

Gautrain



2010-11

# GENERAL REPORT

on the provincial audit outcomes of **GAUTENG**



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



**100** YEARS  
1911-2011



GENERAL REPORT  
ON THE OUTCOMES OF THE  
**GAUTENG PROVINCIAL GOVERNMENT**  
2010-11

PR 276/2011  
ISBN: 978-0-621-40418-0



*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.*



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## SECTION 1: FOREWORD

It is with great pleasure that I present my 2010-11 general report to the Gauteng Provincial Legislature analysing the results of the audit outcomes of the provincial departments, including the provincial legislature and public entities for the financial year ended 31 March 2011.

Two departments and seven public entities received clean audit outcomes. Nine departments and 14 public entities were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations; one department and one public entity received qualified audit outcomes, which overall is a marginal improvement over the prior year. No departments or entities received either a disclaimer or an adverse audit opinion. Overall, 92% of the departments consisting of 64% of the provincial budget have avoided financial qualifications. Of these, the Department of Education attained an unqualified audit opinion with findings on predetermined objectives and non-compliance, whilst the Department of Health received a qualified audit report.

The legislature and the Office of the Premier achieved clean audit reports. These departments managed to improve and sustain the results through a focused effort by the executive authority and the accounting officer, particularly in the area of monthly financial disciplines, such as reconciliations. The drive to lead by example, mainly through the key controls engagement process, contributed significantly to this achievement. As a result of the provincial restructuring, the approval of organisational structures by the Department of Public Service and Administration (DPSA) is still a work in progress. This contributed to the lack of capacity. The lack of capacity contributed to the occurrence of non-compliance findings at the majority of departments, with the departments receiving unqualified opinions being impacted. These findings were in the areas of SCM, material misstatements and payment within 30 days. The Department of Health improved from disclaimer to qualified, as a result of the collective effort of the provincial executive committee, the remaining obstacles remain the inconsistent basic financial disciplines (e.g. reconciliations) in the area of assets and HR management. Although the provincial audit committee chairs meet regularly with the MEC of finance, there is a need for the audit committees to directly engage with the responsible MECs quarterly. It should be noted that all the MECs in the province were committed to engaging quarterly on matters pertaining to key controls.

Following the interactions with the provincial leadership and the legislature, the need for significant improvement in the area of non-compliance and predetermined objectives was acknowledged. Those charged with the governance of the province, including the provincial executive, have committed to the core actions at the departments and entities required to ensure the sustainability of credible monthly financial and performance information. The actions include, and are not limited to: 1) the preparation of complete monthly financial statements, accompanied by a review and validation process, 2) the coordination of guidance and support on IT, SCM, predetermined objectives and HR management by the provincial treasury, 3) the extension of the quarterly key control discussions to include portfolio committee chairpersons and internal audit, and 4) the continued leadership influence to ensure approval of the organisational structures to ensure that critical positions are filled timeously.

The executive authority and oversight structures have committed to quarterly monitoring and evaluation of the status of the key controls and commitments in order to achieve sustainable clean audit outcomes. At a minimum this will require a commitment of one hour every 90 days of the executive authority. This can then be followed by the sharing of the consolidated picture with the premier and the legislature quarterly. This will require the enhancement of the oversight model that will include effective coordination between the public accounts committee and portfolio committees. If all these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, this will place the provincial governance on a higher level, and it will contribute greatly to sustainable positive outcomes.

The leadership of the AGSA will continue in the provinces as part of its contribution towards clean administration, will continue to enhance its visibility and thereby provide proactive insights on 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  
November 2011



## SECTION 2: AUDIT OUTCOMES

In the 2010-11 financial year the Gauteng Provincial Government comprised 12 provincial departments (including the provincial legislature), the revenue fund and 22 public entities. This report presents the 2010-11 audit outcomes of 12 departments and 22 public entities. There has been a reduction in the number of departments from 2009-10 due to a provincial executive decision to merge six departments resulting in three new departments as follows:

- The Gauteng Department of Health and Gauteng Department of Social Development were merged to form a new department – Gauteng Department of Health and Social Development.
- The Gauteng Provincial Treasury and the Gauteng Shared Services Centre were merged to form a new department – Gauteng Department of Finance.
- The Gauteng Department of Local Government and the Gauteng Department of Housing were merged to form a new department – Gauteng Department of Local Government and Housing.

There has also been a reduction in the number of public entities from 2009-10 as follows:

- Three entities, the Emoyeni Trading Entity, the Gauteng Kopanong Precinct and the Imphophoma Infrastructure Support Entity were incorporated into the Gauteng Department of Infrastructure Development.
- The Urban Transport Fund was incorporated into the Gauteng Department of Roads and Transport.
- The Gauteng Motorsport Company was liquidated.

Although the AGSA has opted not to perform the audit of the Blue Catalyst Matching Trust Fund, oversight processes have been put in place by the AGSA regarding the audit engagement at this entity. Specifically, the AGSA has prescribed certain requirements that included the appointment and discharge of the auditor, their duties and powers, requirements regarding their audit report, and actions to be taken where the requirements are not met. This entity's audit outcomes have been included as part of the Blue IQ group.

### 2.1 Audit opinions on financial statements

#### 2.1.1 Audit outcomes for the financial year ended 31 March 2011

The audits of all 12 departments (2009-10: 15 out of 15) and 21 public entities (2009-10: 26 out of 27) that had submitted financial statements on time, were completed by 31 July 2011, within the legislated PFMA time frame of two months from receipt of financial statements by the AGSA.

The date set by the AGSA for inclusion of audit outcomes in this general report is 30 September 2011 and excludes the Provincial Revenue Fund. 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			
	Departments*		Public entities**	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	2	3	7	9
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	11	14	12
<b>Financially unqualified financial statements</b>	<b>92%</b>	<b>88%</b>	<b>95%</b>	<b>78%</b>
Qualified	1	1	1	3
Adverse	0	0	0	0
Disclaimer	0	1	0	3
<b>Financially qualified financial statements</b>	<b>8%</b>	<b>13%</b>	<b>5%</b>	<b>22%</b>
<b>Total number of audits reported on</b>	<b>12</b>	<b>16</b>	<b>22</b>	<b>27</b>
<b>Number of audits not yet finalised at 31 August 2011</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total number of audits</b>	<b>13</b>	<b>16</b>	<b>22</b>	<b>27</b>
<b>Total number of auditees in which findings arose from the AGSA's other legal reporting responsibilities:</b>				
Predetermined objectives findings only	0	1	1	8
Compliance with laws and regulations findings only	4	2	8	0
Findings on both predetermined objectives and compliance with laws and regulations	6	10	6	10

\* Including legislature and provincial revenue fund \*\* Including trading and other types of entities

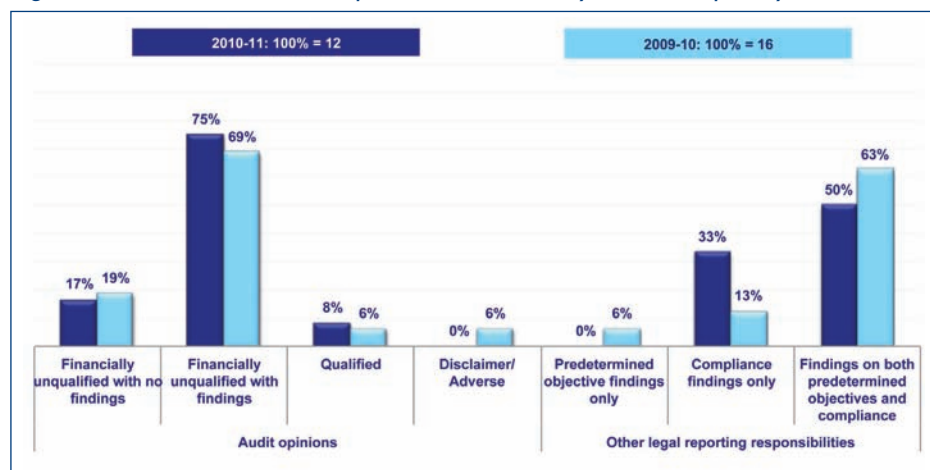
The financial statements of departments and public entities that were financially qualified contained material misstatements that caused them not to fairly present the financial position at 31 March 2011 and/or the financial results for the year then ended in respect of one or more areas. Financial statements that were disclaimed in 2009-10 arose when the information or documentation required by the auditors was not provided to enable them to reach an opinion on the financial statements.

The 2009-10 comparatives include the outcome of the Provincial Revenue Fund, the audit of which was finalised after publication of the previous report.

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.

The extent to which the audit outcomes of departments have changed from the previous financial year is depicted in figure 1 below.

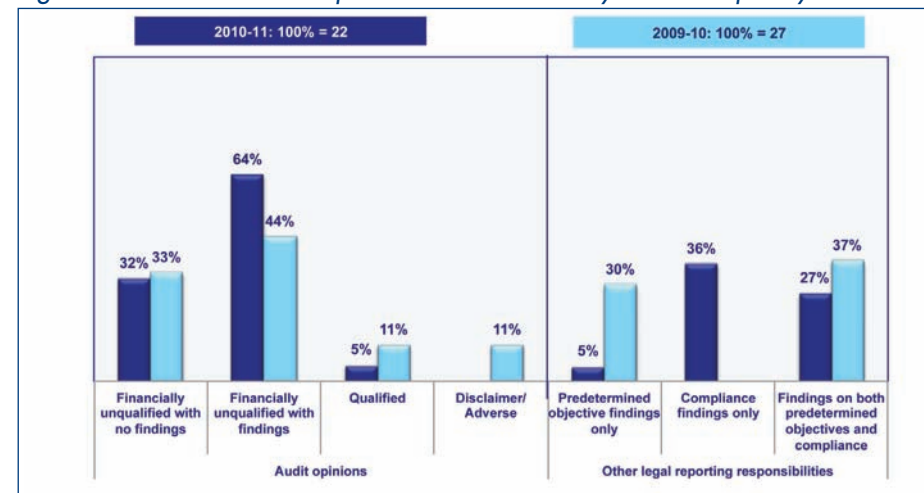
**Figure 1: Audit outcomes of departments – current year versus prior year**



\* 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**



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

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



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

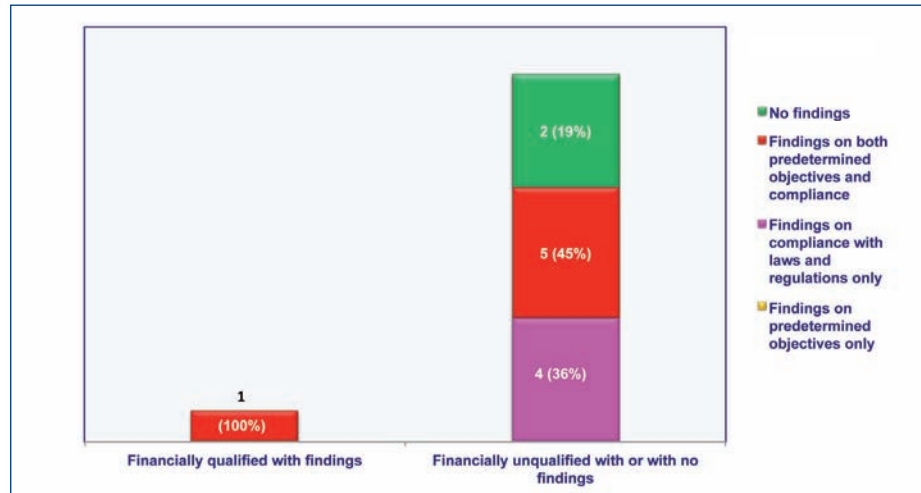
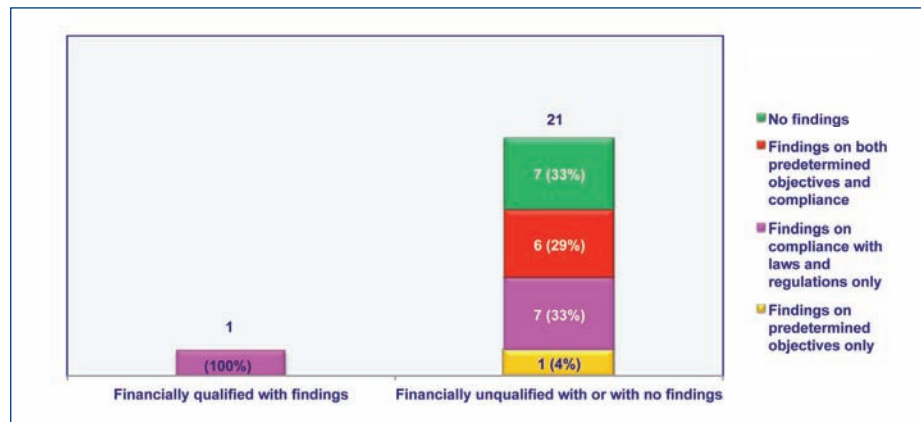


Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations

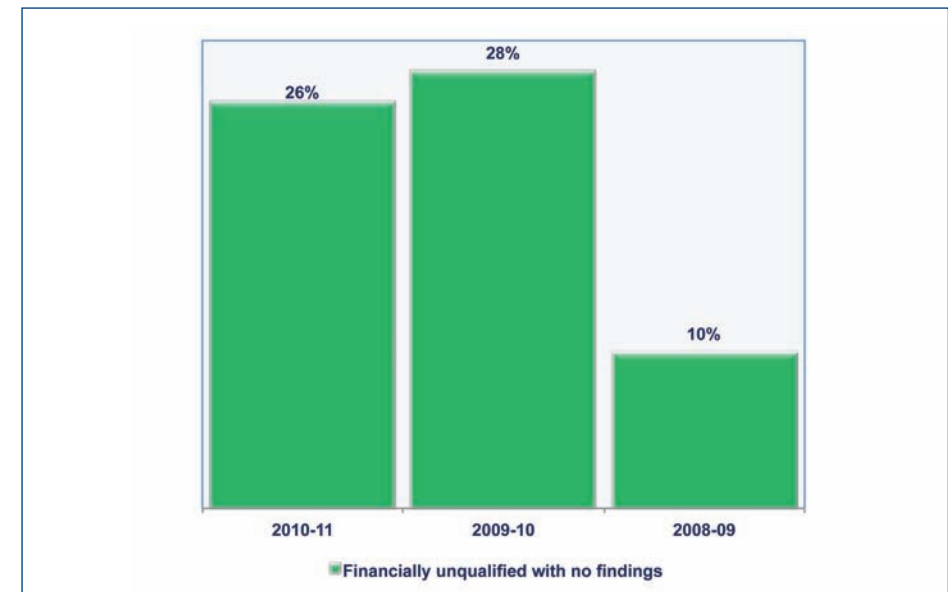


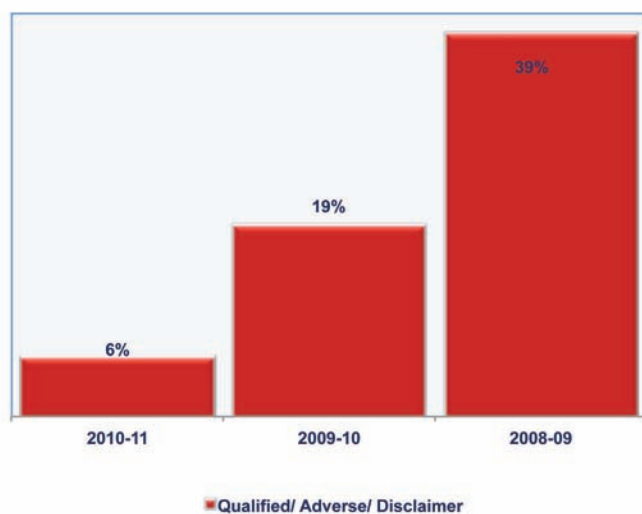
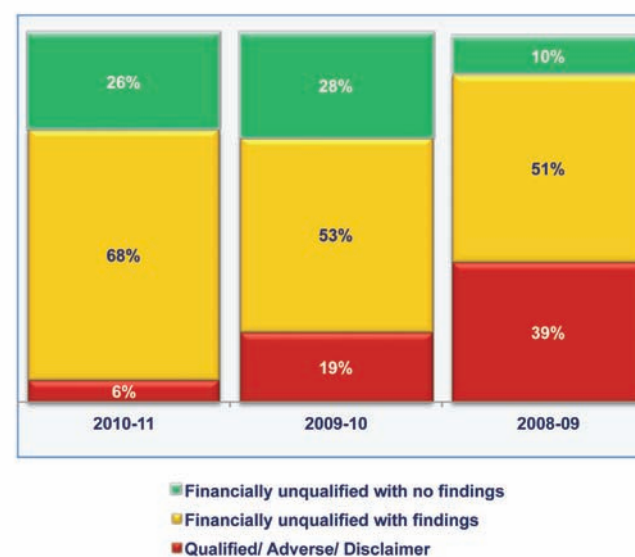
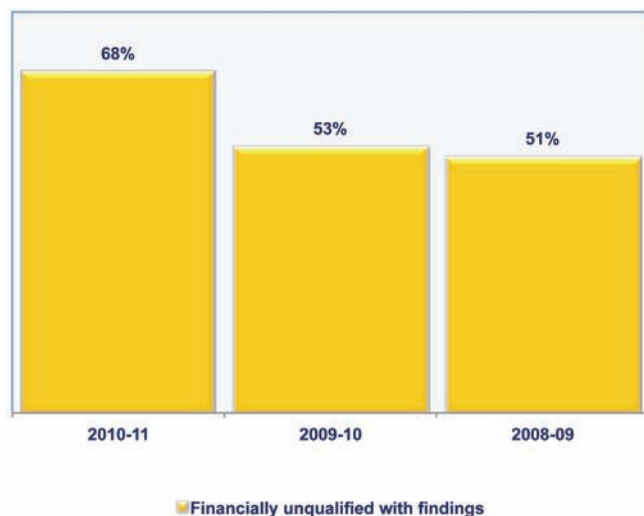
Findings on predetermined objectives are analysed in detail in section 2.3, while an overview of auditees' compliance with laws and regulations is presented in section 2.4 of this report.

### 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





The leadership of the Gauteng Province is committed to improving audit outcomes and this is evidenced by the reduction of disclaimer/qualified audit outcome from 2008-09 to 2010-11. In addition, there has been no regression on the number of clean audit outcomes between 2009-10 (three including the Provincial Revenue Fund) and 2010-11.

There is no movement in audit outcomes towards clean audits from 2009-10 to 2010-11, commitments made were tracked by the audit teams and the audit leadership quarterly, yet despite continued assurances by management, the progress towards clean audits in the province has been slow. Leadership's efforts should be concentrated on addressing the control deficiencies resulting in qualifications, findings on predetermined objectives and particularly non-compliance issues preventing clean audit reports.



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

Tables 2 and 3 depict the movements in audit outcomes for departments and public entities, respectively. Highlights of 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						Prior year opinion on audits outstanding 2010-11*
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	
Financially unqualified with no findings	↑ 1	1			2	1
Financially unqualified with findings	↑ 1	6		2	9	0
Qualified		0		1	1	0
Disclaimer/Adverse		0			0	0
<b>Total</b>	<b>2</b>	<b>7</b>	<b>0</b>	<b>3</b>	<b>12</b>	<b>1</b>

**Table 3: Movements in audit outcomes of public entities**

Movement in audit outcome over 2009-10 – public entities						Prior year opinion on audits outstanding 2010-11*
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	
Financially unqualified with no findings		7			7	
Financially unqualified with findings	↑ 4	8	↓ 2		14	
Qualified		1			1	
Disclaimer/Adverse					0	
<b>Total</b>	<b>4</b>	<b>16</b>	<b>2</b>	<b>0</b>	<b>22</b>	

Highlights and major trends in audit outcomes 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	There was a 17% improvement in audit outcomes for departments as compared to 2009-10 and there was no regression in audit outcomes of the departments.
	There was an 18% improvement in audit outcomes for public entities and a 9% regression as compared to 2009-10. The improvements were attributable to the leadership that took decisive action on prior audit recommendations with regular monitoring. The intervention of the AGSA teams on quarterly key control visits also had a positive effect on the audit outcomes.
Financially unqualified audit opinions with no findings	The regressions were attributable to inadequate monitoring of controls, which resulted in non-compliance with laws and regulations and findings on predetermined objectives.
Notable improvements	The Office of the Premier and seven public entities sustained clean audit outcomes. The seven public entities that maintained the clean audit outcome were the Blue Catalyst Investment Company, Gauteng Economic Development Company, Gauteng Enterprise Propeller, Gauteng Film Commission, Gauteng Gambling Board, Gauteng Partnership Fund and Gautrain Management Agency. Clean audit outcomes are a direct result of good financial management practices.
	The audit outcomes of the Gauteng Provincial Legislature and Gauteng Department of Infrastructure Development improved to a clean audit outcome and financially unqualified with findings on predetermined objectives and compliance with laws and regulations, respectively.
Notable regressions	Four public entities' audit outcomes improved from either disclaimed or qualified audit outcomes from 2009-10 to financially unqualified with findings on predetermined objectives and or compliance with laws and regulations. The four public entities are the Gauteng Medical Supplies Depot (2009-10: Disclaimer), Blue IQ Investment Holdings (2009-10: Qualified), Gauteng Liquor Board (2009-10: Qualified) and g-Fleet Management Trading Entity (2009-10: Disclaimer).
	Improvements can be attributable to these departments and entities having accounting officers or accounting authorities who took full accountability in dealing with identified control deficiencies and implementing appropriate action plans to address audit findings and their commitment to the audit process. Sound governance processes that detect and prevent non-compliance with laws and regulations were also implemented.



Disclaimed, adverse or qualified audit opinions	The Gauteng Department of Health and Social Development and Gauteng Housing Fund received qualified audit outcomes in the current financial year.
Prior year qualification findings	All prior year qualification findings were addressed except for the Gauteng Housing Fund. The Gauteng Housing Fund did not adequately address the prior year qualification item and was again qualified on capital assets as no assessment of residual values and useful lives was performed.
Further qualification findings	The Gauteng Department of Health and Social Development was qualified on capital assets, revenue and receivables and leave accruals.
Repeatedly qualified auditees	The Gauteng Housing Fund was repeatedly qualified on capital assets.
Financially unqualified, with findings/with no findings	Six departments remained financially unqualified with findings and two new departments, the Gauteng Department of Finance and Gauteng Department of Local Government and Housing, were financially unqualified with findings.  Eight public entities remained financially unqualified with findings and two public entities, the Cost Recovery Trading Entity and Gauteng Tourism Authority, regressed from financially unqualified with no findings to financially unqualified with findings.
No further progress towards clean administration	Commitments made were tracked by the audit teams and the audit leadership quarterly, yet despite continued assurances by management, the progress towards clean audits in the province has been slow. The slow progress in the province is caused by non-compliance with laws and regulations as: <ul style="list-style-type: none"> <li>financial statements submitted for audit contained material misstatements that were identified and corrected during the audit process</li> <li>there are inadequate preventative key controls to ensure compliance with the SCM regulations and non-incurral of unauthorised expenditure.</li> </ul> Management did not adequately address predetermined objectives findings.

#### 2.1.4 Audit outcomes history of auditees that obtained financially qualified audit opinions for the financial year ended 31 March 2011

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

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

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Gauteng Department of Health and Social Development	Qualified*	New merged department from 2010-11			
Gauteng Housing Fund	Qualified	Qualified	Qualified	Qualified	Qualified

\*Prior to merging, the audit outcome for the Gauteng Department of Health was disclaimed and that of Gauteng Department of Social Development was financially unqualified with findings.

The new merged department's leadership efforts need to be focused on addressing the areas that were qualified.

The Gauteng Housing Fund was established in 2006-07 and was repeatedly qualified due to the leadership not taking full accountability and inadequate action taken against management for lack of improvement in the audit outcome.

#### 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, all departments (2009-10: 15 (100%)) and 21 (95%) public entities (2009-10: 26 (96%)) had submitted their financial statements for audit. The financial statements of g-Fleet Management Trading Entity were submitted on 29 June 2011, after the legislated deadline and the audit report was issued on 29 August 2011.

Table 5 below 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 at general report 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	2009-10				31-Oct-11

The Provincial Revenue Fund results were not included in the analysis of this report due to the audit not being finalised.

### 2.1.6 Outcomes of audits finalised after the cut-off date of the 2010-11 general report

From 30 September 2011 to the date of this report, no further audits were finalised.

*Table 6: Outcomes of audits finalised after the general report cut-off date*

Auditee	Audit opinion 2010-11	Audit opinion 2009-10
Provincial Revenue Fund	Outstanding	Financially unqualified with no findings

## 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 public entities in addressing prior year financial statement qualification findings, material misstatements 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

All 2009-10 qualification findings were appropriately addressed by the Gauteng Department of Infrastructure Development and four public entities, namely Gauteng Medical Supplies Depot, Blue IQ Investment Holdings, Gauteng Liquor Board and g-Fleet Management Trading Entity.

The new merged Gauteng Department of Health and Social Development has been qualified in the following areas:

- Capital assets
- Revenue and receivables
- Leave accrual

The qualification findings were due to lack of sufficient documentation to support the balances and transactions in the financial statements. The department needs to implement record-keeping controls to ensure that all balances and transactions are supported by sufficient appropriate records.

The Gauteng Housing Fund's leadership did not assess the residual values and useful lives of capital assets as required by Generally Recognised Accounting Practice (GRAP), GRAP17: Property, plant and equipment. Due to the fact that the assets will be transferred to various municipalities, management was of the view that the assessment of the residual values of these assets was not required.

Tables 7 and 8 depict the movements in the financial statement qualification areas of those departments and public entities that obtained disclaimed, adverse or qualified audit opinions.

**Table 7: 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	Other disclosure items	Revenue	UIF*
Gauteng Department of Health and Social Development	Qualified	New		New	New	
Gauteng Department of Infrastructure Development	Unqualified		Addressed			Addressed

\*Unauthorised, irregular as well as fruitless and wasteful expenditure

**Table 8: 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*
Blue IQ Investment Holdings (Pty) Ltd	Unqualified				Addressed			
Gauteng Housing Fund	Qualified	Repeat						
Gauteng Liquor Board	Unqualified	Addressed	Addressed			Addressed	Addressed	
Gauteng Medical Supplies Depot	Unqualified		Addressed	Addressed		Addressed	Addressed	
g-Fleet Management Trading Entity	Unqualified	Addressed	Addressed	Addressed	Addressed	Addressed		Addressed

\*Unauthorised, irregular as well as fruitless and wasteful expenditure

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

As can be seen in tables 7 and 8, progress was made in addressing qualification areas. The initiatives taken by auditees that were able to successfully address the 2009-10 qualification findings with a view to highlighting good practices are indicated below. Improvements in audit outcomes can be attributed to corrective action taken by the leadership and management, which included the following specific actions:

- Blue IQ (Pty) Ltd – The leadership played an active role in addressing its subsidiary Genesis Fitness's previous audit findings. A formal investigation was instituted and action was taken against certain responsible officials.
- Gauteng Liquor Board – The accounting officer of the parent department requested the full breakdown of license revenue collected from the collecting agency and performed reconciliation of revenue. A full verification and valuation of property, plant and equipment was also performed.
- Gauteng Medical Supplies Depot – The chief financial officer (CFO) and chief director of risk management and internal control of the Gauteng Department of Health and Social Development were actively involved in implementing and monitoring a detailed action plan to address prior year disclaimed areas. Consultants assisted the entity with extracting and providing adequate IT data and supporting evidence on revenue, cost of sales, trade receivables and trade payables for the previous financial year, which the entity was disclaimed on.
- g-Fleet Management Trading Entity – The accounting officer of the Gauteng Department of Roads and Transport acquired the services of consultants for preparing and updating accounting records and financial statements.

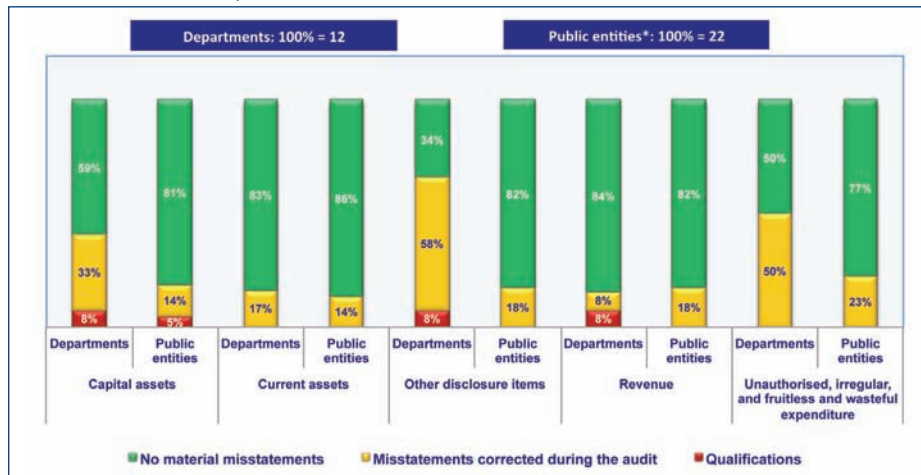
For those entities that used the services of consultants in addressing the qualification areas, the leadership should ensure that there is transfer of skills and that controls are implemented to ensure these outcomes are sustainable.

## 2.2.3 Analysis of areas in financial statement containing material misstatements

As in prior years, departments and public entities submitted financial statements for audit that contained material misstatements in one or more areas of their financial statements. These areas misstated for the year under review are depicted in figure 6 below.



**Figure 6: Areas of material misstatements in financial statements (corrected and uncorrected)**



Uncorrected material misstatements (defects) in financial statements result in modified audit opinions, as outlined in section 2.2.4, while the incidences of material misstatement corrected by management during the audit is analysed in section 2.2.5 of this report.

### 2.2.4 Misstatement defects in current year financial statements of departments resulting in qualified audit opinions

The Gauteng Department of Health and Social Development was unable to correct some of the identified material misstatements in their financial statements. Below is a summary of the areas that resulted in the qualified audit opinion.

#### Capital assets

Capital assets principally consist of immoveable and moveable tangible assets. The qualification of moveable tangible assets was due to the following:

- Certain tangible assets in the fixed asset register at year-end could not be physically verified by the department and the AGSA.

- The fixed asset register was incomplete as certain assets could not be traced to the fixed asset register.
- There was a material reconciling difference between the fixed asset register and the financial statements.
- RO and R1 assets in the fixed asset register were not re-valued at year-end.
- Major and minor assets in the fixed asset register were incorrectly classified.

Due to these shortcomings, the AGSA could not conclude on existence, completeness, valuation, classification and rights and ownership of moveable assets.

#### Revenue and receivables

Revenue principally consists of annual appropriation, departmental revenue and aid assistance. The qualification of departmental revenue and receivables was due to the following:

- There were material reconciling differences between the IT revenue system at head office and the standalone revenue systems at the institutions.
- Billing information could not be extracted and was not available for audit at certain institutions.
- Revenue tariffs were not updated timeously on the revenue system of the institutions and at head office.
- Patients were not always billed for services rendered and there were backlogs in billings.
- Patients were not billed per the correct classifications according to the signed admission registers.
- Inadequate processes and controls over management of debt.
- Poor record management controls and insufficient policies and procedures to regulate the billing and collection of revenue.

Due to these shortcomings, the AGSA could not conclude on occurrence, existence, completeness, valuation, cut off and rights and ownership of departmental revenue and receivables.

#### Other disclosure items – leave accruals

The qualification of leave accruals was due to no systems of internal control and record management of leave being in place.

Due to these shortcomings, the AGSA could not conclude on the existence, completeness, valuation, cut off, classification and rights and ownership of leave accrual.

The root causes for qualification findings are attributable to the following:

- Leadership not filling vacancies at key units of the department resulting in appointment of consultants that are not addressing the qualification areas as well as the leadership of the department not holding institutional heads accountable.
- Where consultants were used there is no evidence of skills transfer.
- The department is not maintaining an effective document management system to ensure that documents are easily accessible and retrievable.
- Inadequate manual and IT controls over daily and monthly processes to reconcile and support transactions.
- The chief executive officers (CEOs) at the health institutions do not fully take ownership and accountability for internal control deficiencies.
- Finance staff at the health institutions are not adequately trained to deal with finance matters.

The qualification findings were communicated to the leadership, namely the MEC, accounting officer and audit committee as follows:

The accounting officer and CFO positions were vacant for a long period and were only filled during the financial year. Prior to being filled these positions were filled by acting staff within the department for a period of six months or longer.

The MEC, accounting officer and CFO of the department were newly employed during the financial year and the qualification findings are historical and can only be resolved in a period of 12 months or longer if the correct control measures are in place. The commitments to address the qualification findings will be followed up during the 2011-12 audit cycle.

The accounting officer and the leadership of the department have committed on the following:

- An effective document filing and management system will be implemented and monitored by the risk management and internal control unit ensuring information

is available for audit.

- The audit committee will ensure that internal audit performs follow-up audits on prior year qualification findings and provides feedback to the accounting officer and audit committee.
- The audit committee will report on the progress made on the implementation and progress of the action plans to the MEC on a quarterly basis.
- The leadership at the departments and CEOs at the institutions will be fully accountable, will take ownership and lead by example in ensuring that there is a sound control environment at all institutions.
- All finance staff within the asset, revenue and human resources units at the institutions and at head office will be adequately briefed on the findings and will be trained.
- The adequacy of the current IT revenue systems will be reviewed and the implementation of a new IT system considered.
- A task team was established to address the qualification findings and monthly feedback will be given to the MEC on the progress made on implementation of the action plan.

### ***2.2.5 Defects in current year financial statements of public entities resulting in qualified audit opinions***

The Gauteng Housing Fund leadership had not assessed the residual values and useful lives of capital assets as required by GRAP17: Property, plant and equipment although consultants were appointed. Due to the legacy of these assets held by the Gauteng Housing Fund and management's intention to devolve all assets to the applicable municipalities, management was of the view that the assessment of the residual values of these assets was not required.

Management was unable to assess residual values and useful lives of these assets due to insufficient information on the legacy assets.

These issues were communicated to the leadership of the Gauteng Department of Local Government and Housing responsible for the Gauteng Housing Fund at weekly steering committee meetings, quarterly meetings and discussion of the management report, yet despite continued assurances by management, progress had not been made.



Management will have to obtain the information of all properties, assess the useful life by using a valuator and processing the applicable adjustments in line with the financial reporting framework.

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

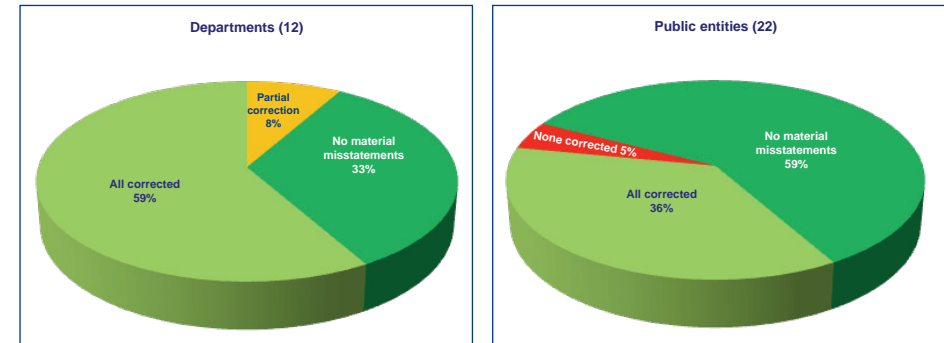
### 2.2.6 Material misstatements in financial statements submitted for auditing

The PFMA requires that departments and public entities submit for auditing, 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 (that is, contain no material misstatements or omissions).

Several departments and public entities submitted financial statements that were of a poor quality as they contained material misstatements or omissions that had to be adjusted during the audit process. Auditees had significant internal control deficiencies in respect of financial reporting, which resulted in material corrections to the financial statements during the audit in the case of eight departments (67%) and eight public entities (36%). The corresponding level of pervasive material misstatements for 2009-10 was 75% for departments and 74% for public entities. Leadership's efforts should be intensified in ensuring the quality of financial statements submitted for audit.

Areas misstated in financial statements submitted for audit are listed above 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 7: Material misstatements in financial statements submitted for auditing



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

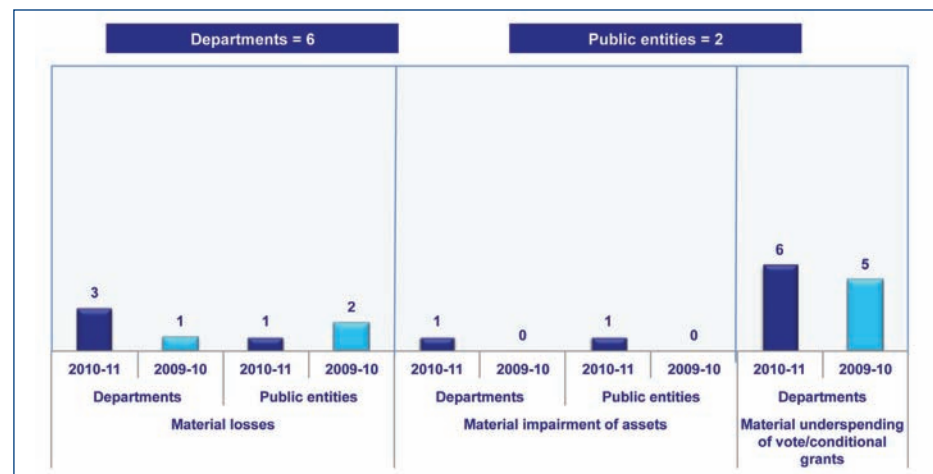
- Management did not always implement proper record keeping controls to ensure that information was available and accessible to support the financial statements.
- Inadequate controls over monthly processing and reconciliations of key account balances in the financial statements.
- Quarterly preparation of the financial statements with disclosure notes not sufficiently performed to instil a discipline of sound financial statement preparation process.
- Management did not adequately review or take ownership of the financial statements to ensure compliance with the financial reporting frameworks.
- Value added by the audit committees in the review of the financial statements prior to submission for audit was not evident.

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

Details of material losses, asset impairments and underspending of the vote or conditional grant as disclosed in the financial statements of departments and public entities for the year ended 31 March 2011 are depicted below.



Figure 8: Material losses, asset impairments and underspending



### Material losses

Breakdown in controls resulted in material losses reported at the following departments:

- Gauteng Department of Education for R18,6 million due to write off of staff debts as the leadership did not implement a monthly monitoring process on the collection rate of staff debts.
- Gauteng Department of Finance for R31,9 million due to write off of disputed interdepartmental claims because there was inadequate monthly reconciliations and monitoring process.
- Gauteng Department of Local Government and Housing for R12,7 million due to theft of assets. The leadership did not implement adequate controls to prevent theft of the assets.

### Material impairment of assets

The Gauteng Department of Health and Social Development has impaired staff and patient debts totalling R698,4 million due to inadequate controls implemented by management over the collection of debt from staff and patients. Lack of commitment by management to collect outstanding debts without consequences has also contributed to this material write off.

### Material underspending of vote/conditional grants

There was material underspending of vote in the province totalling R1,6 billion. Underspending resulted in the objectives of the following departments not met:

Department	Amount of underspending	Impact of underspending
Gauteng Department of Health and Social Development	R1,2 billion	Health facilities management was underspent due to delays in the approval and finalisation of IT infrastructure at certain institutions. The department did not achieve its objective as infrastructure was not completed as planned, which resulted in delay in finalising key projects. Furthermore, there was an underspending on emergency medical services due to cash flow challenges faced by the department that resulted in delays of fund transfers to various local municipalities. The department did not achieve its objective to transfer the funds to these municipalities.
Gauteng Department of Sport Arts, Culture and Recreation	R14,9 million	The department did not achieve the objective to transfer the funds to the non-profit organisations. Due to insufficient supporting documentation for transfer payments request from non-profit organisations responsible for promoting sport, arts and culture.
Gauteng Department of Roads and Transport	R299,7 million	Bus subsidies not paid to service providers due to cash flow restrictions as the amounts were used to finance prior year accruals resulting in bus services not available to commuters.
Gauteng Provincial Legislature	R11 million	Tender processes, which were not concluded at the end of the financial year, resulted in the underspending on the auditorium conversion project.
Office of the Premier	R24,3 million	The vacant funded posts in administration, institutional support and policy and governance were not filled timeously, which resulted in the vote being underspent in the financial year.
Gauteng Department of Infrastructure Development	R146,8 million	Poor project management led to the delays experienced in the expanded public works programmes aimed at creating employment opportunities.

Material underspending of conditional grants totalling R183,9 million occurred at the following departments:

Department	Amount of underspending	Impact of underspending
Gauteng Department of Education	R35,8 million	Underspending on the infrastructure grant was due to delays by the Gauteng Department of Infrastructure Development resulting in schools not being completed or renovated timeously.
Gauteng Department of Agriculture and Rural Development	R15,5 million	The objectives of the Letsima/Illima agricultural project and infrastructure projects at the nature reserves were not achieved due to poor planning at the department on spending of the grants as well as poor planning at the Gauteng Department of Infrastructure Development.



Department	Amount of underspending	Impact of underspending
Gauteng Department Infrastructure Development	R82,6 million	Conditional grants on rates and taxes were not paid to the municipalities in time. The department did not achieve its objective of settling the liabilities due to the municipalities not submitting invoices.
Gauteng Department of Local Government and Housing	R50 million	The housing objectives have not been met due to poor monitoring of the implementing municipalities.

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

Concerns regarding the funding of operations or financial sustainability were identified at three auditees in the province (2008-09: eight). Table 9 depicts the main reasons for such concerns.

**Table 9: 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	Number of concerns per auditee
Constitution Hill Development Company			1		1
Blue Catalyst Investment Company	1				1
Greater Newtown Development Company	1				1
<b>Total</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>3</b>

A subsidiary of the Blue IQ Investment Holdings, namely the Constitution Hill Development Company responsible for the heritage site had a net deficit of R23 million at 31 March 2011. The entity was incurring losses as the entity's own operations were not generating sufficient revenue.

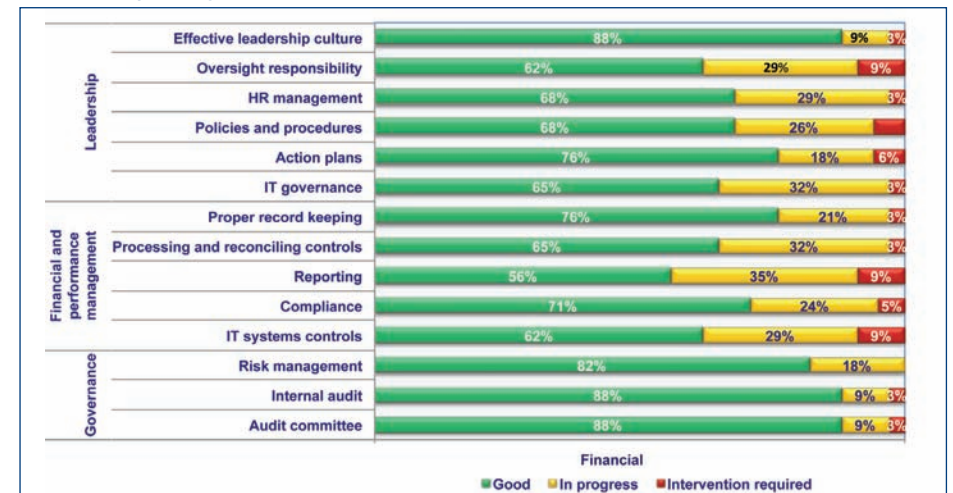
The leadership of Constitution Hill Development Company assessed that the company would continue as going concern based on their assumption of continued receipt of financial support from their parent company, Blue IQ Investments Holdings (Pty) Ltd.

Blue Catalyst Investment Company was liquidated on 21 January 2011. Blue IQ Investment Holdings also resolved to liquidate Greater Newtown Development Company during 2011-12.

### 2.2.9 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 9 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 9: Assessment of auditees' key controls over financial management and reporting**



The assessment above illustrates the progress made across all auditees, in implementing the key controls related to financial reporting. Ninety-two per cent (2009-10: 88%) of departments and 95% (2009-10: 78%) of public entities were financially unqualified.

The following are some of the good practices implemented by auditees that are financially unqualified with no material misstatements and control deficiencies that need to be addressed by the leadership, which provide some context to the assessment made above.

- The CFO has institutional knowledge of the business and ensures transactions are accounted accordingly.
- Guidance provided by the CFO to address new accounting standards, directives issued by the accounting standards board as well as the treasury.
- Detailed schedules to the financial statements are prepared, reviewed and made available for audit.
- A proper and adequate document management system is maintained to ensure that information is easily retrievable.
- Reconciliations are performed timeously and reviewed by the CFO.

For the two qualified entities, Gauteng Department of Health and Social Development and Gauteng Housing Fund, the following were the root causes:

- Gauteng Housing Fund did not have a permanently appointed CFO for most part of the financial year.
- Staff acting in positions for extended periods of time.
- Inadequately trained staff particularly on financial reporting framework.

As a result of these deficiencies consultants were appointed to prepare financial statements and in some instances there was extensive reliance on consultants. However, some of the consultants did not add value as they did not assist in addressing qualification findings.

Material misstatements were identified and corrected during the audit process due to the following:

- Inadequate review of the financial statements and supporting schedules before submission for audit.

- Value-adding in financial statements preparation process not derived from the audit committees.
- Internal audit not providing assurance on the financial statement preparation process.
- Lack of understanding of the departmental financial reporting framework.
- Quarterly financial statements prepared to ensure compliance but not to instil the good financial reporting disciplines that result in improved quality of the financial statements.
- Regular asset verification is not performed to accurately update the fixed asset register.

Filling of budgeted vacant positions with suitably skilled officials should be prioritised by the leadership and where the services of consultants are used, processes should be implemented to monitor their work and ensure skills are transferred. Audit committees and internal audit unit should enhance the oversight role over the financial statement preparation process.

The provincial leadership has committed to ensuring that funded vacant positions are filled with suitably skilled officials and implementing a training programme on financial management at the finance unit. Internal audit unit of the province is committed to review and monitor quarterly financial statements and monitor the implementation of action plans to address external audit findings.

#### ***2.2.10 Best practices, root causes of findings and way forward on financial statement qualifications and financial management***

##### ***Best practices implemented by departments and public entities***

The following are some of the best practices implemented to address root causes of findings on financial statements qualifications:

- The leadership and management driving the implementation of action plans to address audit findings.
- Suitably skilled CEOs and CFOs who are actively engaged during financial reporting and throughout the audit process.



## The following root causes resulted in the qualification findings

The root cause of findings on financial statement qualifications and financial management are attributable to the following:

- The leadership did not take full ownership and accountability for the preparation of the financial statements and monitoring of action plans.
- Inadequate controls over monthly, quarterly and financial year-end processes to reconcile transactions.
- Not maintaining an effective document management system to ensure that documents are easily accessible and retrievable.
- Vacancies and inadequate technical skills at the finance units resulted in consultants being appointed without proper monitoring and ensuring that transfer of skills takes place. Although consultants were appointed there was no change in some audit outcomes.

## Recommendation and way forward

Departments and entities have shown an improvement on qualification areas, where the leadership took decisive action on prior period audit recommendations through regular monitoring. The intervention of the AGSA audit teams through quarterly key control visits also had a positive drive in the improvement.

The number of auditees that had material misstatement corrections during the audit is a cause for concern, as audit outcomes attained as a result of these corrections are not sustainable. The following are some of the actions recommended:

- Effective document filing and management system should be implemented.
- Management should develop and implement an action plan. The leadership must regularly monitor the implementation and progress of these actions.
- The audit committee should ensure that the internal audit unit provides assurance on a quarterly basis and monitor implementation of the action plans.
- The audit committee should report on the progress made on implementation of the action plans.
- Reliance on consultants should be reduced by building internal capacity and skills enhancement. Where consultants are used, the leadership should ensure that there is sufficient transfer of skills resulting in sustainability of the finance units.
- Operation clean committee should oversee implementation of action plans.

## 2.3 Findings arising from the audit of auditees' reporting on predetermined objectives

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

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

The AGSA has, since the 2005-06 financial year, gradually been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through 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 reporting on predetermined objectives

Progress by auditees in addressing prior year findings on predetermined objectives is depicted in figures 10 and 11 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

Figure 10: Movements in findings on reporting on predetermined objectives

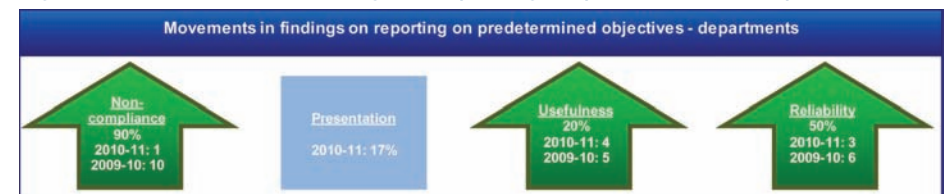
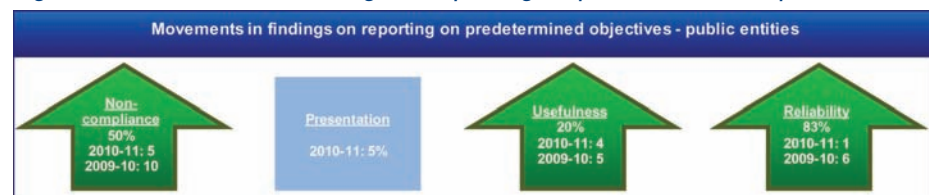


Figure 11: Movements in findings on reporting on predetermined objectives



### 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 objectives reporting are discussed below.

*Annual performance report was not received in time for audit purposes*

All 12 departments and 19 entities submitted the annual performance reports in time for audit purposes. Reporting on predetermined objectives was not applicable at four public entities as these entities were either in a process of being liquidated or the predetermined objectives were reported at the parent department.

*Non-compliance*

The 2009-10 findings related mainly to the lack of reporting of performance information on performance against predetermined objectives, lack of effective, efficient and transparent system of internal control regarding performance management and lack of or inadequate quarterly reporting against predetermined objectives.

This is a significant improvement which can be attributable to the departments and public entities implementing a structure of internal control based on the AGSA recommendations as well as the AGSA visibility through quarterly monitoring and providing feedback to the leadership. The only department that had a finding on non-compliance was the Gauteng Department of Health and Social Development and the five public entities were the Cradle of Humankind – World Heritage Site Trading Entity, Dinokeng Trading Entity, the Gauteng Medical Supplies Depot, g-Fleet Management Trading Entity and the Constitution Hill Development Company. The identified findings were mainly strategic plan not approved by executive

authority, strategic plan not aligned to the budget, no documented performance management system and no quarterly performance reporting. The leadership should commit to drive strategic objectives by ensuring that there is a documented performance management system, performance is reported quarterly and that strategic plans are approved and aligned to the budget.

*Usefulness*

Findings related to:

- objectives not being measurable against indicators and targets
- the absence of clear and logical links between the objectives, outcomes, outputs, indicators and performance targets.

There has not been a significant improvement at departments as the reported findings in 2009-10 repeated at three of the five departments. However, a significant improvement can be seen at the public entities as only two had repeated findings in 2010-11. The leadership should ensure that the objectives, indicators and targets are specific, measurable and time bound prior to approving strategic and annual plans.

*Reliability*

Findings on reliability included instances where the actual reported performance was not verified and the reported information was not accurate, complete and consistent in relation to the source data, evidence or documentation.

There has been a significant improvement at both the departments and public entities in maintaining appropriate documentation to ensure that the reported performance information is verifiable, accurate and complete. This improvement is attributable to the leadership understanding the AGSA's recommendations and implementing effective controls.

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

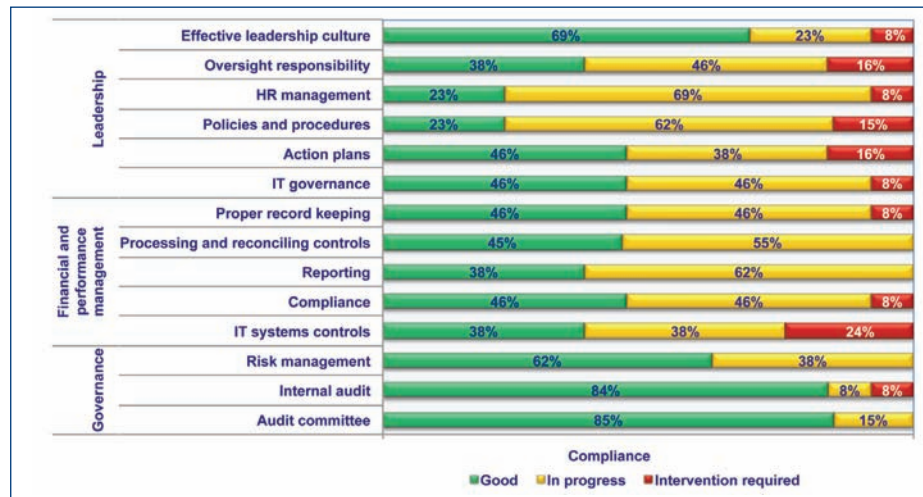
Figure 12 provides an assessment at the time of the audits of the key drivers of internal control that should be in place to ensure auditees produce performance





reports that are useful, reliable and meet the regulatory requirements, including that of presentation.

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



The assessment above illustrates the progress made across all auditees, in implementing the key controls related to reporting on predetermined objectives. There has been an overall reduction in findings from 62% in 2009-10 to 42% in 2010-11 financial year (refer to point 2.3). This trend can be attributable to the role played by the leadership and those charged with governance through leading from the front and in developing, implementing and monitoring the key controls.

The following are some of the key controls implemented by auditees with no findings on the reporting of predetermined objectives:

- MEC actively involved in monitoring of quarterly reports.
- Adequate evidence files are maintained to substantiate reported information.
- Internal audit review of quarterly reports and the reporting process.

The following are some of the root causes for the entities with control deficiencies where findings reported on predetermined objectives were identified:

- Some auditees did not have permanently appointed staff with suitable skills. Furthermore, the staff were not adequately trained in respect of reporting on predetermined objectives in accordance with treasury guidelines and framework.
- Policies and procedures were not always in place to guide the performance reporting process.
- No adequate documentation maintained to support major variances.
- Management's development of targets was not specific, measurable, achievable, realistic and time bound.
- Inadequate performance management systems which included lack of policies and procedures.
- Roles and responsibilities for performance management not adequately defined resulting in lack of accountability on the reporting of predetermined objectives.
- Lack of consideration of reporting on predetermined objectives in auditee's risk management strategy and practices.
- Inadequate internal policies and procedures with regard to the documenting, collating, storing and reporting of performance data.
- Limited guidance from the National Treasury with regard to definitions and technical standards on reporting on predetermined objectives.

Usefulness and reliability of reporting on information remains an area of concern within the province. Internal audit should also provide assurance on the usefulness of information, i.e. all approved objectives are reported on and supported by appropriate documentation of the quarterly reports to the leadership as well as those charged with governance.

The leadership has committed to monitor the implementation of action plans and key controls to address the findings.

### 2.3.5 Best practices, recommendations and way forward on predetermined objectives reporting by auditees

#### Best practices implemented by departments and public entities

The following are some of the best practices implemented to address root causes of findings on reporting on predetermined objectives:



- Dedicated monitoring units were established within the departments 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 actual performance were appropriately filed and stored. These were easily retrievable later to substantiate performance information reported.
- Quarterly reports were reviewed and signed off by the leadership and audit committees. The MECs reviewed the annual performance plans, provided inputs and monitored progress of the achievement of the objectives.

### Recommendation and way forward

The area of usefulness of reported information still remains a challenge but based on comparison with the previous year's results there has been an improvement. The main problem encountered by the departments and entities is developing a structure of internal controls that supports the performance reporting process, that provides reliable information and that can be used as a basis for decision-making and ultimately improving service delivery.

In order to address root causes of findings on reporting on predetermined objectives and ensure sustainability the following actions are recommended:

- The leadership should drive a culture of accountability, ownership and lead by example in ensuring that there is a sound control environment, which should include an effective performance management system.
- Management should develop and implement action plans that are continuously monitored by the leadership.
- The audit committee should ensure that internal audit provides assurance on a quarterly basis and monitor implementation of the action plans.
- The audit committee should report to the MEC on the acceptability of the quarterly reports submitted to the National Treasury.

The following commitments regarding predetermined objectives were made by the provincial leadership:

- Ensuring that each department establishes committees that will assist the provincial operation clean audit committee in clearing audit findings to achieve clean administration.
- Developing and implementing action plans with clear milestones, time frames and roles and responsibilities.

- Developing and implementing a provincial roadmap to address control deficiencies with regard to the reporting of predetermined objectives.
- MECs to seek monthly feedback or progress from accounting officers on the development and implementation of actions to address audit findings on predetermined objectives.
- Internal audit to review and/or monitor the reporting on predetermined objectives on a regular basis.
- Where there is a repeat of audit findings from financial year to financial year, the MECs will hold the relevant officials responsible and accountable.
- Training and development of staff at offices of the CFO.
- Review of the annual reports on a timely basis and recommendation of resolutions to the legislature.

## 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 audits and reports on compliance with laws and regulations by auditees. Broadly, such laws and regulations set out:

- the activities auditees are charged with in carrying out services for the citizens
- any limits or restrictions 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 the laws and regulations they are subject to. Conversely, non-compliance refers to acts of omission or commission by auditees, either intentional or unintentional, which are contrary to such laws and regulations.

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 31 March 2011:

- Annual financial statements, performance report and annual report

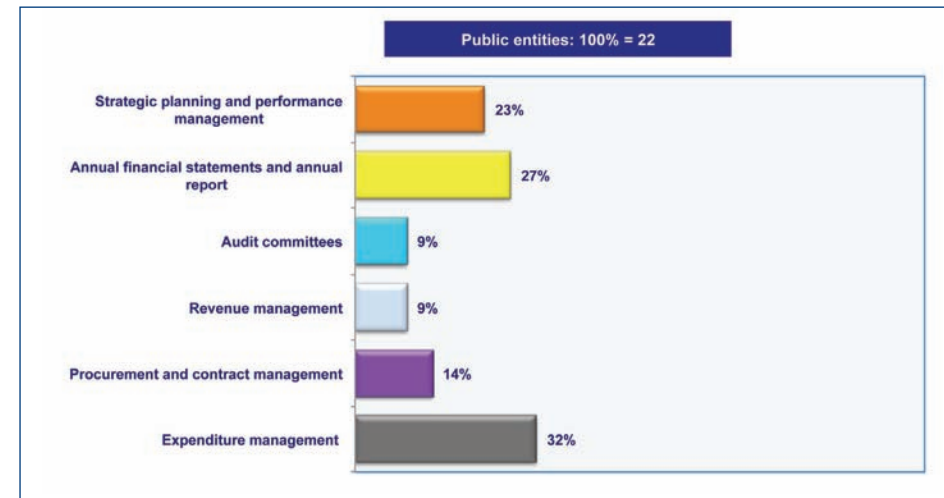
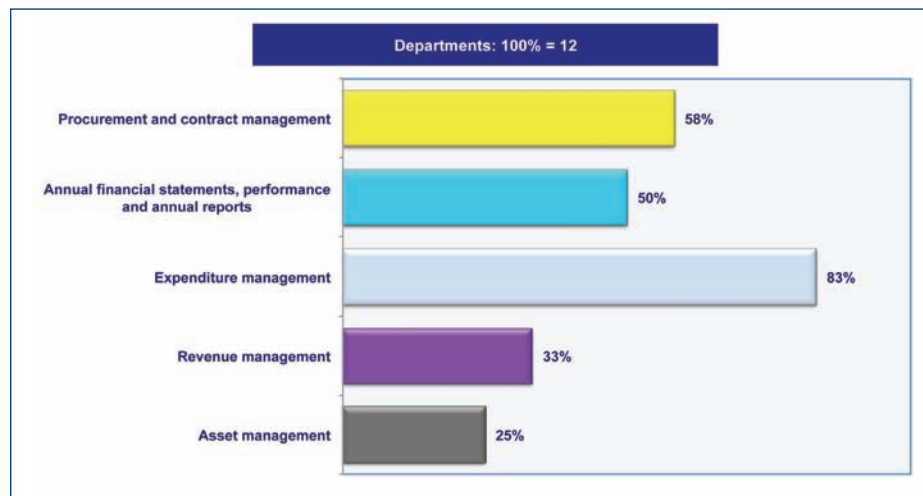


- Asset management
- Audit committees
- Budgets and budgetary processes
- Expenditure management
- Financial misconduct
- Internal audit
- Revenue management
- Strategic planning and performance management
- Transfer of funds and conditional grants
- Procurement and contract management
- HR management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

#### 2.4.2 Transversal findings arising from the audit of compliance with laws and regulations

The figure below depicts 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 analysis below does not include comparisons to the previous year.

Figure 13: 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 10: Common non-compliance findings relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	Public entities
<b>Prevalent non-compliance areas: All auditees</b>			
Expenditure management	Fruitless and wasteful expenditure not prevented	50%	14%
	Irregular expenditure not prevented and detected	58%	18%
	Payments to creditors not made within 30 days of receiving invoice	67%	9%
Procurement and contract management	Contravention of SCM requirements	58%	14%
Revenue management	Effective and appropriate steps not taken to collect all revenue due	33%	9%
Annual financial statements, performance and annual reports	Financial statement submitted for audit did not fairly presented the state of affairs and their financial position as at 31 March 2011	50%	27%

Focus area	Summary of common findings	Departments	Public entities
<b>Prevalent non-compliance areas: Departments only</b>			
Expenditure management	Unauthorised expenditure not detected and prevented	50%	
Asset management	Accounting officer did not exercise utmost care to ensure reasonable protection and safeguarding of assets and records	25%	
<b>Prevalent non-compliance areas: Public entities only</b>			
Strategic planning and performance management	Strategic plan was not approved by the executive authority		23%

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

Section 2.2.4 of this report provides details on the financial statements submitted by accounting officers 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.

Details of non-compliance findings on auditees' performance reports are provided in section 2.3.2, while section 2.4.3 further details findings on 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 3.2 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 or 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 of a vote or a main division within a vote or expenditure that is not in accordance with the purpose of a vote,

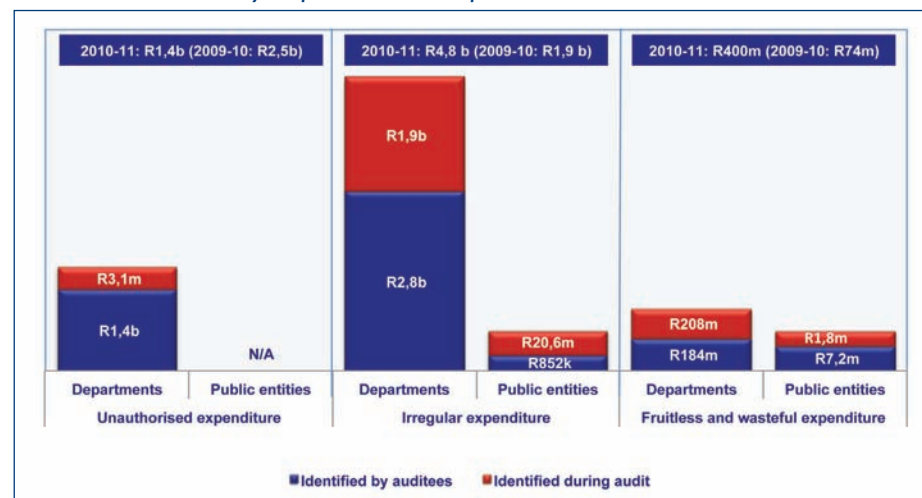
or in the case of a main division not in accordance with the purpose of the main division.

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. The figure below depicts the extent of such expenditure and the portion thereof that was identified during the audit and not detected by the auditees.

**Figure 14: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and public entities**



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



Table 11: 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
<b>Unauthorised expenditure (applicable to departments only)</b>						
Number of departments incurring	6	R1,4b	↔			
Identified during the audit - not detected by auditee	1		↑100%			
Incurred for two or more successive financial years	3					
Nature of unauthorised expenditure incurred						
Overspending of votes/main division within votes	6	R1,4b	↑17%			
Expenditure not in accordance with votes						
<b>Irregular expenditure</b>						
Number of auditees incurring	8	R4,8b	↑13%	6	R21,5m	↓40%
Identified during the audit - not detected by auditee	5	R1,9b	↑100%	5	R20,6m	↑100%
Incurred for two or more successive financial years	3			3		
Nature of irregular expenditure incurred						
Supply chain management	6	R3b	↑17%	6	R21,5m	↓40%
Compensation of employees	4	R1,3b	↑75%			
Other non-compliance	2	R412m	↑100%			
<b>Fruitless and wasteful expenditure</b>						
Number of auditees incurring	7	R391m	↓17%	3	R9m	↓75%
Identified during the audit - not detected by auditee	4	R208m	↑100%	1	R1,8m	↑100%
Incurred for two or more successive financial years	4			1		

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

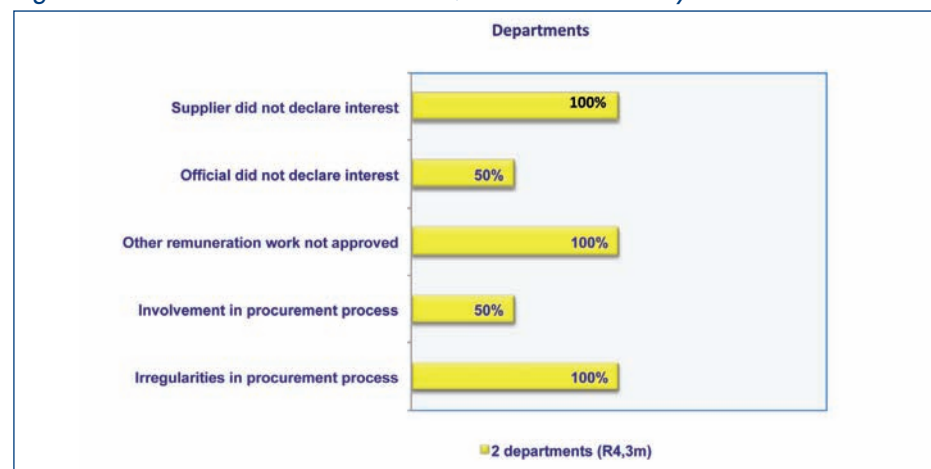
The audits conducted by the AGSA included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism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

Findings were raised during the audit of SCM at 14 (41%) auditees relating to either contracts that were awarded and/or quotations that were accepted (referred to as 'awards' in the rest of this report). Significant findings relating to SCM are depicted in the figures that follow.

Figure 15: Summary of findings on SCM



Figure 16: Awards to state officials and/or their close family members



\*There were no findings for public entities on awards to officials and close family members.

A summary of the 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.

Aspect audited	Summarised findings
Awards to state officials and their close family members	At two departments there were findings of awards to state officials totalling R4,3 million as the department's system could not identify the interests and these officials had not declared their interests. The departments were the Gauteng departments of Health and Social Development (eight instances totalling R4,1 million) and Infrastructure Development (four instances totalling R147 000).
Uncompetitive or unfair procurement processes	Of the total irregular expenditure reported for departments and public entities, 63% and 100%, respectively, resulted from uncompetitive and unfair procurement practices. 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.

Aspect audited	Summarised findings
Inadequate contract management	The main root causes relating to inadequate contract management were due to contract price being more than tendered price, contracts extended or renewed to circumvent competitive bidding processes, payments made in excess of approved contract prices and no signed contract or contracts were not signed by delegated official.
Inadequate controls	The inadequate controls that resulted in these findings are due to SCM officials not being aware of the policies and requirements, SCM officials not understanding their roles and responsibilities and inadequate controls to ensure that officials declare their private business interests or conflicts of interest.

The audit of SCM revealed various control deficiencies at the SCM units of departments and public entities. The most prevalent deficiency was deviations from normal bidding processes. The main reasons for deviations were a lack of understanding, incorrect interpretation of the definition of irregular expenditure or applicable legislation and inadequate planning resulting in unjustifiable reasons. There was also a concern of circumvention of SCM processes and controls by senior management.

A lack of oversight and SCM personnel not having the required skills were major contributors to SCM findings. Non-compliance with legislation by officials also resulted in awards made to persons in the service of the state.

Proper oversight by the leadership, implementation and monitoring of controls and implementation of corrective measures against transgressors of SCM policies can reduce risks that are currently faced by the province at the SCM units of departments and public entities.

#### 2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

There was an increase in the number of investigations commissioned by departments and public entities from the previous financial year. Table 12 lists the investigations in progress or completed by 31 March 2011. Not all of the investigations were conducted by the AGSA.



Table 12: Investigations completed or in process as at 31 March 2011

Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Gauteng Department of Roads and Transport	3	8	4	15
Gauteng Department of Education	2			2
Gauteng Department of Sport, Arts, Culture and Recreation	1			1
Gauteng Department of Local Government and Housing	2		2	4
Gauteng Department of Community Safety		1		1
Gauteng Department of Health and Social Development	4	3	4	11
Gauteng Department of Finance	1			1
Gauteng Department of Economic Development	1	1		2
g-Fleet Management	2	2		4
<b>Total</b>	<b>16</b>	<b>15</b>	<b>10</b>	<b>41</b>

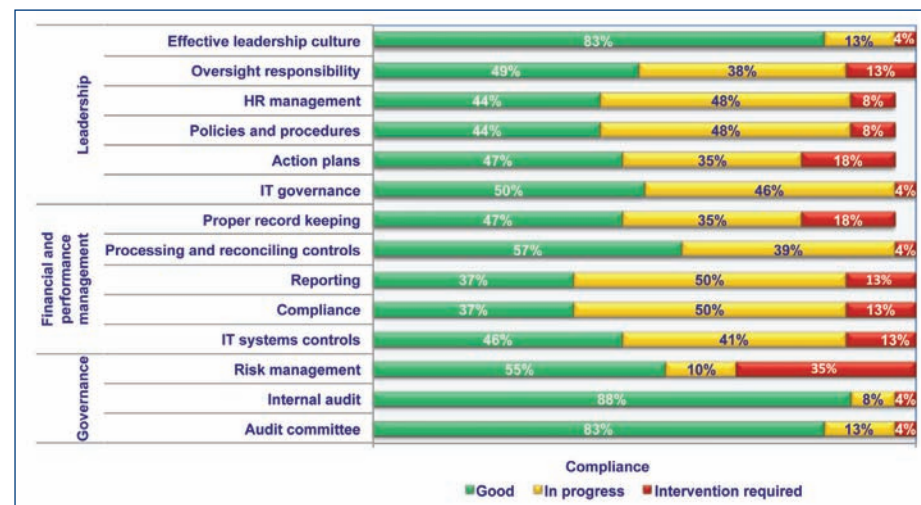
The investigations were indicators of risks that internal controls were not functioning or were overridden by management. The focus of the investigations ranged from tender and procurement irregularities and abuse of department or entity assets.

The most common findings related to tender and procurement irregularities involved improper SCM processes, incorrect tender specifications, and unfair pricing. Most common fraud findings at departments and the public entity related to officials colluding with suppliers to charge inflated prices for goods and services supplied.

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

Figure 17 provides an assessment of the key drivers of internal control that should be in place to ensure compliance with laws and regulations.

Figure 17: Assessment of drivers of internal control – compliance with laws and regulations



The assessment above illustrates the progress made across all auditees, in implementing the key controls related to compliance with laws and regulations. The common findings on non-compliance were on expenditure management (refer to section 2.4), material misstatements in financial statements (refer to section 2.2) and procurement and contract management. The leadership as well as those charged with governance should take the lead in ensuring the improvement by developing controls to prevent and detect non-compliance as well as enforcing accountability. Internal audit should also provide assurance on the implementation of the action plans as well as compliance.

The following are some of the key controls implemented by auditees with no findings on compliance with laws and regulations:

- Compliance checklists are in place for legislated deliverables and these are regularly assessed by the chief risk officer to ensure that the departments and entities comply with relevant laws and regulations.
- The internal audit plan addresses the risk on material non-compliance. The findings on material non-compliance are followed up and controls are implemented to avoid recurrence.



The following root causes were for the departments and entities with control deficiencies where findings on compliance with laws and regulations were applicable:

- The disregard of laws and regulations by responsible officials together with the insufficient monitoring by the leadership and a lack of monitoring of day-to-day activities by all levels at the departments and public entities throughout the period.
- Inadequate training on compliance with legislation, especially SCM, resulting in lack of understanding.
- Leadership oversight is not sufficient to drive an internal control environment conducive to adherence to compliance with laws and regulations as action plans of previous years were not made.
- Management did not adequately review the financial statements prior to submission for audit, which resulted in material misstatements.
- Poor planning resulting in unjustifiable deviations.

Leadership oversight role needs to be enhanced to prevent non-compliance relating to unauthorised expenditure, SCM and material amendments in financial statement.

#### 2.4.7 Recommendations and way forward

The findings on compliance with laws and regulations are resulting in the slow progress towards clean audits in the province. These findings can also be attributed to the lack of implementation of commitments made by the executive in 2010 to address the non-compliance issues. These commitments mainly related to the review of delegations of authority for SCM, monthly reporting and review of unauthorised, irregular as well as fruitless and wasteful expenditure and training on SCM regulations.

In the current financial year the leadership has committed to the following:

- Internal audit unit and audit committees to review and monitor adherence to approved SCM processes, compliance with laws and regulations and quarterly financial statements.
- Facilitating regular training on SCM regulation.

Implementation of these commitments and the right leadership tone, together with the support of the audit committee and internal audit unit, is necessary in improving progress towards clean administration.

## 2.5 Outline of the way forward to improve audit outcomes

As is evident from the analysis of the audit outcomes presented in this section of the report, there 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 the following parties:

- Accounting officers, accounting authorities, chief financial officers, and auditee management (analysed in section 3.1)
- 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 general report, while other 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 categories of drivers of improved audit outcomes through interactions on audit outcomes with auditees over the past several years. These categories have been used to formally document the results of quarterly key control visits by the AGSA's senior management 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 controls can be directly linked to:

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

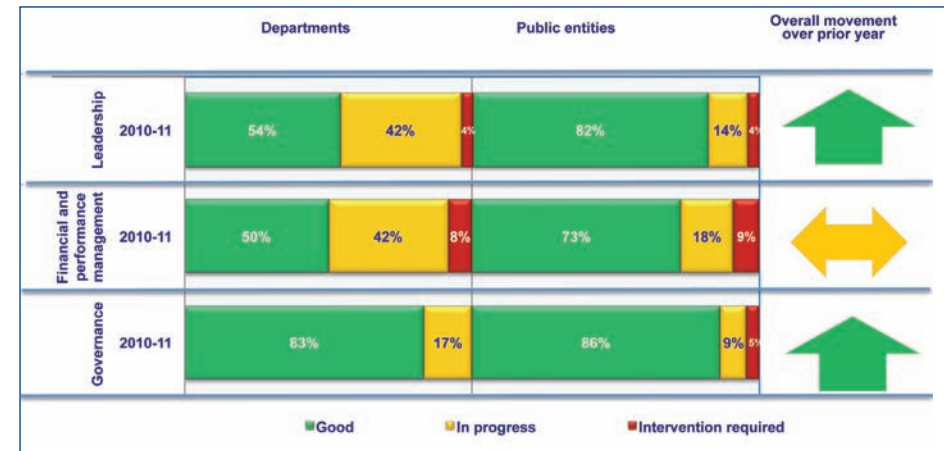
Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of these three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to not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

Sections 3.2 and 3.3 provide an assessment of human resource management and information technology 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 figure 18.

Figure 18: Progress made in implementing key controls (all auditees)



The assessment above illustrates the progress made across all auditees, in implementing the key controls. The progress correlates with the audit outcomes as detailed in table 1: *Summary of audit outcomes*. The progress can be attributable to the role played by the leadership and those charged with governance in developing, implementing and monitoring action plans based on AGSA recommendations on findings reported and preparing and auditing of interim financial statements.

It is encouraging that the majority of departments and public entities have audit committees and internal audit units that played an oversight role. However, maximum value has not been derived from the audit committees and internal audit units as they have not been successful in addressing deficiencies in the areas of compliance with laws and regulations, reporting on predetermined objectives and financial statement preparation process.

To achieve clean administration, the leadership and executive management need to actively monitor action plans aimed at enhancing financial and performance reporting and compliance with laws and regulations. The leadership should also confirm that effective human resource management policies and practices are in

place and that adequate and sufficiently skilled resources are available. Moreover, information technology (IT) tools that enable government to deliver value and improve performance should be used.

For an entity to have sound financial controls, the appropriate level of management should regularly review interim/monthly reporting and prepare regular, accurate and complete financial and performance reports that are supported by reliable sources of information. The leadership and management must also regularly review and monitor compliance by officials with applicable laws and regulations. The focus should be on measures that prevent unauthorised and irregular transactions and enable the discharge of statutory responsibilities by management and senior officials.

The audit committees of auditees should play an important role in ensuring that management information produced on a monthly basis is credible. For information to be credible, it must be verified that the information is complete, accurate, valid and supported by evidence. The executive authority should utilise the audit committee to provide assurance on the credibility of management information on a regular basis. An analysis of the effectiveness of audit committees of departments and public entities and the level to which the executive authorities are engaging with them is provided below. From this analysis it can be seen that although the audit committees are generally effective, executive authorities are not regularly engaging with audit committees or their chairpersons.

To improve the positive trend, the leadership should also implement regular self-assessment processes and ensure internal audit unit provides regular assurance to the leadership and those charged with governance.

The status of auditees' key controls is listed in annexure 4 to this report.

### 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 for the year under review.

#### 3.2.1 Overall findings arising from the assessment of HR management

The figures below depict the extent of weaknesses in each focus area for departments (with a comparison to the previous year) and public entities (without prior year comparison).

Figure 19: Identified HR management weaknesses – departments

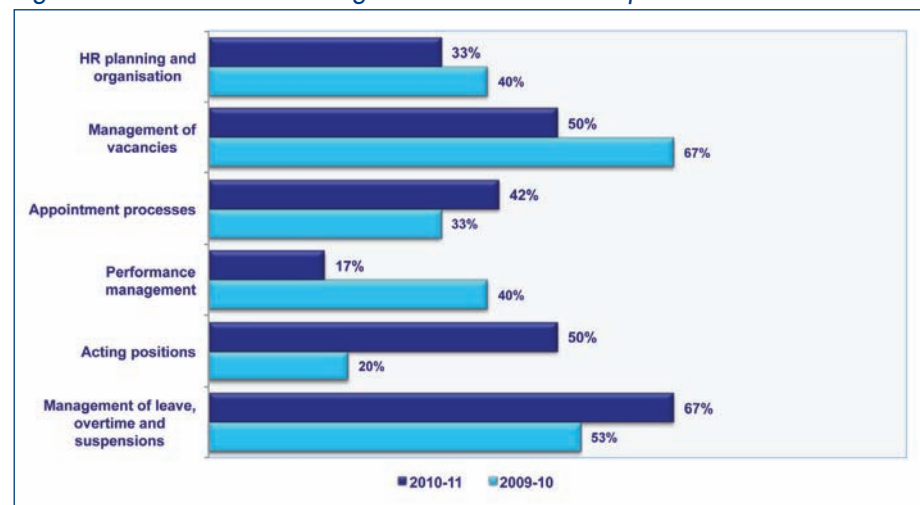
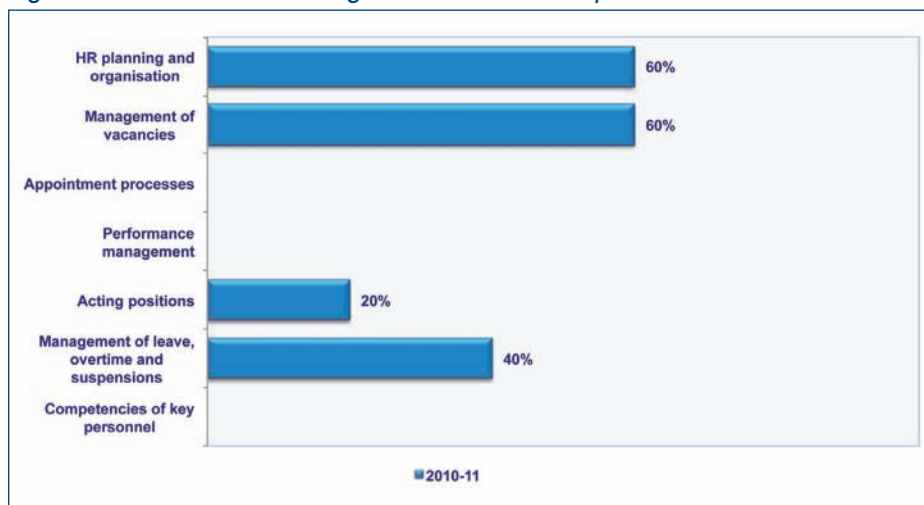




Figure 20: Identified HR management weaknesses – public entities



Common findings from the AGSA's focus areas are summarised below. Prior year statistics are given for departments.

Table 13: 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	Organisational structure not aligned to strategic plan	20%	29%	20%
	HR plan based on strategic plan not in place	20%	14%	60%
Management of vacancies	Senior management – positions vacant for more than 12 months	30%	14%	60%
	Finance department – positions vacant for more than 12 months	20%	21%	20%
Appointment processes	Verification process for new appointments did not always take place	30%	7%	0%
	Verification process for new appointments did not cover all verifications prescribed	20%	29%	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	20%	29%	0%
Acting positions	Employees acted in positions for more than 12 months	40%	14%	0%
	Senior managers acted in positions for more than six months	30%	14%	20%
Management of leave, overtime and suspensions	Employees received more than entitled leave	40%	36%	0%
	Processes/procedures for monitoring sick leave not always applied	60%	29%	0%

### 3.2.2 Impact of staff vacancies on internal control

Positions should be timeously filled to ensure that segregation of duties is not compromised and that the organisation maintains a level of competence that allows staff to accomplish their assigned duties.

Control activities performed by staff at all levels are important to achieving the objectives of the departments and public entities. Such control activities include a wide range of 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

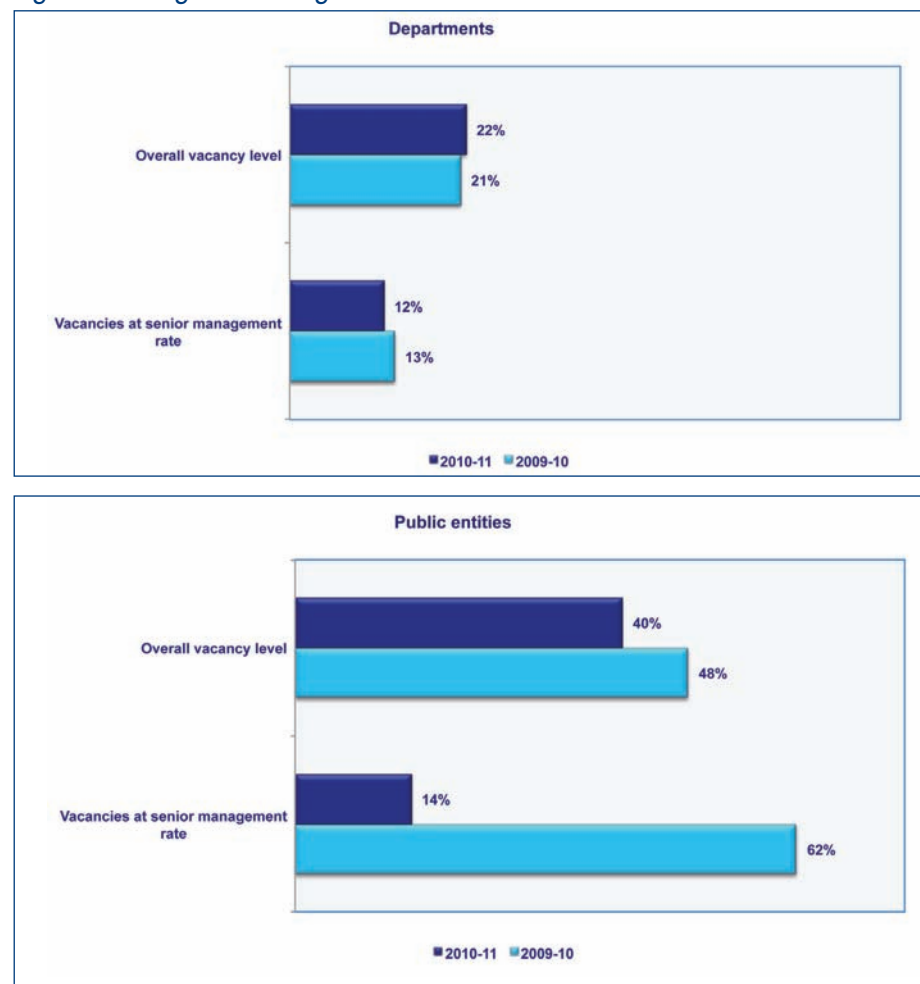
- performance reviews
- maintenance of security
- creating and maintaining records
- appropriate documentation

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, laws 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 21: Progress in filling vacancies





### 3.2.3 Root causes of findings and way forward on HR management

The root causes of findings on HR management are attributable to the following:

- Ineffective monitoring by the leadership to ensure the implementation of HR management to place adequate and sufficiently skilled resources.
- Policies and procedures were not established by the leadership and communicated by management to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
- Action plans were not developed by management and not monitored by the leadership to address specific HR internal control deficiencies.

The way forward to address root causes of findings on HR management:

- ensure that competent and appropriately skilled staff are appointed and their performance is regularly monitored
- management should ensure that all policies and procedures are developed and timeously communicated to staff and proper training, where necessary, is given to clarify the requirements and promote adherence thereto
- the leadership should ensure that adequate action plans are developed and closely monitored in order to sufficiently address all internal control deficiencies present as well as ensure compliance with applicable laws and regulations.

## 3.3 Information technology management as specific driver of audit outcomes

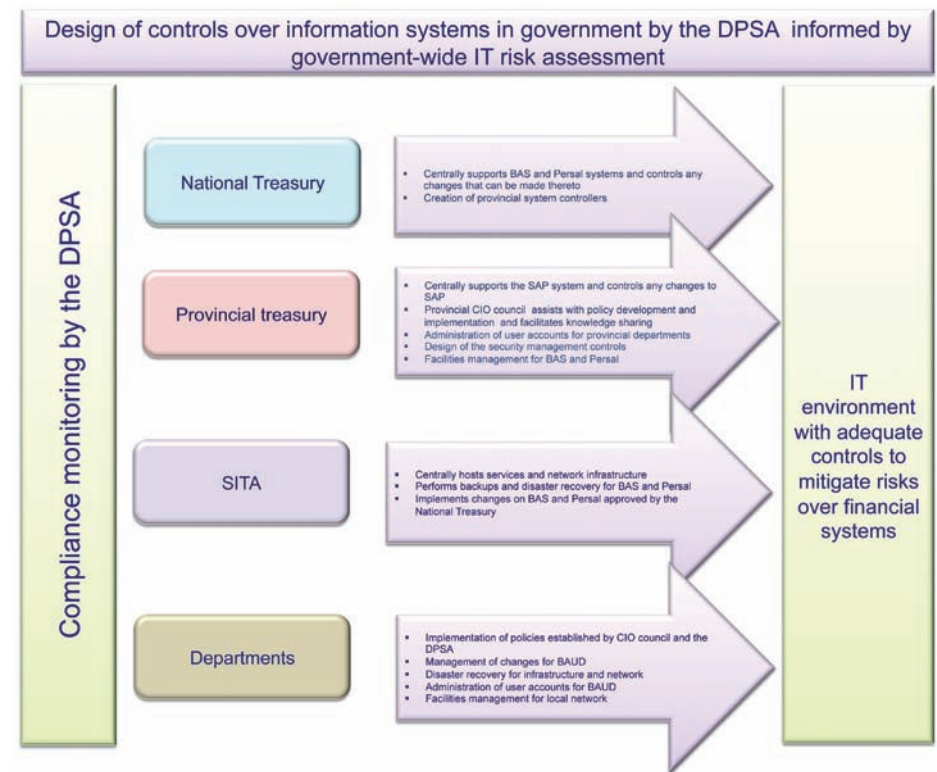
### 3.3.1 Computer systems in use and the management of information technology

As in all other provinces, 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 contributes 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

All 12 departments in the Gauteng Province use transversal systems, e.g. the basic accounting system (BAS) and personnel administration system (Persal) to perform functions for managing financial information. All departments also use SAP financial application for procurement which is linked to BAS, while the legislature uses SAP as the only financial application system. For asset management, eight departments use SAP, three departments use BAUD and the legislature and Office of the Premier use Assetware.

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 seven public entities, the IT environments at the remaining public entities were assessed during the key control assessment which was performed on a quarterly basis.

The seven public entities that were audited in the Gauteng 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 service level agreements (SLAs). The National Treasury (NT) and State Information Technology Agency (SITA) do not play a role in providing maintenance to the systems. Management of the public entities is responsible to design their own IT controls as they are not subjected to those designed by the Department of Public Service Administration (DPSA).

The IT risk review at the audit planning stage in conjunction with quarterly key control reviews as well as the size and nature of the auditee's operation was assessed as minimal for auditees that were not formally reviewed. These auditees are using similar off-the-shelf software packages with no customisation.

It is against the roles and responsibilities outlined above that the following focus areas were set for audit of IT in the province at both the departments and public entities.

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

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

- Program change management
- Facilities management
- Data centre management

## 3.3.2 Deficiencies identified in information technology management

Information technology management for financial systems was evaluated at 12 departments and seven public entities in the province.

Key areas in the management of IT where deficiencies were identified are summarised in the table below.

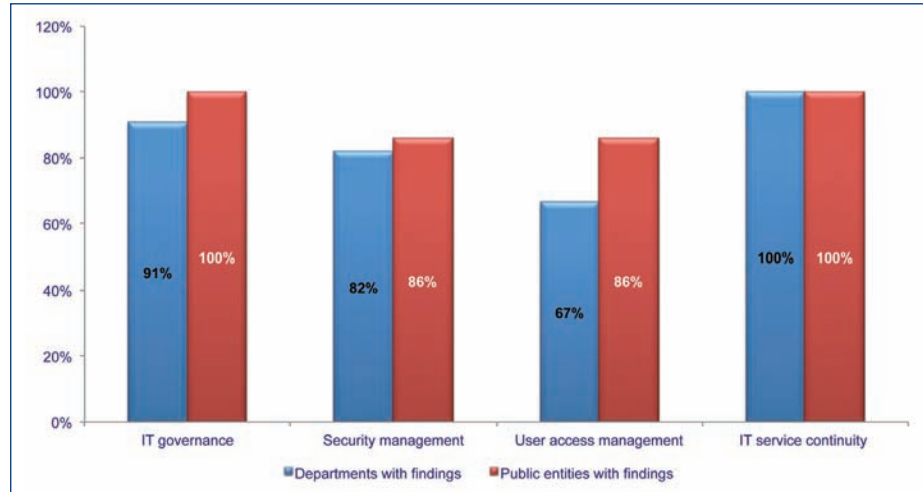
Focus area	Outline of aspects audited	Incidence of control weaknesses identified			
		Departments		Public entities	
		Number audited	Percentage with findings	Number audited	Percentage with findings
<b>IT governance</b>	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	11	91%	7	100%
<b>Security management</b>	Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information	11	82%	7	86%
<b>User access management</b>	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	12	67%	7	86%
<b>IT service continuity</b>	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	12	100%	7	100%

Key issues within the Gauteng Province can be summarised as follows:





Figure 22: Identified control deficiencies in management of information technology



### IT governance

Ten (91%) departments and seven (100%) public entities had findings pertaining to IT governance.

### Departments

The provincial IT governance framework that was drafted by the provincial treasury had not been approved and implemented due to the delayed roll out of the government-wide IT governance framework by the DPSA to which it should be aligned. As a result, the following governance processes were not implemented at the majority of the departments, namely service level agreements were not monitored, inadequate risk management processes, IT steering committees were not functioning as intended, IT strategic plan not approved, responsibilities for the key IT positions not delegated and IT policies and procedures not formally established.

Although there was no IT governance framework at one department (Department of Roads and Transport), adequate governance processes had been designed and implemented, namely IT steering committee meets on a regular basis, IT strategic issues were discussed and monitored, IT risk management assessments were performed and recorded, formalised service level agreements were in place and vendor performance was monitored monthly.

### Public entities

All public entities did not design and implement an IT governance framework. The informal governance processes used were also not adequate resulting in the following governance processes that were not implemented, namely IT strategic plan was not formalised, informal service level agreements that were not monitored, IT policies and procedures not formally established, inadequate risk management processes and responsibilities of key IT functions not delegated.

### Security management

Nine (82%) departments and six public entities (86%) had findings regarding security management.

### Departments

The provincial treasury, which centrally manages security for all departments, had established and rolled out IT security policies for customisation and implementation by the departments, depending on the size and complexity of their IT environments. However, departments had not fully customised and implemented the security policies, resulting in inadequate protection of the local area networks as password settings were inadequate and audit trails were not reviewed.

### Public entities

Only one out of the seven entities selected and audited had developed and approved a security policy that sets requirements in line with generally accepted good practice security principles. The lack of security management controls at the six entities led to security management weaknesses such as inadequate password settings, inadequate review of administrator activities and audit trails. Furthermore, vendors' access to the application systems databases was not monitored.

### User access management

Eight (67%) departments and six (86%) public entities had findings pertaining to user access management.

### Departments

Although the provincial treasury documented the user access management procedures for BAS, Persal and Active Directory, these were not approved. Furthermore, user account management policies and procedures for application systems used at departments, e.g. BAUD were also not approved. As a result, formal processes to ensure that terminated accounts were removed and processed

to ensure that employee's access is in line with job responsibilities, did not exist, reviews of unauthorised access to the application did not take place and activities of persons with controller attributes were not formally monitored.

SAP user account management processes that had been designed by the provincial treasury were inadequate to mitigate financial risks, as a result access for users who had left the employ of the departments had not been terminated on the system, and processes to ensure that employee's access was in line with job functions, did not exist.

### Public entities

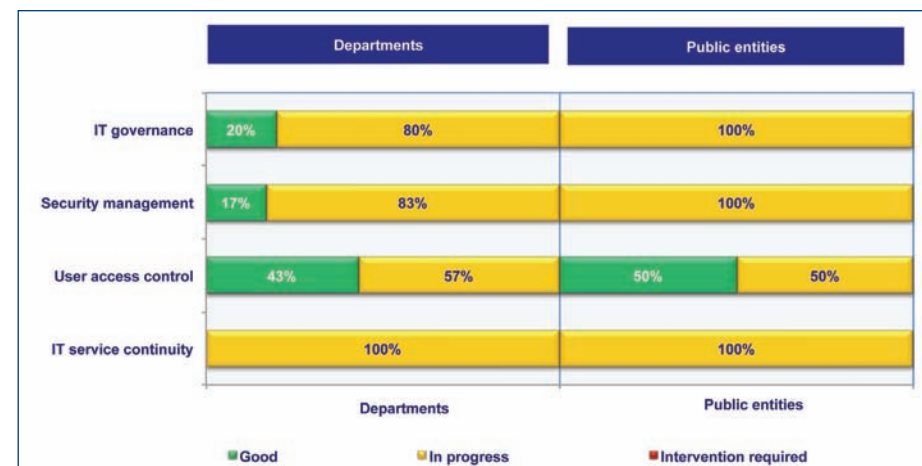
Only one out of the seven entities audited had approved user account management policies, while the remaining six entities had documented policies and procedures which were not approved.

### IT service continuity

Adequate and approved business continuity plans (BCPs) and disaster recovery plans had not been established at all departments and public entities.

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 23: Progress in addressing prior year IT findings



There was some progress in addressing previous year's findings by management as the majority of management commitments was partially implemented, although management attention is still required to ensure that commitments are addressed fully. In most areas management has designed the controls; however, they are inadequately implemented.

Findings that require immediate management intervention as they are repeated findings can be summarised as follows:

- IT governance – Departments in progress had drafted IT governance frameworks and processes, such as IT steering committees, strategic plans and risk management processes, although these were not yet approved. Seventeen per cent of departments had implemented good governance processes, even though they did not have a formal IT governance framework in place and 17% of departments have had repeat findings that were not addressed by management. The DPSA should approve and roll out the IT governance framework for implementation by the departments.
- Security management – Departments in progress had drafted security management policies that were not yet approved and rolled out, pending the government-wide IT security framework that had not been finalised by the DPSA. Twenty-nine per cent of departments had implemented good IT security controls



using informally designed controls. The provincial treasury should develop baseline system security settings and network security policies for implementation by departments.

- User account management – Departments in progress had drafted user account management policies that were not yet approved. Fifty per cent of departments had designed and implemented controls adequately. The provincial treasury should formalise user account management procedures for BAS and Persal and these should be adhered to.
- IT service continuity – Departments in progress had developed controls around IT continuity that still needed to be approved and 11% had no controls in place. Accounting officers should provide leadership in the development of business continuity plans and disaster recovery plans.

#### **Public entities**

- IT governance – All the public entities made some progress in designing controls around IT governance, with 100% having drafted IT governance frameworks and processes, such as IT steering committees, strategic plans and risk management processes. Public entities should ensure that they develop and implement an IT governance framework within their entities. Consideration to utilise the DPSA IT governance framework should be made.
- Security management – Public entities had made some progress in designing controls pertaining to IT security policies and procedures with 100% having draft policies in place. Security standards should be developed by public entities and these should be adhered to.
- User account management – Public entities made some progress in designing controls pertaining to user account management, with 50% having designed controls in the form of policies and procedures although these were still in draft and were not yet approved. Fifty per cent of departments had designed and implemented controls adequately. Formal user account management policies and procedures should be developed by public entities and adhered to.
- IT service continuity – Public entities made some progress in designing controls pertaining to IT service continuity with 100% having business continuity plans, disaster recovery plans and other IT continuity standards; however, this was not approved. The accounting officers should provide leadership in the development of business continuity plans.

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

The overall root cause is the lack of monitoring the implementation of management commitments.

#### **Departments**

- IT governance – The key root cause was the absence of an IT governance framework that had not been rolled out by the DPSA.
- Security management – The key root cause was lack of security standard guidelines.
- User account management – The key root cause was management that had not prioritised the documentation of user account management policies.
- IT service continuity – The key root cause was the shortage of funds and IT was not prioritised.

#### **Public entities**

- IT governance – The key root cause was the absence of an IT governance framework.
- Security management – The key root cause was lack of security standard guidelines.
- User account management – The key root cause was that the public entities were small and therefore they had few users on the application system.
- IT service continuity – The key root cause was the shortage of funds and IT was not being prioritised.

#### **Way forward**

##### **Departments**

- Provincial internal audit should be more involved in tracking the progress with regard to implementation of management commitments, proactively and continuously.
- The CIO council should be used as a forum where progress and implementation of management commitments are tracked and resolutions are shared.
- The accounting officers should be sensitised about the state of IT within the department as they would be ultimately responsible for the implementation of management commitments.

### **Public entities**

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

### **Commitments**

#### **Departments**

- The CIO at the Department of Finance (provincial treasury division), who is also the chairperson of the CIO council, committed that the issues raised by the AGSA will be part of the agendas for the CIO council. This will facilitate the resolution of these issues and promote knowledge sharing amongst departments.
- The CIO at the Department of Finance (provincial treasury division) also committed that the security management will be the main focus in the current financial year. A single sign-on technology was being introduced where all departments will be on the WAN and follow the security parameters set by the Department of Finance (provincial treasury division).

#### **Public entities**

- No overall commitments were received from public entities.

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

Although there are shared services at the provincial Department of Finance, there were still areas of concerns with regard to IT in the province. As the new department was established in April 2010, there was still uncertainty on the roles and responsibilities within the IT department, as a result minimal progress was made in implementing IT controls.

Baseline security policies were not developed as a result the security parameters on the network were inadequate.

There were also concerns from the departments with regard to the service level agreement between the Department of Finance (provincial treasury division) and

departments. When the WAN is down, sometimes it was too long for it to start working again as there was no redundancy.

The CIO council will play a major role in ensuring that the management commitments are implemented and also that there is sharing of resolutions for IT issues.



## SECTION 4: INITIATIVES AND COMMITMENTS FROM KEY PROVINCIAL AND NATIONAL ROLE PLAYERS

### 4.1 The function of key 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

The AGSA has, since August 2011, 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 15: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit**

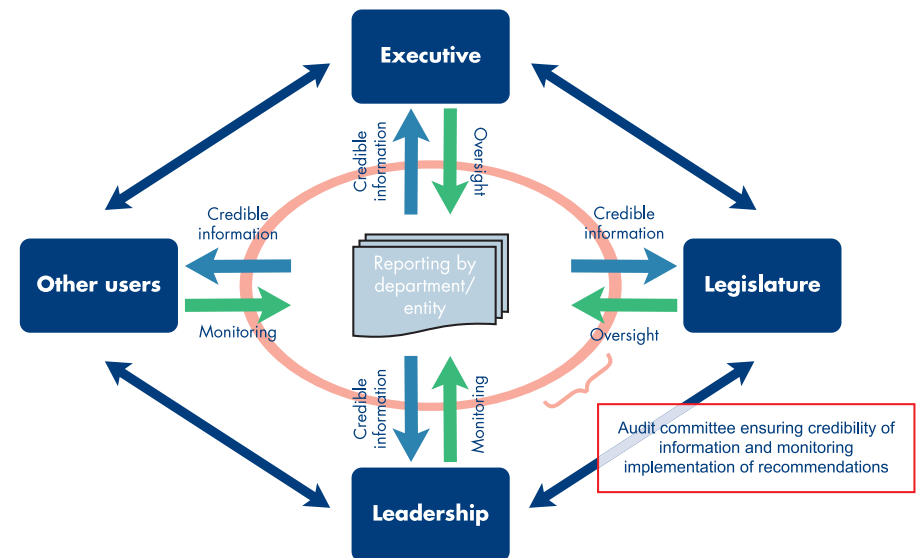
	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
Oversight accountability	Provincial executive leadership (Premier and MEC Finance)	Red	Yellow	Yellow	Yellow	Red	Yellow	Green
	Coordinated Provincial oversight (Provincial standing committees and provincial speaker's forum)	Red	Yellow	Yellow	Yellow	Red	Yellow	Green
	Accounting officers, accounting authorities, CFOs and senior officials							
Administrative accountability								
<div><div>Good progress</div><div>In progress</div><div>Intervention required</div></div>								

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

#### 4.1.2 Audit committees

An audit committee is established in terms of the PFMA legal framework to serve as an independent governance structure whose function is to provide an oversight role on the systems of internal control, compliance with legislation, risk management and governance. In performing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities with the ultimate aim of achieving the organisation's objectives. The role of the audit committee worldwide is evolving and audit committees need to look wider than the actual prescript duties and focus on the intent of legislation rather than the written word. In the public sector this means that audit committees need a level of maturity in order to serve society as a whole.

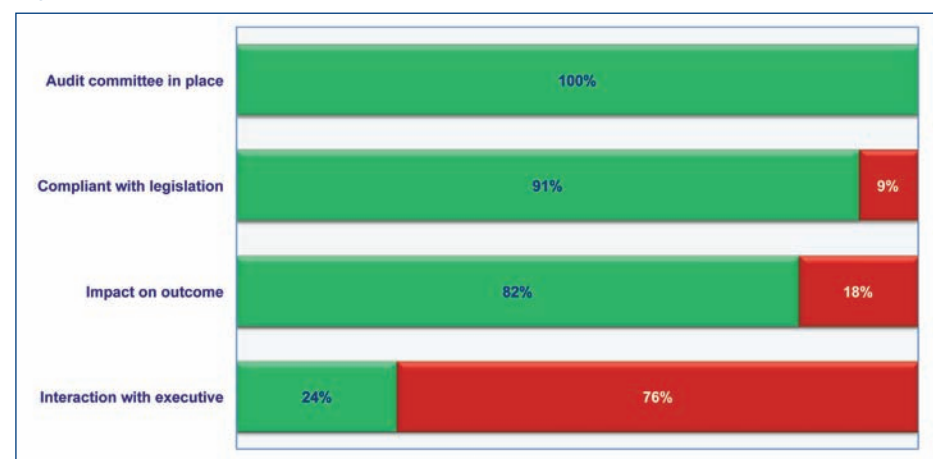
**Figure 24: Role of the audit committee in reporting**



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 25 below depicts the current status and effectiveness of audit committees within the Gauteng provincial administration, while individual status per auditee is indicated in annexure 7 to this report.

**Figure 25: Effectiveness of audit committees**



All 12 departments and 22 public entities had audit committees in place for the period under review, as prescribed by the PFMA and related treasury regulations. Most of the audit committees complied with the relevant legislation. However, the interaction with the executive was not at the required level. This hampered the impact that audit committees had on the audit outcomes. The audit committees were not effective in addressing deficiencies in the areas of compliance with laws and regulations, predetermined objectives and the financial statements preparation process. Going forward, the audit committees need to provide regular feedback to the executive on the following:

- Adherence to approved SCM processes
- Compliance with laws and regulations
- Reporting on predetermined objectives
- Quarterly financial statements
- Development and implementation of action plans to address audit findings.

## Reporting by the audit committees

The PFMA requires the accounting officer to appoint an audit committee which reports and makes recommendations to the accounting officer. This leads to a situation where the very same person who presents the status and effectiveness of systems of internal control, compliance with legislation and risk management is also the recipient of the recommendations.

Although the legislation clearly assigns the responsibility for implementation to the accounting officer and not the audit committee, the process creates a circular effect not conducive to accountability and transparency. At public entities this effect is compensated for by a Board of Directors consisting of more than one person as the accounting authority.

At the public entities the chairpersons of the audit committees report to the entity's executive authority. The chairpersons of the cluster audit committees for departments and trading entities report to the chairperson of the provincial audit committee. The consolidated provincial audit committee report is then tabled by the MEC of Finance at the provincial executive committee.

Audit committee chairpersons need to have direct access to the MECs/accounting authorities so as to enhance their advisory and oversight roles.

## Implementation of recommendations

The implementation of recommendations is core to the distinction between an audit committee being compliant or operational and being effective. Currently and in the absence of interaction with the executive and portfolio committees, there are no mechanisms to oversee and monitor the implementation of audit committees by the accounting officer. It is the implementation of recommendations rather than the recommendation as such that drives improved systems of internal control, monitoring and supervision and, ultimately, improved outcomes.

Effectiveness of audit committees is dependent on the support and respect received from the leadership of the province. The leadership should ensure that the audit committees are afforded sufficient time as well as financial and other resources to effectively fulfil their responsibilities. An effective audit committee will, in turn, assist



the province by ensuring, through appropriate interactions, that it is able to produce credible reports on performance and financial management which will enhance oversight and transparency, thereby building public confidence.

In addition, the effectiveness of an audit committee is mostly dependent on a properly resourced and skilled internal audit function that produces timely, relevant and quality reports focused on systems of internal control.

#### 4.1.3 Commitments and actions by provincial executive leadership and oversight

Responses and commitments emanating from the September/October 2011 interactions and roadshows are outlined below.

**Table 16: Responses and commitments by the provincial executive leadership**

Outline of role player commitment/ proposed action plans October 2011 Supply chain management		Focus areas targeted by commitments and action plans							
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	Compliance with laws and regulations
<b>Provincial executive leadership</b>									
1	The portfolio committees will work more closely with the provincial public accounts committee in pursuit of more effective oversight.								
2	The portfolio committees will extend an invitation to the AGSA for participation in the committee; this is aimed at ensuring effective oversight.								
3	MECs to engage quarterly with the audit committees on the effectiveness of internal controls, quality of financial statements and internal audit.								
4	Quarterly key controls discussion between the AGSA and MECs will now also include the portfolio committees, audit committees and internal audit.								
5	Conditional grants and infrastructure funds will be ring-fenced to ensure that suppliers are paid timeously and that grants are spent optimally.								

Outline of role player commitment/ proposed action plans October 2011 Supply chain management		Focus areas targeted by commitments and action plans							
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	Compliance with laws and regulations
6	A provincial road map will be developed and implemented to address IT deficiencies.								
7	The provincial finance department will continue to provide monthly and quarterly reports to the provincial executive to strengthen effective oversight, with a specific focus on the sharing of good practices.								
8	To coordinate and collaborate with the National Health Ministry to address the qualifications at the Department of Health and Social Development.								
9	Preparation of quality monthly financial statements with supporting notes and disclosures.								
<b>Provincial treasury</b>									
1	The provincial treasury will assist departments by tracking the implementation of the following targeted interventions: - Automation of the ordering process, to ensure accurate information is available to the MECs to curb unauthorised expenditure arising from manual orders. - Monitoring of the departments' management of asset registers monthly. - Monthly reporting of departmental irregular, fruitless and wasteful expenditure, and reporting on disciplinary action taken against those who were responsible for incurring the irregular, fruitless and wasteful expenditure.								
2	Facilitating a training session on the Gauteng provincial SCM manual with departments.								



Outline of role player commitment/ proposed action plans October 2011 Supply chain management		Focus areas targeted by commitments and action plans							
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures	Compliance with laws and regulations
3	Training and development of staff in offices of the chief financial officers.								
4	Establish operation clean audit committee (OPCA) for departments.								
5	Review of the departments' quarterly financial statements.								
6	Develop a proper system to enhance record management to ensure that supporting documentation is easily retrievable.								
<b>Provincial public accounts committee</b>									
1	Review of the annual reports on a timely basis and recommendation of resolutions to the legislature.								

Post-audit commitment/initiative (new)
  Commitment/initiative from prior year

#### 4.1.4 Status of PPAC oversight resolutions

At year-end, 73 PPAC resolutions out of a total of 104 had been resolved and 30 were in progress. The provincial treasury (division of the Department of Finance) assists the PPAC in the evaluation of replies submitted by departments and public entities. The resolutions listed below as outstanding 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 17: Status of implementation of PPAC resolutions

Auditee	Total number of resolutions	Number of resolutions resolved during 2010-11	Number of resolutions in progress	Number of resolutions not actioned
<b>Departments</b>				
Gauteng Department of Agriculture and Rural Development	5	5	0	0
Gauteng Department of Community Safety	7	7	0	0
Gauteng Department of Education	12	8	4	0
Gauteng Department of Health and Social Development	18	12	6	0
Provincial Legislature	4	4	0	0
Gauteng Department of Roads and Transport	11	3	8	0
Gauteng Department Sport, Arts, Culture and Recreation	4	1	3	0
Gauteng Department of Finance	8	8	0	0
Gauteng Department of Infrastructure Development	17	11	6	0
<b>Public entities</b>				
g-Fleet	3	2	0	1
Medical Supplies Depot	15	12	3	0
<b>Total</b>	<b>104</b>	<b>73</b>	<b>30</b>	<b>1</b>

The resolutions related, where applicable, to reporting on financial statements, reporting on predetermined objectives, compliance with laws and regulations and investigations.



## 4.2 Initiatives taken by the AGSA to encourage clean administration

The initiatives committed to 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.
- Quarterly visits to executive authorities to review and give feedback on the 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 assess adequacy and progress made on implementation of actions plans.

## 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 annexures and included in the disclosures to the financial statements from the 2011-12 financial year. Departments do not have the appropriate systems and internal controls in place for this accounting treatment and could result in negative audit outcomes.

### *Susceptibility of assets or liabilities to loss or fraud*

- Proper control systems were not implemented for 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 indicates the susceptibility for fraud.
- Officials continued involvement with private businesses, non-declaration of these interests and non-approval for this work is concerning.

# SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT

## 5.1 Background

The audits conducted by the AGSA at departments (including Parliament and the legislature), 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 that minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

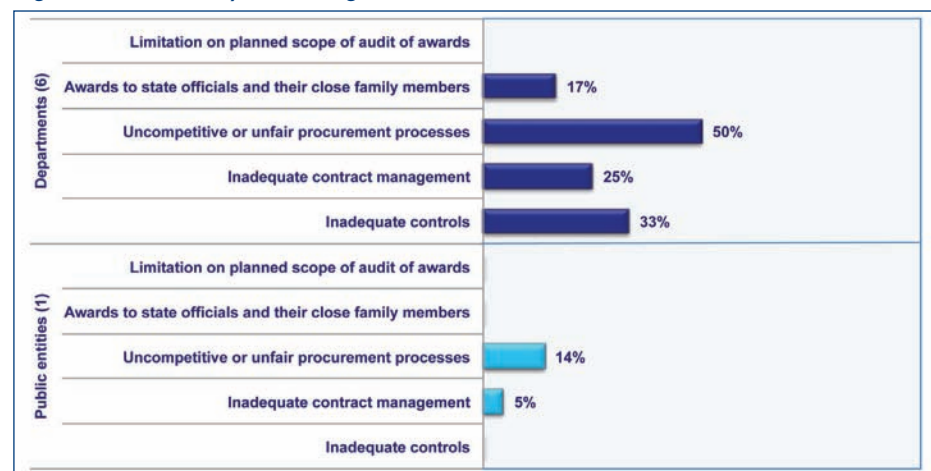
This assessment was performed at all of the 12 departments and 22 public entities where the audits were finalised by 30 September 2011.

As is evident from the analysis of irregular expenditure (section 2.4.3), R3 billion (63%) at the departments and R20,5 million (100%) at public entities, the irregular expenditure incurred was as a result of the contravention of SCM legislation. Sixty-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:

- SCM officials not aware of SCM policies
- Disregard of SCM policies and requirements
- Inadequate monitoring processes to detect contravention of legislation

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

Figure 26: Summary of findings on SCM



## 5.2 Awards to state officials and their close family members

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

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

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

The table below depicts the audit findings for the auditees where interests were identified.

Table 20: Awards to state officials and their close family members

Auditee	Awards made to				Non-compliance with regard to awards made									
	Officials		Close family members of officials		Supplier did not declare interest		Official was involved in making award		Official was involved in making award		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Departments														
Gauteng Department of Health and Social Development	8	4 105	9	3 684	17	7 781	17	7 781			8	4 105	8	4 105
Gauteng Department of Infrastructure	4	147					4	147			4	147		
Total	12	4 252	9	3 684	17	7 781	21	7 928			12	4 252	8	4 105
Percentage of auditees tested	100%		100%		100%		100%		100%		100%		100%	

## 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 comes from our Constitution. Legislation, most 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 process does 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 357 contracts (R1,9 billion) and 588 quotations (R268,3 million) were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the table below.

**Table 21: Findings on uncompetitive or unfair procurement processes**

Auditee	Competitive bids not invited		Bids not advertised through public media		Three written quotations not invited – not approved		No declaration of interest submitted		Procurement from suppliers without SARS tax clearance		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
<b>Departments</b>												
Gauteng Department of Health and Social Development	2	26 648			1	2 887	1	*			1	*
Gauteng Department of Infrastructure	1	7 038	1	319 410	1	100	1	319 410			9	1 206 207
Gauteng Department of Roads and Transport	2	787 856			1	4 678	4	6 758			2	4 308
Gauteng Department of Finance									1	12 471		
Gauteng Department of Housing and Local Government	1	1 745							1	295	1	7 058
Gauteng Department of Economic Development							1	49 388			1	8 925
<b>Public entities</b>												
Cost Recovery Trading Account	1	1 446										
Blue IQ Investment Holding (Pty) Ltd	1	478										
Greater Newtown Development Company											1	220
<b>Total</b>	<b>8</b>	<b>825 211</b>	<b>1</b>	<b>319 410</b>	<b>3</b>	<b>7 665</b>	<b>7</b>	<b>375 556</b>	<b>2</b>	<b>12 766</b>	<b>15</b>	<b>1 226 718</b>
<b>Percentage of auditees tested</b>	<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>	

\* Amounts could not be quantified

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.

**Bids not advertised** – Inviting competitive bids through advertising provides prospective suppliers with an equal opportunity to bid for a public sector contract. Competitive bids were identified that were not advertised through public media and the deviation was approved even though it was practical to advertise through public media.

**Three written quotations not submitted and deviation not approved** – A price quotation process should be followed for the procurement of goods and services of a lower value. The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee.

**No declaration of interest submitted** – Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers that did not submit the required declaration.

**Procurement from suppliers without South African Revenue Service (SARS) tax clearance** – Awards were made to suppliers who failed to provide written proof from SARS that their tax matters were in order.

Other major findings include the following:

- Bids specifications not compiled by properly constituted specification committee.
- Criteria applied in evaluation differed from the originally specified.
- Project not registered with Construction Industry Development Board (CIDB) within 21 working days.
- Total payments under quotations exceeded original quoted amount.
- Deviations from tender processes above R1 million were not reported to the AGSA within 10 working days
- Invitation/calls for expression not done via CIDB website

## 5.4 Inadequate contract management

Shortcomings in the manner that contracts are managed result in delays, wastage and fruitless expenditure, which impact directly on service delivery to the citizens.

Findings on contract management are summarised in the table below.

**Table 22: Findings on contract management**

Auditee	Contract price more than tender		Contracts extended or renewed to circumvent competitive bidding processes		No signed contract/ not signed by delegated official		Payments made in excess of approved contract price (with further approved extensions)	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000
<b>Departments</b>								
Gauteng Department of Health and Social Development					326	357 416	2	27 415
Gauteng Department of Infrastructure							1	133 261
Gauteng Department of Roads and Transport			1	1 525 786	1	100 090	1	113
<b>Public entities</b>								
Cost Recovery Trading Account			1	1 446				
<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1 527 232</b>	<b>327</b>	<b>457 506</b>	<b>4</b>	<b>160 789</b>
<b>Percentage of auditees tested</b>	<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>	

Further details on the findings are as follows:

Contract price more than tendered price – Supplier was contracted for the delivery of goods and services at prices that were higher than the prices submitted with their tenders and no justification was provided for the increase.

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.

No signed contract or contract not signed by delegated official – Goods and services were received and payment was made to suppliers without written signed contracts.

Payments made in excess of approved contract price (with further approved extensions) – 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.

## 5.5 Inadequate SCM controls

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

**Table 23: Findings on SCM controls**

Auditee	Code of conduct for ethical behaviour in SCM processes not adopted	Inadequate controls to ensure interest is declared	Risk assessment did not address SCM	SCM officials not adequately trained	SCM policies, procedures or fraud prevention plan did not provide measures for preventing the abuse of SCM system	Other controls
<b>Departments</b>						
Gauteng Department of Health and Social Development						
Gauteng Department of Infrastructure						
Gauteng Department of Roads and Transport						
Gauteng Department of Housing and Local Government						
<b>Total</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>Percentage of auditees tested</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Further details on the findings are as follows:



Code of conduct for ethical behaviour in SCM process not adopted – A code of conduct to regulate ethical behaviour in the SCM process was not adopted at all auditees.

Inadequate controls to ensure interest is declared – The controls at some auditees were inadequate to ensure that officials declare whether they or their close family members, partners and associates have interests in suppliers or in a contract to be awarded and that they withdraw from the process involving such contract.

Risk assessment did not address SCM – SCM is generally an area of considerable risk at most of the auditees. However, the risk was not recognised in the risk assessments performed at these auditees.

SCM officials not adequately trained – Some officials involved in the implementation of the SCM policy were not adequately trained to perform their duties effectively.

SCM policies, procedures or fraud prevention plan did not provide measures for preventing the abuse of SCM system – The SCM policies, procedures and/or fraud prevention plan did not always provide for measures to prevent the abuse of the SCM system.

Other major findings include the following:

- Fraud prevention plan – No measures for preventing and detecting fraud in procurement.
- Roles and responsibilities for management and coordination of SCM unit not clearly assigned.
- No actions taken to address SCM risk identified.

## 5.6 Overall conclusion on SCM matters

The prevalence of non-compliance with SCM regulations remains a challenge for the province. The irregular expenditure incurred resulted mostly from procurement processes not followed at six departments and six public entities.

Lack of implementation of commitments made by the executive in 2010 to address the non-compliance issues resulted in an increase in irregular expenditure by 17% from the amount reported in the prior financial year. The commitments not

implemented mainly related to:

- review of delegations of authority for SCM
- monthly reporting and review of irregular, fruitless and wasteful expenditure
- training on SCM regulations.

The audit of SCM revealed various control deficiencies at the SCM units of departments and public entities. The most prevalent deficiency was deviations from normal bidding processes. Main reasons for deviations are lack of understanding and incorrect interpretation of the definition of irregular expenditure or applicable legislation and lack of proper planning resulting in unjustifiable reasons. There is also a concern of circumvention of SCM processes and controls by senior management.

Deviations from competitive bidding processes were found to be approved at some of these auditees but not on justifiable grounds as outlined in legislation. In most instances the deviations could have been prevented through better planning.

The leadership is required to take serious action to prevent irregular expenditure by implementing processes for monitoring compliance, ensuring adherence to processes and procedures for SCM and fraud prevention and detection and active governance by risk management, internal audit and audit committees.

A lack of oversight and SCM personnel not having the required skills were the major contributors to SCM findings. Non-compliance with legislation by officials also resulted in awards made to persons in the service of the state.

Proper oversight by the leadership, implementation and monitoring of controls and implementation of corrective measures against transgressors of SCM policies can reduce the risks that are currently faced by the province in the SCM of departments and public entities.

## 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. At this time, the Department of Finance (provincial treasury division) has not yet been able to prepare the required consolidation. The Department of Finance (provincial treasury division) 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 Department of Finance (provincial treasury division) is urged to ensure that processes are put in place to rectify this non-compliance.

Due to the above, the AGSA is not able to issue an auditor's report on the fair presentation of the financial statements but instead separate factual finding auditor's reports are issued for the departments, the legislature and the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in table 24 below.

**Table 24: Status of the audit of consolidated financial statements**

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

The consolidated financial statements of departments and public entities for the 2010-11 financial year were received on 30 June 2011. The Department of Finance (provincial treasury division) is currently in the process of updating the consolidated financial statements of departments and public entities due to the material misstatements identified by the auditors of the departments and public entities. The audit is currently in progress and the anticipated reporting date is 30 November 2011.

## SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments or public entities to table in the provincial legislature 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 below.

**Table 25: Annual reports tabled by departments, public entities and other entities**

Auditee type	Percentage of reports tabled at 31 August 2011	
	2010-11	2009-10
Departments	0%	100%
Public entities	0%	100%
Trading entities	0%	100%
<b>Total</b>	<b>34</b>	<b>43</b>

Annual reports for 2010-11 have not yet been submitted to the legislature as the tabling of these annual reports had been postponed until 23 September 2011, on request from the speaker.

All Gauteng departments and provincial entities tabled the 2009-10 annual reports, except for the Gautrain Management Agency, that only tabled the annual report on 21 October 2010.





## CONCLUSION

The attainment of clean administration for the Gauteng Provincial Government is a possibility as evidenced by the two departments and seven public entities that achieved clean audit outcomes. The interventions of the strategic stakeholders for other departments and public entities that have not yet translated into improved audit outcomes should be enhanced by addressing the challenges highlighted in this report.

Implementation of commitments aimed at improved audit outcomes is important and the leadership is encouraged to prioritise the implementation. A concerted effort is required by the leadership of the province, with the support of the Department of Finance (provincial treasury division) and the provincial operation clean audit committee to achieve positive audit outcomes and to improve in the areas of concern.

The repetitive audit findings on the audit of predetermined objectives, the regression of controls relating to non-compliance with laws and regulations and the significant increase in unauthorised, irregular, fruitless and wasteful expenditure could delay the attainment of clean administration if left unattended. The IT environment, and in particular the transaction processing environment, is the foundation for accurate financial reporting, yet there continues to be key findings in this area. Effective governance arrangements, namely audit committees and internal audit units to provide assurance are crucial in assisting management in establishing a sound internal control environment and performing ongoing evaluation and monitoring of management's compliance with controls and progress in implementing the action plans.

The increase in a number of material misstatement adjustments in financial statements despite the use of consultants is cause for concern. The provincial leadership needs to ensure that consultants are properly supervised and monitored to ensure the transfer of skills to staff of the departments and public entities.

We wish to reiterate our critical message to the provincial government executive leadership that it is possible to obtain clean audit outcomes if key controls are institutionalised and constantly monitored by the leadership. The sustainability of clean audit outcomes at one department and seven public entities is testimony to this.

We are, however, confident that the challenges are not insurmountable and we remain committed to partnering with provincial government to assist in the process of identifying and disseminating good practices to improve governance and accountability, to build public confidence.

## ANNEXURES TO THE GENERAL REPORT

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

No.	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	Department of Community Safety	Financially unqualified with findings			Financially unqualified with findings														
2	Department of Agriculture and Rural Development	Financially unqualified with findings			Financially unqualified with findings														
3	Department of Health and Social Development	Qualified			New department														
4	Department of Infrastructure Development	Financially unqualified with findings			Qualified														
5	Department of Roads and Transport	Financially unqualified with findings			Financially unqualified with findings														
6	Department of Economic Development	Financially unqualified with findings			Financially unqualified with findings														
7	Education	Financially unqualified with findings			Financially unqualified with findings														
8	Department of Finance	Financially unqualified with findings			New department														
9	Department of Housing and Local Government	Financially unqualified with findings			New department														



No.	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
10	Office of the Premier	Financially unqualified with no findings			Financially unqualified with no findings														
11	Provincial Legislature	Financially unqualified with no findings			Financially unqualified with findings														
12	Provincial Revenue Fund	Audit not finalised at legislated date			Financially unqualified with no findings														
13	Department of Sports, Arts, Culture and Recreation	Financially unqualified with findings			Financially unqualified with findings														
Public entities																			
14	AIDC Development Centre	Financially unqualified with findings			Financially unqualified with findings														
15	Blue Catalyst Investment Company (Pty) Ltd	Financially unqualified with no findings			Financially unqualified with no findings														
16	Blue IQ Investment Holdings (Pty) Ltd	Financially unqualified with findings			Qualified														
17	Constitutional Hill Development Company	Financially unqualified with findings			Financially unqualified with findings														
18	Cost Recovery Trading Entity	Financially unqualified with findings			Financially unqualified with no findings														

No.	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
19	Cradle of Humankind Trading Entity	Financially unqualified with findings			Financially unqualified with findings														
20	Dinokeng World Heritage Trading Entity	Financially unqualified with findings			Financially unqualified with findings														
21	g-Fleet Management	Financially unqualified with findings			Disclaimer														
22	Gauteng Economic Development Agency	Financially unqualified with no findings			Financially unqualified with no findings														
23	Gauteng Enterprise Propeller	Financially unqualified with no findings			Financially unqualified with no findings														
24	Gauteng Film Commission	Financially unqualified with no findings			Financially unqualified with no findings														
25	Gauteng Fund Project Office	Financially unqualified with findings			Financially unqualified with findings														
26	Gauteng Gambling Board	Financially unqualified with no findings			Financially unqualified with no findings														
27	Gauteng Housing Fund	Qualified			Qualified														
28	Gauteng Liquor Board	Financially unqualified with findings			Qualified														
29	Gauteng Partnership Fund	Financially unqualified with no findings			Financially unqualified with no findings														
30	Gauteng Tourism Authority	Financially unqualified with findings			Financially unqualified with no findings														



No.	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
31	Gautrain Management Agency	Financially unqualified with no findings			Financially unqualified with no findings														
32	Greater Newtown Development Company	Financially unqualified with findings			Financially unqualified with findings														
33	Gauteng Medical Supplies Depot	Financially unqualified with findings			Disclaimer														
34	Supplier Park Development Co	Financially unqualified with findings			Financially unqualified with findings														
35	The Innovation Hub	Financially unqualified with findings			Financially unqualified with findings														
<b>Public entities (not audited by the AGSA)</b>																			
36	Blue Catalyst Matching Fund Trust	Financially unqualified with no findings			Financially unqualified with no findings														

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

No.	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	Department of Community Safety													
2	Department of Agriculture and Rural Development													
3	Department of Health and Social Development													
4	Department of Infrastructure Development													
5	Department of Roads and Transport													
6	Department of Economic Development													
7	Education													
8	Department of Finance													
9	Department of Housing and Local Government													
10	Office of the Premier													
11	Provincial Legislature													
12	Department of Sports, Arts, Culture and Recreation													
Public entities														
13	AIDC Development Centre													
14	Blue Catalyst Investment Company (Pty) Ltd													
15	Blue IQ Investment Holdings (Pty) Ltd													
16	Constitutional Hill Development Company													
17	Cost Recovery Trading Entity													
18	Cradle of Humankind Trading Entity													
19	Dinokeng World Heritage Trading Entity													
20	g-FleeT Management													





No.	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
21	Gauteng Economic Development Agency													
22	Gauteng Enterprise Propeller													
23	Gauteng Film Commission													
24	Gauteng Fund Project Office													
25	Gauteng Gambling Board													
26	Gauteng Housing Fund													
27	Gauteng Liquor Board													
28	Gauteng Partnership Fund													
29	Gauteng Tourism Authority													
30	Gautrain Management Agency													
31	Greater Newtown Development Company													
32	Gauteng Medical Supplies Depot													
33	Supplier Park Development Co													
34	The Innovation Hub													

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

No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material underspending of vote/ conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	SCM-related	Compensation of employees related	Other	Total				
Departments													
1	Department of Community Safety	7 141 422	0	0	7 141 422	0	0	0	0	0	0	0	
2	Department of Agriculture and Rural Development	0	0	0	0	0	2 945 000	0	2 945 000	0	0	0	
3	Department of Health and Social Development	1 168 514 000	0	0	1 168 514 000	503 419 000	1 337 852 000	404 850 000	2 246 121 000	217 978 000	0	698 427 000	
4	Department of Infrastructure Development	48 459 730	0	0	48 459 730	242 151 000	0	0	242 151 000	1 822 000	0	0	
5	Department of Roads and Transport	0	0	0	0	2 228 453 000	0	0	2 228 453 000	16 541 000	0	0	
6	Department of Economic Development	0	0	0	0	55 038 000	37 000	0	55 075 000	25 838 000	0	0	
7	Education	185 521 000	0	0	185 521 000	0	6 108 000	0	6 108 000	5 949 000	18 568 000	0	
8	Department of Finance	3 124 000	0	0	3 124 000	2 104 307	0	0	2 104 307	121 434 261	31 943 000	0	
9	Department of Housing and Local Government	23 767 000	0	0	23 767 000	2 040 610	0	7 407 516	9 448 126	1 824 684	12 706 000	0	
10	Office of the Premier	0	0	0	0	0	0	0	0	0	0	0	
11	Provincial Legislature	0	0	0	0	0	0	0	0	0	0	0	
12	Department of Sports Arts Culture and Recreation	0	0	0	0	0	0	0	0	0	0	0	



No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material underspending of vote/ conditional grant of vote/ conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	SCM-related	Compensation of employees related	Other	Total				
Public entities													
13	AIDC Development Centre												
14	Blue Catalyst Investment Company (Pty) Ltd												
15	Blue IQ Investment Holdings (Pty) Ltd	0	0	0	0	478 800	0	0	478 800	0	0	0	
16	Constitutional Hill Development Company	0	0	0	0	164 081,91	0	0	164 081,91	0	0	0	
17	Cost Recovery Trading Entity	0	0	0	0	1 446 000	0	0	1 446 000	0	0	0	
18	Cradle of Humankind Trading Entity	0	0	0	0	0	0	0	0	0	0	0	
19	Dinokeng World Heritage Trading Entity	0	0	0	0	0	0	0	0	0	0	0	
20	g-FleeT Management	0	0	0	0	17 922 000	0	0	17 922 000	1 818 000	0	0	
21	Gauteng Economic Development Agency	0	0	0	0	0	0	0	0	0	0	0	
22	Gauteng Enterprise Propeller												
23	Gauteng Film Commission	0	0	0	0	0	0	0	0	0	0	0	
24	Gauteng Fund Project Office	0	0	0	0	0	0	0	0	2 579 000	0	0	
25	Gauteng Gambling Board	0	0	0	0	0	0	0	0	0	0	0	
26	Gauteng Housing Fund	0	0	0	0	0	0	0	0	0	0	350 498 611	
27	Gauteng Liquor Board	0	0	0	0	852 000	0	0	852 000	4 671 000	0	0	
28	Gauteng Partnership Fund	0	0	0	0	0	0	0	0	0	0	0	
Public entities													
29	Gauteng Tourism Authority	0	0	0	0	0	0	0	0	0	0	0	
30	Gautrain Management Agency												

No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material underspending of vote/ conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	SCM-related	Compensation of employees related	Other	Total				
31	Greater Newtown Development Company												
32	Gauteng Medical Supplies Depot	0	0	0	0	0	0	0	0	0	4 865 222	0	
33	Supplier Park Development Co	0	0	0	0	621 000	0	0	621 000	0	0	0	
34	The Innovation Hub												



## 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

No.	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	Department of Community Safety																																										
2	Department of Agriculture and Rural Development																																										
3	Department of Health and Social Development																																										
4	Department of Infrastructure Development																																										
5	Department of Roads and Transport																																										
6	Department of Economic Development																																										
7	Education																																										
8	Department of Finance																																										
9	Department of Housing and Local Government																																										
10	Office of the Premier																																										
11	Provincial Legislature																																										
12	Department of Sports, Arts, Culture and Recreation																																										

No.	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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
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No.	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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
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## ANNEXURE 5: Auditees with key findings on supply chain management

No.	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
<b>Departments</b>						
1	Department of Community Safety					
2	Department of Agriculture and Rural Development					
3	Department of Health and Social Development					
4	Department of Infrastructure Development					
5	Department of Roads and Transport					
6	Department of Economic Development					
7	Education					
8	Department of Finance					
9	Department of Housing and Local Government					
10	Office of the Premier					
11	Provincial Legislature					
12	Department of Sports, Arts, Culture and Recreation					
<b>Public entities</b>						
13	AIDC Development Centre					
14	Blue Catalyst Investment Company (Pty) Ltd					
15	Blue IQ Investment Holdings (Pty) Ltd					
16	Constitutional Hill Development Company					
17	Cost Recovery Trading Entity					
18	Cradle of Humankind Trading Entity					
19	Dinokeng World Heritage Trading Entity					
20	g-Fleet Management					
21	Gauteng Economic Development Agency					
22	Gauteng Enterprise Propeller					
23	Gauteng Film Commission					
24	Gauteng Fund Project Office					



No.	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
<b>Public entities</b>						
25	Gauteng Gambling Board					
26	Gauteng Housing Fund					
27	Gauteng Liquor Board					
28	Gauteng Partnership Fund					
29	Gauteng Tourism Authority					
30	Gautrain Management Agency					
31	Greater Newtown Development Company					
32	Gauteng Medical Supplies Depot					
33	Supplier Park Development Co					
34	The Innovation Hub					

## ANNEXURE 6: Auditees with key findings on IT focus areas

No.	Auditee	Focus areas						
		IT governance	Security management	User access management	IT service continuity	Program change management	Facility and environment controls	Data centre management
Departments								
1	Department of Community Safety							
2	Department of Agriculture and Rural Development							
3	Department of Health and Social Development							
4	Department of Infrastructure Development							
5	Department of Roads and Transport							
6	Department of Economic Development							
7	Education							
8	Department of Finance							
9	Department of Housing and Local Government							
10	Office of the Premier							
11	Provincial Legislature							
12	Department of Sports, Arts, Culture and Recreation							
Public entities								
13	AIDC Development Centre							
14	Blue IQ Investment Holdings (Pty) Ltd							
15	g-Fleet Management							
16	Gauteng Tourism Authority							
17	Gauteng Medical Supplies Depot							
18	Supplier Park Development Co							
19	The Innovation Hub							

PR 276/2011  
ISBN: 978-0-621-40418-0