

North West



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

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Message from the auditor-general

Overall there was a stagnation in audit outcomes from the province (Section 2.1)

There were no clean audits (Section 2.1)

There was a marginal improvement compared to previous years – overall five auditees had no findings (Section 2.2)

Five auditees did not prepare annual performance reports at all (Section 2.2)



Material non-compliance with legislation by 96% of auditees (Section 2.3)

Continuing high levels of unauthorised, irregular as well as fruitless and wasteful expenditure (Section 2.3)

Quality of submitted financial statements remains poor (Section 3.1)

Regression in the number of auditees with findings on supply chain management (Section 3.2)



36% of auditees only avoided a qualified opinion by correcting material misstatements (Section 3.2)

Decrease in awards to employees and close family members (Section 3.2)

Continued lack of consequences for officials that transgress (Section 3.3)

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Instability, vacancies and lack of competencies of key officials (Section 4)

Lack of consequences for poor performance and transgressions (Section 4)

Slow response by political leadership (Section 4)



Key role players continued to provide inadequate assurance (Section 5)

Lack of assurance starts with senior management that should strengthen their contributions (Section 5)

Improvement in audit outcomes in portfolios of health, human settlements, public safety, and local government and traditional affairs (Section 6)

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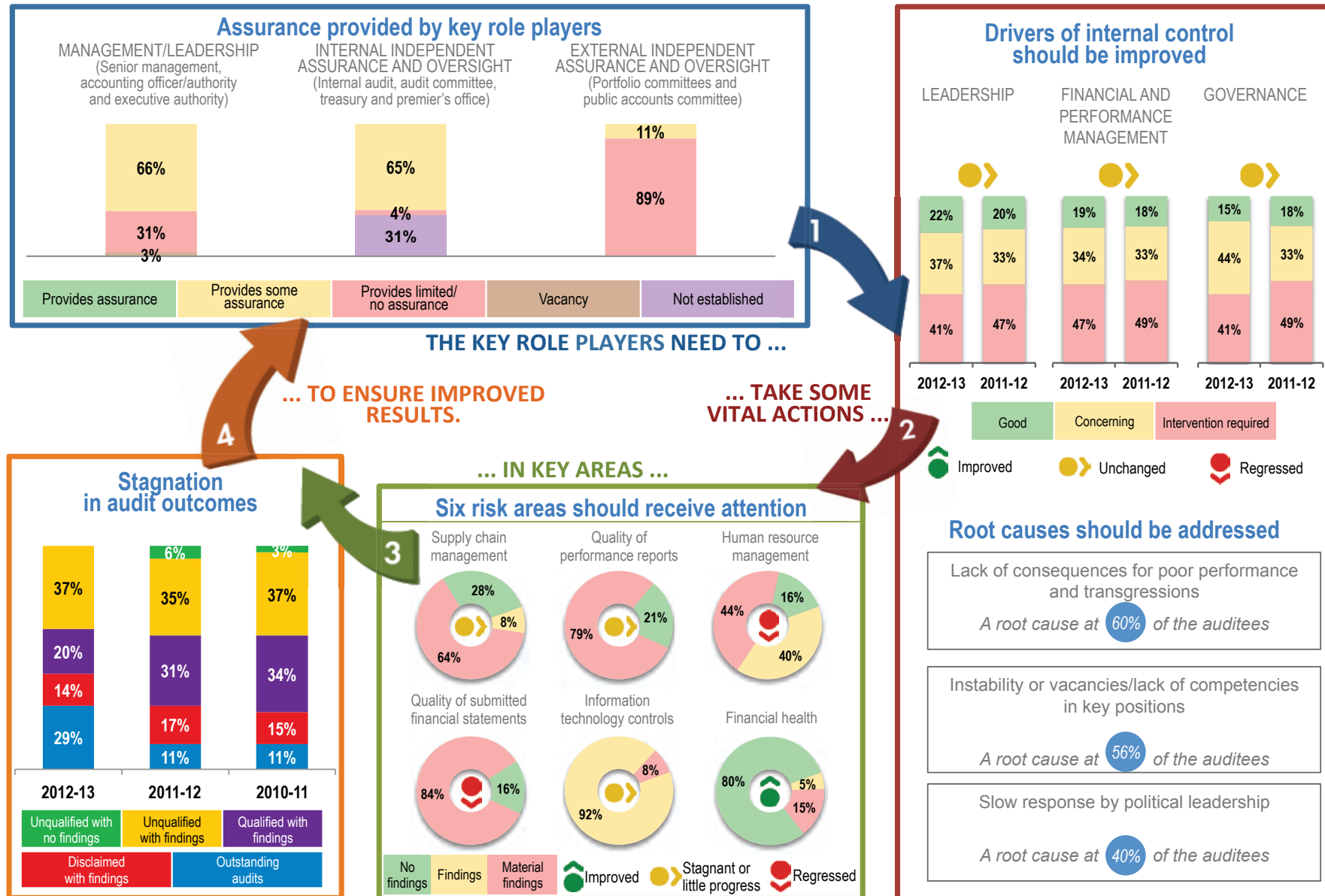
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FOREWORD



FOREWORD

I present to the North West Provincial Legislature my 2012-13 general report on the provincial audit outcomes, which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature, and public entities for the financial year ended 31 March 2013.

Overall, the outcomes for the province remained the same with a total of 13 (37%) departments and entities receiving an unqualified opinion with findings, compared to 12 (35%) departments and entities in 2012. This year, the highlight for the province was the improvements made by the departments of health, human settlements, local government and public safety that improved to unqualified opinions with findings. The notable improvements in outcomes at the four departments are testimony to the successful implementation of action plans relating to the credibility of financial information and holding the leadership accountable for the milestones therein.

Financial statements submitted for auditing in 2012-13 included backlog financial statements that could not be finalised by the date of this report due to time constraints on our part. We are currently auditing these financial statements and will report the outcome thereof later this year. I acknowledge the will and commitment by the provincial leadership to turn around the province's historical inability to account for public entities in a timely manner. The intervention by the provincial leadership in which skills were deployed to work on the initiative of

completing and submitting backlog financial statements, is an important step in the journey towards improved transparency, accountability and governance. In order to sustain this momentum, it is important that public entities develop the necessary skills and capacity.

My 2011-12 general report reflected that the root causes of poor audit outcomes were attributable to the following root causes: instability at leadership level, slow filling of vacancies, lack of basic accounting skills, non-implementation of action plans, recommendations made by internal and external audit units, as well as a lack of consequences for poor performance and transgressions. The same root causes were evident in the 2012-13 audits, where all auditees had material findings on their annual performance reports and/or non-compliance with legislation.

Through my quarterly engagements I have consistently encouraged the role players to address the weaknesses in the internal controls that affect the key areas of supply chain management, quality of the annual financial statements and performance reports submitted for auditing, human resource management and information technology controls. There has been no improvement in these key controls, which has a direct impact on the ability of government departments and public entities to sustain effective service delivery and report on their activities in a credible and reliable manner.



Terence Nombembe
Auditor-General

Audit outcomes will improve if the key role players, including senior management and accounting officers/authorities at auditees, executive authorities, internal audit units, audit committees, the treasury and the premier's office, actively address the root causes of poor outcomes in exercising their respective mandates. I urge the legislators to consider enhancing the legislation dealing with daily, weekly and monthly financial and performance disciplines.

The public accounts committee and portfolio committees should collaborate more effectively in their oversight work as this will ensure that root causes driving audit outcomes are addressed by management and that decisive actions are taken against poor performance and transgression of laws and regulations.

My office remains committed to meet regularly with the provincial leadership to share our insights into the status of key controls and to track progress made in implementing the commitments that will improve the capacity of provincial government to sustainably improve audit outcomes.

I want to thank the audit teams from my office and the audit firms that assisted with the auditing of provincial government 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. Together, we will continue to contribute to strengthening our country's democracy.

Auditor-General

**Auditor-General
Pretoria
November 2013**

SECTION 1: EXECUTIVE SUMMARY

1. Executive summary

Our audit and reporting process

We audit every department and public entity 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.*
- We include 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 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. 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 the internal audit unit as they are key role players in providing assurance on the credibility of the financial statements, performance report as well as the auditees' compliance with legislation. We also continue to strengthen our relationships with the premier, members of the executive council, the treasury and the provincial legislature as we are convinced that their involvement and oversight have played and will continue to play a crucial role in the performance of 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 on the audit outcomes for 2012-13 and our key recommendations for improvements.

Audit outcomes stagnated

There was no improvement in the provincial audit outcomes compared to the previous period, with overall outcomes remaining predominantly the same. Due to auditees submitting financial statements late for audit purposes or not submitting financial statements at all, audits of 10 auditees had not been finalised by 31 August 2013, which was the cut-off date for inclusion of audit outcomes in this general report.

However, there was an improvement in the timely submission of financial statements as all backlog financial statements in the province, with the exception of the North West Tribal and Trust Fund, were submitted for auditing this year. These financial statements had not been prepared and submitted previously due to the lack of skills and capacity at those public entities, but with the intervention of the provincial public accounts committee and the provincial treasury, the backlogs have been cleared. We expect all these audits to be completed by the end of November 2013.

The significant aspects of the 2012-13 analysis of audit outcomes of 25 auditees are listed below:

- Overall audit outcomes – there was no significant improvement in overall audit outcomes from the previous year or in the past five years.
- Outcomes of Education, Health and Public Works – Public Works remained with a disclaimer of opinion, Education remained with a qualified opinion and Health improved to unqualified with findings. All three of these departments had findings on both quality of annual performance reports and compliance with legislation.
- Clean audit opinions, unqualified with findings opinions, qualified opinions, adverse opinions, disclaimed opinions – there were four

improvements and four regressions, including one clean audit opinion that regressed to unqualified with findings.

- Annual performance reports – there was a marginal improvement with three auditees having no findings.
- Findings on quality of annual performance reports – the most common findings included non-submission or late submission and information not being useful or reliable.
- Compliance with legislation – there was a regression and only one auditee had no findings.
- Findings on compliance with legislation – the most common findings included material misstatements or limitations in the financial statements submitted for auditing and unauthorised/irregular/fruitless and wasteful expenditure was not prevented or adequately followed up.
- Unauthorised expenditure – regression compared to the previous year from R0 million to R113 million.
- Irregular expenditure – decrease compared to previous year from R3,6 billion to R1,7 billion.
- Fruitless and wasteful expenditure – decrease from R22,8 million in the previous year to R15,4 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 made to address these risks to financial and performance management were largely not 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 above:

Quality of submitted financial statements

The quality of the financial statements submitted for audit purposes did not improve, with only 16% of the auditees submitting financial statements with no material misstatements. Nine auditees (36%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The auditees that could not correct the misstatements received qualified or disclaimer of audit opinions.

The principles of transparency and accountability will be compromised continually as long as attention is not given to enhance key controls that support credible and complete financial and performance reporting. This lack of basic key controls is one of the factors that contributes to the lack of timely submission of

annual financial statements of which the audits have not been finalised in time as prescribed by legislation.

The quality of financial statements can be improved if internal control processes regarding management supervision and review of transactions, daily and monthly reconciliations are improved.

Supply chain management

The number of auditees with findings on supply chain management did not improve compared to the previous year, with only 28% of the auditees that did not have any findings. The most common and material finding remains uncompetitive or unfair procurement processes at 64% of auditees. The inadequate supply chain management controls identified in the previous year have not been addressed. However, the number of instances of awards made to employees and close family members and the value of these awards have decreased compared to 2011-12.

The internal control systems referred to in the previous paragraph are essential in this area as auditees' strategic programmes are met through supply chain management and procurement activities; this will ensure compliance with applicable legislation and regulations.

Human resource management

The number of auditees with findings on human resource management has increased compared to the previous year, with only 16% of auditees that did not have any findings. The most significant finding related to the management of vacancies and competencies of key personnel, as most auditees still had vacancies in key positions like accounting officer and chief financial officer.

The instability in key positions results in a lack of adequate supervision and monitoring of effectiveness of internal controls that support auditees in the six risk areas that we are highlighting in this section. Filling of vacancies and stability at this level of leadership are fundamental in any effective and robust internal control environment.

Other common findings included the lack of consequences for transgressions, poor performance management and management of leave, overtime and employee suspensions.

Information technology

There has been no overall improvement in addressing IT controls since the previous year. Most auditees are still experiencing challenges in all areas and therefore should prioritise the design and implementation of the required controls. All departments, except the provincial legislature, adopted the cabinet-approved IT governance framework. The implementation of the framework should be

prioritised at these departments, while the provincial legislature should prioritise the completion and adoption of their framework.

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. There was an improvement in the number of auditees that had more than two of the risk indicators identified compared to the previous year. However, the five auditees with disclaimed audit opinions and 10 entities with late or non-submission of financial statements for auditing resulted in a limitation on fully evaluating the financial health of North West. The most common indicators identified included the following:

- Departments' underspending of capital budgets and conditional grants received
- Debt management
- Going concern uncertainties at public entities, including liabilities exceeding assets and continued operating deficits

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.

Overall, there was no improvement in the drivers of internal control in any of the key areas, which directly correlated with the stagnation in audit outcomes. Auditees should attend to the following elements of internal control underlying leadership, financial and performance management as well as governance to improve their internal controls:

- Providing effective and ethical leadership and exercising oversight over financial and performance reporting and compliance with legislation.
- Implementation of basic reconciliations and controls and development of systems that produce credible information on a regular basis
- Development and monitoring of the implementation of actions to address previous year audit findings and internal control deficiencies

- Implementation of effective human resource management to ensure that adequate and sufficiently skilled staff are employed, that reliance on consultants is reduced and that performance is monitored.
- Reviewing and monitoring of compliance with applicable laws and regulations and taking action against transgressors

No auditees received a clean audit opinion as their financial and performance reports were of 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 the following:

- Instability or vacancies in key positions. Without capacity in these positions the development of policies and procedures, which will direct institutionalisation of internal and accounting controls, will not take place.
- Lack of consequences for poor performance and transgressions is a result of the vacuum of leadership stemming from instability and vacancies.
- Slow response by the political leadership to deal with deficiencies in the control environment

All role players should increase the level of assurance they provide

The management and leadership of the auditees 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 compliance with legislation. Based on our assessment, all these role players were not providing the necessary assurance that can compel auditees to decisively deal with internal control deficiencies.

Based on the assessment of drivers of internal controls, as reflected in figure 29 and detailed in section 4.1, 41% of auditees under governance require intervention where internal audit units and audit committees must be established or capacitated so that they fulfil their roles and influence audit outcomes positively.

The human resource management challenges outlined above should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior management should be held accountable for the execution of their responsibilities through a strict system of performance management.

In most instances (specifically with the shared provincial internal audit unit responsible for most departments), internal audit units helped to improve internal

controls, but, overall, the impact of these units on audit outcomes was fairly limited. The lack of impact at the auditees was mostly as a result of management not addressing the internal audit findings or implementing recommendations.

Evidently, until the challenges at senior management level are addressed, the other role players will not be able to provide the level of assurance expected of them.

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

We shared our key message on the actions needed to improve audit outcomes with every accounting officer/authority and member of the executive council through our reports and interactions with them. Although the members of the executive council were available to meet with us and the engagements were generally well received, mostly these interactions have not yet had a significant impact on the audit outcomes other than for the departments of health, public safety and human settlements. However, the building blocks are now in place for improvements in key controls, which should lead to improved outcomes. The low impact of our interactions with some members of the executive council was due to frequent leadership changes in most of the departments due to portfolios being reshuffled.

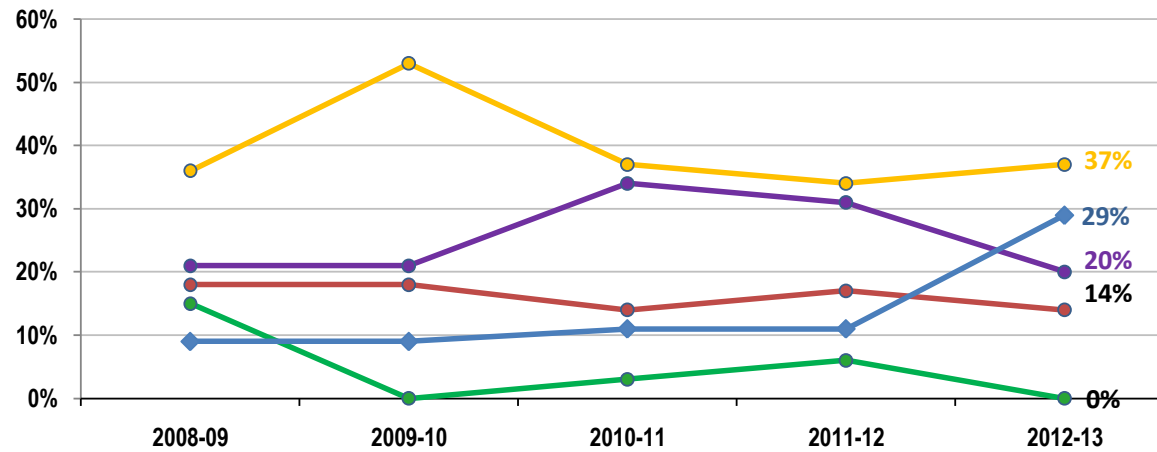
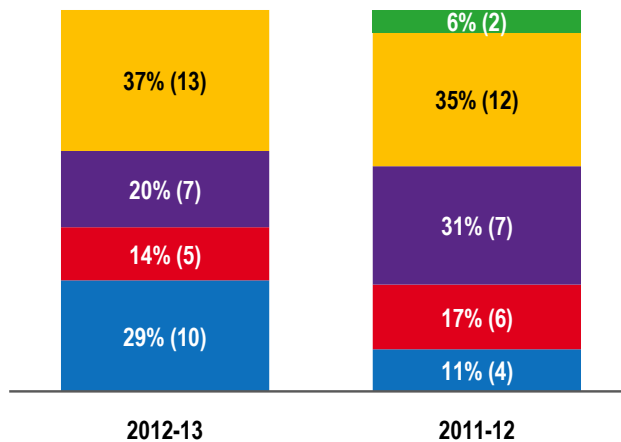
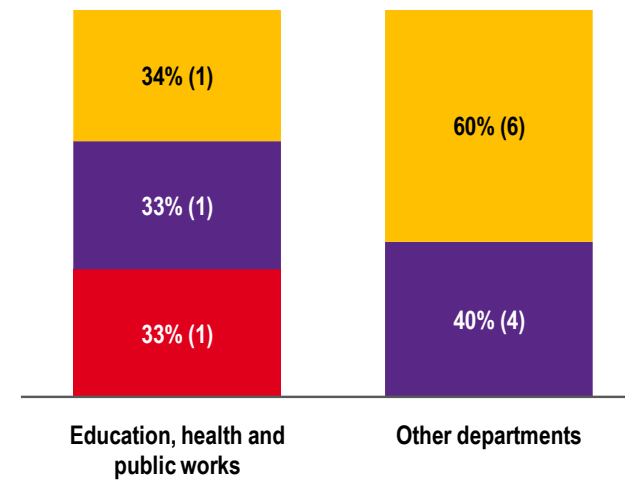
Through our roadshow on audit outcomes in November, we shared this with the legislatures, the premier and the member of the executive council. We confirmed the progress of the commitments made by all these role players in response to the previous year's audit outcomes. Commitments made in the previous year were not fully implemented and, subsequently, there was minimal progress in improving the audit outcomes. The role players committed to fully implement the previous year's commitments that have not yet been implemented. Details of the new commitments made are included in sections 5 and 6 of the report.

If all the key players take our message seriously, fully implement the commitments made and address the root causes of poor audit outcomes by taking stern and decisive action against poor performance and transgression of laws and regulations, and ensure that all vacancies in key positions are filled by competent and experienced staff, there will be an improvement in the audit outcomes.

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

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Audit outcomes over the past five years

Figure 2:
Audit outcomes for the past two yearsFigure 3:
Education, Health and Public Works vs. other departments

2.1 Overall audit outcomes

The North West provincial government consists of 13 departments and 22 public entities. At 31 August 2013, which was the cut-off date we set for inclusion of audit outcomes in this report, the audits of 10 public entities had not yet been completed and they were excluded from all analyses in 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 1 shows the five-year audit outcomes of provincial government. There has been no significant improvement in the audit outcomes over the last five years.

Figure 2 indicates that there has been a net overall stagnation in audit outcomes since the previous year. There were no clean audits in 2012-13 and only 13 of the 25 complete audits were unqualified, but with findings.

Education, health and public works

In 2012-13, the expenditure of the Departments of Education, Health and Public Works contributed 79% of the total spending by provincial departments. Figure 3 shows that the Department of Public Works remained with a disclaimer of opinion, while the Department of Education remained with a qualified opinion. The Department of Health managed to improve to an unqualified opinion with findings. In comparison, 60% of the other departments were able to achieve an unqualified opinion with findings.

The Office of the Premier and the provincial legislature, with qualified opinions with findings, are expected to lead by example in attaining clean audit outcomes.

Movement in audit outcomes

Figure 4 analyses the movement in the audit outcomes of the different auditees since the previous year and there was an overall stagnation in the audit outcomes of the province.

Four departments were able to improve to an unqualified opinion with findings and two departments regressed to qualified opinions with findings. Overall, there was a net improvement in departmental audit outcomes.

There were no improvements for public entities with two regressions: North West Gambling Board had a clean audit in 2011-12 and regressed to an unqualified opinion with findings and Mmabana Arts, Culture and Sport Foundation regressed to a disclaimer. The other clean audit from 2011-12 was Agribank Creditors Settlement Trust, but the audit opinion is not included in this report as the audit had not been completed by 31 August 2013 due to the late submission of the financial statements.

Section 6 of this report provides more details of the movement in audit outcomes per member of the executive council (MEC) portfolio.

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

Way forward

The continued failure to address the internal control deficiencies to ensure that regular, accurate and complete financial and performance reports are prepared that are supported and evidenced by reliable information and the lack of monitoring of compliance with legislation, resulted in the stagnated outcomes. The lack of consequences for poor performance and transgressions should be addressed to improve audit outcomes.

Figure 4: Movement of the 25 auditees reported on

		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/Disclaimed with findings
4	Improved		Health Public Safety Local Government Human Settlements		
17	Unchanged		Economic Development Treasury Agriculture Invest North West Kgama Wildlife Operations DED NWDC Atteridgeville Bus Services	Premier Education Social Development Aids Council Youth Development Trust	Public Works Madikwe River Lodge Golden Leopard Resorts MIDZ
4	Regressed		Gambling Board	Legislature Sports, Arts and Culture	Mmabana
6	Outstanding audits – previous year opinion	Agribank Creditors Settlement Trust	North West Star Agribank	NTI	Parks Board Dirapeng

Figure 5: Status of quality of annual performance reports

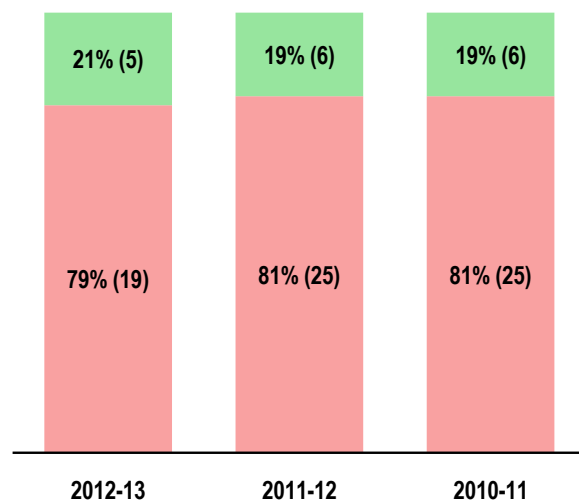


Figure 6: Findings on quality of annual performance reports

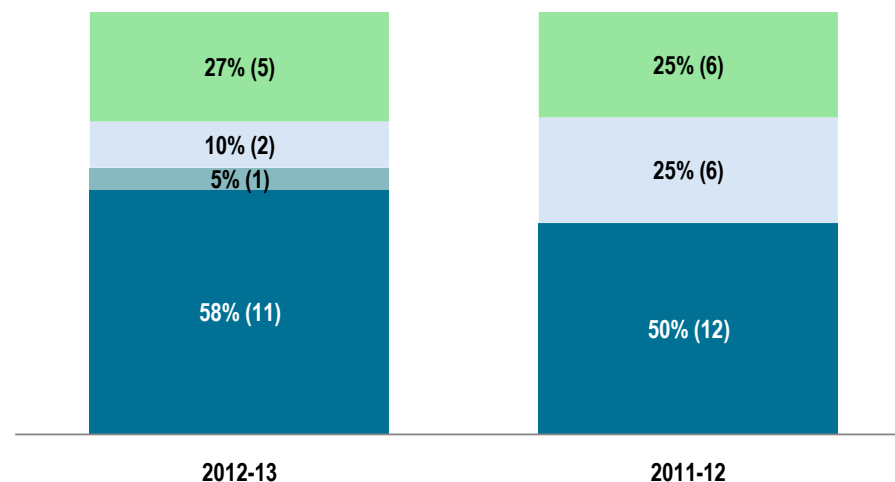


Figure 7: Other performance-related outcomes

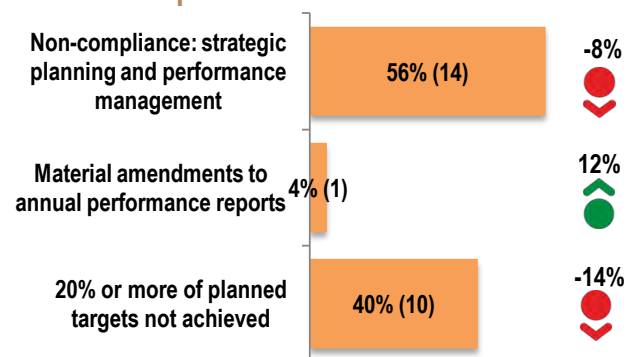
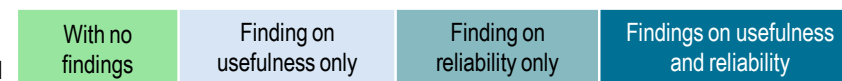
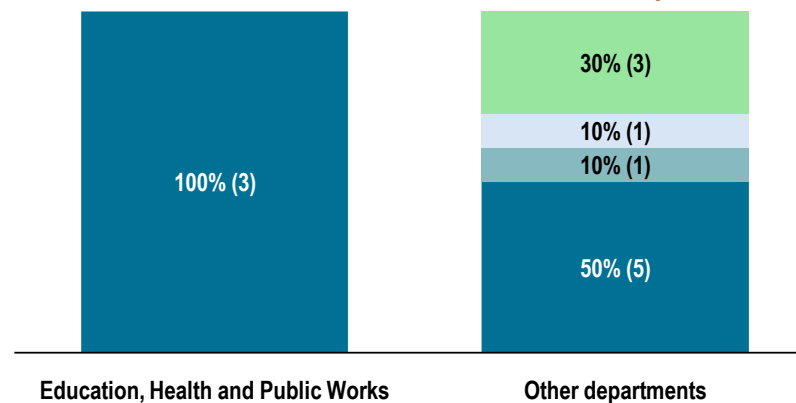


Figure 8: Findings on annual performance report – Education, Health and Public Works vs. other departments



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 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 audits 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 5 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. There was a marginal improvement compared to the previous years, due to three auditees that improved to having no findings on PDOs, but two auditees that regressed to having findings. Overall, the quality of the annual performance reporting remains poor and the leadership should urgently address this.

Findings on the quality of the annual performance reports

Figure 6 shows the nature of the material findings in the current and previous year and the progress made by auditees in addressing the findings.

Excluded from the figure are the auditees that did not prepare annual performance reports at all. There has been little change with regard to non-submission or late submission as there were still five auditees (all of them public entities) that did not prepare annual performance reports. This was mainly due to the lack of oversight by the MECs at public entities and departments responsible for these entities.

The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. There was a slight improvement, however, at 68% of auditees that prepared annual performance reports this was still a finding. This is mainly due to a lack of appropriate review of the strategic planning documents before being approved and implemented.

The most common findings on usefulness were the following:

- Reported performance information not consistent with planned objectives, indicators/measures and targets
- Indicators/measures not being well defined
- Reasons for variances not being explained or supported by corroborating evidence

Findings on reliability relate to whether the performance information reported 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. There was a regression in the reliability of information and at 63% of auditees that prepared annual performance reports this was still a finding. This is mainly due to a lack of in-year review of reported information by management and poor record keeping.

The most common finding on reliability was that source data or documentation was not available to support reported performance

It is of concern that 58% of auditees had findings on both usefulness and reliability. Annexure 1 details the auditees with material PDO findings and the nature of the findings.

Figure 8 shows that the three largest service delivery departments (Education, Health and Public Works) by expenditure all had findings on both usefulness and reliability of performance information. The Department of Health and Public Works recorded repeat findings on both areas, while for Education the usefulness of reported information was a repeat finding and reliability of information was a new finding.

Section 6 of this report provides more detail of the movement per MEC portfolio

Other performance-related outcomes

Figure 7 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.

A regression in the related non-compliance findings is concerning as it shows that reporting against PDOs is not seen as a priority by auditees.

Although fewer adjustments were made to annual performance reports, there were audit findings mainly as a result of limitations that could not be corrected by auditees.

More auditees reported that they did not achieve more than 20% of the planned targets and this is more concerning when taking into consideration that this finding excludes those auditees where there were material findings on the reliability of the reports and auditees that did not prepare annual performance reports.

Way forward

The findings on the quality of the annual performance reports are as a result of a lack of dedicated resources assigned to reporting of PDOs to ensure that information reported throughout the year are reviewed and supported by reliable evidence. The reported information needs to be reviewed by specific trained staff to ensure that performance reported at year-end is accurate and can be substantiated. Internal audit should also play a bigger role in ensuring that reported information is useful and reliable.

Figure 9:
Status of compliance
with legislation

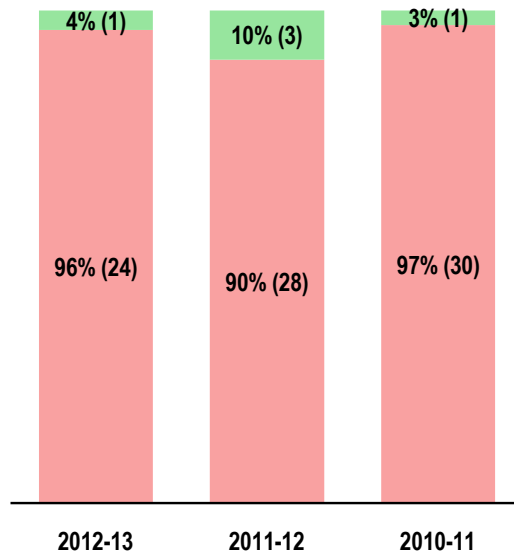


Figure 10:
Findings on compliance with legislation

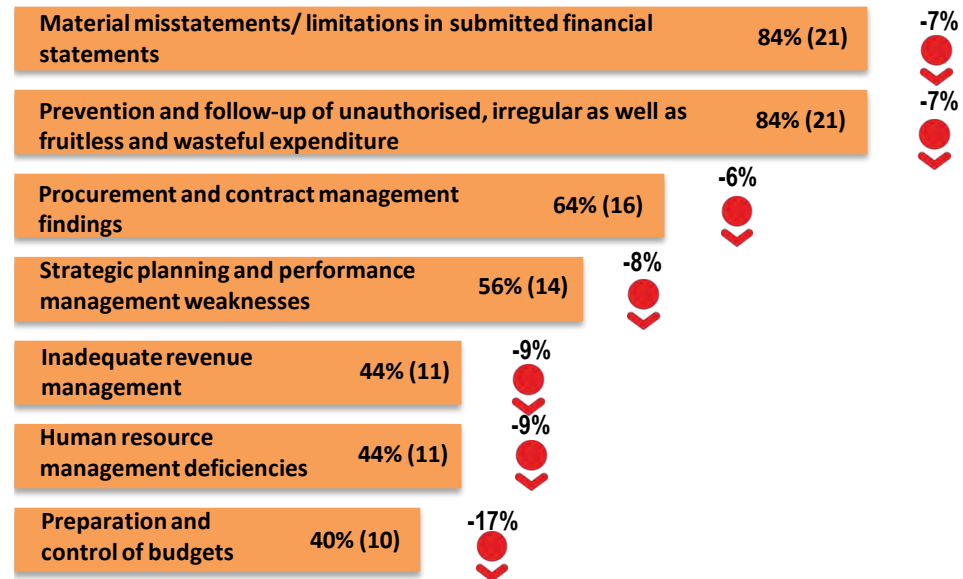


Figure 11:
Unauthorised expenditure

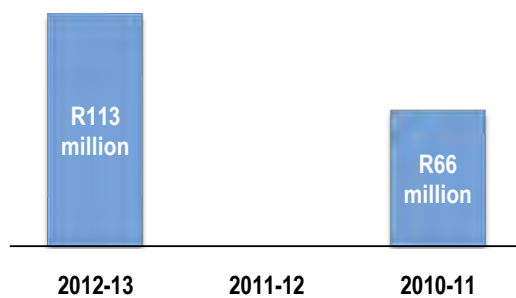


Figure 12:
Irregular expenditure

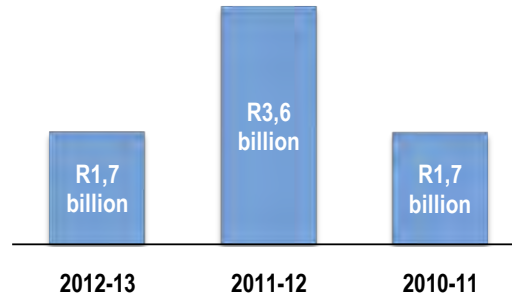
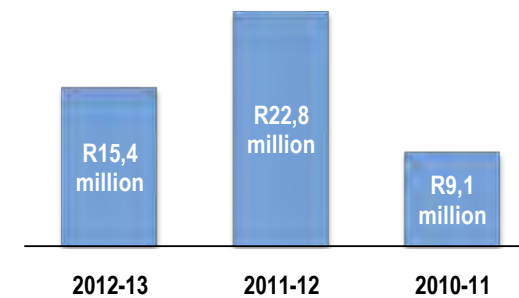


Figure 13:
Fruitless and wasteful expenditure



With no findings

With findings



Improved



Stagnant or little progress



Regressed

2.3 Compliance with legislation

The Public Audit Act requires us to audit annually 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, supply chain management (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 the oversight bodies and the public.

Status of auditees with findings on non-compliance with legislation

Figure 9 shows the number of auditees in the province with material findings in this regard over the past three years. There has been a regression compared to previous years (Invest North West being the only auditee with no compliance findings in 2012-13) with 96% of auditees that had findings. This indicates that there were no consequences for officials and auditees that repeatedly transgressed. In instances where there are vacancies in key positions there are no resource to provide leadership in this area and implement requisite internal controls to deal with non-compliance with laws and regulations.

Findings on non-compliance with legislation

Figure 10 shows the compliance areas with the most material findings in the current and previous year and the progress made by auditees in addressing the findings.

Overall, there was a regression in each area with more findings compared to the previous year.

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)

- Unauthorised/irregular/fruitless and wasteful expenditure was not prevented or adequately followed up
- Disregard for supply chain management legislative requirements (refer to section 3.2 for more detail in this regard)
- A lack of effective, efficient and transparent system of internal control regarding performance management (refer to section 2.2 for more detail in this regard)
- Effective and appropriate steps not taken to timeously collect all revenue due
- Non-compliance with human resource management legislative requirements (refer to section 3.3 for more detail in this regard)
- Lack of proper budget management

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

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Figure 11 reflects the three-year trend in unauthorised expenditure. Although no unauthorised expenditure was incurred during 2011-12, five departments again overspent their budgets in 2012-13 by R113 million. This is indicative of a lack of proper budget management controls and this can be attributed to the lack of credible information being generated and reviewed by departments.

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 12 reflects the three-year trend in irregular expenditure. Although there was a decrease in irregular expenditure from R3,6 billion in the previous year to R1,7 billion (by 19 auditees) in the current year, this does not include the limitations regarding the audit of awards of R1,8 billion where documents were not submitted (refer to section 3.2 for more details in this regard). This also reflects the lack of consequences when officials do not adhere to prescribed legislation.

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 13 reflects the three-year trend in fruitless and wasteful expenditure. The R15,4 million incurred in the current year (by 18 auditees) is a slight improvement compared to the previous year.

Way forward

The continued non-compliance with legislation is as a result of the lack of monitoring of compliance with legislation and the lack of consequences for transgressions. All officials that continue to transgress legislation should be held accountable for their actions and where necessary disciplinary action taken.

All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated and, where required, recovered from the responsible officials as required by the PFMA.

SECTION 3: RISK AREAS

Figure 14: Status of submitted financial statements

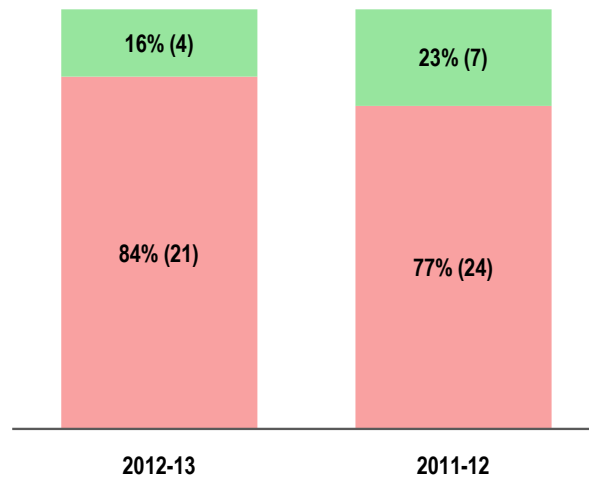


Figure 15: Quality of submitted financial statements

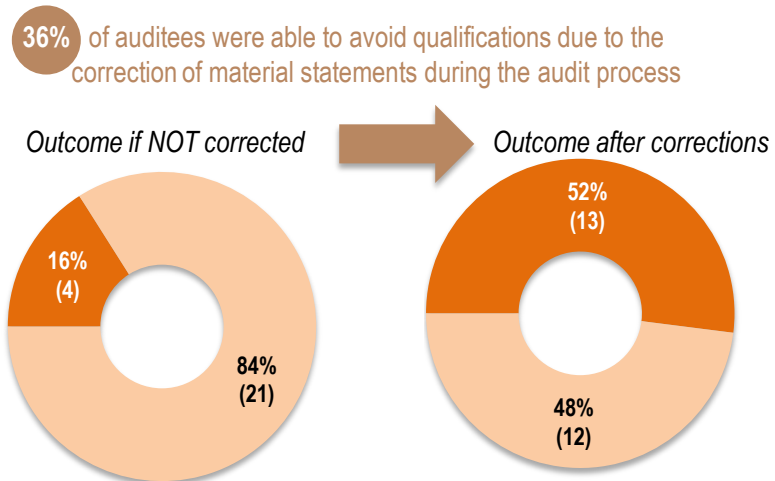
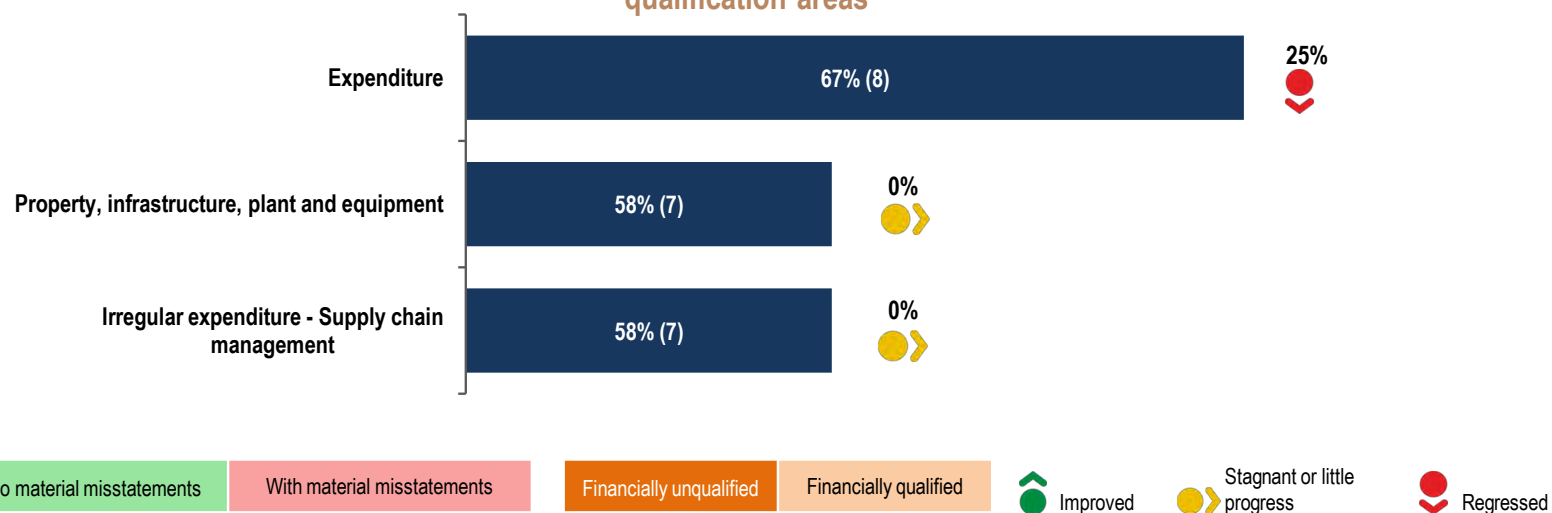


Figure 16: Top three financial statement qualification areas



3. Risk areas

We identified six key risk areas that need to be addressed to improve audit outcomes and financial and performance management. 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. However, as can be seen in figure 14, only four auditees (16%) submitted financial statements with no material misstatements. This is worse than the previous year and means that the quality of financial statements submitted for auditing remains poor. The audits of 10 entities had not been completed by 31 August 2013, but these mostly include backlog audits where the financial statements for multiple years were submitted for auditing for the first time this year.

Figure 15 shows that nine auditees (36%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Uncorrected material misstatements

Even though we reported the material misstatements to management for correction, 12 auditees (48%) could not make the corrections to the financial statements, which resulted in qualified audit opinions and disclaimer of audit opinions. These were mainly given when there were material limitations during the audit or if the quality of the submitted financial statements was so poor that the corrections could not be made.

Figure 16 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:

Expenditure

- Auditees did not correctly classify expenditure they incurred in the financial statements. Due to basic reconciliations and controls not in place these misallocations could not be corrected.
- Auditees were unable to provide supporting evidence (invoices, etc.) for expenditure they incurred. The number of auditees with this problem increased since last year, indicating that poor record management was not being addressed.

Property, infrastructure, plant and equipment

- Auditees did not include all assets belonging to them in the financial statements or included the value of assets that no longer existed or that we could not physically verify in their asset registers. This was caused by incorrect and incomplete asset registers that were not reconciled with the assets on a regular basis. The number of auditees with this problem remained unchanged from the previous year.

Irregular expenditure – supply chain management

- We could not test all awards made by the auditees in terms of their supply chain management policies for compliance, due to limitations placed on our audit by the auditees. As a result, it could not be confirmed that all irregular expenditure was disclosed that or irregular expenditure was understated. The number of auditees with this problem remained unchanged from the previous year.

Way forward

The main reason why the quality of submitted financial statements remains poor is because auditees do not prepare credible and complete financial information throughout the year. Auditees also rely on people or consultants instead of systems to generate the financial information, which results in material misstatements when this information is not adequately reviewed before submission for auditing. Finance sections should be capacitated with sufficient appropriately skilled staff to prepare financial information during the year, at year-end this information should be readily available and reviewed by the chief financial officer (CFO), internal audit and audit committee before being submitted for auditing.

Figure 17: Status of supply chain management

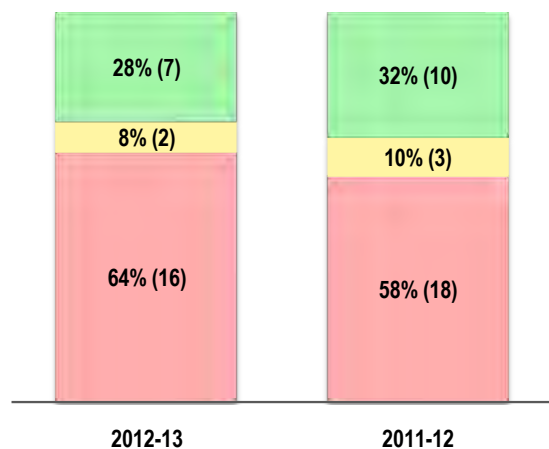


Figure 18: Findings on supply chain management

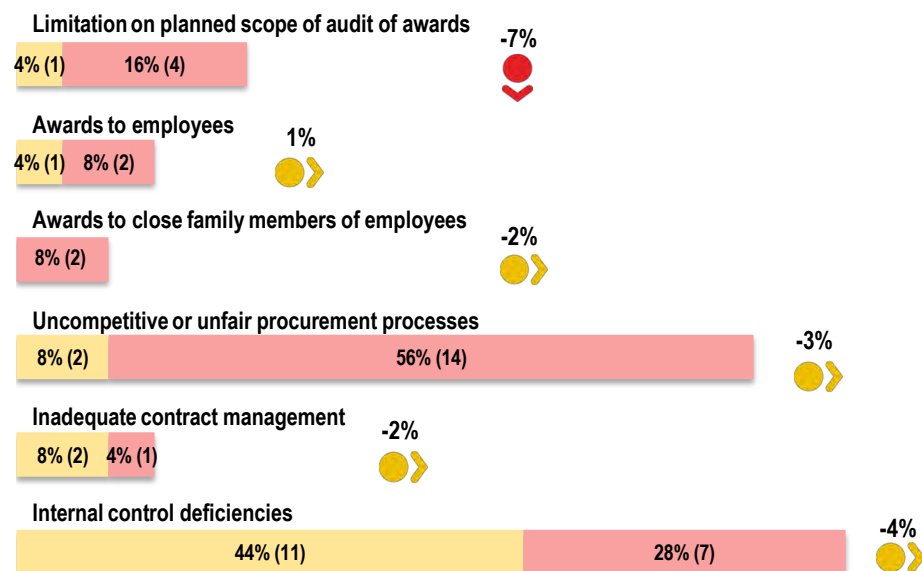
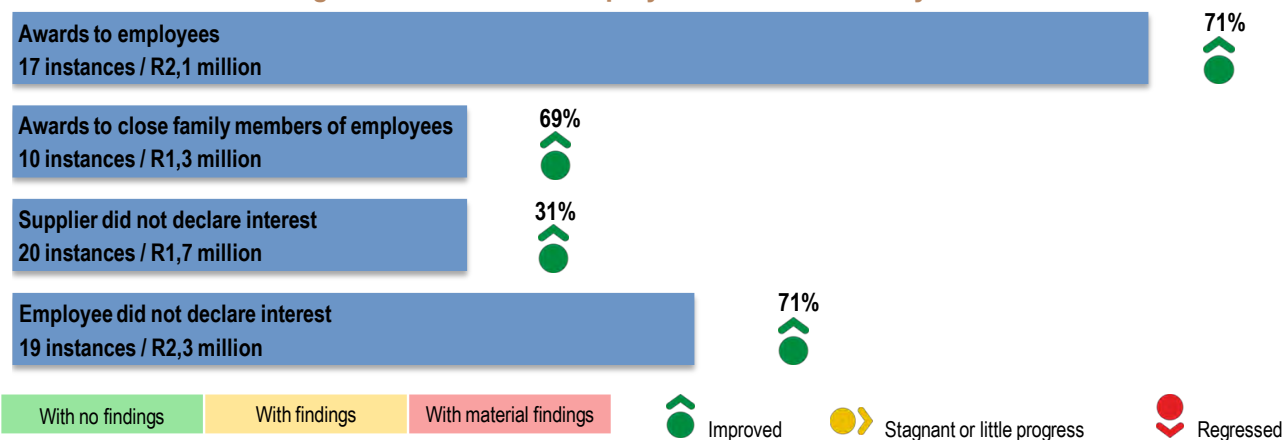


Figure 19: Awards to employees and close family members



3.2 Supply chain management

We tested 381 contracts (with a value of R2,9 billion) and 1 322 quotations (with a value of R116,6 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 17 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. There was an increase in the number of auditees with findings on SCM compared to the previous year – only seven auditees had no findings. Figure 18 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 R1,8 billion at the five 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 reasons for these limitations were poor record-keeping systems at these auditees. However, in some cases it was due to management's deliberate decision not to submit the information and could be indicative of possible fraud.

Awards to employees and close family members

Figure 19 shows the extent of awards to employees and family members and whether the required declarations had been made. Although the number of

auditees where this occurred remained unchanged (three and two respectively), the number of instances and value of the awards has decreased significantly.

Uncompetitive or unfair procurement processes

The extent of the findings in this area remained largely unchanged compared to the previous year, but it is evident that the lack of consequences from transgressions resulted in the high number of findings. The following were the most common findings:

- Three written quotations not invited and deviations were not approved or approved deviations were not reasonable/justified
- Preference point system not applied
- Procurement from suppliers without SARS tax clearance
- Competitive bids not advertised or advertised for shorter periods with no justification for the deviation

Inadequate contract management

The extent of the findings in this area remained largely unchanged compared to the previous year. The most common finding was payments made in excess of the approved contract price or the contract price was more than the tendered price.

Inadequate supply chain management controls

The extent of the findings in this area remained largely unchanged compared to the previous year. It is of concern that, despite these control weaknesses being communicated to management in the previous years, little has been done to address them. The following were the most common findings:

- SCM officials were not adequately trained
- SCM officials were not aware of SCM policies/do not understand their roles and responsibilities
- No/inadequate actions taken to address SCM risk identified
- Inadequate controls to ensure that interests are declared

Effective management of consultants

Some of the departments and entities appoint consultants/contractors to execute certain projects. Supply chain management 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

Way forward

Officials that continue to transgress SCM requirements should be dealt with in terms of the disciplinary policies of the auditees for transgressions and be held accountable for their actions. The way forward to positive outcomes also depends on swift responses by the leadership in dealing with repeat findings on non-compliance with laws and regulations.

Figure 20: Human resource management findings

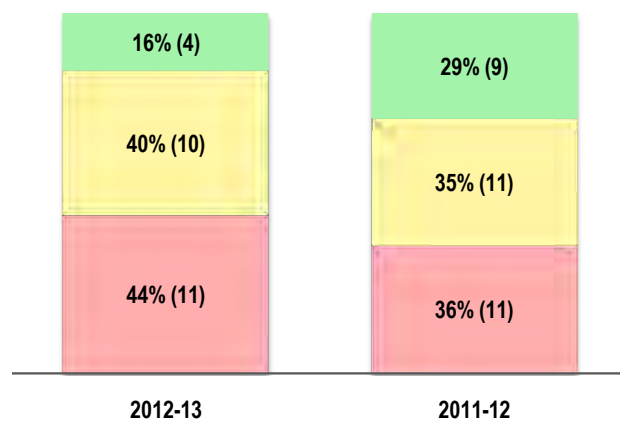


Figure 22: Vacancies in key positions

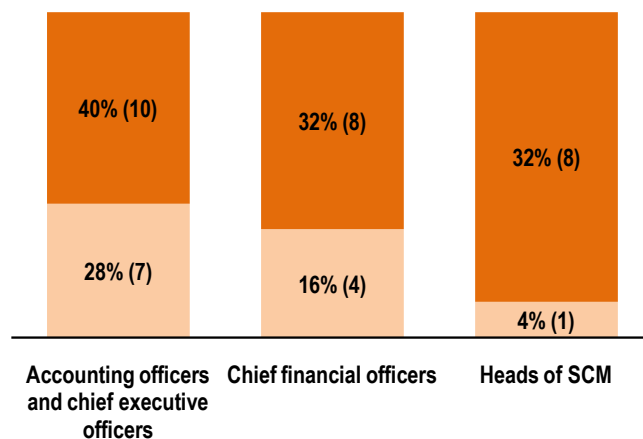


Figure 21: Weakness in human resource focus areas

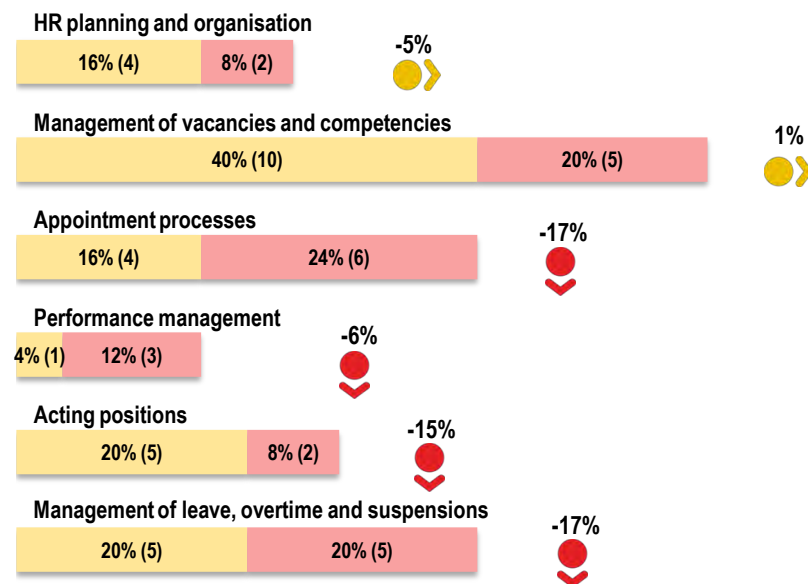
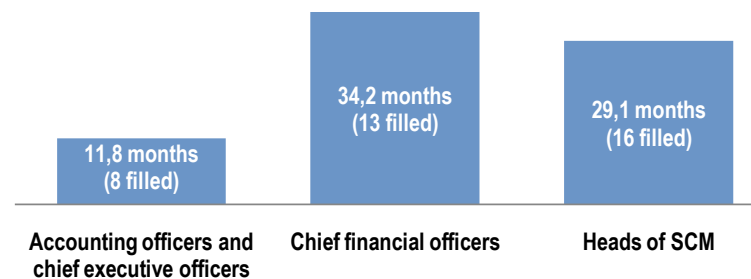


Figure 23: Stability in key positions
(Average number of months in position)



With no findings

With findings

With material findings

Vacant less than 6 months

Vacant more than 6 months



Improved



Stagnant or little progress



Regressed

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 20 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. There was an increase in the number of auditees with findings on HR management compared to the previous year – only four auditees had no findings. Figure 21 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.

Management of vacancies and acting positions

The average overall vacancy rate in the province was 18,5% at year-end, while that of senior management was 18,2% and that of the finance units was 16,9%. Figure 22 shows the vacancy rate at the level of accounting officer or chief executive officer (CEO), CFO and head of the SCM unit at year-end and indicates the period for which the positions were vacant. Figure 23 shows the average number of months for which these key officials have been in their positions.

With the high vacancy rates in these key positions and the lack of stability in senior management it was difficult for these auditees to address their previous year's audit findings and improve audit outcomes as incumbents are better prepared to deal with the challenges of a position the longer he/she occupies it. The reason for this instability in key positions was the corresponding instability at MEC level.

Due to this instability, officials had to act in senior management positions for prolonged periods at six auditees. This instability impacted on the lack of internal controls and implementation of action plans to address audit findings.

Lack of consequences for transgressions and poor 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. Most of the permanently appointed key officials (accounting officers, CEOs and CFOs) had performance agreements in place. However, many of these positions were only filled in an acting capacity and those officials did not have performance agreements for the positions they acted in. As a result, their performance in these positions could not be managed and they were not held accountable for poor performance. In addition, at four departments other senior managers did not timeously sign performance agreements for the current performance period.

The performance agreements were also not always linked to the audit outcomes and, consequently, there were no consequences for those that were responsible for unchanged or regressed audit outcomes. As the example was not set by the leadership at the auditees, there were also no consequences for poor performance or transgressions by other staff. Over the years this resulted in a culture of non-compliance with SCM and other legislation.

Other common human resource management findings

The other most common HR findings were the following:

- Proper verification processes for new appointments did not always take place
- All leave taken was not recorded accurately and in full
- Employees were suspended with pay for more than prescribed period
- An overtime policy was not in place or was inadequate

Way forward

All vacancies, specifically in key positions like accounting officer and CFO, should be filled immediately with appropriately competent and experienced candidates. There should be leadership involvement to ensure that such appointments have the support of all of management within that department and entity. Furthermore, such appointments should also be accompanied by specific and clear performance agreements that bind that person.

Figure 24:
Status of information
technology controls

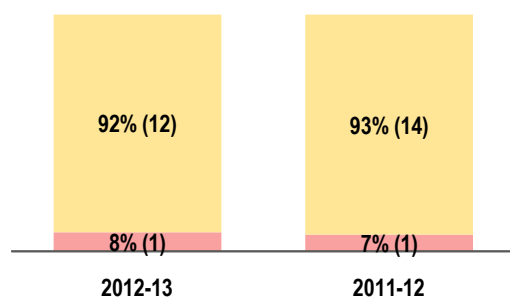


Figure 25: Findings on information technology controls

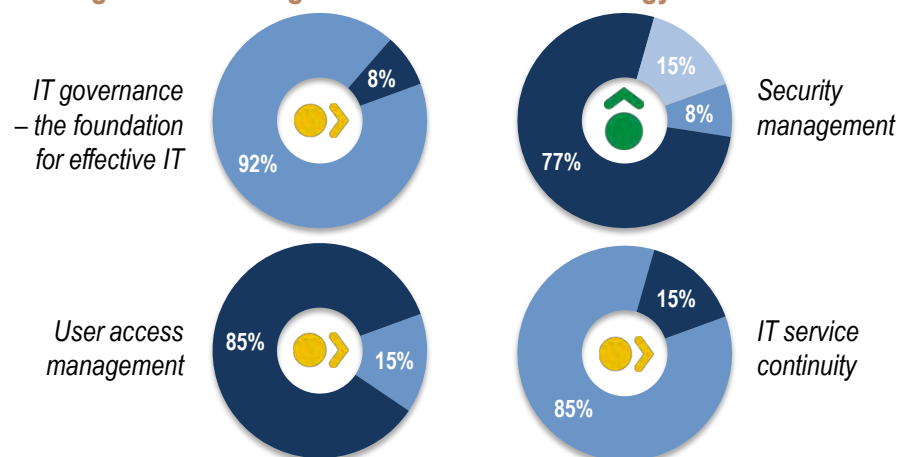


Figure 26: Status of information and controls

	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

IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security. It is therefore 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 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. Special 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 (figures 24 and 26) demonstrates that there has been no overall improvement since the previous financial year. Most auditees are still experiencing challenges in all areas 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 25 shows that 92% of the auditees are busy with the implementation of the framework. All departments and entities are required to adopt and implement the cabinet-approved IT governance framework and guidelines within the next three financial years. In the next year, the implementation of phase one should be prioritised. As the legislature has opted to develop their own IT governance framework, management should prioritise the completion and adoption of the framework.

Security management

A secure IT environment ensures confidentiality, integrity and availability of critical IT systems and business processes. Although 15% of the auditees had IT controls that were embedded and functioning effectively, figure 25 shows that 77% of the auditees continued to experience challenges with design and 8% with the implementation of security management policies. Management should prioritise the design and implementation of the security management policies to mitigate the risk of unauthorised access to, and unavailability of IT systems.

User access management

User access controls are measures designed by business management to prevent and detect the risk of unauthorised access to, and the creation or amendment of financial and performance information stored in the application systems. Figure 25 shows that 85% of the auditees are still experiencing challenges with the design of user access policies and procedures as the provincial user account management policy and procedure for managing and administering the transversal systems at the departments was only approved by the accountant-general in April 2013. Furthermore, 15% of the auditees continue to experience challenges with the implementation of user access policies and procedures. Management should prioritise the implementation of the user access policies and procedures to mitigate the risk of unauthorised access and transactions within the application systems.

IT service continuity

Information technology service continuity controls enable institutions to recover the critical business operations and application systems affected by disasters or major system disruptions within reasonable time frames. Figure 25 shows that two auditees (15%) continued to experience challenges in terms of the design of the required controls, while 85% of the auditees were experiencing challenges with the comprehensive implementation of disaster recovery plans, business continuity plans and backup processes to facilitate the backup and recovery process. In the case of departments, the data hosted on their transversal systems is available on the Basic Accounting System (BAS) 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. In the case of the legislature, management should prioritise the design and implementation of IT service continuity controls to mitigate the risk of unavailability or incompleteness of data in case of major system disruptions or data loss.

Way forward

The following actions should be taken to address IT control weaknesses:

- The department of finance should appoint a dedicated information security officer to manage the implementation of a comprehensive risk-based information security programme.
- The department of finance should improve the disaster recovery testing for critical mainframe systems by developing comprehensive test plans and actively coordinating with the departments.
- The department of finance should strengthen the effectiveness of the annual mainframe disaster recovery test by being proactive in managing the service level agreement and contacting SITA to understand the process and the value of participation. The department should also assign responsibilities to the appropriate personnel and ensure all necessary components are tested.
- Accounting officers should ensure that the user account management procedures developed by Norms and Standards are consistently implemented by the department and enforced on a regular basis.
- IT departments, in conjunction with the Minimum Information Security Standards (MISS) unit, should ensure good security practices are implemented, kept up to date and enforced.
- Accounting officers should provide strategic guidance and ensure that DITOs are functioning at strategic level.

Figure 27:
Number of auditees
with indicators of
financial health risks
(all auditees)

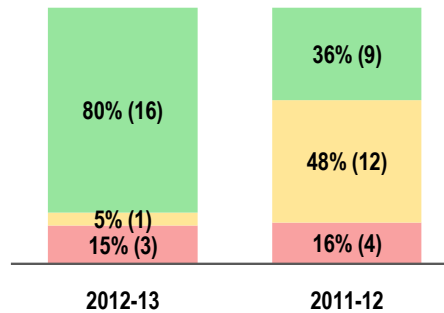
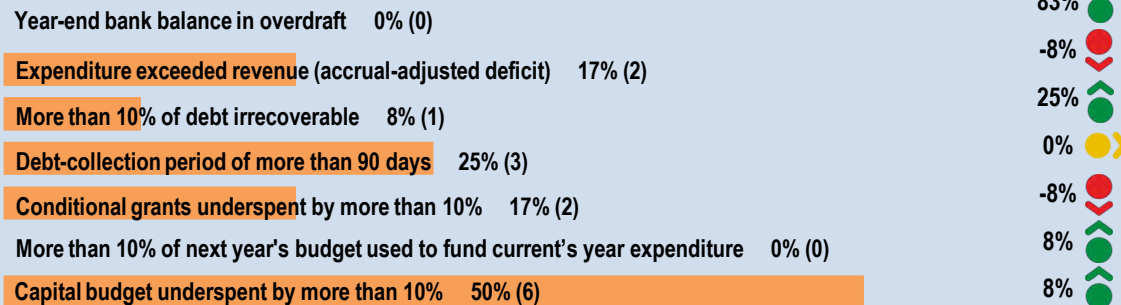
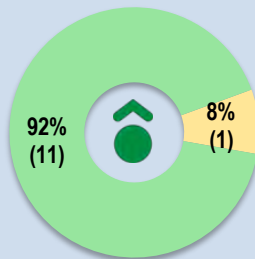


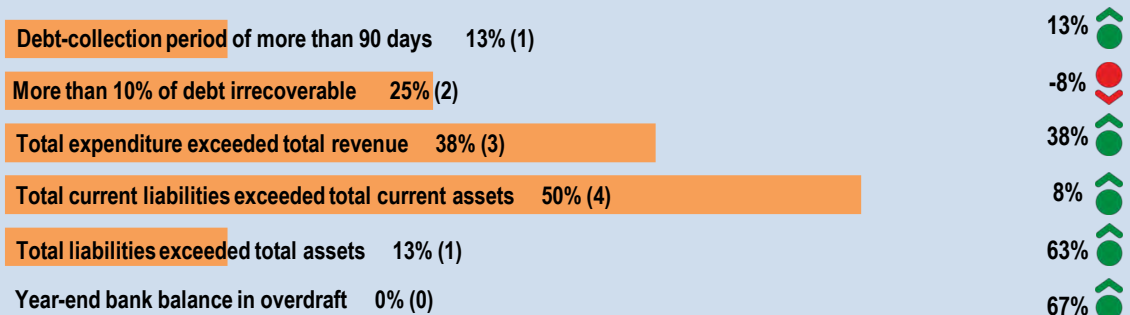
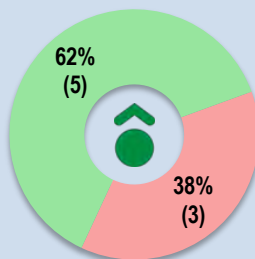
Figure 28: Number of auditees with
indicators of financial health risks

Figure 29: Areas of financial health concerns

Departments



Public entities



With no findings

With findings

With material findings



Improved



Stagnant or little progress



Regressed

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.

Figure 27 indicates the number of auditees that had more than two of the indicators discussed in this section and figure 28 the number of public entities with material going concern uncertainties. It excludes five auditees that had disclaimed audit opinions, as their financial statements were not reliable enough to be analysed.

Overall, there was a decrease in the number of auditees with financial health risks compared to the previous year, mainly because of the exclusion of the disclaimed auditees.

Figure 29 shows the number of auditees with the indicators and the movement since the previous year. The indicators are discussed in the rest of this section.

Underspending by departments of capital budgets and conditional grants received

The most common indicator at departments was the underspending of the capital budgets by more than 10% at six departments. Two departments also underspent on conditional grants received by more than 10%. As the capital and conditional grants budgets of departments are usually directly related to service delivery, this could be an indicator of not achieving the planned objectives. The reason for the underspending was mainly the lack of systems in place to track capital projects.

Debt management

Debt collection periods of more than 90 days were identified at three departments and one public entity, while at one department and two public entities the impairment provision for irrecoverable debt was more than 10% of the debt. There

was little movement compared to the previous year and auditees should continue to improve its debt management.

Financial health risks at public entities

Public entities are more at risk to experience going concern uncertainties because of the limited funding sources and not being able to generate own revenue.

At four entities the total current liabilities exceeded the total current assets. This indicates the possibility that the entities might not be able to settle their short-term liabilities from current assets. At one entity the total liabilities exceeded the total assets, which indicate that the entity is insolvent. At three entities the total expenditure exceeded the total revenue, resulting in a deficit for the year – in some cases deficits were incurred for more than two consecutive years.

If it is taken into account that four public entities were excluded from this analysis because they had disclaimers of audit opinion and that a further 10 entities were not analysed at all in this report due to non-submission or late submission of financial statements, it is clear that financial health risk at public entities is a big concern in the province. The main reason for this was because management at these entities did not implement financial. Much of the entities' funding was utilised for employee costs and at the same time they committed to service delivery objectives with suppliers without underlying funds to support these commitments.

Way forward

The spending of capital budgets should be closely monitored and linked to the achievement of planned targets for the departments. The departments should also closely monitor the financial affairs of the public entities they are responsible for.

The provincial leadership should reconsider whether it is necessary to have all the public entities in the province and if the purpose would not be better served if some of these entities are consolidated or closed down. This is due to redundant services undertaken by multiple entities in similar portfolios and non-alignment of their mandates. The premier's office, together with the relevant MECs, should revisit their public entities to determine their relevance in the public sector environment and look at refining and aligning their mandates with the current requirements of the province.

SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

Figure 30: Movement of drivers of internal control

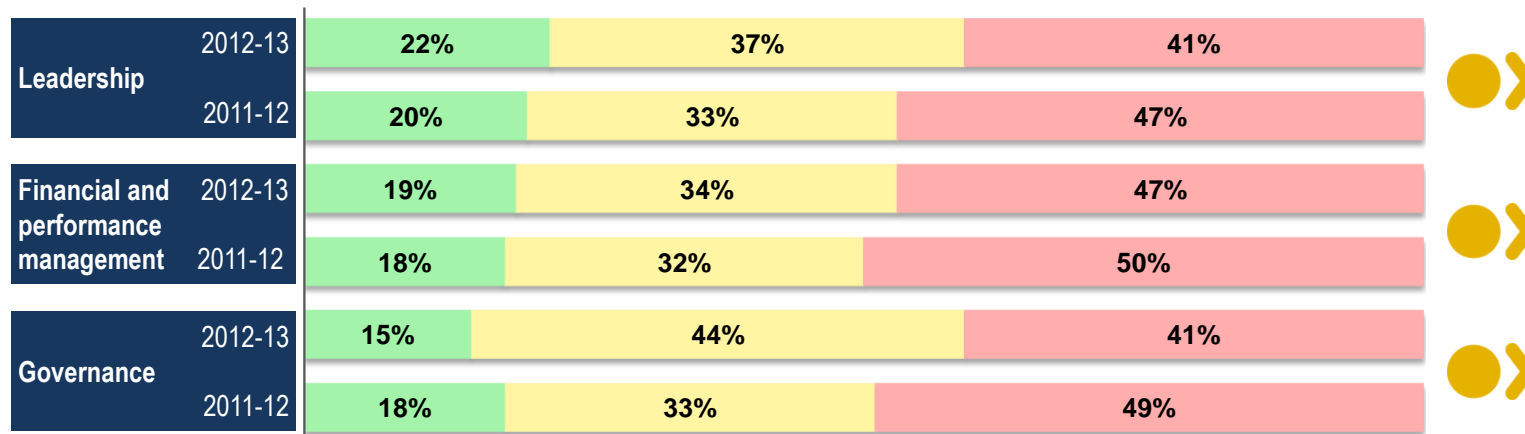
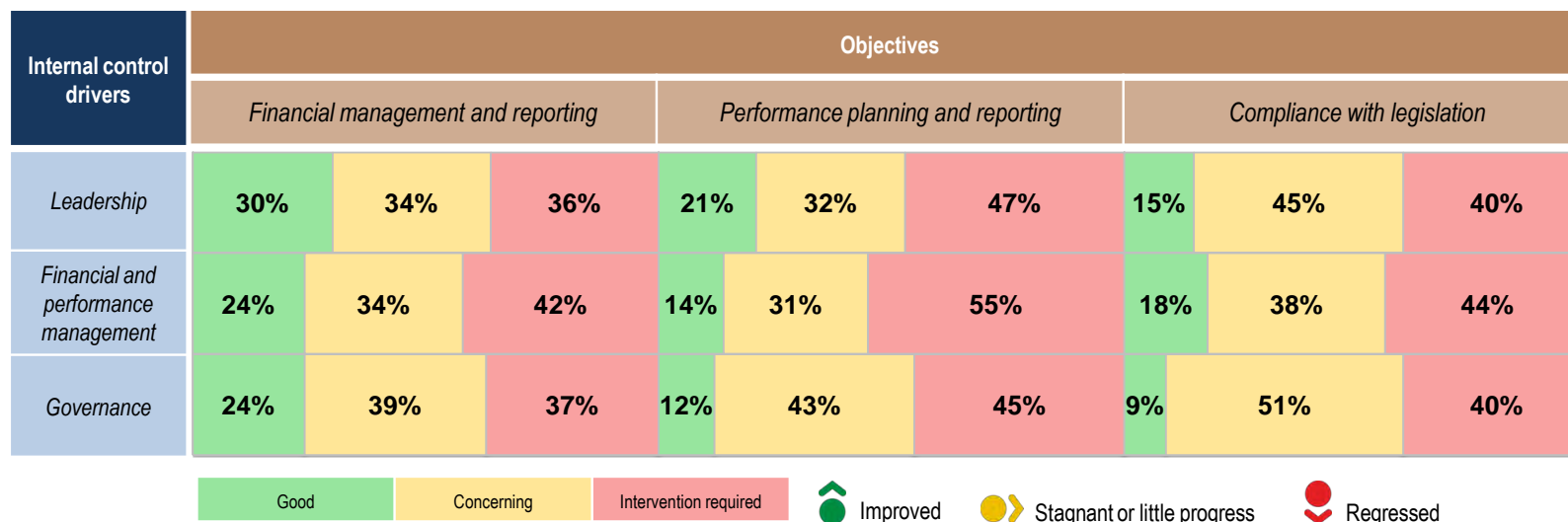


Figure 31: Objectives on which drivers of internal control have an impact



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 30 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 resulted in material misstatements in the submitted financial statements, performance reports of poor quality as well as findings on non-compliance with legislation.

Figure 31 separately assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

Overall, there was no improvement in the drivers of internal control in any of the key areas, which directly correlates with the stagnation in audit outcomes. We discuss details of any improvements in specific MEC portfolios in section 6.

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

Prepare regular, accurate and complete financial and performance reports



Management is not only required to prepare financial statements and performance reports at year-end, they should also prepare regular (monthly and quarterly), accurate and complete financial and performance reports for the accounting officer or authority, the MEC and monitoring institutions such as the treasuries. In-year reporting helps to prevent misstatements in the year-end reports and to

detect non-compliance with legislation. It also ensures proper financial and performance management throughout the year.

Only a few successfully implemented this key control and there has been little improvement since the previous year. This can be directly attributed to the vacancies and instability in key positions as discussed in section 3.3. If these key positions are not filled with competent officials (both in the finance sections and the staff dedicated to reporting on performance) there is no one to ensure that this control is implemented during the year.

Develop and monitor the implementation of action plans



Action plans are crucial to address weaknesses in internal controls and prior year audit findings. There must be continuous reviews and monitoring of action plans by the leadership, MECs and those charged with governance, including audit committees and committees of the provincial legislature.

Only a few auditees were able to successfully implement this key control and there has been little improvement since the previous year. Action plans were either not developed to address prior year audit findings or the action plans in place were not adequate and the implementation thereof was not monitored.

Review and monitor compliance with applicable laws and regulations



A strong leadership tone, together with the support of the internal audit unit and audit committee, is necessary to establish a control environment conducive to compliance. Only a few auditees have successfully implemented this key control and there has been little improvement since the previous year. Insufficient training was provided in compliance with legislation and a lack of monitoring and supervision of day-to-day activities contributed to the limited improvement.

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 in the audit report, classified under the key drivers of leadership, financial and performance management, or governance. Section 4.1 provides more information on the specific drivers of internal control.

As reported in section 2, no auditees obtained a clean audit outcome as their financial and performance reports were of 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.

Lack of consequences for poor performance and transgressions

Detail of root cause

We identified lack of consequences for poor performance and transgressions as a root cause of poor audit outcomes at 60% of the auditees. We also identified it as a root cause last year, but there has been little improvement in this regard.

When management or officials at auditees do not perform their work at the required level of diligence and competence, their performance should be managed. When an official negligently or deliberately fails to comply with the basic policies and procedures or legislation applicable to the auditee, the necessary disciplinary steps should be taken against the official.

As the leadership did not set the example at the auditees, a culture of non-compliance with SCM and other legislation has developed over the years.

Refer to section 3.3 where this root cause is discussed in more detail as part of human resource management.

Recommendations

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

- All members of senior management should have signed performance agreements that meet the applicable requirements and contain objectives and targets that are linked to the audit outcomes. Performance evaluations should be done on a regular basis throughout the year to address poor performance.
- All allegations of financial misconduct, misconduct in SCM and unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated immediately. Once investigations are complete, the necessary disciplinary hearings should be held in all cases where the misconduct was confirmed.
- The PPAC should hold the leadership and key officials at the auditees responsible where there are continued poor audit outcomes. Stern actions should be taken against those who do not implement performance management or hold their officials accountable for transgressions.

Slow progress has been made in addressing this root cause as some of the actions and commitments by role players in the previous year have not yet been implemented.

Instability or vacancies in key positions

Detail of root cause

We identified instability and vacancies in key positions as a root cause of poor audit outcomes at 56% of the auditees. We also identified it as a root cause last year, but there has been little improvement in this regard.

The instability and prolonged vacancies and acting positions in key positions like accounting officer and CFO (as detailed in section 3.3) made it difficult for some auditees to produce financial statements without any material misstatements and performance reports that are reliable. Section 3.3 details the status and impact of vacancies and instability.

The corresponding instability at political leadership level contributed to the instability at this level.

Recommendations

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

- All vacant accounting officer/authority and CFO positions should be filled by officials with the necessary competencies and experience.

- All other critical positions (like finance sections and sections responsible for performance reporting) should be filled by skilled staff.
- Those public entities with no internal audit units or audit committees should urgently address these vacancies, as they play a critical role in monitoring the implementation of action plans and addressing internal control deficiencies.

Slow progress has been made in addressing this root cause as some of the actions and commitments by role players in the previous year have not yet been implemented. The main reason is the political instability and the difficulty to attract appropriately skilled staff to the province.

Slow response by political leadership

Detail of root cause

We identified slow response by the political leadership to be a root cause of poor audit outcomes at 40% of the auditees. We also identified it as a root cause last year, but there has been little improvement in this regard.

In most cases the engagements with the MECs were well received, but in some instances these interactions have not yet had a significant impact on the audit outcomes. Refer to section 5 and section 6 where the interactions are evaluated in more detail per MEC portfolio.

In some instances the frequent changes in leadership disrupted the implementation of commitments and the addressing of internal control

deficiencies. We also noted that the impact of the interventions by the political leadership was much less at the public entities than at the departments as it was not a priority.

Recommendations

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

- The MECs should honour their commitment to make themselves available for an hour every 90 days to meet with the AGSA to discuss key control weaknesses. They should be actively involved in monitoring the implementation of action plans to address the identified internal control deficiencies.
- MECs should make clear, actionable and credible commitments that directly relate to the internal control deficiencies and root causes of audit findings to improve audit outcomes.
- MECs should be actively involved in monitoring the progress made by the public entities in their portfolios.
- The portfolio committees should also be actively involved in the follow-up of the implementation of action plans by the auditees in their portfolios.

Slow progress has been made in addressing this root cause as some of the actions and commitments by role players in the previous year have not yet been implemented.

SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 32: Assurance provided by key role players

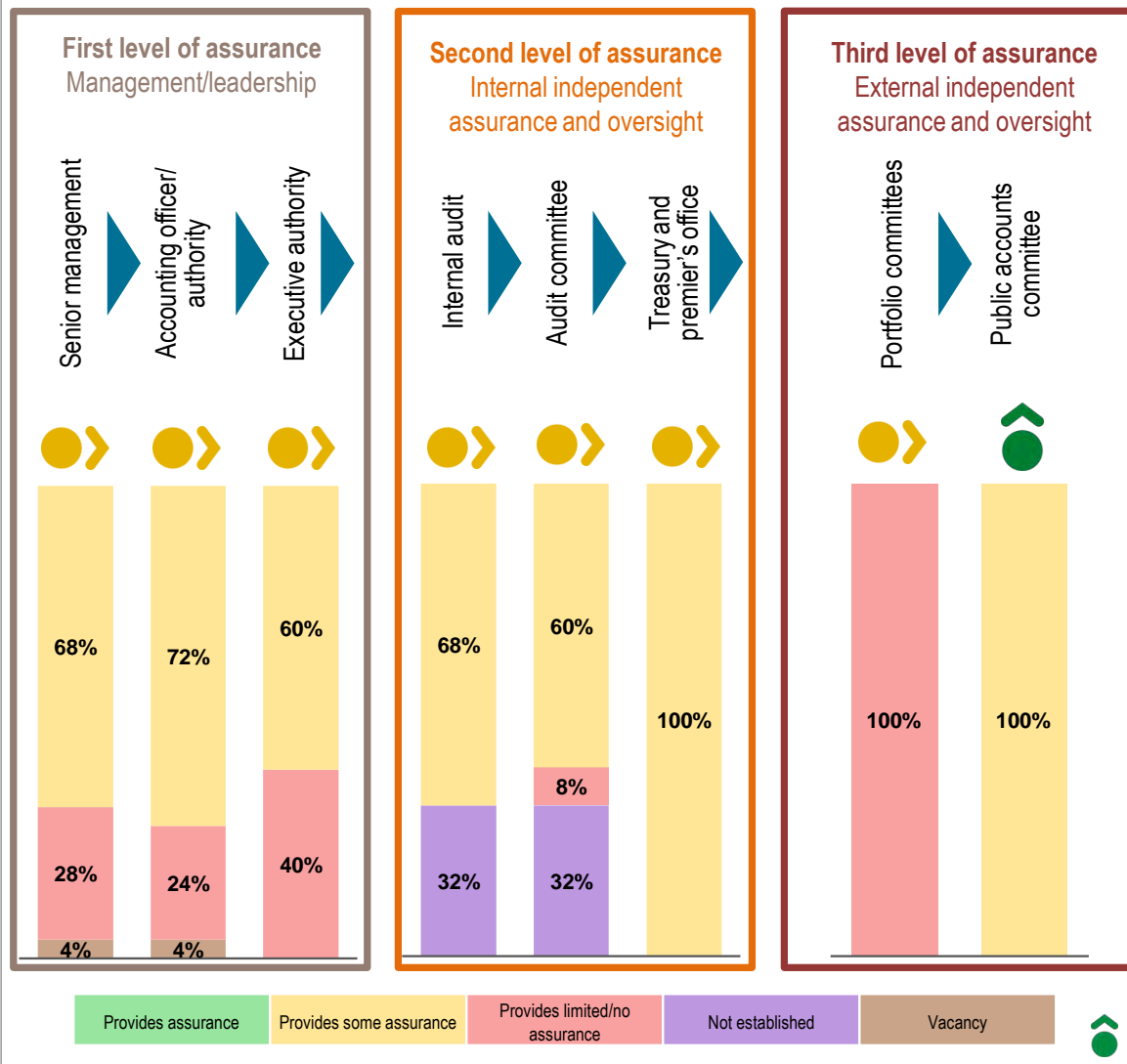
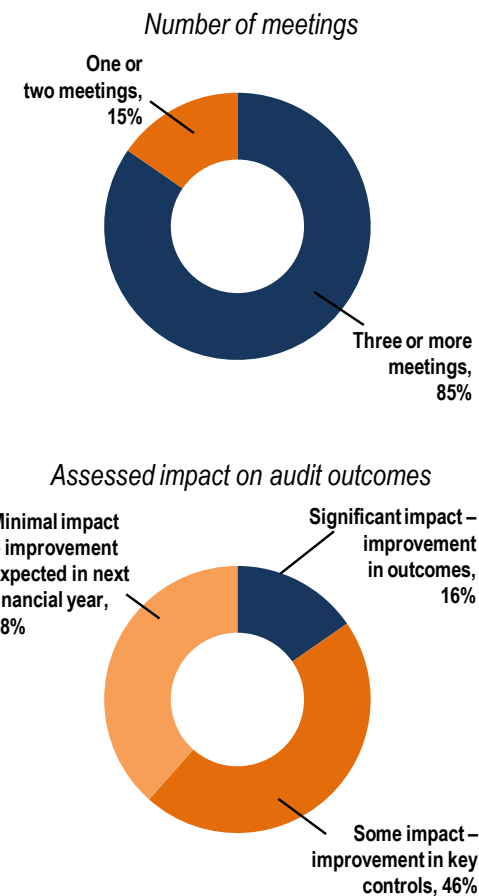


Figure 33: Interactions with MECs and assessed impact thereof



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 reports 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) (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 32 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

Overall, senior management has not provided the required level of assurance – 68% provided some assurance while the rest provided limited or no assurance or were vacant. This remains largely unchanged from previous years.

Although none of the role players at the first level of assurance are fully providing the required level of assurance yet, the senior management assurance needs the most improvement. 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 performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable laws and regulations.
- Design and implement formal controls over IT systems.

The poor status of these internal controls, as reported in section 4.2, shows that inadequate assurance is provided. It is concerning that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements submitted for auditing, continue to be unreliable. It highlights the risk that decisions taken by accounting officers and MECs could be based on incomplete and incorrect information taking into account the material adjustments that are made to financial statements to meet the requirements of the reporting framework.

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 should be held accountable for the execution of their responsibilities through a strict system of performance management.

Accounting officer or accounting authority

Overall, accounting officers and accounting authorities have not provided the required level of assurance – 72% provided some assurance while the remainder provided limited or no assurance or were vacant. This remains largely unchanged from previous years.

The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities is marginally worse than that of senior management. As reported in section 4.2, there was stagnation in the status of those internal controls for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and

monitoring did not result in sustainable practices that translated into improved audit outcomes in most cases.

Although accounting officers and authorities depend on senior management to design and implement 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 performance 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 IT risks and fraud prevention, are conducted and that a risk strategy is developed/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.

The HR management challenges outlined in section 3.3 also directly contributed to the assessment and should be addressed to strengthen the assurance provided.

Executive authority

Overall, executive authorities have also not provided the required level of assurance – 60% provided some assurance while the rest provided limited or no assurance. This remains largely unchanged from previous years.

The executive authorities in the province are the MECs. They have a monitoring and oversight role in their portfolios and play a direct role in departments, as they have specific oversight responsibilities in terms of the 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 that most MECs are not yet providing the required level of assurance is based on the poor status of the leadership controls

(as detailed in section 4.2) and the impact of MECs on audit outcomes as observed through our regular interactions with them.

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

As shown in figure 33, the MECs were available to meet with us. The engagements were mostly well received, but these interactions have not yet had a significant impact on the audit outcomes in most instances. 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

Overall, internal audit has not yet provided the required level of assurance – 68% provided some assurance while at the remaining public entities no internal audit units had been established. This remains largely unchanged from previous years. 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. Unfortunately, many public entities still do not have internal audit units (32%) and continuing to operate without these units pose a great risk. The internal audits that were in place were compliant with the requirements of the PFMA, while the work of most of the units covered all the required aspects. However, at 29% of auditees the units did not evaluate the reliability of performance information.

In most instances (specifically with the shared provincial internal audit unit responsible for most departments), internal audit units helped to improve internal

controls, but overall the impact of these units on audit outcomes was fairly limited. At only 29% of auditees the internal audit had a positive impact on audit outcomes, while the lack of impact at the remaining auditees was mostly as a result of management not addressing the internal audit findings or implementing recommendations. Internal audit units can only be effective if they are adequately resourced, if audit committees oversee and support their operations, and if accounting officers and senior management cooperate and respond to their advice and recommendations.

Audit committee

Overall, audit committees have not provided the required level of assurance – 60% provided some assurance while the remaining provided limited or no assurance or were not established. This remains largely unchanged from previous years. 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. Audit committees were not in place at 32% of auditees – all of them public entities. Most audit committees complied fully with the requirements of the PFMA, except the provincial shared audit committee where the contracts of the members expired during the last quarter of the year and no meeting took place for this period. The work of most of the committees covered all the required aspects; however, at 24% of auditees the committees did not evaluate the reliability of performance information. Overall, at 53% of the auditees with audit committees, the audit committees had some positive impact but this did not always translate to an improvement in the audit outcomes.

For audit committees to provide the required level of assurance as second-level assurance providers, they 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 assess accurately the control environment of the auditee, including being assured that all significant risks are being reduced.

Provincial treasury and premier's office

Overall, the provincial executives (the premier and the MEC for Finance) and the provincial treasury provided some assurance, but the impact thereof has not directly resulted in overall improved audit outcomes for the province. However, the overall assurance that these role players can provide will always be limited,

depending on the first level of assurance provided by the leadership of the auditee itself. The provincial treasury should continue to improve the assistance and guidance it provides to departments and public entities to address previous years' audit findings, implement action plans and address internal control deficiencies. The commitments made in the previous year were not fully implemented and mostly relate to the appointment of key officials and the investigation of irregular expenditure, details of which are included in sections 3.3 and 4.2.

The following new commitments were made by the premier for the province as a whole:

- The position of director-general which has been vacant for the past two years will be filled by April 2014
- The premier will have one-on-one sessions with HODs to discuss progress made in leadership, financial and performance management and governance
- To centralise the record keeping of government contracts by June 2014

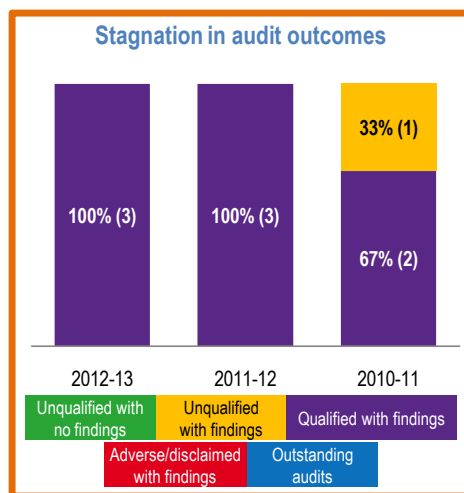
Third level of assurance: External independent assurance and oversight

Portfolio committees and public accounts committees

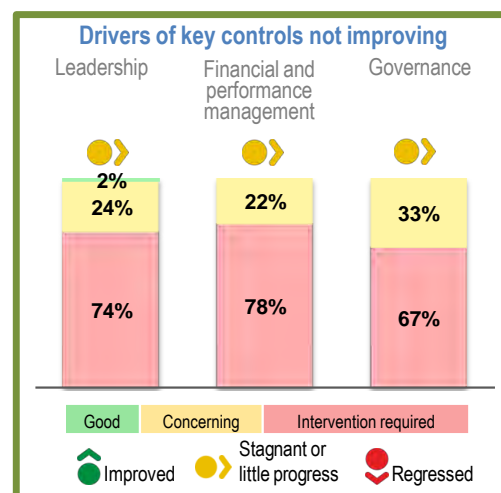
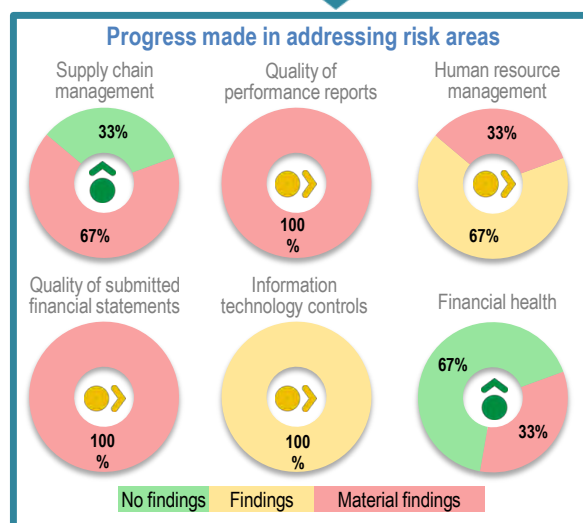
The independent oversight provided some or limited assurance. Public hearings held on outstanding financial statements contributed to most backlog financial statements being submitted. The PPAC adopted 113 resolutions during the year, however, the follow-up of the implementation of these resolutions by the committee remains a concern. The AGSA was invited to portfolio committee meetings from the 3rd quarter of the legislature programme. In response to the audit outcomes, the committees made commitments on how they would intensify their efforts to bring about positive change within the provincial administration. However, proactive interactions with the executive authorities initiated by the legislature to encourage compliance with the constitutional obligations and to ensure delivery on agreed objectives for the achievement of government priorities, did not take place before the tabling of the respective APPs and budgets of departments and entities.

SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

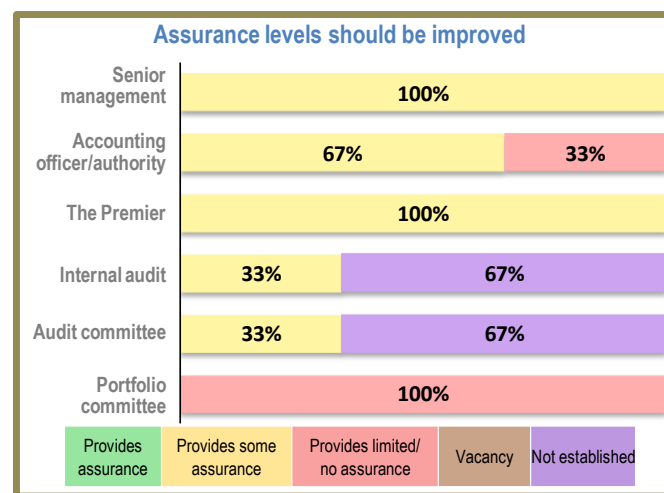
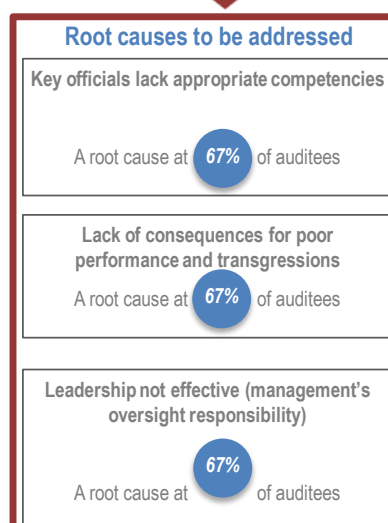
6.1 The premier



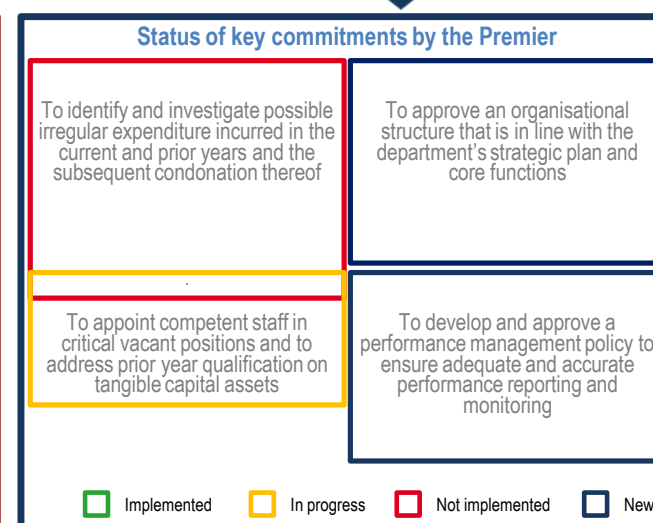
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio

- North West Provincial Council on AIDS ■ North West Youth Development Trust
- Office of the Premier

Stagnation in audit outcome

There was no significant movement in the audit outcomes of the portfolio as the audit opinions remained as qualified with findings for all of the auditees. The Youth Development Trust is in the process of winding down.

Six key risk areas

All auditees made no progress regarding the quality of the submitted financial statements as material misstatements had to be corrected. The quality of the annual performance report has not improved for the Office of the Premier due to the fact that indicators were not well defined and the reported actual achievements were not reliable. No performance reports were submitted by the other auditees in the portfolio.

The status of SCM remains unsatisfactory for the North West Provincial Council on AIDS and the Office of the Premier mostly as a result of auditees not complying with the requirement to obtain three quotations in many instances.

The financial health of the North West Provincial Council on AIDS improved, but it remains uncertain whether it would be able to continue as a going concern if it does not receive support and grants from government. Human resource management remained unchanged and the Office of the Premier should focus on implementing an approved organisational structure that is based on the department's strategic plan.

Key controls and root causes

The deficiencies in the key controls were caused by instability in leadership positions, and vacancies and skills shortages in key positions for all the auditees in the portfolio. Governance weaknesses were not addressed by the North West Provincial Council on AIDS. Auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Prepare regular, credible financial and performance reports
- Monitor and review of compliance with legislation

- Monitor the implementation of the action plan to address prior year audit findings and internal control deficiencies

Senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Appoint competent staff in critical vacant positions and create a stable leadership environment
- Ensure that disciplinary action is taken against employees with poor performance and those who commit transgressions
- Ensure that controls are developed and implemented to enable adequate monitoring and implementation of action plans

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of accounting officer, appointment of competent staff and monitoring of the implementation of the action plans.

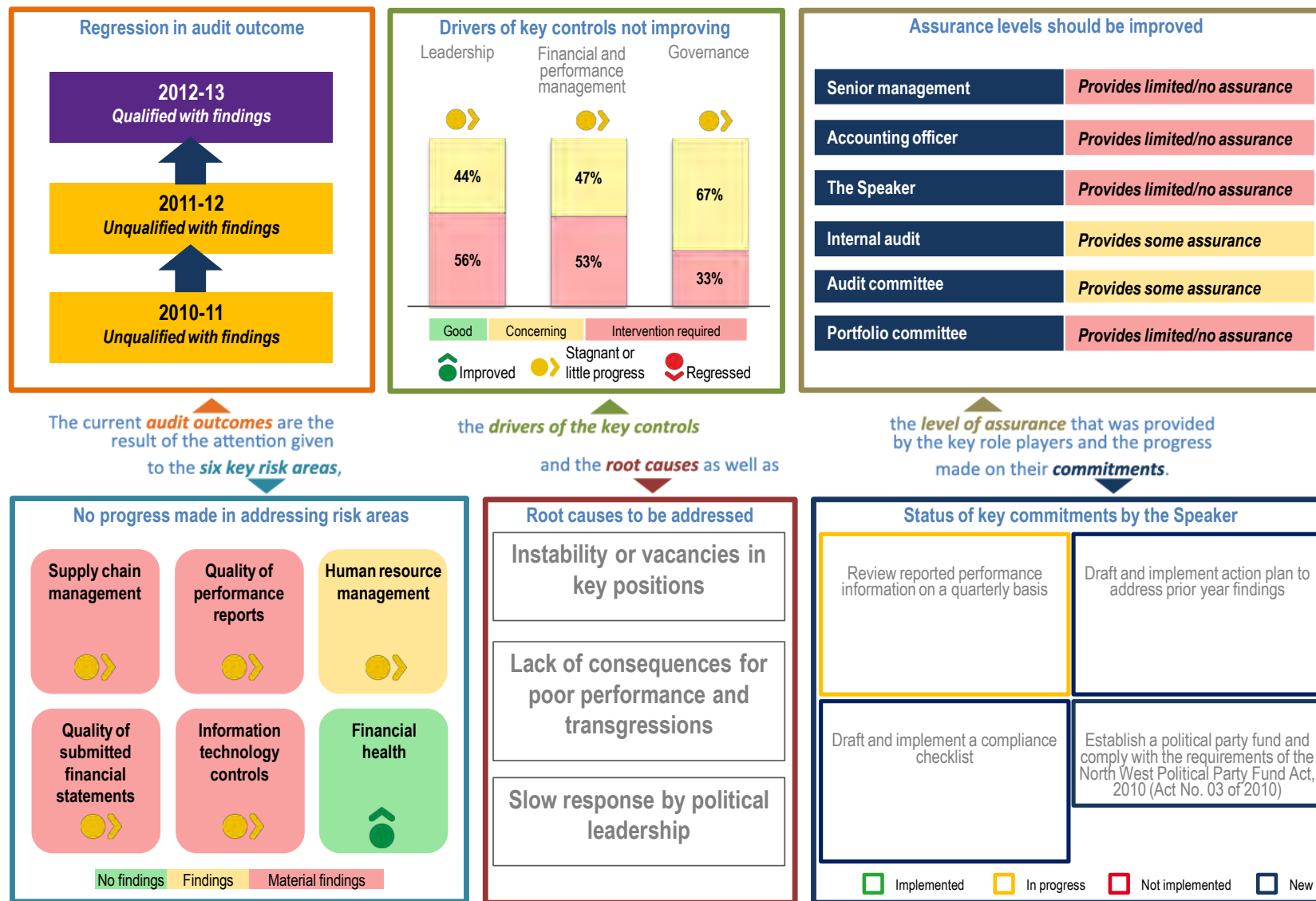
We met with the premier four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that, although the audit opinions remained the same, the qualification areas decreased.

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 also be improved.

The premier committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To approve an organisational structure that is in line with the department's strategic plan and core functions
- To develop and approve a performance management policy to ensure adequate and accurate performance reporting and monitoring

6.2 The speaker of the provincial legislature



Auditees included in the portfolio

■ North West Provincial Legislature

Significant movement in audit outcome

The regression in the audit outcomes of the provincial legislature from unqualified with findings to qualified was caused by the lack of skills within the finance department, the lack of sufficient appropriate audit evidence for financial statement items and the lack of proper compliance monitoring after suspension of the previous CFO.

Six key risk areas

As a result of the regression in the audit outcome, additional key risk areas were identified, most notably in the areas of human resource management as a result of the skills shortage and vacancy rate in the finance department and the quality of the submitted financial statements by the legislature as a number of material misstatements required corrections. No improvement was made regarding the quality of the annual performance reports as material findings were identified with regard to the usefulness and the reliability of information reported therein. The status of SCM also remains unsatisfactory, mostly as a result of the legislature not complying with the requirement to obtain three quotations and not applying the preference points system in many instances.

Key controls and root causes

The key controls not improving was caused by the instability, vacancies and skills shortages in key positions within the finance department and internal audit unit. The legislature should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance
- Prepare regular, credible financial and performance reports
- Monitor and review compliance with legislation

The speaker should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that a stable environment exists within the finance department and that the high vacancy rates and skills shortages within the finance department are addressed
- Take disciplinary action against those with poor performance and transgressions
- Draft and implement an action plan to address audit findings and internal control deficiencies as soon as possible

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability and the filling of key vacancies within the finance department and internal audit unit, while also directing the work of the audit committee towards evaluating performance information.

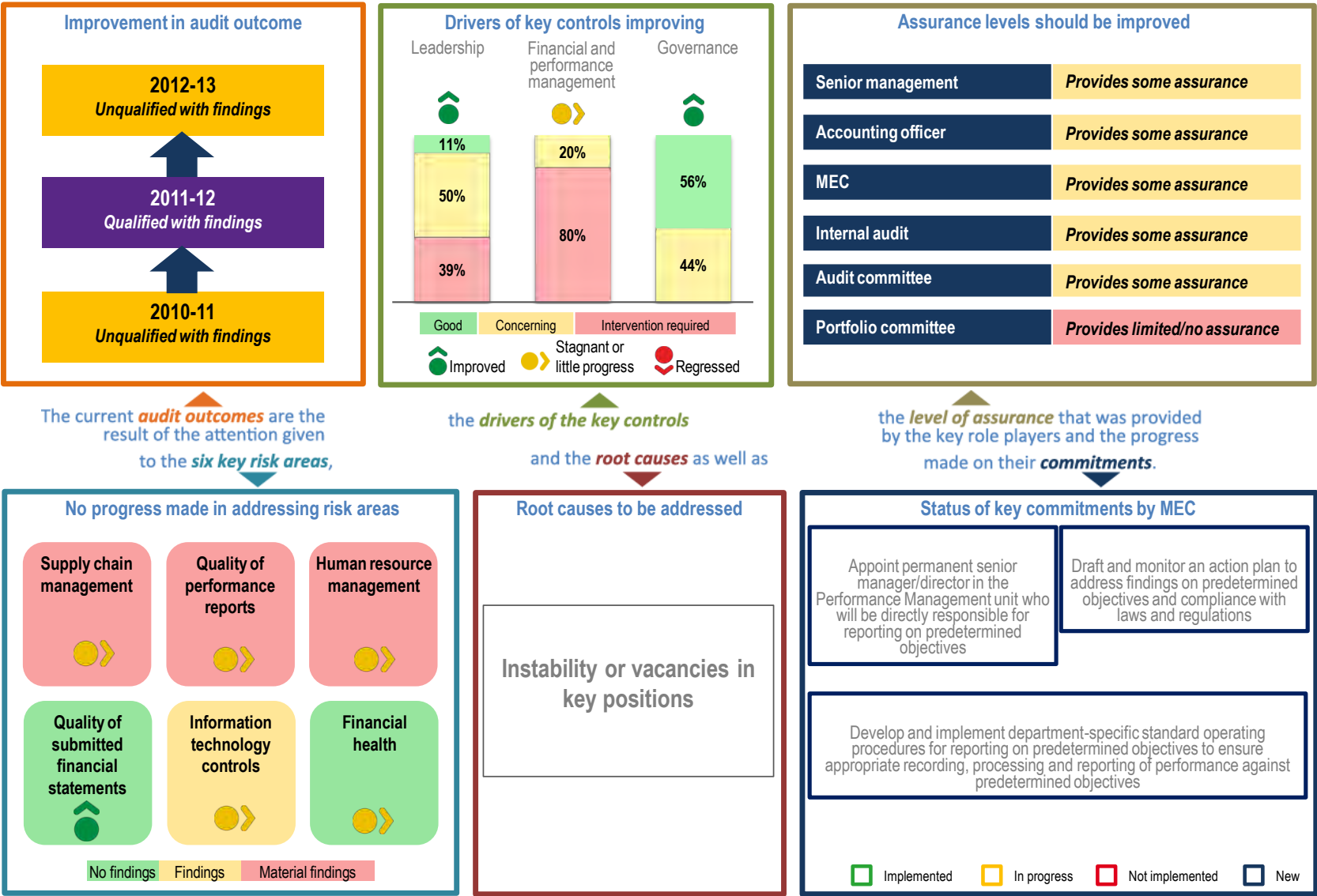
We met with the Speaker four times in the past year, but these interactions had minimal impact on the audit outcomes. We discussed with the Speaker the need to align the provincial legislature's predetermined objectives with the legislature's constitutional responsibilities to provide oversight over provincial government. The reason for our assessment is the fact that the audit outcome regressed during the year with a number of repeat findings from the prior year reported again.

This assessment, the lack of impact of the Speaker on the controls of the auditees, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the Speaker. The assurance provided through the oversight of the portfolio committee should also be improved.

The Speaker committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To draft and implement a compliance checklist
- To establish a political party fund and comply with the requirements of the North West Political Party Fund Act, 2010 (Act No. 3 of 2010)
- To draft and implement an action plan to address the prior year audit findings

6.3 Health



Auditees included in the portfolio

■ Department of Health

Significant movement in audit outcome

The department was able to address the prior year qualification on assets with an extensive exercise during the year to verify all assets. The assistance and leadership of the CFO during the year also contributed to this.

Six key risk areas

Little progress has been made in addressing the key risk areas, but most notably, the areas of developing and monitoring action plans, adequately resourced and functioning internal audit and the quality of the submitted financial statements have improved.

Although the usefulness of the annual performance reports improved, there were still findings. The department should focus on the accuracy, validity and completeness of the performance information to address the material findings on the reliability of its performance report. With regard to the indicators we focused on in our financial health analyses, the department provided an impairment of 94,5% of its debts due to recoverability uncertainties.

The status of SCM remains unsatisfactory, mostly as a result of the department not complying with the requirement to allocate preference points and bids not advertised in the government tender bulletin.

Key controls and root causes

The improvement in the key controls was caused by the department improving the leadership controls through monitoring the implementation of the action plan and reviewing financial reports, which resulted in improved quality of submitted financial statements. The department should strengthen the following controls to create a control environment that supports reliable 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
- Prepare regular, credible financial and performance reports
- Monitor and review compliance with legislation

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

- Appoint permanent managers and staff in the finance section and unit responsible for performance information
- Develop and implement department-specific standard operating procedures for reporting on predetermined objectives
- Draft and monitor an action plan to address findings on predetermined objectives and compliance with laws and regulations

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.

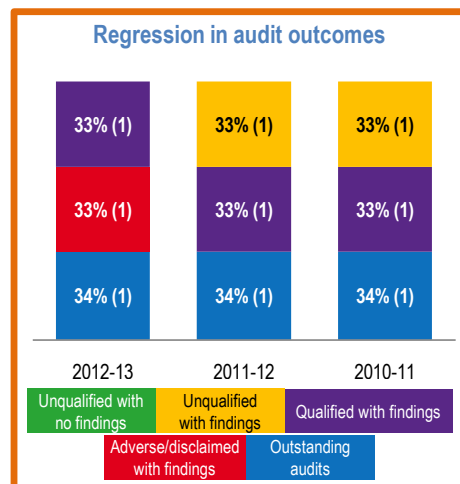
We met with the MEC twice in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is the improvement in the financial audit outcome while performance reporting and compliance remained unchanged.

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 also be improved.

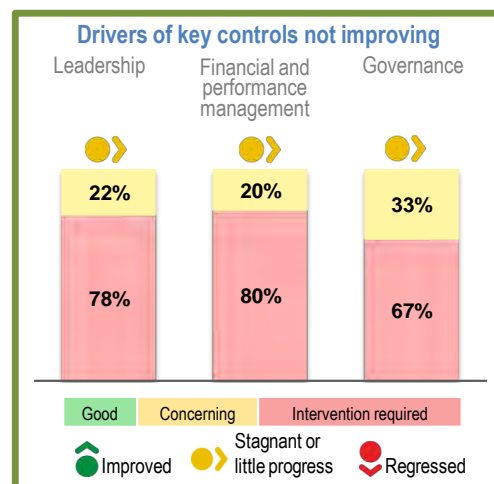
The following new commitments were made by the MEC:

- To appoint a permanent senior manager/director in the performance management unit who will be directly responsible for reporting on predetermined objectives
- To develop and implement department-specific standard operating procedures for reporting on predetermined objectives to ensure appropriate recording, processing and reporting of performance against predetermined objectives
- To draft and monitor an action plan to address findings on predetermined objectives and compliance with laws and regulations

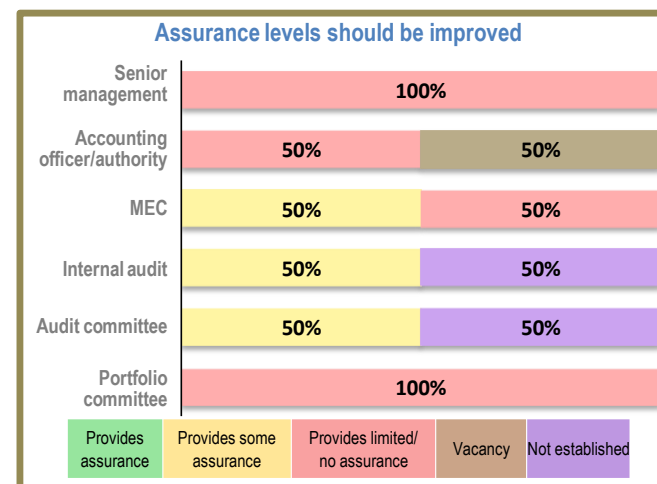
6.4 Sport, arts and culture



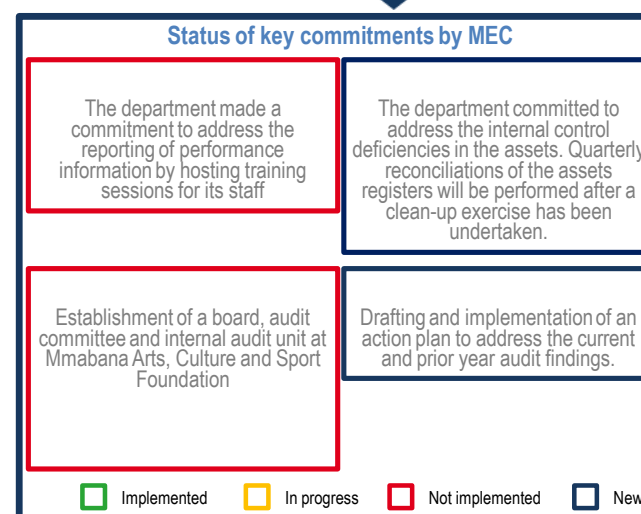
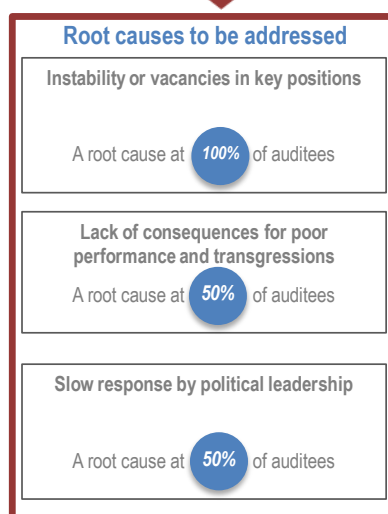
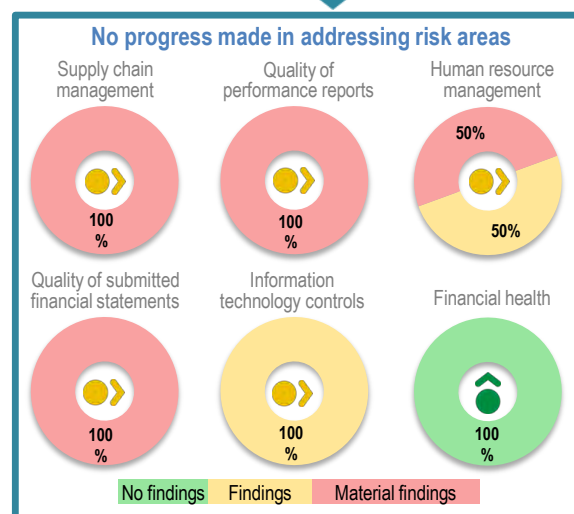
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



Auditees included in the portfolio

■ *Department of Sport, Arts and Culture* ■ *Mmabana Arts, Culture and Sport Foundation* ■ *North West Provincial Arts and Cultural Council (PACC)*

Significant movement in audit outcome

The regression in the audit outcomes of the department was caused by a lack of corrective action regarding previous year audit findings on assets, performance information and compliance with laws and regulations. Instability and vacancies in key management positions and a shortage of appropriate skills in the finance department resulted in the department failing to implement proper record keeping for library books and moveable assets. Mmabana failed to provide sufficient and appropriate audit evidence for most items in the financial statements. A high vacancy rate and a shortage of skills existed within its finance section. The audit of PACC was still in progress as the financial statements for three financial years was submitted for auditing on 31 May 2013.

Six key risk areas

Little to no progress has been made in addressing the key risk areas. Mmabana continued to function without a board or supporting oversight structures. Unaddressed deficiencies in human resource management within the finance sections, lack of proper record keeping and the poor quality of the financial statements submitted for audit purposes all contributed to the regression in the audit outcomes. Management failed to improve on the quality of performance reports as material findings on the usefulness and reliability of its performance report were identified. Furthermore, the status of SCM remains unsatisfactory, mainly due to non-compliance with the various regulations, with no progress having been made in addressing irregular expenditure from prior years.

Key controls and root causes

The regression in the key controls is mainly attributable to the shortage of appropriate competencies and instability in key management positions. The lack of appropriate corrective measures to address the audit findings and identified internal control deficiencies in the previous year contributed to a regression in the quality of record keeping and ultimately the audit results. At Mmabana the situation is compounded by the continued absence of a board and supporting oversight structures to instil a culture of accountability and good governance.

The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Prepare regular, credible financial and performance reports
- Monitoring and review of compliance with legislation
- Monitor implementation of the action plan to address prior year audit findings and internal control deficiencies

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

- Ensure that key management positions are filled with appropriately skilled individuals that are supported by oversight structures to hold leadership accountable
- Ensure that an action plan is drafted and implemented to address internal control deficiencies and audit findings

Impact of key role players on audit outcomes

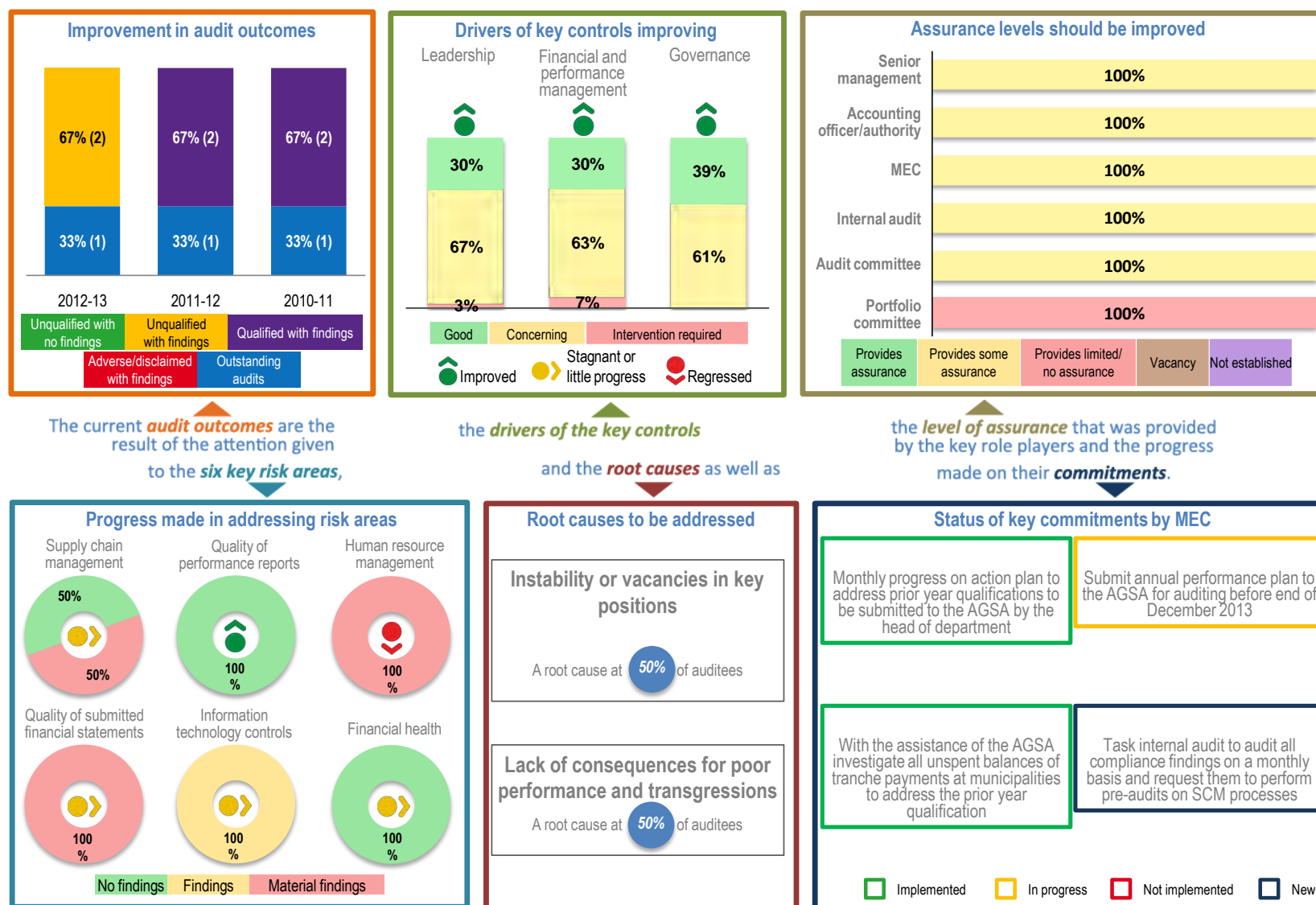
The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management and by directing the work of internal audit and the audit committee towards the identified deficiencies in internal controls, and specifically performance reporting.

We met with the MEC four times in the past year, but these interactions had minimal impact on the audit outcomes. The reason for our assessment is the regression in the audit opinion which was caused by the deterioration in internal controls as well as the instability in key management positions of the department and vacancies and skills shortages within the finance section of Mmabana. 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 also be improved.

The MEC committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To draft and implement an action plan to address the current and prior year audit findings
- To address the internal control deficiencies in the assets. Quarterly reconciliations of the assets registers will be performed after a clean-up exercise has been undertaken.

6.5 Human settlements and public safety



Auditees included in the portfolio

■ *Department of Human Settlements* ■ *Department of Public Safety*

Significant movement in audit outcome

The improvement in the audit outcomes of the portfolio was caused by the successful development, implementation and monitoring of the departmental clean audit action plans. Most remarkable is the positive mindset of and urgency among the senior management team to deal with the prior year qualifications and findings relating to performance reporting. Although material instances of non-compliance were still eminent, both departments made significant progress in limiting the number of material non-compliance findings.

Six key risk areas

Good progress has been made in addressing the key risk areas, particularly in the areas of the quality of performance reports and financial health. Although supply chain management has improved considerably, a concerted attempt needs to be made to clear the accumulated amount of irregular expenditure caused by the non-adherence to the supply chain management policy in previous years.

The rate at which vacancies at senior management level are filled remains a concern. Although the quality of financial statements submitted for auditing is not at the required level, it has improved considerably since the previous year.

Key controls and root causes

The improvement in the key controls was caused by instilling ongoing discipline on financial and performance management. Furthermore, the dynamic oversight role fulfilled by the MEC in personally monitoring financial and performance results played an instrumental part in strengthening these controls. Both departments should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Prepare regular, credible financial and performance reports
- Monitor and review compliance with legislation
- Monitor the implementation of action plans to address prior year audit findings and internal control deficiencies

The MEC should address the root causes for the material non-compliance findings as follows:

- Drive the process of filling all vacancies at senior management level
- Continue with the monitoring of the clean audit action plans
- Enforce actions against officials not complying with legislation

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, implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information.

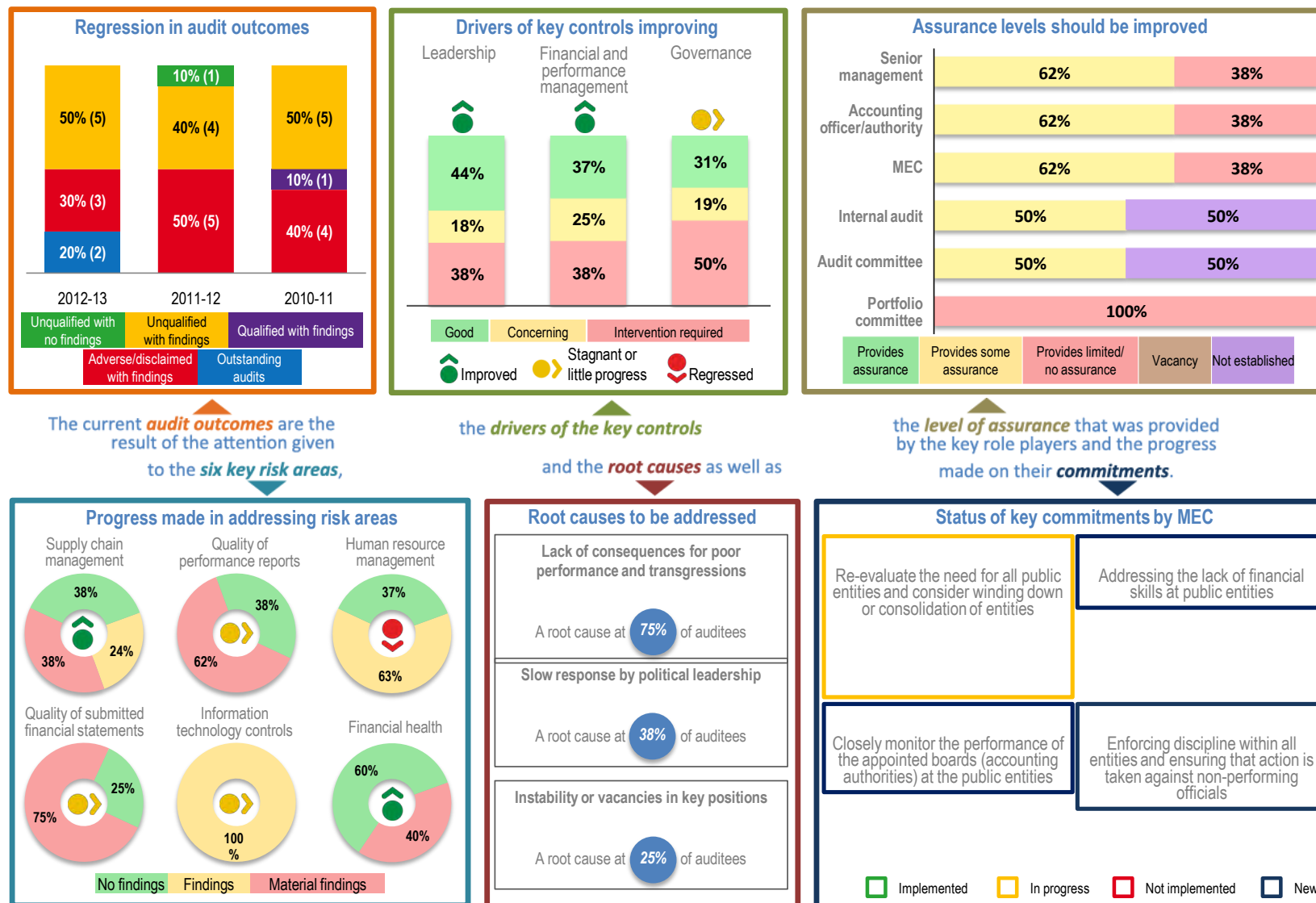
We met with the MEC four times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is that the improvement in the audit outcomes of the portfolio was by and large caused by the direct involvement of the MEC in strictly monitoring the implementation of the departmental clean audit action plans. This intervention which also included the enforcement of financial and performance discipline caused both departments to improve from being qualified in the previous year to being unqualified in this year.

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

The MEC committed to implement the previous year's commitments fully that have not yet been implemented. The following new commitment was also made:

- To task the internal audit unit with auditing all compliance findings on a monthly basis and to request them to do pre-audits on SCM processes

6.6 Economic development, conservation and environment



Auditees included in the portfolio

■ *Department of Economic Development, Conservation and Environment Dirapeng* ■ *Gambling Board* ■ *Golden Leopard Resorts (GLR)* ■ *Invest North West* ■ *Kgama Wildlife Operations* ■ *Madikwe River Lodge* ■ *Mafikeng Industrial Development Zone (MIDZ)* ■ *North West Development Corporation (NWDC)* ■ *North West Parks and Tourism Board*

Significant movement in audit outcome

Four auditees in the portfolio remained with unqualified with findings, while the Gambling Board regressed from its clean audit in the previous year to unqualified with findings. The other entities remained with disclaimed opinions because of the inability to compile financial statements which are supported by sufficient and appropriate supporting information and the inability to address recurring audit findings. Most alarming is the non-availability of supporting documentation, the ignorance of supply chain management regulations as well as the disregard for complying with laws and regulations at GLR and Madikwe River Lodge.

Six key risk areas

The majority of the entities have still not addressed findings relating to supply chain management and the quality of performance reports. Material findings on the usefulness and reliability of performance reports still existed and certain entities did not develop and report on any performance objectives. The poor quality of submitted financial statements indicates the inability of senior management to implement sound financial principles needed to enhance transparency and accountability.

Key controls and root causes

The improvement in the key controls is attributable to the intervention of the MEC in ensuring that all outstanding financial statements from prior years were submitted. Instability and skill shortages within the finance departments remain a challenge at most of the entities. The inability to establish effective audit committees to oversee financial and performance management and to assist management with the implementation of key controls, needs to be addressed urgently. All entities should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Prepare regular, credible financial and performance reports
- Monitor and review compliance with legislation

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available

The MEC for economic development, conservation and environment should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill all vacancies at senior management level and instil financial and performance discipline at all entities
- Enforce disciplinary actions against officials who do not comply with legislation
- Implement and monitor clean audit action plans aggressively

Impact of key role players on audit outcomes

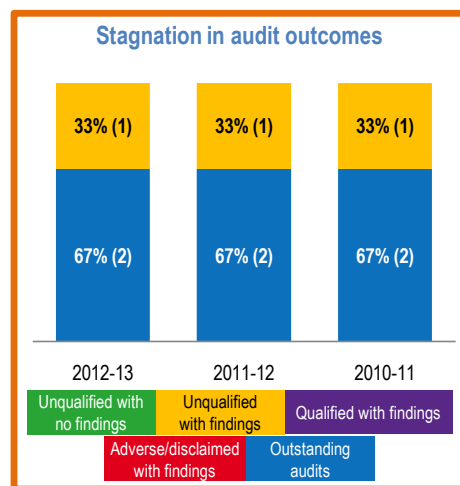
The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management. Furthermore, the MEC appointed new boards in the Parks Board group; however, the effect of this intervention might only be visible during the next audit. We met with the MEC four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is the limited impact at those public entities with repeat disclaimers.

This assessment, the lack of impact by 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 also be improved.

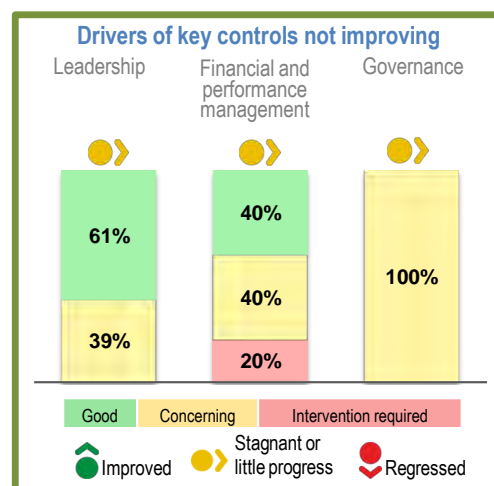
The MEC committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To closely monitor the performance of the appointed boards (accounting authorities) at the public entities
- To address the lack of financial skills at public entities
- To enforce discipline within all entities and ensure that action is taken against non-performing officials

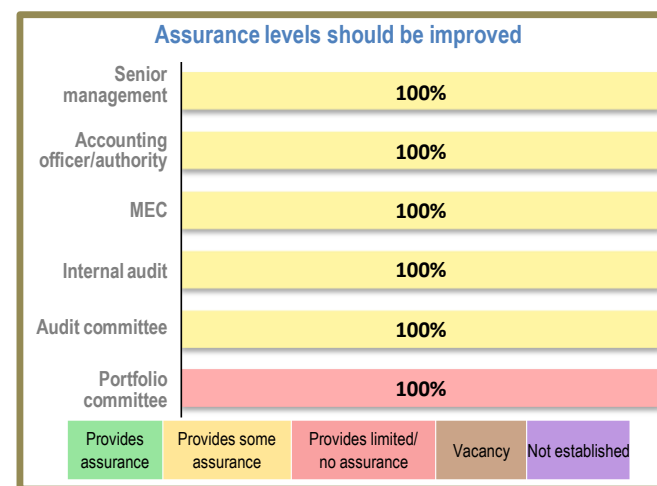
6.7 Finance



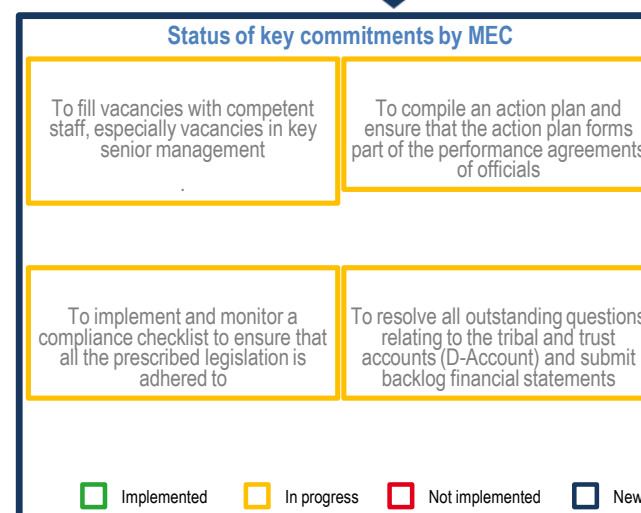
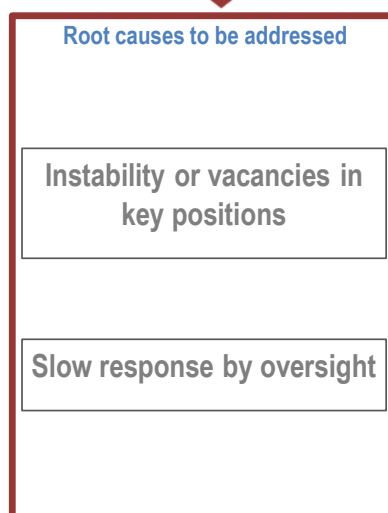
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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 Finance* ■ *Signal Developments* ■ *North West Tribal and Trust Fund*

Stagnation in audit outcome

The stagnation in the audit outcomes was caused by the department's lack of commitment in addressing previous year audit findings in relation to non-compliance with laws and regulations and the inability to improve the usefulness of performance information. Material findings on irregular expenditure were reported at the department. The executive authority had not finalised the appointment of the audit committee, as the term of the audit committee had expired before the last quarter of the financial year under review.

Although Signal Developments submitted all outstanding financial statements, the financial statements of the North West Tribal and Trust Fund were still outstanding.

Six key risk areas

The stagnation in the audit outcome of the department was as a result of non-compliance findings and the regression in the reporting of predetermined objectives for the year under review. Lack of improvement in the aforementioned areas is preventing the department from achieving a clean administration.

Minimum progress has been made in addressing the key risk areas, most notably in the areas of IT controls, human resource management, supply chain management and the quality of the submitted financial statements.

Although the reliability of the annual performance report has improved, the department should focus on the measurability of the performance information to address the material finding on the usefulness of its performance report. The status of SCM remains unsatisfactory, mostly as a result of the department not complying with the requirement to obtain three quotations and evaluating tenders in terms of the PPPF Act.

Key controls and root causes

Key controls did not improve and the department was hampered by the fact that the term of the audit committee was not renewed timeously, resulting in inadequate oversight over performance activities, compliance with laws and regulations as well as the effectiveness of management's internal controls and the processes over the preparation and presentation of financial statements and performance information.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Preparation and review of regular credible financial and performance reports
- Review and monitoring of compliance with laws and regulations

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

- Ensure that performance indicators/measures are well defined
- Revise and implement an SCM compliance checklist
- Finalise the appointment of audit committee members

Impact of key role players on audit outcomes

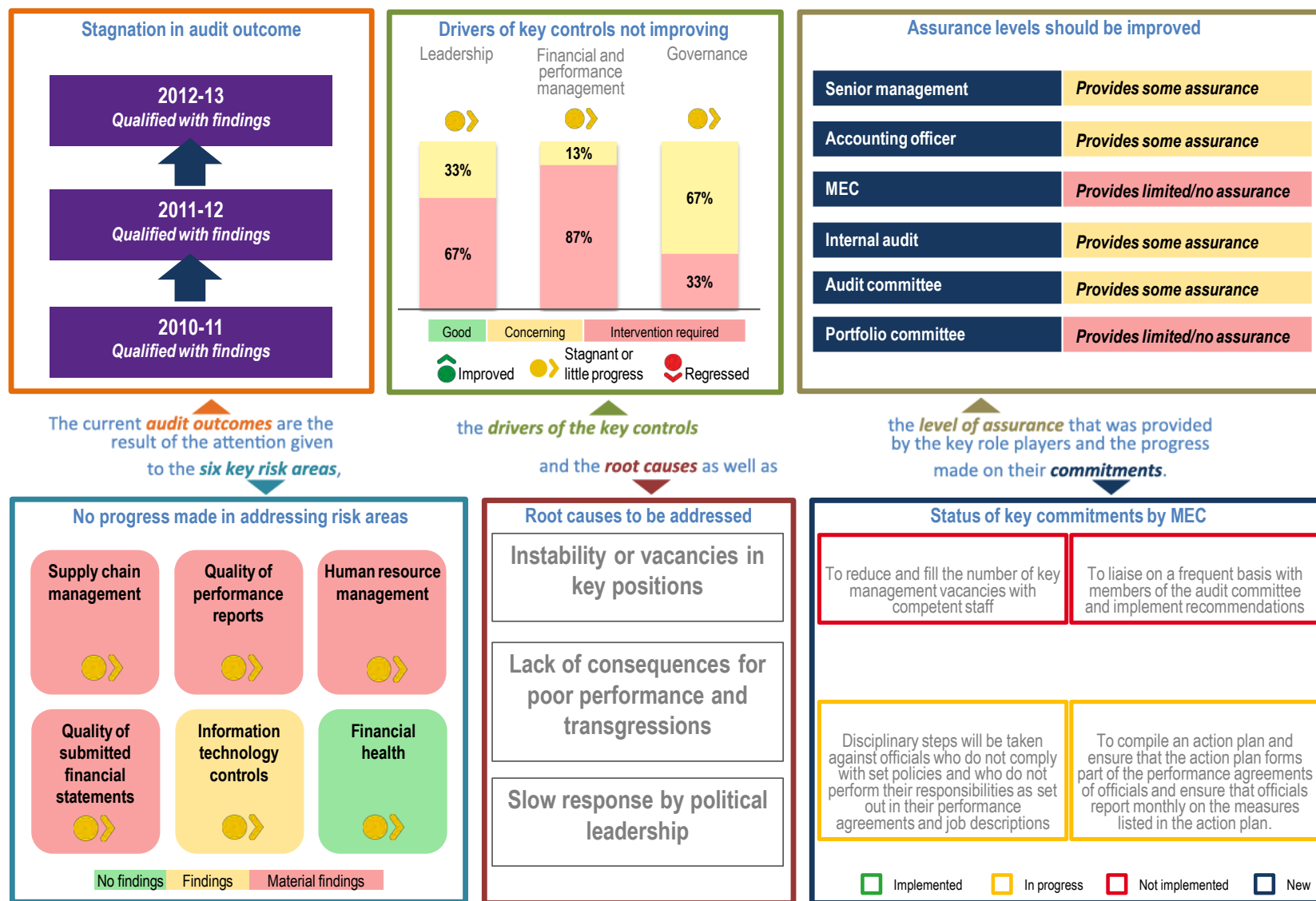
The assurance levels should be improved by implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information. The provincial treasury should continue with and improve the assistance and guidance it provides to departments and public entities to address the previous year's audit findings, implement action plans and address internal control deficiencies.

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 inadequate implementation of action plans to address prior year audit findings and inadequate oversight over financial and performance reporting.

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 also be improved.

The MEC committed to implement fully the previous year's commitments that have not yet been implemented. No new commitments were made.

6.8 Education



Auditees included in the portfolio

■ Department of Education

Stagnation in audit outcome

The stagnation in the audit outcome was caused by the department still failing to provide sufficient appropriate audit evidence regarding the location of movable tangible capital assets, implementing proper systems to ensure the timeous capturing of leave taken by employees and not addressing non-compliance with laws and regulations. However, the department managed to address two of the previous year qualification areas by implementing adequate systems to maintain records of accounts receivable, to ensure that all amounts owed to the department were recorded and to provide sufficient appropriate audit evidence for housing guarantees of employees.

Six key risk areas

The department stagnated in addressing the key risk areas, due to instability and vacancies in key positions and a lack of consequences for poor performance and transgressions. Management did not review the financial statements and annual performance report prior to submission for auditing as material misstatements identified during the audit needed to be corrected to avoid a regression in the audit outcome.

Significantly important targets in the annual performance report did not agree with the source information provided due to various weaknesses. The lack of achieving the set targets reported at 51% has a material effect over the long term to ensure that the objectives of the department are met.

The status of SCM remains unsatisfactory, as the department still incurred irregular expenditure during the year and effective and appropriate disciplinary steps were not taken against officials who made or permitted irregular expenditure. The SCM unit lacks the necessary skills and competence to perform adequate monitoring of compliance with SCM policies.

Key controls and root causes

The stagnation in the key controls was caused by not implementing the required control measures in leadership, financial management and governance areas. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective human resource management should be implemented, to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
- 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

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

- Permanent appointment of an accounting officer and CFO
- Preparation of reliable quarterly performance reports. Internal audit should review these reports and the audit committee should monitor the implementation of recommendations made by internal audit
- Appointment of a compliance officer to monitor compliance with all laws and regulations and to implement corrective measures

Impact of key role players on audit outcomes

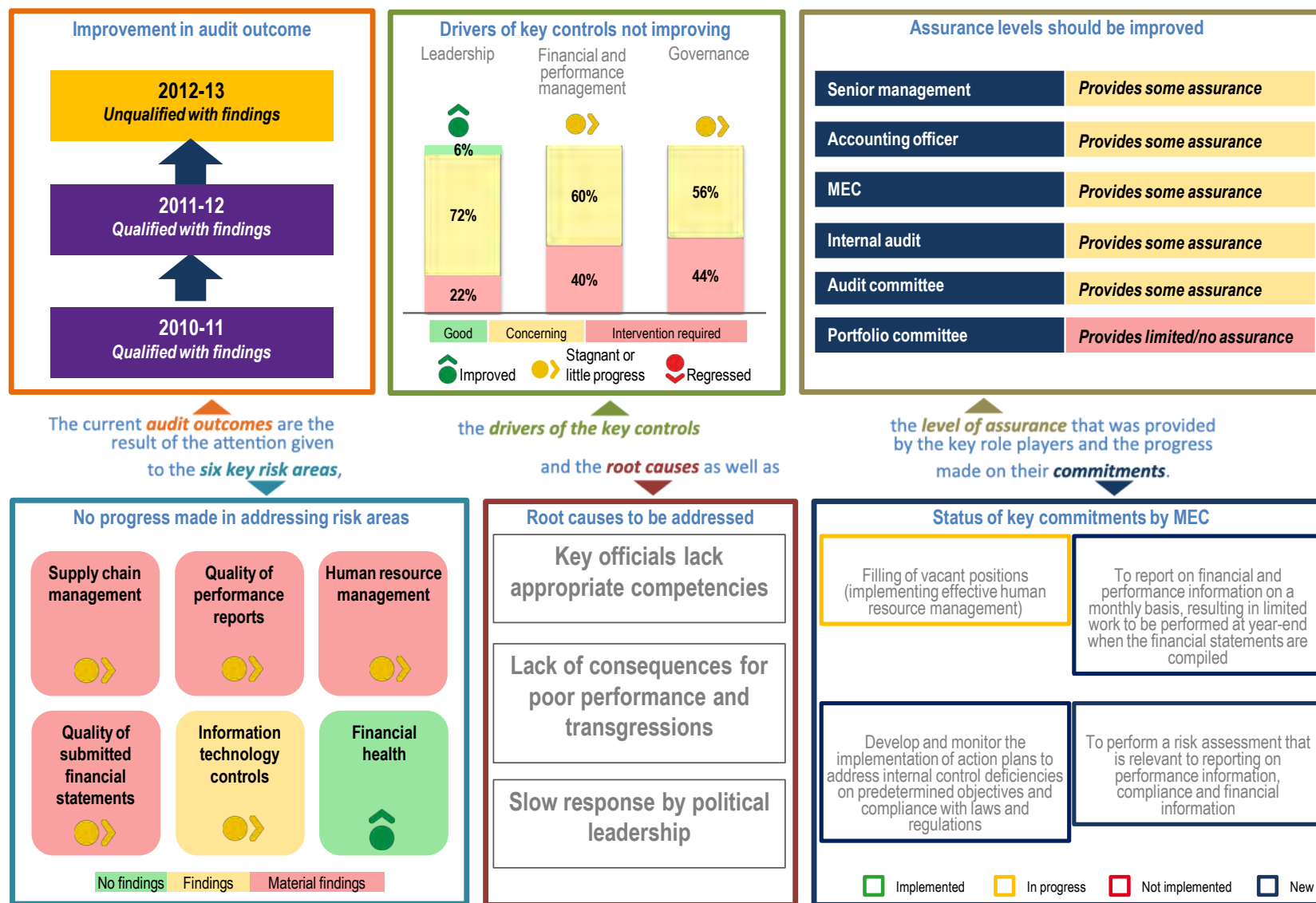
The assurance levels should be improved by ensuring stability at the level of the accounting officer and senior management and implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information and compliance with laws and regulations.

We met with the MEC four times in the past year, but these interactions had minimal impact on the audit outcomes. The reason for our assessment is that, due to the reshuffling of the MECs, no accounting officer or chief financial officer was appointed. Action plans to address prior year audit findings were not fully implemented and adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised.

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 also be improved

The MEC committed to implement fully the previous year's commitments that have not yet been implemented.

6.9 Local government and traditional affairs



Auditees included in the portfolio

■ Department of Local Government and Traditional Affairs

Significant movement in audit outcome

The improvement in the audit outcomes was as a result of the department addressing the qualification on receivables in the previous year. However, the quality of submitted financial statements remains poor as material misstatements identified during the audit needed to be corrected to avoid a qualification.

Six key risk areas

The department stagnated in addressing the key risk areas, due to instability and vacancies in key positions and a lack of consequences for poor performance and transgressions. Management did not review the financial statements and annual performance report prior to submission for auditing.

Significantly important targets in the annual performance report could not be agreed to source information due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation. The status of SCM remains unsatisfactory, due to non-compliance with SCM policies and effective and appropriate disciplinary steps not being taken against officials who made or permitted irregular expenditure. The SCM unit lacks the necessary skills and competence to perform adequate monitoring of compliance with SCM policies.

Key controls and root causes

The marginal improvement should be enhanced by strengthening the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- 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
- Monitor implementation of the action plan to address prior year audit findings and internal control deficiencies

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

- Filling of vacancies and improving of competencies in key sections, including finance and those responsible for performance reporting
- Reliable quarterly performance reports should be prepared. Internal audit should review these reports and the audit committee should monitor the implementation of recommendations made by internal audit
- Appointment of a compliance officer to monitor compliance with all laws and regulations and to implement corrective measures

Impact of key role players on audit outcomes

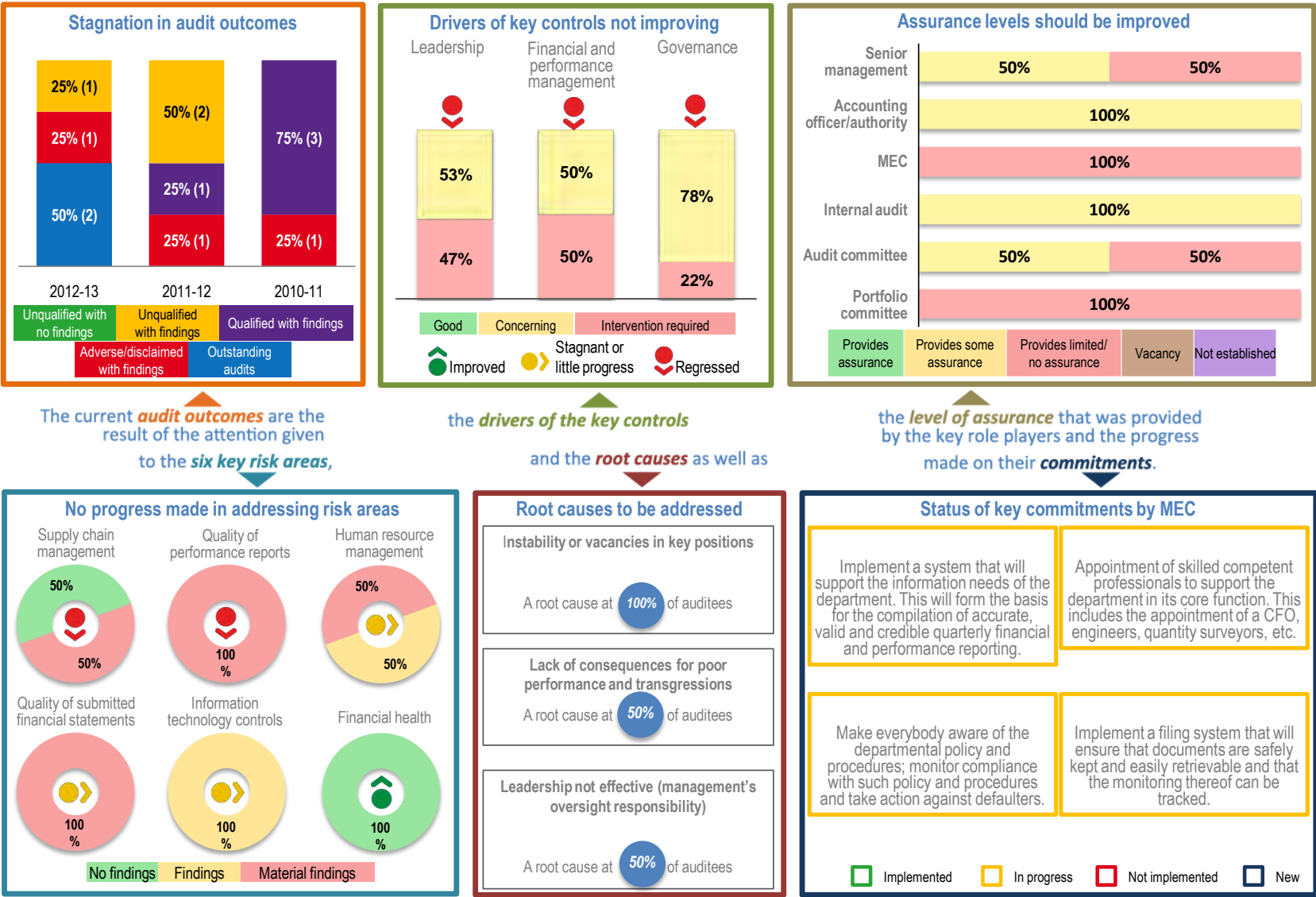
The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management and implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information and compliance with laws and regulations.

We met with the MEC twice in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that, due to the suspension of the previous MEC, no accounting officer could be appointed until close to year-end. Action plans to address previous year audit findings on the performance report and compliance with laws and regulation were not fully implemented.

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. The assurance provided through the oversight of the portfolio committee should also be improved. The MEC committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To develop and monitor the implementation of action plans to address internal control deficiencies on predetermined objective and compliance
- To report on financial and performance information on a monthly basis, resulting in limited work to be performed at year-end when the financial statements are compiled
- To perform a risk assessment that is relevant to reporting on performance information, compliance and financial information

6.10 Public works, roads and transport



Auditees included in the portfolio

■ *Atteridgeville Bus Services* ■ *Department of Public Works, Roads and Transport*
■ *North West Star* ■ *North West Transport Investments*

Stagnation in audit outcome

The stagnation in audit outcomes was because the department was unable to implement fully its action plan, therefore the department managed to resolve only five matters pertaining to the previous audit report. However, insufficient improvement occurred around the core responsibility of the department, relating to procurement, assets and fleet management. The MEC did not manage to ensure that there was adequate oversight over the activities of the public entities under the control of the department which is evident from two entities that failed to submit annual financial statement by the legislative deadline.

Six key risk areas

The department did not implement an appropriate system to support the information needs of the department to track capital projects, which is the underlying reason why the department surrendered R847 million to the treasury. This had a direct impact on the department's ability to fulfil its mandate to ensure that the provincial infrastructures are maintained. Irregular expenditure decreased when compared to the previous year, but is still unacceptably high and the department did not take sufficient action to investigate the previous year's transgressions.

Furthermore, the department did not ensure that well defined, clear, unambiguous data definitions are available for the indicators to ensure consistent collection of data and there was no adequate system in place to collect, analyse and report actual against predetermined objectives. The quality of submitted financial statements remains poor as numerous adjustments had to be made.

Key controls and root causes

The status of the key controls regressed, despite the MEC's increased involvement, as the department remains unable to bring about the required changes.

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

- Prepare regular, credible financial and performance reports

- Monitor the implementation of the action plan to address prior year audit findings and internal control deficiencies
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available

The auditees should address the above root causes of poor audit outcomes and inadequate controls as follows:

- Vacancies should be filled with adequately skilled / qualified professionals
- Improve record keeping and filings system to ensure tracking of documents
- Addressing internal control deficiencies and recommendations made by external and internal audit

Impact of key role players on audit outcomes

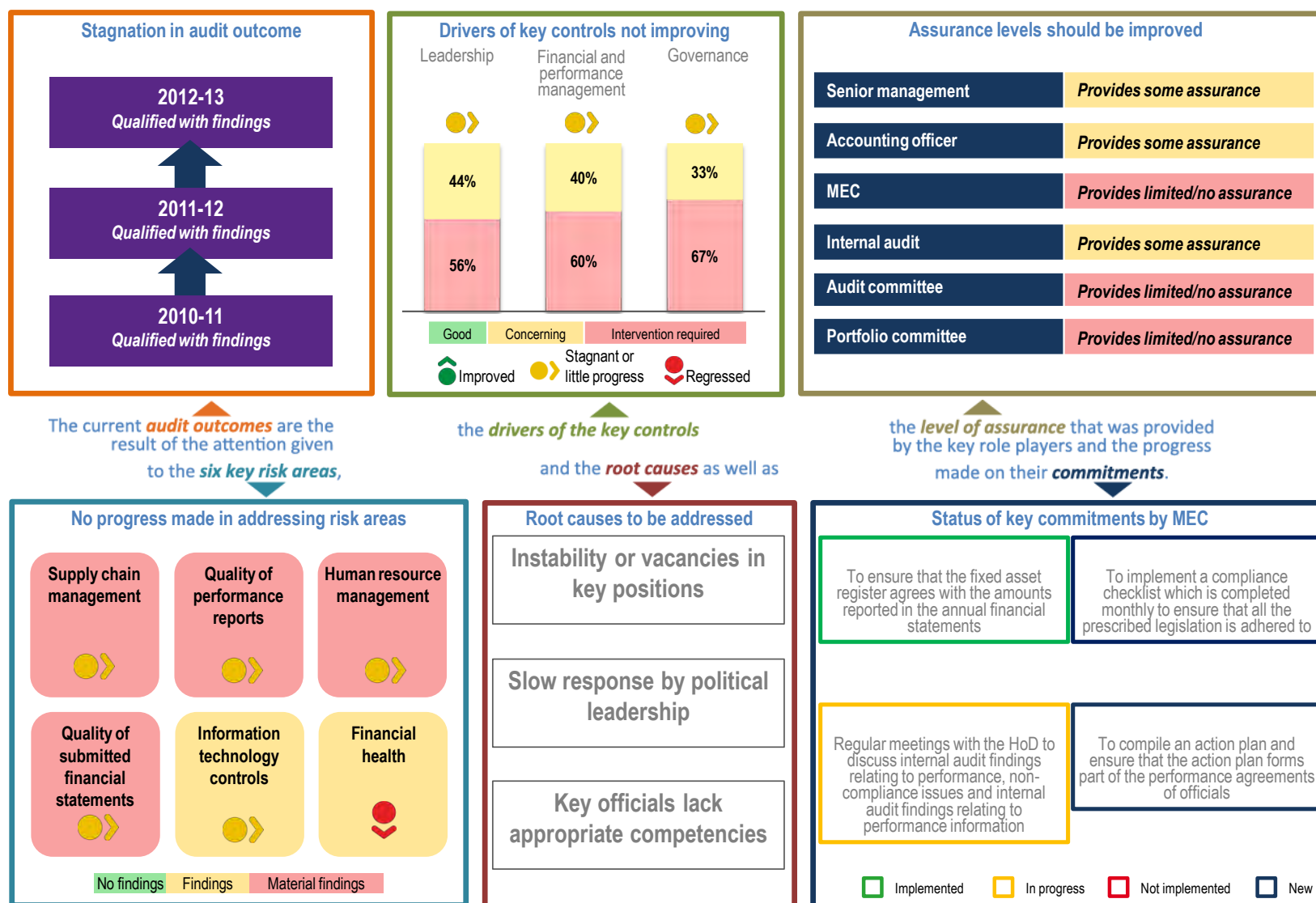
The assurance levels should be improved by the MEC and audit committee to ensure that the accounting officer and senior management implement the recommendations of external audit. Furthermore, the mentioned role players should play an active role in monitoring the implementation of the turnaround strategy at the department, while taking decisive action against defaulters as this will ensure that everybody understands what is expected of them.

We met with the MEC five times in the past year, but these interactions had minimal impact on the audit outcomes. The reason for our assessment is the inability to make any significant improvement in any of the identified risk areas by the department.

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 also be improved.

No new commitments were made; however, the MEC and the department strive to implement fully the commitments previously made.

6.11 Social development, women, youth and people of disability



Auditees included in the portfolio

■ *Department of Social Development, Women, Children and People with Disabilities*

Stagnation in audit outcome

The audit opinion remained unchanged from the previous year as the department was unable to address the previous year's qualification or findings on PDOs and compliance.

Six key risk areas

Although the quality of the annual performance reports has improved, the department should focus on the measurability of the performance information indicators to address the material findings on the usefulness of its performance information. Minimal progress was made in addressing the key risk areas, most notably in the areas of IT controls, human resource management, supply chain management and the quality of the submitted financial statements.

The status of SCM remains unsatisfactory, mostly as a result of the department not complying with the requirement to obtain three quotations and evaluating contracts in terms of the PPPF Act. The department is the only department with significant financial health risk indicators, specifically regarding the underspending of capital budgets and conditional grants.

Key controls and root causes

The lack of improvement in the key controls was caused by the fact that although performance information management improved, reported information was not supported and evidenced by valid information. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Prepare regular, credible financial and performance reports
- Monitor and review compliance with legislation
- Monitor implementation of the action plan to address prior year audit findings and internal control deficiencies

The MEC should ensure that action plans devised by the accounting officer address the root causes of the audit outcomes and inadequate controls as follows:

- Compiling and implementing a checklist that addresses compliance-related issues and regular review and monitoring of the implementation of such checklist
- Strengthen controls over daily and monthly processing and reconciling of transactions and prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Compiling and implementing an action plan that addresses all the key internal control deficiencies identified in the audit report

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 and by directing the work of internal audit and the audit committee towards the identified deficiencies in internal controls and specifically the performance reporting and compliance areas.

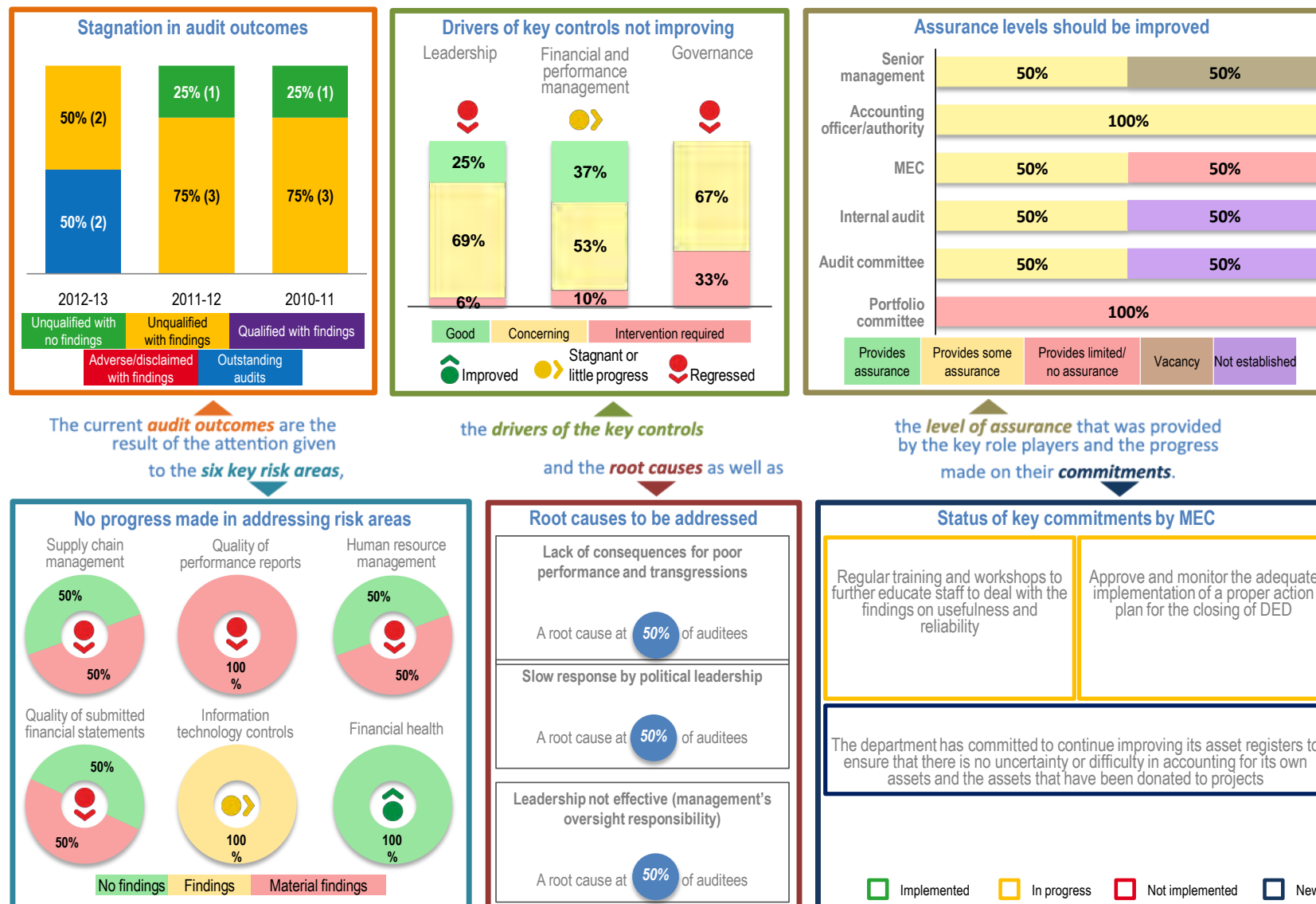
We met with the MEC four times in the past year, but these interactions had minimal impact on the audit outcomes. The reason for our assessment is the continued qualification matters and the inability to address the findings on predetermined objectives.

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 also be improved.

The MEC committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To implement a compliance checklist which is completed monthly, to ensure that all the prescribed legislation is adhered to
- To compile an action plan and ensure that the action plan forms part of the performance agreements of officials

6.12 Agriculture and rural development



Auditees included in the portfolio

■ *Department of Agriculture and Rural Development* ■ *North West Directorate of Entrepreneurial Development in Natural Resources Utilisation (DED)* ■ *Agribank Creditors Settlement Trust* ■ *Agribank*

Stagnation in audit outcome

The audit outcomes for the auditees remained unchanged from the previous year even though the department faces challenges in maintaining transparency in accounting for its assets. Although some improvements were noted, commitments made by the auditees failed to resolve all the findings on the usefulness and reliability of performance information from previous years. The audits of Agribank and the Trust was not completed by 31 August due to the late submission of the financial statements caused by entities in the process of winding down and not having any permanent staff to prepare records.

Six key risk areas

Little to no progress has been made in addressing the key risk areas, with only the financial health improving from the previous year. Unaddressed deficiencies in human resource management and the quality of the financial statements submitted for audit purposes all contributed to the regression of audit findings in the key risk areas. Although management improved on the quality of performance reports as evidenced by fewer material findings on the usefulness and reliability of its performance report, there is still a lot of work to be done in achieving no findings in this area. Furthermore, the status of SCM remains unsatisfactory mainly due to non-compliance with the various regulations.

Key controls and root causes

The regression in the key controls is mainly attributable to the failure of the auditees' leadership to resolve the shortage of appropriate competencies and instability in key management positions. The lack of appropriate corrective measures to address the audit findings and identified internal control deficiencies of previous years as a result of slow response by the political leadership contributed to the stagnation in audit results.

The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance

- Prepare regular, credible financial and performance reports
- Monitor and review compliance with legislation

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

- Ensure that key management positions are filled with appropriately skilled individuals that are supported by oversight structures to hold leadership accountable
- Ensure that an action plan is drafted and implemented to address internal control deficiencies and audit findings
- The MEC should table the 2012 annual report of the DED in the provincial legislature as required by section 65(1) of the PFMA

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 and by directing the work of internal audit and the audit committee towards the identified deficiencies in internal controls and specifically the performance reporting and compliance 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, however, the inability to address the risk areas as discussed.

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 also be improved.

The MEC committed to implement fully the previous year's commitments that have not yet been implemented. The following new commitments were also made:

- To improve the department's asset registers to ensure that there is no uncertainty or difficulty in accounting for its own assets and the assets that have been donated to projects

ANNEXURES

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Annexure 1:

Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, unauthorised, irregular as well as fruitless and wasteful expenditure

Number	Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance															Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure									
		Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit 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																																													
1	Agriculture and Rural Development		R	R		N	R										A	N				N									A			N	R		R	R	R			-	144.5m	0.7m	
2	Economic Development, Tourism, Conservation and Environment			R			R															R					A							A	A		R	R	R	A		-	5.7m	0.17m	
3	Education		R	R		R	R	R	R	R		R					R	N			R	R		R		N	R	R			R		R	R	R	R		R	R	R			3.3m	25.6m	0.39m
4	Health		R	R		R	R	A									R	R			A	R	N	R			R	N			R	N	R	R	R	N	R	R	R			-	971.3m	0.28m	
5	Human Settlements		A	R		R	R						A				A				R	R												N				N	R			-	-	0.01m	
6	Local Government and Traditional Affairs		R	R		R	R		A								R	R			R	R		A		A	R	N			N	N	A	R	R	N	R	R	R	A		-	7.1m	0.36m	
7	Office of the Premier		R	R		R	R	A	A		A		A	R			R	R			R	R		A	N	N	R	N			A	N	A	R	R		R	R	R	A		16.0m	13.3m	0.01m	
8	Provincial Legislature		R	R		R	R		N				N	N			R	R			R	R	R			N	R				R	R	R	R	A		R	R	R	A		4.5m	14.5m	0.01m	
9	Provincial Treasury		N	R		A	R										N				R	R							N	N					N	R		N	R	R	A		-	16.3m	0.01m
10	Public Safety		A	R		R	R			A		A	A		A		A	A			R	R		A		N		A			R	A	R	R	R		R	R	R			85.4m	32.5m	0.25m	
11	Public Works, Roads & Transport		R	R		R	R	R	R	A		R		R	R		R	R			R	R	A	R			R		A		A	R	N		R	R		R	R	R	X		-	229.7m	10.4m
12	Social Development		R	R		N	R	A			A		N				R	R			R	R					R				R			R	N		R	R	R	N		3.5m	148.1m	0.05m	
13	Sport, Arts and Culture		R	R		R	R	N									R	R			R	R		N			A					N		R	R		R	R	R	A		-	50.2m	0.24m	

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

Number	Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives				Findings on non-compliance															Findings on specific focus areas				Unauthorised, irregular as well as fruitless and wasteful expenditure						
		Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit 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	
Public entities																																												
14	Agribank Creditors Settlement Trust																																											
15	Atteridgeville Bus Services		R	R		R	R										N	N		A	R	A	A					A		A		R					R		A	-	-	-		
16	Dirapeng					R	R																																					
17	Golden Leopard Resorts		R	R		R	R	R	R	R	R	R	R	R						R	R	R	R	R	A	R	R	R	R	R	R	R	R		R			R	R		X	-	6.3m	1.2m
18	Invest North West		R			R	A										R	A																				A	-	0.43m	-			
19	Kgama Wildlife Operations		A	R		R	R										A				R	R	A						N	N	R			A		A			R	-	2.7m	-		
20	Madikwe River Lodge		R	R		R	R	R	R	R	R	R	N	R	R	A				R	R	R	R	R	N	R	R	N	R	R	N	R		R			R	R		X	-	-	-	
21	Mafikeng Industrial Development Zone		R	R		R	R	N	R	R	R	R		R	R	A				N	R	R	A	R				R	R		R		R			R	N		X	-	0.37m	0.04m		
22	Mmabana Arts, Culture and Sport		R	R		R	R	R		R	R	N	N	N	R		R	R			R	R	R	R		R		A	R	R	R	N		R			R	R		X	-	14.1m	1.2m	
23	Agribank					R	R																																					
24	NW Development Corporation			R			R														R		N														R	N		R	-	1.9m	-	
25	North West Directorate of Entrepreneurial Development in Natural Resource Utilisation			R			R	R									A				N	N	N			N			N	N	N	A									-	-	0.03m	
26	North West Gambling Board		N	N			A										N	N			N											N								A	-	-	-	
27	North West Housing Corporation																																											
28	North West Parks and Tourism Board					R	R																																					
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												

Number	Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance																	Findings on specific focus areas				Unauthorised, irregular as well as fruitless and wasteful expenditure					
		Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit 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	
29	NW Provincial Council on Aids		R	R		R	R			R				N						N	R	R	A	A		N		N	R	R		R				R	R		R	-	0.5m	-		
30	North West Provincial Arts & Cultural Council																																											
31	North West Star						R	R																																				
32	NW Transport Investments						A	R																																				
33	North West Tribal and Trust Fund																																											
34	North West Youth Development Trust		R	R		R	R		R					A						N	R	R	R	A		R				R	R	R	R				A	R				-	-	0.02m
35	Signal Developments																																											

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
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Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not Analysed (X)
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Legend (Expenditure)	Improved	Regressed
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Annexure 2:

Auditees' five year audit opinions

No.	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Departments							
1	Agriculture and Rural Development	NW					
2	Economic Development, Tourism, Conservation and Environment	NW					
3	Education	NW					
4	Health	NW					
5	Human Settlements	NW					
6	Local Government and Traditional Affairs	NW					
7	Office of the Premier	NW					
8	Provincial Legislature	NW					
9	Provincial Treasury	NW					
10	Public Safety	NW					
11	Public Works, Roads & Transport	NW					
12	Social Development	NW					
13	Sport, Arts and Culture	NW					
Public entities							
14	Agribank Creditors Settlement Trust	NW					
15	Atteridgeville Bus Services	NW					
16	Dirapeng	NW					
17	Golden Leopard Resorts	NW					
18	Invest North West	NW					
19	Kgama Wildlife Operations	NW					

No.	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
20	Madikwe River Lodge	NW					
21	Mafikeng Industrial Development Zone	NW					
22	Mmabana Arts, Culture and Sport	NW					
23	Agribank	NW					
24	NW Development Corporation	NW					
25	North West Directorate of Entrepreneurial Development in Natural Resource Utilization	NW					
26	North West Gambling Board	NW					
27	North West Housing Corporation	NW					
28	North West Parks and Tourism Board	NW					
29	NW Provincial Council on Aids	NW					
30	North West Provincial Arts & Cultural Council	NW					
31	North West Star	NW					
32	NW Transport Investments	NW					
33	North West Tribal and Trust Fund	NW					
34	North West Youth Development Trust	NW					
35	Signal Developments	NW					

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 3:

Assessment of auditees' internal controls at the time of the audit

Number	Auditee	Leadership																		Financial and performance																		Governance																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
		Movement			Effective leadership culture			Oversight responsibility			HR Management			Policies & procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT Systems controls			Movement			Risk management			Internal audit			Audit committee																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
		F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
19	Mafikeng Industrial Development Zone	↓	↓	↓																	↓	↓	↓																↓	↓	↓																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												

Legend (Key control)	Good	Concerning	Intervention required
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Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed
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Legend (Aspects)	F = Financial	P = Performance	C = Compliance
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GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

93

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.

<i>IT governance</i>	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives.
<i>IT security management</i>	The controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial information.
<i>IT service continuity</i>	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.
<i>IT user access management</i>	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
<i>Internal control (also referred to as key controls)</i>	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.
<i>Inventory</i>	Goods held for resale or for internal use.
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable legislation.
<i>Key drivers of internal control</i>	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.)
<i>Leadership</i>	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).
<i>Liability</i>	Short-term and long-term debt owed by the auditee.
<i>Material finding</i>	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.
<i>Material misstatement</i>	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.
<i>Misstatement</i>	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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