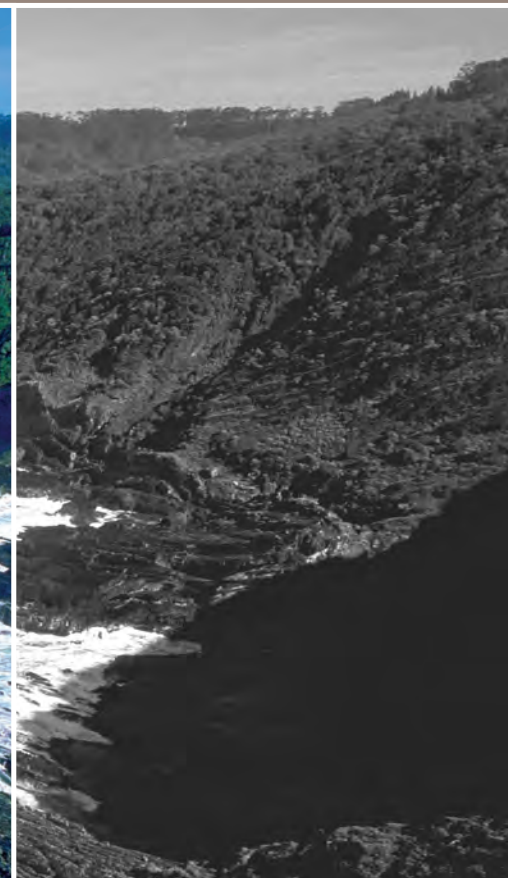


Eastern Cape



AUDITOR - GENERAL
SOUTH AFRICA

General report

on the audit outcomes of provincial government

PFMA 2012-13

Our reputation promise/mission

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



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

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

Terence Nombembe
Auditor-General

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



AUDITOR - GENERAL
SOUTH AFRICA

Overview



Message from the auditor-general

Audit outcomes of departments improved, but those of public entities regressed (Section 2.1)

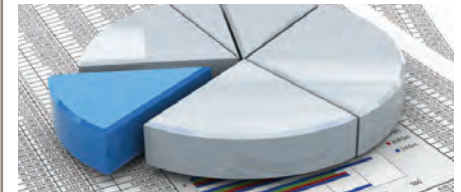
Office of the Premier and Provincial Treasury achieved clean audits (Section 2.1)

Education and Health showed improvement, while Roads & Public Works regressed to disclaimer (Section 2.1)



Slow progress towards improving reliability and usefulness of annual performance reports (Section 2.2)

Slow response by administrative leadership to address material non-compliance findings (Section 2.3)



Unauthorised expenditure decreased but irregular as well as fruitless and wasteful expenditure increased (Section 2.3)

Quality of financial statements remained poor, indicating overreliance on audit process (Section 3.1)

Number of auditees with uncompetitive and unfair procurement processes regressed
(Section 3.2)

Number of auditees with supply chain management findings regressed
(Section 3.2)

No progress on human resource management practices
(Section 3.3)

Little improvement in information technology controls
(Section 3.4)



Financial health indicators improved but underspending of capital budgets still a concern
(Section 3.5)



Key officials lacking competencies and skills, lack of consequences for poor performance and administrative leadership not being effective most common root causes of poor audit outcomes
(Section 4.3)

Key role players did not provide adequate assurance to improve controls
(Section 5)



Audit outcomes of portfolios and commitments for improvement
(Section 6)

Contents

FOREWORD	7	SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES	53
SECTION 1: EXECUTIVE SUMMARY	11	4.1 Significant deficiencies in internal control	55
1. Executive summary	12	4.2 Formal control over information technology systems	57
SECTION 2: OVERVIEW OF AUDIT OUTCOMES	17	4.3 Summary of root causes	57
2.1 Overall audit outcomes	20	SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES	61
2.2 Quality of annual performance reports	25	5. Initiatives and impact of key role players on audit outcomes	63
2.3 Compliance with legislation	29		
SECTION 3: RISK AREAS	33		
3. Risk areas	35		
3.1 Quality of submitted financial statements	35		
3.2 Supply chain management	39		
3.3. Human resource management	43		
3.4 Information technology controls	47		
3.5 Financial health	51		

SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

67

6.1	Office of the Premier	68
6.2	Provincial Legislature	70
6.3	Health	72
6.4	Social Development and Special Programmes	74
6.5	Public Works, Roads and Transport	76
6.6	Education	78
6.7	Local Government and Traditional Affairs	80
6.8	Rural Development and Agrarian Reform	82
6.9	Economic Development, Environmental Affairs and Tourism	84
6.10	Human Settlements, Safety and Liaison	86
6.11	Provincial Treasury	88
6.12	Sport, Recreation, Arts and Culture	90

ANNEXURES

93

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

99

EASTERN CAPE **CLEAN AUDITS 2012-13**

6



DEPARTMENT

Office of the Premier
Provincial Treasury

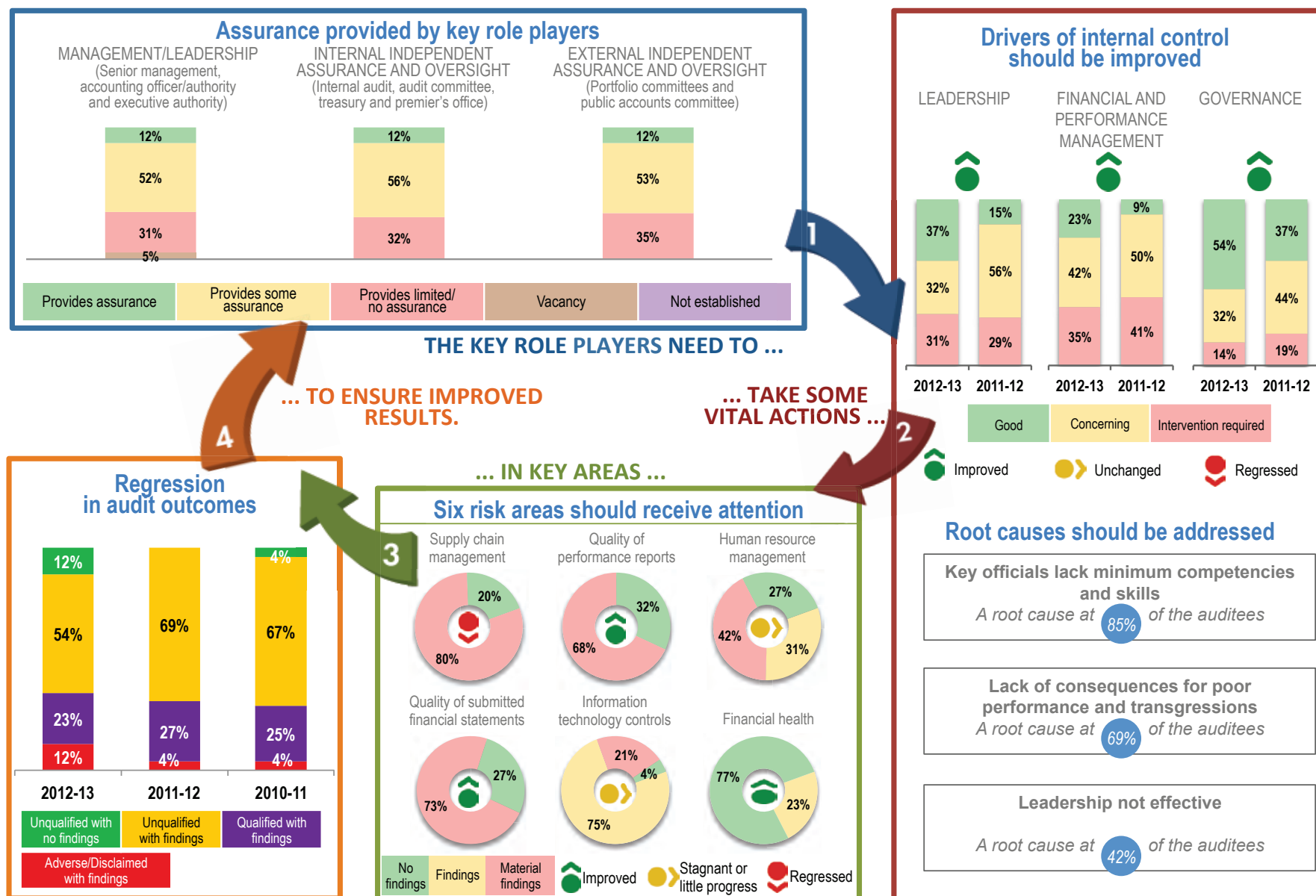


PUBLIC ENTITY

Eastern Cape Socio Economic Consultative
Council

FOREWORD





FOREWORD

I have the pleasure to present to the Provincial Legislature of the Eastern Cape Province my 2012-13 general report, analysing the results of the audit outcomes of the Eastern Cape provincial government for the financial year ended 31 March 2013.

During 2009-10, with the intensified focus on the drive to clean administration by 2014, my message started out with the need for the administrative leadership, under the direction and intervention of the executive leadership, to entrench financial discipline through the basic principles of daily, weekly and monthly monitoring and reporting. I also emphasised the need to validate reported information and constant monitoring. This message evolved to include the need to fill vacancies with personnel who have the required skills, to implement performance management systems, and to apply consequences for poor performance.

The outcomes reflected in this 2012-13 report highlight those auditees where the executive and the administrative leadership took ownership of my messages and those that did not. On an overall basis, the number of auditees with qualified and disclaimed audit opinions increased, negating a number of significant improvements in outcomes.

The group of auditees that took ownership of my messages and recorded noticeable improvements includes the Office of the Premier and the Provincial Treasury that improved to clean audit opinions. These two departments are now leading by example

through focused attention to basic key controls, which enhances the credibility of information used for enforcing accountability. I also take note of the movement of the Department of Education away from the long-standing disclaimed opinion to a qualified opinion as well as the strides that the Department of Health is making in further reducing the number of qualification areas in its audit report. This is significant to the province, as these two departments represent 74% of the provincial budget. The positive response to the audit messages by the political leadership at these departments and the focused support from the above-mentioned coordinating departments laid the foundation for the improvement.

In stark contrast, it is clear that the auditees that regressed did not heed my messages over the past number of years and as a result their control environments have remained unsatisfactory, or have even deteriorated. On this basis, the audit outcome of the Department of Roads and Public Works – another one of the big spending departments – has steadily regressed and needs urgent attention. The key to sustainable improvements at these auditees is the implementation of effective key controls that filter through to the daily financial and performance management disciplines and the continuous monitoring thereof.

There is strong correlation between the status of key internal controls, the assurance provided and – ultimately – the sustainability of audit outcomes. Although there has been an



Terence Nombembe
Auditor-General

improvement in the status of internal controls, it has not yet been significant enough to have an impact on the levels of assurance provided. Currently, the quality of information produced at senior management level is not good enough. This influences the effectiveness of all other levels of assurance as information is not always credible, which weakens effective oversight and decision-making.

A clear pattern of officials not having the required competencies and skills, a lack of consequence management for poor performance as well as ineffective administrative leadership is evident and needs to be addressed as a matter of urgency for the province to make significant strides towards clean administration. These challenges have contributed to the slow progress in addressing irregular expenditure, non-compliance findings, weaknesses in human resource management and the poor quality of financial statements and performance reports.

I have noted the positive trend of the political leadership taking my messages more seriously, but it is vital that this culture be instilled throughout all departments and entities for the province to move forward. This will create a good basis for fostering a culture of accountability conducive to clean administration. Furthermore, the Standing Committee on Public Accounts and the portfolio committees must continue to work together and enhance their oversight through improved coordination.

The critical message I am leaving with the provincial leadership is that it is possible to obtain clean administration – if the leadership insists on daily and monthly financial and performance disciplines and on oversight of key control areas.

In addition, the governance structures must carefully execute their duties in ensuring effective oversight and accountability. To supplement this, we remain committed to working with the provincial leadership in improving governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner. In addition, we urge the legislators to consider enhancing the legislation dealing with daily, weekly and monthly financial and performance disciplines.

I want 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 their commitment to strengthening cooperation with the leadership of the province.

Auditor-General

**Auditor-General
Pretoria
November 2013**

SECTION 1: EXECUTIVE SUMMARY

1. Executive summary

Our audit and reporting process

We audit all 14 departments and 12 public entities in the province, also called *auditees* in this report, so that we can report on the quality of their financial statements and annual performance reports and on their compliance with legislation. We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We include these aspects in the following three types of reports:

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

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

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

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

During the audit process at each auditee, we work closely with the accounting officer, senior management, audit committee and internal audit unit, as they are key role players in providing assurance on the credibility of the financial statements, performance report as well as the auditee's compliance with legislation. We also continue to strengthen our relationships with the Premier, MECs, the Provincial Treasury and the Provincial Legislature, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

The rest of this section summarises the 2012-13 audit outcomes and our key recommendations for improvements.

Audit outcomes have regressed

The province once again had significant improvements, but these were unfortunately overshadowed by a number of regressions, leaving the province with an overall statistical regression. However, we do take note of the significant improvement in the outcomes of the main role players in the provincial budget as well as of the leading departments.

Significant aspects of the 2012-13 audit outcomes of 26 auditees are listed below.

Overall audit outcomes

Historically, the public entities achieved the more favourable audit outcomes in the province, while the departments represented most of the qualified and disclaimed outcomes. In the 2012-13 cycle, however, the situation changed significantly – in line with the specific priorities for support provided by the Office of the Premier and the Provincial Treasury, which focused on departments. Four departments and two entities improved their outcomes, while the outcomes of one department and four entities regressed. The number of departments with unqualified opinions improved from 57% to 64%, while the entities with unqualified opinions regressed from 83% to 67%.

The first of two highlights of the 2012-13 outcomes is that two of the three departments that should be leading by example, namely the Office of the Premier and Provincial Planning and Finance (more commonly referred to as the *Provincial Treasury*), now form part of the three auditees that received clean audit outcomes. This is instrumental for the province, as both these auditees have oversight responsibilities.

In contrast, the increase in disclaimed audit opinions poses serious questions as to the effectiveness of the measures and plans currently being implemented by the executive and leadership at the affected auditees.

We are also concerned about the 12 auditees that have stagnated in the category of financially unqualified opinion with findings. The many auditees with findings on predetermined objectives (PDOs) and non-compliance with legislation point to a sense of complacency as well as a lack of momentum and commitment to achieve clean administration.

Outcomes of the Departments of Education, Health as well as Roads and Public Works

The second of the two highlights in this cycle is the movement of the Department of Education from a long-standing disclaimed opinion to a qualified opinion. While the Department of Health did not improve its outcome, the number of qualifications was reduced considerably. Although these two departments have made significant strides, a large amount of the work was only done towards the end of the year. This means that daily and monthly processes are not yet embedded in the control environment, which places the sustainability of these outcomes at risk. The continued assistance and support of all role players, including oversight and governance bodies as well as the Provincial Treasury and the Office of the Premier, are required to sustainably build on the positive movement towards clean administration evident in the past year.

We are very concerned about the regression of the Department of Roads and Public Works to a disclaimer. Historically, this department avoided a disclaimer of opinion due to last-minute audit adjustments, but the fact that the response to our messages remained slow and control shortcomings were not sustainably addressed unavoidably resulted in the regression.

Findings on the quality of the annual performance report

The quality of the annual performance reports improved slightly from the previous year, as eight (32%) of the auditees had no findings on the usefulness or reliability of their performance reports. Unfortunately, the Departments of Education, Health and Roads and Public Works – the departments that are responsible for almost 80% of the provincial expenditure and, accordingly, carry a massive service delivery expectation – all had findings on both the usefulness and the reliability of their service delivery reporting. The fact that the service delivery reporting of such a substantial portion of the provincial budget allocation was less than satisfactory is cause for serious concern.

It is encouraging that the number of auditees with usefulness findings dropped below 40% from 62% in the previous year. This improvement can be attributed to

improved planning processes, while the lack of progress on the reliability of information was the result of inadequate control systems relating to the collection, collation and reporting of actual reported performance information against planned indicators and targets. The lack of appropriate control systems was also the most significant non-compliance finding relating to annual performance reports.

The fact that we identified a lack of competence and skills amongst key officials as a root cause at 85% of the auditees definitely links to the poor showing of auditees in this area of reporting. The provincial leadership is urged to prioritise the appointment of officials with the appropriate competencies and skills in the area of performance reporting, and to support these officials with dedicated training programmes.

Compliance with legislation – status and movement over three years

Compliance with legislation has improved slightly over the past three years, with three auditees (12%) having no findings on non-compliance with legislation. This improvement from two auditees (8%) in 2011 and no auditees in 2012 is particularly encouraging, as it includes the Office of the Premier and the Provincial Treasury, which are two of the three coordinating departments in the province. However, the very slow rate of improvement at the other auditees was due to a lack of consequences for the deliberate or negligent breaching of applicable legislation and a lack of regular reporting on compliance with key legislation.

Findings on non-compliance with legislation

The most significant non-compliance findings, which were applicable to more than 50% of the auditees, related to poor procurement practices; material amendments to the financial statements submitted for audit purposes; shortcomings in strategic planning and weaknesses in performance management; and a failure to prevent or detect unauthorised, irregular as well as fruitless and wasteful expenditure. The findings on strategic planning and performance management related mostly to a lack of internal controls over the preparation of performance reports.

Unauthorised expenditure

At R53 million, the unauthorised expenditure for the year has reduced significantly from R306 million in 2012 and R139 million in 2011. Only the Department of Health incurred unauthorised expenditure during the year. This reduction can be attributed to improved in-year budget monitoring.

Irregular expenditure

Irregular expenditure increased to R2 181 million during 2013 from R1 270 million in 2011. This increase can be attributed to increased non-compliance in the area of supply chain management (SCM), which made up more than 81% of the total irregular expenditure incurred, due to a slow response to our messages on SCM. We have included these messages in our general reports since 2009-10 and have had many interactions with the political and the administrative leadership in this regard. This is particularly applicable to the Departments of Education, Health as well as Roads and Public Works, as these departments incurred 89% of all of the SCM-related irregular expenditure during the year under review.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure increased to R748 million in the year under review from R159 million in 2012 and R117 million in 2011. This increase was caused by errors in subsidies paid by the Department of Education to section 21 schools amounting to R614 million and medical malpractice settlements of R108 million paid by the Department of Health.

The six risk areas should continue to receive attention

As outlined below, our audits of the six risk areas showed that our recommendations to address these risks to financial and performance management have not yet been implemented. Significant aspects of five of the risk areas are listed below, while the quality of performance information is included as part of the audit outcomes discussed above.

Quality of submitted financial statements

The quality of the financial statements submitted for audit purposes did not improve significantly, with only 27% (2011-12: 15%) of the auditees submitting financial statements with no material misstatements. Ten auditees (38%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The auditees that could not correct the misstatements received qualified and disclaimed audit opinions. The most common qualification areas included irregular expenditure related to SCM;

contingent liabilities and commitments; property, infrastructure, plant and equipment; and expenditure.

Supply chain management

Material non-compliance findings were reported at 80% of the auditees in 2013, compared to 62% in 2012. This increase also mirrors the increase in irregular expenditure and can be attributed to a lack of consequences for poor performance and deliberate transgressions of SCM prescripts as well as an inadequate response by the leadership of the province to our messages on SCM.

The most significant SCM non-compliance findings included in section 3.2 of this report relate to unfair and uncompetitive procurement processes; weak internal controls over SCM; and awards to employees and their close family members.

We reported unfair and uncompetitive procurement processes at 76% of the auditees. The most significant findings in this focus area related to competitive bidding processes for the acquisition of goods and services to the value of more than R500 000 not being followed; and written price quotations for the acquisition of goods and services with a value below R500 000 not being obtained.

Although the value of awards to employees and their close family members decreased to R23 million from R31 million in 2012, the number of auditees where such awards were made and the number of such awards increased. For more than 25% of these awards, neither the affected employees nor the suppliers disclosed their interests.

The above findings can also be attributed to ineffective leadership (including the leadership tone) and a lack of consequences for poor performance and transgressions.

Both the political and the administrative leadership should adopt a zero-tolerance approach in addressing this area of non-compliance. It is very important that all transgressions are dealt with decisively and individuals are held accountable.

Human resource management

There has been little movement in implementing good human resource (HR) management practices in the province since 2011-12. However, the slight improvement achieved by departments was offset by a regression at public entities.

The highest number of material findings arose from the inadequate management of leave, overtime and suspensions as well as the poor management of vacancies, with eight departments recording findings in each of these categories.

We also analysed the vacancy rates at the level of accounting officer, chief financial officer and head of the SCM unit. While the actual vacancy rates were within a tolerable range, it is concerning that most of the positions were vacant for

longer than six months. In such cases, consultants were sometimes appointed if the auditee could not find suitable candidates. The use of consultants usually resulted in a lack of skills transfer and a negative impact on the sustainability of improvements in the control environment.

Information technology

Our information technology (IT) audits focused on IT governance, security management, user access management, and service continuity. With the exception of IT governance where all auditees are busy adopting a cabinet-approved IT governance framework, most auditees had findings relating to the design and implementation of controls across all of these focus areas. The slow progress can be attributed to a lack of IT-related skills and competencies at all auditees. In order to make significant progress in this area, the province should capacitate its existing IT personnel through appropriate training and should also ensure that all IT appointees have the minimum skills and competencies required to enhance the effectiveness of IT in the province.

Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. Although the financial health indicators have improved on average, we are concerned about the underspending of capital budgets at 62% of the departments as well as the high levels of irrecoverable debt at 78% of the public entities. Deficits were also incurred at 56% of the public entities and 31% of the departments, after making adjustments for accruals (in other words, amounts not yet paid to suppliers).

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

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. Internal controls remain essential to improving the outcomes of auditees and are the cornerstone of achieving clean administration. There is a definite correlation between those auditees with improved key internal controls and those with improved audit outcomes. The improvement in the oversight of the leadership was instrumental in improving the control environment and audit outcomes. Concise turnaround plans is required at those auditees that had less than ideal control environments. These plans should focus on the following root causes:

- Key officials that lack minimum competencies and skills (85% of the auditees).
- The lack of consequences for poor performance and transgressions (69% of the auditees).
- The administrative leadership not being effective in executing their roles and responsibilities in respect of risk management and monitoring (42% of the auditees).

These root causes had a direct impact on the credibility of the information produced, which in turn resulted in the quality of the financial and performance reports being very poor and many non-compliance findings being identified. In order for the internal controls to improve, the provincial leadership should ensure that key officials are equipped with appropriate skills and competencies, and that consequences are enforced for poor performance and transgressions. Particular attention should be paid to the daily, weekly and monthly financial disciplines and related controls as well as the supervision and monitoring thereof. In addition, the best practices implemented at auditees that received clean audits should be shared and all role players should work together towards sustainable clean administration. These best practices include the executive authority displaying the correct tone towards the audit process and responding quickly to our messages; the stability of the leadership and the appointment of qualified and competent officials; and the leadership implementing and monitoring the daily, weekly and monthly accounting disciplines.

All role players should increase the level of assurance they provide

At the heart of the concept of a clean audit sits the requirement that all assurance providers should add value to the credibility of the information that is presented. This provision of assurance starts with daily, weekly and monthly management disciplines that must be performed with vigour and a level of excellence to ensure that the financial and performance information of an auditee is credible.

These disciplines are not well entrenched at most departments and entities in the province, which means that the accountability process is failing at the first level of assurance – the level that needs to be provided by senior management.

If this first level of assurance is not in place, the role players on the second and third levels of assurance are basing their interventions, interactions and decisions on information that is not necessarily credible. As a result, these role players can add very little to the overall level of assurance in the province, regardless of their intent or commitment.

It is thus essential that all role players, starting with senior management, take ownership of the implementation and monitoring of key controls to ensure that all

information produced for oversight and decision-making is accurate and reliable, thereby enhancing credibility and accountability.

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

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Audit outcomes over past five years (all auditees)

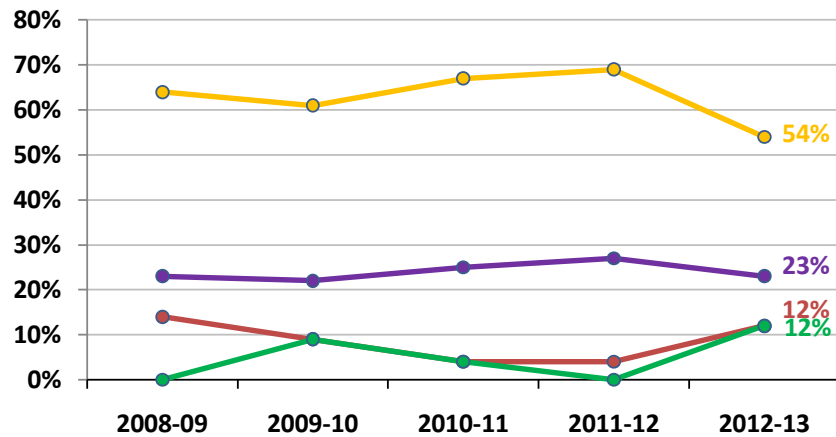


Figure 2: Audit outcomes for past two years (all auditees)

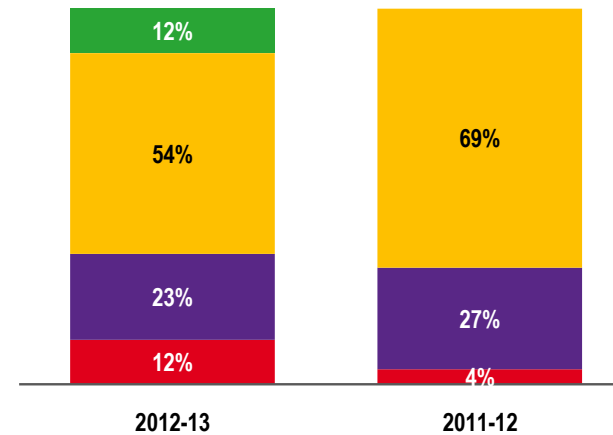


Figure 3: Audit outcomes for past two years (departments)

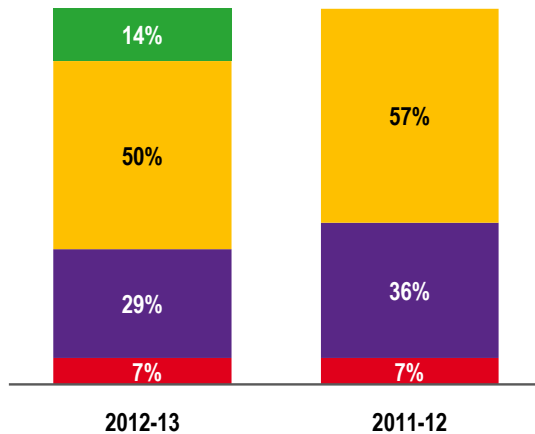


Figure 4: Audit outcomes for past two years (public entities)

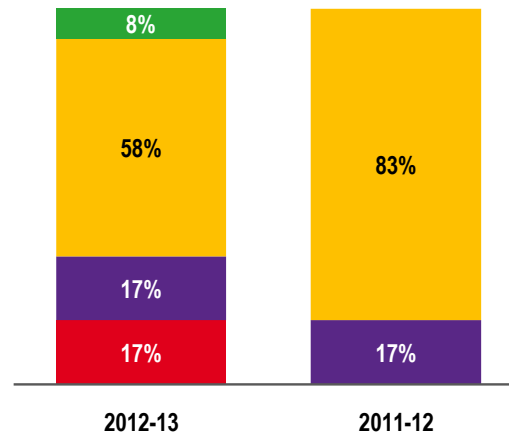
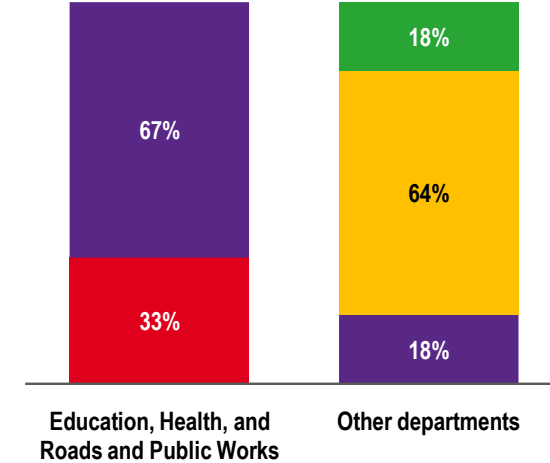


Figure 5: Education, Health, and Roads and Public Works vs other departments



Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse/Disclaimed with findings

Outstanding audits

Figure 6: Movement of the 26 auditees reported on

		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/Disclaimed with findings
6	Improved	<ul style="list-style-type: none"> Office of the Premier Provincial Treasury Eastern Cape Socio Economic Council 	<ul style="list-style-type: none"> Human Settlements Eastern Cape Provincial Legislature Political Party Fund 	<ul style="list-style-type: none"> Education 	
15	Unchanged		<ul style="list-style-type: none"> Economic Development, Environmental Affairs and Tourism Local Government and Traditional Affairs Provincial Legislature Safety and Liaison Social Development and Special Programmes Transport Eastern Cape Development Corporation Eastern Cape Gambling and Betting Board Eastern Cape Liquor Board Eastern Cape Parks and Tourism Agency Eastern Cape Provincial Arts and Culture Council Eastern Cape Rural Development Agency 	<ul style="list-style-type: none"> Rural Development and Agrarian Reform Health Sport, Recreation, Arts and Culture 	
5	Regressed			<ul style="list-style-type: none"> East London Development Zone Government Fleet Management Services 	<ul style="list-style-type: none"> Roads and Public Works Mayibuye Transport Corporation Eastern Cape Appropriate Technology Unit

2.1 Overall audit outcomes

Provincial government consists of 14 departments and 12 public entities. The public entities include eight provincial public entities, three government business enterprises and one trading entity.

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

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

Audit outcomes

Figure 1 shows the five-year audit outcomes of provincial government. A slow response to our messages; the leadership failing to address audit findings at a root cause level; and a lack of daily, weekly and monthly financial disciplines drove the statistical regression of the provincial outcomes. The fluctuations in the five-year outcomes clearly depict the trend over the past five years of improved outcomes not being sustainable and improvements being nullified by regressions.

Figures 2 through 4 indicate that there have been both improvements and regressions in the audit outcomes since the previous year, culminating in a general lack of momentum in the drive to clean administration at a provincial level. On a positive note are the increase of clean audits and, more specifically, that two of the three flagship departments that should lead by example now fall in this category. In addition, improvement is also noted in the departments that use the biggest part of the provincial budget, namely the Department of Education, which improved from a disclaimed audit opinion to a qualified opinion, as well as the Department of Health, which managed to lower the number of qualification areas in its audit report from the previous year.

However, the increase in disclaimed audit opinions poses serious questions as to the effectiveness of the measures and plans currently being implemented by the executive and the leadership at these auditees. The role players often do not look at long-term solutions, but rather at quick fixes during the audit process. As a result, the internal control environment does not continuously detect and correct anomalies and errors, resulting in an inability to maintain an internal control environment that consistently produces credible financial and

performance information that can support effective service delivery and compliance with legislation.

We are also concerned about the lack of movement of auditees from financially unqualified outcomes with findings to clean audits. The many auditees with findings on PDOs and non-compliance with legislation indicate a sense of complacency and a lack of commitment to achieve clean administration.

Departments of Education, Health as well as Roads and Public Works

In 2012-13, the expenditure of the Departments of Education, Health as well as Roads and Public Works contributed 80% of the total spending by provincial departments. Figure 5 shows that these critical departments still lag behind the rest of the departments with no unqualified outcomes and the only disclaimer at departmental level.

We do acknowledge the noticeable improvements, as detailed below, at the Departments of Health and Education. However, the sustainability of these outcomes is still questionable and further dedicated intervention is required to put these two key departments, both in provincial budget representation and in service delivery, on a sound and sustainable administrative footing. Fundamental changes in the daily financial disciplines need to be made with a sense of urgency.

Department of Education

The department improved from a long-standing disclaimer, based on the inability to produce the necessary supporting documents for the financial statements, to a qualified opinion. This was the result of the following:

- Focused support from the Office of the Premier and the Provincial Treasury.
- Strengthening the leadership by appointing permanent key management officials with the appropriate skills and competencies.
- Regular and robust interaction between ourselves and the executive.
- Implementation of action plans to address the previous year's qualifications on compensation of employees, expenditure, and accruals.
- Centralisation of HR information and expenditure vouchers as well as the improved ability of the department to retrieve these documents.
- Implementation of initiatives facilitated by the section 100 intervention of the national Department of Basic Education, started in the previous financial period.

Department of Health

Implementing specific long-term action plans, the political leadership responding to our message and certain recommendations, as well as the filling of critical vacancies at top management and institutional level with qualified and competent staff, produced positive results at this department. Although the audit opinion of the department did not improve, it showed a marked improvement in the number of qualifications received. The most critical of these that have been addressed are the previous year's qualifications on assets and accruals.

However, it remains concerning that although the political leadership was responsive towards our messages, some stagnation and even regression in the key internal controls were caused by the reluctance and unwillingness of the administrative management to commit to specific improvements as recommended in the audit messages.

Department of Roads and Public Works

We remain concerned about this department, and the regression from a qualified opinion to a disclaimer has been inevitable. Our message to the department for the last number of years has been that root causes are not addressed, temporary fixes are put in place, and no commitment to clean administration is evident. Previous reports clearly indicated that even the qualified outcome was not sustainable.

Historically, the department avoided disclaimers of opinion due to last-minute audit adjustments and interactions. The fact that root causes were not addressed led to a point where audit adjustments alone could no longer prevent the regression from a qualified opinion to a disclaimer. This department is now the only one in the province with a disclaimer of opinion. Critical elements that led to the current status include the following:

- An absence of effective oversight at leadership level to prevent the continued deterioration of the control environment.
- Key positions were not filled, or the officials appointed in these positions did not have the required skills to adequately carry out their functions effectively.
- The daily, weekly and monthly financial routines that we had previously recommended were not carried out.
- The leadership did not implement an efficient, effective and transparent financial and performance management system and did not take accountability for the sound and sustainable management of the affairs of the department.

Movement in audit outcomes

Figure 6 analyses the movement in the audit outcomes of the different auditees since the previous year.

Historically, the public entities formed the pillar of the more favourable audit outcomes, while the departments represented most of the qualified and disclaimed outcomes. In the 2012-13 cycle, however, the situation changed significantly, with the outcomes of four departments and one entity improving and the outcomes of one department and four entities regressing. The number of unqualified departments improved from 60% to 67%, while the unqualified entities regressed from 92% to 64%. This trend was expected, as support by the Office of the Premier and the Provincial Treasury focused more on departments, with entities being flagged for support in the 2013-14 financial period. To a lesser degree, the regression at entities can also be attributed to the relatively high turnover of staff in key positions, such as chief financial officers and heads of SCM units.

Improvements

The outcomes reflect six improvements by four departments, including the Department of Education as discussed above, and two provincial public entities.

At the forefront of the improved outcomes are the Office of the Premier, the Provincial Treasury and the Eastern Cape Socio Economic Consultative Council. These auditees improved from unqualified opinions with findings to clean audit outcomes by addressing prior year findings on non-compliance, performance reporting and HR management.

These improvements were the result of action plans that were adequately implemented and monitored by management, taking into account daily accounting disciplines, as well as effective oversight by the executive. The Office of the Premier and the Provincial Treasury can now lead by example in the drive to an accountable and administratively sound provincial administration. This achievement increases their credibility in their provincial coordinating and oversight function.

The challenge for the Provincial Legislature remained findings on non-compliance and PDOs. If these are addressed, they can recapture their previous clean audit status and put the province in the ideal position of all three flagship structures having clean outcomes.

The improvement in the audit outcome of the Department of Human Settlements came about as a result of the department addressing the qualification on commitments approved but not yet contracted. However, the outcome is not sustainable, as controls over the daily and monthly processing and reconciliation

of property, plant and equipment, commitments and employee benefits have not been implemented.

The Eastern Cape Provincial Legislature Political Party Fund improved from a qualified outcome to an unqualified outcome as a result of preparing financial statements in accordance with Generally Recognised Accounting Practice, as prescribed by the National Treasury, and not on a modified cash basis of accounting as in the previous year.

Regressions

The regression of five auditees, consisting of one department and four provincial public entities, halted the momentum gained through the improvements in the province's drive towards full-scale clean administration. Unfortunately, these auditees have not paid attention to our long-standing and continued messages that outcomes are not sustainable, as weaknesses are not addressed at a root cause and a basic financial discipline level.

In addition to the significant regression of the Department of Roads and Public Works, already highlighted above, the East London Industrial Development Zone and the Eastern Cape Government Fleet Management Services regressed from unqualified to qualified opinions, while the Mayibuye Transport Corporation regressed from a qualified opinion to a disclaimer of opinion. The biggest regression was that of the Eastern Cape Appropriate Technology Unit, which regressed from an unqualified opinion to a disclaimer.

These regressions were the result of an absence of effective oversight by the leadership and a general deterioration in the internal controls, including the following specific matters:

- Key officials lacked appropriate competencies.
- There was a lack of consequences for poor performance and transgressions.
- The leadership was slow to respond to our messages.

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

Figure 7: Status of quality of annual performance reports

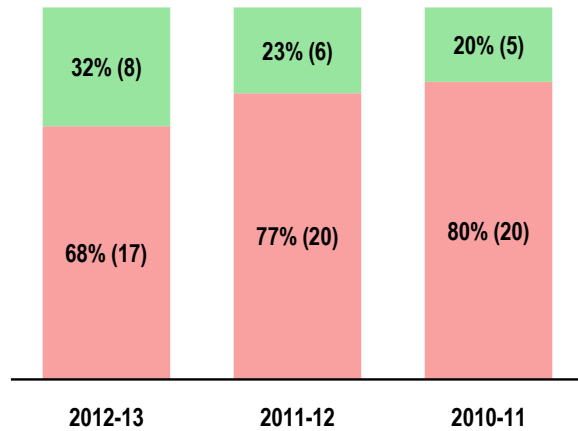


Figure 8: Findings on quality of annual performance reports

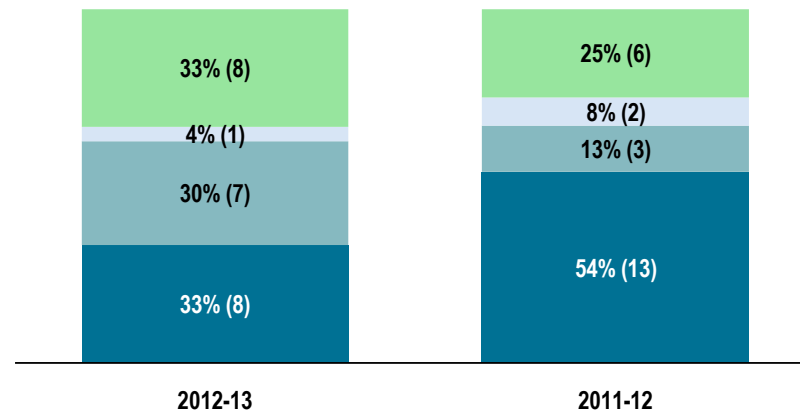


Figure 9:
Other performance-related outcomes

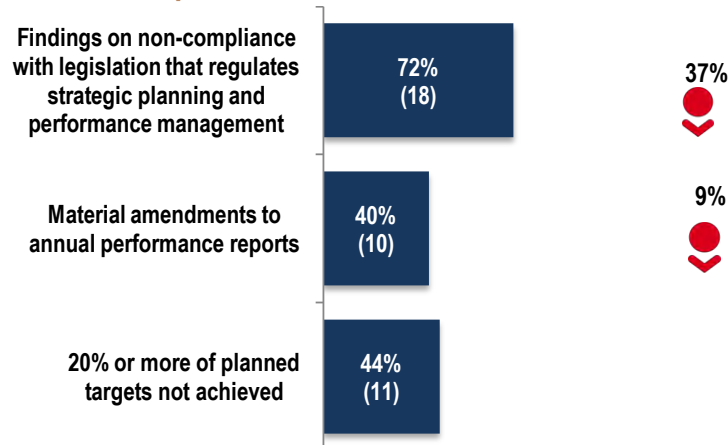
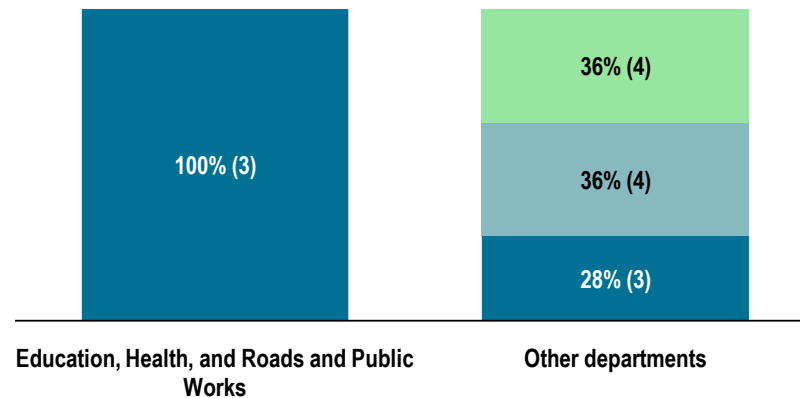


Figure 10: Findings on annual performance reports – Education, Health, and Roads and Public Works vs other departments



2.2 Quality of annual performance reports

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

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

Status of auditees with findings on annual performance reports

Figure 7 shows the number of auditees in the province with material findings in this regard over the past three years, including those auditees that did not prepare an annual performance report or submitted the report too late for auditing. One auditee in the current year and two auditees in the previous year did not prepare annual performance reports.

The Eastern Cape Government Fleet Management Services was the only auditee that did not prepare an annual performance report for the year under review. This was due to it being a new auditee that did not have the necessary systems.

Although the trend of improvement in the quality of annual performance reports is encouraging, progress has been very slow. The best practices at the four departments and four public entities that had mastered the PDO reporting requirements should be shared with those auditees that still have findings in this area.

Findings on the quality of the annual performance reports

Figure 8 shows the nature of the material findings in the current and previous year and the progress made by auditees in addressing the findings. This figure excludes the auditees that did not prepare annual performance reports.

The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. The significant improvement in the usefulness of information is encouraging and can mostly be

attributed to auditees responding to our previous messages and preparing detailed technical indicator descriptions for each indicator. The interim audits conducted on the 2013-14 planning documents should also contribute to continued improvements on usefulness during the next audit cycle. This proactive initiative, which was only conducted as a pilot project at a handful of auditees, was well received by the provincial leadership and was regarded as a value-added service.

The nine auditees that had findings on usefulness during the year under review can address these findings by applying themselves diligently during their strategic planning processes and by making use of their portfolio committees, audit committees and internal audit units to provide assurance that their indicators and targets are useful.

The most common findings on usefulness were the following:

- Corroborating evidence for the reasons for differences between planned and actual performance could not be provided.
- Indicators and targets were not well defined in all instances.
- Performance targets were not always measurable.

Findings on reliability relate to whether the reported information could be traced back to the source data or documents and whether the reported information was accurate, complete and valid when compared to the source.

It is concerning that the Departments of Education, Health as well as Roads and Public Works whose budgets together constitute 80% of the amount allocated to the province, and who also carry the weight of the service delivery expectations of the province, had findings on both the usefulness and the reliability of their annual performance reports, as shown in figure10.

Although we had numerous interactions relating to PDO reporting with the provincial leadership, the number of auditees that had findings on the reliability of reported information remained largely unchanged. This was due to auditees not sufficiently considering the evidence required to prove performance and not being able to provide evidence to support the performance information reported on.

The most common finding on reliability related to the accuracy, validity and completeness of actual reported performance.

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

Other performance-related outcomes

Figure 9 shows the number of auditees in the current and previous year that:

- had material findings in their audit reports on non-compliance with the legislation that regulates strategic planning, performance management and reporting
- made amendments to the annual performance report submitted for auditing to correct material misstatements identified in the audit process
- did not achieve 20% or more of the planned targets reported in their annual performance reports.

The non-compliance findings included in figure 9 relate mostly to the lack of appropriate systems and processes to support PDO reporting. The regression can be attributed to inadequate planning, a lack of credible in-year reporting on planned and actual performance, and a lack of appropriate skills and competencies.

The PDO reporting findings of three auditees were addressed by these auditees processing material amendments to their annual performance reports during the audit. Another seven auditees processed material amendments that reduced the number of findings reported, but did not eliminate them. The material amendments were the result of a lack of supervision of the daily, weekly, monthly and annual activities and processes that produced the annual performance reports.

Only 11 auditees did not achieve 20% or more of their targets, due to inadequate in-year reporting and a lack of corrective action during the year.

Conclusion on reporting on predetermined objectives

The number of findings on PDOs is concerning, given that the 2014 clean audit target is next year and clean audits cannot be achieved without addressing the PDO findings reported above. To make significant strides in addressing the outcomes in this area, the provincial leadership, with assistance from the Office of the Premier and the Provincial Treasury, should address each of the elements discussed below.

Formal planning for service delivery and reporting

The strategic or corporate plans and the operational plans should form the basis of service delivery to be performed and reported on. The provincial leadership, the Office of the Premier, the Provincial Treasury and the Provincial Legislature

should ensure that processes for the development of planning documents include enough time for robust review by the leadership and the governance structures (namely the audit committee and the internal audit unit).

The leadership and the Provincial Legislature should rigorously review the planning documents to ensure that service delivery is aligned to government priorities, and can be measured and reported on.

Planning documents may be changed during the year should the need arise or priorities change, but any changes should be approved by the relevant executive authority and supported by the relevant portfolio committee. Changes should also be properly disclosed in the annual performance report.

Implementation of appropriate systems and processes

The provincial leadership should align the reporting systems to the service delivery requirements contained in the planning documents, as follows:

- Align the organisational structures to the requirements of PDO reporting and ensure that all staff involved in the PDO process have the necessary skills.
- Develop and implement appropriate PDO reporting policies and procedures.
- Clearly define roles and responsibilities for PDO reporting.
- Regularly reconcile reported performance to supporting documents.
- Regularly report on performance and review performance reports.
- The leadership, governance structures and portfolio committees should interrogate PDO information to ensure its credibility.

Competence of staff responsible for reporting on predetermined objectives

One of the overall root causes of poor audit outcomes is that key officials did not have the minimum competencies and skills at 85% of the auditees. This had a significant impact on the area of reporting on PDOs.

Over and above the need to clarify roles and responsibilities, as mentioned in the previous section, the leadership at departments and entities needs to appoint staff in key positions that have the appropriate skills in performance reporting. Dedicated training, handled by the Provincial Treasury, supplemented by the sharing of best practices by those auditees that have mastered this type of reporting, should be institutionalised to keep these skills relevant.

Performance management

The indicators and targets contained in the planning documents should form the basis for the signed performance agreements of senior management. These agreements should contain requirements relating to valid, accurate and complete reporting on performance. Appropriate consequences for poor performance should be implemented to hold all officials accountable for the work that they do every day.

Monitoring by audit committees and internal audit units

The audit committees and internal audit units did not pay sufficient attention to PDO reporting during the year under review.

The audit committees and internal audit units should ensure that all relevant risks are included in the risk management strategies, and should provide assurance to the leadership that the strategies implemented to lessen PDO reporting risks are adequate. This implies that internal audit units should scrutinise, and that audit committees should consider, in-year PDO reports.

In-year oversight

The provincial leadership, the Office of the Premier, the Provincial Treasury and portfolio committees should insist on regular and credible in-year reports. These reports should be monitored during the year, while oversight actions should be taken and recommendations made where actual delivery is falling behind schedule.

In addition, the portfolio committees should interrogate the strategic planning documents and processes used by auditees in developing their indicators and targets, to ensure that they meet the usefulness criterion before the annual budgets are approved.

Figure 11:
Status of compliance
with legislation

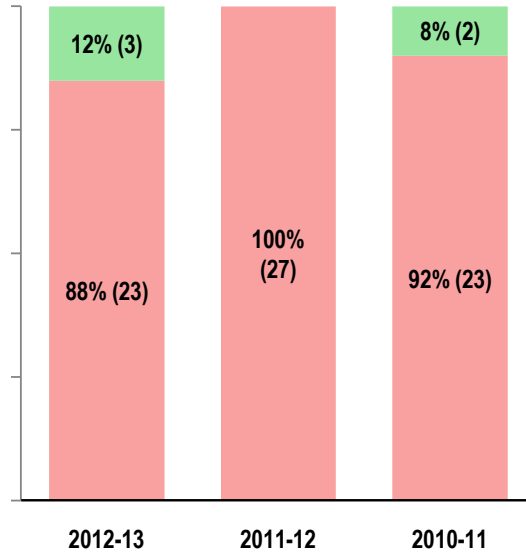


Figure 13:
Unauthorised expenditure

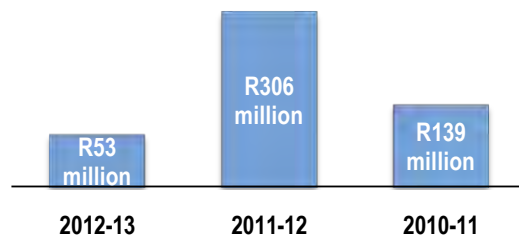


Figure 12:
Findings on non-compliance with legislation

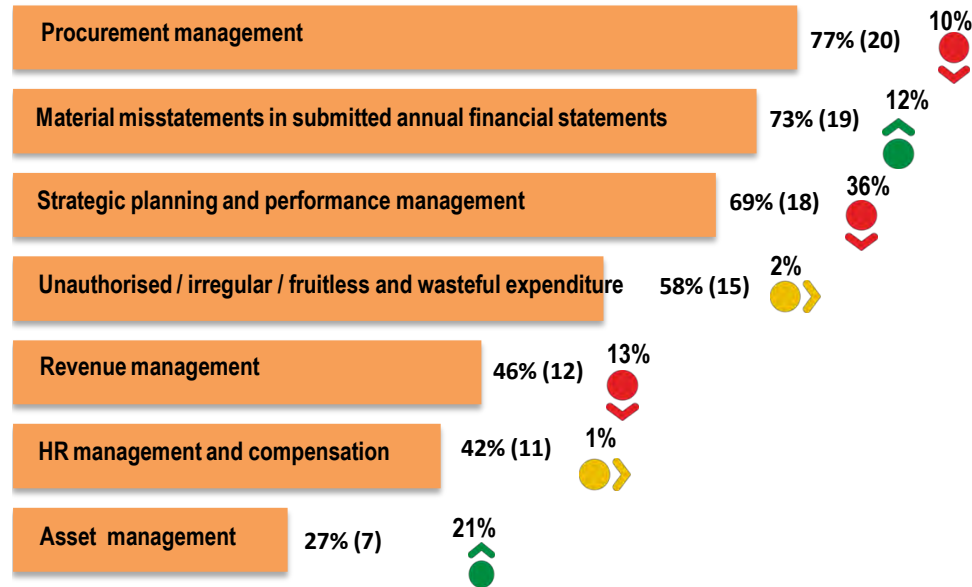


Figure 14:
Irregular expenditure

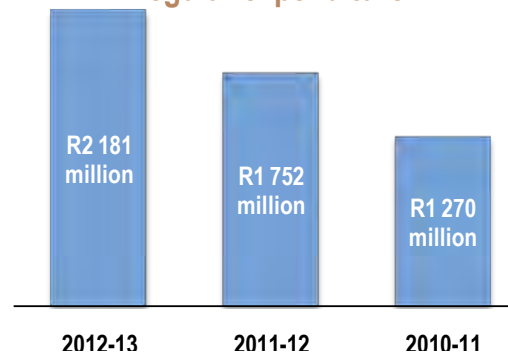
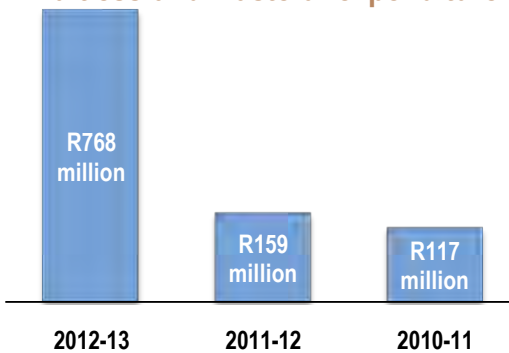


Figure 15:
Fruitless and wasteful expenditure



With no findings With findings Improved Stagnant or little progress Regressed

2.3 Compliance with legislation

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

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

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

Status of auditees with findings on non-compliance with legislation

Figure 11 shows the number of auditees in the province with material findings in this regard over the past three years. Compliance with legislation has improved slightly with the three auditees with clean audits (Office of the Premier, Provincial Treasury and Eastern Cape Socio Economic Consultative Council) leading the way with no material non-compliance findings.

Although it is very encouraging that two of the coordinating departments (Office of the Premier and Provincial Treasury) had no non-compliance findings, we are very concerned about the status and the slow response of the leadership relating to non-compliance with legislation, especially SCM transgressions. More than 80% of the non-compliance findings in the province can be eliminated if the weaknesses in controls relating to financial and compliance reporting are addressed. These controls include the supervision and monitoring of the daily, weekly and monthly activities required to produce credible financial, PDO and compliance reports. The 88% of departments and entities with findings should pay attention to these activities and processes in the next year to achieve a clean audit status.

Findings on non-compliance with legislation

Figure 12 shows the compliance areas with the most material findings in the current year and the progress made by auditees in addressing the findings.

Although there was a reduction in the findings relating to material misstatements in the submitted annual financial statements and asset management, these findings remained high and require attention from the leadership to improve significantly. We are concerned about the stagnated and regressed outcomes in the remaining areas, particularly procurement management. A concerted effort by the leadership is required to build a professionalised, ethical culture in the province, which will enable more sustained compliance with legislation.

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

- There were material misstatements or limitations in the financial statements submitted for auditing (refer to section 3.1 for more detail in this regard).
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with.
- Legislative prescripts relating to SCM were not always followed (refer to section 3.2 for further detail on SCM findings).
- Effective, efficient and transparent systems of internal control regarding performance planning, monitoring, reporting and management were not implemented.
- Effective and appropriate steps were not taken to ensure that all revenue due was collected timeously.
- Proper verification processes for new appointments did not always take place.
- Accounting officers did not ensure that all leave taken was recorded accurately and in full.
- Proper control systems for the safeguarding and maintenance of assets were not implemented.

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

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Figure 13 reflects the three-year trend in unauthorised expenditure. During the year under review, only the Department of Health incurred unauthorised expenditure. This is an improvement both in the amount and the

number of departments that incurred unauthorised expenditure. This can be attributed to improved in-year budget management.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of an auditee's ability to comply with legislation relating to expenditure and procurement management. Figure 14 reflects the three-year trend in irregular expenditure.

We are concerned about the upward trend in irregular expenditure over the past number of years. In total, 81% or R1 770 million of the irregular expenditure reported during the year under review was due to non-compliance with SCM legislation (refer to section 3.3 for more information in this regard). The remaining irregular expenditure related to transfer payments (R382 million) and compensation of employees (R29 million).

The Department of Human Settlements made transfer payments that were considered to be irregular because the payments related to a Division of Revenue Act grant made to an implementing agent that had not been approved by the National Treasury.

The irregular expenditure relating to compensation of employees was caused by excessive overtime payments and payments for overtime worked without prior approval.

This upward trend in irregular expenditure can be attributed to the provincial leadership not responding appropriately to our messages relating to improved monitoring and supervision of transactions and the enforcement of consequences for those that deliberately or negligently breach the relevant prescripts.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Figure 15 reflects the three-year trend in fruitless and wasteful expenditure.

The substantial increase in fruitless and wasteful expenditure from previous years related mainly to transfers to section 21 schools (R614 million), where the number of learners for which subsidies were paid differed from the actual number of learners at these schools, and medical malpractice claims of R108 million against the Department of Health.

This expenditure can be attributed to a lack of supervision of day-to-day activities and a lack of consequences for poor performance and transgressions.

Conclusion on non-compliance with legislation

We are concerned about the culture of non-compliance with legislation in the province. This can only be effectively addressed if officials that deliberately or negligently ignore their duties and disobey legislation are decisively dealt with, and each of the following elements is addressed:

Tone of the leadership

The provincial leadership should drive and represent the ethical culture required to ensure sustained compliance with legislation. Decisive action and severe consequences for those who intentionally transgress the requirements of the applicable prescripts (especially the SCM requirements) are needed to reverse the trend of non-compliance.

Systems and processes

Systems and processes should be implemented to ensure that breaches of the legislative prescripts are identified and appropriate actions are taken to correct them. This includes developing and implementing appropriate compliance reporting policies and procedures, clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documents, and reporting regularly on compliance.

Effective governance measures

The audit committees and internal audit units did not always respond effectively to the non-compliance risks identified, resulting in many instances of non-compliance (especially regarding SCM) being identified for the first time during the audit process.

Audit committees and internal audit units should be used to proactively assist the province to build the ethical culture required to ensure sustained compliance with legislation. In addition, these structures should be used to provide assurance to the provincial leadership that in-year financial, PDO and compliance reports are credible.

In-year oversight

The Standing Committee on Public Accounts (SCOPA), the provincial leadership, portfolio committees, the Office of the Premier and the Provincial Treasury, with the assistance of audit committees, should insist on credible in-year reports to monitor compliance, make recommendations and take appropriate actions. It is very important that the oversight structures review these reports during the year to improve their effectiveness.

In addition, the Provincial Treasury should assist the auditees to comply with their legislated obligations by providing appropriate training and systems.

SECTION 3: RISK AREAS

Figure 16: Status of submitted financial statements

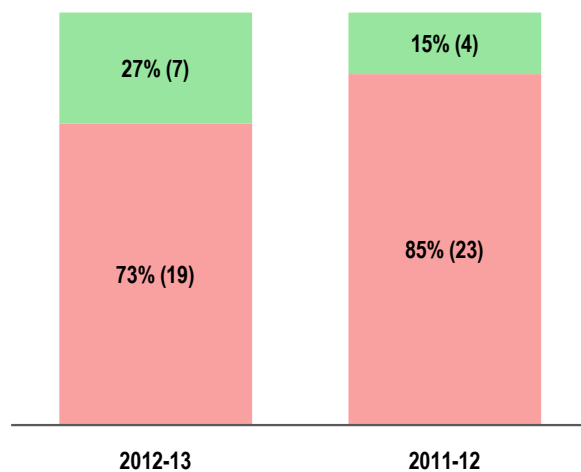


Figure 17: Quality of submitted financial statements

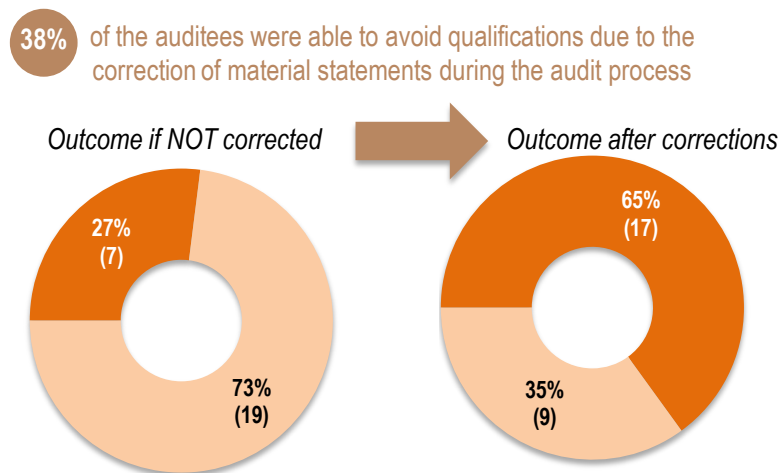
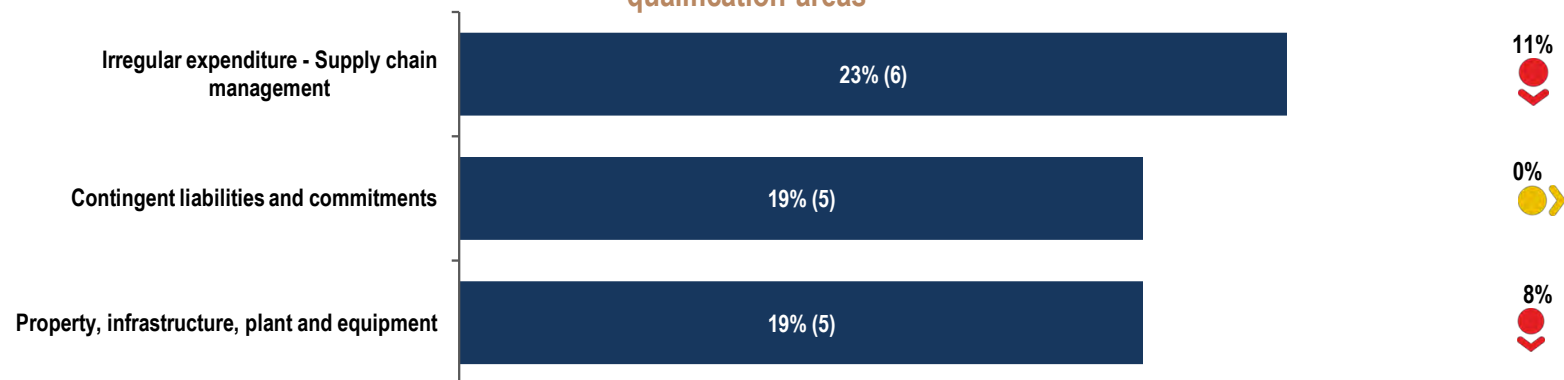


Figure 18: Top three financial statement qualification areas



With no material misstatements

With material misstatements

Financially unqualified

Financially qualified

Improved

Stagnant or little progress

Regressed

3. Risk areas

We identified six key risk areas that need to be addressed to improve audit outcomes as well as financial and performance management. Five risk areas are discussed in this section, while the quality of performance information is included in section 2.2.

3.1 Quality of submitted financial statements

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

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

The quality of the financial statements submitted for auditing

All auditees submitted financial statements for auditing by the legislated deadline of 31 May 2013. As can be seen in figure 16, however, only seven auditees (27%) submitted financial statements with no material misstatements. This was a net improvement of three auditees from the previous year, with public entities improving by four and departments regressing by one.

Figure 17 shows that 10 auditees (38%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on the achievement of legislated deadlines and potentially increases audit fees.

Uncorrected material misstatements

Even though we reported material misstatements to management for correction, nine auditees (35%) could not make the corrections to the financial statements, which resulted in qualified and disclaimed audit opinions. This was due to a lack of systems to identify and record all required transactions, the unavailability of supporting documents, and a lack of adequate financial skills and understanding of the reporting requirements.

Figure 18 indicates the three most common financial statement qualification areas together with the auditees' progress in addressing these since the previous year. The reasons for the qualifications are as follows:

Irregular expenditure – related to supply chain management

We identified weaknesses in the completeness of the disclosure of irregular expenditure, resulting from non-compliance with SCM legislation, due to the following:

- There were inadequate systems, processes and controls to identify, detect and account for all irregular expenditure incurred during the year.

Contingent liabilities and commitments

We identified weaknesses in the existence, valuation, completeness and obligations of the disclosed commitments and contingent liabilities, due to the following:

- No adequate contract management systems were in place to account for the remaining contractual commitments related to multi-year projects, or to identify contingent liabilities relating to claims against the auditee.
- There were no adequate supporting documents for commitments.
- There was a lack of understanding of what a contingent liability is in terms of the reporting framework.

Property, infrastructure, plant and equipment

We identified weaknesses in the existence, valuation, rights and completeness of the disclosed assets, due to the following:

- There was a lack of documents to support amounts reflected in the financial statements and inadequate systems to ensure that all acquired assets were appropriately disclosed.
- Unreconciled variances existed between the financial statements and the fixed asset register.
- Assets recorded in the asset register could not be physically located during the audits.
- There was inadequate understanding and implementation of the reporting framework requirements.

Figure 19: Status of supply chain management

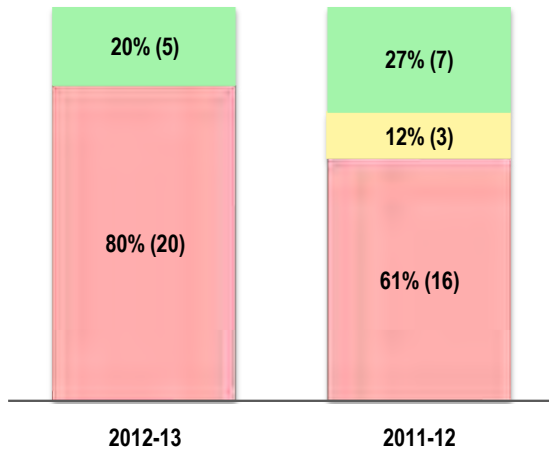


Figure 20: Findings on supply chain management

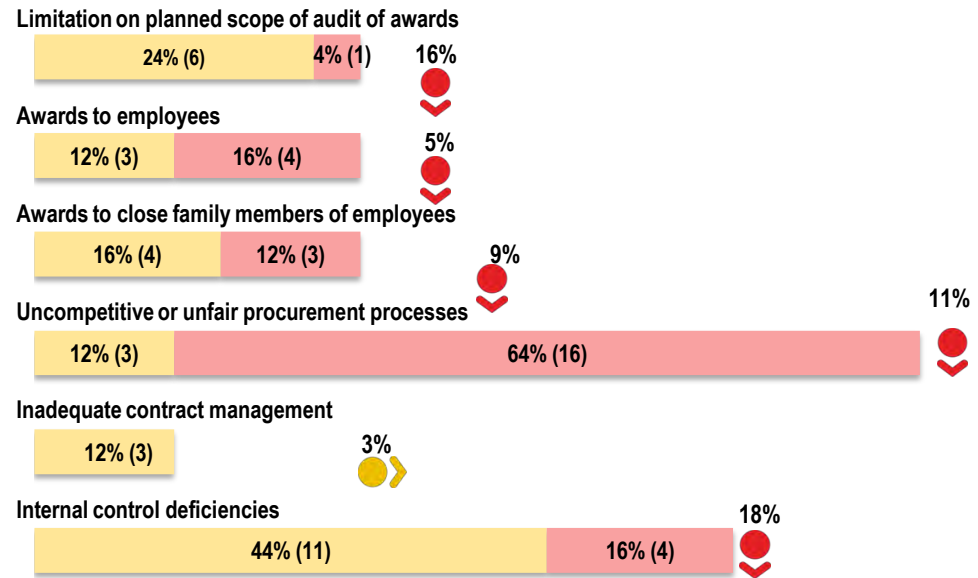
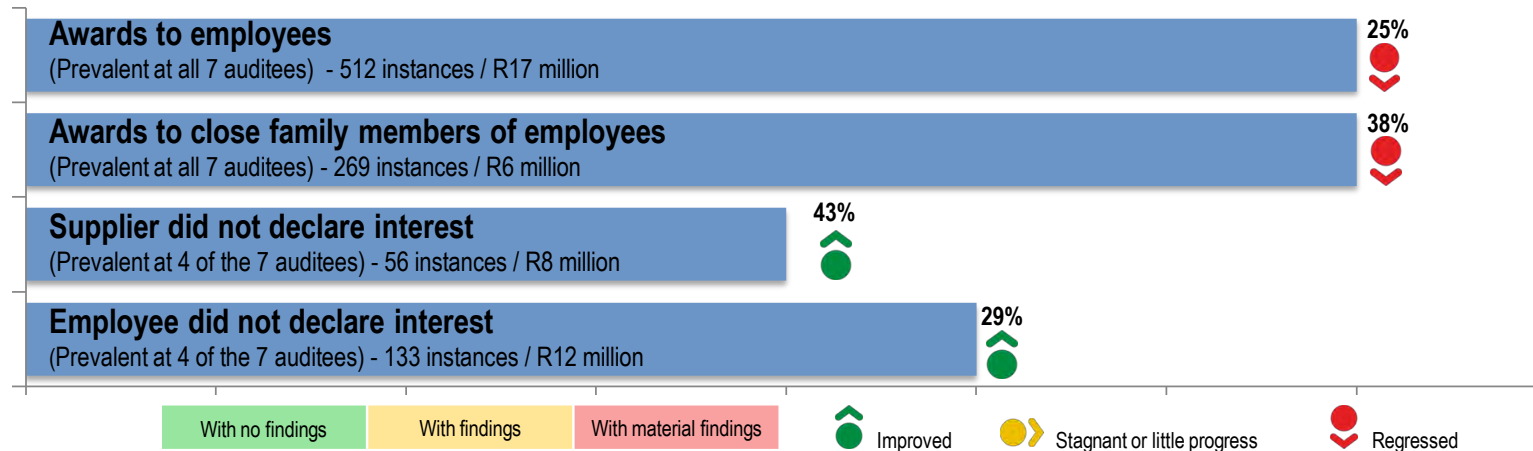


Figure 21: Awards to employees and close family members



3.2 Supply chain management

During the 2012-13 audit process, we tested 467 contracts (with a value of R3 098 million) and 1 018 quotations (with a value of R96 million) (together referred to as *awards* in this report), to determine whether the prescribed procurement processes had been followed. This was done to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

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

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

Figure 19 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. The inappropriate SCM practices that gave rise to the material non-compliance findings reported in our general reports since 2009-10 have not been addressed by the provincial leadership and are in fact spreading to more auditees. The increase in material SCM non-compliance findings resulted in an increased amount of irregular expenditure, as reported in section 2.3.

Figure 20 indicates the extent of findings in the areas we report on and the movement since the previous year. These findings are discussed in the rest of this section.

Limitation on planned scope of audit of awards

In total, we could not audit awards with a value of R82 million (2012: R851 million) at seven auditees (2012: three), since these auditees could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for the limitations was poor record keeping that prevented the auditees from retrieving the required documents for audit purposes. Although the number of auditees that could not provide the

required documents for auditing has increased, it is encouraging that the value of awards that could not be audited has decreased by 90% since the previous reporting period.

Awards to employees and close family members

Figure 21 shows the extent of awards to employees and family members as well as whether the required declarations were made. Although legislation does not prohibit these awards, it does require processes to be in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or the acceptance of unfavourable price quotations. The value of awards to employees decreased by R8,8 million during the year under review, but the number of such awards increased by 301 from the previous year. This indicates that more awards with a smaller value were made to employees, with the possible intention of avoiding detection.

The value of awards to close family members of employees increased by R1,8 million, while the number of such awards also increased.

For more than 25% of these awards, either the supplier or the person with the interest failed to disclose such interest.

These findings were due to an intentional or negligent disregard for SCM requirements and a lack of consequences for those who transgress SCM prescripts.

Uncompetitive or unfair procurement processes

Our messages relating to basic SCM disciplines and consequences for transgressions of the last four years have been largely ignored. This has resulted in SCM malpractices that led to unfair or uncompetitive practices spreading to 11% more auditees than in the last year.

In addition, the increased uncompetitive and unfair procurement findings can be attributed to vacancies at the level of the head of SCM units (refer to section 3.3 for more detail in this regard).

The following were the most common findings:

- Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee as required. In addition, where deviations were approved, they were not justifiable or reasonable in the circumstances.
- Competitive bidding processes for the procurement of goods and service above R500 000 were not always followed and the related deviations were not always approved by a properly delegated official.

- Awards were made to suppliers who did not submit declarations of interests.
- The preferential procurement point system was either not applied or incorrectly applied for the purchase of goods and services above R30 000, contrary to the Preferential Procurement Policy Framework Act.
- Awards were made to suppliers who did not provide proof that their tax matters had been declared to be in order by the South African Revenue Service.

Inadequate contract management

The number of auditees with contract management findings remained unchanged from the previous year. These auditees included the Department of Education and the Department of Roads and Public Work that are responsible for many infrastructure projects in the province. Weaknesses in contract management result in delays, wastage as well as fruitless and wasteful expenditure, and have a direct impact on service delivery.

The following were the most common findings:

- Contracts did not always contain adequate performance measures. In addition, where the performance measures were considered adequate, they were not monitored.
- Construction contracts were not registered with the Construction Industry Development Board within 21 days of the award. As a result, the progress made by the appointed contractors could not be monitored.

Inadequate supply chain management controls

The increase in the number of auditees where significant SCM control deficiencies were reported can be attributed to an inappropriate leadership tone towards SCM controls and a lack of consequences for those who do not adhere to the approved policies and controls.

The following were the most common findings:

- No, or inadequate, actions were taken to address the SCM risks identified during previous internal and external audits.
- Inadequate processes and controls were in place to ensure that interests in suppliers were declared.

- Allegations of SCM abuse were not investigated within a reasonable time. Furthermore, where investigations did take place, the allegations were not appropriately dealt with after investigation.

Effective management of consultants

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

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

- Transfer of skills
- Performance management and monitoring
- Closing and finalisation of projects

Conclusion on supply chain management

We have been reporting on SCM as a focus area in the provincial general report for four years, focusing on the same basic message around the need for sound SCM practices and disciplines. Despite this, SCM non-compliance and the related irregular expenditure are increasing and have done so for the past four years. This can be attributed to a slow response by the leadership to the messages contained in our previous general reports and a general lack of enforcement by the leadership and management. Auditees should consider using an SCM tool similar to the one that will be rolled out by the Department of Local Government and Traditional Affairs to municipalities in the province, to reverse the upward trend of SCM non-compliance.

Continued non-adherence to the legislation governing SCM does little to restore the public's confidence in the provincial government's ability to take care of its interests, and can have an adverse effect in all areas of service delivery. Only when the leadership has set a proper tone for dealing with such malpractices will people have confidence in the public sector procurement and related financial management systems.

We will continue to conduct workshops on these findings with all role players concerned to provide relevant and useful information and insights to the provincial leadership so that weaknesses can be addressed and public confidence in the province's institutions can be restored.

Figure 22: Human resource management findings
(all auditees)

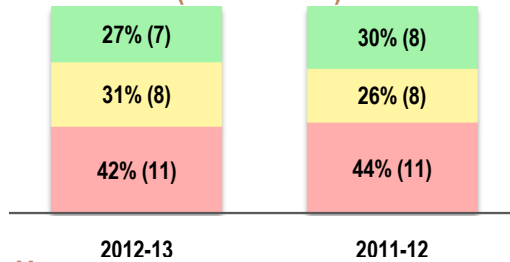


Figure 23: Stability in key positions
(Average number of months filled)

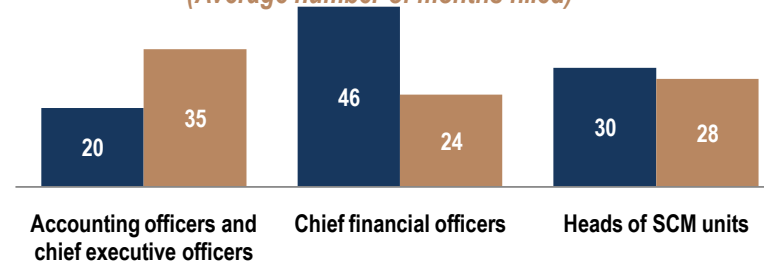


Figure 24: Human resource management findings

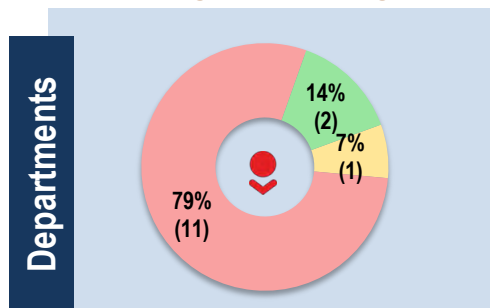


Figure 25: Weakness in focus areas

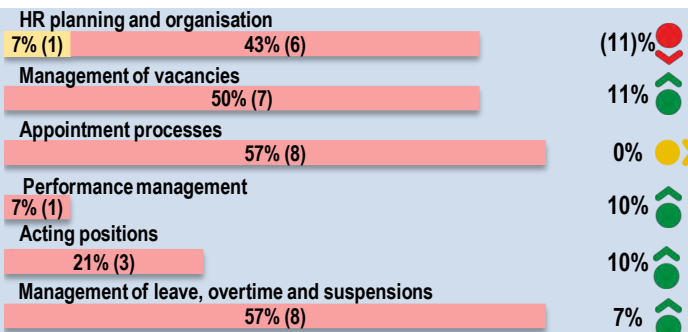
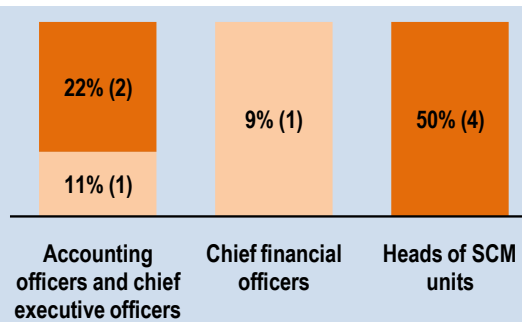
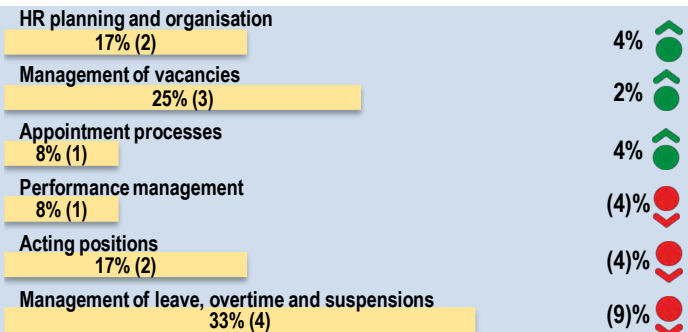
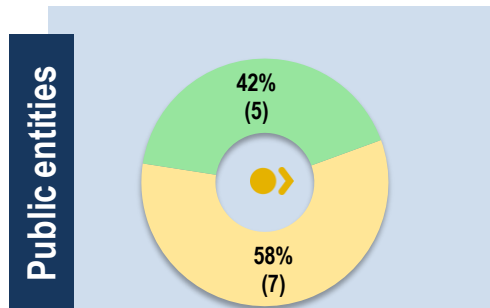
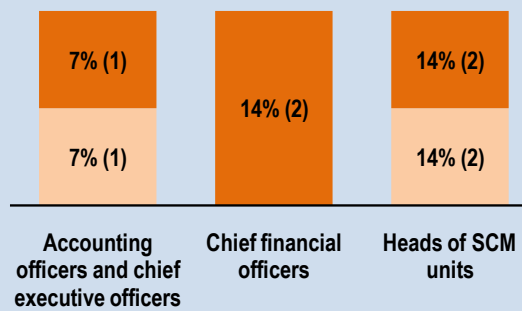


Figure 26: Vacancies in key positions



With no findings With findings With material findings Improved Stagnant or little progress Regressed Vacant less than 6 months Vacant more than 6 months Departments Public entities

3.3. Human resource management

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

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

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

Figures 22 and 24 show the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. The overall level of HR findings stayed the same as in the previous year.

No public entities had findings that were material enough to be reported in their audit reports, as opposed to 79% of the departments that had material HR findings, which is a regression from the previous year. The overall regression at departments and the stagnated outcome at public entities were due to inadequate supervision of the day-to-day HR management processes, an unwillingness to enforce existing HR policies, and the leadership not monitoring compliance with HR requirements. To a lesser degree, the stagnated situation at entities can also be attributed to the relatively high turnover of staff in key positions (figure 23).

Figure 25 indicates the extent of findings in the areas we report on and the movement since the previous year. The number of departments with material findings across the six HR focus areas is concerning, even though there has been some improvement in some of these areas. Although the public entities did not have material HR findings, the findings reported should be addressed and the necessary controls implemented before they become material in future.

The most common findings in each focus area where the findings applied to 50% or more of the auditees are detailed below:

- HR plans were not based on strategic plans, organisational structures were not approved, and organisational structures were not aligned to strategic plans.
- Proper verification processes for new appointments did not always take place, which could result in inappropriate candidates being appointed.

- Senior management positions were vacant for more than 12 months, which created instability and was not conducive to a sustainable control environment.
- Written authorisation was not granted prior to overtime being worked, leave taken was not recorded accurately and in full, and procedures and processes were not in place to monitor sick and incapacity leave.

Management of vacancies and acting positions

The average overall vacancy rate at year-end at departments and public entities in the province was 11% and 13%, respectively. At executive management level, the vacancy rate at departments was 14% and at public entities it was 33%. The average vacancy rate at finance units in departments was 21% and in public entities 30%.

Figure 26 shows the vacancy rate at the level of accounting officer or chief executive officer, chief financial officer and head of the SCM unit at year-end, and indicates the period that the positions were vacant. Prolonged vacancies in key positions as well as overall vacancy rates of more than 15% have a negative impact on service delivery and the control environment of the affected auditees, and require ongoing management.

The position of SCM unit head was vacant at eight auditees (31%) at 31 March 2013. The absence of these key officials had an impact on the controls over SCM and also contributed to the SCM findings reported at these auditees. These officials should be appointed as a matter of urgency as a first step in addressing SCM findings and eliminating related irregular expenditure.

Figure 23 indicates the average number of months key officials have been in their positions. This figure shows that with the exception of the departmental chief financial officers, key officials have been in their posts for less than three years on average. This can be attributed to the current practice of appointing such officials for three years instead of the norm of five years. We therefore recommended that key officials should be appointed for a minimum of five years.

Unfortunately, the chief financial officers who have been in place at departments for an average of more than three years have not had a significant impact on internal controls. As reported in section 4.1, only 23% of the financial and performance management controls are considered to be in place and working as intended. This was due to a lack of attention to the daily, weekly and monthly disciplines required to produce credible financial and performance reports and to ensure compliance with applicable legislation.

Performance management

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

Although only one department and one public entity had findings in this area, it should be noted that the audits only focused on whether performance agreements were in place and whether assessments in terms of these performance agreements took place. It did not address the content of the performance agreements or the alignment thereof to the strategic plan of the auditee.

The leadership should focus on the implementation of consequences for poor performance and transgressions, given the extent of findings relating to the financial statements, PDO reporting and non-compliance included in this report.

Conclusion on human resource management

The provincial leadership should create a culture of professionalism and effective HR management to achieve improved audit outcomes that are sustainable. The correct leadership tone is required to build this culture and to ensure that skills available in the public sector are used effectively. It is thus necessary that consequences are enforced for those choosing not to abide by the existing legislative prescripts and approved policies governing HR management.

Figure 27:
Status of information
technology controls

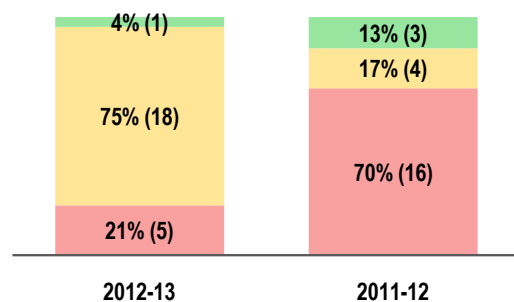


Figure 28: Findings on information technology controls

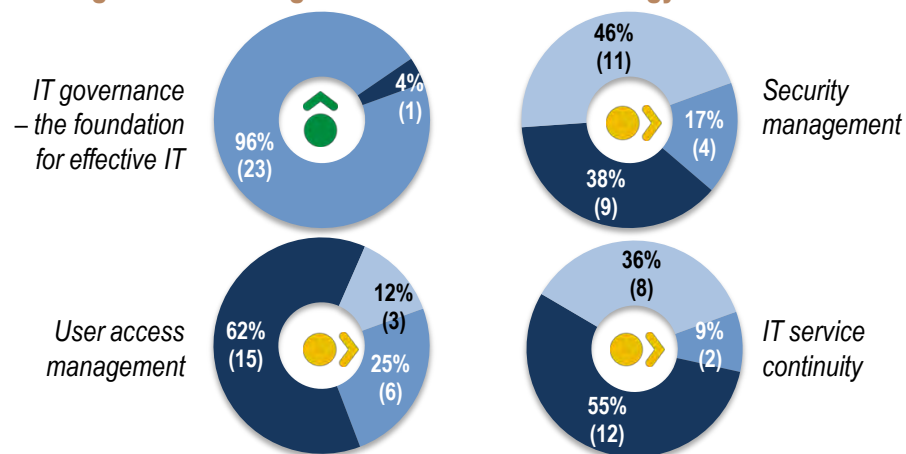


Figure 29: Status of information and controls

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

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

3.4 Information technology controls

IT controls ensure the confidentiality, integrity and availability of state information, which enables service delivery and promotes national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

The status of IT controls reflected in figure 27 and the assessment of IT controls depicted in figure 28 are determined by the stage of development, which can be grouped into one of the following three categories:

- **Where IT controls are being designed**, management should ensure that the controls will lessen risks and threats to IT systems.
- **Where IT controls are being implemented**, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be paid to ensuring that staff members are aware of, and understand, the IT controls being implemented, as well as their roles and responsibilities in this regard.
- **Where IT controls have been embedded and are functioning effectively**, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

Figure 27 indicates the status of IT controls in the province. Light red in this figure represents auditees that had control design findings in two or more of the IT focus areas reported on below. Light orange represents auditees that had design findings in at least one of the focus areas as well as those auditees that had not properly implemented adequately designed IT controls.

Although there has been an improvement in IT in the province, this improvement was very small, as most auditees still experienced challenges in all areas. They should therefore prioritise the design and implementation of the required controls.

Figure 28 shows the number of auditees that had findings relating to the design and implementation of controls in the focus areas, which are discussed in the rest of this section.

Information technology governance

Effective IT governance ensures that the auditee's IT control environment functions well and enables service delivery. All the auditees are busy implementing the cabinet-approved IT governance framework and guidelines.

All auditees are required to adopt and implement the corporate governance of information and communication technology policy framework within the next three financial years. In the 2013-14 financial year, the implementation of phase one should be prioritised. As the legislatures have chosen to develop their own IT governance framework, management should prioritise the design and implementation of this adopted governance framework.

Security management

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

While 46% of the auditees had IT controls that were embedded and functioning effectively, 38% continued to experience challenges with the design and 17% with the implementation of security management policies, due to a lack of information security skills to adequately design and implement controls. Management should prioritise capacitating IT personnel to ensure that security management policies are designed and implemented to lessen the risk of unauthorised access to, and the unavailability of, IT systems.

User access management

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

While 12% of the auditees had IT controls that were embedded and functioning effectively, 62% still experienced challenges with the design of user access policies and procedures. This means that the required policies and procedures had either not been approved or lacked key controls. Furthermore, 25% of the auditees continued to experience challenges with the implementation of user access policies and procedures. Most auditees did not have knowledge of user account management best practices.

At the departments, this was made worse by the delay in communicating provincial user account management policies and procedures. Management should prioritise the design and implementation of user access management policies and procedures to lessen the risk of unauthorised access and transactions in the application systems.

Information technology service continuity

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

While 36% of the auditees had IT controls that were embedded and functioning effectively, 55% continued to experience challenges with the design and 9% with the implementation of appropriate disaster recovery plans. There was a lack of understanding of the risk associated with IT service continuity and its impact on operations. As a result, disaster recovery plans had still not been adequately designed or there was a lack of skills to design and implement formal IT controls where disaster recovery plans had been implemented.

In the case of departments, the data hosted on their transversal systems is available at the disaster recovery site of the State Information Technology Agency (SITA). However, the risk of non-connectivity to SITA's disaster recovery site remained due to departments not participating in SITA's annual disaster recovery testing exercise.

Figure 30:
Number of auditees
with indicators of
financial health risks
(all auditees)

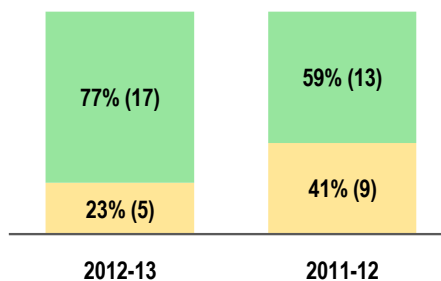
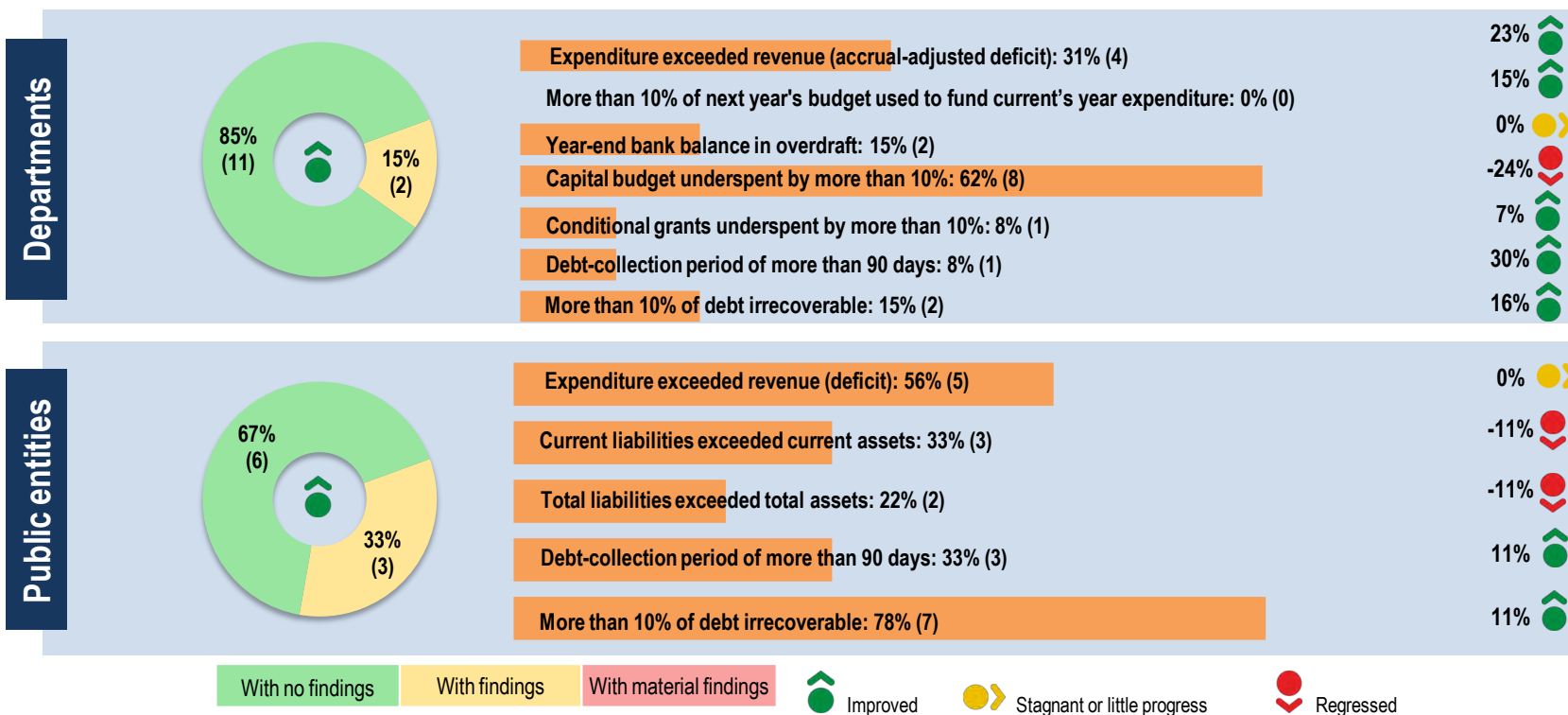


Figure 31: Number of auditees with
indicators of financial health risks



3.5 Financial health

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

Figure 30 indicates the number of auditees that had more than two of the risk indicators (*with findings*) discussed further in this section. It excludes three auditees that had disclaimed audit opinions, namely the Department of Roads and Public Works, the Eastern Cape Appropriate Technology Unit and the Mayibuye Transport Corporation, as their financial statements were not deemed reliable enough to be analysed. It also excludes the Eastern Cape Provincial Legislature Political Party Fund, as no significant financial indicators are present at the fund. Although we noted individual financial risk indicators at most auditees in the province (77% – an improvement from 59% in 2012), these risks were isolated in most of the instances. Only 23% of the auditees (an improvement from 41% in 2012) had more than two risk factors.

Figure 31 illustrates the number of auditees with indicators, shown separately for departments and entities, as well as the movement since the previous year. The indicators reflected in figure 32 are discussed in the rest of this section.

Financial management by departments on the modified cash basis of accounting

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

Based on these accrual-adjusted amounts, we identified a deficit of expenditure over revenue at four departments, which was an improvement of 23% from the previous period. There was also a 15% improvement regarding the impact of accruals on the 2013-14 budget, as no departments will have to utilise more than 10% of their 2013-14 budget to fund current year unpaid expenses. Two departments, namely the Department of Health and the Department of Rural Development and Agrarian Reform, had bank balances that were in overdraft at

year-end, but these unfavourable balances have improved since the end of the previous period.

Underspending by departments of capital budgets and conditional grants

The most widespread risk indicator across all auditees was the underspending of capital budgets by 10% or more, which was identified at eight departments (or 62% – which is 24% more than in 2012). These eight departments underspent their capital budgets by an average of 31%. The impact of this underspending on the service delivery provided by these departments is a matter of concern that should receive urgent leadership attention. The management of conditional grants was closely monitored and almost all conditional grants were spent, with only the Department of Sport, Recreation, Arts and Culture underspending conditional grants by more than 10%.

Debt management

The debt-collection period was more than 90 days (after impairment for irrecoverable debts) at 8% of the departments and 33% of the public entities – an improvement of 30% and 11%, respectively.

Although the impairment provision for departments was more than 10% at only two departments, namely the Departments of Transport and Health, these are the two largest departmental debtor books in the province. An increased focus on collections at these departments may result in additional cash flow for the province. In total, 78% of the public entities had impairment provisions that were more than 10% of the debt outstanding. At the seven entities affected in this regard, the average impairment was 60% of the debt. Effective debt management and collection systems and processes should be implemented at the entities to address this significant concern.

Other financial health risks at public entities

Although none of the public entities in the province had a bank balance in overdraft at year-end, more than half incurred a deficit during the year, as their expenditure exceeded their revenue. Budgets should be closely monitored to ensure financial sustainability and liquidity and to avoid the going concern challenges faced by the Eastern Cape Socio Economic Consultative Council and the East London Industrial Development Zone (namely, incurring an operating deficit; current liabilities exceeding current assets; and total liabilities exceeding total assets). Additional funding may be required from the revenue fund in these circumstances.

SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

Figure 33: Movement in drivers of internal control

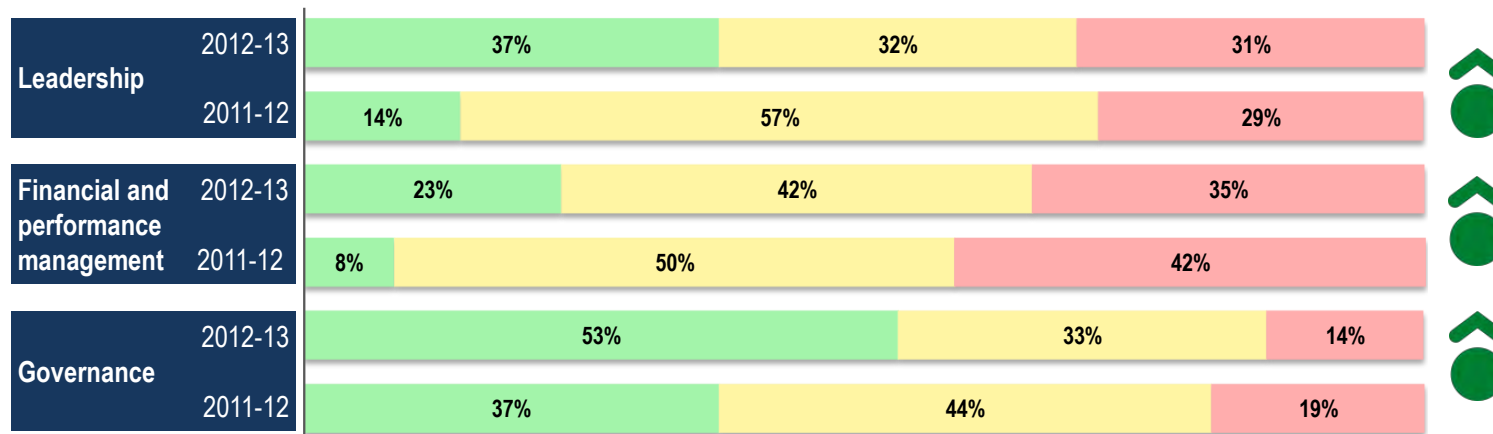
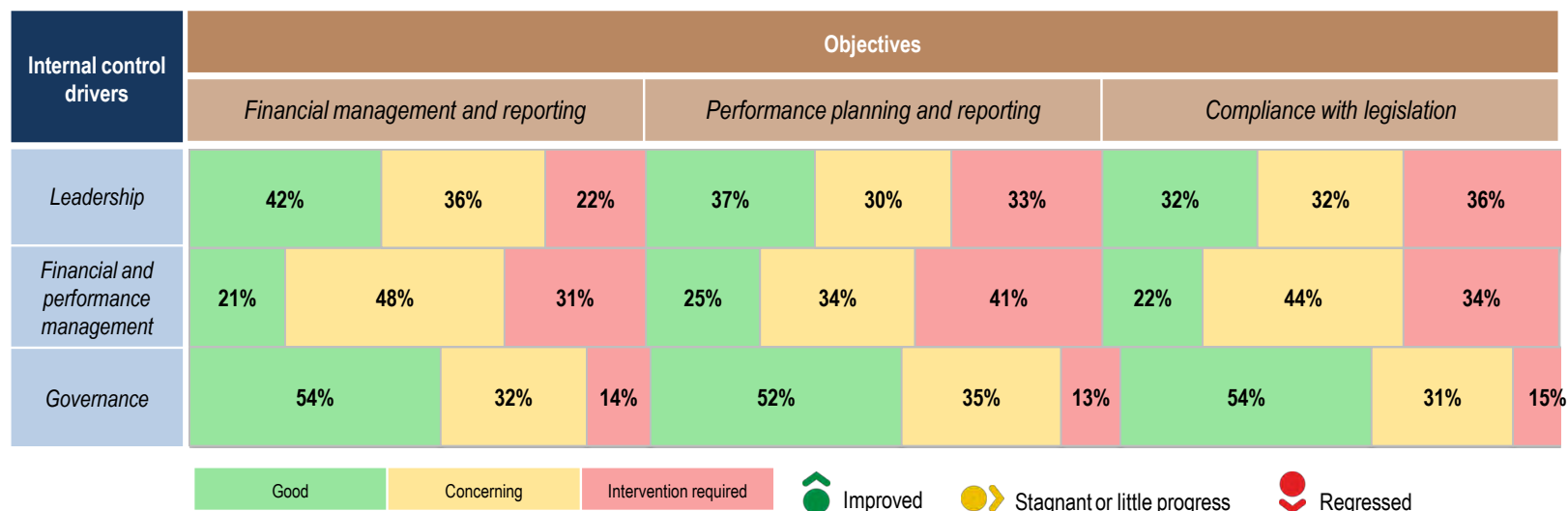


Figure 34: Objectives on which drivers of internal control have an impact



4.1 Significant deficiencies in internal control

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

Status of drivers of internal control

Figure 33 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits that had resulted in material misstatements in the submitted financial statements, performance reports of a poor quality as well as findings on non-compliance with legislation.

Figure 34 separately assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

Based on this assessment, we highlight the following:

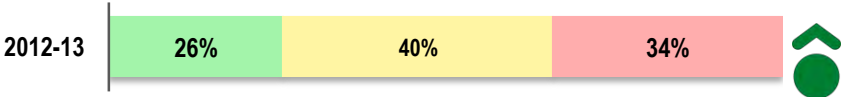
- There has been a noticeable improvement in all three drivers of internal control. The improved management of these drivers has had a direct impact on audit improvements, especially at those auditees that have finally achieved clean audits. However, a number of auditees have not improved their internal controls and require intervention. Although there are five regressions in the audit outcomes, there has not been a noticeable regression in the drivers of internal control. This is because the weaknesses in internal controls were included in our prior year assessment. The auditees that regressed have failed to address these weaknesses and as a result the number of findings increased and became more material.
- Of particular importance is the improvement in the drivers that govern leadership, which has resulted in improved accountability within the affected auditees. This was largely due to the political and the administrative leadership working together towards improving the control environment and setting the correct tone. In addition, the increased involvement of the Office of the Premier and the Provincial Treasury contributed to influencing a positive change in the organisational culture at those auditees where they assisted. Although leadership has improved

overall, there has also been a slight increase in the number of auditees where intervention is required in this area, mainly due to the overall regression at the public entities and the Department of Roads and Public Works.

- Financial and performance management has shown the least improvement in this audit cycle, as policies and procedures over daily and monthly tasks and disciplines as the most basic function were still not in place and functioning adequately at most of the auditees. In addition, a number of auditees still struggled with inadequate record keeping, which resulted in annual financial statements and performance reports not being supported by reliable information.
- Governance was the strongest driver of internal control, as a result of the establishment of strong audit committees and an improvement in the functioning of internal audit units.

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

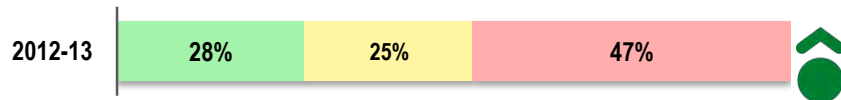
Implement controls over daily and monthly processing and reconciling of transactions



Controls over daily and monthly processing have improved slightly since the previous year, with 26% of the auditees showing good controls in this area. Of concern are the 34% of auditees that have still not implemented controls over the most basic of functions that are used in everyday tasks in financial and performance processes, and to ensure compliance with legislation.

We are particularly concerned about the lack of controls over documents and processes in the area of performance reporting, which contributed to the findings on PDOs. Such controls need to be designed and implemented as a matter of urgency to ensure that processes at the most basic level occur regularly, to guarantee that the information used in reporting is correct.

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

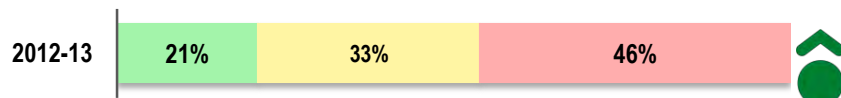


The preparation of regular, accurate and complete financial and performance reports remains an area of concern, as disciplines were not in place to ensure regular financial and performance reporting and compliance with legislation throughout the year. The preparation of financial statements and performance reports still took place as part of a culture where it is merely seen as a year-end process rather than a regular ongoing process throughout the year. This resulted in a large number of journal entries processed at year-end as well as many adjustments to the financial statements as a result of misstatements and errors discovered through the audit process.

Although monthly and quarterly reporting took place, this did not always include all areas of the financial statements and other areas of specific risk. These reports were often prepared to ensure compliance with deadlines and were not always reviewed. As a result, there was very little emphasis on the quality of the content, which in turn affected the credibility of the reports.

Of concern is that only 28% of the auditees had successfully implemented this key control and although there has been an improvement, there are still a large number of auditees (47%) that had not adequately implemented the control. The lack of controls over reporting, which are integral for monitoring and oversight, was one of the largest contributors to the regression in audit outcomes.

Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls



Oversight responsibility in respect of financial and performance reporting and compliance has improved since the previous year, with 21% of the auditees having good and sustainable controls. This was largely due to the increased

involvement of the leadership in the preparation of both annual and performance reports as well as in ensuring compliance with legislation.

The continued involvement of the leadership is essential in ensuring the sustainability of improved and clean audit outcomes. Although improved oversight has contributed to improved audit outcomes, 46% of the auditees still require intervention. This remained relatively unchanged from the previous year, as the leadership at auditees with unchanged audit outcomes or regressions did not make the necessary improvements. The leadership failed to drive the process of change from the top, as they continued to display a culture of malicious compliance in respect of quarterly and annual reporting, thereby creating an environment that was not conducive to accountability. In addition, the leadership did not adequately exercise oversight of the preparation and review of reports, which had an impact on the credibility of information and the quality of decisions based on this information.

Going forward, the leadership must ensure that they address these issues and implement a credible control environment that facilitates the necessary monitoring and review of reporting and compliance with legislation. This will provide a platform for the preparation of credible information and reports that can be used for effective oversight and decision-making.

Other drivers of internal control

In addition, the following drivers of internal control did not receive the necessary attention at the auditees that received poor audit outcomes:

- Action plans were not implemented to address internal control deficiencies.
- Policies and procedures were not established to enable and support an understanding and execution of internal control objectives, processes and responsibilities.
- Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

Most of the above drivers also relate to daily and monthly activities that need to be implemented and monitored to ensure that they improve and thus have a positive impact of the audit outcomes in the next cycle.

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

4.2 Formal control over information technology systems

Most prevalent root causes

There was still a lack of governance skills to appropriately design and implement controls over IT systems relating to security management, user access management and IT service continuity. This challenge was made worse by the following inefficiencies:

- Key IT positions remained vacant or were not filled timeously, resulting in auditees not having the skills required to design and implement formal IT controls.
- The Provincial Treasury did not effectively communicate the user access control policies and procedures for the Personnel and Salary System (PERSAL) and the Basic Accounting System (BAS) for implementation by the departments that use the transversal systems.
- The Logistical Information System (LOGIS) and PERSAL transversal units in the Provincial Treasury lacked the capacity to effectively fulfil their user access management responsibilities.
- Management members did not fulfil their responsibilities by addressing previously raised audit findings. Furthermore, there were no consequences for not resolving repeat findings.

Actions taken to address root causes

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

- The government information technology officer (GITO) in the Office of the Premier established a GITO council that meets with the different GITOs and IT managers to provide guidance and knowledge sharing regarding IT governance matters.
- The Provincial Treasury developed guidelines for the management of user access on PERSAL and BAS. Accounting officers should make sure that these guidelines are adopted and implemented.

Recommendations

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

- Auditees should increase capacity by employing appropriately skilled staff. Skills gap analyses should also be performed for current staff to ensure that they receive the required training where gaps are identified.
- The Provincial Treasury should communicate the user access control policies and procedures to the departments that use the transversal systems and continuously raise awareness of these policies and procedures.
- The Provincial Treasury should capacitate the LOGIS and PERSAL transversal units.
- The Provincial Treasury should ensure that the LOGIS user access control policies and procedures are documented, approved and communicated to the user departments.
- The Provincial Treasury and user departments should regularly monitor and enforce adherence to the policies and procedures.
- The implementation of action plans that address prior year findings should be monitored and there should be consequences for not resolving repeat findings.
- The Office of the Premier, through the provincial information management unit, the provincial GITO council and various heads of departments, should assist, monitor and take responsibility for the implementation of the corporate governance of information and communication technology policy framework in the province.

4.3 Summary of root causes

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

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

Key officials lack minimum competencies and skills

Detail of root cause

Officials in key positions at 85% of the auditees did not have the minimum competencies and skills required to perform their jobs. This root cause had an impact on service delivery reporting, financial reporting and compliance with legislation (in particular, SCM compliance).

This root cause was due to the appointment of employees who did not have the required minimum competencies as well as current employees not keeping up to date with the changing environment through ongoing training and development.

Recommendations

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

- The executive authority should ensure that processes are in place that will ensure that appointments are made only after the minimum competency requirements have been verified and the necessary background checks have been completed.
- The accounting officers or authorities should put processes in place to identify skill and competency gaps within their organisations, and should implement planned training and development interventions to address the identified gaps.

Although we did not raise this as an overall root cause, it underlay the challenges experienced in all areas reported in our previous general reports. This root cause requires the urgent attention of both the political and the administrative leadership to help auditees move swiftly to clean administration.

Lack of consequences for poor performance and transgressions

Detail of root cause

The lack of consequences for poor performance and transgressions was identified as a root cause at 69% of the auditees. Where employees are not held accountable for their actions, it creates a perception that unacceptable behaviour is acceptable and will be tolerated. As a result, modified opinions or findings on PDO reporting and non-compliance with legislation are repeated year after year.

Recommendations

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

- SCOPA and the portfolio committees should ensure that a robust performance management system is implemented, which is linked to strategic planning documents. They should also insist on regular reports on actions taken in relation to poor performance and transgressions, and should take appropriate oversight action in this regard.
- MECs should ensure that a performance management system is in place and that the performance of the accounting officer and senior management is managed in accordance with this system. MECs should also take appropriate action relating to the performance of their accounting officers.
- The accounting officers should ensure that the performance management system is implemented and that appropriate action is taken against poor performers and transgressors.
- The Office of the Premier and the Provincial Treasury should provide financial resources, technical assistance and training relating to the development of appropriate performance management policies and systems.
- The national Department of Public Service and Administration should be approached for assistance in implementing the above actions.

We have elevated this root cause to a separate section of our general report, as the political and the administrative leadership did not pay appropriate attention to this matter during the year under review. .

This root cause also needs urgent attention for the province to make significant progress in its goal to achieve clean administration.

Administrative leadership not effective

Detail of root cause

The administrative leadership of the province did not in all instances identify and take appropriate action to address the risks identified during the previous audits as well as other emerging risks. These include PDO reporting risks and non-compliance risks, incorporating risks associated with SCM. In addition, financial and performance management disciplines were not emphasised and entrenched in the daily activities of the auditees, which was further compounded by insufficient supervision and monitoring by the administrative leadership.

We identified the lack of effective leadership as a root cause at 42% of the auditees. The political leadership of the province showed a willingness to address this root cause during the year. This is partly evidenced in the actions taken by MECs to deal with poor performance or non-alignment to the political leadership through a number of changes in the accounting officer positions during the year. However, this positive move is yet to filter through to the various levels of the departments and entities.

Recommendations

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

- The accounting officers should prepare and implement action plans to address the findings raised by both the internal and external auditors. These plans should address the root causes of the findings and should also include the implementation of internal control systems.
- The MECs should, with the assistance of the audit committees and internal audit units, assess the action plans and key controls and critically monitor the implementation thereof.
- SCOPA and the portfolio committees should obtain regular feedback reports on the implementation of these plans and should take appropriate oversight action where necessary.

This root cause was made even worse by the deficiencies in key controls reported in section 4.1 and the lack of assurance provided by the leadership as reported in section 5.

The actions highlighted above should be implemented as a matter of urgency to effectively address this root cause and prevent repeat audit outcomes.

SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 35: Assurance provided by key role players

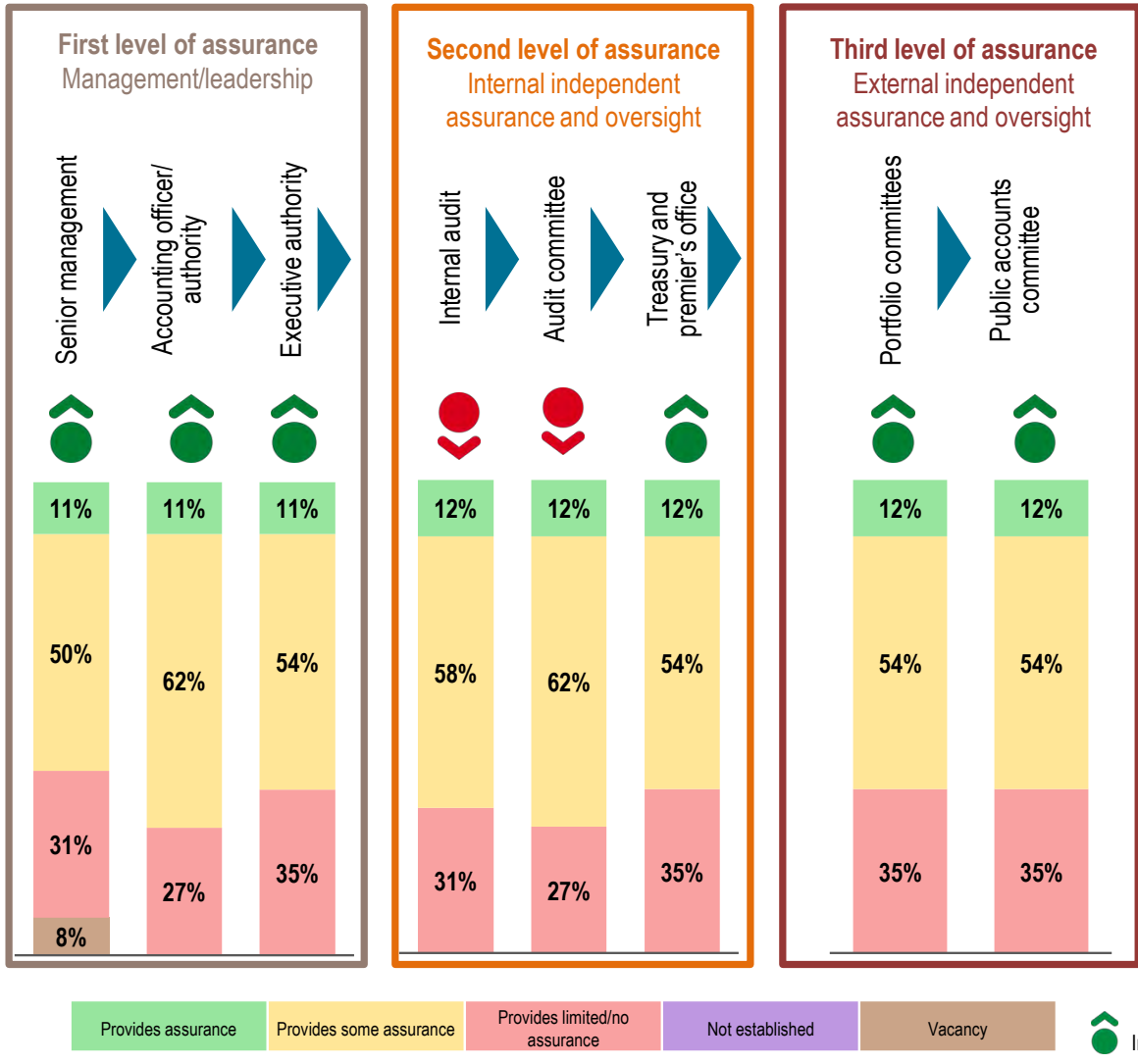
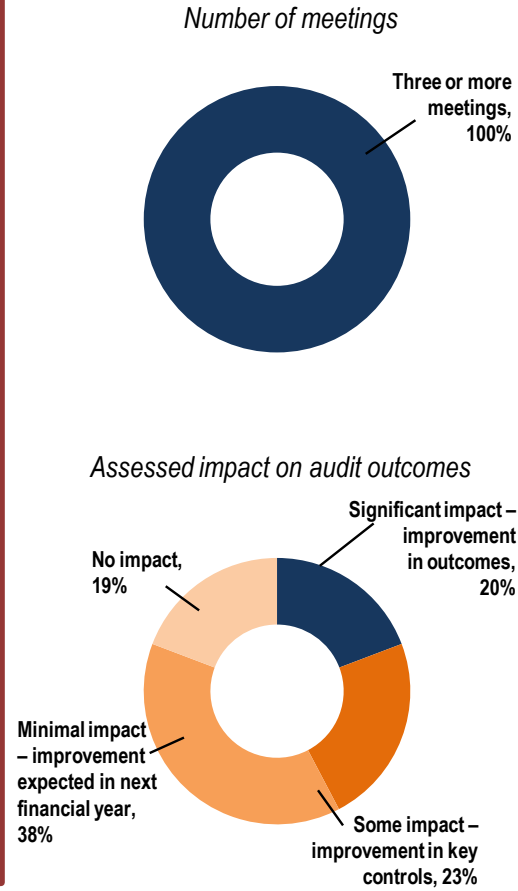


Figure 36: Interactions with MECs and assessed impact thereof



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

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

In addition to the Auditor-General of South Africa, other role players also contribute to the credibility of financial and performance information and compliance with legislation, by ensuring that adequate internal controls are implemented.

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

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players should provide an extensive level of assurance.

Figure 35 shows the assessed level of assurance provided by key role players. An overview of the assurance provided by each of the three levels of assurance providers follows.

First level of assurance: Management/leadership

Senior management

Only a limited number of role players at the first level are fully providing the required level of assurance and, as the foundation of assurance, this level needs

the most improvement. Accounting officers and MECs rely on senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, for implementing basic financial and performance management controls. These controls include the following:

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

The status of these internal controls, as reported in section 4.1, shows that inadequate assurance is provided. It is concerning that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements submitted for auditing, continue to be unreliable. It highlights the risk that decisions taken by accounting officers and MECs could be based on incomplete and incorrect information provided by senior management.

The HR management challenges outlined in section 3.3 should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior management members should be held accountable for the execution of their responsibilities through a strict system of performance management.

Accounting officer or accounting authority

The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities is marginally better than that of senior management, but their impact on creating an effective control environment is not evident at many auditees. As reported in section 4.1, there has been some improvement in the status of those internal controls for which accounting officers and authorities are responsible. However, the still present weaknesses in effective leadership, planning, risk management as well as oversight and monitoring functions do not support sustainable practices that will lead to improved audit outcomes.

Although accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management

controls, they should create an environment that helps to improve such controls by focusing on the following:

- Provide effective and ethical leadership, and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed.
- Set the correct tone to improve the performance and productivity of staff by implementing sound performance management processes, evaluating and monitoring performance, and imposing proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

Executive authority

The executive authorities in the province are the MECs. They have a monitoring and oversight role in their portfolios and play a direct role in departments, as they have specific oversight responsibilities in terms of the Public Finance Management Act and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. They can bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities.

Our assessment that most MECs are not yet providing the required level of assurance is based on the poor status of the leadership controls (as detailed in section 4.1) and the impact of MECs on audit outcomes as observed through our regular interactions with them.

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

As shown in figure 36, most of the MECs met with us. The engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes. There has, however, been a slight increase in the number of instances where the MECs are starting to hold their accounting officers accountable and are taking action, which contributed to some of the improvements. Unfortunately, this has not yet filtered through to the senior management group and lower levels of staff.

We are very encouraged by the commitment and spirit of cooperation that the MECs displayed at a cabinet meeting in July 2013. Going forward, this positive attitude and commitment must be consistently reinforced in the daily oversight responsibilities in their portfolios. Only then will there be a marked and sustainable improvement in the drive towards clean administration within the province.

The increased momentum at departments shows that the building blocks are now in place for improvements in key controls, which should lead to improved outcomes. However, the same momentum is not evident at the public entities and they appear to be a bit more removed from the executives.

Section 6, dealing with MECs' individual portfolios, provides more detail on the interactions with the MECs.

Second level of assurance: Internal independent assurance and oversight

Internal audit

Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. Internal audit units were in place at all auditees. Although most were not yet providing the extensive level of assurance required, there has been some improvement since the previous year.

The operations of all the internal audit units complied with relevant legislation. However, our assessment of the internal audit units indicates that only 50% of these units had a positive impact on the audit outcomes. At the 13 auditees where

there was no positive impact, the work of the internal audit unit was not adequate or effective at six (46%), while the management at seven (54%) did not implement the findings and recommendations of the unit.

Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations, and accounting officers and senior management cooperate and respond to their advice and recommendations.

Audit committee

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

Strong audit committees can provide the momentum for moving forward by pulling the other role players together in a united effort. As an independent adviser and specialist in the control environment, the committee is in a position to not only evaluate the credibility of information but also robustly report to the executive on who is delivering and who is not. This can provide the executive with assurance and empower them to enforce focused accountability. The success of this depends on the degree to which the MEC interacts with and supports the audit committee.

All audit committees, with the exception of the one at the Eastern Cape Rural Development Agency, were in place. On average, the work of the committees covered 92% of all the required aspects highlighted in the paragraph above.

For audit committees to provide the required level of assurance as second-level assurance providers, they depend mainly on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are being reduced.

Provincial Treasury and Office of the Premier

The Provincial Treasury and the Office of the Premier strengthened and enhanced their oversight role by focusing very specifically on the Departments of Health and Education, which had a significant impact on the improvements at these two departments. Considering the nature and depth of the challenges experienced at these departments, the Office of the Premier and the Provincial Treasury took a hands-on approach and assisted by equipping the departments with appropriate

skills and improving the internal controls. This level of support and engagement needs to be expanded to cover all other departments and entities, with specific emphasis on those with qualified and disclaimed audit opinions.

In executing their oversight role, the Office of the Premier and the Provincial Treasury aligned their mandate to the strategic objectives in their annual performance plans. The only challenge was that the legislation defining their mandate did not specifically refer to an oversight role, but to coordination and implementation activities. As a result, the measures used in the annual performance plan did not look at audit outcomes or the impact of service delivery, which may reasonably be expected of an executive authority. Fortunately, this did not influence the assistance provided by the Office of the Premier and the Provincial Treasury, as they still had a significant impact as described above.

Going forward, these measures and the reporting thereof will have to be developed further to a level where the performance objectives can become more output driven and where the efficiency and effectiveness of oversight can be further enhanced by looking at the outcome of clean administration and the impact of service delivery.

Third level of assurance: External independent assurance and oversight

Portfolio committees and public accounts committee

The processes and enforcement of accountability for the actions, performance, financial management and compliance with legislation of all involved in government serve as a cornerstone of democratic governance in South Africa. One of the most important oversight functions of the Provincial Legislature is considering auditees' annual reports as well as in-year monitoring reports. For the committees to perform their oversight function, assurance is needed that the information in the annual report and in-year reports is credible.

The audit outcomes indicated the need for the portfolio committees to drastically enhance their effectiveness with regard to oversight to promote and enforce clean administration. It is evident from the above that these committees receive very little assurance from other role players. This raises the concern that these committees base their decisions and resolutions on information that is not credible. These decisions then have an impact on service delivery, accountability and consequences for poor performance.

The timelier hearings held by SCOPA invariably had an impact on accountability in the province. The hearings focused on the individual members of the executive

and their respective leadership teams accounting for their outcomes as well as on producing action plans to improve the audit outcomes. Although this had a limited impact on the 2012-13 outcomes, the basis that has been set will positively influence future audit outcomes.

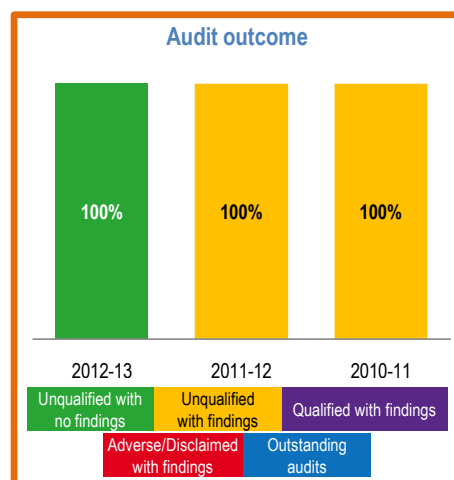
During the year under review, members from both SCOPA and the relevant portfolio committee were sometimes represented in a joint hearing. This is deemed as a very positive step and should, at least annually, become the norm rather than the exception. In this format, all areas can be addressed and the situation is eliminated where critical issues are not dealt with as one committee believes that it is being dealt with by the other. This promotes a platform where holistic oversight can take place that covers finances, PDOs and policy matters.

The most effective means to address the credibility of information and transparency is for audit committees to have frequent interactions with the relevant portfolio committees. During these interactions, the audit committees should inform the portfolio committees of the status of the departments' systems for PDO monitoring, recording and reporting as well as the status of the implementation of audit committee recommendations. The last critical element is that both the internal audit unit and the audit committee must verify all submissions as credible, relevant and transparent before these are considered in further detail.

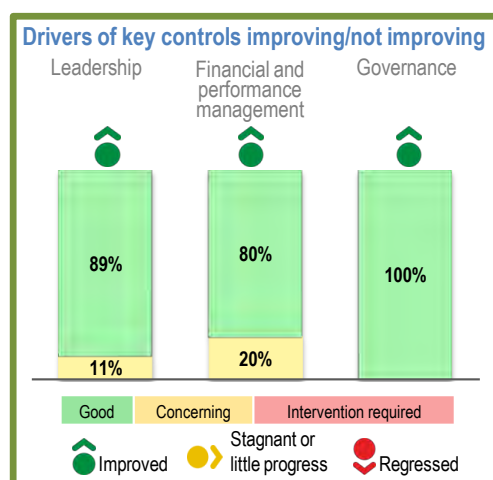
Our initiatives will be intensified with a drive to enhance the understanding of committees with regard to our role, the audit findings and their causes and effects, as well as how we can add value to the work of the committees.

SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

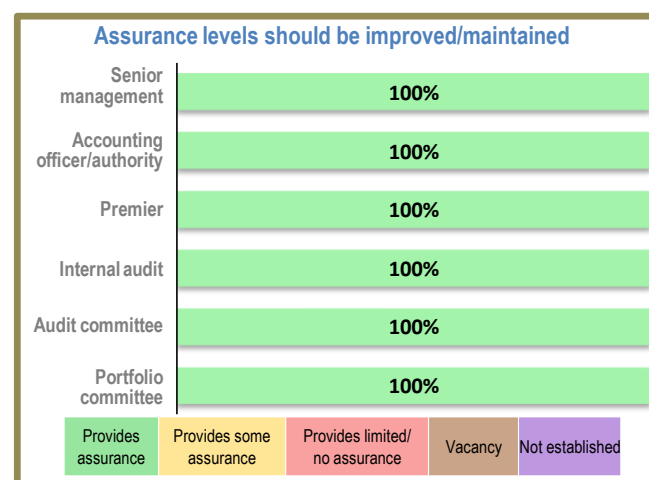
6.1 Office of the Premier



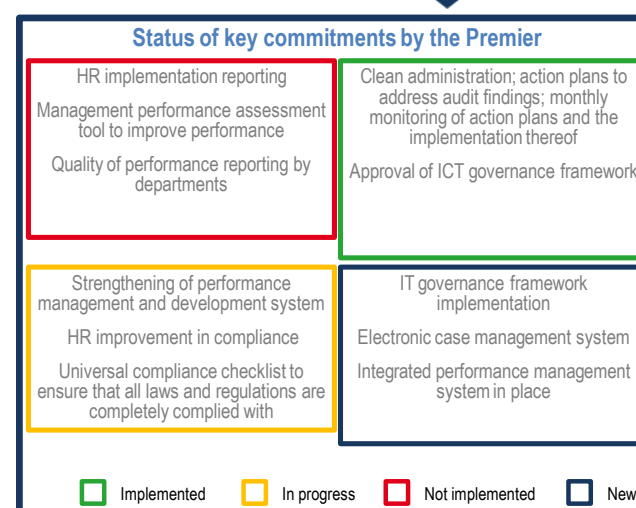
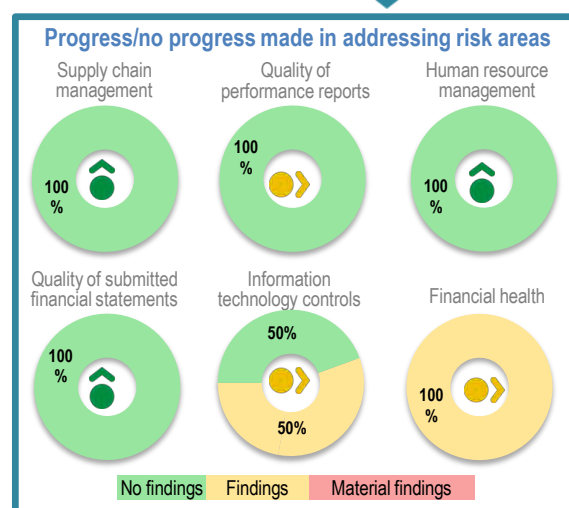
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio:

■ Eastern Cape Office of the Premier (OTP) ■ Eastern Cape Socio Economic Consultative Council (ECSECC)

Significant movement in audit outcome

Both auditees have finally achieved clean audits through the collective work of all role players and an effective leadership. An integral contribution towards this improvement was qualified key officials, stability within the leadership, and the correct tone from the executive authority.

This movement is of significant importance for the province, as the OTP can now lead by example and focus on strengthening and enhancing its oversight role.

Six key risk areas

There was an improvement in the six key areas, with no findings on the quality of the financial statements, performance reports and HR management.

In respect of the IT controls, the information and communication technology governance framework has been approved, but is still being implemented and should produce positive results in the IT environment going forward.

The main concern in respect of the financial health analysis is the deficit that would have been realised by the OTP had their accruals been taken into consideration as part of their current year expenditure.

Key controls and root causes

The Premier effectively discharged her oversight responsibility by focusing on key controls as well as the progress made by her office on her commitments, sustained over a number of years. This was mainly achieved by the OTP taking full ownership of the key controls, with the support of the internal audit unit, as well as actively monitoring these controls on a quarterly basis. In addition, the OTP was very responsive towards our messages and timeously implemented all of our recommendations.

In respect of the ECSECC, the strengthening and enhancement of their daily and monthly financial and performance controls and the related monitoring thereof assisted in producing credible and accurate information.

To sustain clean administration, both auditees should further enhance the following controls to create a control environment that continuously supports reliable financial and performance reporting and compliance with legislation:

- Monitor and oversee the effectiveness of the implementation of the information and communication technology governance framework, and design appropriate controls over the IT systems (OTP).
- Develop an integrated performance management system.
- Prepare and review reliable monthly financial statements.

The commitments not implemented during the year relate to the OTP's oversight and coordinating function and did not have an impact on the control environment of the OTP. This was largely as a result of prioritising available resources to the Departments of Education and Health. Going forward the implementation of these commitments together with the strengthening of the IT environment and the performance management system is critical, as it is part of the OTP's coordinating function that can have a positive impact on the entire province.

Impact of key role players on audit outcomes

Senior management members understood their role in creating an environment conducive to clean administration and facilitating effective oversight. As a result, there were adequate processes to generate credible information on which to base decisions.

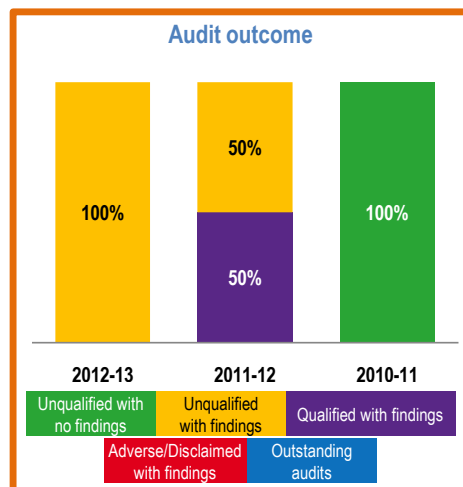
All role players provided assurance and a culture of accountability was created for the information produced. This was done throughout the year and must be continued to maintain clean administration. It also enabled all oversight and governance bodies, including the portfolio committee, to effectively execute their oversight functions and provide assurance.

We met with the Premier six times in the past year and these interactions had a significant impact on the audit outcomes, as she was very responsive towards our messages.

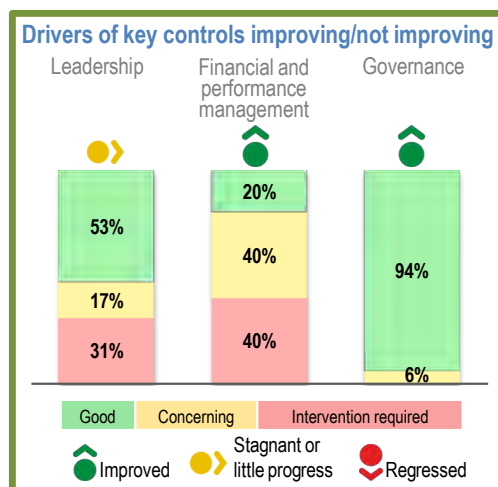
The internal audit units and audit committees were effective and assisted in addressing risks that could negatively affect clean administration; in so doing providing sufficient assurance on the control environment.

The role players, including the governance and oversight bodies, should not become complacent but continue to execute their duties with diligence to sustain the current audit outcome.

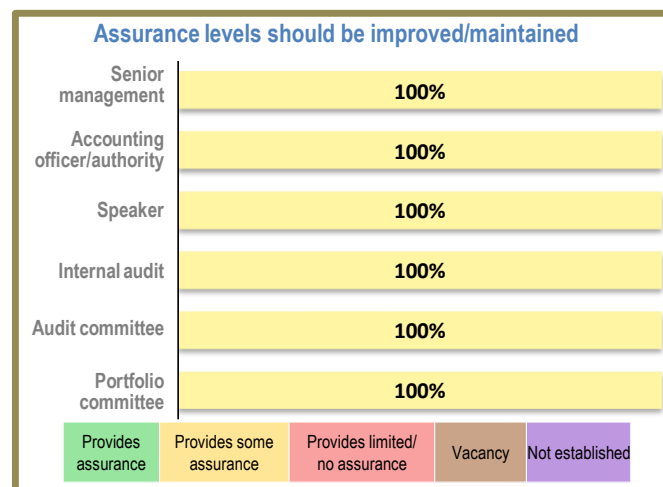
6.2 Provincial Legislature



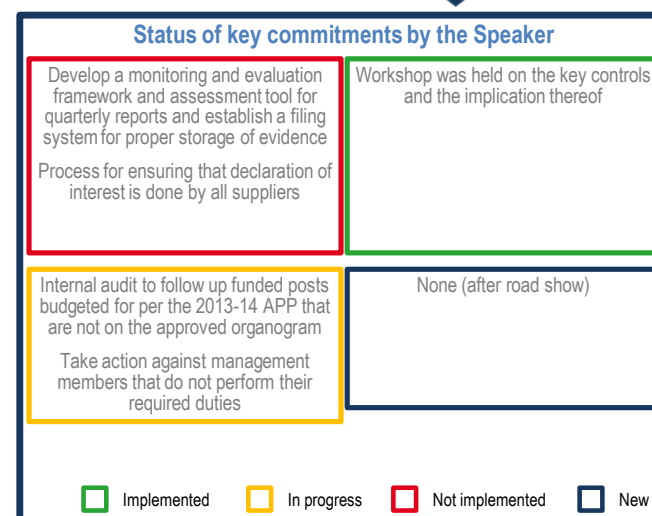
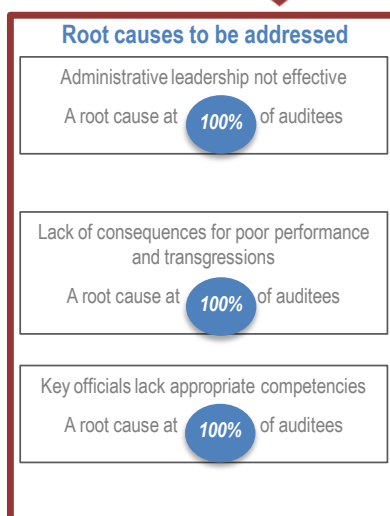
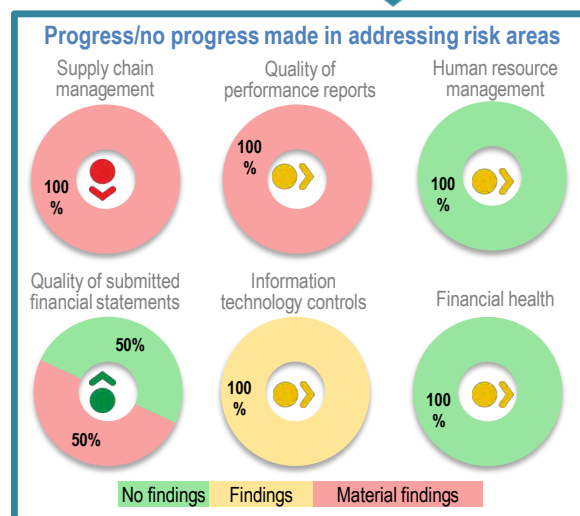
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio:

■ *Eastern Cape Provincial Legislature (ECPL)* ■ *Eastern Cape Provincial Legislature Political Party Fund (ECPLPPF)*

Significant movement in audit outcome

The improvement in the audit outcome of the portfolio was as a result of the ECPLPPF moving from a qualified opinion to an unqualified opinion with findings. This was due to the fund preparing financial statements in accordance with the correct accounting framework prescribed by the National Treasury, unlike the previous year where these prescripts were not adhered to.

Although the ECPL's audit outcome remained unchanged on an unqualified opinion with findings, the number of findings on PDOs and non-compliance with legislation, in particular those governing SCM, increased. This stagnated outcome was as a result of management not implementing internal and external audit recommendations, and a lack of consequences for poor performance and transgressions.

Six key risk areas

Four of the six key risk areas remained a concern, as the required controls governing these areas were not embedded in the control environment. The improvement in the quality of the submitted financial statements was brought about by the ECPLPPF not requiring adjustments to its submitted financial statements. This was due to it being a small entity with a limited number of transactions. However, a few material audit adjustments relating to the disclosure notes were made to the financial statements of the ECPL, as a result of a lack of monitoring of the financial information.

The regression in SCM findings and the stagnation in addressing PDO findings at the ECPL were due to a lack of daily, weekly and monthly disciplines and the effective monitoring thereof. (Please note that PDOs and SCM are not applicable to the ECPLPPF and that these focus areas were only audited at the ECPL.)

The slow response in addressing the IT risks raised in the previous year was due to the leadership not making IT a strategic priority and not procuring the necessary IT infrastructure.

Key controls and root causes

The improvement in the drivers of key controls mainly related to the improvement at the ECPLPPF. The lack of improvement in key controls at the ECPL was due to

senior management's slow response to our messages relating to the implementation of the daily, weekly and monthly financial disciplines required to sustain improved audit outcomes. In turn, this appears to be the result of a worsening culture of not taking accountability for actions and differing levels of alignment to priorities within the ECPL.

The Speaker, Secretary to the Legislature, senior management and those charged with governance should address the root causes of the audit outcomes and inadequate controls as follows:

- Update and monitor the action plans developed to address the root causes of the portfolio's audit outcomes (including issues relating to stability, alignment and vacancies).
- Professionalise the portfolio by focusing on recruitment and training as well as effective performance management.
- Implement and instil formal consequence management in the culture of the ECPL.

Impact of key role players on audit outcomes

Although senior management provided some level of assurance, it was not at the level expected at such a critical department, especially in the areas of performance information and SCM. This should be addressed by improving monitoring and oversight controls.

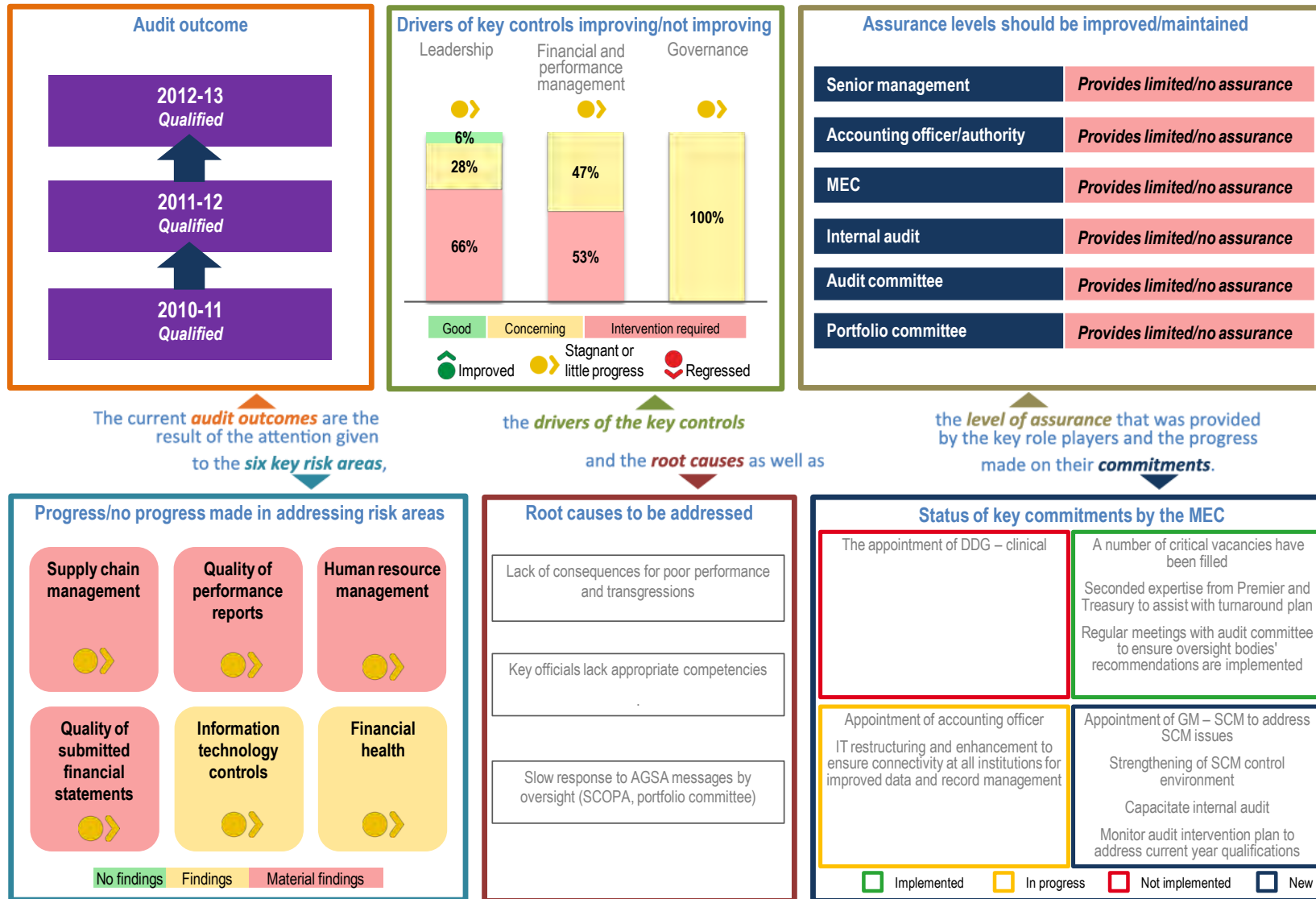
The inadequate processes to produce credible information in certain areas affected the level of assurance provided by the Secretary to the Legislature and the Speaker. Consequently, the leadership could only provide some level of assurance. This was largely due to the leadership not being responsive towards our messages and the recommendations of the audit committee.

We met with the Speaker three times in the past year, but these interactions had no impact on the audit outcome, and the commitments made were not met. This was largely due to consequence management not being adequate at the ECPL.

Although the internal audit unit and audit committee focused on the key risk areas, their effectiveness was weakened by the fact that the leadership did not implement their recommendations.

The assurance provided through the oversight of the Provincial Legislature's portfolio committee should be improved by including in-year monitoring of the implementation of actions to address the findings relating to financial and PDO reporting and compliance with legislation in its work programme, and taking oversight action where necessary.

6.3 Health



Auditees included in the portfolio:

■ Eastern Cape Department of Health (DoH)

Movement in audit outcome

The DoH has maintained a qualified outcome for the past three years. However, the movement of the department towards clean administration has not stagnated, as they have reduced the number of qualifications. The department addressed certain prior year qualifications, as long-term action plans produced positive results, the political leadership took ownership of implementing selected recommendations, and critical vacancies were filled. The sustainability of the progress remains to be seen and further fundamental changes in the daily financial disciplines are required.

Six key risk areas

Despite addressing some qualifications, the improved financial, reporting and monitoring disciplines have not filtered through to the daily operations of the DoH. This can be seen in the status of the six key risk areas where a decrease in the number of audit findings showed limited progress only in the areas of IT controls and financial health. The remaining four risk areas remained at an unacceptable level with material findings.

Of particular concern is the status of SCM, which was rooted in an outdated SCM policy and a general lack of monitoring and enforcement of legislation. This created an environment favourable for corrupt SCM practices, and affected the department's ability to prevent and detect fraudulent activity.

HR management remained a cause for concern. Poor document management led to a lack of progress in addressing performance and leave management risk areas.

A lack of accountability and year-round financial discipline as well as inadequate review processes resulted in inadequate assurance and credibility of the financial statements. As a result, the financial statements submitted for auditing remained of a very poor quality and the DoH relied heavily on the audit process to correct material misstatements.

Key controls and root causes

The responsiveness of the political leadership towards our messages, including filling critical vacancies towards the end of the financial year, led to a marginal

improvement in key controls. However, this attitude and responsiveness have not filtered through to all management levels, where the many interventions required in the leadership category are rooted in the reluctance and unwillingness of administrative management to take ownership of improvements and the implementation of recommendations.

Strengthening the very basic controls around record management, daily and monthly processing and reconciling as well as regular, accurate and complete financial and performance reports should remain a priority within this portfolio.

To sustainably address these basic areas, the DoH must lay a strong foundation by:

- implementing a functioning performance management system with proper consequence management for poor performance
- professionalise the department by filling the remaining critical vacancies with competent and qualified staff
- improving the document management system to ensure that SCM irregularities, HR management deficiencies and performance reporting requirements are addressed.

Impact of key role players on audit outcomes

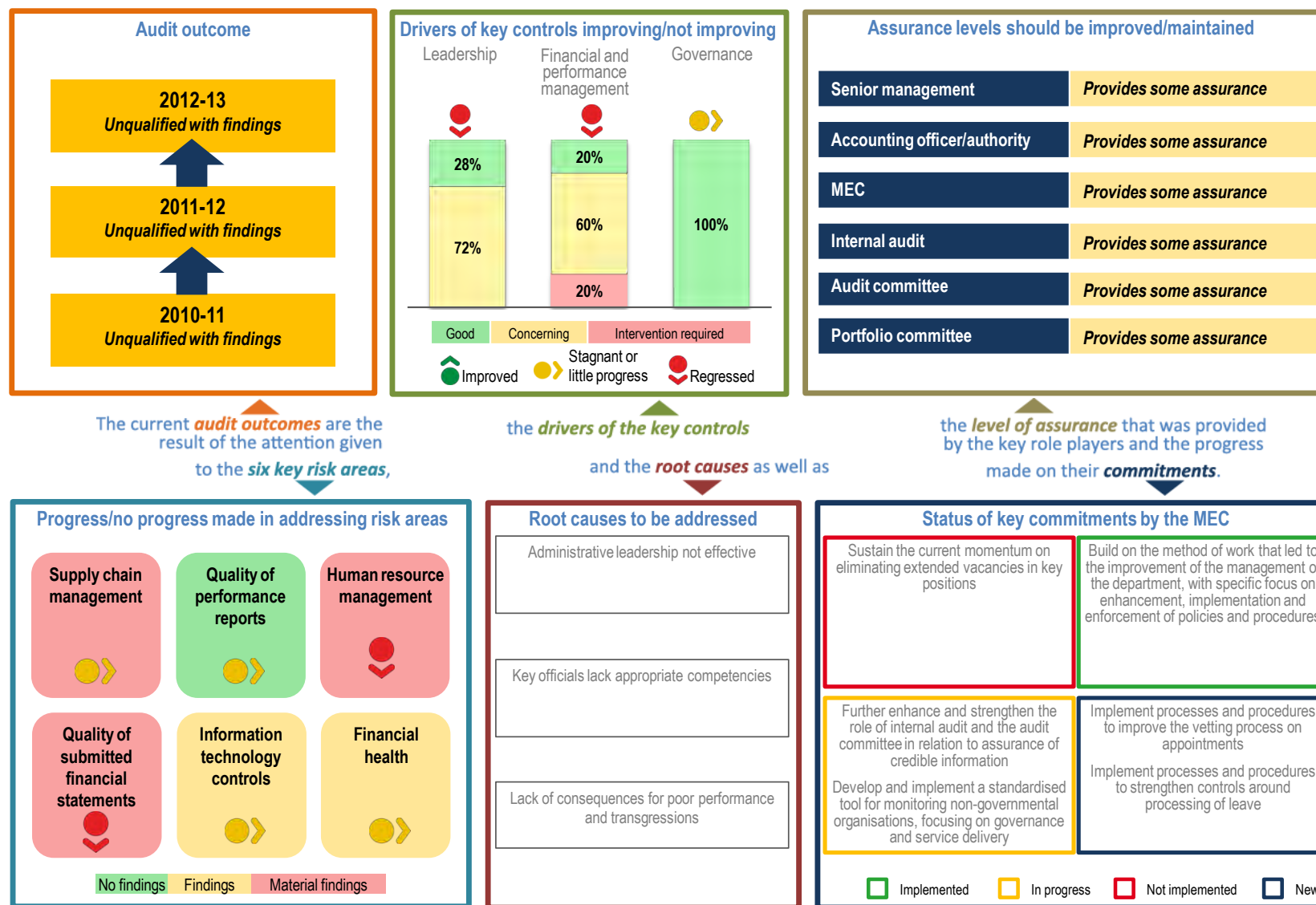
The senior leadership in this portfolio provided very limited or no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to effectively discharge their responsibilities. This is illustrated by the fact that the established internal audit unit and audit committee were deemed ineffective, as management did not implement their recommendations.

The level of assurance provided by the portfolio committee was also limited by the credibility of information provided to them. Until such time as senior management focuses on the daily disciplines and the monitoring and oversight of such disciplines, the assurance provided will not improve.

We met with the MEC four times in the past year and these interactions had a significant impact on the audit outcome, as a result of the MEC's responsiveness to our messages. In addition, the past instability between the political and the administrative functions has now been addressed as a chief financial officer and an accounting officer were appointed after year-end.

To pave the way forward, all role players need to work together to build a high-performance environment that promotes accountability.

6.4 Social Development and Special Programmes



Auditees included in the portfolio:

■ *Eastern Cape Department of Social Development and Special Programmes (DSDSP)*

Movement in audit outcome

The audit outcome of the portfolio has remained unqualified with findings on non-compliance with legislation for the past three years. The long-anticipated breakthrough to clean administration has not happened yet, as the DSDSP did not effectively design appropriate internal controls to monitor whether transfers to non-governmental organisations were used for their intended purpose. In addition, their failure to adequately implement proper monitoring controls around financial reporting and SCM contributed to the stagnation in the audit outcome.

Six key risk areas

On a positive note, the satisfactory quality of the annual performance report has been maintained. However, the lack of the same level of appropriately designed controls and supervision in the areas of IT controls and financial health restricted forward momentum in these two areas.

During the year under review, there were inadequate supervision and review processes in respect of commitments, which resulted in a material adjustment. Going forward this will have to be strengthened to sustain the current audit opinion or to move towards a clean audit outcome. The poor controls in respect of appointments led to a regression in HR management, while the DSDSP's inability to design appropriate daily controls around SCM and transfers to non-governmental organisations resulted in repeat findings in these two areas.

Key controls and root causes

Directly correlating with the regression in the risk areas, was a similar regression in the assessment of key controls. Although most of the daily and monthly controls were in place, the leadership will have to strengthen their oversight to ensure that these controls are strengthened and further regression is avoided.

The slight improvement in relation to governance did not produce the desired result, as submissions to the audit committee did not allow enough time for the committee to discharge its functions effectively.

For the department to regain lost momentum in the drive to clean administration, they should monitor the implementation of action plans aimed at strengthening the controls over daily and monthly processing and reconciling of transactions as well as controls relating to the preparation of accurate and complete financial reporting. This will only be possible if root causes are addressed by:

- utilising the internal audit unit to a greater degree and implementing internal audit recommendations
- training, capacitating and managing the performance of officials, including the leadership, responsible for monitoring the spending by non-governmental organisations and SCM
- taking the necessary disciplinary steps against officials who do not comply with legislation.

Impact of key role players on audit outcomes

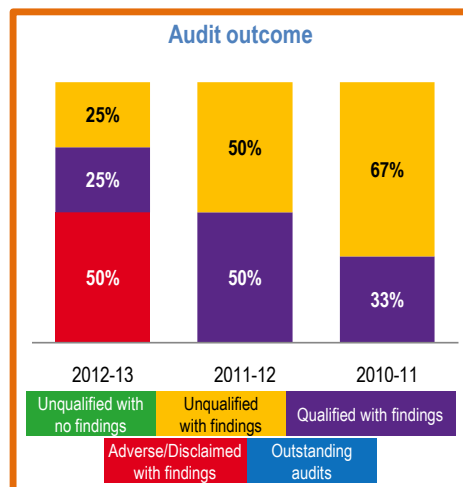
Although the root causes and weaknesses highlighted above are isolated, and considering that the basic controls are in place, senior management provided only some level of assurance. This in turn limited the ability of the accounting officer and the MEC to provide the required level of assurance. As a result, the other assurance providers could also only provide some level of assurance.

Although the portfolio committee executed its oversight function, the effectiveness of the committee and the assurance it provided were limited due to the lack of credible information supplied to the committee.

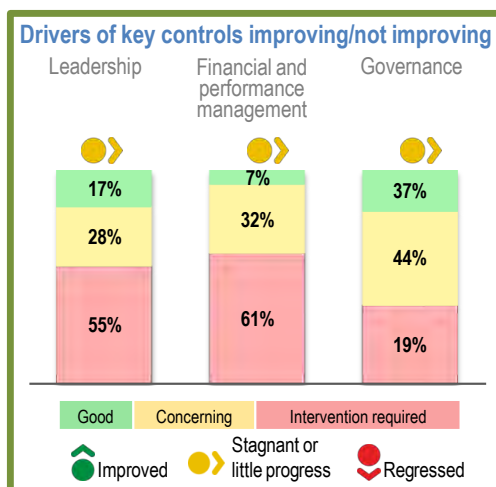
The assurance provided through the oversight function of the portfolio committee as well as the credibility functions of both the internal audit unit and the audit committee should be improved by enforcing accountability and insisting on credible information from senior management and the accounting officer.

We met with the MEC three times during the year. Despite the MEC's openness to our messages, the interactions had a minimal impact on the audit outcome, as the implementation of our recommendations was not sufficiently monitored and supervised.

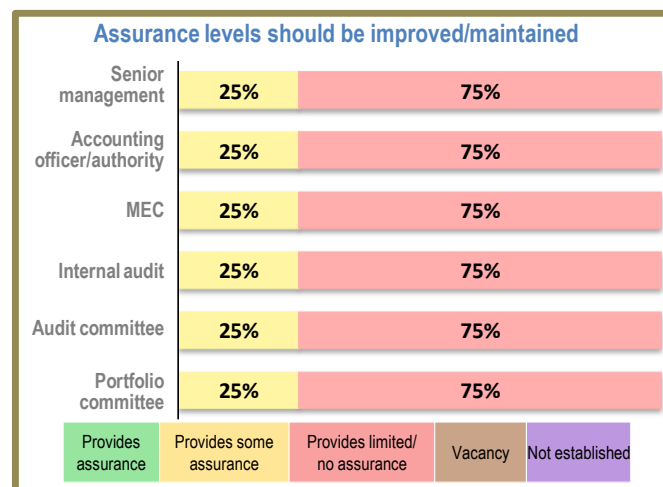
6.5 Public Works, Roads and Transport



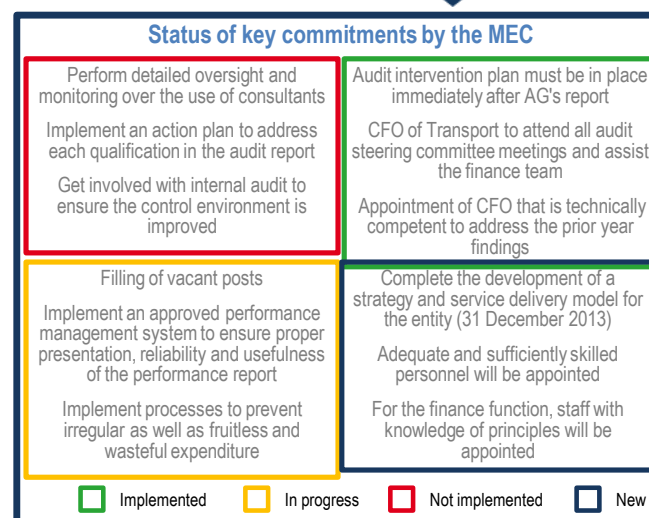
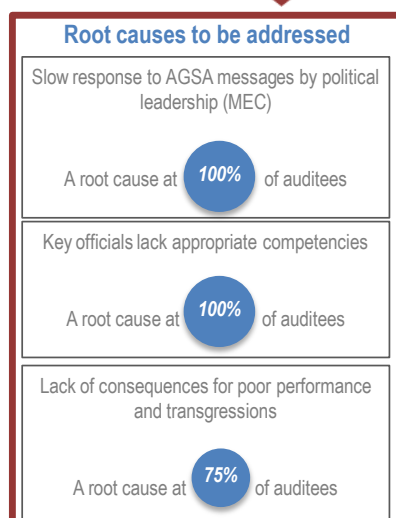
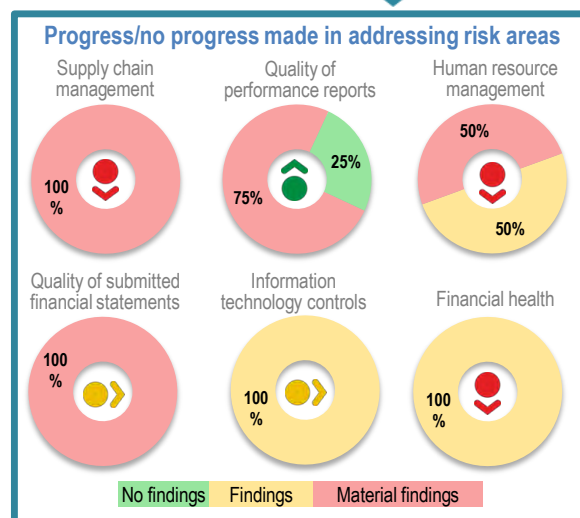
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio:

■ *Eastern Cape Department of Transport (DoT)* ■ *Eastern Cape Government Fleet Management Services (GFMS)* ■ *Eastern Cape Department of Roads and Public Works (DRPW)* ■ *Mayibuye Transport Corporation (MTC)*

Significant movement in audit outcome

At an overall level, there was a regression in the audit outcome of the portfolio. The only department that had an unchanged audit outcome was the DoT, who would have regressed if it were not for the exemption granted by the National Treasury.

Historically, the DoT and the MTC have avoided disclaimer of opinions due to last-minute audit adjustments, but the fact that the response to our messages remained slow and internal control shortcomings were not sustainably addressed, inevitably resulted in the regressions.

Six key risk areas

We are concerned about the status of the six key risk areas, which indicates that daily and monthly financial and performance reporting and monitoring did not take place in the operations of this portfolio. As a result, there were still many material findings in four of the six areas.

These poor financial and performance disciplines, together with a lack of responsiveness to our messages and appropriate skills, contributed to the poor quality of the financial statements.

Inadequate systems and controls as well as a lack of skills to effectively monitor and supervise HR management and SCM resulted in regressions in these critical areas. These issues also contributed to the poor quality of performance reporting, except for the MTC who had addressed all their findings.

A lack of accountability for financial management and poor oversight by the leadership contributed to the findings on financial health. Improvements in the area of IT controls are also still required, as the leadership has not made IT a strategic priority.

Key controls and root causes

Although there was an overall regression in the audit outcomes, there was not a noticeable regression in the drivers of internal control. This was due to the fact that we had identified these weaknesses in our prior year assessment, but they were not addressed by the leadership. This does not apply to the DoT, where

basic internal controls were in place. However, this department still needs to strengthen monitoring controls if they want to move forward.

With the exception of the DoT, the portfolio will have to design and implement adequate daily, weekly and monthly financial and performance disciplines and a proper record management system. In addition, the MEC and her leadership should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill critical vacancies with qualified and competent staff and provide training for current staff.
- Instil the principle of consequence management and create a culture of accountability.

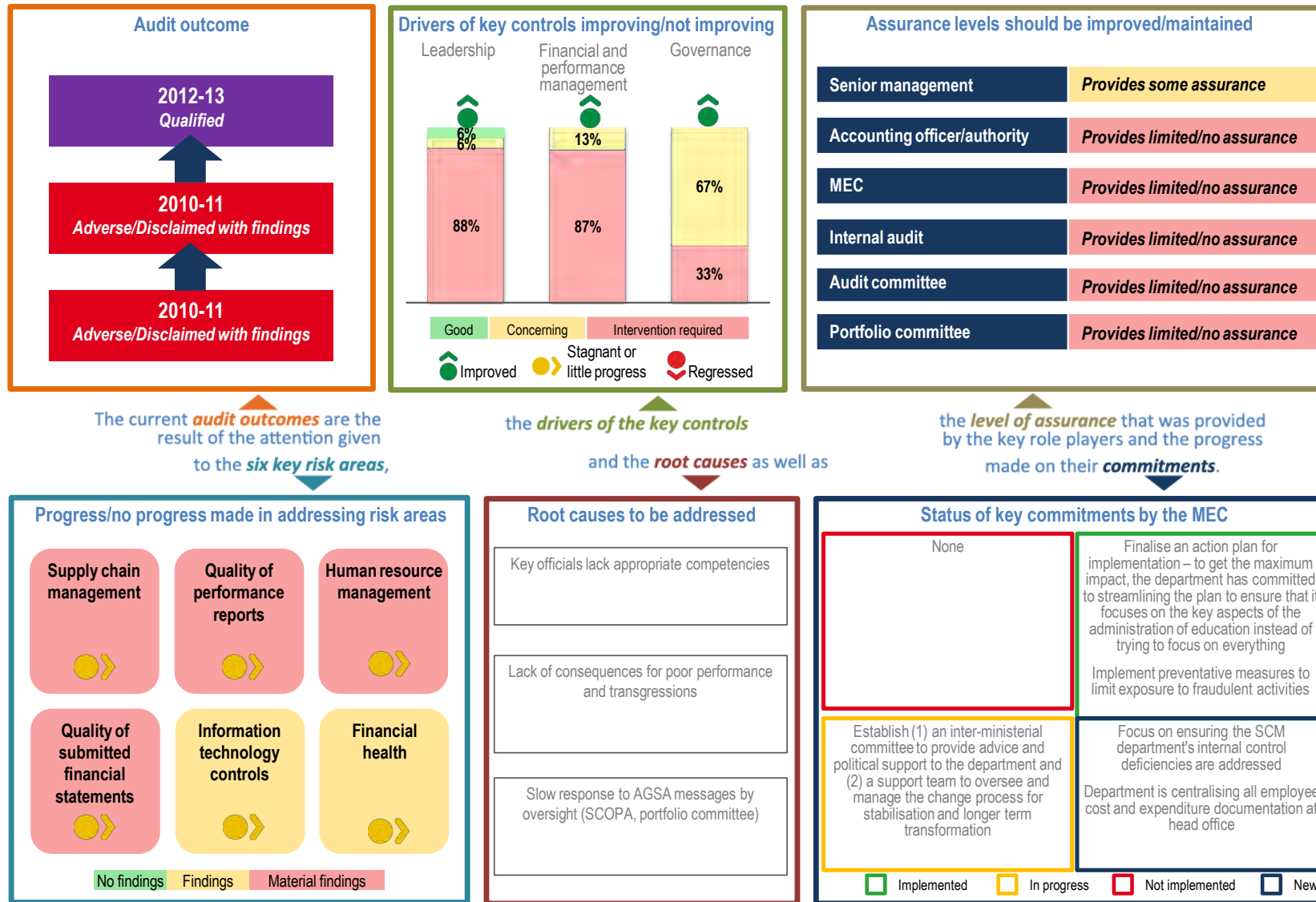
Impact of key role players on audit outcomes

With the exception of the DoT (which makes up 25% of the portfolio) who had processes to provide some level of assurance, the leadership of the portfolio did not create an environment conducive to producing credible information. This had a direct impact on the effectiveness of the oversight bodies, including the portfolio committee, as they were unable to fully execute their responsibilities and provide adequate assurance.

The audit committees continued to assist the leadership in the pursuit of accountability. However, their effectiveness was weakened by the inaccurate information submitted to them.

We met with the MEC every quarter during the past year. These interactions had a minimal impact on the audit outcomes, as our recommendations were not fully implemented. It is critical that the challenges within this portfolio be addressed as a matter of urgency and that the processes required to enable oversight are implemented.

6.6 Education



Auditees included in the portfolio:

■ Eastern Cape Department of Education (DoE)

Significant movement in audit outcome

The improvement in the audit outcome was the result of a collective effort by the political and the administrative leadership of the DoE, with the assistance of the Office of the Premier and the Provincial Treasury.

This improvement can be directly linked to improved leadership and the appointment of key personnel with the appropriate skills and competencies. This addressed the long-standing challenge of not being able to produce information in support of the financial statements.

Six key risk areas

Despite the positive movement in the audit outcome, the daily and monthly financial reporting and monitoring disciplines have not filtered through to the operations of the DoE, and as a result there was not much movement in the six key risk areas.

SCM remained a significant challenge, with basic internal controls not functioning to prevent irregular expenditure and an environment conducive to fraud and corruption.

The leadership did not adequately monitor key deliverables, as performance management and reporting systems were inadequate and the DoE lacked the necessary skills and competencies to manage this critical process.

There was an improvement in addressing the submission of HR documents for audit purposes, but the document management system within HR should be addressed urgently to prevent a regression in future audit outcomes.

A lack of accountability and year-round financial discipline as well as insufficient review processes resulted in inadequate assurance and credibility of the financial statements. As a result, the financial statements submitted for auditing remained of a very poor quality and there was a high level of reliance on the audit process to correct material misstatements.

There was some progress in two key risk areas, most notably financial health, as measures were implemented to prevent the DoE from overspending. In addition, an IT governance framework was established, but was unfortunately not adequately implemented and monitored within the DoE.

Key controls and root causes

Although there was an improvement in the audit outcome, there was not a significant improvement in the key controls. This was largely due to the processes that had resulted in the improvement not being embedded in the control environment.

Designing and implementing the very basic controls of record management, daily and monthly processing and reconciling as well as regular, accurate and complete financial and performance reports should remain a priority within this portfolio if they wish to improve going forward.

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

- Implement and instil formal consequence management.
- Professionalise the DoE by focusing on recruitment and training within the department, as well as performance management.
- Accelerate the implementation of action and turnaround plans already drafted and in place in the DoE.

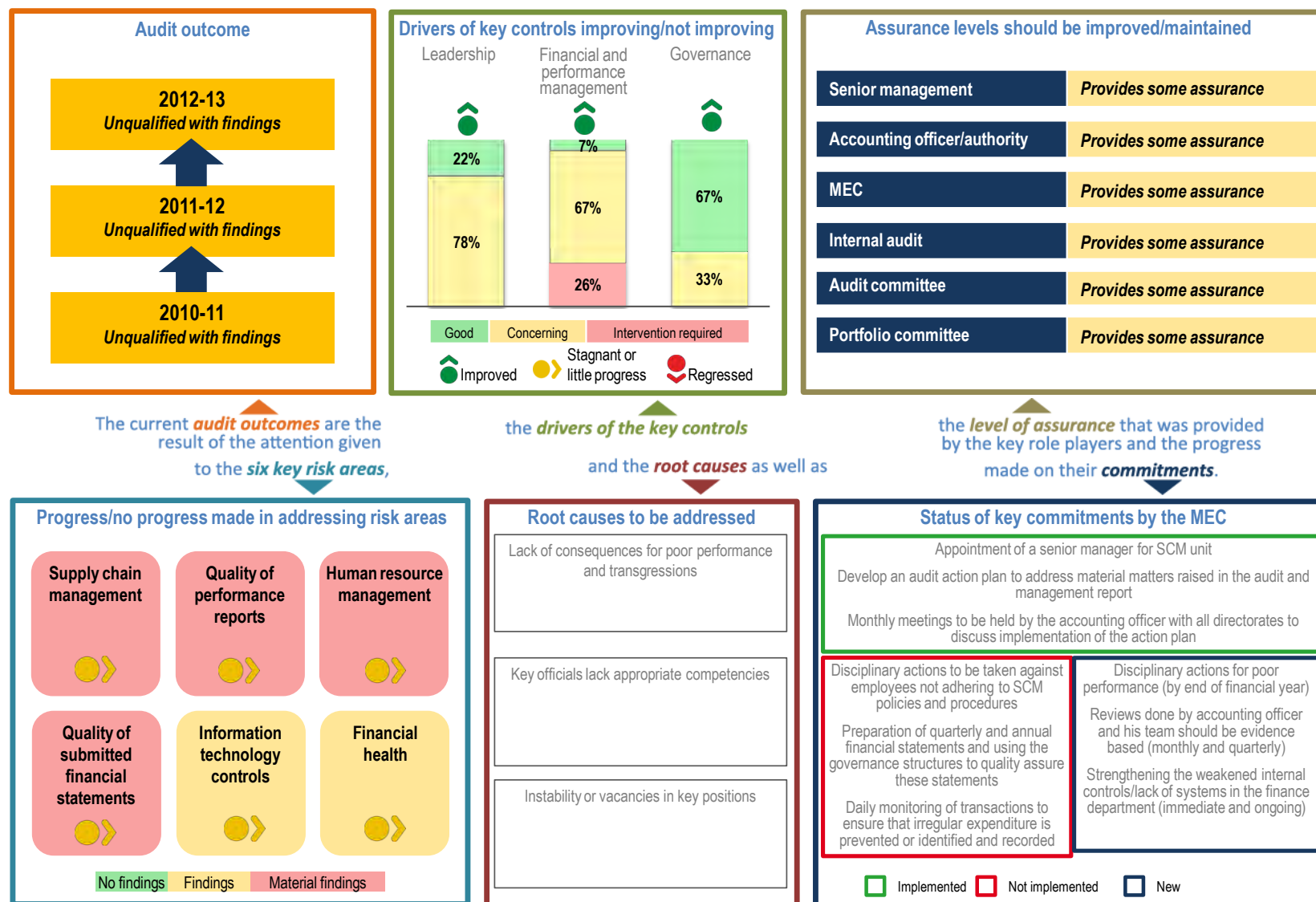
Impact of key role players on audit outcomes

Senior management provided some assurance during the year through the mechanisms initiated by the Office of the Premier, the Provincial Treasury and the section 100 intervention team. However, the assurance provided by the accounting officer was not at the same level, due to the instability of the position, with a permanent appointment only being made at the end of the financial year. This directly affected the credibility of information produced and the ability of the other assurance providers, including the audit committee and the portfolio committee, to effectively discharge their responsibilities.

We met with the MEC eight times in the past year and these interactions had a limited impact on the audit outcome. The MEC was responsive to our messages, but could not always implement our recommendations timeously as the administrative leadership only became stable towards the end of the financial year.

The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management, using the work already done by the internal audit unit to address control deficiencies, and directing the work of the audit committee towards evaluating turnaround plans as well as HR competencies.

6.7 Local Government and Traditional Affairs



Auditees included in the portfolio:

■ *Eastern Cape Department of Local Government and Traditional Affairs (DLGTA)*

Significant movement in audit outcome

The DLGTA has for the past three years retained its status of a financially unqualified opinion with findings. This was largely due to significant financial errors being identified and corrected during the audit process.

The move towards a clean audit outcome has stagnated and the overreliance on the audit process to produce credible financial statements is concerning, not only with reference to the sustainability of the audit outcome, but also in light of the department's role in setting the standards for the 45 municipalities in the province. Currently, the department is not leading by example and this can have an impact on their credibility when it comes to enforcing accountability in their oversight and coordinating role in the municipal sphere.

Six key risk areas

The leadership's inability to effectively follow through and implement commitments made to address the weaknesses within the six key risk areas caused the lack of movement in these areas, where material findings were still common. We take note of the limited progress on commitments, but these were either not implemented adequately or not monitored to ensure the desired outcome.

Although the commitment to capacitate SCM was implemented by prioritising the appointment of a senior manager, the appointment did not happen timeously and therefore delayed any positive impact to the next financial year.

The leadership not ensuring that adequate controls were in place to lessen the risk areas as well as the lack of timeous monitoring and reporting resulted in the stagnation in HR management, performance reporting as well as financial health. This was evidenced by a number of non-compliance findings and a lack of credible reporting.

As transactions relating to accruals and commitments were not monitored each day, the financial statements required material adjustments until very late in the audit process. It was only through this process that the department managed to maintain its unqualified outcome.

An IT governance framework was developed and approved, but controls over IT systems were not designed to ensure the reliability of the systems and the availability, accuracy and protection of information.

Key controls and root causes

There was a marginal improvement in leadership as well as financial and performance management, resulting from the filling of vacancies at senior management level and the reduction of the number of findings on non-compliance with SCM prescripts. Although the basic levels of control are in place, the monitoring and supervision thereof still need attention. In addition, the leadership should create a control environment that supports reliable financial and performance reporting by focusing on the following:

- Prepare monthly or quarterly reports and financial statements that are supported by credible supporting documents.
- Monitor the implementation of both internal and external audit recommendations.
- Train staff directly involved with accruals and commitments, and monitor and review staff members' work and performance timeously.

Impact of key role players on audit outcomes

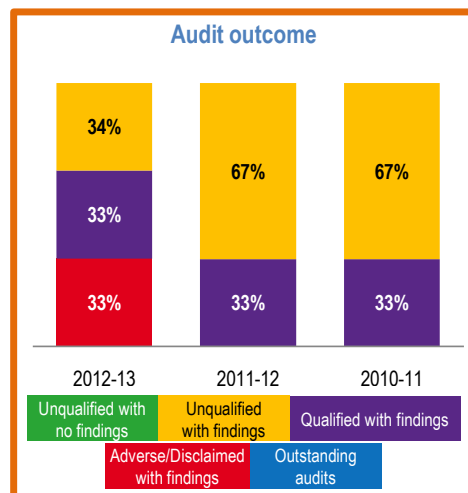
The root causes and weaknesses highlighted above drive the inability of senior management to produce accurate and credible information, which in turn limits the ability of the accounting officer and the MEC to provide the required level of assurance. To address this going forward, more stringent processes of accountability must be instilled within the department.

Although the portfolio committee executed its oversight function, the effectiveness of the committee and the assurance provided were limited due to the lack of credible information provided by the leadership. Similarly, although both the internal audit unit and the audit committee were in place, their effectiveness was weakened by management not implementing all of their recommendations.

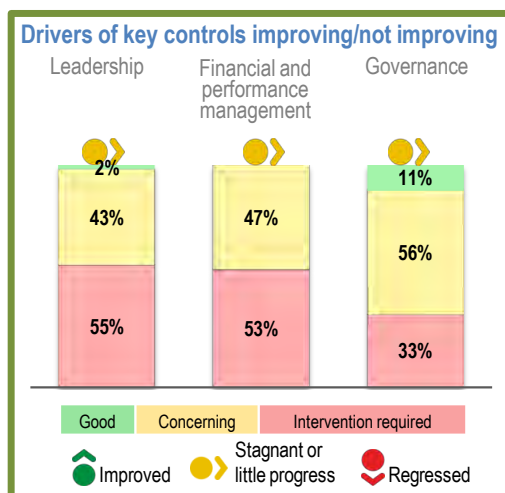
We met with the MEC seven times in the past year, but a slow response by the leadership led to these interactions not having an impact on the audit outcome.

All role players should work together, continuously monitor the implementation of audit action plans, and assess whether the action plans adequately address the root causes of findings. These practices should be entrenched in the monthly disciplines to strengthen the control environment and ultimately lead to a sustained improvement.

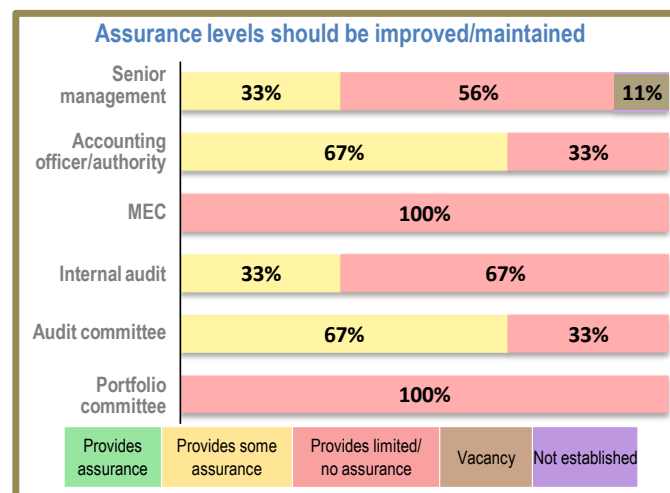
6.8 Rural Development and Agrarian Reform



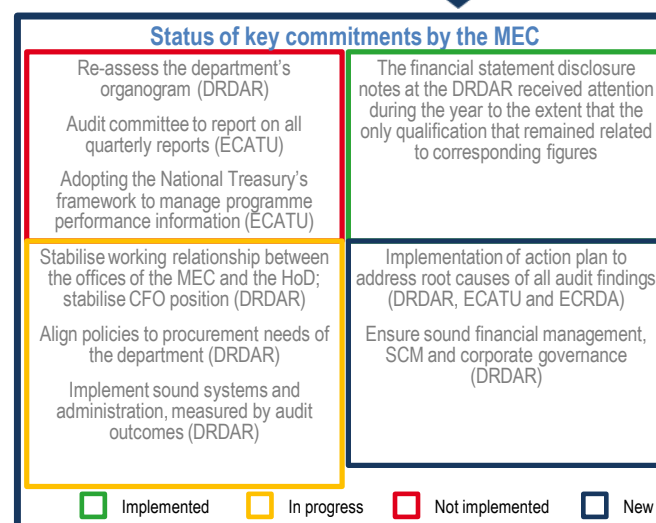
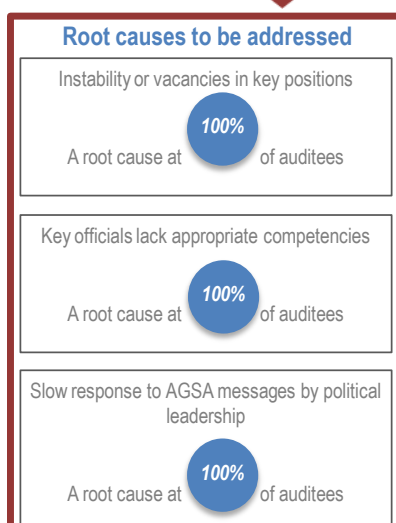
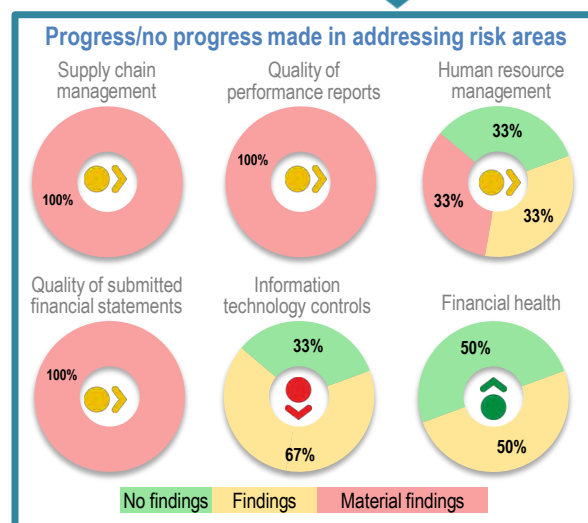
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio:

■ *Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR)* ■ *Eastern Cape Appropriate Technology Unit (ECATU)* ■ *Eastern Cape Rural Development Agency (ECRDA)*

Significant movement in audit outcome

The overall regression in the audit outcome of the portfolio was caused by a regression in the audit outcome of the ECATU, which moved from an unqualified opinion with findings to a disclaimer of opinion. The other auditees within this portfolio remained stagnant, as they have not yet refined their daily and monthly financial and performance disciplines and the related monitoring thereof.

The ECATU's regression can be attributed to the pending merger between the ECATU and the DRDAR, which resulted in most of the ECATU's key officials leaving at the end of the previous year. The temporary officials who filled these vacancies displayed neither the competencies nor the accountability required to maintain an unqualified opinion.

Six key risk areas

The improvement in the financial health indicators was due to the DRDAR addressing its findings by improved monitoring of the budget throughout the year. However, the ECRDA did not implement the same controls and could therefore not address its prior year findings. In addition, the ECRDA did not address weaknesses in the processes to award loans and the monitoring thereof.

The regression in the IT risk area was due to new findings at the ECRDA, where a full systems review was conducted for the first time during the current year. The DRDAR had repeat findings in this area. These new and repeat findings were mostly due to inadequate user account management procedures.

The status of the remaining four key risk areas stayed the same as in the previous year. This stagnation can be attributed to a lack of supervision and monitoring of the daily, weekly and monthly financial and performance activities.

The lack of supervision and monitoring was partly due to HR capacity issues within the portfolio, including a senior management vacancy rate of 28% at the DRDAR and 67% at the ECATU as well as the late finalisation of the organisational structure at the ECRDA.

Key controls and root causes

The regressed outcome of the portfolio did not necessarily correlate with the stagnation in the drivers of key controls, because the regression in the control drivers at the ECATU and the improvements in the control drivers at the ECRDA had a compensating effect.

The stagnation in improving the drivers of key controls within the portfolio as a whole was due to a lack of leadership intervention in financial disciplines, the lack of a strong environment of accountability and the slow response to our messages.

In addition, the MEC, accounting officer and accounting authorities as well as those charged with governance should address the root causes of the audit outcomes and inadequate controls as follows:

- Update and monitor the action plans.
- Professionalise the portfolio by focusing on recruitment and training as well as performance management.
- Implement and instil formal consequence management in the culture of the department.

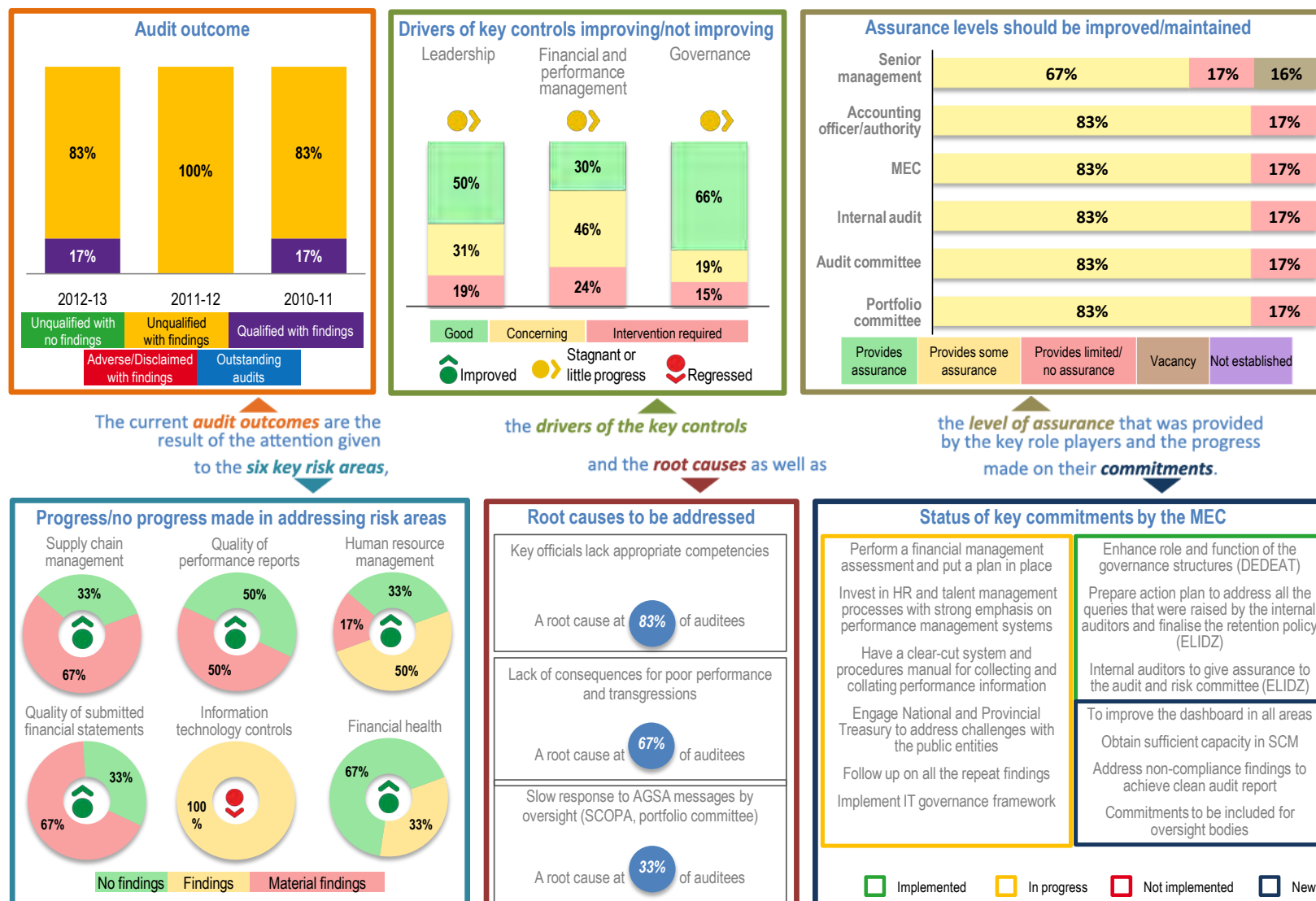
Impact of key role players on audit outcomes

The assurance provided by the senior leadership in the portfolio should be improved by ensuring stability at the level of accounting officer and senior management as well as implementing the recommendations of a fully capacitated internal audit unit with minimum delay. In addition, the audit committee should be directed towards evaluating performance information. The limited assurance provided by senior management affected the assurance that could be provided by the accounting officer and accounting authorities in the portfolio, except where they put mitigating controls in place to get additional assurance.

We met with the MEC twice in the past year and these interactions had some impact on the audit outcomes of the portfolio, but the audit action plan that was monitored by her did not adequately deal with the outcomes of all of the auditees within the portfolio. As a result, the assurance provided by the MEC was limited.

Although the programme of the portfolio committee included dealing with matters raised in our previous audit reports, the assurance provided in this regard was negatively influenced by the credibility of information provided to the committee by the leadership.

6.9 Economic Development, Environmental Affairs and Tourism



Auditees included in the portfolio:

■ *Eastern Cape Department of Economic Development, Environmental Affairs and Tourism (DEDEAT)* ■ *Eastern Cape Development Corporation (ECDP)* ■ *Eastern Cape Parks and Tourism Agency (ECPTA)* ■ *Eastern Cape Liquor Board (ECLB)* ■ *Eastern Cape Gambling and Betting Board (ECGBB)* ■ *East London Industrial Development Zone (ELIDZ)*

Movement in audit outcome

The audit outcome of the portfolio regressed due to the regression in the audit outcome of the ELIDZ, which moved from an unqualified opinion with findings to a qualified opinion. This regression was due to the absence of effective oversight by the leadership and a general weakening in the internal controls.

The outcome of the portfolio could have been worse had four of the six auditees in the portfolio not made material adjustments to their submitted financial statements to avoid qualifications.

Six key risk areas

Although progress has been made in addressing five of the six risk areas, this progress has been slow. This slow progress can be attributed to the leadership not taking proactive steps to ensure clean administration. Instead, the leadership continued to rely on the audit process to detect errors in the financial statements and PDO reports as well as non-compliance with legislation (including SCM and HR legislation).

The regression in the IT risk area was due to findings on IT controls being reported at the ECPTA for the first time. This regression, together with a lack of progress to address IT-related risks in the rest of the portfolio, was due to a lack of appropriately skilled staff and the portfolio's leadership not responding appropriately to our messages.

Key controls and root causes

The key controls within the portfolio showed little movement from the previous year. This could indicate that the current audit outcomes were still not sustainable.

The basic disciplines required to ensure credible financial, PDO and compliance reporting (such as transactions being processed, reviewed, reconciled and reported on a daily, weekly and monthly basis) should be instilled in the portfolio.

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

- Update and monitor the action plans developed to address the root causes of the portfolio's audit outcomes (including issues relating to the six risk areas).
- Professionalise the portfolio by focusing on recruitment and training as well as performance management.
- Implement and instil formal consequence management in the culture of the department.

Impact of key role players on audit outcomes

The assurance provided by the senior leadership in the portfolio should be improved by ensuring that the basic disciplines referred to above are in place.

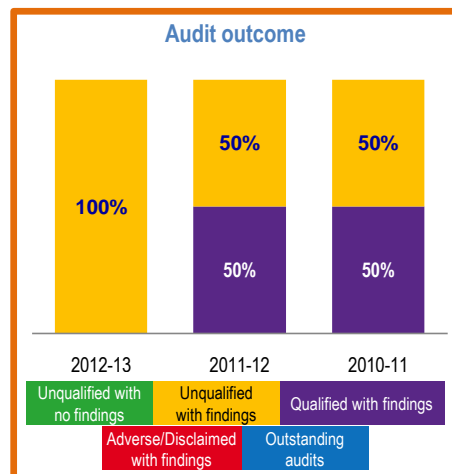
The limited assurance provided by the accounting officer, accounting authorities and the MEC was due to the financial and performance reports submitted by senior management not being credible as well as a lack of action to ensure that credible information was submitted.

We met with the MEC every quarter during the past year and these interactions had some impact on the audit outcomes, as the number of findings on PDO reporting and non-compliance was reduced but not completely eliminated.

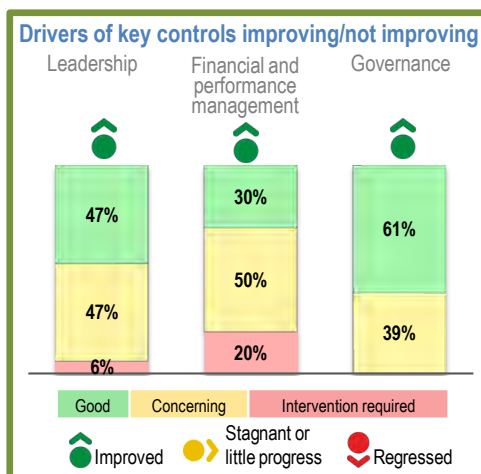
The audit committees only provided some assurance. This can be improved if the internal audit units are better used and directed. This will also assist the leadership in improving the control environment.

The level of assurance provided by the portfolio committee was limited by the credibility of information provided to them. This can be improved by ensuring that the implementation of action plans to address the findings relating to financial and PDO reporting as well as non-compliance with legislation is monitored at all auditees in this portfolio, and by taking oversight action where necessary.

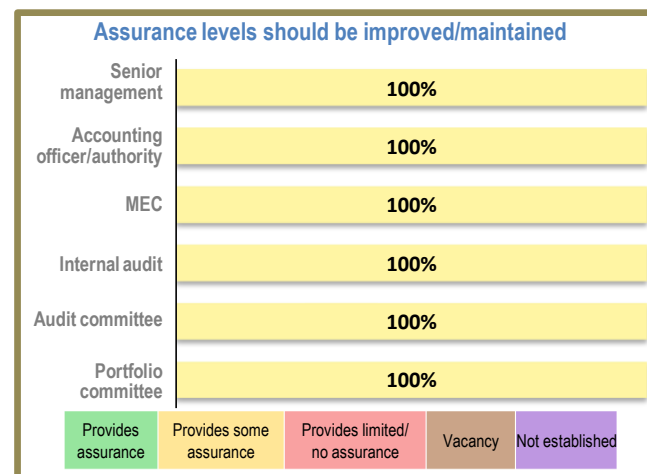
6.10 Human Settlements, Safety and Liaison



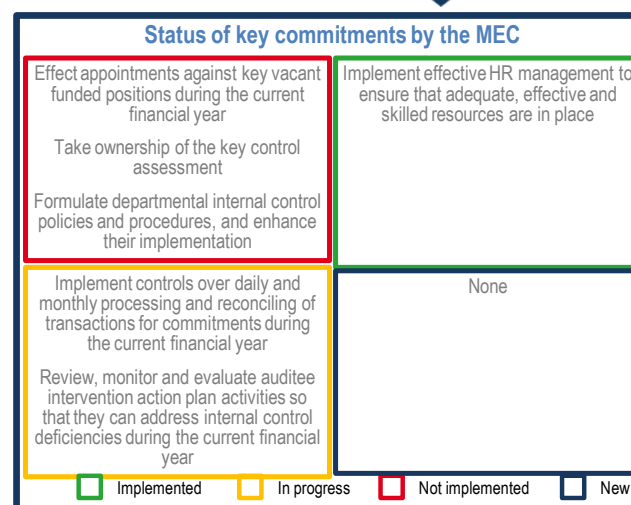
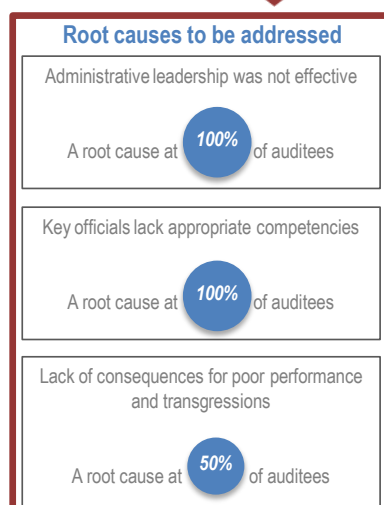
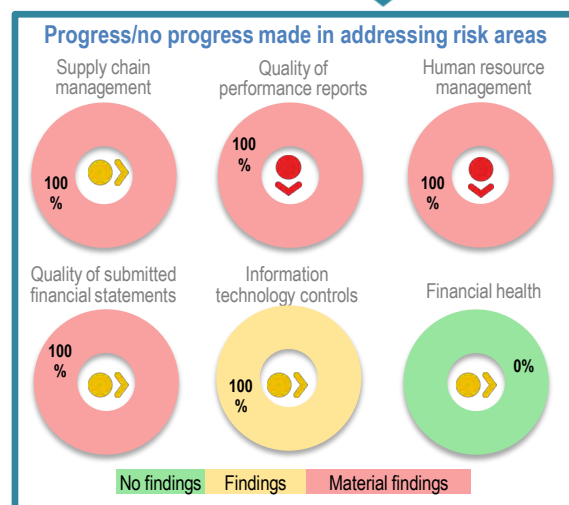
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio:

■ Eastern Cape Department of Human Settlements (DHS) ■ Eastern Cape Department of Safety and Liaison (DSL)

Significant movement in audit outcome

The improvement in the portfolio's audit outcome was due to the improvement in the audit outcome of the DHS, which improved to unqualified with findings from qualified in the previous year. This was achieved by using consultants, who recalculated the amount to be disclosed as commitments for the department.

This outcome is not considered to be sustainable, as the DHS has not implemented controls over the daily and monthly processing and reconciliation of property, plant and equipment; commitments; and employee benefits.

Six key risk areas

The regressions in the risk areas of HR management and the quality of annual performance reports were due to findings in both areas being reported for the first time during the year under review at the DSL. These regressions were the result of the poor management of vacancies and the relaxation of the supervisory and monitoring controls over the reporting of actual performance.

The lack of progress in respect of the quality of the financial statements and SCM can largely be attributed to a lack of supervision and monitoring of financial information and SCM prescripts during most of the financial year.

Another area that did not improve is the IT environment, as management did not design and implement adequate controls over the IT systems.

Key controls and root causes

During the greater part of the financial year, this portfolio did not have sufficient supervisory and monitoring processes. However, these controls were strengthened towards the end of the financial year but the benefits thereof did not filter through to the audit outcomes for the year under review.

The improvements included the leadership strengthening oversight and governance practices and holding officials accountable. If they are maintained, these improvements are expected to have a positive impact going forward.

To further enhance the control environment, the MEC, accounting officers, senior management and those charged with governance should address the root causes of the audit outcomes and inadequate controls as follows:

- Implement and instil formal consequence management in the culture of the departments.
- Professionalise the departments by focusing on recruitment and training as well as performance management.
- Accelerate the implementation of action and turnaround plans already drafted and in place in the departments.

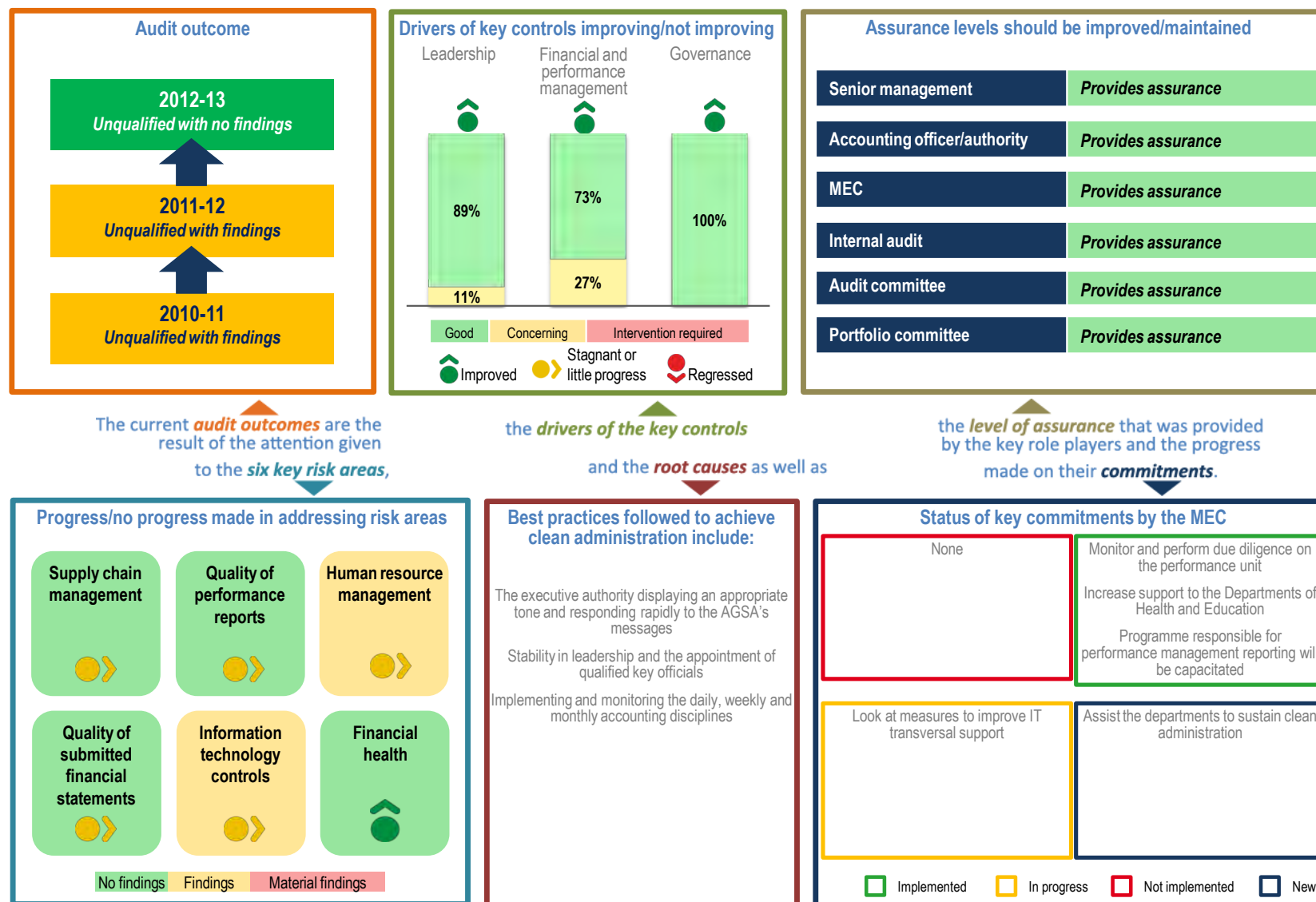
Impact of key role players on audit outcomes

The senior leadership only provided some assurance. This can be improved by implementing both internal and external audit recommendations and directing the work of the audit committee and internal audit unit towards in-year evaluation of financial, PDO and compliance reports.

We met with the MEC five times in the past year and these interactions had a significant impact on the audit outcomes, as the MEC directed management to take action after hearing our messages. In addition, the MEC positively influenced her portfolio by ensuring that regular interactions took place with senior management, during which financial performance, non-financial performance, departmental sustainability and external stakeholders were discussed. This started to improve internal controls towards the end of the financial year, but was too late to have an impact on the current audit outcome.

Although the programme of the portfolio committee included dealing with matters raised in our previous audit reports, the assurance provided was negatively influenced by the credibility of the information provided to the committee by the leadership.

6.11 Provincial Treasury



Auditees included in the portfolio:

■ Eastern Cape Provincial Treasury

Significant movement in audit outcome

This very important improvement of finally achieving a clean audit was the result of effective leadership that continuously monitored actions plans. Critical elements in respect of this improvement were qualified key officials, stability within the leadership, and the correct tone from the executive authority.

As is the case with the Office of the Premier, this is a significant movement for the province. The Provincial Treasury has critical oversight and coordinating functions within the province and the improved audit outcome allows them to lead by example and further enhance and strengthen their provincial role.

Six key risk areas

Progress was made in addressing the key risk areas, most notably the quality of performance reports and improvements in controls around compliance with legislation. Although the quality of the annual performance report improved significantly, the Provincial Treasury should focus on the achievement of planned targets in the annual performance plan, as 26% of the targets were not achieved in the current year.

Going forward, the HR management and IT controls will have to be strengthened to avoid a regression.

Although there were no material findings in respect of the financial health analysis, we are concerned that the Provincial Treasury has had an accrual-adjusted net liability position for the past two years.

Key controls and root causes

The MEC and his leadership team effectively discharged their oversight responsibilities by focusing on key controls and implementing appropriate action plans were necessary. In addition, the leadership team was very responsive towards our messages and implemented our recommendations timeously.

To sustain clean administration, the Provincial Treasury should strengthen the following controls to create a control environment that continuously supports reliable financial and performance reporting and compliance with legislation:

- Continuously monitor compliance with legislation.

- Effectively implement the information and communication technology governance framework.
- Prepare and review reliable monthly financial and performance information.

Sound financial and performance controls are essential for the Provincial Treasury, as they play a vital role in the oversight of financial and performance information in the province and as such should continuously strive to lead by example and assist other auditees to achieve clean administration.

Impact of key role players on audit outcomes

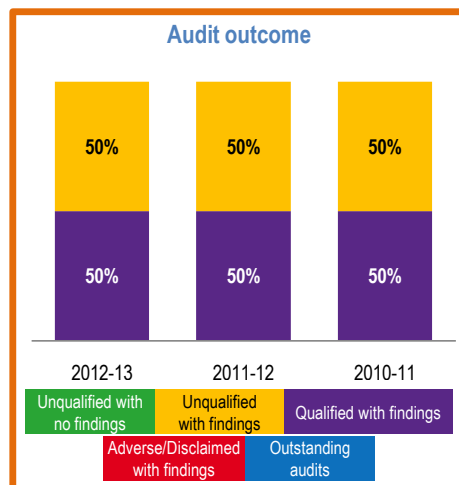
The leadership has created an environment where senior management members understand their role in achieving clean administration and the need to produce credible information.

The enhanced controls over daily and monthly activities improved the credibility of the information produced, helping the governance and oversight bodies to provide effective oversight and assurance. This had a direct impact on the effectiveness and assurance provided by the portfolio committee. In addition, the internal audit unit and audit committee were actively involved in addressing the weaknesses that were identified in the previous year's audit and as such were able to provide effective assurance.

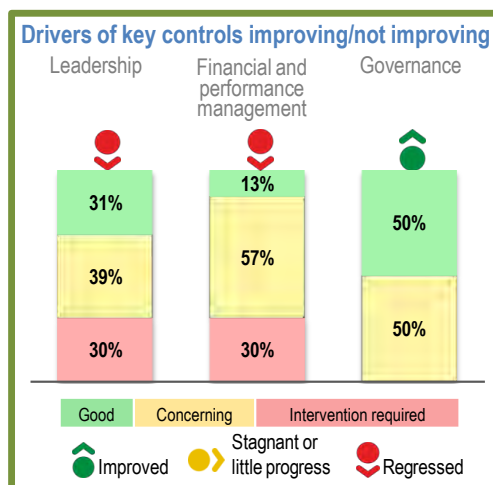
We met with the MEC three times in the past year and these interactions had a significant impact on the audit outcomes, as he was very responsive towards our messages.

All role players should work together to further strengthen and enhance the control environment. As part of its coordinating function, the Provincial Treasury should furthermore share its best practices with other departments and entities to make clean administration possible for all auditees in the province.

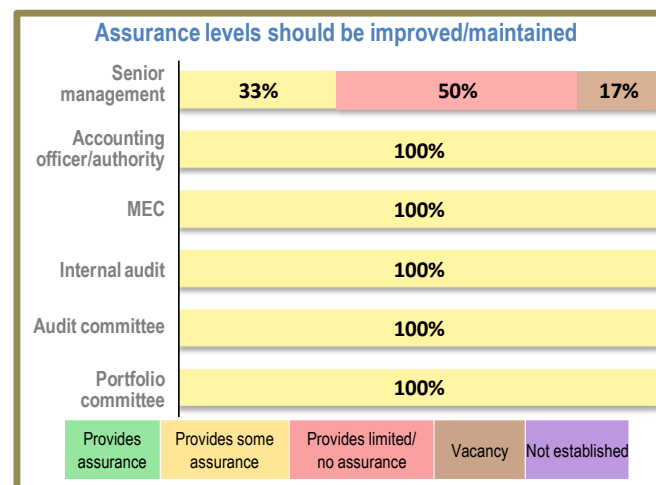
6.12 Sport, Recreation, Arts and Culture



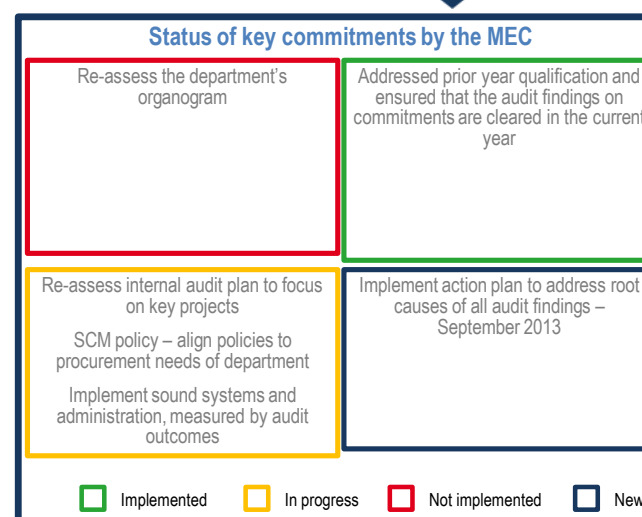
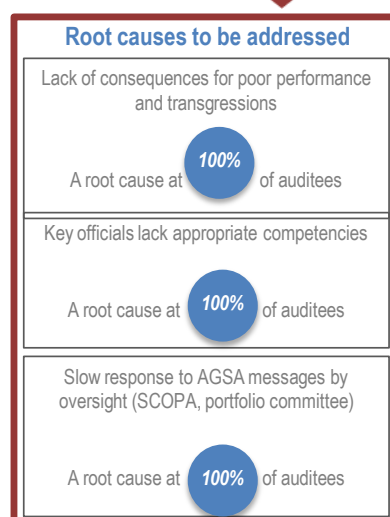
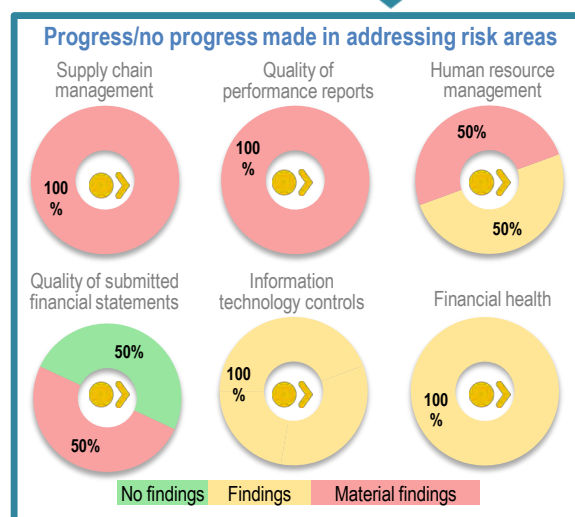
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio:

- *Eastern Cape Department of Sport, Recreation, Arts and Culture (DSRAC)*
- *Eastern Cape Provincial Arts and Culture Council (ECPACC)*

Significant movement in audit outcome

There has been no movement in the audit outcomes of the auditees in this portfolio, as the DSRAC did not effectively implement controls over daily and monthly processing and reconciling of financial and performance information, and did not effectively monitor legislation. This resulted in the department receiving two new qualifications even though they had addressed their prior year qualification.

The ECPACC has the necessary controls and can achieve a clean audit if they further enhance and strengthen these controls, especially in respect of monitoring performance information and compliance with legislation.

Six key risk areas

The leadership's inability to effectively follow through and adequately implement actions to timeously address the weaknesses in the control environment resulted in a lack of progress in the six key risk areas, especially in respect of SCM and the quality of the financial statements at the DSRAC.

The leadership of the portfolio did not effectively monitor key deliverables, as performance management and reporting systems were inadequate and there was a lack of necessary skills and competencies to manage this critical process.

There has been only limited progress with regard to financial health and IT, due to a lack of monitoring and oversight. Going forward, the entire portfolio will have to work together to address these findings.

Key controls and root causes

The regression in the drivers of key controls was largely the result of the DSRAC not having all the necessary financial disciplines. This should be strengthened by improving the daily and weekly financial and performance processes for the preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

The accounting officer and senior management of both the auditees should, with the support of the audit committees and internal audit units, address the root causes of the audit outcomes and inadequate controls as follows:

- Strengthen the oversight and monitoring controls within the DSRAC and continuously assess if all risks are addressed.
- Fill key vacancies at the ECPACC to address weaknesses in HR management and SCM.
- Take the necessary measures against officials who do not comply with policies, laws and regulations, and create a culture of accountability.

Impact of key role players on audit outcomes

Senior management of the ECPACC provided some assurance and had implemented processes to produce credible financial information, evidenced by the fact that they had no findings on the quality of their financial statements. Senior management of the DSRAC did, however, not have the same processes in place.

To address the above challenge, the accounting officer and the MEC took action against key leadership members responsible for finance and SCM. As part of their oversight responsibility and to enable them to provide some level of assurance, they sourced the necessary skills and competencies from the Provincial Treasury. In addition, they used the reviews of the internal audit unit and the audit committee, which provided some level of assurance over the credibility of information.

We met with the MEC four times in the past year and these interactions had some impact on the audit outcomes. The MEC was responsive towards our messages, but the impact on the audit outcomes was limited due to an environment that did not lend itself to proper planning and reporting.

The level of assurance provided by the portfolio committee was limited by the credibility of the information given to the committee. Until such time as senior management focuses on daily disciplines and the monitoring and oversight thereof, the assurance provided will not improve. The MEC will have to intensify her actions of holding staff accountable if the department is to move forward.

ANNEXURES

93

Annexure 1: Auditees' audit outcomes, areas qualified as well as findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance															Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure										
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time to auditing	No annual performance report	Material misstatements or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R'000	Irregular expenditure Amount R'000	Fruitless and wasteful expenditure Amount R'000		
Departments																																												
Rural Development and Agrarian Reform		R	R		R	R					R					A	R			R	R					R				R	N		R	R		R	R	R	A	0.00	29.40	0.37		
Economic Development, Environmental Affairs and Tourism		A	R		R	R										A	A			R	R	A			N	R	A	A	A	R		A	R	R		R	R	R	A	0.00	9.30	0.00		
Education		R	R		R	R	R	A	R		R	A	R	R	R	R	R			R	R		R		A	R	R	A	R	R	R	R	R	R		R	R	R		0.00	631.90	631.30		
Health		R	R		R	R	A	A	A		R		R	R	N	R	R			R	R		A		A	R	R			R	N	N	R	R		R	R	R	N	52.40	304.00	128.50		
Human Settlements		R	R		R	R					A						R			R	R	N				R			A	N	N	N	R	R	N	R	R	R		0.00	359.70	0.06		
Local Government and Traditional Affairs		R	R		R	R											R			R	A				A				A		R			R	R	R		R	R	R		0.00	3.30	0.00
Office of the Premier			A			R															A					A							A	A		A	A	R		0.00	0.00	0.03		
Provincial Legislature		R	R		N	N										R	R			R	N								A					N		N		R		0.00	7.10	0.00		
Provincial Treasury			A		A	R																									A				A			N	R		0.00	0.00	0.00	
Roads and Public Works		R	R		R	R	R	N			R		R	R	R	R	R			R	R	A	R		A	R	R				R	R	R	R	R		R	R	R	X	0.00	661.90	5.10	
Safety and Liaison		N	R			R											N			R	R		A			R	A				N			R	N		R	N	R		0.00	1.60	0.01	
Social Development and Special Programmes			R		A	R														N							A						R	R	N		R	R	R		0.00	21.50	0.87	
Sport, Recreation, Arts and Culture		R	R		R	R	N				A			N		R	R			R	A		R			N	N			N	N			R	R		R	R	R		0.00	65.00	0.24	
Transport		R	R		R	R										R	R			R	R			A	A	A			R	R	N	A	R	R		N	R	R	R	0.00	39.00	0.45		
Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee														Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not analysed (X)				Legend (Expenditure)	Improved	Regressed													

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure									
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatements or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R'000	Irregular expenditure Amount R'000	Fruitless and wasteful expenditure Amount R'000	
Public entities																																											
East London Industrial Development Zone		R	R		R	R									N	R	A			R			N						A	R		R		N			R	R	R	R	0.00	0.00	0.28
Eastern Cape Development Corporation		R	R		R	R										A	N			R			A									N				A	N	R	A	0.00	0.00	0.00	
Eastern Cape Government Fleet Management Services		R	R		N	N	N	N				N							R	R	N	R	R						A	R	R	N		N			N	N	R		0.00	13.30	0.08
Eastern Cape Provincial Legislature Political Party Fund			R			N									A					A		N																		0.00	0.00	0.00	
Eastern Cape Rural Development Agency		R	R		R	R										R	N			R	R		A						A	R	R	N		R			R	R	N	R	0.00	0.96	0.31
Eastern Cape Appropriate Technology Unit		R	R		R	R	N		N	N	N		N	N		R	R			R	R		N		N		N	A	A		N		R			R	A		X	0.00	5.30	0.00	
Eastern Cape Socio Economic Consultative Council			A		A	R														A		A			A						A		A		A		N	N	0.00	0.00	0.00		
Eastern Cape Gambling and Betting Board		A	R		R	R										A	A			A	A		A									R		A		A	A	R	R	0.00	0.00	0.00	
Eastern Cape Liquor Board		R	R		R	R												R		A			A									N		N		N	A	R		0.00	0.09	0.00	
Mayibuye Transport Corporation		A	R		R	R	N	N	N	N	N	R	R	N		A	A			R	R		R								R	R		N		R	N	R	X	0.00	23.20	0.23	
Eastern Cape Parks and Tourism Agency			R			R														R	N		A							A				R			R	N		0.00	2.40	0.00	
Eastern Cape Provincial Arts and Culture Council		R	R		R	R										A	R				N				R						N	R		R			R	R	R	A	0.00	2.30	0.00
Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee														Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not analysed (X)					Legend (Expenditure)	Improved	Regressed											

Annexure 2: Auditees' five-year audit opinions

Auditee		Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Departments							
Rural Development and Agrarian Reform	EC						
Economic Development, Environmental Affairs and Tourism	EC						
Education	EC						
Health	EC						
Human Settlements	EC						
Local Government and Traditional Affairs	EC						
Office of the Premier	EC						
Provincial Legislature	EC						
Provincial Treasury	EC						
Roads and Public Works	EC						
Safety and Liaison	EC						
Social Development and Special Programmes	EC						
Sport, Recreation, Arts and Culture	EC						
Transport	EC						
Public entities							
East London Industrial Development Zone	EC						
Eastern Cape Development Corporation	EC						
Eastern Cape Government Fleet Management Services	EC						
Eastern Cape Provincial Legislature Political Party Fund	EC						
Eastern Cape Rural Development Agency	EC						
Eastern Cape Appropriate Technology Unit	EC						
Eastern Cape Socio Economic Consultative Council	EC						
Eastern Cape Gambling and Betting Board	EC						
Eastern Cape Liquor Board	EC						
Mayibuye Transport Corporation	EC						
Eastern Cape Parks and Tourism Agency	EC						
Eastern Cape Provincial Arts and Culture Council	EC						
Legend (Audit opinion)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at leislated date	New auditee

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

Auditee	Leadership															Financial and performance management															Governance																				
	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit			Audit committee		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C									
Departments																																																			
Rural Development and Agrarian Reform	↑	↑	↑																			↑	↑	↑																											
Economic Development, Environmental Affairs and Tourism	↑	↑	↓																			↑	↑	↑																											
Education	↑	↔	↔																			↑	↑	↔																											
Health	↑	↔	↔																			↑	↔	↑																											
Human Settlements	↑	↔	↔																			↑	↓	↑																											
Local Government and Traditional Affairs	↔	↔	↔																			↔	↔	↔																											
Office of the Premier	↑	↑	↑																			↑	↑	↑																											
Provincial Legislature	↓	↓	↓																			↓	↔	↓																											
Provincial Revenue Fund	↑	↑	↓																			↑	↑	↑																											
Provincial Treasury	↑	↑	↑																			↑	↑	↑																											
Roads and Public Works	↔	↔	↔																			↓	↑	↓																											
Safety and Liaison	↑	↑	↑																			↑	↑	↑																											
Social Development and Special Programmes	↓	↔	↓																			↓	↓	↓																											
Sport, Recreation, Arts and Culture	↔	↓	↓																			↔	↔	↔																											
Transport	↑	↔	↑																			↑	↓	↑																											
Public entities																																																			
East London Industrial Development Zone	↔	↔	↔																			↔	↔	↔																											
Eastern Cape Development Corporation	↑	↑	↑																			↔	↑	↑																											
Eastern Cape Government Fleet Management Services	↔	↔	↔																			↔	↔	↔																											
Eastern Cape Provincial Legislature Political Party Fund	↑	↑	↓																			↔	↔	↓																											
Eastern Cape Rural Development Agency	↔	↔	↔																			↓	↓	↔																											
Eastern Cape Appropriate Technology Unit	↓	↓	↓																			↓	↓	↓																											
Eastern Cape Socio Economic Consultative Council	↑	↑	↑																			↑	↑	↑																											
Eastern Cape Gambling and Betting Board	↑	↓	↑																			↑	↓	↔																											
Eastern Cape Liquor Board	↔	↔	↔																			↑	↔	↓																											
Mayibuye Transport Corporation	↓	↑	↓																			↔	↑	↔																											
Eastern Cape Parks and Tourism Agency	↓	↓	↑																			↓	↓	↑																											
Eastern Cape Provincial Arts and Culture Council	↔	↔	↔																			↓	↑	↔																											

Legend (root causes)

Good

Concerning

Intervention required

Not assessed

Legend (root causes)

Improved

Unchanged

Regressed

F = Financial

P = Performance

C = Compliance

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of terms

Accounts payable (also referred to as creditors)

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

Accounts receivable (also referred to as debtors)

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

Adverse audit opinion

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

Asset

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

Asset impairment

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

Assurance

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

Audit outcome

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

Capital budget

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

Cash flow

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

Clean audit outcome

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

Commitments (from role players)

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

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

IT governance

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

IT security management

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

IT service continuity

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

IT user access management

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

Internal control (also referred to as key controls)

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

Inventory

Goods held for resale or for internal use.

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

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

Leadership

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

Liability

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

Material finding

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

Material misstatement

A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement

Incorrect or omitted information in the financial statements or annual performance report.

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

Acronyms and abbreviations

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

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



AUDITOR - GENERAL
SOUTH AFRICA

PR318/2013
ISBN: 978-0-621-42340-2

This cover is printed on Sappi Triple Green
recyclable and biodegradable paper

