



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



AUDITOR-GENERAL  
SOUTH AFRICA



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*Auditing to build public confidence*

# **General Report**

## **on the national audit outcomes of Gauteng 2009-10**

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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

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## **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 to the Gauteng Provincial Legislature my 2009-10 general report, which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature and provincial revenue fund, the public entities and the schedule 3 public entities which were not audited by the AGSA for the financial year ended 31 March 2010.

It is pleasing to note that there was an overall improvement in audit outcomes in the province. Two departments and nine public entities received "clean" audit reports (financially unqualified with no findings on predetermined objectives and compliance with laws and regulations) confirming that clean administration can be achieved; 11 departments and 12 public entities received unqualified audit opinions with findings on predetermined objectives and /or compliance with laws and regulations; one department and two public entities received qualified audit opinions; and one department and three public entities received a disclaimer. The improved audit outcomes can be attributed to proper review and monitoring of actions plans to address all significant internal control deficiencies and active monitoring by the audit committees.

The regression in audit outcomes of three public entities and one department that received disclaimers can be attributed to the following:

- Inadequate record keeping and record management
- Inability to produce quality, reliable financial statements and predetermined objectives information
- Lack of management oversight of the day-to-day transactions and information processing as well as proper control over assets and/or the movement thereof.

The executive is aware of the need to prioritise the strengthening of key information systems controls as this is the nerve centre of all departments.

The attainment of financially unqualified audit opinion with no findings on predetermined objectives and compliance with laws and regulations by all government departments and public entities is a milestone we encourage and support. In this respect the Premier of Gauteng offered to cooperate fully with the AGSA in support of sustainable clean administration and noted the comments regarding findings on the reporting on predetermined objectives and current challenges relating to systems of control and reporting as well as budgets aligned with service delivery requirements and ongoing oversight of the entire process.

The provincial executive and legislature made the following commitments to address the qualifications and internal control deficiencies:

- Portfolio committees will work more closely with the provincial public accounts committee in pursuit of more effective financial management oversight. This task is complemented by quarterly submission of reports by the executive to the legislature.
- The provincial executive, via the PCF (Provincial Coordinating Forum) and engagements with the AGSA's provincial audit office, committed to responding timeously to the "early warning" signals arising from the analysis of key controls.

- MECs undertook to monitor progress made with action plans on a quarterly basis.
- The provincial executive has reviewed the delegations of authority, particularly around SCM, which the MECs undertook to adhere to within the environments they lead in order to address irregular expenditure.
- The provincial finance department will continue to provide monthly and quarterly reports to the provincial executive to strengthen effective oversight, with a specific focus on the sharing of good practices.
- Monitoring of action plans relating to the disclaimers, particularly at Health, will be a priority of the legislature and provincial executive.

The provincial treasury will assist departments by tracking the implementation at various departments of the following targeted interventions:

- Automation of the ordering process to ensure accurate information is available to the MECs to curb unauthorised expenditure arising from manual orders
- Monthly reporting of accruals with a view to enhancing the management of schedule 5 grants
- Monthly reporting of departmental irregular, fruitless and wasteful expenditure, and reporting on disciplinary action taken against those who were responsible for incurring the irregular, fruitless and wasteful expenditure
- Establishment of a task team to identify and cancel housing guarantees older than five years
- Monitoring of the department's management of asset registers on a monthly basis
- Facilitating a training session on the Gauteng provincial supply chain management (SCM) manual with departments

Through our continued commitment to simpler, clearer and relevant reporting, as well as the visibility of the leadership of our audit teams, we support the executive and provincial legislature in its committed efforts to work towards achieving clean administration by 2014. Our support will be mainly in our quarterly engagements around key controls. These discussions are aimed at serving as an "early warning" mechanism, enabling the provincial executive to focus on specific areas of controls in-year that require their attention. We will work closely with the provincial treasury and internal audit to ensure accurate quarterly feedback on progress made with the above commitments.

In conclusion, I wish to thank the audit teams from my office and the audit firms that assisted in Gauteng for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continued 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  
November 2010**

## SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of the Gauteng 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 addressing findings on the reporting of predetermined objectives and compliance with laws and regulations. An overview of these audit outcomes was presented to the provincial legislature on 20 October 2010 to facilitate dialogue on the understanding of the key underlying issues driving these audit outcomes and possible solutions in this regard.

The summary which follows contains key issues and conclusions reached on the main sections in this report, while further details are contained in the body of the report.

### 2.1 Part A: Audits conducted by the AGSA

#### Overview of audit outcomes [see 3.1]

The financial statements of 15 (2008-09: 15) departments including the legislature and 26 provincial entities were submitted and the audits were completed timeously. The audit of the Provincial Revenue Fund and a provincial entity, the Gauteng Liquor Board, had not been finalised as at 31 August 2010. It should be noted that the comparatives (2008-09) have been restated to include audits finalised since the previous general report.

Two additional departments and four provincial entities were reported on as from 2008-09, namely the Gauteng Departments of Roads and Transport and Infrastructure Development. This stemmed from an executive decision to split the previous Gauteng Department of Roads, Public Transport and Works. The four new entities reported on are the AIDC Development Centre, the Innovation Hub, the Supplier Park Development Centre and Gautrain Management Agency, while the Xhasa ATC was liquidated in March 2009.

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 revenue fund)		Provincial entities (including public and trading entities)	
	2009-10	2008-09	2009-10	2008-09
<b>Opinion on financial statements:</b>				
Disclaimer	1	1	3	3
Adverse	0	0	0	0
Qualified	1	3	2	8
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	11	11	12	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	2	0	9	4
<b>Total number of audits reported on</b>	<b>15</b>	<b>15</b>	<b>26</b>	<b>24</b>
<b>Number of audits not finalised at legislated date for submission to the executive authority – 31 August 2010</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>
<b>Total number of audits</b>	<b>16</b>	<b>15</b>	<b>27</b>	<b>24</b>



Audit outcomes	Departments (including legislature and revenue fund)		Provincial entities (including public and trading entities)	
	2009-10	2008-09	2009-10	2008-09
<b>Entities with findings arising from the AGSA's other legal reporting responsibilities:</b>				
Predetermined objectives	11	12	16	20
Compliance with laws and regulations	12	11	8	11

It is pleasing to note that in the audit outcomes of two departments and nine provincial entities in Gauteng are financially unqualified with no findings on predetermined objectives or compliance with laws and regulations. Furthermore, the number of qualifications (including disclaimers) has decreased from 15 in 2008-09 to seven qualifications (including disclaimers) for the 2009-10 financial year.

The improved audit outcomes can be attributed to the following:

- MECs became more involved in the financial management and audit process of departments and provincial entities.
- MECs became more involved in improving control environment in their departments and provincial entities.
- The leadership closely monitored progress made in implementing action plans to improve audit outcomes.
- Provincial treasury provided financial management guidance to departments.

Highlights of the audit outcomes for the year under review are as follows:

- Two departments financially unqualified with no findings on predetermined objectives or compliance with laws and regulations are the Gauteng Provincial Treasury and the Office of the Premier.
- The audit outcomes of the Gauteng Department of Education, Economic Development and Housing improved from qualified in 2008-09 to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.
- Nine provincial entities achieved the audit outcome of financially unqualified with no findings on predetermined objectives or compliance with laws and regulations. This audit outcome was maintained by four provincial entities, namely Gauteng Economic Development Agency, Gauteng Partnership Fund, Gauteng Film Commission and Gauteng Gambling Board, while five provincial entities, namely the Blue Catalyst Investment Company, Gauteng Enterprise Propeller, Gauteng Tourism Authority, Gautrain Management Agency and Cost Recovery Trading Entity, improved.
- The three provincial entities with disclaimers in 2008-09 improved. Blue IQ Investment Holdings entity improved from a disclaimer in 2008-09 to a qualified audit outcome, while Constitutional Hill Development Company and Greater Newtown Development Company improved to financially unqualified with findings on predetermined objectives and compliance with laws and regulations. This contradicts the provincial legislature's intolerance to disclaimers.
- The Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Emoyeni Trading Entity and Gauteng Fund Project Office improved from a qualified in 2008-09 to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

### **Issues that resulted in the basis for the qualified (including disclaimer) audit outcomes on the financial statements [see 3.2]**

The Gauteng Department of Health was disclaimed because sufficient appropriate audit evidence could not be provided, the general control environment was not conducive to sound financial management and the vacant position of accounting officer and chief financial officer (CFO) was not filled for the major part of the 2009-10 financial year, which resulted in the action plans and SCOPA resolutions not being implemented.

The Gauteng Department of Infrastructure Development was qualified because sufficient appropriate audit evidence could not be provided and the control environment over receivables, rental income and recording of fruitless and wasteful expenditure incurred arising from interest levied by suppliers due to late payments was inadequate.

G-Fleet was disclaimed as there was a breakdown in the internal controls implemented, compounded by vacancies at senior management level.

At the Gauteng Medical Supplies Depot the areas disclaimed were due to a lack of sufficient, appropriate audit evidence combined with lack of a proper implementation plan for the migration to a new accounting system during the financial year and the absence of a monitoring mechanism due to the vacant accounting officer position at the Gauteng Department of Health.

The Impophoma Infrastructure Support Entity was disclaimed due to a lack of sufficient, appropriate audit evidence and a breakdown in controls since the previous financial year.

Blue IQ Investment Holdings (Pty) Ltd was qualified for insufficient disclosure items relating to its subsidiary, Genesis Fitness (Pty) Ltd, a subsidiary in the process of liquidation which resulted from an inadequate system of internal control and lack of supporting documentation.

The matters relating to the qualifications at the Gauteng Housing Fund resulted from capital assets and immovable assets not being accounted for in line with the entity's accounting policy as the financial system was unable to support the change in accounting framework.

### **Funding of operations/financial sustainability/going concern**

The Board resolved to liquidate Blue Catalyst Investment Company, Gauteng Motorsport Company and Greater Newtown Development Company.

An executive decision has been taken to incorporate the functions of Emoyeni Trading Entity, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Urban Transport Fund into the reporting departments.

Constitution Hill Development Company's accumulated loss increased to R122,6 million.

## **Unauthorised/irregular/fruitless and wasteful expenditure incurred during the year**

### *Unauthorised expenditure – R2,5 billion*

- Five departments incurred unauthorised expenditure.
- Unauthorised expenditure incurred by the departments would have possibly increased by a further 36% had the accruals over 30 days (R891,6 million) at year-end been paid in time.

### *Irregular expenditure – R1,9 billion*

- Irregular expenditure was incurred by seven departments (R1,5 billion) and nine provincial entities (R464,4 million) because proper SCM processes were not followed.
- Seventy-six per cent of the irregular expenditure (R1,4 billion) disclosed in the auditees' financial statements was attributable to misstatements identified during the audit process and subsequently corrected by the auditees.

### *Fruitless and wasteful expenditure – R73,6 million*

Six departments (R36,6 million) and 12 provincial entities (R37,0 million) incurred fruitless and wasteful expenditure due to late payment of invoices, taxes to the South African Revenue Services and non-utilisation of rental properties.

## **Material impairment of assets and under spending of the vote/conditional grants**

### *Material losses*

- Material losses to the amount of R575,3 million were reported at the Department of Health as a result of a write-down of irrecoverable patient fees.
- At Blue IQ Investment Holdings material losses totalling R2,3 million were reported due to fraudulent transactions.
- Gauteng Medical Supplies Depot reported material losses totalling R4,4 million as stock losses and sales prices were not adjusted due to the increase in purchase prices.

### *Material underspending of budgets*

- Gauteng Department of Health materially underspent the budget on various programmes totalling R706,4 million.
- Gauteng Department of Social Development materially underspent the budget on compensation of employees by R66,6 million due to a moratorium on filling vacant posts arising from the merger with the Gauteng Department of Health.
- Gauteng Department of Roads and Transport materially underspent the budget by R60 million due to cash constraints.
- Gauteng Department of Sports, Arts, Culture and Recreation materially underspent its budget by R16,247 million due to capacity constraints.
- Gauteng Department of Agriculture and Rural Development materially underspent by R8,879 million on various programmes.

## Material misstatements corrected during the audit

The financial statements submitted for audit were subjected to material corrections during the audit at 12 departments and 19 provincial entities. The material misstatements corrected at the departments and provincial entities resulted from misclassification and incorrect disclosure.

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 prior to submission for audit. Furthermore, had the audit committee engaged internal audit to provide assurance on the financial statement preparation process, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA.

## Findings on predetermined objectives [see 3.2]

The total number of audits with findings arising out of the audit of predetermined objectives at departments decreased.

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

Category of finding	15 departments (including legislature)		23 provincial entities (including public and trading entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	67%	71%	70%	58%
Information on performance against predetermined objectives not useful	33%	43%	52%	42%
Information on performance against predetermined objectives not reliable	40%	50%	35%	25%
Information on performance against predetermined objectives not submitted for audit by 31 May 2010	0	0	0%	0%
<b>Total number of audits with findings</b>	<b>11</b>	<b>12</b>	<b>16</b>	<b>20</b>

The percentages in the table reflect those departments and public entities that had findings arising from the audit of performance against predetermined objectives information calculated as a percentage of the total number of entities audited. It should also be noted that the comparatives (2008-09) have been restated to include audits finalised since the previous general report was issued.

### *Non-compliance with regulatory requirements*

Findings relate mainly to a lack of reporting on information on performance against predetermined objectives, lack of effective, efficient and transparent systems and internal controls regarding performance management and a lack of or inadequate quarterly reporting on performance against predetermined objectives. Ten departments and 16 provincial entities had a finding concerning non-compliance with sections of the PFMA relating for performance information.

### *Usefulness of information on performance against predetermined objectives*

Usefulness of information refers to the reported information being consistent with the objectives and targets, with targets that are clearly linked to the mandate and objective of the institution, specific and clearly identifying the nature and required level of performance, as well as measurable and time bound. The reported

information on performance against predetermined objectives at five departments and 12 provincial entities was not useful.

*Reported information on performance against predetermined objectives not reliable*

"Reported information on performance against predetermined objectives not reliable" refers to a lack of sufficient, appropriate evidence available in relation to reported information and an inappropriate system to generate the information, with evidence provided not supporting the reported information and not accurate and complete. In the case of four out of six departments and eight provincial entities, the reported information on performance against predetermined objectives was not reliable.

*Information on performance against predetermined objectives not submitted for audit*

All departments and provincial entities provided information on performance against predetermined objectives in time for review.

### **Findings on compliance with laws and regulations [see 3.3]**

Some of the compliance matters identified at departments and entities relate to entering into transactions prohibited by legislation, while others relate to failure by accounting officers, CFOs and other officials to meet their legislated responsibilities, resulting in unauthorised, irregular and fruitless and wasteful expenditure, as highlighted in the audit reports of departments and public entities.

In total, 12 departments and eight provincial entities had findings on non-compliance with laws and regulations.

The most important instances of non-compliance findings occurred as follows:

*Departments*

- Twelve departments had findings relating to payments not being made within 30 days from receipt of invoices.
- At six departments proper procurement procedures were not followed, which resulted in irregular expenditure totalling R1,5 billion.
- Two departments had findings relating to general, fiduciary and reporting responsibilities not being met.

*Provincial entities*

- At nine provincial entities SCM policies and procedures were not complied with, resulting in irregular expenditure totalling R464,4 million.
- Five provincial entities had findings relating to payments not being made within 30 days of receipt of invoices.
- Two provincial entities had findings relating to general, fiduciary and reporting responsibilities not being met.

Departments and provincial 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 provide general assurance on the adequacy of internal controls.

**Information technology systems matters [see 3.4]**

Departments and public entities are heavily reliant on computerised information systems (chiefly 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:

- User access controls whereby 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: Controls that prevent unauthorised access to the application system that generates and prepare financial statements.
- Information technology (IT) service continuity whereby departments ensure the availability of financial and performance information in instances of data loss or a disaster.
- IT governance: The structures, policies and process through whereby departments ensure that IT departments support and are in line with the business requirements.

Some of these weaknesses were reported in the prior year but had not been addressed, and the risks of fraud and loss therefore remain.

**Drivers of improved audit outcomes [see 4.1]**

Leadership should set the right tone at the top with a view to sound financial management and should implement and regularly monitor the implementation of action plans, including information system matters, in order to establish an effective organisational structure.

Management responsible for financial and performance management should ensure proper record keeping and record management, producing quality, reliable financial statements and meeting predetermined objectives. Management should also ensure that the asset register is accurately completed and updated regularly and that findings on information system audit 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 statement and predetermined objectives and address shortcomings to address the lack of information system governance framework.

**Action to be taken by management and those charged with governance to address matters reported [see 4.2]**

At the Auditor-General's briefing on audit outcomes to the provincial legislature in November 2009, the Premier, on behalf of the executive, offered the Gauteng government's full cooperation to the Auditor-General in support of favourable audit outcomes.

The provincial treasury provided support which included implementing a financial management improvement programme, standardising audit working paper files and monitoring the implementation of action plans to address audit findings.

At year-end, 44 out of a total of 68 resolutions passed by the provincial public accounts committee (PAC) had been resolved and 24 were in progress.

In support of an ultimate audit outcome of an unqualified audit opinion with no reported findings on predetermined objectives or compliance with laws and regulations, the AGSA leadership in the province embarked on an intensified programme to enhance its visibility with the objective of improving the effectiveness of the audit process and engage with all role players that can influence clean administration. To this end, the audit teams conducted regular visits during the audits and meetings were held with those charged with governance. The engagements focused on simplicity, clarity and relevance of the message to gain an understanding and seek commitment that would influence clean administration.

Notwithstanding the improvements in audit outcomes there is room for improvement in respect of findings on reporting of performance against predetermined objectives and compliance with laws and regulations and financial management.

At the AG engagement on 20 October 2010, the provincial executive and legislature made the following commitments to address the qualifications and internal control deficiencies:

- Portfolio committees will work more closely with the provincial public accounts committee in pursuit of more effective financial management oversight. This task is complemented by quarterly submission of reports by the executive to the legislature and is already in place.
- The provincial executive, via the PCF (Provincial coordinating forum) and engagements with the provincial audit office of the AGSA, committed to responding timeously to the "early warning" signals arising from the analyses of key controls.
- MECs undertook to monitor progress made with action plans on a quarterly basis.
- The provincial executive has reviewed the delegations of authority, particularly around SCM, and the MECs have undertaken to ensure compliance in the environments they lead in order to address irregular expenditure.
- The provincial finance department will continue to provide monthly and quarterly reports to the provincial executive to strengthen effective oversight, with a specific focus on sharing of good practices.
- Monitoring of action plans relating to the disclaimers, particularly at Health, will be a priority of the legislature and the provincial executive.

Furthermore, the legislature made it clear that no disclaimer of audit opinion would be tolerated at departments and provincial entities.

The provincial treasury will assist departments by tracking the implementation at various departments of the following targeted interventions:

- Automation of the ordering process to ensure accurate information is available to the MECs to curb unauthorised expenditure arising from manual orders.
- Monthly reporting of accruals with a view to enhancing the management of schedule 5 grants.
- Monthly reporting of departmental irregular, fruitless and wasteful expenditure, and reporting on disciplinary action taken against those responsible for incurring the irregular, fruitless and wasteful expenditure.
- Establishment of a task team to identify and cancel housing guarantees older than five years.
- Monitoring of the departments' management of asset registers on a monthly basis.

- Facilitating a training session with departments on the Gauteng provincial SCM manual.

### **Matters that may potentially impact the auditor's report in the coming year**

The Government Immovable Asset Management Act of South Africa, (GIAMA), which came into effect on 1 April 2010, applies to any custodian or user that is a provincial department. The impact of not meeting the requirements would be that the financial statements of departments could be qualified for incorrectly recognising immovable assets in their financial statements. CFOs should be expected to guide departments towards compliance with this act.

### **Overview of the AGSA's specific focus areas**

#### **Significant findings from audits of human resource management and compensation of employees (departments only) [see 5.1]**

The regularity audits of departments included an assessment of departments' compliance with legislation that supports effective human resource management and controls over compensation of employees. The audits revealed that 13 departments had not met all the requirements for effective human resource management system. These weaknesses impact the departments' financial management as well as their ability to deliver services in accordance with their mandates. Weaknesses were identified in the following areas:

- Human resource planning and organisation
- Job evaluation
- Management of vacancies
- Appointment process
- Acting positions
- Budget control
- Senior management performance agreements
- Suspensions

In general, the audits established that compensation of employees was not an area of high risk. The weaknesses in the controls over compensation identified at departments in the following areas are, however, of concern:

- Human resource planning and organisation
- Leave administration
- Budget
- Management of overtime
- Service terminations
- Performance agreements/bonuses

Although compensation of employees was not an area of high risk, controls should be implemented to ensure effective management of suspensions and vacancies.



## **Significant findings from audits of procurement and contract management [see 5.2]**

The regularity audits included an assessment of the procurement processes and contract management by auditees and the controls implemented by them 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.

Non-compliance with SCM legislation resulted in irregular expenditure incurred in the year under review, details of which have been included under par. 3 of this report.

The audits revealed that employees or their close family members have interests in suppliers to the auditees. The legislation applicable to such interest was not always complied with. In addition, it was found that the findings listed in the report entitled *Performance audit of entities that are connected with government employees and doing business with departments* tabled on 14 May 2009 had not been investigated and appropriately dealt with by all departments.

Non-compliance with the SCM legislation in the procurement process was identified at departments. The most significant findings were as follows:

- At two department and a provincial entity, three quotations were not always invited for procurement up to a value of R500 000.
- At two departments and two provincial entities, competitive bidding processes were not always followed for procurement above R500 000.
- At one provincial entity, contracts were awarded to suppliers who failed to provide tax clearance certificates.
- At one provincial entity, the preference point system was not always applied.
- At two departments, awards were made to suppliers who did not score the highest points.

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 had not addressed procurement and contract management risks.
- Fraud prevention plans had not included specific measures for procurement
- Internal audit units had not evaluated SCM compliance.

The breakdown in controls over procurement and contract management resulted in the departments and provincial entities incurring irregular expenditure. Departments and provincial entities should implement action plans to address control deficiencies.

## Investigations and performance audits, [see 5.3]

Details of investigation and performance audits are contained in the section 5.5 of this report.

### *Investigations*

Investigations were completed at five departments and one provincial entity during the year under review and investigations were in progress at six departments and two provincial entities.

### *Infrastructure performance 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. The audit focused on a high-level overview of the infrastructure delivery management processes. Broad conclusions in respect of audits conducted in Gauteng were as follows:

- The construction of schools, hospitals and clinics was not completed on time, within the allocated budget and at the required standard of quality; and
- Schools, hospitals and clinics were not always commissioned as planned and in some instances the facilities were not fully utilised after commissioning.

## Overview of status of provincial consolidation and status of tabling

### Consolidation of financial statements of departments and public entities and status of tabling of annual reports [see section 7]

The consolidated financial statements for the departments and provincial entities had not been received for the 2009-10 financial year at time of preparation of this report. The consolidations continue to take the form of an aggregation of the financial information and do not constitute a consolidation in the normal accounting sense. An agreed-upon procedures audit is conducted. The province is urged to improve the status of the consolidation of departments to the stage where an audit opinion can be expressed thereon. The status of tabling of 2009-10 annual reports is provided in section 7 of this general report.

## 2.2 Part B: Audits not conducted by the AGSA

### Overview of audit outcomes [see 8.1]

**Table 3: Summary of audit outcomes on audits not conducted by the Auditor-General**

Type of audit opinion	Schedule 3 and other public entities
Disclaimer	0
Adverse	0
Qualified	1
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	0
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0
<b>Total number of audits reported on</b>	<b>1</b>
<b>Number of audits not finalised at legislated date for submission to the executive authority – 31 August 2010</b>	<b>1</b>
<b>Total number of audits</b>	<b>2</b>

There are two schedule 3 entities that were not audited by the AGSA.

Genesis Fitness (Pty) Ltd was qualified and the Blue Catalyst Matching Fund Trust audit was not completed by 31 August 2010. The entity was disclaimed in the financial year 2008-09 as most of the financial statements could not be supported by any documentation. Genesis Fitness (Pty) Ltd shareholders resolved to liquidate the company during the 2009-10 financial year. The opening balances could, however, still not be supported by any documentation. This was the main root cause of a qualified audit outcome for 2009-10 financial year.

### **Concluding comments**

Overall, the results of the province represent a positive outcome measured against the audit outcome of financially unqualified with no findings on predetermined objectives and compliance with laws and regulations reported on.

However, attention needs to be given to areas of preparation of quality and reliable financial statements, compliance with laws and regulations and reporting on achievement against predetermined objectives. To this end, the province has some distance to go before realising the ultimate audit outcome for all the departments and provincial entities.

## **PART A - AUDITS CONDUCTED BY THE AGSA**

## SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

### 3.1 Summary of audit outcomes

The table below provides details of the 2009-10 audit outcomes of departments and provincial entities. The table also reflects the status of completion of the 2009-10 audits as at 31 August 2010.

**Table 4: Summary of audit outcomes**

Audit outcomes	Departments (including legislature and provincial revenue fund)		Provincial entities (including public, and trading entities)	
	2009-10	2008-09	2009-10	2008-09
<b>Opinion on financial statements:</b>				
Disclaimer	1	1	3	3
Adverse	0	0	0	0
Qualified	1	3	2	8
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	11	11	12	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	2	0	9	4
<b>Total number of audits reported on</b>	<b>15</b>	<b>15</b>	<b>26</b>	<b>24</b>
<b>Number of audits not finalised at 31 August 2010</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>
<b>Total number of audits</b>	<b>16</b>	<b>15</b>	<b>27</b>	<b>24</b>
<b>Entities with findings arising from the AGSA's other legal reporting responsibilities:</b>				
Predetermined objectives	11	12	16	20
Compliance with laws and regulations	12	11	8	11

It should be noted that the comparatives (2008-09) have been restated to include the Gauteng Revenue Fund finalised since the previous general report was prepared and issued.

It is pleasing to note that in Gauteng two departments and nine provincial entities audit outcomes are financially unqualified with no findings on predetermined objectives or compliance with laws and regulations. Furthermore, the number of qualifications (including disclaimers) has decreased from 15 in 2008-09 to seven qualifications (including disclaimers) for the 2009-10 financial year.

#### Departments

Gauteng Department of Health audit outcome remained unchanged as a disclaimer in 2009-10.

The new department, Gauteng Department of Infrastructure Development, was qualified.

Eleven departments, namely Agriculture and Rural Development, Community Safety, Economic Development, Education, Gauteng Shared Services Centre, Housing, Local Government, Gauteng Provincial Legislature, Roads and Transport (new department), Social Development and Sports, Arts, Culture and Recreation, were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

The Office of the Premier and the provincial treasury were financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

Two additional departments were reported on as from 2008-09. This was due to an executive decision in the province to split the Gauteng Department of Public Transport, Roads and Works (2008-09 audit outcome was financially unqualified with findings on compliance with laws and regulations) as from April 2009 into two departments, namely the Department of Roads and Transport and Infrastructure Development.

### **Provincial entities**

Three provincial entities disclaimed in 2009-10 were the Gauteng Medical Supplies Depot, G-Fleet and Impophoma Infrastructure Support Entity.

Two provincial entities qualified in 2009-10 were the Blue IQ Investment Holdings and the Gauteng Housing Fund.

Twelve provincial entities were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, namely:

- Constitution Hill Development Company
- Cradle of Humankind – World Heritage Site
- Dinokeng Trading Entity
- Emoyeni Trading Entity
- Gauteng Fund Project Office
- Gauteng Kopanong Precinct
- Gauteng Motorsport Company
- Greater Newtown Development Company
- Urban Transport Fund
- AIDC Development Centre
- The Innovation Hub
- Supplier Park Development Centre

The following nine provincial entities achieved the status of financially unqualified with no findings on predetermined objectives and compliance with laws and regulations:

- Blue Catalyst Investment Company
- Gauteng Economic Development Company
- Gauteng Enterprise Propeller
- Gauteng Film Commission
- Gauteng Gambling Board
- Gauteng Partnership Fund
- Gauteng Tourism Authority
- Gautrain Management Agency
- Cost Recovery Trading Entity

See annexure 1 for further details on the departments and entities with areas qualified.

Four additional provincial entities were reported on as from 2008-09 due to a public entity, the Xhasa Accounting and Technical Centre, which was placed under liquidation at 31 March 2009 and four new entities being reported on in 2009-10. The four new provincial entities reported on in 2009-10 are the AIDC Development Centre, the Innovation Hub, Supplier Park Development Centre and the Gautrain Management Agency. The Gautrain Management Agency was gazetted as a PFMA Schedule 3C public entity in 2008-09 but approval was obtained from National Treasury to consolidate the financial results in the then Department of Public Transport, Roads and Works.

Movements in audit outcomes of the departments and provincial entities for the year under review are reflected in the table below:

### **Movements in audit outcomes**

**Table 5: Movement in audit outcomes**

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	8	5	0	2	15
Public entities	8	11	3	4	26
<b>Total number of audits reported on</b>	<b>16</b>	<b>16</b>	<b>3</b>	<b>6</b>	<b>41</b>

### **Departments**

The audit outcomes for departments in Gauteng had improved, with the Office of the Premier and the Gauteng Provincial Treasury being financially unqualified with no findings on predetermined objectives or compliance with laws and regulations for 2009-10.

### **Improvements (five)**

The Office of the Premier and the Gauteng Provincial Treasury improved from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to financially unqualified with no findings on predetermined objectives and compliance with laws and regulations.

Gauteng Departments of Economic Development, Education and Housing improved from being qualified in 2008-09 to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations in 2009-10.

### **Unchanged (eight)**

The Departments of Agriculture and Rural Development, Community Safety, Gauteng Shared Services Centre, Local Government, the Gauteng Provincial Legislature, Social Development and Sports, Arts, Culture and Recreation were again financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

The Department of Health remained disclaimed.

### **Regressions (zero)**

No Gauteng department had regressed from 2008-09 to 2009-10.

## **Provincial entities**

The overall audit outcomes for the provincial entities have improved. The qualified audit outcomes decreased from eight in 2008-09 to two in 2009-10.

### **Improvements (11)**

Blue IQ Investment Holdings (Pty) Ltd improved from a disclaimer to qualified. Constitution Hill Development Company (Pty) Ltd and Greater Newtown Development Company (Pty) Ltd improved from a disclaimer to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

The Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Emoyeni Trading Entity and Gauteng Fund Project Office improved from a qualified audit outcome to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Blue Catalyst Investment Company (Pty) Ltd, Cost Recovery Trading Account and the Gauteng Tourism Authority improved from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

Gauteng Enterprise Propeller improved from qualified to financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

### **Unchanged (eight)**

The Gauteng Kopanong Precinct, Gauteng Motorsport Company and Urban Transport Fund were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Gauteng Housing Fund remained qualified and the Gauteng Economic Development Agency, Gauteng Film Commission, Gauteng Gambling Board and Gauteng Partnership Fund remained financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

### **Regressions (three)**

G-Fleet, Impophoma Infrastructure Support Entity and Gauteng Medical Supplies Depot regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to a disclaimer.

The improvement in audit outcomes can be attributed to the following:

- Leadership involvement 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.

The regressions in the audit outcomes can be attributed to the following:

- Lack of management oversight of day-to-day transactions and processing of financial information.



- At the Gauteng Medical Supplies Depot, management did not implement adequate control measures and involve various stakeholders when migrating to a new financial system. This resulted in inaccurate processing of transactions. Management therefore decided to abandon the new financial system by reverting to the previous one.
- At G-Fleet and Impophoma Infrastructure Support Entity there was a breakdown in internal controls in the financial statement preparation process, compounded by vacancies at senior management level.

### Status of completion of the audits

Detail of the audits outstanding is presented in the table below:

**Table 6: Status of completion of audits**

Reason	Departments (including legislatures and revenue fund)	Provincial entities (including public and trading entities)
Financial statements not yet received	1	0
Audit not yet completed due to late receipt of financial statements	0	1
Audit still in progress due to other reasons	0	0
<b>Total number of audits not yet completed by 31 July 2010</b>	<b>1</b>	<b>1</b>

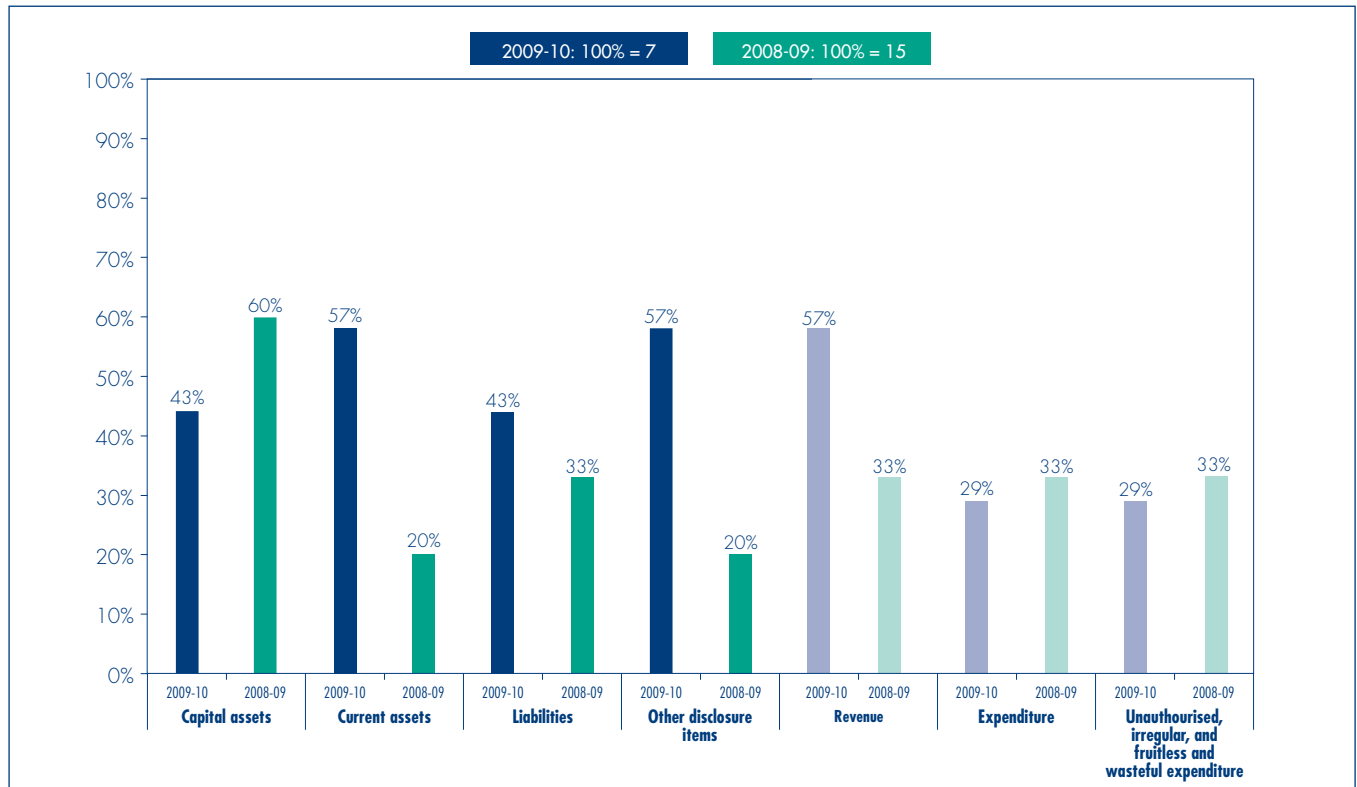
Ninety-five percent (41 out of 43) of audits were completed within the legislated deadline of two months from receipt of the financial statements. The following audits are excluded from the analysis:

**Table 7: Audits finalised late or outstanding**

Entity not reported on	AFS received date	Reason not finalised	Expected signing date
Gauteng Liquor Board	18 June 2010	Financial statements received late.	17 September 2010
Gauteng Provincial Revenue Fund	Outstanding	Due to a practical delay caused by treasury waiting for the completion of the annual audits.	Not known

## Qualification areas

**Figure 1: Financial statements areas qualified**



## Discussion on qualification by auditee

The root causes of financial statement qualification areas per balance sheet and income statement area by auditee are as follows:

**Table 8: Departments and provincial entities areas qualified**

Name of department and provincial entity (7)	Areas qualified							
	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure item	Revenue	Expenditure	Unauthorised, fruitless and wasteful and irregular expenditure
Department of Health	X		X		X	X	X	
Department of Infrastructure Development		X						X
G-Fleet	X	X	X		X	X		X
Medical Supplies Depot		X	X			X	X	
Impophoma Infrastructure Support Entity		X		X	X	X		
Blue IQ Investment Holdings					X			
Gauteng Housing Fund	X							
<b>Total</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>2</b>
	<b>43%</b>	<b>57%</b>	<b>43%</b>	<b>15%</b>	<b>57%</b>	<b>57%</b>	<b>29%</b>	<b>29%</b>

The Gauteng Department of Health was disclaimed on capital assets comprising property, plant and equipment and intangible assets, liabilities comprising housing loan guarantees and employee benefits, other disclosure items being commitments, revenue and expenditure comprising compensation of employees, goods and services and normal day-to-day expenditure as sufficient appropriate audit evidence could not be provided. A further contributing factor is the fact that the control environment at the department was not conducive. Furthermore, the vacant position of accounting officer and CFO for the major part of the 2009-10 financial year resulted in the action plans and SCOPA resolutions not being implemented.

The Gauteng Department of Infrastructure Development was qualified on receivables and fruitless and wasteful expenditure for which sufficient appropriate audit evidence could not be provided. The factor contributing to the qualification was the inadequate control environment over receivables, rental income, i.e. maintaining complete and accurate details of tenants, outstanding balances and a record of fruitless and wasteful expenditure incurred arising from interest levied by suppliers due to late payments.

G-Fleet was disclaimed on property, plant and equipment, receivables, liabilities comprising of payables and provisions, other disclosure items being leases, cash flow statement and related parties, revenue and fruitless and wasteful expenditure. The areas disclaimed stemmed from a breakdown in the internal controls implemented, compounded by vacancies at senior management level.

Gauteng Medical Supplies Depot was disclaimed on current assets comprising of receivables, liabilities comprising of payables, and revenue and expenditure comprising cost of sales due to a lack of sufficient appropriate audit evidence. A further major factor that contributed to the disclaimer was the migration to a new accounting system during the financial year without a proper implementation plan and involvement of external and internal audit. This also resulted in a management decision at the Medical Supplies Depot to revert back to the old accounting system. Furthermore, due to the vacant accounting officer position at the Gauteng Department of Health there was no monitoring mechanism in place at the department of its trading entity.

The Impophoma Infrastructure Support Entity was disclaimed in the areas of current assets comprising of receivables, capital and reserves being retained earnings, other disclosure items comprising of cash flow statement and related parties and revenue due to a lack of sufficient appropriate audit evidence. A further contributing factor was a breakdown in controls from the previous financial year.

Blue IQ Investment Holdings (Pty) Ltd was qualified on other disclosure items relating to its subsidiary, Genesis Fitness (Pty) Ltd. The subsidiary was in the process of liquidation which resulted in lack of an appropriate system of internal control and supporting documentation. Furthermore, the 2009-10 audit outcome of the subsidiary was qualified on revenue, expenditure and prior year comparatives.

The matters relating to the qualifications at the Gauteng Housing Fund were due to capital assets and immovable assets not being accounted for in line with the entity's accounting policy as the financial system was unable to support the change in accounting framework.

## Funding of operations financial sustainability/going concern

The table below depicts the provincial entities within the province where concerns related to funding of operations, financial sustainability and going concern.

**Table 9: Auditees with concerns related to funding of operations/financial sustainability/going concern**

Auditee	Reason(s)
Blue Catalyst Investment Company	The board resolved in April 2009 to liquidate the company.
Constitution Hill Development Company	Accumulated loss of R122 640 000 at 31 March 2010.
Gauteng Motorsport Company	The board resolved in December 2009 to liquidate the company.
Greater Newtown Development Company	Shareholder resolved to liquidate the company.
Emoyeni Trading Entity	Executive decision taken to incorporate the trading entity and the operations in the Gauteng Department of Infrastructure Development.
Gauteng Kopanong Precinct	Executive decision taken to incorporate the trading entity and the operations in the Gauteng Department of Infrastructure Development.
Impophoma Infrastructure Support Entity	Executive decision taken to incorporate the trading entity and the respective operations in the Gauteng Department of Infrastructure Development or Roads and Transport.
Urban Transport Fund	Executive decision taken to incorporate the trading entity and the operations in the Gauteng Department of Roads and Transport.

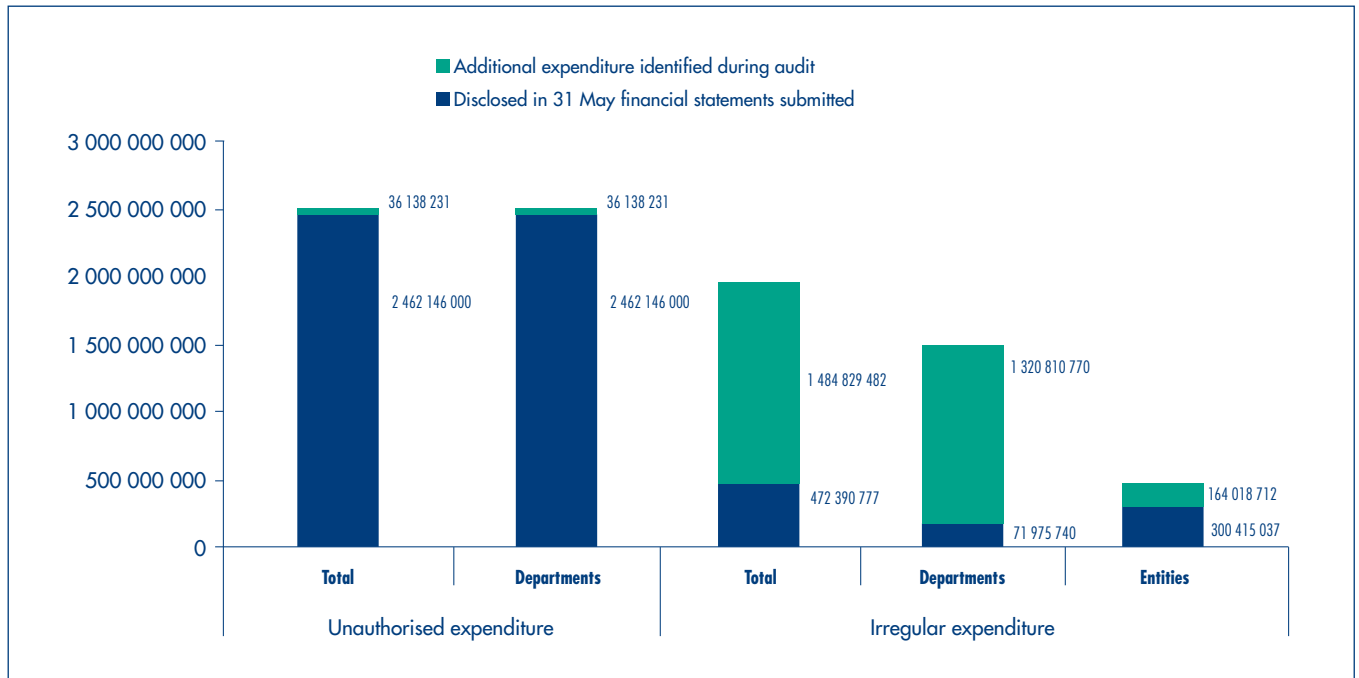
## Unauthorised expenditure incurred

**Table 10: Unauthorised expenditure**

Type of auditee	Nature and extent of unauthorised expenditure					
	Overspending of vote/main division of vote			Spending not in accordance with purpose of vote		
	Number	%	R'000	Number	%	R'000
Departments	5	33%	2 495 933	1	7%	2 351
<b>Total</b>	<b>5</b>	<b>33%</b>	<b>2 495 933</b>	<b>1</b>	<b>7%</b>	<b>2 351</b>

Five departments out of 15 incurred unauthorised expenditure. Gauteng Departments of Community Safety (R21,176 million), Education (R76,248 million), Health (R2,2 billion), Housing (R35,947 million) and Infrastructure Development (R113,447 million) overspent on the vote and the Gauteng Shared Services Centre (R2,351 million) did not spend in accordance with the purpose of the vote.

Unauthorised expenditure incurred by the departments would have possibly increased further by 36% if the accruals at year-end (R891,6 million) had been paid in time by the Gauteng Departments of Roads and Transport (R241,1 million), Infrastructure Development (R404,5 million), Education (R69,1 million), Community Safety (R26,9 million), Gauteng Provincial Legislature (R1,2 million), Housing (R128,4 million) and Agriculture and Rural Settlement (R20,2 million).

**Figure 2: Unauthorised and irregular expenditure incurred**

## Irregular expenditure

**Table 11: Irregular expenditure**

Type of auditee	Nature and extent of irregular expenditure					
	SCM related			Compensation of employees related		
	Number	%	R'000	Number	%	R'000
Departments	7	47%	1 492 186	1	7%	1 424
Provincial entities	9	35%	464 433	0	0	0
<b>Total</b>	<b>16</b>	<b>39%</b>	<b>1 956 619</b>	<b>1</b>	<b>7%</b>	<b>1 424</b>

The breakdown of the 16 departments and provincial entities that incurred irregular expenditure due to proper SCM processes not being followed was as follows:

- Seven departments (R1,492 billion) namely the Gauteng Departments of Roads and Transport (R517,41 million), Infrastructure Development (R500,692 million), Health (R455,643 million), Provincial Legislature (R306 000), Economic Development (R13,875 million), Social Development (R2,611 million) and Housing (R2,248 million). Of this amount, R1,32 billion was as a result of misstatements identified during the audit.
- Nine provincial entities (R464,433 million), namely Blue IQ Investment Holdings (R18,438 million), Constitution Hill Development Company (R146 000), Gauteng Fund Project Office (R16,729 million), Gauteng Motorsport Company (R1,622 million), Impophoma Infrastructure Support Entity (R373,792 million), Urban Transport Fund (R38,190 million), AIDC Development Centre (R569 616), the Innovation Hub (R5,199 million) and Supplier Park Development Company (R9,747 million). Of this amount, R164 million was as a result of misstatements identified during the audit.

Seventy-six percent (R1,485 billion) of the irregular expenditure disclosed in the auditees' financial statements is attributable to misstatements that were identified during the audit process and subsequently corrected by the auditees.

The root cause of the transgressions was deviation from SCM policies. Furthermore, the leadership's monitoring and review with regard to compliance with SCM policies and emergency procurement, as well as the reasons for the deviation from the policies, were inadequate.

### Fruitless and wasteful expenditure

Eighteen entities incurred fruitless and wasteful expenditure, amongst others due to interest and penalties arising from late payment of invoices, taxes owed to the South African Revenue Service and non-utilisation of rental properties. This comprises six departments (R36,625 million), namely the Gauteng Departments of Roads and Transport, Infrastructure Development, Education, Community Safety, the provincial legislature and Economic Development, and 12 provincial entities (R37,005 million), namely Blue IQ Investment Holdings, Blue Catalyst Investment, Constitution Hill Development Company, Emoyeni Trading Entity, Gauteng Fund Project Office, Gauteng Kopanong Precinct, Gauteng Motorsport Company, Greater Newtown Development Company, the Impophoma Infrastructure Support Entity, Urban Transport Fund, AIDC Development Centre and Supplier Park Development Company.

### Material losses, material impairment of assets, material underspending of the vote/conditional grant

**Table 12: Material losses, material impairment of assets, material underspending of the vote/conditional grant**

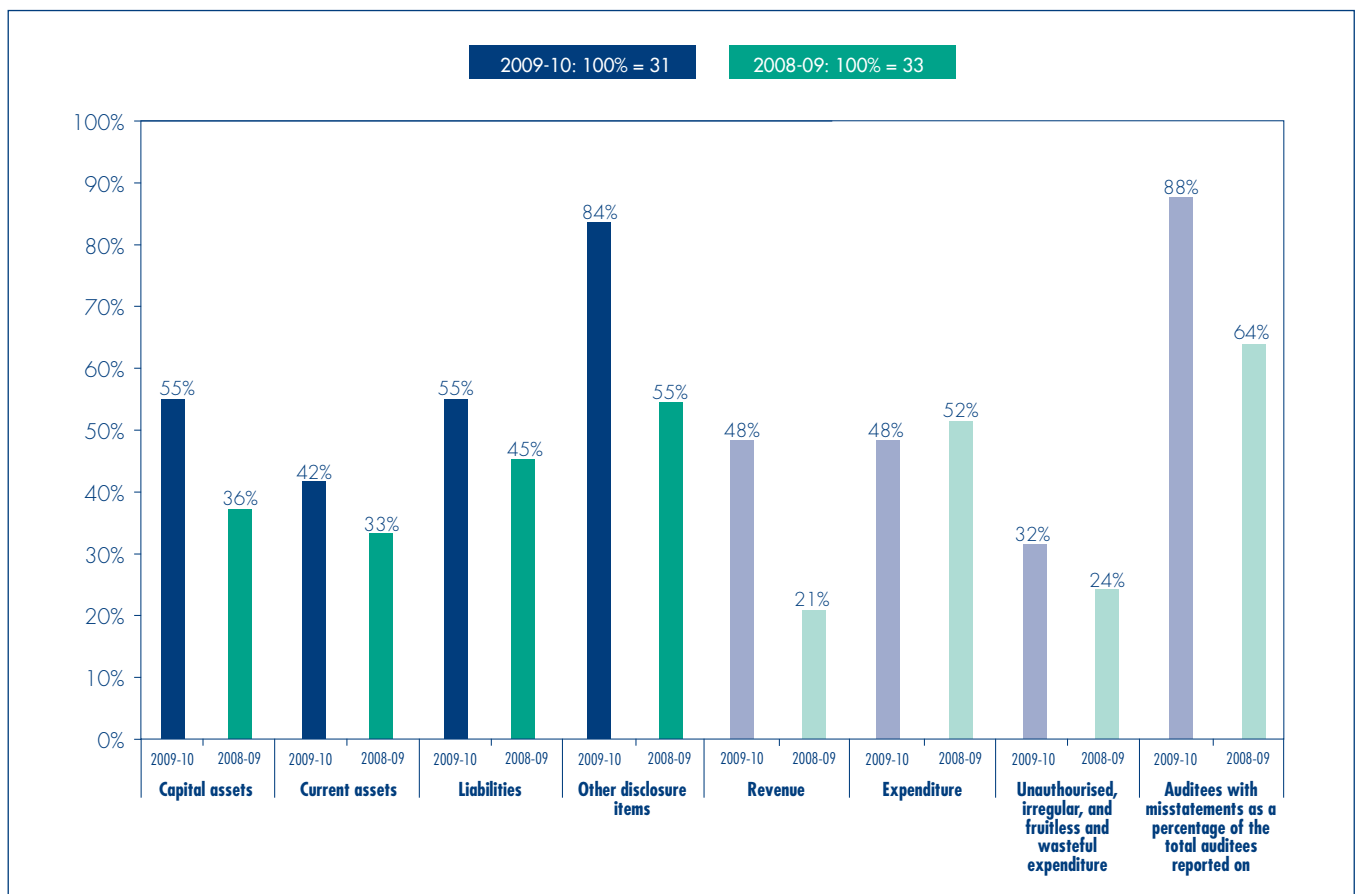
Type of auditee	Extent of material losses, impairments and underspending											
	Material Losses			Material impairments of assets			Material underspending of vote			Material underspending of conditional grant		
	Number	%	R'000	Number	%	R'000	Number	%	R'000	Number	%	R'000
Provincial departments	1	7%	575 377	0	0%	0	5	33%	858 190	0	0%	0
Provincial public entities	2	8%	6 834	0	0%	0	0	0%	0	0	0%	0
<b>Total</b>	<b>3</b>	<b>7%</b>	<b>582 211</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>5</b>	<b>12%</b>	<b>858 190</b>	<b>0</b>	<b>0%</b>	<b>0</b>

- Gauteng Department of Health incurred material losses totalling R575,377 million of potential irrecoverable patient and staff debtors due to poor debt collection. The department also materially underspent the budget on various programmes totalling R706,431 million thereby not achieving the programmes objectives.
- Gauteng Department of Social Development materially underspent the budget on compensation of employees by R66,633 million due to a moratorium on filling of vacant positions as the department was merging with the Gauteng Department of Health from April 2009.
- Gauteng Department of Roads and Transport materially underspent the budget by R60 million due to cash constraints, resulting in the Albertina Sisulu Corridor project not being implemented.
- Gauteng Department of Sports, Arts, Culture and Recreation materially underspent the budget by R16,247 million on various programmes due to vacancies.
- Gauteng Department of Agriculture and Rural Development materially underspent the budget by R8,879 million on various programmes.

- Blue IQ Investment Holdings incurred material losses totalling R2,355 million due to fraudulent transactions perpetrated by third parties.
- Gauteng Medical Supplies Depot incurred material losses totalling R4,478 million. The material losses comprise stock loss (R2,317 million) and material losses due to the sales price not being adjusted with the increase in the purchase price (R2,160 million).

### Transversal material misstatements corrected during the audit

**Figure 3: Transversal material misstatements corrected during the audit**



### Transversal material misstatements in financial statements

Financial statements submitted within the legislated deadline by 12 departments and 19 provincial entities were subject to material corrections. No material misstatements were identified at three departments, namely the Gauteng Department of Local Government, Office of the Premier and Gauteng Provincial Treasury, and at seven provincial entities, namely Gauteng Partnership Fund, Blue Catalyst Investment Company, Gauteng Economic Development Agency, Gauteng Enterprise Propeller, Gauteng Gambling Board, G-Fleet and Gauteng Fund Project Office. The areas materially corrected were as follows:

#### Capital assets (17)

Nine departments and eight entities: The nine departments were the Gauteng Departments of Agriculture and Rural Development, Community Safety, Infrastructure Development, Economic Development, Education,

Gauteng Shared Services Centre, Health, Housing and Social Development. The eight provincial entities were Blue IQ Investment Holdings, Constitution Hill Development Company, Greater Newtown Development Company, Innovation Hub, Emoyeni Trading Entity, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

### **Current assets (13)**

Five departments and eight provincial entities: The five departments were the Gauteng Departments of Infrastructure Development, Economic Development, Education, Health and Housing.

The eight provincial entities were AIDC Development Centre, Blue IQ Investment Holdings, Supplier Park Development Company, Innovation Hub, Cradle of Humankind – World Heritage Site, Emoyeni Trading Entity and Medical Supplies Depot.

### **Liabilities (17)**

Five departments and 12 provincial entities: The five departments were the Gauteng Departments of Agriculture and Rural Development, Economic Development, Education, Health and Housing.

The 12 provincial entities were AIDC Development Centre, Blue IQ Investment Holdings, Gauteng Film Commission, Gauteng Tourism Authority, Supplier Park Development Company, Innovation Hub, Cost Recovery Trading Entity, Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

### **Disclosure (26)**

Eleven departments and 15 provincial entities: The 11 departments were the Gauteng Departments of Community Safety, Infrastructure Development, Roads and Transport, Economic Development, Education, Gauteng Shared Services Centre, Health, Housing, Social Development, Sports, Arts, Culture and Recreation and Provincial Legislature. The 15 provincial entities were AIDC Development Centre, Blue IQ Investment Holdings, Constitution Hill Development Company, Gauteng Film Commission, Gautrain Management Agency, Greater Newtown Development Company, Innovation Hub, Cost Recovery Trading Entity, Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Emoyeni Trading Entity, Gauteng Housing Fund, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

### **Revenue (15)**

Four departments and 11 provincial entities: The four departments were the Gauteng Departments of Agriculture and Rural Development, Infrastructure Development, Economic Development and Health. The 11 provincial entities were AIDC Development Centre, Blue IQ Investment Holdings, Gauteng Film Commission, Gautrain Management Agency, Innovation Hub, Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Emoyeni Trading Entity, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

### **Expenditure (15)**

Six departments and 9 provincial entities: The six departments were the Gauteng Departments of Agriculture and Rural Development, Infrastructure Development, Economic Development, Education, Health and Housing. The nine provincial entities were AIDC Development Centre, Blue IQ Investment Holdings, Gautrain Management Agency, Innovation Hub, Cost Recovery Trading Entity, Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Gauteng Kopanong Precinct and Medical Supplies Depot.





### **Irregular expenditure (10)**

Seven departments and three provincial entities: The seven departments were the Gauteng Departments of Infrastructure Development, Roads and Transport, Economic Development, Education, Health, Housing and Provincial Legislature.

The three provincial entities were AIDC Development Centre, Blue IQ Investment Holdings and Impophoma Infrastructure Support Entity.

The reasons for the misstatements were largely the same as for the previous year and were again as follows:

- Monthly financial statements were not prepared throughout the year. There was minimum review of accounts during the year and this all resulted in errors not being detected and corrected early enough by management.
- Financial statements were often submitted merely to comply with the legislated deadline.
- Lack of skills to interpret and prepare annual financial statements in terms of the required framework, coupled with lack of ongoing monitoring and supervision.
- Information and communication not captured in the form and time frame to support financial reporting and disclosure notes not system-generated and only produced once a year.
- Poor guidance from management on financial reporting objectives to enable identification of risks to reliable financial reporting. Lack of regular financial reports and inadequate review of annual financial statements by audit committees.

### **Recommendations**

Material corrections could have been detected by the entity's financial management processes had adequate reviews of the financial statements been undertaken prior to submission for audit. It is recommended that the following measures be considered:

- Training and recruiting skilled permanent staff to manage the financial process and prepare the financial statements. The interview process for these accountants needs to be attended by those charged with governance to ensure that the right calibre of person is employed to deal with the challenges of accounting frameworks and related changes.
- Intervention by those charged with governance to ensure that adequate support and capacity are made available to undertake the roles and responsibilities in financial reporting.
- CFO should prepare detailed monthly management accounts and interim financial statements.
- Internal audit should provide assurance to the accounting officer and audit committee regarding the financial statement process at the departments and entities.

## **3.2 Findings on predetermined objectives**

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

All departments and provincial entities subject to an audit of performance against predetermined objectives information 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 financial statements.

Based on an assessment of audit readiness it was decided that for the 2009-10 audit cycle, 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 entities, opinions will not yet be expressed in the individual audit reports. Instead, a reflection on the provincial entities' performance information, should an opinion have been expressed, will be contained at management report level. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

**Table 13: Summary of findings arising from the audit of predetermined objectives**

Category of finding	Departments (including legislatures)		Provincial entities (including public and trading entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	67%	71%	70%	58%
Information on performance against predetermined objectives not useful	33%	43%	52%	42%
Information on performance against predetermined objectives not reliable	40%	50%	35%	25%
Information on performance against predetermined objectives not submitted for audit by 31 May 2010	0	0	0%	0%
<b>Total number of audits reported on</b>	<b>11</b>	<b>12</b>	<b>16</b>	<b>20</b>

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

All 15 departments, including the legislature, and the 23 provincial entities were subject to auditing in this area. Predetermined objectives were not applicable to the Provincial Revenue Fund, Blue Catalyst Investment Company (Pty) Ltd, Gauteng Housing Fund and Cost Recovery Trading Account.

### Explanation of the various audit finding categories

#### Non-compliance with regulatory requirements

Compliance with regulatory requirements refers to the preparation of the integrated development plan/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 a lack of reporting of performance information on performance against predetermined objectives, lack of effective, efficient and transparent systems and internal controls regarding performance management and a lack of or inadequate quarterly reporting of performance against predetermined objectives.

The 10 departments, namely the Gauteng Departments of Agriculture and Rural Development, Community Safety, Infrastructure Development, Roads and Transport, Economic Development, Gauteng Shared Services Centre, Health, Housing, Local Government and Sports, Arts, Culture and Recreation and sixteen provincial entities namely AIDC Development Centre, Blue IQ Investment Holdings, Constitutional Hill Development Company, Gauteng Motorsport Company, Greater Newtown Development Company, Supplier Park Development Company, the Innovation Hub, Cradle of Humankind – World Heritage Site, Dinokeng Trading

Entity, Emoyeni Trading Entity, G-Fleet, Gauteng Fund Project Office, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity, Medical Supplies Depot and Urban Transport Fund, had findings relating to non-compliance with section 40(3)(a) or 55(2)(a) of the PFMA.

### **Usefulness of information of performance against predetermined objectives**

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

Usefulness of information of performance against predetermined objectives refers to the reported information 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, as well as measurable and time bound. The reported performance information at five departments, namely the Gauteng Departments of Infrastructure Development, Roads and Transport, Economic Development, Housing, Local Government, and 12 provincial entities, namely AIDC Development Centre, Blue IQ Investment Holding, Constitutional Hill Development Company, Greater Newtown Development Company, Supplier Park Development Centre, The Innovation Hub, Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, G-Fleet, Gauteng Kopanong Precinct, Medical Supplies Depot and Urban Transport Fund, was not useful.

Findings were due to information of performance against predetermined objectives not being consistent with objectives, indicators and targets as per approved strategic/annual performance plan. Some targets were not specific in clearly identifying the nature and the required level of performance; some targets were not measurable in identifying the required performance and some targets were not time bound in specifying the time period or deadline for delivery.

### **Reported information of performance against predetermined objectives not reliable**

The audit focused on whether the reported information of 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 documentation. In the case of six departments, namely the Gauteng Department of Infrastructure Development, Roads and Transport, Economic Development, Gauteng Shared Services Centre, Health, Social Development, and eight provincial entities, namely Blue IQ Investment Holdings, Constitutional Hill Development Company, Gauteng Motorsport Company, Greater Newtown Development Company, Emoyeni Trading Entity, G-Fleet, Impophoma Infrastructure Support Entity and Medical Supplies Depot, reported performance information was not reliable.

Findings were due to a lack of sufficient, appropriate audit evidence in relation to the reported information of performance against predetermined objectives, lack of appropriate systems generating information of performance against predetermined objectives and the source information or evidence provided to support the reported information of performance against predetermined objectives which had not adequately supported the accuracy and completeness of the facts throughout.

### **Information of performance against predetermined objectives not submitted for audit**

Performance information was received in time for review purposes in respect of all departments and applicable provincial entities.

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

Of the reports that have been analysed, the following four departments and seven provincial entities had no findings resulting from the audit of performance against predetermined objectives.

Departments (four): Office of the Premier, the provincial treasury, provincial legislature and Gauteng Department of Education.

Provincial entities (seven): Gauteng Partnership Fund, Gauteng Economic Development Agency, Gauteng Enterprise Propeller, Gauteng Film Commission, Gauteng Gambling Board, Gauteng Tourism Authority and Gautrain Management Agency.

### Outstanding audits

Regarding the 2009-10 audit cycle the outstanding report was for the Gauteng Liquor Board.

### Conclusion

Eleven of the 38 departments and provincial entities had no findings with regard to the audit of performance against predetermined objectives but there is still room for improvement, particularly effective, efficient and transparent systems and internal controls regarding performance information.

## 3.3 Findings on compliance with laws and regulations

**Table 14: Summary of findings arising from compliance with laws and regulations**

Top three categories of non-compliance and SCM	Number	Percentage
<b>Departments (including legislature)</b>		
Payments for expenditure not made within 30 days	12	80%
General, fiduciary and reporting responsibilities not fulfilled	2	13%
SCM issues that resulted in irregular expenditure (R1,4 billion)	6	40%
<b>Provincial entities (including public and trading entities)</b>		
Payments for expenditure not made within 30 days	5	19%
General/ fiduciary and reporting responsibilities	2	8%
SCM issues that resulted in irregular expenditure (R464,4 million)	9	35%

Twelve departments and eight provincial entities had findings on non-compliance with laws and regulations. The areas of non-adherence to laws and regulations relate to the PFMA, including SCM regulations and the Treasury Regulations.

## Departments

### Payments not made within 30 days

Twelve departments (Agriculture and Rural Development, Community Safety, Economic Development, Education, Gauteng Shared Services Centre, Health, Housing, Infrastructure Development, Local Government, Provincial Legislature, Roads and Transport and Sports, Arts, Culture and Recreation) had findings relating to payment not being made within 30 days from receipt of invoices in terms of TR 8.2.3.

### General/fiduciary and reporting responsibilities of accounting officers

Non-compliance with the Division of Revenue Act was reported at two departments (Health and Housing). Two departments (Health and Roads and Transport) had not complied with legislation regarding monthly reporting to the treasury, as required by the PFMA and Division of Revenue Act.

Furthermore, two departments (Health and Roads and Transport) had not performed risk assessments as required by the Treasury Regulations.

### SCM issues that resulted in irregular expenditure

At six departments there were SCM issues that resulted in irregular expenditure totalling R1,4 billion. The six departments were the Gauteng Departments of Roads and Transport, Infrastructure Development, Health, Economic Development, Social Development and Housing.

## Provincial entities

### Payments not made within 30 days

Five provincial entities (Emoyeni Trading Entity, G-Fleet, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Medical Supplies Depot) had findings relating to payment not being made within 30 days from receipt of invoices in terms of TR 8.2.3.

### General/ fiduciary and reporting responsibilities

Non-compliance with human relations management requirements was reported at three provincial entities (Constitution Hill Development Company, Impophoma Infrastructure Support Entity and Medical Supplies Depot).

### SCM issues that resulted in irregular expenditure

At nine entities there was non-compliance with SCM policies and procedures that resulted in irregular expenditure totalling R464,4 million. The nine entities were Blue IQ Investment Holdings, Constitution Hill Development Company, Gauteng Fund Project Office, Gauteng Motorsport Company, Impophoma Infrastructure Support Entity, Urban Transport Fund, AIDC Development Company, the Innovation Hub and Supplier Park Development Company.

### Control deficiencies

- Lack of monitoring and supervision of day-to-day activities by all levels in the departments and entities throughout the period.
- Disregard for 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 in providing assurance that the strategies to mitigate risk of non-compliance are adequate.
- Departments and provincial entities should consider implementing self-assessment procedures through a compliance checklist together with ongoing review and monitoring by management to prevent lapses in compliance with laws and regulations.

### **Internal control**

The reported internal control deficiencies cover matters relating to the basis for the qualification/adverse/disclaimer of opinion on the financial statements and the findings on predetermined objectives and compliance with applicable laws and regulations. The matters are analysed under the three fundamentals of internal control below.

### **Leadership**

Leadership at 17 out of 41 departments and provincial entities had not adequately discharged their oversight responsibility over reporting which resulted, amongst others, in material amendments to the financial statements due to audit findings. The 10 departments were Gauteng Departments of Agriculture and Rural Development, Community Safety, Economic Development, Gauteng Shared Services Centre, Health, Housing Infrastructure Development, Local Government, Roads and Transport and Sports, Arts, Culture and Recreation. The seven provincial entities were Constitution Hill Development Company, Greater Newtown Development Company, Emoyeni Trading Entity, G-Fleet, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

The tone of leadership in respect of the audit process at two departments, namely the Gauteng Department Health and Infrastructure Development, and two provincial entities, namely G-Fleet and Impophoma Infrastructure Support Entity, resulted in unfavourable audit outcomes. Furthermore, the tone of leadership at the Gauteng Department of Roads and Transport resulted in the negative outcome at G-Fleet and Impophoma Infrastructure Support Entity.

### **Financial and performance management**

System preparation of the financial statements and the report on predetermined objectives were inadequate at 11 out of 41 departments and provincial entities. The six departments were the Gauteng Department of Education, Health, Housing, Infrastructure Development, Local Government and Roads and Transport. The five provincial entities were the Constitution Hill Development Company, Greater Newtown Development Company, G-Fleet, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

Accounting discipline was insufficient at 16 out of 41 departments and entities, namely eight departments (Gauteng Departments of Agriculture and Rural Development, Economic Development, Gauteng Shared Services Centre, Health, Housing, Infrastructure Development, Provincial Legislature and Roads and Transport)

and eight provincial entities (Constitution Hill Development Company, Greater Newtown Development Company, Emoyeni Trading Entity, G-Fleet, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity, Medical Supplies Depot and Urban Transport Fund).

### **Governance**

Risk identification and management were insufficient at eight out of 41 departments and provincial entities, namely Gauteng Department of Economic Development, Health, Housing, Constitution Hill Development Company, Greater Newtown Development Company, G-Fleet, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

There were findings with regard to internal audit at six out of 41 of departments and entities, namely at the Gauteng Departments of Health, Infrastructure Development, Roads and Transport, G-Fleet, Impophoma Infrastructure Support Entity and Medical Supplies Depot.

### **Impact on audit outcomes**

The opinion on the financial statements was influenced by the inadequacy of internal controls at seven out of 41 departments and provincial entities, namely Gauteng Department of Health, Infrastructure Development, G-Fleet, Impophoma Infrastructure Support Entity, Medical Supplies Depot, Blue IQ Investment Holdings and Gauteng Housing Fund.

The findings on predetermined objectives findings related to the inadequacy of internal controls at 24 out of 38 departments and provincial entities, namely Gauteng Departments of Economic Developments, Housing, Gauteng Shared Services Centre, Agriculture and Rural Development, Health, Infrastructure Development, Local Government, Roads and Transport, Social Development, AIDC Development Centre, Blue IQ Investment Holdings, Gauteng Motorsport Company, Supplier Park Development Company, Constitution Hill Development Company, Greater Newtown Development Company, the Innovation Hub, Cradle of Humankind – World Heritage Site, Dinokeng Trading Entity, Emoyeni Trading Entity, G-Fleet, Gauteng Kopanong Precinct, Impophoma Infrastructure Support Entity, Medical Supplies Depot and Urban Transport Fund.

Inadequate internal controls resulted in compliance findings at 20 out of 41 of departments and provincial entities, namely Gauteng Departments of Agriculture and Rural Development, Community Safety, Economic Development, Education, Gauteng Shared Services Centre, Health, Housing, Infrastructure Development, Local Government, Provincial Legislature, Roads and Transport and Sports, Arts, Culture and Recreation, Constitution Hill Development Company, Emoyeni Trading Entity, G-Fleet, Greater Newtown Development Company, Impophoma Infrastructure Support Entity, Gauteng Kopanong Precinct, Medical Supplies Depot and Urban Transport Fund.

## **3.4 Information technology matters**

Departments and entities rely heavily 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 systems are centrally supported by the National Treasury and the State Information Technology Agency (SITA) which provides

important computer networking infrastructure, data storage and retrieval services. The control environments for these systems are crucial as large amounts of critical financial data and transactions are recorded on, and processed through these systems. Furthermore, the automation of business processes and transaction processing contributes significantly to efficient service delivery.

Information technology (IT) general control audits were performed at 14 departments and six entities. Significant weaknesses were identified regarding the IT control environment and management of information systems.

- At 13 departments and five provincial entities, weaknesses were identified regarding IT governance.
- At 10 departments and four provincial entities weaknesses were identified regarding security management.
- Eleven departments and four entities had findings relating to user access control.
- Eleven departments and a provincial entity had findings relating to IT service continuity.

Some of these weaknesses were reported in the prior year but had not been addressed and the risks therefore remain. This was brought to the attention of leadership to enable them to address internal control deficiencies where required.

### 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 and entities are heavily reliant on computerised information systems (e.g. BAS, Persal and the 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 are 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 and six entities. The following table indicates the number of common focus area findings raised during those audits:

**Table 13: Audit findings raised on common IT focus areas**

IT focus area findings	Percentage of audited departments with findings	Percentage of audited entities with findings
IT governance	93%	83%
Security management	71%	67%
User access control	79%	67%
Information technology service continuity	79%	17%



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 had not prevented 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 supports 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's), in consultation with SITA and chief information officers (CIO's) 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 and entities must have business continuity plans that would enable SITA, the GITO's and CIO's 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 must capacitate IT departments with resources that will ensure adequate implementation of an IT plan.

### 3.5 Investigations and performance audits

#### Investigations in progress

Auditee	SCM issues	Fraud	Misconduct	Other
Department of Economic Development				X
Department of Education	x		x	x
Department of Health	x	x	x	x
Department of Infrastructure Development	x			
Department of Roads and Transport	x	x	x	
Department of Social Development		x		x
Blue Catalyst Investment (Pty) Ltd				x
Impophoma Infrastructure Support Entity	x			

## Investigations completed during the financial year

Auditee	SCM issues	Fraud	Misconduct	Other
Department of Agriculture and Rural Development	x		x	x
Department of Community Safety		x		
Department of Health	x			
Department of Education		x	x	
Department of Social Development	x			
Gauteng Tourism Authority			x	

## Performance audits completed during the financial year

### Infrastructure audit

#### Background

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

#### Overall conclusion

- The construction of schools, hospitals and clinics was not completed on time within the allocated budget and at the required standard of quality; and
- Schools, hospitals and clinics were not always commissioned as planned and in some instances the facilities were not fully utilised after commissioning.

#### 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, organisation, coordination and monitoring) were identified during the 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*

- The needs of schools, hospitals and clinics are not always correctly identified and prioritised as the process followed for need determination is not always approved and well understood, or inadequate information is used for identifying the need for facilities.  
*Example: During the need determination for schools, the proximity of other schools was not always taken into account, which contributed to newly completed schools being underutilised.*
- The original needs determination for facilities could not be obtained from the auditees due to poor document management and the hand-over of documentation between project managers. Therefore the utilisation of the completed projects cannot be compared to the needs.  
*Example: The actual utilisation of the buildings cannot be compared to the original need determination to determine whether the objective of the project had been achieved. Fewer patients are visiting a newly constructed clinic than other similar clinics.*
- The departments do not have officials with the technical skills to supervise the construction of facilities and therefore they made use of implementing agents such as the Department of Public Works, IDT and Ithala. However, two departments, namely Health and Education, remain accountable.  
*Example: The need determination and budgets were compiled by the line function staff without taking technical issues such as the construction period into account and in many instances multi-year projects were only budgeted for in one year.*

#### *Acquisition management*

- The applicable legislation and regulations are not consistently applied by the bid adjudication committees during the tender evaluation process. For example, contracts are awarded to contractors that had not qualified in terms of the prescribed legislation such as the Preferential Procurement Policy Framework Act and the Construction Industry Development Board (CIDB) Act, and bids are disqualified for being outside the predetermined benchmark range and for other reasons that cannot be justified.
- Contractors are awarded multiple contracts without taking their capacity into account, which led to the failure of contractors to complete some or all of the projects in time and at the required level of quality. For example, three contracts to build schools were awarded to the same contractor while not taking his capacity into account. He was unable to complete any of the schools and the projects had to be completed by other contractors.
- All the irregular expenditure due to deviations from the SCM process was not identified and reported by the auditees. For example, all expenditure on projects where SCM process and regulations were not followed was considered to be irregular.

#### *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 were not always charged for the late completion of projects. For example, all construction contracts had not provided for penalties for the late completion of projects while in other instances penalties were waived without valid reasons been documented.
- The quality of the construction work was unsatisfactorily, additional costs were incurred to complete the projects and the completion of the facility was delayed. For example, partially completed buildings

had to be demolished and rebuilt by another contractor due to poor quality of work done by the first contractor.

- Expenditure was not effectively monitored and budgets were exceeded. For example, large numbers of variation orders were used to change the scope of projects. The department paid for the additional costs of variations to the original plan but had not approved the variation orders before payment was made to the contractors.

#### *Commissioning and utilisation*

- There is a lack of effective coordination within and between departments, which resulted in facilities not being properly equipped and staffed to support effective service delivery. For example, newly completed clinics were standing un/underutilised as the medical staff were not available to render the required services.
- Incomplete and/or substandard work was identified after commissioning and the work was not corrected by the contractors. Additional costs were incurred on the account of the departments to correct it. For example, the Department of Education had to pay to correct the substandard work of a contractor as it had paid out the retention money before inspecting the clinic to ensure that all the remedial work had been completed.

All the fruitless and wasteful expenditure due to the underutilisation of schools, hospitals and clinics was not identified and reported by the auditees. *For example, instances were identified where partially completed projects were abandoned and could not be utilised for the intended purpose. However the auditees had not quantified the amount of fruitless and wasteful expenditure.*

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

### 4.1 Drivers of audit outcomes

Details of this section (improved or maintained good practices and further improvements required at departments and provincial entities) are annexed to the report.

#### Leadership

##### *Tone at the top*

Oversight and those charged with governance at departments and provincial entities committed to improve audit outcomes by setting the right tone from the top regarding the audit process to create an environment conducive to sound financial management and reporting on predetermined objectives. Improved or maintained previous good practices at financial statement level were found at three departments and six provincial entities while 12 departments and 20 provincial entities require improvements.

Oversight and those charged with governance improved or maintained previous good practices on the reporting of performance against predetermined objectives at four departments and seven provincial entities, while 11 departments and 16 provincial entities require improvements.

##### *Oversight responsibility – Review and monitoring of action plans*

Oversight review and monitoring of action plans developed by management to address all significant internal control deficiencies reported by the AGSA in the 2008-09 audit had improved or previous good practices were maintained at two departments and seven provincial entities. Thirteen departments and 19 provincial entities require improvements.

##### *Oversight responsibility – Filling of key positions*

Oversight responsibility for filling of key positions relating to financial management and other significant components requires attention at six departments and six provincial entities.

##### *Appropriate skills in SCM environment*

Seven departments and nine provincial entities should establish an effective organisational structure that places people with the appropriate skills in positions, especially in the SCM environment, to ensure compliance with applicable laws and regulations.

##### *Implementation of action plans to address user access control deficiencies*

Action plans to address user access control deficiencies reported in the 2008-09 audit and not addressed in 2009-10 require improvement at eight departments and six provincial entities.

## Financial & performance management

### *Proper record keeping and record management*

Record keeping and record management by management to ensure that supporting documents are properly filed, easily retrievable and provided for audit within agreed time frames had improved / were maintained at two departments and six provincial entities. The two departments are the Office of the Premier and Gauteng Provincial Treasury.

Record keeping and record management by management to ensure that supporting documents are properly filed, easily retrievable and provided for audit within agreed time frames to support the report on performance against predetermined objectives had improved / were maintained at four departments and seven provincial entities.

### *Producing quality, reliable financial statements and predetermined objectives information*

Management produced quality, reliable financial statements and submitted these for audit purposes within the legislated deadline at three departments and six provincial entities. Improvements are required in terms of quality, reliable financial statements submitted for audit purposes at 12 departments and 20 provincial entities.

Management submitted quality, reliable performance information reports against predetermined objectives for audit purposes within the legislated deadline at four departments and seven provincial entities. Improvements are required at 11 departments and 16 provincial entities.

### *Key financial control over assets register*

Key financial controls over assets register had improved / were maintained at six departments and 16 provincial entities to ensure that the asset register reflects the assets owned and agreed to financial records of the departments and provincial entities, including the financial statements. Improvements of key financial control of assets are required at nine departments and 10 provincial entities.

### *Application systems susceptible to compromised data integrity:*

- *User account management*

Improvement was required with regard to the user account in application systems to prevent data integrity being compromised at 11 departments and six provincial entities.

- *Security management*

Security management is required in 10 departments and four provincial entities' application systems to prevent data integrity being compromised.

- *Business continuity*

Business continuity improvements are required in 11 departments and four provincial entities' application systems to prevent data integrity being compromised.

## Governance

### *Role of the audit committee*

Chairpersons of all departments and provincial entities' audit committees participated in the audit process by:

- reviewing and providing comments on financial statements, draft audit reports and management reports.
- requesting corrective action plans based on audit findings.
- providing guidance in resolving some audit issues.

Furthermore, in some annual reports, the report of the chairperson of audit committees on the effectiveness of internal audit, commented on the timeliness of internal audit reports.

### *Role of the internal audit*

Role of the internal audit unit is to provide assurance on the adequacy and implementation of internal control in the financial statement process. Improvements are required in this regard at five departments and six provincial entities.

Internal audit should also provide assurance on the adequacy of the implementation of internal control in the preparation of the performance information reports against predetermined objectives as improvements are required at 11 departments and 16 provincial entities.

### *Lack of information technology governance*

The IT governance framework must direct the positioning of IT, resource requirements, risk and internal control management. Improvements in this regard are required at 13 departments and eight provincial entities.

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

At the Auditor-General's briefing on audit outcomes to the provincial legislature in October 2009, the Premier, on behalf of the executive, commented that they were serious about reducing qualified audit outcomes for the province and offered her full cooperation to the Auditor-General in support of positive audit outcomes. The Premier noted the Auditor-General's comments regarding the audit of predetermined objectives and current challenges in terms of the systems of control and reporting, budgets aligned with service delivery requirements, measuring spending on services in terms of the approved budget and ongoing oversight of the entire process. The Premier expressed her appreciation for the fact that more time had been afforded to the departments and provincial entities to ensure their audit readiness regarding predetermined objectives. The Premier also noted the comments of the Auditor-General regarding the need to use consultants in areas where expertise is required. Specialist skills are to be transferred by consultants and they should not be used as a substitute for existing capacity. To this end, the Premier agreed to review the need for and relevance and appointment of consultants.

Those charged with oversight and governance became more active in fulfilling their monitoring roles and responsibilities by interrogating the reasons for matters included in the audit reports and passing resolutions that required action to address them. The leadership (political as well as management) of departments and provincial entities are setting the right tone from the top to implement action plans that address all audit findings.

Management and those charged with governance have developed action plans to address matters previously reported. These action plans included: implementation of controls relating to expenditure and the safeguarding of assets; reconciliation of discrepancies between the asset register and financial statements; suspense accounts reconciled and cleared on a monthly basis; performance information reported consistently on a quarterly basis against predetermined key performance measures and targets, and the audit of performance information by internal audit.

Regular monitoring of the action plans and identification of risks relating to the achievement of financial and performance reporting objectives, and ensuring that these risks are adequately managed had resulted in matters previously reported being addressed by most departments and public entities.

Gauteng Department of Health had not taken adequate action to clear audit findings relating to 2008-09 audit findings.

The executive, in conjunction with the provincial treasury, has undertaken initiatives to improve the overall audit outcomes within the province.

### **Actions and initiatives taken by provincial treasury (Gauteng Department of Finance) to improve audit outcomes**

The role played by the provincial treasury in ensuring that the departments and provincial 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 priority given to issues, the follow-up on prior year action plans and SCOPS's unwavering support for the AGSA, for our recommendations and audit processes, have resulted in departments and public entities respecting the oversight role and ultimately accepting accountability and responsibility for audit outcomes.

Furthermore, the Gauteng Provincial Treasury (now Gauteng Department of Finance) assisted departments and provincial entities in improving financial management practices for the 2009-10 financial year, as follows:

- A financial statement forum was established where technical issues were discussed and where challenges were identified at departments. Measures were implemented to address these shortcomings.
- Asset acquisition reports were extracted from the accounting system and reviewed. Shortcomings identified were discussed with departments on a monthly basis to address misallocations and capital expenditure not accounted for in the asset register. This continuous monitoring process resulted in departments monthly updating the asset register.
- Facilitation of a pre-audit engagement with the AGSA and the departments to agree on working relationships and timelines. Clarity was also provided by the AGSA on its audit process and the General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009.
- The department's financial statements were submitted for quality assurance review before final submission to the audit committee and the AGSA.
- Comments and feedback were also provided on the 2009-10 interim financial statements submitted by departments to the Department of Finance (previously Gauteng Provincial Treasury).



- Facilitation of the process of converting balances from the previous Department of Public Transport, Roads and Works to the Department of Infrastructure Development as a result of the proclamation made by the Premier to split the departments.
- Assistance to the departments by facilitating Operation Bhadala, which resulted in the clean-up of old open purchase orders and fast-tracking the payment of outstanding invoices.

The provincial treasury will assist department as from the 2010-11 financial year by tracking the implementation of the following targeted interventions at various departments:

- Automation of the ordering process to ensure that accurate information is available to the MECs to curb unauthorised expenditure arising from manual orders.
- Monthly reporting of accruals with a view to enhancing the management of schedule 5 grants.
- Monthly reporting of departmental irregular, fruitless and wasteful expenditure, and reporting on disciplinary action taken against those who were responsible for incurring the irregular, fruitless and wasteful expenditure.
- Establishment of a task team to identify and cancel housing guarantees older than five years.
- Monitoring of the departments' management of asset registers on a monthly basis.
- Facilitating a training session with departments on the Gauteng provincial SCM manual.

#### **4.3 Initiatives taken by the AGSA to encourage clean administration**

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 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 senior AGSA 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.

As at 31 July 2010, the AGSA's Gauteng office had met with some MECs of the departments as well as the speaker of the provincial legislature to discuss the PFMA 2010 outcomes. This initiative served to enlighten those MECs regarding their portfolio and to discuss the outcomes and key controls required of the departments and provincial entities under their jurisdiction. The results of this interaction were positive in more than one way as the MECs were able to assess the root causes of the audit findings for their respective portfolios. Moreover, they were able to understand the reason for the AGSA's quarterly key control appraisals and the link to clean administrations, and that this would require follow-up by the AGSA. Furthermore, the AGSA drew up a summarised checklist of the main issues around financial statements that required follow-up and sustainability to ensure that those departments that managed to attain unqualified reports with no findings on predetermined objectives and/or non-compliance were able to sustain this through effective oversight by the minister and leadership within the department.

We also engaged with the Gauteng audit committee for the departments to discuss matters arising in the draft audit reports prior to the audit reports being signed off.

Provincial view on:

- Key control checklists and monitoring

Area	Key controls	Responsible person	Frequency of monitoring
Finance and operating requirements	MEC to obtain reports of potential or actual expenditure in respect of items listed below: <ul style="list-style-type: none"> <li>• Fruitless and wasteful expenditure</li> <li>• Irregular expenditure</li> <li>• Unauthorised expenditure</li> <li>• Deviations from SCM policies and procedures and reasons for the deviations</li> <li>• Emergency procurement.</li> </ul> The MEC should monitor and the audit committee must review the interim financial statements and final financial statements for accuracy and completeness.	AO	Monthly/Quarterly
Compliance with laws and regulations	Monitor and evaluate checklists and reports for compliance with legislation, i.e. laws, policies and regulations, for SCM and transfer payments. The MECs should monitor progress made with improvements.	AO	Monthly/ Quarterly
Predetermined objectives (PDOs)	MECs monitor and evaluate performance reports against output, indicators, targets and predetermined objectives as per strategic plan and confirm adequacy of supporting documents. To follow up on those public entities and departments that have not submitted their predetermined objectives for audit	AO	Monthly/ Quarterly
		AO	31 August 2010
Cash flow management	MECs to obtain a monthly report on provincial financial position, budget and forecast to review whether the department/entity is proactively managing their funds.	AO	Monthly

Notwithstanding the improvements in audit outcomes, there is room for further improvement in respect of findings on reporting of performance against predetermined objectives and compliance with laws and regulations and on financial management.

## Commitments by the Gauteng executive and legislature

At the Auditor-General's briefing on 20 October 2010 the provincial executive and legislature made the following commitments to address qualifications and internal control deficiencies:

- Portfolio committees will work closer with the provincial public accounts committee in pursuit of more effective financial management oversight. This task is complemented by quarterly submission of reports by the executive to the legislature, which is already in place.
- The provincial executive, via the PCF (Provincial coordinating forum) and engagements with the AGSA's provincial audit office, committed to responding timeously to the "early warning" signals arising from the analyses of key controls.
- MECs undertook to monitor progress made with action plans on a quarterly basis.
- The provincial executive has reviewed the delegations of authority, particularly around SCM, and the MECs have undertaken to ensure compliance in the environments they lead in order to address irregular expenditure.
- Provincial Finance department will continue to provide monthly and quarterly reports to the provincial executive to strengthen effective oversight, with a specific focus on the sharing of good practices.
- Monitoring of action plans relating to disclaimers, particularly at Health, will be a priority of the legislature and the provincial executive.

Furthermore, the legislature made it clear that no disclaimer of opinion would be tolerated at departments and provincial entities.



### **4.3 Matters that may potentially impact the auditor's report in the coming year**

#### **Immovable assets**

In terms of Presidential Minute No. 248, the President proclaimed that sections 6, 11, 12, 13 and 14 of the Government Immovable Asset Management Act of South Africa, 2007 (Act No. 19 of 2007) (GIAMA) had come into operation on 1 April 2010 for any custodian or user that is a department. The impact of not fulfilling the requirements of the above-mentioned minute would be that the departments could be qualified for incorrectly recognising immovable assets in their financial statements.

#### **Predetermined objectives**

Audit findings relating to predetermined objectives raised in the current year, if not cleared, may negatively impact the audit outcomes next year.

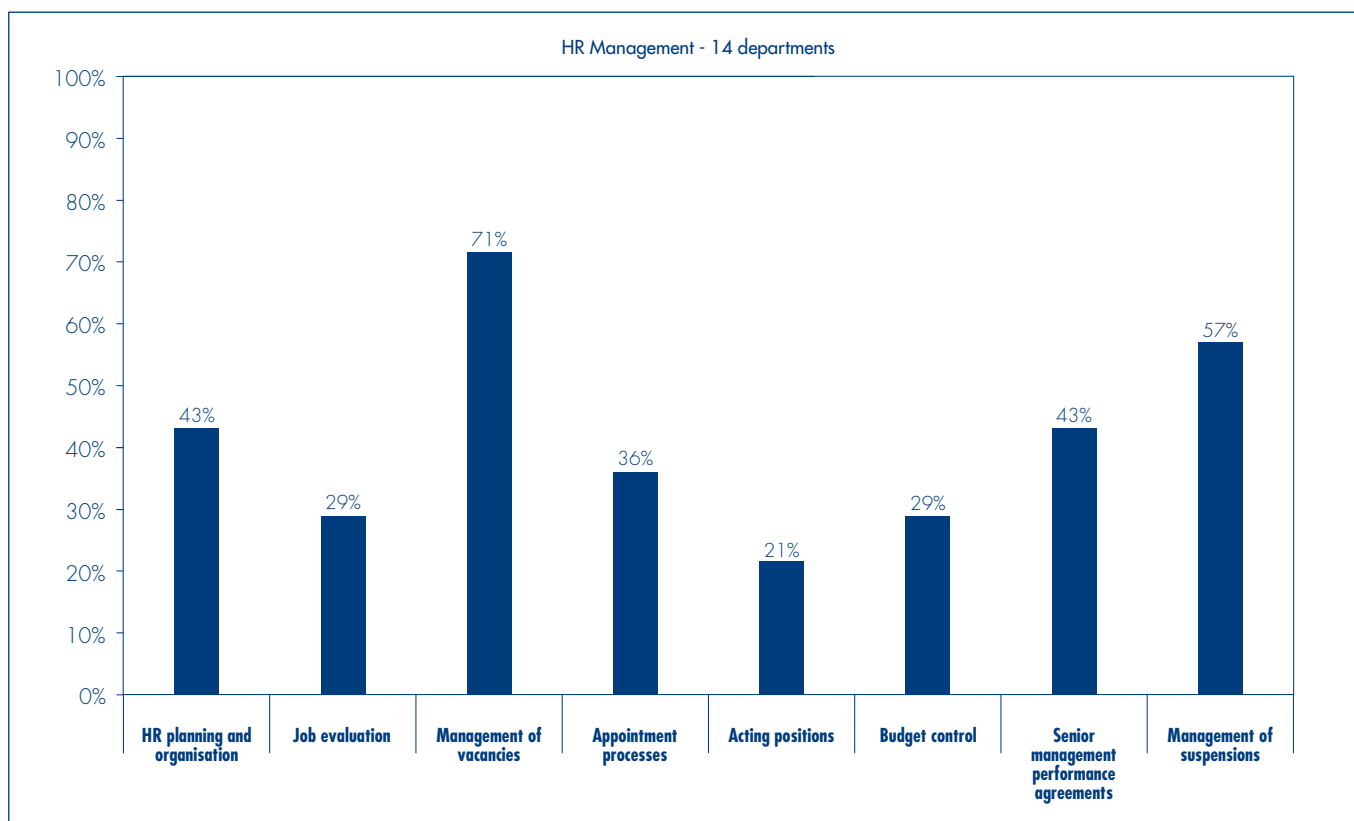
## SECTION 5: FINDINGS ARISING FROM AUDITS OF SPECIFIC FOCUS AREAS OF THE AGSA

### 5.1 Significant findings from audits of human resources management and compensation of employees

The regularity audits of departments included an assessment of their 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 figure below depicts the incidence of findings in the different areas of human resource (HR) management.

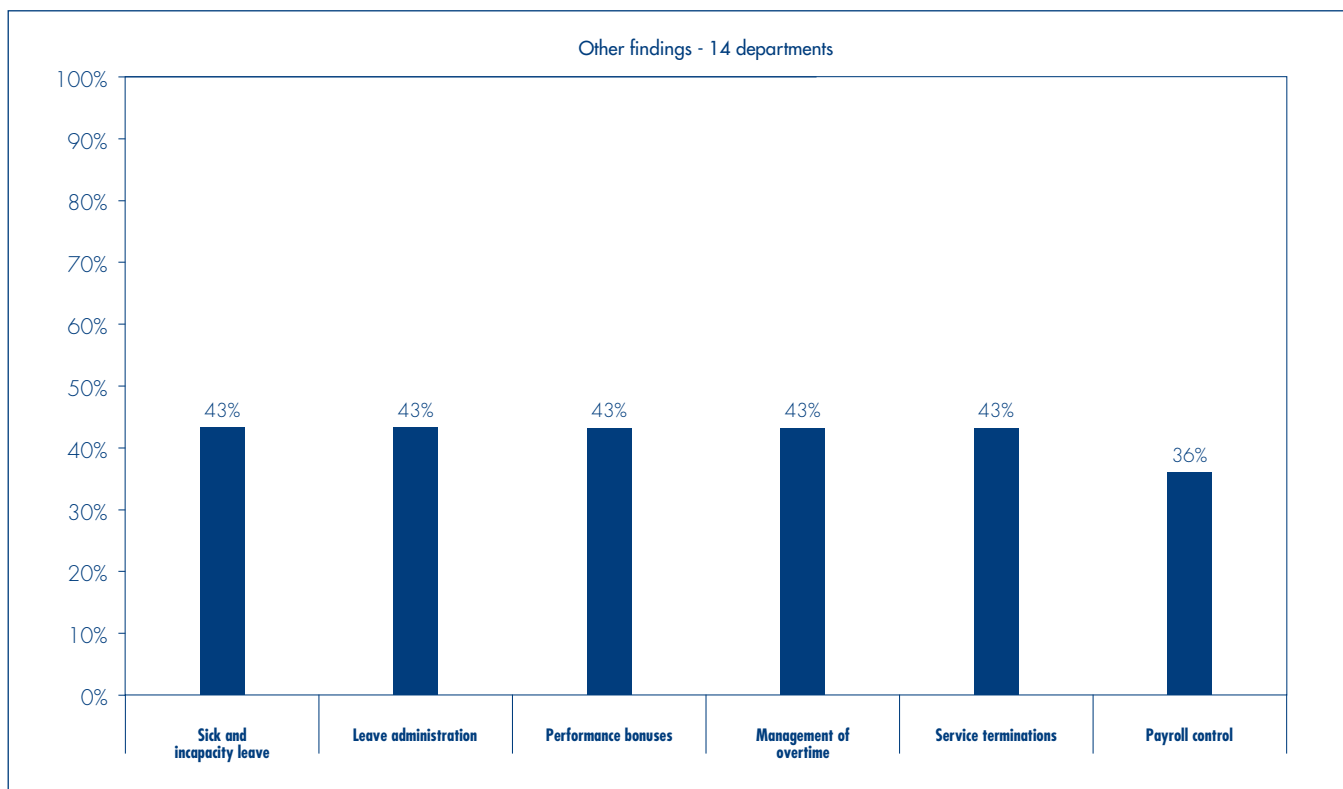
**Figure 4: Findings on human resource management**



Thirteen departments had not complied 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 found at the following departments.

- Gauteng Department of Health – Disclaimer
- Gauteng Department of Roads and Transport – Financially unqualified with findings on predetermined objectives or compliance with laws and regulations

**Figure 5: The incidence of weaknesses in control over compensation of employees**



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

It is of concern, however, that the weaknesses identified related to those controls that were prescribed by legislation for implementation by the departments themselves.

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

### **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 had no approved and updated HR plan:

- Gauteng Department of Infrastructure Development
- Gauteng Department of Economic Development
- Gauteng Department of Local Government
- Gauteng Department of Sports, Art, Culture and Recreation.

#### *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 its strategic plan. The following departments had no approved structure:

- Gauteng Department of Economic Development
- Gauteng Department of Health

#### *Differences between Persal establishment and approved organisational structure*

The organisational structure of the department is maintained on the Persal system 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 with the approved organisational structure at the Gauteng Department of Health (51% difference).

#### *Lack of job descriptions*

Job descriptions should be established in accordance with PSR 1 / III / I1 to indicate the objectives and inherent requirements of the job.

At the following departments such job descriptions were not in place for all of the posts or groups of posts:

- Gauteng Department of Infrastructure Development,
- Gauteng Department of Roads and Transport.

### **Job evaluation**

#### *Lack of or inadequate job evaluation policy*

In accordance with the DPSA's 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 that the relevant salary is applied transparently and consistently in the department.

A job evaluation policy was not in place at the Gauteng Department of Sports, Art, Culture and Recreation.

The job evaluation policy was inadequate at the Gauteng Department of Economic Development as it did not address all aspects as required by the DPSA's guide on job evaluations.

#### *No 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:

- Gauteng Department of Infrastructure Development
- Gauteng Department of Economic Development
- Gauteng Department of Social Development.

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 Gauteng Department of Economic Development without performing a job evaluation.

## Management of vacancies

The accounting officer 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 26% at year-end with an average of 21% of the positions for senior managers being vacant. The highest overall vacancy rate was at the Gauteng Department of Infrastructure Development and Roads and Transport (51% each) and the highest senior manager vacancy rate was at the Gauteng Department of Health (51%).

### *Lack of improvement in vacancy rates*

The overall vacancy rates had not improved from the previous year at the following departments:

- Gauteng Department of Health
- Gauteng Department of Community Safety
- Gauteng Department of Sports, Arts, Culture and Recreation.

The vacancy rate for senior managers had not shown an improvement from the previous year at the following departments:

- Gauteng Department of Health
- Gauteng Department of Sports, Arts, Culture and Recreation.

### *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 the 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 details on Gauteng departments which have not complied with the recruitment time frames and where the reasons for non-compliance were not recorded.

**Table 16: Non-compliant recruitment time frames by auditee**

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
Infrastructure Development	x	x			
Education	x	x			
Health	x	x			
Roads and Transport	x	x			

## Appointment processes

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

### *Verification checks not performed*

A directive issued by the MPSA effective 1 January 2008 provides for a verification process whereby criminal and financial/ asset records should be checked and verifications should be done on citizenship, financial status, qualifications and previous employment for all new appointments.

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

**Table 17: Appointments where departments performed no/incomplete verification checks**

Gauteng department	Appointments with no verification checks	Appointments with incomplete verification checks
Economic Development	x	x
Infrastructure Development		x
Gauteng Shared Services Centre		x
Roads and Transport		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. Some of the employees at the following departments were not provided with the required contract upon appointment:

- Gauteng Department of Infrastructure Development
- Gauteng Department of Education

## Acting by officials in higher posts

Departments have the option to temporarily direct an employee to act in a higher vacant position for which the employee is then paid an acting allowance. PSR 1/VII/B5.3, however, restricts the acting period to 12 months to ensure that permanent appointment of a suitably qualified and experienced person is not delayed.

The DPSA's Determination on acting allowance for senior management service (SMS) further restricts the period for acting in an SMS position to six months unless prior approval is obtained from the MEC.

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at the following departments where employees received acting allowances for more than 12 months:

- Gauteng Department of Economic Development.
- Gauteng Department of Roads and Transport.

Instances were found at the following departments where SMS members received acting allowances for more than six months without the necessary prior approval:

- Gauteng Department of Local Government.



- Gauteng Department of Roads and Transport.

### Budgetary control

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

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

- Gauteng Department of Education – R76,1 million
- Gauteng Department of Health – R276 million

The cause of the overspending was inadequate budgeting or weak management of expenditure.

### Performance agreements of senior managers

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

- Gauteng Department of Economic Development
- Gauteng Shared Services Centre
- Gauteng Department of Local Government
- Office of the Premier.

### Suspensions

Based on the annual reports, 62 employees were suspended across six departments. The average number of days on suspension was 197, with employees being suspended for more than 30 days. The total cost of the suspensions was estimated at R347,7 million. The six Gauteng departments were as follows.

**Table 18: Suspensions by departments**

Gauteng department	Number of employees suspended	Average number of days suspended	Number of employees suspended > 30 days	Cost of suspension (R)
Community Safety	5	743	5	344 761 000
Infrastructure Development	5	90	4	19 793
Education	38	60	24	2 187 171
Health	8	144	8	777 000
Sports, Arts, Culture and Recreation	1	57	1	25 294
Roads and Transport	5	90	5	0
<b>Total</b>	<b>62</b>		<b>47</b>	<b>347 770 258</b>

Departments should ensure that disciplinary processes are concluded timeously as prolonged suspension periods impact on service delivery and have cost implications.

*Lack of suspension policy/procedures*

At the Gauteng Department of Economic Development there were no suspension policies and/or procedures.

*Reasons for prolonged suspension periods not recorded*

At the Gauteng Department of Economic Development employees were suspended for more than 30 days and the reasons for the prolonged period were not recorded.

**Sick and incapacity leave***Sick leave – Non-compliance and lack of monitoring*

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

The table below identifies Gauteng departments that had not complied with the DPSA's Determination on leave of absence in the public service (leave determination) by submitting medical certificates and/or had not implemented processes and procedures to monitor sick leave in order to prevent abuse thereof.

**Table 19: Sick and incapacity leave by departments**

Gauteng 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		
Infrastructure Development	x	X		x
Education	x	X		x
Health	x	X		
Agriculture and Rural Development	x	X		x
Roads and Transport	x	X		x

**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 were overstated:

- Gauteng Department of Economic Development
- Gauteng Department of Health

*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 to which an employee is entitled plus capped leave in respect of persons who were 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 that credited 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 not recovered via unpaid leave:

- Gauteng Department of Infrastructure Development – the monetary value as disclosed in the financial statements was R197 061
- Gauteng Department of Education - the monetary value as disclosed in the financial statements was R40,7 million.

#### *Family responsibility leave incorrectly granted*

In terms of the leave determination, the number of family responsibility leave days taken should not exceed five in an annual leave cycle, unless special circumstances warrant further leave at the discretion of the head of department. Employees at the following departments took more than five days' family responsibility leave although no special circumstances existed as approved by the head of department:

- Gauteng Department of Infrastructure Development
- Gauteng Department of Education

### **Performance bonuses**

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

Performance bonuses were incorrectly calculated for employees at the Gauteng Department of Education.

### **Management of overtime**

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

**Table 20: Management of overtime by departments**

Gauteng department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee monthly salary	Overtime incorrectly calculated
Economic Development	x	X		
Health	x			
Social Development	x			

### **Service terminations**

In terms of the PSA section 38, the overpayments should be recovered from an employee by way of deduction except if the amount is written off.

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

**Table 21: Service terminations by departments**

Gauteng department	Overpayments made to terminated/deceased employees	Overpayments not recovered/reclassified at year end
Community Safety	X	
Infrastructure Development	X	x
Economic Development	X	x
Health	X	x
Sports, Arts, Culture and Recreation	X	x
Roads and Transport	X	x

### 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 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 Gauteng departments that indicate that the prescribed control was not fully implemented:

**Table 22: Payroll control by departments**

Gauteng 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
Infrastructure Development	x	x	x	
Economic Development	x	x	x	
Education	x	x		
Health	x	x	x	
Agriculture and Rural Development	x	x		

### Overall conclusion

Human resource management at the Gauteng departments is not a high risk; however, there were concerns regarding the management of vacancies and suspensions. Leadership should implement measures of succession planning to ensure continuity.

## 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 and the controls to ensure a fair, equitable, transparent, competitive and a cost-effective supply chain system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM regulations.

As is evident from the analyses of irregular expenditure (paragraph 4.1.3), most irregular expenditure incurred by the departments and entities resulted from non-compliance with SCM policies and procedures.

The detailed findings are presented below:

### Interest in suppliers

The performance audit report tabled on 14 May 2009 entitled *Performance audit of entities that are connected with government employees and doing business with national/provincial departments* disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they are 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 2009-10 regularity audits included a similar assessment of interest by 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 such interest was identified and details the resultant findings:

**Table 22: Interest identified by auditee**

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)
Gauteng Department of Infrastructure Development			x		
Gauteng Department of Health	x			x	

### 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 required goods and services 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:

**Table 23: Three quotations not invited**

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Gauteng Department of Roads and Transport	x		R14 343 788
Gauteng Department of Health	x	x	R5 153 491
Impophoma Infrastructure Support Entity	x	x	R373 792 000
<b>TOTAL</b>			<b>R393 289 279</b>

*Deviation from competitive bidding without approval*

In terms of Treasury Regulation (TR) 16A6.4, the accounting officer/authority may, if in a specific case it is impractical to invite competitive bids, 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:

- Gauteng Department of Infrastructure Development – R500 692 000
- Gauteng Department of Social Development – R1 738 296
- G-Fleet – R60 911 692
- Urban Transport Fund – R38 190 000

*Deviation from competitive bidding not justified*

P/N 6 of 2007-08 states that the provision of 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 in cases of emergency 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 that 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 in cases of emergency.

At the following auditee irregular expenditure was incurred as deviations from competitive bidding were approved on the basis of it being a case of 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:

- Gauteng Department of Economic Development – R13 694 000
- Gauteng Department of Education – R108 588 055
- Gauteng Department of Housing – R1 424 137
- Gauteng Department of Roads and Transport – R517 410 000

- Gauteng Department of Health – R28 722 640

At the Gauteng Department of Economic Development (R100 000), 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 even though there was no evidence of a thorough market analysis performed and/or that no other suitable suppliers were available in the market.

*Awarding of tenders to suppliers who failed to provide valid tax clearance certificates*

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

At the Impophoma Infrastructure Support Entity, 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.

*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 Impophoma Infrastructure Support Entity, irregular expenditure was incurred as a result of the preference point system not being followed.

*Award to supplier that did not score highest points*

In terms of section 2(f) of the PPPFA, the contract must be awarded to the tenderer who scores the highest points based on price, functionality (if applicable) and preference points, unless objective criteria justify the award to another tenderer.

At the following auditees irregular expenditure was incurred as awards were made to suppliers who had not scored the highest points and no objective criteria justified such award:

- Gauteng Department of Roads and Transport – R9 092 136
- Gauteng Department of Health – R33 732 989

*No prospective suppliers 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 to entities to be invited to submit price quotations.

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

- Gauteng Economic Development Agency
- Emoyeni Trading Entity
- Impophoma Infrastructure Support Entity

## **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.

No irregular expenditure was incurred at any Gauteng auditee due to contracts that were amended, extended or renewed without approval by the accounting officer or a delegated official.

### *Contract amendments/extensions/renewals resulted in circumvention of competitive bidding.*

In terms of section 38(1)(a)(iii) and 51(a)(iii) of the PFMA, a 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:

- Gauteng Department of Economic Development – R445 000
- Gauteng Department of Health – R250 638 424

### *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.

- Gauteng Department of Community Safety – R191 250
- Impophoma Infrastructure Support Entity – R286 643

### *Inadequate contract performance measures/monitoring*

At the G-Fleet, the performance measures and methods on which some contracts were monitored were found to be inadequate.

### *Payments made for goods and services not received*

At the Impophoma Infrastructure Support Entity payments were made for goods and services that had not been received.



## **SCM controls**

### *Lack of SCM policies/procedures*

In terms of section 38(1)(a)(iii) and 51(a)(iii) of the PFMA, a SCM system that is fair, equitable, transparent, competitive and cost-effective must be implemented. At all Gauteng auditees SCM policies and procedures were in place for the acquisition of goods and services.

### *SCM policies in conflict with applicable legislation*

SCM policies and procedures were not in conflict with the PFMA, Treasury Regulations and/or the PPPF Act and its regulations at any of the Gauteng auditees.

### *Prohibited supplier database not always checked*

In terms of TR16A9.1(c), the National Treasury's database should be checked prior to awarding any contract to ensure that no recommended bidder, nor any of its directors, is listed as a company or person with whom the public sector is prohibited from doing business.

At the following auditees the prohibited supplier database was not always checked prior to awarding the contract:

- Gauteng Department of Economic Development
- Gauteng Department of Roads and Transport
- Impophoma Infrastructure Support Entity.

### *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.

No instances were identified where the same person was involved in selecting a supplier and the payment process and no compensating controls could be identified.

### *No processes for SCM officials to report breaches/non-compliance*

In terms of TR 16A8.5, an official in the SCM unit who becomes aware of a breach of or failure to comply with any aspect of the SCM system must immediately report the breach or failure to the accounting officer or accounting authority in writing.

No findings were reported to Gauteng auditees where processes were not established for SCM officials to report these matters or, where processes were established, the officials were not aware of such processes.

### *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:

- Gauteng Department of Roads and Transport

- Constitution Hill Development Company
- Greater Newtown Development Company

*National Treasury's code of conduct not adopted for SCM*

In terms of TR 16A8.2, the National Treasury's code of conduct for SCM Practitioners must be adhered to by all officials and other role players involved in SCM.

At the following auditees the code of conduct was not signed by officials and other role players involved in supply chain management as evidence that it had been adopted:

- Gauteng Department of Economic Development
- Impophoma Infrastructure Support Entity
- Urban Transport Fund

*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 a 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 were evident:

- Gauteng Department of Economic Development
- Gauteng Department of Roads and Transport
- Gauteng Department of Health
- AIDC Development Centre
- Impophoma Infrastructure Support Entity

Fraud prevention plan did not include specific measures for procurement In terms of Treasury Regulations 3.2.1 and 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 these 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 had not included specific measures for preventing and detecting fraud in the procurement process:

- Gauteng Department of Economic Development
- Gauteng Motorsport Company
- Supplier Park Development Company
- The Innovation Hub
- Gauteng Fund Project Office
- Constitution Hill Development Company

*No internal audit evaluation of SCM compliance*

In terms of Treasury Regulations 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 Impophoma Infrastructure Support Entity a high volume of goods and services was procured. Non-compliance was identified by AGSA and/or fraud had been identified in the past, but internal audit had not evaluated the controls, processes and compliance with laws and regulations with regard to SCM.

**Overall conclusion**

Deviations from the SCM policies resulted in the audit team identifying irregular expenditure totalling R1,4 billion in addition to that disclosed by entities. Leadership at departments and provincial entities should implement corrective measures against those who fail to comply with the SCM policies as required by the PFMA in order to build public confidence.

## SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

**Table 27: Status of consolidated audits**

Province	Departments - audit completed		Provincial public entities - audit completed	
	2009-10	2008-09	2009-10	2008-09
	Y/N	Y/N	Y/N	Y/N
Gauteng	N	Y	N	Y

The consolidated financial statements for the departments and provincial public entities were not been received for the 2009-10 year.

## SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

### 7.1 Summary of annual reports tabled

**Table 28: Annual reports tabled by departments public entities**

Type of auditee	Percentage of reports tabled at 31 August	
	2009-10	2008-09
Departments	0%	100%
Public entities	0%	100%
Other entities	0%	100%
<b>Total</b>	<b>0%</b>	<b>100%</b>

The annual reports of all Gauteng auditees for 2008-09 were tabled.

Annual reports for 2009-10 have not yet been submitted to the legislature for tabling (not yet produced).

All Gauteng departments and provincial entities have tabled the 2008-09 annual reports.

## **PART B - AUDITS NOT CONDUCTED BY THE AGSA**

## SECTION 8: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

### 8.1 Summary of audit outcomes

**Table 29: Summary of audit outcomes on audits not conducted by the AGSA**

Audit outcomes	Schedule 2 entities	Schedule 3 and other entities
<b>Opinion on financial statements</b>		
Disclaimer	0	0
Adverse	0	0
Qualified	0	1
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	0	0
<b>Total number of audits reported on</b>	<b>0</b>	<b>1</b>
<b>Number of audits not finalised at legislated date for submission to Executive Authority 31 August 2010</b>	<b>0</b>	<b>1</b>
<b>Total number of audits</b>	<b>0</b>	<b>2</b>
<b>Findings arising from AGSA other legal reporting responsibilities:</b>		
Predetermined objectives (No information from section 4(3) auditors received)		
Compliance with laws and regulations (No information from section 4(3) auditors received)		

Two schedule 3 public entities were not audited by AGSA. These public entities are Genesis Fitness (Pty) Ltd and Blue Catalyst Matching Fund Trust.

Genesis Fitness (Pty) Ltd's audit outcome was qualified and the Blue Catalyst Matching Fund Trust's audit had not been finalised by 31 August 2010.

### 8.2 Status of completion of the audits

**Table 30: Status of completion of audits**

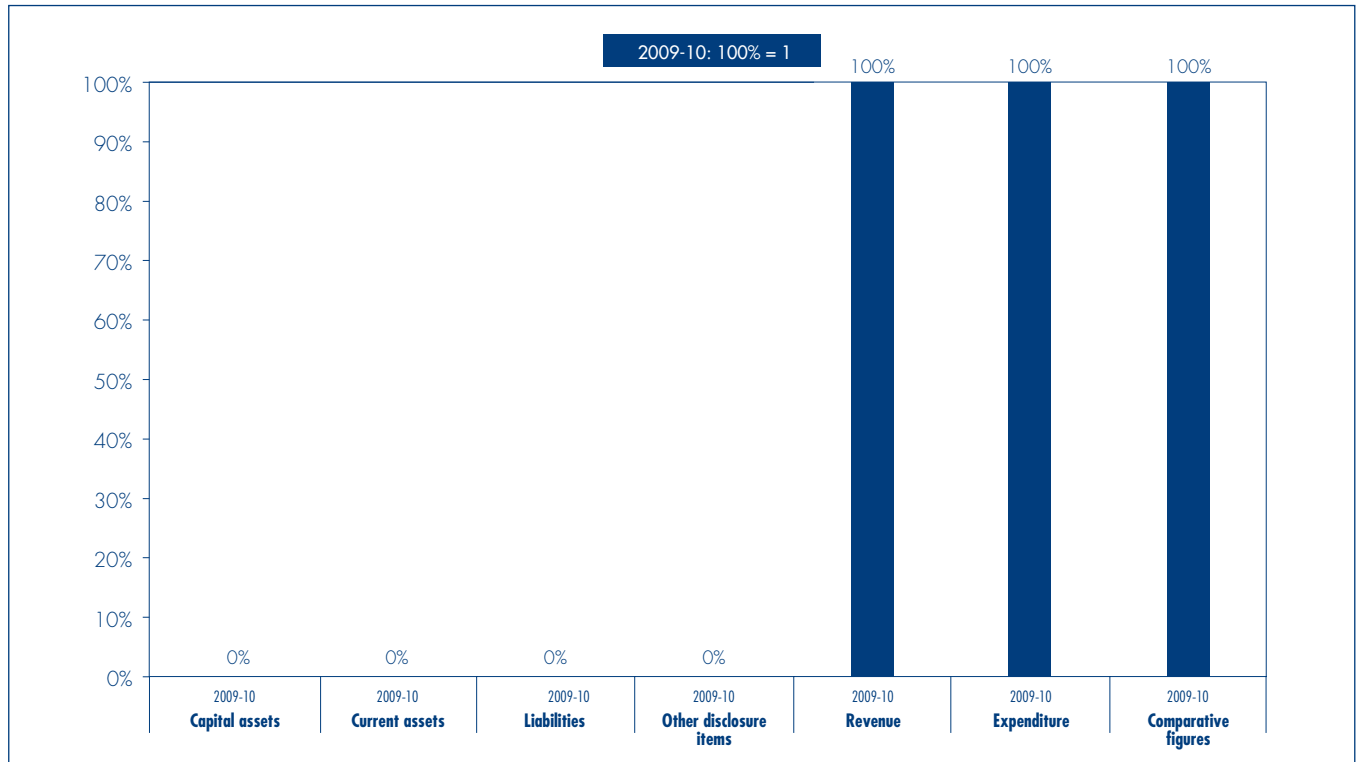
Reason	Schedule 3 and other public entities
Financial statements not yet received	0
Audit not yet completed due to late receipt of financial statements	0
Audit still in progress due to other reasons	1
<b>Total number of audits not yet completed at cut-off date</b>	<b>1</b>

Only the Blue Catalyst Matching Fund Trust's audit had not been completed within legislated deadline.



## Financial statement audit

**Figure 6: Financial statement areas qualified**



## Discussion on qualification areas

Genesis Fitness (Pty) Ltd was qualified on revenue, expenditure and comparative figures because it failed to maintain sufficient and appropriate audit evidence. Furthermore, the entity is in the process of liquidation.

## Predetermined objectives findings

No audit was performed on predetermined objectives as the entity is in the process of liquidation.

## Compliance with laws and regulations

No audit was performed on compliance with laws and regulations as the entity is in the process of liquidation.



## CONCLUSION

The Gauteng Province faces some challenges as highlighted in this report which will require a coordinated effort by the leadership of the province, with the support of the National and provincial treasury, to sustain its good performance and to improve in the areas of concern.

Departments and provincial entities should focus on addressing reported shortcomings by committing to improved financial administration to avoid modified audit outcomes. A further area of concern is that of budget control and monitoring of spending against the budget on an ongoing basis. Overexpenditure led to unauthorised expenditure, placed a severe burden on the province and increased trends in irregular expenditure. Urgent action plans must be formulated and strictly monitored to prevent recurrence. Underexpenditure, on the other hand, is also alarming, as it has a direct impact on service delivery and/or could raise questions about the quality of public services. It requires proper planning, execution and oversight of projects by leadership to ensure service delivery.

The recurrent audit findings on non-compliance with legislation and the quality of financial statements are cause for concern. Senior management should ensure efficient monitoring and ongoing supervision to address areas of non-compliance with legislation. Internal audit is a crucial function in assisting management to establish a sound internal control environment and to perform ongoing evaluation and monitoring of management's compliance with pre-defined controls and progress in implementing the action plans.

It is also imperative that departments and provincial entities ensure that the necessary systems and controls are in place that will result in accurate reporting, continuous monitoring of achievements of the measurable objectives and overall compliance with the reporting requirements in respect of predetermined objectives. We wish to reiterate our critical message to the legislators and executive that it is possible to obtain an unqualified audit report with clean administration if key controls are institutionalised and constantly monitored by the leadership.

We are confident, however, that the challenges are not insurmountable and we remain committed to partnering with the legislature and executive to assist in the process of identifying and disseminating good practices to improve 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

No.	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 frivolous 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 and Rural Development	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
2	Community Safety	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
3	Economic Development	Financially Unqualified (with findings on internal control)	Qualified												
4	Education	Financially Unqualified (with findings on internal control)	Qualified												
5	Health	Disclaimer	Disclaimer												
6	Housing	Financially Unqualified (with findings on internal control)	Qualified												
7	Infrastructure Development	Qualified													
8	Local Government	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
9	Roads and Transport	Financially Unqualified (with findings on internal control)													
10	Social Development	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
11	Sports, Arts, Culture and Recreation	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
12	Gauteng Provincial Treasury	Financially Unqualified (with no findings on internal control)	Financially unqualified (with other matters)												
13	Gauteng Shared Service Centre	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives														
No.	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
14	Office of the Premier	Financially Unqualified (with no findings on internal control)	Financially unqualified (with other matters)											
15	Provincial Legislature	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)											
16	Provincial Revenue Fund		Unqualified											

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives														
Provincial entities														
No.	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
17	AIDC Development Centre	Financially Unqualified (with findings on internal control)												
18	Blue Catalyst Investment Company (Pty) Ltd	Financially Unqualified (with no findings on internal control)	Financially unqualified (with other matters)											
19	Blue IQ Investment Holdings (Pty) Ltd	Qualified	Disclaimer											
20	Constitutional Hill Development Company	Financially Unqualified (with findings on internal control)	Disclaimer											
21	Cost Recovery Trading Entity	Financially Unqualified (with no findings on internal control)	Financially unqualified (with other matters)											
22	Cradle of Humankind Trading Entity	Financially Unqualified (with findings on internal control)	Qualified											
23	Dinokeng World Heritage Trading Entity	Financially Unqualified (with findings on internal control)	Qualified											
24	Emoyeni Conference Trading Entity	Financially Unqualified (with findings on internal control)	Qualified											
25	Gauteng Economic Development Agency	Financially Unqualified (with no findings on internal control)	Financially unqualified (with no other matters)											
26	Gauteng Enterprise Propeller	Financially Unqualified (with no findings on internal control)	Qualified											
27	Gauteng Film Commission	Financially Unqualified (with no findings on internal control)	Financially unqualified (with no other matters)											
28	Gauteng Fund Project Office	Financially Unqualified (with findings on internal control)	Qualified											
29	Gauteng Gambling Board	Financially Unqualified (with no findings on internal control)	Financially unqualified (with no other matters)											
30	Gauteng Housing Fund	Qualified	Qualified											
31	Gauteng Liquor Board	Audit not completed by 31 August 2010	Qualified											

ANNEXURE 1: Listing of audit outcomes, areas qualified and findings on predetermined objectives															
Provincial entities															
No.	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
32	Gauteng Medical Supplies Depot	Disclaimer	Financially unqualified (with other matters)												
33	Gauteng Motorsport Company (Pty) Ltd	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
34	Gauteng Partnership Fund	Financially Unqualified (with no findings on internal control)	Financially unqualified (with no other matters)												
35	Gauteng Tourism Authority	Financially Unqualified (with no findings on internal control)	Financially unqualified (with other matters)												
36	Gautrain Management Agency	Financially Unqualified (with no findings on internal control)													
37	g-Fleet Management	Disclaimer	Financially unqualified (with other matters)												
38	Greater Newtown Development Company	Financially Unqualified (with findings on internal control)	Disclaimer												
39	Impophoma Infrastructure Support Entity	Disclaimer	Financially unqualified (with other matters)												
40	Kopanong Precinct	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
41	Supplier Park Development Co	Financially Unqualified (with findings on internal control)													
42	The Innovation Hub	Financially Unqualified (with findings on internal control)													
43	Urban Transport Fund	Financially Unqualified (with findings on internal control)	Financially unqualified (with other matters)												
Audits not conducted by the AGSA															
Schedule 3 and other entities															
45	Blue Catalyst Matching Fund Trust	Audit not completed by 31 August 2010													
46	Genisis Fitness (Pty) Ltd	Qualified													

# ANNEXURE 2: Listing of key non-financial statement findings related to compliance with laws and regulations

Number	Auditee	Prohibited action/ non-adherence															SCM issue that resulted in irregular expenditure
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct/ disciplinary/ criminal proceedings	Plans (Strategic/ corporate/ integrated development plans)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity specific legislation	HR management	Procurement (SCM)	
Audits conducted by the AGSA																	
Departments																	
1	Agriculture and Rural Development																
2	Community Safety																
3	Economic Development																
4	Education																
5	Gauteng Shared Services Centre																
6	Health																
7	Housing																
8	Infrastructure Development																
9	Local Government																
10	Provincial Legislature																
11	Roads and Transport																
12	Sports, Arts, Culture and Recreation																
Public entities																	
1	Constitutional Hill Development Company																
2	Greater Newtown Development Company																
3	Enoyeni Trading Entity																
4	G-Fleet																
5	Gauteng Kapanong Precinct																
6	Impophoma Infrastructure Support Entity																
7	Gauteng Medical Supplies Depot																
8	Urban Transport Fund																
9	Blue IQ Investment Holdings																
10	Gauteng Fund Project Office																
11	Gauteng Motorsport Company																

## ANNEXURE 2: Listing of key non-financial statement findings related to compliance with laws and regulations

Number	Auditee	Prohibited action / non-adherence																SCM issue that resulted in irregular expenditure
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct / disciplinary / criminal proceedings	Plans (Strategic/ corporate/ integrated development plans)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity specific legislation	HR management	Procurement (SCM)		
12	AIDC Development Company																	
13	The Innovation Hub																	
14	Supplier Park Development Company																	

## ANNEXURE 3: Details to drivers of improved audit outcomes

Number	Department	LEADERSHIP										Province				
		Maintained / improved previous good practices					Improvements required									
1	Agriculture and Rural Development															
2	Community Safety															
3	Economic Development															

## ANNEXURE 3: Details to drivers of improved audit outcomes

LEADERSHIP																
Number	Department	Maintained / improved previous good practices						Improvements required								
		Province		Commitments by those charged with governance to improve on the audit outcomes by creating an environment conducive to improved service delivery:	Pre-determined objectives	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	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)	Financial statements	Pre-determined objectives	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	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)	
4	Education	GP														
5	Health	GP														
6	Housing	GP														
7	Infrastructure Development	GP														
8	Local Government	GP														
9	Roads and Transport	GP														
10	Social Development	GP														
11	Sports, Arts, Culture and Recreation	GP														
12	Gauteng Provincial Treasury	GP														
13	Gauteng Shared Service Centre	GP														
14	Office of the Premier	GP														
15	Provincial Legislature	GP														



## ANNEXURE 3: Details to drivers of improved audit outcomes

Number	Provincial entity	Province	LEADERSHIP									
			Maintained / improved previous good practices					Improvements required				
			Commitments by those charged with governance to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery:	Pre-determined statements	Pre-determined objectives	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	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)	Financial statements	Pre-determined objectives	Leadership's implementation of action plans to address user access control deficiencies (information systems)
1	Aids Development Centre	GP										
2	Blue Catalyst Investment Company (Pty) Ltd	GP										
3	Blue IQ Investment Holdings (Pty) Ltd	GP										
4	Constitutional Hill Development Company	GP										
5	Cost Recovery Trading Entity	GP										
6	Cradle of Humankind Trading Entity	GP										
7	Dinokeng World Heritage Trading Entity	GP										
8	Enoyeni Conference Trading Entity	GP										
9	Gauteng Economic Development Agency	GP										
10	Gauteng Enterprise Propeller	GP										
11	Gauteng Film Commission	GP										
12	Gauteng Fund Project Office	GP										
13	Gauteng Gambling Board	GP										
14	Gauteng Housing Fund	GP										
15	Gauteng Liquor Board	GP										
16	Gauteng Medical Supplies Depot	GP										

## ANNEXURE 3: Details to drivers of improved audit outcomes

Number	Provincial entity	LEADERSHIP									
		Maintained / Improved previous good practices					Improvements required				
		Commitments by those charged with governance to improve on the audit outcomes by creating an environment conducive to improved service delivery:	Financial statements	Pre-determined objectives	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	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)	Financial statements	Pre-determined objectives	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
17	Gauteng Motorsport Company (Pty) Ltd	GP									
18	Gauteng Partnership Fund	GP									
19	Gauteng Tourism Authority	GP									
20	Gautrain Management Agency	GP									
21	g-Fleet Management	GP									
22	Greater Newtown Development Company	GP									
23	Impophoma Infrastructure Support Entity	GP									
24	Kopanong Precinct	GP									
25	Supplier Park Development Co	GP									
26	The Innovation Hub	GP									
27	Urban Transport Fund	GP									

# ANNEXURE 3: Details to drivers of improved audit outcomes

FINANCIAL AND PERFORMANCE MANAGEMENT																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Number	Department	Maintained / improved previous good practices										Improvements required																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
		Province		Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable:		Ensuring the assets register reflects the assets owned and that this is agreed to the financial statements. Reconciling and clearing of suspense accounts on a monthly basis		Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information:		User access control		Security management to compromised data integrity (information systems):		Business continuity																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
		Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives	Financial statements	Pre-determined objectives																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
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## ANNEXURE 3: Details to drivers of improved audit outcomes

FINANCIAL AND PERFORMANCE MANAGEMENT																				
Number	Provincial entities	Maintained / improved previous good practices										Improvements required								
		Province				Financial statements and performance monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information:		Pre-determined objectives		Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable:		Ensuring the assets register reflects the assets owned and that this is agreed to the financial statements. Reconciling and clearing of suspense accounts on a monthly basis		Producing accurate financial statements and performance monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information:		Application systems susceptible to compromised data integrity (information systems):				
		Financial statements	Pre-determined objectives	User access control	Security management	Business continuity	Financial statements	Pre-determined objectives	User access control	Security management	Business continuity	Financial statements	Pre-determined objectives	User access control	Security management	Business continuity	Financial statements	Pre-determined objectives	User access control	Security management
1	Aids Development Centre	GP																		
2	Blue Catalyst Investment Company (Pty) Ltd	GP																		
3	Blue IQ Investment Holdings (Pty) Ltd	GP																		
4	Constitutional Hill Development Company	GP																		
5	Cost Recovery Trading Entity	GP																		
6	Cradle of Humankind Trading Entity	GP																		
7	Dinokeng World Heritage Trading Entity	GP																		
8	Emoyeni Conference Trading Entity	GP																		
9	Gauteng Economic Development Agency	GP																		
10	Gauteng Enterprise Propeller	GP																		
11	Gauteng Film Commission	GP																		
12	Gauteng Fund Project Office	GP																		
13	Gauteng Gambling Board	GP																		

### ANNEXURE 3: Details to drivers of improved audit outcomes

FINANCIAL AND PERFORMANCE MANAGEMENT																																																																																																																							
   |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |   
  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |  
  |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |                          
   |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |   
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| Number                               | Provincial entities | Maintained / improved previous good practices |  |                      |                           |  |  |                           |  | Improvements required |                     |                     |                      |                           |  |  |                           |  |   |  |                      |                           |  |   |                      |                           |  |  |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |  |   |  |                      |                           |              
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|                                      |                     | Province                                      |  | Financial statements | Pre-determined objectives | Ensuring the assets register reflects the assets owned and that this is agreed to the financial statements. Reconciling and clearing of suspense accounts on a monthly basis | Producing accurate financial statements and performance information and continuously monitoring the quality thereof. | Pre-determined objectives | Ensuring that performance information is supported by relevant and reliable information: | User access control   | Security management | Business continuity | Financial statements | Pre-determined objectives | Ensuring the assets register reflects the assets owned and that this is agreed to the financial statements. Reconciling and clearing of suspense accounts on a monthly basis | Producing accurate financial statements and performance information and continuously monitoring the quality thereof. | Pre-determined objectives | Ensuring that performance information is supported by relevant and reliable information: | Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable: | Ensuring the assets register reflects the assets owned and that this is agreed to the financial statements. 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## ANNEXURE 3: Details to drivers of improved audit outcomes

GOVERNANCE									
Number	Department	Province	Maintained / improved previous good practices				Improvement required		
			Greater involvement by internal audit and audit committee in monitoring processes:		An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management		Greater involvement by internal audit and audit committee in monitoring processes:		
			Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management
1	Agriculture and Rural Development	GP							
2	Community Safety	GP							
3	Economic Development	GP							
4	Education	GP							
5	Health	GP							
6	Housing	GP							
7	Infrastructure Development	GP							
8	Local Government	GP							
9	Roads and Transport	GP							
10	Social Development	GP							
11	Sports, Arts, Culture and Recreation	GP							
12	Gauteng Provincial Treasury	GP							
13	Gauteng Shared Service Centre	GP							
14	Office of the Premier	GP							
15	Provincial Legislature	GP							

## ANNEXURE 3: Details to drivers of improved audit outcomes

GOVERNANCE							
Number	Provincial entities	Province	Maintained / improved previous good practices			Improvement required	
			Greater involvement by internal audit and audit committee in monitoring processes:		An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management	Greater involvement by internal audit and audit committee in monitoring processes:	An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management
			Financial statements	Predetermined objectives		Financial statements	
1	Aids Development Centre	GP					
2	Blue Catalyst Investment Company (Pty) Ltd	GP					
3	Blue IQ Investment Holdings (Pty) Ltd	GP					
4	Constitutional Hill Development Company	GP					
5	Cost Recovery Trading Entity	GP					
6	Cradle of Humankind Trading Entity	GP					
7	Dinokeng World Heritage Trading Entity	GP					
8	Emoyeni Conference Trading Entity	GP					
9	Gauteng Economic Development Agency	GP					
10	Gauteng Enterprise Propeller	GP					
11	Gauteng Film Commission	GP					
12	Gauteng Fund Project Office	GP					
13	Gauteng Gambling Board	GP					
14	Gauteng Housing Fund	GP					
15	Gauteng Liquor Board	GP					
16	Gauteng Medical Supplies Depot	GP					
17	Gauteng Motorsport Company (Pty) Ltd	GP					
18	Gauteng Partnership Fund	GP					
19	Gauteng Tourism Authority	GP					
20	Gautrain Management Agency	GP					
21	g-Fleet Management	GP					

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Number	Provincial entities	Province	Maintained / improved previous good practices				Improvement required		
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			Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	Financial statements	Predetermined objectives	
22	Greater Newtown Development Company	GP							
23	Impophoma Infrastructure Support Entity	GP							
24	Kopanong Precinct	GP							
25	Supplier Park Development Co	GP							
26	The Innovation Hub	GP							
27	Urban Transport Fund	GP							



**ANNEXURE 4: Listing of audit findings raised on common IT focus areas**

Number	Auditee	Focus areas			
		IT governance	Security management	User access control	Information technology service continuity
Audits conducted by the AGSA					
Departments					
1	Agriculture and Rural Development		X	X	X
2	Community Safety			X	X
3	Economic Development	X	X	X	X
4	Education		X	X	X
5	Health	X	X		X
6	Housing	X	X	X	X
7	Infrastructure Development	X			X
8	Local Government	X	X	X	X
9	Roads and Transport	X			
10	Social Development			X	X
11	Sports, Arts, Culture and Recreation		X	X	X
12	Gauteng Provincial Treasury				
13	Gauteng Shared Service Centre	X	X	X	X
14	Office of the Premier		X	X	
15	Provincial Legislature	X	X		X
Public entities					
1	Aids Development Centre				
2	Blue Catalyst Investment Company (Pty) Ltd				
3	Blue IQ Investment Holdings (Pty) Ltd				
4	Constitutional Hill Development Company				
5	Cost Recovery Trading Entity	X	X	X	X
6	Cradle of Humankind Trading Entity				
7	Dinokeng World Heritage Trading Entity				
8	Emoyeni Conference Trading Entity	X		X	
9	Gauteng Economic Development Agency				
10	Gauteng Enterprise Propeller				
11	Gauteng Film Commission				X
12	Gauteng Fund Project Office				
13	Gauteng Gambling Board				



**ANNEXURE 4: Listing of audit findings raised on common IT focus areas**

Number	Auditee	Focus areas			
		IT governance	Security management	User access control	Information technology service continuity
14	Gauteng Housing Fund	X		X	
15	Gauteng Liquor Board				
16	Gauteng Medical Supplies Depot				
17	Gauteng Motorsport Company (Pty) Ltd				
18	Gauteng Partnership Fund				
19	Gauteng Tourism Authority		X		X
20	Gautrain Management Agency				
21	g-Fleet Management	X	X	X	X
22	Greater Newtown Development Company		X		
23	Impophoma Infrastructure Support Entity	X		X	
24	Kopanong Precinct	X		X	
25	Supplier Park Development Co				
26	The Innovation Hub				
27	Urban Transport Fund				







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