



GENERAL REPORT
on the provincial audit outcomes of the **EASTERN CAPE**
2008-09



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



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

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Our reputation promise/mission

"The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."



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SECTION 1: FOREWORD

It gives me great pleasure to present my 2008-09 general report to the provincial legislature, summarising the results of the audit outcomes of the Eastern Cape Provincial Government's departments and public entities for the financial year ended 31 March 2009.

This report highlights the encouraging trend of timely submission and auditing of all departments, entities and the provincial legislature for the year 2008-09. The reports also reflect a significant improvement in unqualified audit opinions for the first time in 2008-09, to 62% (2007-08 – 42%) for departments and 75% (2007-08 – 45%) for entities. In essence until 2008-09 there was no notable improvement in the audit outcomes for the four years since 2004-05. This is attributable to the visible leadership commitments that were championed by the Premier in responding to the audit messages.

It is further encouraging that the current provincial leadership, championed once more by the Premier, is building on these successes in paying urgent attention to the Departments of Health and Education that both received adverse opinions and have the combined budget that constitutes a high proportion (73%) of the budget allocated to the Eastern Cape Provincial Government.

The attainment of clean audit reports by all government departments and entities is a milestone that has not as yet been accomplished in the Eastern Cape. In this regard, I encourage and support the province to concentrate on this target, while at the same time dealing with the bigger challenges in the Departments of Health and Education. I am confident that it is possible to obtain clean audit reports if (1) the chief financial officers observe the basics of financial reporting and related internal control systems, (2) the audit committees and internal audit enhance the identification of key risks and key controls, as well as monitor their management, and (3) on the basis of monthly financial reports and risk management reports, the leadership is empowered to exercise effective monitoring of results and set the correct tone for the performance of the province.

The warning signals that we highlighted in our audit reports continue to be obstacles in the attainment of clean audits. These were found in the areas of human resource management, information systems, non-compliance with laws and regulations, material misstatements that get rectified at the time of the audit. In this regard, it is important to stress that the role of the chief financial officers, audit committees, internal auditors and the leadership as described above, remains relevant as a solution to the elimination of these signals that could result in a regression of audit outcomes if not adequately addressed.

With the exception of a few departments, this report further highlights areas where the service delivery information included in the annual reports of most departments and public entities was not credible or accurate.

Through our continued commitment to simpler, clearer and more relevant reporting as well as the visibility of our audit teams, we will support and guide the executive and legislature through the various portfolio committees, including the Standing Committee on Public Accounts, to work towards achieving clean audit opinions.

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

Together we will continue to make every effort to collaborate in order to contribute towards strengthening our country's democracy.

Auditor-General

Auditor-General

Pretoria

November 2009

SECTION 2: EXECUTIVE SUMMARY

The executive summary which follows contains key issues and conclusions reached on each of the main sections of this report. The reader is encouraged to refer to the main body of this report for the details. A high-level analysis of outcomes is as follows:

- **Audit outcomes**

The audits of all the provincial departments and provincial entities were completed within the legislated deadlines. The auditors and management of the provincial legislature, provincial departments and public entities are commended for achieving this milestone again.

Provincial legislature

The provincial legislature retained its financially unqualified (with other matters) opinion. Potential qualifications were, however, avoided by processing audit adjustments to the financial statements that were submitted for auditing. Over the past five years the audit outcome of the legislature has improved from a qualification to financially unqualified (with other matters). This improvement is attributed to the implementation of action plans to address the findings giving rise to the qualification, improved financial skills and improved governance.

Provincial departments

Of the 13 (2008: 12) provincial departments analysed:

Nine departments had no change in their audit outcomes, namely Economic Development, Education, Health, Office of the Premier, Provincial Legislature, Provincial Treasury, Roads and Transport, Safety and Liaison, and Sport, Recreation, Arts and Culture.

Three departments (Local Government and Traditional Affairs, Agriculture and Social Development) improved from qualified opinions to financially unqualified (with other matters) opinions.

Public Works regressed from an unqualified audit opinion to a qualified opinion.

The additional department was a result of the former Department of Housing, Local Government and Traditional Affairs that split into two departments.

Unqualified opinions

- Eight departments (Agriculture, Housing, Local Government and Traditional Affairs, Office of the Premier, Provincial Treasury, Safety and Liaison, Social Development, and Sport, Recreation, Arts and Culture) (2008: five) received financially unqualified (with other matters) opinions, with four departments (Office of the Premier, Provincial Treasury, Safety and Liaison, and Sport, Recreation, Arts and Culture) maintaining their financially unqualified audit opinions from the previous year.

Qualified opinions

- Three departments (Economic Development and Environmental Affairs, Public Works, and Roads and Transport) (2008: five) received qualified opinions. The Public Works opinion was a regression from financially unqualified (with other matters) to qualified. Economic Development and Environmental Affairs as well as Roads and Transport retained their qualified status from the previous year.



Adverse audit opinions

- Two (Education and Health) (2008: two) retained their adverse opinions received in the previous year.

The improvement in the audit outcomes and the maintenance of financially unqualified (with other matters) outcomes were due to the receptive tone of leadership set by the political and administrative leaders.

It is important to note that although there was an overall improvement in audit outcomes, the budgets of the Departments of Education and Health together totalled R28 929 million or 73% of the provincial budget. It is thus imperative that the leadership of the province, including the executive, oversight committees, management and the Provincial Treasury, should continue to work together to improve the financial management and accountability in these departments and continuously monitor all actions that are implemented.

Public entities

Of the 12 (2008: 11) public entities analysed:

Four of the nine entities referred to above retained their financially unqualified (with other matters) opinions from the previous year, namely the Eastern Cape Development Corporation, Eastern Cape Socio-Economic Cooperative Council, Eastern Cape Tourism Board, and Eastern Cape Youth Commission.

Four entities improved from a qualified opinion to financially unqualified (with other matters), namely the Eastern Cape Liquor Board, Eastern Cape Parks Board, Eastern Cape Rural Finance Corporation, and Mayibuye Transport Corporation. The improvement from qualified to financially unqualified (with other matters) and the retention of this outcome by the remaining five entities were due to the correction of material errors identified during the audit.

The Eastern Cape Appropriate Technologies Unit improved from a disclaimer to a qualified opinion. Although the Eastern Cape Appropriate Technology Unit improved its audit opinion, much improvement is still required to obtain a financially unqualified audit opinion, as the quality of the financial statements and the records supporting the amounts and disclosures contained therein was poor. The improvement was mostly due to material corrections processed as a result of the audit.

The Eastern Cape Gambling and Betting Board and Eastern Cape Provincial Arts and Culture Council regressed in their audit opinions. The regression by the Eastern Cape Gambling and Betting Board was due to weaknesses in the design and application of control activities over revenue and the lack of permanent administrative leadership (both the chief executive and chief financial officers were acting during the year under review). The regression in audit outcome of the Eastern Cape Provincial Arts Council was due to poor quality financial statements submitted that did not reflect the requirements of the applicable accounting framework.

The Accelerated Shared Growth Initiative for South Africa is a new entity that received a financially unqualified (with other matters) opinion in its first year of operation.

Unqualified opinions

- Nine (2008: five) provincial entities (Accelerated Shared Growth Initiative for South Africa, Eastern Cape Development Corporation, Eastern Cape Liquor Board, Eastern Cape Parks Board, Eastern

Cape Rural Finance Corporation, Eastern Cape Socio-Economic Cooperative Council, Eastern Cape Tourism Board, Eastern Cape Youth Commission, and Mayibuye Transport Corporation) received financially unqualified (with other matters) opinions.

Qualified opinions

- Two entities (Eastern Cape Appropriate Technologies Unit, and Eastern Cape Gambling and Betting Board) (2008: five) received qualified opinions. The Eastern Cape Gambling and Betting Board regressed from a financially unqualified (with other matters) to a qualified opinion, while the Eastern Cape Appropriate Technologies Unit improved from a disclaimer to a qualified opinion.

Disclaimer of opinion

The Eastern Cape Provincial Arts and Culture Council regressed from a qualified opinion to a disclaimer.

Five-year review

The audit outcomes for the current year reflect an overall improvement when compared to the audit outcomes for 2004-05.

Departmental highlights include the following:

- Housing, a new department, was created at the beginning of 2009.
- One department (Local Government and Traditional Affairs) improved from a disclaimer of opinion to financially unqualified (with other matters). Two departments (Provincial Treasury, and Sport, Recreation, Arts and Culture) improved from qualified to financially unqualified (with other matters).
- Three departments (Economic Development and Environmental Affairs, Public Works, and Roads and Transport) received the same opinion (qualified) as they received in 2004-05.
- Two departments (Education and Health) moved from a disclaimer to an adverse opinion over the five-year period.

Public entity highlights include the following:

- Three new entities (Accelerated Shared Growth Initiative, Eastern Cape Parks Board, and Eastern Cape Liquor Board) were created.
- One entity (Eastern Cape Appropriate Technology Unit) improved from a disclaimer of opinion to a qualified opinion.
- Three entities (Eastern Cape Development Corporation, Eastern Cape Tourism Board, and Mayibuye Transport Corporation) improved from qualified to financially unqualified (with other matters).
- The Eastern Cape Provincial Arts Council regressed from a financially unqualified (with other matters) opinion to a disclaimer of opinion.
- The Eastern Cape Gambling and Betting Board regressed from a financially unqualified (with other matters) opinion to a qualified opinion.

Many potential qualifications in the current year were prevented as a result of audit adjustments. The departments and entities should implement action plans to eliminate the findings that gave rise to the audit adjustments in order to ensure that the province's audit outcomes are improved further.

The sustainability of these favourable outcomes is in jeopardy if the leadership does not continue to set the right tone and adequate internal controls are not reinforced within the entities. It is also advisable that all governance structures take an active role in monitoring accountability. In addition, the mother departments of the entities should play an active role in the oversight and accountability process.

Refer to section 3 of this report for details of the matters raised above.

- **Key systemic issues**

Initiatives to improve audit outcomes

The AGSA embarked on many initiatives to enhance accountability in the province and influence the process towards obtaining financially unqualified audit opinions. The main initiative was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence. This initiative included the increased visibility of the AGSA senior leadership and continuous interaction to highlight possible challenges, audit findings and transversal risks. This relationship, together with the receptive tone of leadership within the province, resulted in an improvement in the number of financially unqualified audit outcomes. In addition, the Speaker, Premier, executives and Provincial Treasury have made commitments towards improving the audit outcomes even further, with specific focus on the Department of Education. This has resulted in the analysis of audit findings over the past five years and an action plan to address the findings. The Premier and her executive council will be monitoring the progress of this action plan.

- **Audit qualification areas and root causes**

The annual financial statement areas relating to capital assets (80%) and expenditure (60%) were the only areas where the number of qualifications exceeded 50% of the departmental qualifications. Economic Development and Environmental Affairs, Health, and Education were qualified on capital assets; and Education, Health, and Roads and Transport were qualified on expenditure.

The public entity annual financial statement areas relating to receivables (67%), payables and borrowings (67%), and revenue (67%) were the areas subjected to the most qualifications. The Eastern Cape Appropriate Technologies Unit and Provincial Arts and Culture Council were affected by all these qualifications. However, the Gambling and Betting Board was only qualified on revenue.

At a high level these qualifications can be attributed to deficiencies in the control environment, the design and implementation of control activities, and monitoring by the leadership, audit committees and internal audit within the departments and public entities. This is further discussed in section 5 of this report.

- **Warning signals**

An analysis of warning signals that require attention follows. The root causes and recommendations for improvement are further detailed in section 6 of this report.

Human resources

Human resource management at departments was a specific focus area of the AGSA during the year under review. Human resources findings were reported at all departments and included the absence of human resource plans, high vacancy rates at senior manager and highly skilled levels, lack of background

checks, prolonged acting in higher positions and budget overspent. The root causes of these findings include weak and protracted recruitment and appointment processes, insufficient focus by the leadership on the resources required to deliver on its mandate and a lack of understanding of human resource practices and prescripts. The high vacancy rates in particular manifested in the lack of capacity in the finance units.

Information systems audit

Eight areas of access control were focused on by the AGSA during the year under review. Findings in all eight areas tested were reported at the provincial legislature and at 54% of provincial departments. These findings are recurring, partly due to the expectation that a new system (IFMS) will be implemented and the lack of priority afforded by governance arrangements to information system issues.

Non-compliance with legislation

Non-compliance with legislation that did not have an impact on the financial statements was reported at 62% of departments and 82% of public entities. Non-compliance with the supply chain management prescripts occurred at 38% of the departments and 50% of the provincial entities. Other cases of non-compliance with the PFMA and Treasury Regulations were reported at 54% of the departments and 27% of the public entities.

The most common PFMA non-compliance reported at departments related to delays in the payment of creditors beyond the 30-day period, while the most common PFMA non-compliance at public entities related to the failure to prevent irregular as well as fruitless and wasteful expenditure.

Non-compliance with the Division of Revenue Act was reported at Health, Housing, and the Socio-Economic Cooperative Council. Inadequate supervision and monitoring of the day-to-day activities by all levels throughout the year, ineffective/inadequate internal audit coverage of compliance and the incorrect leadership tone contributed to the weaknesses identified in this area. The right leadership tone, together with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Material misstatements

The quality of the financial statements received was poor and as a result material misstatements in the annual financial statements submitted for auditing were corrected at the provincial legislature, all departments and 82% of public entities. The financial statements of those entities who did not correct misstatements were either qualified or disclaimed. This was the result of a lack of supervision and review over the preparation of the financial statements and a lack of a system to generate the accruals-based disclosures. The material corrections were effected to avoid further qualifications. At departments 60% of the misstatements related to disclosure notes, while at entities the misstatements were evenly spread between the statement of financial position (balance sheet), statement of financial performance (income statement) and disclosure notes.

The provincial legislature, all departments and all public entities should improve the monitoring and supervisory controls applied to the preparation of the financial statements. The preparation of detailed interim financial statements, together with reviews by audit committees and internal audit, should reduce the need for material adjustments resulting from the audit.

• **Audit of performance information (AoPI)**

The audit of performance information presented by the departments and provincial entities revealed a number of deficiencies, the most significant being the following:

- Seventy-seven per cent of departments and 75% of public entities did not comply with the legislative requirements relating to performance information.
- Findings relating to the usefulness of reported performance information were reported at 54% of departments and 42% of public entities.
- Findings relating to the reliability of performance information were reported at 77% of departments and 50% of public entities.

The provincial legislature, Office of the Premier, Provincial Treasury, Eastern Cape Development Corporation, Youth Commission and Mayibuye were the only departments and entities that were exemplary in the management of service delivery processes, and as such had no shortcomings in any of the above categories.

Continued interaction between the AGSA, the National Treasury and all departments and entities should be a focus area in order to adequately address the shortcomings in preparation for a future opinion on performance information.

Internal audit should also focus on the requirements of performance information and provide the necessary assurance to the departments and entities.

SECTION 3: AUDIT OUTCOMES FOR 2008-09

3.1 Status of completion of audits for the year ended March 2009

The Eastern Cape Provincial Government comprises one provincial legislature, 13 departments and 12 provincial entities. This report presents the 2008-09 audit outcomes of all the departments and provincial entities in the province.

Table 1: Status of completion of the 2008-09 audits

Entity type	Total	Audits completed	Audits outstanding	% of completion
Provincial departments	13	13	0	100%
Provincial entities	12	12	0	100%
Provincial other entities	0	0	0	0%
Provincial legislation	1	1	0	100%
Total	26	26	0	100%

Tables 2(a) to 2(c) below present the 2008-09 audit outcomes of the Eastern Cape Province. Details of balance sheet and income statement qualification areas are provided under section 5 of this report.

3.2 Audit outcomes of the provincial legislature

The provincial legislature retained its financially unqualified (with other matters) audit outcome received in the previous year. The other matters reported in its audit report included material audit adjustments and governance matters.

A lack of supervision and monitoring of the financial reporting process by the administrative leadership resulted in errors that were adjusted during the audit process. Potential qualifications were prevented as a result of these adjustments.

The governance matters reported included delays experienced in obtaining information, the non-availability of key officials and ineffective risk management.

Supporting documentation required for the audit of performance information was not submitted by the agreed-upon deadline. Such non-availability had an adverse impact on the scheduled deadlines in finalising the fieldwork of the audit and placed pressure on the reporting time frames.

Key personnel were not always available during the audit. This was a direct result of the national elections held in April 2009, the induction and orientation programmes for the new members of the provincial legislature (MPLs) and a strike action by the union.

Although a risk management unit existed, it was rendered ineffective for most of the year under review, as the risk management policy and strategy document, which includes the anti-corruption plan, was only approved towards the end of the financial year.



Over the past five years, the audit outcomes of the provincial legislature improved from a qualified opinion to a financially unqualified (with other matters) opinion. This improvement was due to the implementation of an action plan to address the findings that led to the qualification, improved financial skills and improved governance.

3.3 Audit outcomes of provincial departments

Table 2(a): Audit opinions on all provincial departments for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	2	15%	2	17%
Qualified	3	23%	5	42%
Financially unqualified (with other matters)	8	62%	5	42%
Financially unqualified (with no other matters)	0	0%	0	0%
Total reported on	13	100%	12	100%
Total not reported on	0	0%	0	0%
Total entities	13	100%	12	100%

The Department of Local Government, Housing and Traditional Affairs was split into two departments, namely the Department of Local Government and Traditional Affairs, and the Department of Housing with effect from the beginning of the financial year, with the result that the number of departments increased from 12 in the previous financial year to 13 in the year under review.

All 13 departments are being reported on, three of which registered improved audit outcomes, one regressed and nine registered the same audit outcomes as for the year ended March 2008. Details are as follows:

- Improvements (3): Three departments improved (Agriculture, Local Government and Traditional Affairs, and Social Development) from qualified to financially unqualified (with other matters). The improvement was due to the implementation of action plans as well as a dedicated effort by the finance teams to correct the financial statements and present the auditors with the required evidence.
- Regressions (1): One department, namely Public Works, regressed from financially unqualified (with other matters) to qualified. The Public Works regression was the result of a misunderstanding regarding the National Treasury requirements in respect of the management of immovable assets and the late guidance issued by the National Treasury on the application of the immovable asset accounting policy.



- Unchanged (8): The audit outcomes of eight departments (Economic Development, Education, Health, Office of the Premier, Provincial Treasury, Roads and Transport, Safety and Liaison, and Sport, Recreation, Arts and Culture) remained unchanged from the year ended March 2008. Four departments (Office of the Premier, Provincial Treasury, Safety and Liaison, and Sport, Recreation, Arts and Culture) retained their financially unqualified (with other matters) status. Two departments (Economic Development, and Roads and Transport) retained their qualified status, while the Departments of Education and Health showed no movement from the adverse opinions received in the previous year.
- New department (1): The Department of Housing received a financially unqualified (with other matters) opinion.

The audit opinions of the Departments of Health and Education, which constituted 73% of the total provincial budget, remained adverse. This was a result of the frequent turnover in both political and administrative leadership over the past number of years, together with a breakdown in internal controls within the supply chain management divisions. As a result, irregular expenditure of R2 230 million was incurred within the two departments. Furthermore, there was a lack of document management within their human resource divisions. The current political leadership and the acting administrative leadership are committed to improving the situation. The province, led by the Premier, has set up a decisive action plan to try and improve the audit outcomes in the 2009-10 financial year. It is, however, accepted that the turnaround will take more than one year. It is also important that the administrative leadership is stabilised and permanent heads of department are appointed.

In order to sustain the financially unqualified audit opinions, it is important that the political and the administrative leadership continue to set the correct tone and ensure that the governance structures are improved and are effective in executing their duties.

3.4 Audit outcomes of provincial public entities

Table 2(b): Audit opinions on all provincial public entities for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	1	8%	1	9%
Adverse	0	0%	0	0%
Qualified	2	17%	5	45%
Financially unqualified (with other matters)	9	75%	5	45%
Financially unqualified (with no other matters)	0	0%	0	0%
Total reported on	12	100%	11	100%
Total not reported on	0	0%	0	0%
Total entities	12	100%	11	100%



All 12 entities are being reported on, of which five registered improved audit outcomes, two regressed and four registered the same audit outcomes as for the year ended March 2008, while one new entity (Accelerated Shared Growth Initiative of South Africa) was registered and audited for the first time during the year under review. Details are:

- Improvements: The audit outcomes of the Eastern Cape Liquor Board, Eastern Cape Parks Board, Eastern Cape Rural Finance Corporation, and Mayibuye Transport Corporation improved from qualified to financially unqualified (with other matters). The audit outcome of the Eastern Cape Appropriate Technology Unit improved from a disclaimer to a qualified opinion. The improved audit outcomes were due to the implementation of action plans as well as a dedicated effort by the finance teams to correct the financial statements and present the auditors with the required evidence.
- Regressions: The audit outcome of the Eastern Cape Gambling and Betting Board regressed from financially unqualified (with other matters) to qualified, while the audit outcome of the Eastern Cape Provincial Arts and Culture Council regressed from a qualified to a disclaimer of opinion. The regression at public entities was due to the poor quality of financial statements and information as well as the instability of leadership.
- Unchanged: The Eastern Cape Development Corporation, Eastern Cape Socio-Economic Consultative Council, Eastern Cape Tourism Board, and Eastern Cape Youth Commission retained their financially unqualified (with other matters) status. The Eastern Cape Development Corporation and Eastern Cape Socio-Economic Consultative Council retained their status due to the good control environment and the correct leadership tone. However, the Eastern Cape Tourism Board and Eastern Cape Youth Commission retained their status through efforts of the auditors and the resultant audit adjustments as well as the receptive tone of leadership.
- New entity (1): The Accelerated Shared Growth Initiative obtained a financially unqualified (with other matters) audit outcome in its first year of operation.

The sustainability of these favourable outcomes could be in jeopardy if the administrative leadership does not continue to set the right tone and adequate internal controls are not reinforced within the entities. It is also advisable that all governance structures take an active role in enforcing accountability. In addition, the mother departments of the entities should play an active role in the oversight and accountability process.

3.5 Five-year review of audit outcomes of provincial departments and provincial entities

Table 2(c): Comparison of audit outcomes for the 2008-09 and 2004-05 financial years

Type of audit opinion	Departments		Entities		Legislature	
	2008-09	2004-05	2008-09	2004-05	2008-09	2004-05
Disclaimer	0	3	1	1	0	0
Adverse	2	0	0	0	0	0
Qualified	3	5	2	3	0	1
Financially unqualified (with other matters)	8	4	9	5	1	0
Financially unqualified (with no other matters)	0	0	0	0	0	0
Total reported on	13	12	12	9	1	1
Total not reported on	0	0	0	0	0	0
Total entities	13	12	12	9	1	1

During the five-year period from 2004-05 to 2008-09, the province registered an overall improvement in its audit outcomes. Highlights include:

Departments

- Housing, a new department, was created at the beginning of 2009.
- One department (Local Government and Traditional Affairs) improved from a disclaimer of opinion to financially unqualified (with other matters). Two departments (Provincial Treasury, and Sport, Recreation, Arts and Culture) improved from qualified to financially unqualified (with other matters).
- Three departments (Economic Development and Environmental Affairs, Public Works, and Roads and Transport) received the same opinion (qualified) as they received in 2004-05.
- Two departments (Education and Health) moved from a disclaimer to an adverse opinion over the five-year period.

Public entities

- Three new entities (Accelerated Shared Growth Initiative, Eastern Cape Parks Board, and Eastern Cape Liquor Board) were created.
- One entity (Eastern Cape Appropriate Technology Unit) improved from a disclaimer of opinion to a qualified opinion.



- Three entities (Eastern Cape Development Corporation, Eastern Cape Tourism Board, and Mayibuye Transport Corporation) improved from qualified to financially unqualified (with other matters).
- The Eastern Cape Provincial Arts Council regressed from a financially unqualified (with other matters) opinion to a disclaimer of opinion.
- The Eastern Cape Gambling and Betting Board regressed from a financially unqualified (with other matters) opinion to a qualified opinion.

The improved audit outcomes from 2004-05 to 2008-09 might not be sustainable if the departments and entities do not put action plans in place to address the audit findings that resulted in audit adjustments in the current financial year.

The following matters require urgent attention in order to sustain and further improve the current outcomes:

- Leadership oversight and monitoring require improvement to ensure that proper document management is enforced and accurate information is available.
- The skills and capacity within the finance sections of most departments and public entities require improvement to ensure that quality financial statements are submitted for auditing.
- The implementation of accounting disciplines, such as the preparation of regular and detailed management accounts that are supported by appropriate reconciliations and schedules, should assist in the preparation of quality financial statements.
- The governance structures (oversight committees, audit committees and internal audit) within most departments require improvement.

SECTION 4: KEY SYSTEMIC ISSUES

4.1 Initiatives to improve audit outcomes

Audit outcomes can be – and are – influenced by a number of role players in addition to the management of individual entities. This section of the report gives an overview of the commitment and contributions of key role players, particularly with regard to key systemic issues impacting on financial management and accounting.

The AGSA embarked on many initiatives to enhance accountability in the province and influence the process towards obtaining financially unqualified audit opinions. The main initiative was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence. A chain for addressing challenges within the audit process was developed and followed. This chain included numerous interactions at all levels of provincial government leadership, including the Premier and her executive. All challenges posed by the departments that could not be addressed or resolved were escalated to the responsible audit committee, the MEC and ultimately the Premier and the Speaker. This promoted the effectiveness of accountability. In addition, regular meetings were held with the Premier and her executive to update them on the audit progress and sensitise them to possible qualifications within their portfolios.

Furthermore, there was a large amount of interaction between the departments and the AGSA to discuss audit findings and in many cases departments were given the opportunity to further address and rectify errors. This resulted in a large amount of audit adjustments to the financial statements submitted for auditing. This also had a direct impact on the improvement of audit outcomes and relationships with departments, audit committees and the executive.

Commitments by the executive

The 2007-08 general report identified the following actions to improve audit outcomes within the province:

1. The Provincial Treasury embarked on a programme of support for all departments and assistance with prereview and the timely submission of annual financial statements to the AGSA.
2. Ongoing interaction between the departments and the AGSA with regard to audit progress, possible outcomes and the identification of transversal risks.
3. The Provincial Treasury, together with the National Treasury, presented an annual PFMA preparation session to departments, after which action plans were drafted. The Provincial Treasury implemented a comprehensive action plan with continuous feedback to the National Treasury.
4. Coordination between portfolio committees and standing committees.
5. Ongoing monitoring and evaluation of internal controls by the audit committees and internal audit.
6. Strengthening the capacity of the Provincial Treasury.

The above commitments were made by the previous executive and as a result not all commitments were achieved. However, the provincial AGSA team influenced some of the above initiatives by reminding the



leadership of the commitments previously made and by making the leadership aware of the benefits that could be derived in implementing the initiatives. In addition, within the effective audit committees, the provincial AGSA team encouraged oversight and accountability by raising awareness of the responsibilities of the audit committee and the benefits of effective accountability.

In supplementing the strengthened relationship formed with the Speaker, the Premier and the executive, the audit outcomes were shared with them. This resulted in a commitment from the Speaker, the Premier and the MEC for Finance to drive a positive change within the Departments of Education and Health that had received adverse opinions. Subsequently, an executive council resolution resulted in the approval of the implementation of an action plan developed by the Provincial Treasury to address the audit outcomes of the Departments of Health and Education. This action plan was developed through an analysis of the last five years' AGSA management reports. The following process will be followed to ensure that the action plan has the maximum effect:

- An MEC committee consisting of the MECs for Education, Finance and Health has been established to oversee the implementation of the action plan.
- The MEC committee was tasked with developing comprehensive project implementation plans by the end of September 2009.
- The executive is to be furnished with a detailed analysis of past performance interventions and the reasons for their failure.
- The Provincial Treasury instituted appropriate actions to rectify the failure of the relevant accounting officers to act on the AGSA reports.
- A forensic investigation aimed at recovering the fruitless and wasteful expenditure incurred and reported by the AGSA will be commissioned.

All the above processes will be overseen by the executive council by including this matter as a standard agenda item at all their meetings.

In addition to the above, the Provincial Treasury has identified the following key focus areas for attention during the next year to further improve the provincial government's audit outcomes:

1. Restructuring units within the Provincial Treasury to focus on audit outcomes in all departments.
2. Analysing, validating and monitoring departmental audit turnaround plans.
3. Strengthening audit committees and internal audit units to ensure that they can perform effectively.
4. Developing a project management approach to the preparation of financial statements and the audit.
5. Using the financial management capacity study and the financial management capability model to assist departments in identifying capacity shortfalls.
6. Refocusing the chief financial officer support programme.



7. Ensuring Provincial Treasury representation in all departmental audit steering committees.
8. Facilitating meetings with the AGSA regarding transversal issues and the provincial audit steering committee meetings.
9. Keeping abreast of accounting reforms and providing appropriate guidance to departments.
10. Supporting and monitoring departmental initiatives, such as the inclusion of audit outcomes in the performance agreements of all senior officials.

The proactive actions of the political and administrative leadership are encouraging. These actions should be implemented and monitored on a continuous basis to strengthen the drive of operation *Clean Audit*.

4.2 Impact of initiatives of other role players

The National Treasury provided a practical guideline for the preparation of the annual financial statements and presented workshops and training sessions to clear uncertainties relating to the compilation of the financial statements. Exemption applications were also dealt with on a case-by-case basis. Clarification of the accounting treatment of immovable assets in the form of a decision tree was issued by the National Treasury to clear uncertainties relating to ownership of, and accountability for, immovable assets. This clarification was received after the financial statements were submitted and impacted on the qualification obtained by the provincial Department of Public Works.

4.3 Accounting reforms

The recording and valuation of immovable assets in the annual financial statements of departments are expected to receive significant attention in the year ahead. The accurate recording of immovable assets is dependent on a complete and accurate provincial immovable asset register. A project plan for the development of this register is required to ensure the accurate recording and valuation of immovable assets in the financial statements for the year ended 31 March 2010. At the date of this report, appropriate attention was being given to the provincial immovable asset register.

There are numerous Generally Recognised Accounting Practice and International Financial Reporting Standards that will become applicable to the public entities in future periods.

SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES

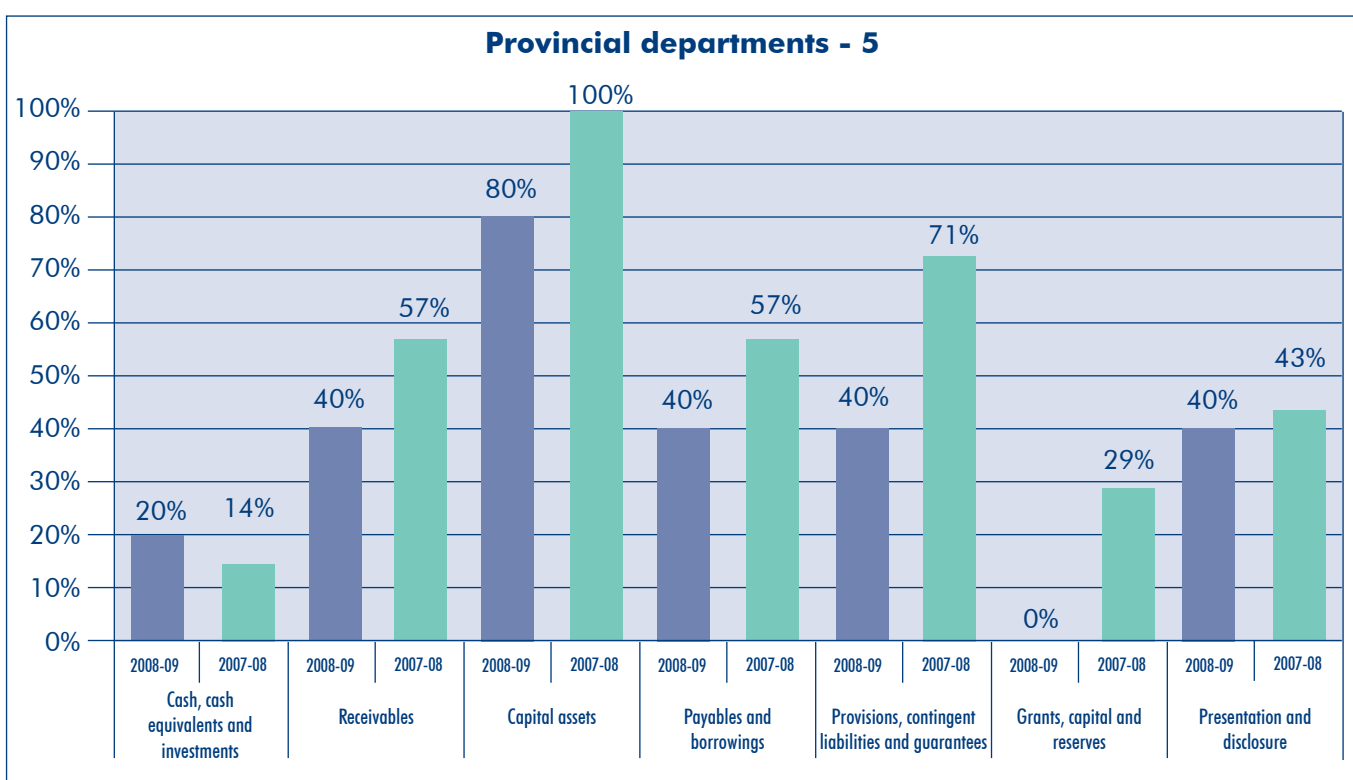
This section of the report provides details on specific areas of the income statement and/or balance sheet of entities that attracted qualified audit opinions. Details are provided under separate headings for provincial departments, provincial entities and provincial other entities. An analysis is provided of the root causes of qualifications.

5.1 Provincial departments

5.1.1 Balance sheet and income statement areas qualified: provincial departments

Figure 1(a) below provides a breakdown of those balance sheet findings that gave rise to qualified audit opinions. The graph depicts the number of departments that had qualified audit opinions in key areas of their balance sheets (statements of financial position). Details of the nature of qualifications are provided for those qualification areas where these percentages exceed 50%.

Figure 1(a): Areas qualified in the statement of financial position (five departments qualified)



Analysis of areas qualified:

Capital assets

The highest occurrence (80%) of audit qualifications for departments related to capital assets. The main drivers of audit qualifications were the lack of information, incomplete asset registers and untraceable assets. This affected Economic Development and Environmental Affairs, Education, Health, and Public Works.



Economic Development and Environmental Affairs, Education and Health were qualified on movable assets. Health and Public Works were qualified on immovable assets.

The qualification of Health on immovable assets was due to the disclosure of immovable assets in the financial statements to which it did not have title and an unexplained change in the opening balance of work in progress.

A misunderstanding by Public Works of the disclosure requirements for immovable assets, late guidance on the application of the immovable assets accounting policy that was issued by the National Treasury after the financial statements had been submitted for auditing and failure to address conditions attached to the previous exemption were the main drivers of the qualification of Public Works.

The above findings were mainly due to the inadequate understanding of asset management principles, inadequate day-to-day supervision of staff, lack of regular reviews, lack of turnaround plans, lack of coordination between asset management and finance units and the poor performance management issues not being dealt with.

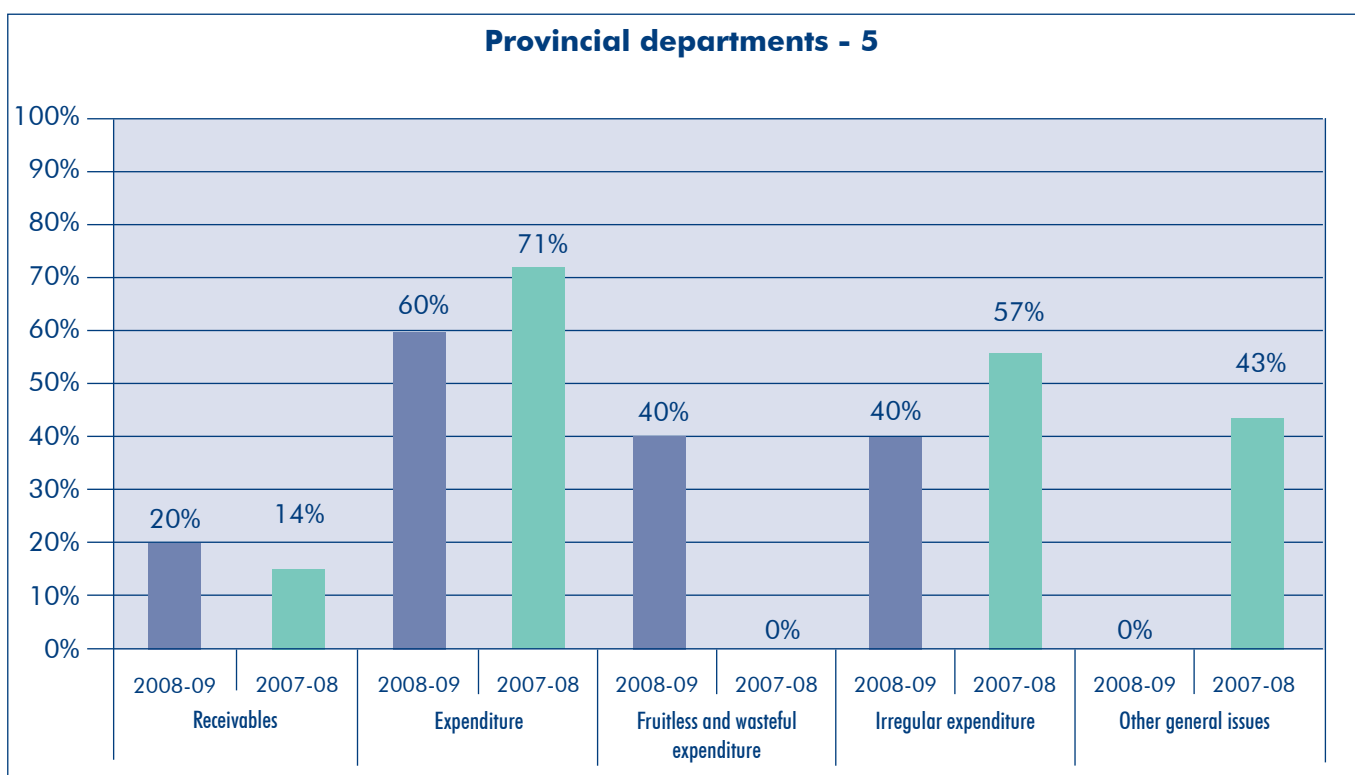
It is recommended that:

- Staff in asset management units of the affected departments should be capacitated.
- The responsible executive authorities enforce compliance with section 38 of the PFMA.
- The National Treasury provides comprehensive, clear, timeous and authoritative guidance in relation to movable assets, immovable assets and inventory.
- The National Treasury introduces separate notes in the model annual financial statements on movable and immovable assets

5.1.2 Provincial departments: income statement qualification areas

Figure 1(b) below provides a breakdown of those income statement findings that gave rise to qualified audit opinions. It provides an indication of the percentage of the departments that were qualified per income statement area. Details on the nature of qualifications are provided for those qualification areas where percentages exceeded 50%.

Figure 1(b): Areas qualified in the statement of financial performance (five departments qualified)



Analysis of areas qualified:

Expenditure

The financial statements of three departments were qualified on the basis of reported expenditure. Sufficient and appropriate audit evidence to confirm expenditure balances as disclosed in the financial statements could not be provided, owing to a lack of written procedures and adequate record keeping not being implemented and communicated throughout the departments. Furthermore, transactions relating to expenditure were incorrectly accounted for due to a lack of adequate monitoring and supervision. This affected Health, Education, and Roads and Transport. The qualifications relating to expenditure are indicative of fraud risks.

It is recommended that staff be supervised and capacitated on a day-to-day basis in order to ensure that all transactions are adequately accounted for.

5.1.3 Provincial departments: analysis of root causes of qualifications

The root causes of the qualifications highlighted in figures 1(a) and 2(a) above are analysed as follows:

Worst opinions

The Departments of Education and Health, which comprise 73% of the total provincial budget, received adverse opinions.

The areas qualified at Health included current assets, capital assets, liabilities, revenue and expenditure. The root causes of these qualifications included leadership instability, inappropriate operational structures, inadequate performance management systems and a lack of management information.

The qualifications at Education related to capital assets, current assets, liabilities and expenditure. The root causes of these qualifications included leadership instability (acting head of department, chief financial officer and chief operating officer), a lack of commitment to the audit process by the senior management of Education, a lack of understanding of the required accounting practices by the finance staff and inadequate or inappropriate human resource appointment processes.

Qualified opinions

Economic Development and Environmental Affairs was qualified on capital assets. This qualification was due to a lack of understanding on the part of officials tasked with the preparation of the asset register and a lack of supervision by senior officials.

Public works was qualified on capital assets. This qualification was due to a misunderstanding by Public Works of the disclosure requirements for immovable assets and late guidance on the application of the immovable assets accounting policy that was issued by the National Treasury after the financial statements had been submitted for auditing. Public Works has developed an action plan to address the shortcomings relating to its immovable asset register.

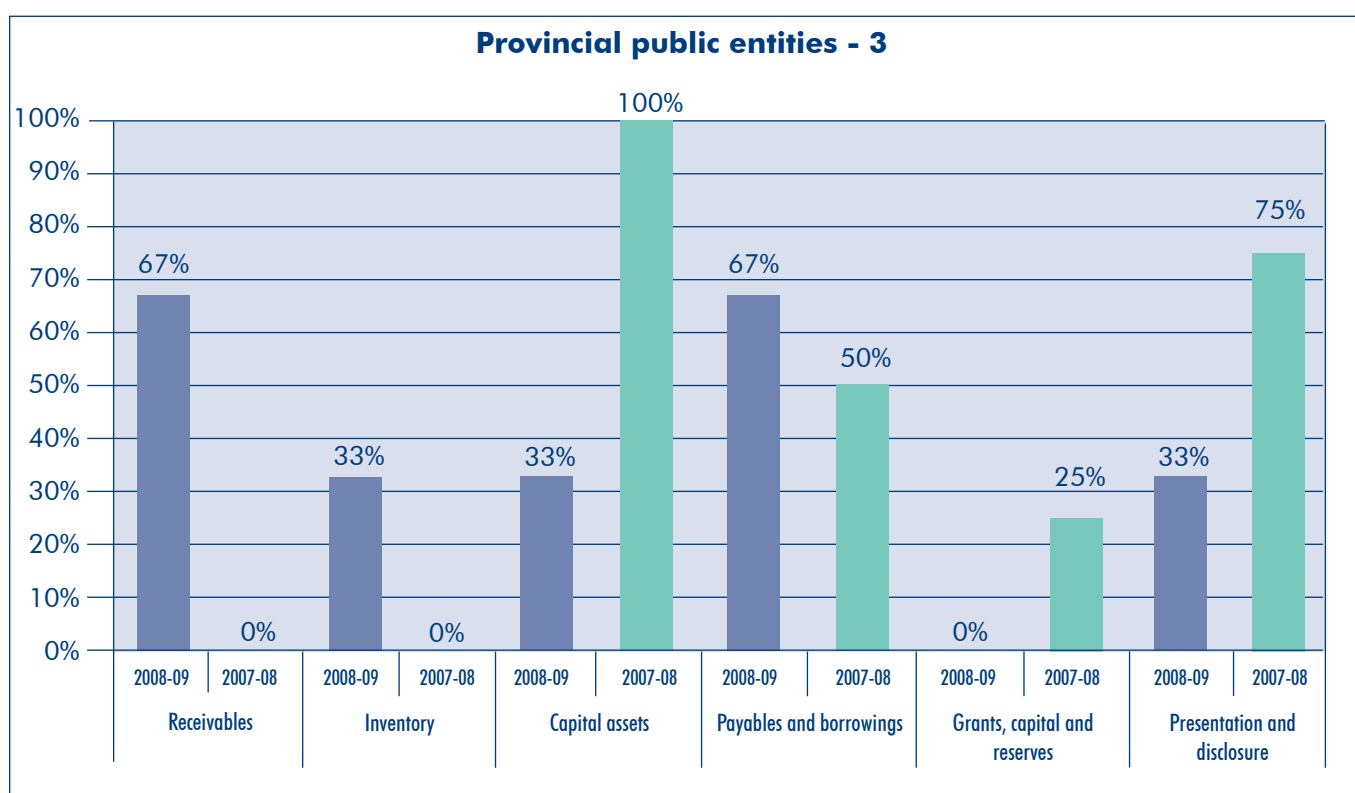
Roads and Transport was qualified on expenditure. This qualification was due to the lack of supervision by senior officials and inadequate leadership oversight.

5.2 Provincial public entities

5.2.1 Balance sheet and income statement areas qualified: provincial entities

Figure 2(a) below provides a breakdown of those balance sheet findings that gave rise to qualified audit opinions. This graph depicts the number of provincial entities that had qualified audit opinions in key areas of their balance sheets (statements of financial position). Details of the nature of qualifications are provided for those qualification areas where these percentages exceeded 50%.

Figure 2(a): Areas qualified in the statement of financial position (three provincial entities qualified)



Analysis of areas qualified:

Receivables

The receivables qualification of the Eastern Cape Appropriate Technologies Unit and Eastern Cape Provincial Arts Council was due to a lack of documentary evidence supporting the balances disclosed in the financial statements as well as a lack of documented procedures and adequate day-to-day monitoring.

Payables and borrowings

The payables qualification of two provincial entities was due to the misstatement of accruals and the incorrect calculation of the leave pay accrual. The Eastern Cape Appropriate Technologies Unit and Eastern Cape Provincial Arts Council were qualified on payables.

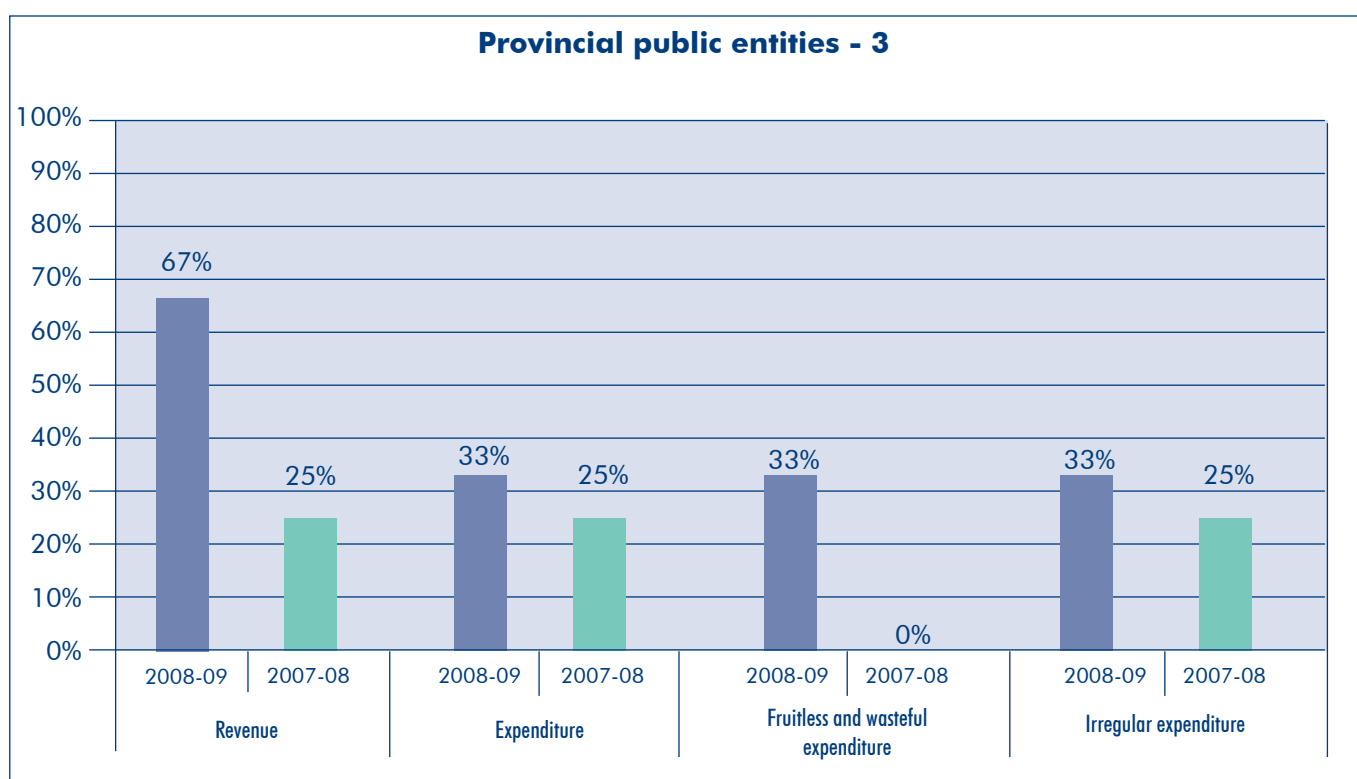
It is recommended that all public entities ensure that day-to-day supervision and monitoring should take place and that finance staff should be capacitated.



5.2.2 Provincial entities: income statement qualification areas

Figure 2(b) below provides a breakdown of those income statement findings that gave rise to qualified audit opinions. It indicates the percentage of public entities that were qualified per income statement area. Details on the nature of qualifications are provided for those qualification areas where percentages exceed 50%.

Figure 2(b): Areas qualified in the statement of financial performance (three provincial entities qualified)



Analysis of areas qualified:

Revenue

The financial statements of two provincial entities were qualified on the basis of reported revenue. The design and application of control activities over revenue within the Gambling and Betting Board were not sufficient to provide assurance that all revenue had been recorded. The poor quality of financial statements and supporting records of the Eastern Cape Provincial Arts and Culture Council contributed to the negative revenue findings. This resulted in the regression of the audit outcomes for these entities.

5.2.3 Provincial entities: analysis of root causes of qualifications

The root causes of the qualifications highlighted in figures 1(b) and 2(b) above are analysed as follows:

Worst opinion

The Eastern Cape Provincial Arts and Culture Council received a disclaimer of opinion and was qualified

on current assets, liabilities, revenue and expenditure. The root causes of these qualifications are a lack of understanding of the required accounting practices by the finance staff, inadequate or inappropriate human resource appointment processes, a lack of oversight and a lack of day-to-day monitoring and supervision by the leadership of this entity.

The leadership of the entity should develop and implement an action plan, in conjunction with the Department of Sports, Arts and Culture and the Provincial Treasury, which focuses on building financial capacity and accounting skills and strengthening this entity's governance structures (particularly the internal audit function and audit committee).

Qualified opinions

The Eastern Cape Appropriate Technologies Unit was qualified on current assets, capital assets and liabilities. Although its outcome improved from a disclaimer, it is still challenged in terms of its ability to prepare quality financial statements in accordance with GRAP/GAAP and a lack of involvement in the audit by the administrative leadership.

The Eastern Cape Gambling Board was qualified on an undercollection of gaming revenue. The root causes of this finding were weaknesses in controls over revenue and instability of the administrative leadership (both the CEO and CFO were acting during the year). It is recommended that the controls over revenue be improved and that the administrative leadership be permanently appointed as a matter of urgency.

SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

Emphasis of matters

Regulatory audits emphasise matters that do not directly impact on the audit opinion, but are nevertheless important for the reader of the financial statements to take note of. These matters are presented in this report, firstly, for the provincial legislature, secondly, for provincial departments and thirdly, for provincial entities under the following headings, where applicable:

- ☐ Unauthorised expenditure incurred
- ☐ Fruitless and wasteful expenditure incurred
- ☐ Irregular expenditure incurred
- ☐ Material underspending of budget
- ☐ Financial sustainability
- ☐ Material losses/impairments

Other matters

Regulatory audits further disclosed other matters that do not directly impact on the audit opinion. These matters are presented in this report, firstly, for the provincial legislature, secondly, for provincial departments and thirdly, for provincial entities under the following headings, where applicable:

- ☐ Non-compliance with applicable legislation
- ☐ Misstatements in financial statements corrected as a result of the audit

6.1 Provincial legislature

6.1.1 Emphasis of matters: provincial legislature

The incidence of irregular expenditure is included below:

6.1.1.1 Irregular expenditure incurred

Irregular expenditure totalling R570 000 (2008: R nil) was reported in the financial statements of the provincial legislature. This expenditure was the result of non-compliance with the supply chain management prescripts and was condoned by the accounting officer during the year under review. The above irregular expenditure was due to inappropriate organisational structures, inappropriate oversight and monitoring by the administrative leadership, and deficiencies in the design and application of control activities.

The leadership of the provincial legislature should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The correct tone of leadership, including that displayed by the executive, oversight committees of the legislature and those charged with administration, together with the support of the audit committee and the internal audit units, is required to develop this culture.

6.1.2 Other matters: provincial legislature

The incidence of some of the other (non-financial) matters disclosed by the regulatory audit is included in the paragraph below.

6.1.2.1 Misstatements in financial statements corrected as a result of the audit

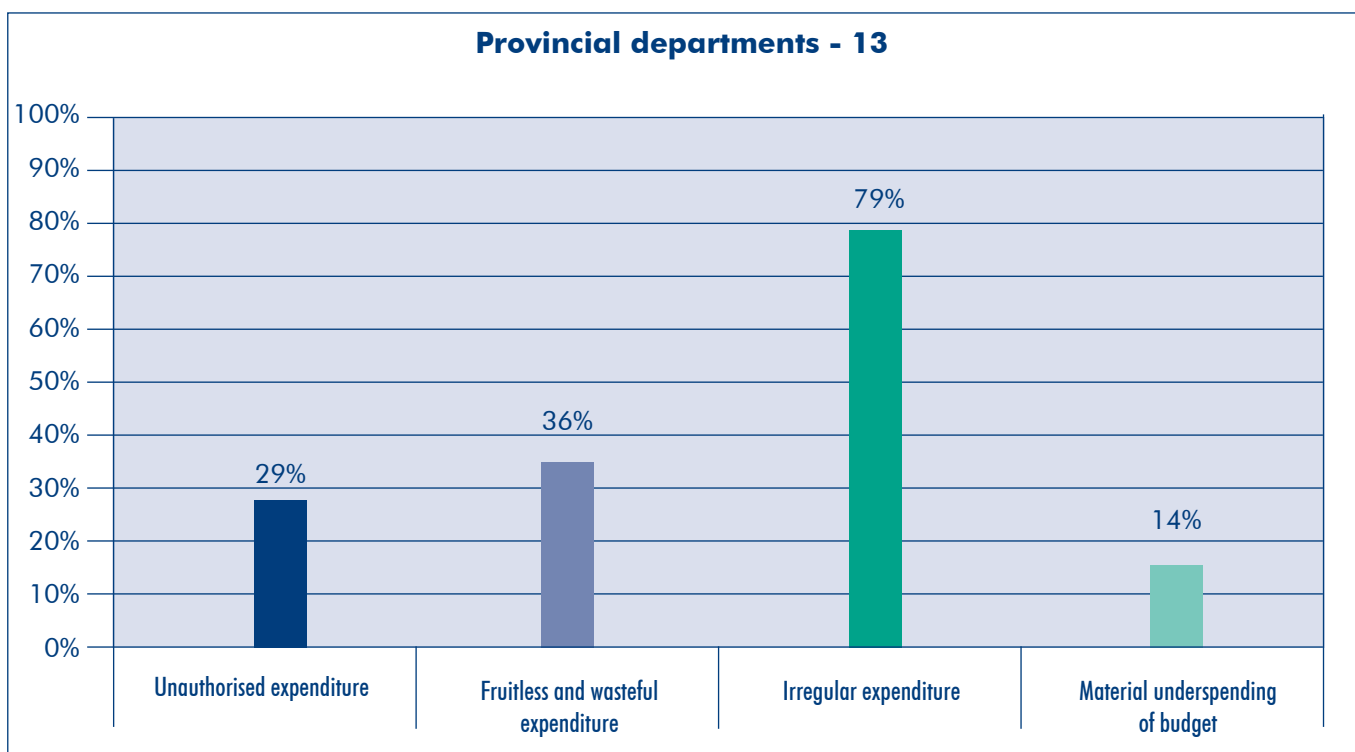
The financial statements of the provincial legislature required material adjustments to correct errors, omissions and inconsistencies that were identified by the auditors. These material corrections could have been avoided had management and the audit committee adequately reviewed the financial statements. The provincial legislature should improve the monitoring and supervisory controls applied to the preparation of the financial statements. The preparation of detailed interim financial statements, together with reviews by the audit committee and internal audit, should reduce the need for material adjustments resulting from the audit.

6.2 Provincial departments

6.2.1 Emphasis of matters: provincial departments

The incidence of some financial matters revealed by regulatory audits is depicted in figure 3(a) below. Details of these and other matters are provided in the paragraphs that follow.

Figure 3(a): Incidence of emphasis of matters – provincial departments



6.2.1.1 Unauthorised expenditure incurred

Unauthorised expenditure totalling R135,7 million was reported in the financial statements of four departments (Agriculture: R47 million, Housing: R59 million, Local Government and Traditional Affairs: R26,8 million, and Sport, Recreation, Arts and Culture: R2,9 million). This was the result of inadequate monitoring by the administrative leadership of these departments.

6.2.1.2 Fruitless and wasteful expenditure incurred

Audits revealed instances of fruitless and wasteful expenditure having been incurred, amounting to R87,8 million for the year (2008: R4,9 million). These included the following:

- Interest of R77,7 million incurred on delayed supplier payments
- Value-added tax (VAT) of R10 million paid to suppliers who were not registered VAT vendors

The departments who incurred this expenditure were Education, Health, Housing, Roads and Transport, Safety and Liaison, and Public Works.

This expenditure was the result of deficiencies in the design and application of control activities within these departments and the lack of adequate monitoring and supervision by the administrative leadership.

6.2.1.3 Irregular expenditure incurred

Irregular expenditure totalling R2 952 million (2008: R1 017 million) was reported in the financial statements and audit reports of 11 of the 13 provincial departments. No irregular expenditure was incurred by the Office of the Premier and the Provincial Treasury. Identified instances of irregular expenditure incurred included the following:

- Irregular expenditure totalling R2 379 million was attributable to non-compliance with supply chain management prescripts. The affected departments included Education (R1 500 million), Health (R730 million), Roads and Transport (R90 million), Public Works (R18 million), and Social Development (R41 million).
- Overspending on employee compensation of R272 million in contravention of the PFMA and Treasury Regulations. The departments who overspent on employee compensation included Health (R213 million), Local Government and Traditional Affairs (R6 million), Agriculture (R19 million), Housing (R12 million), and Sport, Recreation, Arts and Culture (R22 million).
- Expenditure of R301 million was approved by an official at Economic Development and Environmental Affairs who did not have the delegated authority to do so.
- Capital expenditure budgets used by Roads and Transport to finance current expenditure of R23,7 million in contravention of the PFMA and Treasury Regulations.

The accounting officers of three departments (Public Works, Roads and Transport, and Social Development) condoned irregular expenditure totalling R90,6 million for the year, which arose as a result of non-compliance with the supply chain management prescripts.

The level of non-compliance with the supply chain management prescripts and the resultant irregular expenditure are indicative of potential fraud risks in the procurement processes of the affected departments.

The above irregular expenditure was due to inappropriate organisational structures, inappropriate oversight and monitoring by the administrative leadership, and deficiencies in the design and application of control activities.

The leadership of all departments should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The preparation of regular management accounts and the correct tone of leadership, including that displayed by the executive, oversight committees of the legislature and those charged with administration, together with the support of the audit committee and the internal audit units, are required to develop this culture.

6.2.1.4 Material underspending of budget

The Provincial Treasury (financially unqualified with other matters) and the Department of Social Development (financially unqualified with other matters) materially underspent their budgets. At year-end, the underspending amounted to R20,2 million and R77 million, respectively. Satisfactory explanations for such underspending were not provided. This underspending related to employee compensation, goods and services, and capital expenditure.

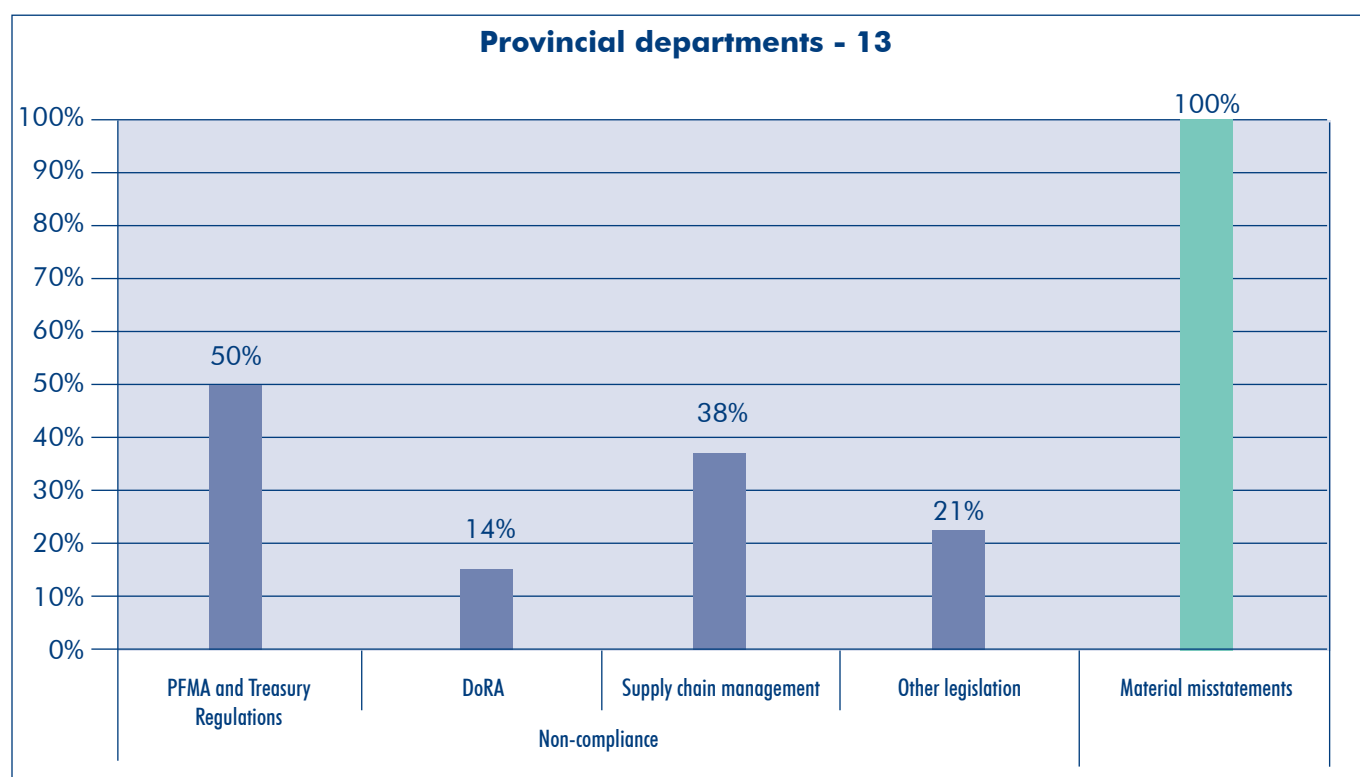
The impact of this underspending is as follows:

- Objectives not achieved
- Set levels of outputs not achieved
- Projects and programmes significantly behind set milestones to completion
- Delays in implementation

This underspending was due to a lack of monitoring and supervision by the administrative leadership, audit committees and oversight committees. The in-year monitoring tool should be used by the leadership of these departments to identify underspending and take corrective actions.

6.2.2 Other matters: provincial departments

The incidence of some of the other matters disclosed by regulatory audits is depicted in figure 3(b) below. Details of these and other matters are provided in the paragraphs that follow.

Figure 3(b): Incidence of other matters: provincial departments

6.2.2.1 Non-compliance with applicable legislation

Material non-compliance with laws and regulations not affecting the financial statements was reported at eight (62%) provincial departments. The most significant portion thereof (50%) related to non-compliance with the PFMA and Treasury Regulations, and was reported at Agriculture, Education, Health, Local Government and Traditional Affairs, Public Works, Safety and Liaison, and Sport, Recreation, Arts and Culture. Fifty-six per cent of the PFMA non-compliance reported at departments related to payments of suppliers that were delayed beyond the 30-day period.

Non-compliance with the supply chain management prescripts occurred at 38% of departments (Education, Health, Public Works, Roads and Transport, and Social Development). Non-compliance with the Division of Revenue Act was identified at Health and Housing. Other non-compliance relating to the Borrowing Powers of Provincial Government Act, Income Tax Act and the Public Service Act was reported at Education, Local Government and Traditional Affairs, and Safety and Liaison.

The DoRA non-compliance related to the failure to report on the conditional grant allocations as required by sections 11(5) and 12(1) and the failure to retain evidence that the grants were spent in accordance with the approved business plans as required by section 24(1).

Details of the other non-compliance are as follows:

- Education did not obtain written approval from a member of the executive council for the use of overdraft facilities as prescribed by the Borrowing Powers of Provincial Government Act.

- Certain members of Safety and Security's senior management did not declare their financial interests as required by section 3(2) of the Public Service Act, 1994 (Proclamation No. 103 of 1994), read in conjunction with chapter 3 of the Public Service Regulations.
- Safety and Security did not submit all its EMP201 forms within the deadlines prescribed by the Income Tax Act.
- Local Government and Traditional Affairs paid 2% of the annual remuneration budget as performance awards, in contravention of the DPSA circular that stipulates that performance awards should not exceed 1,5%.

Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and senior managers) contributed to the negative findings in this area. 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.

6.2.2.2 Misstatements in financial statements corrected as a result of the audit

The quality of the financial statements received was poor. All the provincial departments required material adjustments to their financial statements to correct errors, omissions and inconsistencies that were identified by the auditors. This was a result of the lack of understanding of the accounting requirements by finance unit personnel, lack of supervision and review of the preparation of the financial statements and the lack of a system to generate the accrual-based disclosures.

These material corrections could have been avoided by the entities had the chief financial officers and the audit committee adequately reviewed the financial statements.

Sixty per cent of all material corrections related to the disclosure notes, while 20% of the misstatements related to the statement of financial performance (income statement) and 20% to the statement of financial position (balance sheet). The disclosure notes requiring the most audit adjustments included irregular, fruitless and wasteful expenditure, immovable assets and contingent liabilities.

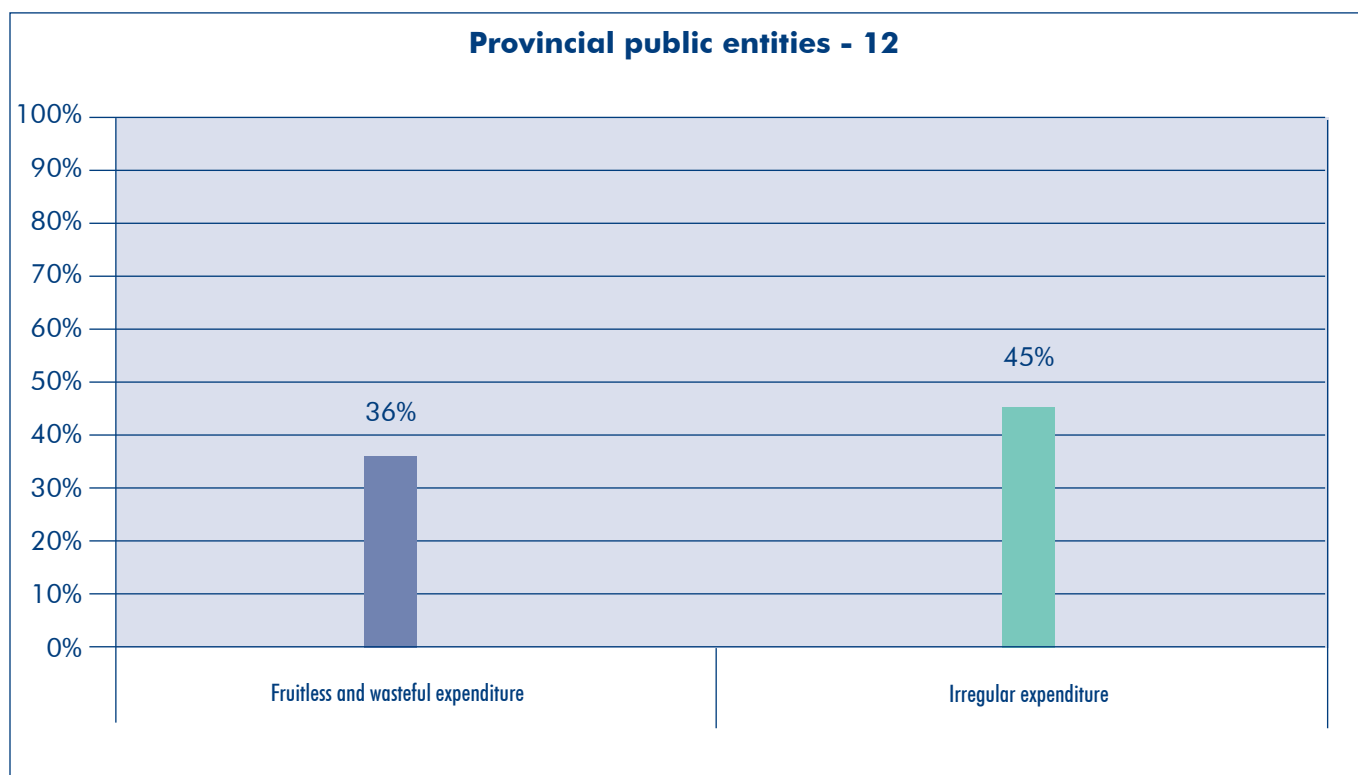
All departments should improve the monitoring and supervisory controls applied to the preparation of the financial statements. The preparation of detailed monthly financial statements, together with reviews by the audit committees and internal audit, should reduce the need for material adjustments resulting from the audit.

6.3 Provincial entities

6.3.1 Emphasis of matters: provincial entities

The incidence of some of the matters emphasised by regulatory audits is depicted in figure 4(a) below. Details of these are provided in the paragraphs that follow.

Figure 4(a): Incidence of emphasis of matters – provincial entities



6.3.1.1 Fruitless and wasteful expenditure incurred

Audits revealed instances of fruitless and wasteful expenditure amounting to R418 262 for the year (2008: R714 674). These included the following:

- Interest and penalties on the late payment of pay-as-you-earn (PAYE) of R101 094. This was applicable to the Accelerated Shared Growth Initiative of South Africa.
- Interest of R251 426 paid on outstanding accounts. This was applicable to the Eastern Cape Youth Commission and Mayibuye Transport Corporation.
- Rent of R65 742 paid to a director of the Eastern Cape Rural Finance Corporation for premises that were never occupied.

Fruitless and wasteful expenditure of R168 081 relating to the year under review was subsequently condoned by the relevant accounting authorities (boards of directors).

This expenditure was the result of deficiencies in the design and application of control activities within these entities and the lack of adequate monitoring and supervision by the administrative leadership.

6.3.1.2 Irregular expenditure incurred

Irregular expenditure totalling R47 million (2008: R48 million) was reported in the financial statements and audit reports of six (Eastern Cape Appropriate Technologies Unit, Eastern Cape Gambling and Betting Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Youth Commission, and Mayibuye Transport Corporation) of the 12 provincial entities. Identified instances of irregular expenditure incurred include the following:

- Non-compliance with the supply chain management prescripts. Irregular expenditure of R25,6 million was attributable to this non-compliance.
- Irregular appointment of personnel to the value of R6,5 million
- Irregular awarding of loans to the value of R6,8 million
- Irregular disbursements from administrative funds to the value of R8,1 million

The accounting authorities (boards of directors) of the Eastern Cape Liquor Board, Eastern Cape Rural Finance Corporation and Eastern Cape Tourism Board condoned irregular expenditure totalling R8,2 million during the year, which arose as a result of the non-compliance with the supply chain management prescripts.

The level of non-compliance with the supply chain management prescripts and internal policies and the resultant irregular expenditure are indicative of potential fraud risks in the procurement, employment and loan awarding processes of the affected provincial entities.

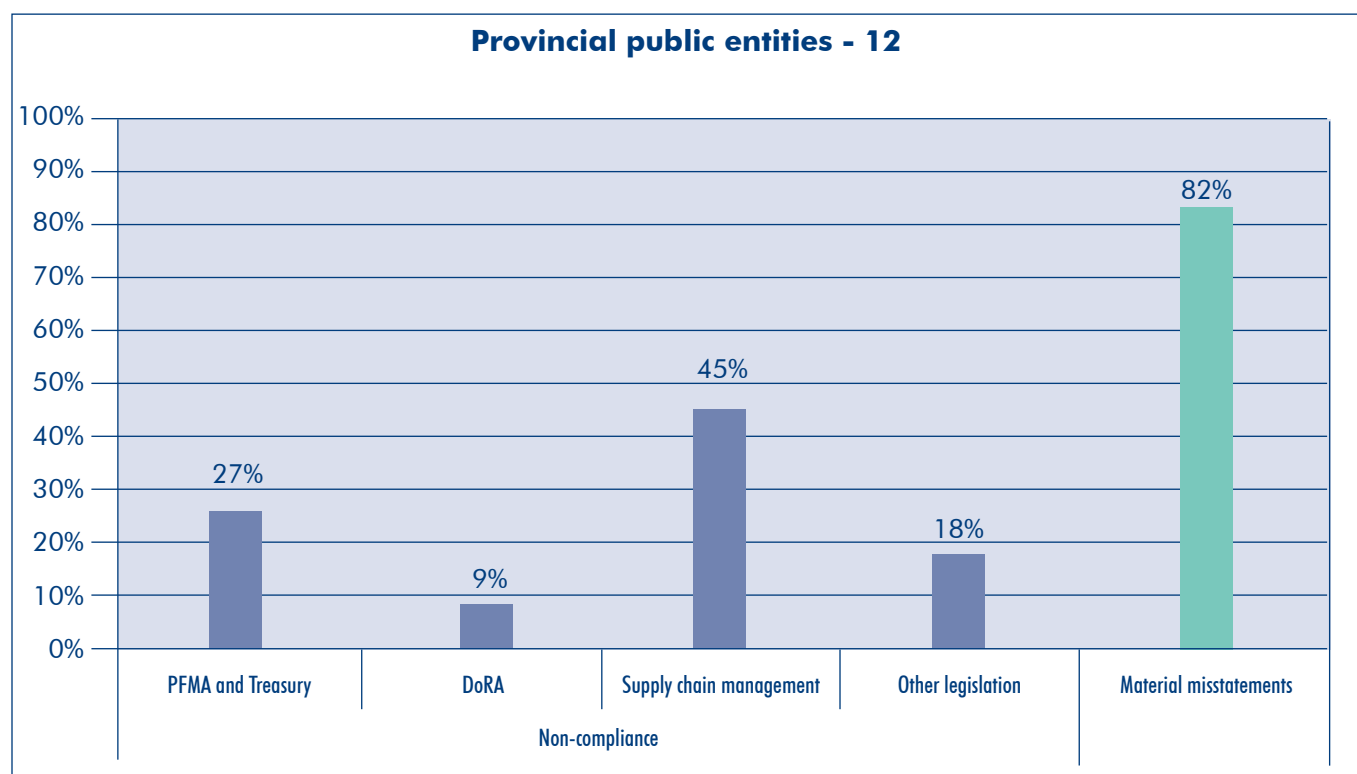
The above irregular expenditure is due to inappropriate organisational structures, inappropriate oversight and monitoring by the administrative leadership, and deficiencies in the design and application of control activities.

The political and administrative leadership, together with the mother departments of all public entities, should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The correct tone of leadership, including that displayed by the executive, oversight committees of the legislature, the accounting authorities and those charged with administration, together with the support of the audit committee and the internal audit units, is required to develop this culture.

6.3.2 Other matters: provincial entities

The incidence of some of the other matters revealed by regulatory audits is depicted in figure 4(b) below. Details of these and other matters are provided in the paragraphs that follow.

Figure 4(b): Incidence of other matters – provincial entities



6.3.2.1 Non-compliance with applicable legislation

Material non-compliance with laws and regulations not affecting the financial statements was reported at nine of the provincial entities. Six (50%) provincial entities (Eastern Cape Appropriate Technologies Unit, Eastern Cape Gambling and Betting Board, Eastern Cape Rural Finance Corporation, Eastern Cape Tourism Board, Eastern Cape Youth Commission, and Mayibuye Transport Corporation) did not comply with the supply chain management prescripts and this was reflected in the amount of irregular expenditure disclosed by these entities.

Other non-compliance with PFMA and Treasury Regulations was reported at 27% of the provincial entities (Eastern Cape Provincial Arts and Culture Council (ECPACC), Eastern Cape Socio-Economic Consultative Council (ECSECC), and Eastern Cape Youth Commission). Details are as follows:

The members of the accounting authority of ECPACC did not declare their interests in private companies as required by section 50(3) of the PFMA.

Bank reconciliations at ECSECC were not performed as prescribed by Treasury Regulation 31.

The Youth Commission made use of overdraft facilities without obtaining the permission prescribed by section 66(1) of the PFMA.

Non-compliance with other enabling legislation was reported at the Accelerated Shared Growth Initiative of South Africa (ASGISA) and Eastern Cape Gambling and Betting Board (ECGBB). Details are as follows:

ASGISA did not register for withholding taxes as prescribed by the Income Tax Act and the failure to lodge changes in directorship, auditors and head office with the registrar of companies as prescribed by the Companies Act.

ECGBB did not maintain a register of persons to whom licences for gaming activities had been issued as prescribed by section 18(5) of the Eastern Cape Gambling and Betting Act.

Inadequate supervision and monitoring by the leadership (chief executive officers, chief financial officers and senior managers) contributed to the negative findings in this area. 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.

6.3.2.2 Misstatements in financial statements corrected as a result of the audit

Nine provincial entities (Accelerated Shared Growth Initiative of South Africa, Eastern Cape Gambling and Betting Board, Eastern Cape Parks Board, Eastern Cape Provincial Arts and Culture Council, Eastern Cape Rural Finance Corporation, Eastern Cape Socio Economic Cooperative Council, Eastern Cape Tourism Board, Eastern Cape Youth Commission, and Mayibuye Transport Corporation) required material adjustments to their financial statements to correct errors, omissions and inconsistencies that were identified by the auditors.

On average, nine material misstatements were corrected at each public entity. These material misstatements were evenly spread between the statement of financial position, statement of performance and disclosure notes.

These findings related to entities' inability to prepare financial statements of a high quality that would not only comply with the applicable legislation and accounting framework, but would enable the Auditor-General to express a financially unqualified audit opinion.

This was a result of the lack of understanding of the accounting requirements by finance unit personnel and lack of supervision and review over the preparation of the financial statements. These material corrections could have been avoided by the entities had the chief financial officers and the audit committee adequately reviewed the financial statements.

It is recommended that entities should work closely with their mother departments to:

- develop a strategy that has the overall aim to improve financial management controls in order to produce accurate financial statements
- improve the effectiveness of the consultants used to prepare a set of financial statements
- coordinate the best practices existing in entities that received unqualified audit opinions and use this opportunity for knowledge sharing
- ensure the preparation of accurate management accounts supported by appropriate schedules and key account reconciliations on a monthly basis
- ensure review by the audit committee and internal audit of the monthly management accounts
- ensure staff are capacitated and trained in the preparation of financial statements in accordance with the relevant accounting framework.

SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

• Information systems

Information systems have become an integral part of organisations. Information systems enable organisations to perform financial management processes, automate business processes, improve efficiencies and deliver services. Information systems are therefore regarded as a strategic asset in the achievement of the organisational goals and objectives.

• Information system controls

Information system controls are a part of the internal control environment. Weak information system controls may contribute to financial management weaknesses, inaccurate accounting and performance information, poor performance of the entity, fruitless and wasteful expenditure, and non-compliance with laws and regulations. Without effective information system controls, other internal controls may also be rendered ineffective by override, circumvention or modification.

• Information system audits

The objective of information system audits is to evaluate the effectiveness of the information system controls of an organisation. During the year under review, user account management audits were performed at the provincial legislature and 13 provincial departments.

• User account management

User account management is the systematic process of managing the access of users to the network, systems and applications, and includes the establishment, review, disabling and removal of user accounts. The following table indicates the common key findings identified throughout those audits performed:

Findings	Number of departments	Number of departments with findings	Provincial legislature	% of audited departments with findings	Provincial legislature
Lack of, incomplete or non-adherence to user account management procedures	14	12	1	93%	100%
Access request forms not completed or inconsistently completed	14	8	1	71%	100%
Users' access not periodically reviewed to ensure that such access remained commensurate with their job responsibilities	14	12	1	100%	100%

Findings	Number of departments	Number of departments with findings	Provincial legislature	% of audited departments with findings	Provincial legislature
Activities of the system administrators/controllers were not reviewed by an independent person	14	13	1	100%	100%
Inactive or unused user IDs were not timeously removed from the system or deactivated	14	7	1	57%	100%
Password reset forms not complete or inconsistently completed	14	3	1	29%	100%
Lack of segregation of duties between system controller and user functions	14	1	1	14%	100%
Excessive access rights assigned to either some or a high number of users	14	4	1	29%	100%
Total number of findings	14	60	8	54%	100%
Departments with findings in all eight areas audited	14	7	1	54%	100%

Findings in all eight access control areas tested were reported at the provincial legislature and at 54% of provincial departments. These findings are recurring, partly due to the expectation that a new system (IFMS) will be implemented and the lack of priority afforded by governance arrangements to information system issues.

SECTION 8: 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.

In addition to the findings from the audit, the statistics and information published in the annual reports of the departments as required in terms of chapter 1, part III, J3 of the PSR were analysed.

The findings are presented under the following headings:

- 8.1 Human resource planning (and work organisation)
- 8.2 Management of vacancies
- 8.3 Appointment processes
- 8.4 Prolonged acting by officials in higher posts
- 8.5 Use of consultants
- 8.6 Suspensions
- 8.7 Leave administration
- 8.8 Budgetary control
- 8.9 Management of overtime
- 8.10 Payroll certification
- 8.11 Service terminations
- 8.12 Overall conclusion

8.1 Human resource planning (and work organisation)

Human resource (HR) planning is required by the PSR, chapter 1, part III, D1 to ensure that a department obtains the quantity and quality of staff required to meet its strategic objectives. It is of concern that Public Works, Roads and Transport, and Safety and Liaison did not have an HR plan that had been approved by their MECs.

8.2 Management of vacancies

Based on the annual reports, the vacancy rate across all departments averaged 24%; the lowest rate being the Department of Sport, Recreation, Arts and Culture at 4% and the highest being the Department of Safety and Liaison at 79%. Twenty-six per cent of the positions for senior managers and highly skilled staff were vacant.

In all departments the vacancy rates had improved from the previous year.

PSR, chapter 1, part VII, C.1A came into effect from February 2008 to regulate the time frames for filling funded vacant positions. The regulation states that funded vacant positions shall be advertised within six months after becoming vacant and be filled 12 months after becoming vacant. Economic Development and Environmental Affairs, Health and the Office of the Premier did not comply with this regulation.



8.3 Appointment processes

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

A directive was issued by the MPSA with effect from 1 January 2008 that determined a process whereby criminal and financial/asset records should be checked and verifications should be done of citizenship, financial state, qualifications and previous employment for all new appointments.

It is of concern that this process was not effectively implemented at Agriculture, Economic Development and Environmental Affairs, Education, Health, Public Works, Roads and Transport, Safety and Liaison, and Sport, Recreation, Arts and Culture.

Although required by PSR, chapter 1, part VII, B1(a), the following departments did not ensure that upon appointment each employee was provided with a written contract of employment, which included the terms and conditions of his/her service: Economic Development and Environmental Affairs, Education, Health, Public Works, Roads and Transport, and Safety and Liaison.

At Education and Health appointments were made in the period, but the posts were not advertised as required by PSR, chapter 1, part VII, C2 to ensure that the most suitable candidate was appointed.

8.4 Prolonged 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, chapter 1, part VII, B5.4, however, restricts the acting period to 12 months to ensure that the permanent appointment of a suitably qualified and experienced person is not delayed. The DPSA's determination on acting allowances for the senior management service (SMS) further restricts the period for acting in an SMS position to six months unless prior approval is obtained from the minister/MEC.

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at the Department of Sport, Recreation, Arts and Culture where employees received acting allowances for more than 12 months.

Instances were found at the Department of Education where SMS members received acting allowances for more than six months without the necessary prior approval.

8.5 Use of consultants

Consultants can be engaged if the necessary skills and/or resources to perform a specific project are not available and the department cannot be reasonably expected either to train or to recruit people in the time available. Based on the annual reports, consultants were employed at 29% of the departments. The total number of consultants appointed using appropriated funds was 107 at a total contract value of R160 million.

Departments should assess whether the appointment of consultants is the most economical way of addressing departmental needs, also taking into account the need for continuity and sustainability of the function the consultant is engaged to perform. If the function is provided for on the establishment of the department, consultants should not be used either as a result of a lack of productivity or capacity of existing staff or as a result of ineffective processes to appoint or recruit suitable permanent staff.



The use of consultants by government departments was identified as a transversal performance audit area for the 2009-10 financial year.

8.6 Suspensions

Based on the annual reports, 57 employees had been suspended across eight departments. The average number of days on suspension was 195, with 98% of the employees being suspended for more than 30 days. The total cost of the suspensions was estimated to be R6,4 million.

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

8.7 Leave administration

Annual leave

PSR, chapter 1, part V, F(b) requires heads of departments to record all leave taken by an employee accurately and in full. The following departments did not consistently comply with this regulation, resulting in the employees' leave credits being overstated: Department of Economic Development and Environmental Affairs, Department of Education, Department of Health, Office of the Premier, Department of Roads and Transport, and Department of Sport, Recreation, Arts and Culture.

The risk of such overstatement is that employees might be granted leave or receive leave payouts they are not entitled to. According to the annual reports of the said departments, leave payouts were made to the amount of R32,631 million in the period. The cause of this poor leave administration is inadequate manual controls to ensure that all leave taken is recorded and that the payroll system is updated timeously.

Capped leave

In July 2000 leave entitlement was changed from calendar days to working days. Employees retained the leave credits accrued prior to July 2000 provided the credits were audited by the department. This audit resulted in negative capped leave balances for a number of employees, as more leave had been taken than the employee was entitled to. In terms of the DPSA determination on leave, the leave should then have been deducted from the subsequent leave cycle. After a period of up to eight years, the following departments had not done so, generally being reluctant to address such a controversial matter with affected employees:

- Department of Economic Development and Environmental Affairs – the monetary value as disclosed in the financial statements is R115 000.
- Department of Education – the monetary value as disclosed in the financial statements is R9,9 million.
- Department of Health – the monetary value is not disclosed in the financial statements.

Family responsibility leave

Employees are granted family responsibility leave of up to five days in an annual leave cycle unless special circumstances warrant further leave at the discretion of the head of the department. Instances of more

than five days' family responsibility leave being granted without the necessary approval were found at Education and Public Works, which can be an indication of inadequate control over the granting of this privilege.

Leave payouts

Leave is paid out to employees in special circumstances and at termination of their service. The calculation is done manually based on the formulas determined by the DPSA. At Education and Health, instances were found where the calculations had been done incorrectly, which can be an indication that officials could not apply the formulas correctly and were not appropriately supervised and reviewed.

Special leave policy

At the following departments an approved special leave policy was not in place, which defined the circumstances, conditions and events under which special leave is granted: Office of the Premier, Public Works, Safety and Liaison, and Sport, Recreation, Arts and Culture.

8.8 Budgetary control

Treasury Regulation 8.3.2 requires that all costs related to compensation of employees, including promotions and salary increases, should be met within the budgetary allocation of the institution. Any additional budget must be approved by the relevant treasury.

The following departments overspent on their compensation budgets, resulting in irregular expenditure: Agriculture (R18,6 million), Health (R213 million), Local Government and Traditional Affairs (R6,5 million), and Sport, Recreation, Arts and Culture (R21,7 million).

Overspending on the budgets for compensation of employees generally arose as such budgets were based on filled posts and not planned posts.

8.9 Management of overtime

PSR, chapter 1, part V, D2 determines the circumstances under which employees may be compensated for overtime worked.

Overtime policy

Economic Development and Environmental Affairs, Public Works, Roads and Transport, and Sport, Recreation, Arts and Culture did not have a written policy on overtime.

Authorisation of overtime

Education, Health, Public Works, and Safety and Liaison did not consistently provide written authorisations in advance for overtime work.

Limit on overtime

At the following departments the monthly compensation for overtime was not limited to less than 30% of the employee's monthly salary and no exceptional circumstances existed: Education, Health, Public Works, Safety and Liaison, and Sport, Recreation, Arts and Culture.



Overtime payments

At the following departments instances were found where overtime payments were calculated incorrectly, which can be an indication that officials could not apply the formulas correctly and were not appropriately supervised and reviewed: Education, Health, Social Development, and Sport, Recreation, Arts and Culture.

The above non-compliance is due to the lack of monitoring and supervision by the administrative leadership and audit committees assisted by internal audit at the affected departments.

8.10 Payroll certification

The certification of the payroll on a monthly basis is required by Treasury Regulations 8.3.4 and 8.3.5 as a control to ensure that there are no ghost employees on the payroll, that employees are entitled to the payment made, and that employees are allocated to the correct pay point.

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

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted	Employees did not have valid identity document numbers
Agriculture	x	x	x	x	
Economic Development and Environmental Affairs		x	x	x	x
Education	x	x	x		x
Health	x	x	x		
Local Government and Traditional Affairs		x	x		
Office of the Premier		x		x	
Sport, Recreation, Arts and Culture		x			x

The above non-compliance is due to the lack of monitoring and supervision by the administrative leadership and audit committees assisted by internal audit at the affected departments.

8.11 Service terminations

Employees whose services were terminated were not timeously removed from the payroll at the following departments, resulting in overpayments: Agriculture, Economic Development and Environmental Affairs, Education, Health, Local Government and Traditional Affairs, Office of the Premier, and Public Works.

Furthermore, at the following departments overpayments were not always correctly calculated and/or recovered or reclassified as debt by year-end: Economic Development and Environmental Affairs, Education, Health, Local Government and Traditional Affairs, and Public Works.

The reason for the findings was generally that service termination processes and controls were either not implemented or not operating effectively.

8.12 Overall conclusion

In general, the level of the provincial departmental compliance with the PSR is unsatisfactory. The province faces the following major challenges in terms of becoming satisfactorily compliant with the regulations:

- Shortage of staff members who are sufficiently versed in the requirements of the regulations
- Translation of these regulations into compliant and relevant policy documents and procedure manuals
- Effective communication of these to departmental employees
- Consistent monitoring of compliance with these documents by management and timeous correction of instances of non-compliance

SECTION 9: AUDIT OF PERFORMANCE INFORMATION

9.1 Introduction

This section of the 2008-09 general report provides details of the results of the AGSA's audits of performance information at the provincial legislature, provincial departments, provincial entities and provincial other entities under the following headings:

- The AGSA statutory responsibilities relating to the audit of performance information
- Key findings arising from the audit of performance information of provincial departments and entities
- Internal control deficiencies that require attention to ensure compliance with legislative requirements and/or criteria for published performance information

9.2 The AGSA's statutory responsibilities relating to the audit of performance information

In terms of section 13 of the PAA and based on the results of a readiness assessment of audited entities during November 2008, the AGSA decided to provide reasonable assurance in the form of an audit conclusion on the reporting of performance against predetermined objectives at the following categories of audited entities:

- National and provincial departments, constitutional institutions and trading entities
- National and provincial entities
- Municipal metropolitan councils and the related municipal entities

For the above categories of audited entities, a separate audit conclusion will be included in the auditor's reports with effect from the 2010-11 financial year. Audit conclusions in this regard will be reached as part of the financial auditing process in terms of the International Standards on Assurance Engagements (ISAE) 3000: Assurance engagements other than audits or reviews of historical financial information.

This approach will also be followed for the 2009-10 audit cycles, with only one exception. While all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their entities, these opinions will not yet be lifted to the level of the individual audit reports. Instead, a reflection on the entities' performance information, should an opinion have been expressed, will be contained at management report level. An opinion will thus be prepared, but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

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

The AGSA recognises the following as sources of criteria against which the subject matter will be evaluated as a basis for the audit conclusions:

- All relevant laws and regulations
- Framework for the managing of programme performance information, issued by the National Treasury
- Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information



In terms of section 13 of the PAA the AG has adopted a phasing-in approach to adherence to sections 20 and 28 of the PAA, until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion, at municipalities and municipal entities other than those listed above.

The phasing-in approach to the auditing of performance information for the municipalities and municipal entities referred to above, will constitute a review of the policies, systems, processes and procedures for the managing of and reporting on performance against predetermined objectives.

9.3 Key findings arising from the 2008-09 audit of performance information of the provincial legislature, provincial departments, provincial entities and provincial other entities

Broad areas examined, as set out in the table below, were as follows:

Compliance with regulatory requirements – the scope of audit work and audit findings related to compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, review and reporting of performance information.

Usefulness of reported information – audit work focused on the consistency, relevance and measurability of planned and reported performance information.

Reliability of reported performance information – audit work focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information is accurate and complete in relation to the source data, evidence or documentation.

Deficiencies in internal control that caused these findings are analysed in the paragraphs that follow.

Table 3: Key audit findings arising from the auditing of performance information

No	Main findings	Percentage of institutions with findings				
		Provincial departments	Provincial entities	Provincial other entities	Provincial legislature	Total
1	Non-compliance with regulatory requirements	77%	75%	0%	0%	73%
2	Usefulness of reported performance information	54%	42%	0%	0%	46%
3	Reported performance information not reliable	77%	50%	0%	0%	62%
4	Performance information not received in time for audit purposes	0%	0%	0%	0%	0%

Causes of deficiencies in performance information reporting

Identified root causes and the prevalence of deficiencies in the reporting of performance information are the following:

1. Non-compliance with regulatory requirements

- Processes for the development of objectives, targets and performance measures were not adequate. This occurred at 77% of departments and 75% of the public entities. Findings relating to the non-reporting of performance information, the inadequate crafting of measurable objectives and targets included in the strategic plan, the non-approval of the strategic plans, inconsistent reporting on objectives contained in the strategic plan and the lack of efficient, effective and transparent systems of control over performance information have been grouped together in this finding.

2. Usefulness of performance information

- The quality of performance indicators/targets was inadequate in 46% of the annual reports subjected to review. This is due to a lack of understanding of the requirements of performance reporting and a lack of appropriate capacity and skills.

3. Reported performance information not reliable

- Lack of effective, efficient and transparent systems and internal controls over performance information reporting was identified at 61% of departments and public entities, as the collection and collation of, and reporting on, performance were not integrated into the operations and information systems of departments and public entities.

The provincial legislature, Office of the Premier and Provincial Treasury had no findings in any of the above categories. The Eastern Cape Development Corporation, Youth Commission and Mayibuye Transport Corporation also had no findings on performance information.

The reporting of credible and accurate performance information should become a focus area of the political and administrative leadership of the province. The following urgent actions should be undertaken:

1. Continued interaction between the AGSA, the National Treasury and all departments and entities should be a focus area in order to adequately address the shortcomings in preparation for a future opinion on performance information.
2. Internal audit should focus on the requirements of AoPI and provide the necessary assurance to the departments and entities.
3. Capacity building, including the training of relevant officials
4. Integration of performance information into the operations of departments and public entities, including the development and implementation of appropriate information systems
5. Regular reporting and monitoring of performance information by the accounting officers, audit committees supported by internal audit, legislative committees and the executive

9.4 Interactions on AoPI over the past 12 months

Continued interaction between the AGSA, the National Treasury and all departments and entities should be a focus area in order to adequately address the shortcomings in preparation for a future opinion on performance information. Internal audit should focus on the requirements of AoPI and provide the necessary assurance to the departments and entities.

9.5 The following departments and entities had no findings on AoPI

Departments: Office of the Premier and Public Works

Entities: Eastern Cape Development Corporation, Eastern Cape Youth Commission and Mayibuye Transport Corporation

SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

In terms of sections 8 and 19 of the PFMA, the National Treasury and the Provincial Treasury, respectively, are required to prepare consolidated financial statements in accordance with Generally Recognised Accounting Practice for each financial year in respect of departments and/or constitutional entities, public entities and other entities. The Auditor-General issues separate audit reports for consolidated departments and entities. Agreed-upon procedures are performed on the provincial consolidated financial statements and the consolidated national entities. An audit opinion is expressed on the consolidated national departments.

The status of the preparation of consolidated financial statements as at 31 July 2009 is reflected in table 4 below.

Table 4: Status of preparation of consolidated financial statements as at 31 July 2009

Region	2008-09		Revenue fund financial statements published 2008-09	2007-08		2006-07		2005-06	
	Consolidated financial statements received	Audit report issued		Consolidated financial statements received	Audit report issued	Consolidated financial statements received	Audit report issued	Consolidated financial statements received	Audit report issued
Eastern Cape	No	No	No	Yes	In progress	Yes	Yes	Yes	Yes

The consolidated financial statements for the year ended 31 March 2008 were only received on 31 July 2009 and as a result the audit of these financial statements is still in progress. The consolidated financial statements for the year ended 31 March 2009 had not been received at the date of this report. The late submission of the consolidation is due to a lack of monitoring and supervision at the Provincial Treasury.

SECTION 11: STATUS OF TABLING OF ANNUAL REPORTS

In accordance with section 65 of the PFMA, the executive authority responsible for a department must table in the provincial legislature the annual report and financial statements as well as the audit report on those statements, within one month of receipt of the audit report. All departments and provincial entities tabled their annual reports for the year ended 31 March 2009.

Table 5: Status of tabling of annual reports by executive authorities

No	Name (department/public/other entity)	Tabled (Y/N)	Date submitted to legislature	Date tabled in House	Reason for not tabled in House
1	Agriculture	Y	30-Sep-09	6-Oct-09	
2	Economic Development and Environmental Affairs	Y	30-Sep-09	6-Oct-09	
3	Education	Y	30-Sep-09	6-Oct-09	
4	Health	Y	30-Sep-09	6-Oct-09	
5	Housing	Y	2-Sep-09	6-Oct-09	
6	Local Government & Traditional Affairs	Y	30-Sep-09	6-Oct-09	
7	Office of the Premier	Y	30-Sep-09	6-Oct-09	
8	Provincial Legislature	Y	30-Sep-09	6-Oct-09	
9	Provincial Treasury	Y	29-Sep-09	6-Oct-09	
10	Public Works	Y	29-Sep-09	6-Oct-09	
11	Roads and Transport	Y	30-Sep-09	6-Oct-09	
12	Safety and Liaison	Y	29-Sep-09	6-Oct-09	
13	Social Development	Y	29-Sep-09	6-Oct-09	
14	Sport, Recreation, Arts and Culture	Y	30-Sep-09	6-Oct-09	
15	Accelerated Shared Growth Initiative of South Africa	Y	30-Sep-09	6-Oct-09	
16	Eastern Cape Rural Finance Corporation Limited	Y	30-Sep-09	6-Oct-09	
17	Eastern Cape Appropriate Technology Unit	Y	30-Sep-09	6-Oct-09	
18	Eastern Cape Development Corporation	Y	30-Sep-09	6-Oct-09	
19	Eastern Cape Gambling and Betting Board	Y	30-Sep-09	6-Oct-09	
20	Eastern Cape Liquor Board	Y	30-Sep-09	6-Oct-09	
21	Eastern Cape Parks Board	Y	30-Sep-09	6-Oct-09	
22	Eastern Cape Provincial Arts and Culture Council	Y	30-Sep-09	6-Oct-09	
23	Eastern Cape Socio-Economic Consultative Council	Y	30-Sep-09	6-Oct-09	



No	Name (department/public/other entity)	Tabled (Y/N)	Date submitted to legislature	Date tabled in House	Reason for not tabled in House
24	Eastern Cape Tourism Board	Y	30-Sep-09	6-Oct-09	
25	Eastern Cape Youth Commission	Y	30-Sep-09	6-Oct-09	
26	Mayibuye Transport Corporation	Y	30-Sep-09	6-Oct-09	

SECTION 12: STATUS REPORT ON PERFORMANCE AUDITS, INVESTIGATIONS AND SPECIAL AUDITS

Presented in this section of the report are the results of performance audits, investigations and special audits conducted by the AGSA.

12.1 Performance audits

A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness, and embraces:

- (a) auditing of economy in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost
- (b) auditing of the efficiency of utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them
- (c) auditing of the effectiveness of the performance of the audited entity in relation to achievement of the policy objectives, operational goals and other intended effects.

The expected dates of submission of performance audit reports are provided in the table below:

Table 6: Performance audits conducted and expected dates of tabling of reports

No	Name of entity	Report description	Expected date of tabling
1	Department of Health	Transversal performance audit on the infrastructure delivery process	November 2009
2	Department of Education	Transversal performance audit on the infrastructure delivery process	November 2009
3	Department of Agriculture	Transversal performance audit on the use of consultants	March 2010
4	Department of Roads and Transport	Transversal performance audit on the use of consultants	March 2010

12.2 Investigations conducted and special audits

The AGSA did not conduct investigations or special audits at the Eastern Cape Provincial Government during the year under review.



ANNEXURES TO GENERAL REPORT

The following annexures provide further details on matters contained in the provincial general report:

- Annexure 1:** 2008-09 audit outcomes
1a – Listing of departments'/entities' audit qualifications
1b – Listing of departments/entities with emphasis of matters and other matters
- Annexure 2:** Listing of departments and entities that registered improved/deteriorated audit outcomes
- Annexure 3:** Summaries of audit reports:
3.1 Provincial departments
3.2 Provincial entities
- Annexure 4:** Audit opinions for the past five years in alphabetical order

ANNEXURE 1(a): Listing of entities' audit opinions and qualifications

No	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
1	PPE	Accelerated Shared Growth Initiative of South Africa	Financially unqualified (with other matters)	Not applicable - first year of operation																
2	PD	Agriculture	Financially unqualified (with other matters)	Qualified																
3	PPE	Eastern Cape Appropriate Technology Unit	Qualified	Disclaimer																
4	PPE	Eastern Cape Development Corporation	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
5	PPE	Eastern Cape Gambling and Betting Board	Qualified	Financially unqualified (with other matters)																
6	PPE	Eastern Cape Liquor Board	Financially unqualified (with other matters)	Qualified																
7	PPE	Eastern Cape Parks Board	Financially unqualified (with other matters)	Qualified																
8	PPE	Eastern Cape Provincial Arts and Culture Council	Disclaimer	Qualified																

No	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
9	PPE	Eastern Cape Rural Finance Corporation (Uvimba)	Financially unqualified (with other matters)	Qualified																
10	PPE	Eastern Cape Socio-Economic Consultative Council	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
11	PPE	Eastern Cape Tourism Board	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
12	PPE	Eastern Cape Youth Commission	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
13	PD	Economic Development and Environmental Affairs	Qualified	Qualified																
14	PD	Education	Adverse	Adverse																
15	PD	Health	Adverse	Adverse																
16	PD	Housing	Financially unqualified (with other matters)	Not applicable - new department																
17	PD	Local Government and Traditional Affairs	Financially unqualified (with other matters)	Qualified																

No	Classification	Type of other entity	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
18	PPE	Mayibuye Transport Corporation		Financially unqualified (with other matters)	Qualified																
19	PD	Office of the Premier		Financially unqualified (with other matters)	Financially unqualified (with other matters)																
20	PL	Provincial Legislature		Financially unqualified (with other matters)	Financially unqualified (with other matters)																
21	PD	Provincial Treasury		Financially unqualified (with other matters)	Financially unqualified (with other matters)																
22	PD	Public Works		Qualified	Financially unqualified (with other matters)																
23	PD	Roads and Transport		Qualified	Qualified																
24	PD	Safety and Liaison		Financially unqualified (with other matters)	Financially unqualified (with other matters)																
25	PD	Social Development		Financially unqualified (with other matters)	Qualified																
26	PD	Sport, Recreation, Arts and Culture		Financially unqualified (with other matters)	Financially unqualified (with other matters)																

 - Qualification

ANNEXURE 1(b): Listing of entities with emphasis of matters and other matters

No	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Financial sustainability	Material losses / impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury Regulations	DoRA	Supply chain management	Other enabling legislation	Material misstatements corrected
1	PPE	Accelerated Shared Growth Initiative of South Africa	Financially unqualified (with other matters)											
2	PD	Agriculture	Financially unqualified (with other matters)											
3	PPE	Eastern Cape Appropriate Technology Unit	Qualified											
4	PPE	Eastern Cape Development Corporation	Financially unqualified (with other matters)											
5	PPE	Eastern Cape Gambling and Betting Board	Qualified											
6	PPE	Eastern Cape Liquor Board	Financially unqualified (with other matters)											
7	PPE	Eastern Cape Parks Board	Financially unqualified (with other matters)											
8	PPE	Eastern Cape Provincial Arts and Culture Council	Disclaimer											
9	PPE	Eastern Cape Rural Finance Corporation (Uvimba)	Financially unqualified (with other matters)											
10	PPE	Eastern Cape Socio-Economic Consultative Council	Financially unqualified (with other matters)											

No	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Financial sustainability	Material losses / impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury Regulations	DoRA	Supply chain management	Other enabling legislation	Material misstatements corrected
11	PPE	Eastern Cape Tourism Board	Financially unqualified (with other matters)											
12	PPE	Eastern Cape Youth Commission	Financially unqualified (with other matters)											
13	PD	Economic Development and Environmental Affairs	Qualified											
14	PD	Education	Adverse											
15	PD	Health	Adverse											
16	PD	Housing	Financially unqualified (with other matters)											
17	PD	Local Government and Traditional Affairs	Financially unqualified (with other matters)											
18	PPE	Mayibuye Transport Corporation	Financially unqualified (with other matters)											
19	PD	Office of the Premier	Financially unqualified (with other matters)											
20	PL	Provincial Legislature	Financially unqualified (with other matters)											
21	PD	Provincial Treasury	Financially unqualified (with other matters)											
22	PD	Public Works	Qualified											
23	PD	Roads and Transport	Qualified											

No	Classification	Department / Institution / Entity	Audit opinion: 2008-09	Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury Regulations	DoRA	Supply chain management	Other enabling legislation	Material misstatements corrected
24	PD	Safety and Liaison	Financially unqualified (with other matters)											
25	PD	Social Development	Financially unqualified (with other matters)											
26	PD	Sport, Recreation, Arts and Culture	Financially unqualified (with other matters)											

■ - Audit finding

ANNEXURE 2: Listing of departments and entities that registered improved or deteriorated audit outcomes

Entities that registered improved audit outcomes

No	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Agriculture	Financially unqualified (with other matters)	Qualified
2	Eastern Cape Appropriate Technology Unit	Qualified	Disclaimer
3	Eastern Cape Liquor Board	Financially unqualified (with other matters)	Qualified
4	Eastern Cape Parks Board	Financially unqualified (with other matters)	Qualified
5	Eastern Cape Rural Finance Corporation (Uvimba)	Financially unqualified (with other matters)	Qualified
6	Local Government and Traditional Affairs	Financially unqualified (with other matters)	Qualified
7	Mayibuye Transport Corporation	Financially unqualified (with other matters)	Qualified
8	Social Development	Financially unqualified (with other matters)	Qualified

Entities that registered deteriorated audit outcomes

No	Department / Institution / Entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Eastern Cape Gambling and Betting Board	Qualified	Financially unqualified (with other matters)
2	Eastern Cape Provincial Art and Culture Council	Disclaimer	Qualified
3	Public Works	Qualified	Financially unqualified (with other matters)

ANNEXURE 3: Summaries of audit reports

Annexure 3.1: Summary of audit reports of the Eastern Cape provincial departments

1. Eastern Cape Department of Agriculture

Unqualified (with other matters)

Emphasis of matters

Unauthorised expenditure

Unauthorised expenditure of R47 million was incurred. In the current year, R21 million was incurred as the department overspent on the vote and the main divisions within the vote. The prior year amount of R26 million had not been approved.

Irregular expenditure

Irregular expenditure to the amount of R10,4 million was incurred during the current year. Of this amount, R5,6 million was incurred because a proper tender process had not been followed. The remaining R4,8 million was the result of overexpenditure on compensation of employees.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

- In contravention of section 40(1)(b) of the PFMA, the department did not capitalise its 51% shareholding in Kangela Citrus Farm (Pty) Ltd and the 100% shareholding in North Pondoland Sugar (Pty) Ltd. These shareholdings were transferred to the Eastern Cape Rural Finance Corporation subsequent to year-end.
- The department did not make payments to the value of R13 million to creditors within 30 days of receipt of invoice, as required by Treasury Regulation 8.2.3 and section 38(1)(f) of the PFMA.
- The department did not apply for a rollover of unspent funds of R52,9 million within the period prescribed by Treasury Regulation 6.4.2.
- An investigation in terms of section 38(1)(i) of the PFMA is being conducted into allegations of financial mismanagement at the Fort Cox College of Agriculture and Forestry, to which funds were transferred by the department.

Matters of governance

Other matters of governance

- Significant difficulties were experienced during the audit.



- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The audit committee did not fulfil its responsibilities.
- Internal audit did not fulfil its responsibilities.
- A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, was documented but was not used as set out in Treasury Regulation 3.2.
- The information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of performance information.

Other reporting responsibilities

Usefulness and reliability of reported performance information

- The department inconsistently reported performance information.
- The reported performance information was not reliable due to a lack of supporting documentation and the source information not being accurate and complete.

2. Eastern Cape Department of Economic Development and Environmental Affairs

Qualified

Capital assets

- It was not possible to obtain sufficient audit evidence to verify the valuation, completeness and existence of assets of R28,3 million.
- An asset register containing all minor assets could not be produced for audit purposes, with the result that the valuation, completeness and existence of minor assets of R823 000 could not be confirmed.

Emphasis of matters

Irregular expenditure

As disclosed in disclosure note 25, irregular expenditure amounting to R340,6 million was incurred due to procurement processes not being followed and non-adherence to departmental delegations.

Material underspending of the budget

As disclosed in the appropriation statement, the department had materially underspent its budget by



R22,1 million. This was the result of capacity problems experienced in the supply chain management function. As a consequence, there were procedural constraints in the procurement of goods and services which had to be secured via the formal tendering process.

Restatement of corresponding figures

As disclosed in note 19, the corresponding figures for housing guarantees had been restated to rectify the amount previously disclosed.

Other matters

Key governance responsibilities

- The audit committee was a shared service and comprised four members. This resulted in the audit committee not being effective as an oversight body, as they did not have adequate time and resources to engage effectively on internal control, financial and risk management, and overall governance processes.
- Internal audit was also a shared service. The internal audit unit was understaffed, with the result that it was not effective and its ability to discharge all its duties was hampered. The work was not performed in accordance with the standards set by the Institute of Internal Auditors. No process was in place to ensure that work performed had been reviewed to ensure that it was of the high quality required by the standards.
- A risk management policy had not been finalised and the fraud prevention plan was not fully implemented.
- Manual systems to facilitate the preparation of the financial statements were not subject to adequate monitoring, with the result that material amendments had to be made to the financial statements after submission for auditing.

Investigations

An independent investigation was being conducted to probe financial misconduct amounting to R1,1 million at the department. The investigation was still ongoing at the reporting date.

Report on performance information

Non-compliance with regulatory requirements

The accounting officer did not ensure that the institution had and maintained an effective, efficient and transparent system and internal controls, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Inconsistently reported performance information

The department did not report on its performance with regard to its objectives and indicators of programme 3 (environmental affairs) as per the approved annual performance plan, due to changes to the objectives and indicators in the approved annual performance plan. No evidence could be provided that the changes had been approved.



Reported performance information not relevant

The indicators were not specific in clearly identifying the nature and the required level of performance, as the percentage decrease in crime statistics and the percentage of crimes prosecuted were not disclosed.

3. Eastern Cape Department of Education

Adverse

Irregular expenditure

The department omitted disclosure of irregular expenditure of at least R1 551 million in note 34 to the annual financial statements.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure as per disclosure note 35 was understated by at least R47,9 million.

Cash, cash equivalents and investments

The department did not submit journals for R2,2 billion debited into cash and cash equivalents and R371 million credited out of cash and cash equivalents. Sufficient appropriate evidence to the value of R20,1 million relating to the bank overdraft reconciling accounts was not submitted for audit purposes.

Capital assets

- The department did not exercise sufficient control over the maintenance of a fixed asset register in that the register was not updated regularly.
- There was a difference of R504 million between the movable asset register and the amount disclosed in the financial statements. Furthermore, the amount of R11,5 million reflected as additions in the asset register differed from the amount of R89,9 million disclosed in note 4.1 to the financial statements.

Goods and services

The department could not provide sufficient appropriate audit evidence to support payments amounting to R348,3 million, as well as journals of R90,8 million and R125,6 million debited and credited, respectively, to goods and services.

Commitments

I was unable to obtain sufficient appropriate audit evidence for commitments amounting to R844,3 million disclosed in note 29 to the financial statements.

Accruals

I was unable to obtain sufficient appropriate audit evidence for accruals amounting to R346,1 million disclosed in note 30 to the financial statements.

Transfers and subsidies

The department did not submit adequate documentation to support the amount of R964 million disclosed under transfers and subsidies in note 10 to the financial statements, in that payment vouchers and journals to the value of R202 million were not submitted.

Receivables

The department did not submit adequate supporting documentation for journals disclosed in note 17 to the receivable account balance, consisting of R52,9 million debit and R171,1 credit transactions. The projected errors relating to the non-submission of debit and credit journals are R50,8 million and R90,5 million, respectively.

Clearance accounts

- The department could not provide sufficient appropriate audit evidence to support the amount of R38,8 million disclosed as payables in note 24 to the financial statements. The total debit and credit transactions in the payables clearance accounts were R37,4 million and R1,4 million, respectively, for which no information was received.
- Sufficient appropriate audit evidence could not be provided for journals of R4,9 million debited out of clearance accounts and journals of R42,4 million credited into clearance accounts.

Leave entitlement

Leave entitlement was overstated by R52,3 million.

Compensation of employees

The department did not submit sufficient appropriate documentation for journals, homeowners' and rental allowances, performance bonus payments, other non-pensionable allowances and appointment letters.

Contingent liabilities

The department could not provide bank confirmations to confirm the valuation and completeness of housing loan guarantees to the value of R153,5 million disclosed in note 28 to the financial statements.

Emphasis of matters

Unaudited supplementary schedules

Assets were excluded from the register by means of a current year adjustment.

Other matters

Non-compliance with applicable legislation

Borrowing Powers of Provincial Government Act, 1996

The department did not obtain written approval from a member of the executive council for the use of overdraft facilities.

Treasury Regulations of 2005

- The department did not commence investigations into alleged financial misconduct of officials within 30 days of discovery of the alleged misconduct.
- The department did not settle all monies due to creditors within 30 days of receiving the invoice, as required by Treasury Regulation 8.2.3.
- The department did not submit the request for rollover to the relevant treasury by 30 April, as required by Treasury Regulation 6.4.2.
- The accounting officer did not withhold transfers and subsidies from entities when the accounting officer was not satisfied that the funds were being used for their intended purpose, as required by Treasury Regulation 8.4.2.

Education circulars

The accounting officer did not ensure that control procedures surrounding attendance registers were implemented, as required by *Education circular 19 of 2008*.

Governance framework

Audit committee

The audit committee did not substantially fulfil its responsibilities for the year.

Internal audit

Internal audit did not operate in terms of an approved audit plan and did not fulfil its responsibilities.

Other matters of governance

- The annual financial statements were submitted per the legislated deadlines and were subject to material amendments resulting from the audit.
- Significant difficulties were experienced, including delays and the unavailability of information and/or senior management.
- The prior year's external audit recommendations had not been substantially implemented.

Investigations

- An investigation was being conducted into the conduct of the previous accounting officer. No additional information could be obtained from the department at the reporting date.
- Investigations into the scholar transport scheme were still ongoing at the reporting date.
- An independent investigation conducted to probe financial misconduct at a district office of the department was still ongoing at the reporting date.

Report on performance information

Incomplete reporting on all predetermined objectives in annual report

- The actual achievements relating to the following objectives and indicators in the annual performance plan were not reported on in the annual report:
 - Percentage of learners in grade 9 attaining acceptable educational outcomes in all learning areas
 - The performance ratio of the least advantaged schools to the most advantaged schools with regard to grade 3
 - Percentage of learners in grade 3 attaining acceptable outcomes in numeracy and literacy and life skills
 - Percentage of learners in grade 6 attaining acceptable outcomes in mathematics, literacy and life skills
 - Expenditure on maintenance as a percentage of the value of school infrastructure

Lack of effective, efficient and transparent systems and internal controls regarding performance management

The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Inadequate quarterly reporting on performance information

- The department's quarterly reports did not track progress against outputs, indicators and targets as per the approved annual performance plan and therefore did not facilitate effective performance monitoring and evaluation, as required by Treasury Regulation 5.3.1.
- Material inconsistencies identified in the quarterly report were similar to those identified in the annual performance plan.

Content of annual performance plan

- Discrepancies noted in the annual performance plan, which ultimately impacted on the fair presentation of the performance against predetermined objectives, included the following:
 - Identification of additional performance measures that did not form part of the 39 core performance measures set at a national level
 - The duplication of performance and provincial performance measures
 - Lack of approval for provincial performance measures before these measures were included in the annual performance report
 - Inconsistencies relating to the referencing of performance measures
 - Performance measures not adequately linked to a specific objective and therefore not measured against a predetermined objective

Reported performance information not reliable

Evidence materially inconsistent with reported performance information

- The evidence submitted in support of the following target outputs reported on in the annual report was not accurate when compared to the source thereof:
 - Percentage of girl learners who take maths and science in the FET band
 - Pass ratio in grade 12 for mathematics and science
- The evidence submitted in support of the following actual outputs reported on in the annual report was not accurate when compared to the source:
 - Percentage of girl learners who take maths and science in the FET band
 - Pass ratio in grade 12 for mathematics and science
 - Number of targeted learners reached
- The department included specific challenges and responses in the annual performance report that did not address the variances identified between target and actual percentages and ratios and were mostly a very general indication of the challenges faced by the department.

4. Eastern Cape Department of Health

Adverse

Departmental revenue

- The completeness of patient revenue of R79,8 million could not be confirmed due to a lack of accounting controls over cash collections.
- The sale of goods and services was overstated due to outdated patient tariffs being used at some institutions and a lack of departmental reconciliations and reviews of rental income.

Compensation of employees

Basic salaries, allowances and periodic payments were overstated by R59 million, R212 million and R7 million, respectively, due to inadequate supporting documentation.

Goods and services

Goods and services were understated by R17,1 million and voted funds to be surrendered were overstated by the same amount, due to the incorrect recognition of expenditure regarding pharmaceutical inventory.

Transfers and subsidies

Goods and services expenditure was understated by R32 million and transfer payments were overstated by the same amount due to the incorrect classification of expenditure.

Payables

The accuracy and completeness of payables journals of R41,8 million could not be confirmed due to inadequate supporting documentation.

Contingent liabilities

Contingent liabilities were overstated due to inadequate documentation to substantiate claims of R170,6 million and capturing errors for claims of R15,8 million.

Commitments

- Approved and contracted capital commitments were overstated by R91,7 million due to inadequate supporting documentation.
- Approved and contracted current commitments were understated by R62,1 million due to the incomplete inclusion of contracts.

Accruals

- The net understatement of accruals was R105,9 million due to the following:
 - Inadequate record keeping of outstanding payments
 - Numerous errors in accrual schedule
 - Ageing of accruals was based on the date of the invoice and not on the actual date of goods received.

Immovable assets

- The department did not have title to immovable assets of R146,8 million recorded in note 35.
- The work in progress brought forward from the prior year was R275 million less than disclosed in the previous year. This movement could not be adequately explained.



Movable assets

- The fixed asset register used to support the movable assets disclosed in note 33 was inaccurate. Assets recorded therein could not be located and assets selected for testing from the offices were also not recorded therein.
- The opening balance brought forward from the prior year was reduced by an amount of R403 million. This movement was not adequately explained.
- As a result, the existence, accuracy and completeness of the assets disclosed in note 33 could not be verified.

Non-compliance with applicable legislation

Public Finance Management Act

- Quarterly reports for transfer payments made to other institutions were not submitted for audit purposes, in contravention of section 38(1)(j) of the PFMA.
- Payments were not made within 30 days of date of receipt of invoice, which is a contravention of section 38(1)(f) of the PFMA.
- Purchase orders were signed by officials who did not have delegated powers, contravening section 44 of the PFMA.

Division of Revenue Act

- The department did not comply with sections 11(5) and 12(1) of DoRA in that the reports required to be submitted in terms of these sections were not submitted timeously.
- The department did not comply with section 24(1) of DoRA in that insufficient audit evidence/ supporting documentation was provided for audit purposes to verify that the targets and budgets as per the approved business plans had been achieved and expended. Therefore, I was unable to determine, even through alternative procedures, that the conditional grants were used by the department for their intended purpose.

Occupational Health and Safety Act

- The department did not comply with section 8 of the Occupational Health and Safety Act, 1993, in that medical waste was not always disposed of in the prescribed manner or within the prescribed time frames, was not highlighted as hazardous, or was not kept in a secure area. Not only could this endanger the employees of the department, but it could also put the health of patients and the general public at risk.

Report on performance information

Non-compliance with regulatory requirements

Lack of effective, efficient and transparent systems and internal controls regarding performance information

The accounting officer did not ensure that the department had and maintained an effective, efficient



and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Reported performance information was not reliable

The reported actual achievement of targets could not be substantiated by adequate evidence/source documentation.

5. Eastern Cape Department of Housing

Unqualified (with other matters)

Emphasis of matters

Unauthorised expenditure

As disclosed in note 8 to the financial statements, unauthorised expenditure to the amount of R59,8 million was incurred. This was the result of a prepayment made by the Department of Housing, Local Government and Traditional Affairs during the financial year ended 31 March 2008. The Department of Housing received the benefits of the services provided during the current financial year and therefore the expenditure was reflected in the statement of financial performance for the year ended 31 March 2009. This amount was not budgeted for and the department therefore overspent on programme 1, resulting in unauthorised expenditure.

Irregular expenditure

Irregular expenditure of R137,4 million was disclosed in note 22 to the financial statements. As disclosed in note 26 to the financial statements, R125,8 million of this amount was incurred in prior financial years and was transferred from the Department of Housing, Local Government and Traditional Affairs, as it related to the housing programme.

Other matters

Non-compliance with applicable legislation

Division of Revenue Act

The conditional grant business plan did not contain the targets set for the national housing priorities as well as mandatory inputs and key activities for project management, technical assistance and quality assurance as required by the DoRA framework (*Government Gazette No. 30978 of 14 April 2008*).

Inconsistently reported performance information

- The department did not report on its performance in relation to some indicators and targets as per the approved annual performance plan for programmes 3 and 4, due to changes in the indicators and targets as per the annual performance plan. The department was not able to provide evidence that the relevant changes had been approved.



- The department also failed to report on its performance in relation to the indicator of the number of hostels upgraded and converted into community residential units as per the approved annual performance plan.

Reported performance information not reliable

Appropriate sufficient audit evidence in relation to the reported performance information of the following programmes and sub-programmes could not be obtained:

- Programme 2: housing policy planning and research, sub-programme: housing planning (integrated development)
- Programme 3: housing programme facilitation and administration, sub-programme: subsidy programme and human settlement development
- Programme 4: housing asset management, sub-programme: rental housing interventions

6. Eastern Cape Department of Local Government and Traditional Affairs

Unqualified (with other matters)

Emphasis of matters

Unauthorised expenditure

Unauthorised expenditure of R6,2 million was incurred due to overspending within the main divisions of the vote and spending not in accordance with the purpose of the vote.

Irregular expenditure

Irregular expenditure to the amount of R16 million was incurred during the current year due to overspending on the main divisions of the vote and procurement processes not being followed correctly.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

- The department did not make payments to creditors within 30 days of receipt of invoice, as required by Treasury Regulation 8.2.3 and section 38(1)(f) of the PFMA.
- The department paid 2% of the annual remuneration budget as performance awards, in contravention of the DPSA circular that requires performance awards not to exceed 1,5%.

Matters of governance

Other matters of governance

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The annual report was not submitted prior to the tabling of the audit report.
- The audit committee did not fulfil its responsibilities.
- Internal audit did not fulfil its responsibilities.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, was documented but was not implemented as set out in Treasury Regulation 3.2.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of performance information.

Investigations

- The department was in the process of investigating irregularities in tenders awarded to a particular supplier.
- The department was in the process of investigating the tenders awarded for the turnaround plan for municipalities, for which R17 million was estimated but which escalated to R66 million on the awarding thereof.

Other reporting responsibilities

Usefulness and reliability of reported performance information

- The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the department's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 51(1)(a)(i) of the PFMA.
- The department did not report on its performance with regard to its targets as per the annual performance plan, as the targets were not consistent between the annual performance plan and the quarterly reports.

7. Eastern Cape Office of the Premier

Unqualified (with other matters)

Other matters

Matters of governance

Other matters of governance

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The audit committee did not fulfil its responsibilities.
- Internal audit did not fulfil its responsibilities.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 3.2.

Other reporting responsibilities

Performance information

No significant findings

Performance audits

A performance audit report was finalised during the year under review in respect of entities that are connected with government employees and doing business with departments of the Eastern Cape Provincial Administration. This report covered the period 1 April 2005 to 31 March 2007 and was submitted to the legislature for tabling, but had not yet been tabled at the date of this report.

8. Eastern Cape Provincial Legislature

Unqualified (with other matters)

Emphasis of matters

Basis of accounting

Attention is drawn to note 1.1 to the financial statements which describes the basis of accounting. The policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury.



Other matters

Other key governance requirements

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
 - Supporting documentation required for the audit of performance information was not submitted by the agreed-upon deadline. Such non-availability had an adverse impact on the scheduled deadlines in finalising the fieldwork of the audit and placed pressure on the reporting time frames.
- The financial statements were subject to material amendments resulting from the audit.
 - There was a lack of adequate supervision and monitoring in the financial reporting process, which resulted in errors going undetected.
- Key officials were not available throughout the audit.
 - Key personnel were not always available during the audit. This was a direct result of the national elections held in April 2009, the induction and orientation programmes for the new members of the provincial legislature (MPLs), and the performance management and development system strike action by the union.
- Risk management
 - The legislature had established a risk management unit, but the anti-corruption plan, risk management plan and policy were only approved towards the end of the financial year.

Other reporting responsibilities

No performance information was submitted for auditing.

9. Eastern Cape Provincial Treasury

Financially unqualified (with other matters)

Emphasis of matters

Material underspending of the budget

As disclosed in the appropriation statement and the accounting officer's report, the department materially underspent its approved budget by an amount of R20,2 million. Consequently, the department did not achieve its implementation objective of a centralised electronic suppliers database and did not purchase all capital assets and leased information and communication technology equipment included in its budget. In addition, not all staff members budgeted for were appointed due to the scarcity of skills within the province.

Matters of governance

Audit committee

- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- The audit committee was a shared service for nine departments and comprised four members. This resulted in the audit committee not being effective as an oversight body, as it did not have adequate time and resources to engage departments on their internal control, financial and risk management, and overall governance processes.

Internal audit

- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- Internal audit was also a shared service responsible for nine departments. The internal audit unit was understaffed, with the result that it was not effective and its ability to discharge all its duties was hampered. In addition, the work performed by internal audit was not in accordance with the standards set by the Institute of Internal Auditors, as there was no process to ensure that all work performed had been reviewed to ensure that it was of the high quality required by the standards.

Key governance responsibilities

- No significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The annual report was not submitted for consideration prior to the tabling of the auditor's report.
- The annual financial statements were submitted for auditing as per the legislated deadlines in section 40 of the PFMA, but were subject to material amendments resulting from the audit.
- The finance section, particularly the financial reporting section, had adequate skills and competencies, which were effectively utilised in sustaining an unqualified audit report. However, monitoring controls were not in place to ensure that the information disclosed in the financial statements was accurate and complete, as a material adjustment relating to revenue and various immaterial adjustments had to be effected after submission of the financial statements for auditing.
- Key officials were not available throughout the audit process.
- The prior year audit findings had not been substantially addressed.

10. Eastern Cape Department of Public Works

Qualified

Immovable assets

It was not possible to trace certain assets to which the department holds legal title to the asset register, even after the department had provided additional information and explanations. Assets were also found in the asset register to which the provincial government did not hold legal title. Furthermore, assets were found that were disclosed in the asset register even though the provincial government did not hold title to them.

Other matters

Irregular expenditure

The department disclosed irregular expenditure of R50,2 million in note 24 to the financial statements. This expenditure was irregular because procedures required by the department's supply chain management policy were not adhered to.

Non-compliance with applicable legislation

Borrowing Powers of Provincial Government Act

Approval for the bank overdraft of R3,6 million at 31 March 2009 was not obtained as prescribed by section 3 of the Borrowing Powers of Provincial Government Act, 1996.

Public Finance Management Act

The department did not have fully developed or implemented written policies and procedures to guide financial accounting processes and related controls for its major components for the year under review, as required by section 38(a)(i) of the PFMA.

Matters of governance

Monitoring

There was a lack of monitoring of the financial accounting processes. As a result, material amendments were made to the financial statements in order to avoid additional qualifications. In addition, the continuous correction of errors and the resubmission of financial information to reduce the number of qualifications had an adverse impact on scheduled audit deadlines and placed pressure on the reporting time frames.

Audit committee

Although the audit committee was found to have been effective during the year under review, it did not have the minimum requirement of three members for six months of the financial year, due to the resignation of one member.

Internal audit

The internal audit plan was not adequate and did not address all the requirements of the PFMA and Treasury Regulations. Furthermore, not all planned audits and follow-up audits were performed in the year under review.

Risk assessment

A complete risk assessment to supplement a risk management strategy was not performed for the year under review. The fraud prevention plan had also not been implemented.

Other matters of governance

- The annual financial statements were submitted per the legislated deadlines and were subject to material amendments resulting from the audit.
- The annual report was not submitted for the auditor's consideration prior to the date of the auditor's report.
- The prior year's external audit recommendations had not been substantially implemented.
- The internal audit function did not substantially fulfil its responsibilities for the year.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- A risk assessment was not performed on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used.
- The organisational structure did not address areas of responsibility and lines of reporting to support effective control over financial reporting.
- Pertinent information was not identified and captured in a form and time frame to support financial reporting.

Report on performance information

• Lack of effective, efficient and transparent systems and internal controls regarding performance management

The accounting officer did not ensure that the department had and maintained a fully effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed.

11. Eastern Cape Department of Roads and Transport

Qualified

Capital assets

- A comparison performed between capital project reconciliations submitted for audit purposes in support of this amount and the financial statements revealed unreconciled projects amounting to R71,5 million.
- Capital expenditure that related to reconciled projects was identified as having been incorrectly classified as payments for goods and services. I was unable to determine the full extent of the classification error between capital expenditure and goods and services.

Emphasis of matters

Irregular expenditure

As disclosed in note 25 to the financial statements, irregular expenditure amounting to R120 million was incurred during the year ended 31 May 2009.

Restatement of corresponding figures

Numerous corresponding figures were restated. Refer to notes 20 and 25 to the financial statements for details thereof.

Other matters

Internal control deficiencies

Management's assessment and monitoring of the internal control system were not adequate to provide accurate and complete information in respect of capital project expenditure. This is evident from the lack of adequate internal control and information systems needed for the preparation of the financial statements. As a result of these weaknesses, numerous post-year-end initiatives were required, such as the appointment of consultants and excessive overtime.

Key governance responsibilities

- Although the finance section, particularly the financial reporting section, had adequate skills and competencies, there was a lack of monitoring over the financial accounting processes. As a result, material amendments were made to the financial statements in order to avoid additional qualifications. In addition, the continuous correction of errors and the resubmission of financial information to reduce the number of qualifications had an adverse impact on scheduled audit deadlines and placed pressure on the reporting time frames.
- The audit committee was a shared service for nine departments and comprised four members. This resulted in the audit committee not being effective as an oversight body, as it did not have adequate time and resources to engage departments on their internal control, financial and risk management and overall governance processes.

- Internal audit was also a shared service responsible for nine departments. The internal audit unit was understaffed, with the result that it was not effective and its ability to discharge all its duties was hampered. In addition, the work performed by internal audit was not in accordance with the standards set by the Institute of Internal Auditors, as there was no process to ensure that all work performed had been reviewed to ensure that it was of the high quality required by the standards.

Investigations

Numerous investigations were carried out in respect of fraud allegations relating to supply chain management and compensation of employees, which had been identified via the fraud hotline. These investigations were ongoing and had not been finalised at the time of writing this report.

Report on performance information

Sufficient appropriate audit evidence in relation to the reported performance information of the road infrastructure, public transport and traffic management programmes could not be obtained, as the relevant source documentation could not be provided for audit purposes.

12. Eastern Cape Department of Safety and Liaison

Unqualified (with other matters)

Emphasis of matters

Irregular expenditure

As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R2,2 million was incurred, as the department had followed inadequate procurement processes.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

- The department did not pay all its suppliers within 30 days of receipt of an invoice from the supplier as required by Treasury Regulation 8.2.3.
- In-year monitoring reports did not contain explanations for variances or steps to ensure that the projected expenditure and revenue remained within the budget, as required by section 40(4)(c) of the PFMA.
- The department did not have fully developed or implemented written policies and procedures to guide financial accounting processes and related controls for its major components for the year under review, as required by section 38(1)(a)(i) of the PFMA.

Public Service Act

Certain members of the department's senior management service did not declare their financial interests



as required by section 3(2) of the Public Service Act, 1994 (*Proclamation No. 103 of 1994*), read in conjunction with chapter 3 of the Public Service Regulations.

Income Tax Act

The department did not submit all its EMP201 forms within the prescribed deadlines as required by paragraph 14(3) of the fourth schedule of the act.

Matters of governance

Quality of financial statements and related management information

The financial statements were subject to material amendments resulting from the audit.

Development of, and compliance with, risk management, effective internal control and governance practices

- The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.
- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- A risk assessment was not performed on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used as set out in Treasury Regulation 3.2.

Quality of financial statements and related management information

- The information systems were inappropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

Other reporting responsibilities

Inadequate quarterly reporting on performance information

The department did not have a strategic manager for the first three quarters of the financial year. As a result, documentation could not be located for audit purposes and there was no evidence that reports had been adequately reviewed by management.

Lack of reporting on all predetermined objectives in annual report

The department did not disclose the reasons for variances between the planned and actual performance information for any of the output objectives.



13. Eastern Cape Department of Social Development

Unqualified (with other matters)

Emphasis of matters

Irregular expenditure

As set out in disclosure note 24 to the financial statements, the department incurred irregular expenditure amounting to R8,340 million because it had disregarded financial delegations.

Material underspending

The department's appropriation statement reflected a material underspending of 6% amounting to R77 million. However, R44 million had been earmarked for rollover with regard to the continuation of the occupation-specific dispensation process.

Other matters

Matters of governance

The control environment within the department was conducive to good governance and accountability, as the leadership had ensured that the risk management processes received the appropriate attention. The audit committee and internal audit unit, which are essential elements in achieving good governance and accountability, were effective. However, monitoring controls were not in place to ensure that all information disclosed in the financial statements was accurate and complete, as adjustments had to be effected after submission of the financial statements for auditing.

Other reporting responsibilities

Lack of effective, efficient and transparent systems and internal controls regarding performance management

The department did not have a specific and appropriate information system that generated the required performance information. The performance information was generated via monthly and quarterly reports, in Microsoft Excel and/or Word. In addition, there were no key controls to monitor the accuracy, completeness and validity of the information that was included, processed and made available in the form of reports.

Source information not accurate and complete

The source information or evidence provided to support the reported performance information with regard to programme 2 did not adequately support the accuracy and completeness of the facts.

Performance audits

A performance audit report was finalised during the year under review in respect of entities that are connected with government employees and doing business with departments of the Eastern Cape Provincial Administration. This report covered the period 1 April 2005 to 31 March 2007 and was submitted to the legislature for tabling, but had not yet been tabled at the date of this report.

14. Eastern Cape Department of Sport, Recreation, Arts and Culture

Unqualified (with other matters)

Emphasis of matters

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

- As disclosed in note 10 to the financial statements, the department incurred unauthorised expenditure amounting to R2,888 million on the sub-programme: museums and heritage, under programme 2: cultural affairs. Museums had critical posts to fill but these appointments were unauthorised and not funded.
- As disclosed in note 24 to the financial statements, fruitless and wasteful expenditure to the amount of R1,977 million was incurred due to interest charged on late payments.
- As disclosed in note 25 to the financial statements, irregular expenditure to the amount of R1,644 million was incurred due to overspending on personnel costs.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

The accounting officer did not comply fully with the following legislative requirements in terms of his responsibilities:

- Section 38(1)(a)(i) of the PFMA: Ensure that the department maintained effective, efficient and transparent systems of financial and risk management and internal controls.
- Section 38(1)(c)(ii): Prevent unauthorised, irregular, and fruitless and wasteful expenditure and losses resulting from criminal conduct.

Matters of governance

- Monitoring controls were not adequate to ensure that the information disclosed in the financial statements was accurate and complete, as adjustments relating to disclosure items had to be effected after submission of the financial statements for auditing.
- No risk management policy had been adopted by the department. Alleviating measures were, however, introduced and spot checks on supply chain management functions were conducted. Roadshows were held on reducing corrupt activities and an email address was implemented to report corruption activities. Fraud boxes were installed at all the district offices as well as at head office.
- The audit committee was a shared service for nine departments and comprised four members. This resulted in the audit committee not being effective as an oversight body, as it did not have

adequate time and resources to engage departments on their internal control, financial and risk management, and overall governance processes.

- Internal audit was also a shared service responsible for nine departments. The internal audit unit was understaffed, with the result that it was not effective and its ability to discharge all its duties was hampered. In addition, the work performed by internal audit was not in accordance with the standards set by the Institute of Internal Auditors, as there was no process to ensure that all work performed had been reviewed to ensure that it was of the high quality required by the standards.

Other reporting responsibilities

Lack of effective, efficient and transparent systems and internal controls regarding performance management

The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Submission of strategic plan

The accounting officer of the department did not provide the provincial legislature with the strategic plan at least 10 days prior to the discussion of the department's budget vote, as required by Treasury Regulation 5.2.1 and 5.2.2.

Lack of, or inadequate quarterly reporting on, performance information

Adequate quarterly reports on progress made in achieving measurable objectives and targets were not prepared by the department to facilitate effective performance monitoring, evaluation and corrective action, as required by Treasury Regulation 5.3.1.

Inconsistently reported performance information

The department did not report on its performance with regard to its objectives as per the approved strategic plan. The inconsistencies between the strategic and the annual plan consisted mostly of differences in the rand value of library materials.

Reported performance information not reliable

The source information or evidence provided to support the reported performance information with regard to programme 3: library and archives services as well as programme 4: sport and recreation did not adequately support the accuracy and completeness of the facts.

Performance audits

A performance audit report was finalised during the year under review in respect of entities that are connected with government employees and doing business with departments of the Eastern Cape Provincial Administration. This report covered the period 1 April 2005 to 31 March 2007 and was submitted to the legislature for tabling, but had not yet been tabled at the date of this report.



Annexure 3.2: Summary of audit reports on the Eastern Cape provincial entities

15. Accelerated Shared Growth Initiative of South Africa

Unqualified (with other matters)

Emphasis of matters

Registration in terms of the PFMA and basis of accounting

The entity is in the process of registering as a schedule 3C entity. In the interim, SA Statements of GAAP were adopted as the basis of accounting.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R101 094 was disclosed in note 25 to the financial statements.

Other matters

Non-compliance with applicable legislation

Companies Act

- A register of directors was not maintained.
- Changes in directors, auditors, registered office and year-end were not lodged with the registrar as prescribed.

Income Tax Act

- The company did not register for withholding taxes or as a taxpayer as prescribed.

Matters of governance

Audit committee

The audit committee did not substantially fulfil its responsibilities for the year, as it was only appointed towards the end of the year.

Internal audit

The internal auditors were only appointed after year-end.

Material misstatements

The annual financial statements were subject to material amendments resulting from the audit.

Report on performance information

Strategic plan did not include key performance indicators

Outcome indicators were not set for each development priority and objective.

Lack of reporting against predetermined objectives

The entity did not report against all its predetermined objectives.

Lack of effective transparent systems and internal controls regarding performance information

The design and implementation of controls over performance information processes were not adequate to ensure complete, valid and accurate performance reports.

Inadequate quarterly reporting

The quarterly reports did not report against all targets and measures contained in the strategic plan.

16. Eastern Cape Appropriate Technology Unit

Qualified

Infrastructure, plant and equipment

- The asset register provided could not be reconciled with note 4 to the financial statements due to a difference of R540 742. Furthermore, properties amounting to R234 000 as well as furniture and equipment were not recorded in the asset register. I was therefore unable to conclude on the existence, completeness and valuation of, and rights and obligations relating to, property, plant and equipment.
- No evidence could be obtained that the entity reviewed the useful life of its assets as required by paragraph 61 of IAS 16, *Property, Plant and Equipment*. In addition, certain assets that are still being used by the entity have been fully depreciated and are recorded at R1 value in the asset register. I was therefore unable to conclude on the accuracy of the depreciation expense as well as the valuation of the property, plant and equipment balance.

Receivables

Included in the receivables balance of R1,2 million as disclosed in note 2 to the financial statements was an amount of R165 350, which was in dispute with the debtor. It could therefore not be determined whether this amount is recoverable.

Expenditure

Included in administrative expenditure amounting to R5,5 million disclosed in note 15 to the financial statements was R1,5 million that could not be substantiated by source documentation and/or adequate explanation. I was unable to verify the occurrence and accuracy of these amounts.

Fruitless and wasteful expenditure

An amount of R71 100 was paid as lease rental in respect of a senior official whose services had already been terminated. The expenditure was not disclosed as fruitless and wasteful expenditure in the financial statements.

Irregular expenditure

Irregular expenditure amounting to R457 156 was identified but not disclosed by the entity in the financial statements. This was the result of payments for the benefit of a senior official in contravention of the policies and procedures of the entity as well as supply chain management policies.

Leave pay accrual

The leave register used as the basis for calculating the leave pay accrual had not been adequately controlled throughout the year under review. I was therefore unable to conclude on the valuation and completeness of the leave pay accrual of R150 657 as disclosed in note 6.1 to the financial statements. In addition, the disclosure of this accrual was not in terms of the reporting framework.

Payables

The accounts payable balance of R2,4 million as disclosed in note 5 to the statement of financial position was overstated by an amount of R1,4 million. Expenditure was also overstated by this amount.

Other matters

Bank overdraft

An amount of R409 417 was disclosed as a bank overdraft in note 7 to the financial statements. Approval in terms of section 66(5) of the PFMA for the overdraft could not be obtained.

Deferred income

The deferred income balance of R917 741 as disclosed in note 8 to the financial statements could not be reconciled to the investment balance of R78 737 as per note 1.2, given a difference of R839 004. This was the result of project funds being used for purposes other than those for which they were intended.

Non-compliance with applicable legislation

Inconsistently reported performance information

The entity did not report on its performance information in relation to some indicators and targets in the half-yearly reports. As a result, the reported targets in the financial statements could not be traced throughout the year.

Inadequate monthly reporting on performance information

The monthly reports on progress in achieving objectives and targets were prepared by the entity to facilitate effective performance monitoring, evaluation and corrective action. I was not able to obtain evidence of the review of these reports by a senior official for consistency and quality.



Non-compliance with laws and regulations

The entity did not comply with chapter 3 of the *Framework for managing programme performance information*, which requires that all reported indicators should be well defined, verifiable and relevant. The objectives were also not specific or measurable. There were no documented policies and procedures regarding the collection, documentation and reporting of performance information. The report that was submitted did not address all the outcomes of the measures and indicators as set out in the strategic plan.

17. Eastern Cape Development Corporation

Unqualified (with other matters)

Emphasis of matters

Highlighting critically important matters presented or disclosed in the financial statements

The majority of the investment properties held by the ECDC were owned by government, tribal authorities and municipalities (total investment properties: R94,9 million of which R83,5 million had not transferred title to the ECDC).

Other matters

Governance

The financial statements submitted for auditing were subject to material amendments, resulting from the audit.

18. Eastern Cape Gambling and Betting Board

Qualified

Revenue

Fees amounting to R3,7 million as disclosed in the statement of financial performance were understated by R313 318, as the board failed to collect all registration fees that were due in terms of the Eastern Cape Gambling and Betting Act, 1997 (Act No. 5 of 1997) and IAS 18. The effect was that receivables as disclosed in the statement of financial position were also understated by R313 318, while the net surplus in the statement of financial performance was understated by the same amount.

Emphasis of matters

Restatement of corresponding figures

As disclosed in the notes to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of an error identified in the financial statements of the Eastern Cape Gambling and Betting Board for the year ended 31 March 2008, during the year ended 31 March 2009.



Irregular expenditure

As disclosed in the notes to the financial statements, irregular expenditure to the amount of R795 272 was incurred, as the board did not adhere to supply chain management prescripts.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

The accounting authority did not comply with the relevant income tax legislation, as they failed to pay over PAYE deductions within seven days after the end of the month in which the deduction was made, as required by section 51(1)(d) the PFMA.

Eastern Cape Gambling and Betting Act

The accounting authority did not maintain a register of the names and required particulars of each person to whom a certificate of registration had been issued in terms of section 18(9) of the Eastern Cape Gambling and Betting Act, 1997. They did not keep full and proper records as required by section 18(5) of the Eastern Cape Gambling and Betting Act, 1997. Due to such non-compliance, the board did not collect gambling taxes amounting to R313 318 on behalf of the Eastern Cape Provincial Administration.

Lack of effective, efficient and transparent system and internal controls regarding performance management

The accounting authority did not ensure that the board had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the entity's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 51(1)(a)(i) of the PFMA.

Quality of performance indicators/measures and targets inadequate

- Indicators or measures were not well defined.
- Indicators or measures were not time bound.
- Performance targets were not included in the performance report.
- The performance report did not include a complete and comprehensive coverage of planned outputs, as per the annual performance plan.

19. Eastern Cape Liquor Board

Unqualified (with other matters)

Emphasis of matters

Restatement of corresponding figures

As disclosed in note 2 to the financial statements, the corresponding figures for 31 March 2008 had been restated as a result of an error identified in the financial statements of the Eastern Cape Liquor Board for the year ended 31 March 2008, during the year ended 31 March 2009.

Other matters

Key governance responsibilities

- The financial statements were subject to material amendments resulting from the audit.
- The internal audit function was not in operation throughout the financial year.
- An updated fraud prevention plan was not implemented during the financial year.

20. Eastern Cape Parks Board

Qualified

Property, plant and equipment

- The entity depreciated assets valued at less than R2 000 in full in the year of acquisition, which is not in line with IAS 16, *Property, Plant and Equipment*, which states that useful lives need to be considered. This could not be determined due to the deficiencies in the fixed asset register noted below, which made it impossible to calculate the depreciation and impairments.
- As a result of immediate expenses, expenditure in the financial year was overstated. The valuation, accuracy and disclosure of property, plant and equipment were incorrect. In addition, inconsistencies were identified with regard to the immediate expense treatment, as assets of R120 088 were recognised as minor assets. The effect of these assets on the net assets could not be calculated.
- There was a difference of R7 479 between the figure disclosed in the financial statements and the figure per the fixed asset register.

Revenue

The accuracy and completeness of hunting revenue amounting to R421 890 could not be verified, due to a limitation of scope arising from an insufficient audit trail. The revenue received from hunting activities was less than the contractual agreements and the difference was not supported by an adequate audit trail between invoices, delivery notes and receipts.

Emphasis of matters

Restatement of corresponding figures

The corresponding figures for 31 March 2008 were restated as result of a change in estimate, correction of prior year errors, and a change in accounting policy.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

Due to a temporary shortage of funds, management transferred R2 million of the project funds to the operating account of the entity for the payment of salaries. Although the entity transferred the R2 million back to the poverty relief fund within a week, the use of these funds is nevertheless considered to be a contravention of section 66 of the PFMA.

Matters of governance

Other matters of governance

- The annual financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The prior year's external audit recommendations had not been substantially implemented.

Other reporting responsibilities

Strategic objective not linked to budget

Measurable objectives not consistent

Three measurable objectives linked to strategic goal 5, as disclosed in the annual performance plan, did not reflect performance indicators/targets.

21. Eastern Cape Provincial Arts and Culture Council

Disclaimer

Inventories

No system of control was in place over inventories. I was unable to satisfy myself as to the existence, completeness, valuation and ownership of inventories to the value of R240 111 disclosed in the financial statements.

Receivables

Supporting documentation could not be provided for trade debtors of R111 750 per note 4 to the financial



statements. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the existence, completeness and valuation of debtors.

Deferred income

- I could not determine the completeness and accuracy of the deferred income liability of R2 358 632 disclosed in the financial statements, as I was not able to satisfy myself as to the completeness of operating expenditure.
- The government grant revenue of R9 664 642 reflected in the statement of financial performance did not agree with the amount of R10 046 472 included in note 6 to the financial statements.

Accruals

The value of other accrued expenses included in note 8 to the financial statements was overstated by R129 415.

Revenue

There was no system of control over sales. Differences were identified between the amounts deposited and the amounts recorded in the daily cash register. As no reconciliations were performed between the deposit slips and the cash register, I was unable to satisfy myself as to the completeness and accuracy of the sales revenue of R593 587 included in the financial statements.

Expenditure

- The entity had no system of controls over sales and inventories. As a result, there were no satisfactory audit procedures that I could perform to obtain reasonable assurance as to the completeness, accuracy and correct classification of the cost of sales of R166 214 and commissions paid of R259 605, included in the detailed statement of financial performance.
- The system and related controls over petty cash were inadequate. Based on the nature of the entity's records, I was unable to determine the amount of operating expenditure that should have been recorded in respect of purchases made from petty cash.
- Employee costs and operating expenses included in note 11 to the financial statements were understated by R27 729 and R319 055, respectively, when compared to the figures included in the detailed statement of financial performance.
- The corresponding figures for employee costs and operating expenses included in note 11 to the financial statements were understated by R130 529 and R231 683, respectively, and project expenses were overstated by R2 166 507 when compared to the corresponding figures included in the detailed statement of financial performance.
- Minimum lease payments due within the second to the fifth year of R905 887 were overstated by R156 923 based on the operating agreements.

Corresponding figures

- Corresponding figures were not adjusted to reflect prior year errors, with the result that:
 - property, plant and equipment were understated by R126 680
 - accumulated deficit was overstated by R186 433
 - administered funds liability was overstated by R49 116
 - trade and other payables were overstated by R10 638.
- The corresponding figure for the accumulated deficit of R178 247 in the statement of financial position disagreed with the restated balance as at 1 April 2008, resulting in an understatement of the accumulated deficit in the statement of financial position by R175 796.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

Members of the accounting authority did not declare their business interests, as required by section 50(3) (a) and (b) of the PFMA.

Matters of governance

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements were subject to material amendments resulting from the audit.
- Audit committee

The audit committee did not substantially fulfil its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.

- Internal audit

The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 27.2.

- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The prior year audit findings had not been substantially addressed.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

- No functioning performance management system was in place and performance bonuses were only paid after proper assessment and approval by those charged with governance.

Other reporting responsibilities

Non-compliance with regulatory requirements

The entity did not report performance against predetermined objectives, as required by section 55(2)(a) of the PFMA. The accounting authority of the Eastern Cape Provincial Arts and Culture Council did not finalise and submit a strategic plan for approval to the relevant executive authority before or on 1 April 2008, as required by Treasury Regulation 30.1.

Reported performance information not relevant

The performance report did not include the predetermined objectives, indicators/measures and targets per output as included in the strategic plan.

22. Eastern Cape Rural Finance Corporation

Unqualified (with other matters)

Emphasis of matters

Irregular expenditure

Irregular expenditure of R64,9 million was disclosed in note 17.8 and 17.9.

Corresponding figures

Changes to corresponding figures detailed in note 5.3 were effected to correct prior period errors discovered during the year under review.

Related parties

- Loans to directors and staff totalling R2,02 million were in arrears.
- Rental paid to a director was disclosed in note 18.3 as a related-party transaction and was also disclosed as fruitless and wasteful expenditure in note 17.7.

Other matters

Matters of governance

Risk management

- A risk management strategy was not developed.
- Risk assessments were not conducted.



Material misstatements

The annual financial statements were subject to material amendments resulting from the audit.

Report on performance information

No reporting of performance information

No report on performance information was included in the annual report.

Non-compliance with regulatory requirements

No strategic plan

The corporation did not prepare a strategic plan that contained performance measures, objectives and targets.

23. Eastern Cape Socio-Economic Consultative Council

Unqualified (with other matters)

Emphasis of matters

Basis of accounting

The entity prepared financial statements on GRAP and GAAP.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

- No written approval was obtained from the National Treasury to open a bank account as required by Treasury Regulation 7(2).
- No formally documented risk management strategy and fraud prevention plan existed as required by Treasury Regulation 27.2.1.5.
- Bank reconciliations were not performed as required by Treasury Regulation 31.1.1.
- The strategic plan was not updated as required by Treasury Regulations 30.1.1 to 30.1.3.
- The accounting authority did not develop and agree a framework of acceptable levels of materiality as required by Treasury Regulation 28.3.1.
- The supply chain management policy was not sufficiently detailed as required by Treasury Regulation 16A and did not include all the required information.

- A rollover was not applied for before 14 May 2009 as required by NT Practice Note 12 of 2008-09.

Matters of governance

Other matters of governance

The financial statements submitted for auditing were subject to material amendments resulting from the audit.

Other reporting responsibilities

Non-compliance with regulatory requirements

Lack of or inadequate quarterly reporting on performance information was identified.

24. Eastern Cape Tourism Board

Unqualified (with other matters)

Emphasis of matters

Basis of accounting

The entity's policy is to prepare financial statements on the basis of accounting as determined by the National Treasury, as set out in accounting policy note 1.1.

Restatement of corresponding figures

Disclosed in note 27 were corresponding figures for the year ended 31 March 2008, which had been restated as a result of errors discovered in the year ended 31 March 2009.

Irregular expenditure

Disclosed in note 33 was irregular expenditure of R540 580, which was incurred as the required procurement processes had not been followed.

Other matters

Allegations of misconduct

A senior manager of the ECTB was charged with financial misconduct during 2007 and numerous hearings took place subsequent to the matter being raised. The affected manager has not been suspended and is performing his duties in the normal course of business.

Key governance responsibilities

- The annual financial statements were submitted per the legislated deadlines and were subject to material amendments resulting from the audit.

- A regular risk assessment was not performed.

Report on performance information

Lack of effective, efficient and transparent systems and internal controls regarding performance management

The accounting authority did not ensure that the entity had and maintained a fully effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed.

Inconsistently reported performance information

The ECTB did not report throughout on its performance with regard to its objectives/outputs/ indicators/ targets as per the approved strategic/annual performance plan, due to changes to the objectives/outputs/ indicators/targets in the approved strategic/annual performance plan. No evidence could be provided that these changes had been approved.

25. Eastern Cape Youth Commission

Unqualified (with other matters)

Emphasis of matters

Basis of accounting

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury.

Going concern

The commission will cease to exist within the next 12 months.

Restatement of corresponding figures

The corresponding figure for the accumulated depreciation closing balance for cellular phones was incorrectly disclosed.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act

- Section 66(1)(b) of the PFMA: During the year under review, the entity went into overdraft without the required authorisation.
- Section 66 of the PFMA, read with Treasury Regulation 32.2.4: During the year the entity entered into finance lease agreements.

- Fruitless expenditure of R848,60 was incurred during the financial year.
- Irregular expenditure to the amount of R2 140 163 was incurred, as the proper procurement processes had not been followed.

Matters of governance

Clear trail of supporting documentation that is easily available and provided in a timely manner

Significant difficulties were experienced during the audit concerning delays or the availability of requested information

Quality of financial statements and related management information

The financial statements were subject to material amendments resulting from the audit.

Availability of key officials during audit

Key officials were not available throughout the audit process.

Audit committee

The audit committee did not operate in accordance with approved, written terms of reference.

Internal audit

- The internal audit function did not substantially fulfil its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was documented and used as set out in Treasury Regulation 3.2/27.2.

Follow-up of prior year findings

The prior year audit findings had not been substantially addressed.

Issues relating to the reporting of performance information

Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

Report on performance information

Non-compliance with regulatory requirements

No approved policy and procedure manual existed in terms of performance information.

26. Mayibuye Transport Corporation

Unqualified (with other matters)

Emphasis of matters

Revenue

An investigation was being conducted to establish whether officials were involved in defrauding the corporation of revenue generated from casual passengers. An amount of R135 000 has been identified to date as misappropriated. A further amount of R4,2 million was under investigation at the time of the audit. It is uncertain whether this amount related to data integrity issues or misappropriation.

Property, plant and equipment

The corporation's right to occupy certain properties had not been documented. However, it derives economic benefits from the use thereof and carries the risks that are incidental to ownership.

Irregular expenditure

Irregular expenditure to the amount of R15 million was incurred during the current year, as proper procurement processes had not been followed.

Other matters

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

Non-compliance with the relevant supply chain management prescripts was identified.

Matters of governance

Other matters of governance

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- The corporation failed to fully implement the recommendations made by the internal audit function.

ANNEXURE 4: Five-year review of audit outcomes

No	Institution	Sector	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
1	Accelerated Shared Growth Initiative of South Africa	Office of the Premier	Financially unqualified (with other matters)	Not applicable – new public entity	Not applicable – new public entity	Not applicable – new public entity	Not applicable – new public entity
2	Agriculture	Agriculture	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)
3	Eastern Cape Appropriate Technology Unit	Office of the Premier	Qualified	Disclaimer	Adverse	Disclaimer	Disclaimer
4	Eastern Cape Development Corporation	Economic Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified
5	Eastern Cape Gambling and Betting Board	Economic Development	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
6	Eastern Cape Liquor Board	Economic Development	Financially unqualified (with other matters)	Qualified	Disclaimer	Not applicable – new public entity	Not applicable – new public entity
7	Eastern Cape Parks Board	Economic Development	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Not applicable – new public entity	Not applicable – new public entity
8	Eastern Cape Provincial Arts and Culture Council	Sports, Arts and Culture	Disclaimer	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
9	Eastern Cape Rural Finance Corporation (Uvimba)	Agriculture	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
10	Eastern Cape Socio-Economic Consultative Council	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)
11	Eastern Cape Tourism Board	Economic Development	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified



No	Institution	Sector	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
12	Eastern Cape Youth Commission	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
13	Economic Development and Environmental Affairs	Economic Development	Qualified	Qualified	Qualified	Disclaimer	Qualified
14	Education	Education	Adverse	Adverse	Adverse	Disclaimer	Disclaimer
15	Health	Health	Adverse	Adverse	Adverse	Disclaimer	Disclaimer
16	Housing	Local Government and Housing	Financially unqualified (with other matters)	Not applicable - new department	Not applicable - new department	Not applicable - new department	Not applicable - new department
17	Local Government and Traditional Affairs	Local Government and Housing	Financially unqualified (with other matters)	Qualified	Qualified	Disclaimer	Disclaimer
18	Mayibuye Transport Corporation	Transport, Roads and Public Works	Financially unqualified (with other matters)	Qualified	Qualified	Qualified	Qualified
19	Office of the Premier	Office of the Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
20	Provincial Legislature	Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
21	Provincial Treasury	Treasury	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
22	Public Works	Transport, Roads and Public Works	Qualified	Financially unqualified (with other matters)	Disclaimer	Qualified	Qualified
23	Roads and Transport	Transport, Roads and Public Works	Qualified	Qualified	Qualified	Qualified	Qualified
24	Safety and Liaison	Community Safety	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)

No	Institution	Sector	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
25	Social Development	Social	Financially unqualified (with other matters)	Qualified	Adverse	Disclaimer	Financially unqualified (with other matters)
26	Sport, Recreation, Arts and Culture	Sports, Arts and Culture	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified

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