



on the provincial audit outcomes of the

GENERAL REPORT NORTHERN CAPE

2009-10



**AUDITOR - GENERAL
SOUTH AFRICA**

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General report

**on the provincial audit outcomes
of the Northern Cape 2009-10**

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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 country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



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SECTION 1: FOREWORD

It is with pleasure that I present to the Northern Cape Provincial Legislature the 2009-10 general report, which summarises the results of the audit outcomes of the provincial departments, including the legislature and the revenue fund, as well as provincial and other public entities for the financial year ended 31 March 2010.

It is unfortunate to note that the province's audit outcomes have remained stagnant year on year. With the exception of the Department of Education (which, despite being qualified, made significant strides in addressing the fundamental issues that had resulted in past disclaimers), none of the other departments and entities attained noticeable improvements. This report also highlights the continuing trend of the timely submission of financial statements for audit purposes by all departments, including the legislature, and most public entities. None of the departments and entities attained a 'clean audit report' (i.e. were financially unqualified with no findings on predetermined objectives or compliance with laws and regulations). Eleven of the departments' audit outcomes remained unchanged; two of which, namely Sport, Arts and Culture as well as Health, still had qualified and disclaimed opinions, respectively. Education and Cooperative Governance, Human Settlement and Traditional Affairs (COGHSTA) were the only departments that had improved outcomes, whilst Roads and Public Works regressed from a qualified opinion to a disclaimer.

The key drivers of the overall lack of improvement in audit outcomes have been a lack of management oversight over day-to-day transactions and processing of information, specifically relating to the maintenance and safekeeping of documentation, and a lack of leadership, namely the premier and members of the executive council (MECs), setting the right tone at the top to create an environment conducive to sound financial management and improved service delivery.

All departments and entities audited require improvements in the areas of control around information technology (IT) systems and compliance with laws and regulations, with particular reference to transversal material misstatements in the financial statements submitted for auditing, deviations from supply chain management (SCM) prescripts, and ineffective internal audit and audit committees due to a lack of capacity in these key governance structures. Filling the audit committee vacancies with adequately skilled individuals remains a priority for the province.

Other improvements are required at nine departments and two entities relating to reporting on predetermined objectives, particularly the usefulness of reported performance information and non-compliance with regulatory requirements. Human resource (HR) management, with particular reference to the filling of vacancies at senior management level and in finance units, is another area that requires the leadership's constant attention.

The attainment of 'clean audit reports' by all government departments and public and other entities is a milestone we encourage and support. I am confident that this is achievable if the executive leadership regularly monitors the implementation of action plans and key controls by each department. These key controls must address the four areas of financial reporting, compliance with laws and regulations, HR management, and predetermined objectives (service delivery). It is critical for the executive and the legislature to adopt a spirit of cooperation to ensure that the province strives to achieve clean administration through collective leadership thinking and action.

It is pleasing to note that the provincial executive and the legislature have made the following commitments to drive the province towards clean administration:

- Procuring departments (mainly Health and Education) will conclude cooperation agreements with the Department of Roads and Public Works for them to have a closer involvement in procurement processes to prevent non-compliance with SCM.
- The legislature to take co-responsibility with the executive for the negative audit outcomes.
- Decreasing the number of portfolio committees (PCs) from 10 to six in order to better utilise the province's financial resources. Furthermore, members will be taken through training programmes to better equip them to exercise their oversight responsibilities.
- The oversight responsibility of the Standing Committee on Public Accounts (SCOPA) and PCs will extend beyond annual reports. They will also monitor the departments' implementation of action plans.
- The executive leadership will strengthen the audit committees in order for them to play a key role in the monitoring of action plans and key controls.
- MECs will address vacancies and the lack of document management systems.
- MECs acknowledged that disclosure notes were not only the responsibility of the chief financial officers (CFOs) and they pledged to ensure that all directorates within the departments would work jointly towards clean reports.
- There will be a dedicated internal audit unit for Health.
- Budget offices will be strengthened in order to eliminate unauthorised expenditure.
- MECs will take appropriate action against serial defaulters.
- The executive is dedicated to ensuring that audit outcomes improve next year.
- The MEC for Health will appoint regional financial managers to deal with accruals and capturing to be done in Kimberley bi-monthly. A records manager will also be appointed to deal with disclaimer issues.
- Six-monthly interim financial statements will be prepared as at 30 September 2010; thereafter quarterly financial statements will be prepared from December 2010.

Through our continued commitment to simpler, clearer and more relevant reporting as well as the visibility of the leadership of our audit teams, we support the executive and the legislature in their committed efforts to work towards achieving clean administration. In this regard we will continue our regular evaluation of the internal control environment at all departments. Through our quarterly feedback sessions with the collective provincial leadership, we will provide early warning signals on the effectiveness of these key controls. We will also update the internal control dashboard with our assessment and evaluation of the leadership tone in influencing the adequacy of internal controls.

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

Auditor-General

**Auditor-General
Pretoria
December 2010**

SECTION 2: EXECUTIVE SUMMARY

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

Overview of audit outcomes

The financial statements of all 14 (2009: 14) provincial departments (including the legislature and the revenue fund) and three of the six entities in the province (2009: three) were submitted in accordance with the legislated time frames. The audits of these financial statements were all completed by the legislated deadline. Although the timely submission of financial statements and predetermined objective information is important, particular attention needs to be paid to the quality of the information submitted for audit purposes to avoid qualifications and material corrections.

The audit of the Northern Cape Premier's Education Trust Fund (of which the financial statements were received on 10 June 2010) was not completed within two months from the date of receipt of the financial statements, due to complications in obtaining documentation relating to demarcation changes from the parent department. The audit was finalised on 23 September 2010.

The audit of two entities had not been finalised at 30 September 2010. These entities were excluded from the analysis throughout this report. Details are provided in table 8.

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

A high-level review of audit outcomes for the current and prior year is presented below.

Table 1: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	2	2	0	1
Adverse	0	0	1	0
Qualified	2	3	2	3
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	9	1	1
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	0	0
Total number of audits reported on	14	14	4	5
Number of audits not finalised at 30 September 2010	0	0	2	1
Total number of audits	14	14	6	6
Entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	9	10	2	2
Compliance with laws and regulations	14	14	4	4

Overall, two departments improved and one department and one entity regressed. The rest remained unchanged.

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

- Education improved from a disclaimer of audit opinion to a qualified audit opinion and COGHSTA improved from a qualified opinion to a financially unqualified audit opinion with findings on predetermined objectives and compliance with laws and regulations.
- None of the departments or entities attained a financially unqualified audit opinion with no findings on predetermined objectives or compliance with laws and regulations.
- Sport, Arts and Culture retained a qualified audit opinion.
- Roads and Public Works regressed from a qualified audit opinion to a disclaimer.
- Health received a disclaimer of audit opinion for the fifth consecutive year.

Further details are provided in section 3.1.

Seven (2008-09: eight) departments and entities were qualified in the year under review. The financial statement qualification areas that occurred at more than 40% of the departments or entities audited are as follows:

Table 2: Financial statement areas qualified

Financial statement area qualified	No. of departments qualified in 2009-10	No. of departments qualified in 2008-09	No. of entities qualified in 2009-10	No. of entities qualified in 2008-09
Capital assets	3 of 4 (75%)	5 of 5 (100%)	2 of 3 (67%)	2 of 3 (67%)
Current assets	1 of 4 (25%)	2 of 5 (40%)	2 of 3 (67%)	0 of 3 (0%)



Financial statement area qualified	No. of departments qualified in 2009-10	No. of departments qualified in 2008-09	No. of entities qualified in 2009-10	No. of entities qualified in 2008-09
Other disclosure items	3 of 4 (75%)	3 of 5 (60%)	1 of 3 (33%)	2 of 3 (67%)
Revenue	0 of 4 (0%)	0 of 5 (0%)	2 of 3 (67%)	1 of 3 (33%)
Expenditure	2 of 4 (50%)	2 of 5 (40%)	1 of 3 (33%)	1 of 3 (33%)
Unauthorised and/or irregular and/or fruitless and wasteful expenditure	3 of 4 (75%)	4 of 5 (80%)	1 of 3 (33%)	1 of 3 (33%)

Four of the 14 departments audited (COGHSTA, Education, Health and Northern Cape Provincial Legislature) incurred a total of R40,3 million in unauthorised expenditure. Unauthorised expenditure incurred would have increased by a further 37% had the accruals (R14,9 million) at year-end been paid in time.

Irregular expenditure amounting to R215,7 million was incurred by 11 of the 14 departments audited, due to non-adherence to SCM processes or the Public Service Regulations, 2001 (PSR). No irregular expenditure was incurred by entities. Fifty-seven per cent of the irregular expenditure was attributable to misstatements identified during the audit process and subsequently corrected by the auditees.

Two of the 14 departments audited incurred fruitless and wasteful expenditure totalling R10,6 million, due to payments to a defaulting contractor and interest on overdue accounts.

Further details on unauthorised, irregular as well as fruitless and wasteful expenditure are provided in section 3.2.1.

Health incurred material losses to the amount of R21,5 million as a result of claims due to medical negligence, while two departments incurred material losses due to lost or stolen assets amounting to R4,7 million.

Four departments materially underspent their budgets by an amount of R79,9 million. The highest underspending amounting to R29,7 million and R23,8 million was by Economic Development and Tourism on integrated economic development services and Roads and Public Works on the roads programme, respectively.

Three departments materially underspent on conditional grants by an amount of R86,2 million. The highest underspending amounting to R72 million was by Health on the hospital revitalisation grant.

Further details of material losses and underspending are provided in section 3.2.1.4.

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

- Ten (71%) departments (which included departments that also had findings in 2008-09)
- Three (75%) public entities (all of which had findings in 2008-09)

The above is a reflection of the poor overall quality of financial statements submitted for audit purposes. Of the material misstatements corrected at the departments and public entities, 45% related to misclassification and 55% to disclosure.

Financial statements containing material misstatements could distort 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 information throughout the year. Refer to section 3.2.1 for further details.

Findings arising from the audit of predetermined objectives of departments decreased to 69% (nine) from 77% (10) in the prior year. The revenue fund does not report on predetermined objectives. It must be noted that of the four entities reported on, only three report on predetermined objectives, as the Roads Capital Account's report is included with that of the Department of Roads and Public Works. Findings were raised in two of the three audits completed, the same as in the prior year.

Table 3: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	46%	54%	67%	67%
Information on performance against predetermined objectives not useful	62%	54%	0%	0%
Information on performance against predetermined objectives not reliable	46%	46%	0%	0%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0%	0%	67%	67%
Total number of audits with findings	9	10	2	2

Note: The information of the Roads Capital Account is included as part of the Department of Roads and Public Works; therefore only three entities were analysed. The revenue fund does not report on predetermined objectives; therefore 13 departments were analysed.

The percentages in the table 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 was issued.

Four departments (Economic Development and Tourism, Northern Cape Provincial Treasury, Social Development and Sport, Arts and Culture) and one public entity (Northern Cape Tourism Authority) had no findings resulting from the audit of performance information against predetermined objectives. For further details refer to section 3.3.

The table below reflects the number of departments and entities that did not comply with laws and regulations.

Table 4: Non-compliance with laws and regulations

Non-compliance	PFMA	SCM regulations	HR management
Departments	14 of 14 (100%)	11 of 14 (79%)	11 of 12 (92%)
Entities	4 of 4 (100%)	0 of 4 (0%)	2 of 4 (50%)

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. Refer to section 3.4 for further details.

Audits of IT general controls were performed at 14 departments. Significant weaknesses were identified regarding the IT control environment and management of information systems, as highlighted below:

- At 14 departments (100%) weaknesses regarding IT governance were identified.
- At 14 departments (100%) weaknesses regarding security management were identified.
- Fourteen (100%) departments had findings relating to user access control.
- Thirteen (93%) departments had findings relating to IT service continuity.

Some of these weaknesses were reported in the prior year, but had not been addressed and the risks therefore remain. This was brought to the attention of the leadership to enable them to address internal control deficiencies. Refer to section 3.5 for further details.

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

The lack of improved audit outcomes in the province can be attributed to departments and entities not having addressed the following fundamentals of internal control:

- Leadership
- Financial and performance management
- Governance

The performance of departments and entities in the three fundamental areas of key controls mentioned above is summarised in the table below.

Table 5: Weaknesses in fundamentals of internal control

Key control	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
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.				
Financial statements	1	0	13	4
Predetermined objectives	4	1	9	2
Decisive actions to implement and monitor action plans and key controls at the executive level.				
Financial statements	1	0	13	4
Predetermined objectives	4	1	9	2
Ensuring that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure.	3	4	11	0
Leadership's implementation of action plans to address user access control deficiencies.	0	IT audit work not performed on other entities	14	IT audit work not performed on other entities

Key control	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
Financial and performance management				
Basic daily key controls for processes related to financial reporting. These key controls should also be extended to deal with other disclosure notes in the financial statements and predetermined objectives.				
Financial statements	1	0	13	4
Predetermined objectives	4	1	9	2
Ensuring that asset registers are reconciled with the physical assets and financial statements on a regular basis.	7	0	7	4
Compiling accurate financial statements and performance information and continuously monitoring them for quality. Ensuring that performance information is supported with relevant and reliable information.				
Financial statements	4	0	10	4
Predetermined objectives	4	1	9	2
Application systems susceptible to compromised data integrity.	0	IT audit work not performed on other entities	14	IT audit work not performed on other entities
Governance				
Maintain or implement effective risk management strategies, including fraud prevention plans.	10	1	4	3
Shared internal audit unit capacity constraints to be addressed/audit committee members to be appointed.				
Financial statements	0	0	14	4
Predetermined objectives	0	0	13	3
Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management.	0	IT audit work not performed on other entities	14	IT audit work not performed on other entities

During 2009 the premier and MECs committed to follow a stringent action plan to address all root causes contained in the 2008-09 auditor's reports. A committee consisting of the Office of the Premier and the Northern Cape Provincial Treasury was to be formed, in conjunction with the new COGHSTA, to perform monitoring and evaluation with the objective of attaining clean administrations. The Auditor-General of South Africa (AGSA) would have been invited to meetings to provide inputs. This initiative did not materialise.

Most MECs and the premier did not monitor the implementation of action plans and key controls, with the result that the overall position in the province did not improve. Heads of department (HoDs) and senior officials did not report to the executive leadership on the progress made with the implementation of action plans.

The only exception was the MEC and senior officials at Education, which improved from a disclaimer of audit opinion to a qualified opinion. The improvement was due to the MEC setting the appropriate tone at the top by emphasising public accountability and communicating expectations clearly and timeously that finance discipline is the key to improved audit outcomes. More details are provided in sections 4.1 and 4.2.

The provincial treasury provided support, which included implementing the Logistical Information System (Logis) and a financial management capability maturity model, which is being used to determine the level of support to be offered to the various departments.

At year-end, 69 provincial SCOPA resolutions out of a total of 165 had been resolved, 65 were in progress and 31 had not been addressed. The resolutions that had not been addressed related closely to matters reported on in this report, such as systems and measures related to compliance with laws and regulations, measures to avoid irregular and unauthorised expenditure, measures to improve internal control, and addressing shortcomings identified regarding internal audit and the audit committee.

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 leadership in the province enhanced its visibility with the objective of improving the effectiveness of the audit process and to engage with all role players that could influence clean administration through quarterly key control visits.

On 27 September 2010, AGSA staff in the Northern Cape met with the premier to discuss the 2010 PFMA outcomes. This initiative by the AGSA served to inform the premier and to discuss the outcomes and key controls required of departments and entities. The results of this initiative were positive. The premier was able to assess the root causes of the qualifications and findings. Moreover, she was able to understand the AGSA's initiative in requiring quarterly key control appraisals and their link to clean administration. At this meeting the premier once more pledged her support towards clean administration and stated the following:

- All departments are developing action plans to address the 2009-10 audit outcomes.
- Functional audit committees (separate committees for Health and Education) were being established and the recruitment process for internal audit vacancies was under way.
- Operation Clean Audit will be revived under the leadership of the new director-general (DG).

The following commitments were made during the Auditor-General's roadshow held on 27 October 2010:

- The executive will monitor progress on the implementation of action plans and key controls on a monthly basis.
- CFOs and HoDs will report on the progress of the implementation of key controls to the MECs.
- Audit outcomes will be included in the performance agreements of HoDs.
- The leadership will develop retention strategies to retain skilled employees.
- Separate internal audit units and audit committees will be established for the two largest departments, namely Education and Health.
- SCOPA resolutions, action plans and key controls will all be aligned.
- Six-monthly interim financial statements will be prepared as at 30 September 2010; thereafter quarterly financial statements will be prepared from December 2010.
- The State Information Technology Agency (SITA) will be engaged to address the challenges and shortcomings specific to the listed service providers in the Northern Cape.
- Best practices will be shared between departments to ensure that each department does not need to redevelop systems and processes.
- MECs committed to taking decisive action in order to get departments to a clean administration.

The AGSA will continue monitoring the implementation and functioning of key controls and will provide feedback to MECs on a quarterly basis.

The auditor's report for the 2010-11 year may be affected by new accounting and compliance matters related to the implementation of the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA), which came into effect on 1 April 2010; the introduction of inventory as a disclosure note on which an audit opinion will have to be expressed; and the transfer of functions between departments that will be effective from 1 April 2010. These matters increase the risk of qualifications on immovable assets, inventory, movable assets and liabilities.

Overview of specific focus areas of the AGSA

The regularity audits of departments included an assessment of their compliance with legislation that supports effective HR management as well as procurement and contract management.

The legislature was excluded from the HR horizontal audit as the Public Service Act, 1994 (Act No. 103 of 1994) (PSA) and the PSR are not applicable to legislatures. The employees of the revenue fund are paid by the provincial treasury and therefore a separate horizontal audit was not done for the revenue fund. The analysis is based on a total of 12 departments.

The audits revealed that 10 of the 12 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 areas of HR planning and organisation, job evaluation, management of vacancies, appointment processes, acting positions, budgetary control, senior management performance agreements, and suspensions.

Weaknesses in the controls over compensation were identified at eight of the 12 departments in the areas of sick and incapacity leave, leave administration, performance bonuses, management of overtime, service terminations, and payroll controls. For further details refer to section 5.1.

Audits revealed that employees or their close family members have interests in suppliers of the auditees. The legislation applicable to such interests was not always complied with as employees did not always declare their interests or excluded themselves from the SCM processes.

The findings listed in the report entitled *Performance audit of entities that are connected with government employees and doing business with provincial departments*, tabled on 18 November 2009, have been investigated and appropriately dealt with by all affected departments.

Non-compliance with SCM legislation in the procurement process occurred at 11 departments (79%). The following were the most significant audit findings:

- Three quotations were not always obtained for procurement up to a value of R500 000.
- Competitive bidding processes were not always followed for procurement above R500 000.
- Contracts were awarded to suppliers who failed to provide tax clearance certificates.
- The preference point system was not always applied.
- Contracts were awarded to suppliers who did not have the highest points.

Non-compliance with SCM legislation resulted in 94% of the irregular expenditure incurred in the year under review, details of which have been included in section 3.2.1.2 of this report.

Weaknesses in the management of contracts were identified at two departments (15%). The most significant findings were as follows:

- Contracts were amended, extended or renewed without approval or to circumvent the competitive bidding process.
- Performance measures or the monitoring of some contracts was inadequate.

The root cause of the weaknesses identified related to controls not having been implemented to prevent and detect instances of non-compliance. The following control deficiencies were most prevalent:

- Lack of SCM policies and procedures or the policies and procedures were in conflict with legislation.
- Inadequate segregation of duties in procurement.
- SCM officials were not adequately trained.
- The National Treasury's code of conduct was not adopted for SCM.
- No processes were in place for SCM to report breaches or non-compliance.

For further details refer to section 5.2.

Investigations were completed at two departments during the year under review, while investigations were also in progress at two departments. A performance audit is in progress at the Department of Health. Details of investigations and performance audits are contained in section 3.6 of this report.

Overview of status of the provincial consolidation and the tabling of annual reports

The consolidated financial statements of departments and public entities received a financially unqualified opinion with findings on non-compliance with laws and regulations. Refer to section 6 for further details. The status of the tabling of the 2009-10 annual reports is set out in section 7 of this report.

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 30 September 2010.

Table 6: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	2	2	0	1
Adverse	0	0	1	0
Qualified	2	3	2	3
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	9	1	1
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0	0	0
Total number of audits reported on	14	14	4	5
Number of audits not finalised at 30 September 2010	0	0	2	1
Total number of audits	14	14	6	6
Entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	9	10	2	2
Compliance with laws and regulations	14	14	4	4

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

Table 7: Movements in audit outcomes

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	11	2	1	0	14
Public entities	3	0	1	[1#]	4
Total number of audits reported on	14	2	2	[1]	18

The Northern Cape Youth Commission ceased to exist and is not included as part of the analysis in this report.

The net movement in audit outcomes for the 2009-10 financial year is as follows:

- Unchanged: 11 (79%)
- Improvements: two (14%)
- Regressions: one (7%)



Unchanged (11)

Nine departments (Agriculture and Land Reform, Economic Development and Tourism, Office of the Premier, Northern Cape Provincial Legislature, Northern Cape Provincial Treasury, Northern Cape Provincial Revenue Fund, Social Development, Environmental Affairs and Nature Conservation as well as Transport, Safety and Liaison) remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. Sport, Arts and Culture remained qualified and Health again received a disclaimer.

Improvements (two)

COGHSTA moved from a qualified audit opinion to a financially unqualified opinion with findings on predetermined objectives and compliance with laws and regulations, while Education moved from a disclaimer of opinion to a qualified opinion.

Regressions (one)

Roads and Public Works moved from a qualified audit opinion to a disclaimer of opinion.

Public and other entities

The net movement in the different audit opinions for the 2009-10 financial year is as follows:

- Unchanged: Three (75%)
- Regressions: One (25%)

Unchanged (three)

The Northern Cape Tourism Authority remained financially unqualified with findings on compliance with laws and regulations, while the McGregor Museum and the Northern Cape Premier's Education Trust Fund remained qualified.

Regressions (one)

One entity, the Roads Capital Account, regressed from a qualified audit opinion to an adverse opinion.

No public and other entities showed an improvement.

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

- Leadership involvement from the top ensured that financial management improvement plans were implemented to address prior year external audit matters 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.
- Basics such as asset registers were made available earlier in the audit than in the prior year.

The regressions are due to the following:

- Lack of management oversight over day-to-day transactions and processing of information, specifically relating to the maintenance and safe keeping of documentation, resulting in scope limitations which did not occur in the prior year.

The following audits are excluded from the analysis:

Table 8: Audits outstanding or finalised late

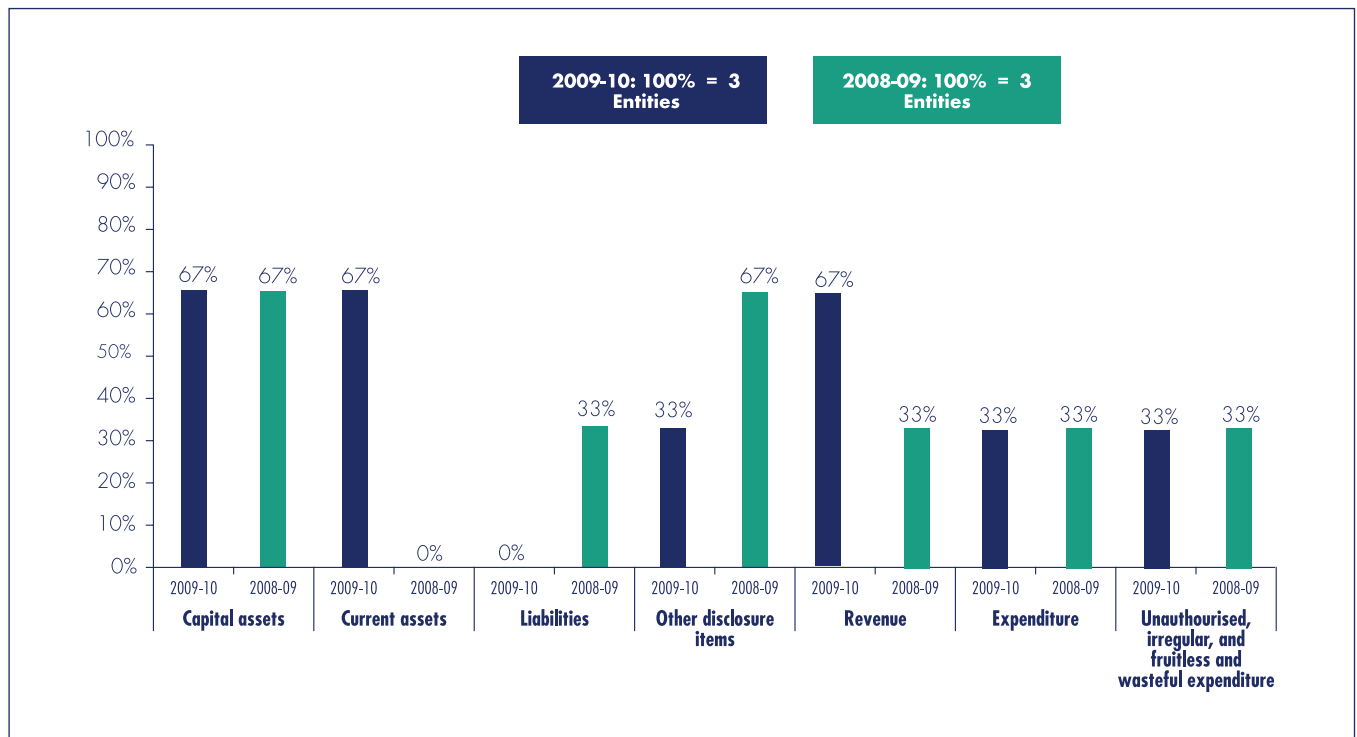
Entity not reported on	AFS received date	Reason not finalised	Expected signing date
Housing Fund	2009-10 financial statements not yet received	Department submitted 2005-06 to 2008-09 financial statements during July 2010. These audits would first have to be finalised. Statements for 2009-10 not submitted due to asset register clean-up and updating process, as the audits of the prior years have revealed significant deficiencies in asset registers. The asset register includes various immovable properties specific to the fund's activities.	Dependent on receipt of the 2009-10 financial statements
Northern Cape Arts and Culture Council	11 June 2010	In the interest of improving accountability and finalising internal processes to ensure that high-quality standards of reporting are maintained, the finalisation of the audit was delayed by the contracted firm. The audit was completed on 15 October 2010 and the entity received a disclaimer of opinion.	15 October 2010

3.2 Audits of financial statements

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

Figure 1.1: Financial statement areas qualified – Departments



Figure 1.2: Financial statement areas qualified – Entities

Details of the qualifications per department and entity are set out below.

Table 9: Financial statement qualification areas

Auditee	Financial statement qualification areas						
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Education							
Health							
Roads and Public Works							
Sport, Arts and Culture							
Total departments qualified	3 of 4	1 of 4	1 of 4	3 of 4	0 of 4	2 of 4	3 of 4
McGregor Museum							
Northern Cape Premier's Education Trust Fund							
Roads Capital Account							
Total entities qualified	2 of 3	2 of 3	0 of 3	1 of 3	2 of 3	1 of 3	1 of 3

Discussion of 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 or public entities that received a qualification in that area, are set out below.

Capital assets: Departments (75%) and entities (67%)

The 25% decrease for departments is due to Education and COGHSTA resolving their qualifications relating to capital assets.

The challenges stemmed from the following:

- Asset systems were not always adequate to provide sufficient details of the existence and valuation of assets. This was due to a lack of regular asset counts and reconciliations.
- Unexplained differences between the asset register and the amounts disclosed in the financial statements could not be explained or supported by evidence due to a lack of monthly reconciliations.

Current assets: Departments (25%) and entities (67%)

The qualifications stemmed from limitations of scope because sufficient appropriate audit evidence was not provided, as systems relating to records management were not appropriately maintained due to a lack of leadership monitoring by the HoD or CFO.

Other disclosure items: Departments (75%) and entities (33%)

The 34% decrease for entities was due to McGregor Museum resolving their prior year qualification with regard to other disclosure items.

The qualifications stemmed from a combination of the size of the department (volume of transactions) and inadequate systems (lack of implementing appropriate manual controls) to record and account for these items, as they fall outside the normal systems used on a day-to-day basis.

Revenue: Departments (0%) and entities (67%)

McGregor Museum was qualified on the completeness of donations income, as it is not feasible for the entity to institute accounting controls over cash collections from donations. The Roads Capital Account was qualified because sufficient appropriate audit evidence was not provided, as systems relating to records management were not appropriately maintained.

Expenditure: Departments (50%) and entities (33%)

The qualifications stemmed from limitations of scope because sufficient appropriate audit evidence was not provided, as systems relating to records management were not appropriately maintained due to a lack of leadership monitoring by the HoD or CFO.

Unauthorised, irregular as well as fruitless and wasteful expenditure: Departments (75%) and entities (33%)

McGregor Museum resolved its prior year qualification on irregular expenditure. The qualifications stemmed mostly from limitations of scope in respect of completeness due to inadequate systems to record and account for these items, as they fall outside the normal systems used on a day-to-day basis.

Irregular expenditure

- Education was qualified on the incomplete disclosure of irregular expenditure amounting to R54,5 million. The entire amount related to the procurement of infrastructure projects which were performed by Roads and Public Works on behalf of Education. The procurement is considered to be irregular due to non-adherence to SCM regulations.
- Health was qualified on the incomplete disclosure of irregular expenditure amounting to R378 million. Of this amount, R373,4 million related to non-adherence to SCM regulations and R4,6 million related to non-adherence to the PSR. An amount of R181,5 million of the total R373,4 million (48,6%) related to the procurement of infrastructure projects which were performed by Roads and Public Works on behalf of Health.
- Roads and Public Works was qualified on the incomplete disclosure of irregular expenditure amounting R77,9 million relating to non-adherence to SCM regulations.

Unauthorised expenditure

- Health was qualified on an overstatement of unauthorised expenditure amounting to R17,8 million. There was a difference in the calculation methods used by the department and the AGSA due to different interpretations of the PFMA. The auditee chose not to correct the financial statements.

Fruitless and wasteful expenditure

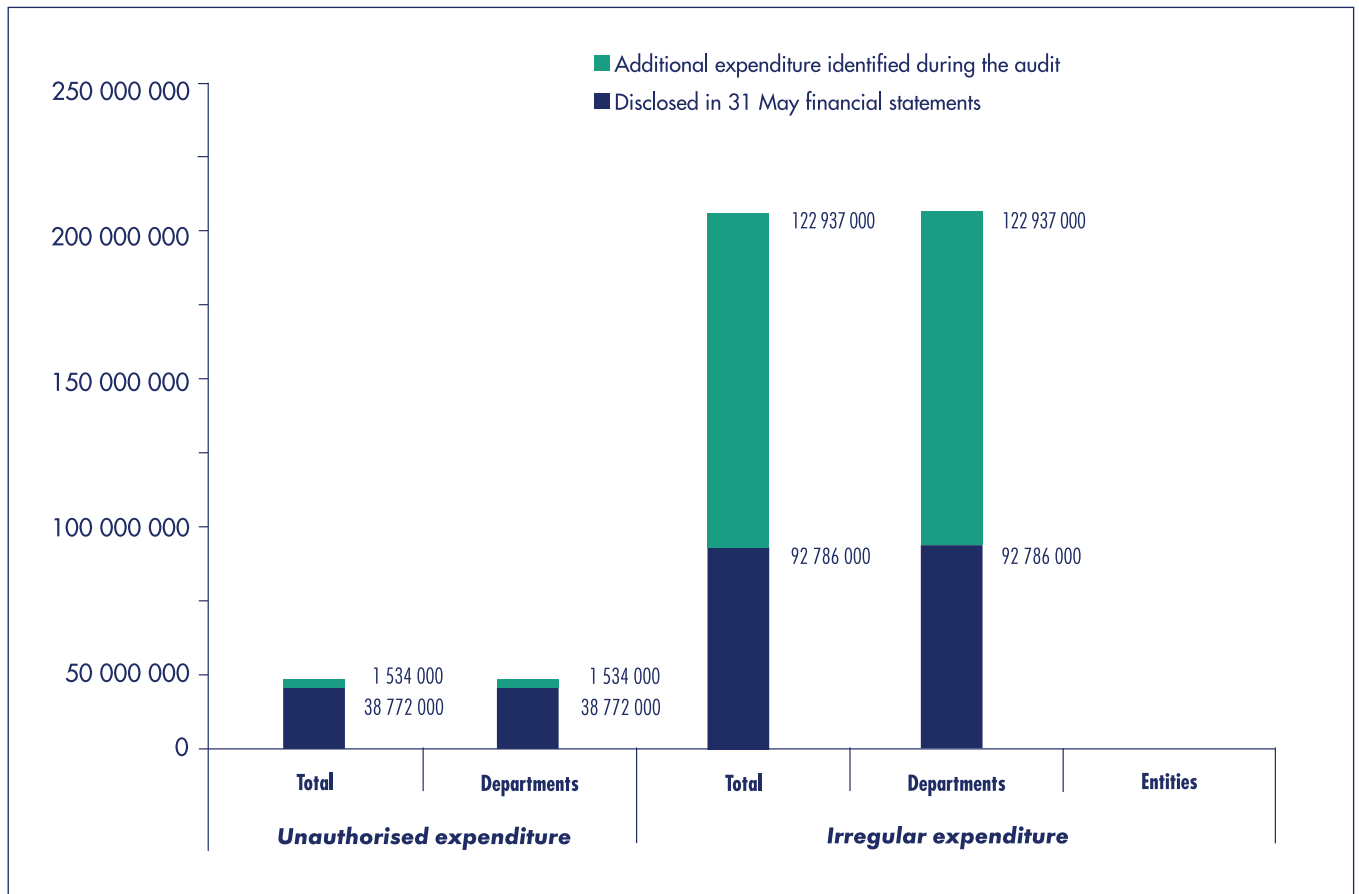
- Education was qualified on the completeness of the opening balance of fruitless and wasteful expenditure. According to the department, intervention (exemption) from the National Treasury will be required to address this legacy issue as the required supporting documentation cannot be obtained.
- The Roads Capital Account was qualified on an understatement of fruitless and wasteful expenditure amounting to R35 515.

Other common qualification areas included the following:

- The completeness of revenue and receivables (limitation of scope).

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

Figure 2: Unauthorised and irregular expenditure disclosed



3.2.1.1 Unauthorised expenditure – R40,3 million

Table 10: Unauthorised expenditure (PFMA)

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	4	29%	40 306	0	0%	0
Total	4	29%	40 306	0	0%	0

Four of the 14 departments audited incurred unauthorised expenditure due to overspending on the vote. They were COGHSTA, Education, Health and the Northern Cape Provincial Legislature.

Unauthorised expenditure would have increased by a further 37% (R14,9 million) had the accruals at year-end been paid in time. Of the accruals amount disclosed, R3,8 million was as a result of misstatements identified during the audit process and subsequently corrected by the auditee (Education).

3.2.1.2 Irregular expenditure – R215,7 million

Table 11: Irregular expenditure

Type of auditee	Nature and extent of irregular expenditure					
	Related to supply chain management			Related to compensation of employees		
	Number	%	R'000	Number	%	R'000
Departments	11	79%	203 787	4	29%	11 936
Public entities	0	0	0	0	0	0
Other entities (trading, etc.)	0	0	0	0	0	0
Total	11	79%	203 787	4	29%	11 936

Eleven of the 14 departments audited incurred irregular expenditure due to non-adherence to SCM processes and/or the PSR. No irregular expenditure was incurred by entities.

The breakdown of the 11 departments is as follows: Agriculture and Land Reform (2%), COGHSTA (7%), Economic Development and Tourism (4%), Education (17%), Health (50%), Office of the Premier (1%), Northern Cape Provincial Treasury (6%), Roads and Public Works (5%), Social Development (2%), Sport, Arts and Culture (5%), and Environmental Affairs and Nature Conservation (1%).

None of the irregular expenditure mentioned for departments, other than for Roads and Public Works, related to the procurement of infrastructure projects by Roads and Public Works on behalf of other departments. Fifty-seven per cent of the irregular expenditure disclosed in the auditees' financial statements was attributable to misstatements that were identified during the audit process and subsequently corrected by the auditees. Leadership did not adequately monitor and review compliance with SCM policies and procedures and the PSR. Adequate systems to identify and account for irregular expenditure were also not in place.

3.2.1.3 Fruitless and wasteful expenditure – R10,6 million

Two of the 14 departments audited (COGHSTA and Education) incurred fruitless and wasteful expenditure due to payments to a defaulting contractor for housing projects and interest on overdue accounts, respectively. The housing payments resulted from a lack of monitoring of the actual progress on housing sites, leading to the payment of goods not received. Interest on overdue accounts was due to a lack of monthly creditor reconciliations and the lack of a specific creditors system to track the ageing of creditors.

3.2.1.4 Material losses, material impairment of assets and material underspending of the vote or conditional grant

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

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
Provincial departments	4	29%	40 923	1	7%	500	5	36%	79 886	3	21%	86 228
Provincial public entities	0	0%	0	0	0%	0	0	0%	0	0	0%	0
Other public entities (trading, etc.)	0	0%	0	0	0%	0	0	0%	0	0	0%	0
Total	4	29%	40 923	1	7%	500	5	36%	79 886	3	21%	86 228

Material losses

Health incurred material losses of R21,5 million as a result of claims against the state due to medical negligence. Furthermore, the department suffered a significant loss due to receivables for departmental revenue (patient debt) amounting to R14,63 million not being collected. In various instances, private patient debt was also not collected. A substantial number of patients were not charged for medical services and ambulance services rendered.

Agriculture and Land Reform incurred material losses amounting to R1,7 million for the year under review as a result of stolen assets. The assets that were stolen formed part of projects located in remote areas.

COGHSTA incurred material losses amounting to R3 million as a result of assets that were stolen, lost or scrapped during the year under review. An internal investigation is still in progress to determine the cause and nature of the losses.

Transport, Safety and Liaison settled an unfair dismissal case outside of court to the amount of R93 000, due to the cost implications of consultants that would have had to testify.

Material impairment of assets

Sport, Arts and Culture wrote off a receivable amounting to R500 000 that was recoverable from the Sol Plaatje Municipality. The amount related to Sol Plaatje's portion of the hosting of international games. As no formal contract was in place, the amount was written off when Sol Plaatje indicated that it could not meet the obligation.

Material underspending of the budget

Economic Development and Tourism materially underspent its budget by R29,7 million. A roll-over request

of R25 million was submitted for integrated economic development services, because the Economic Growth and Development Fund's model funding had been revised. With regard to trade and industry development, roll-over requests of R3 million were submitted for the KIDJA project and R1 386 000 for the Maloof Money Cup, because these funds had been committed in the 2009-10 financial year. In essence, the material underspending by the department was only R351 000, which was 0,28% of the final appropriation bill.

Education underspent on transfer payments to non-profit institutions amounting to R2,7 million. The material underspending identified on the transfer payments was caused by the non-submission of annual financial statements by the non-profit institutions in the province, which led to the funds being held back. The effect on service delivery was minimal.

Roads and Public Works underspent its budget by R23,8 million. This underspending related to the roads programme, as the projects were started later than anticipated due to the slow progress made by the design consultants.

Social Development materially underspent its budget by R8,75 million due to capital projects budgeted for in the 2009-10 financial year not being completed. A roll-over of these funds was requested and approved. Service delivery was not directly affected, as the projects related to office buildings.

Sport, Arts and Culture materially underspent its budget by R14,97 million. Due to the underspending, the department could not fully achieve all its objectives. As a result, the provincial archives repository has not been completed as an appropriate site was not secured.

Material underspending of conditional grants

COGHSTA materially underspent the budget of programme 3 (cooperative governance) by R2,19 million. The underspending related to transfer payments that were not made. The reason provided for the underspending was the late submission of the invoice by the service provider, with the result that the funds were not paid over at year-end. A roll-over in respect of these funds has been requested for the 2010-11 financial year.

Health materially underspent on the hospital revitalisation grant to the amount of R72 million. As a result, the department did not achieve the objectives of programme 7 in respect of health facilities management.

Sport, Arts and Culture materially underspent on conditional grants for library construction by R12 million. Due to the impact of this underspending, the department could not fully achieve all its objectives in time, as the projects were not completed as planned and budgeted.

3.2.2 Transversal material misstatements corrected during the audit

Figure 3.1: Transversal material misstatements corrected during the audit – Departments

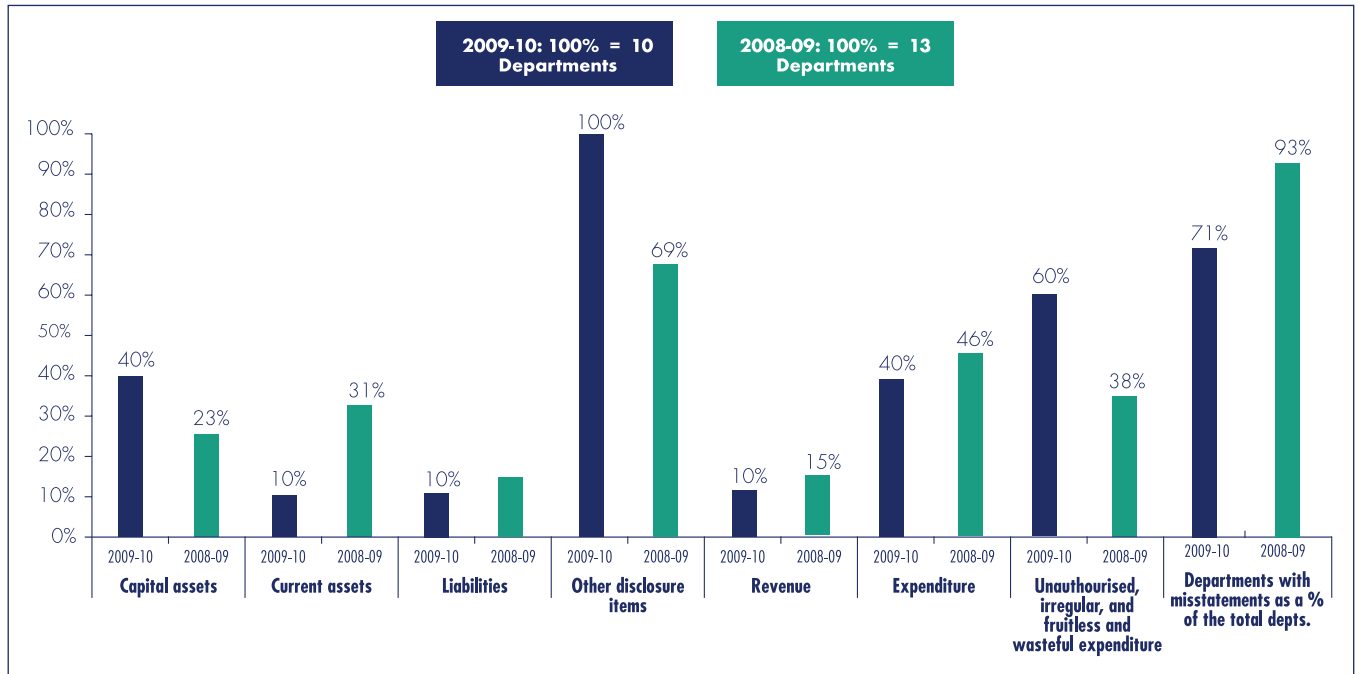
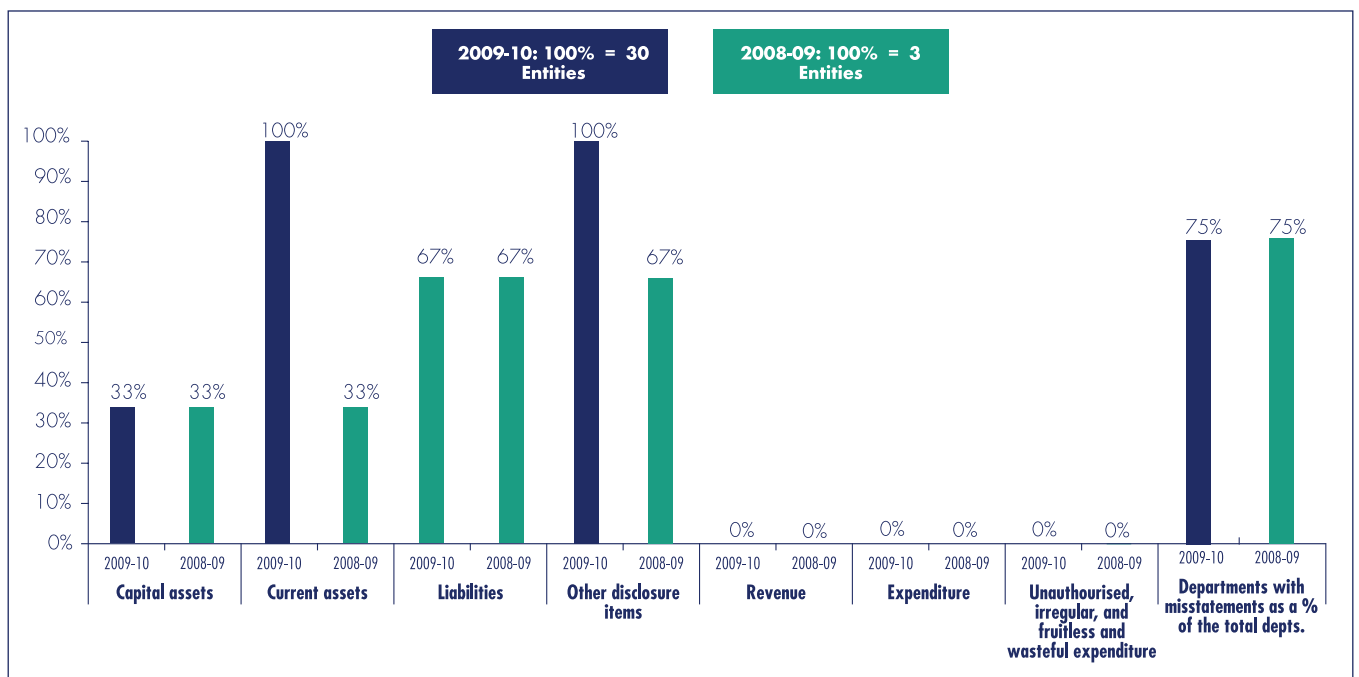


Figure 3.2: Transversal material misstatements corrected during the audit – Entities



Transversal material misstatements in financial statements

Financial statements submitted for audit purposes were subject to material corrections during the audit at 10 (71%) departments and three (75%) entities. Of the material misstatements corrected at the departments and provincial public and other entities, 45% related to misclassification and 55% to disclosure. Seventy-two per cent (2008-09: 89%) of all departments and entities analysed required material adjustments.

The improvement can be ascribed to Economic Development and Tourism, the Northern Cape Provincial Legislature and Social Development that did not have pervasive material corrections during the 2009-10 audit. It should be noted that the entity with no material corrections (McGregor Museum) was qualified. No corrections could be made, as the issues on which they were qualified related to completeness and therefore an accurate corrective figure could not be determined.

All departments and entities that had material adjustments had adjustments relating to disclosure items, while 82% of the total number of corrections related to disclosure items. This is a reflection of the poor overall quality of the financial statements submitted for audit purposes.

An analysis of transversal material misstatements per account area is presented in the table below.

Table 13: Material misstatements corrected

Auditee	Financial statement area corrected						
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure
Agriculture and Land Reform							
COGHSTA							
Education							
Environmental Affairs and Nature Conservation							
Health							
Office of the Premier							
NC Provincial Treasury							
Roads and Public Works							
Sport, Arts and Culture							
Transport, Safety and Liaison							
Total corrected departments	4 of 10	1 of 10	1 of 10	10 of 10	1 of 10	4 of 10	6 of 10
Roads Capital Account							
Northern Cape Premier's Education Trust Fund							
Northern Cape Tourism Authority							
Total corrected entities	1 of 3	3 of 3	2 of 3	3 of 3	0 of 3	0 of 3	0 of 3

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

- A lack of implementation of basic key controls such as asset counts, reconciliations, and identifying and recording irregular expenditure on an ongoing basis.
- Time frames were an issue as auditees tended to react to requirements late in the financial process. Accounting is a process that should begin at the commencement of the financial year and management accounts should be compiled on a monthly basis. Processes need to be in place early in order to prevent and detect problems.
- Financial statements were not prepared throughout the year and there was minimum review of accounts throughout the year, with the result that management did not detect and correct errors early enough.
- Information was not captured and communicated in a form and time frame that supported financial reporting, while disclosure notes were not system generated and were only compiled once a year.

Recommendations

Material corrections could have been detected by the entities' financial management systems had adequate reviews been undertaken of the financial statements prior to submission for audit purposes and had systems related to disclosure notes and irregular expenditure been implemented and continuously monitored. The following measures should be considered:

- The preparation of the annual financial statements should be driven by daily and monthly activities and should not commence at year-end.
- Monthly financial reporting on all financial disclosure requirements will also ensure that proper skills are developed to submit accurate financial statements at year-end.
- Training should be provided and skilled permanent staff should be recruited to manage the financial process and prepare the annual 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 the accounting frameworks and the related changes in standards and norms.
- Those charged with governance should ensure that adequate support and capacity are made available to fulfil the roles and responsibilities in financial reporting.

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

Based on an assessment of audit readiness, it was decided that for the 2009-10 audit cycle, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments 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 entities'

performance information, should an opinion have been expressed, will be contained at management report level. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

Table 14: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	46%	54%	67%	67%
Information on performance against predetermined objectives not useful	62%	54%	0%	0%
Information on performance against predetermined objectives not reliable	46%	46%	0%	0%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0%	0%	67%	67%
Total number of audits reported on	9	10	2	2

The information of the Roads Capital Account is included as part of the Department of Roads and Public Works; therefore three entities were analysed for 2009-10. The revenue fund does not report on predetermined objectives and therefore 13 departments were analysed.

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

Explanation of the various categories of audit findings

Non-compliance with regulatory requirements

Non-compliance with regulatory requirements refers to the preparation of the 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 predetermined objectives (performance information); a lack of effective, efficient and transparent systems and internal controls regarding performance management; and a lack of or inadequate quarterly reporting on performance information.

Six of the 13 departments, namely Agriculture and Land Reform, Education, Health, Northern Cape Provincial Legislature, Roads and Public Works as well as Transport, Safety and Liaison, had findings relating to non-compliance due to the inadequate presentation of reporting on predetermined objectives, reasons for major variances that were not explained and reported information that was inconsistent with planned objectives, indicators and targets. As the McGregor Museum and the Northern Cape Premier's Education Trust Fund did not submit performance information for audit purposes, usefulness and reliability could not be assessed.

Usefulness of information on performance against predetermined objectives

Our audits focused on the consistency, relevance and measurability of planned and reported performance information.

Usefulness of reported performance information refers to the reported performance information being consistent with the objectives and targets as well as whether the targets were clearly linked to the mandate and objective of the institution, specific, clearly identify the nature and required level of performance, measurable and time bound. The reported performance information at eight of the 13 departments, namely Agriculture and Land Reform, Education, Health, Office of the Premier, Northern Cape Provincial Legislature, Roads and Public Works, Environmental Affairs and Nature Conservation as well as Transport, Safety and Liaison was not useful.

Findings were due to the following:

- Reported performance information was not consistent with objectives, indicators and targets as per the approved strategic or annual performance plan.
- Changes to planned performance were not disclosed in the annual performance report.
- Some targets were not specific in clearly identifying the nature and the required level of performance.
- Some targets were not measurable in identifying the required performance.
- Some targets were not time bound in specifying the time period or deadline for delivery.

Reported information on performance against predetermined objectives not reliable

Reported information on performance against predetermined objectives is reliable if sufficient appropriate evidence is available in relation to the reported performance information, an appropriate system exists to generate the information, the evidence provided supports the performance information reported, and the information is accurate and complete.

Our audits focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation. In the case of six of the 13 departments, namely COGHSTA, Education, Health, Northern Cape Provincial Legislature, Roads and Public Works as well as Environmental Affairs and Nature Conservation, reported performance information was not reliable.

Findings were due to 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.

Information on performance against predetermined objectives not submitted for audit purposes

Two of three entities, namely the McGregor Museum and the Northern Cape Premier's Education Trust Fund, did not submit performance information for audit purposes, as appropriate systems to compile and collate performance information had not been implemented.

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

Four departments (Economic Development and Tourism, Northern Cape Provincial Treasury, Social Development as well as Sport, Arts and Culture) and one public entity (Northern Cape Tourism Authority) had no findings resulting from the audit of performance information against predetermined objectives. This was the result of the implementation of an appropriate system with responsibilities assigned to specific individuals, enabling ongoing monitoring and review of the performance information. The Northern Cape Tourism Authority is a small entity, which enabled the CFO to use manual processes with direct quarterly reporting to the chief executive officer and review feedback.

Outstanding audits

With regard to 2009-10, the report on the Housing Fund is outstanding. The audit of the Northern Cape Arts and Culture Council was finalised on 15 October 2010, but they did not submit any information on performance against predetermined objectives.

Conclusion

The auditing of information on performance against predetermined objectives was on the agenda of audit steering committee meetings where management was encouraged to comply with the legislated requirements. This was also discussed at a briefing session with external stakeholders. The results indicated that the departments and entities are not gearing up well for the AGSA to fully report on information on performance against predetermined objectives. In total, 31% of the auditees (four departments and one entity) had no findings with regard to the audit of performance against predetermined objectives. The results also indicated that there is room for improvement particularly regarding effective, efficient and transparent systems and internal controls regarding performance information.

3.4 Findings on compliance with laws and regulations

Table 15: Summary of findings arising from compliance with laws and regulations

Top three categories of non-compliance and SCM issues	Number	Percentage
Departments (including legislature and revenue fund)		
Audit committee and internal audit unit	14	100%
Expenditure not paid within 30 days	11	79%
HR management (excludes legislature and revenue fund)	11	92%
SCM issues that resulted in irregular expenditure	11	79%
Public entities (including trading and other types of entities)		
HR management	2	50%
Expenditure not paid within 30 days	1	25%
Audit committee and internal audit unit	4	100%
SCM issues that resulted in irregular expenditure		0%

Departments

None of the 14 departments complied with requirements of the Treasury Regulations relating to internal audit units and audit committees (Agriculture and Land Reform, COGHSTA, Economic Development and Tourism, Education, Health, Office of the Premier, Northern Cape Provincial Legislature, Northern Cape Provincial Treasury, Roads and Public Works, Social Development, Sport, Arts and Culture, Environmental Affairs and Nature Conservation as well as Transport, Safety and Liaison). The extent of this non-compliance is due to the fact that 13 of the 14 departments used the centralised internal audit function and all 14 the audit committee. The work of the internal audit division was inadequate to meet the requirements as set out in Treasury Regulation 3.2, as the unit was not adequately staffed. The audit committee was not in operation throughout the year, as all the members had resigned. The legislature did not make use of the shared internal audit function and appointed an external audit firm during the financial year.

Non-compliance with HR management requirements were reported at 11 of the 12 departments, namely Agriculture and Land Reform, COGHSTA, Economic Development and Tourism, Education, Health, Office of the Premier, Northern Cape Provincial Legislature, Northern Cape Provincial Treasury, Roads and Public Works, Social Development, Sport, Arts and Culture, Environmental Affairs and Nature Conservation as well as Transport, Safety and Liaison). Amongst others, senior management did not ensure that vacancies were filled timeously to avoid acting in positions for longer than 12 months. Senior management did not ensure that the organisational structure was updated and approved by the HR department. Please refer to section 5.1 for further details.

Eleven of the 14 departments (Agriculture and Land Reform, COGHSTA, Education, Health, Office of the Premier, Northern Cape Provincial Legislature, Northern Cape Provincial Treasury, Roads and Public Works, Sport, Arts and Culture, Environmental Affairs and Nature Conservation as well as Transport, Safety and Liaison) had findings relating to payments not being made within 30 days from receipt of invoices (Treasury Regulation 8.2.3). This was due to a lack of monthly creditor reconciliations and a specific creditors system not being used to track the ageing of creditors.

In the case of seven of the 14 departments, the AGSA discovered the non-compliance and the resultant irregular expenditure during the audit. The identification of irregular expenditure is a manual process based on an evaluation of compliance with the SCM regulations. Departments did not implement appropriate systems to identify and record irregular expenditure. In the case of four departments, the internal control system detected and recorded the irregular expenditure resulting from the non-compliance.

Therefore, 11 of the 14 departments (Agriculture and Land Reform, COGHSTA, Economic Development and Tourism, Education, Health, Office of the Premier, Northern Cape Provincial Treasury, Northern Cape Provincial Revenue Fund, Roads and Public Works, Social Development, Sport, Arts and Culture as well as Environmental Affairs and Conservation) did not properly follow SCM procedures.

Entities

All four entities had findings relating to an audit committee and internal audit unit not having been established or not being in operation for the entire financial year (McGregor Museum, Northern Cape Premier's Education

Trust Fund, Northern Cape Tourism Authority and Roads Capital Account). The Roads Capital Account resides within Roads and Public Works, which uses the shared internal audit and audit committee functions. All three other entities, namely McGregor Museum, Northern Cape Premier's Education Trust Fund and Northern Cape Tourism Authority, are small entities that find it difficult to afford internal audit units and audit committees. An alternative could be to also use the shared functions as soon as a new audit committee has been established and the internal audit unit capacity issues have been addressed.

Non-compliance with HR management requirements was reported at two of the four entities (McGregor Museum and Roads Capital Account). Senior management did not ensure that the organisational structure was updated and approved.

One of the four entities (Roads Capital Account) had findings relating to expenditure not being paid within 30 days from receipt of invoices (Treasury Regulation 8.2.3). This was due to a lack of monthly creditor reconciliations and a specific creditors system not being used to track the ageing of creditors.

At one of the four entities (McGregor Museum) the interests of senior managers were not declared as part of the annual declaration of interest.

Some of the non-compliance matters related to entering into transactions prohibited by legislation, while others involved the failure by accounting 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 provincial public and other entities.

Root causes/control deficiencies

- Lack of monitoring and supervision of day-to-day activities by all levels in the departments and entities throughout the period.
- Disregard of legislation by officials with insufficient monitoring by the leadership.
- Ineffective or inadequate internal audit coverage of compliance due to capacity constraints.
- The audit committee was not in operation throughout the year due to the resignation of the members.
- The absence of checklists with regard to the various acts to be complied with.
- Leadership not setting the right tone at the top.

The way forward

- Compliance monitoring should be integrated into the control environment to ensure that financial activities are undertaken while complying with legislation. One-page checklists per act, policy or regulation can be implemented to facilitate oversight and monitoring of compliance.
- 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.
- The internal audit function and the audit committee have been under the administrative control of the provincial treasury since 1 April 2010. Action is required to enhance the capacity of the internal audit unit and to appoint new members to the audit committee.

3.5 Information technology system matters

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

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

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

Audits of the IT general controls were performed at 14 departments. IT audit work was not performed at entities due to their nature and size. Most of them use off-the-shelf accounting software. The following table indicates the number of common focus area findings raised during audits:

Table 16: Audit findings raised on common IT focus areas

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

The detailed findings relating 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 departments' strategies and objectives.

Fundamentals of internal control to be addressed

- CFOs have to develop, monitor and enforce user access controls, such as user creation procedures as well as 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 should 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 capacitate IT departments with resources that will ensure the implementation of an IT plan. Health did not have findings on IT service continuity.

3.6 Investigations and performance audits

3.6.1 Investigations

3.6.1.1 Investigations in progress – Supply chain management issues

COGHSTA

- Two housing projects and various beneficiaries who received housing subsidies are being investigated by the Special Investigating Unit and the South African Police Service. As a result, it is possible that some of the losses incurred by the department could be recovered from defaulting contractors. The final value of the amounts owed to the department is not known, as the legal process was still in progress at 31 March 2010.

Health

- Investigations were started to probe the department's conduct relating to infrastructure projects. The investigations were still ongoing at the reporting date.
- An investigation was conducted by an independent consulting firm at the request of the department into the department's dealings with certain service providers. The investigation was still ongoing at the reporting date.

Roads and Public Works

- An investigation is being conducted at the request of the department into prior year irregular expenditure by an independent firm. The investigation was initiated based on audit findings relating to improper procurement processes followed in the leasing of photocopiers. Other matters forming part of the investigation include alleged irregularities during the awarding of a contract for work performed on a project as well as alleged improper procurement procedures during the planning phase of the construction of a state house. The investigation was still ongoing at the reporting date.

3.6.1.2 Investigations completed during the financial year – Fraud

Education

- The department conducted a forensic investigation on the William Pescod Hostel, the national skills fund, the procurement of certain services and goods, and the work conducted by the HR section. The department is taking action based on the results of the investigation.

3.6.2 Performance audits

3.6.2.1 Performance audits in progress

Health

- A performance audit was conducted by the Auditor-General on the department's use of consultants covering the 2007-08 and 2008-09 financial years. The audit was in the reporting phase at the time of this report and the findings will be reported in a separate report.

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

4.1 Drivers of audit outcomes

The lack of improved audit outcomes in the province can be attributed to departments and entities not having addressed the following fundamentals of internal control:

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.
- Decisive action to implement and monitor action plans and key controls at the executive level.
- Ensuring that a proper SCM environment is established and maintained, with properly skilled staff and ongoing monitoring of compliance with applicable laws and regulations to prevent irregular expenditure.
- Leadership's implementation of action plans to address user access control deficiencies.

Financial and performance management

- Basic daily key controls for processes related to financial reporting. These key controls should also be extended to deal with other disclosure notes in the financial statements and predetermined objectives.
- Ensuring that asset registers are reconciled with the physical assets and financial statements on a regular basis.
- Compiling accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported with relevant and reliable information.
- Application systems susceptible to compromised data integrity.

Governance

- Maintain or implement effective risk management strategies, including fraud prevention plans.
- Shared internal audit unit capacity constraints to be addressed and audit committee members to be appointed.
- Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management.

The key control tables below set out where improvement is still required (highlighted in red) and where there has been improvement or where previous good practices have been maintained (highlighted in green).

4.1.1 Leadership

Table 17: Key controls – leadership

[illegible]

Department/entity	Maintained/improved previous good practices					Improvement required				
	Commitments to improve on the audit outcomes by those charged with governance at departmental level	Predefined objectives	Financial statements	Decisive action to implement and monitor action plans and key controls at the executive level	Financial statements	Predefined objectives	Financial statements	Decisive action to implement and monitor action plans and key controls at the executive level	Financial statements	Leadership's implementation of action plans to address user access control deficiencies
Northern Cape Tourism Authority										IT audit work not performed due to the nature and size of the entities. Most of them use off-the-shelf accounting software.
McGregor Museum										
Northern Cape Premier's Education Trust Fund										
Roads Capital Account										

4.1.2 Financial and performance management

Table 18: Key controls – Financial and performance management

Department/entity	Maintained/improved previous good practices						Improvement required					
	Basic daily key controls for reporting: these key controls should also be extended to deal with the financial statements and predetermined objectives			Ensuring that asset registers are reconciled to the physical assets and financial statements on a regular basis			Application systems susceptible to compromised data integrity			Improvement required		
	Financial statements	Predetermined objectives	Compiling accurate financial statements and performance information and continuously monitoring the quality thereof as well as ensuring that performance information is supported with relevant and reliable information	Financial statements	Predetermined objectives	Application systems susceptible to compromised data integrity	Financial statements	Predetermined objectives	Ensuring that asset registers are reconciled to the physical assets and financial statements on a regular basis	Financial statements	Compiling accurate financial statements and performance information and continuously monitoring the quality thereof as well as ensuring that performance information is supported with relevant and reliable information	Application systems susceptible to compromised data integrity
Agriculture and Land Reform												
Cooperative Governance, Human Settlement and Traditional Affairs												
Economic Development and Tourism												
Education												
Health												
Office of the Premier												
NC Provincial Legislature												
NC Provincial Treasury												
Roads and Public Works												
NC Provincial Revenue Fund												
Social Development												
Sport, Arts and Culture												
Environmental Affairs and Nature Conservation												
Transport, Safety and Liaison												
Northern Cape Tourism Authority												
McGregor Museum												
Northern Cape Premier's Education Trust Fund												
Roads Capital Account												

4.1.3 Governance

Table 19: Key controls – Governance

Department/entity	Maintained/improved previous good practices				Improvement required			
	Maintain/ implement effective risk management strategies, including fraud prevention plans	Shared internal audit unit capacity	Predetermined objectives	Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management	Maintain/ implement effective risk management strategies, including fraud prevention plans	Shared internal audit unit capacity	Predetermined objectives	Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management
Agriculture and Land Reform								
Cooperative Governance, Human Settlement and Traditional Affairs								
Economic Development and Tourism								
Education								
Health								
Office of the Premier								
NC Provincial Legislature								
NC Provincial Treasury								
NC Provincial Revenue Fund							Not applicable	
Roads and Public Works								
Social Development								
Sport, Arts and Culture								
Environmental Affairs and Nature Conservation								
Transport, Safety and Liaison								
Northern Cape Tourism Authority								
McGregor Museum								
Northern Cape Premier's Education Trust Fund								
Roads Capital Account							Not applicable	
								IT audit work not performed due to the nature and size of the entities. Most of them use off-the-shelf accounting software.

4.2 Actions taken/to be taken to address matters reported

The premier and MECs played a role in taking ownership of the overall audit outcomes in the province and setting the tone from the top through emphasising public accountability. In spite of these actions, MECs and the premier did not monitor the implementation of action plans and key controls, resulting in a lack of improvement in the overall position in the province. HoDs and senior officials did not report to the executive leadership on the progress made on the implementation of action plans. The Office of the Premier was managed by an acting DG for the entire financial year.

The only exception was the MEC and senior officials at Education, which improved from a disclaimer of opinion to a qualified audit opinion, due to the MEC setting the appropriate tone at the top by emphasising public accountability and communicating expectations clearly and timeously that finance discipline is the key to improved audit outcomes. It was clear that there was good two-way communication between the CFO, the HoD and the MEC. The MEC supported the HoD and the CFO in their commitment to instil discipline in the department, which is required to improve on the audit outcome. The CFO, who joined the department on 16 March 2009, was the main driver of the improvement in the audit outcome, but had it not been for the firm support of the new HoD (who was appointed on 1 June 2009) and the MEC, it might not have been as successful.

4.2.1 Commitments and actions by the premier and MECs

The collective leadership under the direction of the premier again committed to the initiatives of monitoring action plans drawn up by departments and addressing the issue with regard to the audit committee and internal audit. Certain MECs participated in the public hearings of the Provincial Public Accounts Committee of their departments, during which they pledged support to resolving negative audit findings.

During 2009, the premier and MECs committed to follow a very stringent action plan to address all root causes contained in the 2008-09 auditor's reports. A committee consisting of the Office of the Premier and the Northern Cape Provincial Treasury was to be formed in conjunction with the new COGHSTA to perform monitoring and evaluation with the objective of attaining clean administrations. The AGSA would have been invited to meetings to provide inputs. This initiative did not materialise.

At the Auditor-General's roadshow on 4 November 2009, the executive further committed to the following:

- Improve the capacity of the executive and leadership to perform oversight, monitoring and control functions through appropriate training interventions.
- Address the lack of discipline within departments where evident, as well as the issue regarding the unavailability of senior officials.
- Reconsider the structure of the shared internal audit units and audit committees to effectively service the two largest departments, namely Health and Education.
- CFOs to prepare regular financial statements.
- Address the weaknesses identified during the audits of performance information.
- Based on the audit outcomes and the details as contained in section 4.1 on leadership, financial and performance management as well as governance, the above initiatives were not executed with the exception of an improvement in the overall availability of senior officials.

4.2.2 Initiatives by the provincial treasury in improving financial management practices and audit outcomes

- A provincial CFO forum is in operation where, amongst others, good practices and solutions to common problems are discussed.
- The financial management capability maturity model is being used to determine the level of support to be offered to various departments. This exercise is intended to bring about support tailor-made to the needs of each department.
- Logis was rolled out to improve SCM processes and asset management.
- In partnership with the National Treasury, training was provided on the preparation of quarterly performance information. The AGSA also participated in providing insight into how the performance information will be audited.
- The governance issues relating to risk management are being addressed with the establishment of risk management capacity within the provincial treasury.
- In terms of Operation Clean Audit, the initial plan was to deal only with local government. However, it was subsequently decided to be all-inclusive of departments and municipalities going forward and it now includes actions for both.
- Interactions with the AGSA during the PFMA audit cycle on audit matters that could potentially be of a transversal nature, such as findings raised on the accuracy of leave liability reports at various departments, were resolved through intervention by the provincial accountant general.

Although the above platforms have been created where best practices are shared and implementation is encouraged, the responsibility for implementation resides with each HoD and CFO. The latter initiatives did not bear the expected fruits as not all HoDs and CFOs implemented all the recommended best practices.

4.2.3 Commitments arising from the October 2010 roadshow

The following commitments were made during the Auditor-General's roadshow held on 27 October 2010:

- The executive will monitor progress on the implementation of action plans and key controls on a monthly basis.
- CFOs and HoDs will report on the progress of the implementation of key controls to the MECs.
- Audit outcomes will be included in the performance agreements of HoDs.
- The leadership will develop retention strategies to retain skilled employees.
- Separate internal audit units and audit committees will be established for the two largest departments, namely Education and Health.
- SCOPA resolutions, action plans and key controls will all be aligned.
- Six-monthly interim financial statements will be prepared as at 30 September 2010; quarterly financial statements will be prepared from December 2010 onwards.
- SITA will be engaged to address the challenges and shortcomings specific to the listed service providers in the Northern Cape.
- Best practices will be shared between departments to ensure that each department does not need to redevelop systems and processes.
- MECs committed to taking decisive action in order to get departments to a clean administration.

The AGSA will continue to monitor the implementation and functioning of key controls and will provide feedback to the MECs on a quarterly basis.

4.2.4 Accounting reforms

Continued interaction with the National Treasury, the provincial treasury, the 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 is dependent on a complete and accurate provincial immovable asset register. Although an immovable asset register had been updated for the province 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 also reflected assets that were not owned by the province. A project plan for the refinement of this register is thus urgently required to ensure the complete and accurate recording and valuation of immovable assets in the financial statements for the year ending 31 March 2011. 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 be implemented.

4.2.5 Status of SCOPA resolutions

At year-end, 69 provincial SCOPA resolutions out of a total of 165 had been resolved, 65 were in progress and 31 had not been implemented. The resolutions not implemented related closely to the matters reported on in this report, such as:

- systems and measures relating to compliance with laws and regulations
- measures to avoid irregular and unauthorised expenditure
- measures to improve internal control
- shortcomings identified regarding internal audit and the audit committee.

In a number of instances, replies had been received by SCOPA and 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. The following departments had outstanding resolutions:

- Agriculture and Land Reform (two of six resolutions in progress, two resolutions not implemented)
- Sport, Arts and Culture (one of 11 resolutions in progress)
- COGHSTA (three of 25 resolutions in progress, four resolutions not implemented)
- Education (seven of 23 resolutions in progress, four resolutions not implemented)
- Health (18 of 27 resolutions in progress, eight resolutions not implemented)
- Office of the Premier (six of six resolutions in progress)
- Northern Cape Provincial Treasury (six of eight resolutions in progress)
- Roads and Public Works (one of 15 resolutions in progress, 11 resolutions not implemented)
- Social Development (two of five resolutions in progress)
- Northern Cape Provincial Legislature (five of 10 resolutions in progress)
- Economic Development and Tourism (one of four resolutions in progress)

- Transport, Safety and Liaison (two of 11 resolution in progress, two resolutions not implemented)
- Environmental Affairs and Nature Conservation (11 of 14 resolutions in progress)

4.3 Initiatives 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 leadership in the province embarked on a 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 through quarterly key control visits.

As at 27 September 2010, AGSA staff in the Northern Cape had met with the premier to discuss the 2010 PFMA outcomes. This initiative by the AGSA served to enlighten the premier and to discuss the outcomes and key controls required of departments and entities. The results of this interaction were positive in more way than one, as the premier was able to assess the root causes of the qualifications and findings. Moreover, she was able to understand the initiative by the AGSA behind the quarterly key control appraisals and the link to clean administrations, and that this would be followed up by the AGSA. Furthermore, the AGSA compiled a summarised checklist of the main issues affecting financial statements that required follow-up by 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 by effective oversight by the MEC and leadership within the department.

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

4.4.1 Accounting and compliance matters: new pronouncements or requirements

Immovable assets

The premier of the province has assigned powers, duties and functions to the MEC for Roads and Public Works in terms of section 10(1)(a) of the Northern Cape Land Administration Act, 2002 (Act No. 6 of 2002), dated 6 November 2002. This recognises Public Works as the 'custodian' in relation to 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 GIAMA had come into operation on 1 April 2010 for any custodian or user that is a department. The impact of not fulfilling the requirements of the above minute would be that departments could possibly be qualified for incorrectly recognising immovable assets in their financial statements.

Predetermined objectives

If not cleared, audit findings relating to predetermined objectives raised in the current year may impact on the audit outcomes next year, should the audit conclusion on the reporting of predetermined objectives be elevated for inclusion in the auditor's report.

Inventory

The introduction of inventory as a disclosure item, instead of being included in the annexures to the financial statements, will pose additional challenges, especially at the larger departments. Appropriate systems and monthly reconciliations will be essential to avoid qualifications.

Transfer of functions

The transfer of functions between departments effective from 1 April 2010 will lead to additional risks to be mitigated. These risks relate to employees, assets and liabilities being transferred between departments.

4.4.2 Susceptibility of assets or liabilities to loss or fraud

Regular asset counts were not performed at 47% of the departments and entities, namely Agriculture and Land Reform, COGHSTA, Health, McGregor Museum, Roads Capital Account, Roads and Public Works, Sport, Arts and Culture as well as Transport, Safety and Liaison. These entities are therefore not adequately protected from theft, which could lead to material losses in the future.

Health's systems and controls were not appropriately designed to prevent and detect fraud, error and misstatements in the revenue process, as the revenue systems were manual with extensive decentralisation. The department did not maintain loss control registers, nor was there a complete and accurate register to record all assets of the department.

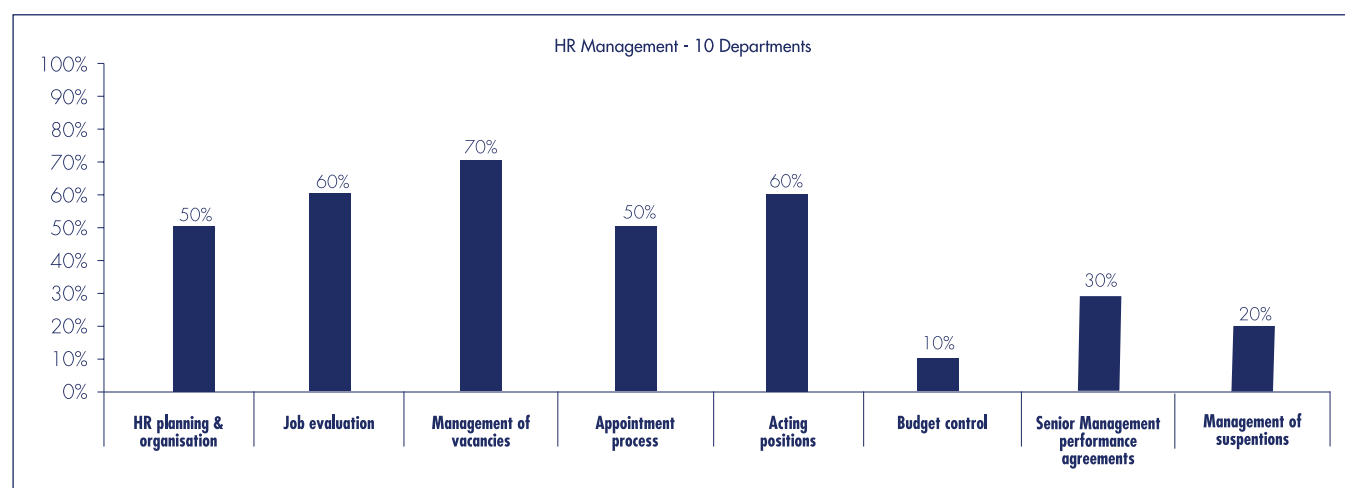
SECTION 5: FINDINGS ARISING FROM SPECIFIC FOCUS AREAS OF THE AGSA

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, Treasury Regulations, the PSA, the 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

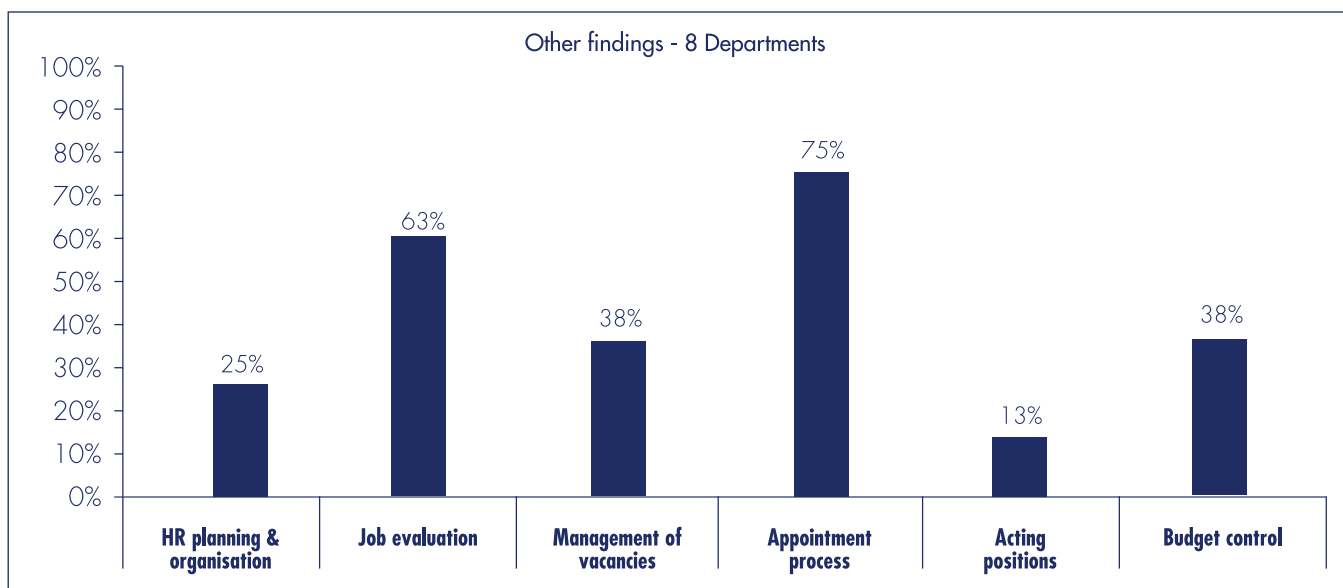


As the PSA and the PSR are not applicable to the legislature, it was excluded from the HR horizontal audit. The employees of the revenue fund are paid by the provincial treasury and therefore a separate audit was not done at the revenue fund. The analysis is based on a total of 12 departments.

Ten of the 12 departments did not comply with 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 following departments:

- Education (qualified)
- Health (disclaimer)
- Northern Cape Provincial Treasury (financially unqualified with findings on compliance with laws and regulations)
- Roads and Public Works (disclaimer)
- The figure below depicts the incidence of weaknesses in control over compensation of employees.

Figure 5: Other findings on human resource management



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, such compensation is implemented and controlled by the National Treasury via Persal, which is used by all departments.

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

Eight of the 12 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 the following departments:

- Education (qualified)
- Health (disclaimer)
- Roads and Public Works (disclaimer)

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

5.1.1 Human resource planning and work organisation

No updated and approved human resource plan

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

- Agriculture and Land Reform
- Education
- Roads and Public Works

Lack of approved organisational structure

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

- Agriculture and Land Reform
- Education
- Health
- Sport, Arts and Culture
- Roads and Public Works

Differences between Persal establishment and approved organisational structure

The organisational structure of departments 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 did not correspond with the approved organisational structure at the following department:

- Economic Development and Tourism (68% difference)

At the following departments the procedure could not be performed, as the Persal establishment was not updated or the organisational structure was outdated or not presented for audit purposes:

- Agriculture and Land Reform
- Health
- Sport, Arts and Culture
- Roads and Public Works

Lack of job descriptions

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

- Education
- Health
- Sport, Arts and Culture
- Roads and Public Works

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.

A job evaluation policy was not in place at the following departments:

- Education
- Health
- COGHSTA
- Transport, Safety and Liaison

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

- Roads and Public Works

Lack of job evaluation process for new and upgraded posts

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

- Health
- COGHSTA
- Sport, Arts and Culture
- Roads and Public Works

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

- Health
- COGHSTA
- Sport, Arts and Culture
- Roads and Public Works

5.1.3 Management of vacancies

The HoD 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 30% at year-end, with an average of 16% of the positions for senior managers being vacant. The highest overall vacancy rate was at Sport, Arts and Culture at 43% and the highest senior manager vacancy rate was at COGHSTA at 39%. Due to the limitation of scope with regard to the Persal establishments and organisational structures, vacancies could not be assessed at Agriculture and Land Reform as well as Roads and Public Works.

Lack of improvement in vacancy rates

The overall vacancy rate did not improve from the previous year at the following department:

- Health

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

- Health
- Roads and Public Works

Non-compliant recruitment time frames

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

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

Table 20: Departments that did not comply with recruitment time frames and that did not record reasons

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
COGHSTA	Limitation	Limitation	Shared function	Limitation	Limitation
Education		X		X	X
Health	X	X		X	
Office of the Premier	X				X
Northern Cape Provincial Treasury	X	X			
Transport, Safety and Liaison	X				
Roads and Public Works	Limitation			X	X
Social Development	X	X			

5.1.4 Appointment processes

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

Verification checks not performed

A directive was issued by the MPSA (effective 1 January 2008) which states that a process should be followed to check criminal and financial 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 21: Departments that did not effectively conduct verification checks

Department	Appointments without verification checks	Appointments with incomplete verification checks
Education	X	X
Health	X	
Northern Cape Provincial Treasury		X
Sport, Arts and Culture		X
Roads and Public Works		X

Appointments in unadvertised posts

Appointments were made at the following departments, but the posts were not advertised as required by PSR 1/VII/C2 to ensure that the most suitable candidate was appointed:

- Northern Cape Provincial Treasury, resulting in irregular expenditure of R233 000
- Office of the Premier, resulting in irregular expenditure of R2 162 000

Lack of written contracts of employment

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

- Health

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 the following departments where employees received acting allowances for more than 12 months:

- Agriculture and Land Reform
- COGHSTA
- Office of the Premier
- Northern Cape Provincial Treasury

Instances were found at the following departments where SMS members received acting allowances for more than six months:

- COGHSTA
- Health
- Office of the Premier

5.1.6 Budgetary control

In terms of Treasury Regulation 8.3.2, the accounting officer of an institution must ensure that the costs related to compensation of employees as well as promotion and salary increases are met within the budgetary allocation of the institution. The following department overspent on its compensation budget, resulting in irregular expenditure to the amount indicated:

- Education – R9 791 000

The reason for the overspending was inadequate budgeting due to the implementation of the occupation-specific dispensation for educators.

5.1.7 Performance agreements with senior managers

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

- Education
- Health
- Northern Cape Provincial Treasury

The determination of whether a performance bonus should be paid to senior managers is based on their performance as per the agreement. At the following department bonuses were paid to senior managers in the current year without the applicable performance agreement having been signed:

- Health

5.1.8 Suspensions

Based on the annual reports, 24 employees were suspended across five departments. The average number of days on suspension was 657, with 92% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated at R3 637 000.

The assessment could not be made for Roads and Public Works due to a lack of available information.

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

Lack of suspension policy and procedures

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

- Education
- Roads and Public Works

Reasons not recorded for prolonged suspension periods

At no departments employees were suspended for more than 30 days without recording the reasons for the prolonged period.

5.1.9 Sick and incapacity leave

Sick leave – non-compliance and lack of monitoring

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

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

Table 22: Departments that did not comply with leave determination

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		
Health	X	X	X	
Roads and Public Works	X	X	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 the 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 23: Departments that incorrectly granted incapacity leave

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

5.1.10 Leave administration

Overstated leave credits

In terms of PSR 1/V/F(b), the HoD should record all leave taken by an employee accurately and in full. Inadequate controls were implemented at the department below 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 were overstated.

- Health

Negative capped leave

In terms of the leave determination, an employee may not be granted annual leave with full pay in excess of the annual leave that the employee is entitled to, plus capped leave in respect of persons who had been in service prior to 1 July 2000. If due to a bona fide error, an employee had been granted annual leave with full pay in excess of the days to his/her credit at that time, such excess must be deducted from the subsequent leave cycle. Employees at the following departments had negative capped leave credits that were not deducted from their annual leave and were not recovered via unpaid leave:

- Economic Development and Tourism – the monetary value as disclosed in the financial statements was R15 985
- Education – the monetary value as disclosed in the financial statements was R620 098
- Health – the monetary value as disclosed in the financial statements was R210 000
- Transport, Safety and Liaison – the monetary value as disclosed in the financial statements was R1 169 517
- Sport, Arts and Culture – the monetary value as disclosed in the financial statements was R226 330

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 HoD. Employees at the following department took more than five days' family responsibility leave, although no special circumstances existed as approved by the HoD:

- Health

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. No or insufficient evidence existed that employees at the following department were entitled to the performance bonuses paid to them, as signed performance agreements were not in place:

- Health

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

- Education
- Roads and Public Works

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 and overtime was incorrectly calculated.

Table 24: Shortcomings in the management of 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 and Land Reform	X			
Education			X	
Health	X			
Northern Cape Provincial Treasury	X			
Roads and Public Works			X	X
Transport, Safety and Liaison	X			X

5.1.13 Service terminations

In terms of section 38 of the PSA, overpayments should be recovered from employees by deducting 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, one department had not recovered the overpayment or reclassified it as debt.

Table 25: Shortcomings relating to overpayments after service terminations

Department	Overpayments made to terminated or deceased employees	Overpayments not recovered or reclassified at year-end
Education	X	X

5.1.14 Payroll control

In terms of Treasury Regulation 8.3.4, the person in charge at a pay point must certify that all persons listed on the payroll report are entitled to payment. Treasury Regulation 8.3.5 requires that the payroll report must be returned to the CFO within 10 days of being certified, and that the accounting officer must ensure that all pay-point certificates are received on a monthly basis. Instances were found at the following departments that indicate that the prescribed control had not been fully implemented:



Table 26: Departments that did not adequately implement payroll control

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
Health	x	x	X	X
Sport, Arts and Culture	x		X	
Roads and Public Works				

5.1.15 Overall conclusion

The above findings were the result of a lack of leadership oversight and monitoring of key controls.

5.2 Significant findings from audits of procurement and contract management

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

As is evident from the analysis of irregular expenditure (section 3.2.1.2), 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

The performance audit report tabled on 18 November 2009 entitled *Performance audit of entities that are connected with government employees and doing business with provincial departments* disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they were directors or members.

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

The allegations in the report of corruption, improper conduct and failure to comply with the SCM system were appropriately dealt with after being investigated.

The 2009-10 regularity audits included a similar assessment of the interest of employees and their close family members in entities that are suppliers to the auditees. Where interest in suppliers was identified, a sample was tested to determine whether there was compliance with the legislation applicable to departments, trading

entities, constitutional institutions as well as schedule 3A and 3C public entities. The table below lists the auditees where interests were identified and details the resultant findings.

Table 27: Shortcomings regarding 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)	Interest not included in annual declaration of senior manager (departments only)
Office of the Premier	X				
Roads and Public Works	X	X	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.

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

Table 28: Shortcomings relating to three price quotations not invited

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Health		X	R6 504 487
Office of the Premier		X	R347 419

Deviation from competitive bidding without approval

Treasury Regulation 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.

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

- Education – R57,9 million

Deviation from competitive bidding not justified

PN 6 of 2007-08 states that the provision in Treasury Regulation 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 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 must take into account the period required for competitive bidding processes – a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes. Accounting officers 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.

At the following auditees, irregular expenditure was incurred as deviations from competitive bidding were 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 proper planning would have prevented such emergency:

- Health – R467,8 million
- Northern Cape Provincial Treasury – R11 million
- Awards to suppliers who failed to provide valid tax clearance certificates

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

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

- Roads and Public Works

Preference point system not applied

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

At the following auditee, evidence was not provided that the preference point system had been applied:

- Roads and Public Works

Contracts awarded to suppliers that did not have highest points

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

At the following auditee, irregular expenditure was incurred as awards were made to suppliers who did not score the highest points although no objective criteria justified such awards:

- COGHSTA – R4,8 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 the following auditees, a list of prospective suppliers was not in place:

- Sport, Arts and Culture
- Environmental Affairs and Nature Conservation

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 must be fair, equitable, transparent, competitive and cost-effective. When a contract expires, it is expected that a competitive bidding process should be followed to appoint a supplier to provide goods and services.

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

- Health – R18 million
- Roads and Public Works – R25,8 million

Non-performance by suppliers

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

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

Inadequate contract performance measures or monitoring

At the following auditees, it could not be determined whether contracts had been managed properly and whether required action was taken against suppliers when goods and services were not provided in accordance with the requirements of the contract or the accepted quotation due to the non-availability of information (limitation of scope):

- Health
- Roads and Public Works

5.2.3 Supply chain management controls

Lack of supply chain management policies or procedures

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

At the following auditees, SCM policies and procedures were not in place for the acquisition of goods and services:

- Northern Cape Provincial Treasury
- McGregor Museum
- Northern Cape Tourism Authority

Supply chain management policies in conflict with applicable legislation

At no auditees were the SCM policies and procedures in conflict with the PFMA, Treasury Regulations or the PPPFA and its regulations:

Prohibited supplier database not always checked

In terms of Treasury Regulation 16A9.1(c), the National Treasury's database should be checked prior to awarding any contract to ensure that no recommended bidder or any of its directors are listed as companies or persons with whom the public sector is prohibited from doing business.

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

- Health (limitation of scope)
- Roads and Public Works

Inadequate segregation of duties in procurement

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

No instances were identified where the same person was involved in selecting a supplier and the payment process without compensating controls being in place.

No processes for supply chain management officials to report breaches or non-compliance

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

At the following auditee, processes had not been established for SCM officials to report these matters:

- Roads and Public Works

Supply chain management officials were not adequately trained

In terms of Treasury Regulation 16A5.1, officials implementing the institution's SCM system should be trained and deployed in accordance with the requirements of the framework for minimum training and deployment issued by the National Treasury.

At the following auditee, SCM officials had not been trained as required:

- Education

National Treasury's code of conduct not adopted for supply chain management

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

At the following auditee, the code of conduct was not signed by officials and other role players involved in SCM as evidence that it had been adopted:

- Roads and Public Works

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, Treasury Regulation 16A3.2(d)(v) requires an SCM system to provide for risk management.

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

- Agriculture and Land Reform
- Education
- Health
- Roads and Public Works

Fraud prevention plan did not include specific measures for procurement

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

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

- Education
- Social Development
- Roads and Public Works

No internal audit evaluation of supply chain management compliance

In terms of Treasury Regulations 3.2.11 and 27.2.10, the internal audit function must assist the accounting officer or authority in maintaining efficient and effective controls by evaluating controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the safeguarding of assets and compliance with laws and regulations.

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

- Agriculture and Land Reform
- Economic Development and Tourism
- Education
- COGHSTA
- Transport, Safety and Liaison
- Social Development
- Roads and Public Works

5.2.4 Overall conclusion

The above findings resulted from a lack of leadership oversight and monitoring of key controls.

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

Table 29: Status of consolidated audits

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

In terms of section 19(a) of the PFMA, the provincial treasury is responsible to prepare annual consolidated financial information of the provincial departments in the Northern Cape. The revenue fund is responsible for the overall financial management and coordination function in the province.

The 2009-10 consolidated financial information and revenue fund audits were completed by 30 September 2010.

The audit of the consolidated financial information is an agreed-upon procedures assignment and the revenue fund received a financially unqualified opinion with findings on compliance with laws and regulations. The non-compliance related to the contravention of the Borrowing Powers of Provincial Government Act, 1996 (Act No. 48 of 1996), as the combined bank accounts of the province were utilised as revolving credit.

The consolidated financial position of the province reflected a net liability of R9 737 000 (2008-09: R108 465 000). Included in the net liability was a net cash overdraft position of R145 725 000 (2008-09: R368 452 000). The unfunded asset related to unauthorised expenditure of departments of R718 648 000 (2008-09: R681 848 000).

The provincial treasury has implemented a debt-redemption strategy to assist with cash-flow management.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

7.1 Summary of annual reports tabled

Table 30: Annual reports tabled by departments and entities

Type of auditee	Percentage of reports tabled at 31 October 2010	
	2009-10	2008-09
Departments	100%	100%
Public entities	0%	0%
Other entities	33%	33%
Total	82%	82%

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

Table 31: Annual reports not tabled

Auditee	Reason(s)
McGregor Museum	Capacity constraints
Northern Cape Premier's Education Trust Fund	Late submission of financial statements

A complete list of the tabling dates of annual reports by auditees is attached as annexure 3.

CONCLUSION

The Northern Cape 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 good performance and to improve in those areas of concern.

Departments and public entities should focus on addressing shortcomings relating to capital assets, both movable and immovable, other disclosure items and expenditure. A further area of concern is that of budgetary control and monitoring of spending against the budget on an ongoing basis. Overspending, 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 recurrences. On the other hand, underspending is also alarming, as it has a direct impact on service delivery. It requires proper planning, execution and oversight of projects by leadership to ensure delivery.

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

Attention is also drawn to the importance of departments and provincial public and other entities needing to ensure that the necessary systems and controls are in place that will result in accurate reporting, continuous monitoring of the achievement of measurable objectives and overall compliance with the reporting requirements in respect of predetermined objectives.

I wish to reiterate my critical message to the legislators and the executive that it is possible to obtain an unqualified auditor's report with clean administration if key controls are institutionalised and constantly monitored by the leadership.

I am confident that the challenges are not insurmountable and remain committed to working with the legislature and executive to assist in the process of identifying and disseminating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

ANNEXURES TO GENERAL REPORT

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

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

Annexure 3: Listing of entities with dates on which the annual reports were tabled

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

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		
Departments																	
1	Agriculture and Land Reform	Financially unqualified with findings on predetermined objectives and compliance with laws and regulations	Financially unqualified (with other matters)														
2	Cooperative Governance, Human Settlement and Traditional Affairs	Financially unqualified with findings on predetermined objectives and compliance with laws and regulations	Qualified														
3	Economic Development and Tourism	Financially unqualified with findings on compliance with laws and regulations	Financially unqualified (with other matters)														
4	Education	Qualified	Disclaimer														
5	Health	Disclaimer	Disclaimer														
6	Office of the Premier	Financially unqualified with findings on predetermined objectives and compliance with laws and regulations	Financially unqualified (with other matters)														
7	NC Provincial Legislature	Financially unqualified with findings on predetermined objectives and compliance with laws and regulations	Financially unqualified (with other matters)														
8	NC Provincial Treasury	Financially unqualified with findings on compliance with laws and regulations	Financially unqualified (with other matters)														
9	Roads and Public Works	Disclaimer	Qualified														
10	Social Development	Financially unqualified with findings on compliance with laws and regulations	Financially unqualified (with other matters)														
11	Sport, Arts and Culture	Qualified	Qualified														
12	Environmental Affairs and Nature Conservation	Financially unqualified with findings on predetermined objectives and compliance with laws and regulations	Financially unqualified (with other matters)														

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
13	Transport, Safety and Liaison	Financially unqualified with findings on predetermined objectives and compliance with laws and regulations	Financially unqualified (with other matters)												
Public entities															
1	Northern Cape Tourism Authority	Financially unqualified with findings on compliance with laws and regulations	Financially unqualified (with other matters)												
Schedule 3 and other entities															
1	McGregor Museum	Qualified	Qualified												
2	Northern Cape Premier's Education Trust Fund	Qualified	Qualified												
3	Roads Capital Account	Adverse	Qualified												

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

Number	Auditee	Prohibited action / non-adherence															SCM issue that resulted in irregular expenditure
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct and 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)	
Departments																	
1	Agriculture and Land Reform																
2	Cooperative Governance, Human Settlement and Traditional Affairs																
3	Economic Development and Tourism																
4	Education																
5	Health																
6	Office of the Premier																
7	NC Provincial Legislature																
8	NC Provincial Treasury																
9	Roads and Public Works																
10	Social Development																
11	Sports, Arts and Culture																
12	Environmental Affairs and Nature Conservation																
13	Transport, Safety and Liaison																
Public entities																	
1	Northern Cape Tourism Authority																
Schedule 3 and other entities																	
1	McGregor Museum																
2	Northern Cape Premier's Education Trust Fund																
3	Roads Capital Account																

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

Number	Auditee	Date of tabling of annual report
Departments		
1	Agriculture and Land Reform	13 September 2010
2	Cooperative Governance, Human Settlement and Traditional Affairs	30 September 2010
3	Economic Development and Tourism	29 September 2010
4	Education	30 September 2010
5	Health	30 September 2010
6	Office of the Premier	31 August 2010
7	NC Provincial Legislature	1 October 2010
8	NC Provincial Treasury	30 September 2010
9	Roads and Public Works	30 September 2010
10	Social Development	30 September 2010
11	Sport, Arts and Culture	30 September 2010
12	Environmental Affairs and Nature Conservation	28 September 2010
13	Transport, Safety and Liaison	31 August 2010
Public entities		
1	Northern Cape Tourism Authority	30 September 2010
Schedule 3 and other entities		
1	McGregor Museum	Outstanding
2	Northern Cape Premier's Education Trust Fund	Outstanding
3	Roads Capital Account	30 September 2010

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

Number	Auditee	Focus areas			
		IT governance	Security management	User access control	IT service continuity
Departments					
1	Agriculture and Land Reform				
2	Cooperative Governance, Human Settlement and Traditional Affairs				
3	Economic Development and Tourism				
4	Education				
5	Health				
6	Office of the Premier				
7	NC Provincial Legislature				
8	NC Provincial Treasury				
9	Roads and Public Works				
10	Social Development				
11	Sport, Arts and Culture				
12	Environmental Affairs and Nature Conservation				
13	Transport, Safety and Liaison				
Public entities					
1	Northern Cape Tourism Authority	IT audit work not performed due to the nature and size of the entities. Most of them use off-the-shelf accounting software.			
Schedule 3 and other entities					
1	McGregor Museum	IT audit work not performed due to the nature and size of the entities. Most of them use off-the-shelf accounting software.			
2	Northern Cape Premier's Education Trust Fund				
3	Roads Capital Account				

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