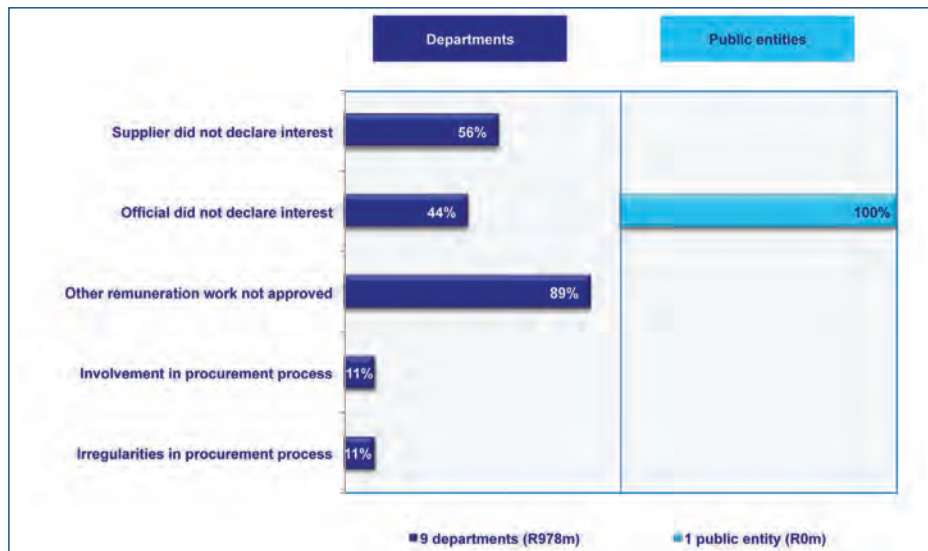


Figure 17: Awards to state officials and/or their close family members



A summary of significant findings is provided below. Detailed findings are presented in section 5 of this report.

Aspect audited	Summarised findings
Limitations on planned scope of audit of awards	Documentary evidence, such as bid documentation and quotations in support of 344 awards to the value of R1 372 million, could not be provided for audit purposes. These limitations impacted on the audit of SCM as the findings which follow may not be complete. Awards at Economic Development and Environmental Affairs, Education, Health, Public Works, ECSECC and ELIDZ were affected by these limitations.
Awards to state officials and their close family members	Six hundred and ninety-eight (698) awards, totalling R978 million, were made to officials in the service of the state or their close family members. Departments affected included Agriculture (seven awards to the value of R49,3 million), Economic Development and Environmental Affairs (one award to the value of R486 000), Education (567 awards to the value of R893,6 million), Health (63 awards to the value of R22,9 million), Human Settlements (three awards to the value of R521 000), Office of the Premier (six awards to the value of R629 000), Provincial Treasury (eight awards to the value of R297 000), Social Development (16 awards to the value of R8,1 million), Sports, Arts, Recreation and Culture (30 awards to the value of R3 million). The only public entity with this finding was ECSECC (one award to the value of R124 000).
Uncompetitive or unfair procurement processes	The most significant findings in respect of to uncompetitive or unfair procurement processes related to a failure to invite competitive bids for transactions with a value greater than R500 000 and failure to obtain three written quotations for transactions with a value between R30 000 and R500 000. Other related findings included the awarding of contracts to suppliers who did not produce evidence that their taxation affairs were in order, awarding of contracts to suppliers not included on the supplier database of the departments and provincial public entities, and awarding contracts to suppliers who did not make the declarations required by the standard bid documentation. Departments and entities where these findings were raised include Economic Development and Environmental Affairs, Education, Health, Human Settlements, Local Government and Traditional Affairs, Office of the Premier, Sports, Arts, Recreation and Culture, Safety and Liaison, Transport, ECATU, Gambling and Betting Board, Parks and Tourism Agency, ECSECC and ELIDZ.
Inadequate contract management	The most significant findings relating to contract management included contract extensions without approval by a delegated official in order to avoid the competitive bidding process; contracts not being appropriately signed by a delegated official; contracts not prepared in accordance with the standard conditions of contract prescribed by the National Treasury; inadequate contract performance measures and monitoring, and payments made in excess of the approved contract price (with further extensions). These findings were noted at Education, Health, Human Settlements and Sports, Arts, Recreation and Culture.



Aspect audited	Summarised findings
Inadequate controls	Weaknesses in controls over SCM processes identified during the audits related to the processes of identifying and declaring interests, defining the roles and responsibilities for management and coordination of the SCM units, training of SCM officials, vendor acceptance and maintenance processes and the investigation of SCM allegations within a reasonable time period. These findings were identified at Health, Public Works, Social Development, Sports Arts, Recreation and Culture, and ECSECC.

Conclusion on SCM

SCM impacts on all spheres of service delivery in the province. Non-compliance with basic requirements and disciplines impacts on the provincial government's ability to render quality services to its citizens and therefore a concerted effort by both the political and administrative leadership is required to address its SCM findings.

In order to tackle the SCM challenges highlighted in this report and to create a control environment that supports compliance with SCM prescripts, the province should address all (not one or two) of the components depicted in the figure 18 below.

Figure 18: SCM components requiring attention



Self-interest legislation

The introduction of provincial legislation prohibiting employees and political office bearers from having interests in suppliers should be fast-tracked. The Premier has committed the province to implementing this legislation.

Zero tolerance

A zero-tolerance approach by all parties, including those charged with governance and oversight (executive, portfolio committees, SCOPA, audit committees and accounting officers), which results in accountability being enforced and severe

consequences for those who intentionally do not comply with the SCM prescripts, is required to build an ethical culture in the province and ensure compliance.

Training and capacity building

The SCM units in the province should be adequately capacitated by filling all SCM posts with officials who have appropriate skills and by up-skilling the available officials. All officials, whether or not they are part of the SCM unit, should be trained and re-trained on the requirements of the SCM prescripts and applicable policies as their functional responsibilities require interaction with SCM processes.

Leadership monitoring and enforcement

The leadership of the province, including the executive, should take an active interest in monitoring compliance with SCM. Deviations should not be tolerated. The SCM framework provided by the applicable legislation and attendant regulations is adequate. Proper implementation, however, is lacking.

Audit committee and internal audit vetting

The audit committee and internal audit unit should provide assurance to the leadership that due process had been followed prior to awarding significant contracts and that the SCM systems and processes are effective.

Monthly reporting

The leadership should demand monthly procurement reports and should analyse them to ensure that suspicious awards are investigated. The audit committees and internal audit unit should be used to confirm the credibility of the monthly reports.

Treasury support and monitoring

The provincial treasury, as a custodian of SCM legislation, should provide financial and other support and should also monitor the implementation of SCM in the province. Departments and entities should provide support to the provincial treasury to ensure that the monitoring process it implements bears fruit.

All of the above components (working together) are required to ensure the successful implementation of the SCM legislation and regulations. The AGSA will provide support in this regard by conducting workshops on SCM findings for the leadership of the province and individual departments on a continuous basis.

Section 5 of this report provides a more in-depth analysis of significant findings from the SCM audit.

2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

There has been a 38% reduction in the number of departments and public entities commissioning investigations compared to the previous financial year. Table 11 lists the investigations in progress or completed by March 2011. Not all the investigations were conducted by the AGSA.

Table 11: Investigations completed or in process as at 31 March 2011

Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Agriculture	18	14	-	32
Education	20	13	47	80
Health	39	53	38	130
Human Settlements	3	4		7
Safety and Liaison	1	-		1
Total	81	84	85	250

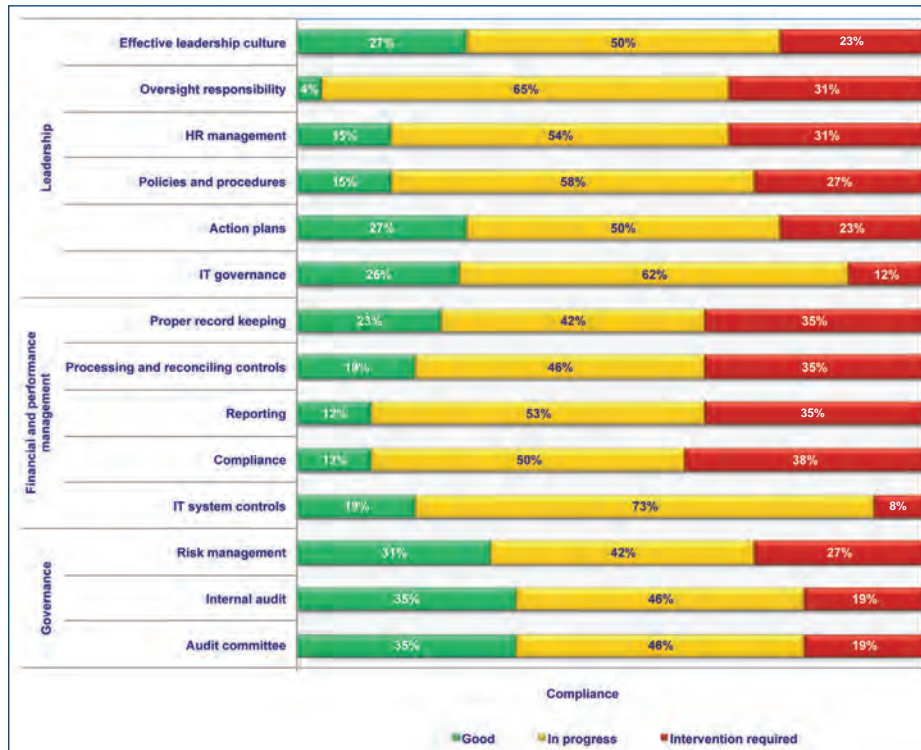
SCM-related and fraud investigations comprise the bulk of the investigations conducted. It is encouraging that these investigations are conducted; however, the time taken to finalise some of the investigations results in delayed actions and consequences for those involved in malpractices and impacts negatively on the leadership tone and the attempts to build an ethical culture within the public service.

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

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



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



There is a strong correlation between the significant compliance findings detailed above and the key controls that are in progress and where intervention is required. It is thus imperative that key controls be implemented to reduce instances of non-compliance with applicable laws and regulations.

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

- The Eastern Cape Provincial Legislature, ASGISA, Eastern Cape Development Corporation, Eastern Cape Appropriate Technology Unit and the Eastern

Cape Gambling and Betting Board have all shown a significant improvement regarding the compliance component of the three drivers of internal control. These outcomes serve as evidence of the leadership's views on implementing sound internal control practices and the implementation of recommendations made by the AGSA in prior audit reports.

- Eastern Cape Provincial Legislature, ASGISA and the Eastern Cape Appropriate Technology Unit are shining examples to the other departments and entities within the province. The implementation of key controls is clearly reflected in their audit outcomes, with the provincial legislature and ASGISA obtaining clean audits. The leadership at these organisations, who displayed a committed and unified approach in their drive towards clean administration, are to be commended.
- The findings relating to the remaining departments and entities insofar as the compliance component of the three drivers of internal controls is concerned can be attributed to the following:
 - The leadership in the departments and entities was not always sufficiently committed to sound leadership culture and oversight responsibility, resulting in numerous instances of non-compliance with applicable laws and regulations. Action plans to address the findings reported in prior year audit reports as required by legislation and National Treasury guidelines were inadequate or non-existent.
 - Inadequate IT governance and systems.
 - Non-existent or poorly written and implemented policies and procedures that outline the laws and regulations which needed to be complied with: Poor record keeping and inadequate processing and reconciling of information as well as the reporting thereof contributed to the non-compliance findings relating to unauthorised, irregular as well as fruitless and wasteful expenditure incurred and disclosed or discovered during the audit process. This is also amplified by the large number of material adjustments which were required to the financial statements.
 - Although fewer this year, there were still some departments and entities with findings related to risk management, internal audit and audit committees. The leadership must make a concerted effort to capacitate and support these structures as they will play a major role if the drive towards clean administration is to be successful.

The way forward

The executive has committed itself to the implementation of key controls over compliance aspects and has agreed to ensure that provincial legislation is passed that prohibits political office bearers and employees of the provincial administration from doing business with it.

Continued non-compliance with applicable legislation and prescripts defers the restoration of the public's confidence in the ability of state officials to systematically take care of their interests and deprives citizens of much-needed services in all areas of service delivery.

An ethical culture is required to ensure sustained compliance with applicable legislation. In order to build this culture, the leadership must adopt a zero-tolerance approach to breaches of applicable legislation and prescripts. Non-compliance must have consequences and accountability must be enforced at all levels.

The leadership, with the assistance of the audit committees and internal audit units, should regularly monitor compliance and should take decisive action where breaches are detected in order to establish a control environment that supports compliance with applicable legislation and prescripts.

2.5 Outline of the way forward to improve audit outcomes

Clean administration is required to restore the public's confidence in the provincial government's ability to manage the public resources that are allocated to it. A key indicator of clean administration is an unqualified audit opinion with no findings on predetermined objectives and compliance with laws and regulations. A concerted effort is required by management, leadership and the executive to move the province from the two "clean reports" to 26 such reports in the foreseeable future. This objective can be achieved if the drivers of audit outcomes are addressed and clear, focused commitments and initiatives are provided and implemented by the executive and national role players.

The most significant drivers of audit outcomes include the implementation of key controls, HR management and information technology systems. These drivers are analysed further in section 3 of this report.

The commitments made and initiatives taken by the provincial and national role players and the AGSA to encourage clean administration are analysed further in section 4 of this report.



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 with auditees over the past several years. These categories have been used to formally document the results of the AGSA's quarterly key control visits 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:

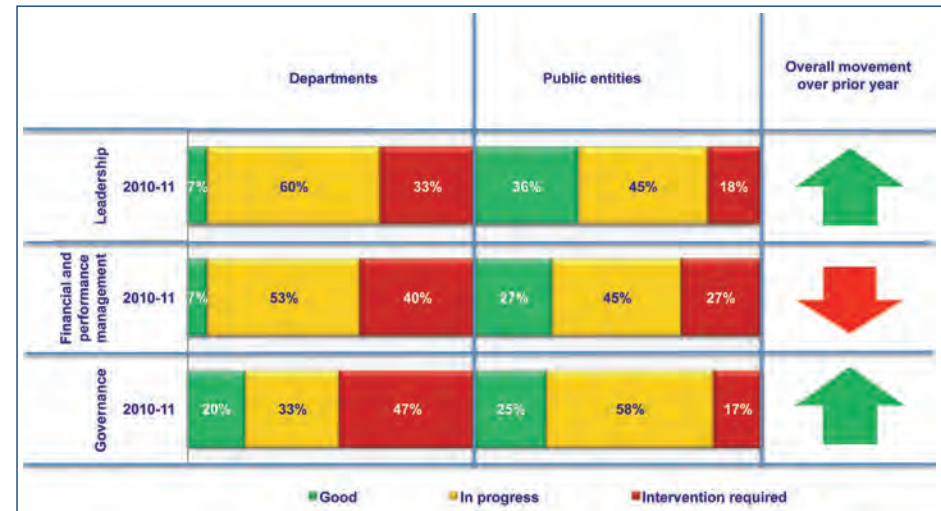
- audit opinions on the financial statements
- findings on predetermined objectives
- findings on compliance with laws and regulations

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 their failure to implement and monitor these fundamentals of internal control.

Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit. An assessment of these drivers over financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided in sections 2.2.6, 2.3.4 and 2.4.6, respectively.

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

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



Leadership

- The improvement in leadership at provincial public entities is mainly as a result of the hands-on approach by the management at ECDC, ECATU, ASGISA and ECPACC where positive strides have been made in addressing prior year shortcomings. Some intervention, however, is still required at Mayibuye Transport Corporation, Liquor Board and ECCSEC for their leadership to have a positive impact on their control environments.
- The hands-on approach by the management of the provincial legislature impacted on its implemented key controls and yielded a positive audit outcome.
- Interventions are required at Agriculture, Economic Development and Environmental Affairs, Education, Health and Transport in order to improve the impact of leadership on their control environments. The leadership at these departments is not committed to the key control process as, despite quarterly interactions with the AGSA, progress with the implementation of key controls has been slow or non-existent.
- The executive should improve the tone of leadership in order to build an ethical culture in the province. Regular oversight and monitoring, together with a commitment to enforcing consequences for inappropriate behaviour or neglect of duties, are required to build this culture.

Financial and performance management

- The commitment shown by the provincial legislature to clean administration by implementing key controls over financial and performance management is encouraging.
- The improvement in implemented controls over financial and performance management at public entities was due to the commitment to the key controls process by the management of entities such as ASGISA, ECATU, EC Gambling Board and ECPACC. Some intervention, however, is still required at ELIDZ, ECSECC, Liquor Board and Mayibuye Transport Corporation.
- The remaining departments did not show the same level of commitment, with the result that key controls over financial and performance management declined in relation to the previous year. Departments requiring intervention include Agriculture, Economic Development and Environmental Affairs, Education, Health, Public Works, Social Development and Transport.
- The lack of effective oversight and monitoring by the legislature, executive and heads of department contributed this state of affairs.

Governance

- The provincial public entities whose governance structures had the most positive impact on their control environments included ASGISA, ECDC, ECATU, the EC Gambling Board and Liquor Board. This was due to the leadership of these entities providing their structures with adequate support and attending to matters raised by them with urgency.
- The decline in the effectiveness of governance structures was partially due to decentralisation of shared audit committees and internal audit units during the year. The decentralisation necessitated reorientation and refocusing of the audit committees and internal audit units. In addition, the leadership did not always support their governance structures to ensure that they can perform their duties effectively. The departments which managed to maintain positive implementation of this key control area included the provincial legislature, Public Works and Social Development. Intervention, however, is required at Economic Development and Environmental Affairs, Education, Health, Human Settlements and the Office of the Premier.

The status of key controls per auditee is detailed in annexure 4 to this report.

3.2 Effective HR management as a specific driver of audit outcomes

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

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

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

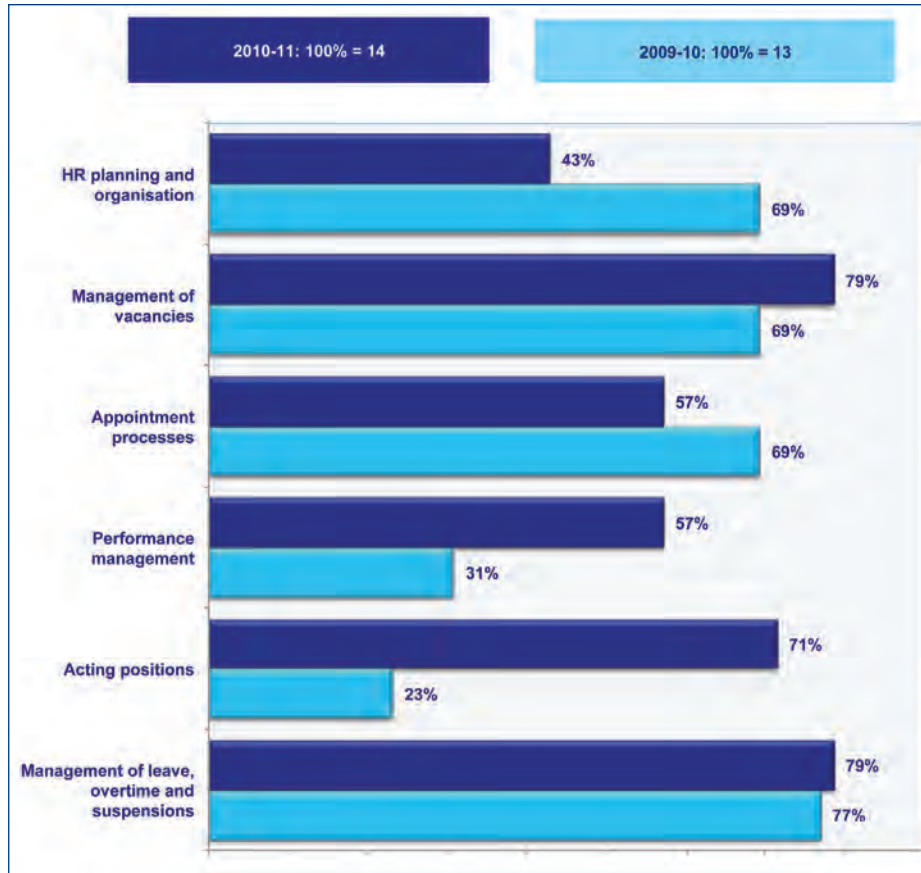
This assessment was performed at departments in the previous year and was introduced at some public entities in the year under review.

3.2.1 Overall findings arising from the assessment of HR management

The figures below depict the extent of weaknesses in each focus area for departments (with a comparison to the previous year). The HR management findings relating to the provincial public entities are insignificant and are not reported on further in this report.



Figure 21: Identified HR management weaknesses – departments



Common findings from the AGSA's focus areas are summarised below.

Table 12: Common findings arising from the AGSA's focus areas

Focus area	Summary of common findings	Departments	
		2010-11	2009-10
HR planning and organisation	Job descriptions did not exist for each post or group of posts.	21%	46%
	Organisational structure was not aligned to strategic plan and an HR plan based on strategic plan was not in place.	36%	62%
Management of vacancies	Senior management positions were vacant for more than 12 months.	64%	54%
	Critical positions in the Finance department were vacant for more than 12 months.	29%	46%
Appointment processes	Verification process for new appointments did not always take place.	50%	69%
	Appointments were made in posts that had not been advertised.	14%	8%
Performance management	Senior managers did not sign performance agreements for the current performance period.	36%	31%
	Performance bonuses were incorrectly calculated.	29%	38%
Acting positions	Employees acted in positions for more than 12 months.	57%	31%
	Senior managers acted in posts for more than six months.	21%	8%
Management of leave, overtime and suspensions	Written authorisation was not provided in advance for overtime to be worked.	43%	38%
	Medical certificates were not submitted for sick leave.	29%	23%

HR planning and organisation

These findings were reported at Agriculture, Economic Development and Environmental Affairs, Education, Health, Public Works and Transport.

Management of vacancies

This finding was not reported at Economic Development and Environmental Affairs, Office of The Premier, the provincial legislature and provincial treasury, Social Development and Sports, Arts Recreation and Culture.

Appointment processes

The verification process for new appointees did not always take place and posts were not always advertised at Agriculture, Economic Development and Environmental Affairs, Education, Local Government and Traditional Affairs, Safety and Liaison and Social Development.

Performance management

These findings were reported at Agriculture, Education, Human Settlements, Local Government and Traditional Affairs, Public Works, Safety and Liaison, and Transport.

Acting positions

These findings were reported at Agriculture, Education, Human Settlements, Local Government and Traditional Affairs, the provincial legislature, provincial treasury, Public Works, Safety and Liaison, Social Development and Transport.

Management of leave, overtime and suspensions

These findings were not reported at the Office of The Premier, the provincial legislature and provincial treasury.

3.2.2 Impact of staff vacancies on internal control

Positions listed in an organisational structure that is aligned to the departmental strategic plans should be timeously filled with staff who have and maintain a level of competence that allows them to accomplish their assigned duties and who understand the importance of developing and implementing sound internal control.

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

Such control activities include a wide range of diverse tasks, such as the following:

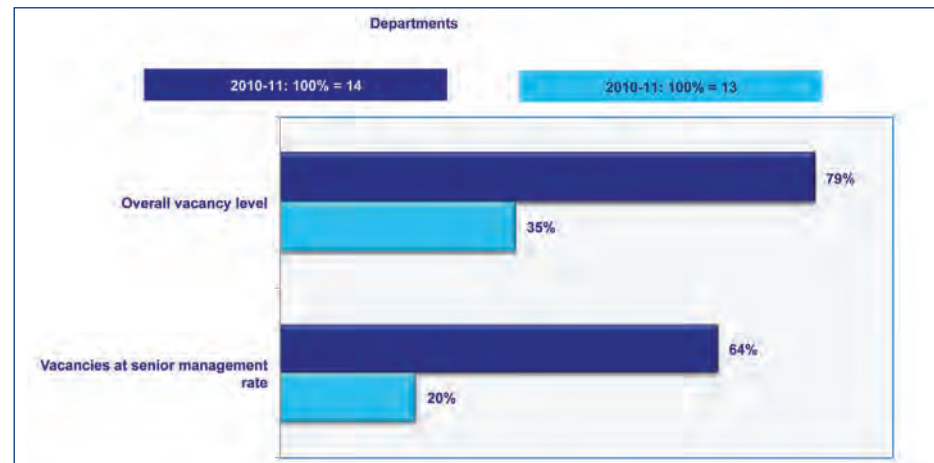
- Approvals
- Authorisations
- Verifications
- Reconciliations
- Performance reviews
- Maintenance of security
- Creating and maintaining records and appropriate documentation.

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

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

Progress made by auditees in filling vacancies is depicted below.

Figure 22: Progress made in filling vacancies



3.2.3 HR management observations and insights

During the audit process and interactions with departmental personnel, the AGSA's audit teams gained an in-depth understanding and knowledge of the day-to-day



functioning of the departments in the province. Some of the observations made and insights gained relating to human resource management are detailed below:

Vision alignment

- There is a general lack of commitment by staff at an operational level to service delivery and performance excellence as clearly defined goals and objectives have either not been set or have not been communicated to and understood by all personnel.

Communication, unity and teamwork

- There is a general lack of communication within departments (Health and Education, in particular). Typical examples include the following:
 - Operational personnel at directorates other than Finance do not understand how their daily tasks impact on the budget, and costs of service delivery have not been communicated and understood by all personnel.
 - Promotions are approved by heads of department without consulting the chief financial officer to determine whether budget is available.
- The roles and responsibilities of the various directorates within departments are not clearly defined. As a result, excessive reliance is placed on the Finance directorates to take responsibility for all activities that have a financial implication.
- Personnel do not always understand their duties and responsibilities as job descriptions do not always exist for all posts or, where they do exist, they are not properly communicated.

Policies and procedures

- Policies and procedures implemented at head office are not properly communicated to personnel in district offices. As a result, personnel in the district offices do not have a clear understanding of their roles and responsibilities. This is compounded by a lack of access to adequate resources (technological resources) in districts to enable staff to perform their daily tasks. Significant system downtime that prevents the capturing of leave taken is a typical example of a lack of access to resources in the districts.

Leading by example

- Leadership and management do not always lead by example. Typical examples identified during the audits include the following:
 - Playing computer games during working hours
 - Regularly arriving late for work
 - Arriving late for scheduled meetings or not attending them at all
 - Not directing, supervising and monitoring the work of their staff
 - Transacting with their departments without declaring their interests.

Performance management

- Performance agreements are not always signed by senior management and their subordinates. In cases where they have been signed, the content is not always aligned to the performance measures contained in the strategic and annual plans of departments. In cases where the performance contracts have been signed and aligned to the planning documents, actual performance against the contracts is not monitored and there are no consequences for poor performance. As a result there is a general lack of accountability at all levels within the province.

Policies and procedures

- Responsibility for implementing the various elements of existing policies and procedures is not assigned to individuals within the departments, resulting in a lack of accountability when policies are not implemented or fully complied with. Typical examples include the following:
 - Responsibility for record keeping is not assigned to particular staff members. When documentation is missing, staff blame each other and consequently no one is held responsible for poor record keeping.
 - SCM policies that are not implemented and enforced, resulting in large amounts of irregular expenditure.
 - Inadequate contract management and a lack of follow on defaulting projects.

Capacity of staff and reliance on consultants

- Staff are sometimes required to perform in a capacity which exceeds their level of qualifications and experience. A typical example of this includes teachers who are appointed to teach Grade 12 but have not passed Grade 12 themselves. Appropriate gap analyses, together with measures to address the identified gaps such as training interventions, have not been carried out to capacitate staff.
- Consultants are appointed to perform core departmental functions; however, they are not adequately monitored even though staff are paid to monitor them. Furthermore, reliance on consultants is not accompanied by an appropriate level of skills transfer. Typical examples include the use of the Independent Development Trust and Coega Industrial Development Zone to project-manage the building of schools and other infrastructure in the province.

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

In addition to the matters highlighted in paragraph 3.5.3 above, the findings relating to HR planning and organisation, management of vacancies, appointment processes, performance management, acting positions, management of leave, overtime and suspensions are specifically due to a lack of oversight and monitoring of day-to-day HR management processes together with a lack of enforcement by management of the existing HR policies and a lack of monitoring of compliance by the leadership with the requirements of these policies.

The way forward

The correct leadership tone together with the support of internal audit is necessary to establish a strong control environment and ensure compliance. Audit committees and internal audit should provide assurance that the strategies employed to mitigate the risk of non-compliance with HR legislation and policies are adequate.

The provincial treasury, together with the Department of Public Service and Administration, should monitor compliance with the laws and policies applicable to HR management and should provide assistance and appropriate guidance to those departments that have failed to do so.

Commitments

During October 2011, the leadership of Office of the Premier undertook to evaluate the progress made by individual departments and entities in addressing HR issues. Based on this evaluation, a provincial action plan will be prepared, implemented and monitored.

3.3 Information technology management as a 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

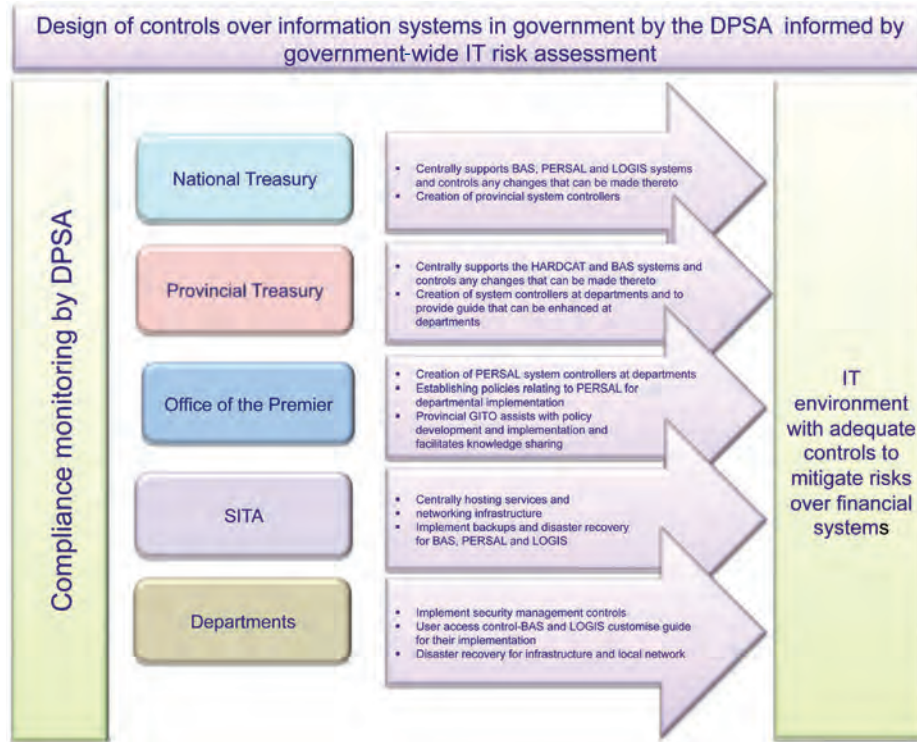
Fifteen departments in the Eastern Cape Province use transversal systems, e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal) and Logistical Information System (Logis), for processing their financial information. ENATIS is used by the Department of Transport, Delta 9, HR & PV REM, Medsas by the Department of Health and MIS by the Department of Social Development for financial and information management, while EFMS is by the Department of Education for infrastructure 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 23: Design of controls over information systems in government by the DPSA



Given the roles and responsibilities outlined above, the following focus areas were set for audit of IT in the province:

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

The following focus areas are transversally performed for BAS, Persal and Logis and were audited at the National Treasury and State Information Technology Agency (SITA) and at the respective departments in the province for non-transversal systems, where systems are located locally.

- Program change management
- Facilities management
- Data centre

Public entities

The five public entities that were audited in the Eastern Cape Province use transversal systems, ACCPAC, LMS, PACODI/MASIFO application, VIP, Pastel, Licensing system, NICOR, Great Plains, etc. for processing their financial and information systems. These are off-the-shelf packages, which have been authorised. Maintenance of these systems is performed by the vendors in terms of service level agreements (SLA). 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 as they are not subjected to those designed by the DPSA.

The following focus areas were set for audit of IT at 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 15 departments and six public entities in the province.

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

Figure 24: Identified control deficiencies in management of information technology

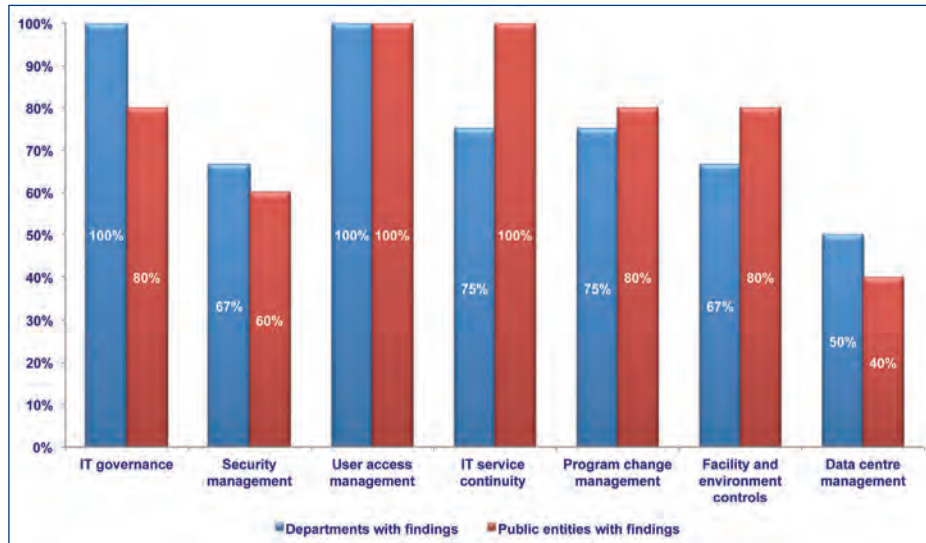


Table 13: IT control weaknesses identified

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	12	100%	5	80%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information	12	67%	5	60%
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	12	100%	5	100%

Focus area	Outline of aspects audited	Incidence of control weaknesses identified			
		Departments		Public entities	
		Number audited	% with findings	Number audited	% with findings
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	12	75%	5	100%
Program change management	Processes of ensuring that changes to the existing information system environment are coordinated, scheduled, authorised and tested to prevent unnecessary disruptions, erroneous changes to data and unauthorised and inappropriate access	12	75%	5	80%
Facility and environment controls	Facilities and environmental controls over information systems ensure the security, integrity, condition, performance and accessibility of the systems and the system information	12	67%	5	80%
Data centre management	Data centre management relates to the management of scheduled processing, protecting sensitive output, monitoring infrastructure performance and ensuring preventative maintenance of hardware	12	50%	5	40%

Note: While the impact of computer systems is taken into account in all audits, detailed testing was only performed at departments where significant IT risks were identified.

Key issues within the Eastern Cape Province are summarised as follows:

Departments

IT governance – Most departments currently do not have a formal IT governance framework providing comprehensive guidelines for IT decision-making. An IT strategic plan has not been developed or finalised and risk management processes are inadequate. Key IT positions have not been filled, while IT policies and procedures have not been formally established and service level agreements are not formalised and monitored.



Security management – There are no formally documented policies and procedures that address the operating system, network and database security, resulting in inconsistent application of security controls within departments.

User account management – The user account management procedures had not been adequately designed for the province to ensure consistent application of controls within the process.

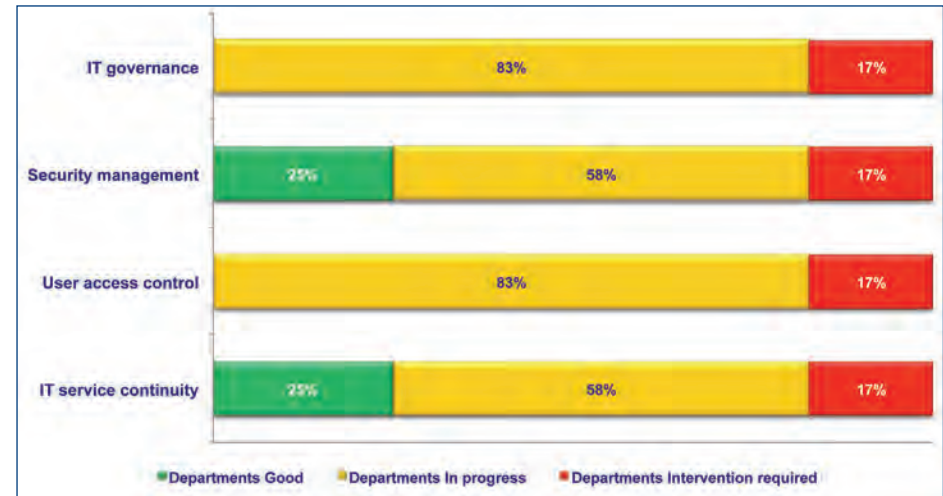
IT service continuity – Disaster recovery plans have not been established at all the departments to enable connection to SITA for the resumption of IT operations in the event of a disruption.

Public entities

The entities in the province do not subscribe to the IT governance framework of the Eastern Cape Government and therefore lack policies and procedures to ensure the design and implementation of security management controls, user account management, change management, facilities and environmental controls, data centre 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 25: Progress in addressing prior year IT findings



The province is making progress towards addressing prior year findings; however, the pace of transformation is hampered by the silo approach applied by various departments within the province. Intervention is required at the departments of Health and Education.

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

IT governance – The IT governance framework must be adopted as prescribed by the DPSA; alternatively, the provincial leadership should investigate the implementation of good governance practices as in the case with 83% of the departments.

SITA should provide specialist skills for adequate security management; however, ownership of policy development should reside with the departments, as is the case with 58% of departments where the control design appears adequate.

User access management – Departments have designed adequate user account management procedures; however, implementation thereof remains a challenge in the province.

IT service continuity – SITA in the province provides adequate infrastructural support at the data centres, but disaster recovery plans should be compiled and implemented at all departments to be reflective of the environment and then tested.

3.3.3 Root causes of findings and the way forward on IT management

The following root causes were identified:

Departments

IT governance – The lack of an IT governance framework driven by senior leadership is exacerbated by limited guidance and oversight from provincial structures.

Security management – Lack of policies and procedures and lack of ownership on the part of the department due to reliance on SITA and a shortage of skills and capacity.

User account management – A selection of departments have attempted to implement some of the controls proposed in previous reports, but without guidance from the provincial treasury, whereas other departments had postponed their implementation until the provincial treasury provides clear guidance.

IT service continuity – Departments have not taken ownership of the risks of disruption that exist within the departments and have transferred this responsibility to SITA.

Public entities

The isolated manner in which the provincial public entities are structured has contributed to various gaps in the information system environment, with minimal guidance from the national and provincial treasuries and the Office of the Premier. There are no prescripts that obligate the public entities to comply, which resulted in the individual approaches to resolving findings raised previously.

The way forward

The following actions are recommended as the way forward in dealing with the challenges posed by information technology management in the province:

Departments

- The Office of the Premier and the treasury should be involved in an oversight role to provide guidance on the implementation of an IT governance framework at the departments, as prescribed by DPSA.
- Information technology should receive executive management attention through existing structures, e.g. the inclusion of information technology challenges in the overall financial management action plan for complex and large departments such as Health and Education.
- Audit committees should drive good governance practices by familiarising themselves with the IT concepts and the importance thereof for executing their mandate effectively.
- Provincial treasury should design and monitor the implementation of the user account management guidelines by the departments.
- The departments should ensure that operational disaster recovery plans are established with the assistance and guidance of SITA.
- Internal audit should support management and the audit committees by continuously tracking progress made with the implementation of management commitments.

Public entities

- Public entities should adhere to the DPSA's policies, as set out for the departments they report to. Departments, with the assistance of the provincial treasury and Office of the Premier, should provide guidance for the implementation of such policies.

Information technology does not receive the necessary strategic attention as required by prescripts and therefore is not vigorously driven by the leadership to ensure overall good governance within the province. This is compounded by minimal interaction or guidance from the Treasury and Office of the Premier to ensure oversight by and to drive accountability on the part of those charged with



governance. The leadership in the province should drive service delivery objectives through good governance within the IT environment and not regard it as a separate operational support function.

To address this matter, the Premier undertook to appoint a chief information officer for the province to drive the implementation of a provincial IT strategy. To date the Premier has attempted to appoint the right candidate, but has been unsuccessful in contracting the required services.

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

4.1 The contribution of key provincial role players to audit outcomes

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

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

Table 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	Yellow	Red	Yellow	Red	Yellow	Yellow
	Coordinated provincial oversight (provincial standing committees and provincial speaker's forum)	Red	Yellow	Yellow	Yellow	Red	Yellow	Yellow
Accounting officers, accounting authorities, CFOs and senior officials		Administrative accountability						
		Green	Yellow	Red				

■ Good progress
 ■ In progress
 ■ Intervention required

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

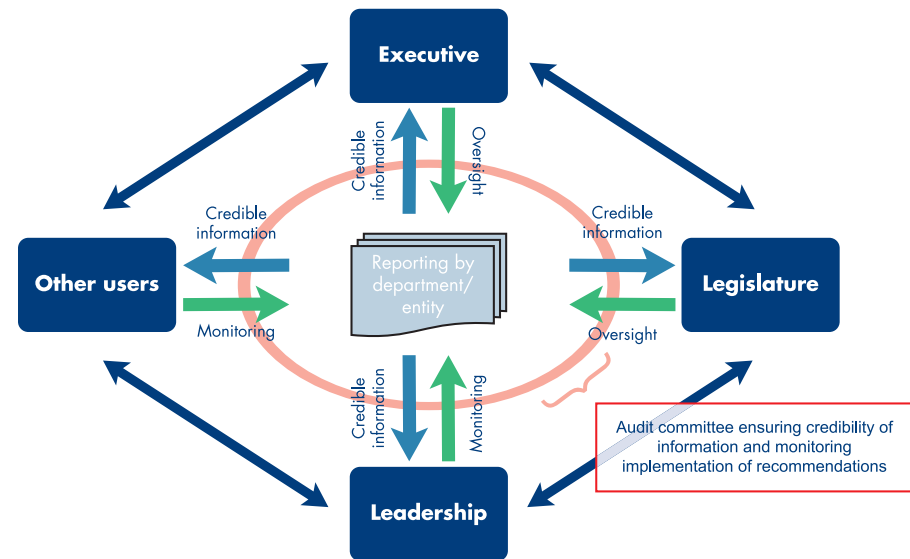
- Although the Premier, supported by the Speaker, instructed departments and entities to improve their performance and the monitoring thereof, no processes were put in place to give effect to this instruction. As a result, the commitment made in the previous period by the executive to instil a culture of monitoring, dealing with all financial and performance information, as well as progress with action plans to deal with audit findings, did not materialise as an accepted and sustained practice. This was further derailed by a lack of credible monthly management information.
- The provincial treasury has not been effective in executing its oversight responsibility. This is largely due to a lack of capacity and resources to perform oversight and an organisational structure that is not conducive to executing effective oversight within the province. The existing oversight processes are reactive rather than proactive. However, there are initiatives that have been put in place to monitor irregular expenditure and financial management, but the departments do not take the provincial treasury's interventions and submission requirements seriously and there is no consequence for failure to comply, with the result that these initiatives have had no impact.
- Provincial treasury facilitates the provincial CFO forum and the Provincial Audit Steering Committee (PASC) where they had adopted initiatives to address AoPO and turnaround plans. The actions of this forum, however, are not focused on clean administration and are therefore not preventative in nature.
- The provincial treasury has facilitated the process of establishing and appointing the audit committee and internal audit. This was as a result of an executive decision and commitment made in the last PFMA cycle. However, these governance structures only started operating as from 1 April 2011.
- The Standing Committee on Finance (SCoF) has set up a process to evaluate in-year monitoring of all departments on a quarterly basis. There is concern, however, that the information they receive is not accurate and reliable as there are no quality control processes in place over the information submitted.

4.1.2 Audit committees

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

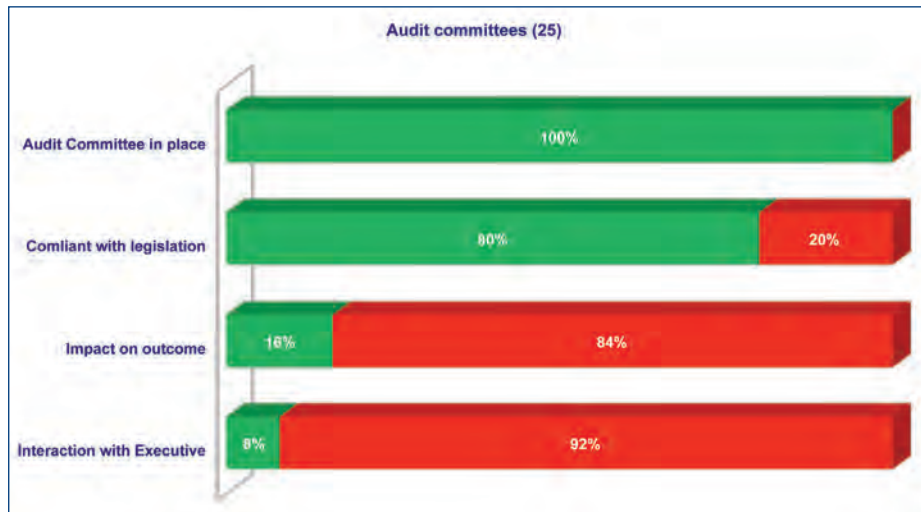
Figure 26: Role of the audit committee in reporting



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 27 below depicts the current status and effectiveness of audit committees within the Eastern Cape provincial administration, while individual status per auditee is indicated in annexure 7 to this report.



Figure 27: Effectiveness of audit committees



All 14 departments and 11 public entities had audit committees in place for the period under review, as prescribed by the PFMA and related treasury regulations, while 22 (80%) of the audit committees complied with the letter of the law. However, there is a very distinct difference between being compliant and being effective. It is evident that only four (16%) of the audit committees had a direct impact on the audit outcomes of their respective auditees.

Reporting by the audit committees

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

Although the legislation clearly assigns the responsibility for implementation to the accounting officer and not the audit committee, the process creates a circular effect not conducive to accountability and transparency. At public entities this effect is

compensated for by a Board of Directors consisting of more than one person as the accounting authority.

The natural and most effective means to address this matter at provincial departments is for the audit committees to have frequent interaction with the respective portfolio executives (MECs) as well as with the legislature's portfolio committees. Despite legislation making provision for interaction by audit committees with the executive and provincial treasury, only two audit committees (8%) had regular interactions with their MEC.

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 interaction with the executive and portfolio committees, there are no mechanisms to oversee and monitor the implementation of audit committees by the accounting officer. 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.

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

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

A provincial audit committee forum has not yet been set up in the province. It is recommended that such a forum be established within the same parameters as the internal audit forum, coordinated and driven by the provincial treasury.

4.1.3 SCOPA

The provincial SCOPA has not had the desired impact on audit outcomes and clean administration in the province as its resolutions are tabled very late and do not address all aspects reported on in the audit report. All the elements depicted in figure 28 below should be implemented to improve its effectiveness.

Figure 28: Improving the impact of the provincial SCOPA



Timely hearings and resolutions

SCOPA hearings take place long after the annual reports have been tabled and resolutions are usually not tabled before the end of the next financial year. As a result, SCOPA does not have a timely impact on audit outcomes.

Resolutions on all aspects of financial management, compliance and PDO reporting

Resolutions tabled in the past dealt only with the condonement or otherwise of unauthorised expenditure and not with all aspects of financial management, compliance and PDO reporting. For these resolutions to have the desired impact, they should deal with all three aspects reported on in the audit reports.

Training and capacity building

New SCOPA members should undergo a thorough induction session where all the concepts contained in the audit report are explained. The AGSA is committed to enhancing the understanding of its reports and will assist with this process where considered necessary.

Monitoring of the implementation of resolutions

The Director-General of the province, the provincial treasury and the various audit committees should submit quarterly reports to SCOPA on the implementation of its resolutions at each department and entity within the province. SCOPA should meet at least every six months to discuss the reports with the relevant departments and entities in order to evaluate progress made with the implementation of their resolutions.

Interaction with portfolio committees

A close relationship with the portfolio committees is required to ensure coordination of resolutions and the monitoring thereof.

The above elements impacting on the effectiveness of SCOPA were also reaffirmed as part of the 2011 APAC conference.

4.1.4 Comment on prior year commitments and actions by provincial executive leadership and oversight bodies

The following table reflects on the progress made in implementing commitments to address weaknesses and improve audit outcomes received during the prior year, as reported in the 2009-10 General report.



Table 15: Reflection on prior year commitments

Prior year commitments recorded in the 2009-10 general report	Implementation and progress	
	Implementation status	Reasons for slow progress/impact of commitment where implemented
Overall		
1 The Premier, supported by the Speaker, indicated that poor performance would not be tolerated. Departments and entities were expected to improve towards clean administration going forward, which would be monitored by the executive during the year.	This has not had an impact on the overall performance of the province.	Ineffective monitoring by the executive, together with the general lack of credible management information and the lack of consequences for poor performance, impacted on the progress made by the province.
Provincial executive leadership		
1 Technical support unit (TSU) to be established to assist with the implementation of turnaround plans.	The TSU was established but only towards the end of the financial year.	The TSU had an impact on the improvement at Health but was established too late to have a real impact on the audit outcomes of 2010-11.
2 Create a solid basis for reporting actual performance against predetermined objectives, with specific emphasis on systems capacity.	Progress was made.	The executive's understanding of the impact of PDO reporting on service delivery was addressed at an extended cabinet workshop held with the AGSA during March 2011. As an outflow of this initiative the province committed to a process to enhance understanding of service delivery reporting requirements at executive level and to appropriately equip management to address this challenge. The executive deserves credit for this taking place during the period under review, with the provincial executive leading the way. It resulted in a strong improvement, with departments and entities reporting no findings relating to service delivery reporting or at least scaling down on the volume of findings in certain areas.

Prior year commitments recorded in the 2009-10 general report	Implementation and progress	
	Implementation status	Reasons for slow progress/impact of commitment where implemented
3 Disband the shared audit committee and internal audit and create individualised capacity within departments.	This commitment was implemented after year-end.	This commitment had no impact during the year under review. Its benefits are expected to be felt during the 2011-2012 financial year.
4 Obtain proclamation for the special investigations unit (SIU) to conduct investigations at Education	Implemented	A number of SIU investigations were either completed or in progress and actions taken or in progress at year end. Refer to section 2.4.5 of this report for more details.
Provincial legislature		
5 Improve oversight and effectiveness of SCOPA by revising oversight functions and processes.	Not implemented	SCOPA in the province is not effective. Resolutions for the 2009-10 financial year were not tabled by 30 September 2011. SCOPA resolutions are therefore tabled too late to have an impact on audit outcomes.
Provincial treasury		
6 Centralisation of SCM processes together with independent review of major transactions.	Not implemented	A lack of capacity and financial resources within the provincial treasury prevented the implementation of this commitment.

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

Table 16: Responses and commitments by the provincial executive leadership

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Overall								
1	In order to strengthen oversight and accountability, a commitment was made to adopt a more consistent approach towards monitoring. This includes using the new internal audit divisions and audit committees to provide MECs with assurance on a monthly basis regarding all in-year monitoring reports. This will ensure that decisions are based on credible and reliable information. Each MEC will also have to provide feedback on their department's performance at the monthly Exco meetings.							
Provincial executive leadership								
1	The province is in the process of drafting legislation that will prevent all government employees from doing business with government. The intention is to eliminate the vested interest that government employees have in the SCM process.							
2	The Premier is in the process of appointing an IT specialist who can drive IT in the province.							
3	As part of strengthening oversight, more attention will be given to the capacity of staff to perform their duties and the length of time that employees act in critical posts within the departments and entities.							
Provincial treasury								
1	As part of the commitments received in the previous financial year, Technical Support Units (TSU) were set up for the departments of Health and Education. These units comprise specialists in the fields of human resources, finance and supply chain management. The focus of these units is to provide support to the departments in the fields mentioned above and to assist in strengthening the control environment. The units will continue to function within these departments, but the terms of reference that define the roles and responsibility of the TSU at Education will be redrafted. The revised terms of reference will allow the provincial treasury to be more involved and will include a plan to assist the department in improving service delivery within the key service delivery areas.							

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	The provincial treasury will analyse the audit intervention plans set up by all departments in response to the 2010-11 audit findings. This analysis will evaluate the suitability and credibility of the plan.							
3	Continue to provide APDO training to the departments and entities.							
4	Facilitate a monthly CFO forum to discuss pertinent issues and turnaround plans.							
5	The MECs for Finance, Health and Education meet on a bi-weekly basis to monitor the audit intervention plans and to discuss any pertinent issues relating to the departments of Health and Education.							
6	The Treasury, on a monthly basis, escalates issues of concern and non-compliance to all MECs within the province to allow them to take action. This is done per department.							
Speaker of provincial legislature/provincial public accounts committee								
1	The Speaker has committed to enhance accountability and strengthen proactive oversight through the revision of oversight functions and processes within legislature. The governance sub-committee will be involved in the process of redesigning the oversight model.							
2	The working relationship between the portfolio committees and the executive will be strengthened by addressing the tensions between the two pillars within the legislative sphere and improving coordination to drive accountability.							
3	An oversight workshop is to be held for the executive and portfolio committees to educate them on their oversight responsibilities.							
4	Ensure that quality managers with the correct skills and competencies are appointed within the departments, with specific focus on HR, finance and asset management.							
Department of Health								
1	Monitoring and oversight will be strengthened by the MEC through weekly meetings with the HoD.							



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							
3							
4							
5							
6							
7							
Department of Education							
1							
2							
3							
4							
5							

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
6							
7							
Other							
1							

■ Post-audit commitment (new)

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

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

Table 17: 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	Pretermed objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Political accountability	Enabling legislation and policies	Yellow	Yellow	Yellow	Red	Red	Green	Green
	Monitoring	Red	Red	Red	Red	Red	Red	Red
	Executive leadership (National Treasury, DPSA, Presidency)	Red	Red	Red	Red	Red	Red	Red
	Legislative oversight (NCOP, NA Portfolio Committees)	Red	Red	Red	Red	Red	Red	Red

■ Good progress
 ■ In progress
 ■ Intervention required

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

In addition, during the 2010-11 financial year the Department of Education was placed under administration following the national executive's decision to intervene in terms of section 100(1)(b) of the Constitution. As a result, the national Department of Basic Education deployed a team to implement this decision.

Many challenges were experienced in the roll-out of the intervention and there was conflicting information in respect of the related roles and responsibilities of the various role players. As a result, an unstable environment was created that was not conducive to accountability. This was largely attributable to the disagreement between the provincial and national role players on who had the authority to appoint the accounting officer of the department during the term of the intervention. This matter has since been addressed, after various interactions between role players and an intervention by the President.

The roles and responsibilities have now been clarified and the national intervention team will play a supporting role to the provincial department, while the provincially appointed accounting officer will remain the head of the department with the authority to manage and lead the department. Following this decision, the department has made a number of commitments to improve going forward, as detailed in table 17 above.

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

For the Eastern Cape to improve, a coordinated effort is required by all role players. It is important that all role players send out a uniform message and instil a culture that is conducive to effective accountability. This will require the leadership to focus on establishing and maintaining a culture of honesty, ethical business practices and good governance to protect and enhance the interests of the entity. It also requires the leadership to take ownership of the key controls checklist that the AGSA has been assisting with over the past two years and to put processes in place to ensure that these key controls are sustainable going forward. This will serve as the cornerstone in driving clean administration within the province.

The role of consistent monitoring of action plans and key controls to enhance financial and performance reporting and compliance with laws and regulations is crucial in supporting the achievement of clean administration. It is important, however, to note that all these processes will not have an impact towards clean administration if the leadership fails to put processes in place to provide assurance that information used for decision-making is credible and reliable. In order to ensure that this is effective, the leadership needs to be proactive in their actions and decision-making and must ensure that employees are held accountable for any non-performance. By instilling this culture of accountability, the drive towards clean administration will be achievable and service delivery should improve going forward.

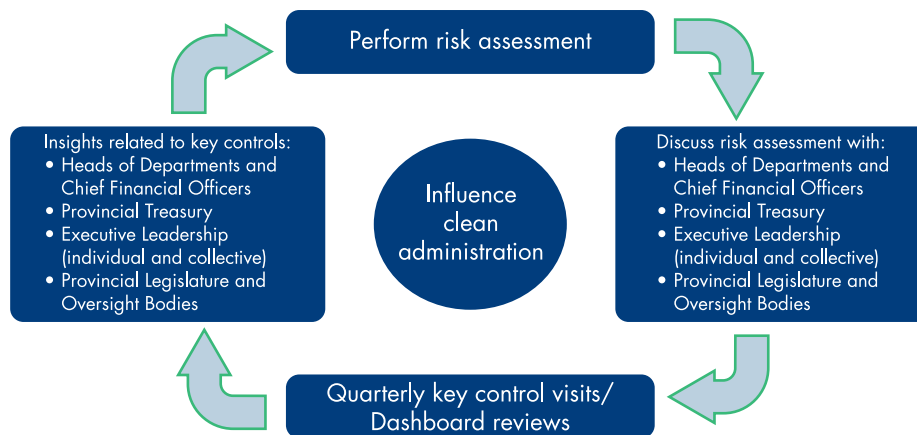
In order to effectively execute the above recommendations, it is important that the leadership confirm that effective HR management policies and practices are in place and that adequate and sufficiently skilled resources are available to fulfil their responsibilities with a view to strengthening financial and performance management. In addition, information technology tools and controls should be in



place to support leadership in delivering credible information that can add value to decision-making in the fields of financial management and service delivery.

The above recommendations will assist in creating an environment where deficiencies in financial management, service delivery and compliance are prevented and detected in a timely manner, which will ultimately have a positive impact on the effectiveness of the provincial administration in delivering services to the citizens of the Eastern Cape and assist in breaking the culture of crisis-managing on a daily basis.

4.3 Initiatives taken by the AGSA to encourage clean administration



Over the past two years the AGSA has embarked on many initiatives to enhance accountability and to influence the process towards improving audit outcomes and clean administration. The main initiative was to further strengthen its relationship with the political and the administrative leadership to deepen their understanding of mechanisms relating to performance management, and ultimately accountability, thereby paving the way towards improving public confidence. This initiative included the increased visibility of the AGSA's senior leadership and continuous interaction to highlight possible challenges, audit findings and transversal risks.

The AGSA continued to enhance the visibility of their leadership and to implement the above initiatives during the past year, but more emphasis has been placed

on effective monitoring and oversight and the need to achieve and sustain clean administration. This included numerous interactions with the Premier, Speaker, Deputy Speaker, SCOPA, the Executive Council, Chair of the Chairs of portfolio committees, Chief Whip of the Legislature, individual MECs and heads of department and the provincial treasury in their oversight role. These interactions also included the escalation of key controls, high-risk areas and possible regressions in audit outcomes.

Due to the slow movement towards improving audit outcomes and the lack of sustainability within the province, the AGSA performed a human resource analysis of all departments and public entities. Details are included in section 3.2.3 of this report. The purpose of this analysis was to provide the leadership of the province with a more focused analysis of human resource issues which had contributed and resulted in poor performance.

The AGSA has had numerous interactions within all political and administrative levels in respect of the state of affairs within Health and Education. These interactions focused on securing commitments on a way forward which would assist towards improvement. These interactions were also used to highlight the large number of fraud risk indicators prevalent within these departments.

Departments and entities have been sensitised to the importance of implementing and maintaining key controls around financial and performance management and compliance with laws and regulations, which are imperative for the drive towards clean administration. To this end, quarterly interactions have taken place with the Premier, Speaker, individual MECs, accounting officers and the provincial treasury regarding their oversight role. The message that we convey is that leadership must take ownership of the key controls and monitor them on a continuous basis. During the key control visits, the AGSA teams secure commitments on what would be done to improve going forward and these commitments are then monitored. Many commitments are received; however, they are either not monitored or are implemented ineffectively, which impacts on the sustainability of audit outcomes.

The AGSA also goes the extra mile during the audit process by discussing all the risks prevalent at the auditees and providing recommendations on a way forward. Much effort goes into educating the auditee on financial processes and auditees are afforded numerous opportunities to restate and adjust their financial information.

It is important, however, that the auditees take ownership of their financial processes and not rely on the AGSA to identify errors and weaknesses during the audit as this is not conducive to a sustainable environment of clean administration.

There have been numerous initiatives and interactions in respect of performance information. This information is detailed in section 2.3 of the report.

The AGSA played a leading role in the establishment of the Internal Auditors Forum for the Eastern Cape. The purpose of establishing this forum was to educate them on their role within the provincial administration and for them to assume their responsibility of proactively following up and making recommendations to ensure that internal controls are implemented and monitored. This forum will, however, lose momentum and impact should the provincial treasury fail to take responsibility as coordinator and drive the efforts of this forum. The provincial treasury should also escalate the challenges and resolutions of this forum to the executive level and provide timely feedback on its activities.

The AGSA was part the revived Provincial Audit Steering committee which includes all key administrative leadership of the province. This provided a platform to raise pertinent issues that may affect audit outcomes and to enable the provincial treasury to execute its oversight role. Unfortunately, it was revived too late to have a significant impact on the audit outcomes for 2010-11.

In addition to the above, the AGSA works very closely with the provincial SCOPA and actively participates in the anti-corruption forums within the province. The AGSA will continue with the above initiatives going forward in the drive towards clean administration, which will ultimately lead to improved service delivery.

The AGSA commits to continue building on the above initiatives by working closely with all spheres of government in an attempt to influence sustainable clean administration. This includes the following:

- Influencing the leadership to take ownership of the key controls initiative, which will be monitored by the AGSA on a quarterly basis
- Capitalising on the success of the PDO workshops and continuing to provide insights to enhance further improvements in this area

- Tackling SCM challenges with the same intensity that leads to the marked improvement in PDO by conducting a workshop on SCM findings and providing insights to all relevant key role players
- Working closely with and promoting audit committees and internal audit to ensure that processes are put in place to provide the provincial leadership with credible information on which to base decisions and take action.

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

All entities should pay particular attention to any changes to the applicable financial reporting framework and take timely action to put processes in place to ensure compliance therewith.

Changes in the Standards of Generally Recognised Accounting Practice (GRAP)

The following GRAP statements have been issued by the ASB and are effective for public entities for financial periods beginning on or after 1 April 2011:

- GRAP 21 – Impairment of non-cash-generating units
- GRAP 23 – Revenue from non-exchange transactions
- GRAP 24 – Presentation of budget information in financial statements
In terms of GRAP 24 an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with SA Standards of GRAP. The standard goes further in prescribing the nature and extent of this disclosure. As this disclosure will form part of the financial statements it will be subject to audit.
- GRAP 26 – Impairment of cash-generating units
- GRAP 103 – Heritage assets

The following SA Standards of GRAP have been issued by the ASB but the effective date has not yet been promulgated by the Minister of Finance:

- GRAP 25 – Employee benefits
- GRAP 104 – Financial instruments



Reporting on inventory by departments

The National Treasury issued an Inventory Management Framework (IMF) in July 2009. This framework describes the phasing-in of requirements for reporting on and managing inventory, which will lead departments to report on inventory as part of their disclosure notes on an accrual basis. The phased-in provisions for the IMF require departments to be applying GRAP 12 by the 2012-13 financial year. Therefore, departments must begin to put procedures and mechanisms in place to record, measure and disclose inventory assets and associated transactions.

Departments must obtain reliable values for inventory for the required annexures in the 2011-12 annual financial statements and prepare for full compliance with GRAP 12 by the 2012-13 financial year.

For this to be achieved, departments must ensure that inventory management practices are implemented as necessary. This may involve implementing physical controls over inventory and implementing systems for tracking inventory transactions. From the beginning of 2012-13 inventory management policies and practices must be fully compliant with the requirements of the IMF. All required procedure manuals must be in place and operational.

Reporting on library books by departments

As per SCOA classification circular 9 of 2011, which is effective for financial periods beginning after 1 April 2011, departments will be required to report on library books as assets. The departments could experience challenges in establishing the ownership and value of the library books and should commence processes to establish whether they have library books under their control and follow the guidance given to establish the value at which these should be recorded.

Developments in SCM legislation

The scope of the Preferential Procurement Framework Act, 2000 (Act No. 5 of 2000) (PPFA) has now been extended beyond departments and other entities to include all schedule 3(d) entities as from 1 April 2011. These entities should ensure that their policies and procedures are in compliance with this act to avoid any regression in terms of compliance findings.

The National Treasury issued an instruction note on enhancing compliance monitoring and improving transparency and accountability in SCM, which became effective on 31 May 2011, and entities should ensure that their SCM policies comply with this instruction note.

Framework for strategic plans and annual performance plans

The National Treasury issued a framework for strategic plans and annual performance plans in August 2010, which sets out a framework to align strategic and annual performance planning with emphasis on the outcomes-oriented monitoring and evaluation approach led by the Presidency. Departments and entities will be required to present strategic and annual performance plans in line with this framework in 2011-12.

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 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), R2 274 million (51%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Seventy-five 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 the following:

- *Lack of understanding of applicable legislation*
- *A lack of monitoring processes to detect contraventions of legislation*
- *Intentional disregard for the applicable legislation and SCM processes together with intentional non-disclosure of the resulting irregular expenditure.*

The figure below presents a summary of SCM findings. Percentages are based on the number of auditees where findings were raised. Details per department/entity are provided in annexure 5 to this report.

Figure 29: Summary of findings on SCM



5.2 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 18 depicts the limitations experienced.



Table 18: Limitations experienced

Auditee	Number of awards	Value of awards R'000	Reason for limitation
Departments			
Economic Development and Environmental Affairs	1	233	Quotations not available for audit
Education	258	860 083	Bid documentation and quotations not available for audit
Health	53	502 647	Bid documentation and quotations not available for audit
Public Works	1	184	Quotations not available for audit
Public entities			
Eastern Cape Socio-Economic Consultative Council	18	766	Quotations not available for audit
East London Industrial Development Corporation	13	8 120	Bid documentation and quotations not available for audit
Total	344	1 372 033	

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

5.3 Awards to state officials and their close family members

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

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

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

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

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

Auditee	Awards made to officials in the service of the auditee		Awards made to close family members of officials in the service of the auditee		Non-compliance with regard to awards made									
					Supplier did not declare interest		Official did not declare interest		Official was involved in making award		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments														
Agriculture	3	24 800	4	24 500	4	24 500	3	24 800			3	24 800		
Economic Development and Environmental Affairs	1	486					1	486	1	486				
Education	530	864 707	37	28 900	246	793 007	145	43 200			158	28 500		
Health	41	22 428	22	431	35	795	15	1 544			28	22 064	35	795
Human Settlements	3	521									3	521		
Office of the Premier	3	629									3	629		
Provincial Treasury	8	297									8	297		
Social Development	13	7 822	3	358	6	654					10	7 526		
Sports Arts recreation and Culture	30	3 026			25	2 928					5	98		
Public entities														
Eastern Cape Socio- Economic Consultative Council	5	124					5	124						
Total	637	924 840	66	54 189	316	821 884	169	70 154	1	486	218	84 435	35	795
Percentage of auditees tested	40%		16%		20%		20%		4%		32%		4%	

5.4 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective comes from our Constitution. Legislation, most notably the PFMA and Treasury Regulations, prescribes the processes and rules to be followed by departments and public entities in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of giving 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 be 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 goods and services are procured at competitive and economical prices.

The procurement processes of 640 contracts to the value of R6 708 million and 1 308 quotations to the value of R66 million were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the table below.



Table 20: Findings on uncompetitive or unfair procurement processes

Auditee	Competitive bids not invited. Deviations not approved/ reasonable/justified		Three written price quotations not obtained. Deviation not approved/ not reasonable/quotation process not in accordance with the requirements of legislation/ SCM policy		Procurement from suppliers without SARS tax clearance		No prospective suppliers list for inviting price quotations/ prospective suppliers list not administered in accordance with requirements		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												
Economic Development and Environmental Affairs											3	4 100
Education					10	2 560					28	297 000
Health	1	13 109	2	85	9	75 028			10	60 326	76	443 026
Human Settlements	3	637							9	43 958	4	47 249
Local Government and Traditional Affairs	1	1 125	3	637	2	5 717						
Office of the Premier			17	1 362								
Provincial Treasury												
Social Development												
Sports Arts Recreation and Culture	11	49 833	6	927	3	439			6	46 628	3	44 817
Safety and Liaison	1	900	1	47								
Transport												
Public entities												
Eastern Cape Appropriate Technologies Unit			2	729								
Eastern Cape Gambling and Betting Board					4	176					1	1 047
Eastern Cape Parks and Tourism Agency											18	13 600
Eastern Cape Socio-Economic Co-operative Council			29	215								
Eastern Cape Provincial Arts and Culture Council			16	776	17	824						
East London Industrial Development Zone	10	6 859									21	109 885
Eastern Cape Liquor Board												
Total	27	72 463	76	4 778	45	84 744	0	0	25	150 912	154	960 724
% of auditees tested	24%		32%		24%		28%		12%		32%	

 The lack of a supplier database impacts on all awards based on quotations, not only those tested during the audit.

Further details on the legislation not complied with are as follows:

Competitive bids not invited. Deviations not approved, reasonable or justified.

A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Deviations from the competitive bidding process are allowed only where it is impractical or impossible to follow such a process and where the deviations are approved by a properly delegated official or committee.

Instances were identified where competitive bidding processes were not followed and these deviations were not approved by appropriately delegated officials. Furthermore, deviations from the competitive bidding process were approved even though it was not impractical or impossible to follow such a process.

Written price quotations not obtained or quotation process not in accordance with legislation. Deviations not approved, reasonable or justified.

A price quotation process should be followed for the procurement of goods and services of a lower value. Deviations from obtaining the required number of quotations are allowed only where it is impractical or impossible to obtain the required number of quotations and where such deviations are approved by a properly delegated official or committee.

The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee. Cases were also noted where deviations were approved for obtaining less than the required number of price quotations even though it was not impractical or impossible to obtain the required number of quotations.

Procurement from suppliers without valid SARS tax clearance certificates

Awards were made to suppliers who failed to provide written proof from SARS that their tax matters were in order.

No prospective supplier list for inviting price quotations or the prospective supplier list was not administered in accordance with requirements.

A price quotation process should be followed for the procurement of goods and services of a lower value. In order to provide prospective suppliers with an opportunity to take part in this process, a prospective supplier list should be kept by the auditee and administered in a fair and competitive manner. The auditees highlighted in red in the above table either did have a prospective supplier list or did not administer their supplier listings in accordance with the requirements.

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 had failed to declare their past SCM practices.

Other findings include:

- Contracts awarded were not advertised on the Construction Industry Development Board (CIDB) website nor were they registered with the CIDB within 21 days.
- Proper needs assessments were not performed before contracts were awarded. As a result, goods and services were procured that were not necessary to carry out the functions of the departments.
- Consultants were engaged to carry out certain tasks even though sufficient time was available to recruit and train own staff to perform the required tasks. Awards were also made to consultants who did not have proper terms of reference.
- Awards were deliberately split into smaller parts to avoid procurement requirements.
- Procurement deviations greater than R1 million were not reported to the AGSA.
- Bids were advertised for a shorter period than stated in the SCM policy without approval for the deviation. It is important that sufficient time be allowed for the market to submit bids that are properly prepared and considered. Where this is not done it could be the result of corrupt practices.



- Errors were noted in the calculation of preference points and the adjudication of awards based on the highest points achieved.
- Bid documents used to support awards made did not contain all the information and declarations required by the relevant bid documentation.
- The requirements relating to unsolicited awards were not complied with.

5.5 Inadequate contract management

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

Table 21: Findings on contract management

Auditee	Contracts amended/extended without approval by a delegated official/to circumvent competitive bidding process		Contracts not appropriately signed by a delegated official		Contracts not prepared in accordance with the standard conditions of contract prescribed by National Treasury		Inadequate contract performance measures and monitoring		Payments made in excess of approved contract price (with further approved extensions)		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments												
Education	3	256 000									3	16 000
Health	36	293 791	25	286 968					90	3 313 162		
Human Settlements	2	28 361	6	43 744			9	23 250				
Sports Arts Recreation and Culture			1	25 266	3	44 817						
Auditee name												
Total	41	578 152	32	355 978	3	44 817	9	23 250	90	3 313 162	3	16 000

Further details on the findings are as follows:

Contracts extended or renewed to circumvent competitive bidding process/contracts amended or extended without approval by a delegated official

It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent. In addition, instances were identified of contracts that were amended or extended in favour of the supplier without the approval of a properly delegated official or committee.

Contracts not appropriately signed by a delegated official

Goods and services were received and payment was made to suppliers without written, signed contracts.

Contracts not prepared in accordance with the standard conditions of contract prescribed by the National Treasury

Contracts were drafted and signed in formats that were not in line with the prescribed requirements.

Inadequate contract performance measures and monitoring

Measures applied in monitoring the performance of contractors were not always sufficient to ensure that contractors delivered in accordance with the contract.

Payments made in excess of the approved contract price (with further approved extensions)

A contract prescribes the prices, terms and maximum values, which can be increased through approved extensions and variations. Instances were identified of payments being made to suppliers in excess of these approved contract prices.

Other finding

Education could not provide evidence that action was taken against three non-performing contractors awarded contracts to the value of R16 million.

5.6 Inadequate SCM controls

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

Table 22: Findings on SCM controls

Auditee	Inadequate controls to ensure interests are declared	Roles and responsibilities for management and co-ordination of SCM unit not clearly defined	SCM officials not adequately trained	Inadequate controls for vendor acceptance and maintenance	SCM allegations not investigated within a reasonable time	Other controls
Departments						
Education						
Health						
Local Government and Traditional Affairs						
Public works						
Social Development						
Sport, Arts, Recreation, and Culture						
Public entities						
Eastern Cape Socio Economic Consultative Council						
Total	4	2	3	2	2	3
Percentage of auditees tested	16%	8%	12%	8%	8%	12%

Further details of the findings are as follows:

Inadequate controls to ensure interests are declared

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.



Roles and responsibilities for coordination of the SCM unit not clearly defined

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.

SCM officials not adequately trained

Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.

Inadequate controls for vendor acceptance and maintenance

The controls at some auditees were inadequate to ensure that only valid and authorised changes were made to the suppliers' database in order to prevent payments to fictitious suppliers.

SCM investigations not investigated within a reasonable time

Allegations of improper conduct in the SCM system were not investigated within a reasonable time.

Other findings:

The other findings identified were as follows:

The risk assessment and fraud prevention plan of the Eastern Cape Socio-Economic Consultative Council did not identify risks and control measures relating to the identification, prevention or detection of fraud in procurement.

Education did not implement strategies to address the SCM risks identified in its risk management strategy.

The audit committee and internal audit units did not review the controls and processes required to ensure compliance with the SCM legislation.

5.7 Overall conclusion on SCM matters

- Only the provincial legislature and four provincial public entities (Accelerated Shared Growth Initiative, Eastern Cape Development Corporation, Mayibuye Transport Corporation and Eastern Cape Rural Finance Corporation) had no findings on SCM. The correct leadership tone and regular monitoring of the SCM requirements by the leadership together with the audit committee and internal audit contributed to the positive outcome at the legislature and these entities. The systems and processes put in place at these auditees should ensure the sustainability of their SCM results.
- The province has a long way to go before its inappropriate SCM practices are eliminated. Even though SCM was a focus area in the prior year and it was reported on in the 2009-10 general report, the improvement in this area is marginal at best.
- Education and Health, which are responsible for 75% of the provincial budget and are the most decentralised departments, accounted for the highest number of SCM limitations and findings based on the value of awards in each SCM area audited. Personnel at these departments, particularly in the district offices, do not have a clear understanding of their roles and responsibilities in respect of SCM.
- Human Settlements, Sports, Arts, Recreation and Culture, and ELIDZ had the next highest SCM findings based on the value of awards. This is due to a lack of capacity for managing infrastructure projects and their related SCM processes.
- There is a lack of capacity and understanding, together with a lack of monitoring and enforcement of the requirements of the SCM policies by leadership and management. This creates an environment that is conducive to corrupt SCM practices, including leadership, management and other employees transacting with their departments without declaring their interests and/or obtaining permission to perform other remunerative work.
- A strong ethical culture in the public sector, together with the support of internal audit, is necessary to establish a strong control environment and ensure compliance with the SCM regulations and prescripts. Audit committees and internal audit should provide assurance that the strategies employed to mitigate the risk of non-compliance are adequate.

- The political and administrative leadership of the province should take a conscious decision to build such a culture and should deal with breaches of the SCM regulations and prescripts decisively. Intentional neglect of these regulations must carry severe consequences.
- Continued non-adherence to SCM regulations defers the restoration of the public's confidence in the ability of state officials to systematically take care of their interests and deprives citizens of much-needed services in all areas of service delivery. Only when the leadership has set the tone of dealing with such malpractices will the citizenry have confidence in our public sector procurement and the related financial management systems.

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. To date provincial treasuries countrywide have not yet been able to prepare the required consolidation. In the Eastern Cape Province 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 put processes in place to move towards a proper consolidation process as soon as possible.

Due to the above, the AGSA is unable to issue an auditor's report on the fair presentation of the financial statements but instead issues factual finding reports for both 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 the table below.

Table 23: Status of the audit of consolidated financial statements

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

The consolidated financial statements of departments and public entities for the 2010-11 financial year were received on 4 October 2011. The audit is currently in progress and the anticipated reporting date is 4 December 2011.



SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments and public entities to table in the legislature 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 24: Annual reports tabled by departments, public entities and other entities

Auditee type	Percentage of reports tabled at [cut-off date]	
	2010-11	2009-10
Departments	13	14
Public entities	11	12
Provincial consolidations	0	2
Total	24	28

Note: As per the PFMA, the Provincial Revenue Fund report is not required to be tabled to the provincial legislature.

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

Table 25: Annual reports not tabled

Auditee	Reason(s)	Expected tabling date
Departments		
Sport	Late finalisation of audit process	3 December 2011
Consolidated financial statements (departments)	Financial statements submitted for audit on 4 October 2011.	10 December 2011
Public entities		
Consolidated financial statements (entities)	Financial statements submitted for audit on 4 October 2011.	10 December 2011

CONCLUSION

The Eastern Cape Province faces a number of challenges, as highlighted in this report, and the current leadership practices and oversight are not having the desired impact on the drive towards clean administration. This is evidenced by the number of regressions that are prevalent year on year and the related lack of progress on key commitments made.

In order for the province to move forward and create an environment that is conducive to clean administration and accountability, it needs to entrench the following pillars of sustainability:

- The leadership must take ownership of key control implementation, together with vigilant and consistent monitoring of these. Where specific commitments are made and actions plans are put in place to address specific weaknesses and shortcomings, these need to be implemented, again coupled with a focused monitoring process to test the success of these interventions and to be able to take early corrective action.
- Processes should be put in place to evaluate and address the credibility, reliability and timeousness of information used for decision-making, thereby strengthening the decision-making processes and allowing the leadership to be more proactive.
- The environment should be professionalised by implementing effective human resource management that ensures that the correct skills and capacity are in place within the departments and entities. This includes holding individuals accountable and taking action against poor performance and non-delivery.

I am encouraged by the quality of the commitments that the leadership of the province has provided as part of its action plan going forward. However, in order for the commitments to yield results the entire leadership will have to be involved in executing and monitoring the effectiveness of these.

The critical message I am leaving with the legislators and the executive is that it is possible to improve and obtain clean administration if the leadership actively strives for quality and sustainability in executing their duties. To supplement this, we remain committed to working with the legislature and executive to improve governance and accountability, thereby building 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			Financial statement qualification areas									Findings on predetermined objectives				2009-10 audit year		
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Movement in outcome	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	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations
Departments																				
1	Agriculture	Qualified	R	R	↓					N				A	N	A	R	Financially unqualified with findings		
2	Economic Development and Environmental Affairs	Qualified	R	R	↔	R								A		R	R	Qualified		
3	Education	Disclaimer	R	R	↔	N	N	R		R	R	R	R	None submitted				Disclaimer		
4	Health	Qualified	R	R	↑	R	R	R		R		N	R	N	R	R		Disclaimer		
5	Human Settlements	Qualified	R	A	↔	N				R			R		A	R		Qualified		
6	Local Government and Traditional Affairs	Financially unqualified with findings	R	R	↔									R		N	A	Financially unqualified with findings		
7	Office of the Premier	Financially unqualified with findings	A	R	↔									A	A	A	A	Financially unqualified with findings		
8	Provincial Legislature	Financially unqualified with no findings	A	A	↑									A	A	A	A	Financially unqualified with findings		
9	Provincial Revenue Fund	Financially unqualified with no findings			↔									Not applicable				Financially unqualified with no findings		
10	Provincial Treasury	Financially unqualified with findings	R	R	↔									R	N			Financially unqualified with findings		



No.	Auditee	2010-11 audit year			Financial statement qualification areas									Findings on predetermined objectives				2009-10 audit year		
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Movement in outcome	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	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations
11	Public Works and Roads	Financially unqualified with findings	R	R	↔								R	R	R	N	Financially unqualified with findings			
12	Safety and Liaison	Financially unqualified with findings	A	R	↔								A				Financially unqualified with findings			
13	Social Development	Financially unqualified with findings	R	R	↔								R	A	R	N	Financially unqualified with findings			
14	Sport, Recreation, Arts and Culture	Qualified	R	R	↓	N						N	N	R	A	R	R	Financially unqualified with findings		
15	Transport	Financially unqualified with findings	R	R	↔								R	A	R	R	Financially unqualified with findings			
Public entities																				
16	Accelerated Shared Growth Initiative of South Africa	Financially unqualified with no findings			↔												Financially unqualified with no findings			
17	East London Industrial Development Zone Corporation	Financially unqualified with findings	N	N									N	N	N	N	New public entity			
18	Eastern Cape Development Corporation	Financially unqualified with findings	R	R	↔								R				Financially unqualified with findings			
19	Eastern Cape Appropriate Technology Unit	Financially unqualified with findings	R	R	↑									N		R	Qualified			
20	Eastern Cape Socio Economic Consultative Council	Financially unqualified with findings	N	N	↓								N				Financially unqualified with no findings			

No.	Auditee	2010-11 audit year			Financial statement qualification areas									Findings on predetermined objectives				2009-10 audit year					
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Movement in outcome	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	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations			
21	Eastern Cape Gambling and Betting Board	Financially unqualified with findings	R	R	↔												R		R	N	Financially unqualified with findings		
22	Eastern Cape Liquor Board	Financially unqualified with findings	R	N	↔												R		R		Financially unqualified with findings		
23	Mayibuye Transport Corporation	Qualified	R	R	↔	R	N		N		R								R		Qualified		
24	Eastern Cape Parks and Tourism Agency	Financially unqualified with findings		N																	New public entity		
25	Eastern Cape Provincial Arts and Culture Council	Financially unqualified with findings	R	R	↑		A				A						R		R	R	Qualified		
26	Eastern Cape Rural Finance Corporation (Uvimba)	Financially unqualified with findings	R	N	↔												R				Financially unqualified with findings		

R	Repeat - Qualified/reported in prior year(s)	Improved audit outcome	Unchanged - Clean administration sustained
N	New - Qualified/reported in current year but not qualified/reported in prior year	Regressed - Drastic Intervention required to drive improvement. Outcome is not underpinned by systems and controls to ensure sustainability.	Unchanged - Intervention required to drive improvement
A	Addressed - Qualified/reported in prior but has been addressed and not reported in current year		Unchanged - Drastic intervention required to drive improvement



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 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	Economic Development and Environmental Affairs													
3	Education													
4	Health													
5	Human Settlements													
6	Local Government and Traditional Affairs													
7	Office of the Premier													
8	Provincial Legislature													
9	Provincial Revenue Fund													
10	Provincial Treasury													
11	Public Works and Roads													
12	Safety and Liaison													
13	Social Development													
14	Sport, Recreation, Arts and Culture													
15	Transport													
Public entities														
16	Accelerated Shared Growth Initiative of South Africa													
17	East London Industrial Development Zone Corporation													
18	Eastern Cape Development Corporation													
19	Eastern Cape Appropriate Technology Unit													
20	Eastern Cape Socio Economic Consultative Council													
21	Eastern Cape Gambling and Betting Board													

No.	Auditee	Areas of non-compliance												
		Annual financial statements and annual report	Asset management	Audit committees	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management	HR management and compensation
22	Eastern Cape Liquor Board													
23	Mayibuye Transport Corporation													
24	Eastern Cape Parks and Tourism Agency													
25	Eastern Cape Provincial Arts and Culture Council													
26	Eastern Cape Rural Finance Corporation (Uvimba)													



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)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	SCM related	Compensation of employees related	Other	Total				
Departments													
1	Agriculture	16 690 000			16 690 000	2 519 000	38 366 000		40 885 000	491 000		17 619 000	
2	Economic Development and Environmental Affairs					11 618 000	971 000		12 589 000	165 000		2 818 000	
3	Education					1 992 343 528	1 945 730 193		3 938 073 721	90 513 423			
4	Health	117 520 000			117 520 000	170 689 122	107 631 158		278 320 280	24 916 640	611 680 000	170 983 000	
5	Human Settlements					47 377 000		1 963 000	49 340 000	37 000			
6	Local Government and Traditional Affairs					6 824 000			6 824 000				
7	Office of the Premier					1 362 000			1 362 000				
8	Provincial Legislature					118 099			118 099	19 000			
9	Public Works and Roads					17 644 996	6 377 660		24 022 656	93 220			
10	Safety and Liaison					991 000	200 000	131 000	1 322 000	116 000			
11	Social Development	5 162 000			5 162 000	30 329 000	17 525 000		47 854 000	133 000		31 000 000	
12	Sport Recreation Arts and Culture					44 600 000			44 600 000				
13	Transport					18 957 000	55 000 000	16 355 000	90 312 000	402 000		213 000 000	
Public entities													
14	Accelerated Shared Growth Initiative of South Africa											10 471 452	
15	Eastern Cape Development Corporation											72 700 000	
16	Eastern Cape Appropriate Technology Unit					729 004			729 004				
17	Eastern Cape Socio Economic Consultative Council					723 124		88 264	811 388				
18	Eastern Cape Gambling and Betting Board							1 657 835	1 657 835				
19	Eastern Cape Liquor Board							405 551	405 551				
20	Mayibuye Transport Corporation									250 000		730 000	
21	Eastern Cape Parks and Tourism Agency					13 600 000			13 600 000				
22	Eastern Cape Provincial Arts and Culture Council					507 156			507 156				
23	Eastern Cape Rural Finance Corporation (Uvimba)											9 000 000	

Provincial Revenue Fund, Provincial Treasury, ELIDZ did not register any unauthorised, irregular or F&W expenditure



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	Economic Development and Environmental Affairs					
3	Education					
4	Health					
5	Human Settlements					
6	Local Government and Traditional Affairs					
7	Office of the Premier					
8	Provincial Legislature					
9	Provincial Revenue Fund					
10	Provincial Treasury					
11	Public Works and Roads					
12	Safety and Liaison					
13	Social Development					
14	Sport, Recreation, Arts and Culture					
15	Transport					
Public entities						
16	Accelerated Shared Growth Initiative of South Africa					
17	East London Industrial Development Zone Corporation					
18	Eastern Cape Development Corporation					
19	Eastern Cape Appropriate Technology Unit					
20	Eastern Cape Socio Economic Consultative Council					
21	Eastern Cape Gambling and Betting Board					
22	Eastern Cape Liquor Board					
23	Mayibuye Transport Corporation					
24	Eastern Cape Parks and Tourism Agency					
25	Eastern Cape Provincial Arts and Culture Council					
26	Eastern Cape Rural Finance Corporation (Uvimba)					

ANNEXURE 6: Auditees with key findings on IT Focus Areas

No.	Auditee	Focus Areas						
		IT governance	Security management	User access management	IT service continuity	Program change management	Facility and environment controls	Data centre management
Departments								
1	Agriculture							
2	Economic Development and Environmental Affairs							
3	Education							
4	Health							
5	Human Settlements							
6	Office of the Premier							
7	Provincial Legislature							
8	Provincial Treasury							
9	Public Works and Roads							
10	Safety and Liaison							
11	Social Development							
12	Sport, Recreation, Arts and Culture							
Public entities								
13	East London Industrial Development Zone Corporation							
14	Eastern Cape Development Corporation							
15	Eastern Cape Liquor Board							
16	Eastern Cape Parks and Tourism Agency							
17	Eastern Cape Rural Finance Corporation (Uvimba)							

Note: While the impact of computer systems are taken into account in all audits, detailed testing, only took place at departments where significant It risks were identified.



ANNEXURE 7: Effectiveness of audit committees

No.	Audit	Audit committee in place	New audit committee appointed during the year (Disbanding of shared service)	Compliant with legislation	Direct impact on outcome	Regular interaction with executive
1	Agriculture	Yes	Yes	No	No	No
2	Economic Development and Environmental Affairs	Yes	Yes	Yes	No	No
3	Education	Yes	NA	Yes	No	No
4	Health	Yes	NA	Yes	No	No
5	Human Settlements	Yes	Yes	Yes	No	No
6	Local Government and Traditional Affairs	Yes	Yes	No	No	No
7	Office of the Premier	Yes	Yes	Yes	No	No
8	Provincial Legislature	Yes	NA	Yes	Yes	Yes
9	Provincial Treasury*	Yes	Yes	No	No	No
10	Public Works and Roads	Yes	NA	Yes	No	No
11	Safety and Liaison	Yes	Yes	Yes	No	No
12	Social Development	Yes	NA	Yes	No	No
13	Sport, Recreation, Arts and Culture	Yes	Yes	No	No	No
14	Roads and Transport	Yes	Yes	Yes	No	No
15	Accelerated Shared Growth Initiative of South Africa	Yes	NA	Yes	Yes	Yes
16	East London Industrial Development Zone Corporation	Yes	NA	Yes	No	No
17	Eastern Cape Development Corporation	Yes	NA	Yes	No	No
18	Eastern Cape Appropriate Technology Unit	Yes	NA	Yes	Yes	No
19	Eastern Cape Socio Economic Consultative Council	Yes	NA	Yes	No	No
20	Eastern Cape Gambling and Betting Board	Yes	NA	Yes	No	No
21	Eastern Cape Liquor Board	Yes	NA	Yes	No	No
22	Mayibuye Transport Corporation	Yes	NA	Yes	No	No
23	Eastern Cape Parks and Tourism Agency	Yes	NA	No	No	No
24	Eastern Cape Provincial Arts and Culture Council	Yes	NA	Yes	Yes	No
25	Eastern Cape Rural Finance Corporation (Uvimba)	Yes	NA	Yes	No	No
	* No separate audit committee exists for the Provincial Revenue Fund. As the responsibility for the revenue fund resorts with provincial treasury, the audit committee of the provincial treasury also executes its responsibilities over the Provincial Revenue Fund.					

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