



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



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



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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.



A U D I T O R - G E N E R A L
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SECTION 1: FOREWORD

It is with great pleasure that I present the 2009-10 general report to the KwaZulu-Natal Provincial Legislature, summarising the audit outcomes of the provincial departments, including the provincial legislature and provincial revenue fund; provincial public entities; and the 11 schedule 3 public entities that were not audited by the Auditor-General of South Africa (AGSA), for the financial year ended 31 March 2010.

It is pleasing to note the province's continued improvement year on year, which can be attributed to the commitment of its leadership. The outcomes of departments and public entities can be summarised as follows:

- Three departments and three public entities received unqualified auditor's reports with no findings on predetermined objectives or compliance with laws and regulations, as a result of regular direct monitoring of key financial transactions and compliance by the operational leadership.
- No disclaimed or adverse audit opinions were expressed in this financial year. The entity that received a disclaimer of audit opinion for 2008-09, namely the KwaZulu-Natal Taxi Council, ceased operation. The Traditional Levies and Trust Account moved from an adverse audit opinion for 2008-09 to a qualification, largely due to the AGSA's early intervention and good communication as well as management's willingness to address deficiencies in controls.
- Nine departments and 10 public entities received unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations, largely due to inadequate oversight by leadership and monitoring by internal audit and audit committees as well as a lack of documentation and systems to report reliably and usefully on predetermined objectives.
- Four departments and five public entities received financially qualified audit opinions, as there was inadequate direct monitoring by the leadership and a lack of basic accounting controls over movable and immovable assets. The completeness of revenue as a result of inadequate control systems also resulted in the financial qualification of some public entities.

Four departments and six public entities recorded improvements in their audit outcomes, which is attributable to leadership involvement to resolve previous scope limitations and a strong desire to achieve a positive outcome by ensuring the implementation of action plans to address prior year findings and active involvement of internal audit in the financial reporting process. However, the regressions recorded by two departments were due to a lack of management oversight of the day-to-day transactions and information processing as well as proper control not being exercised over movable assets.

The current provincial leadership, championed by the premier, is building on these successes and has committed to taking ownership of these outcomes through the following interventions:

- Taking actions regarding non-compliance with supply chain management (SCM) regulations and analysing deviations or exceptions from policies. SCM inflated prices are also to be followed up.
- Taking actions regarding allegations of fraud and corruption.
- Setting up a task team on asset management to oversee progress by way of quarterly reports.
- Regarding human resource (HR) management, the premier committed to filling vacancies in senior management as well as abolishing posts that have been vacant for more than two years.
- Setting up a province-wide performance management system producing information that is relevant and reliable.

The 13 departments and 15 public entities that did not attain clean administration as evidenced by their audit outcomes need to take action relating to the findings on asset management in certain departments, predetermined objectives, compliance with laws and regulations, SCM requirements and particularly transversal material misstatements in the financial statements submitted for audit purposes. HR management, especially the filling of vacancies at senior management level and in finance units, is another area that requires the focused attention of the leadership.

The attainment of financially unqualified auditor's reports with no findings on predetermined objectives or 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 KwaZulu-Natal offered his and his leadership teams' full cooperation to the Auditor-General (AG) in support of sustainable clean administration. They have noted the findings on the reporting on predetermined objectives and current challenges relating to systems of control and reporting, budgets aligned with service delivery requirements as well as ongoing oversight of the entire process. They have committed to paying particular attention to the challenges relating to weaknesses in controls around information technology (IT) systems, which all departments need to address. The premier also acknowledged that greater executive oversight is required to ensure that audit outcomes do not hold any surprises when released.

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 the provincial legislature in its committed efforts to work towards achieving clean administrations. We will continue with our quarterly engagement with the provincial leadership with a view to providing timely insights that are aimed at improving the internal control environment.

In conclusion, I wish to thank the audit teams from my office and the audit firms that assisted in KwaZulu-Natal for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the province.

Auditor-General

Auditor-General
Pretoria
December 2010

SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of provincial government for the 2009-10 financial year as well as recommendations to those charged with governance and oversight on achieving financially unqualified audit outcomes and eradicating findings on the reporting on predetermined objectives and compliance with laws and regulations. An overview of these audit outcomes was presented to the provincial legislature during 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 that 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 (detailed report section 3.1 - 3.5)

The financial statements of all 16 (2009: 16) provincial departments, including the legislature, and 18 out of 23 public entities were submitted and, with the exception of two, all audits were completed within the legislated time frame of two months from receipt of the financial statements on 31 July 2010. The leadership and management of these departments and public entities and the auditors are commended for meeting the legislated deadlines.

The audits of the revenue fund and five public entities had not been finalised at 31 August 2010.

It should be noted that the comparatives (2008-09) have been restated to include audits that had been finalised since the previous general report.

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)		Public entities (including constitutional institutions and trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	0	0	0	1
Adverse	0	0	0	1
Qualified	4	4	5	9
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	12	10	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	3	1	3	4
Total number of audits reported on	16	17	18	24

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including constitutional institutions and trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Number of audits not finalised at the legislated date for submission to the executive authority – 31 August 2010	1	0	5	0
Total number of audits	17	17	23*	24
Entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	7	6	14	15
Compliance with laws and regulations	13	11	9	7

* The KwaZulu-Natal Taxi Council closed during 2008-09.

It is pleasing to note that KwaZulu-Natal's outcomes have improved to a position where it attracted no disclaimed or adverse opinions for the 2009-10 financial year.

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

- Three departments were financially unqualified with no findings on predetermined objectives or compliance with laws and regulations, namely Arts and Culture, Community Safety and Liaison and KwaZulu-Natal Provincial Treasury.
- The financial statements of Public Works and Social Development were qualified for the third successive year.
- Three public entities achieved the ultimate audit outcome of financially unqualified with no findings on predetermined objectives or compliance with laws and regulations, namely KwaZulu-Natal Provincial Pharmaceutical Supply Depot, KwaZulu-Natal Planning and Development Commission and KwaZulu-Natal Tourism Authority.
- The adverse audit opinion of the Traditional Levies and Trust Account in the previous year improved to a qualified opinion.
- The KwaZulu-Natal Taxi Council, which received a disclaimer of audit opinion for 2008-09, has closed down.
- Five public entities have now been qualified for three or more successive years, namely Amafa aKwaZulu-Natali, KwaZulu-Natal Housing Fund, KwaZulu-Natal Nature Conservation Board, Traditional Levies and Trust Account and uMsekeli Municipal Support Services.

Common issues that form the basis for the auditor's qualified opinion on the financial statements (detailed report section 3.1.3)

The financial statement qualification areas at more than 40% of the departments and public entities audited are as follows:



Capital assets: Departments and public entities

Four departments and five public entities were qualified in the area of movable and immovable assets (2008-09: four departments and seven public entities).

Revenue: Public entities

Four out of five public entities were qualified on revenue (2008-09: four out of 11).

Other common qualification areas included the following:

- Non-disclosure of irregular expenditure (one department)
- Inadequate systems to account for receivables (two public entities) and payables (one public entity)
- Unreliable financial reporting (one public entity), as the financial statements did not fully comply with the requirements of the National Treasury and the Generally Recognised Accounting Practice (GRAP) financial reporting framework

Funding of operations, financial sustainability and going concern (detailed report section 3.1.4)

Concerns were identified at Ithala Limited, KwaZulu-Natal Nature Conservation Board, uMsekeli Municipal Support Services, KwaZulu-Natal Planning and Development Commission and KwaZulu-Natal Agricultural Development Trust.

Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year (detailed report section 3.1.5 to 3.1.8)

Unauthorised expenditure – R2,6 billion (2008-09: R4,8 billion)

- Four of the 34 departments and public entities audited (2008-09: 10 out of 39) incurred unauthorised expenditure (Education, Health, KwaZulu-Natal Provincial Treasury and Social Development).
- Unauthorised expenditure incurred by the departments would possibly have increased by a further 5% had the accruals at year-end (R131,3 million) been paid in time.

Irregular expenditure – R889,3 million (2008-09: R2 billion)

- Irregular expenditure was incurred by nine departments (R862,9 million) and five public entities (R26,4 million), as proper SCM processes were not followed. The corresponding figures for 2008-09 were eight departments (R2 billion) and one public entity (R3,2 million).
- Ninety-one per cent of the irregular expenditure (R805,4 million) 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 – R1,6 million (2008-09: R3,8 million)

- Two departments (R1,5 million) (2008-09: one department (R620 000)) and one public entity (R18 780) (2008-09: three public entities (R1,1 million)) incurred fruitless and wasteful expenditure, due to matters that included the late cancellation of a conference, an asset that was purchased but not received, and the late payment of invoices.

Material losses, material impairment of assets and material underspending of the vote or conditional grant (detailed report section 3.1.9)

Material losses through impairment

- Material losses to the amount of R6,1 million were incurred at the Department of Health as a result of a write-down of irrecoverable patient fees.
- At the Ithala Development Finance Corporation Limited group, loans and advances in respect of prior years amounting to R332 million (corporation: R312 million) were written off. At Ithala Limited, loans and advances to the amount of R19,6 million were written off during the financial year.

Material underspending of budgets

- Agriculture, Environmental Affairs and Rural Development materially underspent its budget on programme 2 (agricultural development services) by an amount of R29,3 million.
- Health underspent on the hospital revitalisation grant by R224 million.
- Human Settlements materially underspent its budget on programme 2 (housing needs, research and planning) by an amount of R5,6 million and programme 3 (housing development implementation) by an amount of R92,9 million.
- Community Safety and Liaison materially underspent its budget by R2,4 million.
- Arts and Culture materially underspent the budget on programme 3 (library and archive services) by an amount of R4,1 million.

Material misstatements corrected during the audit (detailed report section 3.1.10)

The financial statements submitted for auditing were subject to material corrections during the audit as follows:

- Ten departments (including departments that also had findings in 2008-09)
- Thirteen public entities (of which all except one had findings in 2008-09)

Of the material misstatements corrected at the departments and public entities, 51% related to misclassification and 49% to 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 throughout the year. Furthermore, had the audit committees adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA.

Findings on predetermined objectives (detailed report section 3.2)

Findings arising from the audit of predetermined objectives of departments increased from 35% in the prior year to 44% in the current year. At public entities, findings were raised in 14 of the 17 audits completed, compared to 15 of the 24 audits completed during 2008-09.

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

Category of finding	Departments (including legislature)		Public entities (including constitutional institutions and trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	19%	31%	71%	50%
Information on performance against predetermined objectives not useful	19%	13%	35%	17%
Information on performance against predetermined objectives not reliable	25%	19%	12%	0%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0	0	6%	4%
Total number of audits with findings	7	6	14	15

The percentages in table 2 relate to those departments and public entities that had findings arising from the audit of information on performance against predetermined objectives, 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 had been issued.

Non-compliance with regulatory requirements

Findings related mainly to a lack of reporting on information on performance against predetermined objectives; a 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. Three of the 16 departments and 12 of the 17 public entities had a finding on non-compliance with sections of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) relating to performance information.

Usefulness of information on performance against predetermined objectives

Usefulness of information refers to the reported information being consistent with the institution's objectives and targets, which should be clearly linked to its mandate and objectives, be specific, 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 three of the 16 departments and six of the 17 public entities was not useful.

Reported information on performance against predetermined objectives not reliable

Reported information on performance against predetermined objectives is not reliable if insufficient appropriate evidence is available in relation to the reported information and an inappropriate system to generate the information exists, with the evidence provided not supporting the reported information and not being accurate and complete. In the case of four of the 16 departments and two of the 17 public entities, the reported information on performance against predetermined objectives was not reliable.

Information on performance against predetermined objectives not submitted for auditing

Information on performance against predetermined objectives in respect of one public entity was not received in time for review purposes.

Findings on compliance with laws and regulations that do not impact on the financial statements (detailed report section 3.3)

Some of the compliance matters identified at departments and entities related to entering into transactions prohibited by legislation or failure by accounting officers, chief financial officers (CFOs) and other officials to meet their legislated responsibilities, resulting in unauthorised, irregular as well as fruitless and wasteful expenditure, as highlighted in the auditor's reports of departments and public entities.

In total, 13 of the 16 departments and nine of the 18 public entities had findings on non-compliance with laws and regulations.

For public entities, the number of findings more than doubled compared to the previous year.

The highest incidence of compliance findings was as follows:

Departments

- Five out of 16 had findings relating to payments not being made within 30 days from receipt of invoices.
- At five departments proper procurement procedures were not followed, while nine out of 16 departments did not comply with SCM policies and procedures.
- Three had findings relating to general, fiduciary and reporting responsibilities not being fulfilled.

Public entities

- Five public entities did not comply with SCM policies and procedures.
- Four out of 18 public entities did not comply with specific or enabling legislation governing their mandate and operational activities.
- Four did not have audit committees and three did not have internal audit units.
- SCM policies or procedures did not exist or were not consistent with legislation at three public entities, while at five they were not applied.

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

Significant findings from audits of information technology systems (detailed report section 3.4)

Audits of IT general controls were performed at 15 of the 16 departments and two public entities. The Royal Household was excluded as it relies on the systems of the Office of the Premier for data processing, which were included in the audits. Departments rely heavily on computerised information systems, chiefly the Basic Accounting System (BAS), the Personnel Administration System (Persal) and the Logistical Information System (Logis), to perform their statutory financial management, reporting and administrative functions.

Significant weaknesses identified in the management of information systems related to the following areas:

- User access controls through which departments 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. Fifteen departments and two public entities had findings relating to user access control.
- Security management, which involves controls that prevent unauthorised access to the application system that generates and prepares financial statements. At 14 departments and two public entities weaknesses regarding security management were identified.
- IT service continuity through which departments ensure the availability of financial and performance information in instances of data loss or a disaster: Thirteen of the departments and two public entities had findings relating to IT service continuity.
- IT governance relates to the structures, policies and processes through which auditees ensure that IT sections support and are in line with business requirements. At 15 departments and two public entities weaknesses regarding IT governance were identified.

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

• Overview of actions taken or to be taken to address audit outcomes

Drivers of audit outcomes (detailed report section 4.1 - 4.4)

The following drivers under leadership, financial and performance management as well as governance were measured and assessed for progress since the previous year, while areas for improvement were noted:

Leadership

- Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top to create an environment conducive to sound financial management and improved service delivery.
- Reviewing and monitoring action plans to address all areas causing qualifications of the financial statement opinion.
- Establishing an effective organisational structure that places people with appropriate skills in appropriate positions, especially in the SCM environment, to ensure compliance with applicable laws and regulations.

- Leadership's implementation of action plans to address user access control deficiencies.

Financial and performance management

- Ensuring that the asset register reflects the assets owned and that this is agreed to the financial records and financial statements, and that suspense accounts are reconciled and cleared on a monthly basis.
- Implementing documented policies and procedures to guide the operations of the departments and public entities and to ensure compliance.
- Producing accurate financial statements and performance information and continuously monitoring the quality thereof.
- Ensuring that performance information is supported by relevant and reliable information.
- Institutionalising sound financial management systems for recording transactions and documentation control procedures.
- Focusing on application systems susceptible to compromised data integrity.

Governance

- Maintaining effective internal audit units, audit committees as well as audit risk management strategies, including fraud prevention plans.
- Monitoring and evaluating risk in IT systems, including the implementation of action plans to address audit outcomes.
- Addressing the lack of an IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management.

Actions taken or to be taken to address matters previously reported (detailed report section 4.2)

Progress on undertakings given by the executive authority and the provincial treasury

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

These action plans included the implementation of controls relating to expenditure and safeguarding of assets; reconciliation of discrepancies between the asset register and financial statements; suspense accounts being reconciled and cleared on a monthly basis; performance against predetermined objectives being reported consistently with preset key performance measures and targets; and the auditing of performance reporting by internal audit.

Three departments (Agriculture, Environmental Affairs and Rural Development, Health and Public Works) and three public entities (KwaZulu-Natal Housing Fund, KwaZulu-Natal Nature Conservation Board and Traditional Levies and Trust Account) did not take adequate action to clear audit findings relating to asset management.

The provincial treasury provided support, which included implementing a financial management improvement programme, training, standardising audit working paper files and monitoring the implementation of action plans to address audit findings. Specifically relating to the Royal Household, the provincial treasury included the review and oversight of the compilation and submission of annual financial statements. In addition, the provincial treasury performed a support function in developing and implementing a financial management improvement programme for all other departments to help with preparations, pre-review and timely submission of the annual financial statements to the AGSA and reporting to the member of the executive council (MEC) for Finance on the financial management of departments. At year-end, 44 resolutions out of a total of 68 passed by the Provincial Public Accounts Committee (PPAC) had been resolved and 24 were in progress.

Commitments arising from the AG's October/November 2010 roadshows

The collective leadership under the direction of the provincial cabinet, in conjunction with the provincial treasury, again committed to the initiatives of monitoring audit turnaround action plans drawn up by departments, providing technical support, compiling manuals on financial functions, providing training and reporting regularly to the MEC for Finance on financial management within departments.

The premier offered his full cooperation to the AG in support of sustainable clean administration and noted the AG's comments on the audit of performance reporting and current challenges relating to systems of control and reporting, budgets aligned with service delivery requirements, and ongoing oversight of the entire process. The premier committed to the following:

- Take action with regard to non-compliance with SCM regulations, analyse SCM policy deviations and follow up on the matter of inflated prices.
- Take action regarding allegations of fraud and corruption.
- Set up a task team on asset management to oversee progress by way of quarterly reports.
- With regard to HR, fill senior management vacancies and scrap posts that have been vacant for more than two years.
- Set up a province-wide performance management system.
- Monitor service delivery, budgets and expenditure in terms of the budget, and spending of capital budgets.
- Implore MECs to put pressure on the administration to provide relevant and reliable information.

The premier acknowledged that greater cabinet oversight is required to ensure that audit outcomes do not hold any surprises when released. The premier further committed his leadership team to work together with the AGSA towards achieving a clean administration.

Initiatives by the AGSA to encourage clean administration (detailed report section 4.3)

In support of an ultimate audit outcome of financially unqualified audit opinions with no reported findings on predetermined objectives or compliance with laws and regulations, the AGSA's leadership in the province embarked on an intensified programme to enhance their visibility with the objective of improving the effectiveness of the audit process and to engage with all role players that could influence clean administration. To this end, they regularly visited the audit teams during the audits and met with those charged with governance. The engagements focused on simplicity, clarity and relevance of the message to gain an understanding, secure buy-in and seek commitment on what needed to be done to achieve clean administration.

The AGSA presented a summary of the main issues concerning financial reports that required those charged with governance to continuously oversee and monitor internal controls for the departments that attained a financially unqualified audit opinion with no findings on predetermined objectives or non-compliance, so that they are able to sustain this position.

Furthermore, the AGSA engaged with the KwaZulu-Natal centralised audit committee to discuss matters raised in the draft auditor's reports prior to the auditor's reports of all departments being signed off.

Matters that may potentially impact the auditor's report in the coming year (detailed report section 4.4)

The Government Immovable Asset Management Act of South Africa, 2007 (Act No. 19 of 2007) (GIAMA), which came into effect on 1 April 2010, applies to any custodian or user that is a provincial department. The impact of not fulfilling the requirements would be that the financial statements of departments could be qualified for incorrectly recognising immovable assets in their financial statements.

• Overview of specific focus areas of the AGSA (detailed report section 5.1 - 5.2)

Significant findings from audits of human resource management and compensation of employees (departments only) (detailed report section 5.1)

The regularity audits of departments included an assessment of their compliance with legislation that supports effective HR management and controls over compensation of employees.

The audits revealed that 14 departments did not comply with all the requirements for an effective HR management system. These weaknesses had an impact on the departments' financial management as well as their ability to deliver services in accordance with their mandates. Weaknesses were identified in the following areas:

- HR planning and organisation
- Job evaluation
- Management of vacancies
- Appointment process

- Acting positions
- Budget control
- Senior management performance agreements
- Suspensions

In general, the audits revealed that compensation of employees is not an area of high risk. However, the weaknesses in the controls over compensation identified at 12 departments in the following areas are of concern:

- Sick and incapacity leave
- Leave administration
- Performance bonuses
- Management of overtime
- Service terminations
- Payroll controls

Conclusion

While the vacancies in the departments have not directly resulted in unfavourable opinions, the poor management of HR still remains a general risk. The policies and control processes need to be monitored by those charged with governance to ensure that the departments achieve their mandates effectively and efficiently.

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

The regularity audits included an assessment of the auditees' procurement processes and contract management as well as 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 applicable legislation.

Non-compliance with applicable legislation resulted in irregular expenditure incurred in the year under review, details of which have been included in section 3.1.7 of this report.

The audits revealed that employees or their close family members had interests in the businesses that supplied goods or services to the auditees. Legislation applicable to the disclosure of such interest was not always complied with. In addition, the findings listed in the report entitled *Performance audit of entities that are connected with government employees and doing business with departments* tabled on 22 October 2009 had not been investigated and appropriately dealt with by all departments concerned.

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

- Three quotations were not always invited for procurement up to a value of R500 000 (four departments).

- Deviations from the competitive bidding process were not justified (four departments).
- Deviations from competitive bidding took place without approval (four departments).
- Competitive bidding processes were not always followed for procurement above R500 000 (three departments).
- The preference point system was not always applied (two departments).
- Contract amendments, extensions or renewals resulted in the circumvention of competitive bidding (two departments).

Weaknesses in the management of contracts were identified at three departments. The most significant finding related to contracts that were amended, extended or renewed without approval or to circumvent the competitive bidding process.

The root cause of the weaknesses identified related to controls not being implemented to prevent and detect non-compliance and failures. Lack of assessments to address procurement and contract management risks was identified as the most prevalent control deficiency in departments.

Conclusion

The findings pertaining to non-compliance with SCM related mainly to the lack of oversight by those charged with governance. The use of emergency procedures for procurement as an easy way for departments and public entities to circumvent normal SCM processes needs to be evaluated very carefully by the leadership, internal audit and audit committees.

Investigations and performance audits

Details of investigations and performance audits are contained in section 3.5 of this report.

Investigations (detailed report section 3.5.1)

Investigations were completed at three departments and one public entity during the year under review and investigations were in progress at all 15 departments, the provincial legislature and at four public entities.

Infrastructure performance audit (detailed report section 3.5.2)

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 KwaZulu-Natal 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.
- 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 consolidations and tabling of annual reports (detailed report sections 6 and 7)**

Consolidation of financial statements of departments and public entities (detailed report section 6) and status of tabling of annual reports (detailed report section 7)

The consolidated financial statements of the public entities for the 2009-10 financial year were received for auditing on 19 August 2010 and it was expected that the audit would be completed by 19 October 2010.

The consolidated financial statements of the departments for the 2009-10 financial year had not been received by 31 August 2010. 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.

2.2 Part B: Audits not conducted by the AGSA

- **Overview of audit outcomes (detailed report section 8.1 - 8.5)**

Table 3: Summary of audit outcomes of audits not conducted by the AGSA

Type of audit opinion	Schedule 3 and other public entities
Disclaimer	0
Adverse	0
Qualified	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	11
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0
Total number of audits reported on	11
Number of audits not finalised at the legislated date for submission to the executive authority – 31 August 2010	0
Total number of audits	11
Findings arising from the AGSA's other legal reporting responsibilities	
Predetermined objectives	11
Compliance with laws and regulations	11

Eleven schedule 3 entities were not audited by the AGSA.

All 11 schedule 3 entities received an audit opinion that was financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. The internal control findings related to non-compliance with the PFMA and the Companies Act of South Africa, 1973 (Act No. 61 of 1973) (Companies Act of SA).

Status of completion of audits (detailed report section 8.1.1)

All audits were completed within the legislated time frame of two months from receipt of the financial statements for auditing.

Funding of operations, financial sustainability and going concern (detailed report section 8.1.3)

Richards Bay IDZ (Pty) Ltd incurred a net loss of R7,6 million during the year ended 31 March 2010 and its current liabilities exceeded its total assets by R2,9 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year (detailed report section 8.1.4)

Moses Kotane Institute incurred irregular expenditure of R3,5 million during the period 1 January 2009 to 31 March 2010 (period of financial statements), as a result of payments against pro forma invoices for services, contrary to the SCM framework of the PFMA, i.e. Treasury Regulation (TR) 16A. However, this expenditure was condoned by the audit committee.

No unauthorised or fruitless and wasteful expenditure was incurred during the year under review.

Material impairment of assets and underspending of the vote or conditional grant (detailed report section 8.1.5)

No instances of material losses, material impairment of assets or material underspending of the vote or conditional grants came to light during the audits.

Findings on predetermined objectives (detailed report section 8.2)

Table 4: Summary of findings arising from the audit of predetermined objectives

Category of finding	Schedule 3 public entities
Non-compliance with regulatory requirements	100%
Reported information not useful	0%
Reported information not reliable	0%
Information not submitted for auditing by 31 May 2010	100%
Total number of audits with findings	11

None of the schedule 3 public entities in KwaZulu-Natal submitted information on their performance against predetermined objectives to the auditors for auditing, as required by section 55(2)(a) of the PFMA. As a result of this scope limitation on the audit of predetermined objectives, a finding of non-compliance with laws and regulations was elevated to the auditor's report of these entities.

Findings on compliance with laws and regulations that do not impact on the financial statements (detailed report section 8.3)

Legislation most frequently contravened was the following:

- All the schedule 3 entities failed to submit information on performance against predetermined objectives.
- Three of the schedule 3 public entities failed to hold an annual general meeting within nine months of the end of the financial year to, amongst other things, approve the annual financial statements.
- Two of the schedule 3 public entities failed to comply with section 173 of the Companies Act of SA by not lodging annual returns with the Companies and Intellectual Property Registration Office (CIPRO).

Drivers of audit outcomes (detailed report section 8.4)

Leadership

There was a lack of oversight to ensure that schedule 3 public entities complied with all applicable laws and legislation. For example, annual reports were not tabled for the 2008-09 financial year, with no reporting on performance against predetermined objectives at any of the schedule 3 public entities.

Actions to mitigate risks were not taken at Cowslip Investment (Pty) Ltd, Durban Wharfside Trust, Nongoma Plaza Ltd, Richards Bay IDZ (Pty) Ltd, Sundumbili Plaza Ltd and Ubuciko Twines and Fabric (Pty) Ltd.

Financial and performance management

All the schedule 3 public entities lacked adequate systems to ensure reporting on performance objectives.

Governance

There was a lack of governance at all schedule 3 public entities, except Richards Bay IDZ (Pty) Ltd, as they did not have effective audit committees. Furthermore, there was a lack of oversight by the audit committees and internal audit over matters pertaining to non-compliance with the Companies Act of SA.

Concluding comments

Overall, the results of the province represent a positive outcome, given the absence of adverse or disclaimed audit opinions at the departments and public entities reported on.

However, attention should be paid to areas affecting compliance with laws and regulations and reporting on performance against predetermined objectives. To this end, the province has some distance to go before realising the ultimate audit outcome of clean administration at all the departments and public 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 public entities. The table also reflects the status of completion of the 2009-10 audits as at 31 August 2010.

Table 5: Summary of audit outcomes

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including constitutional institutions and trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	0	0	0	1
Adverse	0	0	0	1
Qualified	4	4	5	9
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	9	12	10	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	3	1	3	4
Total number of audits reported on	16	17	18	24
Number of audits not finalised at the legislated date for submission to the executive authority – 31 August 2010	1	0	5	0
Total number of audits	17	17	23*	24
Entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	7	6	14	15
Compliance with laws and regulations	13	11	9	7

*The KwaZulu-Natal Taxi Council closed during 2008-09.

Take note that the comparatives (2008-09) have been restated to include audits finalised since the previous general report had been prepared and issued.

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

3.1.1 Movements in audit outcomes

Table 6: Movements in audit outcomes

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	10	4	2	0	16
Public entities	12	6	0	0	18
Total number of audits reported on	22	10	2	0	34



It is pleasing to note that KwaZulu-Natal has improved to a position where it has attracted no disclaimed or adverse opinions for the 2009-10 financial year.

Departments

Three of the four departments (Health, Social Development and Public Works) that were qualified in 2008-09 were again qualified in 2009-10.

Agriculture, Environmental Affairs and Rural Development regressed to a qualified audit opinion.

Nine departments (Cooperative Governance and Traditional Affairs, Economic Development and Tourism, Education, Human Settlements, Transport, Office of the Premier, KwaZulu-Natal Provincial Legislature, Sport and Recreation and Royal Household) were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Arts and Culture, Community Safety and Liaison and the KwaZulu-Natal Provincial Treasury were financially unqualified with no findings on predetermined objectives or compliance with laws and regulations. This is an improvement from 2008-09 when only one department was able to achieve this.

Improvements (four)

Arts and Culture, Community Safety and Liaison and the KwaZulu-Natal 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 or compliance with laws and regulations. The Royal Household improved from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Unchanged (10)

Economic Development and Tourism, Education, Human Settlements, Cooperative Governance and Traditional Affairs, Office of the Premier, KwaZulu-Natal Provincial Legislature and Transport were again financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, while Health, Social Development and Public Works remained qualified.

Regressions (two)

Agriculture, Environmental Affairs and Rural Development regressed from an unqualified opinion with findings on predetermined objectives and/or compliance with laws and regulations to a qualified opinion, while Sport and Recreation regressed from financially unqualified with no findings on predetermined objectives or compliance with laws and regulations to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Public entities

The overall audit outcomes of the public entities have improved. The qualified audit opinions decreased from nine last year to five this year.

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

- Dube TradePort
- KwaZulu-Natal Gambling Board
- Ithala Development Finance Corporation Limited
- Ithala Limited
- KwaZulu-Natal Agricultural Development Trust
- KwaZulu-Natal Sharks Board
- KwaZulu-Natal Growth Fund Managers (Pty) Ltd
- KwaZulu-Natal Represented Political Parties' Fund
- Trade and Investment KwaZulu-Natal
- Mjindi Farming (Pty) Ltd

The number of audit reports that was financially unqualified with no findings on predetermined objectives or compliance with laws and regulations improved from one in the previous year to three in the current year. The three public entities achieving this status are:

- KwaZulu-Natal Provincial Pharmaceutical Supply Depot
- KwaZulu-Natal Planning and Development Commission
- KwaZulu-Natal Tourism Authority

Improvements (six)

Traditional Levies and Trust Account improved from an adverse to a qualified audit opinion. Ithala Development Finance Corporation Limited, Ithala Limited and KwaZulu-Natal Represented Political Parties' Fund moved from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, while KwaZulu-Natal Planning and Development Commission and KwaZulu-Natal Tourism Authority moved 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 law and regulations.

Unchanged (12)

Dube TradePort, Trade and Investment KwaZulu-Natal, KwaZulu-Natal Agricultural Development Trust, KwaZulu-Natal Gambling Board, KwaZulu-Natal Growth Fund Managers (Pty) Ltd, KwaZulu-Natal Sharks Board and Mjindi Farming (Pty) Ltd were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. Amafa aKwaZulu-Natali, KwaZulu-Natal Housing Fund, KwaZulu-Natal Nature Conservation Board and uMsekeli Municipal Support Services remained qualified, while KwaZulu-

Natal Provincial Pharmaceutical Supply Depot was financially unqualified with no findings on predetermined objectives or compliance with laws and regulations.

The improvements in the outcomes can be attributed to the following:

- The Royal Household allowed the auditors access to the palaces to conduct a physical verification of the assets, with the result that the previous year's limitation was resolved.
- At the remainder of the auditees the following were contributing factors:
 - Leadership involvement from the top ensured that action plans were put in place to address prior year findings and that these were monitored regularly.
 - Timely responses to audit findings and management commitment to resolve these.
 - Availability and accessibility of key management and staff.
 - A strong desire by the leadership to achieve a positive outcome.
 - Involvement of internal audit in the financial reporting process.

The regressions are due to the following:

- Lack of management oversight over day-to-day transactions and processing of information.
- Lack of control over assets and the movement of assets, with the result that the good practices built up in previous financial years were not maintained but had regressed due to a change of leadership and a lack of staff commitment and discipline.
- Expanded scope of the audits in the areas of procurement, which resulted in additional findings being raised.
- During the year the National Treasury issued the sector-specific guide on immovable assets, which now requires departments to account for immovable assets vested with them.

Refer to annexure 1 for further details on the areas qualified at departments and public entities.

3.1.2 Status of completion of audits

Details of the audits outstanding are presented in the table below.

Table 7: Status of completion of audits

Reason	Departments (including legislature and provincial revenue fund)	Public entities (including constitutional institutions and trading and other types of entities)
Financial statements not yet received	1	1
Audit not yet completed due to late receipt of financial statements	0	4
Audit still in progress due to other reasons	0	0
Total number of audits not completed by 31 July 2010	1	5

Ninety-four per cent (32 out of 34) of the audits were completed within the legislated deadline of two months from receipt of the financial statements. Ithala Limited and Ithala Development Finance Corporation Limited (as the group) were signed off on 13 August 2010 and 17 August 2010, respectively, as a result of material subsequent events detected during the audit process which raised concerns. This was subsequently resolved with the involvement of external role players such as government as the shareholder and the South African Reserve Bank through its banking oversight function.

The following audits are excluded from the analysis in this general report:

Table 8: Audits outstanding or finalised late

Entity not reported on	Date on which annual financials were received	Reason not finalised	Expected signing date
Kwanaloga	Outstanding	Late completion (24 August 2010) of the audit of the 2008-09 financial year	Not known
Natal Joint Municipal Pension Fund (Provident)	26 August 2010	The entity experienced system problems in generating financial statements and the CFO was dismissed at the reporting date	26 October 2010
Natal Joint Municipal Pension Fund (Retirement)	3 August 2010	The entity experienced system problems in generating financial statements	3 October 2010
Natal Joint Municipal Pension Fund (Superannuation)	19 August 2010	The entity experienced system problems in generating financial statements and the CFO was dismissed at the reporting date	19 October 2010
KwaZulu-Natal Business Rehabilitation Trust Fund	10 August 2010	The entity was finalising prior year matters impacting on the disclosure of investments in the financial statements	30 September 2010
KwaZulu-Natal Provincial Revenue Fund	24 August 2010	A practical delay caused by the treasury waiting for the completion of the annual audits before consolidation	24 October 2010

Conclusion

While there has been a marginal improvement in the audit outcomes of departments and public entities since the previous year, the challenge remains to improve outcomes in the areas of immovable assets, revenue and non-compliance with legislation and predetermined objectives in order to achieve clean administrations. Moreover, the sustainability of those departments and public entities with clean administrations is a formidable task and is only possible provided that the good practices are institutionalised in the systems of the departments and public entities.

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

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

Figure 1a: Financial statement areas qualified: Departments

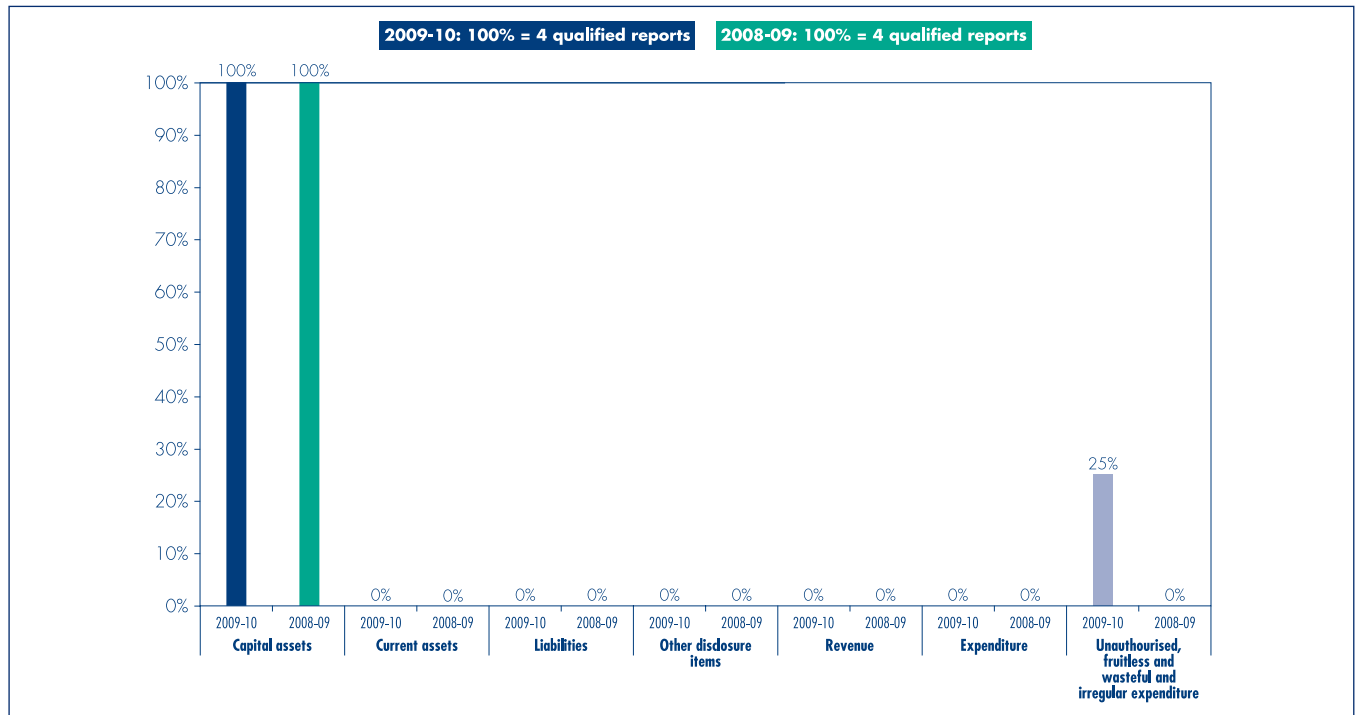
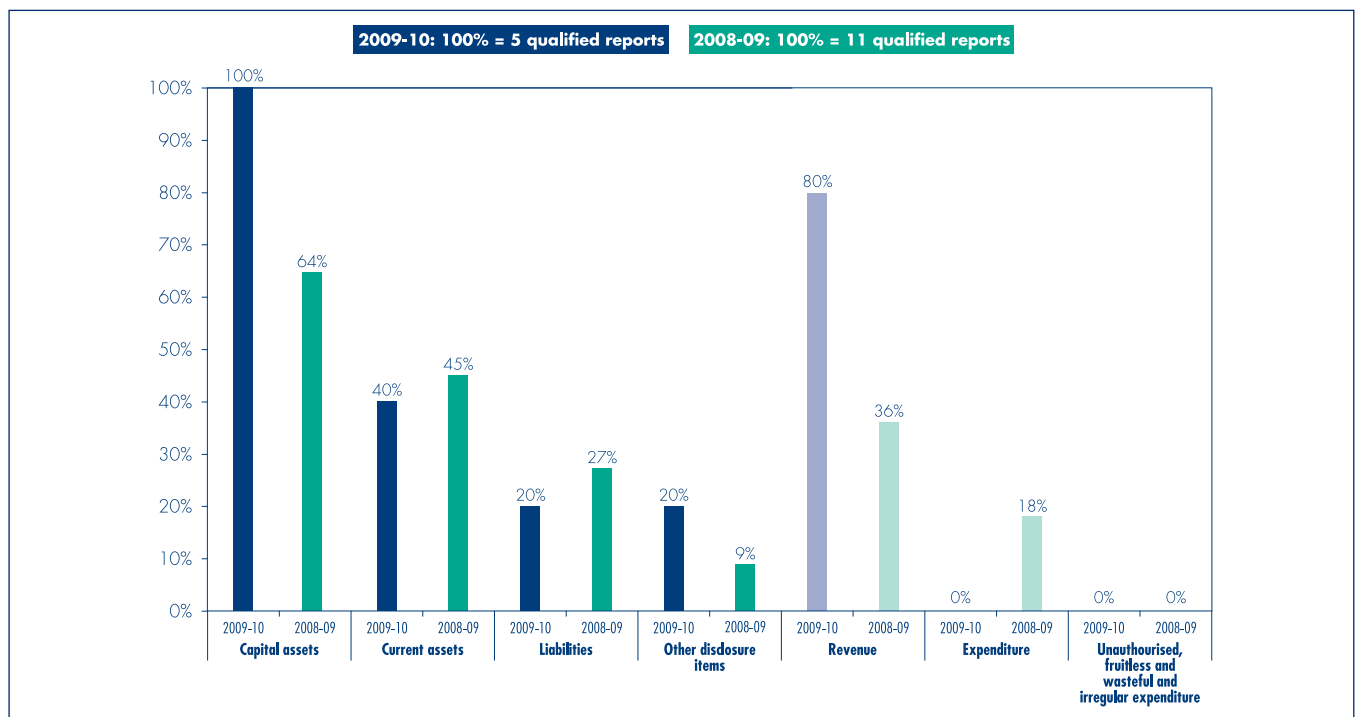


Figure 1b: Financial statement areas qualified: Public entities



Discussion on qualification areas

The root causes of financial statement qualification areas where findings were greater than 40%, calculated as a percentage of the total number of departments and public entities that received a qualification in that area, are as follows:

Capital assets: Departments and public entities

Four of the departments and five of the public entities were qualified in the area of movable and immovable assets (2008-09: four departments and seven public entities).

The qualifications resulted from immovable assets and related work in progress not being appropriately accounted for in terms of the requirements of the National Treasury's guidelines on assets for departments and GRAP 17 *Property, Plant and Equipment* for public entities, which specifically deal with the recognition and determination of the useful lives of assets and the impairment and depreciation thereof. Furthermore, the content and completeness of fixed asset registers were inadequate, leading to a limitation on the scope of the audit of capital assets.

The challenges stemmed from the following:

- The control environment was not conducive to ensuring reliable financial reporting, as the correct tone was not set at the top.
- Asset systems were not always adequate to provide sufficient details on the existence and valuation of assets.
- Departments have not entirely come to grips with the uncertainty and complexity of determining the rights to assets.
- The complexity of applying GRAP 17 *Impairment of Assets* in considering useful lives and depreciation was evident and the willingness by public entities to embrace the standard in its entirety resulted in disagreements with certain clients.

Revenue: Public entities

Four out of five public entities were qualified on revenue, namely Amafa aKwaZulu-Natali, KwaZulu-Natal Nature Conservation Board, Traditional Levies and Trust Account and uMsekeli Municipal Support Services. The qualifications stemmed from inadequate systems to account for all revenue from cash sources. This issue was also compounded by public entities not being in a position to account for all land and buildings under their control, and consequently for the revenue flowing from such land and buildings.

The challenges stemmed mainly from deficiencies in the control environments, control activities and risk assessment, and can be summarised as follows:

- Inadequate supervision by accounting officers and management throughout the year.
- Lack of ongoing monitoring of activities, such as reconciliations.

Other common qualification areas included the following:

- Non-disclosure of irregular expenditure (one department).
- Inadequate systems to account for receivables (two public entities) and payables (one public entity).
- Unreliable financial reporting (one public entity), as the financial statements did not fully comply with the requirements of the National Treasury and the GRAP financial reporting framework.

3.1.4 Funding of operations, financial sustainability and going concern

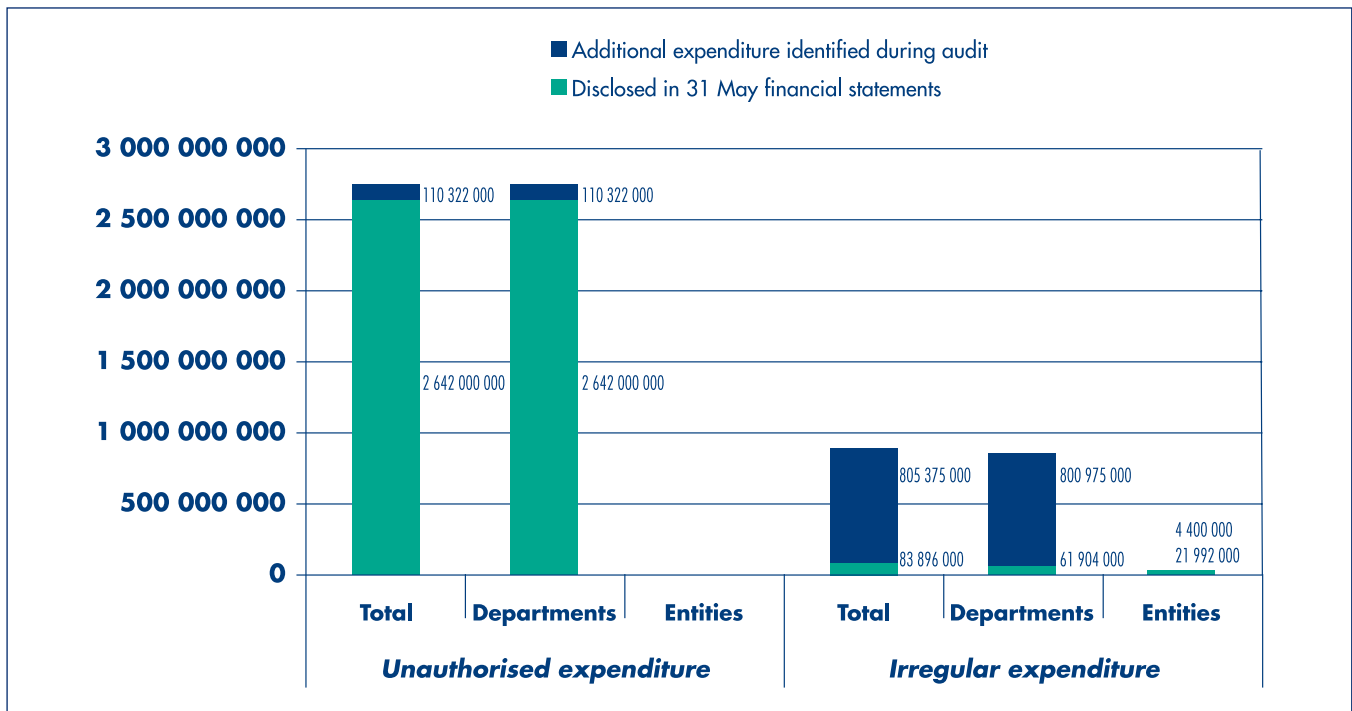
The table below depicts the public entities where concerns were raised relating to funding of operations, financial sustainability and going concern.

Table 9: Auditees with concerns related to funding of operations, financial sustainability and going concern

Auditee	Reason(s)
Ithala Limited	A net loss of R46,7 million
KwaZulu-Natal Nature Conservation Board	A net loss of R29,9 million and the entity's current liabilities exceeded its current assets by R17 million
uMsekeli Municipal Support Services	A net loss of R2 million during the year ended 31 March 2010 and the entity's current liabilities exceeded its total assets by R79,5 million

3.1.5 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year

Figure 2: Unauthorised and irregular expenditure



3.1.6 Unauthorised expenditure – R2,6 billion

Table 10: Nature and extent of 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	3	19%	2 539 495	1	6%	102 258
Total	3	19%	2 539 495	1	6%	102 258

Four of the 16 departments audited incurred unauthorised expenditure. Education, Health and Social Development overspent on the vote and the KwaZulu-Natal Provincial Treasury incurred interest on a bank overdraft as a result of the overall overspending by departments.

Unauthorised expenditure incurred by departments would have increased by a further 5% had the accruals at year-end (R131,3 million) been paid in time. Of the accruals amount disclosed, R110 million was as a result of misstatements identified during the audit process and subsequently corrected by the auditees (Education and Royal Household).

3.1.7 Irregular expenditure – R889,3 million

Table 11: Nature and extent of irregular expenditure

Type of auditee	Nature and extent of irregular expenditure								
	Related to SCM			Related to compensation of employees			Other		
	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	9	56%	862 879	0	0	0	0	0	0
Public entities	4	31%	25 825	0	0	0	0	0	0
Other entities (trading, etc.)	1	20%	567	0	0	0	0	0	0
Total	14	41%	889 271	0	0	0	0	0	0

The following is a breakdown of the 14 departments and public entities that incurred irregular expenditure due to proper SCM processes not having been followed:

- Nine departments (R862,9 million): Agriculture, Environmental Affairs and Rural Development, Cooperative Governance and Traditional Affairs, Economic Development and Tourism, Education, Health, KwaZulu-Natal Provincial Legislature, Public Works, Social Development and Sport and Recreation. Of this amount, R801 million was as a result of misstatements identified during the audit.
- Four public entities (R25,8 million): Ithala Development Finance Corporation Limited, Ithala Limited, KwaZulu-Natal Nature Conservation Board and uMsekeli Municipal Support Services. Of this amount, R4,4 million was as a result of misstatements identified during the audit.
- Trade and Investment KwaZulu-Natal incurred irregular expenditure of R567 000.

Ninety-one per cent of the irregular expenditure (R805,4 million) disclosed in the auditees' financial statements can be attributable to misstatements identified during the audit process and subsequently corrected by the auditees.

The root cause of the transgressions was that although SCM policies were in place, these policies were deliberately disregarded in some instances. Furthermore, the leadership did not adequately monitor and review non-compliance with SCM policies and emergency procurement as well as the reasons behind it.

3.1.8 Fruitless and wasteful expenditure – R1,6 million

Three of the 34 departments and public entities audited (two departments: Arts and Culture and Human Settlements – R1,5 million – and one public entity: Ithala Limited – R18 780) incurred fruitless and wasteful expenditure, due to the late cancellation of a conference, an asset that was purchased but not received, and the late payment of invoices.

3.1.9 Material impairment of assets and underspending of the vote or conditional grant

Table 12: Material losses, material impairment of assets and material underspending of the vote or conditional grant

Type of auditee	Extent of material losses, impairments and underspending											
	Material losses			Material impairment of assets			Material underspending of vote			Material underspending of conditional grant		
	Number	%	R'000	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	1	6%	6 088	0	0%	0	4	25%	137 231	1	6%	224 045
Public entities	2	17%	351 600	0	0%	0	0	0%	0	0	0	0
Total	3	9%	357 688	0	0 %	0	4	12%	137 213	1	3%	224 045

Material losses through impairment

Material losses to the amount of R6,1 million were incurred at the Department of Health as a result of a write-down of irrecoverable patient fees. Furthermore, the department underspent the hospital revitalisation grant by R224 million. The impact of this was that the planned and managed modernisation, rationalisation and transformation of infrastructure and health technology for the 2009-10 financial year were not fully realised.

Loans and advances to the Ithala Development Finance Corporation Limited group in prior years amounting to R332 million (corporation: R312 million) were written off. The net effect in the consolidated statement of comprehensive income for the 2009-10 financial year was R105 million (corporation: R73 million). At Ithala Limited, loans and advances to the amount of R19,6 million were written off during the financial year.

Material underspending of budgets

Agriculture, Environmental Affairs and Rural Development materially underspent the budget on programme 2 (agricultural development services) by an amount of R29,3 million. As a consequence, the department did not fully achieve its objective of service delivery in respect of agricultural development services and its related sub-programmes.

Community Safety and Liaison materially underspent its budget by R2,4 million.

Arts and Culture materially underspent the budget on programme 3 (library and archive services) by an amount of R4,1 million. As a consequence, the department did not achieve its objective of completing the Imbazwana Public Library. In addition, the underspending of R3 million was due to the department's contribution to the provincial finance recovery plan.

Human Settlements materially underspent its budget on programme 2 (housing needs, research and planning) by an amount of R5,6 million and on programme 3 (housing development implementation) by an amount of R92,9 million. The underspending on programme 2 can be attributed to delays in the implementation of capacity-building programmes, including training on housing programmes for Amakhosi and other traditional leaders, due to the implementation of cost-cutting measures throughout the province. The underspending on programme 3 can be attributed to the slow rate of spending on priority projects, as some are in the planning and packing stages at the eThekweni Municipality, while others have not been approved by the department. The department had applied for the rollover of funds totalling R77 million in accordance with TR 6.4.1(b) in respect of a housing development project that had been halted as a result of delays in planning and environmental assessments.

3.1.10 Transversal material misstatements corrected during the audit

Figure 3a: Transversal material misstatements corrected during the audit: Departments

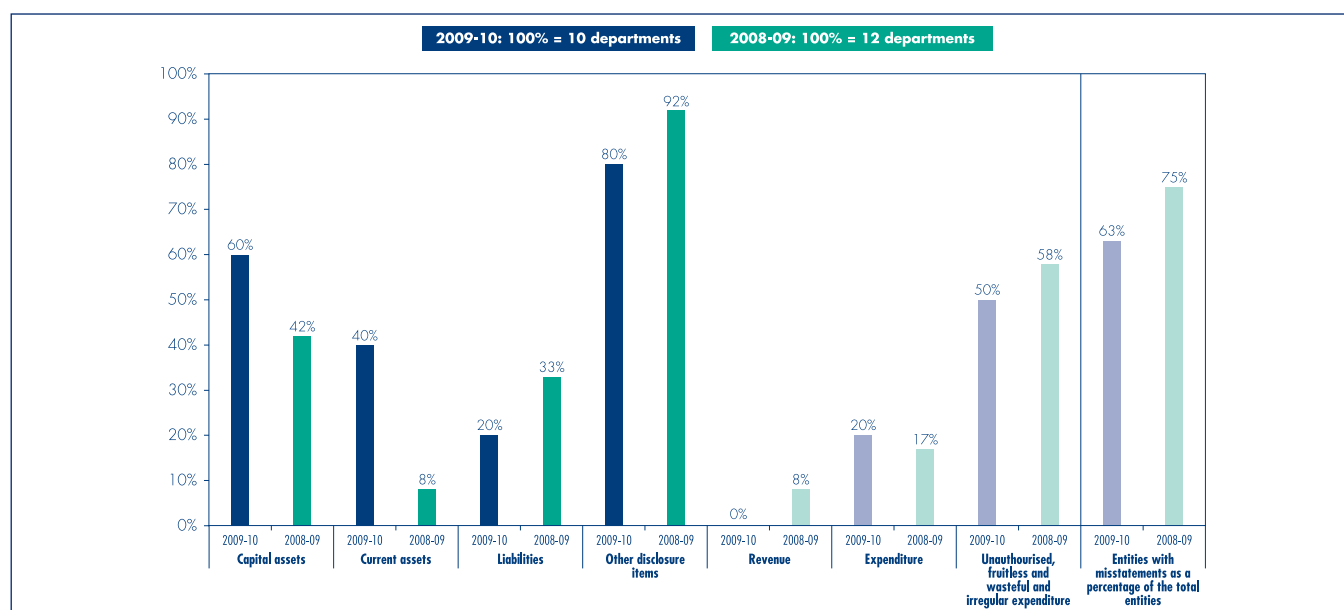
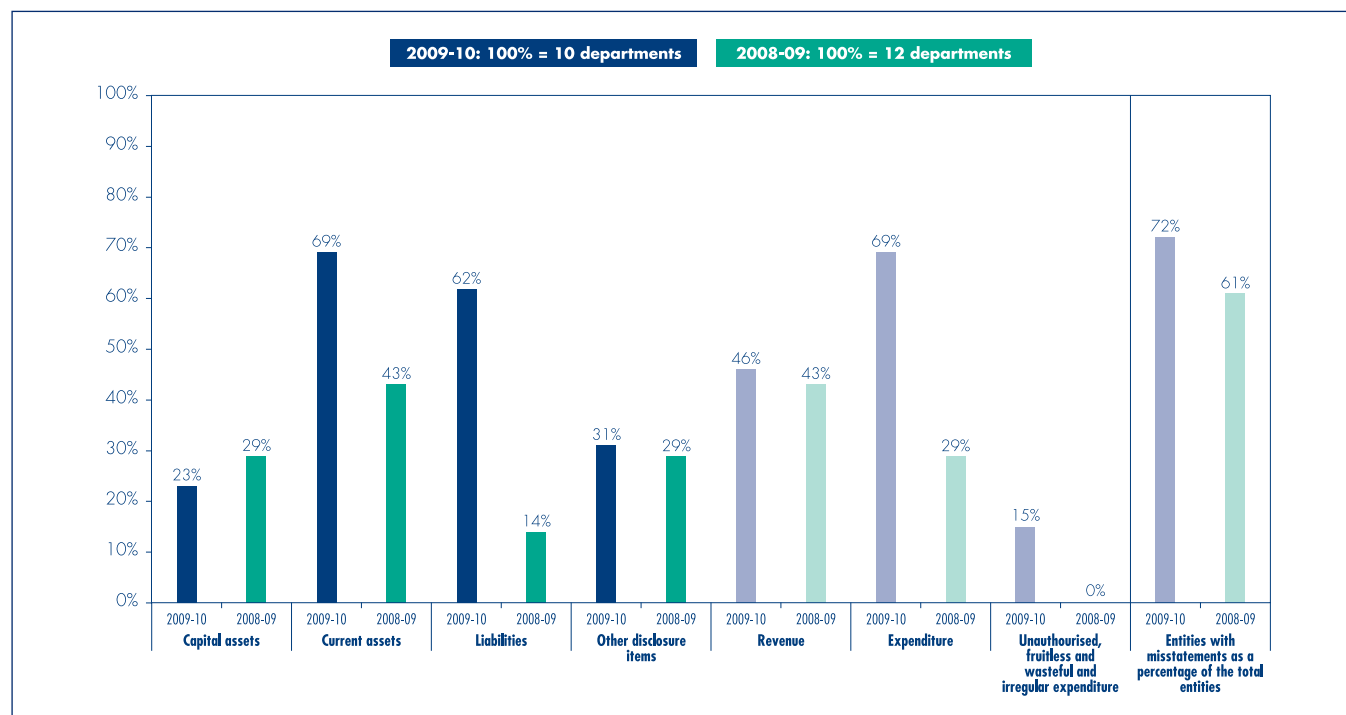


Figure 3b: Transversal material misstatements corrected during the audit: Public entities

Transversal material misstatements in financial statements

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

Capital assets (nine)

- Six departments (Health, Education, KwaZulu-Natal Provincial Legislature, Public Works, Sport and Recreation and Social Development) and three public entities (Amafa aKwaZulu-Natali, Dube TradePort and KwaZulu-Natal Nature Conservation Board)

Current assets (13)

- Four departments (Office of the Premier, Health, Human Settlements and Social Development) and nine public entities (Amafa aKwaZulu-Natali, Dube TradePort, Ithala Development Finance Corporation Limited, Ithala Limited, KwaZulu-Natal Gambling Board, KwaZulu-Natal Planning and Development Commission, KwaZulu-Natal Represented Political Parties' Fund, uMsekeli Municipal Support Services and KwaZulu-Natal Nature Conservation Board)

Liabilities (10)

- Two departments (Economic Development and Tourism and Social Development) and eight public entities (Dube TradePort, Ithala Development Finance Corporation Limited, Ithala Limited, KwaZulu-Natal Sharks Board, KwaZulu-Natal Represented Political Parties' Fund, Trade and Investment KwaZulu-Natal, uMsekeli Municipal Support Services and KwaZulu-Natal Nature Conservation Board)

Disclosure (12)

- Eight departments (Economic Development and Tourism, Education, Human Settlements, KwaZulu-Natal Provincial Legislature, Public Works, Social Development, Sport and Recreation and Royal Household) and four public entities (KwaZulu-Natal Planning and Development Commission, Dube TradePort, Ithala Limited and KwaZulu-Natal Nature Conservation Board)

Revenue (six)

- Six public entities (KwaZulu-Natal Nature Conservation Board, Amafa aKwaZulu-Natali, KwaZulu-Natal Gambling Board, KwaZulu-Natal Planning and Development Commission, KwaZulu-Natal Represented Political Parties' Fund and uMsekeli Municipal Support Services)

Expenditure (11)

- Two departments (Health and Social Development) and nine public entities (Amafa aKwaZulu-Natali, Dube TradePort, Ithala Development Finance Corporation Limited, Ithala Limited, KwaZulu-Natal Sharks Board, KwaZulu-Natal Represented Political Parties' Fund, KwaZulu-Natal Tourism Authority, uMsekeli Municipal Support Services and KwaZulu-Natal Nature Conservation Board)

Irregular expenditure (seven)

- Five departments (Health, KwaZulu-Natal Provincial Legislature, Public Works, Social Development and Sport and Recreation) and two public entities (uMsekeli Municipal Support Services and Ithala Limited)

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

- Time frames are an issue as departments and public entities tended to react to requirements late in the financial process. Accounting is a process that should begin on commencement of the financial year and management accounts should be produced on a monthly basis. Processes need to be in place early in order to prevent and detect problems. Furthermore, the standards should be applied on the basis that each line item in the financial statements is recognised as an element of the financial statements. Departments and public entities tended to recognise items according to their own limited understanding and knowledge in the hope that the auditor would correctly classify the amount as per the standard.
- Financial statements were not prepared throughout the year and there was minimum review of accounts throughout the year, which resulted in errors not being detected and corrected early enough by management.
- Annual financial statements were often submitted simply to comply with the legislated deadline.
- There was a lack of skills to interpret and prepare annual financial statements in terms of the required framework, coupled with a lack of ongoing monitoring and supervision.
- Capacity in terms of right skills and experience in the financial departments remained a challenge, hence the use of consultants for the preparation of financial statements.
- Information was not captured in a form and time frame to support financial reporting and disclosure notes were not system-generated and only produced once a year.
- Management provided poor guidance on financial reporting objectives to enable identification of risks to reliable financial reporting.
- There was a lack of regular financial reports and inadequate review of annual financial statements by audit committees.

Recommendations

Transversal material misstatements corrected are a reflection of the quality of the financial statements submitted for auditing. Material corrections could have been detected by the entities' financial management processes had adequate reviews been undertaken of the financial statements prior to submission for auditing. The following measures should be considered:

- Provide training and recruit skilled permanent staff to manage the financial process and prepare the financial statements. The interview process for these accountants should include 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 fulfil the roles and responsibilities in financial reporting.

3.2 Findings on predetermined objectives

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

Based on an assessment of audit readiness, it was decided that for the 2009-10 audit cycles, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments and their public entities as well as metropolitan councils and their public entities, such opinions will not yet be lifted to the level of the individual auditor's reports. Instead, a reflection on the performance information, should an opinion have been expressed, will be provided 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 legislature)		Public entities (including constitutional institutions and trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	19%	31%	71%	50%
Information on performance against predetermined objectives not useful	19%	13%	35%	17%
Information on performance against predetermined objectives not reliable	25%	19%	12%	0%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0	0	6%	4%
Total number of audits reported on	16	16	17	24

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

3.2.1 Explanation of the various audit finding categories

Non-compliance with regulatory requirements

All 16 departments, including the legislature, as well as 17 public entities were subject to auditing in this area.

Non-compliance with regulatory requirements refers to the preparation of the integrated development, strategic, corporate or 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 related mainly to a lack of reporting on information on performance against predetermined objectives; a 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.

Three out of 16 departments, namely Agriculture, Environmental Affairs and Rural Development, Education and Royal Household, and 12 out of 17 public entities, namely Dube TradePort, Ithala Development Finance Corporation Limited, Ithala Limited, KwaZulu-Natal Growth Fund Managers (Pty) Ltd, KwaZulu-Natal Housing Fund, KwaZulu-Natal Nature Conservation Board, KwaZulu-Natal Represented Political Parties' Fund, KwaZulu-Natal Sharks Board, Trade and Investment KwaZulu-Natal, Mjindi Farming (Pty) Ltd, Traditional Levies and Trust Account and uMsekeli Municipal Support Services, had a finding relating to non-compliance with section 40(3)(a) or 55(2)(a) of the PFMA.

Identified root causes of non-compliance with regulatory requirements included the following:

- Inadequate management processes.
- Non-compliance with internal policies and procedures or inadequate internal operating procedures.
- Deficiencies in key controls, e.g. no or inadequate quarterly reporting.
- No review by internal audit of performance management processes and reporting.

Information on performance against predetermined objectives not useful

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

Usefulness of information on performance against predetermined objectives refers to the reported information being consistent with the objectives and targets as well as whether the targets are clearly linked to the mandate and objective of the institution, specific in clearly identifying the nature and required level of performance, as well as measurable and time bound. The reported information on performance against predetermined objectives was not useful at three out of 16 departments, namely Agriculture, Environmental Affairs and Rural Development, Human Settlements and Social Development, and six out of 17 public entities, namely Amafa aKwaZulu-Natali, Dube TradePort, KwaZulu-Natal Gambling Board, KwaZulu-Natal Nature Conservation Board, KwaZulu-Natal Sharks Board and Trade and Investment KwaZulu-Natal.

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

Identified root causes of the audit findings relating to the usefulness of published information included the following:

- Lack of definitions and technical standards for all the performance information collected by the departments and entities.
- Lack of appropriate capacity to manage performance information.

Reported information on performance against predetermined objectives not reliable

The audit focused on whether the reported information on 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 four out of 16 departments and two out of 17 public entities, namely Agriculture, Environmental Affairs and Rural Development, Economic Development and Tourism, Health, Social Development, KwaZulu-Natal Nature Conservation Board and Trade and Investment KwaZulu-Natal, the reported information on performance against predetermined objectives was not reliable.

Reported information on performance against predetermined objectives is not reliable if insufficient appropriate evidence is available in relation to the reported information, an inappropriate system exists to generate the information, with the evidence provided not supporting the reported information and not being accurate and complete.

Findings resulted from a lack of sufficient appropriate audit evidence in relation to the reported information on performance against predetermined objectives, a lack of appropriate systems generating information on performance against predetermined objectives, and the source information or evidence provided to support the reported information on performance against predetermined objectives not adequately supporting the accuracy and completeness of the facts throughout.

Identified root causes of the audit findings relating to the reliability of published information included the following:

- Inadequate processes, systems and documentation for identifying, collecting, collating, verifying and storing performance information.
- Lack of internal monitoring and review processes and procedures to ensure the accuracy and completeness of reported service delivery achievements.

Information on performance against predetermined objectives not submitted for auditing

Information on performance against predetermined objectives was not received in time for audit purposes in the case of one of the 17 public entities, namely Mjindi Farming (Pty) Ltd.

The audit conclusions were due to the following:

- Material non-compliance with regulatory requirements in relation to the preparation of the integrated development, strategic, corporate or 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.
- Performance against predetermined objectives not being consistent with objectives, indicators and targets as per the approved strategic or annual performance plan. Some targets were not specific in clearly identifying the nature and required level of performance, while some were not measurable in identifying the required performance or not time bound in specifying the time period or deadline for delivery.
- Insufficient appropriate audit evidence in relation to the reported information on performance against predetermined objectives, lack of appropriate systems generating information on performance against predetermined objectives, and the source information or evidence provided to support the reported information on performance against predetermined objectives not adequately supporting the accuracy and completeness of the facts throughout.

3.2.2 Auditees with no findings at all in the four categories considered as a whole

Of the reports that have been analysed, the following nine departments and three public entities had no findings resulting from the audit of information on performance against predetermined objectives:

Departments (nine): Arts and Culture, Community Safety and Liaison, Cooperative Governance and Traditional Affairs, Office of the Premier, KwaZulu-Natal Provincial Legislature, KwaZulu-Natal Provincial Treasury, Public Works, Sport and Recreation and Transport

Public entities (three): KwaZulu-Natal Planning and Development Commission, KwaZulu-Natal Tourism Authority and KwaZulu-Natal Provincial Pharmaceutical Supply Depot

3.2.3 Outstanding audits

With regard to 2009-10, the reports for Kwanaloga, KwaZulu-Natal Business Rehabilitation Trust Fund, Natal Joint Municipal Pension Fund (Provident), Natal Joint Municipal Pension Fund (Retirement) and Natal Joint Municipal Pension Fund (Superannuation) were outstanding.

Conclusion

As this is the first year in which audit conclusions have been formulated, no comparative statistics are available.

Considering the non-compliance with the PFMA at 62% of the entities, coupled with the non-submission of achievements against predetermined objectives by one public entity, it is evident that KwaZulu-Natal has some distance to go before being ready for an audit conclusion to be included in the auditor's reports regarding performance against predetermined objectives.

The auditing of performance objectives has been on the agenda of audit steering committee meetings where management was encouraged to comply with the legislated requirements. At the AGSA's quarterly stakeholder interactions with the MECs and the leadership of the departments, the importance of the quality, reliability and usefulness of the reported predetermined objectives has been stressed and this awareness has yielded positive commitments from the leadership. This has also been discussed at a briefing session with external stakeholders. The results indicate that the departments and public entities are gearing up well to fully report on performance. In total, 35% of auditees had no findings arising from the audit of performance against predetermined objectives. The results also indicate that there is room for improvement, particularly with regard to effective, efficient and transparent systems and internal controls regarding performance objectives.

3.3 Findings on compliance with laws and regulations

Table 14: Summary of findings relating to compliance with laws and regulations

Top three categories of non-compliance and SCM issues	Number	Percentage
Departments (including legislature and provincial revenue fund)		
Payment of expenditure not made within 30 days	5	31%
Procurement	5	31%
General, fiduciary and reporting responsibilities not fulfilled	3	19%
SCM issues that resulted in irregular expenditure (irregular expenditure relating to SCM at departments = R862,9 million)	9	56%
Transversal material misstatements corrected	10	63%
Public entities (including constitutional institutions and trading and other types of entities)		
Entity-specific legislation	4	22%
Audit committee	4	22%
SCM policies and procedures	3	17%
SCM issues that resulted in irregular expenditure (irregular expenditure relating to SCM at entities = R26,3 million)	5	28%
Transversal material misstatements corrected	13	72%

In total, 13 out of 16 departments and nine out of 18 public entities had findings on non-compliance with laws and regulations. The areas of non-compliance with laws and regulations related to the PFMA, including SCM regulations, at nine departments and eight public entities; to the TR at nine departments and seven public entities; and to other applicable legislation at seven departments and five public entities.

Furthermore, transversal material misstatements were corrected at 10 departments and 13 public entities, as detailed in paragraph 3.1.10.

Departments

Five out of 16 departments, namely Economic Development and Tourism, Education, Human Settlements, Office of the Premier and Royal Household, had findings relating to expenditure not being paid within 30 days from receipt of invoices (TR 8.2.3).

At five out of 16 departments, namely Agriculture, Environmental Affairs and Rural Development, Education, Health, Social Development and Sport and Recreation, proper procurement procedures were not followed (TR 16A8.3, TR 16A6.4 and section 38(1) of the PFMA).

Furthermore, three out of 16 departments, namely Education, Human Settlements and KwaZulu-Natal Provincial Legislature, had findings relating to general, fiduciary and reporting responsibilities not having been met (section 38(1) of the PFMA).

At nine of the 16 departments, namely Agriculture, Environmental Affairs and Rural Development, Cooperative Governance and Traditional Affairs, Economic Development and Tourism, Education, Health, KwaZulu-Natal Provincial Legislature, Public Works, Social Development and Sport and Recreation, SCM policies and procedures were not complied with (TR 16A8.3, TR 16A6.4 and section 38(1) of the PFMA).

Irregular expenditure relating to SCM at departments totalled R862,9 million.

Public entities

Non-compliance with specific or enabling legislation governing the mandate and operational activities of four out of 18 public entities was reported in respect of the KwaZulu-Natal Represented Political Parties' Fund (sections 6(2), 12(1) and 12(2)(a) of the KwaZulu-Natal Funding of Represented Political Parties' Act, 2008 (Act No. 7 of 2008)); Traditional Levies and Trust Account (section 8(2) of the KwaZulu-Natal Traditional Leadership and Governance Act, 2005 (Act No. 5 of 2005)); Ithala Development Finance Corporation Limited (section 179 of the Companies Act of SA and section 70(2)(a)(ii) of the Banks Act of South Africa, 1990 (Act No. 94 of 1990)); and Ithala Limited (section 38(9)(a)(i) of the Banks Act of South Africa, 1990).

Four out of 18 public entities did not have audit committees (KwaZulu-Natal Represented Political Parties' Fund, KwaZulu-Natal Agricultural Development Trust, Mjindi Farming (Pty) Ltd and uMsekeli Municipal Support Services) (section 51(a) of the PFMA).

Some of the non-compliance matters related to entering into transactions prohibited by legislation and failure by accounting officers, CFOs and other officials to fulfil their legislated responsibilities, resulting in unauthorised, irregular as well as fruitless and wasteful expenditure, as highlighted in the auditor's reports of departments and public entities.

SCM policies or procedures did not exist or were not consistent with legislation at three public entities, namely uMsekeli Municipal Support Services, Ithala Development Finance Corporation Limited and Mjindi Farming (Pty) Ltd.

At five of the 18 public entities, namely Ithala Development Finance Corporation Limited, Ithala Limited, KwaZulu-Natal Nature Conservation Board, Trade and Investment KwaZulu-Natal and uMsekeli Municipal Support Services, SCM policies and procedures were not complied with (TR 16A8.3, TR 16A6.4 and section 38(1) of the PFMA).

Irregular expenditure relating to SCM at public entities totalled R26,3 million.

Root causes/control deficiencies

- Lack of monitoring of controls over compliance with legislative requirements by all levels in the departments and public entities throughout the period.
- Non-compliance with legislation by officials, with insufficient monitoring by the leadership.
- Ineffective or 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 the risk of non-compliance are adequate.

3.4 Information technology system matters

Overall overview

Departments and entities rely heavily on computerised information systems (e.g. BAS, Persal and 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 of 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.

Audits of IT general controls were performed at 15 of the 16 departments and two entities. The Royal Household was excluded as it relies on the systems of the Office of the Premier for data processing, which were included in the audits. The following significant weaknesses were identified regarding the IT control environment and management of information systems:

- Fifteen departments and two entities had findings relating to user access control.
- At 14 departments and two entities weaknesses regarding security management were identified.
- Thirteen departments and two entities had findings relating to IT service continuity.
- At 15 departments and two entities weaknesses regarding IT governance were identified.

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 the leadership to enable them to address internal control deficiencies where required.

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 to evaluate 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 stored in the computer systems are reliable for financial reporting purposes.

IT general control audits were performed at 15 departments and two entities. The following table indicates the number of common focus area findings raised during these audits:

Table 15: Audit findings raised on common IT focus areas

IT focus area findings	Percentage of audited departments with finding	Percentage of audited public entities with finding
User access control	100%	100%
Security management	93%	100%
IT service continuity	87%	100%
IT governance	100%	100%

Findings related to the audited focus areas included the following:

- User access control was inadequate to ensure that only valid and authorised users were allowed access to initiate and approve transactions on the system and also that user access was adequately segregated when transactions were captured and approved.
- Security management controls did not prevent unauthorised access to application systems that generated and prepared financial statements.
- IT service continuity controls could not ensure the availability of financial and performance information in instances of data loss or a disaster.
- IT governance structures, policies and processes were inadequate to ensure that IT supported and extended the entities' strategies and objectives.

Fundamentals of internal control to be addressed

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

- Departments and entities must have business continuity plans that would enable SITA, GITO and CIOs to develop disaster recovery plans that are aligned to business requirements.
- Accounting officers have to be involved in the oversight of IT governance processes and to capacitate IT departments with resources that will ensure the adequate implementation of an IT plan.

3.5 Investigations and performance audits

3.5.1 Investigations

3.5.1.1 Investigations in progress

The following table contains details of departments and public entities where investigations had not yet been finalised:

Table 16: Investigations in progress

Auditee	SCM issues	Fraud	Misconduct/ Mismanagement	Embezzlement/ Theft/Abuse	Human resources
Agriculture, Environmental Affairs and Rural Development	X	X			
Arts and Culture	X				
Community Safety and Liaison			X		
Cooperative Governance and Traditional Affairs		X			
Economic Development and Tourism		X		X	
Education		X			
Health	X				
Human Settlements		X	X		
KwaZulu-Natal Provincial Legislature		X			
Office of the Premier	X			X	
Social Development	X				
Sport and Recreation	X				
Transport		X	X		X
KwaZulu-Natal Provincial Treasury	X				
KwaZulu-Natal Nature Conservation Board	X				
Traditional Levies and Trust Account				X	
uMsekeli Municipal Support Services	X		X		
Ithala Development Finance Corporation Limited	X				
Ithala Limited		X	X	X	

3.5.1.2 Investigations completed during the financial year

The following table contains details of departments and public entity where investigations were completed during the financial year:

Table 17: Investigations completed

Auditee	SCM issues	Fraud	Misconduct / Mismanagement	Revenue/Theft	Human resources
Education	X	X		X	
Social Development		X	X	X	X
Transport	X		X	X	
KwaZulu-Natal Nature Conservation Board	X	X			

3.5.2 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.

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.

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. These include opportunities to improve operational performance and policy effectiveness. Risk analysis seeks to determine the probability of negative impacts and their effect.

Key risks and the infrastructure delivery process

Various insufficient management processes (policy making, planning, organising, coordination and monitoring) were identified during the performance audit of the infrastructure delivery process.

There is a need in the public sector for management to respond to key risks in a timelier manner.

Key risks

Demand management

- Needs for schools, hospitals and clinics were not always correctly identified and prioritised, as the process followed for a needs determination was not always approved and well understood, or inadequate information was used to identify the need for facilities.

For example, during the needs 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 handover of documentation between project managers. Therefore, the utilisation of the completed projects could not be compared to the needs.

For example, the actual utilisation of the buildings could not be compared to the original needs determination to determine if the objective of the project had been achieved. Fewer patients were visiting a newly constructed clinic than other, similar clinics.

- The departments did 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, the Independent Development Trust and Ithala Development Finance Corporation Limited. However, the Departments of Health and Education should remain accountable.

For example, the needs 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 were not consistently applied by the bid adjudication committees during the tender evaluation process.

For example, contracts were awarded to contractors that did not qualify in terms of the prescribed legislation such as the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and the Construction Industry Development Board Act of South Africa, 2000 (Act No. 38 of 2000), and bids were disqualified for being outside the predetermined benchmark range and other reasons that could not be justified.

- Contractors were awarded multiple contracts without taking their capacity into account. This 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 the contractor's capacity into account. The contractor was unable to complete any of the schools and the projects had to be completed by other contractors.

- Not all irregular expenditure resulting from deviations from the SCM process was identified and reported by the auditees.

For example, not all expenditure on projects where SCM regulations were not followed was considered to be irregular.

Project management and information

- Projects were not effectively monitored by staff from the departments and the implementing agents. Corrective actions were 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 did not provide for penalties for the late completion of projects while in some instances penalties were waived without valid reasons being documented.

- The quality of the construction work was unsatisfactory, additional costs were incurred to complete the projects and the completion of the facilities was delayed.

For example, partially completed buildings had to be demolished and rebuilt by another contractor due to the poor quality of the first contractor's work.

- 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 did not approve the variation orders before contractors were paid.

Commissioning and utilisation

- There was 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 unutilised or underutilised as medical staff was 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. Furthermore, additional costs were incurred to correct it.

For example, Health 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 their intended purpose. However, the amount of fruitless and wasteful expenditure was not quantified.

3.5.3 Donor funding

No information regarding donor funding was revealed during the audits.

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

4.1 Drivers of audit outcomes

The firm position taken by the premier of the province to do everything possible to address audit outcomes has been the first step in the right direction and paves the way for the rest of the provincial leadership to follow. In response, no stone was left unturned to improve the AGSA's leadership visibility and involvement during the entire audit process, which helped in timeously resolving audit findings.

Stakeholder interaction will be intensified, including a review of management's action plans to address the audit recommendations as well as the way forward in resolving poor audit outcomes. Good practices identified at certain departments and public entities in the province will be shared.

Furthermore, in line with the AGSA's commitments, stakeholder interaction will be increased with those charged with governance. The interaction will include identifying key controls per entity as well as influencing the implementation of these key controls and performing quarterly assessments of management's actions to address the audit recommendations and the way forward in resolving poor audit outcomes.

The following drivers under leadership, financial and performance management as well as governance were measured and assessed for progress from the previous year. Where improvements were required, these were identified.

4.1.1 Leadership (annexure 5)

The position taken by the premier and the leadership of the province to address audit outcomes, coupled with the AGSA leadership's visibility and involvement during the entire audit process, helped in timeously resolving audit findings.

Stakeholder interaction, including a review of management's action plans to address audit recommendations as well as the way forward in resolving poor audit outcomes, will be intensified. Good practices identified at certain departments and public entities in KwaZulu-Natal will be shared.

Furthermore, in line with the AGSA's commitments, stakeholder interactions will be increased with those charged with governance. The interactions will include identifying key controls per entity, influencing the implementation of these key controls, and performing quarterly assessments of management's actions to address the audit recommendations and the way forward in resolving poor audit outcomes.

- **Commitments to improve on the audit outcomes by those charged with governance at departments and entities by setting the right tone from the top in order to create an environment conducive to sound financial management and improved service delivery**

The maintenance and improvements at departments and public entities bear testimony to the results achieved thus far. This is attributable to the leadership setting the tone at the top, starting with the premier and cascading down to the CFOs in the departments and entities. The AG's initiatives have also influenced the leadership to take ownership of, and accountability for, their actions, hence the continued stakeholder interactions with the leadership of departments and entities to monitor progress with key controls and their implementation in this regard. Internal controls, which were designed and implemented to address the findings reported previously and the implementation of these internal controls, were regularly monitored by those charged with governance. A lack of proper monitoring of the implementation of these action plans and failure to fill key positions in a timely manner resulted in the non-achievement of the desired results by the entities that still require improvement.

Leadership's involvement in driving changes resulted in the improved outcomes for predetermined objectives. A lack of adequate systems to collect, record and report on performance information and compliance with regulations relating to predetermined objectives, a lack of adequate monitoring of the action plans and a lack of proper supporting documentation still need to be addressed.

- **Reviewing and monitoring action plans to address all areas causing qualifications of the financial statement opinion**

Qualifications in the area of assets point to leadership not being fully aware of the progress being made on effective continuous asset management. In the case of four out of 16 departments, namely Social Development, Health, Education and KwaZulu-Natal Provincial Treasury, unauthorised expenditure of R2,641 billion was disclosed as a result of overexpenditure on their budgets. In addition, disclosed in accruals for two out of 16 departments, namely Education and Royal Household, were amounts incurred totalling R131 million. Had these amounts been paid in the current year, unauthorised expenditure would have increased by a further R131 million.

Action plans in respect of public entities need to be monitored to confirm full compliance with the GRAP financial reporting framework. The action plans of the entities that showed improvement were comprehensive and adequate to address the significant internal control deficiencies. Leadership was involved in monitoring the implementation of the action plans. The lack of improvements at the other entities was due to inadequate action plans and failure to monitor such plans.

- **Establishing an effective organisational structure that places people with appropriate skills in appropriate positions, especially in the SCM environment, to ensure compliance with applicable laws and regulations**

Many departments did not meet the requirements of SCM legislation. In addition, their systems to record and monitor non-compliance with these regulations were poor, as evidenced by the fact that five out of 16 departments, namely Social Development, Health, Public Works, KwaZulu-Natal Provincial Legislature and Sport and Recreation, and two out of 18 provincial public entities, namely uMsekeli Municipal Support Services and Ithala Limited, had to correct their disclosure of irregular expenditure as a result of audit findings.

The leadership ensured that key financial staff had the appropriate skills to perform their duties in those departments and entities that maintained and improved their good practices. Furthermore, there was adequate monitoring of the SCM process in this regard by the leadership. The other entities must still fill vacancies, especially in asset management and procurement sections.

- **Leadership's implementation of action plan to address user access control deficiencies**

The departments did not all have adequate action plans to address findings relating to user access control deficiencies. Findings relating to the entities were not significant because of the relative size of the entity, the lack of complexity of the systems maintained and the reliance by financial staff on data driven by the existing systems. Furthermore, these entities used systems such as Pastel, which is an off-the-shelf package that is generic in nature and poses a minimal risk.

4.1.2 Financial and performance management (annexure 6)

- **Ensuring that the asset register reflects the assets owned and that this is agreed to the financial records and financial statements, and that the suspense accounts are reconciled and cleared on a monthly basis**
- **Implementing documented policies and procedures to guide the operations of the departments and public entities and ensure compliance**
- **Producing accurate financial statements and performance information and continuously monitoring the quality thereof, and ensuring that performance information is supported by relevant and reliable information**

The marginal improvement in the accuracy of the financial statements and supporting information from 26 material corrections required in 2009 to 23 in the current year can be linked to the skills and experience of the CFOs who adequately monitored and reviewed the information submitted by their support staff. Consultants assisted in the preparation of the financial statements, which contributed to the improved results.

The lack of improvement was due to inconclusive review processes undertaken by leadership, internal audit and the audit committees.

- **Institutionalising sound financial management systems for recording transactions and documentation of control procedures**

The information systems must be improved to ensure the proper recording of, and reporting on, the following:

- Financial information, particularly on disclosure notes, in line with National Treasury guidelines and Standards of GRAP.
- Performance information as an assessment of organisational performance against predetermined objectives.

The environment must be entrenched with properly documented systems, policies and procedures that drive sustainable good practices, such as the following:

- Adhering to basic financial controls throughout the financial year, i.e. proper and regular filing of documents supporting the financial statements and management information.
- Daily processing of transactions and monthly reconciliation of accounts.
- Continuously reviewing the above as well as the monthly preparation of schedules that support and analyse items in the financial records.

Most of the departments and public entities had adequate controls relating to record keeping. This is evidenced by the fact that there have been no pervasive qualifications for departments and entities since 2009. The departments and entities that improved managed to implement adequate controls relating to the safekeeping of supporting documentation. These controls were monitored by the leadership for weaknesses.

- **Focusing on application systems susceptible to compromised data integrity**

Only 15 of the 16 departments were subject to information system audits, as the Royal Household depends on the systems of the Office of the Premier for data processing.

The main cause for the lack of improvement in this area was inadequate action plans to address the findings previously reported to management.

4.1.3 Governance (annexure 7)

- **Maintaining effective internal audit, audit committees as well as audit risk management strategies, including fraud prevention plans**

The risk assessments performed by departments and public entities must inform the risk-based audit plans of internal audit to allow them to function effectively in advising the accounting officer and the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management. The risk assessment process must inform the work plans of internal audit and the agendas of audit committees, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability for financial reporting and information on performance against predetermined objectives or service delivery.

There has been a significant improvement in the role that the audit committee plays in its responsibilities in respect of departments. However, the departments and entities that received qualified opinions need to work closely with internal audit and the audit committee in apprising the committee of the overall business and environmental risks, the system of internal controls, financial reporting and performance information to enable the committee to operate effectively.

The departments and public entities that failed to comply with the PFMA requirements need to establish effective systems of internal control, including risk management strategies and fraud prevention plans.

Pervasive material misstatements in the financial statements and financial reporting should be one of the key risks to be monitored by management.

The maintenance and improvement around risk management can be attributed to the visibility of internal audit and the audit committee. Furthermore, recommendations by the AGSA in the previous management reports and the resultant actions and monitoring thereof contributed to this positive trend.

- **Monitoring and evaluating risk in IT systems, including implementation of action plans to address audit outcomes**

The departments and entities that had improved had sufficient capacity and skills to address IT requirements. Where improvement is necessary, the leadership must capacitate the IT sections with the right skills.

- **Addressing the lack of an IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management**

All departments face a significant challenge, as previously reported findings have not yet been addressed, as is evidenced by the fact that all 15 departments as well as two public entities, namely KwaZulu-Natal Nature Conservation Board and KwaZulu-Natal Tourism Authority, require improvement in this regard. Those charged with governance are required to assess the need for IT frameworks in terms of risk and weaknesses in controls identified and make the resources available to address these shortcomings.

4.2 Actions taken or to be taken to address matters previously reported

4.2.1 Progress on undertakings given by the executive authority and the provincial treasury to address matters previously reported (status report on 2008-09 commitments)

- At the AG's briefing on audit outcomes to the provincial legislature on 5 November 2009, the premier, on behalf of the executive, commented that they were serious about reducing qualified audit opinions in the province. He said the KwaZulu-Natal Government offered its full cooperation to the AG in support of sustainable clean administration. The premier noted the AG's comments on the audit of performance information and current challenges in terms of the systems of control and reporting budgets aligned with service delivery requirements, measuring expenditure on services in terms of the approved budget, and ongoing oversight of the entire process. The premier expressed his appreciation for the fact that more time had been afforded to the departments and public entities to ensure their audit readiness regarding performance information. The premier also noted the AG's comments on the need to use consultants in areas where expertise is required. Specialist skills are to be transferred by consultants, who should not be used as a substitute for existing capacity. To this end, the premier agreed to review the needs, relevance and appointment of consultants.
- Those charged with oversight and governance had become more active in fulfilling their monitoring roles and responsibilities by interrogating the reasons for matters included in the auditor's reports and by passing resolutions that required action to address them. The leadership (political leadership as well as

management) of departments and public entities set the right tone from the top to implement action plans to address all audit findings.

- Notwithstanding the positive tendency, there is much room for improvement in respect of findings on reporting of performance against predetermined objectives and compliance with laws and regulations included in the auditor's reports for all departments and public entities.
- Management and those charged with governance developed action plans to address matters previously reported. These action plans included the implementation of controls relating to expenditure and the safeguarding of assets, the reconciliation of discrepancies between the asset register and financial statements, the monthly reconciliation and clearance of suspense accounts, the quarterly reporting of performance information against predetermined key performance measures and targets, and the audit of performance information by internal audit.
- Action plans were regularly monitored, the risks relating to the achievement of financial and performance reporting objectives were identified, and these risks were adequately managed, which resulted in matters previously reported being addressed by most departments and public entities.
- Three departments, namely Agriculture, Environmental Affairs and Rural Development, Health and Public Works, and three public entities, namely KwaZulu-Natal Housing Fund, KwaZulu-Natal Nature Conservation Board and Traditional Levies and Trust Account, did not take adequate action to clear audit findings relating to asset management.

In addition to its core function, the provincial treasury embarked on the following initiatives to assist in improving the audit outcomes in the province:

- Performing a support function within the Royal Household, including the review and oversight of the compilation and submission of annual financial statements.
- Developing and implementing a financial management improvement programme of support for all departments to help with preparations, pre-review and timely submission of the annual financial statements to the AGSA.
- Conducting readiness audits of performance information at departments.
- Issuing a standardised audit working paper file to enhance the quality of audit evidence submitted to the AGSA and facilitate a more effective and efficient consolidation process.
- Monitoring the implementation of action plans drawn up by departments based on auditor's reports and management reports.
- Monthly monitoring of key performance indicators for financial management and determining fixed targets that should be reached, including the monitoring of asset and liability accounts.

- Reporting to the MEC for Finance on the financial management of departments.
- Compiling manuals on financial functions and the use of financial systems, and providing the necessary training.

4.2.2 Commitments arising from the AG's 2009-10 roadshow

The premier offered full cooperation to the AG in support of sustainable clean administration and noted the AG's comments on the audit of performance reporting and current challenges relating to systems of control and reporting, budgets aligned with service delivery requirements, and ongoing oversight of the entire process. The premier committed to the following:

- Take action on non-compliance with SCM regulations, analyse SCM policy deviations and follow up on the matter of inflated prices.
- Take action regarding allegations of fraud and corruption.
- Set up a task team on asset management. The team is to oversee progress by way of quarterly reports.
- With regard to HR, fill senior management vacancies as well as scrap posts that had been vacant for more than two years.
- Set up a province-wide performance management system.
- Monitor performance regarding service delivery, expenditure against budgets and spending of capital budgets.
- Implore MECs to put pressure on the administration to provide relevant and reliable information.

The premier acknowledged that greater cabinet oversight was required to ensure that audit outcomes do not hold any surprises when released. The premier further committed his leadership team to work together with the AGSA towards achieving a clean administration.

The collective leadership under the direction of the provincial cabinet, in conjunction with the provincial treasury, again committed to the initiatives of monitoring action plans drawn up by departments, providing technical support, compiling manuals on financial functions, providing training as well as regular reporting to the MEC for Finance on financial management in departments. Certain MECs participated in the public hearings of the PPAC for their departments, during which they pledged support to resolve negative audit findings. The MECs also undertook to follow up the commitments made by their management members to address qualified opinions and other matters raised in auditor's reports.

The MECs who attended the AG's briefing accepted responsibility for their audit opinions and undertook to:

- improve any negative audit opinions
- facilitate discussions with departments on repetitive audit findings

- monitor the implementation of action plans to eliminate qualified audit opinions
- oversee the process of filling key vacant positions with suitably skilled persons
- solicit full support in addressing the challenges faced by the Royal Household, including a review of the structures within which it functions
- establish teams to address qualifications regarding capital assets at Public Works, Health and Social Development.

4.2.3 Accounting reforms

Continued interaction with the National Treasury, provincial treasury, Accounting Standards Board and other professional bodies has assisted in the interpretation and resolution of accounting matters and the clarification of guidance applicable to the PFMA cycle. Accounting reforms include the complete and accurate recording of immovable assets in the annual financial statements of departments, which is expected to receive significant attention in the year ahead. The complete and accurate recording of immovable assets depends on a complete and accurate provincial immovable asset register. Although the province's immovable asset register was updated and much effort was made to provide an accurate and complete record, it was not satisfactory as it did not reflect all immovable assets and included assets that were not owned by the province. A project plan for the refinement of this register is therefore urgently required to ensure the complete and accurate recording and valuation of immovable assets in the financial statements for the year ended 31 March 2010. Fundamental practices, such as the performance of asset counts on a regular basis and the regular maintenance and review of the immovable asset register, also need to take place.

The political leadership played an active role in taking ownership of the overall audit outcomes in the province, which resulted in decisive steps to ensure sustainable improvements. This was echoed by the premier who went on record to state that he personally would be responsible for the outcomes of the province. These words succinctly encapsulate the intention of the leadership and their commitment as well as the resultant expectation that they have from those charged with governance at the departments and public entities.

The impact of MEC stakeholder interactions and provincial oversight and interventions in response to audit outcomes was that the good performance was maintained, resulting in an improvement in the overall audit outcomes since the 2008-09 financial year. The reason for departments and public entities still having qualifications or findings on predetermined objectives and compliance with legislation is the non-adherence of departments and public entities to sound financial management and service delivery practices in effective financial and performance management systems and effective governance arrangements.

4.2.4 Status of PPAC oversight resolutions

At year-end, 44 PPAC oversight resolutions out of a total of 68 had been resolved and 24 were in progress. In a number of instances replies had been received by the PPAC, which were being considered. In other instances departments had been requested to elaborate on replies or provide further details to enable the committee to make decisions regarding outstanding matters. Departments and public entities that had outstanding resolutions are as follows:

- Agriculture, Environmental Affairs and Rural Development (four out of 10 resolutions in progress)
- Amafa aKwaZulu-Natali (one out of one resolution in progress)
- Arts and Culture (one out of two resolutions in progress)
- Cooperative Governance and Traditional Affairs (one out of two resolutions in progress)
- Education (one out of six resolutions in progress)
- Health (two out of seven resolutions in progress)
- Human Settlements (one out of four resolutions in progress)
- Ithala Limited (four out of four resolutions in progress)
- KwaZulu-Natal Housing Fund (one out of one resolution in progress)
- KwaZulu-Natal Nature Conservation Board (two out of two resolutions in progress)
- KwaZulu-Natal Provincial Treasury (two out of four resolutions in progress)
- Office of the Premier (one out of three resolutions in progress)
- Public Works (one out of three resolutions in progress)
- Social Development (two out of five resolutions in progress)

Transversal resolutions on the following matters that should be responded to by all departments were still in progress:

- Actions taken to clear audit findings relating to reporting on performance objectives
- Actions taken to address key governance responsibilities

All resolutions in respect of Community Safety and Liaison (two resolutions), KwaZulu-Natal Growth Fund (one resolution), KwaZulu-Natal Provincial Legislature (one resolution), Royal Household (six resolutions), Sport and Recreation (one resolution) and Transport (three resolutions) had been resolved.

4.3 Initiatives taken by the AGSA to encourage clean administration

In support of an ultimate audit outcome of unqualified audit opinions with no reported findings on predetermined objectives or compliance with laws and regulations, the AGSA's 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 engaging with all role players that can influence clean administration. To this end, the audit teams were paid regular visits during the audits and meetings were held with those charged with governance. Our engagements focused on the simplicity, clarity and relevance of the message to gain an understanding, get buy-in and seek commitment that will influence clean administration. This relationship, together with the receptive tone of the 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 leadership in the province had met with the MECs for all 15 departments as well as the speaker of the provincial legislature to discuss the 2010 outcomes of the PFMA audits. This initiative served to enlighten the MECs regarding their portfolios and facilitated discussion of the outcomes and key controls required of the departments and public entities under their jurisdiction. The results of this interaction were positive in more way than one, as the MECs were able to assess the root causes of the qualifications and findings of their portfolios. Moreover, they were able to understand the AG's initiative behind the quarterly key control appraisals and the link to clean administrations, and that this would require follow-up by the AGSA.

Furthermore, the AGSA compiled a summarised checklist of the main issues around financial statements that required follow-up and sustainability by the departments to ensure that those departments that managed to attain unqualified reports with no findings on predetermined objectives or non-compliance were able to sustain this through effective oversight by the MEC and the leadership within the department.

The AGSA also engaged with KwaZulu-Natal's centralised audit committee for departments to discuss matters arising in the draft auditor's reports prior to the reports being signed off.

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

4.4.1 Accounting and compliance matters

New pronouncements and requirements

Immovable assets

The premier issued *Premier's Minute No. 1 of 2010*, dated 15 April 2010, dealing with the assignment of powers, duties and functions to an MEC in terms of section 132(2) of the Constitution of the Republic of South Africa, 1996 and the KwaZulu-Natal Land Administration Act, 2003 (Act No. 3 of 2003). This minute replaces the previous minutes (*Minute No. 3 of 15 June 2006* and *Minute No. 4 of 29 May 2009*) and recognises Public Works as the 'custodian' of the immovable assets vesting in the provincial government.

In terms of *Presidential Minute No. 248*, the President proclaimed that sections 6, 11, 12, 13 and 14 of the GIAMA had come into operation on 1 April 2010 for any custodian or user that is a department. The impact of not meeting the requirements of the above minute would be that departments could be qualified for incorrectly recognising immovable assets in their financial statements.

4.4.2 Susceptibility and subjectivity of complex accounting estimates and fair values

Matters affecting Ithala Development Finance Corporation Limited and Ithala Limited

The following matters could have an impact on future auditor's reports of the entities:

- The complexity of the calculations for investment property, properties in possession and investment in subsidiaries in terms of the International Accounting Standard 36 *Impairment of Assets*.
- The subjectivity and complexity of the assumptions used in determining the provision amount for loans and advances in terms of International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- The subjectivity and complexity of the calculation of the credit impairment of the advances book and properties in possession at Ithala Limited.

4.4.3 Susceptibility of assets and liabilities to loss or fraud

Significant transactions with related parties and contracts in which management or those charged with governance have an interest

Agriculture, Environmental Affairs and Rural Development did not undertake regular physical counts of capital assets and was not adequately protected from theft. This could lead to material losses to the department in the future. The department also did not have an approved disaster recovery plan as part of risk management, which could result in substantial losses in the event of a disaster.

Economic Development and Tourism did not undertake regular physical counts of capital assets and was not adequately protected from theft and damage. This could lead to material losses to the department in the future. The lack of approved policies regarding asset count procedures could result in asset losses not being detected or not being detected timeously in future years.

Systems and controls were not appropriately designed at Health to prevent and detect fraud, error and misstatements in the revenue process. This was due to the fact that the revenue systems were manual with extensive decentralisation. The department did not maintain loss control registers or a complete and accurate register to record all assets in the department.

Non-adherence to the asset management policy will impact negatively on the audit outcome of Arts and Culture in the coming financial year. All matters raised should be addressed accordingly and timeously. The department did not undertake regular physical counts of library books. This could lead to material losses to the department in the future.

4.4.4 Subsequent events

The statue of King Shaka at the King Shaka International Airport (KSIA), purchased at a cost of R1 million, was included in work-in-progress assets in the financial statements of Dube TradePort at the reporting date. This statue, including the shield and spear, was removed from the KSIA subsequent to the reporting date. The impact on the existence and valuation of assets in the next year would need to be considered.

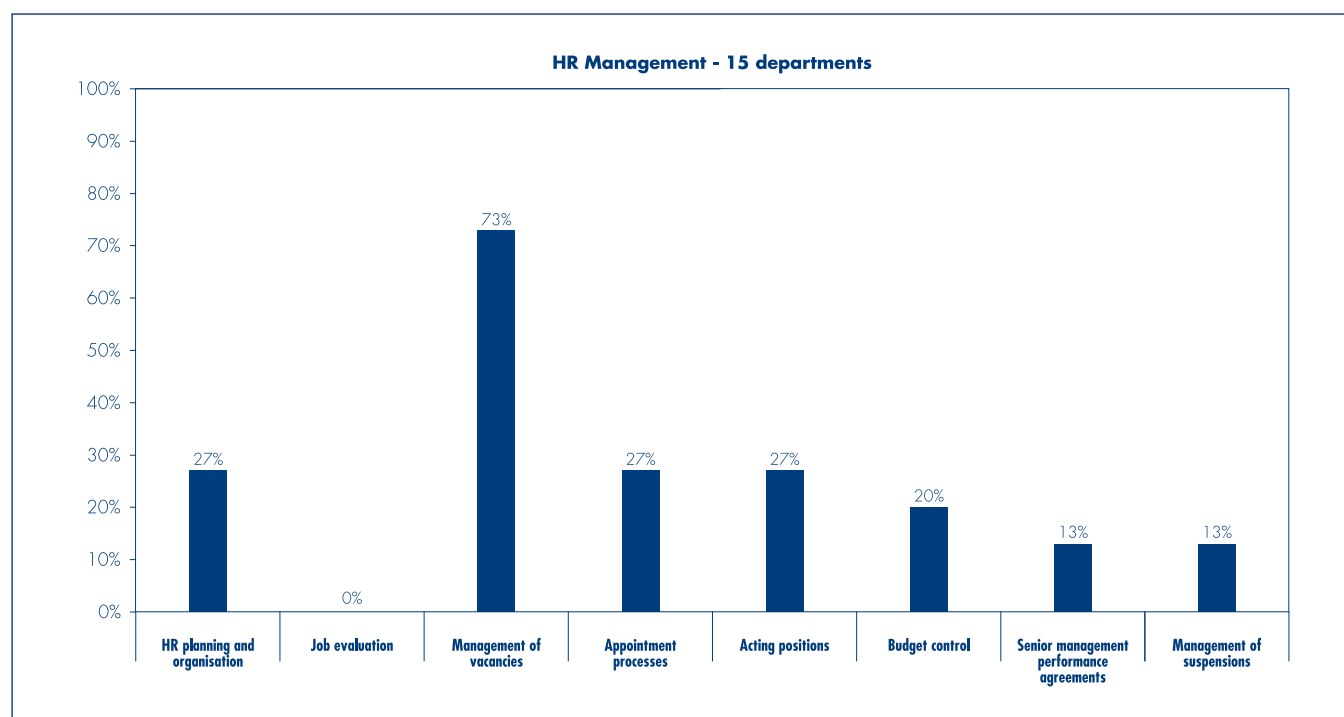
SECTION 5: FINDINGS ARISING FROM AUDITS OF SPECIFIC FOCUS AREAS OF THE AGSA

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

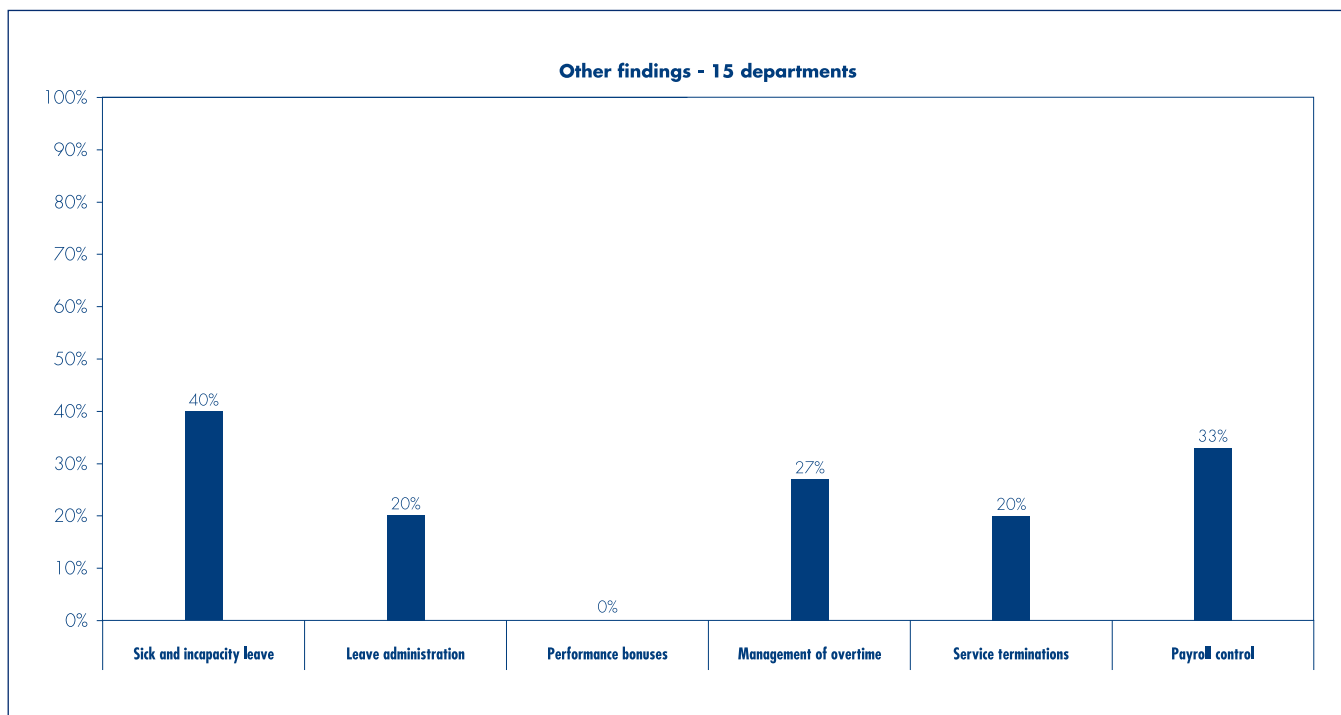
The regularity audits of departments included an assessment of departments' compliance with the PFMA, TR, Public Service Act of South Africa, 1994 (Act No. 103 of 1994) (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective HR management and controls over compensation of employees.

The figure below depicts the incidence of findings in the different areas of HR management.

Figure 4: Findings on human resource management



Fourteen departments did not meet all the requirements for effective HR management. These weaknesses had an impact on the departments' financial management and ability to deliver services in accordance with their mandates. The highest incidence of non-compliance was noted at the Departments of Human Settlements and Transport and at the Office of the Premier.

Figure 5: Findings relating to control over compensation of employees

In general, compensation of employees is not an area of high risk, as remuneration and conditions of service are determined and managed centrally by the Department of Public Service and Administration (DPSA). Furthermore, compensation is implemented and controlled by the National Treasury via Persal, which is used by all departments (except the Department of Defence).

However, it is of concern that the weaknesses identified were in respect of those controls prescribed by legislation for implementation by the departments themselves.

Twelve departments did not meet all the requirements for control over compensation of employees. These weaknesses could lead to employees receiving compensation and benefits that they are not entitled to. The highest incidence of non-compliance was noted at Agriculture, Environmental Affairs and Rural Development, Royal Household, Education and Cooperative Governance and Traditional Affairs.

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

5.1.1 HR planning and work organisation

No updated and approved HR plan

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. Two departments did not have an approved and updated HR plan, namely Cooperative Governance and Traditional Affairs as well as Transport.

Differences between Persal establishment and approved organisational structure

The organisational structure of a department is maintained on Persal as the establishment of the department for purposes of management information planning and budgeting and to ensure that appointments are made in posts that are approved and funded. The establishment on Persal, however, did not correspond to the approved organisational structure of two departments, namely Human Settlements (33% difference) and Social Development (18% difference).

5.1.2 Job evaluation*Lack of or inadequate job evaluation policy*

In terms of 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 thus the relevant salary, and that it is applied transparently and consistently in the department. The audits did not reveal cases of non-compliance in this regard.

Lack of job evaluation process for new and upgraded posts

In terms of PSR 1/III/F(b), any newly defined job should be evaluated to determine its grading before creating a post for the job. The audits did not reveal cases of non-compliance in this regard.

5.1.3 Management of vacancies

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

The average vacancy rate across all departments was 25% at year-end, with an average of 22% of the positions for senior managers being vacant. The highest overall vacancy rate was at Social Development at 69% and the highest senior manager vacancy rate was at the Royal Household at 75%.

Lack of improvement in vacancy rates

The overall vacancy rates had not improved compared to the previous year at nine departments, namely Agriculture, Environmental Affairs and Rural Development, Community Safety and Liaison, Cooperative Governance and Traditional Affairs, Transport, Human Settlements, Social Development, Royal Household, Office of the Premier and KwaZulu-Natal Provincial Treasury.

The vacancy rate for senior managers had not shown an improvement compared to the previous year at eight departments, namely Agriculture, Environmental Affairs and Rural Development, Community Safety and Liaison, Cooperative Governance and Traditional Affairs, Transport, Human Settlements, Royal Household, Office of the Premier and KwaZulu-Natal Provincial Treasury.

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 states that if a department does not comply with the regulation, the reasons for such non-compliance should be recorded in writing.

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

Table 18: Non-compliant recruitment time frames

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
Community Safety and Liaison	x				x
Cooperative Governance and Traditional Affairs	x	x		x	
Economic Development and Tourism	x				
Human Settlements	x	x	x	x	x
KwaZulu-Natal Provincial Treasury	x		x	x	x
Office of the Premier	x	x		x	
Royal Household	x	x		x	x
Transport	x				x

5.1.4 Appointment processes

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

Verification checks not performed

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

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

Table 19: Verification checks not effectively performed

Department	Appointments with no verification checks	Appointments with incomplete verification checks
Agriculture, Environmental Affairs and Rural Development	x	
Human Settlements	x	x
Public Works		x
Transport		x

5.1.5 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 the permanent appointment of a suitably qualified and experienced person is not delayed.

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

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at three departments where employees received acting allowances for more than 12 months, namely Cooperative Governance and Traditional Affairs, Human Settlements and Office of the Premier.

5.1.6 Budgetary control

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

Three departments overspent on their compensation budgets, resulting in irregular expenditure in the amounts indicated, namely Education (R101,6 million), Health (R972,9 million) and Human Settlements (R2,4 million).

The overspending at Education and Health was mainly as a result of occupation-specific compensation adjustments.

5.1.7 Performance agreements with senior managers

In terms of PSR 4/III/B1 and chapter 4 of the SMS handbook, senior management should enter into performance agreements. Performance agreements with the SMS had not been signed by 31 July 2009 at two departments, namely Agriculture, Environmental Affairs and Rural Development as well as Human Settlements.

Whether a performance bonus should be paid to senior managers is based on their performance as per the agreement. At Agriculture, Environmental Affairs and Rural Development bonuses were paid to senior managers in the current year without the applicable performance agreements having been signed.

5.1.8 Suspensions

Based on the annual reports, 93 employees were suspended across seven departments. The average number of days on suspension was 32, with 82% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated at R5,9 million.

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 or procedures

At two departments no policies or procedures were in place to deal with suspensions, namely Human Settlements and the Royal Household.

5.1.9 Sick and incapacity leave

Sick leave – Non-compliance and lack of monitoring

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

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

Table 20: Non-compliance and/or lack of monitoring of sick leave

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		
Agriculture, Environmental Affairs and Rural Development			X	X
Community Safety and Liaison				X
Public Works				X
Transport				X

Incapacity leave incorrectly granted

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

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

Table 21: Non-compliance and/or lack of monitoring of incapacity leave

Department	More temporary or permanent incapacity leave granted than employee was entitled to	Non-compliance with determination and policy
Public Works		X
Royal Household		X

5.1.10 Leave administration

Overstated leave credits

In terms of PSR 1/V/F(b), the head of department should record all leave taken by an employee accurately and in full. No or inadequate controls were implemented at three departments, namely Agriculture, Environmental Affairs and Rural Development, Education and Office of the Premier, to ensure that all leave taken by employees was captured and that it was done timeously.

As a result, the annual or capped leave credits at these departments were overstated.

Negative capped leave

In terms of the leave determination, an employee may not be granted annual leave with full pay in excess of the annual leave that the employee is entitled to, plus capped leave in respect of persons who had been in service prior to 1 July 2000. If, due to a bona fide error, an employee had been granted annual leave with full pay in excess of the days to his/her credit at that time, such excess should be deducted from the subsequent leave cycle.

Employees at three departments had negative capped leave credits that were not deducted from their annual leave and were not recovered via unpaid leave, namely Agriculture, Environmental Affairs and Rural Development, Education and Office of the Premier (the monetary value as disclosed in the financial statements was R119 000).

Family responsibility leave incorrectly granted

In terms of the leave determination, the number of family responsibility leave days taken should not exceed five days within an annual leave cycle, unless special circumstances warrant further leave at the discretion of the head of department.

Employees at Human Settlements took more than five days' family responsibility leave and no special circumstances existed as approved by the head of department.

5.1.11 Performance bonuses

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

The audits did not reveal cases of non-compliance in this regard.

5.1.12 Management of overtime

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

Table 22: Non-compliance with regulations on overtime

Department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee's monthly salary	Overtime incorrectly calculated
Agriculture, Environmental Affairs and Rural Development			x	
Health			x	
Cooperative Governance and Traditional Affairs		x	x	
Sport and Recreation		x		

5.1.13 Service terminations

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

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

Table 23: Employees not timeously removed from the payroll, resulting in overpayments

Department	Overpayments made to terminated or deceased employees	Overpayments not recovered or reclassified at year-end
Agriculture, Environmental Affairs and Rural Development	x	
Education	x	
Cooperative Governance and Traditional Affairs	x	x

5.1.14 Payroll control

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

Instances were found at the following departments which indicate that the prescribed control had not been fully implemented:

Table 24: Prescribed payroll control not fully implemented

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Human Settlements		x		
KwaZulu-Natal Provincial Treasury	x	x		
Office of the Premier	x			
Royal Household	x	x	x	x
Transport	x	x		

5.1.15 Overall conclusion

Although the audit findings raised at departments did not directly result in unfavourable opinions, there remains a risk that HR management is not at the appropriate level of compliance, which could result in poor or inadequate service delivery. The policies, control processes and procedures need constant monitoring by those charged with governance to ensure compliance and that the mandates of the departments are effectively and efficiently fulfilled.

5.2 Significant findings from the audit of procurement and contract management

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

As is evident from the analysis of irregular expenditure (section 3.1.7), most of the irregular expenditure incurred by departments and entities resulted from non-compliance with SCM legislation.

The detailed findings are presented below.

5.2.1 Interest in suppliers

A performance audit report entitled *Performance audit of entities that are connected with government employees and doing business with provincial departments* was tabled on 22 October 2009. The report disclosed that employees and spouses of employees in KwaZulu-Natal were doing business with their own departments through companies and close corporations in which they were directors or members.

Legislation does not prohibit such practices but there is legislation that endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment. The report also disclosed non-compliance with this legislation and a number of other irregularities in the SCM process at departments.

The 2009-10 regularity audits included a similar assessment of the interests of employees and their close family members in entities that are suppliers to the auditee. Where interests in suppliers were identified, a sample was tested to determine whether legislation applicable to departments, trading entities, constitutional institutions and schedule 3A and 3C public entities was complied with. Most instances of employees with an interest in suppliers pertained to Agriculture, Environmental Affairs and Rural Development (nine), Health (nine) and Mjindi Farming (Pty) Ltd (nine).

The table below lists the auditees where employees or their close family members were found to have an interest in suppliers. The table also details the resultant findings.

Table 25: Employees or their close family members with an interest in suppliers

Auditee	Interest not declared by supplier	Employee involved in awarding contract to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)	Employees and close family members who have an interest in suppliers	Interest not included in annual declaration of senior manager (departments only)
Agriculture, Environmental Affairs and Rural Development				X	X	
Cooperative Governance and Traditional Affairs	X				X	
Health			X		X	
Sport and Recreation	X		X	X	X	
Social Development					X	
Mjindi Farming (Pty) Ltd					X	

5.2.2 Procurement process

Three price quotations not invited

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

Irregular expenditure was incurred at the auditees listed in the table below, as goods or services were procured without inviting at least three price quotations and the deviation was not approved, or the deviation was approved although it was possible to obtain three price quotations.

Table 26: Irregular expenditure – Three price quotations not invited

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Agriculture, Environmental Affairs and Rural Development	X		
Health	X	X	R142 145 104
KwaZulu-Natal Provincial Legislature	X		
Ithala Limited	X		

Deviation from competitive bidding without approval

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

Irregular expenditure was incurred on goods or services by four departments and one public entity as the deviation from competitive bidding was not approved, namely Agriculture, Environmental Affairs and Rural Development (R7,1 million), Economic Development and Tourism (R1,8 million), Health (R159,9 million), Social Development (R12,2 million) and Trade and Investment KwaZulu-Natal (R566 865).

Deviation from competitive bidding not justified

PN 6 of 2007-08 states that the provision in TR 16A6.4 should be utilised strictly to procure goods and services of critical importance and only in specific cases where it is impractical to invite competitive bids and 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 PN further states that an effective SCM system requires an accounting officer or 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 should 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 or 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.

Irregular expenditure of R103,7 million was incurred at four departments, as a deviation from competitive bidding was approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available for a bidding process and/or proper planning would have prevented such emergency, namely Agriculture, Environmental Affairs and Rural Development (R7,1 million), Economic Development and Tourism (R1,8 million), Health (R82,6 million) and Social Development (R12,2 million) .

Irregular expenditure was also revealed at Trade and Investment KwaZulu-Natal (R567 000), as a deviation from competitive bidding was approved in accordance with TR 16A6.4 on the basis of the goods and services only being produced by, or available from, a sole service provider, although there was no evidence of a thorough market analysis having been performed and/or other evidence of suitable suppliers available in the market.

Two public entities, namely Ithala Development Finance Corporation Limited (R17,2 million) and uMsekeli Municipal Support Services (R980 000), deviated from competitive bidding with regard to transactions above R500 000 to the amount of R18,1 million, without recording and approving the reasons for the deviation.

Preference point system not applied

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

Irregular expenditure was incurred at two departments as a result of the preference point system not having been followed, namely Health (R31,3 million) and Social Development (R4,3 million).

No prospective supplier list

In terms of PN 8 of 2007-08, accounting officers or 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 should provide a fair opportunity for entities to be invited to submit price quotations.

At four departments such a list of prospective suppliers was not in place, namely Office of the Premier, Public Works, Social Development and Royal Household.

5.2.3 Contract management

Contract amendments, extensions or 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.

Irregular expenditure was incurred at two departments (R2,1 million) as contracts were amended, extended or renewed without approval by the accounting officer or a delegated official, namely Agriculture, Environmental Affairs and Rural Development (R1,1 million) and Social Development (R1 million).

Contract amendments, extensions or renewals resulted in circumvention of competitive bidding

In terms of sections 38(1)(a)(iii) and 51(a)(iii) of the PFMA, an SCM system should 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.

Irregular expenditure was incurred at two departments (R115,1 million), as contracts were extended or renewed to such an extent that competitive bidding processes were circumvented, namely Agriculture, Environmental Affairs and Rural Development (R643 029) and Health (R114,5 million).

5.2.4 SCM controls

Lack of SCM policies or procedures

In terms of sections 38(1)(a)(iii) and 51(a)(iii) of the PFMA, an SCM system should be implemented that is fair, equitable, transparent, competitive and cost-effective.

SCM policies and procedures were not in place for the acquisition of goods and services at two public entities, namely Mjindi Farming (Pty) Ltd and uMsekeli Municipal Support Services.

SCM policies in conflict with applicable legislation

The SCM policies and procedures were in conflict with the PFMA, TR or the PPPFA and its regulations at Social Development.

Inadequate segregation of duties in procurement

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

Instances were revealed at Mjindi Farming (Pty) Ltd where the same person was involved in selecting and paying a supplier without compensating controls having been implemented.

No processes for SCM officials to report breaches or non-compliance

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

Processes had not been established at the Office of the Premier for SCM officials to report breaches and non-compliance or the officials were not aware of the processes to be followed.

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 or authority should have and maintain effective, efficient and transparent systems of financial and risk management. Furthermore, TR 16A3.2(d)(v) requires an SCM system to provide for risk management.

The risks related to procurement and contract management were not assessed at two departments and one public entity even though risks were evident, namely Office of the Premier, Royal Household and Mjindi Farming (Pty) Ltd.

No internal audit evaluation of SCM compliance

In terms of TR 3.2.11 and TR 27.2.10, the internal audit function should assist the accounting officer or authority in maintaining efficient and effective controls by evaluating the 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.

Many goods and services were procured and although non-compliance with SCM or fraud had been revealed at the Royal Household in the past, internal audit did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM at this auditee.

5.2.5 Overall conclusion

The findings pertaining to non-compliance with SCM should be viewed in a serious light as they relate mainly to a lack of oversight by those charged with governance. The use of emergency procurement in most of the circumstances as motivated by the departments and public entities needs to be evaluated very carefully by the leadership, internal audit and audit committees. This could lead to an easy way of circumventing the SCM process and result in possible irregular expenditure.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

Table 27: Status of audit of consolidated financial statements

Province	Consolidation: departments – audit completed		Consolidation: public entities – audit completed	
	2009-10	2008-09	2009-10	2008-09
	Y / N	Y / N	Y / N	Y / N
KwaZulu-Natal	N	Y	N	Y

The consolidated financial statements of departments for the 2009-10 financial year had not been received for auditing by 31 August 2010.

The consolidated financial statements of public entities for the 2009-10 financial year were received for auditing on 19 August 2010 and it is expected that the audit would be completed by 19 October 2010.

Legislation does not take into account the fact that the financial statements of departments and public entities are subject to material corrections during the period in which the consolidations need to be submitted.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

7.1 Summary of annual reports tabled

Table 28: Annual reports tabled by departments and public entities

Type of auditee	Percentage of reports tabled at 31 August 2010	
	2009-10	2008-09
Departments	38%	100%
Public entities	44%	75%
Total	41%	86%

A further 56% of departments and 22% of public entities subsequently (up to 20 September 2010) tabled annual reports. Ninety-four per cent of departments and 67% of public entities have thus tabled annual reports.

The annual reports for 2008-09 in respect of the KwaZulu-Natal Agricultural Development Trust (dormant), KwaZulu-Natal Taxi Council (closed down), KwaZulu-Natal Business Rehabilitation Trust Fund (not submitted), KwaZulu-Natal Planning and Development Commission (not submitted) and KwaZulu-Natal Represented Political Parties' Fund (not submitted) were not tabled.

7.2 Departments and public entities whose annual reports were not tabled, together with reasons

Table 29: Annual reports not tabled by departments and public entities

Auditee	Reason(s)
Cooperative Governance and Traditional Affairs	Not submitted to the legislature
KwaZulu-Natal Growth Fund Managers (Pty) Ltd	Not submitted to the legislature
KwaZulu-Natal Planning and Development Commission	Not submitted to the legislature
KwaZulu-Natal Represented Political Parties' Fund	Not submitted to the legislature
Traditional Levies and Trust Account	Not submitted to the legislature
uMsekeli Municipal Support Services	Not submitted to the legislature
KwaZulu-Natal Agricultural Development Trust	Dormant entity

PART B - AUDITS NOT CONDUCTED BY THE AGSA

SECTION 8: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

8.1 Summary of audit outcomes

Table 30: Summary of audit outcomes of audits not conducted by the AGSA

Type of audit opinion	Schedule 3 entities
Opinion on financial statements	
Disclaimer	0
Adverse	0
Qualified	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	11
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0
Total number of audits reported on	11
Number of audits not finalised at 31 August 2010	0
Total number of audits	11
Findings arising from the AGSA's other legal reporting responsibilities	
Predetermined objectives	11
Compliance with laws and regulations	11

Eleven schedule 3 public entities in KwaZulu-Natal were not audited by the AGSA.

These public entities are Cowslip Investment (Pty) Ltd, Durban Wharfside Trust, Nongoma Plaza Ltd, Richards Bay IDZ (Pty) Ltd, Sibaya Conservation Projects (Pty) Ltd, Sundumbili Plaza Ltd and Ubuciko Twines and Fabric (Pty) Ltd, which are all subsidiaries of the Ithala Development Finance Corporation Limited; as well as Banzi Pan Devco (Pty) Ltd, Mabibi Development Company (Pty) Ltd, Moses Kotane Institute and Rocktail Bay Devco (Pty) Ltd, which are all associates of the Ithala Development Finance Corporation Limited.

All 11 schedule 3 public entities received an audit opinion of financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. The internal control findings related to non-compliance with the PFMA and the Companies Act of SA.

8.1.1 Status of completion of audits

KwaZulu-Natal does not have schedule 2 entities. All schedule 3 entities were audited within the legislated time frame.

8.1.2 Audit of financial statements

Discussion on qualification areas

None of the KwaZulu-Natal schedule 3 public entities received a qualified audit opinion.

8.1.3 Funding of operations, financial sustainability and going concern

Richards Bay IDZ (Pty) Ltd incurred a net loss of R7,6 million during the year ended 31 March 2010 and its current liabilities exceeded its total assets by R2,9 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Table 31: Schedule 3 public entity with concerns related to funding of operations, financial sustainability and going concern

Entity	Reason
Richards Bay IDZ (Pty) Ltd	Net loss of R7,6 million and current liabilities exceeded total assets by R2,9 million

8.1.4 Irregular as well as fruitless and wasteful expenditure incurred during the year

Irregular expenditure – R3,5 million

Table 32: Nature and extent of irregular expenditure

Type of entity	Nature and extent of irregular expenditure								
	Related to SCM			Related to compensation of employees			Other		
	Number	%	R'000	Number	%	R'000	Number	%	R'000
Schedule 3 public entities	1	9%	3 491	0	0	0	0	0	0
Total	1	9%	3 491	0	0	0	0	0	0

Note: KwaZulu-Natal does not have schedule 2 or other public entities not audited by the AGSA.

Moses Kotane Institute incurred irregular expenditure of R3,5 million during the period from 1 January 2009 to 31 March 2010 (period of financial statements), as a result of payments against pro forma invoices for services that were not in accordance with part 6 (frameworks), 16A (SCM) of the PFMA. However, this expenditure was condoned by the audit committee.

Fruitless and wasteful expenditure

No fruitless and wasteful expenditure was incurred or was revealed during audits.

8.1.5 Material impairment of assets

The schedule 3 public entities did not incur material losses or impairment of assets.

8.2 Findings on predetermined objectives

8.2.1 Findings as per subheadings in the auditor's report

Table 33: Summary of findings arising from the audit of predetermined objectives

Category of finding	Schedule 3 public entities
Non-compliance with regulatory requirements	100%
Reported information not useful	0%
Reported information not reliable	0%
Information not submitted for auditing by 31 May 2010	100%
Total number of audits with findings	11

Not one of the 11 schedule 3 public entities submitted information on their performance against predetermined objectives as required by section 55(2)(a) of the PFMA.

8.3 Findings on compliance with laws and regulations

Table 34: Summary of findings relating to compliance with laws and regulations

Top three categories	Number	Percentage
Schedule 3 public entities		
No information on reporting on predetermined objectives	11	100%
Annual general meeting not held	3	27%
Failure to lodge annual returns with CIPRO	2	18%
Special resolutions and minutes not kept	1	9%
Transversal material misstatements corrected	0	0%

Public Finance Management Act

None of the schedule 3 public entities complied with section 55(2)(a) of the PFMA, as they did not submit information on their performance against predetermined objectives.

Companies Act of South Africa

Three schedule 3 public entities, namely Mabibi Development Company (Pty) Ltd, Rocktail Bay Devco (Pty) Ltd and Ubuciko Twines and Fabric (Pty) Ltd, did not comply with section 179 of the Companies Act of SA. Section 179 requires companies to hold an annual general meeting within nine months of the end of the financial year. This meeting is held to deal with, amongst other things, the approval of annual financial statements.

Two public schedule 3 entities, namely Nongoma Plaza Ltd and Sundumbili Plaza Ltd, did not comply with section 173 of the Companies Act of SA. Section 173 requires companies to lodge an annual return within the prescribed deadlines. Failure to do this has resulted in these companies being de-registered by CIPRO.

No transversal material misstatements requiring correction were identified during the audits.

8.4 Drivers and audit outcomes

The reported internal control deficiencies cover matters relating to findings on predetermined objectives and compliance with applicable laws and regulations. The matters are analysed under the three fundamentals of internal control below.

8.4.1 Leadership

There was a lack of oversight to ensure that schedule 3 public entities complied with all applicable laws and regulations. For example, annual reports were not tabled for the 2008-09 financial year and there was no reporting on performance against predetermined objectives at any of the schedule 3 public entities. There was specific concern regarding oversight responsibilities at Banzi Pan Devco (Pty) Ltd, Mabibi Development Company (Pty) Ltd, Rocktail Bay Devco (Pty) Ltd and Sibaya Conservation Projects (Pty) Ltd.

Actions to mitigate risks were not taken at Cowslip Investment (Pty) Ltd, Durban Wharfside Trust, Nongoma Plaza Ltd, Richards Bay IDZ (Pty) Ltd, Sundumbili Plaza Ltd and Ubuciko Twines and Fabric (Pty) Ltd.

8.4.2 Financial and performance management

All the schedule 3 public entities lacked adequate systems to ensure reporting on performance objectives. Furthermore, a lack of adequate financial management systems was identified at Banzi Pan Devco (Pty) Ltd, Mabibi Development Company (Pty) Ltd, Rocktail Bay Devco (Pty) Ltd and Sibaya Conservation Projects (Pty) Ltd.

8.4.3 Governance

There was a lack of governance at all schedule 3 public entities, except Richards Bay IDZ (Pty) Ltd, as they did not have effective audit committees. Furthermore, there was a lack of oversight by the audit committees and internal audit over matters pertaining to non-compliance with the Companies Act of SA.

8.5 Investigations and performance audits

8.5.1 Investigations

No investigations at any of the schedule 3 public entities were revealed during the audit.

8.5.2 Performance audits

Performance audits were not conducted at any of the schedule 3 public entities.

SECTION 9: STATUS OF TABLING OF ANNUAL REPORTS

9.1 Summary of annual reports tabled

None of the section 3 public entities had tabled annual reports for 2008-09.

Two out of the 11 entities, namely Richards Bay IDZ (Pty) Ltd and Moses Kotane Institute, have tabled annual reports in respect of the 2009-10 financial year.

Cowslip Investment (Pty) Ltd, Durban Wharfside Trust, Nongoma Plaza Ltd, Sibaya Conservation Projects (Pty) Ltd, Sundumbili Plaza Ltd, Ubuciko Twines and Fabric (Pty) Ltd, Banzi Pan Devco (Pty) Ltd, Mabibi Development Company (Pty) Ltd and Rocktail Bay Devco (Pty) Ltd have not submitted annual reports for tabling.

CONCLUSION

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

Departments and public entities should focus on addressing shortcomings around capital assets, both movable and immovable. A further area of concern is that of budgetary control and monitoring of spending against the budget on an ongoing basis. Overexpenditure, which has led to unauthorised expenditure, has placed a severe burden on the province and increasing trends in irregular expenditure need urgent action plans to be formulated and strictly monitored to prevent a recurrence. Underexpenditure, on the other hand, is also alarming, as it has a direct impact on service delivery or could raise questions about the quality of public services. It requires proper planning, execution and oversight of projects by the leadership to ensure delivery.

Certain public entities need to take committed steps in improving their financial administration to avoid qualified opinions. The immediate focus should be on addressing all shortcomings around the completeness of revenue and other general issues that were identified by the audits.

The repetitive 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 perform ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans.

It is also important for departments and public entities to 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 the executive that it is possible to obtain a financially unqualified auditor's report with clean administrations if key controls are institutionalised and constantly monitored by the leadership.

We are, however, confident that the challenges are not insurmountable and remain committed to working with the provincial legislature and the 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 THE GENERAL REPORT

- Annexure 1:** Listing of audit outcomes, areas qualified and findings on predetermined objectives
- Annexure 2:** Listing of key non-financial statement findings related to compliance with laws and regulations
- Annexure 3:** Listing of departments and entities with dates on which annual reports were tabled
- Annexure 4:** Listing of audit findings raised on common IT focus areas
- Annexure 5:** Listing of departments and public entities – leadership
- Annexure 6:** Listing of departments and public entities – financial and performance management
- Annexure 7:** Listing of departments and public entities – governance

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

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010
Audits conducted by the AGSA															
Departments															
1	Agriculture, Environmental Affairs and Rural Development	Qualified	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
2	Arts and Culture	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
3	Community Safety and Liaison	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
4	Cooperative Governance and Traditional Affairs	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
5	Economic Development and Tourism	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
6	Education	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
7	Health	Qualified	Qualified												
8	Human Settlements	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
9	Office of the Premier	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
10	KwaZulu-Natal Provincial Legislature	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												

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

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010
11	KwaZulu-Natal Provincial Revenue Fund	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
12	KwaZulu-Natal Provincial Treasury	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
13	Public Works	Qualified	Qualified												
14	Social Development	Qualified	Qualified												
15	Sport and Recreation	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations												
16	Royal Household	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
17	Transport	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
Public entities															
18	Amatfa aKwaZulu-Natali	Qualified	Qualified												
19	Dube TradePort	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
20	Ithala Development Finance Corporation Limited	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
21	Ithala Limited	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
22	Kwanaloga	Outstanding	Qualified												

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

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas							Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable
23	KwaZulu-Natal Agricultural Development Trust	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations											
24	KwaZulu-Natal Gambling Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations											
25	KwaZulu-Natal Growth Fund Managers (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations											
26	KwaZulu-Natal Nature Conservation Board	Qualified	Qualified											
27	KwaZulu-Natal Sharks Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations											
28	KwaZulu-Natal Tourism Authority	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations											
29	KwaZulu-Natal Business Rehabilitation Trust Fund	Outstanding	Qualified											
30	KwaZulu-Natal Housing Fund	Qualified	Qualified											
31	KwaZulu-Natal Planning and Development Commission	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations											
32	KwaZulu-Natal Provincial Pharmaceutical Supply Depot	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations											
33	KwaZulu-Natal Represented Political Parties' Fund	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified											

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

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010
34	Mjindi Farming (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
35	Natal Joint Municipal Pension Fund (Provident)	Outstanding	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations												
36	Natal Joint Municipal Pension Fund (Retirement)	Outstanding	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations												
37	Natal Joint Municipal Pension Fund (Superannuation)	Outstanding	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations												
38	Trade and Investment KwaZulu-Natal	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
39	Traditional Levies and Trust Account	Qualified	Adverse												
40	uMsekezi Municipal Support Services	Qualified	Qualified												

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

Number	Auditee	Audit outcome 2009-10 Capital assets	Financial statement qualification areas									Findings on predetermined objectives		
			Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for auditing by 31 May 2010	
Audits not conducted by the AGSA														
Schedule 3 and other entities														
1	Banzi Pan Devco (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
2	Covslip Investment (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
3	Durban Wharfside Trust	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
4	Mabibi Development Company (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
5	Moses Kotane Institute	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
6	Nongoma Plaza Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
7	Richards Bay IDZ (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
8	Rocktail Bay Devco (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
9	Sibaya Conservation Projects (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
10	Sundumbuli Plaza Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												
11	Ubucko Twines and Fabric (Pty) Ltd	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations												

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

Number	Auditee	Prohibited action/non-adherence																
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct/disciplinary or criminal proceedings	Plans (strategic/corporate/integrated development)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity-specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure	Transversal material misstatements corrected
Audits conducted by the AGSA																		
Departments																		
1	Agriculture, Environmental Affairs and Rural Development																	
2	Arts and Culture																	
3	Community Safety and Liaison																	
4	Cooperative Governance and Traditional Affairs																	
5	Economic Development and Tourism																	
6	Education																	
7	Health																	
8	Human Settlements																	
9	Office of the Premier																	
10	KwaZulu-Natal Provincial Treasury																	
11	Public Works																	
12	Social Development																	
13	Sport and Recreation																	
14	Royal Household																	
15	Transport																	
16	KwaZulu-Natal Provincial Legislature																	
17	KwaZulu-Natal Provincial Revenue Fund																	
Public entities																		
18	Dube TradePort																	
19	KwaZulu-Natal Housing Fund																	
20	KwaZulu-Natal Business Rehabilitation Trust Fund																	
21	KwaZulu-Natal Represented Political Parties' Fund																	
22	Natal Joint Municipal Pension Fund (Provident)																	

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

Number	Auditee	Prohibited action /non-adherence																
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidiaries	Misconduct /disciplinary or criminal proceedings	Plans (strategic/corporate/ integrated development)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity-specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure	Transversal material misstatements corrected
23	Natal Joint Municipal Pension Fund (Retirement)																	
24	Natal Joint Municipal Pension Fund (Superannuation)																	
25	Trade and Investment KwaZulu-Natal																	
26	Traditional Levies and Trust Account																	
27	Amatfa aKwaZulu-Natali																	
28	KwaZulu-Natal Gambling Board																	
29	KwaZulu-Natal Growth Fund Managers (Pty) Ltd																	
30	Kwanaloga																	
31	KwaZulu-Natal Sharks Board																	
32	KwaZulu-Natal Agricultural Development Trust																	
33	KwaZulu-Natal Nature Conservation Board																	
34	KwaZulu-Natal Planning and Development Commission																	
35	KwaZulu-Natal Tourism Authority																	
36	uMsekele Municipal Support Services																	
37	Ithala Development Finance Corporation Limited																	
38	Ithala Limited																	
39	Mjindi Farming (Pty) Ltd																	
40	KwaZulu-Natal Provincial Pharmaceutical Supply Depot																	
Audits not conducted by the AGSA																		
Schedule 3 and other entities																		
1	Bonzi Pan Devco (Pty) Ltd																	
2	Mabibi Development Company (Pty) Ltd																	
3	Richards Bay IDZ (Pty) Ltd																	
4	Sibaya Conservation Projects (Pty) Ltd																	
5	Ubuciko Twines and Fabric (Pty) Ltd																	

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

Number	Auditee	Prohibited action/non-adherence																
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct /disciplinary or criminal proceedings	Plans (strategic/corporate/integrated development)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity-specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure	Transversal material misstatements corrected
6	Cowslip Investment (Pty) Ltd																	
7	Nongoma Plaza Ltd																	
8	Rockrail Bay Devco (Pty) Ltd																	
9	Sundumbili Plaza Ltd																	
10	Durban Wharfside Trust																	
11	Moses Kotane Institute																	

ANNEXURE 3: Listing of departments and entities with dates on which annual reports were tabled

No.	Auditee	Date of tabling of annual report (Speaker's Office)
Audits conducted by the AGSA		
Departments		
1	Agriculture, Environmental Affairs and Rural Development	03/09/2010
2	Arts and Culture	01/09/2010
3	Community Safety and Liaison	07/09/2010
4	Cooperative Governance and Traditional Affairs	Not submitted
5	Economic Development and Tourism	31/08/2010
6	Education	09/09/2010
7	Health	31/08/2010
8	Human Settlements	01/09/2010
9	Office of the Premier	31/08/2010
10	KwaZulu-Natal Provincial Legislature	15/09/2010
11	KwaZulu-Natal Provincial Revenue Fund	N/A
12	KwaZulu-Natal Provincial Treasury	31/08/2010
13	Public Works	15/09/2010
14	Social Development	31/08/2010
15	Sport and Recreation	01/09/2010
16	Royal Household	31/08/2010
17	Transport	07/09/2010
Public entities		
1	Amafa aKwaZulu-Natali	30/08/2010
2	Dube TradePort	31/08/2010
3	Ithala Development Finance Corporation Limited	31/08/2010
4	Ithala Limited	31/08/2010
5	Kwanaloga	Audit outstanding
6	KwaZulu-Natal Agricultural Development Trust	Dormant
7	KwaZulu-Natal Gambling Board	30/08/2010
8	KwaZulu-Natal Growth Fund Managers (Pty) Ltd	Not submitted
9	KwaZulu-Natal Nature Conservation Board	02/09/2010
10	KwaZulu-Natal Sharks Board	02/09/2010
11	KwaZulu-Natal Tourism Authority	31/08/2010
12	KwaZulu-Natal Business Rehabilitation Trust Fund	Audit outstanding
13	KwaZulu-Natal Housing Fund	01/09/2010
14	KwaZulu-Natal Planning and Development Commission	Not submitted
15	KwaZulu-Natal Provincial Pharmaceutical Supply Depot	31/08/2010
16	KwaZulu-Natal Represented Political Parties' Fund	Not submitted
17	Mjindi Farming (Pty) Ltd	03/09/2010
18	Natal Joint Municipal Pension Fund (Provident)	Audit outstanding
19	Natal Joint Municipal Pension Fund (Retirement)	Audit outstanding
20	Natal Joint Municipal Pension Fund (Superannuation)	Audit outstanding
21	Trade and Investment KwaZulu-Natal	31/08/2010
22	Traditional Levies and Trust Account	Not submitted

ANNEXURE 3: Listing of departments and entities with dates on which annual reports were tabled

No.	Auditee	Date of tabling of annual report (Speaker's Office)
23	uMsekeli Municipal Support Services	Not submitted
Audits not conducted by the AGSA		
Schedule 3 and other entities		
1	Banzi Pan Devco (Pty) Ltd	Not submitted
2	Cowslip Investment (Pty) Ltd	Not submitted
3	Durban Wharfside Trust	Not submitted
4	Mabibi Development Company (Pty) Ltd	Not submitted
5	Moses Kotane Institute	31/08/2010
6	Nongoma Plaza Ltd	Not submitted
7	Richards Bay IDZ (Pty) Ltd	01/09/2010
8	Rocktail Bay Devco (Pty) Ltd	Not submitted
9	Sibaya Conservation Projects (Pty) Ltd	Not submitted
10	Sundumbili Plaza Ltd	Not submitted
11	Ubuciko Twines and Fabric (Pty) Ltd	Not submitted

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

No.	Auditee	Focus areas			
		IT governance	Security management	User access control	IT service continuity
Audits conducted by the AGSA					
Departments					
1	Agriculture, Environmental Affairs and Rural Development				
2	Arts and Culture				
3	Community Safety and Liaison				
4	Cooperative Governance and Traditional Affairs				
5	Economic Development and Tourism				
6	Education				
7	Health				
8	Human Settlements				
9	Office of the Premier				
10	KwaZulu-Natal Provincial Legislature				
11	KwaZulu-Natal Provincial Treasury				
12	Public Works				
13	Social Development				
14	Sport and Recreation				
15	Transport				
Public entities					
1	Dube TradePort				
2	KwaZulu-Natal Housing Fund				
3	KwaZulu-Natal Represented Political Parties' Fund				
4	Trade and Investment KwaZulu-Natal				
5	Traditional Levies and Trust Account				
6	Amafa aKwaZulu-Natali				
7	KwaZulu-Natal Agricultural Development Trust				
8	KwaZulu-Natal Gambling Board				
9	KwaZulu-Natal Growth Fund Managers (Pty) Ltd				
10	KwaZulu-Natal Nature Conservation Board				
11	KwaZulu-Natal Sharks Board				
12	KwaZulu-Natal Tourism Authority				
13	KwaZulu-Natal Planning & Development Commission				
14	uMsekeli Municipal Support Services				
15	Ithala Development Finance Corporation Limited				
16	Ithala Limited				
17	Mjindi Farming (Pty) Ltd				
18	KwaZulu-Natal Provincial Pharmaceutical Supply Depot				

ANNEXURE 5: LISTING OF DEPARTMENTS AND ENTITIES – LEADERSHIP (Note: full definitions of good practices are provided under section 4.1.1 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices						Improvements required			
			Environment for financial management and service delivery		Organisational structure and skills	Action plans	IT system access control deficiencies	Environment for financial management and service delivery		Organisational structure and skills	Action plans	IT system access control deficiencies
			Financial statements	Predetermined objectives				Financial statements	Predetermined objectives			
1	Dube TradePort	P										
2	KwaZulu-Natal Business Rehabilitation Trust Fund	P										
3	KwaZulu-Natal Housing Fund	P										
4	Natal Joint Municipal Pension Fund (Provident)	P										
5	Natal Joint Municipal Pension Fund (Retirement)	P										
6	Natal Joint Municipal Pension Fund (Superannuation)	P										
7	KwaZulu-Natal Represented Political Parties' Fund	P										
8	Trade and Investment KwaZulu-Natal	P										
9	Traditional Levies and Trust Account	P										
10	Agriculture, Environmental Affairs and Rural Development	D										
11	Arts and Culture	D										
12	Community Safety and Liaison	D										
13	Economic Development and Tourism	D										
14	Education	D										
15	Health	D										
16	Human Settlements	D										
17	Cooperative Governance and Traditional Affairs	D										
18	Office of the Premier	D										
19	KwaZulu-Natal Provincial Legislature	D										
20	KwaZulu-Natal Provincial Treasury	D										
21	Public Works	D										
22	Social Development	D										
23	Sport and Recreation	D										

ANNEXURE 5: LISTING OF DEPARTMENTS AND ENTITIES – LEADERSHIP (Note: full definitions of good practices are provided under section 4.1.1 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices						Improvements required			
			Environment for financial management and service delivery		Organisational structure and skills	Action plans	IT system access control deficiencies	Environment for financial management and service delivery		Organisational structure and skills	Action plans	IT system access control deficiencies
			Financial statements	Predetermined objectives				Financial statements	Predetermined objectives			
24	Royal Household	D										
25	Transport	D										
26	Amafra aKwaZulu-Natali	P										
27	KwaZulu-Natal Agricultural Development Trust	P										
28	KwaZulu-Natal Gambling Board	P										
29	KwaZulu-Natal Growth Fund Managers (Pty) Ltd	P										
30	KwaZulu-Natal Nature Conservation Board	P										
31	KwaZulu-Natal Sharks Board	P										
32	KwaZulu-Natal Tourism Authority	P										
33	KwaZulu-Natal Planning and Development Commission	P										
34	uMsekele Municipal Support Services	P										
35	Ithala Development Finance Corporation Limited	P										
36	Ithala Limited	P										
37	Mjindi Farming (Pty) Ltd	P										
38	KwaZulu-Natal Provincial Pharmaceutical Supply Depot	P										
			15	12	20	23	18	19	21	14	11	15

ANNEXURE 6: LISTING OF DEPARTMENTS AND ENTITIES: FINANCIAL AND PERFORMANCE MANAGEMENT (Note: full definitions of good practices are provided under section 4.1.2 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices								Improvements required				
			Documented policies and procedures to be implemented to guide the operations of the departments and public entities	Record keeping and record management	Asset registers and suspense accounts clearing	Monitoring quality of financial and performance information		Data integrity (IT systems)			Monitoring quality of financial and performance information		Data integrity (IT systems)		
						Financial statements	Predetermined objectives	User access control	Security management	Business continuity	Financial statements	Predetermined objectives	User access control	Security management	Business continuity
1	Dube TradePort	P													
2	KwaZulu-Natal Business Rehabilitation Trust Fund	P													
3	KwaZulu-Natal Housing Fund	P													
4	Natal Joint Municipal Pension Fund (Provident)	P													
5	Natal Joint Municipal Pension Fund (Retirement)	P													
6	Natal Joint Municipal Pension Fund (Superannuation)	P													
7	KwaZulu-Natal Represented Political Parties' Fund	P													
8	Trade and Investment KwaZulu-Natal	P													
9	Traditional Levies and Trust Account	P													
10	Agriculture, Environmental Affairs and Rural Development	D													
11	Arts and Culture	D													
12	Community Safety and Liaison	D													
13	Economic Development and Tourism	D													
14	Education	D													
15	Health	D													
16	Human Settlements	D													

ANNEXURE 6: LISTING OF DEPARTMENTS AND ENTITIES: FINANCIAL AND PERFORMANCE MANAGEMENT (Note: full definitions of good practices are provided under section 4.1.2 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices							Improvements required																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
			Documented policies and procedures to be implemented to guide the operations of the departments and public entities and ensure compliance with them	Record keeping and record management	Asset registers and suspense accounts clearing	Monitoring quality of financial and performance information		Data integrity (IT systems)			Documented policies and procedures to be implemented to guide the operations of the departments and public entities and ensure compliance with them	Record keeping and record management	Asset registers and suspense accounts clearing	Monitoring quality of financial and performance information		Data integrity (IT systems)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
						Financial statements	Predetermined objectives	User access control	Security management	Business continuity				Financial statements	Predetermined objectives	User access control	Security management	Business continuity																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
17	Cooperative Governance and Traditional Affairs	D																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				

ANNEXURE 6: LISTING OF DEPARTMENTS AND ENTITIES: FINANCIAL AND PERFORMANCE MANAGEMENT (Note: full definitions of good practices are provided under section 4.1.2 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices							Improvements required								
			Documented policies and procedures to be implemented to guide the operations of the departments and public entities	Record keeping and record management	Asset registers and suspense accounts clearing	Monitoring quality of financial and performance information	Data integrity (IT systems)			Documented policies and procedures to be implemented to guide the operations of the departments and public entities	Record keeping and record management	Asset registers and suspense accounts clearing	Financial statements	Predetermined objectives	User access control	Security management	Business continuity	
34	uMsekeli Municipal Support Services	P																
35	Ihala Development Finance Corporation Limited	P																
36	Ihala Limited	P																
37	Mjindi Farming (Pty) Ltd	P																
38	KwaZulu-Natal Provincial Pharmaceutical Supply Depot	P																
			21	23	24	17	12	16	17	18	13	11	10	17	21	17	16	15

ANNEXURE 7: LISTING OF DEPARTMENTS AND ENTITIES: GOVERNANCE (Note: full definitions of good practices are provided under section 4.1.3 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices				Improvements required			
			Monitoring by internal audit and audit committees		Monitor and evaluate risk in IT systems including implementation of action plans to address audit outcomes	IT governance framework	Monitoring by internal audit and audit committees		Monitor and evaluate risk in IT systems including implementation of action plans to address audit outcomes	IT governance framework
			Financial statements	Predetermined objectives			Financial statements	Predetermined objectives		
1	Dube TradePort	P								
2	KwaZulu-Natal Business Rehabilitation Trust Fund	P								
3	KwaZulu-Natal Housing Fund	P								
4	Natal Joint Municipal Pension Fund (Provident)	P								
5	Natal Joint Municipal Pension Fund (Retirement)	P								
6	Natal Joint Municipal Pension Fund (Superannuation)	P								
7	KwaZulu-Natal Represented Political Parties' Fund	P								
8	Trade and Investment KwaZulu-Natal	P								
9	Traditional Levies and Trust Account	P								
10	Agriculture, Environmental Affairs and Rural Development	D								
11	Arts and Culture	D								
12	Community Safety and Liaison	D								
13	Economic Development and Tourism	D								
14	Education	D								
15	Health	D								
16	Human Settlements	D								
17	Cooperative Governance and Traditional Affairs	D								
18	Office of the Premier	D								
19	KwaZulu-Natal Provincial Legislature	D								
20	KwaZulu-Natal Provincial Treasury	D								
21	Public Works	D								
22	Social Development	D								
23	Sport and Recreation	D								
24	Royal Household	D								
25	Transport	D								
26	Amafa aKwaZulu-Natali	P								

ANNEXURE 7: LISTING OF DEPARTMENTS AND ENTITIES: GOVERNANCE (Note: full definitions of good practices are provided under section 4.1.3 of the detailed report)

Number	Department/Entity	Province	Maintained/improved previous good practices				Improvements required			
			Monitoring by internal audit and audit committees		Monitor and evaluate risk in IT systems including implementation of action plans to address audit outcomes	IT governance framework	Monitoring by internal audit and audit committees		Monitor and evaluate risk in IT systems including implementation of action plans to address audit outcomes	IT governance framework
			Financial statements	Predetermined objectives			Financial statements	Predetermined objectives		
27	KwaZulu-Natal Agricultural Development Trust	P								
28	KwaZulu-Natal Gambling Board	P								
29	KwaZulu-Natal Growth Fund Managers (Pty) Ltd	P								
30	KwaZulu-Natal Nature Conservation Board	P								
31	KwaZulu-Natal Sharks Board	P								
32	KwaZulu-Natal Tourism Authority	P								
33	KwaZulu-Natal Planning and Development Commission	P								
34	uMsekele Municipal Support Services	P								
35	Ithala Development Finance Corporation Limited	P								
36	Ithala Limited	P								
37	Mjindi Farming (Pty) Ltd	P								
38	KwaZulu-Natal Provincial Pharmaceutical Supply Depot	P								
			24	12	22	16	10	21	12	17

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