

KwaZulu-Natal



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

Fifteen auditees achieved clean audits
(Section 2.1)



Material non-compliance with legislation by 61% of the auditees
(Section 2.3)



No progress made toward improving reliability and usefulness of annual performance report
(Section 2.2)

Qualified opinions avoided by correcting material misstatements identified during audit process
(Section 3.1)

Some improvement in supply chain management (Section 3.2)

Vacancies and instability in key positions are affecting audit outcomes (Section 3.3)



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

Some improvement in the ICT controls (Section 3.4)



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



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

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KWAZULU-NATAL CLEAN AUDITS 2012-13

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DEPARTMENT

Provincial Legislature
Provincial Treasury
Transport

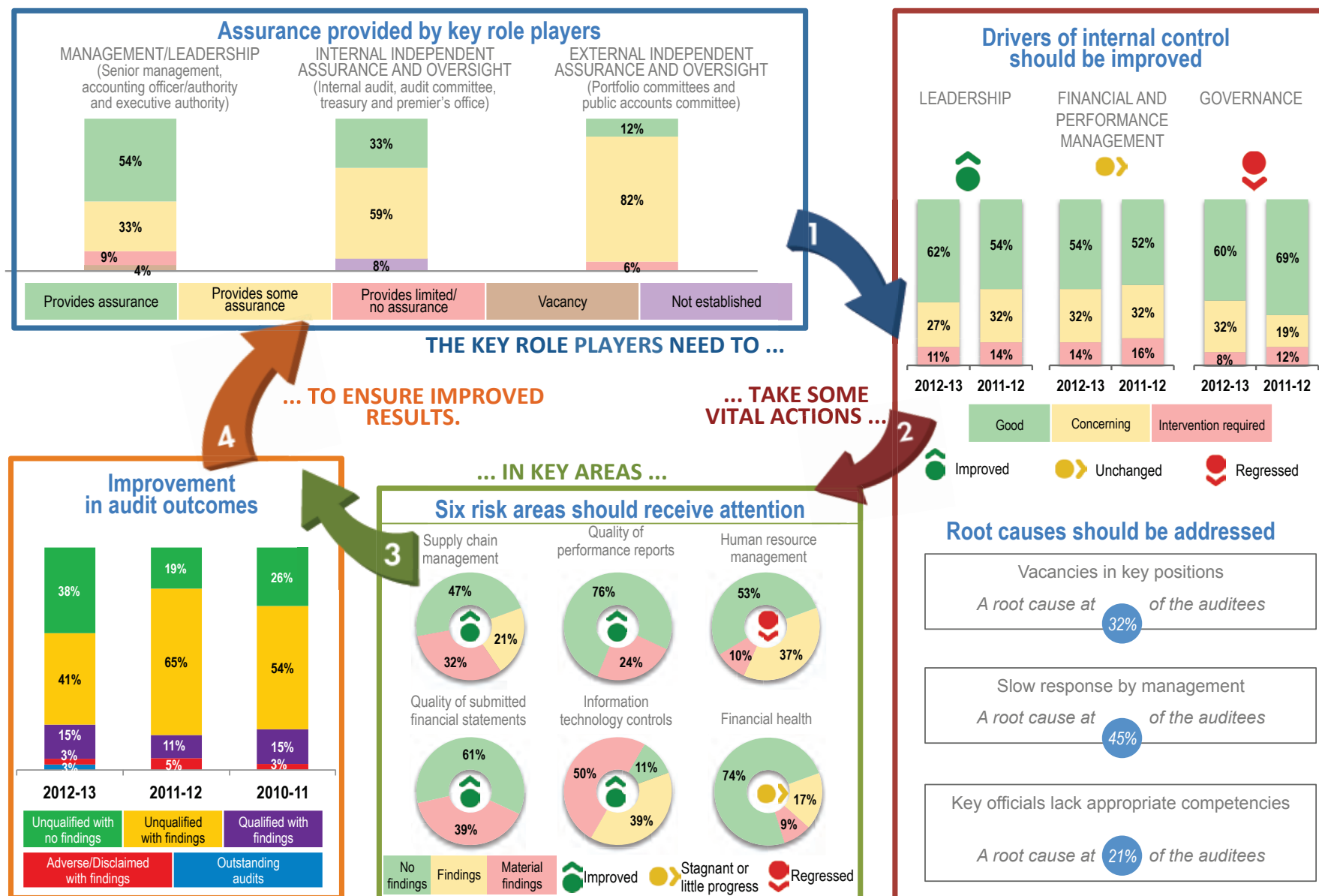


PUBLIC ENTITY

Amafa Akwazulu-Natali	
Dube Tradeport Company	Natal Joint Municipal Pension Fund (Retirement)
KwaZulu-Natal Gaming and Betting Board	Natal Joint Municipal Pension Fund (Superannuation)
KwaZulu-Natal Growth Fund Managers (Pty) Ltd	KwaZulu-Natal Sharks Board
KZN Political Parties' Fund	Trade and Investment KwaZulu-Natal
KwaZulu-Natal Tourism Authority	uMsekeli Municipal Support Services
Natal Joint Municipal Pension Fund (Provident)	



FOREWORD



FOREWORD

I hereby present to the legislature of KwaZulu-Natal my 2012-13 general report on provincial government audit outcomes. The outcomes reflect positive and steady progress by the provincial government as nine auditees (24%) improved their results by obtaining clean audits while six auditees (16%) sustained clean audits, resulting in an overall improvement of 24% in clean audit opinions over the two years. The improved outcomes are attributable to refinements in the processes and controls along with dedicated and disciplined efforts by the leadership and management to achieve excellence in all financial and service delivery activities that were undertaken.

Sixteen auditees (41%) remained stagnant with unqualified opinions with findings on other matters while another six (15%) had qualified opinions on their financial statements. The number of qualifications increased by 5% and related mainly to assets, receivables and liabilities.

The quality of performance reporting by auditees depicts a progressive trend with 25 auditees (76%) having no findings on their service delivery information, compared to 22 auditees (71%) in the prior year. This is indicative of the prioritised and focused attention by the leadership and management to report transparently on their achievement of predetermined objectives.

Material compliance findings relate primarily to the low-quality financial statements that were submitted for auditing, in that material errors were evident at 15 auditees (39%).

The leadership and management should contain the level of tolerance of compliance findings by institutionalising monthly and in-year monitoring practices, as well as ongoing skills development and training of officials. In this regard, skill and competency deficits for key officials existed at 21% of the auditees. The swift intervention of provincial leadership is therefore needed to address the matter.

The audit results on supply chain management show an improvement, as the number of auditees with no findings increased by two (5%). However, of concern is the increase in findings at six auditees (16%), which need to be closely monitored, particularly in the areas of competitive bidding processes and awards to employees. Human resource management (HRM) is a focus area in which the overall rate of findings has increased by 21% compared to the prior year. The vacancies in key positions at 12 auditees (32%) as well as a slow response from management to address the HRM finding at 17 auditees (45%) are hindering progress. It is also evident that IT governance controls, which are the foundation of effective IT, are already in place to solidify a platform for appropriate control design, which is an improvement. Financial health results remained stagnant, predominantly with findings on cash-flow management, and underspending on capital budgets and conditional grants.



Terence Nombembe
Auditor-General

Although there has been a slight improvement in the key internal control driver of leadership, there is much space for further and swifter sustained progress. This is only possible if key role players in the assurance chain increase their extent of involvement in this process. The political leadership structures are required to be more persuasive in their quest for better outcomes by holding management accountable and strengthening consequences for defective performance. Their roles should also extend to confirming the credibility and reliability of reports presented to them to address the stagnant position in financial and performance management. In most instances, the audit committees and internal audit functions are effective; however, the assurance they provide is driven by the implementation of their recommendations by the leadership, which needs more attention, particularly for internal audit as evidenced by the 9% reduction in the governance driver of internal control.

The committees of the legislature and the coordinating departments in the province, namely the provincial treasury, the legislature and the office of the premier, still need to amplify their oversight roles and forge best practices and relationships with departments and entities to lift results sustainably. Additionally, the collaboration between the provincial public accounts committee and portfolio committees needs to be intensified. If the leadership, as well as governance and coordinating structures set the right tone and honour all commitments decisively and vigorously, further improvements in outcomes are attainable.

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

Auditor-General

**Auditor-General
Pretoria
November 2013**

SECTION 1: EXECUTIVE SUMMARY

1. Executive summary

Our audit and reporting process

We audit every department and 23 of the 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 failed to prevent or detect it. We include these aspects in the following three types of reports:

We report our findings, the root causes and recommendations in management reports to the senior management and accounting officers or authorities of auditees, which are also shared with the members of the executive council and audit committees.

Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an audit report, which is published with the auditee's annual report and dealt with by the public accounts committee and portfolio committees as applicable.

Annually, we report on the audit outcomes of all auditees in a provincial general report (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the legislature and key role players in national and provincial government.

Over the past years, we have intensified our efforts to assist the 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 members of the executive council, accounting officers/authorities and audit committees.

We further identified the following six key risk areas that need to be addressed to improve audit outcomes and financial and performance management, 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

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

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

Audit outcomes improved

There has been an overall improvement in the provincial audit outcomes. Due to one auditee (KwaZulu-Natal Business Rehabilitation Trust Fund) submitting financial statements for audit purposes late, on 26 June 2013, we had not finalised this audit by 31 August 2013, which is the cut-off date for inclusion of audit outcomes in this general report. The significant aspects of the 2012-13 audit outcomes of 38 auditees are the following:

- Audit outcomes measured over a five-year period, as well as since the previous year, have improved.
- Clean audits have increased from seven to 15, unqualified audit opinions with findings have decreased from 25 to 16, qualified audit opinions have increased from four to six and adverse/disclaimed remained at one.

- Of the three departments, representing 75% of the total expenditure in the province, Education and Health received qualified audit opinions and Public Works received a financially unqualified opinion with other matters.
- The three-year trend from 2010-13 in annual performance reporting reflects steady progress in that the percentage of auditees with no findings has increased by 13% to 76% over this period.
- The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. Eleven departments (69%) did not have any findings on the usefulness of their performance reports, two regressed (13%) and one (6%) had a recurring finding. Thirteen public entities (76%) were able to sustain having no findings on the usefulness of their submitted performance reports and three (18%) progressed by resolving findings on usefulness.
- Findings on reliability of performance information relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. Recurring findings arose at two departments, while new findings emerged at three departments. Sixteen public entities (94%) maintained having no findings and one (6%) regressed with respect to the reliability of performance reporting.
- For departments and public entities, other performance-related matters mainly related to the non-achievement of planned targets denoted regressions, which needs attention.
- Sixty-one per cent (23) of the auditees had findings on compliance with legislation. There has been an improvement from the previous year after a regression from 2010-11 to 2011-12.
- The most common compliance findings related to the quality of financial statements submitted for auditing, procurement management and unauthorised, irregular and fruitless and wasteful expenditure.
- Unauthorised expenditure decreased to R456 million from R1 177 million the previous year. Unauthorised expenditure was R265 million in 2010-11.
- Over the three-year period from 2010-13, irregular expenditure continued to spiral at an alarming rate. The increase is R2 180 million (154%) calculated over a three-year period.
- Fruitless and wasteful expenditure has decreased by R82 million to R11 million in the current year.

The six risk areas should continue to receive attention

Our audit of the six risk areas shows that the recommendations we have made 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 reflections on the quality of performance information were included as part of the audit outcomes.

Quality of submitted financial statements

The quality of the financial statements submitted for audit purposes did not improve, with only 61% of the auditees submitting financial statements with no material misstatements. Eight auditees (21%) 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 a qualified or disclaimed audit opinion. The most common qualification areas were property, plant and equipment, revenue and receivables. Additionally, the Department of Education was qualified on leave entitlement liability for two consecutive years, and the Department of Health was qualified in this year for the first time on a similar matter. The completeness of the disclosure of commitments was also an issue at the Department of Education.

Supply chain management

Overall, 47% of the auditees in 2012-13 did not have any findings on supply chain management, compared to 42% in 2011-12. While this improvement is notable, the number of auditees where findings were identified increased from two to eight (16%) from 2011-12. The findings included limitations on the planned scope of audit of awards, awards to employees and close family members, uncompetitive or unfair procurement processes, inadequate contract management, inadequate supply chain management controls and ineffective management of consultants. Although the number of auditees with findings on awards to close family members of employees reflects an improvement of 8% (28%: 2012-13 and 36%: 2011-12), the number of instances of these awards still remained too high at 152, amounting to R54 million.

Human resource management

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*

The number of auditees with no findings has regressed by 21% from the previous year, from 28 to 20. Additionally, the number of auditees with material findings in the audit report and with findings from the management reports has increased by two and six, respectively, since the previous year.

Some of the departments and entities appointed consultants/contractors to execute certain projects. Our audits identified a number of deficiencies in the management of consultants and the need for decisive corrective actions. Findings were also reported on the lack of transfer of skills and performance management and monitoring.

Information technology

Effective IT governance controls ensure that the organisation's IT environment functions well and enables service delivery. Seventeen auditees (94%) experienced challenges with the implementation of the corporate governance of the information and communications technology policy framework.

A number of auditees (67%) continued to experience challenges with the design of security management policies that appropriately addressed network security, operating system security and application security.

Although the provincial treasury had designed the transversal user access policy in 2011, 88% of the auditees continued to experience challenges with adapting the policy to meet their requirements or implementing certain aspects of the policy.

Appropriate disaster recovery plans to facilitate the backup and recovery of the department's internal network as well as connectivity to the SITA transversal systems, had still not been designed or implemented at 83% of auditees.

Financial health

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

The number of auditees with no findings on financial health has declined by 3% from the previous year to 74%. There has been a marginal increase of 3% in the auditees that had findings from the previous year to 26% during 2012-13.

The financial management weaknesses reported for the public entities related mostly to debt management and collection of debt. There has been no improvement in cash management at departments. Eight departments (50%)

used an overdraft facility to manage their cash resources, relying on short-term finance to fund their day-to-day operations.

Unauthorised expenditure at five departments (31%), coupled with management report weaknesses, largely resulted in the overdraft position. Conditional grant underspending has increased by 13%, which puts a massive strain on service delivery backlogs and plans of provincial government. Debts outstanding in excess of the 90-day range were evident at seven departments (44%), reflecting a regression of 6% since the previous year.

Five public entities (26%) had impairment provisions greater than 10% of the outstanding debt balance, which is a regression from the three public entities that had this finding last year.

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

As part of our audits, we assessed the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation.

There has been an improvement of 11% overall in the implementation and monitoring of key controls in the drivers of leadership and financial and performance management when compared to the previous year. Although the improvements are encouraging, their impact must be sustainable in order to contribute to clean administration.

A regression by 9% in the assessment of key controls in the driver of governance was noted when compared to the previous year. A similar regression was also reported in the previous year. This regression emanates from internal audit recommendations not being implemented by auditees. Oversight departments have a key role to play in strengthening the effectiveness and sustainability of governance structures.

The slight improvement in the assessment of leadership has led to a positive change overall. When the leadership addresses our findings reported in the prior year, there is an immediate positive impact on the assessment of the financial and performance management drivers. This shows that where the leadership is committed to improving the control environment, the tone they set directly influences financial management and reporting, performance management and reporting and compliance with laws and regulations.

Many auditees did not receive 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 most common root causes of the audit outcomes that need to be addressed are:

- instability or vacancies in key positions
- slow response by management
- key officials that lack appropriate skills and competencies.

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as the compliance with legislation. Based on our assessment, these role players are not providing the necessary assurance.

The assurance level obtained from senior management has improved by 14% from the prior year's 46% in terms of the category that provides assurance.

The level of assurance provided by accounting officers and accounting authorities has increased since the previous year by 12% overall from 33% in terms of the highest level of assurance, which is positive. There are marginal improvements in the middle and lower assurance levels.

The levels of assurance provided by executive authorities show net improvements in all areas by 44% relative to the previous year. In 31% of the departments and 76% of the public entities, executive authorities provide high levels of assurance. For 69% of the departments and 34% of the public entities there is more work to be done to lift the assurance levels.

The results of the assurance derived from internal audit depict an overall regression of 14% compared to the previous year. The assurance level from audit committees has decreased by 5% when compared to the previous year.

The level of assurance provided by the treasury and premier's office indicates a stagnant position overall relative to 2011-12. It has been assessed that assurance has been provided by portfolio committees for two departments (13%), some assurance for 13 departments (81%) and limited/no assurance for one department. The provincial public accounts committee has provided some assurance in respect of all departments.

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

We have shared our key message on the actions needed to improve audit outcomes and identified risks to be addressed with every accounting officer or authority and member of the executive council through our reports and interactions with them. In the past three years these engagements, particularly with members of the executive council, have increased. These meetings improved the understanding of the audit outcomes and messages and also addressed the progress of interventions and commitments to ensure a positive impact on the audit outcomes.

Through our roadshow on audit outcomes in September/October, we have also shared the key messages with the legislature, the premier and members of the executive council. We confirmed the progress with the commitments made by all these role players in response to the previous year's audit outcomes. Over the past five years there has been a positive movement towards clean audits from 11% (5) auditees in 2008-09 to 38% (15) auditees for 2012-13. The net improvement in the audit outcomes of seven auditees is encouraging. Commitments towards clean audits have been reaffirmed and it is expected that the improvement in audit outcomes will continue if we all keep working together toward the goal of clean administration.

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 2.1.1: Audit outcomes over past five years (all auditees)

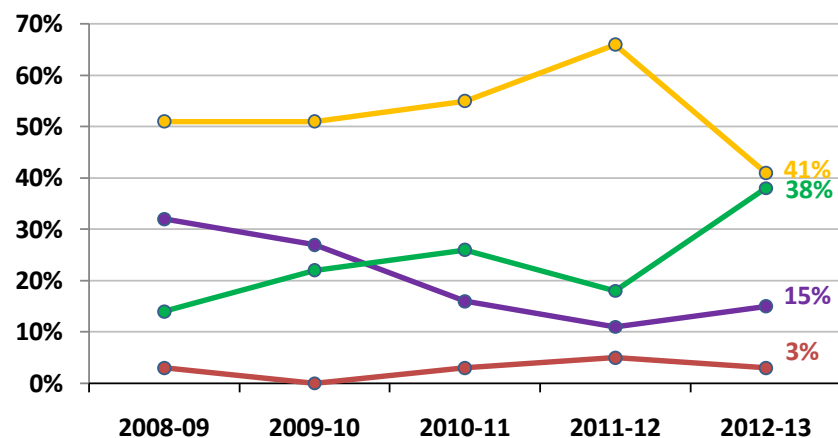


Figure 2.1.2: Audit outcomes for past two years (all auditees)

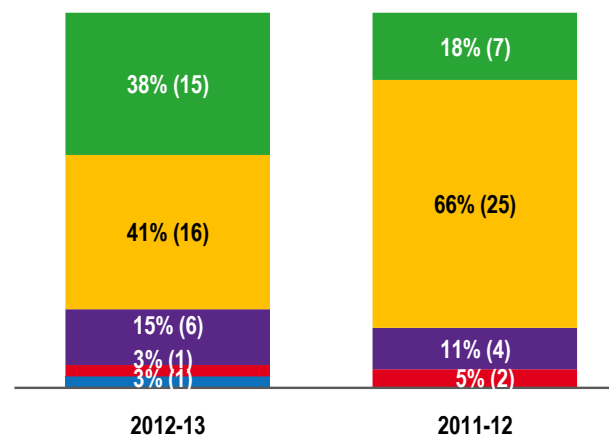


Figure 2.1.3: Audit outcomes for past two years (departments)

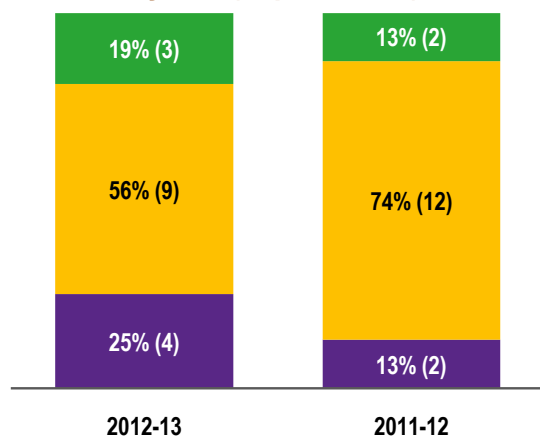


Figure 2.1.4: Audit outcomes for past two years (public entities)

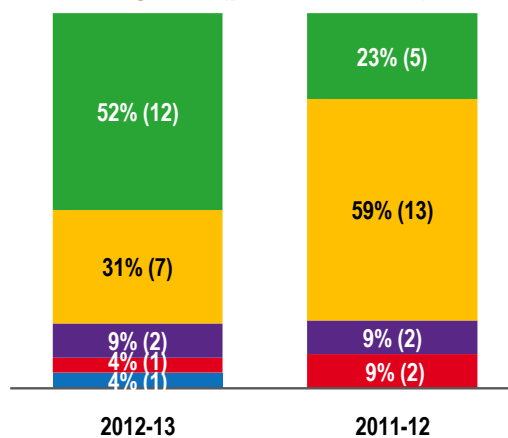
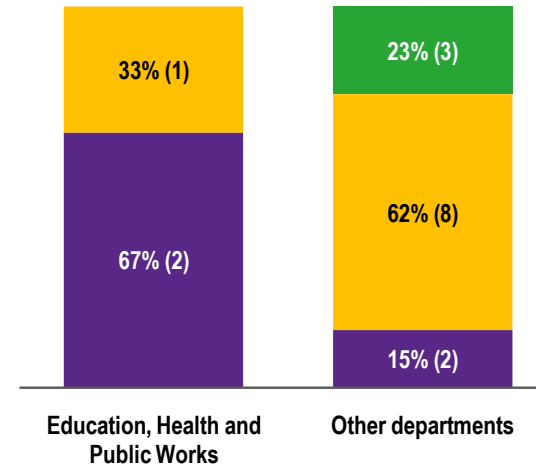


Figure 2.1.5: Education, Health and Public Works vs other departments



Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse/Disclaimed with findings

Outstanding audits

2.1 Overall audit outcomes

Provincial government consists of 16 departments, inclusive of the KZN Provincial Legislature and 35 public entities. The public entities include 13 provincial public entities, one trading entity and 21 other entities that are not subject to the PFMA. The number of public entities has remained constant, although one entity, Kwanaloga, closed and one, KZN Liquor Authority, commenced operations since the previous year.

We do not audit 12 of the public entities. The audit outcomes of these public entities are not included in this report except in the portfolio outcomes if an MEC has executive responsibility for the public entity (section 6) and in the annexures to this report.

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

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

Audit outcomes

Figure 2.1.1 shows the five-year audit outcomes of provincial government. Over the past five years there has been a positive movement towards clean audits from 14% (5) auditees in 2008-09 to 38% (15) auditees for 2012-13. Although progress has been made, the pace is still slow despite the “Clean Audit 2014” target. Qualified, disclaimed and adverse audit opinions have been reduced by 46% in the past five years from 13 (35%) in 2008-09 to 7 (18%) auditees in 2012-13.

Figure 2.1.2 indicates that there has been an overall improvement in audit outcomes since the previous year. The improvement is particularly in the outcomes of public entities which have shown an improvement in clean audits from 23% (5) to 52% (12) auditees, whereas departments have improved by one clean audit yet have regressed by 12% (2) for qualified audit opinions. (Refer to figures 2.1.3 and 2.1.4.)

Education, Health and Public Works

In 2012-13, the expenditure of the Departments of Education, Health and Public Works contributed 75% of the total spending by provincial departments. Figure 2.1.5 shows 67% (2 out of 3) of these departments with qualified audit opinions against 15% (2 out of 13) of the remaining departments with qualified opinions.

Movement in audit outcomes

Figure 2.1.6 below analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province.

It further shows the prior year's audit opinion on the entity of which the audit had not been completed by 31 August 2013, which is the cut-off date we set for inclusion of audit outcomes in this report. The net improvement in the audit outcomes of seven auditees is encouraging. Nine departments and six public entities retained unqualified audit opinions with findings and two departments and three public entities were unable to improve on their previous qualified and adverse/disclaimed audit opinions. Only one audit, the KZN Business Rehabilitation Trust Fund, remains outstanding for 2012-13 as a result of the late submission of the financial statements for auditing.

Annexure 1 provides the audit outcomes for the past five years, annexure 2 provides an assessment of the key controls at the time of the audit, while annexure 3 lists all auditees with their current and prior year's audit outcomes.

Figure 2.1.6: Movement of the 38 auditees reported on

		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/Disclaimed with findings
9	Improved	<ul style="list-style-type: none"> Provincial Legislature, Transport, Sharks Board, Dube Trade Port Company, Gaming and Betting Board, Growth Fund Managers, Tourism Authority, Trade and Investment, uMsekeli Municipal Support Services 			
26	Unchanged	<ul style="list-style-type: none"> Provincial Treasury, Amafa Akwazulu-Natali, Political Parties' Fund, Natal Joint Municipal Pension Fund (Provident), Natal Joint Municipal Pension Fund (Retirement), Natal Joint Municipal Pension Fund (Superannuation) 	<ul style="list-style-type: none"> Agriculture, Environmental Affairs and Rural Development, Community Safety and Liaison, Cooperative Governance and Traditional Affairs, Economic Development and Tourism, Human Settlements, Office of the Premier, Public Works, Sport and Recreation, The Royal Household, Agri-Business Development Agency, Ithala Development Finance Corporation Ltd, Ithala Limited, Mjindi Farming (Pty) Ltd, Provincial Pharmaceutical Supply Depot, Royal Household Trust 	<ul style="list-style-type: none"> Education, Health, Nature Conservation Board, Traditional Levies and Trust Account 	<ul style="list-style-type: none"> KZN Housing Fund
2	Regressed			<ul style="list-style-type: none"> Arts and Culture, Social Development 	
1	New auditees		<ul style="list-style-type: none"> Liquor Authority 		
1	Outstanding audits – previous year's opinion				<ul style="list-style-type: none"> Rehabilitation Trust Fund

Figure 2.2.1: Status of quality of annual performance reports (all auditees)

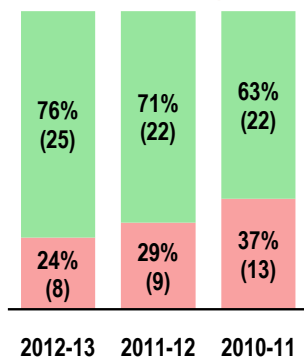


Figure 2.2.2: Findings on quality of annual performance reports (departments)

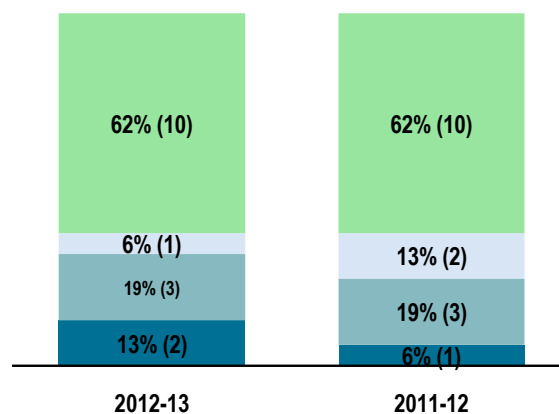


Figure 2.2.3: Other performance-related outcomes

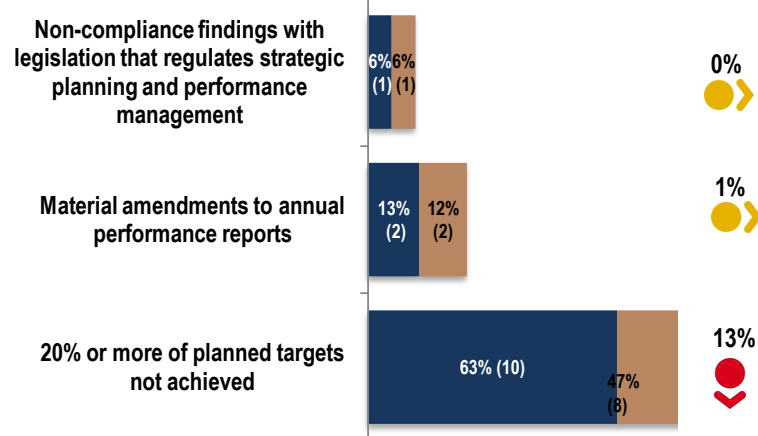


Figure 2.2.4: Auditees with findings on quality of annual performance reports

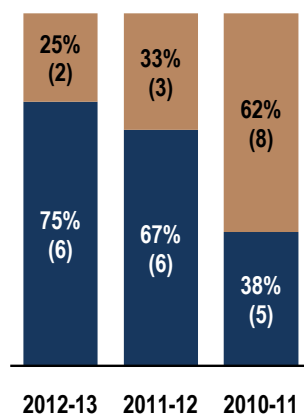


Figure 2.2.5: Findings on quality of annual performance reports (public entities)

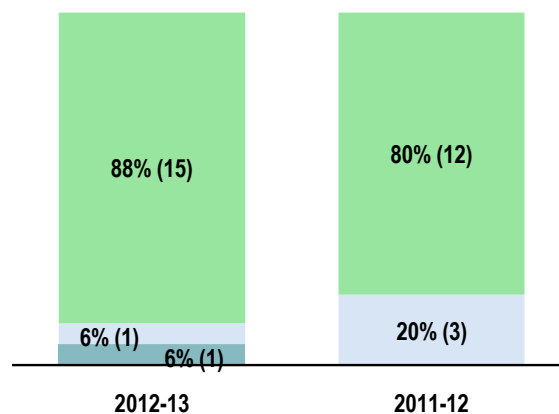
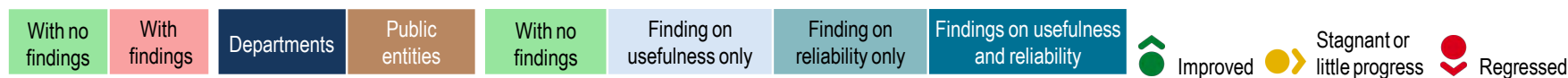
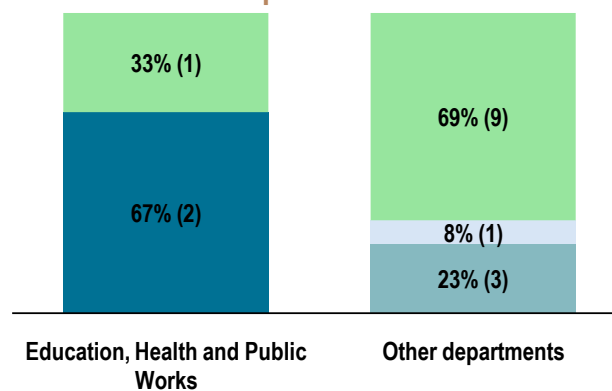


Figure 2.2.6: Findings on annual performance report – Education, Health and Public Works vs other departments



2.2 Quality of annual performance reports

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

The Public Audit Act, 2004 (Act No. 25 of 2004) 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 the persons who read and use the annual performance report.

Status of auditees with findings on annual performance reports

Figure 2.2.1 shows the number of auditees in the province with material findings in this regard over the past three years, including those auditees that did not prepare an annual performance report or submitted the report too late for auditing.

The results on the quality of annual performance reports are based on 33 auditees, namely 16 departments and 17 public entities. In this regard, the Traditional Levies and Trust Account, as well as three pension funds, the Natal Joint Municipal Pension; Provident; and Retirement Funds, have been excluded from the analysis due to the absence of entity-specific legislation governing performance reporting for these institutions. Additionally excluded is the KZN Royal Household Trust, for which no performance report was submitted for audit.

The three-year trend from 2010-13 on annual performance reporting reflects steady progress in that the percentage of auditees with no findings has increased by 13% to 76% over this period.

The movements in departments from the prior year indicate that six (38%) remained unchanged with no findings, while four (25%) remained unchanged with findings on their annual performance reports. Four (25%) improved from having findings to none while two regressed from no findings to having findings on their performance reports.

With regard to public entities, 12 (67%) remained unchanged with no findings, and one had an unchanged repeat finding. Three public entities (17%) improved from having prior-year findings to none and one regressed from having no findings to having findings in 2012-13. In addition, a new public entity, the KZN Liquor Authority, also had findings in this regard.

The overall improvement of five auditees (15%) is encouraging; however, there is still space for improvement, therefore traction needs to be firmer on the regressions of 12% as well as the auditees that displayed no movement at 15% (five out of 33).

Findings on the quality of the annual performance reports

Figures 2.2.2 and 2.2.5 show the nature of the material findings in the current and previous years and the progress made by auditees in addressing the findings on departments and public entities, respectively.

The two departments, namely Human Settlements and the Royal Household, which did not submit their performance reports in the prior year, addressed this matter for the current year, resulting in a 13% improvement in the submission of performance reports for auditing.

One public entity, the KZN Royal Household Trust, had a repeat finding on the non-submission of its performance report and another, the KZN Liquor Authority, did not submit a performance report in time for auditing.

The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability.

Eleven departments (69%) did not have any findings on the usefulness of their performance reports since the prior year, two regressed (13%), namely Education and Health, and the Office of the Premier (6%) had a recurring finding. The Department of Community and Safety Liaison and the Provincial Legislature (13%) addressed their findings since the previous year.

Thirteen public entities (76%) were able to sustain having no findings on the usefulness of their submitted performance reports and three (18%), namely Gaming and Betting, Ithala Limited and Ithala Finance Corporation, progressed by resolving findings on usefulness. A new finding surfaced at the KZN Liquor Authority (6%).

The most common findings on usefulness were the following:

- Reported performance information not consistent with planned objectives, indicators/measures and target.
- Indicators/measures not well defined.
- Reasons for variances not explained.

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

At departments recurring findings arose at Health as well as Community and Safety Liaison, while new findings emerged at Education, Human Settlements as well as Sport and Recreation with respect to the reliability of performance reports. The Departments of Economic Development and Tourism as well as Social Development addressed their findings on reliability that emanated during 2011-12.

Sixteen public entities (94%) maintained having no findings and one (6%), the KZN Housing Fund (6%), regressed with respect to the reliability of performance reporting.

The most common findings on reliability were the following:

- Reported performance information not accurate.
- Reported performance information not complete.
- Reported performance information not valid.

As shown in figure 2.2.6, the Departments of Education and Health had 67% of the material findings on their annual performance reports in comparison with four (25%) of the other departments. The prevalence of annual performance reports containing information that is not useful or reliable is a sign of weaknesses in the ability of auditees to adequately plan, manage and report on their performance. If addressed, it will improve the transparency and accountability of national and provincial government and contribute to improving the service delivery experience of citizens.

The overall position shows a positive trend of 8% for public entities regarding the quality of performance reports, which espouses government reforms and the vision of a better life for all citizens in a developmental state. The results of departments are, however, stagnant. Although more could be done, it is clear the strides are being charted on the correct course to solidify and maintain optimal outcomes.

Annexure 3 details the auditees with material performance management findings and the nature of the findings.

Other performance-related outcomes

Figure 2.2.3 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.

Strategic planning and performance management indicates a regression of 6% relative to the prior year, as the Department of Health had a material non-compliance finding in this regard. However, for public entities there is a positive movement of 7%. The overall results remain stagnant.

Two departments as well as two public entities had to make material adjustments to their annual performance reports, resulting in an overall stagnation in this category compared to the prior year.

At 10 departments (63%), 20% or more of the targets were not achieved, resulting in a 13% regression. For public entities, instances where 20% or more of the targets had not been achieved remain stagnant. This means that departments and public entities are required to devote more attention to ensuring that targets are achieved as planned, with appropriate monitoring mechanisms as well as adequate explanations for variances.

Figure 2.3.1: Status of compliance with legislation (all auditees)

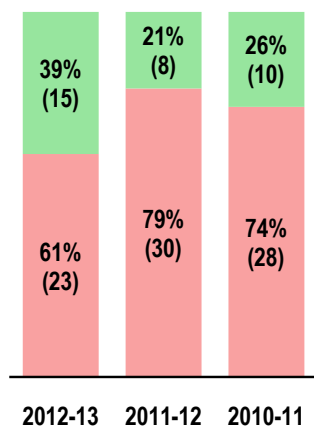


Figure 2.3.3: Auditees with findings on non-compliance

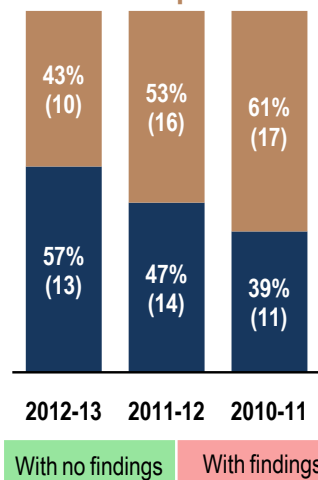


Figure 2.3.2: Findings on non-compliance with legislation (departments)

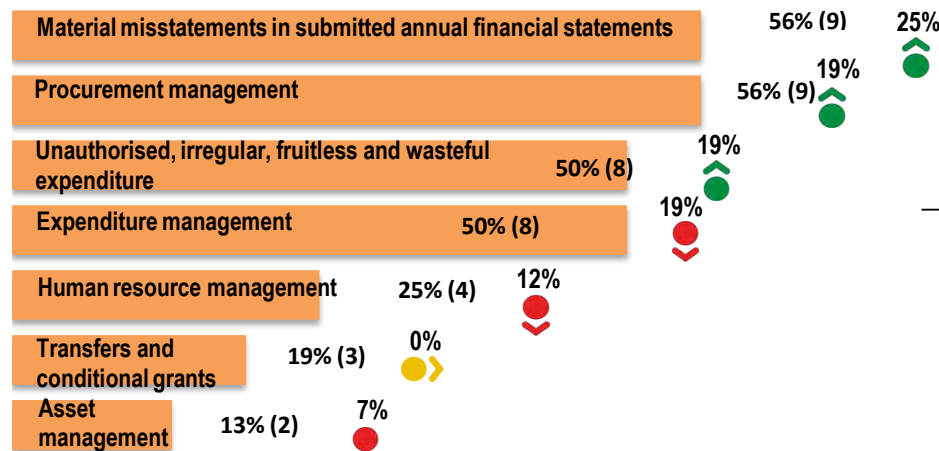


Figure 2.3.4: Findings on non-compliance with legislation (public entities)

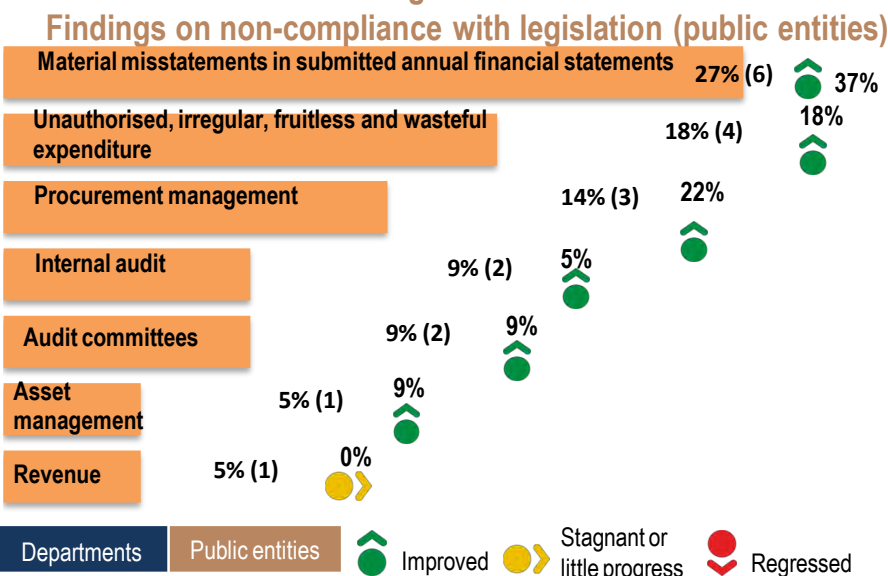


Figure 2.3.5: Unauthorised expenditure

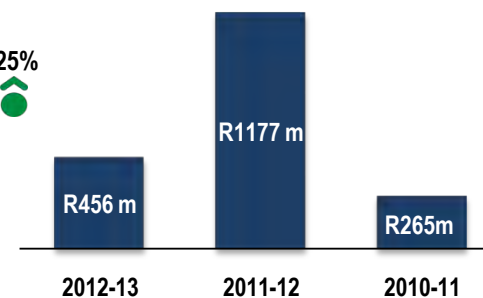


Figure 2.3.6: Irregular expenditure

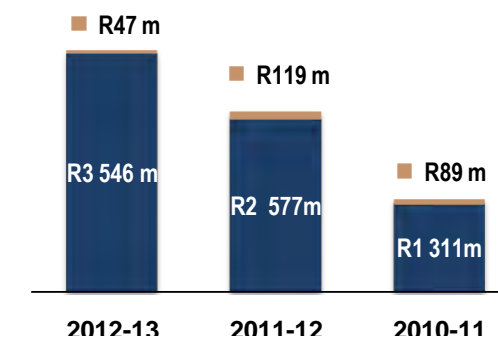
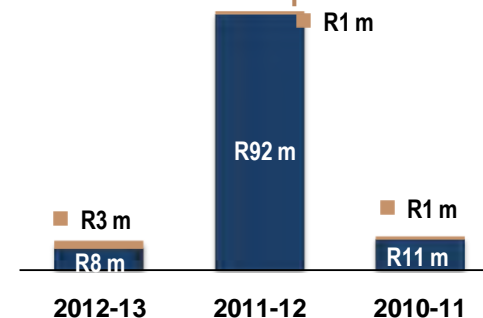


Figure 2.3.7: Fruitless and wasteful expenditure



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 audit:

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

In the audit report, we reported findings from the audit 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 2.3.1 shows the number of auditees in the province with material findings in this regard over the past three years. Although there has been an overall reduction in findings related to compliance by 13% over the three-year trajectory from 2010-13, departments are still challenged by the inability to redress this.

Non-compliance with laws and regulations generally stifles progress as internal control deficiencies such as human error, skills deficits, inadequate training, key vacancies and slow response by management in addressing these deficiencies are often problematic and have to be effectively managed and monitored.

It is apparent that compliance with laws and regulations is a key factor that is preventing many auditees from attaining clean audits. One department, the Provincial Treasury (6%), retained its status of no compliance findings, and two others, namely Transport and the Legislature (13%), were able to clear the previous year's compliance findings. The Department of Arts and Culture regressed to having findings from having had none in 2011-12. The greatest inhibitors of compliance fall in the category of repeat findings, which 12 departments (75%) have not been able to address.

Six public entities (27%) also sustained not having any compliance findings, while another six (27%) addressed prior-year compliance findings. Nine public entities (41%) have repeat compliance findings and one new entity has also not complied.

Findings on non-compliance with legislation

Figures 2.3.2 and 2.3.4 show the highest number of material findings in the current and previous cycles for departments and public entities respectively.

There are notable improvements in the critical area of non-compliance for material misstatements at departments. The progressive movement is attributed to five departments (31%) that addressed this matter from the previous year. Material misstatements still remain a recurrent issue at eight departments (50%) from the prior year, while one department has regressed to having misstatements.

An encouraging trend has been noted with regard to public entities: nine entities (41%) addressed the previous year's findings and only four had repeat material misstatements (18%) with one regression (5%), as well as one new entity with a finding.

Four departments (25%) as well as four public entities (18%) successfully addressed the previous year's findings on unauthorised, irregular, and fruitless and wasteful expenditure. Recurrent findings in this regard since 2011-12 were, however, still reported at seven departments (44%) and four public entities (18%).

One department (6%) regressed whereas another (6%) had repeat findings on asset management. One public entity was also unable to eradicate non-compliance in asset management.

Six departments (38%) regressed in expenditure management and two had a repeat finding in this regard (13%). Material findings on expenditure management were resolved at three departments (19%) as well as one public entity (5%).

Three departments (19%) and six public entities (27%) addressed prior-year findings on procurement. Repeat findings on procurement still pervade at nine departments (56%) as well as two public entities (9%).

HR management findings have arisen at four departments (25%) from the prior year, while two (13%) addressed this matter.

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

- Material misstatements or limitations in the financial statements submitted for auditing (refer to section 3.1 for more detail in this regard).
- Procurement and contract management.

- Unauthorised / irregular / fruitless and wasteful expenditure was not prevented.

Annexure 3 details the auditees with material non-compliance findings and the nature of the findings.

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not incurred in accordance with the approved budget. Figure 2.3.5 reflects the three-year trend in unauthorised expenditure.

Unauthorised expenditure decreased from R1 177 million in the prior year by 61% to R456 million. All of the unauthorised expenditure that was incurred was identified by the auditee and related to departments who overspent the vote.

The unauthorised expenditure largely related to the Departments of Education and Health which made up R417 million (91%) of the overspending.

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 2.3.6 reflects the three-year trend in irregular expenditure.

Over the three-year period from 2010-13, irregular expenditure continued to increase year-on-year. The increase is R2 180 million (154%) calculated over a three-year period. Of the total of R3 593 million in irregular expenditure, departments are liable for R3 546 million (99%).

Although irregular expenditure has increased, the transparency on the part of auditees in identifying irregular expenditure first-hand is becoming more prominent. This is highlighted by the fact that of the total amount incurred, only R430 million (12%) was identified during the audit and the balance of R3 163 million (88%) by internal control processes of the auditees. This trend in transparency of irregular expenditure identification and disclosure is favourable when compared to the R719 million (27%), which auditors identified during the previous year and necessitated material amendments to financial statements.

The irregular expenditure of R3 546 million for departments includes R1 265 million (36%) that was identified in 2012-13, which related to the previous year. The Department of Health makes up R1 254 million (99%) of the prior year's irregular expenditure identified during 2012-13, as clean-up measures have been undertaken by management to resolve a host of legacy issues on

procurement and contract management, which is encouraging, as a step in the right direction.

SCM transgressions constitute a vast proportion of the irregular expenditure totalling R3 425 million (95%) while a marginal percentage is driven by compensation of employees and other matters. Although accounting officers and authorities are identifying irregular expenditure, this is not adequate as legislation requires that measures and controls be designed and implemented to prevent such expenditure. It is therefore critical that the primary focus and attention be directed towards preventing irregular expenditure given that appropriate controls and measures for timely identification and disclosure have been designed in many entities.

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 2.3.7 reflects the three-year trend in fruitless and wasteful expenditure.

The Departments of Public Works, Cooperative Governance and Traditional Affairs as well as Human Settlements comprised the largest proportion of fruitless and wasteful expenditure at R83 million (90%) in the prior year. During 2012-13 these departments were responsible for R6 million (75%) of the R8 million fruitless and wasteful expenditure incurred by departments, resulting in a 33% reduction of this type of expenditure at these departments. Overall fruitless and wasteful expenditure has declined by R82 million (88%) since the previous year, which is symbolic of positive progress being spearheaded in the right direction. This momentum needs to continue and energies should focus on prevention and appropriate consequences for officials who do not avoid fruitless and wasteful expenditure.

SECTION 3: RISK AREAS

Figure 3.1.1: Status of submitted financial statements

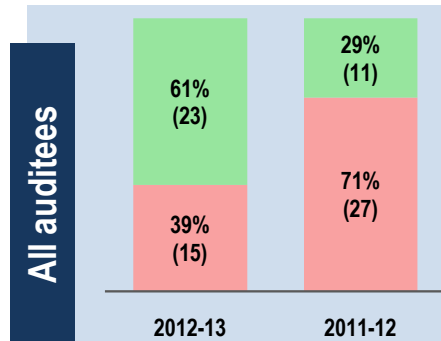


Figure 3.1.2: Quality of submitted financial statements

(A number of auditees were able to avoid qualifications due to the correction of material misstatements during the audit process)

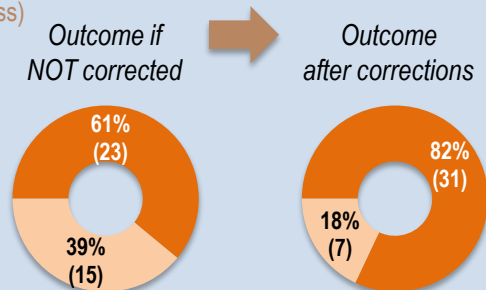
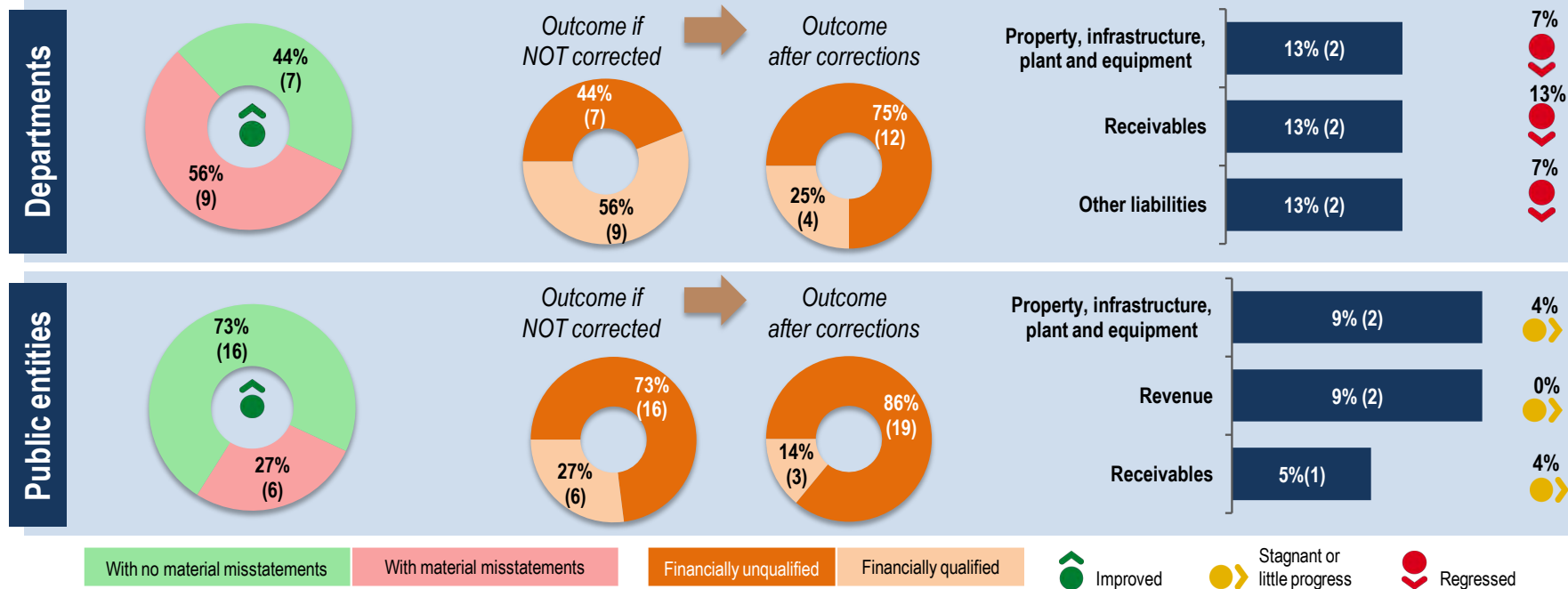


Figure 3.1.3: Top three financial statement qualification areas



3. Risk areas

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

3.1 Quality of submitted financial statements

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

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

The quality of the financial statements submitted for auditing

Most auditees submitted financial statements for auditing by the legislated deadline of 31 May 2013. As can be seen in figure 3.1.1, 23 auditees (61%) submitted financial statements with no material misstatements. There has been an overall improvement of 32% in the quality of submitted financial statements, 25 % (4) for departments and 36% (8) for public entities. The Provincial Legislature was able to clear the previous year's finding on material misstatements which had caused it to regress from the clean audit it had achieved in the 2010-11 financial year.

Eight auditees (21%), consisting of five departments and three public entities, received a financially unqualified audit opinion only because they had corrected all the misstatements identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements, to obtain an unqualified audit opinion, is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Uncorrected material misstatements

Even though we reported the material misstatements to management for correction, seven auditees (four departments and three public entities) (18%) could not make the corrections to the financial statements, which resulted in six qualified audit opinions and one disclaimer. The corrections could not be made due to the unavailability of information or documentation required to determine the correct amounts to be reflected in the financial statements, as well as a slow response from management, vacancies, and key officials not having the appropriate competencies to address the qualification areas.

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

Departments

Property, plant and equipment

- The most common qualification areas in respect of property, plant and equipment are the valuation, existence and completeness assertions.
- One department, Arts and Culture, did not have adequate systems and procedures in place to fully maintain a record of library books, included in minor assets, and as a result it regressed from the clean audit it had achieved in the prior year to a qualified opinion. The qualification of the Department of Health remained unchanged from the prior year as fair values were inappropriately allocated to assets, assets were not identifiable/could not be physically verified and assets could not be located on the asset register.

Receivables

- The affected assertions were the valuation, existence and completeness of receivables.
- Two departments (Social Development and Education) regressed in this area in the current year. Education did not recognise outstanding debts resulting from salary overpayments to staff whose services were not terminated on the salary system in good time.
- The Department of Social Development did not recognise receivables for the portion of transfer payments made in excess of the stipulated amounts in the service level agreements.

Other liabilities

The basis for the qualifications was the valuation, existence and completeness of accruals and leave entitlement liability. In this regard:

- The Department of Education did not provide the necessary documentation to enable us to determine whether management had properly accounted for all accruals.
- Leave balances used in the calculation of the leave entitlement liability were misstated by the Department of Health due to the delays in the capturing of leave forms. This was not a finding in the previous year.

Public entities

Property, plant and equipment

- The most common qualification areas in respect of property, plant and equipment were the valuation, existence and completeness assertions.
- Findings on two public entities have remained unresolved since the previous year. The KZN Nature Conservation Board did not have adequate systems relating to asset management. The asset register was incomplete; assets could not be physically verified; and residual values were incorrectly assessed.
- The KZN Housing Fund was unable to provide the necessary documentation to enable us to determine if management had properly accounted for all property, plant and equipment for the current and prior year, due to poor records management.

Revenue

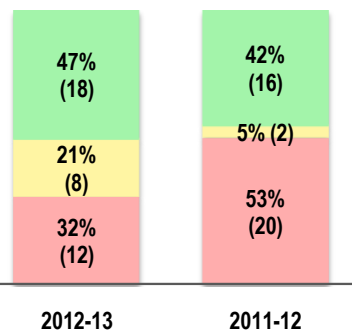
- The basis for the qualification was the completeness, occurrence and accuracy of revenue. The KZN Traditional Levies and Trust Account still did not have a system of control over traditional revenue to ensure that all revenue received was recorded. The KZN Housing Fund was unable to provide the necessary documentation to enable us to confirm that management had properly accounted for all rentals and interest revenue for the current and prior year, due to the status of the accounting records.

Receivables

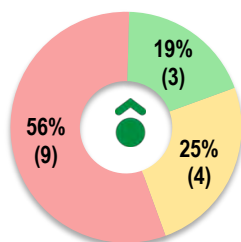
- The affected assertions were the completeness, existence and valuation of receivables. The KZN Housing Fund was again unable to provide the necessary documentation to enable us to confirm that management had properly accounted for all receivables for the current and prior year.

Figure 3.2.1: Status of supply chain management

All auditees



Departments



Public entities

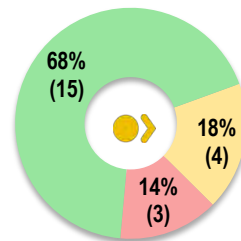


Figure 3.2.2: Findings on supply chain management (departments)

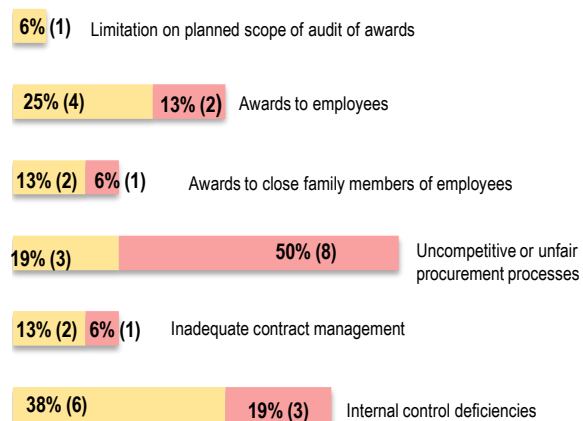


Figure 3.2.4: Findings on supply chain management (public entities)

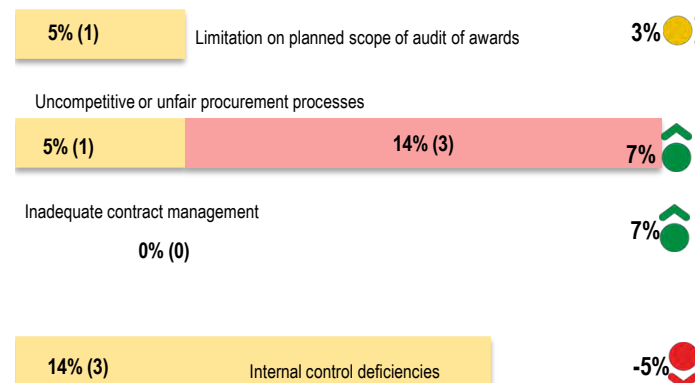


Figure 3.2.3: Awards to employees and close family members (departments)

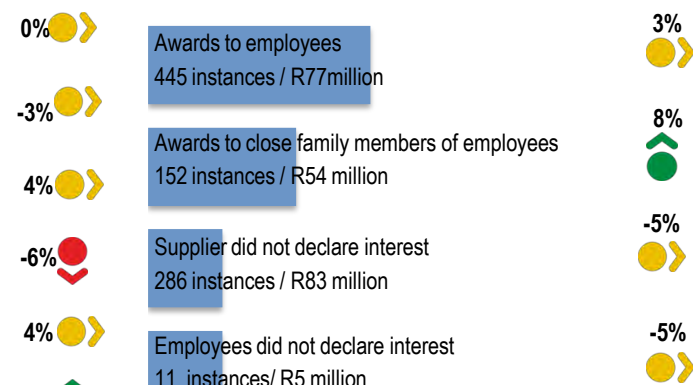


Figure 3.2.5: Awards to employees and close family members (public entities)



With no findings With findings With material findings Improved Stagnant or little progress Regressed

3.2 Supply chain management

We tested 1 204 contracts (with a value of R2,75 billion) and 2 877 quotations (with a value of R446,67 million) (referred to as *awards* in the rest of the report) to determine whether the prescribed procurement processes had been followed to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area result in delays, wastage as well as fruitless and wasteful expenditure, which – in turn – have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers to the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare 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 reported all the findings from the audit to management in a management report, while we reported the material non-compliance findings in the audit report.

Figure 3.2.1 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. At an overall level 47% of the auditees in 2012-13 did not have any findings on SCM, compared to 42% in 2011-12. However, of concern is the increase in management report findings by 16% from two to eight auditees, since the prior year.

At departments the number of auditees with no findings stood at 19%, with no movement from 2011-12, those with material findings stood at 56%, improving from 2011-12 by 19%, while 25% had reported findings, regressing from the prior year by 19%. Public entities with material findings and those with no findings improved by 23% and 9%, respectively, while those that had findings regressed by 14%. The increase in findings is of concern, and if not addressed decisively, could be a hindrance to sustained or improved outcomes.

Figure 3.2.1 indicates the extent of findings in the areas we report on and the movement since the previous year. These findings are discussed in the rest of this section.

Limitations on planned scope of audit of awards

In total, we could not audit awards with a value of R3,41 million at the two auditees that 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 because the filing and safeguarding of documents was not adequately controlled.

Awards to employees and close family members

Figures 3.2.3 and 3.2.5 show the extent of awards to employees and family members and whether the required declarations had been made. In the 2011-12 financial year, out of the 13 findings on awards, five of these awards (38%) were made to employees in the case of departments. Six (35%) out of 17 findings were also identified for 2012-13, resulting in a 3% improvement from 2011-12. Although there has been an improvement since the previous year, the number of instances and the amount of the awards have increased by 98 and R15 million, respectively.

Although the number of auditees with findings on awards to close family members of employees reflects an improvement of 8% (28%: 2012-13 and 36%: 2011-12), the number of instances of such awards still remained too high at 152 amounting to R54 million.

At six departments where awards were made to employees, declarations of their interest had not been submitted for two departments' awards, showing a 13% movement from the prior year.

The Department of Education represented the highest number of instances at 424 (97%) of the total non-compliance findings on awards to employees.

Suppliers employed by the state that transacted with departments did not declare interests in 286 of the instances where awards had been made, resulting in a stagnation of these findings compared to the previous year.

The status of public entities remained the same with no findings on awards to close family members, and declarations of interest by employees and suppliers.

Uncompetitive or unfair procurement processes

It is of concern that in the case of departments the extent of material findings on uncompetitive and unfair procurement processes has increased by 12% to 50%, whereas in the case of public entities there has been an improvement of 7% since

2011-12. Findings that were not material still existed at three departments (18%) and one public entity (5%), which needs stricter control and monitoring.

The following were the most common findings:

- Three written quotations not invited – approved deviation not reasonable/justified.
- Procurement from suppliers without South African Revenue Service tax clearance.
- Three written quotations not invited – deviation not approved.

Inadequate contract management

Three departments (19%) had findings on inadequate contract management compared to four (25%) in 2011-12, resulting in an overall stagnation of 4% for management and audit report findings. No public entities had such findings, compared to three (13%) in 2011-12.

The following was the most common finding relevant to departments:

- Construction – Project not registered with CIDB within 21 working days.

36

Inadequate supply chain management controls

Six departments (38%) as well as three public entities (14%) had findings on internal control deficiencies. Material findings in this regard were also reported at three departments, compared to four in 2011-12. The overall net results for departments and public entities have improved by 1%.

The following were the most common findings:

- Awards to providers who are in the service of other state institutions – provider did not submit declaration of interest.
- Awards to providers who are in the service of other state institutions – provider did not declare interest (false declaration).

Effective management of consultants

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

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

- Transfer of skills
- Performance management and monitoring

Figure 3.3.1: Human resource management findings
(all auditees)

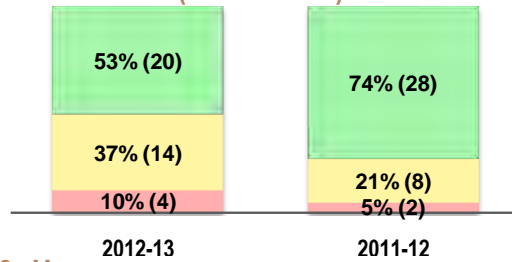


Figure 3.3.2: Stability in key positions
(Average number of months filled)

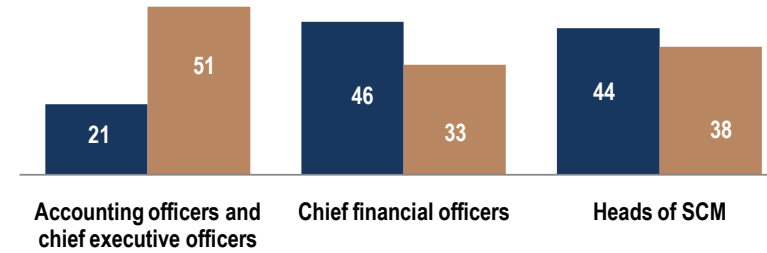


Figure 3.3.3: Human resource management findings

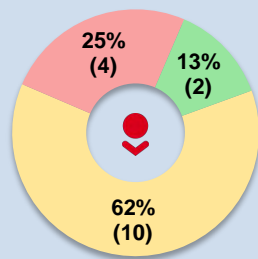


Figure 3.3.4: Weakness in focus areas

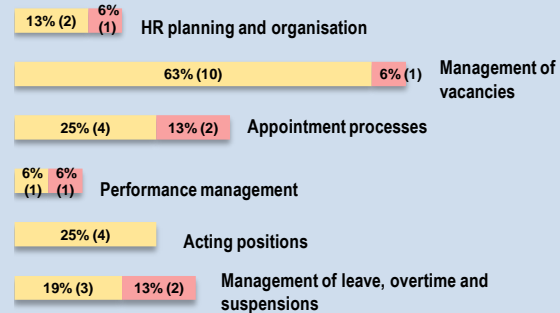
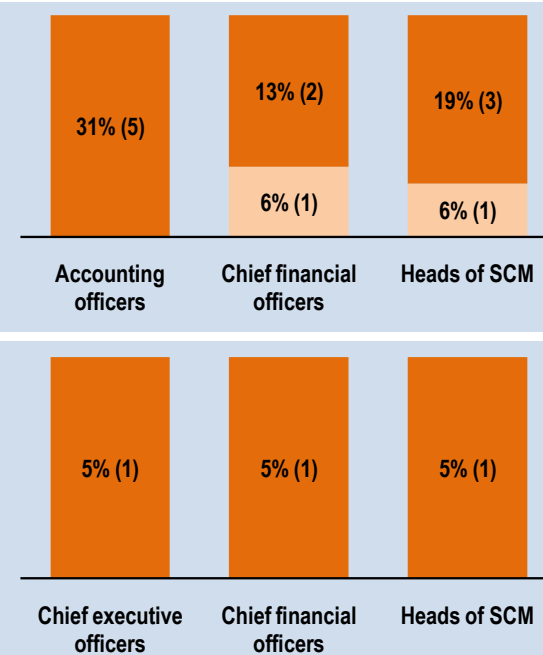
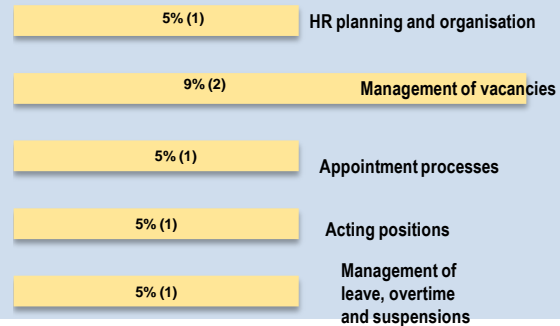
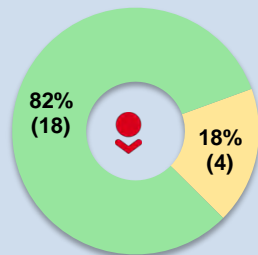


Figure 3.3.5: Vacancies in key positions



Public entities



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

Figure 3.3.1 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous year. At an overall level the number of auditees with no findings has regressed by 21% from the previous year, from 28 to 20. Additionally, the number of auditees with material findings in the audit report as well as findings from the management reports has increased by two and six, respectively, since the previous year.

The results of departments where no HR findings were reported have declined to 13% from 56% in the previous year. Audit report findings have increased by 13% to 25%, as well as management report findings by 31% to 62% compared to the previous year.

Repeat findings on HR management have been identified at seven departments (44%); and seven (44%) of them have regressed. Two departments (13%), namely Cooperative Governance and Traditional Affairs and the Provincial Legislature, have retained the status of not having any findings on HR management.

Public entities with no findings have decreased by 5% to 82%, whereas those with management report findings have increased by 5% to 18%.

Our assessment of the findings on HR management indicates an unacceptably high incidence of findings and more importantly an increasing trend, which if not rapidly responded to, could have adverse effects on future outcomes.

One public entity (5%), which is the Agribusiness Development Agency, had repeat prior-year HR findings, two entities (9%), KZN Tourism Authority and KZN Provincial Pharmaceutical Supply Depot, addressed the previous year's findings, while three entities (14%), namely the KZN Gaming and Betting Board, KZN Royal Household Trust and KZN Housing Fund, regressed.

Management of vacancies and acting positions

The average overall vacancy rate in the province was 15,5% at year-end, while that of senior management was 17% and that of the finance units 16%. Figure 3.3.5 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 for departments and public entities. Figure 3.3.2 shows the average number of months these key officials have been in their positions.

At five departments (31%) the position of accounting officer was vacant for a period of more than six months. This has had a severe impact on the average number of months the position of accounting officer was filled at departments, which is reported at 21 months, based on the date from which the post was first filled up to the date it became vacant. On a similar note, the key positions of supply chain management heads and chief financial officers have also remained vacant for more than six months at 19% and 13% of the departments, respectively.

The inability to attract suitably qualified people to fill posts at departments is a key issue that results in positions remaining vacant for longer periods than expected.

The results of public entities predominantly reflect vacancy levels for longer than six months at the levels of chief financial officer and head of supply chain management. The average number of months positions were filled at these levels were 33 and 38 for chief financial officers and heads of supply chain management, respectively.

The regression of 34% since the previous year at departments with regard to the management of vacancies is a matter of prime importance, which accounting officers and MECs need to control by researching alternative ways to fill posts and make provincial government a career of choice. This will ensure that clean and sustained audit outcomes, as well as efficient and effective service delivery, become the norm.

Thirteen auditees (34%) had findings on the management of vacancies while this issue is also a root cause at 32% of them. Additionally, skills and competency findings have been identified at eight auditees (21%), which is also a root cause at 21% of the auditees.

The most common findings on the management of vacancies and acting positions were the following:

- Senior management – positions vacant for more than 12 months.
- Senior management – vacancy rate increased from previous year.

- Employees acted in positions for more than 12 months.

Performance management

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

At two departments (13%), senior managers did not have performance contracts or the contracts had not been signed early enough.

Competencies of key officials/Consequences for transgressions

Seven departments (44%) and one public entity (5%) had findings on competencies of key officials in finance and/or performance management as well as compliance with laws and regulations.

Some of the drivers of the huge challenges regarding skills and competencies comprise the lack of ongoing training of staff to ensure that they are updated with relevant changes in laws and regulations and financial reporting requirements. Additionally, there is a lack of coordination between departments and entities to share best practices on policies and procedures that underlie credible financial, performance and compliance reporting. Training interventions take place too late and the course content is sometimes not practical enough. Appointment procedures are not firm enough to ensure that persons filling posts have the requisite skills sets. In this regard, there is a need for greater emphasis to be placed on the continuous skilling of staff to ensure that the public service meets the expectations of citizens.

Other common human resource findings

The other most common HR findings were the following:

- Proper verification process for new appointments did not always take place.
- Medical certificates not submitted for sick leave.
- Written authorisation not provided in advance for overtime to be worked.
- HR plan based on strategic plan not in place.

Figure 3.4.1:
Status of information
technology controls

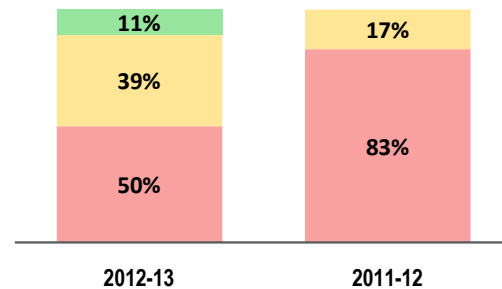


Figure 3.4.2: Findings on information technology controls

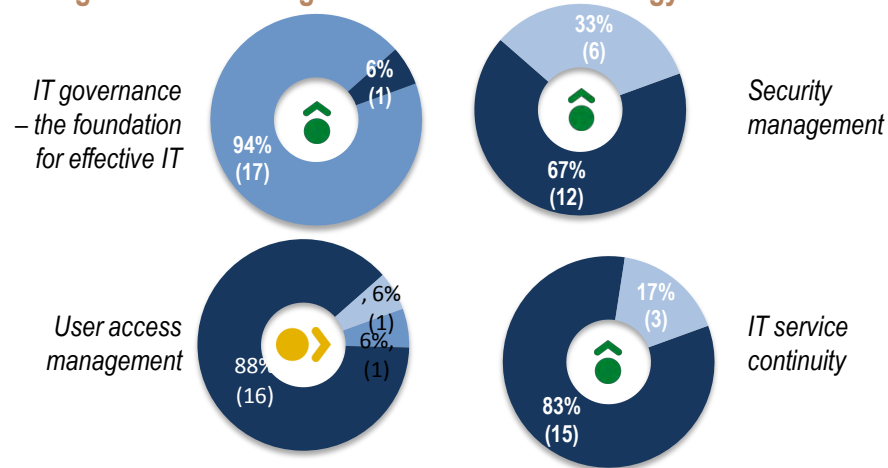


Figure 3.4.3: Status of information and controls

	Confidentiality	Integrity	Availability
Status of provincial government information	<p>The necessary level of secrecy is enforced for all provincial government information. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> 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
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3.4 Information technology

Information technology (IT) controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

In the assessment of the findings on IT controls (3.4.1) the criteria are determined by the stage of development reached and are grouped into three categories:

Where IT controls are being designed, management should ensure that the controls would mitigate 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 given to ensuring that staff are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.

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

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

IT governance

Effective IT governance ensures that the organisation's IT control environment functions well and enables service delivery. Figure 3.4.2 shows that all auditees are in the process of implementing the Cabinet-approved IT governance framework.

All departments and entities are required to adopt and implement the IT governance framework and guidelines within the next three financial years. In the 2013-14 financial year, the implementation of phase 1 should be prioritised. As the legislatures have opted to develop their own IT governance framework, management should prioritise the design and implementation of an alternative framework.

Security management

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

While 33% of the auditees have designed controls since the previous audit cycle, as shown in figure 3.4.2, they are experiencing problems with the implementation of the controls. Furthermore, 67% of the auditees continue to experience challenges with the design of security policies and procedures. For instance, some of the auditees follow informal processes that have not yet been formally documented, while others have designed policies and procedures that have not yet been approved.

Management should prioritise the rendering of assistance to the departments to ensure that all designed policies and procedures are formally adopted and effectively implemented.

User access management

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

The Provincial Treasury designed a transversal user access policy for the province in 2011 and adopted and implemented the policy effectively. The KZN Office of the Premier has also adopted the policy, but is experiencing problems with its implementation. Figure 3.4.2 shows that 88% of the auditees continue to experience challenges either with adapting the policy to meet their requirements, or with implementing certain aspects of the policy. As a result, there has not been any significant improvement since the previous audit cycle. Management should prioritise the adoption and implementation of the user access policy to mitigate the risks associated with unauthorised or terminated users having access to the systems in use.

IT service continuity

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

While 17% of the auditees have IT controls that are embedded and functioning effectively, figure 3.4.2 shows that 83% of the auditees continue to experience challenges with the implementation of appropriate disaster recovery plans. In the case of departments, the data hosted on their transversal systems is available at

the disaster recovery (DR) site of the State Information Technology Agency (SITA). However, the risk of non-connectivity to SITA's DR site remains, due to departments' lack of participation in SITA's annual DR testing exercise.

At the entities, as well as at the legislature, management should prioritise the design and implementation of the IT service continuity controls to mitigate the risk of unavailability of systems or lack of completeness of data in the event of major system disruptions or data loss.

Formal control over IT systems

Detail of root cause

The lack of consequences for not fulfilling their job functions resulted in employees not adopting effective controls to regulate security management, user access management and IT service continuity. The challenge was exacerbated by the following inefficiencies:

- Lack of appropriately skilled resources to design and implement IT security controls, such as IT security policies and procedures.
- Senior department and entity management not monitoring the implementation of controls to ensure that they were adequate and operating effectively for the entire period under review. Leadership was not aware of the associated risks and management did not prioritise the monitoring of these controls.
- Vacant key posts, such as IT managers, system controllers and information security officers not being filled.
- Provincial user access policy not being fully implemented at the departments/entities due to a lack of management commitment/understanding of the risks associated with non-compliance.
- Lack of management commitment/understanding of the associated risks and inadequate communication, resulting in departments not participating in the annual mainframe disaster recovery test undertaken by SITA.
- Policies and procedures not being approved in good time because of a lack of prioritisation.
- Failure to implement effective IT risk management awareness processes, resulting in a lack of awareness in the province.

Recommendations

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

- The provincial government information technology officer (GITO) of the KZN Office of the Premier has set up a task team that is responsible for assisting

all departments and entities with the roll-out of the IT governance framework in the province. This project will be completed by the end of the 2013-14 financial year, in line with the requirements of the Department of Public Service and Administration (DPSA).

- The Provincial Treasury team that developed the initial user access management policy is in the process of updating the document to ensure that it is in line with the current situation and will in due course embark on an awareness campaign.
- The Provincial Treasury is in the process of implementing a biometrics system throughout the province to ensure accountability.
- The IT internal audit department at the Provincial Treasury has been capacitated and is playing an active role in ensuring that adequate controls are implemented.

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

- Employees should be held accountable for not meeting their inherent job functions and responsibilities.
- The departments/entities should develop a control framework that can be used to monitor the effectiveness of the implementation of key controls. The Provincial Treasury should ensure that awareness of the risks associated with a lack of IT controls is cultivated at all departments and entities.
- Human resource departments should initiate a project to assess the root causes that have prevented them from filling vacant key IT positions. Corrective measures should subsequently be put in place. For example, vacant positions should be filled with temporary staff until such time as these positions have been filled.
- The developers of the user access policy should embark on an awareness campaign, highlighting the risks associated with non-compliance with the policy. The provincial user access policy should subsequently be implemented at all applicable departments and entities and management should monitor compliance.
- Adequate communication channels should be established between departments and SITA. In addition, events such as SITA's mainframe DR test should be planned for the start of a year and be monitored.
- Leadership should prioritise the approval of IT policies and procedures and monitor their implementation.

- The Provincial Treasury's risk management department should initiate a campaign that would ensure that departments are aware of the impact of IT-related risks.

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

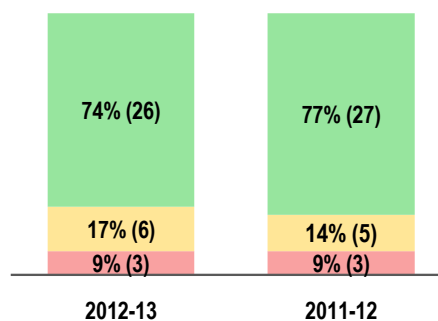
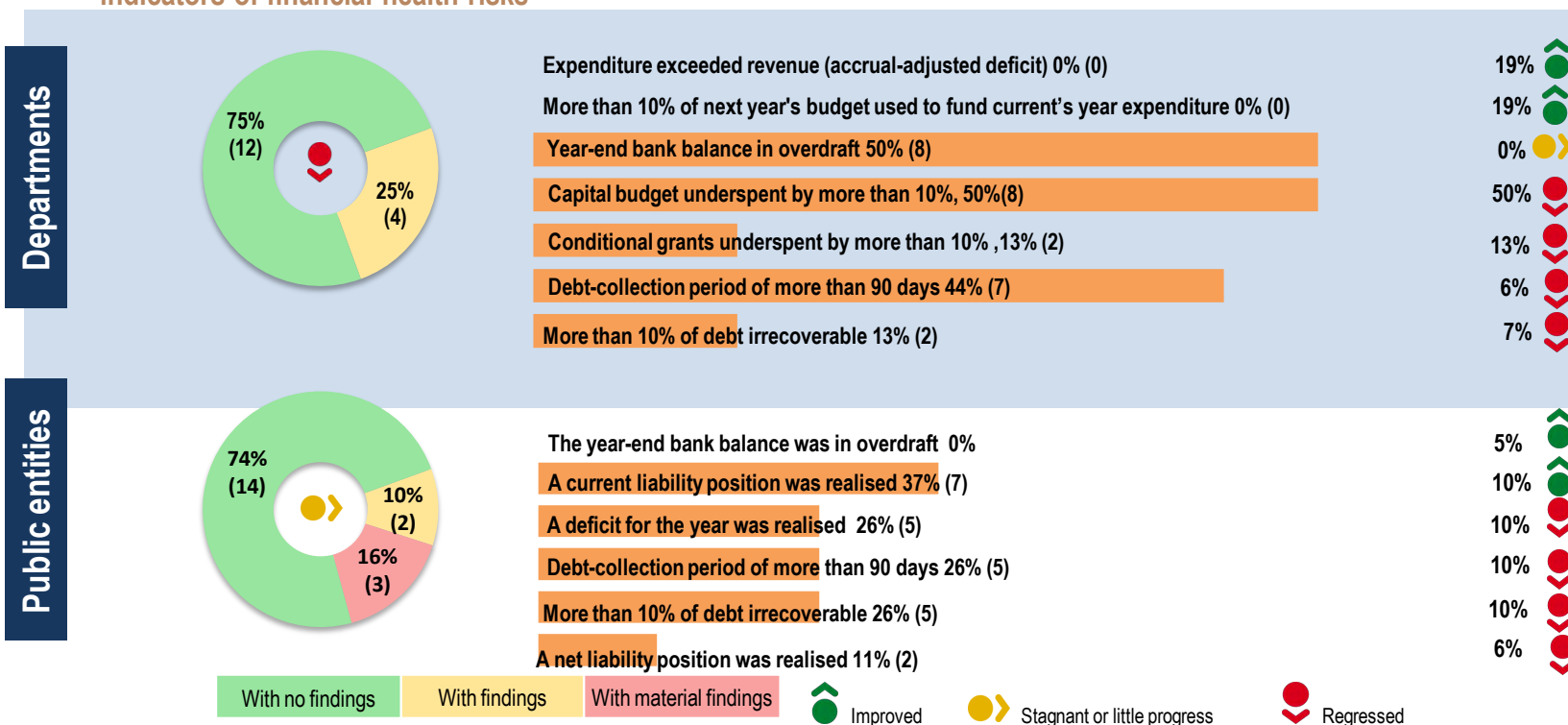


Figure 3.5.2: Number of auditees with indicators of financial health risks

Figure 3.5.3: Areas of financial health concerns



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.

We also performed procedures to assess whether there are any events or conditions that may cast significant doubt on a public entity's ability to continue as a going concern.

The assessment of financial health includes all departments and 19 out of 23 public entities. In this regard, four public entities, namely KZN Political Parties Fund (forms part of department's vote as does not have receivables and payables), KZN Traditional Levies and Trust Account (forms part of department's vote), KZN Housing Fund (audit opinion was disclaimed) and KZN Rehabilitation Fund (no financial statements) have been excluded from the financial health analysis.

Figure 3.5.1 indicates the number of auditees that had more than two of the indicators discussed in this section and three public entities with material going concern uncertainties. It excludes one auditee that had a disclaimed audit opinion, as their financial statements were not reliable enough to be analysed, as well as two other public entities, which had fund accounts for which the majority of the financial health indicators were not applicable.

At an overall level the number of auditees with no findings on financial health has declined by 3% from the previous year to 74%. There has been an increase by 3% in the auditees that had findings from the previous year to 26% during 2012-13. The material findings have remained stagnant at 9% when compared to the 2011-12 financial cycle. The rate of improvement is slow and therefore diligent and focused efforts are required quickly, to ensure that resources of provincial government are managed in a manner that supports planned targets and goals, and to prevent future regressions in financial management of public funds.

Twelve departments (75%) did not have more than two findings on financial health indicators during the year. Findings have recurred at four departments (25%), namely Agriculture, Environmental Affairs and Rural Development, Human Settlements and Public Works, while improvements have been noted at one (6%), namely Education.

Three public entities (16%), namely uMsekeli Municipal Support Services, Ithala Ltd, and Growth Fund Managers – KZN had going concern problems reported in

their audit reports. Of these one, public entity (5%), uMsekeli Municipal Support Services, became dormant as it ceased operations on 31 March 2013.

The financial management weaknesses reported for the public entities relate mostly to debt management and recovery. Two public entities (11%) maintained their position by having no findings on financial health since 2011-12.

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.

An accrual-adjusted deficit (where expenditure, adjusted for accruals at year-end, exceeded funds available for the year) was not evident at any department, reflecting an improvement of 19% from the prior year.

There has been no improvement in cash management at departments. Eight departments (50%) used an overdraft facility to manage their cash resources relying on short-term finance to fund their day-to-day operations. This is the same as what was reported in the previous year. Unauthorised expenditure at five departments (31%) largely resulted in the overdraft position coupled with management report weaknesses in in-year disciplines. Although unauthorised expenditure has reduced by 61% since 2011-12, this still needs to be further contained to avoid incurring expensive short-term finance charges (bank overdraft interest) against the provincial revenue fund. These fiscal savings can be effectively utilised in areas where funds are needed the most.

Underspending by departments of capital budgets and conditional grants received

Our analysis also showed that despite the improvements in operating expenditure management, at eight departments (50%) capital spending has decreased by 50% compared to the previous year.

The underspending of conditional grants is also of concern because these grants are allocated specifically for service delivery. In this regard, conditional grant

underspending has increased by 13%, which puts a massive strain on service delivery backlogs and plans of provincial government. Additionally, job creation, trade and investment and infrastructure programmes, to name a few aspects, are stifled, which impacts on the economy at large.

The key departments at which capital underspending was reported are Human Settlements (74%), Community and Safety Liaison (45%) and Public Works (18%).

A key factor that hindered spending is the lack of competencies of officials, which was evident at seven departments (44%). In other instances project budgets were withheld for work undertaken by service providers, which did not conform with quality standards. The impact is that funds are only released once predetermined criteria are met, thus diminishing spending.

Provincial government is obligated to ensure that funds are spent in an effective and efficient manner to achieve predetermined objectives. Underspending is a warning signal that service delivery is at significant risk, and decisive action is critical to prevent challenges such as vacancies and lack of skills, as well as project management complexities, from negatively impacting on service delivery in the province.

Debt management

Debts outstanding in excess of the 90-day range were evident at seven departments (44%), reflecting a decline of 6% since the previous year.

In the main, the highest incidence of uncollected debts exists at Human Settlements, Health, Education, Public Works and Transport. The primary reasons why debts remained unpaid for excessive periods were the following:

- Health: Patient fees remain outstanding for long periods due to many citizens not being able afford services, as well as delays in the processing of medical aid claims.
- Transport: A large amount of old debts which are accumulating interest that is under dispute.
- Education: Staff debt arising from salary payments after termination and rental from state-owned properties not being collected in good time.

- Public Works: Delays in the settlements of inter-departmental debts.

Five public entities (26%) had impairment provisions greater than 10% of the outstanding debt balance, which is a regression from the three public entities that had this finding last year. Public entities with abnormal impairment provisions comprise the KZN Gaming and Betting Board (90%), Mjindi Farming (Pty) Ltd (74%) and Ithala Finance Development Corporation Limited (48%). The reasons for the high write-offs are as follows:

- KZN Gaming and Betting Board: Trade debtors are not usually part of operations. The provision is a once-off instance for which legal action has been taken.
- Mjindi Farming (Pty) Ltd: The impairment provision remains high due to the non-recovery of debts from farmers that have remained outstanding for a long period. This is a legacy issue that emanates from poor revenue management practices.
- Ithala Finance Development Corporation Limited: This is due to the R76 million write-off of previously impaired loans and advances.

While there has been an improvement in the collectability of debt, the departments showed a regression in the number of days taken to actually collect the monies.

Overall, the provincial departments have shown improvements in some aspects of financial management as well as some regressions. This shows that the general status of financial management in the province, specifically with regard to debts and grant underspending, needs to be more critically monitored.

Financial health risks at public entities

Overall public entities depict a regression in terms of their financial health indicators. One public entity, uMsekeli Municipal Support Services, ceased business and prepared financial statements for the last time on 31 March 2013. Another two public entities (11%), namely KZN Growth Fund Managers and Ithala Limited, had reportable going-concern uncertainties. Material going-concern uncertainties about Ithala Ltd were due to a net loss of R24 million that was incurred during the 2012-13 financial year.

SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

Figure 4.1.1: Movement of drivers of internal control

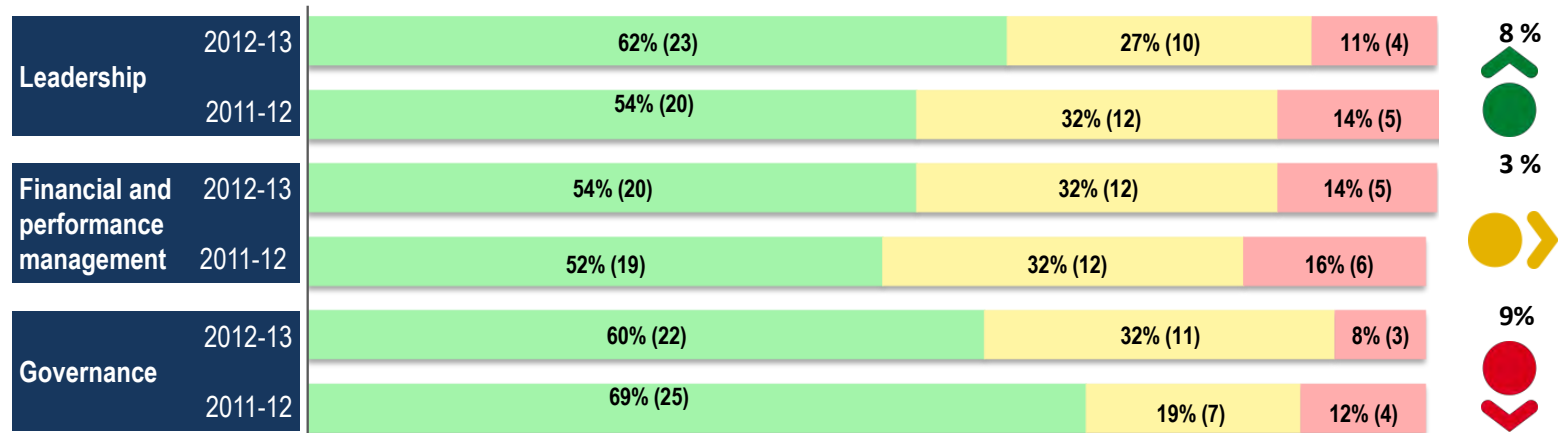
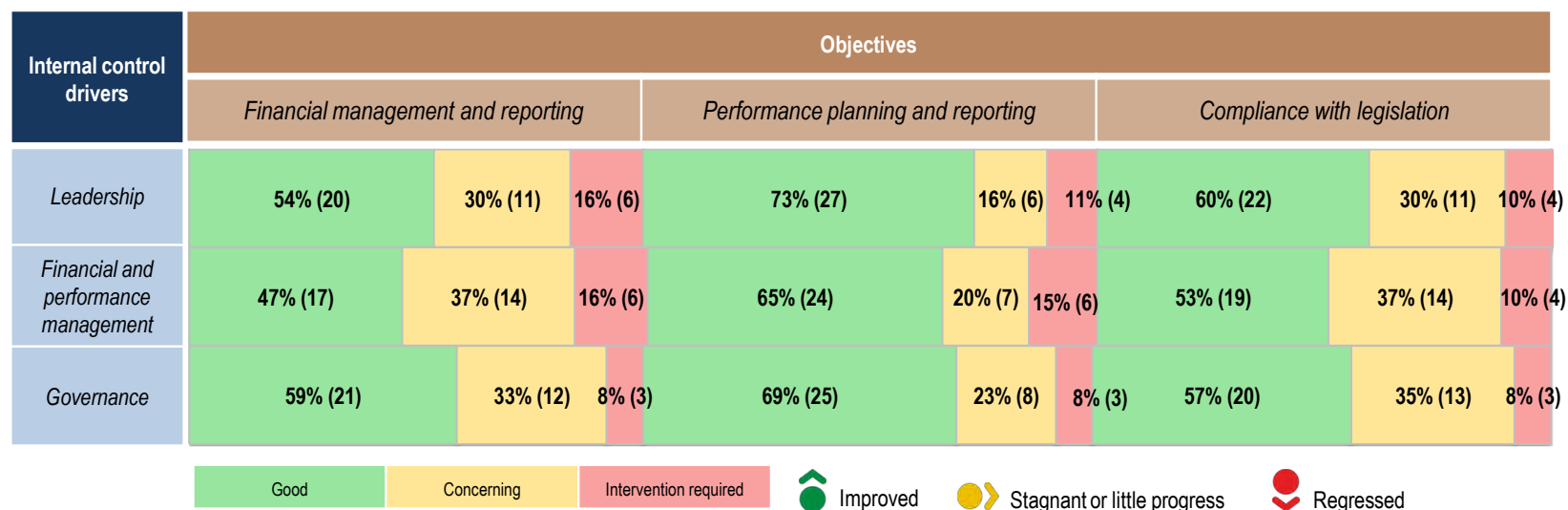


Figure 4.1.2: Objectives on which drivers of internal control have an impact



4.1 Significant deficiencies in internal controls

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

Status of drivers of internal control

Figure 4.1.1 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits 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 4.1.2 separately assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

Based on this assessment, we highlight the following:

- There has been some improvement in the implementation and monitoring of key controls in the drivers of leadership and financial and performance management when compared to the previous year, by 11% overall. Although the improvements are encouraging, their impact must be sustainable in order to contribute to clean administration.
- There has been a regression in the assessment of key controls in the driver of governance when compared to the previous year by 9%, mainly as a result of internal audit recommendations not being implemented by management. A similar regression was also reported in the previous year. Oversight departments have a key role to play in strengthening the effectiveness and the sustainability of governance structures.
- The slight improvement in the assessment of leadership has led to a positive change overall. When leadership addresses our findings reported in the prior year, there is an immediate positive impact on the assessment of the financial and performance management drivers. This shows that where leadership is committed to improving the control environment, the tone set by leadership directly influences financial management and

reporting, performance management and reporting and compliance with laws and regulations.

- It is still of concern that there has been very little improvement in the number of instances where intervention is required in order to improve the drivers of internal control (as illustrated in red in figure 4.1.1).

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

- Oversight responsibility of leadership
- Financial and performance management and compliance with laws and regulations
- Financial and performance management of reliable financial and performance reports

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls



The internal control driver of leadership includes exercising oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Oversight responsibility means accepting responsibility for guiding and directing the development, implementation and monitoring of the system of internal control to ensure credible financial and performance reporting and compliance with legislation.

Oversight by leadership is critical in ensuring that the systems of internal control function as designed and are able to produce financial, performance and compliance information that is credible and reliable. Effective oversight includes holding management accountable for implementing and monitoring the policies and procedures and action plans designed by leadership.

There has been a slight improvement in the effectiveness of leadership's oversight responsibilities in the province when compared to the previous year, with 46% of auditees having effectively implemented this control relative to 35% in the previous year. Over half of the provincial auditees still display deficiencies in this key control, with 27% still in the process of addressing these deficiencies. It is of concern that 27% of the auditees continue to have a significant deficiency in

leadership's oversight effectiveness, which requires immediate and significant intervention. At these auditees, leadership is not taking ownership of the control environment and not exercising oversight by enforcing and maintaining accountability of management for addressing internal control deficiencies on a sustainable basis. Leadership makes oversight decisions without ensuring that the reports provided to them for this purpose are credible and reliable. This results in inappropriate decisions regarding service delivery and compliance with legislation, which also impacts negatively on the effectiveness of leadership's oversight.

The number of vacancies and instability in leadership in the province has also contributed to leadership's ineffectiveness. Individuals who comprise leadership require a good understanding of the auditee and the provincial political environment in order to be effective in exercising oversight. Where vacancies exist and are filled with acting positions, or when leadership appointments are not stable, these individuals do not possess the required experience and ability to enforce accountability. They are also not able to demonstrate impact, as effective oversight requires an investment in time and understanding and nurturing an environment of accountability. More detail relating to HR management is provided in section 3.1.

Financial and performance management: Review and monitor compliance with legislation

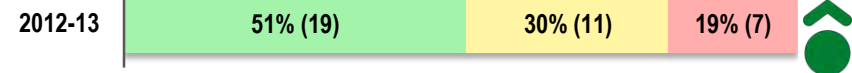


Auditees should have processes in place that ensure the entity complies with all legislation.

Forty-eight per cent of the auditees have successfully implemented good, sustainable controls in this area, which is a 7% improvement when compared to the previous year. The percentage of auditees at which actions to address deficiencies in this control are still in progress (30%) or who require significant and immediate intervention by leadership (22%) is a reflection of an environment which is hampered by vacancies, inadequate HR planning, inadequate performance management processes and lack of consequences, and a lack of clear, direct and stable leadership. HR management is discussed in detail in section 3.1. Most of the non-compliance findings related to non-compliance with SCM regulations. Detail on the areas of reported non-compliance is included in section 3.2.

Management must implement well-designed and appropriate controls to facilitate compliance with legislation. Controls must include procedures that should be followed for every transaction. Controls should also provide for reviewing and monitoring the application of these control procedures. Regular and quality reviews and monitoring will enable management to identify non-compliance quickly, and to correct the non-compliance through performance management and good record management.

Financial and performance management: Prepare regular, accurate and complete financial and performance reports



Management should implement a system of internal control over record keeping, daily and monthly processing and reconciling of transactions. The regular and proper review and monitoring of these controls should result in reliable, quality-assured information that is available in good time and will enable management to prepare regular, accurate and complete financial and performance reports.

There has been an overall improvement in the number of auditees implementing good and sustainable controls over the preparation of reports. Fifty-one per cent of the auditees were able to achieve this, compared to 43% in the previous year. However, the preparation of regular, accurate and complete financial and performance reports is a critical control and we are concerned over the number of auditees that have yet to finalise the implementation of good and sustainable controls (30%) and who have not been able to effect any improvement in significant deficiencies in this control (19%).

The ongoing lack of skills of management is not being addressed swiftly enough to respond to this deficiency. The use of consultants to compensate for skills and resource constraints is ineffective, because it does not address the day-to-day implementation of controls and monitoring of the control environment. In addition, the absence of skills transfer by consultants or by the oversight departments (e.g. the Provincial Treasury) to auditees' staff also does not contribute to a sustainable improvement in this control. HR management is discussed in detail in section 3.1. The use of consultants is further detailed in section 3.2.

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

4.2 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect 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, 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.

Instability or vacancies in key positions

Detail of root cause

We identified instability or vacancies in key positions as a root cause at 12 auditees (32%). The significance of this root cause is the widespread effect that it has on all other key controls required to enable and sustain a clean administration. Competent and committed leadership, management and officials are required in order to ensure that the control environment is good and sustainable and this will not be achievable for as long as leadership's effectiveness is reduced by ongoing instability, or when key leadership and senior management positions remain vacant for extended periods. Policies and procedures, action plans and review and monitoring controls cannot be implemented and performed effectively without skill and adequate resources.

Vacancy management was reported as a finding at 11 departments (69%), with an overall regression of 37% since the prior year.

This negative trend needs urgent attention from all levels of government leadership, now more than ever.

Vacancy management and vacancies in key positions are discussed in detail in section 3.3.

Recommendations

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

- Executive authorities must prioritise the filling of vacancies in key positions.
- Accounting officers and accounting authorities must report to the executive authorities on the root causes of continued vacancies in key positions and their actions to address these.
- Vacancy management in respect of key positions must be included as a key performance area in the performance contracts of leadership.
- HR planning and organisation should take place well in advance to ensure that the organisational structures are aligned to the strategic goals and objectives of the entity.
- Succession planning measures, talent development and the continuous up-skilling of officials should be improved to allow for continuity in the event of vacancies.
- Stricter oversight and monitoring of compliance with the PSR should be in place to ensure that vacancies are advertised in good time.

Leadership was unable to make progress in addressing this root cause in spite of commitments to do so. This was because suitable candidates that satisfied inherent working requirements were not identified, either in terms of job specifications and/or qualifications. Consequently, acting officials had to be used to fill vacancies in the interim. Inability to attract staff with respect to scarce disciplines such as information systems and forensic auditing also proved to be an obstacle. Leadership and government should therefore look at alternative methods to address these challenges such as creating pools of talented professional persons within government, based on their performance history and experience. This pool can be used to source staff when needed during temporary vacancy periods. The pool should be updated continuously to develop people and gradually erase this endemic challenge.

Slow response by management

Detail of root cause

Slow response by management in addressing internal control deficiencies has been identified as a critical root cause at 18 auditees (45%). Consequently

material findings on compliance continue to exist at 23 auditees (61%), coupled with repeated internal deficiencies and sometimes the non-achievement of deadlines set in agreed action plans. The slow response from management is influenced by the lack of training programmes to improve the skills of managers that are involved in the day-to-day operations of public institutions. In this regard, changes in financial reporting, compliance and performance management requirements arise on a continuing basis, and management is not always equipped to readily implement changes. These changes are also expected to be implemented within short spaces of time without sufficient guidance from standard setters and regulators. Additionally, vacancies in finance units of 16% as well as in senior management positions of 17% place immense pressure on staff who are unable to fulfil additional responsibilities when acting. Unless these underlying root causes are addressed, the action plans of leadership will not produce improved and sustained results.

Recommendations

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

- Training programmes should be conducted well in advance to ensure that management are fully equipped to implement changes.
- Training should be followed by post-implementation reviews to assess its effectiveness. In addition, training service providers should offer on-site support and/or helpdesks to address practical challenges at the coalface.
- Pilot projects should be run at selected entities when changes occur in financial, legislative and performance reporting requirements. The teething problems identified at these entities should enable practical guidance and best practices to be developed to ensure that issues are resolved as quickly as possible.
- Performance needs to be more closely monitored to ensure that poor performance is rooted out and followed by appropriate consequences.

Progress has been reported in the current year relating to the introduction of performance agreements for management; however, the presence of performance agreements will not have an impact on sustainable improvements in leadership's effectiveness if they do not follow the process through to regular, timely performance assessment and responses to poor performance assessments.

Key officials lack appropriate skills and competencies

Detail of root cause

At eight (21%) auditees, key personnel that were entrusted with ensuring compliance with key laws and regulations were not appropriately skilled to perform their duties with the requisite care and diligence. Unless appropriate measures are in place to address skills and competencies of staff at all public institutions, appropriate consequences for inferior performance as well as many of the commitments of leadership are not achievable. Again, this root cause is becoming a hindrance as a regression of 18% has been noted compared to the previous year.

Recommendations

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

- More effective coordination between the National and Provincial Treasury, the Public Administration Leadership and Management Academy (PALAMA) and the Office of the Premier should be established, with focus on the following shortcomings:
 - Guidance
 - Systems
- Training in the departmental financial reporting framework, as well as performance management requirements and internal controls.
- Training should focus on case studies and possible solutions to create an environment that will foster skills development.
- Training interventions should be conducted by subject matter experts based on past working experience. This can further be enhanced by developing partnerships with universities and technical colleges as well as through drawing on expertise from government departments, without exorbitant expenditure.
- Competencies can further be improved by using placements and secondments to enable staff to gain experience by working in other spheres of government.
- Senior staff should have appropriate skills to mentor and oversee the work of lower levels of staff.

- New recruits should undergo rigorous and uniform induction and competency assessments before appointments, to enable them to be employed in any sphere of government.

Leadership is required to closely monitor skills issues if clean administration is to be achieved and sustained for all institutions. The ongoing support of all sectors at large, including business as well as universities, is pivotal to skills development and maintenance. Therefore it is imperative for provincial leadership to tap into these areas to improve service delivery levels and support the plans of government.

SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 5.1: Assurance provided by key role players

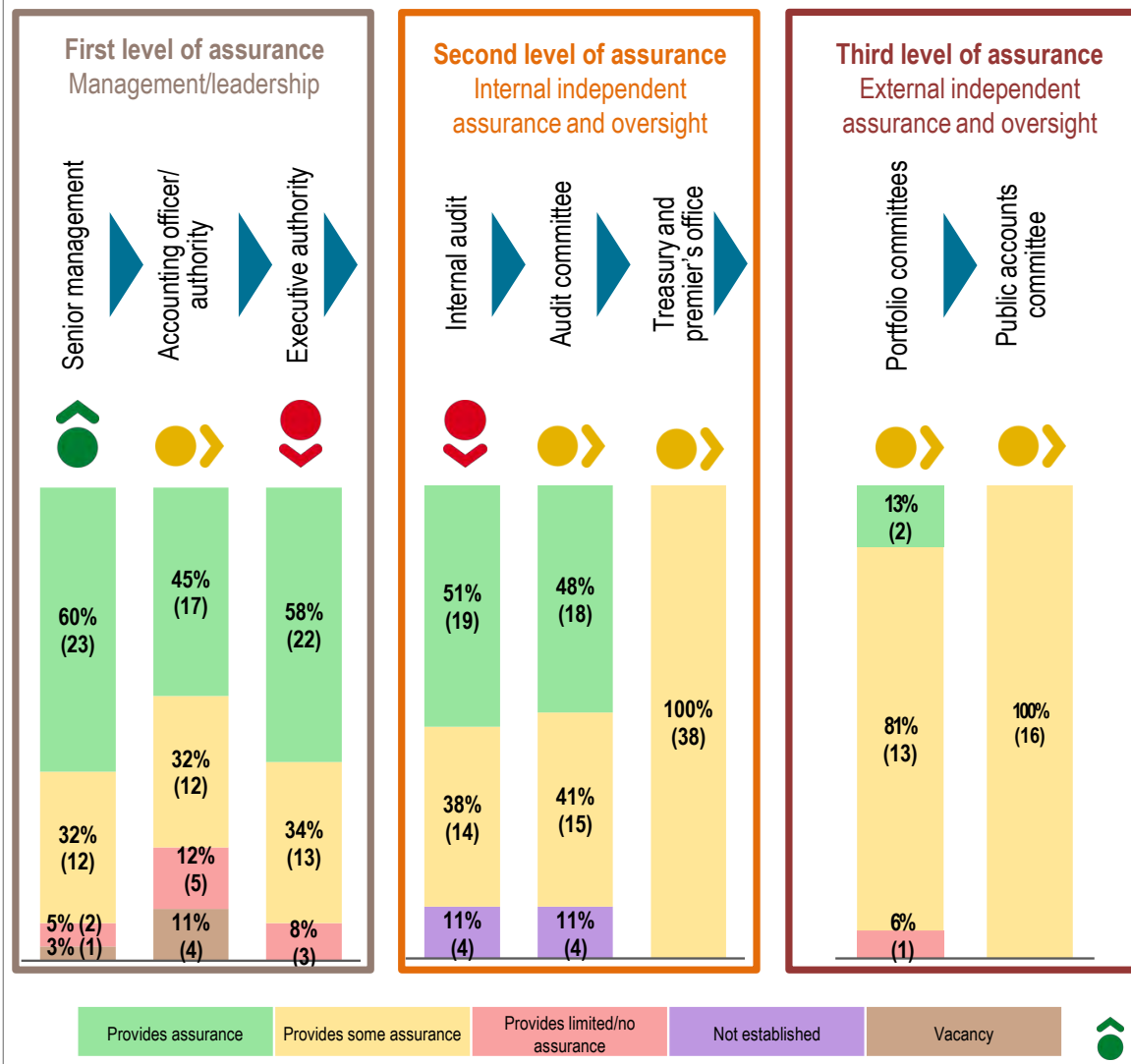
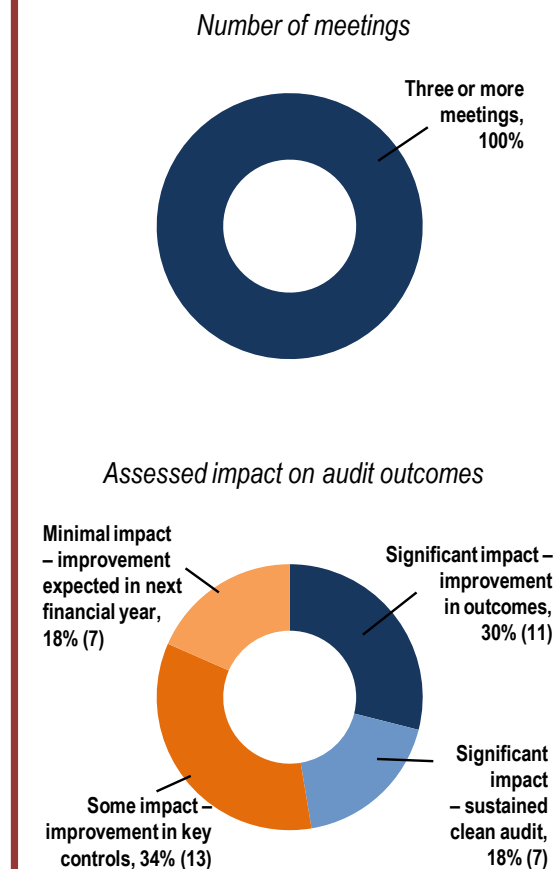


Figure 5.2: Interactions with MECs and assessed impact thereof



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

MECs and accounting officers use the annual report to report on the financial position of auditees, 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 AGSA, other role players also contribute to the credibility of financial and performance information and compliance with legislation, by ensuring that adequate internal controls are implemented.

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

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, 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 5.1 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

The assurance level obtained from senior management has improved by 14% from the prior year's 46% in terms of the category that provides assurance. Departments account for 31% and public entities for 86% for a high level of

assurance from senior management. Some level of assurance is provided by 63% of the senior managers in departments and public entities make up 9% of this category. In all categories substantial progress has been made in terms of the level of assurance provided by senior management. Nevertheless there is still space for improving the level of assurance at 15 auditees (39%). Accounting officers and MECs are relying 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 PDO reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable laws and regulations.
- Design and implement formal controls over IT systems.

It is still of concern 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 accounting officers and accounting authorities has increased since the previous year by 12% overall from 33% in terms of the highest level of assurance, which is positive. There are marginal improvements in the middle and lower assurance levels; however, a host of factors are inhibiting progress, which range from vacancies to the inability to attract appropriate skills and required competencies, to name just a few. At 21 auditees (55%) there is still space for accounting officers to improve the level of assurance that is required of them in order to attain improved and sustainable audit outcomes. To achieve this result, there is an imperative need for accounting officers and accounting

authorities to improve their oversight and monitoring role by being more persuasive in requesting credible and reliable reports from senior management. The tone at the top must be impeccable; one that instils the highest level of performance with no room for indolence and appropriate consequences where performance is defective.

The level of assurance provided by the accounting officers and the accounting authorities of public entities is lower than that of senior management and their impact on creating an effective control environment is not evident at some auditees. As reported in section 4.2, oversight and monitoring by accounting officers and authorities could still be improved as their leadership, planning and risk management are of paramount importance for sustainable practices that translate into 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 over financial and PDO reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- 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 levels of assurance provided by executive authorities show net improvements in all areas by 44% relative to the previous year. In 31% of the departments and 76% of the public entities executive authorities provide high levels of assurance.

For 69% of the departments and 34% of the public entities there is more work to be done to lift the assurance levels. Assurance levels are lower in some instances because executive authorities do not involve themselves in daily operations when departments and entities are being run effectively by competent officials. Their involvement is limited to being appraised on how the entity is performing without a requirement to provide extensive assurance. The executive authorities in the province, namely the MECs, have a monitoring and oversight role in their portfolios and play a direct role in departments, as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. They can bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities. Our assessment is that most MECs are providing the required level of assurance; however, better results could only be achieved by disciplined efforts towards oversight and monitoring.

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 5.2, all the MECs met with us. The engagements were well received, and these interactions have had a significant impact on the positive audit outcomes. However, the building blocks are now in place for improvements in key controls, which should lead to improved outcomes. The limited meetings we were able to secure and the low impact of our interactions with some MECs were due to frequent leadership changes, resulting in the implementation of commitments being disrupted. (Section 6 provides more detail on the interactions with the MECs.)

On the other hand, it could also mean that our conversation has not been compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations with an increased impact.

Second level of assurance: Internal independent assurance and oversight

Internal audit

The results for the assurance derived from internal audit depict an overall regression of 14% compared to the previous year. At 11 departments (69%) internal audit provided some assurance, and at five of them (21%) a higher level of assurance. At four public entities (18%) internal audit units have not been in place, and at one of them (5%) the establishment of an internal audit function was not prescribed in terms of the entity's legislation. At 82% of the public entities the assurance from internal audit was adequate; however, at 18% of these entities only some assurance was provided.

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 33 auditees (88%). Although most were not yet providing the extensive assurance required, there has been some improvement since the previous year. The operations of only 5% of the internal audit units were not fully compliant with the requirements of the PFMA, while the work of most of the units covered all the required aspects. However, exceptions are the 10% of units that did not evaluate performance information and the 8% that did not evaluate compliance with SCM.

In some instances, well-resourced and effective internal audit units have helped to improve internal controls, but overall the impact of these units on audit outcomes was fairly limited. Only 67% had a positive impact on audit outcomes, while the lack of impact of 33% of the units was as a result of management not addressing the internal audit findings.

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

The assurance level from audit committees has decreased by 5% when compared to the previous year. At 11 departments (69%) audit committees provided some assurance, whereas at five of them (31%) adequate assurance was provided. The results at public entities reflect that audit committees provided assurance at 13 auditees (76%) and only some assurance at four auditees (24%).

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. For the provincial departments, one audit committee is shared by all the departments except for the provincial legislature, which has its own audit committee.

Audit committees were in place at 33 auditees (89%) and the work of most of the committees covered all the required aspects. However, 12% of the committees did not evaluate PDOs and 9% did not evaluate compliance with SCM. Overall, 82% of the audit committees had a positive impact on the audit outcomes, as can be seen from the high to moderate levels of assurance provided in the current and previous year. The assurance was also enhanced by the interactions that 85% of the audit committees had with their MEC in the past year to share information and risks. The shared audit committee interacted with the MEC of Finance for 32 auditees (84%) in three or more meetings, which also enhanced assurance. It is the intention of the shared audit committee to also have interactions with the respective MECs of all departments for 2013-14.

Some audit committees are not effective yet because of shortcomings in the availability and competence of committee members. In addition, to provide the required level of assurance as second-level assurance providers, audit committees depend a lot on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level 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 Premier's Office

Provincial Treasury

The level of assurance provided by the Treasury and Premier's Office indicates an overall stagnant position relative to 2011-12. The role of oversight still needs to be strengthened by this coordinating ministry in order to escalate the level of assurance and improve audit results.

The Provincial Treasury continued to play a coordinating role with provincial departments in line with the requirements of the PFMA during the year. This role includes, among other things, the review of monthly reports of the departments, assisting the departments through provision of resources as well as the provision of solutions on technical and complex matters. Such initiatives are facilitated through, among others, the chief financial officers, risk management, budget and

financial statement forums. In addition, the Provincial Treasury engages with our office through regular provincial accountant-general forums to discuss transversal and topical issues and risk areas that affect the departments and public entities. The results of these discussions are filtered to auditees by way of circulars and guidance and training where required.

It must be noted that while the initiatives by the Provincial Treasury have had an impact in some departments, there is still no direct impact on the overall outcomes of the provincial departments.

One of the main causes is that the accountability of the departments still rests with their respective accounting officers and in general, they do not fully appreciate and embrace the initiatives by the Provincial Treasury as a long-term solution for their departments. In some instances, the monthly reports submitted by the departments are for compliance purposes and without proper validations before submissions. Extensive reliance is therefore placed on the treasury to detect errors in reports.

Therefore the coordinating role of the treasury needs to be improved in a manner that will compel accounting officers to submit reliable information in a timely manner. In this regard, the treasury should institutionalise performance measures and criteria that will result in consequences for errant accounting officers that persistently submit unreliable information.

As in-year monitoring and reporting is becoming more prominent it is vital that portfolio MECs, accounting officers and authorities, and senior managers fulfil their duties with impeccable diligence. To do so, portfolio MECs must meet with the MEC of Finance monthly to report on the status of financial and performance management in their portfolios and action plans. The outcomes of these meetings should enable the MECs to identify root causes that are hindering progress in their departments so that decisive actions can be taken to contain widespread risks.

Coordination should be enhanced with the premier and legislature with monthly reporting by the MEC of Finance on the status of the provinces dashboard report as well as the actions that are being taken to contain risks and promote a turnaround.

The commitments made by the treasury to address skills issues, fill key vacancies and monitor IT controls in the 2011-12 financial year are still in progress as these weakness persist. Although a number of initiatives are underway to improve skills and create partnerships with professional bodies and tertiary institutions, the response needs to be more rapid and sustainable.

Premier's Office

The Office of the Premier contributed administratively to many of the initiatives in the province for the 2012-13 financial year through the weekly meetings of the

provincial Cabinet. The premier is the head of the Cabinet and these meetings fall within his portfolio. Cabinet resolutions are taken and these then pass to the various cluster committees for the implementation of the resolutions through the service delivery departments. These are tracked by the portfolio committee meetings and generally the responsibility for implementation oversight lies with the Provincial Treasury. The premier's contribution to this process is to ensure that critical matters identified are raised and resolved at the Cabinet meetings and thereby become tracked action plan items, with responsibility duly assigned. During the year measures were put in place to reduce irregular expenditure as well as reduce overhead costs and overdraft financing. Except for irregular expenditure, the other planned measures were successful.

Additionally, during the year the Office of the Premier facilitated strategic alignment of annual performance plans of departments to the millennium development goals. The annual performance plans of all departments were reviewed through direct interface with departmental officials.

The director-general of the Premier's Office meets heads of departments monthly in a coordinating head of department forum to ensure that Cabinet resolutions are implemented, tracked and monitored and to decide on actions to be taken in the case of deviations.

Other components within the Premier's Office include an integrity management unit that interacts with the Provincial Treasury's internal audit function, as well as the nerve centre that acts as a hub to monitor provincial and local government spending trends, which informs strategic planning and decision-making.

The premier in 2011-12 committed to reduce irregular expenditure and achieve clean audits by 2014. Irregular expenditure has nonetheless increased during the year; however, of note is the fact that the majority of the irregular expenditure had been identified by internal controls of auditees. The fulfilling of these commitments and even more so, the widespread root causes in the province require a dedicated, disciplined and proactive response for effective oversight and monitoring.

To achieve clean audits by 2014, it is imperative that all key coordinating role players such as the legislature, premier, treasury and the provincial public accounts committee (PPAC) be part of the departmental annual risk assessment processes with MECs and accounting officers. Progress in risk management and the action plans to mitigate risk should be discussed collectively by these role players. This process together with the monthly coordination between the MEC of Finance, legislature and premier could aid a positive turnaround immensely.

Third level of assurance: External independent assurance and oversight

Portfolio committees and public accounts committees

The legislature's oversight is further strengthened by the operation of the portfolio committees together with the PPAC. Figure 5.1 includes the level of assurance provided by these committees. Assurance has been provided by portfolio committees for two departments (13%), some assurance for 13 departments (81%) and limited/no assurance for one department. The PPAC has provided some assurance in respect of all departments.

The collaboration between portfolio committees and the PPAC ensures that there is no duplication of efforts and shares relevant information to strengthen oversight. The chairs of portfolio committees also attend the PPAC meetings, which assists them to address matters arising during their regular portfolio committee meetings. It also places them in a position to provide context to matters, when needed, and obtain a greater understanding of the audit outcomes and responses from their specific departments.

The audit committee chair in the province also attends PPAC meetings. She provides useful information with regard to the regularity of attendance of officials, their responses to the committee as well as key risk areas identified.

Although it had been previously suggested to the chairs of the portfolio committees that on a quarterly basis we should meet with them for 30 minutes

before their portfolio meetings to discuss the status of the quarterly dashboard commitments as well as action plans to address audit outcomes, this has not yet taken place. A renewed effort will be made to encourage this, as it is considered that it will be beneficial to oversight. Additionally, it was suggested that the audit committees make themselves available or alternatively write up material matters from their cluster meetings. Commitments will be obtained from portfolio committees towards strengthening their role in oversight in this regard.

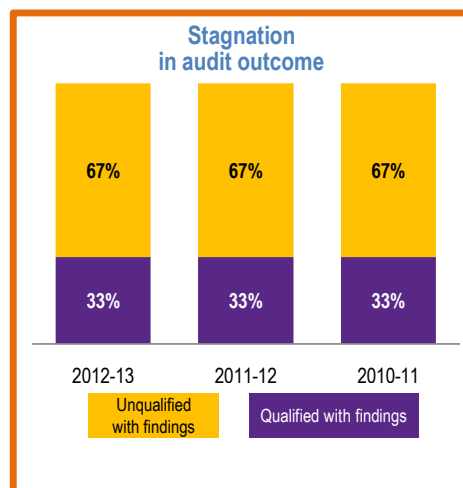
Quarterly interactions with the chairs of portfolio committees where outcomes and commitments are extensively discussed will continue. These meetings create a platform to indicate where further dialogues and workshops are required. Additionally, we have previously suggested that the status of audit plans as well as commitments be included on portfolio committee agendas to ensure regular follow-up and reporting.

Meetings were held with the speaker of the legislature and chairs of chairs and portfolio committees to discuss outcomes, status of internal controls as well as commitments and actions.

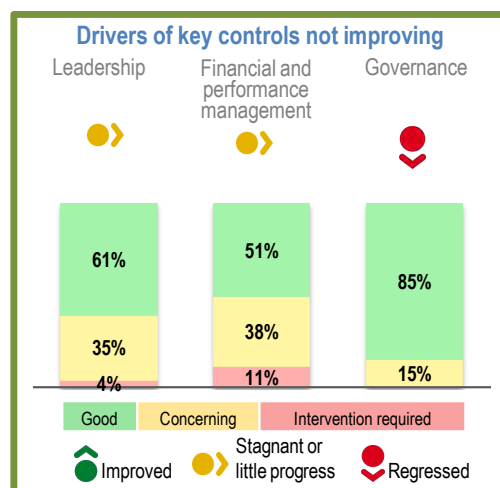
Although briefings are given prior to PPAC hearings, a need continues to exist to spend more time with the Standing Committee on Public Accounts (SCOPA) to ensure that they have a deep understanding of outcomes and the root causes of the outcomes. Commitments are periodically followed up and are in progress. PPAC resolutions have had a positive effect as can be seen from, for example, the reduction in the occurrence of unauthorised and irregular expenditure.

SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

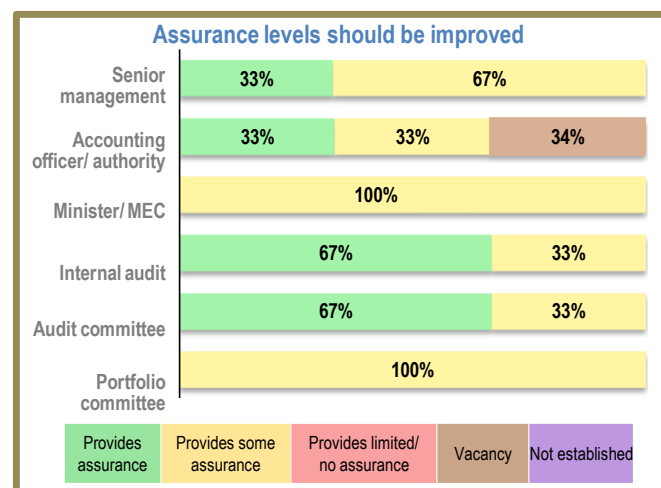
6.1 MEC: Agriculture, Environmental Affairs and Rural Development



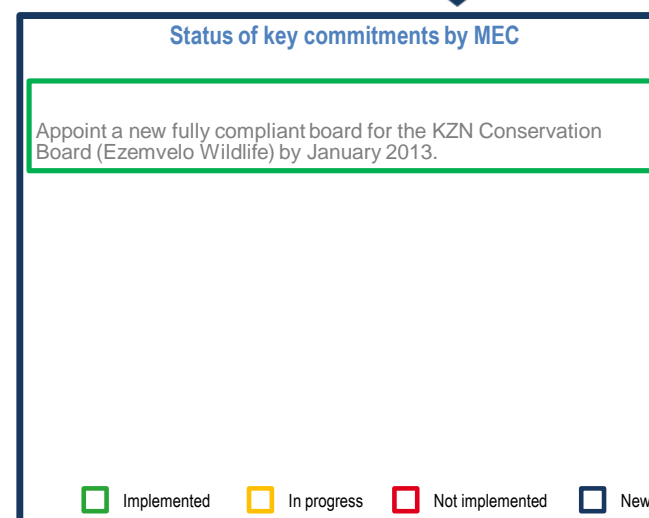
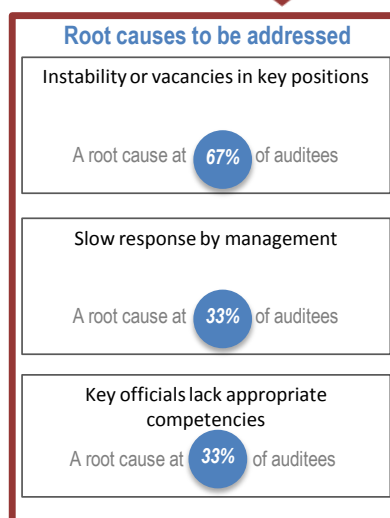
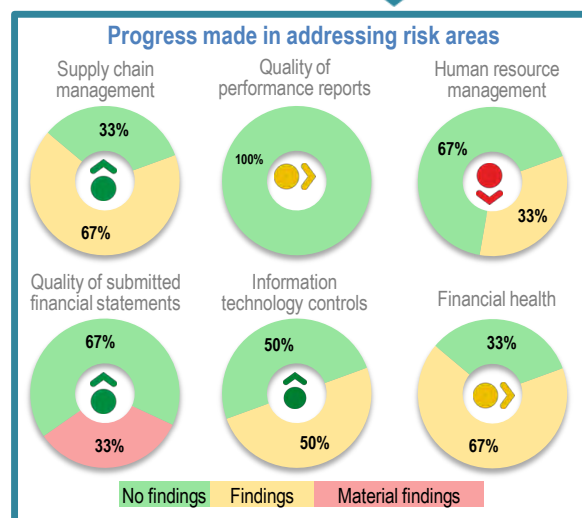
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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

- Department of Agriculture, Environmental Affairs and Rural Development
- KwaZulu-Natal Nature Conservation Board ■ Mjindi Farming (Pty) Ltd

No significant movement in audit outcomes

Action plans to address prior-year findings did not result in significant movement in the audit outcomes in most of the portfolio for the current year. Nonetheless, there has been a sustainable improvement in respect of a reduction in the number of repeat audit findings at the KZN Department of Agriculture, Environmental Affairs and Rural Development, being the result of the successful implementation of the action plan.

Conversely, the action plans implemented to address prior-year audit findings were not effective at the KwaZulu-Natal Nature Conservation Board. Audit findings and qualifications were repeated in the current year with no improvement at all.

Six key risk areas

Vacancies in key positions are a key risk facing auditees in the portfolio. Although the department made progress in the overall management of vacancies, it continued to operate in the current year with officials acting in the positions of the accounting and chief financial officers. The KZN Nature Conservation Board did not have vacancies in key positions in the current year, but the instability in the position of the chief financial officer in previous years contributed to the repeat audit findings and qualifications of the audit opinions. Mjindi Farming (Pty) Ltd faces resource constraints with vacancies in the finance department as well as instability in leadership.

SCM remains a risk area for the portfolio due to weak controls in records management and procurement processes.

The quality of the financial statements submitted by the KZN Nature Conservation Board is a key risk area which has not yet been addressed despite the repeat audit findings in a number of consecutive cycles.

Overall, the quality of the annual performance reports has improved to the extent that no material findings were reported in the portfolio.

Key controls and root causes

Auditees in this portfolio should strengthen the following controls to create a control environment that supports reliable financial and PDO reporting and compliance with legislation:

- Record management
- Daily and monthly processing and reconciling of transactions
- Review and monitoring of compliance with legislation

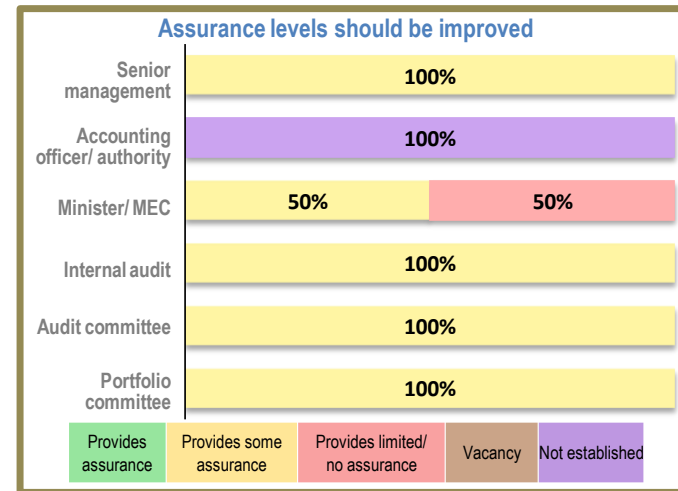
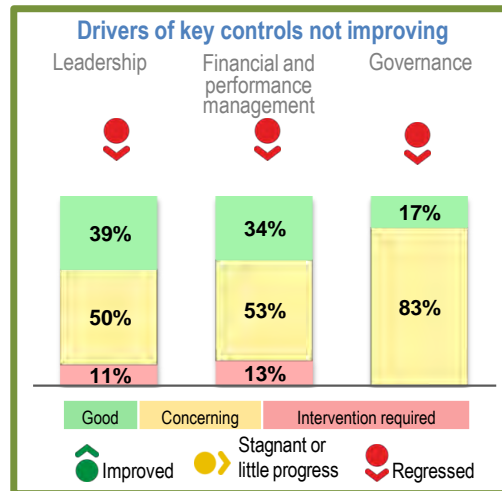
The MEC, accounting officer and accounting authorities and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- The filling of vacancies in key positions must be prioritised as critical and must receive the urgent intervention of the MEC. This intervention should extend to the staffing of the SCM unit.
- Policy documents and related procedure manuals must be reviewed for relevance and completeness of procedures and must be implemented with training and checklists.
- Proper reviews of financial and performance information must take place in good time and must include both procedures to verify credibility of information as well as proof of review, to isolate responsibility for the reviews.

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management at the department. Furthermore, leadership should track the implementing of the recommendations of internal audit and direct the work of the audit committee towards evaluating financial, compliance and PDO information. We met with the MEC four times in the past year and these interactions had no immediate impact on the audit outcomes. The reason for our assessment is that the commitments made by the MEC in our meetings included a multi-year approach to addressing pervasive root causes on a systematic basis in order to ensure sustainability. The impact of the MEC's interventions is anticipated to become evident in 2014, therefore the expected level of assurance is good. This assessment, the lack of immediate impact of the MEC on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC. The MEC's and portfolio committee's oversight over the department and the related entities should be more effective.

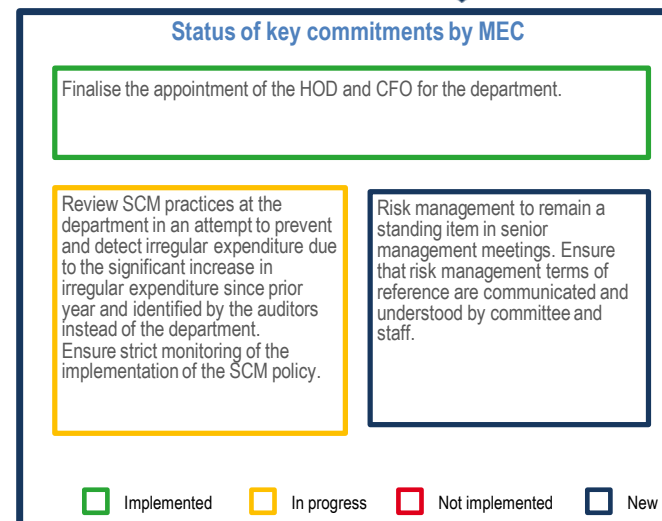
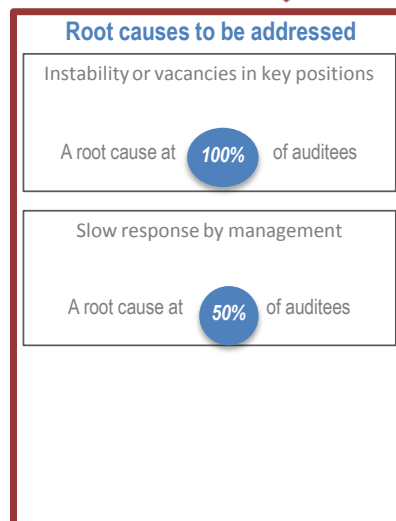
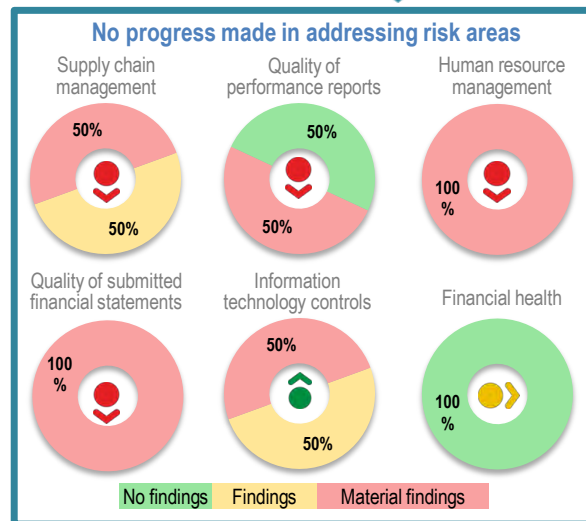
6.2 MEC: Arts, Culture, Sport and Recreation



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

■ **Department of Arts and Culture** ■ **Department of Sport and Recreation**

Significant movement in audit outcomes

The regression in the audit outcomes of the portfolio was caused by Arts and Culture's regression from a clean audit to a qualified audit opinion with findings on compliance with legislation. The audit opinion on Sport and Recreation remained unchanged from the previous year as unqualified with other matters; however, there was a regression in the reliability of the PDOs.

Six key risk areas

SCM and the quality of performance reports remain areas of concern for Sport and Recreation. HR management regressed due to the new findings at Arts and Culture relating to the appointment process, as well as vacancies in the positions of head of department and chief financial officer during the year. At Sport and Recreation, there is a great need for the finalisation and implementation of the new HR organisational structure.

The quality of financial statements submitted for audit regressed for Arts and Culture due to a qualification related to inadequate supporting documentation for the disclosed value of library books. The department attempted to introduce systems to account for these assets; however, due to instability in leadership and management as well as vacancies in key positions, the actions taken were not timely and adequately managed.

Even though no material findings were raised on IT, management should continue to design and implement action plans to address management report weaknesses.

There has also been no improvement in financial management for this portfolio during 2012-13. Material underspending of the capital budget needs to be addressed at Sport and Recreation and Arts and Culture needs to improve cash management to reduce the use of the bank overdraft facility and improve efforts to collect monies due.

Key controls and root causes

The regression in the audit outcomes was due to the lack of adequate attention to key controls and compliance with laws and regulations. Auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- IT controls in respect of software that will produce reliable data and asset management tools for library books for Arts and Culture.
- Controls over daily and monthly processing and reconciling of transactions, with additional focus on disclosure notes.
- Reviewing and monitoring compliance with legislation.

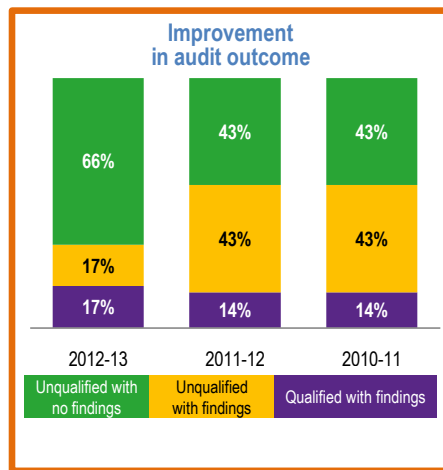
The MEC, accounting officers and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Proactively track management's progress on action plan items.
- Focus on resourcing the finance and performance departments.
- Engage with the Provincial Treasury in good time to ensure the successful and timely implementation of new asset management software.

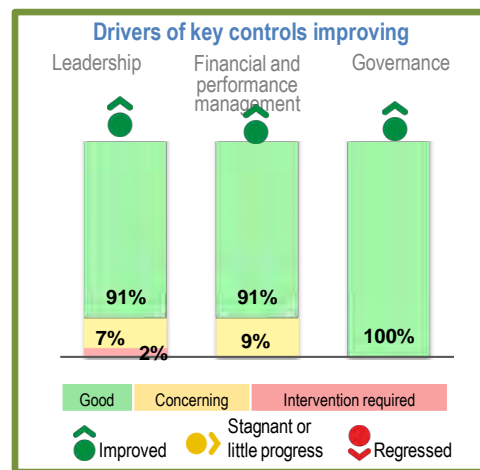
Impact of key role players on audit outcomes

The assurance levels should be improved by more hands-on involvement of the MEC in the monitoring of action plans of the departments, and availability to interact with our office. We met with the newly appointed MEC twice in the past year but these interactions had some or little impact on the audit outcomes. The reason for our assessment is the regression of the outcomes of the portfolio despite an awareness of the emerging risks that gave rise to the regressions. This assessment, the lack of impact of the MEC on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC. The assurance provided through the oversight of the portfolio committee should be improved. No commitments were made by the committee in the current and previous year. The committee has been encouraged to drive clean audits by the 2013-14 financial year, which will be monitored.

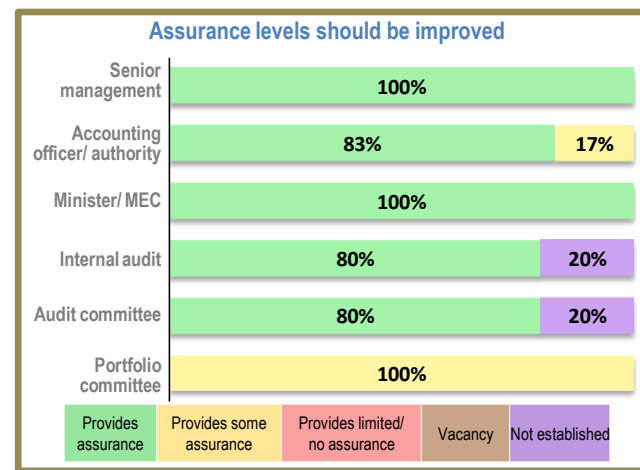
6.3 MEC: Cooperative Governance and Traditional Affairs



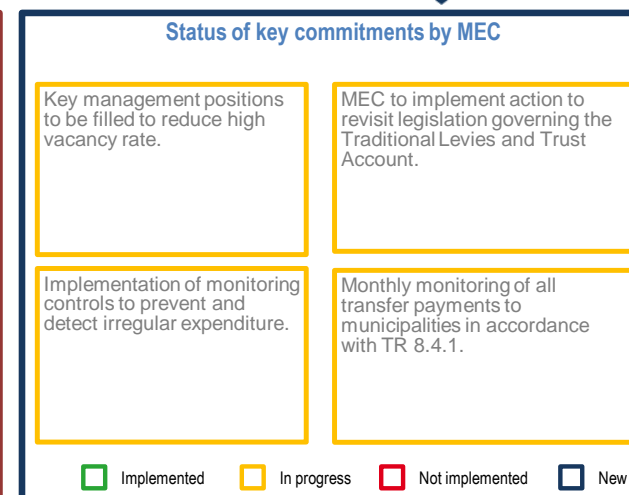
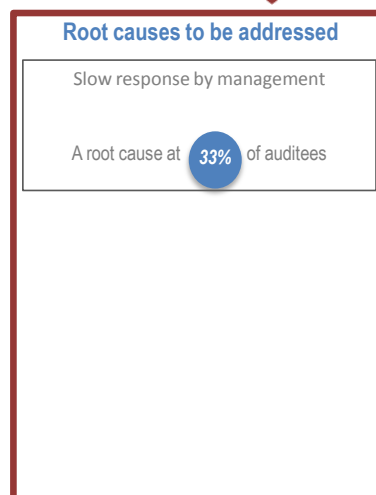
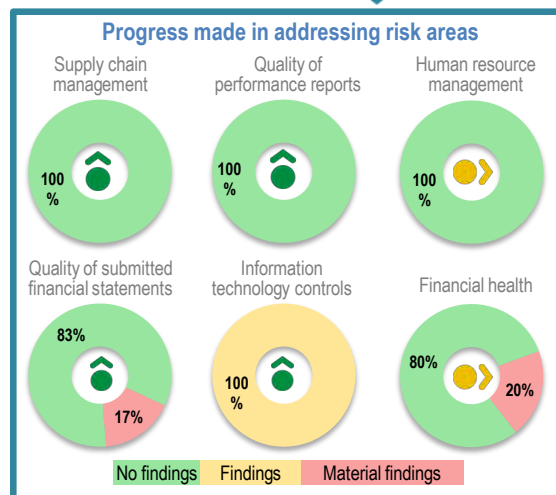
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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

■ Department of Cooperative Governance and Traditional Affairs ■ Natal Joint Municipal Pension Fund (Provident) ■ Natal Joint Municipal Pension Fund (Retirement) ■ Natal Joint Municipal Pension Fund (Superannuation) ■ Traditional Levies and Trust Account ■ uMsekeli Municipal Support Services

Significant movement in audit outcomes

The improvements in outcomes are largely attributed to the hands-on approach exercised by leadership of the department which enabled the majority of the prior year's issues to be resolved in the current year. Improvements were reported for the KZN Traditional Levies and Trust Account on asset management, as a reliable immovable asset register was submitted for audit. The qualification relating to completeness of revenue for the trust account will remain due to the voluntary nature of the income received by traditional councils, as adequate controls cannot be implemented to eradicate this issue. uMsekeli Municipal Support Services is a dormant entity in the portfolio which ceased operations as at 31 March 2013. There were no issues to report on this entity. The three pension funds continued to maintain their clean audit status.

Six key risk areas

There has been a significant improvement in the quality of financial statements submitted due to intensified processes to verify the validity and accuracy of financial statement disclosure items during the quarterly financial reporting process. There has also been improvement in the SCM processes in the department with a reduction in irregular expenditure reported in the current year and no material findings were identified during the audit.

Even though no material findings were raised on IT, management should continue to design and implement action plans to address weaknesses.

Key controls and root causes

The improvement in the key controls was due to leadership accepting and implementing recommendations given in the prior year and honouring the following commitments made on the dashboard:

- Implementing effective SCM procedures to prevent, detect and report on irregular expenditure and improve financial disclosures.
- Implementing effective processes to support financial statement disclosures and the achievement of performance targets.
- The effectiveness of leadership oversight, strong internal control environment and effective governance have contributed to the continued clean administration of the three pension funds.

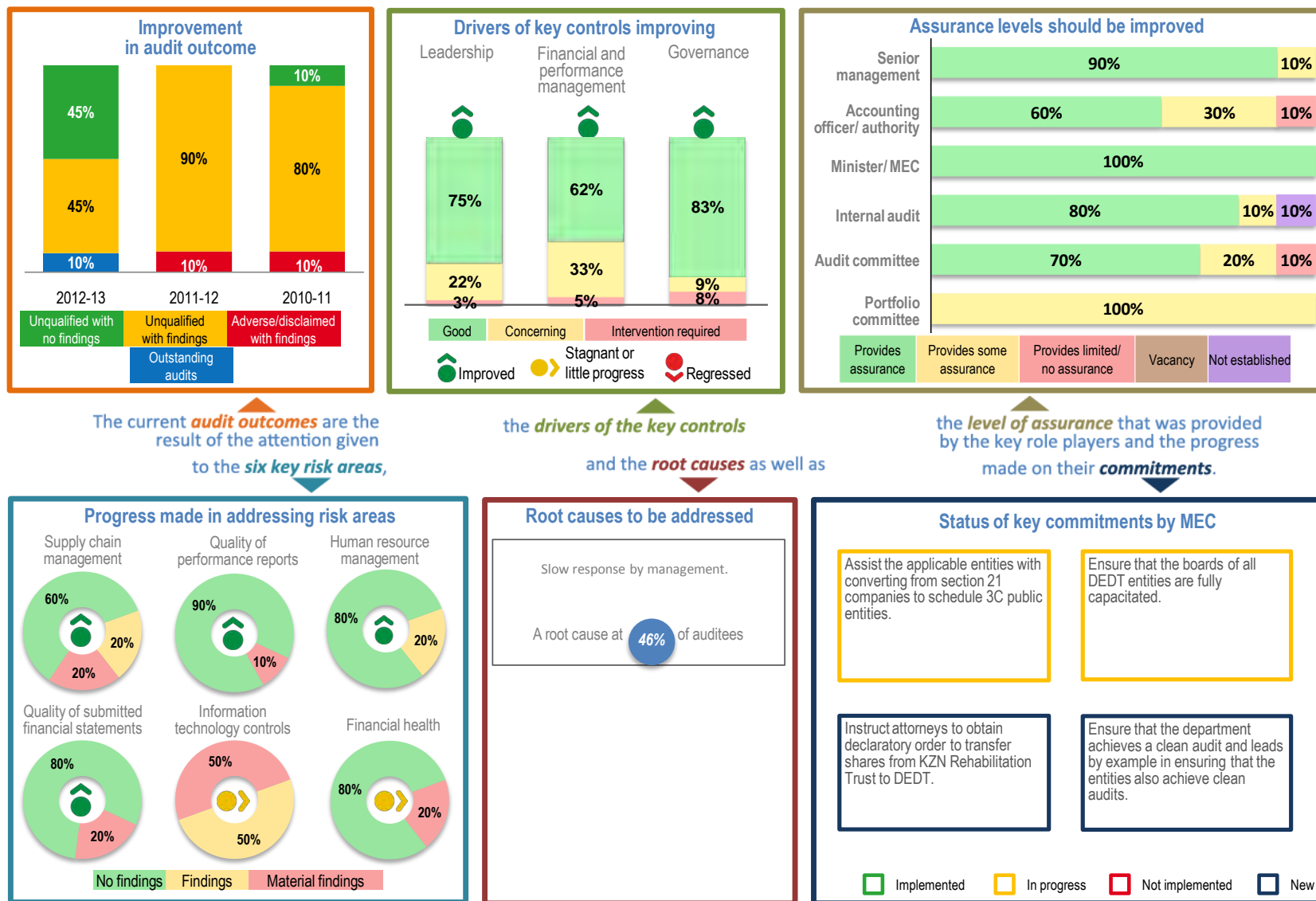
The MEC, accounting officer and accounting authority and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Proactively track management's progress on action plan items, particularly on strengthening the monitoring and oversight processes for the transfer of funds to municipalities.
- Focus on the filling of key management vacancies.
- Expedite the approval of the KZN Traditional Levies and Trust account bill.

Impact of key role players on audit outcomes

The assurance levels should be maintained by ensuring stability at the level of accounting officer and senior management. We met with the MEC three times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is that the MEC takes the process seriously and ensures that commitments are implemented. As the MEC is a key role player in driving clean audits in the municipalities, it is therefore of vital importance that she sets the tone by driving clean audits in the portfolio. The assurance provided through the oversight of the portfolio committee should be improved by driving clean audits in the portfolio and actively monitoring the issues that would contribute to improved audit outcomes.

6.4 MEC: Economic Development and Tourism



Auditees included in the portfolio

■ **Agri-business Development Agency** ■ **Dube Tradeport Company** ■ **Department of Economic Development and Tourism** ■ **Ithala Development Finance Corporation Ltd** ■ **Ithala Limited** ■ **KwaZulu-Natal Business Rehabilitation Trust Fund (outstanding audit - late receipt of financial statements)** ■ **KwaZulu-Natal Growth Fund Managers (Pty) Ltd** ■ **KwaZulu-Natal Sharks Board** ■ **KwaZulu-Natal Tourism Authority** ■ **KZN Liquor Authority** ■ **Trade and Investment KwaZulu-Natal**

Significant movement in audit outcomes

The improvement in the audit outcomes of the portfolio was due to Dube Tradeport Company, Growth Fund Managers (Pty) Ltd, Sharks Board, Tourism Authority and Trade and Investment achieving clean audits in the current year, which is a notable improvement. The Agri-business Development Agency, Department of Economic Development, Ithala Development Finance Corporation and Ithala Ltd improved their PDO reporting; however, compliance with legislation requires attention.

Six key risk areas

Progress has been made by addressing the quality of financial statements and the usefulness of performance information. The Liquor Authority still needs to address the quality of financial and performance reporting and the Agri-business Development Agency should also address the quality of the financial reporting. The departments in this portfolio as well as the Ithala Development Finance Corporation should address SCM findings for progress to be achieved. IT findings require attention at the departments and Ithala Development Finance Corporation as well as Ithala Ltd. Going-concern findings were identified at Ithala Ltd and at Growth Fund Managers because of the net loss of R24,38 million incurred by Ithala Ltd.

Key controls and root causes

The improvement in the key controls was caused by Dube Tradeport Company, Growth Fund Managers (Pty) Ltd, Sharks Board, Tourism Authority and Trade and Investment improving leadership controls and addressing the financial and performance management controls. Auditees should strengthen the following controls to create a control environment that supports reliable financial and PDO reporting and compliance with legislation:

- Strengthen leadership oversight responsibility.

- Monitor and review compliance with legislation.
- Improve controls over daily and monthly processing and reconciling of transactions.

The MEC, accounting officer and accounting authority and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that legislation is complied with and that there is regular monitoring of compliance through the use of a compliance checklist.
- Ensure that financial and PDO information is accurate and complete by reviewing daily and monthly transactions and reconciliations and following up on all anomalies.

Impact of key role players on audit outcomes

The assurance levels should be maintained where clean audits have already been achieved by ensuring stability at the level of accounting officer and senior management as well as by implementing the recommendations of internal and external audit. We met with the MEC four times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is the improvement of five entities to clean audit outcomes. This assessment, the impact of the MEC on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC. The MEC also meets with the leadership of the department and the entities on a quarterly basis to drive clean audits. The assurance provided through the oversight of the portfolio committee should be improved in respect of audit outcomes. The committee is committed to strengthening its oversight responsibility and holding leadership accountable for the improvement in audit outcomes.

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

We do not audit the following entities included in the portfolio of the MEC:

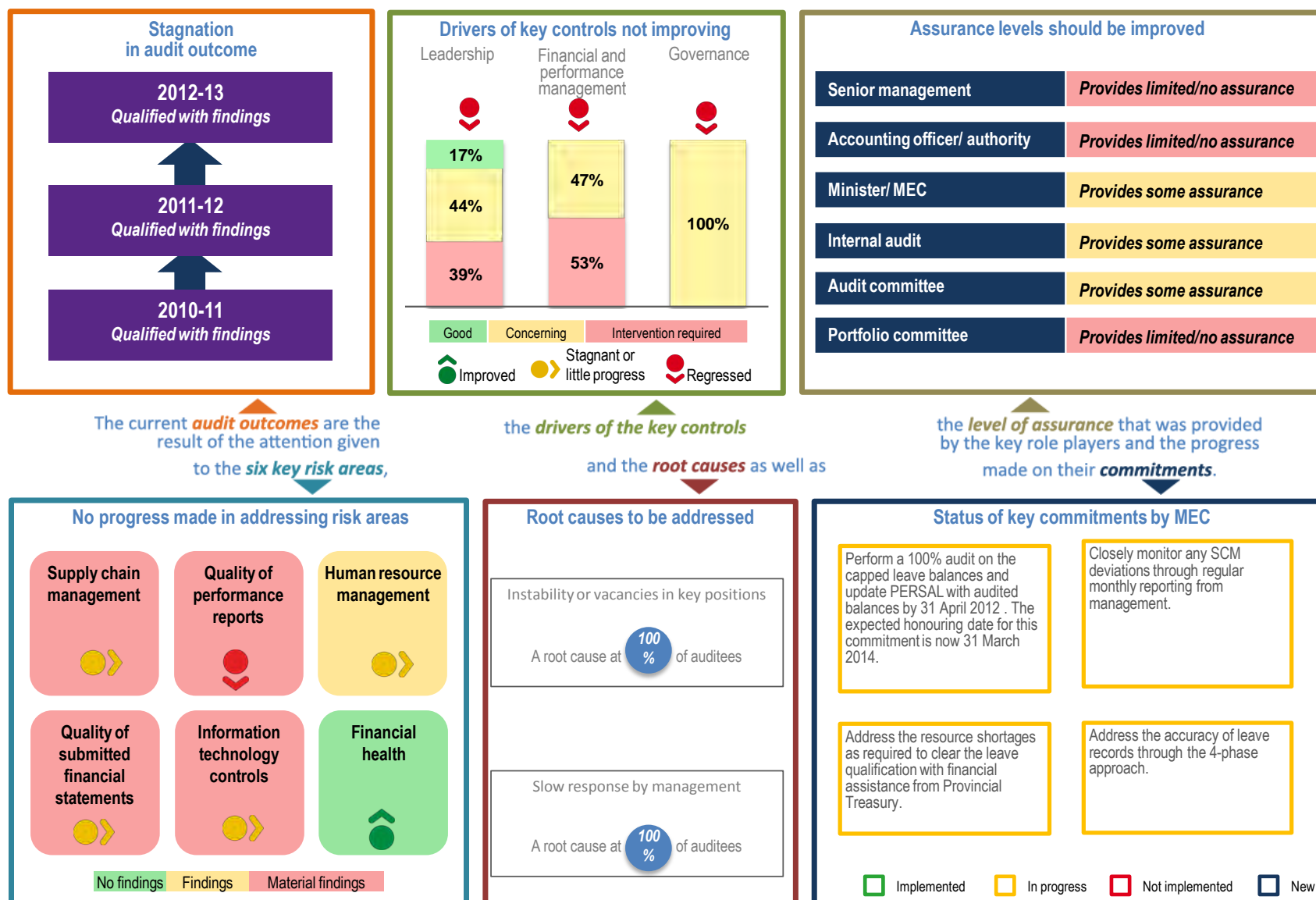
■ **Banzi Pan Devco (Pty) Ltd** ■ **Cowslip Investments (Pty) Ltd** ■ **Durban Wharfside Trust** ■ **La Mercy Property Investment** ■ **Mabibi Development Company (Pty) Ltd** ■ **Moses Kotana Institute (outstanding audit - late receipt of financial statements)** ■ **Nongoma Plaza Ltd** ■ **Richards Bay Industrial Development Zone (Pty) Ltd** ■ **Rocktail Bay Devco (Pty) Ltd** ■ **Sibaya Conservation Projects (Pty) Ltd** ■ **Sundumbili Plaza** ■ **Ubiciko Twines and Fabric (Pty) Ltd**

The audit outcomes of these entities have improved from the previous year. The audit outcomes were as follows:

- Eleven (100%) auditees had an unqualified opinion with no findings – an improvement from the three (25%) in the previous year.
- Moses Kotana Institute submitted financial statements on 28 June 2013 and the audit was in progress at the date of this report.

The MEC includes the chairpersons of the accounting authorities and chief executive officers of these entities in his quarterly meetings to drive clean audits and their sustainability.

6.5 MEC: Education



Auditee included in the portfolio

■ Department of Education

Significant movement in audit outcomes

The stagnation in the audit outcomes of Education was caused by a lack of leadership control in addressing the prior-year qualification and the other matters requiring attention and reported in the prior-year management report.

Six key risk areas

Although a two-year plan has been implemented to address the qualification on the capped leave liability, numerous inefficiencies were identified resulting in the capped leave liability being materially misstated. Additionally, material misstatements of capital commitments, irregular expenditure, receivables and accruals were identified. These risk areas should be addressed immediately in order to improve the audit outcomes in the next year. Other risk areas to be addressed are the quality of financial statements as well as the quality of the annual performance report. The status of SCM remains unsatisfactory as a result of the department not obtaining three quotations, not inviting competitive bids, not obtaining tax clearance certificates, suppliers not declaring whether they are employed by the state or connected to anyone employed by the state and employees not obtaining written permission for performing remunerative work outside the department. Other risk areas to be addressed relate to IT, HR management and financial health.

Key controls and root causes

The regression in the key controls was caused by the department neglecting monitoring and review processes at a leadership level. There were vacancies in key positions and slow response from management to address key control deficiencies. The department should strengthen the following controls to create a control environment that supports reliable financial and PDO reporting and compliance with legislation:

- Leadership should exercise oversight responsibility.
- Implement controls to address proper record keeping that is reviewed regularly, with adequate checks and balances to ensure credible financial reporting.

- A process should be established to address poor performance and transgressions.

The MEC, accounting officer and accounting authority and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Review and confirm the accuracy and completeness of all financial and PDO information submitted in quarterly and monthly reports as well as in the interim and final financial statements.
- Review the annual performance plan and ensure that PDO information is useful and meets the criteria for being specific, measurable, achievable, relevant and time-bound and that the PDO information submitted for quarterly review is reliable and adequately supported.
- Ensure that legislation is complied with and that there is regular monitoring of compliance with legislation through the use of compliance checklists.
- Ongoing skills development and training to ensure that management and staff perform their duties, with appropriate consequences being followed for poor performance.

Impact of key role players on audit outcomes

The assurance levels should be improved by implementing the recommendations of external audit and directing the work of the audit committee towards evaluating PDO information. We met with the MEC four times in the past year but these interactions had no noticeable impact on the audit outcomes. The reason for our assessment is the increase in qualification areas compared to the prior year. This assessment, the lack of impact of the MEC on the controls of the auditee as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC. The assurance provided through the oversight of the portfolio committee should be improved. The committee did not convene a meeting to consider the audit outcome and any intervention necessary to assist the department in improving the audit outcomes for the next year. This committee should commit to assisting the department in achieving clean administration.

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Auditee included in the portfolio

■ KwaZulu-Natal Provincial Treasury

Significant movement in audit outcomes

There was no movement in the audit outcomes as the Provincial Treasury maintained its clean audit status for three consecutive years.

Six key risk areas

Progress has been made in addressing the key risk areas, most notably in the areas of policies and procedures approved. The Provincial Treasury should focus on the managing of vacancies (especially for senior management), controls over the suppliers' conflict of interest and improving certain areas of IT controls. Although there were no significant findings resulting from the conflict of interest, the Provincial Treasury needs an innovative approach to identifying possible conflicts of interest in the absence of a reliable system to manage possible conflicts. As part of its coordinating role, the Provincial Treasury has embarked on various initiatives to assist the provincial departments; however, the outcomes of the departments are still not at the desirable levels.

Key controls and root causes

The status quo in controls is due to a dedicated and disciplined effort undertaken by leadership to ensure that the commitments and key areas reflected on the quarterly dashboard report were monitored in terms of an action plan; however, there were a few matters with regard to HR vacancies that posed a challenge. The Provincial Treasury should address the following to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal IT controls.
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

The accounting officer, chief financial officer and IT manager should address the inadequate controls as follows:

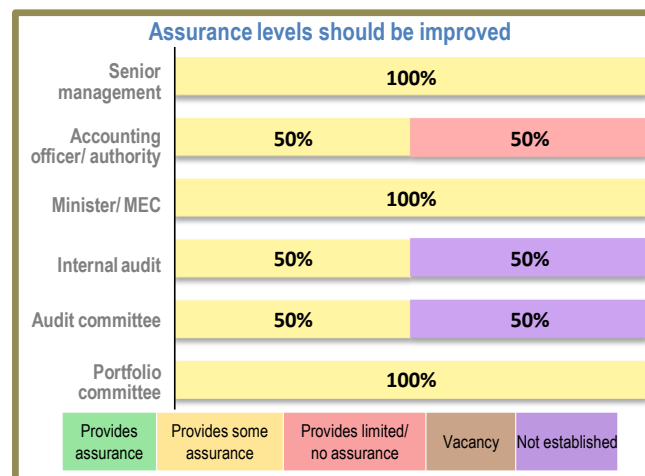
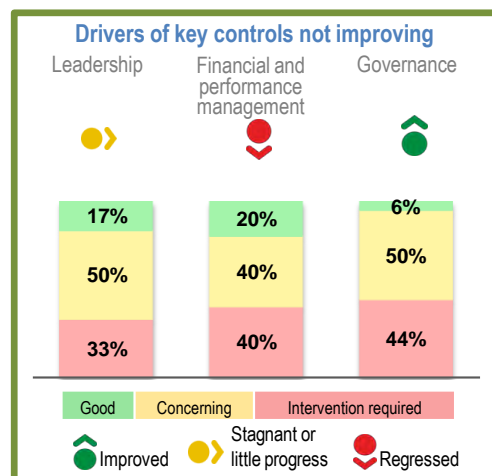
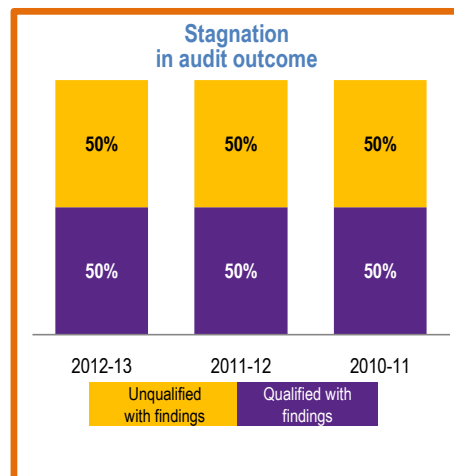
- Fill the funded vacant positions.
- Implement the policies and procedures relating to the IT environment.
- Develop an innovative approach of identifying possible conflicts of interest in the absence of a reliable system to manage the possible conflicts.
- Intensify the coordination of other departments through an outcome-based approach.

Impact of key role players on audit outcomes

The assurance levels should be maintained by ensuring stability at the level of accountant-general and other senior management and implementing the recommendations of internal audit.

We met with the MEC three times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is that she makes time for our engagement, gives commitments on addressing the control deficiencies and most of those commitments were honoured. This assessment, the impact of the MEC on the controls of the auditee as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC.

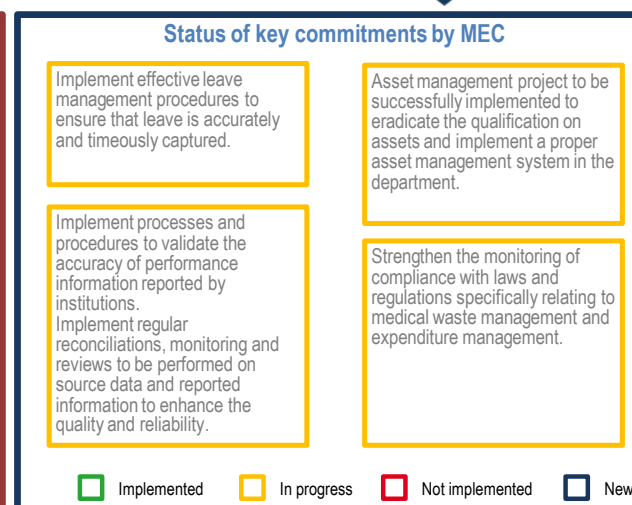
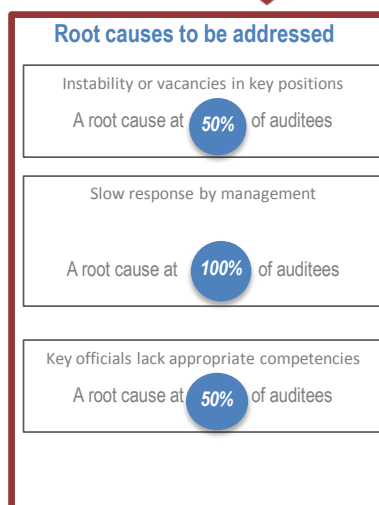
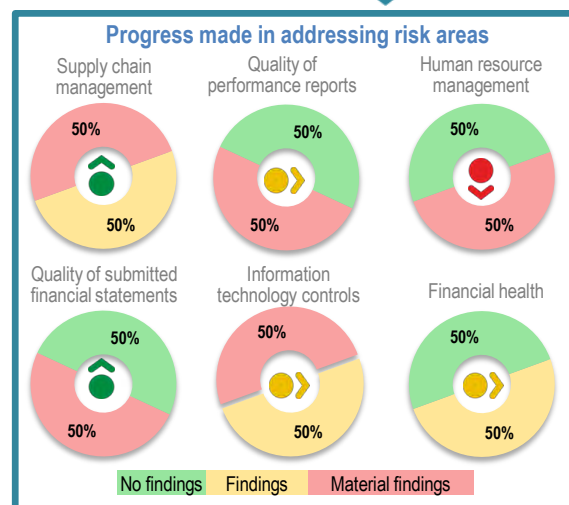
6.7 MEC: Health



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

■ Department of Health ■ KwaZulu-Natal Provincial Pharmaceutical Supply Depot

Significant movement in audit outcomes

The audit outcomes of the portfolio remained unchanged in the current year, caused by the department not adequately addressing the prior year's qualification on assets, no improvement in the reliability of the PDO information and new issues relating to deficiencies in leave management which impacted on the accuracy of the leave provision. Significant improvements were noted in addressing the prior-year qualification items relating to the completeness of the recording of irregular expenditure as well as the maintenance of adequate supporting documentation for journals processed for conditional grants.

Six key risk areas

Progress has been made in addressing the key risk areas relating to the completeness of the recording of irregular expenditure as well as maintenance of supporting documentation for journals processed for conditional grants. Weaknesses in the areas of HR management and asset management, as well as the quality of the financial statements and annual performance reports submitted by the department, need to be improved. The department should focus on the credibility of the PDO information and supporting documentation to address the material findings on the reliability of its performance report. The status of SCM remains unsatisfactory, mostly as a result of the department still incurring large irregular expenditure charges due to non-compliance with legislation governing SCM. Other risk areas to be addressed relate to financial health and unauthorised expenditure. Weaknesses in revenue management and debt collection periods need to be improved. Spending in the department needs to be closely monitored to ensure that unauthorised expenditure is prevented. The trading entity in this portfolio did not have high risks except for IT management, which needs to be addressed.

Key controls and root causes

There has been slow progress in addressing key controls during the year. This was hindered by the department not improving the leadership controls, and the financial and performance management weaknesses. The department in this portfolio should strengthen the following controls to create a control environment

that supports reliable financial and performance reporting and compliance with legislation:

- Communication and implementation of policies and procedures.
- Monitoring and oversight, to enable and support the understanding and execution of internal control objectives.
- Implementation of a proper asset management system as well as a proper record keeping system to ensure complete, relevant and accurate information to support performance reporting.

The MEC, accounting officer and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Improve leadership oversight over asset management, compliance with SCM requirements, HR management and the accuracy of reported performance information.
- Support the filling of critical vacancies so that the department is adequately resourced to drive its mandate and improve the internal control environment and financial management.
- Effect improvements in performance management and set the tone to drive the required performance necessary to improve audit outcomes in the department.

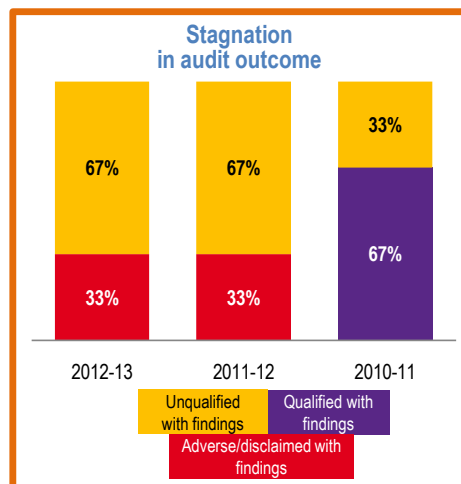
Impact of key role players on audit outcomes

The assurance levels should be improved by implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information and other pertinent risk areas.

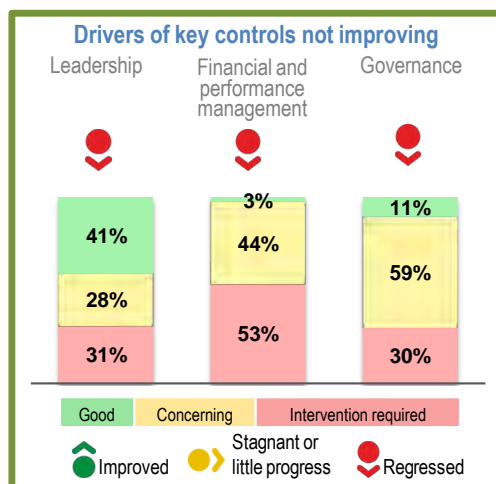
We met with the MEC three times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that more interactions are still required with the MEC, accounting officer and chief financial officer of the department as well as the heads of the relevant components in order to focus on and understand the issues impacting on the department. The MEC should be kept up to date with the progress in eradicating the issues facing the department. This assessment, the impact of the MEC on the controls of the auditee as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC.

The assurance provided through the oversight of the portfolio committee should be improved. The committee should focus on monitoring actions that will drive clean audits and improve audit outcomes for the 2013-14 financial year.

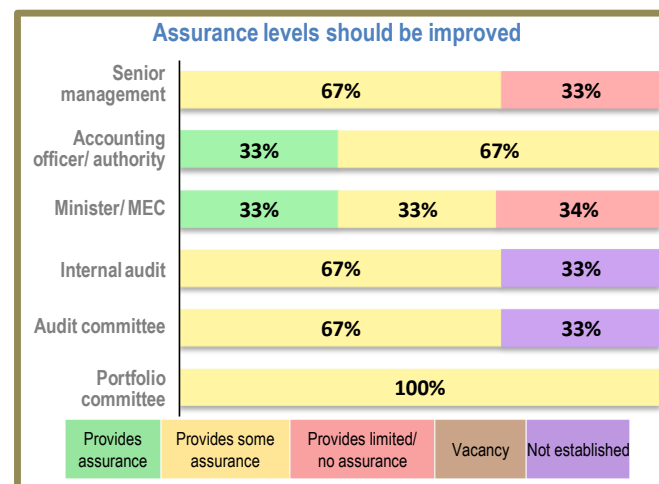
6.8 MEC: Human Settlements and Public Works



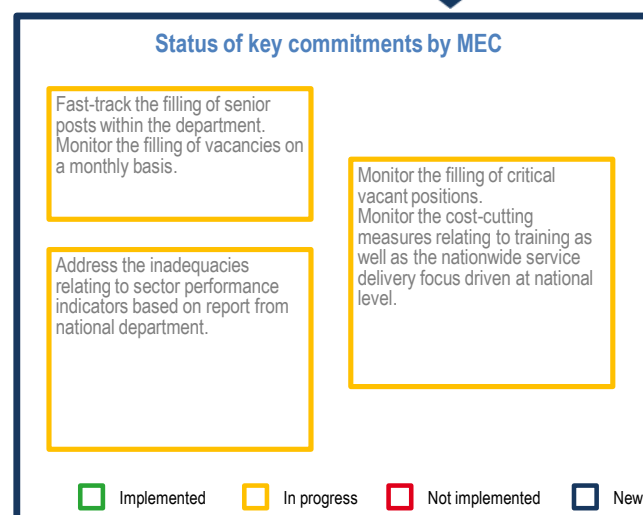
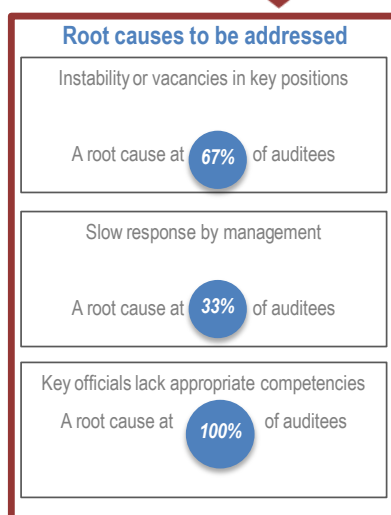
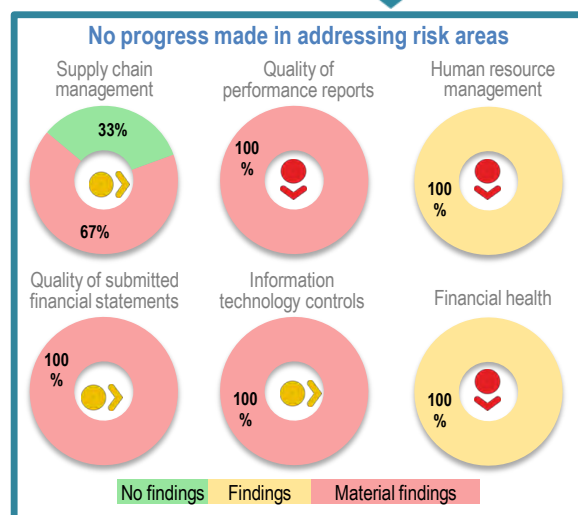
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Auditees included in the portfolio

■ Department of Human Settlements ■ KZN Housing Fund ■ Department of Public Works

Significant movement in audit outcomes

The stagnation in the audit outcomes of the portfolio was the result of the Housing Fund not providing sufficient and appropriate audit evidence for the property, plant and equipment, receivables, revenue and expenditure disclosed in the financial statements, as well as the material findings on the reliability of PDO information. Human Settlements and Public Works maintained unqualified opinions with other matters and have not improved since 2011-12.

Six key risk areas

The quality of the annual performance reports has regressed and in this regard, Human Settlements and the Housing Fund should focus on the reliability of PDOs to address the material findings on the performance report. The commitments item in the financial statements of Human Settlements remains an area of concern as inadequate checks and balances are done during the year on the accuracy and completeness of commitments, which resulted in material adjustments of this item. The Housing Fund is still in the process of resolving record management issues. Insufficient records management, as well as vacancies contributed to the disclaimer of opinion for the current year.

SCM proved to be a problem area for Public Works in the current year, mostly as a result of the auditee not providing supporting documents for the procurement process, due to documents being kept in different regional areas. In addition, the immovable assets disclosure for Public Works was subjected to a material adjustment mainly due to assets, as per the Deeds Office records, not accounted for in the register. With regard to financial health, Human Settlements and Public Works need to urgently address the material underspending of the capital budgets and conditional grants received. In addition, Public Works must improve on efforts to collect monies due, particularly to focus on reducing delays in collecting monies from other departments. Other risk areas include HR management and IT controls.

Key controls and root causes

Key controls would have improved if not for the regression of the leadership and financial and performance management controls for all auditees in the portfolio and partial regression in the governance controls for Human Settlements and the Housing Fund. A lack of competencies of key personnel has been identified as a

root cause of poor audit outcomes in this portfolio. Auditees should strengthen the following controls to create a control environment that supports reliable financial and PDO reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Implement proper record keeping in a timely manner to ensure 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.

The MEC, accounting officer and management, as well as the monitoring and evaluation managers should address the root causes of poor audit outcomes and inadequate controls as follows:

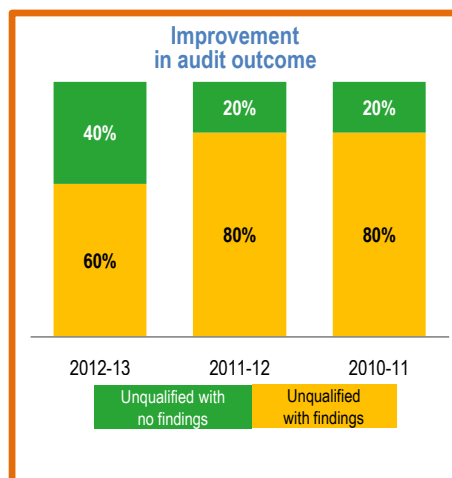
- Resource the financial and performance sections with the necessary skills and expertise.
- Implement a proper record-keeping system that ensures easy retrieval of information when required.
- Regular reconciliations and reviews, especially in critical areas such as assets, commitments, accruals and PDO information.

Impact of key role players on audit outcomes

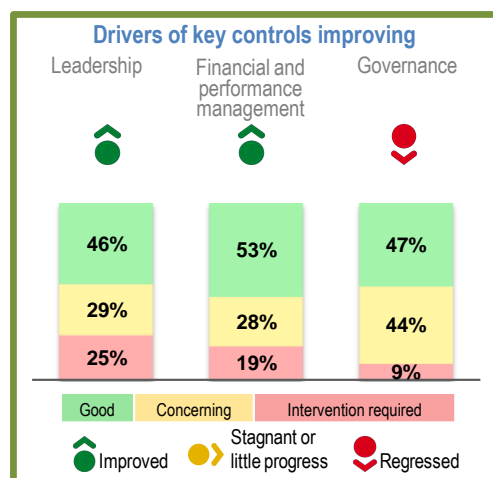
The assurance levels should be improved by ensuring stability at the level of senior management performing regular reviews of financial and performance information, implementing the recommendations of internal and external audit and directing the work of the audit committee towards evaluating performance information, SCM and immovable assets. We met with the MEC four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that he makes time for our engagement, interrogates the issues being tabled and gives commitments on addressing the control deficiencies. However, most of these commitments were not honoured. This assessment, the lack of impact of the MEC on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC.

The assurance provided through the oversight of the portfolio committee should be improved. No commitments were made by the committee in the current and previous year. The committee has been encouraged to drive the clean audit for the 2013-14 financial year which should be monitored.

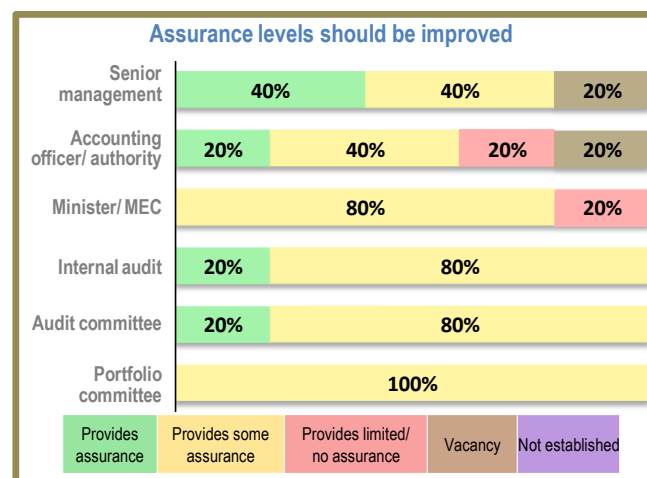
6.9 The Premier of KwaZulu-Natal



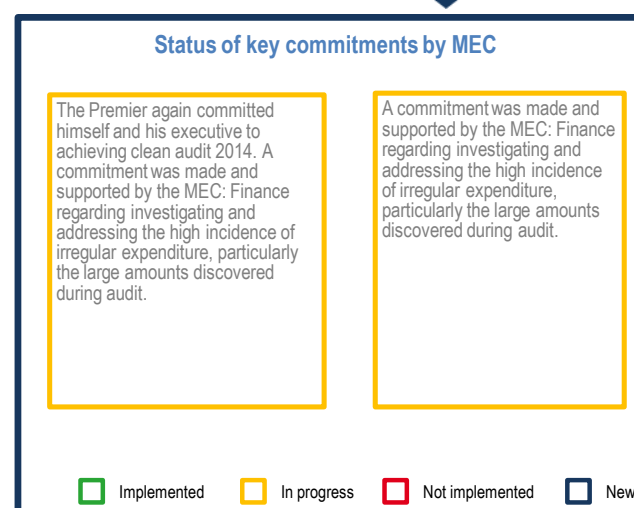
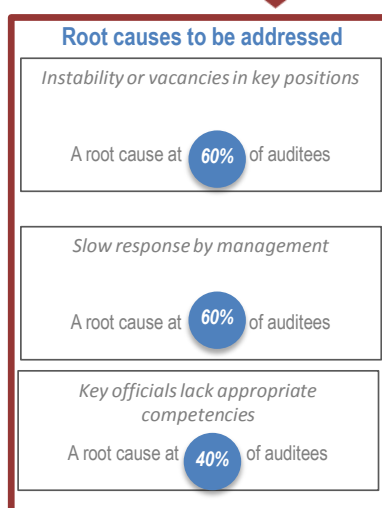
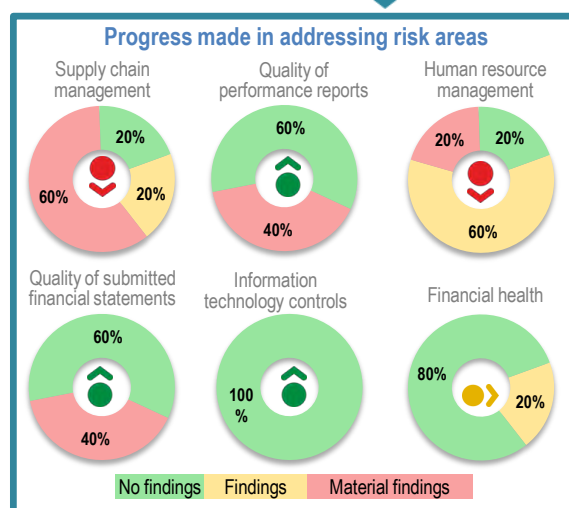
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Auditees included in the portfolio

■ **Amafa aKwaZulu-Natali** ■ **KwaZulu-Natal Gaming and Betting Board** ■ **Office of the Premier** ■ **The KwaZulu-Natal Royal Household Trust** ■ **The Royal Household**

Significant movement in audit outcomes

The improvement in the audit outcomes of the portfolio was caused by the movement of the Gaming and Betting Board to a clean audit outcome by addressing the audit findings on compliance with legislation. The remaining audit outcomes did not change in the current year.

Six key risk areas

SCM remains a high risk in the portfolio and of concern is the fact that the number of audit findings on compliance with legislation has increased. A lack of proper review in most cases is attributed to staffing constraints in the SCM units and a lack of skill and understanding on the part of the officials of the requirements of monitoring and review. An encouraging improvement was noted in the quality and usefulness of performance reports in the portfolio. However, the Office of the Premier had a repeat finding relating to strategic alignment of the annual performance plan to the strategic plan. The Royal Household Trust did not yet have a strategic plan for the year due to delays in the resolution of the mandates of the trust and the Royal Household Department.

HR management remains a key risk area for the portfolio and a number of findings have been reported in this regard. Appointment processes as well as the management of vacancies and filling of key positions remain a challenge. Although there has been an improvement in the quality of annual financial statements submitted, those of the Office of the Premier and the Royal Household Trust required material adjustments. IT controls have been significantly addressed and these improvements have been assessed as sustainable.

Material findings on financial health relate to underspending of capital budgets by both departments by more than 10%, the use of overdraft financing by the Royal Household Department, and adverse liquidity and solvency ratios for two public entities, namely Amafa aKwaZulu-Natali and the Royal Household Trust.

Key controls and root causes

The improvements in the key control drivers of leadership and financial and performance management can be attributed to the Gaming and Betting Board

which improved to a clean audit outcome. Where there have been regressions in the key controls this was caused by the Office of the Premier's repeat audit findings as well as new findings on compliance with legislation, and the KZN Royal Household Trust's audit outcomes, which include findings on compliance with legislation and a limitation on the scope of the audit of PDOs. There has been a regression in the assurance within the governance driver for outcomes that are unqualified with findings, due to the non-implementation of internal audit recommendations. Auditees should strengthen the following controls to create a control environment that supports reliable financial and PDO reporting and compliance with legislation:

- Daily and monthly processing and reconciling of transactions.
- Reviewing and monitoring compliance with legislation.
- Risk assessment, action plans and proper monitoring.

The MEC, accounting officers and authorities, as well as management should address the root causes of poor audit outcomes and inadequate controls as follows:

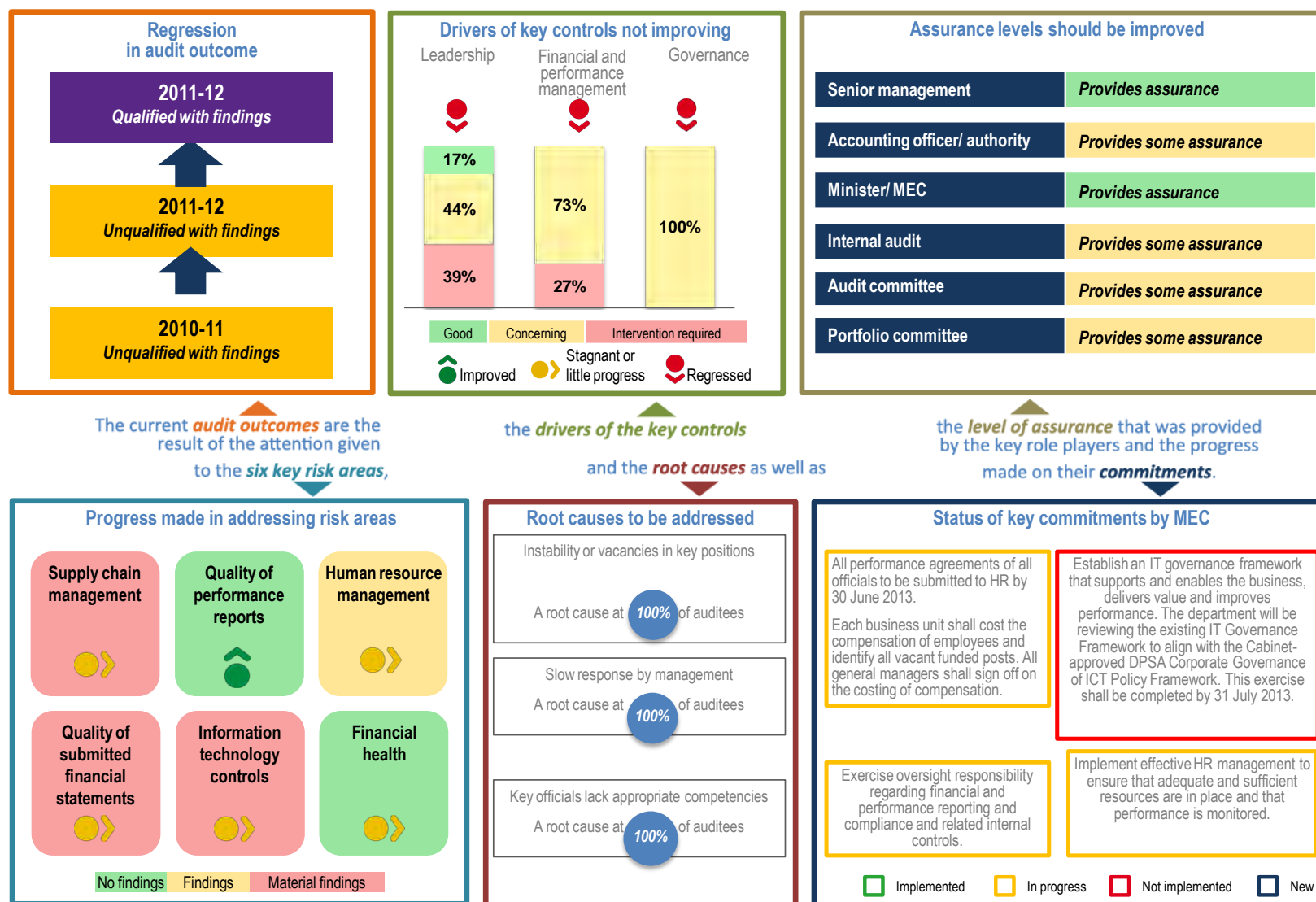
- Fill key vacancies and address skills and resource constraints in finance units.
- Review the existing policies and procedures for relevance and understanding, accompanied by compulsory in-depth training and testing of officials.
- Strengthen performance management processes to include sustainable progress on action plans.

Impact of key role players on audit outcomes

The assurance levels should be improved by the assurance providers adopting two critical approaches to their interventions and interactions. We met with the premier at least four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is the lack of improvement in the audit outcomes of the portfolio, with the exception of the Gaming and Betting Board. This assessment, the lack of impact of the premier on the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the premier.

The assurance provided through the oversight of the portfolio committee should be improved.

6.10 MEC: Social Development



Auditee included in the portfolio

■ Department of Social Development

Significant movement in audit outcomes

The regression in the audit outcomes of the portfolio was caused by the qualification on transfer payments, as well as non-compliance findings on annual financial statements and annual reports, procurement and contract management, expenditure management and transfer of funds. There was however an improvement in the reliability of performance information compared to the previous year.

Six key risk areas

Progress has been made in addressing the key risk areas, most notably in the areas of performance information validation and the IT governance framework. Although the quality of the annual performance reports has improved, Social Development should focus on the reliability of the performance information to address the findings on its performance report and to avoid a future regression. Social Development should also focus on improving its policies and procedures on transfer payments and the IT environment, record management of transfer payments and monitoring of compliance with laws and regulations throughout the year. The status of asset management remains unsatisfactory, mostly as a result of vacancies and inadequate skills in the asset management unit of the department and lack of asset management by various line managers in the department.

Key controls and root causes

The regression in the key controls was caused by regression in the financial and performance management and governance controls. The vacancies in key positions, slow response by management as well as skills deficits resulted in internal control deficiencies, which were not addressed. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and PDO reporting.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

The MEC, accounting officer, as well as management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement and monitor the policies and procedures across all sections of the department consistently.
- Validate all financial and performance transactions and reports and support that by readily available records or information.
- Fill critical vacancies so that the department is adequately resourced to drive its mandate.
- Train the staff with appropriate skills and consequences for the non-performance by staff.

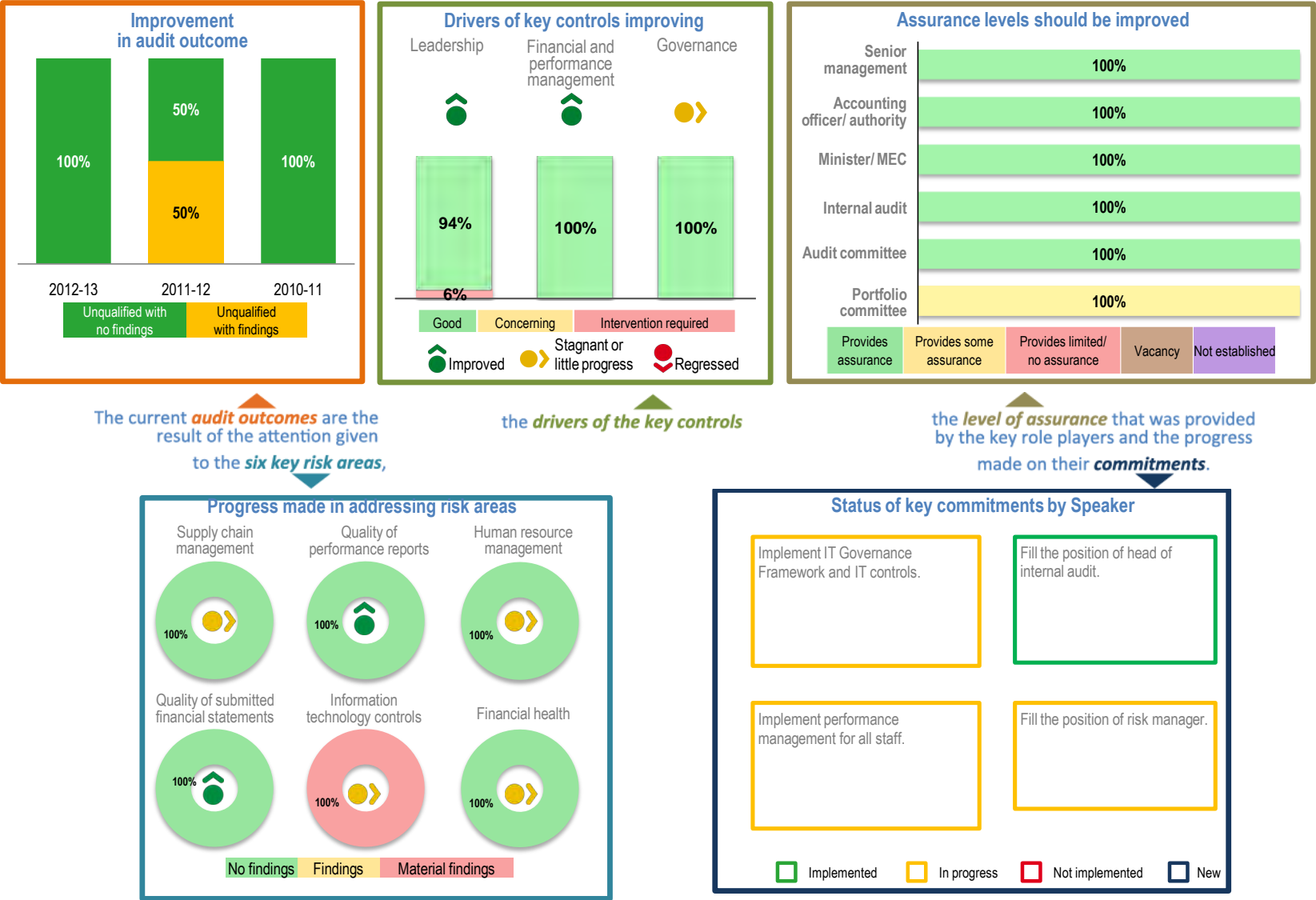
Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management in the assets and SCM units, implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating transfer payments and asset management, as well as compliance with laws and regulations.

We met with the MEC three times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that the MEC was informed of the areas of concern in key controls, and commitments were made by the MEC; however, some of those commitments were not implemented due to vacancies in the department. This assessment, the lack of impact of the MEC on the controls of the auditee as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC.

The assurance provided through the oversight of the portfolio committee should be improved. No commitments were made by the committee in the current and previous year. The committee has been encouraged to drive the clean audit for the 2013-14 financial year which should be monitored.

6.11 Speaker: Provincial Legislature



Auditees included in the portfolio

■ KZN Political Parties' Fund ■ Provincial Legislature

Significant movement in audit outcomes

The improvement in the audit outcomes of the portfolio was as a result of the Provincial Legislature's efforts to regain the clean audit opinion it had obtained in 2010-11. The Provincial Legislature addressed the non-compliance with SCM processes and improved the consistency of performance information. The KZN Political Parties' Fund maintained its clean audit status from the previous year.

Six key risk areas

Progress has been made in addressing the key risk areas, most notably in the areas of material SCM findings and usefulness of performance information. The KZN Provincial Legislature should focus on improving the policies and procedures relating to the IT environment, while the audit committee needs to incorporate the KZN Political Parties' Fund as part of their oversight role. Additionally, the legislature needs to rigorously and effectively drive the oversight role over the provincial departments through the oversight committees.

Key controls and root causes

The improvement in the key controls can be attributed to the Provincial Legislature improving both the leadership controls and financial and performance management while maintaining their excellence in governance controls. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities relating to the IT environment.

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal IT controls.
- Ensure that the audit committee promotes accountability and service delivery for the KZN Political Parties' Fund through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

The accounting officer, chief financial officer and IT manager should address the inadequate controls as follows:

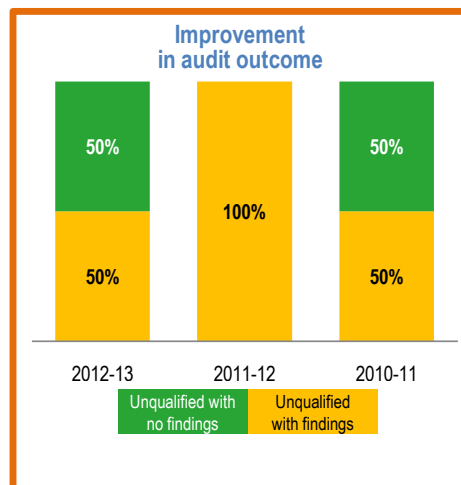
- Fully capacitate the IT section.
- Develop, implement and monitor the policies and procedures relating to the IT environment.
- Include the KZN Political Parties' Fund in the oversight role of the audit committee.
- Rigorously and effectively drive the oversight role over the provincial departments through the oversight committees.

Impact of key role players on audit outcomes

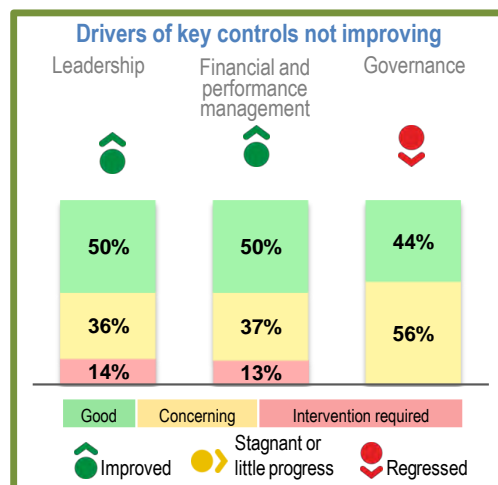
The assurance levels should be maintained by ensuring stability at the level of senior management in the IT section, implementing the recommendations of internal and external audit, and directing the work of the audit committee towards evaluating the KZN Political Parties' Fund.

We met with the speaker twice in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is that she makes time for our engagement, gives commitments on addressing the control deficiencies and most of those commitments were honoured. This assessment, the impact of the speaker on the controls of the auditees in the portfolio as well as the status and impact of the commitments contributed to the assessed assurance provided by the speaker.

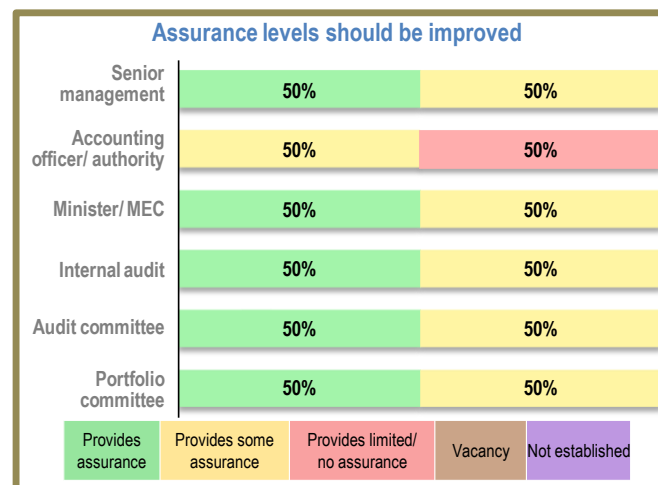
6.12 MEC: Transport, Community Safety and Liaison



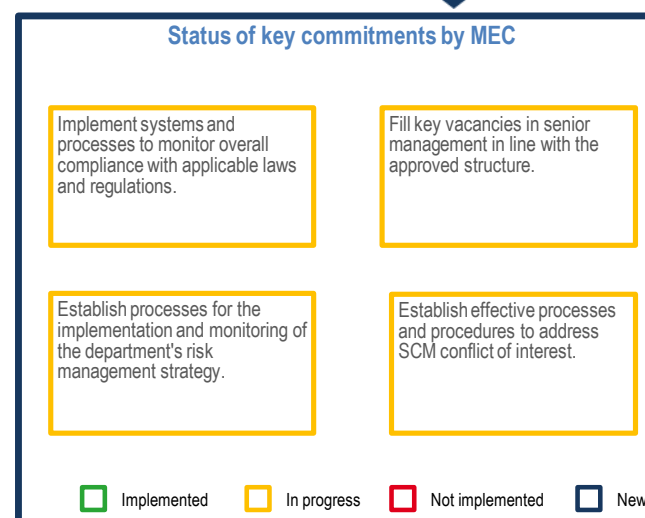
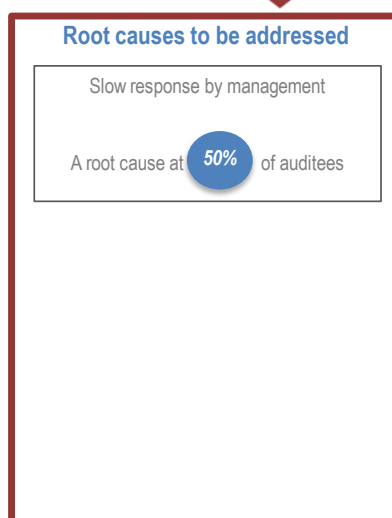
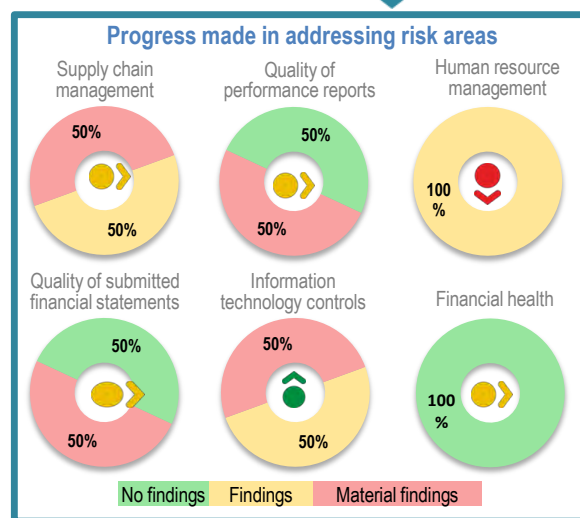
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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

■ Department of Community Safety and Liaison ■ Department of Transport

Significant movement in audit outcomes

The improvement in the audit outcomes of the portfolio was as a result of the Department of Transport improving from an unqualified opinion with findings to a clean audit.

The Department of Community Safety and Liaison remained unchanged from the previous year with an unqualified audit opinion with findings.

Six key risk areas

Progress has been made in addressing key risks for the KZN Department of Transport as the compliance issue relating to the monitoring of Zimbambele contractors was adequately addressed. The KZN Department of Transport has maintained the level of quality of the submitted financial statements and performance report as no material audit findings were reported. The high vacancy rate, specifically relating to senior management, and lack of an approved HR plan should be addressed and processes for addressing the SCM findings on conflict of interest should be implemented.

SCM proved to be a problem area once again for Community Safety and Liaison, mainly as a result of not complying with the requirements of the SCM regulations. There has been improvement in the status of IT management at Community Safety and Liaison and Transport. Even though no material findings were raised, management should continue to design and implement action plans to address weaknesses and so ensure that these weaknesses do not materially impact on the department in future.

Key controls and root causes

The improvement in the key controls can be attributed to the Department of Transport improving the leadership and financial management controls specifically relating to the developing and monitoring of an action plan to address internal control deficiencies and the reviewing and monitoring of compliance with laws and regulations. The regression in the key controls in Community Safety and Liaison was caused by a regression of the leadership and financial and performance management controls. The following controls should be strengthened to create a control environment that supports reliable financial and PDO reporting and compliance with legislation in this portfolio:

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls for PDO information.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and PDO reporting.
- Implement controls over daily and monthly processing and reconciling of transactions, with additional focus on the PDO information.

The MEC, accounting officer, as well as management should address the root causes of inadequate controls as follows:

- Proactively track management's progress on action plan items from internal and external audit findings.
- Focus on adequately resourcing the finance and performance management units and on enhancing performance management with stricter and more regular reviews and consequences for poor performance.
- Resource and skill the financial and performance sections and also support the filling of key posts with the necessary expertise on an ongoing basis.

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management, senior management performing regular reviews on financial and PDO information, implementing the recommendations of internal and external audit and directing the work of the audit committee towards evaluating PDO information and SCM. We met with the MEC twice for Community Safety and four times for Transport in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that he makes time for our engagement and is keen on change and implementation of key controls. He has given commitments on addressing the control deficiencies; however, some of those commitments were not honoured. This assessment of the controls of the auditees as well as the status and impact of the commitments contributed to the assessed assurance provided by the MEC. The MEC provides reasonably good assurance in this portfolio. The assurance provided through the oversight of the portfolio committee should be improved. No commitments were made by the committee in the current and previous year. The committee has been encouraged to drive the clean audit for the 2013-14 financial year which should be monitored.

ANNEXURES

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Annexure 1: Auditees' five-year opinions

Auditee	Audit opinions over the past 5 years				
	2012-13	2011-12	2010-11	2009-10	2008-09
Departments					
Agriculture, Environmental Affairs and Rural Development					
Arts and Culture					
Community Safety and Liaison					
Cooperative Governance & Traditional Affairs					
Economic Development and Tourism					
Education					
Health					
Human Settlements					
KwaZulu-Natal Provincial Treasury					
Office of the Premier					
Provincial Legislature					
Public Works					
Social Development					
Sport and Recreation					
The Royal Household					
Transport					
Public entities					
Agri-Business Development Agency					
Amafa Akwazulu-Natali					
Dube Tradeport Company					
KwaZulu-Natal Gaming and Betting Board					
KwaZulu-Natal Growth Fund Managers (Pty) Ltd					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Public entities (continued)					
KZN Housing Fund					
Ithala Development Finance Corporation Ltd					
Ithala Limited					
KwaZulu-Natal Sharks Board					
KwaZulu-Natal Business Rehabilitation Trust Fund					
KZN Liquor Authority					
KwaZulu-Natal Nature Conservation Board					
KZN Political Parties' Fund					
KwaZulu-Natal Tourism Authority					
Mjindi Farming (Pty) Ltd					
Natal Joint Municipal Pension Fund (Provident)					
Natal Joint Municipal Pension Fund (Retirement)					
Natal Joint Municipal Pension Fund (Superannuation)					
KwaZulu-Natal Provincial Pharmaceutical Supply Depot					
The KwaZulu-Natal Royal Household Trust					
Trade and Investment KwaZulu-Natal					
Traditional Levies and Trust Account					
uMsekeli Municipal Support Services					
Public entities (not audited)					
Banzi Pan Devco (Pty) Ltd					
Cowslip Investments (Pty) Ltd					
Durban Wharfside Trust					
La Mercy Property Investment					
Mabibi Development Company (Pty) Ltd					
Moses Kotana Institute					
Nongoma Plaza Ltd					
Richards Bay Industrial Development Zone (Pty) Ltd					
Rocktail Bay Devco (Pty) Ltd					
Sibaya Conservation Projects (Pty) Ltd					
Sundumbili Plaza					
Ubiciko Twines and Fabric (Pty) Ltd					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Annexure 2: Assessment of auditees' key controls at the time of the audit

[illegible]

Annexure 3: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2012-13 audit outcome		2011-12 audit outcome		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	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer 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	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R			
Departments																																													
Agriculture, Environmental Affairs and Rural Development			R			R															A	R											A			R	N	R	R		-	117.8m	-		
Arts and Culture			N				N														N			N			N							N		N	N	R			-	2.0m	0.006m		
Community Safety and Liaison			R	R		N	R										A	R			R	R				N							R		R	N	R			-	13.8m	-			
Cooperative Governance & Traditional Affairs			R	R		A	R														A	A				A							R	A		A		R			-	4.6m	5.3m		
Economic Development and Tourism			A	R		R	R											A			A	R				A							A	R	A		R	R	R			-	20.9m	0.7m	
Education			N	R			R		N	R		N		N				N	N		R	R	N			R				R				R			R	R	R	A	299.3m	358.4m	0.81m		
Health			R	R		R	R	R	N				A	A		N	R				R	R		R	A		A			N			A	N	N	R	R	R	R	R	117.6m	2719.2m	0.11m		
Human Settlements			R	R		R	R											N	A		R	A				N			N				N	R			R	N	R	N	22.1m	11.0m	0.9m		
KwaZulu-Natal Provincial Treasury																																					N	R			-	0.1m	-		
Office of the Premier			R	R		N	N										R				A	R				R								R	N		R	N	R			-	11.2m	0.08m	
Provincial Legislature			A	A		N	N										A				A																	R			4.5m	5.8m	0.14m		
Public Works				R			R														R	A					N								R		R	R	R	R			-	7.2m	0.03m
Social Development			A	R		R	R		N				N					A			R	A	N				N							R	R			R	R	R			-	170.2m	0.07m
Sport and Recreation			N	R			R											N			R	N					N	N							R	N		R	N	R			-	92.9m	-
The Royal Household			A	R		N	R												A		R	R													R	A		R	R				-	3.1m	0.004m
Transport				A			N																			A											R	R	R			12.8m	7.6m	0.001m	
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 outcome			2011-12 audit outcome		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																																																																																																																																																																																																																																																																																								
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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

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