



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



AUDITOR - GENERAL
SOUTH AFRICA



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

Auditing to build public confidence

General Report

on the national audit outcomes of North West Province 2009-10

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SOUTH AFRICA

Auditing to build public confidence

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The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our 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

I present to the North West Provincial Legislature my 2009-10 general report which summarises the results of the audit outcomes of the provincial departments, including the provincial legislature, provincial revenue fund, provincial and other public entities and the schedule 3 public entity which was audited by a private audit firm, for the financial year ended 31 March 2010.

The overall results point to a regression compared to prior year audit outcomes. It is of concern to note that there are still two departments and two public entities in the province that received a disclaimer of opinion in this financial year. No department or public entity had received a financially unqualified audit opinion without findings on predetermined objectives or compliance with laws and regulations, compared to the five in the previous year. The fact that 15 departments and public entities received a financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations is a clear indication that a clean administration is achievable.

The attainment of a clean administration by all government departments and public entities is a milestone we encourage and support. I am confident that this is achievable if:

- (1) all MECs set a tone to the effect that anything less than a clean administration will not be tolerated;
- (2) MECs ensure the appointment of key personnel and speedily resolve pending disciplinary cases; the accounting officers take ownership of an internal control environment that is conducive to clean administration, starting with their oversight of basic departmental disciplines;
- (3) the chief financial officers (CFOs) ensure that the minimum expected departmental disciplines are in place and account to the accounting officers frequently in this regard;
- (4) CFOs prepare monthly financial reports;
- (5) audit committees and internal audit units oversee the identification of key risks and the implementation of key controls, and continuously monitor the status thereof.

There are matters pertaining to the areas of human resource management, procurement, information systems, compliance with laws and regulations, reporting on performance against predetermined objectives and material misstatements in the financial statements which are prevalent in all departments and entities and which, going forward, need to be rectified. These matters play a significant role in supporting the internal control environment and due focus needs to be placed on these by the MECs. Of specific concern is the extent of the irregular expenditure of R1,8 billion, which could have been prevented had the proper processes been in place to ensure compliance with supply chain management (SCM) regulations.

Of great concern is the fact that most departments and public entities are not complying with the reporting requirements on service delivery (performance against predetermined objectives). Considering the high number of qualified and disclaimed audit outcomes and especially the high percentage of non-compliance with the PFMA and instances of reported information not being useful, it is evident that the deficiencies in the internal control environment have a direct impact on the province's ability to accurately report on performance against predetermined objectives.

On 19 October 2010 I, accompanied by Minister Collins Chabane, met with the provincial executive, and we were encouraged by the enthusiasm of the provincial executive in committing to driving the following within their departments:

- Engaging the AGSA and the accounting officers in the understanding of key controls
- Overseeing the speedy implementation of key controls that would enhance the control environment
- An undertaking that MECs would give priority to speedily addressing the human resource shortcomings identified by the AGSA and the PSC, which include the placement of senior personnel
- An undertaking that MECs would ensure that action is taken against those undermining the policies and procedures, particularly where it has resulted in irregular expenditure
- Attending to information systems shortcomings.

Through our continued commitment to simpler, clearer and more relevant reporting standards, as well as the visibility of our leadership, my team supports the executive and the provincial legislature in their committed efforts to work towards achieving a clean administration.

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

Together, we will continue to make every effort to collaborate in order to accelerate the implementation of actions and contribute towards strengthening our country's democracy.

Auditor-General

Auditor-General
Pretoria
19 September 2010

SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of provincial government for the 2009-10 financial year as well as recommendations to those charged with governance and oversight on achieving financially unqualified audit opinions and eradicating findings on the reporting on predetermined objectives and compliance with laws and regulations. An overview of these audit outcomes was presented to the provincial executive 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 which follows contains key issues and conclusions reached on the main sections in this report, while further details are contained in the body of the report.

Part A: Audits conducted by the AGSA

2.1 Overview of audit outcomes (see 3.1 for detail)

The financial statements of 13 provincial departments and 12 public entities were submitted on time. With the exception of three, all these audits were completed within the legislated time frame of two months from receipt of the financial statements at 31 July 2010. Although the timely submission of financial statements and predetermined objectives information is important, particular attention needs to be paid to the quality of the information submitted for audit to avoid qualifications and material corrections.

The audits of the revenue fund and eight public entities had not been finalised as at 31 August 2010 and are therefore excluded from the analysis throughout this report. Details of these entities and the reasons are provided in table 5.

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

The leadership and management of those departments and public entities and the auditors who finalised the audits within the legislated timelines are commended.

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

Table 1: Summary of audit outcomes

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	2	1	2	4
Adverse	0	0	0	0
Qualified	6	2	0	5
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	5	8	10	4

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	1	0	4
Total number of audits reported on	13	12	12	17
Number of audits not finalised as at 31 August 2010	1	1	8	4
Total number of audits	14	13*	20	21#
Entities with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	13	9	11	9
Compliance with laws and regulations	13	11	7	10

* The number of provincial departments increased due to the transfer of functions proclaimed by the President in September 2009.

The number of public entities audited by the AGSA decreased by one compared to 2008-09.

A detailed listing of audit outcomes and areas qualified for all departments and public entities audited is included in annexure 1 to this report. It is of concern that the province's outcomes reflect an overall regression for departments, with disclaimers in two departments and two entities.

A brief summary of the audit outcomes for the year under review are as follows:

- The overall outcomes regressed from the prior year
- No department or public entity achieved a financially unqualified audit opinion with no findings on predetermined objectives or compliance with laws and regulations, compared to five in the previous year
- Only the Department of Health managed to improve from a qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations
- Four entities managed to improve from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, viz. Kgama Wildlife Operations (Pty) Ltd; North West Development Corporation (Pty) Ltd; North West Provincial Council on Aids; and the North West Directorate of Entrepreneurial Development in Natural Resources
- The Departments of Education and Public Works, Roads and Transport regressed from unqualified with findings on predetermined objectives and/or compliance with laws and regulations to disclaimers
- The Office of the Premier and the provincial legislature regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to qualified opinions.

Ten (2008-09: 12) departments and public entities were qualified in the year under review. The financial statement qualification areas that occurred in more than 40% of the entities audited are as follows:

Financial statements 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	6 of 8	2 of 3	1 of 2	7 of 9
Current assets	4 of 8	1 of 3	1 of 2	3 of 9
Liabilities	3 of 8	1 of 3	2 of 2	3 of 9
Other disclosure items	7 of 8	1 of 3	2 of 2	6 of 9
Revenue	0 of 8	0 of 3	2 of 2	3 of 9
Expenditure	2 of 8	1 of 3	2 of 2	4 of 9
Unauthorised and/or irregular and/or fruitless and wasteful expenditure	6 of 8	2 of 3	2 of 2	3 of 9

Funding of operations/financial sustainability/going concern (see 3.1 for detail)

Concerns regarding going concern were identified at the Mafikeng Industrial Development Zone (Pty) Ltd, the North West Development Corporation (Pty) Ltd, the North West Provincial Council on Aids and the North West Directorate of Entrepreneurial Development in Natural Resources. These concerns mainly relate to current liabilities exceeding assets at three entities, whilst one entity will cease operations and be dissolved in the financial year 2010-11.

Unauthorised/irregular/fruitless and wasteful expenditure incurred during the year (see 3.1 for detail)*Unauthorised expenditure – R281,3 million*

Five out of 13 departments audited incurred unauthorised expenditure as defined in the PFMA. At Agriculture, Conservation, Environment and Rural Development and Health the vote/main division of the vote was overspent, whilst at Human Settlements, Public Safety and Social Development spending was not in accordance with the purpose of the vote. Unauthorised expenditure incurred would have possibly increased by a further R272,8 million or 97% had the accruals at year-end at three departments been paid on time.

Irregular expenditure – R1,8 billion

Eleven out of 13 departments (Agriculture, Conservation, Environment and Rural Development, Local Government and Traditional Affairs, Education, Health, Office of the Premier, Public Safety, Social Development, Sport, Arts and Culture, Public Works, Roads and Transport, Provincial Legislature and Economic Development and Tourism) and four out of 12 public entities audited (Mafikeng Industrial Development Zone (Pty) Ltd, North West Provincial Arts and Culture Council, Kgama Wildlife Operations (Pty) Ltd and North West Parks and Tourism Board) incurred irregular expenditure due to proper SCM processes not being followed, the highest being R1 billion at Public Works, Roads and Transport and R514 million at Health.

Eighty-six per cent of the irregular expenditure identified was not originally disclosed in the auditees' financial statements, but identified during the audit process.

Documentation supporting the procurement process followed for contractual expenditure of R750 million could not be submitted for audit purposes at Public Works, Roads and Transport. Therefore the completeness of the disclosed irregular expenditure could not be determined.

Fruitless and wasteful expenditure – R4,6 million

Eleven out of 25 entities audited incurred fruitless and wasteful expenditure, mostly due to the late payment of invoices, the highest of these being:

- Public Works, Roads and Transport – R2 094 000
- Office of the Premier – R437 000
- Agriculture, Conservation, Environment and Rural Development – R718 000
- Social Development – R222 000
- Education – R328 000
- Mafikeng Industrial Development Zone (Pty) Ltd – R704 960.

Material underspending of budgets (see 3.1 for detail)

Three departments materially underspent their budgets by a total of R61,7 million, as follows:

- The Department Economic Development and Tourism underspent by R7 129 000.
- The Department Local Government and Traditional Affairs underspent by R28 118 005. The department requested a roll-over of R25 million to 2010 - 2011, which was approved.
- Social Development materially underspent by R26 483 000.

Material misstatements corrected during the audit (see 3.1 for detail)

- The financial statements submitted for audit were subjected to material corrections during the audit, as follows:
 - Nine out of 13 departments and
 - Six out of 12 public entities
- Of the material misstatements corrected at the departments and public entities, 87% related to other disclosure items and 40% to irregular expenditure.

The incidence of material misstatements is indicative of the inadequate quality of financial statements submitted for audit. These material misstatements could have been detected by the entities had management adequately reviewed the financial statements throughout the year. Furthermore, had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted for audit.

Findings on predetermined objectives (see 3.2 for detail)

Findings arising from the audit of predetermined objectives of departments increased from 75% in the prior year to 100% of departments (13 out of 13) in 2009-10. At public entities findings were raised in 11 of the 12 audits completed, compared to nine of the 17 audits completed during 2008-09.

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

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	77%	89%	100%	89%
Reported information not useful	54%	56%	27%	22%
Reported information not reliable	46%	67%	27%	22%
Reported performance information not submitted in time for audit	15%	22%	64%	11%
Total number of audits with findings	13	9	11	9

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

Non-compliance with regulatory requirements

Findings relate mainly to a lack of reporting on performance against predetermined objectives, lack of effective, efficient and transparent systems and internal controls regarding performance management, and a

lack of or inadequate quarterly reporting on performance against predetermined objectives. Ten of the 13 departments and all 11 public entities had findings on non-compliance with sections of the PFMA relating to performance information. The rate of non-compliance in this area is of major concern.

Usefulness of information on performance against predetermined objectives

Usefulness of information refers to the reported information being consistent with the institution's objectives and targets, which are clearly linked to its mandate and objectives and are specific, clearly identifying the nature and required level of performance, as well as being measurable and time bound. The reported information on performance against predetermined objectives at seven of the 13 departments and three of 11 public entities was not useful.

Reported information on performance against predetermined objectives not reliable

"Reported information on performance against predetermined objectives not reliable" refers to insufficient appropriate evidence available in relation to reported information and an inappropriate system to generate the information, with the evidence provided not supporting the reported information and not accurate and complete. In the case of six of the 13 departments and three of 11 public entities, the reported information on performance against predetermined objectives was not reliable.

Information on performance against predetermined objectives not submitted for audit

Information on performance against predetermined objectives in respect of two departments and seven public entities was not received by 31 May 2010 for review purposes.

Findings on compliance with laws and regulations that do not impact on the financial statements (see 3.3 for detail)

Non-compliance	PFMA	SCM regulations	HR management
Departments	11 of 13	12 of 13	4 of 12
Public entities	3 of 12	5 of 12	0 of 12

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

Departments and public entities should consider strengthening preventative and detective controls through the use of 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 as part of their ongoing plan. This is indicative of the impact of the ineffectiveness in the provincial governance structures which require a specific response.

Significant findings on information technology systems (see 3.4 for detail)

Departments rely on computerised information systems (e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal) and the Logistical Information System (Logis) to perform their statutory financial

management, reporting and administrative functions. These systems are centrally supported by National Treasury and the State Information Technology Agency (SITA) that provides important computer networking infrastructure, data storage and retrieval services. The control environments for these systems are crucial as large amounts of critical financial data and transactions are recorded on, and processed through these systems. Furthermore, the automation of business processes and transaction processing contributes significantly to efficient service delivery.

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

- At three departments weaknesses regarding IT governance were identified.
- At one department weaknesses regarding security management were identified.
- Three departments had findings relating to user access control.
- Three 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 leadership to enable them to address internal control deficiencies where required. Although this review was specifically performed at only three departments in the current year, the deficiencies exist at most of the provincial departments.

2.2 Overview of action taken or to be taken to address audit outcomes

Drivers to improve audit outcomes (see 4.1 for detail)

The lack of improved audit outcomes in the province can be attributed to departments and entities not having addressed the key controls in the three fundamental areas of internal control, namely *leadership, financial and performance management and governance*.

The performance of departments and entities in this regard can be summarised as follows:

Leadership	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
1. 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	3	10	10	2
Predetermined objectives	3	1	10	11
Compliance	None	2	13	10
2. Review and monitoring of action plans to address all significant internal control deficiencies.	3	10	10	2
3. Establish an effective organisational structure that places people with appropriate skills in appropriate positions especially in the SCM environment to ensure compliance with applicable laws and regulations.	None	10	13	2
4. Ensure that all vacancies in Finance and other significant components are filled within a reasonable time.	4	7	9	5
5. Leadership's implementation of action plans to address user access control deficiencies.*	None	None	3	None

Leadership	Previous good practice maintained or improved		Improvements required	
	Departments	Entities	Departments	Entities
Financial and performance management				
1. Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable.				
Financial statements	3	10	10	2
Predetermined objectives	1	4	12	8
2. Producing accurate information and continuously monitoring the quality thereof.				
Financial statements	1	3	12	9
Predetermined objectives	None	1	13	11
3. Ensure that the asset register reflects the assets owned and that this is agreed to the financial records on a monthly basis.	None	10	13	2
4. Application systems susceptible to compromised data integrity: (*)				
User access control	None	None	3	None
Security management	1		2	
Business continuity	None		3	
Governance				
1. Improved involvement by internal audit and audit committee in monitoring processes				
Financial statements	None	1	13	11
Predetermined objectives	None	1	13	11
2. Maintaining effective risk management strategies, including fraud prevention plans	None	None	13	12
3. Lack of IT governance framework to direct the positioning of IT, resource requirements, risk and internal control management. (*)	None	None	3	None

* Review of information systems conducted only at three departments and not at any entity.

Action taken/to be taken to address matters previously reported (see 4.2 for detail)

The following commitments made by the provincial executive after the 2009-10 audit outcomes of the province were discussed with them:

- Intensive training on SCM processes to be rolled out to all departments and entities.
- Internal audit to monitor SCM processes on a regular basis.
- Investigations into all irregular expenditure for the current year will be coordinated centrally to ensure the correct processes followed in terms of the PFMA.
- The PPAC to conduct hearings and recommend on prior year unauthorised expenditure of departments.
- Vacant Head of Department (HoD) and CFO positions to be given high priority.
- Skills audit to be performed on CFOs and a minimum qualification framework will be considered
- Provincial treasury to play a bigger role in assisting departments and entities in implementing and monitoring action plans to address audit findings.
- Monthly feedback will be provided by HODs to MECs on progress made with implementation of key controls.
- HoD and MEC to regularly liaise with the AGSA to improve relationships.
- Governance structures will be reviewed.

Initiatives by the AGSA to encourage clean administration (see 4.3 for detail)

In support of a clean administration, the AGSA leadership in the province embarked on an intensified programme to enhance its visibility with the objective of improving the effectiveness of the audit process and to engage with all role players that could influence clean administration. To this end, the audit leadership paid regular visits to teams during the audits and meetings were held with those charged with governance. The engagements focused on simplicity, clarity and relevance of the message to gain an understanding, secure buy-in and seek commitment that would influence clean administration.

As at the end of August 2010, the AGSA in North West had met with the Premier and most of the MECs as well as the Speaker of the provincial legislature to discuss the current PFMA 2010 audit outcomes. A key feature of this visibility was to ensure that the executive understands the key controls within their environment without which a clean administration cannot be achieved. The executive would then be in a position to frequently assess the state of these key controls.

The AGSA leadership also engaged with the North West centralised audit committee to discuss matters arising in the draft audit reports prior to the audit reports being signed off.

Matters that may potentially impact the auditor's report in the coming year (see 4.4 for detail)

Matters that may potentially impact the auditor's report in the coming year if not effectively addressed in the current year include the following:

- Transfer of functions
- Immovable assets
- New (BAS) system

2.3 Overview of the AGSA's specific focus areas

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

The provincial legislature was excluded from the HR horizontal audit as the Public Service Act and regulations are not applicable to legislatures. The analysis is based on a total of 12 departments.

The audits revealed that eight departments did not meet all the requirements for an effective human resource management system. These weaknesses impacted the departments' financial management as well as their ability to deliver services in accordance with their mandates.

The audits also revealed that in general compensation of employees was not an area of high risk. The weaknesses in the controls over compensation identified at nine departments were, however, of concern.

The audits revealed that employees or their close family members have interests in the businesses that supply to the auditees. Legislation applicable to such interest was not always complied with. In addition, it was noted that the findings listed in the report entitled *Performance audit of entities that are connected with government employees and doing business with departments of the North West Provincial Administration* tabled in August 2008 had not been investigated and appropriately dealt with by all departments.

Non-compliance with the SCM legislation in the procurement process was identified at 13 departments. The most significant audit findings were as follows:

- Three quotations were not always invited for procurement up to a value of R500 000
- Awards were made to suppliers who did not have the highest points
- Competitive bidding processes were not always followed for procurement above R500 000
- The preference point system was not always applied.

Non-compliance with SCM legislation resulted in 99% of the irregular expenditure incurred in the year under review.

Weaknesses in the management of contracts were identified at five departments. 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 relates to controls not being implemented to prevent and detect instances of non-compliance and failure. The following control deficiencies were most prevalent:

- Disregard for legislation by officials and insufficient supervision and monitoring by accounting officers, CFOs and senior managers
- Inadequate support by the audit committee to establish a strong control environment and ensure compliance
- Failure by internal audit units to assess the adequacy of controls that mitigate risk of non-compliance and to monitor the consistent operation of those controls throughout the year
- Role and responsibilities of risk and compliance officers not clearly defined
- Ineffective risk management processes.

Investigations were completed at one department during the year under review and investigations were in progress at six departments.

The AGSA conducted performance audits of the infrastructure delivery process at the Departments of Health and Education as part of a transversal performance audit on infrastructure delivery. The audit focused on a high-level overview of the infrastructure delivery management processes. Broad conclusions in respect of audits conducted in North West were as follows:

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

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

2.4 Overview of status of provincial consolidation and status of tabling of annual reports (see sections 6 and 7 for detail)

The consolidated financial statements for the departments and public entities have not been received for the 2008-09 and 2009-10 financial years. The status and detail of tabling of 2009-10 annual reports are set out in section 7 of and annexure 3 to this report.

Part B: Audits not conducted by the AGSA

2.5 Overview of audit outcomes (see 8.1 for detail)

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

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

Mmabana Arts, Culture and Sport Foundation submitted financial statements on 31 May 2010 and the audit was completed within the legislated time frame.

Mmabana Arts, Culture and Sport Foundation reported a R6,1 million net loss from operations during the current year whilst the net loss reported during 2009 amounted to R8,8 million. The entity cannot sustain these losses indefinitely. This state of affairs is indicative of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Mmabana Arts, Culture and Sport Foundation did not establish and implement an integrated risk management policy as required by section 51(1)(a)(i) of the PFMA.

The other two entities, namely the North West Provincial Heritage Resources Authority and the North West Eastern Region Entrepreneurial Support Centre, had not submitted financial statements at the date of this report.

2.6 Overview of status of tabling of annual reports (see section 9 for detail)

The status of tabling of 2009-10 annual reports is set out in section 9 of this report.

PART A - AUDITS CONDUCTED BY THE AGSA

SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

3.1 Summary of audit outcomes

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

Table 4: Summary of audit outcomes

Audit outcomes	Departments (including legislature and provincial revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements				
Disclaimer	2	1	2	4
Adverse	0	0	0	0
Qualified	6	2	0	5
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	5	8	10	4
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	1	0	4
Total number of audits reported on	13	12	12	17
Number of audits not finalised at 31 August 2010	1	1	8	4
Total number of audits	14	13	20	21
Public entities with findings arising from the AGSA's other legal reporting responsibilities				
Predetermined objectives	13	9	11	9
Compliance with laws and regulations	13	11	7	10

* The number of provincial departments increased due to the transfer of functions proclaimed by the President in September 2009.

The number of public entities audited by the AGSA decreased by one compared to 2008-09.

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 detailed listing of audit outcomes and areas qualified for all departments and public entities audited is included in annexure 1 to this report.

Movements in audit outcomes

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

Table 5: Movements in audit outcomes

Type of auditee	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	5	1	4	3	13
Public entities	8	4	0	0	12
Total number of audits reported on	13	5	4	3	25

Overall, the audit outcomes of the North West Province reflect a regression, which is of concern. The details and key drivers for this regression are captured below.

Departments

The restructuring of the executive in September 2009 resulted in significant changes at a departmental level from both a reporting and accountability perspective. The changes that occurred in departments are as follows:

- Renaming of departments: Vote 13: Agriculture, Conservation and Environment was renamed as Vote 13: Agriculture, Conservation, Environment and Rural Development whilst Vote 7: Finance was renamed as Vote 7: Provincial treasury
- Formation of new departments: Vote 11: Public Works and Vote 10: Transport, Roads and Community Safety formed Vote 11: Public Works, Roads and Transport and Vote 5: Public Safety.
- Splitting of departments: Vote 9: Developmental Local Government and Housing was split into Vote 9: Local Government and Traditional Affairs and Vote 15: Human Settlements.

Unchanged (five)

The Department of Social Development remained qualified, mainly due to lack of appropriate oversight to ensure that matters relating to basic financial disciplines and compliance reported in the previous years on moveable assets and employee benefits were addressed.

The following departments achieved audit opinions of financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations:

- Agriculture, Conservation, Environment and Rural Development
- Economic Development and Tourism
- Sport, Arts and Culture
- Provincial treasury.

Improvements (one)

The Department of Health managed to improve from a qualified opinion to financially unqualified with findings on predetermined objectives and compliance with laws and regulations. The reason for this improvement was the involvement of the MEC, the accounting officer and the CFO in addressing the deficiencies in the fixed asset register and the disclosure of irregular expenditure.

Regressions (four)

The Departments of Education and Public Works, Roads and Transport regressed from unqualified with findings on predetermined objectives and/or compliance with laws and regulations to disclaimers. The reason for this at both departments was a lack of permanent key personnel at HoD and CFO, which resulted in poor monitoring of and supervision over basic disciplines and ultimately an inability to provide sufficient appropriate audit evidence for disclosures made in the financial statements.

The office of the Premier and the provincial legislature regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to qualified opinions. This was mainly due to lack of oversight and insufficient implemented controls to ensure that information in the financial statements was reliable before submission for audit.

New departments (three)

The following newly established departments all recorded qualified audit opinions:

- Public Safety
- Local Government and Traditional Affairs
- Human Settlements

Public entities

The overall audit outcomes for the public entities have improved, primarily as a result of a drive by the provincial executive, led by the Premier, to address the governance structures in the public entities and also to restore accountability.

Improvements (four)

Four entities managed to improve from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations:

- Kgama Wildlife Operations (Pty) Ltd
- North West Development Corporation (Pty) Ltd
- North West Provincial Aids Council
- North West Directorate of Entrepreneurial Development in Natural Resources.

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

- Involvement by the MEC and accounting officer of the Department of Economic Development in addressing the governance deficiencies at the entities
- Interventions by accounting authorities of public entities, which resulted in the improvement of audit outcomes
- An improvement in timely responses to audit findings and increased management commitment to resolve findings

- Availability and accessibility of key management and staff, particularly at public entities
- A strong desire by the leadership to achieve a positive outcome.

Unchanged (eight)

Mafikeng Industrial Development Zone (Pty) Ltd and North West Provincial Arts and Cultural Council again received disclaimers. This was mainly due to a lack of action taken to address previous audit findings and inadequate controls and systems to provide sufficient appropriate audit evidence for disclosures made in the financial statements.

The following six entities remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations:

- Atteridgeville Bus Services (Pty) Ltd
- Invest North West
- North West Gambling Board
- North West Parks and Tourism Board
- North West Star (Pty) Ltd
- North West Transport Investments (Pty) Ltd

Status of completion of audits

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

Table 6: Status of completion of audits

Reason	Departments (including legislatures and revenue fund)	Public entities (including trading and other types of entities)
Financial statements not yet received	1	4
Audit not yet completed due to late receipt of financial statements	0	3
Audit still in progress for other reasons	0	1
Total number of audits not yet completed by 31 August 2010	1	8

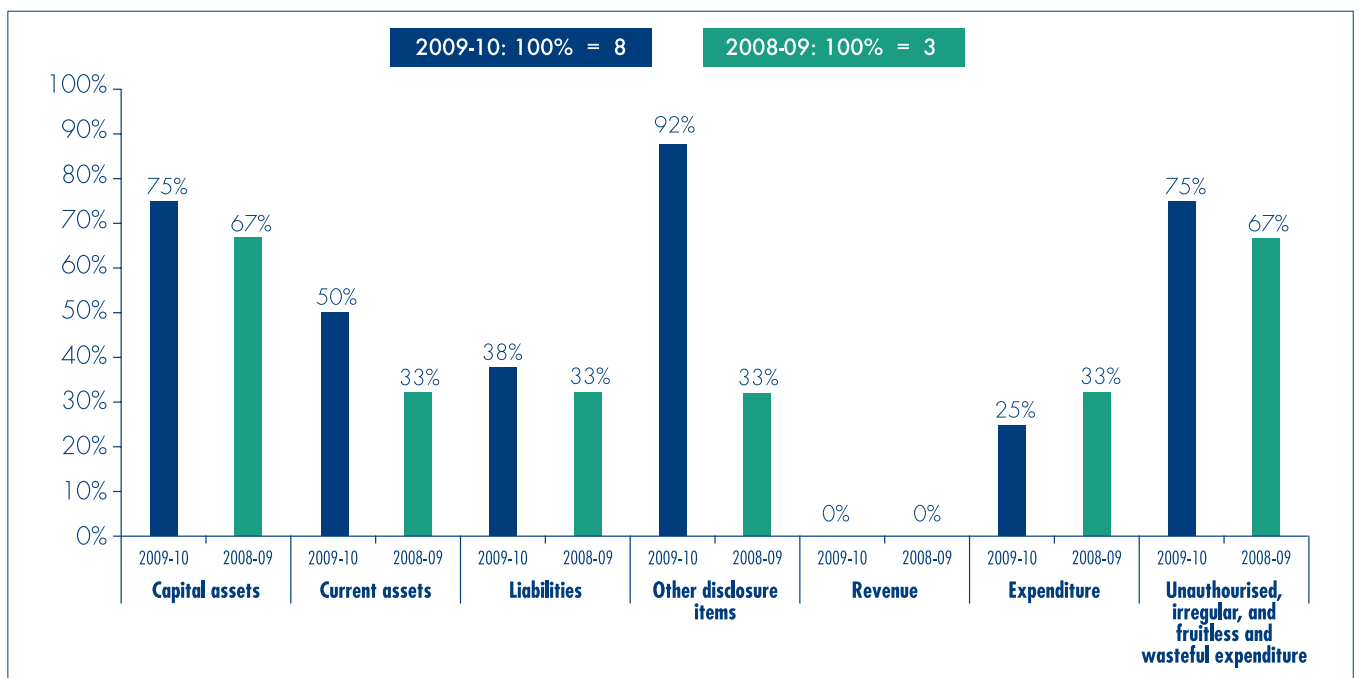
In total 88% (22 of 25) of audits were completed within the legislated deadline of two months from receipt of the financial statements. Audits of the Department of Social Development, North West Youth Development Trust and North West Provincial Arts and Culture Council were finalised late as a result of AGSA staff shortages.

The following audits are excluded from the analysis:

Table 7: Audits outstanding or finalised late

Entity not reported on	AFS received date	Reason not finalised	Expected signing date
North West Provincial Revenue Fund	AFS for 2009-10 not received.	Practical delay caused by provincial treasury waiting for the completion of the annual audits.	31 October 2010
Golden Leopard Resorts (Pty) Ltd	15 July 2010	Newly appointed CFO.	10 September 2010
North West Youth Development Trust	31 May 2010	Delay in finalising report as a result of AGSA internal quality control processes.	13 September 2010
Agribank Creditors Settlement Trust	17 August 2010	The entity is winding down.	17 October 2010
North West Agricultural Bank	17 August 2010	The entity is winding down.	17 October 2010
North West Housing Corporation	AFS for 2008-09 and 2009-10 not received.	The entity is winding down.	Unknown
Dirapeng (Pty) Ltd	AFS for 2007-08; 2008-09 and 2009-10 not received.	The Board of Directors, CEO and CFO had been suspended due to investigations.	Unknown
Signal Development (Pty) Ltd	AFS for 2007-08; 2008-09 and 2009-10 not received.	Board members not appointed.	Unknown
North West Tribal and Trust Fund	AFS for 2000-01 to 2009-10 not received.	AFS for this entity have not been prepared for a number of years due to uncertainty on the accounting framework to be applied.	Unknown

Financial statement audit

Figure 1: Financial statement areas qualified - Departments

Discussion on qualification areas

The root causes of financial statement qualification areas for departments per balance sheet and income statement items where findings are greater than 40% are as follows:

Capital assets (75%)

Six of eight departments were qualified on movable and immovable assets (2008-09: two of three).

The qualifications resulted from immovable assets and related work in progress at the departments not being appropriately accounted for in terms of the requirements of National Treasury guidelines on assets for departments. Furthermore, there were inadequacies regarding the content and completeness of fixed asset registers, leading to a limitation on the scope of the audit of capital assets.

The challenges stem from the following:

- Basic disciplines around asset management not being adhered to, e.g. regular asset counts and reconciliation of the fixed asset registers
- Management not taking responsibility for a control environment that is conducive to sound financial management
- Asset systems in place were not always adequate to provide sufficient details on the existence and valuation of assets
- Inadequate, regular oversight by MECs to ensure that these matters are being attended to.

Other disclosure items (88%)

Seven of eight departments were qualified on other disclosure items (2008-09: one of three).

The qualifications were as a result of a lack of supporting documentation for commitments, contingent liabilities, employee benefits and related-party disclosures.

The challenges stem from the following:

- A lack of effective document management to support the disclosure notes presented in the financial statements.
- A lack of processes to address all the requirements of the accounting framework.
- Inability of the CFOs to ensure compliance with accounting standards relating to presentation and disclosure of accounting activities.

Unauthorised, irregular and fruitless and wasteful expenditure (75%)

Six of eight departments were qualified on unauthorised, irregular, and fruitless and wasteful expenditure (2008-09: two of three).

The qualifications stemmed from payments made contrary to SCM regulations. Procurement and contract management was identified as a focus area for the 2009-10 financial year, which resulted in additional findings being raised.

The challenges stem from the following:

- A lack of or insufficient policies and procedures in place to ensure compliance with SCM regulations.
- Circumvention of SCM procedures by senior management.
- Lack of disciplinary steps against officials who do not comply with processes and/or procedures.

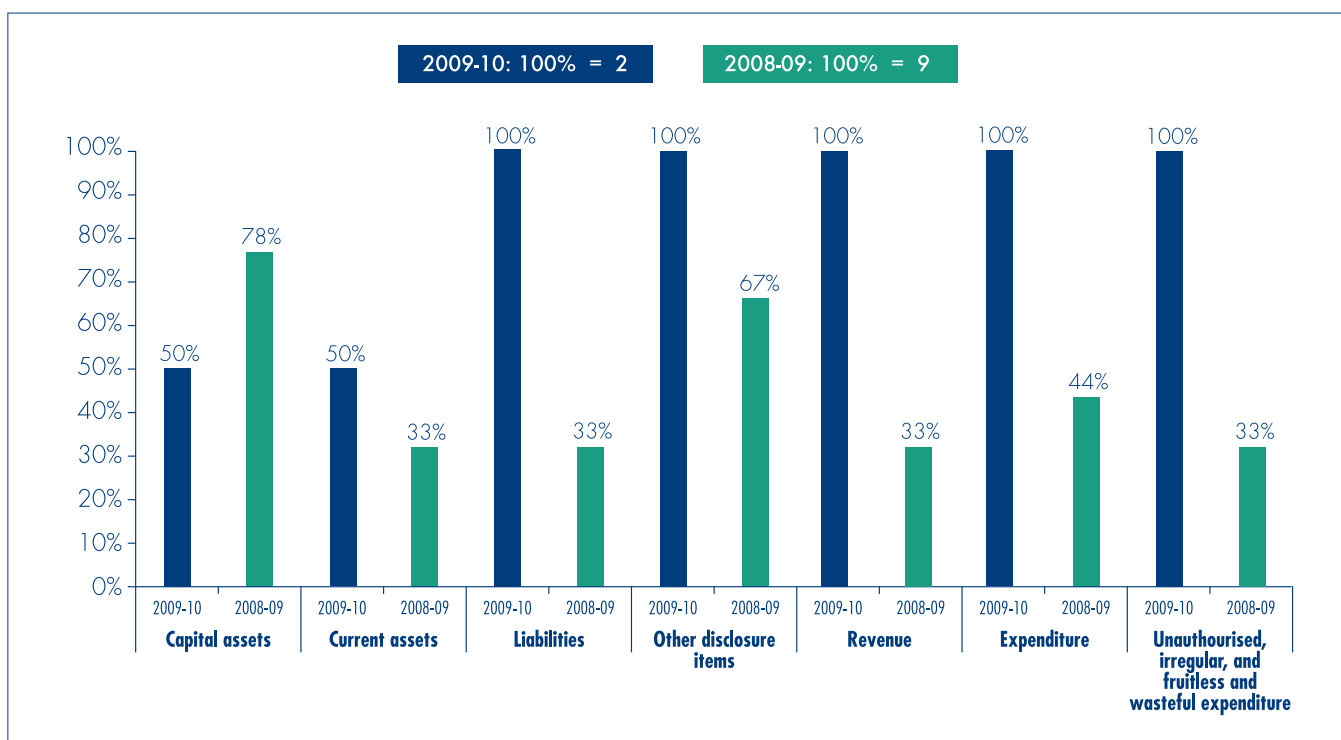
Current assets (50%)

Four of eight departments were qualified on current assets (2008-09: one of three).

The qualifications resulted mostly from a lack of sufficient appropriate audit evidence presented for audit.

The challenges stem from a lack of effective document management to support the disclosure notes presented in the financial statements.

Figure 2: Financial statement areas qualified – Public entities



Discussion on qualification areas

The root causes of financial statement qualification areas per balance sheet and income statement items where findings are greater than 40% are as follows:

Capital assets (50%)

One of two entities was qualified on movable and immovable assets (2008-09: seven of nine).

The qualifications resulted from the requirements of GRAP 17, *Property, plant and equipment*, which specifically dealt with the recognition and determination of useful lives of assets as well as impairment and depreciation thereof.

The challenges stemming from the complexity in the application of GRAP 17, *Property, plant and equipment*, the impairment of assets, the consideration of useful lives and depreciation were evident. The unwillingness of entities to embrace the standard in its entirety resulted in misinterpretations of the standard.

Current assets (50%)

One of two entities was qualified on current assets (2008-09: three of nine).

The qualifications resulted mostly from a lack of sufficient appropriate audit evidence presented for audit.

The challenges stem from a lack of effective document management to support the disclosure notes presented in the financial statements.

Liabilities (100%)

Two of two entities were qualified on liabilities (2008-09: three of nine).

The qualification stemmed from a lack of appropriate systems in place to account for all payables at entities.

The challenges stem from a lack of processes to address all the requirements of the accounting framework.

Other disclosure items (100%)

Two of two entities were qualified on other disclosure items (2008-09: six of nine).

The qualification stemmed from a lack of supporting documentation for commitments, contingent liabilities, employee benefits and related-party disclosures.

The challenges stem from the inability of the accounting division to ensure compliance with accounting standards relating to presentation and disclosure of accounting activities.

Revenue (100%)

Two of two entities were qualified on revenue (2008-09: three of nine).

The qualifications resulted from a lack of sufficient appropriate audit evidence presented for the audit for revenue.

The challenges stem from a lack of effective document management to support the revenue collected by the entity.

Expenditure (100%)

Two of two entities were qualified on expenditure (2008-09: four of nine).

The qualifications resulted from a lack of sufficient appropriate audit evidence presented for the audit for expenditure and journal entries made.

The challenges stem from a lack of effective document management to support the expenditure incurred by the entity.

Unauthorised, irregular and fruitless and wasteful expenditure (100%)

Two of two entities were qualified on unauthorised, irregular, and fruitless and wasteful expenditure (2008-09: three of nine).

The qualifications stemmed from payments made contrary to SCM regulations. Procurement and contract management was identified as a focus area for the 2009-10 financial year, which resulted in additional findings being raised.

The challenges stem from:

- a lack of or insufficient policies and procedures in place to ensure compliance with SCM regulations.
- circumvention of SCM procedures by senior management.
- lack of disciplinary steps against officials who do not comply with processes and/or procedures.

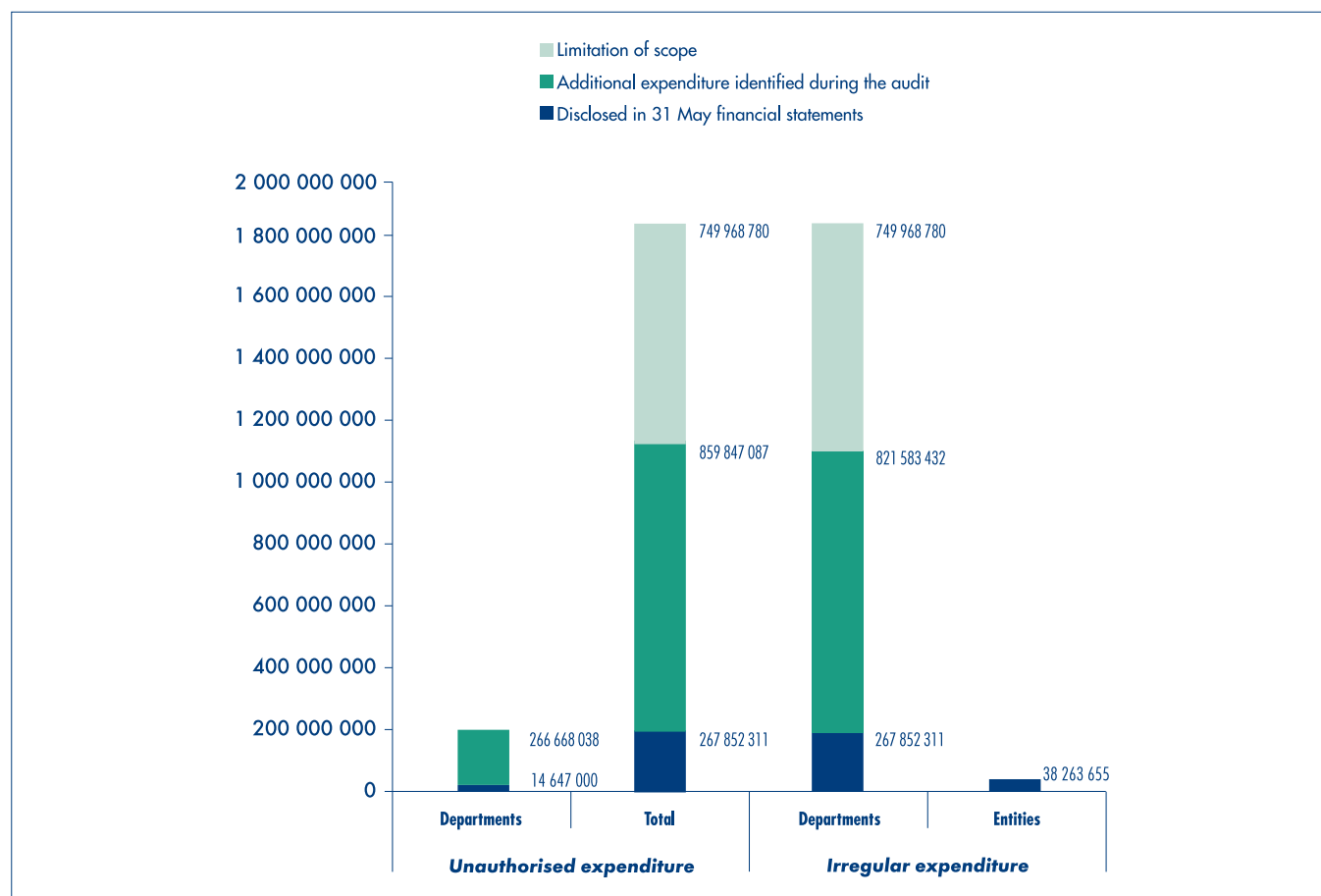
Funding of operations/financial sustainability/going concern

Table 8: Auditees with concerns related to funding of operations/financial sustainability/going concern

Auditee	Reason(s)
Mafikeng Industrial Development Zone (Pty) Ltd	The entity has not obtained an operating licence from DTI. Current liabilities exceed current assets; Significant losses for the past financial years.
North West Development Corporation (Pty) Ltd	Current liabilities exceeded total assets by R190 million.
North West Provincial Council on AIDS	The entity's liabilities exceeded its assets by R2,2 million.
Directorate of Entrepreneurial Development in Natural Resources Utilisation	The DED will cease its operations and be dissolved within the next year. The annual financial statements were compiled on the liquidation basis.

The table above depicts the public entities within the province where concerns related to funding of operations, financial sustainability and going concern were raised.

Unauthorised, irregular, and fruitless and wasteful expenditure incurred during the year

Figure 3: Unauthorised, irregular and fruitless and wasteful expenditure

Unauthorised expenditure – R281,3 million

Table 9: 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	2	15	16,494	3	23	264,821
Total	2	15	16,494	3	23	264,821

Five out of 13 departments audited incurred unauthorised expenditure as defined in the PFMA. At Agriculture, Conservation, Environment and Rural Development and Health the vote/main division of the vote was overspent, whilst at Human Settlements, Public Safety and Social Development spending was not in accordance with the purpose of the vote.

Irregular expenditure – R1,8 billion

Table 10: Irregular expenditure

Type of auditee	Nature and extent of irregular expenditure								
	SCM related			Compensation of employees related			Other		
	Number	%	R'000	Number	%	R'000	Number	%	R'000
Departments	11	85	1,830,790	1	8	86	4	31	8,528
Public entities	4	33	38,092	1	8	91	0	0	0
Total	15	60	1,868,882	2	8	177	4	16	8,528

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

Eleven out of 13 departments (Agriculture, Conservation, Environment and Rural Development, Local Government and Traditional Affairs, Education, Health, Office of the Premier, Public Safety, Social Development, Sport, Arts and Culture, Public Works, Roads and Transport, Provincial Legislature and Economic Development and Tourism) and four out of 12 public entities audited (Mafikeng Industrial Development Zone (Pty) Ltd, North West Provincial Arts and Culture Council, Kgama Wildlife Operations (Pty) Ltd and North West Parks and Tourism Board) incurred irregular expenditure due to proper SCM processes not being followed, the highest being R1 billion at Public Works, Roads and Transport and R514 million at Health.

Eighty-six percent of the irregular expenditure identified was not originally disclosed in the auditees' financial statements, but identified during the audit process.

Documentation supporting the procurement process followed for contractual expenditure of R750 million could not be submitted for audit purposes at Public Works, Roads and Transport. Therefore the completeness of the disclosed irregular expenditure could not be determined.

The root cause of the transgression was that although SCM policies were in place, there were instances of non-adherence to policies and procedures. Furthermore, there was inadequate monitoring and review by leadership with regard to non-compliance with SCM policies and emergency procurement as well as the reasons behind it.

Fruitless and wasteful expenditure – R4,6 million

Eleven out of 25 entities audited incurred fruitless and wasteful expenditure, mostly due to the late payment of invoices, the highest of these being:

- Public Works, Roads and Transport – R2 094 000;
- Office of the Premier – R437 000;
- Agriculture, Conservation, Environment and Rural Development – R718 000;
- Social Development – R222 000;
- Education – R328 000;
- Mafikeng Industrial Development Zone (Pty) Ltd – R704 960.

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

The Department Economic Development and Tourism underspent on Programme 1: Administration, Programme



2: Integrated Economic Development Service and Programme 3: Trade and Industry Development by R7 129 000. Consequently, the department operated with a high vacancy level and small, medium and micro enterprise training projects were not completed.

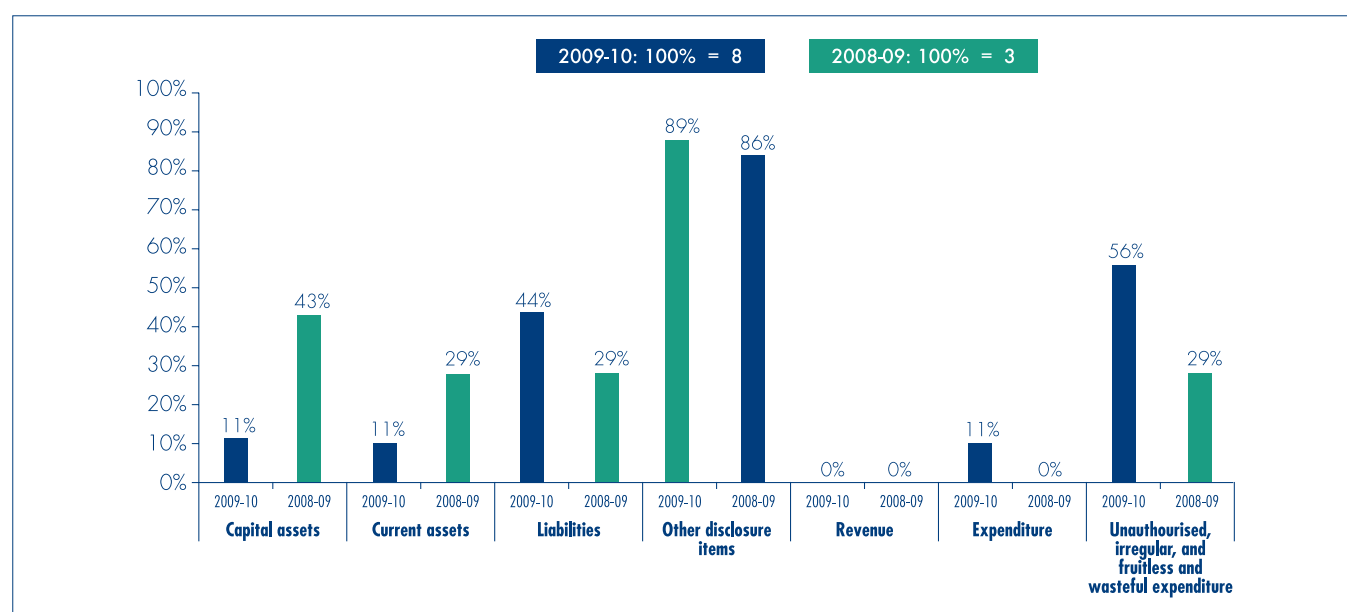
The Department Local Government and Traditional Affairs underspent by R28 118 005, the majority being under Programme 2: Local Government. These funds were supposed to be used to assist municipalities where they did not have sufficient financial resources to clear up and resolve certain matters. The administration process (and appointment of service providers) took longer than anticipated, which resulted in these processes and appointments not being completed by 31 March 2010. The department requested a roll-over of R25 million to 2010-2011, which was approved.

Social Development materially underspent their budget on Programme 2: Social Welfare Services by R26 483 000. Consequently the department did not fully achieve its objectives of service delivery in respect of social welfare services and its related sub-programmes.

Transversal material misstatements corrected during the audit

The financial statements of nine out of 13 of departments and six out of 12 public entities were subject to material corrections during the audit.

Figure 4: Transversal material misstatements corrected during the audit - Departments



Other disclosure items (89%)

Eight departments had to make material corrections to disclosure notes in order to avoid qualification (2008-09: six of seven).

At departments, the disclosure notes had to be corrected mostly in respect of employee benefits (Economic Development and Tourism, Education, Local Government and Traditional Affairs, Social

Development, Public Safety), lease commitments (Local Government and Traditional Affairs, Agriculture, Conservation, Environment and Rural Development, Public Safety), commitments (Local Government and Traditional Affairs, Agriculture, Conservation, Environment and Rural Development, Public Safety) and contingent liabilities (Social Development, Agriculture, Conservation, Environment and Rural Development). The cash flow statement needed material adjustment in the case of Health, as well as the disclosure regarding the unspent portion of conditional grants paid to Human Settlements.

Irregular expenditure (56%)

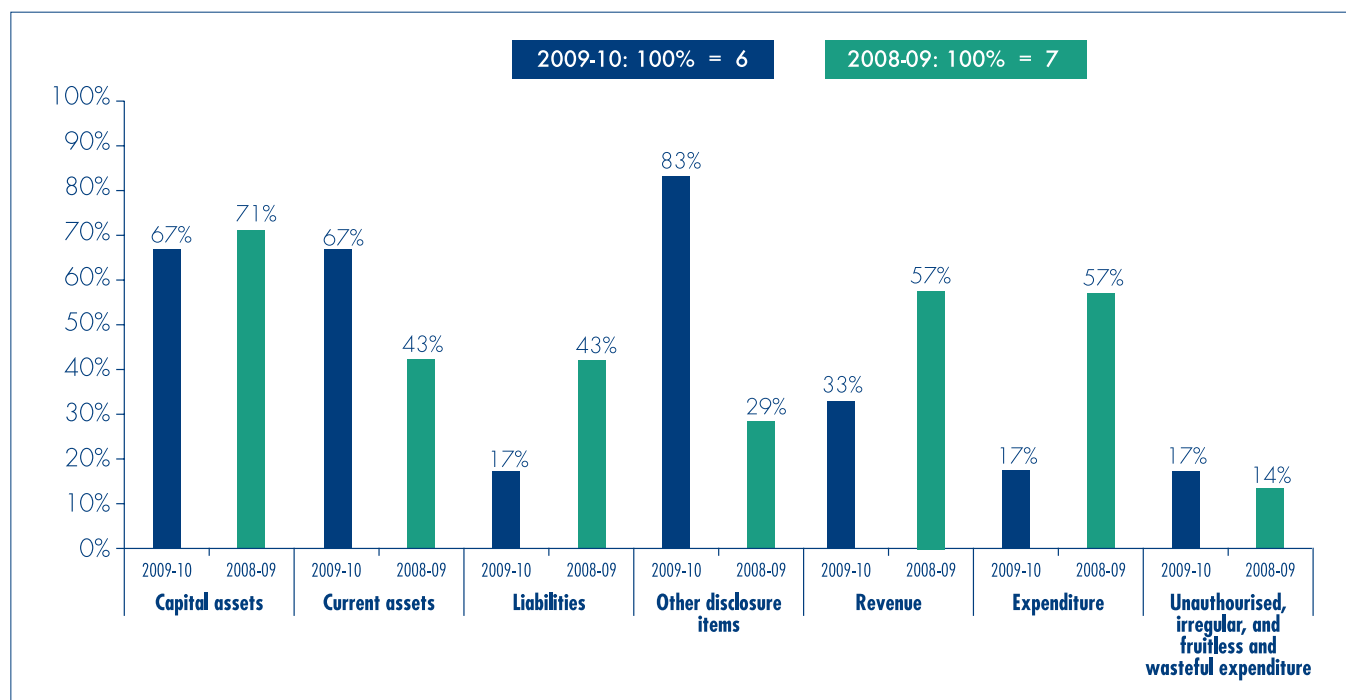
Due to the AGSA's specific focus on the audit of procurement and contract management, five departments and one entity had to make material corrections to their irregular expenditure disclosure note to avoid qualification (2008-09: two of seven).

These departments are the Office of the Premier, Health, Economic Development and Tourism, Education and Agriculture, Conservation, Environment and Rural Development.

Liabilities (44%)

Four departments had to make material corrections to liabilities. These departments are Human Settlements, Local Government and Traditional Affairs, Public Safety and Health (2008-09: two of seven).

Figure 5: Transversal material misstatements corrected during the audit – Public entities



Other disclosure items (83%)

Five entities had to make material corrections to disclosure notes in order to avoid qualification (2008-09: two of seven).

Disclosure notes relating to leases (Kgama Wildlife Operations (Pty) Ltd, North West Development Corporation (Pty) Ltd, North West Gambling Board, North West Parks and Tourism Board), related parties (Kgama Wildlife

Operations (Pty) Ltd) and subsequent events (Northwest Transport Investments (Pty) Ltd) were the areas with the most corrections for public entities.

Capital assets (67%)

Four entities had to make material corrections to capital assets. These were Kgama Wildlife Operations (Pty) Ltd, North West Parks and Tourism Board, North West Development Corporation (Pty) Ltd and North West Star (Pty) Ltd (2008-09: five of seven).

Current assets (67%)

Four entities had to make material corrections to capital assets. These were Kgama Wildlife Operations (Pty) Ltd, North West Parks and Tourism Board, North West Development Corporation (Pty) Ltd and North West Transport Investments (Pty) Ltd (2008-09: three of seven).

Recommendations

- Intensified commitment of CFOs and re-emphasis of their role in the preparation of monthly management accounts and financial statements, particularly regarding issues of disclosure associated with the ongoing transition to accrual accounting.
- Financial statements must be subjected to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit unit and audit committees play a crucial role in the review process of the financial statements.
- The National Treasury and the provincial treasuries should work closely together to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

3.2 Findings on predetermined objectives

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

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

Based on an assessment of audit readiness it was decided that for the 2009-10 audit cycles, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments and their public entities, such opinions will not yet be lifted to the level of the individual audit reports. Instead, a reflection on the public entities' performance information, should an opinion have been expressed, will be contained at management report level. An opinion will therefore be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

Table 11: 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	77%	89%	100%	89%
Reported information not useful	54%	56%	27%	22%
Reported information not reliable	46%	67%	27%	22%
Reported performance information not submitted by 31 May	15%	100%	64%	100%
Total number of audits with findings	13	9	11	9

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

Explanation of the various audit finding categories

Non-compliance with regulatory requirements

All 13 departments, including the provincial legislature and all 12 public entities, were subject to review in this area.

The scope of audit work and audit findings related to compliance with the PFMA and regulations pertaining to the planning, management, monitoring, review and reporting of performance information.

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

One out of 13 departments, namely Public Works, Roads and Transport, and five out of 12 public entities, namely Northwest Transport Investments (Pty) Ltd, Atteridgeville Bus Services (Pty) Ltd, North West Star (Pty) Ltd, Mafikeng Industrial Development Zone (Pty) Ltd and North West Provincial Council on Aids, did not report on performance against predetermined objectives.

Ten out of 13 departments and 11 out of 11 public entities had findings relating to non-compliance with laws and regulations. Findings relate to lack of effective, efficient and transparent systems and internal controls regarding performance management and a lack of or inadequate quarterly reporting on performance information.

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

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

Reported performance information not useful

The audit 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, which are clearly linked to the mandate and objective of the institution, specific and clearly identifying the nature and required level of performance, and also measurable and time bound.

Seven out of 13 departments and three out of 11 public entities had findings relating to the usefulness of performance information. Findings relate to reported performance information not being consistent with objectives, indicators and targets as per the approved strategic/annual performance plan, some targets not being specific in clearly identifying the nature and the required level of performance, some targets not being measurable in identifying the required performance and some targets not being time bound in specifying the time period or deadline for delivery.

Identified root causes of the audit findings relating to the usefulness of publishing information include the following:

- The National Treasury did not provide sufficient, coordinated and comprehensive training and guidance to departments and public entities on the requirements for performance management, monitoring and reporting. Such training should include a focus on the implementation of the principles contained in the *NT Framework for managing programme performance information*.
- The National Treasury did not provide specific requirements regarding performance management. These vague guidelines contributed to the frustration with, and confusion of, officials at departments and public entities.
- Lack of definitions and technical standards for all the performance information collected by the departments and entities.

Reported performance information not reliable

The audit 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.

"Reported information not reliable" refers to a lack of sufficient appropriate evidence available in relation to reported performance information and lack of an appropriate system to generate the information, with the evidence provided not supporting the performance information reported in that it was not accurate and complete.

Six out of 13 departments and three out of 11 entities had findings relating to reported performance information not being reliable. Findings relate to a lack of sufficient appropriate audit evidence in relation to the reported performance information, lack of appropriate systems generating performance information and the source information or evidence provided to support the reported performance information not adequately supporting the accuracy and completeness of the facts throughout.

Identified root causes of the audit findings relating to the reliability of publishing information include the following:

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

Reported performance information not submitted by 31 May 2010

Performance information was not submitted for audit by 31 May in respect of two out of 13 departments, namely Sport, Arts and Culture and Public Works, Roads and Transport and seven out of 11 entities, namely Mafikeng Industrial Development Zone (Pty) Ltd, North West Parks and Tourism Board, Northwest Transport Investments (Pty) Ltd, Atteridgeville Bus Services (Pty) Ltd, North West Star (Pty) Ltd, North West Development Corporation and North West Provincial Council on Aids.

Auditees with no findings in any of the four categories considered as a whole

Of the reports that have been analysed the Directorate of Entrepreneurial Development in Natural Resources had no findings resulting from the audit of performance against predetermined objectives.

Interactions with auditees over the past 12 months

The importance and principles of the auditing of predetermined objectives were discussed and explained to all auditees at the various steering committee meetings and also during the BE's interactions with MECs, the Speaker and the Premier. The message was further reinforced at CFO forum meetings held with departments and public entities in April and May 2010 and at audit committee meetings and interactions with the audit executive forum (internal audit forum). An AoPI training session was also rolled out by the AGSA to all departments and public entities on 4 November 2009.

3.3 Findings on compliance with laws and regulations

Table 12: Summary of findings relating to compliance with laws and regulations

Top 3 categories of non-compliance and SCM	Number	Percentage
Departments (including legislature)		
Payments of expenditure not made within 30 days	8	62%
SCM issues not resulting in irregular expenditure	7	54%
HR management	4	31%
SCM issues that resulted in irregular expenditure	11	85%
Public entities (including trading and other types of entities)		
Internal audit SCM issues not resulting in irregular expenditure	3	25%
Internal audit/Audit committee	3	25%
SCM issues that resulted in irregular expenditure	5	38%

In total 13 out of 13 departments and seven out of 12 public entities had findings on non-compliance with laws and regulations.

The areas of non-compliance relate to the PFMA and Public Service Regulations. The following are the top five categories of prohibited actions/non-compliance:



1. Payments for expenditure not made within 30 days at eight departments (Agriculture, Conservation, Environment and Rural Development, Human Settlements, Local Government and Traditional Affairs, Economic Development and Tourism, Education, Office of the Premier, Public Safety and Public Works, Roads and Transport).
2. SCM issues not resulting in irregular expenditure were identified at seven departments (Agriculture, Conservation, Environment and Rural Development, Human Settlements, Education, Health, Office of the Premier, Social Development and Sport, Arts and Culture) and three public entities (Kgama Wildlife Operations (Pty) Ltd, North West Parks and Tourism Board and Northwest Transport Investments (Pty) Ltd). These findings related mostly to interest of senior managers and/or political office bearers in suppliers not included in annual declarations of interest.
3. Findings on HR management were raised at four departments (Human Settlements, Local Government and Traditional Affairs, Economic Development and Tourism and Social Development).
4. Internal audit and audit committee not functioning effectively at three public entities (North West Provincial Council on Aids, NW Directorate of Entrepreneurial Development in Natural Resources and North West Provincial Arts and Culture Council)
5. SCM issues that resulted in irregular expenditure were picked up at 11 (all except Human Settlements and the provincial treasury) departments and four public entities (North West Parks and Tourism Board, North West Provincial Council on Aids, Mafikeng Industrial Development Zone and North West Provincial Arts and Culture Council).

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

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 for legislation by officials with insufficient monitoring by the leadership.
- Ineffective/inadequate internal audit coverage of compliance.
- Leadership not setting the right tone at the top.

The way forward

- The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance.
- Internal audit should assist in providing assurance that the strategies to mitigate risk of non-compliance are adequate.

3.4 Information technology system matters

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

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

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

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

Table 13: Audit findings raised on common IT focus areas

IT focus area findings	Percentage of audited departments with findings
IT Governance	100%
Security management	33%
User access control	100%
Information technology service continuity	100%

The detailed findings relating to the audited focus areas include the following:

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

Fundamentals of internal control to be addressed

- CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements.
- Government Information Technology Officers (GITO) in consultation with SITA and Chief Information Officers (CIO) 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 to have business continuity plans that would enable SITA, the GITO and CIO to develop disaster recovery plans that are aligned to business requirements.

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

3.5 Investigations and performance audits (specific to auditee)

The following investigations were in progress or completed during the year:

Investigations in progress

Department of Agriculture, Conservation, Environment and Rural Development

- A forensic investigation is being conducted by an independent consulting firm on the directive of the Premier.

Department of Education

- An investigation is being conducted by the department to determine compliance with and transgressions of any procurement processes and procedures.

Office of the Premier

- A forensic investigation is being conducted by an independent consulting firm on the directive of the Premier.

Provincial Legislature

- An investigation on irregular expenditure is currently being conducted by the Legislature.

Department of Public Works, Roads and Transport

- Two employees are currently being investigated regarding possible misappropriation of funds due to mismanagement.

Department of Social Development

- A forensic investigation is being conducted by an independent consulting firm on the directive of the Premier. The investigation is aimed at evaluating compliance with the SCM regulations.

Investigations completed during the financial year

Department of Public Works, Roads and Transport

- An investigation was conducted by an independent consulting firm at the request of the entity. The investigation was initiated based on allegations of possible misappropriation of funds by an employee, where contractors were appointed without proper tender procedures. The investigation has resulted in the dismissal of one employee.

Performance audits (specific to auditee)

No performance audits specific to an auditee were conducted by the AGSA in the province during the year. Refer to section 5.3 for details of transversal performance audits completed.

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

4.1 Drivers of audit outcomes

The analysis of the root causes of less-than-satisfactory audit outcomes points to the following three areas that require attention:

- The first basic focus area is adequate **leadership** oversight where leaders create an environment that is conducive to good financial management and service delivery, including acting decisively to mitigate emerging risks relating in particular to human resource stability, implementing timely corrective measures and addressing non-performance. Leadership should above all set the correct "tone at the top", and maintain a positive attitude where all public officials embrace optimum deployment of public resources in compliance with the rules, with a view to enhanced service delivery.
- The second basic focus area should be the ability of departments and entities to produce quality, reliable monthly financial statements and management information that facilitate ongoing monitoring of **financial management** and service delivery activities by the leadership. Discipline is required to ensure that documents supporting transactions and financial statements are properly filed and easily retrievable.
- The third basic focus area is maintaining effective **governance** arrangements, including proper risk management and internal audit units that focus on checking that internal controls are adequate and functioning properly. Well-established and effective internal audit functions and audit committees must assert their independent accountability to the executive authority on all matters of risk, financial management and service delivery.

4.1.1 Leadership

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

Adequate leadership involvement and oversight must set the tone from the top and create an environment conducive to good financial management. The AGSA conducted briefings on the 2008-09 audit outcomes during October 2009. The roadshow was attended by the Premier and MECs, who showed commitment to reducing qualified audit opinions.

These executives undertook to create adequate and credible action plans to address the audit findings, to monitor such plans and to assess and monitor the effectiveness of strategies to manage the risk of unreliable financial reporting and lack of service delivery, to achieve sound financial management and governance, and to increase oversight. In most cases, the above commitments were not followed through, resulting in an overall regression in audit outcomes in 2009-10.

All departments and two public entities had findings relating to tone at the top (see annexure 3 for detail).

Review and monitoring of action plans to address all significant internal control deficiencies

Ten departments and two public entities did not have credible action plans or action plans were not reviewed and monitored (see annexure 3 for detail).



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

All departments had findings on human resource management and two public entities did not have adequate and/or competent personnel responsible for reporting (see annexure 3 for detail).

Ensure that all vacancies in finance and other significant components are filled within a reasonable time

Vacancies have not been addressed at nine departments and five public entities (see annexure 3 for detail).

Way forward

The provincial executive has once again shown commitment in reversing the current audit outcomes. To this end, the AGSA leadership will engage with the provincial executive on a quarterly basis to support the MECs in their oversight of the control environments they lead. This exercise will be undertaken with the understanding that responsibility for the control environment remains with the MECs and their accounting officers.

The stakeholder interaction will include a review of management's key controls put in place to address the audit recommendations and the way forward in resolving poor audit outcomes.

4.1.2 Financial and performance management

Proper record keeping and record management to ensure that supporting documents are properly filed and easily retrievable

The maintenance and safekeeping of documentation are critical to sound internal control practices and effective management of a department and entity. This is also vital for the audit process as it entails the audit evidence required to prevent a scope limitation which has a direct effect on the audit outcome.

A lack of discipline has led to a situation where documentation could not be provided to support procurement processes and disclosure notes. The unavailability of documentation, particularly relating to SCM processes, poses a risk of fraud risk and possible hidden irregular expenditure.

Decisive leadership intervention is required to ensure proper record keeping and record management, i.e. the documents supporting the above should be properly filed and easily retrievable and action should be taken where documents cannot be provided.

Twelve departments and eight public entities had findings relating to the availability of expected information (see annexure 3 for detail).

Producing accurate information and continuously monitoring the quality thereof.

Departments and entities did not have documented and approved internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting of performance information.

The financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for audit.

There is a lack of adequate continuous monitoring and review by management and inadequate systems to generate proper management information.

Finance staff expect the AGSA to assist them to identify and correct misstatements rather than relying on their own controls over financial and performance management.

All departments and 11 public entities had findings relating to the adequacy of systems to prepare financial statements and report on performance information (see annexure 3 for detail).

Ensure that the asset register reflects the assets owned and that this is agreed to the financial records on a monthly basis

All departments and two public entities had findings relating to completeness and control of assets (see annexure 3 for detail).

Way forward

The leadership needs to institutionalise sound procedures over systems and documentation control to ensure that the knowledge resting with individuals is embedded within the institution's manuals, guidelines and processes.

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

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

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

- Adherence to basic financial controls throughout the financial year, i.e. proper and regular filing of documents supporting the financial statements and management information.
- Daily processing of transactions and monthly reconciliations of accounts.
- Continuous review thereof, as well as the monthly preparation of schedules that support/analyse items in the financial records.

4.1.3 Governance

Greater involvement by internal audit and audit committee in monitoring processes

The shared audit committee did not function throughout the year and was short staffed. Consequently, the committee did not monitor the progress of planned audits and was not able to effectively fulfil its oversight responsibilities.

Chairpersons of the cluster audit committees participated in the audit process by:

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

Furthermore, internal audit was not effective in discharging its mandate as annual internal audit plans were not completed. The province's central internal audit unit should be used more effectively by accounting officers of departments in order to obtain the following assurances:

- Key controls are working effectively in financial and predetermined objectives throughout the year
- The implementation of corrective action plans based on the 2009-10 audit,
- Compliance with laws and regulations, and the financial statement process.

Accounting officers should obtain feedback from the chief information system officer with respect to risks in the information technology systems and implementation of corrective action plans to address audit outcomes.

Except for the North West Development Corporation (Pty) Ltd, all public entities had findings relating to weaknesses of internal audits and audit committees (see annexure 3 for detail).

Maintaining effective risk management strategies, including fraud prevention plans

All departments and public entities had findings relating to risk assessments and fraud prevention plans not being done and/or implemented and/or not being effectively maintained (see annexure 3 for detail).

Way forward

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

4.2 Action taken/ to be taken to address matters previously reported

Management and those charged with governance are required to develop action plans to address matters previously reported. These action plans should include the implementation of controls relating to expenditure and safeguarding of assets; reconciliation of discrepancies between the asset register and financial statements; reconciliation and clearance of suspense accounts on a monthly basis; and consistent quarterly reporting of performance information against predetermined key performance measures and targets.

Furthermore, regular monitoring of these action plans and identification of risks relating to the achievement of financial and performance reporting objectives are key in ensuring that these risks are adequately managed and that matters previously reported are addressed at five departments and 10 public entities.

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

As part of the provincial treasury's function of promoting and enforcing transparent and effective management in respect of revenue, expenditure, assets and liabilities of the provincial departments as set out in section 18(1)(c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), the provincial treasury embarked on the following actions to address the audit findings reported on in previous audit reports:

- The provincial treasury had embarked on a financial management training programme. Phase 2, which was launched in 2008 (NQF Level 5/6), targeted 1 000 non-core financial managers between salary levels 9 and 12 from 12 provincial departments. This programme was successfully completed during 2009-10. It is our intention to continue this training in the new financial year, covering another 1 000 officials. National Treasury, in collaboration with the provincial treasury, is embarking on another training programme targeting the CFO's Division. This training will start during the 2011-12 financial year.
- Regular monitoring and compliance reporting to the Executive Technical Committee (Extec) and the executive committee (Exco) to improve involvement of the heads of departments in the processes of improving financial management.
- The provincial treasury embarked on a programme of support for all departments to help with the preparation and pre-review of annual financial statements and timely submission thereof to the AGSA.
- The preparation of annual financial statements was centralised with the assistance of the departmental CFOs. Departmental audit files, which support the amounts in the financial statements, were standardised and put together as a compulsory file to be submitted with the annual financial statements to the AGSA.
- For the past eight years the provincial treasury had held a formal handing-over function on 31 May to ensure that all provincial departments and public entities submit their financials on time.
- The provincial Internal Audit Unit was tasked to review the annual financial statements with the aim of improving the quality of financial statements as well as compliance with legislation.
- Support was provided to the departments with qualified audit opinions to develop and implement an action plan on how to improve their controls with a view to obtaining an unqualified audit opinion.
- Ongoing interaction between the departments and the AGSA on audit progress and possible outcomes to identify transversal issues and to take appropriate action to improve financial management.
- Provincial treasury conducted specific training on the PFMA, Treasury Regulations and the annual financial statements preparation guide.
- The province improved the capacity of the provincial audit committee by adding more members and raising the committee structure to cluster level. This will improve interaction and monitoring of the respective departments' financial management.

At the Auditor-General's briefing on audit outcomes to the provincial legislature on 3 November 2009, the Premier, on behalf of the executive, commented that they were serious about reducing qualified audit opinions for the province. She said the North West Government offered its full cooperation to the Auditor-General in support of sustainable clean administration. The Premier noted the comments made by the Auditor-General regarding the audit of performance information and current challenges in terms of the systems of control and reporting; budgets aligned with service delivery requirements; measuring spending on services in terms of the approved budget and ongoing oversight of the entire process. The Premier expressed her appreciation for the additional time afforded to the departments and public entities to ensure their audit readiness with regard to performance information. The Premier also noted the comments of the Auditor-General regarding the need to use consultants in areas where expertise is required. Specialist skills are to be transferred by consultants but should not be used as a substitute for existing capacity. To this end, the Premier agreed to review the needs, relevance and the appointment of consultants.

Commitments received on the current year audit outcomes

The following commitments were made by the provincial executive after the 2009-10 audit outcomes of the province were discussed with them:

- Intensive training on SCM processes to be rolled out to all departments and entities.
- Internal audit to monitor SCM processes on a regular basis.
- Investigations into all irregular expenditure for the current year will be coordinated centrally to ensure the correct processes followed in terms of the PFMA.
- The PPAC to conduct hearings and recommend on prior year unauthorised expenditure of departments.
- Vacant HoD and CFO positions to be given high priority.
- Skills audit to be performed on CFOs and a minimum qualification framework will be considered
- Provincial treasury to play a bigger role in assisting departments and entities in implementing and monitoring action plans to address audit findings.
- Monthly feedback be provided by HoD to MEC on implementation of key controls
- HoD and MEC to regularly liaise with the AGSA to improve relationships
- That audit committee structure be reviewed.

Also, in response to the analysis of audit outcomes of the province for the year ended 2009-10, the provincial treasury embarked on a strategy to address shortcomings identified therein and to promote sound financial management in the province to eliminate audit qualifications. The planned intervention strategy for implementing the *Financial Management Improvement Programme* entails a twofold approach:

The development and implementation of a plan, with immediate effect, for the following:

- Risk management strategy and risk assessment.
- Half-year preparation of annual financial statements and request to the Auditor-General to conduct an interim audit.
- Preparation of quality annual financial statements.
- Management and clearing of suspense accounts.
- Development of a revitalisation plan for 2010-11 focused on immovable asset management and supply chain management.
- Improving the quality of the audit working paper file which supports the financial statements.
- Specific training to the CFO's Unit to prepare annual financial statements by using the new financial system.
- To undertake an assessment of financial capacity and capabilities in order to meet the financial management capability maturity model rating level 6 (optimising level).
- To provide skills transfer and assistance to departments to clear and manage suspense accounts.
- To undertake a high-level review and assessment of asset management implementation in all departments in respect of both immovable and movable assets and utilisation of the Walker asset management module.
- To undertake a high-level review of SCM implementation in all departments.
- To effect change management in all the focus areas under review through effective engagement, collaboration and communication, underpinned by training and skills transfer initiatives.

4.3 Initiatives by the AGSA to encourage clean administration

In support of the 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 an intensive programme to enhance its visibility with the objective of improving the effectiveness of the audit process and engaging with all role players that can influence clean administration. To this end, audit teams were regularly visited during the audits and meetings were held with those charged

with governance. Our engagements focused on simplicity, clarity and relevance of the message to gain understanding, secure buy-in and seek commitment that would influence clean administration.

As at the end of August 2010, the AGSA in North West had met with the Premier and most of the MECs as well as the Speaker of the provincial legislature to discuss the current PFMA 2010 outcomes. This initiative of the AGSA served to enlighten the MECs regarding their portfolios and to facilitate discussion of the outcomes and key controls required of the departments and public entities under their jurisdiction. The results of this interaction were positive in more ways than one as the MECs were able to assess the root causes of the qualifications and findings for their respective portfolios. Moreover, they were able to understand the AGSA's initiative behind the quarterly key control appraisals and the link to clean administrations, and that this would require follow-up by the AGSA. Furthermore, the AGSA compiled a summarised checklist of the main issues around financial statements that required follow-up by the departments to ensure that those departments that managed to attain unqualified reports with no findings on predetermined objectives and/or non-compliance, were able to sustain these through effective oversight by the minister and leadership within the department.

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

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

Transfer of functions

In terms of the transfer of functions for the North West Province, proclaimed in *Government Gazette No. 56 of 4 September 2009*, the Departments of Health and Social Development should merge as one department. For the 2009-10 financial year, however, these departments still submitted separate financial statements for audit purposes. Par. 5.1 of the transfer of functions guide issued by National Treasury states the following:

All transfers of functions made by 1 September 2009 and reflected in the adjustments budget to be tabled on 27 October 2009 are effective retrospectively from the beginning of period unless stipulated otherwise in legislation.

The last adjustments budget, however, still reflected Health and Social Development as two votes; therefore, if the guidance provided by National Treasury is followed, the merge is not effective retrospectively.

For all the other departments affected by the transfer of functions, the adjustments budget had reflected the transfers and therefore had to be effective retrospectively as per the guidance.

For 2010-11 the budget and financial statements of these departments will, however, have to comply with the requirements of the proclamation.

Immovable assets

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

New (BAS) system

All departments implemented the new accounting system (BAS) as from 1 April 2010. The departments did not have appropriate systems and internal controls in place to ensure that the implementation of BAS was adequate after year-end, resulting in a significant number of problems relating to implementation in the first months of the new financial year.

SECTION 5: FINDINGS ARISING FROM THE AGSA'S SPECIFIC FOCUS AREAS

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

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations (TR), Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the Minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees.

Eight departments in North West did not meet all the requirements for effective HR management. These weaknesses impact on the department's financial management and ability to deliver services in accordance with their mandate. The highest incidence of non-compliance was at the following departments:

- Social Development (qualified audit opinion)
- Sports, Arts and Culture (financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations)
- Public Works, Roads and Transport (disclaimer of opinion)

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

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

Nine departments did not meet with 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 at the following departments:

- Social Development (qualified audit opinion)
- Sports, Arts and Culture (financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations)
- Public Works, Roads and Transport (disclaimer of opinion)

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

Human resource planning and work organisation

No updated and approved human resource plan

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.

Eight departments had no HR plan in place for the medium-term expenditure framework period 2008-2010. These departments are:

- Human Settlements
- Local Government and Traditional Affairs
- Economic Development and Tourism
- Health
- Office of the Premier
- Public Works, Roads and Transport
- Social Development
- Sport, Arts and Culture

Management of vacancies

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

Lack of improvement in vacancy rates

At five departments the overall vacancy rate did not improve from the previous year. These departments are:

- Agriculture, Conservation, Environment and Rural Development – 30%
- Education – 40%
- Provincial treasury – 30%
- Office of the Premier – 41%
- Social Development – 62%

At seven departments the senior management vacancy rate did not improve from the previous year. These departments are:

- Agriculture, Conservation, Environment and Rural Development – 13%
- Education – rate not indicated in annual report
- Provincial treasury – 30%
- Office of the Premier – 38%
- Public Works, Roads and Transport – 32%
- Social Development – 41%
- Sport, Arts and Culture – 10%

Senior management positions were vacant for longer than 12 months in six departments. These departments are:

- Agriculture, Conservation, Environment and Rural Development
- Provincial treasury
- Office of the Premier
- Public Works, Roads and Transport
- Social Development
- Sport, Arts and Culture

Finance positions were vacant for longer than 12 months in six departments. These departments are:

- Agriculture, Conservation, Environment and Rural Development

- Education
- Office of the Premier
- Public Works, Roads and Transport
- Social Development
- Sport, Arts and Culture

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. If a department fails to comply with the regulation, PSR 1/VII/C.1A.3 requires that the reasons for such non-compliance be recorded in writing. The recruitment time frames were tested for senior management as well as posts in Finance, internal audit and service delivery components where the vacancy rate was above 5%.

Vacant positions for senior management staff were not advertised within six months at Public Works, Roads and Transport.

Vacant positions in Finance were not advertised within six months at three departments. These departments are:

- Agriculture, Conservation, Environment and Rural Development
- Education
- Public Works, Roads and Transport

Acting by officials in higher posts

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

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

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff.

At five departments' employees (including SMS) received acting allowances for acting in higher vacant posts for longer than 12 months. These departments are:

- Economic Development and Tourism
- Education
- Public Works, Roads and Transport
- Social Development
- Sport, Arts and Culture

Performance agreements of 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 of the SMS at the following five departments were not signed by 31 July 2009:

- Agriculture, Conservation, Environment and Rural Development
- Health
- Office of the Premier
- Social Development
- Sport, Arts and Culture

Overall conclusion

In general, the level of provincial departments' compliance with the PSR was unsatisfactory. The departments face the following major challenges in becoming satisfactorily compliant with the regulations:

- Drafting of compliant and relevant policy documents and procedure manuals to give effect to the regulations
- Effective implementation of these regulations and policies by departmental employees
- Consistent monitoring of compliance with these regulations and policies by management and timely correction of instances of non-compliance.

Internal control measures must be implemented to ensure compliance with the PFMA, Treasury Regulations, the Public Service Act, 1994, Public Service Regulations, 2001 and directives/determinations issued by the Minister of Public Service and Administration to support effective human resource management and controls over compensation of employees.

5.2 Significant findings from audit of procurement and contract management

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

As is evident from the analyses of irregular expenditure (paragraph 4.1.3.2) most irregular expenditure incurred by the departments and entities resulted from non-compliance with SCM legislation. The detailed findings are presented below:

Interest in suppliers

The performance audit report tabled in August 2008 entitled *Performance audit of entities that are connected with government employees and doing business with departments of the North West Provincial Administration* revealed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they are directors or members.

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

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

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

Auditee	Interest not declared by supplier	Employee involved in process of making award to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)	Interest not included in annual declaration of senior manager (departments only)
Agriculture, Conservation, Environment and Rural Development	5		6	6	7
Education		9	114	114	6
Health			46	46	
Office of the Premier	1		3	3	
Provincial legislature	1		1	1	
Social Development	12		12	12	
Sport, Arts and Culture	7	7	7	7	3
NW Parks and Tourism Board	3		6		
NW Provincial Arts and Culture Council			1		

Procurement process

Three price quotations not invited

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

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

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Agriculture, Conservation, Environment and Rural Development	X		R2,7 million
Local Government and Traditional Affairs	X		R261 395
Provincial treasury	X		R211 853
Health	X		R11 354
Provincial Legislature	X		R2,2 million
Public Safety	X		R29 581
Public Works, Roads and Transport	X		R1,2 million
Economic Development and Tourism		X	R1,2 million
Office of the Premier		X	R305 705
Sport, Arts and Culture		X	R10 702

Auditee	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
MIDZ	X		R485 373
North West Provincial Arts and Culture Council	X		R137 847
North West Provincial Council on Aids		X	R50 000

Deviation from competitive bidding without approval

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

The following three departments did not procure goods and services by inviting competitive bids and the reasons were not recorded and approved by the accounting officer:

- Education - R717 804
- Office of the Premier – R14 887 245
- Provincial Legislature – R9 886 084
- North West Parks and Tourism Board – R1 333 000

Preference point system not applied

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

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

- Economic Development and Tourism – R1 770 000
- Education R49 104
- Office of the Premier – R4 873 172
- North West Parks and Tourism Board – R1 631 595

Award to supplier 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 the price, functionality (if applicable) and preference points, unless objective criteria justify the award to another tenderer.

At the following auditees irregular expenditure was incurred as awards were made to suppliers who did not score the highest points, with no objective criteria justifying such award:

- Education – R27 025 954
- Health – R2 132
- Public Works, Roads and Transport – R219 505 510
- North West Parks and Tourism Board – R1 652 625

Contract management

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

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

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

- Agriculture, Conservation, Environment and Rural Development – R510 067
- Education – R3 926 864
- Provincial treasury – R233 155
- Provincial Legislature – R2 643 338
- North West Parks and Tourism Board – R83 236

Overall conclusion

The findings relating to procurement and contract management were mainly due to the following:

- Disregard of legislation by officials and insufficient supervision and monitoring by accounting officers, CFOs and senior managers
- Inadequate support by the audit committee to establish a strong control environment and ensure compliance
- Internal audit units not assessing the adequacy of controls that mitigate risk of non-compliance and monitoring the consistent operation of those controls throughout the year
- Inadequate systems of internal control
- Role and responsibility of risk and compliance officers not clearly defined
- Ineffective risk management processes

Recommended action

Overall, the systems of internal control of departments and entities should be enhanced to prevent or detect these matters. The role and scope of the risk officers should be defined sufficiently and broadly and internal audit should assist in providing assurance that strategies are adequate to mitigate the risk of these matters occurring. The right leadership tone, together with the support of the audit committee, is necessary to establish a strong control environment and ensure compliance.

5.3 Transversal performance audits

Infrastructure audit*Background*

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

High-level overview of the infrastructure delivery process

- Demand management (needs determination, budgeting, planning)
- Acquisition management (tender process, appointment of contractors)



- Project management and information
- Commissioning and utilisation

Overall conclusion

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

Overview of key risks

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

Key risks and the infrastructure delivery process

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

Key risks – Demand management

- All relevant and available statistics and information were not utilised when determining the needs. All the role players were not properly engaged during the planning of the projects. *For example, an analysis of the recommended educator to learner ratio of 1:35 for secondary schools and 1:40 for primary schools and the number of learners enrolled indicated that there was a surplus of classrooms in certain areas and a shortfall in others. Furthermore, the upgrade of two community health centres was put on hold indefinitely due to budgetary constraints which affected service delivery to approximately 50 000 people.*
- Planning costs duplicated as standard plans for schools, hospitals and clinics were not used to reduce costs and to serve as a norm and standard-setting mechanism.

Key risks – Acquisition management

- Industry Development Board (CIDB) Act: Bids are disqualified for being outside the predetermined benchmark range and for other reasons that cannot be justified.

Key risks – Project management and information

- Projects are not effectively monitored by staff of the respective departments and by the implementing agents. Corrective action is not instituted timeously against the contractors concerned. Delays were experienced with the completion of projects and penalties were not always charged for the late completion of projects. *For example, although the construction contracts provided for penalties for the late completion of projects, this was either not enforced or proof could not be provided that steps were taken against contractors to recover all losses.*

- The quality of the construction work is unsatisfactorily, additional costs were incurred to complete the projects and the completion of the facilities was delayed. *For example, projects had to be completed by other contractors due to poor quality of work done by the first contractor. Replacement contractors were not appointed in time to ensure that projects were completed within the set target dates.*

Key risks – Commissioning and utilisation

- There is a lack of effective coordination within and between departments which results in facilities not being properly equipped and/or staffed to support effective service delivery. *For example, some newly completed schools and hospitals were underutilised as there was a lack of equipment to render the required services. Water and electricity at a new hospital were not available on the date of first delivery. This resulted in health care facilities not being optimally utilised from date of completion. Facilities like libraries, laboratories and computer rooms at schools were either underutilised or not utilised.*
- Incomplete and/or sub-standard work is identified after commissioning and the work is not corrected by the contractors. Additional costs were incurred for the account of the departments to correct it. *For example, there are cases where final payments were made despite the outstanding defects not having been attended to. In some cases schools had to use their school funds to do the necessary repairs.*

SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

Table 14: 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
North West	N	N	N	N

The consolidated financial statements for the departments and public entities have not been received for the 2008-09 and 2009-10 financial years.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

7.1 Summary of annual reports tabled

Table 15: Annual reports tabled by departments public entities

Type of auditee	Percentage of reports tabled as at 31 August 2010	
	2009-10	2008-09
Departments	0%	100%
Public entities	0%	75%
Total	0%	85%

No annual reports were tabled by 31 August 2010; however, all departments and eight entities tabled their annual reports for 2009-10 during September 2010.

7.2 List of departments and public entities whose annual reports were not tabled, together with reasons

Table 16: Annual reports not tabled

Auditee	Reason(s)
Kgama Wildlife Operations (Pty) Ltd	The accounting authority has not submitted the annual report for tabling
Mafikeng Industrial Development Zone (Pty) Ltd	The accounting authority has not submitted the annual report for tabling
North West Provincial Council on Aids	The accounting authority has not submitted the annual report for tabling
North West Directorate of Entrepreneurial Development in Natural Resources	The accounting authority has not submitted the annual report for tabling

The above-mentioned annual reports were not tabled by 20 September 2010. Details of the dates of all other annual reports are included in annexure 3 to this report.

PART B - AUDITS NOT CONDUCTED BY THE AGSA

SECTION 8: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

8.1 Summary of audit outcomes

Table 17: Summary of audit outcomes on audits not conducted by the AGSA

Type of audit opinion	Schedule 3 and other public entities
Disclaimer	0
Adverse	0
Qualified	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	1
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0
Total number of audits reported on	1
Number of audits not finalised at legislated date for submission to the executive authority (31 August 2010) due to the absence of financial statements	2
Total number of audits	3
Findings arising from the AGSA's other legal reporting responsibilities	
Predetermined objectives	1
Compliance with laws and regulations	1

Status of completion of the audits

Mmabana Arts, Culture and Sport Foundation submitted financial statements on 31 May 2010 and the audit was completed within the legislated time frame. The entity received a financially unqualified opinion with findings on predetermined objectives and compliance with laws and regulations.

Two entities, namely the North West Provincial Heritage Resources Authority and the North West Eastern Region Entrepreneurial Support Centre, had not submitted financial statements by date of this report; consequently, these audits have not yet started.

The following analysis is therefore based only on the audit of Mmabana Arts, Culture and Sport Foundation.

Financial statement audit

Mmabana Arts, Culture and Sport Foundation managed to improve from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

The entity, however, reported a R6,1 million net loss from operations during the current year while the net loss of R8,8 million was reported during 2009. The entity cannot fund such significant operational losses indefinitely, which is indicative of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

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

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



Material losses, material impairment of assets and material underspending of the vote/conditional grants
No instances of material losses or material impairment of assets came to light during the audit.

8.2 Findings on predetermined objectives

Mmabana Arts, Culture and Sport Foundation submitted information on their performance against predetermined objectives, as required by section 55(2)(a) of the PFMA.

8.3 Findings of compliance with laws and regulations

Mmabana Arts, Culture and Sport Foundation did not establish and implement an integrated risk management policy, as required by section 51(1)(a)(i) of the PFMA.

8.4 Drivers of audit outcomes

The improvement in the audit outcome for Mmabana Arts, Culture and Sport Foundation can be attributed to leadership's continued involvement during the course of the audit. However, of concern is that material adjustments were still required during the audit, indicating that the entity's controls and systems were not adequate to identify misstatements prior to submission of the financial statements for audit. Development and implementation of risk management strategies and fraud prevention plans also remain a concern.

8.5 Investigations and performance audits (specific to auditee)

No investigations or performance audits were conducted at the auditee during the year.

SECTION 9: STATUS OF TABLING OF ANNUAL REPORTS

9.1 Summary of annual reports tabled

The annual report for 2009-10 of Mmabana Arts, Culture and Sport Foundation was tabled on 28 September 2010.

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: Drivers of improved outcomes

Annexure 4: Listing of entities with dates on which the annual reports were tabled

Annexure 5: 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 outcomes 2009-10	Audit outcomes 2008-09	Financial statement qualification areas												Findings on predetermined objectives	
				Capital and reserves	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010		
Audits conducted by the AGSA																	
Departments																	
1	Agriculture, Conservation, Environment and Rural Development	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)														
2	Department of Human Settlements	Qualified	New														
3	Department of Local Government and Traditional Affairs	Qualified	New														
4	Department of Public Safety	Qualified	New														
5	Economic Development and Tourism	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)														
6	Education	Disclaimer	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)														
7	Health	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Qualified														
8	Office of the Premier	Qualified	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)														
9	Provincial legislature	Qualified	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)														
10	Provincial treasury	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with no findings on predetermined objectives and/or compliance with laws and regulations)														
11	Public Works, Roads & Transport	Disclaimer	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)														

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

Number	Auditee	Audit outcomes 2009-10	Audit outcomes 2008-09	Financial statement qualification areas											Findings on predetermined objectives	
				Capital and reserves	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010	
12	Social Development	Qualified	Qualified													
13	Sport, Arts and Culture	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)													
Public entities																
14	Atteridgeville Bus Services (Pty) Ltd	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with no findings on predetermined objectives and/or compliance with laws and regulations)													
15	Invest North West	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with no findings on predetermined objectives and/or compliance with laws and regulations)													
16	Kgama Wildlife Operations (Pty) Ltd	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Qualified													
17	Matikeng Industrial Development Zone (Pty) Ltd	Disclaimer	Disclaimer													
18	North West Parks and Tourism Board	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)													
19	North West Provincial Council on Aids	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Qualified													
20	North West Development Corporation (Pty) Ltd	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Qualified													
21	North West Directorate of Entrepreneurial Development in Natural Resources	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Qualified													
22	North West Gambling Board	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)													

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

Number	Auditee	Audit outcomes 2009-10	Audit outcomes 2008-09	Financial statement qualification areas											Findings on predetermined objectives	
				Capital and reserves	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010	
23	North West Provincial Arts & Cultural Council	Disclaimer	Disclaimer													
24	North West Star (Pty) Ltd	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with no findings on predetermined objectives and/or compliance with laws and regulations)													
25	North West Transport Investments (Pty) Ltd	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Financially unqualified (with no findings on predetermined objectives and/or compliance with laws and regulations)													
Audits not conducted by the AGSA																
Schedule 3 and other entities																
26	Mmabana Arts, Culture and Sport Foundation	Financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations)	Qualified													

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

Number	Auditee	Prohibited actions/non-adherence																	
		Annual budget	Responsibility	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfers of funds and subsidies	Misconduct/disciplinary/criminal proceedings	Plans (Strategic, Corporate/integrated development plan)	Management of losses and claims	Conditional allocations	Companies Act Requirements	Entity specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure	Other	Material misstatements corrected
Audits conducted by the AGSA																			
Departments																			
1	Agriculture, Conservation, Environment and Rural Development																		
2	Department of Human Settlements																		
3	Department of Local Government and Traditional Affairs																		
4	Department of Public Safety																		
5	Economic Development and Tourism																		
6	Education																		
7	Health																		
8	Office of the Premier																		
9	Provincial legislature																		
10	Provincial treasury																		
11	Public Works, Roads & Transport																		
12	Social Development																		
13	Sport, Arts and Culture																		
Public entities																			
14	Atteridgeville Bus Services (Pty) Ltd																		
15	Invest North West																		
16	Kgama Wildlife Operations (Pty) Ltd																		
17	Mafikeng Industrial Development Zone (Pty) Ltd																		
18	North West Parks and Tourism Board																		
19	North West Provincial Council on Aids																		

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

Number	Auditee	Prohibited actions/non-adherence																	Material misstatements corrected
		Annual budget	Responsibility	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfers of funds and subsidies	Misconduct/disciplinary/criminal proceedings	Plans (Strategic, Corporate/Integrated development plan)	Management of losses and claims	Conditional allocations	Companies Act Requirements	Entity specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure	Other	
20	North West Development Corporation (Pty) Ltd																		
21	North West Directorate of Entrepreneurial Development in Natural Resources																		
22	North West Gambling Board																		
23	North West Provincial Arts & Cultural Council																		
24	North West Star (Pty) Ltd																		
25	North West Transport Investments (Pty) Ltd																		
Audits not conducted by the AGSA																			
Schedule 3 and other entities																			
26	Mmabana Arts, Culture and Sport Foundation																		

ANNEXURE 3: Drivers of improved audit outcomes

1. Leadership

During the AGSA roadshow in October 2009, MECs committed to create and monitor adequate and credible action plans to address the audit findings, assess and monitor the effectiveness of strategies to manage the risk of unreliable financial reporting and lack of service delivery, achieve sound financial management and governance, and increase oversight. In most cases, the above commitments were not followed through, resulting in an overall regression in audit outcomes in 2009-10.

	Auditees that improved or maintained previous good practices		Auditees where improvements are required	
	Departments	Public entities	Departments	Public entities
1. 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	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Economic Development and Tourism Provincial treasury 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations North West Parks and Tourism Board North West Provincial Council on Aids North West Development Corporation North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd 	<ul style="list-style-type: none"> Human Settlements Local Government and Traditional Affairs Public Safety Education Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> North West Provincial Arts and Culture Council Mafikeng Industrial Development Zone (Pty) Ltd
• Predetermined objectives	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Economic Development and Tourism Provincial treasury 	<ul style="list-style-type: none"> North West Development Corporation 	<ul style="list-style-type: none"> Human Settlements Local Government and Traditional Affairs Public Safety Education Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations Mafikeng Industrial Development Zone (Pty) Ltd North West Parks and Tourism Board North West Provincial Council on Aids North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Provincial Arts and Culture Council North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd
• Compliance	None	<ul style="list-style-type: none"> Kgama Wildlife Operations North West Directorate of Entrepreneurial Development in Natural Resources 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West North West Parks and Tourism Board North West Provincial Council on Aids North West Gambling Board North West Provincial Arts and Culture Council Northwest Transport Investments (Pty) Ltd North West Star (Pty) Ltd Mafikeng Industrial Development Zone (Pty) Ltd North West Development Corporation

	Auditees that improved or maintained previous good practices		Auditees where improvements are required	
	Departments	Public entities	Departments	Public entities
2. Review and monitoring of action plans to address all significant internal control deficiencies				
	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Economic Development and Tourism Provincial treasury 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations North West Parks and Tourism Board North West Provincial Council on Aids North West Development Corporation North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd 	<ul style="list-style-type: none"> Human Settlements Local Government and Traditional Affairs Public Safety Education Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> North West Provincial Arts and Culture Council Mafikeng Industrial Development Zone (Pty) Ltd
3. Establish an effective organisational structure that places people with appropriate skills in appropriate positions, especially in the SCM environment, to ensure compliance with applicable laws and regulations				
		<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations North West Parks and Tourism Board North West Provincial Council on Aids North West Development Corporation North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> North West Provincial Arts and Culture Council Mafikeng Industrial Development Zone (Pty) Ltd
4. Ensure that all vacancies in finance and other significant components are filled within a reasonable time				
	<ul style="list-style-type: none"> Human Settlements Economic Development and Tourism Health Provincial Legislature 	<ul style="list-style-type: none"> Invest North West Kgama Wildlife Operations North West Parks and Tourism Board North West Provincial Council on Aids North West Development Corporation North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Local Government and Traditional Affairs Public Safety Education Provincial treasury Office of the Premier Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd North West Provincial Arts and Culture Council Mafikeng Industrial Development Zone (Pty) Ltd North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd

2. Financial and performance management

	Auditees that improved or maintained previous good practices		Auditees where improvements are required	
	Departments	Public entities	Departments	Public entities
1. Proper record keeping and record management to ensure that supporting documents are properly filed and easily retrievable.				
• Financial statements	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Economic Development and Tourism Provincial treasury 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations North West Parks and Tourism Board North West Provincial Council on Aids North West Development Corporation North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd 	<ul style="list-style-type: none"> Human Settlements Local Government and Traditional Affairs Public Safety Education Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> North West Provincial Arts and Culture Council Mafikeng Industrial Development Zone (Pty) Ltd
• Predetermined objectives	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development 	<ul style="list-style-type: none"> Invest North West North West Development Corporation North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board 	<ul style="list-style-type: none"> Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Kgama Wildlife Operations Mafikeng Industrial Development Zone (Pty) Ltd North West Parks and Tourism Board North West Provincial Council on Aids North West Provincial Arts and Culture Council North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd
A lack of discipline has led to a situation where documentation could not be provided to support procurement processes and disclosure notes. The unavailability of documentation, particularly relating to SCM processes, poses a fraud risk and risk of possible hidden irregular expenditure.				
2. Producing accurate information and continuously monitoring the quality thereof				
• Financial statements	<ul style="list-style-type: none"> Provincial treasury 	<ul style="list-style-type: none"> Invest North West North West Parks and Tourism Board North West Directorate of Entrepreneurial Development in Natural Resources 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Kgama Wildlife Operations (Pty) Ltd North West Gambling Board North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd Mafikeng Industrial Development Zone (Pty) Ltd North West Development Corporation (Pty) Ltd North West Provincial Council on Aids North West Provincial Arts and Culture Council
• Predetermined objectives	None	<ul style="list-style-type: none"> North West Development Corporation 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations Mafikeng Industrial Development Zone (Pty) Ltd North West Parks and Tourism Board North West Provincial Council on Aids North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Provincial Arts and Culture Council North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd

	Auditees that improved or maintained previous good practices		Auditees where improvements are required	
	Departments	Public entities	Departments	Public entities
Departments and entities did not have documented and approved internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting of performance information. The financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for audit. There is a lack of adequate continuous monitoring and review by management and inadequate systems to generate proper management information. Finance staff expect the AGSA to assist them to identify and correct misstatements rather than relying on their own controls over financial and performance management.				
3. Ensure that the asset register reflects the assets owned and that this is agreed to the financial records on a monthly basis				
	None	<ul style="list-style-type: none"> • Atteridgeville Bus Services (Pty) Ltd • Invest North West • Kgama Wildlife Operations • North West Parks and Tourism Board • North West Provincial Council on Aids • North West Development Corporation • North West Directorate of Entrepreneurial Development in Natural Resources • North West Gambling Board • North West Star (Pty) Ltd • Northwest Transport Investments (Pty) Ltd 	<ul style="list-style-type: none"> • Agriculture, Conservation, Environment and Rural Development • Human Settlements • Local Government and Traditional Affairs • Public Safety • Economic Development and Tourism • Education • Provincial treasury • Health • Office of the Premier • Provincial Legislature • Public Works, Roads and Transport • Social Development • Sport, Arts and Culture 	<ul style="list-style-type: none"> • North West Provincial Arts and Culture Council • Mafikeng Industrial Development Zone (Pty) Ltd
The control environment not being conducive to ensuring reliable financial reporting as the correct tone was not set at the top. Asset systems in place were not always adequate to provide sufficient details on the existence and valuation of assets. The complexity and uncertainty of determining the rights to assets was an issue which departments had addressed in full.				

3. Governance

	Auditees that improved or maintained previous good practices		Auditees where improvements are required	
	Departments	Public entities	Departments	Public entities
1. Improved involvement by internal audit and audit committee in monitoring processes				
• Financial statements	None	<ul style="list-style-type: none"> North West Development Corporation 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations Mafikeng Industrial Development Zone (Pty) Ltd North West Parks and Tourism Board North West Provincial Council on Aids North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Provincial Arts and Culture Council North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd
• Predetermined objectives	None	<ul style="list-style-type: none"> North West Development Corporation 	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations Mafikeng Industrial Development Zone (Pty) Ltd North West Parks and Tourism Board North West Provincial Council on Aids North West Directorate of Entrepreneurial Development in Natural Resources North West Gambling Board North West Provincial Arts and Culture Council North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd
The shared audit committee did not function throughout the year and was short staffed. Consequently, the committee did not monitor the progress of planned audits and was not able to effectively fulfil its oversight responsibilities. Furthermore, internal audit was also not effective in discharging its mandate as annual internal audit plans were not completed. The province's central internal audit unit should be used more effectively by accounting officers of departments in obtaining assurance on internal controls.				
2. Maintaining effective risk management strategies, including fraud prevention plans				
	None	None	<ul style="list-style-type: none"> Agriculture, Conservation, Environment and Rural Development Human Settlements Local Government and Traditional Affairs Public Safety Economic Development and Tourism Education Education Provincial treasury Health Office of the Premier Provincial Legislature Public Works, Roads and Transport Social Development Sport, Arts and Culture 	<ul style="list-style-type: none"> Atteridgeville Bus Services (Pty) Ltd Invest North West Kgama Wildlife Operations Mafikeng Industrial Development Zone (Pty) Ltd North West Parks and Tourism Board North West Provincial Council on Aids North West Directorate of Entrepreneurial Development in Natural Resources North West Development Corporation North West Gambling Board North West Provincial Arts and Culture Council North West Star (Pty) Ltd Northwest Transport Investments (Pty) Ltd
Although risk assessments were performed at some entities, it has not been appropriately monitored and fraud prevention plans have not been implemented.				

ANNEXURE 4: Listing of entities with dates on which the annual reports were tabled

Number	Auditee	Date of tabling of annual report
Audits conducted by the AGSA		
Departments		
1	Agriculture, Conservation, Environment and Rural Development	21-Sep-10
2	Department of Human Settlements	21-Sep-10
3	Department of Local Government and Traditional Affairs	28-Sep-10
4	Department of Public Safety	21-Sep-10
5	Economic Development and Tourism	21-Sep-10
6	Education	21-Sep-10
7	Health	21-Sep-10
8	Office of the Premier	28-Sep-10
9	Provincial legislature	28-Sep-10
10	Provincial treasury	28-Sep-10
11	Public Works, Roads & Transport	28-Sep-10
12	Social Development	21-Sep-10
13	Sport, Arts and Culture	28-Sep-10
Public entities		
14	Atteridgeville Bus Services (Pty) Ltd	21-Sep-10
15	Invest North West	21-Sep-10
16	Kgama Wildlife Operations (Pty) Ltd	Not tabled
17	Mafikeng Industrial Development Zone (Pty) Ltd	Not tabled
18	North West Parks and Tourism Board	28-Sep-10
19	North West Provincial Council on Aids	Not tabled
20	North West Development Corporation (Pty) Ltd	21-Sep-10
21	North West Directorate of Entrepreneurial Development in Natural Resources	Not tabled
22	North West Gambling Board	21-Sep-10
23	North West Provincial Arts & Cultural Council	28-Sep-10
24	North West Star (Pty) Ltd	21-Sep-10
25	North West Transport Investments (Pty) Ltd	21-Sep-10
Audits not conducted by the AGSA		
Schedule 3 and other entities		
26	Mmabana Arts, Culture and Sport Foundation	28-Sep-10

ANNEXURE 5: Listing of audit findings raised on common IT focus areas

Number	Auditee	Focus areas			
		IT Governance	Security management	User access control	Information technology service continuity
Audits conducted by the AGSA					
Departments					
1	Department of Human Settlements				
2	Health				
3	Provincial treasury				

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