

Praying Hands Statue, Magaliesberg



100

2010-11

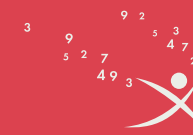
GENERAL REPORT

on the provincial audit outcomes of **NORTH WEST**



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



100 YEARS
1911-2011



GENERAL REPORT
ON THE OUTCOMES OF THE
NORTH WEST GOVERNMENT
2010-11

PR 287/2011
ISBN: 978-0-621-40440-1



This flagship publication of my office is a tool that gives simple and handy insights. These insights empower users to focus on those issues that will lead to improved audit outcomes. This publication also captures the commitments that leaders have made to address audit outcomes.

Auditor-General: Terence Nombembe

Our reputation promise/mission

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) 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.



TABLE OF CONTENTS

SECTION 1: FOREWORD	5
SECTION 2: AUDIT OUTCOMES	7
2.1 Audit opinions on financial statements.....	7
2.1.1 Audit outcomes for the year ended March 2011	7
2.1.2 Three-year history of audit outcomes for the province	9
2.1.3 Improvements and regressions in audit opinions on financial statements for the year under review	9
2.1.4 Audit outcomes history of the auditee that obtained a financially qualified audit opinion for the year ended March 2011	11
2.1.5 Timeliness of the submission and auditing of financial statements	12
2.2 Findings arising from the audit of financial management, including defects in financial statements	13
2.2.1 Auditees' progress in addressing prior year financial statement qualifications	13
2.2.2 Outline of corrective action taken by management to address 2009-10 qualification findings	14
2.2.3 Analysis of areas in financial statement containing material misstatements	15
2.2.4 Defects in current year financial statements resulting in disclaimed, adverse or qualified audit opinions	15
2.2.5 Material misstatements in financial statements submitted for auditing	16
2.2.6 Material losses, impairment of assets and material underspending of votes or conditional grants	17
2.2.7 Auditees with concerns regarding funding of operations, financial sustainability or going concern	17
2.2.8 Assessment of drivers of internal control over financial management and reporting	18
2.2.9 Best practices, root causes of findings and the way forward on financial statement qualifications and financial management	18

2.3	Findings arising from the audit of predetermined objectives	19
2.3.1	<i>Overview of the AGSA's approach to the audit of predetermined objectives</i>	<i>19</i>
2.3.2	<i>Overall findings arising from the audit of predetermined objectives</i>	<i>19</i>
2.3.3	<i>Summary of regulatory requirements or criteria not met by auditees as well as trends in findings</i>	<i>20</i>
2.3.4	<i>Assessment of drivers of internal control over reporting on predetermined objectives</i>	<i>20</i>
2.3.5	<i>Best practices, root causes of findings, best practices and the way forward on the reporting on predetermined objectives.....</i>	<i>21</i>
2.4	Findings arising from the audit of compliance with laws and regulations.....	21
2.4.1	<i>Overview of the AGSA's approach to auditing compliance with laws and regulations by auditees</i>	<i>21</i>
2.4.2	<i>Transversal findings on compliance with laws and regulations</i>	<i>22</i>
2.4.3	<i>Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees</i>	<i>23</i>
2.4.4	<i>Summary of findings arising from the supply chain management (SCM) audit conducted by the AGSA</i>	<i>24</i>
2.4.5	<i>Investigations into SCM irregularities, fraud or other financial misconduct</i>	<i>25</i>
2.4.6	<i>Assessment of drivers of internal control over compliance with laws and regulations</i>	<i>26</i>
2.4.7	<i>Best practices, root causes of findings and way forward on compliance with laws and regulations by auditees.....</i>	<i>26</i>
2.5	Outline of the way forward to improve audit outcomes	27



SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS	28
3.1 Overview of key controls as drivers of the three facets of audit outcomes	28
3.2 Effective human resource (HR) management as specific driver of audit outcomes	28
3.2.1 Overall findings arising from the assessment of HR management	29
3.2.2 Impact of staff vacancies on internal control	30
3.2.3 Root causes of findings and way forward on HR management	31
3.3 Information technology management as specific driver of audit outcomes	31
3.3.1 Computer systems in use and the management of information technology	31
3.3.2 Computer systems in use and the management of information technology	32
3.3.3 Root causes of findings and the way forward on information technology management	35
3.3.4 Overall assessment of the state of IT management in terms of design at national level in relation to the audit results	36
SECTION 4: INITIATIVES AND COMMITMENTS BY KEY PROVINCIAL AND NATIONAL ROLE PLAYERS	36
4.1 The function of provincial role players in audit outcomes	36
4.1.1 Assessment of monitoring capacity and focus areas of provincial role players at the time of the audit	36
4.1.2 Audit committees	37
4.1.3 Commitments and actions by provincial executive leadership and oversight	37
4.1.4 Status of Public Accounts Committee (PAC) oversight resolutions	39
4.1.5 Outline of recommended focus areas of role players	39
4.2 Initiatives taken by the AGSA to encourage clean administration	40
4.3 Emerging matters that require attention to prevent a negative impact on future audit outcomes	40

SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE SCM AUDIT	41
5.1 Limitations on planned scope of audit of awards	41
5.2 Awards to state officials	42
5.3 Uncompetitive or unfair procurement processes	42
5.4 Inadequate contract management	44
5.5 Inadequate SCM controls	44
5.6 Overall conclusion on SCM matters	45
SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS	46
SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS	46
ANNEXURES TO THE GENERAL REPORT	48
Annexure 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives	48
Annexure 2: Auditees with findings related to compliance with laws and regulations	51
Annexure 3: Auditees with unauthorised, irregular as well as fruitless and wasteful expenditure as well as material losses and impairment of assets	52
Annexure 4: Assessment of auditees' key controls at the time of the audit	54
Annexure 5: Auditees with key findings on supply chain management	56
Annexure 6: Auditees with key findings on information technology focus areas	57
Annexure 7: Effectiveness of audit committees	58



SECTION 1: FOREWORD

I present my 2010-11 general report to the North West Provincial Legislature, which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature, provincial revenue fund, public and other entities for the financial year ended 31 March 2011

No departments achieved clean audit reports. Six departments and five entities received financially unqualified audit reports with findings on predetermined objectives and non-compliance. Five departments and five entities received qualified audit reports, while one department, Public Works received a disclaimer of opinion. Overall, only 46% of the departments, which constitute 34% of the budget, and 50% of the public entities have been able to avoid financial qualifications. The Department of Education and the Department of Health, which collectively account for 68% of the provincial budget, received a qualified and an unqualified audit opinion, respectively.

The legislature improved to financially unqualified with findings on predetermined objectives and non-compliance, while the Department of Education and the Mafikeng Industrial Development Zone (MIDZ) improved from a disclaimer to a qualified opinion. Four departments remained qualified and four entities regressed from being financially unqualified to qualified. Where there were improvements in outcomes it was the result of direct involvement by the executive authority in the areas of key controls pertinent to their environments. The inconsistent adherence to basic financial disciplines and a lack of accountability by senior officials prevented departments and entities from addressing the poor quality of financial statements, controls around non-compliance with SCM, service delivery reporting and the poor control environment at Public Works, Roads and Transport. The lack of progress in appointing heads of department (HoDs) and chief financial officers (CFOs) has resulted in there being no follow through of previous commitments made by the executive authorities. In addition to this, the inconsistent availability of the MECs at the key controls quarterly engagements is a matter of focus for the premier. The interaction by the MECs with the audit committees did not take place and the internal audit unit has to date been inadequately capacitated.

The provincial executive and the legislature are aware of the fact that there is a lack of visible progress towards clean audit outcomes, and have committed to crafting a way forward, which starts with enforcing basic governance and financial disciplines aimed at achieving monthly credible financial and performance information. The preparation of the monthly financial and performance information will be accompanied by a review and validation process. The Premier is committed to reviewing and addressing the basics in the province, starting with the existence and awareness of policies, processes and procedures, the assessment of the organisational structures for adequacy at all departments and entities, the existence of adequate IT infrastructure, and the recruitment of competent human resources. The skills audit of senior finance officers is already under way and the MECs have committed to implement the corrective actions recommended in the skills audit report. Internal audit has a vital role to play in supporting the accounting officers and MECs in the assessment of key controls during the year. The role of the provincial treasury will be elevated to coordinating the guidance, training and support on information technology (IT), SCM, predetermined objectives and human resources. In order to strengthen the monitoring of the commitments, the MECs and the respective portfolio committee chairpersons will engage the audit committees at least quarterly, and the key control engagements with the AGSA will be scheduled monthly.

The premier, speaker, MECs and the chairpersons of relevant portfolio committees have committed to monthly monitoring and evaluation of the status of the key controls and commitments made above in order to achieve sustainable clean audit outcomes. At a minimum, this will require a commitment by the executive authority of one hour every 30 days. This will then be followed by the AGSA sharing the consolidated picture, in the form of a dashboard, with the premier, speaker, MEC of Finance, the chairperson of portfolio committee chairpersons and the chairperson of PPAC. This will require the enhancement of the oversight model that will include effective coordination between the PAC and portfolio committees. If all these governance and oversight structures work together in monitoring internal controls on a quarterly basis, this will place provincial governance at a higher level, and it will contribute greatly to sustainable positive outcomes.

The leadership of the AGSA will continue in the province as part of its contribution towards clean administration and will continue to enhance its visibility and thereby provide proactive insights into the root causes on the status of internal controls. These

engagements will also include timely feedback and inputs into the adequacy of the guidance provided by coordinating role players.

In this centenary year of the AGSA, I wish to thank the audit teams from my office and the audit firms that assisted in the provinces for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the provincial portfolio. It is particularly pleasing to note that both audit groups have understood that in addition to producing audit opinions and findings, their purpose is to provide useful and relevant information and insights that promote oversight and accountability in government, thereby strengthening confidence in our democracy.

Auditor-General

Auditor-General
North West
November 2011



SECTION 2: AUDIT OUTCOMES

The North West Provincial Government comprises 13 provincial departments (including the provincial legislature), the revenue fund, and 20 public entities. This report presents the 2010-11 audit outcomes of 13 departments and 10 public entities, of which the audits were performed by the AGSA or by auditors from the private sector. Although the AGSA has opted not to perform the audits of certain public entities, it has put oversight processes in place regarding the audit engagements at these entities. Specifically, the AGSA has prescribed certain requirements that include the appointment and discharge of such auditors, their duties and powers, requirements regarding their audit reports, and actions to be taken where the requirements are not met.

2.1 Audit opinions on financial statements

2.1.1 Audit outcomes for the year ended March 2011

The audits of 12 departments (excluding the revenue fund) and 10 public entities (2009-10: 25 out of 33) that submitted financial statements on time were completed by 31 July 2011, within the legislated time frame of two months from receipt of the financial statements by the AGSA. The audits of the revenue fund and 10 public entities had not been finalised as at 30 September 2011, the cut-off date set by the AGSA for inclusion of audit outcomes in this general report. The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below, while a three-year history of audit outcomes for the province is given in section 2.1.5 of this report.

Table 1: Summary of audit outcomes

Audit outcomes	Audits conducted by the AGSA				Audits not conducted by the AGSA	
	Departments*		Public entities **		Public entities	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	0	0	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	6	5	5	12	0	1
Financially unqualified financial statements	46%	38%	50%	75%	n/a	100%
Qualified opinion	6	6	5	1	0	0
Adverse opinion	0	0	0	0	0	0
Disclaimer of opinion	1	2	0	3	0	0
Financially qualified financial statements	54%	62%	50%	25%	n/a	0%
Total number of audits reported on	13	13	10	16	0	1
Number of audit reports not issued by 30 September 2011	1	1	10	3	0	0
Total number of audits	14	14	20	19	0	1
Total number of auditees in which findings arose from the AGSA's other legal reporting responsibilities						
Predetermined objectives findings only	0	0	0	5	0	0
Compliance with laws and regulations findings only	3	3	2	2	0	1
Findings on both predetermined objectives and compliance with laws and regulations	10	10	8	8	0	0

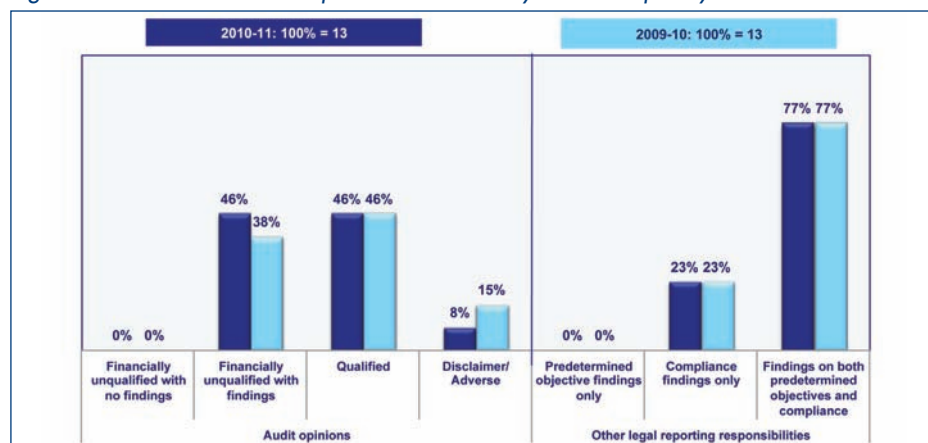
* Including legislature and provincial revenue fund

** Including trading and other types of entities

The financial statements of departments and public entities that were financially qualified contained material misstatements that caused them not to fairly present the financial position at March 2011 or the financial results for the year then ended in respect of one or more areas. Financial statements were disclaimed when the information or documentation required by the auditors was not provided to enable them to reach an opinion on the financial statements.

Figures 1 to 4 provide additional statistics relating to the three facets of audit outcomes, namely (i) audit opinions on financial statements; (ii) findings on predetermined objectives; and (iii) departments' and public entities' compliance with laws and regulations.

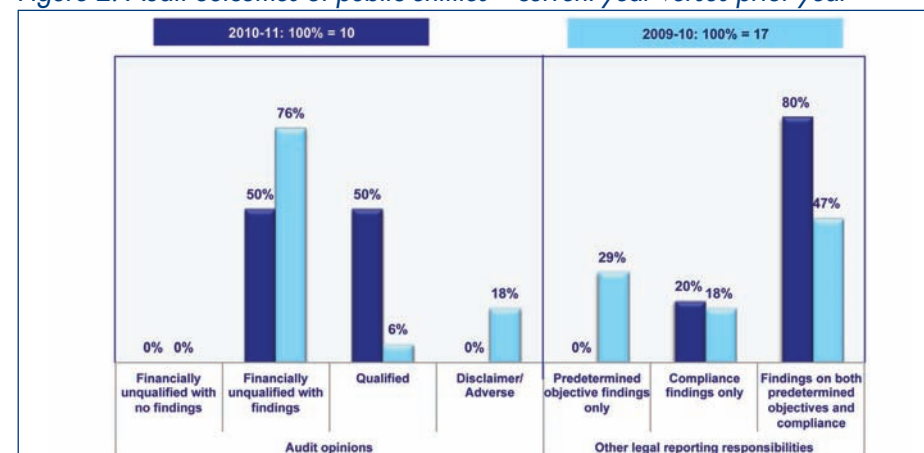
Figure 1: Audit outcomes of departments – current year versus prior year



* In this report, 'with findings' or 'with no findings' refers to findings on predetermined objectives and/or compliance with laws and regulations.

The extent to which the audit outcomes of public entities have changed from the previous financial year is depicted in figure 2 below.

Figure 2: Audit outcomes of public entities – current year versus prior year



Figures 3 and 4 depict findings arising from the audit of reporting on predetermined objectives and compliance with laws and regulations for departments and entities, respectively.

Figure 3: Departments with findings on predetermined objectives and/or compliance with laws and regulations

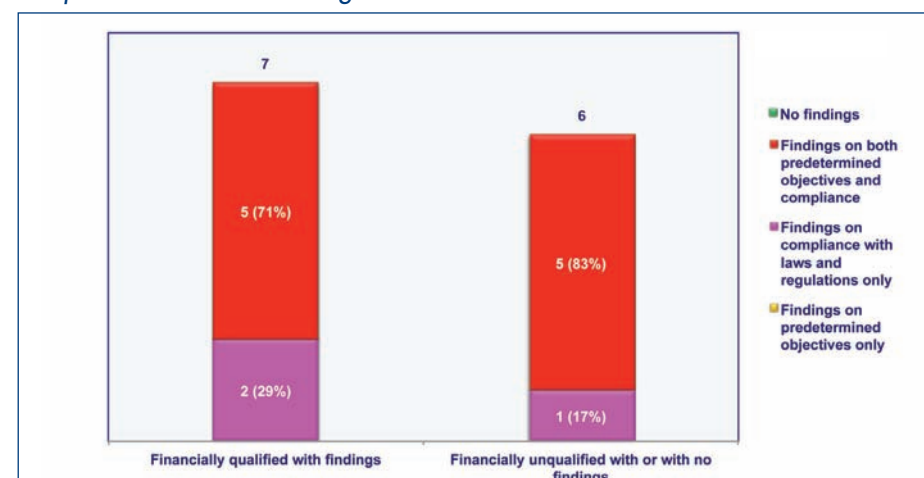
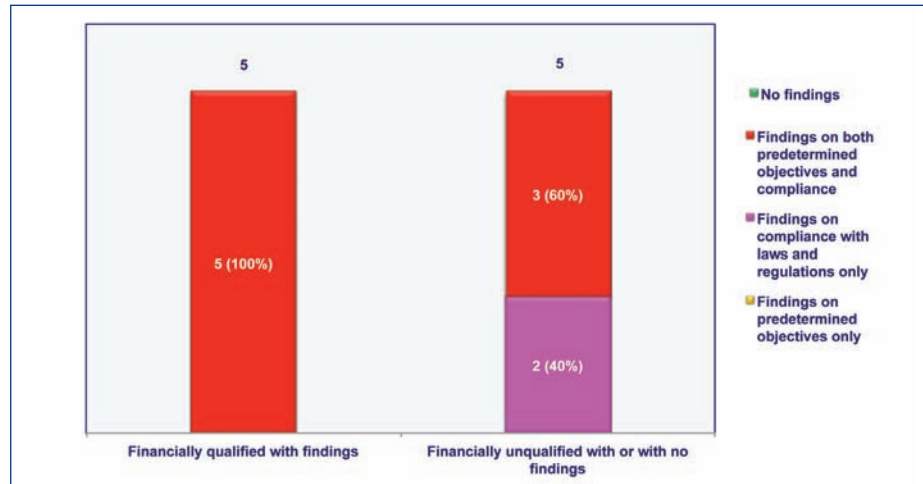




Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations



Findings on predetermined objectives are broadly analysed in section 2.3, while an overview of auditees' compliance with laws and regulations is presented in section 2.4 of this report.

2.1.2 Three-year history of audit outcomes for the province

The audit outcomes for the province over the past three years are depicted below.

Figure 5: Three-year audit outcomes for the province

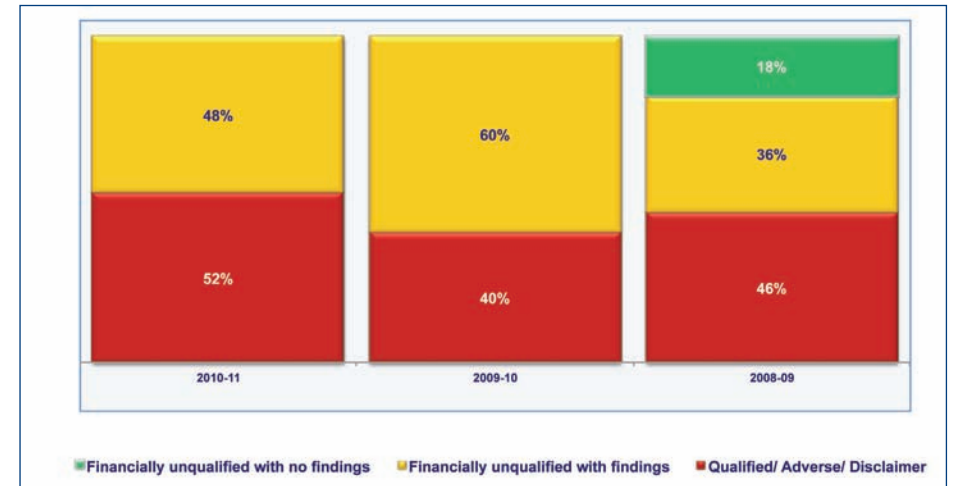


Figure 5 indicates that the province is moving further away from achieving its goal of a clean administration by 2014. Leadership's inability to address issues relating to financial discipline and their failure to reform the systems and internal controls for financial reporting, reporting against predetermined objectives and monitoring compliance with laws and regulations is the reason for this regression. One of the main challenges within the North West Province remains attracting and retaining the required skilled and competent staff to enable the provincial government to address these matters.

2.1.3 Improvements and regressions in audit opinions on financial statements for the year under review

Tables 2 and 3 depict the movements in audit opinions for departments and public entities, respectively. Highlights of the audit outcomes for the year under review are presented thereafter.

Table 2: Movements in audit outcomes of departments

Movement in audit outcome over 2009-10 – departments					
Audit opinion	Improvement	Unchanged	Regressed	Total reported on	Prior year opinion on audits outstanding 2010-11*
Financially unqualified with no findings				0	
Financially unqualified with findings	↑ 1	↔ 5		6	
Qualified	↑ 1	↔ 5		6	
Disclaimer/Adverse		↔ 1		1	
Total	2	11	0	13	0

Table 3: Movements in audit outcomes of public entities

Movements in audit outcome over 2009-10 – public entities					
Audit opinion	Improvement	Unchanged	Regressed	Total reported on	Prior year opinion on audits outstanding 2010-11*
Financially unqualified with no findings				0	
Financially unqualified with findings		↔ 5		5	4
Qualified	↑ 1		↓ 4	5	1
Disclaimer/Adverse				0	2
Total	1	5	4	10	7

Highlights and major trends in audit opinions on the financial statements for the year under review, with comparisons to the previous financial year, are presented below. Annexure 1 to this report lists the auditees together with their 2010-11 audit outcomes and those of the previous financial year.

Overall trends	The overall results for the province did not improve, with 52% of all departments and entities (2009-10: 40%) still receiving modified opinions. Although there was a slight improvement in the audit outcomes for departments, public entities regressed and 10 (50%) of the public entities did not submit financial statements on time.
Financially unqualified audit opinions with no findings	None of the departments or public entities received financially unqualified audit opinions with no findings on predetermined objectives and compliance with laws and regulations.
Notable improvements	The provincial legislature improved from a qualified audit opinion in the prior year to financially unqualified with findings on predetermined objectives and compliance with laws and regulations in the current year. Both the Department of Education and Mafikeng Industrial Development Zone (Pty) Ltd improved from disclaimer to qualified audit opinions.
Disclaimed, adverse or qualified audit opinions	The audit opinion for the Department of Public Works, Roads and Transport remains a disclaimer. Five departments remain qualified, while four public entities have regressed from financially unqualified to qualified audit opinions in the current year.
Prior year qualification findings	The prior year audit qualification areas that were not addressed at the six departments were mainly immovable and moveable tangible capital assets, receivables, other disclosure and identification and disclosure of irregular expenditure. This indicated that the departments did not implement the required action plans to address these findings, as was committed by the respective MECs.
Further qualification findings	Four entities which were financially unqualified in the prior year were qualified mainly on capital assets (issues relating to GRAP 17) and on the completeness of their disclosure of irregular expenditure.
Repeatedly qualified auditees	A major concern exists at the Department of Public Works, Roads and Transport. The departments with repeated qualified audit opinions did not demonstrate good financial accountability and the leadership was unable to implement good governance principles. The leadership at the other six departments that are repeatedly qualified need to take stern actions within their portfolios.
Financially unqualified, with findings/with no findings	The six (46%) departments and five (50%) entities that have achieved financially unqualified opinions with findings on predetermined objectives and/or compliance with laws and regulations, failed to address the findings relating to predetermined objectives and compliance with laws and regulations.



No further progress towards clean administration	Although no departments or entities achieved clean audits, the Department of Economic Development and Tourism, the Department of Agriculture, Conservation, Environment and Rural Development, the North West Development Corporation and the North West Gambling Board are the two departments and two entities closest to achieving this goal. These four have been able to address all findings relating to the financial statements and reporting against predetermined objectives. Should the findings relating to compliance with laws and regulations be addressed, they may be able to achieve clean audits by 2011-12. All four still had to make material adjustments to the financial statements. The Department of Agriculture and the Department of Economic Development had issues mainly on SCM and expenditure management, while the two entities had issues on compliance with the Companies Act and surrender of funds.
--	---

2.1.4 Audit outcomes history of auditees that obtained financially qualified audit opinions for the year ended March 2011

The history of audit outcomes of those auditees whose financial statements were disclaimed or attracted adverse or qualified audit opinions for the year under review is depicted in the table below.

Table 4: History of audit opinions of auditees with modified audit opinions

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Office of the Premier	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with no findings
Public Safety	Qualified	Qualified	New department	New department	New department
Education	Qualified	Disclaimer	Financially unqualified with findings	Qualified	Qualified
Local Government and Traditional Affairs	Qualified	Qualified	New department	New department	New department
Public Works, Roads and Transport	Disclaimer	Disclaimer	Financially unqualified with findings	Qualified	Qualified

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Social Development	Qualified	Qualified	Qualified	Qualified	Qualified
Human Settlements	Qualified	Qualified	New department	New department	New department
Atteridgeville Bus Services (Pty) Ltd	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings
North West Star (Pty) Ltd	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings
North West Transport Investments (Pty) Ltd	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings
Mafikeng Industrial Development Zone (Pty) Ltd	Qualified	Disclaimer	Disclaimer	Qualified	Qualified
Mmabana Arts, Culture and Sport Foundation	Qualified	Financially unqualified with findings	Qualified	Qualified	Qualified

Table 4 indicates that departments and public entities did not implement the required action plans to address prior year findings. A lack of commitment at most departments and entities to achieve the national goal of clean audits by 2014 is evident. It is of grave concern that entities that previously achieved clean audits deteriorated over the past two years. With the exception of the Department of Health all of the major departments in the province, representing 66% (R14,3 billion) of the total expenditure of the province, were qualified. The lack of good financial management and the safeguarding of documentation at the Department of Public Works, Roads and Transport also negatively affected the other departments, for example the lack of proper project management and maintenance of transport performed by the department requires urgent intervention.

The four entities that qualified for the first time were predominantly qualified on capital assets (issues relating to GRAP 17) and on the completeness of their

disclosure of irregular expenditure. Mafikeng Industrial Development Zone (Pty) Ltd (MIDZ) showed improvement in 2010-11 as it moved from a disclaimer of opinion to a qualified opinion. This improvement in audit outcome was due to the appointment of skilled consultants. Reliance on consultants is not enough, and MIDZ must implement the necessary internal controls to sustain this improvement.

2.1.5 Timeliness of the submission and auditing of financial statements

Departments and public entities are required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) to submit their financial statements for auditing by 31 May annually. The AGSA is required to complete an audit within two months of receipt of the financial statements.

By the deadline of 31 May 2011, 12 (86%) departments (2009-10: 13 (93%)) and 10 (50%) public entities (2009-10: 12 (60%)) had submitted their financial statements for auditing. A significant 35% (2009-10: 26%) of auditees were still not able to meet the legislative submission date.

The reasons why 11 audits were not completed by 30 September 2011 are as follows:

- Financial statements submitted after legislated deadline: 1 (9%)
- Financial statements not yet submitted for auditing: 10 (91%)

Non-submission of financial statements is a reason for concern as it increased the risk of fraud due to a lack of accountability. This has been the trend in the province.

Table 5 provides details of audits that had not been finalised by the cut-off date of this general report.

Table 5: Audits not finalised by general report cut-off date

Auditee	Latest financial year audit finalised	Reason for audit outstanding or not finalised by GR cut-off date			Expected date of finalisation
		Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons	
Provincial Revenue Fund	Prior to 2006-07				30-Nov-11
Agribank Creditors Settlement Trust	2009-10				30-Nov-11
North West Agricultural Bank	2009-10				30-Nov-11
North West Parks and Tourism Board	2009-10				Unknown
Dirapeng (Pty) Ltd	2006-07				Unknown
Golden Leopard Resorts (Pty) Ltd	2009-10				30-Nov-11
North West Housing Corporation	2007-08				Unknown
North West Provincial Council on Aids	2009-10				30-Nov-11
North West Provincial Arts & Cultural Council	2009-10				30-Nov-11
North West Youth Development Trust	2009-10				30-Nov-11
Signal Developments (Pty) Ltd	2006-07				Unknown

These outcomes are not included in trend analyses or comparisons presented in this general report.



2.2 Findings arising from the audit of financial management, including defects in financial statements

Matters relating to financial management presented in this analysis include the progress (or lack thereof) by departments and entities in addressing prior year financial statement qualification findings, material errors and omissions in financial statements submitted for auditing, material losses incurred by auditees, underspending by auditees against their votes or conditional grants, and auditees facing financial sustainability concerns.

2.2.1 Auditees' progress in addressing prior year financial statement qualifications

Of the audits completed at 30 September 2011, seven of the 13 (54%) departments had not fully addressed their 2009-10 findings for their 2010-11 financial statements to be financially unqualified. The corresponding lack of progress for public entities is one out of 10 (10%), with four (40%) being qualified for the first time.

Figures 6 and 7 depict those financial statement areas attracting qualifications at departments and public entities, respectively. Corrective action taken by management to address prior year qualification findings is outlined in section 2.2.2, while details of current year qualifications are provided in section 2.2.3 of this report.

Figure 6: Transversal financial statement qualification areas – departments

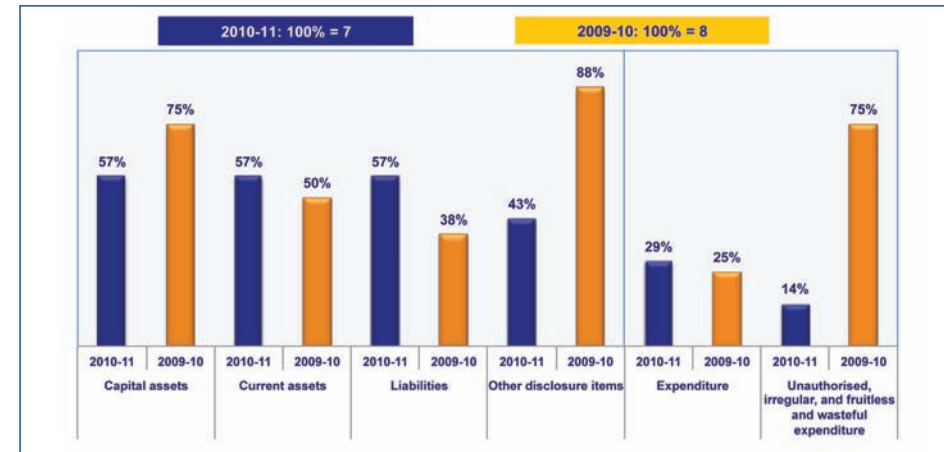
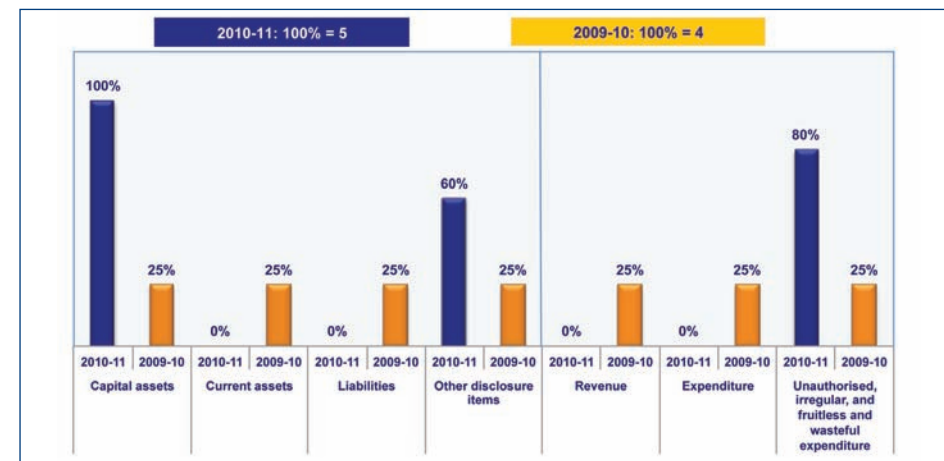


Figure 7: Transversal financial statement qualification areas – public entities



Tables 6 and 7 depict the movements in the financial statement qualification areas of those departments and public entities that obtained disclaimed, adverse or qualified audit reports.

Table 6: Progress made by departments in addressing financial statement qualification findings

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Office of the Premier	Qualified	New	Repeat	Repeat	Addressed			Addressed
Public Safety	Qualified	Addressed	Addressed	New				
Education	Qualified	Repeat	Repeat	Repeat	Repeat		Addressed	Addressed
Local Government and Traditional Affairs	Qualified	Addressed	Repeat	Addressed	Addressed			Addressed
Public Works, Roads & Transport	Disclaimer	Repeat	New	New	Repeat		Repeat	Repeat
Social Development	Qualified	Repeat**			Addressed			
Human Settlements	Qualified				Repeat		New	Addressed

* Unauthorised, irregular as well as fruitless and wasteful expenditure

** Denotes area also qualified in years prior to 2009-10, i.e. qualification not addressed for three years or longer

Table 7: Progress made by public entities in addressing financial statement qualification findings

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Atteridgeville Bus Services (Pty) Ltd	Qualified	New						New
North West Star (Pty) Ltd	Qualified	New			New			New
North West Transport Investments (Pty) Ltd	Qualified	New			New			New

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Mafikeng Industrial Development Zone (Pty) Ltd	Qualified	Repeat**	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Mmabana Arts, Culture and Sport Foundation	Qualified	New			New			New

* Unauthorised, irregular as well as fruitless and wasteful expenditure

** Denotes area also qualified in years prior to 2009-10, i.e. qualification not addressed for three years or longer

2.2.2 Outline of corrective action taken by management to address 2009-10 qualification findings

As highlighted in tables 6 and 7, limited progress has been made in addressing qualification areas. The initiatives taken by auditees that were able to successfully address the 2009-10 audit findings with a view to highlighting good practices are indicated below. These good practices should be replicated by auditees that still need to address qualification areas in the current auditor's reports. Improvements in audit outcomes can be attributed to corrective action taken by the leadership and management, which included the following specific actions:

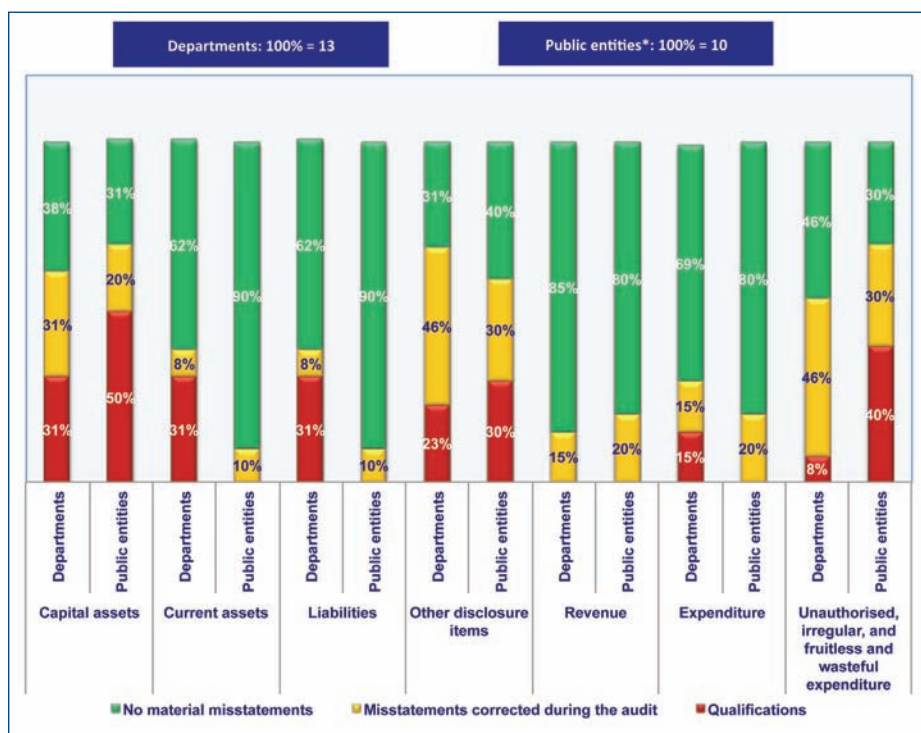
- The provincial legislature's improvement to a financially unqualified audit opinion with findings is due to the intervention by the audit committee on belated transfer of the legislature building to the Department of Public Works, Roads and Transport.
- The Department of Education's improvement to a qualified audit opinion can be attributed to management's improved involvement during the audit and coordinated submission of audit evidence requested.
- The Mafikeng Industrial Development Zone (Pty) Ltd's improvement from a disclaimer to a qualified opinion is due to involvement of skilled consultants to correct misstatements in opening balances.



2.2.3 Analysis of areas in financial statements containing material misstatements

As in prior years, departments and public entities again submitted financial statements for audit that contained material misstatements. The areas misstated for the year under review are depicted in figure 8 below.

Figure 8: Areas of material misstatements in financial statements (corrected and uncorrected)



Uncorrected material misstatements (defects) in financial statements attract modified audit opinions, which are outlined in section 2.2.3, while material misstatements corrected by management during the audit are analysed in section 2.2.5 of this report.

2.2.4 Defects in current year financial statements resulting in disclaimed, adverse or qualified audit opinions

Some auditees did not or were unable to correct all of the identified material misstatements in their financial statements. Below is a summary of the areas that resulted in financial statements receiving modified audit opinions as at 31 March 2011.

Capital assets

Capital assets principally consist of immovable and moveable tangible assets for departments and property, plant and equipment and investment property for entities. Common matters attracting qualifications include the following:

- Poorly compiled immovable asset registers at the departments of Education and Public Works, Roads and Transport resulted in the limitation misstatements on the balances disclosed in the financial statements.
- Four departments' (Department of Education, Public Works, Roads and Transport, Social Development and Office of the Premier) inappropriate physical asset verifications and asset registers resulted in qualifications on existence, completeness and valuation of the moveable tangible assets disclosed in the financial statements.
- Public entities' failure to adhere to accounting standards (mainly GRAP 17) in reassessment of residual values, useful lives and incorrect calculation of depreciation and/or impairment.

Current assets

Current assets principally consist of cash, cash equivalents and receivables. Prevalent findings attracting qualifications include the following:

- Scope limitations on receivables due to lack of sufficient appropriate audit evidence for these balances.
- Misstatements of bank balances due to the implementation of BAS.

Liabilities

Liabilities principally consist of payables, accruals, borrowings and provisions. The incomplete disclosure of accruals for expenditure incurred by departments frequently attracted qualifications.

Other disclosure items

Other disclosure items principally consist of leases, related parties, contingent liabilities and commitments. Prevalent findings attracting qualifications include the following:

- Incomplete disclosure of contingent liabilities.
- Lack of sufficient appropriate audit evidence for disclosure of commitments such as project and contract registers.

Expenditure

Expenditure principally consists of goods and services, employee cost, transfers and subsidies. Prevalent findings attracting qualifications include the following:

- Misstatements on the disclosure of unspent portions of transfer payments made.
- Other limitation misstatements on transfers and subsidies.

Unauthorised, irregular as well as fruitless and wasteful expenditure

The qualification findings mainly resulted from the inability to verify the accuracy and completeness of amounts disclosed in the financial statements.

Annexure 1 to this report lists the audit outcomes of all auditees in the province, together with their financial statement qualification areas.

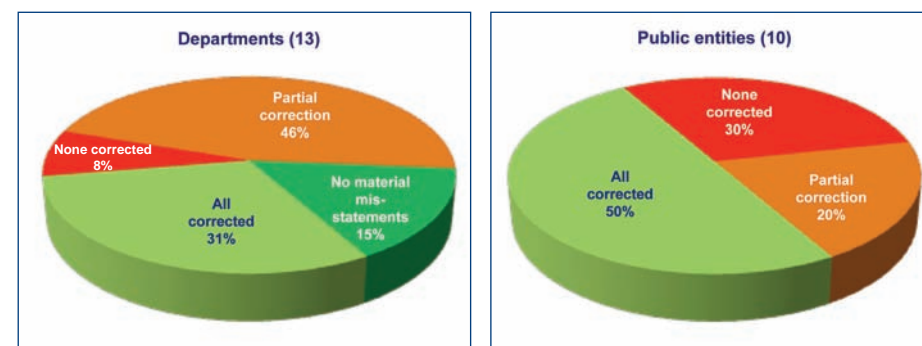
2.2.5 Material misstatements in financial statements submitted for auditing

The PFMA directs that departments and public entities submit for auditing annual financial statements that fairly present their state of affairs and their financial position as at the end of the financial year. Financial statements submitted for auditing are therefore required to be free from material misstatements, i.e. contain no material errors or omissions.

As in previous financial years, the financial statements submitted for auditing were of a poor quality and had to be materially adjusted during the audit process. Auditees had significant deficiencies in the design and implementation of internal control in respect of financial reporting. This resulted in material corrections to the financial statements during the audit in the case of 11 departments (85%) and 10 public entities (100%). The corresponding level of pervasive material misstatements for 2009-10 was 85% for departments and 76% for public entities.

Areas misstated in financial statements submitted for audit are listed in section 2.2.3. The figure below indicates the extent of pervasive material misstatements in the financial statements submitted for auditing, some of which were subsequently corrected by management as a result of audit findings. Where material misstatements were not corrected, the financial statements were qualified.

Figure 9: Material misstatements in financial statements submitted for auditing



Internal control deficiencies that failed to prevent or detect material misstatements in the financial statements include the following:

- Management's inability to adequately review the financial statements prior to submission for audit.
- Departments do not have appropriate systems in place to generate information for disclosure notes in the financial statements like contingent liabilities, commitments, accruals, etc.
- Had audit committees engaged internal audit units to provide assurance on the financial statement preparation process, misstatements may have been detected prior to the financial statements being submitted for audit.



- Inappropriate structures of finance units to allow segregation of duties and review of information submitted and included in the financial statements.

2.2.6 Material losses, impairment of assets and material underspending of votes or conditional grants

Details of material losses, asset impairments and underspending of votes or conditional grants as disclosed in the financial statements of departments and public entities for the year ended March 2011 are depicted in figure 10.

Figure 10: Material losses, asset impairments and underspending



The causes of material losses are mainly a result of the write off of debts/receivables and write off of misappropriated assets (R4 million). Many departments received non-compliance findings on control systems not implemented for safeguarding and maintenance of assets. The material impairment of assets applied to receivables for long outstanding debts (R46 124).

Material underspending by departments on their voted funds amounted to R588 million (2009-10: R84 million). Most notable was the Department of Human Settlements (R162 million), the Department of Public Works, Roads and Transport (R132 million) and the Department of Education (R114 million). The impact of this underspending is directly related to service delivery deficiencies including: maintenance of public buildings and roads, funding of housing projects, funding of public schools and

the early childhood development programme, library services and support by the provincial treasury and Department of Local Government and Traditional Affairs to struggling municipalities in the province. The Department of Local Government and Traditional Affairs and Department of Public Works, Roads and Transport were the departments that repeated the underspending.

2.2.7 Auditees with concerns regarding funding of operations, financial sustainability or going concern

Concerns regarding the funding of operations or financial sustainability were identified at four public entities (17%) (2008-09: 4). Table 8 depicts the main reasons for such concerns.

Table 8: Reasons for funding and financial sustainability concerns at auditees

Auditee	Liquidation/ disestablishment	Incorporation with another entity	High reliance on grants/ own revenue generated not sufficient to cover operating costs	Current liabilities exceed current assets	Significant financial challenges	Number of concerns per auditee
Mafikeng Industrial Development Zone (Pty) Ltd				1		1
Mmabana Arts, Culture and Sport Foundation				1		1
North West Development Corporation				1		1
North West Directorate of Entrepreneurial Development in Natural Resources	1					1
Total	1	0	0	3	0	4

Sufficient actions and interventions were not taken to assist these entities as the same issues were identified in the prior year. The winding down process of the North West Directorate of Entrepreneurial Development in Natural Resources has been in process for some years.

2.2.8 Assessment of drivers of internal control over financial management and reporting

The ability of auditees to produce financially unqualified financial statements is determined by the operation of key drivers of internal control. These drivers are classified under (i) leadership; (ii) financial and performance management; and (iii) governance. Figure 10 provides an assessment, at the time of the 2010-11 audits, of the key drivers of internal control that should be in place at auditees to achieve their financial management and financial reporting objectives and to meet their legislated obligations.

Figure 11: Assessment of key controls at the time of the audit of auditees whose financial statements were disclaimed, adverse or qualified (12 auditees = 52%)



2.2.9 Best practices, root causes of findings and the way forward on financial statement qualifications and financial management

The lack of improvement in audit outcomes and the timely submission of financial statements can be attributed to the following:

- Operation clean audit committees were ineffective and had no impact during the year.
- Financial statements are not prepared throughout the year and there is an inadequate review of accounts throughout the year, resulting in errors not being detected and corrected by management.
- Lack of appropriate systems to generate financial information required for disclosure notes and the fact that such information is only produced at year-end.
- Lack of skills to interpret and prepare annual financial statements in terms of the required framework.
- Lack of supervision and review by CFOs in the preparation of the financial statements.
- Lack of review of annual financial statements by the audit committees due to late submission of financial statements for their review.
- Inadequate action plans to address prior year audit findings.
- Inadequate monitoring of action plans and reporting to executives by audit committees.
- Attitude of management to submit financial statements on time without the necessary due diligence and to rely on the auditors to indicate the necessary corrections to be made.
- Inadequate tone set by the executive leadership charged with oversight over the management of entities.
- Lack of continuous review and monitoring of action plans to fully address the previous year audit findings and internal control deficiencies.
- Lack of management oversight on the day-to-day transactions and information processing, as well as proper control over assets and/or the movement thereof.
- Lack of a clear human resources strategy to deal with key vacancies, particularly at the finance units.
- Compliance with SCM policies and procedures is not monitored to identify and correct irregular expenditure.

The following actions were taken by those auditees that were able to address previous year qualification areas:



- The leadership was available and committed to attend to audit issues and findings in a timely manner.
- Consultants were appointed to correct deficiencies. These consultants were also closely monitored.
- Action plans were compiled to address previously reported issues and monitored for progress by the leadership and those charged with governance including committees of the provincial legislature.
- Management improved record keeping/record management as the importance of record keeping has been noted.
- Reconciliations were prepared for all balances in the balance sheet.
- The audit team interacted closely with management and the audit committee to resolve issues as they arose.

The following commitments were made by the provincial leadership:

- Internal audit must monitor action plans to address prior year qualifications and progress thereon should be reported at every audit committee meeting.
- Financial management units should be adequately staffed with the appropriate skills.
- Sustained leadership and oversight of approved action plans and its implementation is required throughout the year.
- Instil processes of commitment and responsible leadership to clear previous qualification areas and ensure continuous monitoring of the financial environment and service delivery.
- The executive will report to the premier on steps to be taken in addressing the audit qualifications and monitoring of irregular expenditure.
- To establish whether shared services with regard to internal audit and the cluster audit committees are the best option for the province.
- To oversee the prompt implementation of key controls that would enhance the control environment.
- Continuous head hunting for qualified professionals at the finance units as well as an undertaking by MECs to give priority to speedily addressing the HR shortcomings identified by the AGSA, which include the placement of senior personnel.
- An undertaking by MECs that action will be taken against those undermining the policies and procedures, particularly where it has resulted in irregular expenditure.
- Attending to information systems shortcomings.

2.3 Findings arising from the audit of predetermined objectives

2.3.1 Overview of the AGSA's approach to the audit of predetermined objectives

Departments and public entities are required to report on their achievement of predetermined objectives (service delivery), and to submit for audit the annual performance report together with the annual financial statements. The objective of an audit of predetermined objectives is to enable the auditor to conclude on whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

The AGSA has, since the 2005-06 financial year, been phasing in the auditing of predetermined objectives and assisting leaders within all spheres of government with the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined objectives, has been included in the management report. However, these conclusions have not yet been elevated to the level of the auditor's report.

2.3.2 Overall findings arising from the audit of predetermined objectives

Progress by auditees in addressing prior year findings on predetermined objectives is depicted in figures 12 and 13. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 12: Movements in findings on reporting on predetermined objectives

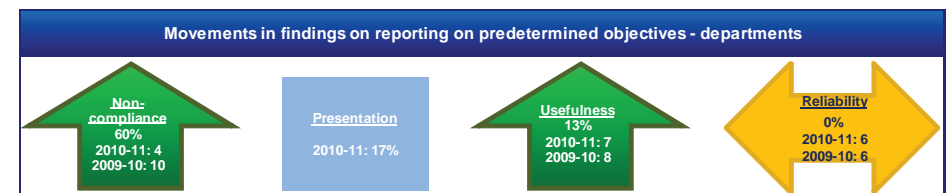
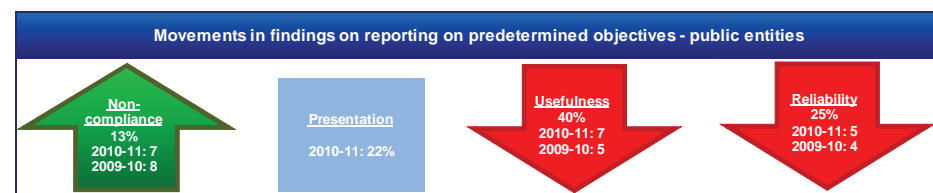


Figure 13: Movements in findings on reporting on predetermined objectives



2.3.3 Summary of regulatory requirements or criteria not met by auditees as well as trends in findings

Key trends in findings related to predetermined objective reporting are discussed below.

Annual performance report was not received in time for audit purposes

Departments and public entities are required to submit the annual performance report for audit on 31 May. As indicated above, there is a general improvement, specifically for public entities, in the timely submission of annual performance reports for audit.

Non-compliance

Although an improvement is noted, the high rate of non-compliance is concerning. This relates to the lack of effective, efficient and transparent systems and internal controls implemented by departments and strategic/corporate plans not approved by the relevant executive authority for public entities.

Usefulness

Findings are related to objectives not being measurable against indicators and targets and the absence of clear and logical links between the objectives, outcomes, outputs, indicators and performance targets. Although departments show a slight improvement, the regression of public entities and the overall high rate of findings is concerning. The most prevalent findings for departments is the inconsistency of indicators and targets with the annual performance plans and

annual performance reports, while public entities battle with the measurability of targets and indicators in their strategic/corporate plans.

Reliability

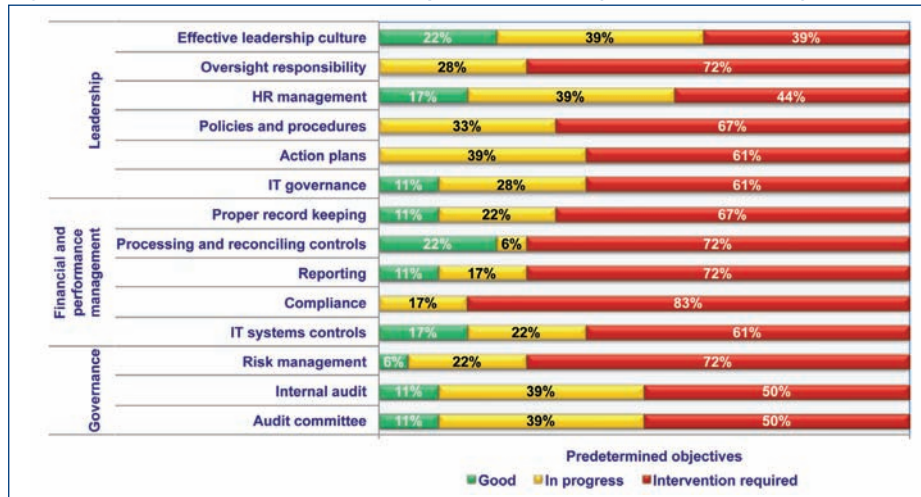
Findings on reliability include instances where the actual reported performance could not be verified. The overall high rate of findings and the lack of improvements are concerning. The validity and accuracy of reported performance could not be verified mainly due to the non-submission of the supporting evidence and the departments' systems' inability to generate and report on performance. Completeness is the main issue for public entities because not all predetermined objectives set in the strategic/corporate plans are addressed in the annual performance reports. The reason for the information not being reliable can be attributed to the fact that quarterly and annual performance reports are not appropriately reviewed and monitored by senior personnel.

2.3.4 Assessment of drivers of internal control over reporting on predetermined objectives

Figure 14 provides an assessment at the time of the audits of the key drivers of internal control that should be in place to ensure auditees produce performance reports that are useful, reliable and that meet the regulatory requirements, including that of presentation.



Figure 14: Assessment of auditees' key controls over predetermined objectives



This assessment highlights the significant attention required by the leadership, those charged with governance and management to address issues specifically with regard to oversight responsibility, development and implementation of policies and procedures, action plans as well as development of appropriate systems for recording and reporting on predetermined objectives.

2.3.5 Best practices, root causes of findings, best practices and the way forward on the reporting on predetermined objectives

The high prevalence of findings can be attributed to the following:

- Lack of dedicated resources (people and systems) to effectively report on predetermined objectives.
- Inadequate performance management systems which include the lack of policies and procedures on how to collect, collate, store and report on data.
- A lack of clearly defined roles and responsibilities at all auditees.
- Senior manager vacancies result in the limited review and monitoring of information reported on.
- No review by internal audit and audit committees of performance management processes and reporting.

- The lack of involvement of the relevant executive authorities at public entities in their portfolios resulted in a lack of direction and ultimately little or no priority given to reporting on predetermined objectives.

Auditees able to address findings raised in prior years did the following:

- Dedicated monitoring units were established within the department that were responsible for reviewing reported information on a quarterly basis.
- Centralised document management systems were implemented to ensure that reports and other evidence to substantiate reported performance were appropriately filed and stored. These were easily retrievable to substantiate performance reported.

Leadership should ensure that the efforts made are sustainable and become part of the culture of the entities. Other auditees should implement the same controls to address their findings.

The following commitments were made by the provincial leadership:

- Clearly defined roles and responsibilities will be determined at each auditee for reporting against predetermined objectives.
- Appropriate skilled staff will be assigned and document management systems will be implemented so that reports and other evidence to substantiate reported performance are appropriately filed and stored.
- Dedicated monitoring units will be established within each department that will be responsible for reviewing reported information on a quarterly basis.
- Executive authorities will be closely involved at the public entities in their portfolios to provide direction and give priority to reporting on predetermined objectives.

2.4 Findings arising from the audit of compliance with laws and regulations

2.4.1 Overview of the AGSA's approach to auditing compliance with laws and regulations by auditees

As part of the annual audit of financial statements, the AGSA reports on compliance with laws and regulations by auditees. Broadly, such laws and regulations determine:

- the responsibilities and duties of those charged with governance at the public sector entities
- any limits or restrictions placed on such activities
- the overall objectives to be achieved
- how due process rights of individual citizens are protected.

Compliance refers to adherence by auditees to relevant legislation. Conversely, non-compliance refers to acts of omission or commission by auditees, whether intentional or unintentional, which are contrary to such legislation.

The audit of compliance is being phased in by the AGSA and details of identified instances of material non-compliance are included in the auditor's reports. The AGSA specifically focused on legislative requirements relating to the following areas for the financial year ended March 2011:

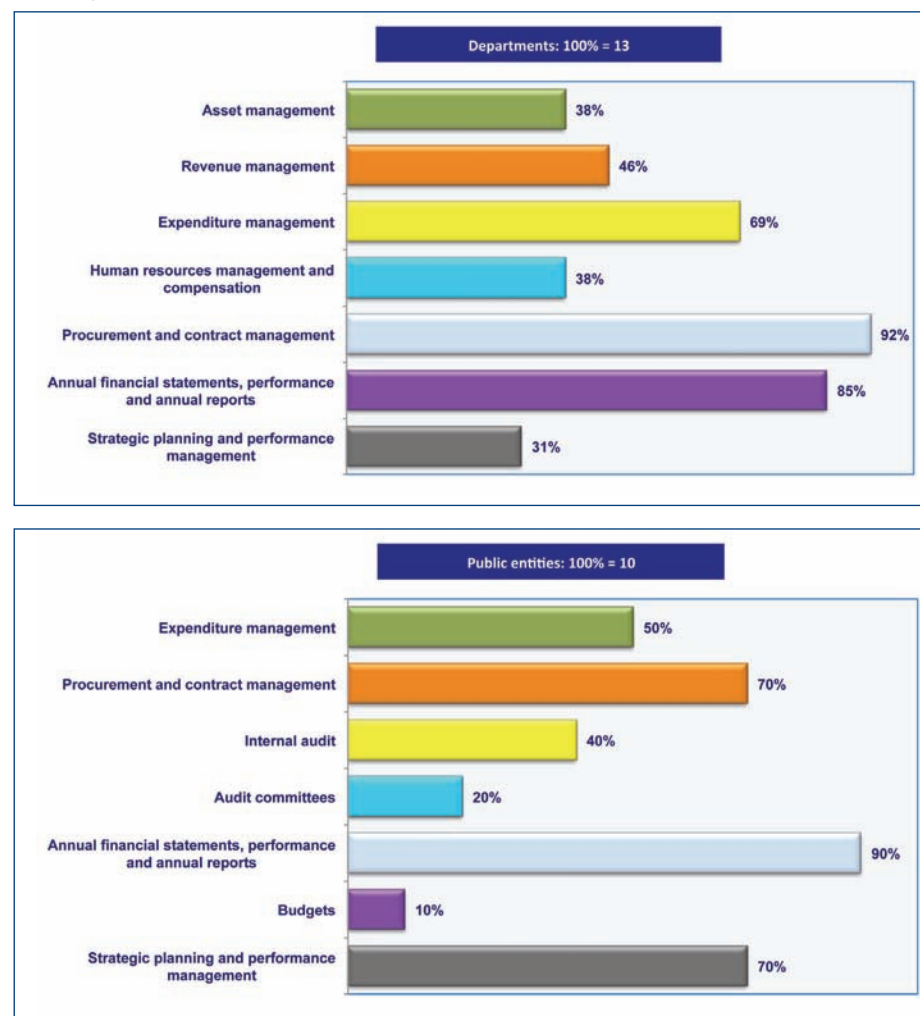
- Strategic planning and performance management
- Annual financial statements, performance report and annual report
- Audit committees
- Internal audit
- Procurement and contract management
- HR management and compensation
- Expenditure management
- Budgets and budgetary processes
- Transfer of funds and conditional grants
- Revenue management
- Asset management
- Financial misconduct

Audits not performed by the AGSA also included compliance auditing, though not all the focus areas were covered to the same extent.

2.4.2 Transversal findings on compliance with laws and regulations

Figure 15 depicts identified areas of material non-compliance that were most prevalent at departments and public entities. As the focus areas and legislative requirements audited differed from the previous year, the figure does not include comparisons to the previous year.

Figure 15: Summary of findings arising from the audit of compliance with laws and regulations



Common non-compliance findings relating to the AGSA's focus areas are summarised below.



Table 9: Common non-compliance findings relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	Public entities
Prevalent non-compliance areas: All auditees			
Strategic planning and performance management	Strategic/corporate plan not approved by the relevant executive authority	N/A	40%
	Lack of effective, efficient and transparent systems and internal controls	31%	20%
Annual financial statements (AFS), performance and annual reports	AFS not prepared in accordance with prescribed generally recognised accounting practices	85%	90%
Procurement and contract management	Three price quotations not obtained	38%	30%
	Competitive bids not invited	46%	30%
Expenditure management	Creditors not paid within 30 days of receipt of invoice	54%	n/a
	Irregular expenditure not prevented	62%	50%
Prevalent non-compliance areas: Departments only			
Human resource management and compensation	Senior management – vacancy rate increased from previous year	38%	
	Senior managers did not sign performance agreements for current performance period	31%	
Revenue management	Effective and appropriate steps are not taken for the timely collection of all revenue due	38%	
	Appropriate processes for the identification, collection, recording, reconciliation and safeguarding of information about revenue are not in place	23%	
Asset management	Proper control systems are not implemented for safeguarding and maintenance of assets	38%	
Prevalent non-compliance areas: Public entities only			
Budgets	Expenditure not in accordance with approved budget		10%

Focus area	Summary of common findings	Departments	Public entities
Audit committees	No audit committee in place		20%
Internal audit	No internal audit function in place		30%

Annexure 2 to this report lists all auditees where non-compliance was identified through the AGSA focus area audits.

Section 2.2.4 of this report provides analysis on the financial statements submitted for auditing that had not been prepared, in all material aspects, in accordance with generally recognised accounting practice (and were supported by full and proper records), as required by the PFMA.

Analysis of non-compliance findings relating to performance reports is provided in section 2.3.2, while section 2.4.3 provides further details on findings related to unauthorised, irregular as well as fruitless and wasteful expenditure.

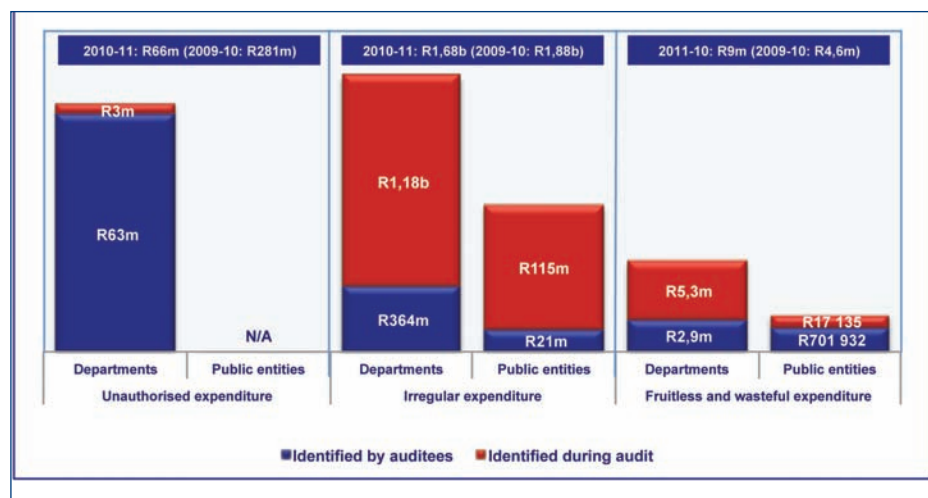
Findings from the audit of procurement and contract management are analysed in section 2.4.4, while section 3.5.1 provides further details on non-compliance findings related to HR management at departments.

2.4.3 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees

The PFMA requires accounting officers/accounting authorities to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented and detected. Unauthorised expenditure results from overspending a vote or a main division within a vote or is expenditure that is not in accordance with the purpose of a vote or main division. Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation, including the PFMA, the State Tender Board Act, 1968 (Act No. 86 of 1968) and any provincial legislation providing for procurement procedures at a provincial department. Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

It is compulsory for departments and public entities to disclose such expenditure in their financial statements. Figure 16 depicts the extent of such expenditure identified by the audit and the extent detected by the auditees.

Figure 16: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and entities



The nature of the expenditure and significant trends are presented in the table below.

Table 10: Movements in unauthorised, irregular as well as fruitless and wasteful expenditure

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Unauthorised expenditure (applicable to departments only)						
Number of departments incurring	4	R66m	20%			
Overspending of votes/main division within votes	4	R66m	100%			
Expenditure not in accordance with votes			100%			
Additional amounts identified during audit	4	R3m	100%			
Incurred for two or more successive financial years	3					
Irregular expenditure						
Number of auditees incurring	11	R1,54b	0%	8	R136m	100%
Resulting from proper SCM processes not being followed	11	R1,49b	0%	8	R136m	100%
Compensation of employees-related	2	R49m	100%			100%
Resulting from other causes	2	R33m	50%			0%
Additional amounts identified during audit	7	R1,18b	22%	4	R115m	0%
Incurred for two or more successive financial years	11			2		
Fruitless and wasteful expenditure						
Number of auditees incurring	10	R8,3m	100%	6	R701k	0%
Additional amounts identified during audit	4	R5,3m	20%	1	R17k	83%
Incurred for two or more successive financial years	3			3		

Annexure 3 to this report provides a full listing of auditees that incurred the expenditure summarised in the above table.



2.4.4 Summary of findings arising from the SCM audit conducted by the AGSA

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

Findings were raised during the audit of SCM at 19 (83%) of the auditees relating to contracts that had been awarded and quotations that had been accepted (referred to as 'awards' in the rest of this report).

Significant findings relating to SCM are depicted in the figures below.

Figure 17: Summary of findings on SCM

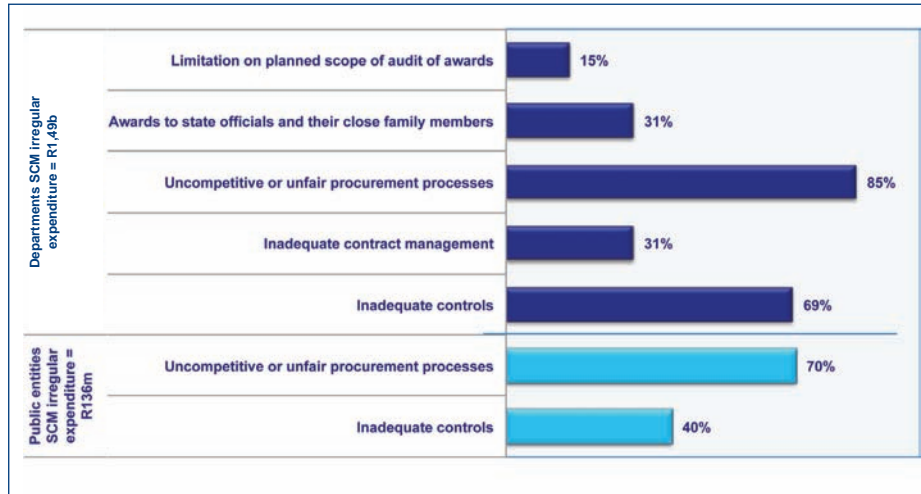
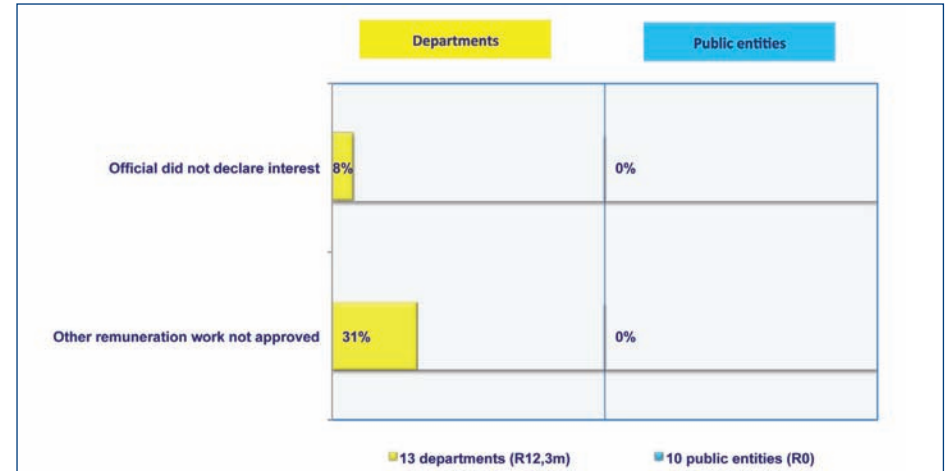


Figure 18: Awards to state officials and/or their close family members



A summary of significant findings is provided below. Detailed findings are presented in section 5 of this report. The names of auditees with SCM findings are listed in annexure 5 to this report.

Limitations on planned scope of audit of awards	Limitations were placed on the scope of the planned audit of awards at two departments (Public Work, Roads and Transport and Education). The total value of the awards with the limitation at Public Work, Roads and Transport could not be determined due to the absence of a contract register and contract management system resulting in a qualification on the completeness of irregular expenditure.
Awards to state officials and their close family members	Awards to officials in service of the auditee of R12,3 million (four departments), were not identified by the departments' systems. These officials had approval to perform other remunerative work. Most notable were Health (17 instances of R8,6 million) and Education (36 instances of R3,2 million)
Uncompetitive or unfair procurement processes	This was prevalent at 85% of departments and 70% of public entities and resulted in irregular expenditure of R1,49 billion and R136 million, respectively. This was mainly due to competitive bidding processes not followed for awards above R500 000 or three quotations not obtained for awards between R30 000 and R500 000.
Inadequate contract management	Most notable findings are payments made in excess of approved contract prices and contracts extended or renewed to circumvent competitive bidding processes. Lack of contract performance measures and monitoring and lack of action taken against non-performing contractors were also highlighted.

Inadequate controls	The inadequate controls that resulted in these findings are mainly a lack of compliance with SCM policies and requirements, a lack of clearly defined roles and responsibilities, SCM policies in conflict with legislation and inadequate controls resulting in officials failing to declare their private business interests.
---------------------	---

2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

Investigations commissioned by departments and public entities have escalated by 14% from the previous financial year. Table 11 lists the investigations in progress or completed by March 2011. Not all of the investigations were conducted by the AGSA.

Table 11: Investigations completed or in process as at 31 March 2011

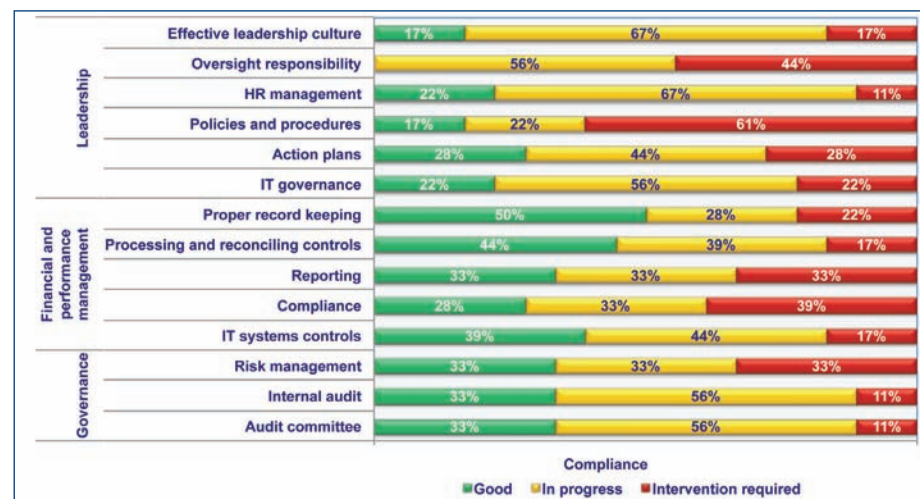
Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Agriculture, Conservation, Environment and Rural Development	1			1
Education	1			1
Office of the Premier	1			1
Health	1			1
Public Works, Roads and Transport	1			1
Social Development	1			1
Sport, Arts and Culture		1		1
Mmabana Arts, Culture and Sport Foundation			1	1
Total	6	1	1	8

The majority of the investigations were conducted by independent firms and aimed at establishing compliance with SCM requirements. Five of these were instigated by the premier based on matters reported in the prior year audit reports.

2.4.6 Assessment of drivers of internal control over compliance with laws and regulations

Figure 19 provides an assessment of the key drivers of internal control that should be in place to ensure compliance with laws and regulations.

Figure 19: Assessment of auditees' key controls over compliance with laws and regulations



This assessment highlights the significant attention required by the leadership, those charged with governance and management to address findings relating to non-compliance with laws and regulations and to promote a culture of complying with these.

2.4.7 Best practices, root causes of findings and way forward on compliance with laws and regulations by auditees

The causes of these findings were the following:

- Lack of monitoring and supervision of day-to-day activities at the departments and entities.
- Insufficient training on compliance with legislation, resulting in poor awareness.
- Ineffective/inadequate internal audit coverage on matters of compliance.
- Leadership tone not sufficient to drive an internal control environment conducive to sound financial management.
- Officials' lack of understanding or complete disregard for the SCM policies and requirements.



- Management's failure to adequately review the financial statements prior to submission for audit.

A strong leadership tone, together with the support of the audit committee and internal audit, is necessary to establish control environment conducive to compliance. Regular leadership oversight to ensure compliance is also needed.

The following commitments were made by the provincial leadership:

- Centralised training for all officials involved in the SCM process to understand the relevant policies and procedures.
- 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.
- The compiling of quarterly or half-year financial statements (including full disclosure notes) will be enforced.
- Central investigation of all irregular and fruitless expenditure with report on recommendations on disciplinary actions required. The reports should be tabled in the legislature and accounting officers summoned to explain before the Provincial Public Accounts Committee (PPAC).
- Executive authorities should ensure that shareholders compacts/corporate plans are agreed with the accounting authorities of all public entities in their portfolios.

2.5 Outline of the way forward to improve audit outcomes

Evident from the analysis of the audit outcomes presented in this section of the report, are a number of areas that require focus and, in some instances, intervention to achieve clean administration. Such intensified focus and intervention are required principally from:

- accounting authorities, accounting officers, CFOs and auditee management (analysed in section 3)
- provincial executive leadership (analysed in section 4.1)
- national role players (analysed in section 4.2).

The AGSA's continuing initiatives to encourage clean administration are discussed in section 4.3 of this report, while emerging matters that require attention to prevent a negative impact on future audit outcomes are discussed in section 4.4.

SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS

3.1 Overview of key controls as drivers of the three facets of audit outcomes

The AGSA has identified three drivers for improved audit outcomes. Through interactions with auditees on audit outcomes over the past years, these drivers' influence on internal control was discussed. These categories have been used to formally document the results of quarterly key control visits by the AGSA to the provincial leadership.

These drivers (key controls) are categorised into the fundamental areas of internal control, namely:

- leadership
- financial and performance management
- governance.

Deficiencies in some or all of these drivers can be directly linked to:

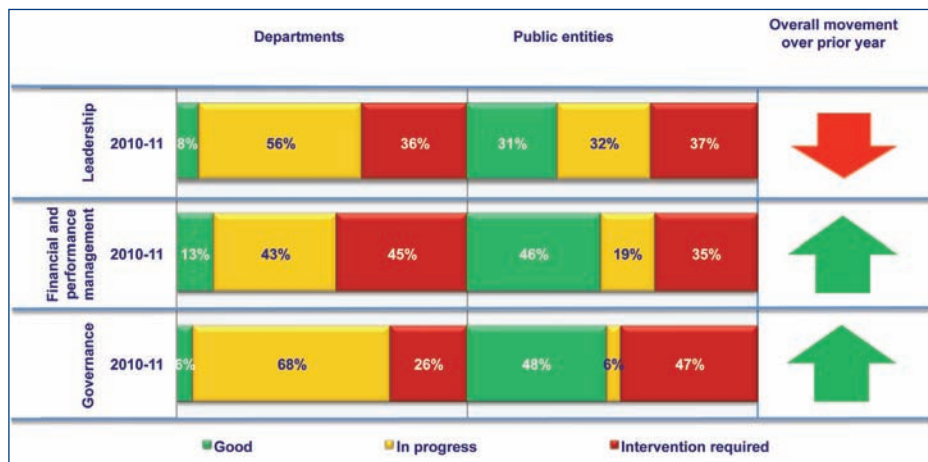
- audit opinions on the financial statements
- findings on predetermined objectives
- findings on compliance with laws and regulations.

Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. On the other hand, auditees that had regressed or received negative audit outcomes can attribute this to not implementing and monitoring these fundamentals of internal control.

Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit.

Sections 3.2 and 3.3 provide an assessment of HR management and IT management as specific drivers of audit outcomes. An overall assessment of progress made by departments and public entities in implementing key controls is depicted in the figure below.

Figure 20: Progress made in implementing key controls (all auditees)



This assessment illustrates a slight improvement at some departments; however, significant intervention is required, specifically at leadership level at the majority of entities and departments.

An assessment of these drivers over financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided in sections 2.2.9, 2.3.3 and 2.4.6, respectively.

3.2 Effective human resource management as specific driver of audit outcomes

Effective HR management is a key driver of all three facets of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and performance is monitored.

The AGSA's assessment of HR management focuses on the following areas:

- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions

This assessment was performed at departments in the previous year and was introduced at some public entities in the year under review.

3.2.1 Overall findings arising from the assessment of HR management

Figure 21 depicts the extent of weaknesses in each focus area for departments (with a comparison to the previous year), and figure 22 for public entities (without a comparison).

Figure 21: Identified HR management weaknesses – departments

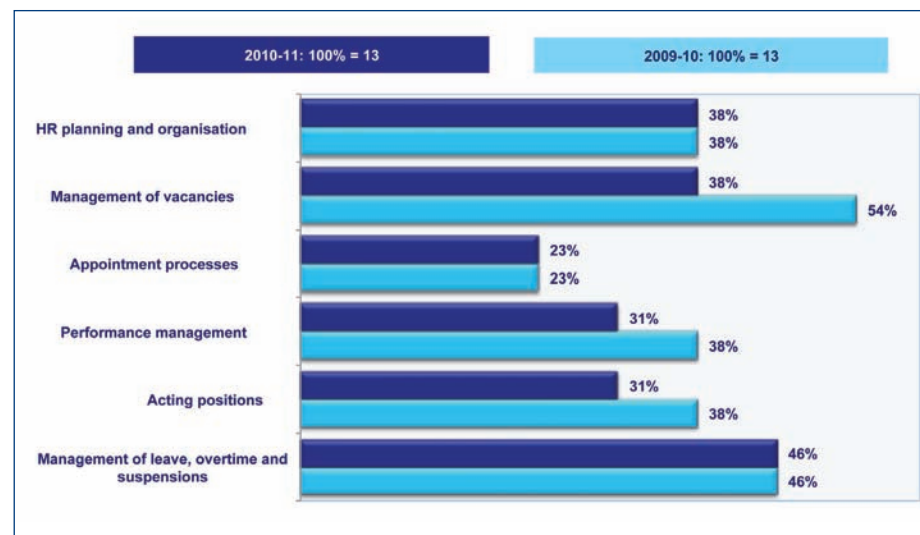
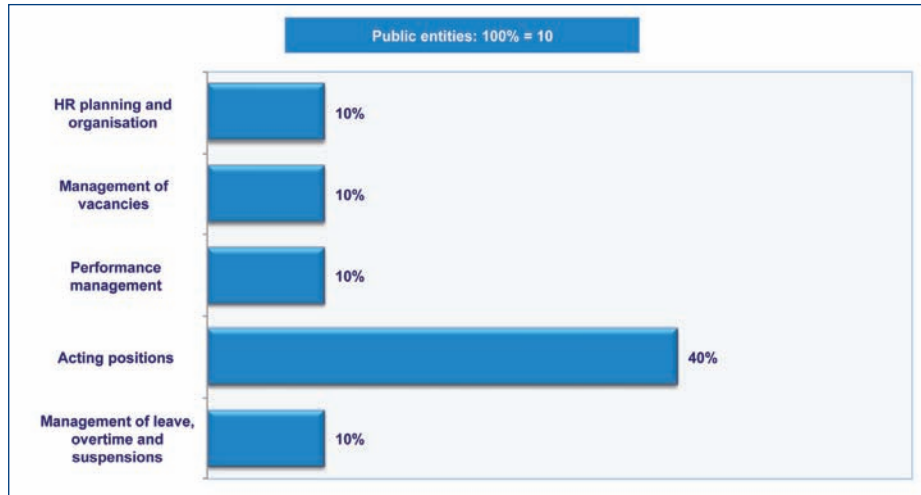




Figure 22: Identified HR management weaknesses – public entities



Prevalent findings from the AGSA's focus areas are summarised in table 12. Prior year statistics are given for departments only.

Table 12: Common findings from the AGSA's focus areas

Focus area	Summary of common findings	Departments		Public entities
		2010-11	2009-10	2010-11
HR planning and organisation	Job descriptions did not exist for each post or group of posts	15%	31%	0%
	Approved organisational structure not in place	15%	23%	0%
Management of vacancies	Senior management – vacancy rate increased from previous year	38%	54%	10%
	Overall vacancy rate increased from previous year	15%	38%	10%
Appointment processes	Verification process for new appointments did not always take place	8%	23%	0%
	Appointments made in posts that had not been approved and/or funded	1%	8%	0%

Focus area	Summary of common findings	Departments		Public entities
		2010-11	2009-10	2010-11
Performance management	Senior managers did not sign performance agreements for current performance period	31%	38%	10%
	Performance bonuses paid to employees not entitled to such bonuses	8%	8%	0%
Acting positions	Senior managers acted in positions for more than six months	15%	31%	40%
	Employees acted in positions for more than 12 months	23%	38%	10%
Management of leave, overtime and suspensions	Employees worked more than maximum hours overtime allowed	15%	38%	0%
	Medical certificates not submitted for sick leave or incapacity leave	23%	15%	0%

3.2.2 Impact of staff vacancies on internal control

Positions should be promptly filled with staff that have and maintain a high level of competence to allow them to accomplish their assigned duties. These persons need to understand the importance of developing and implementing sound internal control.

Such control activities include a wide range of diverse tasks related to the three facets of audit outcomes, such as:

- maintaining sound financial management, the maintenance of adequate records and the preparation of financial statements
- setting of performance targets and indicators, monitoring, recording and validating performance against predetermined objectives, investigating variances from set targets and taking corrective action for deviations identified
- enforcing compliance by officials with laws and regulations and ensuring obligations imposed by legalisation on the organisation are timeously and fully discharged.

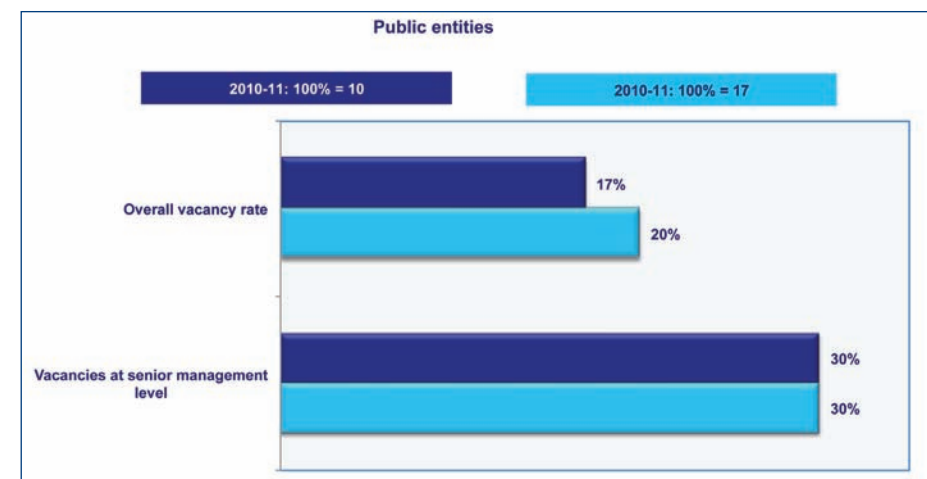
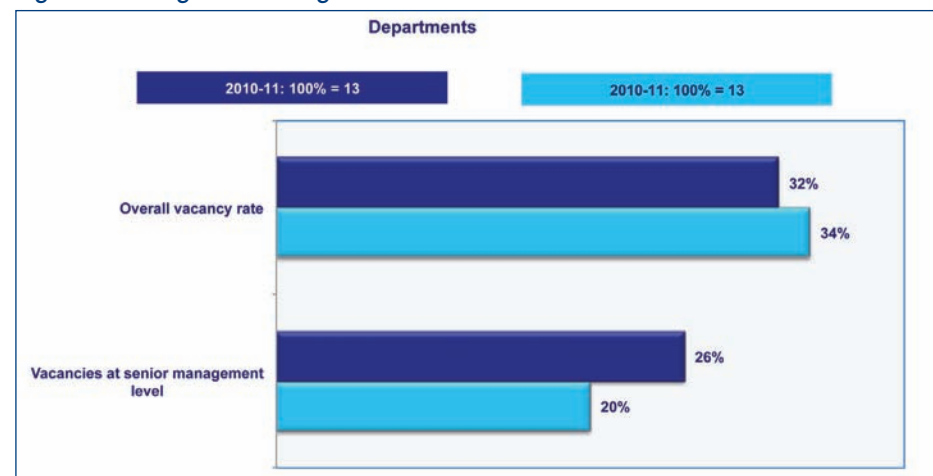
Such activities include, but are not limited to: • approvals • authorisations • verifications • reconciliations • performance reviews • maintenance of security •

creating and maintaining records and appropriate documentation. Control activities that may be neglected should key positions not be timeously filled with the requisite levels of qualifications and experience include the following:

- Top-level reviews of actual versus planned performance
- Reviews by management at the functional or activity level
- Controls over information processing
- Physical control over vulnerable assets
- Establishing and reviewing performance measures and indicators
- Segregating incompatible duties, including the initiation, processing and approval of transactions
- Proper execution of transactions
- Accurate and timely recording of transactions and events
- Access restrictions to, and accountability for, resources and records
- Maintaining appropriate documentation of transactions
- Enforcing compliance with policies, procedures and regulations
- Maintaining internal control

Progress by auditees since the audit of their 2009-10 financial statements in filling vacancies is depicted below. The vacancy rate depicted is an average rate based on the year-end vacancy rates at the auditees.

Figure 23: Progress in filling vacancies



3.2.3 Root causes of findings and way forward on HR management

In general, the level of provincial departments' compliance with the Public Service Regulations (PSR) is unsatisfactory. The departments face the following major challenges in achieving compliance with regulations:

- Compilation of compliant and relevant policy documents and procedure manuals to give effect to the regulations.
- Effective implementation of these regulations and policies by departmental employees.
- Consistent monitoring of compliance with these regulations and policies by management and timely correction of instances of non-compliance.

Of major concern is the high vacancy rate specifically on senior management level. These vacancy rates directly contributed to the audit outcomes, findings on financial management, predetermined objectives and compliance with laws and regulations. Without sufficient senior management leadership, guidance and monitoring will not take place.

The following commitments were made by the provincial leadership:

- Skills audit to be performed on CFOs and a minimum qualification framework will be considered.



- All senior management positions should be filled with skilled and competent staff by March 2012, with specific focus on the key positions of CFO and HoD.
- All policies and procedures will be reviewed to ensure that these comply with requirements and all staff appropriately trained.

3.3 Information technology management as specific driver of audit outcomes

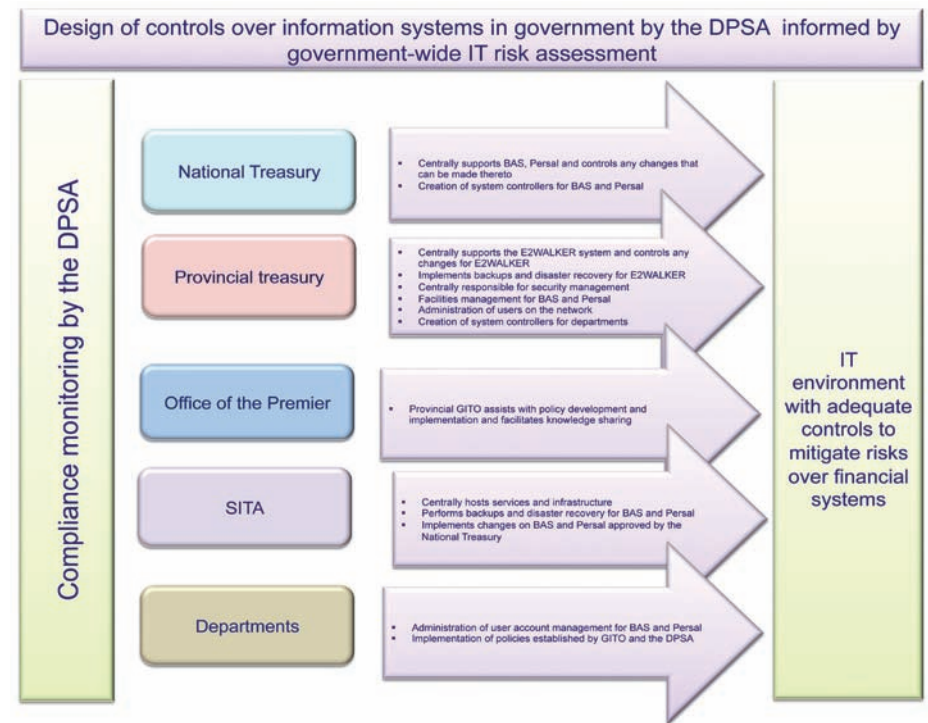
3.3.1 Computer systems in use and the management of information technology

Departments and public entities are heavily reliant on IT systems to perform their statutory financial management, reporting and administrative functions. Furthermore, these systems enable the automation of business processes and transaction processing, which contribute to effective internal control. The information processed and stored on IT systems is vital to the accuracy and reliability of the financial information used by management for planning, monitoring and reporting.

Departments

The 13 departments in the North West Province use transversal systems (e.g. the basic accounting system (BAS), personnel administration system (Persal) and E2WALKER to perform functions for managing financial information. Asset registers were maintained on excel spreadsheets as the asset module on BAS did not function as expected. The provincial legislature uses the Oracle application system to perform functions for the management of financial information.

Roles and responsibilities in terms of support and usage of systems to ensure a controlled environment are depicted below.



Public entities

Although the IT environment was only formally reviewed at two public entities, the IT environments at the remaining public entities were assessed during the key control assessment which is performed on a quarterly basis.

The two public entities that were audited in the North West Province use ACCPAC, Pastel and VIP for processing their financial and information systems. These are off-the-shelf packages which have been customised. Maintenance of these systems is performed by the vendors through the service level agreements (SLAs). The National Treasury and State Information Technology Agency (SITA) do not play a role in providing maintenance to the systems. Management of the public entity is responsible to design their own policies and procedures as they are not subjected to those designed by the DPSA.

It is against the roles and responsibilities outlined above that the following focus areas were set for audit of IT in the province:

- IT governance
- Security management
- User access control
- IT service continuity

The following focus areas are transversally performed and were audited at the National Treasury and SITA:

- Program change management
- Facilities management
- Data centre management

3.3.2 Implementation of information technology management

Information technology management for financial systems was evaluated at 13 departments and two public entities in the province. Key areas in the management of IT where deficiencies were identified are summarised in the table below.

Figure 24: Identified control deficiencies in management of information technology

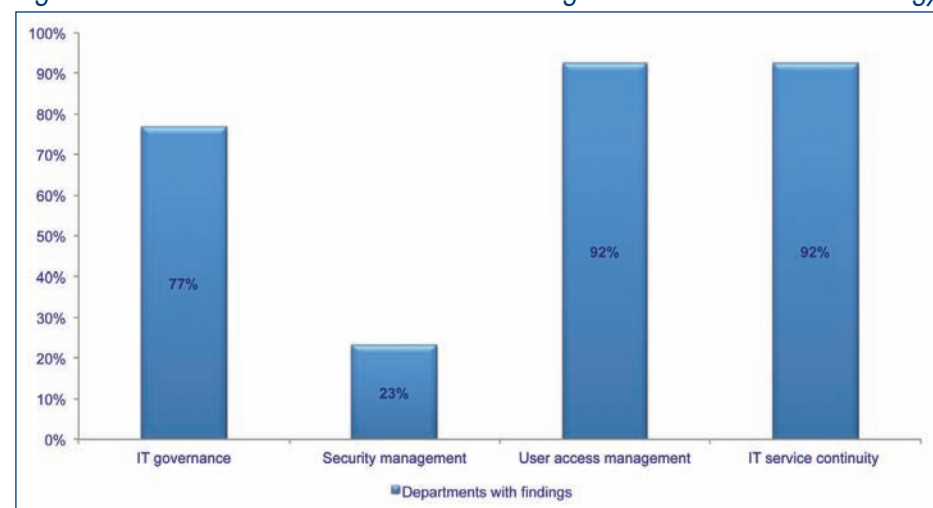


Table 13: Common findings from the AGSA's focus areas

Focus area	Outline of aspects audited	Incidence of control weaknesses identified	
		Departments	
		Number audited	% with findings
IT governance	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	13	77%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information	13	23%
User access management	Procedures through which the departments and public entities ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system	13	92%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable departments to recover or establish information system services in the event of a disaster	13	92%

Key issues within the North West Province can be summarised as follows:

IT governance

Ten (77%) departments and two (100%) public entities had findings pertaining to IT governance.

Departments

A provincial IT governance framework has not been implemented due to the delayed roll out of the government-wide IT governance framework by the DPSA. As a result, the following governance processes have not been implemented in the majority of the



departments, namely inadequate risk management processes, IT steering committees are not functioning as intended, IT strategic plan not being approved, responsibilities for the key IT positions not delegated and IT policies and procedures not formally established.

For the two departments where no IT governance findings were raised, adequate IT governance processes such as IT planning that was part of the overall business planning, adequate risk management processes and delegation of key IT positions were implemented, although there was no formal IT governance framework in place.

Public entities

The two public entities audited did not have an IT governance framework in place and as a result the following governance processes were not implemented, namely IT strategic plan was not approved, service level agreements were not formalised and monitored, IT policies and procedures were not established, inadequate risk management processes and duties of key personnel were not delegated.

Security management

Three (23%) departments and two (100%) public entities had findings regarding security management.

Departments

The provincial treasury, which is centrally responsible for security management, had not designed formal IT security policies and had been using informal controls that were inadequate to protect the financial systems. This resulted in the inadequate security parameter settings, such as inadequate password settings, lack of review of audit trails and no network monitoring tools.

Public entities

The public entities did not have security standard guidelines, which led to the public entities having inadequacies such as password settings. Furthermore, vendors' access to the application system's databases was not monitored.

User access management

The 12 (92%) departments and two (100%) public entities had findings pertaining to user access management.

Departments

Although at all departments procedures for user account management were in place, they were not approved. Furthermore, the review and monitoring of system control activities and users' access rights were omitted and therefore all departments did not perform these activities. Some users could have been granted incorrect access as the documentation was not completed fully. However, at 8% of departments user access management controls were adequately designed and implemented.

Public entities

The two public entities did not have formal user access management policies, however, because of the small size of the entities and the number of users on the application system, this is not considered to be a high risk.

IT service continuity

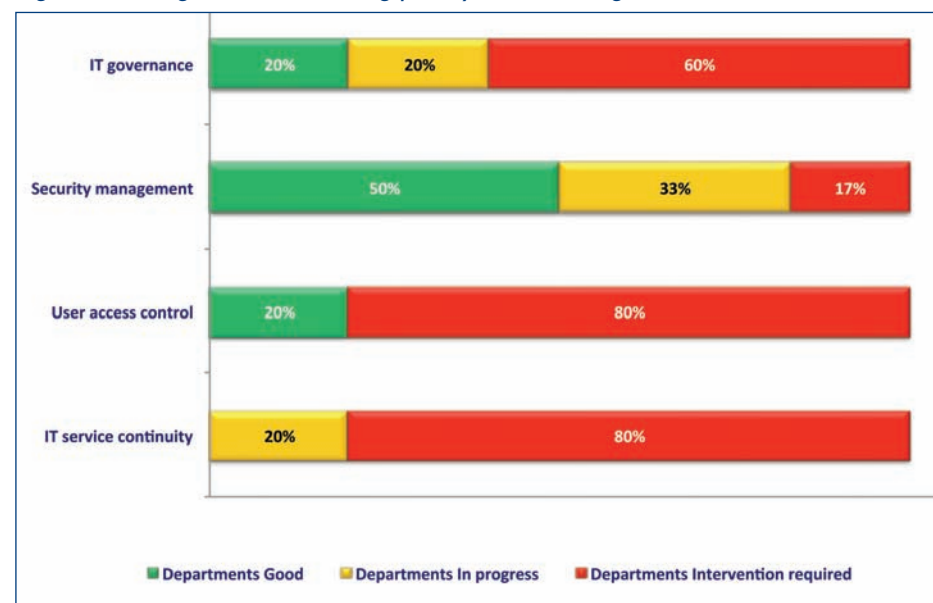
Ninety-two per cent (12) departments and 100% (two) public entities had findings pertaining to IT service continuity.

Business continuity plans (BCPs) had not been established and disaster recovery plans (DRPs) were inadequate to ensure that systems would be available in the event of a disaster at departments and public entities.

Departments

Some of the audit focus areas were also assessed in the 2009-10 financial year. The following figure depicts progress made by departments in addressing the issues raised.

Figure 25: Progress in addressing prior year IT findings



The follow up on progress was performed only at the five departments that were audited in the period 2009-2010. There has been some progress in addressing previous year's findings by management as some of the management commitments have been partially implemented, although management's attention is still required to ensure that commitments are addressed fully. In most areas management has designed the controls; however, they are inadequately implemented.

- IT governance – Management's intervention is required at four departments that had repeat findings that had not been addressed by management. One department had drafted IT governance frameworks and processes, such as IT steering committees, strategic plans and risk management processes although these had not been approved.
- Security management – Half the departments had drafted and implemented IT security policies pending the approval and rollout of the government-wide IT security framework by the DPSA. Thirty-three per cent of departments had implemented good IT security controls using informally designed controls, while 17% of departments had repeat findings that had not been addressed by

management. The provincial treasury should develop baseline system security settings and network security policies for implementation by departments.

- User account management – 80% of departments had repeat findings that had not been addressed by management. Clear roles and responsibilities should be documented and agreed upon between SITA, National Treasury, provincial treasury, Office of the Premier and departments. This will allow departments to understand that they are responsible for user account management for BAS and Persal and therefore they should document user account management policies and procedures and adhere to them.
- IT service continuity – 80% of departments had repeat findings that had not been addressed by management. The Office of the Premier and GITO's should provide guidance in the development of business continuity plans and disaster recovery plans.

3.3.3 Root causes of findings and the way forward on information technology management

The overall root cause is the lack of clear roles and responsibilities between the provincial treasury and departments.

Departments

- IT governance – The key root cause is the absence of an IT governance framework that has not been rolled out by the DPSA.
- Security management – The key root cause is lack of security standard guidelines that need to be developed by the provincial treasury.
- User account management – The key root cause is the lack of clear roles and responsibilities between the provincial treasury and departments.
- IT service continuity – The key root cause is the lack of clear roles and responsibilities between the provincial treasury and departments.

Public entities

- IT governance – The key root cause is the absence of an IT governance framework as executive authorities had not delegated the design and implementation of IT governance framework at these entities.
- Security management – The key root cause is lack of security standard guidelines.



- User account management – The key root cause is that the public entities were small and therefore they had fewer users on the application system.
- IT service continuity – The key root cause is the shortage of funds and IT was not a priority.

The following actions need to be taken to address the issues raised:

Departments

- The Office of the Premier should consult with the DPSA to ensure alignment of the draft provincial IT governance framework with the government-wide best practices.
- Provincial internal audit should be more involved with tracking the progress with regard to implementation of IT management commitments, proactively and continuously.
- Clear roles and responsibilities should be documented and agreed upon between the provincial treasury, Office of the Premier and departments.

Public entities

- Public entities should establish a forum that will facilitate the knowledge sharing with regard to implementation of IT controls.
- Internal auditors within public entities should track management's commitments.
- Chief executive officers should be sensitised to IT issues as they are ultimately responsible for the public entities.

Management has committed to the following actions to ensure that findings raised within IT environment are addressed:

Departments

- IT governance – While awaiting the roll-out of IT governance framework by the DPSA, departments will develop IT strategic plans, establish required IT committees, monitor SLAs and ensure that adequate risk management policies are implemented.
- Security management – Security standard guidelines will be established, implemented and adhered to.
- User account management – User account management policies will be updated and formalised.
- IT service continuity – The Office of the Premier will consult with the DPSA/national GITO to assist with developing business continuity plans.

Public entities

- IT governance – Management has committed to develop IT strategic plans, establish required IT committees, monitor SLAs and ensure adequate risk management policies are implemented.
- Security management – Management has committed to develop security standard guidelines and ensure adherence thereto. Furthermore, security policies from the provincial treasury will be tailored by departments to suit their environments for implementation.
- User account management – Management has committed to update and formalise user account management policies.
- IT service continuity – Management has committed to develop, update and implement BCPs and DRPs.

3.3.4 Overall assessment of the state of IT management in terms of design at national level in relation to the audit results

Overall IT controls across the North West Province have not been adequately designed by management resulting in the findings raised across all focus areas audited. The main concern noted in the North West Province is that there were no clear defined roles and responsibilities between the provincial treasury and departments. This resulted in some of the IT activities not being performed as departments were of the opinion that the provincial treasury was responsible for all IT activities in the province whereas the provincial treasury is responsible for security management, disaster recovery plans, facilities and environmental controls for the transversal systems BAS and Persal. Furthermore, progress in implementing the commitments from the previous year was minimal, especially at the provincial treasury (Department of Finance), because the chief director and three directors resigned during the year. Furthermore, there was a shortage of skilled staff within the department and therefore the staff that were available were concentrating on running day-to-day operations.

SECTION 4: INITIATIVES AND COMMITMENTS BY KEY PROVINCIAL AND NATIONAL ROLE PLAYERS

4.1 The function of provincial role players in audit outcomes

4.1.1 Assessment of monitoring capacity and focus areas of provincial role players at the time of the audit

Since August 2011 the AGSA has engaged provincial role players on seven specific focus areas where their contributions to improve audit outcomes can be further enhanced. An assessment of the monitoring capacity and effectiveness of the role players in relation to these focus areas at the time of the audit is depicted in the table below.

Table 14: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Oversight Accountability	Provincial executive leadership (Premier and MEC Finance)							
	Coordinated Provincial oversight (Provincial standing committees and provincial speaker's forum)							
	Accounting officers, accounting authorities, CFOs and senior officials							
	Administrative accountability							

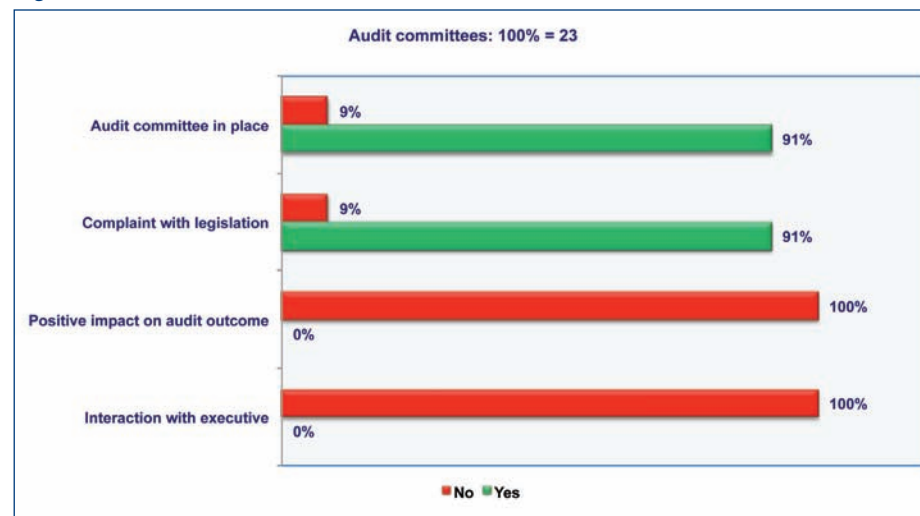
■ Good progress
 ■ In progress
 ■ Intervention required

Note: Responsibility for these focus areas varies amongst the role players

4.1.2 Audit committees

The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision-making and accountability. Should the audit committee fail to execute this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable. Figure 26 below depicts the current status and effectiveness of audit committees within the North West provincial administration, while individual status per auditee is indicated in annexure 7 to this report.

Figure 26: Effectiveness of the audit committees



All 13 departments and eight of the public entities had audit committees in place for the period under review, as prescribed by the PFMA and related treasury regulations; while 21 (91%) of the audit committees complied with the letter of the law. However, there is a very distinct difference between being compliant and being effective. This is evident in that at none of the auditees the audit committees had a direct positive impact on the audit outcomes of their respective auditees.



The natural and most effective means to address this matter at provincial departments is for the audit committees to have frequent interaction with the respective portfolio executives (MECs) as well as with the legislature's portfolio committees. Despite legislation making provision for interaction by audit committees with the executive and provincial treasury, there was no interaction between the audit committees and respective MECs.

4.1.3 Commitments and actions by provincial executive leadership and oversight bodies

Responses and commitments emanating from the September/October 2011 interactions and roadshows are outlined in table 15.

Table 15: Responses and commitments by the provincial executive leadership

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans							Implemented?
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	
Provincial executive leadership									
1	Vacant HoD and CFO positions to be given high priority/financial management units should be adequately staffed with the appropriate skills.								
2	Monthly feedback will be provided by HoDs to MECs on progress of implementation of key controls – to oversee the prompt implementation of key controls that would enhance the control environment.								
3	HoDs and MECs to regularly liaise with the AGSA to improve relationships and make themselves available to attend meetings on a more regular basis.								

Outline of role player commitment/ proposed action plans October 2011	Focus areas targeted by commitments and action plans							Implemented?
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	
4	Governance structures will be reviewed – to establish whether shared services with regard to internal audit and the cluster audit committees are the best option for the province.							
5	Sustained leadership and oversight of approved action plans and their implementation are required throughout the year.							
6	Instil a culture of commitment and responsible leadership to clear previous qualification areas and ensure continuous monitoring of the financial environment and service delivery.							
7	The executive will report to the premier on steps to be taken in addressing the audit qualifications and monitoring of irregular expenditure.							
8	Attending to all information systems shortcomings.							
9	Clearly defined roles and responsibilities will be determined at each auditee for reporting against predetermined objectives. Dedicated monitoring units were established within each department that will be responsible for reviewing reported information on a quarterly basis.							
10	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 predetermined objectives.							

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans							Implemented?
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	
Provincial treasury									
11	Internal audit to monitor SCM processes on a regular basis.								
12	Intensive training on SCM processes to be rolled out to all departments and entities.								
13	Central investigation of all irregular and fruitless expenditure with report on recommendations on disciplinary actions required. The reports should be tabled in the legislature and accounting officers summoned to explain before the PPAC.								
14	Skills audit to be performed on CFOs and a minimum qualification framework will be considered.								
15	The provincial treasury to play a bigger role in assisting departments and entities in implementing and monitoring action plans to address audit findings.								
16	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.								
17	The compiling of monthly financial statements (including full disclosure notes) will be enforced.								
18	All policies and procedures will be reviewed to ensure that these comply with requirements and all staff are appropriately trained.								

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans							Implemented?
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	
Provincial public accounts committee									
19	Conduct hearings and recommend on prior year unauthorised expenditure of departments.								

Post-audit commitment/initiative (new)
 Prior year commitment/initiative not yet implemented
 Commitment/initiative from prior year
 Commitment/initiative in progress

4.1.4 Status of PAC oversight resolutions

At year-end, none of the PAC resolutions out of a total of 21 had been resolved and all were in progress. The provincial treasury assists the PAC in the evaluation of replies submitted by departments and public entities. The resolutions listed as being outstanding in table 16 are based on the evaluation by the provincial treasury on feedback received from departments and public entities. The efficient and effective implementation of resolutions has not been evaluated and will only be followed up during the following audit cycle.

Table 16: Status of implementation of PAC resolutions

Auditee	Total number of resolutions	Number of resolutions resolved	Number of resolutions in progress	Number of resolutions not actioned
Departments				
Health	5		5	
Public Works, Roads and Transport	6		6	
Office of the Premier	10		10	
Total	21	0	21	0

All of the resolutions are directly or indirectly related to financial management, predetermined objective reporting or compliance with laws and regulations. It should however be noted that the majority of departments and public entities have,



at the date of this report, not appeared before the PAC for the 2009-10 financial year as the meetings scheduled were postponed or cancelled as departments and entities were not properly prepared for these hearings. As a result there has been no consequence or accountability for those departments that did not implement resolutions or failed to address prior year audit findings.

4.1.5 Outline of recommended focus areas of role players

It is apparent that leadership remains a concern for the public sector in the North West Province. The main area that needs to be addressed is that the executive leadership needs to exercise appropriate oversight over financial reporting, performance management, compliance and the implementation of HR management to ensure that adequate and sufficiently skilled staff are employed. Attention must also be given to ensure that appropriate action plans are developed and implemented to address prior year audit findings. Repeat IT findings must be addressed and IT governance given priority.

Basic controls designed to ensure an environment of sound financial management is still lacking at some departments and entities. Proper record keeping and timely and accurate reporting on both financial and performance-related matters must be addressed. Without timely and accurate information being available to senior management during the course of the year, corrective action and monitoring cannot take place. A culture of discipline and compliance should be nurtured to reduce the risk of non-compliance, particularly in areas of SCM. Implementation of proper systems, in particular as it relates to reporting against predetermined objectives and disclosure notes in the financial statements, is still an area of concern and needs to be addressed if a sustainable clean administration is to be achieved.

Proper risk assessments remain a concern in the public sector. Although risk assessments are performed, they do not specifically and clearly address those risks relating to the financial statements, report on predetermined objectives and compliance with laws and regulations, and specifically SCM requirements. Risk assessments should be used as pre-emptive tools by the auditees. Most departments and entities have internal audit and audit committees, however, internal audit under the appropriate guidance and leadership of the audit committees needs to move towards implementation of best practices and not only focus on compliance with the requirements of the PFMA and Treasury Regulations. Internal audit is in the perfect

position to monitor and recommend actions and improvements during the year to the accounting officers/accounting authorities and to the executive authorities through the audit committee.

4.2 Initiatives taken by the AGSA to encourage clean administration

The initiatives taken by the AGSA to encourage clean administration include the following:

- AGSA provincial leadership to interact at least quarterly with the provincial leadership including the premier, speaker and the executive committee (Exco).
- Quarterly visits to executive authorities to review and give feedback on implementation of key controls and commitments made to address prior year findings.
- Regular interactions between management of departments and public entities and senior managers and managers of the AGSA to make recommendations and assess action plans.
- AGSA provincial leadership to improve support to portfolio committees of the legislature and attendance of their meetings.

4.3 Emerging matters that require attention to prevent a negative impact on future audit outcomes

This section deals with matters that did not have an impact in the current year but have the potential to result in misstatements in the ensuing year if they do not receive attention.

Accounting and compliance matters

- Inventory will be moved from the annexure to disclosure in the financial statements in the 2011-12 financial year. Departments that do not have the appropriate systems and internal controls in place for this accounting change may receive additional qualifications.
- The annual financial statements of the provincial legislature were not prepared in terms of GRAP as prescribed by the North West Provincial Legislature Management Act, 2007 (Act No. 3 of 2007). GRAP and the full accrual basis will be phased in over three years as from 2012-13 as per the detailed transitional provisions signed by the speaker. The act was amended and the executing authority can determine the starting date of the implementation. Failure to prepare for this change may result in modified audit opinions being issued.

Susceptibility of assets or liabilities to loss or fraud

- Proper control systems have not been implemented for the safeguarding and maintenance of assets at the majority of departments.
- Limitations placed on the audit of awards made in terms of the SCM policies and the high rate of non-compliance indicate the susceptibility for fraud.
- Officials' continued involvement with private businesses, non-declaration of these interests and non-approval for this work are of concern.

SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE SCM AUDIT

The audits conducted by the AGSA at departments (including Parliament and legislatures), trading entities, constitutional institutions and listed public entities included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

This assessment was performed at all of the 13 departments and 10 public entities where the audits were finalised by 30 September 2011.

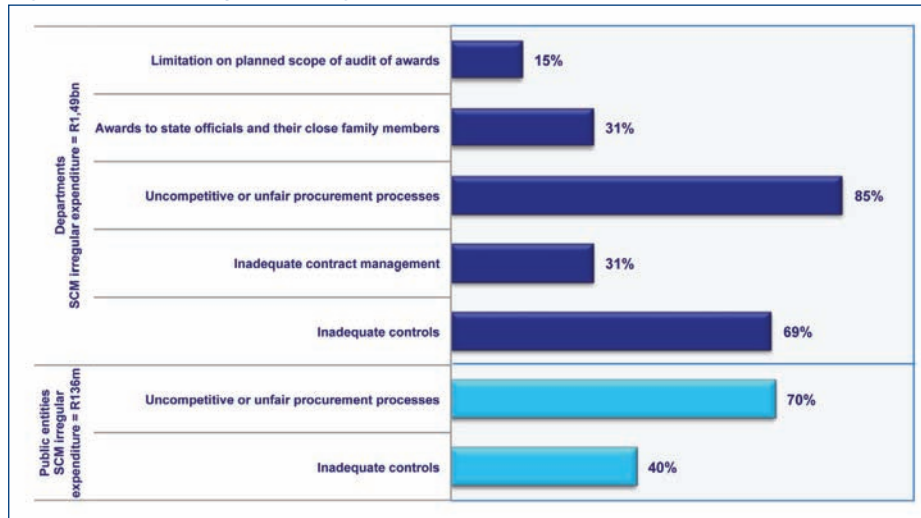
Evident from the analysis of irregular expenditure (section 2.4.3), R1,62 billion (97%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Seventy-seven per cent of the irregular expenditure was identified during the audit process. At the majority of the auditees, the incomplete identification of SCM irregular expenditure was as a result of the following:

- Lack of understanding of applicable legislation.
- SCM officials not aware of SCM policies or do not understand roles and responsibilities.
- Disregard of SCM policies and requirements.

Figure 27 presents a summary of SCM findings. Details of prevalent findings are provided under the headings as depicted in figure 27. The percentages are based on the number of auditees where the findings were identified. The SCM findings are included in annexure 5.



Figure 27: Summary of findings on SCM



5.1 Limitations on planned scope of audit of awards

Sufficient appropriate audit evidence was not provided at all the auditees that support awards made in terms of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

Table 17: Limitations experienced

Auditee	Number of awards	Value of awards R'000	Reason for limitation
Departments			
Public Works, Roads and Transport	62	Unknown*	Due to the absence of a contract register, contract management and proper document management systems.
Education	4	242	Inadequate document management systems.
Total	66	Unknown	

* The value of the 62 contracts could not be determined due to the absence of a contract register and contract management system.

As a result of the limitations experienced, the findings reported in the remainder of this section might not reflect the true extent of irregularities and SCM weaknesses at the auditees where limitations were identified.

5.2 Awards to state officials

The audit included an assessment of the interests of officials of the auditee and officials of other state institutions in suppliers to the auditee.

Legislation does not prohibit the awarding of contracts to persons in the service of the state; however, legislation ensures that conflict of interest does not result by preventing the unfair awarding of contracts or acceptance of unfavourable price quotations by requiring 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 identify non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

Table 18 depicts the audit findings for the auditees where interests were identified.

Table 18: Awards to officials in the service of the auditee

Auditee	Awards made to				Non-compliance with regard to awards made			
	Officials		Close family members of officials		Official did not declare interest		Other remunerative work not approved	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments								
Education	36	3 285	1	Limitation*	36	3 285	36	3 285
Health	17	8 634					17	8 634
Public Works, Roads and Transport	3	Limitation*					3	Limitation*
Department of Public Safety	7	449					7	449
Total	4	12 368	1	Limitation*	1	3 285	4	12 368
Percentage of auditees tested	17%		4%		4%		17%	

* The value of the four awards could not be provided for audit purposes

5.3 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective emanates from the Constitution. Legislation, notably the PFMA and Treasury Regulations, prescribes the processes and rules to be followed by departments and public entities in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of providing preference to the previously disadvantaged in the allocation of work by the public sector.

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 processes do not favour some suppliers above others. It is important that the prescribed processes are followed in order to ensure that the selected supplier meets the requirements, has the capacity and ability to deliver the goods and services, and that procurement is done at competitive and economical prices.

The procurement processes of 441 contracts (R2,2 billion) and 1 064 quotations (R574,5 million) were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in table 19.

Table 19: Findings on uncompetitive or unfair procurement processes

Auditee	Competitive bids not invited		Three price quotations not obtained		Procurement from suppliers without SARS tax clearance		No or inadequate prospective supplier list for inviting price quotations		Preference point system not applied or points incorrectly calculated		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments												
Human Settlements							1	#				
Local Government and Traditional Affairs	2	2 866										
Public Safety			31	3 494					31	3 380	1	2 330

Auditee	Competitive bids not invited		Three price quotations not obtained		Procurement from suppliers without SARS tax clearance		No or inadequate prospective supplier list for inviting price quotations		Preference point system not applied or points incorrectly calculated		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Economic Development and Tourism			9	653								
Education	5	3 073	1	29	6	3 917	1	#	38	12 324	59	71 547
Provincial Treasury											10	35 096
Health	8	310 586										
Office of the Premier	3	10 537										
Provincial Legislature	8	7 461										
Public Works, Roads & Transport	36	Limitation*	24	9 019	36	Limitation*			36	Limitation*	36	Limitation*
Social Development			30	3 268								
Public entities												
Atteridgeville Bus Services (Pty) Ltd	1	20 642										
Invest North West					1	199						
Kgama Wildlife Operations (Pty) Ltd			3	95								
Mafikeng Industrial Development Zone (Pty) Ltd			30	2 182								
Mmabana Arts, Culture and Sport Foundation			32	4 598			1	#			32	4 598
North West Star (Pty) Ltd	1	89 566										
Total	64	444 731	160	23 338	43	4 116	3	#	105	15 705	138	113 571
Percentage of auditees tested	35%		35%		13%		13%		13%		22%	

* The value of the 36 awards could not be established due to lack of a proper contract management system

No value is attached to this finding



Further details on the legislation not complied with are as follows:

Competitive bids not invited – A competitive bidding process should be followed for the procurement of goods and services above a prescribed value. Competitive bids were not always invited and the deviations were not approved by a properly delegated official or committee or reasons for deviations were not justifiable.

Three price quotations not invited – A price quotation process should be followed for the procurement of goods and services of a lower value. Instances were identified of deviations being approved for obtaining less than the required number of price quotations even when it was not impractical or impossible to obtain the required number of quotations.

Procurement from suppliers without SARS tax clearance – Awards were made to suppliers who failed to provide written proof from SARS that their tax matters were in order.

No or inadequate prospective supplier list for inviting price quotations – In order to provide prospective suppliers with an opportunity to take part in this process, a prospective supplier list should be kept by the auditee and administered in a fair and competitive manner. Some auditees did not have a prospective supplier list or did not administer the list according to the requirements.

Preference point system not applied or points incorrectly calculated – The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).

Other major findings include the following:

- Total payments under quotations exceeded original quoted amount
- No declaration of interest submitted (e.g. SBD4)
- Awards made to contractors not registered with CIDB
- Bids advertised for shorter period – no approval of deviation

5.4 Inadequate contract management

Shortcomings in the manner that contracts are managed result in delays, wastage and fruitless expenditure. These have a negative impact on service delivery. Findings on contract management are summarised in table 20.

Table 20: Findings on contract management

Auditee	Contracts extended or renewed to circumvent competitive bidding processes		Inadequate contract performance measures and monitoring		Payments made in excess of approved contract price		No action taken against non-performing contractors		No signed contract/ contract not signed by a delegated official		Contracts amended or extended without approval by a delegated official	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments												
Education			1	#	5	7 470						
Provincial Legislature	3	2 819										
Public Works, Roads & Transport	36	Limitation*	1	#			36	Limitation*	36	Limitation*	36	Limitation*
Social Development	5	5 823										
Total	44	8 642	2	#	5	7 470	36		36		36	
Percentage of auditees tested	13%		9%		4%		4%		4%		4%	

* The value of the 36 awards could not be established due to lack of a proper contract management system

No value is attached to this finding

Further details on the findings are as follows:

- Contracts extended or renewed to circumvent competitive bidding processes – It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.
- Inadequate contract performance measures and monitoring – Measures applied in monitoring the performance of contractors were not always sufficient to ensure that contractors delivered in accordance with the contract.
- Payments made in excess of approved contract price – A contract prescribes the prices, terms and maximum values, which can be increased through approved extensions and variations. Instances were identified of payments being made to suppliers in excess of these approved contract prices.
- No action taken against non-performing contractors – Strong and decisive

actions were not always taken against contractors who did not deliver as per their contract requirements.

- No signed contract/contract not signed by a delegated official – Goods and services were received and payment was made to suppliers without written, signed contracts.
- Contracts amended or extended without approval by a delegated official – Instances were identified where contracts were amended or extended in the favour of the supplier without the approval of a properly delegated official or committee.

5.5 Inadequate SCM controls

Findings on deficiencies in fundamental SCM controls are summarised in the table below.

Table 21: Findings on SCM controls

Auditee	SCM officials not aware of SCM policies/ do not understand roles and responsibilities	Inadequate controls to ensure interest is declared	SCM policies/ procedures in conflict with applicable legislation	Risk assessment did not address SCM	Internal audit did not evaluate SCM controls/ processes and compliance	Other controls
Departments						
Agriculture, Conservation, Environment and Rural Development						
Local Government and Traditional Affairs						
Public Safety						
Economic Development and Tourism						
Education						
Health						
Office of the Premier						
Provincial legislature						

Auditee	SCM officials not aware of SCM policies/ do not understand roles and responsibilities	Inadequate controls to ensure interest is declared	SCM policies/ procedures in conflict with applicable legislation	Risk assessment did not address SCM	Internal audit did not evaluate SCM controls/ processes and compliance	Other controls
Public Works, Roads and Transport						
Public entities						
Atteridgeville Bus Services (Pty) Ltd						
Mafikeng Industrial Development Zone (Pty) Ltd						
Mmabana Arts, Culture and Sport Foundation						
North West Star (Pty) Ltd						
Total	6	5	2	2	2	3
Percentage of auditees tested	26%	22%	9%	9%	9%	13%

Further detail on the findings is as follows:

- SCM officials not aware of SCM policies/do not understand roles and responsibilities – Officials involved in the implementation of the SCM policy were not always aware of, or did not understand, the SCM policy and their roles and responsibilities in connection with the SCM system.
- Inadequate controls to ensure interests are declared – The controls at some auditees were inadequate in that officials failed to declare whether they or their close family members, partners and associates had interests in suppliers or in contracts to be awarded. Furthermore, they failed to withdraw from the process involved in awarding such contracts.
- SCM policies/procedures contradicting with applicable legislation – Some SCM policies and procedures were not in line with the prescripts of applicable laws and regulations. This resulted in policies contradicting with legislation.
- Risk assessment did not address SCM – SCM is generally an area of considerable risk at most auditees. However, risks were not identified during risk



assessments performed at these auditees.

- Internal audit did not evaluate SCM controls/processes and compliance – Even though SCM is generally a high-risk area and directly affects the objectives of most auditees, the internal audit sections at some auditees did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM.
- Other major control findings include the following:
- No SCM policy implemented.
- No controls to monitor performance of contractors.
- SCM policies/procedures/fraud prevention plans did not provide for measures to prevent the abuse of SCM system.

5.6 Overall conclusion on SCM matters

The nature and extent of the findings on SCM matters indicate that there is still a high level of non-compliance at the departments and entities. Officials' lack of understanding or disregard of the SCM policies and requirements should be a major concern to the leadership of these entities. The lack of sufficient documentation kept in an organised and accessible manner is another main concern. The fact is that many contracts in the provincial government sphere are of significant value and the findings accumulate to millions. The possibility of fraud or other irregularities in these awards highlight the need for urgent action to address these matters.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

In terms of section 19 of the PFMA, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of departments, public entities and the provincial legislature. To date the provincial treasury has not yet been able to prepare the consolidated financial statements. The provincial treasury continues to prepare separate financial statements which aggregate the financial results of the departments and the provincial legislature, and another set which aggregates the financial results of the public entities. This practice does not conform to the PFMA and the provincial treasury is urged to ensure that processes are put in place to rectify such non-compliance.

Given the above, the AGSA is unable to issue an auditor's report on the fair presentation of the consolidated financial statements but instead separate factual finding reports are issued for the departments and the legislature, and for the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in table 22.

Table 22: Status of the audit of consolidated financial statements

Province	Departments – audits completed		Public entities – audits completed	
	2010-11	2009-10	2010-11	2009-10
	Y / N	Y / N	Y / N	Y / N
North West	N	N	N	N

The consolidated financial statements of departments and public entities for the 2010-11 and 2009-10 financial years are outstanding. This is mainly due to the non-submission of financial statements of the revenue fund for the current and previous financial years.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments or public entities to table in the National Assembly an annual report, annual financial statements and auditor's report relating to the financial statements. Such reports must be tabled within one month of the auditor's report having been received by the executive authorities.

A summary of the tabling of annual reports is provided in table 23.

Table 23: Annual reports tabled by departments, provincial entities and other entities

Auditee type	Percentage of reports tabled at 30 Sept 2011	
	2010-11	2009-10
Departments	92%	100%
Public entities	40%	65%
Provincial consolidation	0%	0%
Total*	23	30

* This excludes the one department and 10 public entities (2009-10: 4) where no audit reports have been issued due to non- or late submission of financial statements.

Details of the annual reports not tabled are listed in the table 24.

Table 24: Annual reports not tabled

Auditee	Reasons	Expected tabling date
Departments		
Sports, Arts and Culture – NW	Financial statements of trading entities were submitted late.	28-Feb-12
Public entities		
North West Transport Investments (Pty) Ltd	Internal dispute at the auditee resulted in annual report not being completed.	28-Feb-12
Atteridgeville Bus Services (Pty) Ltd	Internal dispute at the auditee resulted in annual report not being completed.	28-Feb-12
North West Star (Pty) Ltd	Internal dispute at the auditee resulted in annual report not being completed.	28-Feb-12
North West Directorate of Entrepreneurial Development in Natural Resources	Annual report not tabled by department.	6-Dec-12
Kgama Wildlife Operations (Pty) Ltd	All entities in group did not submit AFS.	Unknown
Mmabana Arts, Culture & Sport Foundation	Not submitted to legislature in time for tabling. Will be tabled with the Department of Sport.	28-Feb-12



CONCLUSION

Although most of the departments and entities have failed to move towards a clean administration during the 2010-11 financial year, it is very clear that such route had been clearly laid out to the executive leadership in the province. Their continued oversight role and monitoring of action plans are critical to the implementation of drivers towards a clean administration.

If senior management at the departments and entities can promote a culture of leadership and performance within their respective departments and entities, become accountable for their actions, improve the systems of internal controls to a level where it is sustainable to produce timeous and accurate financial and performance information and get commitment from all the key role players involved, it will be possible to achieve a sustained clean administration by 2014.

ANNEXURES TO THE GENERAL REPORT

ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
Departments																			
1	Agriculture, Conservation, Environment and Rural Development	Financially unqualified with findings			Financially unqualified with findings														
2	Human Settlements	Qualified			Qualified														
3	Local Government and Traditional Affairs	Qualified			Qualified														
4	Public Safety	Qualified			Qualified														
5	Economic Development and Tourism	Financially unqualified with findings			Financially unqualified with findings														
6	Education	Qualified			Disclaimer														
7	Provincial Treasury	Financially unqualified with findings			Financially unqualified with findings														
8	Health	Financially unqualified with findings			Financially unqualified with findings														
9	Office of the Premier	Qualified			Qualified														
10	Provincial Legislature	Financially unqualified with findings			Qualified														
11	Provincial Revenue Fund	Audit not finalised at legislated date			Audit not finalised at legislated date														
12	Public Works, Roads & Transport	Disclaimer			Disclaimer														



Number	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
13	Social Development	Qualified			Qualified														
14	Sport, Arts and Culture	Financially unqualified with findings			Financially unqualified with findings														
Public entities																			
15	Agribank Creditors Settlement Trust	Audit not finalised at legislated date			Financially unqualified with findings														
16	Atteridgeville Bus Services (Pty) Ltd	Qualified			Financially unqualified with findings														
17	Dirapeng (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
18	Golden Leopard Resorts (Pty) Ltd	Audit not finalised at legislated date			Disclaimer														
19	Invest North West	Financially unqualified with findings			Financially unqualified with findings														
20	Kgama Wildlife Operations (Pty) Ltd	Financially unqualified with findings			Financially unqualified with findings														
21	Mafikeng Industrial Development Zone (Pty) Ltd	Qualified			Disclaimer														
22	Mmabana Arts, Culture and Sport Foundation	Qualified			Financially unqualified with findings														
23	North West Agricultural Bank	Audit not finalised at legislated date			Financially unqualified with findings														
24	North West Development Corporation (Pty) Ltd	Financially unqualified with findings			Financially unqualified with findings														
25	North West Directorate of Entrepreneurial Development in Natural Resources	Financially unqualified with findings			Financially unqualified with findings														
26	North West Gambling Board	Financially unqualified with findings			Financially unqualified with findings														

Number	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
27	Nort West Housing Corporation	Audit not finalised at legislated date			Audit not finalised at legislated date														
28	North West Parks and Tourism Board	Audit not finalised at legislated date			Financially unqualified with findings														
29	North West Provincial Council on Aids	Audit not finalised at legislated date			Financially unqualified with findings														
30	North West Provincial Arts & Cultural Council	Audit not finalised at legislated date			Disclaimer														
31	North West Star (Pty) Ltd	Qualified			Financially unqualified with findings														
32	North West Transport Investments (Pty) Ltd	Qualified			Financially unqualified with findings														
33	North West Youth Development Trust	Audit not finalised at legislated date			Qualified														
34	Signal Developments (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														



ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

Number	Auditee	Areas of non-compliance												
		Annual financial statements and annual report	Asset management	Audit committees	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management	HR management and compensation
Departments														
1	Agriculture, Conservation, Environment and Rural Development													
2	Human Settlements													
3	Local Government and Traditional Affairs													
4	Public Safety													
5	Economic Development and Tourism													
6	Education													
7	Provincial Treasury													
8	Health													
9	Office of the Premier													
10	Provincial Legislature													
11	Public Works, Roads & Transport													
12	Social Development													
13	Sport, Arts and Culture													
Public entities														
14	Atteridgeville Bus Services (Pty) Ltd													
15	Invest North West													
16	Kgama Wildlife Operations (Pty) Ltd													
17	Mafikeng Industrial Development Zone (Pty) Ltd													
18	Mmabana Arts, Culture and Sport Foundation													
19	North West Development Corporation (Pty) Ltd													
20	North West Directorate of Entrepreneurial Development in Natural Resources													
21	North West Gambling Board													
22	North West Star (Pty) Ltd													
23	North West Transport Investments (Pty) Ltd													

ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets

Number	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material under-spending of vote/ conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	Supply chain management related	Compensation of employees related	Other	Total				
Departments													
1	Agriculture, Conservation, Environment and Rural Development	11 414 000	0	0	11 414 000	23 939 000	0	0	23 939 000	211 000	4 070 000	0	
2	Human Settlements	0	0	0	0	0	0	0	0	13 000	0	0	
3	Local Government and Traditional Affairs	0	0	0	0	2 866 000	0	1 064 000	3 930 000	495 000	0	0	
4	Public Safety	13 468 000	0	0	13 468 000	70 411 344	21 482 022	2 309 229	94 202 595	86 000	0	0	
5	Economic Development and Tourism	0	0	0	0	3 104 288	0	0	3 104 288	205 325	0	0	
6	Education	0	0	0	0	140 741 000	0	0	140 741 000	1 144 000	0	0	
7	Provincial Treasury	0	0	0	0	0	0	0	0	454 927	0	0	
8	Health	37 919 000	0	0	37 919 000	949 486 535	0	0	949 486 535	246 000	0	0	
9	Office of the Premier	0	0	0	0	51 157 000	0	0	51 157 000	0	0	0	
10	Provincial Legislature	0	0	0	0	7 461 000	0	0	7 461 000	3 622 000	5 000	0	
11	Public Works, Roads & Transport	0	0	0	0	227 361 000	0	0	227 361 000	1 824 000	113 000	0	
12	Social Development	3 222 000	0	0	3 222 000	9 091 000	27 409 000	0	36 500 000	0	0	0	
13	Sport, Arts and Culture	0	0	0	0	8 366 000	0	0	8 366 000	0	0	0	
Public entities													
14	Atteridgeville Bus Services (Pty) Ltd	0	0	0	0	20 641 838	0	0	20 641 838	0	0	0	0
15	Invest North West	0	0	0	0	434 414	0	0	434 414 434 414	27 509	0	46 124	0
16	Kgama Wildlife Operations (Pty) Ltd	0	0	0	0	91 565	0	0	91 565	78 000	0	0	0
17	Mafikeng Industrial Development Zone (Pty) Ltd	0	0	0	0	18 668 434	0	0	18 668 434	496 348	0	0	0
18	Mmabana Arts, Culture and Sport Foundation	0	0	0	0	4 633 771	0	0	4 633 771	0	0	0	0



Number	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material under-spending of vote/ conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	Supply chain management related	Compensation of employees related	Other	Total				
19	North West Development Corporation (Pty) Ltd	0	0	0	0	0	2 319 000	0	2 319 000	65 700,10	0	0	0
20	North West Directorate of Entrepreneurial Development in Natural Resources	0	0	0	0	0	0	0	0	17 135	0	0	0
21	North West Gambling Board	0	0	0	0	0	0	0	0	16 940	0	0	0
22	North West Star (Pty) Ltd	0	0	0	0	89 566 380	0	0	89 566 380	0	0	0	0
23	North West Transport Investments (Pty) Ltd	0	0	0	0	0	0	0	0	0	0	0	0

ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

Legend					
Good		In progress		Intervention required	
Financial	F	Performance	P	Compliance	C

Number	Auditee	Leadership															Financial and performance															Governance																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
		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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
		F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Departments																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
1	Agriculture, Conservation, Environment and Rural Development																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						</



Number	Auditee	Leadership															Financial and performance															Governance											
		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		
		F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C						
18	Mmabana Arts, Culture and Sport Foundation																																										
19	North West Development Corporation (Pty) Ltd																																										
20	North West Directorate of Entrepreneurial Development in Natural Resources																																										
21	North West Gambling Board																																										
22	North West Star (Pty) Ltd																																										
23	North West Transport Investments (Pty) Ltd																																										

ANNEXURE 5: Auditees with key findings on supply chain management

Number	Auditee	Limitation on planned scope of audit of awards	Awards to state officials and their close family members	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls
Departments						
1	Agriculture, Conservation, Environment and Rural Development					
2	Human Settlements					
3	Local Government and Traditional Affairs					
4	Public Safety					
5	Economic Development and Tourism					
6	Education					
7	Provincial Treasury					
8	Health					
9	Office of the Premier					
10	Provincial Legislature					
11	Public Works, Roads & Transport					
12	Social Development					
13	Sport, Arts and Culture					
Public entities						
14	Atteridgeville Bus Services (Pty) Ltd					
15	Invest North West					
16	Kgama Wildlife Operations (Pty) Ltd					
17	Mafikeng Industrial Development Zone (Pty) Ltd					
18	Mmabana Arts, Culture and Sport Foundation					
19	North West Development Corporation (Pty) Ltd					
20	North West Directorate of Entrepreneurial Development in Natural Resources					
21	North West Gambling Board					
22	North West Star (Pty) Ltd					
23	North West Transport Investments (Pty) Ltd					



ANNEXURE 6: Auditees with key findings on IT focus areas

Number	Auditee	Focus Areas			
		IT governance	Security management	User access management	IT service continuity
Departments					
1	Agriculture, Conservation, Environment and Rural Development				
2	Human Settlements				
3	Local Government and Traditional Affairs				
4	Public Safety				
5	Economic Development and Tourism				
6	Education				
7	Provincial Treasury				
8	Health				
9	Office of the Premier				
10	Provincial Legislature				
11	Public Works, Roads & Transport				
12	Social Development				
13	Sport, Arts and Culture				
Public entites					
14	North West Gambling Board				
15	North West Parks & Tourism Board				

ANNEXURE 7: Effectiveness of audit committees

Number	Auditee	Audit committee in place	Compliant with legislation	Positive impact on audit outcome	Interaction with executive
Departments					
1	Agriculture, Conservation, Environment and Rural Development	Yes	Yes	No	No
2	Human Settlements	Yes	Yes	No	No
3	Local Government and Traditional Affairs	Yes	Yes	No	No
4	Public Safety	Yes	Yes	No	No
5	Economic Development and Tourism	Yes	Yes	No	No
6	Education	Yes	Yes	No	No
7	Provincial Treasury	Yes	Yes	No	No
8	Health	Yes	Yes	No	No
9	Office of the Premier	Yes	Yes	No	No
10	Provincial Legislature	Yes	Yes	No	No
11	Public Works, Roads & Transport	Yes	Yes	No	No
12	Social Development	Yes	Yes	No	No
13	Sport, Arts and Culture	Yes	Yes	No	No
Public entities					
14	Atteridgeville Bus Services (Pty) Ltd	Yes	Yes	No	No
15	Invest North West	Yes	Yes	No	No
16	Kgama Wildlife Operations (Pty) Ltd	Yes	Yes	No	No
17	Mafikeng Industrial Development Zone (Pty) Ltd	Yes	Yes	No	No
18	Mmabana Arts, Culture and Sport Foundation	No	No	No	No
19	North West Development Corporation (Pty) Ltd	Yes	Yes	No	No
20	North West Directorate of Entrepreneurial Development in Natural Resources	No	No	No	No
21	North West Gambling Board	Yes	Yes	No	No
22	North West Star (Pty) Ltd	Yes	Yes	No	No
23	North West Transport Investments (Pty) Ltd	Yes	Yes	No	No

PR 287/2011
ISBN: 978-0-621-40440-1