



AUDITOR - GENERAL
SOUTH AFRICA



GENERAL REPORT
ON THE PROVINCIAL AUDIT OUTCOMES

NORTH WEST
PFMA 2011-12



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SOUTH AFRICA

GENERAL REPORT
ON THE PROVINCIAL AUDIT OUTCOMES
NORTH WEST
2011-12

PR09/2013
ISBN: 978-0-621-41518-6

Our *reputation promise/mission*

2



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

The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and provincial 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.

AUDITOR-GENERAL: TERENCE NOMBEMBE

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





Foreword

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(Section 1)***

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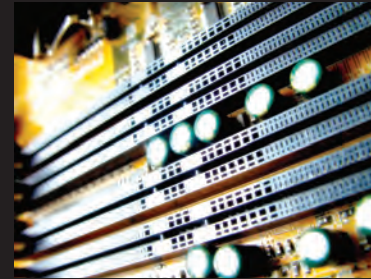
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NORTH WEST CLEAN AUDITS 2011-12

PUBLIC ENTITY

North West Gambling Board

FOREWORD



AUDITOR - GENERAL
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FOREWORD

I present my 2011-12 general report to the North West Provincial Legislature, which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature, public and other entities for the financial year ended 31 March 2012.

Overall, the provincial audit outcomes have regressed, with 64% of departments and 76% of entities receiving either a qualified or disclaimed audit opinion, or not submitting annual financial statements.

My message for the 2010-11 financial period confirmed the following commitments from the provincial leadership: Filling of vacancies; a skills audit; monthly preparation of financial statements and performance information; review of policies and procedures; recruitment of competent human resources; quarterly engagement between the members of the executive council, portfolio committee chairpersons and audit committees; and availability of members of the executive council at the monthly key control engagements.

While the commitment to meet monthly with the Auditor-General of South Africa was honoured, the impact of these interactions was limited due to the late or non-implementation of key interventions committed to in the 2010-11 report. Despite the prioritisation by the leadership of the commitment to attract and retain key skills into the province, the lengthy process of finalising suspensions and the lack of implementation of recommendations arising from the skills audit hampered the efforts.



Leadership owes it to our communities to take bold steps to appoint qualified and skilled people in strategic management positions in order to improve service delivery and eliminate mismanagement, irregular expenditure, fraud and corruption.
– Premier Thandi Modise

Consequently, the impediments to clean administration continue to be instability at leadership level; slow filling of vacancies of critical leadership positions; inadequate competencies and skills at key levels; non-implementation of action plans and recommendations made by internal and external audits; poor performance management at the departments; and no monthly preparation of financial statements. The inadequate level of oversight by committees of the legislature to ensure that the executive is held accountable worsens the situation.

The continued lack of credible reports on financial and performance information compromises the ability of the province to effectively manage service delivery and cash flows. In this regard, only the Department of Agriculture and Rural Development and four public entities managed to achieve their service delivery targets, which is consistent with the pattern of underspending. The material underspending of capital budgets at eight departments serves as the evidence.

The North West Gambling Board progressed to being the only clean audit and this proves that a clean administration is achievable with the right leadership tone.

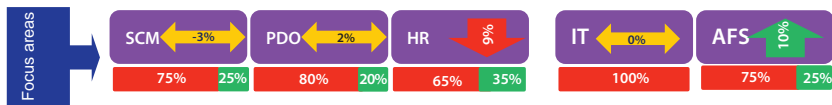
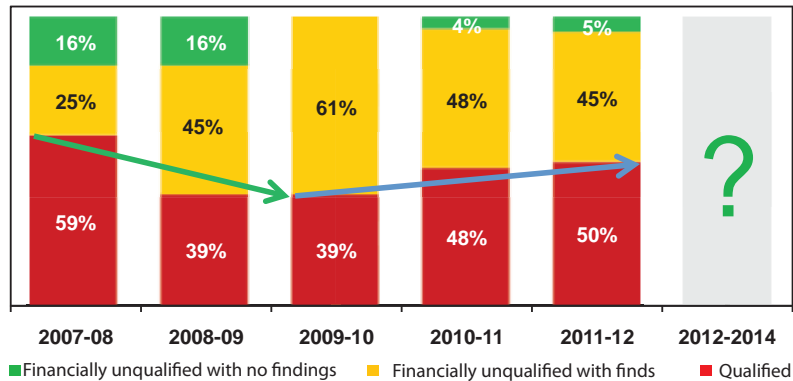
The leadership of the Auditor-General of South Africa remains committed to monitor the continuous assessments of the functioning of key controls by the management of the departments and entities. This will contribute significantly towards improved outcomes. The assistance of the internal audit unit and audit committee will provide further assurance in this regard.

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

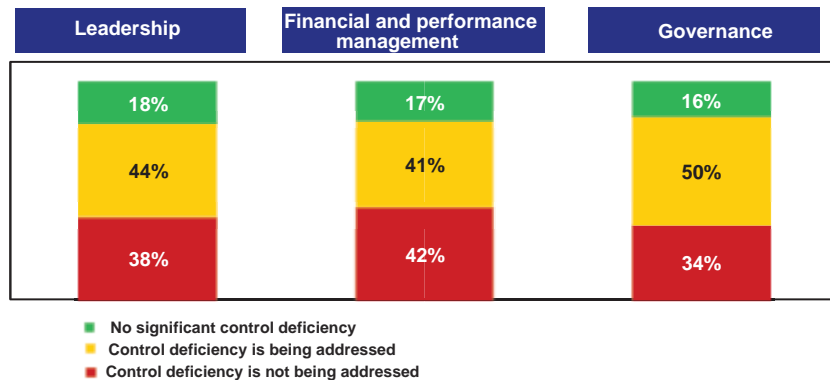
Auditor-General

**Auditor-General
Pretoria
March 2013**

Stagnant nature of outcomes in the province is of great concern. Improvement is slow and nullified by regressions



A key responsibility of the leadership is to implement and maintain effective and efficient systems of internal control. Of concern is the slow movement towards sustainable implementation of internal control (ownership)



Root causes

Process to achieve sustainable key controls as a basis for clean administration

First level of assurance: Management assurance

Human resource capacity and productivity

Timeous filling of vacancies with right skills

Effective performance management

Maintaining leadership stability

Attention to key controls

Effective operation of daily controls (checks and balances)

Monthly reporting (financial service delivery compliance and IT controls)

Validating credibility of management information

Second and third levels of assurance: Oversight and audit (independent assurance)

Effectiveness of assurance providers

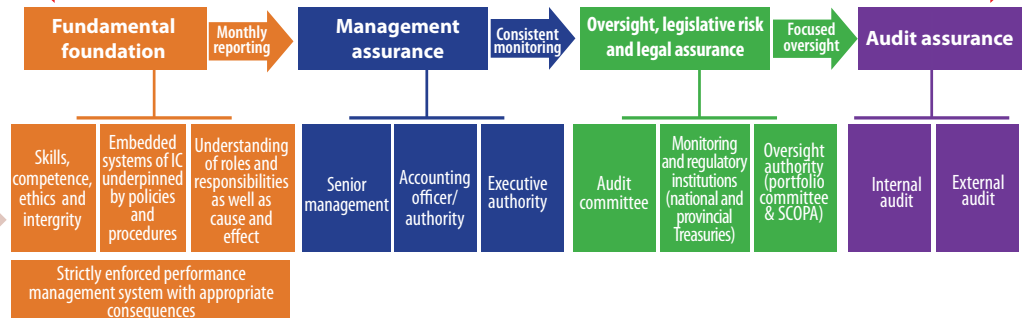
Management to implement action plans and report thereon

Effective monitoring of commitments by oversight

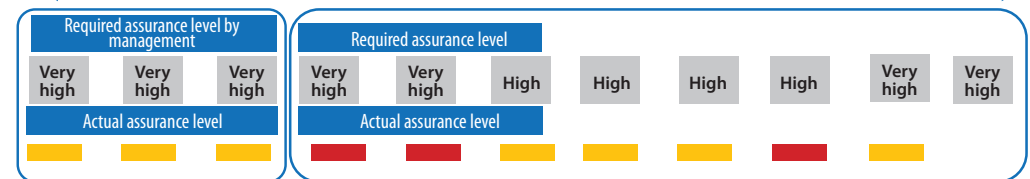
Strong independent assurance

Way forward lies in accountability, credibility of information and implementation of assurance model

Reinforcing accountability at all levels, escalation and robust communication



Flow of credible information



Significantly lower than expected

Some level of assurance

SECTION 1

EXECUTIVE SUMMARY










AUDITOR - GENERAL
SOUTH AFRICA

SECTION 1:

EXECUTIVE SUMMARY











Significant aspects of audit outcomes are summarised in the table below, while sections 2 and 3 provide more detailed analysis of findings, trends and root causes. Commitments received from role players are outlined in section 4.






Table 1: Significant aspects of the audit outcomes







Aspect	Indicator	Key outcomes and trends
Overall audit outcomes		Overall, the provincial audit outcomes have regressed, with 64% (57% prior year) of departments and 76% (62% prior year) of entities receiving either qualified or disclaimed audit opinion, or not submitting annual financial statements.
		The Department of Health regressed from being financially unqualified to qualified. Mafikeng Industrial Development Zone (MIDZ) regressed from qualified to a disclaimer. Eight (40%) auditees failed to address their 2010-11 qualification findings.
		The lack of improvement at most of the biggest departments in the province implies that more than 90% of the provincial budget is either disclaimed or qualified.
		Nine (45%) auditees retained their prior financially unqualified audit opinions but did not address their findings on predetermined objectives (PDOs) and/or compliance with laws and regulations in order to obtain clean audits.
		Concern is raised over the lack of movement of the financially unqualified outcomes with other matters to that of financially unqualified with no other matters. This is evidenced by the high prevalence of auditees with findings on PDOs and compliance with laws and regulations.
		The North West Gambling Board progressed to a clean audit opinion after previously being financially unqualified with findings.
		The leadership should set the correct tone and take ownership of sound financial and performance management disciplines. To ensure favourable and sustainable outcomes, the emphasis should move from focusing on audit outcomes during the audit process to year-round clean administration through entrenching a strong control environment and regular, accurate reporting throughout the financial year.





Aspect	Indicator	Key outcomes and trends
Submission of financial statements and annual performance reports for audit		Fifteen audits were still outstanding at the date of this report due to late or non-submission of annual financial statements. The non-submission of financial statements remains a major concern in the province. The lack of accountability due to non-submission and the possibility of fraudulent activities should be urgently addressed.
		Golden Leopard Resorts (GLR) did not submit an annual performance report for audit purposes.
		As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only five (25%) auditees submitted financial statements that required no material adjustments, compared to four (15%) auditees in the prior year.
		The audit of MIDZ was completed on time although the annual financial statements were submitted late.
		All 13 departments and six public entities submitted financial statements on time.
		The provincial treasury should make sure that processes are put in place to ensure credibility, completeness and accuracy of information and that all non-compliance is escalated to the executive leadership.

Aspect	Indicator	Key outcomes and trends
Opinions on financial statements		The Department of Public Works, GLR and MIDZ received disclaimer audit opinions.
		Seven other departments received qualified opinions.
		Ten auditees (50%) could not correct any or all of the material misstatements identified during the audit, resulting in the annual financial statements receiving qualified or disclaimer opinions.
		Nine (45%) auditees retained their prior financially unqualified audit opinions but did not address their findings on PDOs and/or compliance with laws and regulations in order to obtain clean audits.
		Five auditees (50%) managed to obtain financially unqualified opinions because they were allowed to make corrections to material misstatements identified by the Auditor-General of South Africa (AGSA).
		Only the North West Gambling Board obtained a clean audit.
Reporting on PDOs		Five auditees (25%) submitted financial statements for audit purposes that were free of material misstatements.
		Despite the efforts that went into PDO reporting in the previous year, there was inadequate progress towards addressing the requirements of PDO reporting. This is attributed to an inappropriate attitude towards performance planning and a lack of control systems.
		Two (10%) auditees regressed and 14 (70%) auditees remained with findings on PDOs.
		Three (15%) auditees remained unchanged with no PDO findings while only one (5%) managed to improve to no findings on PDOs.

Aspect	Indicator	Key outcomes and trends
Findings on non-compliance with laws and regulations		Eighteen (90%) remained unchanged with findings on compliance with laws and regulations.
		The extent of findings on compliance with laws and regulations increased in the province.
		An inappropriate leadership tone and a lack of enforcement of consequences for non-compliance contributed to a situation where non-adherence to the applicable legislative prescripts has become the norm.
		Two (10%) auditees improved to no findings on compliance with laws and regulations.
		An ethical culture is required to ensure sustained compliance with applicable laws and regulations. In order to build this culture, the leadership should implement the zero-tolerance approach to breaches of legislative prescripts.
		The leadership and governance structures must regularly monitor compliance to identify and act on breaches in order to build a control environment conducive to compliance with laws and regulations.
Supply chain management (SCM)		Seventeen (85%) auditees remained with findings on SCM. Irregular expenditure of R3,5 billion was incurred during the year. We could not audit the awards amounting to R470 million due to the lack of supporting documentation (scope limitation).
		This continued non-compliance with the SCM legislative framework has an impact on all spheres of service delivery in the province.
		Two (10%) auditees remained with no findings on SCM while one (5%) auditee improved to no findings on SCM.
		Both the political and administrative leadership should adopt a zero-tolerance approach in addressing this non-compliance. It is imperative that all transgressions are decisively dealt with and individuals are held accountable.

Aspect	Indicator	Key outcomes and trends
Internal controls		There was no significant improvement in addressing significant internal control deficiencies relating to leadership.
		The leadership did not set the appropriate tone at the top. They did not exercise appropriate oversight to ensure that key control weaknesses identified and communicated on a quarterly basis are appropriately addressed.
		There was a regression in addressing significant internal control deficiencies relating to financial and performance management and governance.
		Proper record keeping remains a major concern, while the assurance on the credibility of financial and performance information was not achieved at the required levels, due to lack of implementation of basic controls and reconciliations. There is a lack of consequence for failure to implement these financial disciplines as well as for transgressions of controls and ultimately poor performance.
		Risk management remains a compliance-driven exercise without actual proper implementation or monitoring. Audit committees and internal audit have reached the level of doing what is required in terms of legislation in their oversight capacity at departments and entities. More commitment is required at this assurance level to contribute to improving the audit outcomes of North West.

Aspect	Indicator	Key outcomes and trends
Human resource (HR) management		There was a regression in terms of findings on the management of vacancies, leave, overtime, suspensions and appointment processes.
		This was due to a lack of monitoring and oversight as well as an unwillingness to enforce existing HR prescripts and policies. It is imperative that the commitment made in the previous year relating to the provincial HR action plan be implemented in order to eliminate these findings and improve service delivery in the province.
		Findings on HR planning and organisation and performance management remained at the same level.
		There was an improvement in addressing acting positions.
Management of information technology (IT)		There was no significant improvement in addressing weaknesses identified in the management of IT.
		The leadership of the province, in particular the Office of the Premier and the provincial treasury, should take ownership of the current status and drive departments and entities to regularly monitor the implementation of action plans and report on the progress made.

Aspect	Indicator	Key outcomes and trends
Audit committees and internal audit units		Two entities (29%) did not have an internal audit function while one entity (14%) did not have an audit committee.
		Although most governance structures were in place, they had little or no impact on the audit outcomes for the year under review. These structures did not provide adequate assurance over PDO reporting, SCM, compliance with laws and regulations as well as internal controls during the year under review.
		All departments had internal audit and audit committees in place. Five entities (71%) had internal audit and six entities (86%) had audit committees in place.
		The effectiveness of audit committees depends on the support and respect received from the provincial executive and the leadership. The leadership should ensure that the audit committees are afforded sufficient time as well as financial and other resources to effectively fulfil their responsibilities. It is critical that audit committees interact with the provincial executive on a regular basis to ensure that the executive is kept abreast of challenges, strategies and success stories at all times. This will effectively enable the executive to play a more supportive role in relation to the audit committees.

SECTION 2

OVERVIEW OF AUDIT OUTCOMES

- 2.1 OVERALL AUDIT OUTCOMES
- 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS
- 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES
- 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS



AUDITOR - GENERAL
SOUTH AFRICA

SECTION 2:

OVERVIEW OF AUDIT OUTCOMES

This section of the general report provides the province's overall audit outcomes (section 2.1), followed by more details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their PDOs (section 2.3) and compliance by auditees with laws and regulations (section 2.4).

Root causes of audit findings and recommended best practices are also analysed in the respective sections. This should be read together with an analysis of the drivers of audit outcomes in section 3 of this general report. Section 4 records the commitments received from the provincial executive leadership and oversight structures and other national and provincial role players in response to the 2011-12 audit outcomes. Section 5 highlights other current and emerging matters and the financial health of the province, requiring attention from the leadership.

2.1 OVERALL AUDIT OUTCOMES

The North West provincial government comprises 35 auditees: 14 departments (which include the legislature and the revenue fund) and 21 public entities.

2.1.1 Summary of overall audit outcomes

The AGSA completed the audits of 13 (100%) departments and seven (33%) public entities that submitted financial statements by 31 May 2012 within the legislated time frame of two months from receipt of their financial statements. Mainly as a result of non-submission or late submission of financial statements for audit purposes, the audits of the provincial revenue fund and 14 (67%) public entities had not been finalised as at 15 October 2012, which is the cut-off date set by the AGSA for inclusion of their audit outcomes in this general report.

The audit outcomes and outstanding audit reports (current and prior years) are summarised in the following table. Where applicable, audit opinions relate

to the consolidated financial statements of auditees. 'With findings' denotes findings on PDOs and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either reporting on PDOs or compliance with laws and regulations.

Table 2: Summary of audit outcomes for current and prior years

Audit outcomes	Departments*		Public entities		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
<i>Financially unqualified with no findings (clean audits)</i>	0	0	1	1	1	1
<i>Financially unqualified with findings</i>	5	6	4	7	9	13
<i>Financially unqualified financial statements</i>	36%	43%	24%	38%	29%	40%
<i>Qualified opinion, with findings</i>	7	6	0	5	7	11
<i>Adverse opinion, with findings</i>	0	0	0	0	0	0
<i>Disclaimer of opinion, with findings</i>	1	1	2	1	3	2
<i>Number of audit reports not issued by 15 October 2012</i>	1	1	14	7	15	8
<i>Outstanding audits and financially qualified financial statements</i>	64%	57%	76%	62%	71%	60%
Total number of audits in the province	14	14	21	21	35	35



*Including the legislature and provincial revenue fund

Annexure 1 to this report lists the audit outcomes of the current and prior years of all auditees. The audit of the provincial revenue was last completed in 2009-10 due to non-submission of financial statements.

2.1.2 Improvements and regressions in audit outcomes

The following figure analyses the overall movement in provincial government audit outcomes between the current and previous financial years.

Figure 1: Summarised movement in overall audit outcomes

Movement in audit outcomes from 2010-11					
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on	Outstanding audits – prior year opinion
Financially unqualified with no findings	<div>  </div>			1	1
Financially unqualified with findings		<div>  </div>	<div>   </div>	9	2
Qualified, with findings		<div>  </div>		7	4
Adverse/Disclaimer, with findings		<div>  </div>		3	0
Total	1	17	2	20	7

The North West Gambling Board improved from unqualified with findings to unqualified without findings (clean audit). This was due to management's concerted effort to resolve audit matters raised in the prior year early in the audit process and their ability to submit financial statements that did not require material adjustments, thereby addressing the prior year compliance findings.

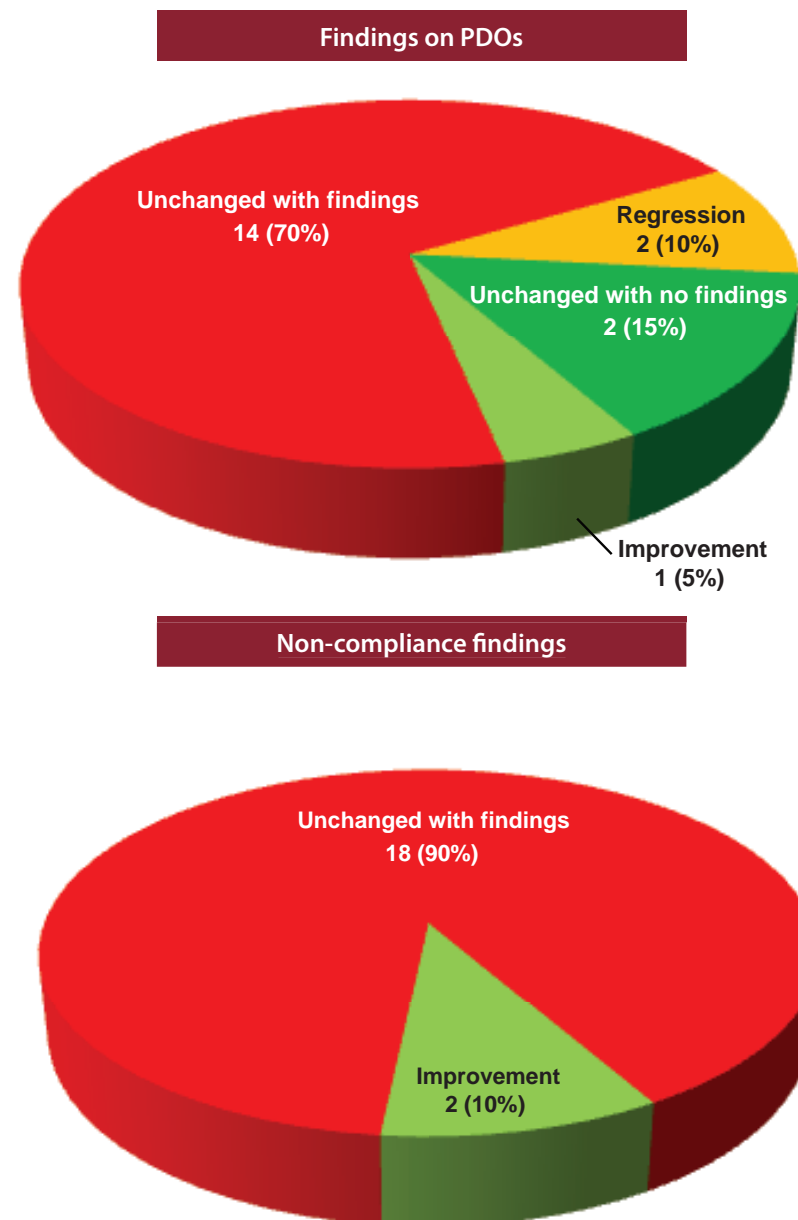
The Department of Health regressed from unqualified with findings to a qualified opinion. This is mainly due to the chief financial officer (CFO) of the department being deployed to act as head of department at another department for the majority of the year. The department was unable to address findings raised on capital assets due to inadequate physical asset counts, reconciliations and internal controls not implemented during the year. The good practices built up around internal controls over assets were not institutionalised, with the result that the loss of the CFO meant a regression in outcomes.

The MIDZ regressed from qualified to a disclaimer of opinion. This was due to numerous limitations on the audit of the financial statements as a result of deteriorating internal controls as the entity is in the process of winding down. There were also an increased number of findings on PDOs and non-compliance.

The audit outcomes of all the remaining departments and entities remained unchanged. Proactive leadership was largely not evident at the departments and entities and, instead, most actions were reactive to crises that arose. The top leadership must enforce a culture of proactively managing risks and a culture of daily accountability, which are currently not prevalent. As a result, the daily and monthly financial disciplines were not entrenched within the departments and entities, and the progress towards clean administration had stagnated. The above root causes impact the credibility of information produced by the departments and entities. Consequently, information used for decision-making and oversight is not necessarily credible, which impairs the effectiveness of oversight and limits the progress towards clean administration.

The following figure provides an analysis of findings on PDOs and compliance with laws and regulations.

Figure 2: Summarised movement in findings on predetermined objectives and compliance with laws and regulations



The North West Gambling Board was the only improvement to a clean audit. Nine (45%) auditees retained their prior financially unqualified audit opinions but did not address their findings on PDOs and/or compliance in order to obtain clean audits. Eight (40%) of the auditees failed to address their prior year qualification findings. The Department of Health regressed from being financially unqualified to qualified. The MIDZ regressed from qualified to a disclaimer. The Department of Public Works, Roads and Transport remained the only department with a disclaimer.

The departments and entities that received qualified opinions represent 91% (R22 billion) of the total expenditure of the entire province. The five biggest departments (Education, Public Works, Health, Human Settlements and Social Development) had qualifications.

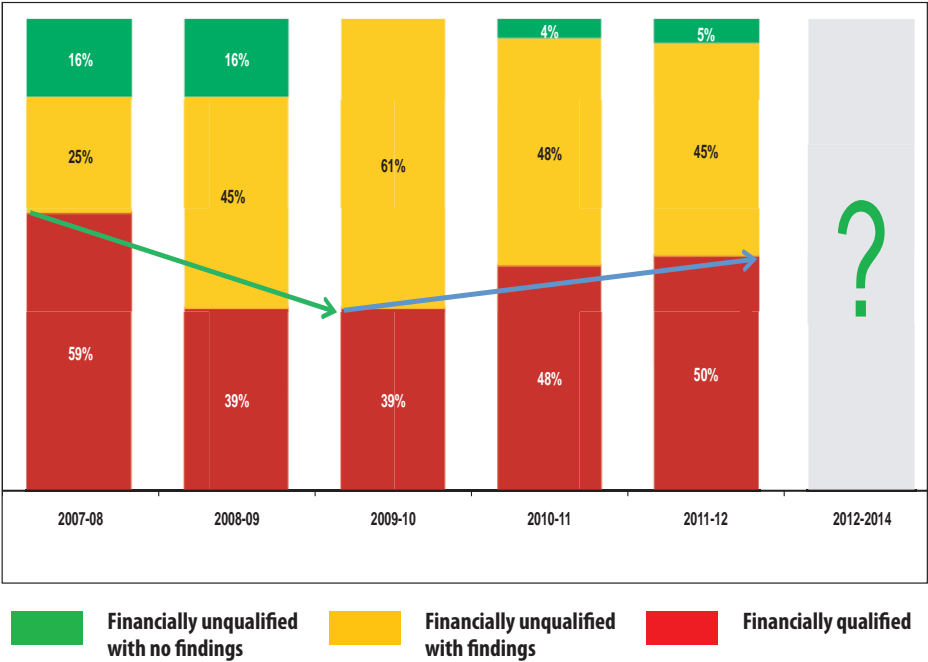
The Office of the Premier, which is supposed to lead by example, remained qualified. The provincial treasury and the provincial legislature retained financially unqualified opinions with findings.

The audit of the provincial revenue is outstanding for the current and prior years due to non-submission of financial statements.

2.1.3 Province’s progress towards producing unqualified financial statements

Obtaining financially unqualified audit reports is an important milestone towards clean audits. The province’s five-year progress towards producing unqualified financial statements is shown in the following figure.

Figure 3: Five-year progress towards financially unqualified audit reports

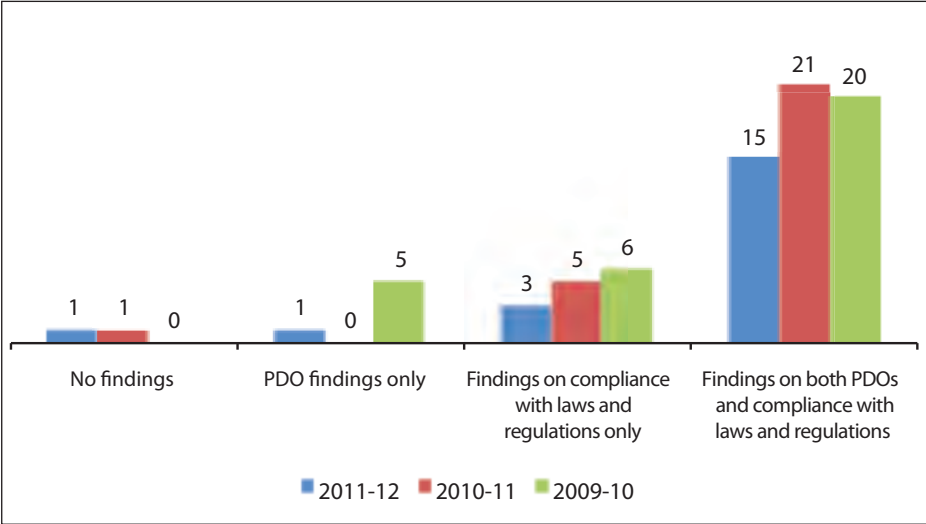


The province has not made any progress towards the goal of clean audits in 2014. The non-submission of financial statements and the regression in some audit outcomes is hampering the progress towards this goal.

2.1.4 Province’s rate of addressing findings on predetermined objectives and compliance with laws and regulations

The progress made by the province over the past three years in addressing audit findings on PDOs and compliance with laws and regulations is shown below.

Figure 4: Three-year progress in addressing findings on predetermined objectives and compliance with laws and regulations



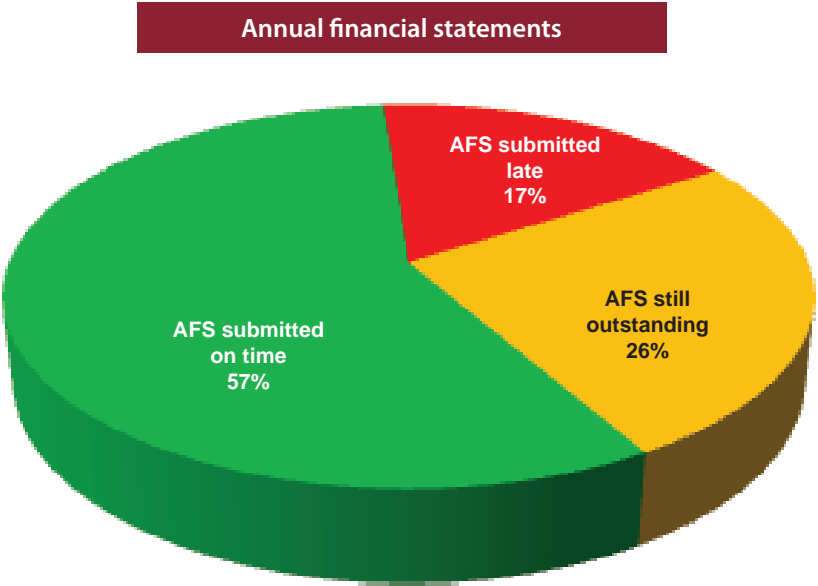
The analysis of the information in the graph above highlights that only one entity (North West Gambling Board) had no findings on PDOs and compliance with laws and regulations. One entity (Invest North West) had findings on PDOs, while two departments and one entity (Department of Economic Development, Department of Finance and North West Development Corporation) had findings on compliance with laws and regulations. The root causes and way forward are detailed in sections 2.3.3 and 2.4.5 of this report.

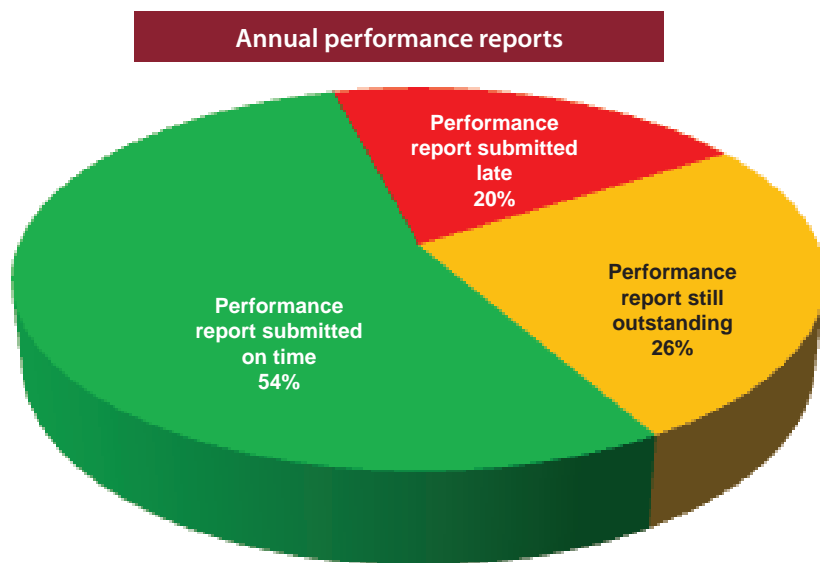
The remaining auditees had findings on both PDOs and compliance with laws and regulations (75% compared to 65% two years ago). This shows that limited progress had been made in addressing other findings that prevent financially unqualified audits from moving towards clean audits. These outcomes are notwithstanding the fact that the AGSA had had regular interactions with all levels of leadership in the province.

2.1.5 Status and outcomes of audits not finalised by 15 October 2012

The timeliness of completion of audits is primarily influenced by the date on which the AGSA received auditees' financial statements and the efficiency with which the audits proceed thereafter. As can be seen in the following figure, a total of 15 (43%) auditees were still unable to meet the legal requirement for timely submission of financial statements, with 16 (46%) in the case of performance reports.

Figure 5: Timeliness of submission of financial statements and annual performance reports for audit





Between 15 October 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, and the date of this report, three more audits were finalised, but their outcomes are not included in the analysis contained in this report. Details of these audit outcomes are presented in the following table.

Table 3: Outcomes of audits finalised after 15 October 2012

Auditee	2011-12 audit opinion	2010-11 audit opinion	Movement from 2010-11 audit opinion
Public entities			
North West Transport Investments (Pty) Ltd	Qualified	Qualified	↔
Atteridgeville Bus Services (Pty) Ltd	Financially unqualified with findings	Qualified	↑
North West Star (Pty) Ltd	Financially unqualified with findings	Qualified	↑

The following table depicts the reasons for the remaining audits being outstanding at the date of this report. The table further indicates the prior year audit outcomes of these outstanding audits.

Table 4: Prior outcomes of audits outstanding at the date of this report

Auditee	Reason not finalised		Period of last audit finalised	Audit outcome of audit last finalised			
	AFS not yet received	Late receipt of AFS		Adverse/Disclaimer	Qualified	Financially unqualified with findings	Financially unqualified with no findings
Departments							
Provincial revenue fund	●		2009-10			●	
Public entities							
Mmabana Arts, Culture and Sport Foundation		●	2010-11		●		
North West Housing Corporation	●		2007-08	●			
North West Parks and Tourism Board	●		2009-10			●	
Dirapeng (Pty) Ltd	●		2006-07		●		
Madikwe River Lodge (Pty) Ltd	●		2008-09			●	
North West Provincial Aids Council	●		2009-10			●	
North West Youth Development Trust	●		2010-11			●	
North West Provincial Arts and Cultural Council	●		2009-10	●			
Signal Developments (Pty) Ltd	●		2006-07		●		
North West Agricultural Bank		●	2010-11			●	
Agribank Creditors Settlement Trust		●	2010-11				●
Total	9	3		2	3	6	1

These audits are expected to be finalised within two months of receipt of the financial statements.

2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

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

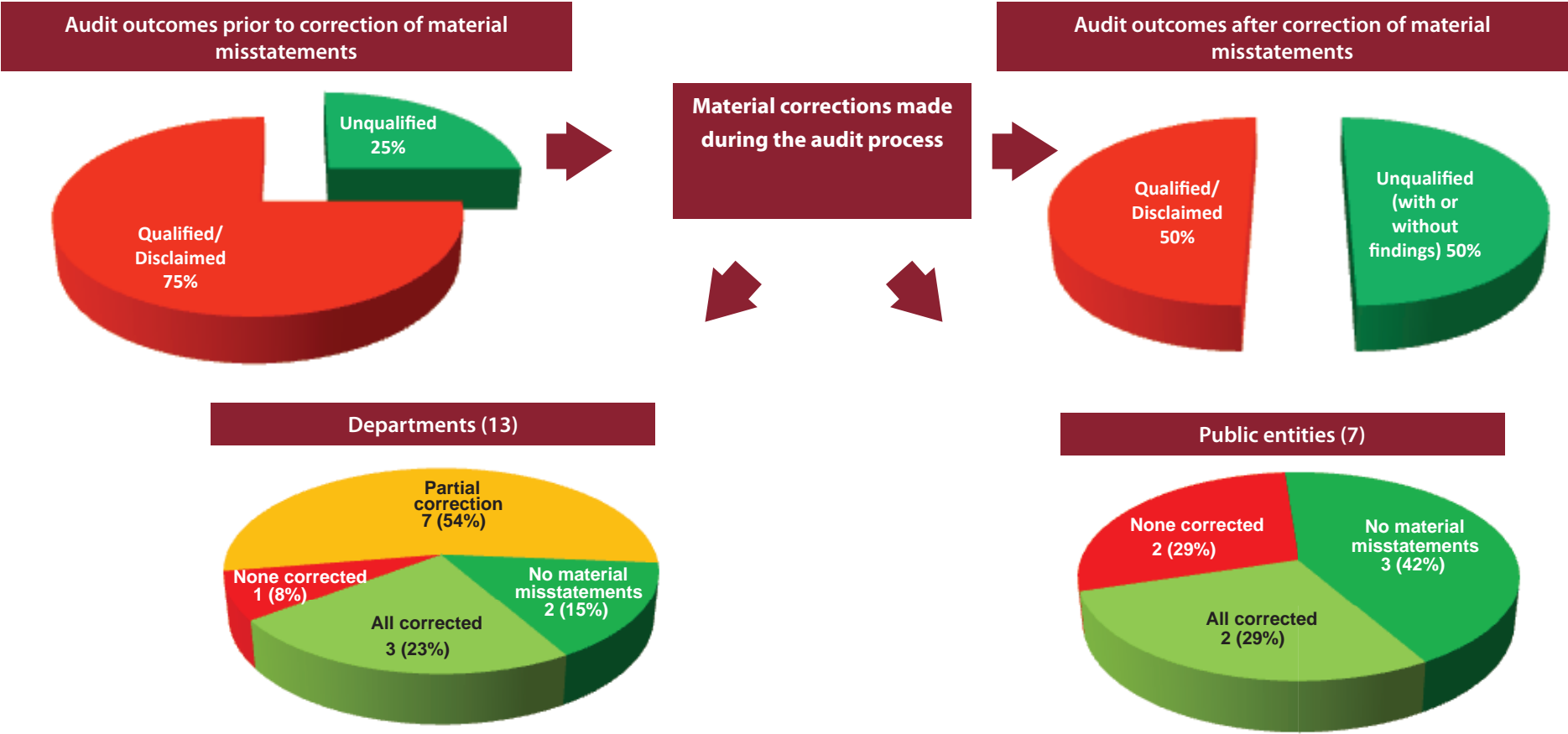
2.2.1 The quality of financial statements submitted for audit purposes

As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Only five (25%) auditees submitted financial statements that required no material adjustments, compared to four (15%) auditees in the prior year.

Five (25%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all material misstatements identified during the audit. Some auditees were not willing and/or able to correct all the material misstatements and therefore could not avoid the qualification of their financial statements.

The extent of material misstatements in financial statements submitted for audit purposes for the year under review is depicted in the following figure.

Figure 6: Material misstatements in financial statements submitted for audit purposes

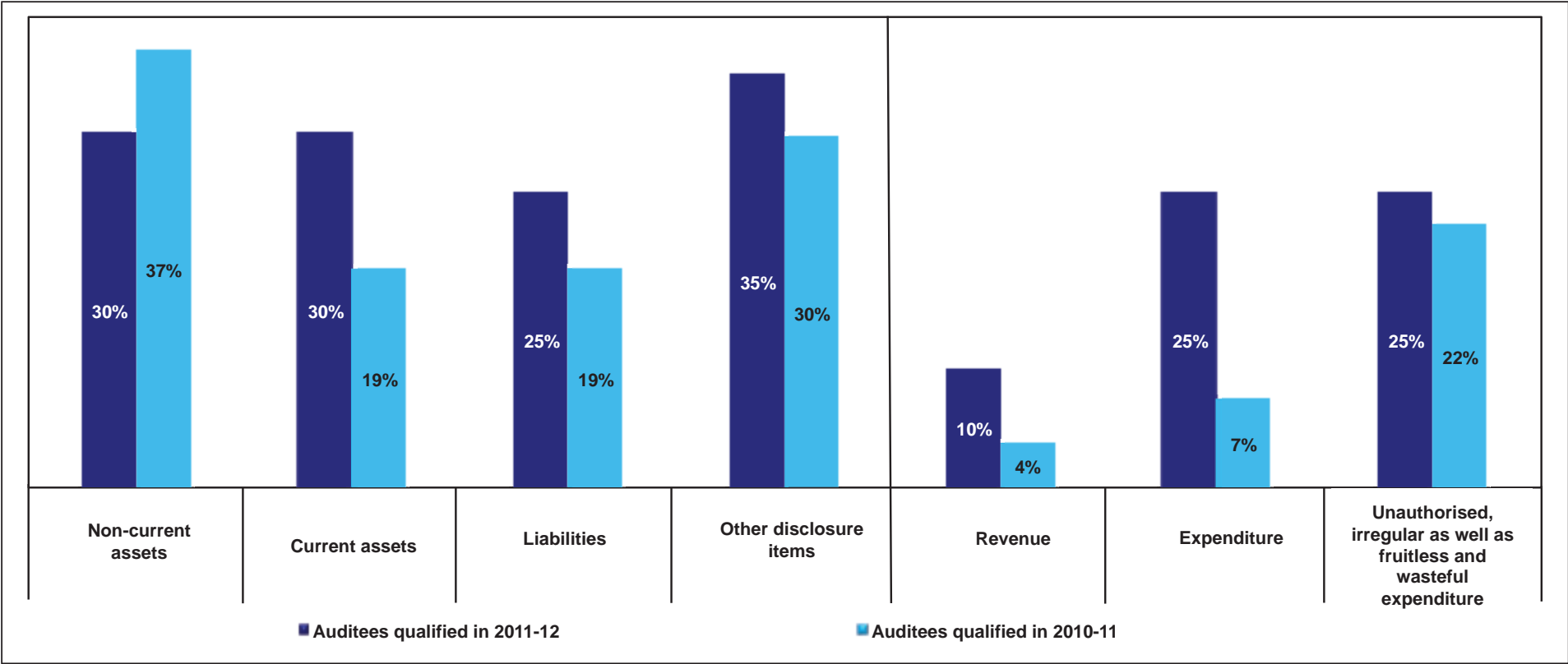


The above figure shows that only two departments and three entities submitted financial statements that contained no material misstatements. A further three departments and two entities only received unqualified opinions due to all material misstatements corrected. The remaining auditees were unable to correct all misstatements in the financial statements and were qualified or disclaimed as a result.

2.2.2 Financial statement qualification findings

The following figure shows the areas that were materially misstated (qualified) in the financial statements of the 10 (50%) auditees [2010-11: 13 (48%)] which received disclaimed, adverse or qualified audit opinions. In order to avoid a possible distortion in the comparative figures, the prevalence of qualifications in the outstanding audits is also shown.

Figure 7: Financial statement qualification areas



The table that follows shows the progress, or lack thereof, made by auditees in addressing their prior year financial statement qualifications. Only completed audits are shown.

Table 5: Progress made by auditees in addressing prior year financial statement qualifications

Auditee	2011-12 audit opinion	2010-11 audit opinion	Movement in addressing 2010-11 financial statement qualification areas						
			Non- current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Departments									
Office of the Premier	Qualified	Qualified	Repeat	Repeat	Addressed	Repeat		New	New
Health	Qualified	Financially unqualified with findings	New						
Public Safety	Qualified	Qualified			Repeat	New	New		New
Education	Qualified	Qualified	Repeat	Repeat	Repeat	Repeat			
Local Government and Traditional Affairs	Qualified	Qualified		Repeat					
Public Works, Roads and Transport	Disclaimer	Disclaimer	Repeat	Repeat	Repeat	Repeat		Repeat	Repeat
Human Settlements	Qualified	Qualified				Addressed		Repeat	
Social Development	Qualified	Qualified	Repeat			New			
Public entities									
Golden Leopard Resorts (Pty) Ltd	Disclaimer	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	New	Repeat
Mafikeng Industrial Development Zone (Pty) Ltd	Disclaimer	Qualified	Addressed	New	New	New		New	New

The table that follows provides detail of the financial statement qualification areas, the basis for qualification and the reason for qualification.

Table 6: Nature of qualifications

Financial statement qualification areas	Basis for qualification	Reason for qualification
Non-current assets <ul style="list-style-type: none"> • Property • Infrastructure • Plant and equipment 	Completeness of assets reflected in financial statements	<ul style="list-style-type: none"> • No/incomplete asset register • Register was not updated on a timely basis
	Values at which assets are reflected	<ul style="list-style-type: none"> • No/inadequate supporting evidence (valuation of infrastructure) • No/incorrect assessment of impairment (public entities)
	Existence of assets	<ul style="list-style-type: none"> • Assets were not identifiable/could not be physically verified • Register was not updated on a timely basis based on results of regular physical verification processes
	Rights and obligations relating to assets	<ul style="list-style-type: none"> • No/incomplete asset register • No/inadequate supporting evidence
Current assets (receivables)	Completeness (all receivables accounted for)	<ul style="list-style-type: none"> • No/inadequate systems to record receivables at year-end
	Value at which receivables are stated in financial statements	<ul style="list-style-type: none"> • No/inadequate supporting evidence • Reluctance to take action against non-paying debtors • No/ineffective policies and procedures for collection of receivables
	Existence of debtors	<ul style="list-style-type: none"> • Insufficient documentation to substantiate debtors at year-end

Financial statement qualification areas	Basis for qualification	Reason for qualification
Irregular expenditure	Not all irregular expenditure was disclosed	<ul style="list-style-type: none"> • No/inadequate systems in place to detect irregular expenditure • Lack of understanding/different interpretations on the disclosure requirements

The AGSA goes an extra mile during the audit process by discussing all the risks prevalent at the auditees and providing recommendations on a way forward. Much effort goes into educating auditees on financial processes and they are afforded numerous opportunities to restate and adjust their financial information. It is important, however, that the auditees take ownership of their financial processes and do not rely on the AGSA to identify errors and weaknesses during the audit, as this is not conducive to a sustainable environment of clean administration.

This raises the very important question of whether the auditees are actually addressing root causes when attending to audit findings or whether they are merely addressing symptoms at a reporting level to achieve an improved audit outcome for that year. For an outcome to be sustainable, it is vital that the root causes of findings are addressed at a source document, daily financial discipline and policy level to ensure that the control environment will prevent the errors and misstatements in the following years. As highlighted in the material misstatement section of this report, there is a tendency to 'manage the audit' and not the department or entity. As a result, the same issues will resurface in the next audit cycle.

The lack of movement from disclaimer and qualified to unqualified is concerning. This is evidenced by the high prevalence of auditees with repeated findings on non-current assets, current assets, liabilities and expenditure. The bulk of auditees have been grouped in this category for a number of years and it would have been reasonable to expect year-on-year progression towards clean administration to have gained more momentum. The departments and entities

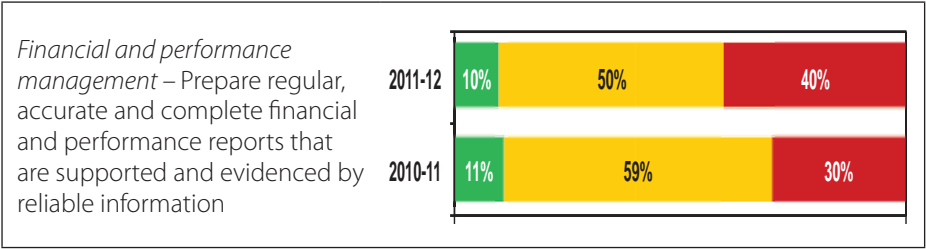
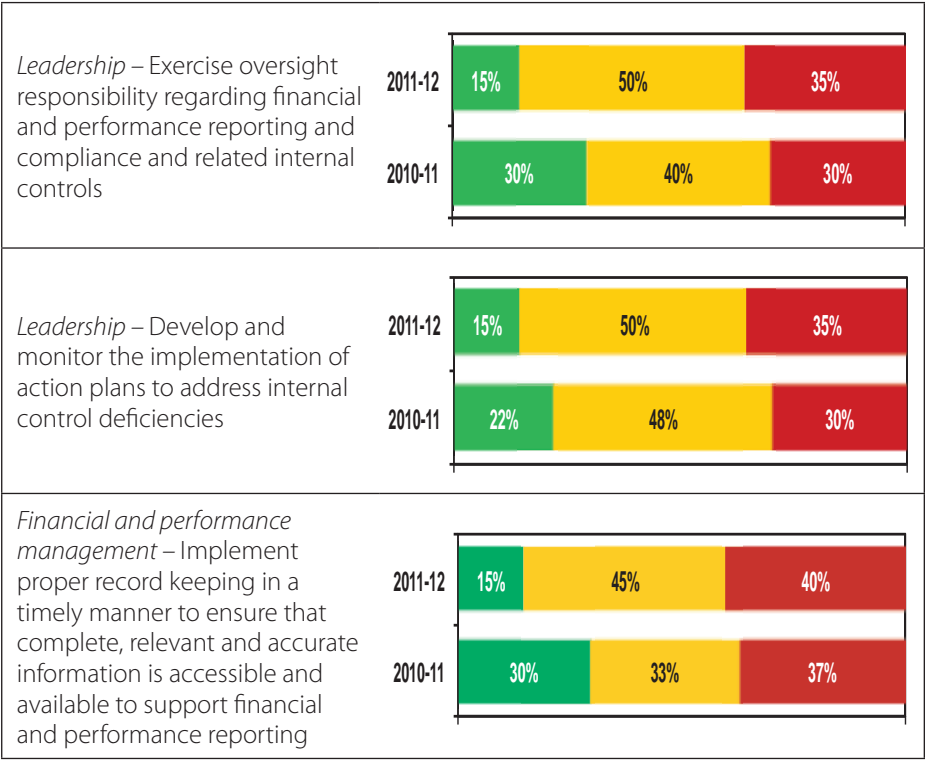
also appear to be satisfied with unqualified opinions and do not address the matters that gave rise to findings on compliance and PDOs.

2.2.3 Root causes and best practice recommendations

The existence of a sound system of internal control influences the ability of auditees to produce financial statements that are free from material misstatement. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from the leadership to improve the audit outcomes.

Figure 8: Assessment of key drivers of internal control over financial reporting



Identified root causes that gave rise to this assessment and the recommended way forward are summarised as follows.

Table 7: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward
Oversight responsibility	The leadership had still not ensured that there was appropriate oversight over the preparation of financial statements. There was inadequate understanding of the value of financial statements, resulting in financial statements that were only prepared for compliance purposes.
	<p><u>Way forward</u></p> <p>The executive authorities and oversight committees should drive a culture of credible monthly financial statements and continuous assessments of key internal controls.</p>
Action plans	Prior year qualifications and errors were repeated because the leadership did not ensure that proper action plans were developed and implemented. In cases where there were such actions plans, little was done to ensure that the milestones therein, were adhered to.
	<p><u>Way forward</u></p> <p>Appropriate and specific action plans should be developed based on the recommendations made by internal and external audit to ensure that qualification areas are appropriately addressed. Implementation of these action plans should be monitored regularly. There should be repercussions for non-performance and lack of attaining milestones in these action plans in order to hold the leadership accountable.</p>

Aspect	Identified root causes and way forward
Proper record keeping	There was still a problem with proper record keeping as many of the qualifications that arose were as a result of limitation of scope, where sufficient appropriate evidence could not be provided for balances/transactions and disclosures in the financial statements. In many instances proper systems had not been developed to produce information to prepare accurate and complete financial statements that include disclosure notes like accruals, commitments, contingent liabilities, etc.
	<u>Way forward</u> Proper record-keeping systems should be developed that enable auditees to produce accurate, relevant and complete information needed to prepare financial statements. Evidence to support balances, transactions and disclosures should be filed in an appropriate manner to ensure that it is readily available and easily retrievable.
Reliable financial reporting	CFOs lacked the support of competent staff at the finance sections. There was still a lack of diligence by those charged with the responsibilities of preparing the financial statements and financial statements were not appropriately reviewed. There was a lack of consequences for transgression in financial disciplines.
	<u>Way forward</u> Skilled and competent staff should be appointed at finance departments. Financial statements prepared should be properly reviewed by management, internal audit and audit committee before submission for audit purposes. The necessary steps should be taken against the officials that do not perform their duties.
Commitments to obtain financially unqualified reports	Prior year commitments made by the leadership over the preparation of regular/monthly financial statements had not been implemented.
	<u>Way forward</u> The leadership should ensure that monthly financial information is prepared and reviewed to the same quality that is required of year-end financial statements.

2.2.4 Consolidated financial statements

For accountability purposes the PFMA requires each province to prepare and publish a consolidated financial report on the use of its resources to achieve its objectives. To this end, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of (i) departments, (ii) public entities under the ownership control of the provincial executive of the province and (iii) the provincial legislature. The PFMA further requires that the auditor-general should audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the financial statements.

However, due to the difference in the basis of accounting and modified cash versus accrual, this is not feasible. By September 2012, the minister of finance had not approved a deviation from this requirement of the PFMA. This matter is therefore reported in the AGSA's audit reports as non-compliance with the PFMA.

Table 8: Status of the audit of consolidated financial statements for the province

Departments		Public entities	
2011-12	2010-11	2011-12	2010-11
Audit outstanding	Audit outstanding	Audit outstanding	Audit outstanding

The consolidations for both the 2010-11 and 2011-12 financial years are still outstanding due to non-submission of consolidated annual financial statements and non-submission of the annual financial statements for the provincial revenue fund.

2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs.

2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

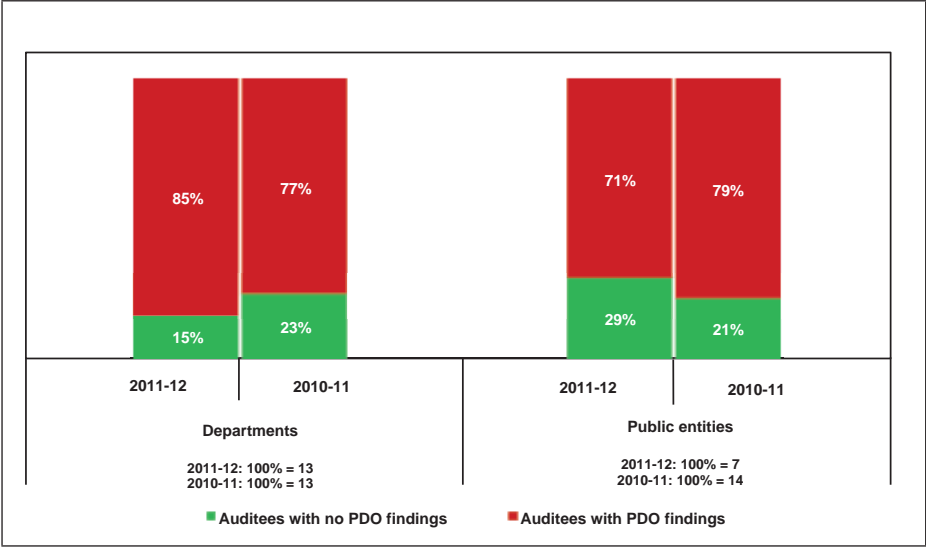
Auditees are required to submit their performance report for auditing by 31 March annually. Of the 20 departments and public entities reported on, only one (5%) public entity did not submit its performance report in time for audit purposes. This represents a reduction of 2% over the previous financial year. All other departments and entities had not submitted annual statements of financial and performance information and therefore these could not be analysed.

Auditees submitted performance reports that contained material misstatements in one or more areas. Only two (10%) auditees submitted performance reports that required no material adjustments.

Two (10%) auditees were able to avoid audit report findings on PDOs because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit.

Movement in the number of auditees with findings on their reporting against PDOs is shown in the following figure.

Figure 9: Overall movement in number of auditees with findings on predetermined objectives



Overall, there is still a high rate of PDO findings at all auditees.

Auditees that maintained their status of no findings

- The Department of Economic Development, North West Gambling Board and North West Development Corporation remained with no findings.
- The results can be attributed to appropriate planning and monitoring of actual reported performance together with the oversight performed by the governance structures.

Improvements

- The provincial treasury was the only department that improved to no findings on PDOs because of improved in-year monitoring and improved record management systems implemented to support reported performance.

Regressions

- The Department of Agriculture and Rural Development and the Department of Social Development regressed to have findings on PDOs when they had no findings in the previous year.
- The regressed results can be attributed to a relaxation of the monitoring by management and the oversight by governance structures.

2.3.2 Findings on predetermined objectives

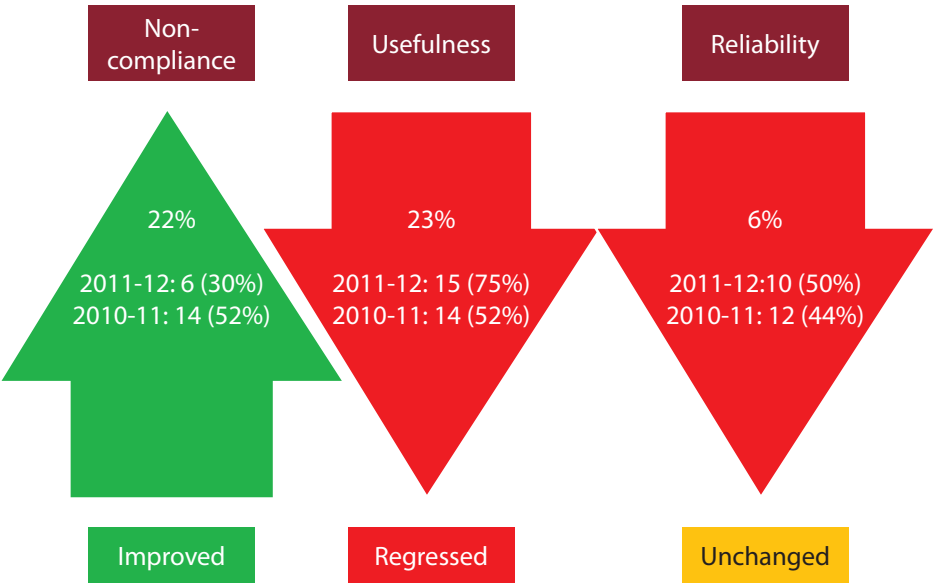
PDO findings are classified under the main audit areas of usefulness and reliability of information.

Usefulness	<p>The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings are on:</p> <ul style="list-style-type: none">• reported performance information not being consistent with the objectives and targets• targets not clearly linked to the mandate and objective of the institution• targets not being specific, not clearly identifying the nature and required level of performance, and not being measurable and time bound.
Reliability	<p>Findings on whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.</p>

Audit work was also focused on compliance with laws and regulations relevant to performance planning, management and reporting.

The following figure shows overall movement in the different areas of PDO findings.

Figure 10: Overall movement in findings on predetermined objectives [20 auditees reported on (2010-11: 27)]



The table that follows shows the progress, or lack thereof, made by auditees in addressing their prior year PDO findings. It does not include the non-compliance findings which are detailed in section 2.4.

Table 9: Progress made by auditees in addressing prior year findings on predetermined objectives

Auditee	Movement in addressing 2010-11 findings on predetermined objectives			
	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report
Departments				
Office of the Premier	Repeat	Repeat		
Provincial legislature	Repeat	New		
Health	Repeat	Repeat		
Sport, Arts and Culture	New	New		
Public Safety	Repeat	Repeat		
Provincial treasury		Addressed		
Education	Repeat			
Local Government and Traditional Affairs	Repeat	New		
Public Works, Roads and Transport	Repeat	Repeat		
Human Settlements	New	Addressed		
Agriculture and Rural Development	New			
Social Development	New	New		
Public entities				
Invest North West	Repeat	New		
Golden Leopard Resorts (Pty) Ltd				Repeat
Kgama Wildlife Operations (Pty) Ltd	Repeat			
North West Directorate of Entrepreneurial Development in Natural Resources	New			
Mafikeng Industrial Development Zone (Pty) Ltd	Repeat	Repeat		

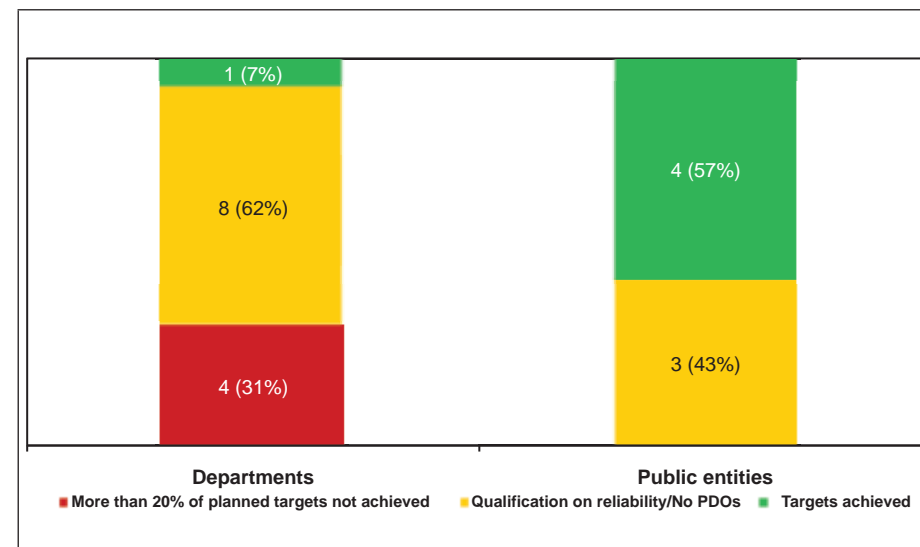
The table that follows details the nature of the most common findings on PDOs.

Table 10: Nature of findings on predetermined objectives

PDO findings category	Specific PDO findings	Nature of findings
Reported information not useful	<ul style="list-style-type: none"> Presentation Consistency Measurability 	<ul style="list-style-type: none"> Reasons for major variances were not explained or not supported by adequate corroborating evidence Reported performance information was not consistent with planned objectives, indicators/measures and targets Indicators/measures were not well defined or verifiable Performance targets were not specific, time bound or measurable
Reported information not reliable	<ul style="list-style-type: none"> Accuracy Completeness Validity 	<ul style="list-style-type: none"> Reported performance information was not accurate – no/inadequate supporting source information Reported performance information was not valid – no/inadequate supporting source information Source information for reported performance information was not complete

The following figure analyses the auditees that, despite reported information being reliable, did not achieve more than 20% of their planned indicators/targets.

Figure 11: Achievement of planned performance

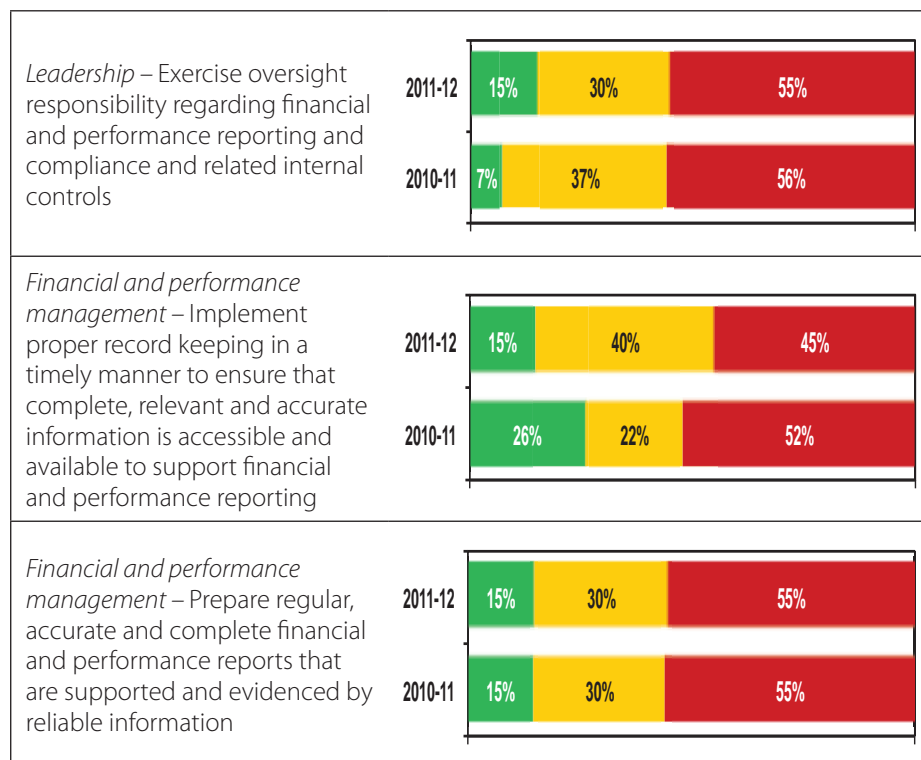


2.3.3 Root causes and best practice recommendations

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that require attention from the leadership to improve the audit outcomes.

Figure 12: Assessment of drivers of internal control – reporting on predetermined objectives



Identified root causes that gave rise to this assessment and the recommended way forward are summarised as follows.

Table 11: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward
Oversight responsibility	The leadership had still not ensured that dedicated people and resources were assigned to PDOs in order to achieve the desired results. Prior year audit findings had not been addressed and recommendations made had not been implemented due to lack of consequences for non-performance by those accountable.
	<u>Way forward:</u> The leadership should ensure that best practices and recommendations made by the auditors are implemented. Staff involved in the preparation and review of PDOs should be appropriately trained in the requirements and preparation framework.
Proper record keeping	There were inadequate document management systems to ensure that evidence can be easily accessed and retrieved for actual reported information.
	<u>Way forward:</u> Document and record management systems should be put in place to ensure that all the relevant information is properly filed and easily retrievable.
Reliable reporting	There was still a lack of review of reported performance information prior to submission of the annual performance reports for audit purposes.
	<u>Way forward</u> The internal audit and audit committees should properly review the actual reported performance on a quarterly basis. Annual performance reports should be appropriately reviewed before being submitted for audit purposes.
Monitoring by audit committees and internal audit units	The internal audit and audit committees provided limited inputs on PDO findings.
	<u>Way forward</u> The audit committees should request internal audit to provide assurance on the quarterly performance reporting processes and ensure that appropriate controls are implemented by the departments and entities.

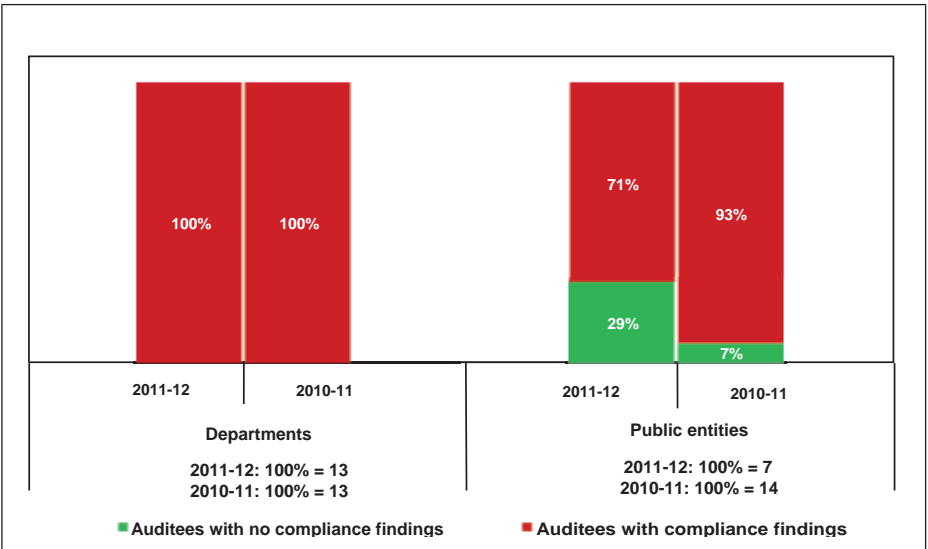
2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

The PAA requires auditors of public sector entities to audit on an annual basis compliance with laws and regulations applicable to financial matters, financial management and other related matters.

2.4.1 Overall outcomes from the audit of compliance with laws and regulations

The movement in the number of auditees with findings on compliance with laws and regulations is shown in the following figure.

Figure 13: Overall movement in number of auditees with compliance findings



All departments still have findings on compliance. The Invest North West and North West Gambling Board were the only entities that managed to improve to no findings on compliance. This was due to management’s diligent attention to prior year findings specifically relating to material misstatements.

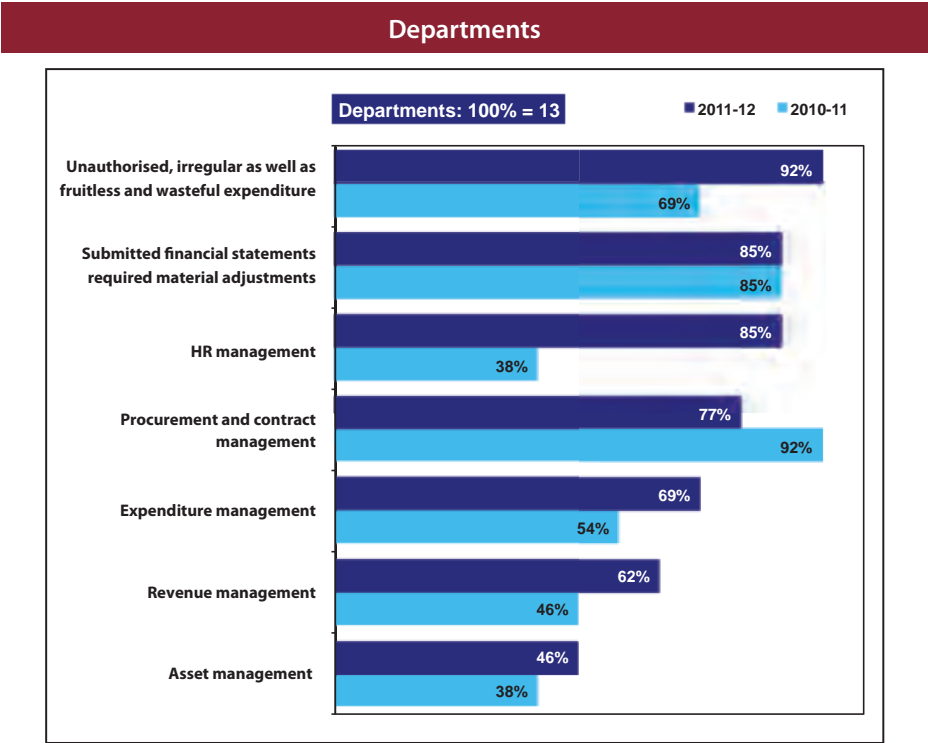
2.4.2 Findings on compliance with laws and regulations

The procedures performed to obtain evidence that auditees had complied with applicable laws and regulations were limited to the following focus areas:

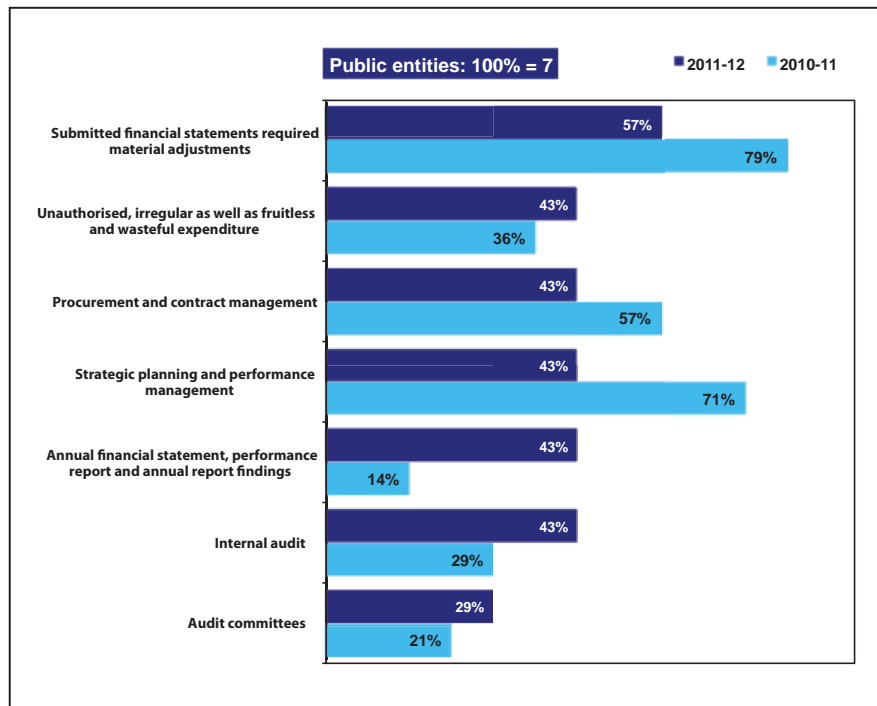
- Material misstatements in submitted annual financial statements
- asset and liability management
- audit committees
- budgets
- expenditure management
- prevention of unauthorised, irregular as well as fruitless and wasteful expenditure
- financial misconduct
- internal audit
- revenue management
- strategic planning and performance management
- transfer of funds and conditional grants
- procurement and contract management
- human resource management and compensation.

The following figure shows overall movement in the different focus areas.

Figure 14: Overall movement in findings on compliance with laws and regulations



Public entities



The figure that follows shows the progress, or lack thereof, made by auditees in addressing their prior year compliance findings.

Figure 15: Progress made by auditees in addressing prior year non-compliance findings

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	Human resource management	Expenditure management	Revenue management	Asset and liability management	Other areas of non-compliance
Departments								
Office of the Premier	Repeat	Repeat	Repeat	New	Repeat	Repeat	New	Repeat
Provincial legislature	Repeat	Repeat	Repeat	New	Repeat	Repeat		Repeat
Health	Repeat	Repeat	Repeat	New	Repeat	New	Repeat	Repeat
Sport, Arts and Culture	New	New	Repeat	New	New			Addressed
Public Safety	Repeat	Repeat	Repeat	Repeat	Addressed	Repeat	New	Repeat
Economic Development, Tourism, Conservation and Environment	Addressed	Repeat	Repeat	New	New		Addressed	
Provincial treasury	New	New	Addressed	New				Addressed
Education	Repeat	Repeat	Repeat	Repeat	New	Repeat	Repeat	Repeat
Local Government and Traditional Affairs	Repeat	Repeat	Repeat	New	New		New	New
Public Works, Roads and Transport	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
Human Settlements	Repeat	New						
Agriculture and Rural Development	Addressed	Addressed	Addressed	Repeat	Addressed	Repeat		
Social Development	Repeat	New	Repeat	Addressed	New	New	Addressed	Addressed

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	Human resource management	Expenditure management	Revenue management	Asset and liability management	Other areas of non-compliance
Public entities								
Invest North West	Addressed		Addressed					Addressed
North West Gambling Board	Addressed							Addressed
Golden Leopard Resorts (Pty) Ltd	Repeat	New	Repeat		New	Repeat	New	Repeat
Kgama Wildlife Operations (Pty) Ltd	New	New	Repeat					Repeat
North West Directorate of Entrepreneurial Development in Natural Resources	Addressed							Repeat
North West Development Corporation (Pty) Ltd	Repeat							Addressed
Mafikeng Industrial Development Zone (Pty) Ltd	Repeat	Repeat	Repeat				New	Repeat

The table that follows details the nature of the most common findings on non-compliance with laws and regulations.

Table 12: Nature of findings on non-compliance with laws and regulations

Compliance findings category	Nature of findings
<i>Material misstatement/ limitations in submitted annual financial statements</i>	<ul style="list-style-type: none"> Financial statements submitted for audit purposes contained material misstatements/ limitations
<i>Unauthorised, irregular, as well as fruitless and wasteful expenditure</i>	<ul style="list-style-type: none"> Irregular as well as fruitless and wasteful expenditure was not prevented Effective and appropriate disciplinary steps were not taken against officials who made or permitted unauthorised/irregular/fruitless and wasteful expenditure
<i>Procurement management</i>	<ul style="list-style-type: none"> Uncompetitive or unfair procurement processes Awards to entity officials or other state officials
<i>HR management</i>	<ul style="list-style-type: none"> HR plans were not in place Management of overtime, leave and suspensions
<i>Expenditure management</i>	<ul style="list-style-type: none"> Payment of creditors was not within 30 days
<i>Revenue management</i>	<ul style="list-style-type: none"> Effective and appropriate steps were not taken to timeously collect all revenue due Effective and appropriate steps were not taken to collect debts prior to write off
<i>Asset and liability management</i>	<ul style="list-style-type: none"> Proper control systems were not implemented for safeguarding and maintenance of assets Bank reconciliations were not performed regularly

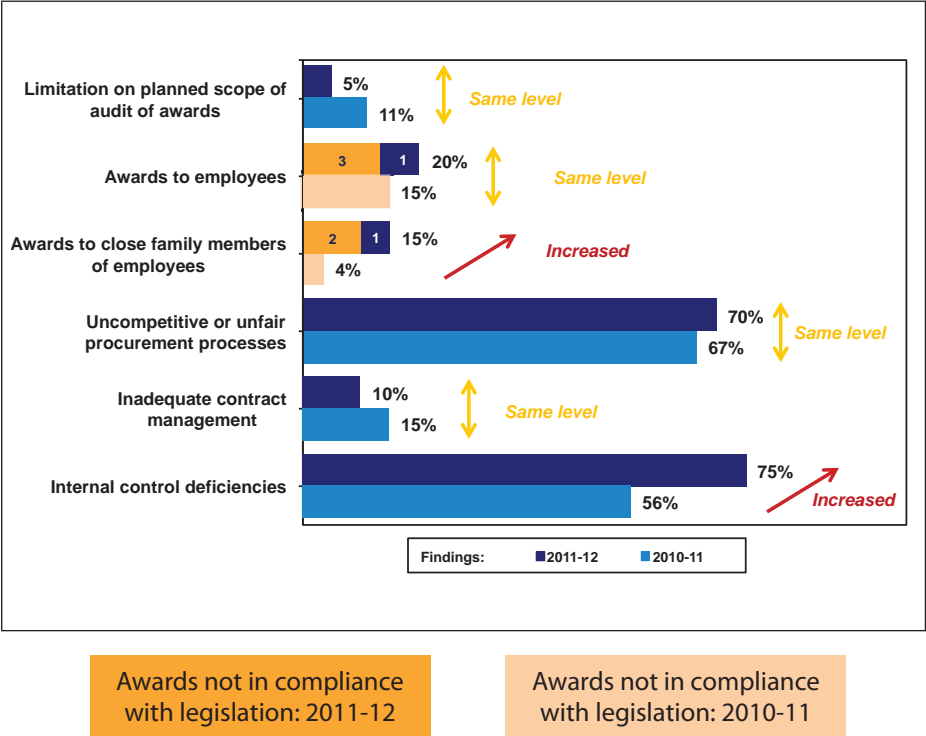
2.4.3 Findings arising from the audit of supply chain management

Audits conducted by the AGSA included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings arising from the audit were reported in the management reports of 18 (90%) auditees, while at 13 (65%) of these auditees the findings were material enough to warrant reporting thereof in the auditor's report. Contracts awarded and price quotations accepted (referred to as "awards" in the remaining sections of this report) to the value of R5,6 billion were tested. Awards to the value of R0,5 billion that were selected for audit purposes could, however, not be audited due to the required information or documentation not being made available by auditees.

The following figure presents a summary of SCM findings, with a comparison to the audit results of the previous year. The percentages are based on the number of auditees reported on.

Figure 16: Summary of findings on supply chain management



Details of the most prevalent findings are provided in the paragraphs that follow.

2.4.3.1 Limitations on planned scope of audit of awards

At Public Works, Roads and Transport, sufficient appropriate audit evidence could not be provided that awards had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The detail on the limitations is shown in the table below and it is important to note that the scope limitation was also experienced in the previous year.

Table 13: Limitations experienced

Auditee	Number of awards	Amount
Departments		
Public Works, Roads and Transport	50	R470 million
Total	50	R470 million

This department received a disclaimer of opinion as a result of its inability to provide information for audit scrutiny. The substantive reasons for these limitations were poor record management and the absence of a proper contract management system.

2.4.3.2 Awards to state officials and close family members

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

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

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

The detail on the awards made and whether the awards were made in compliance with the legislated requirements is shown in the table below. The name of the auditee is highlighted in red if awards to officials and close family members were also identified in the previous year.

Table 14: Awards to officials employed by auditees and their close family members

Auditee	Awards made to					Non-compliance with regard to awards made					
	Employees			Close family members of employees		Supplier not declare interest		Official did not declare interest		Non-compliance/ irregularity in procurement process	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
Departments											
Health	28	R1,51 million	Other employees	19	R1,39 million	26	R1,51 million	46	R2,91 million		
Education	11	R0,52 million	Other employees	9	R1,32 million	11	R0,52 million	20	R1,84 million		
Agriculture and Rural Development	2	R0,13 million	Other employees	4	R0,08 million	2	R0,13 million				
Human Settlements	16	R5,91 million	Other employees								
Total	57	R8,08 million		32	R2,79 million	39	R2,17 million	66	R4,75 million	0	R0,00 million

* Number: indicates number of instances

2.4.3.3 Uncompetitive or unfair procurement processes

Our audits also focus on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process does not unfairly favour some suppliers above others.

It is important that the prescribed processes are followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and that those goods and services are procured at competitive and economical prices.

The procurement processes of 274 contracts (R5,5 billion) and 1 744 quotations (R0,1 billion) were tested at 13 departments and seven public entities. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table – similar findings were identified in the province in the prior year.

Table 15: Summarised findings on uncompetitive or unfair procurement processes

Finding	DP	PE	Nature of finding
Three price quotations not obtained/ deviations not approved or justified	9 (69%)	2 (29%)	A price quotation process is prescribed for procurement of goods and services valued between R10 000 and R500 000. Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee, as required.
Competitive bids not invited/ deviations not approved or justified	6 (46%)	2 (29%)	A competitive bidding process should be followed for the procurement of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.

Finding	DP	PE	Nature of finding
Preference point system not applied or not correctly applied	7 (54%)	0 (0%)	The preference point system was not applied in all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.
Tax clearance not obtained from SARS	4 (31%)	0 (0%)	Awards were made to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.
Other findings	9 (69%)	3 (43%)	Other findings include the following: <ul style="list-style-type: none"> • No prospective supplier list for inviting price quotations. • Supplier scoring highest points was not selected. • No declaration of interest was submitted by provider.

DP = departments, PE = public entities

2.4.3.4 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which in turn impact directly on service delivery. The most prevalent findings on inadequate contract management are summarised in the following table – similar findings were identified in the prior year.

Table 16: Summarised findings on contract management

Finding	DP	PE	Nature of findings
Contracts amended or extended without approval by a delegated official	2 (15%)	0 (0%)	Contracts were amended or extended without appropriate approval by a delegated official.

DP = departments, PE = public entities

2.4.3.5 Inadequate supply chain management controls

Findings on the most prevalent identified deficiencies in fundamental SCM controls are summarised in the following table – similar findings were identified in the prior year.

Table 17: Summarised findings on supply chain management controls

Finding	DP	PE	Nature of findings
No approval of remunerative work	8 (62%)	0 (0%)	The controls were not in place to ensure that officials obtained approval for other remunerative work that they were involved in.
Performance of SCM unit is not regularly analysed	6 (46%)	1 (14%)	The performance of the SCM unit was not regularly analysed and monitored to ensure compliance with new legislative requirements.
SCM officials not adequately trained	5 (38%)	0 (0%)	Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.
Allegations not investigated within a reasonable time	5 (38%)	0 (0%)	Allegations and prior year non-compliance issues identified were not investigated within a reasonable time and no action was taken against perpetrators.
Other controls	4 (31%)	3 (43%)	SCM policy/procedures were in conflict with applicable legislation/did not include all requirements. SCM officials were not aware of SCM policies/did not understand roles and responsibilities. Inadequate controls to ensure that interest is declared.

DP = departments, PE = public entities

2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred

Legislation requires accounting officers to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof, even if all reasonable steps had been taken. In those exceptional circumstances where it does occur, legislation makes it compulsory for auditees to disclose such expenditure in their financial statements and a detailed accountability process is prescribed, which could result in disciplinary processes and recovery of monies from liable officials.

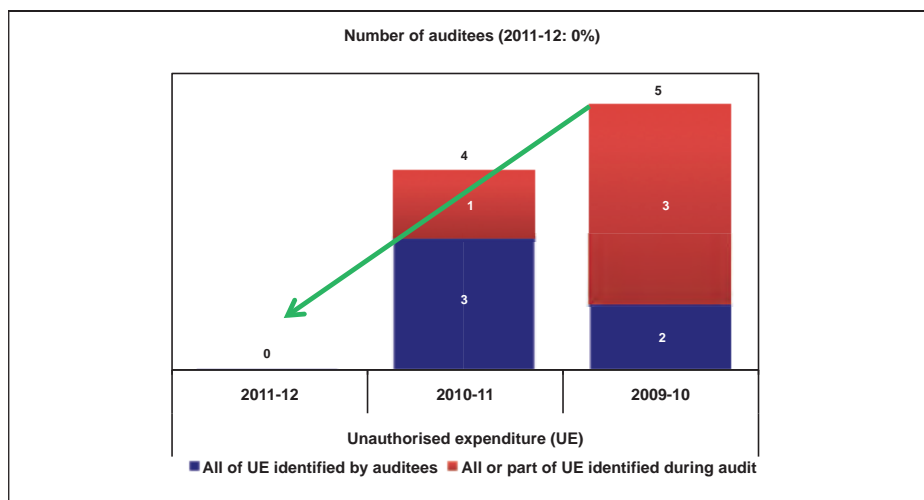
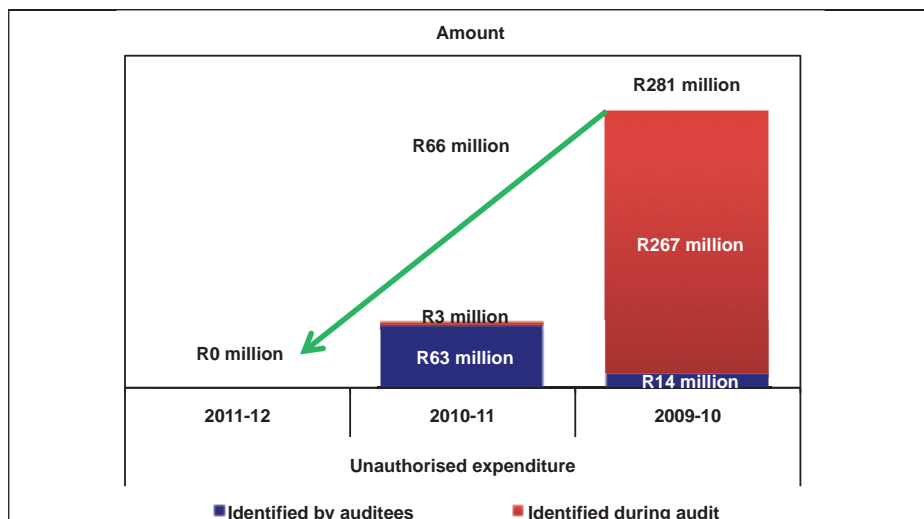
Unauthorised, irregular or fruitless and wasteful expenditure was incurred by 18 (80%) auditees. The audits further revealed that the accounting officers of 14 (70%) auditees did not ensure that reasonable steps were taken to prevent this type of expenditure. This was reported in the auditor's reports as material non-compliance.

Reasonable steps are not taken to prevent such expenditure, while the occurrence thereof is also not detected by auditees and is mostly identified by means of the AGSA's audit process.

Nature of and overall trends in unauthorised expenditure (departments only)

The figure below reflects the three-year trend in unauthorised expenditure.

Figure 17: Three-year trend in unauthorised expenditure

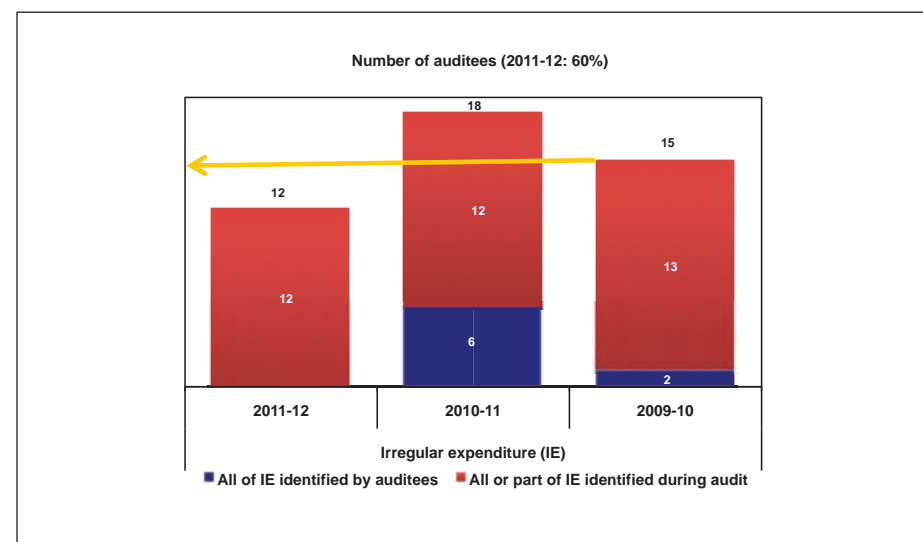
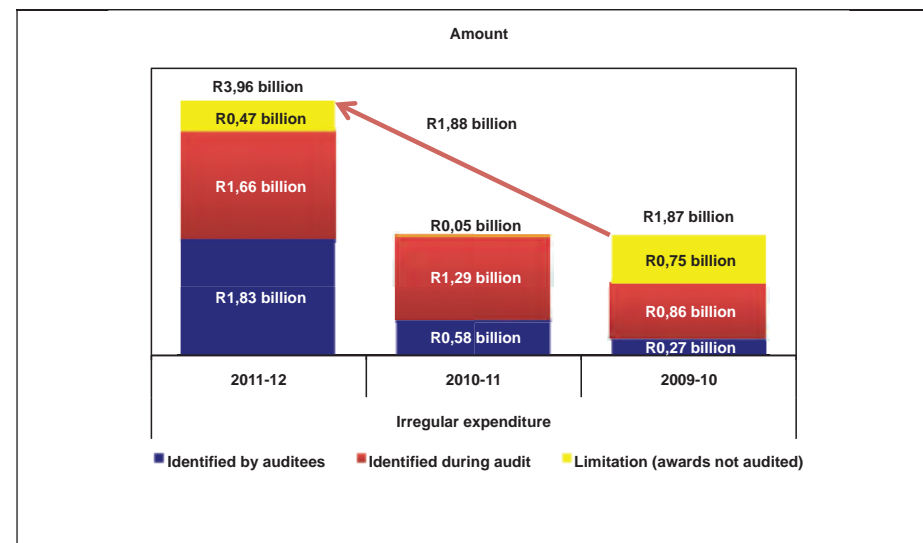


The departments did not incur unauthorised expenditure during the financial year. This means that expenditure was within the approved budgets of the departments. This is indicative of better budgetary controls implemented by the departments.

Nature of and overall trends in irregular expenditure

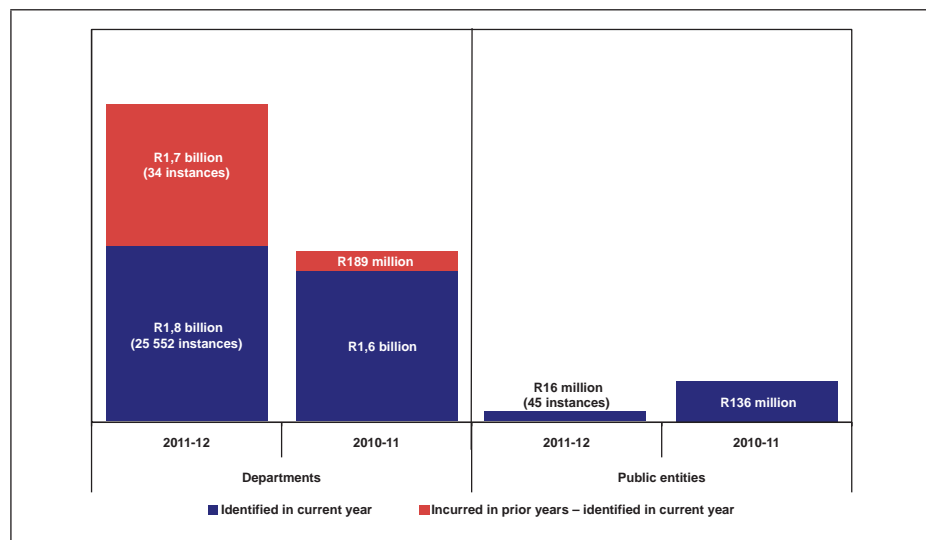
The figure that follows reflects the three-year trend for irregular expenditure.

Figure 18: Three-year trend in irregular expenditure



The following figure shows the extent of the irregular expenditure that occurred as a result of transgressions in the current and previous years and those that occurred in previous years but were only recently discovered.

Figure 19: Irregular expenditure identified – current and prior years



The nature of irregular expenditure incurred is analysed in the following table.

Table 18: Nature of and current year movement in irregular expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Related to SCM	12	33% ↑	R3 467 million	90% ↓
Related to compensation of employees	4	100% ↓	R7 million	85% ↑
Other non-compliance	4	100% ↓	R19 million	450% ↓

There was an increase in irregular expenditure, mainly in SCM-related irregular expenditure. The departments with the most irregular expenditure were as follows:

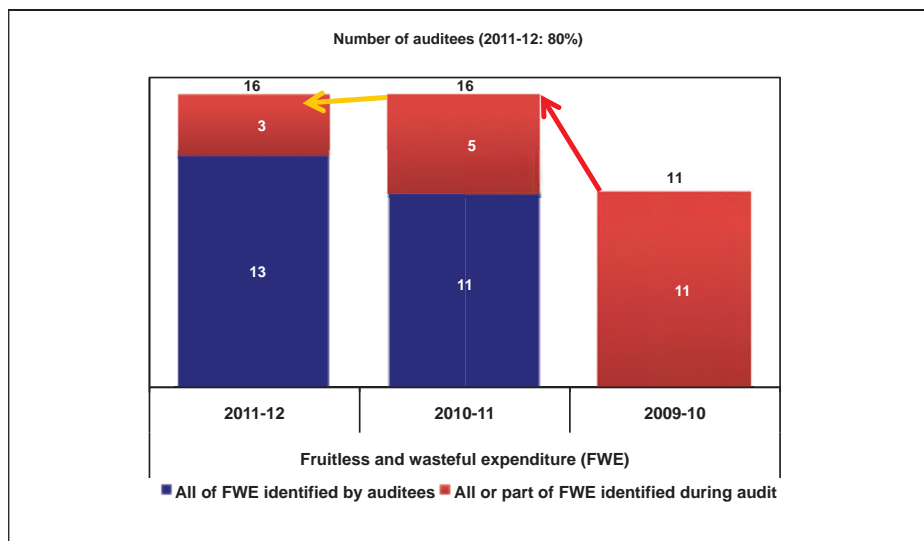
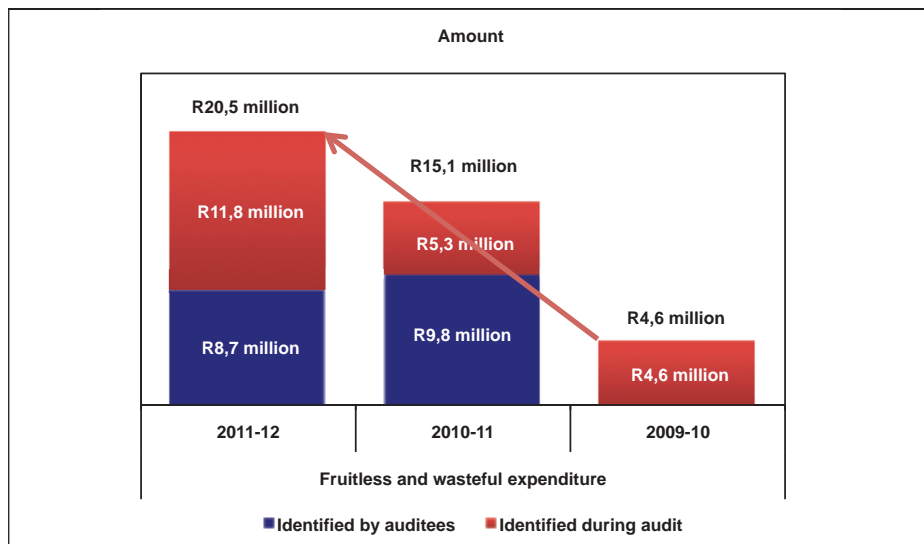
- Department of Health – R1,7 billion
- Department of Public Works, Roads and Transport – R1,3 billion
- Department of Social Development – R265 million

Details of irregular expenditure per department are included in annexure 1 of this report.

Lack of actions taken against officials that incurred irregular expenditure in previous years resulted in a total disregard of legislative requirements. The extent of this irregular expenditure and non-compliance by the accounting officers is indicative of an environment where incurring irregular expenditure has become the norm and not the exception.

Nature of and overall trends in fruitless and wasteful expenditure

The figure below reflects the three-year trend in fruitless and wasteful expenditure.

Figure 20: Three-year trend in fruitless and wasteful expenditure

The nature of fruitless and wasteful expenditure incurred is analysed in the following table.

Table 19: Analysis of fruitless and wasteful expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Interest and penalties paid due to late payment of invoices	16	0%	R21 million	35%

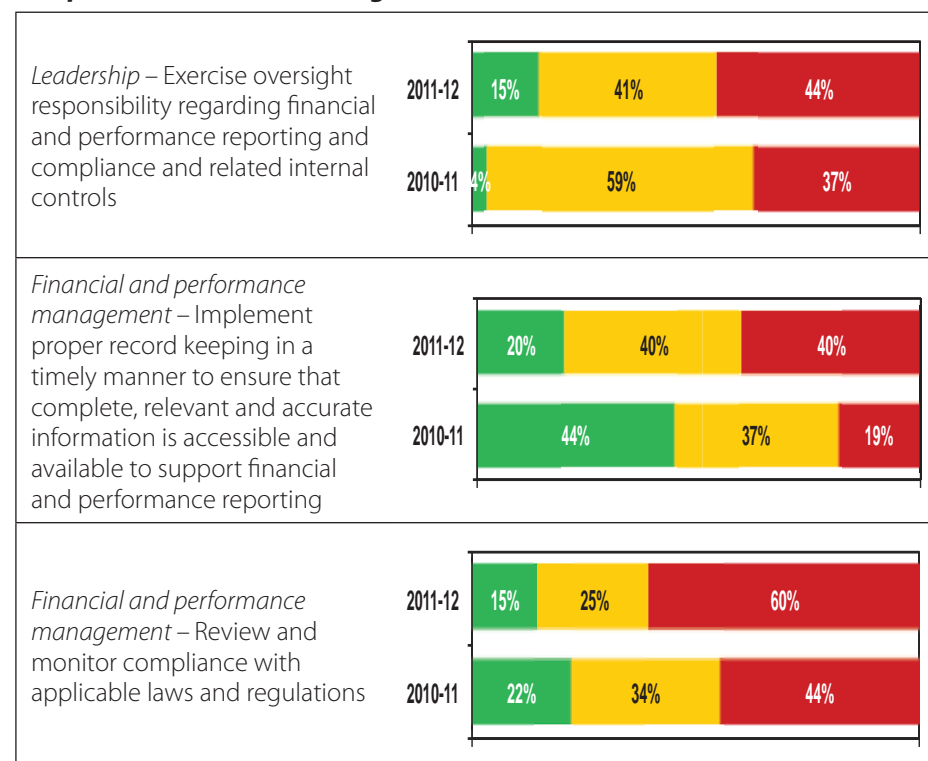
Although fewer audits were complete, there was still an increase in the amount of fruitless and wasteful expenditure identified. This can be attributable to systems at the expenditure department not being appropriate to identify payment terms in a timely manner. In addition, errors on invoices are not followed up by the CFOs and disputes not resolved, resulting in departments paying undue interest and resultant penalties for late finalisation of these payments.

2.4.5 Root causes and best practice recommendations

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from the leadership to address non-compliance findings impacting on audit outcomes.

Figure 21: Assessment of drivers of internal control over reporting on compliance with laws and regulations



Identified root causes that gave rise to this assessment and the recommended way forward are summarised below.

Table 20: Identified root causes and way forward (good practices)

Aspect	Identified root causes and way forward
Oversight responsibility	The leadership failed to exercise oversight over compliance with laws and regulations. Lack of consequences for those that transgress/those that are not performing worsens the non-compliance with laws and regulations. Failure to deal with this has perpetuated the culture of non-compliance.
	<p><u>Way forward</u></p> <p>Intervention is required to urgently investigate SCM irregularities and irregular expenditure. Officials that incurred these should be dealt with in terms of appropriate disciplinary procedures.</p>
Proper record keeping	Lack of proper record keeping, specifically with regard to tenders and documentation to support tender procedures followed. This resulted in limitations of scope on the audit of awards in terms of the auditee's SCM policies.
	<p><u>Way forward</u></p> <p>Appropriate records management should be implemented by all auditees to ensure that tender documentation is readily available, this could include saving important information in electronic format (i.e. scanning of documents).</p> <p>This should be monitored by internal audit and audit committees.</p>
Review and monitor compliance	No controls were implemented to review and monitor non-compliance. In many situations officials were ignorant of applicable legislation or due to a lack of consequences legislation was deliberately not adhered to.
	<p><u>Way forward</u></p> <p>Management should ensure that all officials are appropriately informed of legislation relevant to the duties they perform on a daily basis. Tools like checklists should be used to monitor compliance with SCM regulations. The compliance officers and/or internal audit should regularly review compliance with laws and regulations and any identified non-compliance should be timeously addressed.</p> <p>Disciplinary steps should be taken against those officials that deliberately or continuously transgress.</p>

SECTION 3

AUDITEES' SYSTEMS OF INTERNAL CONTROL

- 3.1 OVERALL STATUS OF INTERNAL CONTROL AND COMMITMENTS
- 3.2 HUMAN RESOURCE MANAGEMENT
- 3.3 MANAGEMENT OF INFORMATION TECHNOLOGY
- 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT



AUDITOR - GENERAL
SOUTH AFRICA

SECTION 3:

AUDITEES’ SYSTEMS OF INTERNAL CONTROL

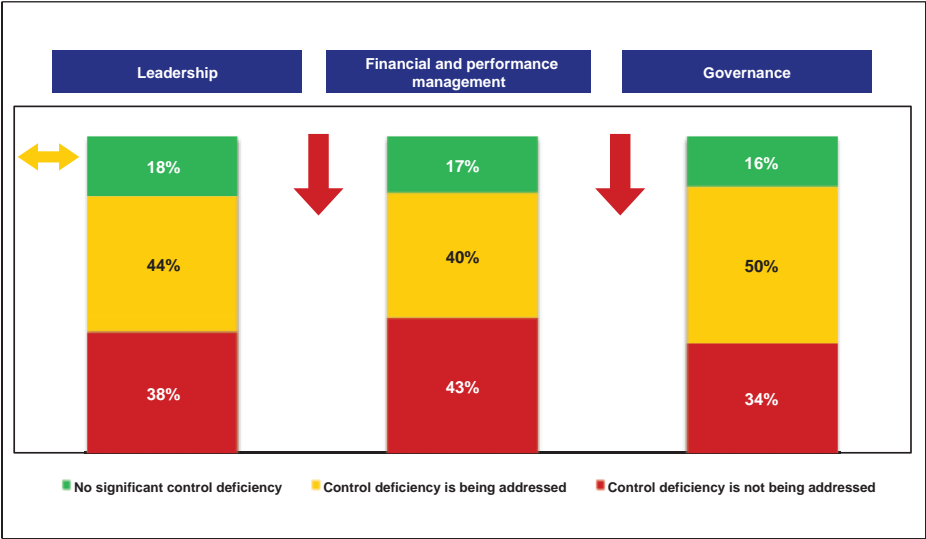
This section of the general report provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on HR management (section 3.2), IT management (section 3.3), audit committees and internal audit (section 3.4).

3.1 OVERALL STATUS OF INTERNAL CONTROL AND COMMITMENTS

A key responsibility of accounting officers/authorities and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits the auditee’s system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are termed the drivers of internal control.

The figure below provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control, which resulted in material misstatements in financial and performance reports and findings on non-compliance with laws and regulations.

Figure 22: Overall assessment of drivers of internal control



The above figure shows that there was no significant improvement in the deficiencies in the key controls relating to leadership, while the deficiencies in the key controls relating to financial and performance management as well as governance have increased.

The status of the internal control elements underlying leadership, financial and performance management and governance, and movements in the implementation thereof, is presented in the following table.

Table 21: Status of internal control

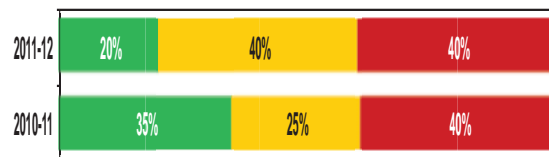
Driver no. 1: Leadership		
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	<div><div>2011-12</div><div><div>20%</div><div>58%</div><div>22%</div></div></div> <div><div>2010-11</div><div><div>21%</div><div>57%</div><div>22%</div></div></div>	
This driver has remained unchanged from the previous year. The leadership did not set the appropriate tone at the top for their management and officials to follow. This resulted in the morale of staff being adversely affected and their performance suffered.		
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	<div><div>2011-12</div><div><div>15%</div><div>40%</div><div>45%</div></div></div> <div><div>2010-11</div><div><div>14%</div><div>46%</div><div>40%</div></div></div>	
This driver has remained unchanged from the previous year. The leadership failed to exercise appropriate oversight to ensure that key control weaknesses identified and communicated on a quarterly basis were appropriately addressed, resulting in a stagnation of audit outcomes and regressions in certain cases.		
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	<div><div>2011-12</div><div><div>24%</div><div>38%</div><div>38%</div></div></div> <div><div>2010-11</div><div><div>20%</div><div>53%</div><div>27%</div></div></div>	
Section 3.2 provides an analysis of human resource management		
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.	<div><div>2011-12</div><div><div>18%</div><div>36%</div><div>46%</div></div></div> <div><div>2010-11</div><div><div>20%</div><div>27%</div><div>53%</div></div></div>	

Driver no. 1: Leadership		
This driver has remained unchanged from the previous year. Although policies and procedures had been developed, the leadership did not ensure that these were appropriately communicated to all officials and implementation of policies and procedures was not monitored.		
Develop and monitor the implementation of action plans to address internal control deficiencies.	2011-12	<div><div>13%</div><div>47%</div><div>40%</div></div>
	2010-11	<div><div>19%</div><div>48%</div><div>33%</div></div>
This driver has regressed from the previous year. The leadership failed to ensure that proper action plans were developed to address prior year audit findings in line with recommendations. In case where action plans were developed they were either not appropriately implemented or they were inadequate to address all findings.		
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.	2011-12	<div><div>22%</div><div>38%</div><div>40%</div></div>
	2010-11	<div><div>21%</div><div>37%</div><div>42%</div></div>
Section 3.3 provides an analysis of the management of information technology		
Driver no. 2: Financial and performance management		
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	2011-12	<div><div>17%</div><div>42%</div><div>41%</div></div>
	2010-11	<div><div>34%</div><div>31%</div><div>35%</div></div>

Driver no. 2: Financial and performance management

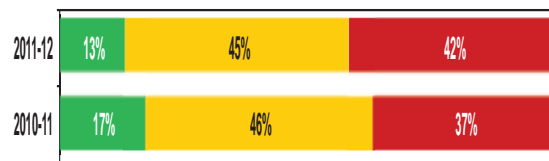
This driver has regressed from the previous year. Proper record keeping remains a major concern. Information was not easily accessible or available to support financial and performance reporting. This includes evidence for awarding of tenders, supporting documents for balances/transactions and disclosure in the financial statements and information to support actual reported performance information.

Implement controls over daily and monthly processing and reconciling of transactions.



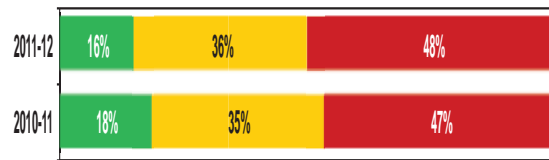
This driver has regressed from the previous year. Basic controls were still lacking at many auditees, including things like bank reconciliations, reconciling the general ledger and updating of asset register. Lack of consequences for failure to implement these financial disciplines.

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



This driver has remained unchanged from the previous year. Information to support financial statements and reporting performance information was not readily available and easily retrievable, resulting in unnecessary delays in audit and limitations of scope.

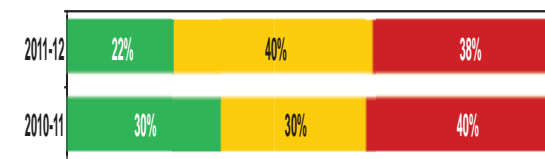
Review and monitor compliance with applicable laws and regulations.



This driver has remained unchanged from the previous year. Management did not conduct appropriate reviews or monitor compliance with laws and regulations. Lack of consequences resulted in a culture of non-compliance.

Driver no. 2: Financial and performance management

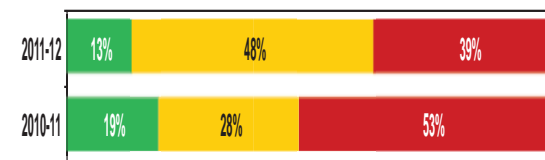
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (information systems).



Section 3.3 provides an analysis of the management of information technology

Driver no. 3: Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

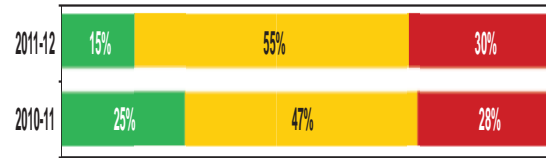


This driver has regressed from the previous year. Auditees failed to ensure that risk management activities were comprehensive enough to address all risks relating to financial reporting, PDOs and compliance with laws and regulations. Risk management strategies that had been developed were not appropriately implemented and monitored.

Section 3.3 provides an analysis of the management of information technology

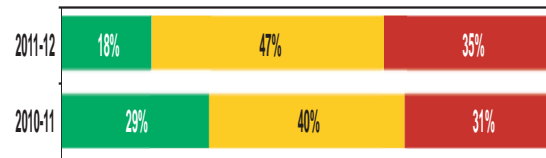
Driver no. 3: Governance

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.



Section 3.4 provides an analysis of internal audit

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.



Section 3.4 provides an analysis of audit committees

Leadership

As can be seen from the analysis in the table above, there has not been any significant improvement with regard to the leadership in the province on audit outcomes. The leadership did not set the appropriate tone at the top. They did not exercise appropriate oversight to ensure that key control weaknesses identified and communicated on a quarterly basis, were appropriately addressed.

Financial and performance management

The analysis in the table above shows that there has been a regression in terms of financial and performance management. Proper record keeping remains a major concern – the assurance on the credibility of financial and performance information was not achieved at the required levels – due to lack of implementation of basic controls and reconciliations. There was a lack of consequence for failure to implement these financial disciplines as well as for transgressions of controls and ultimately poor performance.

Governance

As can be seen from the analysis in the table above, there has been a regression in terms of governance. Risk management remains a compliance-driven exercise without actual proper implementation or monitoring. The audit committees and internal audit have reached the level where they do what is required in terms of legislation in their oversight capacity at departments and entities. More commitment is required at this assurance level to contribute to improving the audit outcomes of the North West province.

3.2 HUMAN RESOURCE MANAGEMENT

Effective HR management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are managed. Auditees often identify a lack of capacity as the root cause of audit outcomes, which prompted the AGSA to specifically focus on HR management.

The following figure depicts the outcome of an assessment of HR management at auditees.

Figure 23: Summary of findings on human resource management

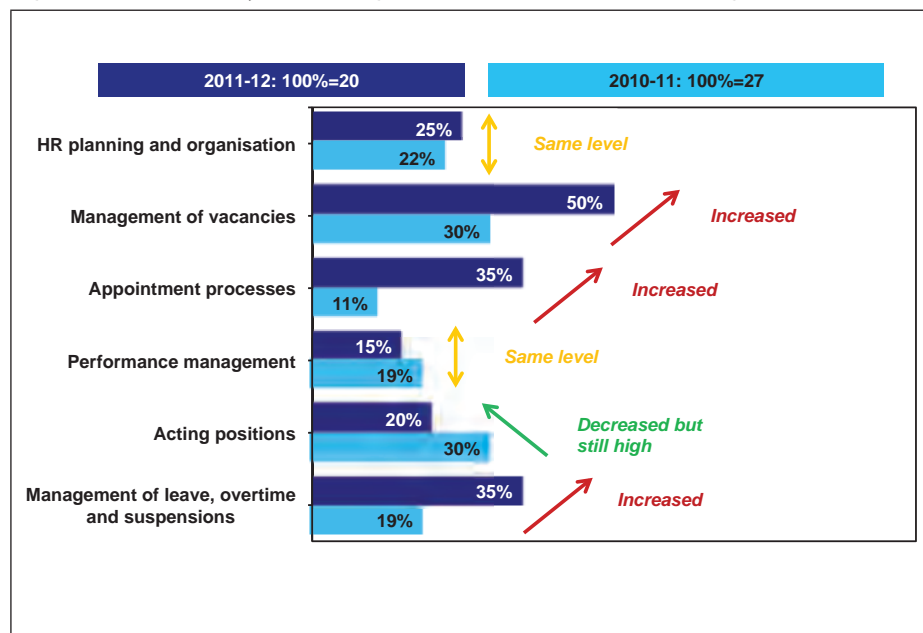


Table 22: Nature of key findings

Findings	Key findings
Management of vacancies	<ul style="list-style-type: none"> Overall vacancy rate increased from previous year. Senior management – vacancy rate increased from previous year. Vacant positions were not advertised within six months. Positions were vacant for more than 12 months.
Appointment processes	<ul style="list-style-type: none"> Prescribed selection and approval processes were not followed for all appointments.
Management of leave, overtime and suspensions	<ul style="list-style-type: none"> Employees received paid overtime for more than the maximum hours allocated. Processes/procedures were not in place to monitor sick leave. Employees were on suspension with pay for more than 30 days.

The analysis indicates that there was a regression in HR management compared to the prior years. These matters should be given the appropriate attention since they are key drivers of the audit outcomes.

3.3 MANAGEMENT OF INFORMATION TECHNOLOGY



Information technology in the province is important to enable the responsibilities of ensuring operational integrity of financial statement and performance information reports and enable the facilitation and monitoring of service delivery.

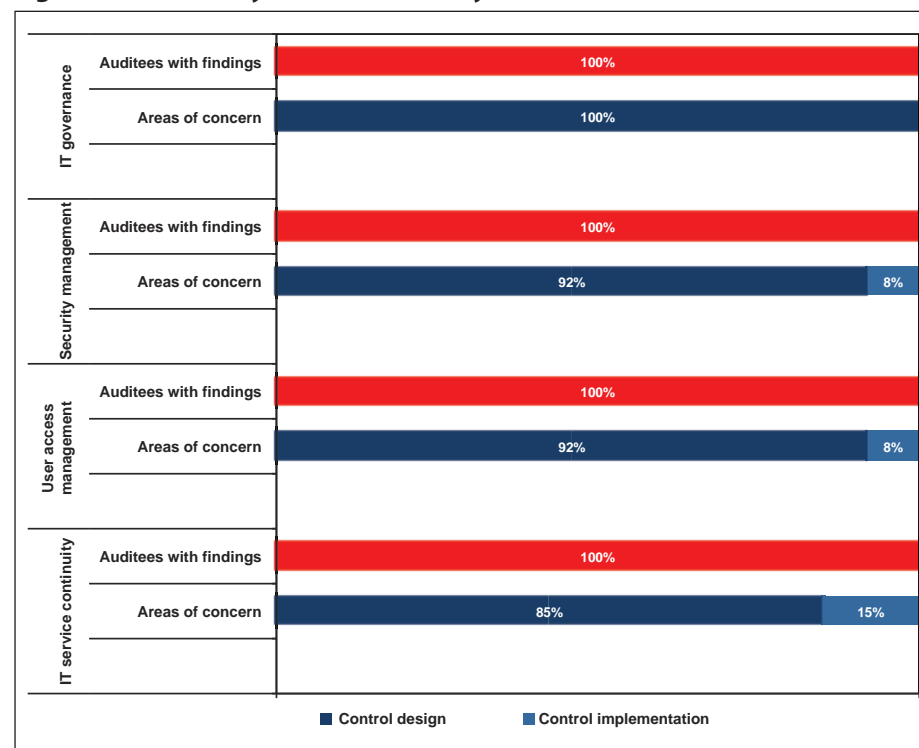
An IT process should be in place to enable service delivery and safeguard the provincial information.

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

IT controls for financial systems were evaluated at 13 departments and one public entity (North West Development Corporation) and controls for performance information were evaluated at three sectoral departments, i.e. Health, Education and Human Settlements. Where systems were developed or customised, project governance was assessed at the various phases of the project to ensure that controls were built into the systems prior to implementation.

3.3.1 Summary of overall identified weaknesses in the management of financial information systems

Figure 24: Summary of information system control weaknesses



Information technology governance

The IT governance framework had not been designed by all departments. As a result there were no IT strategic plans to ensure that IT processes would enable business requirements; IT risk assessments were not performed; IT performance was not monitored; and roles and responsibilities between the provincial departments and the provincial treasury were not defined.

Security management

Ninety-two per cent of departments had not designed IT security policies. The departments of Human Settlements and Social Development (8%) had formally designed the IT security policies; however, the policies had not been

implemented. As a result the responsibilities for information systems security were not allocated; there was a lack of security awareness, which led to users sharing user IDs and passwords, and there were inadequate security parameter settings at the operating systems level.

User access management

Ninety-two per cent of departments did not have user account management policies and procedures. The Department of Economic Development, Environment and Tourism (8%) had designed user account management policies and procedures; however, these had not been implemented. This is despite the numerous engagements by the AGSA with the North West CFO forums to assist them with user account management best practices. As a result, periodic reviews of user and administrators access were not performed, access was not approved, there was no segregation of duties, controls within the financial systems and terminated users were not removed from the system on time.

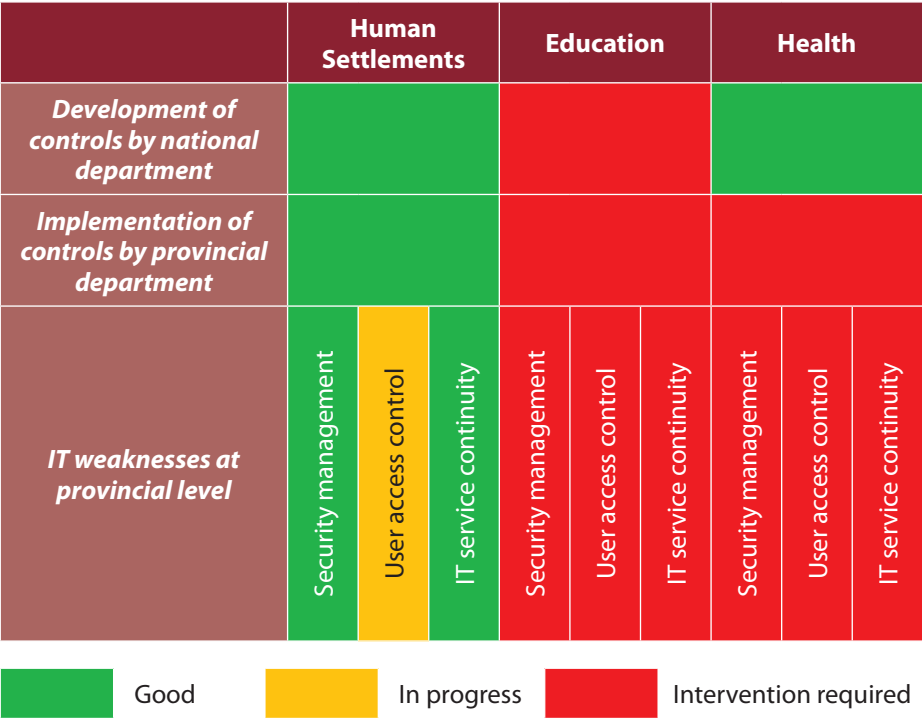
Information technology service continuity

There were no disaster recovery plans (DRPs) for the recovery of non-transversal financial systems and the network infrastructure. As a result, backups were not performed for the applications and their databases.

3.3.2 Audit of performance information systems

The audit focused on compliance with the National Treasury framework for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the application systems used by the provincial departments to manage performance information. Three departments, namely Human Settlements, Health and Education were reviewed for the existence of IT controls to govern application systems and the compliance of the provincial departments with these controls. Drivers of IT control weaknesses and the summary are shown below:

Figure 25: Comparison between national and provincial implementation of information technology controls over performance systems



Human Settlements

The good results within the National Department of Human Settlements were due to fulfilling their responsibilities towards providing adequate guidance; however, the provincial department had opted to remain decentralised hence there has not been any progress or implementation of IT controls. The provincial department had not implemented the monitoring of the users who were granted access to create and approve transactions on the Housing Subsidy System (HSS), to ensure that the access corresponds with the incumbents’ roles and responsibilities. This is due to the lack of accountability by the provincial management because they did not have provincial policies that require a regular review of user access.

Education

Intervention is required within Education due to the fact that the national and provincial departments are not fulfilling their responsibilities and are therefore not working together to achieve the desired goal. The national department had not designed adequate controls as no guidelines were available for the implementation of IT controls for the Education Management Information System (EMIS). This lack of a designed guideline could be attributed to the national department’s lack of accountability in terms of complying with the National Treasury’s framework. The provincial department also did not proactively request adequate guidance from the national department.

Health

Good progress was made by the national department as it had developed guidance for the implementation of all the systems used for PDOs, namely the District Health Information System (DHIS), the Electronic Tuberculosis Register (ETR.Net) and the Electronic Drug-resistant Tuberculosis Register (EDR.Net). However, intervention is required at the provincial department as it did not comply with the guidance provided by the national department. This could be attributed to a lack of leadership accountability at the provincial department.

3.3.3 Status of addressing management commitments

Following the 2010-11 audits, management undertook to address identified weaknesses in their information system environments. The status of these undertakings, as determined during the 2011-12 audits, indicates that there was inadequate progress in implementing management commitments at the departments.

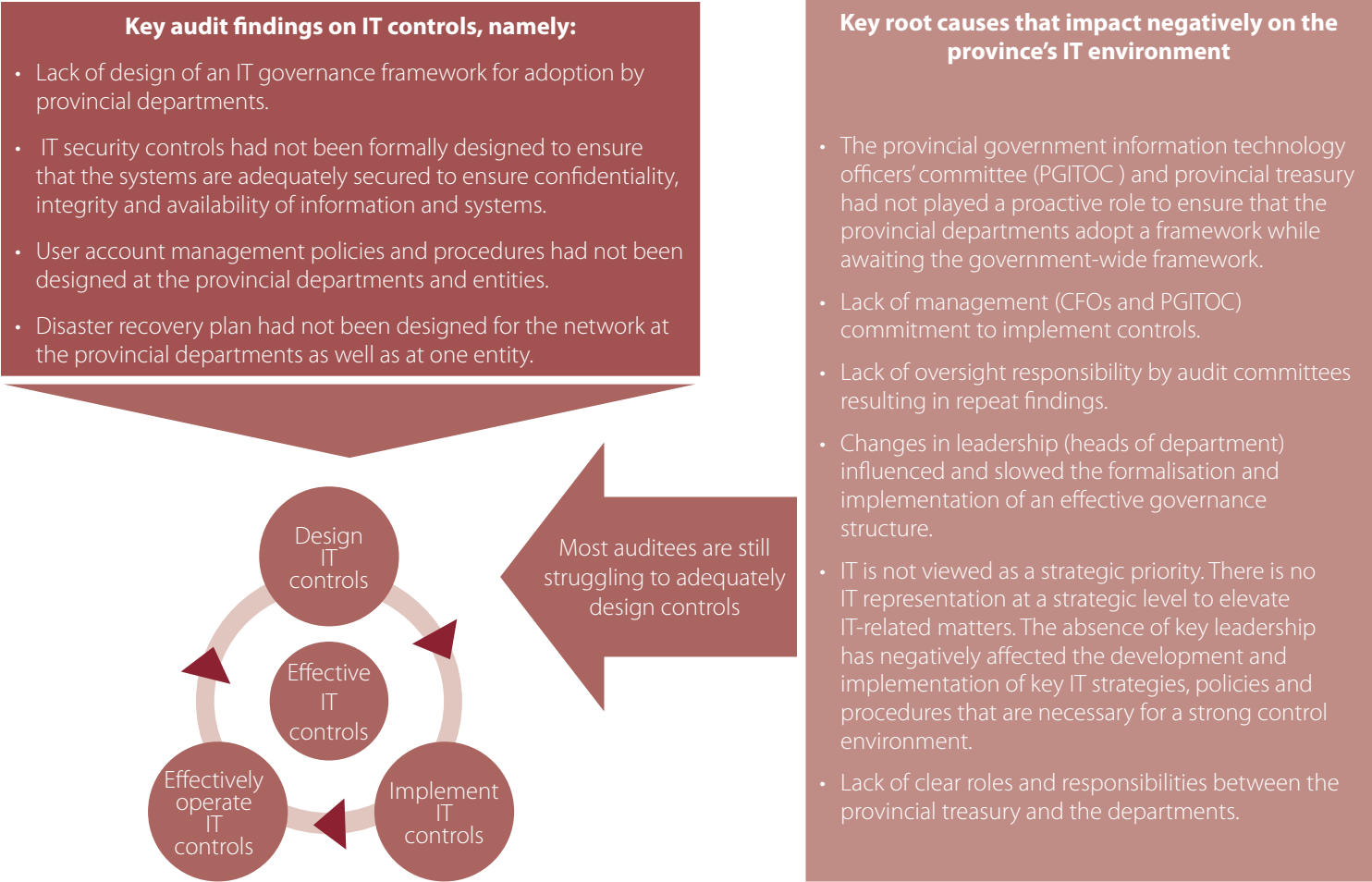
Table 23: Progress in addressing management commitments

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture and Environment				
Community Safety, Security and Liaison				
Local Government and Traditional Affairs				
Sports, Culture and Recreation				
Economic Development, Environment and Tourism				
Education				
Provincial treasury				
Health				
Human Settlements				
Office of the Premier				
Provincial legislature				
Public Works, Roads and Transport				
Social Development				
North West Development Corporation				
Total	14	14	14	14
Not addressed (intervention required)	14	14	14	14

Poor progress was made in addressing findings that had been raised previously. As a result, the risks still remain in all focus areas even though some corrective measures were taken. This was due to a lack of consequences for not addressing findings. In addition, auditees, internal audit and audit committees did not monitor IT findings continuously. Management intervention is required to ensure that commitments are implemented to address the identified risks.

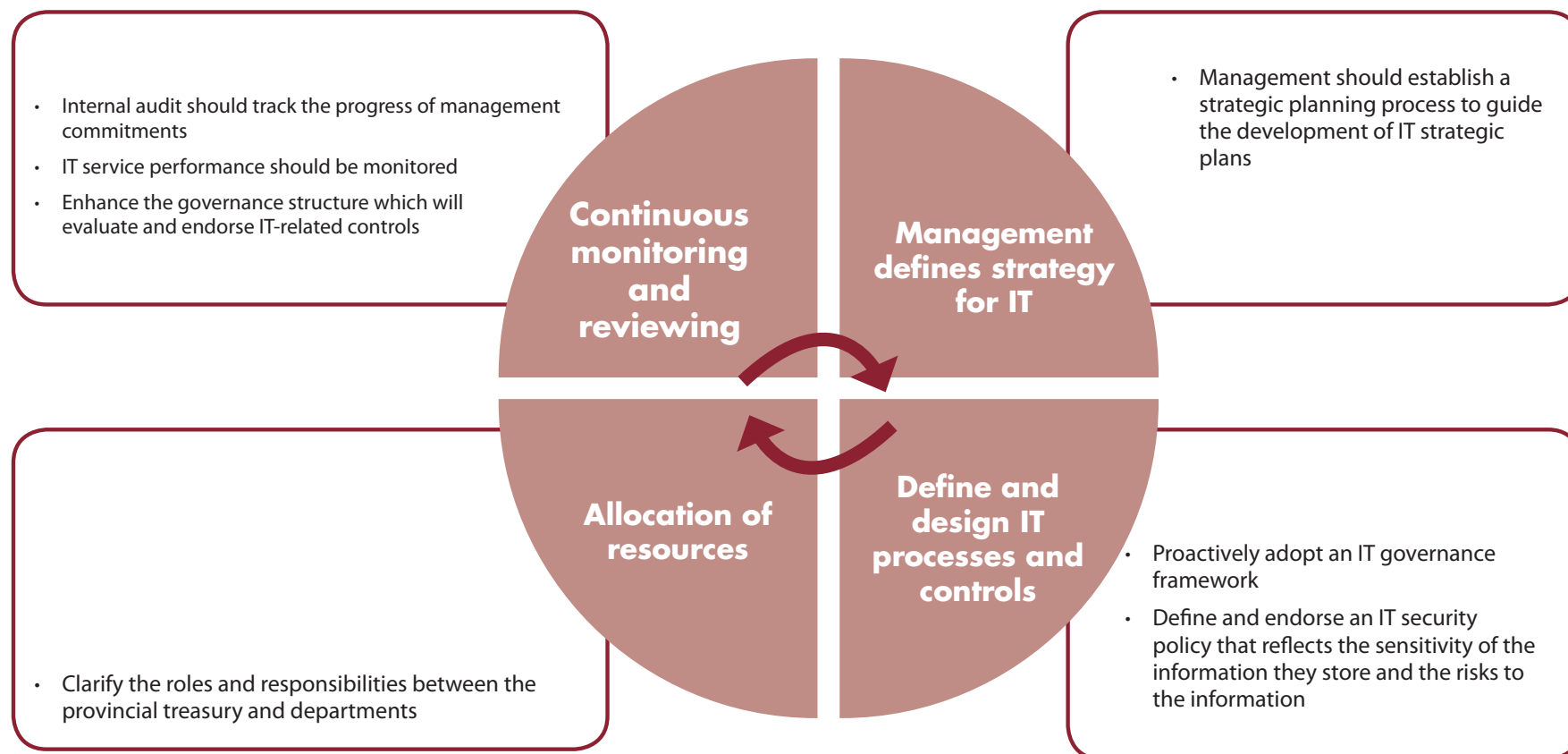
3.3.4 Key information technology concerns

Figure 26: Summary of significant information technology weaknesses



3.3.5 Quick wins in resolving information technology management weaknesses

Figure 27: Roles and responsibilities of role players



3.4 AUDIT COMMITTEES AND INTERNAL AUDIT

Effective governance is a driver of audit outcomes and audit committees and internal audit are key elements of governance. In terms of legislation, all auditees must establish an audit committee and internal audit. An audit committee must serve as an independent governance structure whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of achieving the organisation's objectives. Internal audit should provide assurances on governance, risk management and control. The figures that follow show the assessed effectiveness of audit committees and internal audit for the year under review.

Figure 28: Effectiveness of audit committees

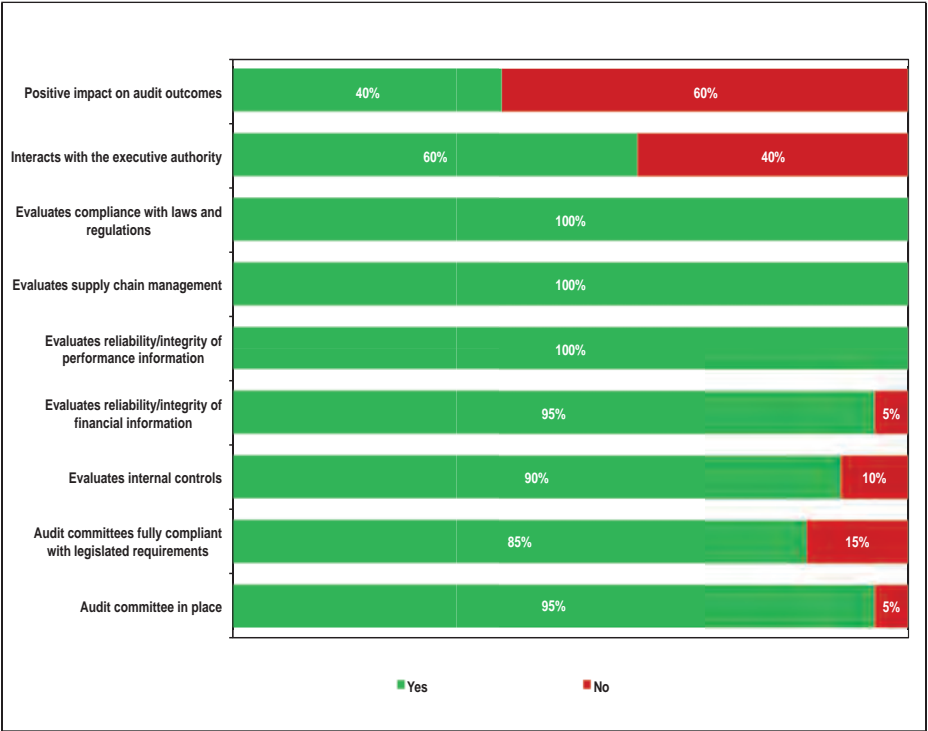
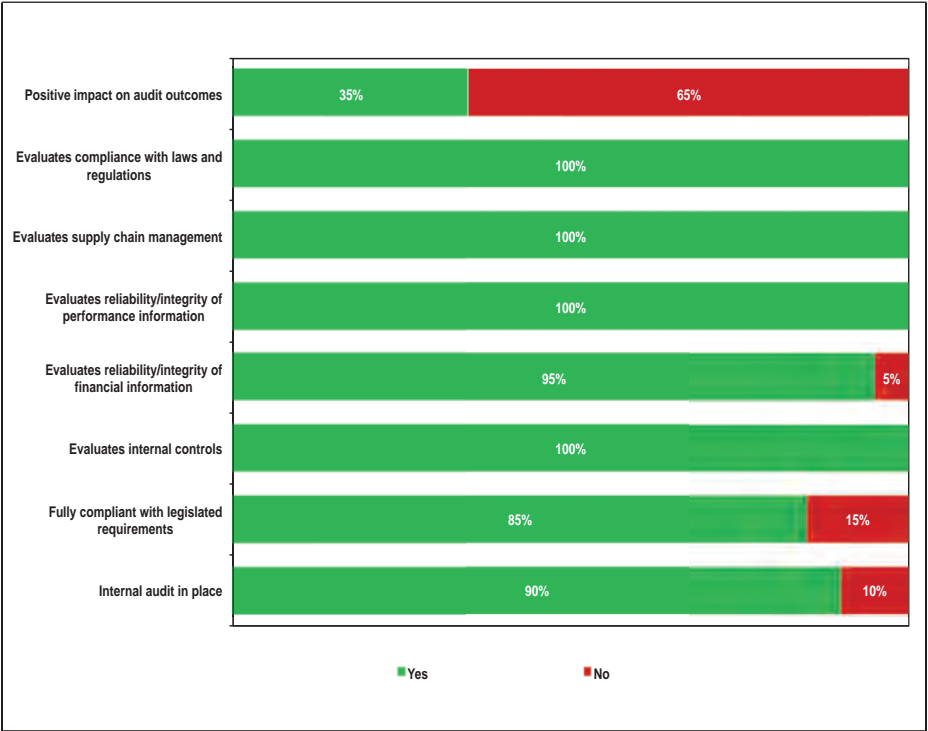


Figure 29: Effectiveness of internal audit units



From the above figures, it is evident that the internal audit divisions and audit committees at departments and entities have continued to mature and are focused on contributing towards improved audit outcomes. The area of the audit committee interacting with the relevant member of the executive council (MEC) has also been addressed whereby the audit committee's interaction is not limited to only the MEC of Finance. Of concern is the ability of both the audit committees and internal audit sections to positively impact on the audit outcomes. Although the audit committee met regularly and conducted its mandate in terms of its charter, based on its quarterly reports, it is evident that the committee was frustrated by the inability of departments and entities to adequately address negative audit outcomes in the areas of expenditure management, procurement and contract management and performance information. Other important concerns expressed included the lack of

consequences for irregular expenditure incurred and the non-implementation of adequate action plans to address audit findings.

During the budget speech of the MEC of Finance, he committed both the internal audit function and audit committee to the following:

- Quarterly audit committee reports to each MEC reflecting on governance, risk management and controls at each department.
- The implementation of an internal control framework to address challenges, and advise and monitor departments on the implementation of commitments to address audit outcomes.
- The implementation of a practical integrated internal audit approach to address the needs of each department.

In respect of public entities, both the MIDZ and Golden Leopards Resorts that received disclaimer audit opinions, did not have internal audit divisions and audit committees.

SECTION 4

IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

4.1 INITIATIVES AND COMMITMENTS BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

4.3 AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS



AUDITOR - GENERAL
SOUTH AFRICA

SECTION 4:

IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section of the general report provides details of the initiatives and commitments of key provincial role players to improve audit outcomes, the status of implementation of public accounts committees' oversight resolutions and an overview of the AGSA's continuing initiatives to encourage clean audits.

4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of the provincial leadership and oversight to improve audit outcomes as well as further commitments made to the AGSA for actions to be taken. The commitments included those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

Table 24: Key initiatives and commitments by provincial role players

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Provincial executive leadership	Prior year commitments			
	Sustained leadership and oversight of approved action plans and their implementation are required throughout the year.	All	In progress	Limited impact
	Instil a culture of commitment and responsible leadership to clear previous qualification areas and ensure continuous monitoring of the financial environment and service delivery.	All	In progress	Limited impact
	The executive will report to the premier on steps to be taken in addressing the audit qualifications and monitoring of irregular expenditure.	Quality of AFS, SCM	In progress	Limited impact
	Executive authorities will be closely involved at the public entities in their portfolios to ensure that shareholder compacts/ corporate plans are agreed with the accounting authorities of all public entities and to provide direction and give priority to reporting on PDOs.	PDOs	Not implemented	No impact
	New commitments			
	MECs to investigate irregular expenditure incurred and initiate disciplinary steps against officials.	SCM	New	Not yet able to assess
	Fast-tracking of suspensions and recruitment of suitable personnel.	HR	New	Not yet able to assess
	Prioritise key departments (Education, Health, Public Works, Roads and Transport, local government, Office of the Premier and Human Settlements) on the qualification matters arising. Prioritise operation clean audit for the legislature, Finance, Sport, Arts and Culture, Economic Development, Tourism and Environment and Agriculture and Rural Development.	Quality of AFS	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Provincial executive leadership	The province to review its status and strategy around IT.	IT	New	Not yet able to assess
	Request a biannual download from the AGSA on employees with conflict of interest for proactive follow up by MEC, Finance/Local Government.	SCM	New	Not yet able to assess
	Finalise the application of BAS versus Walker system and its implementation in North West.	IT	New	Not yet able to assess
Provincial treasury	Prior year commitments			
	Attending to all information system shortcomings.	IT	Not implemented	No impact
	CFO forums should be a platform for the establishment and sharing of good practices, particularly on the new practice notes and frameworks issued by the National Treasury. These forums should be held regularly and attended by all CFOs to ensure that when financial statements are prepared they are free from material misstatements.	Quality of AFS	In progress	Limited impact
	The compiling of monthly financial statements (including full disclosure notes) will be enforced.	Quality of AFS	Not implemented	No impact
	New commitments			
	The provincial treasury to investigate long outstanding creditors' payments of all departments and entities.	Payment of creditors	New	Not yet able to assess
	New commitments			
Provincial public accounts committees (PPACs)	Public entities to account to the PPAC on the non-submissions of financial statements. PPAC to arrange a meeting with the premier on the state of non-operational public entities.	Non-submission of AFS	New	Not yet able to assess
	PPAC to ensure that conflict of interest findings are adequately dealt with.	Conflict of interest	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	New commitments			
	MEC of Finance:			
	To implement and monitor a compliance checklist to ensure that all the prescribed legislation is adhered to.	All	New	Not yet able to assess
	To ensure that the financial statements are appropriately reviewed prior to submission to the AGSA, thereby ensuring credible financial statements.	All	New	Not yet able to assess
	To fill vacancies with competent staff, especially vacant key senior management positions.	All	New	Not yet able to assess
	To compile an action plan and to ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess
	To take disciplinary steps against officials who do not perform their responsibilities, as set out in their performance agreements and job descriptions.	All	New	Not yet able to assess
	To report monthly on the implementation of controls over financial IT systems.	All	New	Not yet able to assess
Members of the provincial executive council (MECs)	To perform a risk assessment that is relevant to reporting on performance information, compliance with laws and regulations and specifically IT management.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To implement a risk management strategy to address these risks.	All	New	Not yet able to assess
	To report monthly on the implementation of the risk management strategy.	All	New	Not yet able to assess
	To liaise on a frequent basis with members of the audit committee.	All	New	Not yet able to assess
	MEC of Public Safety:			
	Implementation of a compliance checklist, which will be completed by the department on a monthly basis.	All	New	Not yet able to assess
	To provide the AGSA with the newly developed performance management procedure manual.	All	New	Not yet able to assess
	To fill the vacant position of CFO.	All	New	Not yet able to assess
	To provide the AGSA with the newly developed policies on debtors, revenue, SCM and performance information.	All	New	Not yet able to assess
	To update the departmental action plan aimed at addressing the audit findings to also include the matters relating to non-compliance and performance information.	All	New	Not yet able to assess
	To compile monthly financial statements with full disclosure notes.	All	New	Not yet able to assess
	To do monthly reconciliations on assets, receivables (registering authorities) and revenue (licensing, traffic fines, abnormal loads and other).	All	New	Not yet able to assess
	Update risk register to include the risks emanating from the prior year audit report.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	The performance ratings of managers who are not performing at the required level of performance would be reflected in the mid-year assessments, which would be concluded by 30 November 2012.	All	New	Not yet able to assess
	The SCM compliance checklist received from internal audit would be implemented immediately.	All	New	Not yet able to assess
	The status and progress made with the implementation of action plans aimed at addressing prior year audit findings would be submitted by 9 November 2012.	All	New	Not yet able to assess
	The action plan aimed at addressing the prior year audit findings would be revised to include audit findings relating to non-compliance with laws and regulations as well as performance information. The revised plan would be implemented by 14 November 2012.	All	New	Not yet able to assess
	SCM policies, revenue management policies and procedures as well as debtor management policies and procedures would be emailed to Stefan Senekal by 13 November 2012 for inputs.	All	New	Not yet able to assess
	A report on disciplinary steps taken against officials who did not comply with policies and procedures would be submitted by 30 November 2012. This report would also include details of irregular expenditure being investigated.	All	New	Not yet able to assess
	The minutes of the IT forum would be submitted by 14 November 2012.	All	New	Not yet able to assess
	The contingent liability register would be updated to provide for the evaluation of each liability by 14 November 2012.	All	New	Not yet able to assess
	The risk register would be updated to include all risks relating to financial information, performance information and compliance with laws and regulations. The revised register would be forwarded to Stefan Senekal by 14 November 2012.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	All internal audit reports and responses would be channelled through the office of the HoD to ensure that recommendations made by internal audit are implemented.	All	New	Not yet able to assess
	MEC of Education			
	To establish and implement a code of conduct that governs officials and their behaviour.	All	New	Not yet able to assess
	To take disciplinary steps against officials who do not perform their responsibilities, as set out in their performance agreements and job descriptions.	All	New	Not yet able to assess
	To implement a monthly compliance checklist to ensure that all the prescribed legislation is adhered to.	All	New	Not yet able to assess
	To ensure that the financial statements are appropriately reviewed prior to submission to the AGSA, thereby ensuring credible financial statements.	All	New	Not yet able to assess
	To reduce the number of key management vacancies.	All	New	Not yet able to assess
	To fill vacancies with competent staff.	All	New	Not yet able to assess
	Disciplinary steps would be taken against officials who do not comply with set policies.	All	New	Not yet able to assess
	To compile an action plan and ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess
	To ensure that officials report monthly on the measures listed in the action plan.	All	New	Not yet able to assess
	To report monthly on the implementation of controls over financial IT systems.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To perform a risk assessment that is relevant to reporting on performance objectives, compliance and financial information.	All	New	Not yet able to assess
	To implement recommendations from the internal auditors.	All	New	Not yet able to assess
	To liaise on a frequent basis with members of the audit committee.	All	New	Not yet able to assess
	Implement recommendations of the audit committee.	All	New	Not yet able to assess
	MEC of Health:			
	Appointment of a Director: Finance. The intention of this is to bridge the skills gap that exists between the CFO and the rest of the finance staff. This gap became evident when the CFO became acting HoD at Public Works, Roads and Transport and the finance staff being unable to respond to audit queries.	All	New	Not yet able to assess
	Investigation of all reported irregular expenditure and the institution of disciplinary action.	All	New	Not yet able to assess
	Address the non-attendance of the HoD during steering meetings.	All	New	Not yet able to assess
	To have a closed meeting with the audit committee aimed at discussing the audit committee observations of the departmental management team.	All	New	Not yet able to assess
	To attend future audit committee meetings for the purpose of assessing their effectiveness and contributions towards a clean audit.	All	New	Not yet able to assess
	To revisit the current annual performance plan and then forward the revised annual performance plan to the AGSA for a pre-audit.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	MEC of Local Government:			
	To establish and implement a code of conduct that governs officials and their behaviour.	All	New	Not yet able to assess
	To take sufficient disciplinary steps against officials who do not execute their responsibilities, as set out in their performance agreements and job descriptions.	All	New	Not yet able to assess
	To implement a compliance checklist, which is completed monthly, to ensure that all the prescribed legislation is adhered to.	All	New	Not yet able to assess
	To ensure that the financial statements are prepared appropriately.	All	New	Not yet able to assess
	To reduce the number of senior management vacancies.	All	New	Not yet able to assess
	To fill vacancies with competent staff.	All	New	Not yet able to assess
	To establish and communicate entity-specific policies and procedures for performance information, SCM policies (updated), revenue management, debtor management. These policies will specifically address internal control objectives.	All	New	Not yet able to assess
	Disciplinary steps would be taken against officials who do not comply with these policies.	All	New	Not yet able to assess
	To compile an action plan and ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess
	To ensure that officials report monthly on the measures listed in the action plan.	All	New	Not yet able to assess
	To report to the provincial treasury on a frequent (monthly/bimonthly/biannually) basis on the IT needs of the department. This report needs to specifically recommend improvements to the system that relates to financial reporting.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To ensure that monthly reconciliations are performed and reviewed for assets and receivables.	All	New	Not yet able to assess
	To implement accrual and commitment registers.	All	New	Not yet able to assess
	To report on financial and performance information on a monthly basis, resulting in limited work to be performed at year-end when the financial statements are compiled.	All	New	Not yet able to assess
	To compile a checklist to ensure that all legislative requirements are adhered to.	All	New	Not yet able to assess
	To report monthly on this checklist.	All	New	Not yet able to assess
	To report monthly on the implementation of controls over financial IT systems.	All	New	Not yet able to assess
	To perform a risk assessment that is relevant to reporting on performance information, compliance and financial information.	All	New	Not yet able to assess
	To inspect, make recommendations to and approve the internal audit plan.	All	New	Not yet able to assess
	To follow up monthly on the progress of internal audits in progress.	All	New	Not yet able to assess
	To implement recommendations from the internal auditors.	All	New	Not yet able to assess
	To attend audit committee meetings.	All	New	Not yet able to assess
	To liaise on a frequent basis with members of the audit committee.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To implement recommendations of the audit committee.	All	New	Not yet able to assess
	To make recommendations to the audit committee.	All	New	Not yet able to assess
	MEC of Human Settlements:			
	To establish and implement a code of conduct that governs officials and their behaviour.	All	New	Not yet able to assess
	To take sufficient disciplinary steps against officials who do not execute their responsibilities, as set out in their performance agreements and job descriptions.	All	New	Not yet able to assess
	To implement a compliance checklist, which is completed monthly, to ensure that all the prescribed legislation is adhered to.	All	New	Not yet able to assess
	To ensure that the financial statements are appropriately prepared.	All	New	Not yet able to assess
	To reduce the number of senior management vacancies.	All	New	Not yet able to assess
	To fill vacancies with competent staff.	All	New	Not yet able to assess
	To establish and communicate entity-specific policies and procedures for performance information, SCM policies (updated), revenue management, debtor management. These policies will specifically address internal control objectives.	All	New	Not yet able to assess
	Disciplinary steps would be taken against officials who do not comply with these policies.	All	New	Not yet able to assess
	To compile an action plan and ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To ensure that officials report monthly on the measures listed in the action plan.	All	New	Not yet able to assess
	To report to the provincial treasury on a frequent (monthly/bimonthly/biannually) basis on the IT needs of the department. This report needs to specifically recommend improvements to the system that relates to financial reporting.	All	New	Not yet able to assess
	To ensure that monthly reconciliations are performed and reviewed for assets and receivables.	All	New	Not yet able to assess
	To implement accrual and commitment registers.	All	New	Not yet able to assess
	To report on financial and performance information on a monthly basis, resulting in limited work to be performed at year-end when the financial statements are compiled.	All	New	Not yet able to assess
	To compile a checklist to ensure that all legislative requirements are adhered to.	All	New	Not yet able to assess
	To report monthly on this checklist.	All	New	Not yet able to assess
	To report monthly on the implementation of controls over financial IT systems.	All	New	Not yet able to assess
	To perform a risk assessment that is relevant to reporting on performance information, compliance and financial information.	All	New	Not yet able to assess
	To inspect, make recommendations to and approve the internal audit plan.	All	New	Not yet able to assess
	To follow up monthly on the progress of internal audits in progress.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To implement recommendations from the internal auditors.	All	New	Not yet able to assess
	To attend audit committee meetings.	All	New	Not yet able to assess
	To liaise on a frequent basis with members of the audit committee.	All	New	Not yet able to assess
	To implement recommendations of the audit committee.	All	New	Not yet able to assess
	To make recommendations to the audit committee.	All	New	Not yet able to assess
	MEC of Public Works, Roads and Transport:			
	Develop a system to support the information needs of the department in terms of monitoring contract and supply chain compliance, while immovable assets, movable assets and fleet registers that contain sufficient detail would be introduced together with sufficient resources to operate the system. Exception reports would be drawn from the system and would be followed up.	All	New	Not yet able to assess
	Skilled and competent personnel would be recruited for the various vacant positions to support the core functions of the department.	All	New	Not yet able to assess
	Training plans would address skills gap and ensure that personnel become more efficient and aware of what is expected of them.	All	New	Not yet able to assess
	Top management would review monthly financial and performance reports.	All	New	Not yet able to assess
	Policies and procedures would be implemented. Staff would be made aware of these policies and compliance would be enforced.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	Audit (internal, external) findings would be addressed through an action plan. The plan would be assigned specific responsibility and time frame to enforce accountability.	All	New	Not yet able to assess
	PPAC resolutions would be implemented and adhered to.	All	New	Not yet able to assess
	Corrective action would be taken to address control weaknesses, and steps would be taken against staff that default.	All	New	Not yet able to assess
	Preventative fraud plan would be implemented and awareness roll-out performed.	All	New	Not yet able to assess
	Supporting documentation would be more easily retrievable through an improved filing system that controls the flow of documentation.	All	New	Not yet able to assess
	A system to identify record and prevent irregular fruitless and wasteful expenditure would be introduced.	All	New	Not yet able to assess
	MEC of Economic Development, Tourism and Environment:			
	To ensure that all supporting documentation is filed and made available for audit purposes.	All	New	Not yet able to assess
	To design and implement an effective performance information system, which allows for appropriate recording, processing and reporting of performance against PDOs.	All	New	Not yet able to assess
	Monitoring of vacancies at senior management level.	All	New	Not yet able to assess
	To fill vacancies with competent staff, especially at the finance section.	All	New	Not yet able to assess
	Ensure that processes are in place to prevent and detect unauthorised, irregular as well as fruitless and wasteful expenditure.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To compile an action plan and ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess
	To ensure that officials report monthly on the measures listed in the action plan.	All	New	Not yet able to assess
	Monitoring to ensure that an IT governance framework is implemented.	All	New	Not yet able to assess
	To ensure that monthly reconciliations are performed for assets, revenue and cash and cash equivalents.	All	New	Not yet able to assess
	To ensure that all supporting documentation is filed and made available to the auditors.	All	New	Not yet able to assess
	To ensure that AOPI division updates POE files monthly and ensure that all objectives reported on the relevant supporting documentation are included in the POE file.	All	New	Not yet able to assess
	Regular meetings with the HoD to discuss internal audit findings relating to performance information.	All	New	Not yet able to assess
	To compile a checklist to ensure that all legislative requirements are adhered to. To report monthly on this checklist.	All	New	Not yet able to assess
	Regular meetings with the HoD to discuss all non-compliance issues.	All	New	Not yet able to assess
	Regular meetings with the HoD to discuss internal audit findings.	All	New	Not yet able to assess
	To design and implement an IT strategy and IT project plan.	All	New	Not yet able to assess
	Draft and sign a service level agreement with the NW Department of Finance Central IT for the provision of IT services.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To perform a risk assessment that is relevant to reporting on performance information, compliance and financial information.	All	New	Not yet able to assess
	Regular meetings with the HoD to discuss internal audit progress.	All	New	Not yet able to assess
	Provincial legislature:			
	To ensure that the financial statements are appropriately reviewed prior to submission to the AGSA, thereby ensuring credible financial statements.	All	New	Not yet able to assess
	Develop, approve and implement outstanding policies and procedures that had been identified during prior years, especially the policies and procedures on performance information and IT governance.	All	New	Not yet able to assess
	To ensure the designing and implementation of formal controls over IT systems, which in turn will ensure that accurate information is generated and complies with policies and procedures.	All	New	Not yet able to assess
	Regular meetings with the secretary to discuss internal audit findings relating to performance information, non-compliance issues and internal audit findings relating to performance information and ensure the implementation of recommendations.	All	New	Not yet able to assess
	Ensure that SCM processes and policy provisions are followed.	All	New	Not yet able to assess
	To compile an action plan and ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess
	To ensure that officials report monthly on the measures listed in the action plan.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To perform a risk assessment that is relevant to reporting on performance information, compliance and financial information.	All	New	Not yet able to assess
	Office of the Premier:			
	Finalise the process of appointing a director-general once the current director-general contract ends.	All	New	Not yet able to assess
	Drafting a detailed action plan, which will form part of the regular management meeting discussions.	All	New	Not yet able to assess
	Starting a process of ensuring a complete and accurate asset register.	All	New	Not yet able to assess
	Addressing audit findings on compliance issues, especially on SCM. This should include the training of SCM officials, updating the SCM policy, investigating all irregular expenditure and instituting disciplinary actions against officials responsible for irregular expenditure.	All	New	Not yet able to assess
	Decisive action should be taken regarding the recognition of bursary debt in the AFS, and a new policy to be implemented in this regard.	All	New	Not yet able to assess
	MEC of Social Development:			
	To fill vacancies with competent staff.	All	New	Not yet able to assess
	To increase focus of internal controls over transfer payments.	All	New	Not yet able to assess
	Monitoring to ensure that an IT governance framework is implemented.	All	New	Not yet able to assess
	To ensure that daily and monthly reconciliations are performed.	All	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing additional commitments given	Impact of initiatives and commitments on 2011-12 audit outcomes
Members of the provincial executive council (MECs)	To ensure that the fixed asset register agrees with the amount reported in the AFS.	All	New	Not yet able to assess
	Regular meetings with the HoD to discuss internal audit findings relating to performance information, non-compliance issues and internal audit findings relating to performance information.	All	New	Not yet able to assess
	To compile an action plan and to ensure that the action plan forms part of the performance agreements of officials.	All	New	Not yet able to assess
	To ensure that officials report monthly on the measures listed in the action plan.	All	New	Not yet able to assess
	To compile a checklist to ensure that all legislative requirements are adhered to.	All	New	Not yet able to assess
	To perform a risk assessment that is relevant to reporting on performance information, compliance and financial information.	All	New	Not yet able to assess
	To liaise on a frequent basis with members of the audit committee, implement their recommendations or make recommendations to the audit committee.	All	New	Not yet able to assess
	Prior year commitments			
Other	Clearly defined roles and responsibilities would be determined at each auditee for reporting against PDOs. Dedicated monitoring units were established within each department that would be responsible for reviewing reported information on a quarterly basis.	PDO	In progress	Limited impact
	All policies and procedures would be reviewed to ensure that they comply with requirements and all staff are appropriately trained.	HR	In progress	Limited impact

The MECs are available but their commitments lack general follow through by those entrusted with carrying out these commitments (HoDs and CFOs). There is little discussion between MECs and heads of department (HoDs) on these commitments; hence the ownership and accountability of these are always questionable and debatable.

Prior year commitments made were not properly monitored and tracked to ensure that they were implemented appropriately. There were no consequences for not implementing the commitments made.

Combined assurance

Combined assurance has its origins in King III and relates to sound risk governance over key organisational risks. In terms of King III, the “audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities”. The combined assurance should be sufficient to satisfy the audit committee that significant risk areas within the organisation have been adequately addressed and suitable controls exist to mitigate and reduce these risks. King III defines combined assurance as “Integrating, coordinating, and aligning the risk management and assurance processes within an organisation to optimise and maximise the level of risk, governance, and control oversight over the organisation’s risk landscape”.

For each organisation there are a number of assurance providers that either directly or indirectly provide certain assurances over the effectiveness of the controls that mitigate the risks as identified during the risk assessment process. A combined assurance model aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers. In order to identify gaps in the process where assurance responsibilities are not adequately fulfilled and recommend improvements, the actual levels of assurance are assessed on at least an annual basis as part of the general report process. The assessment is done per assurance provider (excluding external audit).

Table 25: Assessment of assurance providers

	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight – portfolio committees	Internal audit	Public accounts committees	Coordinating/ monitoring institutions
Required assurance levels:	Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
Auditee level								
Agriculture and Rural Development								
Economic Development, Tourism, Conservation and Environment								
Education								
Health								
Human Settlements								
Local Government and Traditional Affairs								
Office of the Premier								
Provincial legislature								
Provincial treasury								
Public Safety								
Public Works, Roads and Transport								
Social Development								
Sport, Arts and Culture								
Golden Leopard Resorts								
Invest North West								
Kgama Wildlife Operations								
Mafikeng Industrial Development Zone (Pty) Ltd								
North West Development Corporation								
North West Directorate of Entrepreneurial Development in Natural Resources								
North West Gambling Board								

	Senior management	Accounting officer/ authority	Executive authority	Audit committee	Oversight – portfolio committees	Internal audit	Public accounts committees	Coordinating/ monitoring institutions
Required assurance levels:	Extensive	Extensive	Extensive	Moderate	Moderate	Extensive	Moderate	Moderate
Oversight level								
Public Accounts Committee								
Portfolio Committee on Agriculture, Rural Development, Conservation & Environment								
Portfolio Committee on Economic Development and Tourism								
Portfolio Committee on Finance								
Portfolio Committee on Public Works, Roads and Transport								
Portfolio Committee on Education, Sports, Arts and Culture								
Portfolio Committee on Health, Social Development, Women, Youth & People of Disability								
Portfolio Committee on Human Settlement, Public Safety and Liaison								
Portfolio Committee on Local Government and Traditional Affairs								
Portfolio Committee on Office of the Premier, Legislature, Public Service Commission and Public Protector								
Coordinating/monitoring institutions								
Provincial treasury								
Office of the Premier								
Overall BU/provincial assessment								
Assess assurance providers overall for the province								
<div>Significantly lower than required level of assurance</div> <div>Provides some levels of required level of assurance</div> <div>Meets required level of assurance</div>								

The above analysis shows the level assurance for each level of assurance provider and the overall status in the North West province. We can clearly note that none of the assurance providers are at the required level, which is clearly evidenced by the outcomes of the province. Senior management and the accounting officers/authorities are contributing significantly lower than the required level in providing assurance over internal controls and significant risk areas. This was due to the continuity of senior management, their availability during the audit process, competency and skills not being appropriate at the level at which they functioned. Similarly, for the period of this report, the effectiveness and impact of the public accounts and portfolio committees in providing the required level of assurance was significantly below par. This was attributable to various changes in political leadership and non-attendance of political leadership of departments at hearings.

The audit committees and internal audit sections provided some level of assurance as required and a detailed explanation and analysis can be obtained from section 3.4 above.

4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

By March 2012, which was the financial year-end of the auditees reported on, there were no oversight resolutions by the public accounts committee relating to specific auditees in the province.

This was mainly due to various changes in political leadership, non-attendance of political leadership of departments at the hearings scheduled and cancellation of scheduled hearings. The committee was therefore unable to make any impact on the audit outcomes for the year. The AGSA's meetings and discussions with newly appointed members would hopefully result in improved functioning of the committee in future.

4.3 AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS

Summarised below are some of the key initiatives the AGSA has embarked on to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

Table 26: Auditor-General of South African's key initiatives to encourage clean audits

Nature	Outline of Auditor-General of South Africa's initiatives
Interactions with the political and administrative leadership	Regular interactions with political and administrative leadership, including the premier, speaker, director-general, HoD forum, portfolio committees and chairperson of the public accounts committee increased their understanding of the underlying problems plaguing the province.
Stakeholder interactions and audit outcome roadshows	Continued stakeholder interactions conducted during and after completion of the audits were aimed at increasing awareness to all involved of the way forward to achieve clean administrations.
Quarterly interactions on status of key controls	The AGSA continued with the initiative of meeting MECs on a quarterly basis and discussed the status and implementation of key controls. MECs obtained valuable insights at these meetings, but follow through of the commitments made to the officials that are supposed to implement them and the parties that are responsible to monitor remains a concern.
Promoting understanding of PDO requirements	<p>The AGSA conducted workshops and made presentations to the officials involved in the reporting of PDOs, to promote the understanding of PDO requirements.</p> <p>The workshops were well received by all attendees but not all officials attended the workshops.</p> <p>The AGSA assessed the usefulness of strategic plans during interim audits at the departments to ensure that findings could still be addressed before year-end.</p>

Nature	Outline of Auditor-General of South Africa's initiatives
<i>Involvement at forums and meetings related to provincial government financial affairs</i>	The AGSA attended various forums and meetings relating to the provincial government's financial affairs, e.g. CFO forums. Attendees of these forums obtained valuable inputs and tools to enhance their duties.
<i>Promoting an understanding of IT risks and controls</i>	Where required, IT risks and controls were discussed by AGSA experts with the relevant role players to ensure their understanding of the identified problems and recommendations made. Discussions were held with the premier, MEC of Finance and MEC of Local Government to explain the importance of a proper and secure IT platform for the North West province and the extent that these systems contribute to reliable and relevant information in the province.
<i>Contributing to the effectiveness of oversight structures</i>	The AGSA contributed to the effectiveness of oversight structures by regularly interacting with the various structures, including briefing newly appointed members and chairpersons of the audit committees, portfolio committees and public accounts committees on their roles and responsibilities and providing valuable suggestions and insights. Our role in this regard has been extensive and the impact for the 2013 financial year is already bearing fruit in terms of the commitments outlined by MECs for their respective portfolios. The MECs are aware of the outcomes and the underlying detail that drives the deficiencies in the systems of departments and entities. It is through these discussions with the oversight structures and our contributions in this regard, that understanding of the root causes by MECs becomes relevant.

The following table indicates the impact of the AGSA's interactions with the executive.

Table 27: Impact of interactions with the executive

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Agriculture and Rural Development	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Regressed
Economic Development, Tourism, Conservation and Environment	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Unchanged	Remained with no findings
Education	4	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Provincial treasury	4	Financially unqualified with findings	Financially unqualified with findings	Regressed	Improved	Improved
Health	4	Qualified	Financially unqualified with findings	Unchanged	Unchanged	Unchanged
Office of the Premier	4	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Provincial legislature	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Regressed
Public Works, Roads and Transport	4	Disclaimer	Disclaimer	Unchanged	Unchanged	Unchanged
Social Development	4	Qualified	Qualified	Unchanged	Unchanged	Regressed
Sport, Arts and Culture	4	Financially unqualified with findings	Financially unqualified with findings	Regressed	Unchanged	Regressed
Local Government and Traditional Affairs	3	Qualified	Qualified	Unchanged	Unchanged	Regressed
Human Settlements	3	Qualified	Qualified	Unchanged	Remained with no findings	Unchanged
Public Safety	4	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Invest North West	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Regressed
Mmabana Arts, Culture and Sport Foundation	4	Audit not finalised at legislated date	Qualified	Audit not finalised	Audit not finalised	Audit not finalised
North West Development Corporation	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Remained with no findings	Remained with no findings
North West Gambling Board	4	Financially unqualified with no findings	Financially unqualified with findings	Improved	Remained with no findings	Remained with no findings
North West Housing Corporation	1	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised

Auditee	Total number of interactions	Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
North West Parks and Tourism Board	3	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised
North West Provincial Council on Aids	3	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised
North West Transport Investments (Pty) Ltd	4	Audit not finalised at legislated date	Qualified	Audit not finalised	Audit not finalised	Audit not finalised
Atteridgeville Bus Services	4	Audit not finalised at legislated date	Qualified	Audit not finalised	Audit not finalised	Audit not finalised
North West Youth Development Trust	3	Audit not finalised at legislated date	Financially unqualified with findings	Audit not finalised	Audit not finalised	Audit not finalised
Agribank	4	Audit not finalised at legislated date	Financially unqualified with findings	Audit not finalised	Audit not finalised	Audit not finalised
North West Directorate of Entrepreneurial Development in Natural Resources	3	Financially unqualified with findings	Financially unqualified with findings	Improved	Remained with no findings	Unchanged
North West Star	4	Audit not finalised at legislated date	Qualified	Audit not finalised	Audit not finalised	Audit not finalised
Agribank Creditors Settlement Trust	4	Audit not finalised at legislated date	Financially unqualified with no findings	Audit not finalised	Audit not finalised	Audit not finalised
Mafikeng Industrial Development Zone (Pty) Ltd	4	Disclaimer	Qualified	Unchanged	Unchanged	Unchanged
Golden Leopard Resorts	4	Disclaimer	Disclaimer	Unchanged	Unchanged	Unchanged
Kgama Wildlife Operations	3	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Unchanged	Unchanged
Signal Developments	4	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised
Dirapeng	3	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised
North West Provincial Arts and Cultural Council	2	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised
Madikwe River Lodge	0	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised	Audit not finalised	Audit not finalised

The AGSA in North West provided commitment to its stakeholders that it would be visible and would interact with the leadership and governance structures throughout the forthcoming financial year. During these interactions, we resolved to provide input and assessment of the action plans of departments and entities, to be present at PPAC hearings and to be present at the meetings of and interact with the portfolio committees. At the date of this report, all briefings for departments have been prepared and hearings conducted, with committees having met to understand the content and the root causes of the issues raised in our reports. Our conversations are focussed on the underlying causes of the findings and how the departments and entities can translate our recommendations into tangible action plans with measurable milestones.

There is a good working relationship between the portfolio committees and the public accounts committees in the North West province, such that the chairs of the portfolio committees are the members of the public accounts committees. These committees are able to make appropriate decisions due to their improved understanding of the underlying matters driving the poor outcomes, as a result of this relationship.

Draft resolutions emanating from the PPAC hearings are forwarded to us for input before these are tabled. This ensures that the resolutions speak to the root causes of the matters raised in our reports.

The media are also invited and are present at all public hearings, thereby ensuring that all stakeholders are informed of the matters on hand and the commitments by departments and entities to resolve these.

SECTION 5

EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

5.2 FINANCIAL HEALTH INDICATORS



AUDITOR - GENERAL
SOUTH AFRICA

SECTION 5:

EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

This section of the general report provides information on emerging matters that may impact on future audit outcomes as well as an analysis of auditees' financial health indicators.

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on provincial government audit requirements/outcomes in the 2012-13 financial year. Appropriate measures should therefore be implemented timeously to ensure that these do not negatively impact the audit outcomes.

Table 28: Current and emerging matters that require attention

Area of change		Summary of expected changes
Matters affecting government auditees in all provinces		
Accounting matters	Readiness of departments for the eventual inclusion of inventory in the financial statement disclosures	<p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and, consequently, no audit findings were raised in the auditor's report in this regard.</p> <p>A review conducted of departments' inventory management processes requiring to be addressed include the following:</p> <ul style="list-style-type: none"> • Inadequate inventory management systems. • Inadequate control system to safeguard inventory against theft, losses, wastage and misuse. • Regular inventory counts were not undertaken.
Predetermined objectives	Implementation of the <i>Framework for strategic plans and annual performance plans</i>	<p>In terms of the <i>Framework for strategic plans and annual performance plans</i> and the National Treasury's Instruction Note No. 33, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA, must be compiled in accordance with the principles as per the framework.</p> <p>Audits of PDOs (for the 2012-13 PFMA audit cycle and going forward) will thus be conducted considering the principles of the <i>Framework for strategic plans and annual performance plans</i> in addition to the applicable laws and regulations and <i>Framework for managing programme performance information</i> (as per the Auditor-General Directive) for the said auditees.</p>

Area of change		Summary of expected changes
Matters specific to North West		
Legislature Management Act	Compliance	The North West Provincial Legislature Management Act, 2007 (Act No 3 of 2007) was declared unconstitutional with a period of 18 months given to address the issues. This would have a far-reaching impact on the operations of the provincial legislature as well as the financial reporting framework.
Backlog of audits due to non-submission of AFS	Compliance	As a result of the non-submission of financial statements by numerous public entities (some for more than three financial years), the province will face a major challenge in dealing with this backlog; the financial information for those years will probably not be readily available.
Winding down of provincial public entities	Compliance	Various provincial public entities are in the process of being wound down/closed. Should these processes not be properly or timeously completed it would impact on the audit outcomes of those entities in the following years.

5.2 FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and to

implement an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. AGSA audits included a high-level analysis of auditees' financial health indicators in order to provide management with an overview of selected aspects of auditees' current financial health and enable timely remedial action where financial health and service delivery may be at risk.

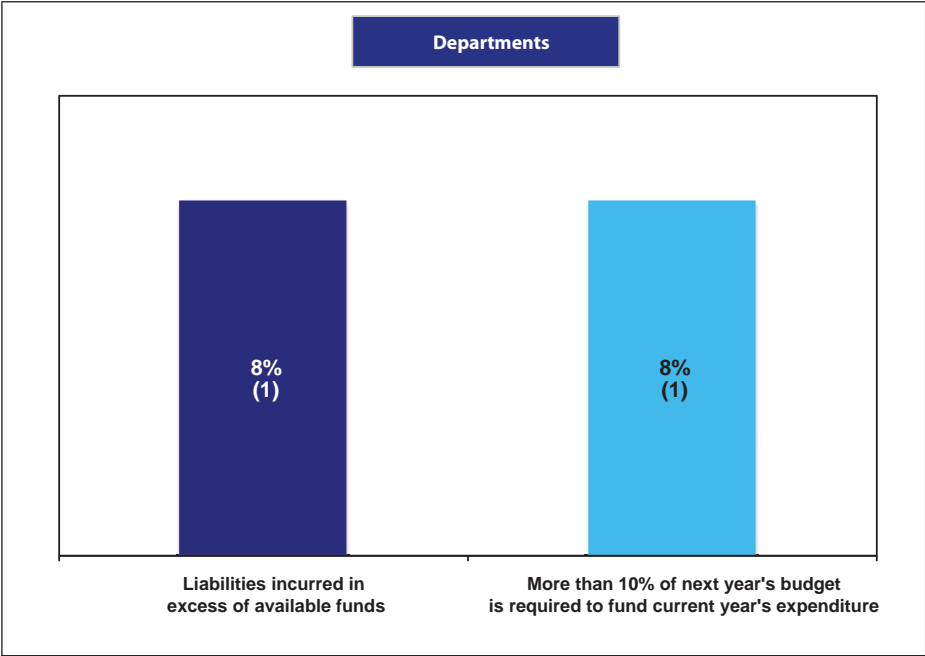
The AGSA analysed certain aspects of matters that related to the management of budgets, expenditure, conditional grants (applicable only to departments), revenue and assets and liabilities.

The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province.

5.2.1 Budget management and conditional grants

The spending of 13 (100%) departments was within the approved budget. However, the annual financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the annual financial statements and used to assess actual expenditure versus budget is only what was paid during the year and does not include the liabilities for unpaid expenses at year-end. Effectively, these liabilities are paid from the following year's budget, which reduces the amount available for the activities of that year. The following figure shows the impact in the province:

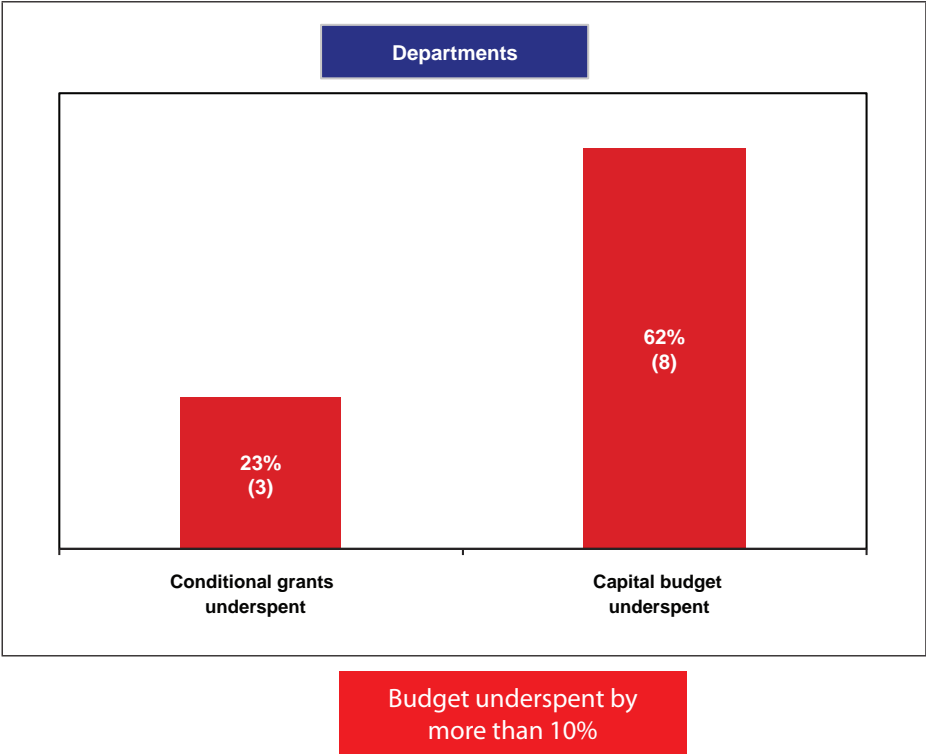
Figure 30: Budget management by departments



Departments were mostly able to fund the current year's expenditure from the current year's budgets. However, if long-term commitments are taken into account and if potential contingencies against some departments are successful, this picture might be worse.

The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. The approved budget (voted funds) of departments is requested from the provincial revenue fund only as required. The figure below shows the number of departments that underspent on capital budgets and conditional grants and those that did not request all their voted funds in the year, which led to it being surrendered back to the revenue fund.

Figure 31: Underspending by departments

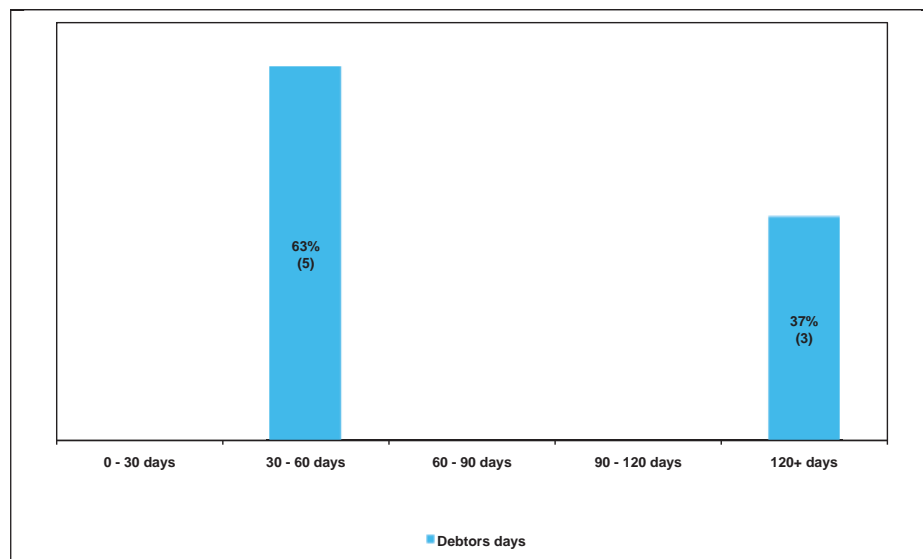


As seen from the analysis, departments failed to deliver on the implementation of projects relating to conditional grants and capital budget with significant underspending identified in this regard.

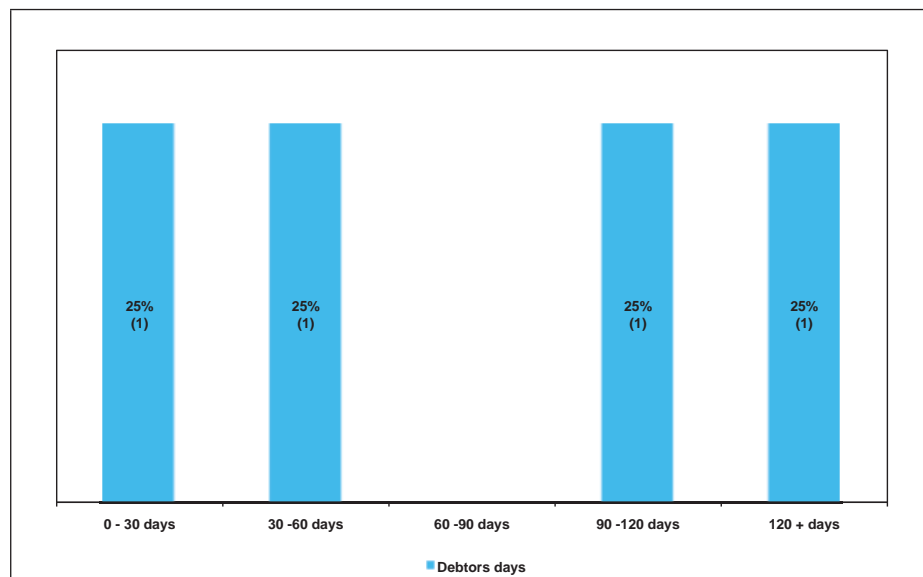
Two (29%) public entities also underspent on their capital budgets.

5.2.2 Revenue and expenditure management

The figure below shows the average debtors' days. Debtors' days refer to the number of days it takes for the auditee to recover the money owed to them by persons/institutions.

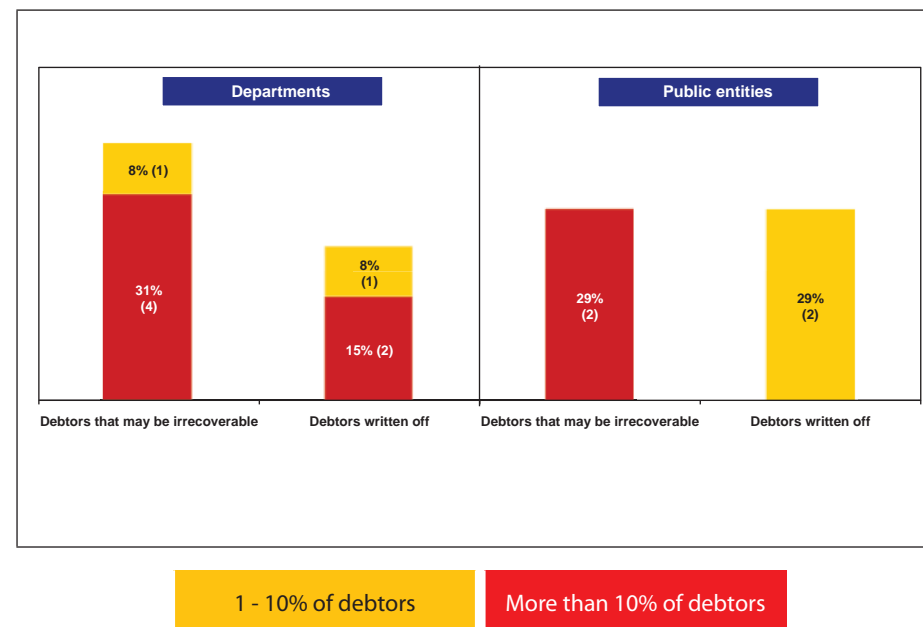
Figure 32: Debtors' days – departments

Collection of debts remains poor: no departments collected debts within 30 days. At a few departments debtors were not even collected with 120 days.

Figure 33: Debtors' days – public entities

At public entities collection of debtors still remained a problem with only one entity collecting debtors within 30 days.

The weakness in recovering revenue owed by debtors is further highlighted in the following figure, which shows the extent of bad debts that were written off or provisions made for such write-offs.

Figure 34: Status of state debtors

The analysis highlights the poor debt collection practices by the auditees. At 39% of departments and 29% of entities, a significant portion of debtors are not recoverable due to inadequate steps taken to collect the money due. The majority of these debtors relates to staff debts as well as outstanding patient fees at the Department of Health and non-recovery of defaulting bursary holders at the Office of the Premier.

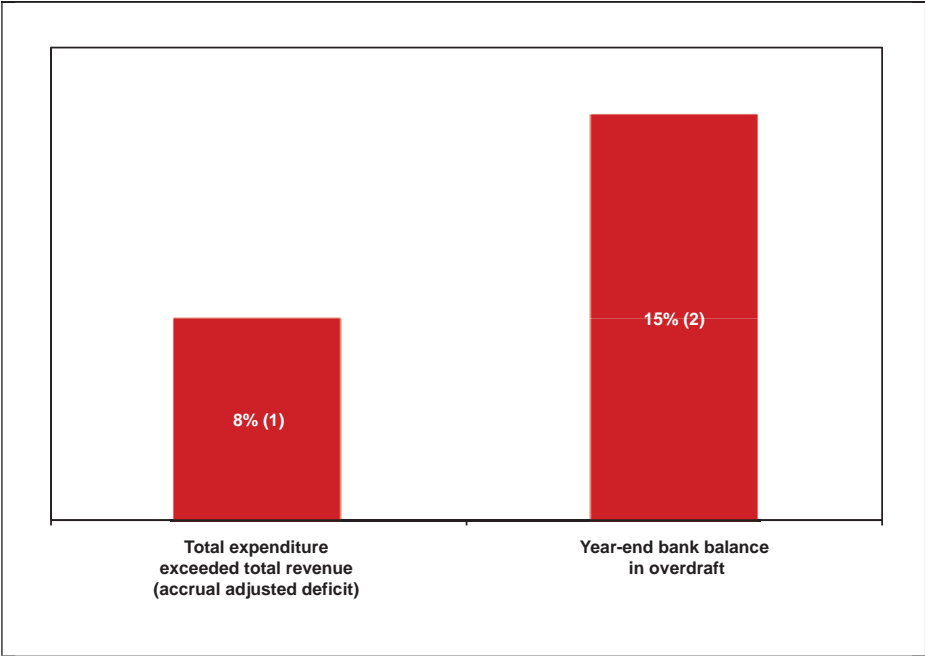
5.2.3 Asset and liability management

In the private sector the analysis depicted below would be indicators of a possible going concern problem at an entity, i.e. that the entity would not have sufficient

funds to continue in business. It is however uncommon for the operational existence of a public sector auditee to cease as a result of an inability to finance its operations as these departments normally constitute the delivery of service to the public. In these instances additional funding from central government is normally required to enable the auditee to continue its operations.

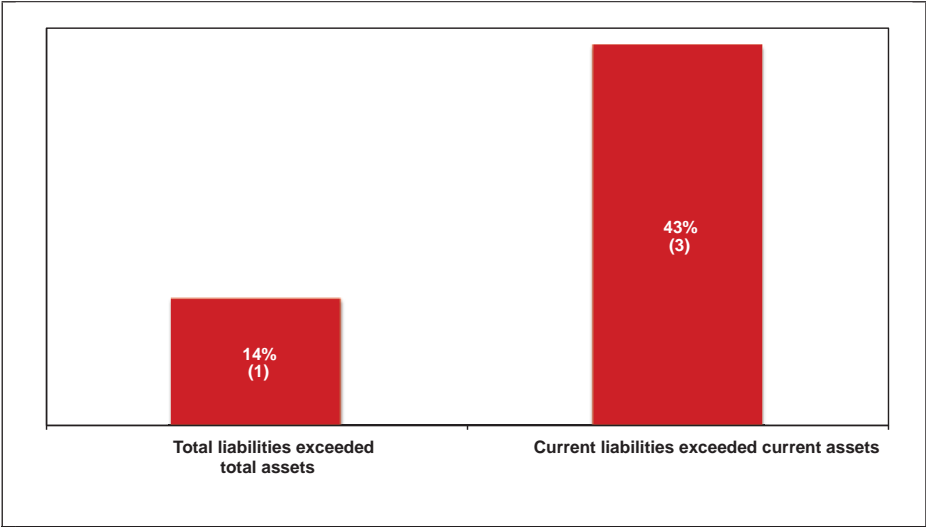
The following figure shows the number of departments that incurred deficits in the current year and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments, the amounts in the annual financial statements were adjusted to the accrual basis of accounting.

Figure 35: Deficits and overdrafts



One department would have not achieved a surplus had all expenditure relating to the current year been paid from the current year’s budget. The bank overdrafts at two departments are due to prior year unresolved unauthorised expenditure. The next figure shows the number of public entities that had negative indicators as it relates to the funding of their continued operations.

Figure 36: Funding of continued operations – public entities



Quite a few entities in the province have significant problems as their current liabilities or total liabilities exceeded the current assets or total assets. This is indicative that the entities are not financially viable.

Provincial departments and public entities should take note of the financial health indicators identified in this analysis as these are indicative of concerns that might become more evident in future when government accounts are prepared on an accrual basis.

GLOSSARY OF TERMS

ANNEXURE



AUDITOR - GENERAL
SOUTH AFRICA



GLOSSARY OF TERMS

Accounts payable/accruals/liabilities	Money owed by the entity to those who have supplied goods and services.
Accounts receivable (debtor)	Money owed to the entity by those who have received goods or services from the entity.
Accruals	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
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 entity, which may constitute property, plant, cash or debtors.
Asset impairment	The reduction in value of an asset below its normal realisable value.
Balance sheet	Summary of an entity's financial status, including assets, liabilities and equity.
Carrying value	Also referred to as book value - the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairment.
Cash flow	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.
Clean audit outcome	The financial statements of the auditee are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations.
Commitments (financial)	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.

Comparative figures	The figures recorded in the previous year which correspond to the figures for the same item in the current year.
Consolidated financial statements	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
Contingent liability	A potential liability, the amount of which will depend on a future event.
Current assets	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
Disclaimer of audit opinion	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.
Financial and performance management	Management of resources in order to achieve the financial and services delivery objectives of the auditee. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.
Financially unqualified audit opinion	The financial statements contain no material misstatements.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
General ledger	A record of all financial transactions undertaken by an entity.

Governance	In the context of this general report it refers to the governance structures (audit committees) and processes (internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
Information technology (IT)	Computer systems used for recording and reporting financial and non-financial transactions.
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
IT security management	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
IT user access management	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
Internal control (key controls)	Internal control is the process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
Inventory	Goods held for resale or for internal use.
Irregular expenditure	Expenditure incurred without complying with applicable laws and regulations.

Leadership	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
Leading department	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
Material finding	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
Material misstatement	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
Misstatement	Incorrect information in or information omitted from the financial statements or annual performance report.
Modified opinion	Qualified, adverse or disclaimer of opinion.
Payroll	A list of employees and their wages.
Pervasive findings	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
Property, plant and equipment	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
Qualified audit opinion	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.

Reconciliation	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
Reporting against predetermined	Reporting by auditees on their actual service delivery achievements against their annual objectives performance plans.
Residual value	The estimated scrap or salvage value at the end of the asset's useful life.
Root causes	The underlying causes or drivers of audit findings, i.e. why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue or opportunity, thus preventing or reducing incidents of recurrence as opposed to simply providing a one-time or short-term fix.
Supply chain management	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
Transversal findings	Findings that are cross-cutting or occurring in a number of entities.
Unauthorised expenditure	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.
Useful lives	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating the depreciation of an asset.

ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Number	Auditee	2011-12			2010-11			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Unauthorised, irregular as well as fruitless and wasteful expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatements/ limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Other
Departments																					
1	Office of the Premier							R	R	N	R	R	R			R	R	R	N	R	R
2	Provincial legislature											R	N			R	R	R	N	R	R
3	Health							N				R	R			R	R	R	N	R	R
4	Sport, Arts and Culture											N	N			N	N	R	N	N	A
5	Public Safety									N	R	R	R			R	R	R	R	A	R
6	Economic Development, Tourism, Conservation and Environment															A	R	R	N	N	A
7	Provincial treasury												A			N	N	A	N		A
8	Education							R	R		R	R				R	R	R	R	N	R
9	Local Government and Traditional Affairs								R			R	N			R	R	R	N	N	N
10	Public Works, Roads and Transport							R	R	R	R	R	R			R	R	R	R	R	R
11	Human Settlements										R	N	A			R	N				
12	Agriculture and Rural Development											N				A	A	A	R	A	R
13	Social Development							R			N	N	N			R	N	R	A	N	R
14	Provincial revenue fund																				

Legend (Audit outcomes)	Financially unqualified with no findings		Disclaimer		Qualified	Adverse		Legend (Drivers)	Good	Significant control deficiency	S	Legend (Findings)	Addressed	A	Legend (Movements)	Reduction	↑	Unchanged	Legend (Root cause)	No significant root cause	
	Financially unqualified with findings		Audit outstanding		Closed	Finding			Causing concern	Intervention required			New	N		Repeat	R	Increase		↓	A contributing root cause

ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Unauthorised, irregular, and fruitless and wasteful expenditure incurred						Procurement and contract management						Drivers of internal control												Human resource management				Information technology management				Root causes					
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership						Financial and performance management				Governance			Management of vacancies	Appointment process	Management of leave, overtime and suspensions	Other	IT governance	Security management	User access management	IT service management	HR capacity and productivity	Attention to key controls	Effectiveness of assurance providers		
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit												Audit committee	
		↓	R20 m	↑	R0 m				R		R					S			S	S	S	S									N	N	R	R			
		↑	R15 m	↓	R0 m				R	A	R				S	S		S		S											R	N	R	R			
↓		↑	R1 726m	↑	R1 m		R	N	R		R		S		S		S	S	S	S		S									R	N	R				
		↑	R57 m	↑	R0 m				N		R		S				S		S		S			S							R	N	R				
↓		↓	R88 m	↔	R0 m		A		R		R			S	S	S			S	S											R	N	R				
		↓	R2 m	↔	R0 m				R		R						S														N	N	A				
				↑	R1 m				A		A				S																R	R	R	R			
		↓	R9 m	↓	R0 m	A	R	R	R	A	R	S	S	S	S	S	S	S	S	S	S	S	S								R	N	R				
		↑	R6 m	↓	R0 m				R		R		S	S		S		S		S	S		S		S						R	R	R				
		↑	R1 281m	↑	R15 m	R	A		R	R	R	S	S	S	S	S	S	S	S	S	S	S	S	S							R	N	R				
				↔	R0 m		N		A				S							S				S							R	R	R				
↓		↑	R38 m	↓	R0 m		N	N			R														S						R	N	R	R			
↓		↑	R236 m	↑	R1 m				R	R	N		S				S			S			S	S							N	N	N				

Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	
	Financially unqualified with findings	Audit outstanding	Closed	Finding	

Legend (Drivers)	Good	Significant control deficiency	S
	Causing concern	Intervention required	

Legend (Findings)	Addressed	A
	New	N Repeat R

Legend (Movements)	Reduction	↑	Unchanged	↔
	Increase	↓		

Legend (Root cause)	No significant root cause	
	A contributing root cause	A major root cause

ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Number	Auditee	2011-12			2010-11			Financial statement qualification areas				Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Unauthorised, irregular as well as fruitless and wasteful expenditure	Other	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatements/ limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Other
Public entities																					
1	Invest North West											R	N			A		A			A
2	NW Gambling Board															A					
3	Golden Leopard Resorts						R	R	R	R				R	R	N	R			N	R
4	Kgama Wildlife Operations										R				N	N	R				R
5	Directorate of Entrepreneurial Development in Natural Resources										N		A		A						R
6	NW Development Corporation														R						A
7	Mafikeng Industrial Development Zone						A	N	N	R	R	R			R	R	R				R
8	Mmabana Arts, Culture and Sport Foundation																				
9	NW Housing Corporation																				
10	NW Parks and Tourism Board																				
11	Dirapeng																				
12	Madikwe River Lodge																				
13	NW Provincial Aids Council																				
14	NW Youth Development Trust																				

Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse		Legend (Drivers)	Good	Significant control deficiency	S	Legend (Findings)	Addressed	A	Legend (Movements)	Reduction	↑	Unchanged	Legend (Root cause)	No significant root cause		A contributing root cause	A major root cause
	Financially unqualified with findings	Audit outstanding	Closed	Finding			Causing concern	Intervention required			New	N		Repeat	R	Increase		↓			

ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

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Legend (Audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (Drivers)	Good	Significant control deficiency	S	Legend (Findings)	Addressed	A	Legend (Movements)	Reduction	Unchanged	Legend (Root cause)	No significant root cause
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ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

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15	NW Provincial Arts & Cultural Council																				
16	NW Transport Investments																				
17	Atteridgeville Bus Services																				
18	North West Star																				
19	Signal Developments																				
20	North West Agricultural Bank																				
21	Agribank Creditors Settlement Trust																				

Legend (Audit outcomes)	Financially unqualified with no findings		Disclaimer		Qualified		Adverse		Legend (Drivers)	Good		Significant control deficiency		S	Legend (Findings)	Addressed		A		Legend (Movements)	Reduction	↑	Unchanged	Legend (Root cause)	No significant root cause				
	Financially unqualified with findings		Audit outstanding		Closed		Finding			Causing concern		Intervention required				New		N	Repeat		R	Increase	↓			A contributing root cause		A major root cause	

ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

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Legend (Audit outcomes)	Financially unqualified with no findings		Disclaimer		Qualified		Adverse			Legend (Drivers)	Good		Significant control deficiency		S	Legend (Findings)	Addressed	A		Legend (Movements)	Reduction	↑	Unchanged	↔	Legend (Root cause)	No significant root cause			
	Financially unqualified with findings		Audit outstanding		Closed		Finding				Causing concern		Intervention required				New	N	Repeat		R	Increase	↓					A contributing root cause	

