



GENERAL REPORT
on the provincial audit outcomes of the **EASTERN CAPE**
2009-10



AUDITOR-GENERAL
SOUTH AFRICA



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

General Report

on the national audit outcomes of the Eastern Cape 2009-10

PR 07/2011

ISBN: 978-0-621-39868-7



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our constitutional'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 2009-10 general report to the Eastern Cape Provincial Legislature, which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature and provincial revenue fund, the provincial public entities and the schedule 3 public entities where the audits were not conducted by the AGSA, for the financial year ended 31 March 2010.

Improvements in audit outcomes were noted at two departments and five public entities. This was achieved as these departments and entities committed to very specific actions, which were continuously monitored by both management and governance structures. One department and one public entity regressed from unqualified with findings on predetermined objectives and compliance with laws and regulations to a qualified opinion. The remainder of audit outcomes remained unchanged.

The concerted effort and involvement of the provincial executive to improve the audit outcomes towards the end of the 2009-10 audit process, are commended. However, for the positive trend to be sustainable, it is imperative that this energy be translated into in-year monitoring initiatives that will instil effective financial management and oversight throughout the financial year. This can only happen if leadership sets the example by demanding regular in-year adherence to basic financial and performance management disciplines, coupled with monthly reporting. This will avoid the current situation where fairly presented financial statements are only possible after an extensive process of material adjustments to financial information submitted for audit purposes.

While it is pleasing to note the overall positive trend of improved audit outcomes in the province, the unfavourable audit outcomes of the Departments of Health and Education, both disclaimers of opinion, are still reason for grave concern. These two departments represent 76% of the provincial budget and their lack of progress towards clean administration therefore overshadows the notable strides made by other departments and entities in the province. To stabilise the control environment and instil related basic monthly disciplines at these two departments, the local treasury has proposed the centralisation of certain financial and human resource management functions under its wing, supported by an intense process of reworking structures, capacity and skill in these departments.

The executive has again pledged its commitment to address the negative audit outcomes through the development of dedicated turnaround plans and the establishment of a technical support unit (TSU) to support the implementation of these plans. The local treasury has further committed itself to an intense rethink of how supply chain management (SCM) processes can be reinforced in this province, given the huge negative impact of these on audit outcomes in the province, specifically at Health and Education. The proposed centralisation of these processes, coupled with independent reviews of major transactions in this regard throughout the period, are critical to stabilise this area.

Over and above attending to these basic monthly financial disciplines, the leadership in the province has pledged to focus attention on creating a solid basis for departments and entities to report on performance against predetermined objectives in future periods, with specific emphasis on providing appropriate system capacity. A number of key work sessions in this regard have already been set up to take this matter further.

We are encouraged by a number of other initiatives driven at provincial cabinet level. The disbanding of shared internal audit and audit capacities, creating individualised capacity will greatly assist management in all entities to deal with specific localised risk and control issues and will greatly enhance the ability of MECs to execute their oversight roles. The Speaker's efforts to improve oversight by the legislature and implement the planned measures to improve the effectiveness of SCOPA will further enhance these oversight capabilities. The executive has also recognised the need to improve the management of vacancies and to secure the environment within which computer systems are deployed.

The AGSA is committed to simpler, clearer and more relevant reporting and improving the visibility of the leadership at the auditee and other oversight bodies. This is being achieved through our quarterly key control reviews and workshops where progress made with turnaround plans is being monitored in support of the executive and the provincial legislature in their committed efforts to work towards achieving clean administrations.

In conclusion, I wish to thank the audit teams from my office and the audit firms that assisted in the Eastern Cape for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the province. Together, we will continue to make every effort to collaborate in order to accelerate the implementation of actions and contribute towards strengthening our country's democracy.

Auditor-General

**Auditor-General
Pretoria
December 2010**

SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of provincial government for the 2009-10 financial year as well as recommendations to those charged with governance and oversight on achieving financially unqualified audit opinions and eradicating findings on the reporting on predetermined objectives and compliance with laws and regulations.

2.1 Audits conducted by the Auditor-General of South Africa

Overview of audit outcomes

The PFMA audit cycle for the Eastern Cape portfolio comprises the audit of a provincial legislature, the Provincial Revenue Fund, 13 provincial departments and 12 public entities audited by the AGSA. The financial statements of all 13 (2009: 13) provincial departments, the legislature and 12 (2009: 12) public entities were submitted and the audits completed within the legislated deadlines. The audit of the Provincial Revenue Fund had not been finalised as at 31 August 2010 as the financial statements have not been submitted.

A high-level review of audit outcomes for the current and prior year is as follows:

Table 1: Summary of audit outcomes

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	2	0	0	1
Adverse	0	2	0	0
Qualified	2	3	3	2
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	9	6	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	3	0
Total number of audits reported on	14	14	12	12
Number of audits not finalised at 31 August 2010	1**	1*	0	0
Total number of audits	15	15	12	12
Auditees with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	14	11	9	9
Compliance with laws and regulations	14	8	8	9

* Provincial Revenue Fund financial statements for 2008-09 were submitted after the legislated date. The audit is in the reporting phase at the date of this report and the report is expected to be issued by 31 October 2010.

** The Provincial Revenue Fund financial statements for 2009-10 will only be submitted by the end of October 2010.

Highlights of the audit outcomes for 2009-10 are as follows:

- Public Works and Roads and Transport improved from qualified to unqualified with findings on predetermined objectives and compliance with laws and regulations. Public Works specifically set up an action plan to address the previous year finding on immovable assets and then vigorously monitored progress against the plan in order to improve its outcome.
- A special project was undertaken at Roads and Transport to address the root cause of the qualification on capital expenditure reported in the previous year. This resulted in the improvement in outcome during the year under review.
- Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic Cooperative Council and Eastern Cape Parks Board improved from financially unqualified with matters on predetermined objectives and compliance with laws and regulations to financially unqualified with no other matters. These improvements were due to the implementation and monitoring of action plans to address audit findings by the leadership and governance structures at these entities. These improvements are commendable as it is an indication to the rest of the departments and public entities within the province that it is possible to attain reports that indicate the attainment of clean administration in the areas audited, if the leadership and governance structures perform regular monitoring and oversight over key controls within their institutions.
- The Eastern Cape Gambling and Betting Board improved from qualified to financially unqualified with findings on predetermined objectives and non-compliance due to the implementation and regular monitoring of its action plan to address the risk relating to revenue while the Eastern Cape Provincial Arts Council improved from a disclaimer to a qualified opinion due to improved financial management and the appointment of a new chief financial officer (CFO).
- Human Settlements regressed from an unqualified opinion to that of qualified as a result of the department not having an adequate system to account for accruals and commitments.
- The Mayibuye Transport Corporation regressed from financially unqualified with matters on predetermined objectives and compliance with laws and regulations to qualified as a result of a lack of proper record keeping as well as oversight, monitoring and supervision on both capital assets and revenue.

The remainder of audit outcomes remained unchanged.

The net movement of five (5) improvements is duly noted. However, when considering the objectives of Operation Clean Audit, the movement is too slow and it is essential that departments and entities build on and increase their efforts during the 2010-11 period. In addition, the status of the Departments of Health and Education overshadows the positive trend and a dramatic change is required within these two departments to ensure that the province moves forward.

Common issues that form the basis for the qualified opinion on the financial statements

Four departments and three entities received qualifications. The key areas that were qualified were:

Capital assets: Three (43%)

Two departments had qualifications relating to capital assets. The challenges mainly stem from inadequate record keeping and inadequate reconciliations of assets

Other disclosure items: Five (71%)

Three departments and two entities had qualifications on other disclosure items. The other disclosure items included non-disclosure of irregular expenditure, receivables, payables, accruals, commitments and leave pay disclosures, commitments, corresponding figures and opening inventories.

Unauthorised/irregular expenditure incurred during the year

Unauthorised expenditure (R1,6 billion)

Four departments incurred a total of R1,6 billion unauthorised expenditure during the 2009-10 financial year as a result of overspending on the vote and/or main division. These departments are Agriculture (R41,4 million), Education (R709 million), Health (R874,3 million) and Local Government and Traditional Affairs (R2,1 million).

It should further be noted that the province in total currently has a closing balance of R2 billion for unauthorised expenditure. This represents all unauthorised expenditure to date that has not been subjected to the condonement process by the provincial legislature. This could result in serious repercussions and cash flow constraints for the departments and/or the Provincial Revenue Fund, depending on whether it is condoned with or without funding.

Irregular expenditure (R2,9 billion)

Irregular expenditure at 12 departments and five provincial public entities totalled R2,9 billion, consisting of R2,3 billion (78%) which related to supply chain management, R307 million (11%) relating to irregular compensation of employees and R320 million (11%) relating to other irregular matters. It is clear from the above that supply chain management (SCM) processes are not adhered to and that the leadership of the province is not exercising sufficient oversight over expenditure.

The root causes of the transgressions were that, although SCM policies were in place, there were instances of deliberate disregard for these policies. Furthermore, there was inadequate monitoring and reviewing by leadership with regard to the transgressions of SCM policies and emergency procurement as well as the reasons behind it.

Material misstatements corrected during the audit

For a number of years it has become custom for some departments and entities to submit financial statements that are below the expected standard. During the 2009-10 PFMA audit cycle the financial statements submitted for audit purposes were again subjected to material corrections at all 14 departments and all 12 provincial public entities. Although audit adjustments are a standard practice, the extensive number and nature of the corrections are indicative of the departments and provincial public entities being complacent in providing quality annual financial statements and rather controlling the audit process instead of managing the department/entity during the entire financial year. The large number of material misstatements detected during the audit is indicative of a lack of due care when compiling the financial statements as well as the ineffectiveness of the internal audit and audit committee functions. Financial statements containing material misstatements could conceal matters such as under- or overspending during the year. These material misstatements could have been detected by the entities had management adequately reviewed the financial statements throughout the year.

Furthermore, had the audit committees adequately reviewed the financial statements and expressed a view on the quality thereof to management before their submission, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA.

Funding of operations/financial sustainability/going concern

The Eastern Cape Youth Commission dissolved by the Promotion of Youth Development Act, 2009 (Act No. 2 of 2009), following the formation of the National Youth Development Agency (NYDA) and dissolution of the National Youth Commission. It ceased to exist with effect from 1 April 2010.

Findings on reporting against predetermined objectives

During the year under review no audit opinions on the reports on predetermined objectives were expressed in the audit reports of the departments and provincial public entities. The findings that would have formed a basis for the opinions were, however, reported in the audit reports. Findings included in the audit reports are summarised in the table below:

Table 2: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading, constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	100%	77%	67%	75%
Reported information not useful	57%	54%	42%	42%
Reported information not reliable	50%	77%	33%	50%
Information not submitted for auditing by 31 May 2010	0%	0%	0%	0%
Total number of audits with findings	14	11	9	9

Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic and Cooperative Council and Eastern Cape Parks Board had no findings resulting from the audit of performance against predetermined objectives.

As depicted above, a significant amount of effort is still required in the area of predetermined objectives. The departments and public entities (with the exception of the three public entities that had no findings in this area) do not have adequate performance management systems in place to allow for credible reporting. As a result the process used to report information is not structured and is not supported by reliable and relevant information.

In addition, the risks relating to predetermined objective reporting were not adequately identified and addressed by appropriate corrective actions. As a result, the benefits of managing performance through accurate reporting and the impact thereof on service delivery have not been realised by the province.

Findings on compliance with laws and regulations

A trend of non-adherence to laws and regulations appears to be prevalent within the province. As a result, findings on compliance with laws and regulations were reported at all 14 provincial departments and eight provincial public entities during the 2009-10 PFMA audit cycle.

The most prevalent issues relating to compliance with laws and regulations are the non-adherence to supply chain management policies and procedures, making payments within the prescribed periods and the audit committee as well as internal audit not fulfilling their legislative duties.

Departments and public entities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by management, to prevent lapses in compliance with laws and regulations. Furthermore, internal audit should review the adequacy of internal controls in this regard.

Information technology system matters

Departments and public entities rely heavily on computerised information systems (mainly BAS, Persal, Logis) to perform their statutory financial management, reporting and administrative functions. Significant weaknesses identified in the management of information systems include the following:

- There are inadequate user access controls through which the departments ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved.
- Security management: There are inadequate controls that prevent unauthorised access to the application system that generates and prepares financial information.
- Information technology (IT) service continuity through which departments ensure the availability of financial and performance information in instances of data loss or a disaster is inadequate.

- IT governance: The structures, policies and process through which the departments ensure that IT departments support and are in line with the business requirements are inadequate.

The above weaknesses result in fraud risks as they leave the systems open to manipulation and can result in the funds of the province being misappropriated. These weaknesses had a significant effect on the financial statements of Health and Education and contributed to their disclaimer of opinions. They did not impact on the financial statements of the remaining departments during the year under review, but, if not addressed, may have an impact in future periods.

Drivers of audit outcomes

Leadership should set the right tone at the top towards the audit process, and should implement and regularly monitor the implementation of action plans, including information system matters, and establish an effective organisational structure.

Management responsible for financial and performance management should ensure that proper record keeping and record management, producing, quality reliable financial statements and predetermined objectives, and an asset register are accurately completed and updated regularly and findings on information system audits are addressed.

Those charged with governance should continue playing a role in the audit process. Internal audit should provide assurance on the adequacy and implementation of key controls, financial statements, predetermined objectives and shortcomings to address the lack of information system governance framework.

These issues are dealt with in more detail in section 4.1 of this report, supplemented by Annexure 2 to this report.

Action taken/to be taken by management and those charged with governance to address matters reported

Management and those charged with governance were instrumental towards the end of the financial period and during the audit process in addressing matters that may have led to negative audit outcomes. This commitment and discipline now need to become part of the monthly routine of good financial and performance management.

Other than the three audits that received clean opinions, the audit committees did not take action to assist in improving the audit outcomes.

There is much room for improvement in respect of findings on reporting of performance against predetermined objectives and compliance with laws and regulations. These are specific focus areas where those charged with governance should play a critical part to ensure that systems and measures are put into place to address these issues and ensure accountability.

Progress on undertakings given by the executive authority and provincial treasury to address matters previously reported

Commitments and actions by the premier and MECs

After the 2008-09 audits the Speaker, the premier and the MEC for Finance committed to drive a positive change within the Department's of Education and Health that received adverse opinions. This commitment also included a cabinet resolution for the approval of the implementation of a provincial treasury-developed action plan to address the audit outcomes of these two departments. Unfortunately this did not materialise due to a lack of buy-in from the involved parties.

Towards the end of the period and during the audit process, the premier of the province requested the Hawks and the special investigating unit to look into various irregularities within the Department of Education. As a result of these investigations the premier requested the president for a proclamation to take action on the findings presented and to recover state monies. This proclamation was approved in July 2010. To date no action has been taken on this proclamation.

With respect to the legislature, the Speaker has committed to enhance accountability and strengthen proactive oversight through a revision of the oversight functions and processes within the legislature during the latter part of 2010.

The provincial treasury is significantly understaffed within the programme that provides oversight as required by the PFMA and as a result intended actions are not effectively put into practice.

SCOPA had some capacity constraints within its support functions and, as a result, did not have much of an impact on the year under review. This has improved and SCOPA has now dealt with the 2008-09 financial year in very effective sessions, where, with the exception of Education, all MECs and members of the relevant portfolio committees attended these hearings.

Initiatives taken by the AGSA to encourage clean administration

The AGSA has been very active during the year under review, with specific emphasis on the implementation of key control reviews. Generally speaking, this has been well received and, should the basic disciplines outlined in these reviews be implemented and adhered to, positive results will almost certainly follow.

The ease with which the AGSA could elevate key issues that could negatively impact on the provinces audit outcomes for the period under review, even at cabinet level, certainly did assist with overall improvement of audit outcomes during the 2009-10 PFMA cycle.

Overview of specific focus areas

Significant findings from audits of human resources management and compensation of employees (see section 5.1)

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations (TR), Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees. The Provincial Legislature does not form part of this special focused audit as it is not subjected to all transversal prescripts and is therefore not included in the findings below.

All 13 departments (Legislature excluded) (100%) did not comply with all the requirements for effective HR management. These weaknesses impact on the department's financial management and ability to deliver services in accordance with their mandate. The details are as follows (percentile indicates number of the 13 departments with findings):

- HR planning and organisation – 69%
- Job evaluation – 69%
- Management of vacancies – 69%
- Appointment processes – 69%
- Acting positions – 23%
- Budget control – 23%
- Senior management performance agreements – 31%
- Management of suspensions – 38%

In general, compensation of employees is not an area of high risk as remuneration and conditions of services are determined and managed centrally by the Department of Public Service and Administration. Furthermore, such compensation is implemented and controlled by the National Treasury via the Persal system, which is used by all departments. It is of concern, however, that the weaknesses identified were in respect of those controls prescribed by legislation for implementation by the departments themselves. All 13 departments (100%) did not meet all the requirements for control over compensation of employees. These weaknesses could lead to employees receiving compensation and benefits that they are not entitled to.

Significant findings from audits of procurement and contract management (see section 5.2)

The regularity audits included an assessment of the procurement processes and contract management of the auditees as well as the controls to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation.

Non-compliance with supply chain legislation resulted in irregular expenditure of R2,3 billion being incurred in the year under review. This constitutes 78% of the total irregular expenditure incurred by the province. Details are included in section 3.1 of this report.

Employees or their close family members of seven departments had interests in their suppliers that were either not appropriately declared or for which no approval to perform remunerative work outside the department was obtained. No interests in suppliers were identified at the provincial public entities.

In addition, the findings from the report entitled 'Performance audit of entities that are connected with government employees and doing business with departments were found not to be investigated and appropriately dealt with by all departments.

Findings relating to compliance with the SCM legislation in the procurement process were identified at nine departments (64%) and three provincial public entities (25%). The most significant findings were the following:

- Three quotations were not always invited for the procurement up to a value of R500 000.
- Competitive bidding processes were not always followed for procurement above R500 000.
- Contracts were awarded to suppliers who failed to provide tax clearance certificates.
- The preference point system was not applied.
- Prospective supplier lists were not in place.

Weaknesses in the management of contracts were identified at five departments (36%) and one provincial public entity (8%). The most significant findings were the following:

- Contracts were amended, extended or renewed without approval or to circumvent the competitive advantage.
- Action was not always taken against non-performing contractors.
- Performance measures or monitoring of contracts were not adequate.
- Payments were made for goods or services not received.

The root cause of the weaknesses identified relates to controls not being implemented to prevent and detect the non-compliance and failures. The following control deficiencies were most prevalent:

- Lack of SCM policies/procedures or the policies/procedures were in conflict with legislation.
- Inadequate segregation of duties in procurement.
- SCM officials were not adequately trained.
- The National Treasury code of conduct was not adopted for SCM.
- No processes were in place for SCM to report breaches/non-compliance.
- Risk assessments did not address procurement and contract management risks.
- Fraud prevention plans did not include specific measures for procurement.
- Internal audit units did not perform evaluations of SCM compliance.

The increasing level of non-compliance with the supply chain management prescripts and internal policies and the resultant irregular expenditure are indicative of potential fraud risks in procurement. This needs urgent attention and the leadership of all departments and public entities should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The preparation of regular management accounts and the correct tone of political and administrative leadership, together with the support of the audit committee and the internal audit units are required to develop this culture.

Transversal performance audits

The AGSA conducted performance audits of the infrastructure delivery process at the departments of Health and Education as part of a transversal performance audit on infrastructure delivery at all the provinces except the Northern Cape. Key findings were the following:

- Needs for schools and hospitals are not always correctly identified and prioritised as the process followed for need determination is not always well understood and/or inadequate information are used for identifying the needs for facilities.
- Budgeting for infrastructure projects is not always done accurately taking all factors impacting on the projects into account.
- The applicable legislation and regulations are not consistently applied by the bid evaluation and adjudication committees during the tender evaluation process.
- All the irregular expenditure due to deviations from the supply chain management process is not identified and reported by the auditees.
- The financial capability of the contractors to undertake projects is not sufficiently verified during the bid evaluation process, which contributes to the appointment of contractors that could not complete the projects in time as they experienced financial difficulties.
- Multiple concurrent contracts are awarded to contractors without taking their capacity into account, which contributed to slow progress on projects.
- Projects are not effectively monitored by staff from the respective departments and the implementing agents. Corrective actions are not instituted timeously against the contractors concerned. Delays were experienced in the completion of the projects and penalties are not always charged for the late completion of projects.
- The quality of the construction work is unsatisfactory, additional costs were incurred to complete the projects and the completion of the facilities was delayed.
- Service delivery is delayed due to late payments by the departments that contributed to cash flow problems of the contractors.
- There is a lack of effective coordination within and between, which results in facilities not being fully operational as it is not properly equipped and staffed to support effective service delivery.

Overview of status of provincial consolidation of financial

The Provincial Treasury submitted the provincial revenue fund financial statements and consolidated financial information for 2008-09 after the legislated date. These audits are nearing completion with finalisation expected by 31 October 2010. The Provincial Treasury has indicated that, due to a lack of capacity, the provincial revenue fund and consolidated financial information for 2009-10 will be submitted after 31 October 2010. These arrear audits have been escalated to the premier, cabinet and the relevant Member of the Executive Council.

Overview of status of tabling of annual reports (see section 7.1)

The status of the tabling of 2009-10 annual reports is provided in section 7 of this general report.

Concluding comments

The Eastern Cape Province faces a number of challenges as highlighted in this report. The largest challenge which will require a coordinated effort by the leadership of the province, with the support of the National Treasury and the provincial treasury is the situation at Health and Education, where there is currently a lack of direction and an organisational structure that does not promote good governance and accountability. Considering that these two departments represent 76% of the provincial budget, it is evident that accountability over the provincial expenditure will not improve until such time as their performance improves.

The critical message we are leaving with the legislators and the executive is that it is possible to obtain a financially unqualified opinion with no findings on predetermined objectives and or compliance with laws and regulations if the leadership tone enables monthly monitoring and oversight over key control areas and if the governance structures vigilantly execute their duties in ensuring oversight and accountability. In order to supplement this we remain committed to working with the legislature and executive in improving governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

2.2 Audits not conducted by the AGSA

Overview of audit outcome

Only one audit – that of the East London Industrial Development Zone – was not conducted by the AGSA. This entity obtained an unqualified opinion without any findings on the auditing against predetermined objectives and compliance with laws and regulations.

SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

Audits conducted by the Auditor-General of South-Africa

3.1 Summary of audit outcomes

The PFMA audit cycle for the Eastern Cape portfolio comprises the audit of the Provincial Legislature, the Provincial Revenue Fund, 13 provincial departments and 12 public entities audited by the AGSA and one provincial public entity audited by a private audit firm in terms of section 4(3) of the PAA. The financial statements of all 13 (2009: 13) provincial departments, the Provincial Legislature and 12 (2009: 12) public entities were submitted and the audits completed within the legislated time frame. The audit of the Provincial Revenue Fund has not been finalised at the legislated deadline as the financial statements have not been submitted.

3.1.1 Summary of audit outcomes

The table below provides details of the 2009-10 audit outcomes of the Eastern Cape provincial departments and public entities, comparative figures for the 2008-09 financial year and the status of completion (outstanding audits) of the 2009-10 PFMA related audits as at 31 August 2010.

Table 3: Summary of audit outcomes

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including trading and Constitutional Institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	2	0	0	1
Adverse	0	2	0	0
Qualified	2	3	3	2
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	9	6	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	3	0
Total number of audits reported on	14	14	12	12
Number of audits not finalised at 31 August 2010	1	1	0	0
Total number of audits	15	15	12	12
Auditees with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	14	11	9	9
Compliance with laws and regulations	14	8	8	9



Departments

With regard to the provincial departments, the outcomes are made up of two disclaimers of opinion, two qualified audit opinions and 10 unqualified opinions with findings on compliance with laws and regulations and/or findings on predetermined objectives.

Disclaimers of opinion (2)

Two departments, namely Health and Education received disclaimers of opinion. These audit outcomes are of concern as there is a lack of direction and accountability within these two departments. In addition, there is a total breakdown of internal controls and supply chain management. Furthermore, numerous fraud risk indicators were identified during the audit and underlined by findings that are indicative of fraud and corruption within the departments. It is important to note that these two departments constitute 76% of the provincial budget and given the circumstances described above it is implied that the provincial budget lacks direction, accountability and internal controls around the bulk of provincial expenditure.

Qualified opinions (2)

The Department of Human Settlements was qualified on the disclosure of commitments at year-end as a direct result of the lack of a system to account for commitments and accruals as well as the lack of compensating monthly controls to address this weakness.

The Department of Economic Development was qualified on capital assets as a result of inadequate record keeping, not updating the asset register as well as the lack of appropriate supervision and monitoring over this process.

Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations (10)

A total of 10 departments received unqualified opinions with findings on compliance with laws and regulations and/or findings on predetermined objectives (Agriculture, Legislature, Local Government, Office of the Premier, Public Works, Safety & Liaison, Social Development, Sport and Recreation, and Roads and Transport).

The reasons for the findings on predetermined objectives relate mostly to a lack of relevant and reliable systems to record, monitor and report on predetermined objectives. These shortcomings identified in the reporting against predetermined objectives are indicative of a lack of commitment from management to ensure accurate, reliable and useful reporting against predetermined objectives.

The findings relating to compliance with laws and regulation resulted from the lack of monitoring, supervision and oversight over compliance matters.

Public entities

Qualified opinion (3)

The Provincial Arts Council, ECATU and Mayibuye Transport received qualified audit reports. In the case of the Provincial Arts Council and ECATU, the qualifications related to prior year figures in the financial statements which remained uncorrected. The qualification on ECATU relates to a limitation of scope during the 2008-09 audit, on the accrual of leave pay, that had not been addressed at the time of the 2009-10 audit. Similarly, the Provincial Arts and Culture Council had not cleared matters qualified in 2008-09, relating to inventory, receivables, revenue and cost of sales, to a degree that the opening balance in 2009-10 could be verified.

At Mayibuye Transport inadequate record keeping and a lack of monitoring by the leadership led to a regression and qualifications on capital assets and revenue.

Financially unqualified with findings on predetermined objectives and or compliance with laws and regulations (6)

ECDC, Gambling Board, Liquor Board, Uvimba, Youth Commission and the Tourism Board all received unqualified opinions. However, findings on compliance with laws and regulations and/or findings on predetermined objectives were contained in the audit report.

Financially unqualified with no findings on predetermined objectives and or compliance with laws and regulations (3)

Three entities, being ASGISA, ECSECC and Parks Board achieved the targeted goalpost and received unqualified audit reports with no findings on internal control, which is indicative of clean administration. This is the result of the correct leadership tone, together with effective oversight over the entire year under review. In addition, the governance structures provided effective oversight and monitoring over the action plans and identified risks.

3.1.2 Movements in audit outcomes

The table below reflects the movement of audit outcomes on a year-on-year basis in relation to the 2008-09 and the 2009-10 financial years.

Table 4: Movements in audit outcomes

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	11	2	1	0	14
Public entities	6	5	1	0	12
Total number of audits reported on	17	7	2	0	26

The province recorded seven improvements and two regressions in audit outcomes while 17 outcomes remained unchanged. The net movement of five improvements is duly noted. However, when considering the objectives of Operation Clean Audit, the movement is too slow and it is essential that departments and entities build on and increase their efforts during the 2010-11 period. In addition, the outcomes of the Departments of Health and Education overshadow the positive trend and dramatic changes are required within these two departments to ensure that the province moves forward.

Departments

Improvements (2)

The Departments of Public Works and Roads and Transport improved from qualified to unqualified with matters on predetermined objectives and non-compliance with laws and regulations. The improvement in Public Works is attributed to the commitment of management and the fact that the department has created a sound environment for the management of immovable assets, by implementation of a comprehensive action plan that was continuously monitored by management. The improvement of Roads and Transport is the result of the implementation and monitoring of a focused action plan addressing prior audit outcomes and areas of risk.

Unchanged (11)

The Departments of Health and Education remained at the level of disclaimer/adverse and drastic steps need to be taken by the province to rectify this situation. Although the outcome for these two departments did not change, the state of affairs within the departments has deteriorated significantly due to a general lack of direction and accountability within the departments. In emphasising the significance of these two departments and as indicated above, Health and Education constitute the majority of the provincial budget for the Eastern Cape, effectively meaning that the province cannot account for 76% of its budget.

During the year under review numerous interactions were held by the AGSA where all the identified risks and fraud risk indicators were escalated to all levels within the political and administrative leadership and governance structures within the province. These interactions did, however, not have an impact for the year under review as the province did not make progress on the commitments made in the 2009 general report.

In addition to the aforementioned interactions, the Provincial Treasury set up action plans to address the situation at the end of the 2007-08 financial year. These action plans were either not implemented or were implemented very late in the year and did not address the root causes of the issues identified. As a result of this the departments regressed, instead of improved. It is imperative that the leadership of the province work together to find a solution going forward.

The Department of Economic Development remained on a qualified opinion due inadequate controls over assets. The Departments of Agriculture, Local Government, Premier, Legislature, Treasury, Safety, Social Development and Sports, Arts and Culture remained financially unqualified with other matters. Although these departments were unqualified there has been no movement towards achieving unqualified opinions with no findings on predetermined objectives and compliance with laws and regulations. A large contributor towards them not improving is the fact that they have not been assertive enough in clearing the findings on

predetermined objectives and as a result these departments did not make sufficient progress in respect of their reporting against predetermined objectives during the year under review.

It is of concern that the large number of unqualified audit opinions with findings on predetermined objectives and compliance is not sustainable as these departments place a large amount of emphasis on managing the audit process through reworking and adjusting account balances during the audit and not ensuring that adequate controls are instituted and monitored throughout the year.

Regressions (1)

Human Settlements regressed from an unqualified opinion to that of qualified on the matter of disclosure of commitments at year-end. The system used by Human Settlements to record commitments is a live system that is continuously updated. The department failed to print an audit trail as at 31 March 2010 and as a result commitments disclosed in the financial statements could not be appropriately supported. This audit trail was available for audit in the previous year.

Public entities

Improvements (5)

Three entities, namely ASGISA, ECSECC and Parks Board, improved from financially unqualified with matters on predetermined objectives and compliance to financially unqualified with no findings predetermined objectives or compliance with laws and regulations. These improvements are commendable as they are the first to achieve clean administration in the Eastern Cape. These improvements were due to the implementation and monitoring of action plans to address audit findings by the leadership and governance structures at these entities

The Gambling and Betting Board improved from qualified to financially unqualified with findings on predetermined objectives and compliance with laws and regulations while the Provincial Arts Council improved from a disclaimer to a qualified opinion due to improved financial management and a the appointment of a new CFO.

In summary the improvements in the outcomes can be attributed to the following reasons:

- Leadership involvement from the top ensured that action plans were put in place to address prior year findings and that these were monitored regularly
- Timely responses to audit findings and management commitment to resolve these
- Availability and accessibility of key management and staff
- A strong desire by the leadership to achieve a positive outcome

Unchanged (6)

ECDC, Liquor Board, Tourism Board, Uvimba and Youth Commission remained on financially unqualified with findings on predetermined objectives and compliance with laws and regulations while ECATU maintained a qualified opinion. This was due to a lack of action plans to address the compliance and predetermined objectives findings reported in the previous year.

Regressions (1)

Mayibuye Transport regressed from financially unqualified with matters on predetermined objectives and compliance with laws and regulations to being qualified as a direct result of a lack of proper record keeping as well as oversight, monitoring and supervision on both capital assets and revenue.

The main contributing factors towards the two regressions are as follows:

- Inadequate record keeping
- Lack of management oversight on day-to-day transactions and processing of information

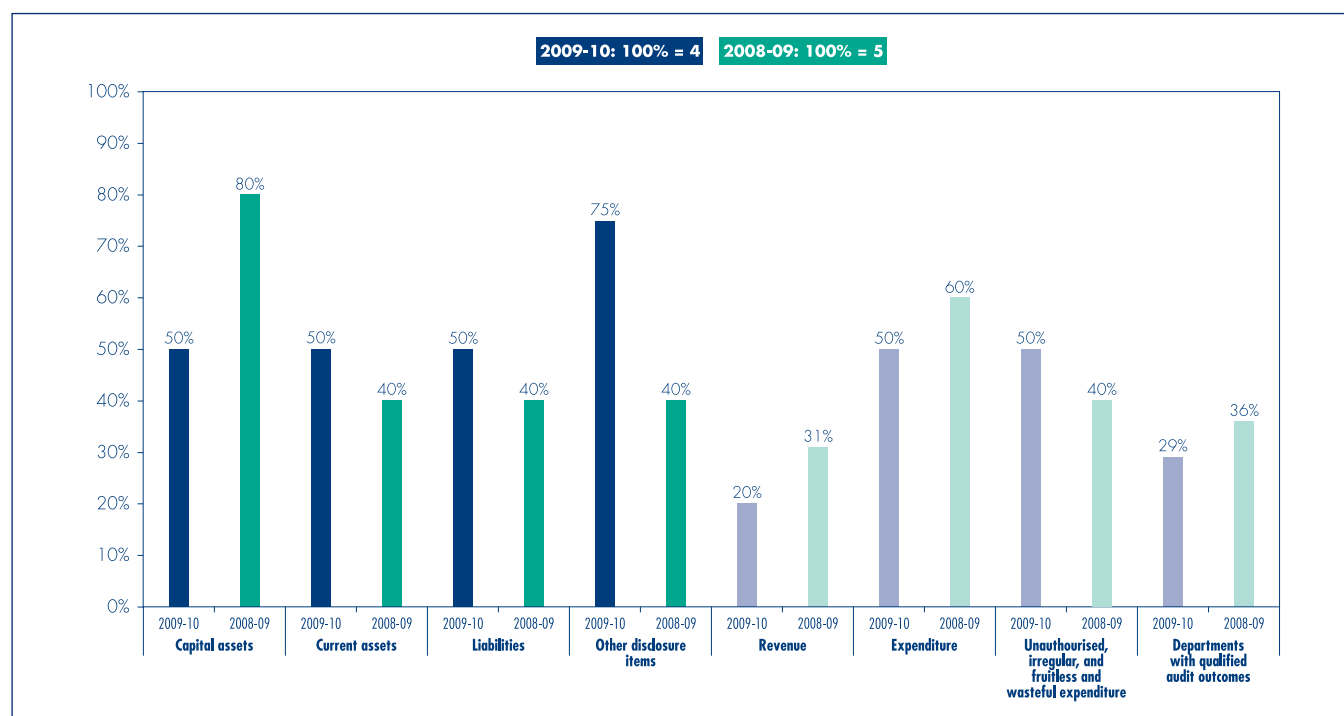
3.1.3 Common issues that form the basis for the qualified opinion on the financial statements

This section analyses the outcomes of the 2009-10 audit cycle and details specific areas that attracted qualified audit opinions.

Figure 1 below reflects the common areas that led to the seven modified audit opinions (five qualifications and two disclaimers) discussed in paragraph 3.1.1 above. The percentages reflected in the graph is calculated as a percentage of the total number of departments and public entities that received a qualification in that area in relation to the total number of departments and entities qualified (seven).

Departments

Figure 1: Financial statement areas qualified



Four departments received qualifications. Major areas that were qualified included:

Capital assets: 50% (Health, Economic Development)

Two departments (Health and Economic Development) had qualifications relating to capital assets. The challenges mainly stem from deficiencies in the control environments and control activities and include the following:

- Inadequate record keeping with respect to assets
- Inadequate reconciliations of assets
- Asset systems in place were not always adequate to provide sufficient details on assets and the valuation thereof.
- Inadequate supervision by leadership on daily and monthly activities that relate to capital assets.

As a result of the above there are inadequate controls over the safeguarding of assets at these auditees.

Current Assets: 50% (Education and Health)

The Departments of Health and Education received a qualification relating to current assets. This was due to:

- errors in calculations as a result of the financial statements not being reviewed by senior officials within the department before they were submitted for audit purposes
- inadequate record keeping
- lack of individuals who understand the financial reporting framework
- the failure of leadership to address and correct known internal control deficiencies.

Liabilities: 50% (Education and Health)

Two departments had qualification relating to liabilities. The challenges mainly stem from deficiencies in the control environments and control activities and can be summarised as follows:

- Inadequate supervision by the leadership and management throughout the year of monthly management accounts.
- Suspense accounts and clearing accounts are not reconciled timeously.
- The failure of leadership to address and correct known internal control deficiencies.

Other disclosure items: 75% (Education, Health and Human Settlements)

Three departmental entities had qualifications on other disclosure items.

The main contributing factors towards these qualifications are due to the following:

- The lack of adequate financial management systems, as the financial systems in place do not address the requirements of an accrual basis of accounting, and manual systems have been implemented for the reporting of the disclosure items in the financial statements.
- The manual systems are prone to errors that were not corrected as a result of the financial statements not having been reviewed by senior officials within the department before it was submitted for audit purposes.

- Lack of individuals who understand the financial reporting framework.
- Inadequate record keeping.

Expenditure: 50% (Education and Health)

Two departments (Health and Education) had qualifications with regard to expenditure.

The challenges mainly stem from deficiencies in the control environments and daily and monthly control activities that are not monitored and reviewed by the leadership and management. In addition, the retention of documentation is a challenge that needs further attention. Management has also failed to address and rectify known and recurring errors. In addition to the above, the nature of the findings and the fraud risk indicators identified during the audit indicated that the possibility of fraud could not be excluded.

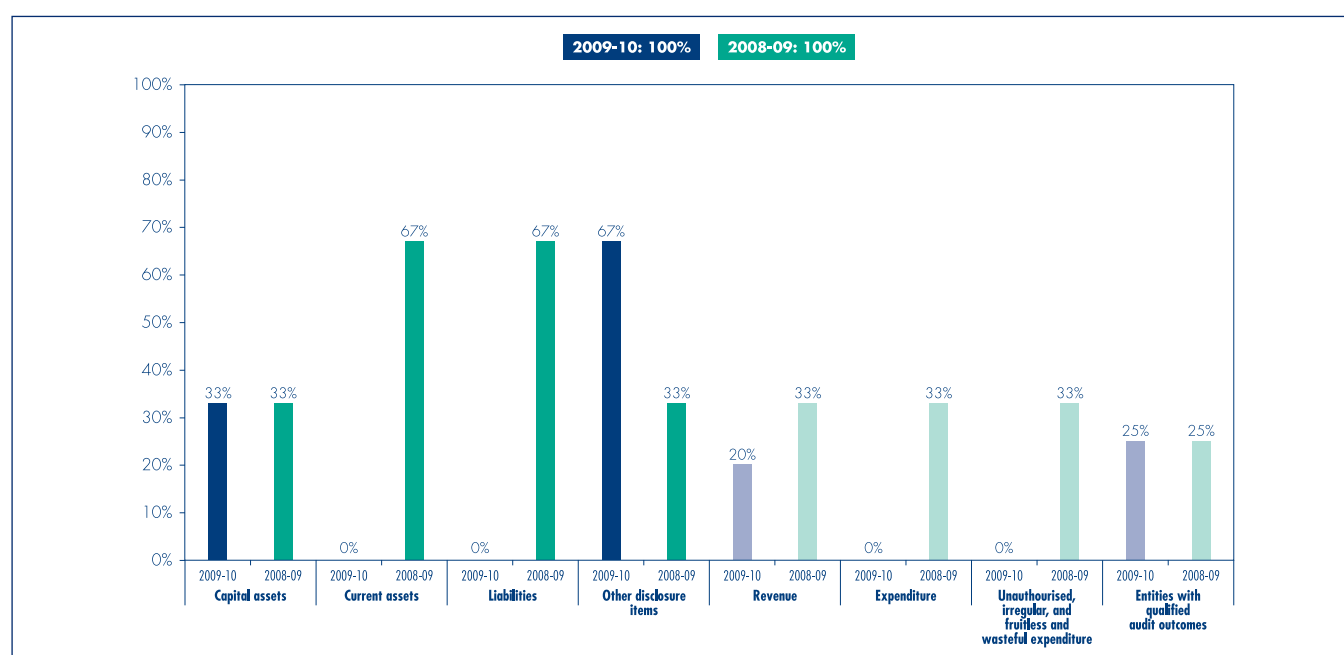
Unauthorised, irregular and fruitless and wasteful: 50% (Education and Health)

Two departments (Health and Education) had qualifications with regard to expenditure.

An environment that is conducive to good accountability and service delivery through positive attitude, integrity, competence and ethical behaviour has not been established, resulting in the following deficiencies:

- Segregation of duties to prevent fraudulent transactions and misappropriation of assets is not adequate.
- Personnel are not aware of the allocation of duties, responsibilities and lines of reporting, as a result of an organisational structure that does not support and promote a system for proper recording, monitoring and supervision of controls.
- Risk identification and management processes are not designed to identify changes in processes or risks and verify that the design of underlying controls remain effective.

Entities



Three entities received qualifications. The areas where more than 40% of these three auditees received qualifications are as follows:

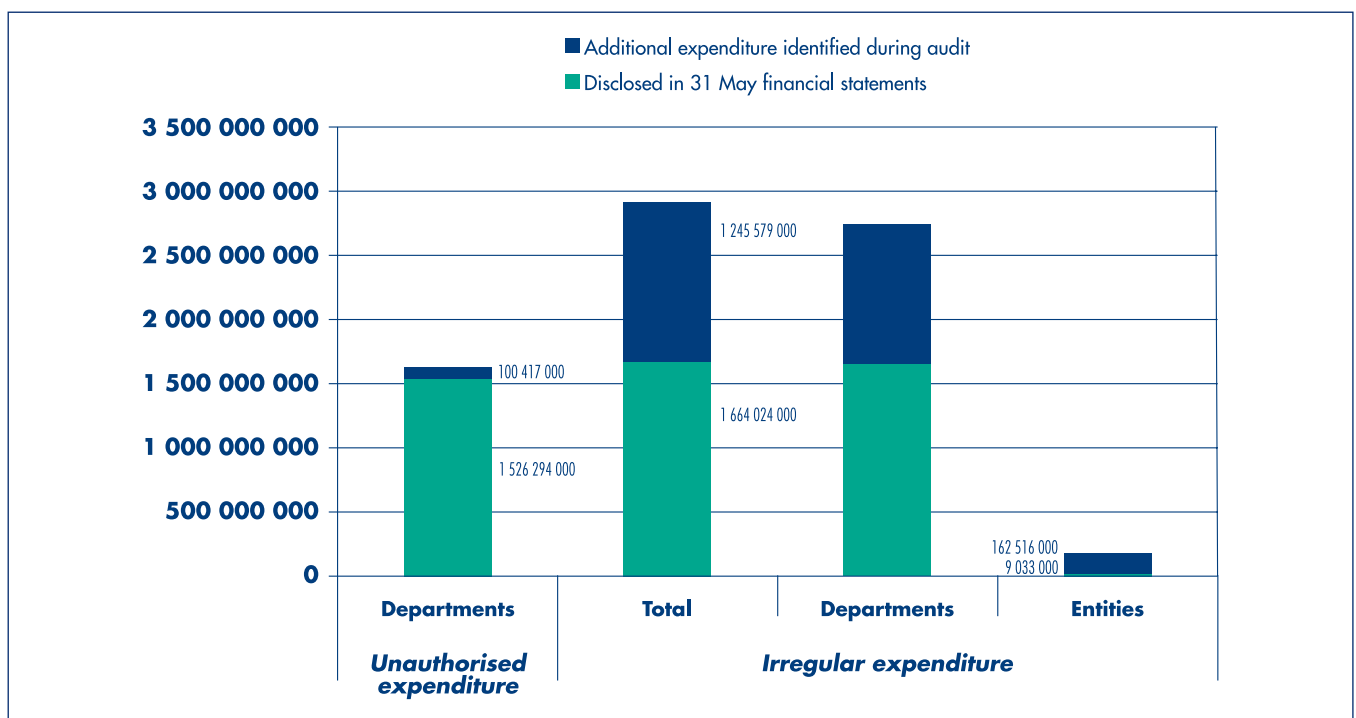
Other disclosure items: 67% (Provincial Arts Council, ECATU)

Eastern Cape Appropriate Technologies Unit and the Eastern Cape Provincial Arts Council had qualifications on other disclosure items. These two entities were qualified on their corresponding figures while the Eastern Cape Provincial Arts Council was also qualified on its opening inventories. The main contributing factors towards these qualifications are the following:

- The lack of adequate financial management systems
- The manual systems are prone to errors
- Lack of individuals who understand the financial reporting framework
- Inadequate record keeping

3.1.4 Unauthorised and irregular expenditure incurred during the year

Figure 1: Unauthorised and irregular expenditure incurred during the year



- As per the PFMA public entities cannot incur unauthorised expenditure as defined in the act, only unauthorised expenditure for departments is reflected in this graph.

Unauthorised expenditure – R1,6 billion

Four departments incurred a total of R1,6 billion in unauthorised expenditure during the 2009-10 financial year as a result of overspending of the vote and/or main division. These departments are Agriculture (R41 million), Education (R709million), Health (R874 million) and Local Government and Traditional Affairs (R2 million). The departments disclosed an amount of R1,5 billion in their respective financial statements presented for auditing, while a further R100 million was identified during the audit process. The root cause of this unauthorised expenditure is a lack of effective monitoring and supervision over monthly management accounts. It is also indicative of a lack of discipline as far as adhering to laws and regulations are concerned.

It should further be noted that the province in total currently has a closing balance of R2 billion for unauthorised expenditure. This represents all unauthorised expenditure to date that has not been subjected to the condonement process by the Provincial Legislature (SCOPA). This could result in serious repercussions and cash flow constraints for the departments and/or the Provincial Revenue Fund, depending on whether it is condoned with or without funding.

Irregular expenditure – R2,9 billion

Table 5: Irregular expenditure

Type of auditee	Nature and extent of irregular expenditure								
	Related to SCM			Related to compensation of employees			Other		
	No.	%	R'000	No.	%	R'000	No.	%	R'000
Departments	12	86%	2 119 994	4	29%	307 420	9	64%	310 640
Public entities	5	42%	162 100	-	-	-	3	25%	9 449
Total	17	65%	2 282 094	4	15%	307 420	12	46%	320 089

Irregular expenditure at 12 departments and five entities totalled R2,9 billion, consisting of R2,3 billion (78%) which related to supply chain management, R307 million (11%) relating to irregular compensation of employees and R320 million (11%) relating to other irregular matters. The departments disclosed an amount of R1,7 billion in their respective financial statements presented for auditing, while a further R1,2 billion was identified during the audit process.

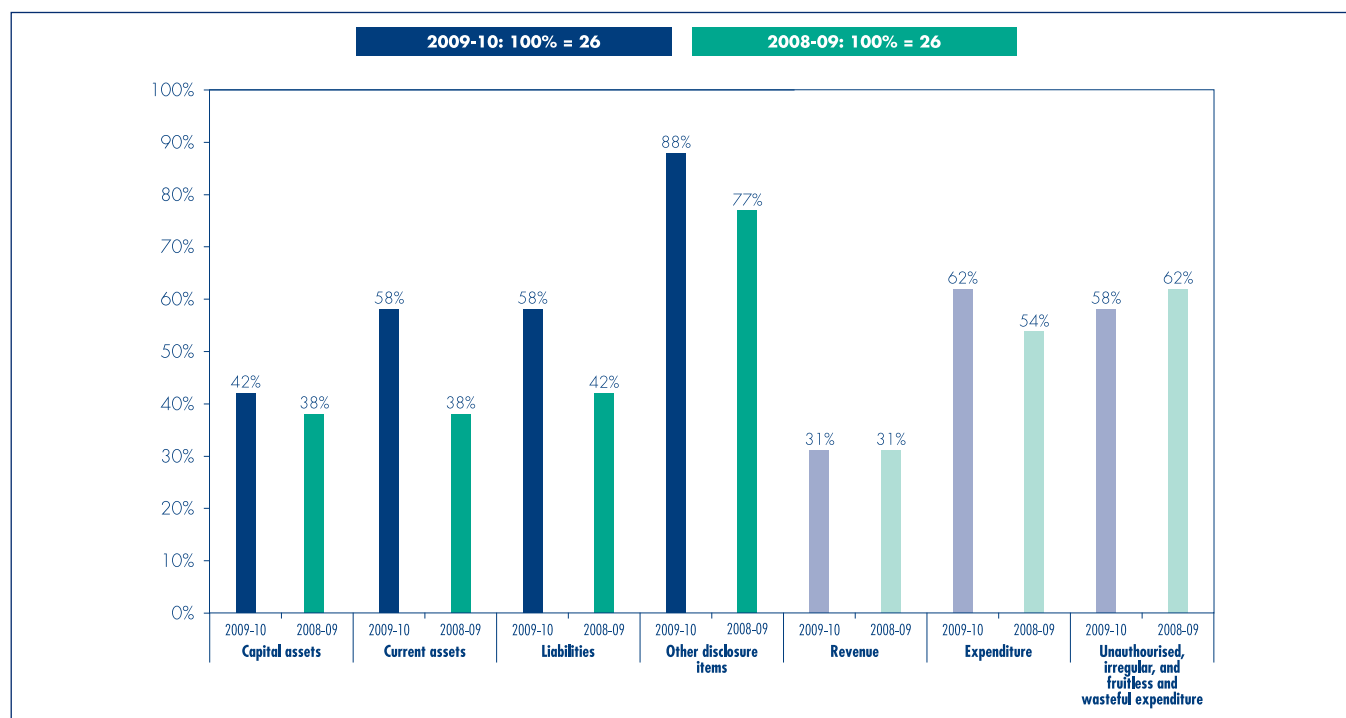
It is clear from the above that supply chain management (SCM) processes are not adhered to and that the leadership of the province is not exercising sufficient oversight over expenditure. Irregularities in the supply chain management process have been identified at all departments, with the exception of the Provincial Treasury, while five entities (Liquor Board, Mayibuye Transport, Tourism Board, Uvimba Finance and Youth Commission) incurred SCM-related irregular expenditure. The departments where this is most prevalent are Agriculture (R32million), Education (R658 million), Health (R1,billion), Local Government and Traditional Affairs (R25million), Public Works (R20million), Social Development (R13million) and Transport (R311Million). As far as the entities are concerned, Uvimba Finance and Tourism Board recorded R143million and R16 million, respectively.

Four departments incurred irregular expenditure in relation to compensation of employees. The Department of Economic Development incurred R5,6 million irregular expenditure as a result of overspending on compensation of employees, while Education overspent on compensation of employees by R7,5 million. In addition, the Department of Education incurred a further R132,7 million irregular expenditure through the irregular promotions of staff members. The Department of Agriculture incurred R161,3 million in irregular expenditure through payments made for the HROPT and OSD projects.

The root causes of the transgressions were that, although SCM policies were in place, there were instances of deliberate disregard for these policies. The number of cases of irregular expenditure is indicative of the fact that in-year monitoring and oversight was not effective. Had these functioned effectively the transgressions related to SCM policies and emergency procurement, including the non-recording of reasons for deviation, could have been avoided.

3.1.5 Transversal material misstatements corrected during the audit

Figure 2: Transversal material misstatements corrected during the audit



In recent years it has become custom for some departments and entities to submit financial statements of a poor standard. During the 2009-10 PFMA audit cycle the financial statements submitted for audit purposes were again subject to material corrections at all 14 departments (100%) and 12 entities (100%). Although audit adjustments are a standard practice, the number and nature of the corrections are indicative of the departments being complacent in providing quality financial statements and rather controlling the audit process instead of managing the department/entity during the entire financial year.

In addition, there is a correlation between the material adjustments and the qualification areas within the province. Those that processed adjustments could quantify the areas after rectifying the population and after numerous re-submissions. As a result the sustainability of the audit outcomes is of concern.

Details on the root causes for the poor quality financial statements are discussed further down in this section. It is, however, necessary to highlight at this point that this is indicative of a lack of due care when compiling the financial statements as well as the ineffectiveness of the internal audit and audit committee functions related to the financial statements.

An analysis of these findings per account area is as follows:

Capital assets (11 – 42%)

With regard to capital assets, four departments (29%) and seven entities (58%) misstated their financial statements and corrected these misstatements during the audit process. This is a result of the departments and entities not updating their asset register on a regular basis. It was found that asset registers were only updated during the audit process.

(Departments – Education, Health, Premier and, Sport & Recreation)

(Entities – ASGISA, ECDC, Gambling Board, Liquor Board, Mayibuye, Parks Board, Uvimba)

Current assets (15 – 58%)

With regard to current assets, six departments (43%) and nine entities (75%) misstated their financial statements and corrected these misstatements during the audit process.

(Departments – Education, Health, Legislature, Safety, Social Development, Transport)

(Entities – ASGISA, ECDC, ECATU, Gambling Board, Liquor Board, Mayibuye, Arts Council, Uvimba)

Liabilities (15 – 58%)

With regard to liabilities, eight departments (57%) and seven entities (58%) misstated their financial statements and corrected these misstatements during the audit process.

(Departments – Economic Affairs, Education, Health, Human Settlements, Local Government, Premier, Safety, Social Development)

(Entities – ECDC, ECATU, ECSECC, Gambling Board, Arts Council, Tourism Board, Youth Commission)

Disclosure (23 – 88%)

With regard to other disclosure matters, 14 departments (100%) and nine entities (75%) misstated their financial statements and corrected these misstatements during the audit process.

(Departments – Agriculture, Economic Affairs, Education, Health, Human Settlements, Local Government, Legislature, Premier, Treasury, Public Works, Safety, Social Development, Sport, Transport)

(Entities – ASGISA, ECDC, ECATU, Gambling Board, Liquor Board, Parks Board, Arts Council, Tourism Board, Uvimba)

Revenue (Eight – 31%)

With regard to revenue, two departments (14%) and six entities (50%) misstated their financial statements and corrected these misstatements during the audit process.

(Departments – Education, Health)

(Entities – ECDC, ECATU, Gambling Board, Mayibuye, Arts Council, Youth Commission)

Expenditure (16 – 62%)

With regard to expenditure, seven departments (50%) and nine entities (75%) misstated their financial statements and corrected these misstatements during the audit process.

(Departments – Agriculture, Education, Health, Local Government, Legislature, Safety, Social Development)

(Entities – ASGISA, ECDC, ECATU, ECSECC, Gambling Board, Liquor Board, Mayibuye, Arts Council, Uvimba)

Irregular expenditure (15 – 58%)

With regard to irregular, unauthorised and fruitless and wasteful expenditure, nine departments (64%)

(Departments – Agriculture, Economic Affairs, Education, Health, Human Settlements, Local Government, Public Works, Social Development, Transport) and six entities (50%) (Entities – ASGISA, Gambling Board, Liquor Board, Tourism Board, Uvimba, Youth Commission) misstated their financial statements and corrected these misstatements during the audit process.

Drivers of the poor quality of financial statements submitted for auditing

The main contributors to the inappropriate quality of the financial statements are as follow:

- There is insufficient oversight of financial management and daily processing is not reviewed and monitored during the year. The departments and entities prefer to rather control the audit process and make the adjustments during the audit, which is not conducive to an environment that promotes oversight and accountability.
- Annual financial statements are often submitted just to comply with the legislated deadline. The submission of the AFS is rather an event than a process during the financial year.
- The financial systems that are in place are not conducive to accrual-related reporting.
- Lack of monthly financial reports and inadequate review of annual financial statements by audit committees.

Drivers for the improvement of future outcomes

Material corrections could have been detected by the entity's financial management system had adequate reviews been undertaken during the financial year over the daily processing of financial transactions and had the financial statements been reviewed prior to submission for audit purposes. Furthermore, had the audit

committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted. To ensure improvement the following measures should be implemented:

- Management oversight over financial management should be improved and daily activities should be reviewed and monitored. In addition, monthly management accounts should be evaluated and reviewed.
- Adequate controls should be implemented and monitored around the supply chain management processes.
- The management must subject the financial statements to a quality review before they are submitted for auditing. The internal audit unit and audit committee should assist in evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements and should perform a review of the financial statements before they are submitted for auditing.

3.1.6 Funding of operations/Financial sustainability/Going concern

The Eastern Cape Youth Commission has been dissolved by way of the enactment of the Promotion of Youth Development Act, 2009 (Act No. 2 of 2009), following the formation of the National Youth Development Agency (NYDA) dissolving of the National Youth Commission. The ECYC ceased to exist with effect from 1 April 2010. The functions of the ECYC has been absorbed into the newly formed NYDA while all assets and liabilities, as at year end 2009-10, has been taken over by the Office of the Premier which served as the controlling department during the period of operation of the ECYC.

3.2 Findings on reporting against predetermined objectives

The objective of an audit of predetermined objectives is to enable the auditor to conclude on whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

All departments and public entities subject to an audit of performance information against predetermined objectives in terms of *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, are required to submit their annual performance reports for auditing together with the annual financial statements.

Based on an assessment of audit readiness, it was decided that for the 2009-10 audit cycles, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their public entities, such opinions will not yet be lifted to the level of the individual audit reports. The findings that would typically build up to the expression of such an opinion are as follows:

Table 6: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading, constitutional institutions and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	100%	77%	67%	75%
Reported information not useful	57%	54%	42%	42%
Reported information not reliable	50%	77%	33%	50%
Information not submitted for audit by 31 May 2010	0%	0%	0%	0%
Total number of audits with findings	14	12	9	3

The percentages relate to those departments and public entities that had findings on the audit of performance against predetermined objectives information, calculated as a percentage of the total number of public entities audited.

Non-compliance with regulatory requirements

Non-compliance with regulatory requirements refers to the preparation of the strategic/corporate/annual performance plan, submission to those delegated for approval depending on the type of institution, the evaluation of the contents for achieving objectives and indicators and the subsequent reporting.

Findings relate mainly to no reporting on predetermined objectives, lack of effective, efficient and transparent systems of internal controls regarding reporting against predetermined objectives and no or inadequate quarterly reporting on performance information.

All 14 departments and eight provincial public entities (Eastern Cape Arts and Culture Council, Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Youth commission, Mayibuye Transport Corporation) had findings relating to non-compliance with section 40(3)(a)/55(2)(a) of the PFMA which require the report on predetermined objectives to fairly state the actual performance of the departments and entities against their predetermined objectives.

Usefulness of performance information

The audit focused on the consistency, relevance and measurability of planned and reported performance against predetermined objectives.

Usefulness of reported information refers to the reported performance not being consistent with the objectives and targets and whether the targets are clearly linked to the mandate and objective of the institution, specific and clearly identifying the nature and required level of performance, and are measurable and time bound. The reported performance information at eight departments (Economic Development and Environmental Affairs, Health, Human Settlements, Office of the Premier, Provincial Legislature, Public works, Roads and Transport, Sports, Arts, Recreation and Culture) and five provincial public entities (Eastern Cape Appropriate Technologies Unit, Eastern Cape Arts and Culture Council, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Mayibuye Transport Corporation) was not useful.

Reported performance against predetermined objectives not reliable

The reliability of the reported performance against predetermined objectives is dependent on the availability of sufficient appropriate evidence available to support the reported performance, an appropriate system to generate the required information and the evidence provided supporting the accuracy and completeness of the reported performance.

The audit focused on whether the reported performance against predetermined objectives could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or supporting documentation. The reported performance of seven departments (Economic Development and Environmental Affairs, Education, Health, Human Settlements, Provincial Legislature, Roads and Transport, Sports Arts Recreation and Culture) and four provincial public entities (Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Mayibuye Transport Corporation) was not reliable.

Findings were due to a lack of sufficient appropriate audit evidence in relation to the reported performance against predetermined objectives, a lack of appropriate systems for generating the required information and the source information or evidence provided to support the reported performance information not supporting the accuracy and completeness of the reported performance.

Auditees who had no findings at all in the four categories considered as a whole

Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic and Cooperative Council and Eastern Cape Parks Board had no findings resulting from the audit of performance against predetermined objectives.

Conclusion

Considering the number of audit findings and the high percentage of non-compliance with the PFMA, it is evident that the Eastern Cape has some distance to go before being ready for an audit conclusion to be included in the audit reports regarding performance against predetermined objectives.

The auditing of performance against predetermined objectives was included on the agendas of all audit steering committee meetings where management and the leadership were encouraged to comply with the legislated requirements. The importance of the quality, reliability and usefulness of the reported performance against predetermined objectives was also stressed at stakeholder interactions with the executive and legislative authorities.

3.3 Findings on compliance with laws and regulations

Table 7: Summary of findings relating to compliance with laws and regulations

Top 3 categories of prohibited actions/non-adherence	Number	Percentage
Departments (including Provincial Legislature)		
Payments not done within 30 days	13	93%
Audit committee did not fulfil required responsibilities	11	79%
Internal audit unit did not fulfil required responsibilities	11	79%
SCM issues that resulted in irregular expenditure	9	64%
Public entities (including trading, constitutional institutions and other types of entities)		
Payments not done within 30 days	3	25%
Internal audit unit did not fulfil required responsibilities	2	17%
Audit committee did not fulfil required responsibilities	2	17%
SCM issues that resulted in irregular expenditure	7	58%

A trend of non-adherence to laws and regulations is taking root through all spheres. This is not only evident in the high prevalence of unauthorised and irregular expenditure, but can also be seen across a broad spectrum. This matter also came to the fore in the recent SCOPA hearing where the committee undertook to take a firm stance on this matter as it is “a blatant and disrespectful disregard for the laws governing this country and for the legislative spheres that puts those laws in place.”

Findings on non-compliance with laws and regulations were reported at all 14 provincial departments and eight provincial public entities during the 2009-10 PFMA audit cycle.

The following are highlighted as the most prevalent non-compliance.

- Supply chain management issues resulting in irregular expenditure (16)

Non-compliance with supply chain management that resulted in irregular expenditure was reported in the audit reports and financial statements of nine departments (Agriculture, Economic Development and Environmental Affairs, Education, Health, Human Settlements, Public works, Roads and Transport, Safety and Liaison, Social Development) and seven provincial public entities (Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Youth commission, Mayibuye Transport Corporation). This area is dealt with in detail in section 5.2 of this report.

- Payments not done within 30 days (16)

Delays in payments beyond the 30 days required by the PFMA were reported at 13 departments and three provincial public entities (Eastern Cape Appropriate Technologies Unit, Eastern Cape Arts and Culture Council, Eastern Cape Rural Finance Corporation). Delays in payments were not reported at the Department of Local Government and Traditional Affairs.

- Audit committee did not fulfil required responsibilities (13)

The audit committees of 11 departments and two public entities (Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board) did not fulfil their responsibilities as required by the PFMA. The audit committees of Health, Public Works and Social Development met their responsibilities in terms of the PFMA.

The shared audit committee, which is responsible for nine departments (Agriculture, Economic Development and Environmental Affairs, Human Settlements, Local Government and Traditional Affairs, Office of the Premier, Provincial Treasury, Roads and Transport, Safety and Liaison, Sport Art Recreation and Culture) and the audit committee of Education could not discharge their responsibilities due to capacity issues within their internal audit functions. The audit committee of the Provincial Legislature was only appointed towards the end of the year and was thus unable to discharge its responsibilities for the full year under review. The audit committee of the Eastern Cape Arts and Culture council could not discharge its responsibilities as it did not have an internal audit function during the year. The internal audit function at the Eastern Cape Gambling and Betting Board was only operational for the last three months of the year impacting on the ability of its audit committee to fulfil its responsibilities.

- Internal audit unit did not fulfil required responsibilities (13)

The internal audit function at 11 departments and two provincial public entities (Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board) did not fulfil their responsibilities as required by the PFMA. Two of the affected departments (Education and Provincial Legislature) make use of their own internal audit function. The remaining nine departments (Agriculture, Economic Development and Environmental Affairs, Human Settlements, Local Government and Traditional Affairs, Office of the Premier, Provincial Treasury, Roads and Transport, Safety and Liaison, Sport Art Recreation and Culture) use the shared internal audit service which is housed in the Provincial Treasury. The internal audit charter and annual internal audit plan of the internal audit function of the Provincial Legislature was not approved, resulting in this function not being able to discharge its responsibilities. The shared internal audit service and Education's internal audit function were restrained by issues of capacity and methodology. The internal audit function at the Eastern Cape Gambling and Betting Board was only operational for the last three months of the year while there was no internal audit function at the Eastern Cape Arts and Culture Council.

Root causes/control deficiencies

- Lack of monitoring and supervision of day-to-day activities by all levels in the departments and entities throughout the period.
- Disregard of legislation by officials with insufficient monitoring by the leadership.
- Ineffective/inadequate internal audit coverage of compliance.
- Leadership not setting the right tone at the top.

The way forward

- The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance.
- Internal audit should assist with providing assurance that the strategies to mitigate risk of non-compliance are adequate.
- The Provincial Treasury should exercise oversight over compliance with applicable laws and regulations.
- The leadership of the province (especially Education and Health) should identify all risks to the implementation of their supply chain management policies and should manage these risks. Action should be taken against those officials who fail to comply with these policies.

3.4 Information technology system matters

IT general controls are those controls relating to the IT infrastructure and are imbedded in information system management processes. The objective of these audits is the evaluation of the effectiveness of IT controls to ensure that:

- financial and sensitive computer systems are only accessed by authorised officials
- systems are developed, enhanced, configured and implemented so that they are effective, functional and secure
- critical information is recoverable and usable in the event of disasters and disruptions
- financial information processes as stored in the computer systems are reliable for financial reporting purposes.

Departments are heavily reliant on computerised information systems (e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal) and the Logistical Information System (Logis)) to perform their statutory financial management, reporting and administrative functions. These transversal systems are centrally supported by the National Treasury. SITA provides important computer networking infrastructure, data storage and retrieval services in this regard, however, there are certain controls that mainly the responsibility of the departments, namely user access management, security management and IT service continuity.

IT general control audits were performed at 14 departments. The following table indicates the number of common focus area findings raised during those audits:

Table 8: Audit findings raised on common IT focus areas

IT focus area findings	Percentage of audited departments with finding	Percentage of audited entities with finding
IT governance	64%	33%
Security management	86%	33%
User access control	100%	33%
Information technology service continuity	86%	67%

The detail findings related to the audited focus areas include the following:

- Inadequate user access control to ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and also that user access is adequately segregated when transactions are captured and approved.
- Security management controls did not prevent unauthorised access application systems that generate and prepare financial statements.
- IT service continuity controls could not ensure the availability of financial and performance information in instances of data loss or a disaster.
- Inadequate IT governance structures, policies and processes to ensure that IT support and extends the departments' strategies and objectives.

Fundamentals of internal control to be addressed

- CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements.
- Government information technology officers (GITO), in consultation with SITA, and chief information officers (CIOs) have to clearly define security roles and responsibilities and implement network and operating system security controls that would detect and prevent unauthorised access to the application systems that generate financial information.
- Departments have to business continuity plans that would enable SITA, the GITO and CIOs to develop disaster recovery plans that are aligned to business requirements.

Accounting officers have to be involved in the oversight of IT governance processes and to capacitate IT departments with resources that will ensure adequate implementation of an IT plan.

3.5 Investigations and performance audits

The following investigations were highlighted in the audit reports pertaining to the 2009-10 financial year. These investigations are mostly commissioned by the accounting and/or executive authorities and is performed by various service providers.

3.5.1 Investigations

Auditee	SCM Issues	Fraud	Misconduct	Other
Agriculture	X			
Economic Development			X	X
Education	X	X	X	X
Health	X	X	X	
Human Settlements		X		X
Legislature			X	X
Local Government	X		X	
Roads and Transport	X			



3.5.2 Performance audits not yet finalised – Department specific

Agriculture

- A performance audit was conducted on the Department's use of consultants during the year under review. The audit is currently in the reporting phase and the findings will be reported in a separate report.

Roads and Transport

- A performance audit on consultants is being conducted by the Auditor-General's Specialised Audit Services Business Unit. A performance audit was conducted on the department's use of consultants during the year under review. The audit is currently in the reporting phase and the findings will be reported in a separate report.

Audits not conducted by the Auditor-General of South-Africa

3.6 Audits not conducted by AGSA: Overview of audit outcomes

In terms of section 4(3) of the Public Audit Act (PAA), 2004 (Act No. 25 of 2004) the Auditor-General may audit and report on the accounts, financial statements and financial statements of any public entity listed in the PFMA, any institution funded by the National or Provincial Revenue Fund or any institution authorised to receive money for a public purpose. If the Auditor-General opts not to perform the audit of an auditee referred to in section 4(3) of the PAA, the audit is performed, within the parameters stipulate in Part 2 of the PAA, by an *auditor in private practice*.

The East London Industrial Development Zone was the only provincial public entity audited by a private firm in terms of section 4(3) of the PAA. This audit was conducted by a reputable firm, in accordance with the International Standards on Auditing, where the audit culminated in an unqualified audit report with no findings on internal control. This outcome is indicative of clean administration where the entity is well managed, with a strong control environment and under the direction of a board with a sound sense of accountability.

The audit of the East London Industrial Development Zone will be rotated back to the Auditor-General for the 2010-11 financial year in accordance with the AGSA framework for the allocation of audits and the relevant rotation policy.

SECTION 4: ACTION TAKEN OR TO BE TAKEN TO ADDRESS AUDIT OUTCOMES

4.1 Drivers of audit outcomes

Weaknesses in the internal control objectives relating to leadership, financial management and reporting, and governance were identified as the root causes of the basis for the qualified/adverse/disclaimer of opinion on the financial statements and the findings on predetermined objectives and compliance with applicable laws and regulations. These three control objectives are analysed below.

4.1.1 Leadership

The leadership control objective relates mainly to setting the correct leadership tone at the top, the role of leadership in oversight and taking appropriate actions to mitigate emerging risks. The analysis which follows deals with this control fundamental and its impact on the audit reports of the departments and provincial public entities.

Details per institution are provided in Annexure 2 to this report.

4.1.1 (a) Commitments by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery

Financial reporting

The leadership tone at the top refers to the leaderships' commitment to creating a sound control environment and accountability. An appropriate leadership tone towards financial reporting was displayed at four departments (Provincial Treasury, Public Works, Safety and Liaison, Sport Art Recreation and Culture) and three public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic and Consultative Council and Eastern Cape Parks Board). The commitment by these departments to turning around unfavourable outcomes or maintaining their favourable outcomes was evident in their monitoring of appropriate action plans.

A significant area of concern is the leadership tone within Health and Education. There is a lack of commitment to address the issues raised from the previous audit and there is also a lack of accountability within these departments. Furthermore, the current organisational structure and control environment is not conducive to good governance and accountability. Education, especially, has not had a permanent head of department since the beginning of 2009, which is further indicative of the lack of commitment in rectifying the issues raised.

Leadership instability at Economic Development and Environmental Affairs as in the case of Education contributed to the lack of an appropriate tone of leadership. During the year under review there were two acting accounting officers and two acting chief financial officers at this department. This lack of sustainability at the senior management level contributed to the qualifications and findings relating to predetermined objectives and compliance with laws and regulations reported at this department.

The accounting authority of Eastern Cape Appropriate Technologies Unit did not take decisive action against a senior member of management for abuse of the entity's resources that was reported in the previous financial year. As a result this abuse continued during the year under review resulting in fruitless and wasteful expenditure of R645 836 being disclosed in its financial statements. The responsible official has subsequently been suspended by the accounting authority after this abuse was again reported during the current audit.

There is still a lack of monthly monitoring and oversight and large amount of additional interactions and action had to be taken after the financial year to improve the audit outcomes. Although 10 departments and nine provincial public entities received unqualified audit opinions many of them were not adequate around their financial management and previous findings were not always addressed. During the current year this resulted in the auditees (Provincial Legislature, Agriculture, Local Government and Traditional Affairs, Office of the Premier, Roads and Transport, Social Development, Eastern Cape Arts and Culture Council, Mayibuye Transport Corporation, Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Youth Commission) trying to control the audit process and not always controlling their institutions during the whole financial year.

During the audit process the political and administrative leadership played an active role in taking ownership for the overall audit outcomes in the province. This was echoed by the premier of the Eastern Cape and her Members of the Executive Council who publicly took personal responsibility for the outcomes of the province.

In addition, the relationship between the AGSA and the auditees played a vital role in our escalation process. All possible qualification or high risks were escalated to the administrative and political leadership for action. The leadership was very responsive to the escalation process and it resulted in the leadership taking action to address the risks which had a direct impact on the improved audit outcomes of the province.

The impact of MEC stakeholder interactions and provincial oversight interventions during the audit process also had a positive impact on the outcomes.

Although there has been an improvement in the tone of leadership and it played a part in the improvements in the province, the tone was not always consistent and as indicated above this resulted in the auditees trying to manage the audit process and not ensuring that the control environment was effective and efficient throughout the year. In addition, the leadership tone must enforce a strong control environment over all aspects of financial management, compliance and predetermined objectives throughout the financial year and poor performers must be held accountable for non-delivery. It is imperative that the leadership tone is improved going forward.

Reporting against predetermined objectives

An appropriate attitude towards reporting against predetermined objectives as demonstrated by the implementation of controls over the development of performance targets and the developments of processes and controls to ensure that reporting of actual performance against targets is accurate and complete was evident at two departments (Provincial Treasury, Safety and Liaison) and five provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Development Corporation, Eastern Cape Socio Economic and Consultative Council, Eastern Cape Parks Board, Eastern Cape Youth Commission).

Regular monitoring and review processes throughout the financial year under review ensured that their reports against predetermined objectives were useful, reliable and complied with the applicable regulatory requirements. This tone towards reporting of predetermined objectives was not displayed at the remaining departments and provincial public entities.

The risks relating to predetermined objective reporting were not adequately identified and addressed by action plans and corrective action at the remaining 12 departments and seven provincial public entities. This resulted in material findings on predetermined objectives being included in their audit reports. Poor structuring of performance reporting processes, an inability to support actual achievements with reliable and relevant supporting documentation and inadequate monitoring and review contributed to these findings.

4.1.1 (b) *Establish an effective organisational structure that places people with appropriate skills in appropriate positions especially in supply chain management to ensure compliance with applicable laws and regulations*

The organisational structures of nine departments (Agriculture, Economic Development and Environmental Affairs, Education, Health, Human Settlements, Public works, Roads and Transport, Safety and Liaison, Social Development) and seven provincial public entities (Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Youth Commission, Mayibuye Transport Corporation) were not adequate to respond appropriately to their organisational risks and the risk relating to relating to supply chain management in particular. This resulted in irregular expenditure of R2,13 billion being disclosed in the financial statements subjected to auditing. This is mainly due to inadequate oversight by the leadership of the implementation of the supply chain management processes within the province and the failure to address the risks relating to supply chain management reported during the previous audit cycle.

4.1.1 (c) *Review and monitoring of action plans to address all significant internal control deficiencies*

Financial reporting

The leadership of four departments (Provincial Treasury, Public works, Safety and Liaison, Sport Art Recreation and Culture) and three provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Parks Board, Eastern Cape Socio Economic and Consultative Council) implemented monitoring mechanisms over financial reporting and as a result the quality of the financial statements submitted by these auditees improved. The financial statements and supporting processes and evidence of the remaining departments and provincial public entities were not subjected to adequate monitoring by their leadership. This resulted in their financial statements either being subjected to material amendments during the audit or being qualified or disclaimed.

The administrative leadership at the Departments of Health and Education does not perform sufficient oversight and there was inadequate review and supervision within these departments of the daily, weekly and monthly control activities, resulting in numerous qualifications, findings on predetermined objectives and findings relating to compliance with laws and regulations. As a result the leadership did not create an environment that

was conducive to good governance and accountability. This was due to an inappropriate attitude and lack of commitment to turn around unfavourable outcomes. It is also evident that the senior leadership does not take responsibility and ensure that the daily, weekly and monthly control activities are accurately performed and supervised.

In order for the departments and provincial public entities to improve and to eventually obtain unqualified audit reports with no findings on predetermined objectives and compliance with laws and regulations, it is necessary that oversight is strengthened further through the introduction of more regular monitoring and review processes which ensure that the daily, weekly monthly control activities within all institutions are operational and corrective action is taken timeously.

Observations relating to those departments and provincial public entities that received qualified and disclaimed opinions are as follows:

- Economic Development and Environmental Affairs did not take appropriate action to address the qualification received in the previous financial year. As a result it was qualified again on capital assets.
- Education developed and approved a detailed action plan to address the prior year audit findings; however, this action plan was not implemented. As a result most of the prior year qualifications were repeated.
- At Health a lack of decisive action to mitigate emerging risks and the failure to implement corrective measures to address the weaknesses in controls and non-performance highlighted in the external and internal audit reports resulted in qualifications reported in the prior year being repeated in the current year.
- Human Settlements did not adequately identify the risks to financial reporting relating to the disclosure of commitments and thus did not take appropriate actions to minimise this risk. This resulted in its financial statements being qualified on commitments.
- The Eastern Cape Provincial Arts and Culture Council did not address all of the scope restrictions giving rise to the qualifications reported in the previous audit report. This contributed to the qualifications on its corresponding figures and opening inventory.
- Policy and procedure frameworks required to effectively manage the risks relating to asset management and revenue were not approved and implemented at the Mayibuye Transport Corporation. This resulted in key controls such as the reconciliation of the asset register with the general ledger, physical inspection of assets, and the reconciliation of the revenue accounts in the general ledger to supporting revenue systems not being performed during the year under review. This inaction contributed to the qualifications on revenue and capital assets received by this entity.
- The leadership of the Eastern Cape Appropriate Technologies Unit did not take decisive action to safeguard the entity's resources, resulting in fruitless and wasteful expenditure being reported in its financial statements. It also did not take action to address the qualifications received in the previous year and as a result the entity's financial statements were qualified on its corresponding figures.

Reporting against predetermined objectives

The leadership of two departments (Provincial Treasury and Safety and Liaison) and five provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Development Corporation, Eastern Cape Socio Economic and Consultative Council, Eastern Cape Parks Board, Eastern Cape Youth Commission) monitored their predetermined objective reporting on a regular basis. As a result the credibility of their predetermined objective reports improved. The predetermined objective reports, supporting processes and evidence provided by the remaining 12 departments and seven public entities were not subjected to regular review and monitoring, resulting in material findings on predetermined objectives being reported in their audit reports.

4.1.1 (d) *Ensure that all vacancies in finance and other significant components are filled within a reasonable time period*

The leadership of the provincial departments did not take effective actions to fill key vacancies. This manifested in an overall vacancy rate of 35% across all departments at year-end with an average of 20% of senior manager positions being vacant.

Vacancies in senior management, finance, internal audit and other service delivery components were not addressed timeously. These vacancies are discussed further in section 5.1 of this report.

The lack of permanent leadership through the positions of the accounting officer and chief financial officer positions contributed to the unfavourable/lack of improved outcomes at Education and Economic Development and Environmental Affairs.

Generally the finance components of the public entities are adequately resourced. The appointment of permanent chief financial officers at Eastern Cape Appropriate Technologies Unit and Eastern Cape Arts and Culture council contributed to their improved outcomes/reduction in qualifications.

4.1.1 (e) *Leaderships' implementation of action plans to address user access control deficiencies within information and technology systems*

The leadership of four departments (Provincial Legislature, Health, Public Works, Safety and Liaison) and eight provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Arts and Culture Council, Eastern Cape Liquor Board, Eastern Cape Parks Board, Eastern Cape Tourism Board, Eastern Cape Socio Economic and Consultative Council Eastern, Cape Youth commission, Mayibuye Transport Corporation) put action plans in place to address the user access control findings highlighted in the previous year. The remaining departments and provincial public entities did not take steps to reduce the risks posed by unauthorised access to their systems. With the exception of the Education department this risk did not have an impact on the financial statements of the province during the year.

4.1.2 Financial and performance management

Weaknesses in the control objective relating to financial and performance management were reported at all 14 (100%) departments and all 12 (100%) provincial public entities.

The financial and performance management control objective relates mainly to the preparation of quality financial statements and performance reports which are supported by appropriate record keeping and information systems. The analysis which follows deals with this control fundamental and its impact on the audit reports of the departments and provincial public entities.

Details per institution are provided in Annexure 2 to this report.

4.1.2 (a) *Proper record keeping and record management ensuring that supporting documents are properly files and easily retrievable*

Financial reporting

The adherence to basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts and continuous review and monitoring thereof by leadership is essential if the goal of unqualified reports with no findings on predetermined objectives and compliance with laws and regulations by 2014 is to be achieved. The financial management controls over the review and evaluation of management accounts and record keeping did not support the preparation of credible financial statements at all 13 departments and three provincial public entities. As a result their financial statements were subjected to material adjustments during the audit process or were either qualified or disclaimed.

The leadership at the Provincial Treasury and the three provincial public entities that received unqualified reports with no findings (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic and Consultative Council and Eastern Cape Parks Board) on predetermined objectives and compliance with laws and regulations reviewed their management accounts on a monthly basis which allowed them to identify risks and to take action where necessary. Although material misstatements were corrected at these entities they were not pervasive and were limited in number, which is reflected in their positive audit outcome.

Generally, the departments and provincial public entities are not proactive, but rather reactive and tried to manage the audit process and did not implement monthly evaluation and review processes over financial information. Consequently, there is a large amount of irregular expenditure and unauthorised expenditure, and service delivery within the province is poor.

Good quality monthly management accounts that are evaluated and monitored on a regular basis will ensure that leadership can make informed decisions and improve service delivery. In addition, risks can be identified timeously and the necessary corrective action taken.

Reporting against predetermined objectives

Accurate and verifiable records ensured that reported performance was reliable and accurate at two departments (Provincial Treasury, Safety and Liaison) and at three provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Development Corporation, Eastern Cape Socio Economic and Consultative Council, Eastern Cape Parks Board, Eastern Cape Youth Commission). The record keeping at the remaining departments and provincial public entities did not support credible reporting of actual performance against predetermined objectives. The leadership of these departments and provincial public entities should establish appropriate systems and processes for collecting retaining and retrieving information that supports their reported performance.

4.1.2 (b) Ensuring the asset register reflects the assets owned and that this is agreed to the financial records and financial statements. Reconciling and clearing of suspense accounts on a monthly basis.

Asset register

Although only Economic Development and Environmental Affairs, Health and Mayibuye Transport Corporation were qualified on assets, assets remain a challenge within the province. Asset registers of eight departments (Economic Development and Environmental Affairs, Education, Health, Human Settlements, Local Government and Traditional Affairs, Office of the Premier, Public Works, Sports Arts Recreation and Culture) and five provincial public entities (Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Parks Board, Eastern Cape Rural Finance Corporation, Mayibuye Transport Corporation) were not updated on a regular basis and were also not reconciled with the financial records. In addition, regular asset counts were not performed at these institutions. At three departments (Education, Office of the Premier and Sports Arts Recreation and Culture) and four provincial public entities (Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Parks Board and Eastern Cape Rural Finance Corporation) assets were only updated during the audit process and had to be re-audited on numerous occasions in order to avoid qualifications. There is a risk of regression within the province if this is not addressed.

Suspense accounts

Suspense accounts were not appropriately reconciled and cleared on a monthly basis at Education and Health. This contributed to their liability qualifications. The suspense accounts at the remaining departments and all provincial public entities were reconciled and cleared on a regular basis.

4.1.2 (c) *Producing accurate financial statements and reports against predetermined objectives and continuously monitoring the quality thereof. Ensuring that reported performance is supported by relevant and reliable information.*

Financial reporting

The committed leadership of three departments (Provincial Treasury, Safety and Liaison, Sport Art Recreation and Culture) and three provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic Consultative Council, Eastern Cape Parks Board) implemented review and monitoring processes over its systems used to support the financial statements and disclosure notes. As a result, they either improved on or maintained their positive audit outcomes obtained in the previous year.

The controls implemented by management over the financial systems and the systems used for disclosure notes were not adequate at the remaining 11 departments and nine provincial public entities. This contributed to the material amendments to the financial statements during the audit and/or the qualifications/disclaimers reported in the audit reports.

Disclosure notes are not monitored and reviewed during the financial year as a result most disclosure notes are only prepared after the financial year. The auditees are re-active to the audit findings by amending figures during the audit process in reaction to our audit findings. This is also reflective in the audit outcomes as 71% of the audit reports that were modified were qualified on other disclosure items.

Reporting against predetermined objectives

Sound performance management systems ensured useful, reliable and measurable predetermined objective reporting at two departments (Provincial Treasury, Safety and Liaison) and at three provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Development Corporation, Eastern Cape Socio Economic and Consultative Council, Eastern Cape Parks Board, Eastern Cape Youth Commission). In addition, reported performance at these institutions was supported by accurate and verifiable records.

The remaining 12 departments (Agriculture, Economic Development and Environmental Affairs, Education, Health, Human Settlements, Local Government and Traditional Affairs, Office of the Premier, Provincial Legislature, Public works, Roads and Transport, Social Development, Sports, Arts, Recreation and Culture) and seven provincial public entities (Eastern Cape Appropriate Technologies Unit, Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Mayibuye Transport Corporation) did not implement performance management systems that contained objectives that were SMART (specific, measurable, achievable, realistic, time bound) and supported by appropriate document management systems. This contributed to the findings on predetermined objectives in their reports.

It is recommended that the monthly review performed by the leadership of the province should include a review and evaluation of actual performance against pre-determined objectives. This review cannot be conducted in isolation of the management accounts as it should inform the department/provincial public entities of the funds available to meet those predetermined objectives which have not yet been achieved and should allow them to take corrective action timeously.

4.1.2 (d) Application systems susceptible to compromised data integrity (information systems)

The general control environment relating to information systems in the province is weak. Significant findings include:

User access control

All departments and four provincial public entities (Eastern Cape Appropriate Technologies Unit, Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Rural Finance Corporation) did not have action plans in place to address the risks relating to user access controls highlighted in the previous audit reports, resulting in repeat findings in this area. The risk of unauthorised access at these departments and provincial public entities is significant.

Security management

Although SITA is responsible for ensuring that there are security measures in place to prevent unauthorised access to the departmental networks and operating systems, where these are inadequate, compensating controls should be put in place at departmental level to prevent unauthorised access. Provincial public entities are responsible for securing their own networks. Twelve departments and four provincial public entities (Eastern Cape Appropriate Technologies Unit, Eastern Cape Development Corporation, Eastern Cape Gambling and Betting Board, Eastern Cape Rural Finance Corporation) had findings relating to security management. The two departments with no security management findings were Agriculture and Provincial Treasury.

Common findings relating to security management were the following:

- Operating system standards and procedures were not implemented
- Security management was inadequate to ensure the security of the network environment
- Operating system parameters were not set to provide optimal security
- An excessive number of users had administrator access rights
- Access and logon validation reports were not reviewed.

These findings were due to a lack role and responsibility communication between SITA and departments.

Business continuity

Two departments (Safety and Liaison, Social Development) and four provincial public entities (Eastern Cape Gambling and Betting Board, Eastern Cape Parks Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board) did not have findings relating to business continuity. Weaknesses in the process of managing the availability of hardware, system software, application software and data to enable an organisation recover in the event of a disaster were identified at all of the remaining departments and provincial public entities. Common findings included the following:

- There was a lack of formally documented and approved business continuity/disaster recovery plans.
- Inadequate backup standards and procedures.

- Disaster recovery plans were not fully implemented or tested on a regular basis.
- Backups were not kept off-site.

It is recommended that the Provincial Treasury should take up their responsibility of custodian of the accounting systems and ensure that the various service providers, including the National Treasury, account for the weakness identified above and put measures in place to address them.

4.1.3 Governance

The governance control objective relates mainly to involvement of the audit committee and internal audit, the identification and management of risk (including information technology) and fraud prevention. This fundamental and its impact on the province is analysed below:

Details per institution are provided in Annexure 2 to this report.

4.1.3 (a) *Involvement of audit committees and internal audit in monitoring processes (financial reporting and reporting against predetermined objectives)*

The involvement of audit committees and internal audit in completing the annual audit plans for two departments (Public Works, Social Development) and 10 provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Appropriate Technologies Unit, Eastern Cape Development Corporation, Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation, Eastern Cape Socio Economic Consultative Council, Eastern Cape Parks Board, Tourism Board, Eastern Cape Youth commission, Mayibuye Transport Corporation) and the review of their annual financial statements played a vital role in the improvement/maintenance of positive audit outcomes. As part of the annual audit plan the audit committee monitored the actions to address audit outcomes and risk identified by internal audit.

The audit committee and internal audit play an important role in strengthening governance and oversight within the province, but currently the province is not getting a return on monies paid for these structures. In addition, the shared service structure which services nine departments is not effective and is not conducive to strengthening governance and oversight. Furthermore, the shared internal audit services do not have adequate staffing to provide an adequate service and work performed is not at the level required in terms of the internal auditing standards. It should also be noted that shared internal audit under the guidance of the shared audit committee did not perform a review on performance information during the year under review.

The audit committees and internal audit at the remaining 12 departments and two public entities (Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board) did not exercise adequate oversight over the financial reporting processes while the audit committees and internal audit of all departments and nine public entities did not exercise adequate oversight over the predetermined objective reporting processes and compliance with laws and regulations.

Adequate oversight over financial reporting and reporting against predetermined objectives and compliance with laws and regulations was exercised at Accelerated Shared Growth Initiative of South Africa, Eastern Cape Socio Economic and Consultative and Council and Eastern Cape Parks Board. At these entities the

findings reported in the prior year relating to all three of these areas were included on a monitoring tool that was verified by internal audit and monitored by the audit committees at each committee meeting held during the year.

Two of the above departments (Education and Provincial Legislature) make use of their own audit committees. The remaining nine departments use the shared audit committee and internal audits. The effectiveness of the shared audit committee and the Education audit committee was hampered by ineffective internal audit units while the audit committee of the Provincial Legislature was operational for the latter part of the year only. Although the audit committee at Health fulfilled its statutory responsibilities as required by the PFMA, it was not effective as the administrative leadership did not implement the recommendations made by it.

The effectiveness of the audit committee at the Eastern Cape Arts and Culture Council was affected by the non-existence of the internal audit function. The internal audit function at the Eastern Cape Gambling and Betting Board was only operational for the last three months of the year, impacting on the effectiveness of its audit committee.

The internal audit charter and annual internal audit plan of the internal audit function of the Provincial Legislature were not approved, resulting in this function not being able to fulfil its duties. The shared internal audit service and Education's internal audit function were restrained by issues of capacity and methodology. The non-awarding of a tender by the management of the Department of Education for a co-sourced internal audit service also impacted negatively on the effectiveness of the Education internal audit function. Although the internal audit function of Health prepared reports in terms of its audit plan and it met its responsibilities required by the PFMA it was not effective as the administrative leadership did not address the issues raised by it.

4.1.3 (b) Maintaining effective risk management strategies, including fraud prevention plans

The departments and provincial public entities do have risk and fraud prevention plans in place. These are, however, complied in order to meet their compliance requirements and not used as an effective management tool. The benefits that these plans have to offer are thus not experienced by the province.

Only four departments (Provincial Treasury, Public works, Safety and Liaison, Sport Art Recreation and Culture) and three provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Parks Board, Eastern Cape Socio Economic and Consultative Council) monitored these plans which assisted in obtaining improved/maintained positive outcomes. The remaining departments and provincial public entities did not monitor their plans effectively.

In addition, all departments did not adequately identify and monitor the risks relating to the information technology systems used by them. This resulted in repeat audit findings relating to user access, security management, business continuity, and information technology governance.

4.1.3 (c) An IT governance framework that directs the positioning of IT resource requirements, risk and internal control management

IT governance is the responsibility of the executive management. It is an integral part of the organisation's governance and consists of the leadership and organisational structures and processes that ensure that the organisation's IT sustains and extends its strategies and objectives. IT governance is important as it allows the organisation to manage information technology risks, derive value from information technology investments and also support the achievement of business objectives that are dependent on information technology systems. An IT control framework is integral to IT governance and provides overall guidance on the implementation thereof within the organisation and also ensures the positioning of information technology, resource requirements, risk and internal control management.

Four departments (Agriculture, Provincial Treasury, Public Works and Social Development) and eight provincial public entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Arts and Culture Council, Eastern Cape Gambling and Betting Board, Eastern Cape Parks Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Socio Economic and Cooperative Council Eastern Cape Youth Commission, Mayibuye Transport Corporation) did not have information technology findings, even though they did not always adopt a formal governance framework.

Common information technology governance findings at the remaining 11 departments and four provincial public entities include the following:

- There was no approved information technology strategy or this strategy was approved and implemented but not monitored or the strategy was approved but not implemented.
- An information technology steering committee was not established or was established but was not functioning effectively.
- There was no information technology risk register.
- Information technology procedures were either not in place or where they were in place they were incomplete.
- The functions of information security officer were either not allocated or were not performed.
- No service level agreements were in place or where they were in place they were not monitored.

4.1.3 (d) Oversight role of the legislature through its portfolio and public accounts committees

The role played by the legislature in ensuring that the departments and entities have action plans in place to address findings raised by the AGSA has been instrumental in ensuring improved audit outcomes in the province. The importance and urgency placed on issues, the follow-up on prior year action plans and the unwavering support for the AGSA by SCOPA, for our recommendations and audit process has resulted in departments and entities respecting the oversight role and ultimately taking accountability and responsibility for audit outcomes.

The respective portfolio committees became actively involved in monitoring improvements in the audit outcomes by taking note of the audit reports and monitoring progress on improvements through regular meetings with those charged with governance at the departments and entities.

4.1.3 (e) Oversight role of the Provincial Treasury

The Provincial Treasury does not provide adequate oversight over the departments as required by the PFMA and as a result transversal issues are not adequately addressed. It is evident that the outcomes for the province as a whole is not analysed to determine the common trends. As a result, no action plan for the administration is compiled to effect assistance to the departments. In addition, assistance rendered by the Provincial Treasury normally takes place towards the end of the financial year when errors and weakness have compounded to the extent that it cannot be rectified.

From the above it is clear that the treasury should play a more proactive roll and ensure that measures to address common challenges are implemented at the start of the financial year and monitored for the period through out.

4.2 Action taken/to be taken by management and those charged with governance to address matters previously reported

Those charged with oversight and governance became more active in fulfilling their monitoring roles and responsibilities, especially towards the end of financial year, by following up on areas of concern identified by the AGSA and taking the required action to address them. This can, however, be improved going forward by consistently ensuring that the leadership continuously follow up and monitor risks identified and that staff members are held accountable for all transgressions.

Other than the three audits that received clean opinions, the audit committees did not take action to assist in improving the audit outcomes. Although the majority of the audit committees convene as required, they are not effective as far as driving clean administration, proper record keeping, monthly oversight and accountability are concerned. As a result, the audit committees do not impact on the audit outcomes. Initiatives have been put in place by the AGSA to enhance the effectiveness of those charged with governance through quarterly meetings with the Forum of Internal Auditors as well as the Forum for Chairs of Audit Committees.

Notwithstanding the positive tendency within the departments other than the Departments of Health and Education there is much room for improvement in respect of findings on reporting of performance against predetermined objectives and compliance with laws and regulations. This is a specific focus area where those charged with governance should play a critical part to ensure that systems and measures are put into place to address these issues and ensure accountability.

4.3 Progress on undertakings given by the executive authority and the Provincial Treasury to address matters previously reported

4.3.1 Commitments and actions by the premier and MECs

After the 2008-09 audits the Speaker, the premier and the MEC for Finance committed to drive a positive change within the Departments of Education and Health that received adverse opinions. This commitment also included a cabinet resolution for the approval of the implementation of a provincial treasury-developed action

plan to address the audit outcomes of these two departments. This action was, however, not implemented as the Provincial Treasury could not get the buy-in from these two departments and no other action was taken by the Provincial Treasury to improve their audit outcomes. Instead, the two departments set up their own action plans. These action plans were, however, not adequate as they were not specific enough and did not address the real issues within the departments. In addition, the action plans were approved and implemented very late in the financial year with no impact on the audit outcomes.

The premier of the province also requested the assistance of the Hawks and the special investigating unit to look into various irregularities within the Department of Education. As a result of these investigations the premier requested the president for a proclamation to take action on the findings presented and to recover state monies. This proclamation was approved in July 2010. To date no action has been taken on this proclamation.

With respect to the legislature, the Speaker has committed to enhance accountability and strengthen proactive oversight through a revision of the oversight functions and processes within the legislature during the latter part of 2010.

The political leadership played an active role in during the audit process in order to improve the audit outcomes in the province. This was echoed by the premier for Eastern Cape who went on record to state that she would take personal responsibility for the outcomes of the province. This commitment now needs to be extended to a discipline of monthly reporting and monitoring.

MECs participated in the public hearings of the Provincial Public Accounts Committee for their respective departments during which they pledged support to resolving negative audit findings. The MECs also undertook to follow up on the commitments made by their managements to remove qualified opinions and the other matters raised in the audit reports.

4.3.2 Actions by provincial treasury in improving financial management practices and improving audit outcomes

The Provincial Treasury is significantly understaffed within the programme that provides oversight as required by the PFMA and as a result intended actions are not effectively put into practice. This is evident in the considerable period where the position of accountant-general remained vacant. As a result, the treasury had no material impact on the outcomes of the 2009-10 financial year. The accountant-general position has now been filled and interventions to address the transversal matters of concern and render a more effective support function are currently being implemented.

4.3.3 Status of SCOPA oversight resolutions

The Standing Committee on Public Accounts in the Eastern Cape is a very dedicated committee that takes its responsibilities very seriously. However, during the year there were some capacity restraints within the support functions which lead to hearings not taking place timeously, thus resulting in resolutions not being tabled. The committee therefore had a limited effect on the 2009-10 audit outcomes. However, the committee has now put measures in place to strengthen their contribution to accountability by fast tracking arrear resolutions.

The resolutions pertaining to the 2007-08 financial year has been tabled with the legislature but not yet debated and/or passed. The committee held hearings pertaining to the 2008-09 financial year, for all departments and for the entities with matters of concern during August and September 2010. The intensity of the committee during these hearings is commendable with virtually full attendance by committee members at all these hearings. In relation to the departments all hearings, with the exception of Education, were attended by the relevant MEC representing the department and members of the relevant portfolio committees attended the hearings in support of the committee.

Although all matters of interest were dealt with during the hearings, special focus was placed on irregular and unauthorised expenditure and why disciplinary actions are not taken against officials responsible. In addition, the committee insisted that the relevant the CFOs and heads of programmes account for the outcomes and not only the HODs.

The committee undertook to enhance its effectiveness by requesting departments to submit action plans for addressing audit findings and scheduling “In-Year Hearings” where departments will have to account for the status of their action plans. This effectively will enable the committee to be proactive during the financial year and not only re-active once the financial year has passed.

4.4 Initiatives taken by the AGSA to encourage clean administration

Relationship building and escalations

The AGSA embarked on many initiatives to enhance accountability in the province and to influence the process towards obtaining financially unqualified audit opinions. The main initiative was to further strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence. This initiative included the increased visibility of the AGSA's senior leadership and continuous interaction to highlight possible challenges, audit findings and transversal risks. This relationship, together with the receptive tone of leadership within the province, resulted in an improvement in the understanding of the audit findings and their root causes.

These improved relationships constructively contributed to improved audit outcomes as it allowed for quick elevation of issues to the executive and cabinet, which, almost without fail, resulted in corrective action being taken.

Key control visits

Since 31 March 2010 the AGSA has held meetings with the members of the executive council responsible for departments and the accounting authorities responsible for provincial public entities on the above fundamentals within their departments and entities that require improvement in order to improve their audit outcomes. Generally, these visits were well received and there has been an improvement in the leadership, financial and performance management and governance control fundamentals. However, Education in particular remains a concern as the position of accounting officer has not been filled in a permanent capacity.

4.5 Matters that may potentially impact on the auditor's report in the coming year

4.5.1 Predetermined objectives

Should the audit conclusion on the reporting on predetermined objectives be elevated for inclusion in the audit report in upcoming periods, the province may face a whole host of negative opinions in this regard. It is therefore critical that a focused initiative be embarked on to clarify requirements, implement / stabilise systems and to instil a culture of regular performance reporting and monitoring.

As in previous years, the AGSA will support this through appropriate workshopping of the relevant principles and requirements. Progress in this regard will also be monitored as part of the quarterly key control reviews and, where applicable, interim audit visits.

4.5.2 Merging of entities

ECATU/ASGISA/Uvimba

ECATU, ASGISA and Uvimba will be merging with effect from 1 April 2011. At this stage there is uncertainty whether the new entity will continue to occupy the premises which are disclosed in note 4 and capitalised at a value of R2,7 million. The permission to occupy these premises contains a stipulation that ECATU may continue to occupy the premises until such time as its activities cease. The value of the properties disclosed in note 4 is based on the assumption that the activities of ECATU will continue after the merger. If the board of directors of the new entity decides to discontinue the activities of ECATU, the buildings will revert to the land owner and the building value disclosed will require impairment.

Parks Board/Tourism Board

As disclosed in the statement of responsibility by the accounting authority, the Eastern Cape Parks Board merged with the Eastern Cape Tourism Board with effect from 1 July 2010 to form the Eastern Cape Parks and Tourism Agency. The new entity will be managed and governed through the Eastern Cape Parks and Tourism Agency Act, 2010 (Act No. 2 of 2010). The accounting authority has made an assessment of the Eastern Cape Parks Board's ability to continue as a going concern. It has been made clear that the existing mandate for the Eastern Cape Parks Board has been incorporated into the legislation which guides the new entity and it is on this basis that the board has continued to adopt the going concern basis in preparing the financial statements.

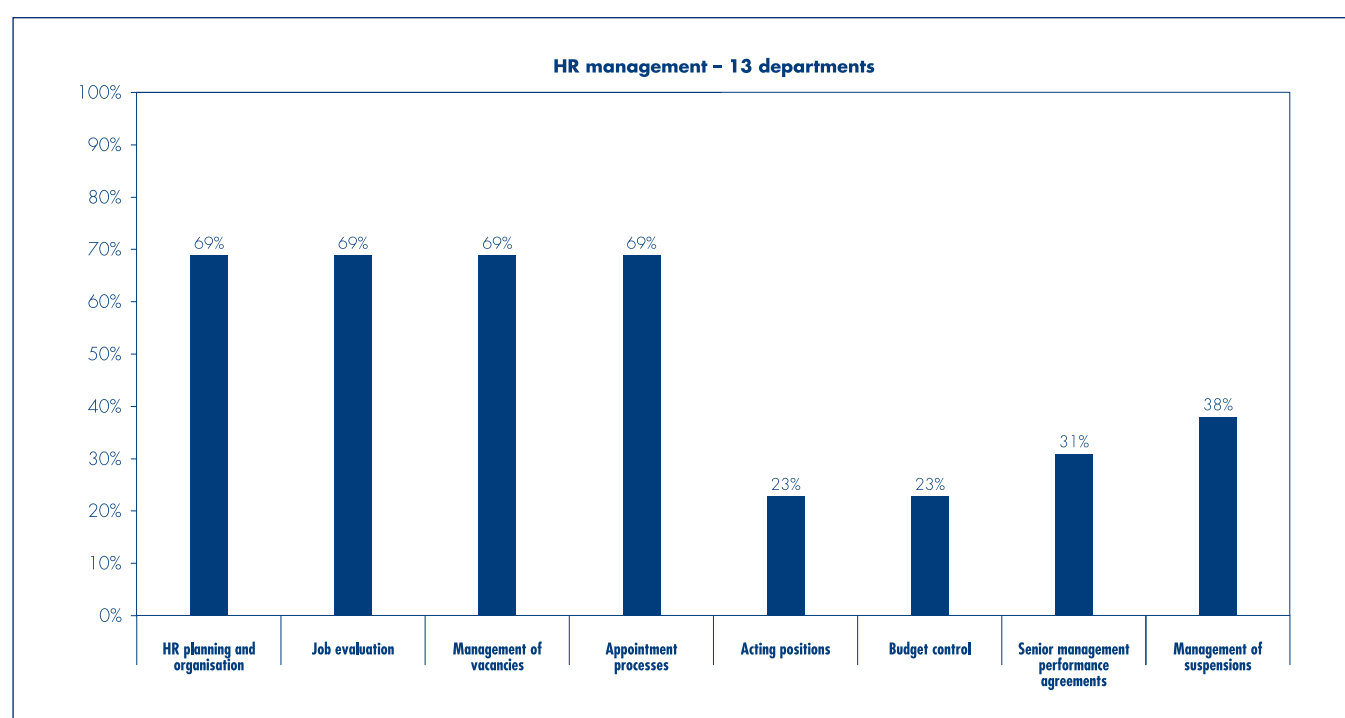
SECTION 5: FINDINGS ARISING FROM AGSA-SPECIFIC FOCUS AREAS

5.1 Significant findings from audits of human resource management and compensation of employees

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations (TR), Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees. The Provincial Legislature does not form part of this special focus as it is not subjected to all transversal prescripts and is therefore not included in the findings below.

The figure below depicts the incidence of findings in the different areas of human resources (HR) management.

Findings of human resource management

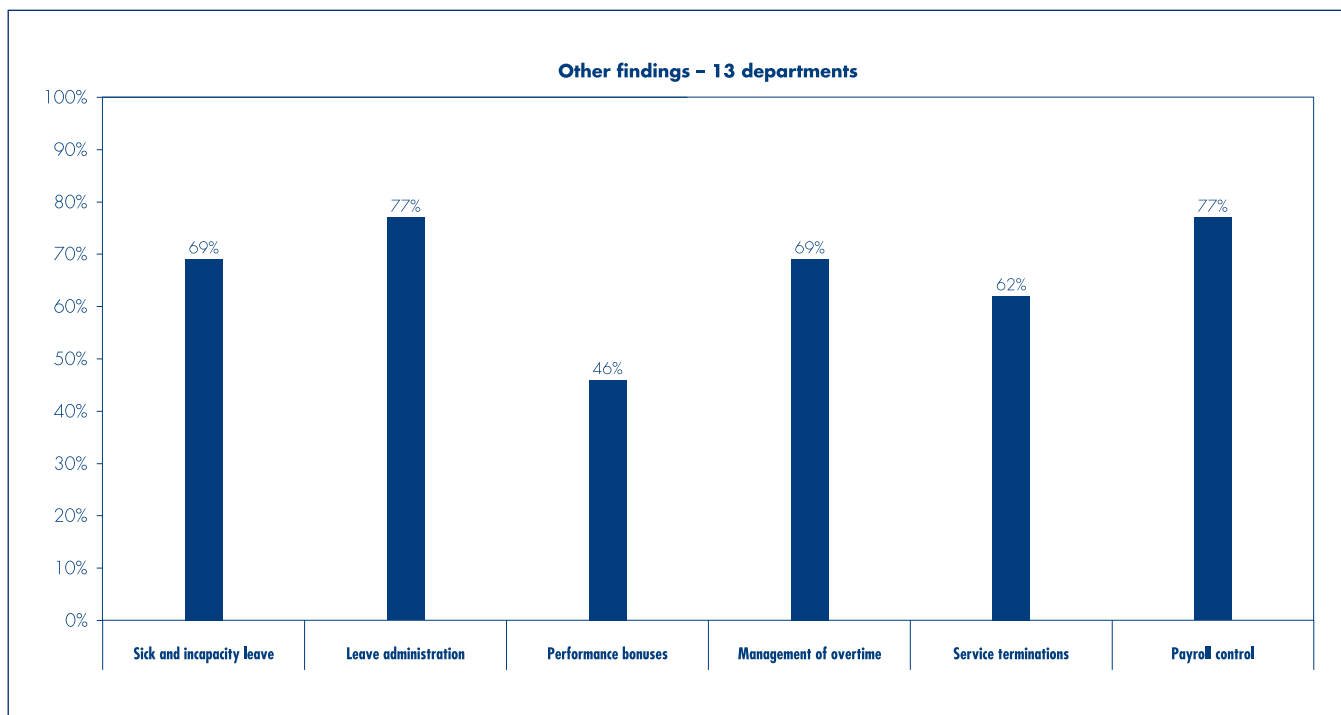


All 13 departments (100%) did not comply with all the requirements for effective HR management. These weaknesses impact on the department's financial management and ability to deliver services in accordance with their mandate. The highest incidence of non-compliance was noted at the following departments:

- Economic Development and Environmental Affairs
- Education
- Health
- Local Government and Traditional Affairs

- Public Works
- Safety and Liaison
- Social Development

Weakness in control over compensation of employees



In general, we have established that compensation of employees is not an area of high risk as remuneration and conditions of services are determined and managed centrally by the Department of Public Service and Administration. Furthermore, such compensation is implemented and controlled by the National Treasury via the Persal system which is used by all departments (excluding the Department of Defence).

It is of concern, however, that the weaknesses identified were in respect of those controls prescribed by legislation for implementation by the departments themselves. All 13 departments (100%) did not meet all the requirements for control over compensation of employees. These weaknesses could lead to employees receiving compensation and benefits that they are not entitled to. The highest incidence of non-compliance was noted at the following departments:

- Economic Development and Environmental Affairs
- Education
- Local Government and Traditional Affairs
- Public Works
- Social Development
- Sport, Recreation, Arts and Culture

The detailed findings on HR management and compensation of employees are presented below.

5.1.1 Human resource planning and work organisation

No updated and approved human resource plan

Human resource (HR) planning is required in terms of PSR 1/III/B2(d) and PSR 1/III/D to ensure that a department obtains the quantity and quality of staff required to meet its strategic objectives. The following departments did not have an approved and updated HR plan:

- Economic Development and Environmental Affairs
- Education
- Human Settlements

Lack of approved organisational structure

In terms of PSR 1/III/B2(a), the executive authority should determine the department's organisational structure in terms of its core and support functions based on the department's strategic plan. The following departments did not have an approved structure:

- Local Government and Traditional Affairs
- Social Development

Differences between Persal establishment and approved organisational structure

The organisational structure of the department is maintained on the Persal system as the establishment of the department for purposes of management information planning and budgeting and to ensure that appointments are made in posts that are approved and funded.

The establishment on the Persal system, however, did not correspond to the approved organisational structure at the following departments:

- Health
- Local Government and Traditional Affairs
- Roads and Transport
- Social Development
- Sport, Recreation, Arts and Culture

Lack of job descriptions

Job descriptions should be established in accordance with PSR 1/III/I1, which indicates the objectives and inherent requirements of the job. At the following departments such job descriptions were not in place for all the posts or groups of posts:

- Economic Development and Environmental Affairs
- Education
- Local Government and Traditional Affairs

- Public Works
- Social Development
- Sport, Recreation, Arts and Culture

5.1.2 Job evaluation

Lack of or inadequate job evaluation policy

In terms of the DPSA guide on job evaluations, each department should determine a detailed policy on job evaluation and grading, bearing in mind the requirements of the PSR. This will assist in ensuring that job evaluation is used to determine the grade of a post and thus the relevant salary, and that it is applied transparently and consistently in the department. A job evaluation policy was not in place at the following departments:

- Education
- Social Development

The job evaluation policy was inadequate at the following departments as it did not address all aspects as required by the DPSA guide on job evaluations:

- Agriculture
- Local Government and Traditional Affairs
- Office of the Premier
- Roads and Transport
- Sport, Recreation, Arts and Culture

Lack of job evaluation process for new and upgraded posts

In terms of PSR 1 /III/F(b), any newly defined job should be evaluated to determine its grading before creating a post for the job. Posts were created at the following departments without performing a job evaluation:

- Agriculture
- Local Government and Traditional Affairs
- Office of the Premier
- Roads and Transport
- Sport, Recreation, Arts and Culture

In terms of PSR 1 /V/C5, the salary of a post can be increased if a job evaluation indicates that the post was graded incorrectly. Posts were upgraded at the following departments without performing a job evaluation:

- Economic Development and Environmental Affairs
- Education
- Local Government and Traditional Affairs

- Roads and Transport
- Safety and Liaison

5.1.3 Management of vacancies

The head of the department should address the gaps between the human resources required to perform the department's functions and the existing human resources by means of recruitment and retention strategies.

The average vacancy rate across all departments was 35% at year-end, with an average of 20% of the positions for senior managers being vacant. The highest overall vacancy rate was at department of Safety and Liaison at 68% and a senior manager vacancy rate of 40%. Other departments with significant overall vacancy rates are Health with 57% and Departments of Human Settlements and Local Government with 54%.

Non-compliant recruitment time frames

In terms of PSR 1/VII/C.1A.2, a funded vacant post should be advertised within six months after becoming vacant and should be filled within 12 months. PSR 1/VII/C.1A.3 requires that if a department does not comply with the regulation, the reasons for such non-compliance should be recorded in writing.

The recruitment time frames were tested for senior management as well as posts in finance, internal audit and a service delivery component where the vacancy rate is above 5%. The following table provides detail on departments which have not complied with the recruitment time frames and where the reasons for non-compliance were not recorded:

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
Agriculture	X	X			
Economic Development and Environmental Affairs	X	X		X	
Education	X	X	X		
Human Settlements	X	X	X	X	X
Local Government and Traditional Affairs	X	X			
Provincial Treasury	X	X	X	X	
Roads and Transport				X	X
Safety and Liaison	X				

5.1.4 Appointment processes

The recruitment and selection processes ensure that candidates with the appropriate qualifications and experience to meet the requirements of the specific post are appointed.

Verification checks not performed

A directive was issued by the MPSA (effective 1 January 2008) which states that a process should be followed to check criminal and financial/asset records and to verify citizenship, financial status, qualifications and previous employment for all new appointments.

The process was not effectively implemented at the departments depicted in the table below:

Department	Appointments without verification checks	Appointments with incomplete verification checks
Economic Development and Environmental Affairs	X	X
Education	X	X
Health	X	X
Local Government and Traditional Affairs	X	
Public Works	X	
Roads and Transport	X	X
Safety and Liaison	X	
Social Development		X
Sport, Recreation, Arts and Culture	X	X

Lack of written contracts of employment

In terms of PSR 1/VII/B1(g), each employee should upon appointment be provided with a written contract of employment, including the terms and conditions of her or his service. Employees at the following departments were not provided with the required contract upon appointment:

- Education
- Local Government and Traditional Affairs
- Safety and Liaison

5.1.5 Budgetary control

In terms of TR 8.3.2, the accounting officer of an institution must ensure that the costs related to compensation of employees, as well as promotion and salary increases, are met within the budgetary allocation of the institution.

The following departments have overspent on their compensation budgets, resulting in irregular expenditure to the amount indicated:

- Economic Development and Environmental Affairs - R5,676 million
- Education – R156,379 million
- Health – R1,002 billion

The reason for the overspending was due to weak management of expenditure.

5.1.6 Performance agreements with senior managers

In terms of PSR 4/III/B1 and chapter 4 of the SMS handbook, senior management must enter into performance agreements. The performance agreements with the SMS at the following departments were not signed by 31 July 2009:

- Economic Development and Environmental Affairs
- Education
- Health
- Safety and Liaison

5.1.7 Lack of suspension policy/procedures

At the following departments no policies and/or procedures were in place to deal with suspensions:

- Economic Development and Environmental Affairs
- Local Government and Traditional Affairs
- Public Works

5.1.8 Sick and incapacity leave

Sick leave – Non-compliance and lack of monitoring

In terms of PSR 1/V/F(c), the head of the department should ensure that sick leave is not abused.

The table below identifies departments that did not comply with the DPSA's *Determination on leave of absence in the public service* (leave determination), which requires that medical certificates be submitted, and/or did not implement processes and procedures to monitor sick leave in order to prevent abuse thereof.

Department	Medical certificates not submitted		No processes and procedures to monitor sick leave	Sick leave monitoring processes and procedures not implemented
	Sick leave of more than three days	Sick leave that was third incident in an eight-week cycle		
Economic Development and Environmental Affairs	X		X	
Education	X	X	X	X
Health	X		X	X
Human Settlements				X
Local Government and Traditional Affairs		X	X	
Social Development			X	
Sport, Recreation, Arts and Culture			X	

Incapacity leave incorrectly granted

In terms of the leave determination, incapacity leave is additional sick leave granted conditionally at the employer's discretion, read with the DPSA's *Policy and procedure on incapacity leave for ill-health retirement (PILIR)*. The determination and policy provide clear and specific requirements on how incapacity leave should be dealt with and the number of days that may be granted.

The table below identifies departments where more temporary or permanent incapacity leave was granted than the employee was entitled to and/or where the requirements of the determination and the policy were not met:

Department	More temporary/permanent incapacity leave granted than employee was entitled to	Non-compliance with determination and policy
Economic Development and Environmental Affairs		X
Education	X	X
Health	X	X
Human Settlements		X
Local Government and Traditional Affairs		X
Provincial Treasury		X
Social Development	X	X
Sport, Recreation, Arts and Culture		X

5.1.9 Leave administration

Overstated leave credits

In terms of PSR 1 /V/F(b), the head of the department should record all leave taken by an employee accurately and in full. No/inadequate controls were implemented at the following departments to ensure that all leave taken by employees was captured and that it was done timeously.

As a result, the annual/capped leave credits at the following departments have been overstated:

- Agriculture
- Economic Development and Environmental Affairs
- Education
- Health
- Provincial Treasury
- Safety and Liaison
- Social Development
- Sport, Recreation, Arts and Culture

Negative capped leave

In terms of the leave determination, an employee may not be granted annual leave with full pay in excess of the annual leave that the employee is entitled to, plus capped leave in respect of persons who had been in service prior to 1 July 2000. If, due to a bona fide error, an employee had been granted annual leave with

full pay in excess of the days to his/her credit at that time, such excess must be deducted from the subsequent leave cycle.

Employees at the following departments had negative capped leave credits which were not deducted from their annual leave and were not recovered via unpaid leave:

- Economic Development and Environmental Affairs
- Education
- Health
- Human Settlements
- Provincial Treasury
- Social Development

5.1.10 Performance bonuses

Performance bonuses should only be paid to employees entitled to such bonuses in terms of the department's financial incentive scheme and chapter 4 of the SMS handbook.

No/insufficient evidence existed that employees at the following departments were entitled to the performance bonuses paid to them:

- Economic Development and Environmental Affairs
- Education
- Health
- Public Works

Performance bonuses were incorrectly calculated for employees at the following departments:

- Education
- Health
- Human Settlements
- Public Works
- Social Development

5.1.11 Management of overtime

PSR 1/V/D2 determines the circumstances under which employees may be compensated for overtime worked. The table below identifies departments where non-compliance with the regulation occurred and overtime was incorrectly calculated:

Department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee's monthly salary	Overtime incorrectly calculated
Agriculture			X	
Economic Development and Environmental Affairs			X	
Education		X	X	X

Department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee's monthly salary	Overtime incorrectly calculated
Local Government and Traditional Affairs	X		X	
Public Works	X			
Roads and Transport	X	X		
Safety and Liaison	X	X	X	
Social Development	X	X	X	
Sport, Recreation, Arts and Culture		X		X

5.1.12 Service terminations

In terms of the section 38 of the PSA, the overpayments should be recovered from an employee by way of a deduction from moneys owing to him/her, except if the amount is written off.

The table below identifies the departments where employees whose services had been terminated/who were deceased were not timeously removed from the payroll, resulting in overpayments. At year-end, a number of the departments had not recovered the overpayment or reclassified it as debt.

Department	Overpayments made to terminated/deceased employees	Overpayments not recovered/reclassified at year-end
Agriculture	X	
Economic Development and Environmental Affairs	X	X
Education	X	X
Human Settlements	X	X
Local Government and Traditional Affairs	X	X
Provincial Treasury	X	
Public Works	X	X
Sport, Recreation, Arts and Culture	X	X

5.1.13 Payroll control

In terms of TR 8.3.4, the person in charge at the respective pay points must certify that all persons listed on the payroll report are entitled to payment. TR 8.3.5 requires that the payroll report must be returned to the CFO within 10 days of being certified, and that the accounting officer must ensure that all pay-point certificates are received on a monthly basis.

Instances were found at the following departments that indicate that the prescribed control is not fully implemented:

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Economic Development and Environmental Affairs		X	X	
Education	X	X		X
Health	X	X	X	
Human Settlements	X	X		
Local Government and Traditional Affairs	X	X	X	X
Office of the Premier		X		
Public Works	X	X	X	X
Roads and Transport		X		
Social Development	X	X	X	X
Sport, Recreation, Arts and Culture		X		

5.2 Significant findings from audits of procurement and contract management

The regularity audits included an assessment of the procurement processes and contract management of the auditees as well as the controls to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation.

As is evident from the analysis of irregular expenditure (paragraph XX), the most irregular expenditure incurred by the departments and entities resulted from non-compliance with SCM legislation.

The detailed findings are presented below:

5.2.1 Interest in suppliers

The performance audit report entitled *Performance audit of entities that are connected with government employees and doing business with provincial departments*. The report disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they were directors or members.

Legislation does not prohibit such practices 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. The report also disclosed non-compliance with this legislation and a number of other irregularities in the SCM process at the departments.

The allegations in the performance audit report of corruption, improper conduct and failure to comply with the SCM system were either not investigated within a reasonable time or where an investigation did take place, these were not appropriately dealt with.

The 2009-10 regularity audits included a similar assessment of the interest of employees and their close family members in entities that are suppliers to the auditee. Where interest in suppliers was identified, a sample was

tested to determine whether there was compliance with the legislation applicable to departments, trading entities, constitutional institutions and schedule 3A and 3C public entities. The table below lists the auditees where interests were identified and details the resultant findings:

Auditee	Interest not declared by supplier	Employee involved in process of making award to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)	Interest not included in annual declaration of senior manager (departments only)
Agriculture	6	-	-	-	6
Economic Development and Environmental Affairs	8	-	-	-	3
Education	169	-	-	169	2
Health	64	-	-	64	30
Local Government and Traditional Affairs	-	-	-	10	18
Social Development	5	-	2	-	-

It was also found that employees and close family members had an interest at the following auditees not included in the table:

- Human Settlement
- Provincial Legislature

5.2.2 Procurement process

Three price quotations not invited

In terms of Practice Note (P/N) 8 of 2007-08, accounting officers/authorities should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible. If it is not possible to obtain at least three written price quotations, the reasons should be recorded and approved by the accounting officer/authority or his/her delegate.

At the following auditees irregular expenditure was incurred as goods or services were procured without inviting at least three price quotations and the deviation was not approved and/or the deviation was approved although it was possible to obtain three price quotations:

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Agriculture	X		
Economic Development and Environmental Affairs	X		
Education	X	X	
Health	X	X	
Human Settlements	X		
Public Works	X	X	
Roads and Transport	X		
Safety and Liaison	X	X	
Social Development	X		
Eastern Cape Liquor Board	X		

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Eastern Cape Rural Finance Corporation (Uvimba)	X		
Eastern Cape Tourism Board	X	X	

Deviation from competitive bidding without approval

Treasury Regulation (TR) 16A6.4 states that if in a specific case it is impractical to invite competitive bids, the accounting officer/authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids are recorded and approved by the accounting officer/authority.

At the following auditees irregular expenditure was incurred as the deviation from competitive bidding was not approved:

- Economic Development and Environmental Affairs
- Education
- Health
- Local Government and Traditional Affairs
- Public Works
- Eastern Cape Tourism Board

Deviation from competitive bidding not justified

P/N 6 of 2007-08 states that the provision in TR16A6.4 should be utilised strictly to procure goods and services of critical importance and only in specific cases where it is impractical to invite competitive bids and where immediate action is necessary or if the goods and services required are produced by or available from sole service providers.

The P/N further states the following: An effective SCM system requires an accounting officer/authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes – a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes. Accounting officers/authorities should also put in place their own control measures to deal with foreseeable cases of emergency that occur within their area of functionality. These measures may include the arrangement of strategic or specific-term contracts with suitable service providers with a view to ensuring that the required goods or services are available immediately when cases of emergency occur.

At the following auditees irregular expenditure was incurred as deviation from competitive bidding was approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available for a bidding process and/or proper planning would have prevented such emergency:

- Health
- Human Settlements

- Local Government and Traditional Affairs
- Eastern Cape Tourism Board

At the following auditees irregular expenditure was incurred as deviations from competitive bidding were approved in accordance with TR 16A6.4 on the basis of the goods and services only being produced by or available from a sole service provider, although there was no evidence of a thorough market analysis having been performed and/or other evidence of suitable suppliers available in the market:

- Eastern Cape Tourism Board

Awards to suppliers who failed to provide valid tax clearance certificates

In terms of TR 16A9.1(d) and regulation 16 of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA), a bid should be rejected if the supplier fails to provide written proof from SARS that the supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations.

At the following auditees irregular expenditure was incurred as awards were made to suppliers who failed to provide written proof from the SARS that their tax was in order:

- Economic Development and Environmental Affairs
- Education
- Public Works
- Eastern Cape Liquor Board
- Eastern Cape Tourism Board

Preference point system not applied

In terms of section 2(a) of the PPPFA, a preference point system must be followed for procurement above R30 000.

At the following auditees irregular expenditure was incurred as a result of the preference point system not being applied:

- Human Settlements
- Safety and Liaison
- Eastern Cape Tourism Board

No prospective supplier list

In terms of P/N 8 of 2007-08, accounting officers/authorities should compile a list of prospective suppliers per commodity and type of service to be used for inviting price quotations. The prospective supplier list provides a fair opportunity for entities to be invited to submit price quotations.

At the following auditees the list of prospective suppliers was not in place:

- Education
- Local Government and Traditional Affairs

- Roads and Transport
- Eastern Cape Liquor Board
- Eastern Cape Tourism Board
- Mayibuye Transport Corporation

5.2.3 Contract management

Contract amendments/extensions/renewals without approval

In terms of TR 8.2.1, an official of an institution may not spend or commit public money except with the approval of the accounting officer or a properly delegated or authorised official.

At the following auditees irregular expenditure was incurred as contracts were amended, extended or renewed without approval by the accounting officer or a delegated official.

- Public Works
- Roads and Transport
- Eastern Cape Tourism Board

Contract amendments/extensions/renewals resulted in circumvention of competitive bidding

In terms of sections 38(1)(a)(iii) and 51(a)(iii) of the PFMA, an SCM system must be fair, equitable, transparent, competitive and cost-effective. When a contract expires, it is expected that a competitive bidding process should be followed to appoint a supplier to provide goods and services.

At the following auditees irregular expenditure was incurred as contracts were extended or renewed to such an extent that competitive bidding processes were being circumvented:

- Health – R10 553 234

Non-performance by suppliers

In terms of the general conditions of contract, as promulgated by P/N 1 of 2003 and issued in terms of TR 16A6.3(a), the delivery of the goods and performance of services shall be made by the supplier in accordance with the time schedule prescribed by the purchaser in the contract. If the supplier fails to deliver any or all of the goods or to perform the services within the period(s) specified in the contract, the purchaser should deduct a penalty from the contract price or terminate the contract.

Furthermore, all accepted price quotations should be delivered on in accordance with the agreed-upon quality and timelines.

At the following auditees no action was taken against the suppliers when goods and services were not provided in accordance with the requirements of the contract or the accepted quotation:

- Education
- Eastern Cape Tourism Board

Inadequate contract performance measures/monitoring

At the following auditees the performance measures and methods whereby some contracts were monitored were found to be inadequate:

- Social Development
- Education
- Eastern Cape Tourism Board

Payments made for goods and services not received

At the following auditees payments were made for goods and services that were not received:

- Education
- Eastern Cape Tourism Board

5.2.4 SCM controls

Inadequate segregation of duties in procurement

In order to prevent fraud, segregation of duties should exist between those individuals involved in making awards to suppliers and those making and approving payments to the suppliers. If such segregation is not possible, at least independent monitoring should be done or other compensating controls should be implemented.

At the following auditees instances were identified where the same person was involved in selecting a supplier and the payment process and no compensating controls could be identified:

- Human Settlements
- Eastern Cape Development Corporation
- Eastern Cape Tourism Board

SCM officials were not adequately trained

In terms of TR 16A5.1, the officials implementing the institution's SCM system are trained and deployed in accordance with the requirements of the *Framework for minimum training and deployment* issued by the National Treasury.

At the following auditees SCM officials were not trained as required:

- Education

Risk assessment did not address procurement and contract management risks

In terms of sections 38(1)(a) and 51(1)(a) of the PFMA, the accounting officer/authority should have and maintain effective, efficient and transparent systems of financial and risk management. Furthermore, TR 16A3.2(d)(v) requires an SCM system to provide for risk management.

At the following auditees the risks related to procurement and contract management were not assessed even though risks are evident:

- Education
- Human Settlements
- Local Government and Traditional Affairs
- Safety and Liaison

Fraud prevention plan did not include specific measures for procurement

In terms of TR 3.2.1 and TR 27.2.1, a risk management strategy, which includes a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage such risks. Furthermore, TR 16A9.1(a) requires that the accounting officer/authority must take all reasonable steps to prevent abuse of the SCM system.

Even though procurement is a major fraud risk area, the fraud prevention plan of the following auditees did not include specific measures for preventing and detecting fraud in the procurement process:

- Education
- Human Settlements

No internal audit evaluation of SCM compliance

In terms of TR 3.2.11 and 27.2.10, the internal audit function must assist the accounting officer/authority in maintaining efficient and effective controls by evaluating controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement.

The controls subject to evaluation should encompass the safeguarding of assets and compliance with laws and regulations.

At the following auditees a high volume of goods and services are procured. Although non-compliance was identified by the AGSA and/or fraud had been identified in the past, internal audit did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM:

- Agriculture
- Education
- Local Government and Traditional Affairs

5.2.5 Conclusion

The increasing level of non-compliance with the supply chain management prescripts and internal policies and the resultant irregular expenditure are indicative of potential fraud risks in procurement. This needs urgent attention and the leadership of all departments and public entities should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The preparation of regular management accounts and the correct tone of political and administrative leadership, together with the support of the audit committee and the internal audit units are required to develop this culture.

5.3 Transversal performance audits – Infrastructure audit

Background of infrastructure audit

The AGSA conducted performance audits of the infrastructure delivery process at the Departments of Health and Education as part of a transversal performance audit on infrastructure delivery at all the provinces except the Northern Cape.

High-level overview of the infrastructure delivery process:

- Demand management (needs determination, budgeting, planning)
- Acquisition management (tender process, appointment of contractors)
- Project management and information
- Commissioning and utilisation

Overview of key risks

- Risks are any undesirable events, factors or problems that have a negative impact on the achievement of the objectives of the public sector.
- Lost opportunities can also be regarded as risks. This includes opportunities to improve operational performance and policy effectiveness. Risk analysis seeks to determine the probability of negative impacts and their impact.

Key risks and the infrastructure delivery process

- Various insufficient management processes (policy making, planning, organising, coordination and monitoring) were identified during the performance audit of the infrastructure delivery process.
- There is a need in the public sector for management to respond to key risks in a timelier manner.

Key risks – Demand management

- Needs for schools and hospitals are not always correctly identified and prioritised as the process followed for need determination is not always well understood and/or inadequate information are used for identifying the needs for facilities. *For example, a sewerage treatment plant at a school is only rated to treat the flow of 300 learners instead of the 450 learners enrolled at the school in 2005, the plant has not been operational after the completion thereof in May 2006 as the plant cannot handle the capacity of users.*
- Budgeting for infrastructure projects are not always done accurately taking all factors impacting on the projects into account. *For example, the tender estimate for the construction of a youth centre was 33% below the contract amount. The estimate pricing was done excessively conservative and future cost increases and locality costs were not taken into account.*

Key risks – Acquisition management

- The applicable legislation and regulations are not consistently applied by the bid evaluation and adjudication committees during the tender evaluation process. *For example, contracts are awarded to contractors that did not qualify in terms of the prescribed legislation such as the Construction Industry Development Board (CIDB) Act.*
- All the irregular expenditure due to deviations from the supply chain management process are not identified and reported by the auditees. *For example, tenders for the appointment of contractors were not advertised in at least the Government Tender Bulletin which is in contradiction with paragraph 16A6.3(c) of the Treasury Regulations.*
- The financial capability of the contractors to undertake projects is not sufficiently verified during the bid evaluation process which contributes to the appointment of contractors that could not complete the projects in time as they experienced financial difficulties. *Examples: The start of projects was delayed as surety could not be provided on time. Furthermore, contractors experienced financial difficulties during the projects as they did not have the funds available to meet their obligations as wages to workers were not paid on time.*
- Multiple concurrent contracts are awarded to contractors without taking their capacity into account which contributed to slow progress on projects. *For example, the total value of concurrent contracts awarded to one contractor amounted to R305 million. One of the contracts with the contractor to the value of R61 million for the upgrade of a hospital was cancelled owing to, amongst others slow progress.*

Key risks – Project management and information

- Projects are not effectively monitored by staff from the respective departments and the implementing agents. Corrective actions are not instituted timeously against the contractors concerned. Delays were experienced in the completion of the projects and penalties are not always charged for the late completion of projects. *For example, although the construction contracts provided for penalties for the late completion of projects, it was either not enforced or were sometimes waived and/or applied in an inconsistent manner and proof could not be provided that steps were taken against contractors to recover all losses.*
- The quality of the construction work is unsatisfactory, additional costs were incurred to complete the projects and the completion of the facilities was delayed. *For example, partially completed buildings had to be rebuilt by other contractors due to poor quality of work done by the first contractor. Replacement contractors were not appointed in time to ensure that projects were completed.*

Key risks – Commissioning and utilisation

- Service delivery was delayed due to late payments by the departments that contributed to cash flow problems of the contractors. *Example, late payments hampered the contractors' cash flow and also resulted in interest of R801 526 being charged by one contractor for late payments. It is estimated that interest to the value of*

R2,194 million, in respect of late payments, was claimed from the Department of Health during the 2008-09 financial year.

- *There is a lack of effective coordination within and between departments, which resulted in facilities not being fully operational as it is not properly equipped and staffed to support effective service delivery. For example, as projects were not completed timeously, equipment was stored in unsecured areas and guarantees on equipment lapsed. Furthermore, staff were not trained in the use of some of the equipment which resulted in the equipment not being utilised.*

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

Table 17: Status of consolidated audits

Province	Departments - audit completed		Public entities - audit completed	
	2009-10	2008-09	2009-10	2008-09
	Y / N	Y / N	Y / N	Y / N
Eastern Cape	N	N	N	N

The Provincial Treasury submitted the PRF annual financial statements and the consolidated financial information (CFI) for departments and public entities for the 2008-09 financial year and these particular audits are nearing completion in October 2010.

The financial statements for the PRF and the consolidated financial information for the 2009-10 financial year are due to be submitted by the end of October 2010.

Late submission of the PRF and CFI is due to the lack of capacity in the department to prepare the various forms and statements. The department has addressed this capacity issue and the backlog should be cleared by 31 October 2010.

The fact that the annual financial statements of the revenue fund are in arrears to this extent is a cause for serious concern and has been escalated to the premier, the cabinet and respective MECs within the province.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

Table 18: Annual reports tabled by departments and public entities

Type of auditee	Percentage of reports tabled at 30 September 2010	
	2009-10	2008-09
Departments	100%	100%
Public entities	100%	100%
Total	100%	100%

The provincial revenue fund is not included in this analysis.

SECTION 8: CONCLUSION

The Eastern Cape Province faces a number of challenges as highlighted in this report. The largest challenge which will require a coordinated effort by the leadership of the province, with the support of the National Treasury and the provincial treasury is the situation at Health and Education where there is currently a lack of direction and an organisational structure that does not promote good governance and accountability. Considering that these two departments represent 76% of the provincial budget, it is evident that accountability over the provincial expenditure will not improve until such time as the performance of these departments improves.

Although there has been an improvement in the tone of leadership and it played a part in the number of improvements in the province, this was not always consistent and as indicated in this report this resulted in the departments and public entities trying to manage the audit process and not ensuring that the control environment was effective and efficient throughout the year. In addition, it is important that leadership ensure a strong control environment over all aspects of financial management, compliance and pre-determined objectives throughout the year and that poor performers are held accountable for non-delivery.

The increasing level of non-compliance with the supply chain management prescripts and internal policies and the resultant irregular expenditure are indicative of potential fraud risks in procurement. This needs urgent attention and the leadership of all departments and public entities should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The preparation of regular management accounts and the correct tone of political and administrative leadership together with the support of the audit committee and the internal audit units, are required to develop this culture.

Attention is also drawn to the importance of the departments and public entities managing their assets as this is a transversal challenge within the province and should this not be improved it could result in regressions in audit outcomes in coming years.

In order for the departments and public entities to improve and to eventually obtain clean reports, it is necessary that oversight is strengthened through more regular monitoring and review processes which ensure that the key controls within the institutions are reviewed on a regular basis and corrective action is taken timeously.

The critical message we are leaving with the legislators and the executive is that it is possible to obtain a financially unqualified opinion with no findings on predetermined objectives and/or compliance with laws and regulations, if the leadership ensures monthly monitoring and oversight over key control areas and if the governance structures vigilantly execute their duties in ensuring oversight and accountability. In order to supplement this we remain committed to working with the legislature and executive in improving governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

ANNEXURES TO GENERAL REPORT

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas									Findings on predetermined objectives			
				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	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010	
Audits conducted by the AGSA																
Departments																
1	Agriculture	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
2	Economic Affairs, Environment and Tourism	Qualified	Qualified													
3	Education	Disclaimer	Adverse													
4	Health	Disclaimer	Adverse													
5	Human Settlements	Qualified														
6	Local Government	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
7	Office of the Premier	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
8	Provincial Legislature	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
9	Provincial Revenue Fund	Outstanding	Outstanding													
10	Provincial Treasury	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations													
11	Public Works	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified													

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and trifling expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010
12	Roads and Transport	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
12	Safety and Liaison	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
13	Social Development	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
14	Sport, Recreation, Arts & Culture	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
Public entities															
1	Accelerated Growth Initiative (AGISA)	Financially unqualified with no findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
2	Eastern Cape Appropriate Technology Unit	Qualified	Qualified												
3	Eastern Cape Development Corporation	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
4	Eastern Cape Gambling & Betting Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
5	Eastern Cape Liquor Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
6	Eastern Cape Parks Board	Financially unqualified with no findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				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	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010
7	Eastern Cape Provincial Arts & Culture Council	Qualified	Disclaimer												
8	Eastern Cape Rural Finance Corporation (Uvimba)	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
9	Eastern Cape Socio-Economic Consultative Council (ECCSEC)	Financially unqualified with no findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
10	Eastern Cape Tourism Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
11	Mayibuye Transport Corporation	Qualified	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
12	Eastern Cape Youth Commission	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
Audits not conducted by the AGSA															
Schedule 3 and other entities															
1	East London Industrial Development Zone	Financially Unqualified with no findings on predetermined objectives and/or compliance with laws and regulations													

LISTING OF AUDIT FINDINGS RAISED ON COMMON INFORMATION TECHNOLOGY FOCUS AREAS

Number	Auditee	Focus areas			
		IT Governance	Security management	User access control	Information technology service continuity
1	Agriculture				
2	Economic Affairs, Environment and Tourism				
3	Education				
4	Health				
5	Human Settlements				
6	Local Government				
7	Office of the Premier				
8	Provincial Legislature				
9	Provincial Revenue Fund				
10	Provincial Treasury				
11	Public Works				
12	Roads and Transport				
12	Safety and Liaison				
13	Social Development				
14	Sport, Recreation, Arts & Culture				
1	Accelerated Growth Initiative (ASGISA)				
2	Eastern Cape Appropriate Technology Unit				
3	Eastern Cape Development Corporation				
4	Eastern Cape Gambling & Betting Board				
5	Eastern Cape Liquor Board				
6	Eastern Cape Parks Board				
7	Eastern Cape Provincial Arts & Culture Council				
8	Eastern Cape Rural Finance Corporation (Uvimba)				
9	Eastern Cape Socio-Economic Consultative Council (ECCSEC)				
10	Eastern Cape Tourism Board				
11	Mayibuye Transport Corporation				
12	Eastern Cape Youth Commission				

DRIVERS OF AUDIT OUTCOMES (Note: full definitions of good practices are provided under section 4.1 of the detailed report)

Listing of departments - Leadership													
Number	Auditee	Maintained/improved previous good practices						Improvements required					
		Environment for financial management and service delivery		Organisational structure and skills	Action plans	Filling of vacancies	IT systems access control	Environment for financial management and service delivery		Organisational structure and skills	Action plans	Filling of vacancies	IT systems access control
		Financial statements	Predetermined objectives					Financial statements	Predetermined objectives				
1	Agriculture												
2	Economic Development and Environmental Affairs												
3	Education												
4	Health												
5	Housing												
6	Local Government and Traditional Affairs												
7	Office of the Premier												
8	Provincial Legislature												
9	Provincial Treasury												
10	Public Works												
11	Roads and Transport												
12	Safety and Liaison												
13	Social Development												
14	Sport, Recreation, Arts and Culture												

Listing of departments - Leadership

Number	Auditee	Maintained/improved previous good practices					Improvements required						
		Environment for financial management and service delivery		Organisational structure and skills	Action plans	Filling of vacancies	IT systems access control	Environment for financial management and service delivery		Organisational structure and skills	Action plans	Filling of vacancies	IT systems access control
		Financial statements	Predetermined objectives					Financial statements	Predetermined objectives				
1	Accelerated Growth Initiative (AGISA)						NA						
2	Eastern Cape Appropriate Technology Unit						NA						
3	Eastern Cape Development Corporation						NA						
4	Eastern Cape Gambling & Betting Board						NA						
5	Eastern Cape Liquor Board						NA						
6	Eastern Cape Parks Board						NA						
7	Eastern Cape Provincial Arts & Culture Council						NA						
8	Eastern Cape Rural Finance Corporation (Uvimbo)						NA						
9	Eastern Cape Socio-Economic Consultative Council (ECCSEC)						NA						
10	Eastern Cape Tourism Board						NA						
11	Mayibuye Transport Corporation						NA						
12	Eastern Cape Youth Commission						NA						

Listing of departments - Financial and performance management

Number	Auditee	Maintained/improved previous good practices						Improvements required											
		Record keeping and record management		Asset registers and suspense		Monitoring quality of financial and performance information		Data integrity (IT systems)		Record keeping and record management		Asset registers and suspense		Monitoring quality of financial and performance information		Data integrity (IT systems)			
		Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	User access control	Security management	Business continuity	Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	User access control	Security management	Business continuity		
1	Agriculture																		
2	Economic Development and Environmental Affairs																		
3	Education																		
4	Health																		
5	Housing																		
6	Local Government and Traditional Affairs																		
7	Office of the Premier																		
8	Provincial Legislature																		
9	Provincial Treasury																		
10	Public Works																		
11	Roads and Transport																		
12	Safety and Liaison																		
13	Social Development																		
14	Sport, Recreation, Arts and Culture																		
		1	0	6	3	0	0	0	0	0	13	14	8	11	14	14	14	14	14

Listing of public entities - Financial and performance management

Number	Auditee	Maintained/improved previous good practices						Improvements required									
		Record keeping and record management		Monitoring quality of financial and performance information		Data integrity (IT systems)		Record keeping and record management		Monitoring quality of financial and performance information		Data integrity (IT systems)					
		Financial statements	Predetermined objectives	Asset registers and suspense accounts clearing	Financial statements	Predetermined objectives	User access	Security management	Business continuity	Financial statements	Predetermined objectives	Asset registers and suspense accounts clearing	Financial statements	Predetermined objectives	User access	Security management	Business continuity
1	Accelerated Growth Initiative (ASGISA)																
2	Eastern Cape Appropriate Technology Unit																
3	Eastern Cape Development Corporation																
4	Eastern Cape Gambling & Betting Board																
5	Eastern Cape Liquor Board																
6	Eastern Cape Parks Board																
7	Eastern Cape Provincial Arts & Culture Council																
8	Eastern Cape Rural Finance Corporation (Uvimba)																
9	Eastern Cape Socio-Economic Consultative Council (ECCSEC)																
10	Eastern Cape Tourism Board																
11	Mayibuye Transport Corporation																
12	Eastern Cape Youth Commission																
		3	5	7	3	5	8	8	4	9	7	5	9	7	4	4	8

Listing of departments - Governance

Number	Auditee	Maintained/improved previous good practices				Improvement required			
		Monitoring by internal audit and audit committees		Risk management	IT governance framework	Monitoring by internal audit and audit committees		Risk management	IT governance framework
		Financial statements	Predetermined objectives			Financial statements	Predetermined objectives		
1	Agriculture								
2	Economic Development and Environmental Affairs								
3	Education								
4	Health								
5	Housing								
6	Local Government and Traditional Affairs								
7	Office of the Premier								
8	Provincial Legislature								
9	Provincial Treasury								
10	Public Works								
11	Roads and Transport								
12	Safety and Liaison								
13	Social Development								
14	Sport, Recreation, Arts and Culture								
		2	0	4	4	12	14	10	10

Listing of public entities - Governance

Number	Auditee	Maintained/improved previous good practices				Improvement required			
		Monitoring by internal audit and audit committees		Risk management	IT governance framework	Monitoring by internal audit and audit committees		Risk management	IT governance framework
		Financial statements	Predetermined objectives			Financial statements	Predetermined objectives		
1	Accelerated Growth Initiative (ASGISA)								
2	Eastern Cape Appropriate Technology Unit								
3	Eastern Cape Development Corporation								
4	Eastern Cape Gambling & Betting Board								
5	Eastern Cape Liquor Board								
6	Eastern Cape Parks Board								
7	Eastern Cape Provincial Arts & Culture Council								
8	Eastern Cape Rural Finance Corporation (Uvimba)								
9	Eastern Cape Socio-Economic Consultative Council (ECCSEC)								
10	Eastern Cape Tourism Board								
11	Mayibuye Transport Corporation								
12	Eastern Cape Youth Commission								
		9	5	6	9	3	7	6	3

ANNEXURE 3: Listing of entities with dates on which the annual report were tabled

No.	Auditee	Date of tabling of annual report
Audits conducted by the AGSA		
Departments		
1	Agriculture	30 September 2010
2	Economic Affairs, Environment and Tourism	30 September 2010
3	Education	30 September 2010
4	Health	30 September 2010
5	Human Settlements	30 September 2010
6	Local Government	30 September 2010
7	Office of the Premier	30 September 2010
8	Provincial Legislature	30 September 2010
9	Provincial Revenue Fund	30 September 2010
10	Provincial Treasury	30 September 2010
11	Public Works	30 September 2010
12	Roads and Transport	30 September 2010
12	Safety and Liaison	30 September 2010
13	Social Development	30 September 2010
14	Sport, Recreation, Arts & Culture	30 September 2010
Public entities		
1	Accelerated Growth Initiative (ASGISA)	30 September 2010
2	Eastern Cape Appropriate Technology Unit	30 September 2010
3	Eastern Cape Development Corporation	30 September 2010
4	Eastern Cape Gambling & Betting Board	30 September 2010
5	Eastern Cape Liquor Board	30 September 2010
6	Eastern Cape Parks Board	30 September 2010
7	Eastern Cape Provincial Arts & Culture Council	30 September 2010
8	Eastern Cape Rural Finance Corporation (Uvimba)	30 September 2010
9	Eastern Cape Socio-Economic Consultative Council (ECCSEC)	30 September 2010
0	Eastern Cape Tourism Board	30 September 2010
11	Mayibuye Transport Corporation	30 September 2010
12	Eastern Cape Youth Commission	30 September 2010
Audits not conducted by the AGSA		
Schedule 3 and other entities		
1	East London IDZ	30 September 2010

PR 07/2011
ISBN: 978-0-621-39868-7



A U D I T O R - G E N E R A L
S O U T H A F R I C A