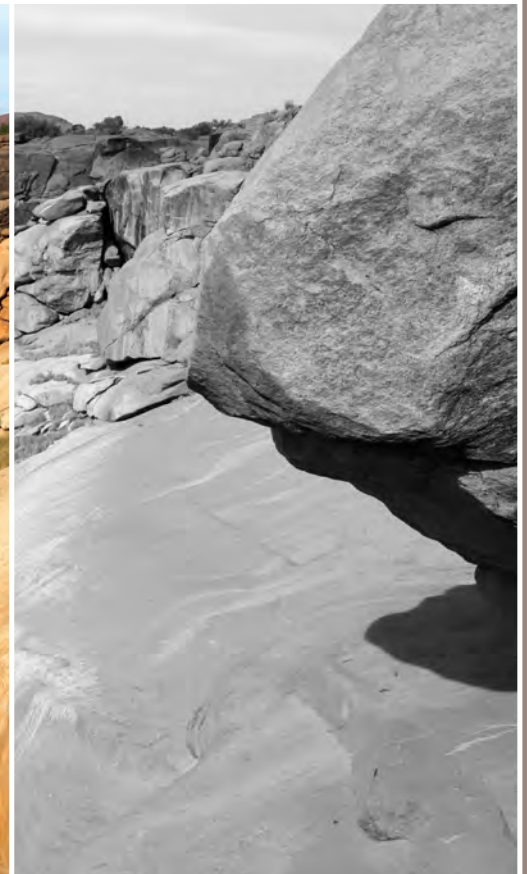


Northern Cape



AUDITOR - GENERAL
SOUTH AFRICA

General report

on the audit outcomes of provincial government

PFMA 2012-13

Our reputation promise/mission

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



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

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

Terence Nombembe
Auditor-General

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



AUDITOR - GENERAL
SOUTH AFRICA

Overview

2



Message from the auditor-general

Improvement in audit outcomes (Section 2.1)

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

First clean audit for the province (Section 2.1)



Material non-compliance with legislation by 92% of auditees (Section 2.3)

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

Some progress made toward improving reliability and usefulness of annual performance report (Section 2.2)



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

Some improvement in the quality of financial statements submitted for audit (Section 3.1)

Uncompetitive and unfair procurement processes/ inadequate contract management/missing tender documentation/conflicts of interest not declared (Section 3.2)

No improvement in supply chain management
(Section 3.2)

Inadequate human resource management practices / vacancies and instability in key positions are affecting audit outcomes
(Section 3.3)

Little improvement in human resource management
(Section 3.3)



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

Confidentiality, integrity and availability of information at risk
(Section 3.4)

Improvement in the ICT controls
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Root causes of poor audit outcomes
(Section 4)



Implementation and impact of commitments and initiatives of role players
(Section 5)

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

Key role players - Portfolio committees and Public Accounts Committee should strengthen their contributions
(Section 5)



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

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NORTHERN CAPE **CLEAN AUDITS 2012-13**

6



DEPARTMENT

Social Development

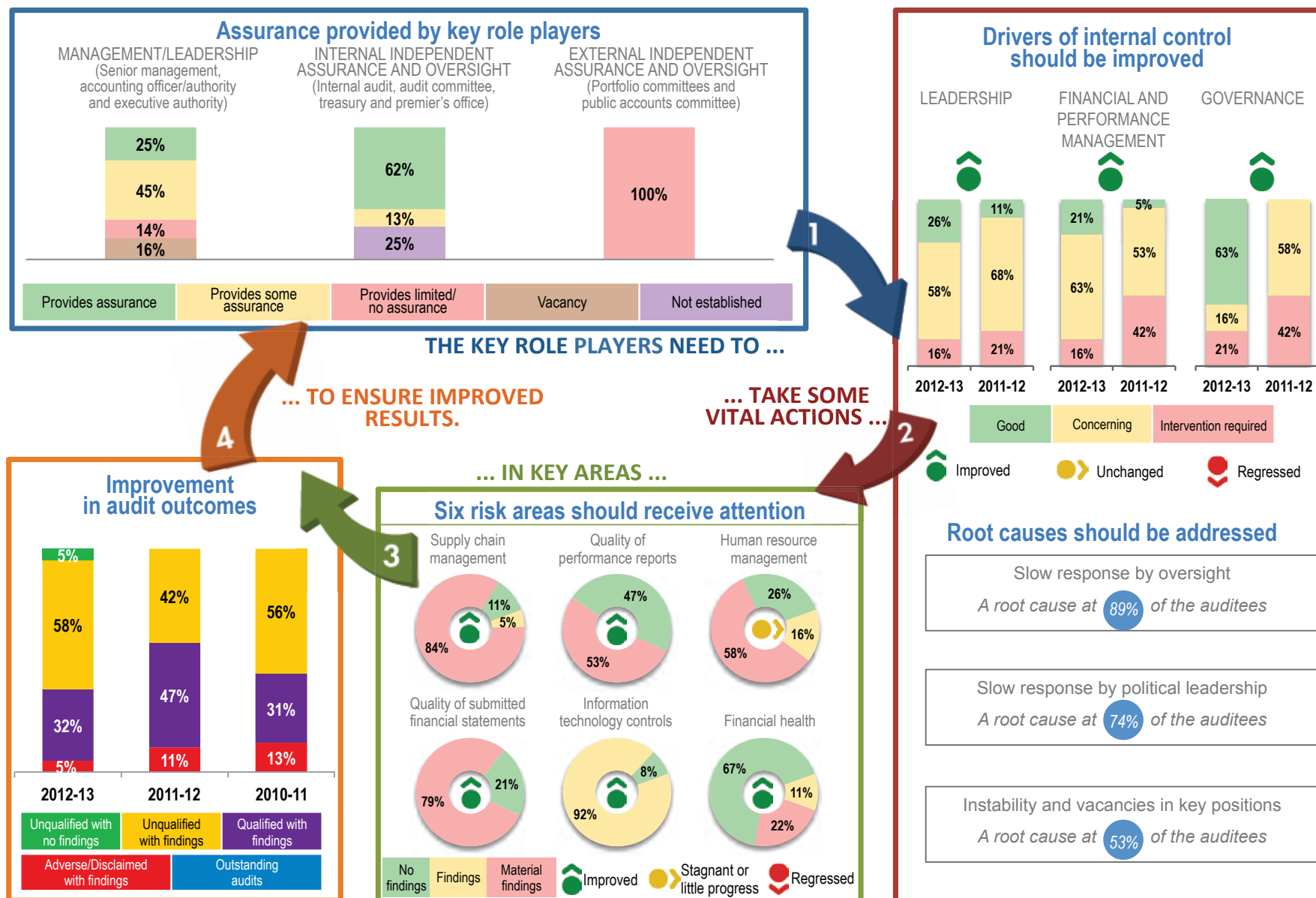


PUBLIC ENTITY

None

FOREWORD





FOREWORD

It is with pleasure that I present to the Northern Cape Legislature my 2012-13 general report summarising the audit outcomes of the provincial government for the financial year ended 31 March 2013. The province recorded eight (42%) improvements in audit outcomes in 2012-13 and celebrated its first clean audit this year, with no disclaimers reported for departments (only one public entity received a disclaimer of audit opinion in 2012-13).

In line with these positive results, the key controls also improved, indicating that the departments and entities are starting to apply the principle of frequent monitoring of key controls. Where inadequate key controls still existed, this was mainly due to a slow response by oversight and leadership to the messages of our office as well as instability and vacancies in key positions.

Although the establishment and effective functioning of audit committees and internal audit units at departments resulted in an improvement in assurance provided, much still needs to be done to ensure that leadership and management provide the required level of assurance. Provincial oversight must ensure effective coordination between portfolio committees and the Standing Committee on Public Accounts and extend their focus to include entities.

Most departments and entities are still not complying with the legislation applicable to them. This is evident at 18 auditees (95%) where compliance findings were reported. The management of procurement and contracts and the absence of steps to prevent

and deal with unauthorised, irregular and fruitless expenditure remain the audit areas where most compliance findings were recorded. The high incidence of compliance findings was mainly due to a slow response by leadership, which resulted in recurrence of many prior year compliance findings.

Progress was made by the province in the area of reporting on predetermined objectives. A comparison with the prior year shows that the number of auditees without any significant findings on the usefulness and reliability of their performance information had increased by 26% from four to nine. However, we noted that 75% of auditees failed to achieve at least 20% of the targets they had set out to achieve during the year. Furthermore, the development of user access management controls remained lacking at seven (54%) departments, a problem that should be addressed by implementing transversal user access controls as undertaken by the leadership.

In the previous year, the provincial executive leadership pledged that the basic principles of monthly reporting, validation of reported information and constant monitoring would be the pillars on which the interventions for 2012-13 are based. The improvement in audit outcomes and the key control status of the province can be attributed to the fact that a number of prior year commitments were honoured, particularly the strengthening of independent assurance providers (internal audit and audit committees) and filling of the head of department and chief



Terence Nombembe
Auditor-General

financial officer vacancies at some of the larger departments with suitably skilled individuals. The provincial leadership and oversight need to continue their efforts to ensure that more auditees follow the example set by the Department of Social Development by moving to a clean audit status in 2012-13. The provincial leadership should also consider possible legislation or regulations that will ensure that effective and efficient systems of internal control are established and maintained.

My office will continue to interact with the provincial leadership in order to track the implementation of key commitments that will inform its efforts to make Clean audit 2014 a reality, especially the commitment to provide decisive leadership and strengthen the human resource capacity of the province by appointing the right person for the job in all departments and entities.

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

Auditor-General

**Auditor-General
Pretoria
November 2013**

SECTION 1: EXECUTIVE SUMMARY

1. Executive summary

Our audit and reporting process

We audit every department and all of the public entities in the province, also called *auditees* in this report, so that we can report on the quality of their financial statements and annual performance reports and on their compliance with legislation. The public entities include five provincial public entities, one trading entity and six other entities that are not subject to the Public Finance Management Act.

The audit outcomes of the six other entities are not included in this report, except in the portfolio outcomes if a member of the executive council has executive responsibility for the public entity (section 6), and in the annexures to this report.

We also assess the root cause of any error or non-compliance, based on the internal control that failed to prevent or detect it. We include these aspects in the following three types of reports:

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

Over the past few years, we have intensified our efforts to assist provincial government to improve their 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 executive council, accounting officers or authorities and audit committees.

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

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

In the audit process we work closely with the accounting officers, senior management, the audit committee and internal audit as they are key role players in providing assurance on the credibility of the financial statements, 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 provincial treasury and 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 to implement initiatives that can improve audit outcomes. We have already started improving and strengthening our oversight relationship with the portfolio committees.

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

Audit outcomes improved

There has been an overall improvement in the provincial audit outcomes. The significant aspects of the 2012-13 audit outcomes of 19 auditees are listed below:

- The overall outcomes regressed from 2010-11 to 2011-12, but showed a significant improvement during the last year. The province also received its first clean audit.
- Departments of Education and Health received qualified opinions, with the Department of Roads and Public Works improving to an unqualified opinion with findings. The qualified opinion of the Department of Health was also an improvement as they received a disclaimer of opinion for the last four years. These three departments make up 75% of the provincial budget.

- Findings on quality of annual performance reports improved significantly compared to the prior year. Both departments and public entities contributed to this improvement.
- The reliability of performance information improved slightly compared to the prior year. The most common finding under reliability was that the reported performance information is not valid, accurate and complete.
- It is of concern that 85% of the departments had not achieved at least 80% of their planned targets as this has a major impact on service delivery within the province.
- All auditees except one department had compliance findings consecutively for the past three years. The number of non-compliance findings, however, decreased significantly by 44% for the 2012-13 financial year, which indicates a movement in the right direction. However, awards made to employees of departments and their close family members, as indicated in section 3.2, have increased since the prior year, which is a concern for the province.
- The most common findings still recurring in the province include failure to prevent or adequately deal with irregular and fruitless and wasteful expenditure, and material misstatements in the financial statements submitted for auditing.
- The decrease in unauthorised expenditure by R92 million for the province is due to improved budget management on infrastructure projects.
- Irregular expenditure has been reduced significantly compared to prior years. However, the total amount of R1 751 million for the province remains extremely high.
- Fruitless and wasteful expenditure decreased by only R2 million, indicating that there is a lack of proper monitoring by senior management and leadership within the province to ensure that payments are made timeously and that a good quality product is delivered for construction projects.

The six risk areas should continue to receive attention

Although there has been an improvement, our audit of the six risk areas shows that our recommendations to address these risks to financial and performance management have not yet been implemented by all auditees. 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 has improved, with 21% (2011-12: 5%) of the auditees submitting financial statements with no material misstatements. Eight auditees (42%) received a financially unqualified audit opinion after they corrected all the misstatements we had identified during the audit. The auditees that could not correct the misstatements received qualified or disclaimed audit opinions. The most common qualification areas were property, infrastructure, plant and equipment, expenditure and irregular expenditure due to a lack of supply chain management.

Supply chain management

Only one department had no material findings compared to none in the previous year, while public entities have regressed, with three additional entities having material findings reported in their audit reports. The most common findings relate to competitive bids not being invited, procurement from suppliers without valid SARS tax clearance and failure to submit three written quotations. Eleven awards amounting to R4,7 million were made to employees of the various auditees. These employees had not declared their interests.

Human resource management

The overall audit outcomes relating to human resource management have improved since the prior financial year.

However, at 38% of the departments senior managers still do not have performance contracts. At four departments we noted that performance bonuses had been paid to senior managers who did not have approved performance agreements in place. The root causes of these findings are a lack of consequences and the absence of a proper performance management system. The leadership should hold officials accountable for poor performance.

Consultants played a major part in assisting public entities in the province to produce GRAP-compliant financial statements. Members of the executive council and accounting officers should commit themselves to ensuring that all vacancies are filled in the entities under their portfolio.

Information technology

Information technology controls were assessed in four key focus areas at 13 departments the province. The status of information technology controls demonstrates that there have been improvements since the previous financial year. However, some auditees are still experiencing challenges in the focus areas of security management, user access management and service continuity.

Most auditees are in the process of implementing the cabinet-approved information technology governance framework. The implementation will be undertaken in phases over the next three financial years. Phase 1 is to be implemented by 31 March 2014.

Financial health

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

Although there was a slight improvement in this key risk area, it is doubtful whether the province can be considered financially healthy. Thirty-one per cent of departments realised an accrual-adjusted deficit. This assessment was made by adjusting expenditure with all unpaid expenses (accruals) at year-end. Four departments had underspent more than 10% on their capital budgets, while 46% had their year-end bank balance in overdraft. We also noted that slow debt collection was evident at four departments. A going concern emphasis of matter was reported at 80% of the public entities and will be highlighted as material findings in section 3.5. This is cause for concern as it indicates that the majority of public entities are struggling to meet their financial obligations.

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

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. There was an overall improvement in key controls, which resulted in improved audit outcomes for the province. The highlight for the province was the implementation of functional audit committees and a shared internal audit unit at all departments.

Many auditees did not receive a clean audit as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root cause of the audit outcomes that should be addressed is the slow response by political oversight and political leadership, together with instability and vacancies in key positions.

All role players should increase the level of assurance they provide

The management and leadership of the auditee and those who perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an 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, some of these role players are not providing the required level of assurance.

Although the role players at the first level of assurance are not yet providing the required level of assurance, the assurance provided by the executive authorities requires the most improvement. Audit committees and the shared internal audit unit were in place at all departments and were fully functional, with the exception of the provincial legislature where improvement is still required in respect of the internal audit unit.

The accounting officer of the provincial treasury and the provincial accountant-general played a significant role in the liaison between the office of the Auditor-General and the accounting officers of the various departments.

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

We have shared our key message on the actions needed to improve audit outcomes with every accounting officer or authority and the members of the executive council through our reports and interactions with them.

It was a challenge to meet on a regular basis with some of the members of the executive council. Two members of the executive council who are responsible for three departments and five entities reported on did not avail themselves for any key control interactions during the entire financial year, while others were not always available to meet quarterly. The engagements that did take place were well received, but these interactions have not yet had a significant impact on the audit outcomes.

During our roadshow on audit outcomes in October, we also shared these matters with the provincial legislature, premier and members 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.

Only the provincial treasury had implemented all commitments made, which led to a positive audit outcome for the province. Commitments made by the Standing

Committee on Public Accounts, portfolio committees and the premier's office were still in progress or not yet implemented. New commitments have been made and are included in section 5 of this report.

The province took a big step in the right direction in 2012-13 and more improvements are expected in future.

Section 6 of this report lists the audit outcomes of the departments and public entities in the portfolios of individual members of the executive council and 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 ongoing oversight and monitoring of their portfolios.

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

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

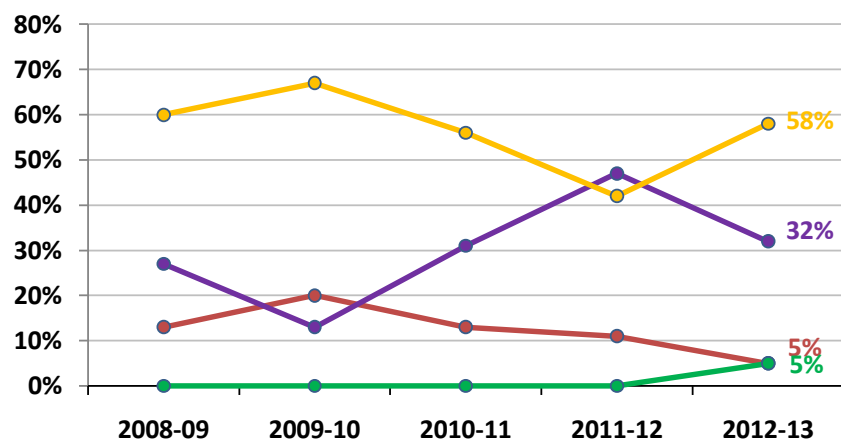


Figure 2: Audit outcomes for past two years (all auditees)

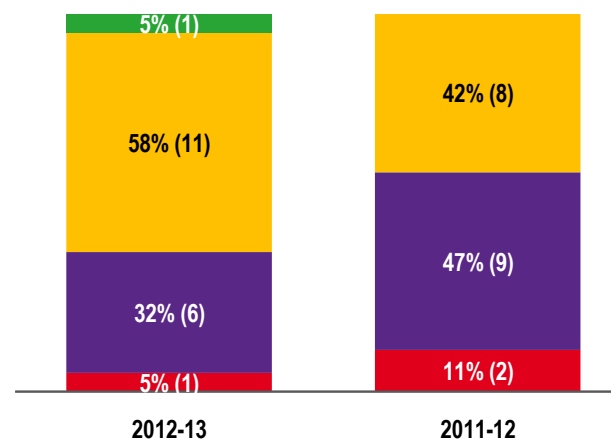


Figure 3: Audit outcomes for past two years (departments)

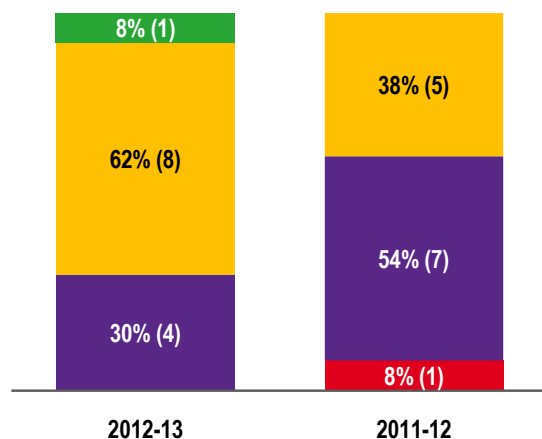


Figure 4: Audit outcomes for past two years (public entities)

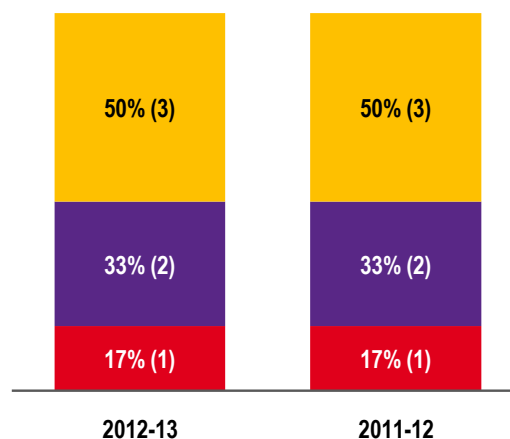
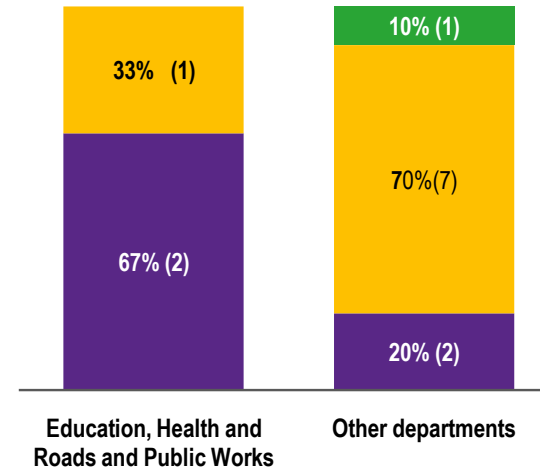


Figure 5: Education, Health and Roads and Public Works vs other departments



Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse/Disclaimed with findings

Outstanding audits

2.1 Overall audit outcomes

The provincial government consists of 13 departments and 12 public entities. The public entities include five provincial public entities, one trading entity and six other entities that are not subject to the Public Finance Management Act (PFMA).

The audit outcomes of the six other entities are not included in this report, except in the portfolio outcomes if a member of the executive council (MEC) has executive responsibility for the public entity (section 6), and in the annexures to this report.

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

- Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either 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 more than 5% is regarded as an improvement or a regression.

Audit outcomes

Figure 1 reflects the five-year audit outcomes of provincial government. The overall audit outcomes regressed during the first four years and improved during the last year. Excluding the four new public entities established in the past three years, the biggest changes are the decrease in disclaimed audit opinions and the province receiving its first clean audit.

Figures 2 and 3 indicate that there has been an improvement in audit outcomes since the previous year. The overall outcomes for departments showed a significant improvement during the past financial year. The department of Social Development is the first in the province to receive a clean audit. The department of Health, which had received disclaimed audit opinions for the past four years, improved to a qualified opinion in the current year. The overall audit outcomes of public entities remain stagnant.

Education, Health and Roads and Public Works

In 2012-13, the expenditure of the departments of Education, Health and Roads and Public Works constituted 75% of the total spending by provincial departments. Figure 5 shows that although there were improvements in the audit outcomes of

the department of Health and Roads and Public Works, overall these departments are still struggling to show the required progress as the department of Education and the department of Health received two of the four qualified opinions in the province for departments.

Movement in audit outcomes

Figure 6 below analyses the movement in the audit outcomes of the different auditees compared to the previous year, indicating a net improvement in the audit outcomes of the province.

All the departments and public entities, with the exception of the Economic Development and Trade and Investment Promotion Agency, managed to either maintain or improve their audit outcomes of the previous year.

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

Figure 6: Movement of the 19 auditees reported on

		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/Disclaimed with findings
8 Improved		<ul style="list-style-type: none"> • Social Development 	<ul style="list-style-type: none"> • Agriculture • Economic Development • Roads and Public Works • Transport • Liquor Board 	<ul style="list-style-type: none"> • Health • Fleet Management Trading Entity 	
10 Unchanged			<ul style="list-style-type: none"> • CoGHSTA • Environment • Premier • Treasury • Gambling Board • Tourism Authority 	<ul style="list-style-type: none"> • Education • Legislature • Sport • Kalahari Kid 	
1 Regressed					<ul style="list-style-type: none"> • Economic Development, Trade and Investment Promotion Agency

Figure 7: Status of quality of annual performance reports (all auditees)



Figure 9: Findings on quality of annual performance reports (departments)

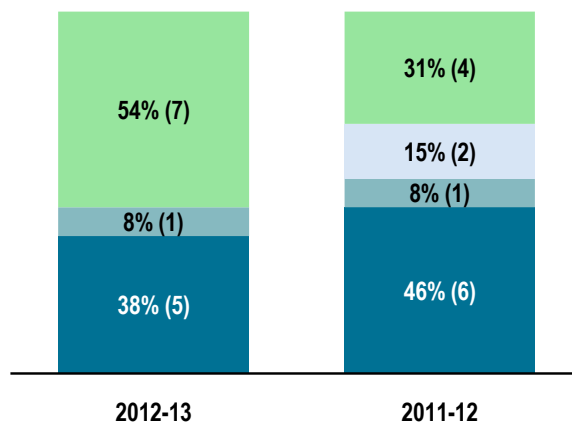


Figure 11:

Other performance-related outcomes

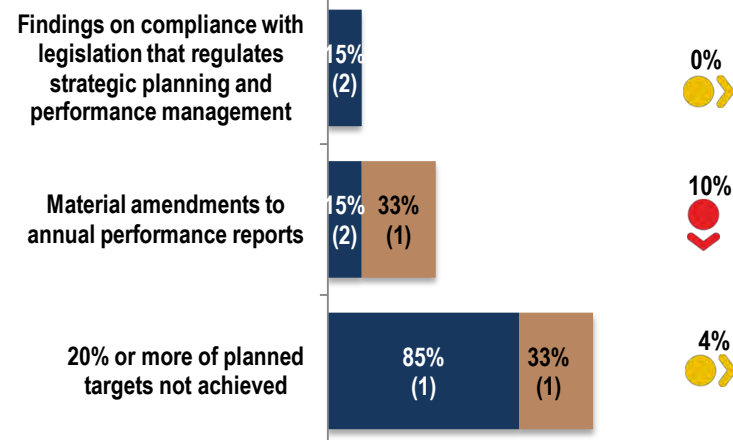


Figure 8: Auditees with findings on quality of annual performance reports

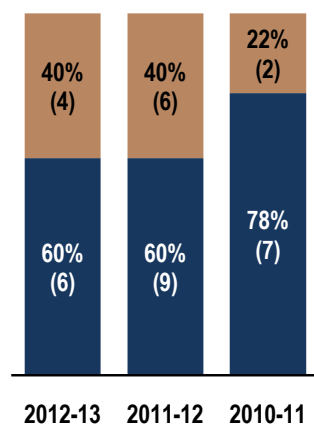


Figure 10: Findings on quality of annual performance reports (public entities)

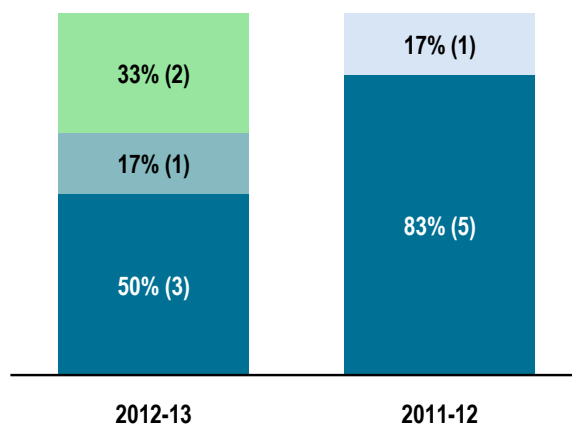
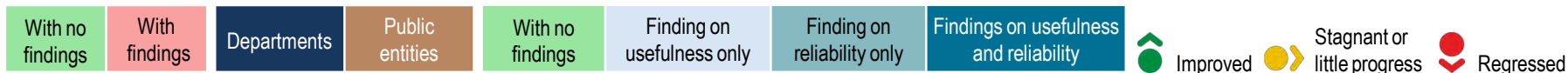
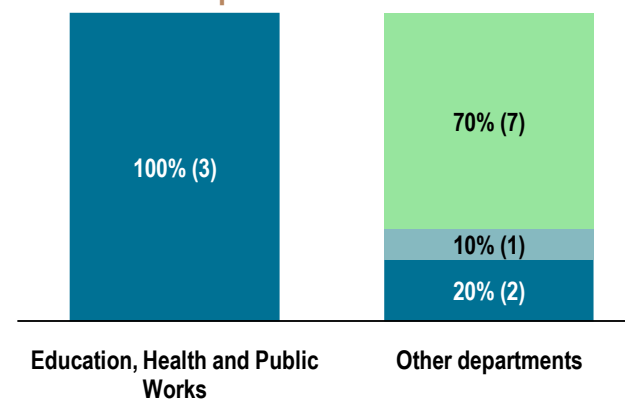


Figure 12: Findings on annual performance report: Education, Health and Public Works vs. other departments



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 (PAA) 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 arising from the audit that were material enough to be brought to the attention of the persons who read and use the annual performance report.

Status of auditees with findings on annual performance reports

Figures 7 and 8 reflect the number of auditees in the province with material findings in this regard over the past three years, including those auditees that had not prepared an annual performance report or had submitted the report too late for auditing. Over the past three years, an increase in findings was noted from the 2010-11 to the 2011-2012 financial year; however, an improvement was registered for the 2012-13 financial year. The outcome at the end of 2012-13 is almost identical to that of the 2010-11 financial year if the three new public entities established during 2011-12 are taken into account.

Findings on the quality of the annual performance reports

Figures 9 and 10 indicate the nature of material findings raised in the current and previous year and the progress made by auditees in addressing these findings.

All departments submitted performance information for the past two years. Three of the six public entities did not submit performance information, mainly because of a slow response by political leadership and oversight bodies as well as capacity constraints. A lack of consequences for poor performance is also evident in the province. The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. The usefulness of the performance information has improved since the prior year, with both departments and public entities contributing to this improvement. The most common findings on usefulness were the following:

- The indicators are not well defined
- Reasons for variances were not adequately explained

- Reported performance information was not consistent with planned objectives, indicators and targets.

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. The reliability of performance information has improved slightly since the prior year. Both departments and public entities contributed to this improvement.

The most common findings on reliability were the following:

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

As shown in figure 12, the departments of Education, Health and Public Works had material findings on both usefulness and reliability compared to 20% of the other departments with such findings. The prevalence of annual performance reports containing information that is not useful or reliable is a sign of weakness in the ability of auditees to adequately plan, manage and report on their performance. If addressed, it will improve the transparency and accountability of provincial government and contribute towards improving the service delivery experience of citizens.

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

Other performance-related outcomes

Figure 11 indicates the number of auditees in the current and previous year that:

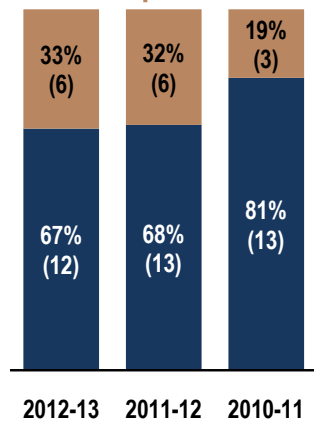
- had material findings in their audit reports on non-compliance with the legislation that regulates strategic planning, performance management and reporting
- made amendments to the annual performance report submitted for audit to correct material misstatements identified in the audit process
- did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

It is of concern that 85% of the departments had not achieved their planned targets as this has a major impact on service delivery within the province. This was mainly due to indicators and targets not being suitably developed during the strategic planning process and insufficient monitoring by the accounting officer and senior management on the progress made towards achieving the yearly targets set.

Figure 13: Status of compliance with legislation (all auditees)



Figure 14: Auditees with findings on compliance



2012-13 2011-12 2010-11

With no findings With findings

Figure 15: Findings on non-compliance with legislation (departments)

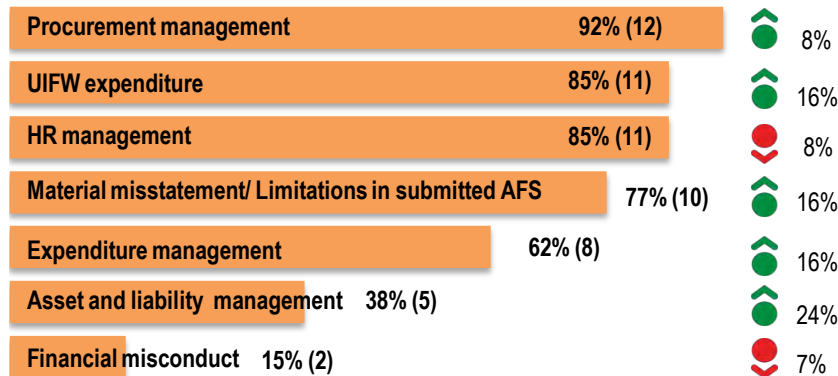
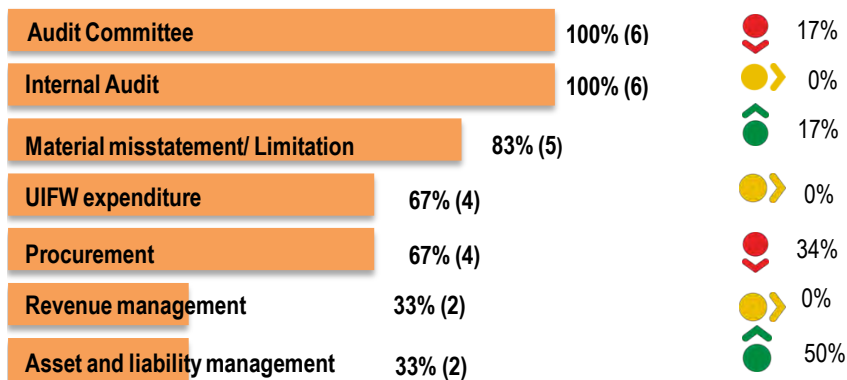


Figure 16: Findings on compliance with legislation (public entities)



Improved Stagnant or little progress Regressed

Figure 17: Unauthorised expenditure

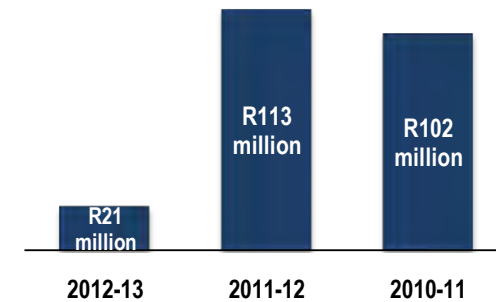


Figure 18: Irregular expenditure

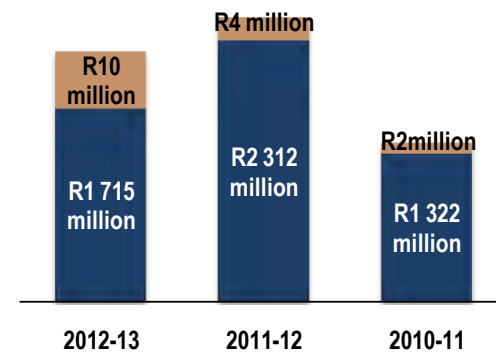
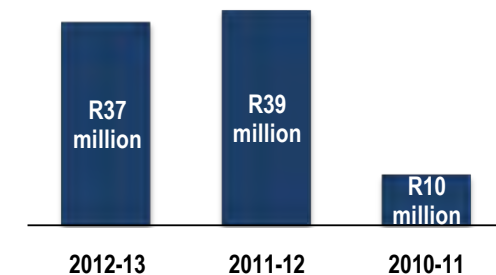


Figure 19: Fruitless and wasteful expenditure



2.3 Compliance with legislation

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

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

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

Status of auditees with findings on non-compliance with legislation

Figures 13 and 14 indicate the number of auditees in the province with material findings in this regard during the past three years. Of the 13 departments, the Department of Social Development had no findings on compliance in 2012-13, which was the only improvement for the province. All other auditees had compliance findings consecutively for the past three years. The number of compliance findings, however, has decreased significantly by 44% for the 2012-13 financial year, which indicates a movement in the right direction.

Findings on non-compliance with legislation

Figures 15 and 16 indicate the compliance areas with the most material findings in the current and prior year and the progress made by auditees in addressing these findings.

The most significant improvement in terms of compliance was registered by departments in relation to audit committees and internal audit focus areas. In the prior year all 13 departments had findings in these areas. These were, however, properly addressed in the 2012-13 financial year with departments having no compliance findings these areas. The entities, however, are still struggling, with all six entities having compliance findings relating to internal audit and audit committees.

Procurement and contract management (92%), unauthorised, irregular as well as fruitless and wasteful (85%) and HR management (85%) remain areas of concern for departments.

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

- Irregular and fruitless and wasteful expenditure was not prevented or adequately dealt with
- Material misstatements or limitations in the financial statements submitted for auditing (refer to section 3.1 for more detail in this regard)
- Payments to creditors not made within 30 days from receipt of an invoice
- Three written quotations not invited and/or deviations not justified
- Proper verification process for new appointments did not always take place.
- Effective and appropriate disciplinary steps not taken against officials who made or permitted unauthorised, irregular and fruitless and wasteful expenditure
- Proper control systems not implemented for safeguarding and maintenance of assets
- Investigations not conducted into all allegations of financial misconduct made against officials
- No audit committee in place (only reported at entities)
- No internal audit function in place (only reported at entities)
- Effective and appropriate steps not taken to timeously collect all revenue due.

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

Unauthorised expenditure

Unauthorised expenditure refers to expenditure that was not incurred in accordance with the approved budget. Figure 17 reflects the three-year trend in unauthorised expenditure. The decrease in unauthorised expenditure is due to improved budget management on infrastructure projects by the departments of Health and Roads and Public Works. Collectively they incurred only R2 million in unauthorised expenditure during the current year compared to R105 million in the prior year.

Irregular expenditure

Irregular expenditure refers to 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. It is, however, a measure of an auditee's ability to comply with legislation relating to expenditure and procurement management. Figure 18 reflects the three-year trend in irregular expenditure. Irregular expenditure has been reduced significantly compared to prior years. This was mainly due to Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) having reduced its irregular expenditure by R573 million compared to the prior year. The total amount of R1 751 million for the province remains extremely high and it is evident that effective leadership is not being displayed in the province with regard to adherence to best practices in provincial government. The lack of oversight by oversight bodies as well as the political leadership has resulted in a lack of consequences and slow responses from MECs, as evidenced at departments. This is a contributing factor to the high amount of irregular expenditure reported for the province.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure refers to expenditure that was made in vain and which would have been avoided had reasonable care been taken. Figure 19 reflects the three-year trend in fruitless and wasteful expenditure. Fruitless and wasteful expenditure decreased by only R2 million, which indicates a lack of proper monitoring by senior management and leadership within the province.

SECTION 3: RISK AREAS

27

Figure 20: Status of submitted financial statements

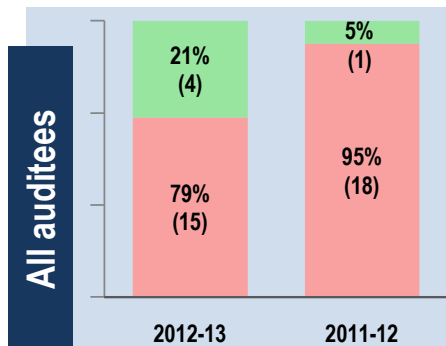


Figure 21: Quality of submitted financial statements

(42% of auditees were able to avoid qualifications due to the correction of material statements during the audit process)

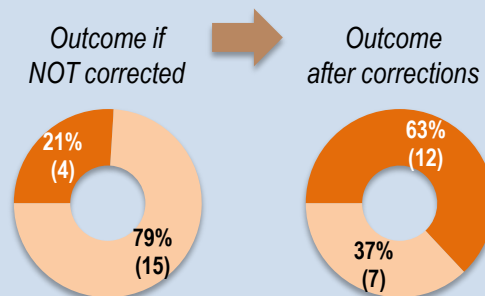
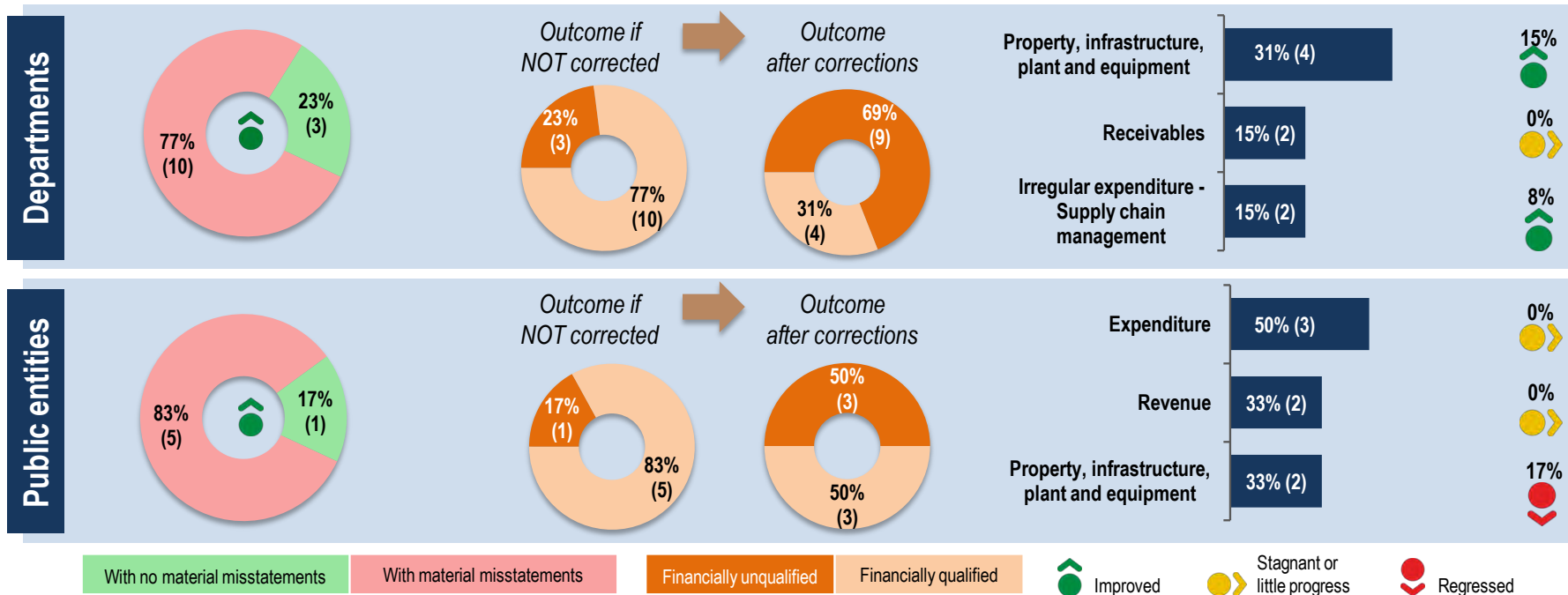


Figure 22: Top three financial statement qualification areas



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 and results of an auditee's financial performance 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 reveal any material errors or omissions in the financial statements. We use the term *material misstatements* to refer to such material errors or omissions.

The quality of the financial statements submitted for auditing

All auditees submitted financial statements for auditing by the legislated deadline of 31 May 2013, as can be seen in figure 20; however, only four auditees (21%) submitted financial statements with no material misstatements. In the previous year only the department of Social Development submitted financial statements with no material misstatements, indicating a 16% improvement in the quality of financial statements for the 2012-13 financial year.

With reference to departments, Social Development, the premier's office and the provincial treasury submitted financial statements with no material misstatements, while the Northern Cape Tourism Authority was the only entity that could submit financial statements without material misstatements. Improvement was noted at the auditees where there is segregation of duties between preparation and review of annual financial statements by the CFO. These CFOs also had a proper understanding of the applicable financial reporting framework.

A lack of adequate review of financial statements before submission thereof for audit purposes resulted in a poor quality of financial statements for those auditees that submitted financial statements with material amendments subsequent to audit findings.

Figure 21 indicates that eight auditees (42%) received a financially unqualified audit opinion only because they had corrected all the misstatements the auditors 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

Although the auditors reported instances of material misstatements to management for correction, seven auditees could not make the corrections to the financial statements, which resulted in six qualified audit opinions and one disclaimed audit opinion. Corrections were not made at these auditees because inadequate supporting documentation was submitted to the auditors.

Figure 22 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:

Property, infrastructure, plant and equipment

- Auditees did not include all their properties in the financial statements as adequate records of assets were not maintained
- Values of assets that no longer existed or could not be physically verified were included in their asset registers and were disclosed in the financial statements
- Inaccurate or incomplete asset registers did not reconcile to the financial records
- The number of auditees with this problem has decreased by 5% since the previous year. This is indicative of an increased level of effort by auditees to improve their asset management processes.

Expenditure

- Auditees did not classify goods and services in accordance with the *Departmental financial reporting framework* due to a lack of adequate financial accounting knowledge and skills

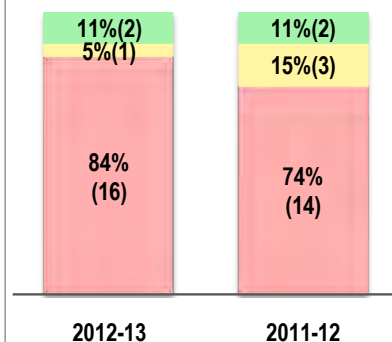
- Auditees could not provide us with sufficient appropriate audit evidence to confirm that the expenditure had occurred due to a lack of proper record keeping
- Overall, auditees improved in this area as expenditure qualifications have decreased by 11% since the previous year.

Irregular expenditure – Supply chain management

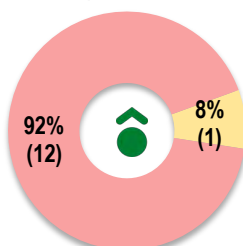
- Auditees did not have adequate systems in place to identify irregular expenditure, which resulted in the incomplete disclosure of irregular expenditure in the financial statements
- A lack of proper record keeping further negatively impacted on material misstatements relating to irregular expenditure
- The number of auditees with irregular expenditure has decreased since the previous year by 5% as a result of improved processes to identify and disclose irregular expenditure. However, the fact that irregular expenditure is not prevented remains a concern for the province (refer to section 2.3 for more detail in this regard).

Figure 23: Status of supply chain management

All auditees



Departments



Public entities

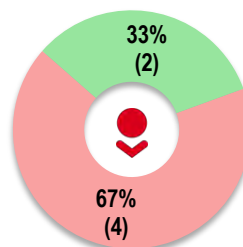
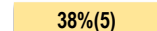


Figure 24: Findings on supply chain management (departments)

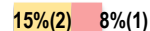
Uncompetitive or unfair procurement processes



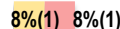
Internal control deficiencies



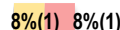
Limitation on planned scope of audit of awards



Awards to employees



Awards to close family members of employees

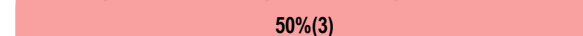


Inadequate contract management



Figure 25: Findings on supply chain management (public entities)

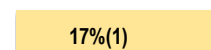
Uncompetitive or unfair procurement processes



Inadequate contract management



Internal control deficiencies



Limitation on planned scope of audit of awards

No findings for 2012-13. from prior year of 17%.

Figure 26: Awards to employees and close family members (departments)

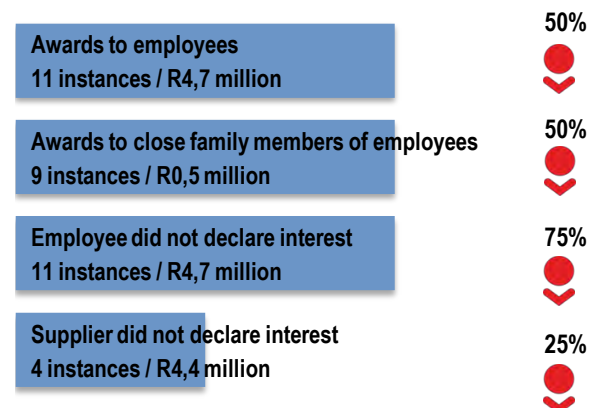


Figure 27: Awards to employees and close family members (public entities)

No awards were identified

With no findings

With findings

With material findings

Improved

Stagnant or little progress

Regressed

3.2 Supply chain management

At departments we tested 230 contracts with a value of R1 529 million and 924 quotations with a value of R139 million (referred to as *awards* in the rest of the report). Four contracts (with a value of R2,7 million) and 127 quotations (with a value of R4,8 million) were tested at public entities. Testing was done 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 arising from the audit to management in a management report, while we reported the material compliance findings in the audit report.

Figure 23 indicates the number of auditees that had audit findings and those where we reported material compliance findings in the audit report in the current and previous year. Social Development was the only department that improved by not having any material findings compared to the previous year, while the public entities regressed, with three additional entities having material findings reported in their audit reports.

Figures 24 and 25 indicate 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

We were unable to audit awards with a total value of R4,5 million at the three auditees that could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We were also unable to perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for the limitations was inadequate record keeping.

Awards to employees and close family members

Figure 26 indicates the extent of awards to employees and family members and whether the required declarations had been made. Health and Education registered a regression mainly due to transactions with close family being identified as employees did not declare their interests as part of the process or through the annual declaration process.

Uncompetitive or unfair procurement processes

The departments stagnated as they all still had findings on unfair procurement processes. The entities have regressed, with findings being raised at the Gambling Board and Liquor Board in this focus area for 2012-13 compared to the prior year when none was reported.

The following were the most common findings:

- Competitive bids not invited - deviation not approved
- Procurement from suppliers without valid SARS tax clearance
- Three written quotations not invited - deviation not approved.

Inadequate contract management

Health, Education and Roads and Public Works have improved their controls around contract management, while CoGSTA has remained with findings. The entity NCEDA has regressed, having findings on contract management for the first time.

The following was the most common finding:

- Contracts amended or extended without approval by a delegated official.

Inadequate supply chain management controls

Seven departments and three entities improved their controls around SCM; however, the following remaining findings were the most common:

- Employees with an interest in entities which are not auditee suppliers - additional remunerative work not approved
- Inadequate controls to ensure interest is declared.

Effective management of consultants

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

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

- Transfer of skills
- Performance management and monitoring
- Closing and finalisation of project.

Figure 25: Human resource management findings
(all auditees)

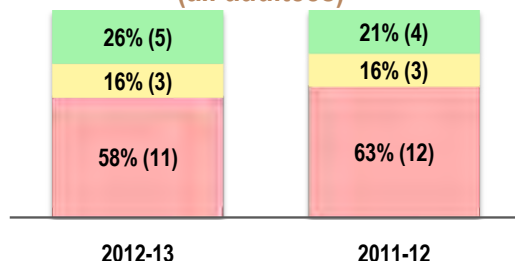


Figure 26: Stability in key positions
(Average number of months filled)

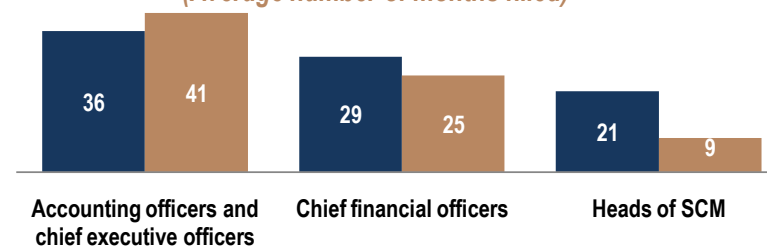


Figure 27: Human resource management findings

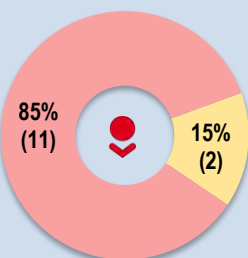


Figure 28: Weakness in focus areas

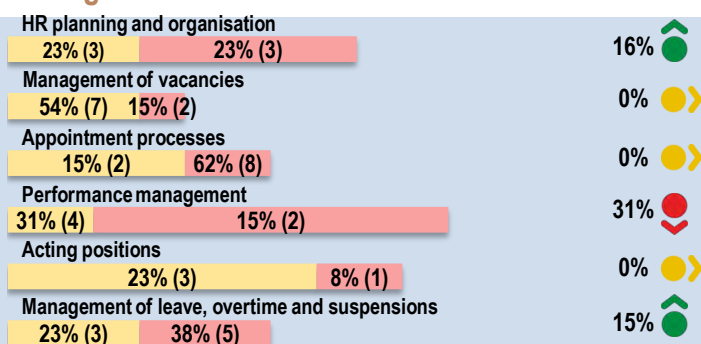


Figure 29: Vacancies in key positions



Departments

Public entities

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

3.3 Human resource management

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

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

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

Figure 28 indicates the number of auditees that had audit findings and those where we reported material compliance findings in the audit report in the current and previous year. The overall audit outcomes have improved since the prior financial year. The improvement in the control environment of the public entities was the main contributing factor to this improvement. The slight regression on the part of departments can be attributed to the Department of Sport, Arts and Culture.

Figure 31 indicates the extent of findings in the areas we report on and the movement since the previous year. The overall situation in the province has improved since the prior year. Departments, however, showed a regression, which can be attributed to weaknesses in performance management. A big improvement was noted among public entities, with only Kalahari Kid still having findings on HR management.

Management of vacancies and acting positions

The average overall vacancy rate for departments in the province was 11% at year-end. Included in the overall vacancy rate are those of senior management with 6% and the finance units with 23%.

Public entities, however, struggled with an overall vacancy rate of 37% at year-end, with that of senior management at 50% and that of the finance units 68%. It is evident from these high vacancies rates that public entities are struggling to fill vacancies in key positions.

Figure 32 indicates the vacancy rate at the level of accounting officer or chief executive office (CEO), chief financial officer (CFO) and head of the SCM unit at year-end and reflects the period in which the positions were vacant.

Four auditees (two public entities and two departments) had a vacancy at accounting officer level at year-end. In terms of CFOs there was a vacancy at two departments. A vacancy for the head of the SCM unit was identified at three public entities.

Figure 29 shows the average number of months these key officials have been in their positions. We also noted that accounting officers are more stable in their positions than CFOs. The head of SCM was identified as the most unstable key position in the province. This instability contributed to the significant number of SCM control deficiencies reported.

The most common finding on the management of vacancies and acting positions was that employees acted in positions for periods exceeding 12 months.

Performance management

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

At 38% of the departments senior managers did not have performance contracts. In addition, 27% of the appointed accounting officers in the province, 18% of the appointed CFOs and 25% of the appointed heads of SCM did not have performance contracts.

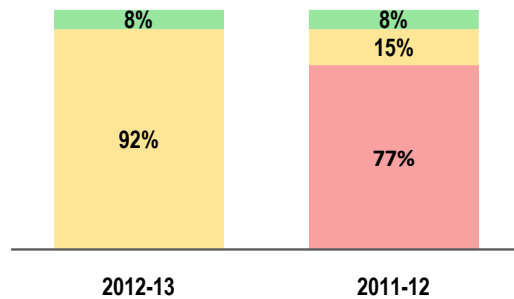
It was also noted at four departments that performance bonuses were paid to senior managers who did not have approved performance agreements in place. Furthermore, no performance management systems were implemented for employees lower than senior managers. The root cause of these findings is lack of consequences. The leadership should hold officials accountable for poor performance.

Other common human resource findings

The other most common HR findings were the following:

- New appointments were not always properly verified
- Written authorisation not provided in advance for overtime to be worked
- Processes procedures not in place to monitor sick leave
- Prescribed selection and approval processes not followed for all appointments
- Job descriptions did not exist for each post or group of posts

Figure 33:
Status of information technology controls*



* IT governance was not taken into account in this overall assessment of controls

Figure 34: Findings on information technology controls

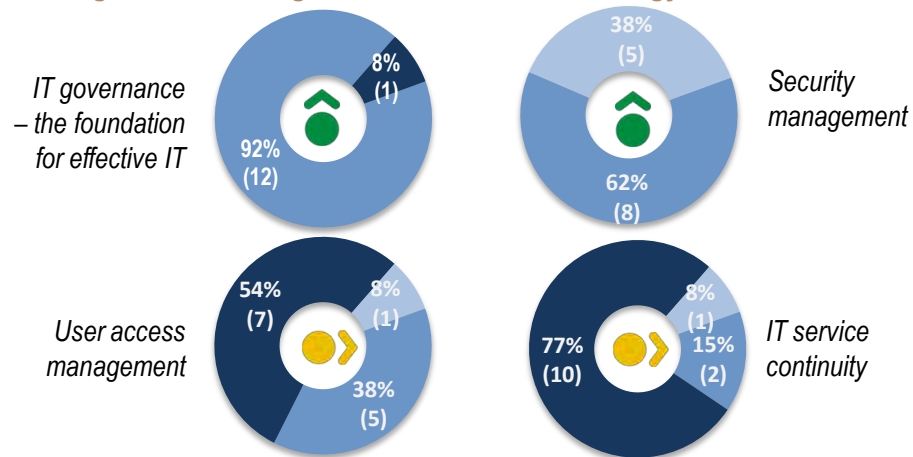


Figure 35: Status of information and controls

	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 which enables service delivery and promotes national security. It is therefore essential to have good IT governance, effective IT management and a secure IT infrastructure in place.

In the assessment of the findings on IT controls (figure 33), the criteria are determined by the stage of development reached and are grouped into three categories:

Where IT controls are being designed, management should ensure that the controls would mitigate risks and threats to IT systems.

Where IT controls are being implemented, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.

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

The status of IT controls (figure 35) demonstrates that there have been improvements since the previous financial year. However, some auditees are still experiencing challenges in all areas, excluding IT governance, and should therefore prioritise the design and implementation of the required controls.

IT governance

Effectiveness of the IT control environment ensures that the organisation's IT environment functions well and enables service delivery.

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

Security management

A secure IT environment ensures that the organisation's financial and performance information is processed and stored in a safe environment.

While 38% of the auditees have IT controls that are embedded and functioning effectively, figure 34 shows that 62% of the auditees continue to experience challenges with the implementation of the designed security management policies. This has contributed to inadequately configured IT security parameters that do not protect the infrastructure from unauthorised access. In addition, management at departments does not monitor the implementation of provincial policies adequately due to a lack of IT leadership skills.

User access management

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

The provincial treasury designed a transversal user access policy for the province in 2011. Figure 34 shows that 8% of the auditees have IT controls that are embedded and functioning effectively, while 38% of the auditees continue to experience challenges in adapting the policy to meet their requirements. The design of policies and procedures for the Logistical Information System (Logis) is still a challenge at 54% of the auditees as the provincial treasury still has not formalised the provincial user access policies and procedures for Logis.

This has contributed to terminated users retaining their access rights to the department's IT network.

IT service continuity

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

While 8% of the auditees have IT controls that are embedded and functioning effectively, figure 34 shows that 77% of the auditees continue to experience challenges with design and 15% with the implementation of appropriate disaster recovery plans (DRPs). In the case of departments, the data hosted on their transversal systems is available at the disaster recovery site of the State Information Technology Agency (SITA). However, the risk of non-connectivity to SITA's disaster recovery site persists due to departments' lack of participation in SITA's annual disaster recovery testing exercise.

Figure 36:
Number of auditees
with indicators of
financial health risks
(all auditees)

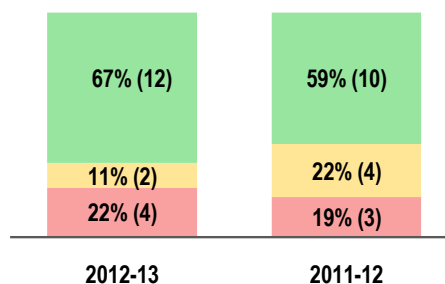
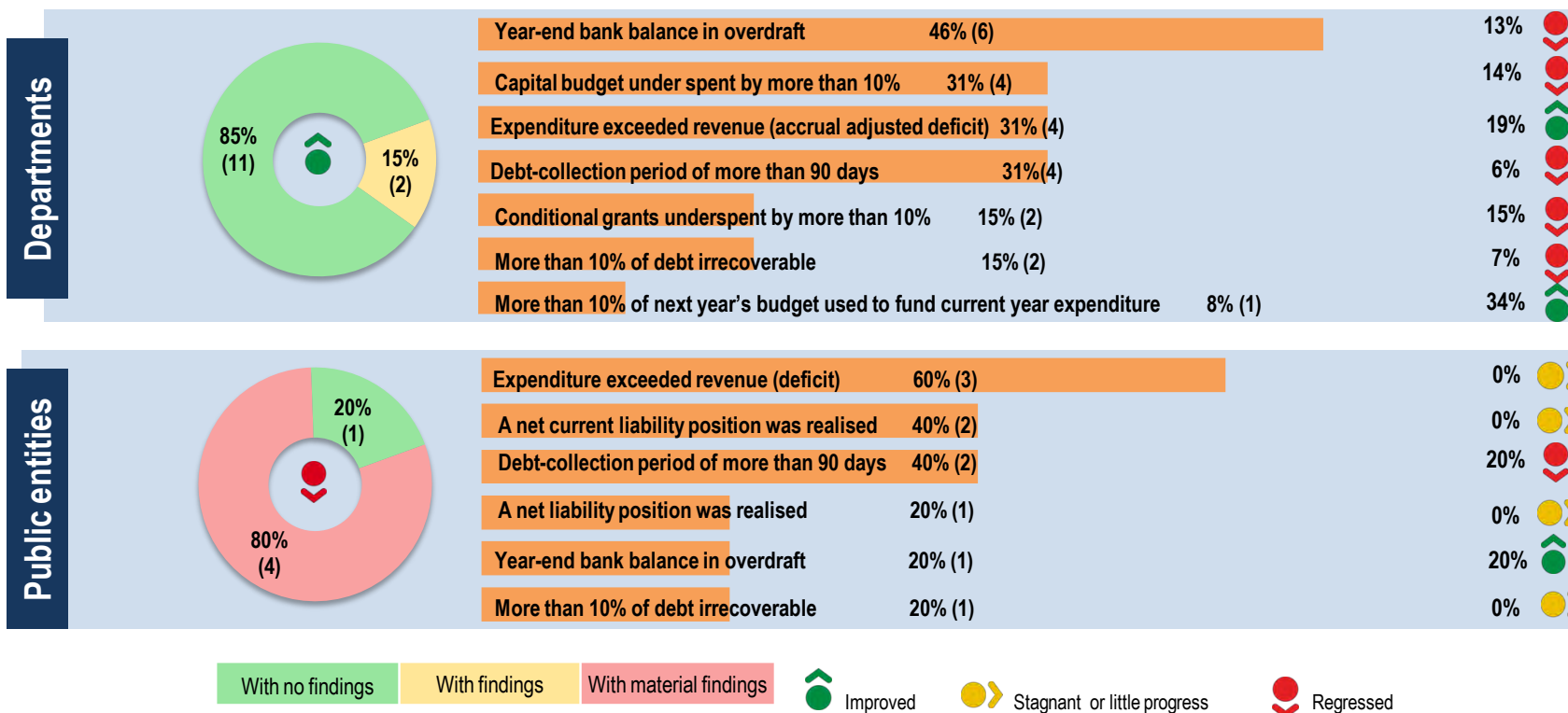


Figure 37: Number of auditees with indicators of financial health risks



3.5 Financial health

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

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 36 indicates the number of auditees that had more than two of the indicators discussed in this section and the number of public entities with material going concern uncertainties. It excludes one public entity that had a disclaimed audit opinion, as their financial statements were not reliable enough to be analysed. Although there was a slight improvement in this key risk area, it is doubtful whether public entities in the province can be considered financially healthy.

Figures 37 and 38 reflect the number of auditees with indicators of health risks, concerns and the movement since the previous year. The indicators are discussed in the rest of this section.

Financial management by departments on the modified cash basis of accounting

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

For the 2012-13 financial year, 31% of the departments realised an accrual-adjusted deficit, one department required more than 10% of the next year's budget to fund current year expenditure and 46% had their year-end bank balance in overdraft. The improvement since the prior year can be attributed to an increased focus on the importance of financial management and the integral part that it plays in effective service delivery.

Underspending by departments of capital budgets and conditional grants received

Underspending of the capital budget by more than 10% of the auditees was identified at 31% of departments, whereas 15% underspent by more than 10% on their conditional grants received for the 2012-13 financial year. The increase in underspending is mainly due to slower-than-anticipated implementation of projects by implementing agents and failure to appoint personnel to support the implementation and monitoring of infrastructure programmes in the departments.

Debt management

At 31% of the departments and 40% of public entities audited, the debt-collection period exceeds 90 days. Fifteen per cent of departments and 20% of public entities consider more than 10% of their debt to be irrecoverable. The Department of Health is the most significant with 90% of their remaining debtors at year-end being doubtful. The challenges with regard to debt collection are the result of ineffective or inadequate debt management processes at auditees.

Financial health risks at public entities

A going concern emphasis of matter was reported at 80% of the public entities reported on and one of the public entities had their year-end bank balance in overdraft. This is cause for concern as it indicates that the majority of public entities are struggling to meet their financial obligations, which in turn has an adverse effect on service delivery.

SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

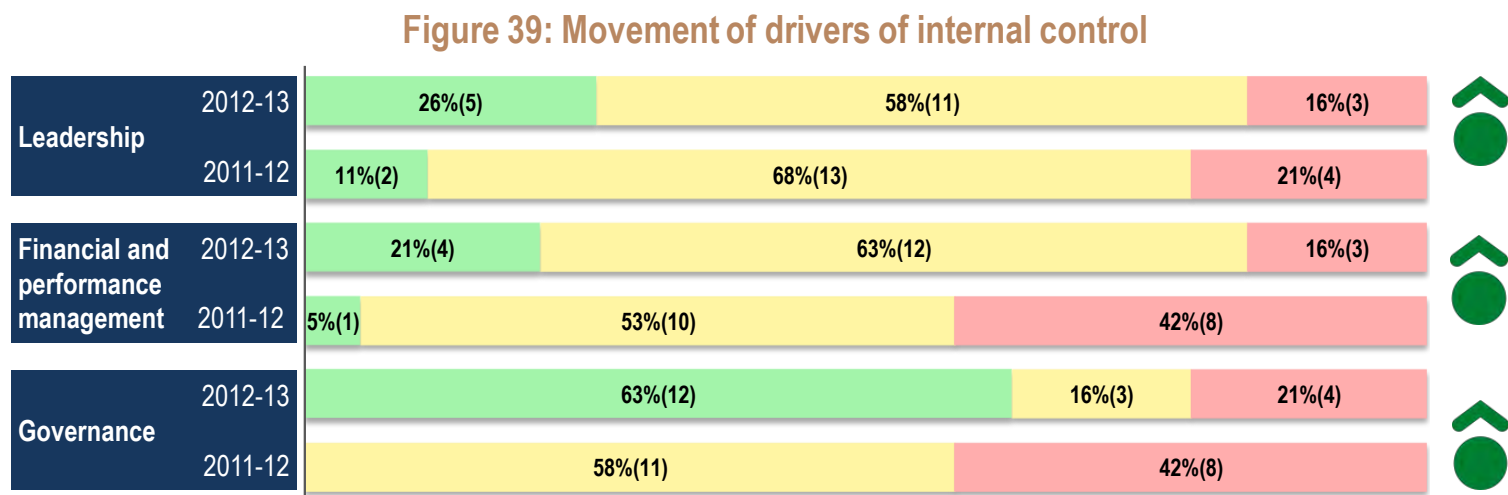
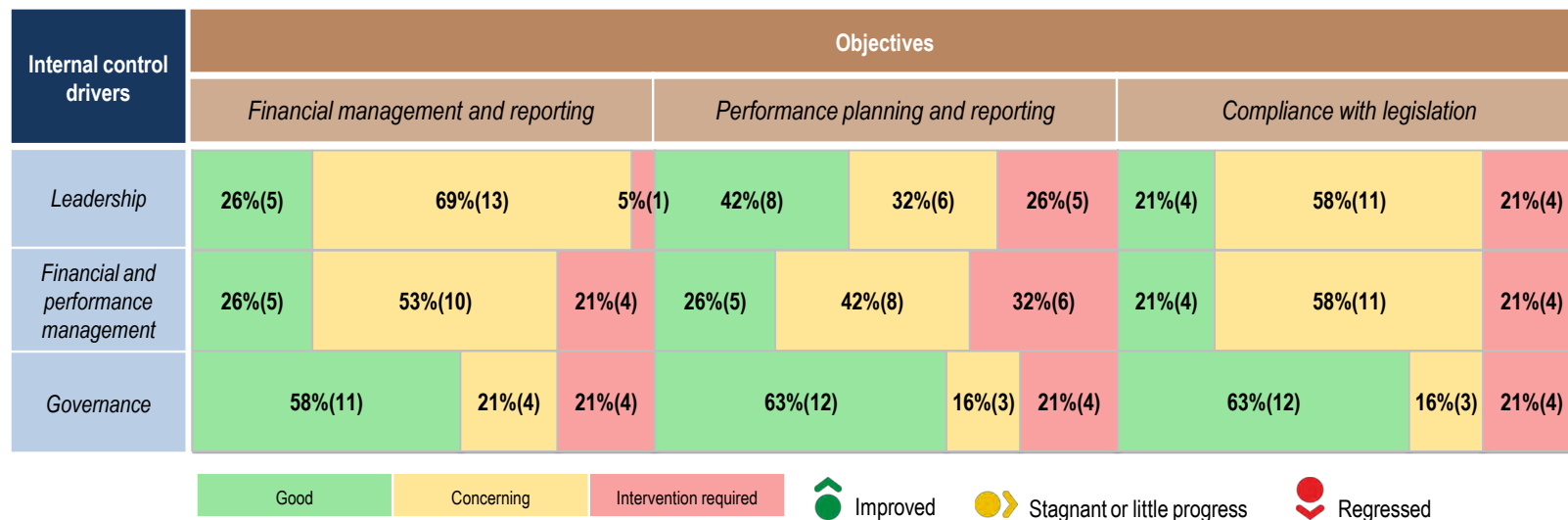


Figure 40: Objectives on which drivers of internal control have an impact



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

Figure 40 separately assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

Based on this assessment, we highlight the following:

- There has been an overall improvement in key controls, which resulted in the improved audit outcomes for the province.
- The highlight for the province was the implementation of functional audit committees and a shared internal audit unit at all departments with no findings reported. These governance structures had a direct impact on the audit outcomes for departments in the province. It must be noted, however, that public entities are still struggling to establish fully functional audit committees and internal audit units.
- The improvement under leadership can be attributed to senior management implementing the necessary controls over PDOs.

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

Review and monitoring of compliance

2012-13

21% (4)

53% (10)

26% (5)



Only the Department of Environment and Nature Conservation, provincial treasury, Social Development and the Northern Cape Tourism Authority have successfully implemented actions for monitoring this control. These auditees showed a vast improvement under the compliance key risk area, with the Social Development receiving a clean audit and the other three auditees attracting minimal compliance findings.

The fact that 79% of auditees have not yet fully implemented controls for the review and monitoring of compliance is due to the slow response by political leadership to compliance findings. This is one of the most important key areas where leadership should ensure that controls are implemented to obtain clean audits.

Action plans relating to the prevention of non-compliance must be monitored and reviewed by the accounting officers on a monthly basis. The MECs need to request monthly feedback and progress reports on these action plans. Furthermore, compliance checklists must be reviewed on a monthly basis and may form part of the action plans to address the audit report findings. A designated official should be assigned this responsibility and held accountable for non-performance and any non-compliance findings.

Effective human resource management

2012-13

21% (4)

53% (10)

26% (5)



Only 21% of auditees could fully implement this key control, which is a slight improvement since the prior year. The lack of effective HR management is also directly linked to one of the top three root causes of audit outcomes in the province that prevent auditees from receiving clean audits (section 4.2 has detail on the instability and vacancies in the province).

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. Leadership should also ensure that vacancies, especially key positions, are filled with competent individuals (section 3.3 provides more detail on this key risk area).

Regular and credible reports



Thirty-two percent (2011-12: 11%) of the auditees have successfully implemented this key control, which is an improvement since the prior year. This was also evident from the improvement in the quality of financial statements and performance reports (sections 3.1 and 2.2 provide more detail on these two key risk areas).

Management’s responsibility to account for auditees’ finances and performance is not limited to the annual financial statements and performance reports. Management should also prepare regular (monthly and quarterly), credible, accurate and complete financial and performance reports for the accounting officer or authority, the MEC (where required) and monitoring institutions such as the treasury and audit committees. 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.

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, many auditees failed to receive a clean audit as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The information that follows summarises the three most common root causes of the audit outcomes, provides recommendations to address the root causes and identifies the role players responsible for addressing such root causes.

Slow response by oversight

Detail of root cause

We identified slow response by oversight bodies to be a root cause of poor audit outcomes at 89% of the auditees.

In the Northern Cape, oversight by the legislature (SCOPA and portfolio committees) of departments and MECs, as well oversight by controlling departments of the various public entities, is of major concern. This has resulted in a lack of consequences and slow response by the MECs being evident at departments. This also resulted in the minimal impact they had on the audit outcomes of the province as detailed in section 5 of the report.

Recommendations

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

- Oversight bodies should ensure that MECs are held accountable if the necessary controls and commitments are not implemented
- The leadership in the province needs to follow a more stringent approach and should drive the culture of accountability whereby MECs and departmental officials are held accountable for non-compliance with laws and regulations

- All departments need to compile action plans for obtaining and/or maintaining clean audits, which must be reviewed by SCOPA, while MECs should report regularly to SCOPA on the implementation of these action plans
- The speaker of the provincial legislature must provide effective and coordinated oversight of departments and entities on a quarterly basis.

With the exception of the provincial treasury, there has been little progress with actions recommended and commitments made in the prior year by SCOPA, TROIKA, the legislature and portfolio committees. Commitments made in the current year by these oversight bodies are captured in section five of this report.

We have already started improving and strengthening our oversight relationship with various portfolio committees. To date, we have attended all the 2013-14 first-quarter portfolio committee meetings.

Slow response by political leadership

Detail of root cause

We identified slow response by political leadership to be a root cause of poor audit outcomes at 74% of the auditees.

Two MECs who are responsible for three departments and five entities reported on did not avail themselves for any key control interactions during the financial year and certain MECs were not always available to meet quarterly.

Recommendations

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

- MECs should ensure that action plans for obtaining and/or maintaining clean audits are compiled by accounting officers and authorities, with regular feedback to SCOPA
- In addition, MECs should ensure that a compliance unit is established at their respective auditees to monitor and review compliance with legislation
- The MEC responsible for the various entities under their portfolio should exercise oversight to ensure improved audit outcomes and timely submission of financial statements, while all outstanding financial statements of entities relating to the current and prior year must be addressed by the responsible MECs as a matter of urgency

- MECs should hold accounting officers and authorities accountable for poor performance.

MECs mostly did not implement prior commitments made. The detail of commitments addressed is set out in section 6 under the various portfolios of the MECs.

Instability and vacancies in key positions

Detail of root cause

We identified instability and vacancies in key positions to be a root cause of poor audit outcomes at 53% of the auditees.

Public entities were mostly challenged due to vacancies in key positions. Sixty-seven per cent of public entities, compared to 46% of departments, had vacancies in key positions.

The entities are challenged in filling key positions and instances are noted where positions were filled with officials who do not have the appropriate competencies needed for the position, especially in relation to GRAP standards. The main reason for this is that entities are very small and therefore have limited funds available to appoint competent key officials.

At the Department of Health we noted that the CFO vacancy for part of the year, together with the entire senior management structure being vacant at the provincial legislature, made it difficult to produce financial statements without material misstatements. The vacancy of the CFO and secretary positions at the provincial legislature for more than a year contributed to material misstatements noted in the financial statements of this auditee.

The senior management vacancies at the departments of Sport, Arts and Culture and Agriculture also made it difficult for these departments to produce good quality financial statements.

Section 3.3 details the status and impact of vacancies and instability.

Recommendations

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

- Accounting officers must ensure that all vacant key positions are filled with competent officials in the various departments. Although competent officials acted in these key positions, it left voids that resulted in undue pressure on officials in the lower-level positions

- MECs must commit themselves to ensuring that all vacancies in the entities under their portfolio are filled and that the use of consultants is restricted
- Provincial treasury should assist with the assessment of officials appointed in these key financial positions to ensure that they have the required competencies.

Some of the actions recommended in the previous year and commitments made were addressed by the provincial leadership.

Formal control over information technology systems

Most prevalent root causes

At most provincial departments, departmental IT officers (DITOs) operate at a technical level instead of providing strategic direction and guidance. This challenge is exacerbated by the following inefficiencies:

- The respective roles and responsibilities of the premier's office and the departments were not clear.
- Departments experienced challenges in attracting staff and filling vacant posts.
- Leadership did not assume accountability by ensuring the implementation of commitments made during stakeholder engagements. Furthermore, there were no consequences for non-compliance with the requirements.

Recommendations

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

- The provincial government information technology officer (PGITO) is to facilitate the process of approving and implementing the provincial disaster recovery plan across all departments.
- Departments are to work together with the PGITO to address challenges in the IT environment.
- Operation clean audit will monitor the implementation of the action plans of provincial departments.
- The memorandum of understanding between the premier's office and all the departments with regard to IT services should be approved.

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

- The provincial director-general should fast-track the process of formally approving the draft memorandum of understanding between the office of the premier and the departments.
- HR departments should initiate a project to assess the root causes that have prevented them from filling vacant key IT positions. Corrective measures should subsequently be put in place. For example, vacant positions should be filled with temporary staff until such time as these positions have been filled.
- The premier's office and the shared internal audit function within the province should track the resolution of the findings raised by the AGSA and ensure that the control environment is functioning as intended.
- The provincial treasury should develop user access management procedures for Logis, which should be rolled out to all departments. The PGITO should update the disaster recovery plans with recovery procedures and distribute them to the departments for adoption and implementation. Each department will have to ensure that all provincial policies and procedures are adopted, approved and fully implemented.
- Processes should also be put in place to ensure that there are consequences for any lack of accountability and failure to address IT audit findings.

SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 41: Assurance provided by key role players

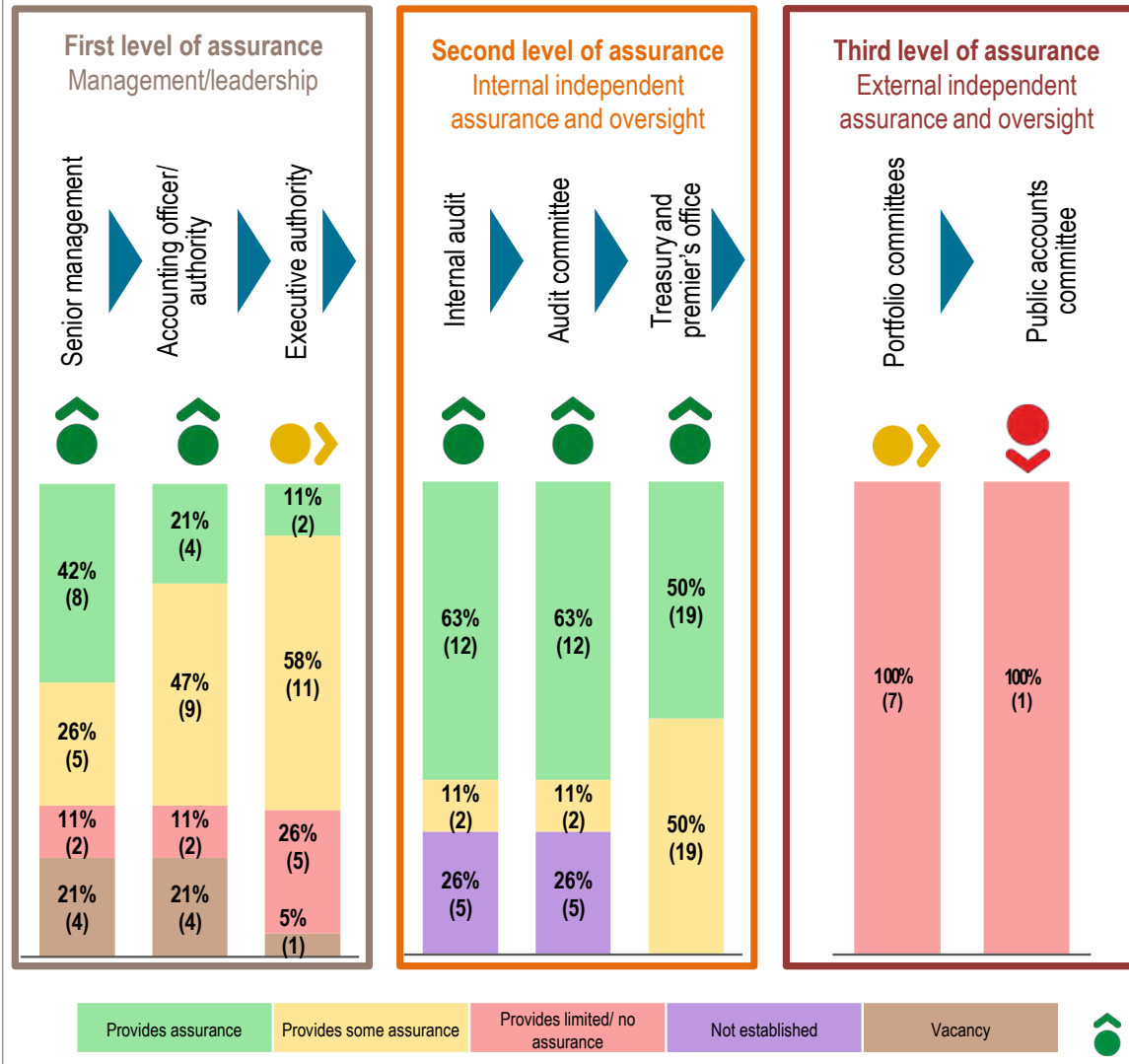
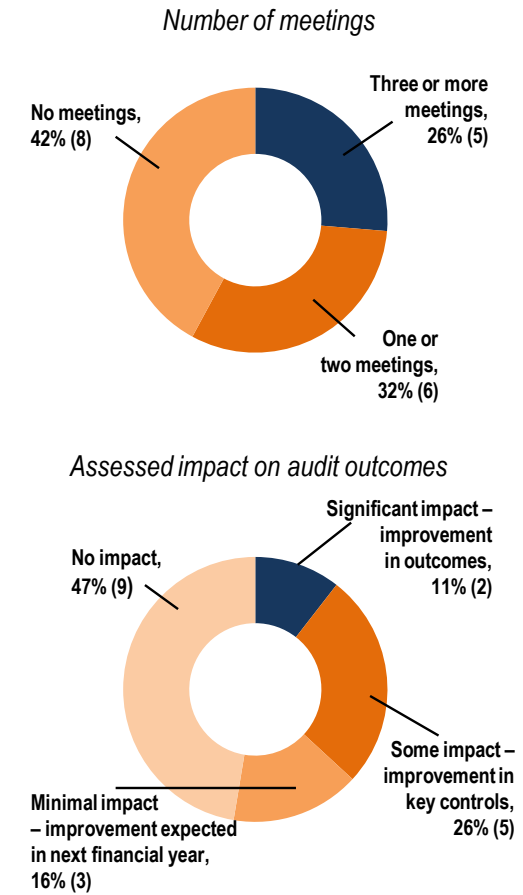


Figure 42: Interactions with MECs and assessed impact thereof



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

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

Besides 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 as an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

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

Figure 41 illustrates 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

Although role players at the first level of assurance are not yet providing the required level of assurance, the assurance provided by the executive authorities requires the most improvement. Accounting officers and MECs are relying on

senior management, which includes the CFO, chief information officer and head of the SCM unit, to implement 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 status of these internal controls, as reported in section 4.2, reflects that inadequate assurance is still provided to MECs. 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, showed an improvement since the prior year; however, this is still not adequate at 11 of the 19 auditees.

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

Accounting officer or accounting authority

The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities is rated at a lower reliance level as that of senior management. Accounting officers and accounting authorities are still failing to create a fully effective control environment at many auditees. Although accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls by focusing on the following:

- Provide effective and ethical leadership and exercise oversight of financial and performance reporting and compliance with legislation
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored

- Establish policies and procedures to enable sustainable internal control practices and monitor the implementation of action plans to address internal control deficiencies
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to
- Support the audit committee and ensure that their reports are responded to.

Executive authority

The MECs serve as executive authorities in the province. They have a monitoring and oversight function within their portfolios and play a direct role in departments and entities, as they have specific oversight responsibilities in terms of the PFMA and 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 improvement in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities. Our assessment is that most MECs are not yet providing the required level of assurance. This is evident from the impact of MECs on audit outcomes as observed during our regular interactions with them.

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

As demonstrated in figure 42, it was a challenge to meet on a regular basis with some of the MECs. Two MECs who are responsible for three departments and five entities reported on did not avail themselves for any key control interactions during the financial year, while other MECs were not always available to meet quarterly.

The engagements that had taken place were well received, but such interaction has not yet had a significant impact on the audit outcomes. However, the building blocks are now in place for improvements in key controls, which should lead to improved audit outcomes. The low impact of our interactions with some MECs was due to officials not being held accountable for non-performance, which in turn resulted in commitments not being fully implemented and monitored (section 6 provides more detail on the interactions with the MECs).

Second level of assurance: Internal independent assurance and oversight

Internal audit

Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The shared internal audit unit was in place at all departments and was fully functional, with the exception of the provincial legislature where improvement is still required. The provincial legislature has their own internal audit unit and is not making use of the shared internal audit unit of the province. The shared internal audit unit provided the extensive assurance required, which is a vast improvement since the previous year. It is a major concern that five of the six public entities have not established internal audit units.

The effective shared internal audit unit for the province has helped to improve internal controls and had a positive impact on the audit outcomes of departments.

The shared internal audit function will only remain 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

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 in place at all departments and the work of the committees covered all the required aspects. Overall, the audit committees had a positive

impact on the audit outcomes, as can be seen from the high levels of assurance provided in the current year.

Five of the six public entities did not have an audit committee in place and accounting authorities are urged to attend to this shortcoming as a matter of urgency.

Provincial treasury and premier's office

The provincial accountant-general and accounting officer of the provincial treasury played a significant role in the liaison between the office of the Auditor-General and the accounting officers of the various departments. They should also extend themselves to be more visible at the entities to duplicate the success of audit outcome improvements for the departments. All oversight commitments made by the provincial treasury were implemented.

We are aware that the premier's office held regular meetings with MECs and accounting officers; however, their oversight role could be improved to show tangible involvement in improving the provinces' audit outcomes. Commitments made by the premier's office were not yet implemented in the year under review and are still in progress.

The premier undertook to strengthen the financial management capacity of the province by appointing competent people in vacant positions. She promised that vacant positions at departments would be filled on the basis of competency by focusing on "the right person for the specific position". She committed to provide decisive leadership to the province and to focus on accounting deficiencies by the implementation of monthly reporting requirements.

The provincial treasury undertook to assist other provincial departments with regard to PDOs and to engage with National Treasury on issues encountered on immovable assets during the 2012-13 financial year.

Third level of assurance: External independent assurance and oversight

Portfolio committees and public accounts committees

We are aware that portfolio committees have been holding quarterly oversight meetings with all the auditees, but we are not yet in a position to comment on their

effectiveness. However, we have already started improving and strengthening our oversight relationship with the portfolio committees.

We noted at the three meetings we attended that the portfolio committees focus more on service delivery issues than on the AGSA's findings.

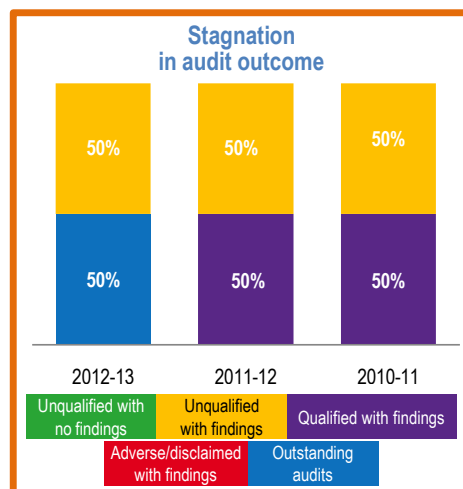
SCOPA currently tends to focus only on departments and not entities. We recommended that oversight of entities in the province be strengthened.

None of the prior year commitments made by the portfolio committees and SCOPA were implemented.

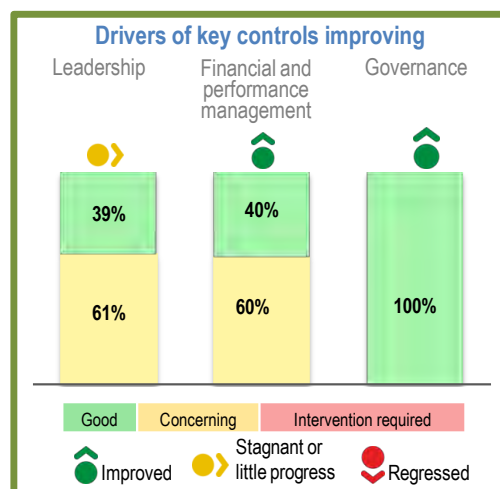
The legislature undertook to engage with the AGSA to assist with the follow-up on SCOPA resolutions and to intensify its oversight of departments.

SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

6.1 Office of the Premier



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

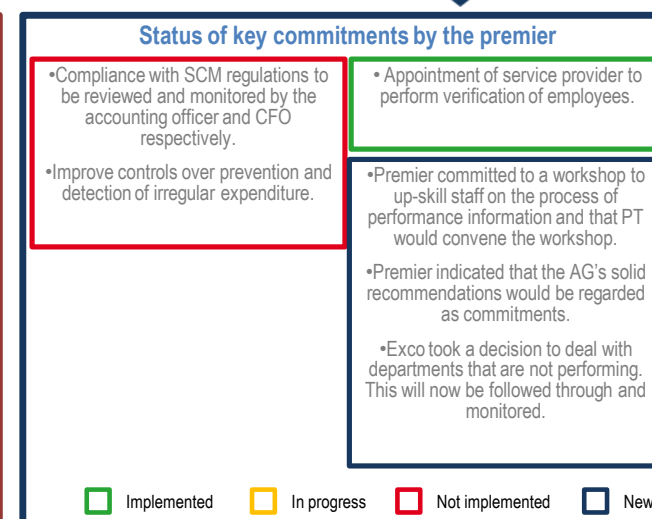
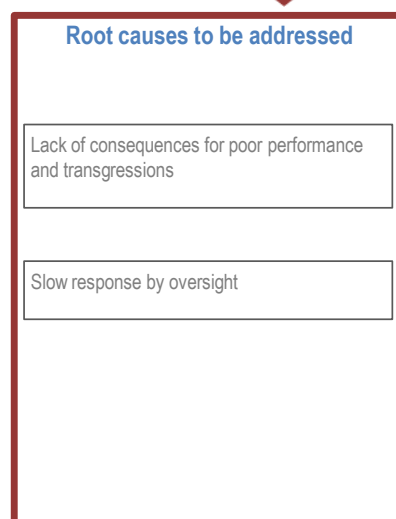


the **drivers of the key controls** and the **root causes** as well as

Assurance levels should be improved

Senior management	Provides some assurance
Accounting officer/ authority	Provides some assurance
Minister/ MEC	Vacancy
Internal audit	Provides assurance
Audit committee	Provides assurance
Portfolio committee	Provides limited /no assurance

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



Auditees included in the portfolio audited by the Auditor-General of South Africa

- Office of the Premier (stagnated)
- Premier's Education Trust Fund

Audit outcome

The stagnation in the auditee's audit outcome was due to material compliance findings on HR and supply chain management. The audit of the Premier Education Trust Fund was not finalised in time and the outcomes are therefore not included in the narrative below.

Six key risk areas

Progress has been made by the auditee in addressing the key risk areas, most notably in the area of the quality of financial statements submitted. The quality of the annual performance report also remained good as no material findings were reported. The status of supply chain management remains unsatisfactory, mostly because the auditee did not meet the requirement to obtain three quotations. We raised findings on IT controls but none on financial health. The material compliance findings on supply chain and HR management prevented the auditee from obtaining a clean audit.

Key controls and root causes

The stagnation in the audit outcome was mainly due to lack of controls to prevent non-compliance with SCM regulations. Progress made in the areas of IT controls and quality of financial statements submitted due to improvement of leadership controls and partly addressing the governance weaknesses. The auditee should strengthen the following control to create a control environment that supports compliance with legislation:

- Review and monitoring of compliance with laws and regulations.

The executive authority, together with the accounting officer, should address the root causes of inadequate controls as follows:

- Institute controls that prevent non-compliance with laws and regulations
- Enforce discipline of review and monitoring of compliance with laws and regulations.

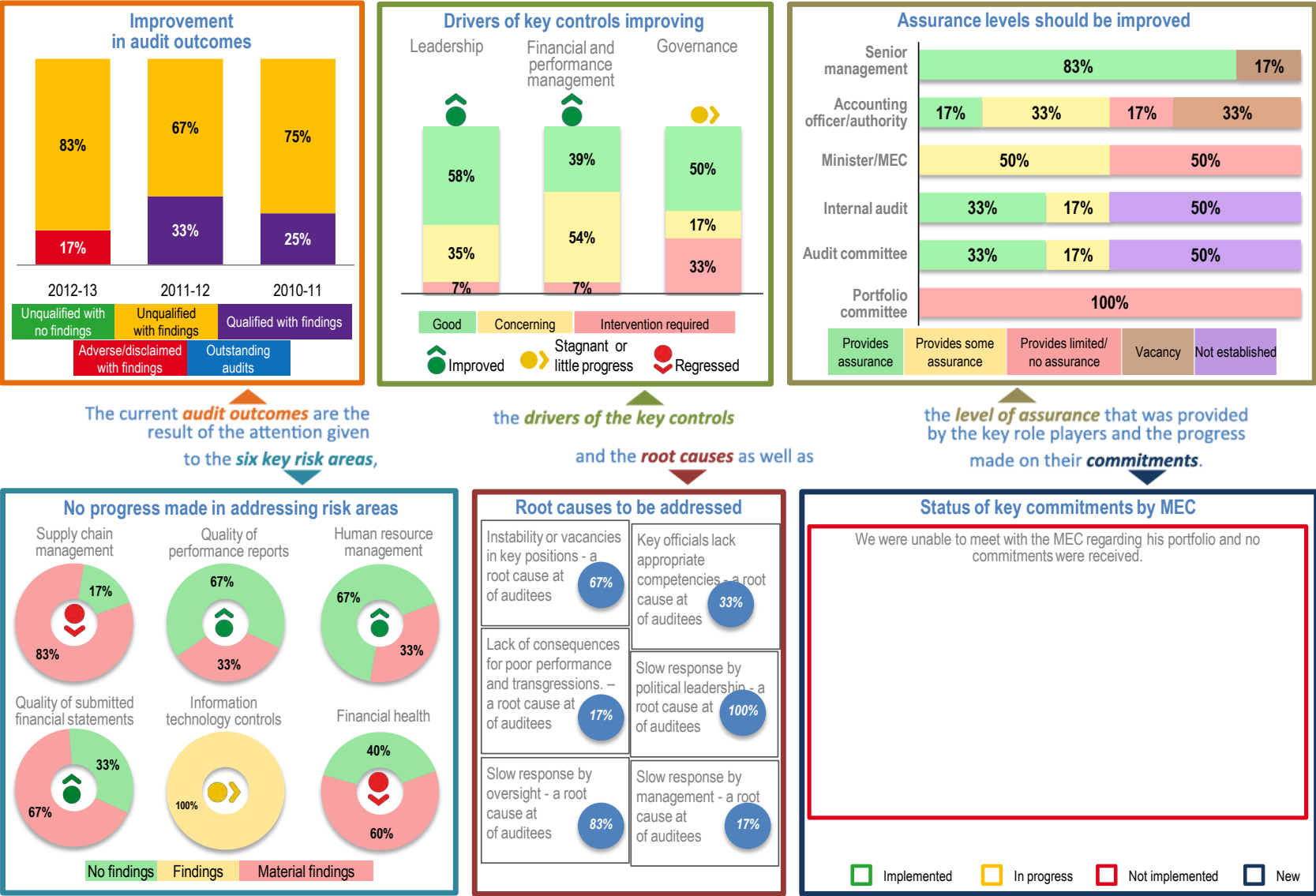
Impact of key role players on audit outcomes

The assurance levels should be improved by implementing the recommendations under the key controls and root causes section.

We have met with the acting premier as well as the premier who was appointed after year-end in the past year and noted that they had some impact on the audit outcome. In addition, we met with the director-general four times during the year and these interactions also had some impact on the audit outcomes. The reason for our assessment is the non-compliance reported in the audit report which prevented the auditee from obtaining a clean audit. The uncertainty created by the acting political leadership impacted on the controls of the auditee, while the status and impact of the commitments contributed to the assessed assurance provided by the premier.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.2 Finance, Economic Affairs and Tourism



Auditees included in the portfolio

- Department of Economic Development and Tourism (Improvement)
- Northern Cape Economic Development, Trade and Investment Promotion Agency (Regression)
- Northern Cape Gambling Board (Stagnation)
- Northern Cape Liquor Board (Improvement)
- Northern Cape Provincial Revenue Fund
- Northern Cape Provincial Treasury (Stagnation)
- Northern Cape Tourism Authority (Stagnation)

Audit outcome

The overall improvement in the audit outcome of the auditees was the result of the Department of Economic Development and Northern Cape Liquor Board improving from qualified to unqualified with other matters for the financial year under review. The only regression was as a result of the Northern Cape Economic Development, Trade and Investment Promotion Agency moving from an unqualified report to a disclaimer. In addition to the above, the other entities in the portfolio remained stagnant as a result of material compliance findings on HR management, supply chain management and quality of financial statements.

Six key risk areas

There was an overall improvement in addressing the key risk areas, most notably the quality of performance reports, quality of submitted financial statements and HR management. Findings on IT controls remained unresolved, while findings on financial health regressed slightly, mainly due to going concern issues which were emphasised at the Northern Cape Gambling and Liquor Board as well as Northern Cape Tourism Authority. The other regression that occurred was in respect of compliance with SCM regulations which was mainly due to failure to invite three written quotations.

Key controls and root causes

The auditees improved their leadership controls while governance remained a concern as insufficient progress was made in appointing internal audit and audit committees at public entities in this portfolio. Auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Preparation of regular, credible financial reports
- Action plan to address internal control deficiencies
- Appoint an internal audit unit and audit committee.

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

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan must be created and monitored by a designated official with regards to compliance findings and the MEC should request monthly feedback on progress
- A properly capacitated internal audit unit and audit committee must be established for the public entities.

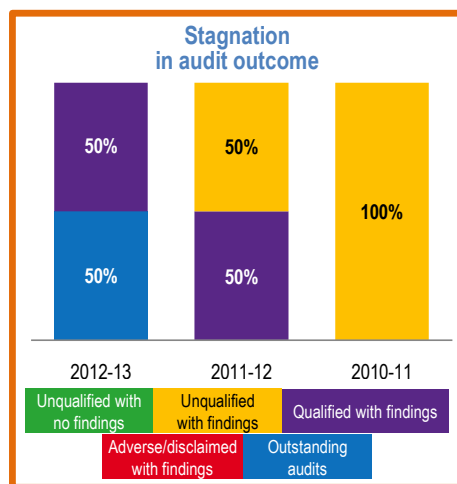
Impact of key role players on audit outcomes

Assurance should be improved at all levels to ensure stability at the level of the executive authority, accounting officer and senior management, while the recommendations under the key controls and root causes section should be implemented.

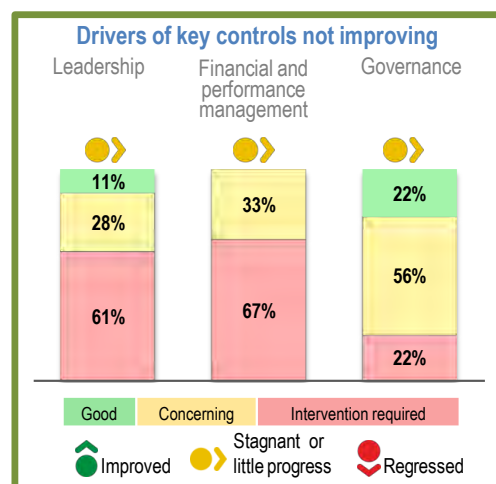
We were unable to meet with the MEC in the past year and were therefore unable to assess his impact on the audit outcomes of the portfolio. The reason for the improvement since the previous year was the involvement of CFOs during the year and during the audit process.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.3 Northern Cape Provincial Legislature



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

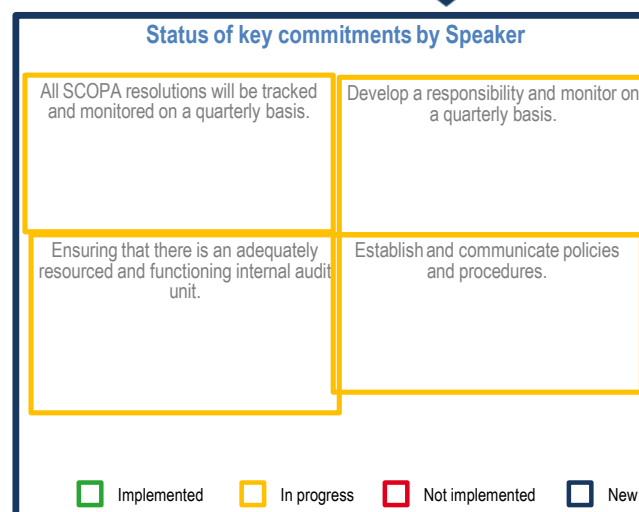
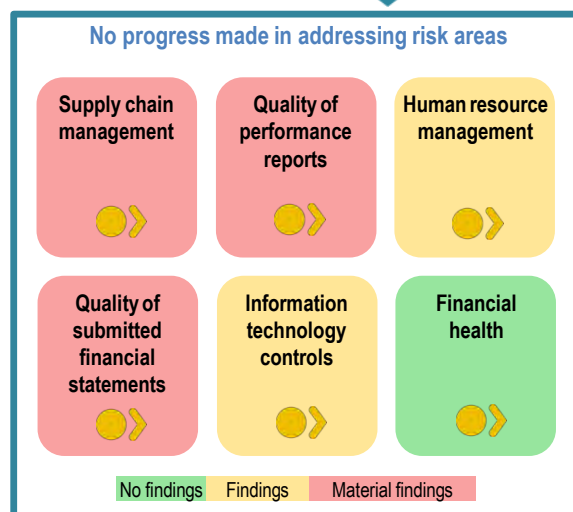


the **drivers of the key controls** and the **root causes** as well as

Assurance levels should be improved

Senior management	Vacancy
Accounting officer/ authority	Vacancy
Minister/ MEC	Provide some assurance
Internal audit	Provide some assurance
Audit committee	Provides some assurance
Portfolio committee	Provide limited/no assurance

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



Auditees included in the portfolio audited by the Auditor-General of South Africa

- Northern Cape Provincial Legislature (Stagnant)
- Northern Cape Political Party Fund

Audit outcome

As a key oversight body in the province, the legislature should be the frontrunner of clean audit. The auditee's audit outcome remained stagnant, mainly due to material misstatements not corrected by the auditee and material compliance findings on budget, expenditure, supply chain management and quality of financial statements. The Northern Cape Political Party Fund has not been finalised for inclusion as the fund is still awaiting financial statements from the political parties.

Six key risk areas

The auditee has made no improvements since the prior year audit due to vacancies that existed throughout the financial year, lack of competencies in the finance unit and failure to monitor the audit action plan on a regular basis, which resulted in a lack of progress in addressing the key risk areas. The auditee's key risk areas have remained stagnant for the year as there were material findings on supply chain management, quality of performance reports and quality of submitted financial statements. In the areas of HR management and IT controls, the findings were reported in the management report only. Overall, financial health was positive.

Key controls and root causes

The stagnation in key controls was due to the vacancies that existed throughout the financial year, lack of competencies in the finance unit and failure to monitor the audit action plan.

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

- Preparation of regular, credible financial reports
- Action plan to address internal control deficiencies
- Vacancies and competencies of staff.

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

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan must be created and monitored by a designated official with regards to compliance, PDO findings as well as the prior year qualification
- Competent staff must be appointed in the finance unit and all vacancies must be filled to improve the auditee's controls. Once the positions have been filled, staff should be held accountable for non-performance if positive results are not achieved.

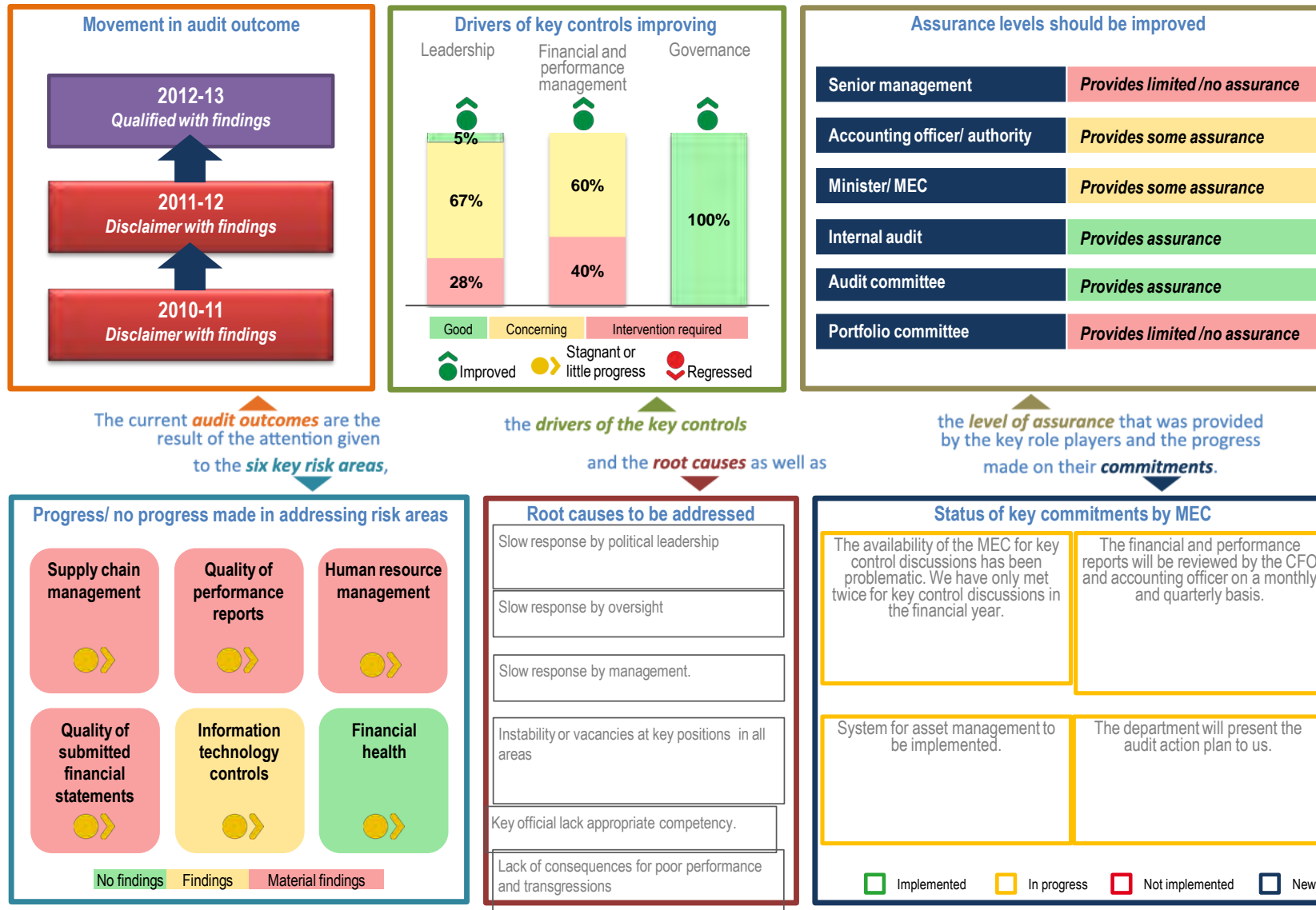
Impact of key role players on audit outcomes

There are vacancies in the accounting officer position as well as at senior management level, therefore assurance levels should be improved by filling the vacancies and implementing the recommendations under the key controls and root causes section.

We met with the speaker four times in the past year but these interactions had minimal impact on the audit outcomes. The reasons for our assessment are non-compliance with legislation and failure to correct prior/current year material misstatements. The non-compliance reported is largely due to budgetary constraints faced by the legislature and vacancies in senior management and the finance unit. This assessment of meetings held with the speaker, the impact of the speaker on the auditee's controls, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the speaker.

We will strengthen our relationship with the portfolio committee to assess assurance provided by them.

6.4 Health



Significant movement in audit outcome

The improvement in audit outcome stemmed from the auditee not being qualified on goods and service because of an improvement in the submission of audit evidence relating to expenditure.

Six key risk areas

Limited progress has been made in addressing the key risk areas. Although there was a slight improvement in the quality of the annual financial statements, various material corrections still had to be made. The auditee was unable to make any progress in resolving non-compliance issues.

In terms of reporting on PDOs, the auditee remained stagnant for the year under review. Management failed to adequately review actual performance against PDOs reported. Furthermore, controls were not implemented to ensure that the quarterly results agree to actual annual performance results.

In the areas of IT controls implemented by the auditee, there were still findings but not material ones. However, there were material findings relating to HR management, while financial health overall was positive.

The status of asset management, patient revenue and receivables, and supply chain management remains unsatisfactory. These should be priority areas for leadership.

Key controls and root causes

The improvement in key controls was due to the auditee improving the leadership controls and partly addressing the governance weaknesses. The auditee should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Action plan to address internal control deficiencies
- Preparation of regular, credible financial and performance reports.

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

- Financial and performance reports must be prepared and reviewed on a regular basis
- An action plan must be created and monitored
- Officials should be held accountable for poor performance and transgressions.

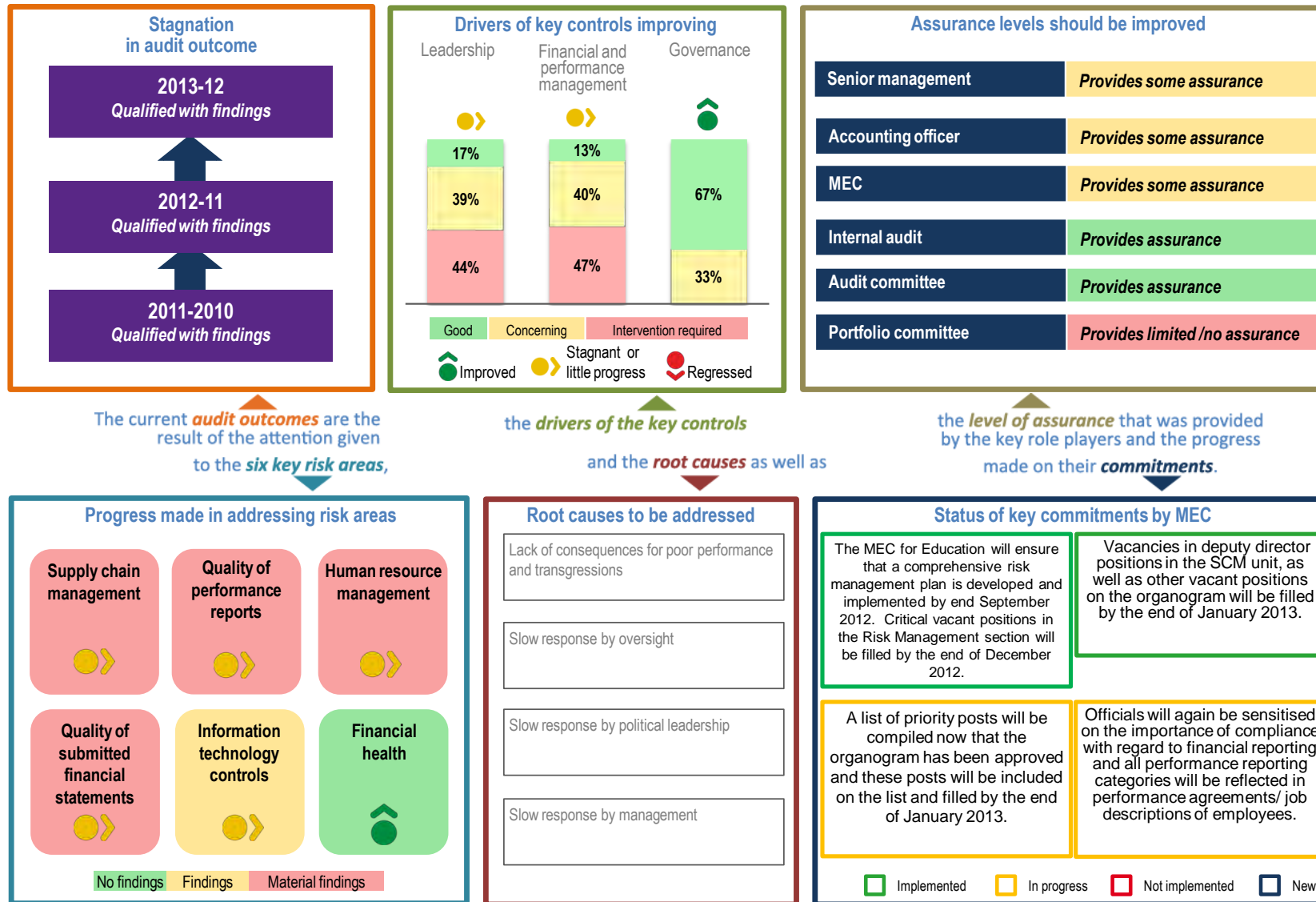
Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of accounting officer and senior management and by implementing the recommendations under the key controls and root causes section of this portfolio report.

We met with the MEC twice in the past year and these interactions had some impact on the audit outcomes. This assessment, the impact of the MEC on the auditee's controls, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

We will strengthen our relationship with the portfolio committee to assess assurance provided by them.

6.5 Education



Audit outcome

The stagnation in the auditee's audit outcomes was due to the recurrence of a qualification on assets. In addition, material compliance findings were reported.

Six key risk areas

Slight progress has been made in addressing the key risk areas, most notably an improvement in the quality of the annual performance report from a disclaimer to a qualified opinion as reported in the management report. The auditee should focus on the measurability and presentation of the performance information to address the material findings on the usefulness of its performance report. In the area of IT controls implemented by the auditee, the finding remained unchanged compared to the prior year. Compliance findings were raised on HR and supply chain management and the quality of financial statements, while financial health, overall, was positive.

Key controls and root causes

The improvement in key controls was as a result of the auditee addressing governance weaknesses; however, leadership and performance and financial management remain stagnant. The auditee should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Preparation of regular, credible financial and performance reports
- Action plan to address internal control deficiencies.

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

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan must be created and monitored with regard to compliance findings.

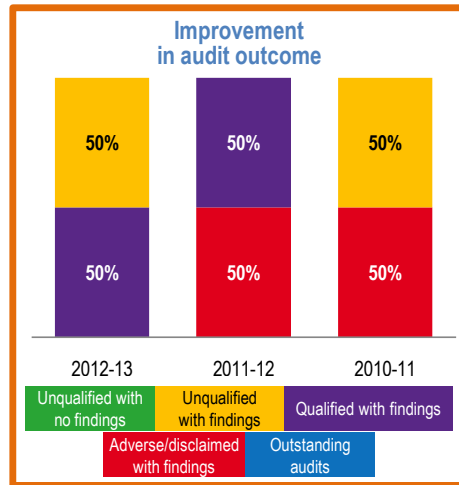
Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of accounting officer and senior management and by implementing the recommendations under the key controls and root causes section.

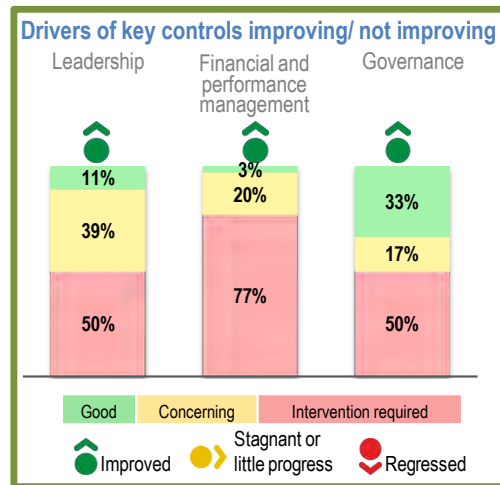
We met with the MEC four times in the past financial year. These interactions had minimal impact on the audit outcomes. Our assessment was due to the qualification, material non-compliance with laws and regulations and PDO findings in the audit report. This assessment, the impact of the MEC on the auditee's controls, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

We will strengthen our relationship with the portfolio committee to assess assurance provided by them.

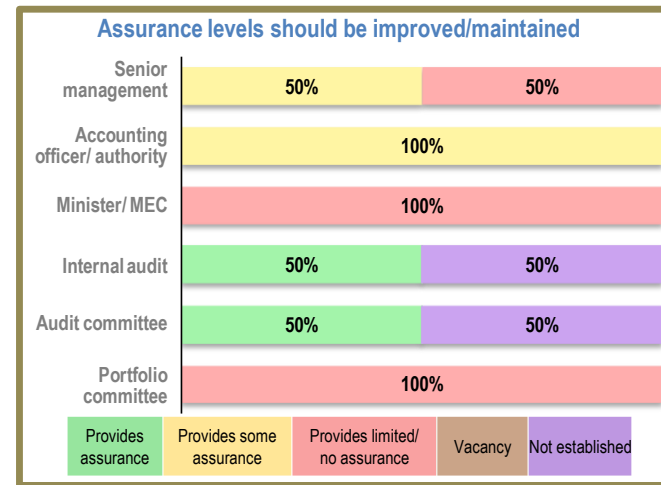
6.6 Roads and Public Works



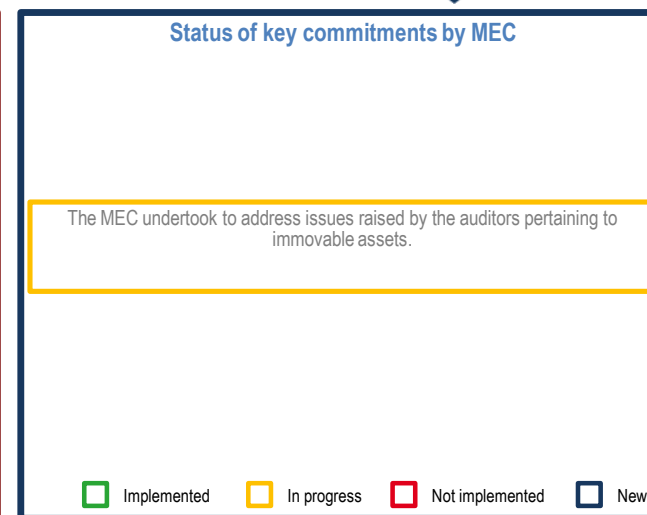
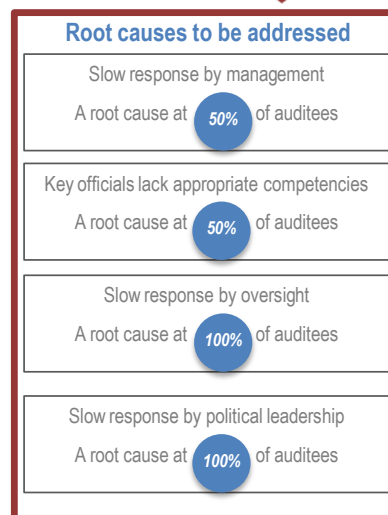
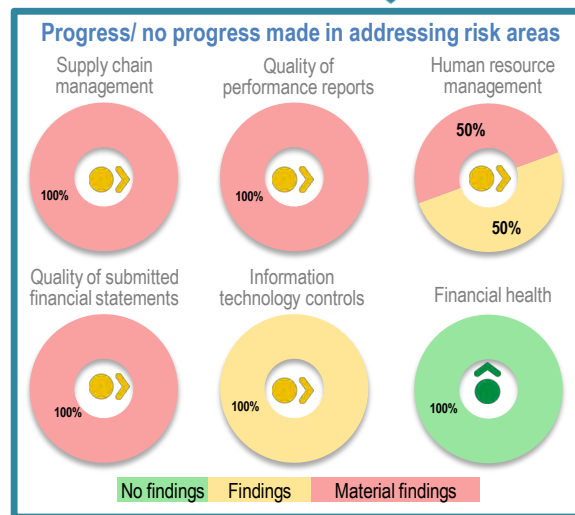
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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 Roads and Public Works (Improvement)
- Northern Cape Fleet Management Trading Entity (Improvement)

Significant movement in audit outcome

The improvement in the audit outcomes of auditees was due to the increased involvement of the CFO and accounting officer during the audit process. Despite the improvement in the audit outcomes, auditees are heavily reliant on consultants. This poses the question of sustainability of audit outcomes if consultants were not used.

Six key risk areas

Five of the six key focus areas have remained stagnant since the prior year. Findings that impacted the audit outcome are in the areas of supply chain management, HR management, quality of performance reports and quality of submitted financial statements. The findings on IT controls were reported in the management report. Financial health, over all, was positive.

An additional key risk area at the Roads and Public Works is that of immovable assets within the province, which derives from the Government Immovable Asset Management Act. If the issues around immovable assets are not addressed within the province, specifically at Health and Education, the Department of Roads and Public Works will be qualified on immovable assets in the 2014 financial year.

Key controls and root causes

The improvement in the key controls was as a result of improving leadership controls and partly addressing governance weaknesses. The auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Adequate and viable action plan
- Regular, credible financial and performance reporting
- Review and monitor of compliance with legislation.

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

- Action plan must be monitored and reviewed by the accounting officer on a monthly basis. The MEC to request feedback and progress monthly. The action plan is to also specifically address the immovable assets within the province as stated under the six key risk areas section
- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed. The MEC should request monthly feedback on the status of disciplines within auditees
- A compliance checklist must be reviewed on a monthly basis. This can form part of the action plan to address audit report findings. A designated official should be assigned this responsibility and held accountable for non-performance.

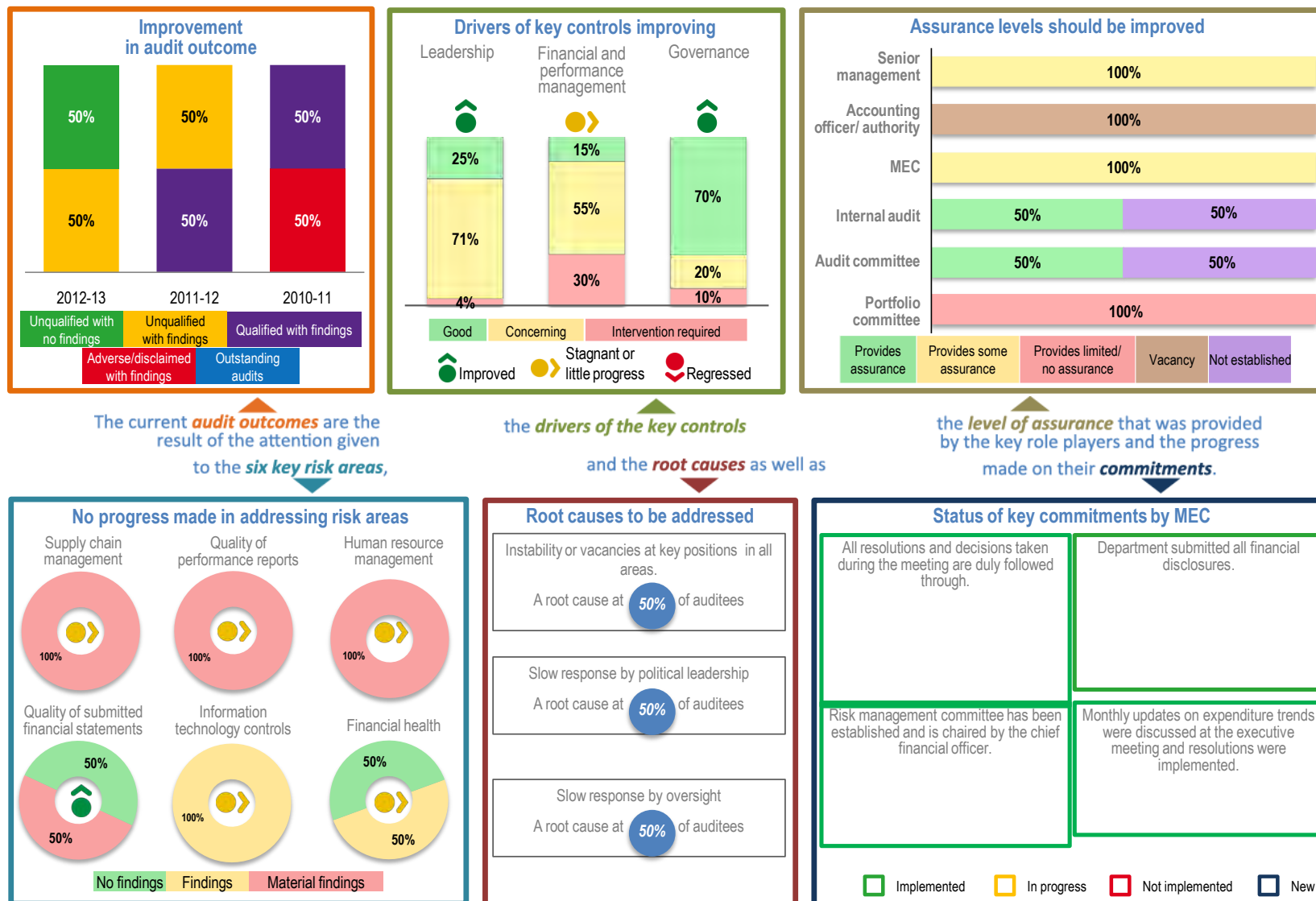
Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of accounting officer and senior management, holding officials accountable for non-performance and implementing the recommendations under the key controls and root causes section. The auditees should also ensure that the consultants used by the auditees transfer their skills and knowledge.

We were unable to secure a meeting with the MEC during the past year and he had minimal impact on the audit outcome. The reason for our assessment is the extent of non-compliance and material misstatement corrections made to the annual financial statements after submission. This assessment, the impact of the MEC on the auditees' controls, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.7 Cooperative Governance, Human Settlement and Traditional Affairs



Auditees included in the portfolio audited by the Auditor-General of South Africa

- Department of Cooperative Governance, Human Settlement and Traditional Affairs
- Northern Cape Housing Fund

Significant movement in audit outcome

The audit outcome of the Department of Cooperative Governance, Human Settlement and Traditional Affairs is stagnant, mainly due to material misstatements that were corrected and material compliance findings. The Northern Cape Housing Fund received a clean audit opinion and is currently dormant and in the process of being dissolved.

Six key risk areas

The auditees' six key risk areas are assessed as follows: The department has made slight progress on the quality of the performance reports, which has improved due to adjustments made to the annual performance report which subsequently improved the audit conclusion. In the areas of IT controls and financial health there were still findings. Compliance findings on supply chain management, HR management and the quality of submitted financial statements were reported in the audit report. The entity was only assessed on the quality of submitted financial statements and not on the other five key risk areas as it is currently dormant. There were no findings in this area, which contributed to the entity receiving a clean audit.

Key controls and root causes

The improvement in the key controls was due to an improvement in leadership controls and partly addressing governance weaknesses. The auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Preparation of regular, credible financial reports
- Adequate and viable action plan.

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

- Annual financial statements must be reviewed on a bi-annual basis and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of these disciplines
- An action plan must be created and monitored with regard to compliance findings. A designated official should be held accountable for the action plan.

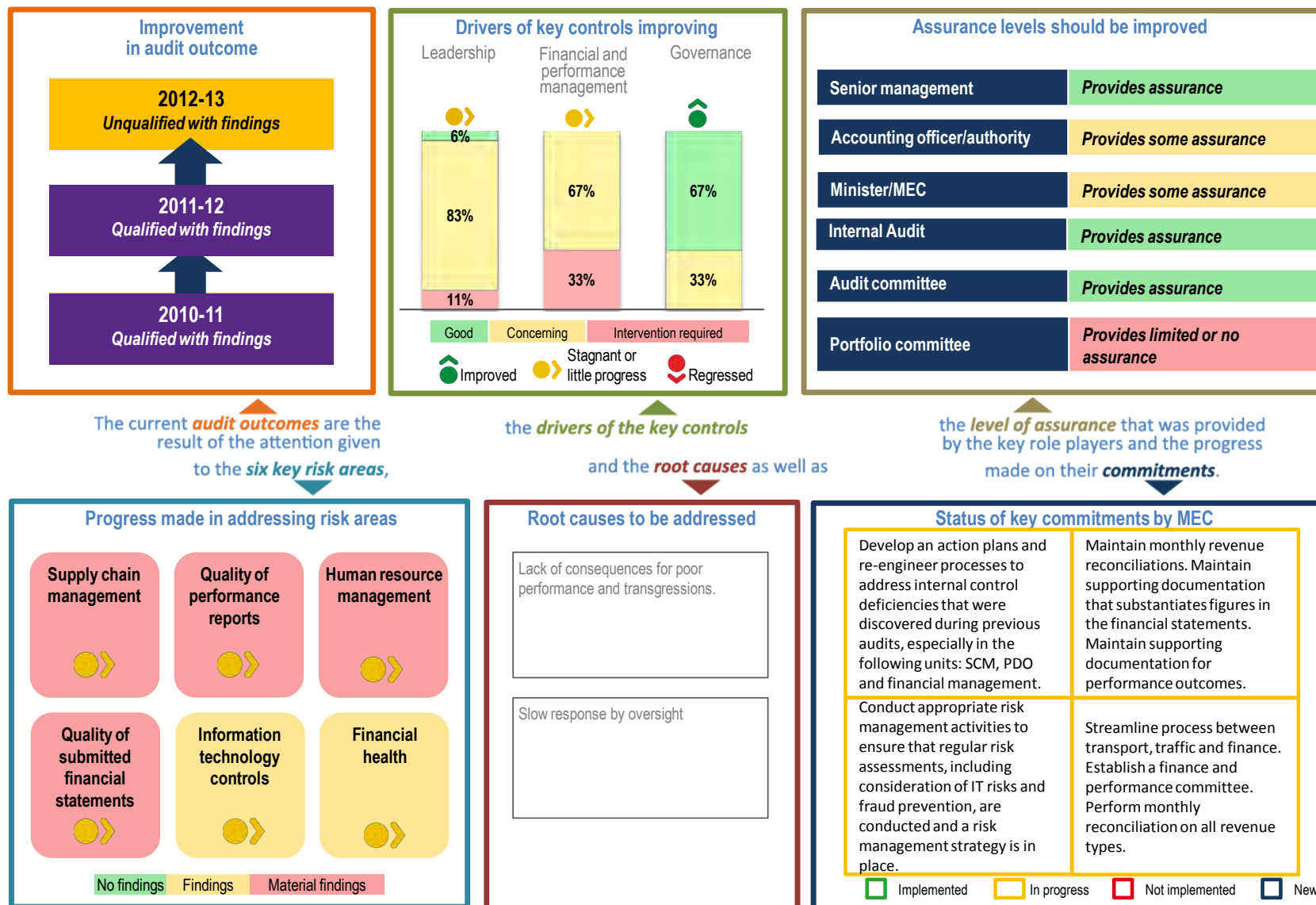
Impact of key role players on audit outcomes

The accounting officer position is vacant, therefore assurance levels should be improved by filling the accounting officer position, ensuring stability at senior management level and implementing the recommendations under the key controls and root causes section.

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 various compliance findings that were reported in the audit report. This assessment, the impact of the MEC on the controls of the department, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.8 Transport, Safety and Liaison



Significant movement in audit outcome

The improvement in the auditee's outcomes to financially unqualified with findings was as a result of an increased level of commitment by senior management.

Six key risk areas

Slight progress has been made in addressing the key risk areas, specifically the quality of the annual performance reports. Although material findings relating to PDOs were again raised, the opinion improved from an adverse conclusion in the previous year to a qualified opinion in the current year. In the areas of IT control and financial health there were still findings. Findings on supply chain management, HR management and quality of submitted financial statements were reported in the audit report.

The auditee should remain committed to and focus on addressing the compliance findings and weaknesses identified with regard to reporting on PDOs.

Key controls and root causes

The improvement in key controls was largely as a result of addressing governance weaknesses. The auditee should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Regular reconciliations to ensure accuracy of financial statement information
- Action plan to address compliance findings, specifically the non-compliance relating to supply chain management
- Action plan for reporting on predetermined objectives.

The executive authority, together with the accounting officer, should address the root causes of non-compliance, PDO findings and inadequate controls as follows:

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan must be created and monitored with regard to compliance and predetermined objectives findings
- Enforce discipline by holding staff accountable for poor performance.

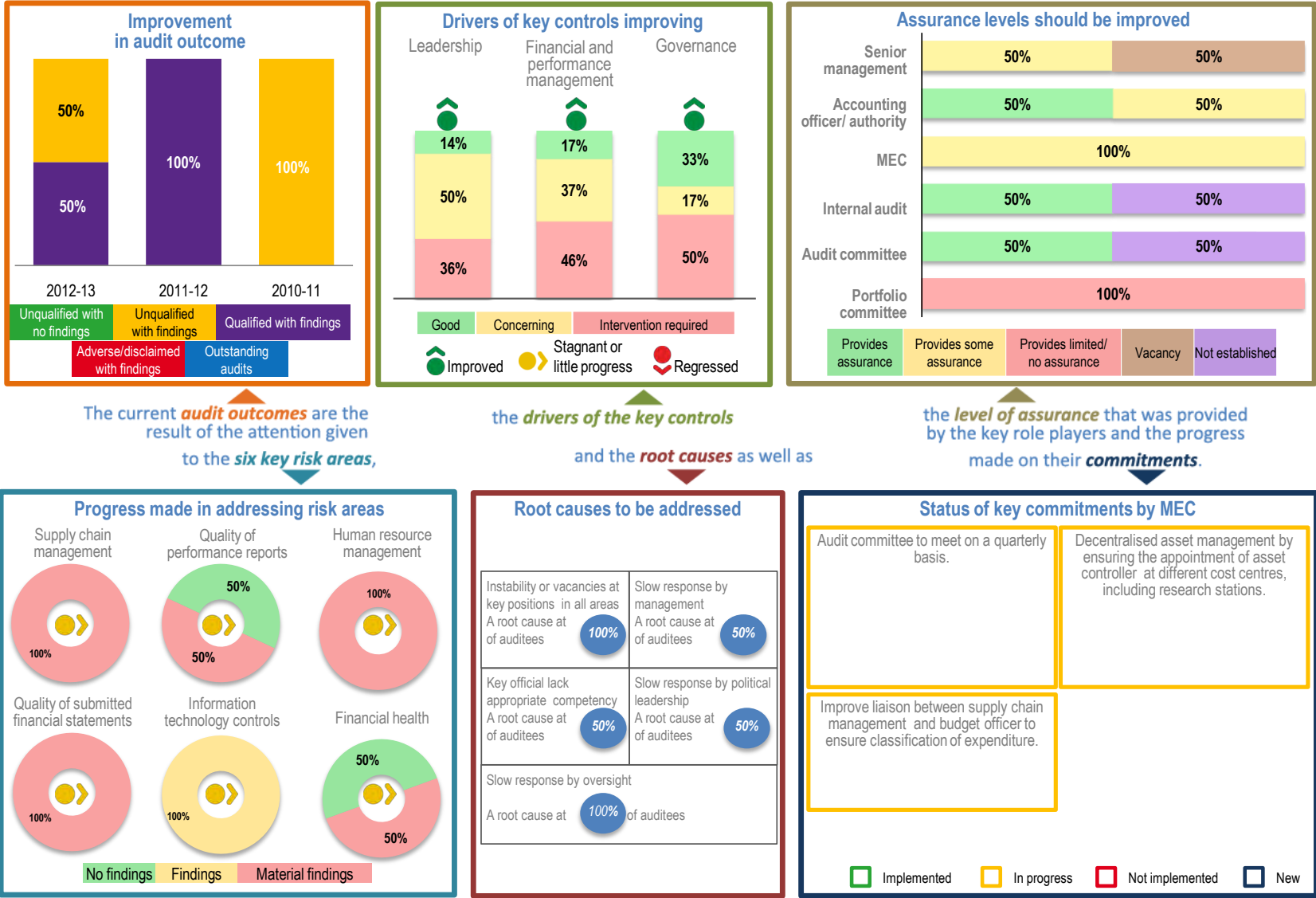
Impact of key role players on audit outcomes

Assurance levels should be maintained by ensuring stability at the level of accounting officer and senior management and implementing the recommendations under the key controls and root causes section.

We met with the MEC once during the past year. This interaction had some impact on the audit outcomes. The reason for our assessment relates to compliance and PDO findings as reported in the audit report. The main reason for the compliance and PDO findings reported was a lack of monitoring and review. 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.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.9 Agriculture, Land Reform and Rural Development



Auditees included in the portfolio audited by the Auditor-General of South Africa

- Agriculture, Land Reform and Rural Development (Improvement)
- Kalahari Kid Corporation (Stagnation)

Significant movement in audit outcome

The improvement in the auditee's outcomes was due to implementation of an audit action plan to correct prior year qualification matters while maintaining effective internal controls for current year. The finance unit was adequately equipped with competent personnel. The leadership and management of the auditees maintained a strong control environment and open communication with auditors.

Six key risk areas

There was stagnation at the auditee in addressing the key risk areas and compliance findings on supply chain management, HR management and the quality of submitted financial statements, which prevented the auditees from obtaining a clean audit. There were findings on IT controls which did not impact the audit report. Financial health, over all, was positive for the portfolio, although going concern was emphasised at the Kalahari Kid Corporation.

We noted that the Department of Agriculture, Land Reform and Rural Development had a total of five compliance findings in its audit report, which indicates the possibility of the department improving to obtain a clean audit if these compliance findings are adequately addressed. The department had no PDO findings for two consecutive years, while the entity had findings reported.

Key controls and root causes

The improvement in the key controls was due to an improvement in the control environment and partly addressing governance weaknesses. The auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Preparation of regular, credible financial reports
- Action plan to address non-compliance and reporting on predetermined objectives
- Inadequate policies and procedures.

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

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan must be implemented to appoint officials who will monitor and review compliance issues
- Policies and procedures should be put in place and the existing ones should be reassessed annually.

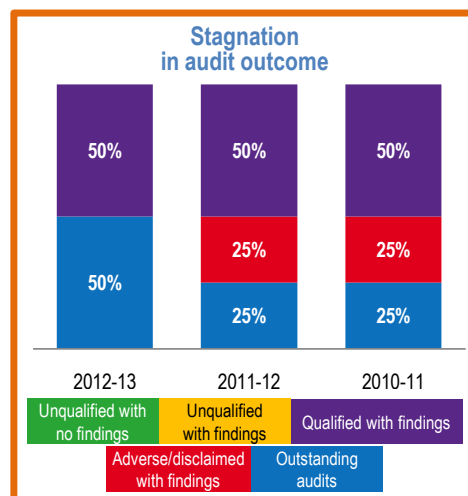
Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of accounting officer and senior management and implementing the recommendations under the key controls and root causes section.

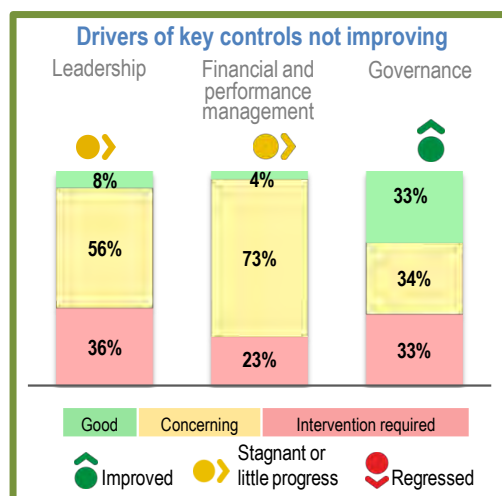
We met with the MEC three times during the year and he was willing to be engaged with the auditors when necessary. The MEC was involved in the audit process and requested the auditors to elevate any audit issues not addressed by the officials of the auditees so that he could follow up and ensure that the issues receive the attention required to improve audit outcomes. The accounting officer and senior management were always available to engage with auditors. This assessment, the impact of the MEC on the controls of the auditee, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

We will strengthen our relationship with the portfolio committee to assess assurance provided by them.

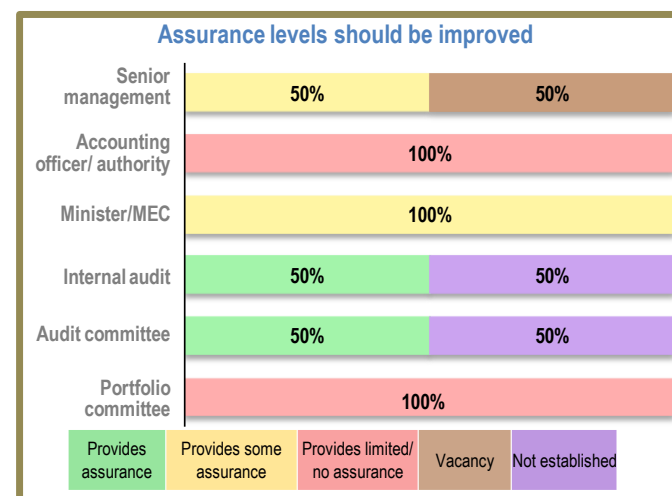
6.10 Sport, Arts and Culture



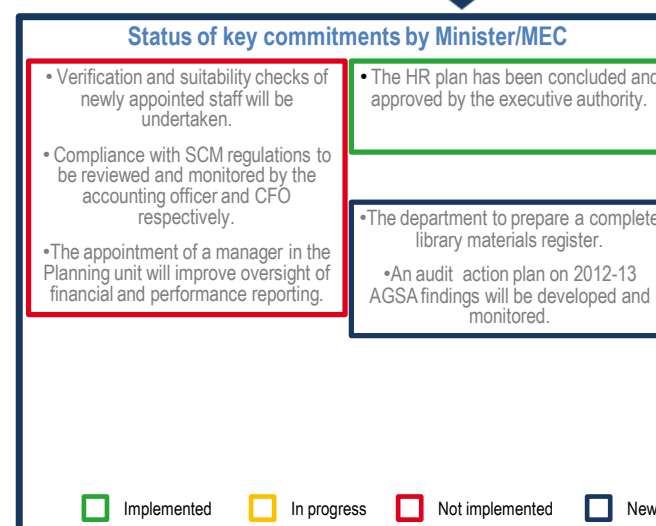
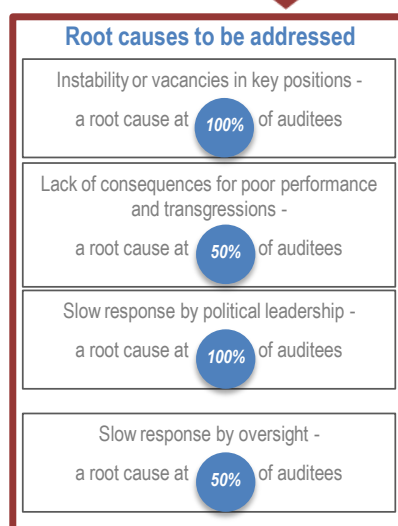
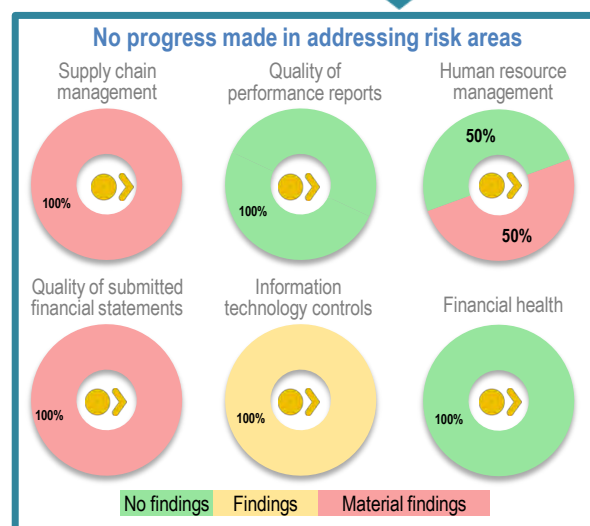
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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 audited by the Auditor-General of South Africa

- Department of Sport, Arts and Culture (Stagnation)
- McGregor Museum (Stagnation)
- Ngwao Boswa Kapa Bokone
- Northern Cape Arts and Culture Council

Audit outcome

The stagnation in the audit outcome of the auditees was as a result of the qualification on library materials and completeness of revenue and material compliance findings on HR management, supply chain management and quality of financial statements. The 2010-11, 2011-12 and 2012-13 financial statements of Ngwao Boswa Kapa Bokone and the 2012-13 financial statements of the Northern Cape Arts and Culture Council are still outstanding. These entities were not able to indicate when their financial statements would be submitted for audit.

Six key risk areas

There were material compliance findings on supply chain management, HR management and quality of submitted financial statements which prevented the auditees from obtaining an unqualified audit report. The quality of the annual performance reports remained good and as a result no material findings were reported. In the areas of IT controls there were still findings. Financial health, overall, was positive.

Key controls and root causes

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

- Preparation of regular, credible financial reports
- Review and monitoring of compliance with SCM regulations.

The improvement in the key controls was due to an improvement in leadership controls and partly addressing governance weaknesses.

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

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan relating to compliance findings must be monitored. A designated official should be responsible for accountability to take place.

Impact of key role players on audit outcomes

Assurance levels should be improved by appointing a CFO and filling other vacancies at senior management level, through vigorous involvement by the accounting officer in the audit process and by implementing the recommendations under the key controls and root causes section.

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 qualification on library materials and non-compliance reported in the audit report. The main reason for the qualification on library material was the late appointment of the consultants, while the non-compliance reported was due to poor contract management and lack of review and monitoring by the accounting officer. 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.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.11 Environment and Nature Conservation



Audit outcome

The stagnation in the audit outcomes of the auditee was due to the material compliance findings reported on HR and supply chain management and quality of financial statements.

Six key risk areas

Slight progress has been made in addressing the key risk areas, most notably improvement in the quality of the annual performance reports, supported by the fact that no material findings were reported. In the area of IT controls, the prior year findings remained unresolved. Financial health, overall, was positive. Findings were raised on supply chain management, HR management and quality of submitted financial statements, which prevented the auditee from obtaining a clean audit. The auditee had a total of five compliance findings in its audit report, which indicates the possibility of the auditee obtaining a clean audit if all these compliance issues are properly monitored.

Key controls and root causes

The improvement in the key controls was as a result of an improvement in leadership controls and partly addressing governance weaknesses. The auditee should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Preparation of regular, credible financial reports
- Review and monitoring of compliance with legislation.

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

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan must be created and monitored monthly regarding the compliance findings. A designated official should be assigned this responsibility and held accountable for non-performance.

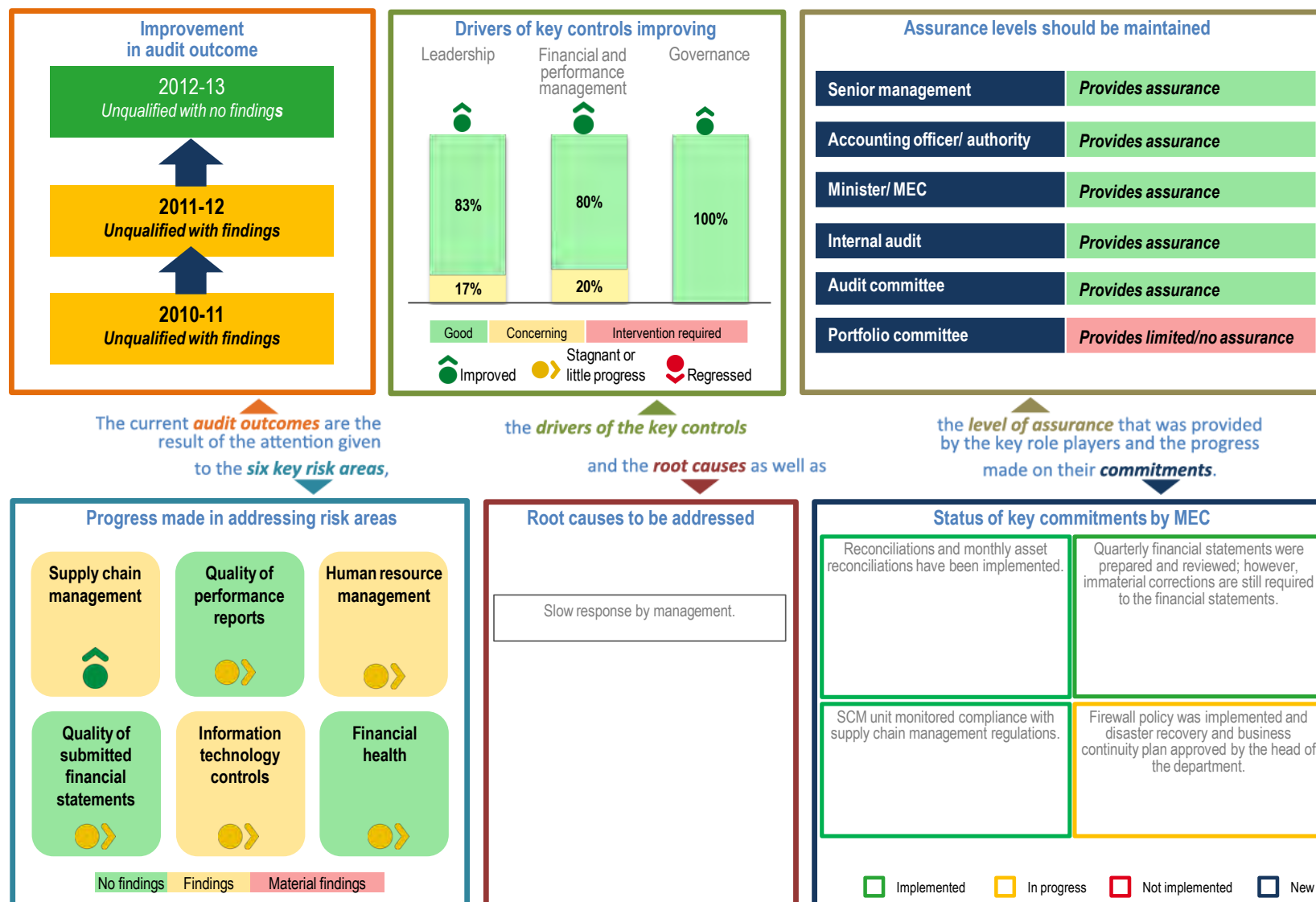
Impact of key role players on audit outcomes

Assurance levels should be maintained by ensuring stability at the level of accounting officer and senior management and implementing the recommendations highlighted under the key controls and root causes section.

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 non-compliance reported in the audit report. The main reason for the non-compliance reported was the budgetary constraints faced by the auditee. The accounting officer and MEC have approached the relevant oversight committees on this matter to no avail. This assessment, the impact of the MEC on the controls of the auditee, as well as the status and impact of the commitments, contributed to the assessed assurance provided by the MEC.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

6.12 Social Development



Significant movement in audit outcome

The improvement in the department's audit outcomes was as a result of the proper implementation and review of controls, ensuring that material non-compliance with SCM regulations did not recur.

Six key risk areas

The department had no material findings in any of the six key risk areas. There was a material improvement in terms of supply chain management and the quality of the performance report due to proper systems of control being implemented. The other three risk areas stagnated as findings raised in the prior year have recurred. Financial health, overall, was positive.

Key controls and root causes

The improvement in the key controls was due to an improvement in leadership controls and holding officials of the department accountable for non-adherence to controls and action plans. This led to all controls being assessed as good, with only minor improvements required in respect of the following:

- Preparing regular, accurate and complete financial and performance reports
- Reviewing and monitoring compliance with applicable laws and regulations
- Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

The executive authority, together with the accounting officer, should address the root causes of poor audit outcomes and inadequate controls to ensure sustainability of the audit outcome as follows:

- Financial statements must be reviewed on a bi-annual basis by the CFO and monthly reconciliations must be performed, while the MEC should request monthly feedback on the status of disciplines within auditees
- An action plan to resolve compliance findings should be created and monitored monthly, and a designated official should be assigned this responsibility and held accountable for non-performance
- Formal IT controls should be designed and implemented.

Impact of key role players on audit outcomes

Assurance levels should be maintained by ensuring stability at the level of accounting officer and senior management and that procedures and processes in place are monitored and staff are held accountable for non-performance.

We met with the MEC twice in the past year and these interactions had a significant impact on the audit outcome. The reason for our assessment was the improvement in audit outcomes achieved by the department during the financial year under review.

We will strengthen our relationship with the portfolio committee to assess the assurance provided by them.

ANNEXURES

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

Auditee	2012-13 audit outcomes		2011-12 audit outcomes		Financial statement qualification areas						Findings on predetermined objectives				Findings on 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 and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure (R'million)	Irregular expenditure (R'million)	Fruitless and wasteful expenditure (R'million)					
Departments																																														
Agriculture, Land Reform and Rural Development			R		A	R	A						A								R	R			R	A	R		A	A					R	R		R	R	R			-	1,8	0,41	
Cooperative Governance, Human Settlements and Traditional Affairs			R	R		R	R										R	R			R	R			A	A	R		A	A				R	R	R	A	R	R	R	R			-	-158,569	30,4
Economic Development and Tourism			A	R		N	R	A		A				A			A	A			R	A			A		A		A	A	A	A			R	R		R	R	R			-	0,4	0,05	
Education			R	R		R	R	R									N	R			R	R			R		N	A	A					R	R		R	R	R	R	A		16,9	393,4	0,69	
Environment and Nature Conservation			A	R		N	R										A				R	R					N	A	A					R	R		R	R	R	R			-	1,2	0,004	
Health			R	R		R	R	R	R	R			A	A	A	R		R	R			R	R	A		R	A	A	A	R	R		N	R	R	N	R	R	R			2,1	1 064,5	2,1		
Office of the Premier				R			R														A	R						A	A					R	R		R	R	R			-	6,7	-		
Northern Cape Provincial Legislature			R	R		R	R	N	R			R		R	N		R	R			R	R				A	R		A	A	A			A	R			R	R	R			1,4	9,5	0,003	
Northern Cape Provincial Treasury			A	R			N	R									A				A	R				A		A	A	A				R	R		R	R	R			-	16,1	0,04		
Roads and Public Works			R	R		R	R	A					A			R	R			R	R			R	A	A	N	A	A	A	N			R	R		R	R	R	A		-	237,5	0,08		
Social Development				A				R														A				A		A	A					A			R	N	R			-	2,4	3,1		
Sport, Arts and Culture				R				R	R												R	R			R		R		A	A					R	N		R	R	R			-	27,2	0,09	
Transport, Safety and Liaison			R	R			R	R				A					A	R			R	R			A	A	R		A	A	R				R	R		R	R	R	R		0,1	112,9	0,01	
Public entities																																														
Housing Fund								A					A																													-	-	-	-	
Kalahari Kid Corporation			R	R			N	N	R		A			R			N	N			R	R				R	R	A		R	R	A			N		A	N	N		R		-	-	-	-
McGregor Museum									A	A	A	A	A	R	A																												-	-	-	-
Ngwao Boswa Kapa Bokone																																														
Northern Cape Arts and Culture Council																																														
Northern Cape Economic Development, Trade and Investment Promotion Agency			R	R			R	R	N		N		N	N	N	N		A	A		N	R	R		R	R		N	R	R	N			R			R			X		-	6,9m	0,11		
Northern Cape Fleet Management			R	R			R	R	A	R		N	R	R	R						R	R	R	A			R		R	R	R				A						-	-	0,13			
Northern Cape Gambling Board			A	R			N	N									A	A			R	R			A				N	R					N			R			R		-	2,3	0,007	
Northern Cape Liquor Board			R	R			N	N			A			A	A	A		A	R		R	R	A	A	A			R	R					R			R		A		N		-	0,89	0,006	
Northern Cape Political Party Fund																																														
Northern Cape Premier Education Trust Fund																																														
Northern Cape Tourism Authority			A	R			N	R									A				A				A	A			R	R					A		A			N		-	-	-	-	
Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee																	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not analysed (X)													Legend (Expenditure)	Improved	Regressed			

Annexure 2: Auditees' five-year audit opinions

Auditee		Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Departments							
Agriculture, Land Reform and Rural Development	NC						
Cooperative Governance, Human Settlements and Traditional Affairs	NC						
Economic Development and Tourism	NC						
Education	NC						
Environment and Nature Conservation	NC						
Health	NC						
Office of the Premier	NC						
Northern Cape Provincial Legislature	NC						
Northern Cape Provincial Treasury	NC						
Roads and Public Works	NC						
Social Development	NC						
Sport, Arts and Culture	NC						
Transport, Safety and Liaison	NC						
Public entities							
Housing Fund	NC						
Kalahari Kid Corporation	NC						
McGregor Museum	NC						
Ngwao Boswa Kapa Bokone	NC						
Northern Cape Arts and Culture Council	NC						
Northern Cape Economic Development, Trade and Investment Promotion	NC						
Northern Cape Fleet Management	NC						
Northern Cape Gambling Board	NC						
Northern Cape Liquor Board	NC						
Northern Cape Political Party Fund	NC						
Northern Cape Premier Education Trust Fund	NC						
Northern Cape Tourism Authority	NC						
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

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

Auditee	Leadership																				
	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance		
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Departments																					
Agriculture, Land Reform and Rural Development	↑	↑	↑																		
Cooperative Governance, Human Settlements and Traditional Affairs	↑	↑	↑																		
Economic Development and Tourism	↑	↑	↑																		
Education	↓	↔	↔																		
Environment and Nature Conservation	↔	↔	↔																		
Health	↑	↔	↑																		
Office of the Premier	↔	↔	↔																		
Northern Cape Legislature	↓	↑	↓																		
Northern Cape Provincial Treasury	↔	↔	↔																		
Roads and Public Works	↔	↔	↔																		
Social Development	↑	↑	↑																		
Sport, Arts and Culture	↑	↔	↓																		
Transport, Safety and Liaison	↑	↑	↑																		
Public entities																					
Kalahari Kid Corporation	↓	↔	↔																		
Northern Cape Economic Development, Trade and Investment Promotion Agency	↓	↓	↓																		
Northern Cape Fleet Management	↔	↔	↔																		
Northern Cape Gambling Board	↑	↔	↔																		
Northern Cape Liquor Board	↓	↓	↓																		
Northern Cape Tourism Authority	↑	↑	↑																		
Legend (root causes) Good Concerning Intervention required Not assessed																					

Auditee	Financial and performance																		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			
Departments																														
Agriculture, Land Reform and Rural Development	↑	↑	↑																↑	↑	↑									
Cooperative Governance, Human Settlements and Traditional Affairs	↑	↔	↔																↑	↑	↑									
Economic Development and Tourism	↑	↑	↑																↑	↑	↑									
Education	↓	↔	↔																↑	↑	↑									
Environment and Nature Conservation	↔	↔	↔																↔	↔	↔									
Health	↑	↔	↑																↑	↑	↑									
Office of the Premier	↑	↔	↔																↑	↑	↑									
Northern Cape Legislature	↓	↓	↓																↔	↔	↑									
Northern Cape Provincial Treasury	↔	↔	↔																↔	↔	↔									
Roads and Public Works	↔	↔	↔																↔	↔	↔									
Social Development	↑	↑	↑																↑	↑	↑									
Sport, Arts and Culture	↑	↔	↓																↑	↑	↑									
Transport, Safety and Liaison	↑	↑	↑																↑	↔	↑									
Public entities																														
Kalahari Kid Corporation	↓	↔	↔																↔	↔	↔									
Northern Cape Economic Development, Trade and Investment Promotion Agency	↓	↓	↓																↔	↔	↔									
Northern Cape Fleet Management	↔	↔	↔																↔	↔	↔									
Northern Cape Gambling Board	↓	↓	↓																↔	↔	↔									
Northern Cape Liquor Board	↑	↔	↑																↔	↔	↔									
Northern Cape Tourism Authority	↑	↑	↑																↑	↑	↑									

Legend (root causes)
↑ Improved
 ↔ Unchanged
 ↓ Regressed
 F = Financial
P = Performance
C = Compliance

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of terms

Accounts payable (also referred to as creditors)

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

Accounts receivable (also referred to as debtors)

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

Adverse audit opinion

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

Asset

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

Asset impairment

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

Assurance

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

Audit outcome

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

Capital budget

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

Cash flow

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

Clean audit outcome

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

Commitments (from role players)

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

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

IT governance

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

IT security management

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

IT service continuity

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

IT user access management

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

Internal control (also referred to as key controls)

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

Inventory

Goods held for resale or for internal use.

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

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

Leadership

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

Liability

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

Material finding

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

Material misstatement

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

Misstatement

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

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

Acronyms and abbreviations

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

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



AUDITOR - GENERAL
SOUTH AFRICA

PR322/2013
ISBN: 978-0-621-42345-7

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

